European Communities

EUROPEAN PARLIAMENT

Working Documents

1983 - 1984

27 April 1983

DOCUMENT 1-225/83

REPORT

drawn up on behalf of the Committee on Agriculture

on the proposal from the Commission of the European Communities to the Council (Doc. 1-107/83 - COM(83) 127 final) for a regulation amending Regulation (EEC) No. 804/68 on the common organization of the market in milk and milk products

Rapporteur: Mr D. CURRY

PE 84.149/fin.

English Edition

By letter of 24 March 1983, the President of the Council requested the European Parliament, pursuant to Article 43 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. 804/68 on the common organization of the market in milk and milk products.

On 11 April 1983, the President of the European Parliament referred this proposal to the Committee on Agriculture as the committee responsible.

On 16 March 1983, the Committee on Agriculture appointed Mr Curry rapporteur.

It considered the proposal and the draft report at its meetings of 21/22 March and 19/20 April 1983.

At the latter meeting it decided unanimously to recommend that Parliament approve the Commission proposal unamended.

The motion for a resolution as a whole was unanimously adopted.

The following took part in the vote: Mr Curry, chairman and rapporteur; Mr Früh and Mr Delatte, vice-chairmen; Mr Abens (deputizing for Mr Gautier), Mrs Castle, Mr Dalsass, Mr Diana, Mr Flanagan (deputizing for Mr Davern), Mr Helms, Mr Hord, Mr Howell, Mr Kaloyannis, Mr Marck, Mr Provan, Mr Sutra, Mr Vernimmen and Mr Vgenopoulos.

The report was tabled on 21 April 1983.

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

MOTION FOR A RESOLUTION

closing the procedure for consultation of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation amending Regulation (EEC) No 804/68 on the common organization of the market in milk and milk products

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council (COM(83) 127 final),[1]
- having been consulted by the Council pursuant to Article 43 of the EEC Treaty (Doc. 1-107/83),
- having regard to the report of the Committee on Agriculture (Doc. 1-225/83),
- having regard to the result of the vote on the proposal from the Commission,

1. Approves the proposal for revision of Regulation (EEC) No 804/68 to permit the Community to assume the full financing of aid for supplying schoolchildren in schools with processed milk products, and asks for its implementation from 1 August at the latest;

2. Notes that the mechanics for the payment of the aid vary between Member States and that this mechanism may prove either an incentive or a disincentive to educational institutions to adopt the programme to use processed dairy products for catering or for sale. Therefore instructs the Commission to require the agency(ies) in each Member State responsible for the payment of the aid to make payment no later than monthly in arrears subject to submission of verifiable statements of quantities and values of products supplied;

3. Notes that the attractiveness and efficiency of the scheme would be improved if there were more flexibility in nominating legitimate recipients of the aid. Therefore instructs the Commission to make the necessary proposals which would permit dairies or other food processing companies to supply processed dairy products net of subsidy and to claim the aid directly from the relevant Community agency in the Member State. Asks

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[1] OJ No. C 75 of 19.13.1983, p. 4

further that, where parents associations have a legally recognised role and are able to provide proof of financial viability, they should be eligible to receive the aid;

4. Requests the Commission to study urgently the extension of the scheme to institutions of tertiary education so that a decision on such an extension may be taken in the course of the 1984-85 price-fixing;

5. Believes that the range of products eligible for aid is too restricted. Therefore instructs the Commission to propose the inclusion of the following products:

   Cottage or natural white cheese made from skimmed milk on the same basis as skimmed milk yogurt;

   Yogurt with a 75 per cent milk content by weight with the subsidy reduced pro-rata from that available for yogurt with an 85 per cent milk content;

   Milk-based deserts on the same basis as yogurts depending on whether they are made from whole, semi-skimmed or skimmed milk;

   Whipping cream with a 40 per cent minimum fat content;

6. Notes the importance of guaranteeing the continuation of the scheme both for commercial and administrative reasons. Therefore calls on the Commission to roll the scheme forward annually for periods of not less that five years, subject to adjustment in the light of consumer preference and price movements within the CAP;

7. Instructs its President to forward to the Council and Commission, as Parliament's opinion, the Commission's proposal as voted by Parliament and the corresponding resolution.

B

EXPLANATORY STATEMENT

Introduction

The Community's programme to subsidize the consumption of dairy products in schools illustrates the most characteristic vice of bureaucracy: the ability to stifle and choke a good idea by unnecessarily complex rules of administration and monitoring. It appears to be the particular vice of the Commission that while literally millions of ecus are wasted on the most economically useless schemes which enjoy some sort of political protection, schemes which do make economic sense are subject to rules of surveillance which operate as disincentives.

It is too easily forgotten that the people who have to operate the Community's schemes often have to work within very narrow budgets and have very diverse responsibilities. This may be particularly true of officials in local government and it must be remembered that in parts of the Community education is still almost entirely a matter for local decision. Decisions whether to make use of the school milk scheme may be taken by literally hundreds of people - and this means that it is essential to have schemes which place the least additional burden upon them and which are simplified to the bone to operate.

In the opinion of the rapporteur, the school dairy products scheme suffers from three failings which will not be corrected by the changes proposed by the Commission. These are:-

i) too great a delay in the payment of the subsidy to the authority concerned, thus creating a cash-flow problem and putting pressure on financial margins;

ii) too great a diversity of rules governing the products which are eligible for subsidy;

iii) an inadequate range of eligible products. If the scheme is to be successful the products eligible for subsidy in schools must be the same as are available in the commercial marketplace. If this is not the case, there is a much reduced possibility of students continuing the habit of consuming dairy products into adult life.

For example, when there is obvious concern about children (and adults) being overweight in certain countries and where the trend in the commercial market is therefore towards low-fat products, it is absurd to insist on minimum fat contents for products subsidized into school meals. The real choice may well not be between a product which has a 40 per cent minimum fat content or lower fat content: it may be between a low-fat product or nothing at all.

Your rapporteur, while approving the financial changes proposed to the scheme by the Commission, will, therefore, be suggesting changes to the administrative arrangements which will:-

i) accelerate the payment of subsidy;

ii) harmonize the rules governing eligible products;

iii) widen the range of products made available.

The existing scheme

Dairy products are subsidized for two basic purposes: for incorporation into prepared school meals; and for sale to students. The subsidy varies according to product as follows (as at 1 June 1982):

Product	Subsidy in ECU	Illustration of subsidy (UK)
Whole milk and whole milk yogurt	30.16 ECU	87.3686 pence per gallon
Semi-skimmed flavoured milk and yogurts	17.40 ECU	50.4049 ce per gallon
Skimmed milk yogurt	7.47 ECU	21.6394 pence per gallon

Cheese: cheese is subject to a coefficient, based on whole milk and varying from 4.5 to 11, depending on type of cheese.

Butter is available for educational institutions at subsidised prices under an entirely separate scheme.

The original subsidy for the school dairy products scheme was 100 per cent of the target price (prix indicatif) for milk. Member States were asked to contribute 25 per cent. Last year, Community participation was increased to 112.5 per cent and the national contribution reduced correspondingly.

The Commission is now proposing to assume the full subsidy (125 per cent of the target price) and to eliminate the national contribution.

The payment of subsidy

The problem of reimbursement, it must be noted, is not attibutable to EEC rules. But the attractiveness of the scheme is obviously greater where the subsidy is paid promptly than where, like the UK, reimbursement takes place after three months. The reimbursement agencies must be obliged to make payments on the same basis throught the Community. This problem is, of course, part of a far wider one of the interpretation of Community rules. But it is a good place to begin to achieve a more effective common system.

The scheme will become more attractive if more flexibility is introduced into the rules. Your rapporteur therefore proposes that the subsidy shall be eligible to be paid to:-

i) the dairies or commercial enterprises who supply products to the schools. The local education authority or other educational authority shall assign its subsidy to the supplying concern which shall be able to deliver products net of subsidy to the school. This will place the obligation to supply products in conformity with EEC rules on the supplier;

ii) associations of parents where such bodies have, or can acquire, a legal status and are able to provide a guarantee of their financial good standing;

iii) individual schools themselves under similar guarantees as ii) above.

Subsidies should be paid within 10 days of the presentation of claim, these claims to be presented every month. Monthly payments are already the rule in a number of other subsidized schemes.

The products

The Commission is afraid of a conflict of interest between food manufacturers who are anxious to supply sophisticated products with a high added value - but which would tend to have a lower raw material content. It, therefore, wishes to give priority to products with a high milk content with a preference for whole milk. But this creates a problem. Cottage cheeses, for example, would be eligible if they had a 40 per cent minimum fat content. But, by definition, cottage cheese does not have this fat content. It is a low-fat product.

Similarly, it is demanded that yogurts have an 85 per cent milk content. But in a number of Community countries commercial yogurts are sold with a 75 per cent milk content because of the popularity of fruit-flavoured products which contain more sugar and fruit (both of these being Community products in surplus).

Custard-type puddings - e.g. chocolate flavoured aromatised deserts - must have a 90 per cent by weight milk content. But, to simplify the life of administrators and suppliers, why not harmonize this content with that demanded for yogurts which occupy the same role in the school meal?

Your rapporteur recommends that the following products should be eligible for subsidy:-

i) cottage or natural white cheese made from skimmed milk to receive the same subsidy as skimmed milk yogurt;

ii) yogurt with a 75 per cent milk content by weight with the subsidy reduced pro-rata from the 85 per cent milk content;

iii) milk-based deserts on exactly the same basis as yogurts, that is depending on whether they are made from whole, semi-skimmed or skimmed milk;

iv) whipping cream with a 40 per cent fat content.

Your rapporteur also recommends that the scheme be rolled forward year by year: that is, each year it should be reaffirmed t the scheme will continue for a specified number of future years. The fear that the scheme will stop inhibits some authorities from implementing it because the elected local representatives do not wish to authorise the necessary expenditure to implement it, or make the necessary arrangements with school staff, only to have it cancelled.

He also calls for regular reviews of the maximum selling price rules and the level of subsidy in order to maintain the real level of support.

He approves the over-due decision to allow sufficient flexibility to permit a small level of staff consumption of products without a "clawback" of subsidy. Like dog licence fees in the UK, the income/saving from such a rule is simply not worth the administrative fuss of observance.

Financing the scheme

The present scheme costs 89.5 m ECU annually for a consumption of 300,000 t of milk equivalent.

Increasing EEC participation to 125 per cent of the guide price would cost 100.5 m ECU on the basis of the same consumption.

It is hoped that consumption will increase by 25 per cent over two years. Your rapporteur, who is deeply suspicious of Commission fore-casting, merely records this estimate without comment.

Two thirds of the cost of the school milk and dairy produce scheme is financed from the income of the co-responsibility levy, but as the Agriculture Committee has been told on several occasions, notably by the Director-General for Agriculture, that co-responsibility funds are being used as part of the normal income of the Community to finance export refunds, your rapporteur feels that allocating particular revenue flows to this scheme is largely presentational. Like all schemes, if they are worthwhile economically they should be a charge on the general budget and if they are not they should not exist in any case.

Those MEPs who believe that co-responsibility revenues should be used exclusively for promotion and development within the dairy sector will know that the rate of spend of such income is well below revenue and that any additional cost in the school schemes resulting from higher consumption can be accommodated comfortably from hypothecated co-responsiblity revenue.

In a recently circulated document (COM(83) 33 final on the use of co-responsibility funds for the 1983-84 milk year) the Commission notes that estimated revenue is 387 m ECU. Total CRL revenues from September 1977 to the end of 1981 were in the order of one billion ECU, representing just over 5 per cent of FEOGA spending in the milk sector.

In the school milk sector CRL funds have financed expenditure totalling 10.3 m ECU in 1978; 30 m ECU in 1979; 45.7 m ECU in 1980 and 41.4 m ECU in 1981. The Commission estimated that for the 1983-4 milk year the school milk programme would require 97.5 m ECU of which two thirds would come from the levy. This is on the basis of a Community contribution of 112.5 per cent of the target price according to Regulation 1188/82 of the Council. This, together with the rise in the target price to 26.81 ECU/100 KG results in a level of aid of 30.16 ECU/100 KG of whole milk.

It is estimated that the deliveries to schools will be about 400,000 tonnes of whole milk equivalent significantly higher than existing deliveries requiring a cost of 120 m ECU, of which some 90 m are intended to come from CRL funds, including 5 m ECU to finance a pilot project concerning the distribution of drinking milk to schools in certain regions of Greece and Southern Italy.

Raising the Community contribution to 125 per cent of the target price will have the effect of increasing the cost by some 5 or 6 per cent if the new measure is applied from the autumn term. However, it is clear that there is a great deal of guess-work, and probably some wishful thinking, in the Commission's habitually imprecise arithmetic.