

## **Initial appraisal of a European Commission Impact Assessment**

### **Information and promotion measures for agricultural products on the internal market and in third countries**

Impact Assessment (SWD (2013) 470, SWD (2013) 469 (summary)) for a Commission Proposal for a Regulation of the European Parliament and of the Council on information provision and promotion measures for agricultural products on the internal market and in third countries (COM (2013) 812 final).

- **Background**

This note seeks to provide an initial analysis of the strengths and weaknesses of the European Commission's Impact Assessment accompanying the above proposal which was submitted on 21 November 2013.

Since 1999, the Common Agricultural Policy (CAP) has been specifically supporting information provision and promotion measures within the European agricultural and agri-foods sectors on the internal market and in third countries. The current promotion policy contributes to raising consumer awareness of the qualities of European agricultural products and the way they are produced, facilitates trading of such products and reinforces the exchange of good practices among Member States. The scheme applies to generic promotion programmes. Actions based on commercial brands and those that encourage the consumption of a product because of its specific origin, are currently excluded. Programmes are submitted by professional organisations and are co-financed by the EU up to a maximum contribution of 50 per cent. The professional organisation contributes 20 per cent and the balance is covered by the Member State in which the organisation has submitted its programme. Actions can include advertising and PR campaigns, promotions at point of sale, participation in exhibitions, etc. The Commission also carries out its own actions, such as participation in trade fairs and organisation of high level trade missions. Average EU expenditure for all promotion measures is approximately 55 million euros per year.

The current review seeks to ensure coherence with the on-going reform of the CAP. It also offers an opportunity to address shortcomings and improve the effectiveness and efficiency of the information and promotion scheme, as well as to provide better information to citizens on the added value of the CAP. It was introduced by a Green Paper, adopted in 2011<sup>1</sup>, followed by a Communication in March 2012<sup>2</sup>, which was broadly welcomed by the European Parliament in its resolution of 20 November 2012<sup>3</sup>.

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<sup>1</sup> COM(2011)436

<sup>2</sup> COM(2012)148

<sup>3</sup> P7\_TA(2012)0420

- **Identification of the issue at stake**

On the general level, the main issue at stake is identified as being the increased pressure on the competitiveness of the agricultural sector, which stems from three different sources: fierce competition against European agricultural products; increased cost pressures on EU farming; and lack of awareness of the quality of EU agricultural products, especially on the internal market. On the specific level, reference is made to a number of 'difficulties and bottlenecks in implementation of the current scheme' (*Executive Summary, p. 4*), including, most notably, the absence of a strategy with clear priorities; complex management arrangements; and the lack of common indicators to measure the effectiveness of the promotion policy.

The manner in which the IA presents the problem in need of possible EU action lacks clarity. In the text of the IA itself, references to the specific issues at stake are buried, partly in the context of an extensive presentation of the challenges facing European agriculture in general, and of the background to the existence of the current system of information and promotion - much of which might have been more usefully presented as an annex- and partly in the presentation of the conclusions of a number of studies carried out on the implementation of the programme. This approach does little to enhance a clear understanding of the issues.

- **Objectives of the legislative proposal**

Against the background of the on-going reform of the CAP, the *general* objective of the Commission proposal is to support EU agriculture, and especially SMEs and producer organisations, so that they can make a strong and dynamic contribution to European growth. With this in mind, it is proposed that the promotion policy be restructured for its beneficiaries, bolstered in terms of resources, with a clear distinction being made in the approach to the internal market and third countries respectively, and simplified in terms of its management. The *specific* goals are to increase consumer awareness of the merits of European agricultural products; to develop new markets for European agricultural products on the internal market and in third countries; and to enhance the effectiveness and efficiency of the policy.

- **Range of the options considered**

*'No policy' scenario*

The IA considers the option of doing away with the current promotion regime altogether, although it is difficult to see how having no policy at all could be considered an appropriate response to the perceived challenges. The analysis of the impact of such a move seems to serve more as a platform for justifying the maintenance of a European information and promotion regime than as a genuine attempt to consider alternative approaches to the problems faced. Under this scenario, information and promotion action would be carried out largely by the private sector and would be likely to concentrate on commercial messages based on brands, rather than on generic European messages. SMEs would be disadvantaged, since their inter-professional organisations would no longer benefit from European co-financing. Apart from the immediate financial savings to be made, the IA concludes that suppression of the scheme would result in a loss of EU added value; a loss in market share in third countries; a reduction in consumer awareness of the merits of European agricultural products; and negative economic and agricultural production consequences.

### *'Status quo' scenario*

Without reform, the current rules and procedures would continue to apply. The IA points out that Member States' funding of such actions would probably continue to reduce due to the economic climate. Consumers' level of awareness would be likely to remain unchanged, and, against a background of ever increasing global competition, there would be a high risk of market loss. Some changes to the implementing provisions might help to improve the administration of the programmes, but the cost-benefit effect for the beneficiaries would not change.

Having dismissed the desirability of either of the above scenarios, the IA goes on to assess the following three policy options. A comparison is usefully provided in table form, which also includes a reference to the relative increase in budget in each case, compared to the status quo of 55 million euros (*IA, p. 28*). However, this increase is not expressed in figures, but is classified simply as 'slightly strengthened', 'significantly strengthened' and 'strengthened' respectively.

### *'Enhanced status quo' scenario*

This is described as a limited adaptation of the current promotion policy. It seeks to make the policy simpler and more accessible, to enable more beneficiaries to participate (notably producer organisations, thereby encouraging cooperation between producers), and to help them with adequate technical support. Programmes would be selected in a single step procedure rather than two stages as is currently the case. The Commission's role would be developed, with increased participation in international events and organisation of campaigns. It would also provide technical support to help operators to participate in co-financed programmes. It would target both the internal market and third countries.

### *'Targeted' scenario*

This scenario would go beyond the 'enhanced status quo' scenario, offering a more targeted approach to promotion actions, which would be aimed at specific markets, populations, products or sectors in the internal and external markets, with an emphasis on the latter. The targeting of the actions would be based on a European promotion strategy, an example of which appears at Annex 15, and which would cover a more extensive list of products and themes. This scenario proposes to allow, under certain conditions, the use of references to the origin of products and to commercial brands. Increased cooperation between operators in the different Member States would be encouraged, thereby facilitating the management of multi-country programmes directly by the Commission.

### *'Exclusive third countries' scenario*

This shares the same level of ambition as the 'targeted' scenario but would concentrate promotion activities exclusively in third countries. Actions would be managed centrally by the Commission and implemented in accordance with a selection strategy. The changes set out in the 'enhanced status quo' scenario would apply here also. In addition to generic promotion, commercial activities for individual private brands would also be eligible.

## • **Scope of the Impact Assessment**

The IA assesses the last three options from an economic, social and environmental point of view, and also with a view to their capacity to allow for simplification of the system. However, more attention is given to the description of the practical operation of the scheme, or to a mere presentation of the current situation, than to extrapolating concrete, quantifiable data or

projections. Where a likely impact is described, it is rarely quantified or developed. There is a tendency to over-simplify, with little in-depth impact analysis of a type to allow a meaningful comparison between the various options, or which might provide a workable basis for *ex-post* evaluation.

#### Economic

The analysis of the economic impact of each option looks, to a greater or lesser extent, at the aspects of competitiveness, SMEs, consumers, the regions and the functioning of the internal market, and tends to be brief and sometimes superficial. The 'analysis' of the impact on SMEs of the priority to be given to them under the 'targeted scenario', for example, is limited to the judgement that the impact is likely to be 'important' since they represent 48 per cent of businesses in the agri-food sector. Over simplification in phrases such as, 'the economic benefit for each sector will be proportional to its level of organisation' (IA, p. 29), with no supporting explanation, provide little clarification as to the precise extent and nature of the impact. The assertion, under the 'targeted' option, that the economic impact will be directly proportional to the level of budget provided (IA, p. 31) is based on figures quoted from a USDA study concerning the American market. It would, however, seem reasonable to assume that the *quality* of the activities undertaken might also contribute to their economic success, and that this aspect would also have deserved some consideration.

#### Social

The analysis of the social impact, which looks at employment, culture and heritage and the well-being of consumers, tends also to be brief. With regard to the 'enhanced' option, for example, the impact on employment is dealt with in one sentence to the effect that encouraging the grouping together of producer organisations should result in a strengthening of the relevant agricultural sector and of social conditions in rural areas. No further explanation is given. For the 'third countries only' scenario, the employment impacts are merely said to be likely to be comparable to those for the 'targeted' scenario (maintenance of current employment levels and potential for growth due to actions in third countries). Some examination, at least, might have been expected, of the extent to which a lack of information and promotion activities in the internal market might have an impact on demand from within the EU, and whether this would be outweighed, in terms of impact on employment, by increased demand from third countries.

#### Environmental

The analysis of the environmental impact concentrates on the aspect of sustainable production. While this is evidently an important principle of EU agriculture policy, it is not clear how an improved information and promotion policy, in itself, would have a *direct* impact on this particular aspect. Given the emphasis on third country markets in particular, it might have been appropriate to introduce some in-depth analysis of, for example, transport implications, CO<sup>2</sup> emissions etc., which are not mentioned.

*Health* is not dealt with as a separate issue, but is briefly referred to under the heading of 'well-being of consumers' in relation to the 'targeted' and 'exclusive third countries' options only.

#### Administrative burden

The IA also considers the impact of the various options on the administrative burden. It concludes that in the 'targeted' and 'exclusive third countries' scenarios, the workload could increase for both national authorities and Commission services, but does not seek to quantify this. An on-going study is looking into the possibility of delegating some Commission tasks to

an executive agency. It considers that improved management of multi-country programmes should lead to a significant decrease in the administrative burden for professional organisations.

- **Subsidiarity / proportionality**

The proposal is based on articles 42 and 43 of the Treaty on the Functioning of the EU and falls under shared competence between the EU and the Member States. Agriculture is the only sector governed by a common policy with common rules - including on the matter of promotion - laid down by the Treaty. A European policy is therefore appropriate in order to promote the common standards of the CAP and the intrinsic quality of European agricultural products, on the internal market and in third countries. No national parliament of a Member State has issued a reasoned opinion raising problems with respect to the subsidiarity principle.

- **Budgetary or public finance implications**

The 2012 budget for the existing policy was 55.4 million euros. The IA explains that the 'enhanced' scenario would be feasible on the basis of a *similar* budget. The other two options, however, would require additional finance to be defined within the limits of the new multiannual financial framework for the period 2014-2020. Of these, the Commission's preferred, 'targeted' option would require a *significantly increased* budget in order to cover the costs linked to the development of multi-country programmes and the increase in actions aimed at third countries. The 'exclusive third countries' scenario is said to require *half the budget* of the targeted option. This estimation appears rather arbitrary. The IA attempts to give an idea of magnitude by providing figures for the average cost of programmes in previous years, but does not put forward any figures with regard to the specific budget that would be required under the various scenarios. The Legislative Financial Statement of the Commission proposal, however, based on the 'targeted' option, does provide figures. These indicate that combined appropriations for promotion measures would gradually, but significantly, increase from 61.5 million euros in 2014 to 200 million euros in 2020. It is not clear why these figures were not included, at least indicatively, in the IA.

- **SME test / Competitiveness**

The IA points out that 99 per cent of agri-food companies are SMEs, accounting for 63 per cent of jobs in that sector. It underlines the potential benefits for SMEs of the proposed reform, notably in terms of increased visibility, independence in project submissions, and competitiveness, and does not identify any potential burdens or other negative consequences of the proposed actions.

- **Simplification and other regulatory implications**

The IA stresses from the outset that the reform of the information and promotion policy is closely linked to the on-going reform of the CAP. All three scenarios considered seek to simplify the current procedures in response to the weaknesses identified. The IA does not refer to any related regulatory implications, other than the repeal of the current Regulation<sup>4</sup>.

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<sup>4</sup> Council Regulation (EC) No 3/2008 of 17 December 2007

- **Relations with third countries**

One of the main justifications for the revision of the European information and promotion policy is that European agriculture is confronted with an increasingly fierce and competitive global environment. All of the scenarios presented are aimed partly, or entirely, in the case of the third scenario considered, at third countries. European agricultural exports are increasing in absolute value, but their share in world trade as a whole is decreasing. It is predicted that developing countries will be the main source of increased world production between now and 2021, and emerging economies are likely to claim an increasingly large proportion of world trade in agricultural products. The IA is at pains to point out the potential negative impact of a failure to address markets in third countries, and the potential positive impact of improving EU actions in that area. It stresses that the European promotion policy is consistent with the WTO Agreement on Agriculture and with WTO rules, and that none of the provisions proposed under the various scenarios would affect the classification of promotion measures in notifications to the WTO. It does not, however, explore the potentially negative implications of counter-activities that might be organised by third countries in response to increased promotion on their markets of European products, notably those recognised by European quality systems. The fact that an international initiative to preserve the right to use generic food names - the Consortium for Common Food Names - has already been created in response to EU success at international level in protecting its geographic indications on food products, would suggest that this is a very real threat which might have deserved some analysis.

- **Quality of data, research and analysis**

The IA makes reference to a large body of external studies and reports, the conclusions of many of which appear in the Annexes. These include a study dating from December 2008<sup>5</sup> into the experience of promotion programmes in third countries (*Annex 11*), and two studies in 2008 and 2011 respectively into EU information and promotion actions<sup>6</sup>. Reference is also made to the findings of the Court of Auditors' report<sup>7</sup> on information provision and promotion measures for agricultural products.

- **Stakeholder consultation**

The Commission organised an on-line consultation between July and October 2011 in preparation of its Green Paper. 173 replies were received, of which the majority came from 'interested parties' (farmers, producers, professional organisations). Of the remaining responses, 23 were from public bodies and just 20 from private citizens. The Commission suggests that the low response from the general public might be due to the 'technical nature' of the consultation (although many of the questions do not appear to be unduly technical). The details appear at Annex 7. Specific consultations were organised, notably in the framework of the consultative committee on promotions, bringing together producer, industry, trade and consumer representatives (*Annex 8*). Two seminars were also organised by European professional organisations from the food and drink industry, the conclusions of which appear at Annex 9.

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<sup>5</sup> EUREVAL, 'What lessons can be learnt from 8 years of promotion programmes in third countries?'

<sup>6</sup> ADE, 'Evaluation of EU co-financed Information and Promotion Programmes on the Internal Market for Agricultural Products, December 2008; 'Evaluation of Promotion and Information Actions for Agricultural Products', January 2012 (IA, Annex 10)

<sup>7</sup> Court of Auditors special report no. 10/2009, [http://eca.europa.eu/products/SR09\\_10](http://eca.europa.eu/products/SR09_10)

- **Monitoring and evaluation**

The IA considers that the monitoring and evaluation of the European promotion policy should be reinforced in the future to better reflect the more strategic approach. Common indicators, based on objectives and priorities, should be implemented to facilitate the use of evaluation in the selection process. However, it also considers that the monitoring and evaluation system should be linked with the common monitoring and evaluation framework for the CAP, as set out in the CAP reform proposal<sup>8</sup>. It therefore restricts itself to a presentation of a set of general indicators which are currently under discussion in the broader framework of expert groups working on the CAP reform. This does not appear to respond to the European Parliament's call for 'a rigorous assessment system based on specific indicators'<sup>9</sup>, nor to the comments of the IA Board in this respect.

- **Commission Impact Assessment Board**

The IA Board of the Commission has issued three opinions on draft versions of the IA, dated 6 July 2012, 31 August 2012 and 18 January 2013 respectively. The most recent of these gave a negative overall opinion of the report and requested a revised version to be submitted. Its main critical comments concern the weakness of the evidence base to support the need for EU funding of generic product promotion programmes; the need better to define the objectives by making them more specific, time-bound and measurable; the lack of robust progress indicators to measure in quantitative terms if the policy has generated the intended effects; the lack of clarification on the amount of budget required for the three alternative scenarios to achieve the intended effects; the need for better explanation as to how the proposed changes will be implemented in practice; the scope for further improvement in the assessment of the impacts, particularly with respect to possible distortions of competition and the effectiveness and efficiency of alternative budgetary spending under the various options; and explanation as to how the monitoring and evaluation requirements would enable a more complete assessment of social and environmental impacts.

As the earlier parts of this initial appraisal indicate, few of the Board's criticisms appear to have been addressed any more than partially, in the final version of the IA. The IA itself devotes just four lines to the IA Board's comments and refers only to the first two of the Board's three opinions. There is no explanation as to why the report was not re-submitted to the Board as requested.

- **Coherence between the Commission's legislative proposal and IA**

The legislative proposal is coherent with the 'targeted' scenario approach presented in the IA. However, as mentioned earlier, the figures which appear in the proposal's financial statement do not appear in the IA.

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<sup>8</sup> COM(2011)628 final/2, article 110

<sup>9</sup> P7\_TA(2012)0420, para. 22

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This note, prepared by the Ex-Ante Impact Assessment Unit for the European Parliament's Committee on Agriculture and Rural Development (AGRI), analyses whether the principal criteria laid down in the Commission's own Impact Assessment Guidelines, as well as additional factors identified by the Parliament in its Impact Assessment Handbook, appear to be met by the IA. It does not attempt to deal with the substance of the proposal. It is drafted for informational and background purposes to assist the relevant parliamentary committee(s) and Members more widely in their work.

This document is also available on the internet at:

<http://www.europarl.europa.eu/activities/committees/studies.html>

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