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IMPACT ASSESSMENT

Common Agricultural Policy towards 2020

ANNEX 5

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Annex 5: Market Measures

TABLE OF CONTENTS

1. CONTEXT

Agricultural market developments have attracted considerable attention recently, due to increasing consumer food prices and excessive short term price fluctuations of agricultural commodity prices. Agricultural commodity prices have displayed historically high levels of volatility with very sharp variations in short periods of time, commencing with the commodity price boom in 2007, followed by the steep fall in the wake of the economic crisis and the recent sharp rebound in 2010.

Although some price variation is functional to agricultural markets, extreme or excessive fluctuations cause major uncertainties for producers. Indeed, the impact of excessive price fluctuations on food production is a source of concern for farmers (but also others along the supply chain). This issue has brought a lot of attention to the role of market instruments in stabilising markets, as well as stabilising farmers' incomes.

Another source of concern is the cost of inputs. For the past five years, input costs have, on average, increased faster than output prices, leaving farmers with a 'squeezed' margin between fluctuating revenues and structurally higher input costs. Therefore, merely focusing on stabilising the prices farmers receive is no longer sufficient in stabilising farmers' incomes. Rather, it requires a more complex approach, taking into account also the cost side of the income equation[1].

The aim of this note is to review the existing market instruments in the context of emerging factors influencing agricultural markets and the objectives set out in the Communication on *The CAP towards 2020*, of stabilising markets and contributing to farm income, improving competitiveness of agriculture, and enhancing the value share of agriculture along the food chain. The resulting options for policy change are then assessed with regard to their potential economic, environmental and administrative impact as well as their compliance with WTO obligations.

1.1. The current policy framework

The Single Common Market Organisation (sCMO)[2] provides the legal framework for the market instruments currently available with regard to domestic markets, trade with third countries and rules regarding competition. A brief overview of these instruments is presented below, organised according to their scope for (internal) market management, border control and supply chain functioning.[3]

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1 See Annex 6 on Risk Management.

2 COUNCIL REGULATION (EC) No 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products

3 Annex I provides a more detailed description of current instruments, while additional elements are referred to in Annexes II and VI on quality policy and consumer related policies.

Market management measures

Private storage aid represents a first layer of market management, as it is triggered, as a general rule, at a price level which is closer to market prices (above the intervention price level). The aid is mandatory for butter and optional for white sugar, beef, pig meat, sheep and goat meat, and olive oil. Private storage has been applied several times for meat products, and in 2008 for olive oil, whereas due to the market condition it has not been used for beef and sugar (and sheep meat only in the 1990s).

Public intervention is foreseen for cereals, rice, skimmed milk powder (SMP), butter and beef. Intervention prices, triggering mechanisms, calendars and quantitative ceilings vary across sectors. For cereals (with the exception of wheat) and rice, opening of buying-in is decided by the Commission.

Special intervention measures and special measures in case of market disturbances can be implemented at member state or regional level under specific circumstances for certain sectors: to combat animal diseases for animal products or in case of loss in consumer confidence (for poultry only), or in cases where prices on the EU market rise and/or fall significantly.

Production quotas have been an important instrument for market stabilisation, in sectors facing overproduction, notably the dairy, sugar and wine sectors. Dairy and sugar quotas are set to expire following the respective 2014/2015 quota year, following earlier decisions on the CMO in 2003 and 2004 respectively. The wine planting regime is set to end from 1 January 2016 (although some national restrictions may remain until 2018).

Other instruments whose main aim is not that of supporting markets could have an indirect impact on market stability or assist in insulating farmers from extreme volatilities in commodity markets, such as the existing food programme for the most deprived persons[4]. Other programmes, like the school milk[5] and school fruit[6] schemes provide aid for the distribution of these products under certain conditions to schoolchildren.

EU quality policy instruments provide producers the possibility to add value-added to their products by the protection of certain marketing designations in the marketplace (e.g. geographical indications, organic label, and traditional specialities). Thus, a retailer can only offer such products by purchasing them from the limited volume of certified products. This ensures farmers participating in quality schemes[7] a price premium and a certain protection against short term commodity price fluctuations.

Border protection

Common import tariffs apply for most agricultural products. Tariff-rate quotas are also used for various products. Imports can enter with lower tariffs or even duty and quota free under EU preferential agreements. There are safeguard provisions (especially additional duties) should imports reach trigger levels (high volumes and/or low prices). As a

4 http://ec.europa.eu/agriculture/most-deprived-persons/index_en.htm

5 http://ec.europa.eu/agriculture/markets/milk/schoolmilk/index_en.htm

6 http://ec.europa.eu/agriculture/markets/fruitveg/sfs/index_en.htm

7 See Annex II on the inter-relation of EU quality instruments and market measures.

combined result of CAP reform, WTO rules and world market developments, the use of export refunds has significantly decreased in terms of expenditure, quantities and product coverage.

Measures linked to food chain functioning

The sCMO is the common legal base for recognition by Member States of certain forms of producer cooperation in selected sectors.

Producer organisations (POs) are operating in the fruit and vegetables (F&V), olive oil, hops, wine and tobacco sectors, although with different objectives and means.[8] The current aim of POs in the F&V sector is to ensure that production is planned and adjusted to demand, both in terms of quality and quantity; to concentrate supply and to place products produced by its members on the market, and to optimise production costs and stabilise producer prices. Each PO has to market the production of its members and can manage one or more of those actions. Specific rules exist for association and recognition of POs and associations of producer organisations (APOs) in the F&V sector. Recognition - either POs or APOs - is merely an 'entrance requirement', and not a support measure in itself.

EU funds to POs in the F&V sector are provided in the form of contribution to the creation of operational funds, co-financed in most cases at 50 % and limited to 4.1 % of the value of marketed production. Support is currently available under rural development to foster the setting up and the administrative operation of producers groups (PGs)[9] in EU-12 Member States.

Interbranch organisations (IBOs): Member States are obliged to recognise IBO organisations in the F&V, olive oil and table olives, and tobacco sectors. Common rules are also laid down for IBOs in the wine sector and under proposal for the dairy sector. The disciplines decided by the IBO members are only effective for the members of the IBO. For example, when the French F&V IBO decides quality rules for apples, they do not apply to apples produced in other Member States or third countries. The possibility to extend certain rules issued by an IBO to national non-member producers are however possible in the F&V sector. As for POs and APOs, recognition is merely an 'entrance requirement', and not a support measure in itself.

1.2. Emerging factors

The CAP reform process started with the MacSharry reform in 1992 aimed to **increase market orientation of the sector and thereby contribute to enhancing its competitiveness**. This has been achieved through the progressive reduction of support prices (see Figure 1) and other support instruments, while at the same time accompanied by the introduction of direct payments with the aim of ensuring a certain degree of income stability to producers.[10]

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[8] While the available legislation provides for POs in the silkworms sector, none exist currently.

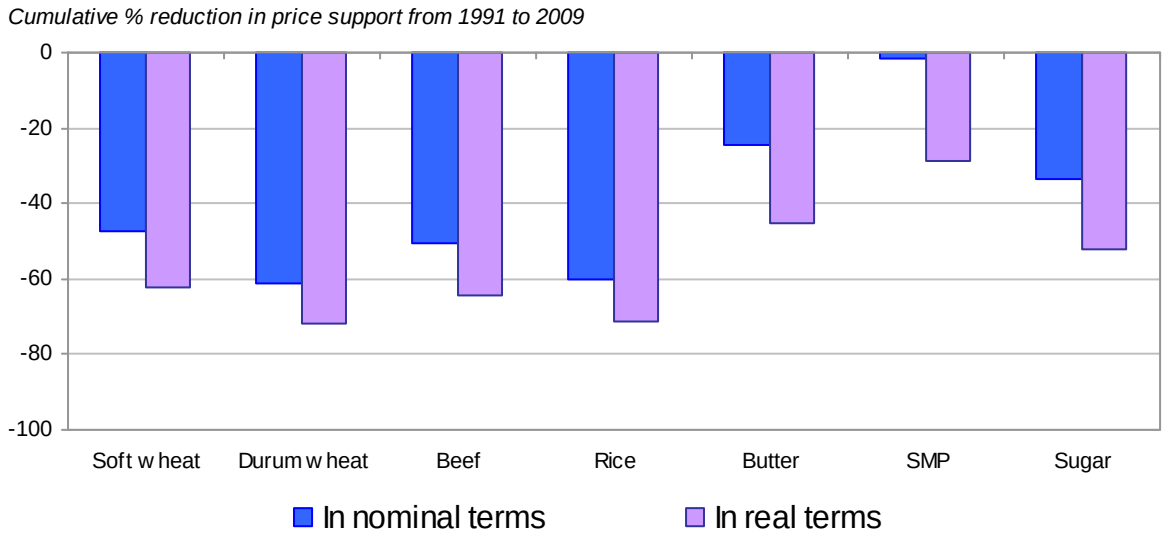
[9] Producer groups are defined as farmers organisations that have not yet achieved the status of recognised producer organisations

[10] The Agricultural Policy Perspectives Brief on *The CAP in perspective: from market intervention to policy innovation, January 2011* provides an overview of policy developments since the MacSharry reform. http://ec.europa.eu/agriculture/publi/app-briefs/01_en.pdf

During the Health check of the CAP, intervention has been modified in a way that keeps its **role as a safety-net for farmers in case of market disruptions**.[11] It was also decided to gradually increase milk quotas in order to pave the way towards a soft landing for the dairy sector in 2015, when quotas will expire.

Intervention prices for cereals have been lowered in total by 45 % in nominal terms (30 % in the 1992 Reform and by 15 % in Agenda 2000), and through abolition of monthly increments during the Health Check reform. The intervention price for wheat has been lower than both the EU and world market prices in the last decade, and EU market prices have been following the same trend as world prices.

Figure 1: Reductions in EU price support since 1991



Source: DG Agriculture and Rural Development.

In the beef sector intervention prices have been lowered by a cumulated 50 % in nominal terms following cuts under the MacSharry and Agenda 2000 reforms. The intervention price for beef has been much lower than EU and world market prices during the last eight years, with EU prices following the same trend as international prices.

SMP and butter intervention prices have been reduced by 15 % and 25 % respectively since Agenda 2000. SMP support prices have been further reduced under the 'mini milk package' in 2008 to take account of protein standardisation.[12] In the case of butter, the average EU market price seems to have been reflecting trends in the international market since 2007 although the EU market price remains in general above the world price level.

Under the ongoing WTO negotiations, the EU has committed itself to phase-out export refunds on the condition of the elimination of all similar measures by other developed countries. A successful completion of the Doha Development Round of agricultural trade negotiations would imply that these instruments could no longer be used.

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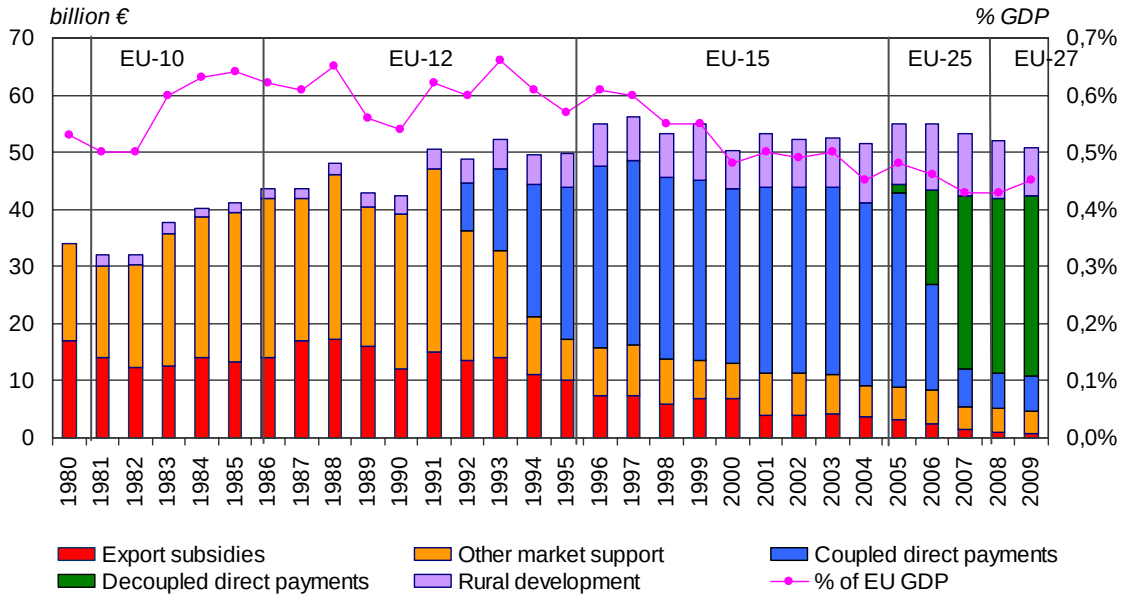
[11] Annex III provides an overview of the implications on competitiveness between Member States in three main sectors (dairy, wheat and beef) based on comparing operating costs and total receipts with respect to intervention price levels

[12] COUNCIL REGULATION (EC) 1152/2007 of 26 September 2007

These policy changes (as well as the introduction of the mechanisms of modulation and financial discipline) have significantly changed the level and composition of the financial support to the agricultural sector. While in the past market and export support used to constitute the bulk of the CAP expenditure, most of the CAP budget is now spent on decoupled payments and direct aids. Over the period 2007-2009 market intervention captured only 9 % of the CAP budget. Figure 2 provides an overview of CAP budget expenditure over the period 1980-2009.

Figure 2: The path of CAP expenditure 1980–2009 (in 2007 constant prices)



Source: European Commission, DG AGRI

1.2.1. Increased exposure to external factors

The move towards greater market orientation exposes farmers to higher price volatility as instability on world commodity markets may permeate to EU markets more easily due to reduced market intervention and more open markets.

Increased price volatility is mainly expected to stem from the continued integration of global commodity markets with financial markets and the closer link between agriculture and non-agricultural commodity markets, as well as the impact of climate change.

Based on recent developments, agricultural prices are expected to continue to move in line with non-agricultural prices (especially energy and minerals), particularly as the biofuel sector is foreseen to reinforce the link between agricultural commodities and energy prices (both on the supply and demand side), allowing volatility on energy markets to affect agricultural prices. [13]

Climate change has far reaching effects on global production patterns, with the frequency and magnitude of extreme weather conditions increasing the uncertainties of supply and therefore the possibility of further excessive price volatility. In the short term, overall EU

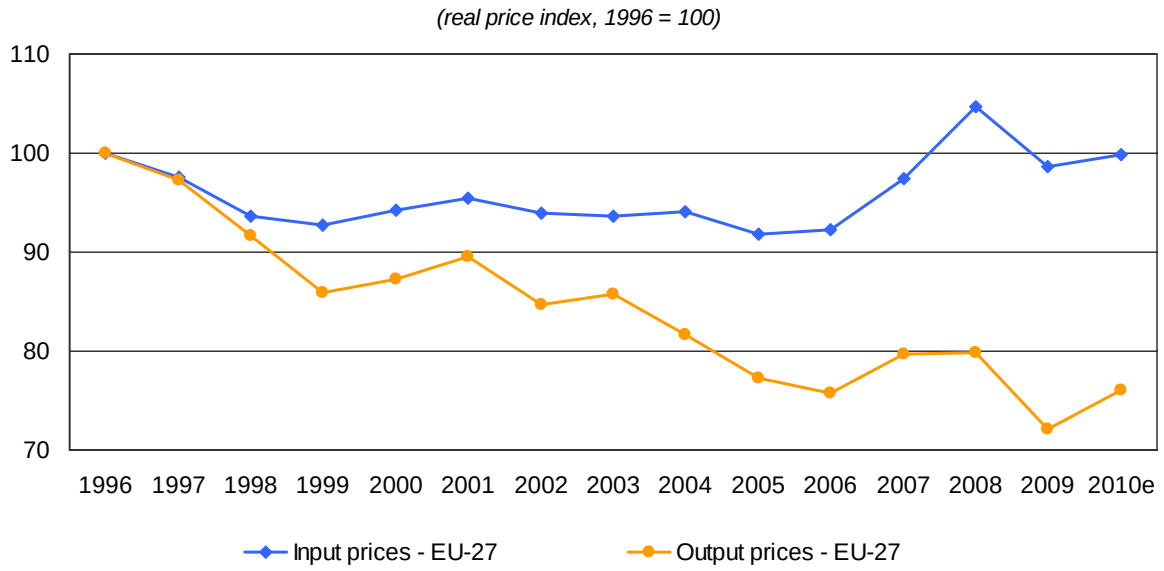
[13] The Agricultural Markets Perspectives Brief on *High commodity prices and volatility …what lies behind the roller coaster ride?, June 2011* analyses the factors driving price developments in agricultural markets. http://ec.europa.eu/agriculture/analysis/tradepol/commodityprices/market-briefs/01_en.pdf

food production is not expected to be greatly altered by climate change, but greater differences will arise between countries. Therefore climate change related risks on the agricultural sector, food security and rural economy are an increasing cause for concern.

Another issue related to the relationship between agricultural and non-agricultural prices emerges clearly when looking at **input and output price trends**. Figure 3 displays the evolution of agricultural input and output prices for the EU-27 since 1996.

The Figure reveals that in the past, input costs (fertilizers, gas prices, etc.) were decreasing on average, albeit at a much slower rate than the decrease of output prices received by farmers. This narrowing gap between output and input prices was compensated by productivity gains. This trend has been exacerbated during the 2007-2008 price boom and subsequent price drop, with input prices increasing at a higher rate during the boom and declining less during the price drop, compared to output prices. As such, the gap between the two price indices has widened significantly, causing a margin 'squeeze' for farmers while increasing the volatility of farm income. In recent years the productivity gains were not sufficient to compensate for the deteriorating terms of trade in agriculture.[14]

Figure 3: Evolution of agricultural input and output prices for EU-27[15]



Source: Eurostat.

1.2.2. Uncertainties of current market prospects

Based on the most recent agricultural market perspectives available from different sources[16] commodity prices are projected to stay firmly above EU reference price levels over the medium term. According to the DG AGRI *Prospects for agricultural markets and*

[14] The Farm Economics Brief on *Income developments in EU farms, June 2011* analyses the factors driving income developments in EU agriculture. http://ec.europa.eu/agriculture/rica/pdf/Brief201101.pdf

[15] Note that input and output prices are reflected in indices, thus the actual prices are not comparable.

[16] DG AGRI 2010, FAPRI 2011 and OECD-FAO 2011,.

income in the EU 2010-2020,[17] agricultural prices would be supported by the growth in global food demand, the long-term decline in food crop productivity growth, and by the development of the biofuel sector.

While the expected demand growth resulting from the assumed economic recovery and mandatory biofuel mandates should support production expansion, EU output would remain under its full potential as the expected increase in input costs would limit the profitability of production. As such, **the means to improve profit allocation along the food chain will remain an important elemen**t. In addition, crop yields are expected to continue their declining rate of growth observed during the previous decade.

The assumed appreciation of the euro would further weaken the competitiveness of EU exports on world markets, leading to a loss in world market share at a time when global demand is expected to grow at a relatively fast pace. The deteriorating competitiveness of the EU under the current setting is further emphasized in the analysis of alternative assumptions on yield and global demand growth rates. Therefore, in order to enable producers to make the most of market opportunities, the **efforts towards improved market orientation should be maintained**.

Although commodity markets are expected to remain balanced over the outlook period without the need for market intervention, the SMP market in particular, could remain sensitive to global supply-demand developments over the near term, given the level of EU intervention stocks accumulated during the milk crisis in support of the market.[18]

In addition, **the large number of uncertainties and risks surrounding the market prospects** (such as the pace of economic recovery, future changes in the policy environment, the path of technological change, etc.) **highlight the need for an effective safety net as well as risk management instruments.**

1.2.3. Uneven distribution of value added along the food chain

The food supply chain has undergone important structural changes over the past decade, with the value-added increasingly created in sectors downwards the chain, primarily in the distribution sector and in the food industry. Analysis presented in the Communication from the Commission on *a better functioning food supply chain*[19] shows that the share of the agricultural sector in the total value added of the food supply chain has dropped from 31 % in 1995 to 24 % in 2005 while the respective shares of the food processing, food wholesale and food retail sectors have increased from 31 % to 33 %, 11 % to 13 % and 27 % to 30 % respectively.

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[17] The prospects assume a status quo policy environment, economic stability and relatively favourable world market perspectives. The CAP is assumed to follow the Health Check decisions, and global trade policy to respect the Uruguay Round Agreement on Agriculture. Macroeconomic assumptions include a gradual and modest EU GDP growth at around 2 % p.a. and a steady appreciation of the euro to around 1.47 USD/EUR. http://ec.europa.eu/agriculture/publi/caprep/prospects2010/index_en.htm

[18] Since publication of the prospects the SMP market has been stable, supported by strong demand and limited global supply, enabling a gradual de-stocking from intervention without adversely affecting the markets.

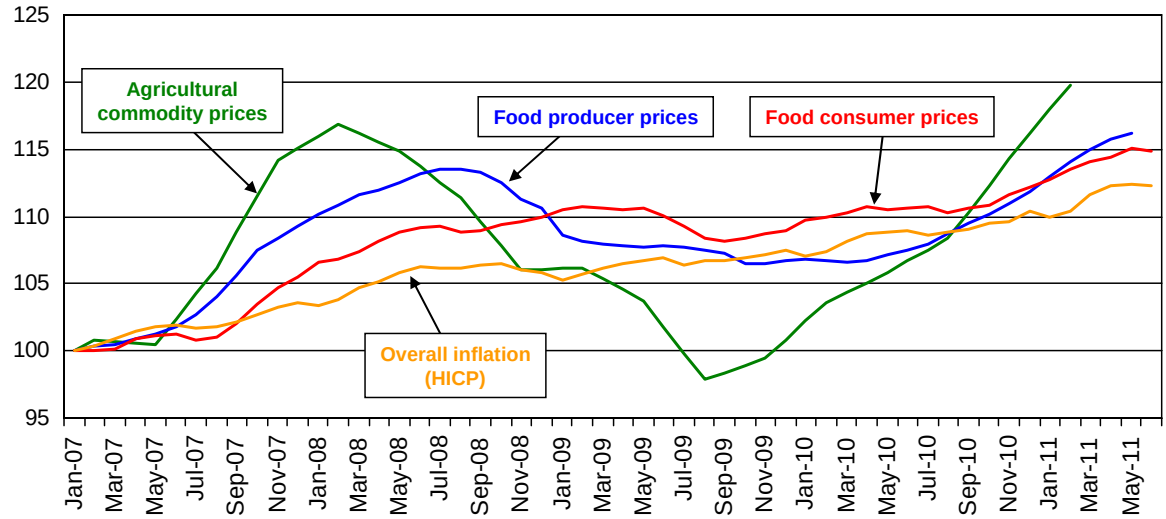
[19] Staff working document on *The evolution of value-added repartition along the European food supply chain* accompanying the 2009 Communication from the Commission.

An important factor behind this increase in the dispersion of repartition of value-added has been the relative evolution of output prices *vis-à-vis* input prices, such that moving downwards along the chain output prices have increased at higher rates than input prices (cf. previous section for the implications on producer margins).

In addition to the falling share of value added for agriculture, commodity and consumer prices have displayed diverging trends over the period 2000-2010, with a relatively stable increase in food producer and consumer prices compared to the more volatile prices of agricultural commodities (Figure 4), and resulting in a widening gap between commodity and consumer prices.

Since 2007, there has been a significant change in the price transmission pattern along the chain, such that on the one hand the magnitude of price variations for food producer and consumer prices are lower than commodity price changes, and on the other hand the speed of price transmission has slowed going downwards along the chain, while remaining instantaneous for transmission upwards the chain. **The slow and asymmetric transmission of price changes delays necessary adjustments and helps prolong market inefficiencies along the chain and can therefore exacerbate price volatility in commodity markets**[20].

Figure 4 Price trends along the EU food supply chain, 2007-2011



Source: European Commission – DG Economic and Financial Affairs, based on Eurostat data

Evidence for the apparent 'stickiness' of consumer prices has been demonstrated during the recent dairy crisis and its aftermath, where the sharp decline in dairy commodity prices in 2008 failed to translate fully into lower dairy prices at consumer levels. Dairy consumer prices exhibited a 'rocket and feather' evolution pattern in which dairy consumer prices were fast to rise (along with dairy commodity prices) but slow to decrease (when dairy commodity prices fell), preventing demand for dairy products to adjust to lower commodity prices, eventually slowing down price recovery and exacerbating the impact of low prices on milk producers.

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[20] From *Analysis of price transmission along the food supply chain in the EU*, an accompanying document to the Communication on *A better functioning food supply chain in Europe* COM(2009) 591

The dairy crisis has also raised awareness of the significant tensions in contractual relations between actors of the chain and the lack of price transparency along the chain. The problems with contractual relations stem from the diversity of actors active in the chain and their differences in bargaining power. This is exacerbated by **the lack of price transparency along the food supply chain that prevents market signals to reach economic agents in time and thus hampers the proper functioning of the market**.

As such, recent developments in the dairy sector revealed important inefficiencies regarding the functioning of the food supply chain, with relation to price transmission, price transparency and bargaining power, bringing to the fore the role that improved producer cooperation, and producer organisations in particular, could play in alleviating these inefficiencies and providing producers with an improved share of the value added, particularly in the context of greater market orientation and high input cost environment.

1.3. The case for a review

The system of market instruments is very articulated and complex. As shown in Section 1.1, the sCMO is characterised by a complex structure of measures. Market management tools currently in place have been designed and progressively modified - along the CAP reform path - based on specific needs in the various sectors. This has led to a very complex and articulated architecture with a set of intervention tools, whose relative importance, main parameters, and implementation may differ widely between sectors.

Intervention already acts as a safety net. The intervention system has been progressively modified over the years. Support and/or reference prices have been reduced to levels that provide a safety-net in terms of severe market disruption and no longer represent a market outlet for farmers. Changes in policy instruments may raise the need for certain products to be added to the list of products covered by intervention and/or private storage aids.

It is vital that the Commission has the **possibility to intervene quickly under urgent circumstances** in all sectors, while under the current framework disturbance clauses provide support for a limited number of sectors in case of certain crisis situations.

Production quotas are set to expire. Quotas provide rigidities and prevent the industry to respond rapidly to market developments. By putting limits to economies of scale, they also indirectly slow down the development of innovative bio-based products, therefore hampering the development of the bioeconomy. In the future, alternatives, including a non-disruptive end of sugar quotas, need to be examined to bring about greater efficiency and competitiveness for the sector. The abolition of milk quotas has been assessed in the context of the Health Check of the CAP.

Improving the functioning of the food supply chain is deemed necessary in a context of increased market orientation and high input cost environment, particularly to re-balance the bargaining power along the food chain. Imbalance of bargaining power in the food chain is a structural problem. This can mean that farmers receive a limited share of the value-added in the chain, which is often retained by other actors. Moreover, without well-functioning transmission of market signals, the long-term prospects of the farm sector and its share of the value added generated by the whole food chain are in jeopardy. Lack of transparency on price formation along the chain is considered one of the main problems as to why primary producers are not in all cases receiving accurate prices.

2. OBJECTIVES

Continued **market orientation** would be needed to maintain the competitiveness of EU agriculture. To do so it is necessary to keep the overall market orientation of the CAP while **providing a safety net for farmers in case of strong market disruptions**, which does not lead to unsustainable public stocks, but contribute to the stability of commodity markets and farm income.

The whole system of market measures is complex; therefore the **simplification of the system, its implementation and control** will surely lead to benefits to farmers and public institutions.

Tight producer margins may be alleviated by **improving distribution of value added along the food chain** through strengthening bargaining power of farmers, promoting more effective contractual relations and enhancing price transmission and transparency along the food chain. In particular, it is deemed necessary to foster cooperation among producers as well as increase awareness and reinforce the responsibility of the operators in the food chain to better take into account market signals and adapt supply to demand. This is certainly desirable across all sectors, although the extent of the problems is not uniform.

3. OPTIONS

The options presented here relate to the objectives and are not mutually exclusive; they may be inserted in any of the general policy options (i.e. adjustment, integration and refocus) as outlined and examined in the synthesis report on *The CAP towards 2020 Impact Assessment of Alternative Policy Options*.

3.1. Simplify and streamline existing instruments

Simplification and streamlining could be achieved through the adjustment of the current system without changing support levels. The general architecture of the market management tools would not change (including border measures), although corrections could be introduced to streamline and simplify existing market instruments where appropriate.

Main changes:

- Rearrange and streamline special intervention measures and disturbance clauses, through an horizontal instrument that may include two kinds of actions/situations: i) market disturbances in all sectors, and ii) mitigate market impact from animal or public health risks in animal products, with a review of the product coverage and the possibility of urgent delegating acts.

- The sugar quota scheme (including isoglucose) would be abolished, either following the 2015/16 marketing year or phased out by 2017/18 through two successive annual quota increases of 3% (for both sugar and isoglucose) in 2015/16 and 2016/17, while maintaining the support prices.[21]

[21] Please note that the abolition of milk quotas and planting rights in the wine sector are not covered in this reform package and are therefore outside of the scope of the impact assessment.

- Intervention: *Reference/intervention prices* remain unchanged, but it could be considered to remove the current *fixed quantities* and/or *fixed buying in prices*. Removal of *automatic purchases* at a fixed price up to the quantitative ceilings for common wheat, butter and SMP. The system will open automatically via *tendering procedure* for wheat, butter and SMP, while opening would be *optional* for barley, maize, rice and beef. Durum wheat and sorghum would be removed from the list of *eligible products*.

- Private storage aid: the aid would be foreseen for butter, beef, pig meat, sheep and goat meat, white sugar, and olive oil. Optional private storage aid for SMP and flax fibre would be considered, while the aid for sugar would be removed with the abolition of the sugar quota. An alternative approach foresees private storage as an optional tool only, with butter no longer eligible for mandatory aid. An additional option is to extend the aid to other products by means of delegated acts in the light of market circumstances.

3.2. Improve the food chain functioning

This option sets out the objective to enhance the share of value added for agriculture in the food chain by improving the bargaining power of farmers, their contractual relations and price transparency along the food chain through fostering cooperation among producers. While for farmers the participation to horizontal cooperation will continue to be on a voluntary basis, the framework for cooperation would be improved following three alternative approaches with regard to the level of regulation: i) flexible cooperation, ii) enhanced cooperation and iii) regulated cooperation.

i) Flexible cooperation

While this option does not foresee additional changes to the CAP other than that already in process (i.e. milk package of 2010[22]), it considers the possibility of a more efficient use of measures currently available, by supporting pro-competitive cooperation between farmers. Of most importance is the better use of the wide range of possibilities farmers have under the current competition rules in order to engage in several forms of cooperation, relating to joint production and marketing, including a consolidation of production assets (in co-operatives), rationalisation of marketing activities and/or vertical integration into the downstream collection and processing stages. This option could include measures aimed at raising farmers' awareness of these possibilities, which are currently often not taken advantage of, through the farm advisory system and rural development measures promoting knowledge and innovation (e.g. information actions).[23]

ii) Enhanced cooperation

This option expands on the flexible approach by providing greater legal certainty for cooperation in the form of producer organisations, associations of producer organisations and interbranch organisations. Accordingly, Member States shall recognize *producer organisations* (POs) and *associations of producer organisations* (APOs) in all sectors

[22] COM (2010) 728 of 9 December 2010

[23] As described in section 1.3.2. of Annex 7 on Research and Innovation

covered by the sCMO, including those where it is not foreseen in the existing legislation. POs may pursue any (or several) of the following objectives:

- planning production and adjusting production to demand, particularly in terms of quality and quantity;
- concentrating supply and placing the products produced by its members in the market;
- optimising production costs and stabilising producer prices;
- protecting and improving the environment;
- providing information and improving knowledge and transparency of production and markets;
- improving quality and participation in quality labelling schemes.

Rules for *associations of producer organisations* (APOs) would be based on the existing legislation for the fruit and vegetable, wine and olive sectors.

Member States shall recognise *interbranch organisations* (IBOs) in all sectors covered by the sCMO, including those where it is not foreseen today, provided that the IBOs

- are made up of representatives of economic activities linked to the production of, trade in, and/or processing of products in one or more sectors;
- are formed on the initiative of all or some of the organisations or associations which constitute them;
- pursue a specific aim, such as improving knowledge and the transparency of production and the market, helping to coordinate better the way the products are placed on the market, developing methods and instruments for improving product quality at all stages of production and marketing, developing methods and instruments for improving product quality, accessing specific quality market segments, etc.

Support for setting up *producer groups* (PGs) would be provided as a single measure under rural development policy for all sectors covered by the sCMO, in all Member States. As such, the existing specific support in the fruit and vegetables sector would become redundant.

iii) Regulated cooperation

This approach extends the measures suggested under the enhanced cooperation approach, for example to include the obligation to use written contracts, and the permission of collective bargaining by POs, in particular derogation from the prohibition on price fixing. Such measures would follow a sector approach and would be based on ad-hoc impact assessments. Limits would be imposed in terms of market coverage.

In the case of sugar, in view of the imbalance between beet and sugar producers after the phase out of quotas, and of existing obligatory price and contract requirements, an obligation for written beet delivery contracts should be introduced.

Specific provisions would be applicable to the milk and milk products sectors, based on the Commission proposal following the conclusions of the High Level Group on milk, as regards *contractual relations.* These provisions would allow POs or APOs constituted by

dairy farmers to negotiate contract terms, including price, with a dairy processor. In order to avoid negative impacts on competition on the dairy market, appropriate quantitative limits would be applied on the scope of POs and APOs with regard to production volumes. Furthermore, these provisions would be subject to review in order to assess their efficiency and whether they should continue to apply.

General considerations regarding producer cooperation

Attention would be given to certain activities of producer and interbranch organisations, in order to avoid negative impacts, such as the partitioning of markets, affecting the sound operation of the sCMO, distorting or eliminating competition at national or EU level, entailing price fixing, or creating discrimination.

In particular, the following issues are at stake: i) potential risk of excessive producers bargaining power or even producer monopoly, which would be as negative as any other monopoly, ii) potential impact in medium and small enterprises and their capacity to compete and develop; iii) potential slowdown in the modernisation path of the industry, as a by-product of the reduced competition; iv) potential loss of long term competitiveness and innovation capacities, as also a by-product of the reduced competition; v) impact on consumers prices, and in particular on low-income consumers.

As such, efforts would be necessary to ensure that the regulated cooperation of producers and/or producer organisations are not based solely on achieving higher prices through increased bargaining power, but on incentives to optimise production costs, improve market transparency and production planning that together foster a more equitable distribution of the value-added along the supply chain and improve the producers' margins in an environment of high input costs.

The objectives for improved cooperation, particularly with relation to POs and IBOs, as they appear in the policy option, have been defined to conform with the spirit of current competition rules that allow several forms of cooperation among farmers as long as they entail efficiency gains from consolidation of production assets, rationalisation of marketing activities and/or vertical integration into downstream collection and processing stages.

While the impact assessment relies on recent experience and evaluations, attention will be given to on-going discussions and research on food supply chain issues, particularly within the context of the *High Level Forum for a Better Functioning Food Supply Chain*[24] and the research project on the *Transparency of Food Pricing (TRANSFOP)*[25].

3.3. Strong focus on the market

This option entails a minimum level of intervention with a much stronger focus on market forces, including the abolition of all market measures with the exception of disturbance clauses which could be activated in times of severe crises.

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[24] http://ec.europa.eu/enterprise/sectors/food/competitiveness/forum_food/index_en.htm

[25] http://www.transfop.eu/

4. IMPACTS

4.1. Simplify and streamline market intervention

4.1.1. Economic advantages and disadvantages

Opening public intervention purchases via tendering from the very first tonne without fixed prices and/or fixed quantities may create some initial uncertainty about the actual level of the safety net. On the other hand, removing the fixed price allows intervention to act only when (and at a level where) necessary, thus eluding in certain cases unnecessary expenditure. One of the disadvantages of the existing system is that, under a tendering system, operators may be willing to offer intervention products (e.g. wheat) at a lower value compared to the fixed intervention price and therefore reducing the level of support.

In the beef sector private storage aid was introduced in Agenda 2000 as the main tool available for market support, with public intervention maintained as a safety net. Public intervention was last used in 2001. Since then, the EU beef market has significantly evolved with falling production and the EU becoming a net importer.[26] The present trigger price for intervention is substantially below market price levels in virtually all Member States, thus it could be considered to abolish beef intervention. However it is not recommended that the basic underpinning support provided by the intervention system is removed for such an important EU sector.

Making private storage aid for butter optional would allow using this instrument in duly justified cases at times of crises, thereby avoiding a 'regular' financing of storage costs for the dairy sector. While maintaining private storage without any change would be in line with the recommendations of the High Level Group on milk and the subsequent Council conclusions regarding the importance of the existing instruments to manage the dairy market, a disadvantage is that in normal economic circumstances the private storage aid finances normal storage costs for the dairy industry, thus being a windfall profit for the processors concerned.

Optional private storage for SMP was suppressed in the 2007 'mini milk package'. It was not used since 1991 as other instruments existed (intervention, export subsidies, disposal measures for SMP in feed and casein). While the attractiveness of the scheme might be limited as the value of stored commodity would be inferior to fresh SMP and could also be considered as a backward step with regard to the objective of enhanced market orientation, the reintroduction of optional private storage could provide an alternative to public intervention at times of market disruption.

Based on analysis carried out in DG AGRI[27], the abolition of sugar quotas is expected to result in an increased EU sugar beet area, exceeding 1.8 million ha by 2020. This corresponds to a 12.7 % increase from 2009/10 when quotas are abolished after 2015/16 and a slightly higher increase of 14.3 % when quotas are abolished in 2017/18, following a two year phasing out period. Compared to a reference scenario assuming that quotas are maintained over the future horizon, the sugar beet area in 2020 is only 1.9 % higher under the abolition scenario and 3.3 % higher under the phasing out scenario.

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[26] Although the EU became a net exporter in 2010 when considering live animal trade as well.

[27] A more detailed overview of the analysis, including methodology and results is provided in Annex IV

The higher level of sugar production would result in lower prices for sugar beet (and white sugar) when compared to the reference scenario. Prices are projected to fall below the current support prices for sugar beet and white sugar under each scenario, including the reference scenario. The effects on world prices are expected to be very limited as the price transmission between the EU market and the world market is rather low due to the existing trade regime. The impact of larger areas on sugar beet production would be counterbalanced by lower yields, leading to a limited increase in EU sugar beet production by 2020 under all scenarios (by less than 4 %). Furthermore, the increasing EU demand would be fulfilled by higher imports under the reference and quota abolition scenarios (between +10 % and 16 %) and the phasing out (+7.2 %) scenario. While remaining a net importer under each scenario, the net trade balance of the EU would improve with quota abolition compared to the reference scenario.

The effects on the isoglucose market are projected to be small. Both production and domestic demand for isoglucose is expected to increase, although the higher rise in production would result in greater exports.

Overall, the abolition of sugar quotas is justified on the basis of achieving a higher level of competitiveness as production would move to the economically most efficient areas, as well as the end of restricted EU exports. However, increased market orientation, including the abolition of private storage aid for sugar, could lead to increased co-movement (and hence volatility) with world market prices.

Comparing the two quota abolition scenarios it appears that the phasing out scenario produces a larger impact on the EU sugar market, in terms of production increase (through higher areas) and consequent price decline in 2020. In the phasing-out scenario the support price is maintained during the transition period, resulting in a higher level of (supported) production in 2018. As a consequence, the restructuring and adjustment of the sector starts later and from a higher production base and therefore extending the life of the quota system through the transition period prolongs the inefficiencies of the industry and delays the necessary (and eventual) restructuring of the sector.

4.1.2. Impacts on the environment

Conclusions of a DG AGRI evaluation study[28] put in evidence that until 1992 the market instruments maintained prices of cereals, oleaginous and protein crops at a significantly higher level than the world prices (increasing prices for certain crops up to 30 % above world prices).

Price support influenced importantly the profitability of the crops concerned, stimulated producers to develop the production of these crops and to intensify their production methods[29]. Price support was not the only factor influencing intensification, but it was the most important.

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[28] 'Evaluation de l'impact sur l'environnent des OCM et des mesures de soutien direct de la PAC relatives aux cultures arables', 2007.

[29] Intensification is very often negative for its impact on the environment, affecting water quality and quantity, biodiversity, soil status, landscape characteristics and climate change. Examples of changing agricultural practices were the increasing use of inputs, specialisation, monoculture, shifting from grassland to arable crops and concentration of specialised farms in specific areas.

Since 1992 the successive CAP reforms have shifted the policy instruments towards decoupled direct payments and reduced market measures to a safety net function in case of a market crisis. As world market prices are in general significantly above EU reference prices, market measures are only utilised in exceptional circumstances and therefore have a very / if any impact on production decisions.

The streamlining and simplification of market measures maintains the safety-net role of market instruments and therefore their impact on production choices and as such the impact on the environment is considered to be neutral.

4.1.3. WTO compliance

In terms of the WTO classification, market measures are considered as coupled support in the Amber Box, the most trade distorting category of support. This support is expressed in terms of Aggregate Measurement of Support (AMS) to which under the terms of the Uruguay Round Agreement on Agriculture (URAA) a global ceiling applies for each WTO member.

Within the context of ongoing WTO negotiations, the current draft agricultural modalities negotiated in the Doha Development Round (DDA) foresee the introduction of product specific support caps on the basis of historical references, in addition to a reduction of the global ceiling.

Amber Box support

There are two types of Amber Box support: price gap support and direct payments to producers. Since in the EU most of the non-Green Box direct payments comply with the criteria for Blue Box classification laid down in Article 6.5. (a) URAA, most support in the Amber Box is, in WTO terms, provided as so called *price gap support.*

This support is defined in point 8 of Annex 3 to the URAA as the difference between an *applied administered price* (AAP, in the case of the EU the intervention price) and a fixed *external reference price* (ERP, world market price) multiplied by the total production eligible to receive the applied administered price

In the URAA the EU negotiated its ERPs on the basis of the 1986-1988 reference period and these ERPs have remained a fixed element in the price gap calculations ever since. The AAPs vary in function of the applicable intervention prices.

In the absence of public intervention other support measures would be notified as direct payments or equivalent measurement of support (EMS); in both cases budget outlays would be included in the AMS calculation. Private storage would be notified as EMS.

For the purpose of AMS calculation only price gaps for cereals, beef, butter and skimmed milk powder should be considered. Extending the scope for public intervention to other products would be to the detriment of possibilities for other coupled support and/or the EU negotiating stance in the DDA.

Against this background it can be said that the implications of this option will be in broad terms AMS neutral and could therefore be covered in current and currently negotiated future WTO commitments.

4.1.4. Simplification and Administrative burden

While removing the fixed price from the intervention buying-in mechanism would limit market intervention to the necessary cases, thus avoiding in some cases unnecessary expenditure, open tenders need to be run, with the corresponding administrative burden, even when this is not justified, e.g. when prices are above the existing intervention level. The additional red tape would include, for example publishing tendering regulations and notifications by 1 November every year.

In the context of legislative simplification, a number of elements of the public intervention system and private storage aid could be transferred to delegated acts. This would concern elements that are not considered essential but are necessary to the proper functioning of the system, for example buying in periods, rules on disposals and rules on storage, or detailed granting conditions.

Member States' administrations will see, on the one hand, further simplification and a reduction of their burden resulting from the expiry of the sugar quota. The abolition of the sugar quota scheme will also have a beneficial effect on sugar beet growers and – mainly - processors, who would no longer have to deal with the administrative issues associated with the management of the quota system.

A streamlining of provisions related to intervention measures and disturbance clauses will render the legal framework more user-friendly and accessible. Obviously, the new provisions to be added should not undo the newly achieved clarity.

From a control point of view, every market measure has an inherent risk and current policy instruments are generally to have ex-ante examination of all applications with a limited amount of ex-post controls[30]. The measures dealt with by Commission auditors of market measures are of a large number and diverse character and pursue different policy objectives. The different nature of measures (market stabilisation, social measures, emergency measures etc.) seem to limit the possibility to streamline their control.[31]

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[30] The Court of Auditors considers an error rate of 2 % under the ECA DAS for market measures as an acceptable error, which would be the acceptable level of risk.

[31] For example, while in the case of 'traditional' CAP measures (e.g. intervention storage) it is much easier for Member States to deal with the administrative requirements, in an emergency situation, the main focus would be on fighting the spread of an animal disease and this may be much more complex. In the case of social measures (aid for the most deprived) a lot of the work is often done by voluntary workers not necessarily being always well acquainted with public administration and accounting.

4.2. Improve the food chain functioning

4.2.1. Economic advantages and disadvantages

In general, the way a given supply chain is organised in terms of managing the sharing of risks and rewards among participants is an important determinant of the effectiveness and long-term viability of that supply chain. Therefore, providing incentives for participants of that chain to better organise themselves (while respecting competition rules) should improve the functioning of the supply chain as a whole. As a complement to this objective, farmers should be facilitated to sell their product in alternative food supply chains.[32]

The economic reasoning for improving the bargaining power of farmers, their contractual relations and transparency along the food chain has been described in section 1.2.3. Accordingly, the necessity to address these issues is emphasized by the fact that the slow and asymmetric transmission of price changes delays necessary adjustments and prolongs market inefficiencies along the chain and can therefore exacerbate price volatility in commodity markets. Furthermore, the lack of price transparency along the food supply chain prevents market signals to reach economic agents in time, hampering the proper functioning of the market.

An additional element behind the increasingly disproportionate distribution of value added along the food chain has been the increased concentration downstream the supply chain, particularly at the retail level. Given the generally much lower level of concentration at agricultural producer level, downstream players of the value chain are at a comparative advantage with regard to bargaining power and the possibility to substitute suppliers.

While the main focus of the current policy options are agricultural producers, the assessment of the economic advantages and disadvantages of these policy options have to take into account the impact at the various stages of the supply chain, 'from farm to fork'.

Since the policy options stipulate that participation to horizontal organisations will continue to be on a voluntary basis, and given the largely heterogeneous nature of markets and supply chain structures at product and Member State levels, the economic assessment is based on a qualitative analysis of the potential impact of the three approaches. Special attention is given to the implications on competition.

In general, based on economic literature, the economic advantages of agricultural cooperation would come from increased bargaining power of the participants, improved economies of scale in selling and purchasing, opportunity to increase added value by entering into other (processing) stages, as well as easier access to information. In addition, improved economies of scale can enable marketing through multiple channels and decrease risks.

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[32] Eurostat data (2007) for 16 Member States showed that 5.9 million holdings are operated at the semi-subsistence level, selling surplus product primarily on local markets. Farmers' markets and internet sales also provide outlets for farmers of product with specific qualities (including local origin or purchased directly from the producer) to avoid the constraints of the classic food supply chain. See also Annex II on the inter-relation of EU quality instruments and market measures as well as Annex V on short marketing chains.

Flexible cooperation

This approach aims at encouraging the use of the wide range of possibilities farmers have under the current competition rules to engage in several forms of cooperation. The approach would include measures aimed at raising farmers' awareness of these possibilities, which are currently often not taken advantage of, through the launch and support of awareness campaigns in order to inform producers of their contractual rights, the exchange of best practices by notifications of current practices e.g. to an Ombudsman, and the support for the conception of voluntary standard contracts.

While this approach supports pro-competitive cooperation between farmers without recurrence to regulatory measures and exemptions from competition rules, it is doubtful whether raising awareness alone could lead to a sufficient improvement in the scale and scope of cooperation by farmers, including joint production and marketing and/or vertical integration into the downstream collection and processing stages. Experience suggests that a number of factors determine the degree of cooperation, such as historical and cultural attitudes toward cooperation, farm structure, the importance of large scale retail, unwillingness to jeopardize existing marketing channels, etc. Some factors can be derived from the evaluation of the measures concerning producer organisations in the fruit and vegetables sector (cf. enhanced cooperation), while others from economic literature[33].

Enhanced cooperation

This approach aims at enhancing horizontal and interbranch organisations by extending the scope of sectors where Member States shall recognise POs, APOs and IBOs, thus providing a gateway to benefit from the advantages offered by such producer cooperation.

Evidence from the F&V sector has shown that not all POs are able to become efficient market participants (due to factors such as the lack of well-defined objectives, assertion of the individual interests instead of the common interest, lacking transparency of the knowledge and information among partners, etc.), but in other cases, POs and their associations play useful roles in concentrating supply and promoting best practice.

Existing rules on their definiton and recognition covering certain sectors should therefore be streamlined and extended to provide for recognition on request under an EU statute in all sectors.[34] Recognised POs will then be able to benefit from additional legal certainty regarding their activities, specific aids (specifically regarding the fruit and vegetables, olive oil and table olives sectors), and, under certain conditions, the possibility for Member States to extend certain rules to all producers in a certain area.

While the initiative and responsibility for collective action lies with farmers, as it should be, under this option the environment in which POs can blossom is strengthened. In addition financial support for starting a PO will be provided through the second pillar.

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[33] As an example see 'Stimulating cooperation among farmers in a post-socialist economy: lessons from a public-private marketing partnership in Poland', A. Gramzov and M. Petrick, 2007

[34] In certain sectors, where necessary, specific and/or more stringent criteria for recognition of POs may (continue to) apply.

Lessons learned from the fruit and vegetables sector

The case of the fruit and vegetables (F&V) sector is taken as an example to examine the role and the impact of POs in improving the functioning of the food chain.

In the F&V sector recognised POs are large in number (1506 in 2007) and big in terms of their total value of marketed production (EUR 15.5 billion in 2007). On average, the value of marketed production per PO in 2007 reached EUR 10.4 million in the EU-15 and EUR 3.9 million in the EU-10. There is a marked variation between Member States in terms of organisation rate: in three countries (the Netherlands, Belgium and Ireland) this rate is higher than 80 % (i.e. more than 80 % of domestic production is marketed through POs), whilst in one group of countries it is lower than 15 % (most of the new Member States, Portugal, Greece and Finland). The rate in the remaining Member States is around 35 %.

An evaluation study commissioned by DG AGRI and carried out by an external consultant covering the period 1996-2007 put in evidence factors which may determine the rate of organisation and highlight its main achievements. The study indicates that producers in very 'well-organised' regions (with a high number of farmers being part of a PO) are on average better paid than producers in areas where the rate of organisation is very low. Producers join these organisations in order to ensure reliable payments and the guarantee of purchase of produce, whereas the level of producer pricing and support services provided by POs are secondary factors.[35] As a matter of fact, it has been observed that POs have almost no influence over the price of products supplied to large-scale distribution.

Regarding the efficiency of the system, the survey indicates that the costs incurred (excluding salary payments) and the work-time needed in order to obtain recognition was acceptable for producers.

In terms of costs, at farm level there is little evidence of collective measures to reduce and/or share costs, with the exception of technical advice. Most POs have implemented measures to improve product quality and safety (traceability systems, certifications required by large-scale distribution chains, etc.), with the consequent benefits in terms of better and more stable pricing. Even though the concentration of supply contributes to reinforcing the position of producers, it does so to an insufficient degree, taking into account the speed and size of the concentration of the down-stream part of the supply chain, in particular in a sector characterised by perishable products.

The limited success of POs in the F&V sector is explained by the fact that in this sector it is easy for producers who do not belong to a PO to take advantage of their benefits. Other factors seem also to have played a role, for example the fact that public support is limited and requires equal private financing from the producers, as well as complexities for implementing the system. Moreover, many farmers would be willing to participate in 'joint activities' related to quality, environment, promotion

[35] The study suggests also other factors in support of membership: historical and cultural factors, product related factors, importance of large scale retail and fiscal transparency.

or market information but they do not want to change their current marketing channels.

The provisions aimed at improving the distribution of value added along the food chain – and in particular the creation of POs in all sectors – would respond to demands in particular from some PDO/PGI[36] producer groups. This might create an additional incentive for farmers to participate in EU quality schemes. However, reinforcing the role of POs should not lead to excluding the possibility for newcomers to join the quality scheme and to the exclusion of small producers. It is advisable to allow IBOs (but not POs) the right to regulate supply as it is currently the situation in the wine sector.

IBOs can play useful roles in allowing dialogue between actors in the supply chain, and in promoting best practice and market transparency. Attention would be given to avoid negative impacts on markets from IBO agreements and practices, such as the partitioning of markets, affecting the sound operation of the CMO, distorting or eliminating competition, entailing price fixing, or creating discrimination.

Regulated cooperation

This approach extends the measures suggested under the enhanced cooperation approach, particularly the permission of collective bargaining by POs, to include for example the obligation to use written contracts and derogation from the prohibition on price fixing.

Provisions to improve the functioning of the food chain may have a positive impact on production planning with respect to demand, diminishing uncertainties regarding quantities and expected revenue. The impact of contract schemes would depend, among others, on the moment of conclusion of the contract, on the characteristic of the product, processing and marketing, how the food chain is organised (vertical integration), market power of the different actors, share of the internal market on global demand, net trade balance, and even the different application of rules among the Member States.

On the other hand, allowing POs to enter into collective negotiations involving price-fixing agreements on terms and conditions without appropriate safeguard clauses could entail a substantial reduction of competition in agricultural markets, with detrimental consequences on SME processors, with possible spill-over effects on consumers. The need for safeguard clauses are also justified within the context of the objective to improve the competitiveness of EU agriculture in an increasingly global market, in order to ensure that the CAP maintains its market-oriented approach and does not deter modernisation and innovation, as well as to avoid any negative consequences for consumers.

Caution is necessary with regard to contract details, particularly regarding price determination. In order to avoid possible collusive behaviour, contracts should refrain from any type of price indicator that could interfere with freedom to agree on mechanisms to determine the price. As such, while the factors determining the price should be explicitly indicated in the contract, it would be necessary to ensure that all elements of the contract are freely negotiated by the parties.

The impact on consumers is expected to arise from the aggregate effect of policy changes on price levels and transmission, product quality and safety. While the impact on the latter

[36] Protected Designation of Origin/Protected Geographical Indication

two will depend on the objectives pursued by POs and/or IBOs, which could be beneficial in case the declared objective is to 'improve quality', improved cooperation is expected to yield benefits with regard to price transmission. Unlike the recent period, consumers would benefit from lower prices during times of declining agricultural commodity prices, although this implies the possibility of higher price volatility for consumers as well.

As a general element with respect to all forms of cooperation, efforts would be necessary to ensure that the cooperation of producers are not based solely on achieving higher prices through increased bargaining power, that would simply be passed downward the supply chain most likely leading to higher consumer prices, but on incentives to optimise production costs, improve market transparency, and production planning that together foster a more equitable distribution of the value-added along the supply chain and improve producers' margins in an environment of high input costs.

Specific provisions applicable to the milk and milk products sectors

These provisions would allow POs or APOs constituted by dairy farmers to negotiate contract terms, including price, with a dairy processor. In order to avoid negative impacts on competition on the dairy market, appropriate quantitative limits would be applied on the scope of POs and APOs with regard to production volumes.

As the EU dairy sector is rather heterogeneous, the impact of a uniform threshold for the scope of POs and APOs with regard to production volumes would have diverging effects within Member States. For example, in Member States with a more concentrated processing sector, dairy processors would have the opportunity to switch between different agricultural producers and/or relocate collection activities in other milk production areas. In effect, this would have a positive impact on competition and increase the pace of structural adjustment in the dairy sector with production moving into more productive and/or cost efficient production areas and products.[37] On the other hand, in Member States with a less concentrated processing sector, increased bargaining power of producers could result in disproportionate distribution of value added towards farmers. Furthermore, depending on the concentration of the retail sector, processors might face a double margin squeeze from higher raw milk prices demanded by farmers and lower dairy product prices offered by retailers. In order to reduce the negative effects, certain levels of safeguard clauses appear necessary that take into account market and structural differences among Member States.

[37] See also Annex II concerning PDO-PGI quality schemes.

4.2.2. Impacts on the environment

The major potential impact could be delivered through IBOs and POs. The potential benefits from IBOs would originate from the aims for setting up this form of cooperation, such as:

- Adapting production and processing, in particular with regard to quality and protection of the environment, jointly to the requirements of the market;
- Providing the information and carrying out the research necessary to adjust production towards products more suited to market requirements and consumer tastes and expectations, in particular with regard to product quality and protection of the environment;
- Exploiting the potential of organic farming and protecting and promoting such farming as well as designations of origin, quality labels and *geographical indications;*
- Promoting practices of integrated production or other environmentally sound production methods.

These benefits would be multiple in case of extending IBOs to new sectors.

Coordinated action between all the actors of the food chain, based on commonly agreed voluntary commitments, is a powerful tool to improve environmental practises. This is supported by similar experiences at EU level in other fields, such as the High Level Group on the Competitiveness of the food industry; the High Level Forum for a Better Functioning Food Supply Chain or the EU Platform for Action on Diet, Physical Activity and Health.

Also for POs, potential benefits may arise from two of the proposed objectives that are specifically oriented toward environmental issues:

- ensuring that production is planned and adjusted to demand, particularly in terms of quality and quantity,
- protecting the quality of water, soil, air, habitats and landscape, favouring a sustainable use of water resources, preserving or improving biodiversity and contributing to climate change mitigation, by promoting environmentally sound cultivation practices, production techniques and waste management practices.

4.2.3. WTO compliance

The implications of this action will be in broad terms AMS neutral and could therefore be covered in current and currently negotiated future WTO commitments. Non-Green Box support to POs would be notified as direct payments to the extent that a benefit accrues to the producer.

4.2.4. Simplification and Administrative burden

New measures in relation to POs, APOs and IBOs (depending on how they are implemented), as well as contracting are likely to increase the administrative burden for Member State authorities and beneficiaries alike.

4.3. Strong focus on the market

4.3.1. Economic advantages and disadvantages

Under this option the intervention system is dismantled, only special intervention measures and disturbance clauses would be kept and implemented in case of severe market disruptions. This option would imply greater concentration of agricultural production in more competitive areas, with particularly favourable conditions[38], including relatively lower production costs, and would likely lead to higher price volatility with regard to the other policy options.

The recent experience during the dairy crisis has demonstrated the impact of intervention purchases and other market support measures in limiting the drop in market prices. The lack of clearly defined safety net levels could also create uncertainty among the participants of the supply chain with negative impacts on management decisions. In addition, issues related to the imperfect functioning of agricultural markets, and the consequences for farmers' income of an imbalanced distribution of valued added along the food chain, may emerge much more clearly under this option.

4.3.2. Impacts on the environment

Withdrawing of support would lead to greater concentration of agricultural production in some areas with particularly favourable conditions, using more intensive farming practices, while the less competitive areas would face marginalisation and land abandonment[39]. Such developments would result in increased environmental pressures and the deterioration of valuable habitats with serious economic and social consequences including an irreversible deterioration of the EU agricultural production capacity.

4.3.3. WTO compliance

This action would see the abolition of public intervention and therefore the corresponding elimination of AMS.

4.3.4. Simplification and Administrative burden

There would be a substantial slimming down of the legal framework, with a significant reduction of burden on Member State authorities. Beneficiaries are not requested to submit data and information, with the exception of situations of crisis. Time spent on meeting information obligations will be significantly reduced. On the other hand, it would also imply a loss of useful market information for analysis in case the current Member State obligations to communicate are removed.

From a control point of view the associated risks would relate to monitoring market developments, administration of crisis situations and to supervise that emergency measures are only used when facing crisis situations and not as hidden state aids. The pure reduction of measures should imply for Member States reduction of administrative burden and simplification.

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[38] See *Scenar 2020 – Prospective scenario study on agriculture and the rural world,* 2006. http://ec.europa.eu/agriculture/publi/reports/scenar2020/index_en.htm .

[39] See previous footnote.

5. SUMMARY OF RESULTS

	Advantages	Disadvantages
Simplify and streamline existing instruments	If a number of elements of the intervention system, private storage aid and special clauses are transferred to delegated acts, the system would be much more simple and easy to operate. Removing fixed prices in the intervention system allows intervention to act only when necessary.	Intervention through tendering may lead to certain initial uncertainty about the actual level of the safety net. The extension of private storage aid to other sectors (SMP) may be seen as a step backwards in market orientation
	Neutral impact on the environment. Farmers production choices today are already less influenced by market support	
Improve the food chain functioning	Fostering cooperation (POs, APOs, IBOs): better price transparency, improved bargaining power of farmers and market and income stability Optional contracts: less uncertainties regarding quantities and expected revenue, possible positive impact on price stability. Compulsory contracts: Positive impact on price stability. Major potential impact on the environment could be delivered through coordinated actions	Effectiveness and impacts may vary widely, by sector and country. Determination of the 'relevant market' is an asset to properly evaluate this option. Compulsory contracts: Risk of distortion in competition. Risk to disadvantage non organised farmers; Risk of rigidities in the market
Strong focus on the market	Greater concentration of agricultural production in more competitive areas.	It is not certain whether markets would be more stable. More intensive farming in areas with particularly favourable conditions. Marginalisation and land abandonment in less competitive areas. Increased environmental pressure, strong deterioration of EU production capacity.

ANNEX I - DETAILED OUTLINE OF CURRENT MARKET INSTRUMENTS

The Single Common Market Organisation (sCMO)[40] provides the legal framework for the instruments currently available with regard to the internal market, trade with third countries, competition rules, general and specific provisions as well as implementing, transitional and final rules. To facilitate the connection with the policy options discussed in the report, the various measures have been organised with respect to their scope, as follows: (internal) market management measures, border protection and food chain functioning. Furthermore, only measures that are pertinent to the impact assessment are discussed.

Market measures

- Private storage aid is triggered, as a general rule, at a price level which is closer to market prices than intervention and represents a first layer of market management. The aid is mandatory for butter and optional for white sugar, beef, pig meat, sheep and goat meat, and olive oil. It is fixed by the Commission or established through tender, while the triggering mechanisms are set at Commission discretion. Private storage aid has been granted to the pig meat sector in 2007-2008, while in other sectors the aid has been used only in some Member States (e.g. Spain for olive oil). Although in theory private storage is the preferred market management tool to deal with temporary over-supply in the beef sector, in practice the current provisions on private storage aid have not been used.

Table 1 – Private Storage Aid

Product coverage	Reference price	Triggering mechanism	Time constraints
butter (mandatory)	Storage aid pre-fixed or established through tender	Aid fixed on the basis of certain criteria	Storage from 1 March to 15 August, can be removed from 16 August. Storage between 90 and 210 days
beef and veal		At commission discretion when market prices < 103% reference price (2 224 €/t)	
pig meat		At commission discretion when market prices < 103% reference price (1 509 €/t)	minimum storage period of 2 months
sheep and goat meat		At commission discretion under difficult market situation in one or more of the following MS: UK, Northern Ireland, other Member States taken separately	
sugar		At commission discretion when market prices < 85% reference price (404 €/t)	
olive oil		At commission discretion when market prices < 1779 €/t oil virgin extra, 1710 €/t oil virgin, 1524 €/t oil lampante	minimum storage period of 3 months

[40] COUNCIL REGULATION (EC) No 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products

- Public intervention is activated at a lower level than private storage aid, when market prices go below reference price levels,. Intervention buying in is foreseen for cereals, rice, skimmed milk powder (SMP), butter and beef. Intervention prices, triggering mechanisms, calendars and quantitative ceilings vary across sectors. For cereals (with the exception of wheat) and rice, buying-in is decided by the Commission.

Table 2 – Public Intervention

Product coverage	Reference price	Triggering mechanisms	Time constraints	Quantitative Ceilings with guaranteed prices
soft wheat	101.31 €/t	at fixed price up to 3 million t, and by tendering for quantities beyond 3 million t	from 1 November to 31 May	3 million t
other cereals, rice	other cereals: 101.31 €/t rice: 150 €/t	Commission decision to extend quantitative ceiling	other cereals: from 1 November to 31 May rice: from 1 April to 31 July	other cereals and rice: 0 t
SMP	169.80 €/100 kg	Full intervention price up to 109 000 t, then monthly tenders with no minimum price	from 1 March to 31 August	109 000 t
butter	246.39 €/100 kg	90 % of reference price up to 30 000 t, then monthly tenders with no minimum price	from 1 March to 31 August	30 000 t
beef	1 560 €/t	Compulsory to open when market price at Member State level is below 1 560 €/t over 2 consecutive weeks		

- Production quotas have been an important instrument for market stabilisation, in sectors facing over production, notably the dairy and sugar sectors. Dairy and sugar quotas are set to expire following their respective 2014/15 quota year, following earlier decisions on the CMO in 2003 and 2004 respectively. In line with the greater market orientation of the CAP post-2013, the quota system cannot be seen as a solution to the market problems faced by these sectors today, as demonstrated during the run-up to and during the dairy crisis in 2009.

- Special intervention measures and special measures in case of market disturbances can be implemented at Member State or regional level under specific circumstances for certain sectors:

  – *Articles 44 to 46 Reg. 1234/2007:* In case of movement restrictions due to measures taken to combat animal diseases for beef and veal, dairy products, pig meat, sheep meat and goat meat, eggs, poultry meat. For the egg and poultry sectors, exceptional market support measures can be taken in case of loss in consumer confidence.

– *Articles 47-48 and186-187 of Reg. 1234/2007:* Where prices on the Community market rise and/or fall significantly, the Commission may take necessary measures in the cereals, rice, sugar, hops, beef and veal, sheep meat and goat meat, milk and milk products, pig meat, eggs, poultry meat and olive oil sectors. With regard to the cereals, rice, sugar and dairy products the Commission may suspend import duties in whole or part for certain products.

– *Art 191 of Reg. 1234/2007:* allows the Commission to adopt the measures which are both necessary and justifiable in an emergency, in order to resolve specific practical problems. Such measures may derogate from provisions of the sCMO, but only to the extent that, and for such a period, as is strictly necessary.

- Other instruments whose main aim is not that of supporting markets could also have an impact on market stability. The existing food programme for the most deprived persons was originally designed to provide surplus (intervention) stocks of farm produce to needy people.[41] Other programmes, like the school milk[42] and school fruit[43] schemes provide those products under certain conditions to schoolchildren.

Border protection

- Border protection has an important role in contributing to stabilise (domestic) markets. Common import tariffs apply for most agricultural products. Tariff-rate quotas are also used for various products. Moreover, imports can enter with lower tariffs or even duty and quota free under EU preferential agreements. There are safeguard provisions (especially additional duties) should imports reach trigger levels (high volumes and/or low prices).

- As a combined result of CAP reform, WTO rules and world market developments, the use of export refunds has significantly decreased in terms of expenditure, quantities and product coverage. In 2009, export refunds accounted for just 1.4 % of EAGF expenditure, i.e. EUR 650 million. They have been used over some months in 2009 for dairy products to support the market in a period of severe crisis; they continue to be used for poultry and some processed pig meat products. As domestic support, border measures are subject to WTO discipline.

  Under ongoing WTO negotiations, the EC committed itself to phase-out export refunds on condition of elimination of all similar measures by other developed countries. A successful completion of the Doha Development Round of agricultural trade negotiations would imply that these instruments could no longer be used in their current form. During exceptional circumstances of the dairy crisis in 2009 the resort to export subsidies allowed the relief of nearly 1.4 million tonnes of dairy products from the EU market.

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41 The scheme was amended in the mid-1990s to make it possible to supplement intervention stocks with market purchases in certain circumstances. The resources available for the scheme have been increased as from the 2009 budget, and the Commission has tabled a proposal to the Council to modify the system (e.g. introducing co-financing). To be noted that Germany, United Kingdom and the Netherlands do not implement the scheme.

42 http://ec.europa.eu/agriculture/markets/milk/schoolmilk/index_en.htm

43 http://ec.europa.eu/agriculture/markets/fruitveg/sfs/index_en.htm

Food chain functioning

- As regards the food chain functioning, the sCMO is the legal base for recognition by Member States of producer organisations (POs) in certain sectors, where they have a specific role in EU law. Otherwise Member States may do so on either a national or EU statute.

  The scope of the sCMO with regard to POs covers the fruit and vegetables (F&V), olive oil, hops, wine, silkworm and tobacco sectors, although with different objectives and means. Current aim of POs in the F&V sector is to ensure that production is planned and adjusted to demand, both in terms of quality and quantity; to concentrate supply and to place products produced by its members in the market, and to optimise production costs and stabilise producer prices. Each PO has to market the production of its members and could manage one or more of those actions.

  Specific rules exist for association and recognition of POs and associations of producer organisations (APOs) in the F&V sector. It has to be noted that recognition – of either POs or APOs - is merely an 'entrance requirement', and not a support measure in itself.

  EU funds to POs in the F&V sector are provided in the form of contribution to the creation of operational funds, co-financed in most cases at 50 % and limited to 4.1 % of the value of marketed production.

  Support is currently available under rural development to foster the setting up and the administrative operation of producers groups (PGs)[44] in EU-12 Member States. A proposal to extend this support to EU-15 Member States has been submitted to the Council and the European Parliament as part of the Lisbon alignment of the Rural Development Regulation.

  Interbranch organisations (IBOs): Member States shall recognise IBO organisations in the F&V, olive oil and table olives and tobacco sectors. The disciplines decided by the IBO members are only effective for the members of the IBO. For example, when the French F&V IBO decides quality rules for apples, they do not apply to apples produced in other Member States or third countries. The possibility to extend certain rules issued by an IBO to national non-member producers are however possible in the F&V sector. As for POs and APOs, recognition is a merely 'entrance requirement', and not a support measure in itself.

[44] Producer Groups are defined as farmers organisations that have not yet achieved the status of recognised Producer Organisations

ANNEX II - INTER-RELATION OF EU QUALITY INSTRUMENTS AND MARKET MEASURES

The EU safeguards food quality in many ways, for example via measures to enhance food safety and hygiene, clear labelling rules, regulations on animal and plant health and animal welfare, control of pesticide residues and additives in food and via nutritional information. Beyond these 'baseline' requirements, farmers and food producers use their expertise and imagination to give their products other, individual qualities valued by consumers.

EU quality instruments

Marketing standards[45]: The European marketing standards encourage EU farmers to produce products of given quality, in conformity with the consumers' expectations. They allow a comparison of prices between various qualities of the same product, ensure minimum quality for the consumer, and facilitate the operation of the internal market and the international trade. They replace the various national standards and are regulated by the 'single CMO'. They assure stability to the market, in certain cases they are based on international standards, in order to assure a smooth functioning of the market. All these rules require basic requirements, and should not depend on the market situation. Market stability is an important issue for quality, as producers tend to reduce production costs and consequently the quality when prices fall. Nevertheless, producers have to respect the compulsory EU standards, which guarantee that a basic quality standard is respected.

Certification schemes: In addition to marketing standards, EU quality schemes[46] (PDO-PGI[47], TSG[48] and Organic Framing) identify products and foodstuffs produced according to exact specifications, alongside an increasing number of public and private certification schemes increasingly used by retailers and farming groups. These schemes offer guarantees for consumers about origin and/or methods of production, deliver effective marketing messages about high value-added products, and underpin rural businesses producing quality products. For products obtained under a certification scheme, producers have to respect fixed specifications detailing farming methods and production techniques. As a result, price volatility has a limited impact on the quality of the product, although volatility will impact producer returns. However, evidence shows that prices for specific quality products can hold up even when commodity prices fall.

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45 A proposal to modify Regulation (EC) 1234/07 has been recently presented (COM(2010) 738 final) in the context of the 'Quality package,' taking into account the new rules of the Lisbon Treaty, which will give to the Commission the responsibility to adopt, by delegated acts, any modification to existing marketing standards, including the mandatory indication of the place of farming. This would allow harmonizing and simplifying the rules.

46 The Commission adopted on 10 December 2010 a proposal for a European Parliament and Council Regulation on agricultural product quality schemes (COM(2010) 733 final). This proposal modifies the existing legislations on PDO-PGI and TSG and proposes to empower the Commission to adopt new optional quality terms by delegated acts.

47 Protected Designations of Origin and Protected Geographical Indications according to Regulation (EC) N°510/2006

48 Traditional Specialities Guaranteed according to Regulation (EC) N°509/2006

Impact of market measures on the quality of production

Market measures that intervene directly in the market (*private storage aid*, *public intervention*, *special intervention measures* in case of market disturbances and *export refunds*) can affect production decisions and product quality:

- Market instruments normally specify the standard or quality of product that is eligible for the intervention measure (e.g. minimum carcass classification or age at slaughter for meat) or provide different intervention prices for different qualities of product (e.g. virgin and non-virgin oils). These specifications will determine the impact of the market measure on the specific quality of product.

- If the market instrument (such as intervention buying) is too attractive to producers, there is a risk of production 'for intervention' rather than 'for the market'. The result will be that the signal to producers concerning the quality of product will be set by the intervention specification, and tend to shift production quality in general to this minimum level. Producers of high-value added quality may not be affected provided the market continues to give a high-enough margin for the specific product. However, producers of 'medium' quality, slightly above the minimum standard set in the intervention specification, will have an incentive to lower quality to only the basic standard.

- If market measures are designed to affect production, they could reduce the incentive for farmers to participate in quality measures. However, if market instruments are generally unattractive to producers (which is the case under normal market conditions), production standards are determined by consumers' preferences and specifications, and not by intervention standards.

- If there are no market instruments or if they are ineffective in stabilising the market, then producers risk facing volatility in the market. For producers of value-added product or niche product, volatility in commodity prices may present an advantage – provided demand for their value-added product holds up. However, a severe price fall in a sector will drag down all prices, as consumers will be incentivised to switch to bulk products (with inferior quality and lower value) as the price gap increases. A producer of value-added products who has high production costs might therefore find that a sectoral price-fall pushes the return for the value-added product below costs of production, creating incentives to scale back production costs by lowering production quantities or product qualities.

- The optimum environment from the perspective of quality policy is that producers can respond to market demand, both for standard product and for high value added product. This requires a stable market environment but where market messages are not obscured.

Production *quotas* can also influence quality policy by obscuring market messages and also by limiting the offer. Quotas may limit normal market incentives to innovate, to improve quality and meet buyer specifications, and control costs. However, in cases where producers are producing value-added product, quotas can operate to limit supply and hold up prices. In the dairy sector, production quotas have been instrumental in controlling volume output for producers of high value-adding product, notably PDO cheeses and organic dairy products. In PDO–PGI zones of production that are under-

capacity, abolition of quotas could have the result that production of milk eligible for processing as a PDO product would increase.

The possibility to limit output of processed products (e.g. through an agreement of cheese producers of a cheese benefiting from GI protection) can have a direct impact on farmers trying to sell their raw material. If one wants to maximise sales opportunities for e.g. dairy farmers to sell their milk into higher-value-added production streams like quality cheese as compared to bulk products, output limitations for quality cheeses could be counter productive.

Such output limitations could furthermore reduce the incentive for young farmers to get started, as sales opportunities decrease.

Output limitations may also have an impact on the value of investments undertaken in the past (including investments co-financed by EU funds). For example, output limitations may reduce the possibility to fully use cheese making machinery. Output limitations may also reduce the incentive for farmers or processors to invest.

Further analysis is necessary to assess the potential impact of additional possibilities for producer organisations to limit output on the principle that everyone should be free to enter the market for producing a product bearing a geographical indication.

Producer organisations (PO) and other forms of collective arrangements can be formed around a specific quality of production. Certain POs have been asking for the possibility to control production themselves. This is in particular important in the milk sector, where the part of PDO/PGI products is quite relevant (8 % of the production) and the quota system is set to expire in 2015. Such arrangements are common in the area of PDO-PGI and TSGs, as well as regional initiatives to deliver certain qualities or attributes of products. The impact of POs on quality of production will depend on the role and powers invested in the organisation, the scale of participation, but also whether the PO has power to apply its decisions to non-participating members. A PO might also set the production standard or quality – in particular when developing the specifications – and conditions for marketing products.

Quality can offer farmers a protection against market volatility and prices drops (see the example of Jámon Serrano – Annex III of Impact assessment on Traditional Specialities Guaranteed[49]). A limited capacity of market measures to compensate for market volatility and with market management capacities granted to POs, it can be expected that quality schemes would become very appealing for those producers who are in a position to meet the specifications and join a scheme.

Certain risks have to be highlighted, such as the risk that the rules benefit producers at the expense of consumers, or benefit one class of producers (for example the larger operators having more influence in the organisation) at the expense of others (e.g. smaller ones). Rules might also prevent innovation or marketing of product that has a greater value-added than the standard set by the PO.

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[49] http://ec.europa.eu/agriculture/quality/policy/quality-package-2010/ia-tsg_en.pdf

ANNEX III - DIFFERENCES IN COMPETITIVENESS ACROSS MEMBER STATES

Calculations using Farm Accountancy Data Network (FADN) data highlight differences in competitiveness between Member States in the dairy, wheat and beef sectors by comparing operating costs and total receipts with relation to intervention prices. As can be seen the situation varies widely across sectors and Member States. The methodology for calculating these indicators is as follows[50]:

- Receipts take into account: the value of sales of products, coupled payments, and possible national payments[51].

- Operating costs include specific costs, e.g. purchased inputs as well as inputs produced and used on the farm, other specific costs, water; and non specific operating costs, e.g. contract work (machinery hire), current upkeep of machinery and equipment, motor fuels and lubricants, car expenses, upkeep of land improvements and buildings, electricity, heating fuels, insurance, taxes and other dues, other farming overheads. Other costs, like depreciation, remuneration to external and family labour, are not included.

- Intervention price based on the fat and protein values of raw milk derived from the intervention buying-in prices (at guaranteed levels) of butter and SMP and taking into account the real fat content of milk in each Member State.

In the dairy sector the operating costs are higher than the equivalent intervention price in nine Member States, with the greatest differences to be found in Finland, Greece, Malta, and Sweden (Figure 5). At the same time, average total receipts, including coupled payments and national aids (available for few Member States) are above costs in all Member States. Data has to be analysed with caution because operating costs are being compared with an 'equivalent' intervention price calculated on the basis of intervention prices for SMP and butter, not taking into account the production mix of Member States.

For wheat specialised farms, it comes out that in the wheat sector the intervention price seems to be set at an adequate safety-net level (Figure 6). In Bulgaria, Spain, Romania, Lithuania and Belgium operating costs are slightly below the intervention price but in all cases margins are positive thanks to higher receipts. The only Member State with a negative margin seems to be the Slovak Republic, where operating costs are higher than the receipts.

The same simulations made for farm specialised in feed cereals (barley and maize) confirm that the intervention price level is adequate. The only exception is given by Germany, which shows a relative competitive disadvantage in the production of maize

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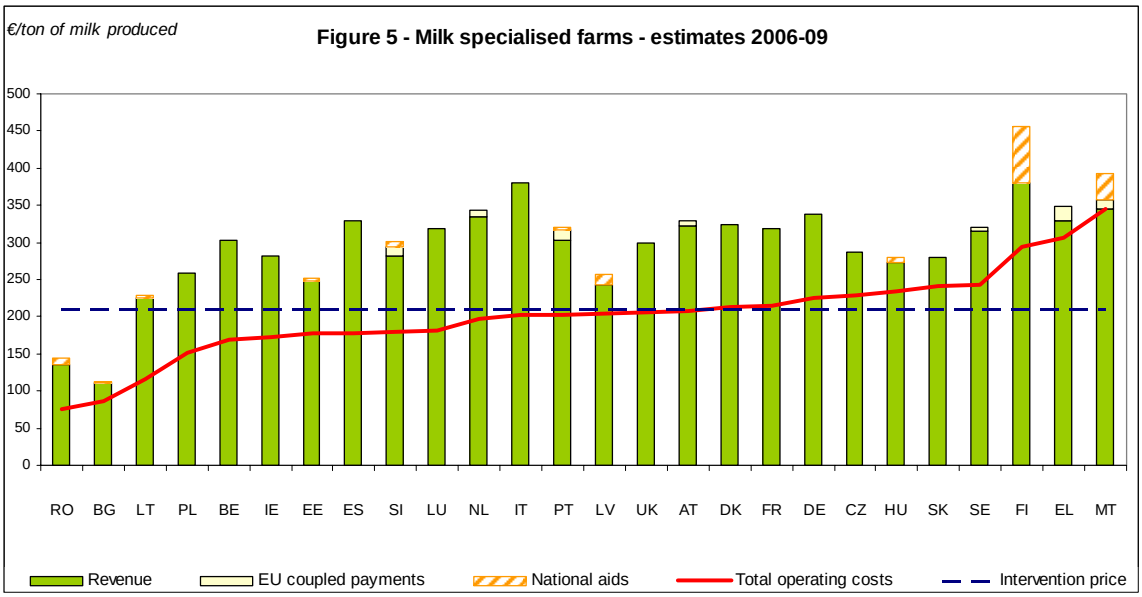
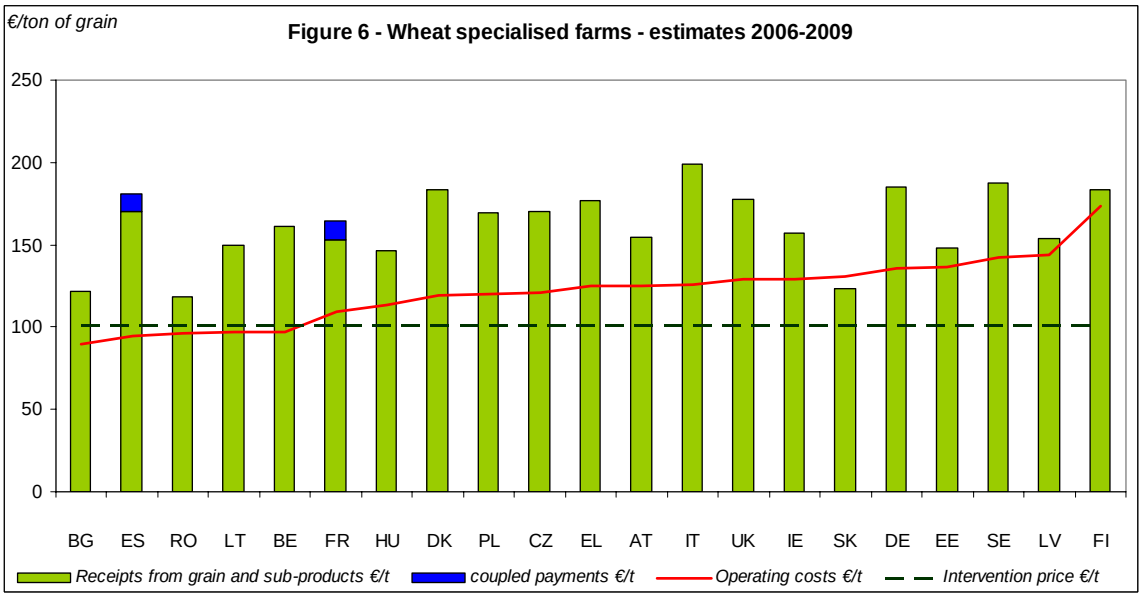
[50] Years 2008 and 2009 are estimated on the basis of 2007 FADN data. The output, operating costs and gross margin (over operating costs) for 2008 and 2009 are estimated on the basis of output and input price indices. The structures are supposed to remain identical.

[51] In the case of dairy farms this includes the EU dairy payments until its decoupling and Article 69 payments for dairy (used in Spain). The value of the calves and that of the sales of cull dairy cows are not taken into account, because no satisfactory method has been found to estimate them on the basis of the current data.

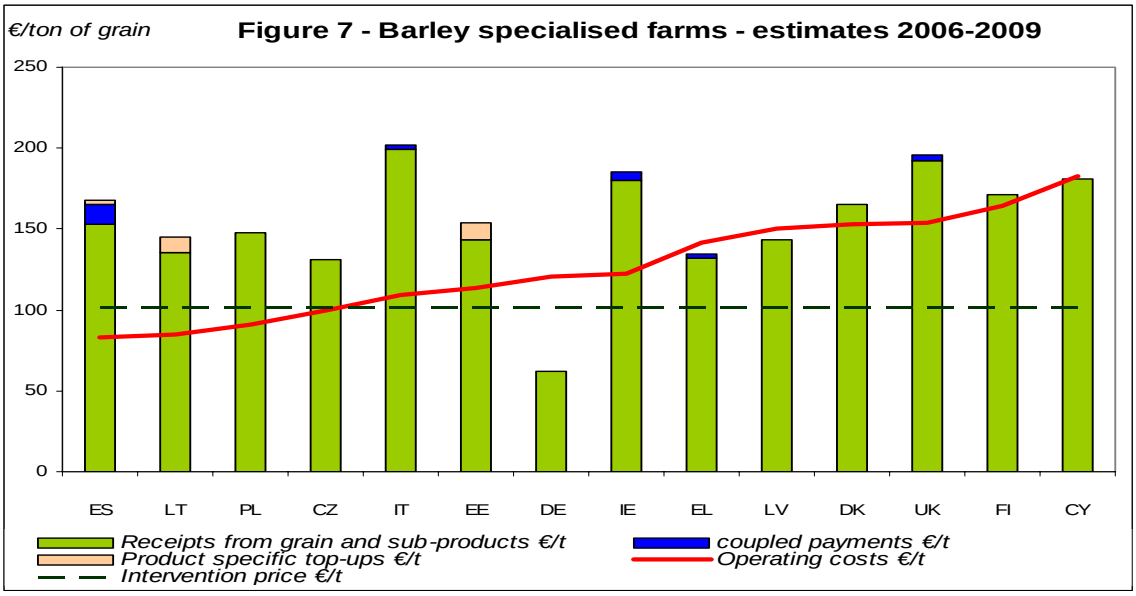
and barley, given that margins appear to be negative in the period examined. Indeed, in this country prices are very low and stocks of barley have been accumulating during recent years; intervention was activated until the start of Health Check implementation (July 2009), which established zero ceilings for feed cereals.

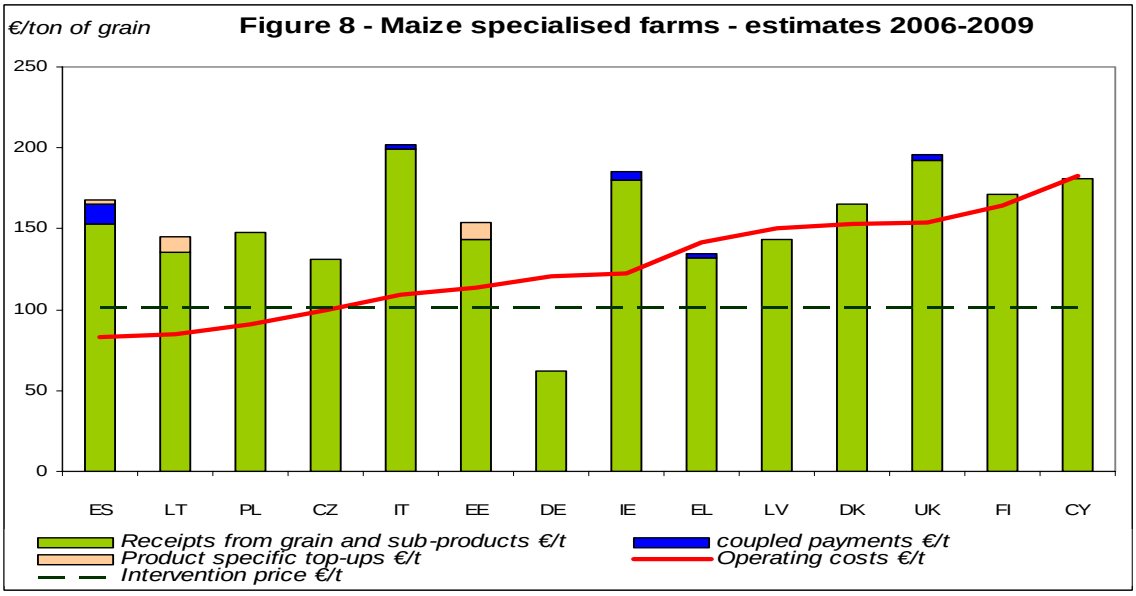
Finally, simulations made using data from breeders and fatteners specialized farms (Figure 9) put in evidence that operating costs vary significantly between Member States. As a general pattern, the costs are well reflected in beef market prices. In Spain and Italy, beef prices seem relatively more profitable[52]. Operating costs are higher than the level of intervention in all Member States with the exception of Portugal.

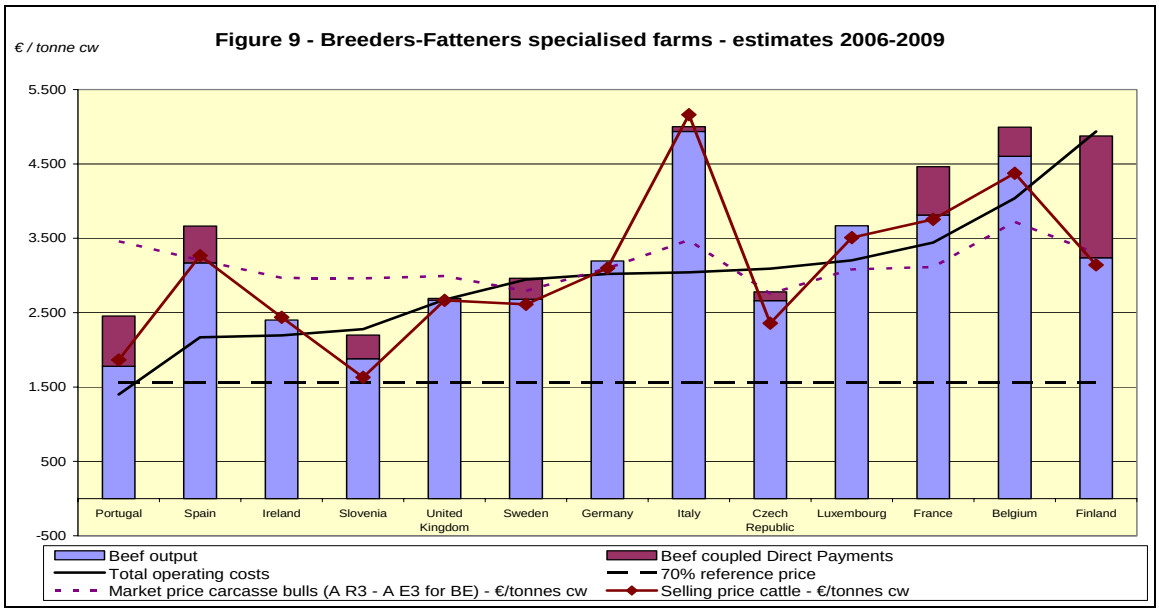




[52] The results for Italy, where prices of cattle sold in the FADN sample are much higher than the representative prices of A R3 bulls, may require further investigation.







Source: DG AGRI FADN data and elaboration

ANNEX IV – SUGAR MARKET OPTIONS WITH AGLINK-COSIMO

A quantitative analysis has been carried out in DG AGRI in order to measure the likely impact of sugar quota abolition, based on two distinctive scenarios. This annex provides an overview of the methodology, scenarios, main findings and the essential results.

Methodology

The model used for this exercise has been the AGLINK-COSIMO model in the version 2010 including the updates made to the EU and macro-economic data as used for the *Prospects for Agricultural Markets and Income in the EU 2010-2020*. In addition, consumer prices and a food demand system have been introduced in the general model update. This will be included in the AGLINK-COSIMO model 2011. The sugar module of the EU has been revised to be comparable to the rest of the markets. The model works on production seasons, which in the case of EU sugar is from October to September. Some of the changes include:

– Planting decision for sugar beet depend on development of average sugar beet prices, production costs and the relation between return per hectare for out-of quota production to other crop returns,

– Out-of quota production is possible destined for exports and processing mainly ethanol,

– Prices for out-of quota sugar beet are determined by export prices for white sugar and the domestic sugar price in the relation of shares of use,

– Sugar imports are determined by quotas for the Balkan countries and for other countries (CXL), for the imports from EBA and EPA (former ACP) there is only a theoretical limit and they react to the price difference between the EU and world market,

– In the case of an effective support price, exports are limited by WTO limits,

– Isoglucose production is constrained by the production quota,

– Tariffs for molasses and isoglucose are introduced in the import equations of these products.

Scenarios

– The **quota scenario** assumes the continuation of the current quota scheme for sugar and isoglucose as well as support prices for white sugar and sugar beet;

– The **no-quota scenario** assumes that quotas and support prices are abolished as of 2016/17[53];

[53] From a modelling point of view, given the delay of the planting decision, the abolition of quotas is technically introduced in the preceding quota year

– The **landing scenario** assumes that quotas and support prices are abolished as of 2018/19, following a two year transition period when quotas are increased by 3 % per year, while maintaining the support prices;

– A sensitivity analysis has been conducted on these scenarios, assuming **fixed world market prices at 250 €/t for white sugar** and no feedback from the world market;

– The **reduced import scenario** assumes a stronger reaction of EBA and EPA sugar exports to the EU towards the price *difference* between the EU and the world market prices.

Main findings

- The **abolition of quotas** is expected to result in an **increase** (1.9% in 2020) in sugar beet area in the EU. On the one hand, there will be no restriction due to the quota but on the other hand it is expected that the average producer price for sugar beet will fall.

- The **prices for sugar beet** (-8.2% in 2020) **and white sugar** (-3.5% in 2020) are considerably **below the current support prices**. This limits the expansion of the domestic sugar production and sugar import expansion and at the same time increases the demand for sugar especially from the biofuel industry (7.6%).

- The **effects on world prices** are expected to be **limited** (-0.2% for the world white sugar price) as the price transmission between the EU market and the world market is low due to the trade regime.

- The **effects on the isoglucose market are small** because of limited changes in the sugar market. The domestic demand for isoglucose is expected to increase slightly (1.5% in 2020) and the exports to increase (4.1% in 2020), resulting in a rise in production (2.3% in 2020).

- The effects in the landing scenario for the season 2020/21 are due to the later abolition of the quota and the shorter time to adjust to the new market conditions. In the case of sugar beet production the expansion of the quota including maintaining the support price for three more seasons results in a higher starting base and consequently larger production increase.

- The modelling approach chosen does not allow distinguishing regional effects which might result in different pictures.

- The effect of the abolition of quotas depends to an extent to the application of support prices. In the results presented here it is assumed that support prices will not be in use after the abolition of the quota. Otherwise the production increase of EU sugar would become much more pronounced.

- A **low world market price** (250 €/t of white sugar) alters the situation and results in a slight decline of the sugar beet production in the EU (-3.4%), as the presence of the support price secures the full use of the quota otherwise.

- If **developing countries (EBA and EPA) react stronger** to the difference between the EU and world market price, a further expansion by 2.4% of the EU sugar production can be expected due to lower exports from EBA and EPA to the EU.

Results for selected variables from the different scenarios using AGLINK-COSIMO

	2009/10	2014/15	quota 2020/21	no-quota 2020/21	landing 2020/21	change to quota		change to 2009/10		
						no-quota	landing	quota	no-quota	landing
Sugar beet area ('000 ha)	1601	1717	1772	1805	1831	1.9%	3.3%	10.6%	12.7%	14.3%
Sugar beet yield (t/ha)	71	65	65	65	65	-0.2%	-0.1%	-9.1%	-9.2%	-9.2%
Sugar beet production ('000 t)	114235	110799	114942	116888	118649	1.7%	3.2%	0.6%	2.3%	3.9%
Sugar beet price (€/t)	29.2	25.5	25.6	23.5	23.0	-8.2%	-10.0%	-12.6%	-19.8%	-21.3%
..Sugar beet out-of quota price (€/t)	29.2	22.4	23.2	23.5	23.0	1.0%	-1.0%	-20.6%	-19.8%	-21.3%
..Sugar beet support price (€/t)	26.3	26.3	26.3			-100.0%	-100.0%	0.0%	-100.0%	-100.0%
Sugar beet value of production (mill. €)	3159	2663	2768	2583	2571	-6.7%	-7.1%	-12.4%	-18.2%	-18.6%
Sugar production ('000 t)	17468	16841	17471	17767	18035	1.7%	3.2%	0.0%	1.7%	3.2%
..Sugar out-of quota production ('000 t)	4131	3505	4134	17767	18035	329.7%	336.2%	0.1%	330.1%	336.6%
Sugar total use ('000 t)	18330	18718	19615	19967	20013	1.8%	2.0%	7.0%	8.9%	9.2%
..Sugar food and industry use ('000 t)	15674	15344	15503	15542	15578	0.3%	0.5%	-1.1%	-0.8%	-0.6%
..Sugar use for biofuels ('000 t)	2656	3374	4113	4425	4435	7.6%	7.8%	54.8%	66.6%	67.0%
Sugar exports ('000 t)	3063	1322	1105	1181	1232	6.9%	11.5%	-63.9%	-61.4%	-59.8%
Sugar imports ('000 t)	3187	3250	3696	3520	3416	-4.7%	-7.6%	16.0%	10.4%	7.2%
..Sugar imports, EBA & EPA ('000 t)	2177	2240	2686	2510	2406	-6.5%	-10.4%	23.4%	15.3%	10.5%
..Share of white sugar in total imports	0.23	0.19	0.22	0.22	0.22	0.1%	0.3%	-1.7%	-1.5%	-1.3%
Sugar total stocks ('000 t)	3874	3694	4219	3234	3279	-23.3%	-22.3%	8.9%	-16.5%	-15.4%
White sugar producer price (€/t)	482	405	403	389	380	-3.5%	-5.7%	-16.5%	-19.4%	-21.2%
..White sugar support price (€/t)	404	404	404			-100.0%	-100.0%	0.0%	-100.0%	-100.0%
White sugar world price (€/t)	450	292	313	312	312	-0.2%	-0.3%	-30.5%	-30.6%	-30.7%
Isoglucose production ('000 t)	690	690	690	706	702	2.3%	1.6%	0.0%	2.3%	1.6%
Isoglucose use ('000 t)	575	562	495	502	496	1.5%	0.3%	-13.9%	-12.7%	-13.7%
Isoglucose exports ('000 t)	119	136	203	212	213	4.1%	4.6%	70.3%	77.3%	78.2%
Isoglucose imports ('000 t)	4	8	8	7	7	-4.6%	-5.2%	101.3%	92.2%	91.0%
Isoglucose net trade ('000 t)	116	128	196	204	205	4.5%	5.0%	69.3%	76.9%	77.7%
Isoglucose producer price (€/t)	358	322	302	287	285	-4.9%	-5.6%	-15.7%	-19.9%	-20.4%
Isoglucose world price (€/t)	325	251	280	277	277	-1.0%	-1.2%	-13.9%	-14.8%	-15.0%

Results for selected variables from the different scenarios using AGLINK-COSIMO <u>with a fixed world sugar price</u>

	2009/10	2014/15	quota 2020/21	no-quota 2020/21	landing 2020/21	change to quota: no-quota	change to quota: landing	change to 2009/10: quota	change to 2009/10: no-quota	change to 2009/10: landing
Sugar beet area ('000 ha)	1601	1632	1742	1683	1703	-3.4%	-2.3%	8.8%	5.1%	6.3%
Sugar beet yield (t/ha)	71	65	65	65	65	-0.4%	-0.4%	-9.1%	-9.5%	-9.4%
Sugar beet production ('000 t)	114235	105292	113034	108665	110035	-3.9%	-2.7%	-1.1%	-4.9%	-3.7%
Sugar beet price (€/t)	29.2	25.5	25.5	23.1	22.8	-9.6%	-10.8%	-12.7%	-21.0%	-22.1%
..Sugar beet out-of quota price (€/t)	29.2	21.6	22.9	23.1	22.8	0.8%	-0.6%	-21.6%	-21.0%	-22.1%
..Sugar beet support price (€/t)	26.3	26.3	26.3			-100.0%	-100.0%	0.0%	-100.0%	-100.0%
Sugar beet value of production (mill. €)	3340	2686	2886	2509	2506	-13.1%	-13.2%	-13.6%	-24.9%	-25.0%
Sugar production ('000 t)	17468	16004	17181	16517	16725	-3.9%	-2.7%	-1.6%	-5.4%	-4.2%
..Sugar out-of quota production ('000 t)	4131	2668	3844	16517	16725	329.6%	335.1%	-6.9%	299.8%	304.9%
Sugar total use ('000 t)	18330	18733	20061	20537	20566	2.4%	2.5%	9.4%	12.0%	12.2%
..Sugar food and industry use ('000 t)	15674	15367	15512	15574	15600	0.4%	0.6%	-1.0%	-0.6%	-0.5%
..Sugar use for biofuels ('000 t)	2656	3365	4550	4963	4966	9.1%	9.2%	71.3%	86.8%	87.0%
Sugar exports ('000 t)	3063	1028	721	794	819	10.2%	13.7%	-76.5%	-74.1%	-73.2%
Sugar imports ('000 t)	3187	3898	5148	4761	4642	-7.5%	-9.8%	61.5%	49.4%	45.7%
..Sugar imports, EBA & EPA ('000 t)	2177	2888	4138	3751	3632	-9.4%	-12.2%	90.0%	72.3%	66.8%
..Share of white sugar in total imports	0.23	0.19	0.24	0.24	0.24	0.0%	0.0%	4.2%	4.2%	4.2%
Sugar total stocks ('000 t)	3874	3704	7483	3145	3178	-58.0%	-57.5%	93.1%	-18.8%	-18.0%
White sugar producer price (€/t)	482	404	400	381	375	-4.8%	-6.3%	-17.1%	-21.1%	-22.4%
..White sugar support price (€/t)	404	404	404			-100.0%	-100.0%	0.0%	-100.0%	-100.0%
White sugar world price (€/t)	450	256	250	250	250	0.0%	0.0%	-44.5%	-44.5%	-44.5%
Isoglucose production ('000 t)	690	690	688	701	696	1.9%	1.1%	-0.4%	1.5%	0.8%
Isoglucose use ('000 t)	575	543	496	498	493	0.4%	-0.6%	-13.7%	-13.3%	-14.2%
Isoglucose exports ('000 t)	119	155	199	210	210	5.1%	5.3%	67.0%	75.6%	75.8%
Isoglucose imports ('000 t)	4	8	8	7	7	-4.9%	-5.0%	101.3%	91.5%	91.2%
Isoglucose net trade ('000 t)	116	147	192	202	203	5.5%	5.7%	65.9%	75.1%	75.3%
Isoglucose producer price (€/t)	358	335	298	284	283	-4.9%	-5.0%	-16.7%	-20.7%	-20.9%
Isoglucose world price (€/t)	325	298	272	272	272	0.0%	0.0%	-16.5%	-16.5%	-16.5%

Results for selected variables for import scenarios using AGLINK-COSIMO

		no-quota	red. import		no-quota	red. import		change to no-quota	
	2009/10	2014/15	2014/15		2020/21	2020/21		2014/15	2020/21
Sugar beet area ('000 ha)	1601	1717	1711		1805	1848		-0.3%	2.4%
Sugar beet yield (t/ha)	71	65	65		65	65		0.0%	0.1%
Sugar beet production ('000 t)	114235	110799	110415		116888	119778		-0.3%	2.5%
Sugar beet price (€/t)	29.2	25.5	25.6		23.5	24.3		0.5%	3.8%
..Sugar beet out-of quota price (€/t)	29.2	22.4	23.0					2.7%	
..Sugar beet support price (€/t)	26.3	26.3	26.3					0.0%	
Sugar beet value of production (mill. €)	3159	2663	2668		2583	2747		0.2%	6.3%
Sugar production ('000 t)	17468	16841	16783		17767	18206		-0.3%	2.5%
..Sugar out-of quota production ('000 t)	4131	3505	3446					-1.7%	
Sugar total use ('000 t)	18330	18718	18665		19967	19801		-0.3%	-0.8%
..Sugar food and industry use ('000 t)	15674	15344	15295		15542	15472		-0.3%	-0.4%
..Sugar use for biofuels ('000 t)	2656	3374	3370		4425	4329		-0.1%	-2.2%
Sugar exports ('000 t)	3063	1322	1240		1181	1074		-6.2%	-9.1%
Sugar imports ('000 t)	3187	3250	3065		3520	2812		-5.7%	-20.1%
..Sugar imports, EBA & EPA ('000 t)	2177	2240	2055		2510	1802		-8.3%	-28.2%
Sugar total stocks ('000 t)	3874	3694	3640		3234	3228		-1.5%	-0.2%
White sugar producer price (€/t)	482	405	420		389	407		3.5%	4.7%
..White sugar support price (€/t)	404	404	404					0.0%	
White sugar world price (€/t)	450	292	293		312	312		0.2%	-0.2%
Isoglucose production ('000 t)	690	690	690		706	711		0.0%	0.7%
Isoglucose use ('000 t)	575	562	565		502	511		0.6%	1.8%
Isoglucose exports ('000 t)	119	136	133		212	207		-2.3%	-2.0%
Isoglucose imports ('000 t)	4	8	8		7	7		2.4%	2.0%
Isoglucose producer price (€/t)	358	322	330		287	293		2.5%	2.0%
Isoglucose world price (€/t)	325	251	252		277	277		0.1%	-0.1%

Note: The scenario (red. import) assumes a stronger reaction of EBA and EPA sugar imports to the EU towards the price differential between the EU price and the world market price.

ANNEX V - SHORT MARKETING CHAINS

Short marketing chains are those which avoid the food supply chain, either by direct sales from producer to consumer or sales via one intermediary acting on behalf of the farmers/producers. Many of these sales also take place over a short distance and could be considered 'local' sales, but this is not necessarily the case especially with the growth of internet sales directly from the farmer.

For many farmers, and in particular small-scale producers, supplying the main commercial commodity markets is particularly difficult and unrewarding, due to the pressures of commodity markets and dysfunction of the food supply chain discussed *supra*. A growing number of farmers are prepared to engage in short-chain marketing, in order to provide continuity for their economic activity and sufficient income.[54]

The issue has attracted the attention of the European Parliament; in 'Fair revenues for farmers: A better functioning food supply'[55] calls on the Commission to '*propose the adoption of instruments to support and promote farmer-managed food supply chains, short supply chains and farmers' markets, in order to establish a direct relationship with consumers and to enable farmers to obtain a fairer share of the value of the final sale price by reducing the number of middlemen and of the stages of the process*'.

Small-scale farmers have a relatively significant role with regard to the environment, local economy and social cohesion. According to the 2007 Eurostat Farm Structure Survey, 6.4 million out of the 13.7 million agricultural holdings operating in the European Union (i.e. 46.6 %) had an economic size of less than 1 ESU[56]. These holdings employ 23 % of total labour force in agricultural sector.

Close to 40 % of the persons working in the European agricultural holdings work in a farm with less than 1 ESU, which in absolute numbers corresponds to over 10 million people. 4.7 million (34.5 %) of European agricultural holdings have a size from 1 to less than 8 ESU and represent 34 % of agricultural labour force. Agricultural patterns characterised by small farm structures are more present in the EU-12 Member States where 95.5 % of all agricultural holdings are smaller than 8 ESU, employing 81.5 % of agricultural labour force.

Few marketing channels are open to small-scale farmers, whose marketing is hampered by the nature of the production (non-standardised product), processing and storage limitations, lack of infrastructure and access to markets. Their small quantities of production are also not sufficiently interesting to the main buyers (traders, processing companies and/or retailers) that increasingly dominate the marketplace.

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[54] H. Renting, T.K. Marsden, J. Banks: Understanding alternative food networks: exploring the role of short food supply chains in rural development, Environment and Planning A 2003, volume 35

[55] P7_TA(2010)0302

[56] 'European Size Unit' is a standard gross margin of 1.200 EUR that is used to express the economic size of an agricultural holding. This corresponds to approximately 1.3 ha of cereals or one dairy cow or 25 sheep or an equivalent combination of these.

Small-scale farmers do have some advantages of their production: artisan - instead of highly industrialised - production methods, the use of traditional techniques, the opportunity for purchasing from local producers, are all attractive 'selling points' or 'qualities' to a segment of consumers. For both small-scale and larger producers, direct sales appeal to a certain group of consumers for various reasons: (perceived) reduction in transport distances and therefore better respect of nature and environment; local sourcing to support the local economy; reconnecting consumers with farmers; and ensuring that a higher margin goes to the farmer. Opportunities for deliveries through short marketing chains are also created through internet sales.

Given the advantages of direct sales and the problems in the functioning of the food supply chain, especially for small-scale producers[57], this form of marketing should be encouraged, while recognising the role of conventional channels. The objectives of encouraging participation in short marketing chains are:

- Strengthen farmers' possibilities of marketing their agricultural products and foodstuffs through short marketing chains and of communicating the attributes of the product to consumers, in order to increase their returns from the market.

- Increase consumers' knowledge about the characteristics and attributes of agricultural products and foodstuffs sold through short marketing chains.

With a view to further strengthening farmers' possibilities to place their produce on the market and to ensure adequate consumers' information about this produce, options for action range from increasing visibility of existing short marketing chain schemes to promotion of short marketing chains through rural development measures, to development of labelling schemes.

The following possibilities, which do not exclude each other, have been looked at:

Promotion of short marketing chains through rural development support

Member States already assist economic operators at national and/or regional level to place their products on the market via short marketing chains, notably through EU rural development support. These incentives aim at improving the marketing in rural areas of products produced on the farm and by the farmer and sold through short marketing chains. Providing tools for rural development at EU level has been confirmed at creating additional value as compared to action at purely national level.

Currently, the EU rural development policy provides for several measures, including LEADER, that can be used to establish and foster short marketing chains by responding to different needs. This issue is more fully explored in the whole context of rural development in Annex 4 on Rural Development. However, while rural development measures can provide key financing, they do not in and of themselves differentiate product in the marketplace. In this respect the current EU rural development 'toolbox' for supporting short marketing chains may not fully realise its potential. For this a specific labelling tool is needed.

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[57] In adopting the Quality Package on 10.12.2010, the Commission noted the particular difficulties for small farmers to participate in EU quality schemes, and undertook further analysis.

Labelling scheme for short marketing chains

Existing EU quality schemes (organic, geographical indications and traditional specialities) have clearly proven the usefulness of action at EU level. The scheme for geographical indications is even an exclusive one preventing Member States to maintain national system, despite the fact that many products under such schemes are not sold outside the region of origin. However, none of these schemes specifically target direct marketing. Yet, these kinds of quality products are frequently sold through direct mechanisms – as the growth of the 'organic box', farmers' markets selling PDO-PGI product, and internet sales of wine direct from producers, testify.

At the same time, as noted in the 2010 Impact Assessment for geographical indications[58], the geographical indications scheme is less attractive to small and semi-subsistence producers owing to the constraints of adhering to a specification and costs of certification; similar considerations are likely to apply in the case of the compliance burden for organic certification.

Similarly, very small farmers may not be able to participate in investment related rural development measures or other rural development tools. While some Member States or regions are providing support for short marketing schemes, others do not. Farmers in the latter countries are thus put at a disadvantage. In Member States where tools exist, fragmentation of the approach can make cost-effective promotion campaigns more difficult and/or costly. Furthermore, publicly financed 'buy local' campaigns may easily run foul of EU internal market rules.

The creation of a specific labelling scheme at the EU level[59] is another possibility to assist producers who market their products through short marketing chains, and in particular in Member States where such tools are not yet available. Such a labelling scheme could be established in two ways:

- eligibility conditions for participating in the labelling scheme are left to the responsibility of the Members States according to the subsidiarity principle. Only the definition of eligible types of marketing ('short marketing chains') is regulated at EU level.

- not only the eligible types of marketing are defined at EU level but also other criteria such as eligibility requirements for economic operators and control mechanisms.

The advantages and disadvantages of an EU scheme are summarised in the table below.

Advantages	Disadvantages
• More structured communication enhanced by an EU scheme should allow to better inform European consumers about a part of the reality of agriculture that is not always easily visible to them. • An EU scheme should allow to complement and thus	• Member States that will be responsible to enforce the EU scheme will have administrative costs. In case that the costs are born by the farmers, this may represent a disincentive for them to join.

[58] http://ec.europa.eu/governance/impact/ia_carried_out/docs/ia_2010/sec_2010_1525_2_en.pdf

[59] A labelling scheme identifying product of outermost regions is implemented in the sCMO.

further increase the overall positive effect of EU rural development measures in favour of short marketing chains. It could provide an additional incentive for Member States to support short supply chains within rural development measures, and thus further contribute to inclusive growth. • An EU scheme could facilitate sales by very small farmers who are not able to participate in other schemes which require financial participation by the farmer. • An EU scheme would allow for more effective promotion campaigns and provide better value for money, as scarce public expenditure cold focus on a single scheme instead of a multitude. • An EU scheme reduces / avoids the risk that national logos are used to split the internal market. In the past, Commission had to intervene vis-à-vis many logos / quality schemes set up by regions or Member States that were breaching internal market rules. • An EU scheme could avoid the legal problem that nationally financed "buy local" campaigns easily run foul of EU law. • An EU scheme would put farmers in Member States and regions where no support is currently available for short supply chains at the same footing with farmers already benefiting from such support, and thus contribute to more inclusive growth throughout the EU. • An EU scheme allows for EU wide recognition of products produced at the level of farms and farmers producing these products. An EU scheme can underline the important role of (often very small) farmers to ensure product variety, tradition, cultural heritage, and boost their credibility in the eyes of consumers. • An EU scheme reduces the risk of misleading consumers. Consumer choice will increase as the consumers will be better informed about the labeled products. Labelling at the EU level should help to better inform consumers and meet their expectations. • Participation of farmers in an EU scheme may encourage their collaboration and collective initiatives (internet portals, delivery services, creation of farmers' markets or other selling points). • An EU scheme would create an incentive for all small farmers across Europe to become more market-oriented and thus develop added-value and stimulate growth.	• There will be a need for promotion activities at the EU level in order to make the EU scheme being recognised and understood by consumers. • Consumers might consider an EU scheme as another scheme among many schemes. • Competition between EU scheme and national/regional/local schemes with regard to promotion activities: promotion of an EU scheme might weaken the effects of past and ongoing promotion activities run by MS/regional/local authorities. • Co-existence of stricter schemes at national level with potentially high benefits for producers and an EU scheme.

Conclusion

With these options – rural development measures and an appropriate labelling tool to identify product sold through a short marketing chain – direct sales will assist to reduce the dependency of farmers on the food supply chain. The benefits should particularly accrue to farmers who organise themselves into groups for the purposes inter alia of direct marketing. For small and semi-subsistence farmers direct marketing channels are a necessity; for more-commercially viable farmers, direct sales through the internet, local farmers' markets, and direct deliveries, should be part of the farmer's and farmer organisation's armoury in responding to globalisation and the inequalities of bargaining power in the food supply chain.

ANNEX VI – CONSUMER ISSUES [60]

The **EU consumer policy** puts consumers' interests and protection at the core of Europe's policy. It aims to provide better and more complete information to consumers, to promote intra-European purchases and make consumers aware of their rights. The goal is to empower consumers by raising awareness and protecting them by making sure that products and services sold in the EU are safe, helping national governments to apply EU rules, building a strong voice for consumer organisations, and understanding consumers better through research and dialogue. Priorities include increasing consumer confidence in the internal market, strengthening consumers' position in the marketplace and ensuring that consumer concerns are taken into account in all EU policies.[61]

Food labelling is one of the most effective tools to grant an informed choice to the citizen/consumer. The estimated additional administrative cost[62] of the EU new food labelling proposal[63] is expected to be EUR 104 million[64]. However it is considered that the provision of transitional periods and the fact that the legislation aligns with most of business' current practices will mean the majority of these costs will be absorbed into every day running costs.

As a consequence of changing global diets and lifestyles the world is now experiencing two different nutrition problems - one associated with hunger or nutritional deficiency and the other with dietary excess often in the same country, even community. The focus on food is no longer only related to food safety or quantity but rather what is now deemed the '**dual burden of malnutrition**'. Crucially, both underweight and overweight individuals may lack important dietary nutrients – minerals and vitamins – that are needed for good health.

Both under-nutrition and over-nutrition are linked with a range of adverse health conditions. The underweight are susceptible to poor maternal and infant health as well as childhood growth problems and compromised mental development. Meanwhile, obesity is associated with such chronic diseases as stroke, hypertension, cardiovascular disease, type-2 diabetes, and certain forms of cancer.

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60 Extract from the DG SANCO contribution to the Impact Assessment on Health and Consumer perspectives

61 Consumer Policy Strategy 2007-2013

62 Administrative burden – keeping records, notifying authorities, applying for approval, providing information to third parties (http://ec.europa.eu/enterprise/policies/better-regulation/administrative-burdens/action-programme/index_en.htm)

63 Regulation of the European Parliament and of the Council on the provision of food information to consumers

64 Communication from the Commission to the European Parliament and the Council on the Action Programme for Reducing Administrative Burdens in the EU Sectoral Reduction Plans and 2009 Actions

Together, obesity, cardiovascular diseases (CVD), cancer and diabetes collectively pose the greatest burden of disease (77%) in the WHO European Region[65] .

Scientific evidence shows that the access and availability of healthy food have an immediate and short term positive influence on health and well being. In particular it has been proven to decrease the risk of obesity, reduced risk of chronic illnesses such as cardiovascular diseases, various forms of cancer, type II diabetes and obesity in later life. Studies evaluating fruit & vegetables interventions in schools reveal that such schemes can be a very effective mechanism for improving fruit & vegetables consumption by children.[66]

In order to allow consumers/citizens the choice for **sustainable consumption**, the provision of information on standards for products and production are important as tools of providing transparent information for a risk-aware consumer.

From a consumer policy perspective, it is essential that quality food products are available at affordable prices[67]. Price is obviously an essential criterion for consumers. A recent study showed the different factors of influence on consumer choice for a food store. Price is considered as second most important factor, first is proximity of the food shop, and third is the quality of food products.[68] Quality food products, including organic products, are considerably more expensive than conventionally produced food because of a higher cost of production.[69]

Consumers find distribution chains often long and they are looking for more overview and transparency. In this respect, there is also an increasing interest in regional products which consumers connect to different aspects, such as fresh food, support of the local economy, short supply chain and knowledge of the origin of the product.[70]

Food consumption patterns are constantly evolving, reflecting changing lifestyles and individual choices of citizens/consumers. Diets have become more diverse and substantial over the last decades. Acceptability requires consumer/citizens knowledge

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65 WHO Regional Office for Europe: Fact sheet: Tackling Europe's major disease: the challenges and the solutions. World Health Organization, Copenhagen, 2006

66 de Sa, J., Lock, K. 2008: Will EU agricultural policy for school fruit & vegetables improve public health? A review of school fruit & vegetable programmes. European Journal of Public Health, 18(6), pp. 558–568.

67 In this context, the Commission will develop guidelines for national web-based and easily accessible retail price comparison services for consumer goods (including food) which will be part of a Commission Communication on consumer empowerment planned for 2012.

68 CRIOC, Enseignes, Magasins et Consommateurs, http://www.crioc.be/files/fr/5546fr.pdf

69 For example, a study showed that the price difference for comparable products was approx. 40%, for some products like fruit juices and chocolate, the difference was 80%-100%. GFK, Ergebnisse der GfK-Studie zum Konsum von biologisch produzierten Lebensmitteln, 2008; http://www.boelw.de/fileadmin/alf/28-bioargumente.pdf

70 Nestle (editor) 2011: 'Einfluss gesellschaftlicher Veraenderungen auf das Ernaehrungsverhalten', 2011;

and information to make the **right choice for healthy food**. This includes awareness and education but also product information (labelling); while at the same time, ensuring quality in production including traditional methods preserving our cultural heritage while allowing for responsible innovation.

In a recent survey[71] , the majority of respondents considered that public authorities in the EU are doing a good job in protecting them from specific food-related risks, such as animal infections and diseases and bacterial contamination. But the survey also shows that there is room for improvement, in particular with respect to possible risks from chemical contamination and new technologies. Even more so, a majority believes that EU public authorities should do more (>80% total agree) to ensure that food is healthy and to inform people about healthy diets and lifestyles. This view is consistent across all Member States.

Allowing consumers/citizens access by economic means or rights to acquire nutritionally adequate food is especially important for vulnerable social groups, from urban poor to landless rural poor. But it also raises the issue of modern supply chains with its emphasis on global sourcing and long distance transport versus short supply chains and seasonal and local produce and how this affects access to healthy foods.

[71] Eurobarometer No 354 'Food related risks', 2010