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**REPORT FROM THE COMMISSION TO THE COUNCIL**

**on the production and marketing of hops  
(1998 harvest)**

(presented by the Commission)

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## 1. INTRODUCTION

Article 11 of Regulation (EEC) No 1696/71 requires the Commission to present to the Council an annual report on the production and marketing of hops. The purpose of the report is to provide information on trends in production, prices and demand.

This, the 28th such report presented by the Commission, outlines the main events of the 1998 harvest year, focusing on the salient facts.

## 2. 1998 HARVEST

### 2.1. World situation

#### 2.1.1. Production

In the world as a whole, the area under hops is still on a downward trend.

The total area was approximately 71 500 ha, some 24 370 ha of which was in the European Union (see Table 1). Production in China was also substantial, but can only be roughly estimated, as no precise figures are available.

The area under hops in IHGC (International Hop Growers Convention) and EC countries decreased by 14.89% (-9 575 ha). This included reductions of 2 414 ha in the European Union (in particular in Germany (-1 698 ha)), 2 708 ha in the United States and 1 754 ha in the Czech Republic.

At around 2 234 000 Ztr<sup>1</sup>, the 1998 world harvest was lower than in 1997 (-10.71%). Quality was lower, with an alpha acid content of 6.29%; total alpha acid production fell by 2 274 t to 7 026 tonnes.

The quantities produced in 1998 were substantially lower than the average for the last twenty years.

With regard to beer production, although Europe continues to lead the field (8.8% for Germany and 24.3% for the rest of Europe in 1999<sup>2</sup>) the market shares are increasing in other parts of the world such as Central and South America, and above all Asia.

World-wide, beer production is estimated at 1 300 million hectolitres for 1999. For hopping at a rate of 5.8 g/alpha/hl beer, breweries require around 6.4 g/hl, the difference being accounted for by losses in storage and at the hop-processing stage. Therefore 8 320 tonnes of alpha acid are needed for this volume of beer and the quantity produced during the 1998 harvest thus falls short of requirements (1 294 tonnes). This is not too serious, since breweries appear to have sufficient stocks to cover their needs for 15 months. It should be added that less alpha is needed than previously as a result, on the one hand, of a trend towards manufacturing less bitter beers and, on the other, of constant technological progress.

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<sup>1</sup> 1 Ztr = 50 kg.

<sup>2</sup> Estimates from the Hopsteiner Report.

World-wide there has for some years been overproduction of hops in relation to the needs of the breweries. For this reason the countries of the IHGC - all the EU producer Member States with the exception of Austria and Ireland - proposed that 30% of the area under hops in 1996, i.e. 18 000 ha, be grubbed. A total of 6 300 ha (10%) was grubbed in 1997. In 1998 the area under hops was reduced by a further 9 575 ha in the countries of the IHGC.

### *2.1.2. Market trends*

The world market is dominated mainly by the EU - in particular by Germany - and the United States.

Average prices in America fell (USD 1.62/lb (453.59 g), i.e. USD 178.58/Ztr, or EUR 151.48/Ztr); although the yield was higher than in Europe (1.82 tonnes/ha, as against 1.43 tonnes/ha), average returns per hectare were around the same (USD 6 505.56/ha, i.e. EUR 5 518.33/ha, as against EUR 5 539/ha in the EU).

Forward contracts, which show a long-term downward trend in terms of quantity, duration and price, have proved after all to be a good system for ensuring income security because prices are fixed in advance for a number of years for certain varieties and quantities, while contract prices tend to be higher than spot prices (see Tables 2 and 5). On the face of it, it may seem surprising that brewers should choose to go on buying hops under contract when, by taking advantage of the fact that prices on the free market have - especially since 1993 - tended to be lower, they could buy the same hops at an average of half the price. The fact of the matter, however, is that the free market is entirely unpredictable from a production and marketing point of view; hop production can be adversely affected by the weather (drought, excessive rainfall, strong winds or storms) and can suffer severe damage as a result of attack by parasites. Under the contract system, brewers are guaranteed supplies at prices known well in advance, and this is a major factor when it comes to planning expenditure over the long term.

A point some members of the IHGC are particularly concerned about is the price-fixing procedure for aromatic varieties based on kilos of alpha rather than on the aroma itself.

## **2.2. Community situation**

### *2.2.1. Production structure*

As in agriculture as a whole, structural change in hop-growing has continued. There are now 3 818 holdings growing hops in the Community (see Table A), a 7.40% fall compared with 1997. At the same time the average area under hops has remained practically unchanged. Almost 300 farms have stopped growing hops in the Community.

### *2.2.2. Production*

The area under hops in the Community continues to fall year by year. It was 24 371 ha in 1998, i.e. 2 414 ha (9%) down on 1997 (see Tables 1 and 6), most of it in Germany (19 683 ha, or 80%), and there too areas were 1 698 ha, or 7.94%, down on 1997, a figure which matches almost exactly the areas rested and grubbed (see 3.2).

The reduction in the area under hops is a natural consequence of the increase in alpha yields.

At present, aromatic varieties account for 60.57% of the area, with Perle the most popular (25% of the aromatic area). Of the aromatic varieties for which there were large reductions in area, the most significant are Hersbrucker Spät (-696 ha, i.e. -22.42%), Hueller (-58 ha, i.e. -61.05%), Perle (-362 ha, i.e. -9.08%) and Spalter Select (-110 ha, i.e. -7.66%) in Germany and Challenger (-79 ha, i.e. -27.43%), Progress (-61 ha, i.e. -33.52%) and WVG (-53 ha, i.e. -32.32%) in the United Kingdom. In France, Strisselspalt increased by 35 ha, i.e. 5%. Bitter varieties accounted for 38.16% and other varieties for 0.27%.

The share of bitter varieties was slightly up in 1998, at the expense of the other varieties. Of the bitter varieties, Hallertauer Magnum was the most popular (3 425 ha, i.e. up 399 ha (13.19%)), followed by Northern Brewer (2 294 ha, which represents a fall on 1997 of 689 ha (-23.09%)). Next in popularity were Nugget (1 269 ha), Target (820 ha) and Brewer's Gold (246 ha). The area under the latter two varieties also fell, by 41 ha and 317 ha respectively. For the bitter varieties the general trend is towards increased production of the super-alpha varieties - which are more in demand on the markets - such as Hallertauer Magnum and, especially, Hallertauer Taurus the area under which was 783 ha up on 1997.

Quantitatively the 1998 harvest was significantly lower than the 1997 harvest (-9.74%). At 755 890 Ztr, average yield was 1,55 tonnes or 31 Ztr per hectare, i.e. identical to the previous harvest.

Quality was good and alpha acid content was around 7.5% on average for the Community as a whole for the three types of varieties, giving 2 853 tonnes, or 117 kg per hectare, of alpha acid for beer production in 1999.

### 2.2.3. *Sales and prices*

#### *Sales under contract*

Overall, the average price for hops sold under contract was EUR 197/Ztr, EUR 5/Ztr less than for the 1997 harvest, ranging from EUR 150/Ztr in Spain to EUR 365/Ztr in Ireland. Both Spain and Ireland sold their entire production under contract (see Table 6).

Contract prices have been fairly stable in Germany in the last 20 years. Contract prices in the other producer countries were lower, however, particularly in France (EUR 245/Ztr in 1997 and EUR 211/Ztr in 1998, i.e. down EUR 34/Ztr, or -13.88%). The exceptions were Belgium (up EUR 4/Ztr) and Spain (up EUR 7/Ztr), where contract prices remain above the Community average.

A total of 73% of the 1998 crop was sold under contract (see Annex, Table 5), showing little change compared with 1997. Belgium was well below this average at 23%. No sales under contract were made in Portugal.

As usual, the highest average prices under contract were for the aromatic varieties (EUR 211/Ztr). The varieties fetching the highest prices were Bramling Cross, Challenger, First Gold, Fuggles, Goldings and Progress. The euro prices of these varieties, chiefly grown in the United Kingdom, were higher than the average prices for

the aromatic varieties. However, in national currency the British prices fell considerably. This difference can be explained by the sterling/euro exchange rate. Contract prices of EUR 213/Ztr were recorded for Strisselspalt, which is grown only in France. Hersbrucker, which accounted for about 16% of the area under aromatic varieties, was among the varieties fetching the lowest prices (contract price EUR 162/Ztr).

For bitter varieties, the average price for sales under contract was EUR 174/Ztr, the varieties that fetched the highest prices in this group being Buket (grown only in Austria), Herald and Northdown, the latter two varieties being grown mainly in the United Kingdom. Contract prices for Nugget were practically unchanged.

### Sales on the free market

The average spot price for hops sold on the free market was considerably higher than the previous year - EUR 92/Ztr, compared with EUR 64/Ztr in 1997 - and fairly close to the average price recorded for the 1996 harvest, although here too, prices differed markedly from one Member State to another, ranging from EUR 85/Ztr in Belgium to EUR 180/Ztr in France (see Table 6).

In Germany, free market prices have shown wide fluctuations in the last 20 years, reaching a low of DEM 119/Ztr (1997 harvest) and a high of DEM 1 400/Ztr (1980 harvest).

Free market prices were lowest for the other varieties (EUR 80/Ztr) and aromatic varieties (EUR 81/Ztr), but much higher for the bitter varieties (EUR 103/Ztr).

Free market prices for Nugget rose from EUR 62 to EUR 90/Ztr (45.16%). A fair number of growers were attracted by this variety with its high alpha acid yield, and this had led to an abundant supply on the world market, mostly originating in the United States, where the area under Nugget is now beginning to fall to be replaced by the super-alpha varieties such as Columbus.

Prices on the free market were significantly up in Germany (41.67%) and Belgium (71%) and down in the other countries, in particular Austria (-46.24%).

Of the widely-grown varieties, the one which fetched the lowest prices, as it has since the 1993 harvest, was the Hersbrucker aromatic variety, which was previously very popular with the Americans, but has for some time suffered from a definite slowdown in demand as American buyers move on to other varieties such as Spalter Select and Hallertauer Tradition. These two aromatic varieties, each one a product of the Hüll Research Institute in Germany, show signs of experiencing the same fate as the Hersbrucker variety, to the benefit of the Hallertauer Mittelfrüher variety. Thus while Hersbrucker has been selling for only EUR 55/Ztr on the free market, the prices for the two new aromatic varieties have been no better (EUR 55 and EUR 52/Ztr, respectively), which is still lower than the Community average for aromatic varieties.

Of the eight hop-producing Member States, three - Belgium, Germany and Portugal - sold at spot prices that were below the Community average (all varieties taken together).

Practically the whole of the 1998 harvest was sold.

The official figures indicate that, of the 755 890 Ztr produced in the Community in

1998, only 5 198 Ztr (0.69%) remains unsold. Ireland and Spain sold their entire production under contract for an average of EUR 365/Ztr and EUR 150/Ztr respectively (see Table 5), followed by Austria, which sold 91% of its production under contract for an average of EUR 246/Ztr.

#### 2.2.4. *Returns*

These were similar to 1997. The average return per hectare in full production in 1998 was EUR 5 539 compared with EUR 5 528 in 1997 (+0.19%).

At Community level, returns were again highest for the aromatic variety group (EUR 5 759/ha in full production, 3.29% down on the previous year). However, Belgium recorded increases for these varieties.

The most profitable aromatic varieties were, in France, Strisselspalt (return of EUR 7 098/ha in full production), and in the United Kingdom Challenger (EUR 10 330/ha in full production), Goldings (EUR 11 120/ha in full production) and Fuggles (EUR 9 237/ha in full production). Céleia, which was grown only in Austria and sold entirely under contract, also produced returns of around EUR 12 278/ha in full production.

Returns increased for the bitter variety group (+6%), reaching EUR 5 191/ha in full production, with returns nevertheless falling in some producer Member States, namely Ireland (-8.31%), Austria (-10.22%), Portugal (-43.30%) and the United Kingdom (-15.71%). In Portugal, this drop in returns was due exclusively to the fall in the price of Nugget, the only variety grown there and sold entirely on the free market. Average returns for other varieties, grown mainly in Germany (60 ha) and to a small extent in the United Kingdom (5 ha), increased by 14.75%. As these varieties are cultivated on only a small area, their impact on overall returns for producers was negligible.

### **3. THE COMMON ORGANISATION OF THE MARKET IN HOPS**

#### **3.1. Specific arrangements and role of the producer groups**

In 1971 a common organisation of the market in hops was established by Regulation (EEC) No 1696/71. The aim was to improve product quality and safeguard the standard of living of hop growers. Since it was quite deliberately decided to make no special arrangements for external trade or intervention, the Community hop sector is highly exposed to competition on the world market.

The essential aspects of the basic Regulation, which were dealt with in greater detail by subsequent, more specific Council and Commission Regulations, are: the marketing of hops via a certification procedure and a forward contract system; the recognition and promotion of producer groups; and trade with third countries. The Regulation also lays down aid arrangements for Community-grown hops. The aid, which is worth EUR 480/ha up to and including the 2000 harvest, combines two amounts available under the previous scheme, i.e. aid to producers and aid for varietal conversion. Producer groups can decide whether to pay all the aid to their members in proportion to the area cultivated or only a percentage of between 80% and 100%, depending on whether there are still applications pending in respect of varietal conversion or possibly other measures to be implemented (see point (c) below).

On the occasion of the penultimate amendment of the basic Regulation, i.e. when Regulation (EC) No 1554/97 of 22 July 1997<sup>3</sup> was adopted, the role of the producer groups was strengthened by introducing:

- (a) the possibility for members of recognised producer groups to market all or part of their produce themselves, without any penalty in the form of a reduction in the aid, where they are authorised to do so by the group. The latter has the right to monitor prices negotiated between producers and traders and can grant or refuse approval for the conclusion of contracts. If it disagrees with the prices proposed, the producer group is under an obligation to take over the hops at a higher price and find another purchaser;
- (b) the possibility of carrying out varietal conversion on a permanent basis, i.e. with no limit in area or time, payment being covered by the flat-rate aid per hectare mentioned above. The funds allocated to that end are decided by the producer group in line with its requirements and subject to certain limits (see point (c) below);
- (c) the possibility of withholding up to 20% of the aid to producers to implement special measures. Such measures involve the rationalisation and mechanisation of cultivation and harvesting, adoption of common rules on production (cultivation techniques, fertilisers, varieties, etc.), varietal conversion, promotion, measures to determine and improve quality, research and "intervention" as referred to above. The objective of the measure is to ensure the producer group has some latitude in managing the aid, with the option of using the full 20% of the aid for the purposes of varietal conversion.

Should producer groups not market their members' entire production, this possibility becomes an obligation, the percentage in that case continuing to stand at 20%.

### **3.2. Special temporary measures for hops**

On 25 May 1998 the Council adopted Regulation (EC) No 1098/98 introducing special temporary measures for hops<sup>4</sup>.

The market in hops is currently in surplus, for both short-term and structural reasons. Production should therefore be curbed by reducing the area cultivated in the Community.

Measures adopted to rectify the situation over a period of five years, starting with the 1998 harvest, involve temporary resting and/or permanent grubbing-up.

To achieve this, producer groups are to be given greater latitude, without exceeding the current budget allocation.

Both measures are optional for Member States, producer groups and individual producers.

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<sup>3</sup> OJ L 208, 2.8.1997, p. 1.

<sup>4</sup> OJ L 157, 30.5.1998, p. 7.



They will be implemented in the following ways:

- temporary resting and permanent grubbing-up are included among the special measures that may be introduced by producer groups in order jointly to match production to market requirements,
- producer groups will pay a financial contribution, to be taken from the amount withheld from the aid paid to producers (which may not exceed 20%). This contribution will partially offset the real cost of applying these measures and the loss of income,
- producers may, subject to certain conditions, be paid compensation - equal to the aid they would have received if they had cropped the area in question - for up to five years for areas put into temporary rest or grubbed.

Altogether, three Member States - Germany, Belgium and Portugal - report that they applied the special measures in 1998. The breakdown is as follows:

	Rested (ha)	Grubbed (ha)	Total
Germany	1 053	569	1 623
Belgium	11	27	37
Portugal	4	15	19
	1 068	611	1 679

#### 4. CONCLUSIONS

The total area under hops in the world as a whole continues to fall. In 1998 in the case of the two biggest producers, Germany and the United States, it fell by some 1 700 ha and 2 700 ha respectively compared with the previous year. This downward trend is continuing in 1999, with a reduction of about 1 200 ha in Germany and about 1 000 ha in the United States.

The reduction has helped to maintain a certain balance between, on the one hand, production and, on the other, demand from the industry, given that:

- growers continue to choose varieties with increasingly high alpha acid levels and yields, with the result that less and less land is needed to produce the same quantity,
- aromatic varieties, for which there is less demand from the industry, are being grubbed,
- there is little movement on the beer market in the United States, western Europe and Japan. Growing markets, e.g. those in Latin America and Asia, are suffering from the consequences of economic and monetary crises,
- thanks to technical progress, brewers now require smaller and smaller quantities of hops (number of grams of alpha needed to produce one hl of beer),
- consumers are showing increased preference for beers that are less bitter,

- the puzzling behaviour of a brewing industry which, as a result of increasingly fierce competition, is forced to reduce its costs. Since the breweries have large stocks - the exact size of which is not known - their buying policy on the free market has become entirely unpredictable and not necessarily focused on their traditional suppliers.

The Commission is required, by virtue of Article 18 of the basic Regulation (Regulation (EEC) No 1696/71), to present an evaluation report to the Council before 1 September 2000.