COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 18.03.1998
COM(1998) 171 final

98/0098 (CNS)

Proposal for

Council Regulation (EC) N° ....

amending Regulation No 136/66/EEC on the establishment of a common organisation of the market in oils and fats

Proposal for

Council Regulation (EC) N° ....

amending Regulation (EEC) N° 2261/84 laying down general rules on the granting of aid for the production of olive oil and of aid to olive oil producer organisations

(presented by the Commission)

[redacted]

[redacted]

EXPLANATORY MEMORANDUM

I. THE REFORM OF THE OLIVE OIL SECTOR

Over the last few years, many problems in the workings of the market organisation for olive oil have drawn the attention of the Commission and the Council to the need for a reform of the latter. Parliament and Court of Auditors have frequently called for measures to combat fraud and irregularities in the sector.

Many, at times far-reaching, changes have been made. The instruments for controls have been strengthened, but the problems remain.

1. **The options** were spelled out to the Council and the European Parliament in February 1997 in a Commission Note on the olive and olive oil sector, the current common market organisation, the need for a reform and the alternatives envisaged[1]. The Note outlined the sector's economic, cultural, regional, social and environmental aspects and concluded on the need for a reform of the present market organisation along two possible avenues.

The first option is to improve the existing system and would essentially comprise:

- abolishing the aid scheme for small producers and granting aid across the board on the basis of actual production;
- possibly, breaking down the maximum guaranteed quantities (MGQs) between the Member States;
- abolishing consumption aid;
- reviewing the possibilities of intervention buying-in.

The second (more radical) option would be based principally on:

- aid per olive tree, calculated on the basis of historical yields and granted to producers in place of the present production aid system;
- introducing a quality control system and abolishing consumption aid;
- a system of private storage in place of public intervention.

The Note on the options put forward by the Commission was the subject of lively debate in Parliament, the Council, the Economic and Social Committee, the Committee of the Regions and many professional organisations. Thanks to this fruitful and wide-ranging exchange of views, the existing problems and the objectives and constraints of any reform were analysed in greater depth.

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[1] COM(97)57 final.

2. **<u>The positions expressed by those taking part in the debate</u>** acknowledge the need for a reform of the present market organisation introduced in 1966. The system has become increasingly complex, with a growing number of support mechanisms which are increasingly ineffective overall and difficult to monitor. The existence of a two-tier system of aid to producers is a source of fraud almost universally deplored. The value of consumption aid, which has been reduced sharply in amount to prevent the irregularities it fostered, is now seriously in question.

Agreement is growing on the social, regional and environmental importance of olive cultivation and on the need to emphasise quality and the promotion of olive oil.

The consensus regarding the desirability of a reform entailing a simpler system which is easier to monitor and therefore more effective in distributing the necessary aid to producers breaks down when it comes to deciding on the form such aid should take.

Those in favour of the first option, in particular Parliament and certain producer Member States, stress the advantages of a system of aid that is proportional to actual production. Such an aid scheme rewards producers for their output. It is based on long-standing experience with the present mechanisms, which have been adapted gradually to encourage production while avoiding market distortion. Nevertheless, with this option it is difficult to check applications for aid. Those in favour of production aid advocate much stricter checks at the time of release for consumption. Such a system could entail compulsory channels for the manufacture and marketing of olive oil and could perhaps involve a system of certificates establishing links between the olive oil checked and the producers.

Those in favour of aid per tree point out the effect such a system could have in stabilising the incomes of olive growers, who have always been faced with uncertain weather conditions and natural variations in yields. From the environmental viewpoint, such a system seems beneficial in so far as it implies no incentive for intensive cropping. A flat-rate aid scheme would also allow for more effective control of increases in average production, which tends to rise ahead of consumption under the present system of incentives. Lastly, this option would make the aid scheme very much simpler and significantly more reliable. Nevertheless, there is little experience with flat-rate aid per olive tree under the wide range of regional conditions, despite the fact that it already applies to small producers. Some believe that it could result in olives not being harvested and accordingly lead to job losses. Those in favour of this option agree that there should be some regional variation in the aid granted, certain obligations regarding harvesting and measures to combat the abandonment of the countryside and environmental deterioration.

Analyses of the way the olive oil market operates focus on the mechanisms covering intervention, storage and trade with non-member countries. Parliament has come out in favour of maintaining the present system and reviewing the conditions governing inward processing traffic.

Other, at times more specific, topics were raised during the discussions, such as the national guaranteed quantity and its apportionment among the producer Member States,

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and support for table olives. Approaches to such matters generally reflect the basic options followed regarding aid granted to producers.

3. **The Commission has carefully examined** and analysed the remarks made, the views expressed and the resolutions adopted by Parliament. All this work has thrown new light on the question and enabled the Commission to identify more precisely the aims to be pursued. It has also clearly revealed the need for closer examination of the data underlying its policy approach.

The Commission takes the view that the reform of the olive oil sector should take account of four broad aims:

- safeguarding and improving the quality of the products concerned;
- stabilising olive growers' incomes;
- achieving dynamic equilibrium on the olive oil market;
- organising and monitoring the sector in question.

Quality is a key factor in fostering consumer loyalty and increasing consumption of olive oil in the European Union and non-member countries and its role is essential in production and income and on the market. The concept of quality depends on many factors relating to olive production, oil manufacture and marketing. What has already been done must therefore be continued and stepped up, and an integrated, more highly coordinated strategy focusing on quality in the broad sense must be developed.

Olive growers' incomes depend mainly on annual olive production and on the system of aid which is now the subject of discussion between the two options put forward by the Commission. They also depend on market balance, which can be upset by a rise in production exceeding the possibilities of disposal. In order to choose between maintaining production aid and introducing flat-rate aid to producers, more comprehensive and more reliable information must be available on the quantities concerned and on producers' incomes.

Equilibrium on the market for olive oil is seen in dynamic terms, particularly if the policy followed regarding quality and its promotion leads to an increase in consumption at prices that are related to quality. Given the existing limits on exports attracting refunds, the market price for olive oil should resume its full role in mediating between supply and demand. Consumption aid, which is fairly ineffective in the fight against fraud and may even encourage it, should be abolished. The intervention arrangements should also be reviewed. By means of mechanisms based on storage, intervention could be made more flexible and brought more closely into line with the market. As for imports, the European Union's efforts to control production should be reflected in agreements with the non-member countries concerned, with harmonisation of conditions governing inward processing traffic.

Olive oil sector organisation and controls should be thoroughly recast in the wake of the other changes under the reform. The functions and roles of the various existing bodies need redefining in line with the new requirements for administering aid to producers and

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in particular the integrated quality policy. With regard to the latter, many measures need to be laid down, coordinated and implemented with a view order to improving, verifying, certifying and increasing awareness of quality. In addition to their role in concentrating supply, producer groups definitely have a role to play.

4. **To determine and implement the reform** along the lines set out above, better estimates of actual production are needed. One factor is also lacking, namely quantified, reliable figures on the number of trees and hectares granting producers entitlement to flat-rate aid. This is one of the consequences of the present production aid scheme, which casts much doubt on the statistics available. In spring 1997 the Commission ordered a precise statistical estimate, based on aerial photography, of the number of olive trees per Member State. However, the surveys, studies and checks necessary mean the requisite data cannot be analysed for some months. The latter must be carried through and supplemented, in particular as regards areas and yields.

The Commission considers that no proposal for a Council Regulation reforming the olive oil sector can thus only be put forward in 2000, for application in respect of 2000/01.

The prospect of flat-rate aid to producers announced several years before it becomes payable is likely to trigger frenzied planting of olive trees and seriously jeopardise the future balance of a market already in surplus. Where production aid is subject to a maximum guaranteed quantity, any national breakdown of that quantity or any adjustment in that breakdown carries the same risk. Budget resources not being unlimited, each region of production would thus seek to increase its share. In the past, the risk of such a development was prevented by disqualifying new plantings from entitlement to aid. These measures, which were applied from 1977 on with a view to the accession of Greece, were abandoned in 1985 when the budget stabilisers were introduced. For some years now, despite the introduction of a maximum guaranteed quantity, new olive groves have increasingly been planted without any concern for the future balance of the market. This is unacceptable in the Commission's view and pending a more thoroughgoing reform of the common organisation of the market, measures must be taken as of now for the 1998/99, 1999/2000 and 2000/01 marketing years.

II. THE 1998/99, 1999/2000 AND 2000/01 MARKETING YEARS

The present situation cannot continue unchanged during the three marketing years 1998/99, 1999/2000 and 2000/01 since it implies risks of major difficulties for operators and in particular for producers, as well as to the Community budget. The Commission therefore proposes amending the arrangements as from 1 November 1998 to eliminate or reduce those risks. The changes involve:

1. restricting the aid to oil produced from groves existing at 1 May 1998;
2. information regarding production;
3. the definition of categories of virgin olive oil;
4. the intervention arrangements;
5. consumption aid;

6. aid for small producers;

7. national breakdown of the MGQ.

The changes would apply in the 1998/99, 1999/2000 and 2000/01 marketing years only, i.e. up to 31 October 2001. To put that expiry date beyond discussion, the Commission proposes to repeal the provisions on aid and the market regulation mechanism provided for in Council Regulation No 136/66/EEC on the establishment of a common organisation of the market in oils and fats[2] with effect from 1 November 2001.

1. **To curb the rise in the number of olive trees planted**, the Commission proposes deciding as of now that production aid will no longer be granted after 31 October 2001 in respect of new areas under olive trees or, where applicable, additional olive trees planted after 1 May 1998[3]. Exceptions would be allowed for planting or modernisation under programmes approved by the Commission.

The measure will be monitored through the cultivation declarations which producers must submit to qualify for the aid under the current arrangements. These declarations state the area and the number of olive trees producing olive oil. In accordance with the arrangements to be introduced under the reform, as from 1 November 2001 only those olive groves existing at 1 May 1998 and declared in the few months thereafter will be eligible for production aid.

2. **Information regarding production**, i.e. the areas, the numbers of trees and the yields concerned, provides a response to two different needs.

On the one hand, it is necessary to obtain reliable national estimates for decisions on options and to determine the content of the reform for 1 November 2001. In this connection, the Commission will supplement the information provided by the analysis in progress of aerial photographs of oil-producing regions. It will also undertake a harmonised survey of average national yields in 1998/99, 1999/2000 and 2000/01.

On the other hand, this information regarding production must be available at a level that is close to the recipient agricultural holdings. This is necessary in order to check the verisimilitude of production aid and to administer the granting of aid per tree or per hectare. The methods for estimating yields in small regions call for a critical analysis of experience gained and require harmonisation.

Detailed information on each olive grove should be available in the register of olive cultivation. Experience shows all the difficulties there are in establishing and keeping up to date a register of all existing olive trees with no latitude for disparities between the data recorded and those declared by the farmers each year. The register should give way

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2 OJ 172, 30.9.1966, p. 3025. Last amended by Regulation (EC) No 1581/96 (OJ L 206, 16.8.1996, p. 11).

3 1 May 1998 is the first day of the month following the publication of a Commission notice in the Official Journal of the European Communities informing operators of these proposed measures.

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to a geographical information system (GIS) along the lines of that used in other sectors of agriculture. Data recorded in a GIS are practically the same as those in a register, but they only relate to the olive groves covered by aid applications. Olive growers' declarations are admissible within a margin of tolerance defined in advance with respect to observations using aerial photographs.

This approach should enable a GIS to be developed in each producer Member State before 1 November 2001, based on a common system of controls and penalties covering the aid. It could be financed using production aid withheld in accordance with Council Regulation (EEC) No 2159/92[4]. The GIS option the Commission proposes would allow olive growers to receive 2.4% production aid more as from the 1998/99 marketing year, paid from the 2000 budget.

3. **The names and characteristics of the various categories** of olive oil and olive-residue oil are set out in the Annex to Council Regulation No 136/66/EEC. As far as virgin olive oil is concerned, that Regulation specifies the values distinguishing the various categories in terms of acidity and organoleptic properties.

Acidity is determined by an objective physico-chemical analysis using a method whose reproducibility and repeatability have been thoroughly verified. The organoleptic properties are assessed by a panel of tasting experts trained to ascertain the sensory characteristics of virgin olive oil. The results are inevitably subjective to some extent and can provoke much argument.

The International Olive Oil Council recently drew up and tested a new, more reliable testing method, which focuses on determining clear defects without seeking to describe all flavours. It does not eliminate subjectivity entirely but, being more rigorous and simple, does reduce the risk.

The Commission proposes adapting the Annex to Regulation No 136/66/EEC to refer to the new sensory analysis method where it is absolutely necessary to check organoleptic quality, in particular to distinguish extra virgin olive oil from other oil.

4. **Public buying-in at the intervention price** in bumper crop years generates stocks that can dampen price hikes in years of poor harvests. In addition, these arrangements guarantee producers a minimum return on quantities produced. In the past, the effect of variations in production and the annual increases in the institutional prices provided for in the Act of Accession of Spain and Portugal enabled the cost of buying-in to be kept down. The quantities of olive oil bought in were sold at higher prices where there had been no deterioration in quality.

Over three years, with the shift of a large percentage of consumption aid to production aid, the latter rose by 66%. At present, on its own the aid granted to producers thus ensures a significant minimum return on quantities produced. The guarantee provided by the intervention price is accordingly less important but it does constitute an incentive to

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4 OJ L 217, 31.7.1992, p. 8.

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produce without any concern for market balance and irrespective of the ratio of supply to demand.

The management instruments available in the olive oil sector are not as powerful as those existing, for example, for the cereals and dairy sectors. The annual variation in olive-oil production is particularly wide, and even where it is broken down nationally, the impact of the maximum guaranteed quantity is moderate in the short and medium term. Under these circumstances, as for pigmeat and beef/veal, the market price must be managed by more flexible means than public buying-in.

Furthermore, since exports attracting refunds are limited under the GATT agreements to around 120 000 tonnes per marketing year for 1998/99, 1999/2000 and 2000/01, if Community production is to be disposed of on an expanding consumer market in non-member countries, prices within the European Union must allow some oil to be exported without export subsidies.

The Commission therefore proposes replacing the intervention buying-in arrangements. This would allow expansion to be curbed, irrespective of the laws of the market that affect output, and would permit consumption of quality production to be promoted at accessible prices within the European Union and in non-member countries. The supply of olive oil would be regulated more flexibly and easily by means of private storage contracts. Where prices fell sharply owing to production surpluses on the market, aid would be granted to producer groups which undertook to maintain a certain quantity of olive oil in storage for a given period. By extending that period, stocks could be maintained until the market situation improved.

5. **Consumption aid** for olive oil was designed to encourage consumption of the product within the European Union. It is granted to bottling enterprises and aims to reduce price differences between olive oil and other vegetable oils. It has nevertheless proved very difficult to monitor and has been a source of fraud, which means it has been reduced progressively by more than 80%. Such reductions in favour of aid granted to producers have not shown consumption aid to have any particular effect. Consumption is influenced to a much greater extent by the size of the harvest, which is still the main factor influencing prices, together with other, sometimes fairly subjective, factors. At its current low level (required to combat fraud), consumption aid now has practically no impact on prices. Many enterprises no longer apply for the aid in order to avoid the administrative costs and checks it entails.

The granting of consumption aid often provides an opportunity to check the purity and the category on the label of oil released for consumption. This is the responsibility of the national authorities in connection with the controls on consumer information and protection pursuant to Council Directive 79/112/EEC[5]. Nonetheless, this responsibility and the controls concerned do not depend on the existence of consumption aid. They are in fact less useful in enterprises which accept the constraints of transparency connected with the aid than in others.

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5 OJ L 33, 8.2.1979, p. 1. Last amended by Directive 97/4/EC (OJ L 43, 14.2.1997, p. 21).

The Commission proposes discontinuing consumption aid, which has practically lost all its impact, and to concentrate checks on the utilisation of Community funds on production aid.

In order to encourage further the consumption of olive oil and table olives, thought should be given to whether, and how, promotion could be intensified. Such considerations should be based on the outcome of the current evaluation.

6. **Aid for small producers** is intended for growers whose average production does not exceed 500 kg. The number of trees on the holding concerned and the average yield over four years in the production area are used to ascertain that there is no overrun of that quantity. Recipients are not penalised by an overrun of the maximum guaranteed quantity and receive a higher amount per tonne produced than large producers. The latter receive aid on the basis of the quantity of olive oil actually produced. The aid for small producers was introduced on a flat-rate basis to ensure better organisation of checks at large producers, who, despite their limited number, produce around 75% of the olive oil on the market. Nevertheless, in spite of the measures taken, controls covering small producers' production have proved ineffective. Their output is frequently transferred to large producers, who include it with their own production giving entitlement to aid.

The two-tier aid scheme for small and large producers is a source of fraud on a scale which probably exceeds that resulting previously from the insufficient checks conducted at a very large number of producers. As a consequence, the Commission proposes abolishing the aid for small producers. The relevant benefits will be transferred by increasing the maximum guaranteed quantity by 120 000 tonnes.

Checks of actual production qualifying for aid will be stepped up under a single aid scheme. They will replace checks of transfers between small and large producers and those covering consumption aid.

7. **The maximum guaranteed quantity** for olive oil was set at 1 350 000 tonnes. Any overrun currently results in a proportional reduction in the aid for olive growers producing over 500 kg of olive oil. The intervention price is also reduced proportionally by up to 3% per marketing year. The MGQ penalises all EU producers across the board, whether their harvest was good or bad and irrespective of any contribution they may have made to the uncontrolled rise in Community production. Where production varies considerably from one Member State to another, production in those Member States with a real responsibility for the overrun is offset by lower production in the others. The producers responsible for the overrun pay a smaller penalty while the others suffer a reduction in the aid on top of the effects of a poor harvest. This penalty would be even more difficult to bear were there a single aid scheme making no distinction between small and large producers.

The Commission proposes apportioning the MGQ among the Member States in order to make producers more responsible. The difficulties of monitoring movements of the oil rule out allocating MGQs to individuals or production areas within Member States. To continue ensuring solidarity among EU producers, overruns of national guaranteed quantities (NGQs) would, where applicable, be offset by the quantities available in the other Member States. There would accordingly be no penalty in a Member State where production is below the NGQ, but the penalty in another Member State exceeding its own NGQ could be reduced, so as to reflect the overrun of the overall maximum guaranteed quantity only.

With a view to a national breakdown of the MGQ, as in other sectors where this has already been done, the criterion should be average national output over a reference period as a percentage of Community production. In principle, the average should relate to a large number of years to take account of the cyclic nature of production and the wide variation in olive harvests. However, the situation in the individual Member States has evolved considerably in recent years and the reference period must be kept within limits if it is to remain representative.

The Commission proposes apportioning the 1 350 000 tonnes proportionately among the Member States on the basis of their average national production in three of the five marketing years 1992/93 to 1996/97, discarding the best and the poorest year for each producer Member State. The production figures taken into account are those used for determining entitlement to the aid, based on applications from large producers and flat-rate yields of small producers. These data are disputed in various quarters, but are the most reliable at present. Furthermore, considering production in terms of percentages eliminates the effects of overevaluations common to all Member States.

In addition, the Commission proposes increasing the maximum guaranteed quantity to approximately the average level of output during the reference period, augmented by the special potential of Spanish and Portuguese olive groves.

The first step would be to convert average spending in each Member State on aid to small producers over the reference period into an additional national quantity, involving a total of 121 700 tonnes. Next, extra quantities would be allocated to take account of the sector's special features in Spain and Portugal. In Spain, new plantings which are still relatively unproductive are expected by Spain to produce an estimated 50 000 tonnes in the medium term. In Portugal, where farmers lost interest in growing olives, production fell by half after the 1960s. This trend has recently been reversed, however, and the number of olive-growers applying for the aid increased fivefold in the 1990s. As a result, average production in receipt of the aid in past years is about 10 000 tonnes less than the output that would have qualified had Portuguese olive-growers been involved from the outset.

The quantity equivalent to expenditure on consumption aid over the reference period, minus the 60 000 tonnes allocated to Spain and Portugal, is shared out between the producer Member States in accordance with their share in total production over the said period.

This gives a new maximum guaranteed quantity of 1 562 400 tonnes. Irrespective of the factors to be used for the reform of the olive oil sector from 1 November 2001, the Commission proposes the following NGQs for the 1998/99, 1999/2000 and 2000/01 marketing years:

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- Spain: 40.0160 % i.e. 625 210 tonnes
- France: 0.1962 % i.e. 3 065 tonnes
- Greece: 24.9000% i.e. 389 038 tonnes
- Italy: 32.0770 % i.e. 501 172 tonnes
- Portugal: 2.8107 % i.e. 43 915 tonnes

III. CONCLUSIONS AND IMPACT

The proposed measures seek to achieve the general objective of uniform application of the common agricultural policy. They fall within the exclusive competence of the Community. Most of them entail amendments to an existing Council Regulation and thus call for a new regulation to be adopted by the Council.

The contemplated simplification of olive oil categories is beneficial to small and medium-sized enterprises. The abolition of consumption aid is financially neutral for such enterprises in principle as the aid in question should apply to the selling price of the oil. Administration of the aid and the associated red tape will be eliminated.

To sum up, the measures proposed by the Commission for the 1998/99, 1999/2000 and 2000/01 marketing years will involve a 2.4% increase in the aid actually received by producers and a rise of 15.7% in the maximum guaranteed quantity.

To control production more effectively, that maximum guaranteed quantity will be apportioned among the Member States and output from plantings after 1 May 1998 will no longer qualify for the aid. To improve monitoring of entitlement to aid, the small-producer scheme will be discontinued and cultivation declarations will be crosschecked with data from a GIS, with penalties being applied, where appropriate, to the aid.

As for the market, the categories of olive oil will be defined more closely and consumption aid abolished. Prices will be managed via private storage contracts and not through public buying-in.

In addition, in order to pave the way for the reform to come into force on 1 November 2001, the Commission intends improving the reliability of information on olive production, in particular of table olives, in the producer Member States; it also intends to give further consideration to a quality strategy and possible changes in trade with non-member countries. With respect to table olives the Commission will examine the possibilities for improving the competitive position of the sector in order to ensure the overall balance of the olive sector as a whole.

Proposal for a

Council Regulation (EC) No
of
amending Regulation No 136/66/EEC on the establishment of a common organisation of the market in oils and fats

98/0098 (CNS)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 43 thereof,

Having regard to the proposal from the Commission [1],

Having regard to the opinion of the European Parliament [2],

Having regard to the opinion of the Economic and Social Committee [3],

Whereas in February 1997 the Commission presented a Note to the Council of Ministers and to the European Parliament on the olive and olive oil sector, concluding on the need for a reform of the current common organisation of the market in oils and fats; whereas that Note and the options for reform set out therein have been discussed within the Community institutions; whereas opinions concord on the need for reform; whereas, however, with a view to determining the best approach, more reliable information must be obtained, in particular on the number of olive trees in the Community, the areas planted and yields; whereas, given the time required to gather and analyse such data, the Commission has undertaken to present a proposal for a reform in the course of 2000 for application from the 2001/02 marketing year;

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Whereas experience has shown that some adjustments need to be made in the near future to the current common organisation of the market to reduce the difficulties of operators in the sector, improve checks conducted by the national authorities and protect the Community budget better; whereas provision should be made for the necessary adjustments to the present market organisation and the relevant prices and amounts should be fixed for the marketing years from 1998/99 to 2000/01;

Whereas Article 5 of Regulation No 136/66/EEC [4] provides for production aid fixed on a flat-rate basis for producers whose average production does not exceed 500 kg; whereas the measure was intended in particular to reduce the administrative cost of checks of entitlement to the aid; whereas, however, changes to the production aid scheme, and in particular the rise in the proportion of expenditure on aid paid to small producers and the increase in the aid, have transformed the two-tier system of aid to producers into a source of fraud; whereas the provisions relating specifically to aid for small producers should accordingly be deleted;

Whereas the stabiliser mechanism for production aid is currently based on a maximum guaranteed quantity for the Community as a whole; whereas the maximum guaranteed quantity should be increased to take account of production trends;

Whereas, to encourage a responsible level of production in each Member State, that maximum guaranteed quantity should be apportioned among the producer Member States; whereas the apportionment should essentially be based on production over a representative period, taking no account of extreme production years; whereas, however, account should be taken of the specific allocation of aid previously granted to small producers and of the production potential of olive groves in Spain and Portugal;

Whereas, in order to ensure some solidarity between producers in the European Union, overruns of national guaranteed quantities should be offset, where applicable,

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4 OJ L 172, 30.9.1966, p. 3025. Last amended by Regulation (EC) No 1581/96 (OJ L 206, 16.8.1996, p. 11).

by the quantities available within the maximum guaranteed quantity in the other Member States;

Whereas the production aid is payable to the olive growers; whereas the latter must receive the aid in full, irrespective of the various reductions provided for in the Community rules;

Whereas consumption aid cannot be increased without a risk of fraud and it is ineffective at its present level; whereas in the past it was reduced sharply without adverse effect on the consumption of olive oil in the Community; whereas abolishing it would enable checks of the production aid scheme to be stepped up, in particular by the inspection agencies provided for in Council Regulation (EEC) No 2262/84[5]; whereas Council Regulation (EEC) No 3089/78 of 19 December 1978 laying down general rules in respect of aid for the consumption of olive oil [6] must therefore be repealed;

Whereas the provisions for promoting the consumption of olive oil in the Member States and third countries should be maintained, clarified and strengthened; whereas such measures are intended to establish better balance on the market and as a consequence the relevant expenditure should be deemed intervention within the meaning of Article 3 of Council Regulation (EEC) No 729/70 of 21 April 1970 on the financing of the common agricultural policy[7]; whereas those provisions call for certain technical adaptations to Council Regulation (EEC) No 1970/80[8]; whereas that

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5 OJ L 208, 3.8.1984, p. 11. Last amended by Regulation (EC) No 2599/97 (OJ L 351, 23.12.1997, p. 17)

6 OJ L 369, 29.12.1978, p. 12. Last amended by Regulation (EC) No 1582/96 (OJ L 206, 16.8.1996, p. 13)

7 OJ L 94, 28.4.1970, p. 13. Last amended by Regulation (EC) No 1287/95 (OJ L 125, 8.6.1995, p. 1).

8 OJ L 192, 26.7.1980, p. 5. Amended by Regulation (EEC) No 1651/86 (OJ L 145, 30.5.1986, p. 10).

Regulation should be repealed and its provisions incorporated, with the requisite amendments, in Regulation No 136/66/EEC;

Whereas the system of public buying-in constitutes a production incentive which is liable to destabilise the market; whereas, if the supply of olive oil is to be regulated, buying-in must be discontinued and a system of private storage contracts by groups or associations within the meaning of Council Regulation (EC) No 952/97[9]; should be applied; whereas the references to the intervention price must accordingly be deleted or replaced;

Whereas the definitions of the categories of virgin olive oil in the Annex to Regulation No 136/66/EEC refer to an organoleptic assessment based on a particular method; whereas methods of sensory analysis have improved recently, although they retain an inherent risk of some subjectivity; whereas the definitions in question should be amended to refer, where necessary, to more effective analysis methods;

Whereas, in order to improve knowledge of and checks on the production of olive oil at the level of the individual producer, special attention should be paid to work on the olive cultivation register during the 1998/99 to 2000/01 marketing years; whereas, to take account of experienced gained, the method used for other crops in the context of the Integrated Administration and Control System should also be applied for the olive cultivation register; whereas the Commission must therefore determine the measures to be taken and the arrangements and criteria to be complied with to achieve the creation of a Geographical Information System; whereas it is therefore necessary, to derogate from Regulation (EEC) No 154/75[10] and Regulation (EEC) No 2261/84[11];

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9 OJ L 142, 2.6.1997, p. 30.

10 OJ L 19, 24.1.1975, p. 1. Last amended by Regulation (EEC) No 3788/85 (OJ L 367, 31.12.1985, p.1).

11 OJ L 208, 3.08.1984, p. 1. Last amended by Regulation (EC) No 636/95 (OJ L 67, 25.3.1995, p.1).

Whereas the options for the reform may encourage producers to plant new olive trees; whereas such new plantings would seriously jeopardise the future balance of the market, which is currently already in surplus; whereas, in order to forestall that risk, provision should be made at this stage to exclude new plantings from eligibility under any future aid scheme, unless they are part of a programme approved by the Commission; whereas, owing to the time elapsing between the presentation of the Commission's proposal and its adoption, plantings from the month following the date when operators are notified of the Commission's intention in this respect should also be ineligible;

Whereas the need for a reform of the olive oil sector stems from the ultimate impossibility of maintaining certain measures provided for in Regulation No 136/66/EEC; whereas, despite the transitional adjustments provided for herein, the measures in question should be repealed with effect from 1 November 2001,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation No 136/66/EEC is amended as follows:

1. In Article 2a(2), the words 'intervention price' are replaced by the following:

"production target price, less production aid and an amount taking account of market variations and the costs of transporting the olive oil from the areas of production to the areas of consumption,".

2. Article 4 is replaced by the following:

"Article 4

1) A production target price shall be fixed for the Community

That price shall be fixed at the wholesale marketing stage for ordinary virgin olive oil with a free fatty acid content expressed as oleic acid of 3.3 g/100 g.

2) For the 1998/99 to 2000/01 marketing years, the production target price provided for in paragraph 1 shall be ECU 383.77/100 kg.

3) Save as otherwise decided by the Council acting by a qualified majority on a proposal from the Commission, the olive oil marketing year shall run from 1 November to 31 October of the following year."

3. Article 5 is replaced by the following:

"Article 5

1) Production aid shall be granted for olive oil. Such aid shall be intended to contribute towards establishing a fair income for producers.

The aid shall be granted to olive growers on the basis of the quantity of olive oil they actually produce.

Without prejudice to the different reductions provided for in the Community rules, the aid shall be paid in full to the olive growers.

2) For the 1998/99 to 2000/01 marketing years, the unit amount of the production aid provided for in paragraph 1 shall be ECU 142.20/100 kg.

3) The maximum quantity of olive oil to which the aid provided for in paragraph 1 shall apply shall be 1 562 400 tonnes per marketing year. That maximum guaranteed quantity shall be apportioned among the Member States as follows (national guaranteed quantities):

Spain	625 210	tonnes
France	3 065	tonnes
Greece	389 038	tonnes
Italy	501 172	tonnes
Portugal	43 915	tonnes

4) Where actual production in any marketing year in certain Member States is less than their national guaranteed quantities, the sum of the shortfalls in question shall be distributed among the other Member States in proportion to their national guaranteed quantities.

The aid fixed in paragraph 2 shall be granted in those Member States whose actual production recognised as eligible for the aid is lower than or equal to their national guaranteed quantities, plus any increase in accordance with the first subparagraph.

In the other Member States, the unit aid granted shall be equal to the amount fixed in paragraph 2, multiplied by a coefficient. That coefficient shall be arrived at by dividing the national guaranteed quantity of the Member State concerned, plus any increase in accordance with the first subparagraph, by the actual production recognised as eligible for the aid.

5) With a view to checks of the quantity of olive oil eligible for the aid, olive and olive oil yields shall be fixed for each marketing year per homogeneous production area.

6) Recognised producer organisations and associations thereof may be associated in the work of determining actual production as referred to in paragraph 4 and of establishing yields as referred to in paragraph 5.

7) A percentage of the production aid allocated to all or some producers shall be used to finance regional measures to improve the quality of oil production and its environmental impact in each producer Member State.

For the 1998/99 to 2000/01 marketing years, the percentage referred to in the first subparagraph shall amount to 1,4% of the production aid allocated to olive oil producers.

8) Acting by a qualified majority on a proposal from the Commission, the Council shall lay down general rules for applying this Article.

9) The yields referred to in paragraph 5 and the detailed rules for applying this Article shall be laid down in accordance with the procedure provided for in Article 38 of this Regulation and, where applicable, with that provided for in Article 13 of Council Regulation (EEC) No 729/70."

4. Articles 5a, 7 and 8 are deleted.

5. Article 11 is replaced by the following:

"Article 11

1) The Community may undertake measures directly or indirectly in the Member States or third countries to provide information or to promote the consumption of olive oil produced in the Community.

The measures referred to in the first subparagraph may entail the following:

a) dissemination of existing knowledge, in particular regarding the nutritional qualities of olive oil;

b) market studies to expand the market for olive oil;

c) publicity, public relations and promotional campaigns to encourage the consumption of olive oil, in particular with a view to stressing its quality, and of products prepared with olive oil;

d) research work, in particular covering scientific study of the nutritional aspects of olive oil;

e) study to assess the results of promotional campaigns.

2) The Commission shall send the Council a programme of measures it contemplates undertaking during the following marketing year(s). With a view to drawing up the programme, the Commission may in particular consult bodies specialising in market studies and publicity campaigns and research institutes.

3) The Commission shall decide on the measures listed in paragraph 1 after consulting the Management Committee for Oils and Fats in accordance with the procedure laid down in Article 39.

4) Expenditure incurred on measures as referred to in paragraph 1 may be financed at a rate of 100% by the Community and shall be deemed intervention within the meaning of Article 3 of Regulation (EEC) No 729/70.

5) Detailed rules for applying this Article shall be adopted in accordance with the procedure laid down in Article 38."

6. The first paragraph of Article 11a is replaced by the following:

"The individual Member States shall take the necessary steps to penalise infringements of the aid scheme provided for in Article 5. Where infringements are reported by the inspection agencies provided for in Regulation (EEC) No 2262/84, they shall decide on action to be taken within 12 months of the report."

7. Article 12 is deleted.

8. Article 12a is replaced by the following:

"**Article 12*a***

In the event of serious disturbance of the market in certain regions of the Community, a decision may be taken in accordance with the procedure laid down in Article 38 to authorise producer groups and associations thereof recognised in accordance with Regulation (EC) No 952/97 to conclude contracts for the storage of olive oil that they market."

9. Article 20(2) is deleted.

10. The last subparagraph of Article 20a(2) and Article 20a(4) are deleted.

11. Article 20d(1) is replaced by the following:

"1. A percentage of the production aid shall be withheld from the amount paid to recognised producer groups and associations thereof under this Regulation. The resulting amount shall go towards the financing of activities under Article 5(6) and Article 20c.

For the 1998/99 to 2000/01 marketing years, the percentage of the production aid referred to in the first subparagraph shall be 0,8%."

1. Article 20d(3) is deleted.

13. Point 1 of the Annex is replaced by the following:

"1 Virgin olive oils:

Oils obtained from the fruit of the olive tree solely by mechanical or other physical means under conditions, particularly thermal conditions, that do not lead to alterations in the oil, and which has not undergone any treatment other than washing, decantation, centrifugation and filtration, to the exclusion of oils obtained using solvents or re-esterification processes and any mixture with oils of other kinds.

Virgin olive oils are classified and described as follows:

a) Extra virgin olive oil:

Virgin olive oil having a maximum free acidity, in terms of oleic acid, of 1 g per 100 g, the other characteristics of which comply with those laid down for this category.

b) Virgin olive oil (the expression "fine virgin oil" may be used at the production and wholesale stage)

Virgin olive oil having a maximum free acidity, in terms of oleic acid, of 2 g per 100 g, the other characteristics of which comply with those laid down for this category.

c) Ordinary virgin olive oil:

Virgin olive oil having a maximum free acidity, in terms of oleic acid, of 3,3 g per 100 g, the other characteristics of which comply with those laid down for this category.

d) Lampante virgin olive oil:

Virgin olive oil having a free acidity, in terms of oleic acid, of more than 3,3 g per 100 g and/or the other characteristics of which comply with those laid down for this category."

Article 2

1. Notwithstanding Regulation (EEC) No 154/75, work on the olive cultivation register during the 1998/99 to 2000/01 marketing years shall focus on the creation, updating and utilisation of a geographic information system (GIS).

The GIS shall be created using the data from the olive cultivation register. Additional data shall be supplied from the crop declarations attached to the aid applications. The information in the GIS shall be located using computerised aerial photographs.

2. The Member States shall verify that the information in the crop declarations corresponds to the information in the GIS. If this information does not correspond, the Member State shall carry out verifications and on-the-spot checks.

The Commission shall determine the detailed rules and criteria for ensuring correspondence as referred to in the first subparagraph and the acceptable olerance. It shall also lay down the detailed rules and intensity for the verifications and on-the-spot checks to be carried out during each of the three marketing years from 1998/99 to 2000/01.

3. If, during the verifications and checks referred to in paragraph 2, the information in the crop declaration is found to be incorrect, particularly as regards the number of olive trees, the Member Sate shall apply, for one or more marketing years, and depending on the size of the discrepancies observed:

- a reduction in the quantity of olive oil eligible for aid, or
- exclusion of the olive trees concerned from eligibility for the aid,

in accordance with rules and criteria to be laid down by the Commission.

4. The Commission shall adopt the measures to be taken and the detailed rules, criteria and intensity of checks to be laid down under this Article for the 1998/99 to 2000/01 marketing years, in accordance with the procedure laid down in Article 38 of Regulation No 136/66/EEC.

5. The measures provided for in this Article shall apply by way of derogation from those laid down in Regulation (EEC) No 2261/84 as regards crop declarations and their links with the aid.

Article 3

1. In accordance with the procedure laid down in Article 38 of Regulation No 136/66/EEC, the Commission may adopt the measures required for a smooth changeover from the arrangements in force for the 1997/98 marketing year to those resulting from the measures introduced by this Regulation..

2. On a proposal from the Commission to be presented in 2000, the Council shall decide on measures to replace the common organisation of the market in oils and fats established by Regulation No 136/66/EEC as from 1 November 2001.

Article 4

No aid under the common organisation of the market in oils and fats in force from 1 November 2001 may be paid to olive growers in respect of additional olive trees or the relevant areas planted after 1 May 1998 and those not covered by a cultivation declaration at a date to be determined.

However:

– additional olive trees in connection with the conversion of an old olive plantation, or

– new plantings

on areas covered by a programme approved by the Commission may be taken into account within certain limits still to be determined.

Detailed rules for applying this Article shall be adopted in accordance with the procedure laid down in Article 38 of Regulation No 136/66/EEC.

Article 5

Articles 5, 11a, 12a, 13 and 20a of Regulation No 136/66/EEC are repealed with effect from 1 November 2001.

Regulations (EEC) No 3089/78 and No 1970/80 are repealed.

Article 6

This Regulation shall enter into force on the seventh day following its publication in the *Official Journal of the European Communities.*

It shall apply from 1 November 1998.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at

For the Council

FINANCIAL STATEMENT

[redacted]

DATE:15.1.98

1.	BUDGET HEADING:B1 12	APPROPRIATIONS:ECU 2 256m
2.	TITLE:Proposal for a Council Regulation amending Regulation No 136/66/EEC on the establishment of a common organisation of the market in oils and fats	
3.	LEGAL BASIS:Art. 39 of the Treaty establishing the European Community	
4.	AIMS OF PROJECT:To introduce transitional arrangements for 1998/99, 1999/2000 and 2000/01 before the reform of the olive oil sector enters into force, and to reduce the risks for operators, producers and the Community budget which the current system entails	

		PERIOD OF 12 MONTHS Mio ECU	CURRENT FINANCIAL YEAR (98) Mio ECU	FOLLOWING FINANCIAL YEAR (99) Mio ECU
5.	FINANCIAL IMPLICATIONS			
5.0.	EXPENDITURE - CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTION) - NATIONAL ADMINISTRATION - OTHER	+ 1	0	- 90
5.1.	REVENUE - OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES) - NATIONAL			

		2000	2001	2002	
5.0.1. 5.1.1.	ESTIMATED EXPENDITURE ESTIMATED REVENUE	+ 1	+ 1	+ 1	

5.2.	METHOD OF CALCULATION:See Annex	
6.0.	CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?	YES/~~NO~~
6.1.	CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?	~~YES/NO~~
6.2.	IS A SUPPLEMENTARY BUDGET NECESSARY?	~~YES/NO~~
6.3.	WILL FUTURE BUDGET APPROPRIATIONS BE NECESSARY?	YES/~~NO~~

Annex

Financial implications of the proposed transitional arrangements for the three marketing years 1998/99, 1999/2000 and 2000/01

Hypotheses for each marketing year (1)

Production =	1.8	million t	small	0,350 million t
			large	1,450 million t
Quantities eligible for consumption aid =				1,065 million t

(of which 0.040 million tonnes as refunds for preserves)

(1) Average of marketing years 1995/96 to 1997/98

in (B) ECU million

I. Current arrangements	1999 budget	2000, 2001 and 2002 annual budget
Production aid MGQ = 1,350 million t		
Small 0,350 million t x 1550,5 ECU/t = 546 (B) ECU mil		
Large 1,450 million t x 1422 ECU/t x 75,00% (2) = 1551 (B)ECU mil.		
2098 (B) ECU mil.		
1997/98 marketing year	2098	
1998/99, 1999/2000 and 2000/01 marketing years		2098
Consumption aid		
1,065 million t x 120,7 ECU/t = 129 (B) ECU mil.	129	129
Total	**2227**	**2227**

(2) reduction coefficient = MGQ / Production

II. Transitional arrangements for marketing years 1998/99, 1999/2000 and 2000/01	1999 budget	2000, 2001 and 2002 annual budget
Production aid Sum of the NGQs = 1,5624 million t		
1.8 million t x 1422 ECU/t x 86,80% (2) = 2228 (B) ECU mil.		
1997/98 marketing year (under current arrangements)	2098	
1998/99, 1999/2000 and 2000/01 marketing years		2228
Consumption aid		
Payment of balance for 1997/98 (30%)	39	
Abolition		0
Total	**2137**	**2228**

(2) Reduction coefficient = MGQ / Production (Hypothesis of overrun of the NGQ in each producer Member State)

	Budget 1999	2000, 2001 and 2002 annual budget
III. Difference	**-90**	**1**

Abolition of the public intervention arrangements may give rise to additional savings if production is higher than average. These savings could be offset by expenditure on private storage.

Export refunds remain unchanged under the transitional arrangements.

Explanatory memorandum

The proposal for amendment of Regulation N° 136/66/EEC deletes the special production aid provisions for small growers and allocates the maximum guaranteed quantity between the Member States.

To bring the Council Regulations on rules of application for the olive oil market organisation into line with these changes it is necessary to amend Regulation (EEC) N° 2261/84.

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Proposal for

Council Regulation (EC) N° ....

amending Regulation (EEC) N° 2261/84 laying down general rules on the granting of aid for the production of olive oil and of aid to olive oil producer organisations

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation N° 136/66/EEC of 22 September 1966 on the establishment of a common organisation of the market in oils and fats[1], as last amended by Regulation (EC) N° ..../98[2], and in particular Articles 5(8),

Having regard to the proposal from the Commission,

Whereas Regulation (EC) N° ..../98 deletesin Article 5 of Regulation N° 136/66/EEC the special production aid provisions for producers of less than 500 kg of olive oil; whereas it is therefore necessary to amend Regulation (EEC) N° 2261/84[3], as last amended by Regulation (EC) N° 636/95[4];

Whereas Regulation (EC) N° ..../98 introduces in Article 5 of Regulation N° 136/66/EEC an allocation of the maximum guaranteed quantity between Member States and specifies the implications of an overrun of any of these national quantities for production aid in that Member State; whereas it is necessary to specify, on the basis of experience, what data must be determined or notified for the operation of these provisions,

HAS ADOPTED THIS REGULATION:

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1 OJ 172, 30.9.1966, p. 3025/66.

2 OJ L ....

3 OJ L 208, 3.8.1984, p. 3.

4 OJ L 67, 25.3.1995, p. 1.

Article 1

Regulation (EEC) N° 2261/84 is amended as follows:

1) Article 2(4) and (5) is replaced by the following:

"4. The aid shall be granted, in accordance with Article 5(1) of Regulation N° 136/66/EEC, on the quantity of oil actually produced at an approved mill."

2) The second indent of Article 8(1) is replaced by the following:

"- that the figures supplied by each grower for quantities of olives pressed and of oil obtained correspond to the quantities of olives and oil stated in the evidence of pressing."

3) Article 12(1) is replaced by the following:

"1. Each olive oil grower may receive an advance on the amount of the aid applied for."

4) The following is added to Article 13(1):

"(e) submit to the competent authority before dates to be determined, monthly stock record summaries".

5) In Article 14:

- in paragraph 3a the words preceding the first indent are replaced by "For the purposes of paying aid to olive growers Member States shall check";
- paragraph 4 is deleted;
- the second subparagraph of paragraph 5 is replaced by the following:

"These files shall be used to guide the checking required under paragraphs 1 to 3."

6) In Article 15(3) the words "*whose average production is at least 500 kg of oil per marketing year and*" are deleted.

7) Article 17a is replaced by the following:

"ARTICLE 17a

1. In accordance with the procedure laid down in Article 38 of Regulation N° 136/66/EEC the Commission shall determine before 1 October, for each Member State for the current marketing year:

- estimated production qualifying for the aid;

- a single rate for advances on the production aid; this must be such that given the production forecast any risk of undue payment to growers is avoided.

2. No later than eight months after the end of the marketing year the Commission shall, in accordance with the procedure referred to in paragraph 1, determine for each Member State for that marketing year:

- actual production for which entitlement to aid is recognised;

- a single production aid rate, possibly weighted by a coefficient as provided for in Article 5(4) of Regulation N° 136/66/EEC.

3. Member States shall notify to the Commission, by 5 September of the marketing year, their production estimates for that marketing year. The Commission may make use of other sources of information and if appropriate have studies or surveys of olive oil production carried out."

Article 2

This Regulation shall enter into force on the seventh day following its publication in the Official Journal of the European Communities.

It shall apply from 1 November 1998.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council

FINANCIAL STATEMENT	[redacted]
	DATE: 15.1.98

1.	BUDGET HEADING: B1 12	APPROPRIATIONS: ECU 2.256 m
2.	TITLE: Proposal for a Council Regulation amending Regulation (EEC) N° 2261/84 laying down general rules on the granting of aid for the production of olive oil and of aid to olive oil producer organisations..	
3.	LEGAL BASIS: Article 39 of the Treaty establishing the European Communit	
4.	AIMS OF PROJECT: Temporary arrangements for the 1998/99 and 1999/2000 marketing years (prior to entry into force of the sector reform) to reduce the risks of the present arrangements to growers and other operators and to the Community budget.	

5.	FINANCIAL IMPLICATIONS	PERIOD OF 12 MONTHS ECU million	CURRENT FINANCIAL YEAR (98) ECU million	OLLOWING FINANCIAL YEAR (99) ECU million
5.0.	EXPENDITURE - CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTION) - NATIONAL ADMINISTRATION - OTHER			
5.1.	REVENUE - OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES) - NATIONAL			

		2000	2001	2002	2003
5.0.1.	ESTIMATED EXPENDITURE				
5.1.1.	ESTIMATED REVENUE				

5.2.	METHOD OF CALCULATION:
6.0.	CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?
6.1.	CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?
6.2.	IS A SUPPLEMENTARY BUDGET NECESSARY?
6.3.	WILL FUTURE BUDGET APPROPRIATIONS BE NECESSARY?
OBSERVATIONS:	The financial implications of the temporary arrangements for 1988/99 and 1999/2000 are set out in the financial statement annexed to the Regulation amending Regulation N° 136/66/EEC.

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