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on

THE SUBSIDY SYSTEM FOR OIL SEEDS

accompanied by

COMMISSION'S REPLIES

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INTRODUCTION

General

1.1. The Community support scheme for oil seed production was first introduced in the basic regulation⁽¹⁾ establishing a common organisation of the market in oils and fats. The regulation in fact established 2 markets, one for olive oil and the other for the main oil seeds harvested in the Community, chiefly colza or rape⁽²⁾ and sunflower. This report examines the support system for those oil seeds.

1.2. There is a substantial shortfall of supply in relation to demand for oils and fats (other than olive oil) within the Community, the level of self-sufficiency in 1984 being 43%. Consequently there are substantial imports, mainly in the form of soya, in order to supply the Community's oil processing industries. In view of this the Community has opted for a "deficiency payment" system of agricultural support, by granting production subsidies, rather than a system of higher Community prices protected by import levies. Under this arrangement oil processors can obtain supplies of oil seeds on the cheaper world market. A subsidy is paid in respect of Community oil seed processed into oil and the home industry is protected by the imposition of duties levied on imports of products already processed from third country oil seeds.

1.3. There are 2 principal products of oil seeds:

- (a) vegetable oil, which is used in the manufacture of margarine, salad oils, cooking oils and soap products;

(1) The foot-notes appear together at the end of the report.

(b) meal (the residue after oil extraction) which after further processing is used to manufacture oil cake, an animal feedstuff of which the Community produces only a fraction of its needs.

1.4. The value represented by the oil produced from the different varieties of oil seeds varies with the market prices both of the seeds and of the oil. For example, on 15th May 1985, the value of the oil contained in the oil seed represented 86% for rape, 91% for sunflower and 53% for soya, by 15th May 1986 these percentages had changed to 60%, 78% and 27% respectively. Soya is much richer in protein content than the other 2 and therefore is in much higher demand by the animal feedstuff industry.

1.5. The price of seed oils is below that of olive oil due mainly to the different production and processing costs for the 2 categories of oils. However, before the accession of Spain and Portugal the traditional consumption habits in the Community enabled it to dispose of all the oil it produced. There is a relatively high and stable consumption of olive oil in the southern Member States and a high and increasing consumption of vegetable oil, margarine and other seed oil products in the northern Member States. These market features were taken into account in the basic regulation and the subsidy scheme for oil seeds was regarded as a scheme in favour of northern farmers, balancing in some measure the subsidy scheme for olive oil⁽³⁾.

The basic regulation

1.6. The overall objectives of the scheme as set out in the basic regulation of 1966 and the Council Resolution No 64/128⁽⁴⁾ were:

- (a) to protect the producers and processing industries against disturbances of supplies of seeds imported from third countries;
- (b) to ensure the necessary volume of oil seed production in the Community taking into account the considerable structural deficiency and
- (c) to contribute to "the viability of farms by making it possible to improve technical and financial equilibrium".

1.7. With a view to achieving these objectives the basic regulation provides for the following measures:

- (a) a subsidy system for oil seeds harvested and processed within the Community;
- (b) intervention storage, involving the buying-in of quantities of seeds offered to the competent agencies at intervention prices;
- (c) export refunds;
- (d) the charging of compensatory amounts on imports of oil seeds, oil and oil cake from third countries where such imports might seriously prejudice the interests of the Community producers. However, such measures were last used at the end of the 1960's and early 1970.

Audit objectives

1.8. The objectives of the present inquiry were to examine:

- (a) the implementation of the subsidy for rape and sunflower seeds in the Member States. This field audit was carried

out in France, the FR of Germany, Netherlands and United Kingdom;

(b) the aims and effect of the oilseed policy in recent years.

EXPENDITURE

2.1. It can be seen from Tables 1 and 2 that Community expenditure on production aid for rape seed and sunflower seed has increased substantially. In 1985 it was some 58% higher than the combined production and consumption subsidies of 624 Mio ECU for olive oil. The principal beneficiaries are to be found in the FR of Germany, France, United Kingdom and Netherlands. Expenditure on intervention storage measures and export refunds has not so far been significant and has had little effect on the operation of the market.

2.2. The fall in the expenditure for 1984 shown in Tables 1 and 2, which masks the increasing Community production of oil seeds, was caused by a substantial rise in world oil seed prices due mainly to a poor soya harvest in the United States. Higher world prices of oil seed are reflected in a lower rate of production aid within the Community and thus lower expenditure.

2.3. Although still at a relatively low level, expenditure on the production aid for soya has increased rapidly during the period 1983-1985 to 115,5 Mio ECU. However, the continued expansion of this crop will depend on the development of varieties better suited to Community growing conditions.

DESCRIPTION OF THE SUBSIDY SYSTEM

3.1. The principles governing the system are contained in Council Regulation (EEC) No 1594/83⁽⁵⁾. The detailed rules for the application of the subsidy system are contained in Commission Regulation (EEC) No 2681/83⁽⁶⁾.

3.2. The support for Community oil seed production is based on a variable production subsidy which compensates for the difference between the target price and the world market price. Each year a target price is fixed by the Council which is "fair to producers, account being taken of the need to keep Community production at the required level"⁽⁷⁾. The world market price, which is a key factor in calculating the aid, is determined weekly by the Commission on the basis of the most favourable purchasing opportunities and is adjusted, where appropriate, to take into account the prices of competing products.

3.3. The subsidy is paid to the processor or crusher of the seeds and is, in practice, reflected in the price that the crushers offer to the holders or growers of seeds. This price approximates to the target price, but may take into account some deduction by the crushers for the administrative costs involved in making the subsidy claim.

3.4. Until the introduction of Regulation (EEC) No 2681/83 the subsidy was only available for seeds harvested in the Community and processed into oil. However, that regulation allows for the subsidy to be paid on oil seeds harvested in the Community and incorporated directly into feeding stuffs. This extension of the scheme was not operational in the Member States during the period of the field audit.

OPERATION OF THE SCHEME

Authorities involved in operating the scheme in the Member States

4.1. In general the implementation of the scheme, including the issue of national rules governing the system, is carried out in the Member States by the Ministry of Agriculture in cooperation with the Ministry of Finance, customs authorities and the intervention agency. The latter is normally responsible for the administration of the scheme including the issue of subsidy certificates and the verification of stock records and processing at the mills.

Requirements of the regulation

4.2. In order to ensure that the subsidy is paid only on seeds harvested in the Community and processed into oil and cake, Member States are required to implement a control system both for seeds produced in the Community and for imported seeds. Accordingly a system of customs or similar control must be applied when all oil seeds are imported. A guarantee must be lodged which is forfeited if the seeds are not placed under control at a mill within 9 months. The guarantee is equivalent to the amount of the subsidy payable on similar Community seeds. The control at the mill is to be exercised from the time that the seeds enter and must ensure that seeds of Community or third country origin have been processed into oil and cake or have left the mill in an unaltered state. This necessarily implies that the intervention agencies should be notified by a mill, in advance, of all intended receipts of seeds so that an inspector may attend when the seeds enter the mill. The mill is required to record separately the quality and quantity of

the Community and imported seed received. Before processing seeds of Community origin the mill has to furnish proof by means of a "subsidy certificate"(8) that the seeds have been placed under control at the mill and examined to establish their oil, moisture and impurities content.

Claiming the subsidy

4.3. The subsidy certificate referred to above is in 2 parts. The first "ID" part certifies that a particular quantity of Community seeds having certain characteristics found by analysis, has been placed under control at the mill. The seeds must be processed within 150 days of the issue of the "ID" certificate by the intervention agency. The subsidy is paid to the holder of the certificate when proof of processing is furnished. It may be paid in advance, provided that the mill lodges a security as a guarantee of processing, which is released when proof of processing is furnished. In order to reduce the effect of fluctuations in the world market price between the date of ordering seeds and the date of receipt, the mill can apply to have the rate of aid fixed up to 5 months in advance. If a request is made to the intervention agency to fix the subsidy in advance, the second "AP" part of the certificate is issued showing the rate advance-fixed.

OBSERVATIONS

Supervision by the Commission

5.1. Article 2 of Regulation (EEC) No 1594/83 requires each Member State to communicate to the other Member States and to the Commission the control provisions adopted by them. The 4 Member States visited by the Court had issued guidelines for implementing and controlling the subsidy

system and these guidelines had been forwarded to the Commission in accordance with the regulation. However, at the time of the field audit the guidelines were not available at the Commission when requested by Court officials and it would appear that the Commission has little information on how the regulations are implemented in the Member States and how the various operations are controlled. The Commission performs clearance visits to the Member States and has "cleared" the Member States' declarations in respect of oil seed production and expenditure up to 1981. However, these clearance procedures did not include a detailed analysis of the operation and control of the scheme in each Member State. Thus, since the introduction of the aid system the Commission had not fully examined the Member States' control systems to ensure that they were sufficient and had "cleared" expenditure on aid for oil seeds when it could not have been fully certain that payments had been made only where justified. An examination of the system was begun in 1975 but was interrupted due to shortage of staff. The audit carried out by officials of the Court of Auditors did discover certain weaknesses in control (see paragraphs 5.3 - 5.5) which could have been found earlier if the Commission services had fully carried out their responsibilities to monitor control procedures.

Control measures in the Member States

5.2. The Court's examination in the Member States was directed towards the following aspects:

- (a) control at the time of entry into the mill;
- (b) maintenance of stock records;
- (c) control over processing.

Except for the observations made below, it was found that the guidelines issued in the Member States visited provide an adequate basis for the sound management of the scheme.

Control at the time the seeds enter the mill

5.3. Article 3(1) of Regulation (EEC) No 2681/83 states that Member States' control over the processing of seeds should be exercised from the time the seeds enter the mill. The Court has found that there were different interpretations of this requirement in the Member States visited. In the Netherlands this control was carried out by officials of the General Inspection Service of the Ministry of Agriculture and in France by an independent expert of the Société des Experts. In both states the inspectors attend each time seeds enter the mills and send a written report to the intervention agency containing details of the seeds. In the United Kingdom all deliveries are notified to the Ministry of Agriculture and an official attends some deliveries at his own discretion to make spot checks. In the FR of Germany there was no provision for the notification of deliveries and no representative of the controlling authorities attended when the seeds entered the mill. The control commenced only after the mill had notified the intervention agency that seeds for which a subsidy had been claimed had been processed. In the opinion of the Court, there should be systematic physical checks on the quantity and quality of the oilseeds entering the mill. The controls carried out in the United Kingdom and particularly in the FR of Germany, are insufficient in this respect.

Maintenance of stock accounts

5.4. Article 3(3) of Regulation (EEC) No 2681/83 requires the oil mill to keep separate stock accounts for Community

produced seeds and imported seeds. The following details must be included for each lot of seeds:

- a) the quantities entering the mill, specifying the net weight and the oil, moisture and impurities content;
- b) all movements within the mill;
- c) the quantities processed and the quantities of oil and cake obtained.

The first 2 conditions were met by the mills visited in each of the Member States. However, the processing of oil seeds is a continuous process and it is not possible for the mills to process each lot separately. Therefore the quantities of oil and oil cake recorded for each lot are not actual quantities counted but a pro rata allocation of the total output from a processing run. In the opinion of the Court the requirement to allocate individual quantities of oil and oil cake to individual lots of seeds is unnecessary and time consuming. It is considered that a comparison of the total oil and oil cake produced with the total seeds processed during a given period (e.g. each day) would be sufficient.

Control over processing

5.5. Article 3(2) of Regulation (EEC) No 2681/83 requires Member States to control the processing of seeds so that it is possible to check that the quantity of seeds which entered the mill corresponds to:

- (a) the quantity of oil and oil cake obtained from processing those seeds, and/or
- (b) the quantity of seeds leaving the mill in an unaltered state.

It was found that the 4 Member States controlled the processing of seeds by checking stock records against basic supporting documentation such as weighing notes, reports of stock movements and meter readings. In the opinion of the Court, while this type of control is necessary, it should be supplemented by tests on the reliability of the supporting documentation. Such tests should include attendance at stock counts and meter readings which should then be followed through to the stock records and include reviews of the reconciliations between physical stock and book stock. Only in France were such additional physical checks made.

ECONOMIC FACTORS

Background to the subsidy system

6.1. When the subsidy system for oil seeds was introduced in 1966 the Community market was characterised by high demand and low production. The Member States depended to a large extent on the world market for supplies which were offered at relatively low prices. From the introduction of the scheme until 1984 (when world prices rose) the Community producer price (as reflected in the target price) has been almost double the world market price. In the view of the Commission services this is because:

- (a) growing and structural conditions were more favourable in third countries, particularly in the United States;
- (b) the world market price does not truly represent the cost of production;
- (c) it was intended that Community producers of oil seeds should have incomes comparable with those of producers of other agricultural products, which were themselves usually higher than the world average.

6.2. The Commission services have said that the main reasons for the introduction of the common organisation of the market in oil seeds were:

- (a) to enable oil seeds to play an important role in the diversification of production and thus in the improvement of the Community's agricultural potential, without creating surplus production;
- (b) to help to avoid a monoculture of cereals or sugar beet in large areas of cultivation. Oil seeds, together with protein plants constitute an alternative but need to give the same financial return;
- (c) to assist in balancing the world market in oil seeds. In this respect it was claimed that, for example, if production in the Community during the period 1973-1983 had not increased, the rise in prices in the second half of 1983 would have been much more significant and a shortage of world supplies would have been inevitable;
- (d) to contribute towards regular and stable supplies of seeds for the Community processing industry. The Commission services emphasised that in the absence of Community production most of the processing plants in the Community, except those specialising in soya, would have had to stop their activities several years ago, thus rendering the community totally dependent on the industrial policy of third countries.

Evolution of the scheme

6.3. Although the common market in oils and fats had been introduced in 1966, until 1973 it was Community policy to rely on imported oil seeds at a price which was much lower

than could be obtained from Community production. Community consumption was and still is mainly of soya imported from the United States. However, in 1973 the U.S. authorities thought that the soya bean harvest might not be sufficient to meet their national requirements and threatened to stop exports. During that year mainly as a result of the general shortage of supply, soya meal, along with other protein rich meals such as fish meal doubled in price. It was the threat of this embargo - which in fact did not materialise - which motivated the Council to encourage greater production of oil seeds in the Community so as to decrease its dependence on world market supplies.

6.4. The Commission's memorandum to the Council doc. COM(73) 1850 of 31 October 1973 makes it clear that the subsidy policy introduced in 1973 was particularly aimed at increasing production of proteins. Three-quarters of the supplies of proteins come from oil seeds which have been processed into meal or oil cakes and there has been a significant increase in their use in compound feeding stuffs. The memorandum emphasises that the degree of self-sufficiency in proteins within the Community had diminished and in 1973 amounted to 4% for oil cakes and 30% for fish meal.

6.5. In its review of the market, the Commission considered that sunflower seed production could increase. However, if this production were to develop, it appeared likely that it would be matched by increased consumption. In addition it seemed unlikely that there would be an increase in soya production in the United States as farmers there had an economic incentive to cultivate other crops, e.g. maize and cotton. Thus the Commission recommended that the Community should make efforts to avoid an increase in its dependency on imports and the Council endorsed this policy. Inter alia the following measures were foreseen in the memorandum:

- (a) to encourage the production of sunflower seed by increasing its price to the level of that for rape seed. (The Community had a considerable deficit in sunflower seed, but there could be problems in disposing of rape oil and cake if production increased further);
- (b) to increase the Community production of soya by means of a support scheme similar to that currently operated for rape and sunflower.

In this way, a support system which had originally been devised as part of the Community's policy on oils and fats, was adapted for use as a part of a policy for protein production without, however, a major adaptation of the basic regulation. In addition to this encouragement of oil seed production for proteins the growing of other high protein plants, e.g. lucerne, was also to be encouraged.

6.6. Since the introduction of the scheme production of oil seeds has risen (Table 3). However, the Community has been unable to reduce substantially its reliance on large quantities of soya beans which are imported free of levy. Consequently the effect of the scheme on the animal feedstuffs industry in particular has been small. Oil cake produced from soya beans is much richer in protein than that produced from rape and sunflower seed and it is lower in price. However, in October 1983, the Commission introduced 2 schemes which may generate more use of rape and sunflower seeds in the animal feedstuffs industry. The first is an additional aid to encourage the growing of the "double zero" variety of rape seed which has a low glucosinolate content comparable to that of soya beans and as such produces a better quality oil cake for animal feedstuff. The second scheme (laid down in Regulation (EEC) No 2681/83) introduced

a subsidy for rape seeds which are incorporated directly in animal feedstuffs, i.e. without any necessity for previous crushing into oil.

Effect of the scheme on supplies

6.7. The information in Tables 3 and 4 gives an indication of the effect of the Community's aid scheme on the degree of self-sufficiency in oil seed. The 1965 figures show the situation before the Community scheme commenced and those for 1975 show its initial effects. It can be seen from the tables that while the degree of self-sufficiency in all seeds increased from 12% to 24% (1975-1983) and the combined production of rape and sunflower seeds has trebled during that period, this did not greatly affect the reliance on imported soya. In 1984 production of rape, sunflower and soya continued to increase and overall self-sufficiency in oilseeds reached 32%. There was a decline in the consumption of soya which appears to confirm the trend in 1983. However, the special situation of the world market for soya in 1984 due mainly to a low harvest in the United States in 1983 may have necessitated a switch to other oilseeds. This seems to be confirmed by the spectacular increase in the consumption of rape (46%) in 1984.

6.8. Table 5 shows the levels of self-sufficiency of seed oil and oil cake produced from Community grown oil seeds in given years. While the Community has never aimed at total self-sufficiency (which would be impossible in any case) it has increased its degree of self-sufficiency in oil and cake as a result of the scheme. However, it is still heavily dependent on imports to meet its overall requirements. In particular despite some increase in the level of self-sufficiency in oil cake, it had attained only 12,4% in 1984. These levels of self-sufficiency of oil and cake

produced from Community seed give rise to large imports of soya and other oil seeds which are crushed within the Community⁽⁹⁾. Indeed, the oil produced from seeds of whatever origin enables the Community to be a net exporter of rape and soya oils (275 000 and 352 000 tonnes respectively in 1984)⁽¹⁰⁾.

Comparison of farm revenue derived from oil seeds with that derived from cereals

6.9. Rape and sunflower will grow perfectly well on land used for cereal production and are particularly useful for crop rotation. The Commission services consider this to be one of the current objectives of the scheme as mentioned in paragraph 6.2.

6.10. Since cereals and oilseeds are alternative crops, the Court sought to compare the financial return per hectare from their cultivation. Although it was relatively easy to compare the average gross income, it transpired that the Commission was unable to provide data on the net revenue since it did not have ready access to information relating to the costs of production of these crops.

6.11. Table 6 shows the gross income per hectare from oilseeds and cereals, for the years 1980 to 1984. In order to arrive at representative selling prices for comparison, the values used are the mean of the intervention price and target price for oil seeds and the intervention price for cereals for each year. While this approach illustrates the average position over the whole Community there may be regional variations.

6.12. It will be seen from the table that the gross income per hectare for cereals was considerably lower than that for oil seeds during the period, taking into account the lower yield per hectare for oil seeds. In percentage terms the gross income per hectare for rape was between 27% and 59% higher than that for cereals and that for sunflower was between 10% and 53% higher. In 1984 the Community area under rape was 1 167 000 hectares compared with 731 000 hectares in 1980; the equivalent figures for sunflower are 631 000 against 138 000. Cereal cultivation has fallen from 28 392 000 ha in 1980 to 27 751 000 ha in 1984.

6.13. As mentioned in paragraph 6.10, it was not possible to make a similar comparison of net incomes. But such limited information as is available to the Court (concerning France and Denmark) would appear to indicate that production costs do not differ significantly between the 2 types of crops. If this be so for the Community as a whole, the differences in gross returns shown in the table will also be reflected, to more or less the same degree, in the net incomes derived.

6.14. While it is recognised that the precise figures shown in Table 6 can be questioned as pointed out by the Commission in its reply and that the data should accordingly be treated with caution, it seems reasonable to conclude that the much higher gross return from oilseed production compared to cereals is likely to have been a considerable influence in the expansion of rape and sunflower cultivation. Clearly a financial incentive was necessary to stimulate oilseed production. To be effective, this should give the grower a worthwhile income as compared with the returns available from alternative uses of his land. However, in view of the much greater gross income available from oilseeds and given the uncertainty regarding production costs, it may be questioned whether sufficient attention has been given to the achievement of a proper balance between the budgetary incentives for oil seeds and cereals.

Furthermore, it is a matter of concern that the legislative authorities should fix the levels of prices and aids without knowing the net financial returns from these crops.

The comparative costs to the Community of the aid for oil seeds and for cereals

6.15. The Commission services have made calculations of the comparative budgetary costs to the Community of the production of rape, sunflower, soya, common wheat and barley. The results of these calculations concerning the marketing years 1981/82 and 1982/83 are shown in Table 7. The Court has made similar calculations for the marketing years 1983/84 and 1984/85 and these are included in the table. The figures give some indication of the cost to the Community of a switch by farmers from cereals to oilseed cultivation. The table compares the marginal cost per hectare for oilseeds (yield x production subsidy) with that for cereals (yield x export refund). Export refunds for cereals are designed, as is the subsidy for oilseeds, to adjust the difference between the Community price and the world market price.

6.16. Table 7 shows that during the period covered the costs to the Community for production of common wheat and barley have been considerably lower than for rape and sunflower. However, the figures relating to cereals do not take account of intervention storage. Given the present state of the cereals market (1985) with large grain surpluses and intervention stocks of common wheat in particular, the inclusion of such costs would change the pattern considerably⁽¹¹⁾.

Potential costs of increasing self-sufficiency

6.17. Although an increase in the level of self-sufficiency

in oil seeds is nowhere stated as an objective of Community policy, in fact, as already mentioned, self-sufficiency increased from 12% in 1975 to 32% in 1984. The following paragraph indicates the potential costs of a continuation of this trend.

6.18. Table 8 gives the average rates of aid for rape and sunflower during recent years and shows the high unit cost of the production aid. It will be seen from Table 3 that the Community has an excess of consumption over production of all oil seeds of about 11 Mio tonnes. The size of that shortfall taken together with the high rates of aid paid illustrates the very high cost under the present system, of significantly decreasing the Community's dependence on supplies from third countries.

Determination of the world market price

6.19. The way in which the world market price for oil seeds is determined is important, as the subsidy paid for the production of oil seeds is the difference between a target price fixed each year by the Council, and the world market price as calculated by the Commission each week (see paragraph 3.2).

6.20. The rules for determining the world market price for oil seeds are contained in Council Regulation (EEC) No 115/67 and Commission Regulation (EEC) No 225/67. Applying these, the world market price is determined on the basis of the most favourable purchasing opportunities and takes into account the prices of competing products and the profits or losses which result from crushing those competing products (the crushing margin). This gives the Commission scope to adjust the quoted world market price in order to compensate for any additional costs involved in crushing subsidised seeds compared with competing seeds (e.g.

imported soya). This has in practice meant that the subsidy level has been frequently increased by up to 10% above that which would apply using only the world market price and it appears that the Commission has adopted this policy to ensure the complete disposal of the Community's annual crop of oil seeds and to encourage production of oil seeds in the Community. The corresponding costs to the Community have been considerable. It must be questioned whether this extra adjustment made by the Commission when calculating the rate of aid was in fact necessary.

Threshold guarantees

6.21. The strong upward trend in the production of oil seeds led to a sharp rise in the corresponding budgetary expenditure in the early 1980's. With a view to containing this expenditure, as part of the general measures to reduce agricultural budget expenditure, a threshold guarantee scheme was introduced for rape seed to take effect from the marketing year 1983/84⁽¹²⁾ and for sunflower seed from 1985/86⁽¹³⁾. For both seeds, if the threshold set by the Council is exceeded, the target and intervention prices for the following marketing year are reduced by 1% for every 50 000 tonnes of excess production, subject to a maximum of 5%.

6.22. The threshold for sunflower seed was not exceeded in its first year of operation. The application of the system to rape seed has led to reductions in the prices fixed by the Council, of 1% in 1983/84 and 2% in 1984/85. For the marketing year 1985/86 the price initially proposed by the Commission should have been reduced by 5%, but the Council did not decide on this proposal, and the Commission provisionally applied a smaller reduction.

6.23. The levels of the threshold guarantees were set having regard only to the budgetary requirements since there is no surplus of production. In view of the doubts raised in paragraphs 6.14 and 6.20 concerning the levels of production aid accorded to oil seeds, it would have been more appropriate to adjust the target price itself rather than attempt to control expenditure by means of the threshold guarantee mechanism particularly as neither rape nor sunflower is in surplus. The use of threshold guarantees to control expenditure by attempting to limit the expansion of production demonstrates the difficulties which exist in trying to reconcile the contradictory aims of containing or reducing expenditure while maintaining or increasing the Community's self-sufficiency. In any case it must be doubted whether small changes in the target and intervention prices of the order of 1% or 2% have had any real effect on curbing production and thus expenditure. As part of the 1986/87 price fixing policy, the Council adopted the Commission's proposal to reform the threshold guarantee system, by substituting maximum guaranteed quantities.

The problem of the 2 markets

6.24. Any examination of policy in relation to oilseeds should take into account the fact that the 2 principal subproducts -oil, mainly for human consumption and cake, for animal consumption- face substantially different market conditions. The level of Community self-sufficiency in oils, particularly rape-seed oil, is higher than that for cake. Furthermore, the range of competitive products with which they are confronted and the price levels of these products are completely different. For example, there were good reasons for the Community to have pursued a low-price policy in relation to animal feeding stuffs since they constitute an important element in the cost of production of, and therefore the ability to market, commodities such as

beefmeat and milk products already in surplus. A different set of considerations might be appropriate in the case of vegetable oils which are not in surplus but which are, to a degree, in a situation of competitive advantage in relation to other heavily subsidised products such as butter and olive oil. The use of a single market regulation, initially developed to govern the market in oils and fats, may have hampered the evolution of policies sufficiently adapted to the needs of the 2 main markets involved. It may also explain why the oilseeds regime has become so expensive, since both sub-products benefit in equal degree from the support system⁽¹⁴⁾.

6.25. Recent technical advances, such as the development of new strains of rape seed which enable increased use in animal rations, and the possibility of incorporation of seeds directly in the ration without the production of oil, are further factors which argue for a differentiation of policies.

6.26. In this connection it should be recalled that in October 1983 the Commission proposed a Council Regulation introducing a tax on all animal and vegetable oils and fats used for food or feed with the exception of butter⁽¹⁵⁾. The income was to be assigned for the financing of expenditure in the oils and fats sectors. The proposal was not, however, adopted by the Council.

CONSEQUENCES OF THE PRICE STRUCTURE

7.1. More recently, in its "Perspectives for the Common Agricultural Policy"⁽¹⁶⁾ (the "Green Paper") the Commission rightly lays stress on a significant realignment of the Community price of cereals as the keystone of any substantial reform. The paper observes that oil seeds and protein plants would be the ideal and natural alternatives. This theme is also taken up in the

follow-up document "A Future for Community Agriculture"(17). Both documents stop short of recommending a policy of expanding these crops for the reason that, "because of the absence of external protection", as stated in the Green Paper, their support under the present regime would entail a heavy burden for the Community budget (18). However, in the Court's view this is due to the coexistence of a highly organised market in cereals, with Community price levels much higher than world prices, and a market in oil seeds which, in contrast, operates at world market price levels and which therefore necessitates substantial budgetary aids for producers.

7.2. The Commission's "Memorandum on the Adjustment of the Market Organisation for Cereals" (Doc. COM(85) 700 Final, 14.11.1985, p. 4) advocates, among other measures (notably a coresponsibility levy in the cereals sector), a restrictive price policy for cereals "consistent with the market situation, and which avoided fundamental changes in the price relationships between cereals and other agricultural products which can compete with them in rotation". As stated in paragraph 6.14, there are reasons for questioning whether the price relationship between cereals and oilseeds has been ideal in the recent past. In the context of a restrictive price policy for cereals, this question will gain even greater importance.

SUMMARY AND CONCLUSIONS

The administration of the scheme

8.1. The Commission has not collated nor fully examined the systems of control adopted for the scheme in each of the Member States (paragraph 5.1).

8.2. In general the regulations were properly applied in the Member States but some weaknesses were noted in the system which are detailed in paragraphs 5.3 - 5.5. They could be rectified if each Member State carried out systematic physical checks on the quantity and quality of the seed received at the mill and on the stocks held and quantities processed. In addition, the Commission should amend the regulation by removing the impractical requirement to record output for each lot and substitute daily reconciliations.

Present policy aims

8.3. The present policy in relation to oilseeds has been developed from a regulation on oils and fats. At its inception, in 1966, the market was typified by a low level of production combined with high and growing consumption. For this reason, the Community was content to agree to a nil level of external protection within GATT, in return for concessions elsewhere. As circumstances changed, new objectives (such as encouragement of crop rotation and the accent on protein production) have been grafted onto the original policy. Attractive levels of production aid have led to increased production of rape and sunflower seed, while overall demand for oilseed products has continued to grow. These more recent objectives of the system, though dating from 1973, are not well defined in the regulations. Nor does a study of the management of the market in recent years throw appreciable light on the Community's current policy aims in this sector (paragraphs 6.3 - 6.6).

8.4. Although the objectives of Community policy in relation to oilseeds are not well defined, the chief result of that policy has been to increase substantially the Community's production of the commodities concerned. But

because of rising demand, the improvement in self-sufficiency has been moderate and the budgetary costs have been high. The substantial deficiency of the Community in oilseeds and, particularly, in proteins for animal feed, would seem to indicate the desirability of a continued expansion of these crops. However, under the existing market arrangements, the costs would be prohibitive (paragraphs 6.17 - 6.18).

8.5. The Court's audit findings suggest that production aid for oilseeds may have been set at unnecessarily generous levels having regard to the financial returns available from the production of cereals (paragraphs 6.9 - 6.14 and 6.19 - 6.20). This seems to be reinforced by the low level of sales to intervention. A more prudent pricing policy would seem to be possible, especially in the context of a restrictive price policy for cereals, without jeopardising the continued expansion of Community oilseed production (paragraph 7.2). In these circumstances a fundamental reappraisal appears to the Court to be opportune. This should aim at setting out clear objectives and, in particular, should examine whether an alternative can be found to the present expensive scheme which would allow for a differentiation of policy between the 2 main seed products-oil and protein (paragraph 6.24).

* * *

This report was adopted by the Court of Auditors at Luxembourg at its meeting on 10 July 1986.

The Court of Auditors



Marcel MART
President

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- (1) Council Regulation (EEC) No 136/66 of 22.9.1966 on the establishment of a common organisation of the markets in oils and fats (OJ No 172, 30.9.1966, p.3025/66).
 - (2) Colza and rape are both members of the same botanical species (Brassica). Rape tends to be more hardy than colza and is grown in Northern Europe. In this report references to rape include colza.
 - (3) Olive oil is not dealt with further in this report.
 - (4) On the basic principles of the common organisation of the markets in the oils and fats sector, OJ No 34, 27.2.1964, p. 602/64.
 - (5) Council Regulation (EEC) No 1594/83 on the subsidy for oil seeds (OJ L 163, 22.6.1983).
 - (6) Commission Regulation (EEC) No 2681/83 laying down detailed rules for the application of the subsidy system for oil seeds (OJ L 266, 28.9.1983).
 - (7) Article 23 of the basic regulation.
 - (8) Article 4 of Regulation (EEC) No 1594/83.
 - (9) It should be noted that the Community also imports substantial quantities of oilcake (1984 net imports 11,9 Mio tonnes, mostly soya) and of vegetable oils, other than soya and rape (1984 net imports 1,5 Mio tonnes).
Source: Eurostat.
 - (10) Source: Eurostat.
 - (11) The cost to the Community in 1984 of storing in intervention the grain produced from one hectare of common wheat for a typical 8 month period is estimated in region of 125 ECU.
 - (12) Council Regulation (EEC) No 1413/82 (OJ L 162, 12.6.1982).
 - (13) Council Regulation (EEC) No 1104/84 (OJ L 113, 28.4.1984).
 - (14) Of the average annual expenditure on production aid for oil seeds 1981-83, some 375 Mio ECU is attributable to oil cake and 370 Mio ECU to vegetable oil (based on yields by weight).
 - (15) Doc. COM(83) 562 Final, - 7.10.1983.
 - (16) Doc. COM(85) 333 Final, 15.7.1985, part III, paragraphs 14 and 15 (p. 23).
 - (17) Doc. COM(85) 750 Final, 18.12.1985, section IV, A(6) (p. 13).
 - (18) Green Paper, part III, paragraph 38(a) (p. 30) and follow-up document, section IV A(6) (p. 13).

Table 1 - Community expenditure on oil seeds (1979 - 1985)

(Mio ECU)

Type of expenditure	1979	1980	1981	1982	1983	1984	1985
Export refunds	1,2	3,7	5,4	3,8	3,8	0,4	3,4
Production aid for colza) and rape seed)				537,4	631,4	416,7	643,8
Production aid for sun-) flower seed)	202,3 ⁽¹⁾	340,4 ⁽¹⁾	571,4 ⁽¹⁾	165,6	293,4	196,4	339,0
Production aid for soya beans	1,3	6,3	2,2	7,3	6,2	32,7	115,5
Production aid for flax seed	12,4	9,8	8,6	6,7	14,5	7,2	9,4
Other aid	0,3	0,2	0,4	0,3	-	-	0,0
Intervention storage	0,2	8,9	-5,3 ⁽²⁾	-0,4 ⁽²⁾	-3,7 ⁽²⁾	2,1	- 0,5 ⁽²⁾
Total	217,7	369,3	582,7	720,7	945,6	655,5	1 110,6

⁽¹⁾ Separate figures are not available for 1979 - 81.

⁽²⁾ Negative figures imply a profit on sales.

Table 2 - Payments of production aid for rape seed and sunflower seed
by Member State

(Mio ECU)

Member State	1982	1983	1984	1985
Belgium	13,0	28,2	38,9	83,0
Denmark	11,1	11,5	9,5	21,6
FR of Germany	289,4	381,8	232,5	344,5
Greece	1,3	3,6	2,6	11,6
France	171,2	191,7	111,2	244,5
Ireland	0,5	0,8	0,0	0,0
Italy	41,0	49,4	46,5	73,2
Luxembourg	0	0	0	0
Netherlands	66,7	111,4	60,4	89,1
United Kingdom	108,8	146,4	111,5	115,3
Total	703,0	924,8	613,1	982,8

Table 3 - Community production and consumption of oil seeds

(1000 tonnes)

Seed	1965		1975		1981		1982		1983		1984	
	Production	Consumption	Production	Consumption	Production	Consumption	Production	Consumption	Production	Consumption	Production	Consumption
Rape	515	559	938	1 020	2 000	2 179	2 682	2 742	2 513	2 651	3 518	3 864
Sunflower	20	112	160	316	513	1 608	744	1 371	957	1 325	1 224	1 624
Soya	0,2	2 378	3,7	8 205	20	10 287	31	12 000	92	10 606	153	9 596
All oil seeds (1)	649	5 023	1 418	11 533	2 770	15 416	3 700	17 392	3 841	15 740	5 239	16 331
Excess of consumption over production	4 374		10 115		12 646		13 692		11 899		11 092	

Source: Situation of the Agricultural Markets, Eurostat and Fediol.

(1) Including rape, sunflower, soya, groundnut, cotton, palm, flax, and other seeds.

Table 4 - Degree of self-sufficiency in oil seeds

(%)

Seed	1965	1975	1981	1982	1983	1984
Rape	92	92	92	98	95	91
Sunflower	18	51	32	54	72	75
Soya	0	0,05	0,2	0,3	0,8	1,6
All oil seeds (1)	13	12	15	21	24	32

Source: Eurostat.

(1) Including rape, sunflower, soya, groundnut, cotton, palm, flax, and other seeds.

Table 5 - Community self-sufficiency in seed oil and oil cake
derived from Community grown seeds

(%)

Product	1965	1975	1981	1982	1983	1984
Seed oil	8	14	20	24	28	43
Oil cake	4	4,4	8	8	8,6	12,4

Sources: 1965, 1975 and 1984 : FEDIOL.

1981 - 1983: Situation of the Agricultural Markets.

Table 6 - Gross income of farmers from oil seeds and cereals

Year	A. Yield (tonne/hectare) ⁽¹⁾			B. Price (ECU/tonne) ⁽²⁾			C. Gross income per hectare (ECU) (C = A x B)			D. Gross income of rape and sunflower compared with cereals (in %)	
	Rape	Sunflower	Cereals	Rape	Sunflower	Cereals	Rape	Sunflower	Cereals	Rape	Sunflower
1980	2,73	2,23	4,16	377,3	413,4	155,68	1 030	922	648	+59	+42
1981	2,27	2,40	4,36	411,4	459,05	165,23	934	1 102	720	+30	+53
1982	2,67	2,15	4,69	442,6	520,85	179,27	1 182	1 120	841	+41	+33
1983	2,28	1,94	4,47	460,1	552,1	184,58	1 049	1 071	825	+27	+30
1984	3,02	1,97	5,44	450,9	557,45	182,73	1 362	1 098	994	+37	+10

Source: The Agricultural Situation in the Community 1982 and 1984 and Eurostat.

(1) Yield : weighted average yield all cereals.

(2) Prices: cereals : intervention price common wheat, barley, rye, maize.
oil seeds: mean of intervention price and target prices.

Table 7 - Cost to the Community budget per hectare for oil seeds and cereals

(ECU/ha)

Seed	1981/82	1982/83	1983/84 ⁽¹⁾	1984/85 ⁽¹⁾
Rape	480	648	198	319
Sunflower	495	655	301	359
Soya	500	710	459	684
Common wheat	290	390	252	278
Barley	165	340	244	285

(1) Approximate figures.

Table 8 - Average rates of aid for rape
and sunflower seeds

(ECU/tonne)

Year	Rape	Sunflower
1981	191	173
1982	230	241
1983	181	260
1984	83	148

Source: Eurostat and Commission
DG VI-Agriculture.

REPLIES FROM THE COMMISSION

A. General

With regard to the control systems adopted in each of the Member States concerning the aid scheme for oilseeds, the Commission has in recent years already taken action to make improvements along similar lines to those suggested by the Court in its Special Report at points 8.1 and 8.2.

As for the policy objectives referred to at point 8.3, the Commission plans to consider very seriously the points made by the Court when it is reviewing this sector - notably as part of the study work connected with the Green Paper (COM(85)333 final of 13 July 1985) and the subsequent work (Green Paper II - COM(85)750, pp. 13-14), and also following up the Joint Declaration annexed to the Act of Accession of Spain and Portugal concerning the adjustment of the "acquis communautaire" in the vegetable oils and fats sector (OJ L 302, 15 November 1985, p. 481).

The objectives pursued in recent years, referred to by the Court, can be summarized as follows:

- in the first place, that of a further slight increase in self-sufficiency with regard to cake and oil, thus reducing dependency on imports,
- secondly, that of ensuring maintenance of a proper level of production, providing the Community with sufficient protection against a serious crisis on the world market for the relevant products.

These objectives could be reviewed in the light of the work referred to above.

As the Court suggests at points 8.4 and 8.5, the work mentioned above will provide a further opportunity to assess the advantages and disadvantages in financial terms of the aid scheme for oilseeds, having due regard to the impact on other products, notably cereals. This study work has already led to results under the measures related to the 1986/87 agricultural price decisions, the Council having adopted the system of maximum quantities (see reply to points 6.17 and 6.18).

B. Replies to specific points in the report

SUPERVISION BY THE COMMISSION

5.1 All aspects of the implementation of the regulations are regularly discussed with the Member States' representatives. At these meetings, proposals for improvement of the effectiveness of controls are often made.

These questions having been discussed with the Court in 1984, the Commission has taken action to improve the situation. The description in paragraph 1 is now only of historic interest. Following observations made by the Commission in connection with preceding accounts clearance procedures, the German authorities have been carrying out since the autumn of 1984 on-the-spot checks during which officials verify the weighing and sampling of seed at point of intake. Also, the Commission has informed the German authorities that on the occasion of each marketing year, inspection of accounts should be supplemented by physical verification of stocks. Similar action has been taken with regard to the United Kingdom authorities, and the Commission has decided to correct the United Kingdom accounts relating to oils and fats, when the 1982 accounts are cleared. The Commission now takes the view that its analysis of the operation and verification of the arrangements in each Member State has made very substantial progress; the weaknesses noted by the Court for two Member States have been rectified.

The information required on the control measures in the Member States in which expenditure on oils and fats is heaviest was obtained by the Commission under accounts clearance procedures. In this connection, the Commission takes the view that it now has sufficient information on the implementation of Community regulations and the control procedures in the Member States to meet its obligations with regard to the clearance of the accounts.

However, it is true, that the Commission does not have, for all the Member States, information on all the national legislation concerning the application of the subsidy system for oilseeds. It is making every effort to remedy this situation, and to establish a mechanism for supervision of the control procedures which will operate more efficiently than in the past.

In particular, the Commission will remind the Member States of their obligation under Article 2 of Regulation (EEC) No 1594/83 to notify the Commission of all national procedures established.

CONTROL MEASURES IN THE MEMBER STATES

General

5.2 to 5.5. The Court's report does not mention the body of controls carried out by the Member States, in particular controls coming under the traditional responsibility of the customs departments. It should be stressed that these controls, when carried out properly, ensure that certain operations have complied with all requirements, and provide a maximum safeguard in advance for the Commission's staff against danger of fraud, more especially:

- control of the origin of imported seed,
- the calculation of the weight to be referred to,
- sampling and analysis,
- the constitution and release of securities.

The controls mentioned above are of key importance in view of:

- the substantial quantity of seed imported into the Community from non-member countries and therefore not ranking for Community aid,
- the large quantities of seed harvested in one Member State and processed in another Member State, which qualifies for the aid.

Control at the time the seeds enter the mill

5.3. With regard to the Court's comments on this question (and at point 5.5 - "Control over processing"), the Commission agrees with the Court on the need for rigorous verification on intake and systematic control during processing.

As indicated at point 5.1, the Commission has already ensured that physical controls will be tightened up in Germany; it has also taken action to ensure that such controls are strengthened in the United Kingdom.

Maintenance of stock accounts

5.4 The Commission agrees with the Court, which takes the view that the allocation of individual quantities of oil and oilcake to individual lots of seeds is unnecessary and time-consuming. Accordingly, the group of experts is now examining proposals to replace this arrangement by a "first in - first out" method which would have great advantages and would be in line with the Court's suggestions.

Control over processing

5.5 The Commission agrees with the Court that the reliability of the supporting documentation should be checked. It will draw the attention of the Member States to the Court's recommendation.

ECONOMIC FACTORS

Availability of data

6.10, 6.13 and 6.14. As the Court points out, the Commission has not had easy access to information on net income in the oilseed sector. But the lack of information has been a general problem and studies carried out have, overall, been too specific or too broad in scope to provide relevant analyses at Community level. As indicated at point 6.13 and 6.14, the Court has itself noted that only limited information was available and that such data as exist may not be entirely reliable.

The Commission agrees with the Court that the scope and quality of statistics available must be improved if they are to be used for market management purposes and for policy-making purposes.

In particular, and in view of the growing importance of oilseeds, the Commission agrees with the last sentence of point 6.14, to the effect that knowledge of the net financial return from crops would enable the legislative authorities to frame price proposals in the future better adapted to real economic circumstances, while also reflecting general objectives. It was for this reason that the Commission decided in 1985 to put in hand a study on "the production costs of key agricultural products". The Commission hopes that this study will yield Community information - i.e. harmonized information - which will be very useful for the framing of CAP measures.

Oilseeds and cereals: comparative situation

6.11 to 6.14 and 7.1 - 7.2. The Court's comparison of accounts for gross production per hectare of oilseeds and cereals (6.11 and 6.12) does not enable definite conclusions to be drawn in economic terms, because it oversimplifies production conditions:

- oilseeds are tending to replace cereals mainly in field-crop areas where the potential for cereals production is excellent; the productivity differences as calculated on average by the Court in Table 6 would be smaller there;
- the comparison, if it is to be significant in terms of the farmer's choice, must be made on the basis of farmgate prices and not the Community's institutional prices;
- the last point is that this approach neglects the factor of conditions of production, which are fraught with greater uncertainty in the oilseed sector than for cereals: although genetic breeding has made great progress, the stability of the varieties is not yet as great for oilseeds as for cereals; varieties of rape in particular and of sunflower now available are more sensitive to weather and harvesting conditions and more prone to disease.

Potential costs of increasing self-sufficiency

6.17 and 6.18. the Commission is aware of the heavy cost to the budget of the steady expansion of the oilseed crop and for this reason it proposed in 1982 a guarantee threshold for oilseeds, although Community production falls short of consumption. This threshold was adopted by the Council under the related measures connected with the 1982/83 price review (OJ L 162, 12.6.1982, Regulation (EEC) No 1413/82). When reviewing the prices for 1986/87, the Council adopted a system of maximum quantities which should operate more effectively than the guarantee threshold system.

A declaration attached to the Act of Accession of Spain and Portugal provides for amendment of the "acquis communautaire" in this sector.

A last point is that on 4 October 1983 the Commission also proposed the introduction of a levy on certain oils and fats (proposal published in OJ C 289, 25.10.1983). This measure was designed to step up revenue and thus enable expenditure in this area to be properly financed.

Determination of the world market price

6.20 Council Regulation No 115/67/EEC laying down criteria for determining world market prices is concerned with two main problems:

1. How the world market price properly so-called is determined (Articles 1 to 5): in the first place on the basis of the seed price itself; if there are no such prices (a common occurrence), the world market price is determined on the basis of the value of the oil and of the cake from the seed concerned.
2. How the world market price thus determined is adjusted, and the criteria for such adjustment.

The Commission interprets the Court's remark "... that the subsidy level has been frequently increased ..." as referring to this adjustment.

The adjustment, which may not exceed the difference between the crushing margin for the seed in question and that for a competing seed, is applied where the difference is liable to affect the normal disposal of seed harvested in the Community (Regulation No 115/67).

Accordingly, the Commission, when it makes the adjustments, be it to increase or reduce the aid, takes the view that adjustment is necessary in order to ensure normal disposal of production, which is at the same time the criterion and objective set by the Council.

The Commission would stress that it often adjusts the aid downwards, especially where the difference is likely to speed up excessively the disposal of Community seed and is also a source of unnecessary expenditure.

Guarantee threshold

6.21 to 6.23. The Commission agrees that it would have been more appropriate to adjust the target price rather than to introduce a guarantee threshold.

Instead of accepting the price reductions proposed, the Council preferred a substitution mechanism (guarantee threshold and maximum quantities).

The problem of the two markets

6.24 and 6.25. While recognizing that two separate by-products, oil and cake, are obtained from the crushing of oilseeds, the Commission takes the view that at the present time the only possibility is to establish support prices and aids for oilseeds alone, and not for the two different products.

It is pursuing its study of the Court's suggestion.