EC faces threat of an olive oil surplus

The following article on possible repercussions of the admission of Spain and Portugal to the European Economic Community was written by The Wall Street Journal *staff reporter Scot J. Paltrow and published in the Jan. 9, 1986, edition of* The Wall Street Journal. *It is reprinted with permission.*

ROME—In a crowded office near the Piazza Ungheria, Ottavio Santilli spends his days making dots.

Peering through his spectacles, Mr. Santilli applies a red felt-tipped pen to aerial photographs of the Italian landscape. Each dot represents an olive tree. Mr. Santilli can look at a black-and-white photo taken 4,000 feet up and distinguish the tiny black clumps that are olive trees from the tiny black clumps that are almond trees, chestnut trees or cows.

It is all part of a European Common Market project. Mr. Santilli and an army of co-workers are trying to count every olive tree in Italy (they put the total at about 200 million). Using property records and cartographic and computer techniques, they also are figuring out which Italian farmer owns each tree.

Difficult Problem

The project, originally started to combat fraud in olive oil subsidies, has taken on a new significance with the addition of Spain and Portugal to the European Community. The EC has many problems related to its enlargement, and olive oil is among the most difficult.

Spain is a major olive oil producer. It turns out an average 470,000 metric tons a year, compared with Italy's 550,000 metric tons. Now that the Iberian countries are members, the EC produces 80% of the world's olive oil. As a result unless the community drastically changes its subsidy policies for olive growers, the EC soon will have a sea of surplus olive oil to rival its "wine lake" and its "butter mountain."

"There is a possibility of a rather disastrous situation," says an EC Commission spokesman, referring to the EC's already heavy load of agricultural surpluses and its overstrained budget.

Because of the political sensitivity of the issue, when Spain and Portugal negotiated with the EC, no provision was made for controlling the olive oil surplus once the five-year transition period is over.

It was hoped that by then the EC would have adopted a comprehensive revision of its Common Agricultural Policy. But agriculture ministers still seem far from agreeing on any fundamental overhauls.

Alarming Projection

The EC spends about $887.6 million a year on olive oil price supports and aid to producers, who total about 2.2 million. In some regions, olive oil is the most important industry.

EC agriculture officials say that if the system for olive oil is maintained for the next five years, the cost will almost double. Although the biggest jump will come at the end, costs will begin rising immediately as Spain and Portugal gradually raise their prices to match those in the rest of the community.

Olive oil production fluctuates considerably. But the EC before Spain and Portugal joined generally was a small net exporter, selling its 30,000 or 40,000 tons of annual surplus, leaving no stockpile to worry about. But forecasters say this state of happy equilibrium won't last.

In five years, when Spain has to end the tariffs that keep out cheaper, competing seed oils, and its olive oil prices rise to match the rest of the EC, great numbers of Spaniards are expected to abandon their traditional cooking oil for cheaper soy, sunflower or corn oil.

The EC already is bracing for a dramatic increase in production. Greeks planted thousands of olive trees in the early 1970s, anticipating EC membership. And Portuguese farmers, who turned away from olives in the last 25 years, will return to the market when the community's higher prices go into effect.

Community officials hope the olive census will help stop farmers who—possibly with the assistance of organized crime or corrupt growers' associations—have claimed subsidies for trees they don't own, trees that no longer bear fruit, or trees that don't exist. Farmers get aid based on the amount of oil they say they produce, but they are required to declare how many trees they have as a way of showing that their claims aren't unreasonable.

Riccardo Le Pera of Italeco S.p.A., one of the consortium of Italian companies performing the survey, points to a Calabrian farmer who for years claimed subsidies for oil from 120 trees. The survey, Mr. Le Pera says, shows that the farmer owns only 60 trees, of which only four still produce olives.

But, while the researchers in Italy have turned up many instances of fraud, they also have discovered many olive trees for which farmers haven't been claiming subsidies, even though they are entitled to them. In the province of Pescara, the researchers expected to find only 11,000 parcels of farmland with olive trees. But the aerial photos disclosed olive trees on 128,000 parcels. So the Italian survey may result in only a small net saving to the EC.

Another problem for the EC may be languishing demand. Italians have gradually been moving toward the use of other oils. "More and more, olive oil is becoming limited to elite consumption" in Europe and elsewhere, says Jiacopo Mazzei of Agriconsulting, another company participating in the survey.

Olive oil prices are high because olive cultivation by traditional methods is inefficient and labor-intensive. A handful of large, well-to-do olive growers use modern techniques, but over 90% still harvest in the traditional way, with back-breaking labor.

EC officials say the chances for reducing labor costs or cutting back on production are small. Harvesting machines cost about $40,000,far more than the average olive grower can afford. And the machines aren't practical on steep hillsides where much of the cultivation takes place.

As the EC's olive oil surplus grows, there will be pressure on prices to come down. But growers in Italy, Greece and France don't seem worried that generous subsidies will end. Mary Cefaly, who introduced modern techniques to a big Italian farm that has belonged to her family for centuries, says she welcomes Spain's and Portugal's membership in the EC.

"For me it's good," she says. "The policy of the EC until now has been too much for northern Europe—support for milk, wheat and butter." Now she anticipates a new political coalition of southern countries that will stand up for Mediterranean products.