COMMISSION OF THE EUROPEAN COMMUNITIES

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OLIVE OIL IN AN ENLARGED COMMUNITY

(Communication from the Commission to the Council)

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1. The European Council at its meeting in Copenhagen on 3/4 December 1982 invited the Council of Ministers (Agriculture) to complete urgently before March, on the basis of Commission proposals, the revision of existing rules for certain Mediterranean products in the context of an enlargement of the Community to include Spain and Portugal.

2. The Commission presented to the Council in October 1981 a communication (COM(81)610 of October 15, 1981) which set out an overall approach to Community enlargement in the sector of olive oil and vegetable oils. Some of the measures suggested at that time have since become the subject of formal proposals.

   The Commission - in the light of the extensive discussions which have already taken place on olive oil, oilseeds and other vegetable oils - remains of the opinion that the measures it has suggested represent a balanced ensemble and should be pursued by the Council of Ministers.

   It takes this opportunity to present a revised analysis of the vegetable and olive oil market in the enlarged Community and to give further precision to some of the measures suggested in 1981.

Analysis: the actual and potential balance of supply and demand

3. It is recalled that in a recent representative period the estimated self-supply rate of the Community of 9 was about 86%, of Greece was about 128% and consequently of the Community of 10 was about 96%. References to "surpluses" of olive oil are for the time being without foundation. Olive trees are subject to a natural cycle of varying crops and consequently it is normal that this market organization should even out the volume of production from season to season. This phenomenon will be seen again in 1983 when the volume of olive oil production in Italy will be below average and it is expected that the greater part of the current intervention stock in the Community will be sold for internal consumption.

4. The current trends in the Community indicate that it would be reasonable to plan incoming years on the basis of a self-supply rate in the Community of 10 of about 100%. The Community will continue to import some oil from countries linked by special agreement, like Tunisia. Recent experience shows that there is a small but reliable outlet for our oil outside the Community. Thus there should not be a significant practical problem of disposal of olive oil in the existing Community. The budget costs arise from the decisions of the Community and from international commitments to support producers' revenues at the current level, while admitting at zero or low duties, the import of other oilseeds and vegetable oils. A similar situation applies to the support of the revenue of Community producers of colza and the resulting budget costs.

5. The estimated olive oil self-supply rate of Spain and Portugal in a recent period was 135% and 98% respectively. Thus, all other factors omitted, the self-supply rate of a Community of 12 would be 107%, giving an exportable surplus of about 85,000 tonnes. Spain has been able in recent years to dispose of a surplus greater than this. It is necessary, however, to make a more dynamic analysis. On this basis, and subject to a number of assumptions, the Commission considers that the volume by which production would exceed consumption in a Community of 12 would rise to about 230,000 tonnes (see Annex A). There are two main reasons for this -

   1) <u>production</u>: the assumption that on present trends there would no longer be a deficit in the existing Community and that there would be some increase in production in Spain and Portugal. It is difficult to forecast with confidence the size of this increase.

   2) <u>consumption</u>: a dramatic fall in consumption of olive oil (an estimated fall of about 110,000 tonnes) in Spain and Portugal. The cause of this would be the dismantling of the existing marketing systems for vegetable oils in these countries which currently control the volume of other vegetable oils (e.g. soya oil) on their internal markets and thus maintain the consumption of olive oil at a relatively high level.

6. "On this basis the Commission provisionally estimated that the accession of Spain and Portugal would give rise to additional annual costs for the Community budget, from the end of the transitional period, of about 780 million ECU at current prices (this is the figure in COM(81)610 final brought up to the situation existing in 1982)".

Proposals

7. The Commission takes this opportunity to give added precision to a number of elements contained in its communication of October 1981 (COM(81)610 of October 15, 1981).

1) Aid for consumption of olive oil: This aid must be, and must be seen to be, effective to offset the changes in Spain and Portugal. For this reason the Commission has proposed (COM(82)85 final) that in an enlarged Community the aid should be calculated on a basis which should ensure a sufficient level of consumption. The Commission invites the Council to endorse this approach. The cost would be borne by the Community budget.

2) Incentives for conversion to other products will have some modest effect on the balance of supply and demand. For this purpose the Commission is now formally proposing such a scheme in the integrated Mediterranean programmes shortly to be presented to the Council.

3) The transition period for vegetable oils (other than olive oil) and other oilseeds should be set at 10 years. Within this period there could be a period during which the existing Spanish and Portuguese marketing arrangements for other oilseeds and vegetable oils could be maintained. This period of "stand still" should be chosen in such a way that the adjustment from the present system in Spain and Portugal to the Community system can take place without market disruption.

It goes without saying that this period of "stand still" for other oilseeds and vegetable oils would not affect either

a) the gradual application from the beginning of the transitional period of the Community regime for oilcake and meal (the other principal product of oilseeds); or

b) the gradual application from the beginning of the transitional period of the Community target and intervention prices and production aid for olive oil in Spain and Portugal (the consumption aid would not be required in Spain and Portugal so long as a price relationship with other competing oils at a level not above 2 : 1 were maintained, in addition to the retention of the present import and marketing arrangements for those products); or

c) the gradual application from the beginning of the transitional period of the Community support system for producers of other oilseeds, taking account of the actual price relationship in Spain and Portugal.

4) <u>Improved controls relating to the olive oil production aid</u>: There must be an improvement in the controls relating to the production aid for olive oil as foreseen in the Commission proposal of last year (COM(82)397 final).

This must be accompanied by the improvements in more detailed practical arrangements that are now under discussion with the Member States mainly concerned.

5) <u>Negotiations in the context of enlargement (Article XXIV.6 of GATT)</u>: Any credit available to the Community could be used to institute tariff arrangements for vegetable oil and oilseed imports in excess of the amount currently imported or to establish import arrangements for vegetable oils and oilseeds representing the mean of the existing tariff protection in the Community and in Spain/Portugal or to take any equivalent measure.

8. It is, of course, clear that the approach set out in paragraph 7, point 3) will need to be submitted to the candidate countries in the context of the accession negotiations and it would be necessary for the negotiation conference to decide on its adoption.

9. The Commission is aware that some non-producer member states have suggested in the course of the long discussions on olive oil that there should be certain other changes in the present market organization, for example the abolition of the production aid. The Commission has examined this suggestion but is of the opinion that

- the consequential increase in support prices which would be necessary in order to protect producers' revenues would be likely to increase the volume of intervention and to lift the consumption aid to too high a level

- subject to certain necessary improvements in controls (currently under discussion in the Commission and with the member states most directly concerned), the present system can provide an adequate guarantee to producers in an enlarged Community and it would be wrong to seek to dismantle any of the major elements

- it is nonetheless essential that the limits on the area of olive trees eligible for production aid (Regulation No 136/66/EEC as amended by Regulation (EEC) No 3454/80) in the Community of 10 are strictly applied and that a similarly strict rule is applied in Spain and Portugal. The Commission invites the Council to adopt the proposal which it has made (COM(82) 10 final, Volume III pages 61-62).

10. The Commission hopes that this revised market analysis and, in particular, the clarification of its earlier Communication (COM(81)610 of October 1981) contained in paragraph 7 will enable the Council of Ministers to conclude its discussions on this dossier.

Annex A

PATTERN OF OLIVE OIL SUPPLY AND DEMAND

	EEC(9)	Greece	EEC(10)	Spain	Portugal	EEC(12)
A. Present balance (av. 1975/76 to 1980/81)						
Production	538	250	788	463	45	1 296
Consumption	629	195	824	344	46	1 214
Self-supply rate	86	128	96	135	98	107
B. Forecast balance if no changes made						
Production	538	250	788	463	45	1 296
Consumption	629	156	785	242	36	1 063
Self-supply rate	86	160	100	191	125	122
C. Forecast balance if 2:1 ratio maintained between prices of olive oil and competing oils						
Production	538	250	788	463	45	1 296
Consumption	692	175	867	310	41	1 218
Self-supply rate	78	143	91	149	110	106
D. Forecast balance if some features of present systems in Spain and Portugal retained						
Production	538	250	788	463	45	1 296
Consumption	629	156	785	344	46	1 175
Self-supply rate	86	160	100	135	98	110