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REPORT FROM THE COMMISSION TO THE COUNCIL

**on the results of the aid authorised in Finland for certain quantities of seeds
and certain quantities of cereal seed**

Proposal for a

COUNCIL REGULATION

**amending Regulation (EC) No 1947/2005
as regards national aid granted by Finland for seeds and cereal seed**

(presented by the Commission)

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Note: *The Annexes referred to in this report can be found in a Commission staff working document accompanying this report*
(http://ec.europa.eu/agriculture/markets/seeds/index_en.htm)

REPORT FROM THE COMMISSION TO THE COUNCIL

on the results of the aid authorised in Finland for certain quantities of seeds and certain quantities of cereal seed

1. INTRODUCTION

In accordance with Article 8 of Council Regulation (EEC) No 2358/71¹, Commission Decision 2001/60/EC of 9 January 2001² authorised Finland to grant aid for cereal seed until 31 December 2005 (see Annex I) and Commission Decision 2001/61/EC of 9 January 2001³ authorised Finland to grant aid for Red clover, Timothy, Meadow fescue, Cocksfoot and Rye grass seeds until 31 December 2005 (see Annex II).

Under Article 8(2) of Council Regulation (EC) No 1947/2005, the Commission shall before 1 January 2006, on the basis of information supplied in good time by Finland, forward to the Council a report on the results of the aid authorised for certain quantities of seed and for certain quantities of cereal seed, together with any necessary proposals.

This report is based on the information provided regularly by the Finnish authorities.

2. THE SYSTEM OF NATIONAL AID TO SEED PRODUCTION

Both authorizations cover exclusively cereal varieties and grass/clover varieties listed in the Finnish catalogue and which, except for small quantities cultivated in regions bordering on Finland, are grown solely in that Member State.

The authorization for cereal seed aid fixes an upper limit on the eligible quantity of 100 000 tonnes and a maximum aid level of EUR 2,523 per 100 kilograms, representing a maximum amount of EUR 2,523 million (see Annex I).

For grass/clover seed production aid the authorization fixes per species an upper limit on the aid per hectare and on the eligible area, representing a maximum amount of EUR 1,814 million (see Annex II).

2.1. Aid for cereal seed

During the period 2000–2005 the cereal seed production increased by 23% from 57 309 tonnes to 70 531 tonnes.

¹ OJ L 246, 5.11.1971, p. 1. Regulation as last amended by Regulation (EC) No 1782/2003 (OJ L 270, 21.10.2003, p. 1). Repealed and replaced by Council Regulation (EC) No 1947/2005 (OJ L 312, 29.11.2005, p. 3).

² OJ L 21, 23.1.2001, p. 17.

³ OJ L 21, 23.1.2001, p. 18.

During the same period, seed production of barley increased by 62%, of spring wheat by 163% and of autumn wheat by 70%. Oats seed production on the other hand came down, by 32%, just as Rye seed production, which decreased by 10%.

Table 1 includes the information received from the Finnish authorities. It covers the period 2000–2005.

Table 1 Certified cereal seed production (in tonnes) in Finland in the years 2000 to 2005

Cereal	2000	2001	2002	2003	2004	2005	% change 2000/2005
Barley	24 638	24 206	25 578	26 074	36 551	39 912	62%
Oats	27 510	24 889	25 635	24 209	20 431	18 665	-32%
Rye	660	569	887	1 394	315	592	-10%
Spring wheat	3 976	4 909	7 023	11 362	10 252	10 471	163%
Autumn wheat	525	861	1 056	1 141	1 552	892	70%
Total	57 309	55 434	60 179	64 180	69 101	70 531	23%

Source: communicated by Finland.

While the aid level is fixed per 100 kg, the estimated average aid per hectare for the 2000 to 2005 period is about €68/ha, and the trend is upwards, as shown in Table 2.

Table 2 Estimate of cereal seed aid level per hectare, based on average historic yields and an aid level of EUR 2,523 per 100 kg

	2000	2001	2002	2003	2004	2005	Average 2000 to 2005
Production (kg)	57 308 772	55 434 443	60 178 667	64 179 629	67 723 135	70 531 482	62 559 355
Area (ha)	27 324	24 436	20 639	21 379	21 699	23 341	23 136
Yield (kg/ha) ⁽¹⁾	2 097	2 269	2 916	3 002	3 121	3 022	2 704
Aid level (€/ha)	52,9	57,2	73,6	75,7	78,7	76,2	68,2

⁽¹⁾ Average yield of barley, oats, rye, winter and spring wheat.

During the period 2000-2005, the average yield level for cereal seed production has increased by 44%, consequently the aid level per hectare has seen the same development.

The varieties of cereal seed in receipt of national aid between 2000 and 2005 are included in Annex III. From the list it becomes evident that the number of varieties, in particular for Barley, has increased significantly.

2.2. Aid for grass/clover seeds

2.2.1. Production

The production of grass/clover seed in the period 2000 to 2005 declined from a peak of 4 685 tonnes in 2001 to a trough of 1 654 tonnes in 2004, mainly due to weather variation. However, as can be seen from Table 3 the production in 2004 was below the six year average of about 3 163 tonnes. Timothy is the most important species.

Table 3 Certified grass/clover seed production (tonnes) in Finland in the years 2000 to 2005

Species	2000	2001	2002	2003	2004	2005	% change 2000/2005
Red clover	53	125	68	62	4	52	-2%
Timothy	2 151	3 781	3 541	2 594	1 319	1 908	-11%
Meadow Fescue	423	732	468	454	318	700	66%
Cocksfoot	6	3	0	2	0	0	
Rye grass	45	44	31	38	13	43	-6%
Total	2 678	4 685	4 108	3 150	1 654	2 703	1%

Source: communicated by Finland.

2.2.2. Implementation

During the period 2000–2005, the Finnish authorities have introduced, on their own initiative, some adjustments to the system for granting the aid, namely modification of the aid per hectare in the case of an overshooting of the maximum authorised area and a differentiation of the aid level per region.

2.2.3. Modification of the aid

On several occasions during the period 2000–2005, the area approved by Finland and on which seeds were produced, exceeded the maximum area indicated in Commission Decision 2001/61/EC.

For the distribution of the aid in such a case two methods were used.

At first, during the period 2000 to 2002, an envelope was calculated by multiplying the maximum area by the maximum aid per hectare as defined in the Commission Decision. That envelope was then divided by the national area approved, which exceeded the maximum area authorised, resulting in a reduced aid level per hectare.

In 2003 the concept of the aid unit coefficient was introduced and defined as “that proportion of a unit size eligible for aid and the subject of an aid application, in respect of which aid is paid”.

In case the national maximum area was exceeded, the area eligible for aid was calculated by using the aid unit coefficient and linearly reducing the area approved of all applicants.

In practice, using an aid unit coefficient of less than one, results at an individual farmer level, in aid being granted only on a part of each hectare applied for.

2.2.4. Differentiation of the aid per region

In 2004 and 2005 the level of aid granted to seed producers varied by region (see Annex IV). The aid level was divided into two categories; one category for regions A and B in the South of Finland and another category for regions C1 to C4, in the Northern part of Finland.

The reason for establishing a regional differentiation was the introduction of additional national payments for the agri-environmental scheme only applicable in regions A and B and consequently to avoid possible over-compensation.

2.2.5. *Seed varieties within each species eligible for aid (Annex V)*

During the period 2000–2005 the list of seed varieties within each species in receipt of authorised national aid has expanded considerably mainly for Timothy and Red clover.

For the period 2000 to 2005, the evolution per species aided, details of the production, the area approved after inspection, the yield, the area corresponding to the maximum aid and the aid per hectare are given in Annex VI. An analysis of these data leads to the comments in the following paragraphs. In the analysis reference is made to the average EU-15 yield level, which may be found in Annex VIII, Table 1.

2.2.6. *Red clover (Trifolium pratense L.) – Annex VI, Table 1*

During the years 2000 to 2005 there has been a substantial fluctuation in the total quantity of Red clover produced in Finland, ranging from 125 tonnes in 2001 to 4 tonnes in 2004. The decrease is due mainly to a dramatic reduction in yield (188 to 10 kg/ha) and to a much lesser extent to a reduction in area.

Average yield level in the EU-15 during the period 2000–2005 varied from 260 kg/ha in 2004 to 380 kg/ha in 2000.

Moreover, the area approved after inspection exceeded the maximum authorised area twice, in 2001 and 2002, and resulted in a reduced aid level per hectare.

2.2.7. *Timothy (Phleum pratense L.) – Annex VI, Table 2*

Timothy production also fluctuated in the 2000 to 2005 period, ranging from 3 781 tonnes in 2001 to 1 319 tonnes in 2004. Both yield and area variation led to the disparity in volume produced. Yield varied from 527 kg/ha in 2001 to 236 kg/ha in 2004.

On average, the yield level in the EU-15 during the period 2000–2005 varied between 280 kg/ha and 530 kg/ha. The yield levels for Timothy production in Finland are rather comparable with the EU-15 average figures during those years.

Furthermore, the area approved after inspection on which Timothy was produced exceeded the maximum area authorised by Commission Decision 2001/61/EC during the complete period, especially in the years 2001, 2002 and 2003 when the area exceeded the maximum area authorised by more than 40%.

The exceeding of the maximum area authorised led to a reduction of aid per ha in the period 2000–2002. As of 2003 use was made of an aid unit coefficient, which was 0,70 in 2003, 0,89 in 2004 and 0,97 in 2005.

2.2.8. *Meadow fescue (Festuca pratensis huds.) – Annex VI, Table 3*

Production of Meadow fescue seed ranged from a high of 732 tonnes in 2001 to 318 tonnes in 2004.

Yield figures during the period 2000–2005 show some volatility, with the yields ranging from 444 kg/ha in 2001 to about 200 kg/ha in 2004.

The average yield level in the EU-15 during the period 2000–2005 varied between 530 kg/ha and 750 kg/ha.

Moreover, the area approved after inspection exceeded the maximum area authorised during each year, with a substantial overrun in 2003 of more than 44%.

In 2000–2002 this led to a reduced aid level. An aid unit coefficient of 0,68 was used in 2003, 0,75 in 2004 and 0,74 in 2005.

2.2.9. *Cocksfoot (Dactylis glomerata L.) – Annex VI, Table 4*

The production varied from 6 tonnes in 2000 to zero in 2004 and 2005.

Yield levels of Cocksfoot seed varied from 339 kg/ha in 2003 to 23 kg/ha in 2002.

On average in the EU-15, yield levels ranged from 790 kg/ha to 1 020 kg/ha during the period 2000–2005.

During the period 2000–2003 the area approved after inspection for Cocksfoot seed production remained within the maximum area indicated in the Commission Decision 2001/61/EC and in 2004 and 2005 there was no area approved. As a result, the aid level per hectare remained unchanged in the period 2000–2003.

Interest in producing Cocksfoot seed is evidently fading.

2.2.10. *Rye grass (Lolium perenne L.) – Annex VI, Table 5*

Production varied from 45 tonnes in 2000 to 13 tonnes in 2004.

Rye grass seed yield in Finland varied between 651 kg/ha in 2001 and 180 kg/ha in 2004.

Within the EU-15, average yield levels during the period 2000–2005 fluctuate between 1 090 kg/ha and 1 510 kg/ha.

For the period 2000–2005, the area approved after inspection remained well within the maximum area set out in the Commission Decision. The aid granted per hectare remained unchanged and was at the maximum level.

3. IMPORTS OF SEED INTO FINLAND

3.1. Imports of cereal seed – Annex VII – Tables 1 and 2

Imports of cereal seed increased from 39 tonnes in 2000 to 118 tonnes in 2004 but came down to 5 tonnes in 2005 (Annex VII, Table 1).

The import/production percentage in 2000 was 0,07%, in 2005 that percentage was even lower.

The total quantity of certified cereal seed available on the Finnish market, domestic production and imports (no cereal seeds were exported) was at a level of 57 347 tonnes in 2000 and at 70 536 tonnes in 2005 (Annex VII, Table 2).

Imports of cereal seed into Finland have experienced some growth during part of the period covered, with a temporary upsurge in 2003, but represent a very small part, even in 2003, of the total quantity of cereal seed available on the Finnish market.

3.2. Imports of grass/clover seeds – Annex VII – Table 3

Grass/clover seed imports have experienced a considerable reduction during the period 2000 – 2005. The overall quantity came down by 79% from 712 tonnes in 2000 to 152 tonnes in 2005. A trough of 142 tonnes was reached in 2002. The reduction is mainly due to a decrease in imports of Timothy and Meadow Fescue seeds.

The production of certified grass seed in Finland during the period 2000–2005 was at a level of 2 678 tonnes in 2000 and at a level of 2 703 tonnes in 2005. The share of imports equalled 27%, 5% and 6% respectively of the domestic production of grass/clover seeds in 2000, 2003 and 2005.

On the basis of the data in Table 4 in Annex VII it becomes clear from the increase of imports in 2004, that imports partly replaced the shortfall in local production during that same year. In these circumstances it is reasonable to suggest that seed destined for the Finnish market can be grown outside Finland.

Finally, the fact that domestic production of grass/clover seeds can be substituted by imports when domestic production is low shows that domestic production competes with imports for the same markets.

4. OTHER AID SCHEMES IN FINLAND

Aid systems based on the Act of Accession

Based on Article 142 of the Act of Accession, a long term national aid scheme is created for Finland and Sweden to compensate for climatic conditions (Nordic Aid). In Finland this scheme is applicable in regions C1 to C4 (see Annex IV) and aid increases as one goes further north. It is payable per head, per hectare or as a slaughter premium in regions C3 and C4.

Based on Article 141 of the Act of Accession, there is an aid scheme permitting the granting of transitional and degressive national aid in regions A and B (see Annex IV) for the livestock and horticultural sectors. The aid consists of investment aid at higher than normal intensities as well as income aid.

Other aid schemes

In addition to the schemes listed above, there was also a national agri-environmental aid scheme in Finland. The Decision on Article 141 support authorised additional agri-environmental aid in form of incentive payments of up to 130% of the basic payment. The incentive payments were in addition to co-financed agri-environmental payments and varied according to crop.

Finally, in March 2005 a national Less Favoured Area (LFA) scheme was approved. This scheme allows the granting of a basic payment and, in certain cases, an

additional payment for areas eligible for the co-financed compensatory allowance. These payments are in addition to the co-financed compensatory allowances.

In Annex XI a brief overview is provided of the financial support from various programs, apart from the national aid for grass/clover seeds and cereal seed production, which a producer may receive in 2005.

5. ASPECTS OF PRODUCTION OF GRASS/CLOVER SEEDS IN FINLAND AND THE EU-15

An overview for the period 2000–2005 of the production, average prices and average yields for the EU-15 is given in Annex VIII. A comparison with Finnish data is also included in that Annex.

Based on the overview it can be stated that:

- Finnish seed yields are mostly below the EU-15 average except for Timothy which is on average similar (Annex VIII, Table 1);
- Finnish average prices are generally above the EU-15 average levels especially for Red clover (Annex VIII, Table 2);
- Finnish market receipts from seed production are in general below the EU-15 average (Annex VIII, Table 3);
- the Finnish average aid, including EU and national aid for the period 2000 to 2004, per hectare for seed production, largely exceeds the EU-15 average with the exception of Cocksfoot (Annex VIII, Table 6);
- the total Finnish receipts (including market and aid) for seed production for the period 2000 to 2004, per hectare is in most years above the EU-15 average for Red clover and Timothy but generally below the EU-15 average for Meadow fescue and Rye-grass. Data for Cocksfoot in Finland are insufficient to compare with EU-15 figures (Annex VIII, Table 7).

6. SINGLE PAYMENT SCHEME

As of the beginning of 2006 Finland applies the Single Payment Scheme, applying a dynamic hybrid regional model. Finland is divided into three regions and approximately 80% of CAP support is transferred into the regional flat rate payment. At the same time, some payments remain coupled and are paid as a complement to the flat rate payments. The aim is to arrive at an all sector inclusive flat rate payment in 2016, by gradually decreasing the level of complementary payments.

All arable crop aid and Community seeds aid is fully decoupled, with the exception of the production of Timothy (*Phleum pratense L.*) seeds for which the aid remains coupled in accordance with Article 99 of Council Regulation (EC) No 1782/2003. Maintaining coupled aid to Timothy production will more than likely ensure a continued high level of production of Timothy seeds in Finland.

7. SUMMARY AND OBSERVATIONS

7.1. Legal basis

The provision in the basic Regulation introduced by means of the Act of Accession, enabling Finland to grant national aid seems to be of a transitional nature as the text permits the Commission to forward to the Council not only a report but also “any necessary proposals” concerning the national aid scheme.

7.2. Implementation of system

Finland is authorised to grant aid to growers within the limits of the areas and the amounts laid down in Decisions 2001/60/EC and 2001/61/EC.

In 2000–2002 the aid appears to be distributed over the total production area, which sometimes exceeded the authorised area, leading to a reduced aid level. After 2002, the method of the aid unit coefficient was used.

7.3. Other aid schemes

Most of the schemes listed in Chapter 4, with the exception of the scheme based on Article 141 of the Act of Accession, are primarily intended as a compensation for the difficult climatic conditions in which Finnish farmers have to operate.

Therefore the motivation for the introduction of many of these schemes and the national production aid for seeds is the same, and the cumulative nature of aid schemes introduced for climatic reasons is evident. Since the aid schemes serve the same purpose, it is necessary to reconsider the relationship between the national aid scheme for seeds and cereal seed (already in existence for 12 years) and the other aid schemes.

7.4. Single Payment Scheme

Finland has chosen to apply a dynamic hybrid regional model as of 1 January 2006, decoupling the Community aid payments to the arable crop and the seeds sector with the exception of Timothy seeds for which aid will remain coupled. Continuing indefinitely the national aid scheme for seeds and cereal seed production would signify a permanent re-coupling of the sector and could undo the advantages of the 2003 reform. It could also have WTO implications.

Moreover, Timothy seed is multiplied in Finland in nearly optimal and fairly competitive conditions. Maintaining coupled aid for Timothy production will more than likely ensure a continued high level of production of Timothy seeds in Finland.

7.5. Multiplication in other countries

Based on the increase of imports of grass/clover seed during 2004, a year in which local production experienced a strong shortfall and the upsurge in imports of cereal seed in 2003, it seems possible to multiply grass/clover seeds and cereal seed, destined for the Finnish market and its specific climatic conditions, outside Finland.

7.6. Cereal seed production

Cereal seed production has shown a growing trend during the period 2000–2005. Moreover, the average yield level for cereal seed production has increased by 44%, consequently the aid level per hectare has seen the same development.

Moreover, the number of varieties in receipt of national aid has risen substantially, during the period 2000–2005.

7.7. Imports into Finland

During the period 2000 to 2005 the quantity of imported cereal seed was at a very low level. The volume increased somewhat during this period but came down to a very low level in 2005.

During the period 2000 to 2005, quantities of imported grass/clover seeds fell by 79% and equalled 6% of domestic production

The fact that domestic production can be substituted by imports when domestic production is low shows that domestic production competes with imports for the same markets.

Therefore it can not be excluded that the national aid for seeds and cereals seed production acts as a barrier to imports, by making the Finnish seed production artificially competitive against imports from other Member States.

8. PROPOSAL

Based on the outcome of this report, a proposal for a Council Regulation is attached.

The proposed measures have no impact on the general budget of the European Communities.

EXPLANATORY MEMORANDUM

In accordance with Article 8(2) of Council Regulation (EC) No 1947/2005 the Commission shall forward to the Council a report on the results of the national aid authorised in Finland for certain quantities of seeds and for certain quantities of cereal seed together with any necessary proposals.

The findings on the results of the aid granted in Finland for seeds and cereal seed production are made clear in the report “on the results of the aid authorised in Finland for certain quantities of seeds and certain quantities of cereal seed”. The report describes the developments within the seed and cereal seed sectors in Finland during the period 2000 to 2005.

Based in particular on the availability of other aid programs which compensate Finnish farmers for the climatic conditions in which they operate, the need to avoid double compensation and the possible distortion of competition by the national aid scheme, it is proposed to abolish the possibility for Finland to grant national aid for seeds and cereal seed starting from 2011 with the exception of Timothy seeds for which aid has been terminated as of 2006. Article 8(2) of Council Regulation (EC) No 1947/2005 on the common organisation of the market in seeds and repealing Regulations (EEC) No 2358/71 and (EEC) No 1674/72 is amended accordingly.

Proposal for a

COUNCIL REGULATION

**amending Regulation (EC) No 1947/2005
as regards national aid granted by Finland for seeds and cereal seed**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 36 and the third subparagraph of Article 37(2) thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament⁴,

Whereas:

- (1) Pursuant to Article 8(2) of Council Regulation (EC) No 1947/2005 of 23 November 2005 on the common organisation of the market in seeds and repealing Regulations (EEC) No 2358/71 and (EEC) No 1674/72⁵, Finland may, subject to authorisation by the Commission, grant aid for certain quantities of seeds and cereal seed produced in Finland because of its specific climatic conditions.
- (2) On the basis of information sent by Finland to the Commission, the Commission forwarded to the Council a report⁶, in accordance with the second subparagraph of Article 8(2) of Regulation (EC) No 1947/2005. That report shows that seeds and cereal seed producers in Finland have access to and benefit from other aid schemes, which compensate Finnish farmers for the climatic conditions in which they operate.
- (3) The report also shows that the production volume of cereal seed in Finland experienced an upward trend and that the imported quantity of cereal seed is small compared to the domestically produced quantity. Furthermore, there is evidence in the report to show that when domestic seeds production decreased, imports increased and vice versa, leading to the conclusion that substitution of domestic seeds with imports is possible and that national Finnish aid may distort competition with imported products.
- (4) Timothy seed is multiplied in Finland in nearly optimal and competitive conditions. Maintaining coupled aid for Timothy production provides an incentive to production of Timothy seeds in Finland. The granting of national aid to Timothy seeds should therefore cease.

⁴ OJ C ..., ..., p. ...

⁵ OJ L 312, 29.11.2005, p. 3.

⁶ COM(2007)

- (5) For the above reasons and for the proper functioning of the single market, it is appropriate to discontinue the possibility for Finland to grant national aid for seeds and cereal seed. However, in order to provide farmers in Finland with the opportunity to prepare for a situation without national aid, it is appropriate to grant aid for the production of seeds and cereal seed, with the exception of Timothy seeds, during a final, additional transitional period after which it will be abolished.
- (6) With a view to an interim review of the national aid system, Finland should be required to provide a detailed report on the results of the national aid granted.
- (7) Regulation (EC) No 1947/2005 should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1

In Article 8 of Regulation (EC) No 1947/2005, paragraph 2 is replaced by the following:

- “2. Finland may, subject to authorisation by the Commission, grant aid for certain quantities of seeds, with the exception of Timothy seeds (*Phleum pratense* L.), and for certain quantities of cereal seed produced solely in Finland up to and including the 2010 harvest.

By 31 December 2008 at the latest, Finland shall transmit to the Commission a detailed report on the results of the aid authorised.”

Article 2

This Regulation shall enter into force on the third 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