

EU Agricultural Policy Analysis¹

The EU policy that has had the greatest role in the olive oil sector since the 1960s has been the Common Agricultural Policy (CAP). Once a remedy for problems faced by the Mediterranean EU Member States to be a competitive producer in olive oil, payment support schemes were the founding fabric of the CAP. Similar to the agricultural policies of the EU, Greek policies since the mid-20th century have been based on price support schemes that encourage high productivity and facilitate agricultural exports. Price support schemes achieved the productivity and marketing goals of the EU and Greece, but were cause of new problems of environmental degradation and marginalization of traditional agricultural communities, in the EU at large and specifically in Greece. In recent years both EU and Greek policies have switched to focus on preserving the ecosystems and restoring life to lagging rural communities. Subsidies today continue to focus on making EU and Greek agriculture competitive, but now also focusing closely on environmental preservation and the revitalization of marginalized communities.



This policy analysis categorizes EU policies since the mid 20th century under two policy regimes, or what have been called the ‘two pillars’. The first pillar is characterized by price support schemes to encourage productivity and market competition. This policy regime was meant to equip EU agriculturalists

(specifically in this analysis, olive oil producers) to compete against cheaper imports and make the EU a net-exporter. The ‘second pillar’ is based on rural development, placing agriculture and rural development together under a subsidy scheme. Greek policies that affect agriculture and rural development mirror these two policy regimes of the EU. This paper begins by discussing the creation and evolution of the CAP and its role in shaping EU agriculture, specifically in the olive oil sector. It then looks at

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policies specific to Greece since the mid 20th century. The paper concludes with an assessment on EU Regulation (EC) No 1698/2005 which to improve the competitiveness of rural areas, by emphasizing the maintenance and preservation of environment and rural heritage. The analysis reviews subsidy options available to olive oil producers in the Troianata community case study, including Article 34(3) ‘semi-subsistence agricultural holdings’, Article 35 ‘producer groups’, and Article 37 ‘mountain areas’.

The History of the CAP

The first production and export subsidies in European olive oil came at a time when Italy was the sole significant producer within what was then called the European Economic Community (EEC). In order to support agriculturalists of various designations, the EEC created the Common Agricultural Policy (CAP) in 1962. Since then, the CAP has been Europe’s most important system of agricultural subsidies.

Not originally receiving subsidies from the CAP, EU-produced² (footnote on Italy) olive oil was non-competitive, with cheaper olive oils coming from other Mediterranean producers such as Morocco, Syria, Tunisia, and Lebanon. Because of a more ideal climate for the cultivation of olive trees, coupled with less input expenses, these countries could produce olive oil at a much lower cost than the developed countries of the Mediterranean European Community. Consequently, they could sell their olive oil at lower prices than their European counterparts. For the EU to compete with these lower priced imports, government subsidies were considered essential to make up for the difference between the high costs of production on European soil and the lower market value for olive oil which had been determined in part by the cheaper imports.

To protect domestic producers from market disturbances caused by the cheaper imports, the EC legislated Regulation No 136/66/EEC September 22, 1966 which would include olive oil in the CAP subsidies³. Regulation No 136/66/EEC on established a common organization of the market in oils and fats. Article 3(3) of the Regulation established that “where prices within the

² Italy was the only EC State that was a significant producer of olive oil (with France producing very little) until 1981 when Greece joined the Community, and shortly after in 1986 when Portugal and Spain joined.

³ The Council declared olive oil “of special economic importance” and “the most important source of oil and fats for large categories of consumers” (EC, 2005). As such, olive oil was an important agricultural product to protect from the infiltration of cheaper imports, thus the legislation of Regulation No 136/66/EEC.

Community are higher than world market prices, the difference between these prices may be covered by a refund when olive oil is exported to third countries". The difference between the cost of production and the price consumers were willing to pay represented the subsidy granted to the producers. The goal of the regulation was to ensure producers a fair income, while supplying consumers with affordable domestic olive oil.

Initial measures were aimed at supporting the income of olive oil producers by giving special monetary aids, especially to smaller producers. The EEC put limits on the areas eligible for aid, known as the maximum guaranteed quantity (MGQ). In addition, because it remained cheaper to attain olives from Mediterranean neighbors in many cases, the threat that olive oil might be extracted from imported olives was an issue. To ensure economic benefits were isolated to the Community, the regulation of 1966 added that in order to receive subsidies, the olive oil had to be pressed from olives coming from within the Community. Regulation No 136/66/EEC also set minimum prices, established border protection, supplied public and private storage to take surpluses from the market and granted export subsidies to assist marketing outside the European Community.

The next step would be to facilitate exportation. Subsidy moneys would make up the difference between the real price of the European olive oil and the cheaper price it would have to sell at on weaker foreign markets, allowing producers to make the same profit per liter they did domestically while selling at more competitive prices in foreign markets⁴.

The reforms of 1984

CAP subsidies to olive oil increased from previous years, but not solely due to an increasing number of hectares in production. In 1981, olive oil subsidies in Italy tripled, in grand part due to fraud. Consequently, in 1984, amendments were made to the 1966 regulation. Rather than being awarded according to the size of plot, the subsidies were now to be distributed in relation to the quantity of olive oil actually produced. This required that producers keep a record of their yield in oil which would be subject

⁴ The 1981 accession of Greece into the EEC was significant for the olive oil sector. With the addition of this major olive oil producer, the Community was on its way to becoming a key player in the world trade of olive oil. In 1986, Spain and Portugal, the first and fourth world producers of olive oil respectively, joined the EEC as well. By that time, the three top producers – Spain, Italy and Greece – were thriving and the European market was dominated by their oils.

to auditing. Beyond making it more difficult for producers to claim more subsidies than what they qualified for, the reforms would prove to cause a major change in olive farming practices. Encouraging farmers to get as much yield as possible from their land, the new production-based subsidies prompted higher chemical input and mechanization.

The reforms of 1998

Because the amount of monetary aid was determined by the quantity of oil produced, fraudulent claims had transformed to false reports of the amount of oil produced. Such fraud was possible because individual olive groves producing less than 500 kilograms of oil per year could succeed at receiving aid for all of the oil they pressed, even if the majority of it was for personal consumption rather than sold on the market. These stresses on the CAP subsidies resulted in the 1998 reforms. The reforms included amendments that would increase the maximum guaranteed quantity (MGQ) of olive oil eligible for production aid by 31.6% from 1.35 to 1.78 million tones. They simultaneously reduced production aid awards from EUR 142.2/ton to EUR 132.5/ton. While the former-mentioned amendment liberalized the amount of production, the latter made it less profitable for smaller farms to make false claims on the amounts of oil they put on the market. More quantities of olive oil were eligible for subsidies, while the aid offered per kilogram was less.

Accordingly, the reforms adopted by the European Union in 1998 further encouraged unsustainable farming practices. In order to obtain the highest potential yield in olive oil, farmers took up the practice of high-density planting in their groves. Because of the general tendency of olive trees to bare significant fruit only every other year, olive farmers were especially pressed to have densely planted groves. The more trees per hectare, the more each one would have to compete for nutrients from the soil, therefore causing a greater need for fertilizer, often in the form of chemicals. Irrigation became vital in the semi-arid climate of the Mediterranean to promote abundant, fleshy olives especially during years of unsubstantial rainfall. Intensive irrigation practices in regions where water was a scarce commodity further aggravated water scarcity, not to mention created a greater divide between regions that had sources from which to irrigate and those which did not. To further guarantee the maximum yield out of every tree, farmers needed to ensure that their olives were not consumed by insects. Chemical pesticides, often issued by the government, became the norm, causing chemical runoff into nearby water sources. The EU Council recognizes the environmental problems associated with agriculture. Nitrogen

surplus, ammonia emissions, eutrophication, soil degradation and a decline in biodiversity persisted in many areas.

Though the CAP subsidies had succeeded at making the olive oil sector flourish as an economic activity, negative effects outweighed benefits. This was evident not only in regard to environmental degradation and the further impoverishment of other olive producing countries, but also regarding a decline to the quality of the oil. Concerned with the marketability of its olive oils, the European Commission published a communication in 2000 called, "quality strategy for olive oil", in which it set out a plan for enhancing the quality of European olive oil. A reform in 2001 made a move to transfer funds from subsidies for the farmers to grants for quality development measures. It had become clear that the subsidies had succeeded at flooding the market with olive oil resulting in new surpluses, and it was now in the interest of the EU to move away from mass production and concentrate on forming a market where each bottle of olive oil could sell at a profitable price.

Whereas subsidies had once served to develop the olive oil industry in a community whose markets were threatened by outside oil producers, they had now caused the EU olive oil sector to grow to such a disproportionate scale that other Mediterranean producers could no longer compete in the olive oil market. Production subsidies allowed EU farmers to produce on a mass scale not attainable by farmers in developing countries. Because the latter were unable to subsidize their production, countries including Morocco, Syria, Tunisia and Lebanon no longer had a chance at selling their olive oil in markets where EU oil appeared.

Though originally aimed at boosting the overseas sales for an ailing European olive oil industry, export subsidies had caused an unfair advantage for EU olive oils all over the world by distorting market prices in comparison to real production costs. Though the climatic attributes and low cost of production in developing countries would allow them to sell for less per bottle of olive oil, 95% of the olive oil sold in world supermarkets was coming from Spain, Italy and Greece in the 1990s.

In recent years, Morocco, Syria, Tunisia and Lebanon have not been able to compete even on their domestic markets because the floods of olive oil caused by EU subsidies have spilled into the developing world's market place⁵. In addition, the export refunds

⁵The lowest-cost producers of oil are on the southern and western shores: Morocco, Tunisia, Lebanon, Syria, and Turkey. But 95

offered by the EU further enable European producers to sell on a market where each bottle sells for less than in Europe without compromising the real cost of their product. For instance, Morocco, has 260 modern olive oil factories, which could produce 290,000 tons of oil a year for export alone, and yet its biggest year for export was 1997 at 35,000 tons. By contrast, growers in the Andalusian region of Spain are able to export half a million tons of oil every year. Another indication of the exclusion of developing countries in the world market is to be found in supermarkets of the United States. Since 1996, U.S. imports of olive oil have doubled, and yet there are just as few olive oils from the Arab-world represented on the U.S. supermarket shelves today as before.

Agenda 2000

In 1999, the EU was preparing to add 13 new Member States into the Union. With this addition, the Council recognized, problems associated with rural depopulation and lagging areas would become more pertinent to the overall competitiveness of EU agriculture. With Agenda 2000, the Commission recognized that "agricultural support is distributed somewhat unequally between regions and producers, resulting in poor countryside planning, a decline in agriculture in some regions and overly intensive farming practices in others, generating pollution, animal diseases and poorer food safety." Despite being successful in attaining most of CAP's initial objectives, price support schemes encouraged the high intensification of agricultural production. Agenda 2000 was a reform meant to address specific agro-environmental measures, making them requirements within the CAP.

The overall objective of Agenda 2000 was to foster the regeneration of rural areas, which meant preserving the environmental and human resources entwined with agriculture. Agenda 2000 emphasized the importance of lagging agricultural communities and introduced special aid schemes for what had been called less favored areas within the EU. Agenda 2000 states:

Certain rural areas are designated as less favored areas (LFAs) because the conditions for farming are more difficult, due to natural handicaps which increase production costs and reduce agricultural yields. These conditions may threaten the long-term survival of farming, continued land management and the viability of rural communities in these areas.

percent of the olive oil sold in world supermarkets comes from Spain, Italy, and Greece. This is because the European Union, through its 'Common Agricultural Policy,' neutralizes the comparative advantage of its Muslim-world neighbors by paying European olive oil growers \$2.3 billion each year.

Less Favored Areas

The following areas are considered less favored:

- Mountainous areas subject to a considerable limitation of land use and a significant increase in production costs;
- Areas threatened with abandonment and where maintenance of the landscape is necessary;
- Areas affected by specific handicaps in which the maintenance of agriculture is necessary to ensure the conservation or improvement of the environment, the management of the landscape, its tourism value or in order to protect coastlines.

The 2003 reforms

Responding to pressures from other countries to amend its unfair domination of the olive oil market and further addressing some of the environmental problems manifest in large-scale production, the EU Commission in 2003 reformed the CAP to enhance competitiveness, stronger market-orientation, improve environment, reduce trade distortions and stabilize incomes for farmers.

To address the problems of intensive farming, the CAP Reform readopted its original form of subsidy awards. Where once it was in the interest of development to encourage mass production, it had now sought to discourage intensive farming. This separation of subsidies from the amount of production was termed "decoupling". Awards would be granted based on hectares of land and number of trees, and would be awarded under a Single Payment Scheme. This new payment plan would account for at least 60% of the average production-linked payments that were recorded from 1999 to 2003. The remaining aid would be allotted to Member States as 'national envelopes'. These envelope funds would still go to olive growers, during years of land rest or merely to preserve olive groves for cultural purposes. The new system of decoupled payments was scheduled to take effect in the 2005-06 marketing year.

It was assumed under the reform that a reduction in production-linked subsidies would help prevent dumping olive oil in the markets of the developing world. The 2003 CAP Reform proposed to further avoid market imbalances by limiting payments to olive-growing areas existing prior to 1 May 1998 and to new plantings under approved programs.

Rural development policy in Greece

Shortly after World War II, the development strategy in Greece was based on industrialization, originating in private initiatives, and any design of rural development policy had to support this development model. The Greek government used a price support scheme for agriculture in its rural development policy. This resulted in an emphasis on prices and incomes policy, which temporarily assisted agriculturalists, while the structure of Greek agriculture was not addressed. While agriculture on the plains and coastal areas of Greece were supported under CAP subsidies, the more remote agricultural areas did not receive EU subsidies. Though policies succeeded at modernizing the agricultural sector and improving agricultural incomes, structural problems such as small average size of agricultural holdings, low productivity, isolation, and ageing population made it so agriculture in rural Greece was unequipped to improve. The results were twofold: agriculture was moved to the plains where mechanized practices with high chemical input were successful at producing high yields, and fewer people remained in the traditional agricultural communities. The massive exodus of labor from agriculture during the 1960s and 1970s aggravated the structural problems and added new ones stemming from rural abandonment. Through 1991, continued emigration reduced the agriculture population by more than half, from 45% to about 17%. The effects on the rural landscape were apparent, with the total cultivable land area decreasing by 10.5% in the period of 1987-1993.

The structural problems of Greek agriculture weakened the sector to the point that Greece was unable to compete against international food products. Policies complemented incomes of farmers but there was a lack of policies to promote investment in restructuring the sector in a manner that it would prepare to compete and not be entirely dependent on subsidies. The policies implemented by the Greek government did not change for agriculture with the accession of Greece to the EEC in 1981, as they were in conformity with the framework of the Common Agricultural Policy. Acting as the umbrella policies for all European Community states, the policies of the EEC overlooked the fact that agriculture was not as developed and equipped to compete in Greece as it was in other member states.

Because Greece never adopted an integrated rural development policy of its own and none was supplied by the greater Community, it depended on regional development policies to achieve partial goals. The approach towards rural development was sectoral, not integrated, based on special programs that were implemented separately by different planning agencies.

Today, Greek rural development and agricultural policies are taking a slightly different direction. It is a top priority of the Greek government to redistribute its national population back to the abandoned countryside by restoring the remote agricultural communities, and investing in structural building. The Greek Ministry of Rural Development and Food identified at the new millennium several policy objectives to promote the development of agriculture, the competitiveness of Greek products and the restructuring of the countryside. The plan for the restructuring of the countryside concentrates on an integrated economic and social intervention in agriculture. This intervention seeks to make Greek agriculture attractive, modern and viable. Greek Prime Minister Kostas Karamanlis announced a national priority to establish "a new economic policy that will ensure development in all aspects, prosperity and more jobs for all people" and "a new agricultural policy that will give to the Greek people the ability to become more competitive in Europe and worldwide".

Subsidies for sustainable agricultural practices

Support schemes of particular relevance to sustainable agriculture and rural development activities fall under the second pillar of the CAP (Rural Development Council Regulation No. 1698/2005), adopted in 2005 to be implemented January 1st, 2007 and continuing through 2013. This regulation responds to the problems caused and the criticism evoked by the price support schemes of the first pillar of the CAP. For the purpose of guaranteeing that funds are used for the redevelopment of the countryside, the regulation creates a financial and programming framework for rural development policy that is separate from the other projects of the CAP. This fund is called the European Agricultural Fund for Rural Development (EAFRD).

The fund contributes to achieving the three objectives of rural development defined at Community level: Improving the competitiveness of agriculture and forestry by means of support for restructuring; improving the environment and the countryside by means of support for land management; improving the quality of life in rural areas and encouraging diversification of economic activity.

The policy contributes to sustainable development by encouraging farmers and forest holders to employ methods of land use compatible with the need to preserve the natural environment and landscape and protect and improve natural resources. The main aspects to take into account include biodiversity, water and soil protection, and climate change mitigation. Against this backdrop,

the Regulation provides, in particular, for support for mountain regions with natural handicaps and other disadvantaged areas.

This shift in the direction of funding reflects a change in the CAP from its priority to make EU agriculture competitive to a focus on environmental preservation and sustainable development in the countryside. Because the Regulation aims in particular to support mountain regions with natural handicaps, olive oil producers in Troianata Village who chose to follow sustainable agricultural practices should be likely candidates for receiving funding. The Regulation includes funding for semi-subsistence farming practices. Three provisions relevant to Kefalonia communities include:

- *Semi-subsistence agricultural holdings* - Individual producers could benefit from Article 34(3) for 'semi-subsistence agricultural holdings'. This grant is awarded in an annual payment of up to €1,500 per agricultural holding.
- *Producer groups* - Article 35(2) of Council Regulation (EC) No. 1698/2005 grants money to 'producer groups'. As a cooperative, the olive oil producers Troianata Village could benefit from moneys allocated by this article. As stated under the Annex of Council Regulation (EC)
- *Mountain areas* - Finally, under the same Regulation, there are funds available to mountain areas. Article 37 lays the "Conditions for measures targeting the sustainable use of agricultural land" including regard to mountain areas. The article states: "Payments should compensate for farmers' additional costs and income forgone related to the handicap for agricultural production in the area concerned."

Final Assessment

Agriculture in the European Union in general, and specifically in Greece can be categorized into two regimes. The first policy regime modernized agriculture; the second regime attempts to equip the lagging rural communities to survive. The prior regime attempted to make EU agriculture competitive by rewarding subsidies based on the level of production of agricultural goods, while the second regime attempts to make agriculturalists competitive by investing in structural needs. Under such a regime, assistance is available to support traditional agricultural communities to become economically autonomous while fostering principles of sustainable agriculture. Policies are now designed to fund small producers whose practices will preserve the environment and rural communities in order to build their capacity to survive in the market.