

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

Synthetic summary for

European Commission

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Synthetic summary

Background

This study evaluates the impact of the exceptional market support measures in the poultry and egg sectors introduced in 2006 to deal with the severe market disturbances that originated from fear of Avian Influenza (AI) and the resulting confidence crisis. The crisis occurred despite the absence of the disease among domestic birds in the EU and hence can be considered a perceived crisis of confidence. Perceived consumer fear of AI destabilised the whole production and trade chain. The EU average weighted price of poultrymeat dropped by 17.3% between August 2005, while production dropped by around 12.6% between November 2005 and February 2006.

In response, the industry and a few Member States introduced measures to assist the sectors while the European Commission increased the scope and rate of export refunds to remove excess supply from the EU market. The Commission then amended the poultry and egg CMOs to allow the use of exceptional market support measures in the event of a drop in consumer confidence. This was the first time that the Commission had implemented market support measures for this reason. Regulation (EC) No 1010/2006 established a payment scheme in order to reduce supply and address the market disruption and entered into force retrospectively from May 11, 2006.

Market stability

Despite the rapid implementation of the Exceptional Measures, the timing was such that the industry cannot have made production-reducing decisions in late 2005 and early 2006 in the knowledge that these decisions would subsequently be supported by the EU. It is therefore only possible to conclude that the Exceptional Measures were not directly effective in restoring market stability to the poultry sector, although there may have been a rational expectations effect which had an indirect impact. That said, had the measures been known to the industry at the time production decisions were taken, they would have been effective in reducing supply in combination with the other industry initiatives and national measures introduced. The Exceptional Measures were therefore correctly specified.

Income stability

The Exceptional Measures, while too late to be a causal factor in the recovery of income, still had a positive impact on income when payments were made. The measures also had a positive impact on liquidity. Industry figures suggest that income losses throughout the production chain amounted to between €10 and €650 million depending on Member State during the crisis period, with farmers in non-integrated systems considerably more impacted than those in integrated systems where integrators bore the brunt of income losses. In Member States with non-integrated production chains, there is some evidence to suggest that the lack of coherence between the proportion of losses borne by a part of the chain and the proportion of money allocated to it had some negative impact on effectiveness. Total support offered under the Exceptional measures covered up to a third of estimated losses at the production part of the chain in some Member States, though only 52% of this support was ultimately taken up.

The main limiting factor in terms of the impact of the measures was the eligibility criteria. However, while these may have had a negative impact on use of the measures in supporting income, some kind of criteria are needed to target the measures and to avoid deadweight.

National delays in implementation and payments had little direct impact on the effectiveness of the measures in supporting income at the time because, despite rapid implementation by the Commission, the measures were made available some time after the falls in producer income. As a result, the support had a greater impact on capacity rebuilding and liquidity than in terms of strictly compensating for the previous falls in income. Member State requests for extensions to payment periods allowed support to be provided to more beneficiaries.

A common problem in terms of implementation was a short application period, especially in combination with additional national eligibility criteria. Longer application periods and more targeted awareness-raising, plus the ability of associations to complete applications on behalf of applicants in some cases positively impacted take-up and effectiveness.

Efficiency

Evidence suggests the administrative burden of the measures was relatively low (0.2% of EU funds for the Commission and between 0.4% and 9.1% of Member State funds for national Competent Authorities) and the measures were efficient in this respect. The measures were also efficient in terms of the relationship between inputs and outputs. Support disbursed was a small percentage both of the total output of the poultry sector in 2006 (0.8%) and of estimated total EU losses (up to 10%). Despite the amount of support being comparatively small it did allow some producers to avoid bankruptcy and reduced liquidity problems for others; significant impacts were therefore achieved with small amounts.

Despite their comparatively fast introduction, the efficiency of the measures was limited by the issue of timing, though this was more connected to the lateness of the measures themselves than the lateness of payments under them. The measures were too late to help some producers, who had already made the decision to leave the sector, and were palliative for others.

Relevance

The measures were relevant to the needs of the industry at the time, although support for private storage was considered to be a missing measure; its use in other sectors does suggest that it would have had a role to play in the short-term. The measures were both theoretically and practically relevant for the CAP objective of ensuring a fair standard of living for farmers. The measures were theoretically relevant for the objective of stabilising markets during the crisis, though in practice they were not directly relevant due to the timing issue. The measures were also relevant to the TFEU objective of maintaining the internal market (Article 38). However, because the action taken by farmers and later compensated for by the Exceptional Measures did work to stabilise the markets, it is clear that the measures would have been relevant had they been available in time to influence production decisions. As it was, the measures were effective in ensuring the stability of markets

during the recovery phase. Similarly the measures were relevant to the objectives of assuring the availability of supplies and reasonable consumer prices.

In terms of the EU added value of the measures, an EU level response was appropriate given the EU-wide nature of the crisis. The menu method allowed a coordinated response while giving the Member States freedom to select appropriate measures; this ultimately ensured that the response was more effective than if Member States had acted alone. The EU level response also avoided both the potential problem of compliance with State Aid rules and the potential for unfair competition between Member States. That said, it should be noted that differing ability/willingness to provide co-financing was itself a problem.

While the EU level response was appropriate, timing was problematic. It would have been quicker (although less coordinated) had Member States acted alone and it is also possible that the menu system, while providing Member States with choice, may have also reduced the degree of coordination where Member States chose to implement only a small proportion of the measures. However, one of the main achievements of the measures was that they avoided disturbance of the internal market through a co-ordinated EU level response, while maintaining long-term production capacity.

Coherence with other measures

The Exceptional Measures are judged to have been coherent with the veterinary/preventative measures in that they built on this first round protection and addressed the market consequences of the decline in consumer confidence. Although in practice export refunds were unable to remove excess supply from the EU market, the Exceptional Measures were coherent in that while export refunds targeted existing surplus production, Exceptional Measures were used to prevent future production adding to this surplus. However, the absence of a mechanism to directly address the existing surplus within the Exceptional Measures reduced the degree of coherence somewhat.

Three further coherences with CAP principles were identified: the focus up to the first point of transformation; compensation for the higher costs of EU production during a crisis; and, the solidarity principle in financing. One incoherence, the use of such measures in an otherwise light CMO, can also be identified.

Regulation (EC) No 1022/2006 introduced a provision to allow the promotion of conventional poultry meat products as a direct consequence of the decline in consumer confidence. The Exceptional Measures were coherent with this promotion initiative in that they addressed the supply-side of the problem while Regulation (EC) No 1022/2006 addressed the demand-side by promoting initiatives to boost consumption.

However, our analysis of communication undertaken at the time of the AI crisis reveals that this did not help to alleviate consumer concerns and thus did not help to rebuild consumer confidence.

There was therefore little coherence with the Exceptional Measures, although this incoherence stemmed solely from the communication side.

There was a high degree of coherence between the Exceptional Measures and actions taken by the industry. The only aspect of incoherence was the absence of support for storage measures or another mechanism to remove immediate excess supply. Even in this case the fact that the industry did freeze and store poultry meat, or look for alternative outlets, meant that together a coherent response was provided.

Most Member States did not implement national measures, although where they were used (mainly in France, where they were financially substantial, and Greece) they tended to focus more on communication and on supporting income to assist the maintenance of future production potential. The Exceptional Measures were therefore coherent with this wider approach.

Wider coherence

Exceptional Measures were considered to be an effective instrument for a crisis, however, there is currently no definition of “crisis” or “exceptional”. Definitions of these terms could be useful in taking a safety net approach in future, as would be sufficient data to enable market monitoring.

Exceptional Measures are not generally popular with trade partners. More widespread use of similar measures would require the EU to do what it could to follow WTO rules. DG Trade would have to be involved in the comitology process if such measures were considered likely to have a trade impact.

Past reforms to the CAP have led to a more market orientated approach which places greater responsibility on the producer to manage risk. The use of Exceptional Measures as a safety net is considered coherent with this change in emphasis. However, the timing of the measures limited the ability of producers to self-regulate and caused the measures to be palliative rather than preventative. There is currently incoherence across sectors due to the existence of measures or legal bases in some sectors and their absence in others.

The Lisbon Treaty has changed the way in which the Commission adopts implementing legislation; this in turn will change the way in which the Commission could introduce Exceptional Measures in a future crisis. It follows from this evaluation that speed and flexibility are key.

Conclusions

Although the recovery in the poultry market was partly based on the actions taken by the industry from late 2005 onwards and the national measures introduced in the minority of Member States that did so, the proximate cause of recovery was most likely the reduction of media interest in the AI story which allowed consumer confidence in poultry meat to return. The Exceptional Measures, while highly relevant to needs, were introduced too late to have a direct causal impact on the

recovery. However, the expectation that the Commission was to provide some form of assistance may have had an indirect impact.

While payments under the Exceptional Measures were made too late to be a direct causal factor in the recovery of income, again the expectation of some form of support may have been indirectly beneficial. However, the support did have a clear positive impact on income when the payments were made and this assisted producers in meeting rising demand as consumer confidence returned.

The Exceptional Measures were efficient in terms of administrative cost and, although the amount of support disbursed was small, the impact in terms of boosting income was useful and helped to maintain the EU production base. The measures were relevant to the needs of the industry and to a number of CAP objectives. European added value was created through acting in a co-ordinated fashion while the subsidiarity principle was respected by allowing Member States to choose which measures, if any, they wanted to implement.

The Exceptional Measures were coherent with other measures taken at the EU level, although coherence with export refunds was reduced by the absence of short-term support for a private storage measure. Coherence with industry actions was high, as was coherence with national measures where these were used. The main failing in response to the crisis was an incoherent and at times unhelpful approach to communication.

Finally, the Exceptional Measures were coherent with the current CAP and also fitted well within the general direction of CAP reform in that they acted as a safety net for producers specifically affected by the crisis rather than as a more structural intervention.

Recommendations

- The Commission should give serious consideration to the issue of timing in order to assure the speedy deployment of future exceptional measures, more specifically: (1) to whether the decision to take action and the background work can be further streamlined; (2) to whether legal bases can be introduced during “peace time” to avoid delays during crises; and, (3) the quickest way in which measures could be introduced under the Lisbon Treaty.
- Future use of Exceptional Measures should be harmonised by specifying the implementing procedure very carefully in the Regulation in order to minimise the mechanisms that Member States have to add themselves.
- In any future use of similar measures Member States should be encouraged to promote their availability widely and to facilitate the submission of applications through simple procedures and appropriate application windows.
- 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.
- A common approach at the EU level using a menu system (a choice made by Member States from a set of common EU crisis measures) is recommended in any future use of Exceptional Measures.

- The industry should be fully consulted on the adequacy of policy response and method of implementation.
- Great attention should be paid to communications to ensure that they are well-founded, scientifically sound, presented in language suitable for citizens and that they avoid exacerbating loss of consumer confidence.
- Promotional measures should be offered by the EU to help with the recovery of demand following a crisis, and awareness of the availability of these measures should be raised. The Commission should also give thought to how promotional measure can be introduced quickly, for example through including a provision for sectors exiting a crisis in the promotion regulation.
- Consideration should be given during the CAP reform process to including the provision to take exceptional measures across all sectors.
- The Commission should carry out a review of data availability in the agricultural sector against internal monitoring and potential evaluation needs.
- Contemporary and suitable high frequency data on consumption should be obtained by the Commission to ensure that these are available for evaluations which may take place some years later.
- Data on production, stocks and income should be collected through the inclusion of agriculture in the monthly EC Business and Consumers Survey.
- Consideration should be given to how crises can be effectively tackled by considering the above recommendations and their interactions across all sectors.