

Common agricultural policy (CAP): support schemes, national restructuring programmes for the cotton sector

2007/0242(CNS) - 09/11/2007 - Legislative proposal

PURPOSE: to amend payment provisions establishing common rules for direct support schemes under the common agricultural policy.

PROPOSED ACT: Council Regulation.

BACKGROUND: internationally, the EU is a minor player on the world cotton market, contributing only about 2% to the world's total production of cotton. The main producing countries are China, the USA and India. The cotton sector, despite being of limited significance to the EU as a whole (contributing only 0.15% of the final agricultural output) has strong regional importance in the two main producing Member States namely Greece and Spain. Around 76% of the EU's total output is grown in Greece. A small amount of cotton is also grown in Bulgaria. Most farmers growing cotton are small in size (Greece 4.5 ha and Spain 11.0 ha). In Greece there are 79 700 farmers growing cotton and in Spain 9 500.

From an environmental point of view growing cotton has a number of negative side-effects. Dependent on irrigation and fertilisers, cotton is widely associated with low biodiversity and soil impoverishment. It is reliant on phytosanitary products, especially insecticides and leaf defoliant. At the processing level, a mixture of private enterprises and co-operatives convert the raw cotton into its useable state through the ginning process, which separates cotton fibres from the seed. The capacity of Spain's 29 ginning plants, nearly half of which are co-operatives, far exceeds its production. In Greece the ginning capacity is more in balance with production and a lower proportion of plants are run by co-operatives.

In recent years the CAP has undergone a fundamental reform aimed at increasing competitiveness, stabilising farm incomes, integrating environmental concerns into agricultural policy and simplifying and strengthening decentralisation. Alongside the general reform of the CAP, the Community adopted in 2003 Council Regulation (EC) No 1782/2003 (see [CNS/2003/0006](#)) establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers. This sets out, amongst others, rules for the specific payment for cotton (Chapter 10a of Title 4). However, in 2006, these provisions were annulled by the European Court of Justice (case C-310/04). The Court concluded that the proportionality principle had been infringed because the EC had failed :

- to carry out an impact assessment ;
- to consider direct labour costs in the evaluation and decision process ; and
- to take account of the new regime's impact on the ginning industry which, although not included in the Protocol, is directly linked to the business of cotton production.

As a result payment provisions have been suspended until the adoption of a new Regulation.

CONTENT: on the basis of the above, the Commission is presenting an amending Regulation to Council Regulation (EC) No 1782/2003, which takes account of the ECJ's judgement. Prior to adopting this proposal the Commission held a round of consultation with all interested parties and commissioned an impact assessment, which was carried out in 2007.

In summary, the new cotton regime would seek:

- to continue agricultural cotton activity in the EU's cotton-producing regions;
- to offer support for cotton producers that is compatible with the principles applying to the reformed CAP;
- to offer support to cotton producers that is compatible with the EU's WTO commitments;
- to stabilise and control the EU budget;
- to maintain the EU's market orientation vis-à-vis the cotton sector;
- to reduce the impact of cotton production on the environment; and
- to simplify the management of the support regime for cotton producers.

To realise the above the Commission recommends that 65% of resources devoted to supporting the cotton sector before the 2004 reform should continue in the Single Payment Scheme. This will offer cotton growers stable incomes, while leaving them free to adopt to market developments. The remaining 35% will continue to be linked to cotton production, as an area payment. These coupled payments are designed to ensure the continuity of cotton growing at a level sufficient to safeguard the ginning industry in those regions where it represents an important economic activity.

Based on the results of questionnaires sent out, as well as on the conclusions of the impact assessment, the Commission proposes that, in the medium term, a coupled rate of support of about 35% would favour the continuation of cotton production. This option not only respects the Cotton Protocol in the Acts of Accession of Greece, Spain and Portugal, it also adheres to the principles of the CAP reform. Further, from an administrative point of view, any upwards modification of the coupling rate would imply a reduction of the decoupling rate and, consequently, the recalculation of all the payment entitlements allocated in 2006 to the historical producers of cotton in the Member States concerned. By contrast, maintaining the 35% coupling rate would not entail any further administrative burden.

If a decoupling rate higher than 65% were to be set, it would risk the extensive disruption of the cotton sector. The Commission has, therefore, come to the conclusion that, in order to meet set objectives, the current balance between coupled and decoupled support should be continued with some additional, though minor, modification to the regime. Thus, the Commission suggests that: the maximum area should remain unchanged at 450 597 ha:

- 370 000 ha in Greece;
- 70 000 ha in Spain;
- 360 ha in Portugal; and
- 10 237 ha in Bulgaria.

The level of area payment will remain unchanged and will be reduced, proportionally, in the event of payment claims exceeding the maximum area of a Member State. Both the decoupled and crop-specific area payment will continue to be subject to cross-border criteria, which will lead to more environmentally friendly cotton production in an income-neutral manner. The crop specific payment will be granted per eligible hectare of cotton, on condition that the area is maintained at least until harvest, with no obligation to deliver or sell cotton. The cotton would have to meet minimum requirements of being "sound and fair" and of marketable quality.

From a budgetary point of view, for the period 2007 -2013, an additional EUR 154 million will be made available as additional Community support for measures in cotton producing regions. The national base area and the amount of aid per eligible hectare will remain unchanged compared with the current situation. However, with the decrease of the couple payment for farmers who are members of an approved inter-branch organisation from EUR 10/ha to EUR 3/ha, the amount granted to these farmers is reduced from EUR 4.4 million to EUR 1.4 million, which would offset any additional expenditure on information and promotion.

On a final point, and in response to stakeholder's requests, the Commission is also proposing the creation of a "label of origin" to support and promote the use of EU cotton.