▪ EVALUATION OF THE IMPACT OF MEASURES IMPLEMENTED UNDER THE AGRICULTURAL COMPONENT OF POSEICAN PROGRAMME (Programme of options specific to the remote and insular nature of the Canary Islands)

EXECUTIVE SUMMARY

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SUMMARY

1. INTRODUCTION

This report summarises the **evaluation of the agricultural part of the POSEICAN Programme** (Programme of Options Specific to the Remote and Insular Nature of Canary Islands), which has been conceived to favour the entry of the Canary Islands into the European Union *taking into account the specific conditioning factors of the islands in the application of common policies. The measures envisaged by the Programme must allow the recognition of the limitations posed by the remote and insular nature of the Canary Islands*.[1]

INCLUSION OF THE CANARY ISLANDS IN THE E.U.
GENERAL AIM
Development of the Canary Islands
SPECIFIC OBJECTIVE
Integration of the Canary Islands in the customs territory of the Community and in the set of common policies (CAP)
RESULTS
Recognition by the E.U. of the factors which condition the Canary Islands
ACTIONS
Make the particular conditioning factors of the Canary Islands known to the Commission.

CREATION OF THE POSEICAN
GENERAL OBJECTIVE
Integration of the Canary Islands in the customs territory of the Community and in the set of common policies (CAP)
SPECIFIC OBJECTIVE
Creation of a specific model for the integration of the Canary Islands into the E.U.
RESULTS
Drawing up of a programme of options specific to the remote and insular nature of the Canary Islands (**POSEICAN**)
ACTIONS
Development of the actions established in the POSEICAN programme

AGRICULTURAL PART OF POSEICAN
GENERAL OBJECTIVE
Creation of a specific model for the integration of the Canary Islands into the E.U.
SPECIFIC OBJECTIVE
Favour the entry of the Canary Islands into the E.U. without having a negative impact on their agriculture.
RESULTS
1.-Reduction of the impact of the additional costs deriving from the remote and insular nature of the Canary Islands **2.-**Consideration of the specific measures to support local agricultural production
ACTIONS
1.-Creation of specific supply arrangements (SSA) **2.-**Creation of specific measures to support local agricultural productions.

CHART I-1 : LOGICAL FRAMEWORK OF THE POSEICAN PROGRAMME.
Source : Prepared by IDOM-UPM.

[1] DECISION OF THE COUNCIL of June 26 1991 by means of which a programme of specific options is established for the remoteness and insularity of the Canary Islands (POSEICAN) (91/314/EEC).

Since it started in 1992, the historical and economic context of POSEICAN has undergone considerable changes, and for this motive it is reasonable to propose a review of the mechanisms of the Programme. The evaluation has focused upon the two main measures of the agricultural component of POSEICAN. These measures are as follows:

- ➔ **Specific Supply Arrangements (SSA)** for agricultural products considered to be essential for human consumption and for processing within the archipelago. For this purpose, a list of products is established to which subsidies are applied when they come from the rest of the Community - called subsidies (EU) in the report - or are imported with customs duty exemption, when these come from third party countries - called exemptions (p.t.) in the report. This depends basically on the Central Spanish Government.

- ➔ **Specific measures in favour of local production** to accompany the introduction of the common agricultural policy, both in the livestock breeding sector and in vegetable crops. For this purpose a set of subsidies is established for the different sectors of local production and a special application of the community normative with reference to these sectors. These depend to a large extent on the Regional Administration of the Canary Islands.

In both of the aforementioned measures, **the evaluation has focused on responding to the key questions set out** in the reference terms (see annex 1). Thus, this report approaches subjects such as achieving the proposed objectives, potential improvements in the established measures and the efficiency of the Programme in passing on the economic advantages offered to beneficiaries.

The report also includes another two points in favour of local production:

- ➔ **Compatibility** between the SSA and the specific measures in favour of local production.

- ➔ An **assessment of the efficiency of the management system** of the Programme at a Community, National (Central Spanish Administration) and Regional (Autonomous Community of the Canary Islands) level.

The analysis of the compatibility between the measures of the Programme has focused upon the sectors where SSA subsidies (EU) clashed most directly with local productions (meat, dairy products and wine). An assessment has been made of the cost-efficiency of management and measures have been proposed for its simplification.

1.1. METHODOLOGICAL EVALUATION PROCESS

The **methodology** (see annex II) developed for making the evaluation is based on:

1. The reference terms - key questions - defined by the European Commission - DG. VI - for evaluating the POSEICAN.

2. The general orientation of the European Commission for performing evaluation projects, set out recently in general terms in “Evaluating EU expenditure programmes, A Guide. 1997 DG XIX”, adapting some practical aspects to the peculiarities of the POSEICAN.

3. The "participatory evaluation" developed in the Department of Projects and Rural Planning in the Polytechnic University of Madrid, in collaboration with the University of California (UCLA and UCSD).

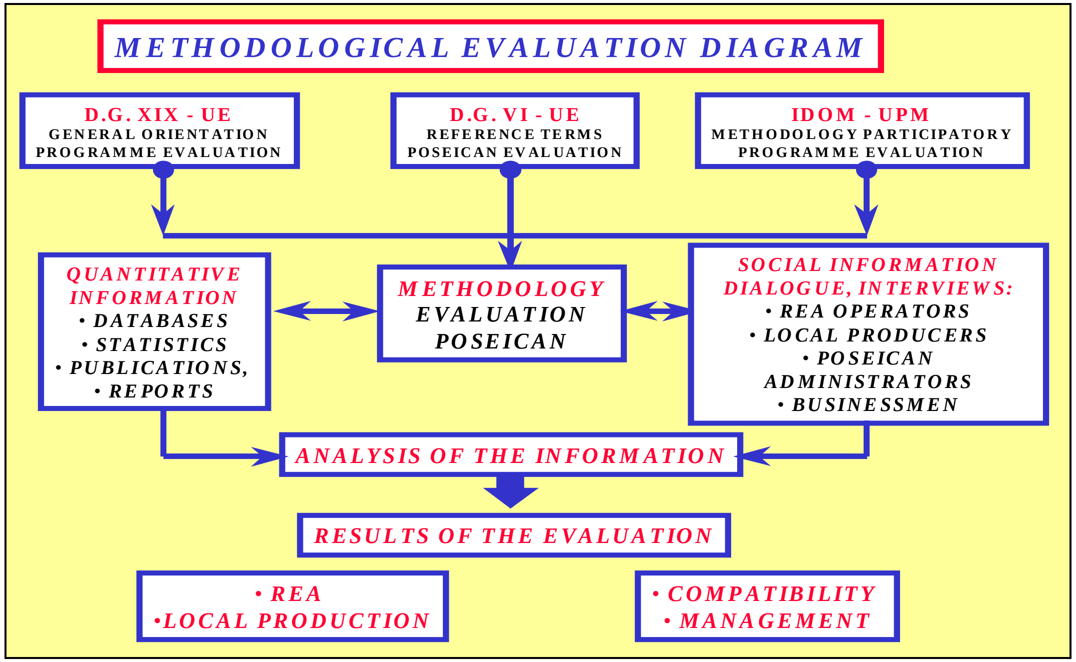


CHART I-2 : METHODOLOGICAL DIAGRAM OF THE EVALUATION OF THE POSEICAN PROGRAMME. Source : Prepared by IDOM-UPM.

With these three points a methodology has been drawn up for evaluating the agricultural part of the POSEICAN programme on **two complementary information bases** :

➔ A **quantitative** basis, in which an attempt has been made to go to the **primary information sources** in order to draw up the different quantitative **indicators** detailed in annex II of the report. The following information sources were consulted:

- The **databases** of the Tributary Agency (Customs), the data of the Office for the Economic Promotion of the Canary Islands and the Agricultural, Livestock Breeding and Forestry statistics for the Canary Islands of the Statistics Service of the Ministry of Agriculture, Fisheries and Foods of the Government of the Canary Islands.
- **Official publications** comprising reports, studies and statistical series [2].

➔ Descriptive or **qualitative** information obtained from interviews with the affected agents involved and the key informants of the Programme (annex IV). During this participatory process, interviews and meetings were held with the managers at a Community level, Central (Spanish Administration) and Regional (Government of the Canary Islands), local producers (representatives of farmers and breeders), SSA firms, owners of processing and consumer businesses.

The key informants and management bodies consulted during the process of social participation are summarised in the following table:

[2] See Anenex XI : Sources of information used.

<table>
<tr><th colspan="2">REPRESENTATIVES OF CENTRAL GOVERNMENT BODIES IN THE CANARY ISLANDS</th></tr>
<tr><td colspan="2">Ministry of the Economy and the Treasury : State Agency, Customs Administration; Territorial Agency of Commerce; Head of the Regional Customs and Special taxes Department, Head of the General Customs and Special Taxes Administration, Head of the Ministry of Economics and the Treasury in the Canary Islands; Territorial Director for Santa Cruz de Tenerife; Territorial Director for Las Palmas; Director of the Territorial Agency of Commerce.</td></tr>
<tr><th colspan="2">REPRESENTATIVES OF CENTRAL GOVERNMENT BODIES ON THE PENINSULA</th></tr>
<tr><td colspan="2">Ministry of Agriculture, Fisheries and Foods: Head of the Department of the General Secretary; Deputy Director for Bovine and ovine livestock; Heads of Service Areas: Productions, fresh vegetables; Head of the Structural Funds area; Head of the Agricultural Service Bureau.
Tax Agency :General deputy director for planning, statistics and co-ordination of the Tax Agency; heads of service of the Tax Agency.
Ministry of the Economy and the Treasury : Secretary of State for Foreign Trade; General Deputy Director for Customs applications and special taxes; General Foreign Trade Sub-directorate for Agrofoods products; Head of the Exchange Subsidies Area.
Foreign Relations Ministry : Adviser of the Secretary of State for Foreign Policy; General Deputy Director for Customs and Trade; General Director of Technical Matters with the EU; General Secretary for Agricultural Matters and Fisheries; Deputy Director for Agriculture.</td></tr>
<tr><th colspan="2">REPRESENTATIVES OF THE BODIES OF THE AUTONOMOUS GOVERNMENT OF THE CANARY ISLANDS</th></tr>
<tr><td colspan="2">Ministry of Agriculture, Livestock and Fisheries : General Director of Agrofoods Policy, General Director of Agricultural Productions, Deputy Minister for Agriculture, General Director of European Economic Affairs, General Director of Agricultural Structures, General Director of Economic Promotion, Department Head of the Ministry of Agriculture, Department Head for Subsidies..
Ministry of the Economy and the Treasury : Head of the General Inspection Service for Las Palmas (Auditing Service), Head of the General Inspection Service of Las Palmas (Auditing Service), Department Head for economic relations with the EU (Economic Promotion Bureau).</td></tr>
<tr><th colspan="2">REPRESENTATIVES OF FIRMS INTEGRATED WITHIN THE SSA</th></tr>
<tr><td colspan="2">Main importing and distributing companies that operate within the SSA (80% of these were interviewed).
Main importing and distributing companies of foodstuffs in the Canary Islands.
Main importing and distributing companies of live animals.
Main meat processing companies that cover 70% of fresh, refrigerated and frozen meat imported under the SSA system.
Main dairy product (ice creams, yoghurts, etc.) processing companies that cover 90% of the dairy products imported under the SSA system.
Main cereal (flours, fodder, etc.) processing companies that cover 90% of the cereals imported under the SSA system.</td></tr>
<tr><th colspan="2">REPRESENTATIVES OF LOCAL PRODUCTION IN THE CANARY ISLANDS</th></tr>
<tr><td>Representatives of 70% of the production of the livestock sector.
Representatives of 80% of the production of the poultry sector.
Representatives of 90% of the production of the bee-keeping sector.
Representatives of 100% of the production of the tobacco sector.</td><td>Representatives of 97% of the production of the flowers and tropical ornamental plants sector.
Representatives of 25% of the production of the potato sector.
Representatives of 30% of the production of the vine-growing sector.</td></tr>
</table>

Within the process of evaluation, a **systematic and objective appraisal of the Programme has been made** as a set of lines and measures for action, assessing its conception and results. This has involved, therefore:

- ➔ making an independent appraisal of the impact obtained with the application of the Programme,
- ➔ evaluating the progress made with regard to deficiencies and problems which the Programme attempts to alleviate or reduce,

- ➔ and identifying the weaknesses in the management of the Programme and drawing up recommendations for improving the application of the Programme in the future.

1.2. THE SOCIO-ECONOMIC CONTEXT OF THE CANARY ISLANDS

This region has undergone the same changes and trends in the agrofoods system as those observed in the rest of Europe, although these have taken place after a certain delay and at a quicker rate. The following aspects can be highlighted as **particular socio-economic characteristics of the situation in the Canary Islands**:

- ➔ **<u>The small size of the market system</u>** : The market of the Canary Islands, with **somewhat more than 1.62 million inhabitants** is a small market, at a long distance from the Continent of Europe (**2000 km from the nearest European Coast**). This implies that the market of the Canary Islands may be of little interest for some products or commercial innovations.

- ➔ **<u>A high level of orientation of the system toward export markets</u>** : This can be observed in the fact that more than half of the irrigated land (some 14,000 ha) is given over to **export crops** (bananas and tomatoes), compared to a relatively small number of products marketed on the home market.

Imports are of great importance for covering the consumption of foodstuffs on the archipelago, focusing on processed foods and the raw materials for the food industry of the Canary Islands. In a large number of cases, **the food industry processes its products with imported raw materials**. The link between the agroindustry and the production of raw materials on these islands is sometimes insignificant.

1.3. THE CONTEXT OF THE AGRICULTURE OF THE CANARY ISLANDS

During the last decades, agriculture in the Canary Islands has ceased to be the most important sector of economic activity and now represents scarcely 4% of the total production generated over recent years. To sum up, it is possible to mantain **the agriculture of the Canary Islands is characterised by the following features:**

- **<u>Small size of farms</u>** : 92% of farms have less than 5 ha.

- **<u>Serious competition in the use of land</u>** with other economic activities (tourism and residential).

- **<u>A home market with a low level of integration and scarcely articulated</u>**, subjected to the competition of other products from abroad. Nevertheless, the actions of the Public Sector of the Canary Islands, which, at its different levels of administration tends to overcome this considerable limitation (Mercocanarias, island wineries, cheese factories, etc.).

- **<u>An accentuated duality between</u>** :

➔ An **agriculture oriented toward the home market**, established on the "medianías" (agricultural land located at between 300 and 1200 metres in height). It lacks the appropriate technology and its competitiveness is low.

➔ A very specialised **export agriculture** located on the coastal platforms. Highly modernised and competitive.

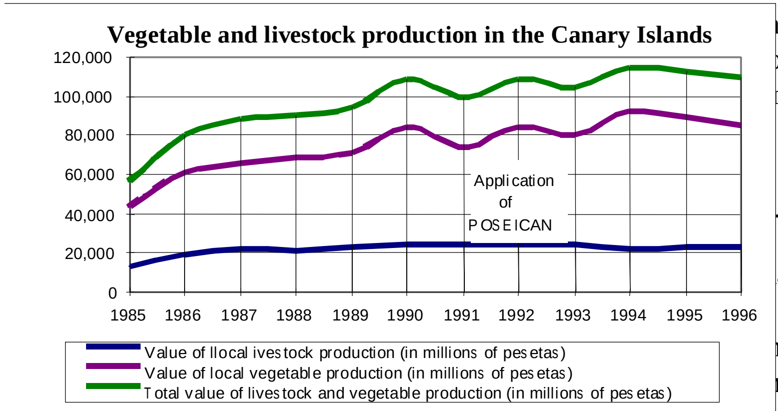


CHART I-3 : EVOLUTION OF VEGETABLE AND LIVESTOCK PRODUCTION IN THE CANARY ISLANDS (1985-1996).
Source : Prepared by IDOM-UPM based on data from the Body that pays the subsidies, FEOGA - Guarantee of the Ministry of Agriculture, Fisheries and F

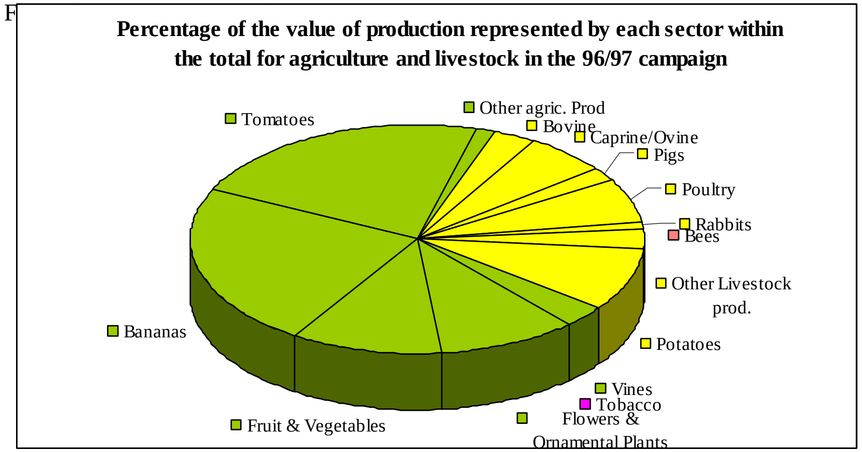
...bout 80% of the Final Agricultural Production (FAP). The productions of vegetables within ...owers and ornamental plants) contribute 35% of the production value, bananas and tomatoes ...ng 45%. The 20% represented by livestock productions is covered by the bovine, pig,

...**ha during recent years** :

...ants) occupy more than half the irrigated land (14,000 ha). These represent 75% of the final

...d 66% of the worked unirrigated land (25,000 ha between both). **These are two crops with ...t social framework.**

CHART I-5: REPRESENTATION OF EACH SECTOR ANALYSED, WITHIN THE TOTAL VALUE OF PRODUCTION OF THE SECTORS IN THE PROGRAMME.



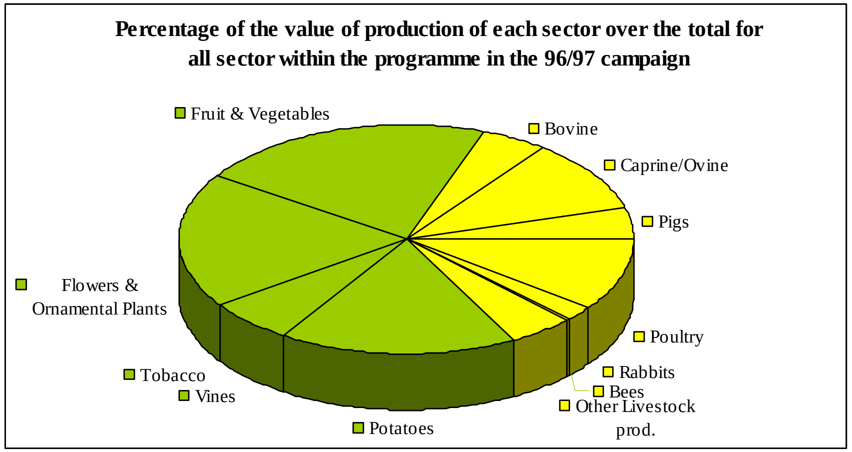


CHART I-4: REPRESENTATION OF EACH SECTOR OF PRODUCTION WITHIN THE VALUE OF AGRICULTURAL AND LIVESTOCK PRODUCTION IN THE CANARY ISLANDS.
Source :Prepared by IDOM-UPM based on Agricultural and Livestock Statistical Data of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

Source :Prepared by IDOM-UPM based on Agricultural and Livestock Statistical Data of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

1.4. THE SPECIFIC SUPPLY ARRANGEMENTS (SSA)

The framework of the POSEICAN includes, among others, a series of specific measures intended to **reduce the effects of overcosts in the** supply of agricultural products considered essential for human consumption, as well as certain industrial inputs. These measures take the form of **exemptions from the levies and/or customs duties** on products which come from third party countries, as well as the possibility of obtaining specific Community products with the **support of subsidies (EU),** linked to a large extent to the level of the corresponding refunds. This entire set of subsidies is articulated through the Specific Supply Arrangements (**SSA**).

Its basic characteristics are established in Regulation (EEC) no. 1601/92, and can be summarised in the following paragraphs:

- Definition of a list of products to which the SSA is applied, contained in the Regulation (such as cereals, hops, vegetable oils, sugars, concentrated fruit juices, meats, eggs, wines, seed potatoes, dairy products, etc.).

- Freedom from regulating taxes or customs duties for the import of the products included in the SSA when these come from third party countries.

- Definition of subsidies (EU) for these products when they come from the Community.

- Determination of the amounts of products included in the SSA by means of forecasts approved for each season (balance). These balances can be adjusted according to the needs of the market of the Canary Islands, bearing in mind the local production and the traditional trading practices.

- Establishment of measures that guarantee the repercussion of the subsidies on the production costs and the prices paid by end-users.

1.5. SUBSIDIES FOR LOCAL PRODUCTION

In view of the fact that the specific conditions of agricultural production in the Canary Islands require special attention, a series of **measures to accompany the coming into effect of the common agricultural policy** has been adopted both in the livestock and animal production sector and for vegetable cultivation. These subsidies are described in Regulation (EEC) no. 1601/92, and can be summarised in the following paragraphs:

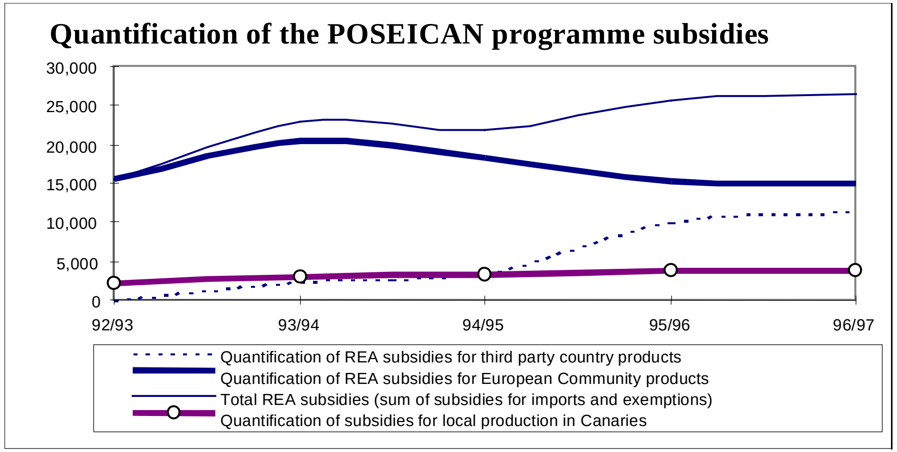
- In order to increase production, improve the productivity of exports and the quality of products, and favour the marketing of **tropical products** with the Community, subsidies are established for the marketing of tropical fruit, vegetables, flowers and plants harvested in the Canary Islands, among other measures. Consequently, the scope of the Programme goes beyond those products intended for the home market.

- In order to contribute to the development of products associated with the **traditional livestock breeding practices** of the Canary Islands, genetic improvement is facilitated on the one hand by means of the purchase of pure-bred breeding animals and on the other, subsidies are granted for bovine and caprine/ovine livestock.

- In order to help maintain internal production levels to satisfy the consumer habits of the archipelago, subsidies are applied to sectors such as: **wine**, **potatoes**, **tobacco** and **honey**.

- Furthermore, in order to maintain the local production of items such as vines and cereals, the Community regulations relating to these sectors are not applied in the Canary Islands. Thus, in the case of vines, the intervention measures of the wine sector market organisation are not applied, nor is the uprooting premium system. In the case of cereals, the co-responsibility tax which must be paid by cereal producers is not applied.

1.6. QUANTIFICATION OF POSEICAN SUBSIDIES



As stated above, the Programme comprises Specific Supply Arrangements (SSA) and some subsidies for local production which, in some cases, are in addition to those of the CAP. Both measures are financed by the FEOGA – Guarantee and have evolved as shown on the enclosed chart and graph.

The **drop in the subsidies (EU) paid in the SSA for products from the rest of the Community and the increase in the exemptions for third party country products** are specially noteworthy. Total SSA subsidies (EU + p.t.) have increased, as have the subsidies for local production since the application of the Programme in 1992.

CHART I-6 : QUANTIFICATION OF PROGRAMME SUBSIDIES
Source : Prepared by IDOM-UPM based on Agricultural and Livestock Statistical Data of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

SEASONS	SSA exemptions (p.t.) for products from third party countries and % on total subsidies	SSA subsidies (EU) for Community products and % on total subsidies	Total SSA subsidies: (EU) + Exemptions (p.t.) and % on total subsidies	Subsidies for the local production in the Canaries and % on total subsidies	Total subsidies : SSA subsidies (EU + p.t.) + subsidies for local production

92/93	64,903,837	0.4	15,591,866,190	87.6	15,656,770,027	88.0	2,140,000,624	12.0	17,796,770,651
93/94	2,555,857,735	9.9	20,360,037,046	78.8	22,915,894,781	88.7	2,914,577,732	11.3	25,830,472,513
94/95	3,526,501,170	13.9	18,386,278,899	72.7	21,912,780,069	86.6	3,393,691,689	13.4	25,306,471,758
95/96	10,163,732,624	34.7	15,374,478,140	52.5	25,538,210,764	87.3	3,719,611,603	12.7	29,257,822,367
96/97	11,332,544,715	37.3	15,110,747,157	49.8	26,443,291,872	87.1	3,919,170,170	12.9	30,362,462,042
TOTAL in	**27,643,540,081**	**21.5**	**84,823,407,432**	**66.0**	**112,466,947,513**	**87.5**	**16,087,051,818**	**12.5**	**128,553,999,331**
TOTAL in ECUS	**161,075,160**	**21.5**	**474,303,310**	**66.0**	**635,378,470**	**87.5**	**90,919,268**	**12.5**	**726,297,738**

CHART I-1 : QUANTIFICATION OF POSEICAN PROGRAMME SUBSIDIES DURING THE FIVE SEASONS THEY HAVE BEEN APPLIED
Source : Prepared by IDOM-UPM based on Agricultural and Livestock Statistical Data of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

- The percentages represented by SSA subsidies (EU + p,t,) and the subsidies for local production have varied very little (87% compared to 13%, respectively).

- **The subsidies (EU)** for the import of community products **have lost 37%** of the total subsidies in favour of exemptions (p.t.). One reason is to be found in the **generalised decrease in the unitary subsidies of the SSA**. The rates of decrease between the 92/93 season and the 96/97 season for the main SSA products are 80% in wheat, 64% in liquid milk and around 30% in refrigerated and frozen bovine meat.

- **The total subsidy of the Programme has increased more than 70%**, with a rise in the exemptions (p.t.) and the subsidies for local production (by 83%).

1.7. BENEFICIARIES OF THE PROGRAMME

SUBSIDIES OF THE PROGRAMME	Beneficiaries	Subsidies per season (in pesetas)	Subsidies between the number of beneficiaries (ptas/beneficiary/year)
SSA Subsidies (EU + p,t,)	**826** SSA operators **1,858,607** inhabitants and annual tourists to Canaries*	26,443,291,872	32,013,670 ptas/ SSA operator 14,227 ptas,/inhabitant and tourist
Subsidies for local production	**15,581** Livestock breeders and farmers **1,800** workers in dairies	3,919,170,170	251,535 ptas/beneficiary
Local livestock production	**3,241** livestock breeders **1,800** workers in dairies	1,978,071,040	373,540 ptas/livestock breeder 42,468,332 ptas/dairy
Local vegetable production	**12,340** farmers of potatoes, vines and tropical crops	1,941,099,130	157,301ptas/farmer

*The number of tourists per annum has been calculated with the equivalent person/year, multiplying the total number of tourists per year by the average stay in days (ISTAC 1996) divided by 365 days.
CHART I-2 : SCOPE OF THE PROGRAMME: BENEFICIARIES OF THE POSEICAN PROGRAMME SUBSIDIES
Source : Prepared by IDOM-UPM based on Agricultural and Livestock Statistical Data of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.
NOTE : The estimations have been made based on the 1996-97 season.

Firms integrated within the SSA are conceived as administrators of subsidies of which the population of the Canary Islands are beneficiaries (including the tourists who visit the islands). Firms integrated within the SSA undertake to pass on the aid received in the following stages of the marketing of the product, so that the aid benefits the end user. Another case is that of the farmers and livestock breeders for the subsidies for local production who obtain average direct incomes of 250,000 pesetas per farmer and season.

2. EVALUATION OF THE SSA

We will now answer each of the questions posed in the evaluation reference terms.

2.1. RESPONSE TO THE FIRST QUESTION ON THE SSA WITH REGARD TO ACHIEVING ITS MAIN OBJECTIVE

Has the choice of measures - based on the implicit assumption that supply under the SSA should be a world market cost - led to the achievement of the main objective of reducing the overcosts associated with the supply of agricultural products due to the remoteness and insularity of the Canary Islands?

After analysing this question, it has been concluded that the **SSA measures have indeed contributed to reducing the overcosts of supplies in the Canary Islands** of agricultural products, due to their remoteness and insularity.

The difficulty in answering this question lies in the lack of a method and a clear reference framework to allow an assessment to be made of the redution of the overcosts of supplies in the Canary Islands with the SSA measures. After checking several sources, the question was approached **using two different methods** which allowed the conclusions that were reached in each of these to be compared at a later date. These two methods were as follows:

- **Comparison of the estimated amount of overcosts**[3] **with the SSA subsidy (EU)**, We were able to assess whether in the case of products from the Community the subsidy (EU) has offset, or not, these overcosts. If so, the objective would have been met. It is not considered necessary to extend this analysis to products from third party countries with customs duties exemptions.

- **Comparison of the price of specific products in the Canary Islands with the Madrid market**. We were able to assess whether in the case of the products we have studied (both when these come from the EU and from third party countries), there is not a higher price differential in the Canary Islands (or any anomaly[4]) with regard to the Peninsula. If so, the objective would have been met.

The results can be summarised in the following paragraphs :

- **The SSA measures have represented a clear advantage** both for consumers in the Canary Islands and for local industry. Consumers have not had to pay the price if integration in the Common Agricultural Policy and, the local industry able to obtain raw materials at international prices, has offset, in some respects, the disadvantages of operating in a small, fragmented and remote land.

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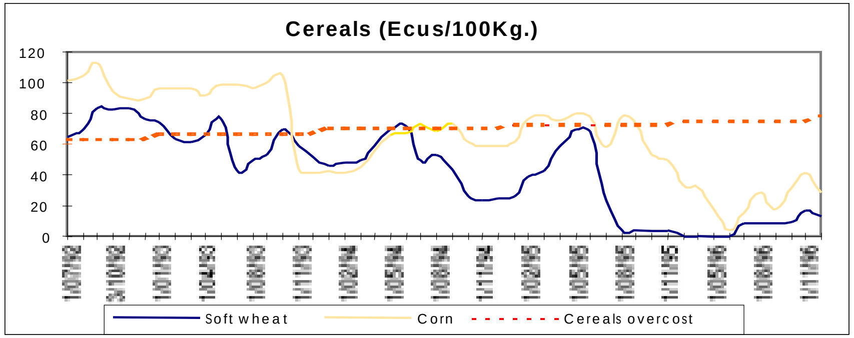
[3] In order to estimate the overcosts we have considered it appropriate to use the method designed by the Autonomous Government of the Canary Islands. This method has been validated and analysed by the different Ministries of the Central Administration of Spain (Agriculture, Economy and the Treasury) and contains both the overcosts linked to transport and those linked to insularity in a coherent and partial manner. The overcosts linked to transport have also been checked aganist the invoices provided by firms integrated within the SSA.

[4] This might involve an instability in prices such as in the case of flour or cereals.

- **The measures selected** in the SSA, based on the assumption of supplying at international prices, **do not include any objective criteria which quantifies the overcosts due to the remoteness and insularity** of the Canary Islands, this point being the main weakness of the current system.

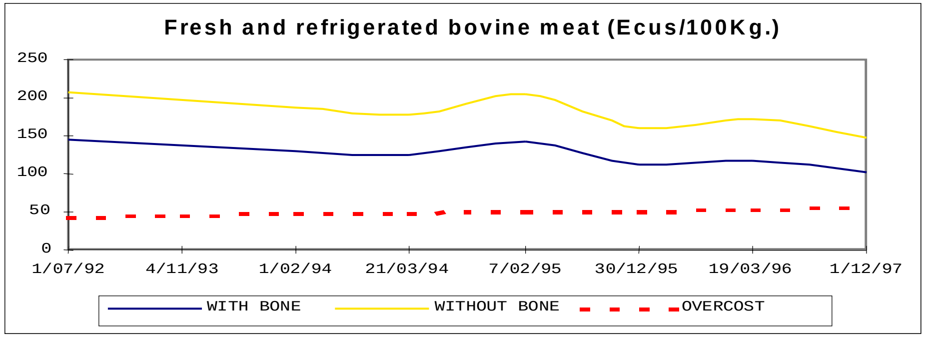
- The lack of this kind of criteria which incorporate remoteness and insularity in a quantifiable manner, causes that the measures **contribute to reducing the effect of the overcosts of supply in a variable manner according to products and economic circumstances.** But for most products, the amount of the subsidy (EU) is linked to the refund for export, and in some cases an ad-hoc amount is added. In other words, the subsidy level (EU) depends, in general, on the difference between international and Community prices. Thus, we can find products - such as meats, milk and condensed cream - in which the measures have offset the overcosts of remoteness and insularity, even with wide margins, as in the case of meats (which has led to problems of compatibility with the local production of beef). **In other products -** such as wheat, milk and non-condensed cream **- the subsidies (EU) received have virtually never offset this overcost.**



Product	Initial (EU) subsidy	Subsidy (EU) 01.12.97	Variation rate
Wheat	65.0	13.0	-80%
Corn	101.0	28.0	-72.3%

CHART I-7: EVOLUTION OF UNITARY SUBSIDIES IN CEREALS. COMPARISON OF OVERCOSTS DUE TO REMOTENESS AND INSULARITY.

SOURCE: Prepared by IDOM-UPM, based on data from Economic Promotion Office, Canaries

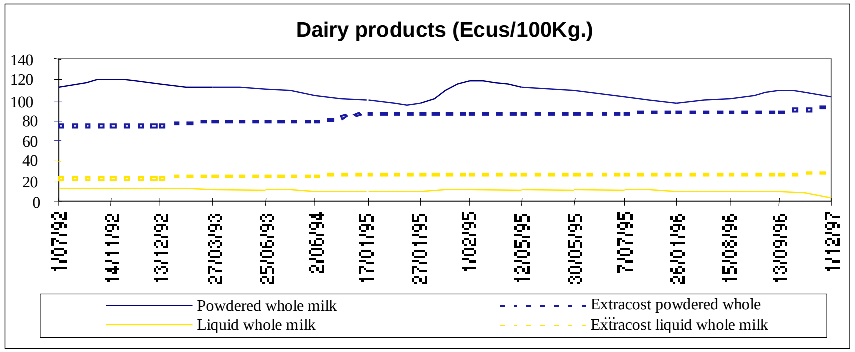


Product	Initial (EU) subsidy	Subsidy (EU) 01.12.97	Variation rate
With bone	146	103.5	-29.1%
Without bone	208.5	148.5	-28.7%

CHART I-9: EVOLUTION OF UNITARY SUBSIDIES IN FRESH MEAT. COMPARISON OF OVERCOSTS DUE TO REMOTENESS AND INSULARITY.

SOURCE: Prepared by IDOM-UPM, based on data from Economic Promotion Office, Canaries

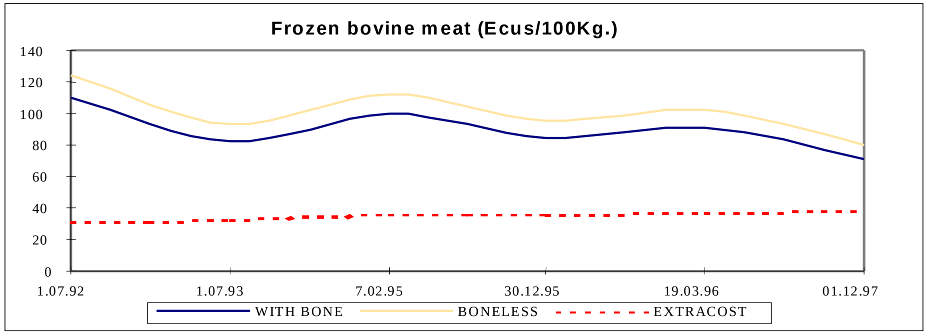
Product	Initial (EU) subsidy	Subsidy (EU) 01.12.97	Variation rate



Powdered milk	112	102.6	-8.4%
Liquid milk	12.6	4.5	-64.3%

CHART I-8 : EVOLUTION OF UNITARY SUBSIDIES IN DAIRY PRODUCTS. COMPARISON OF OVERCOSTS DUE TO REMOTENESS AND INSULARITY.

SOURCE: Prepared by IDOM-UPM, based on data from Economic Promotion Office, Canaries



Product	Initial (EU) subsidy	Subsidy (EU) 01.12.97	Variation rate
With bone	110.5	71.0	-35.75%
Without bone	125	79.5	-36.40%

CHART I-10: EVOLUTION OF UNITARY SUBSIDIES IN FROZEN BOVINE MEAT COMPARISON OF OVERCOSTS DUE TO REMOTENESS AND INSULARITY.

SOURCE: Prepared by IDOM-UPM, based on data from Economic Promotion Office, Canaries

Are there any more suitable means of responding to socio-economic needs and the declared objectives, in the light of market developments and changes made in the CAP?

The answer is affirmative, so:

- **The principle of supplying at world prices must be reviewed and objective criteria must be introduced to quantify the overcosts due to remoteness and insularity in order to ensure that these are offset.** In this sense, finished products, with overcosts linked mainly to transport, could be differentiated from the raw materials of local industries that also have overcosts deriving from insularity.[5]

- **<u>A minimum subsidy (EU) could be established.</u>** This would come into effect when the refund did not reach a specific minimum threshold. The amount of the minimum guaranteed subsidy (EU) **must be calculated in accordance with the overcosts deriving from remoteness and insularity**. "The reduction of the effect of overcosts in supplies of agricultural products due to the remoteness and insularity of the Canary Islands" which is the priority objective of the SSA would be guaranteed in an objective manner.[6]

- **An estimation of the overcosts due to remoteness and insularity must include the following minimum criteria[7]**:

  - OVERCOSTS LINKED TO TRANSPORT (for all SSA products):
    1. Transport costs from the port of origin to the warehouse in the Canary Islands.
    2. Costs deriving from double insularity.
    3. Differential costs of storing and financing stock.

  - OVERCOSTS LINKED TO INSULARITY(only for raw materials which are to be processed within the archipelago):
    4. Costs deriving from market limitations and access to the home market.
    5. Costs incurred due to the utilisation of the plant.
    6. Costs deriving from the fact that they are not inserted in a wider industrial framework.

[5] See Annex VI: Document that reflects on the method used to calculate the amounts of subsidies in the SSA.
[6] Point 6.1. of Decision 91/314/CE.
[7] These criteria could be used to reflect upon the method for calculating a subsidy objectively related to remoteness and insularity. It is not the intention of this study to reach a formula to quantify these.

- Another possibility would be to **abandon the principle of supplying at international prices, totally disconnect the subsidy (EU) from the refunds, as is the case of hops, and establish an "ad-hoc" amount for each product**, in accordance with the aforementioned criteria that contain the overcosts of remoteness and insularity.

2.1.1. Conclusions and recommendations

The SSA has taken into account the traditional trading practices of the Canary Islands as a free port and has consolidated this tradition for a series of agrofoods products that are considered to be basic commodities. While keeping their supply at international prices, broadly speaking, it has offset the effects of the overcosts deriving from the remoteness and insularity of the Canary Islands.

However, **the current system does not incorporate any objective criteria relating to remoteness and insularity. Furthermore, it does not foresee that community prices might be lower than international ones**. In such a case, the companies integrated with the SSA in the Canary Islands, would lose the economic advantages offered by the SSA while the effects of remoteness and insularity persist. This has already occurred in the case of cereals in 1996 and could well occur once more within a context which tends towards the liberalisation of markets. **For this reason, we consider it advisable to review the current measures based on the supply at international prices.**

We propose that criteria be introduced to include, in a quantifiable manner, the concept of remoteness and insularity in the calculation of the subsidy (EU), in such a way that it guarantees compensation for overcosts deriving from remoteness and insularity. Moreover, it would prevent specific products from obtaining an excessively high subsidy (EU), covering the overcosts of remoteness and insularity by a wide margin, and competing unfairly with local production.

The possibilities include, therefore :

- Maintaining the principle of supply at world prices, **establishing a minimum guaranteed subsidy (EU),** should the subsidy (EU) (as it is calculated at present: linked to the restitution of the export) not cover this.
- **Establishing an ad-hoc subsidy (EU)** free of variations in international and Community prices.

2.2. RESPONSE TO THE SECOND QUESTION ON THE SSA WITH REGARD TO THE IMBALANCE BETWEEN ITS SECONDARY OBJECTIVES

Does the analysis of the regulations imply that the measures introduced by legislation have concentrated on one of the secondary objectives (taking account of traditional trade flows, and trying to maintain the Community's share in supply)?

The study has detected a certain imbalance in the secondary objectives, so that *taking into account the trade flows and maintaining the part of the supplies of community products* **is the secondary objective of most importance within the SSA**. This objective has represented more than 40% of the total weighed assessment after making the multi-criteria analysis, the criteria, weighting and results of which were as follows :

CRITERIA USED	WEIGHTING
Development of community legislation for each objective	15%
Financial costs for each objective.	30%
Level of achievement.	35%
Opinion of the those interviewed of the importance of each objective.	20%

CHART I-3 : CRITERIA USED IN THE MULTI-CRITERIA ANALYSIS PERFORMED IN ORDER TO RESPOND TO THE SECOND QUESTION OF THE SSA.
Source : Prepared by IDOM-UPM

SECONDARY OBJECTIVE OF THE SSA	% OF THE TOTAL WEIGHED ASSESSMENT
Bear in mind traditional trade flows and maintain part of the supply of products from the Community	**41.5%**
Develop Community actions within the limits of the needs of the market of the Canary Islands	**20.0%**
Take local productions into account.	**14.8%**
Guarantee the repercussion of the measures established in the SSA on the level of production costs and consumer prices.	**23.7%**

CHART I-4 : RESULTS OF THE MULTI-CRITERIA ANALYSIS TO RESPOND TO THE SECOND QUESTION ON THE SSA.
Source: Prepared by IDOM-UPM based on data gathered during study.

- The first secondary objective is the one which is developed in greater detail in the regulations, the one which has the highest financing costs within the SSA and one of the objectives which has been acheved most clearly. **The proportion of products of Community origin, protected by the SSA, has not only has been maintained but has even increased**, rising from an average of 63% during the 1989-1991 period to 67% in 1997.

- This first objective, in turn, is unbalanced due to an inherent confrontation: Priority has been given to the second part of maintaining the supplies of Community products, displacing the aim of taking traditional trade flows into account. The value of imports from third party countries **has decreased 4%.**

- **The third objective of taking local productions into account has been the objective of least importance within the SSA**. It represents less than 15% of the total weighed assessment of the multi-criteria analysis. The only measure included in the SSA for this objective is the importation of some products intended to improve local production (breeding livestock, seed potato and livestock for fattening purposes, up to the 96/97 season).

Although it is possible to limit the amount of a product in the SSA balances (see charts) **in order to take the local production sector into account, it is not possible to control the amount of the subsidy (EU) as this depends on international prices.** A high subsidy (EU), such as imported fresh and refrigerated bovine meat, which is not accompanied by a subsidy for the equivalent local production, may be detrimental to the local production sector.

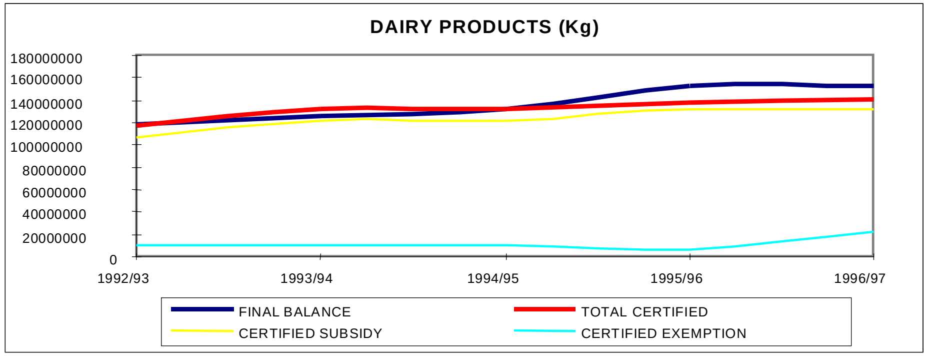


CHART I-11: EVOLUTION OF SSA IMPORTS OF DAIRY PRODUCTS
Source: Prepared by IDOM-UPM based on data from the Economic Promotion Office.

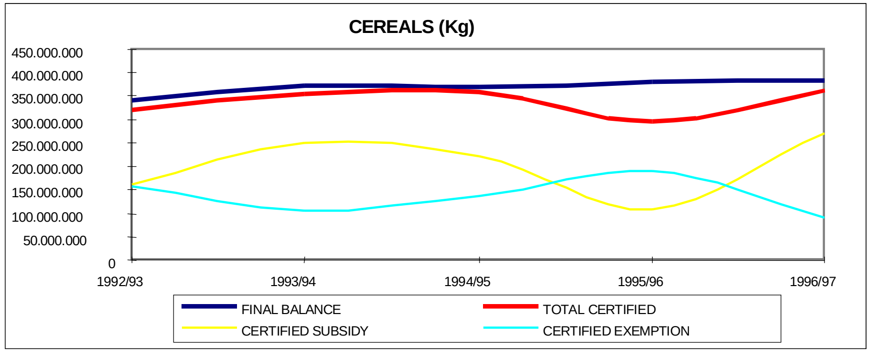


CHART I-12: EVOLUTION OF SSA IMPORTS OF CEREALS
Source: Prepared by IDOM-UPM based on data from the Economic Promotion Office.

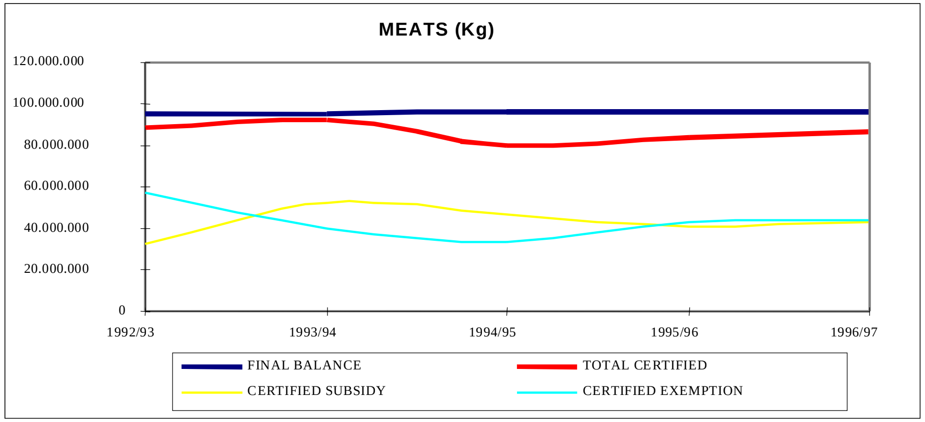


CHART I-13 : EVOLUTION OF SSA IMPORTS OF MEATS*,
Source: Prepared by IDOM-UPM based on data from the Economic Promotion Office.

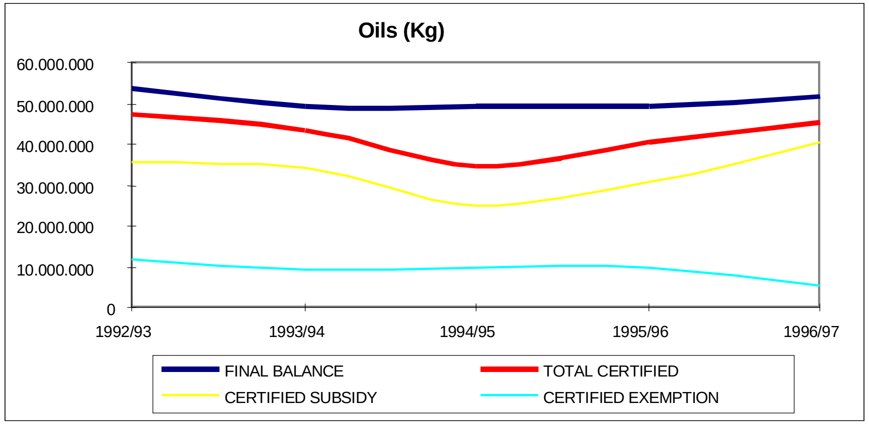


CHART I-14 : EVOLUTION OF SSA IMPORTS OF OILS
Source: Prepared by IDOM-UPM based on data from the Economic Promotion Office.

If so, how does this imbalance between the four secondary objectives affect the achievement of the main objectives and the response to the socio-economic needs of the Canary Islands?

- Once the SSA had been established to reduce the effects of the remoteness and insularity of the Canary Islands, **making European products attractive to firms integrated within the SSA by means of a subsidy (EU) did not prove to be detrimental to achieving the main objectives.** Just the opposite, it offers firms more sources of supply to choose from and creates competition between sources, which is always beneficial.

- **Nevertheless, it would be appropriate to introduce criteria in the SSA measures to ensure that its main objective is met** (reduce the effects of the remoteness and insularity of the Canary Islands, as we have seen in the answer to the first SSA question. On the other hand, **there is a risk of the SSA focusing more on the first secondary objective than on its own main objective.**

2.2.1. Conclusions and recommendations

- **There is an imbalance between the secondary objectives of the SSA**, as we find that the measures introduced have focused on the second part of the first secondary objective: *maintain the supplies of Community products* (with more than 40% of the total weighed assessment of the multi-criteria analysis). Now then, to assess the results achieved, we find that the flows coming from the EU only has increased a 4% of their value, to the detriment of the imports from third countries. This increase would be explained as a normal effect due to the Custom Union. Moreover, we understand this effect could be even minimise by the programme.

- However, **this imbalance does not appear to affect the achievement of the main objectives of the SSA**. In general terms, although not in an objective manner, the SSA offsets the effects of overcosts deriving from remoteness and insularity.

- The problem would involve the risk of focusing SSA subsidies (EU) on maintaining the supplies of Community products. **The subsidies (EU) which have been calculated may be too high for some products (meats and dairy products), and would be detrimental to local production.**

2.3. RESPONSE TO THE THIRD QUESTION ON THE SSA REGARDING THE PROGRAMME CONTROL INSTRUMENTS

Are there any instruments available not only to ensure that the economic advantage of exemption from levies and/or customs duties, or of Community aid when the products are supplied from within the Community, is actually passed on to the end-user, but also to check that it has been passed on? If so, what are these instruments?

As is shown by the analysis that has been carried out, there are instruments available to guarantee the repercussion of economic benefits on the end-user. These instruments have been classified at three levels, in which several bodies intervene both at a Central Government and Regional level.

CONTROLS		BODIES
1st Level	Administrative Control	Economic Promotion Office of the Ministry of Economy and Treasury of the Canary Islands. Territorial Trade Offices of the Ministry of Commerce and Tourism.
	Physical Control	Special Regional Customs and Tax Offices of the Tax Agency in the Canary Islands
	Fiscal Control	Tax Office of the Ministry of Economy and Treasury of the Canary Islands. Territorial Trade Offices of the Ministry of Commerce and Tourism.
2nd Level	Financial Control	General Inspection Agency of the State (Until February 1993). General Inspection Agency of the Autonomous Community of the Canary Islands, in collaboration with the General Inspection Agency of the State (since February 1993)
3rd Level	Price control	Statistics Institute of the Canary Islands (from Nov. 92 to Aug. 95) Economic Promotion Office of the Ministry of Economy and Treasury of the Canary Islands (since Nov.96) General Price Bureau of the Ministry of Economy and Treasury European Affairs Office of the Department of the President and Institutional Relations of the Canary Islands (1992/93 to 1995/96)
	Analysis of the food distribution market	European Affairs Office of the Department of the President and Institutional Relations of the Canary Islands

TABLE I-5: SUMMARY OF THE CONTROLS MADE IN ORDER TO GUARANTEE THAT THE ECONOMIC ADVANTAGES OF THE PROGRAMME ARE PASSED ON TO THE END-USER.
Source: Prepared by IDOM-UPM from data gathered in the study.

The three 1st-level controls represent a specific fulfilment for the SSA of controls that are already being made independently of the Programme. The financial control of the 2nd level does not have all the measures financed or co-financed by the FEOGA-Guarantee, while **the 3rd-level controls are exclusive to the Programme.**

What results have been obtained in the course of the years analysed?

The results of the controls can be summarised in the following paragraphs:

♦ **Considerable growth in the number of firms registered** (these have increased from the 400 initial firms to more than 800 in the last season) **and the controls have been complied with**, which represents positive results at an administrative level. These controls follow the indications of the Community normative[8], they act on those who receive the subsidy directly and require that the economic advantages be passed on to the final user.

[8] Article 5 of Regulation (EC) no. 2790/94 of the Commission

- **A certain degree of concentration was found in the first marketing stage of the products integrated within the SSA programme** in the analysis of the distribution of the food sector. Thus, in the 1993/94 season, we observed that:

    - In dairy products, 90% of the firms represent less than 20% of the total amount handled.
    - In cereals, 90% of the firms represent only 23% of the total amount handled.
    - In meats, 90% of the firms account for 40% of the total amount.

- **Decrease in the possibility of fraud** committed in granting subsidies (EU) or exemptions due to the physical controls carried out in customs.

- **It is not been possible to demonstrate that the subsidy received has not been passed on by the firm.** Although financial controls have detected some formal incidents in the correct accounting of the subsidy, these controls are limited to the firms that receive the subsidy directly and extend to the following levels in the distribution chain only under exceptional circumstances.[9]

- **The prices of the Madrid test market are clearly higher than those of the two capitals of the Canary Island** according to the price controls that have been carried out. This confirms that the subsidies are being passed on to the end-user. In general, we find that prices in Las Palmas are lower than those in Tenerife.

PRODUCT	PRICE IN LAS PALMAS (ptas,/Kg,)	PRICE IN TENERIFE (ptas,/Kg,)	PRICE IN MADRID (ptas,/Kg,)
Butter	400	628	1,140
Prime veal	450	450	780
Prime beef	1,000	1,226	1,387

TABLE I-6 : COMPARISON OF PRICES IN THE CANARY ISLANDS WITH THOSE OF THE CONTROL MARKET OF MADRID
Source: Prepared by IDOM-UPM from data gathered in the study.

NOTE : The data shown in the table are for 1996.

[9] Once the subsidy is included in the accounts of the company, the latter is free to apply any margin to his products and this will be determined by the market. This is the main limitation to this financial control.

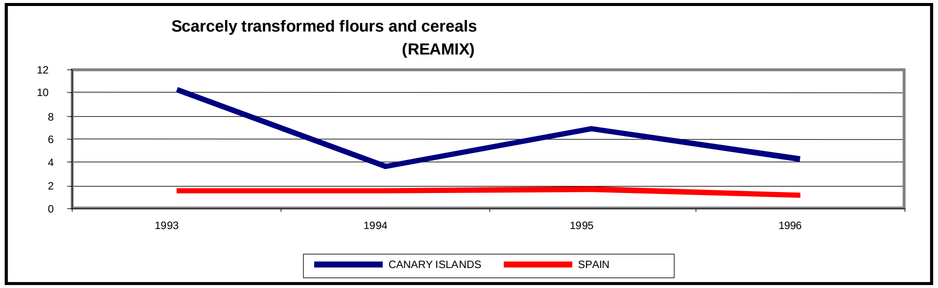


CHART I-15 : VARIATIONS IN THE ANNUAL CONSUMER PRICE INDICES IN SCARCELY PROCESSED FLOURS AND CEREALS.
Source: Prepared by IDOM-UPM from data of the National Statistics Institute.

- **The SSA has been efficient in counteracting the effects of the integration of the Canary Islands into the CAP.** The prices of products submitted to the SSA have behaved in a similar fashion or even slightly better that the remaining products (showing a lower price index).

- **The instability created by price oscillations in the Canary Islands** compared with the stability on the Peninsular in sectors such as scarcely processed flour and cereals is noteworthy. This situation can be explained by the lack of stability in the amount of the SSA subsidy (EU) for this sector.

2.3.1. Conclusions and recommendations

The economic advantages that derive from the SSA are and have been passed on to the end-user, and so the inflationary pressure brought about by the integration of the Canary Islands into the Common Agricultural Policy has been offset. This can be seen in the following:

- Consumer prices in the Canary Islands for products integrated in the SSA are considerably lower than those in the test market in Madrid.
- The evolution of the index that groups together SSA products was slightly lower than those of the remaining food products.

However, the effective repercussion of the entire economic benefit depends upon the degree of concentration and competition of the agrofoods sector of the Canary Islands. In this sense, **a certain degree of concentration has been detected at least during the first marketing stage** as the market is small and fragmented. Even so, the trend indicates a decrease in concentration.
Having completed the analysis, the following recommendations can be made :

- ♦ **Propose a body to centralise the results of the controls that are being performed at different levels**. This would offer an overall vision and monitor the effective repercussion. As bodies belonging to the Central and Autonomous Governments are involved, with the participation of different bodies within each of these, it will be difficult to determine the results of the controls made by the other parties.
- ♦ **Establish regulations to impose fines** (currently in preparation) **for administrative type controls.** The levying of a fine on a company integrated into the SSA who fails to comply with the normative in force will make these controls more effective.
- ♦ **Promote competition and transparency in the agrofoods system**. Given that we find ourselves in a free trade system where the margins applied to marketing products are free and fixed by the market, this may be an excellent tool to guarantee the repercussion of the subsidy on the end-user.

3. EVALUATION OF THE SUBSIDIES FOR LOCAL PRODUCTION

Some 16,000 million pesetas (91 million ECUS) have been spent on subsidies for local production (13% of the POSEICAN subsidies) during the five seasons from 1992 to 1997. **18% corresponds to European premiums** (2,880 million pesetas or 16.3 million ECUS) of the subsidies for bovine and caprine livestock and tobacco which are applied in the Canary Islands with an additional premium (called the POSEICAN premium in the report). It should be borne in mid that the European premiums are also received by producers throughout the Community. Based on the analysis of these subsidies, the following aspects are especially noteworthy:

- **The amount of the subsidies for local production has increased by 83%** since 1992, from about 2,100 million pesetas to almost 4,000.
- **The livestock sector has received 55% of the subsidies** granted since the application of the Programme (8,867 million). The caprine/ovine sector is the one which has received more subsidies during the five seasons analysed here (20.2%), followed by flowers and plants, potato and bovine sectors, each of these with 15% of the total subsidies received. In chart I-16 we can see that the current distribution of the subsidies during the 1996/97 season maintains these percentages with some variations.
- **The potato, vine and caprine/ovine sectors represent more than 86% of the beneficiaries of the subsidies for local production.** These are the sectors with the most important social framework

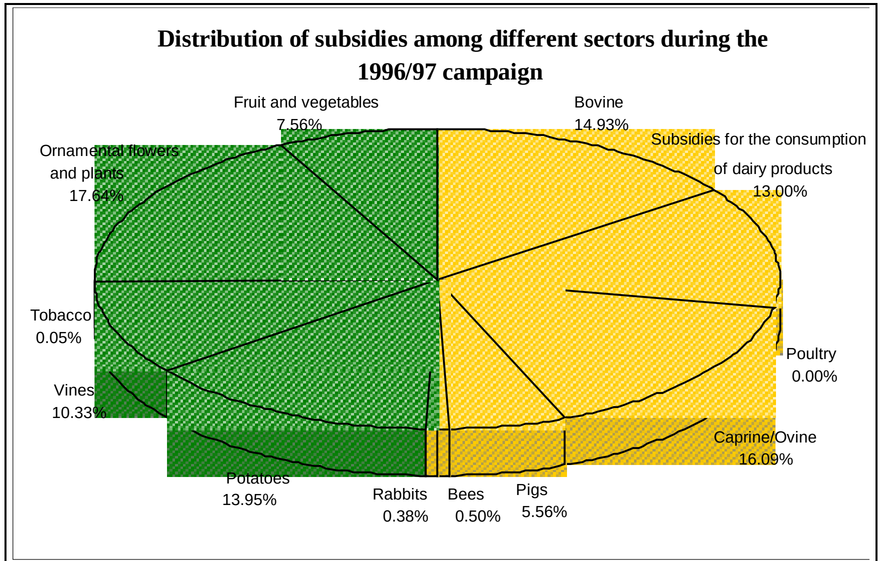


CHART I-16 : DISTRIBUTION OF SUBSIDIES AMONG THE DIFFERENT SECTOR DURING THE 1996/97 SEASON.
Source: Prepared by IDOM-UPM based on data from the Paying Agency FEOGA-Guarantee of the Ministry of Agriculture, Fisheries and Foods of the Government of the Canary Islands.

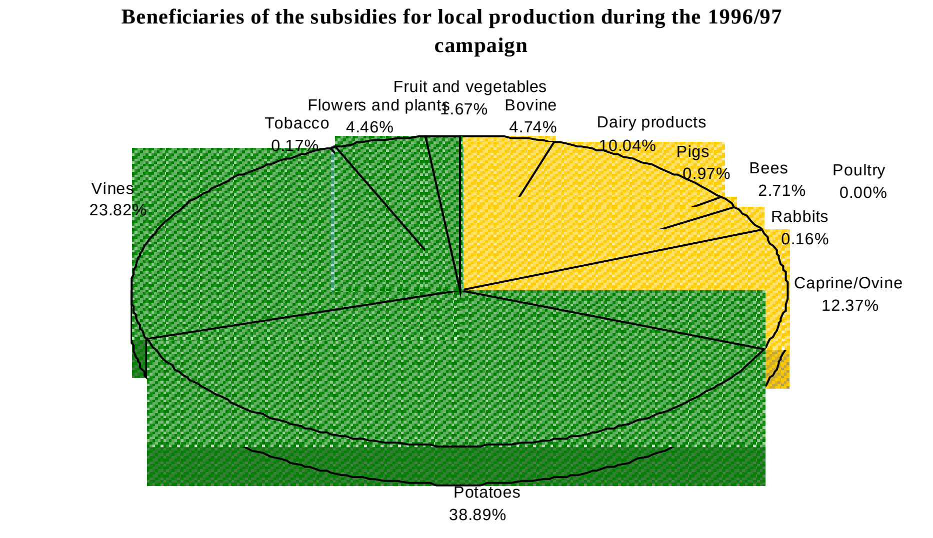


CHART I-17 : BENEFICIARIES OF THE SUBSIDIES FOR LOCAL PRODUCTION IN DIFFERENT SECTORS DURING THE 1996/97 SEASON.
Source: Prepared by IDOM-UPM based on data from the Paying Agency FEOGA-Guarantee of the Ministry of Agriculture, Fisheries and Foods of the Government of the Canary Islands.

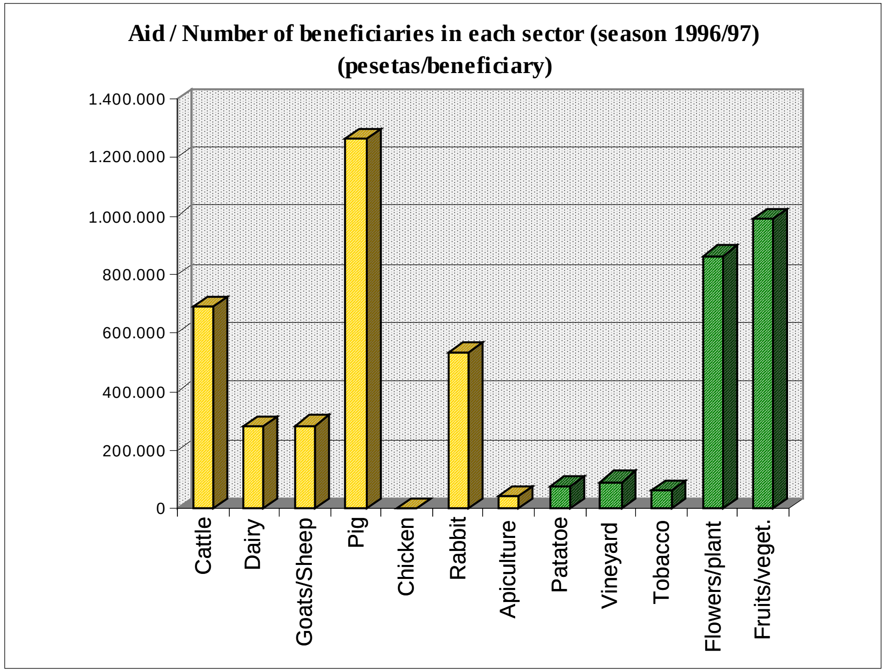


CHART I-18 : QUANTIFICATION OF SUBSIDIES AMONG THE NUMBER OF BENEFICIARIES DURING THE 1996/97 SEASON
Source: Prepared by IDOM-UPM, based on data from the Paying Agency FEOGA-Guarantee of the Ministry of Agriculture, Fisheries and Foods of the Government of the Canary Islands.

As can be seen in chart I-18, there is an imbalance in the distribution of subsidies for local production among the beneficiaries of the different production sectors.

The number of beneficiaries in livestock breeding represents 31% of the total, while the remaining 69% of the beneficiaries are in the vegetable production sectors. This means that **37% of the production value of the sectors within the Programme and 31% of the beneficiaries** (which is what livestock represents) **receive more than 50% of the subsidies.**

This situation can be explained by the Programme's attempt to support as far as possible those livestock productions that have the biggest problems competing against imports and which represent only 20% of the agricultural production value (when in the rest of Spain this represents 40%).

3.1. RESPONSE TO THE QUESTION ON THE ACHIEVEMENT OF THE PROPOSED OBJECTIVES AND IMPROVING THE MEASURES

Do the measures introduced help to achieve the declared objectives? What conditions would be necessary to increase the effectiveness and/or efficiency of the measures?

3.1.1. Tropical fruit, vegetables, flowers and plants sector

The granting of a subsidy for marketing tropical products with Community firms is the only measure that has contributed to achieving the objectives. The other measures have not applied in any way.

An improvement can be observed in agriculture production for export within the sector, while production **for the home market** has dropped during the time the Programme has been applied. The results of our analysis can be summarised in the following paragraph :

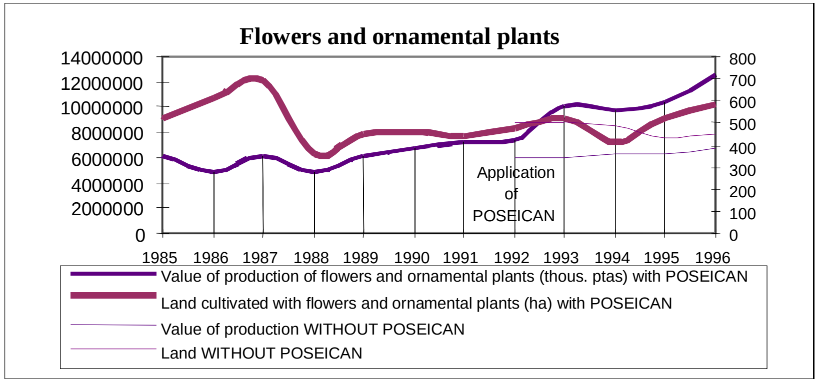


CHART I-19 : EVOLUTION OF THE LOCAL PRODUCTION OF FLOWERS AND ORNAMENTAL PLANTS DURING THE 1985-1996 PERIOD.
Sources: Prepared by IDOM-UPM based on statistical data on agricultural, livestock breeding and forestry of the Statistics Service of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

- **The value of the local production of fruit and vegetables has dropped** 22% (some 4,000 million pesetas) since 1992. 75% of this production is for the home market.

- **The value of the local production of flowers and ornamental plants has increased** 64% (some 5,000 million pesetas) since 1992, 60% of which is exported. The value of the production marketed in the Community has increased 155%.
  The actions which are suggested in order to improve the efficiency and effectiveness of the measured proposed for the fruits, vegetables, flowers and tropical plants sector are as follows :

  - **Propose a study to analyse the local production of fruit and vegetables which would be more comprehensive than the ones established in the regulations, this study would concentrate especially on the production of fresh items** and would also make reference to processed products. It should be borne in mind that the production of the sector is oriented towards fresh products so that the production allocated for subsequent processing is a minority activity.

- **Increase the amount of subsidies/ha in order to promote programmes designed to create a series of initiatives** (with a view to improving production and quality) if it is wished to keep this subsidy in the Programme. The degree of concentration of the sector which is made up of small businesses means that the subsidies are currently too low and do not awaken any interest in farmers.

- **It would be advisable to introduce a subsidy for marketing production for the local market.** In this way, greater support would be given to the fruit and vegetable sub-sector, which has not been favoured by the measures introduced by the Programme.

3.1.2. Cattle breeding

Ninety per cent of cattle has been replaced with high quality animals thanks to the measures taken to import pure-bred cattle with the SSA. Nevertheless, **local cattle production has dropped** (see charts I-20 and I-21) 30% in the case of milk and 50% for meat during the time the Programme has been applied (the production of cattle for milk represents 2/3 of the value of bovine production). The drop in meat production is due especially to the fact that live animals are no longer imported for slaughter in the Canary Islands.

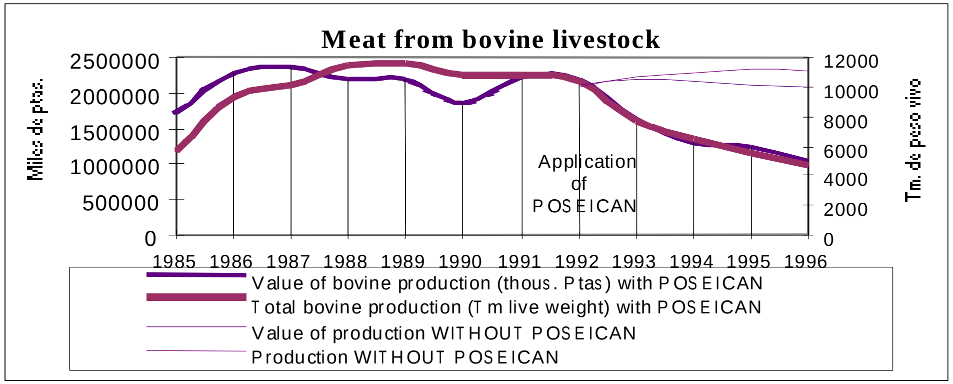


CHART I-20 :LOCAL PRODUCTION OF MEAT FROM BOVINE LIVESTOCK.

Sources: Prepared by IDOM-UPM based on statistical data on agricultural, livestock breeding and forestry of the Statistics Service of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

- **MEAT : It is necessary to match in some way the subsidies for meat that are imported under the SSA with the subsidies for local production in the Canary Islands.** A considerable imbalance has been detected between both subsidies for fresh meat and imported refrigerated meat.

  This has led to a situation in which the measures taken to support local production have not been sufficient to support the sector. Moreover, the limitation posed by the **density factor** applied to premium subsidies for bovine livestock means that a large number of animals (about 80%) have no right to subsidies as the most of the farms on the islands are intensive.

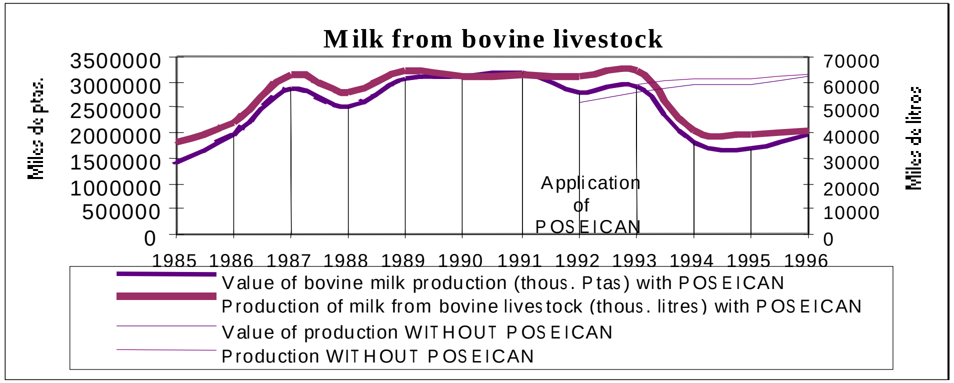


CHART I-21 : LOCAL PRODUCTION OF MILK FROM BOVINE LIVESTOCK

Sources: Prepared by IDOM-UPM based on statistical data on agricultural, livestock breeding and forestry of the Statistics Service of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

- **MILK : It is important to check that the SSA subsidy for imported milk allows perfect competition with milk produced locally.** In this regard, many interviewees felt that the subsidy was insufficient and proposed an increase in the amount to be able to compete with imported milk or a decrease in the subsidies received by the latter.

- **The subsidy for human consumption of dairy products has allowed a regular sale on local markets of cow's milk products obtained locally** (90% of the local production of cow's milk is subsidised). Currently, 20% of the milk supplied to the dairy industry is produced locally and 80% is imported under the SSA

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3.1.3. Pig Breeding

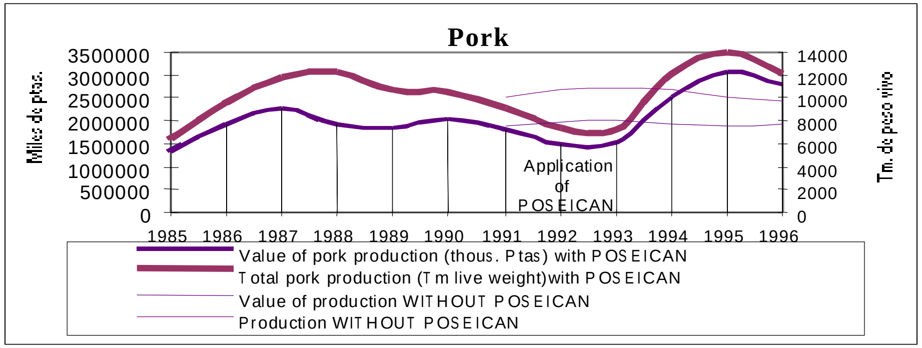

CHART I-22 : LOCAL PRODUCTION OF PORK

Sources: Prepared by IDOM-UPM based on statistical data on agricultural, livestock breeding and forestry of the Statistics Service of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

The measure of importing pure-bred breeding pigs has fulfilled the objective of the Programme, achieving a genetic improvement in local herds (80% of the animals are estimated to be of high genetic quality). As can be seen in chart I-22, the Programme has contributed to the development of local pork production which, during the period of application of the Programme **has increased 85%**. The only aspect that it would be advisable to improve would be to allow the entry of the required number of animals without excessive red tape.

3.1.4. Goat/sheep breeding

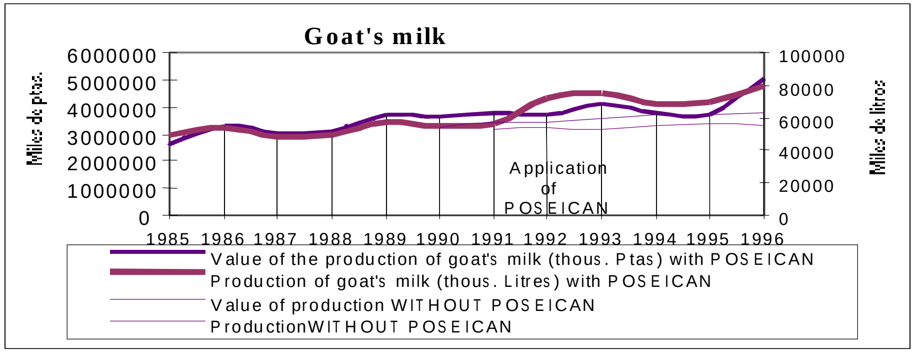

CHART I-23 :LOCAL PRODUCTION OF GOAT'S MILK

Sources: Prepared by IDOM-UPM based on statistical data on agricultural, livestock breeding and forestry of the Statistics Service of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

The measure to add a supplementary premium for the Islands to the European premium of the CAP has proved to be supportive of breeders of these animals. 80% of the value of the production of these animals consists of the **production of milk which has increased 30%**, the remaining 20% corresponding to meat which increased by 40%.

Goat farming is noteworthy because of its high social relevance. Beneficiaries of the Programme represent 14% of the total subsidies for local production (about 2200 farmers).

Elements which are proposed for introduction in order to support local caprine/ovine farming are as follows:

- **Change the incorrect manner in which the subsidy is calculated** as this kind of farming is used primarily for milk production and currently the calculation of the premium is based on meat production.
- **Encourage the formation of associations with premiums** in order to increase the organisational capacity of the sector.
- **Include goat's and sheep's milk in the subsidies for milk consumption** which currently only affects bovine livestock.
- Greater administrative control to avoid fraud and a greater effort to train young livestock farmers in view of their low educational level.

3.1.5. Rabbit breeding

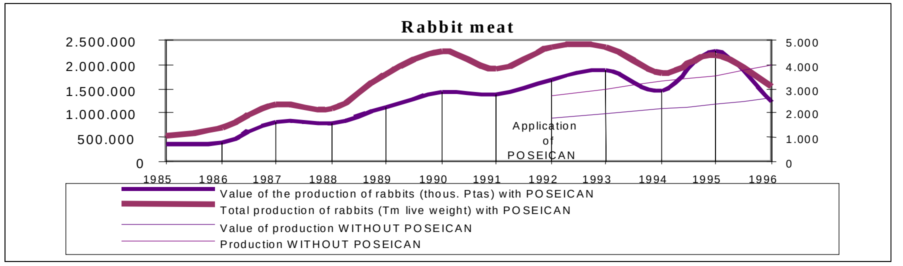

CHART I-24 : LOCAL PRODUCTION OF RABBIT MEAT.
Sources: Prepared by IDOM-UPM based on statistical data on agricultural, livestock breeding and forestry of the Statistics Service of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

The measure to introduce pure-bred breeding rabbits under the SSA has achieved the aim of improving the genetic quality of local livestock but has not fulfilled the aim of supporting the local production of the sub-sector which has decreased 25% during the years the Programme has been applied. In spite of this, the sector has benefited from the Programme in terms of production quality, modernisation of installations and the creation of new industrial farms.
It is the right policy and the only change which is proposed is to **increase the balance of father and grandfather breeding rabbits**. The current balance seems to fall short during recent seasons with a percentage of use of over 93%.

3.1.6. Poultry farms

The measure introduced to supply breeding chicks and eggs for incubation through the SSA has not contributed to achieving the objectives of the Programme. The percentage of use of the balances has been negligible and **local production of fresh eggs** (which represents 80% of the value of the production of the sector, assuming that meat represents the other 20%) **has dropped by 30%** during the years the Programme has been applied. Two facts explain this situation:

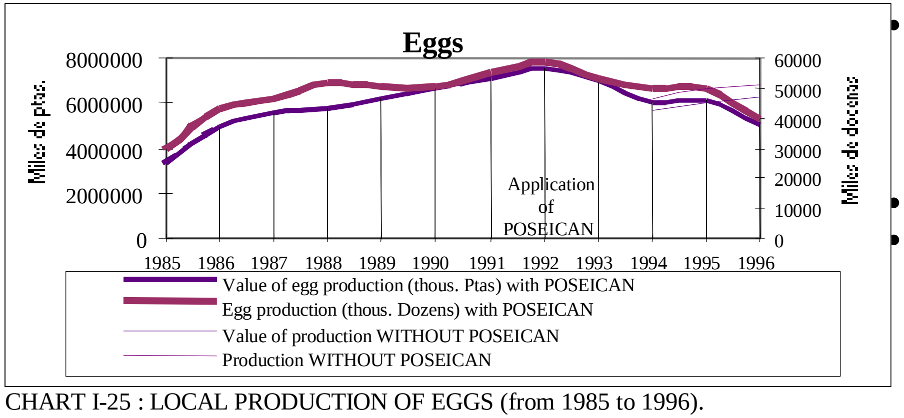

CHART I-25 : LOCAL PRODUCTION OF EGGS (from 1985 to 1996).
Sources: Prepared by IDOM-UPM based on statistical data on agricultural, livestock breeding and forestry of the Statistics Service of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

- **The consumption of fresh eggs (which is what is produced locally) has decreased**. Not only has production dropped in the Islands but imports have decreased 50% as well over recent years. The changes in consumer habits have caused an increase in the imports of eggs used as industrial inputs (without shell, egg yolks, dried, boiled, etc.).

- **The subsidies for this sector are not well conceived and should be modified** (extension of the amount of subsidies for breeding chicks and eggs for incubation, as well as the drop in their balances) **and extended** with other measures such as the inclusion in the SSA balance of commercial laying hens (NC 01051191), or the establishment of a subsidy for poultry meat of local production for industry.

3.1.7. Vines

The two measures introduced in the vine-growing sector (subsidy for each ha and the non application of the uprooting premium) during the years of application of the Programme **have contributed to an increase in the value of the production of the sector by 18% and the development of *appellations d'origine*.** When the Programme was applied in 1992, less than 10% of the surface area and less than 5% of vine production were included in the Regulating Councils. In the 1996/97 season the percentages rose 50% and 33% respectively.

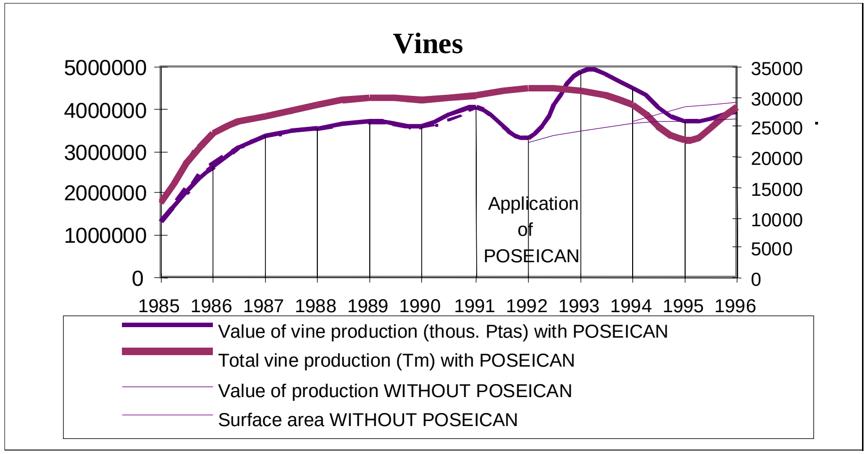

CHART I-26 :LOCAL VINE PRODUCTION

Sources: Prepared by IDOM-UPM based on statistical data on agricultural, livestock breeding and forestry of the Statistics Service of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

Vine-growing not only has a great economic and environmental repercussion but a social structure that makes it one of the most important crops within the context of the agriculture of the Canary Islands. The number of beneficiaries of the subsidy per ha represents 27% of the beneficiaries of the subsidies for local production, a percentage which is only exceeded by the potato sector. Those interviewed saw the need to:

- **Provide incentives for the creation of associations** so that growers might see the advantage of belonging to the Regulating Councils. Only 21% of vine growers are registered in these. This would be the right policy to **increase the scope of the subsidies/ha** which only represent 15% of vine-growers due to the lack of organisation in the sector.
- **More advice on technical matters** and the creation of experimental vineyards.
- **Maintain the current number of ha** of vines and continue not applying the uprooting premium.

3.1.8. Potatoes

The contribution of the three measures contained in the Programme and which affect the sector (subsidy/ha, subsidy for the import of seed potato with the SSA and limiting the entry of potatoes into the Canary Islands) **has been essential for the satisfactory development of this crop**. The value of its production **increased by 112%** during the years the Programme was applied, also due to the end of a long drought in 1995.

Potato growing conditions in the Canary Islands prevent them from being harvested by mechanical means. This means that **potato growing is very traditional**, with high production costs and with little possibility of competing with potatoes imported to the Islands from areas with more modern harvesting methods. Therefore, **the defence of this crop in the Islands would not be justified by its profitability but:**

- Its **environmental repercussions, as, together with vine-growing, it is a basic instrument for sustaining the "medianías"** (steep agricultural land located at between 300 and 1200 metres in height), maintaining the soil and avoiding erosion and desertification.
- **Its important social structure**, as support for this crop involves helping to maintain the population engaged in traditional farming, of a family nature and with practices that may be classified as being "agro-environmental".
- **Its repercussion on traditional farming practices** and the local identity, with the possibility of affecting other activities such as rural tourism.

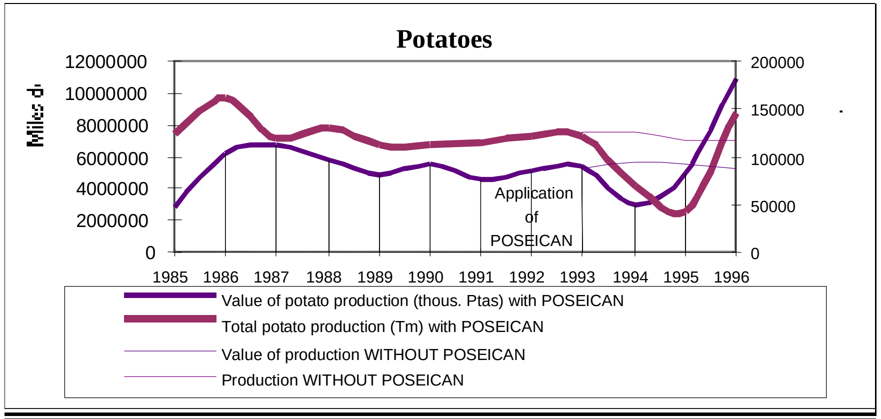

CHART I-27 :LOCAL POTATO PRODUCTION

Sources: Prepared by IDOM-UPM based on statistical data on agricultural, livestock breeding and forestry of the Statistics Service of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

The subsidy per ha of cultivated potato is the subsidy which has the highest number of beneficiaries in the Programme. It represents **45% of the beneficiaries** of the subsidies for local production, almost 7000 farmers.

The problem is the elimination of the basic measure which protected the sector with the **limitation on potato imports** during the sensitive periods of marketing Canary Island potatoes, as a consequence of the Uruguay Round of GATT agreements. In view of this situation, those interviewed proposed the following **possible changes** in the Programme:

- **Link the subsidy to an obligation to be associated to some kind of producers organisation**, within a judicious period of 4 or 5 years. The aim is to increase the meagre structure of the sector and increase the scope of the subsidy which affects 60% of the land given over to potato growing.
- **Recalculate the subsidy per ha or replace this with a subsidy per kilogram.**
- **Maintain the subsidy for the importation of seed potato under the SSA.** This might mean increasing the amount of this subsidy.
- **Establish some kind of direct subsidy** for marketing, similar to that applied to tropical productions, in order to guarantee a market for locally grown potatoes.

3.1.9. Tobacco

In the **tobacco sector** we have :

- **A small crop** on the island of Palma (with a value of production of less than 5 million pesetas in 1996, 0.004% of the total agricultural value) which has been maintained during the years the Programme has been applied.

A cigarette, cigar and pipe tobacco manufacturing industry, which occupies first place in the generation of gross added value in the Canary Islands (40,000 million pesetas/year), which has undergone a loss of 30% in its production during the years the Programme has been applied. The following data should be borne in mind :

- The additional premium for **tobacco growing** represents 44% of the value of the production of the sector, when the set of subsidies in vegetable productions represents less than 2% of the value of the production.

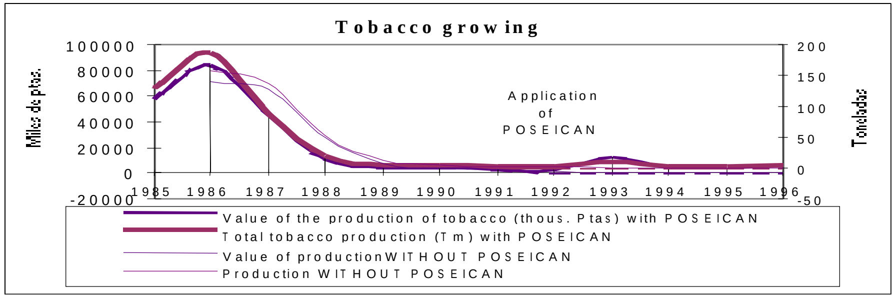

CHART I-28 : LOCAL TOBACCO PRODUCTION

Sources: Prepared by IDOM-UPM based on statistical data on agricultural, livestock breeding and forestry of the Statistics Service of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

- **There is no problem with the amount, but with the linking of the POSEICAN premium with the quota system** which has meant that 18.6% of production was not subsidised during the last season.
- In the case of the **tobacco industry,** what the sector asks for is the **globalisation of the 20,000 Tm quota**, as tobacco mixtures change with time and it is not good to be tied to some quantities and types of tobacco that were used in a specific year. It also considered necessary to be able to **bring semi-manufactured tobacco** and not only agricultural tobacco (leaves). **These measures seem advisable to reduce the negative evolution of a sector which is of great strategic importance for the Canary Islands.**

3.1.10. Honey

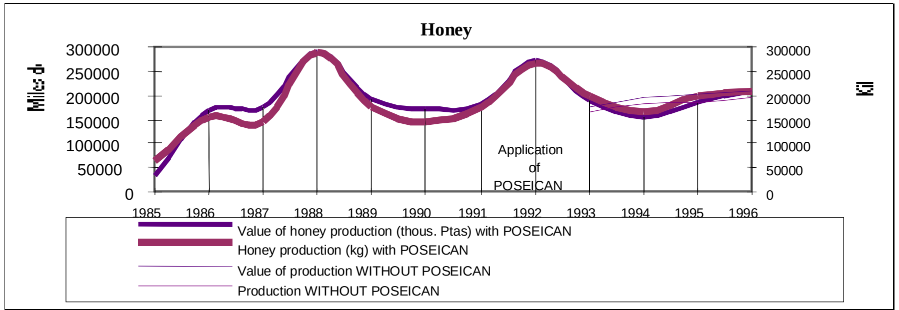

CHART I-29 : LOCAL PRODUCTION OF HONEY (INCLUDING TOTAL PRODUCTION WITHOUT DIFFERENTIATION BETWEEN SPECIES)

Sources: Prepared by IDOM-UPM based on statistical data on agricultural, livestock breeding and forestry of the Statistics Service of the Ministry of Agriculture, Fisheries and Food of the Government of the Canary Islands.

The subsidies granted for honey have contributed to achieving the objective of the Programme, the black bee hive census has not only remained stable but has even increased.

Moreover, the fact that the subsidy was dealt with through associations has allowed the sector to be structured correctly.

The problem is that this favourable evolution of the sector has meant that only 50% of the hives with the right to subsidy, some 5000 *(POSEICAN - R (EEC) No. 1601/92 - Art. 24)*, have received subsidies and that **currently 50% of black bee hives are not subsidised. It would seem advisable to bring this figure in line with the needs of the archipelago.**

4. COMPATIBILITY BETWEEN THE SSA AND SUBSIDIES FOR LOCAL PRODUCTION

Given the aims and approaches of the SSA system and the subsidies for local production, there would be a confrontation between both kinds of aid in those products which are subsidised both when imported and produced locally.

The analysis has attempted to identify the possible incompatibility between the SSA subsidy (EU) on imports and subsides for local production. **An analysis was made of whether both kinds of aid caused unfair competition between Community imports made under the SSA and local productions.** The main complaint of a large number of those interviewed was in this sense. They considered that the import subsidies (EU) granted under the SSA (for Community products) were too high compared to the subsidies for local production. As the proposed question rightly suggests, the most conflictive products were beef and pork, dairy products and wine.

With this approach, the study has focused on demonstrating whether the SSA subsidies (EU) for the importation of Community meat, dairy products and wine have been in effect too high. We have reported the competition that exists and the consequences that have derived from this situation. **These SSA subsidies (EU) for the importation of Community products must be calculated correctly for the compatibility between these and the subsidies for local production.**

Imports from third-party countries for which aid is limited to the exemption form customs duties, do not produce unfair competition with local production and their products do not compete directly with local productions. Although it is true that they could damage the production of the archipelago by changing consumer habits, they would do this without unfair competition and would only demonstrate the lack of competitiveness of the productions of the Canary Islands. Imports are necessary for the Canary Islands and these must be made under the most favourable conditions for local production.

4.1. RESPONSE TO THE QUESTION ON THE COMPATIBILITY BETWEEN THE SSA AND THE SUBSIDIES FOR LOCAL PRODUCTION

In certain agricultural sectors, in particular for beef, pig meat, milk products, wine and potatoes, aid is available both for outside supplies and for the development of local production. Do the measures under the specific supply arrangements in these sectors complement, compete with or clash with the specific measures in favour of local production? Should specific measures be introduced to take account of local conditions of production and processing? If so, which sectors and industries would be concerned, and what measures should be taken? How far would it be necessary to ensure consistency with the SSA?

The compatibility analysis has focused upon the percentage the subsidy (EU) represents in the total value of the product. In the SSA the customs value of the goods has been taken as reference, while in the subsidies for local production, the value of the production has been taken as reference.

4.1.1. Study of the compatibility in meat products

BOVINE MEAT: Imports via the SSA represent clear competition for local production. It is the importation of fresh and refrigerated meat that competes directly with local production. Ninety-five per cent of the value of these imports comes from the rest of the Community and, according to 90% of those interviewed, cover the overcosts due to remoteness and insularity in excess.

The subsidies (EU) that are applied to fresh and refrigerated bovine meat from the Community represent 31% of its customs value while meat produced in the Canary Islands receives a subsidy that represents less than 19% of its production value. Placed in competition with each other on the same market, we can state that **imported meat has an advantageous position with respect to locally produced meat.**

These results ratify the opinion of 90% of those interviewed, who pointed to the higher level of subsidies (EU) for the importation of bovine meat compared to the subsidies for local meat productions, as the main cause for the 58% decrease in local production. **The solution consists of matching, in some way, the subsidies received by both.** As this involves the most highly subsidised sector of local agriculture, with 19% of its production value covered by the subsidy, it seems logical to **recommend controlling (lowering the amount) of the SSA subsidy (EU) applied to imported meat.** The subsidy (EU) should not be allowed to exceed a maximum level, above which damage would be caused to the local production.

PORK : The main problem described by 32% of those interviewed lies in the **difficulty of distinguishing between fresh and frozen meat**, causing SSA-subsidised meat to displace local production. **The results of the study do not detect in this case the problem that occurs with bovine meat**, as the subsidy (EU) applied to the importation of frozen meat (the only one which is imported with the SSA) is not strong enough to displace local production, and the evolution of local productions has not been damaged either. The trends are positive as the production value of the sector has increased 85% since 1992.

4.1.2. Study of compatibility in dairy products

The industries of the Canary Islands (represented by ASINCA) estimate that **local milk production is capable of supplying only 22% of the local market** and, therefore, the imports of dairy products within the SSA are vital for the survival of the local processing industry and to satisfy the demand from end-users.

There is direct competition with local production in the case of milk, non-condensed cream and cheese, all of which come from the Community.

When these diary products are placed in a competitive situation on the same market, the one which is **most severely disadvantaged is goat's/sheep's milk** with less than 10% of its production value being covered by the subsidy. On the other hand, cow's milk, with 45% of its value covered by the subsidy, does indeed appear to be capable of competing with imported milk. The reason is that the non-condensed milk that is imported (competing directly with local production) has a lower subsidy (EU) than imported condensed milk (16.5% in the first case, 38% in the second).

It is necessary, therefore, to increase the competitiveness of goat's/sheep's milk, coinciding with the opinion of 60% of those interviewed who complained basically of the discrimination against the cheese sector of the Canary Islands by SSA-subsidised Community cheese. This would involve **including the cheese sector of the Canary Islands in the subsidies for local production.** This could be achieved by **extending the subsidy granted to locally-produced cow's milk used for industrial purposes to the rest of the local milk production** of any kind, provided that it is intended for industrial use.

CONCLUSION TO THE ANALYSIS OF THE MEAT AND DAIRY PRODUCT SECTORS : **Cattle farming** has been the sector in which the highest level of subsidies has been recorded, representing almost 20% of its production value. In spite of this, it is the sector which has had the worst results both in the production of meat (decrease of 50% during the year in which the Programme has been applied) and milk (drop of 34%), which **indicates the weakness of the cattle sector on the archipelago and the serious difficulties that exist for its development.**

The pig and caprine/ovine sectors represent completely different cases in which with a lower level of subsidies (lower than 10% of their production values) it has been possible to increase its development (85% increase in the production value of pork and 40% in that of the caprine sector). In these cases, the subsidies have achieved their goals.

4.1.3. Study of compatibility in wines

One of the complaints made by the winemakers interviewed refers to the effects of bottled wine imports on local production. One hundred per cent of bottled wines come form the rest of the Community and the main requirement of the sector lies in a request for a progressive decrease in the provisional balances of the shipment of bottled wines which would be offset with an increase in the shipment of bulk wines. Nevertheless, the winemaking sector also considers that **imported bulk wines represent unfair competition if these are sold with wines bottled in the Canary Islands and with names and images linked to the Islands.**

Before indicating the results of the analysis it should be pointed out that in the case of vines, the analysis has been based on data for grapes and not for wine, as it has been possible to find other data. This fact obliges to compare grape production with imported wine when making a comparative analysis of the value subsidised with the aid. Having said this, the data provide a general idea of the situation of the winemaking sector.

The importation of bottled wine receives a subsidy (EU) which represents 4.5% of the value of the goods while in the case of bulk wine, the subsidy (EU) for imports represents 46% of this value. In the subsides for local production, vineyards receive a subsidy for each cultivated hectare which represents somewhat more than 10% of the production value of the sector.

When these wines are introduced into the market of the Canary Islands, **local production competes on equal terms with imported bottled wine**, which is the wine with which it must compete. **The problem would be with bulk wine**, which, if introduced fraudulently into the bottled wine market with names and images linked to the Islands, competes unfairly as 46% of its value is covered by the subsidy (UE).

5. MANAGING THE PROGRAMME

5.1. QUESTION ON THE COST EFFICIENCY OF THE PROGRAMME MANAGEMENT AND MONITORING SYSTEM

Indicate the cost-effectiveness of the management of this system, distinguishing between Community, national and regional levels
How could the management of the programme be improved and simplified?

The cost-efficiency assessment of the current management system of the POSEICAN programme has been tackled from two points of view:

- An overall assessment of the current system of planning, management and monitoring of the programme, identifying their weaknesses, the existence of control and monitoring mechanisms and the degree of coordination between the institutions involved, both at a Community, national and regional level.
- Interviews with the firms and beneficiaries of the measures concerning the quality with which the programme is managed.

5.2. CONCLUSIONS

1. In general, the global assessment of the POSEICAN programme from the point of view of the cost-efficiency of the administrative system is favourable, highlighting the efforts made at all management levels (Community, National and Regional) to introduce improvements in the administrative process.
2. Two stages of management can be detected during the 1992-1997 period. An initial stage, in which the application of the programme highlights the need to reinforce the management mechanisms and control of subsidies. The second stage, from 1995 onwards, is of special interest due to the improvements that have strengthened the management mechanisms and co-ordination between institutions, especially at a regional level.
3. Among the improvements that have been introduced into the programme, in the SSA the following are worthy of special mention:
    - Creation of an SSA monitoring and co-ordinating committee at a regional level, in which not only the administration plays a part but also the sector and business organisations affected by the programme.
    - Improvement in the management of the registration of firms and the issuing of aid certificates.
    - Creation of a specific Information System for managing the balance which allows this to be co-ordinated at a national and regional level.
    - Elimination of the possibility of stockpiling the balances and speculating with aid certificates.
    - Improvement in the processing and control of the payment of subsidies.
4. With the introduction of these improvements, it has been possible to increase the quality of the information issued by the programme, improve the planning of the balances and their execution (currently, 90% execution levels are being achieved) and improve the co-ordination between institutions at a national, regional and Community level.

5. With regard to the administrative process and the human resources available for managing the programme, all the different administrators at a regional, national and Community level are unanimous in their opinion that it is necessary to adapt the management structure to the financial budget for the programme. With the current system, management costs are disproportional to the level of aid received.

6. Although, as has been said, the management of the programme has improved over the years, there is still room for improvement in the current management system, especially in the case of the SSA.

   - Streamlining the planning mechanisms and extending the balances in the case of the SSA.
   - In the case of the aid certificates, improving the current control system.
   - Improving the quality of the information on the repercussions of the subsidies, the groups that benefit from these and justifying the complementary nature of the subsidies with other regional and Community programmes.

7. With regard to a new programming process, and in order to facilitate the programme assessment process, it would be advisable to justify with quantitative information both the needs which it is wished to correct and the objectives pursued, for the SSA and for the subsidies for local production.

5.3. RECOMMENDATIONS

In the light of the aforementioned conclusions, it is proposed to study the possibility of introducing the following recommendations to improve the quality of the programme:

1. In the opinion of the industrial sectors, it would be advisable to increase the number of products which, within the balance, distinguish between use for processing purposes and direct consumption. The justification to create an Industrial Balance with specific amounts is motivated by the need to defend the processing sector (in many cases, small companies) against stockpiling by distributors, guaranteeing certain quantities during the season. In practice and given the possibility of extending the balance, increases can be asked for by the processing sectors, but, in their opinion, any delay in the acceptance of the increases may mean stock-outs and that the system does not work. Even so, it would be necessary to study this possibility case by case. Some products, such as butter, which distinguish between processing and direct consumption, have not had the expected effects and there have been requests to return to the previous system.

2. However, the introduction of a mechanism that automatically guarantees (with a shorter procedure than the current one), the acceptance of an extension of the balance could contribute to resolving the aforementioned problem. At present, and according to information obtained through interviews, it has been detected that extensions of the balance are established sooner or later in accordance with the type of product involved, depending upon whether the product is surplus or not in the European Union.

3. With regard to all the aid certificates obtained, the initial problems with the application to the importer of the purchase document or dispatch from origin certificate of the goods. Even so, with this system problems can still arise in those products that can be stored. In the case of wine and cheese, for example, there is a problem for local industry, which competes with national producers based in the Islands who have the capacity to store the product, obtaining

competitive advantages compared to local producers. As in the previous case, with the streamlining of the balance extension process, these disadvantages could be eliminated.

4. With regard to the payment of subsidies, it has been possible to obtain satisfactory terms, comparing these with other programme in the area. Even so, these could still be reduced by streamlining bureaucratic procedures.

5. The existence of registers of firms integrated within the SSA makes the management of the programme difficult, making it less streamlined. The existence of a single operator would improve the monitoring of the balance and the control of firms.

6. With regard to the co-ordination mechanisms, in the opinion of the interviewees, it would be advisable to increase the representation of local producers.

7. This set of recommendations assumes the continuity of the administrative process to manage the subsidies. Nevertheless, it has been detected that as a whole, the resources available for the management of the programme are excessive for the level of subsidies granted, not only from the administrative point of view, but also from that of the firms or beneficiaries of the programme. This aspect is of special interest especially for the case of the SSA.

   In this sense the modification of the current system of planning and management of the balance on a flexible pluriannual basis with expost controls could eliminate a large number of administrative steps and adapt available resources to the amounts managed by the programme.

   In this way, it would be possible to establish forecasts of demand for a period of years yet to be determined, establish an approximate budget for this period and establish transfers of funds to the local administration by means of advance payments and justifications of demands for funds.

   The application of this measure would require a detailed study of its repercussions and operative feasibility and, specially, the development of mechanisms that ensure the control of subsidies.

8. Lastly, and with regard to the new period of programming, it is recommended that a mechanism be established to co-ordinate the POSEICAN programme with the rest of actions relating to regional development in the Canary Islands, integrating the programme into the rest of the policies that affect the region. Special mentions should be given to the rest of the programme co-financed by the Structural Funds and the national and regional programmes.

6. FINAL SUMMARY

6.1. EVALUATION OF THE OBJECTIVES AND MEASURES OF THE SSA

Having concluded our evaluation, it can be said that the SSA has taken into account the traditional trading practices of the Canary Islands as a free port and has consolidated this tradition for a series of agrofood products that are considered to be basic commodities. While keeping their supply at international prices, broadly speaking, the SSA has offset the effects of the overcosts deriving from the remoteness and insularity of the Canary Islands. It can also be said that the measures contained in the SSA have represented a clear advantage both for the consumers of the Canary Islands and for local industry. However, after evaluating the POSEICAN, the following **weaknesses** have been detected in the SSA system:

1. **The measures selected** in the SSA, based on the assumption of supplying at international prices, **do not include any objective criteria which quantify the overcosts due to the remoteness and insularity** of the Canary Islands, this point being the main weakness of the current system. As a result, the measures contribute to reducing the effect of the overcosts of supplies to a variable degree according to products and economic circumstances.
2. **There is an imbalance between the secondary objectives of the SSA**, as we find that the measures introduced have concentrated on the second part of the secondary objective: *maintain the supplies of Community products.* **Traditional trade flows have been affected in favour of the Community. The third objective of taking local production into account has been the objective of least importance in the SSA.**
3. Although it is possible to limit the amount of a product in the balances of the SSA **in order to take a local production sector into consideration, it is not possible to control the amount of the subsidy (EU) which depends on international prices**. It is dangerous to concentrate the SSA subsidies (EU) on maintaining the supplies of Community products. **The subsidies (EU) calculated can be considered too high for some products (meats and dairy products), and are detrimental to certain sectors of local production.**

6.2. EVALUATION OF THE CONTROL INSTRUMENTS OF THE SSA

Currently, there are instruments available for guaranteeing that the economic advantages are passed on to the end-user. Several organisation intervene in these controls both at a Central Government and a Regional level. The results of the controls can be summarised as follows:

1. **The subsidies are being passed on to the final user.** According to the price control undertaken, the prices on the Madrid test market are clearly higher than those of the two provincial capitals of the Canary Islands.
2. **Decrease in the possibility of fraud** committed in granting subsidies (EU) or an exemption, due to the physical controls carried out by customs.
3. **It has not been possible to demonstrate that subsides have not been passed on by firms**, although financial controls have detected some formal incidents in the correct accounting of subsidies.
4. **The instability created by price fluctuations in the Canary Islands** compared to stability on the peninsula in sectors such as barely processed flours and cereals is noteworthy. This situation can be explained by the lack of stability in the amount of the SSA subsidy (EU) in these sectors.

6.3. EVALUATION OF THE SUBSIDIES FOR LOCAL PRODUCTION

The potato, vine and caprine/ovine sectors are the ones that have the most important social framework, representing **more than 86% of the beneficiaries of the subsidies for local production**. Moreover, the vine and potato sectors have great **environmental repercussion, being a fundamental instrument for sustaining the "medianías" ecosystems** (steep agricultural land located at heights of between 300 and 1200 metres), maintaining the soil and avoiding erosion and desertification.

The most noteworthy aspects in each of the sectors included in the programme are as follows :

1. In the **fruit, vegetables, flowers and tropical plants sectors** an improvement can be seen in exports while production earmarked for the home market has dropped during the time the Programme has been applied.
2. In the **livestock sector** the enormous decrease in bovine production and the more moderate drops in rabbit and poultry productions are noteworthy, compared to the favourable behaviour and improvement of pig and caprine/ovine productions during the time the Programme has been applied.
3. In the **remaining sectors** a favourable development in the local production of vines, potatoes, tobacco (crop) and honey can be observed, compared to the loss of a large part of the local tobacco industry over the years the Programme has been in application.

6.4. COMPATIBILITY BETWEEN THE SSA AND SUBSIDIES FOR LOCAL PRODUCTION

Given the aims and approaches of the SSA system and the subsidies for local production, there would be a confrontation between both kinds of aid in those products which are subsidised both when imported and produced locally.

An analysis was made of whether both kinds of aid caused unfair competition between Community imports made under the SSA and local productions. The main complaint of a large number of those interviewed was in this sense. They considered that the import subsidies (EU) granted under the SSA to certain Community products were too high compared to the subsidies for local production. The most conflictive products were beef and pork, dairy products and wine.

BOVINE MEAT: Imports via the SSA system represent clear competition for local production. The solution consists of controlling (lowering the amount) of the SSA subsidy (EU). The subsidy (EU) should not be allowed to exceed a ceiling which would be detrimental to local production.

PORK : The results of the study do not detect in this sector the problem which occurs in the case of bovine meat. The pig sector is developing positively without problems of compatibility.

DAIRY PRODUCTS : For this sector it is proposed to include the cheese sector in the subsidies for local production, extending the aid granted to the local production of cow's milk for industrial use to the rest of the local production of milk of any kind, provided that it is intended for industrial use.

The meagre tradition of the bovine sector on the archipelago and the great difficulties which exist for its development are especially noteworthy, compared to the pig and caprine/ovine sectors in which it has been possible to promote their development with a lower level of aid.

WINE : **Local production of wine holds its own with respect to imported bottled wine. The problem consists in the fact that bulk wine** is introduced onto the bottled wine market with names and images suggestive of the Canary Islands.

6.5. PROGRAMME MANAGEMENT

The overall assessment of the POSEICAN programme from the cost-efficiency point of view of the management system is favourable. The improvements introduced have increased the quality of the information issued by the programme, improved the planning of the balances as well as their execution and improved the co-ordination between institutions at a national, regional and Community level.

Nevertheless, there is still room for manoeuvre in order to improve the current management system, especially in the case of the SSA. With the present system, management costs are disproportionate for the level of aid received, especially at a regional level. These management costs are also excessive for firms integrated within the SSA system.

With regard to a new programming process, and in order to facilitate the programme evaluation process, it would be advisable to justify with quantitative information both the needs which it is wished to correct and the objectives pursued, both for the SSA and for the Subsidies for Local Production.

6.6. FINAL CONCLUSIONS AND RECOMMENDATIONS

In the form of final conclusions and after the previous comments on the evaluation of the two main measures of the agricultural part of POSEICAN, the recommendations for improving the Programme are set out below.

WITH REGARD TO THE SPECIFIC SUPPLY ARRANGEMENTS (REA)

1. The principle of supplies at world prices must be reviewed and **objective criteria must be introduced to quantify the overcosts due to remoteness and insularity in order to ensure that these are offset**. In this sense, finished products, with overcosts linked mainly to transport, could be differentiated from raw materials for local industry which also have other overcosts deriving from insularity.

2. **The estimation of overcosts deriving from remoteness and insularity should include the following minimum criteria**[10]:

[10] These criteria may serve to reflect upon a method to calculate a subsidy objectively linked to remoteness and insularity. This study does not intend to provide a formula to quantify these.

OVERCOSTS LINKED TO TRANSPORT (for all SSA products):

1. Transport costs from the port of origin to the warehouse in the Canary Islands.
2. Costs deriving from double insularity.
3. Differential costs of storing and financing *stock*.

OVERCOSTS LINKED TO INSULARITY (only for raw materials that are to be processed on the archipelago):

4. Costs deriving from the limitations of the market and access to the home market.
5. Costs induced by the level of use of plants.
6. Costs deriving from the fact that they do not form part of a wider industrial fabric.

3. These criteria should be used in order to :

- **Establish a minimum subsidy (EU)** that would come into effect when the refund does not reach a certain minimum threshold.
- Or, disconnect the subsidy (EU) from the refunds completely and **fix an "ad-hoc" amount** for each product.

In this way those **subsidies (EU) that are too high** for some products (meats and dairy products), and are detrimental to certain sector of local production, would be avoided.

4. With regard to the **instruments of control of the SSA,** a **body which would centralise** the results of the controls of the SSA that are being carried out at different levels **should be considered** and **regulations should be established to impose fines** (currently in preparation) for administrative type controls for the SSA.

WITH RESPECT TO THE SPECIFIC MEASURES IN FAVOUR OF LOCAL PRODUCTION

5. **In the tropical fruit, vegetables and plants sector,** the following is recommended:

- Consider a study to analyse the local production of fruit and vegetables that would be more comprehensive than the ones established in the regulations, and would concentrate especially on the production of fresh items. Would also make reference to processed products.
- Increase the amount of subsidies/ha in order to promote programmes designed to create a series of initiatives if it is wished to keep this subsidy in the Programme.
- Introduce a subsidy for marketing production for the local market to provide greater support for the fruit and vegetables sub-sector, which has not been favoured by the measures introduced by the Programme.

6. **In the bovine livestock sector**, the following recommendations are made:

- Match in some way the subsidies for the **meat** that is imported under the SSA with the subsidies for local production in the Canary Islands, with a view to correcting the considerable imbalance existing in the subsidies for imported fresh and refrigerated meat.
- Check that the SSA subsidy for imported milk allows fair competition with the milk produced locally.

7. **In the pig livestock sector**, the following is recommended:

- Allow the entry of the required number of animals without excessive red tape.

8. **In the caprine/ovine sector**, the following is recommended:

- Change the incorrect manner in which the subsidy is calculated as this kind of farming is used primarily for milk production and currently the calculation of the premium is based on meat production.
- Encourage the formation of associations with premiums in order to increase the organisational capacity of the sector.
- Include goat's and sheep's milk in the subsidies for milk consumption, which currently only affects bovine livestock.

9. **In the rabbit breeding sector**, the following is recommended:

- Increase the balance of father and grandfather breeding rabbits.

10. **In the poultry sector**, the following is recommended:

- Modify the approach to the subsidies by decreasing the balances of breeding hens and eggs for incubation and increase the amount of this subsidy.
- Include commercial laying hens in the SSA balance.
- Establish a subsidy for locally produced poultry meat intended for industrial use.

11. **In the vine sector**, the following is recommended:

- Provide greater incentives for the formation of associations through the Regulating Councils in order to structure the sector and increase the scope of the aid.
- More advice on technical matters and the creation of experimental vineyards.

12. **In the potato sector**, the following is recommended:

- Link the subsidy per ha to the obligation to extend the meagre structure of the sector and increase the scope of the aid.
- Recalculate the aid per ha or replace it with a subsidy per kilogram.
- Maintain the subsidy for the importation of seed potato under the SSA. An increase in the amount of this aid might be considered.

13. **In the tobacco sector**, the following is recommended:

- Disassociate the POSEICAN premium for tobacco growing from the system of quotas.
- Globalise the 20,000 Tm quota of the tobacco industry in order to allow semi-manufactured tobacco to be brought in, in addition to agricultural tobacco (leaves from plants).

14. **In the honey sector**, the following is recommended:

- Bring the figure of 5000 hives with the right to subsidies into line with the current needs of the archipelago (some 12,000).

WITH RESPECT TO THE MANAGEMENT OF THE PROGRAMME:

15. **Increase the number of products that, within the balance, distinguish between use for processing and direct consumption** with the aim of defending the processing sector (in many cases, small companies) from the stockpiling practised by distributors.

16. Introduce a **mechanism that guarantees automatically** (with a shorter procedure than at present**) the acceptance of an extension of the balance** in order to resolve the aforementioned problem. In accordance with this, one way of simplifying the system would be to propose the management of SSA funds on a regional level, by means of annual advance payments.

17. **The existence of a single Registry of Firms** (currently there are two) would improve the monitoring of the balance and the control of firms.

18. **Modification of the present system of planning and management of the balance on an annual basis with a flexible pluriannual system** with expost controls could eliminate a large number of administrative steps and adapt the resources available to the amounts managed by the programme.

19. Lastly, and with regard to the new period of programming, it is recommended that a mechanism be established to co-ordinate the POSEICAN programme with the rest of actions relating to regional development in the Canary Islands, integrating the programme into the rest of the policies that affect the region. Special mention should be given to the rest of the programme co-financed by the Structural Funds and the national and regional programmes.

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