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COMMON ORGANISATION OF THE MARKET IN THE COTTON SECTOR

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1. GENERAL

For the European Union, cotton constitutes a crop of limited importance, both from the point of view of area and from the number of producers.

In regions of Greece and Spain, where production is centred, this cultivation has taken on a particularly important social and economic role. In 1992 the share of cotton in total agricultural production in Greece was in the order of 9.4 %, while in Spain the share was in the order of 0.9 % (average 1989-91).

Areas of the Community under cultivation with cotton increased from 311,500 ha in 1991 to 397,200 ha in 1992, 383,300 ha in 1993, and 422,600 ha in 1994.

It should thus be noted that, during 1993 and 1994, the extent of the area under cultivation with cotton in Spain exhibited a clear downward trend (only 32000 ha and 40000 ha respectively), owing to protracted drought.

By contrast, in Greece, the area under cultivation with cotton increased markedly:

2330,00 ha in 1991/2, 321,2000 ha in 1992/3,
352,000 ha in 1993/4 and 382,000 ha in 1994/5.

The degree of self-sufficiency of the European Union in cotton fibres is in the region of 25-30 %, while its consumption reaches 1.25 million tonnes.

Given that the European Union has a much larger textile-manufacturing capability where its production of fibres is concerned, it imports significant quantities of ginned cotton, mainly from the United States, India, Pakistan, Syria, Turkey, Uzbekistan and Argentina.

2. ADJUSTMENTS TO THE SYSTEM OF AID

2.1. Introduction

The Council, aware of the problems which have been created by the system of stabilisers for Spanish producers and because of variations in the evolution of production in the producer-Member States, gave an undertaking that from December 1993 it would look for a system more at par for the trade period 1995/96 onwards.

The Commission, following an order by the Council, examined the workings of the system which was defined by protocol no. 4 of the Act of Accession of Greece, as this was supplemented after the accession of Spain and readjusted by means of Regulations (EEC) 1964/87 and 2052/92.

Out of the results of the investigation there arose the need to adjust the existing system, without however changing the basic structure of the system of aid. The new system will be applied during the period from 1995/6 to 1999/2000.

2.2. Prices, aid, quality type

The period of trade is the same as under the old system, i.e. from 1st September to 31st August.

An estimation of production will take place before 1st October, in concordance with the declarations made for the sowed areas, and will be finalized before the end of June of the current period, taking into main consideration the quantities for which aid has been sought.

In order to extend to the traders the possibility of establishing production and processing programmes on a more long-term basis the guide price, as well as the minimum price which is paid to the producer, is no longer determined on a yearly basis, but for all the period during which the new system is valid.

- The guide price has been set at 106.30 ECU/100 kg of unginned cotton (reduction of 13.2 %) and applies to cotton with certain quality characteristics ("quality -type"), which are:

10 % moisture content, 3 % impurities, 32 % yield in fibres of category no. 5 and width of the fibres 28 mm.

The minimum price to the producer, which comprises 95 % of the guide price, has been set at 100.99 ECU/100 kg and refers to a product of "quality -type", as does the guide price. It is this price, at the least, which the ginner must pay to the producer if he is to receive the aid.

The aid is determined on the basis of the difference between the guide price for unginned cotton and its price on the international market. Because of the absence of international transactions in unginned cotton its international price, which is determined once every month (in a case of a significant alteration in the state of the market it can be amended in the intervening interval), is arrived at by taking into account the historical connection between the price on the international market of ginned cotton and the price which is calculated for unginned cotton.

Thus the price on the international market of unginned cotton is equal to:

- 20.6 % of the price on the international market of ginned cotton if this is
< 110 ECU/100 kg
- 23.0 % of the price on the international market of ginned cotton if this is
>110 ECU/100 kg & <130 ECU/100 kg
- 24.4 % of the price on the international market of ginned cotton if this is
> 130 ECU/100 kg

The amount of the aid is calculated in ECU/100 kg of unginned cotton, and notwithstanding the fact that it is incorporated into the minimum producer price it is paid to the ginning enterprises

(in the national currency) for reasons of administrative simplification, and refers to a product of the "quality -type".

The amount of the aid to be paid is that which is valid on the day on which the application for aid is submitted.

Applications for aid are submitted by the ginning enterprises between 1/9 and 31/3 of every trade period, but not before the submission of an application to place the cotton for inspection.

Thus, if the application for aid has been submitted between 1st and 15th April, the amount of aid granted is that which was in force on 31 March, with a reduction of 1% for each working day it was submitted late.

The right to aid is acquired at the moment of ginning. Thus the aid can be paid in advance, on application, from 16th October (when it follows the beginning of the trade period), right from the entry of the unginned cotton into the ginning mill, on condition that a guarantee has been given which is at least equal to 110 % of the amount of aid that is being advanced.

The amount of the aid advanced is determined by the Commission on the same day on which the price on the international market is determined, on the one hand taking into account the estimate of production, increased by 15 %, of unginned cotton, and on the other, the amount of the aid envisaged (interim aid).

If, after the determination of final production (after the end of June) and the definition of the final amount of the aid (before 15th July), there is a residue of aid (increase in the amount of aid), this is paid to the ginners at the latest before the end of the trade period.

The aid is granted to the ginning enterprises which have made the relevant application, and on the basis of the yield of ginned cotton in fibres. That is, if the quantity of ginned cotton which has been produced is lower than or equal to 33 % of the quantity of unginned cotton which has been brought to the ginning enterprise, the aid is given on the quantity of ginned cotton multiplied by 100 and divided by 32. In the case of yields of above 33 % a yield of 33 % is used for the calculation.

The ginning enterprises are also obliged to have deposited, together with the application for the granting of aid, an agreement which provides for its payment to the producer, at a price at least equal to the minimum price (100.99 ECU/100 kg). This price is to be adjusted:

- on analogy with the percentage by which the guaranteed quantity is exceeded (responsibility) and
- on analogy with the difference in quality between the cotton yielded and the cotton of the "quality - type".

This adjustment takes place after common agreement of the parties concerned, since Appendix B of Regulation 1201/89 concerning the increases and reductions in the price on the basis of "quality -type" has been abolished.

2.3. Stabilisation (responsibility)

It is well-known that where the full coverage of the difference between Community and international prices by means of the aid granted was concerned, no reference was made to any level of Community production of ginned cotton. More particularly, the institution of a "threshold" of production (Maximum Guaranteed Quantity - MGQ), had as its result a reduction in the aid comparable to the amount of the excess defined by the Council (responsibility).

A study of the implications of the cultivation of cotton for the regions where it is grown shows the necessity of an increase in production in those zones of the Community which are more suited to its cultivation, also taking into account the requirements of the Community where cotton fibres are concerned.

For these reasons a decision was taken to make an increase in the Maximum Guaranteed Quantity for which the aforementioned aid is granted, and to distribute it to the producer-member states.

This quantity has been determined for every trade period at 1,031,000 tonnes of unginned cotton, compared to 701,000 tonnes as it was after 1992/3. This MGQ is allocated to Greece and Spain (National Guaranteed Quantity - NGQ) as follows:

Greece: 782,000 tonnes

Spain: 249,000 tonnes

For the other Member States there is a provision of 1,500 supplementary tonnes by virtue of the country of production.

If in one trade period real production exceeds the Maximum Guaranteed Quantity, then the guide price for the same period is reduced in each Member State in which the production exceeded the National Guaranteed Quantity.

The rate of the reduction is equal to half of the amount in excess of the National Guaranteed Quantity.

The amount of the reduction (responsibility) is calculated by the Management committee on the basis of the amount by which the MGQ is exceeded and on analogy with the variation between real production in each Member State and the National Guaranteed Quantity for that state.

Hence, under certain preconditions, the above mentioned amounts of the MGQ and the NGQ are increased to:

MGQ: 1,120,000 tonnes of unginned cotton

NGQ: - Greece 850,000 tonnes

- Spain 270,000 tonnes

These quantities function as "thresholds" in the event of an increase in the amount of the aid which was reduced because of excess.

In particular, when in one trade period:

a) an excess of the MGQ is recorded and for this reason there is a reduction in the aid,

b) the weighted average price on the international market which is taken into account for the determination of the amount of the aid to be paid exceeds 30.2 ECU/100 kg (reference price on the international market for unginned cotton which the Commission uses to make the relevant calculations for the revision of the system in question)

c) the total fiscal expenditure for the system of aid is lower than 770 million ECU,

then the amount in ECU which is left over from the variation referred to in (c) above is used to increase the amount of the aid to the Member State in which real production has exceeded the National Guaranteed Quantity (augmentation of the amount of aid).

This augmentation is equal to the result of the division by a numerator of the difference between the total expenditure in the Budget for the sector of cotton (system of aid) and 770 million ECU, and a denominator of the real production of the Member States which have produced an excess of the NGQ.

Certainly the augmentation, as has been mentioned, cannot exceed:

- * the amount of the aid which is paid when an excess of the MGQ of 1.031.000 tonnes has not been observed, nor
- * the amount of the aid which is calculated by the application of the responsibility mechanism, but on the basis of the quantities expressed in the MGQ and NGQ as expressed above (i.e. MGQ : 1,120,000).

In a case in which real production in Greece and Spain exceeds the NGQ and in one of these Member States the augmented amount of the aid exceeds one of the above upper limits, the amount which is applicable to this Member State is equal to that which represents the lower upper limit.

The amount of the augmented aid is applicable to the other Member State, with the addition of the amount of the difference between the augmented aid for the first Member State and the lower upper limit at which it was applied.

2.4. Controls

The Member States operate a system of controls in order to:

- establish the quantity of unginned cotton which is brought to every ginning enterprise, the quantity which has been ginned, as well as the correlation between the two quantities.
- check that the minimum price to the producer is maintained.

2.5. Aid to small producers

The special system of aid for small producers of cotton which was implemented from the trade period of 1989/90 led to the creation, over the course of the passing years and in particular in Greece, of a multitude of small producers, owing to the fragmentation of applications. In this way the structure of production was altered, impeding the achievement of the desired goal - that is partial compensation for the consequences of the stabiliser for this category of producers.

Thus, a decision was taken to abolish this system from 1st September 1995, and to incorporate its fiscal cost in the total value of the support given to the sector.

The results of the working of the system described above will be presented in a report drawn up by the Commission. If it becomes necessary eventual adjustments to the system will be decided upon, taking into account the experience accrued from the workings of the system in question and of the system of aid for areas of ploughed cultivation.