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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the implementation of the scheme of specific measures for agriculture in favour of the smaller Aegean islands (SAI)

1. INTRODUCTION

The Greek smaller Aegean islands (SAI) constitute an extremely fragmented insular territory subject to severe geographic and natural constraints, not very populated, with limited utilised agricultural area. The topography and climate of SAI are also limiting factors for agricultural production.

Some islands are very isolated from the mainland of Greece and face problems of double or even triple insularity[1]. This affects among others the supply of essential agricultural products owing to additional transport costs linked to the SAI insularity, small size and distance from markets.

Taken into account this specific situation, incomparable with the EU mainland, SAI benefit from special measures for agriculture under the Common Agricultural Policy (CAP). Apart from the support under the first pillar of the CAP, SAI benefit from a specific support scheme (SAI scheme) that helps promote the local production and ensure the supply of essential products. The scheme covers all Aegean islands except Evia and Crete.

This report aims at evaluating the application of the SAI scheme between 2006 and 2014.

The Aegean islands occupy an area bound by the island of Crete in the south, mainland Greece in the north and west, and mainland Turkey in the east, covering a total of 210 240 km^2. The total number of islands and islets of the Aegean Sea is 7 582 but almost 90% of them are smaller than 10 km^2 and only two islands, Lesbos and Rhodes, exceed an area of 1 000 km^2. The total area of the Greek islands and islets represents 17.1% of the country's territory. The majority of the islands are home to small communities with fewer than 5 000 permanent inhabitants, except for a few islands that are relatively larger in surface and contain between 10 000 and 40 000 inhabitants, such as Lesbos, Chios, Samos, Kos, or Rhodes which has more than 100 000 inhabitants.

2. SAI: ORIGINS, EVOLUTION AND LEGAL FRAMEWORK

The origins of the specific scheme for SAI date back to 1993 when the particular problems encountered by the agricultural sectors on the SAI due to their remote and insular nature were recognised in Council Regulation (EEC) No 2019/93[2].

Since its creation in 1993 the scheme underwent some changes. In the 2003 CAP reform Greece decided to apply the Single Payment Scheme (SPS) to the whole country as from 1 January 2006. In 2006 the basic regulation was replaced by Council Regulation (EC) No 1405/2006[3], which did not change the objectives or the specific measures for the SAI. It introduced, however, a programming approach, meaning that the SAI support is set out in a yearly programme established by the national authorities and submitted to the Commission for approval and managed by Greece.

1 Multiple insularity means that there are no direct transport connection between the islands and the mainland, so supplies are brought by way of other islands.

2 OJ L 184, 27.7.1993, p. 1.

3 OJ L 265, 26.9.2006, p. 1.

Following the entry into force of the Lisbon treaty in 2013, Council Regulation (EC) No 1405/2006 was replaced by Regulation (EU) No 229/2013[4] of the European Parliament and the Council and Delegated and Implementing Acts, Commission Regulations (EU) No 178/2014 and 181/2014, respectively, were adopted[5].

The SAI scheme is financed by the European Agricultural Guarantee Fund (EAGF). Regulation (EU) No 229/2013 sets an annual ceiling of the programme at € 23.93 million per year. Additionally, Greece provides further national financing (€ 0.547 million). The details of the financial implementation between 2006 and 2014 are presented in the Annex to this report.

Although the SAI scheme shares the same approach with the POSEI scheme[6] (objectives, structure and financial management) from a regulatory point of view, the SAI scheme is administered separately from the POSEI scheme.

Unlike the POSEI scheme, which replaces the CAP first pillar (direct payments), the SAI scheme constitutes an additional support to the SPS 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.

3. LEGAL BASIS OF THE REPORT

Article 20(3) of Council Regulation (EU) No 229/2013 provides that *"By 31 December 2016, 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"*.

The present implementation report takes into account in particular the implementation of the programme until the financial year 2014 and the work of the external evaluator (ADE: Analysis for Economic Decision) in the framework of the evaluation of the measures implemented under POSEI/SAI scheme, carried out as part of the REFIT programme. The work of the external evaluator was carried out from June 2015 to August 2016. The evaluation exercise will be formally completed with the preparation of a Staff Working Document by the Commission services.

4. AGRICULTURE IN THE SMALLER AEGEAN ISLANDS

In general the Smaller Aegean Islands (SAI) are mountainous and hilly islands influenced by a Mediterranean climate characterised by dry and hot summers with a risk of drought and short rainy winters.

The geographical characteristics, climatic conditions and socio-economic structure of the SAI give rise to certain disadvantages for the agricultural activity and production of the islands. The islands are confronted with a gradual abandonment of land and eventually a shrinkage of local societies since their agricultural land is located primarily on semi-marginal or marginal areas.

The islands are split into the South Aegean region (consisting of the Cyclades and Dodecanese islands) and the North Aegean region (comprising nine inhabited

4 OJ L 78, 20.3.2013, p. 41.

5 OJ L 78 of 20.3.2013; delegated and implementing acts: OJ L 63 of 4.3.2014.

6 concerning specific measures for agriculture in the Outermost Regions of the Union

islands: Lesbos, Lemnos, Efstratios, Chios, Psara, Inousses, Samos, Ikaria, and Fournoi).

Agriculture plays a major role in the economic life of the **North Aegean region**. The agricultural sector accounts for more than 21% of the regional Gross Domestic Product (GDP), employing 12.2% of the region's active workforce (2013). The utilised agricultural area (UAA) in 2010 was 168 610 ha, representing 44% of the total area. The weakening of the sector is attributed to factors related to its structure and to problems regarding the supply of agricultural products in the islands, increased production costs, low irrigation rate and a large proportion of fallow land.

The agricultural activities include crop production (mastic[7], olive trees, vines, citrus trees, and grains) and livestock farming (beekeeping, and rearing of sheep, goats and cattle). The average size of farms is low (about 5 hectares of UAA per agricultural holding in 2013).

As regards the **South Aegean region**, the agricultural sector is relatively confined and does not meet the nutritional needs of the region, which necessitates substantial supplies from the rest of Greece and abroad. This phenomenon is particularly intensified in the summer months due to the increased demand from tourism activities. The geographical discontinuity of the region and the intense intraregional disparities create a peculiar character that does not favour the development of the primary sector. The dry climate with low rainfall combined with the limited availability of land and mountainous terrain hinders the development of agriculture and hence the sustainability of the individual islands. Yet the primary sector employs 6.1% of the workforce with strong seasonality and underemployment (2013 data). The UAA of the region is 106 080 ha and represents 16.7% of the total land surface area (2010 data).

5. OBJECTIVES, SCHEME AND PROGRAMMING

The objectives of the SAI scheme listed in Article 2 of Regulation (EU) No 229/2013 are as follows:

- to guarantee supply to the smaller islands of products essential for human consumption or for processing and as agricultural inputs by mitigating the additional costs incurred due to their insularity, small size and distance from markets;
- to preserve and develop the agricultural activities in the smaller islands, including the production, processing, marketing and transport of local raw and processed products.

To this end the programme is composed of two types of support: Specific Supply Arrangements (SSA) and Support for Local Production (SLP), both financed by the European Agricultural Guarantee Fund (EAGF).

5.1. Specific Supply Arrangements

SSA support is the aid granted for supply of agricultural products from the EU and concerns mainly animal feed and to a much lesser extent flour for human consumption. The main products for animal feed are maize and oilcake and other

[7] Mastic is a resin obtained from the mastic tree produced on the island of Chios under a Protected Designation of Origin, used for production of liqueurs and sweets.

residues from vegetable fats or oils, while the main supported product for flour is wheat or meslin flour.

The SAI are divided into two groups with differentiated support according to the additional costs of remoteness: Group A includes islands closer to the mainland and Group B includes the most remote islands which represent about three-quarters of the SAI.

Beneficiaries of the SSA support are:

- for animal feed: organisations of agricultural cooperatives, independent agricultural cooperatives, farmers and dealers; and
- for flour: flour dealers and bakers.

Greece earmarked € 5.47 million per year for this measure (23% of the annual financial allocation) that is below the limit of € 7.11 million set out in the SAI Regulation (EU) No 229/2013.

It should be noted that while the POSEI scheme benefits under SSA from an exemption from import duties for products coming from third countries, the SAI scheme does not benefit from this derogation mechanism from the Union's customs arrangements.

5.2. Support for local production

The SLP scheme aims at developing local agricultural production and the supply of agricultural products through measures relating to production, processing and marketing of local agricultural products. A number of products characterized as traditional and important for SAI were defined in the programme. Greece assigned for the SLP on average about € 19 million per year. The beneficiaries of the support are the agricultural producers or producer organisations.

5.3. Programming and partnership approach

Both SSA and SLP measures are defined in detail by the Greek authorities in the programme. The programme reflects the priorities set by the national authorities for their agricultural sector in close cooperation with the stakeholders. If needed, the programme can be modified annually in accordance with Article 32 of Commission Implementing Regulation (EU) No 181/2014.

Each year, by 30 September, Greece notifies its annual report on the programme implementation in the previous year in accordance with Article 31(1) of Regulation (EU) No 181/2014.

6. FINANCIAL EXECUTION

The financial execution for the period under review and the distribution of the amounts between SLP and SSA are presented in Annex. SLP measures represent the majority (74%-79%) of spending.

On the basis of the annual implementation reports provided by Greece it can be noted that the total execution rate remained relatively high during the period 2007-2014 ranging between 85% and 94% as illustrated in Figure 1.

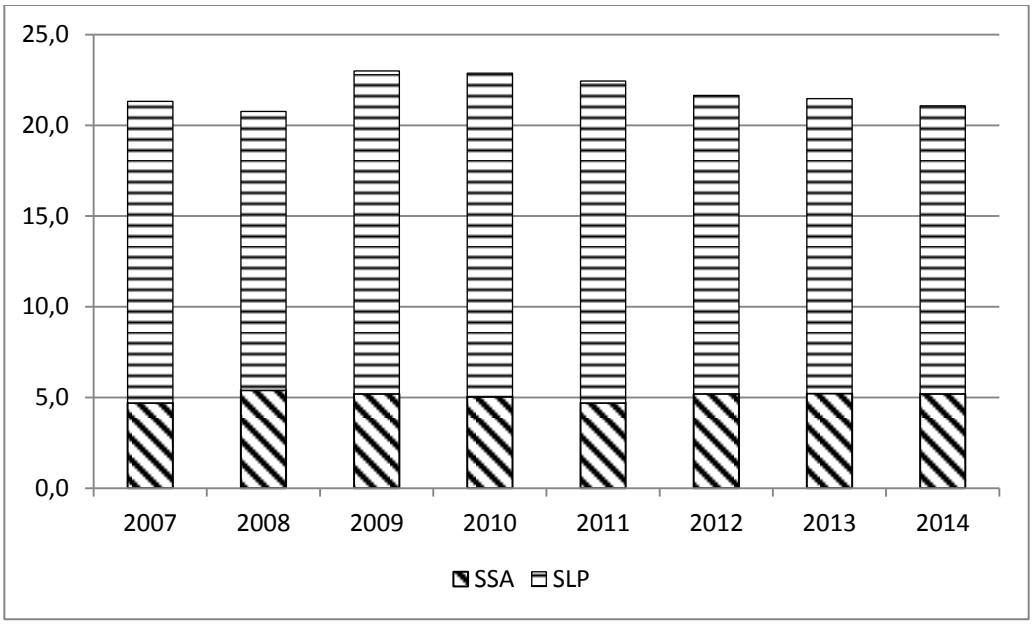


Figure 1: Annual spending for the SAI scheme per measure (€ million) (Source: ADE based on the annual implementation reports)

7. IMPLEMENTATION OF THE SCHEME

Between 2007 and 2014 Greece spent on SLP between € 15.4 million and € 17.8 million per year. 61% of the total funds for SLP in the period 2007-2014 were used as support for **olive trees** (the aid actually decreased from € 11.4 million in 2007 to € 8.7 million in 2014). Other important sectors were: **wine** (11% of the SLP spending with a decline from € 2.2 million in 2007 to € 1.2 million in 2014)**, the production of traditional cheese** (9% of SLP funds spent, an increase between 2009 and 2014 from € 1.7 million to € 2.6 million), **apiculture** (7% of the funds spent, stable expenditures of about € 1.2 million) **and mastic** (6% of the SLP funds, an increase from € 0.9 million to € 1.1 million).

As for SSA between 2007 and 2014 the total annual budget for SSA was fixed at € 5.47 million and total yearly expenditure ranged between € 4.8 million and € 5.3 million. Almost 95% of SSA aid is used for animal feedstuffs and about 5% for flour.

8. ASSESSMENT OF THE PROGRAMME

8.1. Guarantee of supply for agricultural products

The objective to guarantee supply of products essential for human consumption or for processing and as agricultural inputs by mitigating the additional costs incurred has been mostly achieved with success, mainly for animal feed. Between 2011 and 2014 the coverage rate over the total supply needs of the SAI was above 100% for animal feedings and partly insufficient for flour (around 57% in 2014). A decrease is observed though for animal feedings for the Group of islands A (-26%). This group however represents only 6% of the total volume of animal feed in 2014. This is mainly due to the declining trend in animal numbers and a preference of livestock farmers to standardized animal feeding. The coverage rate of flour is lower for the islands of Group B and has declined by 27% over the period.

8.2. Coherence between SSA and SPL

Overall the SSA and SPL instruments have been implemented in a coherent manner. There is no internal incoherence between the implementation of SSA and SLP, as SSA supported products (flour and animal feed) are not produced locally.

8.3. Maintenance of agricultural production activities

Supported agricultural production activities have been mostly maintained in terms of area (ha) or volume (tonnes) - with the exception of olives, the main agricultural production supported by the SLP part of the programme. The surfaces cultivated with olive trees decreased by 21% between 2007 and 2014, while the production of olives produced decreased less, showing a decline of 8% (meaning that the productivity increased) but are exposed to strong annual variations. The production of wine also went down, as did the surface of vineyards. Other production activities, such as those relating to mastic, apiculture or traditional cheese production increased slightly.

The SAI scheme, which mainly supports operating costs (production, processing and marketing), had limited impact on the improvement of the competitiveness of traditional agricultural products. The competitiveness in contrast mainly benefited from other support instruments, especially under RDP.

8.4. Contribution to CAP objectives

The SAI scheme contributed to the overall CAP objectives:

8.4.1. Viable food production

The programme contributed to viable food production by facilitating the maintenance of production levels in most sectors, thereby supporting the stability of farmers' income. However, since the SAI scheme is an additional support for specific production activities to the SPS applied in the SAI, its impact on the farmers' income would be less important than in the regions benefiting from POSEI and not covered by the SPS. Finally, the external evaluation points out that by allocating the aid through Producer Organisations and supporting various stages of the value chain, the SAI scheme contributed to the availability on the local markets of locally made products at more affordable prices.

8.4.2. Sustainable management of natural resources

The SAI scheme contributed also to the sustainable management of natural resources through the cross-compliance rules, which apply to the payments and make a link between these payments and the respect by the farmer of a set of EU statutory rules for the environment and public, animal and plant health.

In addition, the scheme also contributes to the sustainable management of natural resources by supporting the maintenance of crops with low environmental footprints. The supported productions mainly rely on extensive production systems, relatively harmless to the environment. The use of pesticides is very limited for growing olives. Beekeeping contributed to the preservation of the sensitive flora of the islands. Other cultivation, such as mastic trees, vines or barley contributed to the protection of landscape and natural environment.

However, sustainable farming practices should be further developed, including by reinforcing non-price competitiveness[8], which include a broad range of elements such as product quality (organic production or other labels and certification), technological advantage, environmental requirements, etc. Product differentiation through non-price competitiveness could be recommended (olive oil, PDO wine, etc.) compared to conventional commodities for which the SAI have no comparative advantage.

8.4.3. Balanced territorial development

As regards the contribution to balanced territorial development, the SAI programme especially supports production activities located in more remote areas. The territorial occupation is vital to avoid depopulation and dependence on tourism.

The reasons for supporting mastic, olive tree and barley production are related to the territorial development of the region. More specifically, mastic cultivation contributes to the conservation of the special natural environment. The support also aims at preventing land abandonment and at protecting the environment. SAI aid contributed to the development of rural areas through four channels: (i) maintenance of cultivated areas and farms; (ii) employment (iii) implementation of specific socio-structural land management policies in most regions and (iv) indirectly through cross-compliance, support for environmental-friendly farming practices.

8.4.4. Synergy with other CAP measures

There is a strong coherence between SAI programme and Rural Development Programmes (second pillar of CAP). This is crucial to achieving the CAP objectives, given the strong inter-dependence between the two types of support.

Synergies between the SAI scheme, RDP and national support exist in respect of such issues as training, setting-up of young farmers and investments supported by RDP and production supported by SAI. Sustainable farming practices beyond cross-compliance are encouraged by RDP, including for SAI-supported production. Investments in agro-industries are also supported by the RDP as well as training for persons engaged in the agro-food sector. The SAI scheme supports processing and marketing of the same farmers' and agro-industries' products. Coherence with national support and other CAP measures (wine, fruit and vegetables) is also strong, but has to be made more explicit in the programming documents.

8.5. Relevance of SAI scheme

Analysis have been conducted in order to determine the capacity of the current CAP measures (basic payment scheme introduced by the 2013 CAP reform) to cover the specific need of the SAI. The analysis show those needs of the SAI could not be fully covered by the current CAP measures. Without the specific SAI scheme, the risk of abandonment of production could negatively affect the coverage of some specific

[8] Non-price or structural competitiveness is the capacity to distinguish products and/or services through competitive advantages other than price. Building these types of competitive advantages is based on customers' perceptions of the supply.

needs such as employment, environmental issues or the territorial dimension of the SAI.

8.6. EU added value

As already seen in point 8.5 the current instruments of the CAP are not fully adapted to the SAI. The SAI scheme allows to better address the challenges faced by those small islands, particularly through targeted programming, which provides for a rapid adaptation of aids to specific situations.

At policy level, the EU added value is mainly positively assessed because the scheme is recognition of the fact that a number of severe obstacles require specific measures. The SAI scheme also proved valuable in terms of the implementation of quality and environmental requirements. At the level of the design and implementation of programmes, it also proved positive in terms of the flexibility left to Greece to define its programme, based on the specific needs. It has also favoured a more results-based management culture.

8.7. Administration and management of the programme

The programme is in general well managed. Some difficulties stem from the fact the procedure to apply and receive the support is spread over several islands/mainland and managing authorities. The administrative burden is considered relatively similar compared to the previous evaluation period by the beneficiaries and managing authorities.

The strategy for each production sector should be more detailed in the programme, including by the further development of specific indicators to be reported in the AIR. Also the contribution of the scheme to the overall CAP objectives should be made more explicit in the programme and linked to the specific quantified objectives.

The annual implementation reports (AIR) have improved especially in recent years. The AIR concerning among others the common performance indicators, socio-economic data and financial implementation in general correspond to the requirements of Article 31(1)a)-m) of Regulation (EU) No 181/2014. However, some problems have been identified with regard to the collection of data necessary to complete the performance indicators.

The content of AIR as defined in Article 39(1) of this regulation should be clarified and simplified to facilitate the reporting process.

8.8. Overall performance

The specific challenges faced by the SAI are directly addressed by the programme through a contribution to farmers' incomes:

Remoteness and insularity of SAI imply higher overall supply costs due to higher transport costs. SSA support mitigates those costs. In some remote areas facing problems of double or even triple insularity, as not all islands are connected to mainland ports, SAI support for agricultural production is essential to maintaining economic activities.

The **complex topography** (small plots, steep and mountainous landscape) limits agricultural land, implying a smaller size of agricultural holdings, leading to higher production costs and impeding economies of scale. The **small size** of the territories means that arable land is scarce. SAI are also subject to **adverse climatic events** (droughts) affecting agricultural production.

The SAI scheme helps to address these challenges. The effects of the programme are strengthened by synergies and complementarities in particular with RDP and national support.

9. SUGGESTIONS FOR IMPROVEMENT

9.1. Proposed amendments to EU regulation

The assessment of the scheme described in point 8 shows that a modification of Council Regulation (EU) No 229/2013 is not deemed necessary.

As already mentioned in point 8.7, Article 31(1) of Regulation (EU) No 181/2014 should be amended to simplify the list of elements to be included in the AIR.

9.2. Recommendations to the Member State

Support under the SAI programme constitutes a specific scheme to the CAP. In order to improve its efficiency, the Greek authorities should improve the design of the programme taking account of the overall CAP objectives in coherence with the respective strategy for the agricultural sector for the region. The general objectives should be clarified on the basis of quantified objectives and by adequate indicators.

Reporting on the programme should be improved, particularly to better inform on the achievement of the objectives and by integrating the performance indicators in the analysis.

Territorial aspects are already an important component in the current SAI programme and correspond to very particular local needs. They respond to the third CAP objective of balanced territorial development. This, however, should be made more explicit in the programme.

The choice in terms of rationale of SSA (allocation between the two categories of products: as agricultural inputs and for human consumption) should be made explicit. The Greek authorities should continue to monitor imports and local coverage rates.

Moreover, it is advisable that the Greek authorities further reinforce coherence with RDP to promote competitiveness.

Greece should continue to develop sustainable farming practices, including by reinforcing non-price competitiveness.

10. CONCLUSIONS

The overall performance of the SAI scheme between 2006 and 2014 can be positively assessed as regards its ability to address the particular agriculture related challenges associated with the specific geographical location of the Smaller Aegean Islands. SLP facilitated the maintenance of agricultural production activities and SSA reduced the difference in price of the supported products in the SAI compared to the mainland.

Furthermore, the SAI scheme, which constitutes an additional aid to direct payments, is consistent with the CAP objectives. Without the specific SAI scheme and the support limited to the CAP rules as agreed in the 2013 reform (direct payments), the situation would result in abandonment of production, which could negatively affect employment, the environment or the territorial dimension of the SAI.

The SAI scheme has been running smoothly since the introduction of the programming approach. The Commission considers it has been implemented efficiently and effectively and it responds to the needs of the SAI in a satisfactory manner. The financial envelope allocated to the scheme has enabled to meet the broad objectives of the scheme. It is therefore recommended to maintain the current basic regulation.

The implementing regulation should be modified to clarify the reporting of the programme. Greece is also invited to take into account the results and the recommendations of this report and adapt the SAI programme so as to further improve the effectiveness of the application of the measures and follow-up of the programme and to reinforce the complementarity with other CAP support instruments.

Annex: Financial execution of the SAI programme between 2007 and 2014