Variation on the Effects of the 2003 CAP Reform and Regional Differences in the Italian Olive Oil Sector

Valentina Sabbatini, Department of Agriculture, Forests, Nature and Energy (D.A.F.N.E.), Tuscia University, Viterbo, Italy
Yiorgos Gadanakis, School of Agriculture, Policy and Development, University of Reading, Reading, UK
Francisco Areal, School of Agriculture, Policy and Development, University of Reading, Reading, UK

ABSTRACT

This paper analyses the impacts of the 2003 CAP reform on the production of Italian olive oil controlling for the regional differences in olive oil production as well as for the differences between years. Italian olive oil production time series data from the Farm Accountancy Data Network for the 2000-2010 period at regional level is used to examine the effect of the 2003 Fischler reform on the production of olive oil. Production costs and payments received by farmers to support their income are considered. The data were collected at micro level based on a sample of farms representative of the production systems in the country. In order to consider the differences in production among the regions, eight representative regions in terms of surveyed farms are considered. The authors found that the most important factors affecting the production of olive oil are the area under olive groves and labour productivity. Results also show no evidence that the level of payments have an impact to the level of production, however, the type of payments has.

KEYWORDS
CAP Reform, Common Agricultural Policy, Direct Payment, Italy, Olive Oil, Olive Oil Production, Subsidies Decoupling

INTRODUCTION

One of the main agricultural economic activities in the Mediterranean basin is the production of olive oil. In terms of volume of production capacity, Europe produces in average the 77% of the world production of olive oil: Spain, Italy and Greece being the major producers. These are also the main consumers of olive oil.
Outside the European Union, olive oil is produced in other Mediterranean countries, namely Tunisia, Turkey, Syria and Morocco as well as in the American continent, Australia and Japan, although in relatively minor quantity in the latter countries.

Based on the data provided by the IOOC, the European production remains stable, in favour of other countries outside the European borders. The provisional data for the season 2013/2014 of the worldwide production is as follows: Europe 76%, Tunisia 2%, Turkey 6%, Syria 5%, Morocco 4% and the others producing countries 7%.

**OLIVE OIL PRODUCTION IN THE EU COUNTRIES**

Spain is the country with the main olive oil and olive produce (2.8 million of tonnes in 2014) and export worldwide. Italy is the second European producer of olive oil (461,200 tonnes in 2014; 19% of the total EU production); two-thirds of the production is represented by extra-virgin olive oil with 41 Protected Designation of Origin (PDO) and 2 Protected Geographical Indication (PGI) areas, widespread over the whole national territory. Greece devotes 14% of its cultivated land to olive growing. It is the world’s main producer of black olives. Moreover, Greece is the third producer of olive oil in the world; in average 350,000 thousand tonnes for the past 5 years, of which 82% is extra virgin.

Olive oil production for Spain, Italy and Greece, has important social impacts not only by being a source of income for the rural economy, but also by creating the most jobs per hectare within agricultural activities, and by maintaining the cultural and environmental heritage (CAP, 2008; Areal and Riesgo, 2012). In some European regions, olive oil is the most important agricultural activity, in terms of employment and percentage of cultivated area. Thus, Greece represents the first European country in terms of cultivation of olives with a 14% of land dedicated to the production of olive groves, followed by Cyprus, Italy and Spain (Mylonas, 2015). In terms of land productivity, Greece and Italy have the highest productivity with an average of 3 tonnes of olives per hectare for olives and olive oil. However, according to the Farm Accountancy Data Network (FADN) database (European Commission: 2012), the highest labour productivity of olive farms is attributed to Spain due mainly to the relatively high level of mechanization and the relative big areas of olive trees. The Italian olive oil farms are of a small size (about 3 ha) (ISTAT: 2015) and most of them are family run. The olive area in Italy is fragmented and anchored, especially in southern Italy. This has as a result that production costs in the case of the Italian olive oil are higher when compared to other European olive oil producing countries like Spain, which has large production plants and a highly mechanized production system. Olive oil producing farms are on average bigger in Spain (12 ha of olive groves) when compared to Greece (3 ha) and Italy (3 to 5 ha). A common theme for both Italy and Greece is that the sector of olive oil is dominated by relatively small farms with low degree of commercial and professional training.

Taking into consideration the period 2006-2009, the share of family labour in Italy represents the 73% of the total labour productivity (European Commission: 2012). In terms of costs, family labour for the Italian farms that produce olive oil, represents the major cost with a percentage of 47%. The Puglia and Calabria regions represent the most important producers of olive oil in Italy with the highest percentage of olive trees (ISTAT: 2015).

**OLIVE OIL CONSUMPTION**

The main producer countries of the Mediterranean basin are also the traditional consumer countries. However, the culture of olive oil is spreading to non-traditional areas of the world, through factors
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