Opinion of the Economic and Social Committee on the 'Proposal for a Council Regulation (EC) amending Regulation (EEC) No 136/66 on the establishment of a common organization of the market in oils and fats' (1)

(98/C 235/18)

On 6 April 1998, the Council decided to consult the Economic and Social Committee, under Articles 43 and 198 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Agriculture and Fisheries, which was responsible for preparing the Committee's work on this subject, adopted its opinion on 12 May 1998. The rapporteur was Mr Quevedo Rojo.

At its 355th plenary session held on 27 and 28 May 1998 (meeting of 28 May), the Economic and Social Committee adopted the following opinion by 67 votes to eleven, with eight abstentions.

1. **Introduction**

1.0. The proposed amendments to the CMO regulations are part of the CAP reform discussed in Agenda 2000. Under these market organizations, the main EAGGF market-related expenditure is based on aid to the three large groups of continental products (COP crops, milk and beef). These three groups represent two-thirds of total EAGGF expenditure, having risen from 63,7 % in 1986 to 67,2 % in 1996. Traditionally these products have been the principal source of surpluses throughout the CAP's existence. In contrast, the three main Mediterranean products (wine, olive oil and tobacco) represent barely 10 % of total EAGGF expenditure and in the reference period their share has fallen from 13 % (1986) to 9,8 % (1996).

1.0.1. The CMOs in Mediterranean products should allow for the fact that in percentage terms these products have a greater impact on job-creation than the continental products. It should be stressed that urgency procedures have been followed for the amendment of the Mediterranean product CMOs which are discriminatory compared with the procedures applied for the continental products, both in their failure to consult the usual social and economic representatives and in the peremptory decisiontaking.

1.1. *The Commission proposals*

1.1.1. A two-phase reform, with the first phase (the transition period) lasting throughout the 1998/1999 and 2000/2001 marketing years, and the second phase starting on 1 November 2001.

1.1.1.1. The first phase:

— Increase in the MGQ from 1 350 000 t to 1 562 000 t.

— Break-down of the MGQ between the Member States as follows:

Spain	625 210 t	(40,0160 %)
France	3 065 t	(0,1962 %)
Greece	389 038 t	(24,9000 %)
Italy	501 175 t	(32,0770 %)
Portugal	43 915 t	(2,8107 %)

— Abolition of consumption aid.

— Abolition of aid to small producers.

— Abolition of the intervention mechanism and replacement with a private storage system.

— 1 May 1998 established as the deadline for new plantings eligible for aid, although exceptions would have to be made for trees planted after this date under modernization programmes approved by the Commission.

1.1.1.2. The second phase:

— Establishment of a reliable database of surface areas, number of trees and yields in order to plan the second phase.

— Declaration of the need for quality improvement and promotion measures, but which are neither specified nor provided for in the budget.

— Still no plans to ban blends.

— Repeal of the provisions on aid and the market regulation mechanisms laid down in Council Regulation (EEC) No 136/66 on the establishment of the market in oils and fats with effect from 1 November 2001.

2. **General comments**

2.1. *A two-phase reform*

2.1.1. The first phase constitutes a fully-fledged reform, though these policies do not necessarily have to be reflected in the second phase. The basic reasoning

(1) OJ C 136, 1.5.1998, p. 20.

behind such an approach is the lack of reliable information to draft a genuine reform before 1 November 2001. The Commission has thus opted for an immediate reform, irrespective of the consequences of such a change and in clear contradiction with Conclusion 1 of the ESC Opinion (CES 600/97) ([1]) and the Parliament resolution.

2.1.2. The justification for such urgency seems to be the fear of structural surpluses. However, no such surpluses were produced even in the 1996/1997 marketing year when world production was higher than ever before.

2.1.3. The introduction of a stabilizer limiting the number of trees eligible for aid to those planted before 1 May 1998 transfers the risk of surpluses to the productive capacity of existing trees and any which replace them in the future.

2.1.4. A further ground for urgent reform could be an attempt to guarantee the quotas of some producing countries as opposed to others, given the unequal investment and innovation effort in the olive oil sectors in the Member States as a result of market dynamics and the CMO.

2.1.5. To summarize, there is no justification for implementing the first phase of the reform — inappropriately referred to as a transition period — until the reliable data base required for the olive cultivation register is established, as highlighted by the Commission itself and by the Court of Auditors.

2.1.6. Information from the olive cultivation register may indicate that the second phase of the reform should establish different criteria and mechanisms. Such a situation would be both harmful and disruptive for the sector.

2.2. *An inadequate MGQ and an inappropriate and discriminatory distribution between NGQs*

2.2.1. The maximum guaranteed quantity (MGQ) is 1 562 400 t, which is lower than Community consumption in the 1996/1997 marketing year (1 657 000 t according to the European Parliament report) and consumption estimates for the coming years following the drop in market prices.

2.2.2. The reference period used to determine the MGQ and the national guaranteed quantities (NGQs) is both incorrect and discriminatory.

2.2.3. It is incorrect insofar as the production cycle for olives is essentially biennial. The reference period should, therefore, cover several years (six at least). This would ensure that after eliminating the best and worst harvest years, information on at least four years would be included, which would be equivalent to the average of two standard biennial cycles.

2.2.4. The reference period is discriminatory insofar as these figures should be revised annually on the basis of the marketing years immediately before, and should not remain fixed for the duration of the so-called 'transition period' on the basis of the figures for 1992/1993-1997/1998. The efforts of countries that have invested most in renewing their plantations and in technological innovation within the common framework of the current CMO would be penalized for focusing on quality, renewal, and innovation.

2.3. *A premature and incomplete proposal*

2.3.1. The above-mentioned failure to establish a reliable database means that the 'transition phase' has been drawn up hurriedly, as its many shortcomings demonstrate.

2.3.2. The removal of small producers from the aid regime should be combined with specific measures to ensure the viability of small and medium-sized holdings, since in some Member States these account for 55 % of agricultural employment and play a crucial role in keeping communities on the land and protecting the environment.

2.3.3. Neither is there any consideration of varying yield among olive groves. While there are structurally very low-yield olive groves (those with a yield of less than 1 000 kg/ha), there are some very high-yield olive groves which produce a profit, even at market prices. This variation is a permanent, not an isolated, factor. Consequently, the use of the surface areas registered for each holding and of the quantity harvested and marketed by each holding could form the basis of a system whereby production aid is continually adapted in relation to production. Such a system would mean that marginal olive groves could be kept in production, and would provide a reasonable, but not excessive, incentive for renewal and innovation.

2.4. *Unjustified abolition of aid*

2.4.1. Abolition of the aid system could lead to speculative movements. Private storage does not guarantee that the markets will be supplied or that farm incomes will be maintained. Nor is abolition justified by the argument that production will be stimulated when aid is restricted to groves existing at 1 May last.

2.4.2. It should not be forgotten that aid makes it possible to regulate prices and markets when necessary, which has been very useful and has hardly cost anything in the past. As is well-known, in this sector the variation

([1]) OJ C 287, 22.9.1997.

in the harvest from one year to the next can amount to one third of the average annual production. This is why buffer stocks are essential.

2.5. *Inadequate fraud control*

2.5.1. In order to reduce fraud the proposal abolishes the aid to small producers and consumption, at the same time transferring control measures to the Member States once the NGQs are established. These measures are inadequate and represent a surrender of its responsibilities by the Commission.

2.5.2. A possible means of combating fraud could be to carry out an effective and real check on the oil produced in olive-oil mills and traded commercially. The Committee, therefore, suggests that data on the quantity of fatty olive residue at point of exit from the mill be cross-checked with the quantity at point of entry into the olive-residue extractors. This physical check on the olive oil actually produced and marketed should be accompanied by simplification of aid management; this is feasible and would additionally make it possible to rationalize production and the market. As far as fraud control is concerned, such a proposal would complement the abolition of the aid to small producers by replacing the double check which would have been possible through the — now also abolished — consumption aid.

2.6. *Promoting consumption and improving the quality of olive oil*

2.6.1. Olive oil represents 3 % of production and 3,5 % of consumption of vegetable oils. To date there have been no structural surpluses. Consumption is minimal in numerous countries, including many in the EU.

2.6.2. There has been a spectacular increase in consumption in countries with a high standard of living as a result of the promotion campaigns carried out by the IOOC.

2.6.3. The ESC's previous opinion recommended that the EU finance these campaigns and warned against blends which should, at the very least, be indicated on the labelling to avoid confusion.

2.6.4. The promotion of the consumption of high-quality olive oil through advertising campaigns — possibly financed by the abolished consumption aid — would create a market outlet for the average annual production anticipated for 2005 in the IOOC report (1 962 000 t), especially in the Nordic countries and in others such as the United States, Japan, Canada and Australia.

2.7. *Protecting the environment*

2.7.1. In many EU regions, maintaining the cultivation of olive groves is the only alternative at present to abandonment and the associated environmental deterioration, erosion in particular, bearing in mind that olive groves in the EU serve as productive woodland separating fertile land from desert land.

2.7.2. Olive groves on fragile soil, which make up a high percentage of the area under cultivation, require specific measures tailored to their marginality and fragility. Such measures are not planned.

2.7.3. Differentiating the production aid would enable such marginal olive groves to receive a unitary aid (per kg of oil produced and marketed) much higher than that received by an irrigated grove, whose production costs can only be offset by market prices.

3. Table olives

3.1. This sector is mentioned only in the explanatory memorandum. It is essential to plan support measures right now for this sector whose viability is in grave danger. It is also an important source of employment and an opportunity for diversification of olive groves.

4. Conclusions

4.1. *European leadership and Agenda 2000*

4.1.1. The EU leads the way in olive oil production and consumption and this situation must be maintained. For this reason it is crucial that the proposed reforms can count on the support of all producing countries.

4.1.2. Such a reform proposal is possible if the guidelines set out in the European Parliament report, which received the unanimous backing of the EU olive oil sector, are followed. The unity of the sector is the key to maintaining leadership.

4.1.3. The guidelines contained in the Parliament's report can be financially viable. Two supplementary measures would seem relevant: a) consideration of an increase in the financial statement for the CMO in olive oil in the light of the increase for other sectors proposed in Agenda 2000; b) a differentiation of production aid in line with productivity which guarantees the income of all olive oil producers and safeguards employment.

4.1.4. The EU should make a serious effort to maintain leadership in production, marketing and innovation in this sector. For this the following are required: a) a campaign to promote high-quality olive oil financed by the EU and the recognized producers' organizations to boost consumption to the levels required to absorb the expected rise in production; b) a defence of quality by banning blends and their legal prosecution so as to maintain the product's image; c) an ongoing and specific programme of R& D to safeguard technological leadership.

4.1.5. Since its first note the Commission has perceived olive oil as a potential danger and not as a product whose qualities are universally recognized and with enormous potential if properly promoted. To reiterate the features of olive groves that make their future an inescapable challenge for the EU: main source of employment in European Objective 1 regions, sustainable farming system if support is differentiated with CMO funds for olive groves with very different productive capacity, dynamism of the production and processing sector which in recent years have incorporated major technical innovations, way of life and cultural factor rooted in broad regions of southern Europe, etc.

4.1.6. The Commission's proposal, despite incorporating some positive aspects compared with the 1997 note, still fails to understand the sector. Where the Commission sees a problem, the sector sees opportunities for expansion with proper product promotion and more accessible prices as a result of the forecast increase in supply. The all-round advantages (employment, social, economic, environmental, technological leadership, etc.) offered by this sector at the moment should not be lost because of a reductionist approach and unjustifiable urgency, given the lack of a reliable data base and the fact that this is a product which is not in structural surplus.

5. **Specific comments**

5.1. *Article 4*

The Committee considers that the amendment contained in this article is inappropriate given that the intervention mechanism needs to be maintained in its present form in order to safeguard the survival of the olive grove.

5.2. *Article 5*

The Committee accepts the NGQs determined in accordance with this Article provided that they are amended as soon as the Commission has the actual data on production, area and number of trees from the Member States. These changes should be implemented immediately without waiting for the end of the transition period.

5.2.1. The Committee considers that the MGQ should be equal to total Community consumption plus exports, minus imports, and including a quantity to act as a buffer stock between marketing years. This should be in the region of the quantity also recommended by the European Parliament.

5.3. *Article 11*

The Committee considers it important that the promotional campaigns provided for in this article should highlight the prominent role of olive oil in preventing cardiovascular diseases. The section would stress the savings in EU public health spending which the consumption of olive oil can achieve.

Brussels, 28 May 1998.

The President

of the Economic and Social Committee

Tom JENKINS