An Analysis of EU and Other Selected Foreign Export Promotion Programs

Prepared for:
Wine Institute and Its Partners
Disclaimer

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I. EXECUTIVE SUMMARY

U.S. agricultural product exports (including fish and forestry products) are facing increased competition in overseas markets. Competitor country governments, semi-governmental boards, private organizations and trade associations have increased their promotional funding and programs to improve their agricultural export competitiveness. The current lack of current, credible information about competing countries' governmental and private export development investments and activities is a concern for FAS and its' private sector cooperators. This growing information gap hinders development of US export strategies to address this increased competition. This study provides an assessment of this export competition. It also provides U.S. agricultural cooperators and FAS with a greater understanding of the export market promotion programs these countries use and insights on ways to improve the competitiveness of U.S. programs.

The study looks closely at a number of export competitors including the European Union (and specifically Italy, France, Spain and Germany), China, Brazil, Canada, Australia, New Zealand, South Africa, Turkey and Chile. The EU, China, Brazil and Canada were chosen because they are top exporters. New Zealand, South Africa and Turkey were chosen because these countries are looking to expand their exports significantly. Chile was chosen because that country’s government is looking to diversify its total exports to include more agricultural and forestry products exports. These countries combined account for almost one-third of world exports. The competitor countries are also major export suppliers to the EU and major competitors to the US in the EU market.

The study also uses the previous study released in May 2103, An Analysis of Competitor Countries’ Market Development Programs, as a benchmark to serve as a perspective regarding how market promotion is changing in these competitor countries. Information for most countries is limited and estimates were derived from a combination of strategic interviews and extensive desk research including evaluating country budgets. The export promotion funding estimates included in this report are best estimates based on the information obtained.

Major Findings

Export competition is expected to increase in the future. All foreign competitors in this study are looking at substantially growing agricultural exports. Market promotion is one of the major tools being used to boost exports and funding for market promotion is increasing.

- While the EU is an important market for the export competitors examined, China appears to be the biggest target for export expansion by many of the competitors examined.
- All competitors are emphasizing expanding higher value exports such as wine, meat, dairy products, fresh and processed fruits and vegetables, processed grains and oilseeds, etc. Export competition for the US in these products is expected to increase in the future.
Competitor export promotion funding in real terms is increasing sharply. Total estimated government export promotion expenditures by the foreign countries examined in this study increased by 70 percent in real terms from the level in the previous study for 2011\(^1\) to 2016. Private expenditures by foreign competitors increased by 40 percent since 2011.

- The EU countries examined in this study, France, Germany, Italy and Spain, combined currently account for about 80 percent of total EU export promotion expenditures.

### Exhibit 1: Selected Country Export Promotion Expenditures in 2011 and 2016

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<td>51</td>
<td>171</td>
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<tr>
<td>Turkey</td>
<td>19</td>
<td>19</td>
<td>38</td>
<td>15</td>
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<tr>
<td>Total Foreign</td>
<td>704</td>
<td>1,088</td>
<td>1,792</td>
<td>549</td>
<td>891</td>
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<td>458</td>
<td>693</td>
<td>250</td>
<td>489</td>
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</table>

*Calculated from nominal exchange rates and CPIs

Note: For some countries latest available data is used such as 2015 for Chile.

Source: Informa

EU public funding for market promotion is increasing and is expected to continue to increase. EU funding is primarily the result of two programs: a general policy for promotion of agricultural products covered by Regulation (EU) No 1144/2014 and the wine Common Market Organization (CMO), Regulation (EU) No 1308/2013. Individual EU country governments also provide promotion funding but at a significantly lower level.

EU funding provided under the two different mechanisms for promotion of agricultural products is increasing.

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1 Informa converted 2011 dollars from the previous study to real 2016 dollars to make the data in the two studies comparable. The U.S. dollar was much stronger vis-à-vis other currencies in 2016 compared with 2011.
In the case of general promotion policy under Regulation (EU) No. 1144/2014, the budget provided by the EU has increased from $75 million in 2011 to $117 million in 2016 and is forecast to increase to $196 million in 2019.

- The main beneficiary sector of Regulation (EU) No 1144/2014 funding has been fruits and vegetables, accounting for over 30 percent of the budget allocation, followed by cheese/dairy with 14 percent.

In the case of the EU wine CMO, the export promotion budget increased from $152 million in 2011 to $212 million in 2016 and is forecast to increase to $324 million in 2019.

- Wine is the product that receives the most funding from the EU because of the Wine CMO. Wine promotion funding is also available under Regulation (EU) No 1144/2014 but the promotion has to combine wine with another product such as cheese in the case of simple programs.

- Three countries, Italy, Spain and France combined account for 89% of the Wine CMO budget.

EU public funding under the two mechanisms combined accounted for 74 percent of total EU public funding in 2016. This share is forecast to increase to 88 percent of total EU funding in 2019.

### Exhibit 2: EU Export Promotion Expenditures in 2011, 2016 and Forecast 2019

<table>
<thead>
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<td>363</td>
<td>271</td>
<td>634</td>
<td>443</td>
<td>305</td>
<td>748</td>
<td>591</td>
<td>449</td>
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<tr>
<td><strong>Reg (EU) 1144/2014</strong></td>
<td>75</td>
<td>75</td>
<td>150</td>
<td>117</td>
<td>32</td>
<td>149</td>
<td>196</td>
<td>54</td>
<td>250</td>
</tr>
<tr>
<td><strong>Reg (EU) 1308/2013</strong></td>
<td>152</td>
<td>152</td>
<td>304</td>
<td>212</td>
<td>212</td>
<td>424</td>
<td>324</td>
<td>324</td>
<td>648</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>136</td>
<td>44</td>
<td>180</td>
<td>114</td>
<td>61</td>
<td>175</td>
<td>71</td>
<td>71</td>
<td>142</td>
</tr>
</tbody>
</table>

Source: Informa
Notes: “Other” includes individual EU country programs outside EU 1144 and EU 1308 programs. For partial breakout of “Other” in 2016 and 2019 see Exhibit 11. 2011 data in the previous study is adjusted for exchange rate changes and inflation.

- National export agencies provide additional promotional support, but EU programs are the main source. France, Italy and Spain have general export promotion agencies which provide a range of export assistance services to all economic sectors; promotional support to the agri-food sector is just a small part of this. Germany has a small dedicated agri-food promotion body. Financial support dedicated to agri-food promotion by these bodies/agencies is generally low with the exception of Italy which is currently running an exceptional 3-year promotion plan (scheduled to finish 2017).

- Italy’s total market promotion spending (public and private) has more than doubled since 2011 (Exhibit 1), Spain’s spending is up 69 percent and France’s spending is up 19 percent.
• The governments of Italy, Spain, France and Germany combined provide about $87 million\(^2\) (Exhibit 10) for export promotion funding in addition to the two EU funding programs discussed earlier. Italy accounts for the largest share of that additional combined government promotion funding, or more than 70 percent.

• **EU has made significant market promotion policy changes.** In December 2015 Regulation (EU) No 1144/2014 set out a new policy called “Enjoy, It’s from Europe.” The objective of this policy is to adapt the program for market promotion each year to emerging market opportunities and the needs of certain sectors. Key benefits of the new market promotion policy include:
  
  • **A larger EU budget** discussed earlier.
  
  • **Increased EU co-financing rate.** Promotion programs are no longer 50 percent co-financed by the EU with the possibility for Member States to top up, but are compensated by higher EU co-financing rates of 70 percent for simple programs (single country beneficiary) and 80 percent for multi programs (multiple Member State beneficiaries) and 85 percent for crisis programs.
  
  • **Expansion in eligible products.** The scope of eligible products was increased to include nearly all agricultural products, including processed products.
  
  • **Increase in organizations that can participate in EU programs.** Expanded the scope of beneficiaries to include not just trade and inter-trade organizations but also producer organizations and producer associations, representatives of the sectors concerned and agri-food sector bodies.
  
  • **Ability to adapt to marketing opportunities.** Established an EU promotion strategy to allow for better targeting of promotion measures.
  
  • **Recognition of importance of brands and origins.** Regulation (EC) No 3/2008 did not foresee mentioning the commercial brands or product origin. The new general promotion policy expanded the scope of measures by allowing labelling to specify the origin of products and their brands under certain conditions. As a result, in years 2014-2016, 21 percent of the total budget was allocated in protected designation of origin (PDO), protected geographical indication (PGI) and traditional specialty guaranteed (TSG) schemes.
  
  • **Priority to target non-EU countries** versus the internal market.
  
  • **Simplification of administrative procedures** to reduce red tape.
  
  • **Fewer requirements for management of multi-country programs** to increase participation.

• **The implementation and management of general promotional programs is similar in France, Germany, Italy and Spain.** However, there are differences between the countries in terms of promotion under the wine CMO. Different bodies manage the promotion (national in France; national and regional in Germany, Italy
and Spain); and both the application procedures and precise criteria for selection vary between these countries and between regions.

**Brexit will likely have a limited impact on EU promotion.** The UK is a significant net contributor to the EU budget, although the share of the promotion funding the UK receives (about 1 percent) is sharply below the level of its overall financial contributions. A budget shortfall is likely because of Brexit and agriculture could be a target for cuts. However, it seems unlikely that the promotion budget will be adversely affected as the general push has been to move away from direct support to farmers.

- **Opportunities could open up in the UK market post Brexit.** The nature of post Brexit trading arrangements could potentially erode the advantage of EU producers in the UK market, hence presenting an opportunity to other exporters such as the US. Opportunities may also arise from if there are changes to UK laws; and also if there are negative impacts on the competitiveness of the domestic UK agri-food industry due to changes in domestic production conditions.

**New Zealand government market promotion expenditures are increasing sharply,** estimated at $51 million in 2015/16 compared with only $10 million in 2011. Government export promotion expenditures are increasing as a result of its Primary Growth Partnership (PGP) programs with the private sector. The government’s goal is to double agricultural product exports by 2025. However, private sector expenditures are skewed because of the high export market investment of New Zealand’s Fonterra and Zespri, whose spending is respectively $484 million and $86 million.

**Australian government promotion funding has nearly tripled.** Government promotion expenditures are estimated at $75.5 million in 2016/17, compared with $26 million for 2011. Government promotion programs not only include funding for traditional market promotion activities (trade shows, trade missions, etc.), but also for:

- Enhancing the traceability systems to enable efficient tracing of problems back to the source to address issues quickly and allow trade to continue from unaffected areas.
- Improving biosecurity surveillance to ensure Australia’s products are high quality, safe and free of pests, diseases and weeds.

**Brazil market promotion programs emphasize food safety, reliability of supply, and sustainability.** Food safety is highlighted through promoting the quality of Brazil’s inspection services. Reliability of supply promotes the ability of Brazil being a trustworthy food provider. Sustainability emphasizes the preservation of the Amazon rainforest and their no-tillage system used for grain and oilseed production which makes soils more resilient and sequesters carbon through storage in organic matter. Total government export promotion expenditures are estimated at $63 million in 2016/17, more than triple the 2011 level of $19.0 million. Exports are viewed as vital to the government because of

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3 Fonterra and Zespri expenditures are included in this study because they represent a significant share of world exports of dairy products and horticultural product exports and are state sanctioned monopolies.
their impact on the economy and trade balance. Promotion efforts tend to focus more on meat, dairy and processed products because these sectors create more jobs and are value added products.

**Canada market promotion programs include funding for assurance systems.** The objective of Canada’s market promotion programs is to improve the agriculture, agri-food and agri-based products sector’s competitiveness in domestic and international markets. Market promotion includes activities such as trade shows, trade missions, etc. and focuses on gaining market access and ensuring customers the Canada products are safe through adoption of quality and food safety assurance systems. Assurance systems include systems, standards and tools for food safety, biosecurity, traceability, and animal welfare. Total government export promotion expenditures are estimated at $120 million in 2016/17, nearly double the 2011 level. Canada’s goal is to increase agricultural product exports by more than one-third by 2025.

**Chile is using market promotion funding to diversify exports** by expanding high value agriculture product exports. Chile is also trying to increase the participation of small and medium enterprises (SMEs) in exports. Chile’s promotion programs use a variety of instruments to boost exports including market promotion, export subsidies, enhanced credit access, pre-export finance guarantee schemes, and matching grant schemes. Total government export promotion expenditures are estimated at $19 million in 2015, compared with $14 million in 2011.

**Turkey is using market promotion, marketing assistance, export finance and export refunds to reach its long-term export goals.** Turkey’s export goal is to more than double agricultural product exports by 2023. Export promotion activities are primarily conducted through small and medium enterprises (SME’s) which include commodity exporter associations. Total government export promotion expenditures (including export refunds) are estimated at $65 million in 2015/16, more than quadruple the previous study’s 2011 level of $15 million. Export refunds are a tool to boost exports. Many fruits and vegetables as well as chicken and fish and other products are eligible for export refunds.

**South Africa is using market promotion to expand exports and increase domestic production.** South Africa wants to create 1.0 million jobs in the agriculture, forestry and fisheries sectors by 2030 by expanding agriculture production and exports. Emphasis is on exports of more high value products. While biosecurity is not directly tied to market promotion as it is in other competitors examined, increased investment in programs focusing on managing animal health and pest resistance have increased of South Africa agricultural products in previously closed markets. Informa estimates government export promotion funding in 2016 at just under $20 million, compared with $7.0 million for 2011.

**China’s market promotion budget is huge.** Funding for market promotion mainly comes from the “Foreign Economic and Trade Development Special Fund,” and was at $2.1 billion in 2016. However, promotion under this fund includes agriculture and non-
agriculture products, exports and imports and the domestic market. Informa estimates government export promotion funding specifically for agriculture exports in 2016 at $86 million, more than double the previous study’s level of $32 million for 2011. China also uses export rebates to boost exports.

Comparison of market promotion programs and recommendations

As indicated earlier, all foreign competitors examined in this study are looking to substantially increase agricultural exports in the future and they are all increasing government funding for export promotion.

- **Comments/Recommendations:** The U.S. government should increase export promotion funding to remain competitive in export markets. Since export promotion for many foreign exporters is defined differently from the U.S., it is more accurate to compare changes and direction of promotion expenditures of foreign competitors and the U.S. rather than comparing absolute expenditure levels. While all foreign competitor government promotion expenditures have increased (Exhibit 1), U.S. government export promotion spending has declined in real terms from $250 million in 2011 to $219 million in 2016. Informa’s 2016 study, *Economic Impact of USDA Export Market Development Programs* found there is overwhelming evidence that export promotion has a positive and statistically significant impact on increasing demand for U.S. exports. The study found that:
  o USDA’s Market Access Program (MAP) and Foreign Market Development Program (FMD) generate high rate of return on investment. U.S. food and agricultural export value increased by $24 for every dollar invested by government and industry in export market development (2002-2014).
  o The two programs boost export revenues and volumes. The programs added an annual average of $12.5 billion to export value and 12.2 million metric tons (2002-2014).
  o The programs enhanced the annual average level of U.S. farm cash receipts by $8.4 billion and farm income by $2.1 billion assuming less than full employment (2002-2014).
  o The programs added $7.1 billion in economic output and $4.4 billion in GDP in each year assuming full employment and $39.3 billion in economic output and $16.9 billion in GDP assuming less than full-employment (2002-2014).

The U.S. and foreign competitors export promotion programs are similar in that they include consumer promotion, market research, trade shows, trade servicing and trade capacity building by opening, expanding and maintaining markets for their agricultural products. However, many foreign export competitors, in both their public and private budgets, directly link funding for biosecurity, traceability, sustainability, etc. to exports and their export promotion programs. For example, Australia’s export promotion programs focus on improving biosecurity surveillance and analysis and modernizing its traceability

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4 Funding for MAP and FMD is respectively $200 million and $34.5 million under the 2014 Farm Bill. However, these funding numbers are reduced by sequestration and to a lesser extent by inflation.
systems to further enhance the country’s food safety export credentials. Protecting Australia’s reputation for quality and safe produce is crucial to safeguarding market access and for Australia to remain export competitive. The view of other foreign competitors is that trading partners want robust traceability systems to verify product integrity at all steps of the value chain. Enhancing the traceability systems to enable efficient tracing of problems back to the source, allows issues to be addressed quickly and trade to continue to unaffected locations. Sustainability is used to demonstrate producers are friendly to the environment.

- **Comments/Recommendations:** Although the U.S. government also provides funding for biosecurity and traceability systems, this funding is not directly linked to export promotion funding, is treated separately in different budgets and does not relate to all products. The U.S. should consider linking funding for biosecurity and traceability directly to its export promotion programs to have a more unified approach for all commodities and ensure biosecurity and traceability systems are developed to meet potential future import requirements.

EU program allocations are based on annual work plans and EU strategic priorities with less industry participation than in the U.S. For this reason, many of the recent changes in EU promotion policies have been made to encourage greater industry participation in EU programs. For example, the EU is increasing its budget for market promotion, its co-financing share, the products covered by its programs and opening participation to more organizations to encourage private sector participation.

- **Comments/Recommendations:** There is significantly more industry participation in U.S. export promotion programs than in the EU. The U.S. requires industry/commodity strategic planning which is evaluated based on commodity/industry strategic objectives. Industry funding participation in US promotion programs is increasing and currently is substantially larger than U.S. government contributions to market promotion. This greater U.S. industry participation is likely the result of a greater joint U.S. government and private industry effort to work together on market promotion strategies.

The EU has made the application process for market promotion funding easier under its new system, but the review process of the success of the programs still appears to be complex.

- **Comments/Recommendations:** The U.S. review process may be simpler than in the EU but requires industry strategic plans. The Unified Export Strategy (UES) is an integrated planning system that U.S. agricultural trade groups use to apply for FAS market development and export promotion programs. The UES online application system expedites the application review process and virtually eliminates paperwork. But, the UES may still need to be reviewed and simplified as some UESs run into hundreds of pages and small groups may find the process daunting.
Some organizations such as APEX-Brasil and Austrade-Australia provide funding to organizations and companies depending on the export market promotion activities, products and export destinations they target in the application process.

- **Comments/Recommendations**: This is beneficial for short-term market promotion activities but limiting in the long-term.

The EU, through its multi-programs, requires different industries to work together on market promotion, which is beneficial especially when products complement each other such as cheese and wine.

- **Comments/Recommendations**: US industry groups work voluntarily together on market promotion but on a more limited basis. The U.S. may want to do more to encourage industries to work across sectors in doing joint promotions and create benefits from a halo effect.

Export promotion funding in many of the export competitors is multi-year and ends on a given year. This means that new multi-year programs will likely involve new markets and strategies.

- **Comments/Recommendations**: Although U.S export promotion funding is annual, it is a long-term commitment which makes it more effective than multi-year programs in the EU and other competitors.

All export competitors conduct similar market promotion activities as the U.S. including trade missions, both inward and outward; participation in trade shows, provide market intelligence, etc. Many foreign competitors have Attaches posted in foreign Embassies to help exporters promote their products from their respective countries.

- **Comments/Recommendations**: The services provided are similar to those provided by the U.S.

Competitor contacts believe government export promotion spending is vital to encourage industry participation.

- **Comments/Recommendations**: According to interviews, if government funding is cut, the private industry is not expected to offset the losses in government funding. For example, this is one of the reasons the EU is increasing funding for agricultural products covered by Regulation (EU) No 1144/2014 and the wine Common Market Organization (CMO), Regulation (EU) No 1308/2013. Informa’s 2016 study, *Economic Impact of USDA Export Market Development Programs* also found that government funding was vital for U.S. industry participation and the U.S. private sector would not likely offset reductions in government spending.

The study suggests that overall the U.S. market development programs are more effective in promoting U.S. exports vis-à-vis competitors in that:

- They encourage greater industry participation and collaboration between the government and private sector.
o U.S. private export promotion spending is double U.S. government spending while for many foreign competitors, government spending is increasing at a faster rate than private spending.

- U.S. programs better focus on long-term export goals compared to competitor multi-year programs.

- U.S. programs allow smaller industries to conduct market promotion activities through government funding, which they could not do alone because of limited funding or knowledge of market promotion.

- U.S. programs include more sectors by encouraging a wider range of commodity participation; i.e. both high value and bulk products. Many competitor programs focus primarily on high value products.