

Brussels, 23 September 2003

Overall outlook of the raw tobacco, olive oil and cotton common market organisations (CMOs)

How do the three CMOs work?

Raw Tobacco

The 1992 reform of the raw tobacco common market organisation (CMO) abolished intervention and export refunds, introduced production quotas as well as stricter controls. Following later refinements of the 1992 legislation, support to producers is currently provided through a premium system, linked to quantity of production, modulated on the basis of quality criteria and subject to individual production quotas for each group of tobacco varieties. The raw tobacco CMO also relies on measures to convert production to other products or other economic activities for the producers, through a quota buy-back programme (see [IP/02/1816](#)) and a Community Tobacco Fund (see [MEMO/02/61](#)).

CAP expenditure for raw tobacco was € 973 million in 2001, which corresponds to 2.3 % of the agriculture budget. From this budget Greece got € 376 million, Italy € 339 million, Spain € 115 million and France € 77 million. A levy on premia of currently 3% goes to the tobacco fund which supports the switch from tobacco into other crops and information measures on the harmful effects of tobacco consumption. A review clause foresees an increase to 5% in 2004.

Olive oil

The current common market organisation for olive oil, originally created in 1966, relies on production aid as the principal measure of support to the sector. The former intervention system was replaced by a private storage mechanism, as an instrument for crisis management, and consumption aids were abolished in 1998. Production aid, at a rate of € 1,322.5 per tonne, is granted to all producers on the basis of the quantity of olive oil actually produced and the table olive equivalent, subject to the National Guaranteed Quantity (NGQ), currently totalling 1.78 million tonnes. Mechanisms regulating the amount of aid granted to producers, in the case where Member States over- or undershoot their NGQs have been put in place.

Export refunds have been set at a zero level since 1998 without any negative impact. A production refund is granted for olive oil in vegetable and fish preserves. In 2001, further emphasis was given to control and quality aspects, most notably through the 'EU Quality Strategy for Olive Oil', which established product and marketing standards for the sector.

The budget for olive oil was € 2,524 million in 2001, distributed between five Member States: Spain € 1,030 million, Italy € 848 million, Greece € 587 million, Portugal € 54 million and France € 5 million.

Cotton

The cotton regime dates from the time of the accession of Greece into the European Community in 1981. The current regime is centred on a production aid per tonne of unginmed cotton, subject to a National Guaranteed Quantity (NGQ) for each Member State. The level of the aid, granted to processors, who pay a minimum price to producers, is fixed periodically on the basis of the difference between a "guide price" and the world price. Since 1995/96, the "guide price" has been fixed at € 1,063 per tonne, with a minimal price of € 1,009.9 per tonne. The NGQ is fixed at 782,000 tonnes for Greece, 249,000 tonnes for Spain and 1,500 tonnes for other Member States. Adjustments can be made to the amount of aid paid out if production over- or undershoots the guaranteed quantities.

EU support for the cotton sector was € 773 million in 2001, € 543 million for Greece and € 190 million for Spain.

EU situation of the sectors

Raw tobacco

Raw tobacco production, produced within quota restrictions (348,013 tonnes) represents 0.4 % of the EU agricultural output. In the last decade, there has been a decreasing trend in the volumes of EU raw tobacco production. Greece and Italy cover more than 75 % of EU raw tobacco production.

Over the last decade, there has been a reorientation towards the production of high-quality varieties, an increasing specialisation per variety at farm and regional level, and prices of EU-produced raw tobacco at international and domestic level have increased. On the other side, the market price of raw tobacco is too low to cover the production costs and positive margins at grower level are currently allowed only by CAP direct payments.

Production of raw tobacco in the EU shows a remarkably high geographical concentration. Seven regions concentrate about 70 % of total holdings, 63 % of the areas under tobacco and 57 % of total gross income. In some districts, raw tobacco production accounts for more than 50 % of regional agricultural production.

The area under tobacco in the EU has been decreasing at a rate of 2.6 % per year, while the EU average yield has risen from 2 to 2.7 tonnes per hectare in the 1990s. The total number of farms with tobacco in the EU was 79,510 in 2000, following a ten year decline of 3.6 % per year. The average area per holding has increased from 1.4 ha in 1990 to 1.6 ha in 2000.

The raw tobacco sector employs a significant labour force, that is 126,070 annual working units (AWU), or 212,960 persons, corresponding to 2.4 % of total AWU employed in the EU agricultural sector. Family labour force is about 80 % of total labour force employed in the sector.

Problems of restructuring are still particularly acute in some areas where raw tobacco production plays a very important economic and social role. There, pulling out workers from the sector too rapidly could perhaps cause major social imbalances and rural depopulation if adequate measures to convert production to other crops or to create off-farm employment were not put in place.

The Commission Decision of 21 November 2001 which set the scene for allowing the phasing out of tobacco subsidies therefore also proposed to put in place simultaneous measures to develop alternative sources of income and economic activity for tobacco growers and workers (see [IP/01/1623](#)).

Olive oil

The olive sector is a key element of the EU model of agriculture. In 1998/99, the area under olive groves in the EU was approximately 5.4 million hectares, that is, about 4 % of the utilisable agricultural area, of which 44.5 % were in Spain, 26.3 % in Italy, 18.8 % in Greece, 9.7 % in Portugal and 0.7 % in France. The sector involves about 2.5 million producers, roughly one third of all EU farmers, and is an important source of employment and economic activity in the main producer areas. Furthermore, olive production offers the advantage of providing seasonal employment in winter, complementary with other agricultural activities, and provides significant off-farm employment in the associated milling and processing industry.

The size of specialised olive holdings in the EU is relatively small but diverse, ranging from an average of 13.5 ha in Spain to 3.2 ha in Greece. Olive oil processing structures tend to reflect the mix of traditional olive groves and more intensively managed, modern plantations, found across the producing Member States. Consequently, the association that olive production has enjoyed with positive landscape features and environmental impacts in the areas where it is practised has started to be questioned. Traditional olive groves are valued for their role in combating desertification and promoting biodiversity. Abandonment of production in such holdings brings increased risks of fire and erosion.

Cotton

The cotton sector, despite being of limited significance to the EU as a whole, contributing only 0.5 % to the final agricultural output, has strong regional importance. Greece, with 79.4 % of the total EU production of 1.55 million tonnes of unginninged (raw) cotton, receives 9.0 % of its final agricultural output from cotton while in Spain, the other main EU producer, cotton contributes 1.5 %. Production in other Member States (only in Portugal) is less than 1,500 tonnes.

Within the main producer Member States, there are even stronger distribution effects. After reaching a maximum land area under cotton of 440,000 ha in 1995, the vast majority of today's 380,000 ha of land devoted to cotton production in Greece is located in three regions: Thessaly, Macedonia-Thrace and Sterea Ellada. In Spain, production is concentrated in Andalusia, mainly in the provinces of Seville and Cordoba. The total area under cotton cultivation in Spain, after reaching a maximum of 135,000 ha in 1988, has decreased to around 90,000 ha.

Cotton holdings in these regions are characterised by their large number (71,600 in Greece and 7,600 in Spain) and small size (Greece, 4.9 ha and Spain 12.0 ha). Most cotton producers in the two main producing Member States belong to producer organisations, which have a management and co-ordination role. At the processing level, a mixture of private enterprises and co-operatives assure the conversion of raw to usable cotton through the ginning process, by which the cotton fibres are separated from the cotton seed.

Trade and situation in the world

Tobacco

With 348,013 tonnes, corresponding to 5.4 % of world production, the EU is the fifth world producer of raw tobacco, behind China (38 %), Brazil (9 %), India (8 %), and USA (7 %).

The EU occupies a top position in the world tobacco trade. In the years 2000 to 2002, on average the EU imported (in value) 35 % of the unmanufactured tobacco traded in the world, but only 5 % of the manufactured tobacco. In the same period, EU exports accounted for 8 % of unmanufactured and almost 20 % of manufactured tobacco. In absolute value the EU is a net importer of unmanufactured tobacco and a net exporter of manufactured tobacco.

Olive oil

The EU dominates world production, with harvests that have steadily grown in the nineties, especially in Spain, to a record of 2.46 million tonnes of virgin olive oil in 2001/02. Olive production, however, is noted for its fluctuations, determined by the biological production cycle and susceptibility to weather variations. Tunisia, Turkey, Syria and Morocco are the other main olive oil producers. They account for about 20 % of total world production. While production in other regions of the world is currently negligible in comparison to that in the Mediterranean basin, some countries without an olive oil tradition appear to be willing to invest in this sector.

Historically, olive oil consumption tended to be high only in traditional producer countries. While olive oil still only represents about 3 % of total world oil consumption, since 1995/96 demand has risen at a rate of about 6 % per year, in the light of olive oil's positive image in terms of health and quality. Apart from the EU, main markets for olive oil are the United States of America, Japan, Canada, Australia and Brazil.

Thus, trade has become an important feature of the olive oil market in the EU, which has doubled its exports, in the last ten years to almost 324.000 tonnes in 2001/02, mostly in bottled form. Imports, on the other hand, mainly to Italy, remained relatively stable, with the exception of the poor production years in Tunisia, the main importer to the EU.

Cotton

Trade in the sector is generally referred to in terms of ginned cotton. As a producer, the EU is a minor player on the international scene, contributing only about 2;5 % to total world production. The latter, now at 19.9 million tonnes, practically doubled in the last forty years, mostly due to yield improvements. The chief producing countries, having retained their relative importance for the last two decades, remain China (22.6 %), the USA (20.1 %), India (13.1 %) and Pakistan (9.0 %).

The EU, with 708,000 tonnes of imports and 227,000 tonnes of exported ginned cotton, is the major net importer on the world scene. China alternates between net import and export, depending on the state of its own harvest. Brazil and South-east Asia are also significant importers of cotton for their manufacturing industries, having little or no production themselves, though Brazil has appeared recently as a new producer country, of about 800,000 tonnes of cotton over the last few years.

World cotton exports are undoubtedly dominated by the USA, which currently accounts for about 1.8 million tonnes, that is, 30 % of world trade of 6.0 million tonnes. Uzbekistan, Africa (CFA area countries) and Australia, each with around 800,000 tonnes traded, are the only other major exporters on the world scene.

The largest consumers of cotton in the world are those with established manufacturing industries. China consumes 25.4 % of the world's cotton, followed by India, the USA and Pakistan, the latter consuming about 9.0 %. The EU's consumption of around 1.0 million tonnes of ginned cotton (5.4 % of the world level) is mostly centred in Italy, Portugal and Germany.

Statistics

Statistical information on the three sectors is available on the internet at:

For tobacco:

http://europa.eu.int/comm/agriculture/agrista/2002/table_en/en48.htm

For olive oil:

http://europa.eu.int/comm/agriculture/agrista/2002/table_en/en44.htm

For cotton:

http://europa.eu.int/comm/agriculture/agrista/2002/table_en/en411.htm