

The EU cereals regime

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1. INTRODUCTION

The Common Market Organisation (CMO) for cereals, established on 1 July 1967¹, has been reformed a number of times. The main reform, the “MacSharry reform”, was agreed in 1992 and fully implemented in 1995/96. It substantially reduced guaranteed prices with the aim of restoring the competitiveness of EU products, helped adapt the quantities supplied to demand via compulsory set-aside and introduced compensatory payments for the loss in farmers' incomes caused by the cut in the intervention price (from 155 ECU to 90 ECU).

The revision process was deepened by Agenda 2000 and then by the 2003 CAP reform, which introduced the decoupling of area payments for cereal producers. The new Single Farm Payment was linked to cross-compliance, an obligation to comply with environmental, public health and animal welfare conditions and good agricultural practices.

Since the beginning, a central mechanism of the cereals CMO was the intervention system, under which cereals prices were supported by the public purchase and storage of cereals. In the 2003 reform, while the intervention price was not reduced, the scope of the system was made more focussed. Specific supplementary payments for durum wheat were modified and reduced.

The CAP Health Check in 2008 continued the reform process, in order to improve the market orientation of agriculture and to take into account environmental concerns and address challenges such as climate change, water management and the development of bioenergy. The compulsory set-aside requirement was removed, more direct payments were decoupled from production and the intervention regime was reviewed.

From 1st July 2008 the Common Market Organisation (CMO) for cereals was integrated into the Single CMO (Council Regulation (EC) No 1234/2007). Under the Single Common Market Organisation (SCMO) Regulation, measures applying to the cereals sector are classified under "Internal market" and "Trade with third countries".

2. INTERNAL MARKET

2.1. Public intervention

Public intervention in the EU was designed to support internal market prices. Some years ago this instrument allowed a large range of cereals to be bought in at fixed prices and without limit. Today its scope is limited and its purpose is to act as a safety-net when serious market disturbances occur.

Public intervention stocks reached their highest level in 1992/93, just before the MacSharry reform was implemented. The price cuts introduced by the reform made

¹ Although preparatory measures had gradually been introduced since 1962, see: Regulation No 19/62/EEC of the Council of 20 April 1962 on the progressive establishment of a common organisation of the market in cereals; Regulation No 120/67/EEC of the Council of 13 June 1967 on the common organisation of the market in cereals.

intervention less attractive for wheat, which regained competitiveness as animal feedstuff on the internal market.

Large quantities of barley and rye were again offered to intervention from 1997/98. For rye, intervention functioned as a regular outlet. It was therefore removed from the scope of intervention in 2003 and rye stocks were cleared in 2007/08.

From 2004/05, the EU's maize production increased with the accession of Hungary, along with other new Member States. Intervention became a competitive outlet for Hungarian maize, as prices had formerly been rather low in this landlocked country. A phasing out of maize intervention was therefore decided in 2007.

Poor harvests, tight supplies and high EU prices resulted in intervention stocks being cleared in 2007/08. However, following a bumper harvest in 2008/09 they built up again, with Low prices resulting in large quantities of barley being offered to intervention. Higher prices in 2010/11 allowed stocks to be cleared again.

2.1.1. Scope of public intervention

The scope of intervention, which was originally available at fixed prices and with no quantitative limits for common wheat, durum wheat, barley, rye, maize and sorghum harvested in the Union, has progressively narrowed.

As from 2010/11, intervention is open automatically during the intervention period only for common wheat. Durum wheat, barley, maize and sorghum have not been removed from the scope of intervention, but a quantitative limit has been set at "0".

The intervention period was initially adapted to the dates of harvesting in the Member States. However, this proved to be pointless, as farmers in the southern Member States did not sell cereals into intervention. In the context of the Health Check reform the Council therefore decided to harmonise the public intervention period throughout the EU. From 2010/11 onwards it has been fixed at 1st November to 31 May in all Member States.

2.1.2. Intervention price

The cereals sector was traditionally supported by high intervention prices which, since 1992, were lowered by successive CAP reforms (30% in the MacSharry reform and 15% in Agenda 2000).

Since 2001/02 the intervention price has been fixed at €101.31 per tonne for all eligible cereals². Under the Single CMO Regulation, the intervention price became the reference price.

Since the start of the 2010/11 marketing year a new system has applied:

- Buying-in at the fixed reference price will be operable only for **common wheat** up to a maximum quantity of 3 mio t per marketing year and by automatic tendering procedure above that ceiling.

² These are common wheat, durum wheat, maize, barley and sorghum

- For **durum wheat, maize, barley and sorghum** the buying-in ceiling is set at zero. If the market situation and, in particular, the development of market prices requires, the Commission may decide - with the support of the Single CMO management committee - to open public intervention beyond this zero limit, by tendering procedure. In special circumstances tenders may be launched in individual Member States or regions of a Member State, on the basis of recorded average market prices.

When tenders are opened the buying-in price will be determined in accordance with tendering procedures and the reference price will be the maximum buying-in price.

2.1.3. Disposal from intervention

In recent years, cereals held in intervention stores are mostly disposed of through sale by tender onto the domestic market. They are sold only when the prices offered by traders do not undercut local market prices, and when the offered price is higher than or equal to the reference price (= intervention price, €101.31 per tonne). Some quantities are released as food aid for the Most Deprived Programme (2.79 mio t in 2011 and 162 000 t in 2012)³.

Intervention stocks can also be exported to third countries through export tenders. In recent years the Commission has been reluctant to use this possibility, however, as it might be considered as involving export subsidies.

2.1.4. Implementing rules for cereals intervention

Detailed rules⁴ have been laid down for the buying-in and selling of cereals by Member State intervention agencies, as well as methods of analysis for determining the quality of cereals. For common wheat, any holder of a homogeneous batch of not less than 80 tonnes harvested within the Union is entitled to offer it to the intervention agency during the intervention period. However, Member State intervention agencies may fix a higher minimum tonnage.

If an offer is admissible, the operator is informed as soon as possible of the store at which the cereals are to be taken over and of the delivery schedule. Intervention agencies must inform the operator within five working days following receipt if an offer is inadmissible.

2.1.5. Special market measures

Special intervention measures⁵ may be taken for any cereal if the market situation so dictates. This may happen if, in one or more region of the Union, market prices fall or threaten to fall below the intervention price (€101.31 per tonne). The nature and application of the special measures and the conditions and procedures for the sale or

³ Commission Regulation (EU) No 807/2010 of 14 September 2010 laying down detailed rules for the supply of food from intervention stocks for the benefit of the most deprived persons in the Union. (O.J. L 242 , 15/09/2010, p. 9.)

⁴ Commission Regulation (EU) No 1272/2009 of 11 December 2009 laying down common detailed rules for the implementation of Council Regulation (EC) No 1234/2007 as regards buying-in and selling of agricultural products under public intervention.

⁵ Article 47 of Council Regulation (EC) No 1234/2007

other means of disposal of the products subject to these measures shall be adopted by the Commission.

3. TRADE WITH THIRD COUNTRIES

3.1. Imports

Various measures have been put in place with the aim of avoiding imbalances on the EU market.

3.1.1. *Import licences*

Imports of cereals into the Union from third countries are subject to the issuing of an import licence⁶.

3.1.2. *Calculation of import duties for cereals*

- **Cereals tariffs under the GATT**

The Uruguay Round Agreement on Agriculture resulted in the conversion of nearly all variable import levies into fixed customs charges (i.e. tariff equivalents) as shown in the following table.

Product	Tariff in Euro per tonne
Durum wheat	148
Soft wheat	95
Rye	93
Barley	93
Oats	89
Maize (except seeds and certain hybrids)	94
Sorghum	94
Buckwheat	37
Millet	56
Triticale	93

However, it was established that for the major cereals (common wheat, durum wheat, barley, maize, rye and sorghum) the import price, including customs duties, should not be lower than 155% of the intervention price (ceiling system). To this end variable duties, which can never be higher than the bound tariffs in the table, were introduced for these commodities.

⁶ Commission Regulation (EC) No 376/2008 of 23 April 2008 laying down common detailed rules for the application of the system of import and export licences and advance fixing certificates for agricultural products and Commission Regulation (EC) No 1342/2003 of 28 July 2003 laying down special detailed rules for the application of the system of import and export licences for cereals and rice.

- **Variable import duties applying to imports of high quality wheat, durum wheat, rye, maize and sorghum**⁷

This system originates in an agreement between the USA and the EU and involves setting tariffs on the basis of separate world reference prices for six clearly defined types of cereal: high quality common wheat⁸, durum wheat (high, medium and low quality), maize, flint maize, sorghum and rye.

The duty applied to EU cereal imports is fixed on the basis of the difference between the EU intervention price for cereals multiplied by 1.55 and a representative cif (i.e. cost, insurance and freight) import price for these cereals at the port of Rotterdam.

The representative cif price for each type of cereal comprises three elements: its price on a world reference market, plus the cost of freight to a US export port (US Gulf or US Great Lakes/Duluth) plus the cost of freight between the US port and Rotterdam. This total is then converted into euros from dollars at the daily \$/€exchange rate.

The world reference markets used are two United States futures exchanges, as shown in the following table.

Reference varieties and exchanges

Cereal	Standard quality	Reference variety	Reference exchange
Common wheat	High	Hard Red Spring No 2	Minneapolis Grain Exchange
Durum wheat		Hard Amber Durum No 2	Minneapolis Grain Exchange
Maize, sorghum, rye		Yellow Corn No 3	Chicago Mercantile Exchange

Every day the Commission records the components needed to calculate the representative cif import prices for each cereal in the table. The import duties are normally fixed by the Commission every fortnight, on the 15th and the last working day of each month. However if, during the period of application of the duties, the average import duty calculated differs by €5 or more from that fixed, the corresponding adjustment is made.

The following reductions apply to the calculated import duties:

- 3 €/t if the port of unloading in the EU is located in the Mediterranean (beyond the Strait of Gibraltar) or Black Sea and if goods arrive via the Atlantic Ocean or via the Suez Canal;
- 2 €/t if the port of unloading in the Union is located on the Atlantic coast of the Iberian Peninsula, in the UK, Ireland, Denmark, Estonia, Latvia, Lithuania, Poland, Finland or Sweden and if the goods arrive via the Atlantic Ocean;

⁷ Commission Regulation (EC) No 642/2010 of 20 July 2010 on rules of application (cereal sector import duties) for Council Regulation (EC) No 1234/2007 (codified version)

⁸ High, medium and low quality wheat are defined in Regulation (EC) No 642/2010 according to, among other characteristics, protein content and specific weight.

- 24 €/t on flint maize meeting certain specifications. Within six months it must be processed into:
 - prepared foods obtained by swelling or roasting
 - groats or meal
 - worked grains (hulled, pearled, sliced or kibbled).

- **Fixed duties applying to other cereal products**

For other cereals, the tariffs in the table apply. For medium and low quality common wheat, barley and oats, the bound duty is set at a dissuasive level (95, 93 and 89 Euro per tonne, respectively).

All import levies on processed products made from cereals and on cereal-based compound feeding stuffs were "tariffied" or fixed from 1 July 1995.

- **Security**

For high quality wheat, the security payable is the difference between the low and medium quality wheat duty and the high quality wheat duty, except for the USA and Canada, for which export certificates are accepted.

3.1.3. *Tariff quotas*

Negotiations on border protection have led the Union to set reduced tariff imports quotas for some cereals.

- **Reduced tariff quota for maize and sorghum imported into Spain and Portugal⁹**

Import quotas at reduced duties into the Iberian Peninsula result from a WTO commitment, usually referred to as "*abatimento*". The scheme was introduced when Spain and Portugal's acceded to the EU, in order to preserve traditional maize trade from the USA. Since 1995, it has become an *erga omnes* Tariff Rate Quota.

The EU is committed to facilitating the annual import of 2 mio t of maize and 0.3 mio t of sorghum into Spain and 0.5 mio t of maize to Portugal (maximum tariff 50 €/tonne) at reduced import duty if necessary. In Spain, certain cereal substitutes (residues of starch manufacture from maize, brewing and distilling dregs and waste and citrus pulp residues) can also be counted towards the *abatimento*. Shortfalls in one year can be made up during the first five months of the following year.

In order to meet this import obligation, the Commission can take into account imports into Spain and Portugal at MFN duty or open a tendering procedure for imports at a reduced duty. In the event of a serious shortfall which cannot be made up by an extra tender at the beginning of the following year, the possibility exists for Spain and Portugal to proceed to direct purchases on the world market.

⁹ Commission Regulation (EC) n° 1296/2008 of 18 December 2008 laying down detailed rules for the application of tariff quotas for imports of maize and sorghum into Spain and imports of maize into Portugal.

Neither preferential imports – in particular from the Western Balkans and Moldavia - nor the 242 074 tonne duty-free quota (see below) can be taken into consideration for the purpose of complying with this obligation.

- **Principal fixed tariff import quotas for cereals**

Tariff Rate Quotas (TRQs) were introduced in 2003 for barley and low and medium quality wheat in response to large imports from the Community of Independent States. The duty on these had been calculated on the basis of higher US prices and they were able to enter the EU at very competitive rates. A duty-free maize quota was also introduced in 2006, following the 2004 enlargement.

All three import quotas are managed on a weekly basis according to the "simultaneous examination method". Applicants may submit only one license application per week to the appropriate Member State. Applications received by Member States are then submitted each week to the European Commission, which adopts a coefficient of attribution if the requests exceed the available quantity. Within the Commission, this system is managed by the Directorate General for Agriculture and Rural Development.

- Low and medium quality wheat¹⁰

For low and medium quality wheat, a maximum TRQ of 2 989 240 tonnes is open annually, including a country-specific quota of 572 000 tonnes earmarked for imports originating in the United States and 38 853 tonnes for those originating in Canada. The remaining 2 388 387 tonnes is split into four equal tranches of 594 597 tonnes, one of which is open each quarter to all third countries except the US and Canada.

The duty payable on imports under the quota is set at 12 €/tonne with a security for the import licences of 30 €/tonne.

The quota was increased by 6 787 t in 2006 following WTO negotiations, to take into account the 2004 enlargement. Bilateral negotiations led to an additional 853 t being earmarked for Canada.

The quota will be increased from 2012 onwards to take into account the accession to the EU (in 2007) of Romania and Bulgaria.

- Barley¹¹

For barley, a maximum annual TRQ of 306 215 tonnes is open. The duty payable on imports under the quota is set at 16 €/tonne. The quota will be increased from 2012 onwards to take into account the accession to the EU of Romania and Bulgaria.

- Maize¹²

¹⁰ Commission Regulation (EC) No 1067/2008 of 30 October 2008 opening and providing for the administration of Community tariff quotas for common wheat of a quality other than high quality from third countries and derogating from Council Regulation (EC) No 1234/2007

¹¹ Commission Regulation (EC) No 2305/2003 of 29 December 2003 opening and providing for the administration of a Community tariff quota for imports of barley from third countries

¹² Commission Regulation (EC) No 969/2006 of 29 June 2006 opening and providing for the administration of a Community tariff quota for imports of maize from third countries

Following the 2004 enlargement, the US and the EC agreed on the opening of a TRQ for maize to compensate the US for market losses. Since 2006 a duty-free quota of 242 074 t, split into two equal tranches, has been opened annually to all third countries.

The quota will be increased from 2012 onwards to take into account the accession to the EU of Romania and Bulgaria.

- **Other tariff quotas**

Several other tariff rate quotas for cereals and related products exist. These are managed on a "first come first served" basis, by which requests for use of the quota are accepted in chronological order of the day of acceptance of customs declarations. This system is managed by the Taxation and Customs Union Directorate General of the European Commission.

- Malting barley

A maximum annual TRQ of 50 000 tonnes of malting barley¹³ is open (order number 09.0076). The duty payable on imports under the quota is set at 8 €/tonne.

The quota will be increased from 2012 onwards to take into account the accession to the EU of Romania and Bulgaria.

- Other cereals

Several other quotas for cereals, by-products of cereal processing and animal feed preparations exist for all third countries¹⁴. Also, quotas exist for fish feed from Norway and the Faroe Islands.

These quotas are mostly not fully used and include an annual zero-duty TRQ of 300 000 tonnes of high quality durum wheat or high quality common wheat or spelt, opened each calendar year (order number 09 0075). Also an annual zero-duty TRQ of 50 000 tonnes of durum wheat is open each marketing year from 1 July to 30 June (order number 09 0074).

- Manioc, sweet potatoes and manioc starch

The import tariff on manioc was fixed at 6% *ad valorem* under the GATT Uruguay Round, but there are preferential regimes with several countries. A large TRQ was agreed with Thailand, the main manioc supplier.¹⁵ In addition TRQs for smaller quantities of manioc, sweet potatoes and manioc starch exist for other countries¹⁶. In

¹³ Commission Regulation (EC) No 1064/2009 of 4 November 2009 opening and providing for the administration of a Community import tariff quota for malting barley from third countries.

¹⁴ Commission Regulation (EC) No 2133/2001 of 30 October 2001 opening and providing for the administration of certain Community tariff quotas and tariff ceilings in the cereals sector and repealing Regulations (EC) No 1897/94, (EC) No 306/96, (EC) No 1827/96, (EC) No 1970/96, (EC) No 1405/97, (EC) No 1406/97, (EC) No 2492/98, (EC) No 2809/98 and (EC) No 778/1999

¹⁵ Commission Regulation (EC) No 1475/2007 of 13 December 2007 opening a Community tariff quota from 2008 for manioc originating from Thailand.

view of the changes to the CMO for cereals, imports of manioc and sweet potatoes have decreased very considerably.

3.1.4. Measures in case of disturbance on the world market¹⁷

Where quotations or prices on the world market reach a level that disrupts or threatens to disrupt the availability of supply on the Union market and where that situation is likely to continue or to deteriorate, the European Commission can intervene. In particular, it may suspend import duties in whole or in part for certain quantities.

In 2007/08, tight supplies led the Union to temporarily suspend customs duties on imports of the main cereals¹⁸. A first regulation, adopted by the Council in December 2007, applied until the end of the marketing year. The Commission was then empowered to prolong the measure after July 2008. The market situation finally improved and the Commission decided to reintroduce customs duties from 26 October 2008¹⁹.

3.2. Exports

3.2.1. Export licences

Most exports of cereals from the EU to third countries are subject to the issuing of export licences²⁰. Since 2008 no licence is needed for malt.

3.2.2. Export refunds²¹

As part of the WTO Uruguay Round Agreement, the EU committed to reducing its budgetary expenditure on export subsidies by 36% and the volume of subsidised exports by 21% over the six year period 1 July 1995 to 30 June 2001.

Today, the maximum quantity of subsidised cereals that can be exported is 25.2 million tonnes (2.34 billion €) comprising 14.4 million tonnes of wheat and wheat flour (1.29 billion €) and 10.8 million tonnes of coarse grains (1.05 billion €).

¹⁶ Commission Regulation (EU) No 1085/2010 of 25 November 2010 opening and providing for the administration of certain annual tariff quotas for importing sweet potatoes, manioc, manioc starch and other products falling within CN codes 0714 90 11 and 0714 90 19 and amending Regulation (EU) No 1000/2010.

¹⁷ Council Regulation (EC) No 1234/2007, Article 187

¹⁸ Council Regulation (EC) No 1/2008 of 20 December 2007 temporarily suspending customs duties on imports of certain cereals for the 2007/2008 marketing year and Commission Regulation (EC) No 608/2008 of 26 June 2008 temporarily suspending customs duties on imports of certain cereals for the 2008/2009 marketing year.

¹⁹ Commission Regulation (EC) No 1039/2008 of 22 October 2008 reintroducing customs duties on imports of certain cereals for the 2008/09 marketing year

²⁰ Commission Regulation (EC) No 376/2008 of 23 April 2008 laying down common detailed rules for the application of the system of import and export licences and advance fixing certificates for agricultural products and Commission Regulation (EC) No 1342/2003 of 28 July 2003 laying down special detailed rules for the application of the system of import and export licences for cereals and rice.

²¹ Commission Regulation (EC) No 1501/95 of 29 June 1995 laying down certain detailed rules for the application of Council Regulation (EEC) No 1766/92 on the granting of export refunds on cereals and the measures to be taken in the event of disturbance on the market for cereals

As EU intervention prices gradually fell increasingly into line with world market prices, following successive reforms of the CAP, EU exports became less and less dependant on export subsidies, which were reduced from 3.1 billion € in 1992 to 10 million € in 2008.

Since September 2006 no export refunds have been granted for cereals and since November 2007 for processed cereal products.

3.2.3. Export controls

When world cereals prices approach prices on the internal market, the Commission may take action to prevent exports from leaving the Union. It may:

- impose an export tax
- fix a time limit for the issuing of export licences
- totally or partially suspend the issuing of export licences
- totally or partially reject outstanding applications for export licences.

As at September 2011, none of these measures has been used for many years.

4. SAFEGUARD MEASURES

Appropriate measures may be taken as a safeguard when quotations or prices on the world market for one or more cereal reach a level that disrupts or threatens to disrupt the availability of supply on the Union market and where that situation is likely to continue and deteriorate. These measures can apply only in case of extreme emergency. Up to now the Commission has preferred to enter into negotiations to introduce a TRQ, if necessary.

5. OTHER RELEVANT MEASURES

Cereals farmers may benefit from non-crop specific **direct payments** under the Single Payment scheme.

Compulsory "**set-aside**" (fallowing), which was introduced by the MacSharry reform, was abolished as from 2008/09.

6. EAGF EXPENDITURE ON THE CEREALS SECTOR

Since 2006/07 direct support to farmers has been decoupled from production and can no longer be attributed to any specific sector. Whereas in the 1990s large amounts were still spent annually on export refunds, this type of expenditure has been completely eliminated in recent years and the only remaining cereals-specific expenditure is for public storage (intervention).

Expenditure on public storage has also decreased and was even negative in 2007 and 2008. Because supplies were tight in 2007/08 prices were high and intervention stocks were sold at a higher price than had been paid for buying-in. In 2009 and 2010, expenditure on public storage increased again, due to the large quantities of barley taken into intervention when prices were low, while expenditure is likely to be negative again in 2011, in view of the sale of stocks at prices considerably above the buying-in price.