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ANNEX A(I): COMMUNICATING ABOUT PRODUCTS FARMED IN THE EU

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A(i) 1. INTRODUCTION

Quality and standards are issues for every farmer and buyer, whether dealing with commodities produced to basic standards or with value-added quality products in which Europe excels. In general terms, EU farmers follow high standards of farming in matters such as animal husbandry, use of crop protection products in a way that does not harm the environment, and all aspects of food production standards.

The minimum farming requirements laid down in EU law guarantee that the farming practices and methods themselves meet society's diverse expectations. Each farming obligation is designed to meet a public policy objective, such as environmental care, animal health and nutrition, plant health, and animal welfare standards. These requirements have been introduced according to the democratic process. As such, application of farming requirements contributes significantly to the reputation, standards and quality of EU agricultural product, both in terms of product characteristics and farming attributes.

The efforts made by farmers to comply with the letter and spirit of these rules is a strength of EU agriculture and one that should be recognised and valued by citizens — and by consumers. Calls have been made to examine the possibilities for labelling that highlights to consumers where agricultural product has been farmed or that foodstuffs that have been produced in compliance with EU farming requirements.¹

A(i) 2. PROBLEM DEFINITION

2.1. Problem identification

European farmers are required to follow minimum farming requirements that reflect society's expectations. These requirements provide European citizens with important benefits in terms of values such as food production systems which are broadly sustainable, environmentally-friendly and supportive of regional and rural development objectives. In addition, the model of food production in Europe respects many societal demands such as minimum animal welfare standards, and carefully reflected restrictions on use of plant production products, additives, animal feed, and veterinary drugs.

¹ European Parliament, 1998: Report on quality policy for agricultural products and agri-foodstuffs, Committee on Agriculture and Rural Development, Rapporteur Mr Jan Mulder, A4-0280/98.

Commissioner Fischer Boel, highlighted the need to “undertake further study on a possible EU quality or EU standards label”, concluding the Conference on Food Quality Certification – Adding Value to Farm Produce, Brussels, 5-6.2.2007.

Council Conclusions, 16.12.2008, 17169/08 ADD 1, section 4.7: “Invites the Commission ... to begin considering appropriate mechanisms for consumer information that would provide much greater transparency on the methods and conditions of production and characteristics of products, in accordance with international trade rules”.

With arguably one exception², agricultural product that has been produced in compliance with EU farming requirements is not required to be identified as such at the point of sale for consumers. In many sectors however, the origin and place of farming is given to consumers. In other cases, and in the absence of any voluntary labelling, consumers are not informed of the production requirements nor the place of farming of the product.

To what extent do consumers look for specific production standards or information on place of farming in the food they buy?

According to a Eurobarometer survey conducted in 2005, the most important 'levers' identified by consumers when buying food were quality (42%) and price (40%). However, the term 'quality' was not defined and, as is pointed out in the Eurobarometer survey, a number of the other elements in the question are quality-related. The results are given in the box on the next page.

Even excluding the global category of quality, it can be seen that 'production method' and 'origin' are quite low down in terms of priority (9th and 10th) after 'appearance', 'taste', 'health', 'family preference', 'habit' and 'food safety'.

Further research cited in the Commission's impact assessment report on general food labelling issues highlights that, when consumers are prompted about origin or production method labelling, much stronger support is forthcoming. The number of consumers considering origin labelling important is 78% (and higher) according to studies in Nordic countries and 80% in the UK, etc.³

Concerning production method, studies on animal welfare and concerns over pesticide residues indicate that, as with origin, when prompted, consumers declare information on these elements to be of far greater importance than is apparent from an unprompted list of most-important factors. This was illustrated in relation to animal welfare in Special Eurobarometer 229 "Attitudes of consumers towards the welfare of farmed animals"⁴ which found "[a] slight majority of citizens of the European Union (52%) state that they never or very rarely think about the welfare and protection of animals when they buy meat, compared to 43% who state that they consider animal welfare most or some of the time when purchasing meat. 43% is of course extremely high compared with the 7% of consumers who spontaneously mentioned production method (any production method) as a factor in their purchases.

² Egg labelling rules require 'cage', 'barn', 'free range' or 'organic' to be indicated on eggs. Council Regulation (EEC) No 1907/90.

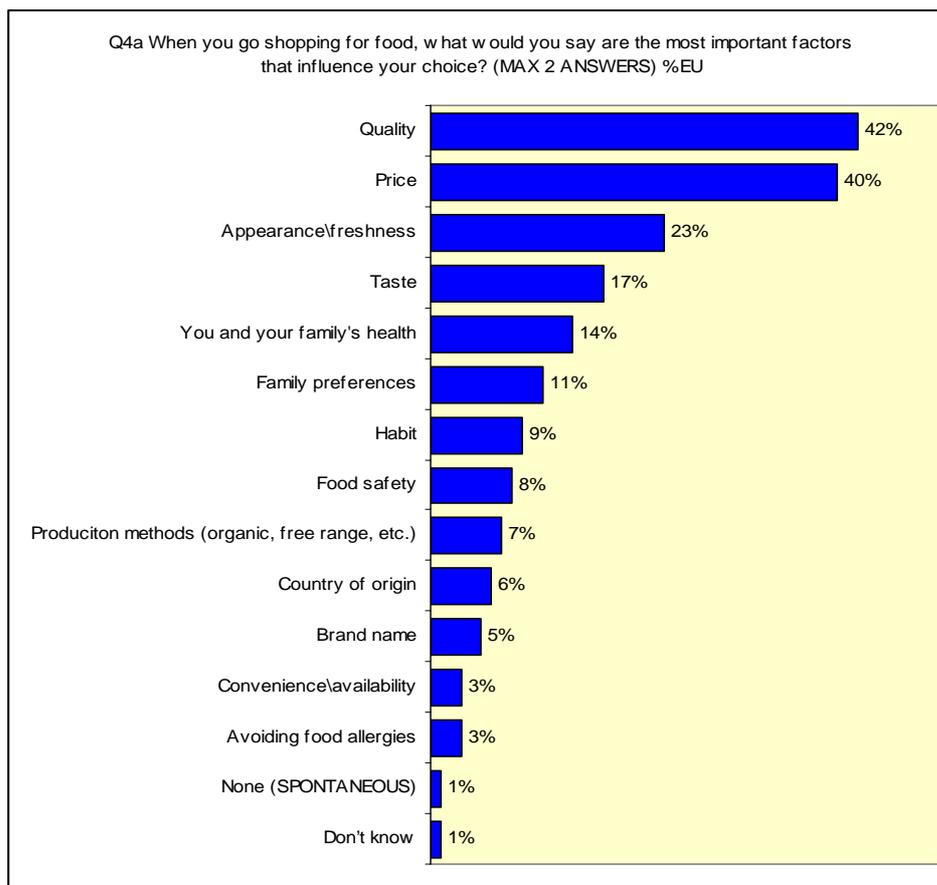
³ Impact assessment report on general food labelling issues, 30.1.2008, SEC(2008) 92, pp. 21-22.

⁴ http://ec.europa.eu/food/animal/welfare/euro_barometer25_en.pdf

1.2.2 Attitudes to food purchasing⁵

- Europeans consider quality and price as most important levers when purchasing food -

When purchasing food, two out of five Europeans guide their choice by the quality (42%)⁶ and the price (40%) of food. Around a quarter are guided by the appearance/freshness of the food (23%), followed by taste at 17%, health at 14% and family preferences at 11%. The findings here further illustrate that “health” per se is not the primary preoccupation of consumers with respect to food and does not appear to be the most important lever in guiding consumers’ food choices. On this note it is worth pointing out that at the country level, Malta (24%), the Netherlands (21%) and Denmark (18%) are where the highest proportions of citizens say that health is one the most important factors influencing their food purchases; however in all three countries these scores follow behind price and quality.



Box: Extract from Special Eurobarometer 238 survey, Risk Issues, published February 2006. p.9.

Organic farming is a specific production system, the product of which is widely available on the market. Production method concerns are central to the organic concept, notably the use of natural resources, preventive crop protection methods, restricted use of pesticides mostly from animal, plant or microbial origin, high animal welfare standards, and environmentally sustainable production techniques. The relatively low share of

⁵ Special Eurobarometer report 238 Risk Issues, Feb 2006
http://www.efsa.europa.eu/cs/BlobServer/General/comm_report_eurobarometer_en2.pdf?ssbinary=true

⁶ Eurobarometer note: "We should bear in mind that a number of the aspects covered in this question are quality-related aspects, such as appearance/ freshness, taste and production method."

organic products of between 1% and 5% of total turnover of food products⁷ is consistent with the message that while farming practices are an important factor for consumers *when prompted*, this does not translate into a concern of a majority or even a sizeable minority of consumers when purchasing decisions are made, even where the value-added product is clearly labelled and marketed.

The finding that a top concern for consumers is price from data gathered in the relatively prosperous period of 2005 is likely to be even more significant in times of recession.

Therefore, as far as EU farmers are concerned, there is probably no great demand from the market place for all agricultural products to be labelled to indicate where it was farmed or compliance with particular EU farming practices and requirements. This suggests that in general consumers are not informed on the farming methods or place of farming of ordinary (non-value-added) products at the moment of purchase. Farmers therefore face a communication difficulty that fundamental information about the farming input to a product — its place of farming and/or the farming requirements followed — are not available to consumers at the point of purchase.

2.2. What are the underlying drivers of the problem?

Societal demands cover many process or farming requirements on EU farms. Effective rules include traceability and record keeping, tracking EU-farmed animals from the birth to slaughter. Detailed records must be kept, *inter alia* on substances used in production such as veterinary drugs, feed, biocides as well as test results needed for use of certain products. Such record keeping is also a particular requirement for poultry and is under consideration for pig rearing.

Beyond safety and hygiene, **care of the environment** has been at the forefront of consumers', or at least citizens', demands from farming for many years. This was reflected in the CAP reform of 1992 with the introduction of the agri-environment accompanying measure to the CAP, which became a central part of rural development programming. The current strategic guidelines⁸ plan for measures to:

be used to integrate these environmental objectives and contribute to the ... commitment to reverse biodiversity decline by 2010, to ... establishing a framework for Community action in the field of water policy, and to the Kyoto Protocol targets for climate change mitigation.

Environmental issues have grown in political significance and have again come to the fore as the “new and ongoing challenges” in the Health Check⁹. The regulatory

⁷ http://ec.europa.eu/agriculture/organic/files/eu-policy/data-statistics/facts_en.pdf
Organic farming in the European Union Facts and figures, 2005, EC DG Agriculture and Rural Development, p. 21.

⁸ COUNCIL DECISION on Community strategic guidelines for rural development (programming period 2007 to 2013), OJ L 55, p.20, 25.2.2006.

⁹ ‘Preparing for the “Health Check” of the CAP reform’, 20.11.2007, COM (2007) 722, Communication from the Commission to the Council and the European Parliament.

response¹⁰ at EU level has had significant impacts on EU farmers in addition to the integration of environmental care into retailers' private standards.

In the livestock sectors, a significant societal driver on farming requirements is the **ethical consideration of animal welfare**. Two issues on animal welfare need to be distinguished:

- In this paper, minimum compulsory animal welfare requirements, as part of farming requirements are relevant;
- In a separate Communication on labelling of animal welfare, the issue of labelling as a means of encouraging and promoting higher levels of animal welfare by differentiated product labelling is planned¹¹.

Livestock farmers are required to observe minimum EU animal welfare standards. These standards are important not only to ensuring a high level of animal welfare but also in improving animal health and productivity. They can contribute therefore to more effective production systems which are also more in tune with societal demands.

Finally, producer and consumer expectations concerning the **composition, quality and production method** of certain processed agricultural products has resulted in obligatory production requirements for agricultural products placed on the market.

Consumers — when prompted — want information on where food has been farmed and how it has been produced, and farmers want them to have this information. EU farming requirements reflect the legitimate choices of society and as such, are a positive aspect of EU production. However, they can only communicate this if the product's farming method or place of farming can be identified.

2.3. What regulatory measures are already in place?

The issue is already addressed to an extent by existing legislation, although not in a consistent way:

Obligatory production system labelling

Egg production method labelling: Eggs sold on the EU market must be labelled according to their method of production (cage, barn, free-range, organic).¹² For poultry meat, farming method indications are precisely defined and farmers must comply with specifications laid down to use the reserved terms. However, the indication of farming method is not mandatory.

Place-of-farming labelling can also serve as a proxy label to indicate that a product has been farmed in line with the requirements in the place shown.

¹⁰ See Appendix 2, section 6.

¹¹ Agenda planning reference 2009/SANCO/037

¹² Council Regulation (EC) No 1028/2006, Commission Regulation (EC) No 2295/2003.

Obligatory place-of-farming or origin labelling has been adopted for:

- fruit and vegetables (Regulation (EC) No 1234/2007, Article 113A)

Under the single CMO¹³ "The products of the fruit and vegetables sector which are intended to be sold fresh to the consumer, may only be marketed if... the country of origin is indicated." For a crop product, 'country of origin' equates to 'country of place of farming'. This requirement applies to fruit and vegetables covered by the single CMO (does not apply to potatoes, coconuts, etc.), but does cover thyme, basil, rosemary, etc. Processed fruit and vegetables are not covered.

- honey (Directive 2001/110/EC);

The country of harvest shall be indicated on the label. However, if the honey has been harvested in more than one country, the indication may be replaced by one of the following: "blend of EC honeys"; "blend of non-EC honeys", or "blend of EC and non-EC honeys". This indication does not apply to honey used as an ingredient in a processed product.

- beef (Regulation (EC) No 1760/2000);

Beef and beef product (including veal) must be labelled for retail sale with an indication of:

- the Member State (or third country) where the animal was born,
- the Member State(s) (or third country/ies) where fattening took place and,
- the Member State (or third country) where slaughter took place.

If the beef is derived from animals born, raised and slaughtered in the same Member State or third country the indication on the label may be given as "Origin + (country name)". This rule applies to product sold as beef (fresh, chilled or frozen), including thin skirt, minced meat, trimmings and other cut meat. It does not apply to meat preparations¹⁴.

- Eggs

In-shell eggs are labelled on each egg with the ISO code for the country of origin.

- imported poultry (Commission Regulation (EC) No 543/2008);

Country of origin indication is mandatory in the case of imported poultry meat sold at retail. In practice imported poultry meat is nearly all imported as preparations or processed in the EU. Currently EU marketing standards do not apply to preparations of poultry meat.

- olive oil (Commission Regulation (EC) No 1019/2002)

With effect from 1.7.2009, olive oils in the "virgin" and "extra-virgin" categories must be labelled according to their place of production: for EC-produced oils, this is the place of pressing the oil and the place the olives were grown; if these are different places, the form "olive oil obtained in X from olives harvested in Y" must be used. Blends of different olive oils of the EU must be labelled 'EU origin'. Olive oil from 3rd countries must be labelled with

¹³ Regulation (EC) No 1234/2007, Article 113A(1).

¹⁴ Defined in Regulation (EC) No 853/2004: "fresh meat, including meat that has been reduced to fragments, which has had foodstuffs, seasonings or additives added to it or which has undergone processes insufficient to modify the internal muscle fibre structure of the meat and thus to eliminate the characteristics of fresh meat"

its origin according to the non-preferential rule of origin. It is forbidden to label origin of ordinary olive oil or oil composed of refined olive oil and virgin olive oils.

- wine (Annex IV of Regulation (EC) No 479/2008);

Wine labelling must indicate both the place the grapes were harvested and the place they were turned into wine, using expressions such as "wine of ...", "produced in ..." or "product of ..." for wines from one place. For blends and wines made in one place from grapes harvested in another: "European Community wine"; "blend of wines from different countries [of or outside] the European Community"; "blend from ..."; "wine obtained in ... from grapes harvested in ..." etc.

- organic: (Council Regulation (EC) No 834/2007 as amended by Council Regulation (EC) No 967/2008);

With effect from 1.7.2010, all pre-packaged organic food that is produced in the EU must be marketed using the EU organic logo, which is currently in the process of design. All uses of the EU logo must be accompanied by an indication of the EU or non-EU place of farming of the ingredients. Where the ingredients all come from the same country, that name can be used.

- Pre-packaged food¹⁵ for which to not label the origin could mislead consumers (Directive (EC) No 2000/13).

What private and market instruments are already in place?

Quality assurance schemes have been established by retailers and/or by farmers in order to certify the production method at a defined level of good practice, which may be at or a margin above minimum EU requirements. The main schemes operating in the EU include: GlobalGAP (formerly EuropeGAP), which covers all farming sectors; QS, originating in the meat sector in Germany, but now extended to Netherlands, Belgium and Denmark and covering other sectors (fruits, vegetables, potatoes); Red Tractor (all sectors except eggs, which are covered by the similar Lion scheme), operating in the UK.

QS and Red Tractor provide for a consumer logo, thus enabling consumers to identify the scheme associated with product. GlobalGAP assures the quality standard only to the retailer (who may then put on their own logo) and QS and Red Tractor are also used in this way (to communicate to the trade). For example 75% of UK combinable crops (cereals, oilseeds; protein crops)¹⁶, which by their nature are hardly ever sold to consumers without processing, are certified.

Annex D of this project addressed the issue of assurance schemes in more detail and cross-reference is made to there.

In addition, retailers may choose voluntary labelling to describe the farming production method or place of farming. However, this information is normally only provided where

¹⁵ Under the current proposal for a Regulation on the provision of food information to consumers (COM(2008) 40 final and SEC(2008) 93), this provision would apply to all foodstuffs, whether or not pre-packaged.

¹⁶ See: http://www.ukagriculture.com/food/assured_combinable_crops_scheme.cfm .

the retailer can identify a value adding characteristic, such as free range or environmentally compatible production. Voluntary labelling of production method or origin does not extend to all agricultural products, and does not cover the whole spectrum of farming requirements¹⁷.

2.4. How would the problem evolve without a change in policy?

Producer/retailer action

Voluntary action could be taken at the initiative of retailers and/or farmers, in response to consumer demand, competitor pressure, or NGO pressure, including:

- Development of voluntary origin and/or place of farming labelling;
- Development of 'single issue' certification schemes, such as for integrated production, use of pesticides or animal welfare;
- Development of food assurance certification schemes and retailer purchasing policy.

In the absence of overt consumer demand for origin or place of farming labelling, retailers may be reluctant to provide for such labelling which would draw attention of consumers to the product's origin. For similar reasons, information on production method, are unlikely to be indicated on labels voluntarily.

Higher standards, however, could be labelled as a positive selling point for product – given the high premium some consumers place on given production methods when prompted. NGO action could also be influential.

Ad-hoc compulsory labelling: regulation of origin and production method

Compulsory production method labelling, particularly in relation to animal welfare, could be developed in those sectors where the most intensive methods are used (e.g. pigmeat, poultry, and veal sectors).

Place-of-farming labelling could be extended by sector according to demand and justification. Until now only raw agricultural products and single-ingredient processed products are subject to compulsory place of farming labelling.

Environmental compliance labelling and wider production method labelling (e.g. covering pesticides) is, based on the absence of initiative to date, unlikely to be developed. However, the issues of water use and climate change impact are rising in significance and ad-hoc action at EU level here should not be ruled out.

2.5. Does the EU have the right to act?

Legislation for agricultural product, including marketing in the EU is enabled under Article 33 of the Treaty.

¹⁷ Under Commission labelling proposal, COM(2008) 40 final, voluntary labelling of all meat products would have to follow the beef model, thus requiring the place(s) of farming to be indicated (birth, fattening and slaughter).

2.6. Should the EU act?

The problem arises due to the conflict of two demands:

- society demands certain minimum production standards and requirements are followed and applied obligatorily in the EU;
- in the marketplace, retailers do not consistently require information to be provided and so consumers are not normally aware of those minimum requirements nor of the place it has been farmed.

Consumers, when prompted, regard origin and production method information as useful information to assist purchase decisions.

The problem is unlikely to be addressed by the market and if addressed at all, public action will be required. However, ‘no-action’ is not to be excluded.

Should action be considered at EU-level or at Member State level? Obligatory labelling of place of farming or the definition and labelling of production method have the potential to disturb the internal market. There is no guarantee that similar or compatible definitions of farming requirements and detailed rules on place of farming could be decided on by Member States acting separately. Thus, if action were to be taken on a problem that is EU wide and in a way that upholds the integrity of the single market, the action can be justified at EU level.

A(i) 3. OBJECTIVES

To communicate information about place of farming and farming requirements to buyers and to consumers.

To provide recognition in the market to farmers and producers of agricultural product who meet societal expectations in the form of production requirements.

A(i) 4. POLICY OPTIONS

4.1. Options and initial screening

The following options will be examined in relation to agricultural product:

- (1) Status quo plus: Extending existing compulsory indication of place-of-farming (EU/non-EU or country) to cover agricultural product
- (2) Obligatory EU logo indicating compliance with EU farming requirements;
- (3) No EU action, which equates to continued use of voluntary private schemes that certify compliance with a privately-defined farming standard.

4.1.1. Status quo plus: Extending existing compulsory indication of place-of-farming (EU/non-EU or country) to cover agricultural product

One option raised in public consultations is to extend compulsory labelling of the place of farming. Currently, in general labelling law, there is no compulsory place of farming labelling, nor origin labelling, except in the marginal circumstance that consumers would be misled as to origin if the product's origin were not labelled. However, in sectoral legislation there are multiple examples of obligatory labelling of place of farming: wine, beef and veal, honey, eggs, fruit and vegetables (except potatoes), imported poultry for sale as meat, eggs, olive oil (from July 2009), and EU-produced organic product (from July 2010). The current list of agricultural products on which labelling of place of farming is required is quite eclectic and has grown up ad hoc as the marketing rules for different sectors have been developed. It is not easy to explain the rationale for requiring the place of farming labelling for beef but not for lamb, and for honey, but not for butter.

When prompted, consumers are interested in knowing the place of farming, not least in processed products. However, their preference is clearly for country of origin labelling rather than EU/non-EU. The place indicated tells consumers something about the product. A country or regional origin can convey information on the quality, particularly for products associated with a particular place and on the distance over which it has been transported (food miles). An EU/non-EU label can only convey information common to the EU – such as the applicability of EU farming requirements.

Stakeholders say:

Green paper responses:

Practically no respondent linked the issue of labelling of place of farming with product hygiene or safety considerations.

Farming groups generally favoured compulsory place-of-farming labelling, mostly at country-level rather than EU/non-EU, but in general thought it had to be considered sector-by-sector; "not realistic for all product" said several, but there was a general view that beef labelling requirements should be extended to all meat. Organic bodies recommended extension of the organic rules for labelling the place of farming ('EU' or 'non-EU') to all sectors but pointed out the potential difficulties for processed products.

National authorities are divided on the issue. Those in favour of place-of-farming labelling say it is 'highly desirable from consumer point of view', another that it would 'help to build consumer confidence', and for one, consumer demand was the determining factor. One responded that sufficient publicity would be needed to make the link to EU farming requirements, but others said that consumers are well aware about EU farming model and environmental requirements in particular and that consumers do infer additional information from knowing the origin. Several authorities responded that only 'country' of farming would be useful, but not smaller than country (to avoid confusion with PDO-PGI labelling). Product-specific consideration is needed. The few regional bodies that responded favoured a regional or EU/non-EU indication more than the country indication, while the reverse was true for national bodies.

Individuals, including farmers, were generally in favour of origin or place of farming labelling, but almost unanimously preferring 'country' rather than 'EU/non-EU'. One exception was a respondent who argued for EU/non-EU to 'prevent national market protection by Member States'.

Arguments against from public bodies and others include the risk of increasing prices and burdens on packers owing to the need to adjust labels ('an advantage for consumers, a disadvantage for agri-food businesses').

A third country body underlined that any labelling scheme should be non-discriminatory to 3rd countries.

Several NGOs thought 'EU' too broad to carry meaning to consumers and a smaller territory was needed to convey information such as food tradition and distance travelled.

Representatives of processors were strongly, though not unanimously, opposed to obligatory place-of-farming labelling. Few retailers responded, one view was that it is feasible for raw products and very-lightly processed, but loses value for processed products.

Academic organisations (etc.) were in favour of some kind of obligatory labelling of place-of-farming, but few supported EU-level. Some considered the labelling would be helpful to address 'food miles'; one said it should be accompanied by promotion campaign. Opponents of any place-of-farming labelling said this should be left to the market.

Similar divisions were evident from stakeholders consulted on the options retained in the **Quality Policy Advisory Group** on 26.2.2009. Industry underlined in particular the difficulties of indicating origin for highly processed and mixed foods, such as bread, beer and pate made with a mixture of meats, and place of farming of animal feed (in respect of meat products). Support for place of farming labelling (at country level) was most pronounced from farming groups and consumer representatives, as well as an animal welfare representative.

4.1.1.1. Assessment of effectiveness, efficiency and consistency

Effectiveness: Labelling of food with the place-of-farming of the product or, if processed, of the ingredients is a simple way of communicating that single fact. EU farmers are seeking to convey to consumers where the product has been farmed, as well as the farming requirements followed. An indication of EU place-of-farming does not therefore directly address the second part of the problem. However, even here, since the application of EU requirements is, by definition, coterminous with the territory of the EU, a link can be made between the two. Therefore in terms of effectiveness, a place-of-farming indication has 'medium' effectiveness.

Efficiency: A labelling mechanism is much simpler to implement and control than a certification scheme or complex message. No certification scheme is needed as a place-of-farming requirement can be implemented by a labelling rule. Place-of-farming is straightforward for raw materials and processed foods provided the processor has the information. For processors, for those that have the information on the place of farming, there will not be a particular difficulty. However, for those processors that do not know the provenance of the raw materials foods, place-of-farming labelling presents a difficulty. The efficiency of this option would be 'medium'.

Consistency: Currently, obligatory place-of-farming, origin, etc. labelling applies in 7 sectors. Different concepts are used and some of the labelling indications are quite complex. The products to which labelling is applied are either raw materials or single ingredient processed goods. However, a proposal has been made to apply place-of-farming labelling to meat preparations. In this light the current position is inconsistent and a new approach to obligatory labelling could result in greater consistency. Such labelling would increase the administrative burden of official controls, although these are understood to be light and there would be an increased burden for manufacturers of mixed-ingredient goods. The consistency of this option vis-à-vis current place of farming labelling requirements is 'medium' to 'high'.

The Commission's proposal for the provision of food information to consumers, preserves the status quo regarding obligatory labelling of origin or provenance. In its impact assessment¹⁸ of 30.1.2008 the option of horizontal obligatory labelling of origin or provenance was considered from the perspective of consumers and the food industry¹⁹ but not retained. The current obligatory sectoral legislation requiring origin or place of farming labelling was referred to in the background (section 3.5.3), but the focus of the IA remained on the question of horizontal labelling. In this light, and notwithstanding the novel element in the current IA of considering farmers as stakeholders, it would be inconsistent with the work undertaken in 2008 to consider at this time an option for horizontal labelling.

The present option is intended to pick up from the work done in 2008 and continue the reflection in relation to agricultural products covered by Annex I of the Treaty. The factors that distinguish this option (*extending existing compulsory indication of place-of-farming (EU/non-EU or country) to cover agricultural product*) from policy issue 3 in the 2008 IA (*clarification of the use of origin labelling on foods*) and are the following:

- consideration of farmers as stakeholders (the 2008 IA took the perspective of consumers and processing industry only);
- consideration of the concept of place of farming (which again targets the farming input to food) rather than the more complex question of rules of origin and provenance;
- consideration of a sectoral and obligatory place of farming in the frame of the CMOs, wherein 8 sectors are already legislated, plus organic (the 2008 IA focussed on horizontal rules);

In the light of these distinctions, the consistency of this issue with the 2008 IA is 'medium', with the proviso that to discuss horizontal labelling of place of farming would render consistency as 'low'.

4.1.1.2. Conclusion

Extending compulsory place-of-farming labelling is supported by a variety of stakeholders, with the notable exception of organisations representing the processing industry. However, those who support mostly prefer country-level labelling rather than EU/non-EU labelling. Few respondents considered the impact on the single market and one who did opposed country-level labelling. In terms of efficiency and effectiveness, this option is only "medium" since the message ("place of farming") does not directly refer to the problem (assisting the communication of EU requirements). Support for compulsory place-of-farming is highest for raw and basic agricultural product, notably meat, and single-ingredient processed product (wine, olive oil, etc.) and diminishes in proportion to the degree of processing of a product. Low support and very strong opposition is recorded for highly-processed products, but as these are outside Annex I,

¹⁸ SEC(2008) 92

¹⁹ 'farmers' were not considered as stakeholders for the purposes of the IA, which was primarily focussed on labelling on food packaging affixed by food manufacturers (see sections 3.3 and Annex I of the IA report, op cit).

they are anyway not within the remit of this current study. In terms of consistency with existing regulation on place of farming and current proposals, the consistency is 'medium'.

This option is retained for further analysis.

4.1.2. *Logo option: Obligatory EU logo signalling compliance with EU farming requirements*

A logo (or conceivably a labelling term) indicating compliance with EU requirements could be developed. This would appear on all agricultural product farmed in the EU and signal that base-line farming requirements had been followed.

The following technical difficulties may be identified:

- it is not clear that consumers would value a logo that indicated compliance with minimum farming requirements.
- if the scheme relied on farmer-declaration or presumption of adherence to standards, it would lack the credibility of a certified assurance scheme;
- if a full certification system were established, covering all EU farming requirements, it would give rise to significant burdens of recording and certifying exactly which requirements had been observed and in what way.
- the logo would need to be open to 3rd country product which had been farmed in line with EU requirements or their equivalent. It would also need to be compliant with the Community's WTO obligations.

The question of using labelling to indicate compliance or non-compliance with EU farming requirements was considered in a recent study, *Qualified Market Access*,²⁰ for the Commission. The study primarily examined options for tariff measures qualified market, but also analysed the potential for a labelling scheme to inform consumers. The relevant part of the text is reproduced at Appendix 2. This highlights that labelling indicating compliance with basic requirements without any value added component would risk confusing consumers and fail to benefit producers. The label would lack sufficient credibility.

Two further technical issues need to be covered:

- Firstly, not all EU product would qualify for the logo since some farmers might not be in full compliance with the EU requirements. Breaches of environmental legislation are a case in point, and breaches of animal welfare legislation do not of themselves prevent marketing of the product.

²⁰ 'Qualified Market Access', CARIS Centre University of Sussex, *Holmes, Rollo, Winters, Dawar and Mathis*, October 2008 for European Commission DG TRADE. [*Publication reference / link*]

- Secondly, it is not always clear what are the EU requirements at the level of the individual farm. Environmental directives are implemented by Member States in a way that meets their own environmental circumstances. In some cases the Commission has opposed the Member States' application of directives, which opens the question whether any of the product from a Member State that has not correctly transposed a Directive can be said to be in compliance with EU obligations. An example of the kind of dispute that can arise has recently been in the ECJ (see box).

French intensive poultry rearing under scrutiny at ECJ: French rules on intensive poultry production do not respect the EU Directive 96/61/EC on Integrated Pollution Prevention & Control (IPCC) & the French decree in question should therefore be annulled, the European Court of Justice (ECJ) ruled this week*. The main objections relate to the coefficients applied, which allow over-intensive systems for quails, partridges & pigeons to receive prior authorisation even if they exceed the 40 000 place limit in the Annex I of the Directive, with the Court ruling that these birds also count as “poultry”.

* For more on the case www.curia.europa.eu & enter C-473/07 into “Case-number”.
AGRAFACTS, 23.1.09.

These difficulties could be overcome by establishing an EU certification scheme that would test compliance against a defined standard of 'good agricultural practice' established for the purposes of the scheme. This could be built on the model of the private assurance schemes. However as mentioned above the administrative burden of such a scheme, compulsory for every farmer, would be high, and the complexity of developing the scheme covering all EU farming requirements, would be extreme.

4.1.2.1. Assessment of effectiveness, efficiency and consistency

Effectiveness: In principle an EU logo, if well designed, could be successful in communicating farming attributes to consumers. The design would be a challenge since there is such a range of farming practices, concerning all types of livestock and crop farming. The risks of poor design include:

- Logo is only conveys part of the message. For example consumers believe it attests requirements are followed with regard to crop protection products, but is not associated with animal husbandry.
- Logo is misinterpreted to mean something it does not: e.g. it is seen as an indicator of safety or of origin.

The private baseline schemes that exist in the market normally do not convey information to the final consumer, since they are used in business-to-business transactions. The logo could be accompanied by a promotion campaign or internet information on its meaning.

Assuming a logo were chosen that did successfully convey compliance with EU farming requirements, it is doubtful that consumers would be interested in the information. Consumers expect that all EU product has been produced in conformity with EU farming requirements and thus a marketing claim on these lines would have limited appeal.

Efficiency: A logo or certification scheme is suited to verification of complex messages. In fact, given the wide range of requirements to be covered, only a logo backed up by certification would have the necessary credibility.

However, the burden of developing and running a certification scheme, for the farmer and for the verifying authority would be high. Development of the scheme would require reliable knowledge, farm-by-farm, of the EU requirements that apply. Where these requirements are contained in Directives that have been implemented and approved by national or regional authorities, the identification of the EU requirement (as distinct from any additional Member State requirement) could be difficult to determine.

Given the burdensome development and running costs, and the lack of interest from consumers, the efficiency would be rather low.

Consistency: The development of an EU logo and certification scheme signalling compliance with EU farming requirements is not consistent with the Commission's objectives for simplification and reduced administrative burdens.

Stakeholders say:

The EU label options was discussed in depth at the **Stakeholder Hearing** on “Food Quality Schemes”, 11-12 May 2006 – Brussels²¹, and views were overwhelmingly negative from the panels representing farmers, traders, food processors and retailers. Consumers, although invited, were not represented, and Certifiers, although present did not comment on this option. The main views expressed were:

Farmers believe there is no need for a logo confirming compliance with EU regulations, because the law is a prerequisite and since every product will bear the logo it cannot serve any useful purpose.

Traders are not in favour of an EU QAS. Authorities should ensure consistent application of food safety laws across EU Member States – plus greater consumer confidence and an open trading environment.

Food processors also consider that no European logo confirming compliance with EU regulations should be created.

Retailers questioned whether the EU scheme would conflict with existing legislation and how the massive cost to promote it EU-wide would be financed. An EU quality mark is likely to be seen as just another logo. Moreover, retailers believe that compliance with EU regulations should not be used as a marketing tool. Creation of an EU quality mark also generates questions among retailers, such as “What will happen with products without a logo?” or “How can we prevent the reality/perception of a new barrier to trade with third countries?” In conclusion, retailers are highly sceptical about the costs and benefits of developing an official EU quality mark.

These negative views were largely echoed in the stakeholder panel that closed the Conference on food quality certification²² held 5-6 February 2007.

Responses to the **Green Paper** were also overwhelmingly negative. Many respondents said a new logo would only cause confusion; that it would not have a useful meaning and might mislead consumers that higher standard than the minimum had been followed. Many pointed to the high compliance costs of controlling compliance. Of those who supported the idea of an

²¹ http://foodqualityschemes.jrc.ec.europa.eu/en/documents/ReportSTKHHearing_final.pdf

²² http://ec.europa.eu/agriculture/events/qualityconference/index_en.htm

EU logo, some argued that it should not be available for product from 3rd countries. A relatively high proportion of individuals compared with organisations supported the EU requirements logo idea.

Stakeholders meeting in the **Quality Policy Advisory Group** on 26.2.2009, which was asked for views on the options in this paper, concurred with the Commission's exclusion of this option.

4.1.2.2. Conclusion

In conclusion, an EU label or logo signalling compliance with EU requirements has so many technical obstacles, and considerable stakeholder opposition, that this option is not retained for further analysis.

4.1.3. No EU action, which equates to voluntary use of private schemes that certify compliance with a defined standard of farming practice.

See paper D.

This option is retained for further analysis.

4.2. Fine-tuned shortlist for further analysis

Following the screening for technical and other constraints as well as the assessment of effectiveness, efficiency and consistency, option 2 (Obligatory EU logo signalling compliance with EU farming requirements) is considered to be too heavy in terms of administrative burden, inconsistent with the Commission's objectives for better regulation, simplification and reduced administrative burdens, and is not supported by stakeholders. It will therefore not be analysed in detail.

The options retained for further analysis are:

- Option 1: Status quo plus: Extending existing compulsory indication of place-of-farming (EU/non-EU or country) to cover agricultural product
- Option 3: No EU action, which equates to use of voluntary private schemes that certify compliance with a privately-defined farming standard.

A(i) 5. IMPACT OF OPTIONS

5.1. Status quo plus: Extending existing compulsory indication of place-of-farming (EU/non-EU or country) to cover agricultural product

5.1.1. Impacts

The option potentially covers all agricultural products placed on the retail market, that is products included in Annex I to the Treaty. The following products are not covered by this option or covered only to a very minimal extent:

- Fisheries products, which are subject to separate labelling requirements;
- Products such as flax and animal feed that are not foods;
- Products that by their nature are nearly always processed before sale (cereals, grains, oilseeds) or not sold at retail at all (live animals).

The main products concerned are:

- Raw agricultural products and meat (fruit and vegetables, meat, milk, eggs)
- Single-ingredient pressed or processed products (wine, dairy products including cheese, olive oil, coffee, tea, fats and oils, sugar, tobacco)
- Other processed products within Annex I of the Treaty (chiefly preparations of meat containing more than 20% meat and preparations of vegetables and fruit.)

Economic impacts:

The impact on prices for mandatory country of origin labelling was considered in the 2008 IA²³. Estimates by USDA (ERS) in 2004 at levels between 0.06-0.26% for pork, 0.07-0.24% for sheep (although these estimates are considered to be high). Estimates prepared for the Food Standards Agency Australia and New Zealand in 2006 estimated the average cost of applying country of origin labelling to packaged and processed fruit and vegetables at 1.4% (described as very significant) with the rate depending on the size of company and the number of origins of the ingredients. A study considered to be more realistic in the light of modern tracking procedures from New Zealand put the median cost at 0.48% of turnover.

Functioning of the internal market and competition:

Provided the place of farming chosen is EU/non-EU, the impact on the free movement of goods and services in the single market will be limited and the costs to industry will be lighter.

Impact on farmers and producers in the EU may or may not be positive. It will enable EU farmed products to be more easily identified. Provided this is what consumers seek then

²³ Page 54.

farmers will benefit. However, consumers may seek other characteristics and farming attributes.

Impact on processors will be negative insofar they need to frequently alter labels as a function of purchases. For multi-ingredient processed product, the difficulties of identifying the place of farming of all, or the main, ingredients could be formidable and will add costs. In particular it is not clear is the origin of every significant ingredient would have to be identified, or only the main ingredient (which would have to be defined in the case of multi-ingredient products).

While consumers (unprompted) have no strong desire to seek out place of farming labelling, they show great appreciation to know the place of farming when specifically asked. However, for EU consumers, only country or regional labelling has resonance, and EU/non-EU label is not regarded as specific enough to convey useful information. For processed goods, if the labelling requirement results in a price increase, consumers would lose.

SME farmers and producers of single ingredient processed agricultural product will be able to better communicate the place of farming with the consumers.

Negative impact on SME processors that use a diversity of sources and have to relabel frequently. However, this impact will be slight.

Operating costs and conduct of business:

Administrative burdens on businesses: labelling rules will require traceability and separate recording on the place of farming of ingredients with associated costs.

Consumers and households: place of farming labelling will enable consumers to be informed about the farming attributes and requirements more easily.

Public authorities: provided inspections of place of farming labelling are integrated into existing control structure, the impact on control authorities will be modest.

Social impacts:

Transparency: the labelling will contribute to better information to the public. Labelling of place of farming may give some consumers useful information on production style, climate, and (possibly subjective) information about the quality of the product.

Environmental impacts:

As one aim of the labelling of place of farming will be to make better known the environmental compliance efforts that farmers achieve, provided this is successful, then the benefit to the environment in terms of better understanding of environmental requirements will be significant.

International considerations

Any labelling of place of farming must be WTO compatible and not be motivated by a desire to impede imports. International comparisons show that country or origin labelling, usually combined with place of farming clarifications, is being introduced in

some leading OECD economies (see Box) and indeed is required for conformity with many international standards (e.g. UN/ECE fruit and vegetable standards; Codex cheese standards).

Obligatory country of origin and place of farming rules in selected countries

Australia: Standard 1.2.11 – Country of origin requirements: Packaged food must carry a separate statement identifying the country where the food was produced, made or packaged. Definitions and criteria for use of the following terms are prescribed: 'Product of [country]' 'Produce of [country]' (indicating that the ingredients of a processed food were also farmed in the country named), 'Made in [country]', 'Made in Australia from local and imported ingredients' or 'Made in Australia from imported and local ingredients'²⁴

US: COOL On 16.3.2009, provisions come into effect requiring country of origin labelling (COOL) for beef, lamb, goat meat, pork, chicken, fish, perishable agricultural commodities, and peanuts, ginseng, pecans and macadamia nuts. Commodities covered under COOL must be labelled at retail to indicate its country of origin. Commodities are excluded from mandatory COOL if the commodity is an ingredient in a processed food item.²⁵

Canada: country of origin labelling is required in several agricultural sectors.

Korea: country of origin labelling applies.

There is a question whether it is preferable from an international perspective to require imported product to be labelled as place of farming "non-EU" or "country". If this is a problem, the choice could be given, to label the country of the place of farming or alternatively 'non EU'. Likewise within the EU, the requirements could be a choice between 'EU' and 'member state' place of farming. In the recent case of olive oil labelling, while EU producers will have to identify the place of harvest as well as the place of pressing, for imported olive oil, 'origin' according to the non-preferential rule was adopted.

5.1.2. Qualitative assessment of impacts that are most significant

Impacts deemed to be most significant are:

- The potential positive impact on farmers and producers: this is greater for country labelling than for EU/non-EU labelling.
- The potential negative impact on processors: this is greater for country labelling than for EU/non-EU labelling.
- The potential negative impact (cost) on public authorities through control expenses.
- The potential positive impact in terms of consumer information.

²⁴ Country of Origin Labelling, 1st edition March 2006, A guide to standards 1.2.11 – country of origin requirements (Australia only). Food Standards Australia New Zealand.

²⁵ USDA press release 12.1.2009.

5.1.3. Conclusion

Requirement for labelling of place of farming on agricultural products could be an effective way of communicating basic information to consumers. It is supported by farmers and consumers who are favourably disposed to seeing information on the place of farming, and (especially for highly processed or mixed products), opposed by the processing industry.

Estimates of cost impacts vary greatly, by a factor of 10 from 'not significant' to 'significant', in studies conducted in other countries. The only conclusions that can be drawn are that costs are considerably higher for highly processed and mixed products — most of which are outside the scope of agricultural product covered by Annex I.

Therefore in considering taking forward obligatory sectoral place of farming labelling for agricultural products, several issues could be usefully further clarified:

- costs in the EU context, especially in the light of traceability requirements;
- labelling regime for mixed products that fall within the 'agricultural products' heading, specifically whether place of farming of all, some or one ingredient(s) required.

A(i) 6. COMPARING THE OPTION (WITH STATUS QUO)

	Advantages	Drawbacks
<p>Status quo plus: Extending existing compulsory indication of place-of-farming (EU/non-EU or country) to cover agricultural product</p>	<ul style="list-style-type: none"> – Prevents place-of-farming from being concealed by anonymity by retailers; – Draws attention of consumers to an information item they value (although not as much as country level); – Preferred by a (significant) share of stakeholders; – shown by schemes in other countries to be likely to be WTO compatible, but some flexibility (e.g. "non-EU <i>or</i> name of country") may be needed to ensure measures are not barriers to trade. 	<ul style="list-style-type: none"> – Only an indirect link to arming practices; – burdensome for processors, especially for mixed and highly processed foods; – lack of cost impact data in the EU context.

Table 5: Comparison of retained options by specific objectives

Main objectives →	Communicate place of farming and farming requirements to buyers and consumers		Provide recognition to farmers who meeting societal expectations in the form of production requirements	
↓ Options				
1. no EU action	Baseline		Baseline	
2. place of farming label	Situation improved		Situation improved	

Table 6: Comparison of retained options by effectiveness, efficiency and consistency

Evaluation criteria →	Effectiveness (how well will it solve the problem?)		Efficiency (is this the most we can get for the money?)		Consistency (is it in line with other Commission objectives and strategies?)	
Options ↓						
1. no EU action	Baseline		Baseline		Baseline	
2. Place of farming label	Medium	+/-	Medium	+/-	Medium to Low	

APPENDIX 1. OVERVIEW OF EU FARMING REQUIREMENTS

1. HYGIENE AND SAFETY

After adoption of the **General Food Law**²⁶ (GFL) a set of specific requirements listing the obligations for food producers, for producers of food of animal origin and for feed producers and users were also adopted²⁷. This framework legislation places the primary responsibility for food safety on the producer. The legislation introduced at all levels except primary production of Hazard analysis and critical control point (HACCP) for food safety control systems and the application of codes of good practices.

Livestock farmers are affected by legislation on the disposal of animal by-products²⁸, that sets out tight conditions for the safe disposal of such waste products.

One of the most important provisions stipulated by the GFL is the requirement for traceability. Food businesses shall have in place systems to trace back all batches of food placed on the market.

Animal identification requirements for bovine animals²⁹, sheep and goats³⁰ and for pigs³¹ contain strict requirements for tagging (including electronic identification devices), and the keeping of records.

Specific requirements on primary producers consist generally in record-keeping. This is designed to increase accountability in production and ensure traceability.

EU requirements on genetically modified organisms (GMOs)³² and GM food and feed³³ establish an authorization procedure and traceability and labelling rules. In some third countries, these materials and their presumed economic benefits, are more freely available.

Example:

Animal identification and farm registration. A full traceability system for bovine animals ensures that all animals are individually identified within few days from the birth and all

²⁶ Regulation (EC) No 178/2002

²⁷ Regulations (EC) No 852/2004, (EC) No 853/2004 and (EC) No 185/2005 respectively.

²⁸ Regulation (EC) 1774/2002

²⁹ Regulation (EC) 1760/2000

³⁰ Regulation (EC) 21/2004

³¹ Directive 92/102/EC

³² Directive 2001/18

³³ Regulation (EC) 1829/2003 and Regulation (EC) 1830/2003

movements are recorded in a database which allow the traceability from birth to final sale of each bovine cut at retail. EU Farmers are the starting point of the sophisticated EU food chain and keep records, *inter alia* on substances used in the production such as veterinary drugs, plant protection products, biocides as well as analytical results to justify certain uses.

2. ANIMAL NUTRITION

Feed materials are regulated under a number of measures³⁴ which include prohibited materials, prohibited practices, and labelling requirements for the feed (not for the final product), such as: materials not allowed in the manufacture of compound feedingstuffs; feedingstuffs not allowed for animal nutrition; and limits for contaminants in feed materials and compound feedingstuffs. Animal nutrition is a key element in the production of food of animal origin.

Example:

Animal feed requirements: following a series of major food safety crisis in the EU linked to animal feed, farmers must comply with detailed rules on animal feed, such as restrictions on the use of certain proteins of animal origin, certain feed materials, swill feeding in pig fattening, which are all management measures intended to reduce risks.

3. ANIMAL WELFARE AND TRANSPORT

Community legislation concerning the welfare conditions of farm animals lays down minimum standards, including the ‘five freedoms’ (freedom from hunger and thirst; freedom from discomfort; freedom from pain; freedom to express normal behaviour; and freedom from fear and distress). National governments may adopt more stringent rules provided they are compatible with the provisions of the Treaty. General animal welfare requirements for all farmed animals³⁵ are supplemented by specific requirements, such as animal housing, for pigs³⁶, calves³⁷, and laying hens³⁸. A proposal is under discussion in Council on broiler welfare.

The **Animal Transport Regulation**³⁹ comprised a reform of EU rules on animal transport and identified the chain of all those involved in animal transport, defining ‘who is responsible for what’ thus facilitating more effective monitoring and enforcement of the new rules. It also introduces stricter rules for journeys of more than 8 hours, including a substantial upgrading of vehicle standards.

³⁴ Commission Decision 2004/217/EC; Directive 2002/32/EC, Regulation (EC) No 1831/2003, Directive 96/25/EC and Directive 2002/2/EC.

³⁵ Directive 95/58

³⁶ Council Directive 91/630/EC

³⁷ Council Directive 91/629/EC

³⁸ Council Directive 1999/74/EC

³⁹ Regulation (EC) No 1/2005.

The animal welfare requirements, particularly in the pig and calf sectors and to an extent for poultry and laying hens, have the effect of banning certain production systems.

Example:

Welfare rules for laying hens. The Laying hens directive (Council Directive 1999/74/EC) identifies three types of rearing systems for laying hens (cage, barn and free-range and organic). For 'cage', the current minimum standard is use of 'not enriched cages' where laying hens have at least 550 cm² of cage area per hen. Since 1.1.2003 'not enriched' cages may not be built or utilised for the first time; by January 2012 at the latest this system must be prohibited and the minimum requirement in the EU for all egg production will become 'enriched cage systems' where hens have at least 750 cm² of cage area per hen.⁴⁰ For in-shell-eggs, the farming production method has to be indicated on the box and on the eggs – enabling consumers to make an informed choice.

4. PLANT HEALTH

Approval and use of plant protection products (PPP) are dealt with under a Directive⁴¹. Member States, when granting the authorisation for placing a formulation on their market, shall ensure that the conditions for use established at Community level for the active substance are met, that the proper use of these authorised PPP is described on the label so that farmers comply with these rules. As a result of the review programme of the existing active substances initiated under this Directive, a number of PPP have been withdrawn. In 2009, the Directive will be replaced by a Regulation which will simplify the existing legislation and increase the protection of human health and the environment. In parallel, a new Directive on the sustainable use of pesticides will enter into force. It will provide rules to address risks from the use of pesticides and contribute to a better and more intelligent use of pesticides.

The regulation on maximum residue levels⁴² (MRLs), covers the setting of MRLs and the monitoring and control of pesticide residues in products of plant and animal origin that may arise from the use of plant protection products.

Example:

Approval of plant protection products and animal health products. EU farmers only have access to pesticides and veterinary products that have been through a thorough approval procedure, which limits in certain cases the availability of substances that are effective in agronomic terms, but which have unacceptable effects on human health or on the environment. In addition, rules to be adopted in 2009 will ensure that the products are correctly used by farmers (e.g. training, safety procedures, maintenance of equipment, etc.).

⁴⁰ The 3 systems are: 'enriched cages' where laying hens have at least 750 cm² of cage area per hen; 'not enriched cage systems' where hens have at least 550 cm² of cage area per hen; and non-cage systems with nests (at least one for 7 hens), adequate perches and where the stocking density does not exceed 9 laying hens per m² usable area.

⁴¹ Directive 91/414/EEC.

⁴² Regulation (EC) No 396/2005

New legislation will impose the use of integrated pest management standards in plant production. This will become the baseline.

5. ANIMAL HEALTH

Concerning **veterinary drugs**, similar requirements for approval and use as for PPP are laid down in the Veterinary Drugs Directive⁴³. The issues of approvals and non-availability are similar as for PPP. Anabolic drugs (hormones, and beta-agonists) are banned for use in livestock production⁴⁴.

6. ENVIRONMENTAL COMPLIANCE

Some 20 environmental measures, mainly directives, are listed in the Annex. They cover:

- Protection of biodiversity (e.g. Habitats and Wild Birds Directives). Farmers managing land within certain identified zones may be required to refrain from specified farming practices.

Example:

Under the **Habitats Directive** (Directive 92/43/EEC), Member States will designate sites of Community importance as Special Areas of Conservation (SACs) and adopt conservation measures involving, if need be, appropriate management plans and other measures which correspond to the ecological requirements of the natural habitat types and the species of Community interest. Special Protection Areas (SPAs) designated under the Birds Directive (Directive 79/409/EEC) need to be managed in accordance with the ecological needs of habitats of birds. SACs and SPAs form together the Natura 2000 network. It is for the Member States to establish the most appropriate methods and instruments for implementing the directives and for achieving the conservation objectives of Natura 2000 sites, which can include imposing site-specific obligations or production restrictions (e.g. use of fertilisers or pesticides) on farmers.

- Water measures. The Water Framework Directive, adopted in 2000, provides a framework for a number of water-related measures, such as the Groundwater Directive, Drinking Water Directive and the Surface Water Directive, within comprehensive water management plans based on water catchments. The Nitrates Directive requires farmers to limit application of N-fertiliser within specified vulnerable zones.

Example:

The **Nitrates directive** (Directive 91/676/EEC) imposes limitation on the land application of fertilisers in designated Nitrates Vulnerable Zones, covering in particular the capacity and construction of storage vessels for livestock manure, periods when application is prohibited, conditions of application on steeply sloping ground and near water courses. It also limits the

⁴³ Directive 726/2004/EC.

⁴⁴ Council Directive 96/22/EC concerning the prohibition on the use in stockfarming of certain substances having a hormonal or thyrostatic action and of beta-agonists

application of livestock manure on agricultural land to a maximum of 170 kg nitrogen per hectare per year.

- Waste disposal measures. These include the Waste Framework Directive, Packaging Waste Directive and Hazardous Waste Directive, which lay down restrictions on the disposal of various wastes notably into water sources.
- Emissions. The Integrated pollution prevention and control (IPPC) directive lays down requirements applicable to intensive farming operations over a certain size. The sectors currently affected are pig and poultry, processing of meat and milk and processing of fruit and vegetables. Under other EU legislation, prohibitions have been placed on the use of methyl bromide (with exceptions) and certain tractors that cause air pollution.

Example:

Directive 2008/1/EC (“the IPPC Directive”) requires industrial and agricultural activities with a high pollution potential to have a permit. This permit can only be issued if certain environmental conditions are met, so that the companies themselves bear responsibility for preventing and reducing any pollution they may cause.

IPPC concerns new or existing industrial and agricultural activities with a high pollution potential, as defined in Annex I to the Directive (e.g. intensive livestock farming).

Livestock farming installations covered by the Directive are installations for the intensive rearing of poultry or pigs with more than:

- (a) 40 000 places for poultry;
- (b) 2 000 places for production pigs (over 30 kg); or
- (c) 750 places for sows.

- GMOs. An authorisation procedure for the release of GMOs into the environment is governed by a directive and regulation (see also section 2).
- Good Agricultural and Environmental Condition (GAEC). GAEC applies under cross compliance rules to beneficiaries of farm support. From the perspective of the farmer who receives direct payments and certain environmental measures under rural development programmes, GAEC is an obligatory requirement.

For most of the environmental requirements, the details of obligations on farmers are set by Member States. For those measures where the Member State must identify specific zones, evidently farmers located outside the designated zones are not subject to the measures or are subject to general requirements.

7. OBLIGATIONS AND LABELLING RULES CONTAINED IN CMOs, MARKETING STANDARDS

Marketing standards

CMO regimes, in general, contain or are completed by product marketing standards (quality requirements, classification, etc.) that must be met for all product placed on the internal market. These standards relate to descriptive elements of products,

such as size, shape, appearance, etc.⁴⁵ Rules are adopted in tandem with discussions in international bodies such as UN-ECE or CODEX, and the EC participates actively in the development of standards in various sectors.

Wine

Under the CMO rules for wine, the use of oenological practices, including additives and processing aids, is restricted and subject to certain limits. These requirements are in line with OIV⁴⁶ accepted rules.

Eggs

Rules for the marketing of eggs (Council Regulation (EEC) No 1907/90) lay down that a producer code and method of production must be indicated on the label. The categories are 'cage', 'barn', 'free range', or 'organic'.⁴⁷

Poultry

Under poultry marketing standards, the origin must be indicated in the case of imported fresh meat and reference to the method of production is allowed. The different denominations for extensive systems are defined with regard to minimum age at slaughter, bird density, inside/outside access, and rules on feed. Other rules regulate maximum water content for frozen and chilled poultry.⁴⁸

Beef

A comprehensive system of identification of bovine animals is laid down in Regulation (CE) n° 1760/2000. This includes ear-tags, database information, animal passports and individual registers. In addition, beef must be labelled at all stages of marketing and production (carcass, cuts, etc.) with, among other matters, the origin expressed as the Member State where the animal was born, raised and slaughtered.

⁴⁵ Examples can be found in CMOs for fruit and vegetables; rice; cereals; sugar, etc. See Annex for references to legislation.

⁴⁶ Organisation Internationale de la Vigne et du Vin.

⁴⁷ See also section 2.3 Animal welfare.

⁴⁸ See also section 2.3 Animal welfare.

APPENDIX 2: LABELLING FOR PPMs

Extract from 'Qualified Market Access', Holmes et al, 2008.

1.4.1. Labelling

We start with the possible simplest case. If we suppose that some consumers wish their own consumption satisfies the standard and that they are willing to pay (some of) the cost of its doing so. The utility of the standard is private to those consumers and will be pursued willingly if the cost is less than the utility on the margin paid. In this case the obvious solution is labelling⁴⁹, for it enables producers to demonstrate to consumers that they have met the standard and claim a premium on the price for doing so. Profit maximisation will drive them to do so. There will emerge two versions of the product – the non-PPM one as before and a PPM one - and assuming constant costs and competition in both markets, the latter will command a premium r equal to the cost of meeting the standard. Producers are indifferent about which they produce – both generate normal profits – but consumers potentially reap additional surplus. The non-PPM⁵⁰ consumers are unaffected, whereas those who care about the standard will be indifferent if they value it at just r but gain utility if their valuation is higher. Some of these may place such a high value on meeting the standard that they were previously not consuming at all, or at least consume more once they know that production meets the standard. The absence of any labelling results in undistinguishable versions of a product. Consumers expect, and hence producers deliver, the non-PPM version of the product. That is, in the absence of the labelling, no-one would be willing to incur the cost of meeting the standard because they would not be able to claim any reward for doing so. Everyone pays the same price, but some consumers suffer dis-utility because they suspect or know that their consumption is violating their principles.

If costs of production and of achieving the standard are not constant, the analysis becomes more complex. It is likely that the diversion of demand reduces demand for the non-PPM good and so drives down its price. Producers who for some reason cannot meet the standard within the premium paid for PPM-goods will lose, but their consumers will gain. Conversely, if the standard does not cost anything to achieve, but still commands a significant premium from consumers, it is possible that as the price of the PPM-good increases sufficient consumers switch to the non-PPM version that its price increases too. The result is that output of the non-PPM good actually increases. [footnote: Mattoo, A. and Singh, HV. Eco-labelling: policy considerations . *Kyklos*, 1994. 47 (1), pp53-65] Producers gain and consumers lose.

In order to pursue a labelling solution, the labelling has to be credible: there has to be a way in which firms are induced to label honestly. If they do not, the labels are devalued and in the limit the market collapses back to the single non-PPM good. The threat of litigation and a free press may be able to achieve this. Alternatively the industry may be able to set up a certification process with sufficient independence to ensure firms' honesty. The next step is to make the certification official: firms are not obliged to label that they do or do not adhere to the standard, but if they claim to do so, this fact must be verified by the government or a government accredited agency. Provided that the costs of certification are covered by the industry (and indirectly their customers, of course) this seems an efficient use of the government's reputational capital, provided of course that they are capable of certifying honestly. If some of the costs are publicly funded, it becomes a subsidy to the standard and would need to be justified by some sort of public interest argument. We turn to this case below.

A further extension of this line of thought is to compulsory labelling, whereby the government insists that all varieties of the good be labelled as either satisfying or not satisfying the standard. This is not quite the same as food labelling, where calorific values and nutrient values have to be displayed. In the latter case labelling refers to a continuous variable, so that 'no label' could not be

⁴⁹ This text refers to labelling *in compliance with the standard* (i.e. equivalent to the 'EU logo' option).

⁵⁰ PPM: Production Process Measures, i.e. farming requirements.

equated with either no calories or infinite calories. In the case of an on-off standard 'no label' might reasonably be thought of as indicating no standard. Governments might not be convinced that in the absence of a label consumers are clear what standard actually applies which might justify a compulsory label. Also the presence of an 'off-standard' label might be a way of encouraging consumption of 'on-standard' products where the premium consumers are willing to pay does not cover the cost of implementation of the standard or simply signalling government approval of a voluntary standard.

Finally, labelling can turn into a barrier to entry – an anti-competitive practice – if the certification process is not cheaply and rapidly available to firms that can achieve the standard. For example, the licensing of medical practitioners is frequently controlled by the medical profession itself, with the result that it can control the number of doctors below competitive levels.⁵¹ It is plain in this case that, if the labelling is effective, it achieves all that we desire. Those who value the standard can observe it, while those who do not, don't.

1.4.2. The limits to labelling

Labelling could be a solution to the policy issue raised by QMA proponents, as long as individual consumers care and are affected only by the costs and benefits of their own consumption choices. As soon as one person's choice creates spill-over effects for other persons, and especially when these are negative and costly externalities for the persons affected, than the issue become more complicated. Labelling would not be sufficient anymore to ensure that all individuals make consumer choices that have no externalities on others. Mandatory regulation of market access would become the only solution in that case.

⁵¹ Broscheid, A and Teske P.E. Public Choice, Vol. 114, Numbers 3-4, March 2003, pp. 445-459(15).