EVALUATION OF THE COMMON MARKET ORGANISATIONS (CMOs) FOR PIGMEAT, POULTRYMEAT AND EGGS

DG Agriculture
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Executive Summary

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Egg sector

Price reporting system

The evaluation assessed the extent to which prices reported to the Commission, which form the EU reference price for eggs, *correspond* to the prices obtained by packers, the extent to which the reference price reflects market developments and the extent to which this information is comparable across Member States.

The industry interviews undertaken indicated that for most Member States the prices reported to the Commission are not wholly *representative* of all transactions taking place in the sector. This is partly due to the fact that the prices reported do not cover all production systems. This having been said in most Member States the reported price is considered to provide an accurate representation of general price trends even if the veracity of the absolute price is questioned. This suggests that even if not fully *representative*, the reported price is often considered to be in *concordance* with actual prices, in other words, the reported price may differ in magnitude from prices generally received, but these are correlated and the series do move together. This suggests that the series is adequate for assessing general trends in the sector.

In terms of the comparability of prices between Member States there is some scepticism amongst stakeholders concerning the extent to which the reported price is comparable. Nevertheless it is clear that some EU markets are highly linked to one another and that price evolution in these markets is comparable.

While the price reporting system was therefore considered to be generating the results required in terms of monitoring and managing the markets it was noted that:

- In light of the changing structure of the sector it is important to ensure that the market representativeness of the data collected is regularly reviewed and maintained by ensuring that the market sample on which the price reporting system is based is sufficiently high e.g. by extending the production systems covered.

- Greater efforts need to be made to ensure comparability of price data between Member States by reducing the variability between Member States by making adjustments to the calculations that would reduce the differences in terms of what is measured in each country.

Export refunds
The evidence from the historical analysis of the application of this instrument indicated that it was effective in counteracting market imbalances by acting countercyclically and thus stabilising the market in line with the objectives of the CMO. It was concluded from the modelling results[1] that the deadweight effect[2] associated with this measure was, however, relatively high. On the basis of the historical analysis and interviews it was noted that for egg products the refund was used to maintain a third country market presence for a product (egg albumen) which is reported to be in continuous surplus in the EU.

Import tariffs
The evidence from all the tools used in this evaluation suggests that the maintenance of import protection is critical to the maintenance of a significant proportion of shell egg and egg product production in the EU since in the absence of the measures a significant proportion of production would be displaced by imports. It should be noted that the modelling results[3] also suggested that a move towards greater liberalisation (i.e. a lowering of import tariffs), would increase the level of **consumer welfare, as prices would tend to fall.**

Overall market impacts
The assessment of the joint impact of the key market support instruments, export refunds and import tariffs, in this sector on market equilibrium and prices, was primarily undertaken by means of modelling the counterfactual in three separate time periods. The results[4] suggest that the combined impact of these instruments has been to significantly raise prices in the EU egg sector above what they would have been in their absence (by 20.2% in 1990-92, 13.3% in 1995-97 and 6.2% in 2000-02). In this context it should be noted that the significance of the import tariffs is much greater than that of export refunds in that the tariffs effectively appear to prevent a large proportion of EU production from being potentially displaced by imports while export refunds affect only relatively limited volumes.

The evaluation results indicated that as a result of the fact that the use of the CMO instruments had significantly raised production above what it would otherwise have been there was a potential for significant feedback loops (i.e. this production in turn requiring higher export refunds), to have occurred. It was however, noted that as tariffs had been lowered following the URAA this potential had decreased.

It has not been possible to establish the proportion of output marketed in line with the EU's marketing standards but *a priori* they should play a significant role in ensuring basics standards with respect to quality are adhered to. It was also noted that the sector's own efforts in meeting consumers' demands in terms of price and quality are probably equally or more significant in this regard.

Income level and development
The evidence suggests that the CMO measures and in particular import tariffs have had a significant impact on producer incomes in the sector thus contributing to achieving the

[1] See Footnote **Error! Bookmark not defined.** and Appendix 3.
[2] See Footnote **Error! Bookmark not defined.** and Box A1 in Appendix 4.
[3] See Footnote **Error! Bookmark not defined.** and Appendix 3.
[4] See Footnote **Error! Bookmark not defined.** and Appendix 3.

objective of ensuring a fair standard of living for farmers as well as stabilising markets. The modelling results[5] suggest that the border protection measures in place have maintained prices and production and thus income at levels higher than would otherwise have been the case.

Production costs

The impacts of the CMO instruments on egg production costs has proved difficult to quantify, given the lack of both primary and secondary data relating to the laying hen sector, partly due to the commercial sensitivity of such information in Member States with a high degree of vertical integration in the sector. Feed costs, which form the greatest component of egg production costs, decreased over the period as a result of the CAP reform induced reduction in cereal intervention price (thereby reducing the importance of feed as a proportion of total egg production costs) and more than offset the increase in feed costs as a result of developments in Community feed legislation.

Compared to the positive impact of the CAP reform induced reduction in cereal intervention prices on the cost of poultry feed, the individual impact of changes in policies on manure disposal and emission reduction, animal welfare and animal health, although resulting in costs to farmers, have *in general* been relatively small. That said, the impact of these policies was found to differ considerably both between and within Member States. Therefore *on balance*, the evidence does not suggest that the *overall* impact of the CMO and other Pillar 1 measures on the sector has been negative with respect to production costs, although it has not been possible to conclude that the overall impact has actually been positive.

Although it is not the function of the CMO to address the issue of production costs which are incurred as a result of other regulatory action and therefore no action is recommended here but it is noted that given that income has been raised to levels which are higher than they would have been in the absence of the CMO the income benefits derived from the CMO instruments have helped the sector to absorb these costs.

Rural development and the environment

The CMO for eggs has contributed to the creation of advantageous market conditions through the primary border protection measures (import tariffs and export refunds) and as such, provided a small[6] incentive to egg production. Therefore, any impact of the CMO on rural development and the environment in the main egg producing regions is likely to have been small and largely indirect.

As was found in both the pigmeat and poultrymeat sectors, the current patterns of ***regional distribution[7] and concentration[8] of production*** in the egg sector were found to have been occurring since before the introduction of the CMO and are mainly due to the interplay of a number of economic, geographical and historical factors, such as proximity to centres of feed production, maritime ports and main market outlets. Therefore, any impact of the CMO is likely to have been both small (due to the estimated impact on production) and indirect.

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[5] See Footnote **Error! Bookmark not defined.** and Appendix 3.

[6] The direct impact of the CMO on both price and production was small, resulting in prices that were around 11.6% higher and production that was around 9.5% higher as a result of the CMO measures, according to the CAPSIM simulation.

[7] The number of farms with laying hens by specific geographic region.

[8] The spatial distribution of farms with laying hens within a specific geographic region.

The egg sector has also undergone considerable structural change in terms of the ***number and size of holdings*** over the evaluation period, experiencing a decrease in farm numbers, an increase in the numbers of laying hens per holding and also an increase in the number of laying hens per hectare. The primary factor driving this structural change was found to be producers taking advantage of economies of scale in order to maintain or increase competitiveness. Again, any impact of the CMO is likely to have been small (due to the estimated impact on production) and largely indirect, since decisions to expand production in order to take advantage of scale-economies are influenced by market trends and competitiveness and thus influenced by the advantageous market conditions that the CMO helped to create.

Any impact of the CMO impact on the ***specialisation of holdings,*** the sector's ***relationships with the upstream and downstream industries*** (the egg sector was found to be very vertically integrated) and the ***economic importance*** of the sector in terms of value added and employment generated is also likely to have been small (due to the estimated impact on production) and indirect, in as much as vertical integration and the expansion of production to take advantage of scale-economies are influenced by market trends and competitiveness and thus influenced by the advantageous conditions created by the CMO.

Consequently, while the expansion of intensive egg production systems have had a significant negative impact on the ***quality of water, air land and landscape*** over the evaluation period, any impact of the CMO is also likely to have been small (due to the estimated impact on production) and largely indirect

Overall impacts

The stakeholder interviews indicate that export refunds in the non-Annex 1 processed products sub-sector have been particularly important in maintaining the EU position in the major export market in Japan. More generally the modelling results and the stakeholder interviews suggest that the joint impact of export refunds and import tariffs have been to change the EU position from being a potential net importer to being a net exporter throughout the period evaluated. In this context it should be noted that other factors such as exchange rates, transport costs, the import and export policies of competing countries etc. also significantly affect the EU competitive position on the internal and external market.

The impact of the export refunds and import tariffs on total welfare has been estimated using the CAPSIM model. The net result suggests that while the expenditure incurred to achieve a relatively significant amount of producer income was relatively low, the cost of the transfers made from taxpayers and consumers was in excess of the gains to producers suggesting the measure was lacking in efficiency.

In terms of coherence with other Community policies it was noted that the CMO was generally not the major driver for the adverse environmental and welfare impacts resulting from the increasing concentration and intensification of production which has been occurring as a result of a longer term trend driven by a range of other economic, historical and geographic factors.