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**NOTE TO THE COUNCIL OF MINISTERS AND
TO THE EUROPEAN PARLIAMENT
ON THE OLIVE AND OLIVE OIL SECTOR (INCLUDING
ECONOMIC, CULTURAL, REGIONAL, SOCIAL AND
ENVIRONMENTAL ASPECTS), THE CURRENT COMMON
MARKET ORGANISATION, THE NEED FOR A REFORM AND
THE ALTERNATIVES ENVISAGED**

-OPTIONS PAPER-

(presented by the Commission)

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I. INTRODUCTION:

History

The present olive oil regime was introduced at a time when the Community had only one major producer and no regional policy. It has served its original purpose well. Faithful to the objectives of Article 39 of the Treaty of Rome, it has encouraged community production, supported farm incomes and maintained supply to consumers as well as guaranteeing a degree of competitiveness for olive oil vis à vis rival seed oils and providing a much needed injection of community funds into certain areas of the original producer member states, Italy and France.

However, as with other parts of the pre-1992 Common Agricultural Policy, the approach was fairly generous and the funds dedicated to the sector poorly targeted. A system which suited the above mentioned countries (given the original community's minor role in world production), was far less well adapted to the extended community including three new olive oil producing member states, Greece, Spain and Portugal. Prior to accession these countries were a source of third country imports to the Community and their accession brought the Community's share of world production to 80%. The accession of Greece but, above all, Spain and Portugal, transformed the Community's degree of self-sufficiency. From net importer the Community moved to net exporter status.

When Spain applied to join the Community, there were doubts as to whether the existing olive oil regime was going to prove appropriate. The solution found in the accession negotiations was to apply an exceptionally long transition period. The hope was that, by applying the rest of the CAP in Spain before the olive oil regime was fully applied, the risk of excessive conversion of land from other crops could be avoided. This transition period served to reduce the shock of a doubling of community production. However, as the production aid in the new member states progressed from an almost insignificant national aid to a level, under the Community regime, which had been conceived as suitable for the original producer countries, the incentive to expand and take advantage of the system proved to be great. It is important to remember that a policy which stimulates production in the olive oil sector will produce its effects after a longer period of time than, for example, a similar policy in the arable sector. This is due to the 3 or 4 years delay for new production to come on stream as young trees reach productive age. A decade of planting in Spain is now bearing fruit in terms of real production and has, according to professional sources, increased the long term potential of Spanish production, in a good year, to anything up to a million metric tons. The maximum guaranteed quantity for the whole EU is only 1.35 million tons, and this is a figure which corresponds well to home demand and exports, taking into account our import obligations, in particular 46,000 tones per year from Tunisia. That we have not yet encountered any real problems with surplus production recently is largely fortuitous and is due to the fact that Spain has had two consecutive low harvests owing to severe drought.

The Portuguese authorities have explained on a number of occasions that Portugal has been rather slower than Spain in replanting its by now aging olive groves. However, there is a potential and a will to return to the kinds of production levels which pertained in the immediate post-war period. If Portugal has been slower off the mark in its replanting programmes, it is probably due to the overall economic situation after the revolution and the fact that, because of the Portuguese transition period, the production aid has only recently begun to be really attractive.

Changes were introduced into the old olive oil regime during the Spanish and Portuguese transition period. A stabiliser mechanism was introduced, based on the cereals stabiliser which had been introduced two years earlier. Under this mechanism, cumulative reductions in the intervention price are made each time the maximum guaranteed quantity is exceeded. This mechanism applies in tandem with an earlier maximum guaranteed quantity system involving a reduction of the production aid in the case of overshoot. These budgetary stabilisers have gone some way to containing increases in expenditure but the risk of returning to the days of surplus is still present. When new plantations come into production, the production aid stabiliser will protect the budget for production aid but will not resolve the problem of surplus olive oil which will then arise. Home consumption, particularly in Spain, has been declining in recent years, and, attractive as our export markets may be, the potential of the United States and Japan to absorb significant quantities of what is for them an expensive luxury product, is limited, as, incidentally, is the scope for exporting with refunds. The Uruguay Round GATT limits which are, at present, for 140,500 tons will reduce to 115,000 tons over a four year period.

Socio-economic aspects

Olive oil production, is confronted with a variety of different technological, structural and social challenges. In most of the main producer countries, mechanisation of cultivation and harvesting is still in its infancy. Much reliance is placed on seasonal workers; this provides an undeniable social benefit in terms of part-time employment. Seasonal migration takes place at harvest time and, particularly in some regions of the more industrialised producer countries, there are labour shortages at the time of the olive harvest.

The botanical characteristics of the olive tree play a fundamental role in the economy of olive oil. It is a perennial and permanent culture and this means that investment in olive trees is a long term affair unlike the short term economic decisions taken for annual crops. Account has to be taken of the early unproductive years of the olive tree as well as of its cyclical productivity in years to come.

The geographical situation of olive production, mainly around the Mediterranean basin, also leads to specific socio-economic characteristics. Olive tree cultivation takes the form of a mono-culture in certain vast regions which are ecologically and geographically fragile. This


fragility limits the degree of intensification which can take place on the hills and mountainsides of these regions where the olive tree is one of the rare agricultural alternatives on offer. It is also one of the only alternatives on offer for environmental conservation. A characteristic of Mediterranean regions, lack of water, plays an important role in the decision to cultivate olive trees today as it did in the past. While the olive tree can survive in semi-arid conditions, lack of water has a direct effect on production levels. Bringing water to the trees through irrigation is another major cost factor in the production of olives.

Structural problems arise in the sector which are due to its great seasonality in terms of employment both on the field and in the mills. Harvesting takes place intensively over a short period and mills and producers often lack the necessary reception and storage facilities. Pressure is also put on the means of transporting the olives from field to mill. The difficulties associated with mills not being able to crush all the olives on arrival leads to quality problems. The acidity of the olive oil produced from olives which have been stored for some time before crushing increases and the oil has to be refined for human consumption. Centralisation of mills can be a positive factor in terms of economic rationalisation but only if speedy crushing of the olives can be guaranteed. Otherwise those regions where there exist many small mills close to the collection sites of the olives can generally offer a far higher quality of product with ensuing higher returns for producer and miller.

Olive oil production tends to be well integrated into the economic structure of the regions where olives are produced. Production of olives and crushing are generally family affairs. These can develop into co-operative structures or small industries if an artisanal nature and are well suited to give an impetus to economic activity in areas of the community which are classified as less favoured and which are, generally speaking, little industrialised and where overall unemployment is high.

In the mediterranean regions of the EU where olive oil is produced the sector accounts directly or indirectly for 27% of employment. This average figure increases in major production areas such as the province of Jaen in Andalusia where a far higher part of the population obtains its livelihood from the sector albeit, in the case of agricultural labour, on a seasonal basis. Despite the uninterrupted appearance of the landscape in areas of olive tree monoculture, the properties are generally speaking very small and fragmented.

The Community has used the Common Market Organisation for Olive Oil as an opportunity to improve the economic conditions of some of its less favoured areas by supporting a sector which is well suited to the regions of production, which is labour intensive at the cultivation stage and down stream of the cultivation stage and has, hitherto, not been seriously out of balance.




GATT Obligations

The current regime has been brought into conformity with GATT obligations by the 1994 regulation which amended all the basic regulations in the light of the conclusions of the Uruguay Round. One of the main effects on the management of the sector brought about by the Marrakesh Agreement is the degressive limit on expenditure and total quantities of exports made with export refund. In the 1995/6 marketing year this limit was 140,500 tonnes and final exports for 1995/6 were of around 138,000 tonnes. Quantities under the ceiling can be carried over to the following year. However under the GATT obligations there is a decreasing ceiling which will be 115,000 tonnes after six years. The 1995 Price Package saw the resolution of some outstanding and fairly minor problems involving the import levy. Food aid and quantities exported under the Inward Processing regulation do not count against the GATT ceiling.

Consumption and Cultural Considerations.

Our obligations under article 39 of the Treaty of Rome also require that the CMO should make sure that the traditional consumers, as well as the new more affluent purchasers of olive oil, can enjoy a product which is reasonably priced and of irreproachable quality. The healthy image of olive oil, and in particular the worldwide interest in Mediterranean diet, has led to a remarkable increase in demand outside the EU and in some of the EU's non-producer member states. At the same time, and despite the overall decline in consumption in some producer countries in recent years, olive oil is still a major component of their every day cuisine. It is not just the latest fad of the food conscious but intricately linked with the cultural and culinary heritage of the Mediterranean regions. A contribution to the reduction of production costs of such a basic item in the staple diet of millions is comparable to our support for the other major agricultural sectors such as cereals, oilseeds and beef. A specific quality policy as well as promotion measures should continue to complement the main thrust of the CMO whatever the system of producer support chosen. It is, indeed, the quality image of olive oil as well as its predominant position in Mediterranean culture which allow it to compete with other oils despite the price difference.



Environmental factors.

The presence of olive trees in the producer regions, and elsewhere, can also be an important environmental factor. There are, broadly speaking, three types of olive production system: traditional groves, typically planted on terraces and extensively managed, intermediate plantations which follow traditional patterns but which are managed semi-intensively and modern plantations of smaller varieties of tree, planted at high density and intensively managed, often with irrigation. The current regime tends to encourage the third category which is broadly speaking the least satisfactory in environmental terms. Indeed, in some areas, traditional olive groves are being up-rooted to make way for more modern mechanised production with resulting negative effects on local flora and a lack of habitat diversity for fauna. The conversion of unsuitable sites to olive production such as steep hills where repeated cultivation causes soil erosion is a growing phenomenon. The harmful effects of pesticide use cannot be underestimated and are also a product of a system which puts a premium on high production levels. The more olives produced the greater the production aid (within the limits of the stabiliser). A comparison of the use of pesticides in olive production with pesticides used for other agricultural crops might well be favourable to olive production but it has to be borne in mind that areas typically used for the cultivation of olive trees tend to be more fragile in environmental terms.

While the more intensive type of production may be environmentally harmful, the presence of traditional groves can be beneficial as a more natural habitat for plants and animals. In general the less intensive the cultivation of the trees which takes place the better in purely environmental terms although, clearly, this runs contrary to commercial considerations. It may also run contrary to the need to fight against fires in the mediterranean regions and the need to halt the spread of desertification. In fact olive groves can act as efficient fire breaks and are often the last form of vegetation in marginal areas bordering with semi-desert landscape.

Promotion

The promotion campaigns financed from a deduction from the consumption aid concern both the community market and certain third country markets.

1) The promotion policy was launched in the Community in the early 1980's and has contributed significantly in slowing down and finally halting the drop in consumption which was taking place in Italy due to competition from other far cheaper vegetable oils. Given the very fragmented nature of both production and commercialisation of olive oil at that time, the Community considered it necessary to complete the promotion and publicity campaigns carried out by private firms with efficient community campaigns designed to remedy market imbalance. Community promotion is neutral and generic and only uses positive arguments, avoiding all forms of comparative publicity. It makes no reference either to the brand or to the origin of the olive oil.

There have been six promotion campaigns since 1981 with a progressive enlargement of the scope of the actions as well as of the budget. The sixth campaign was launched in July 1996 and covers twelve member states. It disposes of a budget of 30 million ECU for two years and is based upon a two pronged strategy: firstly, scientific information on olive oil for the medical and para-medical world and, secondly, publicity and public relations concerning the nutritional and gastronomic properties of olive oil as well as information on the different types of oil which are aimed at the general public.

While it is difficult to assess the precise impact of the promotion campaigns the overall results appear satisfactory. If the original aim was to halt the slide in Italian consumption, something which was achieved very satisfactorily, there has been a more recent consolidation of consumption of olive oil in Spain and Portugal despite the opening up of their oils and fats markets to seed oils. Knowledge of the health properties of olive oil and its quality image have been reinforced by the campaigns. There has also been an increasing interest in olive oil in the non-producer member states. Following the first campaign launched in the United Kingdom and in Ireland in 1991 there was an increase in consumption of some 30%, although in absolute terms even a major increase in the non-producer member states cannot compensate for even a small fall in consumption in the producer member states where consumption figures are of a totally different order.

2) Promotion to third countries is carried out by the IOOC. However the funds used for this activity derive almost entirely from the community. Over and above the community's obligatory contribution to the IOOC, some 4.5 million ECU are contributed on a voluntary basis for export promotion. The main markets concerned are the U.S.A., Canada, Australia, Japan and Argentina. From 1997 actions will begin in Brazil and South-East Asia. Results obtained by the IOOC have been extremely satisfactory with, for example increases in exports to the U.S.A. from some 40,000 tonnes in 1983/84 to 126,500 tonnes in 1994/95 and, to Japan, from 4,000 tonnes in 1991 to some 12,000 tonnes already in the first half of 1996.

Control and Fraud.

There are inherent defects in the CMO which have become increasingly apparent over time and which mean that efficient control is not always possible. Both the Parliament's Budgetary Control Committee and the Court of Auditors have criticised the regime and demanded change. It is a great temptation for the small producer either to claim his flat-rate aid and sell his olives on to a large producer who reclaims the production aid for the same olives or to sell them as table olives. Furthermore it has proven to be impossible to control the multitude of oil mills (some 13,000) which are often only in use for a few weeks per year during a period extending from November to June. Producer and mill owner have a common interest in declaring high production figures. Oil production declarations can be exaggerated, and backed up, for example, by running the machinery empty to simulate activity in terms of electricity and water bills.

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The difficulties involved in controlling production aid gave rise to a number of Council decisions increasing the maximum quantity of oil produced in order to qualify for small producer status from 100 kg to 500 kg thus decreasing the number of producers to be controlled. However, the inherent defect in the system remained, namely the common interest of producer and mill owner to declare high figures. Fraud has been detected in the operation of the consumption aid and there have been problems with the quality of oils placed in intervention. Fraud has also been detected in quantities exported with the export refund. Unfortunately, and particularly in years when olive oil prices are high, it is extremely tempting to mix olive oil with seed oil and make a profit at the expense of the consumer. This practice is particularly easy in the context of uncontrolled door to door sales of oil in large tins, a traditional outlet in Greece and the production areas of Italy, but illegal activity of this kind has also been detected in the Iberian countries. A major fraud, some years ago, involved denatured rape-seed oil sold as olive oil in Spain. Despite serious efforts by the Spanish authorities to control illegal mixtures, a number of cases of Spanish seed oil/olive oil mixtures have been detected in recent months(both in Spain and in other EU member states).

Another difficulty concerns figures presented by member states which are linked to the payment of aid. An attempt by the Commission to correct figures a few years ago has given rise to a court case which is still in progress. Nevertheless, some production figures which would seem to be disconnected from the evidence of the market place are still presented. For example, despite production declarations amounting to a record harvest in the 1995/6 marketing year in Italy, prices remained high throughout the year and operators complained about the scarcity of raw material.

Control missions in the member states have also raised doubts about the yields transmitted for the payment of the flat-rate aid, and the number of trees. Trees are easier to control than figures relating to olive oil production, but they still need to be counted and registered in four out of five producer member states. Italy has completed its register but this cannot be fully relied upon as it requires substantial up-dating. This is in progress. Work is in progress in Spain and only at a preliminary stage in Portugal and Greece.

II. THE OLIVE OIL AND OLIVE MARKET SITUATION IN THE WORLD AND IN THE EU

Global figures:

OLIVE OIL:

Olive oil represents around 3.2% of world production of edible vegetable oils and 3.3% of consumption. Most of the world's production and most consumption is to be found in and around the Mediterranean basin. Elsewhere production is very local and consumption minimal. Recently markets have developed in the USA, Australia, Canada and Japan.

The area under olive trees in the EU is around 5 million hectares and this represents around 70% of the world's total area under olive trees. There are around 2 million holdings and 460 million productive trees(round figures).

World production of olive oil is on average 1.8 million tonnes of which EU production is 1.45 million tonnes. The community represents 80% of world production.

The following table gives the major statistics in tons EU producing countries:

	<u>Production</u>	<u>Consumption</u>	<u>Exports</u> (Extra EU)	<u>Imports</u> (Extra EU)
Spain	578,000	461,000		
Italy	502,000	644,000		
Greece	334,000	198,000		
Portugal	41,000	49,000		
France	2,000	40,000		
Total	1,457,000	1,392,000	121,644	46,,000

The Production figures for olive oil in tonnes for the main non EU producers are as follows:

Tunisia =	170,000
Syria =	85,000
Turkey =	70,000
Morocco =	46,000
Algeria =	21,000

(The figures in this section are taken from the International Olive Oil Council statistics except for E.U. import and export figures which are based on certificates delivered and , therefore, only concern extra-community trade. All the figures result from an average from 1990/91 to 1995/96 -estimated.)

Most of these countries have preferential agreements with the EU. Smaller quantities of olive oil are produced in the rest of the Mediterranean countries and in USA(California), Argentina, South Africa and Australia.

TABLE OLIVES

Community production fluctuates at level between 40% and 50% of world production. This sector has no Community aid apart from promotion and marketing. Given the level of aid currently paid in the olive oil sector, the table olive sector is finding it ever harder to compete. Producers will not sell their product to the table olive industry when they can obtain higher prices from the mills(prices which are inflated by the aid regime). Competition from third countries with lower labour costs (Morocco etc.) adds further to the industry's worries and exports have suffered. The Table Olive industry is looking to the reform of the Olive Oil sector to solve some of its own problems.

Spain heads the list in terms of production with 224,000 tons of mainly dual purpose varieties. Spain is followed by Italy with 72,000 tons and Greece with 65,000 tons. Greece has varieties which are specific to table olive consumption(eg. Kalamata). Spain is also the main exporter (80,000 tons) followed by Greece with 15,000 tons.

Description of Olive growing:

Olive trees grow mainly in the mediterranean basin and are perfectly adapted to the terrain and climatic conditions of this region. The cultivation of trees is subject to factors such as light, water and soil quality which limit productivity. It is unusual to find a grove with more than 300 trees per hectare outside specific areas of intensive irrigated production. Despite these general similarities, it can be noted that wide differences are to be found, for example between types of olive grove in Italy and Spain and between different Spanish regions and even within an apparently homogenous single region.

Cyclical Aspects

The phenomenon of cyclical production can be found in many fruit trees. The olive tree is genetically cyclical but its cyclicity level can vary depending on climate and cultivation practice. Trees become more cyclical with age. In general terms it can be said that a high harvest one year will be followed by less leaf growth and a lower potential for fructification in the next.



Most Common forms of Cultivation

Ploughing/working the soil:

- the objective is to facilitate infiltration of water as well as reducing weeds. This work varies according to type of soil, slope etc. Ploughing can be accompanied by use of pesticides

Pruning the trees:

- the objective is to maintain productivity and minimize cyclicity

Phytosanitary treatment:

- there are three main insect parasites in the mediterranean region which attack olive trees the most important of which in terms of destruction, is the olive fly. The olive fly damages the quality of the olives and the oil produced by increasing the acidity and number of peroxides. Control can be through natural means such as the encouraging of predator insects or by environment friendly chemicals. Such control methods are co-financed under the Community's quality improvement schemes funds for which are obtained from a retention on the production aid.

Fertilisers:

- Application of fertilisers varies according to region and soil type and is carried out at specific times during the year. The main classes of fertilisers used for olive trees are nitrates, phosphates and potassium based fertilisers.

Harvesting:

- this is a delicate operation as timing is crucial. It is important to choose the moment when oil content is highest in the olives. Harvesting of olives is still, in the main, manual but the use of mechanical vibrators is increasing where the terrain and structure of the grove permits. It accounts for up to 80% of the man-hours involved in the year round cultivation of the trees.

Environmental Considerations:

Apart from the problems caused by the use of phytosanitary products and chemicals (a problem less acute for the cultivation of olive trees than for many agricultural sectors), the main environmental problem is soil erosion caused by rainwater. This problem increases with the amount of ploughing carried out and is more acute where slopes are steepest. The soil quality and structure is another factor contributing to rainwater erosion. Although this problem applies to all Mediterranean agriculture, it is particularly acute for olive production. A number of methods are used to limit the effect of erosion such as the growing of ground cover or the elimination of ploughing. These techniques are not widely used at present.



Varieties:

There is a great number of varieties of olive tree each of which produces olives with a particular organoleptic and physio-chemical make-up. This has led to the creation of DOC (Guaranteed origin) oil and is a way of adding value to a particular variety of olive and the specific methods used to produce its oil.

Qualities of Olive Oil:

- quality has been broadly defined for olive oil as depending upon five groups of factors:
 - a) the absence of defects (degree of acidity, panel tests during which trained testers taste the oil),
 - b) purity (absence of residues)
 - c) genuineness (origin exclusively from olives),
 - d) chemical balance (predefined proportions of acid content, vitamin content and the relationship between other minor ingredients which must not alter the colour or freshness of the oil)
 - e) typicity (interaction between the genetic characteristics of the oil and its place of origin). This is the basis for determining oils of a specific and protected geographical origin.

Classification of oils:

- the major commercial qualities are:
 - Virgin Oils: oils obtained from the olive fruit by defined mechanical and physical processes in temperatures which do not cause the oils properties to change
 - Olive Oil: a mixture of virgin oil and refined oil which complies to certain characteristics and whose acid content is no higher than 1.5 g/100 g (expressed in oleic acid).
 - Olive Pomace Oil: a mixture of refined olive pomace oil (ie oil extracted with solvents from olive residue after mechanical extraction of virgin oil) and mixed with virgin oil. Acid levels must not exceed 1.5 g/100 g.

The oil which is known as "lampante" is a poor quality virgin oil which requires refining to bring down its acid levels to render it fit for consumption. It was the oil traditionally used in Mediterranean countries in oil lamps, hence the name.

Production and market situation in the EU:

- SPAIN:

The area under olives is around 2 million hectares. Spain is the world's largest producer and exporter of olive oil (including intra-community exports). The historic tendency of a cut back in olive groves has been reversed in recent years (since membership of the Community); there has been a large increase in plantings, particularly in Andalusia. The Spanish authorities estimate this at more than 150,000 hectares. Overall yields have increased with production at present averaging at around 600,000 tonnes per annum.

There are around 2000 oil mills and 500 bottling plants. The industrial concentration is high. Export levels are variable depending on harvest size in Spain but also on harvest size in Italy, the main importer of Spanish oil. Average exports (intra + extra) are around 200,000 tonnes. Consumption is dominated by the "Puro" category - a mixture of refined and virgin oil used mainly for cooking.

The social importance of the industry in Spain is great. The Spanish authorities estimate that the industry accounts for 46 million working days per annum. The importance is all the greater in regions such as Andalusia and Extremadura where olive growing is (in some areas) a virtual mono-culture and general unemployment is at record levels. The importance for employment in such regions goes far beyond the farmers and farm workers and includes most sections of society either directly or indirectly.

Spain has around 500,000 producers of which \pm 50 % are small producers, producing around 8-9 % of the total quantity.

The Spanish authorities have declared around 166 million trees in the context of yield calculations for the last two marketing years. A specific aspect of traditional olive trees in Spain is the multi-footed tree. A number of young trees were planted close together, sometimes in time immemorial, and now three or four of these separate plants survive to form what is a single tree with separate root systems which member states have always reported as a single tree. The Spanish authorities estimate that, on average, Spanish tree figures comprise at least 2 plants per tree. New plantations tend to be of individually planted trees but in Andalusia the old traditions do live on in some new groves.

- ITALY:

The area under olive trees is over 1.1 million hectares and the main producer regions are Puglia, Calabria and Sicily. These three regions account for 60% of production. Many of the groves are sited on hills and most holdings are small. There are around 800,000 producers, the vast majority of whom belong to associations and unions. Small producers make up 70 to 75% of the total producing around 20 to 30 % of the total quantity depending on the years. The number of mills is high (around 6,000) and there are around 600 bottling plants. Production is at around 600,000 tonnes (in a good year). Although

Italy is an importing country, exports are traditionally around 150,000 tonnes and imports around 300,000 tonnes. Italy's main sources of supply are Spain, Greece and Tunisia. Consumption is at around 650,000 tonnes and auto-consumption (including under the counter sales) is very high. There are around 129 million trees in Italy, a figure which can be verified as Italy is the only country in the EU to have completed its olive tree register (aerial photographs matched by computer to cadastral maps). As for Spain, olive oil production is concentrated in some of the poorest Italian regions where unemployment is high. On the other hand, some of Italy's finest oils originate in regions such as Tuscany and even the Lake Garda region in the north where the economic situation is amongst the best in Europe and oil is just one of a number of value-added agricultural based products. However, these regions, more comparable to Catalonia in Spain and Provence in France, only account for some 2% of total Italian production. Consumption, unlike Spain, favours the virgin oils, used more as a condiment than for cooking. The Italian industry imports oil from other Community and third countries.

- GREECE:

900,000 hectares of olive groves produce around 350,000 tonnes of oil. Trees declared for yield purposes amount to around 132 million. Consumption is around 200,000 tons total and there is the highest per-capita consumption in the EU with 18.7 kg/person per annum. Olive oil accounts for 50% of vegetal oils consumed. Even so, the entry of Greece into the Community and the liberalisation of trade caused overall consumption to fall (post 1981). Autoconsumption and door to door sales of, sometimes dubious, oil in large tins is a feature of the Greek market. Greece is a net exporter (around 125,000 tonnes on average) and production is mainly in the centre and south of the country and in Crete. There are some 2,800 mills and over 200 bottling plants. The high number of mills is partially due to the large number of Greek islands on which oil is produced and the transport difficulties in moving olives for milling between islands. Producer numbers turn around 686,000 and most of these belong to associations. Small producers account for more than 60 % of the total and their production is around 25-30 % of the total production. Traditional consumption, like Italy, favours the virgin oils.

- PORTUGAL:

Average production is of around 40,000 tonnes with strong fluctuations from year to year. Consumption is around 50,000 tonnes. Portugal saw a drop in both consumption and production in the 1980's with consumption picking up a little in the early '90's. There is no register of olive trees in Portugal but the number could be anything between 27 and 37 million. There are some 70,000 producers (94/95 applications), a large majority of which are small, and few of them belong to associations. This could account for the uncertainty regarding tree numbers as figures are based on aid applications and it would appear that a significant number of Portuguese producers have not applied for the production aid. Portuguese production was considerably higher in the immediate post-war years but its decline has not seen the reversals experienced in Spain post accession. The

Portuguese authorities explain that the economic circumstances and the effects of the political upheavals in the country meant that it had not been their first priority to replant olive trees. Nevertheless Olive Oil production is seen as a major opportunity for some of the poorest agricultural regions in the EU to improve the employment situation and increase prosperity. Portugal has a potentially interesting export market in Brazil.

- FRANCE:

This major player in many areas of EU agriculture has a very small olive oil industry. Extremely cold weather in Provence, the main production area, early this century and another cold spell in the 1950's killed off many trees which have never been replanted. There are now some 40,000 hectares of olive groves which produce some 2000 tonnes of oil. Trees declared by the French authorities for yield purposes amount to around 2 million. Oil is generally sold locally at a good price to the local inhabitants and tourists. There are around 20,000 producers (90-95 % small) and 130 mills. The French industry buys in and blends Spanish, Tunisian and Italian oils and the French consumers dispose of some 40,000 tonnes per annum.

TRENDS IN THE EU:

Over the last 10 or 15 years, multi-national companies have moved into the sector and a number of major companies have bought up traditional national marques. This has significantly changed the olive oil sector which was once fragmented and characterised by a multitude of small locally based companies. It has now taken on a more united and international approach. Industrial olive oil bottling often takes place side by side with bottling of seed oil.

Some companies have adopted an enterprising and sophisticated approach to overseas export markets and with the assistance of the IOOC (International Olive Oil Council) and the CAP (export refund policy plus inward processing) have taken advantage of the interest in Mediterranean diet in a number of post industrial countries (USA, Japan etc) to develop a thriving export business dealing in quality oils.

Were the current CMO to remain in place, there would certainly be a tendency for further planting of new trees to continue in Spain and begin in Portugal. Other countries (Italy and France) are also renewing and expanding their groves. As yields become higher due to improved cultivation methods, overall production would tend to increase. Cyclicity is declining as a phenomenon due to pruning, irrigation and other techniques. Whatever is decided on the CMO, rationalisation of the industry will certainly continue with the multinationals taking an ever bigger share of the market. A debate may well be launched on the legalisation of mixtures of olive oil and seed oil, particularly as the major manufacturers operate in both areas. The export market will continue to be pursued with vigour as considerable investments have already been made by the industry to obtain a place on the



American, Canadian and other markets. As indicated earlier in the text, consumption has declined in recent years in producer member states. IOOC forecasts suggest that consumption may stabilise in these member states with limited growth in some and even continued decline in others. There is a potential for per capita consumption to increase in northern member states.



III. THE CURRENT OLIVE OIL COMMON MARKET ORGANISATION

The olive oil market organisation was instituted in 1966 by Regulation N° 136/66/EEC. One of the earliest CMO's, its aim was to support the incomes of a large number of producers as well as to guarantee the supply to consumers of olive oil (a culturally important foodstuff in the producers regions) at a reasonable price despite competition from cheaper imported or home produced seed oils. The products covered by this CMO are olives, olive oil, whether crude or refined, and olive residues.

In 1966 producer Member States were Italy and France and grew to include Greece (1981) and Spain and Portugal (1986). The number of producers is now around 2 million.

The present regime is based on two different types of elements, namely the institutional prices and a number of aids:

1 - Price arrangements

Each year the following types of prices are fixed for olive oil by the Council:

a) Production target price:

The price considered desirable with the aim of providing a fair income for producers, having regard to the need to maintain the volume of Community production.

The production target price for 1995/1996 was fixed at 383.77 Ecu/100 kg.

b) Representative market price:

The price fixed at a level permitting the normal disposal of olive oil production having regard, in particular, to the outlook for trends on the vegetable oils and fats market.

The representative market price for 1995/1996 was fixed at 229.50 Ecu/100 kg.

c) Intervention price:

The price at which the intervention agencies have to buy the quantities of standard-quality olive oil offered by producers. This buying-in price is adjusted when the quality of the oil offered to the intervention agencies is different from the standard quality. If the maximum guaranteed quantity for production aid is exceeded (see below), the intervention price is reduced proportionately within the limit of 3% per marketing year, this reduction being cumulative for the following years.

Spain and Portugal reached the community intervention price in 1993/1994. For 1995/1996, it was fixed at 186.17 Ecu/100 kg.

2 - Market instruments

a) *Production aid:*

This is fixed by the Council. Its purpose is to help producers attain a fair income. The Maximum Guaranteed Quantity (MGQ) for which aid is paid at the full amount is set at 1.350.000 tonnes for the whole Community. The aid is reduced proportionately if that quantity is exceeded (but not for small producers who produce about 20% of total oil and are, therefore, immune from the penalising effects of overshooting the MGQ). If the MGQ is not reached, the difference can be added to the following marketing year's MGQ. Two different levels of aid are paid to the olive-growers depending on their average production:

- The aid to olive-growers whose average production is at least 500 kg. per marketing year is granted in respect of the actual quantity of oil produced at an approved mill. The present level is 142.20 Ecu/100 kg., leading to an expenditure of 1450 Mecu in 1994/95.
- The aid to small producers -i.e. those who produce an average of less than 500 kg. of olive oil per marketing year- is granted on the basis of the number and production potential of the olive trees which they grow and of the 4 years average yields of those trees (as fixed by homogeneous production zones according to a flat rate). Also, the olives produced must have been processed into oil at an approved mill.
In practice, this means that the aid granted to the small producers for a given marketing year does not correspond to the quantity of oil actually produced, but to the amount obtained by applying the average yields fixed per tree over the previous four marketing years in respect of his homogenous zone of production, with regard to the number of trees in production. This factor goes some way to explaining the fact that the production eligible for aid is not equal to the real production, especially in countries like Greece and Italy where the percentage of small producers is important. Small producers are eligible for additional aid and are not subject to the stabilizer mechanism in respect of production aid, which constitutes the only way by which the budget corresponding to the Maximum Guaranteed Quantity can be exceeded. It is important to note that this is a decoupled aid per tree and is paid to all small producers. Thus 60-65% of producers are currently paid on aid per tree.

The present level of aid is 151.48 Ecu/100 kg. plus 3.574 Ecu/100 kg. of additional aid leading to a expenditure of 415 Mecu in 1994/95.

Spain and Portugal reached the Community level of the production aid in 1995/1996.

Three different percentages are fixed by the Council to be withheld on the production aid in order to finance:

- 1 - the establishment of an olive oil register in the producing Member States as an instrument to know the production potential and to guarantee a better functioning of the regime (2.4% in 1995/1996)
- 2 - measures to improve the quality of olive oil production, like control of the olive fly, improvement of the treatment of olive trees, etc. (1.4% in 1995/1996)
- 3 - expenditure incurred in the work done by recognized producer organisations or associations thereof in administering and controlling production aid (0.8% in 1995/1996)

b) Consumption aid:

This aid is equal to the difference between the production target price minus the production aid and the representative market price. It is granted to edible olive oil placed in the Community market in immediate containers of a net content of five litres or less, provided it has been packaged in an approved plant. It is aimed to maintain olive oil competitiveness with regard to other vegetable oils, avoiding excessive differences in price which might result in a reduction in olive oil consumption.

The Commission proposed to abolish the consumption aid in the 1994/1995 "price package", but it was not followed by the Council. Instead, it was decided to continue the transfer of most of the consumption aid amounts to the production aid. Thus, the aid has been reduced over the years from 77.00 Ecu/100 kg. in 1987/1988 to 12.07 Ecu/100 kg. in 1995/1996

Two different percentages are fixed by the council to be withheld from the consumption aid in order to finance:

- 1 - the expenses incurred by the recognized trade organisations in administering the consumption aid for their members (5.5% in 1995/1996)
- 2 - measures intended to promote the consumption of olive oil produced in the Community (this has been fixed at zero since 1994/1995 as the remaining amounts from the previous years were still large enough to cover the expenses)

c) Storage provisions

1 - Intervention

The intervention system guarantees a minimum selling price to the producers during the intervention period (July to October) in which the agencies have to buy the oil they are offered at the intervention price as above indicated. Nevertheless, in case of serious disturbance of the market, specific measures of intervention can be decided upon outside that period. The oil is analyzed when it is offered to intervention and then at the beginning

of each marketing year. It can then be sold by tender on the condition that this does not disturb the market at the production stage. This has normally implied that the selling price has usually been higher than the purchasing price.

Given the high market prices, no oil has been offered to the intervention agencies during the three last marketing years. Stocks in 1987/88 stood at 395,000 tonnes. The last high stock year was 1992/93 with 194,000 tonnes. Stocks today stand at 12,000 tonnes.

2 - Private storage

This second possibility allows the Commission, under the Management Committee procedure, to authorize the recognized associations to conclude storage contracts for the oil they market when prices are close to the intervention price, as well as to grant an aid for this purpose. This allows a progressive arrival of the product to the market in large production years. This possibility has been used on three occasions in the last ten years.

3 - Buffer stock

The Council may require intervention agencies to form a buffer stock to mitigate the effects of harvest fluctuations on the balance between supply and demand and thus stabilize consumer prices. Although this possibility was included in the basic CMO Regulation in 1978, it has only once been used.

d) Import and export arrangements

1 - Imports

Imports of olive oil are subject to the presentation of an import licence and to the payment of an import duty. Following the GATT agreement, these duties will be reduced by 20% in a period finishing in the year 2000. However, their level will still be high enough to make imports difficult. For this reason the Council adopted recently a Regulation allowing the Commission to reduce these duties or to open import quotas when the market situation might benefit from imports of olive oil.

Under the special cooperation agreement concluded with Tunisia, a quota of 46.000 tonnes of olive oil can be imported each year from that country at a reduced tariff. These constitute the main part of the normal imports into the EU.

2 - Exports

Exports of olive oil are subject to the presentation of an export licence and can be granted a refund. This is intended to make up for the difference between the Community market price and the price at which the world market can absorb the quantities of olive oil available for export. Refunds are currently also fixed twice a month by tender. Under the GATT agreement, the quantities benefiting from export refunds will have to be reduced

to a maximum of 115.000 tonnes by the marketing year 2000-2001.

The EU being the main producer in the world, competition from third countries is weak. Furthermore, the Inward Processing regime use has been increasing over the latest years, which means that a fair percentage of the olive oil of european mark that can be found in importing countries has actually a third country origin.

e) Refunds for the canning industry

As a means to facilitate the sale of olive oil to the canning industry, certain types of preserved fish, crustaceans and molluscs and vegetables can benefit from a system of production refunds. These refunds are fixed every two months by the Commission on the basis of the difference between world and Community prices. Around 40.000 tonnes benefited from this refund in 1994/1995.

3 - Promotion

As mentioned above, a certain percentage is withheld from the consumption aid to finance actions intended to promote the consumption of olive oil in the EU. These actions consist mainly in information and publicity campaigns and diffusion of scientific knowledge. The campaigns normally cover a two year period to guarantee continuity. The 6th promotion campaign started in september 1996 and has a budget of 30 Mecu.

IV. BALANCE SHEET OF CURRENT REGIME

1 - Stimulus to and intensification of production

It is self evident that an aid linked to quantities provides a strong stimulus to production. This applies all the more when there is no link to quality. Previous sections of the document have described the development and growth of production potential through new planting as well as through improved yields. This is not surprising as under the current CMO, 90% of the Community aid is paid through the production aid regime. In fact:

- 1) the production aid is paid independently of any quality criteria
- 2) the aid level is 75% of the intervention price for the standard quality as currently adapted by application of the stabiliser mechanism.
- 3) in Spain and Portugal the market price for olive oil has increased together with the support level increases during the transitional period.

From 1978 to 1988 production capacity was controlled by means of a planting ban. In 1988 this was replaced by an MGQ at community level in respect of oil produced. It should be noted that the effect of decisions in response to the penalties (reduced aid and reduced intervention price) resulting from exceeding this ceiling are only likely to be felt three or four years after the penalty. However, any dissuasive effect of the penalties on planting decisions would be more immediate. Given that, during the last five years, when stabiliser penalties have been applied, there have been significant new plantings in several producer member states, it is hard to sustain the thesis that the MGQ has had any significant effect. While substantial new plantings in Spain may have taken place partially in anticipation of the full application of the CMO, new plantings in other member states cannot be explained in this way. Also significant is the fact that there has been new planting in Spain since the full application of the CMO. This would suggest that it is not just the anticipation of the full application of the CMO which leads to new planting but, indeed, the level of the aid paid despite the application of the stabiliser.

Moreover, the stimulus to produce is also exerted on the mills in terms of extraction methods. Under pressure to increase production, extraction techniques in some mills have improved in terms of quantity with the use of two centrifugal extractors. This means that whereas, historically, there was an 8% residue level after the oil had been extracted, the percentage of residue left with modern techniques is 4% or less. This has three negative effects. Firstly, the quality of the oil is lowered as 50% of what was once classified as olive pomace oil would now find its way into a product considered to be olive oil. Secondly, there is little commercial sense in selling the low quality residue now produced to a pomace oil extraction plant and a disposal problem is growing with negative environmental effects. Thirdly, there is an anomaly in terms of the OCM and EAGGF expenditure. The payment of

a flat rate production aid for pomace oil, calculated at 8% of the virgin olive oil produced, no longer corresponds to the reality of the situation. In fact, with the modern extraction methods described above, only 4% of pomace olive oil is produced so the remainder is effectively paid twice, once as pomace oil (in the 8% flat rate payment) and again in the payments for total virgin olive oil quantities which are now, on average, greater by 4%.

2 - Self-sufficiency rate.

Since the accession of Spain and Portugal, the EU has become a net exporter of olive oil. If net imports and exports, excluding quantities imported and exported under the inward processing regime, are considered, the average net exportable surplus is around 75,000 tonnes per annum. This is an average of the last six years (121,644 tonnes exported and 46,256 tonnes imported).

The tendency towards structural surplus will be reinforced by the substantial planting of olive trees following the repeal in 1988 of the measure limiting surfaces on which production was eligible. As production from new trees does not come onstream until three or four years have passed the impact today is still relatively minor. However, in Spain alone new plantations not yet in production are reported officially as covering some 160,000 ha which means, on average, around 50,000 tonnes extra each year.

Forecasts made by the IOOC in 1994 for the year 2000 are for an EU surplus of 134,000 tonnes (Difference between internal production and consumption). If the 46,000 tonnes of Tunisian quota are added to this, the forecast surplus is for some 180,000 tonnes, 65,000 tonnes over the quantity of 115,000 tonnes that will be exportable with a refund under the Marrakesh agreement in the year 2000. The alternatives under the current CMO would be to buy the surplus into intervention and/or export without refunds.

It should be noted that the IOOC estimates are based on a simple extrapolation of observed growth rates in production in member states from 1981 to 1992. Higher levels of planting in recent years compared to the IOOC reference period will mean that these figures will underestimate surpluses. For example, extrapolating the 3.3% growth in production in Spain over the reference period suggests an average production in the year 2000 of some 770,000 tonnes. This is consistent with informed Spanish professional sources who have suggested that, taking account of new plantations, a good harvest in the year 2000 could amount to as much as a million tonnes.

It is doubtful whether the world market could absorb an extra 65,000 tonnes or more of community olive oil. Another IOOC forecast is for a world surplus of 95,000 tonnes in 2000. Planting is not only taking place in EU countries but also in Turkey, Morocco and Tunisia and the potential in the non-EU producing countries is high.

III

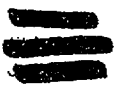
An issue which has recently been raised in the IOOC (as well as in the Council's Special Committee on Agriculture and in the Oils and Fats Management Committee) is the vexed question of mixtures. A number of producer member states have a national ban on the production and sale of olive oil/seed oil mixtures. There is no such ban at community level and requests have been made by the producer member states to examine the possibility of installing an E.U.-wide ban or, at least, allowing a derogation for those member states who wish to ban mixtures. Without entering now into the questions of labelling, control and free movement of goods which will need to be resolved, one of the arguments put forward (by Spain in particular) requires some consideration. The main quality of oil consumed in Spain is a blend of virgin oil and refined oil. The refined oil, which is virtually tasteless, is the major component of the blend with relatively small quantities of virgin oil added to provide taste. It is feared that, if the Spanish and other producer member states' authorities were obliged to revoke their national ban, there would be a tendency for the refined olive oil component to be replaced by another tasteless oil such as sunflower oil. The overall taste of the oil would remain virtually unchanged and the consumer would enjoy a price advantage. However, were this to occur, there could be a real problem in disposing of the refined olive oil which is currently used in this blend and which represents the greatest part of total Spanish olive oil. The level of surplus a change in the Spanish and Italian law could bring about would mean that the estimates for structural surplus in the Community referred to above could be extremely conservative.

Unfortunately, structural surpluses are much harder to reduce for a permanent crop like olives than for annual crops such as cereals.

3 - Production Aid.

The current mechanism gives rise to a number of insurmountable control problems which are due to its inbuilt complexity and inherent uncontrollability:

- 1) There is an inherent flaw in the controllability of the production aid system as controls are based on an examination of paperwork in the mills. However, this paperwork may reveal little about actual production of olive oil as there is communality of interest between the olive producer and the mill. Indeed both have an interest in declaring high production figures.
- 2) The high number of mills which must be controlled (around 13,000) and the long period during which the olives are crushed (November to June) makes on the spot controls of the production process very difficult.

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- 3) Distortion of the market created by fraudulent mills creates unfair competition for the honest mills as producers seek out a mill which can offer them "the best terms".
 - 4) It is impossible to check whether olives destined for the table olive market are included in the flat-rate aid mechanism for small producers.
 - 5) It is, in practice, impossible to establish whether or not olives which benefit from the flat-rate small producers aid are counted again in the aid for real production by large producers.
 - 6) It is difficult to verify the exactitude of the information contained in the "declaration de culture" due to the unfinished work on the olive tree register in a number of Member States(see situation of the Olive Tree Register attached). There are two problems related to this situation:
 - the declaration of a number of trees which is superior to reality
 - declarations of different producers concerning the same trees
 - 7) The loopholes in the system permit fraud and the honest producer is placed in a difficult situation as he is doubly penalised
 - by the reduction of the level of his aid due to the overshoot (possibly not real) of the MGQ
 - and by the market itself as price distortions resulting from the advantages obtained through fraud can be significant. Fraud is not just a question of misuse of public funds or of negative image for the EU Institutions; it is also a real problem for equitable market management.

4 - Consumption Aid

In recent years an increasing number of cases of fraud relative to the Consumption Aid were discovered. This led the Commission to propose the abolition of the Consumption Aid in 1993. The proposal was rejected by the Council and the result is that the Control Agencies now spend around 48% of their resources and much of their time in controlling the regime. The current aid of 12 ECU/100 Kg is not particularly attractive. That the real risk of fraud today in this regime is smaller than in the past results from the lower level of aid. Despite this a significant number of incidents of fraud have been discovered (most recently in Greece where aid was applied for on non-existent oil).

Official figures tell us that the Consumption aid accounts for the greater part of detected fraud in the community. The Italian authorities, in particular, have repeatedly asked for the aid to be abolished as it creates unsurmountable administrative problems in Italy. The authorities enjoy the support of the trade and industry in this request. The argument put forward that the Consumption aid should be maintained as a quality control measure can be refuted as the evidence shows that, firstly companies who wish to defraud the consumer by selling an olive

oil/oilseed mixture as olive oil simply opt out of the consumption aid system and, secondly, the controls carried out on the granting of consumption aid are intrinsically weak (eg analysis of one sample per year). The question of inadequate control of the consumption aid regime by the authorities in Spain and Portugal has been raised in the context of the Clearance of Accounts procedure for the 1993 and 1994 exercises.

Experience shows that:

- 1) the risk of fraud increases in direct proportion with the level of the aid
- 2) the complexity of the system vis à vis imported oils and the difficulties involved in the recovery of sums unduly paid point to the conclusion that the regime is obsolete
- 3) the link in terms of accountancy with the production aid has led a number of processors to ask for the aid to be abolished. The cross-accounting problem between consumption and production aids and the general administrative complications which are disproportionate to the level of the consumption aid reinforce this request.
- 4) it is impossible to quantify the impact on producer income of the consumption aid. Indeed it is hard to determine whether there is any effect on consumer prices either.
- 5) the quality control aspects of the consumption aid are no longer particularly important in global terms as an operator wishing to commit fraud (eg mixing seed oil and olive oil) can always ask for his approval to be withdrawn and operate outside the scheme.
A number of frauds of this type have recently been discovered in Spain.

5 - Producer Organisations

Regulation EEC 136/66 foresees the setting up of producer organisations whose principal tasks are the following:

- 1) to present aid applications and crop declarations for all their members
- 2) to verify the dossiers and, for the large producers, to verify the link between quantities indicated in the aid application and the crushing certificate for the mills
- 3) to receive the production aid and pay it as rapidly as possible to the producers.

The Unions of Producer Organisations, recognised in the same regulation, must:

- 1) co-ordinate the activities of the organisations and examine the way in which the organisations carry out their controls

2) transmit the crop declarations and aid applications which they receive from the producer organisations

3) receive the aid and pay it to their member organisations as soon as possible.

Since the last major modification to the regime, which took place in 1990, the control role of the organisations and their unions has been reduced as it was felt that the control they exercised over their members was unsatisfactory.

As there is no requirement for the organisations to play a part in the marketing of the oil produced by their members, many limit their activities to the transmission of applications and distribution of funds.

Although the control function of the Unions and organisations has been reduced to a minimum, a number of cases have come to light involving some of the largest Unions where the controls were not properly executed.

6 - Statistical problems

Over the last few years, the Commission has found itself confronted with a number of problems and inconsistencies regarding the figures transmitted by the member states for estimated production and for yield calculations. These figures, and in particular for the 1993/94 marketing year, have, at times, been inexplicably high at a time when prices were also at record levels. Reference has been made to the current situation which is not dissimilar.

Regarding the 1993/94 situation, the Commission corrected the yields upon which the payments to small producers are based, and this for several member states. This decision was attacked by Italy in the European Court of Justice and the judgment should soon be known.

This situation highlighted the limits of the current mechanism.

1) The Commission has in the past modified the yields (even this is sub-judiciae) but cannot correct the definitive quantities transmitted by Member States and admitted to benefit from the aid.

2) Management of the market based on figures transmitted for this regime is becoming ever more "theoretical"

3) The suspicion that fraud is on the increase in the application of this system is growing by the year.

7 - Olive Oil Control Agencies

EEC Regulation 2262/84 (Council) foresees the creation in each member state, which produces more than 3,000 tons of oil during a reference period, of an agency which is charged with control and other activities in the context of the production aid regime. The kinds of control to be carried out are described and a certain autonomy for the agency in the execution of its tasks is foreseen. Also foreseen are the establishment of a programme of activities and a forecast of how the agency's budget will be used. A financing out of Community funds is foreseen for a certain period and, following certain rules of application, a number of irregularities and corresponding sanctions are defined.

EEC Regulation 27/85 (Commission) is more precise on the administrative autonomy of the agency as well as on the recruitment of and qualifications to be held by its staff. It also defines more strictly the agency's control powers and the content of its programmes, timing etc.

The Agency's tasks are the following:

- to verify the activities of the producer organisations and their unions,
- to verify the exactitude of the figures contained in the crop declarations and aid applications,
- to control the approved mills,
- to investigate the final destination of olive oil and olive pomace oil as well as their sub-products,
- to control the approved processing plants,
- to collect and verify the information necessary for the elaboration at national level of elements used for the establishment of yields,
- to investigate, if necessary, the origins of olive oil and olive pomace oil imported from third countries,

The Member States can, on their own initiative, or at the request of the Commission, ask the agencies to:

- conduct statistical enquiries on production, processing and consumption of olive oil,
- control purchasing operations, stocking and sales from intervention as well as operations linked to the private storage system,
- control the manufacturers of preserves,
- to carry out specific investigations in the olive oil sector.

The tasks carried out by the agencies in 1994/5 were as follows:

Italy:

3,014 producers were controlled (1213 on site), 655 mills, 15 producer associations, and 592 processors. The result was that the agency proposed to withdraw approval to 59 mills, 3 producer organisations, and 129 processors. The aid applications of 63 producers were put in doubt.

Greece:

835 controls were carried out on mills and 158 withdrawal of approvals were proposed. 5709 producers were controlled and 63 were found wanting. 211 controls of processors resulted in 50 refusals of aid payment.

Portugal:

927 producers were controlled as well as 347 mills of which 37 were found wanting. 11 producer organisations were controlled and 1 withdrawal of approval proposed.

Spain:

1538 mills, 1 Union and 35 producer organisations as well as 1496 producers and 437 processors were controlled. Withdrawal of approval was proposed for 10 producer organisations, 86 mills, and 44 processors.

Unfortunately the Member States have not followed the advice of their agencies regarding sanctions with sufficient vigour. For this reason, amongst others, the efficacy of the controls made by the agencies is compromised. Other reasons include:

- the opaque nature of the mills' accounting systems
- the multiplication of the tasks with which the agencies are charged,
- the feeble dissuasive effect of the agencies' work given the low incidence of controls which can be carried out on the mills and producers.

The final verdict on the usefulness of the agencies should, perhaps, not be too damning as they are more victims of the current system than intrinsically inefficient.

8 - Quality

The current CMO does not provide differentiated economic incentives for quality production. Production aid and consumption aid are granted independently of quality considerations. As a consequence certain specific measures have been adopted to act as a stimulus to quality at both the production and consumption stages.

In order to improve quality at the production level a deduction on the production aid was introduced in 1987. It now stands at 1.4% of production aid and is made in order to finance the following actions:

- fight against the olive fly
- improvement of conditions of handling, harvesting, storage and processing of the olives
- technical assistance to olive producers and mills

The safeguarding and improvement of oil quality have been approached through a rigorous policy of defence of the olive oil categories and of their specific qualities. This has been achieved, in particular, thanks to a definition of physical/chemical limits for each category, and, in the case of the higher qualities, organoleptic criteria. All definitions are accompanied by corresponding analysis methods. In order to appreciate the amount of work involved, it is

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enough to consider that the Commission regulation relative to these specifications(Reg EEC 2568/91) is 93 pages long and has been revised 10 times in the last 5 years in order to keep up with scientific progress.

As for promotion policy, described in depth in the introduction, the continuation of a quality policy is essential to the future development of the sector. It will, however, be necessary to ensure that amounts available match the objectives to be attained. Experience for the quality programmes and promotion hitherto shows a significant underuse of funds available from the deductions on producer and consumption aids. 129 million ECU were withheld for quality measures between 1986 and 1995 but only 63.5 million have been used up to end 1995. In the case of promotion funds, 161.8 million were withheld between 1979 and 1995. Prior to the VI Campaign which has recently got underway, 68 million ECU remained unused.

The promotion of quality products is important in the context of rural development and can improve farm incomes and help avoid rural exodus.

Regulation 2081/92 applies to the olive oil sector, amongst others. On the first two lists of designations registered there are 31 olive oils of which 16 are Greek, 5 Italian, 5 Portuguese, 4 Spanish and 1 French. The procedure for registering designations of origin are still open and it can be expected that further designations of olive oils will be registered in the future.

9. Export Refund

The export refund regime, already described in part III, has permitted the development of third country markets, and in particular the United States market. Exports to the United States, the main third country market for community oil, have doubled since 1986 from 63,000 tonnes to 126,000 tonnes in 1995. This has, almost certainly, also been due to the promotional activities carried out by the IOOC. The mechanism used to establish the level of the refund has been applied without interruption since 1986. It permits the modulation of the level of the refund in accordance with a number of parameters: the needs of new third country markets, internal community supply, amounts exported using the inward processing regime, and respect of GATT obligations.

In the last marketing year(1995/96) this permitted the export of 137,000 tonnes with an average refund which was around 20% lower than the average refund for the 1992/93 marketing year, and this at a time when internal prices were very high and the consumption aid(which is also paid on exported oils) was much lower(12 ECU instead of 48 ECU/100 kg). The fine tuning afforded by the mechanism allowed a management of the exports with refund so that E.U. exports stayed 3000 tonnes within the GATT quantitative limit. Budgetary outlay for the refunds during the last 10 years have averaged at 66 million ECU per year.

10. Intervention

Since 1987 purchases into intervention have been limited to the last four months of the marketing year. Despite this, in the 1987/88 and 1992/93 marketing years when production was particularly high, large quantities were bought in and subsequently resold. The budgetary expenditure over the last ten years was not overly high(an average of 35 MECU per year) but the risk of high expenditure is shown by the variation in the annual financial cost. This ranges from minus 95 million ECU to plus 177 million ECU. In the past, various elements have helped contain expenditure: one was that quantities bought into intervention in Spain and Portugal during the transitional period, were bought in at lower prices than they were sold out due to the annual increases in the intervention price foreseen in the Treaty of Accession. Another element was the low level in absolute terms of other intervention costs(eg interest charges) resulting from the lower institutional prices in Spain and Portugal. In addition, greater cyclicity in the past permitted relatively advantageous sales. With improved cultivation methods, including the more widespread use of irrigation, the cyclical nature of olive oil production has been reduced. This means that, in the future, it is less likely that quantities would be sold from intervention at an advantageous price. Given the possibility of higher production in the future throughout the Community the risk of substantial expenditure on intervention is a real one.

A breakdown of budgetary expenditure on the current regime for the last fifteen years can be found in annex III.

V. OPTIONS

I. AIMS

It is important that the sector be sustained and that regional economies be supported. Clearly this must be done in a way which is compatible with sound management of the sector and with its market balance. In this context, the application of a budgetary stabiliser is necessary. Whatever system is chosen it should be budgetarily neutral. Furthermore, account should be taken of international trade considerations. It is obviously necessary that the regime should be simple, transparent and easy to control in all member states. In its implementation it should be possible to take account of different types of production systems and performance. Last but not least, the regime should take account of environmental considerations and the need to promote quality.

2. SPECIFIC OPTIONS

There is a fundamental choice to be made between an aid linked to current production and a decoupled aid linked to past production. Irrespective of the choice between them, the Commission considers that the present import/export regime would be maintained. The import/export regime would continue to be a useful tool for managing prices and, in the case of the export refund, helping to maintain hard won markets in third countries. The canning refund would also continue.

Funds would be made available for Promotion and Quality programmes (including quality at trade level). Promotion would continue to cover not only internal promotion but, more significantly, transfers to the IOOC for overseas promotion. It may be desirable in terms of giving a premium to quality to limit promotion to extra virgin oil. The possibility of combining the export refund and overseas promotion, with the idea of moving gradually away from use of the former towards use of the latter, is an option to be examined.

Finally, a limited number of recognised producer groups has developed systems for collection, storage and marketing. Provision could be made within for any option to enable such activities to be continued in relation to private storage or intervention.

The two broad options suggested by the Commission are:

a) IMPROVEMENT OF THE EXISTING COMMON MARKET ORGANISATION

This would consist of:

- one type of production aid for all producers on the basis of real production
- a maximum guaranteed quantity (either at Community or National level)
- an increased consumption aid or, alternatively, no consumption aid at all

- Intervention (with quantitative or qualitative limits)
- Promotion & Quality programmes
- Import Export / Regime
- Canning refund.

A variation of this system could be a production aid based on quantities of oil actually bottled or canned and placed on the market. In this model, there would be no consumption aid.

Advantages

In general an advantage of changing the CMO as little as possible is that the existing mechanisms have been tested over the years and, provided the inherent weaknesses are resolved, there would be greater continuity for producers.

Production aid

- A production aid linked directly to quantity produced reflects variations due to different production methods (intensive / traditional / irrigated / non-irrigated), regional and varietal differences and annual fluctuation.
- The stimulus to produce would be maintained and producers would be rewarded for their efforts.
- Current employment levels should be maintained upstream and downstream and a clear role would continue to be played by producer organisations and co-operatives.
- The rolling fund which allows quality improvement to be carried out by co-operatives and producer organisations would be maintained.
- The distortion of the system which may occur when small producers claim the flat-rate aid and then sell part of their olive crop as table olives or to other large producers of olives for olive oil would disappear with the abolition of the small producer aid system.
- The advantage of the variant of the production aid system based upon certificates delivered at the moment of placing the oil on the market would be the creation of greater transparency in the market by limiting the possibility of inflated production figures being attributed to direct sales and autoconsumption.
- A system based on marketing of the oil could be expected also to bring quantities currently distributed through direct sales and auto-consumption into the quality control system which applies to all oils put on the market.

National M.G.Q.

The idea of foreseeing a national maximum guaranteed quantity could be appealing to member states who wish to guarantee support for the sector at national level. The advantages amount to the defence of the status quo in each member state and a certain guarantee for producers as has been experienced, for example, in the dairy sector. National M.G.Qs provide the possibility of stronger more direct economic signals where surplus production arises. This could be particularly important during a period where there is a considerable danger of significant structural surplus. National MGQ's would strengthen the incentive to member states to ensure proper control of national production.

Consumption aid

- By increasing the consumption aid to former levels the control mechanisms associated with it would be re-inforced and could contribute to quality control by acting as a deterrent to illegal mixtures. With the aid at its present level of 12 ECU/100 kg, the serious perpetrator of fraud against the consumer may find it worth his while to simply opt out of the consumption aid system and avoid controls associated with it. The advantage of the alternative, namely abolishing altogether the Consumption aid, would be the removal of the principle source of detected fraud and of an instrument which does not attain the objectives foreseen for it

Intervention

The introduction of a quantitative (or indeed qualitative) limit on intervention purchases could clearly provide a limit on an element of budgetary expenditure. It would also provide a clear economic signal in times of surplus.

Variation of production aid

The variation of the production aid system which would subordinate the payment of the aid to the sale of oil to the industry (bottlers, blenders, refiners) would have the advantage that payment would be made on the basis of commercial operations entailing the change of ownership of the oil. This would get rid of the direct interest in collusion to fraud provided the consumption aid were abolished. Moreover, there would be a substantial reduction in the number of centres to be controlled there being far fewer processing centres than mills.

Disadvantages

A major disadvantage of maintaining a CMO close to the current system is that the inherent defects of the large producers' aid system would continue uncorrected. The opportunity for mills and producers to inflate production figures would remain, as would the virtual impossibility of bringing any offenders to book. The criticisms of the system made by the Court of Auditors and by the European Parliament would go largely unanswered. Indeed, such

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a system would require the control of the real production of some 2 1/2 times as many producers as the present regime. Furthermore maintaining the system would also maintain the present degree of stimulus to production. The mechanisms which are essentially linked to real production and commercialisation of the oil might be more difficult to defend in the context of future international trade negotiations.

Production aid

- Paying small producers on the large producers scheme will aggravate administrative control difficulties. Increases over the years in the upper limit for qualification as a small producer were made so that controllers would have more time available to control large producers. Another inherent control problem derives from the common interest between producers and mills when establishing the crushing contract. Both parties have a clear interest in declaring high production figures. Mills are not directly sanctionable under the CAP as, in any case, they are not recipients of a community aid. Moreover, as the defect is one which can give rise to what is essentially a paper fraud, controlling the mills' paperwork may not be sufficient to detect the anomaly. On the other hand with 13,000 mills in the community and a crushing period which may only last weeks or months but which can be situated between November and June of the following year, control of the olives actually entering the mill and oil leaving it would require a permanent and exhaustive surveillance for which member states are not equipped. Moreover, a further complication lies in the fact that there are two distinct models of production in the Community : - in the first (mainly in Spain), the farmer delivers his olives to the mill and has little or no further responsibility for the oil produced whilst in the second (mainly in Italy and Greece), the mill performs a service to the farmer (crushing his olives) for which the mill may retain part of the oil produced, but the main part of the oil produced belongs to the farmer. In the second model, the oil may be consumed by the producer or sold outside the normal commercial circuits which makes it very difficult to follow it up in terms of paperwork controls at a later stage.

The variation of the production aid system described above would have the disadvantage that it would necessarily exclude direct sales and autoconsumption from receipt of the aid. In some member states this would represent a substantial part of production.

Limiting aid to quantities sold to the industry (bottlers, refiners, blenders) would reduce eligibility still further. The definition of eligible buyer could be extended to include wholesalers or other members of the trade. This would necessarily substantially increase the difficulties of control since the greater the number of eligible purchasers the greater the burden of control. In any event all purchasers would have to be registered and respect minimum standards on book-keeping, and have suitable premises and storage capacity.

There would remain an interest to collude in fraud between buyer and seller. This would be significantly reduced compared to that under the present regime since actual ownership of the oil would change. However, were the consumption aid retained the direct interest in collusion would also remain.

The effect on the high number of producers concerned by this fundamental change of marketing tradition which has been developed over centuries is hard to quantify but may be expected to affect adversely many producers incomes.

National M.G.Q.

The principal disadvantage of national M.G.Q.'s is that they are more rigid in their operation than a community ceiling and do not take account of possible fluctuation of production between member states; surplus production in one member state cannot be offset by shortfalls in another.

Consumption aid

- The Consumption aid has given rise to serious administrative control problems in at least one member state. It is in the application of this aid that controllers have detected 90% of detected fraud. The aid has been reduced over the years. This was for two reasons. Firstly to reduce the temptation to defraud the system and, secondly, to concentrate the aid at the producer level rather than the industry level.

- However, in its reduced form, whilst the temptation for abuse was less, the aid no longer fulfilled its original purpose. This was to permit the putting on the market of all production at a representative price. The difference between the representative price and the indicative price, minus the production aid, was bridged by the Consumption aid. In recent years the aid has become an "acquis" for the sector, and in particular for the industry and has little or no effect on retail prices or producer incomes.

b) THE TREE AID OPTION

The two currently applicable forms of production aid (flat-rate and real) would be abolished.

They would be replaced by an aid per tree which would be paid taking into account historic yields per zone. The aid per tree would be paid on demand and subject to a number of conditions laid out in the regulation and also conditions which could be imposed by the member states. Member States would have freedom to modulate the tree aid according to different production methods and regions thus providing an important degree of continuity in the level of aid received by individual farmers. Such modulations would have to be within an overall framework so as to avoid distortions of competition. Moreover the possibility could be examined of foreseeing the linkage of the aid to socio-economic, regional and environmental criteria (cross-compliance).

An unit aid per tree would be fixed according to production zone and it is on the basis of this figure that further modulation could take place. In areas of high yield, for example, member states could increase the aid per tree so that individual olive producers would not find themselves penalised by the move from aid to production to the new aid per tree.

Consumption aid would be abolished and the quality controls which are now part of its operation would be replaced by a reinforced quality control system involving the industry.

Public Intervention and the "buffer stock" would be abolished and replaced by a system of private storage. The latter would only intervene as a safety net mechanism.

A computerised integrated control system(GIS = Geographical Information System) would be introduced to control tree numbers and cross check applications for aid.

Community co-financing of the olive oil control agencies would be phased out. The majority of the tasks carried out by them under the current regime would disappear with the tree based system.

Quality programmes would be expanded to embrace the marketing of olive oil as well as its production.

Promotion would continue to safeguard and expand consumption at home and abroad.

Advantages

The tree aid option presents a number of advantages. All Community farmers would be targeted directly (as in the 1992 arable reform). This would mean greater transparency and more efficient use of public funds.

Income

The variations in producer income which are due to the cyclical nature of olive oil production would be lessened by the payment of a constant flat-rate aid. This would be particularly effective in years of low production and tighter income conditions. It would be even more useful in years of natural disaster (extreme drought, hailstorms etc) where the producer could lose his production and income completely were it not for the tree aid. The producers' choices would be more influenced by the market than by the aid as is now the case.

The amounts an individual producer may obtain from a production based system of aid and a decoupled system should be similar provided the overall budget remains similar and the decoupled aid can be modulated to correspond to traditional regional yields.

Control

The system would be far simpler and easier to control. Controllers would only have one task to accomplish, the control of the number of trees. Trees by definition are less easy to hide, move around or invent than oil and the controllers' task would be greatly simplified. The olive tree registers which have only been partially realised to date would be replaced by an integrated control system (GIS). The controllers' tasks would be further simplified by the disappearance of the consumption aid, a major time consumer for the agencies and controllers at present.

Aid would be triggered by a single parameter, tree numbers, (instead of three as is now the case) and it would be possible to establish a register which would be simple to update and which would permit long term controls as well as cross checks with other crops (GIS = Geographical Information System). The GIS would be far easier to manage than the current register which is based on the owner and not, as is the case with the GIS, on the producer. The experience already made with integrated control systems in other sectors shows that the declaration is controllable without entering into questions of the property rights of the producer.

The introduction of a tree based MGQ by member state would provide a strong incentive for member states to apply the GIS efficiently.

The inherent flaws of the production aid would no longer exist as a temptation to inflate figures. The problems of administration and fraud which have, unfortunately, characterised the consumption aid would also be at an end and greater responsibility will be given to the industry in terms of auto-regulation.

The system would be easier to defend in the event of a renewed discussion in the WTO on agricultural support levels and redefinitions of the green and blue boxes.

Budget

Some expenditure would be saved, for example by ceasing to pay the consumption aid and finance the national Olive Oil Agencies whose task for us will have been accomplished by the time the reform comes into force. However, the real savings could be in comparison to a future under the current system marked by potential surpluses and public money misspent due to fraud and the administration of an overcomplicated system. The tree limit per member state would effectively cap the tree aid budget and act as a maximum guaranteed quantity.

Other aspects

The payment of a "decoupled" tree aid would be a step in the right direction where the environment is concerned if the system were made to include elements of cross-compliance at the stage of tree cultivation allowing for a definition of "cultivated trees" which includes environmentally friendly practice as a condition for obtaining the aid.

The current quality policy, which exist now only at producer level would be continued and rendered more efficient by more precise targeting of the funds available. The producer and trade organisations would be involved in these quality schemes.

It is an anomaly of the current system that some table olive producers benefit from aid through the flat rate small producers aid while others received no aid at all. Under the tree aid system, all table olive producers would receive equal treatment within the limits of the modulated aid.

Disadvantages

A potential disadvantage of the tree aid system already expressed by some producer organisations is that owners of olive groves might decide not to harvest their olives preferring to pocket the aid and save the cultivation and labour costs. Others might even plant trees with the sole purpose of harvesting the aid but it is considered unlikely that this would occur. If necessary it would be possible to avoid this potential problem by means of the introduction of strict conditions upon which the granting of aid would depend, such as a requirement for processing of the individual producer's entire production. The Council could introduce the possibility of such conditions and leave it to the member states to decide whether they wished to take them up. Whilst this could represent an additional administrative burden, it should be remembered that such conditions already exist in Community legislation in relation to the

the aid at member state level would also help reduce any inclination of olive tree owners to harvest the premium.

Most of the other potential disadvantages of the tree aid system arise under a scenario in which owners do not harvest the olives. These include possible rural unemployment and lack of supply to the mills and co-operatives. Negative effects could be felt both up and downstream and serious producers could suffer from the lack of phyto-sanitary treatment in neighbouring holdings where production has been abandoned.

Despite high harvesting costs in relation to some other agricultural products, past and present practice suggest that fears on possible abandonment of production are greatly exaggerated. For example, in Spain, before the application of the CMO, there was a very low rate of national production aid and olive oil prices were around one third of what they are today. Nevertheless production expanded steadily.

Furthermore in many regions of the community the product of the harvest is shared between the harvester and the farmer. This clearly would not be possible if the value of the harvest were inadequate to recompense costs of harvesting. Whilst harvesting decisions will depend upon individual circumstances relating to yield and prices, a study transmitted to the Commission's services by the International Olive Oil Council of representative figures relating to variable costs in Spain for different types of production (traditional irrigated/non-irrigated, intensive irrigated/non-irrigated) suggest that cost are substantially lower than income likely to be achieved. The average cost of harvesting for the different production types works out at less than 50% of variable costs.

Perhaps most striking of all is the fact that a majority of EU producers (around 60% of the total) are already paid an aid per tree under the small producers scheme. There is no evidence to suggest that this has led small producers to abandon their production. On the contrary, as indicated earlier in this report production has increased. Furthermore, in Italy, the authorities have indicated that, in the last four years, irrespective of cyclical variations, small producers have in fact produced more than the quantities for which they receive aid under the small producers' flat rate scheme. The present small producer regimes uses historical yields and requires delivery of olives to the mill. These elements could, where appropriate, be maintained in a future generalised tree aid system.

As it would not be necessary for a producer to show to what use he had put his olives, it would be necessary to pay producers of table olives. The Commission is of the view that this is in any case desirable in order to end the distortion between the olive oil sector and the table olive sector resulting from the present regime.

Control

Doubts have been expressed as to how quickly a G.I.S. could be put in place and made operational. A major effort will need to be made by member states ahead of the introduction of the new regime. This will be all the more important where the member states choose to modulate aid in function of objective criteria.

However, it is clear, as indicated in the conclusion of annex I, that a G.I.S. is necessary for control purposes independently of the choice of aid regime. In the case of the tree aid being chosen, the speedy introduction of the G.I.S. would be an essential control element. The same would be true if the choice were to fall on a production aid system as the only alternative would be impracticable, involving round-the-clock controls of all deliveries in all mills and control of trees is an important element of cross-checking production aid.

In view of the situation of the olive oil sector and the urgent need to take appropriate measures to revise the CMO, the Commission expects that in the light of the observations made on this document, it will make a proposal in time for the new regime to enter into force as from 1998/99 marketing year.

18 October 1996

Progress regarding the register of olive cultivation

The register of olive cultivation is governed by Council Regulation 75/154/EEC and Commission Regulation (EEC) No 2276/79. It requires the five producer Member States (E, GR, F, I and P) to establish a parcel identification plan of olive cultivation within six years, i.e. before 1981 in the case of France and Italy, before 1988 in the case of Greece and before 1992 in the case of Spain and Portugal.

With the exception of France, the parcel plan identification is to be established by photointerpretation of aerial photographs, possible on-site inspections, the forwarding of data to declarants and on-the-spot comparison in the event of disagreements. In France, areas are to be determined and olive trees counted on the spot. The register of olive cultivation must be computerized, must contain information on all olive-oil-producing holdings and must be updated annually through the encoding and validating of changes in cultivation declarations.

The establishment and updating of the register of olive cultivation is to be 100% "part-financed" (Regulation (EEC) No 2159/92) by withholding 2.4% of production aid for olive oil up to the 1997/98 marketing year.

1. Situation in Spain

Work on the register of olive cultivation in Spain, which began in 1989, had cost ECU 25.3 million by 1994. At current rates, a further ECU 35 million at least will be necessary to establish the register, scheduled for completion in 1998. At 31 May 1996 this budget enabled 58% of parcels with olive trees to be recorded, covering over 46% of the municipalities concerned.

Although technical surveying has been completed in 10 of the 34 provinces concerned, the register cannot be considered operational in any administrative unit in so far as the compulsory notification of information to declarants has not taken place. The rate of expected disparities has not yet been assessed but a recent inspection visit gave an observed rate of 76%. Of the sample analysed, overdeclaration of trees amounted to 29% as shown by the register.

The second weakness of the register in Spain lies in the fact that updating work is: (a) poorly defined as regards inputting of data on changes to cultivation declarations; (b) not carried out from the cartographical viewpoint. The validity of data so laboriously collected is open to question.

In May 1996 a database and software for consulting data available were delivered to the autonomous communities of Andalusia and Castile-La Mancha. In the absence of cartographical information, validation and updating, this event is of slight interest. In particular, the availability of such data to producer associations responsible for collecting and verifying cultivation declarations would be of paramount importance for improving the quality of declarations, in many cases limited by the difficulties encountered by producers in correctly identifying their parcels.

2. Situation in France

Launched in 1979, the register of olive cultivation in France was part-financed to the tune of ECU 0.2 million up to 1994. Following the obligation for a new cultivation declaration introduced in France in 1995, the computerized register contains all recent declaration data in a working Windows application.

To date these data have been verified on the spot in 2% of cases and a recent inspection visit by Commission staff shows that the rate of observed mistakes fully warrants the verification of such data, as the regulations require.

As a consequence, the register of olive cultivation in France cannot be considered completed.

3. Situation in Greece

To date, Greece has undertaken no work and spent no funds on establishing the register. Furthermore, the computerized register of aid applications has been abandoned. On its own the Commission conducted a pilot study in 1992/93 to demonstrate the technical feasibility of a simplified approach and to assess the cost.

Once technical feasibility had been demonstrated, the difficulties identified and the costs assessed (ECU 44-48 million), although Greece agreed to submit a proposal by September 1996, it put forward no programme, pleading the need for the technical changes suggested by the Commission staff following the introduction of the Integrated System.

A work plan based on the options selected for the Integrated System having been accepted by the Commission staff for the simplified register of olive cultivation, Greece must put forward a technical and financial proposal as soon as possible for the register, incorporating work undertaken on arable land and vineyards. This approach should allow a register of olive cultivation to be established for less than ECU 15 million.

4. Situation in Italy

Italy is the only Member State which, as from 1987, has fully established the register of olive cultivation. From 1979 to 1994 the register cost ECU 168 million and in 1989 it enabled production aid to be reduced by 10% following a fall from 180 to 120 million in the number of trees declared.

In addition to the high cost of the operation, the problem raised by the Italian register of olive cultivation concerns its updating. The use of the register when aid is paid has had the effect of encouraging producers to declare all their parcels. Since validation by producers in 1987, the databases have been updated (at a cost of ECU 13 million) on the basis of changes in cultivation declarations. Although 500 000 parcels have been checked, the Italian register still contains one million parcels needing to be checked (i.e. 25% of the total parcels in the register). Accordingly, the number of olive trees has risen once again to 165 million.

In response to a request from the Commission staff, AIMA has informed us of its intention to undertake such validation through the 1996-98 plan adopting an "SIG" option for the three sectors concerned by the parcel identification plan (Integrated System, vineyard register and register of olive cultivation). A budget of ECU 45 million has been announced, half of which is to defray the cost of the register of olive cultivation.

5. Situation in Portugal

Convinced that the amount withheld would not allow the register to be financed, those responsible at national level in Portugal have never awarded contracts for work on the register, despite the publication of a call for tenders and an examination of tenders received in 1990. The only result has come from an initiative on the part of the Commission staff, who had a pilot study conducted on the subject in 1992/93.

Since 1996, INGA has become responsible for the work and in October it forwarded a 1996-98 work plan on the establishment of the register of olive cultivation along the same lines as that used for the parcel identification plan introduced under the Integrated System. INGA has received our agreement in principle and a call for tenders should be published before the end of the year. The estimated cost of the operation is ECU 10 million, a modest sum on account of data available via the Integrated System and the "SIG" approach used.

6. Conclusions

- From 1979 to 1995, the register of olive cultivation resulted in expenditure of ECU 202 million against a total of ECU 249 million withheld. Despite the scale of the expenditure concerned, only the Italian register can be considered completed.
- The approach adopted has proved very cumbersome to introduce, in particular as a result of the obligation to cover all holdings producing olive oil, including those not covered by the aid scheme (i.e. 1.3 million producers in Italy compared with 800 000 aid applications).

- No Member State has succeeded in coping with the requirements of updating, which means that the only register completed now contains 25% problem parcels.
- The quality of declarations is one of the factors limiting the feasibility of the operation. Problems encountered by farmers in identifying parcels and locating olive trees suggest that a graphic declaration form should be provided. Experience shows that in over 10% of cases, land register references pose a problem. Furthermore, the absence of penalties in the event of errors in declarations throws the whole responsibility for the quality of data in the register on the administration and leaves the farmer with the possibility of deliberately increasing the work of establishment and updating or not, as he chooses.
- New techniques, in particular the development of digital orthophotos and Geographical Information Systems (GIS), allow digital mapmaking to be used nowadays at reasonable prices. These techniques make the efficient transfer of graphic information towards regional administrations and producer associations easier.
- The establishment of the parcel identification plan under the Integrated System has demonstrated the feasibility of managing a sector through a system of declarations linked to a parcel identification plan which it was possible to introduce over four years. Successes in this sector must be turned to account for the register of olive cultivation and the latter must benefit from the reductions in cost resulting from the choice of a single parcel identification system.
- The rate and method of part-financing also raise problems. It is difficult to combine work, some of which is fully financed (olive cultivation) with other work financed at a rate of 50% (Integrated Administration and Control System and "SIG" for vineyards). Furthermore, the fact that producers actually finance the instrument (through an amount withheld from production aid paid) without having the possibility of verifying or assessing expenditure is unsatisfactory.
- To sum up, the simplifications provided by the "SIG" for olive cultivation must be introduced as quickly as possible through the reform of the oils and fats product group or independently thereof. Otherwise, the problems mentioned above will continue and major sums will be committed without any guarantee on compliance with regulation obligations.

munities placed particular emphasis on the Court's conclusion concerning the reliability of the control system. It underlined the urgent need to establish olive cultivation registers and invited the Commission to intensify its efforts to assure a reliable control system.

3.68. The European Parliament in its 1991 discharge decision of 21 April 1993 ⁽²⁹⁾, noted that it was impossible to monitor or control the olive oil production aid system, questioning whether the Community taxpayer should be expected to finance a system over which the Community could not exercise control. Furthermore, it gave notice that it would call on the Commission to take all possible measures to suspend payments under the olive oil production aid scheme unless satisfactory controls were assured within a reasonable timescale. Finally, proposals for the reorganization of the olive oil sector should take account of the Court's comments.

3.69. *Table 3.5* shows how budgetary expenditure on olive oil has fluctuated during the period 1991 to 1996, reaching a high of 2 468,1 Mio ECU in 1993 and a low of 812,5 Mio ECU two years later. The low level of expenditure in 1995 seems to result from Commission Regulation (EC) No 3062/94 of 15 December 1994 ⁽³⁰⁾ which laid down more precise time limits for the payment of production aid, including advances. In effect, this regulation delays the payment of aid to small producers and advances to other producers for the 1994/95 marketing year until after 16 October 1995, resulting in higher expenditure relating to 1995 being transferred to the 1996 budget.

3.70. The Commission's records indicate that Italy is the only Member State that has an operational olive cultivation register, although it has not been updated since the 1992-93 aid application procedure. Spain's register will not be operational until 1997/98 at the earliest, while for Greece and Portugal, only the pilot projects have been completed. The Commission's 1992 clearance of accounts audit carried out in Greece confirmed that the olive cultivation register was not operational and that computerized records regarding producer organizations were not usable so production aid applications could not be controlled. In addition, the control agency had not carried out the number of on-the-spot inspections required by the regulations and there was an inadequate reporting system. As a result, the Commission proposed, as it did in 1991, to impose a 10% financial correction on olive oil expenditure declared in 1992 totalling 5 252 Mio DR (20,8 Mio ECU).

⁽²⁹⁾ OJ L 155, 26.6.1993, p. 72.

⁽³⁰⁾ Commission Regulation (EC) No 3062/94 of 15 December 1994 (OJ L 323, 16.12.1994, p. 21).

Common market organization (CMO) — olive oil

3.66. In its annual report concerning the financial year 1991 ⁽²⁶⁾, the Court examined for a second time aid schemes for olive oil. It concluded that the huge administrative effort for management and control of production aid did not result in a reliable system. The requirement to establish olive cultivation registers by 1988 had not been met for 50% of producers. Those which existed were not regularly updated which, in turn, limited the usefulness of the computerized production record.

3.67. In its 1991 discharge recommendation of 15 March 1993, the Council of the European Com-

⁽²⁷⁾ Annex II to the Treaty establishing the European Community contains all agricultural products to which the common agricultural policy applies as specified in Articles 39 to 46 of the same Treaty. Contrary to non-Annex II goods, which are, in the main goods, obtained by further processing of agricultural goods, the provisions of the abovementioned articles do not apply. For example: cereals flour, sugar, butter and eggs are agricultural products and as such are contained in Annex II. Biscuits, obtained by processing these ingredients are not contained in Annex II; in the same way, barley and malt are contained in Annex II, beer and whisky made out of them are not. Chocolates and sweets are further examples of non-Annex II goods.

⁽²⁸⁾ OJ C 330, 15.12.1992.

Table 3.5 — EAGGF-Guarantee section expenditure on olive oil

(Mio ECU)

Measures	EAGGF — financial year					
	1991 (1)	1992 (1)	1993 (1)	1994 (1)	1995 (1)	1996 (2)
Refunds on olive oil	111,8	48,4	68,8	52,8	38,2	40,0
Production aid	1 084,4	849,8	1 386,1	1 072,4	566,5	1 547,0
Consumption aid	726,0	762,1	784,3	614,2	268,6	166,0
Storage measures	- 18,4	42,9	177,3	36,0	- 94,9	p.m.
Other intervention	56,0	51,1	51,6	43,9	34,1	28,0
Total	1 959,8	1 754,3	2 468,1	1 819,3	812,5	1 781,0

(1) Expenditure reported in EAGGF Guarantee (M.G.2) financial situation reports.

(2) General budget appropriations for 1996.

3.71. In Spain, the Commission's 1992 clearance of accounts audit confirmed the control agency's opinion that producer organizations were not operating in accordance with established legislation. In one case, it was proposed that the producer organization should repay 176 Mio PTA (1,15 Mio ECU) and have its recognized status withdrawn by the competent authorities.

3.72. Finally, the Commission has confirmed that there will be no change in the legislative framework governing EU aid for olive oil before the end of 1996 when the CMO reform proposals are due.

Conclusion

3.73. With regard to the CMO for olive oil, the Court considers that the current level of operational olive cultivation registers does not represent satisfactory progress for a scheme that is financed by withholding part of the general budget provision for production aid. It is also evident from the results of Commission audits that the control systems put in place by the Member States are still not of a satisfactory standard. In this context, Member States should consider, where appropriate and cost-effective, the possibilities offered by remote sensing for both completing and updating the olive cultivation register.

Utilité et Type d'Action	Chap. Art. Poste	(en mio ECU)																		
		(EUR 91)					(EUR 10)				(EUR 12)							(EUR 15)		
		1980	1981	1982	1983	1984	1985	1986	1987		1988		1989	1990	1991	1992	1993	1994	1995	1996
							10 mois	12 mois	11.6 mois	12 mois										
HUILE D'OLIVE 6/60 MODIFIE EN DERNIER PAR LE R.3290/84)	12																			
STITUTIONS A L'EXPORTATION L'HUILE D'OLIVE	120	p.m.	2,9	8,8	9,7	8,1	19,2	29,4	23,2	27,4	64,2	67,6	93,2	134,9	111,8	48,4	68,8	52,8	38,2	59,3
stitutions classiques	1200	p.m.	2,9	8,8	9,7	8,1	19,2	29,4	23,2	27,4	64,2	67,6	93,2	134,9	111,8	48,4	68,8	52,8	38,2	59,3
respondant à des dons vitalités communautaires	333	-	-	-	-	-	-	-	-	-	-	-	0,2	1,4	p.m.	-	-	-	p.m.	p.m.
DES A LA PRODUCTION ET ONS EN RAPPORT AVEC LA DUCTION D'HUILE D'OLIVE	121 121R	237,9	274,3	257,4	403,8	747,8	456,9	271,2	577,6	641,4	319,6	330,2	817,8	545,1	998,5	850,1	1386,1	1072,4	566,5	1792,0
es à la production	1210 1210R	237,9	274,3	254,9	393,8	731,1	443,4	249,2	560,7	616,9	288,8	305,5	790,6	520,8	879,7	825,0	1387,9	1051,9	550,2	1774,2
ions en rapport avec la duction	1211	-	-	2,5	10,8	16,7	13,5	22,0	18,9	24,5	22,8	24,7	27,2	25,2	18,8	25,1	18,2	20,5	16,3	17,8
DES A LA CONSOMMATION ET ONS EN RAPPORT AVEC LA SOMMATION D'HUILE D'OLIVE	122	48,9	102,6	155,3	221,9	250,1	185,6	218,5	439,1	496,8	432,0	446,5	451,8	462,2	728,4	781,8	784,3	614,4	288,8	132,1
es à la consommation	1220	48,7	102,3	152,6	221,7	245,9	180,8	217,1	437,0	494,3	421,5	436,0	441,8	457,5	708,9	734,4	773,8	613,3	263,3	112,6
ions en rapport avec la sommeation	1221	0,2	0,3	2,8	0,2	4,2	4,8	1,4	1,5	1,5	10,5	10,5	9,8	4,7	17,5	27,4	10,7	1,1	5,4	19,5
ERVENTIONS SOUS FORME OCKAGE, DONT:	123	20,5	51,0	58,3	12,2	66,6	5,2	48,8	81,2	73,8	86,0	88,5	54,6	-25,7	-18,4	42,9	177,3	38,0	-94,8	-0,1
is techniques de stockage ific	1230	-	-	34,9	24,1	31,5	20,0	29,0	28,6	33,1	38,2	39,1	40,8	9,2	8,8	5,7	12,1	27,3	7,0	4,7
is financiers de stockage ific	1231	20,5	51,0	25,9	20,6	21,3	14,1	21,0	23,9	27,7	30,8	31,7	37,4	6,8	7,5	1,8	8,1	20,3	4,2	1,9
res frais de stockage public	1232	-	-	-4,5	-32,5	13,8	-28,9	-1,2	8,7	13,0	16,9	17,7	-31,5	-42,6	-40,1	-27,5	-13,2	-70,8	-108,4	-7,2
ociation des stocks	1233	-	-	-	-	-	-	-	-	-	-	-	0,4	1,7	6,5	69,5	153,1	43,5	0,3	0,5
res interventions sous forme stockage	1239	-	-	-	-	-	-	-	-	-	-	-	7,4	0,1	-	3,4	17,2	15,7	0,1	p.m.
ITRES INTERVENTIONS:	124	10,6	11,9	15,3	23,9	23,8	25,3	38,3	38,0	42,3	43,1	44,6	47,4	50,7	50,0	51,1	51,8	44,0	34,1	28,3
ITRES	129	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-1,8
TOTAL HUILE D'OLIVE	12 12R	317,9	442,7	493,1	875,3	1096,4	892,2	604,2	1139,1	1280,7	944,9	977,4	1464,5	1188,2	1874,2	1754,3	2488,1	1819,6	812,6	2007,6
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