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COMMITTEE AND THE COMMITTEE OF REGIONS**

on agricultural product quality policy

Impact Assessment Summary

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Impact Assessment Summary

Agricultural Product Quality Policy

1. POLICY CONTEXT AND PROBLEM DEFINITION

Agricultural product quality policy addresses the market failure caused by asymmetric information between farmers and buyers on quality aspects of agricultural products. It is focussed on the contribution made by farmers and producers of primary agricultural and 'first-stage' processed product (wine, cheese, olive oil, meat,...).

The EC has developed a variety of instruments concerning the marketing of agricultural products that guarantee product characteristics and farming attributes:

- **marketing standards** and product directives, laying down agricultural product identity (e.g. definitions of 'drinking milk', 'fruit juice', 'wine'), classification of products (class, size ...), origin and place-of-farming labelling, and defining certain 'reserved terms' that indicate value-adding characteristics and attributes, such as farming method.
- **EU agricultural product quality schemes**. Six schemes are in operation: for geographical indications (three schemes), traditional specialties guaranteed, organic farming, and product of outermost regions. Two further EU schemes are under development: extending the *Ecolabel* to foodstuffs, and an animal welfare labelling scheme.

In addition, numerous **private and national (and regional) certification schemes** have been developed. These include food assurance certification schemes (guaranteeing 'baseline' standards have been met), and food quality certification schemes that 'differentiate' product on the market by highlighting value-adding product characteristics and farming attributes to buyers and consumers.

These instruments (EU measures, private and national), seek to address the fundamental market problem which derives from **asymmetric information** that would otherwise impede the sale and purchase of product at a fair price having regard to its characteristics and attributes. In addition, there are difficulties and problems in the operation of each of these measures. **Globally**, EU policy has developed ad hoc and a number of **inconsistencies** have emerged or are threatened; furthermore, a variety of initiatives, particularly in the environmental sector, are in train and risk further inconsistencies. The diversity of these initiatives contributes to the **coherence problem** and there is a danger of an uncoordinated approach to agricultural product quality policy measures, resulting in confusion for stakeholders and consumers and policy inconsistencies. **Specifically**, EU schemes are **excessively complex**; the geographical indications measure has not achieved sufficient visibility and a number of essentially technical matters have been identified; the traditional specialties measure has not filled its promise, and marketing standards are complex and overly-prescriptive. In the private and national sectors, the explosion in the number and diversity of certification schemes has led to consumer confusion and questions about the proper functioning of the single market. Finally, the *ad hoc* approach to place-of-farming

labelling has left a fragmented picture where the place must be labelled on beef, but not on pork; and on honey, but not on dairy products.

2. OBJECTIVES

The **general objective** of agricultural product quality policy is to enable farmers and producers to meet consumer expectations for product characteristics and farming attributes and communicate them effectively, ensuring:

- farmers and producers get a fair return reflecting the agricultural product quality;
- farmers and producers can react to consumer demand for value-added product characteristics and farming attributes;
- consumers can rely on labelling terms to identify agricultural product characteristics and farming attributes.

The **specific objectives** are:

- to improve communication between farmers and buyers and consumers arising from asymmetric information about the qualities of agricultural product;
- to increase coherence of EU agricultural product quality policy instruments;
- to reduce complexities for farmers and producers, and consumers.

In addressing these objectives, **four policy issues** were examined:

- Policy issue 1: Marketing standards, including place of farming labelling
- Policy issue 2: Geographical indications
- Policy issue 3: Traditional specialities
- Policy issue 4: Private, national and new EU certification schemes

3. POLICY OPTIONS

3.1. Policy issue 1: Marketing standards, including place of farming labelling

Two options were discarded after technical screening:

- introduction of an **EU logo indicating compliance with EU requirements** would present considerable technical obstacles and was opposed by almost all stakeholders.
- **No EU action: abolition of marketing standards** from Community legislation would leave "the field unoccupied", at the risk that divergent, national marketing standards may be introduced. All stakeholders supported continuation of (simplified) marketing standards.

Five options were retained for further analysis:

- **Option 1.1. Status quo plus: simplification**, including harmonisation of standards, harmonisation of common elements across different sectors, removal of obsolete provisions and drafting in line with the latest legal drafting principles.

- **Option 1.2. Replacement of specific EU marketing standards by a general base standard.** This option foresees complete removal of specific marketing standards from Community legislation, accompanied by a new general standard, applicable to all products.
- **Option 1.3. Combined approach.** This option comprises essential requirements or base standard in legislation (as in Option 1.2) and technical specifications in standards agreed by stakeholders using a standards setting body (the CEN framework).
- **Option 1.4. Develop use of reserved terms.** Lay down clear definitions, identities, classes, sizes, which have to be respected if used at the stage of placing on the market and are voluntary for producer/operators (e.g. 'farmhouse', 'free range', and particularly if the 'traditional specialities' scheme instrument is discontinued, the term 'traditional').
- **Option 1.5. Extending existing compulsory indication of place-of-farming (EU/non-EU or country) to cover agricultural product.** Labelling of EU/non-EU and/or Member State/Third country to be considered especially in light of WTO considerations.

3.2. Policy issue 2: Geographical indications

Four options were discarded after technical screening, namely:

- Action through a general **Directive**, delegating to Member States the task of identifying and protecting geographical indications is not consistent with the policy objective of having a harmonised application throughout the single market.
- Options **Co-regulation** and **self-regulation** which need the involvement of non-governmental organisations, social and economic partners were discarded due to the highly fragmented structure of the sector.
- **No action at Community level (abolition of current legislation)** is likely to lead to the creation of 27 different systems in the Member States, with increased burden for producers, confusion to consumers and risk of misuse, usurpation, etc. outside the country granting the protection.
- **Application of international rules through the Lisbon Agreement** would be impossible to apply in the short term, as an international negotiation to adhere to WIPO would be needed as well as some amendments on definitions. In the longer-term, however, this option should not be ruled out.

Three options (including three sub-options) were retained for further analysis:

- **Option 2.1. Status quo plus: Simplification of PDO/PGI schemes and streamlining existing procedures.** The legal text could be clarified without changing the current legal architecture, thereby reducing the time taken to process applications at EU level.
 - **Sub-option 2.1.1 Merging PDO and PGI definitions.** In effect, the protected designation of origin would be abolished and existing registrations would become protected geographical indications. This option would reverse the recent policy of enhancing the difference between the two types.

- **Sub-option 2.1.2 Creation of a single instrument** for registering wines, spirits, and agricultural product and foodstuffs would enable a more coherent policy, for example by using similar criteria and procedures for registrations.
- **Sub-option 2.1.3 Allowing national system of protection of indications** in parallel to the EU scheme. Protection of those names would then only apply to the national market. In parallel, trade (volume and value) criteria could be used as a precondition for registration of names in the EU registers.
- **Option 2.2. Abolish the current sui generis PDO/PGI system at EU level and replace it by the existing trademark system.** The level of protection of geographical indications would be the one ensured by TRIPS, but the legal means to protect names would only apply through the Community trademark system.
- **Option 2.3. Clarifying PDO/PGI rules.** The system in place could be clarified and through modification of the regulations and by guidelines.

3.3. Policy issue 3: Traditional specialities guaranteed

Four options (including two sub-options) were screened and retained for further analysis:

- **Option 3.1: Status Quo — continuation of current scheme,** is not considered viable, but is retained as a point of comparison to the other options.
- **Option 3.2: Simplification of the scheme,** by limiting it to one of the two currently existing options: either protection with reservation of the name or protection without reservation of the name.
 - **Sub-option 3.2.1. Registration without reservation of the name.** This sub-option would entail **abolition** of protection of the name. Use of the registered name would not be limited unless it appears in combination with the words "Traditional Speciality Guaranteed" or the Community symbol.
 - **Sub-option 3.2.2. TSG registration with reservation of the name.** In this case, the name itself would be protected and could be used only for products made in accordance with the specification.
- **Option 3.3: Protecting the term 'traditional' as a reserved term under marketing standards.** This is included under Option 1.4 above.
- **Option 3.4: No EU action: discontinuation of current scheme.** Regulating traditional specialities would be left to the private sector, Member States and regions.

3.4. Policy issue 4: Private, national and new EU certification schemes

One option was discarded after technical screening, namely:

- a **legislative option**, laying down rules or a framework for the operation of food quality certification schemes. This option lacks efficiency, effectiveness and coherence with other EU policy objectives (e.g., simplification) as well as stakeholder acceptance.

Five options were retained for further analysis:

- **Option 4.1: no EU action = status quo (plus further research).** This option is a continuation of the present situation, the EU being not directly involved in the operation of private and national/regional certification schemes. This option would include **further research** to gain a better understanding of the nature and extent of the problem.
- **Option 4.2: Develop voluntary guidelines for the operation of certification schemes,** which would highlight best-practice approaches according to criteria agreed with stakeholders.
- **Option 4.3: Developing new EU quality schemes for specific policy areas.** The Commission has already developed or is preparing certification schemes in several policy areas. Each new scheme will have to be assessed on its own merit.
- **Option 4.4: Establish common criteria for new EU schemes.** As an alternative to Option 4.3, and given the number of new schemes and proposals coming forward, criteria could be established to assess the need for new EU certification schemes for agricultural products and foodstuffs.
- **Option 4.5: Development of protected reserved terms corresponding to specifications.** In cases where direct EU action is justified, a lighter option administratively could be to develop **reserved term protection**. This is considered under marketing standards (Option 1.4).

4. ANALYSIS OF IMPACTS

Options for each policy issue were analysed with regard to effectiveness, efficiency and consistency as well as in relation to the policy objectives.

For **policy issue 1 (marketing standards, including place of farming labelling)**, the preferred options are option 1.4 (development of use of reserved terms); option 1.3 (combined approach), subject to future investigation; and, especially for basic agricultural products, option 1.5 (develop obligatory place of farming labelling).

For **policy issue no. 2 (geographical indications)**, option 2.3 (clarification of PDO/PGI rules), and option 2.1.2 (merging of wine, spirits and agricultural products systems) present high effectiveness and consistency. Further analysis is needed to address the efficiency of option 2.3 (clarifying PDO/PGI rules).

For **policy issue no. 3 (Traditional specialities)**, the preferred option is 3.3 (protecting the term "traditional" as a reserved term under marketing standards), followed by option 3.2 (simplification of the scheme).

For **policy issue 4 (private, national and new EU schemes)**, the preferred options are 4.2 (guidelines) and 4.4 (criteria for new schemes), which are combinable. Option 4.5 (develop use of reserved terms), which scored very high in all criteria, is dealt with under policy issue 1 (marketing standards).

5. OVERALL POLICY COHERENCE AND SYNERGIES BETWEEN PREFERRED OPTIONS

The table below (preferred options) shows how the preferred options contribute to the **overall policy approach**, the **synergies** created between different instruments, and legal and procedural **clarifications** identified.

Policy		Preferred options
Overall policy approach	towards private and national certification and schemes	Option 4.2: guidelines for operation of certification schemes
	to ensure coherence in development of new EU schemes	Option 4.4: criteria for new EU schemes
	coherent development of EU marketing standards	Option 1.3: combined approach (replacing marketing standards by a general standard and developing detailed rules in a CEN)
Synergies	greater use of 'reserved terms' (from marketing standards)	Option 1.4: Develop reserved terms for horizontal quality labels (such as 'low carbon')
		Option 3.3: Protect 'traditional' as a reserved term (as replacement for traditional specialities scheme)
	common use of certification systems for similar schemes	Option 2.1.1: streamlining procedures for geographical indications scheme and merging wine, spirits and agricultural products and foodstuff registers into one system
		Option 2.3 : Clarification of PDO-PGI rules
	coherent implementation of obligatory place-of-farming labelling	Option 1.5: place of farming labelling on sector-by-sector approach

Table: Preferred options

The preferred options are combinable and represent together a complete package for the development of agricultural product quality policy.

Increased use of 'reserved terms', in particular as a replacement of the traditional speciality scheme, would provide major synergies. Also guidelines for private and national schemes, which could also be applied to the EU schemes, would have synergies. The criteria for new EU schemes should prevent inconsistencies with existing EU schemes and marketing standards. Linkages arise from the proposed common certification system for geographical indications and from the proposed coherent implementation of obligatory place-of-farming labelling across sectors in marketing standard.

<i>Options</i>	<i>Marketing standards</i>	<i>Geographical indications</i>	<i>Traditional specialities</i>	<i>Private, national and new EU schemes</i>
<i>Option 1.3: combined approach</i>	X			
<i>Option 1.4: reserved terms for horizontal quality labels</i>	X		Linkage: protect "traditional" as reserved term in marketing standards	Linkage: proposals for new schemes could include reserved terms
<i>Option 1.5: place of farming labelling</i>	X	Linkage: will apply to PGIs if raw material from different place than PGI		
<i>Option 2.1.1: streamlining geographical indications scheme and merging</i>		X		
<i>Option 2.3 : Clarification of PDO-PGI rules</i>		X		
<i>Option 3.3: Protect 'traditional' as a reserved term</i>	Linkage: use of marketing standard mechanism		X	
<i>Option 4.2: guidelines for operation of certification schemes</i>		Linkage: guidelines also to apply to EU scheme	Linkage: guidelines also to apply to EU scheme	X
<i>Option 4.4: criteria for new EU schemes</i>	Linkage: will avoid inconsistent labelling initiatives from new schemes	Linkage: will minimise inconsistency with existing scheme	Linkage: will minimise inconsistency with existing scheme	X

Table: Linkages of the preferred options

6. MONITORING AND EVALUATION

This impact assessment is in the context of a Communication setting out strategic orientations. Thus, in the immediate future, the test of progress will be development and adoption of these orientations.

For the progress of the policy itself, several core progress indicators are proposed provisionally and will be developed during preparation of each initiative.