

# Summary of main comments, conclusions and recommendations

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This study is an evaluation of the common organisation of the olive oil market over the period 1995-2000. Following the specification issued by the Commission, it endeavours to answer a series of thirteen evaluatory questions covering the impact of the market-organisation regime on the following: the supply of olive oil in the European Union; internal and external demand for this product; market equilibrium; producers' income, as well as cross-cutting issues such as how the sector is organised, environmental impact and development in olive-growing areas.

## **From Regulation No 136/66 to the 1998 reform**

Community olive-oil policy began with a 1966 regulation on oilseeds. At that time only one of the Community's six members - Italy - was a significant olive-oil producer, making the EEC a net importer of olive oil. This situation changed radically with the accession of Greece in 1981 and Spain and Portugal in 1986.

Today the European Union is by some margin the world's foremost producer of olive oil. It accounts for three quarters of global output and a similar share of consumption, is the main outlet for the exports of the other producer countries in the Mediterranean basin as well as a major exporter to countries such as the United States, Brazil, Australia and Japan where olive-oil consumption is on the rise (Chapter 2).

However, despite this fundamental shift in the EU's position on the world market, the basic mechanisms instituted by the 1966 regulation, although frequently refined as regards implementation, basically remained unchanged until 1998 (Chapter 3). The main elements include:

- a number of fixed reference prices (target price, representative market price, intervention price, and threshold price) for purposes of Community intervention on the market;
- production aid (a subsidy per tonne of oil produced);
- consumption aid (a subsidy paid to bottling companies);
- arrangements for intervention storage that act as a minimum price guarantee for producers;
- protection for the internal market, firstly through a levy on imports, later by customs duty;
- refunds and export subsidies for exporters.

In 1986, these arrangements were supplemented by the addition of a Maximum Guaranteed Quantity - if Community olive oil output exceeds this quantity, the rate of production aid is reduced proportionally for all producer Member States.

The reform of 1998:

- abolished reference prices;
- abolished intervention storage, but kept open the possibility of granting Community aid for private storage under certain conditions;

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- abolished consumption aid, rates of which had been gradually reduced anyway in previous years;
- maintained export refunds in principle, although these have stayed at a zero rate since the reform;
- linked aid to actual output for all producers (previously, aid for small producers had been calculated by reference to output figures estimated using certain agreed methods);
- replaced Maximum Guaranteed Quantities with National Guaranteed Quantities specific to each producer country;
- decided that production from olive groves planted after 1 May 1998 would not be eligible for aid<sup>1</sup>.

### Robust production and demand

In the doldrums through much of the 1980s with growth of just 0.6% a year, olive-oil production in the EU's five producer countries bounced back strongly in the 1990s to record annual averages close to 5% (Chapter 4).

This upsurge was due not just to the increase in the land area under olive trees and increased planting densities in the groves, but also to more intensive cultivation involving greater use of irrigation, chemical fertilisers, plant-health treatment and improved care of the trees, as well as higher oil yields from milling.

Another factor stimulating output was production aid, which was gradually extended to cover Spanish and Portuguese growers and increased for Italian and Greek growers from □ 85.67 per 100 kg in 1987-88 to □ 142.20 per 100 kg in 1994-95, though by 1998-99 this had been trimmed back to □ 132.25 per 100 kg.

But the rise in output has also been sustained by healthy demand on both domestic and export markets. Indeed, there were fears that the increase in supply would at some stage hit the buffers of demand and trigger sharp price falls. But in fact the opposite happened - the severe droughts that decimated Spanish production in 1995 and 1996 caused olive-oil prices to soar in the mid-90s before ending the decade at levels similar to 1990.

The analyses of trends in volume and price show that in the main consumer countries, Italy and Greece, consumption of olive oil is relatively static and not overly sensitive to price fluctuations, whereas in the EU's non-producer countries demand is indeed price-elastic and showing vibrant growth, albeit from a very low base. Spain falls somewhere between these two extremes, being a high-consumption country with relatively high price-elasticity of olive-oil demand due to competition from seed oils, but also one where consumption of olive oil blends is being displaced by virgin oil and olive oil increasing its overall market share relative to other oils (Chapter 5).

The inward processing arrangements, which have the potential to make EU olive-oil exports to non-EU countries more competitive, were used mainly to sustain EU exporters' market share, while domestic demand in the EU tended to absorb its entire output of olive oil.

On the whole, thanks to the very high growth rates of the small markets (non-producing EU countries and foreign export markets), and the much more modest rises in consumption in the large producer and consumer countries, the extra supply could be absorbed without any obvious market

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<sup>1</sup> A similar provision had existed previously, but was removed after the accession of Spain and Portugal.

imbalances (Chapter 6). This is all the more remarkable given that the changes to the market-management regime for olive oil in the first half of the 1990s, followed by the 1998 reform, boosted supply-side subsidies at the expense of measures to stimulate demand, although the latter were admittedly of doubtful effectiveness.

### **Production aid makes a major contribution to farm incomes**

In assessing the incomes of olive-oil producers, the study based itself on the figures provided by the Farm Accountancy Data Network (FADN), the only source that provides sufficiently accurate and comparable data for this task. However, the analysis focused solely on the formal olive-oil sector, leaving aside the proliferation of part-time holdings that characterise the industry.

The findings show that production aid makes up an important part of farm incomes. On average in the 1995-99 period it contributed up to 27-30% (depending on the country) of gross product per 100 kg of oil, while 70-73% of this product was generated by sales of oil (Chapter 7).

Despite this, production aid is not a very effective instrument as far as the CAP aim of promoting fair incomes for farmers is concerned.

If the yardstick for fair incomes for olive farmers is that they should be equal to or greater than those earned by family members working on holdings in other sectors, the analysis demonstrates that olive farmers in Spain and Portugal have reached this level, although at very different levels of income in each country. By contrast, in Italy, and especially Greece, income per-worker on olive-growing holdings is lower than the average for all holdings.

But beyond these very general conclusions, closer examination of the results reveals a number of other trends:

- average national per-worker incomes for olive growers in the EU vary much more than national differences in standard of living;
- similarly, olive producers' incomes can also vary widely from one region to another in the same country;
- production aid does not have a major impact on income fluctuations for olive farmers;
- finally, the most significant influence on farm incomes, far greater than aid rates or even the selling price of oil, is productivity, which can be measured by the ratio of workers employed to acreage under olive trees on the holding.

This last observation illustrates the limited effect on farm incomes of direct production aid and the management mechanisms designed to balance the market. It shows that in this sector, as in the other sectors covered by the common agricultural policy, a large proportion of the total aid budget goes to a small number of big farms.

### **Environment, institutions and rural development**

Although not as environmentally harmful as some crops, olive cultivation - when practised intensively - can pose a threat to the environment. In addition, the waste water from the milling process needs to be treated and disposed of, and this can cause problems when production increases and becomes concentrated in certain areas. Production aid, one effect of which is to stimulate intensive olive production, concentrated in the most favourable areas, contributes to these problems to a certain degree.

## **Evaluation of the impact of the main market-management measures in the olive oil sector**

The primary function of the producer organisations created under the market-organisation regime for olive oil is to manage the distribution of production aid. This means that they encompass large numbers of olive growers of completely different sizes and types, from non-resident, part-time farmers to managers of major intensively farmed holdings, with correspondingly diverse, not to say divergent, interests. Such heterogeneous membership would at first sight appear to be a constraint on the producer organisations' capacity for initiative. But there are cases where they do act in their collective interest. And they are certainly helped in this by the fact that they were created to operate alongside and in harmony with traditional agricultural organisations.

Olive production spawns a broad range of related activities both up- and downstream, which, for technical reasons (or economic reasons, once the olive sector has attained a critical mass), tend to locate themselves in the vicinity of the olive groves. Olive-oil production can thus be a driver of economic and social development in the regions where it takes root, as witness the example of the Jaen region in Spain. And while the market-organisation regime does not include any instruments that could be used to promote this phenomenon directly, it does make an indirect contribution by supporting olive producers' income and guaranteeing market balance.

### **Recommendations**

#### **Change to per-hectare aid ...**

The main recommendation made by the study is for a change to be made from production-related to per-hectare aid. The prime benefit of this move would be to make market price the sole determinant of farmers' decisions on production, in line with the principle expounded in Agenda 2000 and reprised in the mid-term review of the CAP<sup>2</sup> that "direct income payments should not steer the production decisions of farmers".

#### **... at a flat rate for every farm in every region...**

If the assumption is that the primary purpose of direct aid is to boost farmers' income over and above what they make from the sale of their produce, in order to guarantee them a fair wage, it would be logical to set such aid at the same per-hectare rate for all olive-oil producers in all regions. This would mean that the aid granted to farmers producing in areas where conditions are difficult, or whose output is lower, would be greater in proportion to income obtained on the market.

#### **... with no differentiation according to quality...**

The different categories of olive oil are sold at different prices. A growing number of producers are applying to have their products marketed under the PDO and PGI schemes, which impose certain standards on production, but in return receive a higher price for their products. In other words, consumers (or more broadly, the market) have preferences which are expressed in the differing prices of the oils, based on quality. We see no need for the Commission to intervene in this mechanism.

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<sup>2</sup> Communication from the Commission to the Council and the European Parliament - Mid-Term Review of the Common Agricultural Policy, COM(2002)394 final, Brussels, 10 July 2002.

On the other hand, action from the Commission is required to create a system that gives consumers precise and reliable information, which is the same throughout the Union, on the properties of the oil they are buying, as well as to provide a guarantee that the product complies with food-safety standards. These measures are, incidentally, included in the proposals in the Commission's communication on its quality strategy<sup>3</sup>.

**... but making payment of the aid conditional on compliance with sound farming practices**

The environmental threat posed by olive-oil production can be considerably reduced if farmers adopt sound farming practices, standards for which could be built into the Codes of Practice for Olive Cultivation, with allowances made for the specific situation in different regions where appropriate.

Initially, the market-organisation regime for olive oil could help to identify such good practice. Later there could be provision for granting a per-hectare premium to olive-oil producers who implement these practices, on top of their basic per-hectare rate, and even, where the environmental impact is deemed particularly serious, to make payment of per-hectare aid conditional on implementation of these practices. This measure could be part of the obligatory dynamic modulation system proposed by the Commission, or be part of national modulation measures taken on the initiative of the Member States, as they are already able to do.

The other recommendations in the report are:

- improving the statistical data on the sector;
- clarifying the strategy deployed for Community olive-oil policy;
- studying the environmental impact of olive milling and other industrial processes used in the olive-oil sector;
- making provision in Community legislation for approval of mills to be conditional on the introduction of procedures for treating and disposing of waste water;
- helping sustain olive-oil production in areas vulnerable to desertification;
- continuing the inward processing regime, and considering opening up the market;
- continuing to grant aid for private storage in the event of a crisis;
- continuing the promotion campaigns.

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<sup>3</sup> Commission Report to the Council and the European Parliament on the quality strategy for olive oil, COM(2000)855 final, Brussels, 21 December 2000.