

CASE STUDY ON COSTS AND BENEFITS OF EU MARKETING STANDARDS IN THE HOPS SECTOR

*(Evaluation of marketing standards contained in the CMO Regulation,
the “Breakfast Directives” and CMO secondary legislation)*

PowerPoint presentation

European Commission Workshop on Marketing Standards

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Background

Marketing standards on hops

Hops certification:

- Certification system developed in the 1970s, evolved since then with **latest rules in 2006**:
 - > Council Regulation (EEC) No 1696/71 (CMO for hops): hop cones and lupulin to be subject to a certification procedure in respect of the designation of origin, to be adopted by the Council upon proposal by the Commission (Article 2)
 - > General provisions established by Council Regulation (EEC) No 1784/77
 - > Detailed rules laid down by Commission Regulation (EEC) No 890/78
 - > Both Regulations were amended several times, and finally repealed by **Commission Regulation (EC) No 1850/2006**, which is **currently in force**
 - > This latest Regulation established a new set of detailed rules covering *inter alia* hops presented for certification, marketing requirements, sampling, the certification procedure, certificates, marking and information on the package, exceptions and certification bodies
 - > Provisions on the certification for hops also included in the single CMO Regulation (EC) No 1234/2007 (Article 117), and in revised **single CMO Regulation (EU) No 1308/2013 (Article 77)**

Background to the case study

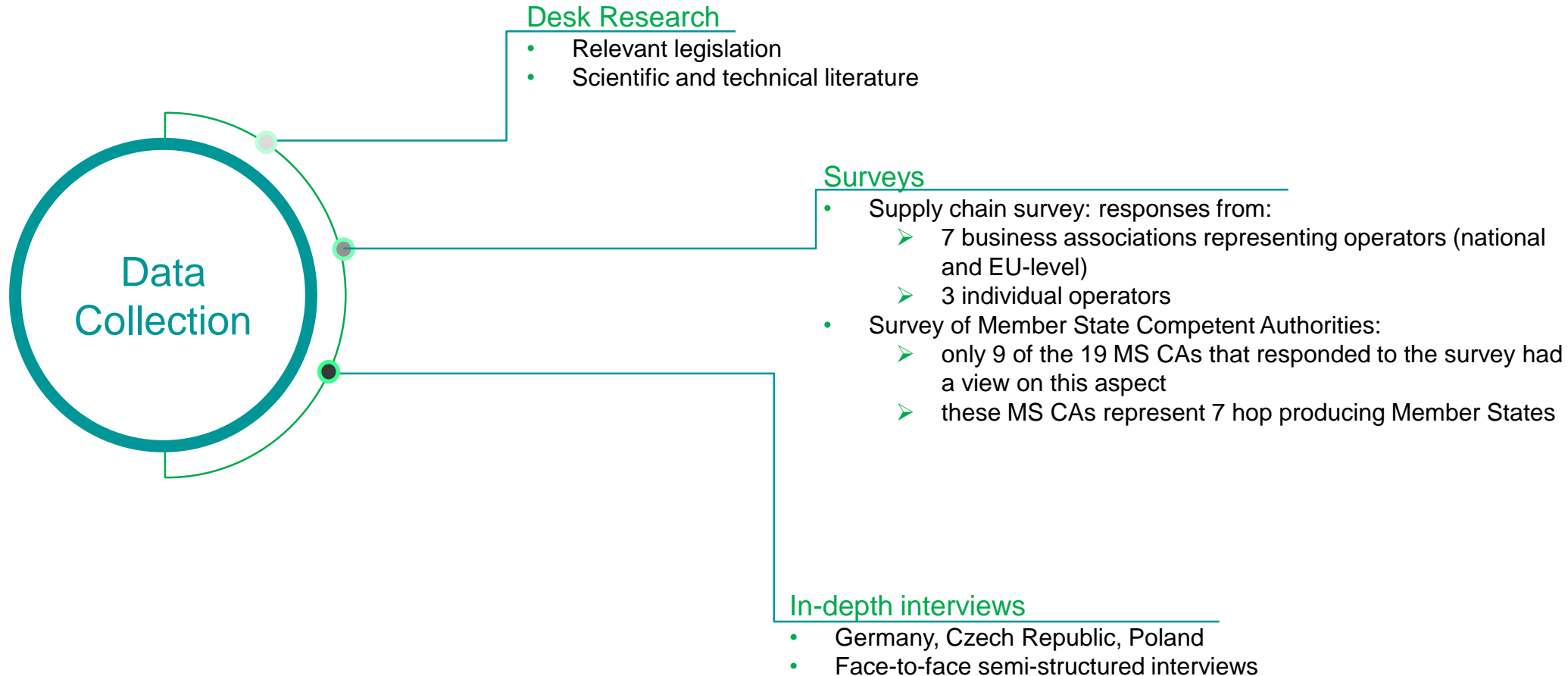
Assessing the efficiency of marketing standards as part of the evaluation

Efficiency

- The evaluation assessed the efficiency of marketing standards:
 - > **Across the board** - all sectors with marketing standards
 - > **In-depth assessment** - focus on sectors with specific provisions in place for which costs and benefits could be quantified
- Evaluation Question:
 - > **To what extent are the incurred costs justifiable and proportionate to the benefits achieved?**
 - > **To what extent are the additional costs incurred for the certification of hops justifiable and proportionate to the quality benefits achieved?**
 - *Cost and benefits of compliance with marketing standards for food business operators*
 - *Cost and benefits of controls for Member States*
 - *Cost and usefulness of marketing standards for consumers*
- Aim:
 - > Assess balance between the costs and benefits
 - > Identify opportunities for simplification and cost reduction

Evaluation methodology

Data collection tools (specifically for the hops case study)



Findings

Overview: costs

Costs = the additional costs of hops certification, over and above costs of compliance to the broader legislation

- > The costs incurred by operators for the certification of hops are **minimal/negligible**:
 - less than 0.5% of the final product price (*see Germany slides*)
- > No unnecessary repetitions/overlaps in the control and reporting requirements were identified in this sector

Overview: benefits

- > Certification:
 - contributes to **improve product quality/establish a premium brand**
 - creates a **level playing field**
 - improves **market access/competitiveness**
 - improves **controls by enforcement authorities (traceability)**
- > Enabled the establishment of protected designations in EU hop growing regions, including 4 PGIs and 1 PDO in Germany and 1 PGI in Slovenia (Styria region): important for growing market segment of beer using single variety hops
- > Played a major role in establishing the status of EU hops as a product with **high reputation** worldwide
- > Helped to ensure **rising trend for Europe's share of the world hop market** (until arrival of new market trends: US 'fruity' varieties)
- > Positive impact on breweries, as operators have the confidence in the quality of hops they buy
- > Impact on prices considered positive, but of less significance (prices are generally subject to annual supply and demand fluctuations which are driven by other factors) → **quantification of benefits not possible**

Overview: costs vs benefits

Even though benefits cannot be quantified...

> Benefits clearly and by far outweigh costs:

- On the one hand, the certification system creates high marketing benefits
- On the other hand, the cost associated with the application of the certification system is extremely low/negligible in relation to the product price

Germany

- **Costs**

- > In total, average costs estimated at €0.03/kg to €0.04/kg - on a product that would sell for ±€10.00/kg – of which:
 - At first stage (producer level): €0.01/kg to €0.015/kg
 - At second stage (processing): at €0.015/kg to €0.025/kg

- **Benefits**

- > High worldwide reputation of German hops is reflected in some expansion in the area planted to hops: from 18,600 ha in 2002 to 20,144 ha in 2018 (yields also rising with introduction of new higher yield varieties)
- > Notable rise in quality after the introduction of modified certification standards and minimum standards from 1995 onwards, due to all contacts based on EU marketing standards and certification system from this point onwards - as independently certified:
 - average moisture content of hops supply has fallen from 11.4% in 1994 to 9.4% in 2018
 - average share of leaves, stem and waste in hops supply has fallen from 2.7% in 1994 to 1.7% in 2018
- > Enabled the designation of 4 PGIs for the different hop growing regions in Germany (Hallertau, Elbe-Saale, Spalt, Tett nang) and 1 additional PDO designation for the Spalt growing region

Important notes

- > Evaluation conducted in 2019, all above data and findings refer to the 2018/19 period as latest
- > Not possible to distinguish the extent to which **costs** arise from the obligations and responsibilities laid down in the **legislation versus** the specifications laid down in **private standards**
- > The same holds true for **benefits**: for example, achieving (through private standards) quality parameters above the minimum standards laid down in legislation could be rewarded by price premia/bonuses
- > Analysis of costs and benefits is specific to each sector and the specific requirements laid down in the marketing standards → the above **analysis** in the hops sector **cannot be extended to any other sector**.

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