

COMMISSION OF THE EUROPEAN COMMUNITIES

REPORT CONCERNING THE EAGGF GUARANTEE SECTION

OIL SEED AND OLIVE OIL SECTORS

(transmitted by the Commission to the
Council and to the European Parliament)

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I. INTRODUCTION

Following the report concerning the Guarantee Section of the EAGGF (milk products sector) the Special Committee of Inquiry submits herewith its report on the vegetable oil sector, i.e., oil seeds and olive oil.

The Committee has proceeded in the same manner as for the milk products sector. Two questionnaires were drawn up, one for oil seeds and the other for olive oil, and this report is based on the replies given by the members of the Committee.

Some experts have reported that at the present time they are unable to make a useful contribution since, particularly in the new Member States, there is insufficient experience concerning the application of the regulation on oil seeds.

The Committee considers that it is necessary to deal with oil seeds and olive oil separately, since the aid mechanisms in the two sectors vary considerably.

II. COMMUNITY SUBSIDY FOR OIL SEEDS

A. ENTITLEMENT TO THE SUBSIDY

The subsidy is granted for colza, rape seed and sunflower seed harvested and processed in the Community with a view to the production of oil. When the target price is higher than world market prices, the subsidy is equal to the difference between those two prices and entitlement to the subsidy is acquired when the seeds are processed. The subsidy may be granted in advance as soon as the seeds have been checked at the oil mill provided that a surety is given as guarantee that they will be processed.

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Since the subsidy is determined in relation to a standard quality, the weight of the seeds for which the subsidy is requested is adjusted according to the difference between the percentages of moisture and impurities they contain and those applying to the definition of the standard quality.

The Community regulations fixing target prices and intervention prices for each marketing year state that these prices relate to seeds of a "sound, fair and marketable quality" but do not specify what should be done with seeds which do not fit this definition. This gives rise to difficulties particularly in relation to damaged seed and the subsidy granted for such seed. It should be remembered that the Committee's report on milk products drew attention to similar clarifications which need to be made to Community regulations (page 36 of the report) and, in view of the small quantity of damaged seed when expressed as a percentage of the total amount of seed for which the subsidy is granted, the Committee considers that this difficulty merely prompts it to stress that explicit provisions which are easy to implement are an essential prerequisite if the campaign against fraud is to be effective.

B. CONTROL PROCEDURES

Community regulations require a control at the oil mill of the processing of the seeds into oil and the control of imported seeds from the moment of importation until they are taken over at the oil mill, from which time they are subject to the control at the oil mill.

Controls actually applied include physical and accounting checks. However, the importance attached to these types of check varies from one Member State to another. For instance, the checks applied in one Member State are predominantly on accounts, while in another they are exclusively physical and in others both types are applied.

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I. Physical checks

1. They consist in the verification of the weight of seeds, of their quality by the analysis of samples and of the uses to which they are put. In fact, weight checks and sampling are carried out either for each batch or at random. It should be noted:

- that the regulations do not specify who should bear the cost of these analyses. The large number of batches and the cost of each analysis would result in considerable expenditure;

- that the limitations in the checks at this stage is thought to be to some extent compensated for by detailed checks on accounts at the oil mill. More precisely, any fraud concerning the quality of seeds ought to be reflected, as soon as it reaches a certain size, in the yields of oil and thus should hardly escape a properly carried out check on accounts.

This being so, it does not appear to be necessary to analyse systematically all batches which arrive at the oil mill; random physical checks, carried out in a selective manner, should suffice. It must be remembered, however, that, since the subsidy is paid for a given quantity of seed of standard quality, any discrepancy in weight or quality affects the amount of the subsidy. In any case, physical checks do not provide a full guarantee and it is essential that they be complemented by checks on accounts, which are more reliable.

2. Checks on accounts

As is already the case in certain Member States, these checks should concern:

- firstly, stock records, cost accounts, and stocks (with physical verification of their composition),

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- secondly, the financial accounting of the undertaking, which ought to corroborate the stock records.

They will be carried out mainly at the mills, but if it proves necessary it should be possible to extend them to include the suppliers and customers.

These checks should be applied to all the activities of the oil mill and it is technically impossible to limit checks specifically to Community seeds.

Checks on accounts should be carried out sufficiently regularly, at least once a year.

It is clear that this kind of check does not exclude all possibilities, but it does impose considerable limitations on the frauds. It also requires the intervention agencies to have highly qualified staff, which is not always easy to recruit.

Serious cases of fraud or special difficulties in the administration of aid have not come to the notice of the Committee; however, it considers that it would be desirable to organize - as implementation of Article 7 of Regulation (EEC) 283/72 - joint meetings of the responsible national bodies in this sector with the aim of comparing control methods and in particular to ensure that measures undertaken provide adequate guarantees for one avoidance at both double payment of subsidies, and the payment of subsidies for seeds originating in non-member countries.

3. The system of penalties

Abuses or irregularities which are discovered normally result in payment not being made or sums wrongly paid being recovered. But it could prove difficult to institute proceedings with a view to applying penalties.

In some Member States proceedings are dependant upon the possibility of applying common criminal law, but there is no specific system of penalties.

In certain cases, although the intervention agency is convinced that there have been irregularities, it can be difficult to establish evidence of fraud or the guilt of those concerned. As a general rule, checks will be bring anomalies to light: for example, oil yields which are too low in relation to the quality of seeds, unsubstantiated sales of oil etc., but these discoveries will not be enough to obtain conviction in the Courts.

It might be asked whether, by analogy with customs legislation, a system of administrative penalties might not be established which could make it possible to penalize irregularities which are factually established, without resort to legal proceedings.

In addition, it would be useful if irregularities in book-keeping or interference with the carrying out of checks, for the purpose of obtaining a subsidy or of helping someone to obtain a subsidy, were in themselves subject to the same system of penalties.

Finally, as is the practice in certain Member States, Community funds should be assimilated with national public funds, since this would give them the same legal protection and would extend the scope for penalties.

C. CONCLUSIONS AND RECOMMENDATIONS

In conclusion, the Committee considers that:

- a) the Community regulations should be worded more precisely as regards treatment of seeds which are not of the required "sound, fair and marketable quality":

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- b) It is still necessary to continue physical checks while the checks on accounts should be applied more generally and tightened. It must be pointed out that, for the checks to be effective, the inspectors should be fully acquainted with the special features of the industry and at the same time be totally independent of the undertaking in which the checks are being carried out. In addition, checks at the oil mill should be cross checked by reference to suppliers and customers of the mill;
- c) it would be advisable to strengthen cooperation between the responsible bodies, in application of Article 7 of Regulation (EEC) n° 283/72;
- d) as regards penalties, the assimilation of Community funds with national public funds is an initial measure which appears obvious. Furthermore, in certain Member States it is possible for frauds to occur which cannot be penalized except on the basis of common criminal law. The introduction of a system of administrative penalties for infringement of the regulations, without requiring the intervention of the Courts, should be examined.

III. THE COMMUNITY SUBSIDY FOR OLIVE OIL

A. HOW THE SUBSIDY WORKS

The olive oil subsidy was introduced at a time when world market prices, which are in fact those of the major producer, Spain, were appreciably lower than Community producers' costs.

In such a situation, which was also a feature of a number of agricultural markets, the conventional solution would have been to maintain the Community price at a level which would have guaranteed producers an adequate return by means of protective frontier arrangements (levies and refunds)

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and the introduction of intervention arrangements, to provide a guaranteed market for the produce.

It was thought, however, that such a solution would have resulted in an excessively high market price, having regard to the competition from other vegetable oils, and that a direct producer subsidy was needed to ensure normal marketing.

Consequently a market organization was introduced with the following features:

- a production price so fixed as to guarantee olive growers an adequate income;
- a target market price fixed in relation to the price of competing vegetable oils; the Community subsidy payable directly to olive growers is equal to the difference between the production price and the target market price;
- a threshold price derived from the target market price on which the calculation of levies and refunds to be applied in respect of trade with non-member countries is based;
- an intervention price also derived from the target market price which guarantees that any products not sold on the market will be bought in.

B. MONITORING THE SUBSIDY

One special feature of the olive oil subsidy is that it is paid to olive producers not on the basis of the quantity of olives harvested but on the basis of the quantity of oil extracted in the milling process.

The monitoring arrangements laid down by Community Regulations have changed over the years. Originally, the emphasis was on a check of oil production at the oil mills. The difficulties encountered in carrying out this check led to the introduction of a supplementary production check based on

cultivation declarations by olive growers. In 1972 it was proposed (Regulation (EEC) N° 2022/72) that the check at the oil mills be abolished leaving only the check on the cultivation declarations and that an annual flat rate subsidy be paid to olive growers on the basis of the average olive yield per tree and average oil yield per olive as recorded for selected olive groves.

This proposal was not in the end adopted, but for the 1973/74 marketing year the check on the correctness of the oil mills' stock records has been abolished.

In actual fact, the olive oil sector presents greater checking problems than any other sector of the agricultural market.

The Committee has noted that the study carried out by the Commission in 1972 indicated that about 20% of subsidies granted for olive oil were not justified by actual production; it would have been desirable for the findings of this study to be brought up to date for subsequent years; the Committee considers that in view of the impending establishment of an olive-oil cultivation register and of its cost, it would be advisable in future to follow up studies of this kind so as to be able to assess improvements resulting from the introduction of new checking methods.

1. Checks on olive growers

Difficulties first appear in the verification of the production of olive growers. There are more than a million olive growers in Italy and almost 40 000 in France.

The Commission has recommended that a sample check on 5% of the undertakings be carried out annually. The Committee finds that this rate is far from being achieved and that, even if it were, it would still take at least twenty years to check all producers and this is clearly too long.

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These are clearly valid considerations in so far as the subsidy in respect of which checks are to be carried out is a subsidy strictly applicable to production. A check should also be carried out each year to ensure that the groves are regularly maintained and the olives harvested and in fact used for the production of oil, since olives from different years may be put to different uses according to the market situation for table olives and for oil.

Despite these difficulties increasing weight has been attached to the use of cultivation declarations and target yields to appraise the quantity of oil produced. To this end the bodies responsible for administering the subsidy check to see whether the applications submitted are in fact within reasonably likely production quantities. Should these quantities be exceeded, detailed justification is required through, for example, the use of additional labour and the use of fertilizers, etc. This method provides a useful means of cross checking figures obtained as a result of checks at the mills.

2. Checks at the oil mills

The checks at the oil mills present serious difficulties. Oil milling is still a small-scale activity. There are more than 12 000 mills in Italy and almost 300 in France. In addition, a relatively large proportion of the olive oil produced is not marketed, since the oil mills limit their activities to work done on behalf of the olive growers.

What is more, the stock records which the oil mills are obliged to keep suffer from most of the shortcomings found in small undertakings.

However, the possibility of cross checking with other data exists and this provides a useful means of appraisal. These other data are the

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capacity, the number of persons employed, the amount of energy consumed and the sales of oil cake.

C. PENALTIES

The remarks already made concerning oil seed (II B 3) also apply to the olive oil sector.

D. CONCLUSIONS AND RECOMMENDATIONS

In the case of olive oil, the Special Committee of Inquiry found itself faced with an exceptionally complex problem, since first of all there are no precise details available concerning the actual extent of fraud and secondly because of difficulties encountered in the administration of aid and the carrying out of checks. However, the Committee considers that it should be possible to make substantial improvements in the present situation if action were taken on the following lines :

- a) firstly, it would be advisable to reinforce the checks on oil production at the oil mills by means of more systematic and more frequent cross-checking of the mills' declarations against factors which can serve as a basis for assessing the mills' activities (size of work force, consumption of energy, mill capacity, sales of oil and oil cake); and checks made on the stock records should be extended to cover the sales accounts. In this connection, the invoicing of purchases and sales of olives and of oil and the services rendered where processing is done on behalf of others should be made obligatory;

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- b) secondly, checks on olive growers should be intensified: not only should the percentage of cultivation declarations which are checked each year be considerably increased, but new means should be used to take a census of groves in order to establish a proper olive cultivation register as quickly as possible.

At the same time present methods of determining average oil yields of olive trees should be improved. In this way the responsible bodies will have at their disposal an additional means of checking the oil production declarations made by the oil mills and in any case the amount of the subsidy would be limited to the lower of the two figures determined by means of checks at the oil mills and checks on olive producers;

- c) thirdly, ways of improving the administration of the aid should include:

- the elimination of the proxies currently available to olive growers and third parties;
- strict application of the ^{rule} direct payment of the subsidy to those entitled;
- encouragement to producers to form cooperatives to simplify the administration and control of subsidies. Encouragement to form groups and research into accounting systems designed to meet the problems of the sector might form the subject of guidance measures;

- d) furthermore, the Committee points out, as it has already done in its report on the milk products sector, that the question of penalties arises here again in similar terms, in particular:

- the assimilation of Community funds with national funds is just as highly desirable in this sector;

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- it would be advisable to introduce administrative penalties;

e) the Committee regards it as essential that efforts be made to determine the extent of frauds and irregularities so that the effectiveness of control measures and improvements resulting from the introduction of new measures may be assessed.