COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 13.12.1999
COM(1999) 492 final

1999/0201 (CNS)
1999/0202 (CNS)

Proposal for a

COUNCIL REGULATION

adjusting, for the sixth time, the system of aid for cotton introduced by Protocol 4 annexed to the Act of Accession of Greece

Proposal for a

COUNCIL REGULATION

on production aid for cotton

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. INTRODUCTION

This Explanatory Memorandum and its accompanying legislative proposals are drafted in response to paragraph 11 of Protocol 4 annexed to the Act of Accession of Greece, amended *inter alia* by Protocol 14 annexed to the Act of Accession of Spain and Portugal, which required a report on the operation of the aid scheme. This requirement was partly anticipated in 1997/98 by the Report from the Commission to the Council on Greek requests in the cotton sector (COM(1998) 10 final). In June 1998, after the report had been studied and some of the recommended measures adopted, the Council invited the Commission to examine:

– the possibility of introducing a system enabling the aid to be paid directly to the producer,

– the compatibility of such a system with current commercial practice in the cotton sector,

– the possibility of setting up a system of regionalised penalties,

– the problems inherent in managing and monitoring such systems.

In evaluating the desired changes, attention has been paid to simplifying the rules and ensuring that the effectiveness of controls is maintained or improved. This was because the Court of Auditors, in its annual reports[1], had found serious shortcomings in the controls on the cotton aid scheme.

2. THE COTTON AID SCHEME

The Community rules governing the arrangements for cotton are based on a Protocol annexed to the Act of Accession of Greece. Following the accession of Spain and Portugal, Council Regulation (EEC) No 1964/87 adjusting the system of aid for cotton introduced by Protocol 4 annexed to the Act of Accession of Greece was adopted, in particular to establish a maximum guaranteed quantity. Since then, this Council Regulation has been amended four times, to adapt some of its Articles but also to amend certain sections of Protocol 4. In addition, Council Regulation (EC) No 1554/95 lays down the general rules for the system of aid. This rather unusual legislative arrangement has become exceptionally complex and, in order to simplify it, the provisions of the Protocol should be reduced to essentials and all the other legislative measures should be brought together in a single Council Regulation.

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[1] OJ C 309, 16.11.1993, p. 1.
JO C 340, 17.11.1996, p. 1.

The cotton arrangements are based on a minimum price per tonne of unginned cotton to be paid to producers by cotton ginning undertakings. The ginning undertakings receive Community aid per tonne, which varies according to market quotations so that ginned cotton can be sold at the world price. In addition, since the 1998/99 marketing year, it has been possible for producer groups to have ginning carried out on their behalf and to receive aid through the ginning undertakings.

The scheme is subject to guaranteed national quantities (GNQs) of 782 000 tonnes for Greece and 249 000 tonnes for Spain. If production exceeds the guaranteed national quantity, the guide price, the aid and the minimum price are reduced, although this does not necessarily ensure budget neutrality. However, there is a mechanism which, under certain conditions, in particular when the world price is relatively high, limits production. Under most circumstances, budgetary expenditure is limited to EUR 770 million, although it can be much higher, particularly when the world price is low and interest in the crop is growing as at present. Expenditure could exceed EUR 900 million.

Advances on the aid are paid, on the basis of the world prices recorded and crop estimates made before the beginning of the marketing year (1 September). Moreover, since the 1998/99 marketing year, advances have been revised on the basis of a new crop estimate made at the end of November when ginning is well under way.

Between 1982 and 1992, the Community encouraged the creation of producer groups in the cotton sector. Start-up aid and investment aid were provided, chiefly for the purchase of harvesting machinery. In both Greece and Spain, all growers now have access to harvesting machinery. The producer groups manage this machinery pool. Since 1992, the production aid scheme has encouraged the creation of producer groups and has facilitated their operation.

In Greece, 20 ginning cooperatives, accounting for about a quarter of all the ginning undertakings in the country (around 75 in all) own about one third of the ginning capacity. The total ginning capacity does not pose any special difficulties given the level of production in Greece.

In Spain, the 10 ginning cooperatives account for almost half of the 22 undertakings. There is surplus ginning capacity in relation to the supply from producers, particularly noticeable in recent marketing years (1993/94 to 1995/96) because of the persisting drought.

Monitoring the scheme focuses mainly on the following points:

– the producer makes a declaration of area sown, which is included in the area aid application provided for under the integrated administration and control system (IACS),

– producers and ginning undertakings conclude contracts, which include an undertaking to pay the minimum price,

– the unginned cotton is placed in supervised storage at the ginning undertaking,

– stock accounts are kept for products entering and leaving the ginning undertaking.

By checking these different points it is possible to determine the origin of each batch of unginned cotton, verify whether the quantities tally with the declared areas sown and identify which bales of cotton fibre are produced from which unginned cotton.

Checks on the application of the rules under the EAGGF accounts clearance procedure led to a financial correction amounting to 10% of the expenditure declared by Greece for the 1991 and 1992 financial years. In its Statement of Assurance for 1994, the Court of Auditors also reported shortcomings in compliance with certain provisions among Greek ginning undertakings. A financial correction of EUR 3.2 million was applied.

Since 1994, inspection procedures in Greece have been reviewed and the current view of the EAGGF accounts clearance department is that inspection arrangements have improved.

All in all, the present system enables a fairly high quality of cotton to be produced and permits the ginned cotton to be sold at the world price. However, the latest figures available show a disturbing rise in areas sown and output. This suggests that situations could arise which would make it difficult to respect overall budgetary discipline and to take environmental considerations into account. In order to overcome this problem, the budget neutrality of the cotton regime must be strengthened. It is therefore proposed to increase the percentage reduction in the guide price, without, however, amending the other components of the stabiliser mechanism.

3. DIRECT AID TO PRODUCERS

Disputes often arise between producers and ginning undertakings because of the time it takes for the advances on the aid paid to the processor to be passed on to the producer in the minimum price, and because of the adjustments to the minimum price according to the quality of the cotton. From the 1995/96 marketing year, the Community grading scale for increasing and reducing the minimum price according to quality was abolished in the interests of subsidiarity and at the unanimous request of all operators in the sector. As things now stand, when the quality of the cotton delivered does not correspond to the standard quality, the price agreed is adjusted proportionally by common consent between the contracting parties. In Greece, where there is no interbranch agreement, the intervention agency has imposed a scale of increases and reductions. It also charges a 1% levy on payments made by ginning undertakings to producers, thereby throwing the system out of balance.

While it is both difficult and inappropriate to regulate contractual relations between producers and ginning undertakings at Community level, it is important that the aid be paid in full to the beneficiaries in order for it to accomplish its role of bridging the gap between the guide price and the world market price. It is also worthwhile clarifying certain rules that must be complied with, such as the link there should be between the quality of unginned and ginned cotton, and the obligation to pay an advance on the minimum price.

In these circumstances, and to ensure that the aid more directly benefits producers, Greece has asked whether it would be possible to grant the aid directly to those producer organisations (POs) that pay the minimum price to their members, have ginning carried out under contract, and market the ginned cotton. This arrangement would be optional and, at least to start with, very few POs would qualify. None of the POs without ginning facilities currently market their ginned cotton.

There are two main obstacles to the payment of direct aid to POs on the above terms:

– in order to market ginned cotton, a PO must have sufficient capital to be able to guarantee the bank loans necessary to pay the minimum price; they must also have marketing equipment and premises (storage, handling, communications) and qualified staff, particularly managers able to monitor the world market, manage variable aid and conclude sales contracts. There is a considerable risk that the payment of the minimum price or the repayment of bank loans would place such POs in financial difficulties,

– the quantities of unginned and ginned cotton on which the aid is paid would still have to be checked mainly on the premises of the ginning undertaking carrying out the contract work. If the checks at ginning undertakings revealed irregularities, the POs could disclaim responsibility.

It therefore appears that producer groups that do not carry out their own ginning do not have the resources required to manage the variable aid arrangements under the current regime. The matter should be re-examined in a few years, in the light of the experience gained by groups that have their cotton ginned under contract against reimbursement of the aid received by the ginning undertakings under the rules introduced at the beginning of the 1998/99 marketing year. To date, this option has not been used.

In the light of the above, the current scheme whereby the aid is granted to ginning undertakings for the quantity they produce should be maintained.

4. REGIONALISATION OF PENALTIES

Greece wishes to establish the principle of regionalised cotton cultivation in order to prevent it from spreading to non-traditional zones in regions where water consumption is a source of conflict and poses a problem of environmental management. In Spain, cotton growing is concentrated almost exclusively in Andalusia.

The relationship between cotton and the environment is an ambivalent one. On the one hand, cotton is the most important textile fibre of plant origin and it is mainly because it is "natural" that it is perceived as superior to the competing synthetic fibres. On the other hand, however, the environmental consequences of cotton cultivation are sometimes condemned because of the high water consumption, the use of pesticides and fertilisers and the trend towards a one-crop economy in certain areas: the absence of crop rotation is liable to exhaust the soil and increase the dangers of plant diseases in the long term.

Many initiatives are already being undertaken throughout the sector to palliate these drawbacks. Drip irrigation and sowing under plastic help rationalise water consumption. Greece has initiated a programme to reduce the use of fertilisers and introduce drip irrigation, particularly on areas sown to cotton. In Spain, the "Asociaciones para Tratamientos Integrados del Algodón" (ATRIAS) have launched initiatives to cut production costs and introduce integrated pest control.

The Greek request to regionalise the guaranteed national quantity (GNQ) with guaranteed regional quantities (GRQs) could be a source of complication, risk for the EAGGF and conflicts between regions in relation to the following:

- regional production estimates and advances on aid,
- the reallocation of GRQs not fully utilised in some regions,
- verifying the origin of unginned cotton, which could qualify for different levels of aid per tonne.

Another solution put forward by Greece involves individual quotas. Under this proposal, the aid would continue to be paid to ginning undertakings, as it is under the present regime, with a GNQ for all the cotton produced. Producers would continue to be paid the minimum price, minus an appropriate reduction, for individual quotas which together would give a total figure equal to estimated production. Any cotton produced in excess of the individual quotas would not be subject to the minimum price requirement.

The precedents for this type of system, particularly as applied to milk and durum wheat, have shown it to be complicated. There are two main practical difficulties:

- managing the individual quotas, which would have to be reallocated every year, is a source of serious conflicts,
- the presence on the market of cheap ginned cotton giving ginning undertakings the same entitlement to aid as cotton at the minimum price seems likely to encourage deflections of normal marketing flows as well as fraud.

Either of the two solutions proposed, whether regionalisation of GNQs or individual quotas, would therefore result in additional complexity, more disputes and increased danger of fraud. However, in order to attain the objective of checking the spread of cotton cultivation, it is proposed that Member States introduce the appropriate environmental measures and restrict the surface areas or zones where cotton cultivation is eligible for aid on the basis of objective environmental criteria. In the light of the above, the proposal is in line with the general environmental objectives in the Agenda 2000 decisions. It is proposed that Member States send the Commission a report before 31 December 2003 on the environmental situation in the sector.

5. OTHER ADMINISTRATION AND CONTROL CONSIDERATIONS

One potential source of difficulties in the way the current regime operates lies in the detailed rules for fixing the aid. Under the current regime, the aid to be granted is the amount valid on the date when the ginning undertaking makes its application. Ginning undertakings can make one or more applications, for one or more quantities, at any time between the date on which the cotton enters the undertaking (not before 1 September) and the following 31 March at the latest. This arrangement enables ginning undertakings to receive an amount that takes account of the world market price on the date of conclusion of the sales contract for the fibre produced.

The rules prevent beneficiaries from making an aid application before they are actually in possession of the product, and discourages contracts from being concluded on the world market before the harvest period. One proposal would be to extend the period during which the amount of the aid is fixed, but this would mean severing the link between calculating the quantities eligible for the aid and the physical check on each batch of cotton that enters an undertaking.

For example, aid applications for quantities specified by the applicant would involve the amounts in force at the time of application, between 1 July and the following 31 March. The total quantity covered by applications would have to correspond to the total quantity of cotton entering the undertaking between 1 September and the following 31 March. By contrast, the advances on aid would continue to be based, as they are today, on the quantities actually placed under supervision in the undertaking concerned.

6. PROPOSED MEASURES

Having examined the operation of the cotton regime, the Commission's main proposals are as follows:

- maintain the current aid scheme,
- provide for aid to be granted in full to beneficiaries and lay down certain rules on payments and adjustment of the minimum price,
- increase the percentage reduction of the guide price,
- provide for Member States to draw up objective environmental criteria and, where necessary, restrict eligibility for the aid to certain areas,
- provide for a report from the Member States on the impact on the sector of national environmental measures,
- extend the period during which aid applications may be made under an updated system for the calculation of eligible quantities,
- simplify the Community rules by bringing the principles governing the cotton regime together in Protocol 4 and the legislative provisions on the production aid for cotton together in a single Council Regulation.

The proposed measures will simplify not only the rules but also the conditions for fixing and granting the aid, which is mostly paid to small and medium-sized undertakings. They also contribute to improving respect for the environment and for budgetary discipline.

This set of measures will contribute to the general goal of uniform application of the rules governing agricultural production. They fall within the exclusive competence of the Community.

1999/0201 (CNS)

Proposal for a

COUNCIL REGULATION

adjusting, for the sixth time, the system of aid for cotton introduced by Protocol 4 annexed to the Act of Accession of Greece

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to the Act of Accession of Greece[2], and in particular paragraph 11 of Protocol 4 on cotton, as last amended by Regulation (EC) No 1553/95[3],

Having regard to the proposal from the Commission[4],

Having regard to the opinion of the European Parliament[5],

Having regard to the opinion of the Economic and Social Committee[6],

Whereas:

(1) Examination of the operation of the system of aid for cotton and of the support scheme for arable crops, as provided for in paragraph 11 of Protocol 4, reveals a need for adjustment of the system for cotton.

(2) Measures concerning cotton are set out in Protocol 4, in Council Regulation (EC) No 1554/95 of 29 June 1995 laying down the general rules for the system of aid for cotton and repealing Regulation (EEC) No 2169/81[7], as last amended by Regulation (EC) No 1419/98[8], and in Council Regulation (EEC) No 1964/87 of 2 July 1987 adjusting the system of aid for cotton introduced by Protocol No 4 annexed to the Act of Accession of Greece[9], as last amended by Regulation (EC) No 1553/95. The system provided for in Protocol 4 annexed to the Act of Accession of Greece should be maintained, in particular the opportunity for the Council to adjust the system, and, in the interests of simplification, the implementing measures concerning cotton production aid should be brought together in one Council Regulation,

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2 OJ L 291, 19.11.1979, p. 174.
3 OJ L 148, 30.6.1995, p. 45.
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7 OJ L 148, 30.6.1995, p.48.
8 OJ L 190, 4.7.1998, p. 4.
9 OJ L 184, 3.7.1987, p. 14.

HAS ADOPTED THIS REGULATION:

Article 1

Paragraph 3 of Protocol 4 is replaced by the following:

"3. The system referred to in paragraph 2 shall include the grant of an aid to production."

Article 2

Paragraph 6 of Protocol 4 is replaced by the following:

"6. The Council, acting by a qualified majority on a proposal from the Commission and after consulting the European Parliament, shall decide on the adjustments necessary to the system introduced pursuant to this Protocol and shall adopt the general rules necessary for implementing the provisions of this Protocol."

Article 3

Paragraphs 7, 8, 8a, 9, 10, 11 and 12 of Protocol 4 are deleted.

Article 4

Paragraph 13 of Protocol 4 becomes paragraph 7.

Article 5

This Regulation shall enter into force on the seventh day following its publication in the *Official Journal of the European Communities*.

It shall apply from 1 September 2000.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President

FINANCIAL STATEMENT

1.	BUDGET HEADING: B1-141				APPROPRIATIONS: EUR 812 million	
2.	TITLE: Proposal for a Council Regulation adjusting, for the sixth time, the system of aid for cotton introduced by Protocol 4 annexed to the Act of Accession of Greece.					
3.	LEGAL BASIS: Protocol 4 annexed to the Act of Accession of Greece					
4.	AIMS OF THE MEASURE: To update Protocol 4.					
5.	FINANCIAL IMPLICATIONS	PERIOD OF 12 MONTHS (EUR million)		CURRENT FINANCIAL YEAR (1999) (EUR million)	FOLLOWING FINANCIAL YEAR (2000) (EUR million)	
5.0	EXPENDITURE - CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTIONS) - NATIONAL ADMINISTRATION - OTHER	-		-	-	
5.1	~~REVENUE~~ - ~~OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES)~~ - ~~NATIONAL~~	-		-	-	
		2001	2002	2003	2004	
5.0.1	ESTIMATED EXPENDITURE	-	-	-	-	
5.1.1	~~ESTIMATED REVENUE~~	-	-	-	-	
5.2	METHOD OF CALCULATION:					
6.0	CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?					YES / ~~NO~~
6.1	CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?					~~YES / NO~~
6.2	IS A SUPPLEMENTARY BUDGET NECESSARY?					~~YES / NO~~
6.3	WILL FUTURE BUDGET APPROPRIATIONS BE NECESSARY?					YES / ~~NO~~

OBSERVATIONS:

The measure as such has no financial impact compared to the current situation.

Proposal for a

COUNCIL REGULATION

on production aid for cotton

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to the Act of Accession of Greece, and in particular the first subparagraph of paragraph 6 of Protocol 4 on cotton[10], as last amended by Regulation (EC) No ..../1999[11],

Having regard to the proposal from the Commission[12],

Having regard to the opinion of the European Parliament[13],

Having regard to the opinion of the Economic and Social Committee[14],

Whereas:

(1) Examination of the operation of the aid scheme provided for in paragraph 11 of Protocol 4 reveals a need to maintain the existing arrangements for cotton, but with certain adjustments.

(2) The measures relating to cotton are laid down in Protocol 4, Council Regulation (EC) No 1554/95 of 29 June 1995 laying down the general rules for the system of aid for cotton and repealing Regulation (EEC) No 2169/81[15], as last amended by Regulation (EC) No 1419/98[16] and Council Regulation (EEC) No 1964/87 of 2 July 1987 adjusting the system of aid for cotton introduced by Protocol 4 annexed to the Act of Accession of Greece[17], as last amended by Regulation (EC) No 1553/95[18]. The arrangements provided for in Protocol 4 annexed to the Act of Accession of Greece should be maintained, particularly the possibility for the Council to adjust the scheme, and, in the interests of simplification, all the implementing measures needed for the grant of the aid should be brought together in a single Council Regulation.

(3) Paragraph 6 of the Protocol stipulates that the necessary measures for implementing the scheme must be adopted. The production aid provided for in

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10 OJ L 291, 19.11.1979, p. 174.
11 See this OJ.
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15 OJ L 148, 30.6.1995, p. 45.
16 OJ L 190, 4.7.1998, p. 4.
17 OJ L 184, 3.7.1987, p. 14.
18 OJ L 148, 30.6.1995, p. 45.

paragraph 3 of Protocol 4 is currently based on a system, in the framework of guaranteed national quantities, that guarantees a minimum price to producers and, through the aid paid to ginning undertakings, makes up the difference between the guide price and the world market price. In the light of experience, the foundations of the system and its various components should be maintained.

(4) The guide price, the minimum price payable to producers and the guaranteed national quantities should be fixed at levels that maintain the balance achieved between crops and enable operators to run medium-term production and processing programmes.

(5) The provisions for determining the world market price for unginned cotton should be maintained. This price may be established on the basis of the relationship between the price agreed for ginned cotton and the price calculated for unginned cotton. When calculating the price of ginned cotton, account should be taken of offers made on the world market and of quotations on those exchanges that are important for international trade.

(6) The current mechanism, whereby when a certain production quantity is exceeded the aid is reduced proportionately in the Member States responsible for the overrun, should be maintained in order to ensure that penalties are applied fairly. However, the reduction in the guide price may be limited provided that, taking account in particular of the average world market price, a certain level of expenditure is not exceeded. The consequences of the guaranteed national quantities mechanism must be applied to both the minimum price and the aid.

(7) The percentage reduction in the guide price which now applies, equal to half the overrun in the national guaranteed quantity, may under certain circumstances threaten budgetary discipline. That percentage should therefore be increased.

(8) To ensure that the system is balanced, the production aid should henceforth be paid in full to beneficiaries, without prejudice to the various reductions provided for by the Community rules. The current state of production structures is such that the aid should be granted to ginning undertakings, which then pay producers a price at least equal to the minimum price and an advance on that price, and which accept certain conditions regarding checks on the quantities eligible for aid.

(9) The aid varies in amount according to the world market price and needs to be applied to the quantities of cotton eligible for aid depending on the actual period when the aid application is made. The current scheme allows ginning undertakings to fix that amount, in their aid applications, on the basis, in particular, of the date of conclusion of sales contracts for the ginned cotton in their possession. In order better to facilitate the disposal of ginned cotton on the world market, it is advisable in future to allow contracts to be concluded before the harvesting period and, consequently, to extend the period during which aid applications may be submitted.

(10) Contractual relations between producers and ginning undertakings should not be regulated at Community level. The principle of common consent between the contracting parties should be maintained but spelt out in greater detail.

(11) The amount of aid to be granted cannot be known until actual production in each Member State has been determined. To offset the adverse effects of late payment of aid, provision should continue to be made for part of the aid to be paid in advance.

(12) The producer Member States must set up the control arrangements necessary to ensure that the aid system operates correctly, using where applicable the integrated administration and control system provided for in Council Regulation (EEC) No 3508/92 of 27 November 1992 establishing an integrated administration and control system for certain Community aid schemes[19], as last amended by Regulation (EC) No 820/97[20].

(13) The cultivation of cotton in regions not suited to it is likely to have harmful effects on the environment as well as on the agricultural economy of those regions where this crop is important. In order to take account of environmental objectives, the Member States should determine and adopt the appropriate environmental measures to regulate the use of agricultural land for cotton production. In future, the Member States must introduce measures to restrict the crop under objective environmental criteria and remind producers of the need to comply with the legislation in force. The Member States should draw up a report on the impact on the cotton sector of national environmental measures at a time when an assessment is possible.

(14) In order to facilitate the implementation and administration of the aid system, provision should be made for a procedure establishing close cooperation between the Member States and the Commission within a management committee. The Management Committee for Flax and Hemp provided for in Council Regulation (EEC) No 1308/70 of 29 June 1970 on the common organisation of the market in flax and hemp[21], as last amended by Regulation (EC) No 3290/94[22], should be used for that purpose.

(15) Since the measures for the implementation of this Regulation are management measures within the meaning of Article 2 of Council Decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission[23], they should be adopted by use of the management procedure provided for in Article 4 of that Decision.

(16) In order to ensure that Community expenditure linked to the application of the measures provided for in this Regulation is subject to financial and monetary rules and adequate procedures, and in view of the specifically agricultural nature of unginned cotton, Council Regulation (EC) No 1258/1999 of 17 May 1999 on the financing of the common agricultural policy[24] and Council Regulation (EC) No 2799/98 of 15 December 1998 establishing agrimonetary arrangements for the euro[25] should apply in this area.

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19 OJ L 355, 5.12.1992, p. 1.
20 OJ L 117, 7.5.1997, p. 1.
21 OJ L 146, 4.7.1970, p. 1.
22 OJ L 349, 31.12.1994, p. 105.
23 OJ L 184, 17.7.1999, p. 23.
24 OJ L 160, 26.6.1999, p. 103.
25 OJ L 349, 24.12.1998, p. 1.

(17) The adjustments to the scheme provided for in this Regulation should be implemented as smoothly as possible and transitional measures may therefore be required,

HAS ADOPTED THIS REGULATION:

CHAPTER I: GENERAL PRINCIPLES

Article 1

1. This Regulation lays down the measures needed for the grant of the production aid provided for in paragraph 3 of Protocol 4 annexed to the Act of Accession of Greece.

2. For the purposes of this Regulation:

   (a) "unginned cotton" means the fruit of the cotton plant (*Gossypium*) which has reached maturity and been harvested and which contains pod and leaf fragments and soil matter;

   (b) "ginned cotton" means cotton fibres (other than linters and waste), neither carded nor combed, from which the seeds and most of the pod and leaf fragments and soil matter have been removed.

3. The marketing year shall run from 1 September to 31 August.

Article 2

1. The amount of the production aid for unginned cotton shall be fixed by the Commission on the basis of the difference between:

   – a guide price fixed for unginned cotton in accordance with Article 3(1) and Article 7, and

   – the world market price determined in accordance with Article 4.

2. The aid shall be granted for unginned cotton purchased at a price at least equal to the minimum price, fixed in accordance with Article 3(2) and Article 9.

CHAPTER II: PRICE MECHANISM

Article 3

1. The guide price shall be set at EUR 106.30 per 100 kg of unginned cotton.

   This price shall relate to cotton:

   – of sound and fair merchantable quality,

   – containing 10% moisture and 3% impurities,

– with the characteristics needed to produce, after ginning, 32% grade 5 fibres (white middling) 28 mm in length (1-3/32").

2. The minimum price shall be set at EUR 100.99 per 100 kg of unginned cotton for the quality selected for the ex holding guide price.

Article 4

1. The world market price for unginned cotton shall be determined by taking account of the historical relationship between the world market price for ginned cotton and the price calculated for unginned cotton. It shall be fixed periodically by the Commission on the basis of the world market price for ginned cotton referred to in Article 5.

2. If the world market price for unginned cotton cannot be determined in accordance with paragraph 1, it shall be established on the basis of the most recent price determined.

Article 5

1. The world market price for ginned cotton shall be determined on the basis of a grade 5 (white middling) product with a fibre length of 28 mm (1-3/32"), account being taken of the offers made on the world market and of the quotations on one or more European exchanges that are important for international trade. This price shall be determined using the most favourable offers and quotations among those that are considered representative of the real market price cif for the product delivered to a Community port.

2. Where the offers and quotations recorded do not satisfy the requirements referred to in paragraph 1, the necessary adjustments shall be made.

CHAPTER III: STABILISER MECHANISM

Article 6

A guaranteed national quantity for unginned cotton shall be introduced, equal for each marketing year to:

– 782 000 tonnes for Greece,

– 249 000 tonnes for Spain,

– 1 500 tonnes in each of the other Member States.

Article 7

Without prejudice to Article 8, if during a marketing year the sum of actual production in Spain and Greece exceeds 1 031 000 tonnes, the guide price referred to in Article 3(1) shall be reduced for that marketing year in any Member State where actual production exceeds the guaranteed national quantity. The guide price shall be reduced for the Member State concerned by a percentage equal to 60% of the percentage by which its guaranteed national quantity has been exceeded.

However, if actual production in either Spain or Greece is lower than its guaranteed national quantity, the difference between the total actual production of the two Member States and 1 031 000 tonnes shall be expressed as a percentage of the guaranteed national quantity that has been exceeded, and the guide price shall be reduced by 60% of that percentage.

Article 8

If during a marketing year:

– Article 7 has been applied,

– the weighted average of the world market price adopted in order to fix the amount of aid is greater than EUR 30.20 per 100 kg,

  and

– the total budget expenditure on the aid system is less than EUR 770 million,

the budget remainder referred to in the third indent shall be used in order to increase aid in each Member State where actual production exceeds its guaranteed national quantity.

However, the amount of aid as increased under the first subparagraph may not exceed:

– either the amount of aid calculated without application of Article 7,

– or the amount of aid calculated after application of Article 7 on the basis of 1 120 000 tonnes of unginned cotton subdivided into a guaranteed national quantity of 270 000 tonnes for Spain and 850 000 tonnes for Greece.

Article 9

The minimum price referred to in Article 3(2) shall be reduced by the same amount as the guide price under Article 7.

CHAPTER IV: AID BENEFICIARIES

Article 10

The aid shall be paid in full to the beneficiaries referred to in Articles 11 and 12 who make an application.

Article 11

In order to receive aid, cotton ginning undertakings other than those referred to in Article 12 must:

(a) have submitted a signed contract stipulating, in particular, payment to the producer of a price at least equal to the minimum price and containing a clause specifying that:

– where Article 7 is applied, the agreed price will be adjusted in consequence of the effect of the application of that Article on the aid,

– if the quality of the cotton delivered differs from the quality referred to in Article 3(2), the price agreed will be adjusted by common consent between the contracting parties in proportion to the effect of that difference in quality on the price of the ginned product in relation to the price referred to in Article 5;

(b) have paid an advance on the minimum price of an amount to be determined by common consent between the contracting parties, subject to conditions to be laid down;

(c) keep stock accounts on ginned and unginned cotton that satisfy requirements to be laid down and provide the other supporting documents necessary so that entitlement to the aid can be checked;

(d) furnish proof that the cotton delivered under the contract is the subject of the declaration of area sown referred to in Article 15(2).

Article 12

1. In order to receive the aid, cotton ginning undertakings that gin cotton on behalf of individual producers or producer groups meeting the criteria laid down in paragraph 4 of Protocol 4 must:

   (a) have submitted a statement, approved by the producer or producer group concerned, giving details of the conditions under which the ginning is carried out and how the aid is administered;

   (b) undertake to pass on the full amount of the aid to the individual producers or, where applicable, the producer groups concerned;

   (c) satisfy the conditions referred to in Article 11(c);

   (d) furnish proof that the cotton referred to in the statement referred to in (a) has been the subject of the declaration of area sown referred to in Article 15(2);

   (e) furnish proof that producer groups are obliged to comply with an undertaking equivalent to the clause in the contract referred to in Article 11(a) and an undertaking by such groups to keep and produce supporting documents concerning payment of the minimum price to their members.

2. Failure to comply with the clause or undertaking referred to in paragraph 1(e) by a producer group having ginning carried out on its behalf shall be considered a failure to meet the criteria referred to in paragraph 4 of Protocol 4.

CHAPTER V: GRANT OF THE AID

Article 13

1. The amount of the aid to be paid shall be the amount applicable on the day the application for aid is made.

   Aid applications shall be lodged, together with a security where required, during a period to be determined, for a quantity of unginned cotton which must enter the cotton ginning undertaking after the beginning of the marketing year concerned and before a date to be specified.

2. Entitlement to the aid shall be acquired when the cotton is ginned. However, aid may be paid in advance, at the request of the interested party, from 16 October following the start of the marketing year, when the unginned cotton enters the cotton ginning undertaking, provided an adequate security has been lodged. The amount of the advance shall be calculated in accordance with paragraph 3.

   The balance of the aid shall be paid before the end of the marketing year at the latest, once any adjustments to the aid resulting from application of Article 7 have been determined.

3. The amount of the advance shall be equal to the guide price referred to in Article 3(1), minus the world price and reduced further by an amount calculated in accordance with Article 7, but replacing actual production by the estimated production fixed in accordance with the first indent of Article 17(2), plus 15%.

   From 16 December following the start of the marketing year, the amount of the advance referred to in the first subparagraph shall be replaced by a revised amount calculated using the same method but based on the revised production estimate fixed in accordance with the second indent of Article 17(2), plus at least 7,5%. Advances paid between 16 October and 15 December shall be increased accordingly, except where the difference between the two amounts is less than EUR 1/100 kg.

Article 14

1. The aid shall be paid only for products of sound and fair merchantable quality.

2. If the quantity of ginned cotton is less than or equal to 33% of the quantity of unginned cotton that has entered the cotton ginning undertaking, aid shall be granted for the quantity of ginned cotton, multiplied by 100 and divided by 32.

If the quantity of ginned cotton is greater than 33% of the quantity of unginned cotton that has entered the cotton ginning undertaking, aid shall be granted for the quantity of unginned cotton, multiplied by 33 and divided by 32.

3. The quantity of ginned cotton shall be equal to its weight, adjusted where necessary for any difference between:

– the percentage of impurities recorded compared to the representative percentage for grade 5

and

– the percentage moisture content recorded compared to the level representative of commercial fibre.

Article 15

1. The producer Member States shall set up a system of penalties and controls enabling them, in particular, to ensure that the minimum price is complied with and to ascertain:

– the quantity of unginned Community cotton which has entered each cotton ginning undertaking,

– the quantity of unginned Community cotton which has been ginned,

– the quantity of ginned cotton obtained in each cotton ginning undertaking from the cotton referred to in the first indent.

2. The Member States shall establish a system of declarations of the areas sown, in particular to ensure that cotton covered by aid applications is of the origin stated.

Article 16

1. Member States shall determine, for the cotton sector:

– measures to improve the environment, in particular cultivation techniques to reduce the negative impact on the environment,

– research programmes to develop more environmentally friendly growing methods,

– the means of informing producers of the results of such research and the advantages of using the techniques concerned.

2. The Member States shall take the environmental measures they consider suitable in view of the specific situation of the agricultural areas used for cotton production. In addition, the Member States shall take the necessary steps to remind producers that they are required to comply with environmental legislation.

3. The Member States shall, where appropriate, restrict the areas eligible for the production aid for unginned cotton on the basis of objective criteria relating to:

– the agricultural economy of those regions where cotton is a major crop,

– the soil and climate in the areas in question,

– the management of irrigation water,

– rotation systems and cultivation methods likely to improve the environment.

4. Before 31 December 2003, the producer Member States shall send the Commission a report on the environmental situation in the cotton sector and the impact of national measures adopted in accordance with paragraphs 1, 2 and 3.

CHAPTER VI: GENERAL

Article 17

1. For the detailed rules for the implementation of this Regulation and the information to be forwarded by the Member States to the Commission, the Commission shall be assisted by the Management Committee for Flax and Hemp established by Article 12 of Regulation (EEC) No 1308/70.

Such rules shall concern, *inter alia*, all the necessary inspection measures to protect the European Community's financial interests against fraud and other irregularities. These measures may be based on the integrated administration and control system established by Regulation (EEC) No 3508/92.

Where reference is made to this subparagraph, the management procedure laid down in Article 4 of Decision 1999/468/EC shall apply in compliance with Article 7(3) thereof.

The period provided for in Article 4(3) of Decision 1999/468/EC shall be one month.

2. In accordance with the procedure referred to in paragraph 1, the Commission shall fix for each Member State concerned, before dates to be specified:

– taking account of crop forecasts, the estimated production referred to in the first subparagraph of Article 13(3) and the resultant provisional reduction in the guide price,

– taking account of the progress of the harvest, the revised production estimate referred to in the second subparagraph of Article 13(3) and the new resultant provisional reduction in the guide price,

– taking account in particular of the quantities on which aid has been applied for, actual production in the current marketing year, together with the reduction in the guide price referred to in Article 7 and the increase in the aid referred to in Article 8.

Article 18

Regulations (EC) No 2799/98 and No 1258/1999 on the financing of the common agricultural policy shall apply, *mutatis mutandis*, to the arrangements provided for in this Regulation.

Article 19

If it proves necessary to introduce transitional measures to facilitate implementation of the adjustments to the system laid down by this Regulation, such measures shall be adopted in accordance with the procedure referred to in Article 17(1). They shall apply until the end of the 2000/2001 marketing year at the latest.

Article 20

Regulations (EEC) No 1964/87 and (EC) No 1554/95 are hereby repealed.

Article 21

This Regulation shall enter into force on the seventh day following that of its publication in the *Official Journal of the European Communities*.

It shall apply from 1 September 2000. However, Article 19 shall apply from the date of entry into force of this Regulation.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President

FINANCIAL STATEMENT

1. BUDGET HEADING: B1-141 — APPROPRIATIONS: EUR 862 mill. (LA)

2. TITLE:
Proposal for a Council Regulation on production aid for cotton.

3. LEGAL BASIS: Protocol 4 annexed to the Act of Accession of Greece

4. AIMS OF THE MEASURE: Amendment of the common organisation of the market in cotton in accordance with the Council's instructions of June 1998.

5. FINANCIAL IMPLICATIONS	PERIOD OF 12 MONTHS (EUR million)	CURRENT FINANCIAL YEAR (1999) (EUR million)	FOLLOWING FINANCIAL YEAR (2000) (EUR million)
5.0 EXPENDITURE - CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTION) - NATIONAL ADMINISTRATION - OTHER	770	Not applicable	Not applicable
5.1 ~~REVENUE~~ - ~~OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES)~~ - ~~NATIONAL~~			

	2001	2002	2003	2004
5.0.1 ESTIMATED EXPENDITURE	770	770	770	770
5.1.1 ~~ESTIMATED REVENUE~~				

5.2 METHOD OF CALCULATION: -

6.0 CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET? YES / ~~NO~~

6.1 CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET? ~~YES / NO~~

6.2 IS A SUPPLEMENTARY BUDGET NECESSARY? ~~YES / NO~~

6.3 WILL FUTURE BUDGET APPROPRIATIONS BE NECESSARY? YES / ~~NO~~

OBSERVATIONS:

The proposal amends the method in force for calculating the aid to increase from 50% to 60% the amount of the overrun in the MGQs to be taken into account to reduce the guide price.

As all the other components remain unchanged, with an overrun at the current level (between 50% and 60%) and a world market price of between EUR 302 and EUR 347 a tonne (in line with the average in recent years), total expenditure stands at EUR 770 million since the system of increases applies. For higher prices, the second ceiling applies, reducing expenditure progressively, as in the past.

However, for prices lower than EUR 302 a tonne, the proposal enables expenditure to be reduced considerably. By way of an example, at the (very low) price of EUR 221 a tonne recorded as the weighted average in 1998/99, total expenditure for production used for the 1999/2000 harvest would be EUR 772 million instead of around EUR 872 million.