



**DIRECTORATE GENERAL FOR
AGRICULTURE AND RURAL DEVELOPMENT**

**Study on mandatory origin labelling for milk,
milk used as an ingredient in dairy products,
and unprocessed meat other than beef, pig,
poultry, and sheep and goat meat**

AGRI-2013-EVAL-03

Executive Summary

Part A – Milk and milk used as an ingredient in dairy products

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EXECUTIVE SUMMARY

Introduction

Regulation (EU) No 1169/2011 on the provision of food information to consumers (the FIC Regulation) identifies the need to assess the possibility to introduce mandatory origin labelling for milk and milk used as an ingredient in dairy products.

This study was commissioned to contribute to that assessment. In doing so the study explored the impact for various milk and milk products of different origin labelling options at two stages of the supply chain. Case studies were carried out in nine Member States. The options considered are presented in Table 1.

Table 1 Voluntary and mandatory origin labelling options analysed

Levels of geographical origin	Stage of the supply chain	
	Place of first processing of the raw milk	Place of milking
Non-mandatory origin labelling Status quo	Option 0	
EU origin EU / non-EU	Option 1	Option 4
Group origin Countries of <i>possible</i> origin e.g. [DE] <u>or</u> [BE] <u>or</u> [NL] <u>or</u> [FR]	Option 2	Option 5
Multi-country origin Countries of <i>definite</i> origin e.g. [DE] <u>and</u> [BE] <u>and</u> [NL]	Option 3	Option 6

The analysis focused on five aspects:

- The need for the introduction of mandatory origin labelling;
- Additional costs in the dairy supply chain of such labelling;
- Impacts for consumers;
- Impact on intra-EU and international trade;
- Additional administrative costs for public and private operators.

Results

The impacts of the different policy options (scenarios 0 to 6) with respect to producers, consumers, trade and its administrative burden are summarized in Table 2. The final column in the table presents an estimate of the net impact that different origin labelling options would have on stakeholders, taking into account all other aspects mentioned in the table.

The preference of supply chain participants for particular options is correlated with the cost increases expected within their businesses, (i.e. the industry has generally a stronger preference for non-mandatory labelling of origin) whereas the inclination of consumers is for the most informative options (options 3 and 6). When mandatory labelling is chosen, firms operating in border regions and/or having significant cross border trade to source raw material have a stronger preference for options 2 and 5 than for options 3 and 6.

Table 2 Summary of identified impacts on producers, consumers, trade and administrative burden of different labelling options

Labelling scenario	Additional costs to the supply chain	Impacts for consumers	Impacts on EU trade	Additional private administrative burden	Additional public administrative burden	Expected net (direct) impact
0 - Non-mandatory labelling (i.e. status quo: voluntary origin labelling)	Negligible costs	Both interested consumers and non-interested consumers have freedom of choice.	No changes compared to baseline.	No costs	No costs	Consumer benefits for (voluntary) labelling are by definition compensating costs (this is the business model); consumers not interested have access to non-labelled (lower priced) products
1 - EU/non-EU; place of first processing	Very low, with an exemption for processed cheese.	Relatively low consumer interest.	Very minor effects expected.	Low costs	Low costs	Benefits are unlikely to outweigh costs; if so net benefits will always be small
4 - EU/non-EU; place of milking	Very low, with an exception for processed cheese and other consumer products using multiple ingredients.	Relatively low consumer interest.	Very minor effects expected.	Low costs	Low costs	Benefits are unlikely to outweigh costs; limited but negative impact expected.
2 - Group of Member States; place of first transformation	Low costs with an exception for processed cheese. Voluntary labelled products and PDO/PGI labelled dairy products may face an indirect cost.	Significant consumer interest, but unclear willingness to pay.	Limited impacts expected.	Costs likely to be lower than in multi-country origin option, but can come close.	Costs likely to be lower than in multi-country origin option, but can come close.	Benefits and costs are unlikely to balance; net impact likely to be negative.

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Part A – Executive Summary

Labelling scenario	Additional costs to the supply chain	Impacts for consumers	Impacts on EU trade	Additional private administrative burden	Additional public administrative burden	Expected net (direct) impact
5 - Group of Member States; place of milking	Low costs with an exception for processed cheese. Voluntary labelled products and PDO/PGI labelled dairy products may face an indirect cost.	Significant consumer interest, but unclear willingness to pay.	Limited impacts expected.	Costs likely to be lower than in multi-country origin option, but can come close; costs can be slightly higher than for place of first processing.	Costs likely to be lower than in multi-country origin option, but can come close; costs can be slightly higher than for place of first processing.	Benefits and costs are unlikely to be balanced; net impact likely to be negative.
3 - Multi-country origin: place of first processing	High costs, ranging from 0 to 8% at Member State level and 0 to 45% at individual firm level.	High consumer interest; just over half of consumers indicate they are prepared to pay a little bit more.	High impacts on trade flows, but changes in net trade still less than 5% for most Member States.	High costs	High costs	Both benefits for consumers interested in knowing the origin and costs for operators are high when compared to the other options.
6 - Multi- country; origin place of milking	High costs, ranging from 0 to 8% at Member State level and 0 to 45% at individual firm level	High consumer interest; just over half of consumers indicate they are prepared to pay a little bit more.	High impacts on trade flows, but changes in net trade still for most Member States less than 5%.	High costs, slightly higher than for options of place of first processing.	High costs slightly higher than for options of place of first processing.	Both benefits for consumers interested in knowing the origin and costs for operators are high when compared to the other options.

* When labelling is extended to all dairy ingredients the costs can be much higher; ** costs : low (<1%); medium (1-3%), and high (>3% cost increase of the wholesale price).

Conclusions

General

There is a clear consumer interest in origin labelling but different surveys suggest that consumers' willingness to pay for origin labelling is low and likely to be overstated.

In all the case studies, dairy products carrying a voluntary origin label were identified. The presence of voluntary origin labelling can be interpreted as a signal that the market is properly functioning: where there is a group of consumers with a sufficiently high willingness to pay there are also suppliers providing that information since voluntary origin labelling has a commercial added value.

The estimated impacts on production, consumption and net trade flows were in general limited. However, the introduction of mandatory origin labelling will, depending on the specific labelling option chosen, lead to an increase in the cost of production ranging from 0 to 8 % at Member State level and at individual firm level, cost increases might be much larger (even up to 45%). Costs of mandatory origin labelling increase as the complexity of the production process grows (e.g. costs for production of butter, yogurt and industrial cheeses that usually imply sourcing of multiple ingredients are higher than those of drinking milk). In contrast, stakeholders that source locally and/or apply voluntary labelling of origin will face lower or even negligible costs with the introduction of mandatory origin labelling.

The consumer assessment did find a preference for either origin labelling of the first place of processing of the raw milk or the place of milking. Dairy processors prefer the first place of processing of the raw milk. This labelling option is preferred since it is likely to involve lower costs.

In cases where consumers' willingness to pay for labelling of origin is negligible, introducing mandatory origin labelling may result in pressure on the milk price and supply and by that have a negative impact on dairy farmers' income prospects.

Mandatory and voluntary origin labelling options

Option 0: Voluntary labelling

This is a better option than establishing mandatory origin labelling for all stakeholders (businesses and consumers) since it avoids the extra costs and administrative burden associated with the provision of compulsory information. Although a majority of consumers express a general interest in knowing the origin of the milk in dairy products, assessments indicate that willingness to pay for it is likely to be low.

However, interested consumers might prefer generic (mandatory) regulation because it has a cost-sharing advantage for them.

Products with voluntary origin labelling have been identified in several Member States, and under these conditions a system of voluntary labelling of origin already meets the need for the consumer to be informed.

Options 1 and 4: EU origin (first place of processing, place of milking)

This would be the industry's preferred option should origin labelling become mandatory, because in general the cost impacts are likely to be smaller than in the more detailed country labelling options. However, consumers find these options unsatisfactory when addressing their information needs. At the same time, specific industries such as processed cheese and yogurt could face significant additional costs.

Options 2 and 5: Group origin (first place of processing, place of milking)

These options would have some benefits for consumers, although they are difficult to determine. It is also difficult to demonstrate willingness to pay. Similar preference was found for place of milking and first stage of processing.

The public and private administrative burdens would be higher than in the case of EU/non-EU labelling but are likely to be much lower than in the case of multi-country origin labelling. Group origin labelling monitoring can largely focus at the firm level, whereas with multiple-country origin labelling, the monitoring would be necessarily focused at the product level, which is more complex and demanding. Also, the costs imposed to processors are lower compared to multiple-country origin options.

Options 3 and 6: Multiple-country origin (first place of processing, place of milking)

Options 3 and 6 provide the most comprehensive origin information of all the options, but would also involve the greatest increases of production costs in dairy supply chains (ranging from 0 to 8 percent at Member State level). The biggest cost increase is expected for butter, followed by yogurt and then by cheese and drinking milk. The main reasons are multiple sourcing, concentrated production and multiple recipes. For processed cheese, the study was unable to define accurate costs, but they would probably be high.

In addition, there would be higher increases in the administrative costs for firms and national governments compared to the EU- or Group-origin options. Economies of scale will inevitably result in lower costs for larger plants (e.g. software development, inspection costs). National governments will have to face a cost increase in the short term if enforcement of the origin labelling is implemented, but actual expenditure will be limited by national budgets. From the case studies, only limited insights were given on the level of the cost increases.

According to model calculations, these options will produce relative changes in intra-EU and international trade. Final trade impacts could be negative (less trade) or positive (more trade), depending on changes on cost of production patterns in the EU, and the final willingness to pay of consumers. However, the impacts on net trade are likely to be restricted (in volume terms) since impacts on domestic production and consumption of dairy products at Member State level were rather limited (on average less than 1%).