

Explanatory Memorandum to the *Country of Origin of Certain Meats (Wales) Regulations 2015*

This Explanatory Memorandum has been prepared by the Food Standards Agency and is laid before the National Assembly for Wales in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Member's Declaration

In my view this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Country of Origin of Certain Meats (Wales) Regulations 2015. I am satisfied that the benefits outweigh any costs.

Vaughn Gethin AM
Deputy Minister for Health

13 July 2015

Explanatory Memorandum for the Country of Origin of Certain Meats (Wales) Regulations 2015

1. Description

These Regulations implement in relation to Wales Commission Implementing Regulation (EU) No. 1337/2013 of 13 December 2013 laying down rules for the application of Regulation (EU) No 1169/2011 of the European Parliament and of the Council as regards the indication of the country of origin or place of production of fresh, chilled and frozen meat of swine, sheep, goats and poultry. This ensures that we are complying with our EU obligations in Wales in relation to the application of Regulation (EU) No 1169/2011.

2. Matters of Special Interest to the Constitutional Affairs Committee

Commission Implementing Regulation (EU) No. 1337/2013 was to be applied throughout the European Union by 1 April 2015. These Regulations are to come into force in Wales on 10 August 2015.

The Regulations implement in Wales the requirements of Commission Implementing Regulation (EU) No. 1337/2013 and are made in exercise of the Welsh Ministers' powers under section 2(2) of the European Communities Act 1972. The Welsh Ministers are designated for the purposes of section 2(2) of the European Communities Act 1972 in relating to measures relating to food (including drink) by S.I. 2005/1971. The functions initially conferred on the National Assembly for Wales by that S.I. are now exercisable by the Welsh Ministers by virtue of section 162 of, and paragraphs 28 and 30 of Schedule 11 to, the Government of Wales Act 2006.

Section 2(2) of the European Communities Act 1972 confers a choice of Assembly procedure. The negative procedure has been proposed for these Regulations because the provisions do not amend any provisions of an Act or Measure, they do not increase financial burdens on the subject, and they do not impose obligations of social importance. Accordingly, there is no factor indicating the use of the affirmative procedure.

3. Legislative Background

The Regulations are made in exercise of the Welsh Ministers' power under section 2(2) of, and paragraph 1A of Schedule 2 to, the European Communities Act 1972 and sections 6(4), 16(1), 17(1), 26(1), (2) and (3), 31(1) and 48(1) of the Food Safety Act 1990.

The relevant powers under the Food Safety Act 1990 were transferred to the National Assembly for Wales by article 2 of the National Assembly for Wales (Transfer of Functions) Order 1999 (S.I. 1999/672) and are now exercisable

by the Welsh Ministers by virtue of section 162 of, and paragraph 30 of Schedule 11 to, the Government of Wales Act 2006.

4. Purpose and Intended Effect of the Legislation

The Country of Origin of Certain Meats (Wales) Regulations must be made to implement the requirements of EU Regulation No. 1337/2013.

The instrument will:

- transpose Implementing EU Regulation No. 1337/2013 which lays down rules for the application of Regulation (EU) No. 1169/2011 as regards the indication of the country of origin or place of provenance for fresh, chilled and frozen meat of swine, sheep, goats and poultry, and.
- enable the enforcement of and provide penalties for non-compliance with the requirements of the EU Regulation.

In December 2013 the European Commission published Implementing Regulation (EU) No. 1337/2013 on the indication of the country of origin or place of provenance for fresh, chilled and frozen meat of swine, sheep, goats and poultry (EU Regulation 1337/2013). This implements the country of origin labelling provisions of Regulation (EU) No 1169/2011 of the European Parliament and of the Council on the provision of food information to consumers ('FIC'). The food labelling requirements of FIC are enforced by local authorities in Wales, with the enforcement provisions laid down in the Food Information Regulations (Wales) 2014.

EU Regulation 1337/2013 requires that all meat of pigs, sheep, goats and poultry carry a label indicating the country of rearing, country of slaughter and a batch code linking the meat back to the animal or group of animals from which it was obtained. In addition to the labelling provisions, EU Regulation 1337/2013 also requires businesses, at all stages of production, to have an identification and registration system in place that ensures the transmission of the mandatory labelling information.

EU Regulation 1337/2013 also includes a traceability requirement enabling identification of the animals from which the meat has been obtained.

5. Consultation

The Food Standards Agency ran a shortened 9-week consultation from the 30th March to the 1st June 2015. There were two responses to the consultation in Wales; one from an industry body and one from Wales Heads of Trading Standards (WHoTS).

The response from Hybu Cig Cymru was supportive of the changes being proposed and of Country of Origin Labelling in general. The response from WHOoTS raised a number of points. The main points were:

- that our draft impact assessment (IA) did not fully explore the costs to local authorities for the required education of businesses. We have since amended our IA to include these additional education costs. The FSA will also be producing guidance on these new Regulations which we hope will assist businesses and local authorities.
- concerns regarding the serving of Improvement notices for non-compliance without the option to take a prosecution for repeat offenders. Improvement Notices are a new enforcement tool for labelling offences and the FSA will continue to request and receive feedback from local authorities in Wales on their application in this context. No changes were made to the SI in light of these responses. All comments and the FSA's response will be published on the FSA's website within 3 months of the Regulations coming into force.

6. Regulatory Impact Assessment

What policy options have been considered?

Option 1: Do Nothing (Baseline)

To do nothing would mean that the directly applicable regulation would not be implemented in Wales. Enforcement authorities would not have the power to take any action against non-compliant businesses. This could in turn lead to infraction proceedings being brought against the UK for failing to enforce regulations as part of its legal obligations to the EU.

Option 2: Make statutory instrument to provide enforcement provisions for 1337/2013

This option would require Food Business Operators (FBOs) to label unprocessed swine, poultry, sheep or goat meat with information on the place where the animal was reared and slaughtered. The general rule is that all meat obtained from the above animals must give the Member State or third country of rearing, written as 'Reared in: *country x*' and the Member State or third country of slaughter, written as 'Slaughtered in: *country x*'. Labels must also contain a batch code identifying the meat. There must also be an identification and registration system in place that ensures the transmission of the mandatory information throughout the food chain.

Sectors and groups affected

The impacts from the proposed changes will fall upon Industry (FBOs), consumers and Government (Enforcement Authorities).

Industry

Affected businesses are assumed to include farmers, manufacturers, wholesalers, slaughter houses, cutting plants, meat packagers and retailers in the supply chain for unprocessed swine, poultry, sheep and goat meat products. We have assumed that costs are spread evenly across all relevant FBOs, due to the absence of evidence on the spread of the market share for unprocessed meats.

The costs to industry include:

- **One-off familiarisation costs to FBOs (monetised):** senior managers will have to learn and disseminate information about new and amended regulations;
- **One-off re-labelling costs to FBOs (monetised):** costs due of re-labelling meat product stock keeping units (SKUs) to comply with the regulation¹; and
- **Costs to FBOs from changes to production process (non-monetised):** If business have to make technical adjustments to their production process, for example by needing to separate out meats from different country of origin, to comply with the regulation then there will be a costs impact.
- **Indirect impacts on the demand for unprocessed meats (non-monetised):** It is unclear at this stage what the impact will be on the demand for UK produce. This could have a positive affect according to evidence (set out below) which suggests that origin information has benefits for local sourcing. However, this is likely to be offset by falling demand from higher prices as a result of the costs to FBOs from complying with the regulation. The net impact is uncertain.

The benefits to industry include:

- **Benefits to FBOs from increased transparency (non-monetised):** this as a result of mandatory EU country of origin labelling. These benefits are discussed qualitatively, due to a lack of current evidence in this area..

It has been estimated that a total of 460 Welsh meat enterprises will be affected; separated into the following categories: production; wholesale and retail.

Table 1: Welsh related enterprises

¹ Where a stock keeping Unit is a products identification code that allows a product to be tracked for inventory purposes

| | | | |
|-----------------------|---|--|--|
| | Wales: Production of meat and poultry meat products | Wales: Wholesale of meat and meat products | Wales: Retail sale of meat and meat products in specialised stores |
| Number of enterprises | 35 | 85 | 340 |

Source: ONS – IDBR – Dataset ID: UKBA01a; Data title: Enterprise/local units by 4 Digit SIC and UK Regions

Small and Micro Business Assessment

This section considers whether small and micro businesses should be exempted from mandatory country of origin labelling requirements. Small businesses are defined as those with up to 49 full-time equivalent (FTE) employees. Micro businesses are types of small businesses with up to 10 FTE employees.

We have not sought a derogation for small and micro businesses to the mandatory country of origin labelling requirements for unprocessed meat. As the regulation is directly applicable and legally binding, the UK does not have the scope to put forward any alternatives to the legislation. Furthermore, an exemption for small and micro businesses would significantly reduce the likelihood of achieving the desired benefits, as a large portion of FBOs are Small and Medium Enterprises. Data from Table 2 indicates that small and micro businesses accounted for 98% of all FBOs in Wales in 2011. We have assumed that these proportions will remain constant over the period considered in this IA. However, it is unclear what proportion of these FBOs will be affected by this regulation. Note, not all FBOs will be responsible for unprocessed meats as described in this IA.

Table 2: Food Business Operator manufacturer, retailer and wholesaler numbers operating in 2011, by country and firm size

| | Micro | Small | Medium | Large | Total |
|------------------|--------|-------|--------|-------|--------|
| Wales | 1,920 | 240 | 45 | 10 | 2,215 |
| England | 38,245 | 4,610 | 870 | 245 | 43,970 |
| Scotland | 3,605 | 600 | 150 | 40 | 4,395 |
| Northern Ireland | 1,490 | 305 | 75 | 15 | 1,885 |
| UK | 45,260 | 5,755 | 1,140 | 310 | 52,465 |

Source: Bespoke analysis from 2011 ONS Business Demography publication data.

Consumers

We do not envisage that the proposal would have any direct monetary impact on consumers.

Benefits to consumers from country of origin information: We have assumed there will be benefits to consumers from the additional information

provided. There will be benefits to consumer from increased transparency as a result of mandatory EU country of origin labelling. These benefits are discussed qualitatively, due to a lack of current evidence in this area.

Government - Enforcement Authorities

Costs to the Enforcement Authorities include:

One-off familiarisation cost to Government from enforcement (monetised): officers from Local Authorities will have to learn and disseminate information about new and amended regulations;

Annual verification cost to government Enforcement Authorities (non-monetised): Local Authorities will have to verify labels

Cost-Benefit Analysis

Policy Option 1 (Baseline)

The baseline is the current situation, where current legislation requires mandatory country of origin labelling be in place for beef and beef products, honey, fruit and vegetables, fish and shellfish, olive oil, eggs, wine, poultry imported from outside the EU and veal. It is also mandatory where failure to indicate the country of origin would mislead the consumer to a material degree as to the true provenance of the food.

However, while country of origin labelling is not required for fresh, chilled and frozen meat of swine, poultry, sheep and goats, some may be provided voluntarily. Where voluntary origin information is provided FBOs follow best practice which only recommend place of “last substantial transformational change”, which typically tends to be place of slaughter. From a consumer perspective there is a lack of understanding as to what this actually means.

Evidence on current voluntary uptake of new and amended regulation is very limited. A FSA commissioned survey² by Campden BRI (2010), examined purchase data of 68 unprocessed meats, (avoiding beef and veal where origin labelling is mandatory³). The purchases were made between May and June 2009 across retailers in the UK. The FSA found that 97% of products purchased explicitly stated the meat product’s place of last substantial change. Under current labelling rules place of origin is considered to be the place of last substantial change⁴. However, of the 68 sampled meats only 2 (or 3% of the total sample) indicated country of origin as defined under the proposed regulation in

² http://www.foodbase.org.uk/admin/tools/reportdocuments/398-1-735_Final_Report_16_01_2010_NL_complete.pdf

³ Note they also purchased other meat products where meat is used as an ingredient and other non-meat products.

⁴ Section 36 of the Trade Descriptions Act 1968 where the approach is that for the purposes of the Act: “goods shall be deemed to have been manufactured or produced in the country in which they last underwent a treatment or process resulting in a substantial change”.

this IA, with one stating country of rearing and another stating country of breeding and rearing. This suggests that very few firms label consistently with the amended and new regulations covered in this Impact Assessment.

However, while Campden BRI (2010) states that the sample is broadly representative of the various types of meats available to consumers, it is unclear how many different types of unprocessed swine, poultry, sheep or goat meat products there are in total for purchase in the UK. A significant concern about the applicability of this survey is that it was conducted in 2009 and it is unclear if the results are still consistent with products available for purchase in 2014.

The central assumption in this IA is that all meat related FBOs are affected and no voluntarily labelling consistent with origin as defined by the proposed EU regulation is taking place in the baseline. This is because the proposed regulation requires changes from existing voluntary best practice guidelines. However, given the uncertainty with the strength of evidence underpinning the above assumption we have assumed a low sensitivity scenario that assumes FBOs are fully complying with the above regulation.

Based on discussions with industry experts we have also assumed that there are no additional costs associated with implementing an identification and registration system to ensure the transmission of the mandatory information throughout the food chain. This is because current best practices have more stringent requirements on this aspect, so no further costs are expected.

Policy Option 2

This section details the costs and benefits of making a statutory instrument to implement 1337/2013. The structure of this section considers the potential impacts of this option on FBOs and competent authorities. We then consider the key risks and assumptions associated with this option.

This IA has been prepared in line with guidance set out in the Green Book⁵ and the Better Regulation Framework Manual⁶ for public policy appraisal. It uses standard appraisal assumptions of:

- a 10 year time horizon for appraisal of costs and benefits
- a 3.5% discount rate for calculating the present value of costs and benefits

Costs

Costs to business (FBOs)

⁵ HMT Green Book (2003)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

⁶ Better Regulation Framework Manual (2013)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211981/bis-13-1038-better-regulation-framework-manual-guidance-for-officials.pdf

This section considers the direct costs to business as a result of administration and operational costs of the regulation. We have estimated administration costs associated with familiarisation and dissemination of new requirements and costs associated with re-labelling.

Familiarisation cost to FBOs

We anticipate that there will be one-off costs to businesses from learning and disseminating the regulation's requirements. Businesses that will need to learn and disseminate the new requirements include meat processors and packagers, wholesalers and retailers (including supermarket stores). Based on experience we have assumed 2.8 hours is required to learn and disseminate the new requirements. This figure includes an assumed cost for time spent with the enforcement authority verifying compliance and any teaching required. We estimate that this will result in one-off cost of around £21k from learning and disseminating the regulation's requirements. This assumes:

- 2.8 hours of manager time for wholesalers (85 'wholesale meat and meat products' enterprises) at a wage of £11.65⁷ per hour; and
- 2.8 hours of manager time retailers (340 'retail meat and meat products' enterprises) at a wage of £11.65⁸ per hour;
- and 2.8 hours of manager time for production managers and directors (35 'production of meat and poultry meat products' establishments) at a wage of £20.09⁹ per hour.

Where the number of manufacturers and retailers affected is based on ONS IDBR data on FBOs and the (provisional) Annual Survey of Hours and Earnings (ASHE) 2014 provisional data are used for the hourly wage.

Table 3: Administration costs incurred by FBOs for managers to understand and disseminate information on country of origin labelling, 2013-14 prices.

⁷ Wage rate obtained from the provisional Annual Survey of Hours and Earnings 2014, Median hourly wage rate of 'Managers and directors in retail and wholesale' (code 1190), <http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2014-provisional-results/index.html>

⁸ Wage rate obtained from the provisional Annual Survey of Hours and Earnings 2014, Median hourly wage rate of 'Managers and directors in retail and wholesale' (code 1190), <http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2014-provisional-results/index.html>

⁹ Wage rate obtained from the provisional Annual Survey of Hours and Earnings 2014, Median hourly wage rate of 'Production managers and directors' (code 112), <http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2014-provisional-results/index.html>

| | Number | Number of officials per authority | Nominal wage rate | 30% uplift (Overheads) | Adjusted wage rate | Hours required | Time Cost | EAC/ Average Annual |
|---|--------|-----------------------------------|-------------------|------------------------|--------------------|----------------|---------------|---------------------|
| Familiarisation cost for 'Production of meat and poultry meat products' premises | 35 | 1 | £20.09 | 130% | £26.12 | 2.8 | £2,285 | £265 |
| Familiarisation cost for 'Wholesale of meat and meat products' premises | 85 | 1 | £11.65 | 130% | £15.15 | 2.8 | £3,218 | £374 |
| Familiarisation cost for 'Retail sale of meat and meat products in specialised stores' premises | 340 | 1 | £11.65 | 130% | £15.15 | 2.8 | £12,873 | £1,496 |
| Total | | | | | | | 20,827 | £2,420 |

Source: ONS IDBR; provisional ASHE 2014

Re-labelling costs to FBOs

There will be costs to FBOs who need to make labelling changes per stock keeping Unit (SKU). The country of origin information will need to be clearly indicated on the label, in accordance with the Regulation. Evidence from a Defra commissioned study (Campden BRI Study, 2010) suggests cost of £1,800 per SKU for an assumed minor label change and £3,300 per SKU for a major label change^{10,11}. The trimmed mean value of re-labelling cost would be used here as it removes outliers from the data set, to find a more accurate estimation of the typical cost of a label change.

Assuming there are 1,875 SKUs in the UK; this figure is adjusted (based on the proportion of Welsh meat FBOs to UK meat FBOs – using the ONS IDBR data on meat FBOs)¹² giving a SKU figure of 306 for Wales. Our central and high cost estimates equate to one-off re-labelling present value costs of £0.596 and £1.093m respectively.

Given the uncertainty with the amount of voluntary labelling consistent with the requirements of the regulation currently taking place, we assume zero costs as the low estimate.

Cost to FBOs associated with changes to production process

¹⁰ A stock keeping Unit is a products identification code that allows a product to be tracked for inventory purposes.

¹¹ Where 'minor' change relates only to text on a single face of the label and no packaging size modification is required to accommodate this; and 'major' change relates to text as well as layout and/or colours and/or format and/or multiple faces are affected, or packaging size modification is required. Campden BRI Study (2010): <http://archive.defra.gov.uk/evidence/economics/foodfarm/reports/documents/labelling-changes.pdf>

¹² Meat production, wholesale and retail enterprises. http://www.ons.gov.uk/ons/data/web/explorer/dataset-finder/-/q/dcDetails/Economic/UKBA01a?p_p_lifecycle=1&_FOFlow1_WAR_FOFlow1portlet_dataset_navigation=datasetCollectionDetails

FBOs may be required to make technical adjustments in their production units and logistics, to ensure that pork, poultry, lamb and goat with different countries of origin can be labelled correctly. The potential impacts include:

- Slaughter houses, mincing and cutting plants and food manufacturers may be required to halt production in order to ensure that the meat of one origin is not mixed or comingled with meat of a different origin;
- Food manufacturers and retailers may need to produce separate labels or packaging for unprocessed meats with different countries of origin;
- Alternatively, businesses may opt to source more of their animals domestically or from a single country.

Therefore the extent of these additional costs will differ across businesses, depending on how FBOs currently conduct production processes. We do not have evidence on the cost impact to FBOs from these production adjustments so these costs have not been monetised.

Indirect Cost to FBOs as a result of higher input costs

Additional input costs from re-labelling, administration and changes in production process could potentially be all passed on to the consumer. Faced with higher prices consumers may demand less.

There is no strong evidence for this potential impact. However, modelling analysis from the Commission IA on the regulation found that wholesale prices of the product are likely to rise as a result of the regulation, see table 4 (below)¹³. Table 4 shows the percentage rise in wholesale prices for unprocessed swine, poultry, sheep and goat meat for the average EU27 countries as a result of the regulation. This analysed information gathered from companies asking them what their additional cost was from various options, including the proposed regulation, and results from other studies that had been done¹⁴.

Table 4: Average increases in wholesale meat prices across EU27 as a result of the regulation.

| Meat type | Cost impacts as a percentage of wholesale price |
|----------------|---|
| Swine | 1.50% |
| Poultry | 1.02% |
| Sheep and goat | 0.30% |

Source: European Commission Impact Assessment, 'Mandatory Origin Indication for Unprocessed Swine, Poultry, Sheep and Goat Meat'¹⁵.

¹³ European Commission IA on Mandatory Origin Indication for Unprocessed Pig, Poultry, Sheep and Goat Meat: http://www.europarl.europa.eu/meetdocs/2009_2014/documents/envi/dv/envi20131216_impact-assessment/_envi20131216_impact-assessment_en.pdf

¹⁴ Ibid

¹⁵ ibid

Note the impacts on price as a result of the regulation as shown in table 4 are based on EU modelling using the CAPRI model, a partial equilibrium model¹⁶. The modelling analysis has not been peer reviewed as part of this analysis and should be treated as an illustrative indicator of the potential price rise.

Note also the above analysis does not take account of any substitution between meat products and from suppliers as a result of the price change. The impact of which was not identified in the EU IA as likely to have a significant cost impact.

These impacts are indirect and therefore would not be part of the final calculation of the net impact of Policy Option 2.

Cost to Consumers

Indirect costs: consumer spending on unprocessed meats

Consumers are likely to face a cost from any price rise of the final product. As a result of the higher price consumers may demand less or some may not being able to afford the final product. Table 2 above shows that prices are likely to rise as a result of the regulation. Note impact of the price rise to consumers would include the price of the product plus any benefit they get from purchasing and consuming the product. It is unclear to what extent consumer demand would be affected. However, there is no evidence to indicate that the indirect impact on consumers from a price rise is likely to be significant. We will seek to investigate this further during the consultation stage. However as these impacts would be indirect, therefore they would not be part of the final calculation of the net impact of Policy Option 2

Costs to Government

This section considers impacts on Government, in terms administrative and enforcement costs.

Familiarisation and enforcement costs

This section considers the impact of mandatory country of origin labelling on costs from learning and disseminating the regulation's requirements and enforcement costs.

We anticipate one-off costs to enforcement officials from learning and disseminating the regulation's requirements to its own authority and FBOs. To monetise this cost we assume that there are 22 local authorities in Wales and that one trading standards officer from each authority must spend 2.8 hours (based on Government official estimates) learning and disseminating the new guidance, the regulation and domestic regulations within the authority and to FBOs. Assuming that a full-time trading standards officer earns on average

¹⁶ Ibid and External study feeding into EC IA (2013): http://ec.europa.eu/agriculture/external-studies/2013/origin-labelling/fulltext_en.pdf

£14.90 an hour¹⁷ (provisional ASHE 2014 data, uprated by 30% to take account of National Insurance and pension contributions), we estimate a one-off administration cost (related to increased working time required of Trading Standards enforcement officials of around £1k).

The Government will also need to monitor compliance with the regulation. In a status quo situation, the country of origin labelling controls will be part of overall controls to verify FBO compliance with multiple regulations. Time spent on checking the country of origin cannot be separated from other checks. There is likely to be additional annual cost to Government on verifying the regulations are adhered to, these costs have been included in the familiarisation costs above.

Benefits

There are likely to be benefits to consumers and business of the regulation, by greater transparency of where the meat originates from. We have not been able to monetise these impacts at this stage and discuss them qualitatively below. Other non-monetised benefits would include the prevention of any infraction proceedings from not complying with our EU obligations.

Benefits to Consumers

The impact of regulation on consumer confidence depends on both the quantity of information that consumers want to know being provided on mandatory food labels, and consumer awareness about changed rules.

The extent to which consumer confidence increases depends on their awareness about rule changes. For example, an online survey in the US reported in Tonsor et al (2012) found that only 23% of respondents were aware that mandatory country of origin labelling had been introduced.

Since it is difficult to make consumers fully aware of rule changes, it is difficult at the moment to identify and monetise the impact on consumer confidence and the associated benefits that rule changes have for all consumers.

However we believe that consumer confidence is likely to at least increase as some information that consumers want will be provided. Survey analysis done by the European Commission indicates consumer's interest for origin information¹⁸. They found that 48% of responses from EU27 countries selected country of origin when asked what "aspects do you look for when you buy fresh meat/meat products/non-/pre-packed meat?" It is therefore reasonable to assume that the provision of this information could potentially increase consumer welfare.

¹⁷ Wage rate obtained from the provisional Annual Survey of Hours and Earnings 2014, Median hourly wage rate of 'Inspectors of standards and regulations' (code 3565), <http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2014-provisional-results/index.html>

¹⁸ SANCO Meat study as referenced in EC IA (2013): http://www.europarl.europa.eu/meetdocs/2009_2014/documents/envi/dv/envi20131216_impact-assessment_/envi20131216_impact-assessment_en.pdf

However there is no evidence to suggest that consumers care about the level of detail about the country of origin of meat products, i.e. EU versus non-EU information or member state level information. The regulation is also expected to increase consumer confidence in unprocessed meat products. However this effect is uncertain, given the NatCen (2010) findings in paragraph 18, as we do not know whether consumers care to have additional information on place of birth, slaughter and to some extent place of rearing of animals used for meat products.

Benefits to FBOs

Benefits to FBOs from Country of Origin labelling requirements

Increased consumer confidence in labelling of unprocessed meat products could mean local suppliers benefit from increased sales of unprocessed meat. Businesses in EU member states may respond to mandatory Country of Origin Labelling (CoOL) by sourcing more of their animals and meat domestically rather than relying on imports. This could potentially result in a positive benefit for UK FBOs.

We currently do not have evidence on the change in exports associated with better labelling of unprocessed meats in the EU (specifically the UK), and as it is an indirect benefit of the regulation it was not proportionate to estimate this impact. The European Commission in its Impact Assessment details potential benefit to EU exports but it is not clear what assumptions were used to derive these figures and therefore this Impact Assessment does not use these calculations or monetise these potential benefits. We have also not been able to find quantitative evidence on whether country of origin labelling does actually result in more domestic meat purchases.

A report by Oxford Evidentia commissioned by the Food Standards Agency (2010) provides qualitative support on benefits to local producers, based on a review of collated FSA commissioned sources¹⁹.

The Oxford Evidentia review synthesises findings from other studies, including: the BMRB Citizens' Forum report, and the Ipsos MORI study. The key findings from the various sources are:

- a. Freshness was seen as more likely to be assured by information indicating local or near-local production and distribution of produce. This is also corroborated by the Ipsos MORI and the BMRB studies, which identified a link between the perceived freshness and local origin of food products.
- b. Findings from the NatCen (2010) omnibus survey also support this. Of the consumers who indicated they look out for CoOL 52% of total were asked why they did so. The most frequently cited reason was a

¹⁹ FSA(2010), *Country of Origin Labelling: A Synthesis of Research*: <http://multimedia.food.gov.uk/multimedia/pdfs/coolyn.pdf>

preference to buy British/support British farmers (34%). Locality was the next most frequent (in relation to food miles (17%), and preference for buying local (17%)) (FSA, 2010).

- c. The Citizen's Forums study (Stockley and Hunter, 2010 as cited in FSA 2010) found that British consumers may also use CoOL in part to trace the origins of food products. This is because of a desire to buy British and local produce as long as they could afford to do so, and because they "*believed that if the food travelled less distance from the farm to their table then it was likely to be fresher*" (Stockley and Hunter, 2010:24 as cited in FSA 2010).
- d. An Ipsos MORI study found that labels with local designations had "*the conjecture of quality being inherent in 'local'... from a widely held assumption that local products are the freshest, contain fewer preservatives, are farmed more ethically*" (Enright, Good and Williams, 2010: 31 as cited in FSA 2010).

This is further supported by evidence from Institute of Grocery Distribution (IGD), that found that nearly eight in 10 shoppers (78%) in 2013 say they would now buy British food if available – compared with 55% in 2007

Environment

This section considers environmental impacts in terms of changes in greenhouse gas emissions.

Greenhouse gas emissions

The introduction of mandatory CoOL is expected to have little impact on greenhouse gas emissions if total demand for unprocessed meat is largely unaffected.

By providing more detail on the country of origin of meat, consumers may favour domestically sourced food or even actively refuse products from some other countries. If businesses respond by sourcing more animals domestically, mandatory CoOL regulation may reduce carbon emissions associated with transporting live animals and final products. However estimates of the impacts of this are difficult to ascertain and are likely to be limited as most intra-EU trade is done between neighboring countries where the distances are often shorter than inside some other Member States. The impact on greenhouse gas emissions has therefore not been calculated due to the uncertainty around the impact, and the high likelihood that this impact will be negligible.

Summary

Below is a summary table of the impacts of implementing the regulation in Wales

Table 5: Summary PV costs and benefits (£m) of the policy option, over 10 years.

| 2013-2014 Prices | Lower | Central | High |
|----------------------------------|---------|---------|---------|
| PV cost | £0.019 | £0.615 | £1.11 |
| Familiarisation cost (enforcers) | £0.001 | £0.001 | £0.001 |
| Familiarisation cost (business) | £0.018 | £0.018 | £0.018 |
| Re-labelling cost (business) | £0.000 | £0.596 | £1.093 |
| NPV | -£1.113 | -£0.62 | -£0.019 |

Costs range from PV £19k to £1.11m, with a best estimate of £0.615m over a ten year horizon i.e. 2015 – 2024.

Under the central and high estimates, costs of the implementing measures include costs to businesses from familiarisation and re-labelling. And non-monetised costs from higher costs as a result of the price rise. There will also be a (non-monetised) cost to consumers from businesses passing on higher costs and monetised costs to enforcers on familiarising themselves with the regulation and verifying the regulation is adhered to.

There is insufficient evidence at this stage to monetise the other benefits which potentially include: higher consumer confidence and welfare from being able to make more informed decisions; transparency and confidence in the supply chain on origin of meat; higher demand of domestic meat; the benefits to FBOs from not requiring to comply with the beef requirement; and benefits to Government from avoiding infraction costs and benefits from harmonising rules alongside existing Beef of country of origin for all meats.

This results in net impacts of the policy ranging from NPV -£1.113m to -£19k with a best estimate of -£0.62m (over a 10 year horizon i.e.2015 to 2024). It is unclear whether the non-monetised benefits would result in the benefits outweighing the cost for this regulation.