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REPORT

on the situation on the market for milk and milk products

Proposal for a COUNCIL REGULATION (EC)

94/0066(CNS)

fixing compensation with regard to the reduction in individual reference quantities in the milk sector and compensation for the definitive discontinuation of milk production

Proposal for a COUNCIL REGULATION (EC)

94/0067(CNS)

amending Regulation (EEC) No 3950/92 establishing an additional levy in the milk and milk products sector

REPORT TO THE COUNCIL

on the application of the milk quota system in Italy,
in Spain and in Greece

(presented by the Commission)

**Report on the situation on
the market for milk and
milk products**

Introduction

In its 1991/92 price proposals presented to the Council in March 1991⁽¹⁾, the Commission drew attention to the worsening situation on the market for milk and milk products, where intervention stocks were building up fast despite stable or practically stable milk production.

Given the signs of stabilization in overall Community consumption and the lasting reductions in export possibilities on account of the political and economic changes in the former USSR and central Europe and the uncertainty following the Gulf war on the traditional, important markets in the Middle East, the Commission considered that a 5% reduction in the guaranteed total quantities was necessary to establish better balance on the market for dairy products. Out of a concern to lessen the impact of such a reduction on the market for beef and veal, the Commission proposed, and the Council approved, an initial reduction not exceeding 2% in quantities not subject to the additional levy for 1991/92.

The Commission Communication to the Council and the European Parliament entitled "The Development and Future of the Common Agricultural Policy"⁽²⁾ endorsed this analysis of the situation on the market for milk products. On that basis the Commission considered a further reduction in the guaranteed total quantities necessary and proposed to the Council that the additional levy arrangements be extended (and simplified) and a reduction of 3% be made in the quantities in steps of 1% over three twelve-month periods starting from 1 April 1992 at the same time as the staggered reduction in the institutional prices for milk.⁽³⁾

(1) COM (91) 72 final of 1 March 1991

(2) COM (91) 258 final of 22 July 1991.

(3) COM (91) 409 final of 31 October 1991.

On 21 May 1992, as part of the reform of the common agricultural policy, the Council adopted the Commission proposals on milk and milk products⁽³⁾ subject to a certain number of amendments⁽⁴⁾. The Council decided that there would be no 1% reduction in quantities for the 1992/93 period, thereby confirming the Member States' guaranteed total quantities which it had fixed for that period on 31 March 1992, subject to a final decision⁽⁵⁾. It further decided that before the 1% reduction was applied in the 1993/94 and 1994/95 periods of the additional levy scheme, the Commission would present reports to the Council on the market situation together, where appropriate, with proposals in order to permit the Council to review the decisions taken for those two periods. This report has been drafted in response to that request.

(4) COUNCIL DOCUMENT No 6953/92 of 2 June 1992.

(5) Regulation (EEC) No 816/92 published in OJ No L 86, 1.4.1992, p. 83.

1. Trends in the Community market

The markets were relatively stable in 1993. The market price for butter remained more or less constant during the year despite the 4.3% reduction in the intervention price, while the market price for skimmed-milk powder, which is more irregular, fell back slightly only at the end of the year. Milk collection followed a similar path, remaining close to the levels of the previous year despite conflicting trends in the Member States: the marked reduction in milk production in Spain and Italy was almost exactly compensated for by the increase in deliveries in the other Member States.

This overall stability was mirrored in the trend in intervention stocks which remained close to the levels of the previous year.

Table 1 - Intervention on the Community market (tonnes)

	1990	1991	1992	1993
<u>BUTTER</u>				
Stocks at 1 January	20 300	250 800	260 800	172.400
Buying-in	250 300	174 000	48 000	32.200
Sales	19 800	163 900	136 400	44.100
Stocks at 31 December	250 800	260 800	172 400	160.500
<u>SKIMMED-MILK POWDER</u>				
Stocks on 1 January	4 811	333 142	414 383	47.114
Buying-in	337 211	198 570	-	10.709
Sales	8 880	117 330	367 269	20.873
Stocks on 31 December	333 142	414 383	47 114	36.951

While the trend in intervention stocks reflects the relative stability of the market and of prices in general, their level is largely influenced by subsidized consumption, which accounts for a significant proportion of Community production:

Table 2 - Subsidized consumption on the Community market (tonnes)

	1991	1992	1993	Percentage change 1993/1992
BUTTER (Milk fat in butter equivalent)				
Buying-in (sales at reduced prices)	93 800	96 200	44 000	-54,3 %
Products on market (subsidized)	<u>344 300</u>	<u>343 900</u>	<u>430 300</u>	<u>+25,2 %</u>
TOTAL	438 100	440 100	474 300	+ 7,8 %
Production	1 800 000	1 660 000	1 680 000	+ 1,2 %
Subsidized consumption as a percentage of production	24,3 %	26,5 %	28,2%	+ 6,4 %
SKIMMED-MILK POWDER (skimmed milk in skimmed-milk powder equivalent)				
Animal feed	955 000	860 000	697 000	-19 %
Casein	<u>350 000</u>	<u>458 000</u>	<u>346 000</u>	<u>-24 %</u>
TOTAL (SMP equivalent)	1 305 000	1 318 000	1 043 000	-21 %
SMP production	1 505 000	1 162 000	1 255 000	+ 8 %
Casein (SMP equivalent)	<u>350 000</u>	<u>458 000</u>	<u>346 000</u>	<u>-24 %</u>
TOTAL (SMP equivalent)	1 855 000	1 620 000	1 601 000	-1,2 %
Subsidized consumption as a percentage of production	70 %	81,4 %	65 %	-20 %

Subsidized consumption of skimmed milk fell by 300 000 tonnes in skimmed-milk powder equivalent in 1993. Despite its scale, this change did not cause significant movements in market prices or in the level of skimmed-milk powder stocks. At the same time, exports of skimmed-milk powder fell back by about 90 000 tonnes.

Table 3 - Community exports (tonnes)

Exports	1991	1992	1993 *	Variation
Butter and butteroil	322 000	242 000	220 000	-9 %
Skimmed-milk powder	252 000	390 000	300 000	-23 %

* Estimate

The situation on the Community market is directly affected by the level of exports, which in turn depend on both the capacity of the budget to finance them and the situation on the world market.

2. Trends on the world market

The Community has a commanding position on the world market, both in terms of total production and the main products and in terms of market share, which is about 50% as a result of exports amounting in both 1992 and 1993 to more than 13 million tonnes milk equivalent (see tables in Annex II).

Table 4 - Community share of the world market

Year	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993*
Milk equivalent (million tonnes)	10	12,8	12,2	11,4	13,8	16,5	14,2	12,4	12,8	13,8	13,2
%	44	48	45	41	48	53	51	47	46	48	47

* Preliminary

The stability in Community exports is a reflection of the stability on the world market, where prices changed little in 1993

Table 5 - International prices (US dollars fob)

Minimum GATT prices	Butter	Butteroil	Cheese	Skimmed-milk powder
	1 350	1 625	1 500	1 200
1990 1st 6 months	1 350 - 1 550	1 600 - 1 900	1 700 - 2 000	1 200 - 1 700
2nd 6 months	1 350 - 1 500	1 600 - 1 800	1 550 - 2 000	1 300 - 1 500
1991 1st 6 months	1 350 - 1 400	1 600 - 1 800	1 600 - 1 900	1 200 - 1 400
2nd 6 months	1 450 - 1 850	1 675 - 2 250	1 600 - 2 100	1 450 - 1 800
1992 1st 6 months	1 350 - 1 600	1 625 - 1 950	1 750 - 2 100	1 550 - 1 900
2nd 6 months	1 350 - 1 500	1 625 - 1 800	1 750 - 2 100	1 550 - 1 900
1993 1st 6 months	1 350 - 1 500	1 625 - 1 800	1 750 - 2 100	1 550 - 2 000
2nd 6 months	1 350 - 1 500	1 625 - 1 750	1 800 - 1 950	1 500 - 1 750

Since the final quarter of last year, however, prices have moved downwards and have fallen below minimum GATT prices in the case of butter and butteroil. This downward movement is a reflection of the drop in international demand which is itself part of the unfavourable trend in consumption brought about by the economic recession.

Adverse economic conditions aside, the world market in milk products continues to be dominated by the unfavourable situation in eastern Europe and the Middle East:

- eastern Europe : the major market outlet which once existed in the former USSR and some central European countries has not only been lost but the fall in consumption and the need for strong currencies have even resulted in exports from these countries at uncompetitive prices. Should these countries permanently reappear on the world market after the current economic restructuring, they will most likely be exporters, given their agricultural potential;
- the Middle East: leaving aside the political events which can always affect these traditional export markets, demand in these countries is broadly determined by the price of oil, which remains low.

In addition to these factors influencing the world market in general, factors specific to the milk sector are also at play which are equally worrying in terms of our exports:

- world consumption of butter is in continuous decline at a rate of 2% a year. The downward trend in purchasing power in eastern Europe is serving to speed up the decline;
- milk production and the supply of milk products from Oceania and New Zealand in particular are increasing year by year (see Annex II). Even without price-support policies, the relentless move away from livestock rearing to milk production and the build-up of milk fats in particular as a result of the drop in consumption are a threat to the stability of a world market which remains very precarious given the prospect of new surpluses in the near future;

- lastly, the effectiveness of the market-penetration programme financed by the United States, the DEIP (i.e. Dairy Export Incentive Programme) which is specifically targeted at the Community's traditional markets, should be highlighted (see Annex II). Between 1990 and 1993, American exports in milk equivalent increased from 1.2% to 6.7% of the world market.

To conclude, even if the world market situation appears stable, the combined effect of the drop in demand, particularly in eastern Europe, the increase in supply from Oceania and the increase in exports from the United States seriously threatens the world market which is already showing signs of weakness, the most obvious manifestation of which is the significant drop in prices, below even minimum GATT prices in the case of butter and butteroil.

In the context of such a fragile world market, the measures that the Council must take to control milk production are becoming increasingly important.

3. Control of production and balance on the market

Despite the difficulties connected with any quota system, the production control scheme has given ample proof of its effectiveness. The Court of Auditors affirms in the conclusion to its special report No 4/93 that "since 1984, milk production has been moving towards the desired state of equilibrium between the production and consumption of milk products"⁽⁶⁾.

It should be added that establishing a better balance has not been achieved at the expense of our exports. Table 4 provides the confirmation.

(6) OJ No C 12, 15. 1. 1994, paragraph 5.2.

Table 6 - Application of the additional levy arrangements

(tonnes)

EC	Guaranteed total quantity	Quantity suspended	Allocation from Community reserve SLOW	+ 1 %	Quantity available	Quantity delivered	Gross difference	Correction for milk fat	Interchange: direct sales	Net difference	
	a	b	c	d	e	f=a-b+c+d+e	g	h=g-f	i	j	k=h+i+j
1984/85(1)	99 524 000	-	393 000	0	0	99 917 000	99 293 261	-623 739	142	55 115	-568 482
1985/86(1)	98 078 574	-	393 000	0	0	98 471 574	100 172 744	1 701 170	83	-57 131	1 644 122
1986/87(2)	103 988 574	-	393 000	0	0	104 381 574	105 073 297	691 723	118 735	-8 519	801 939
1987/88(2)	102 096 143	3 778 103	443 000	0	0	98 761 040	99 173 711	412 671	435 882	-265 031	583 522
1988/89(2)	101 059 108	5 396 485	443 000	0	0	96 105 623	97 619 776	1 514 153	408 506	-332 123	1 590 536
1989/90(2)	100 209 222	4 517 603	443 000	502 233	1 039 886	97 676 738	97 947 296	270 558	776 102	-372 628	674 032
1990/91(2)	100 559 222	4 679 486	443 000	502 233	1 039 886	97 864 855	96 781 893	-1 082 962	1 372 861	-402 808	-112 909
1991/92(3)	106 657 695	4 985 666	443 000	600 000	1 039 886	103 754 915	105 209 594	1 454 594	2 029 708	-388 219	3 130 602
1992/93(3)	101 672 029	-	443 000	600 000	1 039 886	103 754 915	n.d.	n.d.	2 254 897	-560 390	n.d.

(a) Article 5c(3) of Regulation (EEC) No 804/68

(b) Regulation (EEC) No 775/87

(c), (d), (e) Article 1 of Regulation (EEC) No 1546/88

(g) Member States' declarations to the Commission, estimates or provisional declarations in the case of certain Member States.

(i) Article 12 of Regulation (EEC) No 1546/88

(j) Article 8a of Regulation (EEC) No 857/84

(1) 10 Member States

(2) 11 Member States

(3) 12 Member States

n.a. not available

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While the scheme has definitely enabled deliveries to be kept down in most Member States, column (i) in Table 6 also points to the ever-rising fat content of the milk delivered and the increasing corrections that have to be made to the quantities delivered as a result. This constant rise in the fat content of milk delivered seriously endangers the balance of the market.

While the trend in consumption is stable in the Community and generally in all developed countries, the trends by product show significant variations⁽⁷⁾ : demand for partly-skimmed milk, fresh (reduced-fat) milk products and certain cheeses is rising by 1% to 2% a year while that for whole milk, hard cheese and particularly butter is falling constantly by 2% to 2.5% a year. The result is an overall decline in milk fat consumption that is growing steeper every year and persistent difficulties on the market for butter, clearly reflected in the market price, which has stayed between 90% and 94% of the intervention price for the last three years.

This downward trend in consumption of butter and milk fat, which is almost certainly in part a response to dietary concerns, is also the result of competition from butter imitation and replacement products. Products competing with butter are now in a dominant position on the market for yellow fats⁽⁷⁾.

Faced with a similar situation, Canada has repeatedly reduced its quota of milk for processing. The United States, which does not have a comparable system, reduced the support price for butter twice in 1992 and again on 7 July 1993, thus considerably altering the processing ratio for milk, which is USD 1 469/tonne or ECU 1 096/tonne for butter and USD 2 280/tonne or ECU 1 701/tonne for skimmed-milk powder.

(7) Cf. Report on development on the market in milk and milk products and competing products - Fourth report from the Commission to the Council COM (93) 34 final of 5 February 1993.

Such a reduction in prices for butter, which may help effectively to slow down the development of imitation and replacement products, has the definite advantage of encouraging consumption. For this reason the Commission proposed to the Council an additional reduction of 3% in the intervention price for butter as part of the 1994/95 price proposals. In this respect, it should be remembered (to emphasize the quantities involved) that approximately one third of milk collected in the Community is still processed into butter, only 60% of which is disposed of at the market price.

Conversely, it may be feared that the devaluation - in some cases substantial - of the green rates of currencies which have recently been readjusted within the EMS may result in a marked increase in prices for butter and that this may be damaging to consumption in those Member States while the strength of some currencies on the other hand may cause butter to be placed in intervention because no outlet can be found for it on a market saturated by butter from Member States with weaker currencies.

4. CONCLUSIONS

On 21 May 1992, as part of the CAP reform, the Council decided on a reduction of 5% in the intervention price of butter over two years and decided in principle on a reduction of 2% in the guaranteed total quantities. Even though the market appears to be in better equilibrium than was feared, it remains exposed to the same pressures as those identified at the time.

The market stability in 1993 seems to be broadly the result of the trend in milk collection, which remained close to the level of the previous year, despite the 0.6% increase in the guaranteed total quantities decided by the Council in May 1993. The suckler cow premium scheme and the resulting drop in the dairy herd as well as the impact of national programmes to encourage farmers to cease milk production all contributed to this unexpected outcome. In this regard, in addition to the results achieved by Spain and Italy in reducing their milk deliveries to within their guaranteed total quantities, mention

should also be made of the situation in the new German Länder where milk production in 1993 is some 30% lower than the guaranteed total quantity fixed by the Council for this region. Given the growth and renewal of the dairy herd in the new Länder and the ongoing restructuring of farms in general, a better adjustment of deliveries to the available quota cannot be excluded in the short term.

Market stability thus appears very precarious given the worrying signals that have begun to appear. A predictable rise in milk collection should be felt in the first six months, resulting in an increase in the production of skimmed-milk powder and butter. Given the drop in international demand, the difficulties on the market in caseins and the significant drop in subsidized consumption, it seems inevitable that buying-in of skimmed-milk powder will resume at a steady rate.

The persistent drop in butter consumption on both the Community and world markets and the unstoppable increase in the fat content of the milk collected are combining to cause a growing imbalance which is being further aggravated by cheaper competing products.

To conclude, the Commission believes that the imbalances already apparent on the market are likely to worsen in the short term and will lead to a significant deterioration in the situation. The butter market remains the most worrying, however, its structural imbalance continuing to worsen. For this reason the Commission has proposed to the Council in the price proposals for 1994/95 that the intervention price for butter be reduced by a further 3%. In view of the extra reduction in the butter intervention price which has already been proposed to rebalance the market, it would now seem possible to tail back the 2% cut in total guaranteed quantities agreed in principle as part of the CAP reform. The Commission is therefore proposing that the total guaranteed quantity for 1994/95 be reduced by 1%, accompanied by a compensation scheme and an aid programme to encourage cessation of milk production in line with decisions already taken, and it invites the Council to re-examine the need for a further 1% reduction for the 1995/96 marketing year on the basis of the next report on the market situation.

ANNEX I

Supply balance for butter⁽¹⁾

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>('000 t)</u> <u>1993</u>
- <u>Stocks at 1 January</u>	<u>124</u>	<u>335</u>	<u>302</u>	<u>240</u>
- <u>Public</u>	<u>104</u>	<u>251</u>	<u>261</u>	<u>172</u>
- <u>Private</u>	<u>20</u>	<u>84</u>	<u>41</u>	<u>68</u>
- <u>Production</u>	<u>1796</u>	<u>1800</u>	<u>1680</u>	<u>1682</u>
- <u>Import</u>	<u>88</u>	<u>68</u>	<u>48</u>	<u>55</u>
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<u>Available</u>	<u>2008</u>	<u>2203</u>	<u>2030</u>	<u>1977</u>
- <u>Consumption</u>	<u>1455</u>	<u>1602</u>	<u>1548</u>	<u>1566</u>
- <u>Normal market price</u>	<u>1089</u>	<u>1163</u>	<u>1153</u>	<u>1082</u>
- <u>Special measures</u>	<u>366</u>	<u>432</u>	<u>437</u>	<u>467</u>
- <u>Export</u>	<u>218</u>	<u>321</u>	<u>242</u>	<u>220</u>
- <u>Stocks per 31 December</u>	<u>335</u>	<u>302</u>	<u>240</u>	<u>208</u>
- <u>Public</u>	<u>251</u>	<u>261</u>	<u>172</u>	<u>161</u>
- <u>Private</u>	<u>84</u>	<u>41</u>	<u>68</u>	<u>47</u>

The trend in internal disposal measures and exports and a comparison with butter production is given below :

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>(mid year)</u> <u>1993</u>
1. <u>Internal disposal</u> ('000 t)	<u>366</u>	<u>432</u>	<u>437</u>	<u>467</u>
of which				
- <u>Pastry & ice cream</u>	<u>292</u>	<u>352</u>	<u>364</u>	<u>392</u>
- <u>Non-profit making organizations</u>	<u>37</u>	<u>37</u>	<u>36</u>	<u>37</u>
- <u>Cooking butter</u>	<u>16</u>	<u>19</u>	<u>19</u>	<u>22</u>
- <u>Other</u>	<u>21</u>	<u>24</u>	<u>18</u>	<u>16</u>
2. <u>Exports</u> ('000 t)	<u>218</u>	<u>321</u>	<u>242</u>	<u>220</u>
of which				
- <u>Normal</u>	<u>202</u>	<u>101</u>	<u>205</u>	
- <u>Special price</u>	<u>5</u>	<u>107</u>	<u>40</u>	
- <u>Food aid</u>	<u>11</u>	<u>13</u>	<u>5</u>	
3. <u>Total</u>	<u>584</u>	<u>754</u>	<u>691</u>	<u>687</u>
- <u>as a percentage of production</u>	<u>33</u>	<u>43</u>	<u>40</u>	<u>41</u>

Subsidized butter for the internal market plus total exports exceeded 40 % of the butter production both in 1991, 1992 and 1993 while it was only 33 % in 1990.

(1) Including former DDR as from 1991.

SUPPLY BALANCE FOR SKIMMED-MILK POWDER ('000 t)

	<u>1990(*)</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
1. <u>Public stocks at 1 January</u>	5	333	414	47
2. Quantities available	1672	1510	1165	1280
of which				
- production	1665	1505	1162	1255
- importation	7	5	3	25
3. <u>EC consumption</u>	1067	1186	1140	994
of which				
- at market price	300	330	335	335
- feed for calves	767	856	805	659
4. <u>Exports</u>	329	253	390	300
of which				
- exported on market terms	261	192	291	250
- food aid	68	61	99(**)	50
5. <u>Balance = (2)-(3)-(4)</u>	276	89	326	-14
6. <u>Public stocks at 31 December</u>	333	414	47	37
7. <u>Skimmed milk used in the manufacture of casein (SMP equivalent)</u>	334	350	458	346

(*) excluding the former GDR

(**) of which 44 000 tonnes covers emergency supplies to eastern Europe.

SUBSIDIZED DISPOSAL OF SKIMMED MILK ('000 t)

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
1. <u>Community market</u>	1166	1288	1317	1043
of which				
- animal feed	832	939	859	697
- casein	334	349	458	346
2. <u>Exports</u>	329	253	390	300
3. <u>Total</u>	1495	1541	1706	1343
4. <u>As a percentage of production (powder + casein)</u>	75	83	92	84

ANNEX II

Milk collection (million tonnes)	1990 *	1991	1992	1993 (p)
EC (without ex-DDR)	100.7	105.4	103.5	102.9
CIS + Baltic States ⁽¹⁾	108.2	101.4	90.0	82.1
USA	66.3	66.5	67.5	67.3
New Zealand	7.4	7.4	7.9	8.1
Australia	6.4	6.4	6.7	7.2

⁽¹⁾ Estimated production * excluding the former GDR

(p) Provisional figures

Butter production (tonnes)	1990	1991	1992	1993 (p)
EC	2 013 000	1 800 000	1 660 000	1 680 000
CIS	1 740 000	1 504 000	1 438 000	1 362 000
USA	591 000	606 000	610 000	580 000
New Zealand	255 000	228 000	243 000	248 000
Australia	104 000	112 000	135 000	140 000

(p) Provisional figures

Production of skimmed-milk powder (tonnes)	1990	1991	1992	1993 (p) (p)
EC	1 665 000	1 505 000	1 162 000	1 222 000
USA	399 000	398 000	396 000	340 000
CIS	300 000	274 000	263 000	230 000
New Zealand	184 000	158 000	155 000	131 000
Australia	135 000	143 000	153 000	174 000

(p) Provisional figures

Cheese production (tonnes)	1990	1991	1992	1993 (p)
EC	5 344 000	5 341 000	5 508 000	5 511 000
USA	2 749 000	2 730 000	2 943 000	3 050 000
CIS	878 000	773 000	592 000	580 000
Australia	175 000	182 600	205 500	205 000
New Zealand	111 000	125 000	129 700	144 000

(p) Provisional figures

Share of market in milk equivalent	1990		1991		1992		1993 (p)	
	million tonnes	%	million tonnes	%	million tonnes	%	million tonnes	%
EC	12.5	49	12.8	46.2	13.8	47.6	13.2	47.1
New Zealand	4.3	17	5.2	18.7	5.1	17.4	5.1	18.1
Australia	1.8	7.3	2.4	8.6	2.4	8.3	2.0	7.0
USA	0.3	1.2	0.9	3.4	1.6	5.5	1.9	6.7

(p) Provisional figures

Proposal for 94/ 0066(CNS)

**COUNCIL REGULATION (EC) No/94
of
fixing compensation with regard to the reduction in individual
reference quantities in the milk sector and
compensation for the definitive discontinuation of milk production**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 43 thereof,

Having regard to the proposal from the Commission,⁽¹⁾

Having regard to the opinion of the European Parliament,⁽²⁾

Whereas developments in the milk market have made necessary a 1% reduction in the global quantities fixed in Article 3(2) of Council Regulation (EEC) No 3950/92 of 28 December 1992 establishing an additional levy in the milk and milk products sector⁽³⁾, as last amended by Regulation (EEC) No .../...⁽⁴⁾, from 1 April 1994; whereas, to offset the inevitable reduction in individual reference quantities which will result, it seems necessary to provide for compensation of ECU 5 per 100 kilograms per year for ten years, commensurate with the adjustment effort required of producers; whereas provision should be made for the possibility of paying such compensation in the form of transferable guaranteed bonds negotiable on the market;

Whereas, however, it is important not to reduce the reference quantities of small and medium-sized holdings; whereas to that end, in order to release reference quantities for allocation to the said holdings, a Community scheme should be introduced to finance the definitive discontinuation of milk production which provides for the grant of compensation to all

(1) OJ No C

(2) OJ No C

(3) OJ No L 405, 31.12.1992, p. 1.

(4) cf p.

producers who so request, subject to certain eligibility conditions, payable after they have fully and definitively ceased to produce milk; whereas the Member States must take account of the existence of agricultural leases;

Whereas Member States should also be permitted to decide whether or in which region to implement this programme, for reasons relating to the necessity to encourage structural trends and changes, or to the requirements of regional development, or to the possibility under production conditions in the region or regions concerned to free significant reference quantities or to overriding administrative needs;

Whereas the compensation for discontinuing milk production is, in principle, granted for the whole of the reference quantity; whereas, however, this right should in certain cases be limited since producers who have benefited from Article 3c of Regulation (EEC) No 857/84⁽⁵⁾ are excluded from the compensation;

Whereas, in the light of experience, the maximum compensation for discontinuing milk production may be fixed at ECU 17 per 100 kilograms and per year, payable for three years; whereas it may be necessary to increase the level of compensation; whereas, therefore, Member States should be authorized to put up additional financing, the amount of which may be adjusted to take account of specific regional features; whereas provision should also be made for the compensation to be paid in the form of transferable guaranteed bonds negotiable on the market;

Whereas the reference quantities thus freed must be reallocated to small and medium-sized holdings in order to prevent a reduction in their reference quantity; whereas the Community contribution to the compensation for permanent cessation of milk production must be restricted to these reallocation requirements;

Whereas, over and above this objective, provision should be made for the following periods to allow Member States who deem it necessary to continue restructuring to maintain a scheme for financing discontinuation of milk

(5) OJ No L 90, 1.4.1984, p. 13. Regulation repealed by Regulation (EEC) No 3950/92.

production by providing for a Community contribution to the financing of such schemes of up to 50% of the amount of compensation fixed by the Member State, up to a maximum of ECU 2.5 per 100 kilograms and per year for ten years; whereas the compensation may also be paid in the form of transferable guaranteed bonds negotiable on the market; whereas, if necessary, the reference quantities liberated under this scheme may remain unallocated in order to facilitate the decline in deliveries and direct sales implicit in the reduction of guaranteed total quantities;

Whereas the aim of the Community compensation is to restore market balance and may, therefore, be considered as intervention within the meaning of Article 3 of Council Regulation (EEC) No 792/70 of 21 April 1970 on the financing of the common agricultural policy⁽⁶⁾, as last amended by Regulation (EEC) No 2048/88⁽⁷⁾,

HAS ADOPTED THIS REGULATION:

Article 1

1. Compensation shall be granted to producers whose reference quantity has been reduced in order not to exceed the guaranteed total quantity fixed in Article 3(2) of Regulation (EEC) No 3950/92 for the period concerned.
2. This compensation shall be:
 - (a) fixed at ECU 5 per 100 kilograms per year;
 - (b) paid for such part of the individual reference quantity as has been and remains actually deducted in relation to the reference quantity available on 31 March 1994, where applicable corrected by the quantities allocated from the national reserve and transfers of reference quantities which have taken place since that date. The part so defined may not exceed in relative value the reduction applied to the quantities fixed in Article 3(2) of Regulation (EEC) No 3950/92 for the Member State and the period concerned;

(6) OJ No L 94, 28.4.1970, p. 13.

(7) OJ No L 185, 15.7.1988, p. 1.

(c) paid in ten annual instalments from 1995, between 1 April and 30 September each year.

3. The Member State may pay the compensation in the form of transferable guaranteed bonds which are negotiable on the market.

Article 2

1. At the request of the party concerned and subject to the conditions laid down in this Article, the Member States shall grant, to any producer who undertakes to discontinue definitively all milk production before a date to be determined, compensation payable in three annual instalments between 1 April and 30 September each year.

However, each Member State may, on the basis of one or more of the following criteria:

- the need to encourage structural trends and changes,
- the requirements of regional development in order to avoid, in particular, the desertification of certain areas,
- the possibility, under production conditions in the region or regions concerned, that such a scheme will not free significant reference quantities,
- overriding administrative needs,

decide not to implement the scheme referred to in the preceding subparagraph in one, several or all of its regions.

2. (a) Eligible producers are those who have a reference quantity for deliveries or direct sales, excluding producers who have benefited from quantities pursuant to Article 3c of Regulation (EEC) No 857/84.

However, Member States:

- may decide not to grant compensation to producers possessing less than six dairy cows or whose annual individual reference quantity is less than 25 000 kilograms,

- shall be authorized to make the necessary provisions to ensure that, in the event that the amount of compensation corresponding to all eligible compensation applications exceeds the amount of Community financing referred to in paragraph 3, the reductions in quantities effected under this Regulation are, in so far as possible, harmoniously apportioned between the regions and collection areas.

- (b) Compensation shall be granted for the reference quantity available at the end of the twelve-month period in question.
- (c) In the case of producers who have two reference quantities, one for deliveries and one for direct sales, the compensation shall be granted for both reference quantities.
- (d) In the case of agricultural leases, the application for compensation shall be submitted by the lessee.

Member States shall determine the conditions under which the lessee may submit the application for compensation and the conditions under which the compensation is granted, taking account of the legitimate interests of the parties concerned.

- 3. Community financing of the compensation referred to in paragraph 1 shall be limited to the reallocation requirements referred to in the first paragraph of Article 3.

Within that limit, Member States shall be authorized to pay maximum compensation of ECU 17 per 100 kilograms and per year.

Member States may:

- (a) pay compensation of less than ECU 17 per 100 kilograms and per year and use the balance to free additional quantities;
- (b) contribute to Community financing by increasing the amount of compensation.

The level of the increase may be adjusted by each Member State within its territory to take account of the differing local conditions in respect of:

- milk production trends,
- the average level of deliveries per producer,
- the need to avoid hampering the restructuring of milk production,
- the existence of opportunities for converting to other productive activities,
- the siting of milk production in one of the areas as defined in Article 3(3), (4) and (5) of Council Directive 75/268/EEC of 28 April 1975 on mountain and hill farming and farming in certain less-favoured areas⁽⁸⁾, as last amended by Regulation (EEC) No 797/85⁽⁹⁾.

4. The Member State may pay the compensation in the form of transferable guaranteed bonds which are negotiable on the market.

Article 3

The reference quantities freed pursuant to Article 2 shall be reallocated, within the limits of the quantity covered by the compensation provided for in Article 1, to producers whose reference quantity remains less than 200 000 kilograms, provided that in cases where the Member State has implemented Article 1(3) the amount of compensation still payable corresponding to the reallocated quantities is repaid.

The additional quantities referred to in the second subparagraph of Article 2(3)(a) shall be reallocated in the following order of priority: first to extensive holdings in areas as defined in Article 3(3), (4) and (5)

(8) OJ No L 128, 19.5.1975, p. 1.

(9) OJ No L 93, 30.3.1985, p. 1.

of Directive 75/268/75, then to those in other areas and, where applicable, to producers determined on the basis of objective criteria laid down in agreement with the Commission, and particularly to small producers and producers situated in the abovementioned areas.

"Extensive holdings" means holdings on which the maximum stocking density, converted into LU in accordance with Annex I to Council Regulation (EEC) No 2328/91⁽¹⁰⁾, does not exceed 1.4 LU per hectare of total forage area on the holding calculated in accordance with the second indent of Article 4g(3) of Regulation (EEC) No 805/68⁽¹¹⁾.

Article 4

1. From 1 April 1995 until the end of the additional levy scheme, the Member States may, at the request of the party concerned and subject to the conditions laid down in Article 2, grant any producer as defined in that Article compensation payable in ten annual instalments from 1996, between 1 April and 30 September each year.

2. The Member State shall fix the amount of the compensation, which may vary on the basis of one or more of the criteria referred to in the second subparagraph of Article 2(3).

Community financing shall be limited to 50% of the compensation granted, with a maximum contribution of ECU 2.5 per 100 kilograms and per year for ten years.

3. The reference quantities freed pursuant to this Article shall be reallocated in accordance with the second paragraph of Article 3 or, where applicable, shall not be reallocated.

4. The Member State may pay the compensation in the form of transferable guaranteed bonds negotiable on the market.

(10) OJ L 218, 6.8.1991, p.1.

(11) OJ No L 148, 28.6.1968, p.24.

Article 5

Financing of the Community compensation provided for in Articles 1, 2 and 4 shall be considered as intervention within the meaning of Article 3 of Regulation (EEC) No 729/70.

Article 6

Member States shall forward to the Commission, before 1 April each year, all the information needed for an assessment to be made of the effectiveness of the measures provided for in this Regulation.

Article 7

The Commission shall, in accordance with the procedure laid down in Article 30 of Regulation (EEC) No 804/68, adopt the measures for applying this Regulation.

Article 8

This Regulation shall enter into force on the third day following its publication in the Official Journal of the European Communities.

It shall apply from 1 April 1994.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council

Proposal for 94/ 0067(CNS)
COUNCIL REGULATION (EEC) No /93
of
amending Regulation (EEC) No 3950/92 establishing an additional
levy in the milk and milk products sector

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 43 thereof,

Having regard to the proposal from the Commission¹,

Having regard to the opinion of the European Parliament²,

Whereas, in the context of the reform of the common agricultural policy, the Council decided upon the principle of a 2% additional reduction of the guaranteed total quantities, spread over 1993/94 and 1994/95, without prejudice to a possible review in the light of the general market situation and particular situations existing in certain Member States;

Whereas an analysis of the market in March 1993 led the Council to postpone the 1% reduction of the guaranteed total quantities decided in principle for 1993/94 and it was agreed to review its entry into force at the same time as that for 1994/95; whereas an analysis of the market situation shows that milk and milk products remain exposed to the same dangers as those identified when the Council decided on the 2% reduction of the guaranteed total quantities; whereas it is therefore necessary to reduce the guaranteed total quantities; whereas, however, in view of the proposed additional reduction in the intervention price of butter in order to restore market stability, it appears feasible to limit to 1% the reduction for the period 1994/95 and to specify accordingly in Article 3 of Regulation (EEC) No 3950/92³, as last amended by Regulation (EEC) No 1560/93⁴, the guaranteed total quantities;

1

2

3 OJ No L 405, 31.12.1992, p. 1.

4 OJ No L 154, 25.6.1993, p. 30.

Whereas the particular situations of Italy, Greece and Spain respectively have been examined; whereas, in the case of the latter two Member States, the conclusions reached permit a carry-over of the increase in the guaranteed total quantity, but only for the period 1994/95 in the case of Greece; whereas a review will be carried out before the beginning of the period 1995/96 to see whether all the conditions to which the definitive increase in the guaranteed total quantity for Greece is subject have been fully complied with;

Whereas the situation of Italy, following the examination carried out, assumes a new perspective which, currently and for the period 1994/95, warrants an increase of no more than 550 000 tonnes in the guaranteed total quantity; whereas the amount of this increase and its definitive nature will be reviewed before the beginning of the period 1995/96, as in the case of Greece, in the light of whether the sum of the individual quantities has been absorbed;

Whereas, as far as required, the components upon which the "deliveries" part of the guaranteed total quantity for Greece, Spain and Italy is calculated for the period 1994/95 should be specified; whereas, for each of these three Member States, to the amounts specified hereafter must be added the quantities from the former Community reserve; whereas, in the case of Greece, the total quantity fixed for the period 1992/93 is increased by 100 000 tonnes; whereas, in the case of Spain, the figure of 4 550 000 tonnes represents the basic total quantity which is increased, on the one hand, by 500 000 tonnes and, on the other, by 150 000 tonnes following a transfer from direct sales to deliveries; whereas, in the case of Italy, the total quantity fixed for the period 1992/93 is increased by 550 000 tonnes,

HAS ADOPTED THIS REGULATION:

Article 1

Article 3(2) of Regulation (EEC) No 3050/92 is hereby replaced by the following:

"2. The following total quantities shall be fixed without prejudice to possible review in the light of the general market situation and particular conditions existing in certain Member States:

(a) For the period 1.4.1993 to 31.3.1994

(tonnes)

Member State	Deliveries	Direct sales
Belgium	2 937 238	373 193
Denmark	4 454 397	951
Germany (1)	27 764 778	100 038
Greece	625 985	4 528
Spain	5 200 000	366 950
France	23 502 974	732 824
Ireland	5 230 554	15 210
Italy	9 212 190	717 870
Luxembourg	268 098	951
Netherlands	10 972 104	102 588
Portugal	1 804 881	67 580
United Kingdom	14 197 179	392 868

(1) Of which 6 244 566 tonnes covers deliveries to purchasers established in the territory of the new Länder and 8 801 tonnes covers direct sales in the new Länder.

The increase in the total quantities for Belgium, Denmark, Germany, France, Ireland, Luxembourg, the Netherlands and the United Kingdom shall be granted in order to permit the allocation of additional reference quantities to:

- producers who, by virtue of the second indent of Article 3a(1) of Regulation (EEC) No 857/84(*), had been excluded from allocation of a special reference quantity,
- producers situated in the mountain areas as defined in Article 3(3) of Directive 75/268/EEC(**) or to the producers referred to in Article 5 of this Regulation.

The increase in the total quantity for Portugal shall be granted as a matter of priority to contribute towards satisfying the requests for additional reference quantities from producers whose production during

the 1990 reference year was substantially affected by exceptional events which took place during the period 1988 to 1990 or to the producers referred to in Article 5.

The increase in the total quantities for Greece, Spain and Italy shall be granted for the period 1993/94.

(b) For the period 1.4.1994 to 31.3.1995 and subsequent periods

(tonnes)

Member State	Deliveries	Direct sales
Belgium	2 907 866	369 461
Denmark	4 409 853	941
Germany(1)	27 487 130	99 038
Greece	619 725	4 483
Spain	5 148 000	363 281
France	23 267 944	725 496
Ireland	5 178 248	15 058
Italy	8 770 068	710 691
Luxembourg	265 417	941
Netherlands	10 862 383	101 562
Portugal	1 786 832	66 904
United Kingdom	14 055 207	388 939

(1) Of which 6 182 120 tonnes covers deliveries to purchasers established in the territory of the new Länder and 8 713 tonnes covers direct sales in the new Länder.

The increase in the total quantities granted for the period 1993/94 shall be carried over in the same amount in the case of Greece and Spain for the period 1994/95 and in an amount reduced by 350 000 tonnes in the case of Italy. Before the period 1995/96, the Commission will submit a report to the Council accompanied by proposals on whether the increase in the case of Greece and the amount of the increase in the case of Italy should be continued in 1995/96 and subsequent years.

(*) OJ No L 90, 1.4.1984, p. 13.

(**) OJ No L 128, 19.5.1975, p. 1."

Article 2

This Regulation shall enter into force on the third day following its publication in the Official Journal of the European Communities.

It shall apply from 1 April 1994.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council

BUDGETARY ASPECTS

A. QUOTA REDUCTIONS

I. Impact on milk

The quotas for 1994/95 and subsequent periods have been reduced from their 1993/94 levels as follows:

	Million tonnes
(a) EC 12	
. Deliveries quota	1.062
. Direct sales quota	0.029
(b) Deliveries quota for Italy	0.350
TOTAL	1.441

The reduction in the direct sales quota should not have an effect on the quantity of milk marketed, since the volume of direct sales is already appreciably lower than the quota.

The 1994 budget was based on quota reductions of 2% in 1994/95. The 1% reduction is thus generating more deliveries than the 1994 budget made provision for, with more skimmed-milk powder and butter being produced as a result.

The estimated effect on the production of these products is as follows:

	1994	1995 and beyond
Milk deliveries (million tonnes)	+ 0.425	+ 1.062
SMP production ('000 tonnes)	+ 35	+ 80
Butter production ('000 tonnes)	+ 20	+ 50

These increases may conceivably result in corresponding increases in the quantities of powder exported and the quantities of butter bought in.

In view of these quantitative factors, the budgetary impact of the quota reduction is estimated as follows:

1. <u>1994</u>	Million ECU (B)
(a) <u>Additional exports of SMP (+ 35 000 tonnes)</u>	
35 000 t x 700(ECU)(A)x 1.207 (DR) =	+ 29.6
(b) <u>Additional butter bought in (+ 20 000 tonnes)</u>	
Technical costs + ECU 1.0 million(A) x 1.207 (DR) = + 1.2	
Financial costs + ECU 0.8 million(A) x 1.207 (DR) = + 1.0	
Other costs + ECU 2.2 million(A) x 1.207 (DR) = + 2.7	
Depreciation + ECU 32.2 million(A) x 1.207 (DR) = + 39.0	
Total public storage of butter	+ 43.9
(c) <u>Total impact</u>	+ 73.5
2. <u>1995 and subsequent years</u>	
(a) <u>Additional exports of SMP (+ 80 000 tonnes)</u>	
80 000 t x ECU 910(A) x 1.207 (DR) =	+ 87.9
(b) <u>Additional butter bought in (+ 50 000 tonnes)</u>	
Technical costs + ECU 2.3 million(A) x 1.207 (DR) = + 2.8	
Financial costs + ECU 2.0 million(A) x 1.207 (DR) = + 2.4	
Other costs + ECU 5.8 million(A) x 1.207 (DR) = + 7.0	
Depreciation + ECU 78.5 million(A) x 1.207 (DR) = + 94.7	
Total public storage of butter	+ 106.9
(c) <u>Total impact</u>	+ 194.8

II. Impact on beef and veal

A reduction in the delivery quotas should result in the slaughter of a corresponding number of dairy cows and the production of an equivalent amount of beef and veal.

Production in the event of a 1% reduction in delivery quotas is estimated as:

1.06 million t/4 100 kg = 258 000 head x 290 kg = 75 000 t (rounded up)
(4 100 kg = annual average delivery per cow, 290 kg = average weight of each)

As the 1994 budget assumed a 2% reduction in the quotas, there has been a saving equivalent to a 75 000 tonne reduction in beef and veal production.

It is thought that the impact on the market in beef and veal - in the form of a reduction in the quantity bought in - will not be felt until autumn 1994 (and will be limited to 1995):

The estimated saving is:

				<u>Million ECU (B)</u>
Technical costs	- ECU	14.5 million(A)	x 1.207 (DR)	= - 17.5
Financial costs	- ECU	1.9 million(A)	x 1.207 (DR)	= - 2.3
Other costs	+ ECU	2.7 million(A)	x 1.207 (DR)	= + 3.3
Depreciation	- ECU	109.4 million(A)	x 1.207 (DR)	= - 132.0
TOTAL				- 148.5

B. COMPENSATION FOR QUOTA REDUCTIONS

The programme applies to quotas for both deliveries and direct sales. The quantity to be compensated is thus 1 090 million tonnes.

Compensation will be granted:

- as part of a total cessation of production by producers who will receive a subsidy of ECU 170/tonne/year, payable for three years;
- or for a linear reduction in the quotas and a subsidy of ECU 50/tonne/year, payable for ten years.

In estimating the impact on the budget, it is assumed that 50% of the total quantity will be compensated at ECU 170/t and 50% at ECU 50/t.

The first compensation payments will be made in the financial year following the quota reductions, i.e. from 1995 on.

Compared to a reduction in the quotas of 2%, the 1% reduction will reduce expenditure by the following amounts:

	1995	1996	1997	1998
- 0.545m t x ECU 170/t x 1.207 (DR)=	- 111.8	- 111.8	- 111.8	
- 0.545m t x ECU 50/t x 1.207 (DR)=	- 32.9	- 32.9	- 32.9	- 32.9 (1)
TOTAL	- 144.7	- 144.7	- 144.7	- 32.9 (1)

(1) Until 2004

C. Conclusion

The budgetary impact of the proposal to reduce the quotas by 1% can be summarized as follows:

	1994	1995	1996	1997	1998
A. Quota reductions					
. Impact on milk	+ 73.5	+ 194.8	+ 194.8	+ 194.8	+ 194.8
. Impact on beef and veal	-	- 148.5	-	-	-
B. Compensation for the quota reductions					
	-	- 144.7	- 144.7	- 144.7	- 32.9
TOTAL	+ 73.5	- 98.4	+ 50.1	+ 50.1	+ 161.9

It should be noted that the budgetary impact has been calculated assuming a 2% reduction in the quotas from 1 April 1994.

Had this assumption not been used, the current proposal would represent a saving of ECU 73.5 million (B) in 1994, expenditure of 98.4 million (B) in 1995, a saving of ECU 50.1 million (B) in 1996 and 1997 and a saving of ECU 161.9 million (B) in 1998.

The proposal does not take account of the prices proposal for 1994/95.

REPORT TO THE COUNCIL
on the application of the milk quota system in
Italy, in Spain and in Greece

Introduction

1. In the course of its approval (May 1993) of the Commission's proposal for an increase in the global guaranteed quantities for Italy, Spain and Greece, the Council of Ministers made the following Declaration:

"The Council notes that the Commission will closely monitor the implementation of the milk scheme in Greece, Spain and Italy in order to verify compliance with the detailed undertakings on which the agreement on quotas for these three countries was based. The Commission will submit a report to the Council in March 1994 accompanied by proposals on whether the increased quotas should be continued in 1994/95 and subsequent years." This report, and the accompanying proposals, is made in accordance with that Declaration. It reflects the situation following the last of a series of missions to the Member States which ended on 4th February and includes also any significant developments notified to the Commission in the meantime.

Requirements to be met

2. The increases in milk quotas granted for 1993/94 in the case of Italy (0.9mt), Spain (0.5 mt) and Greece (0.1 mt) were subject to effective implementation of the quota system. Certain key requirements were identified, which, taken together, provide an appropriate framework within which to consider progress made in each Member State. These were as follows:-

a)adoption of implementing regulations

b)calculation of individual reference quantities on the basis of deliveries to purchasers in 1991/92, together with individual fat references

c)notification of individual reference quantities to each producer, and to purchasers

d)establishment and equipping of a central agency to verify the production records and collection of levies

e)adequate records of production

f)collection of levies from producers

Besides, certain quantitative undertakings (details at Annex I) were specified in the Council agreement in connection with the measures necessary to bring production within quota. In the case of Italy and Spain, these measures involve voluntary buying-up programmes financially supported in part by the Community; the suppression of some quotas without compensation was also envisaged in the case of Italy.

Production in Italy was to be brought within its global guaranteed quantity with effect from the 1995/96 milk year; but the quota system was to be put in place from the current (1993/94) year.

Under the compensation procedures (offsetting over-deliveries of milk against under-deliveries by individual producers) to be decided in Italy, this should mean in practice that (i) while an individual producer may have levies retained due to exceeding his quota during the course of any marketing year, his final liability should only arise where deliveries or direct sales exceed the total of the individual quotas allocated by Italy and (ii) the total of the quotas allocated by Italy must correspond to the amounts fixed by the Council at the latest from the 1995/96 marketing year.

However, Italy will be accountable financially to the EAGGF for levies due in respect of any deliveries or direct sales in excess of the global guaranteed quantities.

Commission Monitoring

3. Following the Council's agreement in May the Commission services have closely monitored the situation in the three Member States. This has involved regular discussions in the capitals with officials from the Ministries and controlling bodies concerned, as well as field visits to the main milk producing regions. The visits involved examination of records, and discussions with local controlling authorities, milk purchasers and dairies; in the case of Italy producer associations were visited also. The regions and purchasers visited account for some 75%, 70% and 75% of milk production in Italy, Spain and Greece respectively. Full cooperation was received in the course of the visits.
4. The principal test of effective implementation of the system will be whether a) quotas have been allocated to individual producers, correctly and objectively b) the approved purchasers have accurately recorded deliveries from producers in 1993/94 so as to enable them to furnish to the competent authorities the relevant statements before 15th May 1994 and c) levies due have been charged to the producers liable, and paid before 1st September, as required by the regulations. The report deals with the preparatory measures in terms of legal provisions, administrative action and controls taken by the Member States to meet these requirements.

Verification of payment of levies in Italy, in Spain and in Greece will be carried out as part of the normal process of inspection and control by the Commission for the purpose of satisfying itself that the financial provisions have been respected.

The information now available provides a clear picture of progress in implementing the quota system. It is possible also to draw some conclusions in relation to the quantitative targets indicated in connection with the Council's agreement.

Consistent with the structure of earlier reports from the Commission the approach in this report is to measure progress against the requirements that were identified in connection with the granting of increased quotas.

(a) Adoption of implementing regulations

5. Italy and Spain have now taken the principal legal measures considered necessary by them to ensure the smooth operation of the quota system, including its control. Certain supplementary measures, covering such matters as the national compensation mechanism and the national reserve are expected to be adopted by Italy over the coming weeks. Italy intends also to adopt appropriate regulations on procedures for reducing its over-production to within the global guaranteed quantities; the plan will include the first phase of reduction of B quota without compensation (see par 13). These regulations have not been adopted up to now because of a significant delay in completing the procedures associated with the adoption of the detailed rules for the quota system and because of other procedural requirements. Measures are being taken in Greece to permit the designated controlling authority (ELOG) to become fully operational by the beginning of the 1994/95 marketing year.
6. The Commission has not taken a definitive position on the question of the compliance of the individual measures with Community law. Some of the national measures pre-date the revised Regulations⁽¹⁾ on milk quotas, adopted by the Community in December 1992; some measures have been adopted only recently; others remain to be adopted.
7. The Commission is in the course of carrying out an overall review of the legislative measures adopted in all Member States, in order to comply with the revised Regulations on milk quotas; the measures taken in Italy, in Spain and in Greece will form part of that review.

⁽¹⁾ Council Regulation (EEC) No 3950/92, establishing an additional levy in the milk sector (OJ L405 of 31 December 1992 p 1). Commission Regulation (EEC) No 536/93 of 9 March 1993 laying down detailed rules on the application of the additional levy on milk and milk products (OJ L57 of 10 March 1993 p 12).

8. While the Commission has not so far identified measures taken at national level that would, a priori, prevent the quota system from achieving its objective, it does have reservations about the role given to producer associations in managing certain aspects of the system in Italy, notably in relation to the compensation mechanism. At best the involvement of the associations is an added administrative burden and without any identifiable advantage to producers; at worst it could be a serious impediment to finalising the compensation procedures and determining levies payable after the end of the marketing year.
9. The Commission's concern about the role of producer associations is heightened by the provision in the detailed rules which leaves open the possibility that the National Union of Milk Producers (UNALAT) might assume responsibility for managing the flow of information on milk deliveries, and on other aspects of the quota system. This concern has led the Commission to ask the Italian authorities to ensure that the quota arrangements can if necessary be managed independently of producer organisations, and that such associations will not be involved in any of the control aspects.
10. The arrangements being applied to implement the quota system reflect existing competences, structures and practices in the Member States, some of which cannot easily be adapted and do not always facilitate easy management of the system. While Member States need to have some flexibility in adopting arrangements best suited to their circumstances, including involvement of regional authorities, the Commission emphasises the overriding responsibility of the central authorities to exercise the controls necessary to ensure that the financial regulations are respected. Member States have to be especially vigilant also to avoid the introduction of regional dimensions to the system which may be successfully challenged on grounds of discrimination.
11. There is now widespread awareness by producers and milk purchasers in the Member States of the implications of introducing the quota system, and an acceptance of the inevitability of its application. Mindful of the need to proceed rapidly with putting the quota system in place, the Commission,

in the course of its contacts with the Member States, has sought to encourage progress and to avoid disrupting the momentum towards the application of the system.

12. The Commission stresses that, while national legislative measures are an important preliminary step, they do not in themselves constitute effective application of the milk quota system. Real effectiveness can only be achieved through observance of the rules, as confirmed by an independent and efficient control process.

b) calculation of individual reference quantities on the basis of deliveries to purchasers in 1991/92, together with individual fat references

13. Individual reference quantities have been calculated in the case of all three Member States: in Italy they are fixed partly on the basis of deliveries in 1988/89 (so called A quotas), and partly on deliveries between 1988/89 and 1991/92 (so called B quotas which are of a transitional nature and are to be phased out by 1995/96). Spain has issued quotas on the basis of provisional allocations made in 1987, but updated to take account of deliveries and direct sales in 1991/92.

In November 1993 Greece altered the basis for allocating quotas adopted in June 1993; while maintaining a link with 1991/92, producer quotas are now determined mainly by deliveries in 1992/93.

14. There have been delays in finalising the process of allocating quotas to producers.

In Italy the need to carry out a full control on some 165.000 individual quotas allocated initially to producers meant that, at the earliest, quotas for 1993/94 could not be confirmed until December 1993 in the case of some 30% of Italian producers; the process of fixing quotas for 1993/94 which began in January 1993, has involved three revisions to date in the light of successive controls. The remaining controls are expected to be finalised in the course of March. This should allow quotas for all producers for 1994/95 to be published at the end of the month. The normal

date limit. (31 January) prescribed in Italy's national law for fixing quotas for the following marketing year has been extended by presidential decree to 31 March.

In Spain quotas were allocated in December 1992; about one third (43.000) of producers appealed against the quota allocations; almost all appeals had been decided by January 1994; the small number (200) of outstanding cases are expected to be finalised by the end of March.

In Greece, the allocation of quotas was not made by the authorities until November 1993; the time limit for deciding appeals by producers was fixed for the end of February 1994; some 4.000 appeals have been received so far.

15. Individual fat reference quantities have been established and associated directly with the quotas issued to producers, in the case of Spain and Greece; in Italy this requirement is to be implemented by milk purchasers when measuring deliveries against quota for the purpose of preparing statements to be sent to the controlling authorities by 15th May.
16. The approach taken by the Member States as regards the reference year chosen as the basis for allocating quotas has been influenced by legal and practical considerations.

In Italy's case the reference years are 1988/89 for A (permanent) quotas and 1991/92 for B (temporary quotas). Given the structural changes in agriculture, it was to be expected that implementation of quotas in 1993/94 on the basis of the situation some five years earlier, would give rise to adjustments. This goes some way to explain the decision - actively encouraged by the Commission - to carry out comprehensive controls of the quotas allocated to producers. This has been a time consuming and laborious process but justified in the circumstances since it has revealed important weaknesses in the initial process of issuing quotas on the basis of information supplied through UNALAT sources. The extent of the adjustments that have already taken place in 1993/94 is indicated in par 27.

The high level of appeals by producers against the quotas fixed in Spain, which has required examination of over 40.000 cases, has absorbed also a high level of human and material resources. The appeal process has not revealed weaknesses in the allocations made initially; nor has it added significantly to the quantity of quota issued.

The use in Greece of the latest year for which delivery figures are available, that is 1992/93, as the main basis for quotas is explained by the rapid structural changes taking place in Greece, especially at producer level. Having regard to the recent deadline (end February) for appeals against the quotas attributed, it is not possible to indicate the extent of any adjustments necessary in Greece.

c)notification of individual reference quantities to each producer, and to purchasers

17. In Italy and in Spain individual notifications have been issued direct to producers by post. In Greece the notifications have been made available to producers through regional offices of the Ministry of Agriculture. In addition, the quotas of individual producers have been published officially in Italy, and publicised locally in Greece.
18. Purchasers of milk are informed also of the reference quantities of their suppliers. In Italy the information has been made available through official publications setting out the quotas allocated to individual producers; there is also ongoing contact with official regional bodies, producer associations, and individual producers. In Spain the relevant information was communicated in March 1993. In Greece local offices of the Ministry of Agriculture have certified the quota of individual producers on an index card supplied direct to purchasers.
19. While the channel of information used in each instance has varied with the circumstances of the Member States concerned, it appears to the Commission that the relevant information on individual producer quotas is readily available to producers and to purchasers.

In the course of visits to the Member States the Commission found that purchasers visited were aware of their suppliers' quotas; many purchasers had established systems for keeping individual producers informed regularly of how deliveries were progressing compared to quota. Purchasers had a sound knowledge of their responsibilities under the milk quota regulations, for example, as regards recording deliveries, including fat levels, maintaining stock registers, and collecting levies. In Italy levies have already been withheld in cases where supplying producers have exceeded their quotas, for example four of the dairies visited in February had withheld levies to a total amount of 250.000 ECU.

20. On the other hand, the existence of a large number of milk purchasers (about 3000 in Italy and 1000 in Spain), many of which act as intermediate buyers of milk on a small scale, does not facilitate control, and is likely to pose formidable problems in verifying the declarations by purchasers and in determining any levies payable after the end of the marketing year. While the process of registration of milk purchasers is at an advanced stage in the Member States, there is a risk that small scale purchasers may emerge, possibly in the context of trading in milk from producers who have exceeded their quotas, and remain undetected for a time. Measures to prevent producers switching from one purchaser to another during certain sensitive periods of the year would facilitate stability and control.

d) establishment and equipping of a central agency to verify the production records and collection of levies

21. All three Member States have designated central agencies. From the operational point of view AIMA in Italy, and SENPA in Spain, have taken an active part in the establishment and control of the quota system. The situation is different in Greece. While the powers, functions, and resources of the controlling body (ELOG) were prescribed in law in June 1993, ELOG has not been properly staffed and equipped to enable it to carry out any worthwhile work in the management and control of the quota system.

The Greek authorities have been informed of the gravity of this situation which is contrary to earlier indications that ELOG would be made fully operational at the start of the current marketing year. They have explained the delay as being due to bureaucratic procedures with unavoidable delays arising from the change of administration. Greece has now given firm assurances that the deficiencies will be remedied without delay.

e)adequate records of production

22. As from 1993/94 the new systems and procedures being put in place to control dairies and other milk purchasers should guarantee a comprehensive flow of accurate and timely data; this will substitute for traditional statistical methods whose limitations have been evident. Besides, under existing rules full returns have to be made to the Commission by 1 September each year.

Up to now all three Member States appear to have had difficulties in assembling reliable and comprehensive records of production at central level. This has meant that reliable figures of milk deliveries and direct sales in 92/93, based, for example, on returns by purchasers of milk and by direct sales producers, are not yet available in all cases. Figures for deliveries to dairies in 1992/93 have been supplied only recently by Spain and are available also for Greece. As long as verifiable figures are outstanding for 1992/93 it is difficult to identify the excess of production over quota, notably in Italy, and also to assess the impact of recent programmes for the voluntary abandonment of milk production.

23. In Italy there is an important role for regional authorities in verifying production records, controlling milk purchasers, and in managing other aspects of the system, for example transfers of quota. The major milk producing regions seem capable of meeting the requirements. The situation tends to be more difficult in regions where milk production is not significant and where structures, in terms of number and size of producers and of purchasers, are underdeveloped.

24. There have been particular difficulties in identifying and measuring the quantity of milk and milk products sold by direct sellers, especially where such operations are on a small scale. This may explain, in the case of Spain, that direct sales of only 210.000 tonnes have been the subject of applications for direct sales quotas; about half of this quantity has been allocated definitively; earlier indications had suggested direct sales at a higher level. Up to now the authorities in Italy, in Spain, and in Greece (where direct sales of milk are actively discouraged on public health grounds) have tended to accord greater priority to systems to control deliveries to purchasers, which in all cases comprise by far the greater part of milk sales. While this approach is understandable in the initial stages, and while structural change is likely to lead to a continual reduction in the importance of direct sales, the Commission considers that a particular effort should now be undertaken to establish and monitor the real level of direct sales. In the meantime the existing data on direct sales has to be treated with caution.

f) Collection of levies from producers

In Italy the national legislation provides for the compulsory withholding of levy once a producer's quota is exceeded during a marketing year. In Spain and in Greece the milk purchaser has discretion to withhold levy, but where it fails to do so and levies cannot be recovered from the producers concerned, the purchaser is responsible for any levies finally due. Levies are currently being collected in Italy (see par 19); the amounts retained in Spain and in Greece are negligible.

Quantitative aspects

25. While final data on current production in Italy, in Spain and in Greece, will only be available when the statements of deliveries and direct sales are analysed after the end of the 1993/94 marketing year, it would appear that in Italy's case the framework for the removal of surpluses no longer corresponds to the situation as envisaged by the Council (Annex I).

26. As regards the undertakings in relation to the absorption of surpluses, in its communication to the Commission (included in COM (93) 109 final of 9 March 1993) Italy recalled the plan to reduce production by some 1.6 mt

over a three year period ie 300.000 t in 1992/93, 650.000 t in 1993/94 and 650.000 t in 1994/95. The plan was to be achieved through voluntary abandonment programmes or withdrawal of so called B quotas (see par 13) without compensation.

The recent Community-financed abandonment programme in Italy this year should lead to the withdrawal from production of a maximum of 202.000 t; its impact will be felt in 1994/95. The earlier restructuring programme (Regulation 1637/91) effective from 1992/93, accounted for some 261.000 t which has not been redistributed, and which Italy considers should be taken into account in measuring performance as regards removal of surpluses. A smaller restructuring programme (Reg 3950/92) now being finalised should lead to the withdrawal of a maximum of 11.500 t. Italy plans to suppress quotas without compensation to an amount of about 0.5 mt ie 30% of the total B quota, during 1994/95 (see par 13); it intends also to introduce a further voluntary abandonment programme in 1994/95, to remove any remaining surplus; the expectation is that such a programme could lead to the withdrawal of 250.000 t.

The considerable shortfall to date (see Annex II) in meeting the undertakings to remove surplus milk, and the substantial quantity (650.000 t) that should normally be removed in the course of 1994/95, must cast serious doubt on whether the plan will be brought to fruition; this raises the question as to whether the existing framework for the removal of surpluses can still be regarded as realistic and whether the constituent elements of the Council agreement remain a valid basis for a balanced settlement of the milk quota problem in Italy. It appears to the Commission that, even in the most optimistic of hypotheses, the quantity likely to be absorbed will fall well short - by about 350.000 t on the basis of current estimates - of the 1.57 mt specified in the Council agreement as the level of surplus requiring to be removed.

27. The total of the individual quotas (deliveries) allocated initially by Italy for the current (1993/94) marketing year was 11.39 mt; following successive controls this amount has been reduced to 10.9 mt, (9.3 mt in A quotas and 1.6 mt in B quotas) compared to the global guaranteed quantity of 9.2 mt. In the case of direct sales, quotas issued initially corresponded to the global guaranteed quantity of 0.7 mt; subsequent controls have reduced the total to 0.6 mt, (0.55 mt in A quotas and 0.05 mt in B quotas).

The Commission has been informed by representatives of Italy that the total of quotas to be fixed for the 1994/95 and the 1995/96 marketing years will be reduced to within 10.55 mt and 9.9 mt respectively.

The extent of which the planned reductions in the overall level of quota issued to producers can be considered to have made a contribution to the reduction of real milk surpluses will depend on the individual elements involved. On the one hand, there should be a real contribution from voluntary abandonment programmes with compensation, provided of course the producers concerned have been actively engaged in milk production, and their productive capacity is not transferred to other producers who risk to exceed their quotas. A real impact on surpluses can be made also by the withdrawal of B quota without compensation, provided there is a corresponding withdrawal of productive resources from the system, and there is no corresponding reallocation of permanent quota to the producers affected, for example from the national reserve. On the other hand following the pattern of the reduction in quotas that has taken place in 1993/94, corrections following verification of the level of quota initially issued to producers do not make any contribution to the removal of surpluses. It is not possible to accept either that individual reference quantities allocated to the national reserve should count towards the permanent absorption of surplus where producers have ceased production over a specified period; such producers may resume production in certain circumstances or the quantities concerned may be reallocated to priority categories. It should be noted that Italy's plan to absorb surpluses (see par 26) involved voluntary abandonment programmes and reduction of B quotas without compensation.

28. In the case of Spain the outturn is broadly as expected. 657.000 t of milk has been removed under a buy-up programme, including some 140.000 t attributed by Spain to the Community financed restructuring programme (Regulation 1637/91). The Community financed buy-up programme referred to in the Council Agreement is likely to lead to the withdrawal from production of some 250.000 t.

Spain has allocated individual producer quotas totalling 5.165 mt, out of its global reference quantity (deliveries) of 5.2 mt. The indications are that deliveries to dairies in Spain would normally exceed the corresponding quota by about 4% in 1993/94. But since the producer milk price in Spain is only about 80% of the levy to be charged, there must be a doubt whether such excess deliveries will take place.

In the case of direct sales 100.000 t has been allocated definitively and applications still under consideration cover an additional 100.000 t. The total direct sales quota is 366.950 t.

29. In the case of Greece the quotas allocated amount to 618.000 t, compared to a global reference quantity (deliveries) of 625.000. The indications are that deliveries are likely to be close to the level of quota fixed.

In the case of direct sales the amount of the global quota (4.000 t) has been divided among the regions for subsequent redistribution among the producers concerned.

30. The final out-turn for milk production and for receipts in levies in 1993/94 is likely to be influenced by a number of factors, namely the margin under quota available to individual producers as the end of the marketing year approaches, the efficient application of the compensation mechanism, and the producer price for milk. The current indications are that levy is likely to be due in Spain, little or no levy will be payable in Greece, and, after the compensation process has been completed, levies collected from producers in Italy will be reimbursed.

The fact that the quota system is now being introduced for the first time in a meaningful way, and the related campaigns to inform milk producers and dairies of their potential liabilities, should tend to act as a break on deliveries by producers; overall production in the Member States concerned is likely to stabilise, or may decline slightly, in 1993/94 compared to 1992/93.

Conclusions on implementation of the system

31. Significant progress has been made in the implementation of the system of milk quotas even though there have been delays in finalising individual producer quotas, and in adopting some legislative measures, especially in Italy.

In Italy solid groundwork is being laid through the comprehensive controls carried out on producer quotas, through the development in the major milk producing regions of computerised control systems and through the preparatory work completed by many dairies. Despite this, the volume and difficulty of the work involved in controlling and in managing quotas issued to producers especially in situations where producers act to sell or lease quota in anticipation of downward adjustments following controls, suggests that putting the system finally in place will pose a formidable challenge. The need to ensure compliance by numerous purchasers and producer associations with the rules and procedures is likely to require not only the full attention of the regions, who have specific responsibilities in this regard, but also the assistance of the central controlling agencies which up to now have played an important role throughout Italy in verifying the quotas attributed to producers.

Full application of the system, based on the quotas fixed for 1993/94, is likely to take place in Spain this year, though controlling the large number of milk purchasers and managing changes in producer quotas will not be easy.

In Greece the late revision of the basis for allocating quotas, together with limited administrative resources devoted to managing the quota system, may give rise to difficulties; on the other hand the capacity of many dairies to fulfil their obligations means that controls at purchaser level should not pose insuperable problems.

The political will to persevere, especially in situations where quotas have to be adjusted downwards and levies have to be collected, will be crucial. This will require that the authorities maintain a strong determination to apply the system effectively and that all necessary legislative and administrative support be provided for this task. In this regard the situation of the designated body in Greece (ELOG) is unsatisfactory. Until such time as ELOG becomes fully operational, Greece is unlikely to be able to manage and control the quota system adequately. It is essential also that in Italy management and control of the system be carried out independently of producer interests and that the national legislation should underpin that objective.

Proposal

32. Having regard to progress so far, the Commission considers that increased quotas for Italy, and for Greece should be granted on a provisional basis for 1994/95.

In the case of Spain it is reasonable to conclude that irreversible progress has now been made in putting the system in place and, having regard to the satisfactory outcome on the quantitative undertakings, the Commission proposes that the increase in the quota given to Spain for 1993/94 be established on a definitive basis.

In the case of Italy the Commission considers that sufficient doubt exists as to the realisation of the plans for the absorption of surpluses as to justify a revision of the increased quota which was agreed for 1993/94 on the assumption that a higher level of surplus would have been removed from the market at this stage. In the Commission's view an increase in the deliveries quota of 0.55 mt compared to the 0.9 mt increase agreed for

1993/94 is appropriate to take account of the new perspective. The Commission will review this quantity, which is provisional, in the light of the results of the measures envisaged in par 26 in relation to a further voluntary abandonment programme and the removal of temporary (B) quotas. Account will be taken also of any tangible evidence supplied by Italy in relation to levels of surpluses. The Commission considers that the continual difficulty in acquiring verifiable data of production and the emerging doubts about the level of surplus to be removed, require that such information be furnished. In the light of this review the Commission will make a further proposal in December on the quotas to be fixed for the 1995/96 marketing year, by which stage Italy could reasonably have been expected to have taken all the measures necessary to absorb the surplus.

33. In the case of Greece the likely out-turn is broadly in line with expectations when the agreement was concluded. Accordingly the level of increase granted for 1993/94 should be maintained for 1994/95. The proposal is being made in the case of Greece on the basis of the solid assurances that have now been received that the controlling body (ELOG) will be fully operational from the beginning of the 1994/95 marketing year. The report in December will indicate the situation in this regard.

ANNEX I

PROPOSALS FOR ABSORBING EXCESS PRODUCTION

SPAIN

	SPAIN (tonnes)
Present quota	
- Deliveries	4 550 000
- Direct sales	527 000
Present estimated production	6 000 000
Difference between quota/production	1 450 000
National buy-up already decided	600 000

SOLUTION

Revision quota	500 000
Direct sales transfer	150 000
Buy-up financed by the Community	200 000

GREECE: Quota is increased by 100 000 tonnes

<u>ITALY</u>	<u>Million tonnes</u>
I Excess to be removed	2.47
II Of which to be removed without compensation in accordance with Italian law	0.84
III Net excess	1.63
IV Increase in whole sale quota	0.9
V Amount to be bought up	0.73
VI Amount to be purchased with Community contribution (25% of V)	0.2

ANNEX II

A.

1. Surplus to be removed	2.47 mt*
2. Increase in quota accorded	0.9 mt
3. Net surplus	1.57 mt

B. Italy's plan for reduction in milk production - recalled in letter of 1 February 1993 to Commission and included in Commission's report to the Council - COM (93) 109 final of 9 March 1993

1992/93 milk year	300.000 t
1993/94 milk year	650.000 t
1994/95 milk year	650.000 t

C. Measures taken to date

1992/93 milk year (1637/91)	261.000 t
1993/94 milk year (EAGGF)	202.000 t (max)
1993/94 milk year (3950/92)	11.425 t (max)

D. Undertakings for 1994/95 milk year

Voluntary abandonment programme with national compensation	250.000 t
Reduction in B quotas without compensation	+500.000 t**

* based on Italy's figures for production in 1991/92 ie 11.5 mt less the total of its quotas 9.03 mt

** based on 1.6 mt for total of B quotas

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