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Special report of the Court of Auditors on the common organisation of the market in olive oil

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I

(Information)

COURT OF AUDITORS

SPECIAL REPORT OF THE COURT OF AUDITORS

on the common organisation of the market in olive oil

(Opinion Article 206a (4) of the EEC Treaty)

(85/C 134/01)

The Court of Auditors has drawn up this report in response to a request made by the President of the European Parliament at the proposal of its Committee on Budgetary Control. The report was adopted by the Court at its meeting of 25 April 1985, in accordance with Article 206a (4) of the EEC Treaty. On 4 March 1985 the draft report was sent to the Commission whose replies are attached.

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CHAPTER 1

INTRODUCTION

Origin of this report

1.1. This report is made in response to a letter dated 4 February 1983 from the President of the European Parliament, requesting the Court of Auditors to make a report on the olive oil sector comprising the following elements:

- (a) an analysis of the organisation of the market in olive oil and its mode of operation during the last three years;
- (b) a description of the trend of appropriations allocated to the operation of this market organisation;
- (c) an analysis of the various frauds which have been recorded in this sector;
- (d) a list of proposals submitted by the various institutions in order to improve the functioning of these mechanisms and eliminate the causes of fraud, as well as the action taken in response to these proposals;
- (e) conclusions concerning ways of improving the situation.

The audit and its scope

1.2. The Court decided to carry out an audit covering as far as possible the aspects mentioned in the request, while reserving the right to form such conclusions as would emerge from the audit. In so far as questions of fraud are concerned, the Court decided to examine such cases as had been reported to the Commission, and Chapter 7 deals with these. To attempt to discover specific cases of fraud as an end in itself would be beyond the scope and role of the Court as defined in Chapter 1 of its first annual report ⁽¹⁾.

1.3. The audit, including the preparation of this report, involved an examination of the system of management and control of the chief measures having an impact on the Community budget in the field of olive oil, i.e. production aid, consumption aid, and the public storage of the product. The systems examination was supported by some transaction tests, including the taking and analysis of samples. The periods covered by the audit were, in principle, the marketing years 1978/79, 1979/80, 1980/81 and the financial years in which the related expenditure occurred, at least in part, that is to say 1979 onwards.

1.4. The audit examined the systems installed by the Commission and the Member States and evaluated the

controls critical to the reliability of these systems. While an analysis of the sound financial management of the market, in the sense of assessing the economy, efficiency and effectiveness of the various measures was outside the scope of the audit, nevertheless the report does touch upon some of these aspects where they arose incidentally during the course of the audit.

1.5. The principal object of the examination mentioned above was to discover any weaknesses in the system which could facilitate frauds. In fact, the report uncovers many such weak points and reaches the conclusion that the system in its present form is virtually unmanageable; the available statistics are unreliable and often contradictory (see Annex III); management of the system of payments has been widely delegated, in many cases to agencies or persons who benefit directly or indirectly from the aids.

1.6. The main conclusions of the report are summarised in Chapter 8.

Background

1.7. The olive and its various products, chiefly oil, are relatively little known in Northern Europe, but in the Mediterranean basin they form an important part of economic and cultural life. Outside the Mediterranean region olive cultivation is only marginal.

1.8. Oil, obtained from the olives by pressing in a mill, is called 'virgin olive oil'. The residue of the olives left after pressing yields 'virgin olive residue oil'. A variable proportion of virgin oil of the order of 50 to 65 % ⁽²⁾ is fit for direct human consumption and is marketed as such, or is mixed with refined olive oil. The balance, chiefly by reason of its acidity, is denoted 'lampant' and is normally refined before being placed on the market (see Annex I).

1.9. The olive tree, which takes from 6 to 12 years to mature, tends to be grown in areas which are unsuitable for alternative crops. Cultivation methods are generally undeveloped, holdings are small and the skills of the farmers are largely traditional. Tending and harvesting, still mostly manual, are costly, the hilly terrain being often unsuitable for the use of machinery. The crop tends to alternate every second year.

⁽¹⁾ OJ C 313, 30. 12. 1978, p. 8.

⁽²⁾ Depending on climatic and other conditions, such as plant variety, cultivation and harvesting methods and extraction techniques.

1.10. The olives are milled locally by a network of small mills of which are old and inefficient. Even where modern centrifugal mills have been installed, the fact that they operate only during the harvesting season gives rise to high overheads.

The common organisation of the market

The basic regulation

1.11. Olive oil was one of the first products to be incorporated into a common market organisation in accordance with Article 40 of the Treaty. The basic regulation ⁽¹⁾ in fact established two parallel markets, one for olive oil and the other for the main oil seeds (chiefly colza and sunflower) produced in the Community.

1.12. Since the level of self-sufficiency in oils and fats of vegetable origin was low, with a consequent dependence on the world market for supplies, the Community opted for a common price system pegged, for the raw material, at the level of world prices, so as to favour Community processing industries. Protection for these industries is provided mainly through a series of customs duties on processed products such as margarine. Community growers of colza and sunflower seeds ⁽²⁾ receive a subsidy designed to give them a 'fair' return and to encourage production.

1.13. With olive oil, however, the situation was somewhat different. Community production was almost sufficient for its needs. The special economic importance of olive oil production in certain regions of the Community, where it often constitutes the most important source of income for a large proportion of the population, was also recognised. Furthermore, consumer preferences made it possible to sell olive oil at a higher price than that of its competing products. In order to ensure a reasonable relationship between the price of olive oil and its competing products, while, at the same time giving a 'fair' return for producers, a production subsidy and an intervention storage system were provided. These were supplemented, as from 1 April 1979, by a consumption subsidy ⁽³⁾.

The market mechanism

1.14. The various measures by which the olive oil market is now controlled may be summarised as follows:

(a) Prices

- (i) Production target price, fixed at a level which is fair to producers, account being taken of the need

⁽¹⁾ Council Regulation No 136/66/EEC of 22 September 1966 on the establishment of a common organization of the market in oils and fats (OJ 172, 30. 9. 1966, p. 3025/66). The olive oil regime commenced as from 1 November 1966 and that for other oils and fats as from 1 July 1967.

⁽²⁾ Other seeds, such as soya beans and flax seed, were added later.

⁽³⁾ Council Regulation (EEC) No 1562/78, OJ L 185, 7. 7. 1978, p. 1.

to keep Community production at the required level.

- (ii) Intervention price, equal to the production target price less the production aid plus an allowance for market fluctuations and for the cost of transporting oil from production to consumer areas. It is the price at which oil may be offered to the intervention agencies.
- (iii) Representative market price, fixed at a level which will permit the normal marketing of olive oil produced, account being taken of the prices for competing products and of their probable trend during the marketing year.
- (iv) Threshold price, which is the representative market price adjusted to a Community frontier crossing point, determines the level of import levies when world prices fall below the threshold price.

(b) Production aid

Production aid in respect of virgin olive oil and olive residue oil is paid (normally) to the producer of the olives from which the oil is produced. Since the introduction of consumption aid, the level of production aid is fixed taking account of the effect of the former on part of the production.

(c) Consumption aid

Consumption aid, paid when the production target price, less the production aid, exceeds the representative market price. The aid is equal to the excess, and thus aims at ensuring disposal of supplies on the Community market irrespective of the price paid to the producer and of the prices of competing products. The aid is paid to the packaging firms in respect of olive oil when packaged in containers suitable for the retail trade, and placed on the market in the Community.

(d) Community preference

Community preference is assured by means of a levy charged on imported olive oil when the world market price falls below the threshold price. In similar circumstances, an export refund is accorded on Community oil exported to third countries ⁽⁴⁾. In practice the levies are now fixed by the tendering procedure.

Annex II illustrates the mechanism in visual form.

⁽⁴⁾ When the situation in the world market warrants, exports may be subjected to a levy to protect Community supplies.

CHAPTER 2

REVIEW OF OLIVE OIL MARKET 1978/79 - 1981/82

Introduction

2.1. This chapter provides a brief overview of olive oil production and consumption in the EEC for 1978/79 to 1981/82 which are the last four years for which data are available. The position of the Community within world olive oil production and trade is also considered.

2.2. It must be emphasised at this point that there are a number of difficulties in preparing an overview such as this resulting from the limitations of the available statistics. Statistical series of olive oil production and consumption are available from a number of different sources, but rarely agree with one another and are difficult, if not impossible, to reconcile as they are compiled on different bases. The differences between the series are sometimes considerable: for example, the Eurostat figures for EEC olive oil production are up to 37% higher than the International Olive Oil Council's figures for the years in question. This aspect is further examined in Annex III.

Community production in the world context

2.3. Taken as a whole, the Community is the largest producer of olive oil in the world. Statistics published by the International Olive Oil Council indicate that EUR 9 accounted for 30% of world olive oil production including olive residue oil between 1978/79 and 1981/82, and EUR 10 for 46% on average. However, the level of Community production and its share of total world production fluctuate considerably. This is, partly at least, due to the alternation of the crop every second year. The admission of Spain and Portugal would, on the basis of their production during this period, add on average some 450 000 tonnes annually to Community olive oil production, increasing the Community's share of world production to over 75%.

Analysis of Community production and consumption

2.4. Table 2.1 contains the balance sheets of the Community olive oil market for the marketing years 1978/79 to 1981/82 inclusive. In order to ensure comparability of one year with another the relevant statistics for Greece have been included for each year in all tables contained in this chapter.

Production

2.5. Olive oil production in the Community is concentrated in Italy and Greece with France adding a marginal 2 000 tonnes per annum. Italy's production in the period under review has ranged between 452 000 and 741 000 tonnes per annum (average for period 591 000 tonnes per annum), while that of Greece has ranged between a trough of 203 000 and a peak of 371 000 tonnes during the same period (average for period 267 000 tonnes per annum) (table 2.2).

2.6. In 1982 olive oil production accounted for 1,2% of the value of final Community agricultural production. It accounted for 9,6% of the value of final agricultural production in Greece, and 3,4% in Italy (¹).

2.7. According to available information, 2,7 million hectares are planted with olive trees in the Community, 2,2 million in Italy and 0,5 million in Greece. This accounts for roughly 27% of the total world area under olives and 2,5% of Community utilised agricultural area. There is little variation in these areas, either in the short or long term. According to certain estimates, the total number of cultivated and wild olive trees is about 307 million (185 million in Italy, 117 million in Greece, and 5 million in France (²)).

2.8. Production in both Italy and Greece is dominated by small producers, typically cultivating an average of 5 hectares, of which 1 hectare is under olive trees. These producers are spread throughout the two countries. There are approximately 1 million producer families in Italy, 400 000 in Greece, and 35 000 in France. This production structure, together with the agriculturally marginal nature of the land on which the olive trees grow, highlight the important social aspect of olive oil production.

Consumption

2.9. Table 2.1 shows that approximately 97% of internal Community consumption of olive oil is direct human consumption, the remainder being for industrial usage in the conservation of vegetables or fish.

(¹) Source: The Agricultural Situation in the Community, 1983, Table 03.

(²) Source: Doc. COM(83) 758 final of 5 January 1984 'The Situation of the Agricultural Markets Report 1983'.

Table 2.1

Community olive oil balance sheets 1978/79 to 1981/82 (EUR 10)
(including olive residue oil)

(1 000 tonnes)				
	1978/79	1979/80	1980/81	1981/82
Sources				
Production	687	723	1 114	915
Imports (from non-EEC)	137	155	126	n.a.
Total sources	824	878	1 240	n.a.
Uses				
Human consumption	830	829	925	897
Industrial use	16	39	45	33
Exports ⁽¹⁾ (to non-EEC)	59	43	30	n.a.
Total uses	905	911	1 000	n.a.
Variation in stocks	- 81	- 33	240	n.a.
Total uses	824	878	1 240	n.a.
Self-sufficiency % ⁽²⁾	81,2	83,3	114,8	98,4

Note: ⁽¹⁾ The EUROSTAT Balance Sheet for olive oil does not publish a series for exports from EUR 10. However by adding the series for Greece's exports to the EUR 9 series, one arrives at the figures shown in this line, which enable the Sources and Uses, adjusted for changes in stocks, to balance.

⁽²⁾ Production: (Human consumption + Industrial use).

n.a. = not available.

Source: EUROSTAT Balance Sheets – CRONOS (as corrected – see Annex III, paragraphs 14 and 18, of this report).

Table 2.2

Olive oil production in the Community 1978/79 to 1981/82

Marketing year	Member States			Total
	Greece	France	Italy	
1978/79	233	2	452	687
1979/80	203	2	518	723
1980/81	371	2	741	1 114
1981/82	259	2	654	915
Average	267	2	591	860
Percentages	31,0	0,2	68,8	100

Source: EUROSTAT Balance Sheets, CRONOS.

2.10. Table 2.3 shows that direct human consumption in the Community is concentrated in the three producing countries, with small amounts being consumed in the other Member States. The apparent increase in consumption throughout the Community in 1980/81 and 1981/82 shown by the table brings consumption levels back to those experienced in the 1960s and early 1970s.

Table 2.3

Direct human consumption of olive oil in the Community 1978/79 to 1981/82

(1 000 tonnes)

Marketing year	Member States				Total
	Greece	France	Italy	Other	
1978/79	200	21	602	7	830
1979/80	170	24	627	8	829
1980/81	223	33	661	8	925
1981/82	218	16	654	9	897
Average	203	23	636	8	870
Percentages	23,3	2,7	73,1	0,9	100

Source: EUROSTAT Balance Sheets, CRONOS (as corrected – see Annex III, paragraphs 14 and 18 of this report).

2.11. Per capita consumption varies considerably from country to country. Apart from the variation between the producing countries and the countries of Northern Europe (with per capita consumption of about 0,1 kg per year) there are variations between the producing countries. France, with its limited production in the Mediterranean regions of the country, records a per capita consumption for the country as a whole of 0,5 kg on average, while Italy and Greece record consumption over 10 and 20 kg per capita per annum respectively.

Trade between the Community and other countries

2.12. Tabel 2.4 sets out import and export data for the Community which traditionally has been the world's largest bulk importer of olive oil, mainly from Spain and Tunisia. In addition to the need to supplement Community production, imports are required for blending purposes in order to satisfy consumer tastes. They have, therefore, continued, albeit at a reduced level, since Greece entered the Community with its surplus production which has raised Community self-sufficiency to 95 % on average, and over 100 % in years of high production. The Eurostat data on imports are only available up to 1980/81, but reference to separate Commission data published in the 'Situation of the Agricultural Markets Report 1983' shows that imports fell from an average of 126 000 tonnes in the five years before

1981 to 62 000 tonnes in 1981/82, reflecting Greek accession to the Community.

2.13. The situation of the three producer countries are different, with Greece importing no olive oil, but France and Italy importing more than they export.

2.14. The addition of Greece to the Community has increased the amount of olive oil exported to non EEC countries from an average of 16 890 tonnes in the five years prior to 1981, to 62 100 tonnes in 1981/82 according to the 'Situation of the Agricultural Markets Report 1983'. On these figures, the Community was marginally a net exporter of olive oil in 1981/82. A substantial proportion – in excess of one third – of these exports was accounted for by exports from intervention stocks.

Intra-Community trade

2.15. The amount of intra-Community trade is limited, and mainly occurs between the three producer-consumer countries of Italy, Greece and France. The trade between the producing countries and the Northern European Members of the Community is insignificant. Since the entry of Greece to the EEC the amount of intra-Community trade has increased as importers in Italy and France have partially changed their sources of supply from Tunisia and Spain to Greece.

Table 2.4

Imports and exports of olive oil 1978/79 to 1981/82

(1 000 tonnes)

	EUR 10			France			Italy			Greece		
	Imports	Exports ⁽¹⁾	Balance	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance
1978/79	137	59	- 78	22	3	- 19	119	33	- 86	—	34	34
1979/80	155	43	- 112	36	14	- 22	133	34	- 99	—	17	17
1980/81	126	30	- 96	53	22	- 31	95	26	- 69	—	12	12
1981/82	62	62	0	32	18	- 14	71	49	- 22	—	24	24

Notes: ⁽¹⁾ See note ⁽¹⁾ in table 2.1.⁽²⁾ The EUR 10 columns show trade with non-Community countries only.

The France, Italy and Greece columns include intra-Community trade.

Source: EUROSTAT Balance Sheets - CRONOS, supplemented, for 1981/82, by Commission estimates.

Prices

2.16. Since the introduction of consumption aid with effect from 1 April 1979 the production target price fixed by the Council of Ministers has increased from 231,56 to 319,42 ECU per 100 kg (6,6 % average annual increase) in 1983/84 and the intervention price has increased from 170,63 to 229,92 ECU per 100 kg (6,1 % per annum). Production aid increased from 52,12 to 70,26 ECU per 100 kg (6,2 % per annum). The representative market price was held at about 145,00 ECU per 100 kg until 1981/82, which meant the consumption aid ⁽¹⁾ more than doubled from 33,42 ECU per 100 kg in 1978/79 to 67,77 ECU per 100 kg. In 1982/83 the price movements were such that consumption aid increased to 76,67 ECU per 100 kg, but for 1983/84 a large increase in the representative market price from 159,50 to 196,87 ECU per 100 kg resulted in a 32 % drop in consumption aid from the year before.

2.17. Since 1978/79 market prices for different grades of oil have frequently dropped below intervention prices,

⁽¹⁾ Consumer aid is equal to the difference between the representative market price and the production target price, less production aid.

resulting in substantial sales into intervention in most years. The situation varies from country to country and from year to year - for example in 1980/81 and 1981/82 the prices in Italy tended to be above intervention price levels, whereas in Greece they were below. In 1982/83 a small crop in Italy meant that little was taken into intervention, and although the crop in Greece was high, sales to the Italian market increased, thus reducing the amount bought by the intervention agency in Greece.

2.18. If the price (excluding the effect of consumption aid) of refined olive oil on the Bari market is compared with the prices of its chief competitors - edible seed oils - on the Milan market, it is seen that between 1979 and 1983 the olive oil price increased faster than the edible seed oils price, with the ratio of the former to the latter increasing from an average of 2,73 : 1 in 1978/79 to 3,66 : 1 in 1981/82, peaking at 3,75 : 1 for the marketing year 1982/83. Since August 1983 the ratio has narrowed considerably as a result of large increases in the prices of edible seed oils.

CHAPTER 3

EVOLUTION OF BUDGETARY APPROPRIATIONS

Expenditure trends

3.1. Table 3.1 summarises the evolution of expenditure on the olive oil market from 1979 onwards.

Table 3.1

Budgetary expenditure on olive oil, 1979 to 1984

						(Mio ECU)
Title	1979	1980	1981	1982	1983	1984 ⁽¹⁾
(a) Export refunds	—	—	2,9	8,8	9,7	24,0
(b) Production aid	357,8	237,9	274,3	254,9	393,8	513,0
(c) Consumption aid		52,3	105,7	152,4	221,6	250,0
(d) Deductions for specific consumption measures		—	—	—	—	—
(e) Net aids (b) to (d)	357,8	286,6	376,6	407,3	615,4	763,0
(f) Specific production measures: (olive cultivation register etc.)	n.a.	n.a.	n.a.	2,6	13,8	11,0
(g) Specific consumption measures (information etc.)	n.a.	0,2	0,3	2,8	0,2	6,0
(h) Technical costs of public storage	22,6	20,5	51,0	34,9	24,1	28,0
(i) Financial costs of public storage				25,9	20,6	22,0
(j) Other costs of public storage: (results on sales)				—	—	p.m.
(k) Other intervention storage						
(l) Total intervention storage (h) to (k)	22,6	20,5	51,0	56,3	12,2	37,0
(m) Production refunds for olive oil used in the manufacture of preserved fish and vegetables	7,8	10,6	11,9	15,3	23,9	22,0
(n) Total	388,2	317,9	442,7	493,1	675,3	863,0
(o) % of EAGGF-Guarantee	3,7%	2,8%	4,0%	4,0%	4,3%	4,7%

⁽¹⁾ Amending and supplementary budget No 1-1984.

⁽²⁾ From 1982 onwards, the figures for consumption aid are shown net of the deductions.

n.a. = not applicable. —

3.2. As line (o) of the table shows, expenditure on olive oil has risen faster than EAGGF-Guarantee expenditure in general, at an average rate of 14,8 % per annum for the four years to 1983. This is due in part to the introduction of consumption aid as from 1 April 1979, and to the gradual introduction of the market supports in Greece, beginning with the marketing year 1980/81 for production aid and with 1981/82 for consumption aid. The total budgetary cost for olive oil is not as great as that for its principal competitor products — seed oils, which in 1983 totalled 945,6 Mio ECU and which has risen at an average annual rate of 45 % over the four years.

3.3. The trend of expenditure on olive oil is, however, seriously distorted by several factors, especially the lengthy delay in payment of production aid. The introduction of an advance payment improved the situation somewhat as compared with the pre-1978 situation, but the amount of the advance has varied over the years. This latter fact, coupled with the temporary suspension of advances in Italy for 1980/81, resulted in a cumulative postponement of payments, which have to be made in later years. Another distorting aspect is the method currently used for arriving at the results (losses or gains) on sales of intervention stocks, described in detail at paragraph 6.50 (f) of this report.

Budgetary presentation

3.4. Further unhelpful factors in any analysis of table 3.1 are the changes which have taken place in the budgetary presentation over the years and the sometimes misleading titles given to the budget items. Thus, for example:

line (b),

'production aid' includes sums, varying from year to year, for the administrative costs of olive oil producer organisations; furthermore, it is netted by sums, similarly varying from year to year, deducted from the aid in order to finance the olive cultivation register, sums which do not correspond with those in line (f);

line (c),

'consumption aid' includes varying amounts retained by professional organisations which assist in the administration

of the aid, and, in some years, is netted by amounts deducted for publicity and other measures, which do not correspond with the expenditure shown in line (g).

Expenditure by Member State

3.5. An analysis of payments, by Member State, for the three main areas of expenditure, is set out in table 3.2.

Accuracy of budget estimates

3.6. Despite the fact that support prices and levels of aid are decided, at the latest, before the beginning of the financial year, and that reasonably accurate estimates of the olive harvest are available in the autumn preceding that year, the record of the budgetary estimates cannot be described as accurate, even allowing for the normal hazards of prediction in the agricultural field. Table 3.3 which shows expenditure as a percentage of the original budget estimates demonstrates the results.

Table 3.2

Expenditure per Member State on production aid, consumption aid and intervention storage

		(Mio ECU)				
Aid type - Member State		1979 ⁽¹⁾	1980	1981	1982	1983
Production aid						
Italy		329,1	237,1	257,0	227,9	317,6
Greece		—	—	16,2	26,3	74,9
France		1,0	0,7	1,1	0,7	1,3
Total production aid		330,1	237,9	274,3	254,9	393,8
Consumption aid						
Italy		27,1	47,9	103,8	148,3	206,3
Greece		—	—	—	4,0	10,2
France		0,5	0,7	-1,9	-0,5	4,3
Other		0,1	0,2	0,4	0,6	0,9
Total consumption aid		27,7	48,7	102,3	152,4	221,7
Intervention storage						
Italy		22,6	20,5	24,5	14,6	18,1
Greece		—	—	26,5	41,7	-5,9
Total intervention storage		22,6	20,5	51,0	56,3	12,2

⁽¹⁾ The 1979 figures are based on declarations by the Member States.

Table 3.3

Actual expenditure on olive oil as a percentage of original budget estimate, 1979 to 1983

Year	1979	1980	1981	1982	1983
Export refunds	0	0	145 %	176 %	194 %
Production aid	119 %	74 %	73 %	65 %	102 %
Consumption aid		44 %	68 %	73 %	87 %
Deductions for specific consumption measures		72 %	49 %	n.a.	n.a.
Specific production measures (olive cultivation register etc.)	n.a.	n.a.	n.a.	26 %	138 %
Specific consumption measures (information etc.)	n.a.	40 %	44 %	31 %	1 %
Technical costs of public storage	140 %	137 %	193 %	159 %	115 %
Financial costs of public storage				173 %	108 %
Other costs of public storage (results on sales)				-64 %	-650 %
Other intervention storage	224 %	137 %	193 %	—	—
Total intervention storage				128 %	27 %
Production refunds for olive oil used in the manufacture of preserved fish and vegetables	163 %	118 %	121 %	81 %	104 %
Total	121 %	68 %	75 %	72 %	91 %

n.a. = not applicable.

CHAPTER 4

PRODUCTION AID

HISTORICAL BACKGROUND

Original production aid

4.1. The original production aid, introduced in 1966, was calculated as the difference between the production target price (fixed at a level which would give a fair return to producers) and the lower market target price which was set at a level necessary to maintain consumption of the product in the face of competition from cheaper seed oils, the raw materials for which could be imported free of tariffs from third countries. It was decided to pay the aid directly to producers (even for oil consumed by themselves and their families). The aid does not vary according to quality.

4.2. The main features of the system were:

- (a) producers were required to make individual applications for aid directly to the responsible agency designated by the Member State. This application included a declaration of the number of olive trees involved;
- (b) controls by the national authorities were designed to verify that the quantity of oil agreed with the records of the mill where the olives were crushed and was

consistent with the expected yield from the number of olive trees involved.

4.3. This system caused serious administrative problems from the beginning. The very large number of producers involved in Italy generated a volume of paperwork which the national authorities had serious difficulties in processing.

4.4. Some five years after the introduction of the aid the Commission analysed the problems as follows:

- (a) serious delays in examination of claims with consequent delays in payment;
- (b) the Italian administration was not in a position to ensure verification of the very large volume of applications for aid. In particular doubts were expressed as to the ability of the national authorities to verify the accounting records of the oil mills;
- (c) the quantity of the oil for which aid was requested, in certain years, far exceeded the estimates of production made by the Commission.

4.5. A Commission proposal in 1972 to replace the system by a simpler flat-rate system proved unacceptable to the Council. The Commission then turned to the idea of establishing a Register of Olive Cultivation which was considered to be an indispensable aid for ascertaining true olive oil production. This register was launched by Council Regulation (EEC) No 154/75 ⁽¹⁾, adopted by the Council on 21 January 1975 but has not yet become operational (see Annex IV for further details). The original system continued until 1978 when the perceived decline in consumption and the prospect of the entry of new oil-producing countries (Greece and Spain) combined with the general dissatisfaction with the system to incite a fundamental reform of the basic regulation.

The 1978 reform

4.6. The Commission's initial proposal, reviving its earlier one, that production aid should be based on a flat-rate system was once more rejected. Following discussions with the national authorities principally concerned, it was decided instead to involve olive oil producer groups in the administration and control of the aid. Earlier in the same year the Council had adopted Council Regulation (EEC) No 1360/78 ⁽²⁾ designed to encourage the formation of producer groups and associations thereof in certain regions of the Community and for certain markets (including olive oil) where structural difficulties were most in evidence. These groups would market, or regulate the marketing, of their members' produce. The regulation was linked to the olive oil control system to encourage the formation of recognised producer groups who would verify the applications of their members. This was done by means of Council Regulation (EEC) No 1562/78 ⁽³⁾ which came into operation on 1 November 1978 – the beginning of the marketing year.

4.7. The latter regulation also introduced the possibility of an advance payment of a proportion of the aid, to be released as soon as the producer groups had processed the applications and presented them to the national authorities. This was calculated to speed up the process of payment. However, the implementing rules for Regulation (EEC) No 1360/78 were not adopted by the Commission until 1980. Thus, on 1 November 1978, no producer groups within the meaning of that regulation existed, and emergency provisions had to be drafted which recognised, solely for the purposes of the production aid, existing producer organisations, which had for the most part no marketing functions. Thus a major reform of the system was launched before a network of producer groups within the meaning of Council Regulation (EEC) No 1360/78, which was one of the most important elements of the reform, had been set up.

Due to lack of progress in the formation of such producer groups (only 25 have been recognised so far in Italy) the emergency, ad hoc, procedure had to be repeated each year to date.

OUTLINE OF THE SYSTEM

4.8. The level of production aid is now fixed annually by the Council before 1 August for the following marketing year beginning on 1 November. The aid amounts to about one-third of the producer price. The Community has not yet, however, adopted a permanent administrative framework. Instead, the Council adopts each year a set of general rules which are supplemented by detailed rules made by the Commission. Together with the ad hoc regulation dealing with producer organisations, these ⁽⁴⁾ form the governing legislation for a given marketing year ⁽⁵⁾.

4.9. Production aid is paid on two bases:

- (a) on the actual production of oil by growers who are members of recognised producer organisations ('Associated Producers') provided the olives are pressed by an approved mill;
- (b) on a flat-rate basis, calculated on the number of olive trees and their production potential, for other growers, provided the olives in question have been harvested (or for associated producers who opt to have their olives pressed in an unapproved mill). The flat-rates of yield are fixed every year by the Commission for each of the 300 or so homogenous zones within the Community.

4.10. Producers also receive aid in respect of olive residue oil on a fixed scale basis – at present 8 % of the quantity of virgin olive oil allowed.

4.11. To avoid structural surpluses, production aid is granted only in respect of areas planted with olive trees as at 31 October 1978 or, in Greece's case, as at 1 January 1981.

4.12. Budgetary expenditure on production aid, which is set out in detail in Chapter 3, has averaged 308 Mio ECU per annum during the period 1981 to 1983.

⁽⁴⁾ For example, for 1980/81:

Regulation (EEC) No 2528/80, OJ L 259, 2. 10. 1980, p. 1.
Regulation (EEC) No 2529/80, OJ L 259, 2. 10. 1980, p. 3.
Regulation (EEC) No 2941/80, OJ L 305, 14. 11. 1980, p. 18.

⁽⁵⁾ See, however, Chapter 7.

⁽¹⁾ OJ L 19, 24. 1. 1975, p. 1.

⁽²⁾ OJ L 166, 23. 6. 1978, p. 1.

⁽³⁾ OJ L 185, 7. 7. 1978, p. 1.

Key control requirements of the system

4.13. In such a system where the aid is paid without a requirement of the transfer of ownership of the produce, the following control requirements would appear to be essential to ensure against fraud:

- (a) that the applicant is the cultivator of the land concerned;
- (b) that the land is planted with the declared number of olive trees;
- (c) that the declared number of olive trees has produced the declared quantity of olives and that they have been harvested and presented to an oil mill for crushing;
- (d) that the crushing process produced the quantity of oil for which aid has been sought;
- (e) that no other applications for aid have been made for the oil in question.

CONTROL PROVISIONS OF THE GOVERNING REGULATIONS

4.14. Each producer must submit before a certain date a crop declaration containing:

- (a) particulars of the olive trees and their location,
- (b) a declaration that he has harvested the olives in the current marketing year, and
- (c) details of the purpose for which the olives are intended.

4.15. Associated producers submit their crop declarations to the producer organisations who, after checking the information supplied, submit a single declaration for all their members, as well as an application for aid to the responsible national agency. The applications supported by the relevant crop declarations may be submitted each month for all members who completed their production of oil in the course of the previous month.

4.16. Non-associated producers submit their crop declarations directly to the responsible national agency. These declarations are deemed to be the equivalent of an application for aid.

Control responsibilities of producer organisations*Checks on individual applications*

4.17. The regulations adopted in the early years of the scheme provided that each producer organisation should check:

- (a) the harvesting of the olives produced by its members,
- (b) the delivery of those olives to the mill, and their pressing.

4.18. From the 1980/81 marketing year onwards, the above verification requirements were made more specific by requiring the organisations to check in all cases that:

- (a) the quantity of olives declared as having been pressed corresponds with the particulars given in the crop declaration;
- (b) that the quantities of olives pressed and the quantities of oil obtained tally with the quantities of olives and oil stated in the stock records of the mills.

4.19. The regulations also require the producer organisations to check a minimum of 10% of the crop declarations. There is no specific provision, however, for on-the-spot verification of the crop declarations.

4.20. When the particulars at 4.18 (a) do not tally, supporting documentation must be requested. If these documents do not enable the organisation to establish the quantity of olives produced, or if the particulars at 4.18 (b) do not agree, the application is to be passed immediately to the responsible national agency for further investigation.

Payment of advance

4.21. Member States are authorised to pay an advance not exceeding a percentage fixed by the Community to the recognised producer organisations on the basis of their monthly applications. The limit was fixed at 70% for marketing years up to 1981/82, but during the course of the latter year, it was reduced by the Italian authorities to 55%. For 1982/83 and 1983/84 the limit was reduced to 50% or the amount resulting from applying the flat-rate yields (as established for non-associated producers) to the number of olive trees in production ⁽¹⁾.

Controls over non-associated producers

4.22. Non-associated producers submit their crop declarations directly to the national authorities who are required to carry out on-the-spot verifications for at least 5% of the declarations. Aid is paid on the basis of flat-rate yields applied to the number of trees in production, provided the crop has been harvested. There is no advance payment.

⁽¹⁾ The latter provision was not, however, interpreted as applying the lower of these two ceilings. Thus, for example, in Italy advances equalled the sums resulting from the fixed yields or, if less, the sums actually claimed, while in Greece they equalled 50% of the claims.

Control responsibilities of the national authorities

4.23. The primary responsibility for the proper functioning of the system rests with the Member States. They are obliged to set up a system of administrative checks to ensure that the oil is eligible for aid. They must, in particular, verify the activities of the producer organisations and oil mills as outlined below. In effect, while the payment of advances is made on the basis of checks carried out by the approved producer organisations the balance can only be paid after the approval of the national authorities. In addition, the latter must control directly the applications of non-associated producers (see above). The Member States are also required to provide for sanctions in the event of breaches of the aid arrangements.

Approval of producer organisations

4.24. Annual recognition is granted by the Member States to existing producer organisations (whether or not they market the produce of their members) provided that (*inter alia*):

- (a) they are capable of verifying the olive and olive oil production of their members;
- (b) they are authorised to receive the aid and allocate to each member his due share;
- (c) they are of a minimum size.

The regulations do not contain any detailed provisions as to how these capabilities must be established.

4.25. Since 1980/81 the organisations concerned may retain, by way of commission to cover administration costs, up to 2,4% of the aid paid to them. These producer organisations are liable for any overpayments of aid resulting from a failure to carry out the required checks.

Approval of mills

4.26. As from 1980/81 a system of annual approval of mills was instituted and the nature of the stock records to be kept by them was set out in greater detail.

4.27. Sample checks on the mills are carried out on the spot by representatives of the producer organisations. The mills to be checked are selected by the national authorities. The checks extend to the capacity of the mills and the yields from olives pressed. Cases of irregularity are reported to the national authorities who are required to investigate them and to carry out random checks themselves on other mills. Approval is withdrawn if any of the required conditions is no longer met or if irregularities are discovered.

4.28. The effect of withdrawal is that associated producers, who are clients of the mill involved, are liable to be paid on the basis of the flat-rate yields, unless the Member State can verify their actual production.

Division of control responsibilities

4.29. The responsibility for carrying out the key controls (a) to (d) outlined at 4.13 above are shared therefore between the recognised producer organisations and the national authorities in the case of associated producers. The national authorities alone are responsible for carrying out the controls on non-associated producers as well as having ultimate responsibility for ensuring the exclusion of duplicate demands (see 4.13 (e)).

4.30. The Commission is responsible for developing appropriate governing regulations and for monitoring the operation of the scheme in the Member States.

OPERATION OF THE SCHEME IN THE MEMBER STATES

ITALY

Structure of production

4.31. In Italy, the amount of olive oil qualifying annually for aid has varied between 435 000 and 714 000 tonnes in recent years. The number of annual applications is of the order of 1 million, and the number of approved mills is about 9 000. Although oil is produced in almost all of the country's 20 regions, the bulk of production is concentrated in the south. Puglia accounts for some 35 %, Calabria for 25 % and Sicily for 10 %. The size of trees, their density per hectare and the yield in olives vary widely, as does the size of holdings. Many of the latter are very small. Average production of oil is about 0,5 tonnes per grower, representing about 350 ECU in aid per year. Over 30 % of growers produce less than 100 kg each, barely enough for their own needs. Though not in commercial production, these small producers also receive the aid (maximum 70 ECU each).

4.32. Each province has one or more producer organisations, and over 95 % of the growers belong to such organisations. Within a province the organisations are mutually independent and, to some extent, find themselves competing with each other. The local organisations are, in turn, grouped under four national unions of producers reflecting particular political tendencies. Two of these account for 75 % of total membership.

Central and regional administration

4.33. Production aid is administered by the Italian State Intervention Agency (AIMA) acting under the general

authority of the Ministry of Agriculture and Forestry. Certain essential functions, such as the ascertainment of average crop yields, the control over mills and the final decision as to the amount of the oil admitted for aid, are the responsibility, under Italian law, of the regional or provincial authorities. The latter carry out their responsibilities with the assistance of provincial commissions comprising representatives of the local authorities, producers and inter-professional bodies.

4.34. The regional and provincial authorities, although acting in accordance with detailed directives issued by AIMA and the Ministry are not subject to central managerial control.

Audit findings

Location of audit vouchers

4.35. To comply with the Parliament's request the Court wished to examine supporting vouchers relating to each year of the new regime up to 1982/83. For this purpose preparatory visits were organized to the offices of the national authorities in order to make it clear that representative samples of vouchers for each campaign year were required for examination at all centres chosen for visit. Despite assurances that appropriate arrangements would be made, however, it was found during the visits to provincial offices that no special arrangements had been made to ensure availability of the required documentation. In general, vouchers relating to 1981/82 and subsequent years were still being processed and were not made available.

4.36. The problem was apparently caused by the fact that Italian law is precise as regards the location of vouchers. However, national legal provisions should not hinder the Court's audit.

Producer organisations

4.37. It was found that the structure of, and the verification work carried out by, producer organisations were inadequate. In particular:

- (a) in practice only the four national unions are recognized by the Italian authorities but these have delegated most of their control tasks to the constituent local producer organisations. The latter have recourse to the assistance, at communal level, of local trade unions or political organizations with which they are associated. Thus duties stemming from recognition, which in legal terms repose on the national unions, are carried out in practice by groups which have themselves no direct responsibility either to the Italian authorities or to the Community;

- (b) the local producer organisations vary widely in their capacity to fulfil the responsibilities delegated to them. Some have full-time staff, while others have only part-time assistance. Furthermore, the temporary nature of the regulatory framework discourages these organisations from installing a more stable and reliable control structure;

- (c) there is little evidence of a comprehensive management and control system ranging from national to local levels;

- (d) verification by the producer organisations of details on the crop declarations (e.g. areas planted and number of trees) appears, for the most part, to be documentary, e.g. by reference to cadastral records, and visits on the spot are rare. However valuable the cadastral extracts may be in establishing ownership and area of land parcels, they cannot substitute for the range of evidence available from on-the-spot visits. Though not specified in the regulations, such visits are rendered all the more necessary on an extensive scale in view of the absence of any reliable record of the area under olive tree cultivation.

- (e) Although explicitly prohibited by the regulations from 1980/81 onwards simultaneous membership by a grower of two or more local organisations is not uncommon. For example, one organisation with a nominal membership of 17 000 admitted to an active membership of not more than 6 000. Apart from the dangers of duplicate applications for production aid (see 4.43 below) this situation encourages a degree of competition between producer organisations to the detriment of secure administration of the aid. The Court, indeed, found evidence of losses of membership by some of the larger organisations which applied the checks more rigorously than others.

4.38. The foregoing paragraphs cast considerable doubt on the ability of the producer organisations to verify the production of their members and, in particular, on the payment of an advance on the strength of the verification work actually carried out.

Indeed, the size and scale of overpayments in the early years still give cause for concern (see 4.42 (b) (v)).

4.39. The inadequacies of the verification work performed by the organisations are highlighted by the relatively large number of irregularities and anomalies discovered during the review of the 1979/80 and 1980/81 declarations by the official regional and provincial authorities. These reviews have given rise to reductions of the order of 15 % on the quantities of oil returned by the

producer unions (representing a saving of approximately 100 Mio ECU for the two years involved).

System of payment

4.40. Under the regulations payment to associated producers is to be made in the first instance to the producer organisations, which in turn make payments to the individual members. Following fears of irregularities in this procedure, the Italian authorities introduced in 1980/81 an arrangement whereby the payments are made through the producer unions by means of individual non-transferable cheques made out in the names of the individual producers. The present enquiry did not extend to a detailed examination in this area.

Control by official agencies

4.41. The governing regulations place the ultimate responsibility for verifying the correctness of production aid applications on the national authorities. In Italy this responsibility is delegated by Italian law to the regional and provincial authorities. Thus after the group applications have been presented to AIMA and advances have been paid, the files are passed to the regional or provincial authorities for the final checks before the determination of the amounts to be admitted. These authorities also deal directly with applications from non-associated producers.

4.42. The procedure is that the applications are processed so as to list by province:

(A) those in which the quantity of oil claimed does not exceed the flat-rate yields fixed annually by the Community for non-associated producers, and

(B) those in excess of such yields.

Cases at (A) are examined by the regional or provincial authorities to verify formal entitlement to aid, i.e. for completeness of the supporting documentation, but the quantity of oil claimed is normally not questioned. Cases under (B) are additionally examined⁽¹⁾ to verify the quantities claimed. The final decisions as to amounts admitted rests, in such cases, with the provincial olive oil commissions mentioned at 4.33. The Court's audit revealed that:

(a) As regards the regional or provincial authorities.

- (i) The fact that they are not subject to central managerial control means that the determination of quantities finally admitted for aid is outside the effective competence of the national authorities. Furthermore there is a lack of feedback which

is essential to good management practice. As a result certain management statistics requested by the Court had to be compiled specially and other data requested could not be provided.

For the same reasons:

- (ii) The intensity and type of controls vary greatly from one region to another.
- (iii) The superficial nature of the examination of most of the cases which were under the Community fixed yields is also a cause for concern.

(b) As regards the Provincial Olive Oil Commissions.

- (i) Having regard to the size of the task (950 000 applications in 1979/80 and 1 000 000 in 1980/81, of which 70 % fell into category (B) above), the final clearance of applications has placed considerable strains on the administration and has given rise to substantial delays. For example at end-December 1983 the quantities still awaiting final examination, as a percentage of the total applied for, were 20 % for 1979/80 and 45 % for 1980/81.
- (ii) In order to keep to manageable proportions the number of cases to be retained for in-depth examination, the provincial commissions themselves laid down local limits within which, *ceteris paribus*, quantities claimed would be allowed automatically. Cases in excess of these limits were often reduced on an arbitrary basis without detailed investigation. The variation in provincial norms has resulted in unequal treatment of producers. The norms fixed were, in certain cases, more generous than the yields fixed by the Community.
- (iii) The verification of production capacity by means of on-the-spot visits varied widely from province to province. Statistics furnished by AIMA at the request of the Court indicated that a total of 15 479 visits were made for statistical purposes during the five-year period 1978/79 to 1982/83. During the same period a total of 22 739 verification visits took place. In the Court's opinion the number of visits for verification purposes in particular was insufficient, having regard to the number of growers (almost 1 million) and to the high proportion of aid applications in excess of Community norms.
- (iv) Methods of approximation used render the application of sanctions difficult (see 4.52 below).

⁽¹⁾ And doubtful cases under (A) where deemed necessary.

- (v) The use of such methods has also hampered the process of recovery of overpayments where sums found to be due were less than amounts already advanced. The Court was unable to obtain a total of such overpayments, but in one province they amounted to 450 000 ECU for 1979/80 alone.

Global controls operated on behalf of the national authorities

4.43. Controls to detect duplicate applications are particularly important. The Italian authorities have set up a computer system to ensure that before advances are paid to associated producers:

- (a) checks are performed to eliminate duplicate applications by producers who might simultaneously belong to two producer organisations,
- (b) the amount of oil declared is compared with the extracts of mill registers sent directly to AIMA by approved mills.

4.44. While these control checks are undoubtedly worthwhile, they would be rendered more reliable if each plot of land were allotted a unique reference number and a check were incorporated in the control system to verify that only one application for aid is made in respect of that plot.

4.45. Also certain non-associated producers appear to escape some of these essential controls, especially if they have their olives crushed in an unapproved mill.

Controls over oil mills

4.46. Since the miller's certificate forms an essential part of the supporting documentation, even in the case of non-associated producers, the control of the mills is an important feature of the system. Yet because of the large number of mills in operation during the season (1981/82: 9 275, and 1982/83: 7 884), their geographical spread and the preponderance of small enterprises (about 60 % having a daily capacity of 10 tonnes or less) verification of their operations can only be limited.

4.47. Control over approved mills is ensured as follows:

- (a) they are required to maintain milling records in a standard format;
- (b) their installations and milling capacity are verified;
- (c) central computer controls, operated on behalf of AIMA, reconcile daily milling returns with known daily production capacity, as a result of which, for example, approval was withdrawn from 80 mills in 1981/82.

4.48. Article 7 (1) of the annual detailed rules governing production aid provides for a system of joint checks to be operated, in season, by the representatives of two or more producer organisations on mills indicated to them by the Member State (304 visits in 1981/82). Further visits are made by central and provincial authorities but these are primarily designed as an aid in determining local yields (1 821 such visits in 1981/82). The visits undertaken to date have yielded the following results:

	1980/81	1981/82	1982/83
Approval withdrawn	18	37 ⁽¹⁾	10
Fines imposed (or proposed)	231	146	283

The above figures would appear to indicate a high incidence of irregularity.

4.49. The choice of mills for checking is now based, at least in part, on the results of the central computer controls. These controls will show up cases of apparent production in excess of daily capacity. However, there would appear to be little or no feedback from the review work being carried out by the regional and provincial authorities on aid applications. Considering that the latter work is resulting in reductions of the order of 15 % and that, in most of the cases reduced, the suspect application is supported by a miller's certificate for the amount of oil claimed, it should be possible to build up a profile of suspect mills which could lead to the more frequent detection of irregular operations within the production capacity of a mill. Furthermore there would appear to be no systematic follow-through to individual producer applications where the results of verifications of a mill indicated that the miller's certificates were unreliable.

4.50. As regards the joint checks operated by the producer organizations (see paragraph 4.48), the following particular observations arise:

- (a) contrary to Community regulations, it would appear that some of these controls were carried out when the mills were not operating;
- (b) little or no use was made of the possibility to verify the reliability of millers' stock records by means of reconciling them with the physical stock quantities on hand although such a reconciliation is clearly possible;
- (c) there can be a conflict of interest in that millers are themselves producers and members of producer organisations.

⁽¹⁾ In addition to the 80 cases mentioned in paragraph 4.47.

4.51. The central computer controls outlined at 4.47 (c) above cannot be regarded as foolproof since the reconciliation of daily milling records with daily production capacity can only show up daily results which exceed total capacity. Since a number of mills normally operate at less than full capacity there rests an undetermined margin of manoeuvre for introducing false milling records which the in-built check cannot easily detect.

Sanctions

4.52. The overall reduction of 15 % arising out of the work of the Provincial Olive Oil Commissions implies a substantial number of claims found to be incorrect for one reason or another. Despite this, it was noted that very few of such cases gave rise to criminal proceedings against the producers who submitted the applications or the millers who had countersigned the relevant oil-milling certificate. The Italian authorities explained that recourse to criminal proceedings involved difficulty and delay for the authorities without any guarantee of success. In any case, the inductive methods used in determining the quantities admissible were regarded as providing insufficient evidence to support legal proceedings. Accordingly, they preferred to rely on administrative sanctions. There is, however, little or no evidence of sanctions imposed upon producers who presented aid applications for exaggerated amounts. Nor is there yet a system of compulsory sanctions at Community level. This is a major weakness in the system.

GREECE

Structure of production

4.53. Annual production of olive oil in Greece has fluctuated between 203 000 and 371 000 tonnes in the period under review. The number of producers is in the region of 400 000 made up, for the most part, of small growers. As in Italy, olives are grown in most regions of the country. Crete accounts for 32 %, the Peloponnese region for 31 %, and Attica and the Aegean Islands (mainly Lesbos) for 22 %. Membership of local cooperatives is common, and is encouraged by the Greek Government.

4.54. The rate of production aid is gradually being aligned to the full Community rate as follows:

1980/81 and 1981/82 – one-fifth,
1982/83 – approximately 38 %, ·
1983/84 – approximately 58 %.

From 1 November 1985 the full rate will apply.

Central and local administration

4.55. Management of the production aid scheme is assigned to a service of the Ministry of Agriculture which acts as an intervention agency (YDAGEP). It has at its disposal, for control and advisory services in the field, staff attached to the local offices of the Ministry in each province (Nomos) and headed by an agronomist. Any verifications carried out on individual applications for aid are effected by these staff members, controls at central level being confined to verifying completeness of supporting documentation and checks on the numerical accuracy of applications and summary schedules.

4.56. Supporting documentation consists of:

- (a) a crop declaration/application for aid;
- (b) a miller's certificate.

Other supporting documentation may be sought by the authorities if it is considered necessary but this is rarely done.

Producer organisations

4.57. Unlike in Italy, the recognised producer organisations operate at local level only. About 75 have been recognised for production aid purposes. Many of them function on cooperative lines. They appear to be organised on a non-political basis. They are subject to the normal commercial competitive pressures in seeking new members. However, not all producers wish to participate in the officially-sponsored cooperative movement. A good many (10 %) remain non-associated, while others have formed their own organisations, and have been recognised, solely for the purpose of the production aid scheme.

4.58. As in Italy, the applications of associated producers are grouped together by the producer organisations who submit a single application for all their members to the local YDAGEP office after certain verifications have been carried out. Non-associated producers submit their applications directly to the local YDAGEP offices.

Audit findings

Location of vouchers

4.59. In some cases vouchers were held centrally (1980/81) while others were held in the local offices or by the producer organisations for practical rather than legal reasons. As a result, difficulties, though not as severe as in Italy, were encountered in preparing sample checks in advance, despite a preliminary visit to Athens for this purpose.

Producer organisations

4.60. Recognised producer organisations were, in the

main, ill-adapted to carry out the verification work required by the governing regulations. In particular:

(a) Community regulations allow organisations in Greece to be smaller than in the rest of the Community. Many of the cooperatives are quite small and badly organised. Those organisations outside the cooperative system lack an adequate organisational structure, are badly equipped and often depend on voluntary part-time staff to run them. As a result considerable doubt exists as to the ability of these organisations to verify the production of their members;

(b) there was a general absence of records of controls stated to have been carried out;

(c) the checks carried out appear to be almost exclusively documentary.

Controls by the official agencies

4.61. Controls by the national authorities, both at local and central levels, were also inadequate.

(a) The level of staffing in the local offices varied with the conditions and was generally insufficient at least in the principal production regions visited. The local staff usually comprised an agronomist supported by one or more administrative staff, the latter frequently on a part-time basis only. Considering that in Greece there exists (i) no cadastral register and (ii) no equivalent of the Italian Provincial Olive Oil Commissions to assess the validity of claims, the work of the YDAGEP local staff offers the sole possibility to verify an applicant's entitlement to production aid on the basis of physical checks. However, while these agronomists appear to be independent of the producers, their limited availability and the fact that they have other duties place undue limits on the possibilities of effective control in this essential area.

(b) The absence of records of controls stated to have been carried out was again evident at this level. In general no records were kept of checks carried out on individual applications and it was deemed sufficient if the group application for aid was signed by a responsible official of the producer organisation.

(c) Controls at central level were also weak. Though some of the documents examined bore traces of checks, these checks were essentially confined to verification of completeness of supporting data and arithmetical accuracy.

(d) Management information available to the central authorities was found to be especially weak. In the absence of complete and up-to-date information the overall management of the system is rendered difficult, if not impossible.

Global controls by the national authorities

4.62. The key controls which the national authorities are expected to carry out are:

(a) Checks on producer organisations

There was little evidence that producer organisations were inspected by the Greek authorities. Indeed, the Greek authorities appear to have granted recognition on the basis of formal criteria as regards size and other requirements without seeking any real evidence as to the fulfilment of these essential requirements, viz. capability (i) of verifying the production of their members, and (ii) of distributing the aid received. In one case the aid received from YDAGEP by a recognised organisation was held in cash for a lengthy period awaiting collection by the producers involved. In general the Court observed that there was no system for tracing cases where, for one reason or another, e.g. death, the aid was not collected by the producer. Indeed the central authorities had not laid down any formal payment procedures to be followed by the producer organisations. Furthermore the Commission has not been informed by the Greek authorities to date as to which producer groups are recognised for the purposes of the aid.

(b) Controls on oil mills

Again there was little evidence that the requisite controls on oil mills had been carried out although the mills visited maintained stock records which met with YDAGEP instructions. Neither does the Greek system provide for checks reconciling the capacity of mills with the millers' certificates issued by them.

Checks to detect duplicate applications for aid

4.63. This key control check is not provided for in the Greek system. In view of the nature of production aid, the Court's observations on the Greek control system, as set out above, and the relatively scanty supporting documentation required, the absence of a reliable check to detect duplicate applications is a major systems weakness.

Sanctions

4.64. There is very little evidence of sanctions having been imposed on producers who submitted excessive claims.

4.65. The Greek authorities attributed the almost universally satisfactory results of their controls to the traditional honesty of Greek farmers. In addition, they pointed to the fact that the quantity of oil for which aid was sought was usually less than the total amount returned as milled. These are insufficient grounds for an unsystematic or passive approach to controls. The fact that in 1981/82 the quantity of oil claimed was in excess of the amounts returned by millers is in itself an indication of possible irregularity ⁽¹⁾.

4.66. The substantial increase in the production statistics for olive oil in 1980/81, the first year of the aid, is dealt with in Annex III.

FRANCE

Structure of production

4.67. In France about 35 000 growers, mostly small, produce some 2 000 tonnes per annum.

Administration of the aid

4.68. Administration is shared between:

- (a) Société Interprofessionnelle des Oléagineux (SIDO), the government agency charged with overall responsibility;
- (b) Union de Groupements d'Oléiculteurs (UGO), which carries out the day-to-day tasks and presents the group applications on behalf of
- (c) four producer organisations, members of the UGO, and recognised for the purposes of the aid.

4.69. Due to replantation of olive groves carried out with State aid, following a destructive freeze in 1956, SIDO has compiled a considerable data bank against which crop declarations can be checked by automatic data processing methods. Up-to-date cadastral maps also facilitate verifications.

4.70. The administrative arrangements, which show no significant departures from Community requirements, are satisfactory.

MANAGEMENT BY THE COMMISSION – AUDIT FINDINGS

As regards general responsibility for the development of governing regulations

4.71. During the period under review the existing governing regulations were found to be inadequate in the following areas:

⁽¹⁾ By letter dated April 1984, the Commission requested the Greek authorities to suspend further payments of production aid pending an examination of the situation on-the-spot.

- (a) the absence of provision for on-the-spot verifications in the case of associated producers means that controls carried out are essentially documentary. As a consequence the most important factor in determining the amount of aid (i.e. the number of olive trees cultivated) is not effectively verified;
- (b) the minimum verification requirements for claims (10 % of crop declarations in the case of associated producers) are too low, especially since, as outlined above, only documentary verification is required;
- (c) the minimum verification requirements for non-associated producers, although on-the-spot, are also considered to be inadequate (5 %);
- (d) there is an absence of detailed provisions on how to establish the capabilities of approved producer organisations to satisfy the conditions required of them;
- (e) the checks to be carried out on approved mills are not sufficiently precise. Particularly lacking is the requirement to carry out a reconciliation between the physical stocks and the book balances;
- (f) the standard mill register required to be kept by an approved mill should be amended to include the recording of balances on hand at regular intervals. This measure would facilitate the stock reconciliation mentioned above.

As regards monitoring the operation of the scheme in the Member States

4.72. Administration of the scheme by the Commission is characterised by inadequate monitoring and follow-up arrangements by the responsible services. Interventions, when they occur, tend to be infrequent and usually after an unfavourable situation has already developed. As a result:

- (a) the reform of the production aid system, which was introduced in 1978 before the network of approved producer organisations was established, has continued to date ⁽²⁾ on an *ad hoc* basis. The Commission has only recently commenced proceedings in the Court of Justice alleging failure on the part of Italy to adopt the necessary measures for implementing Regulation (EEC) No 1360/78;
- (b) the Member States were left to determine, without any directions from the Commission, whether producer groups fulfilled the criteria necessary for approval, especially the requirement of being able to determine the production of their members. While the Commission was informed of the organisations approved by the Italian authorities, it did not take immediate steps to acquaint itself with the underlying circumstances and,

⁽²⁾ However, see Chapter 7.

as a consequence, remained without a direct means of assessing the control capabilities of these organisations;

- (c) the lack of attention to statistical policy within the Commission has led to substantial errors going undetected and unusual features not being investigated (see Annex III for details);
- (d) the eventual intervention by the Commission during 1981 resulted in a decision by the Italian authorities to block payment of final balances of aid relating to 1979/80 until the demands could be examined individually by the provincial olive oil commissions. At the same time the Commission concluded that the approved producer organisations were incapable of carrying out the control functions assigned to them. This intervention by the Commission, therefore, showed that the system introduced in 1978 had already broken down from a control viewpoint. The decision to involve once more the provincial olive oil commissions was in effect a return to the pre-1978 regime. It is particularly unfortunate, however, that, apart from certain modifications to the governing regulations introduced in the second half of 1984 (and which are outlined in Chapter 7 of this report) no appropriate steps were taken to overcome the incapacities of the producer groups to carry out their control functions effectively.

CONCLUSIONS ON PRODUCTION AID

4.73. The change in the administrative system introduced in 1978 attempted to determine entitlement to production aid on the basis of olive oil actually produced. The problem of determining actual production of olive oil was tackled by the proposal to establish a comprehensive Register of Olive Cultivation. This was seen to be an ambitious and long-term project. In view of the magnitude of the immediate administrative task, however, it was decided to involve the producers' organisations in monitoring the production of their members and in processing claims.

4.74. The reform centred around the establishment of a system of joint management by the producer groups and the responsible national authorities. It is astonishing, however, that the new system was approved before its very cornerstone – an adequate producer group network approved under Council Regulation (EEC) No 1360/78 – had been established. The result is that what was regarded as a major reform of the system was launched, and continues to this day, on the basis of a series of *ad hoc* arrangements and governing regulations. Because of their uncertain and changing nature,

these are difficult to implement and do nothing to inspire confidence in the system on the part of those with joint management responsibility.

4.75. Since the producer organisations have primary responsibility to their members rather than to the Community, they are not sufficiently independent and governing regulations have therefore placed responsibility for controlling the system on the national authorities. As a result the involvement of the producer organisations in the administration of the aid is only marginal and merely ensures that some verification work is undertaken before an advance payment is made. The only effective change resulting from the 1978 reform was therefore the possibility of relieving the delays in payment by making an advance instalment of aid.

4.76. However, in view of the doubts regarding the ability of the producer organisations to carry out the prescribed preliminary checks and verifications, the payment of advances on such a basis is not well founded. Furthermore, since the governing regulations do not limit the advance payable to the lower of a pre-determined percentage of the amount applied for, or the amount resulting from applying the flat-rate yields, excessive advances can be paid. The limited statistics available concerning over-payments of aid by way of excessively large advances reinforces the conclusion that the entire advance payment system is unsatisfactory.

4.77. No appreciable improvements are apparent in the system as it has evolved since 1978. It still suffers from the following defects:

- (a) the national administrations are still burdened with an enormous volume of work to verify the final entitlement to aid. This has already resulted in considerable delays in payment which seem likely to continue;
- (b) because of this, the Italian national administration has had to develop rules of thumb which effectively result in a flat-yield system for many producers, despite the Council's declared opposition to such a system;
- (c) the bottleneck which continues to exist at the stage of final payment is aggravated by the 'stop-go' controls operated by the Member States. These controls vary in intensity on the promptings of the Commission which, instead of carrying out its management function in a continuous and systematic manner, relies on occasional interventions at a very late stage when management information shows that an unsatisfactory situation has already developed.

While the reforms introduced in 1978 must be regarded as a total failure, the re-involvement of the provincial olive oil commissions in Italy to examine the vast majority of

applications for aid, has for all the shortcomings of such a system, resulted nonetheless in a significant reduction in payments over applications (approximately 100 Mio ECU for the years 1979/80 and 1980/81). In these circumstances the continued heavy involvement of these commissions must be considered essential, at least until the Commission's most recent proposals become fully operational (see also Chapter 7).

4.78. The administration of production aid in the Member States requires a thorough overhaul. Especially in Greece attention should be devoted to:

- (a) a strengthening of staff numbers in the local inspectorates;
- (b) a proper system of recording and reporting on checks carried out and a sharp increase in the number of on-the-spot verifications;
- (c) the incorporation of more effective checks on the producer organisations (to detect duplicate applications) and the oil mills (to verify the reliability of millers' certificates);
- (d) a significant reform of the producer organisations' structure to ensure that they are capable of satisfying the essential control requirements.

4.79. The difficulties outlined in paragraphs 4.76 to 4.78 above are aggravated by a lack of precision in the governing regulations in that:

- (a) the exact nature and purpose of the controls prescribed by the regulations are not sufficiently defined;
- (b) the division of responsibilities between various control levels is not adequately stated.

This in turn leads to considerable variations in the intensity of the controls operated in the two Member States mainly concerned.

4.80. In the Court's opinion real progress can be made only by the introduction of a reformed control structure. This implies:

- (a) an integrated and fully coherent structure, where the control at each level is clearly defined and can commence from the preceding control work without attempting to repeat it;
- (b) that the problems of the conflicting interests of producer groups and millers are satisfactorily resolved;
- (c) that control over the producer groups be improved by:
 - (i) adequate scrutiny of their organisational capabilities,
 - (ii) a more thorough system of checks to ensure that they are carrying out the functions assigned to them,
 - (iii) more rigorous use of sanctions where these groups do not adequately fulfil their control responsibilities;
- (d) that the Commission undertakes a continuous and systematic supervision in issuing more detailed instructions as to what checks should be carried out at the various levels and in verifying that the control activities undertaken in the Member States are adequate.

4.81. The Register of Olive Cultivation will, when available, no doubt facilitate the implementation of the key controls (a) and (b) set out at paragraph 4.13. It will, however, only be valuable to the extent that it is properly and regularly updated. Nor will the task of determining the reasonableness of production aid applications for olive oil become automatic even if the number of olive trees declared as having produced the oil is known with more certainty.

4.82. Finally, it is difficult to envisage how the provisions of the governing regulations which limit the eligibility for aid to olive trees planted before certain dates can be effectively controlled. The fact that no reliable records of olive cultivation existed at the cut-off dates and the lack of progress in preparing such records since then, make effective control in this area even more difficult.

CHAPTER 5

CONSUMPTION AID

DESCRIPTION OF THE SYSTEM

5.1. The consumption aid for olive oil had its origins in a decline in consumption which began in the mid-1970s. Its stated aim was to maintain the level of consumption without resorting to a substantial increase in the rate of production

aid, which was considered an unsuitable instrument for the purpose. The aid entered into operation on 1 April 1979.

5.2. It is calculated as the difference between the production target price reduced by the production aid, and the representative market price. So as to ensure maximum

impact on actual market prices, the aid is paid at the closest practicable stage to the final consumer, that is to say, at the level of the packaging plants.

Importance of the aid

5.3. Of the estimated total of 850 000 tonnes of olive oil consumed annually in the Community (concentrated, almost exclusively, in Italy and Greece and, to a lesser extent, in France) less than half qualifies for consumption aid. While a steady increase in the oil benefiting from the aid has been registered since 1979, a large percentage of consumption does not benefit despite the fact that, in Italy, the aid amounts to approximately 25 % of the retail price.

5.4. The explanation usually offered for this is firstly the traditional preference of many consumers in Italy and in Greece for purchasing the oil direct from the producer or the mill, and, secondly, the significant amount retained and consumed by producers themselves.

5.5. Expenditure on the aid (see Chapter 3 for further details) has averaged 160 Mio ECU during the period 1981 to 1983. Approximately 96 % of this has been incurred in Italy, the balance mainly comprising expenditure in Greece. During the years 1981 and 1982 net expenditure in France has been negative (- 1,9 Mio ECU and - 0,5 Mio ECU respectively) due to securities forfeited on imported olive oil. The total quantity of oil presented for aid has almost doubled from 234 000 tonnes in the marketing year 1980/81 to 450 000 in the marketing year 1982/83.

Administration of the aid

5.6. A general Council regulation ⁽¹⁾, supplemented by implementing regulations of the Commission ⁽²⁾, outlines the administrative procedure.

5.7. The main features are:

- (a) the packaging firms must be approved by the national authorities and must:
 - (i) have a minimum capacity of 6 tonnes per day,
 - (ii) be operational for at least 150 days each year and package at least 60 tonnes during that period,
 - (iii) maintain separate prescribed stock accounts for olive oil, for vegetable oils (if any), and for the containers to be used for packaging,
 - (iv) submit to the prescribed controls and inspections;

⁽¹⁾ Regulation (EEC) No 3089/78, OJ L 369, 29. 12. 1978, p. 12.

⁽²⁾ Regulation (EEC) No 3172/80, OJ L 331, 9. 12. 1980, p. 27.

- (b) the oil must be packaged in containers of 5 litres or less (transitional measures were provided for Greece). The containers must be sealed and have the identification number of the packaging firm printed thereon. They must also clearly state that the oil benefited from consumption aid. The containers cannot be re-used.
- (c) the oil must have been produced in the Community and, after packaging, must be placed on the Community market at a price reflecting the consumption aid. It is deemed to be placed on the Community market when it is sold and leaves the packaging plant, packaged as aforesaid;
- (d) the aid is to be paid within 150 days of the application. An advance may be paid against an equivalent guarantee, which is released when the application has been checked and approved;
- (e) oil imported from third countries is subject to the payment of a security equal to the consumption aid. The security is released only when the competent national authorities verify that the oil has not been presented for the consumption aid;
- (f) the competent authorities in the Member States administer and control the aid. One or more trade organisations may be authorised to assist in verifying the quantities of the oil for which aid is requested, and receive and distribute the aid. They may retain a small percentage of the aid (fixed annually by the Council) to cover administrative expenses.

Controls provided by the regulations

5.8. Details of the information which an application form must contain are set out only in very general terms. Member States must institute a system of supervision to ensure that the oil qualifies for the aid.

5.9. In particular, checks must be made to ascertain whether the amount of oil corresponds to:

- (a) the amount of oil of Community origin which entered the packaging plant;
- (b) the amount of such oil which left the plant after being packaged in the manner required and which was placed on the market in the Community.

5.10. The detailed implementing rules specify that the above checks must be carried out by the systematic inspection of the stock records of approved packaging plants. The minimum requirements of the stock records are set out in certain detail. Where a packaging plant handles olive oil and seed oil the stock records relating to the latter may also be

inspected. Furthermore, if doubts arise as to the accuracy of the data contained in the application, the checks may be extended to the records of the sellers or purchasers of the oil.

5.11. Where recognised trade organisations are used to carry out checks the Member States define the manner of their involvement: Their function is to verify, on the premises of the approved packaging plants indicated to them by the Member States, that stock records are kept in the prescribed manner and that the data given in these stock records are exact. However, these checks do not relieve the authorities in the Member States from undertaking a systematic inspection of the stock records of approved packaging plants.

5.12. General provisions are also contained in the regulations concerning approval of packaging plants and control over imports.

OPERATION OF THE SCHEME IN THE MEMBER STATES

ITALY

Institutional arrangements

5.13. In Italy the overall responsibility for the administration and control of the aid lies with AIMA.

5.14. At the outset the detailed management was entrusted to a single organisation, specially formed for the purpose. It began operations in early 1979, but met with serious opposition after a short period. The decree giving it the necessary power failed to be confirmed by the Italian Parliament and consequently the organisation was wound up.

5.15. In 1980, an amendment to the Community regulations abandoned the original idea of a single organisation and enabled more limited tasks to be entrusted to existing recognised professional organisations directly representing the packaging firms. The Italian authorities recognised four such organisations who between them represent almost all the packaging plants in Italy. Two of them represent together some 95 % (in terms of capacity) of the packaging firms. One of the small organisations also acts on behalf of oil producers and is, in fact, the largest of the four organisations recognised for the purpose of the production aid scheme. There is a certain competition for membership among the four recognised organisations.

5.16. In order to ensure conformity with the provisions of Community regulations a ministerial decree is issued annually which forms the basis of the instructions issued to the organisations.

5.17. The four organisations are approved by the Ministry of Industry, in liaison with the Ministry of Agriculture and Forestry, on condition that they:

- (a) are capable of verifying the quantity of oil packaged by the firms whom they represent;
- (b) are capable of receiving and distributing the aid;
- (c) have an appropriate legal personality conforming to national legislation.

5.18. The tasks assigned to them are contained in an agreement drawn up between them and AIMA. The main tasks are:

- (a) the verification of documentation furnished in support of applications, and therefore the verification of the quantity of oil packaged and put on the market and qualifying for aid;
- (b) the presentation of a summary application for all the firms which they represent and the receipt of the amount of the aid;
- (c) the distribution of the aid (net of the retention) to the firms entitled to it;
- (d) the carrying out of controls in the packaging firms as provided for by ministerial decrees.

5.19. Packaging firms which are not associated must, in order to qualify for the aid, designate one of these organisations to act on their behalf.

5.20. The records which must be kept by the packaging firms comprise seven registers of standard format designed to record inward and outward movements of oil and packaging material. These registers are controlled and stamped by the fiscal authorities. The application for aid must be supported by copies of the registers.

Results of control checks

5.21. Requests for recognition by packaging firms are investigated on the spot by the Guardia di Finanza (acting on behalf of the Ministry of Industry). During 1982, 503 firms were recognised and in 17 cases recognition was withdrawn.

5.22. Applications for aid, when processed by the trade organisations, are controlled from a documentary point of view by the intervention agency (AIMA). The aid is paid on application, subject to the lodgement of a guarantee by the packaging plant. Under Italian law this guarantee is for a period not less than five months (i.e. 150 days) and is renewable for a further five months if required. It is also provided that the guarantee cannot be released until the application has been verified by checks on the spot by officials of the Ministry of Agriculture and Forestry (or by those of the regional administrations). These officials, specially trained by the Ministry and numbering 150 in all, are based in 17 centres throughout the country.

5.23. According to information supplied by the Italian authorities, visits were made during the course of 1982 to almost all the firms, during which some 3 000 monthly

applications for aid, out of a total of 3 700, were verified. As at the end of 1983, a total of 38 administrative sanctions had been imposed for irregularities in the keeping of stock records and eight for excessive applications for aid. Sums wrongly claimed amounting to 74 000 ECU (127 cases) had been recovered, and a further 27 000 ECU (nine cases) was in course of recovery. In four cases, recognition was withdrawn for periods varying from 3 to 12 months as a result of unjustified applications and 33 proceedings had been instituted in the courts, of which about half emanated from controls performed independently by the Guardia di Finanza and other State agencies.

Audit findings

5.24. The administrative procedures implemented by the Italian authorities were generally found to be satisfactory, subject to the following observations:

- (a) the results of control visits outlined above cast a certain doubt on the efficiency with which the trade organisations carry out the tasks assigned to them. Yet it was observed that the paying agency (AIMA) possessed only fragmented information on the internal control procedures operated by these organisations. AIMA should dispose of more up-to-date and complete information on the trade organisations and the manner in which they have carried out the tasks assigned to them before advance payment of the aid is made;
- (b) it was difficult to evaluate the adequacy of on-the-spot controls carried out by the officials of the Ministry of Agriculture and Forestry in that:
 - (i) the records and vouchers examined by the officials did not show evidence of checks carried out,
 - (ii) the reports of control visits were prepared in such summary form as to make it difficult to determine the precise nature of checks carried out;
- (c) some of these on-the-spot controls were rather infrequent and delays of six months to two and a half years were noted. Apart from the costs involved for the firms in maintaining the guarantees, such delays complicate the tasks of the inspectors who are required to verify both the quantity and quality of the oil. Furthermore, the practice of verifying several monthly applications for aid in one visit can result in a reduction of the verification work undertaken for any single application;
- (d) the delays observed also mean that the period of 150 days provided for in the Community regulations between the date of application and the date of payment

of the aid are not being respected in certain cases. More seriously, however, where the delays exceed 10 months the advances are no longer covered by the guarantees, thus putting Community funds at risk.

GREECE.

Overall administration

5.25. Under the provisions of the Act of Accession, consumption aid for Greek olive oil was introduced as from 1 November 1981. As in the case of production aid, the rate of consumption aid is being gradually aligned to the full Community rate as follows:

1980/81 and 1981/82 – one-fifth,
1982/83 – approximately 38 %,
1983/84 – approximately 58 %.

From 1 November 1985 the full rate will apply.

5.26. The Greek intervention agency (YDAGEP) has overall responsibility for the administration and control of the aid. Only one trade organisation (SEVITEL) has so far been recognised but firms not represented by this organisation may apply for the aid directly to YDAGEP.

5.27. Verification of applications is carried out by YDAGEP officials and by regional inspectors of the Ministry of Agriculture. In all approximately 60 officials are involved although their duties are not confined to control of consumption aid.

5.28. Conformity with the provisions of Community regulations is sought by the annual publication of a Ministry of Agriculture circular which forms the basis of the instructions issued to the packaging firms.

5.29. SEVITEL was recognised by a decision of the Ministry of Agriculture dated 26 January 1982. This provided for an agreement to be entered into by YDAGEP and SEVITEL to set out details of the functions assigned to SEVITEL and the manner in which they should be carried out. However, the agreement referred to was never concluded and was replaced by the general decisions of the Ministry of Agriculture dated 18 April 1983 which outlined the duties assigned to SEVITEL.

5.30. The packaging firms must keep records comprising seven registers of standard format (based on the Italian system) designed to register all movements of oil and packaging material. Copies of these registers must be submitted with the application for aid. As in Italy, the registers are controlled and stamped by the fiscal authorities:

Controls by recognised trade organisation (SEVITEL)

5.31. SEVITEL has stated that it attempts to visit each packaging firm at least six times per annum. The controls were essentially on supporting vouchers accompanied by regular physical verifications of stocks. However, packaging material was rarely verified. Records examined were stamped by SEVITEL.

Controls by YDAGEP

5.32. The Greek authorities indicated that control visits are undertaken on a monthly basis, in the case of the large packaging firms, but much less frequently in the case of smaller firms. It was stated that verification work centres essentially on a reconciliation of physical stocks with the stock records. Controls on packaging material and the taking of samples for analysis are also carried out. However, no evidence was found of checks on the supporting vouchers examined.

Audit findings

5.33.

- (a) The introduction of the consumption aid scheme in Greece met with certain launching difficulties which resulted in long delays. Thus, for example, verification of applications for aid did not commence until August 1982 – a delay of 10 months. YDAGEP itself did not acquire a specialised control service until 1983; in the interval controls were carried out by a service insufficiently endowed with staff and having other tasks besides.
- (b) The lack of evidence of control checks carried out by YDAGEP and the lack of standardisation of control reports for the period under review made it difficult to assess whether or not control over applications for aid is adequate. The Greek authorities have undertaken to implement proposals of the Court on these two points.
- (c) The Greek authorities place great reliance on the controls carried out by SEVITEL. While the controls carried out by this organisation are important and appear to operate satisfactorily, the Court wishes to emphasize that such controls cannot substitute for those for which YDAGEP alone is responsible.
- (d) A weakness in the stock records was noted in relation to the recording of containers issued from store and either damaged during the packaging process or unused at the end of a production run. The Greek authorities have indicated that they have taken steps to remedy the weakness.
- (e) The level of aid applicable in Greece to date represents a small percentage (4 %) of the retail price. This does not,

however, obviate the need for the introduction of a more effective control system which will become more urgent when the aid reaches the full Community level on 1 November 1985.

FRANCE

Administration

5.34. In France, approximately 8 000 tonnes ⁽¹⁾ of olive oil qualifies each year for consumption aid. Budgetary expenditure is accordingly rather modest and, in certain years, can be negative due to receipts emanating from the forfeiture of securities on oil imported from third countries. The aid is administered directly by the responsible intervention agency (SIDO) as no trade organisation has been recognised for the purpose. However, as only 20 packaging firms are involved, direct administration is not unduly burdensome.

Audit findings

5.35.

- (a) There was an absence of systematic controls on physical stocks and movements of oil in the packaging firms. Although documentary controls appeared to be satisfactory, the only physical controls performed were those carried out since 1 November 1982 to satisfy the requirements of Council Directive 77/435/EEC. These controls alone are inadequate to safeguard Community expenditure on olive oil consumption aid.
- (b) The frequency of sampling and testing of oil qualifying for aid was insufficient. The French authorities have taken note of the need to increase the sampling frequency, but have advanced the high cost of laboratory analysis as a restricting factor. It is clear, however, that the frequency of sampling should be sufficient to deter fraud.
- (c) The phenomenon of negative expenditure for the years 1981 and 1982 and the relatively high percentage of forfeited securities in 1983 merit closer examination both by SIDO and by the responsible services of the Commission. While the forfeited securities are favourable from a Community financial point of view the tendency of the commercial operators to systematically renounce such securities merits further investigation.

ADMINISTRATION BY THE COMMISSION

5.36. The functions of the Commission in relation to consumption aid are:

⁽¹⁾ Includes oil imported from other Member States.

- (a) to oversee the implementation of the Community regulations by reference to the national measures notified to it;
- (b) to monitor the situation by means of data supplied regularly by the Member States;
- (c) to examine the operations of the Member States in connection with the clearance of the EAGGF accounts;
- (d) to carry out specific audits where circumstances warrant;
- (e) to adopt or propose to the Council, as the case might be, appropriate measures for improvements.

Audit findings

Management aspects

5.37. Having regard to the number of packaging plants involved (about 500 in Italy, about 80 in Greece and some 20 in France) it could be expected that the administration of the aid would be much easier to manage and control than that of the production aid.

5.38. Yet the Commission services were insufficiently informed of the systems in force in the Member States, particularly in Greece. Because of the backlog in the clearance of accounts, the first visit to Italy by the Commission services in connection with the aid did not take place until September 1981. No mission has as yet examined the situation in Greece, although expenditure commenced there in 1982.

5.39. Because of the lack of surveillance by the Commission, and because the governing regulations are vague in many important aspects, different practices have developed in the Member States, some of which are unsatisfactory from a control viewpoint. Thus, for example:

- (a) the only channel for seeking the aid in Italy is through the recognised trade organisations; in Greece this can be done through a trade organisation or direct to the intervention agency, while in France all applications are made directly to the intervention agency;
- (b) the control functions of the trade organisations are not made sufficiently clear. As a result there is a real danger of over-reliance on them;
- (c) the precise meaning of 'systematically inspect the stock records of approved packaging plants' ⁽¹⁾ is left to the Member States for interpretation, with the result that mere documentary verification is deemed adequate by certain Member States;

⁽¹⁾ Regulation (EEC) No 3172/80, OJ L 331, 9. 12. 1980, p. 27 - Article 12.

- (d) in the important area of taking measures to eliminate the risk of undue or even double payment of the aid because of movements of oil in small containers between Member States, the requirements are equally vague. Thus, for instance, Commission Regulation (EEC) No 3172/80 ⁽²⁾ provides for the customs authorities to inform the intervention agencies of the details of all such imports, whether they be from another Member State or a third country. The intervention agencies were then required to take 'the necessary steps' to detect any unauthorised decanting and the Member States were enjoined 'to assist one another' in carrying out these checks. These provisions are insufficiently precise both as regards the nature of the assistance to be provided and its timing;

- (e) the regulations do not provide for minimum criteria as to the size and representative nature of the trade organisations which may be recognised by Member States. Thus, for example, were it not for the action of the Member State itself (Italy), a trade organisation representing only one packaging firm might have been recognised;

- (f) while certain measures, deemed to have been found necessary, have been taken from time to time, there has been no systematic follow-up by the Commission services to assess the success of the measures taken. Thus, for example, it became known that during 1979/80 an abnormal increase in imports into Italy of olive oil in small containers had taken place, the ultimate destination of which could not be established by the administrations in question and which might therefore have been the subject of irregular application for aid. At the time, the import security arrangements did not apply to such containers. Counter-action was taken in October 1980 by providing that oil imported in such containers would, in future, be subject to the security arrangements. At about the same time, decanting of oil in small containers was prohibited except where specifically authorised by the Member State. However, the absence of an investigation by the Commission on the spot, in order to establish the destination of the oil in question is rather surprising, in view of the clear risk of fraudulent manipulation of Community funds.

The above examples illustrate that the Commission has simply reacted to difficulties as and when it became aware of them rather than adopting a systematic management approach incorporating regular monitoring and review procedures.

Research and publicity actions

5.40. The Commission is directly responsible for such actions. Those undertaken as from 1980 and involving a

⁽²⁾ Do., Article 13.

total of 8,3 Mio ECU to end – 1983, are financed by deductions of up to 6% from the rate of consumption aid. Having regard to the relatively limited resources available, the publicity actions financed could not be expected to cover the total market. Most of the publicity was, in fact, concentrated in Italy where consumption had been sagging. The kind of publicity, given the nature of the promotion, had to be of the 'public information' kind, and lacked the impact which commercially motivated publicity could be expected to have.

5.41. The benefits flowing from the Commission's initiative could be expected to be of two kinds:

- (a) qualitative – numerous research projects are under way and an increasing number of market studies are becoming available. Thanks to these and to a well directed campaign of publicity and public relations, the Commission could have hoped to have attracted an interest from specific circles; for example, the medical world and professional users;
- (b) quantitative – to measure the practical results of the actions in terms either of a consequential increase in consumption or of concrete follow-up in the light of the work already undertaken.

5.42. It is to be regretted that the Commission has not so far undertaken an assessment of these results, nor had it any plans to do so at the date of this report.

Effectiveness of the consumption aid

5.43. Finally, it is surprising that the Commission services have neither undertaken nor commissioned a detailed study on the effectiveness of the consumption aid despite various indications that such an analysis is necessary. In particular, the following aspects merit further study:

- (a) the very low rate of consumption which qualifies for the aid. This must raise doubts as to whether the effect of the aid is passed on to the consumer in all cases;
- (b) whether the Commission's proposal to achieve a price ratio of 2 : 1 between olive oil and seed oils following the accession of Spain and Portugal is soundly based.

There are several reasons why such a study is necessary:

- (i) the introduction of the aid has had virtually no effect on the price ratio which was consistently above 2,5 : 1 before the aid was introduced, and remained above 2,5 : 1 between

1978/79 and 1982/83 after taking into account the aid: the reduction in the average ratio to about 1,75 : 1 since August 1983 is a direct consequence of considerable increases in the prices of competing oils;

- (ii) there appears to be no sound statistical evidence supporting the hypothesis that consumption of olive oil is sensitive to movements in this price ratio: the shift in the level of the ratio in 1983/84 provides an opportunity for the Commission to carry out a thorough examination of its effects on consumption;
- (iii) it is not clear that the price ratio actually used by the Commission is representative of retail prices.

CONCLUSIONS ON CONSUMPTION AID

5.44. Given the nature of the olive oil consumption aid scheme, the Court is of the opinion that Community expenditure in this area can be effectively controlled without resorting to a cost-prohibitive effort.

5.45. This is due to several factors:

- (a) the point chosen for determining and paying the aid involves records which are easily verified;
- (b) the small number of approved packaging plants benefiting from the aid;
- (c) the possibility to control and adequately document imports and exports of oil.

5.46. Certain features of the scheme which require control measures are nonetheless more difficult to determine, namely:

- (a) that oil benefiting is placed on the market at a price reflecting the aid;
- (b) that oil imported from third countries does not benefit;
- (c) that benefiting oil is not presented for aid more than once;
- (d) that the oil benefiting is in fact olive oil.

5.47. It is important that adequate stock control measures are incorporated in the control system and that these controls are undertaken in a timely and systematic manner, particularly for those aspects where effective control is more difficult.

5.48. Examination of the operation of the scheme, however, revealed that while the national measures implemented by the Member States are satisfactory in theory, certain weaknesses exist in practice, namely:

- (a) there is a lack of adequate evidence of control work carried out;

- (b) there is a tendency to rely unduly on documentary evidence;
- (c) the undue delays which occur in the physical verification of stocks are contrary to Community regulations and diminish the value of this essential control check. In certain cases noted in Italy the delays were such that the advance payments of aid were no longer covered by the required guarantees, thus putting Community funds at an unacceptable risk;
- (d) there is a tendency to rely unduly in certain instances on controls operated by trade organisations. Such controls alone cannot be relied upon.

5.49. The Court is of the opinion that such weaknesses have arisen because of:

- (a) lack of clarity in certain key areas of control in the governing regulations;
- (b) the absence of a systematic management approach by the Commission and by the national authorities in the Member States.

5.50. Furthermore, the Court considers that there is an urgent need for a detailed assessment and review on the part of the Commission on whether the aid in general and research and publicity actions in particular are achieving the desired results.

CHAPTER 6

INTERVENTION STORAGE

GENERAL

Introduction

6.1. The role of intervention storage is to regulate the market by temporarily absorbing production surpluses when they occur and releasing these surpluses on the internal or external market when the demand situation allows. By this means a minimum price (the intervention price) can be guaranteed to the producer, and price fluctuations can be reduced. In the case of olive oil, the existence of production aid allows the intervention price to be lower than it would otherwise need to be to give producers the required guaranteed income. It thereby avoids a too frequent recourse to intervention.

6.2. The operation and management of intervention storage is entrusted to national agencies designated by the Member States. These agencies in turn delegate to producer groups and organisations who meet certain requirements the responsibility for receiving and storing the product offered for sale into intervention in accordance with detailed rules laid down by the Community. Sales from intervention stocks are decided on by the Commission and are centrally administered in the Member States by the national intervention agencies.

6.3. The necessary funds for intervention purchases are provided in the first instance by the Member States. The Community budget reimburses the Member States:

- (a) for the interest costs involved in mobilising these funds, at a uniform flat rate;
- (b) for technical costs of warehousing the products as well as for handling and other costs at entry and exit, also at a flat rate; and
- (c) other specified costs, the main item under this heading being losses calculated on sales.

6.4. Where a profit is realised on a sales transaction it is brought to the credit of Community funds as a negative expense under 'other costs'. Other occasional credit items (e.g. forfeited securities) are treated in the same manner.

Evolution of stocks

6.5. So far, intervention purchasing of olive oil has been limited to Italy and Greece. Table 6.1 shows the evolution of stocks over the last few years.

Table 6.1

Evolution of public stocks of olive oil 1978 to 1983

(1 000 tonnes)

Year	Purchases			Sales			Stocks at 31. 12.			Value Mio ECU
	Italy	Greece	Total	Italy	Greece	Total	Italy	Greece	Total	
1978							105		105	126
1979	4	—	4	56	—	56	53		53	62
1980	47	—	47	26	—	26	74		74	96
1981	63	56 ⁽¹⁾	119	53	—	53	84	56	140	221
1982	37	71	108	61	6	67	60	121	181	288
1983	9	21	30	17	73	90	52	69	121	175

(¹) Total purchases in Greece amounted to 91 000 tonnes in 1981. However, a quantity of 35 000 tonnes, considered as abnormal national stocks (in application of Article 71 of the Act of Accession) was excluded from Community financing.

Source: Commission.

Budgetary costs

6.6. Budgetary costs of intervention storage operations which are set out in detail in Chapter 3 have averaged 40 Mio ECU per annum in the period 1981 to 1983.

Description of the system

6.7. The intervention price is fixed by the Council each year, before 1 August, for the marketing year which begins on 1 November. This price is subject to seven monthly increases commencing at the beginning of January, designed to take account of interest and other storage costs. In order to avoid speculative transactions towards the end of the marketing year, the intervention price for August and September is frozen at the July level and that for October falls back to the level applicable at the beginning of the marketing year. The price is modulated according to five quality categories.

Intervention centres

6.8. Certain locations in Italy, Greece and France have been designated by the Commission as intervention centres. The requirements for an intervention centre are that it must be situated in a region whose average annual production of olive oil is at least 1 000 tonnes and where adequate installations exist for the storage of olive oil offered for sale into intervention. The Commission has recognized 58 centres in Italy, 40 in Greece and two in France (though the latter have not to date been used for intervention operations). Within each centre storage facilities are approved in accordance with national provisions.

Intervention purchases

6.9. Oil must:

- (a) conform to chemical and organoleptic (¹) characteristics laid down for the quality offered;
- (b) be offered by the first owner, that is to say, by the person on whose account the olives are milled or by the miller who keeps a percentage of the oil in payment of his services;
- (c) be of Community origin;
- (d) be offered in minimum quantities.

6.10. The governing regulations are precise as to the nature of chemical analyses to be carried out to confirm the chemical characteristics of the oil. The methods of determining organoleptic requirements are left to the Member States. The date of physical delivery determines the monthly price. Payment is made after a certain delay specified by the regulations.

Storage

6.11. The Member States are required to take all measures necessary to ensure the conservation of oil in intervention stocks, and to inform the Commission of the measures taken in this respect. They are held financially responsible for quantity losses above a fixed limit of tolerance and for quality losses considered to be abnormal. The Commission has not fixed a limit of tolerance for quality losses to date.

(¹) i.e. taste, smell, colour.

Sales

6.12. As stated at 6.2 above, the Commission decides on the level and timing of sales from intervention stores. To avoid discrimination between potential buyers, sales are normally (but not necessarily) by public tender. The invitations to tender for particular lots are published by the intervention agencies within the framework of a global Commission regulation covering a certain period and a given quantity segregated by lot. The intervention agencies compile a list of the highest bids received per lot offered and submit it to the Commission for a final decision. The names of the bidders are excluded from the list. The Commission awards the sale to the highest bidder subject to a minimum price fixed in consultation with the Management Committee. The regulation ⁽¹⁾ provides for sample taking both at the bidding stage and when vats are sealed after acceptance of bids. Member States are required to submit regularly to the Commission details concerning the stock situations and movements.

Key control responsibilities

6.13. The responsibilities for intervention storage operations are divided therefore as follows:

- (a) Member States (intervention agencies):
 - (i) quality and quantity controls at entry,
 - (ii) responsibility to ensure that other conditions (e.g. first owner, Community origin) are met,
 - (iii) responsibility for financial control,
 - (iv) physical control over stocks during storage to prevent excessive quality and quantity losses;
- (b) Commission:
 - (i) general responsibility for development of governing regulations,
 - (ii) responsibility for ensuring full accountability for Community funds,
 - (iii) responsibility for global management of stocks.

OPERATION OF THE SCHEME IN THE MEMBER STATES

ITALY

Institutional arrangements

6.14. The Italian Government has designated AIMA as the intervention agency for all agricultural products

including olive oil. A division comprising four persons has responsibility for all intervention storage operations in the olive oil market.

6.15. The management of the day-to-day operations is entrusted to five producer organizations (the 'assuntori') which are recognised by the Italian authorities as having the necessary administrative and technical facilities. Technical installations, the locations and facilities of which must be specified, are inspected beforehand by the regional agricultural authorities, and an independent assurance as to solvency is required. The assuntori, in turn, delegate the physical handling and storage operations to their constituent organizations at local level which run their storage facilities in the intervention centres.

6.16. The administrative council of AIMA publishes at the beginning of each campaign year a national regulation concerning the operation of intervention storage operations for olive oil. This regulation is the basic instruction to the assuntori and prescribes the use of certain documents for purchase and sale operations.

6.17. Of the five assuntori operating intervention storage for olive oil, one (Federconsorzi) is by far the most important, executing approximately 90 % of the total operations.

Supporting documentation

6.18. Intervention purchase transactions in Italy are required to be supported by the following documents:

- (a) a demand for the purchase into intervention of a stated quantity of oil specifying the quality and location of the oil. The latter detail is important when large quantities are offered because there is a national provision for an examination of the oil before provisional acceptance at an intervention storage installation;
- (b) a document testifying to the Community origin and first ownership of the oil (for virgin oil a notarised extract of milling register is required, supported where necessary by invoices, or where appropriate a declaration made by the legal representative of an association that the quantity offered results from the production of the association's members);
- (c) an analysis certificate from a laboratory as provided in the national regulations;
- (d) a purchase order setting out the name of the producer and full details concerning the quantity, quality and value of oil purchased. This purchase order provides for the signature of the producer that he has received the sum due to him and the date of payment;

⁽¹⁾ Commission Regulation (EEC) No 2960/77 - OJ L 348, 30. 12. 1977.

- (e) a document made out by the producer to satisfy the requirements of national legislation for value added tax.

Quality control at entry

6.19. The Italian national regulations stipulate that oil offered into intervention be provisionally accepted and separately stored subject to confirmation by laboratory analysis of the chemical and organoleptic qualities of the oil. These regulations provide for samples of the oil to be taken for analysis in a laboratory designated by the intervention centre. In Italy, since November 1981, if the oil is offered as extra virgin oil, the system provides for a further analysis at the Istituto Elaiotecnico at Pescara.

Sales transactions

6.20. The procedures for sales in Italy are managed by AIMA who delegate to the central services of the assuntori the responsibility for completing invoicing and payment arrangements.

Internal and external control

6.21. Internal control functions are the responsibility of the assuntori (both at regional and central level) and of the olive oil division of AIMA.

6.22. External control functions are the responsibility of the Italian Court of Auditors. This control, which is effected a priori, is essentially on the basis of supporting documentation.

Audit findings

Control at operational level

General organization

6.23. There was a general lack of segregation of duties between those having responsibility for intervention storage operations. In particular:

- (a) there was a general lack of separation of technical management functions on the one hand and the accounting functions on the other. Even where both functions were entrusted to different individuals, the flow of accounting and management documentation tended to be established and to be registered by those having operational responsibility. As a result the accounting records were not established independently;
- (b) a case was observed at one intervention centre where full technical, commercial and accounting responsibility was vested in one person, who had sole responsibility for all transactions from beginning to end and where there was no evidence of independent checks to satisfy the essentials of sound internal control.

Controls on purchases

6.24.

- (a) It would seem appropriate to institute a limited number of independent checks on the results established by the specialised laboratories which determine the chemical and organoleptic qualities of the oil offered into intervention. Where the chemical analysis is carried out by an employee of the producer group operating the intervention centre (e.g. Federconsorzi - Bari) the need for independent verification of results is all the greater.
- (b) At one of the intervention centres visited it was found that certain tests required by Community regulations were never made. This indicates further the need for an independent check on the operations of the laboratories entrusted with the establishment of the quality of the oil offered into intervention.
- (c) Proof of first ownership of virgin oil and of Community origin is established for non-associated producers by means of a notarized statement to the effect that the notary has inspected the relevant mill register and accordingly certifies that entries exist therein consistent with the producer's claim. Since the mill registers are not designed to establish either first ownership or Community origin, the reliability of this certification procedure is doubtful.
- (d) Where the seller of the oil is a member of the cooperative which manages the intervention centre, Community origin is established simply on the basis of a declaration by the representative of the cooperative concerned to the effect that the oil is the production of a cooperative member. Since no independent check is carried out to verify the accuracy of such statements, the procedure places undue confidence in the organisation given responsibility for operating the system.
- (e) Control of quantities purchased was in the main found to be satisfactory in the centres visited in that adequate weighbridge facilities existed. However, the fact that weighbridge tickets were generally neither attached nor cross-referenced to the supporting documentation (and frequently were not retained) meant that a valuable source of evidence in support of individual transactions was not used.
- (f) Certain producer organisations managing the intervention centres accept oil which they have been storing on behalf of their members. This procedure, which is allowed by the Commission, can cause control difficulties in ensuring correct quality determination and

the respect of time limits for payment, especially if (as is likely to be the case) the oil is already stored in bulk.

- (g) At one intervention centre visited all individual deliveries of lampant oil in a given month were mixed together and a sample of the mixture was then analysed to determine the price payable for the oil. The transactions were accounted for individually but on the basis of average quality determination. This procedure gives a different result than the sum total for individual lots where separate prices are established on the basis of the acidity levels of each lot offered.
- (h) At another intervention centre it was noted that two lots of oil which had been delivered to the centre by the same producer were rejected by letter, stating that, in the light of laboratory analysis, the oil could not be accepted. The deliveries had taken place just before a devaluation of the green lire which involved a 6 % increase in the intervention price. Shortly after the devaluation date a series of deliveries of the same quality and from the same producer was noted, one of which was also identical in quantity to a lot earlier rejected. The supporting documentation for the original rejections, i.e. the analysis certificates, could not be produced by the centre.

Control of stocks during storage

6.25.

- (a) The quality of stock records varied considerably from one assuntore to another. One of the assuntori visited maintained detailed stock records which permitted all movements of original lots delivered to be traced at any given moment to their physical location, and consequently allowed the quality of oil at entry to be compared with its quality during storage. The stock records of the largest assuntore, however, consisted of lists per depot showing only the quantity of oil in stock at a given moment. These lists were updated after stock movements simply by crossing-out the original balance and noting the new one. Such rudimentary records, which did not allow the exact location of an individual lot to be determined, render impossible the quality comparison mentioned above.
- (b) Quantity losses of oil, even when they could be established, were not systematically recorded at the intervention centres. As a consequence, the quantities lost, and the oily residues separated from the oil stocked, are not accounted for at a central level and this prevents the application of the annual tolerance limit.

- (c) During the course of the audit 33 samples were taken at the main intervention centres in three of the principal producer provinces. 23 samples related to edible oil, five to lampant oil and five to olive residue oil. Of the 23, 22 were found to be of a lower quality than their nominal classification. These results were all the more surprising since the Italian authorities had undertaken a major re-classification operation six months prior to the sample-taking. The following are some examples of the results which are described in greater detail in Annex V:

- (i) one of the samples displayed very unsatisfactory organoleptic characteristics, raising questions whether sufficient attention had been paid to this aspect at the time of purchase or whether storage conditions were to blame;
- (ii) the results obtained in a second province are such as to cast doubts on the completeness and regularity of classification operations;
- (iii) the results from a third province indicated either very poor stocking conditions or the possible presence of foreign oils. In following up the Court's results from one centre the Italian authorities established the possibility of manipulation of the product and commenced an investigation which is still being pursued;
- (iv) the samples of olive residue oil had very high levels of humidity and impurities. High humidity levels cause a rapid deterioration of olive oil;
- (v) in the case of five samples nominally classified as 'fine' and sold as such, the results obtained gave a classification of 'semi-fine' for four of the samples and a poor quality lampant oil for the fifth one. The Italian authorities have since indicated that the bidder did not proceed with the purchase, thereby losing the deposit which he had paid.

Control of sales operations

6.26. Limited tests carried out at the intervention centres visited indicated that sales operations were satisfactorily controlled at the local levels. However, the fact that a copy of the transport document, required under national legislation for all movement of goods, was not systematically filed, posed difficulties in establishing independent evidence of stock movements.

Controls at central level

6.27. Responsibility to ensure adequate internal control rests with the assuntori in the first instance and with the olive oil division of AIMA in the second instance.

6.28. As regards the assuntori the following remarks are relevant:

- (a) the lack of segregation of duties observed in the local cooperatives was also in evidence in the two assuntori visited, resulting in the same systems weaknesses as outlined at 6.23;

- (b) corrections of errors were not systematically communicated to the management level at the intervention centres. Furthermore, the supporting documents for corrections made were not signed by an authorised official nor did they clearly show in all cases the reason for the correction.

6.29. As regards AIMA, the following remarks arise:

- (a) since the producer organisations are vested with the conflicting responsibilities of safeguarding their own members' interests on the one hand and managing the day-to-day operations of public intervention storage on the other, adequate independent control checks on these bodies are clearly necessary. In reality, however, a very high degree of confidence is placed by AIMA in the assuntori, and particularly, in Federconsorzi, to the extent that very limited checks are carried out on them. This situation puts Community funds at risk and should be rectified as soon as possible;
- (b) the control checks carried out by AIMA officials are limited to verifying the regularity and arithmetical accuracy of supporting documents without verifying on a test basis the conformity of those documents with the underlying records maintained at the intervention centres. Furthermore, AIMA does not require the accuracy of stock records to be verified by physical stocktaking;
- (c) even the verification of supporting documentation for completeness is not possible in the case of transactions carried out by the largest assuntori as the files submitted to AIMA do not contain two key documents, namely:
- (i) the analysis certificate,
 - (ii) the supporting document to prove Community origin and first ownership.

In these circumstances the value of the checks carried out at AIMA is very limited and quite inadequate;

- (d) AIMA does not check, even on a test basis, that all primary documents originating a transaction have been accounted for, neither does it oblige the assuntori to carry out such checks. The serial numbering of documents is, however, rendered useless for control purposes if this check is not carried out;
- (e) corrections carried out by AIMA officials were not systematically communicated to the assuntori with the result that discrepancies existed between the accounting records maintained at the two central levels;
- (f) the limited number of personnel in the olive oil division of AIMA is totally inadequate to ensure the proper

functioning of administrative and accounting controls of intervention storage operations.

External control

6.30. The Italian Court of Auditors has an office and a permanent presence at AIMA. Copies of supporting vouchers for intervention storage operations are systematically sent there. Because the Italian Court does not have the necessary powers to effect on-the-spot controls, verification work is confined to an examination of supporting documentation.

6.31. The Italian Court has frequently been strongly critical of the unsatisfactory organisational structure of AIMA. As a result a bill aimed at reforming AIMA's structure was passed by the Italian Parliament in August 1982, but this reform has yet to be implemented.

GREECE

Institutional arrangements

6.32. The Greek Government has designated YDAGEP, a section of the Ministry of Agriculture, as the intervention agency for all agricultural products. Within YDAGEP the responsibility for olive oil intervention operations is shared between the market division, the sales division, the division with general responsibility for intervention expenditure and the financial division. YDAGEP has a network of local offices charged with surveillance of operations on the spot. YDAGEP has in turn delegated responsibility for day-to-day management to ELAIOURGIKI – the central cooperative union of Greek olive oil producers of which the vast majority of Greek oil producers are members. It is the only organisation which has the necessary structure of local facilities to handle olive oil intervention operations. The physical operations are carried out at centres managed by the regional cooperative unions under the control of the central union.

6.33. For each campaign year a ministerial decree is published and this forms the basic national instruction with regard to intervention operations. Technical and administrative procedures to be followed are set out in a contract drawn up between YDAGEP and ELAIOURGIKI.

6.34. Accounting for intervention operations is based primarily on the supporting documentation established at local level. The details are summarised periodically and coordinated at the central union headquarters, before being submitted to YDAGEP for transmission to the Commission.

Supporting documentation

6.35. Intervention purchase transactions are required to be supported as follows:

- (a) a demand for the purchase into intervention of a stated quantity of oil specifying the quality and year of production. There is no procedure for an examination of the oil before it is presented at an intervention centre for sale;
- (b) a miller's certificate that he has crushed a certain quantity of olives resulting in a given quantity of oil. This certificate serves as proof both of first ownership and of Community origin. In Greece it is normal for millers to be paid for their services by retaining a percentage (usually 10 %) of the oil obtained in the crushing process ('miller's rights'). This oil can also be offered into intervention in which case the miller's certificate is replaced by a miller's declaration that the oil in question resulted from the 'miller's rights', supported by the fiscal invoice for the operation;
- (c) an analysis certificate as provided in the national regulations;
- (d) an invoice for the transaction giving full details.

6.36. The Greek fiscal system provides for the pre-numbering and registration in advance of all supporting documents likely to be used for a commercial transaction. Accordingly, the supporting documents set out above are subjected to a later check by the fiscal authorities which, in principle, constitutes an assurance as to the completeness of the accounting documentation.

Payment arrangements

6.37 The task of making payments for intervention purchase transactions is contracted to ATE, the Greek Agricultural Bank. The producer must submit two originals of the invoice for the transaction together with the originals of the other supporting documents. The Bank makes payment, after verifying the authenticity of the claim and is later reimbursed for this. It is, however, held liable for irregularities which it could reasonably be expected to detect.

Quality control at entry

6.38. There are no special arrangements for independent laboratory sampling of oil offered into intervention or for verifying the chemical and organoleptic qualities of oil offered as extra virgin quality. Instead, the local cooperatives employ qualified personnel to take samples of the oil offered and to carry out the chemical and other tests required by Community regulations.

Sales transactions

6.39. Sales transactions are managed by the appropriate division of YDAGEP which issues the necessary instructions for the release of the goods, establishes the invoices and

undertakes all other accounting functions for sales transactions.

Internal and external control

6.40. Internal control functions are the joint responsibility of ELAIOURGIKI and YDAGEP. External control functions are carried out by the Greek Court of Auditors.

Audit findings

Controls at operational level

General organisation

6.41. In general there was a satisfactory segregation of duties between officials having responsibility for storage operations. It was noted, however, that in certain centres this had not been done to the maximum possible extent, because of lack of central instructions concerning division of responsibilities.

Controls on purchases

6.42.

- (a) There is a fundamental structural problem in the organisation of quality control procedures because those responsible for sampling and chemical analysis, being employees of the local unions managing the relevant centres, cannot be considered to be independent to carry out these essential controls. A serious systems weakness arises from the conflict of interests in safeguarding the Community's finances, on the one hand, and satisfying the interests of their ultimate employers on the other. This weakness is not offset by effective built-in controls, such as the re-testing of samples on a limited basis by an independent laboratory.
- (b) The range of analyses carried out falls considerably short of that prescribed by the Community regulations. In fact the equipment necessary to carry out certain analyses was not always available.
- (c) The similarity of acidity levels and impurity levels recorded on the analysis bulletins of certain centres visited cast doubts on the thoroughness of the analyses conducted and consequently on the correctness of the net quantities on which payment was made. The systematic application of the limit value on a flat-rate basis could result in an underpayment of up to 0,8 % to producers.
- (d) Proof of first ownership and of Community origin of oil offered into intervention is given either by a miller's certificate or by a simple declaration made by him. The

fact that the mill registers are not subject to any independent checks specifically to verify the accuracy of such declarations, constitutes a weakness in the procedure.

- (e) It was noted that small producers, who did not individually satisfy minimum quantity requirements, frequently combined their individual lots and sold the total into intervention. The wide variety of practices whereby this was done and the lack of a central instruction suggests that Community requirements concerning quality analysis, price calculation and payment time limits may not be fully respected in all cases.
- (f) The local cooperatives frequently store oil on behalf of their members in a single tank. At one of the centres visited, if a producer wished to sell his oil into intervention the centre simply effected an accounting operation based on the quality of the oil as established when it was first stocked, an analysis which was likely to have been less rigorous than stipulated by Community requirements and which often took place several months prior to the intervention operation. This procedure, which is totally unacceptable from the point of view of quality determination, is all the more so because the oil so taken into intervention continued to be stored with non-intervention stocks.
- (g) The facilities for determining the quantity of oil purchased were generally satisfactory at the centres visited. However, weighbridge tickets were, in almost all cases, either not retained or not systematically filed.

Control of stocks during storage

6.43.

- (a) The stock records maintained at the intervention centres visited were generally found to be deficient. Cases were noted where the only records were chalk inscriptions on individual vats to record the total quantity. It was not possible in any of the centres visited to trace individual lots purchased to a particular tank. Likewise, transfers from one tank to another were not recorded.
- (b) The stock records, where they existed, reflected the theoretical rather than the actual stock, since losses of quantity, even when they were established, were generally not recorded. This practice prevents the application of the annual tolerance limit.
- (c) Notwithstanding the lack of attention to stock records, however, the 19 samples taken during the audit and tested independently gave generally satisfactory results,

conforming to the norms laid down for olive oil. Four lots were found no longer to possess the characteristics (in terms of acidity) of the quality in which they were classified. Of the four, one, which was classified as extra virgin oil, was found to be lampant and two were marginally outside the acidity limits for their classifications.

Controls on sales

6.44. The participation of the cooperatives in sales operations is limited to following the instructions of YDAGEP concerning release of the product. The inadequate stock records hindered the verification of goods movement. Checks carried out during the audit were limited to examining a small number of transactions to assess the adequacy of supporting documentation with generally satisfactory results.

Controls at central level

6.45. The prime responsibility to ensure an overall adequate internal control system rests with YDAGEP as the intervention agency. ELAIOURGIKI has a responsibility for ensuring that a sound internal control system operates in the intervention centres.

6.46. The following observations arise from the Court's audit:

Concerning ELAIOURGIKI:

- (a) while ELAIOURGIKI, as authorised by YDAGEP, is responsible for the management of intervention purchasing and storage operations, it operates actively in the olive oil market on behalf of its members. Consequently, it frequently sells into intervention through its associated local cooperative unions (themselves responsible at local level for olive oil intervention operations) but also participates in the tendering arrangements for the sale of intervention stocks. The potential conflict of interests arising from these incompatible roles requires particular surveillance both at national and Community level, but in fact no special precautions are provided;
- (b) despite its internal control responsibilities, ELAIOURGIKI does not control the local unions in a systematic or effective manner. Thus, for example:
 - (i) it does not issue detailed instructions on the maintenance of accounting records nor does it carry out a regular review of procedures operating at local level, to ensure standardisation of practices by local unions. In particular, the stock accounts

kept locally are not subject to any minimum standards. As a result each local union has developed its own system in isolation, and consequently the reliability of the monthly returns sent to the Commission is in doubt;

- (ii) corrections of errors made in the central accounts are generally not communicated to the local level and vice-versa. Thus, reconciliation of the two sets of data is almost impossible;
- (iii) a global reconciliation of stock records held at ELAIOURGIKI with those maintained at local level (a basic control account requirement) is not carried out;
- (iv) as a result it was often quite difficult, and in certain cases impossible, to reconstitute the audit trail from one level to another.

6.47. Concerning YDAGEP:

- (a) staff numbers involved in olive oil intervention storage were considerably higher than at the equivalent level in Italy. This facilitated a satisfactory segregation of duties within YDAGEP;
- (b) nevertheless, the controls carried out were confined to verifying the regularity and arithmetical accuracy of individual files almost exclusively by a repetition of the verification work already done at various levels. As there is no evaluation of the reliability of the accounting systems kept by ELAIOURGIKI and the local unions, YDAGEP can have no independent assurance as to the quantities of stock held at the different levels or as to the conditions of storage. This degree of dependence on the central and local unions is all the more surprising in view of their potential conflict of interests, as already outlined.

External control

6.48. The checks carried out by the Greek Court of Auditors are also documentary only since it does not have the necessary powers to effect on-the-spot visits.

MANAGEMENT BY THE COMMISSION – AUDIT FINDINGS

As regards general responsibilities for the development of governing regulations

6.49. The regulations governing intervention operations in the olive oil market would be improved if detailed provisions were included to:

- (a) specify precisely the procedures for carrying out quality determination tests to ensure equality of treatment as between one Member State and another;
- (b) outline more precise requirements to determine first ownership and Community origin;
- (c) set out in detail the nature of stock records to be maintained and the data to be communicated to the Commission;
- (d) establish precise rules for the verification of stock records by physical stocktaking and for the re-classification of intervention stocks at regular intervals;
- (e) establish a limit of tolerance for quality losses. While certain technical difficulties would need to be overcome for its determination, in the absence of such a limit the responsibility of Member States to keep oil in a good condition cannot be adequately controlled;
- (f) ensure that those national organisations given responsibility for intervention storage operations are not in an uncontrolled position of conflicting interests.

As regards responsibility for ensuring full accountability for Community funds

6.50.

- (a) Doubts on the reliability of accounting data sent to the Commission have been set out above. The major weakness was found to be that controls focussed on individual transaction files without paying adequate attention to verifying the completeness and consistency of data accounted for at each level. Intervention in the olive oil market has the following further defects in the accounting and financing systems which also apply to many other markets:
- (b) The accounting data, for public storage transactions, declared each month to the Commission, and which form the basis for budgetary control and management of funds throughout the year, are of a provisional nature because of the valuation rules applied, and subject to continuous adjustments in later months.
- (c) The system of stock accounting needs to be reformed to a standard more fitted to the size and complexity of the operations involved so as to meet the requirements of efficient management and control.
- (d) For these reasons, and also because Community financing is indirect, there is no interconnection between the financial accounts of the Commission and those of the intervention agencies. Because of the accounting methods used for establishing the monthly

reimbursements to be claimed from the Community, these sums have to be calculated outside the accounts and it is extremely difficult to arrive at a global reconciliation between movements of products and movements of funds.

(e) The flat rates at which Member States are reimbursed warehousing and other technical costs are calculated on the basis of answers to periodical questionnaires designed to ascertain the real costs involved. The fact that the Commission does not verify in depth the correctness of the replies received before recalculating the rates paid has resulted in excessive reimbursements to the Member States under this heading of approximately 8 Mio ECU for the years 1982 and 1983. This arose because the Greek authorities had mistakenly entered administrative costs, contrary to Article 1 (4) of Council Regulation (EEC) No 729/70 ⁽¹⁾.

(f) The method used in valuing stocks at year-end has a distorting effect on the distribution of amounts charged for each Member State to the Community budget for any one year; and also on the amounts charged from year to year. This arises because:

- (i) the valuation is based on the average of national prices (each one dependent upon the mix of different qualities),
- (ii) the application of an incorrect weighting (on the basis of opening stocks and purchase during the year rather than on quantities in stock at year-end), and
- (iii) a double rate is used whereby the calculation of the average is based on the green rate and the adjustments are charged to the budget using the budgetary rate.

The effect of this method was a negative expense in the Community budget of 8,7 Mio ECU in 1981 and of 4,7 Mio ECU in 1982.

As regards responsibility for global management of stocks

6.51 Within the Commission coordination was generally insufficient between the market division (responsible for technical and commercial management) and the financial division. As a result:

- (a) the limit of tolerance procedure was not generally applied. Member States were thus reimbursed financial

and storage costs on non-existent stocks. It has been calculated that for Italy alone, this amounted to 2,6 Mio ECU to date;

- (b) the management of oily residues was quite uneconomic because the market division tried to realise the maximum price without taking account of the cost of their continued storage and which resulted ultimately in a disproportionately small receipt. In the case of Italy alone, this resulted in an estimated cost of approximately 1 Mio ECU to date, against an estimated receipt from sale of only approximately 50 000 ECU. In those circumstances, it would be better to have the oil destroyed rather than continue to pay for its storage;
- (c) while the market division and the financial division receive communications concerning different aspects of intervention storage, there is no systematic exchange of data to ensure maximum management control during the year.

6.52. Coordination between the Commission and the Member States is also unsatisfactory in that:

- (a) there is, in general, no communication to the Commission of control measures taken at national level to ensure the quality of the oil in stock;
- (b) there is a general lack of detail in the information supplied by the Member States concerning stock available for sale. This is aggravated by the absence of provisions for a regular comprehensive re-classification of oil in stock.

6.53. The Commission has a particular responsibility to directly manage the sales operations from intervention stocks. It was noted, however, that in 1983 difficulties were encountered in disposing of intervention stocks even though the market situation, especially in Italy, was favourable due to a bad harvest. While one can only speculate at this stage as to the underlying reasons for this, the following factors are likely to have played a part:

- (a) insufficient attention to quality, especially to organoleptic characteristics, both at the moment of purchase and during storage;
- (b) cumbersome and short-sighted tendering rules which can result in the loss of potential sales, when a more flexible and commercially motivated approach, especially for problem lots, could mean a net saving in storage costs. It usually requires a minimum of 50 days to complete a full tendering procedure. Furthermore, since tenderers are generally aware that the minimum sales price fixed by the Commission is the intervention price for the following month, they rarely bid much more than this price;

⁽¹⁾ OJ L 94, 28. 4. 1970, p. 13.

- (c) the possible overclassification of lots offered for sale in Italy;
- (d) the absence of accurate and up-to-date information on the different lots in stock, showing both quantity and quality, so that the particular requirements of the market cannot be satisfied at any given time;
- (e) the rigid requirements of the regulations whereby virgin oil must be sold by 'lot' defined as the full contents of a storage container. Given that, for practical reasons, oil of a given quality is usually stored in large vats, it can sometimes be difficult to find a purchaser for such large quantities. The reason for this provision in the regulations is not clear.

6.54. Finally, the classification criteria laid down by the Community rules for virgin olive oil are, in certain respects, more stringent than those recognized as commercial practice by the International Olive Oil Council. While the strict approach, if correctly applied, is advantageous to the Community at the point of entry into intervention stores, its application at the point of sale can result in a price below the normal commercial level.

CONCLUSIONS ON INTERVENTION STORAGE

6.55. The management of Community expenditure is the joint responsibility of the authorities in the Member States and the Commission. Expenditure on public storage has the particular characteristic that each purchase operation involves the incurring of both immediate and on-going financial obligations.

6.56. Because of this, and especially because of the potential financial consequences on the sale of intervention stocks, storage operations require close management attention.

6.57. This should focus on:

- (a) the adequacy of quality and quantity controls over the oil at entry;
- (b) the appropriateness of measures taken to conserve the quantity and quality characteristics of the oil during storage;
- (c) the regular monitoring and reconciliation of the physical characteristics of the oil with the book situation;
- (d) the timing of sales operations;
- (e) the role of intervention storage operations in the overall management of the olive oil market.

6.58. Physical management of intervention storage operations is delegated in the Member States to the commercial organisations involved in the olive oil market.

6.59. Because of the conflicting interests of these commercial organisations, this delegation requires adequate scrutiny on the part of the Member States and the Commission.

6.60. Nevertheless, the latter appear to place too great a degree of reliance on these commercial organisations. The review and control procedures were found to be sporadic and inadequate in intensity. As a consequence underlying systems of accounting and control showed serious weaknesses. This situation arises from weaknesses in the governing regulations, in certain instances (i.e. control requirements not made sufficiently clear), and to a lesser extent from the lack of respect of the existing regulations.

6.61. This unacceptable situation has been allowed to develop because of inadequate surveillance by the responsible agencies in the Member States and also by the Commission.

6.62. A lack of coordination was found to exist between the financial and technical services of the Commission. As a result, intervention stocks are not always managed in the most cost-effective manner. The persistence of intervention stocks ranging between 120 000 and 180 000 tonnes in a market where annual imports of between 126 000 and 137 000 tonnes were found necessary in recent years illustrates this point. The difficulties encountered in 1983 in disposing of intervention stocks even though the market situation, particularly in Italy, was favourable due to a bad harvest, provide evidence of the potential losses involved.

6.63. On the basis of the samples taken, and in the light of a re-classification exercise undertaken by the Italian authorities, it has been proved that an important part of olive oil intervention stocks has been over-classified in the past. Yet the absence of a limit of tolerance for quality losses has meant that their financial consequences have to date been borne by the Community rather than by the Member States who are normally responsible for maintaining the quality of the oil in stock.

6.64. While losses on intervention sales have been negligible and, while in the main, small profits have been realised, this should not be allowed to mask certain events which give ground for disquiet namely:

- (a) the difficulty of disposing of the stocks in 1983;
- (b) the fact that intervention sales operations in Italy during 1983 resulted in losses.

6.65. The financial implications of a failure to achieve efficient standards of management are measurable, less in terms of current expenditure levels on olive oil storage than by the value attributed to those stocks of oil on hand, e.g. at 31 December 1983: 121 000 tonnes valued at 175 Mio ECU.

CHAPTER 7

OTHER ELEMENTS OF PARLIAMENT'S REQUEST

Introduction

7.1. This chapter deals with other elements of the European Parliament's request, in particular:

- (a) frauds and irregularities reported, and
- (b) proposals made by the different Community institutions to improve the functioning of the market mechanisms and eliminate the causes of frauds.

Frauds and irregularities reported

Production aid

7.2. In the period 1979 to 1983 the 21 major cases of irregularities, which were reported to the Commission under Council Regulation (EEC) No 283/72⁽¹⁾ amounted to 1 199 000 u.a., including one case involving more than 1 Mio u.a. All of these cases arose in Italy, and all referred to the period prior to the introduction of the 1978 system of aid. No irregularities have yet been reported for the period since the introduction of the new system.

7.3. There may be several explanations for the absence of recent reports, for example:

- (a) the present regulations only require cases to be reported where the individual sums involved exceed 1 000 ECU. Given that on average individual payments, though numerous, are considerably less than this, the Commission should exercise its power to modify the reporting limit;
- (b) some of the irregularities noted in Italy and France related to formal aspects such as the keeping of stock records by mills;
- (c) the large number of reductions of claims in Italy was not necessarily based on evidence of specific irregularities;
- (d) even where evidence of irregularity is established and proceedings commenced, the Italian authorities do not report until cases have reached final conclusion.

Consumption aid

7.4. No cases of fraud or irregularity pertaining to consumption aid have been notified to the Commission under Regulation (EEC) No 283/72. This is rather surprising in view of the data supplied to the Court of Auditors by the Italian authorities relating to the results of its

inspection activities. The Commission should take a more active role in ensuring uniform enforcement of this regulation.

Intervention storage

7.5. In the period under review (1978 to date) no irregularities have been reported to the Commission. During recent audits by the Commission services for the clearance of earlier years' accounts, certain irregularities had been noted in Italy, for example:

- (a) failure to pay over to the Community guarantees forfeited in connection with the sales procedure;
- (b) errors in accounting for stolen quantities;
- (c) minor mistakes in prices paid for oil.

In Greece certain questions were raised as to the method of calculating losses/gains on intervention operations.

Proposals for improvement

Production aid

7.6. During the early part of 1983, the UK representative circulated to the Council a proposal for a generalised flat-rate system of production aid. Though supported by some delegates, the proposal was not retained.

7.7. In the context of the general reform proposals for the common agricultural policy, the Commission proposed in 1983⁽²⁾ a series of measures designed to improve the system. These were:

- (a) the establishment of an autonomous control agency in each producer Member State independent of the existing management agencies and responsible for certain checks in connection with production aid. Its functions would be to:
 - (i) ensure that the aid arrangements were correctly applied,
 - (ii) conduct checks on approved mills,
 - (iii) carry out checks in respect of end-use of the oil obtained by crushing and its by-products,
 - (iv) assemble, verify and process the data required for ascertaining yields,

⁽¹⁾ OJ L 36, 10. 2. 1972, p. 1.

⁽²⁾ COM(83) 480 final of 30. 8. 1983.

- (v) conduct statistical surveys on production, processing and consumption of olive oil.

The agencies should have full administrative autonomy and sufficient trained and qualified staff to fulfil their mandate. Financial costs would in the first years be provided from Community funds;

- (b) a Community system of sanctions of an administrative nature – criminal law remains within the purview of the Member States;
- (c) a stable regulatory framework for producer organisations and associations thereof with a clearer definition of control responsibilities;
- (d) removal, from producer organisations to the Member States, of responsibility for checks on oil mills;
- (e) establishment of permanent computerised records of control data;
- (f) prohibition, on the part of a grower, of simultaneous membership of more than one producer organisation;
- (g) advances to associated producers be limited to 70 % of the amount resulting from Community-fixed yields;
- (h) extension of the flat-rate system, based on Community-fixed yields, to small growers. The limit proposed was 100 kg per annum, involving some 300 000 producers in Italy alone.

7.8. The proposals listed above at (c) to (h), have since been incorporated in Council Regulations⁽¹⁾ laying down general rules on the granting of aid for the production of olive oil and of aid to olive oil producer organisations. The measures adopted for limiting the advances to associated producers were somewhat different from the proposal set out at (g) above. For the 1984/85, 1985/86 and 1986/87 marketing years, these advances are limited to:

- (a) the amount resulting from applying the olive yields and oil yields fixed by the Community to the number of olive trees in production as stated in the crop declaration, or the amount resulting from the quantity mentioned in the application, whichever is the lower, or
- (b) 50 % of the amount resulting from the average of the aids paid during the two preceding marketing years.

It is not clear whether these ceilings will be applied cumulatively (see 4.21, footnote ⁽¹⁾, regarding 1982/83 and 1983/84).

⁽¹⁾ Council Regulation (EEC) No 1097/84 – OJ L 113, 28. 4. 1984 and Council Regulation (EEC) No 2261/84 – OJ L 208, 3. 8. 1984.

7.9. In addition, for the first time, producer groups are being obliged to carry out the requisite checks on crop declarations on-the-spot, but the minimum number of declarations to be checked in this manner is reduced from 10 % to 5 %. Exceptionally the minimum percentage is reduced to 3 % for the 1984/85 marketing year⁽²⁾.

7.10. As regards responsibility for checks on oil mills the abovementioned general regulation provides that producer Member States should carry out on-the-spot checks on the activities and the stock records of a percentage of approved mills to be determined. However, the implementing regulations are silent on how these checks are to be done and merely state that the checks shall cover at least 5 % of the approved mills. Once again the minimum percentage is reduced to 3 % for the 1984/85 marketing year.

7.11. The proposal to establish an autonomous control agency in the producer Member States has also been incorporated in a recent Community Regulation⁽³⁾. This is limited to Member States whose production is more than 3 000 tonnes over a certain reference period, thus exempting France.

7.12. The proposal outlined at 7.7 (b) above – the introduction of a Community system of sanctions of an administrative nature, has not yet been implemented.

7.13. The abovementioned changes in Community Regulations are assessed in Chapter 8 of this report.

Consumption aid

7.14. The only proposal on the table, of which the Court of Auditors is aware is that made by the Commission in the light of Spanish and Portuguese accession, i.e. to increase consumption aid so as to establish a price ratio of 2 : 1 between olive oil and competing oils and to introduce a non-discriminatory tax on oils and fats, with a view to providing the necessary finance.

7.15. The European Parliament, in its opinion on the proposal⁽⁴⁾, approved the general idea which it wished to see implemented immediately but recommended that prices should be aligned by judiciously releasing intervention stocks on the Community market and taking steps to stabilise imports, rather than by way of consumption aid. The foregoing proposals are still before the Council.

⁽²⁾ Commission Regulation (EEC) No 3061/84 – OJ L 288, 1. 11. 1984.

⁽³⁾ Council Regulation (EEC) No 2262/84 – OJ L 208, 3. 8. 1984.

⁽⁴⁾ OJ C 42, 14. 2. 1983, p. 36.

Intervention storage

7.16. Though some useful reforms of detail have been adopted in the last few years, e.g. those defining more-

precisely the organoleptic qualities of olive oil, no proposals are on the table at present. Commission Regulation (EEC) No 3166/84⁽¹⁾ introduced, for the first time, the requirement to verify periodically the quality of oil in storage.

CHAPTER 8

OVERALL ASSESSMENT

THE PRESENT SYSTEM

8.1. The Court's main audit findings together with its general conclusions relating to olive oil production aid, consumption aid and intervention storage operations are set out in detail in Chapters 4, 5 and 6 of this report, and should be read with this chapter.

8.2. Two features in particular are common to all three areas of Community expenditure in this market, namely:

- (a) inadequacies in the governing regulations result in weaknesses in controls;
- (b) in reality, the degree of reliance placed by the Commission and by the national authorities in the Member States on controls entrusted to producer or trade organisations is unacceptable because it is not accompanied by an adequate level of independent checks. This is a serious weakness in the system because these organisations, who are given responsibility for operating the Community systems at local level, are thus placed in a position of conflicting interests, i.e. those of the Community and those of their members – the beneficiaries of Community aid, without a satisfactory degree of independent surveillance on them.

8.3. These two aspects cast serious doubts on the adequacy of the present controls over Community expenditure on olive oil and any worthwhile proposals for improvement should concentrate on overcoming the weaknesses arising from them.

8.4. The following paragraphs outline specific suggestions for each of the three areas of expenditure.

Production aid

8.5. Weaknesses in the governing regulations which require urgent attention in this area are:

- (a) the more stable arrangements recently introduced replacing the series of *ad hoc* arrangements and governing regulations of the last five years should be consolidated without further delay;

- (b) the inadequacies outlined in detail at paragraph 4.71 should be overcome;

- (c) the precise nature and purpose of the controls prescribed by the regulations should be clearly defined;

- (d) the division of responsibilities between various control levels should be clearly outlined to ensure that controls at each level can commence from the preceding control work without attempting to repeat it.

8.6. The audit revealed that, as presently organised, the approved producer organisations are not capable of fulfilling the role assigned to them and therefore the payment of advances on the basis of controls carried out by them is inappropriate. This unsatisfactory situation can be overcome either by a complete reform of these organisations or by relieving them of the primary responsibility for controlling the aid applications of their members.

8.7. The adoption of an integrated and fully coherent structure of control would help to resolve the general administrative and systems weaknesses outlined at paragraphs 4.77 and 4.78 of this report. The proposals of the Commission outlined at paragraph 7.7 could also result in an overall improvement provided that the weaknesses in the regulations were overcome at the same time.

8.8. The application of a flat-rate system for small producers could considerably lighten the administrative burden of processing claims. Consideration should therefore be given to whether a higher limit would be appropriate. Such a measure would, without undue hardship, remove an even greater number of growers from the full system based on actual yields. It should be pointed out, however, that even for a flat-rate system, the basic determinant of the entitlement to aid is the number of olive trees – which can only be determined with accuracy on the basis of adequate on-the-spot visits. This aspect is of particular importance, therefore, in the required revision of the governing regulations. In addition, any flat-rate system which is not applied to all producers needs to guard against the

⁽¹⁾ OJ L 297, 15. 11. 1984.

possibilities for producers opting for that system only in years when it suited them, and also for producers who are subject to the flat-rate system transferring olives to those who receive the aid on the basis of actual yields.

8.9. The Commission's proposal to set up autonomous control agencies in the Member States could improve the overall structure of control. However, there is no guarantee that such agencies will be significantly more effective than those existing at present unless adequate steps are taken to overcome the systems weaknesses already outlined. It is particularly important to emphasise that the success of the control agencies depends as much on the adequacy of staff levels within the Commission to control and exploit the agency's work as on the effective manning and operation of the agencies in the Member States.

8.10. As regards the recent modifications to Community Regulations as outlined at paragraphs 7.8 to 7.10 of this report the following considerations are of special importance:

- (a) the prohibition on producers of membership of more than one producer organisations is, under present circumstances, very difficult to control and ample evidence exists of duplicate membership. Consequently the proposal contained in the 1984 implementing regulation to cover the administration expenses of producer organisations partly on the basis of 2 ECU per member is fraught with dangers, especially that more than one organisation will be paid for an individual membership;
- (b) the recent proposals concerning limitation of advances in respect of production aid do not effectively curb the possibilities of receiving excessive advances, in that the amount of the advance is not limited to the lowest of all the available possibilities;
- (c) the establishment of permanent computer records of olive and olive oil production data will take a considerable time to implement, particularly in Greece, and especially since the most recent implementing regulation provides that the Member States should enter the data contained in the register of olive cultivation, as soon as such data becomes available. Such data which is of primordial importance to determine the correctness of crop declarations – the very basis of aid applications for olive oil production aid, will not be available for Greece in the foreseeable future.

Consumption aid

8.11. In this area the main inadequacies of the present regulations requiring attention are:

- (a) the control functions of the recognised trade organisations are not set out in sufficient detail;

- (b) there are no minimum criteria as to the size and representative nature of the recognised trade organisations;
- (c) the manner in which the records of approved packaging plants must be inspected is not clearly specified but is left to the Member States.

8.12. As already stated in Chapter 5 of this report, the possibilities of introducing effective control measures are greater for consumption aid than for the other main areas of Community expenditure in the olive oil sector. However, this requires the systematic involvement both of the Commission and of the national authorities in the Member States to ensure that:

- (a) the inadequacies of the governing regulations are overcome;
- (b) the controls assigned to recognised trade organisations are logical, clearly stated and carried out in a timely and effective manner;
- (c) the verification of claims in respect of which advance payments of aid are made, is carried out while the required guarantees are still valid;
- (d) packaging plants who apply directly for the aid are subjected to timely and effective controls.

8.13. As regards the economic effectiveness of the aid, there are various indications that a detailed examination is necessary. Particular aspects meriting further study in this area are detailed in paragraph 5.43 of this report.

Intervention storage

8.14. The weaknesses in the governing regulations which require immediate attention are set out in detail at 6.49 of this report. Improvements are necessary in this area to ensure in particular that quality and quantity controls over the oil are adequate at the point of entry and that appropriate measures are taken to conserve as far as possible the quantity and quality characteristics during storage.

8.15. In addition there is an urgent need for improvements in the following areas:

- (a) the accounting system for public stocks to overcome the defects set out at 6.50;
- (b) the regular monitoring and reconciliation of the physical characteristics of the oil with the book situation;
- (c) the global management of the stocks by the Commission to ensure:

- (i) that adequate and up-to-date management information on stocks is available to it,
- (ii) that decisions are taken in the light of cost-benefit comparisons of the costs of continued storage with the potential sales results,
- (iii) that arrangements for sales operations are sufficiently flexible particularly for problem lots⁽¹⁾ and also as regards the definition of a 'lot'.

8.16. As regards the situation outlined at 8.15 (b) above, Article 1 (1) of Commission Regulation (EEC) No 3166/84⁽¹⁾ concerning periodic verification of the quality of olive oil stored could, if properly followed, lead to an overall improvement in the present situation. However, in the absence of appropriate tolerance limits the financial effects of quality losses are likely to continue to be borne by the Community rather than a national budget.

8.17. Above all, there is an urgent need to considerably improve review and control procedures in relation to the commercial organisations to whom the physical management of intervention storage operations is delegated. Adequate scrutiny of these organisations, both by the Commission and the Member States, is essential to ensure that the underlying systems of accounting and control are satisfactory.

TOWARDS A MORE RELIABLE CONTROL SYSTEM

8.18. The foregoing chapters have analysed the problems arising from the present system of aids and this chapter has indicated a number of reforms which are obviously necessary if that system were to be retained. The Court considers, however, that even if all of these reforms were put into effect, the system would remain difficult to manage and open to fraudulent manipulation. It is clear that some fundamental restructuring is necessary – possibly on the lines of the systems applied in other markets where payment of aid is made at the point of commercialisation/processing.

8.19. The present system, especially the production aid scheme, is always likely to cause administrative and control difficulties because it involves:

- (a) the payment of aid directly to a very large number of producers, even for their own consumption and direct sales;
- (b) payment on the basis of crop declarations but without the transfer of ownership of the product attracting the aid.

8.20. The risk of fraud would be greatly reduced if it were possible to pay the production aid at the stage of commercialisation/processing because this would considerably diminish the number of points of payment. Commercial enterprises receiving the aid would be obliged to show that they had passed it on to the producers and this would obviously mean that own consumption and direct sales to the consumer would not come within the scope of the scheme. Alternatively it might be possible to terminate the production aid and provide compensation by way of an increase in the consumption aid. A suitably adjusted intervention price would help to support producer prices at the desired level while continuing, as before, to provide an outlet alternative to the commercial channels. Since the consumption aid would then represent a considerable proportion of the retail price, adequate control measures would be necessary to ensure that the producers and consumers received the appropriate benefit and to reduce the risk of fraud on the part of firms qualifying for the aid.

8.21. The foregoing general ideas are put forward by the Court in the belief that the present system, particularly of production aid, should not be allowed to continue because of its many defects.

These observations were adopted by the Court of Auditors at its meeting of 25 April 1985.

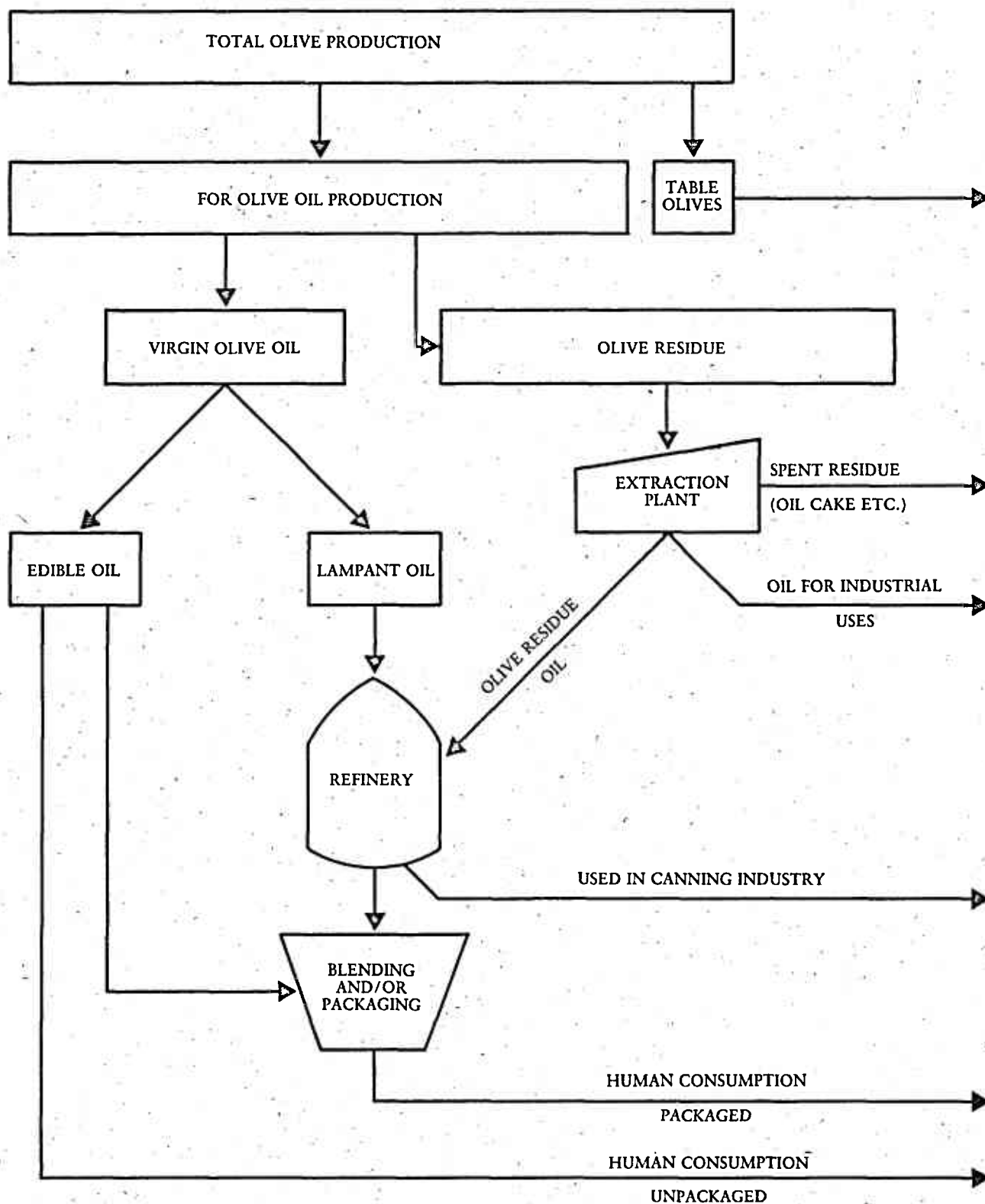
Luxembourg, 3 May 1985

For the Court of Auditors

Marcel MART

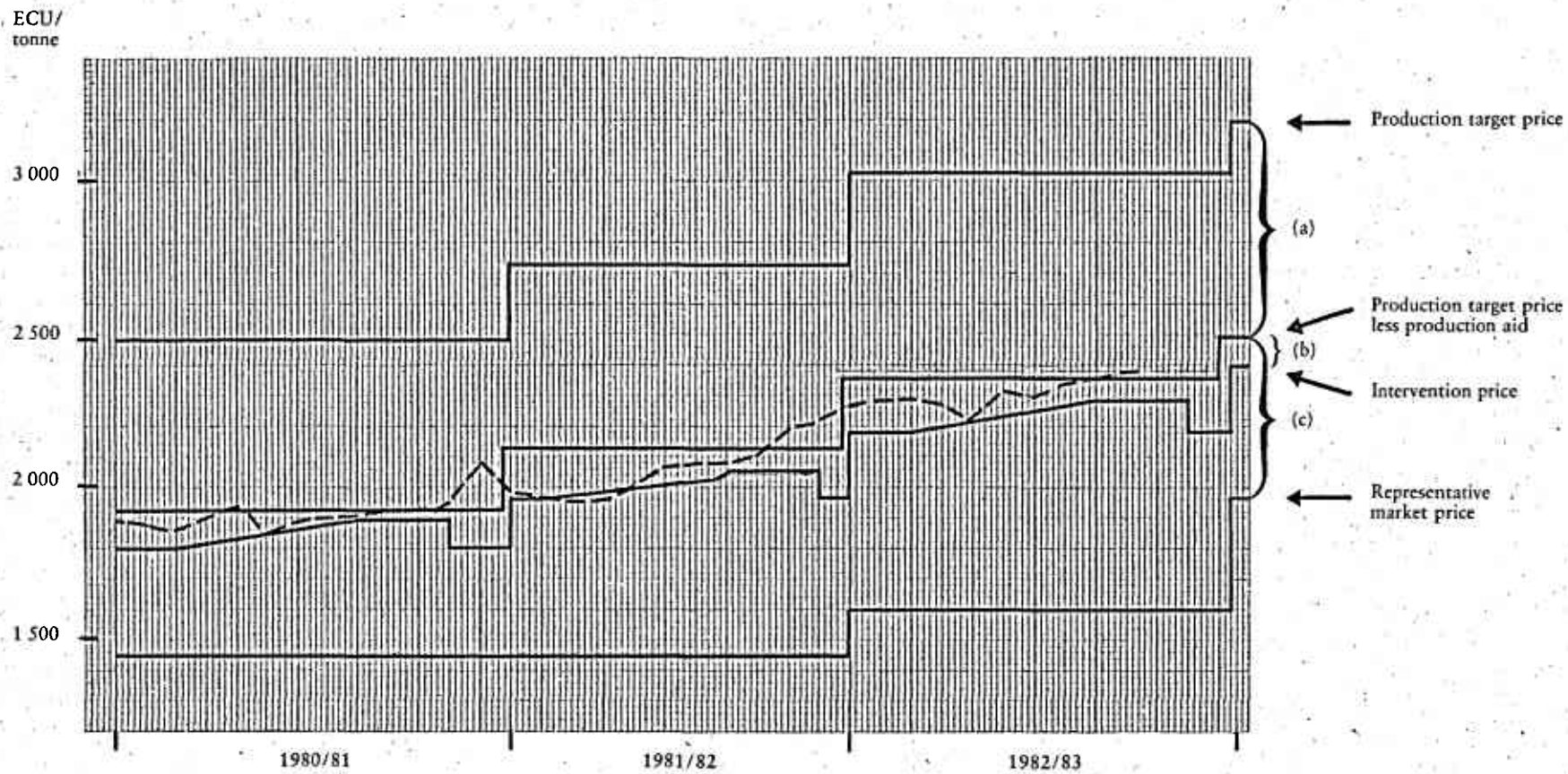
President

⁽¹⁾ OJ L 297, 15. 11. 1984.

ANNEX I
USES OF OLIVES

ANNEX II

OLIVE OIL MARKET MECHANISM



- (a) Production aid.
 (b) Difference to allow for 'normal' price fluctuations etc.
 (c) Consumption aid.
 - - - = market price - semi-fine (BARI).

ANNEX II(a)

Olive oil market mechanism: Common prices
1978/79 to 1983/84

	ECU/tonne						Average annual change	
	1978/79 (from 1. 4. 1979)	1979/80	1980/81	1981/82	1982/83	1983/84	1978/79 - 1982/83 (%)	1982/83 - 1983/84 (%)
1. Production target price	2 315,6	2 350,4	2 479,7	2 727,7	3 027,7	3 194,2	+ 6,6	+ 5,5
2. Production aid	521,2	529,0	558,1	600,0	666,0	702,6	+ 6,2	+ 5,5
3. Intervention price	1 706,3	1 731,9	1 801,2	1 963,0	2 179,3	2 299,2	+ 6,1	+ 5,5
4. Representative market price	1 460,2	1 470,0	1 450,0	1 450,0	1 595,0	1 968,7		
5. Threshold price	1 444,0	1 449,6	1 427,9	1 440,9	1 558,8	1 932,5		
Consumption aid (1 - 2 - 4)	334,2	351,4	471,6	677,7	766,7	522,4	+ 23,07	- 32

Sources: Situation of Agricultural Markets Reports 1979 to 1983.

ANNEX III

RELIABILITY OF STATISTICAL DATA

Introduction

1. A timely and reliable flow of market statistics is indispensable for sound market management and rational decision-making. In certain cases it can also be used to supplement control measures by indicating unusual trends or by acting as a credibility check on accounting data. The various systems weaknesses noted in this report are such as to leave open the possibility of fraud and irregularity. While it is beyond the scope of the report to go further and show, by extensive audit over a wide range, whether such irregularities are in fact occurring, and if so, on what scale, this annex presents some reflections on production and consumption statistics relating to olive oil, primarily from the control aspects.

2. As indicated in Chapter 5, consumption aid is payable on only a fraction of the total oil consumed while production aid is payable, in principle, on every kilogram produced. There can be no relationship therefore between the quantities qualifying for the two aids. For that reason, it is appropriate to concentrate on the production aspect, and to consider the consumption statistics only for the light which they may throw on real production. The examination is limited to Italy and Greece.

ITALY

Production statistics

3. A study of production statistics for Italy is complicated by the existence of three separate and, sometimes conflicting, sources of statistical information. These are:

(a) The figures published by the Italian statistical service (ISTAT), based on returns from its agents in the provinces. This is the basic source (see paragraph 5 below).

(b) Production data appearing in the supply balance sheets prepared by the Ministry of Agriculture and Forestry and supplied to EUROSTAT. In the balance sheets, the figures are adjusted in the light of the other factors such as net imports, changes in stocks and consumption, so as to produce an equality between sources and uses.

(c) Data published by the International Olive Oil Council ⁽¹⁾ (IOOC).

⁽¹⁾ The IOOC represents most of the producer countries of the world, including the Community.

4. Table 1 compares the three series, from 1974/75 to date.

The fact that in each of three years out of eight the International Olive Oil Council has estimated production at a level some 200 000 tonnes less than the official Italian estimates is, to say the least, alarming. The total difference for the eight-year period was 770 100 tonnes (or 506 000 tonnes if the lesser ISTAT figure is used). Commission officials stated, by way of explanation for the discrepancy, that the figures supplied to the IOOC were early estimates and that it was not the practice of the latter to publish revised figures when they became available. The differences between the ISTAT estimates and those of the Ministry (average 30 000 tonnes) are also a cause for concern. In an attempt to throw further light on the foregoing, the following paragraph analyses the basic source, that is to say the ISTAT estimates of olive production, and of the virgin oil derived therefrom.

5. Table 2 presents the official (ISTAT) production statistics of virgin olive oil in Italy, together with related production indicators such as growing area, olive production and yields in oil, for a sufficiently long period to detect significant departures from trend. A slow decline in the total area devoted to olive production appears to have been compensated for by a tendency to move from mixed ⁽¹⁾ to specialised olive groves. Taking account of this factor, all the indicators show a high degree of internal consistency. The only exception is the significant increase (about 8,5 %) in yields of oil obtained from a given quantity of olives, which took place around mid-1960s when production aid was first introduced, and which appears to have been maintained since then. Increased yields may be due to improved cultivation techniques, such as irrigation, or to better extraction methods. A gradual conversion from traditional presses to centrifugal mills has certainly been taking place. Nevertheless, neither the suddenness of the increase, which, in terms of aidable oil, averaged out at an extra 40 000 tonnes per year, nor its timing can be fully accounted for by these factors alone.

⁽¹⁾ Where olives are interspersed with other crops.

Table 1

Production of olive oil (including olive residue oil) in Italy – based on three statistical series

(1 000 tonnes)

Year (1)	ISTAT (2)	Ministry of Agriculture (3)	IOOC (4)	Difference (3) – (4) (5)
1974/75	442,1	474,0	476,7	- 2,7
1975/76	646,5	690,0	474,0	216,0
1976/77	307,4	322,0	306,0	16,0
1977/78	706,6	754,0	551,0	203,0
1978/79	427,2	452,0	387,0	65,0
1979/80	491,0	518,0	491,0	27,0
1980/81	698,4	741,0	541,0	200,0
1981/82	621,7	654,0	608,2	45,8
Total	4 340,9	4 605,0	3 834,9	770,1
Average	542,6	575,6	479,4	96,3

Table 2
Production of olives and virgin olive oil - Italy

Year	I. Surface area under olive trees			II. Production of olives						III. Use of olives and production of olive oil				
	Main crops	Secondary crops	Total	Main crops		Secondary crops		Scattered trees	Total	Harvested production	Direct consumption	For production of oil	Olive oil (virgin)	Oil yield
	(1 000 ha)	(1 000 ha)	(1 000 ha)	(1 000 tonnes)	(tonnes/ha)	(1 000 tonnes)	(tonnes/ha)	(1 000 tonnes)	(1 000 tonnes)	(1 000 tonnes)	(1 000 tonnes)	(1 000 tonnes)	(1 000 tonnes)	%
	(1)	(2)	(3) = (1) + (2)	(4)	(5) = (4)/(1)	(6)	(7) = (6)/(2)	(8)	(9) = (4) + (5) + (8)	(10)	(11)	(12) = (10) - (11)	(13)	(14) = % (13)/(12)
1934-38 average	821,9	1 351,2	2 173,1	—	—	—	—	—	—	—	—	—	212,3	—
1950	856,6	1 437,4	2 294,0	704,5	0,82	307,1	0,21	—	1 011,6	1 011,6	22,0	989,6	179,8	18,17
1951	867,0	1 328,0	2 195,0	1 507,5	1,74	640,1	0,48	—	2 147,6	2 147,6	40,2	2 107,4	371,7	17,64
1952	857,3	1 302,7	2 160,0	718,5	0,84	380,8	0,29	—	1 099,3	1 099,3	21,6	1 077,7	198,8	18,45
1953	857,8	1 288,5	2 146,3	1 442,5	1,68	568,6	0,44	—	2 011,1	2 011,1	35,6	1 975,5	345,9	17,51
1954	865,3	1 304,5	2 169,8	1 150,6	1,33	579,5	0,44	—	1 730,1	1 730,1	25,8	1 704,3	285,8	16,77
1955	864,5	1 317,8	2 182,3	808,9	0,94	344,3	0,26	—	1 153,2	1 153,1	22,4	1 130,7	181,5	16,05
1956	777,8	927,5	1 705,3	760,9	0,98	240,6	0,26	—	1 001,5	1 001,5	29,0	972,5	173,3	17,82
1957	832,1	1 142,4	1 974,5	1 485,7	1,79	524,3	0,46	—	2 010,0	2 010,0	34,2	1 975,8	352,3	17,83
1958	837,1	1 169,5	2 006,6	1 044,4	1,25	417,0	0,36	—	1 461,4	1 461,4	27,6	1 433,8	261,2	18,22
1959	850,9	1 219,7	2 070,6	1 139,0	1,34	515,4	0,42	—	1 654,4	1 654,4	35,4	1 619,0	291,3	17,99
1960	860,5	1 242,3	2 102,8	1 493,5	1,74	612,0	0,49	—	2 105,5	2 105,5	32,1	2 073,4	381,5	18,40
1961	866,0	1 268,5	2 134,5	1 577,5	1,82	667,3	0,53	5,7	2 250,5	2 250,5	46,1	2 204,4	394,1	17,88
1962	877,9	1 295,9	2 173,8	1 161,5	1,32	575,2	0,44	4,6	1 741,3	1 741,3	33,4	1 707,9	310,1	18,16
1963	853,5	1 299,9	2 153,4	1 989,4	2,33	860,3	0,66	11,0	2 860,7	2 860,7	54,6	2 806,1	538,2	19,18
1964	861,6	1 302,8	2 164,4	1 329,9	1,54	542,7	0,42	5,2	1 877,8	1 876,3	29,6	1 846,7	304,3	16,48
1965	867,7	1 311,2	2 178,9	1 536,6	1,77	686,3	0,52	9,0	2 231,9	2 231,9	56,6	2 175,3	419,9	19,30
1966	894,0	1 289,4	2 183,4	1 327,5	1,48	474,5	0,37	6,4	1 808,4	1 797,8	42,5	1 755,3	320,3	18,25
1967	896,4	1 292,7	2 189,1	1 895,6	2,11	804,7	0,62	11,9	2 712,2	2 706,0	78,4	2 627,6	537,3	20,45
1968	909,0	1 261,0	2 170,0	1 344,7	1,48	579,5	0,46	8,7	1 932,9	1 931,5	53,0	1 878,5	384,6	20,47
1969	915,4	1 247,4	2 162,8	1 752,8	1,91	646,4	0,52	13,6	2 412,8	2 410,1	51,7	2 358,4	473,4	20,07
1970	950,2	1 243,7	2 193,9	1 595,2	1,68	517,9	0,42	10,8	2 123,9	2 120,5	52,8	2 067,7	419,9	20,31
1971	1 024,3	1 148,3	2 172,6	2 385,2	2,33	806,4	0,70	18,6	3 210,2	3 055,9	69,9	2 986,0	618,1	20,70
1972	1 018,7	1 142,3	2 161,0	1 382,6	1,36	478,3	0,42	9,5	1 870,4	1 779,2	44,1	1 735,1	339,6	19,57
1973	1 029,9	1 117,1	2 147,0	2 168,6	2,11	657,2	0,59	10,4	2 836,2	2 695,8	58,2	2 637,6	542,8	20,58
1974	1 036,3	1 109,8	2 146,1	1 733,9	1,67	580,6	0,52	8,6	2 323,1	2 232,4	76,4	2 156,0	431,1	20,00
1975	1 035,9	1 103,4	2 139,3	2 617,3	2,53	743,2	0,67	10,4	3 370,9	3 227,9	91,2	3 136,7	632,9	20,18
1976	1 035,4	1 101,6	2 137,0	1 332,0	1,29	513,8	0,47	5,1	1 850,9	1 698,1	65,9	1 632,2	300,9	18,44
1977	1 037,0	1 098,5	2 135,5	2 803,5	2,70	783,5	0,71	11,5	3 598,5	3 459,5	80,7	3 378,8	689,1	20,39
1978	1 036,9	1 095,0	2 131,9	1 656,2	1,60	644,6	0,59	7,3	2 308,1	2 205,9	79,1	2 126,8	418,9	19,70
1979	1 031,1	1 088,6	2 119,7	1 902,2	1,84	579,8	0,53	8,1	2 490,1	2 374,1	62,1	2 312,0	475,0	20,54
1980	1 036,9	1 082,5	2 119,4	2 799,5	2,70	892,3	0,82	7,9	3 699,7	3 490,8	80,3	3 410,5	690,5	20,25
1981	1 036,4	1 075,3	2 111,7	2 381,7	2,30	748,7	0,70	10,5	3 140,9	3 024,0	61,0	2 963,0	606,5	20,47
1982	1 035,3	1 069,7	2 105,0	—	—	—	—	—	2 207,8	2 131,7	62,0	2 069,7	430,0	20,78
1983/84	—	—	—	—	—	—	—	—	3 200,0	3 080,0	70,0	3 010,0	—	—

Source: EUROSTAT, ISTAT, study by Prof. Giusti (1979).

Aided production

6. Table 3 compares the official statistics with those derived from applications for production aid and the quantities finally admitted. Since aid is paid also for olive residue oil, on a quantity equal to 8 % ⁽¹⁾ of virgin olive oil produced, the comparison should be made from column 2 onwards. There is a slight difference between the definition of the production year for statistical purposes and the marketing year for aid purposes. The difference appears to the Court to be of little practicable importance for the purposes of the comparison and is, in any case, subsumed in the comparison of the totals for the whole period.

7. The table shows that the aid applications (column 3) usually exceeded the estimated harvest (column 2) by an average of some 20 000 tonnes per annum. Over the period, however, and given the normal vagaries of statistics, the table gives no reason to suppose that the quantities admitted to aid (column 4) were consistently greater than the totals statistically estimated. In fact the contrary seems to be the case.

⁽¹⁾ Formerly 9 % and, earlier still, 10 %.

Table 3

Comparison of statistical data and data supplied by AIMA for olive oil production in Italy (virgin oil and olive-residue oil)

Year	Statistical data		AIMA data				Differences between AIMA and ISTAT figures	
	EUROSTAT-CRONOS data (balance sheets)	Modified ISTAT data ⁽¹⁾	Applications virgin oil and residue oil	Quantities admitted to aid	Quantities refused		Difference in quantity	Difference compared with (2)
	(1 000 tonnes)	(1 000 tonnes)	(1 000 tonnes)	(1 000 tonnes)	(1 000 tonnes)	%	(1 000 tonnes)	%
	(1)	(2)	(3)	(4)	(5) = (3) - (4)	(6) = % (5)/(3)	(7) = (4) - (2)	(8) = % (7)/(2)
1966/67	345	352	322	318	4	1,24	- 34	- 9,66
1967/68	564	591	538	522	16	2,97	- 69	- 11,68
1968/69	401	423	458	420	38	8,30	- 3	- 0,71
1969/70	484	521	536	507	29	5,41	- 14	- 2,69
1970/71	430	462	466	439	27	5,79	- 23	- 4,98
1971/72	639	680	729	691	38	5,21	11	1,62
1972/73	374	374	467	394	73	15,63	20	5,35
1973/74	586	592	640	556	84	13,13	- 36	- 6,08
1974/75	474	470	488	434	54	11,07	- 36	- 7,66
1975/76	690	690	727	682	45	6,19	- 8	- 1,16
1976/77	322	328	309	296	13	4,21	- 32	- 9,76
1977/78	754	751	751	714	37	4,93	- 37	- 4,93
1978/79	452	457	462	435	27	5,84	- 22	- 4,81
1979/80	518	518	613	534 ⁽²⁾	79 ⁽²⁾	12,89 ⁽²⁾	16	3,09
1980/81	741	746	732	613 ⁽²⁾	119 ⁽²⁾	16,26 ⁽²⁾	- 133	- 17,83
1981/82	654	655	657	—	—	—	—	—
1982/83	—	464	384 ⁽²⁾	—	—	—	—	—
1983/84	—	—	—	—	—	—	—	—
Total 1966/67 to 1980/81	7 774	7 955	8 238	7 555	683	8,29	- 400	- 5,03
Per year	518,3	530,3	549,2	503,7	45,5	8,29	- 26,6	- 5,03

⁽¹⁾ These figures were calculated using column (13) in table 2 with notional weightings for olive-residue oil of:

+ 10% for 1966/67 to 1972/73,

+ 9% for 1973/74 to 1979/80,

+ 8% from 1980/81.

⁽²⁾ Figures calculated on the basis of milling returns.

⁽³⁾ Estimate of the final situation by the Italian authorities.

8. The above comparison can only be valid to the extent that the two data-series are independent. In Italy, official statistics of olive oil production are derived from estimates of the olive harvest made on the spot, at successive stages during the growing season, by provincial agencies in each of the several thousand homogenous production zones, supplemented by samples, taken at selected mills, on the yields in oil from olives.

The fact that the provincial services responsible for overseeing this operation are, in some cases, also involved in the verification of applications for aid introduces a certain statistical bias into the comparison which, unfortunately, cannot be measured. A statistical bias of this nature does not cast doubts on the integrity of the services involved but simply places uncertainty on the value of the comparisons.

9. The verification 'effort', i.e. the differences between quantities presented for and those admitted to aid, shown in columns 5 and 6, have varied considerably over the period.

Consumption statistics

10. A commonly adopted method of arriving at consumption statistics is to use the commodity flow approach. This starts from production and, after adding imports and deducting exports (both known with reasonable accuracy) and allowing for changes of stocks (not so easily known, except for intervention stocks), calculates consumption as a residual. This is the method used in Italy. It is supplemented, as to human consumption, by credibility tests derived from household budget enquiries conducted each year on a sample of 36 000 households. The balance sheets so derived are presented in table 4.

Table 4
Olive oil supply balance sheets – Italy

(1 000 tonnes)

Year	Resources			Uses			Domestic use, by type			Total domestic use (estimated by the Commission)
	Production	Imports	Resources	Exports	Stock variations (variations in public stocks)	Total domestic use	Losses	Industrial uses	Human consumption	
	(1)	(2)	(3) = (1) + (2)	(4)	(5)	(6) = (3) - (4) - (5)	(7)	(8)	(9) = (6) - (7) - (8)	(10)
1966/67	345	76	421	14	- 30 (0)	437	—	7	430	415
1967/68	564	93	657	17	217 (+ 13)	423	—	17	406	549
1968/69	401	93	494	18	2 (- 3)	474	—	13	461	521
1969/70	484	126	610	17	- (- 5)	593	—	16	577	629
1970/71	430	164	594	16	- 32 (- 5)	610	—	13	597	603
1971/72	639	129	768	21	83 (-)	664	—	15	649	798
1972/73	374	175	549	16	- 137 (-)	670	—	10	660	564
1973/74	586	157	743	18	76 (-)	649	—	15	634	725
1974/75	474	143	617	13	- 61 (-)	665	—	15	650	507
1975/76	690	95	785	23	117 (+ 63)	645	—	17	628	669
1976/77	322	102	424	19	- 211 (- 24)	616	—	13	603	426
1977/78	754	75	829	24	183 (+ 66)	622	—	16	606	707
1978/79	452	119	571	33	- 80 (- 54)	618	—	16	602	556
1979/80	518	133	651	34	1 (+ 18)	616	—	18	598	633
1980/81	741	95	836	26	57 (+ 24)	753	60	32	661	589
1981/82	654	71	725	49	2 (- 8)	674	—	20	654	n.a.
Total 1966/67 to 1981/82	8 428	1 846	10 274	358	187	9 729	60	253	9 416	
Per year	527	115	642	22	12	608	4	16	589	593

Source: EUROSTAT – CRONOS supply balance sheets.
n.a. = not available.

11. A striking feature of the table is the amplitude of the stock variations in certain years. In 1967/68, stocks are shown to have risen by 217 000 tonnes ⁽¹⁾. Of this increase only 13 000 went into intervention.

This apparent increase in private commercial stocks which took place shortly after the introduction of the Community aid despite the introduction of public intervention stocks, and which averaged out at a level 140 000 tonnes higher than before, is such as to raise questions as to the accuracy of the entries for production and consumption in the balance sheets.

12. In a report to the Council dated 29 September 1972 ⁽²⁾ the Commission undertook a detailed study of the production and consumption statistics in Italy for the period 1966/67 to 1970/71. The study concluded that the level of consumption of olive oil implied from production aid applications could not be explained by available economic indicators. As a consequence the Commission (DG VI) has not since then presented official estimates of production or consumption, either to the Council, charged with the decisions on pricing policy, or in the annual reports on the 'situation of the agricultural markets'. Strangely enough the Court was informed that EUROSTAT, the Commission's own statistical service, has accepted Italian statistics without demur and, apparently, was unaware of the reserves of DG VI.

13. In documents presented for recent Council discussions of the consequences of enlargement, and particularly of the proposal to adopt a ratio of 2 : 1 between the price of olive oil and that of edible seed oils, DG VI presented its own estimated balance sheets, which show a substantially different consumption pattern from that in the official balance sheets, i.e. an annual average of some 11 000 tonnes less. However, the Commission's estimates are also suspect, principally because they ignore private stock changes altogether. The Commission's consumption figures are presented, for comparison purposes, in column 10 of table 4, and should be compared with column 6.

14. The appearance of a 'loss' of 60 000 tonnes in the balance sheet 1980/81 (column 7 of table 4) was drawn to the attention of EUROSTAT by the auditors of the Court. As EUROSTAT could not throw any light on the matter, it wrote to the Italian statistical authorities. In reply, the Italian authorities removed the 'loss' from the figures by adjusting a number of the balance sheet items for 1979/80, 1980/81 and 1981/82. The main changes were that domestic consumption in 1979/80 was increased by 41 000 tonnes and final stocks reduced accordingly. The 60 000 tonnes in 1980/81 was then transferred from an apparent loss to an increase in stocks. No explanation was provided for the revised figures.

⁽¹⁾ From 168 000 to 385 000 tonnes.

⁽²⁾ Ref. 2022/72 (AGRI J 98/FIN J 42).

GREECE

15. As in the case of Italy, three sources of production statistics may be consulted. These are set out in table 5.

Table 5

Production of olive oil (including olive residue-oil) in Greece - based on three statistical series

(1 000 tonnes)

Year (1)	Greek Statistical Office (2)	Ministry of Agriculture (3)	IOOC (4)	Difference (4) - (3) (5)
1974/75	241	190	216	- 26
1975/76	265	220	249	- 29
1976/77	251	200	226	- 26
1977/78	262	220	249	- 29
1978/79	269	233	263	- 30
1979/80	276	203	228	- 25
1980/81	422	371	369	2
1981/82	n.a.	259	259	0
Total	n.a.	1 896	2 059	- 163
Average	284	237	257	- 20

n.a. = not available.

Though the series differ, they all show a substantial increase in production in 1980/81, the year in which production aid was introduced. At the request of the Court of Auditors, the Greek authorities offered as possible reasons:

- (a) the fact that 26,5 million olive trees had been planted in the period 1960 to 1975 and
- (b) since adhesion to the Community producers had intensified production.

16. Following is a comparison of production statistics with aid applications:

	(1 000 tonnes)	
	1980/81	1981/82
Ministry of Agriculture estimates	371	259
Greek Statistical Office estimate of virgin oil plus 8% for olive residue oil	407	n.a. ⁽¹⁾
Figures supplied by the Greek authorities to the Court of Auditors	330	230
Figures supplied by the Greek authorities to the Budgetary Control Commission of the European Parliament	337	242
Quantity for which production aid was requested	338	200
Quantity for which aid was paid	337	212

⁽¹⁾ n.a. = not available.

17. On 11 April 1984 the Commission drew the attention of the Greek authorities *inter alia* to the apparently excessive payment for 1981/82 and requested a blockage of further payments of aid pending an examination on the spot.

Balance sheets

18. The balance sheets for Greece notified to EUROSTAT (see table 6) showed a substantial increase, from 170 000 to 283 000 tonnes, in human consumption of olive oil in 1980/81. When this was drawn to the notice of the Greek authorities by the Court they stated that it was due to an error. Shortly afterwards they informed EUROSTAT of a reduction of 60 000 tonnes in the consumption figure and a further increase in stocks of an equivalent amount. Thus the increase in stocks, already high by the standards of previous years at + 63 000 tonnes, rose to + 123 000 tonnes, of which some 74 000 tonnes can be explained by net sales to public intervention stocks (and the liquidation of abnormal carryover stocks envisaged in the Accession Treaty). The implications of the correction, i.e. that private commercial stocks rose by some 50 000 tonnes, are deserving of an explanation.

Table 6

Supply balance sheets for olive oil – Greece

	(1 000 tonnes)			
	1978/79 (1)	1979/80 (2)	1980/81 (3)	1981/82 (4)
(a) Production	233	203	371	259
(b) Imports	0	0	0	0
(c) Resources ((a) + (b))	233	203	371	259
(d) Exports	34	17	12	24
(e) Stock variation	-1	7	63 ⁽¹⁾	4
(f) Total domestic uses ((c) - (d) - (e)):	200	179	296	231
Industrial uses	0	9	13	13
Human consumption	200	170	283 ⁽²⁾	218

⁽¹⁾ Recently increased to 123 000 tonnes.

⁽²⁾ Recently reduced to 223 000 tonnes.

Source: EUROSTAT – CRONOS.

Observations

19. In their present state the statistics of production and consumption of olive oil in Italy and Greece cannot be relied upon for serious analytical study. The existence of several statistical series, differing substantially one from the other, is a most unsatisfactory feature. The error noted during the audit in the Greek consumption figures, the changes to the Italian figures to remove the 'loss' in 1980/81, and the apparently volatile movements in the stock figures for both countries, add further elements of doubt. Despite the above caveats, however, the statistics do appear to show discernible breaks in continuity at or about the time of the commencement of the Community system in each of the two countries, breaks which are not fully explicable by known factors.

20. In the matter of statistical policy, the Commission's market division and its statistical service appear to be following in consistent lines. The lack of coordination between the two services has led to errors going undetected and unusual features not being investigated. More seriously, the resulting lack of impetus towards reform of the statistical machinery has deprived the legislative arm of the Community of an important element in the policy-making process.

ANNEX IV

OLIVE CULTIVATION REGISTER

The plans

1. Following the rejection of its proposals in the early 1970s, the Commission developed the idea of creating a register of olive cultivation in each producer Member State designed to provide accurate information on the potential production of olives and olive oil and to improve the operation of the aid system. An outline regulation ⁽¹⁾ was adopted by the Council in January 1975, requiring the two existing producer Member States to set up such a register showing, for each holding:

- (a) within two years of the entry into force of the regulation (i.e. before 24 January 1977), the total olive-growing area with the cadastral reference of the parcels comprising it and the total number of trees;
- (b) within a further four years (i.e. before 24 January 1981), more detailed information, such as ownership of the holding, the varieties of the olive trees and the precise conditions of cultivation.

The register was to be updated at regular intervals. The costs involved were to be charged to the Community budget (EAGGF-Guarantee Section) but, in compensation, the production aid fixed by the Community was to be reduced by varying percentages depending on the marketing year.

2. There followed a period of nearly five years before the scheme was launched. The lengthy delay has been attributed by the Commission to feasibility studies and experimental tests carried out under Community auspices. It was not until the adoption of Commission Regulation (EEC) No 2276/79 ⁽²⁾ that more concrete details were evolved. Despite the immensity of the task, and the formidable problems involved, aerial photography was to be the preferred method of obtaining the basic information, such as the area and location of parcels and the number of trees, in Italy. For France, and, where feasible, for certain zones in Italy, this information was to be obtained by counting the trees on the ground and by verifying cadastral maps. In both cases the supplementary information as to ownership and cultivation conditions was to be collected from the growers or by on-the-spot visits. For the aerial survey operation, precise steps (eight in all) were laid down, comprising the preparatory zoning operations and acquisition and harmonisation of cadastral maps, as well as the aerial surveys and the construction of orthophotos with cadastral boundaries superimposed. It also dealt with the interpretation of the photographs to determine the exact area of each parcel and the number of trees and the checking and recording of the results in the form of tables.

3. By Council Regulation (EEC) No 3453/80 ⁽³⁾ Greece was included within the ambit of the 1975 Regulation and the time limits of two years and six years were fixed to run from 1 November 1982. It is not yet clear whether aerial photography will be imposed.

⁽¹⁾ Council Regulation (EEC) No 154/75 — OJ L 19, 24. 1. 1975, p. 1.

⁽²⁾ OJ L 262, 18. 10. 1979, p. 11.

⁽³⁾ OJ L 360, 31. 12. 1980, p. 15.

Execution

4. In the Member States work is at various stages of completion. France has carried out the preliminary steps but it is as yet too early to estimate when the register will be operational there.

5. In June 1981 Italy signed a contract with a business consortium of four specialist companies, to carry out and finalise the project. The work was to take six years. The four producer unions were also enlisted for data-collection purposes. The Court was informed that, in terms of the contract provisions, satisfactory progress was being made and that the project was expected to be completed ahead of contract time. In terms of the official timetable and even after allowing for the five-year launching delay, the completion of the first phase is already more than three years overdue. In fact the contract does not provide for the two phases mentioned in the Community provisions. In these circumstances it is not possible to give any reasonable estimate of when the register is likely to be fully operational in Italy.

6. Greece has no land registration system and cadastral maps do not exist. In these circumstances the Greek authorities look on the olive cultivation register as a long-term project, lasting at least 10 years. Initial proposals were made to the Commission some time ago for a pilot study but no final decision has yet been made.

Financial aspects

7. The percentages to be withheld from the production aid for financing the register are set out in table 1.

8. The register was embarked upon without a realistic and detailed assessment of its costs or benefits. The explanatory memorandum presented by the Commission with Regulation (EEC) No 154/75 implied that the cost for Italy and France combined could be as low as 12 Mio ECU – with the possibility of an excess. More recent indications suggest that the cost will be many times this amount. Even at the date of this report the Commission is unable to provide a firm figure for the ultimate cost. Total expenditure charged to the Community budget amounted, at end-1983, to 26,63 Mio ECU and total retentions at end-1982/83 came to 27,45 Mio ECU.

Table 1.

Percentage reductions of production aid to cover the cost of olive cultivation register

Marketing year	Italy/France	Greece
1973/74	1 %	—
1974/75	5 %	—
1979/80	1,47 %	—
1980/81	—	0,96 ECU per 100 kg
1981/82	—	0,96 ECU per 100 kg
1982/83	2,5 %	0,96 ECU per 100 kg
1983/84	2,5 %	0,96 ECU per 100 kg
1984/85 – 1989/90	2,5 %	2,5 %

ANNEX V

THE RESULTS OF ANALYSES OF SAMPLES TAKEN IN ITALY

1. The organoleptic characteristics of one of the eight samples taken at the Bari centre, which was classified as 'fine', were such that it could only be classified as 'lampante'. The question is: did these characteristics escape detection at the point of entry or were they the consequence of poor storage conditions? Out of the seven other samples, only one remained after analysis in its nominal category.
2. The results of the analysis of the 15 samples of oil classified as 'fine' which had been taken at the Lecce centre, that is to say, 13 mediocre 'semi-fine' oils and two poor 'lampante' oils, suggest that the oils stored at this centre were systematically excluded from the reclassification operation carried out six months earlier.
3. The results of the analysis of the 10 samples taken at the Reggio Calabria centre were such that, apart from a problem regarding the coverage of the spectrophotometric analysis, there are grounds for seriously questioning whether the oil is stored with due care and attention, particularly as far as the maintenance and cleaning of the storage installations is concerned. Now, the fact is that
 - (a) in the case of two out of five samples of 'lampante' oil, the value of the extinction coefficient at the final stage of the analysis, that is, after neutralisation and decolorisation, was not within the limits established to define 'lampante' oil. In the absence of any adequate analysis at the point of entry, this phenomenon cannot be explained;
 - (b) the β -sitosterol content of three of these five samples of 'lampante' oil was far below the regulation minimum of 93 %. If we assume that this characteristic (which is determined during each analysis) met the regulation criteria at the point of entry, the reason for the deterioration must be looked for in the storage conditions, for example:
 - (i) contamination by traces of olive-residue oil or old 'lampante' oil which had accumulated at the bottom of the vat, or,
 - (ii) contact with the cement of damaged vat walls, and,
 - (iii) in any case, lack of technical care and attention;
 - (c) the humidity and impurities levels of all five samples of olive-residue oil were far too high (the water content alone was in excess of the limit of 2 % for the sample as a whole, whilst the total water and impurities content for the sample as a whole varied from 2,9 to 4,0 %). The most likely explanation is the accumulation of water and impurities at the bottom of the vat because the vat had not been cleaned out. The presence of such contaminants greatly encourages acidification and consequently a more rapid deterioration of the oil, and thus has a direct effect on the sales price.

THE COMMISSION'S REPLIES

The report from the Court of Auditors on the common organisation of the olive-oil market entails reactions from the Commission in respect of five classes of problem to which special attention is drawn by the Court:

- (a) the arrangements in force as defined by the basic regulations adopted by the Council, in particular the part relating to the production aid, should not be maintained, at least in their present form, because of their defects and insufficiencies (paragraph 1.5 and 8.21);
- (b) the resulting regulations are inappropriate in a number of respects, which leads to weaknesses in the controls (paragraph 8.2 and several other paragraphs);
- (c) the way in which the Member States apply the regulations (in particular 4.80 for production aid, 5.38 and 5.39 for consumption aid, 6.61 for intervention) has not always been properly monitored by the Commission;
- (d) the Member States have not applied the Regulations in a satisfactory way, in particular with regard to the production aid and intervention (several paragraphs);
- (e) the statistics available are deemed insufficient and unreliable (paragraph 19 of Annex III).

The Commission's reply to these five groups of observations is divided into two parts: firstly a number of general observations, and then a reply to the Courts specific remarks.

1. GENERAL

- (a) With regard to the weaknesses of the system resulting from the Council's basic regulations and in particular the difficulty of ensuring effective control of the production aid, the Commission fully concurs. Indeed, as early as 1972 the Commission expressed its concern on this point, and its last statement on this question was in Doc. COM(83) 500 final of 28 July 1983 on the common agricultural policy. However, regrettably, it must be noted that all the Commission's efforts to achieve a fundamental change of the system have failed in the Council.

The Court itself notes that again in 1983 the Council refused to consider any fundamental change in the system (paragraph 7.6). Consequently, the Commission, as a matter of realism, has concentrated in recent years its efforts on ways and means of improving the present arrangements, and in particular of strengthening controls. In this connection, it should be noted that a number of reforms were made in 1978. However, they

represented only one stage along the road to improving the system.

More recently, the adoption by the Council in July 1984 of Regulations (EEC) No 2261/84 and (EEC) No 2262/84 is the result of the Commission's latest efforts in this field, covering some negative experiences occurring after 1978.

The Commission takes the view that these two regulations constitute an important step towards better operation of the production aid. They entered into force on 1 November 1984. It should be remembered also that on the same occasion the Council also adopted the Commission's proposal granting a flat-rate aid to producers of less than 100 kg of olive oil.

The reasoning whereby the Commission confined the flat-rate aid to small producers is endorsed by the Court at point 8.8 of its report.

- (b) The Court was of course quite right, in noting, as has the Commission, that the regulations in force in the marketing years examined by the Court, namely 1979/80 to 1982/83, called for a number of changes, particularly with regard to the production aid: it is on the basis of the same observations and considerations that the Commission proposed (in 1983 – Doc. COM(83) 481 final) a change in the system. The acceptance of the main points of the Commission's proposals by the Council led to the adoption of Regulations (EEC) No 2261/84 and (EEC) No 2262/84. The Commission would have preferred the Court to emphasize more the importance of this change, rather than discussing in two short paragraphs (8.9 to 8.10). For a correct assessment of the situation, the criticism made on the basis of the regulations relating to the production aid in force between 1981 and 1983 must be seen in the light of the regulations applying from 1 November 1984 onwards: the Commission takes the view that most of the weaknesses have been eliminated.

In particular, the role which the agencies may have in the management of the production and consumption aid require a better assessment, as does the change which this innovation involves in the relations between the Commission and the Member States. With regard to the consumption aid and intervention, the shortcomings in the relevant regulations will be discussed in the 'specific problems' section. More generally, however, the Commission points out that, for public storage, the existing regulations stipulate that it is the national intervention agencies appointed by the Member States which carry out the buying in, storage and selling operations. Responsibility for these

operations lies therefore with the Member States, which, in the first instance, must ensure that the intervention agencies they have appointed carry out the intervention operations 'in accordance with Community regulations'.

With regard to finance, the intervention agencies (Member States) are reimbursed on a flat-rate basis for the various physical operations and they receive interest at a uniform rate in respect of the national funds immobilized when the products were bought in. Also, the EAGGF Guarantee Section covers the discrepancy between the buying-in price and the selling price.

The Member States are responsible for storage of the product, from both the qualitative and quantitative angle. Thus, by a tolerance system, the quantities declared on buying in must also show at sale, failing which the Member State must pay for shortages beyond the tolerance. In respect of quality, deterioration of the product as a result of bad storage is the responsibility of the Member State.

With the legislation as it is, under which the Member States retain direct responsibility for the implementation of public storage, it would not be appropriate, partly because of differing situations from country to country, to have Community regulations covering all the details of physical and accounting operations. Only the main points should be covered.

It should also be noted that these remarks are relevant not only to olive oil, but cover all products that are bought in.

- (c) The Commission has long favoured an arrangement enabling it to achieve an improvement in the qualitative and quantitative controls it carries out. The list of actions and controls which the Commission should carry out regularly, which the Court notes are carried out only sporadically and inadequately, shows clearly that additional staff is needed out of all proportion to staff actually available.

With this reservation, the Court's observations on the need for strengthened control by the Commission are accepted.

- (d) The Commission is examining the observations in the present report on the way in which the Member States have applied Community regulations. The findings will be given in due course.

- (e) The national statistics concerning olive oil have shortcomings. Because of the growing importance of this product, particularly in the enlarged

Community, the Commission is studying in more detail ways and means of eliminating the weaknesses.

II. SPECIFIC PROBLEMS

A. Production aid

1. (4.71 (a))

Before 1 November 1984, the Community regulations did not 'expressly' require that controls be carried out on the spot. The new arrangements (Article 6 of Regulation (EEC) No 2261/84) are explicit on this point.

2. (4.71 (c))

Because of the very limited incidence of the number of growers concerned, of the relevant production volume, and of the size of holdings, this type of control is of very limited importance and the percentage fixed (5%) must be deemed sufficient.

3. (4.71 (d))

In the Community regulations in force until 31 October 1984, the ability of the organisations to meet the obligations was to be determined by a general review of their activity. In any case, the necessary details are included in the new arrangements (Article 3 of Regulation (EEC) No 3061/84).

4. (4.71 (e) and (f))

The criteria laid down for controls at the mills and for stock accounts at the mills are the least that is needed for verification of their operations. To eliminate any doubt, the new arrangements include wider minimum obligations (Article 9 of Regulation (EEC) No 3061/84).

5. (4.72, 73, 74, 75)

As soon as it received tentative information concerning the possibility of an overpayment, the Commission acted to restrict the production aid advance payment (Regulation (EEC) No 2959/82, Article 6 (1) and discussions with the Italian authorities in the summer of 1982). The pragmatic decision then taken by the Member State to ask the Provincial Oil Boards to review to aid applications – not only for 1979/80, but also for 1980/81 – proved effective because it led to an appreciable reduction in the amounts to be financed, as the Court notes at point 4.39. However, the Commission disagrees with the

Court's view that this result would have been obtained following the detection of a large number of irregularities (paragraph 4.39): as the Court's report also notes, no major irregularities were detected (cf. paragraph 4.52 and paragraph 7.3 (c)). The reduction in the amounts to be financed arises mainly from what was practically a blanket reduction made by certain Provincial Boards and accepted by the growers to avoid delaying payment of the rest of the aid and because they could not provide additional evidence.

Subsequently the Commission made enquiries with regard to the operation of the system and the producers' organisations. Following these enquiries, the Commission, noting that the failure to implement Regulation (EEC) No 1360/78 was one of the causes of the problems arising during the 1979 to 1984 period, sought on several occasions to attenuate the difficulties (Regulations (EEC) No 1917/80, (EEC) No 1413/82 and marketing year regulations). Only in July 1984 did it succeed in obtaining the Council's approval of a major change in the system.

6. (4.80)

Regulation (EEC) No 2261/84, adopted by the Council on a Commission proposal on 17 July 1983, has the effect of restricting the Court's observations to a previous situation. However, the aid scheme cannot be supervised systematically and regularly, to sufficient standards, even in the future, without more staff.

7. (4.82)

Regulation (EEC) No 1590/83 set out general rules concerning this control, and procedures relating to this control are given in Articles 7 and 11 of Regulation (EEC) No 3061/84. Also, it should be noted that, according to the sources which are referred to for olive growing, none of the olive trees that may have been planted after 31 October 1978 can yet yield olives. Thus, the rules relating to eligible areas have in fact achieved results.

B. Consumption aid

1. (5.24)

The Commission would point out that verification on the basis of documents of aid applications made by the producer organisations regularly entail a standardised report (verbale di Verifica),

signed by the chairman of the organisation. This report is attached to the advance payments application, so that the AIMA has full information on the content and scope of the controls carried out before the advance payment is made.

2. 5.39

(a) Regulation No 136/66/EEC (Article 11 (3)) does not allow a Member State to recognise a trade organisation and at the same time to accept directly individual applications from packaging establishments not going through this organisation.

(b) and (e) The lack of specific provisions is solely due to the optional nature of the use by the Member States of the trade organisations.

(c) As in the case of the number of olive trees for the production aid, it is impossible, in particular, to check the stocks of a packaging firm other than on the spot.

(d) and (f) Though not intended to be exhaustive, the Community regulations on this question are quite detailed, particularly with regard to the consumption aid. It is obvious that the application of some Regulations is to some extent dependent on the will and the scope for control of the Member States. The Commission has consistently adapted the regulations to the various problems which have arisen in the course of their application.

3. (5.42)

The Commission is examining the results of sample surveys made in Italy and in France, which it has just received, to determine how effective current schemes are. These results are also at the disposal of the Court.

For the 1985 marketing year it is also planning to pursue these sample surveys and even to refine them with a view to assessing the relative receptiveness of the consumer, the aim being to maximize the profitability of promotion schemes.

4. (5.43)

For its own part, the Commission is quite certain that at least in the two main olive oil consumer countries, the aid is a genuine benefit to the consumer. The facts and figures justifying this conviction, with regard to Italy, have been placed

at the disposal of the Court. The fact that the aid is granted only for 50 % of the quantities qualifying for the production aid does not constitute, in the Commission's view, a reason to doubt its effectiveness: any measure the effect of which is to bring down the consumer price of a given product (for which, also, substitutes are available on the market at competitive prices) is bound to facilitate its disposal.

On the other hand, the Commission can accept that the aid level which is necessary and sufficient to ensure the maintenance of a desirable level of consumption of olive oil is a matter of assessment: it is not easy to determine the price elasticity of demand for the product. A number of years ago, the Commission analysed the factors influencing the demand for olive oil. No precise conclusions could be drawn, nor could an econometric model showing a constant correlation between price and demand be constructed. However, the Commission is prepared to make, on the basis of experience acquired since, a further effort along the lines drawn by the Court, for it is aware of the advantages which would accrue from a better assessment of the factors governing the consumption of olive oil.

5. (5.44, 5.50 – Conclusions)

The Commission is certain that the control system established for the consumption-aid scheme is elaborate enough to meet the needs of good management. It agrees that the system must be based on systematic and regular verification on the spot in the packaging firms and takes the view that, apart from certain secondary problems, the aim is to ensure that the Community regulations are properly applied by the Member States.

C. Intervention

1. (6.49)

(a) The specifications for the buying-in of olive oil are already very detailed and go beyond those required by the International Olive Oil Council and the Codex Alimentarius. The problem which in fact arises is that of the proper execution of the various analyses.

(b) and (c) The assessment of these applications will derive from the results of an examination which the Commission has put in hand.

(d) and (e) The Commission has recently adopted procedures for the monitoring of the quality of stocks and has decided itself to declassify oils, where appropriate.

(f) The problem derives from the fact that the organisation and execution of certain intervention operations are in certain cases entrusted by the Member States to agencies which also carry out commercial operations in the same field, there can therefore be a conflict of interest. As a result, the Commission has reservations with regard to this type of delegation, which is not confined to the olive oil sector, but is carried out also in other sectors, which for this reason necessitates very special vigilance, both from the Member State concerned and from the Commission.

2. (6.50)

(a) to (c) In certain cases it is true that there is room for improving the stock recording arrangements at national level, but detailed rules at Community level as to how the Member States should organise their accounts in this area are not necessary: the problem relates to the reimbursement of expenditure made and the system of tolerances provides safeguards with regard to the quantities of products stored.

(e) The Member States notify the Commission of the real costs of the intervention operations, on standardised tables. The Commission's staff check the official data and also carry out sample checks on the spot. The figures sent in by Greece on 24 May 1982 showed that the costs are part of the storage contract between the intervention agency and the storage firm. Also, on the occasion of a visit made on 1 and 2 April 1982 to the Greek department, by YDAGEP, i.e. before receipt of the official notification of the data, two EAGGF officials explained in detail how and what costs should be shown on the standard table. This being so, it was reasonable to expect that the data supplied would be correct. The Commission has questioned the Greek agency with regard to the facts set out by the Court.

(f) The Commission makes calculations of the end-of-year stock values under Article 8 of Council Regulation (EEC) No 1883/78. The rules stipulate that the Commission must

adopt a common price based on the average buying-in price for all the products in public store in the 10 Member States. The determination of this common price necessarily has certain effects as between Member States and different qualities, but, in principle, the system is neutral in Community terms. It is a horizontal arrangement affecting all products that can be bought in for public store. The Commission is considering appropriate changes with regard to the weighting, as indicated by the Court.

3. (6.51)

(a) In January 1984, Italy declared the quantities lost in previous years, within the tolerance. The financial consequences in respect of previous years will be accounted for as the clearances proceed.

(b) Normally, at the end of each marketing year, the Commission adopts a decision pursuant to Article 4 (2) of Regulation (EEC) No 3247/81 allowing the sale of residual quantities of olive oil deriving from the handling of the oils in store. This liquidation avoids additional costs for the EAGGF. It should also be noted that these oil residues, liable to cause serious pollution, cannot be easily destroyed, as the Court suggests.

4. (6.54)

The Court's observation is accounted for by the fact that as the Community standard refers only to the production of the three oil producing countries having similar production features, it can be much more restrictive than a blanket rule which is to cover the production of all producing countries in the world.

5. (6.62)

There is not necessarily a relationship between the quantities in intervention store and the quantities

imported into the Community: demand and supply in the Community do not often concern the same qualities (e.g. lampant oils were in heavy demand in 1982/83 and extra virgin oils in 1983/84), and a number of minor consignments from non-member countries are due to traditional trade relations or transport facilities (in particular, for France and the northern countries). Also, import policy reflects at the same time the Community's general policy with regard to certain associated Mediterranean countries.

With regard, in particular, to 1983 and the intervention situation in Italy, the Commission encouraged the provision of supplies to Italian operators from Greece (about 120 000 tonnes imported from the free market and from intervention), which had a production record going well beyond consumption. There is no doubt whatever that this attitude had the effect of avoiding a very heavy build up of intervention stocks, which would have been hard to dispose of in a surplus country like Greece, and the secondary effect of a slow-down in the reduction of quantities stored in Italy.

Consequently, the Commission takes the view that in this case the stock management has been completely correct and entailed no real or potential losses.

6. (6.63)

The Commission is familiar with the phenomenon: this is the reason why it declassified products directly in 1984 and 1985 and plans to do this again in the future (Regulation (EEC) No 3166/84) (see also paragraph 6.49 (d) and (c)).

D. Irregularities

1. (7.3 (d))

The Commission has asked the Member States on several occasions, including Italy, to notify irregularities detected, as is required by Article 3 of Regulation (EEC) No 283/72, as soon as the first report is established.

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