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COMMISSION STAFF WORKING DOCUMENT
EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

**Proposal for a
REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
amending Regulation (EU) No 1308/2013 and Regulation (EU) No 1306/2013 as regards
the aid scheme for the supply of fruit and vegetables, bananas and milk in the
educational establishments**

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1. INTRODUCTION

The School Milk Scheme (SMS) and the School Fruit Scheme (SFS) aim to sustainably increase the share of fruit and vegetables and milk products in children's diets when their eating habits are being formed. They contribute to the CAP objectives and are in line with the public health objectives of shaping healthy eating habits.

The rationale which led to the establishment of the two school schemes is still relevant in the current context of declining consumption¹ of fruit and vegetables and milk products, exacerbated amongst others by the modern consumption trends towards highly processed foods which are often high in added sugars, salt and fat.

2. PROBLEM DEFINITION

Conclusions from different reports² and experience after years of implementation point to certain weaknesses and inefficiencies in the functioning of current schemes:

- (1) Both schemes are pursuing a sustainable change in children's eating habits through their educational dimension. But there is a **gap between the set-up of the schemes and this objective**. The educational dimension was built into the SFS from the beginning, while the SMS does not oblige MS to use specific educational tools and the link between the products distributed and the scheme is low. Furthermore, the evaluation systems of the schemes need improvements to be able to measure their effectiveness.

¹ According to Freshfel data, the consumption of fresh F&V is on the declining trend, falling by an aggregate 9.4% for fruits and 10.3% for vegetables in the period 2005-2010. It decreased by 3% in 2011 compared to the average for the previous period. According to Eurostat and DG AGRI data, in the period 2003-2011 the estimated consumption of drinking milk in the EU decreased by 5% . The overall per capita consumption of milk products, expressed in milk equivalent, also decreased by 5% in 10 years from 302 kg to 286 kg in 2011, even though for certain dairy products, such as cheeses, the consumption has been stable or has even increased.

² Court of Auditor's Special report No 10 of 2011 'Are the School Milk and School Fruit Schemes effective?', the external evaluations of the SFS (2012) and the SMS (2013), conducted by AFC Consulting Group AG and Co Concept.

- (2) There is a **lack of coordination and consistency between them** which could negatively impact the effectiveness of the regime as a whole. This problem stems from the different legal and financial frameworks, market differences between the products involved and decisions at MS level how to implement the two schemes.
- (3) The functioning of the schemes is characterised by other **deficiencies that limit their immediate impact**, which are either common (such as high administrative and organisational burden), or specific for the SFS (most notably the under-execution of around 30% of its potential and huge disparities in the costs for products involved in the distribution) or for the SMS (potential deadweight effect, low cost-benefit ratio).

3. SUBSIDIARITY

The EU right to act in this field is set out in Articles 38 – 44 of the Treaty which make provisions for the CAP. A number of elements confirm that action at EU level is appropriate and provides an added value:

An EU framework provides first of all the **funding necessary** to implement valuable initiatives across the EU, as most MS would not be in a position to implement such initiatives exclusively with their own resources. Furthermore, the evaluations conclude that the EU framework has led to **greater credibility of programmes in MS**, visibility of the schemes, as well as an improved image and awareness of the EU. A lack of EU action and the continuation of activities exclusively at the MS level would create a **risk of discrimination between producers** in those countries that do not have an access to the school schemes as a market outlet. The EU regime produces additional added-value on top of already existing national schemes as it leads to a **continuous knowledge, transparency and experience transfer** among participating MS.

4. OBJECTIVES

In order to meet the general objectives of increasing the consumption of F&V and milk products and contributing to shaping healthier diets, the specific and operational objectives aim at adapting the current framework of the schemes to:

- (1) **Refocus the current set-up towards the long-term objectives**, with a view of equipping both schemes with the educational tools, and **contribute to reconnecting young citizens with food and its source**, thus enhancing perceptions of agriculture and its products. These specific objectives translate into the following operational objectives aimed at:
 - Boosting and consolidating the educational dimension of the current regimes through compulsory educational tools,
 - Increasing the link between the products and the scheme (the EU added value),
 - Developing a common evaluation methodology for the EU and MS evaluations and annual monitoring.
- (2) **Unify and consolidate the current separate legal and financial frameworks and increase the visibility of the EU intervention**. The operational objectives aim at:

- Increasing synergies between the current two schemes and their management efficiency,
 - Increasing the visibility of the EU schemes.
- (3) **Increase the efficiency of the spending dedicated to the promotion of the consumption of agricultural products in schools**, with the operational objectives aiming at:
- Improving the conditions affecting the use of the budgetary potential,
 - Simplifying the legal framework and reduce the administrative/organisational burden.

5. POLICY OPTIONS

In the process of screening of different options, four options were discarded³, while the following options were further analysed:

5.1. Option 1: CAP 2020 (status quo)

The status quo option already integrates the changes brought about by the CAP 2020 reform, which keeps the current separate legal and financial frameworks, together with the changes agreed for both schemes. The SFS: an increased budget to €150 million per year, higher EU co-financing rates (75%, or 90% for less developed regions), and eligibility of accompanying measures for EU co-financing. The SMS: obligation for MS to draw up national or regional strategies and voluntary accompanying measures. The SMS financing arrangements are kept unchanged (EU aid per product €18.15/100kg, no overall ceiling on the EU expenditure).

5.2. Option 2: Adjustment

This option is set to explore whether the objectives could be achieved by maintaining the separate frameworks, CAP 2020 financing and the choice of products but introducing following adjustments:

- introducing obligatory accompanying measures also for the SMS,
- approximating the current frameworks through regulatory adjustments (requirements of common strategies, common and administrative provisions related to controls etc), and
- further synergies beyond CAP 2020.

5.3. Option 3: New framework

This option foresees a **common legal and financial framework** for the CAP school schemes, based on the three “pillars”:

³ "No policy", discarded based on the analysis concerning the need for continued school intervention; "discontinuation of the SMS only", also not in line with the analysis of the relevance to continue with the milk distribution; "new framework with a focus on socio-economically disadvantaged groups only", discarded as Member States are better placed to target and prioritise their intervention; and "new framework with a regular distribution of a wider choice of agricultural products", discarded based on the public consultation outcome, proportionality and potentially high implementation burden.

i) Common **accompanying measures**, with an educational focus on reconnecting children with agricultural, nutrition/health and environmental issues, that could occasionally include a wider choice of agricultural products in thematic measures (to be approved by national health authorities).

ii) The limitation of the distribution to **fresh fruit and vegetables** (including bananas) **and drinking milk only**. This would focus the distribution within the limited budget, reflect the most frequent current practice, reduce organisational burden for schools, and is in line with the need to help reverse the declining consumption trends for these two groups of products.

iii) **Common financing framework with:**

- a limited overall EU budget (CAP 2020 neutral, introducing a ceiling also for milk), allocated to MS in separate “envelopes” for F&V and milk, with a possible transfer between them (prioritising of intervention through strategies);
- limitation of the EU contribution through aid per portion for F&V and milk (not through the EU co-financing levels as currently under the SFS); an increase in the EU subsidy for milk in order to reduce the deadweight effect and increase the cost-benefit of distribution.

6. ASSESSMENT OF IMPACTS

6.1. Economic impacts

- **Direct, indirect and long-term impact on the demand**

Under option 1, the direct and indirect impact on the demand for F&V products will likely increase for the SFS due to the higher budget and strengthened accompanying measures. The increased demand could bring more benefits to the local producers (schools as an additional "niche" for their products) if products are sourced locally and encourage different forms of cooperation to meet the demands of the institutional markets.

The impact on the demand for milk products under SMS is likely to be stable, while the long-term impact depends on MS (if they carry out educational measures). The national strategies could be perceived as administrative burden, possibly decreasing the SMS attractiveness. If projected milk/dairy prices increase, the EU aid towards the cost of the products will further drop with unchanged levels of the EU subsidy.

Under option 2, the direct potential in terms of volumes distributed is expected to be similar as under option 1, while the indirect and long term impact should increase with obligatory accompanying measures for SMS. But significant reductions in administrative burden could be an incentive for participation and better use of the potential.

The direct impact on the F&V demand under option 3 is similar as option 1 but channelled more to the fresh F&V. The limited overall EU budget for milk will not have an impact on the volumes of products distributed, but these should be higher for drinking milk (on account of other dairy products). The higher EU subsidy levels will likely bring reductions in the quantities distributed, if national top-ups or private contributions remain unchanged. Long-term impacts are expected to be higher under this option with improved accompanying measures.

- **Consumption**

Under option 1, **the direct and indirect consumption** of F&V, both short- and long-term, is expected to be higher under the SFS. The consumption of milk products under SMS should be stable.

Option 2 is likely to have a higher impact on the consumption through the obligatory accompanying measures for both schemes and common strategic planning.

Option 3 is expected to give greater direct impact on the consumption of drinking milk and fresh F&V (for which the consumption trends are declining) and an indirect impact also on the wider variety of products through accompanying measures.

- **Farmers' income and prices**

The school schemes do not have a significant impact on **farmers' income and prices**, with the exception of a possibility for producers to develop alternative market opportunities outside the school (approaching parents and similar). Orientation towards local products increases the transparency about how the final price was created (if there is direct sourcing). Option 2 gives greater possibilities for the diversification of activities and involvement in accompanying measures also under the SMS. In addition to that, option 3 is expected to bring a more level-playing field as regards the price of F&V products distributed, which could be felt by producers if products are directly sourced.

- **Innovation**

The school schemes have a limited potential to foster **innovation** and research for the creation of child-friendly products, packages and similar.

- **Trade with third countries**

All options are in line with EU's international trade obligations, even though the impact of the schemes on trade is not significant due to limited volumes and mostly local/regional sourcing of products.

6.2. Social impacts

- **Public health**

The consumption of F&V and milk products are beneficial from the public health point of view. The impact of certain dairy products on weight management depends on choice of products, portions sizes and frequency. Compulsory strategies under SMS under option 1 will result in a better targeting of the scheme. Option 2 will likely bring higher impacts due to the obligatory accompanying measures that comprise also nutritional education. Option 3 will have a greater impact on public health through the limitation of regular distribution to fresh F&V and drinking milk only, involvement of national health authorities in the approval of products and better targeting through common strategies.

- **Social and territorial balance**

Option 1 ensures the continued impact of school distribution on social and territorial balance (MS can focus and prioritise through their strategies). CAP2020 higher co-financing levels provide for a higher support for less developed regions under the SFS (90%). The low subsidy level under SMS often requires significant public or private financial contributions. Option 2 brings similar impacts as option 1. Option 3 is beneficial for regions/MS in economic difficulties with the abolition of obligatory co-financing for F&V, while the flat rate per portion would be favourable for most of the less developed regions where products are cheaper.

- **Employment and job creation**

The school schemes do not have a potential to create significant impact on employment and job creation, except through the diversification of activities and cooperation.

6.3. Environmental impacts

Option 1 encourages local purchasing and environmental considerations for SFS. In many MS packages used for the distribution of F&V are reusable or at least recyclable. Accompanying measures could integrate also education on environmental matters. Option 2 strengthens the latter elements also for the SMS. Option 3 has potential for further positive impacts through the limitation of products featured in the distribution.

6.4. Budgetary impacts

Under option 1, the impact on the EU budget will remain as estimated for the CAP2020 reform. The co-financing principle under SFS requires national contributions, while the impact of the SMS on national budgets depends on the involvement of MS (voluntary top-ups) and private contributions (mostly parents). Option 2 is budget neutral compared to the status quo, with limited uncertainty as regards the EU budget, as there is no overall envelope that limits the EU expenditure. Option 3 is also budget neutral but it limits the EU contribution also for milk. The national contributions will be needed if MS want to enlarge the scope and/or intensity of their schemes.

6.5. Administrative burden and simplification

Under the status quo (option 1), the number of quantifiable obligations is estimated at 54 information obligations. Total administrative costs for the SFS are estimated at €1.08 million, while for the SMS they are around €5.27 million. Option 2 brings considerable reductions in the administrative burden, with a possible reduction of quantifiable obligations from 54 to 39 (30%). Additional organisational burden could stem from the obligatory accompanying measures also for the SMS. Option 3 is expected to have similar but certain impacts on the administrative burden as option 2, but in addition it is poised to further reduce organisational burden with a narrower list of products for the distribution.

7. COMPARISON OF OPTIONS

7.1. Effectiveness

Under option 1 there will be a continued gap in the educational dimension and consequently long-term impacts between the two schemes. It addresses some of the shortcomings for the SFS but it has no impact on other drivers behind a suboptimal performance of both schemes.

Option 2 provides a better contribution to the long-term objectives of the schemes through the strengthened educational dimension of the SMS. It is also positive as regards the increased synergies but these are limited due to different financial arrangements. It does, however, have a limited impact on the other deficiencies limiting the immediate impact of spending and the use of potential.

Option 3 has the greatest potential for achieving the identified objectives within an unchanged budget, as it shifts the focus of the current school regimes towards the long-term objectives. The school regime would be able to better respond to the problems of declining F&V and milk consumption and rising obesity. It enables the management efficiency, allows for flexibility and prioritizing. It has the potential to increase the efficiency of distribution, as it addresses most of the drivers behind the problems (those that could be tackled by this review).

7.2. Efficiency

Limited changes to the financing arrangements and the level of administrative burden under option 1 will continue the low cost-benefit ratio linked to the implementation. Strong variations in the efficiency of distribution under the SFS are likely to continue, while the issues limiting the SMS efficiency will persist (potential deadweight).

Option 2 is budgetary neutral but contains small uncertainties as regards the SMS funding (no overall EU funds limit). The reduction of the administrative burden increases the cost-benefit ratio. However, the SFS distribution will continue to be marked by strong variations in efficiency (high disparities in costs of products) and the SMS with continued potential deadweight effect.

Option 3 brings a greater cost-effectiveness with the focused distribution, lower administrative burden and changes in the financing conditions. The focused distribution within the limited budget is expected to maximise the impact. Changes to milk subsidy could potentially reduce the scope but increase the impact as compared to the higher coverage with limited impact.

7.3. Coherence

Option 1 has a more limited potential to tackle evolving societal changes (consumption patterns) and provides limited contribution to the horizontal objectives of better regulation and simplification. But it can make a positive contribution to the public health (especially health inequalities) through the targeting and prioritizing via national strategies.

Option 2 brings an important simplification effect, so it has greater contribution to better regulation and simplification. It is also positive for public health objectives through the educational tools for both schemes, contributing to shaping healthier eating habits.

Option 3 has a higher economic impact on products that need promotion (fresh F&V and drinking milk) but lower impact on other dairy and processed F&V products. It is more in line with public health objectives (weight management, health inequalities). It also has the highest simplification effect.

8. MONITORING AND EVALUATION

At the moment, the SFS has a monitoring and evaluation system in place that could be upgraded and used as a model for the future system.

The monitoring would be carried out on the basis of the annual monitoring reports (AMR) to measure the immediate outputs and monitor accompanying measures.

The evaluation would consist of:

- MS evaluation reports after 5 years of implementation of the scheme,
- an external EU wide evaluation to assess the overall effectiveness, efficiency, coherence and relevance,
- the EU Group of experts to provide MS and the Commission with advice on implementation, monitoring and evaluation,
- a study on long-term impact indicators.