

Common organisation of agricultural markets

CMO: aid granted in the framework of the German Alcohol Monopoly

2010/0183(COD) - 24/06/2010 - Document attached to the procedure

In accordance with its obligations under Article 184(3) of Council Regulation (EC) No 1234/2007 (Single CMO Regulation), the Commission presents its report on the application of the derogation provided in respect of the German Alcohol Monopoly. (BfB5).

In the 2007/08 production year, small-scale distilleries, distillery users and fruit cooperative distilleries produced around 75.000 hl of alcohol, of which around 50.000 hl was delivered to the Federal Monopoly Administration for Alcohol (BfB), which is responsible for the organisation of this market in Germany. Council Regulation (EC) No 1234/2007 fixed the maximum amount of State aid to be granted by the German government through the Monopoly at EUR 110 million. This limit has been respected and subsidies decreased from EUR 110 million in 2003 to almost EUR 80 million in 2008. The quantities sold by the Monopoly decreased accordingly in that period from 640.000 hl in 2003 to 555.000 hl in 2008.

The reduction of the budget was linked to the reform of the Monopoly undertaken in 1999. This reform resulted in commercial bonded distilleries leaving the Monopoly in return for compensation payments of up to EUR 257.50 per hl of nominal distilling rights, depending on the type of distillery and the date of withdrawal. Those payments are State aid granted over five marketing years to help distilleries to survive in the open market. Between 2001 and 2008 about 70 distilleries decided to leave the Monopoly against such compensation. The 1999 reform also introduced cuts in purchase prices for the agricultural distilleries remaining within the Alcohol Monopoly.

Further reductions in the annual aid resulted from general reductions in all of the financial aid to the Monopoly provided by the Federal Government which was accompanied by a reduction of the authorised annual production for agricultural distilleries of up to 50% of their nominal distilling rights.

The report notes that whilst, the aid granted by the Monopoly is an operational aid, otherwise not allowed by the State aid rules, the distorting effect of this State aid is limited since the volumes of alcohol benefiting from it are quite small and may currently be estimated to less than 10% of the total production of agricultural ethyl alcohol in Germany. The German Alcohol Monopoly has several positive effects:

- it plays an important role in some regions where small and middle size farms still rely on the aid received for alcohol distillation. In 2009 87% of all the agricultural distilleries under the Monopoly are located in five Länder: Bavaria (157), Rhineland-Palatinate (115), North Rhine-Westphalia (118), Lower Saxony and Bremen (93) and Baden-Württemberg (79);
- it allows the small fruit distilleries, whose production is local and very limited, to maintain the traditional orchards and to stabilise producers' incomes. In the case of small-scale distilleries the aid received through the Monopoly is limited; however, it is considered necessary for farmers to continue cultivating fruit trees which are an important element of the landscape. However, in other regions of neighbouring Member States which are not covered by the Monopoly, the landscape is comparable to the German regions.

Clearly, since the Council granted a derogation for the German Alcohol Monopoly only for a limited period of time, the distilleries operating within it will have to undergo restructuring in order to prepare for an elimination of the State aid in the near future. Some distilleries have thus already made efforts to

prepare for their entry into the free market by creating cooperatives, investing in less energy consuming equipments to reduce production costs and increasingly marketing their alcohol directly. However, more time is needed to facilitate this adaptation process, and to allow distillers to survive on the free market.

Considering these points, as well as the fact that Germany explicitly asked for an extension of the derogation, it is proposed that the Monopoly may continue for a limited time. Such a final transitional period could be granted in order to facilitate the transition and the necessary restructuring of distilleries. It must however be ascertained that the restrictions of the access to the market for foreign companies and the synthetic alcohol producers are lifted as from 1 January 2011.

It is proposed to phase out the Monopoly over a few years. The agricultural bonded distilleries processing cereals and potatoes may continue to receive a gradually decreasing aid under the Monopoly only until the end of 2013. Only the small-scale flat-rate distilleries, distilleries users and fruit cooperative distilleries which produce very limited volumes of alcohol (60.000 hl annually) will continue to operate under the Monopoly, and benefit from the aid, until the end of 2017.

The Monopoly will not be extended beyond that date. After the end of the transitional period, Germany could use the possibility to transfer at least part of the funds used for the Monopoly into Rural Development to finance for example measures aimed at improving processing and marketing, development of new products or improving cooperation between farmers and distilleries or protecting the traditional style orchards, which according to the German authorities, represent particular environmental benefits.