

Working paper of the Directorate-General for Agriculture

The olive oil and table olives sector

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1. INTRODUCTION

This working paper was produced by the Directorate-General for Agriculture in order to provide a documentary and analytical basis for the European Commission's proposal to the Council and to Parliament on a reform of the regime for olive oil and table olives.

It contains three chapters describing the situation of the olive oil sector in the past few years: the world market, the Community sector and the aid mechanism¹.

2. THE OLIVE OIL AND TABLE OLIVES MARKET

2.1 Olive oil production

2.1.1 *Production in the world*

Olive trees have been grown for olives and olive oil since ancient times. At the time of the Roman Empire olive-growing was practised throughout the Mediterranean; nowadays, with 98% of the world's olive trees, the area around the Mediterranean accounts for the bulk of world olive oil production.

There are currently several categories of olive oil on the market. Virgin oils, which are extracted mechanically, direct from the olives, comprise the "extra virgin" and "virgin" classes of olive oil - ready for consumption - and *lampante* olive oil, which has to be refined². "Composed" olive oil is a blend of refined and "virgin" or "extra virgin" olive oil. Finally, olive pomace oil³ consists of a blend of refined olive pomace oil and "virgin" or "extra virgin" olive oil.

Wide fluctuations in production are a feature of olive-growing. They are linked to the uncertainties of the climate (viz. drought in Spain in 1995/96 and frost in Greece in 2001/02) and alternate bearing, a characteristic of olive trees whereby bumper crops tend to be followed by lower production the following year.

¹ The evaluation study by ADE to which the document refers is available in: http://europa.eu.int/comm/agriculture/eval/reports/oliveoil/index_fr.htm

² Set of processes which essentially consists in the neutralisation, filtration, decolouring and deodorisation of the oil.

³ Olive pomace is the olive residue of the mechanical extraction of virgin olive oil.

World production of olive oil* ('000 tonnes)

	EU	Turkey	Syria	Tunisia	Morocco	Other	TOTAL	EU/total
1995/96	1.518	46	84	65	40	97	1.849	82,1%
1996/97	1.899	203	125	291	85	107	2.710	70,1%
1997/98	2.294	41	70	95	74	56	2.630	87,2%
1998/99	1.838	171	115	222	69	130	2.545	72,2%
1999/00	1.873	54	81	220	44	120	2.392	78,3%
2000/01	2.090	176	165	135	38	121	2.725	76,7%
2001/02	2.650	66	92	37	64	110	3.019	87,8%
2002/03(1)	2.004	142	165	73	43	125	2.552	78,5%

*Including olive pomace oil. (1) Provisional. Source: IOOC.

In the last few decades olive oil production has featured periods of growth followed by stagnation. At the beginning of the 1980s world production was about 1.8 million tonnes, 40% up on the figure recorded in the mid-1960s. After a relatively stable period production again showed an upturn in the second half of the 1990s, to reach 2.5 million tonnes. Average world production for the last three marketing years is about 2.7 million tonnes.

2.1.2 Community production

The Community is the dominant player on the olive oil market. Until 1981 its 425 000 tonnes accounted for only one third of world production and it was a net importer. In 1981, after the accession of Greece, Community production went up by about 300 000 tonnes to about half the total for the world as a whole. In 1986, after Spain and Portugal joined, the EC became the market reference, averaging 80% of world production.

The 1990s saw a rapid rise in production in the Community as a result of increases in acreages and yields. Compared with harvests in the early 1990s the average production for the last three marketing years doubled in Spain, while Italy and Greece recorded increases of 16% and 18% respectively. Production in Portugal was fairly stable whereas France's production, although very modest in relation to the total for the Community (0.16%), went up slightly. Overall, Community production has gone up 51%.

Olive oil production in the Community ('000 tonnes)

Marketing year	Spain	Italy	Greece	Portugal	France	Total
1992/93	623,1	435,0	310,	22,0	1,6	1391,7
1993/94	550,9	520,0	254,0	32,1	2,3	1359,3
1994/95	538,8	448,0	350,0	32,2	2,0	1371,0
1995/96	337,6	620,0	400,0	43,7	2,3	1403,6
Average	512,6	505,75	328,5	32,5	2,1	1381,4
1996/97	947,3	370,0	390,0	44,8	2,5	1754,6
1997/98	1077,0	620,0	375,0	42,0	2,7	2116,7
1998/99	791,9	403,5	473,0	35,1	3,4	1706,9
1999/00	669,1	735,0	420,0	50,2	4,1	1878,4
Average	871,3	532,1	414,5	43,0	3,2	1864,2
2000/01	973,7	509,0	430,0	24,6	3,2	1940,5
2001/02	1411,4	656,7	358,3	33,7	3,6	2463,7
2002/03 ¹	865,0	590,0	375,0	29,0	4,7	1863,7
Average	1083,4	585,2	387,8	29,1	3,8	2089,3

¹Provisional figures. Source: IOOC

The next enlargement of the EU will have only a limited impact on Community olive oil production since only three of the new Member States are producers, and small ones at that. The quotas allocated to them are 6 000 tonnes for Cyprus, 400 tonnes for Slovenia and 150 tonnes for Malta, which together represent 0.4% of the combined national guaranteed quantities of the other Member States.

2.2 Olive oil consumption

2.2.1 Total world consumption

Although olive oil accounts for only about 3% of the world market in edible oil, it has traditionally played a major role in oil and fats supply in the areas of production. Since the 1990s, however, significant quantities of olive oil have also been consumed outside those areas.

World consumption of olive oil has been progressing fairly steadily, without the fluctuations that are a feature of production. Since 1995/96 the average annual increase in consumption has been 6%, with even higher relative growth in new markets.

World consumption of olive oil* ('000 tonnes)

	EU	USA	Japan	Australia	Canada	Other	Total	EU/total
1995/96	1.402	105	17	17	14	374	1.928	72,7%
1996/97	1.687	144	26	22	19	473	2.371	71,2%
1997/98	1.841	152	34	18	18	485	2.548	72,2%
1998/99	1.824	159	29	24	19	501	2.556	71,4%
1999/00	1.844	174	28	24	20	480	2.570	71,8%
2000/01	1.918	212	30	31	25	497	2.713	70,7%
2001/02	1.994	221	32	28	24	461	2.760	72,2%
2002/03¹	2.028	225	33	29	26	490	2.831	71,6%

*Including olive pomace oil. ¹Provisional figures. Source: IOOC.

Apart from the Community, which is the world's biggest consumer, the major consumers in the Mediterranean basin are Syria (100 000 tonnes), Turkey (70 000 tonnes), Morocco (50 000 tonnes) and Tunisia (40 000 tonnes). These markets tend to be supplied by local producers and are accordingly of limited importance in terms of world trade.

With consumption now totalling more than 220 000 tonnes (all of it imported), the United States has become the world's second biggest market in olive oil. There have also been appreciable rises in Australia, Japan, Canada and Brazil, with annual consumption in these countries ranging from 25 000 to 35 000 tonnes.

In terms of categories, the market share of extra virgin olive oil is 37% in Brazil and Australia, 50% in Japan, 54% in the United States and 61% in Canada. The percentage of extra virgin olive oil in relation to total olive oil sales is, however, increasing year by year.

2.2.2 Consumption in the Community

The European Community is the world's leading consumer of olive oil, averaging 1.8 million tonnes over the past three years. It accounts for an average of 71.5% of world consumption, a percentage which has remained stable for a number of years. Italy, Spain and Greece alone account for more than 85% of the Community's total consumption.

Olive oil consumption in the Community ('000 tonnes)

	Spain	Italy	Greece	Portugal	France	Other EU	Total EU
1992/93	421,4	641,0	197,0	49,9	43,8	30,5	1383,6
1993/94	421,0	692,0	196,0	59,0	43,7	41,8	1453,5
1994/95	420,0	675,0	210,0	58,0	41,6	46,6	1451,2
1995/96	352,1	653,0	230,0	58,4	48,5	45,0	1387,0
Average	403,6	665,3	208,3	56,3	44,4	41,0	1418,8
1996/97	470,2	675,0	240,0	62,0	58,8	60,7	1566,7
1997/98	550,4	698,0	240,0	69,3	75,6	71,9	1705,2
1998/99	528,5	705,0	245,0	66,1	78,8	85,5	1708,9
1999/00	502,6	714,0	265,0	66,5	81,5	98,4	1728,0
Average	512,9	698,0	247,5	66,0	73,7	79,1	1677,2
2000/01	577,8	729,0	270,0	60,5	92,0	102,8	1832,1
2001/02	631,2	735,0	270,0	61,5	94,5	101,6	1893,8
2002/03¹	620,0	750,0	270,0	61,0	95,0	110,1	1906,1
Average	609,7	738,0	270,0	61,0	93,8	104,8	1877,3

¹Provisional figures. Source: IOOC.

In the 1990s olive oil consumption showed a rapid increase - at an average annual rate of 3.3% - in the Community as a whole. The growth was smaller in the three major producer Member States, with annual averages of 2.2% in Greece, and Spain and 2.6% in Italy, and sales easing in recent marketing years. The potential for growth in these three Member States is limited by the already high current levels of consumption. At 25 kg per head of the population per year, olive oil currently accounts for 58% of total Greek consumption of oil and fats. The corresponding figures for Italy and Spain are 40% (12 kg per head) and 34% (12 kg per head) respectively.

Although consumption rose much faster in Portugal (9.7%) and France (10.8%) in the 1990s, this was in relation to appreciably lower initial levels, which even today are well below those in other producer Member States: 6.9 kg per head of the population in Portugal and 1.4 kg in France. As in the case of the major producer Member States, consumption has been sluggish in Portugal in recent years.

Although the fastest growth in consumption in the Community was recorded in the new consumer Member States (16.1%), olive oil accounts for only 1.5% of the consumption of oil and fats, i.e. a mere 0.5 kg per head.

Apparent consumption of olive oil in the Community (kg per head)

Year	Greece	Spain	Italy	Portugal	France	Other	TOTAL
1990	20,2	10,1	9,5	2,7	0,5	0,1	3,3
2000	25,0	12,6	12,3	6,9	1,4	0,5	4,6
Annual incr.	2,2%	2,2%	2,6%	9,7%	10,8%	16,1%	3,3%

Source: IOOC and Eurostat.

In terms of categories of olive oil there are major differences as between markets in producer Member States. In Spain almost 80% of the olive oil consumed is “composed” olive oil, i.e. a blend of refined and virgin olive oil. Virgin olive oils account for more than 20% of the market in that Member State, compared with only 3% in 1990. In Italy and Greece, on the other hand, virgin olive oils account for the bulk of the market (78% and 85% respectively). In the new consumer Member States, virgin and extra virgin olive oils represent 96% of consumption in France, 90% in Germany and 69% in the United Kingdom.

Except in Cyprus, Malta and Slovenia the consumption of olive oil in the ten new Member States is currently very low, with total annual imports for the ten countries of the order of 6 000 tonnes. They are essentially supplied by the Community but also by Turkey and Croatia. Poland, the Czech Republic and Slovenia are the major buyers.

2.3 The trade in olive oil

2.3.1 International trade

Since olive oil tends to be consumed in production areas, external trade concerns an average of less than 20% of world production.

In the 1990s the Community accounted for just over half (54.5%) of world exports of olive oil, the corresponding figures for Turkey and Tunisia being 32% and 7.7% respectively.

The first half of the 1990s saw a period of relative stability, with Community exports of close on 170 000 tonnes, followed, from 1996/97 onwards, by a period of sharp growth to an average of 320 000 tonnes in the last three marketing years. Italian and Spanish exports - which represent 90% of the total for the Community as a whole - almost doubled. Portugal's exports went up by 55% during that period, whereas after falling in the mid-1990s, Greek exports rose 30%.

Community exports ('000 tonnes)

	Spain	Italy	Greece	Portugal	France	Other	TOTAL
1992/93	51,6	90,8	10,3	7,5	0,9	0,3	161,4
1993/94	54,6	104,8	9,2	10,5	1,1	2,5	182,7
1994/95	54,0	105,8	5,5	13,1	1,0	3,1	182,5
1995/96	48,8	90,5	11,0	11,8	1,1	1,6	164,8
Average	52,3	98,0	9,0	10,7	1,0	1,9	172,9
1996/97	66,7	129,5	5,2	17,0	1,1	0,7	220,2
1997/98	76,2	123,5	8,0	17,4	1,1	1,0	227,2
1998/99	63,6	125,3	5,4	12,4	1,0	0,9	208,6
99/2000	87,7	182,7	8,2	17,5	1,4	1,0	298,5
Average	73,6	140,3	6,7	16,1	1,2	0,9	238,6
2000/01	88,3	173,0	10,0	17,3	1,3	1,1	291,0
2001/02	112,5	182,9	10,0	16,2	1,0	1,7	324,3
2002/03¹	115,0	200,0	15,0	16,0	1,1	0,8	347,9
Average	105,3	185,3	11,7	16,5	1,1	1,2	321,1

¹Provisional figures. IOOC.

In terms of categories Greek exports essentially consist of extra virgin olive oil (73% in 2001/02), whereas the figures for Italy, Spain and Portugal are 45%, 44% and 21% respectively. In terms of market preparation all of Greek and Portuguese exports and 91% of Italian exports are in small immediate containers. Exports in bulk represent an appreciable share of Spain's exports (35%), however.

The United States, Australia, Japan, Canada and Brazil account for practically all the Community's exports. On these markets olive oil from the Community has, in recent years, improved on what was already a dominant position, and in some cases has now achieved a market penetration of more than 90% (85% in Brazil). These exports of olive oil from the Community tend to be in immediate containers of less than 18 kg: the figure is 93% in the case of Canada, 86% in the case of the United States and 91% in the case of Australia.

In 2000/01 the other major exporters to non-producing countries were Turkey (1 140 tonnes to Canada, 13 800 tonnes to the United States, 540 tonnes to Australia and 330 tonnes to Japan), Tunisia (6 100 tonnes to the United States) and Argentina (2 900 tonnes to Brazil).

Distribution and development of Community exports¹

	USA		Australia		Canada		Japan		Brazil	
	('000 t)	EU(%)	('000 t)	EU(%)	('000 t)	EU(%)	('000 t)	EU(%)	('000 t)	EU(%)
1995/96	99,8	88,2	16,5	99,0	13,6	95,1	16,5	99,4	15,7	82,0
1998/99	139,7	84,1	22,5	96,0	15,9	86,5	28,4	99,7	16,5	70,0
2000/01	194,2	90,1	28,3	95,0	22,6	92,0	29,6	98,6	21,7	85,0

¹Including olive pomace oil. Source: IOOC.

Although a net exporter the Community is also one of the world's leading importers of olive oil. In the 1990s it imported an average of 164 300 tonnes (41.2% of the total) as against 123 900 tonnes in the case of the United States (31.1%). The relative importance of the other importing countries is much smaller, the quantities concerned being 21 200 tonnes in the case of Brazil, 18 200 tonnes in the case of Australia and 16 100 tonnes in the case of Japan.

Unlike its exports, the Community's imports are fairly stable, with specific changes brought about by differences in production. Reduced levels of imports correspond to years in which world output was low (1995/96) or in which Community production was very high (2001/02). Conversely, high levels of imports correspond to years in which Community production was relatively small (1998/99). With its production rising substantially, the Community's imports have followed a downward trend since 1999/00.

Italy tends to account for the bulk of the Community's imports: Greek, Portuguese and French imports have nearly always been negligible and those of Spain - fairly modest in terms of volume to begin with - have fallen in recent marketing years.

Community imports ('000 tonnes)

	Spain	Italy	Greece	Portugal	France	Other	TOTAL
1992/93	13,1	65,5	0,0	0,9	20,9	0,4	100,8
1993/94	54,0	91,5	0,0	4,4	2,6	0,3	152,8
1994/95	61,6	107,5	0,2	8,2	0,6	0,9	179,0
1995/96	24,0	46,0	0,1	1,7	0,9	1,0	73,7
Average	38,2	77,6	0,1	3,8	6,3	0,7	126,6
1996/97	35,5	106,6	0,0	1,7	1,4	0,3	145,5
1997/98	28,0	89,3	0,0	0,2	0,1	0,2	117,8
1998/99	81,5	136,3	0,0	7,0	0,4	0,4	225,6
99/2000	13,2	101,9	0,0	1,4	0,1	0,1	116,7
Average	39,6	108,5	0,0	2,6	0,5	0,3	151,4
2000/01	15,8	110,8	0,0	0,0	0,2	0,3	127,1
2001/02	1,6	40,7	0,0	0,0	0,1	0,0	42,4
2002/03¹	3,0	30,0	0,0	0,2	0,2	0,1	33,5
Average	6,8	60,5	0,0	0,0	0,2	0,1	67,7

¹Provisional figures. Source: IOOC.

Inward processing arrangements⁴ play a major role in the context of Community imports, accounting as they do for 60-80% of the total volume of imports. Community traders increasingly resort to these arrangements when Community production falls in relation to the world total (viz. in 1996/97 and 1998/99).

Inward processing arrangements (IPA) in relation to Community imports* ('000 tonnes)

	Imports under IPA	IPA as a % of total imports	EU/world prod. (%)
1995/96	43,0	60,1%	82,1%
1996/97	101,9	69,2%	70,1%
1997/98	79,3	63,0%	87,2%
1998/99	177,0	79,4%	72,2%
1999/00	69,3	59,9%	78,3%
2000/01	85,5	67,7%	76,7%
2001/02	26,0	60,6%	87,8%

*Including olive pomace oil. Source: IOOC and import licences

⁴ Under inward processing arrangements import duty and other commercial policy measures are waived when products are imported from non-member countries for re-exportation in the form of finished products after processing within the Community. Under "by equivalence" inward processing arrangements the importer must export an equivalent quantity of processed olive oil, but not necessarily the actual goods that were processed.

Nearly all the olive oil imported by the Community comes from Tunisia, which has a zero-rated import quota of 53 000 tonnes⁵. The Community is the principal outlet for Tunisia's production. Small quantities are occasionally also imported from Turkey. The Community imports most of its oil in bulk, the latter then being sent for refining or for blending with other virgin oils.

The Community is the reference importer and exporter on the world olive oil market, and is traditionally a net exporter. In the 1990s sharp fluctuations notwithstanding, annual exports exceeded imports by an average of 65 000 tonnes, i.e. 3% of world production. Since 1999/2000 the Community has been a net exporter, with a favourable trading balance of 253 000 tonnes for the last three years.

Community trade balance ('000 tonnes)

	Exports	Imports	Balance	EU production	Bal./prod.(%)
1992/93	161,4	100,8	60,6	1391,7	4,4
1993/94	182,7	152,8	29,9	1359,3	2,2
1994/95	182,5	179,0	3,5	1371,0	0,1
1995/96	164,8	73,7	91,9	1403,6	6,5
Average	172,9	126,6	46,3	1381,4	3,4
1996/97	220,2	145,5	74,7	1754,6	4,3
1997/98	227,2	117,8	109,4	2116,7	5,2
1998/99	208,6	225,6	-17,0	1706,9	1,0
1999/2000	298,5	116,7	181,8	1878,4	9,7
Average	238,6	151,4	87,2	1864,2	4,7
2000/01	291,0	127,1	163,9	1940,5	8,4
2001/02	324,3	42,4	281,9	2463,7	11,4
2002/03¹	347,9	33,5	314,4	1863,7	16,9
Average	321,1	67,7	253,4	2089,3	12,2

¹Provisional figures. Source: IOOC.

⁵ 56 000 tonnes from 2005.

2.3.2 Intra-Community trade in olive oil

Intra-Community trade accounts for the bulk of the trade in olive oil. It has doubled since the early 1990s, from 335 000 tonnes to 650 000 tonnes (calculated as the average for the last three years). Although the trade tends to flow between Mediterranean Member States it increasingly features the new consumer Member States.

Intra-Community trade ('000 tonnes)

	Spain		Italy		Greece		Portugal		France		Other	
	Sold	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold	Bought
1992/93	170,3	15,1	32,0	206,1	132,5	1,5	0,3	26,3	18,1	40,9	2,2	32,6
1993/94	179,3	6,3	32,3	218,2	90,8	3,1	0,4	31,7	11,4	46,4	2,6	47,5
1994/95	103,2	34,0	61,3	152,0	128,6	1,5	2,9	28,4	8,9	47,1	3,5	51,4
1995/96	145,6	40,3	65,5	177,8	149,0	3,9	1,1	28,1	6,2	52,6	3,8	49,4
Average	149,6	23,9	47,8	188,5	125,2	2,5	1,2	28,6	11,2	46,8	3,0	45,2
1996/97	342,5	6,4	60,8	355,0	96,8	3,7	2,7	35,4	3,6	63,3	3,7	64,8
1997/98	352,8	8,3	64,5	327,6	122,0	0,0	6,2	48,0	4,7	79,8	5,1	77,8
1998/99	193,7	27,6	85,3	279,3	199,7	3,2	2,7	34,7	4,1	75,5	4,2	90,2
99/2000	300,6	7,3	92,7	292,3	118,0	1,4	1,2	38,2	2,1	82,5	4,9	105,6
Average	297,4	12,4	75,8	313,6	134,1	2,1	3,2	39,1	3,6	75,3	4,5	84,6
2000/01	395,6	7,8	102,6	386,2	150,0	1,0	4,1	50,7	2,2	97,6	7,3	109,5
2001/02	488,0	8,4	182,9	444,3	80,0	0,0	3,1	47,7	3,1	95,7	4,2	109,2
2002/03(1)	335,0	22,0	200,0	440,0	155,0	0,0	2,5	49,8	3,1	95,8	4,5	116,8
Average	406,2	12,7	161,8	423,5	128,3	0,3	3,2	49,4	2,8	96,4	5,3	111,8

¹Provisional figures. Source: IOOC.

Generally speaking, Spain and Greece sell oil to the rest of the Community. Whereas Spanish sales rose from an average of 150 000 tonnes in the first half of the 1990s to 406 000 tonnes in the last three marketing years, Greek sales were unchanged during that period. From 1996/97 to 2001/02 the bulk of Spanish and Greek exports (64.9% and 94.0% respectively) went to Italy. France and Portugal are also major buyers of Spain's oil, accounting as they do for 16.4% and 11.7% respectively of its intra-Community sales. Greece and Spain buy only very small quantities from the rest of the Community, especially since the second half of the 1990s.

Italy buys and sells olive oil within the Community but its purchases tend to exceed its sales. Compared with the early 1990s purchases and sales have more than doubled, from 188 000 to 423 000 tonnes and from 47 000 to 162 000 tonnes respectively. Italy's principal customers during the period 1996/97 to 2000/01 were Germany (34.4%), France (28.7%) and the United Kingdom (13.7%).

Although they are themselves producers, Portugal and France are buying increasing quantities of olive oil from other Member States (the figures are up by 72% and 106% respectively). The quantities they sell to the other Member States, however, are almost negligible.

Fuelled by ever increasing demand, purchases by non-producing Member States have risen by 147%.

Geographical distribution of sales of olive within the Community, based on the average for the period from 1996/97 to 2001/02

<i>Member State of origin:</i>	Spain (%)	Italy (%)	Greece (%)	Portugal (%)	France (%)	Other (%)
<i>Destination:</i>						
Spain		3,2	2,3	59,8	9,2	0,4
Italy	64,9		94,0	22,1	37,6	3,4
Greece	0,2	2,4		0,0	0,0	1,0
Portugal	11,7	0,0	0,0		1,1	1,2
France	16,4	28,7	0,4	13,7		12,9
UK	4,2	13,7	1,7	0,5	21,7	31,6
Germany	0,6	34,4	0,6	1,0	3,7	5,8
Netherlands	0,6	2,2	0,1	0,0	0,3	20,6
Other	1,5	15,4	0,9	2,9	26,4	23,0
<i>TOTAL</i>	100,0	100,0	100,0	100,0	100,0	100,0

Source: Eurostat

In 2001/02 the virgin and extra virgin categories accounted for 78% of the olive traded within the Community, the figure for *lampante* oil being 13%.

2.4 Prices

Olive oil is, compared with other edible oils, an expensive product. At the wholesale stage the ratio between the price of olive oil and that of common edible oils is of the order of 4 or 5:1.

With demand rising relatively steadily, the sharp differences in the quantities produced from year to year result in major differences in the prices paid to producers. Consumer prices, however, tend to be more stable thanks to the smoothing role played by operators.

In Italy and Greece producer prices for olive oil followed a downward trend in the 1990s, especially towards the end of the decade. The producer price for extra virgin olive oil in Italy fell from an average of €2 738/tonne⁶ in the first half of the 1990s to €2 318/tonne towards the end of the decade, i.e. by 15%. In Greece it fell from €2 414/tonne to €1 905/tonne, i.e. by 21%. In Spain, after a rise which followed the country's accession and was prolonged by the drought recorded in 1995/96, the price of extra virgin olive oil has gradually fallen, from an average of €2 480/tonne in the early 1990s, to €1 826/tonne, i.e. by 26%.

⁶ 1995/96 market prices were abnormally high because of a poor harvest. That year was therefore not taken into account when calculating the average price for the first half of the 1990s.

Although the Community market is highly integrated and features an increasing level of trade, there are continuing specificities in terms of prices on national markets. In Italy extra virgin olive oil prices are permanently above those recorded in Greece and, above all, in Spain (21.6% and 26.9% respectively in the period from 1999/2000 to 2001/02). Spanish prices for the *lampante* category, are higher than those recorded in Italy and, above all, in Greece. Consequently the difference between the producer price for *lampante* olive oil and extra virgin olive oil is considerable in Italy (€655/tonne, i.e. more than 39.4% more than the *lampante* price), somewhat lower in Greece (€442.6/tonne, i.e. more than 30.3%) and very small in Spain (€122/tonne, i.e. more than 7.2%).

Average annual prices (€/tonne)

Year	Spain		Italy		Greece	
	Extra virgin	<i>Lampante</i>	Extra virgin	<i>Lampante</i>	Extra virgin	<i>Lampante</i>
1992/93	2244,5	2151,3	2586,2	2128,1	2265,6	1799,4
1993/94	2424,9	2322,1	2772,8	2287,8	2419,0	1960,6
1994/95	2770,4	2622,4	2855,3	2538,1	2557,8	2118,0
1995/96	3663,9	3473,0	3849,0	3385,8	3592,0	2864,8
Average	2775,9	2642,2	3015,8	2585,0	2708,6	2185,7
(excl. 1995/96)	2479,9	2365,3	2738,1	2318,0	2414,1	1959,3
1996/97	2467,0	2045,4	3564,6	2170,5	2765,1	1986,4
1997/98	1812,2	1564,2	2507,7	1545,1	2011,9	1364,3
1998/99	2325,2	2164,7	2591,1	2122,7	2221,2	1781,8
Average	2201,5	1924,8	2887,8	1946,1	2332,7	1710,8
1999/00	1919,8	1782,5	2268,8	1734,7	1841,4	1514,1
2000/01	1712,9	1598,0	2250,0	1547,6	1752,2	1391,4
2001/02	1847,2	1733,3	2437,2	1708,7	2122,1	1482,2
Average	1826,6	1704,6	2318,7	1663,7	1905,2	1462,6

Source: European Commission

As regards consumers' reactions to changes in prices a survey of elasticity⁷ reveals major differences as between Member States: compared with wholesale prices, the elasticity of demand is very low in Greece and low in Italy (-0.16), the reaction of demand to price changes being relatively small there. On the other hand it is appreciable in Spain (-0.44), where the gap between olive oil prices and seed oil (sunflower) prices plays a key role in the decision to purchase. The elasticity of demand is even higher in France (-0.47) and in the non-producing Member States (-0,47).

⁷ Evaluation of the impact of the main market organisation measures in the olive oil sector ADE. Elasticity is a measure of the contraction of demand when prices rise.

2.5 Balance on the market in olive oil

IOOC figures show that, compared with the period from 1990/91 to 1994/95, average production in 1995/96 to 1999/2000 went up by 27% in the Community and by 24% in the world as a whole. The rise in consumption over the same period is put at 18% in the Community and 20% in the world as a whole.

The figures suggest that the overall balance on the market tends to be somewhat fragile, one of the first consequences of this being the reductions in producer prices recorded since the early 1990s. The sharp increase in Community production has led to stable or even lower imports, in spite of the very large increase in Community demand (internal consumption + exports).

Based on the growth rates for production and consumption in the Community in the 1990s, the market organisation evaluation ordered by the Commission suggests that by 2010 average production will exceed internal demand by 10 to 16.6%, compared with 5.1% in 2000.

The IOOC's projections for world production and consumption to 2008⁸ are based on past trends corrected by a group of experts in order to take into account non-linear developments. Some of the results are similar to those referred to in the preceding paragraph, the estimate for 2008 being that the Community would be faced with a surplus of 302 000 to 332 000 tonnes, for which outlets would have to be found on world markets. . The IOOC projection also suggests a surplus equivalent to 6% of world production by the end of the decade - compared with 4.3% at the end of the 1990s - and, therefore a slight tendency toward a deterioration in the overall balance on the market.

These projections must of course be treated with caution. Not only are the trends concerned highly uncertain, with even slight differences in export performance and, above all, in Community production being capable of bringing about major changes in the final results. Indeed, the simulations are based on fairly imprecise data as regards the Community's current production potential.

For all that, and by way of summary, it is expected that there will be a fragile overall balance, a balance which might be brought into question if world production rises faster than expected or if demand falls as a result of a shortage of new consumers.

Exports and sales to new consumer Member States are set to play an increasingly decisive role in preserving the present balance on the market and in ensuring that there are no structural surpluses. This would require that these new markets continue to grow at a sustained pace in the future and, therefore, winning over and retaining new consumers of olive oil.

⁸ International Olive Oil Council, projected production and consumption of olive oil , EC.R.54. doc. 3, 2 April 2001.

2.6 Table olives

2.6.1 Production

World production currently stands at about 1.3 million tonnes, compared with one million tonnes in the mid 1990s. The wide variety of table olives and the development of new presentations (whole, pitted, sliced, stuffed) has made product diversification possible and has led to the growth recorded in the table olives sector in the past few years.

As in the case of olive oil, the production of table olives fluctuates year by year as a result of the uncertainties of the weather and the process of alternate bearing of olive trees. The fact that most varieties of table olives can also be used for oil production accounts for the close link between the two product markets, a feature of whose growth is their dynamic balance: when the price of olives for the production of table olives goes down, part of the crop is redirected towards oil production, thus depressing olive oil prices.

Apart from the Community, which is the world's biggest producer (40% of the total), the other producers of table olives are Turkey (13%), the United States (10%), Morocco (8%), Syria (7%) and Egypt (4%). There has been little change in the relative share of each of these producers over the last ten years.

World production of table olives ('000 tonnes)

	EU	Turkey	Syria	USA	Morocco	Egypt	TOTAL	EU/total
1995/96	369	120	75	66	85	60	947	39,0%
1996/97	370	185	90	144	100	25	1.093	33,9%
1997/98	486	124	60	91	85	50	1.094	44,4%
1998/99	500	178	85	78	95	41	1.201	41,6%
1999/00	621	150	93	129	80	85	1.351	46,0%
2000/01	576	224	142	60	80	70	1.343	42,9%
2001/02	765	75	80	120	90	135	1.464	52,3%
2002/03¹	614	165	170	81	80	300	1.647	37,3%

¹Provisional figures. Source: IOOC

After annual production figures of the order of 360 000 tonnes in the early 1990s, the average production in the Community in the past three years has been 650 000 tonnes, with Spain accounting for 478 000 tonnes (73.4%), Greece 100 000 tonnes (15.3%) and Italy 62 000 tonnes (9.5%) of this figure. Portugal and France produce 10 000 tonnes and 2 000 tonnes of table olives, i.e. 1.5% and 0.3% of the Community total respectively.

Table olive production in the Community ('000 tonnes)

Year	Spain	Italy	Greece	Portugal	France	TOTAL
1992/93	224	70	60	17	2	372
1993/94	205	77	60	16	2	360
1994/35	236	60	60	10	2	368
1995/96	203	86	70	9	1	369
Average	217	73	63	13	2	367
1996/97	244	55	60	9	2	370
1997/98	310	80	85	9	2	486
1998/99	360	45	85	9	2	500
1999/00	431	75	100	13	2	621
Average	336	64	83	10	2	494
2000/01	416	65	85	9	2	576
2001/02	575	60	115	12	2	764
2002/03 ¹	442	60	100	10	2	614
Average	478	62	100	10	2	651

¹Provisional figures. Source: IOOC

2.6.2 Consumption

World consumption is currently 1.3 million tonnes, compared with one million tonnes in the 1990s. The Community is the biggest consumer (33%), followed by the United States (16%), Turkey (11%), Syria (7%), Egypt (5%) and Brazil (3%). These percentages have tended to remain unchanged in recent years.

World consumption of table olives ('000 tonnes)

	EU	USA	Syria	Brazil	Egypt	Turkey	Total	EU/total
1995/96	352	149	71	47	48	129	1.043	33,7%
1996/97	319	173	80	48	29	132	1.066	29,9%
1997/98	341	179	66	50	33	127	1.073	31,8%
1998/99	392	177	70	48	44	149	1.186	33,1%
1999/00	430	184	91	51	77	130	1.250	34,4%
2000/01	454	185	110	45	57	125	1.297	35,0%
2001/02	525	205	74	51	75	100	1.380	38,0%
2002/03 ¹	520	205	111	51	160	135	1.575	33,0%

¹Provisional figures. Source: IOOC.

In the Community, consumption has averaged 500 000 tonnes in the last three years, with Spain accounting for 199 000 tonnes (39.8%), Italy 145 000 tonnes (29%), France 39 000 tonnes (7.8%), Greece 27 000 tonnes (5.4%) and Portugal 13 000 tonnes (2.6%). Among the non-producing Member States Germany consumes, on average, 33 000 tonnes (6.6%) and the United Kingdom 13 000 tonnes (2.6%).

Community consumption of table olives ('000 tonnes)

	Spain	Italy	Greece	Portugal	France	Other	Total: EU
1992/93	125	130	25	18	28	26	352
1993/94	120	130	21	18	25	27	341
1994/35	118	113	30	19	31	37	348
1995/96	116	125	30	11	28	42	352
Average	120	125	27	17	28	33	348
1996/97	100	112	20	9	31	47	319
1997/98	113	114	20	10	34	54	345
1998/99	160	110	22	13	31	56	392
1999/00	168	125	27	15	34	61	430
Average	135	115	22	12	33	55	372
2000/01	167	135	25	13	39	75	454
2001/02	216	150	30	14	39	76	525
2002/03¹	215	150	25	13	39	78	520
Average	199	145	27	13	39	76	500

¹Provisional figures. ²Estimated. Source: IOOC.

2.6.3 Trade in table olives

The annual level of international trade in the last few marketing years has been around 400 000 tonnes. The Community is the world's largest exporter, with 48% of the total volume, followed by Morocco (23%), Argentina (10%) et Turkey (8%). The biggest importers are the United States (30%), followed by the Community (18%), Brazil (16%) and Canada (6%).

Spain accounts for 76% of the Community's exports, followed by Greece (19%). France and Germany account for 54% and 16% of the Community's imports respectively. The Community is a net exporter, its exports outstripping imports by an average of 59 000 tonnes in the early 1990s and an average of 161 000 tonnes in the last three marketing years, i.e. the equivalent of 25% of the Community's production.

Net Community exports of table olives ('000 tonnes)

	Exports	Imports	Balance	Tot. EU prod.	Bal./prod. (%)
1992/93	106	32	74	372	19,9%
1993/94	92	35	57	360	15,8%
1994/95	100	59	41	368	11,1%
1995/96	114	50	64	369	17,3%
Average	103	44	59	367	16,0%
1996/97	121	57	64	370	17,3%
1997/98	146	47	99	486	20,4%
1998/99	151	51	100	500	20,0%
99/2000	193	54	139	621	22,4%
Average	153	52	101	494	20,0%
2000/01	206	57	149	576	25,9%
2001/02	214	58	156	764	20,4%
2002/03¹	234	57	177	614	28,8%
Average	218	57	161	651	25,0%

¹Provisional figures. Source: IOOC.

The Community accounts for the bulk of US imports of table olives (75%), mainly in the form of green olives (65.4%), the figures for black olives and olives turning colour being 39.5% and provisionally preserved olives 4.1%. Brazil, the other major importer, is supplied mainly by Argentina (70%), with the Community taking up 14% (mainly in the form of provisionally preserved olives) of that market. Community exporters have for some years now been endeavouring to open up new markets, in particular in Eastern Europe and the Middle East.

Distribution and development of Community exports of table olives

	USA		Australia		Canada		Japan		Brazil	
	('000 t)	EU (%)	('000 t)	EU (%)	('000 t)	EU (%)	('000 t)	EU (%)	('000 t)	EU (%)
1995/96	55,9	76,7	6,8	93,5	8,6	62,6	-	-	3,9	9
1998/99	72,5	76,1	8,9	94,5	13,6	73,1	0,6	36,9	3,9	8
2001/02	85,0	75,3	11,1	96,6	15,2*	73,6	0,9	45,6	6,9	14

*The figures are for 2000/01 in the case of Canada. Source: IOOC

3. OLIVE OIL AND TABLE OLIVE SECTOR

3.1 Special characteristics of olive cultivation

A number of features make the olive oil sector substantially different from most other types of agricultural output:

- Given the perennial nature of production, a major feature of olive holdings is their structural inflexibility which restricts their ability to take advantage of market opportunities. While the grubbing-up of olive trees is an irreversible process, newly planted trees do not attain maturity for a variable period of at least ten years.
- A feature of olive-oil production is its very marked heterogeneity, both in space and time. Yields on the same holding can vary sharply from one year to another, depending especially on weather conditions and the biological variations of the olive trees. In addition, neighbouring parcels can record very different yields in the same year depending on the behaviour of the crop and in particular the existence of irrigation.
- On fragile or marginal land, olive growing is very frequently the only feasible farming activity and the only alternative to abandonment and desertification.
- Intense fragmentation is a feature of olive cultivation. Many small holdings, often farmed on a part-time basis, constitute a not inconsiderable part of the Community's olive-growing area. The processing industry is equally considerably fragmented.
- The olive is a major cultural factor in most Mediterranean regions and has a role which goes beyond that of mere farming since it is the basis for a whole series of social and cultural events related to gastronomy, tourism, crafts and even the traditions of the people concerned.

3.2 The scope of olive cultivation

3.2.1 Olive plantations

For the 1998/99 marketing year, in the absence of a comprehensive olive oil register at Community level, the Olistat and Oliarea⁹ studies have made it possible to estimate respectively the number of olive trees and the area under cultivation.

With a margin of error of between 4% and 6% for the three major producer Member States (lower margin for Portugal and France on account of the relative size of combined crops in these two Member States), the results show there are 796 million olive trees in the Community as a whole covering a total area of 5.4 million hectares of which 44.5% are in Spain, 26.3% in Italy, 18.8% in Greece, 9.7% in Portugal and 0.7% in France.

⁹ Studies based on a methodology perfected by the Joint Research Centre at Ispra. The olive trees were counted and the surface area assessed using computer-assisted photo interpretation of a representative sample of aerial photos.

Despite their limitations, these studies are the best estimate currently available of the areas under cultivation throughout the entire Community.

The number of olive trees thus obtained well exceeds that declared by producers in their 1998/99 aid applications (+35% in Spain, +13% in Italy). This is not surprising since some of the olive groves in the Community are not subject to aid applications. Most of these cases are small holdings with the very low yields.

NUMBER OF OLIVE TREES IN 1998/99

Millions of trees	SPAIN	ITALY	GREECE	PORTUG.	FRANCE	EC
Olistat results						
Total number of olive trees	308,9	237,9	170,6	71,8	6,9	796,1
Minimum / Maximum (95% proba) (1)	296 / 322	230 / 246	163 / 178	68,5 / 75,1	6,2 / 7,6	764 / 828
Olive trees maintained	287,9	229,2	152,1	63,4	4,5	737,1
Minimum / Maximum (95% proba) (1)	276 / 300	220 / 239	146 / 159	60,7 / 66,1	4,3 / 4,7	706 / 768
Young olive trees	66,4	44,5	20,9	8,6	0,5	140,9
Adult olive trees maintained (2-3)	221,5	184,7	131,2	54,8	4,0	596,2
Minimum / Maximum (95% proba) (1)	212 / 231	177 / 193	126 / 137	52,5 / 57,1	3,8 / 4,2	571 / 621
Other results						
Olive oil register (verified declarations)	179,3	133,0	-	-	2,2	
"Productive" Adult Declarations	197,8	189,7	154,4	37,0	2,7	581,6
Total tree declarations	228,6	210,8	165,6			

AREAS UNDER OLIVE TREES 1998/99

Thousand hectares	SPAIN	ITALY	GREECE	PORTUG.	FRANCE	EC
Oliarea Results						
Estimated area	2424	1431	1026	529	39	5449
Minimum / Maximum (95% proba) (1)	2307 / 2540	1376 / 1485	966 / 1085	497 / 562	34 / 45	5181 / 57
Other results						
Eurostat 1997	2239	1147	729	320	13	4448
Declarations from the Member States	2330		1093	380 / 460	12	
Other sources	2300	1304	902	341 – 595	17	4863
	MAPA 1998	AGRIT 1998	MOA 1997	INE 97 Louss./Brouss	TER-UTI 1998	

(1) On the basis of a confidence range established for the olive tree total.

According to the Olistat data, in the Community as a whole the "young" plantations were said to consist of 140 millions trees in 1998/99 and represent nearly 20% of the olive trees maintained (23% in Spain, 19% in Italy and percentages between 11% et 14% for the remaining producer Member States). The information communicated by the Member States indicates for their part that the number of olive trees planted between 1995 and 1 May 1998, and therefore eligible for aid, was about 60 millions. Output from these olive trees is gradually to arrive on the market, mainly from 2003. Since these are, for the

most part, high-productivity plantations their potential production may be estimated at a minimum of 360.000 tonnes.

New plantations declared between November 1995 and November 1998

	1/11/95-30/4/98	(without breakdown)	1/5/98-31/10/98
Spain	40.165.389		4.775.343
Greece	and	17.695.961	
France	300.000		80.000
Italy		1.436.911	
Portugal	726.043		223.241
TOTAL		65.366.888	

Source : Communications from the Member States

The proliferation of newly-planted areas after 1 May 1998 in certain olive-growing regions of the Community is an incontestable fact which has been directly observed. However the data in this respect are somewhat incomplete, despite the fact that these plantations are supposed to be declared.

According to the information communicated by the Member States, which probably underestimates the extent of the phenomenon, the annual rate of planting new areas (ineligible for aid) has been sustained at the same level since 1998, arriving at a cumulative total of 5.3 million trees. Greece has communicated no data in this respect. Nevertheless, the existence of a considerable number of new plantations in this Member State may be observed by passing through some of its olive-growing regions.

These figures seem to indicate that in certain olive-growing regions the new olive groves may be profitable without aid but it is also possible that certain producers may have decided to plant in the belief that the checks would not succeed in excluding them from aid.

Assuming for these newly-planted areas a high yield of more than 12 kg per tree, the potential production of 5.3 million additional trees communicated by the Member States may be estimated at an additional 65.000 tonnes of olive oil at least, most of which will arrive on the market from 2005.

The newly-planted areas in Portugal and France are covered by programmes approved by the Commission and are, in principle, eligible for aid.

Olive trees planted since the 1998/99 marketing year

	Declared trees	Eligible plantations			Additional plantations. Ineligible
		Replaced	Additional	Total	
1998/99					
Spain	1.472.575	144.793	-	144.793	1.305.654
France		500	95.000	95.500	Ineligible
Italy	320.219	15.713	223.935(1)	239.648	80.571
Portugal	1.351.262	259.386	1.091.876	1.351.262	
1999/00					
Spain	1.701.378	107.137	-	107.137	1.748.071
Italy	186.821	3.374	100.336(1)	103.710	83.111
2000/01					
Spain (2)	940.148	178.805	-	178.805	698.655
Italy	182.657	3.248	68.267	71.515	111.142
Portugal	267.323				
2001/02					
Spain (2)	2.012.490	229.200	-	229.200	1.153.479
Italy	224.286	4.285	104.228	108.513	115.773
Portugal	295.105				

(1) Regional programme approved by the Commission before 31 Oct 1998; (2) some dossiers awaiting a decision
Source : Communications from the Member States

The purpose of the olive cultivation Geographic Information System (GIS), which it was decided in 1998 to implement, is to provide the sector with a powerful computer tool. The GIS represents an important simplification in comparison with the former olive oil register since it applies only to holdings lodging applications for aid. It is based on a system of identification of parcels by digital mapping. The data base thus obtained makes it possible to compare the number of olive trees identified on the photos with those declared by the producers.

In addition, using the computer tool Oliarea, the olive cultivation GIS could enable the areas under cultivation of each individual olive grower to be calculated on the basis of a common methodology approved for the Community as a whole. This would make it necessary to use common criteria for defining parcels and good positioning of trees on the photographs of the latter. A common approach would also be needed to deal with certain specific difficulties related to the calculation of areas under olive cultivation, in particular in a case of "islands" or "holes" in the parcels, as well as the question of mixed plantations.

Currently, the establishment of a census and the location of the olive groves owned by applicants for aid under the olive cultivation Geographic Information System (GIS) has not been finalised in all the Member States. Only Portugal, Italy and some Spanish regions, including Andalusia, have announced that their geographic information systems have been completed.

As expected (the GIS only includes in its census parcels which are the subject of an aid application), the calculations of trees thus obtained give figures lower than those of Olistat: 35.7 million trees in Portugal (as against 71.1 million) and 198 million in Italy (as against 224.7 million) at which are much nearer to those of the crop declarations (37 million for Portugal and 189.7 million for Italy).

In addition to the expansion of olive-growing areas, the other factor which explains the increase in Community production is the improvement in yield per hectare. This is the result of a greater mastery of technical growing procedures (fertilisation, plant protection), the replacement of old trees by new and, above all, the increase in irrigated areas. Since the olive tree makes very good use of water, it is possible to achieve a threefold or fourfold increase in production. According to the figures of the Spanish Ministry for Agriculture, the irrigated area under olive cultivation in Spain increased from 102.000 hectares in 1995 to 222.000 in 1998 and 372.000 in 2000. Some 25% of the olive-growing areas in Andalusia are now irrigated.

The ADE evaluation study estimates that, on average, yields have increased by nearly 3% a year in the Community as a whole during the Nineties. These estimates, calculated on the basis of the increase in production and the expansion of areas are nevertheless subject to a wide margin of error and their value should therefore be considered approximate.

Average annual rates of growth, 1990-1999

	Production	Area	Yield
Spain	4,7%	1,8%	2,9%
Italy	2,2%	0,1%(*)	2,1%
Greece	5,1%	1,0%	4,1%
EU	4,1%	1,2%	2,9%

(*) Estimate based on Italian statistics of areas under cultivation. Source : ADE

To sum up, the lack of accuracy relating to production potential (growth of areas under cultivation and production per hectare) render the estimate of current production potential in the Community uncertain. In the light of the above considerations and the results for the last three marketing years, we can nevertheless estimate average production for the next few years at around 2.4 - 2.7 million tonnes of olive oil.

3.2.2 *Number and growth of olive-growing holdings*

A very large number of Community growers are involved in the cultivation of olives. The number of crop declarations lodged each year is of the order of 1.100.000 in Italy (950.000 applications), 850.000 in Greece (520.000 applications), 450.000 in Spain (400.000 applications), 110.000 in Portugal (95.000 applications) and 25.000 in France (15.000 applications)¹⁰. The total number of olive growers in the Community is put at 2.5 million.

¹⁰ The crop declaration, lodged by olive growers at the beginning of the year contains, among other information, the number of olive trees being cultivated and is a prerequisite for applying for aid. The aid application is lodged at the end of the year once the crop has been harvested and indicates the production obtained by the olive grower. A number of olive growers lodge the crop declaration but not the application for aid.

The data provided by the Farm Accountancy Data Network (FADN) give a comprehensive but limited view of the structural situation with regard to olive growing in the Community since the FADN only takes into account "professional" holdings of a sufficient size to be the grower's principal activity and provide a sufficient revenue to meet his family's needs. The results of the FADN are therefore significant for 75% to 80% of production in each Member State but the reference samples account for only 53% of Italian olive holdings, 60% of Greek holdings and 65% of Spanish holdings.

Olive-growing holdings are generally small in size, in particular in Italy and Greece where on average they do not exceed two hectares, while in Portugal they reach 5.6 hectares and 6.1 hectares in Spain. The so-called professional olive-growing holdings (FADN) are bigger, ranging from 3.2 hectares in Greece to 13.5 in Spain but are, in any case, very much smaller than the national averages for areas under cultivation in each holding. The small size explains the high number of part-time growers among the European olive growers. Professional olive-growing holdings are the rule in only a few regions of the Community.

Average surface area of olive-growing holdings in the EU

	Spain	Italy	Greece	Portugal
In holdings receiving aid (1)	6,1	1,5	2,0	5,6
In professional holdings (2)	13,5	4,0	3,2	9,4
Average utilised agricultural area (3)	29,7	12,3	6,1	12,2

(1) Olistat data divided by the average number of applications for aid; (2) FADN data for the period 1995-99, ADE calculations;
(3) The Agricultural Situation in the European Union - 2000 Report

From the point of view of production, the fragmentation of the olive-growing sector may be illustrated by the number of growers receiving production aid for very small quantities of olive oil. Thus, in Italy and Spain, on average one recipient in five produces less than 100 kg oil. This applies to more than 40% of Portuguese growers and two-thirds of growers in France. The proportion of very small growers is probably even greater than the figures show since a certain number of them do not request aid on account of their extremely low production.

Percentage of aid recipients by volume of production

Year	< 50 kg			< 100 kg			< 200 kg		
	98/999	99/00	00/01	98/999	99/00	00/01	98/999	99/00	00/01
Spain	12,6%	8,6%	11,1%	23,0%	18,0%	21,0%	37,2%	33,3%	34,4%
Italy	10,4%	4,0%	8,9%	26,1%	14,1%	26,0%	49,6%	35,7%	51,3%
Greece			5,8%			16,6%			34,1%
Portugal	26,5%	11,1%	24,1%	47,0%	29,1%	48,9%	68,7%	56,3%	74,0%
France	42,6%	41,0%	50,0%	65,2%	63,4%	70,33	82,7%	82,3%	86,1%

Source : national paying agencies

In the Community it is in Italy and France that we find the highest proportions of very small holdings in terms of the number of trees. According to crop declarations, 36.9% of holdings in Italy and 45.2% in France have less than 50 trees while this percentage comes down to about 17% in Spain, Greece and Portugal.

% crop declarations by number of olive trees (2000/01)

Number of trees	Spain	Italy	Greece	Portugal	France
0-50	16,8	36,9	17,7	17,8	45,2
50-100	20,1	27,9	23,4	26,2	26,0
100-500	46,4	31,8	51,0	46,1	25,7
500-1000	9,2	2,4	6,2	5,8	1,9
>1000	7,5	1,0	1,7	4,1	1,2

Source : Communication from the Member States

3.3 Farm returns for oil-growing holdings

3.3.1 *Production costs*

The cost structure of olive groves depends on a multitude of variables, in particular their type (traditional or intensive), the lie of the land (sloping or level ground), the productivity of the trees, etc. For the Community as a whole the data available in this respect is patchy, non-standardised and does not provide a suitable basis for meaningful comparisons.

Generally speaking, thanks to economies of scale, the unit costs of production are lower for high-density olive groves than for extensive olive-growing. Moreover the direct costs per hectare are, for identical yields, higher in the case of groves situated on slopes. This applies in particular to the cost of harvesting, which for most olive growers accounts for 50% or more of the production costs. It is very difficult to quantify precisely the cost of harvesting since it depends on the cost of labour, the type of grove and its density, the yield per hectare and, above all, the degree of mechanisation. Mechanisation is, however, out of the question on slopes steeper than 15% and is economically justified only on holdings exceeding a certain size and with good yields per hectare. For their part, table olives require very careful picking, and mechanisation in this area is still at an experimental stage.

3.3.2 *Incomes of olive-growing holdings*

More so than production costs, the profitability of olive-growing holdings depends on great many factors. The planting, in certain regions, of new groves that are not eligible for aid would appear to suggest, however, that in those regions at least, olive-growing may well be more profitable than other crops.

FADN figures show that, depending on the price and yield, the added value per hectare in the Community varies from a factor of one to six. It is low in Portugal (poor yields), average in Spain (average prices and output per hectare) and high in Italy and in Greece (higher prices and yields). Labour productivity is, however, higher in Spain, where one worker normally tends an average of 19.2 hectares, as against 5.3 hectares in Italy and 2.1 hectares in Greece. This income per worker would appear to be fairly high in Spain, average in Italy and low in Greece and Portugal, the overall range being one to seven.

There are also major variations within Member States. According to certain official estimates by the Regional Government of Andalusia, for instance, margins were negative on an average of 35% of the Region's olive-growing area in 1997/98 to 2000/01. Based on FADN figures, the evaluation study suggested that a decrease in income equal to the production aid would involve that 18% of the total area under olive trees would no longer be profitable.

Economic data relating to olive-growing in the EU in 1995-99

	Spain	Italy	Greece	Portugal
Hectares of olive groves per UAFL ¹	19.2	5.3	2.1	9.6
Average prod. in kg of oil per holding ²	1912	579	793	454
Average yield in kg of oil per hectare ³	315	384	401	82
Average yield (FADN) in kg of oil per hectare ¹	590	810	860	170

¹FADN data; calculations by ADE. ²Based on the average number of aid applications. ³Based on Oliarea data.

FADN returns would suggest that, compared with other types of farming, the income per family worker engaged in olive-growing in Spain is higher than for other plant products and even exceeds the average for the other types of farming by 20%. In Italy the income per family worker engaged in olive-growing exceeds that for arable crops but is 4% lower than the average for all other types of farming. In Greece the income per hectare is 10% lower than the average, whereas in Portugal the income of olive-growing holdings is equivalent to the average for other types of farming. It should be noted that these are indicative figures only, and that there are major differences within Member States.

Agricultural income per family worker, by type of farming (average: 1995-99)

	Spain	Italy	Greece	Portugal
Specialised olive groves	20 062	11 728	5 075	2 775
Cereals	19 231	8 875	3 418	7 002
Mixed farming	18 042	9 589	5 220	2 078
Horticulture	19 035	16 481	7 558	3 725
Viticulture	15 125	14 254	7 520	4 873
Fruit and other perennial crops	16 351	10 805	5 596	2 634
Cow's milk	12 153	23 123	6 920	5 135
Ruminants (other)	15 649	14 154	7 504	3 222
Pigs and poultry	25 528	37 778	9 036	3 624
Mixed farming and animal husbandry	18 022	13 514	6 489	2 126
All types of farming	16 908	12 216	5 699	2 788

Source: FADN figures. Calculations by ADE.

3.4 Organisation of the olive-growing chain

Olive producer organisations (PO) administer the aid, grouping and verifying aid applications and distributing the aid itself. They sometimes perform other duties, notably in the field of quality improvement. In Greece and Italy nearly all olive growers belong to a PO (83 and 188 POs respectively). The 71 POs in Spain account for more than 80% of the country's olive-growers. Portugal (26 POs) has a lower percentage of PO membership and there is no approved PO in France.

POs may themselves belong to an association (one in Greece, two in Spain and five in Italy). The new rules governing the programmes of activity of olive oil operators are expected to help improve the structure of production and the integration of the olive-growing industry, in particular as regards measures in respect of product quality. National inter-branch organisations - involving various sections of the olive-growing industry - have recently been set up in Spain, Italy and Greece, which should help to carry out activities benefiting the olive-growing industry generally.

The extent to which growers are involved in the marketing of olive oil varies significantly between Member States. In Spain, growers sell their olives to mills (cooperatives in 75% of the cases), the mills then dealing with the marketing of the oil once it has been produced. In Italy and, above all, in Greece, the mill in many cases merely provides a service (olive crushing), and it is the grower who markets the oil. This *modus operandi* explains the extent of self-consumption and direct sales by growers, which in Greece is said to account for up to 40% of consumption. Some analysts put the figure for Italy at around 200 000 tonnes. In Spain and Portugal there are no direct sales by growers since for some years now national legislation has been applicable in those two Member States which prohibits the sale of olive oil in bulk.

The fact that there are close on 11 000 approved mills¹¹ in the Community as a whole suggests that the fragmentation that characterises the olive oil industry is also a feature of the processing industry. Having a mill close to the olive grove means that the olives can be crushed immediately after being picked, thus underpinning oil quality. Italy alone has 6 000 mills and Greece 2 200. In Spain, where production is more heavily concentrated in geographical terms, the mills are fewer in number (1 700) but have a greater throughput.

¹¹ The number of working mills is 5-10% lower than this figure.

Structure of the mills by annual throughput (tonnes)

	Spain 1999/2000		Italy 1998/1999		Greece 1999/2000		Portugal 1998/1999	
	Number	%	Number	%	Number	%	Number	%
0-100	640	37.32	993	16.34	871	39.02	857	92.20
0-20	202	11.78	201	3.31	140	6.27		
20-100	438	25.54	792	13.03	731	32.75		
> 100	772	45.01	4 450	73.24	1 344	60.22	70	7.50
100-500	585	34.11			1 236	55.38	67	7.20
500-1 000	187	10.90			108	4.84	3	0.30
> 1 000	231	13.47			17	0.76	2	0.20
Various*	72	4.20	633	10.42				
Total	1 715		6 076		2 232		929	

*Indeterminate structure. France has 140 approved mills. Source: figures communicated by the Member States.

The fragmentation of the olive-growing sector also applies to bottling/canning firms and table olive-packing stations. The process has become even more marked as a result of the growing market share of extra virgin olive oil, which has enabled many mills to branch into market preparation. On the refining side, however, the number of operators remains limited - and stable - because of the size and complexity of the plant and machinery required.

Olive oil processing in the Community (1998-99)

	Spain	Italy	Greece	Portugal
Refining facilities	29	13	27	8
Facilities for producing olive pomace oil	53	45	42	13
Bottling/canning plants	440	300	90	49
Table-olive packing stations	404	53	256	30

Source: figures communicated by the Member States

3.5 Socio-economic importance

Most olive oil production is concentrated in less-developed regions of the Community: Spain, Greece and Portugal are among the Member States which benefit from the cohesion funds. With a few exceptions (Tuscany in Italy and Catalonia in Spain), the vast majority of producer regions come under Community Regional Policy Objective 1.

Compared with the averages for the Member States to which they belong, the most representative olive-growing regions in the Community have a relatively low rate of purchasing power. In Italy and Spain, unemployment in the olive-growing regions is almost double the respective national averages.

Socio-economic indicators of olive-growing areas, 2002

	Unemployment rate	% per cap. GDP / (EU-15)	% purchasing power / (EU-15)
EU	7.6%	100%	100%
Spain	13.1%	67.5%	82.2%
Andalusia	22.3%	50.2%	61.2%
Extremadura	22.1%	43.5%	53.0%
Castile-La Mancha	12.9%	54.8%	66.8%
Italy	9.5%	89.2%	102%
Apulia	14.3%	58.7%	67.1%
Calabria	24.8%	54.4%	62.1%
Sicily	20.8%	57.2%	65.4%
Greece	10.2%	51.6%	67.7%
Central Greece	10.1%	45.1%	59.1%
Peloponnese	8.1%	43.9%	57.7%
Crete	5.8%	50.4%	66.1%

Source : New Cronos, Eurostat

Olive cultivation - and olive picking in particular - is an important source of employment and is therefore of social importance. According to some official estimates¹², employment associated with olive growing in Andalusia amounts to 22 850 000 man-days (approximately 15.7 per hectare), 54% of which in actual harvesting operations. Most olive oil production work is carried out in winter, which makes it possible to supplement farm workers' incomes since demand for farm labour is concentrated in the summer and autumn months.

Hiring of paid labour depends on the size of the holding. On small farms (which are more numerous in Italy and Greece), family labour may suffice to perform the work, while paid labour is required on larger holdings. According to FADN data, very little use is made of paid labour on specialist holdings in Greece, while it represents 15% of the total in Italy, 25% in Portugal and over 50% in Spain.

The olive processing industry (mills, wholesalers, packaging firms, etc.) is composed of a network of small and medium-sized undertakings located within the actual production areas, which contributes significantly to their economic development. It is estimated that, in Spain, the olive oil processing industry generates 10 000 direct jobs, i.e. approximately one job for every 100 tonnes of oil.

¹² El olivar Andaluz, Junta de Andalucía.

3.6 Environmental importance

3.6.1 Protection of the environment and olive growing

The olive tree, which has been cultivated since ancient times, is hardy, undemanding and well-adapted to the difficult conditions of the Mediterranean regions. It is a typical feature of the landscape in those regions and makes efficient use of the water resources available there.

Olive cultivation very often has a positive impact on the environment and the conservation of the landscape. It is an essential factor in combating desertification, which is one of the greatest environmental problems in the Mediterranean regions of the Community. Moreover, in providing shelter and food for wild fauna, olive groves contribute significantly towards maintaining the biodiversity of these regions.

Traditional plantations are the most valuable in terms of the environment and landscape. As a result of their generally extensive farming techniques, involving minimum use of off-farm inputs, they do not harm but rather enrich the ecosystems concerned. On sloping sites, traditional plantations are often laid out in terraces, thus helping to reduce erosion and soil-loss problems.

However, in view of the low yields of traditional olive groves, which are sited on poor soil, their profitability often gives rise to problems. When such olive groves are abandoned, they are not replaced with other crops and gradually turn into a kind of scrub. If not maintained, the scrub is at risk from summer fires, one of the chief environmental hazards of the Mediterranean regions.

There are nevertheless cases where olive growing has damaged the environment. Over the last few years, new plantations have been established following the clearance of marginal land that is ill-suited to farming but provided a sanctuary for ecosystems of environmental interest, which have accordingly been lost. In many cases where these plantations have been sited on sloping land, no measures have been taken to reduce the risks of erosion (planting of ground cover, working the soil along level lines, etc.).

Generally speaking, the intensification of olive growing is accompanied by increased use of inputs such as fertilisers and plant-protection products (insecticides and herbicides) but also irrigation water, which can aggravate the water shortages in certain producing regions. There are also husbandry models for intensive olive cultivation which advocate an absence of ground cover in order to facilitate the farm work. Such systematic clearance of vegetation by chemical, mechanical or technical means has an adverse effect on the biodiversity and adds to the loss of organic matter from the soil. Excessive intensification is therefore a source of environmental deterioration and erosion, or even desertification.

Cultivation techniques aimed at protecting the environment, such as organic production and strategies for greening and managing ground cover, are being applied more and more to olive growing, but are still used by a minority. Although the rural development programmes for olive production areas incorporate agri-environmental measures for olive trees, much progress has still to be achieved in this area, particularly as regards the rate of use of the budgets available. It should also be noted that national measures aimed at

protecting old or uncommon olive trees whose features make them part of the heritage of the countryside in the regions concerned are being stepped up.

3.6.2 *Impact of the processing industry on the environment*

The environmental problems associated with mills relate mainly to water consumption in regions where supplies are limited and to the elimination or harnessing of the waste from the oil extraction process: residue (remains of the ground olives) and liquid extracts (mixture of the vegetable water from the olives and water added during the kneading of the paste). These products are significant polluting agents because they contain a high level of organic substances.

In systems where the olive oil is extracted by pressure or by centrifugation using a three-phase process (oils, liquid extracts and residue), such as those most commonly found in Italy and Greece, the environmental problems lie in the large volume of water which has to be added and the evacuation of the substantial quantity of liquid extracts. In order to prevent any damage to the environment, liquid extracts should be discharged into rivers and streams only after being treated, which requires the mills to be equipped with purification equipment or evaporation tanks.

It is also possible to spread liquid extracts on fields as a fertiliser. The amounts applied must, however, be entirely absorbed by the roots of the plants and losses through run-off or seepage which pollute the groundwater must be avoided. This is a technique frequently used in Italy, which is suited to regions where there is not too high a concentration of olive oil production or where there are adequate expanses of land for spreading the waste near the mills (on account of their liquid content, it is uneconomical to transport the extracts over long distances).

The fact that considerably less water is required for two-phase centrifugation (oils and humid residues) has encouraged the widespread adoption of this process in Spain, where it is used in 52% of mills, representing 76% of production. However, this system produces a large quantity of humid residue, which requires treatment by drying at high temperatures to extract the oil remaining in the residue¹³.

New techniques are currently being developed with a view to harnessing the biomass of the olive tree for energy production (branches cut off during pruning, processing of residues following oil extraction, etc.), which should ultimately result in the olive oil industry making a positive contribution towards combating greenhouse gases.

Processing of table olives produces highly polluting liquid waste. Treating this waste is difficult because of its high organic content and the presence of traces of the sodium and brine used in processing the olives, which makes it unsuitable for spreading on fields. As in the case of olive oil, evaporation tanks have been used, but definitive solutions have still to be found.

¹³ This drying operation was behind the health warning issued in 2001 following the detection of polycyclic aromatic hydrocarbons (PAHs) in certain olive-residue oils. There are now technical solutions to deal with this problem, including filtering residue oil using activated charcoal.

4. THE MARKET ORGANISATION IN THE OILS AND FATS SECTOR

4.1 Introduction

When it was set up in 1966, the main aim of the market organisation in the oils and fats sector was to guarantee Community olive growers a fair income by supporting their production and encouraging the use of olive oil in the Community.

Council Regulation No 136/66/EEC, which has been the basis of the scheme since the beginning, has been amended on many occasions over the years, most notably in 1987, when the Community became a net exporter as a result of the accession of Spain and Portugal, and in 1998, when market conditions made necessary substantial changes to the aid system. The 1998 reform sought to safeguard and improve quality and stabilise the incomes of olive growers, the dynamic balance of the market and the organisation and supervision of the sector. It also entailed streamlining the scheme, concentrating financial resources on production aid and distributing the budgetary stabiliser among the Member States in the form of national guaranteed quantities (NGQ).

In addition, in 1998 the Commission launched a series of measures designed to improve the mechanisms for supervising and managing the scheme, including the revision and evaluation of the statistical data in the sector, the obligation to record new planting, a general strengthening of the procedures for the inspection and penalising of those in contravention and a new method of estimating yields.

The 1998 reform set 2001 as the deadline for a thorough review of the scheme, although finally this had to be deferred until 2004, owing to the lack of information on the sector. In order to ensure that work on establishing the geographical information system (GIS) on olive-growing was completed in good time, the Council decided that, from 1 November 2003, aid would not be granted for production from olive trees and areas not registered in an olive GIS.

A whole series of measures arising from "the quality strategy for olive oil" presented by the Commission in 2001 were also introduced: changes to the classification of the categories of olive oil, improved rules on labelling in order to provide more precise information to the consumer and the development of arrangements to finance the work of the organisations of operators in the fields of market monitoring, the impact of olive growing on the environment, quality improvement and certification and protection of quality through a levy on production aid.

4.2 Aid for the production and consumption of olive oil

4.2.1 The first years of the scheme

Historically, support for the sector at the level of the internal market has comprised two main types of aid: that granted to the producers (*production aid*), the aim of which was to help producers secure a fair income by supplementing the income obtained from the sale of their products, and that granted to the marketing of olive oil (*consumption aid*), which sought to maintain the competitiveness of olive oil in relation to other vegetable oils. This aid was granted to olive oils put on sale in the Community in containers of a maximum of 5 litres and packed in an approved establishment.

This approach followed the principle that the harmonious development of the olive-growing sector required measures both to support production and encourage consumption. In practice, each of the two aids acted on both levels: production aid also had a certain positive effect on the stimulation of demand, while consumption aid, insofar as it stimulated consumption, contributed indirectly to supporting the prices received by the farmers for their oil.

Initially, the olive oil scheme was based on a series of institutional prices, fixed annually by the Council, with a system of monthly increases, from which the amounts of aid were calculated. Thus, *the production guide price* was supposed to be that providing a fair income to growers while *the representative market price* (abolished since the 1998/99 marketing year) was that which should theoretically have disposed of production, with particular regard to the prices of other oils. *The intervention price* had to allow a minimum income for producers, while *the threshold price* (abolished since the 1993/94 marketing year) was intended to ensure that the selling price of imported oil was aligned with the indicative market price, so ensuring the protection of Community output.

Although this system allowed flexibility in the face of changing market conditions, it did not guarantee budget neutrality and threatened to encourage the development of the sector without regard to market signals.

From the end of the 1970s, controlling Community expenditure arising from the market policies became a major concern and shaped the regulatory provisions for olive oil adopted during those years. The features of the olive sector (permanent crop, alternation of production levels, a fragmented productive sector, lack of reliable source data, etc), combined with an aid system based on the volume of production made this task particularly difficult.

4.2.2 *From 1979 to 1986*

The accession of Greece in 1979 made the Community almost self-sufficient in olive oil, which required some changes to the rules. Thus, for a ten-year period (1978-87), the planting of olive trees was prohibited. However, application of this provision had to cope with considerable inspection difficulties, arising in particular from the lack of data on the location of new plantings. Since, furthermore, it was not practicable to identify the olives which might have come from the new plantings at the level of the mill, in practice it was scarcely possible to exclude this production from aid.

4.2.3 *From 1986 to 1998*

With the accession of Spain and Portugal in 1986, the Community became a net exporter of olive oil, accounting for 75% of world production. This new situation led to the revision of an aid scheme which was clearly no longer appropriate and which, if retained without adjustment, would have risked an uncontrolled increase in production and Community expenditure and hence the collapse of the scheme.

To respond to that situation, a mechanism to control production and stabilise the budget was established from the marketing year 1987/88 with the introduction of a maximum guaranteed quantity (MGQ) of 1 350 000 tonnes for Community output. In addition to a proportional reduction in unit aid, overshooting the MGQ triggered a mechanism of cumulative reductions (up to 3% per marketing year) in the intervention price. If the

MGQ were not exceeded, the remaining part was carried over and added to that for the following marketing year. Since it considered this a sufficiently dissuasive mechanism to prevent an increase in production out of line with market signals, the Council scrapped the ban on new planting.

Although the MGQ succeeded in capping Community expenditure, after a few years, it proved ineffective in actually controlling Community output because:

- it applies to all producers in the same way, independently of their contribution to exceeding the MGQ;
- it penalises more heavily olive-growing holdings and regions where profitability is low or which are unable to increase their productivity. Over the years, this has meant that the most economically successful holdings have increased their share in the distribution of aid at the expense of the more marginal holdings and regions,
- it is not very useful for discouraging new planting. There is a period which is variable but not less than 10 years between the moment of planting and entry into full production. The decision to plant is therefore taken in circumstances, in particular as regards prices, which can be very different from those which will exist at the time when that production is to be sold.

At the same time, the difficulties in inspecting the management of consumption aid which arose resulted in a gradual reduction in its unit amount, accompanied by an equivalent increase in production aid. Thus, for the marketing year 1995/96, production aid was fixed at €12/100 kg, while in 1987/88 it had been €77/100 kg. This did not entail any fall in consumption which, on the contrary, continued increasing, so calling into question the usefulness of this aid. This low amount also created new difficulties since:

- the funding involved no longer justified inspections which consumed a major part of the resources of the inspection agencies;
- aid had become not very important to the operators who, in a growing number of cases, preferred not to apply for it in order to avoid inspections. This meant that consumption aid had lost much of its justification as a means of monitoring the quality of the olive oils consumed in the Community.

While it was becoming obvious that marketing subsidies were no longer a suitable instrument for attracting consumers to a quality product like olive oil, the positive results that the promotion policy were beginning to show suggested that efforts to stimulate demand for olive oil needed to be redirected along these lines.

In market terms, the impact of the accession of Spain and Portugal was absorbed through long transition periods during which aid increased gradually in these two Member States. Consumption aid was aligned with that in the other Member States during the marketing year 1993/94, and production aid during the 1995/96 marketing year.

The sharp increase in production aid encouraged an intensive modernisation of the productive sector from the end of the 1980s in Spain, but also in the other producer Member States. In certain cases, that resulted in the clearing of marginal land not very suitable for growing olives or to the more intensive farming of plots susceptible to

erosion. The very intense drought suffered by the Iberian Peninsula in 1994 and 1995 delayed the arrival on the market of the fruits of these investments by two years and in fact until the 1995/96 marketing year the penalty for overshooting the MGQ was never higher than 10% of the full amount of aid.

It was from the marketing year 1996/97 that the real production capacity of an increasingly modernised sector revealed its potential. Thus, while during the previous three marketing years Community output eligible for aid had been around 1.4 million tonnes, it now rose to 1.9 million tonnes in 1996/97 and to 2.3 million tonnes in the following year. Under the MGQ, for the marketing years 1996/97 and 1997/98, Community olive growers received respectively 69.94% and 56.38% of the full aid. In addition, the high level of supply affected the prices obtained by producers, which fell.

Developments in output eligible for aid* (tonnes)

	Spain	Italy	Greece	Portugal	France	Total
1987/88	770 000	742 500	321 718	38 000	4 088	1 876 306
1988/89	408 000	390 000	319 231	24 570	1 200	1 143 001
1989/90	573 000	585 000	316 372	35 100	2 825	1 512 297
1990/91	700 000	148 000	170 869	20 000	2 310	1 041 179
1991/92	610 000	650 000	430 147	34 992	3 400	1 728 539
1992/93	636 000	410 000	314 432	17 075	1 840	1 379 347
1993/94	588 000	550 000	323 161	27 486	2 407	1 491 054
1994/95	583 000	458 664	389 904	29 220	2 440	1 463 228
1995/96	375 000	625 000	445 000	34 000	2 450	1 481 450
1996/97	986 700	410 000	494 218	37 000	2 360	1 930 278
1997/98	1 147 000	712 847	492 364	39 600	2 480	2 394 291
1998/99	899 991	452 286	562 493	33 936	2 364	1 951 070
1999/00	747 000	791 595	463 090	47 380	2 681	2 051 746
2000/01	1 074 970	540 864	479 066	25 444	2 247	2 122 591
2001/02	1 562 531	711 076	404 619	33 613	2 591	2 714 430

* Including olive-residue oil and, since 1998/99, table olives.

In 1997 the Commission submitted an options paper¹⁴ analysing the malfunctioning of the system and outlining two scenarios for the future of the scheme: improvement of the existing mechanism or its replacement by aid per tree. Following widespread debate, this document finally resulted in the reform of the scheme in 1998.

4.2.4 The 1998 reform

The adjustments to the aid scheme made in the 1998/99 marketing year comprised a reduction in the unit amount of production aid, which was fixed at €132.25/100 kg, and an increase in the MGQ to 1 777 261 tonnes, divided into national guaranteed quantities (NGQ)¹⁵ so that the consequences of any overshooting would fall on the Member States responsible. If production in a marketing year is lower than the NGQ, 20% of the difference is distributed proportionally among the Member States which exceeded their NGQ, while the remaining 80% is carried over to the NGQ of the Member State in question for the following marketing year. The division of the MGQ therefore rendered the amount of aid production in each Member State almost completely independent of developments in production elsewhere. However, the disadvantages of a system of guaranteed quantities continued within the Member States.

In order to secure a degree of budget neutrality, the increase in the MGQ approved in 1998 was accompanied by several measures, including a reduction in the unit amount of aid and the abolition of consumption aid. This decision had no negative impact on sales of olive oil in the Community, which continued to increase.

¹⁴ COM (97) 57 final.

¹⁵ Spain: 760 027 tonnes; Italy: 543 164 tonnes; Greece: 419 529 tonnes; Portugal: 51 244 tonnes; France: 3 297 tonnes.

The 1998 reform concentrated the bulk of resources on support for production by eliminating other aid. Only the production refunds aiming to encourage the use of olive oil for the manufacture of certain preserves were maintained, primarily to support the Community processing sector in the face of competition from certain other countries which could obtain supplies of olive oil at considerably lower prices. After 1998 the amount of these refunds was kept at a steady €440/tonne, for quantities of between 50 000 and 70 000 tonnes according to the marketing year, involving budgetary expenditure of some €25 million. Italy and Spain are the main beneficiaries of this aid.

From the 1998/99 marketing year, the Council reimposed restrictions on new plantings, so that those as from May 1998 were not entitled to aid. This double mechanism of placing a ceiling on production aid with the NGQ and a ban on new plantings constituted the reforms essential for sound market management pending collection of the information necessary for a more in-depth reform of the scheme in 2001.

In that year, the Council decided to extend the existing system until the end of the 2003/04 marketing year, mainly because of the lack of adequately detailed information on the number of olive trees and the areas used for olive oil production on each holding.

In three of the four marketing years which have elapsed since the 1998 reform, the level of Community output eligible for aid has stood at around 2 million tonnes, partly thanks to the alternation of good harvests in Italy and Spain. Despite low production in Greece, the 2001/02 marketing year saw a historical record of 2.7 million tonnes eligible for aid in the Community owing to a very good harvest in Italy and exceptional production in Spain. Prices, although low, remained relatively constant throughout this period, thanks to increasing consumption, in particular in new markets.

4.3 Other provisions concerning incomes and prices on the internal market

4.3.1 Aid and direct support

(a) Small producers

The olive oil sector is characterised by a large number of small holdings, generally with very low profitability margins and hence particularly vulnerable to annual variations in production.

From the beginning of the scheme, it appeared logical to grant small producers special protection by means of a separate aid scheme. In addition, this made it possible to focus inspections on the largest producers, which account for the bulk of production. Initially, small producers were regarded as those producing less than 100 kg of oil, a threshold which, in successive stages, rose to 500 kg.

Production aid for small producers was granted on a flat-rate basis, calculated according to the number of olive trees and the average yields in the production area over the last four years, which gave a certain stability to their incomes in the face of the weather variations. The amount of unit aid also incorporated an extra premium in comparison to large producers (€151.48/100 kg compared with €142.20/100 kg since the 1995/96 marketing year) and they were not penalised in the event of the MGQ being overshot.

The system posed serious inspection difficulties because of the coexistence of aid in proportion to quantity for the large producers and fixed-rate aid for the small producers,

the inspection of whose production was hindered by a number of them transferring their olives to large producers so that the same product could receive the premium twice. These fraudulent practices increased during the 1990s, in parallel with the increase in the amount of production aid. As a result of these inspection difficulties, the "small producers" scheme had to be abolished in 1998. Since then, small producers, and particularly those in marginal areas, have seen their profitability gradually undermined by low prices, resulting from the pressure of a constantly increasing supply.

(b) Table olives

Most varieties of olives used as table olives may also be used for oil production. Because of this possibility, production aid for olive oil provided a safety net for producers of table olives who, in the event of low prices, could always divert their olives to oil production. Some Member States considered however that this system was discriminatory in the case of table olives, arguing that, in order to obtain supplies on the Community market in table olives, processors had to pay a premium equivalent to the amount of production aid for olive oil.

Since the 1998/99 marketing year, the Member States have been able to grant direct aid to table olive producers under their NGQ. This is calculated on the basis of an equivalence coefficient proposed by the Member State that is designed to reflect an economic balance between the aid received by olive oil producers and table olive production instead of the oil content. At present, all the producing Member States grant aid for table olives with equivalence coefficients ranging from 11.5 to 13 kg oil/100 kg of olives.

(c) Levies on production aid

Over the years, several levies have been applied to production aid in order to finance the olive cultivation register, the quality improvement programmes and the running of producer organisations and their associations. All in all, the aggregate amount levied has diminished in time, falling from 4.6% for the 1994/95-1996/97 period to 2.2% from the 1998/99 marketing year, when the Council decided to retain levies only for quality improvement measures and for producer organisations. Levies on consumption aid ceased to exist in 1998, when the aid itself was abolished.

4.3.2 *Provisions on storage*

The biological alternation of the olive tree has the effect that years of large harvests and low prices are normally followed by average harvests with higher prices. In order to mitigate the effects of these variations on the olive growers' incomes, since the beginning of the market organisation for olive oil there has been a system of intervention purchases, supplemented by a support mechanism for private storage which guaranteed a minimum price. Since, in the context of a market which was in balance in terms of aggregate figures for a number of years, purchases were carried out in periods of low prices followed by sales of stocks by auction in subsequent years, intervention did not as a whole impose a significant burden on the Community budget.

Improved farming techniques, in particular the extension of irrigation and progress in pruning trees and the use of fertilisers, have helped the sector achieve some reduction in year-on-year variations in production, and hence in prices. Moreover, as it gradually

increased during the 1990s, production aid became a kind of safety net for olive growers' incomes, so making intervention purchases less vital. For example, whereas stocks reached 395 000 tonnes during the 1987/88 marketing year, they stood at 194 000 tonnes in 1997 and 113 000 tonnes in the following marketing year.

In these circumstances, the maintenance of a system of intervention buying-in was no longer really necessary, since it was likely to encourage higher production in defiance of market signals. In the long term, it could endanger the balance between supply and demand in the sector. This balance is quite stable but difficult to recover when it is lost because of the structural rigidity of production typical of perennial crops.

The mechanism of intervention buying was abolished in 1998. The possibility of support for private storage was retained, with some amendments, so that this became a crisis management instrument. The activating price for private storage has been set since then at 95% of the intervention price in the marketing year 1997/98, i.e. €1 778.8/tonne for extra virgin olive oil, €1 709.9/tonne for virgin olive oil, €1 664.0/tonne for ordinary olive oil and €1 487.3/tonne for lampante olive oil. The market has been relatively stable since 1998 so this instrument has been used only once since then (marketing year 2000/01), when it attracted few operators because they preferred to await the higher prices which resulted simply from the notice that the mechanism would be opened rather than having their olive oil blocked in storage for a year. Thus, only 38 175 tonnes were withdrawn out of a total of 80 000 tonnes in Spain, and 2 390 out of a total of 20 000 in Greece.

4.4 Provisions concerning trade with the rest of the world

When the market organisation in the oils and fats sector was established, the trade arrangements comprised an import and export licence system, a Common Customs Tariff, a variable levy on imports, and export refunds.

The inward processing system enabled the European industry to maintain its position on the export markets, particularly when annual Community production was low and the supply of external markets exclusively from olive oil of Community origin could have jeopardised Community exports. In the long term, the inward processing permitted the retention of outlets of benefit to the whole sector.

Despite their progressive reduction under the World Trade Organisation (WTO) agreements, the customs duties on olive oil remain high. They currently amount to €122.6/100 kg for lampante oils, €124.5/100 kg for virgin and extra virgin olive oils, €134.6/100 kg for non-virgin olive oils, €130.3/100 kg for olive-residue oils and €13.10/100 kg for fresh or preserved olives.

The accession of Spain and Portugal in 1986 meant that Tunisia was likely to lose its traditional trade in olive oil with the Community. The cooperation agreement signed by the Community and the Republic of Tunisia in 1987 gave it an export quota to the Community of 46 000 tonnes at a very much reduced customs duty of €7.81/100 kg. Under the new Euro-Mediterranean agreement concluded with Tunisia in 2001 it was agreed that customs duties would be reduced to zero on a quota which would gradually be increased up to 56 000 tonnes from 2005. Under a similar agreement, an annual duty-free quota of 1 000 tonnes was granted to Lebanon in March 2003.

The aim of the export refunds is to bring Community production prices down to the level of those on international markets. The successive enlargements have made the Community the main player on the world market and the price of its olive oil has become the international benchmark. In fact, olive oil mainly of Community origin is sold on the markets of the importing non-member countries at a price equal to or higher than the Community price. The growth of the export market is therefore a problem of information and winning over new consumers of olive oil rather than a price problem.

In addition, under the WTO agreements, the quantities which can benefit from export refunds have gradually fallen from 140 500 tonnes in 1995/96 to 115 000 tonnes as from 2000/01, at a maximum cost of €54.3 million. With the volume of exports reached from the end of the 1990s, this restriction threatens to create two parallel markets, one for oils with a refund and the other for those without.

In these circumstances, although the 1998 reform retained the refund mechanism, the Commission fixed an amount which since then has remained constantly at zero. This policy has resulted in no decline in exports, which have continued to rise vigorously, from 227 000 tonnes in 1997/98, the last marketing year before the refund rate was set at zero, to 324 000 tonnes in 2001/02.

Finally, on an international level, Community olive sector policy is framed via the International Olive Oil Council (IOOC). The IOOC was created as a consequence of the entry into force of the 1956 International Olive Oil Agreement with the aim of encouraging international cooperation, modernising olive-growing, facilitating international trade in olive products and cooperating in standardising international trade in olive products. The main activity of the IOOC in budgetary terms (almost half of its budget of approximately €10 million), is the generic promotion of olive oil in non-producer non-member countries. Hitherto, this has resulted in a definite increase in sales in the countries concerned. Community participation in the IOOC is governed by the 1986 Agreement and its successive extensions.

The IOOC has become a real Mediterranean forum, encouraging the exchange of information and coordination of the olive-growing policies of the main producers of olive oil and table olives. Besides joint reflection on the economic situation and a sharing of ideas on the future of olive growing, the IOOC has also developed marketing standards for trade which seek to guarantee the quality and authenticity of oils. It has also carried out various cooperative projects relating to the collection of genetic varieties and the conduct of seminars and training for those working in the sector. However, a comprehensive restructuring of its administration had to be launched in 2002, temporarily reducing its activities.

4.5 Improving quality, promotional activities and the structure of the sector

4.5.1 Quality

Because its price is higher than that of other common vegetable oils, the consumer expects olive oil to be of impeccable quality.

However, production aid is the result of multiplying unit aid by the quantity of virgin oil produced (independent of its category, whether extra virgin, virgin or lampante) and

there is therefore no direct encouragement for the producer to make an effort to improve the quality.

In addition, the quantity of olive oil eligible for production aid is increased by a flat 8% because of the oil remaining in the oil cake which is extracted at a later stage using solvents. The same amount of aid is therefore granted for olive-residue oil, although it is of a lower quality, and for virgin olive oils. Such use of a flat-rate amount avoids the cumbersome inspection procedures which a premium paid on the quantity of olive-residue oil actually produced would have required. Currently, the rate of 8% often overestimates the oil content of the olive residue because new methods of centrifugal extraction, which are very widespread in the sector, make it possible to extract more from the olive paste and leave a lower oil content in the olive residue.

The new 2001 legislation¹⁶ adopted the designations and definitions of the olive oils and of the olive residue, which are obligatory for the marketing of these products inside the Community and in trade with other countries. It also listed the categories which can be marketed at retail level to final consumers.

As regards the composition of olive oil, Commission Regulation (EEC) No 2568/91 specifies the characteristics of olive oils and olive-residue oils, as well as the methods of carrying out analyses for authenticity (absence of mixtures with oils other than olive oils) and a number of quality standards. The criteria and the methods of analysis are updated regularly, in coordination with the IOOC, to take account of technical progress. The technical agreement recently concluded between the Codex Alimentarius, the IOOC and the Community has harmonised from 2003 the standards for olive oil and olive residue which apply in both Community and international trade.

The Community is aware of the key importance of encouraging quality in developing the sector and in 2001 launched the "quality strategy for olive oil"¹⁷, comprising a series of measures in several fields:

- combating fraudulent mixtures and the intrinsic improvement of the product (improving the analytical parameters for the categories of virgin oils and in particular reducing the maximum acidity thresholds, updating methods of analysis, making it compulsory to sell at retail level in sealed containers of a maximum capacity of five litres, etc);
- better information for consumers (compulsory inclusion in the labelling of a description of the category corresponding to the oil in question, regulation of non-compulsory information, indication of olive oil content in foodstuffs stressing on the label the presence of olive oil, etc).

This Commission work programme was completed in 2003.

The general consequence of the modernisation of the producing and manufacturing sectors was an improved quality of olive oil. As for other agricultural products, it is mainly the market which has to remunerate the farmers' efforts to obtain quality products, but given the wide range of categories of olive oil on sale, it is sometimes difficult for a

¹⁶ Council Regulation (EC) No 1513/2001 of 23 July 2001 amending Regulation No 136/66/EEC.

¹⁷ COM (2000) 855 final.

consumer who is not well-informed to recognise quality products, particularly in the non-producing countries. The development of quality therefore constitutes an essential condition if consumer demand is to become the main incentive for producers to adopt an approach aimed at improving quality.

4.5.2 *Promotion*

Traditionally, the use of olive oil has been confined essentially to producer regions. Only since the early 1990s has it started to be consumed elsewhere in significant quantities, although to a much lesser extent than in the producing Member States.

Its higher production costs undoubtedly make olive oil more expensive than other vegetable oils. On average throughout the 1990s, the price ratio between olive oil and vegetable oils (rape-seed, sunflower, soya) was 5-4 to 1. However, olive oil has special organoleptic and nutritional qualities which consumers like and for which they are ready to pay a higher price.

Rising demand in recent years both inside and outside the Community has taken place against a background of reduced price support (consumption aid, export refunds) and an increase in promotional activities. This finding seems to confirm the idea that the promotion of olive oil is a key element in stimulating demand and that the Community's promotion policy is a vital element for the future of this sector.

Since 1981, the Community has been carrying out promotion campaigns for olive oil inside the Community. Initially, these aimed to reverse the downward trend of consumption in the producing Member States where olive oil had been partially replaced by other less expensive vegetable oils. As from 1991, promotional measures were also undertaken in non-producing Member States. These were managed by the Commission and financed, until the 1993/94 marketing year, by a levy on consumption aid. Since 1998, costs have been borne by the Community budget (€35 million for the VIIth promotion campaign, 2000-02).

As from 2003, the promotion of olive oil and table olives has been included in the general scheme for the promotion of agricultural products (Council Regulation (EC) No 2826/2000), part of which (30%) is financed by the operators themselves. Its weak structure means that the olive sector has difficulties in organising itself effectively to profit from a mechanism which is nevertheless essential for its future.

The generic promotion activities of the IOOC in non-member countries, financed essentially by a voluntary contribution of €5 million a year from the Community, have helped encourage higher consumption of olive oil in non-traditional markets where it was not very well known. These include the United States, Canada, Australia and Japan where, in each instance, the start of the IOOC promotional activities saw a significant increase in the pace of exports. Since 2002 the Community financial participation to the IOOC promotion budget has been confined to the compulsory contribution provided for by international agreement (€ 0,5 million per year). After the completion of IOOC reshuffling, the Community may renew its voluntary contribution to the IOOC promotion budget.

4.5.3 *Structuring of the sector*

From the beginning of the olive oil regime, the fragmented nature of the producing sector and the very large number of aid recipients have posed particular management problems. The basic Regulation provided for the formation of producer organisations and associations thereof whose principal functions were to group aid applications, check them and pay production aid. To finance these organisations, the Regulation provided for a variable levy on production aid. Since the 1994/95 marketing year, this rate has been fixed at 0.8%.

With the reorientation of Community policy to concentrate on quality throughout the sector, the role of the organisations has had to be widened. Thus recently a mechanism was introduced to allow the financing, through a maximum levy of 3% on production aid, of the work programmes of organisations of olive-growing operators. These activities cover market monitoring, enhanced environmental impact of olive growing, improved quality of olive oil production, and quality certification and protection.

4.6 **Budgetary stability and the control of production**

4.6.1 *Problems involved in checking production aid*

From the point of view of management, the olive sector presents particular difficulties. Besides climatic problems, the biology of the olive-tree means that production is characterised by a substantial alternation in the volume of the harvests. Although new farming techniques have helped reduce this phenomenon, it still substantially affects output.

In addition, production aid based on the quantity produced by each grower is difficult to check because there is inevitably no clash of interests between the producer and the mill in declaring excessive figures for production. This situation is exacerbated by the large number of recipients and mills and the way in which olive groves are split up, often being scattered over a number of plots.

Direct sales and consumption on the farm, which account for large quantities in Italy and Greece, further impede checks because mills do not keep olive oil stocks, and checks are carried out on stock accounts without there being any means of physically checking whether the olive oil exists.

4.6.2 *Inspection agencies*

Council regulation (EEC) No 2262/84 has obliged Member States producing more than 3 000 tonnes of olive oil to set up a specific agency to be responsible for controlling Community aid in the olive oil sector. The operating costs of the agencies have been covered by the Community budget (at a 100% rate the three first years and 50% subsequently). The Council decided that the Community would pay a 50% financial contribution towards eligible expenditure until the end of 2004/05 marketing year.

The inspection agencies draw up their work programmes on the basis of monitoring legislative obligations and the specificities of the sector in each Member State. From 1998, work of the agencies is focused on mills, considered to be the most sensitive element of the system in terms of risk of irregularity. From 1999, the fixing of regional yields as well as the inspection of new plantations and of table olive processing facilities have replaced the monitoring of the consumption aid, abolished in 1998.

Inspection rate per operator type

	Spain			Italy			Greece			Portugal		
	M	PO	P	M	PO	P	M	PO	P	M	PO	P
2000/01	66%	30%	0,15%	32%	8%	0,03%	54%	25%	0,33%	61%	70%	1,21%
2001/02	59%	39%	0,13%	33%	8%	0,03%	45%	25%	0,33%	63%	54%	1,14%

M : mills ; PO : producer organisations ; P : producteurs

The agencies' costs depend essentially on the number of subjects to be inspected (the legislation lays down minimum percentages) and the salaries in the Member State concerned, since an average of over 80% of the agencies' expenses are accounted for by staff salaries. Over the 1995/96-200/01 period, the cost of the inspection agencies for the Community budget accounted in average for 0.56% of the total grants for the sector. The relatively high cost of inspections in Portugal is the result of the smaller size of its agency, which has to bear proportionately higher fixed costs.

EU financial contribution and percentage over the aid granted

	Spain		Italy		Greece		Portugal		TOTAL
	€	%	€	%	€	%	€	%	€
1995/96	1 953 424	0.26	6 569 932	1.12	1 855 908	0.36	678.673	1.63	678.773
1996/97	2 024 598	0.38	6 480 965	0.67	2 039 802	0.34	777.582	1.54	777.671
1997/98	2 284 069	0.22	6 560 246	1.23	2 052 977	0.38	1.043.555	2.12	1.043.607
1998/99	2 450 270	0.26	6 628 995	1.20	2 065 210	0.49	1.140.782	2.43	1.140.876
1999/00	2 701 699	0.28	6 910 583	1.01	2 220 899	0.44	1.109.563	2.50	1.109.659
2000/01	2 849 858	0.29	7 076 682	0.85	2 345 268	0.40	1.120.980	1.93	1.121.114
TOTAL	14 263 918		40 227 403		12 580 064		5 871 135		5.871.700
%/EU	19.56		55.15		17.25		8.04		100

The agencies notify the Member State of the irregularities recorded and propose the appropriate penalties or administrative sanctions.

As regards the mills, the main source of irregularity recorded by the agencies relates to improper bookkeeping, increases in output and a delay in transmitting certain information to the inspection agencies. In the case of the producer organisations and their associations, most of the irregularities are connected with inadequate checks on their member producers and shortcomings in the reports on their activities. At producer level, the irregularities occurring most frequently concern cultivation declarations and increases in the quantities of olive oil produced.

Irregularities notified by the agencies, by type of operator

	Spain			Italy			Greece			Portugal		
	M	PO-A	P	M	PO-A	P	M	PO-A	P	M	PO-A	P
1995/96	308	15	175	588	19	672	478	256	2.368	142	42	313
1996/97	101	25	129	437	5	284	500	442	3.216	161	34	510
1997/98	53	1	145	559	8	200	252	501	4.036	107	42	522
1998/99	301		167	1.416	12	72	225	461	3.018	325	24	301
1999/00	384		218	1.922	29	114	271		3.153	294	31	272
2000/01	529	2	112	1.561	13	110	283	60	67	349	33	214
2001/02	323	6	175	1.423	30	214	437		1.068	118	27	198

(1) : mills ; (2) : producer organisations and their associations; (3) : producers

By way of example, over the 2001/02 campaign the most relevant proposals by the inspection agencies were the following:

- In Spain, the agency sent warnings to 280 mills and proposed withdrawing approval from 9 mills and 2 associations, and recovering € 2 608 800 wrongfully paid out.
- In Italy, the agency proposed withdrawing approval from 302 mills and 3 organisations, recovering € 595 589 which had been wrongfully paid and imposing administrative penalties totalling € 613 723.
- In Greece, the agency proposed withdrawing approval from 130 mills, fining 306 others for failing to meet the deadlines for transmitting monthly data, and imposing penalties totalling € 1 135 581.
- In Portugal, the inspections carried out resulted in the agency proposing 73 withdrawals of approval from mills, 30 aid refusals and 168 corrections in the amounts paid to producers.

The imposition of penalties falls within the competences of national authorities. Based on informations previously transmitted by the agencies, during the 2001/02 campaign the competent national authorities have proceeded as follows:

- In Spain, the Autonomous Communities withdrew approval from 23 mills (procedure initiated in the case of 7 other mills) and requested the reimbursement of aid totalling € 2 226 633.
- In Italy, national authorities withdraw approval from 41 mills while 139 other cases are still being processed. In 2002 responsibility for imposing penalties was transferred to the regions.
- In Greece, authorities responsible imposed fines ranging between € 1 467 and € 29 347 on 81 mills, and withdrew one approval.
- In Portugal, the Member State acted upon all the proposals by the agency.

To sum up, inspection agencies have considerably contributed to improve the transparency and the fairness of the support regime by identifying a certain number of irregularities. Nevertheless, national procedures for sanctions are too cumbersome to be actually dissuasive. From 31 octobere 2005 the control system for olive oil will be similar to that for other crops and the Community financing for the olive oil inspection agencies will no longer be needed.

4.6.3 *Control mechanism*

Since 1998 the Commission has again reinforced the entire control mechanism, with the revision and evaluation of the statistical data in the sector, the obligation to register new planting, control of the productive compatibility of aid applications on the basis of a new method of estimating output (the usefulness of which is however confined to extreme cases in view of the heterogeneous nature of olive yields), and the obligation to submit 30% of mills to a thorough check and 20% to a brief check each year.

The Commission has also made it compulsory for mills to send in a monthly statement and to transmit certain information every day. Serious irregularities have been classified (over-declaration of the quantities produced, wrong category of oil declared, information transmitted late) and must be penalised, without prejudice to other measures, by withdrawing the mill's approval. The imposition of sanctions is still in fact the responsibility of the Member States. In addition, the Commission has recently established a system whereby payment of the advance on aid may be deferred when a statistically dubious situation has not been clarified. It has adopted a mechanism making it possible to deduct from a holding's aid application a flat-rate quantity of oil corresponding to the new olive trees which are not eligible for aid. Attempts to track the destinations of olive oils in the case of farmers producing over 200 kgs have not been satisfactory.

Despite these efforts, which have resulted in the olive sector being one of the most strictly controlled under the CAP, the degree of plausibility achieved by the control system is not yet entirely satisfactory.

Although with the NGQs the impact on the Community budget is limited to situations where the NGQ is not reached (hypothetical case which for the three large producing Member States arises infrequently owing to the increase in production in recent years), the problem of fraud calls into question the fairness of the distribution of aid. Thus, the fraudulent inflation of declared production affects the aid received by growers who declare the quantities actually produced.

Knowledge of the productive assets of each olive grower, and the number of olive trees they possess in particular, is a vital factor in the inspection system. It requires a comparison of the data declared by the producers in their aid applications with information from an objective source, such as aerial photography for counting olive trees. This is the principle underlying both the former olive cultivation register and the olive GIS which has replaced it.

The preparation of the olive cultivation register decided on in 1975 was financed by a levy¹⁸ on production aid until the marketing year 1997/98. It has however had to cope with major technical difficulties connected with the specific features of the sector and the lack of land registers. By 1998, only Italy had completed its register, which, however, posed major problems as regards updating, while work was incomplete in France and Spain and had hardly started in Greece and Portugal.

In these circumstances, the Council decided in 1998 to redirect the work of the olive cultivation register towards a GIS, which was simpler because it targeted applicants for aid (not the owners of the land) and was limited to the olive groves for which an application had been made. Moreover, the information gathered was restricted to that required for inspection purposes. The completion of the olive GIS has been cofinanced by the Community. If there is no GIS, the legislation requires an increasing number of on-the-spot inspections (up to 10% of the aid applications from the marketing year 2000/01) in order to ensure a minimum plausibility level. To encourage completion of the work in good time, the Regulation stipulated that as from 1 November 2003 olive trees and corresponding areas not listed in a GIS would not benefit from production aid.

The quality of the olive oil released for consumption in the Community is checked on the basis of Community legislation (standards, criteria and quality parameters), but is the responsibility of the competent national authorities, who are obliged to draw up a system of penalties in this connection.

¹⁸ From the 1992/93 marketing year, 2.4% on production aid.