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Foreword: This report is part of the Deliverable D13 "Description and Quantification of the EU Protection for Imported Fruits, Vegetables, Olive Oil, and Processed Foods from Mediterranean Countries". It deals specifically with olive oil. In line with the description of the work provided to fulfil the objectives of the work package 3 ("describe and quantify the EU protection systems for fruits, vegetables, and olive oil…" we have conducted an analysis of the domestic support as well as the border protection of the olive oil market in the European Union.

Introduction

In 1966, a Common Market Organisation (CMO) is created for oils and fats. This CMO implemented in a situation of shortage in the newly created EC dealt with managing the market of vegetable oils between the 6 Member States.
The system at its creation aimed at developing the national production while encouraging importations to meet the European demand. But in order to protect the Italian olive oil market a differentiated system applied to this sector.
The system of 1966 had to be reformed many times because of the large expenditures it has induced. The current system includes[1] :

Concerning the management of the domestic market:

- A production target price: That price shall be fixed at the wholesale marketing stage for ordinary virgin olive oil with a free fatty acid content expressed as oleic acid of 3.3 g/100 g.
- A production aid intending to contribute towards establishing a fair income for producers and granted to olive growers on the basis of the quantity of olive oil they actually produce.
- A maximum quantity of olive oil to which the production aid shall apply equal to 1 783 811 tons per marketing year and apportioned among member states in the form of National Guaranteed Quantities.
- An intervention price under which decision may be taken to authorise bodies to conclude contracts for the storage of olive oil. An aid is granted to perform these contracts.

Concerning trade:

- Common custom duties.
- A trigger price equal to the target price minus the production aid and an amount taking account of market variations and the costs of transporting olive oil from the areas of production to the areas of consumption. Should the market price for olive oil appreciably greater (lower) than the trigger price, the application of customs duties can be partially or fully suspended or import quota at reduced rate established (or an additional import duty may be imposed).

The first part of the report deals with collecting information on Producer Support Estimates (PSE) and Aggregate Measure of Support (AMS), indicators of the domestic support provided to the European olive growers. We have gathered some studies on the topic but also have

[1] For more details see: http://europa.eu.int/eur-lex/en/consleg/pdf/1966/en_1966R0136_do_001.pdf

conducted our own analysis. The second part of this work is on border protection, we provide our own estimation of the tariff applying to olive oil at the entry of the EU.

1- Collect information on PSE and AMS, indicators of domestic support provided by the EU to olive oil

1.1- PSE

The Organisation for Economic Co-operation and Development (OECD) has been, since 1987, measuring support to agriculture using the Producer Support Estimate (PSE) and Consumer Support Estimate (CSE). OECD (1999) provides the methodology for measurement of support and measurement for a wide range of products are available on the OECD website but for olive oil.

Nevertheless the exercise has been done; see Rapana (2003), Garcia Alvarez-Coque (2001), Nucifora et al. (2001), Perugini (2001), Nucifora & Sarri (1997). Their results are summarized in the table below:

Table 1: PSE estimates from various studies

PSE Estimates in Mo €	Rapana	Perugini	Nucifora et al.	*Garcia Alvarez-Coque **Nucifora & Sarri
1989	1792	1774.29	2300	
1990	1541	2124.85	2377	
1991	3550	2857.05	2643	
1992	3386	3121.16	2527	
1993	3666	3326.38	3254	3047**
1994	3560	3458.59	2603	2434**
1995	2027	1925.87	1568	
1996	2334	2819.79	2796	
1997	3222	3427.09	3288	
1998	2757	3525.68	3163	
1999	2691	3158.97		2840*
2000	2041			
2001	1977			

The PSE is *"an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm-gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income."* (OECD, 2000)

Basically PSE is estimated as:

PSE = Market Price Support (MPS)
+ Payments based on output
+ Payments based on area planted
+ Payments based on historical entitlements
+ Payments based on input use
+ Payments based on input constraints
+ Payments based on overall farming income
+ Miscellaneous payments

The MPS being *“an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers arising from policy measures that create a gap between domestic market prices and border prices of a specific agricultural commodity, measured at the farm-gate level.”* (OECD, 2000).

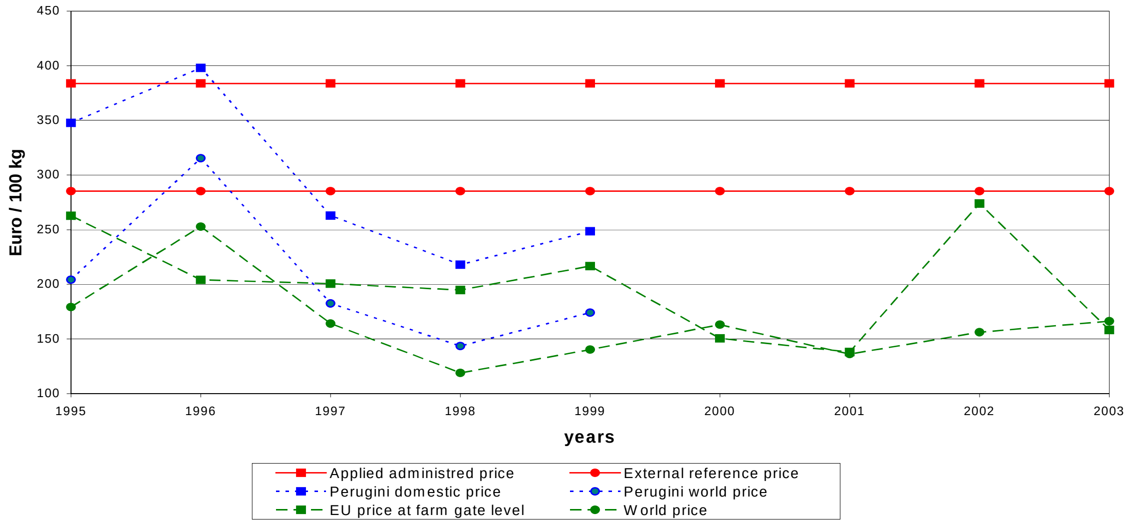
For olive oil the MPS is effective both through the domestic (intervention price, trigger price) and trade (custom duties, export subsidies) policies. The calculation of the MPS should reflect the impact of these instruments on prices. However because of the lack of representative world prices, almost all studies quoted in Table 2 use a slightly different version of the standard methodology.

They assume the tariff rate or the export subsidy may be considered as a measure of the gap between the world and domestic price. Then they calculate the MPS by just multiplying the value of the production by the tariff rate or the export subsidy rate. This methodology is used in Rapana (2001), Garcia Alvarez-Coque (2001), Nucifora et al. (2001), Nucifora & Sarri (1997).

Perugini (2001) has tried to estimate a reference world price of olive oil, taking into account the different varieties/qualities of olive oil in his calculations. But critics can be made to his methodology as he takes as a reference of the world price, the unit value of extra EU imports. But the EU’s protection vis-à-vis olive oil is based, as described in the next section, on specific tariffs i.e. tariffs are in euros per 100 or 1000 kilos. Thus, as the domestic price in the EU is rather higher than elsewhere and as the EU’s olive oil support policy works at reducing the competitiveness of importing countries, then importers are prone to declare a higher value of their merchandise to internalize the cost of the custom duty. Therefore, to avoid the distortion involved by the structure of the tariff, the reference price should not be chosen at the European borders.

We opt for another solution. The statistical database of the EU (Eurostat) provides the value of the olive oil production at the farm gate level. Then the problem is to find an estimation of the “world price”. We decide to take as a reference world price, the unit value of the Turkish olive oil at the USA’s border. This choice has been driven by two reasons. First, Turkey is the third major exporter of olive oil after the EU and Tunisia. Second, USA is the main destination of Turkish olive oil. Tunisia wasn’t adequate because its first olive oil importer is the EU. However this choice may be criticized because Turkey subsidises its olive oil exports what can push the price down. We compute this price taking into account the different varieties available at the 6 digits level, data are extracted from the UN Comtrade database which is the United Nations Commodity Trade Statistics Database. Results are shown in figure 1. The lines with circles represent the "world reference" and the ones with squares the "domestic reference". We have reported in this figure, the EU reference prices (plain lines), the results from the Perugini (2001) study (dotted lines) and our own estimations (dashed lines). As expected our results are the smallest, moreover EU domestic price are uncorrelated with world price of olive oil. The EU policy has somewhat protected the olive oil growers when the world price was low and helped them to be more competitive when the world price was high.

Figure 1 : Evolution of the EU domestic price and « world price » of olive oil



Source: Commission, Comtrade, Perugini (2001)

From the results obtained we have performed our own calculations of the PSE based on the methodology provided by the OECD. Levels of subsidies are from the Eurostat database as well as the level of production. Results are displayed in Table 2.

Table 2: Calculations of the PSE

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Level of production – 000 tons	1493	1947	2412	1973	1976	2047	2557	1539	1943
Value of production at domestic price – Mo €	3923	3972	4838	3842	4280	3079	3529	4216	3529
Value of production at world price – Mo €	2674	4921	3955	2346	2771	3336	3479	2403	3705
MPS in Mo €	1249	-949	883	1497	1509	-257	50	1813	-176
Other direct and indirect support – Mo €	1745	1906	1907	2012	2018	2033	2195	2089	2077
Total PSE	2994	957	2790	3508	3527	1776	2245	3902	1900
Unit PSE in €/ton	2006	492	1157	1778	1785	868	878	2536	852
% PSE	53	16	41	60	56	35	39	62	34

Source: author calculations based on Eurostat and Comtrade data.

The results we have obtained are different but quite close in order of magnitude to the ones in Table 1, except for 1996. On the period considered, the PSE has represented between 16 and 62% of the total value of the production and 42% in average. Market price support and other domestic support are quite high for olive oil as they represent around half the value of the production. But they are relatively moderate compared to other products where domestic support may represent up to 80% the value of the production (e.g. for fruits see Rapana, 2003). Most of the domestic support on olive oil may be classified in the amber box as it is a rather distorsive tool, production aid is still coupled to the volume of production and there is still explicit reference to the intervention price, additional levy on imports or export refunds in the olive oil market organisation regulation. Therefore, the "second wave" of the CAP reform will introduce from 2006 a decoupling for 40% of the total support (See Box 1).

Box 1: The olive oil reform

A minimum of 60 % of the average current production-linked payments during the reference period 2000-2002 (€ 2.3 billion per year for the EU15) will be converted into entitlements under the single payment scheme for holdings larger than 0.3 ha. For the calculation of the amount for each olive farmer, the reference period will comprise the period 1999-2003 (Four marketing years).
Olive farms smaller than 0.3 ha will see their payments completely decoupled from 2006.
The remaining aid paid (40%) can be retained by the member states as national envelopes to grant producers of an additional olive grove payment. For simplification reasons, the olive grove payment will not be allocated below € 50 per aid claim.
Member States may use up to 10% of their olive oil component of the national ceiling for quality measures.
To avoid market imbalances, access to the single payment scheme will have to be limited to olive-growing areas existing prior to 1 May 1998 and to new plantings provided for under the programmes approved by the Commission. To take account of support granted to new plantings after that date in France and Portugal the corresponding amounts will be added. For Spain, the national budgetary envelope has been increased by € 20 million.
The current regime will continue to apply for the marketing year 2004/05.

Source: Europa- Rapid Press Releases.

1.2- Aggregate Measure of Support (AMS)

The signature of the Uruguay Round Agreement on Agriculture (URAA) committed the signatory states to reduce their domestic support to agriculture. It imposed no particular constraint on the EU's CAP (Swinbank and Ritson, 1995) but helped to give a measure of agricultural subsidies. The domestic support to olive oil in the World Trade Organisation (WTO) notifications is called the Aggregate Measure of Support (AMS). The AMS is an indicator of the amount of domestic support for agriculture. As used in the URAA, the AMS refers to a measure of the gap between domestic and world prices multiplied by the quantity supported, plus any other commodity-specific transfers. Internal or domestic support reduction commitments in the URAA are expressed in terms of reductions in a total AMS covering all trade-distorting internal support measures for agriculture. The AMS for olive oil is the difference between the Applied Administered Price and the External Reference Price times the Eligible Production notified to the WTO. Table 3 shows the level of domestic support for olive oil notified by the EU to the WTO.

Table 3: The AMS notified for olive oil by the EU (1995-2002)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Applied Administered Price (ECU/t)	3837.7	3837.7	3837.7	3837.7	3837.7	3837.7	3837.7
External Reference Price (ECU/t)	2851.8	2851.8	2851.8	2851.8	2851.8	2851.8	2851.8
Eligible Production (Mo t)	1.4	1.9	2.3	1.8	2.1	2.1	2.714
Total Direct Payments (Mo ECU)	1380.3	1872.5	2267.6	1798.3	2070.4	2070.4	2675.7

Source: WTO

The AMS as a measurement of domestic support is questionable. As underlined by Swinbgank and Ritson (1995) this estimation is only a measurement of market price support. It forgets some important elements of the EU policy to protect the olive oil growers: export refunds, import tariffs, withdrawal mechanisms or quality standards. Moreover, in order to avoid large cuts in its subsidies the EU has somewhat declared higher reference prices, overestimating their actual support.

2- Describe and quantify the current protection of olive oil in the European Union.

TARIC, the database on taxation and custom unions of the European Communities gives the level of custom duties at 8 digits. In Box 2, we give the definition of the harmonised nomenclature at 8 digits (HS8) for olive oil. We also match the international trade definitions with the marketing ones defined by the international agreement on olive oil managed by the International Olive Oil Council (IOOC).

Box 2: Taric nomenclature for olive oil and match with the marketing norms

Trade NC8
15091010: virgin lampante olive oil obtained from the fruit of the olive tree solely by mechanical or other physical means under conditions that do not lead to the deterioration of the oil.
15091090: olive oil obtained from the fruit of the olive tree solely by mechanical or other physical means under conditions that do not lead to deterioration of the oil, untreated (excluding virgin lampante oil)
15099000: olive oil and fractions obtained from the fruit of the olive tree solely by mechanical or other physical means under conditions that do not lead to deterioration of the oil (excluding virgin and chemically modified).
15100010: Other oils and their fractions, obtained solely from olives, whether or not refined, but not chemically modified, including blends of these oils or fractions with oils or fractions of heading 1509, crude.
15100090: other oils and their fractions obtained solely from olives, whether or not refined but not chemically modified, including blends of those oils or fractions with oils or fractions of heading 15009 (excluding crude).

Correspondences with marketing designation and definitions :
1- Olive oil is the oil obtained solely from the fruit of the olive tree (Olea europaea L.), to the exclusion of oils obtained using solvents or re-esterification processes and of any mixture with oils of other kinds. It is marketed in accordance with the following designations and definitions:
- Corresponding to line 15091090

Virgin olive oils are the oils obtained from the fruit of the olive tree solely by mechanical or other physical means under conditions, particularly thermal conditions, that do not lead to alterations in the oil, and which have not undergone any treatment other than washing, decantation, centrifugation and filtration.

Extra virgin olive oil: virgin olive oil which has a free acidity, expressed as oleic acid, of not more than 0.8 grams per 100 grams, and the other characteristics of which correspond to those fixed for this category in this standard

Virgin olive oil: virgin olive oil which has a free acidity, expressed as oleic acid, of not more than 2 grams per 100 grams and the other characteristics of which correspond to those fixed for this category in this standard.

Ordinary virgin olive oil: virgin olive oil which has a free acidity, expressed as oleic acid, of not more than 3.3 grams per 100 grams and the other characteristics of which correspond to those fixed for this category in this standard.

- Corresponding to line 15091010

Virgin olive oil not fit for consumption as it is, designated lampante virgin olive oil, is virgin olive oil which has a free acidity, expressed as oleic acid, of more than 3.3 grams per 100 grams and/or the organoleptic characteristics and other characteristics of which correspond to those fixed for this category in this standard. It is intended for refining or for technical use.

- Corresponding to line 15099000

Refined olive oil is the olive oil obtained from virgin olive oils by refining methods which do not lead to alterations in the initial glyceridic structure. It has a free acidity, expressed as oleic acid, of not more than 0.3 grams per 100 grams and its other characteristics correspond to those fixed for this category in this standard. 2/.

- Corresponding to 15100010

Olive oil is the oil consisting of a blend of refined olive oil and virgin olive oils fit for consumption as they are. It has a free acidity, expressed as oleic acid, of not more than 1 gram per 100 grams and its other characteristics correspond to those fixed for this category in this standard.3/.

2- Olive-pomace oil is the oil obtained by treating olive pomace with solvents or other physical treatments, to the exclusion of oils obtained by re esterification processes and of any mixture with oils of other kinds. It is marketed in accordance with the following designations and definitions:

- Corresponding to 15100010:

Crude olive-pomace oil is olive pomace oil whose characteristics correspond to those fixed for this category in this standard. It is intended for refining for use for human consumption, or it is intended for technical use.

Correponding to 15100090:

Refined olive pomace oil is the oil obtained from crude olive pomace oil by refining methods which do not lead to alterations in the initial glyceridic structure. It has a free acidity, expressed as oleic acid, of not more than 0.3 grams per 100 grams and its other

Olive pomace oil is the oil comprising the blend of refined olive pomace oil and virgin olive oils fit for consumption as they are. It has a free acidity of not more than 1 gram per 100 grams and its other characteristics correspond to those fixed for this category in this standard.5/ In no case shall this blend be called olive oil.

Olive oil tariffs are specific which means that they are levied depending on the quantity traded. We have reported the evolution of the level of the tariff rates in Table 4 and Table 5. Before the URAA, olive oil trade protection was characterized by a system of import levies. A tax was levied on imports if their price was lower than the European domestic price. An evolution of the trigger price is given in Table 4. After the Marrakech Agreement the EU had to implement tariffication and a common custom duty was fixed for olive oil (See Table 5). However, the 136/66 regulation still keeps an explicit reference to an additional duty if the market situation requires it.

Table 4: Evolution of the Olive oil protection before the URAA in Euro/100kg

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
Trigger price	228.74	228.35	234.5	226.98	235.5	225.13

Source: European Commission

Table 5 Evolution of the Olive oil MFN protection after the URAA in Euro/100kg

Product	01/07/95	01/11/96	01/11/97	01/07/98	01/07/99	Since 01/07/00
15091010	75	143	137.9	132.8	127.7	122.6
15091090	76	145.2	140.1	134.9	129.7	124.5
15099000	87	157	151.4	145.8	140.2	134.6
15100010	82	128.6	124	119.4	114.8	110.2
15100090	128	187	180.4	173.7	167	160.3

Source: TARIC

In order to assess the actual level of protection in the European olive oil sector we have tried to convert these specific tariffs in *ad-valorem* tariffs (See Table 6 and Table 7). We have first computed the unit value of extra-European imports (at 8 digits) from the Comext database, which is the EU external trade statistics database and then divided the specific tariff by this amount to have an estimation of the *ad-valorem* tariffs. If the results seemed adequate for the three first products (with an *ad-valorem* equivalents around 60%) the results looked odd for the remaining products. The unit values for third countries appeared completely over-estimated and we suspect the existence of some errors in the Comext data source. We thus decide to compute the *ad-valorem* equivalents from our world price reference, whereas it is available at only six digits. Results are shown in Table 7

Table 6[2]: MFN tariffs, preferential tariffs and level of quotas

	15091010	15091090	15099000	15100010	15100090
MFN tariffs	122.6 €/100kg	124.5 €/100kg	134.6 €/100kg	110.2 €/100kg	160.3 €/100kg
		Preferential Tariffs and quotas			
ABH	0%	0%	0%	0%	0%
South Africa	101.7 €/100kg	103.3 €/100kg	111.7 €/100kg	91.4 €/100kg	133 €/100 kg
Algeria	1218.755 €/1000kg	1237.755 €/1000kg	129.9 €/100kg	1094.76 €/1000kg	151.546 €/100kg
Andorra	0%	0%	0%	0%	0%
Bulgaria	0%	0%	0%	0%	0%
Croatia	0%	0%	0%	0%	0%
LOMB	0%	0%	0%	0%	0%
Lebanon	122.6 €/100kg 0 €/100kg (1000 tons)	124.5 €/100kg 0 €/100kg (1000 tons)	0%	110.2 €/100kg 0 €/100kg (1000 tons)	0%
Macedonia	0%	0%	0%	0%	0%
Morocco	122.6 €/100kg 0% (for 3710 tons)	124.5 €/100kg 0% (3710 tons)	134.6 €/100kg 0% (3710 tons)	110.2 €/100kg 0% (3710 tons)	160.3 0% (3710 tons)
Mexico				89.5 €/100kg	130.2 €/100kg
Romania	0%	0%	0%	0%	0%
SPGA	0%	0%	0%	0%	0%
San Marino	0%	0%	0%	0%	0%
Occupied Palestinian Territory	122.6 €/100kg 0% (2000 tons)	124.5 €/100kg 0% (2000 tons)			
Tunisia	122.6 €/100kg 0% (23000 tons) 7.81 €/100kg (23000 tons)	124.5 €/100kg 0 €/100kg (56000 tons)			
Turkey	110.34 €/100kg	112.05 €/100kg	127.87€/100kg	99.18 €/100kg	152.28 €/100kg

Quantities between parentheses are the level of quotas

Source: TARIC

MFN[3] tariff protection for olive oil is high from 64% to 122% (see Table 7). Except for Tunisia, preferences are not really effective. They have been allocated to countries which don't use them (e.g. Andorra, South Africa…) or quotas are ridiculously low (as it is the case for Morocco) and in *ad-valorem* equivalents these preferences are not really attractive.

[2] *ABH = Albania, Bosnia & Herzegovina, Kosovo, Montenegro, Serbia.

**LOMB = Anguilla, Netherlands Antilles, Antarctica, Aruba, Falkland Islands, Greenland, South Georgia and South Sandwich Islands, British Indian Ocean Territory, Cayman Islands, Montserrat, New Caledonia and dependencies, French Polynesia, St Pierre and Miquelon, Pitcairn, St Helena and dependencies, Turks and Caicos Islands, French Southern Territories, Brit. Virgin Is., Wallis and Futuna Islands, Mayotte.

***SPGA = Afghanistan, Angola, Bangladesh, Burkina Faso, Burundi, Benin, Bhutan, Congo Democratic Republic of, Central African Republic, Cape Verde, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Equatorial Guinea, Guinea Bissau, Haiti, Cambodia (Kampuchea), Kiribati, Comoros (excluding Mayotte), Laos, Liberia, Lesotho, Madagascar, Mali, Myanmar, Mauritania, Maldives, Malawi, Mozambique, Niger, Nepal, Rwanda, Solomon Islands, Sudan, Sierra Leone, Senegal, Somalia, São Tomé and Principe, Chad.

[3] Most Favoured Nation (MFN) tariffs are the "normal" tariffs applying to all importers.

Table 7: Ad-valorem equivalents of olive oil specific tariff duties

Ad-valorem Equivalents	**15091010**	**15091090**	**15099000**	**15100010**	**15100090**
MFN tariffs	64%	65%	77%	84%	122%
ABH	0%	0%	0%	0%	0%
South Africa	53%	54%	64%	70%	101%
Algeria	64%	65%	74%	83%	115%
Andorra	0%	0%	0%	0%	0%
Bulgaria	0%	0%	0%	0%	0%
Croatia	0%	0%	0%	0%	0%
LOMB	0%	0%	0%	0%	0%
Lebanon	0% (iq) 64% (aq)	0% (iq) 65% (aq)	0%	0% (iq) 84% (aq)	0%
Macedonia	0%	0%	0%	0%	0%
Morocco	0% (iq) 64% (aq)	0% (iq) 65% (aq)	0% (iq) 77% (aq)	0% (iq) 84% (aq)	0% (iq) 122% (aq)
Mexico				68%	99%
Romania	0%	0%	0%	0%	0%
SPGA	0%	0%	0%	0%	0%
San Marino	0%	0%	0%	0%	0%
Occupied Palestinian Territory	0% (iq) 64% (aq)	0% (iq) 65% (aq)			
Tunisia	0% (iq) 4% (iq) 64% (aq)	0% (iq) 65% (aq)			
Turkey	58%	59%	73%	75%	116%

(iq) = in-quota. (aq) = above-quota

Source: author calculations based on TARIC and Comtrade databases.

Conclusion: implications for EU policy and scenarios

This study has presented domestic support and trade protection for olive oil in the EU. Whereas the many reforms of the olive oil CMO, domestic support is still high and distorsive. However olive oil together with tobacco, cotton and hops form part of the “second wave” of the last CAP reform decided in 2003, implemented in 2005 and that will affect all the sectors of the European agriculture. The main measures concerning olive oil are presented in Appendix 2. Compared to the precedent situation, the main changing is the decoupling of 60% of the total payments. The remaining 40% being managed with great freedom by the producing Member States themselves.
Considering some aspects it seems that this new reform won’t be very harmful for olive oil growers. For example, the reference periods chosen by the European Commission are those which display the highest levels of payments and production. Basically the main difference is a kind of autonomy given to the producer States in the management of part of the aid.

Concerning trade, the protection is high and almost all preferences useless and more time and money consuming than really effective and will remain even after the reform. The olive oil sector would be better off with some simple measures. Specific duties should be converted into *ad-valorem* tariff rates. The MFN tariff should be decreased and some useless time and money consuming preferences which in fact, are not real ones, removed. These simple measures would bring more transparency in the EU olive oil market. This could be a first step in deepening trade relationship with our Mediterranean partners in line with the Barcelona process.

Some scenarios can be analysed based on the figures we provide:

1) The impact of partial decoupling.
2) The impact of total decoupling.
3) The impact of total removal of domestic support.

Concerning trade, the protection is high and almost all preferences useless and more time and money consuming than really effective. These considerations drive obvious scenarios:

1) Transforming specific duties in ad-valorem tariff rates.
2) Decrease the MFN tariff and remove some useless tariff rate quotas which are time and money consuming.
3) Remove preferences which are not really (e.g. For Algeria).

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