



EUROPEAN COMMISSION

Brussels, 21.12.2011
COM(2011) 919 final

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**First report on the impact of the 2006 reform of the scheme of specific measures for
agriculture in favour of the smaller Aegean islands**

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1. INTRODUCTION

The 61 'smaller Aegean Islands'¹ constitute an extremely fragmented insular territory that is subject to severe geographic and natural constraints. The permanently exceptional situation of these islands, characterised by distance, insularity, limited surface area, mountainous terrain and a difficult climate, is the source of major socio-economic problems, namely the difficulties of supplying the food and agricultural products needed for everyday consumption and agricultural production and the difficulty of maintaining the competitiveness of local agricultural products.

Given the exceptional characteristics and the constraints peculiar to these islands with regard to the rest of the EU, the smaller Aegean islands therefore benefit from specific measures for agriculture.

These specific measures are taken as part of the common agricultural policy (CAP) and are specifically intended to create the appropriate conditions for its application.

In the context of these specific measures taken alongside application of the first pillar of the CAP in Greece, the smaller Aegean islands benefit from a specific aid scheme to promote local production and to help with the supply of essential products, namely the PIME scheme (Petites Iles de la Mer Egée - small Aegean islands).

2. THE SCHEME'S BACKGROUND AND MAIN ASPECTS

The European Council meeting held in Rhodes on 2 and 3 December 1988 acknowledged the specific socio-economic problems experienced by the Aegean islands and, therefore, the need to introduce measures to address these problems.

Specific measures in favour of the PIME were thus introduced in 1993 with Council Regulation (EEC) No 2019/93 of 19 July 1993 introducing specific measures for the smaller Aegean islands concerning certain agricultural products², so as '*to remedy, in respect of certain agricultural products and means of agricultural production, the difficulties caused by the remote and insular nature of the smaller Aegean islands*' (Article 1 of the Regulation).

¹ The list of islands can be found in Table 7 of the Scheme of measures in favour of the smaller Aegean islands (PIME) submitted by Greece and approved by the Commission in application of Regulation (EC) No 1405/2006.

² OJ L 184, 27.7.1993, p.1.

The Regulation was initially limited in its application to the ‘smaller islands’, referring to islands with a permanent population of less than 100 000 inhabitants. The scope of application of the specific measures has, however, been extended by subsequent legislative amendments, specifically by Council Regulation (EC) No 1405/2006 of 18 September 2006³, which extended the specific measures for agriculture in favour of the smaller Aegean islands to ‘smaller islands’ without any demographic criterion, namely to ‘*all the Aegean Islands, with the exception of Crete and Evia*’ (Article 1(2) of this Regulation).

The main objectives of Council Regulation (EEC) No 2019/93 were:

- to respond to the PIME’s socio-economic problems;
- to offset the natural handicap affecting supplies (remoteness, insularity, small scale);
- to reduce production costs and consumer prices;
- to support traditional local production (livestock breeding, fruit and vegetable production, olive production, viniculture and beekeeping).

The PIME scheme is designed to achieve these objectives by means of:

- (a) specific supply arrangements (SSA) to decrease supply costs for food products, for products for local processing or to be used as agricultural inputs by subsidising the supply of Community products, within the limits of the requirements of the local market;
- (b) measures to support local products (SLP) aiming to support traditional activities, improve quality and develop local production in accordance with the requirements of the markets on the smaller Aegean islands and to revitalise certain agricultural activities which are a traditional and natural vocation on the islands in question. These measures involve subsidising the production, processing and/or marketing of these products;
- (c) structural derogations (derogations from the provisions which restrict or prohibit the granting of certain forms of structural aid).

The legal basis for these specific measures, which have subsequently been amended several times, is the primary legislation on the common agricultural policy, namely, since 1 December 2009 and the entry into force of the Lisbon Treaty, Articles 42 and 43 TFEU.

The PIME scheme was reformed in 2006. Council Regulation (EEC) No 2019/93 of 19 July 1993 was repealed and replaced by Council Regulation (EC) No 1405/2006 of 18 December 2006.

The main reasons for this reform are as follows:

³ OJ L 265, 26.9.2006, p.1.

- (1) The 2003 CAP reform (Council Regulation (EC) No 1782/2003 of 29 September 2003 on direct support schemes for farmers⁴) which marked a reorientation of the CAP and opened the way to reform the common market organisations (CMOs), to which the PIME refers.
- (2) The acknowledgement of the rigidity in the management of the programmes, which did not allow a rapid adaptation of the supply balances and of the SLP measures to the needs of the territory and hampered any participative approach.

The 2006 reform did not modify the main objectives and instruments of the scheme. Its main novelty is the adoption of a programming approach and the transfer to the Member State of the responsibility to design programmes adapted to local needs⁵ and to amend⁶, manage and monitor them. The objective of this innovation was to introduce a higher level of flexibility in the management of the SSA and SLP and to simplify the procedures for their amendment.

It is important to note that, although the PIME and POSEI schemes ("Posei" - *Programme of Options Specific to their remote and Insular nature* designed for the outermost regions) adopt a similar approach ('specific measures', objectives, structure) and are managed under the same budgetary headings, from a regulatory point of view, the PIME scheme is administered separately from the POSEI scheme.

Unlike the POSEI scheme, which represents the equivalent of the CAP first pillar for the outermost regions in a specific context of derogation, the PIME scheme constitutes a **top-up** to the single payment scheme which covers the Aegean islands and the rest of Greece under the first pillar of the CAP, so as to address the specific problems affecting these islands (see Annex 2 for an overview of the payments under the SPS and the PIME schemes).

A further important difference lies in the fact that while the POSEI scheme benefits under the specific supply arrangements (SSA) from an exemption from import duties for products from third countries⁷, the PIME scheme does not benefit from this derogation mechanism from the Union's customs arrangements.

During the 2003 CAP reform, Greece decided not to request an exemption from applying the SPS to the PIME, so since 2006 the SPS has been applied across the board.

However, under the PIME scheme, the smaller islands can keep coupled aid designed to maintain specific types of agriculture that are important for protecting the environment and improving quality and marketing.

⁴ OJ L 270, 21.10.2003, p.1.

⁵ The PIME programme established by Greece was approved by Commission Decision C(2006)6889 of 22.12.2006 and implemented from 2007.

⁶ The PIME programme has been amended twice by Commission Decisions C(2009)2880 of 21.4.2009 and C(2010)9189 of 20.12.2010.

⁷ Derogation from Article 28 TFEU stating that: 'The Union shall comprise a customs union which shall cover all trade in goods and which shall involve the prohibition between Member States of customs duties on imports and exports and of all charges having equivalent effect, and the adoption of a common customs tariff in their relations with third countries'.

Without the option of coupling, there would be a serious risk of local crops no longer being cultivated and negative consequences at economic, social and environmental levels (preservation of the landscape).

By way of example, for the olive oil sector, which is of primordial importance for the islands, this option of partial coupling means that the abandoning of olive cultivation can be avoided.

3. LEGAL BASIS OF THE REPORT

Article 17(3) of Regulation (EC) No 1405/2006 provides that ‘Not later than 31 December 2011, and thereafter every five years, the Commission shall submit a general report to the European Parliament and the Council showing the impact of the action taken under this Regulation, accompanied if applicable by appropriate proposals’.

In particular, the present report takes into account the data on the relevant markets up to 2010, the financial execution of the programmes until the financial year 2011 and the study carried out by the consultants Oréade–Brèche for the Commission on the evaluation of the measures implemented under PIME since 2001 (hereinafter ‘the evaluation study’), published in February 2010 and available under: http://ec.europa.eu/agriculture/eval/reports/posei/index_fr.htm

4. IMPACT OF THE 2006 REFORM

4.1. *Programming and partnership approach*

The increased responsibilities and competencies for the national and regional authorities for defining their programme and the participation of stakeholders in designing the measures have been welcomed both by Greece and the operators.

In particular, the increased flexibility towards the gradual adaptation of the programme to the actual local needs by means of annual amendments is judged very positively. In a context of fragility due to the market and climatic risks specific to these regions, it means that the support measures can be adapted rapidly to the actual requirements of the islands. Since its initial approval in 2006, the PIME programme has been amended twice, in 2008 and in 2010.

The evaluation study notes a decrease in the administrative burden since 2007. However, the national and local authorities still consider the administration of this scheme to be too cumbersome and complex, given the number of islands and the lack of administrative staff on some islands (rendering checks difficult in particular).

Overall, the cost of administering the PIME scheme remains high in comparison with the financial scale of the aid provided under the scheme (especially for the SSA and regarding the issue of small consignments).

Administering the PIME scheme therefore proves onerous for both the national/regional authorities and for the Commission's services.

4.2. Specific supply arrangements (SSA)

4.2.1. *General impact of the SSA*

The evaluation study shows that the SSA are considered to be essential for supply in all the islands, both by the national and local authorities and by the operators, which is why it is important to maintain these arrangements.

Overall, the SSA have had a positive impact with regard to improving the frequency and the regularity of supply to the islands throughout the year (regular supply of cattle feed) even despite occasional shortages due to limited transport and stock capacities.

The evaluation study nevertheless reveals that the arrangements are less effective for the most remote islands (the outer islands classified in group B), compared to the islands that are close to mainland Greece (islands classified in group A).

In general, since the 2006 reform, the PIME have been making less use of the SSA. This is the result of Greece's decision to restrict the SSA budget so as to divert the funds to SLP measures.

The decrease in the use of the SSA has been particularly marked for products for human consumption (cereals and flour). Since the 2006 reform which made it compulsory for the aid applicant to be located in the PIME, many small operators (bakers) do not receive the aid because, on the one hand, the SSA administrative costs are too high compared with the financial aid provided and, on the other hand, beneficiaries are not given enough information.

In parallel to this, the evaluation study reveals a tendency for a greater share of the SSA to be given to animal feed products. It is therefore the Member State's responsibility to target the SSA priorities to take into account the importance of stock breeding on the islands.

4.2.2. *Guarantee of supply of essential products*

The evaluation study shows that the extent which the SSA cover the needs of the PIME varies, both in terms of the products selected and the islands that are eligible.

The study also points out that the SSA better cover needs with regard to animal feed products rather than products essential for human consumption.

Furthermore, the SSA better cover the needs of the islands closest to the mainland ports (the group A islands) as compared to the most remote (some group B islands).

4.2.3. *Compensation of additional costs*

The evaluation study notes that, given that the islands are very fragmented, some are very far from the supply ports. In consequence, the costs engendered vary greatly from one island to another, depending on its distance from the mainland.

The SSA allows for the offsetting of the additional costs of supplying all the products selected only for the group A islands.

For the remote group B islands, the SSA cover only 50% of the costs, given that transport costs are much higher.

4.2.4. *Passing on the benefit to the end-user*

The evaluation study demonstrates that this advantage has not been passed on to the final beneficiaries to the same extent in the two island groups.

The SSA cover transport costs to the islands unevenly, which has consequences for the price to the final user. The advantage to the final user is greater over the group A islands and the closer of the group B islands, compared to the most remote of the group B islands.

With regard to the impact on prices, the SSA have brought about a significant drop in feed prices since 2007, and prices are now close to those on mainland Greece. However the SSA have not had any generalised impact on food prices.

4.2.5. *Re-dispatching of processed products and trade distortions*

As stated under recital No 5 of Council Regulation (EC) No 1405/2006, the quantities covered by the SSA are limited to the supply requirements of the PIME, in order not to impair the proper functioning of the internal market or distort trade in the products concerned.

Dispatching or exporting those products from the PIME is therefore prohibited. However, dispatch or exportation of the products is authorised where the advantage resulting from the SSA is reimbursed or, in the case of processed products, to permit regional trade or traditional trade flows as provided for by Article 5 of the above Regulation.

The evaluation study shows that no products benefiting from the SSA in the PIME are re-dispatched or exported and that in consequence, regional trade is not adversely affected.

However, there is insufficient monitoring in this area. The Member State is responsible for improving the monitoring of products entering and exiting the PIME's geographical area.

4.2.6. *Maintenance and development of agricultural activities*

The SSA has an essential role in preserving of local production structures by:

- supporting the profitability of local livestock breeding;
- contributing to maintaining bakery and milling activities (for human consumption).

The SSA have brought about a decrease in the price of feed and in consequence a decrease in stockbreeders' production costs.

4.3. Supporting Local Production (SLP)

4.3.1. *Maintaining and developing local agricultural production*

As regards SLP, the evaluation study focussed on three sectors: olive, honey and Chios mastic. These are sectors that are representative of the PIME, in that they account for two thirds of the envelope for SLP measures. Furthermore, the study is limited in that statistical data are lacking for several sectors. The Member State is responsible for ensuring reliable data collection across all the sectors involved in SLP.

As for how the SLP measures affect the competitiveness of the three sectors, the evaluation study demonstrates that the aid does indeed increase farm income. Since the 2006 reform, SLP measures have maintained farmers' income by covering part of their production costs.

Agriculture on the PIME is principally a family concern and is geared to the local market. This type of farming is centred on traditional activities and quality produce.

The SLP measures under the PIME scheme are intended to support traditional production and improve quality, with the aim of maintaining activities considered to play a fundamental role at economic, social and environmental levels.

In a context where economic opportunities are few and far between and farms very small-scale, this aid helps maintain or support activities which might otherwise no longer be attractive for farmers.

Greece considers it vital to maintain aid coupled to production, given the importance of the traditional production activities and of the quality products with high value-added in economic, social and environmental terms (preservation of topography and irrigation) but also culturally (quality products that encapsulate the islands' identity).

Without the possibility of partial coupling, there would be a serious risk that farmers would stop producing some crops, particularly as regards the olive oil sector which is the predominant crop on the islands.

5. FINANCIAL IMPLEMENTATION

Data on the financial execution of the PIME scheme from 2007 to 2010 (financial years 2008-11) are set out in Annex I.

Apart from the additional national financing of EUR 547 000 allocated in application of Article 11 of Regulation (EC) No 1405/2006, the aid provided by this scheme consists of 100% EU funding (Article 12 of this Regulation).

Following the 2006 reform, Greece decided to restrict the SSA budget (by reducing the volumes of products eligible under the scheme) in order to divert the funds to SLP measures. Despite this choice, the annual SSA budget appears to have been well used in the PIME over the period in question (average implementation rate: 94%).

Also, some SLP measures have exhausted the allocated financial resources in the last few years. However, with an average implementation rate of 88%, there is still room for manoeuvre financially.

The situation may be improved by redistributing the available budget among the measures where margins exist.

Furthermore, Article 11 of Regulation (EC) No 1405/2006 allows Greece to grant additional national financing for SLP measures.

With regard to the SSA, the upper limit established in Article 12(3) of Regulation (EC) No 1405/2006 on the basis of the historical implementation in 2001-03, does represent a constraint, however.

On the basis of budgetary neutrality, it has therefore been proposed that this upper limit should be increased so as to enable a more flexible redistribution of funds between the SLP measures and the SSA (see point 7.1).

6. AUDIT ON THE IMPLEMENTATION OF THE PIME SCHEME AFTER 2006

The Commission audit services conducted surveys on the clearance of the PIME accounts in 2007 and 2010.

Overall, these audits demonstrate an improvement with regard to previous years, although some shortcomings are noted concerning aid for olive groves (2007 audit), as well as some administrative shortcomings (2010 audit).

The consequences of these surveys are dealt with in the context of the clearance procedure currently underway. It must however be pointed out that the plethora of aid schemes aimed at a high number of small-scale beneficiaries engenders a high administrative and financial cost with regard to the advantages offered.

7. SUGGESTIONS FOR IMPROVEMENT

7.1. Proposed amendments to EU legislation

Considering the development of the scheme in the last few years and the recent entry into force of the Lisbon Treaty, a proposal recasting of Regulation (EC) No 1405/2006 was already adopted by the Commission in December 2010 to update and simplify some provisions and to align it to the new requirements of the TFEU.

Specifically, amending its Article 12(3) has been proposed, so as to increase the annual SSA upper limit – in the context of the existing financial allocation – so that the funds earmarked for the SSA can be used more broadly and so as to allow a more flexible redistribution of funds between the SLP measures and the SSA without increasing the overall budget. This would enable the funds to be reallocated to ensure, for instance, the availability of funds to cover the additional expenditure required for the requirements of the most remote islands (see point 4.2.3).

The Commission has proposed amending Article 17(2) of the Regulation to facilitate the Member State's evaluation of the implementation of the programme. The intention is to postpone the deadline for submitting the annual implementation report to the Commission from 30 June to 31 July so as to enable the Greek authorities to include the final expenditure on SLP measures. This report covers the implementation of the measures provided by the aid scheme during the previous year.

The reform of the CAP recently adopted by the Commission has no particular impact on how the PIME scheme functions.

7.2. Recommendations to the Member State

Greece plays a key role in the implementation of this scheme. It should consider how to **address the patchy administrative cover** throughout this very fragmented collection of islands so as to meet the needs of all the beneficiaries eligible to receive aid under this scheme and to enable a more extensive control of its implementation (see point 4.1).

It is also essential for the Member State to set up a system capable of **reliable data collection** for all the sectors concerned by the SLP measures so as to allow regular monitoring both by the national administration and by the Commission (see point 4.3.1).

So as to prevent any inequality in treatment between the islands covered by the scheme, the Member State is responsible for **refining the classification of the islands** to take into account all the degrees of remoteness (double or even triple insularity). The existing classification series (group A for the closest islands, group B for the most remote islands) should be extended by adding one or possibly two island groups for the very remote islands (the most remote of the group B islands).

This new classification would enable the various transport costs that impact both upon the cost of providing supplies and upon the development of local production to be better taken into account. A **better coverage of needs** as well as a **more tangible impact on consumer prices** would be ancillary benefits (see points 4.2.2 - 4.2.4).

Given the trend observed since 2006 of allocating SSA according to product area (Greece's choice of giving priority to supplying feed products), it is the Member State's responsibility to **refine the scheme's priorities** by taking into account the importance of stockbreeding on the islands, as well as by improving the monitoring of the products entering and exiting the PIME geographic area (see point 4.2.1).

With regard to the comment that the scheme does not have sufficient impact on consumer food prices (see point 4.2.4), the Member State is invited to reflect upon how to **better allocate the funds available so as to guarantee their effectiveness**.

The Member State is also invited to publish regular reports on the basis of the key indicators that the Commission services have established in order to allow an overall evaluation of the progress of the PIME scheme over the years.

Finally, it is to be underlined that both the initial definition of the PIME programme and the annual amendments require all stakeholders to adopt a **participative**

approach. The envisaged amendment of Article 34 of Commission Regulation (EC) No 1914/2006 postponing the deadline for submitting amendments will allow more time for consulting the operators concerned.

8. CONCLUSION

Since the 2006 reform and the shift towards a decentralised approach in administering the scheme, the Commission considers that the PIME scheme has been implemented efficiently and satisfactorily responds to the specific needs of the PIME.

The programme thus guarantees the survival of traditional farming sectors by supporting farmers' income as well as by ensuring the supply of essential products by limiting the additional costs incurred.

Based on the current analysis and situation, the Commission considers that the financial envelope allocated to PIME has enabled the broad objectives of the scheme to be met.

Both the Commission and the Member State must continue their efforts to improve the implementation of the scheme as much as possible and in particular to succeed in compensating for the additional costs of supplying and maintaining traditional farming activities in the islands.

The PIME scheme should also aim to ensure vital objectives such as ensuring the quality of production, maintaining the identity of islands and preserving the environment.

ANNEX 1

PIME FINANCIAL EXECUTION 2007-2010 (in €)⁸

Title of Measure	2007 (2008 financial year)			2008 (2009 financial year)			2009 (2010 financial year)			2010 (2011 financial year)		
	Financial allocation	Actual expenditure	Implementation rate	Financial allocation	Actual expenditure	Implementation rate	Financial allocation	Actual expenditure	Implementation rate	Financial allocation	Actual expenditure	Implementation rate
SPECIFIC SUPPLY ARRANGEMENTS (SSA)												
TOTAL SSA	5 470 000	5 301 942	96.9%	5 470 000	5 056 729	92.4%	5 470 000	5 199 726	95.1%	5 470 000	5.037.774	92.13%
MEASURES SUPPORTING LOCAL PRODUCTION (SLP)												
Prunes (Skopelos)	63 278	11 820	18.7%	63 278	19 995	31.6%	13 278	13 200	99.4%	13 278	13 277	100.0%
Beans/broad beans	74 638	69 003	92.5%	74 638	73 048	97.9%	74 638	71 185	95.4%	74 638	72 392	97.0%
Apiculture	1 194 180	1 194 180	100.0%	1 194 180	1 187 234	99.4%	1 194 180	1 177 271	98.6%	1 194 180	1 114 126	93.3%
QWPSR wines	2 500 000	2 181 986	87.3%	2 500 000	1 322 109	52.9%	2 400 000	2 043 086	85.1%	2 400 000	1 194 932	79.8%
Traditional olive groves	13 084 83	11 372 595	86.9%	13 084 831	11 200 034	85.6%	11 384 831	10 934 053	96.0%	11 384 831	10 552 028	92.7%
Potatoes	663 839	560 969	84.5%	663 839	471 995	71.1%	613 839	451 533	73.6%	613 839	499 776	81.4%
Cherry tomatoes (Santorini)	11 773	8 950	76.0%	11.773	7 940	67.4%	11 773	11 761	99.9%	11 773	11 772	100.0%
Artichokes (Tinos)	5 886	5 884	100.0%	5 886	4 153	70.6%	5 886	5 225	88.8%	5 886	5 701	96.9%
Citrus fruits	508 575	327 973	64.5%	508 575	275 556	54.2%	408 575	320 549	78.5%	408 575	288 419	70.6%
Tree mastic (Chios)	900 000	885 304	98.4%	900 000	849 821	94.4%	1 150 000	1 073 111	93.3%	1 150 000	1 045 070	90.9%
Traditional cheeses	-	-		-	-		1 750 000	1 734 350	99.1%	1 750 000	1 723 989	98.5%
TOTAL SLP	19 007 000	16 618 664	87.4%	19 007 000	15 411 855	81.1%	19 007 000	17 835 324	93.1%	19 007 000	17 241 482	90.7%
TOTAL PIME	24 477 000*	21 920 606	89.6%	24 477 000*	20 468 614	86.6%	24 477 000*	23 035 050	94.1%	24 477 000*	22 279 256	91.0%

* The amounts allocated include EUR 547 000 additional national financing under Article 11(2) of Council Regulation (EC) No 1405/2006

⁸ The financial amounts executed indicated in this document are derived from the annual implementation reports submitted by the Member States to the Commission in application of Article 17(2) of Council Regulation (EC) No 1405/2006 as regards the SSA and from the communications on the requests for eligible aid and the relevant amounts (Article 32(2)(b) of Commission Regulation (EC) No 1914/2006) as regards the SLP measures. They correspond to the amounts spent per measure for the calendar year in question (the year of implementation) and may not correspond exactly to the amounts of expenditure registered by the European Commission per financial year.

ANNEX 2

Smaller Aegean Islands: Table indicating the expenditure under direct aid provided in the context of the CAP first pillar and the PIME scheme (in €)

	2007 (2008 financial year)	2008 (2009 financial year)	2009 (2010 financial year)
Single Payment Scheme (SPS) and other direct aid*	57 995 090	61 952 513	60 502 718
PIME programme (SLP measures) **	16 618 664	15 441 855	17 835 324
Total	74 613 754	77 394 368	78 338 042
PIME/Total	22.3 %	20.0 %	22.8 %

* Amount of expenditure under aid provided in the context of the single payment scheme (decoupled aid)+ other expenditure under various direct aid (payments for specific crops and quality production, transitional payments, aid for barley, aid for silk worms, etc.)

** Amount of expenditure under direct aid provided in the context of the PIME scheme (SLP measures)