



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

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1. INTRODUCTION: THE NEED FOR THE REPORT

Under 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, on or before 30 September 2004 the Commission must present to the Council a report on the allocation of quota within the Community, accompanied by appropriate proposals. This report must take account of possible changes in the payments to potato producers and of developments on the potato starch and cereal starch markets.

Under Article 3(2) of Regulation (EC) No 1898/94, on or before 31 December 2004 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 the above paragraph for use in the following three marketing years.

The current quotas are fixed by Regulation (EC) No 1868/94 until the end of the 2004/05 marketing year (30 June 2005).

2. CAP REFORM

On 26 June 2003 the Council adopted a fundamental reform of the Common Agricultural Policy (CAP), which significantly changes the way the EU supports the agricultural sector. The vast majority of the CAP's direct payments are to be paid independently of production. These new 'single farm payments' are conditional upon cross-compliance with environmental standards, among others. Breaking the link between subsidies and production should help EU farmers to become more competitive and market-oriented, while providing the necessary income stability.

In order to maintain starch production in traditional areas of production and to recognise the role of potato production in the rotation of crops, partial decoupling has been adopted in this sector. Part (40%) of the current aid² is to be decoupled and included in the single farm payment scheme, based on deliveries over a historical period to potato starch manufacturers. The remaining 60% will be retained as aid for farmers producing potatoes intended for the manufacture of potato starch, as defined in Articles 93 and 94 of Council Regulation (EC) No 1782/2003³. Where a Member

¹ OJ L 197, 30.7.1994, p. 4. Regulation as last amended by Regulation (EC) No 1782/2003 (OJ L 270, 21.10.2003, p. 1).

² See Article 43 of and Annex VII to Regulation (EC) No 1782/2003.

³ Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing support schemes for farmers (OJ L 270, 21.10.2003, p. 1).

State applies an optional transitional period⁴ which delays the application of decoupling, the current aid amount shall continue to apply.

The aid shall be paid only in respect of the quantity of potatoes covered by a cultivation contract between the potato producer and the starch manufacturer within the limits of the quota allocated to that undertaking in accordance with Regulation (EC) No 1868/94.

In the new Member States which produce potato starch a simplified single area payment scheme (SAPS) is to be applied, accompanied where appropriate by direct national payments (top-ups).

3. ENLARGEMENT

Six new Member States have been involved since the 2004/05 marketing year in the quota system for potato starch and share a total quota of 186 613 tonnes fixed for 2004/05, of which 78% goes to Poland, 18% to the Czech Republic, and 4% is divided between Estonia, Latvia, Lithuania and Slovakia.

The EU quota has increased by 11% as a result, from 1 762 million tonnes (EU-15) to 1 949 million tonnes (EU-25).

4. THE QUOTA SYSTEM

Potato starch is in 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 as described in section 2 per tonne of starch in the potatoes delivered to the starch manufacturers, within the limit of the sub-quotas.
- potato starch manufacturers receive a premium based on their sub-quota to offset certain structural disadvantages compared with cereal starch producers (fewer by-products to sell, 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.

Potato producers and 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 starch manufacturer may not take delivery of potatoes that are not

⁴ In accordance with Article 71 of Regulation (EC) No 1782/2003.

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, in the unaltered state and without a refund, before 1 January following the end of the marketing year in question. The minimum price must have been paid for this quantity, with no premium paid to the starch manufacturers and no payment to potato producers.

Detailed implementing rules for the quota system are laid down in Commission Regulations (EC) Nos 2235/2003⁵ and 2236/2003⁶ which clarify a number of issues, such as the introduction of cultivation contracts, the minimum starch content of potatoes, the determination of the weight and starch content of potatoes on delivery to potato starch manufacturers, rules on exports without a refund, inspection arrangements and penalties, rules applicable to mergers, changes of ownership and the commencement or termination of commercial activities by potato starch manufacturers.

Chapter 6 of Regulation (EC) No 2237/2003⁷ lays down detailed implementing rules for potato starch for the 2004/05 marketing year. A new Regulation will shortly be published for application after 2004/05.

5. DEVELOPMENT OF POTATO STARCH PRODUCTION AND QUOTAS

Tables A and B annexed to this report show the development of the production of potato starch within the context of the quota arrangements, and the different quotas fixed by Member State.

Since the introduction in 1995 of the quota system in relation to the production of potato starch, two reports⁸ have been submitted to the Council and to the Parliament, accompanied by a proposal to extend the quotas. As part of the Agenda 2000 reform package, the Council decided to reduce the quotas in 2000/01 and 2001/02 in return for a higher level of compensation for starch potatoes than for cereals (75% of the cut in prices against 48.4% for cereals), while ensuring budget neutrality.

Table 1 below shows the development of potato starch production for EU-15 as a whole compared to the quota. Except for 1998/99 and 2003/04 (poor weather conditions), EU production remained close to the quota fixed.

The 2003/04 marketing year progressed under difficult conditions (impact of the summer heat wave in some regions); however, certain potato starch manufacturers

⁵ Commission Regulation (EC) No 2235/2003 of 23 December 2003 laying down common rules for the application of Council Regulations (EC) No 1782/2003 and (EC) No 1868/94 as regards potato starch (OJ L 339, 24.12.2003, p. 36).

⁶ Commission Regulation (EC) No 2236/2003 of 23 December 2003 laying down detailed rules for the application of Council Regulation (EC) No 1868/94 establishing a quota system in relation to the production of potato starch (OJ L 339, 24.12.2003, p. 45).

⁷ Commission Regulation (EC) No 2237/2003 of 23 December 2003 laying down detailed rules for the application of certain support schemes provided for in Title IV of Council Regulation (EC) No 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers (OJ L 339, 24.12.2003, p. 52).

⁸ – COM(1997) 576 final, 11.11.1997, 1998/99, 1999/2000 and 2000/01 quotas,
– COM(2001) 677 final, 16.11.2001, 2002/03, 2003/04 and 2004/05 quotas.

made use of the 5% flexibility clause under Article 6(2) of Regulation (EC) No 1868/94.

The earliest indications for the 2004/05 marketing year point to a smaller harvest of starch potatoes as a result of better weather conditions.

Table 1 Development of potato starch production and EU basic quota

	<i>'000 tonnes</i>					
	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
PRODUCTION	1 660.5	1 804.8	1 849.7	1 601.1	1 684.8	1 461.9
QUOTA	1 864.3	1 864.3	1 814.2	1 762.1	1 762.1	1 762.1
Ratio production/quota	89%	97%	102%	91%	96%	83%

6. DEVELOPMENT OF THE CEREAL AND POTATO STARCH SECTOR

6.1. 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. About 50% of the starch produced is exported to countries outside the EU. The following table shows the development of exports of the main products in this sector.

Table 2 is based on Member State communications to DG Agriculture (export licences for products in Annex I to the Treaty, with or without refunds) and DG Enterprise (payments of export refunds for exports of non-Annex I products).

Table 2 Development of exports of cereal starch and potato starch

	<i>'000 tonnes of cereal starch equivalent</i>					
Description	1998	1999	2000	2001	2002	2003
Wheat starch in the unaltered state	42	58	36	57	48	57
Maize starch in the unaltered state	136	84	154	144	138	120
Potato starch in the unaltered state	431	322	400	335	460	409
Sub-total cereal starch and potato starch "in the unaltered state"	609	464	590	536	646	586
Glucose	212	222	279	265	269	252
Modified cereal starches	360	359	535	453	491	410
TOTAL	1 181	1 045	1 404	1 254	1 405	1 248

Sources: – cereal starch and potato starch, in the unaltered state, and glucose: DG Agriculture/Member States, application for export licences,
– modified cereal starches: DG Enterprise/Member States - monthly communications of payments.

According to Table 2, total exports remained around 1.250 million tonnes on average over the period 1998-2003, with highs of around 1.4 million tonnes in 2000 and 2002. The two main categories covered are cereal starch and potato starch in the unaltered state, which fluctuated between 0.5 and 0.6 million tonnes, and modified starch produced mainly from potato starch and maize starch, between 0.4 and 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.

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 Table 2.

6.2 Production of cereal starch and potato starch

Table 3 Development of potato starch and cereal starch production (estimates EU-15)

million tonnes

Production of cereal starch and potato starch		1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
Type of starch:	maize	3.7	3.7	3.9	4.0	4.0	4.0
	%	48%	46%	45%	46%	45%	46%
	wheat	2.2	2.4	2.8	3.0	3.0	3.1
	%	29%	30%	32%	34%	34%	36%
	potato	1.8	1.9	2.0	1.8	1.9	1.6
%	23%	24%	23%	20%	21%	18%	
TOTAL		7.7	8.0	8.7	8.8	8.9	8.7
%		100%	100%	100%	100%	100%	100%
Annual rate of change		1.3%	3.9%	8.7%	0.6%	1.1%	-1.7%

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

Cereal starch and potato starch production in the Community has grown at a rate of around 2% a year on average since 1998/99, 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 declining, at around 20%.

7. PROPOSAL

Some key events have taken place since the last report in 2001, with different effects which need to be assessed, in particular:

- the reform of the common agricultural policy and the effects of decoupling on the different sectors depending on the method of application,
- the enlargement of the European Union and the effects on production under the schemes currently underway.

It will only be possible to assess the initial effects of these events in a year or two's time.

Pending those early results, in the light of this report, in particular as regards the market balance between potato starch and cereal starch, the Commission is proposing

a rollover of the quotas currently fixed for 2004/05 for a further two years (2005/06 and 2006/07 marketing years).

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Main EU regulations

(with reference of publication in the *Official Journal of the European Union*)

Direct payments and decoupling

Council Regulation (EC) No 1782/2003 (OJ L 270, 21.10.2003, p. 1.)

Commission Regulation (EC) No 2237/2003 (OJ L 339, 24.12.2003, p. 52.)

until 30 June 2004:

Council Regulation (EEC) No 1766/92 (OJ L 181, 1.7.1992, p. 21.)

Potato starch

Council Regulation (EEC) No 1868/94 (OJ L 197, 30.7.1994, p. 4)

Commission Regulation (EC) No 2235/2003 (OJ L 339, 24.12.2003, p. 36)

Commission Regulation (EC) No 2236/2003 (OJ L 339, 24.12.2003, p. 45)

until 30 June 2004:

Commission Regulation (EC) No 97/95 (OJ L 16, 24.1.1995, p. 3).

ANNEX

Table A Development of the production of potato starch within the context of the quota arrangements¹

'000 tonnes

PRODUCTION	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
Denmark	173.6	177.0	180.2	168.8	166.8	161.4
Germany	627.6	663.2	698.2	619.9	630.2	515.6
Spain	–	–	–	–	–	–
France	271.7	305.6	274.2	217.4	271.6	253.8
Netherlands	431.8	505.2	528.4	443.7	458.6	401.3
Austria	45.5	44.0	48.1	43.6	40.1	31.9
Finland	44.5	50.6	54.5	51.9	55.8	39.0
Sweden	65.8	59.2	66.1	55.7	61.5	58.9
TOTAL EU-15	1 660.5	1 804.8	1 849.7	1 601.1	1 684.8	1 461.9
Expenditure (premium + payment) in millions of euros	183.0	193.3	225.5	212.4	223.4	195-estimation

(1) as laid down in Regulations (EC) No 1868/94 and (EC) No 97/95, including the maximum 5% flexibility, not including quantities exported without a refund.

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

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

'000 tonnes

Amendments to Regulation (EC) No 1868/94	Regulation (EC) No 1284/98	Agenda 2000 – Regulation (EC) No 1252/1999		Regulation (EC) No 962/2002	Act of Accession
QUOTAS	1998/99, 1999/2000, (and 2000/01)	2000/01	2001/02	2002/03, 2003/04 and 2004/05	2004/05
Denmark	178.5	173.4	168.2	168.2	
Germany	696.3	676.7	656.3	656.3	
Spain	2.0	2.0	1.9	1.9	
France	281.5	273.6	265.4	265.4	
Netherlands	538.3	523.2	507.4	507.4	
Austria	49.1	48.4	47.7	47.7	
Finland	54.8	54.0	53.2	53.2	
Sweden	63.9	63.0	62.1	62.1	
Total EU-15	1 864.304	1 814.237	1 762.148	1 762.148	
Czech Republic					33.7
Estonia					0.3
Latvia					5.8
Lithuania					1.2
Poland					145.0
Slovakia					0.7
Total EU-10					186.613

Total quotas EU-25 in 2004/05: 1 948 761 tonnes.

Reference: Council Regulation (EC) No 1868/94, as amended by the Act of Accession.

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 Commission,⁹

Having regard to the opinion of the European Parliament,¹⁰

Having regard to the opinion of the European Economic and Social Committee,¹¹

Whereas:

- (1) Article 2 of Council Regulation (EC) No 1868/94¹² fixes the potato starch quotas for producer Member States for the 2002/03, 2003/04 and 2004/05 marketing years.
- (2) Under Article 3(2) of Regulation (EC) No 1868/94 the three-yearly quota must be allocated among producer Member States on the basis of a report from the Commission to the Council. The recent changes in the common agricultural policy and in production in the Member States which joined the Community on 1 May 2004 should be taken into account to this end and, pending indication of the initial effects on the sector, the existing quotas for the 2004/05 marketing year should be rolled over for two more years.
- (3) Producer Member States should allocate their quotas for a period of two years among all potato starch manufacturers on the basis of the quotas for the 2004/05 marketing year.
- (4) Quantities used by potato starch manufacturers in excess of the sub-quotas available in the 2004/05 marketing year must be deducted in the 2005/06 marketing year in accordance with Article 6(2) of Regulation (EC) No 1868/94.
- (5) Regulation (EC) No 1868/94 should therefore be amended accordingly,

⁹ OJ C [...] [...], p. [...]

¹⁰ OJ C [...] [...], p. [...]

¹¹ OJ C [...] [...], p. [...]

¹² OJ L 197, 30.7.1994, p. 4. Regulation last amended by the 2003 Act of Accession.

HAS ADOPTED THIS REGULATION:

Article 1

Articles 2 and 3 of Regulation (EC) No 1868/94 are hereby replaced by the following:

“Article 2

1. The potato-starch producing Member States shall be allocated quotas for the 2005/06 and 2006/07 marketing years in accordance with the Annex hereto.
2. Each producer Member State referred to in the Annex shall allocate its quota among potato starch manufacturers for use in the 2005/06 and 2006/07 marketing years on the basis of the sub-quotas available to each manufacturer in 2004/05, subject to application of the second subparagraph.

The sub-quotas available for each manufacturer for the 2005/06 marketing year shall be adjusted to take account of any amount used in excess of quota during the 2004/05 marketing year in accordance with Article 6(2).

Article 3

1. The Commission shall present the Council, no later than 30 September 2006, with a report on the allocation of quota within the Community, accompanied by appropriate proposals. This report shall take account of any changes in the payments to potato producers and of developments on the potato starch and cereal starch markets.
2. No later than 31 December 2006 the Council, acting on the basis of Article 37 of the Treaty, shall decide, on the basis of the report referred to in paragraph 1 of this Article, on the proposals from the Commission.
3. No later than 31 January 2007 the Member States shall notify those concerned of the detailed rules adopted for the sector.”

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 from 1 July 2005.

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

Done at Brussels,

*For the Council
The President*

ANNEX

Quotas for the 2005/06 and 2006/07 marketing years

(tonnes)

Czech Republic	33 660
Denmark	168 215
Germany	656 298
Estonia	250
Spain	1 943
France	265 354
Latvia	5 778
Lithuania	1 211
Netherlands	507 403
Austria	47 691
Poland	144 985
Slovakia	729
Finland	53 178
Sweden	62 066
Total	1 948 761

FICHE FINANCIÈRE

FICHE FINANCIÈRE				
1.	LIGNES BUDGÉTAIRES: 05 02 01 03 05 02 03 15 05 02 12 02	CRÉDITS APB 2005: 47 Mio EUR 195 Mio EUR 1 394 Mio EUR		
2.	INTITULÉ DE LA MESURE: Règlement du Conseil modifiant le règlement (CE) n° 1868/94 instituant un régime de contingentement pour la production de fécule de pomme de terre.			
3.	BASE JURIDIQUE: Articles 36 et 37 du traité			
4.	OBJECTIFS DE LA MESURE: Répartir le contingent entre les Etats membres producteurs de fécule de pomme de terre pour les campagnes 2005/06 et 2006/07.			
5.	INCIDENCES FINANCIÈRES	PÉRIODE DE 12 MOIS (Mio EUR)	EXERCICE EN COURS 2004 (Mio EUR)	EXERCICE SUIVANT 2005 (Mio EUR)
5.0	DÉPENSES A LA CHARGE – DU BUDGET DES CE (RESTITUTIONS/INTERVENTIONS) – DES BUDGETS NATIONAUX – D'AUTRES SECTEURS		–	–
5.1	RECETTES – RESSOURCES PROPRES DES CE (PRÉLÈVEMENTS / DROITS DE DOUANE) – SUR LE PLAN NATIONAL			
		2006	2007	2008
5.0.1	PRÉVISIONS DES DÉPENSES	203,1	167,5	–
5.1.1	PRÉVISIONS DES RECETTES			–
5.2	MODE DE CALCUL:			
	<i>en Mio €</i>	2006	2007	explications
	Prime féculière	43,4	43,4	
	UE 25	43,4	43,4	=1 948 761 t x 22,25 €/t
	Aide aux pommes de terre	159,7	124,1	
	UE 15	153,5	116,9	voir observations
	UE 10	6,2	7,2	= taux de phasing-in x 186 613 t x 110,54 €/t
	TOTAL	203,1	167,5	
6.0	FINANCEMENT POSSIBLE PAR CRÉDITS INSCRITS AU CHAPITRE CONCERNÉ DU BUDGET EN COURS D'EXÉCUTION			OUI / NON
6.1	FINANCEMENT POSSIBLE PAR VIREMENT ENTRE CHAPITRES DU BUDGET EN COURS D'EXÉCUTION			OUI / NON
6.2	NÉCESSITÉ D'UN BUDGET SUPPLÉMENTAIRE			OUI / NON
6.3	CRÉDITS A INSCRIRE DANS LES BUDGETS FUTURS			OUI / NON
OBSERVATIONS:				
Dès qu'un Etat membre appliquera le paiement unique (cf. déclaration des Etats), 40 % de l'aide aux pommes de terre féculières sera découplée, seuls les 60 % restants couplés ont un impact financier. Pour l'UE 10, il est fait l'hypothèse que le régime de paiement unique à la surface, calculé une fois par an, est maintenu jusqu'en 2008.				