Reforming the olive oil sector

Following the publication of a number of reports by the Commission, Parliament and the Court of Auditors, it has been confirmed that there is a **need for far-reaching reform** of the olive oil sector support regime.

While the need for reform is virtually unquestioned, the structure of the future market organisation, by contrast, is the subject of fierce controversy.

The purpose of this factsheet, therefore, is to set out the **transitional reform arrangements** adopted by the Council in July 1998. It explains the challenges ahead and the opportunities to be availed of by this traditionally European sector, whose importance is recognised both on economic grounds and in maintaining the environmental and social balance of the producing regions.

An important business sector in an expanding market

The European Union (EU) is, by far, the largest olive oil producer and consumer in the world. While olive oil has always been a basic component of Mediterranean cooking, its use across the Community has been steadily increasing, gradually becoming part of the culinary habits of new consumers who have learned to appreciate it. Olive oil consumption in the EU in 1996/97 stood at 1 620 000 tonnes, out of a world figure of some 2 320 000 tonnes.

The producer Member States are, in decreasing order of importance, Spain, Italy, Greece, Portugal and France. In 1995, the area under olive groves in the EU was almost 4.5 million hectares, of which 50% were in Spain and 25% in Italy.

Olive cultivation, which is widespread throughout the Mediterranean region, is important both to the rural economy and to the environmental balance of the producing regions. The EU has approximately 2 240 000 producers, including 850 000 in Italy, 780 000 in Greece and 500 000 in Spain. Portugal and France, as smaller producers, have 90 000 and 20 000 respectively.

World production in 1996/97 is expected to total some 2.8 million tonnes with 70% of this being of Community origin. The remainder comes chiefly from Tunisia, Turkey, Syria and Morocco whose combined output is around 730 000 tonnes. Community production is at the forefront, therefore, of the fluctuating world olive oil market.

The fact that the EU is self-sufficient in olive oil, however, does not mean that it does not engage in trade. Imports in 1996/97 stood at around 150 000 tonnes while exports were 250 000 tonnes. The other major exporters are Tunisia (115 000 tonnes), Turkey (40 000 tonnes) and Morocco (35 000 tonnes) while the main importers include the United States (140 000 tonnes), Japan (26 000 tonnes) and Canada (19 000 tonnes).

The framework of measures for reform

The rules governing the market organisation for olive oil were laid down on 10 November 1966 when the Community numbered only six Member States. Before the introduction of new measures, these rules were grouped under seven headings.

1. A threefold *system of prices*, comprising:
    - a *target price* for production, introduced by the Council of Ministers to provide a fair income for growers and maintain the volume of Community production;
    - an *intervention price*, i.e. the price at which the intervention agencies had to buy, during the last four months of the marketing year, olive oil of a standard quality set by the Council;

- a *representative market price*, namely the price at which olive oil could be disposed of normally, taking into account the outlook for the development of the market in vegetable oils;

2. *Export refunds*, now restricted since the EU committed itself under the GATT agreements to reduce the quantity of exports benefiting from a subsidy;

3. *Production aid*, introducing a distinction between the aid to olive-growers whose average production is at least 500 kg, and to small producers with an average output of less than 500 kg, and who qualify on that account for additional aid. Production aid was reduced, except for small producers, proportionately to the overshoot by the producer of the maximum guaranteed quantity of 1 350 000 tonnes;

4. *Consumption aid,* which was aimed at increasing the competitiveness of olive oil with regard to other vegetable oils produced from oilseeds, with funding also for measures to promote the consumption of olive oil;

5. *Intervention in the form of private storage*, consisting of aid for private storage contracts concluded for a specified term;

6. *Refunds for the canning industry*, to facilitate the sale of olive oil to the canning industry;

7. *Specific measures to promote the consumption of table olives*, and to make it possible for supply to be regulated, principally through the funding of storage;

The new rules

Under the new rules transitional arrangements are to be introduced and apply from 1 November 1998 to 31 October 2001 making it possible to eliminate a number of inefficiencies that have been disturbing the market, and undertake a thorough examination of the sector with a view to undertaking wider-ranging reforms in 2001.

Like the other reforms of the Common Agricultural Policy (CAP), these measures seek to make the sector **more competitive** by achieving a **better balance** between supply and demand. Their aim also is to **improve the quality** of olive oil. Key elements of the new arrangements, in addition, will be the **simplification** of the rules and more **effective monitoring**.

The measures adopted increase the maximum guaranteed quantity (MGQ) by 31.6%, bringing it to 1 777 261 tonnes. The amount of aid received by producers will be reduced, on the other hand, by 5%. From 1 November 2001, production aid will only be granted for oil obtained from olive groves planted before 1 May 1998, save in exceptional cases provided for under the Regulation. The rules provide in addition for:

- the MGQ to be distributed among the producer countries as national guaranteed quantities (NGQs), in order to make producers who overshoot the MGQ aware of their responsibilities;
- the option of using part of the NGQs for the table olives sector;
- the removal of the system of production aid which distinguishes between small producers (with an output of less than 500 kg) and others, as it has proved difficult to monitor;
- the discontinuance of consumption aid, whose impact at present is inconclusive;
- the improvement of private storage as a system of intervention for stabilising the market, and abolition of intervention buying in.

Impact of the proposals on the 1998/9 to 2000/01 marketing years

Increase in the MGQ

The MGQ has been increased to reflect potential demand on the Community market and developments on the international markets. It will be distributed nationally, making it possible for producers to be made more aware of their responsibility for increases in production, as penalties will only be imposed on Member States which exceed their quota. Member States, on the other hand, which produce a small harvest will no longer have to bear penalties.

The MGQ has been set at 1 777 261 tonnes, including 760 027 tonnes for Spain, 543 164 tonnes for Italy, 419 529 tonnes for Greece, 51 244 tonnes for Portugal and 3 297 tonnes for France.

Because of wide fluctuations in harvests in the olive oil sector, the Council provides that where a Member State fails to reach its NGQ, it may add 80% of the unused portion to its NGQ for the following year. The remaining 20% will be re-allocated in the current year to Member States which have overshot their NGQs. This redistribution represents a form of mutual support for the European Union, and means that Member States which produce too much olive oil will not have to suffer too great a cut in aid, while others may have failed to reach their production limit.

In addition, as a way of preventing overall imbalance on the market, it has now been decided that from 1 November 2001 aid will not be granted for olive groves planted after 1 May 1998. This will help curb speculative planting, which has had a destabilising effect in the past on the olive oil market.

Simplifying and streamlining the system

As the Council has decided to increase the MGQ in order to bring Community olive oil production into line with the situation on the real market, the cost of the increase to the EU budget will be offset by reducing the aid but also by simplifying and streamlining certain measures which have proved to be problematical. The following measures in particular have been discontinued.

- **The specific aid for small producers has been abolished**. It was introduced with the aim of freeing resources so that large producers, accounting for 75% of total output, could be controlled more easily. However, it proved to be very difficult to administer. In some cases aid was being granted twice in respect of the same oil: once on a flat-rate basis for small producers, and again under arrangements for other producers.

- **Consumption aid has also been abolished**. This was originally introduced to narrow the gap between the price for olive oil and that for other vegetable oils. It has, however, gradually been reduced by 80%, and the savings generated have been transferred to production aid. It will now be abolished totally, therefore, on account of the size of the control resources needed to apply it, the difficulty of administering it and its limited impact on consumption.

- **The system of intervention buying-in has been replaced by a private storage system involving the grant of a premium**. The mechanism for intervention buying-in is inappropriate for the olive oil sector in that, despite the NGQs and despite the steps taken to slow down new planting, there continues to be an imbalance between production and consumption. A shift in recent years of a large proportion of consumption aid to production aid has increased the latter by 66%. Consequently, the guarantee provided by the intervention price has become less important, but nevertheless remains an incentive to produce, irrespective of the balance on the market. The management of stocks by the public authorities, lastly, is difficult to ensure and does not offer the required assurances regarding product quality.

Improvements in monitoring arrangements and quality

Turning to monitoring, in order to have at its disposal accurate and reliable information on olive oil production and the number of olive trees in the EU, the Commission is going to develop the system of analysis by **aerial photography** it has put in place, and will use the **geographical information system** (GIS), now being used for arable crops, in place of the olive tree register to collect and study data on the sector.

Quality is a key factor in building up consumer loyalty and raising olive oil consumption in the European Union and elsewhere. The Commission, therefore, will develop an **integrated strategy**, that is better co-ordinated and focused on quality in the broad sense, during the transitional period. The strategy will entail adjusting the references and characteristic features of the different categories of olive oil and the provisions concerning the rules of origin.

Better distribution of the aid

These transitional reform measures were introduced to improve the distribution of the aids and to put an end to the negative effects of the market organisation rules for olive oil. Their provisional nature can be explained by the need to improve the instruments for monitoring the sector.

This transitional phase, however, will represent a genuine improvement in the support for an important segment of the rural economy of many regions, in particular through the rises in the MGQ and the aid. The reform will also mean that not all producers will have to be penalised as a result of local overproduction, and that the definitive reform requirements can be accurately gauged.

The European Commission is well aware of the important economic, social and environmental role played by the cultivation of olive trees, and for that reason considers it essential that the market be reformed: failure to act would have prevented the shortcomings detected from being overcome.

(10/1998)