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Report

drawn up on behalf of the Committee on Agriculture

on the proposal from the Commission of the European Communities to the Council (Doc. 562/75) for a regulation amending Regulation (EEC) No. 1696/71 on the common organization of the market in hops

Rapporteur: Mr I. FRÜH

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By letter of 1 March 1976 the President of the Council of the European Communities requested the European Parliament, pursuant to Articles 42, 43, 113 and 235 of the EEC Treaty, to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a regulation amending Regulation (EEC) No. 1696/71 on the common organization of the market in hops.

The President of the European Parliament referred this proposal to the Committee on Agriculture as the committee responsible and to the Committee on Budgets for its opinion.

At its meeting of 9 March 1976 the Committee on Budgets appointed Mr Fröh rapporteur.

It considered the proposal at its meetings of 27 and 28 March and 3 and 4 June 1976 and adopted the motion for a resolution and explanatory statement unanimously at the latter meeting.

Present: Mr Houdet, chairman; Mr Vetrone and Mr Laban, vice-chairmen; Mr Fröh, rapporteur; Mrs Dunwoody, Mr Frehsee, Mr Gibbons, Mr Howell, Mr De Koning, Mr Martens, Mr Radoux (deputizing for Mr Cifarelli), Lord St. Oswald and Lord Walston.

The opinion of the Committee on Budgets is attached.

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The Committee on Agriculture hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation amending Regulation (EEC) No. 1696/71 on the common organization of the market in hops

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council¹,
- having been consulted by the Council pursuant to Articles 42, 43, 113 and 235 of the EEC Treaty (Doc. 562/75),
- having regard to the report of the Committee on Agriculture and the opinion of the Committee on Budgets (Doc. 156/76),

1. Approves the Commission's proposal subject to the following amendments;
2. Requests the Commission, pursuant to the second paragraph of Article 149 of the EEC Treaty, to incorporate the following amendments in its proposal.

¹ OJ No. C 51, 5 March 1976, p.3

Council Regulation
amending Regulation (EEC) No. 1696/71
on the common organization of the market in hops

Preamble, recitals and Articles 1 to 6 unchanged

Article 3

Article 2 is hereby replaced by the following:

'1. The products referred to in Article 1, harvested within the Community or prepared from hops harvested within the Community, shall be subject to a certification procedure.'

paragraphs 2 to 5 unchanged
Article 4 unchanged

Article 5

3.

Subparagraphs a, b, c and d unchanged
(e) include in their statutes provisions aimed at ensuring that the members of a group or union who wish to give up their membership may do so after a three-year period of membership and provided that they inform the group or union of their intention at least one year before they leave; those provisions shall apply without prejudice to the national laws or regulations designed to protect, in specific cases, the group or union or creditors thereof against the financial consequences which might arise from a member leaving, and to prevent a member from leaving during the budgetary year;

Article 3

Article 2 is hereby replaced by the following:

'1. The products referred to in Article 1, harvested within the Community or prepared from hops harvested within the Community, shall be subject to a certification procedure, for the designation of their origin.'

Article 5

3.

Subparagraphs f and g unchanged

(h) refrain from occupying a dominant position on the common market or on a substantial part thereof.

(h) refrain from occupying a dominant position in the Community.

Remainder unchanged

Article 6 unchanged

Article 7

Article 9 is hereby replaced by the following:

'Member States may grant to recognized producer groups aid of a maximum amount of 1800 units of account per hectare for the replanting of hop gardens with different varieties and the reorganization of hop gardens referred to in Article 7 (1) (b), which are completed by 31 December 1977, provided that such operations entail a reduction of at least 40% in the area of the gardens replanted or reorganized'.

Article 7

Article 9 is hereby replaced by the following:

'Member States may grant to recognized producer groups aid of a maximum amount of 1800 units of account per hectare for the replanting of hop gardens with different varieties and the reorganization of hop gardens referred to in Article 7 (1) (b), which are completed within two years after the entry into force of this regulation, provided that such operations entail a reduction of at least 40% in the area of the gardens replanted or reorganized'.

Articles 8 to 12
and annex
unchanged

EXPLANATORY STATEMENT

1. The report submitted on behalf of the Committee on Agriculture on the fixing of the amount of aid to hop producers for the 1974 harvest¹ approved the Commission's proposals on condition that the planned revision of the regulation on the common organization of the market in hops² was undertaken as soon as possible. This demand was prompted by the increasing difficulties that had been encountered for several years on the Community and world markets for hops. Supply and demand developments had led to the formation of considerable surpluses and consequently to heavy falls in income.

The purpose of the review of the organization of the market in hops must therefore be to stabilize the market and ensure satisfactory returns to producers.

2. A thorough analysis of the situation in the hop producing and marketing sector led the Commission to propose the following amendments to the organization of the market in hops:

- Adoption of a policy of quality (Article 2³),
- Grants of aid calculated per hectare to apply to groups of varieties (Article 12(3) (a)),
- Calculation of production returns on the basis only of areas in full production (Article 12(3) (a) first indent),
- Strengthening the position of the producer groups (Article 12(2)),
- Extending the availability of aid for varietal conversion (Article 9).

3. Article 2 of the amended basic regulation stipulates that hops harvested in the Community shall be subject to a certification procedure. The issue of a certificate for the marketing of hops and hop products is compulsory and conditional on compliance with certain quality standards. This provides a convenient method of ensuring that hop products which do not conform to standard market requirements and could therefore only be sold at minimum prices, causing distortions in the controlled marketing of standard varieties and qualities, can be kept off the market. This is an indirect way of

¹ See report by Mr Früh (Doc. 288/75), 11 October 1975

² Regulation No. 1696/71, 26 July 1971, OJ No. L 175, 4 August 1971, p.1 ff

³ The article numbers refer to the basic regulation.

requiring hop producers to bring production more closely into line with effective demand, thus raising sales potential and production returns.

In addition to this restrictive approach, a constructive solution to the problem would be to ensure that permitted varieties were entered as soon as possible in the common catalogue of varieties for agricultural plants, with a description of their characteristics. The hope expressed on a previous occasion that hops will shortly be included in the common catalogue of varieties is worth repeating at this point.

The basic rules for the implementation of this provision are to be laid down by the Council on a proposal from the Commission. It is clear that the definition of minimum quality characteristics constitutes an encroachment on hop producers' freedom of action that could have far-reaching economic effects on entire areas of hop cultivation in the Community. It is not apparent, however, how the involvement of the Council in the determination of those characteristics is to guarantee more security for hop cultivators' interests than if they are defined in the Commission in collaboration with the relevant Management Committee.

It should be noted finally in this connection that it is not only in the Community but also in the main production areas in third countries that there has been a sharp rise in the tendency towards surpluses in recent years, which combined with the effects of variations in exchange rates in these countries, could, in the case of certain varieties, put pressure on the Community market. In this connection, minimum quality standards are laid down in Article 5(1) of the basic regulation, which stipulates that hop products may be imported into the Community only if their quality standards are at least equivalent to the minimum requirements for Community hops. This ensures equal treatment of hops from third countries and prevents distortion of the internal market.

4. The previous arrangements contained provision for granting producers aid calculated per hectare for each variety of hops. The amended regulation makes provision for granting aid, not for each variety but for groups of homogeneous varieties. The decisive factors in this connection are the final use and the intrinsic characteristics of each variety. Specifically, this means that aromatic and bitter hops would each be classified under different groups. Under the previous system aid was often fixed at different rates for the same varieties because the average return to the producer from each variety was also taken into account in calculating the amount of the aid.

The new method should help to ensure that production corresponds more closely to market demand and that varieties on which returns are too low are kept off the market.

5. While, under the previous system, all areas under production were taken into account in calculating the average returns, which are a factor in determining the amount of aid, from now on only areas in full production will be considered. Since new areas of production produce smaller returns in the initial harvesting years, the old method of calculation always resulted in low averages and therefore higher amounts of aid.

This change is justified provided that special aid is made available for varietal conversion and replanting with different varieties. This conversion aid, the amount of which is to be increased, can also be important in bringing about structural rationalization and adjusting production to market demand. It was for this reason that Parliament insisted, in its last report on aid to producers¹, on the extension of the availability of aid.

6. Aid per hectare is granted to individual hop producers according to the regulations in force. Aid for varietal conversion and replanting with different varieties has, however, been confined to the producer groups. The importance given to these producer groups can be seen from the fact that they may be granted aid to facilitate their activities for up to three years after they have been recognized.

The new proposals are aimed at significantly strengthening the marketing position of the producer groups. The objective is to ensure an active and controlled influence by the producer groups on a more highly rationalized market in hops, that will ensure harmonization of supply and demand in terms of quality and quantity, thereby raising producers' incomes.

It is therefore proposed that aid per hectare should now be confined to recognized producer groups. In order to be recognized a producer group must undertake to offer the entire production of its members for sale. Finally, grants of aid per hectare can be restricted if structural excess supply so requires.

The proposals indicate a pronounced change in emphasis towards stricter management of the market by strengthening the marketing position of the producer groups and increasing the possibilities of indirectly regulating supply and demand through the Community agencies.

An objection that might well be raised in the trade to the strengthening of the marketing position of the producer groups by making the marketing of

¹ See report by Mr Früh (Doc. 288/75), 11 October 1975.

the entire production of the members compulsory, is that traditional trading operations might then be taken over by the producer groups. The difficulties facing the market in hops will certainly not be removed by one-sided regulation of supply; close cooperation between producers and buyers will be equally necessary.

Concentration of production under the producer groups, thereby strengthening the producers' negotiating position on the market, need not mean that the producer groups will take over trading operations themselves. Not only do they lack the necessary organization, they also do not have the relevant experience of the trade, which has built up its contacts, in particular in the export business, over a long period of time. The latter's functions are therefore unlikely to be endangered.

Article 7(3) of the basic regulation lays down the general conditions that producer groups must meet for recognition by Member States.

Article 7(3) (e) specifies the provisions for giving up membership in a producer group. These provisions would require far-reaching changes in the relevant regulations in certain producer groups already existing in the Community that have proved their effectiveness through market regulation measures and guaranteeing producers reasonable incomes.

The Committee on Agriculture does not think that functioning institutions, whose regional role does not lead to disturbance of the common market outside their region, should be forced to change. It therefore proposes deletion of this section.

For the same reasons the committee proposes an amendment to subparagraph (h) of paragraph 3.

It is essential to bear in mind that under Article 12 (2), the aid granted is to be distributed to members in order to supplement their incomes. To what extent and under what procedure this is done is obviously left to the discretion of the producer groups. Since these producer groups consist of associations of the producers themselves and members will therefore have a direct influence on the group decisions, the extremely general wording of Article 12(2) can be approved.

7. Article 9 is amended to enable aid for varietal conversion and replanting due to expire at the end of 1975 to be extended by two years and the maximum amount raised from 1,500 to 1,800 u.a. per hectare. This aid is also to be subject to the condition that the structural measures undertaken must ensure at least a 40% reduction in the area under cultivation. The extension of structural aid complies with the request made by Parliament referred to above. Since, however, pursuant to Article 9, the aid may no longer be granted as from the end of last year, while it continues to be an important requirement for the achievement of structural adjustments aimed at

stabilizing the market in the near future, it is proposed that the extension be calculated as two years from the date of entry into force of the regulation.

The requirement that varietal conversion and replanting with new varieties must be combined with a reduction in the area under cultivation will, as well as modernizing production, help to bring about effective stabilization of the market. This condition is very important, since the new varieties generally introduced have a higher yield and therefore tend to increase supply.

8. Article 23 is amended to allow for any transitional measures that may have to be taken under the management committee procedure for up to two years. It is also stipulated that aid per hectare (Articles 11, 12 and 13) for the previous year's harvest will continue to be granted according to the rules in force. This is as it should be.

9. The Committee on Agriculture feels that the amendments proposed by the Commission to the basic regulation on hops could, provided that suitable use is made of the new possibilities, bring about stabilization of the market and therefore an improvement in the position of hop producers in the near future. It therefore recommends that Parliament should, subject to its proposed amendments, approve the Commission's proposal.

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: Mr F. HANSEN

On 17 March 1976 the Committee on Budgets appointed Mr HANSEN draftsman of the opinion.

The committee considered the draft opinion at its meetings of 13 April 1976 and 3 June 1976, and adopted it by eleven votes to one at the latter meeting.

Present: Mr Lange, chairman; Mr Aigner, vice-chairman; Mr Hansen, draftsman; Mr Artzinger, Lord Bruce of Donington, Mr Cointat, Mr Fletcher, Mr Früh, Mr Lautenschlager, Mr Memmel (deputizing for Mr Galli), Mr Mursch and Mr Yeats.

Common organization of the market in hops

1. On 26 July 1971, Council Regulation No. 1696/71 on the common organization of the market in hops was adopted. This regulation aimed at ensuring that a quality policy should be followed throughout the Community, that statistics be obtained so as to present the facts for judging prospects and that an effort be made to stabilize markets and secure a fair standard of living for the agricultural community with reasonable prices for supplies to consumers.

2. To these ends, a number of measures were envisaged; these included, principally, the following:

- encouragement for the grouping of growers in bodies requiring their members to comply with common rules;
- specific aid for the rationalization of cultivation and harvesting operations;
- granting of aid where it becomes apparent, after marketing the harvest, that the average return per hectare has been insufficient;
- the establishment of a management committee for hops;
- the possibility of applying appropriate measures, should trade with third countries cause - or threaten to cause - serious disturbances to the Community market in hops;

Aid to producers

3. Over the past few years, Community aid per hectare has risen very steeply as the following table shows:

Harvest Year -----	Aid Per Hectare (u.a.) -----	Total (m.u.a.) -----
1971	214	4.7
1972	210	4.5
1973	245	6.5
1974	285	7.6
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Increase 1971 to 1974	33%	62%

Reasons for the rise in aid

4. Several factors have contributed to the change in the market situation which gave rise to the upward trend in aid to producers:

- improved productivity in the varieties of hops which produce a high alpha acid content: this is the constituent needed by brewers;
- the emergence of a surplus on world markets;
- a substantial increase in the area under hop cultivation;
- a falling-off in average prices;
- technological developments which have led to a more rational use of hops;
- a more rapid expansion in consumption of varieties of beer which require relatively smaller imports of hops.

Trend of prices

5. The trend of average EEC prices has deteriorated considerably under the influence of the factors outlined in the preceding paragraph. The following table reveals the trend:

Index of average EEC prices

(1971 = 100)

(a) <u>Under contract</u>		(b) <u>Non contract</u>	
1972	100.5	1972	90.5
1973	94.2	1973	54.3
1974	95.7	1974	59.6

In the generally inflationary conditions of the past few years, the unfavourable impact of these price trends on the standard of living of producers is evident.

Production

6. The area under cultivation in the Community has increased considerably in the recent past: there was a rise of one-third in the three years to 1973; this has helped to keep the level of incomes of hop producers up by helping to offset the fall in average EEC prices for hops grown under contract. However, the level of stocks, after the harvest,

rose substantially in recent years, giving further evidence of the problems facing this sector of agriculture.

Present proposal

7. The proposal now put forward by the Commission to ameliorate the situation has these main features:

- proposed extension of the availability of aid for varietal conversion by two years (to end 1977) provided that the area under hops is reduced by 40 per cent.

∟This proposal appears to be highly desirable - as well as being feasible, since hop growing land is usually highly fertile and thus suitable for other agricultural purposes.∟

- granting of Community aid only to recognized producer groups which have as a condition of membership that the total production of members is sold through the group.

∟This is welcome because it would strengthen the position of producer groups and bring about more orderly marketing conditions.∟

- providing for recourse to restrictive measures in respect of the award of aid per hectare in the event of structural surpluses.

∟This measure should help to limit budgetary costs.∟

- rationalizing the method of calculation of production and of aid.

The effects of the proposal should be a reduction in the area under hops, with a resultant better balance between production and requirements, and a stabilization of prices and of producers' incomes. These developments would ease the burden on the general budget.

Budgetary aspects

Guidance

8. The response to the proposal by producers wishing to benefit from the varietal reconversion aid of 1800 u.a. per hectare is difficult to forecast. However, assuming 1,000 hectares a year in 1976 and 1977 were reconverted, the total aid would be 3.6 m.u.a. of which half, or 1.8 m.u.a., would be carried by the EAGGF - 0.9 m.u.a. to be reimbursed in each of the years 1978 and 1979.

Guarantee

Annual aid to producers under the revised system, to be paid in respect of certain varieties, is difficult to gauge, at this stage. The amount involved would depend on such factors as harvest yields, the success of the reconversion scheme and market prices. The Commission's estimate is based on the 1974 harvest result which cost the budget of the Communities 7.6 m.u.a.: this amount was made up of two elements - aid for aromatic hops which come to 5.7 m.u.a. and aid for non-aromatic hops which came to 1.9 m.u.a. Under the proposed method of calculation, hops of the second category would not qualify for aid and there would, therefore, be a saving of about 1.9 m.u.a.

Conclusions

9. As can be seen from the figures at paragraph 3 above, expenditure on the Guarantee side of the EAGGF in relation to hops has been rising fairly steeply in respect of the harvests of past years. It is too early yet to put a precise figure on the probable level of aid per hectare for 1975 as the relevant data is not available to the Commission. However, without a change in the present organization of the market, the need for rising aid will be likely to continue. Therefore, an improvement in the common organization of the market in hops is clearly overdue. The proposals put forward by the Commission in Doc. 562/75 appear to be a step in the right direction. It would be reasonable to hope that the measures envisaged would make for a rationalization of production of hops together with stabilization of producers' incomes and an easing on the drain on the budget:

The Committee on Budgets

- noted that the effect of the proposal would be a levelling off in the cost to the Community budget of the common organization of the market in hops with the possible prospect of a tapering downwards in total outlay in this domain after 1978;
- observed that, in this instance, the Commission is drawing on recent experience and is reviewing Community outlay in regard to a particular commodity so as to obtain improved efficiency, redirect activity and bring about a long-term moderation in expenditure;
- welcomed the proposal which is designed to bring about production reforms in the sphere of hops, strengthen the producer groups and provide for recourse to restrictive measures in respect of the award of aid per hectare in the case of structural surpluses;

- accepted as reasonable the budgetary data and estimates furnished by the Commission, in view of the large imponderables which hang over the production and the marketing price of hops;
- recalled its earlier suggestions that, as often as possible, revisions of this nature should take the form of a rewriting of the basic regulation rather than the presentation of amendments in a separate text: the Community public should, in the interests of clarity and convenience, have available to them the comprehensive legislation for specific products in a single text;
- asks that special attention be paid to this aspect of the common agriculture policy in future EAGGF reports;
- urges the Commission to use to the fullest extent all the appropriations - including those carried forward from previous years - which exist in the Guidance Sector so as to improve structures in agriculture generally and to reduce ultimately recourse to the Guarantee Sector.

Community budget outlay in relation to hops
in m.u.a.

<u>Year</u>	<u>Guarantee</u>	<u>Guidance</u>	<u>Total</u>
1972	4.7		4.7 ^(a)
1973	4.5		4.5 ^(a)
1974	6.5	0.15	6.65 ^(a)
1975	7.6	0.4	8.0 ^(b)
1976	7.0	1.5	8.5 ^(b)
1977	7.0	1.0	8.0 ^(b)
1978	6.0	0.9	6.9 ^(b)
1979	6.0	0.9	6.9 ^(b)

(a) Actual expenditure

(b) Estimates

