



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 13.9.2007
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2007/0194 (CNS)

Proposal for a

COUNCIL REGULATION

derogating from Regulation (EC) No 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers, as regards set aside for year 2008

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

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

The proposal is justified by the cereals market situation. The use of hectares accompanying set-aside entitlements for agricultural purposes is expected to encourage farmers to produce additional quantities of cereals which could contribute to easing market tension.

- **General context**

The cereals market at the beginning of marketing year 2007/2008 is characterised by historically high prices.

The low level of the European Union 2006/2007 closing stocks was a consequence of a lower than expected 2006 crop, at 266 million tons, due to adverse meteorological conditions during the harvest. Intervention stocks have considerably tightened during the campaign, from 14 million tons to 2.5 million tons, mainly composed of maize held in Hungary. Insignificant quantities were offered to intervention. More than 8 million tons have been put from intervention onto the internal market, including 2.9 million tons of wheat, 3.4 million tons of maize, 1.4 million tons of barley and around 395 000 tons of rye. The estimate of private stocks varies, but all analysts agree they significantly decreased in 2006/2007. EU-27 cereals imports are estimated to stand at 12.4 million tons, against 10 million tons in 2005/2006 and exports at 19.1 million tons against 24.9 million tons in 2005/2006. Despite the quite unfavourable euro/dollar exchange rate, exports were possible without refunds.

This year, dry and unusually hot weather in April is likely to have substantially damaged yields potential. This was partly offset by beneficial rains in May in western Member States, but the southeast region of Europe remained hot and dry, especially Romania and Bulgaria which suffered from a historical drought. The preliminary forecasts of the 2007 harvest remain close to last year's level and will lead to a further reduction in the EU of private cereal stocks by the end of the 2007/2008 marketing year. At global level, closing stocks in 2007/2008 are expected to fall to a historically low level, especially in the major exporting countries.

In this context, a "normal" 2008 harvest with trend yields and the proposed derogation for set aside in 2008 in the European Union would only allow for a partial rebuilding of the private stocks and the total end stocks for the marketing year 2008/2009 will be lower than the beginning stocks of the current marketing year. A poor 2008 harvest combined with a 10 % set aside would expose the internal market to potentially serious risks.

Set aside was introduced as a supply management instrument in a time where potential grain production in the European Union exceeded market outlets and applied on a voluntary basis from 1988/1989. After the 1992 reform, it became obligatory; producers under the general scheme were required to set aside a defined percentage of their declared areas in order to be eligible to direct payments. With the 2003 reform, they received set-aside entitlements, which give the right to a payment if they are accompanied by one ha of eligible land put into set aside.

The rate of obligatory set aside was initially decided every year but in 1999/2000 it was set permanently at 10 % for simplification purpose. In the Member States that

opted for the Single Area Payment Scheme: Poland, Czech Republic, Slovak Republic, Hungary, Lithuania, Latvia, Estonia, Cyprus, Bulgaria and Romania, farmers are exempted from the obligation of set aside.

The current area under obligatory set aside amounts to 3.8 million hectares in the European Union. If the set-aside rate was set to 0 %, the effective return of land could be between 1.6 and 2.9 million hectares. Considering average trends, it is likely to bring around 10 million tons of grains onto the market. In a scenario where farmers decide to use the maximum of lands to produce cereals to the detriment of other crops especially oilseeds, this quantity could reach 17 million tons.

Setting the set aside rate at zero does not oblige farmers to cultivate their lands. They can continue to set them aside on a voluntary basis and to apply environmental schemes. Cross compliance applies on all arable lands.

Finally, although it was introduced as a market measure, set-aside has brought environmental benefits in many regions. The removal of long term obligatory set-aside therefore raises the question of how these benefits can be retained. The Commission will address this issue in the context of the CAP review in 2008.

- **Existing provisions in the area of the proposal**

Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers and amending Regulations (EEC) No 2019/93, (EC) No 1452/2001, (EC) No 1453/2001, (EC) No 1454/2001, (EC) No 1868/94, (EC) No 1251/1999, (EC) No 1254/1999, (EC) No 1673/2000, (EEC) No 2358/71 and (EC) No 2529/2001.

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

A decision on a permanent basis would require an analysis on how and by which means the positive environmental side effects of set aside can be addressed.

2. CONSULTATION OF INTERESTED PARTIES AND IMPACT ASSESSMENT

- **Consultation of interested parties**

The proposal was announced to the Agriculture Council on 16 July 2007 and a press release was published. The main European associations of farmers, industry and traders have expressed their support to the proposal¹.

The decision is urgent given the seriousness of the market situation. Farmers should be aware before they decide on their autumn 2007 sowings.

- **Collection and use of expertise**

There was no need for external expertise.

- **Impact assessment**

Not applicable.

¹ Press release from COPA COGECA dated 2 July 2007 and joint reflections on the current and forthcoming EU policy framework conditions – European Grain and Oilseed Convention Brussels 4 May 2007, AAF, COCERAL, FEDIOL, FEFAC, EUROFLOUR, GAM.

3. LEGAL ELEMENTS OF THE PROPOSAL

- **Summary of the proposed action**

The aim of this proposal is to set at 0 % the obligatory set aside rate for the year 2008.

In the context of the functioning of the Single Payment System this measure implies to allow the use of any eligible hectare to give right to the amount corresponding to set aside entitlements as well as to allow the use of land set aside for agricultural purposes.

- **Legal basis**

Article 37(2) of the Treaty establishing the European Community.

- **Subsidiarity principle**

The proposal falls under the exclusive competence of the Community. The subsidiarity principle therefore does not apply.

- **Proportionality principle**

The proposal complies with the proportionality principle because a poor cereals harvest in 2008 would expose the internal market to potentially serious risks.

- **Choice of instruments**

Proposed instrument: Council regulation.

Other means would not be adequate for the following reason: a regulation must be amended by a regulation.

4. BUDGETARY IMPLICATIONS

Assuming trend yields, it is estimated the reduction of set aside to 0 % will not lead to an increase in intervention stocks during 2008/2009 marketing year. Taking into account the current tight market situation, high market prices as well as the foreseeable developments the proposal should not lead to building extra intervention stocks and related budget expenditure in budget years 2009 and 2010.

5. ADDITIONAL INFORMATION

- **Simplification**

The proposal provides for simplification of administrative procedures for public authorities (EU or national).

The proposal is included in the Commission Work and Legislative Programme under the reference 2007/AGRI/052.

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular the third subparagraph of Article 37(2) thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament²,

Whereas:

- (1) Article 54 of Council Regulation (EC) No 1782/2003³ provides that, in order to be entitled to single payment scheme payments, set aside entitlements shall be accompanied by a hectare of land set aside from production.
- (2) The cereals market at the beginning of marketing year 2007/2008 is characterised by historically high prices both at Community and world level. The low level of the Community 2006/2007 closing stocks was a consequence of a lower than expected 2006 harvest. There are many uncertainties on the rebuilding of the stocks, given the preliminary forecasts for the 2007 harvest. At global level, closing stocks in 2007/2008 are expected to fall to a historically low level, especially in the major exporting countries. Against that background, even if the 2008 harvest was normal, stocks would not increase significantly while a poor harvest would expose the internal market to potentially serious risks. Furthermore, cereals prices and stocks have an important impact on the availability and prices of other arable crops, such oilseeds and protein crops, and of the livestock sector, contributing to the potential extension of the risk to these other sectors.
- (3) It is therefore appropriate, for 2008, to allow the use of land set aside for agricultural purposes,

HAS ADOPTED THIS REGULATION:

Article 1

By way of derogation from Article 54(3) of Regulation (EC) No 1782/2003, for 2008, farmers shall not be obliged, in order to be entitled to the amount fixed by the set aside entitlements, to set aside from production land eligible for those entitlements.

² OJ C ..., ..., p.

³ OJ L 270, 21.10.2003, p. 1. Regulation as last amended by Regulation (EC) No 552/2007.

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*.

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		Fichefin/07/24545 REV1 OJ/mlc 6.1.2007		
		DATE: 16/8/2007		
1.	BUDGET HEADING: 5/2/2001	APPROPRIATIONS: 516 million EUR (Budget 2007)		
2.	TITLE: Proposal for a Council Regulation derogating from Regulation (EC) No 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers as regards set aside for year 2008.			
3.	LEGAL BASIS: Art. 37 (2) of the Treaty			
4.	AIMS: To ease market tensions by putting set aside at zero to encourage farmers to produce additional quantities of cereals.			
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			
		2009	2010	2011
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
OBSERVATIONS:				
<p>The proposed reduction of set aside obligation to 0 % for the marketing year 2008/2009 would increase the EU cereals production by around 10 mio t. Following the very low harvest in 2007 (2007/2008 marketing year), this increased production in 2008 arising from setting the set aside rate at zero together with the return to trend yields for the harvest in general would re-establish a more balanced situation ensuring the supply for food, feed and industrial uses within the EU and allow to replenish the private stocks to a certain degree. Taking into account the current tight market situation and foreseeable developments, the proposal should under normal climatic conditions not lead to building of extra intervention stocks and related budget expenditure in budget years 2009 and 2010.</p>				