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REPORT

1. on the proposal for a Council regulation adjusting, for the sixth time, the system of aid for cotton introduced by Protocol 4 annexed to the Act of Accession of Greece
(COM(1999) 492 – C5-0048/2000 – 1999/0201(CNS))

and

2. on the proposal for a Council regulation on production aid for cotton
(COM(1999) 492 – C5-0049/2000 - 1999/0202(CNS))

Committee on Agriculture and Rural Development

Rapporteur: Efstratios Korakas

Symbols for procedures

*	Consultation procedure *majority of the votes cast*
**I	Cooperation procedure (first reading) *majority of the votes cast*
**II	Cooperation procedure (second reading) *majority of the votes cast, to approve the common position* *majority of Parliament's component Members, to reject or amend the common position*
***	Assent procedure *majority of Parliament's component Members except in cases covered by Articles 105, 107, 161 and 300 of the EC Treaty and Article 7 of the EU Treaty*
***I	Codecision procedure (first reading) *majority of the votes cast*
***II	Codecision procedure (second reading) *majority of the votes cast, to approve the common position* *majority of Parliament's component Members, to reject or amend the common position*
***III	Codecision procedure (third reading) *majority of the votes cast, to approve the joint text*

(The type of procedure depends on the legal basis proposed by the Commission)

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PROCEDURAL PAGE

By letter of 24 January 2000 the Council consulted Parliament on the proposal for a Council regulation adjusting, for the sixth time, the system of aid for cotton introduced by Protocol 4 annexed to the Act of Accession of Greece (COM(1999) 492 - 1999/0201(CNS)) and on the proposal for a Council regulation on production aid for cotton (COM(1999) 492 – 1999/0202(CNS)).

At the sitting of 2 February 2000 the President of Parliament announced that she had referred these proposals to the Committee on Agriculture and Rural Development as the committee responsible and to the Committee on Budgets for its opinion (C5-0048/2000 – C5-0049/2000).

At the meeting of 19 October 1999 the Committee on Agriculture and Rural Development had appointed Mr Efstratios Korakas rapporteur .

It considered the Commission proposals and the draft report at its meetings of 24 February, 20 June, 16 October, 22 November 2000 and 23 January 2001.

At the last meeting it adopted the draft legislative resolutions unanimously with 1 abstention.

The following were present for the vote: Friedrich-Wilhelm Graefe zu Baringdorf, (chairman), Encarnación Redondo Jiménez, (vice-chairman), Efstratios Korakas (for Christel Fiebiger), (rapporteur), Gordon J. Adam, Danielle Auroi, Maria del Pilar Ayuso González (for Michl Ebner), Alexandros Baltas (for Bernard Poignant), Carlos Bautista Ojeda, Niels Busk, António Campos, Giorgio Celli, Arlindo Cunha, Francesco Fiori, Carmen Fraga Estévez (for Joseph Daul), Georges Garot, Lutz Goepel, Willi Görlach, Liam Hyland (for Sergio Berlato), Elisabeth Jeggle, Salvador Jové Peres, Hedwig Keppelhoff-Wiechert, Heinz Kindermann, Albert Jan Maat, Miguel Angel Martínez Martínez (for Michel J.M. Dary), Neil Parish, Mikko Pesälä, Agnes Schierhuber, Dominique F.C. Souchet, Struan Stevenson and Robert William Sturdy.

The Committee on Budgets decided on 27 January 2000 not to deliver an opinion.

The report was tabled on 1 February 2001.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

LEGISLATIVE PROPOSAL

1. Proposal for a Council regulation adjusting, for the sixth time, the system of aid for cotton introduced by Protocol 4 annexed to the Act of Accession of Greece (COM(1999) 492 – C5-0048/2000 – 1999/0201(CNS))

The proposal is approved.

DRAFT LEGISLATIVE RESOLUTION

European Parliament legislative resolution on the proposal for a Council regulation adjusting, for the sixth time, the system of aid for cotton introduced by Protocol 4 annexed to the Act of Accession of Greece
(COM(1999) 492 – C5-0048/2000 – 1999/0201 (CNS))

(Consultation procedure)

The European Parliament,

– having regard to the Commission proposal to the Council (COM(1999) 492)[1],

– having been consulted by the Council (C5-048/2000)[2],

– having regard to Rule 67 of its Rules of Procedure,

– having regard to the report of the Committee on Agriculture and Rural Development (A5-0022/2001),

1. Approves the Commission proposal;

2. Calls on the Council to notify Parliament should it intend to depart from the text approved by Parliament;

3. Calls for the conciliation procedure to be initiated should the Council intend to depart from the text approved by Parliament;

4. Asks to be consulted again if the Council intends to amend the Commission proposal substantially;

5. Instructs its President to forward its position to the Council and Commission.

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[1] OJ not yet published.
[2] In the light of Protocol 4 on cotton (OJ L 291, 19.11.1979, p. 174), annexed to the Act of Accession of Greece.

LEGISLATIVE PROPOSAL

2. Proposal for a Council regulation on production aid for cotton (COM(1999) 492 – C5-0049/2000 - 1999/0202(CNS))

The proposal is amended as follows:

Text proposed by the Commission[1]	Amendments by Parliament
(Amendment 1) Recital 1	
Examination of the operation of the system of aid for cotton and of the support scheme for arable crops, as provided for in paragraph 11 of Protocol 4, reveals a need for ***adjustment of*** the system for cotton.	Examination of the operation of the system of aid for cotton and of the support scheme for arable crops, as provided for in paragraph 11 of Protocol 4, reveals a ***vital*** need for the system for cotton ***to be improved, so as to be able to safeguard cotton growing in the EU, maintain cotton farmers' income levels and enable the ginning industry to continue to operate. certain adjustments should nevertheless be made in order to increase its effectiveness.***

Justification:

The price crisis which occurred during the last marketing year showed that the aid system enabled cotton production and producers' incomes to be maintained at a reasonable cost. This is further proof of the fact that the system works well.

(Amendment 2)
Recital 4

Does not affect English version.

Justification:

(Amendment 3)

[1] OJ not yet published.

Recital 4a (new)

	The guaranteed national quantities of unginned cotton should be adjusted as closely as possible to actual production in each Member State with a view to obviating distortions in the operation of the budgetary stabiliser, together with pressure on holdings whose activities are unprofitable, as is often the case in structurally disadvantaged areas.

Justification:

The current imbalance between GNQs and actual production has led to a paradoxical situation in which cuts in production are giving rise to increased expenditure and the imposition of stiffer penalties.

(Amendment 4)
Recital 7

The percentage reduction in the guide price which now applies, equal to half the overrun in the national guaranteed quantity, ***may under certain circumstances threaten budgetary discipline.*** That percentage should therefore be ***increased***.	The percentage reduction in the guide price which now applies, equal to half the overrun in the national guaranteed quantity, ***has proved an effective budgetary stabiliser and has enabled Community cotton production to be maintained despite major fluctuations in the world market for cotton fibre***. That percentage should therefore be ***maintained***.

Justification:

During the period immediately prior to the drafting of the Commission proposal, world cotton prices hit an historic low, leading to a temporary increase in budgetary expenditure. It would not be right to use a temporary situation as justification for a structural change to the system involving an increase in the overshoot penalty percentage from 50% to 60%.

(Amendment 5)
Recital 10

Contractual relations between producers and ginning undertakings should not be regulated at Community level. ***The principle of common consent between the contracting parties should be maintained but spelt out in greater detail.***	Contractual relations between producers and ginning undertakings should not be regulated at Community level. ***Unginned cotton prices should be adjusted on the basis of technical scales of increases and reductions approved by the Member States and drawn up by interbranch organisations***

recognised by each Member State.

In cases where no interbranch organisations exist or where those that do exist have failed to draw up such technical scales, the Member States shall adopt technical scales for increasing and reducing unginned cotton prices, which shall be applied to all batches delivered.

Justification:

The current system based on a close contractual relationship between producer and ginning undertaking is intended to improve the quality of Community cotton by means of the application of scales of increases and reductions based on the quality of unginned cotton. These scales are negotiated separately for each batch delivered by each farmer. The resultant lack of transparency and uniformity needs to be remedied.

(Amendment 6)
Recital 13

The cultivation of cotton ***in regions not suited to it is likely to have harmful effects on the environment as well as on the agricultural economy of those regions where this crop is important.*** In order to take account of environmental objectives, ***the Member States should determine and adopt the appropriate environmental measures to regulate the use of agricultural land for cotton production***. In future, the Member States must introduce measures to ***restrict*** the crop under objective environmental criteria ***and remind producers of the need to comply*** with the legislation in force. The Member States should draw up a report on the impact on the cotton sector of national environmental measures at a time when an assessment is possible.

The cultivation of cotton ***is largely confined to a small number of regions, in which it plays a decisive role in both environmental and social and economic terms***. In order to take account of environmental objectives, ***the fact that cotton growing is concentrated in certain areas would make it easier to introduce collective measures to be taken by producers' organisations to reduce the use of irrigation water and of fertilisers and plant protection products, subject to appropriate incentives***. In future, the Member States must introduce measures to ***regulate*** the crop under objective environmental criteria ***with a view to ensuring that compliance*** with the legislation in force ***is compatible with the economic and social role which cotton plays in specific regions***. The Member States should draw up a report on the impact on the cotton sector of national environmental measures at a time when an assessment is possible.

Justification:

The Commission proposal treats environmental considerations merely as a criterion for the adoption of measures to regulate the area sown to cotton. Although it may be necessary for some Member States to adopt additional measures to regulate the area sown, such measures should be based on environmental criteria. Furthermore, environmental issues must be tackled with due thoroughness so as to ensure maximum effectiveness. From this point of view, the fact that cotton growing is concentrated in certain areas would make it easier to introduce collective environmental measures to be taken by producers' organisations, which should be given appropriate encouragement.

(Amendment 7)
Recital 13a (new)

	Action should be taken to encourage the introduction of environmental measures with a view in particular to saving irrigation water, reducing the use of fertilisers and plant protection products, managing waste plastics and developing and implementing integrated or organic production techniques. Given the small average size of cotton holdings, collective measures should be encouraged through the provision of a support system.

Justification:

This amendment is necessary for environmental and social and economic reasons.

(Amendment 8)
Recital 13b (new)

	Following the adoption of Regulation (EC) No 1257/99, regulation of producers' organisations must be based on the specific rules for each production sector, which do not currently exist for the cotton sector, despite the fact that producers' organisations should play a fundamental role in the centralisation of supply and the implementation of collective measures, particularly environmental measures.

Justification:

This amendment is necessary for the purposes of centralisation of supply and sectoral organisation.

(Amendment 9)
CHAPTER II: PRICE MECHANISM
Article 3, paragraph 1

1. The guide price shall be set at ***EUR 106.30*** per 100 kg of unginned cotton. This price shall relate to cotton: - of sound and fair merchantable quality, - containing 10% moisture and 3% impurities, - with the characteristics needed to produce, after ginning, 32% grade 5 fibres (white middling) 28 mm in length (1-3/32").	1. The guide price shall be set at ***EUR 117*** per 100 kg of unginned cotton. This price shall relate to cotton: - of sound and fair merchantable quality, - containing 10% moisture and 3% impurities, - with the characteristics needed to produce, after ginning, 32% grade 5 fibres (white middling) 28 mm in length (1-3/32").

Justification:

The proposed amendment to the prices is necessary to safeguard the income of cotton producers which, in the period from 1995 to 2000 when prices were frozen, fell by some 10% according to official data concerning average Community inflation.

(Amendment 10)
Article 3(2)

2. The minimum price shall be set at ***EUR 100.99*** per 100 kg of unginned cotton for the quality selected for the ex holding guide price.	2. The minimum price shall be set at ***EUR 111*** per 100 kg of unginned cotton for the quality selected for the ex holding guide price.

Justification:

The proposed amendment to the prices is necessary to safeguard the income of cotton producers which in the period from 1995 to 2000 when prices were frozen fell by some 10% according to official data concerning average Community inflation.

(Amendment 11)
Article 6

A guaranteed national quantity for unginned cotton shall be introduced, equal for each	A guaranteed national quantity for unginned cotton shall be introduced, equal for each

marketing year to:	marketing year to:
- ***782 000*** tonnes for Greece,	- ***1 200 000*** tonnes for Greece,
- ***249 000*** tonnes for Spain,	- ***350 000*** tonnes for Spain,
- 1 500 tonnes in each of the other Member States.	- 1 500 tonnes in each of the other Member States.

Justification:

Cotton is grown in disadvantaged regions where there are very few economically or agriculturally viable alternatives. The social and economic fabric linked to cotton growing (capacity of the ginning industry, number of people employed, dependency of local economies on this activity, ownership structure, etc.) calls for the national guaranteed quantities (NGQs) to be increased so as to bring them up to the level at which actual production has stabilised (1 200 000 tonnes in Greece and 350 000 in Spain). The current imbalance between those amounts and the NGQs in force is the root cause of the structural penalties.

(Amendment 12)
Article 7

Without prejudice to Article 8, if during a marketing year the sum of actual production in Spain and Greece exceeds ***1 031 000*** tonnes, the guide price referred to in Article 3(1) shall be reduced for that marketing year in any Member State where actual production exceeds the guaranteed national quantity. The guide price shall be reduced for the Member State concerned by a percentage equal to ***60%*** of the percentage by which its guaranteed national quantity has been exceeded.	Without prejudice to Article 8, if during a marketing year the sum of actual production in Spain and Greece exceeds ***1 550 000*** tonnes, the guide price referred to in Article 3(1) shall be reduced for that marketing year in any Member State where actual production exceeds the guaranteed national quantity. The guide price shall be reduced for the Member State concerned by a percentage equal to ***50%*** of the percentage by which its guaranteed national quantity has been exceeded.
However, if actual production in either Spain or Greece is lower than its guaranteed national quantity, the difference between the total actual production of the two Member States and ***1 031 000*** tonnes shall be expressed as a percentage of the guaranteed national quantity that has been exceeded, and the guide price shall be reduced by ***60%*** of that percentage.	However, if actual production in either Spain or Greece is lower than its guaranteed national quantity, the difference between the total actual production of the two Member States and ***1 550 000*** tonnes shall be expressed as a percentage of the guaranteed national quantity that has been exceeded, and the guide price shall be reduced by ***50%*** of that percentage.

Justification:

National guaranteed quantities need to be brought into line with actual production. It would not be right to introduce a structural change to penalties merely in response to a temporary situation during which world prices hit an all-time low. The only result of an increase in penalties would be to force the smallest holdings out of business, thus causing social *hardship, while, paradoxically, expenditure would rise owing to the fact that the prices paid will increase as production falls.*

(Amendment 13)
Article 8

If during a marketing year:	If during a marketing year:
– Article 7 has been applied,	– Article 7 has been applied,
– the weighted average of the world market price adopted in order to fix the amount of aid is greater than EUR 30.20 per 100 kg,	– the weighted average of the world market price adopted in order to fix the amount of aid is greater than EUR 30.20 per 100 kg,
and	and
– the total budget expenditure on the aid system is less than EUR 770 million,	– the total budget expenditure on the aid system is less than EUR 770 million,
the budget remainder referred to in the third indent shall be used in order to increase aid in each Member State where actual production exceeds its guaranteed national quantity.	the budget remainder referred to in the third indent shall be used in order to increase aid in each Member State where actual production exceeds its guaranteed national quantity.
However, the amount of aid as increased under the first subparagraph may not exceed:	However, the amount of aid as increased under the first subparagraph may not exceed:
– either the amount of aid calculated without application of Article 7,	– either the amount of aid calculated without application of Article 7,
– or the amount of aid calculated after application of Article 7 on the basis of ***1 120 000*** tonnes of unginned cotton subdivided into a guaranteed national quantity of ***270 000*** tonnes for Spain and ***850 000*** tonnes for Greece.	– or the amount of aid calculated after application of Article 7 on the basis of ***1 639 000*** tonnes of unginned cotton subdivided into a guaranteed national quantity of ***371 000*** tonnes for Spain and ***1 268 000*** tonnes for Greece.

Justification:

The social and economic fabric linked to cotton growing (capacity of the ginning industry, number of people employed, dependency of local economies on this activity, ownership structure, etc.) calls for the national guaranteed quantities (NGQs) to be increased so as to bring them up to the level at which actual production has stabilised. The figures given in Article 8 therefore need to be adjusted accordingly.

(Amendment 14)
Article 11(a)

(a) have submitted a signed contract	(a) have submitted a signed contract

stipulating, in particular, payment to the producer of a price at least equal to the minimum price and containing a clause specifying that:	stipulating, in particular, payment to the producer of a price at least equal to the minimum price and containing a clause specifying that:
- where Article 7 is applied, the agreed price will be adjusted in consequence of the effect of the application of that Article on the aid,	- where Article 7 is applied, the agreed price will be adjusted in consequence of the effect of the application of that Article on the aid,
- if the quality of the cotton delivered differs from the quality referred to in Article 3(2), the price agreed will be adjusted ***by common consent between the contracting parties*** in proportion to the effect of that difference in quality on the price of the ginned product in relation to the price referred to in Article 5***;***	- if the quality of the cotton delivered differs from the quality referred to in Article 3(2), the price agreed will be adjusted ***on the basis of a technical scale of increases and reductions adopted under an interbranch agreement approved by each Member State and drawn up by an interbranch organisation recognised by each Member State*** in proportion to the effect of that difference in quality on the price of the ginned product in relation to the price referred to in Article 5***,***
	- ***in cases where there is no interbranch agreement on which to base such an adjustment, the Member State concerned shall adopt a technical scale for increasing and reducing the price of unginned cotton on the basis of its quality. That scale shall be applied to all quantities covered by a contract.***

Justification:

Increases or reductions based on the quality of unginned cotton are negotiated for each batch delivered by each farmer. The resultant lack of transparency and uniformity is undesirable in a system intended to improve quality. It is proposed that the system for adjusting prices on the basis of quality be improved through the introduction of an obligation on Member States to adopt a technical scale to be applied to all batches delivered, on condition that such a scale has not be adopted under an interbranch agreement approved by the Member State concerned.

(Amendment 15)
Article 16(3)

3. The Member States shall, where appropriate, ***restrict*** the areas eligible for the production aid for unginned cotton on the basis of objective criteria relating to:	3. The Member States shall, where appropriate, ***adopt measures to adjust*** the areas eligible for the production aid for unginned cotton ***to the opportunities available under the current legislation*** on the basis of objective criteria relating to:
- the agricultural economy of those regions	- the agricultural economy of those regions

where cotton is a major crop,	where cotton is a major crop,
	- the jobs dependent on cotton production in the production areas,
- the soil and climate in the areas in question,	- the soil and climate in the areas in question,
- the management of irrigation water,	- the management of irrigation water,
- rotation systems and cultivation methods likely to improve the environment.	- rotation systems and cultivation methods likely to improve the environment.

Justification:

In the range of additional measures that may be adopted by the Member States with a view to adjusting production on the basis of guaranteed national quantities, due account must be taken of employment in this sector, which accounts for 2/3 of all irrigated crop production jobs in Spain.

(Amendment 16)
Article 16a (new)

	1. For the purposes of this Regulation, 'producers' organisation' means any legal person:
	(a) set up at the initiative of the cotton producers themselves,
	(b) whose main objective is to:
	(1) plan production and adjust it to demand, particularly in terms of quantity and quality;
	(2) foster the centralisation of supply and the marketing of its members' products;
	(3) reduce production costs;
	(4) introduce collective measures to reduce the crop's environmental impact, with particular reference to reducing the use of irrigation water, fertilisers and plant protection products;
	(c) whose statutes contain provisions covering:
	(1) implementation of the rules adopted by the producers' organisation, governing production, marketing and environmental protection;

(2) the levying of financial contributions from members to fund the producers' organisation and provide monies for the operating fund referred to in Article 16c;

(3) rules ensuring that the organisation's members have democratic control over the organisation and its decision-making;

(4) penalties for failure to comply with the obligations laid down in the statutes, with particular reference to non-payment of financial contributions and failure to observe the rules governing the producers' organisation;

(5) rules governing the intake of new members, with particular reference to a minimum period of membership;

(6) accounting and budgetary rules required for the running of the organisation;

2. The Member States shall recognise as producers' organisations for the purposes of this Regulation all producer groups which apply for such recognition, on condition that they:

(a) meet the requirements set out in paragraph 1 and provide, among other supporting documents, proof that they comprise a minimum number of producers and control a minimum volume of merchantable product;

(b) provide adequate guarantees as to the implementation, duration and effectiveness of their activities;

(c) give their members a genuine opportunity to obtain the technical assistance they require in order to use environment-friendly farming methods.

Justification:

The nature, functions and objectives of cotton producers' organisations and the provisions that must be covered by their statutes need to be spelled out.

(Amendment 17)
Article 16b (new)

1. The Member States shall:

(a) take a decision on recognition within three months of the date of submission of the application and the relevant supporting documents;

(b) notify the Commission, within two months, of any decision taken to grant, refuse or withdraw recognition.

2. The Commission shall carry out checks to verify compliance with the provisions of Article 16a and paragraph 1(b) of this article and, depending on the outcome of those checks, may ask the Member States to withdraw recognition.

Justification:

The procedure for granting recognition to producers' organisations and, where appropriate, withdrawing such recognition, needs to be laid down.

(Amendment 18)
Article 16c (new)

1. In accordance with the provisions of this article, Community financial aid shall be granted to producers' organisations which set up an operating fund.

Monies for that fund shall come from the financial contributions made both by the member producers taking part in the operating programme and the financial aid referred to in paragraph 1. If, under exceptional circumstances, the volume of product brought to market is less than 70% of that in the reference period corresponding to the previous year's operating fund, the latter shall be taken into account.

2. The operating fund referred to in paragraph 1 shall be used to finance an operating programme submitted to the competent national authorities and

approved by them in accordance with the provisions of Article 16d(1).

3. The operating programme referred to in paragraph 2(b) shall include measures to ensure the use by members of environment-friendly practices, which shall cover both farming methods and the management of the materials used, and, in particular, one or more of the following:

- reducing the use of irrigation water,

- reducing the use of fertilisers and plant protection products,

- formulating and implementing integrated or organic production methods and

- waste plastics management.

4. The financial aid referred to in paragraph 1 shall be equal to the amount of the financial contributions referred to in that paragraph which have been paid up, and shall cover no more than 50% of the expenditure actually incurred pursuant to paragraph 2.

Such financial aid shall, nonetheless, be subject to a ceiling of 4.5% of the value of the product brought to market by each producers' organisation.

Justification:

Provision must be made for an instrument to finance the measures to be carried out by cotton producers' organisations and for the measures to be included in the operating programmes.

(Amendment 19)
Article 16d (new)

1. The operating programme referred to in Article 16c(2) shall be submitted to the competent national authorities which shall approve or reject it or require that it be amended in accordance with the provision of this Regulation.

The Member States shall lay down national guidelines for the compilation of lists of conditions relating to the measures referred

to in Article 16c(3). They shall submit a draft of such guidelines to the Commission, which, should it consider that the draft will not allow the objectives laid down in Article 130R of the Treaty and in the European Community Programme of policy and action in relation to the environment and sustainable development to be achieved, may request that it be amended within a period of three months.

2. Before the end of each year at the latest, producers' organisations shall notify the Member State of the projected size of the fund for the following year and submit appropriate supporting documents based on the forecasts for the operating programme, the expenditure for the current year and, where appropriate, for the previous years, as well as, where necessary, the production estimates for the following year. No later than 1 January of the following year, the Member State shall notify the producers' organisation of the projected amount of financial aid, subject to the limits laid down in Article 16c(4).

The financial aid shall be disbursed against expenditure incurred in respect of the measures in the operating programme. In respect of such measures, payments on account may be granted, subject to the deposit of a guarantee or bond.

At the beginning of each year and no later than 31 January, the producers' organisation shall notify the Member State of the final amount of the expenditure incurred the previous year and forward the necessary supporting documents, with a view to receiving the balance of the Community financial aid.

3. The operating programmes shall be multiannual, as shall the financing thereof by producers and producers' organisations on the one hand and Community funds on the other, with a minimum duration of three years and a maximum duration of five.

4. By submitting an operating programme

to a Member State, producers' organisations undertake to undergo national and Community checks covering, in particular, the sound management of public monies.

Justification:

The administrative procedures covering operating programmes need to be spelled out.

DRAFT LEGISLATIVE RESOLUTION

European Parliament legislative resolution on the proposal for a Council regulation on production aid for cotton
(COM(1999) 492 – C5-0049/2000 - 1999/0202(CNS))

(Consultation procedure)

The European Parliament,

– having regard to the Commission proposal to the Council (COM(1999) 492)[1],

– having been consulted by the Council (C5-0049/2000)[2],

– having regard to Rule 67 of its Rules of Procedure,

– having regard to the report of the Committee on Agriculture and Rural Development (A5-0022/2001),

1. Approves the Commission proposal as amended;

2. Calls on the Commission to alter its proposal accordingly, pursuant to Article 250(2) of the EC Treaty;

3. Calls on the Council to notify Parliament should it intend to depart from the text approved by Parliament;

4. Calls for the conciliation procedure to be initiated should the Council intend to depart from the text approved by Parliament;

5. Asks to be consulted again if the Council intends to amend the Commission proposal substantially;

6. Instructs its President to forward its position to the Council and Commission.

[1] OJ not yet published.
[2] In the light of Protocol 4 on cotton (OJ L 291, 19.11.1979, p. 174), annexed to the Act of Accession of Greece.

EXPLANATORY STATEMENT

THE SYSTEM OF AID FOR COTTON

The cotton scheme is not a typical common organisation of the market. Exceptionally, it is based on the protocol annexed to the act of accession of the Hellenic Republic which was adjusted following the accession of Spain and Portugal, in particular to establish a maximum guaranteed quantity.

Another peculiarity of cotton is that paradoxically it has not been dealt with as an agricultural product. This is because it was never included in Annex II of the Treaty, despite the fact that Protocol 4 of the Act of Accession of the Hellenic Republic to the Community recognises 'the specifically agricultural character of this production'.

Protocol 4 of the Act of Accession of the Hellenic Republic introduces the cotton aid scheme in order to 'support the production of cotton in regions of the Community where it is important for the agricultural economy, permit the producers concerned to earn a fair income and stabilise the market by structural improvements at the level of supply and marketing'.

It should be noted here that the cotton sector is of great social and economic importance for certain EU regions, since production is concentrated in Objective 1 regions which have a far higher unemployment rate than the Community average and where the average size of holdings where cotton is grown is smaller than the Community average. This applies both the Greece and Spain. The overall producers' income which is relatively higher for cotton than for other crops enables a significant number of small and medium-sized farmers to survive, despite unfavourable conditions, and consequently to remain in the countryside.

Cotton production in the EU is almost exclusively carried out in Greece and Spain. In Greece some 1.3 million tonnes of unginned cotton are produced, 43 000 hectares are under production and some 300 000 families are employed in the primary sector with over 100 000 persons being employed in the secondary sector. Spain produces 350 000 tonnes on 10 000 hectares, and some 12 000 farmers are employed in this sector.

The EU’s requirements amount to 4.5 million tonnes of unginned cotton and 1.5 million tonnes of cotton fibres.

Under the current arrangements for cotton in the EU, there is a system of aid which is calculated on the basis of the international price of cotton and the institutional prices set by the Community (target price and minimum price). This aid applies to certain quantities (quotas), namely the guaranteed national quantities (GNQs), which have been divided between the two cotton producing countries - 782 000 tonnes for Greece and 249 000 tonnes for Spain, amounting to a total of 1 031 000 tonnes. The quota may be transferred from one country to the other where production in one country in one year does not meet the level of the quota, and the overall quota may be increased to 1 120 000 tonnes (850 000 tonnes for Greece and 270 000 tonnes for Spain) if the international price for cotton is high (over EUR 30.2/100 kg.) and overall Community budget spending does not exceed EUR 770 million.

Where the quota is exceeded, the co-responsibility levy imposed on the aid is equal to 50% of the overshoot. Aid to producers is allocated through ginning undertakings. Aid is allocated in three phases. In the first phase 85% is paid, based on the assessments of the Member State before the beginning of the harvest concerning expected production levels; in the second phase 7.5% is paid based on the assessments of the Member State during the harvest concerning expected production levels; and in the third phase the balance is paid at the end of the ginning period. The aid is paid by instalments because the quota is exceeded and it is uncertain at the beginning of the harvest what level the final amount of aid will be, since it depends on the overshoot and the co-responsibility levy and also because the average (weighted) international price is calculated at the end of the ginning period.

The cotton arrangements are based on a minimum price per tonne of unginned cotton to be paid to producers by cotton ginning undertakings. The ginning undertakings receive Community aid per tonne, which varies according to market quotations so that ginned cotton can be sold at the world price.

The cost of the cotton aid scheme depends on the volume of Community production and on the level of world prices. The impact of Community production on the cost of the scheme is offset by the GNQs which act as budgetary stabilisers. The failure to adjust the GNQs to real production has created a paradoxical situation: <u>where production exceeds 30% of the GNQs, the greater the volume of production, the less the cost of the aid scheme</u>.

The GNQ system does not in fact work satisfactorily. GNQs have always been lower than production in the Member States, except during drought years. This means that producers' incomes have been eroded owing to the high co-responsibility levies, while the bigger the overshoot of GNQs, the lower the costs for the Community budget.

This is a paradoxical situation: where Community production falls, spending increases. This is due to the discrepancy between GNQs and actual production. Furthermore, the GNQs have very little to do with restricting production which is stabilised by factors which are independent of the checks provided by the GNQs.

The Commission's proposal

The Commission proposes:

- To maintain the present system of aid but to increase the co-responsibility levy by 20% (from 50% to 60% of the overshoot), thereby reducing the price ultimately received by the producer.
- To maintain quotas at the same level and under the same conditions.
- To maintain the institutional prices at the same levels (minimum and target prices) without even taking into account inflation between 1995 and 2000.
- To maintain the other specifications concerning the representative nature of cotton and the same procedures for various weight adjustments.
- To allow the Member States to draw up objective environmental criteria (for growing) and to limit, where applicable, eligibility for aid in certain regions. In essence it is therefore proposing to restrict cotton growing in certain regions where the adverse environmental impact of this crop is judged to be significant.
- To draw up a table of increases and reductions in the minimum price, in conjunction with

quality, on the basis of a bilateral agreement to be concluded between the parties concerned and not Annex B of Regulation 1201/89 which determined such price increases and reductions based on the divergence of the qualitative characteristics which was abolished in 1995 by the new regulation on cotton for reasons of subsidiarity.

The Commission justifies its decision to maintain quotas at very low levels and to increase the co-responsibility levy by 20% (from 50% and 60% of the overshoot) on the grounds that Community budget spending on cotton over the last few years has exceeded EUR 900 million and that as part of a policy of financial austerity it should be limited to EUR 770 million, i.e. 1992 levels.

Assessment of the Commission's proposal

The real objective of the Commission's proposals is drastically to reduce cotton growing, especially in Greece, which produces some 80% of Community cotton. This objective is to be attained by the 20% increase in the co-responsibility level, the freeze on institutional prices at 1995 levels when, with the change in the regulation they had been slashed by 13.2%. It is also to be attained by the Commission's appeal to environmental protection to justify a cut in production which is what it is really proposing.

The Commission is unjustified in seeking a drastic reduction in cotton growing, because the EU is only between 30 to 35% self-sufficient in cotton fibres, a figure which is much lower if account is taken of the trade balance in cotton products: in practice this amounts to the abrogation of the principle of Community preference.

The Commission's approach is also socially unjust, because it affects 300 000 families of small farmers in Greece, the poorest country of the EU, where the average area of cultivation is 4.2 hectares per farmer, while the EU meets the large-scale of its demand for cotton with products from the USA where cotton growers are large-scale producers and the average holding is in excess of 200 hectares per farmer and the government provides them with enormous amounts of aid which is constantly increased.

The argument about limiting Community budget spending to EUR 770 million is being used very unfairly to penalise EU cotton growers. For the latter bear no responsibility for the reductions in international cotton prices over the last three years, leading to an overshoot of the EUR 770 million ceiling. The responsibility for these reductions lies rather with the principal cotton-producing countries of the world (the USA, Australia and China) which, driven on by unrelenting competition, have been paying national subsidies, thereby drastically reducing the international price for cotton.

This is borne out by the fact that some two years ago the US Congress approved an additional trade support programme for US agricultural products worth $ 7.5 billion, most of which, according to Australia, was allocated to export subsidies for cotton.

Some responsibility must also be borne by the EU which accepted these reductions without protesting, as it should have done since they ensure extremely cheap raw materials for traders and manufacturers, while remaining indifferent to the plight of its own producers.

The general economic and monetary policy of the EU which determines the parity of the euro towards the dollar has also played a significant role in determining the price of cotton in euros. This is evidenced by fact that the sharp depreciation of the euro compared to the dollar, combined with the small rise in the international price of cotton calculated in dollars, sent cotton prices in euros rocketing. This means that if these two factors continue to apply for the entire commercial period in question, it is certain that there will be no budgetary overshoot. The budgetary overshoot argument is thereby refuted: there are clearly many different factors beyond small and medium-sized farmers which determine the international prices in dollars and euros which play a decisive role as regards budgetary discipline.

Apart from the question of responsibility for the overshoot of the financial ceiling of EUR 770 m, this ceiling, which was fixed for cotton in 1995 in order to freeze Community spending at 1992 levels and is being proposed again in the new regulation is unrealistic and unjust, since it fails to take into account the situation in 1992, and 1995 and particularly in 1999. It is therefore clear that the Commission, despite its assertions, has not respected the principle of neutrality.

This is borne out by the fact that from 1992 to 1999 cotton growing areas in the Community increased by 142 300 hectares (from 397 200 hectares in 1992 to 539 500 hectares in 1999) and production of unginned cotton increased by 622 600 tonnes (from 1 067 400 tonnes in 1992 to 1 690 000 in 1999).

This increase took place at the expense of other crops which were also subsidised so that the Commission's proposal for a freeze on Community subsidies at 1992 levels in practice meant losses for those Member States which grow cotton equal to the aid received by those areas which before 1992 were used for other crops and since 1992 have received no subsidies because they have been used for growing cotton. Furthermore, in 1992 to 1999 there was an increase in average Community inflation, and the proposed freeze of nominal spending at 1992 levels essentially amounts to a reduction in real terms equivalent to the rate of inflation (over 20%).

According to estimates of the International Cotton Advisory Committee, from now until the end of the year 2000 a 17% reduction in world stocks of cotton is expected compared to the average between 1995 and 1999. As a result, we can expect world prices to continue to rise and cotton aid scheme spending to increase less than forecast.

The cost of the cotton scheme depends to a great extent on the price of cotton on the world market, and the Commission argues that 'expenditure could exceed EUR 900 million'. The Commission chose to unveil its proposal at the very moment that world prices were at their lowest since the last adjustment of the cotton scheme. Furthermore, between the date on which the Commission proposal was adopted and today the international price has virtually tripled. If we based our discussion on the terms proposed by the Commission, we would conclude that this increase in the international price of cotton represents savings of over EUR 200 million in respect of the EUR 900 million which is the Commission’s estimate in its proposal. Hence within a period of three months the adjustment proposal has become out of date and unreliable. This is unacceptable.

It is true that cotton producers are calling for Regulation 1553/95 to be amended so that it takes duly into account the substantial shortfall of cotton production in the EU and the fact that cotton production can secure a basic survival income for small and medium-sized farmers.

Despite the fact that the existing regulation lays down oppressive quotas, the proposal for an adjustment - which coincides with an unprecedented fall in world prices since the previous review of the cotton scheme – will aggravate the problems of cotton farmers and make the situation in this sector more difficult.

The Commission has totally ignored the vociferous and well-founded protests and demonstrations by cotton producers against the existing regulation and the crushing co-responsibility levies.

Cotton producers are calling for the principle of Community preference to be extended to cotton, given the shortfall in the Community in cotton and the fact that cotton is the chief plant-based textile fibre which is a natural and more healthy product than the synthetic fibres with which it competes. Demand which is steadily increasing on the world markets and the conditions of cultivation which cause far fewer environmental problems than other similar intensive crops enable hundreds of thousands of farmers to survive and may even attract young farmers to remain in the countryside which is being progressively depopulated.

Instead, the Commission is imposing even more oppressive restrictions on cotton production in the name of an austere budgetary policy: it is proposing a further 20% increase in the co-responsibility levy with the aim of controlling expenditure by discouraging production, thereby passing on the impact of current phenomenon in world prices to cotton producers, which drastically reduces their incomes.

The question is entirely justified: why is the Commission adopting such a stringent policy towards products in which there is such a shortfall in the EU, while it treats other surplus agricultural products quite differently? Why does it prefer to spend substantial amounts to offset the consequences of the economic stagnation of the countryside, instead of encouraging farmers and young people to remain there by providing aid for crops such as cotton which have great potential?

Instead of addressing the problem of soaring unemployment and the flight from the land by supporting agricultural employment, particularly in vulnerable regions, the Commission appears, by stepping up its strategy of wiping out small and medium-sized farmers, notably in Greece and Spain, to prefer to spend vast sums of money funding the unemployed and training programmes for them. The same amounts of money - or even less - would be enough to support dynamic products such as cotton and maintain employment in these regions.

The role of common organisations of the market (COMs) consists in protecting producers from price fluctuations. However, the Commission's approach has been to reduce this protection when it has been most needed.

The attempt to use environmental considerations as a pretext to restrict cotton growing is indefensible and unscientific. For it has been scientifically established that cotton needs less nitrate fertiliser which is responsible for nitrate pollution than any other alternative crop (maize, sugar beet, tomatoes for processing and horticultural produce). It needs less nitrates even than autumn cereals, which are not a substitute crop, and approximately one-third of the requirements of maize and horticultural produce. It also needs less irrigation water and pesticides than alternative crops.

While using environmental considerations as a pretext to support its argument about the need to cut cotton growing, the Commission has failed to tell farmers officially and in a responsible manner which alternative crops they should plant in order to survive. The Commission's evasiveness on this point shows that it is using environmental arguments to press ahead with its plan to allow large areas of irrigated agricultural land in southern EU countries to lie fallow, thereby causing enormous economic, social and environmental problems.

Community cotton production needs support for producer organisations and their associations, either in order to enable them to improve their level of organisation and increase the level of concentration of supply, or to allow them to progress towards the concentration of supply or even to ginning by broadening their range of activities. As regards such organisations, the Commission must not dogmatically impose a specific type of producer group and association, but should recognise the specific reality on the ground in each country, in Greece for example, where farmers' cooperatives and their associations assume this role and can continue to assume it without any need for a change in their statutes.

Despite the fact that Protocol 4 of the Act of Accession of the Hellenic Republic provides that the objective of the cotton aid scheme is to 'stabilise the market by structural improvements at the level of supply and marketing', the Commission merely states that the producer groups play a management role in respect of all the equipment (production mechanisms), and its proposal does not lay down any objective concerned with the concentration of supply, as it does for other products.

In its proposal the Commission also refers to implementation of environmental measures which would clearly be more effective if producer organisations were given aid. Unfortunately, however, the Commission has proposed measures without at the same time taking the indispensable step of proposing the development of implementing measures.

Finally, it should be pointed out that for years cotton producers have been under economic pressure and the victims of extortion by the ginning undertakings, since aid is paid through the latter. We would therefore point out that the mechanisms of aid and the procedures for paying it must be changed in good time so that it is paid directly to entitled producers and no longer through middlemen and ginning undertakings.

The Commission's insistence that increases and reductions in the minimum producer price should be determined by the professional organisations (through bilateral agreements between the members concerned) on the basis of quality characteristics, will undoubtedly lead to the erosion and abolition of increases. This is because, by their very nature, the ginning undertakings will have a more important role in the professional organisations than the cotton growers: the best case scenario is that they will draw up a uniform table of increases and reductions but at a very much lower level - as far as increases are concerned - compared with those provided for in Annex B. The worst case scenario is that the issue be resolved by private agreements between cotton growers and ginning undertakings and in all likelihood no provision will be made for any increases at all.

The argument that the principle of subsidiarity has worked smoothly for four years since the abrogation of Annex B is a red herring, since at that time the table of increases and reductions was drawn up by state organisations such as the cotton organisation in Greece which have been dissolved and their specific remit will be transferred to the professional organisations.

CONCLUSIONS

The European Parliament should take into account the following points in particular:

- the basic principle of the Common Agricultural Policy, namely Community preference, in conjunction with the fact that the Community cotton production falls far below domestic demand since it meets only 25% of needs;
- while the world's leading cotton producer and the foremost exporter of cotton to Europe, the USA, gives increasing amounts of aid to its large-scale producers and its other producers and is increasing overall production, the Commission's proposal will reduce the level of protection for EU producers and lead to a decline in cotton production and constitutes a severe blow to small and medium-sized growers in Greece and Spain and in effect aids US producers;
- the fact that cotton is produced in the less developed regions of the Community which receive aid from Community funds and other financial instruments in order to narrow the gulf separating them from the average level of development of Community regions;
- aid for cotton producers who are mainly small or medium-sized farmers helps maintain employment in crisis-ridden areas, encourages people to stay on the land, makes a substantial contribution to the sustainable development of the economy and ultimately to economic and financial stability;
- As has been scientifically established, cotton production causes significantly less harm to the environment than other similar subsidised crops which growers have abandoned in order to grow cotton.

We therefore consider it indispensable that the Commission support producers and at least maintain present production levels, thereby meeting producers' demands, protecting the Community agricultural economy, respecting the principle of Community preference and securing development and employment.

WE PROPOSE

Given that there is a very serious shortfall in cotton in the EU, all restrictions on cotton growing (quotas, co-responsibility levies, environmental consequences) should be lifted so that the minimum price is paid in full to producers. Despite this, since for a variety of financial reasons some ceiling has to be set, this ceiling should cover present actual production in the cotton growing countries.

The system of aid should be maintained. Institutional prices of cotton should be adjusted in the light of the official data concerning average Community inflation between 1995 and 2000.

Aid should be paid directly to cotton producers through their cooperative organisations without the intervention of private ginning undertakings after studying the situation to establish the most appropriate procedure.

Annex B of Regulation 1201/89 which determines increases and reductions in the minimum producer price on the basis of quality characteristics should be included in the new regulation.