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

DG Agriculture
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Executive Summary

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Pigmeat sector

Price reporting system

The evaluation assessed the extent to which prices reported to the Commission, which form the EU reference price for pigmeat, *correspond* to the prices obtained by producers, the extent to which the reference price reflects market developments and the extent to which this information is comparable across Member States. In this context, the role of the carcass classification grid for pigs was also evaluated.

The industry interviews undertaken indicated that the prices reported to the Commission *correspond* to the prices obtained by producers, in terms of the extent to which the markets and quotation centres on which the reported prices are based can be considered *representative*, as well as *corresponding* closely to the prices obtained by producers in *absolute* terms. Accordingly, the interviews supported the view that there is *correspondence* in that there is generally a high degree of *concordance* between the reported price and the price obtained by producers.

While there are differences in the way in which Member States implement Regulation (EEC) 3220/84, it appears that the reported prices used to form the EU reference price generally reflect market developments and are also in this sense broadly comparable between Member States.

Therefore, the information gathered by the price reporting system under the CMO for pigmeat can generally be regarded as adequate for use by the Management Committee as a basis to assess general trends in the sector. It was, however, noted that:

- In light of the changing structure of the sector and the increasing use of contracts in 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 and that the different contracts under which pigs are sold are adequately covered.
- To possibly improve the timing of the application of market instruments such as export refunds/private storage some consideration might be given as to how it might be possible to establish an 'early warning' system for price developments.
- Greater comparability of the tests used to establish the carcass classification should be achieved by undertaking further work to harmonise the differing tools and formulae used for such tests in the Member States.

- Greater efforts need to be made to ensure comparability of price data between Member States by reducing the variability between Member States in terms of the definition of the carcass quality to which the reported prices refer.

Export refunds

The application of this instrument was considered to be meeting the objectives of the CMO in terms of ensuring greater market stability and contributing to a fair income to producers. The historical analysis of the use of this instrument indicates that the use of the export refund instrument has been changed to meet the new requirements of the Uruguay Round Agreement on Agriculture (URAA) as well as changing circumstances induced by changes in other sectors notably the reduction in cereal prices within the EU. Thus the proportion of product exported with refund was generally much higher prior to the implementation of the URAA when on average 86% of all pigmeat exports received a refund compared to an average of 9.1% in the post URAA final year period between 2001 and 2003.

Whereas prior to the introduction of the URAA refunds were available more or less permanently across a large range of primary and processed pigmeat products, the export refund market management instrument has particularly post the URAA been used in a more focused fashion to countercyclically assist in re-balancing the EU pigmeat market at times of crisis. This was notably the case in the period 1998 and 1999 when the EU market was plunged into crisis as a result of the production response following the outbreak of classical swine fever in 1997 combined with the collapse of the Russian market and the economic crisis in S.E. Asia.

More generally, since the URAA the Commission has sought to optimise the use of refunds by targeting and maintaining these on those more highly processed products offering the highest value and thus maintaining stability for EU processors and more generally for the market as a whole. The new more focused application of refunds enabled the EU to remain well within the constraints imposed by the provisions of the URAA as well as meeting the objective of the CMO as set out in the intervention logic for this instrument which was to stabilise prices for producers.

It was however noted that the modelling[1] analysis suggested a significant, albeit falling, deadweight effect[2] in the application of this measure. In addition, it was concluded that the application of the measure in conjunction with private storage had been successful in reducing the cyclical price declines in the sector but that this had probably hindered the development of private sector initiatives in this regard.

In this context it is noted that a move towards further liberalisation of the sector (i.e. a reduction in export refunds) would be in line with the expressed agricultural trade objectives

[1] As with all modelling results there are limitations to the interpretation due to the fact that models are based on a variety of data as well as a range of assumptions concerning behaviour notably with respect to likely supply and demand responses. These are addressed fully in Appendix 3.

[2] The estimated deadweight effect of the export refund measure on export volume reflects the fact that some subsidised export flows that took place with subsidy would also have taken place without subsidy, albeit at a lower scale; and some items not eligible for export refunds have not been exported precisely because in the past some customers abroad preferred to buy substitutable items benefiting from export refunds (see Box A1 in Appendix 4).

of the EU[3] and would also allow greater scope for possibly more efficient[4] private sector risk management tools to be developed. Given that it has been beyond the scope of this evaluation to compare the possible costs and benefits of the usage of such instruments compared to those used under the CMO it is recommended that prior to such a move a full comparison be undertaken.

Import tariffs

Over the period under review the level of imports of pigmeat has remained relatively low although it is not clear how much of this is due to sanitary barriers rather than import tariffs. As has been shown by the historical data analysis over the period under review the operation of the CMO with respect to trade has been liberalised as a consequence of the URAA (via increased market access under Tariff Rate Quotas (TRQs), lower import tariffs and a reduction in the use of refunds). This is consistent with the aims of trade policy.

At the same time the continued protection of the EU market provided by import tariffs has helped the Community meet the challenge of trying to cope with increasingly competitive third country exports while at the same time maintaining higher environmental, welfare and food safety standards. While this was not the original function of the CMO instrument, as is evident from the intervention logic, it can be argued that this has perhaps given the CMO a new relevance beyond market management.

Private storage

The application of this measure was considered to meet the objectives of the measure as set out in the intervention logic in particular by operating counter-cyclically. It was noted that there was the possibility that the efficiency and effectiveness of the application of the measure could be improved by introducing the intervention earlier but the evaluation tools have not been adequate to provide a conclusive answer to this question.

Exceptional measures

The historical analysis of this measure for the case of the classical swine fever outbreak in the Netherlands in 1997 indicates that those directly affected by the disease outbreak appear to have been fully compensated for their *direct* losses. However, these producers were not compensated for a range of other *indirect* losses nor were producers who were indirectly affected by the disease outbreak. In view of the fact that the scope of compensation is primarily an issue for animal health policy it is our view that this issue needs to be addressed in the context of the objectives for this policy.

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[3] The agricultural trade objectives are set out in the Commission's negotiating mandate from the Council as set out in the Council Decision of June 2003 on the reform of the Common Agricultural Policy (CAP). In this it is noted that: 'The CAP reform is Europe's important contribution to the Doha Development Agenda (DDA) and constitutes the limits for the Commission's negotiation brief in the World Trade Organisation (WTO) Round.' In this context it is stressed that 'the margin of manoeuvre provided by this reform in the DDA can only be used on condition of equivalent agricultural concessions from our WTO partners.' Specifically on export support the Commission is guided by the Doha Ministerial Declaration which calls for 'reduction of , with a view to phasing out, all forms of export subsidies'. With respect to market access the Commission is guided by the Council's endorsement of the July 2004 Framework Agreement on the Doha Work Programme adopted on 1 August 2004 which calls for 'substantial new market access in agriculture'.

[4] *Prima facie* any such scheme would need to be *efficient* in the long-term if it is to attract investment by the private sector.

Overall market impacts

The use of the instruments of private storage and export refunds has coincided with the troughs in price generated by excess supply on the EU internal market. Thus as has been confirmed by the historical analysis for both these instruments, a correlation on time series relating to price and export refunds as well as interviews with stakeholders the instruments have been used countercyclically to stabilise the market as prescribed by the intervention logic.

The evidence reviewed as part of this evaluation does not support the contention that the CMO measures have significantly increased production and thus generated significant feedback loops. This is partially the consequence of the fact that in particular the reduction in imports which has occurred cannot be clearly attributed to the import tariffs alone since sanitary barriers have also played a significant role.

More generally, however, it was noted that the significance of the CMO in the context of the overall factors influencing supply and demand should not be overestimated since other important factors such as feed costs, sanitary barriers etc. affect supply while factors such as EU and world demand growth, consumer trends and the marketing efforts of EU enterprises affect demand.

Income level and development

The evidence suggests that the CMO measures have been effective in achieving their objective of contributing to a fair standard of living for farmers. In terms of the objective of stabilising markets, thereby stabilising incomes, it is generally the case that without intervention the cyclical income lows recorded in 1993, 1998 and 2002 would have been greater. However, the extent to which producers have directly (or indirectly) benefited from these measures varies significantly both within and between Member States.

The existence of public measures to stabilise the market can, however, be seen as potentially hindering the development of possibly more efficient private risk management tools such as futures markets[5]. Given that it has been beyond the scope of this evaluation to compare the possible costs and benefits of the usage of such instruments compared to those used under the CMO it is recommended that a full comparison of the advantages and disadvantages of public and private sector risk management tools be undertaken.

Production costs

The primary component of pigmeat production costs is the feed. Over the evaluation period, the cost of feed has fallen, primarily due to the CAP reform induced reduction in cereal intervention prices, rather than the CMO for pigmeat itself. Nevertheless, the cost of pig feed as a proportion of total pigmeat production costs has decreased. Moreover, this decrease in

[5] It can be argued that the very success of the CMO in reducing market instability has resulted in only limited use being made of alternative privately based risk management instruments**.** Thus efforts to achieve a futures market for pigs in London, Amsterdam and Hanover have all found it difficult to attract the necessary participants and therefore achieve the liquidity required for their success. This position is likely to remain while producers can to some extent manage risk themselves via entry and exit from the market and while the risk of much of the short term downward volatility is removed via the CMO.

the cost of pig feed as a result of the reduction in intervention prices has more than offset observed increases in the cost of feed 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 pig 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, evidence from the case studies would suggest that the impact of these policies on costs differed *considerably* both between and within Member States.

Although as is evident from the intervention logic it is not the primary objective of the CMO to address the issue of production costs which are incurred as a result of other regulatory action but clearly by maintaining income at levels which are higher than they would have been in the absence of their use the CMO instruments have helped the sector to absorb these costs.

Rural development and the environment

Analysis has shown that the current patterns of ***regional distribution[6] and concentration[7] of production*** have primarily been the result of geographical and historical factors, such as proximity to centres of feed production, maritime ports and main market outlets. The sector has also undergone significant structural change in the ***number and size of holdings*** over the period covered by this evaluation, resulting in a decrease in pig farm numbers, an increase in the number of pigs per holding and also an increase in the number of pigs per hectare, largely driven by the existence of and drive to achieve scale-economies. Such scale-economies have also been a driving factor in the increased ***specialisation of holdings*** and ***vertical integration (relationships with the upstream and downstream industries)***.

The CMO, particularly through the primary border protection measures (import tariffs and export refunds), has provided a measure of protection for the EU market and consequently contributed to creating advantageous market conditions and have provided an incentive, albeit small[8], to increase pigmeat production. Thus any impact of the CMO on the ***regional distribution of production and concentration of production***, the ***evolution of the number and size of holdings*** is likely to have been small (due to the estimated impact on production) and indirect, since the impact of the CMO on production is small and observed trends were found to have been occurring since before the introduction of the CMO and little evidence was found to strongly link the continuation of these trends directly to the CMO itself.

Any impact of the CMO on the ***specialisation of holdings,*** the sector's ***relationships with the upstream and downstream industries*** 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, inasmuch 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.

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[6] The number of pig farms by specific geographic region.

[7] The spatial distribution of pig farms within a specific geographic region.

[8] The direct impact of the CMO on both price and production were small, resulting in prices that were around 2.4% higher and production that was around 1.9% higher as a result of the CMO measures according to the CAPSIM simulation.

Consequently, while the expansion of intensive pig 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

Key general conclusions on overall impacts of the CMO were as follows:

It was noted that while the CMO instruments have increased the competitiveness of the pigmeat sector on the internal market, other factors such as sanitary barriers have also played a significant role in this regard.

The CMO has also boosted the external competitiveness of the pigmeat sector on the world market in the sense that it has increased the EU's net share of world trade, particularly in the pre-URAA period. It was noted, however, that some of this result might have been achieved without the use of the export refund instrument but that this position has been improved by the better targeting of refunds in most of the post-URAA period.

The EU carcass classification system for pigmeat has played a useful role in guiding production towards better meeting consumer requirements but it was 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.

In terms of coherence with other Community policies it was noted that the exceptional support measures have contributed to improving animal health. It was also noted that the CMO was generally not the major driver for the adverse environmental and welfare impacts which have arisen from 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. It was noted that coherence with agricultural trade policy objectives has been improving following the URAA.