



COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL

on the quota system for the production of potato starch

Proposal for a

COUNCIL REGULATION

**amending Regulation (EC) No 1868/94 establishing a quota system
in relation to the production of potato starch**

(presented by the Commission)

REPORT FROM THE COMMISSION TO THE COUNCIL

on the quota system for the production of potato starch

1. INTRODUCTION: THE NEED FOR THE REPORT

Article 3(1) of Council Regulation (EC) No 1868/94 of 27 July 1994 establishing a quota system in relation to the production of potato starch¹ stipulates that on or before 31 October 2001 the Commission must present to the Council a report on the allocation of quota within the Community, accompanied if necessary by appropriate proposals. This report is to take account of possible changes in the compensatory payment and of the development of the potato starch and cereal starch markets.

Article 3(2) of the above Regulation stipulates that on or before 31 December 2001 and thereafter at three-yearly intervals the Council, acting on the basis of Article 37 of the Treaty, must allocate the quota between Member States on the basis of the report referred to in Article 3(1) for use in the following three marketing years.

The current quotas are fixed by Regulation (EC) No 1868/94 until the end of the 2001/02 marketing year (June 2002).

2. THE QUOTA SYSTEM

The price arrangements and direct aid for potato starch are integrated into the market organisation for cereals (Council Regulation (EEC) No 1766/92²).

Potato starch is in direct competition with cereal starch. The restrictions on production applied in the cereals sector, in particular set-aside, and the increase in production of potato starch at the beginning of the 1990s led the Council to limit production of potato starch from 1995/96 onwards by introducing a quota system (Regulation (EC) No 1868/94), with the following features:

- the quota is fixed by Member State and then allocated between potato starch manufacturers in the form of sub-quotas,
- potato producers receive a payment per tonne of starch in the potatoes delivered to the potato starch manufacturers, similar to the per-hectare payment for cereals,
- potato starch manufacturers receive a premium based on their sub-quota to offset certain structural disadvantages in relation to cereal starch producers (fewer by-products to develop, shorter manufacturing period, high anti-pollution costs, etc.). Payment of the premium is subject to the condition that manufacturers pay the minimum price to producers of potatoes intended for potato starch manufacture.

¹ OJ L 197, 30.7.1994, p. 4.

² OJ L 181, 1.7.1992, p. 21.

Potato producers and potato starch manufacturers must conclude cultivation contracts each year to prevent any overrun of the sub-quota. These contracts state in particular the projected quantity of starch to be delivered and the minimum price to be paid by the manufacturer. A manufacturer may not take delivery of potatoes that are not covered by a cultivation contract. Apart from the 5% flexibility clause, any potato starch produced in excess of the sub-quota must be exported from the Community, as such and with no export refund, before 1 January following the end of the marketing year in question.

Detailed implementing rules are set out in Commission Regulation (EC) No 97/95³ which clarifies a number of issues, such as the introduction of cultivation contracts, the minimum starch content, the determination of the weight and starch content of potatoes on delivery to potato starch manufacturers, rules relating to exports without refund, inspection arrangements and penalties, rules applicable to mergers, changes of ownership and the commencement or termination of commercial activities by potato starch manufacturers.

3. DECISIONS UNDER AGENDA 2000

Regulation (EC) No 1868/94 was amended by Regulation (EC) No 1252/1999⁴ within the context of the Agenda 2000 price decisions and, at the same time, the minimum price and the payment for potato producers laid down in Article 8 of Regulation (EEC) No 1766/92 were amended by Regulation (EC) No 1253/1999⁵. The compensation for the fall in prices in the potato starch sector was fixed at a higher rate than that in the cereals sector, while budget neutrality was ensured by reducing the quotas fixed by Regulation (EC) No 1868/94 for the 2000/01 and 2001/02 marketing years.

The minimum price and the payment for potato producers laid down in Article 8 of Regulation (EEC) No 1766/92 may be amended from the 2002/03 marketing year (mid-term review of the Agenda 2000 reform package) in the light of a final reduction in the intervention price for cereals.

³ OJ L 16, 24.1.1995, p. 3.

⁴ OJ L 160, 26.6.1999, p. 15.

⁵ OJ L 160, 26.6.1999, p. 18.

4. DEVELOPMENT OF POTATO STARCH PRODUCTION AND QUOTAS

Tables 1 and 2 below show the development of the production of potato starch within the context of the quota arrangements, and the different quotas fixed by Member State.

Table 1 Development of the production of potato starch within the context of the quota arrangements⁽¹⁾

1 000 tonnes

PRODUCTION	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
Denmark	154	183	178	174	177	180
Germany	498	710	681	628	663	698
- quota		605				
- reserve 1996/97		105				
Spain	-	-	-	-	-	-
France	251	270	294	272	306	274
Netherlands	544	535	554	432	505	528
Austria	29	48	48	45	44	48
Finland	55	57	54	44	51	55
Sweden	46	59	61	66	59	66
sub-total (without reserve)	1 578	1 758				
reserve 1996/97		105				
EU TOTAL	1 578	1 862	1 870	1 660	1 805	1 850
Expenditure (premium + payment) ECU-EUR million	177.1	208.1	204.3	182.9	193.2	224- (estimate)

(1) as laid down in Regulations (EC) Nos 1868/94 and 97/95, including the maximum 5% flexibility, not including quantities exported without a refund.

Source: Member State communications under Article 20 of Regulation (EC) No 97/95.

Table 2 Development of quotas fixed for the production of potato starch

1 000 tonnes

QUOTAS	1995/96, 96/97 & 1997/98	1998/99 & 1999/2000	2000/01	2001/02
Denmark	178.460	178.460	173.439	168.215
Germany		696.271	676.680	656.298
- quota	591.717			
- reserve 1996/97	104.554 ⁽¹⁾			
Spain	2.000	2.000	1.972	1.943
France	281.516	281.516	273.595	265.354
Netherlands	538.307	538.307	523.161	507.403
Austria	49.100	49.100	48.409	47.691
Finland	54.750	54.750	53.980	53.178
Sweden	63.900	63.900	63.001	62.066
sub-total (without reserve)	1 759.750			
reserve 1996/97	104 554 ⁽¹⁾			
EU TOTAL	1 864.304	1 864.304	1 814.237	1 762.148

(1) of the reserve of 110 000 tonnes, 104 554 t have been allocated.

Decisions on quotas - AGENDA 2000		2000/01	2001/02
Rate of reduction by Member State, depending on their level of production:	< 100 000 t	1.41%	2.87%
	> 100 000 t	2.81%	5.74%
EU total		2.69%	5.48%

Source: Article 2 of Regulation (EC) No 1868/94, as last amended by Regulation (EC) No 1252/1999 (Agenda 2000).

Since the incorporation in 1996/97 of the reserve created for Germany (to cover production resulting from investments irreversibly undertaken before 31 January 1994), EU production of potato starch has fluctuated very slightly, between 1.8 and 1.9 million tonnes per year, except for 1998/99 when it fell to 1.66 million tonnes as a result of poor weather conditions.

Over the entire period, production remained very close to the quota, with two extremes:

1998/99: - 11% as a result of poor weather conditions

2000/01: + 2% with a reduced quota (Agenda 2000) and good weather conditions.

The 2000/01 marketing year progressed under relatively good conditions: the sizeable harvest of starch potatoes and favourable market outlook with stocks initially at a relatively low level, according to professional sources, led a number of potato starch manufacturers to make use of the 5% flexibility clause under Article 6(2) of Regulation (EC) No 1868/94. Moreover, a number of manufacturers, having produced over and above their available quota, will have to export those quantities without any export refunds before 1 January 2002 under Article 6(1) of Regulation (EC) No 1868/94 (total quantity involved: 15 000 tonnes).

The earliest indications for the 2001/02 marketing year point to a smaller harvest of starch potatoes as a result of poor weather conditions. As a result, potato starch production will probably fall in excess of the reduction in quotas and quantities used within the context of flexibility in the previous marketing year. The market appears less favourable, according to professional sources, in particular with stocks rising again at the beginning of the marketing year.

Table 3 and the following graph show the development of potato starch production for the EU as a whole compared to the quota. Apart from in 1995/96 and 1998/99 (poor weather conditions), EU production remained close to the quota fixed.

Table 3 Development of potato starch production and EU basic quota

<i>1 000 tonnes</i>							
EU	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
PRODUCTION	1 578	1 862	1 870	1 660	1 805	1 850	
QUOTA	1 760	1 864	1 864	1 864	1 864	1 814	1 762

Ratio
production/quota

90%

100%

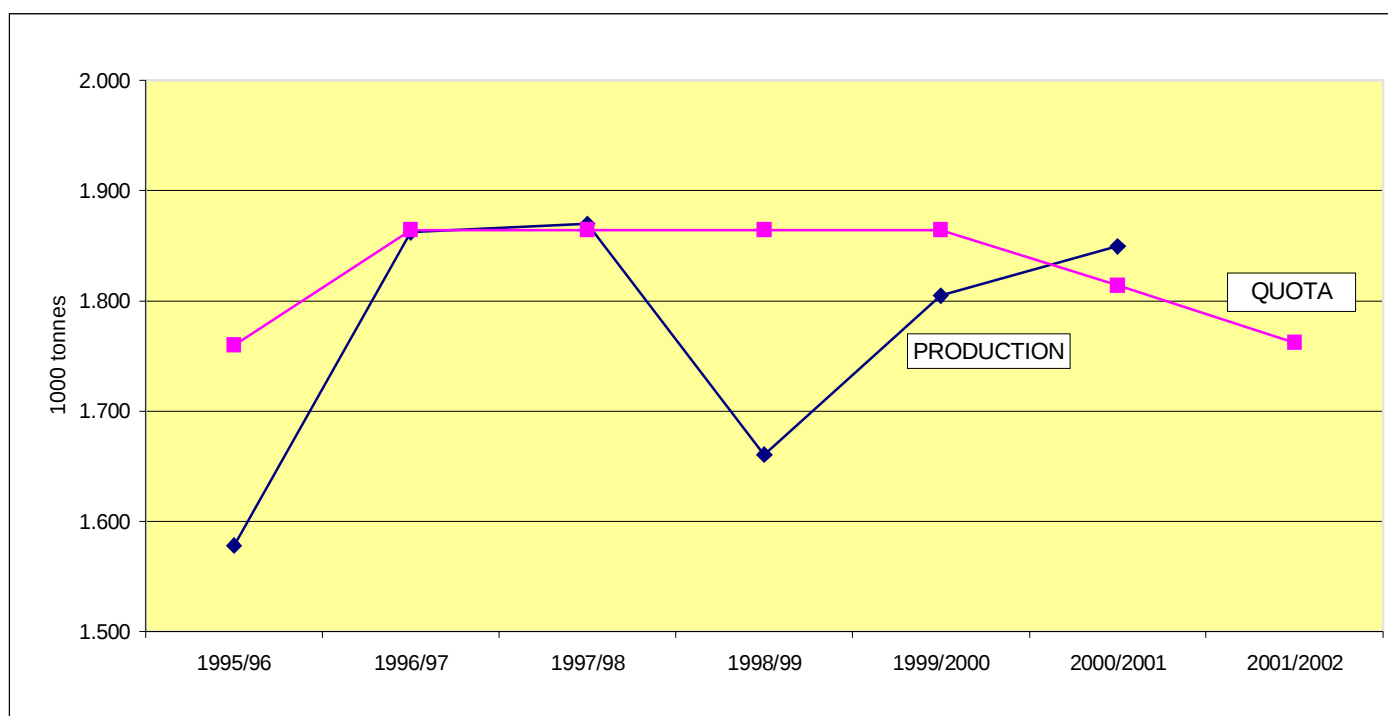
100%

89%

97%

102%

Graph: Development of potato starch production and EU basic quota



5. DEVELOPMENT OF THE CEREAL AND POTATO STARCH SECTOR

5.1. Exports of cereal starch and potato starch

The world market constitutes an important outlet for the cereal starch and potato starch sector, including starch-derived products.

The following two tables show the development of exports of the main products in this sector.

Table 4a has been taken from the EUROSTAT/COMEXT database. However, it does not include certain quantities in view of their confidential statistical nature.

Table 4a Development of exports of cereal starch and potato starch

<i>1000 t cereal starch equivalent</i>						
Description	1995	1996	1997	1998	1999	2000
Wheat starch as such	28	14	20	26	35	34
Maize starch as such	83	52	81	68	105	109
Potato starch	305	284	311	260	310	331
Sub-total cereal starch and potato starch "as such"	416	350	413	354	450	474
Glucose	85	54	110	91	102	132
Modified cereal starches	297	299	325	326	379	423
TOTAL	798	703	848	771	932	1 028

Source: EUROSTAT/COMEXT.

Table 4b shows another evaluation, based on Member State communications to DG Agriculture (export licences for products in Annex I to the Treaty) and to DG Enterprise (payments of export refunds for exports of non-Annex I products).

Table 4b Development of exports of cereal starch and potato starch

1000 t cereal starch equivalent

Description	1995	1996	1997	1998	1999	2000
wheat starch as such	42	31	30	42	58	36
maize starch as such	127	101	133	136	84	154
potato starch as such	326	293	362	431	322	400
sub-total cereal starch and potato starch "as such"	494	425	525	609	464	590
glucose	175	185	204	212	222	279
modified cereal starches	404	258	329	360	359	535
TOTAL	1 074	867	1 059	1 181	1 045	1 404

Sources: - cereal starch and potato starch, as such, and glucose: DG Agriculture/Member States, application for export licences,
- modified cereal starches: DG Enterprise/Member States - monthly communications of payments.

According to Table 4b, the total exports taken into account increased from around 1.1 million tonnes in 1995 to 1.4 million tonnes in 2000, with two years - 1996 and 1999 - witnessing a decline. The two main categories covered are cereal starch and potato starch as such, which increased from 0.5 to 0.6 million tonnes, and modified starch produced mainly from potato starch and maize starch, which increased from 0.4 to over 0.5 million tonnes in the same period. Exports of glucose produced mainly from maize and wheat starch increased from 0.2 to 0.3 million tonnes between 1995 and 2000.

Exports of potato starch and derived products increased over that period, reflecting demand for specific products.

Moreover, certain quantities of cereal starch and potato starch are exported in numerous non-Annex I products, other than modified starches. In view of the complexity of the range of products concerned, these are not included in the above Tables 4a and 4b.

5.2. Production of cereal starch and potato starch

Table 5 Development of potato starch and cereal starch production (estimates)

million tonnes

Production of cereal starch and potato starch (EU estimate)		1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	Difference 2000/01 - 1995/96
Type of starch:	maize	3.6	3.6	3.7	3.7	3.7	3.9	0.3
	%	52%	49%	49%	48%	46%	45%	-7
	wheat	1.6	1.8	1.9	2.2	2.4	2.8	1.2
	%	23%	24%	25%	29%	30%	32%	9
	potato	1.7	2.0	2.0	1.8	1.9	2.0	0.3
	%	25%	27%	26%	23%	24%	23%	-2
	TOTAL	6.9	7.4	7.6	7.7	8.0	8.7	1.8
	%	100%	100%	100%	100%	100%	100%	0
Annual rate of change		8.2%	7.2%	2.7%	1.3%	3.9%	8.7%	5.4% on average

Source: - for cereal starch: AAC (Association of the Cereal Starch Industries of the EU),
- for potato starch: communications from the Member States under Article 20 of Regulation (EC) No 97/95, including production outside the quotas, in particular some manufacturing losses below those provided for in Regulation (EC) No 97/95.

Since 1995/96, cereal starch and potato starch production in the Community has grown at a rate of around 5% a year on average, largely to the benefit of wheat starch. Since production of potato starch has been limited by the quota system, the share of potato starch in starch production as a whole is tending to fall below 25%.

6. PROPOSAL

Based on the information presented in this report, in particular as regards the market balance between potato starch and cereal starch, the Commission is proposing to extend the quotas currently fixed for 2001/02 for a period of three years.

Under Article 3(1) of Regulation (EC) No 1868/94, on or before 31 October 2001 the Commission must present to the Council a report on the allocation of quota within the Community, accompanied if necessary by appropriate proposals. The Commission would however like to point out that the Court of Auditors recently published a report on the potato and cereal starch sectors (1 October 2001), in which it sets out a number of observations and recommendations which the Commission is studying in detail in order to formulate a response. However, in view of the 31 October deadline, it has not been possible to finalise this analysis and to draw the necessary conclusions, which would have allowed the Commission to incorporate this information and probably to amend this report and the proposal for a Regulation.

The Commission has also arranged for a study to evaluate the cereal starch and potato starch sector, which is still underway. The Commission expects the final report to be available in the next few months. It will also have to take this study into account once it has been published, and draw the relevant conclusions.

The Commission would also like to point out that Article 8 of Regulation (EC) No 1766/92, as amended by Regulation (EC) No 1253/1999, stipulates that the minimum price and the payment for potato producers must be adapted in the light of the final reduction in the intervention price for cereals in accordance with the decisions taken within the framework of Agenda 2000 (mid-term review).

Its proposal to extend the existing quotas is therefore subject to any measures which might subsequently be needed on the basis of the conclusions from the above reports which are currently under review.

2001/0273 (CNS)

Proposal for a

COUNCIL REGULATION

**amending Regulation (EC) No 1868/94 establishing a quota system
in relation to the production of potato starch**

(presented by the Commission)

EXPLANATORY MEMORANDUM

Regulation (EC) No 1868/94 establishes a quota system in relation to the production of potato starch and provides for the fixing of quotas for a period of three years, which expire at the end of the 2001/02 marketing year.

Based on the report from the Commission to the Council, this Regulation extends the current quotas for the 2002/03, 2003/04 and 2004/05 marketing years.

Under Article 3(1) of Regulation (EC) No 1868/94, on or before 31 October 2001 the Commission must present to the Council a report on the quota system, accompanied if necessary by appropriate proposals. The Commission would however like to point out that the Court of Auditors published a report on the potato and cereal starch sectors on 1 October 2001, in which it sets out a number of observations and recommendations which the Commission is studying in detail and plans to respond to. However, in view of the 31 October deadline, it has not been possible to finalise this analysis and to draw the necessary conclusions, which would have allowed the Commission to incorporate this information and probably to amend its report and proposal for a Regulation.

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Proposal for a

COUNCIL REGULATION

**amending Regulation (EC) No 1868/94 establishing a quota system
in relation to the production of potato starch**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Articles 36 and 37 thereof,

Having regard to the proposal from the Commission⁶,

Having regard to the opinion of the European Parliament⁷,

Having regard to the opinion of the Economic and Social Committee⁸,

Whereas:

- (1) Article 2(3) of Regulation (EC) No 1868/94⁹ fixes the potato starch quotas for producer Member States for the 2000/01 and 2001/02 marketing years.
- (2) Under Article 3(2) of Regulation (EC) No 1868/94 the quota must be allocated between producer Member States at three-yearly intervals on the basis of the report from the Commission to the Council. The quotas currently fixed for the 2001/02 marketing year should therefore be extended for three years.
- (3) The Commission reserves the right to make other appropriate proposals for the potato starch quota system in the light of the report from the Court of Auditors on the starch sector and the ongoing evaluation study.
- (4) Producer Member States should allocate their quotas for a period of three years between all potato starch manufacturers on the basis of the quotas for the 2001/02 marketing year.
- (5) Quantities used in excess of the sub-quotas available in the 2001/02 marketing year must be deducted in the 2002/03 marketing year in accordance with Article 6(2) of Regulation (EC) No 1868/94.

⁶ OJ C ..., ..., p. ...

⁷ OJ C ..., ..., p. ...

⁸ OJ C ..., ..., p. ...

⁹ OJ L 197, 30.7.1994, p. 4. Regulation as last amended by Regulation (EC) No 1252/1999 (OJ L 160, 26.6.1999, p. 15).

- (6) The amendment of Council Regulation (EEC) No 1766/92¹⁰ by Regulation (EC) No 1253/1999¹¹ involved changes to the payment terminology in Article 8. This Regulation should therefore be brought into line with that terminology,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 1868/94 is hereby amended as follows:

1. Article 2 is replaced by the following:

“Article 2

1. The following potato starch producer Member States are hereby allocated the following quotas for the 2002/03, 2003/04 and 2004/05 marketing years:

Denmark	168 215 tonnes
Germany	656 298 tonnes
Spain	1 943 tonnes
France	265 354 tonnes
Netherlands	507 403 tonnes
Austria	47 691 tonnes
Finland	53 178 tonnes
Sweden	62 066 tonnes
Total	1 762 148 tonnes

2. Each producer Member State shall allocate the quota referred to in paragraph 1 between potato starch manufacturers for use in the 2002/03, 2003/04 and 2004/05 marketing years in proportion to the sub-quotas available to each manufacturer for the 2001/02 marketing year before application of a possible correction under Article 6(2).

The sub-quotas available for each manufacturer for the 2002/03 marketing year shall be adjusted to take account of any amount used in excess of quota during the 2001/02 marketing year in accordance with Article 6(2).”

2. Article 3 is replaced by the following:

“Article 3

1. On or before 30 September 2004, and thereafter at three-yearly intervals, the Commission shall present to the Council a report on the allocation of quota within the Community, accompanied by appropriate proposals. This report shall take account of possible changes in the payments to potato producers and of developments on the potato starch and cereal starch markets.

¹⁰ OJ L 181, 1.7.1992, p. 21. Regulation as last amended by Regulation (EC) No 1666/2000 (OJ L 193, 29.7.2000, p. 1).

¹¹ OJ L 160, 26.6.1999, p. 18.

2. On or before 31 December 2004, and thereafter at three-yearly intervals, the Council, acting on the basis of Article 37 of the Treaty, shall allocate the quota between Member States on the basis of the report referred to in paragraph 1, for use in the following three marketing years.
 3. On or before 31 January 2005, and thereafter at three-yearly intervals, Member States shall notify those concerned of the details of quota allocations for the following three marketing years.”
3. Article 7 is replaced by the following:

“Article 7

The provisions of this Regulation shall not cover production of potato starch by undertakings which neither purchase potatoes which have benefited from the payment referred to in Article 8 of Regulation (EEC) No 1766/92 nor benefit from the refund referred to in Article 7 of that Regulation.”

Article 2

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

It shall apply from 1 July 2002.

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

Done at Brussels,

For the Council
The President

FINANCIAL STATEMENT					
1. BUDGET HEADING: B1-1021				APPROPRIATIONS: EUR 232.38 million	
2. TITLE: Council Regulation amending Regulation (EC) No 1868/94 establishing a quota system in relation to the production of potato starch					
3. LEGAL BASIS: Articles 36 and 37 of the Treaty					
4. AIMS: To allocate the quota between potato starch producer Member States for the 2002/03, 2003/04 and 2004/05 marketing years.					
5. FINANCIAL IMPLICATIONS		12 MONTH PERIOD (EUR million)	CURRENT FINANCIAL YEAR 2002 (EUR million)	FOLLOWING FINANCIAL YEAR 2003 (EUR million)	
5.0 EXPENDITURE					
- CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTIONS)			-	234	
- NATIONAL AUTHORITIES					
- OTHER					
5.1 REVENUE					
- OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES)					
- NATIONAL					
		2004	2005	2006	2007
5.0.1 ESTIMATED EXPENDITURE		234	234	-	-
5.1.1 ESTIMATED REVENUE					
5.2 METHOD OF CALCULATION:					
Potato starch manufacturer's premium:		1 762 148 t x EUR 22.25/t =		EUR 39.21 million	
Compensatory payment:		1 762 148 t x EUR 110.54/t =		EUR 194.79 million	

				EUR 234.0 million	
Payments will commence in 2003.					
6.0 CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?				YES / NO	
6.1 CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?				YES / NO	
6.2 WILL A SUPPLEMENTARY BUDGET BE NECESSARY?				YES / NO	
6.3 WILL APPROPRIATIONS NEED TO BE ENTERED IN FUTURE BUDGETS?				YES / NO	
OBSERVATIONS:					
The measure is limited to the 2002/03, 2003/04 and 2004/05 marketing years.					