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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 with severe geographic and natural constraints. They are not very populated and have a limited area for farming. The SAI topography and climate are also limiting factors for agricultural production.

Some islands are very isolated from mainland Greece and suffer from double or even triple insularity¹. Their insularity, small size and distance from markets result in higher transport costs, thus affecting the supply of essential agricultural products.

Given this specific situation, which cannot be compared with the EU mainland, the SAI benefit from special measures for agriculture under the common agricultural policy (CAP). Apart from receiving support under the first pillar of the CAP, the SAI benefit from a specific support scheme, the SAI scheme, which helps promote local production and ensure the supply of essential products. The scheme covers all the Aegean Islands except Evia and Crete.

This report assesses the SAI scheme's implementation between 2015 and 2019. It takes into account, in particular, the Commission's experience in implementing the programme until 2019 (financial year 2020) as well as the analysis and conclusions of the 'Synthesis study of annual implementation reports of POSEI programmes and the programme for the smaller Aegean Islands for 2015-2019', carried out by Ecorys between January and October 2021.

The smaller Aegean Islands consist of 7,582 islands, covering a total area of 210,240 km² located between the Greek mainland to the North and West, the island of Crete to the South, and Turkey to the East. They have a total surface area of 9,159 km², with most islands being smaller than 10 km². The islands have a Mediterranean climate, characterised by dry and hot summers and short rainy winters. During the summer there is a risk of drought. The topography of the islands is mainly mountainous and hilly terrain, leading to fragmentation. The islands had a combined total population of 565,125 (2019), with most having fewer than 5,000 permanent inhabitants.

2. THE SAI: ORIGINS, EVOLUTION AND LEGAL FRAMEWORK

The specific scheme for the SAI originated in 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 2019/93².

Since its creation in 1993, the scheme has undergone 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 1405/2006³, which did not change the objectives or the

¹ Multiple insularity means that there are no direct transport connections between the islands and the mainland, so supplies are brought from other islands.

² OJ L 184, 27.7.1993, p. 1.

³ OJ L 265, 26.9.2006, p. 1.

specific measures for the SAI. However, it introduced 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.

Following the entry into force of the Lisbon Treaty, Council Regulation (EC) No 1405/2006 was replaced by Regulation (EU) No 229/2013⁴ of the European Parliament and the Council, and Commission Delegated Regulation (EU) No 178/2014 and Commission Implementing Regulation (EU) No 181/2014 were adopted⁵.

The SAI scheme is financed through the European Agricultural Guarantee Fund (EAGF). Regulation (EU) No 229/2013 sets an annual ceiling for the programme at EUR 23.93 million per year. Additionally, Greece provides further national financing of EUR 0.547 million per year. The financial execution (the amounts paid compared to the amounts programmed by Greece) for the 2015-2019 programmes is presented in annex to this report.

Although from a regulatory point of view the SAI scheme shares the same approach (objectives, structure and financial management) with the POSEI scheme (programme of options specific to the remote and insular nature of the outermost regions)⁶, the SAI scheme is administered separately from the POSEI scheme.

Unlike the POSEI scheme, which replaces the first pillar of the CAP (direct payments), the SAI scheme addresses the specific problems affecting these islands and thus constitutes additional support to the basic payment scheme (BPS) which covers the Aegean Islands and the rest of Greece under the first pillar of the CAP.

In the reform of the CAP for 2023-2027, the co-legislators agreed that the SAI scheme would remain unchanged and thus stay outside of the CAP strategic plan. EU funding for the SAI programme will be maintained at the current level for the CAP, thus recognising the scheme's particular role in supporting agriculture in the smaller Aegean 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'*.

4. AGRICULTURE IN THE SMALLER AEGEAN ISLANDS

The geographical characteristics, climatic conditions and socio-economic structure of the SAI give rise to certain disadvantages for agricultural activity and production on the islands. The islands are confronted with a gradual abandonment of land and

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.

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

Agriculture plays a major role in the economic life of the **North Aegean region**. The population was 221,098 in 2019. The agriculture, forestry and fisheries sector had EUR 123 million in gross value added (GVA), making up 5.67% of the regional GVA (2017). In total 6,300 people were employed in the sector (2019). The utilised agricultural area (UAA) in 2013 was 245,760 ha, representing 64.7% of the total area. The agriculture, forestry and fisheries sector produced EUR 123 million in GVA, making up 5.67% of the regional GVA (2017).

The agricultural activities include crop production (mastic⁷, olive trees, vines, citrus trees, and grains), beekeeping and livestock farming (rearing of sheep, goats and cattle). The average size of farms is low (about 5 hectares of UAA per agricultural holding in 2013).

The **Southern Aegean region** covers 5,286 km² and consists of the Cyclades and Dodecanese islands. Its population was 344,027 in 2019. The UAA was 214,010 ha, which made up 40.9% of total land surface area in 2013. Agriculture, forestry and fishing had GVA of EUR 143 million, making up 2.66% of regional GVA (2017). In total, 9,350 people were employed in the agriculture sector (2017). The Southern Aegean Islands have a large tourism industry, which leads to high demand for agricultural and food products - especially in the summer - which local agricultural production does not cover due in part to its confined character. Therefore, the region is dependent on additional supplies from the rest of Greece and abroad.

The unemployment rate in the region was 13.7% in 2019, around 4 percentage points lower than the national average. Employment is strongly related to services, especially tourism activities (food and accommodation, retail, etc). So there is a prevalence of temporary unemployment, which is particularly prevalent among the female working population.

5. OBJECTIVES, SCHEME AND PROGRAMMING

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

- to guarantee the smaller islands the supply 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;

⁷

Mastic is a resin obtained from the mastic tree produced on the island of Chios under a protected designation of origin and used in the production of liqueurs and sweets.

- to preserve and develop 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 EAGF.

5.1. Specific supply arrangements

SSA support is the aid granted for the supply of agricultural products from the EU and mainly concerns animal feed and to a much lesser extent flour for human consumption. The main products for animal feed are maize and oilcake and other residues from vegetable fats or oils, while the main product supported 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 EUR 5.47 million per year for this measure (23% of the maximum annual financial allocation). It is below the maximum financial allocation of EUR 7.11 million set out for the SSA measures in the SAI Regulation (EU) No 229/2013.

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

5.2. Support for local production

SLP aims at developing local agricultural production and the supply of agricultural products through measures relating to the production, processing and marketing of local agricultural products. A number of products characterised as traditional and important for the SAI were defined in the programme. Greece assigned on average about EUR 18 million per year for SLP. The beneficiaries of the support are agricultural producers or producer organisations.

5.3. Programming and partnership approach

The Greek authorities define both the SSA and SLP measures in detail in the programme. The programme reflects the priorities that the national authorities have set 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.

Every year, by 30 September, Greece submits to the Commission its annual report on the programme's implementation in the previous year in accordance with Article 31(1) of Regulation (EU) No 181/2014.

6. FINANCIAL EXECUTION

The financial execution (the amounts paid compared to the amounts programmed by Greece) for the period under review and the distribution of the amounts between SLP and SSA are presented in annex. SLP measures represent the majority (about 75%) of spending.

The programme's total execution rate remained high for the period 2015-2019, ranging between 90% and 96% as illustrated in Figure 1.

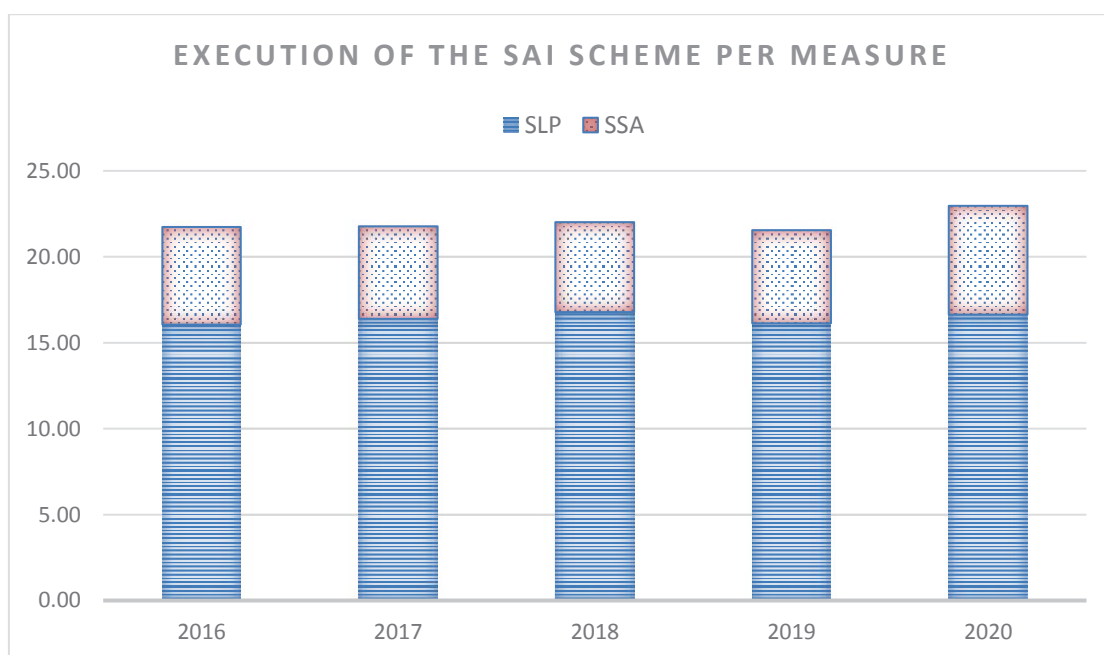


Figure 1: Execution of the SAI scheme per measure (EUR million) (Source: Agrex)

7. IMPLEMENTATION OF THE SCHEME

For the 2015-2019 programmes, Greece spent around EUR 16 million per year on SLP. About 60% of the total funds for SLP for 2015-2019 were used to support the **preservation of olive groves** (around EUR 8.8 million⁸ per year). Other important sectors were: the **production of traditional cheese** (around EUR 2.5 million), **wine** (about EUR 2 million), **beekeeping** (stable expenditures of about EUR 1.2 million) and **Chios mastic** (EUR 1.5 million). The execution rates consistently increased over time for most of the sectors except for Santorini cherry tomatoes for which it remained low (57% in 2019).

⁸ In addition to EU funding, approximately EUR 547,000 from national co-financing was allocated each year for the preservation of olive groves. However, the national co-financing allocated for the preservation of olive groves was in the end not paid in some years.

A EUR 5.47 million allocation was earmarked for the SSA every year for the period 2015-2018, and a EUR 6.5 million allocation for 2019. The execution rate was higher than that for SLP, 98.7% on average. This measure focused mainly on animal feed (95%) and flour (5%).

8. ASSESSMENT OF THE PROGRAMME

8.1. Guarantee of supply for agricultural products

The objective of guaranteeing a supply of products essential for human consumption or for processing and as agricultural inputs by mitigating the additional costs incurred has mostly been achieved, mainly for animal feed.

Between 2015 and 2019, the coverage rate over the total supply needs of the SAI was close to 100% for animal feedings and partly insufficient for flour (around 80% and declining). The coverage rate for flour is particularly low for island group A due to high freight costs. According to the Ecorys analysis, the SAI scheme was **fairly effective** in reaching its objective of guaranteeing the supply of products essential for human consumption or for processing as agricultural inputs to the areas concerned.

The support covered the additional costs of transport to the SAI in the range of 32% (for islands furthest away) to 64% (for islands closest to the mainland). Hence, the risk of over-compensation seems to be limited, and SSA aid can be considered to be proportional. Thus the SAI scheme was also found to be **efficient** in reaching the general objective above.

8.2. Coherence between SSA and SPL

Overall, the SSA and SPL instruments have been implemented through the programme modifications in a coherent manner, and the SSA support did not harm local production or its growth. There was 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

The agricultural production benefiting from support has been mostly maintained in terms of area (ha) or volume (tonnes) - with the exception of olives, which are the main agricultural product supported by the SLP part of the programme. The production of olives was subject to strong annual variations, especially in 2017 and 2018 when it decreased from 2.6 million tonnes to 0.5 million tonnes. The production of traditional mastic of Chios increased from 126 tonnes to 184 tonnes (46.4%) thanks to the trees planted after the 2012 fire. In 2019 the production of wine returned to 2016 levels, after 2 years of declining production due to inclement weather in the Aegean. Beekeeping showed a slightly downward trend while traditional cheese production increased over the period.

Hence the SAI scheme was **to some extent effective** in achieving the objective of maintaining the development of traditional agricultural activities and strengthening their competitiveness, despite the fact that several of these sectors have had certain difficulties in developing their production.

The SAI scheme, which mainly supports operating costs (production, processing and marketing), had limited impact in improving the competitiveness of traditional

agricultural products. Their competitiveness mainly benefited from other support instruments, especially under the rural development programme (RDP).

8.4. Contribution to CAP objectives

The SAI scheme helped to meet the overall CAP objectives of the period analysed. It supported **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 provides support for specific production activities that is complementary to the BPS applied in the SAI, it would have less of an impact on farmers' income than in the regions benefiting from POSEI and not covered by the BPS.

The SAI scheme also contributed to the **sustainable management of natural** resources through cross-compliance rules, which oblige farmers to comply with a set of EU statutory rules for the environment and public, animal and plant health. The scheme supported maintaining crops with low environmental footprints, which mainly rely on extensive production systems that are relatively harmless to the environment. The use of pesticides is very limited for growing olives. Beekeeping helped to preserve the islands' sensitive flora. Other crops such as mastic trees, vines or barley helped to protect the landscape and natural environment.

However, sustainable farming practices should be further developed through 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, protected designation of origin (PDO) wine, etc.). Indeed, in recent years a growing number of SAI products have obtained a PDO and protected geographical indication (PGI) status. However, some shortcomings remain. For example, even though most of the olive oil is produced in accordance with organic standards, it is not marketed as organic due to difficulties in obtaining organic accreditation on the islands.

As for the contribution to **balanced territorial development**, the SAI programme especially supports production activities located in more remote areas that are vital in avoiding depopulation and dependence on tourism. The SAI support helped to develop rural areas by maintaining cultivated areas and farms and thus employment. It also helped implement specific socio-structural land management policies and, through cross-compliance, indirectly supported environment-friendly farming practices.

In the period assessed, there was strong coherence between the SAI programme and RDP (second pillar of the CAP). This is crucial to achieving the CAP objectives, given the strong interdependence between the two types of support.

Synergies exist between the SAI scheme, RDP and national support for initiatives such as training, setting up young farmers and investments supported by RDP and production supported by the SAI. Sustainable farming practices beyond cross-compliance are encouraged by RDP, including for SAI-supported production. Investments in agro-industries are also supported by RDP as is training for persons employed in the agro-food sector. The SAI scheme supports the processing and marketing of these farm and agro-industry products. Coherence with national support and other CAP measures (for wine, fruit and vegetables) is also strong.

As the SAI scheme will remain outside the scope of the CAP strategic plan for Greece for 2023-2027, **overall coherence** needs to be ensured between this programme and the new measures under the CAP strategic plan.

8.5. Relevance of the SAI scheme and the EU added value

The SAI programme includes measures and actions which allow the most significant problems faced by the agriculture sector in the SAI – in particular economic challenges – to be addressed in a satisfactory manner.

The income support to producers enables them to continue their operations and alleviate any high costs or potential losses they might otherwise incur. Price competition with mainland Europe, together with significant transport costs and the reduced size of the operators, would likely be insurmountable challenges for the local value chain if it were not for the aid granted by the SAI scheme. In addition, the programme helps producers to resist pressure from urbanisation and the tourist industry in certain areas. The support paid also partly compensates for the difficulties in accessing markets, supports the development of new market outlets, and encourages producers to maintain their farmland. This also applies in more remote areas, where it prevents land abandonment and therefore soil erosion.

Regarding the specific objectives of the new CAP, the programme addresses, first of all, the three economic objectives aiming to foster a resilient farm sector, while the sustainability aspect continues to be assured through cross-compliance rules. If the legislative framework seems to be coherent with the new CAP objectives, the relevance of effective programme implementation would need to be assessed in the coming years.

At policy level, the EU added value is mainly positively assessed because the scheme recognises the fact that a number of severe obstacles that the smaller Aegean Islands face require specific measures. Managed in parallel with the POSEI programmes, the scheme could benefit from the experience of the outermost regions in the design and implementation of their programmes.

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, the scheme 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.

8.6. Administration and management of the SAI programme

Although some progress has been made in recent years, there is still room for improving the **strategy** which should be more detailed in the programmes, including by further developing the specific indicators to be reported in the annual implementation reports. Also, the scheme's contribution to meeting the overall CAP objectives should be made more explicit in the programme and linked to the specific quantified objectives.

The strategy designed in the programme has been adapted to some extent. However, the shortcomings noted in the European Commission report on the implementation from 2016⁹ remain valid.

The **annual implementation reports** have improved, especially in recent years, and follow the new template, which was clarified and simplified in 2018¹⁰. However, further improvement is needed, especially regarding fulfilment of the programme's specific objectives and its performance in relation to the objectives.

9. SUGGESTIONS FOR IMPROVEMENT

9.1. No need for an amendment to the EU Regulation

Taking into account the assessment of the scheme described in point 8, modification of basic Regulation (EU) No 229/2013 is not deemed necessary. The framework established by this Regulation has been valuable for the design and implementation of the SAI scheme in terms of the flexibility it allows Greece in defining and adapting the programme based on specific needs.

9.2. Recommendations to Greece

The overall assessment of the implementation is fairly positive, but further efforts are needed in particular concerning the strategy and reporting.

In order to improve the efficiency of the SAI programme, the Greek authorities should further develop the **strategy** outlined in the programme. The general objectives and their links to the needs and chosen measures/actions should be better clarified on the basis of quantified objectives and should be monitored by relevant indicators. The presentation of specific objectives should also be improved. Table 2 in the annex provides more details.

Reporting on the programme has significantly improved. Nevertheless, further efforts are needed in order to better inform on the achievement of the general and specific objectives by integrating the performance indicators in the analysis. Greece should also choose national indicators that are more relevant to the objectives.

Moreover, the Greek authorities are advised to ensure **coherence** with the CAP strategic plan to promote competitiveness.

Greece should continue to develop **sustainable farming practices in line with the Green Deal**, including by reinforcing non-price competitiveness.

10. CONCLUSIONS

The overall performance of the SAI scheme between 2015 and 2019 is assessed positively as regards its ability to address the particular agriculture-related challenges associated with the specific geographical location of the smaller Aegean Islands.

⁹ 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), COM/2016/0796 final.

¹⁰ Annex III to Commission Implementing Regulation (EU) 181/2014 introduced by Regulation (EU) 2018/916 of 27 June 2018, OJ L 163, p.6, 28.6.2018.

The SAI scheme, which constitutes an additional aid to direct payments, should be consistent with the CAP objectives¹¹. In the period assessed, without the specific SAI scheme and the support limited to the CAP 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 programming approach was introduced. The Commission considers that it corresponds to the needs of the SAI in a satisfactory manner. If the scheme remains outside the CAP strategic plan, it should be nevertheless consistent with the new objectives of the CAP. Modification of the current legislative framework is therefore not deemed necessary.

The design of the SAI programme, through the measures and actions implemented, is considered to be mostly appropriate in relation to the agriculture-related problems of the region. However, the strategy is less relevant in relation to the objectives it is intended to meet; in particular the programme-specific objectives. This is mostly due to a lack of clarity in the programming documents and the implementation reports.

Greece is invited to take into account the recommendations of this report and adapt the SAI programme, so as to ensure a more effective application of the measures and a more effective follow-up of the programme and to ensure greater complementarity with other CAP support instruments.

Annex: Financial execution for the 2015-2019 SAI programme

¹¹ As explicitly stipulated in Article 4 of Regulation (EU) No 229/2013.