

**EVALUATION OF THE  
EXCEPTIONAL MARKET SUPPORT  
MEASURES IN THE POULTRY  
AND EGG SECTOR  
(AGRI-2010-EVAL-04)**

Text and suggested graphics for leaflet for

**European Commission**

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## **Exceptional measures in the egg and poultry sectors**

The H5N1 strain of the Avian Influenza virus originated in south-east Asia in 2003 and spread west, finally reaching the borders of the EU in October 2005. Media coverage in the EU increased with the continuing spread of the virus. As a result, and also with the arrival of the virus at EU borders and some inconclusive statements on food safety from the public authorities, consumer confidence inside the EU fell. The result of this was a reduction in the consumption of poultry meat (and to a much lesser extent) egg products in some Member States. This fall started in October 2005 and consumption remained lower than normal during the first half of 2006 (albeit with a partial recovery during December 2005/January 2006). This situation was unique in that consumer confidence was significantly impacted even though there was no outbreak of the disease in the EU until February 2006. The initial falls in consumption can therefore be considered purely the result of *perceived* consumer confidence and not a reaction to a rational food safety concern.

The fall in poultry meat consumption affected both market stability and farmer income. Data shows that the EU average price of poultrymeat dropped by 17.3% between August 2005 and March 2006, while production dropped by around 12.6% between November 2005 and February 2006. In response, the poultry industry adjusted production downwards in order to match supply with the lower levels of demand. A few Member States, most notably France and Greece, introduced national measures to assist the industry. The European Commission, which had limited options for action within the scope of the poultry and egg Common Market Organisations (CMOs), initially increased the rate of export refunds on some poultry products and introduced export refunds for other products in order to remove excess supply from the EU market through export to countries outside the EU.

However, this combined action was not enough to return markets to normal. In April 2006 the Commission amended the poultry and egg CMOs to allow the use of exceptional measures in the case of such a crisis of consumer confidence. In July 2006 Regulation (EC) No 1010/2006 was published. This established a number of measures to reduce production in return for partial financial compensation with the intention being that this reduction in supply would address the market disruptions caused by the crisis of consumer confidence. Member States were free to select from a menu of seven measures according to need and 17 Member States selected at least some measures. The Regulation entered into force retrospectively from 11 May 2006 to cover actions already taken by producers while the legislation was in preparation. This was the first time that the Commission had implemented market support measures in response to a crisis of consumer confidence.

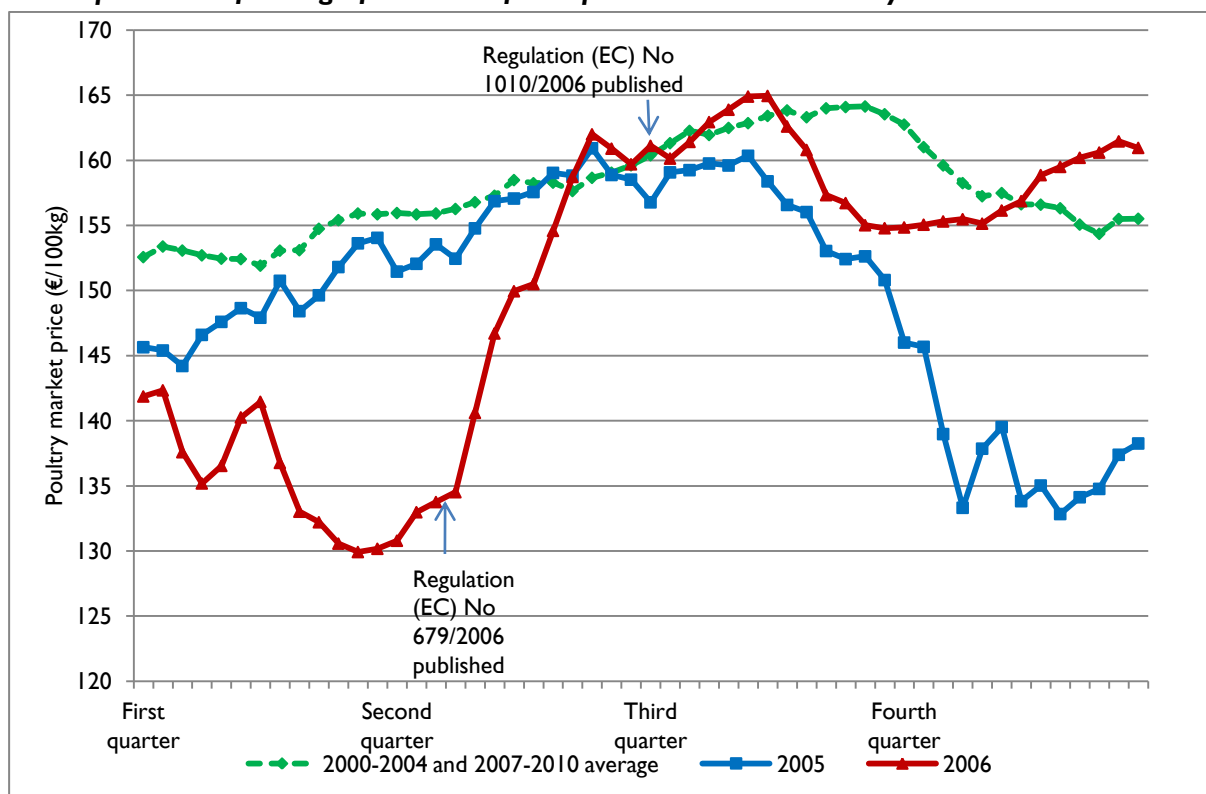
This study evaluated the impact of the measures introduced under Regulation (EC) No 1010/2006. It examined six broad areas:

- The impact of the measures on market stability
- The impact of the measures on income stability
- The efficiency of the measures
- The relevance of the measures

- The coherence of the measures with other measures
- The coherence of the measures with the wider CAP

The evaluation also provided conclusions and recommendations which were focused in particular on the use of exceptional measures in similar future situations. The key findings of the evaluation are presented over the next few pages.

### ***The importance of timing of measures for impacts on market stability***



The timing of the introduction of the measures played an important role in their impact. In the case of Regulation (EC) No 1010/2006, the measures were implemented very quickly by the Commission, especially considering that there was no legal base for such measures and that the poultry and egg CMOs had to be amended to introduce this before the measures themselves could be set out. However, despite this, the markets had started to return to balance from March 2006 before the measures were made available. The measures could not therefore have been directly responsible for restoring market stability which most likely occurred following the loss of media interest in Avian Influenza and, following this, a return in consumer confidence. However, the measures may have had an indirect impact from the moment that it became clear that some kind of support would be made available resulting from what is known as rational expectation theory.

### ***A positive impact on income***

The measures had a positive impact on farmer income and liquidity at the time they were paid, although this was too late to be a causal factor in income recovery during the crisis. Industry figures suggest that losses throughout the production chain varied from €10 million to €650 million depending on Member State. Up to a third of estimated losses for the production part of the chain were covered in some Member States by total support made available under the measures (EU and Member State contributions).

Some variations in implementation at the national level modified the impact of the measures on income. Longer application periods and more targeted awareness-raising positively impacted take-up and effectiveness. Conversely, short application periods coupled with additional eligibility criteria had negative impacts on take-up and effectiveness.

### ***Efficient measures***

The administrative burden, that is to say the cost of disbursing the funds, was relatively low at 0.2% of total contribution to the funds for the European Commission and between 0.4% and 9.1% of total Member State contribution. Furthermore, the measures were efficient in terms of the relationship between inputs and outputs. The support provided was equal to only 0.8% of the value of the total poultry sector in 2006. Despite this, the measures produced significant impacts by allowing some producers to avoid bankruptcy, and others to avoid liquidity problems. The measures were made slightly less efficient as a result of timing. While the measures were introduced quickly, they were unfortunately too late for some producers who had already chosen to leave the sector.

### ***Relevant to needs, to the CAP and to EU added value***

The measures were relevant to the needs of the industry at the time. The only measure considered to be missing was support for the storage of poultry meat, which could have played a role in removing surplus production from the EU market in the short-term. The measures were theoretically and practically relevant for the CAP objective of a fair standard of living for farmers. The measures were also relevant for the CAP objectives of assuring the availability of supplies and reasonable consumer prices, both during recovery and after the crisis. Finally, while theoretically relevant for the CAP objective of stabilising markets during the crisis, the timing issue meant that they were, in practice, not directly relevant. The measures were also relevant to the Lisbon Treaty objective of maintaining the internal market (Article 38). However, the measures did ensure that markets and supply were stable in the long-term.



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The EU level response was appropriate given the EU-wide nature of the crisis. The measures provided added value as on one hand they avoided the potential for unfair competition through individual action by Member States, while on the other hand they provided sufficient freedom for Member States to select appropriate measures through the menu system. In summary, one of the main achievements of the measures was that they safeguarded the operation of the Internal Market while maintaining production capacity and avoiding unnecessary price increases for the consumer.

#### ***Coherent with other measures***



The exceptional measures were coherent with other measures, notably:

- With veterinary measures, which provided a first round of protection
- With export refunds, which addressed the build up of surplus supply on the EU market
- With promotional measures introduced in Regulation (EC) No 1022/2006, which addressed consumer demand
- With industry actions, which the industry took to reduce supply

- With national level measures (where used)

One way in which the coherence of the measures could have been further improved was through the inclusion of measures to support the storage of poultry meat in the short-term. This would have provided full coherence with industry actions, and would have worked alongside export refunds to remove excess supply from the EU market.

While there was an incoherence with communication undertaken during the time of the crisis, it is important to note that this incoherence stemmed purely from the communication side.

### **Careful attention must be paid to wider coherence**



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The measures were coherent with the more market oriented approach of the CAP which has resulted from successive reforms. Looking forward, if similar measures were to be used again, attention would have to be paid to several issues including:

- The definition of the terms “crisis” and “exceptional”. A definition of these could be useful in establishing the need for a safety net approach in the future.
- WTO compliance and the trade impacts of exceptional measures.
- The method of adopting the necessary legislation to provide such exceptional support under the Lisbon Treaty.

- The incoherence of having such measures in some agricultural sectors, but not in others, given that no sector is immune to such exceptional circumstances.

### **Recommendations**

Several recommendations emerged from the evaluation as follow:

*In any future crisis of consumer confidence:*

- Great attention should be paid to communications to avoid further reducing consumer confidence.
- Promotional measures should be offered following the crisis to help with the recovery of consumer demand.

*In any future use of exceptional measures:*

- Member States should be encouraged to promote the availability of exceptional measures through widely accessible channels and to use simple application procedures and appropriate application windows. This will ensure available measures are taken up.
- Consideration should be given to increasing the proportion of EU funding in order to reduce the risk that some Member States will be reluctant to provide co-financing.
- In terms of implementation, as much harmonisation as possible should be provided at the EU level. This will reduce the need for Member States to specify aspects of implementation and hence will ensure the quick deployment of measures.
- The menu approach, whereby Member States can pick measures from a list, should be considered. This allows some customisation to national circumstances while maintaining a co-ordinated response across the EU.
- Industry associations should be fully consulted on the adequacy of policy response and method of implementation.
- Contemporary and high frequency data on consumption should be obtained to facilitate later evaluation.

*In general:*

- Consideration should be given to the issue of timing in order to ensure that exceptional measures can be deployed quickly in the future.
- Consideration should be given to including provision to act in crises of consumer confidence across all agricultural sectors in “peace time”, that is to say before crises occur. This could be in the context of CAP reform.
- The Commission should carry out a review of high frequency data availability in the agricultural sector against internal monitoring and potential evaluation needs.
- Data on production, stocks and income should be collected through the inclusion of agriculture in the monthly EC Business and Consumers Survey.