



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 26.11.2007
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2007/0261 (ACC)

Proposal for a

COUNCIL REGULATION

**temporarily suspending customs duties on imports of certain cereals for the 2007/08
marketing year**

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

- **Grounds for and objectives of the proposal**

The aim of this proposal is to respond to tensions on the EU cereals market by facilitating imports from third countries in order to promote supply.

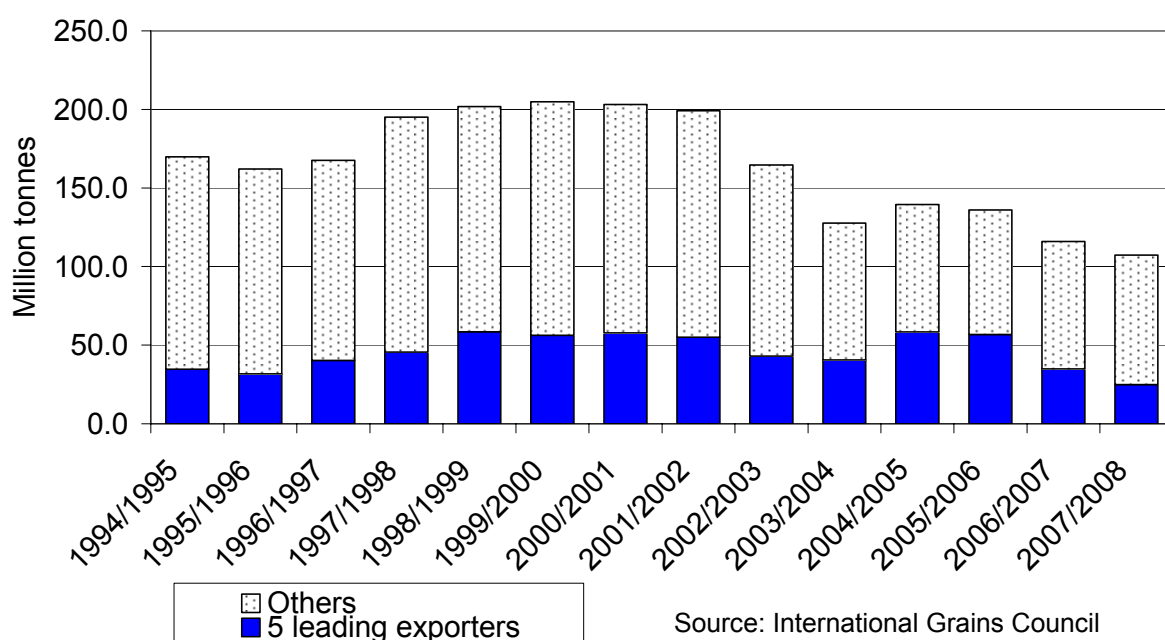
This is a response to a modest European harvest coupled with high prices on the world and Community markets. Although current protective measures for cereals at the Community's external borders are relatively low, import duties still apply to certain cereals which are key to EU market balance.

- **Background**

1.1. Trends on the world cereals market

According to the International Grains Council, in 2007/08 world consumption of cereals (1 669 million tonnes) is likely, for the third year in a row, to exceed world production (1 655 million tonnes). A combination of unfavourable summer weather in the northern hemisphere and drought in Australia has reduced forecast world wheat production to 601 million tonnes, whilst world maize production is expected to reach a record 766 million tonnes following an exceptional harvest in the United States. World demand for cereals is on the rise structurally owing to the expanding production of biofuels and to rising living standards in the emerging economies (these are reflected in increased consumption of poultrymeat and pigmeat, hence boosting demand for cereals). As a result of rising world demand, at the end of 2007/08 world stocks are likely to be at their lowest level since 1979/80. Wheat stocks will be an estimated 107 million tonnes, including 25 million tonnes held by the five main exporting countries, compared with 118 million tonnes and 38 million tonnes respectively at the end of the 2006/07 marketing year.

World stocks at year-end: wheat



Falling world stocks have resulted in a strong upward trend in wheat listings (for export) since the start of 2007/08, with increases of around 50%; at the end of September 2007 world listings reached around USD 360 per tonne fob. Quite apart from the impact of the dismal summer weather on wheat harvests in the northern hemisphere, particularly on European yields and quality, the markets have also been bolstered by strong demand from importers seeking to cover their requirements while international prices continued to rise. Despite soaring prices, traditional importers have been buying in advance for fear of subsequent price increases. Since the start of 2007/08, North Africa, the Middle East and India have made substantial purchases, largely from the American and Russian markets: in early September, US export commitments were already approaching 60% of the USDA export forecast for the entire marketing year.

Against the backdrop of substantial rises in wheat values and sustained strong export demand, the world markets in feed barley have also taken off. At the end of September 2007 export prices hit USD 314 per tonne fob in the Black Sea, a rise of around 30% on the start of the marketing year.

Despite an upward revision of forecast US maize production, world prices for maize exports have also risen. At the end of September 2007 US listings had gained 20% on the start of the marketing year, at around USD 180 per tonne fob. In Argentina, Up River export listings had increased by 30% at the end of September 2007, at around USD 180 per tonne fob. The rates were boosted by continuing strong demand, while operators were raising prices following a sharp rise in export listings from Brazil, where the fob values exceeded the USD 200 per tonne barrier largely as a result of exports destined for the EU.

1.2. Situation on the EU cereals market

At the start of 2007/08 stocks were 13 million tonnes below levels at the same time the previous year. This sizeable reduction is the result of a combination of two

factors: the modest cereals harvest in 2006/07 and significant withdrawals from Community intervention stocks during that year. To meet the needs of the internal market, over 8 million tonnes of intervention stocks were put up for sale in the Community in 2006/07 (3.1 million tonnes of wheat, 3.4 million tonnes of maize, 1.4 million tonnes of barley and around 395 000 tonnes of rye). Community intervention stocks totalled 2.4 million tonnes at the start of the 2007/08 marketing year, largely made up of Hungarian maize.

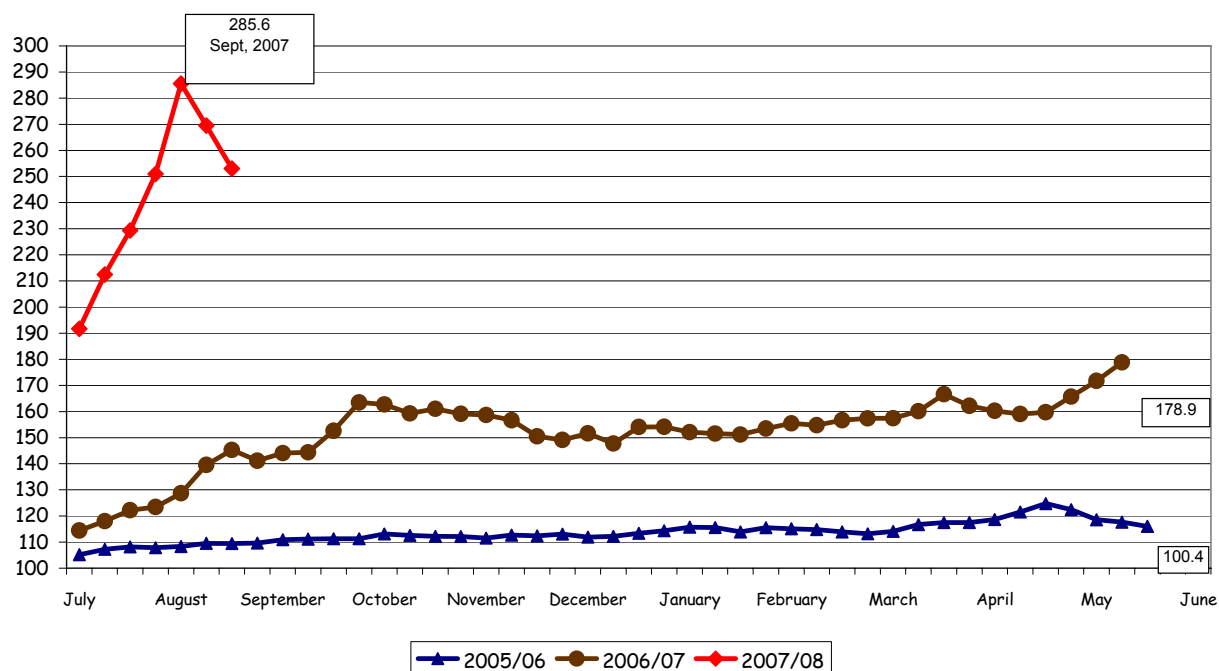
In 2007, frequent heavy rainfall led to a decline in the quality of small-grain cereals harvested in the western part of the European Union, particularly in France, Germany and the United Kingdom. In central and eastern Europe (Romania, Bulgaria and Hungary), recurrent heat waves (soaring temperatures and a marked absence of rainfall) reduced growing potential. Only the Iberian Peninsula and the countries around the Baltic Sea experienced weather conditions favourable to cereals. Overall EU production is estimated at 258 million tonnes, a fall of 8 million tonnes or 3% on the already modest 2006/07 harvest.

European production is declining when EU stocks are already low. As a result the EU will need more imports in 2007/08 than in 2006/07. Traditionally a net exporter, in 2007/08 the EU has been a net importer, to the tune of 2.5 million tonnes¹, while EU exports remain constant.

European cereals markets have seen a spectacular upsurge in prices since the start of 2007/08. The rise has been substantial both in nominal terms and in terms of the exceptionally wide gap between market prices and intervention prices (EUR 101.3 per tonne). There are tensions on the small-grain cereals and maize markets, as a result of the reduced Community stocks of common wheat and maize, poorer than forecast quality, and the exhaustion of Community intervention stocks (currently down to 0.5 million tonnes).

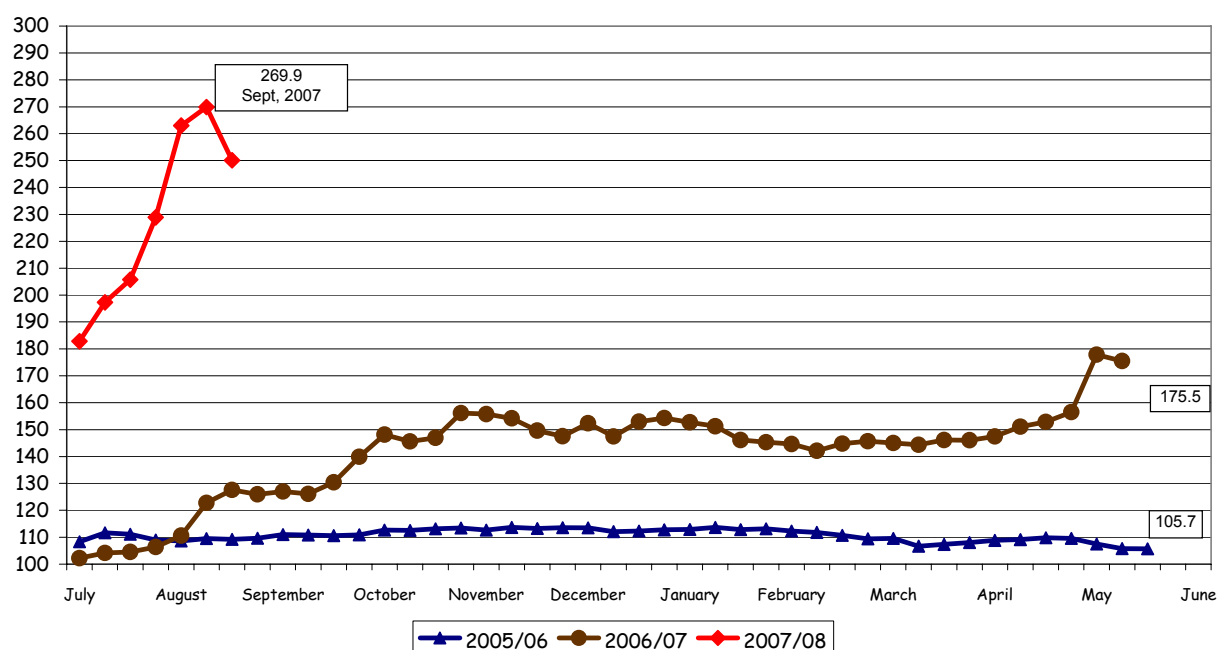
¹ As at 10 October 2007.

Weekly prices for milling wheat (EUR per tonne) fob Rouen



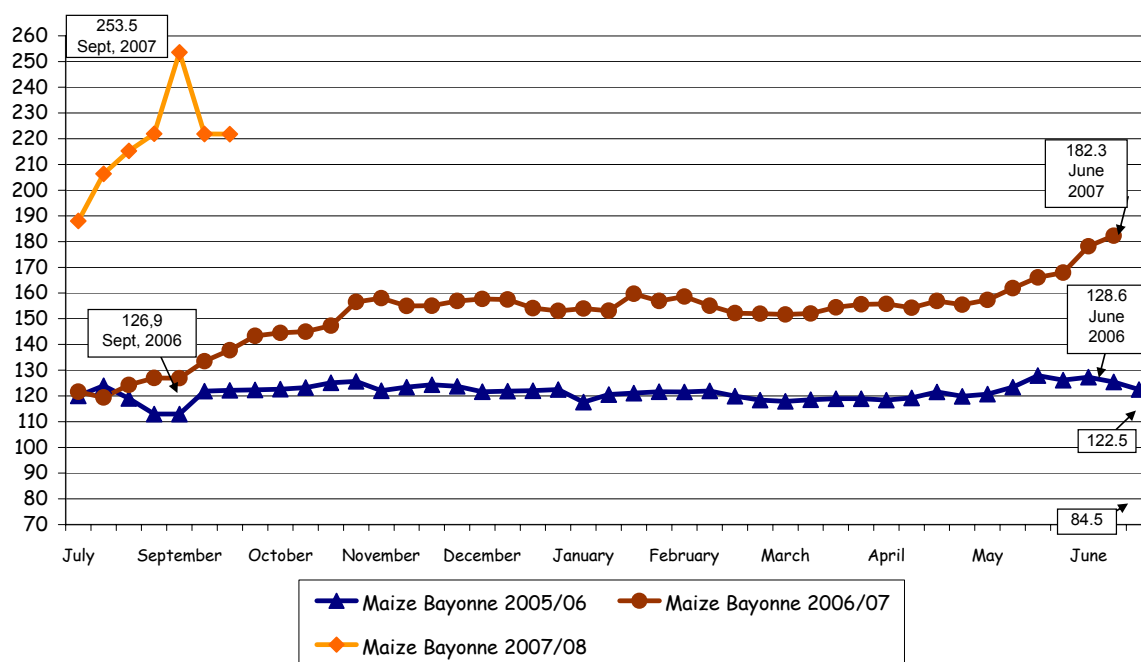
Since the start of the new marketing year on 2 July 2007, the price of milling wheat in Rouen has risen from EUR 179 per tonne to almost EUR 300 per tonne at the start of September 2007. In Germany bread-making wheat was selling at 70% higher than the previous year by mid-August. European production of common wheat is mainly centred in France, Germany, the United Kingdom, Poland and Romania. Traditionally, annual exports are around 12-14 million tonnes, chiefly to countries in North Africa. Annual imports are around 5 million tonnes, including 1.5 million tonnes of high-quality common wheat from the United States. The remainder is medium and low-quality wheat, mainly from the Black Sea countries.

Weekly prices for feed barley (EUR per tonne) fob Rouen



Market prices for feed barley have increased in the wake of rising wheat prices. On the French market, feed barley has more than doubled over the summer 2006 rate, listing at up to EUR 270 per tonne in Rouen at the end of September 2007. Barley production is centred mainly in Germany, France, Spain, the United Kingdom, Denmark and Poland. Annual exports are traditionally around 6 million tonnes, chiefly to Saudi Arabia, while annual imports are below 0.5 million tonnes.

Weekly prices for maize (EUR per tonne) fob Bayonne



The high price of barley has triggered a rise in demand for maize for animal feed. French maize prices in Bayonne followed the same trend, rising from EUR 183 per tonne at the start of the new marketing year on 2 July 2007 to a peak of EUR 255 per tonne in mid-September 2007. Maize production is centred mainly in France, Italy, Hungary, Romania and Poland. Annual maize exports are traditionally low, at around 0.5 million tonnes, while annual imports are around 3-4 million tonnes, chiefly from South America, Ukraine and, more recently, Serbia.

- **Existing provisions in the area covered by the proposal**

The tariffs for cereals under the GATT are as follows:

Product	Tariff
Durum wheat	EUR 148 per tonne
Common wheat	EUR 95 per tonne
Rye	EUR 93 per tonne
Barley	EUR 93 per tonne
Oats	EUR 89 per tonne
Maize (except seeds and certain hybrids)	EUR 94 per tonne
Sorghum	EUR 94 per tonne
Buckwheat	EUR 37 per tonne
Millet	EUR 56 per tonne
Triticale	EUR 93 per tonne

The EU has consolidated the duties for all cereals under the GATT. Duties are governed by the rules in Headnote 6 of EC Schedule CXL to the GATT, which originates from the Blair House Agreement with the United States. With the exception of barley and medium or low quality common wheat, customs duties are fixed on the basis of world reference prices for clearly defined varieties of cereals.

Import duty is fixed on the basis of the difference between the actual Community intervention price, including monthly increases, multiplied by 1.55, and a representative cif import price for cereals in Rotterdam.

The resulting duty is currently EUR 0 per tonne for durum wheat, high-quality common wheat, rye and sorghum. Volatile reference prices for maize on the US market led to sharp fluctuations in import duty for maize at the start of 2007/08, from a peak of EUR 16.21 per tonne to EUR 0 per tonne since 1 October 2007.

Tariff quotas were introduced for imports of barley and of medium and low quality common wheat in 2002. Outside these quotas, a maximum duty of EUR 93 per tonne and EUR 95 per tonne respectively applies.

An annual tariff quota of 2 989 240 tonnes is opened for medium and low quality common wheat. This includes a specific quota of 572 000 tonnes for imports from the United States and a quota of 38 853 tonnes for imports from Canada. The remaining 2 378 387 tonnes are opened on a quarterly basis for other third countries. The duties payable on imports subject to a quota are fixed at EUR 12 per tonne.

The following table shows imports under the three subquotas for common wheat since the start of 2007:

	Subquota I	Subquota II	Subquota III
Quota (tonnes)	572 000	38 853	2 378 387
Take-up in 2007 (tonnes)	191 378	38 800	900 390
Take-up (%)	33,5	99,9	37,9
Remainder (tonnes)	380 622	53	1 477 997

For barley, an annual tariff quota of 306 215 tonnes has been opened at a duty of EUR 16 per tonne. A separate quota for 50 000 tonnes of brewing barley has been opened at a duty of EUR 8 per tonne.

The following table shows the imports carried out for the two subquotas for barley since the start of 2007:

	Barley	Brewing barley
Quota (tonnes)	306 215	50 000
Take-up in 2007	103 708	0
Take-up (%)	33,9	0
Remainder (tonnes)	202 507	50 000

In 2006, a zero duty *erga omnes* quota of 242 074 tonnes of maize was introduced following the accession of 10 new Member States. The quota opened for 2007 was used in its entirety.

Imported maize and sorghum destined for Spain and Portugal have been subject to reduced import duties since these two countries joined the EU. An agreement signed between the EU and the United States authorises the import of a certain quantity of maize and sorghum from third countries at a reduced duty (rebate) to compensate the United States for the loss of the markets in the Iberian peninsula. The current agreement covers 2 million tonnes of maize and 300 000 tonnes of sorghum to be imported into Spain on an annual basis. Those amounts are reduced by the volume of certain cereal substitutes (residues of starch manufacture, maize gluten feed and citrus pulp) imported into Spain during the same year. A tariff quota of 500 000 tonnes of maize to be imported into Portugal has also been agreed (duty fixed at a maximum EUR 50 per tonne to guarantee the full use of the quota). Due to the low level of duties and the sustained pace of maize imports, no rebate has been awarded in 2007.

- **Consistency with other Union policies and objectives**

Not applicable.

2. CONSULTATION OF INTERESTED PARTIES AND IMPACT ASSESSMENT

- **Consultation of interested parties**

Not applicable.

- **Collection and use of expertise**

Not applicable.

- **Impact assessment**

Not applicable in view of the short-term nature of the measure.

3. LEGAL ELEMENTS OF THE PROPOSAL

- **Summary of the proposed action**

The aim of this proposal is to suspend customs duties on imports of certain cereals both for tariff quotas at reduced duty and for imports at the normal rate.

This suspension is limited to the 2007/08 marketing year and may be rescinded immediately if necessary. To this end, provision must be made for the Commission to take appropriate steps to reintroduce customs duties immediately should the market situation so warrant, and to lay down the criteria whereby this situation should be considered as such in accordance with Article 25 of Regulation (EC) No 1784/2003 (Management Committee for Cereals).

- **Legal basis**

Treaty establishing the European Community, and in particular Articles 26 and 133 thereof.

- **Subsidiarity principle**

The proposal concerns an area that falls under exclusive Community competence. The subsidiarity principle therefore does not apply.

- **Proportionality principle**

Not applicable.

- **Choice of instruments**

Proposed instrument: regulation.

Other means would not have been appropriate for the following reasons: this is a temporary suspension of a provision of an existing regulation.

4. BUDGETARY IMPLICATION

It is estimated that the measure could involve a reduction in own resources of a net amount (once the Member States have withheld 25%) of around –EUR 2.9 million in the 2007 financial year and –EUR 17.6 million in the 2008 financial year.

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temporarily suspending customs duties on imports of certain cereals for the 2007/08 marketing year

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Articles 26 and 133(4) thereof,

Having regard to the proposal from the Commission,

Whereas:

- (1) Council Regulation (EC) No 1784/2003 of 29 September 2003 on the common organisation of the market in cereals² provides for protective measures against the potential negative impact of imports, with the aim of ensuring stability on the Community market.
- (2) For the most part, the customs duties applicable to agricultural products under the World Trade Organisation (WTO) agreements are laid down in the common customs tariff. However, for some cereals, imports carried out within the context of tariff quotas resulting from international agreements concluded in accordance with the Treaty or from other acts of the Council are subject to specific duties.
- (3) In view of the structural rise in world demand as a result of rising living standards in the emerging economies and the increasing production of biofuels, at the end of the 2007/08 marketing year world cereals stocks will be in decline for the third consecutive year and are likely to hit their lowest level since 1979/80. Against this background, world cereals listings have shown a marked rise since the start of the 2007/08 marketing year, with increases of around 50% for common wheat, 30% for barley and between 20% and 30% for maize.
- (4) As a result of unfavourable weather conditions in most Member States, estimated cereal production in 2007/08 is 258 million tonnes, 8 million tonnes or 3% down on the already modest 2006/07 harvest. The decline in Community production relates to common wheat and maize in particular, but has repercussions on the cereals sector as a whole, making it difficult to ensure a balanced supply of the Community market. The imbalance concerns feed grain in particular, in view of the differences found across the regions of the Community in the quality and quantities of the cereals produced and the

² OJ L 270, 21.10. 2003, p. 78. Regulation as last amended by Regulation (EC) No 735/2007 (OJ L 169, 29.6.2007, p. 6).

ensuing changes in operator behaviour as regards the use of the different cereals available. The overall fall in production cannot, moreover, be compensated by the very localised rise in the production of barley, rye and oats.

- (5) Community cereals markets have seen a spectacular upsurge in prices since the start of the 2007/08 marketing year. The rise has been substantial both in nominal terms and in terms of the exceptionally wide gap between market prices and intervention prices. The situation is tense as regards small-grain cereals and maize. Since the start of the 2007/08 marketing year, the price of milling wheat in Rouen has risen from EUR 179 per tonne to almost EUR 300 per tonne at the start of September 2007 while the price of feed barley in Rouen has more than doubled over summer 2006 rates, reaching up to EUR 270 per tonne at the end of September 2007. Brewing barley has also witnessed a strong increase, reaching almost EUR 310 per tonne at the end of September 2007. French maize prices in Bayonne followed the same trend, rising from EUR 183 per tonne at the start of the new marketing year to a peak of EUR 255 per tonne in mid-September 2007. This situation is the result of reduced Community common wheat and maize stocks, average quality and the exhaustion of Community intervention stocks, currently down to below 500 000 tonnes.
- (6) In order to respond to this situation of strong tensions on the markets, supply to the Community market in cereals should be promoted, and to this end customs duties on imports of certain cereals should be suspended as regards both tariff quotas at reduced duty and imports at normal rates. However, this measure should be limited to the 2007/08 marketing year.
- (7) It should, moreover, be possible to rescind this measure immediately in the event of disruption or threatened disruption on the Community market. To this end, provision should be made for the Commission to take appropriate steps to reintroduce customs duties immediately should the market situation so warrant, and to lay down the criteria whereby this situation should be considered as such.
- (8) These measures should be adopted in accordance with Council Decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission³,

HAS ADOPTED THIS REGULATION:

Article 1

1. The application of customs duties on imports of products falling within CN codes 1001 90 99, 1001 10, 1002 00 00, 1003 00, 1005 90 00, 1007 00 90 and 1008 is hereby suspended until 30 June 2008, for all imports at the normal rate carried out in accordance with Article 9 of Regulation (EC) No 1784/2003 or within the context of tariff quotas at reduced duty opened in accordance with Article 12 of that Regulation.
2. The Commission may reintroduce customs duties at the levels and under the conditions provided for in Article 10 of Regulation (EC) No 1784/2003 where, for

³ OJ L 184, 17.7.1999, p. 23. Decision as amended by Decision 2006/512/EC (OJ L 200, 22.7.2006, p. 11).

one or more of the products referred to in paragraph 1, the fob export price for outside the Community recorded in Community ports is below 180% of the intervention price, or, for products for which there is no intervention price, 180% of EUR 101.3 per tonne.

3. Where necessary, detailed rules for the implementation of this Regulation shall be adopted in accordance with the procedure referred to in Article 25(2) of Regulation (EC) No 1784/2003.

Article 2

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

It shall apply to imports carried out on the basis of import licences issued from the day of its publication.

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: Chapter 10 – Agricultural duties		APPROPRIATIONS: B 2007: EUR 1 486.7 million PDB 2008: EUR 1 683.2 million		
2. TITLE OF MEASURE: Council Regulation temporarily suspending customs duties on imports of certain cereals for the 2007/08 marketing year				
3. LEGAL BASIS: Articles 26 and 133 of the Treaty				
4. AIMS: To promote supply of the Community cereals market by facilitating imports from third countries.				
5. FINANCIAL IMPLICATIONS	12 MONTH PERIOD (EUR million)	CURRENT FINANCIAL YEAR 2007 (EUR million)	FOLLOWING FINANCIAL YEAR 2008 (EUR million)	
5.0 EXPENDITURE CHARGED TO – THE EC BUDGET (REFUNDS/INTERVENTIONS) – NATIONAL AUTHORITIES – OTHER	–	–	–	
5.1 REVENUE – OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES) – NATIONAL	–	– 2.9	– 17.6	
	2009	2010	2011	2012
5.0.1 ESTIMATED EXPENDITURE				
5.1.1 ESTIMATED REVENUE				
5.2 METHOD OF CALCULATION:				
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				
REMARKS: On the revenue side, compared to the <i>status quo</i> , i.e. the situation if this proposal were not to be adopted, it is believed that the measure could involve a reduction in own resources of a net amount (once the Member States have withheld 25%) of around –EUR 2.9 million in the 2007 financial year and –EUR 17.6 million in the 2008 financial year. There will be no impact on expenditure, as the aim is to remedy a shortfall and the proposal should not, therefore, lead to intervention, despite the likely increase in availability of cereals on the internal market.				