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## COMMON ORGANISATION OF THE MARKET IN CEREALS SECTOR

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### 1. BACKGROUND

The common organisation of the market in cereals up to 1992 included the "classical" system of protection at the borders imposing import levies - export payments resulting in the maintenance of the prices in the Community at two times higher than world prices, as well as the provision of aid per hectare for durum wheat.

This system favoured an increase in cereal production at a rate that did not correspond to the market needs. In order to avoid crises, it was considered necessary to reform the prevailing regulations and the protection of this sector in order not to depend exclusively on the guarantee prices (target price, intervention price and floor price).

The aim of the reformed Common organisation in the market, (C.O.M.) is to achieve the highest possible stability of the market as well as the highest competition within E.U. agriculture. This target will be attained through a substantial decrease in the guarantee prices (over a transitional period of three years, that is from 1993/94 to 1995/96) and an offsetting of the loss of producers income that results from the decrease in prices, providing a direct payment per hectare (1 hectare = 10 stremma).

The reformed support regulations for the cereals, which began to be applied from the period of trade 1993/94 until 1995/96 that is its completion, are described as follows.

**The common organisation of the cereal market includes:**

- a) -all the basic cereals that are produced and imported in the Community, which are common wheat and durum wheat, maize, barley, rye, oats, sorghum, black wheat and millet.
- b) -wheat flour; -rye flour; - groats, semolina; - malt
- c) The products of processing that contain cereals, as well as some products that don't contain them but are direct substitutes for cereals or for products made of cereals.

The main regulation is EU regulation 1766/92 "about the common organisation of the cereal market ". The period of cereal trade starts on 1 July and finishes on 30 June of the following year.

The COM for cereals consists of a uniform system of prices, a system of intervention, a system of direct payment per hectare, and a uniform system of transactions outside the Community. The purpose is to ensure the stabilisation of the market and a fair standard of living for the affected agricultural population.

## 2. SUPPORT MEASURES IN THE COMMUNITY MARKET

### 2.1. Intervention price

The intervention price for all the cereals has already been defined for the trade periods 1993/94, 1995/96 and onwards by the reform of the 1992 regulations. This price can be changed from the Council of the Ministers of Agriculture before the beginning of the trade period, according to the conditions of the production and the market.

The intervention price comprises a guarantee price for the producer and is defined for the cereals subject to the regime of intervention and at a lower level than the target price (115,49 ECU/T FOR 1993/94, 106,6 ECU/T for 1994/95 and 119,19 ECU/T from 1995/96) and it refers to the wholesale trade for the quantities given to the storehouse before their unloading.

The construction of the guarantee prices allows for the disposition of the surpluses within the EU. The intervention price is subject to a specific number of monthly increments so as to be taken into account, to some extent, the storage costs and the interest for stockpiling the cereals in EU.

### 2.2. Intervention regime

The intervention regime is applied to the products: common and durum wheat, maize, barley, rye and sorghum. The intervention organisation, defined by the member state, buys the above products, offered to it in the period:

- from 1 August until the end of April for Greece, Italy, Spain, Portugal and
- from 1 November until 30 of May, for the rest of the Member states.

The supplied products can take advantage of the intervention only if they satisfy some special quality and quantity requirements. If the quality characteristics of the supplied products satisfy the intervention requirements and at the same time they are superior or inferior to the level of quality that is taken into consideration in defining the intervention price, then increments or reductions are made respectively, to the intervention price.

The value of the product given to the intervention will be paid 30-35 days after the date of delivery. The quantities of the stored cereals in the intervention centres, are disposed of through auctions either for consumption inside the EU or are exported to third countries, or are distributed as a kind of provisioning through predetermined procedures.

### 2.3. Regime of direct payment per hectare

As has already been mentioned in paragraph 1.1, in order to secure equilibrium in the market, a new regime of support was adopted, which consisted of an approximation of the Community prices, for some specific cultivation, on the world market prices. There is also an offsetting of the loss of income resulting from the decreased Community prices with a payment given to the producers who sow these products. Arable crops are:

- the cereals (including sweet maize)
- the oilseeds (soya, sunflowers)
- the protein crops (peas, field beans, sweet lupines)

- the seed flax

The following part of this paper refers to the cultivation of cereals.

### 2.3.1. *Set-aside*

The main characteristic of the new regime of direct compensatory payments to the producers, is the temporary land set-aside. This compulsory set-aside is required from professional farmers for receiving compensatory payments.

The small producers are excluded from the set-aside obligation. A small producer is considered to be one whose land multiplied by the yield of the region to which it belongs, gives him a production lower than 92 tons of cereals. This system is called "simplified regime". On the contrary all the other producers are subjected to the regime called "general regime" and they are obliged not to cultivate 17.5% of the subsidised declared land.

The ability to set-aside more than the required land has been provided to the producers in order to best achieve production control. Hence, there is voluntary set-aside. Even in this case the producers receive as payment the same as in the case of the compulsory set-aside. The set-aside land can't be greater than the land available for cultivation.

The small producers can also be included in the general regime, given that they respect the set-aside requirement. The set-aside land must be maintained in good condition. Producers can also use the land for cultivation of non-food product.

### 2.3.2. *Level of payment*

The compensatory payment consists of a subsidy given per hectare, fluctuated according to the region. The final amount paid is calculated as follows: a basic amount (per ton) multiplied by the average yield of cereals in the specific region. The basic amount paid for the three years of the transitional period ranges from 25 ECU/T for 1993/94, to 35 ECU/T for 1994/95 and to 54.34 ECU/T since 1995/96.

It must be mentioned that the compensatory payment is given to the area sown completely with cereals, that have reached at least the stage of blooming, and also that the payment is restricted to cultivated land or set-aside areas that do not exceed the regional basic area. That area is defined for each member state conclusively and does not change. It was calculated as the average hectares of a region that in 1989, 1990 and 1991 were cultivated with arable crops or were possibly set-aside with that period prevailing regime.

The compensatory payment for the set-aside area is defined as an amount equal to 68.83 ECU, multiplied by the average yield of cereals calculated in the regionalization plan.

The above amount as well as the rate of the cultivated land disposed for set-aside can be changed by the Council according to the development of the production, productivity and markets.

The green rate used to convert the compensatory payment from ECU to the national currency is the one in effect on 1 July of the relative trade period.

### 2.3.3. *Durum wheat*

Apart from the above compensatory payment for the cultivation of durum wheat, there is a supplementary compensatory payment equal to 358.6 ECU/Ha. This support represents the compensation of the producers of durum wheat in the traditional production zones, for the loss of their income resulting from the equalisation of the price of durum wheat with the other cereals. (1992/93 intervention market price of durum wheat: 207.62 ECUs common wheat, maize: 153.68 ECU/T; barley, rye, sorghum: 146.01 ECU/T.)

The right to the supplementary compensatory payment for the durum wheat, is personal for each producer and is restricted to a maximum number of hectares. This limit was defined taking into consideration the cultivated land sowed with durum wheat during the period of trade: 1988/89, 1989/90 or in 1991/92 that were selected to receive the subsidy per ha, which was defined in the previous regime for cereals support. Each producer has chosen the trade period that was taken into consideration. He has the ability to transfer his right to another producer with the condition that this transfer will be accompanied with the transfer of corresponding land.

Considering all these regulations, each member state constructs a record that is adjusted to any change (transfers, definite withdrawing of land devoted to agricultural cultivation).

### 2.3.4. *Regionalization plans*

In order to define the average yield used to calculate the compensatory payment referred to in part 2.3.2., each member state constructs a regionalization plan.

In the regionalization plan different production regions are defined, considering the special structural characteristics affecting the yields, in order to form separate homogeneous zones with different average yield.

The member states can, in the regionalization plans, apply one of the systems below:

a) system for maize: a different yield level is applied for maize relative to the rest of the cereals.

When the yield of maize is higher relative to the other cereals, a separate regional (or personal) basic area must be defined. If the sum of the personal land of the producers, for which a support is applied, exceeds the regional base area, as it is defined, a penalty is applied in that region:

- the proportionate reduction for each farmer in the selected area receiving support, during the same trade period.

- the farmers included in the "general regime" are obliged to proceed to an extra set-aside, during the next trade period, receiving no compensatory payment. The level of this set-aside is equal to the proportion exceeding the area. To define the exact proportion of this extra set-aside, 85% of the land being under the regime of voluntary set-aside has been subtracted.

When unfavourable climate conditions threaten the production of a period during which an excess was found and the yield was reduced significantly below the usual levels, it is possible through the management committee to exempt the affected areas partially or totally from the set-aside obligation.

In order to define the excess of base areas we include both the personal lands and the set-aside areas that correspond to the maize cultivation, according to the regime of arable crops, described previously, and also those corresponding to the permanent regime of set-aside (Reg. 2328/91).

The producers favoured by this system are those subject to the general regime who cultivate maize, while the producers of the rest of the cereals are compensated according to the yield of cereals apart from maize.

The producers included in the simplified regime are not subject to the set-aside regime, but they are compensated for all their cultivation (including maize), according to the average cereal yield of the region. Moreover in the maize system the compensation for the set-aside areas is calculated according to the average yield of all the cereals, including maize.

b) "Irrigation system": different yields are applied in each production region for irrigated cultivation and non irrigated as they are defined in the regionalization plan.

In each production region there is a maximum limit of cultivated area within which compensations are given based on the irrigated crops' yield. If the applications for compensation exceed the maximum limit, a reduction is made on the compensatory payment; 1.5 times greater than the excess rate observed within the same period.

If the excess is equal to or greater than 10% then the compensations for the irrigated crops are defined on the basis of the yield of the non irrigated crops within the same region.

Instead of the aforementioned "maximum limit of cultivated land" the member states can define separate base areas for the irrigated crops within the limits of their total base area. If this area is exceeded the penalties for the "maize systems" are imposed, as they are above described.

With this system those who are favoured are those having irrigated crops (either they are subject to the general or to the simplified regime), while it works against those having non irrigated crops, who are subject to the simplified regime, because they are paid according to the average yield of the non irrigated (while in the "maize system" they are paid according to the average yield of all the cereals).

In addition in the "irrigation" system the compensation for the set-aside land is calculated on the basis of the average yield of the non irrigated crops.

Finally it must be noted that each Member States' Regionalization Plan must maintain its average yield, as defined according to the data of the historic period 1986/87 to 1990/91 (excluding the year with the highest and the lowest yield). The Plan can be reformed by application of the Commission or with the Member States.

#### **2.4. Support in the production of starch (potato starch)**

It is decided to support the production of maize starch, or wheat, or potato starch. In particular, because of the special conditions faced by potato starch - that is, the competition the potatoes used for the production of starch encounter with the other cereals - a number of protection measures were taken, which were reformed as of the period 1995/96.

The reform was considered necessary because of the exceeding of the "floor" production, that was 1.5 million tons during the period 1993/94. In order to control the production a quota regime with Community support has been established.

The quota regime was applied as of 1 July 1995 and its duration is three years (1995/96 - 1997/98); thereafter it will be reformed every three years, after the Council's decision, and according to the report of the Commission, in which it will take into consideration the evolution of the starch market and if necessary it will be accompanied by a number of appropriate proposals.

According to the new regime, a quantity of 1.592.000 tons is distributed among the five production members, Denmark, Germany, France, The Netherlands and Spain, according to the average quantity of starch those countries produced in the trade periods 1990/91, 1991/92 and 1992/93 and during which support was given. An additional quantity of 156.750 tons was distributed among the three new members - Austria, Sweden and Finland - after their accession on 1/1/95, according to the quantity of starch produced in 1993 which received national support.

Every production member state distributes the quota that is given between the starch manufacturers, according to the predetermined Community criteria.

The starch manufacturers will receive, within the quantity limitation of their quota, the premium of 18,43 ECU/ton, with the condition that paid to the potatoes producers the minimum price (from 1995/96 this price is 209.78 ECU for each quantity of potatoes required for the production of one ton of starch).

The producers of potatoes used for the production of starch continue to receive a compensatory payment of 86.94 ECU, for the period 1995/96, for each quantity of potatoes used for the production of one ton of starch. However this payment is limited to quantities of potatoes that are covered in an agreement contracted between producers and starch manufacturers.

The starch manufacturers are not allowed to make contracts of cultivation with the producers of potatoes, for a quantity of potatoes used for the production of starch, greater than the quota that is distributed to them. Each produced quantity of starch that exceeds the quota must be exported from the Community without receiving a subsidy. However it is permissible for a manufacture to produce 5% above the quota in one trade period with the obligation of a reduction of an equal amount during the next period.

Finally, the manufacturers of potato starch who do not buy potatoes for which the compensatory payment is given to the producers and who don't have a right to the premium in the production of starch, are not subject to the quota regime with the Community support as described previously.

### **3. REGIME OF TRADE WITH THIRD COUNTRIES**

After the completion of the Uruguay Round negotiations and the adoption of the GATT agreement, the Council in order to fulfil the obligations that arise from the agreement, adopted the necessary modifications in the existing regime of trade in the EU with the third countries.

Those modifications were applied as of 1 July 1995 and are summarised in the abolishment of the threshold price (element of protection of the EU market), the conversion of the non-tariff measures to equivalent tariffs, the establishment of special stipulation insurance, the introduction of tariff quotas, and the commitment of reduction over the equivalent tariff, over the volume of the subsidised exports and over the expenditures of the export subsidies.

### 3.1. General

For all imports and exports of the products covered by the Common Organisation of the cereal market that are imported or exported from or to third countries, the issue of a certificate of exports or imports is required. That certificate is supplied by the member states to whomever is interested and submits an application, irrespective of the place of settlement in the Community.

The import or export certificate is in effect everywhere in the Community. Its issue is determined by a guarantee that secures the obligation to import or export during the period the certificate is in effect. The guarantee declines entirely or partially if the import or export was not made, or was made partially, within that period.

### 3.2. Imports of cereals

#### 3.2.1. Import tariffs

##### 3.2.1.1. Equivalent tariff

The tariffs recorded in the Common Customs Tariff, are applied to the products in paragraph 1.2 upon their import into the EU from the third countries.

For the products: common and durum wheat, maize, (except for hybrid seeds for sowing), barley, rye and sorghum (except for hybrid for sowing) the tariff is equal to the intervention price (see 2.1.) incremented by 55% minus the import price. However this amount of tariff cannot exceed that of the Common Customs Tariff.

For the aforementioned products, in every import shipment, the level of the tariff imposed is calculated taking into consideration the quality of the product. For that purpose representative import prices CIF are determined, at fixed points in time, according to the world prices for specific quality types. The equivalent tariff is to be reduced by 36% over a period of six years (1995-2000), that is 6% yearly. The level of the equivalent tariff is that which is recorded in the yearly determined Common Customs Tariff.

##### 3.2.1.2. Additional import tariff (Special safeguard clause)

If the common market is threatened because of a large amount of imports of the specific products in paragraph 1.2, it is possible to impose an additional tariff which is activated either according to the prices or to the quantities of imports.

Trigger prices: these are the import prices during the base period (1986-88). When the current import prices are lower than those prices an additional import tariff is imposed, based on the difference between the two prices.



Quantities of trigger: these are the quantities for which an excess is needed in order for an additional import tariff to be imposed and they are determined according to the imports made during the three last years before the year within which the measure is taken.

In case of activation based on quantities, the additional tariff cannot exceed 1/3 of the current tariff and it is applied for restricted time periods (until the end of the year within which the measure is taken).

### 3.2.2. *Tariff quota (current and minimum access)*

According to the agreements of the EU, within the context of the trade negotiations of the Uruguay Round, tariff quotas are introduced on a yearly basis, the management of which is made by the committee in the following ways:

- according to the time of application submission
- proportional distribution of the demanded quantities
- consideration of the traditional currents of trade (old and new clients)

It is possible to determine additional ways of management with the condition of avoiding whatever discrimination among the interested parties.

### 3.3. Exports of cereals - Refunds

To the extent that it is necessary, in order to make possible the exports of cereals and the products covered by the common organisation of the market in this sector, a refund is given on exports which is the same everywhere in the Community, so as to cover the difference between the world prices and the prices in the European Union market.

According to the obligations of the EU as derived from the GATT agreement, the exports of cereals are subject to the following limitations:

- reduction of the volume of the subsidised exports by 21% and reduction of the expenditure of the export refunds by 36% (from the average level of the base period 1986-1990), which will be made within the six year duration of the agreement application (1995/69-2000/2001).

The control of the volume of exports (quantity limitations) is achieved through the use of exports certificates issued every trade period.

The distribution of the quantities that can be exported receiving a refund is made by the commission on the basis of criteria such as: the nature of the product, the market condition, the management needs, the equal treatment of small and big interested parties, etc.

The amount of export refunds can be differentiated according to the place of destination of the products, if it is considered necessary due to the conditions in the world market or due to the special conditions of imports in third countries.

The export repayments are determined by the Commission with the procedure of the management committee in its weekly session, either in a periodic way, or with a competition. The latter is applied for products used to be applied in the past, that is for the products of paragraph 1.2.

### **3.4 Measures for securing product prices**

When the prices in the world market for one or more products of the cereals sector rise to the level of the Community prices, and provided that the condition possibly will continue deteriorating resulting in disorder or in the threat of disorder in the Community market, the Commission takes the appropriate measures via the management committee.