

Cotton: production aid

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Special Report No 13/2003 on production aid for cotton. This report contains the Court's findings from a sound financial management audit of the production aid scheme for cotton. This scheme had previously been audited in the early 1990s. The objectives of the audit were to examine: - the degree of monitoring of the operation of the scheme in the Member States; - whether the scheme is an efficient and effective means of providing support to cotton producers; - the impact of the scheme on production, the quality of the cotton produced, alternative crop production and the environment; - the reliability of the internal control system operating in the Member States and the legality and regularity of payments made under the regime. The main findings of the Court are: - amending legislation introduced in 2002 defines eligibility criteria. Only cotton coming from areas declared under IACS and not from areas restricted for environmental reasons is eligible under the scheme. Greek authorities are constrained by failings in the operation of IACS when assessing the eligibility of cotton and the ability of the Commission to monitor this aspect of the scheme has been weakened. If ineligible production goes undetected, all producers are penalised through a higher penalty imposed by the stabiliser mechanism; - for the 2001/02 marketing year, Greek authorities estimated that about 10 % of the land planted with cotton was either not declared under IACS or declared as planted with another crop. In the case of the latter, producers may receive aid twice for the same parcels of land, once on the basis of the arable crop declaration and again on the basis of the actual production of cotton; - cotton production can have a negative impact on the environment and Member States should determine and adopt the measures they consider suitable to regulate the use of land for cotton production. Currently no information is available on the application of this provision since it is not continuously monitored by the Commission; - budget neutrality cannot be assured as market prices for cotton can be volatile and Community expenditure rises in those years when market prices are consistently low. In contrast, in those years when market prices are high, additional support is paid to the producers provided certain conditions are met. This measure mitigates the effect of the stabiliser mechanism; - the Commission is unaware of the effectiveness of the incentive given to the ginnerers to improve the quality of the cotton produced. In addition, it has not compared funding received by the ginnerers with the actual costs incurred by them. The Commission had indicated that it wished to introduce a reform of the present scheme to be effective from the marketing year commencing on 1 September 2003. This deadline has not been met and it is intended to submit a proposal for a reform of the aid scheme for cotton to the Council and the European Parliament in the autumn of 2003. The Court recommends that the Commission takes the opportunity of the proposed reform to address weaknesses in the present regime. The Court recommends that the Commission takes the opportunity to address the weaknesses identified in the present regime when formulating its reform proposals. In particular, the Court recommends that the Commission : - considers the incorporation of a mechanism which ensures budget neutrality and which does not mitigate against the impact of the stabiliser mechanism; - has regard to the relative attractiveness of the aid for cotton and the effect of the aid on quantities produced; - obtains data on the negative impact of cotton production on the environment. With regard to the present scheme the Court recommends that the Commission: - ensures that the controls operated in Member States for establishing eligibility for aid are transparent, well-founded and applied consistently; - reviews the financial arrangements for the ginnerers; - examines the effectiveness of the incentive offered to improve the quality of the cotton produced.