

**IMPLEMENTATION OF THE NEW REGULATION ON  
MARKET SURVEILLANCE: INDICATION OF ORIGIN**

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## EXECUTIVE SUMMARY

1. In November 2014 European Commission's DG GROW commissioned VVA Europe to conduct a **cost-benefit study on the Indication of origin provision** contained in Article 7 of the proposed Consumer Product Safety Regulation (CPSR).
2. The study aims to **address the questions that emerged in the context of inter-institutional discussions** on the CPSR. To that end, the study investigates the potential **costs and benefits of origin labelling to national authorities, consumers, and businesses.**

### Study scope

3. The study focuses on six groups of consumer products: **toys, domestic appliances, electronic goods (consumer electronics), textiles, footwear, and ceramics.**

### Approach and methodology

4. The study relies primarily on **consultation with key European stakeholders, including cross-sectoral industry associations, industry associations relevant to each of the six product groups, consumer organisations, and national market surveillance authorities.**
5. The study also sought to gather input from a number of selected **national-level industry bodies and individual companies** nominated by their respective EU representative bodies.
6. The consultation, conducted via interviews, has been supplemented by **desk research.**

### Costs and benefits to national authorities

7. National authorities highlighted that **the key information needed to trace unsafe products is information identifying the economic actor** responsible for placing the product on the market.
8. Majority of the consulted authorities believe that **providing an indication of origin on consumer products would have limited added value in terms of tracing unsafe products. A minority believe that Article 7 would contribute to product traceability** in situations where other traceability information is missing or incomplete **and would facilitate cooperation with other authorities**, in particular in third countries.
9. As a consequence, majority of consulted national authorities also expect **no or very little impact of Article 7 on product traceability and product safety.**

10. **The majority of national authorities expect to face additional costs with regard to Article 7**, including both staff and training costs, as well as opportunity costs from diverting existing resources towards controlling origin labels. **The magnitude of costs will depend on the degree to which controlling origin label is integrated within existing market surveillance practices.**

## Costs and benefits to consumers

11. Limited evidence of positive impact on product traceability suggests that while certain benefits cannot be excluded **Article 7 is unlikely to substantially contribute to improving product safety** for any of the product groups.
12. Consumers generally express an interest in product origin, although fewer consumers take origin labels into account when making decisions. **Article 7 is expected to benefit some consumers by responding to their interest in product origin.**
13. The use of Customs Code principles means that a **single origin label may not effectively communicate the origin of the product as understood by consumers.** Therefore, in some cases origin labels risk not being in line with consumers' expectations. This is more likely to be the case for complex products manufactured in multiple countries.

## Costs and benefits to businesses

14. Article 7 could result in manufacturers facing **costs of adapting to new requirements**, potential **changes in their competitive position** compared to other producers, as well as benefitting from **addressing misleading or counterfeit products.**
15. **The magnitude and distribution of these costs and benefits will depend on the existing use of origin labelling, consumer interest in product origin, destination markets, and the nature of the supply chains.** These factors differ substantially across and also within different product groups.
16. **Direct costs of applying labels are not considered to be significant.** More substantial costs are expected to result from **manufacturers needing to determine correct origin of their products** in cases where they use a complex global supply chain and do not already have internal traceability systems in place.
17. Adaptation costs are likely to be higher where **producers would face reduced supply chain flexibility and therefore need to adapt their supply chains** as a result of needing to further "earmark" products for specific markets. These indirect adaptation costs are more likely to apply when companies operate globally and aim to supply the same product in a number of markets. However, many global companies would be facing a range of labelling requirements across their target markets, which already creates market segmentation.

18. The benefits identified by some stakeholders refer to positive impacts on businesses' competitive position due to the **"brand" effect of a country of origin label**. This effect would primarily result from previously unlabelled products requiring an origin label.
19. Furthermore, according stakeholders in favour of the proposal, Article 7 would provide a **stronger legal basis for pursuing counterfeit and misleadingly labelled products**.

## Findings for specific product groups

20. The study has not identified any clear positive impact on product traceability or product safety. Therefore, the **overall impact of Article 7 for specific product groups will depend primarily on the costs and benefits to consumers and producers** in each respective sector, as well as **costs of controlling origin labels**.
21. For **products where origin labelling is not widespread and where there is no clear evidence of consumer interest** in origin labels, **Article 7 is unlikely to benefit consumers and businesses**. Even if adaptation costs were not significant, Article 7 is unlikely to result in overall net benefit. This is primarily the case for the **consumer electronics and domestic appliances** sectors.
22. For products where the use of **labelling is more widespread and compatible with Article 7 and where there is evidence of consumer interest in origin labels**, the adaptation costs are likely to be low and some market segments could benefit from origin labelling. Whether the proposal is cost-beneficial would however depend on costs to national authorities associated with controlling labels. **Footwear and ceramics** are examples of such product groups.
23. In the **textile sector the current labelling practices are varied and so is the nature of the supply chains**. As a result, costs are likely to vary across market segments. In the high-end segment they are likely to be limited due high prevalence of origin labelling. In the mass-market segment the situation is likely to be more varied, with manufacturers that currently do not label their products and make use of complex supply chains potentially facing moderate costs associated with determining product origin.
24. The overall balance of positive and negative effects on businesses in the textile sector suggests that **Article 7 is most likely to benefit manufacturers based in Member States that are positively evaluated by consumers and who do not benefit from a recognised brand**. Other manufacturers are likely to observe fewer clear benefits and the ones with complex and global supply chains who do not currently label their products could also face a net cost. **Article 7 can help inform consumers**, but only in cases where labelling would have been otherwise missing and where the label accurately reflects product origin.
25. In the case of toys, **widespread labelling and relatively homogenous product origin** mean that Article 7 is not likely to benefit toy producers and consumers. It

can also carry some **costs for larger companies operating on a global level**, which may need to adjust their origin labelling approach and face reduced flexibility in terms of supplying different markets. Overall, the proposal is unlikely to generate clear benefits, but may imply some costs to the industry.

## Views of stakeholders regarding possible alternative solutions

26. The study also sought stakeholder input on possible alternative solutions to the Article 7 proposal, such as the **option to label packaging or product documentation** for all products, **alternative principles for determining origin**, and a **voluntary scheme with control of origin labels**.
27. The assessment of the alternatives depended on the product group and the expected costs and benefits of Article 7. **No single option was clearly preferred to Article 7**. Stakeholders opposed to the proposal generally preferred the status quo (no additional origin labelling requirement) to a potential alternative solution.
28. The first and third options could **reduce costs to producers, but would also not generate the potential additional benefits associated with providing origin information to consumers** in some sectors. Hence, their expected impact would depend on the degree to which consumers are interested in and make use origin labelling when making purchase decisions.
29. The possibility of using an **alternative principle for determining origin was generally not supported** due to lack of a feasible alternative and a potential to create additional fragmentation and confusion in the market.

# 1 Introduction

This document contains the final report for the study on the “Implementation of the new Regulation on market surveillance: Indication of origin”. This document is structured as follows:

- Section 2 outlines the study objectives and scope;
- Section 3 summarises the study approach;
- Section 4 provides an overview of the current policy landscape;
- Section 5 presents a cross-sector overview of findings with regard to costs and benefits associated with Article 7;
- Section 6 presents specific findings for the six product groups investigated as part of the study;
- Section 7 outlines findings for SMEs; and
- Section 8 synthesises the findings and present the conclusions of the study.

The Annexes include a list of consulted stakeholders, references, interview guides, and a summary of input from stakeholders in sectors not covered by the study, but who volunteered to complete industry the questionnaire.

## 2 Objectives and scope

- The study aims to address the questions concerning the indication of origin provisions that emerged in the context of inter-institutional discussions on the Consumer Product Safety Regulation.
- The study scope covers six groups of consumer products: toys, domestic appliances, electronic goods (consumer electronics), textiles, footwear, and ceramics.
- It also asks stakeholders for their views on three alternative solutions to the Article 7 proposal: option to label packaging or product documentation for all products, alternative principles for determining origin, and a voluntary scheme with control of origin labels.

This section presents the objectives and scope of the study, including the alternative solutions under consideration.

### 2.1 Objectives

The key objective of the study is to **contribute with fact-based evidence to the EU-level debate concerning Article 7 of the proposed Consumer Product Safety Regulation COM (2013) 78** (henceforth CPSR). The study aims to respond to different questions about costs and benefits linked to the origin labelling proposal, which emerged in the context of inter-institutional discussions. Therefore the study is a “cost-benefit analysis” targeting a selection of products of particular relevance to the proposal, rather than an assessment of the broader impact on the European economy and society.

### 2.2 Scope

The following sub-sections outline the scope of the current research.

#### 2.2.1 Product scope

The following products are investigated as part of the study: **toys, domestic appliances, electronic goods (consumer electronics), textiles, footwear, and ceramics**. The table below outlines these product categories in more detail:

**Table 1 - Product scope**

Category	NACE (rev 2) code	Products included
Toys	C324 - Manufacture of games and toys	Dolls, toys and games (including electronic games), scale models and children's vehicles (except metal bicycles and tricycles).
Domestic appliances	C275 - Manufacture of domestic appliances	Small electric appliances and electric housewares, household-type fans, household-type vacuum cleaners, electric household-type floor care machines, household-type cooking appliances, household type laundry equipment, household-type refrigerators, upright and chest freezers, and other electrical and non-electrical household appliances, such as dishwashers, water heaters, and garbage disposal units.
Electronic goods	C2640 - Manufacture of consumer electronics	Electronic audio and video equipment for home entertainment, motor vehicle, public address systems and musical instrument amplification.
Textiles	C13 - Manufacture of textiles C14 - Manufacture of wearing apparel	Textiles and wearing apparel, made-up textile articles, all items of clothing and accessories, including fur.
Footwear	C152 - Manufacture of footwear	Footwear for all purposes, of any material, manufactured by any process, including moulding, leather parts of footwear: uppers and parts of uppers, outer and inner soles, heels etc., gaiters, leggings and similar articles.
Ceramics	C233 – Manufacture of clay building materials C2341 - Manufacture of ceramic household and ornamental articles C2342 – Manufacture of ceramic sanitary fixtures	Ceramic tiles and flags; bricks, tiles and construction products, in baked clay; Ceramic tableware and other domestic or toilet articles, statuettes and other ornamental ceramic articles; Ceramic sanitary fixtures, e.g. sinks, baths, bidets, water closet pans etc.

In the textiles and footwear sector additional distinction is made between the **high-end and mass-market** sector segments.

### 2.2.2 Geographic scope

The study covers all **28 EU Member States**. Nevertheless, relevant data has also been drawn from literature concerning third countries. While the data collection and analysis takes an aggregate EU28 perspective and does not focus on specific Member States, national perspective is covered by consultation with national associations and companies nominated by relevant EU-level bodies.

While this does not ensure detailed national coverage, with a full coverage not feasible given the study timescales, this approach ensures that input from most relevant national-level stakeholders (based on assessment by EU-level organisations) has been taken into account.

### 2.2.3 Provisions investigated

The study investigates the **Article 7 of the proposed Regulation of the European Parliament and of the Council on consumer product safety** and repealing Council Directive 87/357/EEC and Directive 2001/95/EC, along with relevant recitals and proposed amendments.

In addition to Article 7, the study sought to gather stakeholder views concerning three potential alternatives to the proposed labelling. The following alternatives have been identified:

- **Ensuring improved traceability of products without origin labelling of individual products** by allowing manufacturer to indicate country of origin on product packaging or a document accompanying the product. Under Article 7 this is only possible for products that cannot be labelled for technical reasons, for instance due to size. This option would extend this possibility to all products.
- **Different principles for determining product origin.** Under Article 7 product origin is determined according to the non-preferential rules of origin of the Customs Code<sup>1</sup>. This means that when a product is not wholly obtained in a country, its origin is generally determined according to the principle of last substantial transformation. It is however important to note that according to the WTO-rules and for the purposes of origin marking of products, the country of origin has to be determined in accordance with the non-preferential origin rules which, for the EU, are laid down in the customs legislation.
- **Voluntary origin marking based on common EU principles.** Currently manufacturers can already choose to indicate the origin of the products, however there are no common EU rules laying down the criteria according to

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<sup>1</sup> See [http://ec.europa.eu/taxation\\_customs/customs/customs\\_duties/rules\\_origin/non-preferential/article\\_410\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/non-preferential/article_410_en.htm)

which the origin should be determined. Article 7 for the first time sets common principles to be fulfilled prior to origin labelling based on the Customs Code. This option would make use of these common principles without introducing a mandatory origin labelling requirement.

### 3 Methodological approach

- The study relies primarily on consultation with key European stakeholders relevant to each of the six product groups, consumer organisations, and national market surveillance authorities.
- The study also sought to gather input from a number of selected national-level industry bodies and individual companies nominated by their respective EU representative bodies.
- The consultation, conducted via interviews, has been supplemented by desk research.

This section outlines the approach to collecting and analysing the data.

#### 3.1 Data collection

Given the short timescales, the study relied on a combination of **stakeholder interviews, desk research, and consultation with national authorities**. These three data collection activities are presented below.

##### 3.1.1 Consultation of national surveillance authorities

Given that **national surveillance authorities** would be called on to enforce the proposed Article 7 provisions, they were approached as part of the study. Surveillance authorities in all EU28 Member States were contacted per email using the questionnaire presented in the Annex. Where the authorities expressed readiness to provide additional input, interviews with selected authorities were conducted. A total of 33 individual responses from 32 authorities in 25 Member States were received. The list of authorities that provided input into the study is included in Annex 1.

##### 3.1.2 Stakeholder interviews

The **interview programme** was a central element of the study. Stakeholder consultation is crucial in a field as contentious as origin marking in that it helps interpret existing secondary data and understand how the impacts are likely to differ for different stakeholders. The interviews were conducted in two phases:

- In the first instance **relevant EU-level industry stakeholders and consumer organisations** were contacted and interviewed.
- These EU-level stakeholders were in turn asked to nominate their **member associations or individual firms** that best reflect the range of opinions in the

sector regarding Article 7. These stakeholders were approached for additional interviews.

It is important to note that in some cases EU-level organisations were not able to provide a unified answer or a single position and instead nominated members who were in turn consulted directly. Finally, a number of other organisations in sectors not covered by the study have expressed interest in providing contributions. While these contributions were welcome, and their summary is presented in Annex 4, they were not used in the main body of the report.

The list in Annex 1 presents the EU-level organisations consulted as part of this study.

### 3.1.3 Desk research

**Desk research** constituted the second data collection strand. It aimed to gather secondary data related to impacts of origin labelling. This included in particular:

- Data concerning existing sectoral and cross-sectoral origin marking schemes, as well as relevant schemes other than origin labelling schemes;
- Position papers and research carried out by industry organisations or individual businesses;
- Academic studies on origin labelling; and
- Secondary data on the market size, structure, and trade for the selected sectors and products.

Since most relevant information is found in “grey” literature, the review did not make use of traditional systematic review methodology, but instead used a combination of keyword searches in online databases, snowballing approaches (following references in identified sources), as well as stakeholder engagement through interviews to identify most relevant sources.

## 3.2 Data analysis

The data analysis element of the study relied on three steps:

- **Collating the data** structured by products, options, costs and benefits, and stakeholder group affected, where relevant distinguishing findings by enterprise size and market segment.
- **Cost-benefit analysis** using the collated data to present an overall analysis of benefits and costs, as well as comparison of benefits and costs for each product, broken down by stakeholder group, differentiating between one-off and recurring costs and benefits and, where relevant, differentiating also between sector segments.

- **Data synthesis and comparison of options** on the basis of the outcomes of the cost-benefit analysis across the product groups.

The **SME test** has been integrated into the individual data collection and analysis steps by ensuring that the steps effectively distinguish between SMEs and large enterprises. Findings for SMEs are presented in Section 7.

## 4 Overview of the current situation

- The impact of Article 7 will depend on existing origin labelling schemes, regulations and other initiatives aiming to enhance product traceability, as well as existing regulations and other initiatives aiming to address misleading labelling.
- European manufacturers are subject to origin labelling requirements in a number of third countries. These can differ in terms of scope, language requirements, and principles for determining origin.
- There are currently traceability labelling requirements for specific products, and traceability information serves as an important input into the RAPEX system.
- The Unfair Commercial Practices Directive includes provisions addressing misleading labelling, including origin labelling, but there is little evidence of the provisions being used to control origin labels.

Prior to examining the potential impacts of Article 7 and identified alternatives, it is important to consider the **existing policy landscape** with a particular focus on initiatives which can affect the costs and benefits associated with Article 7. Such initiatives include:

- Existing **origin labelling schemes** and requirements in the EU and in third countries;
- Existing **regulations and other initiatives aiming to enhance product traceability**; and
- Existing **regulations and other initiatives aiming to address misleading labelling**.

These key elements of the current baseline situation are outlined in the following sections.

### 4.1 Existing origin marking schemes

There is currently **no mandatory origin-labelling requirement** within the EU relevant to non-food consumer products, including the six groups of consumer products covered in this study. This means that Article 7 would constitute a new requirement across all EU Member States. At the same time, **producers are currently free to label the products with the country of origin** and importers would declare origin for customs purposes.

Mandatory European origin labelling requirements exist for selected **food products**, such as beef and been products<sup>2</sup> and, as of 2014, fresh meat from pigs, sheep, goats and poultry<sup>3</sup>. Food products however do not fall within the scope of the CPSR and are not discussed in this study.

In addition for EU origin labelling requirements for food products there are examples of **voluntary origin labelling schemes**, such as the French “Origine France Garantie” scheme managed by the “L’association Pro France”. Such schemes could be seen as broadly similar to the potential option of introducing a voluntary origin labelling requirement based on specific principles. In the case of the above scheme, for instance, the label requires the product to acquire its essential characteristics in France and at least 50% of product value reflected by the final unit price to be generated in France<sup>4</sup>.

Of particular importance to the impact of Article 7 are **origin labelling requirements in third countries**. While there is no requirement to label consumer products with the country of origin in the EU, such requirements are present in a number of EU trading partners. As discussed in more detail in the following sections, **the existence of such requirements and, in particular, their potential compatibility with Article 7 is an important determinant of costs and benefits** across a number of product groups.

The third countries with origin labelling requirements most often mentioned include **Australia, China, Japan, Russia, Saudi Arabia and the US**, with the United States (18% of all exports) and China (10%) being the two main EU external export partners<sup>5</sup>. The broad origin labelling requirements in these countries are summarised in the table below (information provided in the table does not exclude the possibility of more stringent rules applicable to domestic products).

**Table 2 - Origin Labelling requirements in third countries**

Country	Scope	Specific requirements
Australia	<ul style="list-style-type: none"> <li>Specific categories of products, including textile products, electrical appliances, tableware, and toys.</li> </ul>	<ul style="list-style-type: none"> <li>Principle of last substantial transformation applies.</li> <li>Additional requirement that 50% of production costs must be incurred in that country.</li> <li>Qualified origin claims are allowed.</li> <li>Use of graphic representations of origin is allowed.</li> </ul>

<sup>2</sup> See Regulation (EC) No 1760/2000 of the European Parliament and of the Council of 17 July 2000 establishing a system for the identification and registration of bovine animals and regarding the labelling of beef and beef products and repealing Council Regulation (EC) No 820/97

<sup>3</sup> See Regulation (EU) No 1169/2011 of the European Parliament and of the Council of 25 October 2011 on the provision of food information to consumers

<sup>4</sup> See <http://www.profrance.org>

<sup>5</sup> See [http://europa.eu/rapid/press-release\\_STAT-15-4710\\_en.htm](http://europa.eu/rapid/press-release_STAT-15-4710_en.htm)

Canada	<ul style="list-style-type: none"> <li>Imported products in the following categories: Goods for Personal or Household Use; Hardware; Novelties and Sporting Goods; Paper Products; Apparel; and Horticultural Products.</li> </ul>	<ul style="list-style-type: none"> <li>The country of origin is “the country in which the goods were substantially manufactured”<sup>6</sup>.</li> <li>Non-NAFTA goods require marking of products, for NAFTA goods the container/packaging can be labelled.</li> </ul>
China	<ul style="list-style-type: none"> <li>Imported products.</li> </ul>	<ul style="list-style-type: none"> <li>Principle of last substantial transformation applies.</li> <li>Labelling must be in Chinese.</li> <li>Labelling possible on the product itself or on product packaging.</li> </ul>
Japan	<ul style="list-style-type: none"> <li>Imported food and drinks.</li> <li>Specific provisions concerning origin labelling for some product categories.</li> </ul>	<ul style="list-style-type: none"> <li>No blanket requirement for consumer products, but some specific provisions for selected product groups: i.e. for apparel products “vague or confusing labelling that makes it difficult to discern the actual country of origin is also prohibited as a form of improper labelling”. For instance where manufacturers provide information about origin, and manufacturing has taken place in multiple countries, then the labelling should state this.</li> <li>Practical interpretation of origin labelling is not necessarily in line with the principle of last substantial transformation.</li> <li>Country of origin is in some cases defined as “a country in which a treatment or process effecting substantial change to the substance of the goods made.” For apparel product this is interpreted as “the nation where the weaving was performed”<sup>7</sup>.</li> </ul>
Russia	<ul style="list-style-type: none"> <li>Consumer products.</li> </ul>	<ul style="list-style-type: none"> <li>Customs code defines country of origin as country where the product was manufactured wholly or subjected to sufficient processing<sup>8</sup>.</li> <li>Labelling must be in Russian.</li> </ul>
Saudi Arabia	<ul style="list-style-type: none"> <li>Imported products.</li> </ul>	<ul style="list-style-type: none"> <li>Principle of substantial transformation applies.</li> <li>Labelling must be in Arabic.</li> </ul>
US	<ul style="list-style-type: none"> <li>Products of non-US origin (Different set of requirements for “Made in USA” products).</li> <li>Automobiles, textiles, furs and woollens.</li> </ul>	<ul style="list-style-type: none"> <li>Principle of last substantial transformation applies for imports.</li> <li>“Made in USA” label can only be used for products that are “all or virtually all” made in the USA, other products require qualifications.</li> <li>Labels need to be legible and in English, specifying an individual country.</li> </ul>

<sup>6</sup> See <http://laws.justice.gc.ca/eng/regulations/SOR-94-16/page-1.html#docCont>

<sup>7</sup> Japan External Trade Organization (JETRO) (2011) ‘Guidebook for Export to Japan 2011 - Apparel Products and Materials’

<sup>8</sup> See <http://customs.ru/>

**Sources:** European Parliament (2013). 'Library Briefing - Indication of origin marking on products'; Study ToR Annex; additional sources specified in footnotes.

As can be seen in the above table there are some **differences between the labelling requirements of EU trading partners**, ranging from specific language requirements to differences in the principle used for determining origin. The latter differences include not only the use of different formulations (i.e. “sufficient processing” or “substantially manufactured”), but also differences regarding the practical application of common principles, such as the principle of “last substantial transformation”.

In order to illustrate such differences it is important to first outline in more detail the **principle behind Article 7**. The proposal put forward in Article 7 bases the determination of origin on the non-preferential origin rules set out in Articles 23 to 25 of Council Regulation (EEC) No 2913/92. Where production involves more than one country, which is likely to hold for a large proportion of products, the country of origin is the country where the products “underwent their last, substantial, economically justified processing or working in an undertaking equipped for that purpose and resulting in the manufacture of a new product or representing an important stage of manufacture”, which is the same “last substantial transformation” principle as that used in a number of the countries outlined in the table above.

There are however rules in place at EU level, which aid in determining what processes constitutes a “last substantial transformation”. The Customs Code Implementing Provisions include **lists of processes that constitute or do not constitute such a transformation** and thus confer or do not confer origin onto specific products (these are set out in Annexes 10 and 11 of Commission Regulation (EEC) No 2454/93). In addition, there is a set of so-called guidelines, which are not legally binding but assist in the interpretation of the principle of “last substantial transformation”. One common rule applying across a range of products is the “**Change of Tariff Heading**” rule, which defines last substantial transformation as working or processing that results in the obtained product being classified under a different heading in the Combined Nomenclature, a classification of goods for customs purposes<sup>9</sup>.

The **complexities of the EU Customs Code are mirrored in other countries** and can result in differences in the way products are ultimately labelled. One illustration of a potential discrepancy is the way that origin of printed and dyed textile products is determined:

- In the EU Customs Code printing or dyeing of unbleached or prebleached fabrics is recognised as a process that confers origin for specific textile products when it is accompanied by preparatory or finishing operations<sup>10</sup>.

<sup>9</sup> See [http://ec.europa.eu/taxation\\_customs/customs/customs\\_duties/rules\\_origin/non-preferential/article\\_410\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/non-preferential/article_410_en.htm)

<sup>10</sup> See Commission Regulation (EEC) No 2454/93 of 2 July 1993 laying down provisions for the implementation of Council Regulation (EEC) No 2913/92 establishing the Community Customs Code

- In the US, printing and dyeing can also confer origin on specific textile products but requires two or more operations from a specified list of finishing operations to be performed<sup>11</sup>.

As the example above shows, even in situations where two different systems make use of the principle of last substantial transformation, potential differences in origin labelling are possible. **The World Trade Organisation (WTO) is currently working towards harmonisation of non-preferential rules of origin** through clarifying the concept of last substantial transformation by making use of the “change of tariff heading” approach and additional supplementary rules. This is a further reflection of differences between individual countries in terms of how a commonly used principle of substantial transformation is applied<sup>12</sup>.

**The extent to which such differences would be observed will however depend on the specific product in question.** Overall, given the specificity of the rules used to apply the last substantial transformation principle, one could expect that discrepancies in terms of product origin would be more likely in the case of products with complex production processes and supply chains. Conversely, for products undergoing a relatively small number of transformations, identifying an unambiguous “last substantial” transformation might be simpler.

Finally, in addition to origin labelling requirements for products entering certain markets it is also important to consider the **origin labels that may be included on exported products** and their potential compatibility with Article 7 provisions. Stakeholders in the toy sector noted for instance that some Chinese exports might be labelled with the region within China in which they were manufactured, which is for instance also a requirement for footwear sold on the Chinese market<sup>13</sup>.

## 4.2 Traceability and product safety initiatives

Given that Article 7 aims to contribute to product traceability and, ultimately, to improving product safety, it is important to consider **existing EU initiatives aiming to ensure effective product traceability.**

While the Market Surveillance Package and specifically the **CPSR will constitute the first comprehensive piece of European legislation aiming at ensuring product traceability throughout the supply chain**, traceability provisions are already included in selected sectoral legislation:

<sup>11</sup> US Customs and Border Protection (2004). ‘What Every Member of the Trade Community Should Know About: Textile & Apparel Rules of Origin’

<sup>12</sup> See [https://www.wto.org/english/tratop\\_e/roi\\_e/roi\\_info\\_e.htm](https://www.wto.org/english/tratop_e/roi_e/roi_info_e.htm)

<sup>13</sup> See for instance <http://www.intertek.com/consumer/insight-bulletins/china-standard-qbt-2673-2013-effective-july-1-2014/>

- Regulation (EC) No 1223/2009 on **cosmetic products** includes a requirement to include on product label the name and address of the Responsible Person and, for imported products, the country of origin;
- The **Toy Safety Directive 2009/48/EC** requires the labelling of manufacturer's name, registered trade name or registered trade mark and address as well as the type, batch, serial or model number.
- Regulation (EU) No 305/2011 on **construction products** requires (art 11.5) manufacturers to indicate on the construction product or on its packaging or in a document accompanying it, their name, registered trade name or registered trade mark and their contact address. Moreover, type, batch or serial number to be provided in the Declaration of Performance.
- More broadly, the **new legislative framework** and in particular Decision 768/2008/EC obliges manufacturers to mark products with their name, registered trade name or trade mark, along with an address and information allowing for identifying the product (e.g. batch or serial number). In addition to toys, legislation aligned to the decision has been adopted in sectors such as electrical and electronic equipment, radio equipment, or recreational craft and personal watercraft<sup>14</sup>.

In addition to sector-specific legislation, the **RAPEX system** is crucial to early identification and spreading information about unsafe products. The **RAPEX network however requires effective product traceability** in order for authorities to be able to act upon notifications submitted by national contact points. In that sense the RAPEX system draws on the traceability information provided on products in order to help relevant authorities to take actions that in turn contribute to improving product safety.

A specific application of the RAPEX system is the **RAPEX-CHINA Application**. Based on a Memorandum of Understanding between the European Commission and the General Administration of Quality Supervision, Inspection and Quarantine of China (AQSIQ), the application aims to transmit information about unsafe Chinese-made products on EU market to the Chinese authorities<sup>15</sup>. To date 7,000 notifications were forwarded to AQSIQ with the authority adopting over 2,200 measures<sup>16</sup>.

Furthermore, **other third countries also make use of the RAPEX system**, with Turkey investigating majority of Turkish products identified in RAPEX and acting upon selected cases: In 2012, Turkish authorities investigated 86 of 89 notified RAPEX products, with action taken in 16 cases<sup>17</sup>.

<sup>14</sup> See [http://ec.europa.eu/growth/single-market/goods/new-legislative-framework/index\\_en.htm](http://ec.europa.eu/growth/single-market/goods/new-legislative-framework/index_en.htm)

<sup>15</sup> European Commission. "RAPEX-CHINA' Application"

<sup>16</sup> Information provided by the Commission services

<sup>17</sup> Information provided by the Commission services

Overall, the **use of the RAPEX system highlights the importance of product traceability**, with information about product origin facilitating the use of the system by third countries.

### 4.3 Initiatives to address misleading labelling

One aspect of Article 7 considered in this study is its **impact on products which are either misleading due to lack of origin labelling, or misleadingly labelled**. Currently, on the EU level, the Directive 2005/29/EC concerning unfair business-to-consumer commercial practices in the internal market (henceforth the **Unfair Commercial Practices Directive**, or UCPD) considers labelling misleading if it contains false or factually correct information presented in a way that can deceive an “average consumer” (Article 6). This information can refer to a range of product characteristics including in particular “geographical or commercial origin” of the product. Misleading practices are in turn considered unfair and should be prohibited by the Member States. In addition, with regard to business-to-business marketing, **Directive 2006/114/EC concerning misleading and comparative advertising** (MCAD) protects traders against misleading advertising.

The **UCPD and the MCAD therefore constitute a legal basis for combatting origin labelling that is false or misleading**. However, while in some cases deciding what constitutes misleading labelling may be straight-forward (e.g. a product wholly obtained in country A being labelled as made in country B), this might be more complex for products with complex global supply chains or constituent parts originating in different countries.

While the 2013 report on the application of the UCPD<sup>18</sup> noted that **Member States did not face particular challenges with regard to the application of Article 6 of the UCPD**, it is also worth noting that issues primarily addressed under this Article generally appear to cover product characteristics other than origin. In fact, the **reports on the application of the UCPD provide relatively little insight into the use of the UCPD to control labels**.

Since stakeholder consultation conducted for the present study noted challenges with regard to misleading labels, **limited evidence of UCPD being used to address origin claims** can be attributed either to these problems being minor compared to other unfair commercial practices, or to challenges in detecting and addressing potential misleading labelling practices under the UCPD.

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<sup>18</sup> European Commission (2013). ‘First Report on the application of Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market’

The aforementioned report also notes that while enforcement of the UCPD is broadly seen as adequate, some of the stakeholders highlight **challenges relating to limited resources available to national authorities, as well as the complexity and length of enforcement**<sup>19</sup>. This, along with the fact that the consultation conducted for the present study has not identified instances of misleading origin labels being effectively controlled, suggests that the Directive may not be fully utilised to address misleading origin labelling in the context of a business-to-business dispute.

One challenge under the UCPD is that, for national authorities to take action and prohibit or penalise the practice, they need to evaluate on a case-by-case basis whether the incorrect or misleading label is capable of distorting the economic behaviour of the “average consumer”. Therefore, while one of the UCPD’s objectives is the protection of businesses from unfair competition, **it was not designed as an instrument for business-to-business litigation** and demonstrating harm to an economic operator is not sufficient to address misleading labelling using the UCPD. In situations where misleading advertising is likely to harm an economic operator, it is the MCAD can be used as a legal basis to protect the interests of that trader.

There are however selected **instances where national laws transposing the UCPD are used to address misleading labels**. The UCPD legal database identifies four cases relating to product origin, two of which directly concern the perception of origin by consumers:

- A French ruling from 2012 (decision 10/04016 from 10/05/2012) declared that using references to a geographical location other than the one where the product was produced (in this case including references to Cuba on bottles of rum produced in the Dominican Republic) constitutes a misleading commercial practice.
- In an Austrian ruling from 2008 (decision 4 Ob 42/08 from 08/04/2008), it was deemed misleading to claim that a company has produced a product itself, where in fact the production was partially or fully outsourced to a third country manufacturer (in this case piano producer in China).<sup>20</sup>

Another example of existing national and European legislation being used to address misleading origin labels or other potential indications of origin is a recent decision by the German Federal Court of Justice (decision I ZR 16/14 from 27/11/2014), which ruled that labelling a product (in this case condoms) that only undergoes quality control

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<sup>19</sup> European Commission (2013). ‘First Report on the application of Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market’

<sup>20</sup> See <https://webgate.ec.europa.eu/ucp/public/index.cfm?event=public.home.show>

and packing in Germany as “Made in Germany” is misleading and a product needs to undergo a manufacturing process within Germany to be able to bear such a label<sup>21</sup>.

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<sup>21</sup> See <http://juris.bundesgerichtshof.de/>

## 5 Overview of costs and benefits to national authorities, consumers, and industry

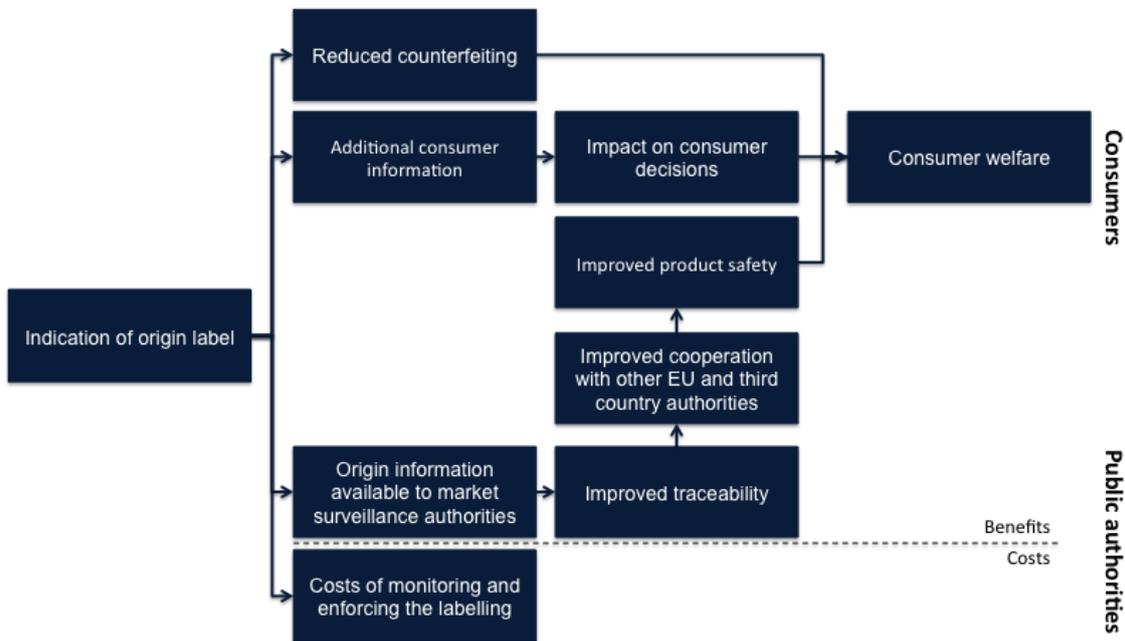
- For national authorities providing an indication of origin on products would have limited added value in terms of tracing unsafe products. Market surveillance authorities in majority of Member States expect to face additional costs with regard to Article 7, including both staff and training costs, as well as opportunity costs from diverting existing resources towards controlling origin labels.
- Consumers generally express an interest in product origin, although fewer consumers base their decisions on origin labels. The use of Customs Code principles means that an origin label may not effectively communicate easily understood information on the origin of the product, especially for complex products.
- Article 7 can result in manufacturers facing costs of adapting to new requirements, potential changes in their competitive position compared to other producers, as well as benefitting from addressing misleading or counterfeit products.
- The magnitude and distribution of these costs and benefits will depend on the existing use of labelling, consumer interest in product origin, destination markets, and the nature of the supply chains.
- Direct costs of applying labels are not considered to be significant. More substantial costs are likely to result from manufacturers needing to determine correct origin or due to reduced flexibility in selling products on different markets.

This section provides a cross-sectoral overview of the findings with regard to the costs and benefits identified for the three main stakeholder groups, namely national authorities, consumers, and industry. Specific findings for each sector are presented in Section 6, while section 7 outlines findings for SMEs.

### 5.1 Costs and benefits to market surveillance authorities

Given that an objective of the proposed CSPP and of Article 7 is improved product safety through improved traceability and market surveillance, it is important to first address the costs and benefits associated with Article 7 to national authorities. The figure below presents the conceptual model of the impact on market surveillance authorities. It is important to note that this **impact is closely linked to the impact on consumers**, as highlighted in the figure below.

Figure 1 - Impact model: Potential impact on surveillance authorities and consumers



The following sections outline the overall findings with regard to the costs and benefits to national authorities, with impact on consumers outlined in the following section. Findings specific to individual product groups are presented in Section 6.

### 5.1.1 Impact on market surveillance authorities: Impact on improving traceability and product safety

As shown in the above figure, a key potential impact of the Article 7 proposal is to provide surveillance authorities with additional information, which can in turn facilitate and speed up cooperation with authorities in other EU Member States and third countries (due to quicker identification of relevant authorities based on the origin label), as well as facilitate the identification of product manufacturers, resulting in improved product safety.

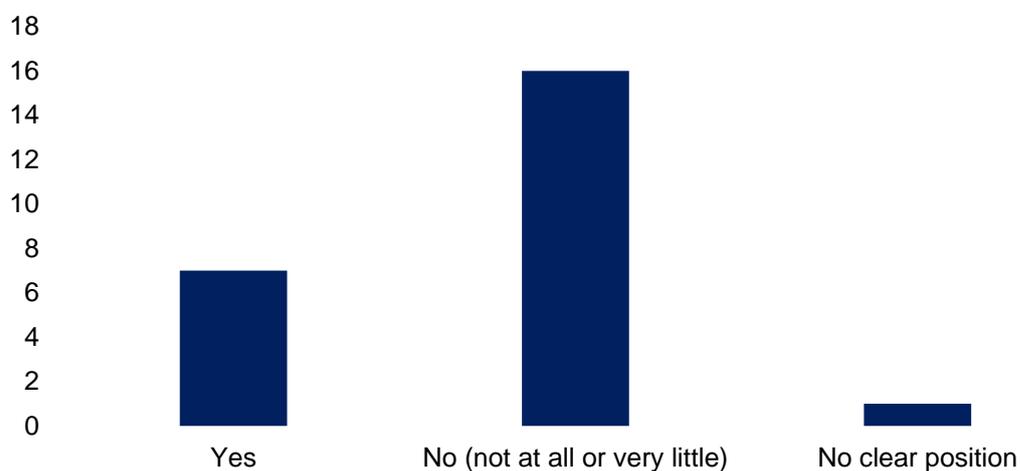
The consultation of 32 national market surveillance authorities in 25 Member States has shown that **the key information needed by authorities for market surveillance purposes is the information on the name and address of the economic operator responsible for the product** (manufacturer, authorized representative and/or importer).

When asked about the overall impact of the Article 7 proposal on traceability and product safety, **authorities in sixteen consulted Member States<sup>22</sup> expected no or**

<sup>22</sup> Note: Where multiple authorities from a single Member State responded to the consultation, their input was treated as a single Member State response. In one Member State, authorities were split on the responses to this question, this is

**very limited positive impact on traceability and safety.** The main reason for this assessment relates to the fact that, as explained above, origin marking is not considered as important in identifying the responsible economic operator and is, in turn, unlikely to improve product traceability. In fact, authorities in **six Member States responded that establishing origin provides “no added value”, is “not relevant” or is “of no importance” to their work.** In addition, consulted national stakeholders pointed to existing sectoral rules regarding traceability (i.e. for specific product groups such as toys) as well as the proposed traceability requirement in the CPSR (Article 8), highlighting the fact that such existing and foreseen requirements would be sufficient for ensuring the level of traceability needed by the surveillance authorities. Finally, one authority highlighted that the proposal is unlikely to have any positive impact on product traceability and safety due to the inability of the market surveillance authority to effectively enforce and control the obligation.

**Figure 2 - National authorities’ expected impact on product traceability and/or safety**



Article 7 is likely to have a positive impact on product traceability and/or safety

**Note:** Responses from multiple authorities in a single Member State treated as a single response. Contradictory responses from two authorities in one Member State not included in the figure.

As can be seen in the figure above, while the majority of authorities expected the proposal to have no or very little positive impact, authorities in **seven Member States stated that Article 7 would contribute to product traceability in a way that is sufficient for a positive impact on safety to be observed.** Identified benefits of origin labelling include situations where:

- Manufacturers’ contact details are missing or out of date;
- The authority wishes to establish given economic operator’s relative position within the supply chain; and

not included in the totals or the figures presented in the section. This approach is used in the rest of this and the following section.

- The authority wants to arrive at specific agreements with countries from where a significant amount of unsafe products might be originating.

Authorities in three of the above seven Member States also stressed that it is important to establish country of origin if a product is found to be non-compliant and/or dangerous, so that the authorities in the country where the risk has been identified can **quickly and effectively contact the relevant authorities in the country of origin of the product** to take appropriate follow-up actions (such as withdrawals). One of these authorities added that compulsory origin labelling would help fight counterfeiting by implementing stricter controls, thus contributing to improved traceability. Finally, three Member States also highlighted the value of the proposal in developing more accurate statistics for tracing the origin of dangerous goods.

With regard to the **role of Article 7 in identifying relevant authorities in other countries**, majority of consulted Member States highlighted the importance of cooperation with other EU Member States and mutual assistance concerning non-compliant or dangerous products (e.g. for information exchange and timely communication). The consulted authorities assessed the level of cooperation within the EU positively, partly attributing this to effectiveness of EU-coordinated mechanisms such as ICSMS and RAPEX, and did not expect Article 7 to bring about any improvements. It is however worth noting that where origin and traceability information is missing, the market surveillance authorities would not necessarily be able to identify their relevant counterpart even within the EU. Authorities in four Member States explicitly mentioned the need to contact authorities in third countries, with some also noting potential difficulties in identifying and/or contacting relevant authorities in those countries (e.g. because of language barriers).

Overall, while the input from national market surveillance authorities appears to reflect the broader national position on origin labelling, there are some common patterns, which make it possible to draw conclusions about the potential benefits associated with Article 7. Despite differences across Member States, **national authorities universally consider information identifying the manufacturer or other responsible economic operator as key to ensuring product traceability**. While some authorities view Indication of origin as valuable in specific situations, **information about country of origin does not appear to be core to the work of surveillance authorities in ensuring product safety**. In that sense, the expected impact of Article 7 on product traceability and, ultimately, product safety appears to be limited.

#### 5.1.2 Impact on market surveillance authorities: Costs of controlling origin

While the Article 7 proposal is expected to have limited impact on product traceability and product safety, it in itself does not carry with it any other disadvantages with regard

to traceability. Therefore, it can still generate a net benefit to market surveillance authorities as long as associated costs are low.

The costs of controlling origin will depend in the first instance on whether the authority in question already controls origin of consumer products. Out of the consulted national authorities, **only one authority explicitly indicated that origin marks for non-food-related products are controlled** on the basis of national consumer legislation. In addition, **authorities in two Member States noted that origin labelling is verified in cases where statements on products are identified as false or potentially misleading**, while authorities in two other Member States stated that origin information is collected for products otherwise identified as unsafe. Finally, one authority indicated that origin is controlled indirectly by ensuring that manufacturers and importers maintain effective technical documentation.

All remaining authorities do not currently control product origin in any way, suggesting that doing so is likely to introduce additional costs to these authorities. These costs can in turn be understood as either:

- Additional **financial costs** of hiring and training new staff, as well as costs of training existing staff; and
- **Opportunity costs** resulting from shifting resources from existing market surveillance tasks to controlling origin labels.

As regards the former, **authorities in two Member States explicitly referred to costs for “re-training”, “educating” and providing “appropriate knowledge of the product”**, while **authorities in five Member States stated that Article 7 enforcement would require either additional working hours for current staff or recruitment** of additional officials.

**Concerns were raised by national authorities in five Member States about the consequences of Article 7 for the allocation of their resources**, namely the shift and diversion of human and financial resources away from current surveillance tasks, which they felt could potentially harm product safety.

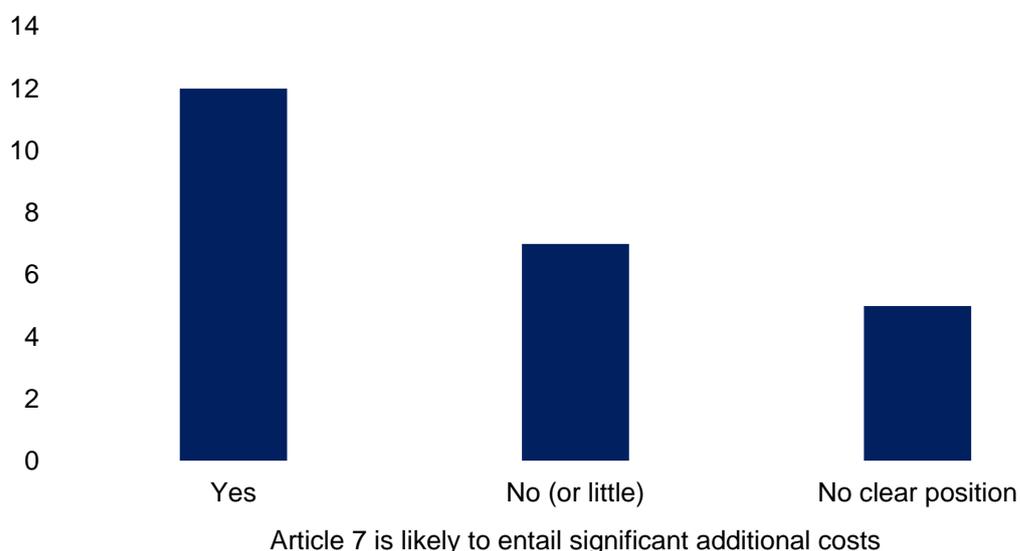
The majority of consulted national authorities underlined budget constraints and limited resources and highlighted that Article 7 would be **“time consuming and resource intensive”**. The reasons given by the authorities relate to the difficulty of the task, as products are often manufactured in different countries. However, no specific estimates were provided, since authorities believe that actual costs cannot be assessed beforehand. These costs were considered to rely heavily on the structure of the sector and to increase with the complexity of the product to be checked.

Additionally, national authorities indicated that **costs not related to surveillance activities could also ensue**. Since the country of origin indicated on the product could be different from the address of the responsible economic operator, consumers could be confused and request explanation, thus entailing extra-administrative costs.

Overall, while authorities from 12 Member States expected to be faced with the above costs, **authorities from seven Member States were of the opinion that Article 7 would entail no or very low further costs**, with one authority noting that Article 7 would only result in administrative costs of data collection. The aforementioned authorities also did not identify any potential opportunity costs associated with controlling origin labelling.

The overall positions of the consulted authorities are outlined in the figure below.

**Figure 3 - National authorities' expected impact on costs**



**Note:** Responses from multiple authorities in a single Member State treated as a single response. Contradictory responses from two authorities in one Member State not included in the figure.

When examining costs, it is important to consider the potential **interaction between market surveillance authorities and customs authorities**, in particular the extent to which the surveillance authorities' potential workload could be reduced through cooperation with customs authorities. However, only one surveyed authority specified that determining origin falls under the competence of customs authorities, while two others stated that cooperation between surveillance authorities and customs services would need to be strengthened if Article 7 came into force.

While the consulted authorities were not able to estimate the changes to their costs, some example estimates concerning current costs of market surveillance tasks were obtained.

- **Testing costs:** These vary across national authorities, with estimates of annual testing costs, such as laboratory testing of potentially dangerous products, ranging from EUR 5,000 to EUR 35,000 per product group, and from EUR 50,000 to 160,000 overall, although one authority noted that testing of a single product group can, in exceptional circumstances, cost up to EUR 1m if this involves a construction of a testing facility. While these costs do not apply to controlling origin labels, they provide a valuable indication of the costs currently incurred by the authorities.
- **Staff costs:** These are considered to be the key cost. Obtained estimates of the yearly cost of an additional inspector of up to EUR 30,000<sup>23</sup>. Another authority estimated the cost of a working day to be EUR 352, which would amount to approximately EUR 88,000 annually<sup>24</sup>.

While the above illustrations provide an indication of the types of costs currently faced by market surveillance authorities, the **magnitude of costs that could be expected under Article 7 would depend on the type of tasks involved in controlling origin labels**. Based on the consultation with national authorities, this could involve the following:

- **Training existing staff** with regard to the new requirement: This is likely to be a one-off cost of informing inspectors about the new requirement and ensuring sufficient understanding of the Customs Code rules.
- **Verifying that products are labelled (“visual check”):** The types of costs involved will depend on the approach a given authority is likely to take. Assuming that this is done for the products that are already examined as part of other market surveillance tasks, the costs are likely to be limited. This however carries with it a risk that products are targeted by authorities for reasons other than potentially incorrect or misleading origin labelling (i.e. due to higher safety risk), suggesting that in such cases marking on lower-risk products would be less likely to be controlled. Conversely, additional separate checks targeting origin labels would imply additional human resource requirement.
- **Verifying the correctness of the labelling:** As noted by the interviewees, this is likely to be one of the key cost items due to the potentially time consuming procedure to verify whether the origin claim made is correct. While this is unlikely to involve testing, it might require examining information provided by the manufacturer, a potentially time-consuming task especially for products with complex supply chains.

<sup>23</sup> Note: The Member State providing these figures had low labour costs compared to the rest of the EU

<sup>24</sup> Note: Unit cost of staff to the surveillance body reflecting one day of work. In this case, the surveillance tasks are conducted by chambers of commerce under the direction of the surveillance body, meaning that the cost estimate relates to external staff and should be treated as a high estimate. The yearly estimate is calculated assuming 250 working days in a year

- **Enforcing the requirement:** Additional human administrative resources are also likely to be needed to effectively act upon missing or incorrect labelling by taking actions against economic operators that do not comply with Article 7.
- **Other tasks:** As noted above, national authorities may face additional requests from economic operators and consumers concerning incorrect or misleading labelling. In addition, recording of origin information may require additional administrative adaptations on part of the authorities, although, as noted above, some authorities already collect this information, suggesting that such costs are not likely to be significant in relative terms.

Overall, drawing on the above list of potential tasks faced by market surveillance authorities, one would expect **the authorities to face no or very low costs only in situations where products are only checked for presence of the label, where that process is integrated into existing surveillance activities**, and where the number of additional enforcement cases is limited.

**If additional products are to be targeted or the correctness of labels is to be comprehensively verified at least in some cases, the authorities are likely to require additional human resources or would need to reallocate existing resources.** The input from surveillance authorities suggests that at least some of them expect to find themselves in this situation.

In terms of differences across sectors, in the rest of the study, notably in the sectorial sections, it is assumed that **in sectors where there are, on average, more controls, these controls would now also include controlling origin. As a result the costs of controlling origin in these sectors would also be higher.** This relationship would hold as long as control goes beyond “visual checks” and at least in some cases includes checking label correctness or following up missing or incorrect labels. It is important to note that in a situation **where there are separate checks focusing on origin labelling**, such differences across sectors would most likely not be observed. In this case it could be assumed that **costs for checking origin label would not change across sectors.**

One estimate concerning the potential impact on costs to market surveillance authorities comes from the US, where a 1996 report by the US International Trade Commission estimated the annual cost of investigating country-of-origin marking violations by the US customs to be approx. USD 1.25m throughout the 1993-1995 period<sup>25</sup>. Assuming this to represent the potential additional cost to market surveillance authorities, one could estimate this to amount to approx. USD 1.9m in 2015<sup>26</sup> currency or EUR 1.8m annually.

<sup>25</sup> U.S. International Trade Commission (1996): 'Country-of-origin Marking: Review of Laws, Regulations, and Practices.

<sup>26</sup> Calculations done using the US Bureau of Labor Statistics CPI Inflation Calculator using 1996 as base year. See <http://data.bls.gov/cgi-bin/cpi/calc.pl?cost1=5%2C500%2C000.00&year1=1996&year2=2015>

To put these figures into perspective, assuming all Member States would bear such costs (which might not be the case), this would equate to an average additional cost of EUR 65,000 per Member State or hiring of 1 or 2 additional inspectors (based on the above estimates), which appears to be broadly in line with the types of additional costs expected by some Member States.

### 5.1.3 Impact on market surveillance authorities: Impact of alternative solutions

The consulted national authorities provided **very mixed input with regard to alternative options**. Overall, where authorities saw little potential benefit from the proposal in terms of traceability, the alternative options were also seen as having little added value. Conversely, authorities expecting improved traceability as a result of Article 7 saw the first and last alternatives as insufficient in ensuring that information is available. Main views concerning the alternatives are summarised below.

- **Alternative 1 - Option to label product packaging or documentation:** This alternative was seen as having limited benefit, as it would not reach the consumer (if this is the policy objective) and also risks situations where origin information is not available once packaging or documentation has been discarded. In terms of costs it was considered by selected national authorities as a similar option to the status quo situation, since customs documents already need to include origin information, thus implying limited additional costs. Other authorities see it primarily as resulting in lower costs to businesses.
- **Alternative 2 - Alternative principles for determining origin:** This option was generally viewed as introducing additional complexity and contributing to confusion in the market.
- **Alternative 3 - Voluntary scheme with controlling the labels:** While the option would involve some costs, it was seen by some authorities as implying lower costs than the other two alternatives due to a lower number of labelled products. As a result, the authorities that expected no benefits to be generated by Article 7 identified this alternative as the preferred one, besides the status quo, due the lower expected costs.

## 5.2 Costs and benefits to consumers

This section focuses on costs and benefits to consumers, drawing on the conceptual model presented in the previous section and focusing on product safety and consumer information.

### 5.2.1 Impact on consumers: Impact on product safety

The key impact on consumers to be considered is the impact on product safety. In the context of investigating Article 7, improved product safety is primarily a function of:

- Improved traceability, enabling relevant authorities to pursue unsafe products;
- Ability of relevant authorities to restrict the availability of identified unsafe products; and
- Longer-term positive impact on product safety as a result of surveillance authorities' ability to trace unsafe products (e.g. where an increase in the likelihood of a manufacturer being approached by a surveillance authority leads to a change in the production processes).

This study investigates the first effect, with the latter two impacts being outside of the scope of this study. **The impact on traceability is in turn dependent on the value of Article 7 to the market surveillance authorities.**

The analysis of input from national authorities has shown that:

- **Information on origin is not the most important for tracing products.** Product traceability primarily requires the identification (name and address) of the economic operator responsible for the product; and
- **Majority of national authorities expected Article 7 to have no or very limited positive impact on traceability and safety.**
- **Some authorities identified benefits of origin labelling in specific circumstances**, for instance where manufacturers' contact details are missing or out of date, where the authority wishes to establish given economic operator's relative position within the supply chain, or where the authority wants to arrive at specific agreements with countries from where a significant amount of unsafe products might be originating

This in turn suggests that while certain benefits cannot be excluded, **the proposal is unlikely to result in a visible improvement in the safety of consumer products** available on the EU market. This is also in line with the positions of two consulted consumer organisations, which saw no clear link between origin labelling and product safety. While, as discussed in the next sections, an origin labelling system may require manufacturers to collect more information about their supply chains, which in turn could have an indirect impact on safety, this potential impact was not identified by the consumer organisations.

As noted previously, there are **instances where an origin label could have a clearer impact on traceability**, namely in situations where other information is incomplete or

not available and hence an origin label can supply basic traceability information. This was noted by some national authorities, as well as selected European industry associations:

- “In most cases the sole indication of the manufacturer’s address as required by current legislation has proved to be insufficient or misleading in the identification of the actual producer, and the manufacturer’s registered address did not always correspond with the place of manufacture”<sup>27</sup>.
- “Some BUSINESSEUROPE members support the Commission’s proposal for consumer products to bear a mandatory indication of the country of origin, believing that it would supplement basic traceability requirements”<sup>28</sup>.

At the same time it is important to keep in mind that where information on the manufacturer is misleading, there is a possibility that an origin label is also incorrect.

### 5.2.2 Impact on consumers: Impact on consumer information

An origin label placed on consumer products also constitutes **additional information for consumers** alongside price, brand, other labels (e.g. environmental labelling), marketing information placed on packaging, etc.

Following the conceptual impact model presented above, the impact of information on consumer welfare will depend on:

- Whether consumers use origin labels to make purchase decisions; and
- Whether the labels provide consumers with information that allows them to make more informed choices.

With regard to the latter effect, while **additional consumer information can help consumers make more informed decisions** and is presented as a benefit in the above figure, there are instances where this relationship may not hold. These can include:

- Instances where an additional label placed alongside existing labels (such as an existing origin label complying with a third country requirement) can result in less clarity for the consumer<sup>29</sup>; or
- Instances where an origin indication is misinterpreted or misunderstood by the consumer leading to misinformed decisions. This can arise in particular in the

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<sup>27</sup> CEC, Cerame-Unie, COTANCE, EBMA, EFIC, and European luxury goods and creative industries organizations (2014). ‘Joint position paper - Origin marking: a tool to strengthen product safety through transparency and traceability’

<sup>28</sup> BUSINESSEUROPE (2013). ‘Position Paper - BUSINESSEUROPE’s views on the Product Safety and Market Surveillance Package’. Available at: <http://www.businessseurope.eu/content/default.asp?PageID=568&DocID=31709>

<sup>29</sup> See for instance the following UK report: Better Regulation Executive and National Consumer Council (2007). ‘Warning: Too much information can harm - A final report by the Better Regulation Executive and National Consumer Council on maximising the positive impact of regulated information for consumers and markets’

case of complex products produced in a number of countries, which is discussed in more detail below.

Considerable amount of research has been done on the way consumers use origin information. Academic work since the 1980s has found that **"made in" labels affect evaluation of specific products** (see for instance Obermiller and Spangenberg, 1989), but that label is often combined with other factors, such as brand, to shape consumer perception of origin (see Min Han and Qualls, 1985; Schweiger, Otter, Strebinger 1997). In a 1999 review and meta-analysis of country-of-origin research Verlegh and Steenkamp see the country of origin effect for consumers as an outcome of an interplay between cognitive, affective, and normative aspects:

- **Cognitively**, country of origin can be viewed as a cue for product quality, but also for the country's economy, workforce and culture.
- **Affective** aspects include symbolic and emotional associations with the country.
- **Normative** aspects relate to "customer voting" (using a decision to purchase or not purchase a product as a "vote" in favour or against the country or its policies, this includes also the "buy domestic"/ethnocentrism effect).

The authors find the link between origin and perceived quality to be particularly strong, although they note that the effect does not change substantially where a product is designed in a given country, but manufactured elsewhere.

The evidence with regard to consumer interest in and use of origin labels is mixed:

- The 2010 Special Eurobarometer 357 survey investigated three categories of non-food products (textiles, electronic devices, cars/motorbikes) finding that **28%-32% of EU-27 consumers check the origin of products and it influences their purchase decisions**, while, **41%-48% of consumers do not check the origin of the products they buy**<sup>30</sup>.
- A poll of 1,000 consumers conducted for the Italian footwear association Assocalzaturifici in France, Germany, and the United Kingdom found that **81% of French consumers want to know the specific country products come from** and 11% want to know whether the product comes from the EU, with the figure being 80% and 10% for Germany and 66% and 10% for the UK. **47% of French consumers, 45% of German consumers and 21% of UK consumers would also be ready to pay a premium for EU made products**<sup>31</sup>.
- The study on the furniture sector found that consumers are willing to pay a premium for furniture products that are durable (82% of respondents), easy to maintain (78%) friendly to human health (75%), but also products that are

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<sup>30</sup> European Commission (2010). 'Special Eurobarometer 357 - International Trade Report'

<sup>31</sup> Assocalzaturifici. "MADE-IN SURVEY: Online survey conducted in the UK, Germany & France"

sustainably produced (56%). By comparison, **20% of consumers would be willing to pay a premium for products made in specific countries**<sup>32</sup>.

- A study conducted for the Altagamma Foundation, an association bringing together Italian high-end manufacturers across a range of sectors, found that **approximately 80% of customers in the luxury sector base their purchase decisions on the “made in” labelling of a product**<sup>33</sup>.

The input from consumer organisations is similarly varied. The 2004 consultation on country of origin<sup>34</sup> has shown that 26 out of 30 consumer organisations consulted believed it is important for consumers to be informed about the country of origin. The consultation conducted as part of the current study however noted that while there is some evidence of consumer interest in knowing more about origin and some consumers will always value more information about products, it is important to ensure that this information is actually valuable to consumers. **The two consulted European associations believed that Article 7 would not be effective in enhancing consumer information**, as discussed in more detail below.

Overall, while there is evidence of significant consumer interest in product origin, it is important to distinguish between consumers’ declared interest in product origin and the likelihood of consumers actually consulting product labels. Since the Eurobarometer data suggests that at least a sizable minority of consumers has an interest in product origin and uses origin labels when making purchase decisions, one can conclude that **Article 7 would constitute a benefit to consumers in that it would respond to the needs of those consumers who look for origin labels on products**.

The magnitude of this impact will however depend on the proportion of consumers in this category for a specific product group and the number of products within this group that are currently not labelled. The more detailed sector-specific findings concerning this effect are presented in more detail in Section 6.

With regard to actual **value of the information** and **impact on consumer choices**, the stakeholder positions and evidence are more contentious. As noted above, origin can serve as a cue for quality, but also a number of other product characteristics. As highlighted in a statement by members of the Origin Marking Alliance:

- “The indication of origin marking helps consumers to recognise the health & safety and social & environmental standards as well as the level of product safety applied”<sup>35</sup>.

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<sup>32</sup> CEPS (2014). ‘The EU Furniture Market Situation and a Possible Furniture Products Initiative’

<sup>33</sup> The Boston Consulting Group and Altagamma (2015). ‘True-Luxury Global Consumer Insight January 2015’

<sup>34</sup> European Commission (2005). ‘Annex to the Proposal for a Council Regulation on the indication of the country of origin of certain products imported from third countries – Impact Assessment’

<sup>35</sup> CEC, Cerame-Unie, COTANCE, EBMA, EFIC, and European luxury goods and creative industries organizations (2014). ‘Joint position paper - Origin marking: a tool to strengthen product safety through transparency and traceability’.

At the same time, consultations with stakeholders across a number of the investigated sectors (toys, domestic appliances, consumer electronics), as well as consumer organisations, highlighted two main counter-arguments, namely:

- **Country of origin label does not necessarily provide comprehensive information on where the product has been manufactured:** in cases where products are manufactured using a complex global supply chain, the principle of last substantial transformation underlying the Article 7 proposal would not necessarily provide a consumer with an accurate or full picture of where the product in question has been manufactured;
- **Country of origin is not an effective indicator of quality or safety:** while certain countries of manufacture may be more likely to be associated with certain undesirable product characteristics (safety, quality, sustainability or working conditions), there are also manufacturers in these countries who will be producing to higher standards.

The two above points mean that a number of scenarios are possible:

- A consumer seeking out a product with certain origin might in fact be purchasing a product produced to a large extent elsewhere;
- A product labelled as being produced in a country with (perceived) higher quality, safety, and labour standards might in fact contain elements produced elsewhere;
- A consumer might avoid products from certain countries for quality or safety reasons, despite these products being produced to high standards; or
- A consumer may seek out a nationally produced product to avoid environmental impacts of transport, while the product components might have in fact been transported from overseas (or even extensively within one country).

A specific example of these challenges has been identified by the European consumer organisations BEUC and ANEC:

- “[,,] Country of origin labelling is in many cases misleading for consumers. For instance, a German TV magazine reported that a bike of the brand “Kettler” had been labelled as “Made in Germany” although few components were manufactured in Germany: the tyres came from India and the seat post from Taiwan. Consumers clearly do not know what the label “Made in” refers to, especially when production involves more than one country– i.e. the country where the goods underwent their last, substantial, added value processing. It could lead to consumers making a choice for the wrong reason”<sup>36</sup>.

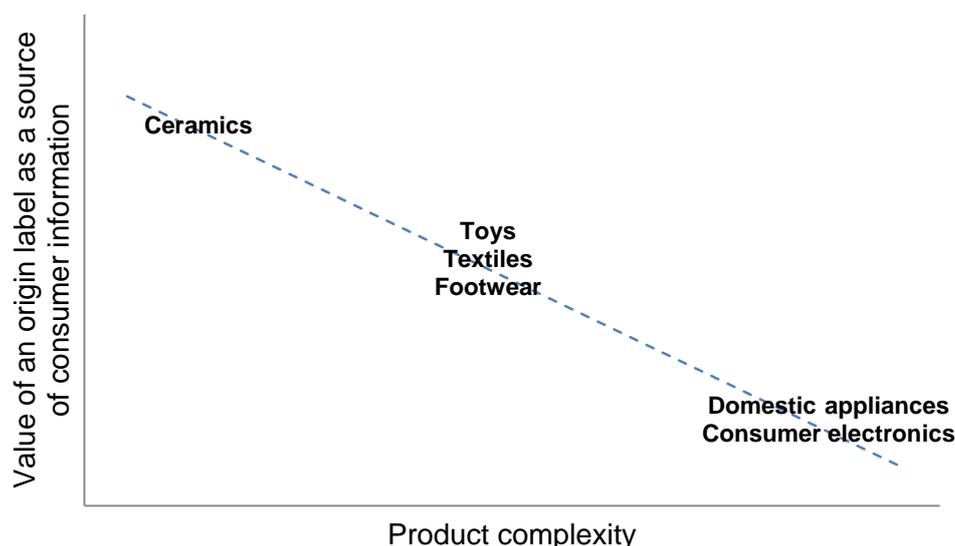
Overall, the stakeholder consultation and literature review suggest that **the value of origin labelling in informing the consumer will depend on nature of the product**

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<sup>36</sup> ANEC and BEUC (2013). ‘Position Paper on European Commission proposal for a Consumer Product Safety Regulation - Key issues from a consumer perspective regarding the Product Safety and Market Surveillance Package’

and the complexity of the supply chain. The following figure outlines this relationship, indicating the relative position of each of the six sectors under investigation.

Figure 4 - Relationship between product complexity and consumer information



While the key transformation of ceramic products is the firing, with the place of first firing commonly accepted as the origin of the product, products such as domestic appliances could consist of multiple components made in a range of different countries.

The Australian advocacy group Choice provides an example of a dishwasher produced by a Chinese manufacturer, where German companies supply the basket powder, heater, wires, and water softener, a US company supplies the basket, a UK company supplies the inverter, Italian companies supply the detergent dispenser and a water inlet valve, and the motor and steel come from a Chinese supplier. While the different suppliers manufacture their products in China and their home countries, they may also have factories in other countries, such as a German supplier manufacturing the detergent dispenser in Poland<sup>37</sup>.

A similar situation is likely to be observed in the consumer electronics sector. While textile products and footwear may also display a complex supply chain, the individual components are more likely to be easily recognisable to the consumer. With regard to toys, the wide range of products falling within the category means that it would include both very simple and very complex products.

In addition to the relationship between the value of an origin label as a source of consumer information and the supply chain, it is important to consider the **relationship between the origin label and brand**. As outlined in the discussion of academic

<sup>37</sup> See <https://www.choice.com.au/home-and-living/kitchen/dishwashers/articles/country-of-origin>

literature, and as highlighted by stakeholders across multiple sectors (domestic appliances, footwear and textiles), the brand plays an important role for consumers and can interact with (or substitute for) the country of origin in consumer evaluation of the product. Stakeholder consultation indicates that **in the case of large and recognisable brands, the brand name may play a more significant role than country of origin from the point of view of the consumer.**

Overall, the evidence concerning the value of Article 7 in terms of consumer information is mixed, showing that it is likely to largely depend on the nature of the product, the complexity of the supply chain, and the brand name of the producer.

### 5.2.3 Impact on consumers: Impact of alternative solutions

When examining the alternatives from the point of view of impact on consumers, the consulted consumer organisations indicated that the assessment would ultimately depend on whether the objective of the initiative is to enhance consumer information or to improve product safety.

- **Alternative 1 - Option to label product packaging or documentation:** This option is seen as detrimental from the point of view of potential impact on traceability, since packaging and documentation are often discarded, meaning that it cannot contribute to traceability. From the point of view of consumer information, consumers could still misinterpret the labels. While placing origin information on documentation can avoid this, it would also not generate any benefits.
- **Alternative 2 - Alternative principles for determining origin:** Since European consumer organisations do not see the Customs Code origin rules as fit-for-purpose for informing consumers, this option could theoretically allow the use of labelling principles that provide more valuable information to consumers, although the scope for doing so may be limited under the current legislative framework. While the consumer organisations consulted as part of the study acknowledged this, they also stressed that there is no viable alternative they are aware of that would effectively achieve this.
- **Alternative 3 - Voluntary scheme with controlling the labels:** This option is viewed as not contributing to traceability and safety, nor to significantly enhancing consumer information, although it could address existing misleading labels. Therefore it is seen as a preferred option for one of the consumer organisations.

One additional alternative option put forward by one consumer organisation is to **use codes representing countries of origin** that would be understood by relevant authorities and manufacturers, but would not aim to address consumers. Using such codes rather than “made in” statements on products could supplement traceability

information without having an adverse effect on consumers by providing potentially confusing information.

Overall, consulted European consumer organisations acknowledged the importance of ensuring the adoption of the Regulation, however with regard to Article 7 a status quo situation, or potentially the third alternative option are preferred.

### 5.3 Costs and benefits to businesses

The impact on businesses constitutes an important element of the overall conceptual understanding of the costs and benefits of Article 7. The impact on a given manufacturer will depend on:

- Whether the manufacturer already includes origin labels on products;
- If so, what type of origin marking is used and whether it is in line with the principles for determining origin under the Article 7 proposal;
- The marking used by competitors within the relevant sector and market segment, both within and outside of the EU and the likely changes to these practices due to the proposal; and
- The broader nature of the market segment, in particular the value assigned by consumers to product origin.

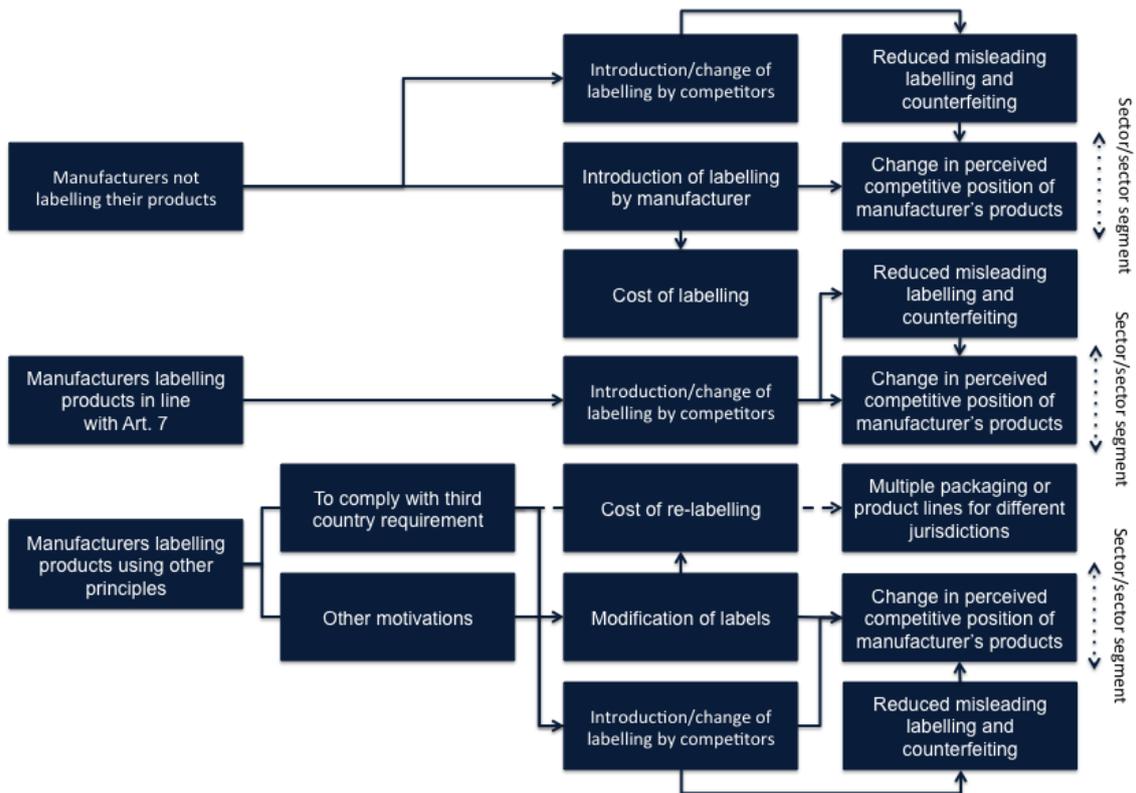
The costs and benefits can in turn be divided into:

- **Adaptation costs** including **direct costs** of complying with the requirement through labelling and re-labelling of products, and longer-term **indirect costs** associated with any potential changes to the supply chain resulting from the new requirements. Both these costs could be one-off or on-going depending on the nature of the supply chain.
- Broader **impact on manufacturers' competitive standing** resulting from consumer perception of the label and competitors' labels, as well as impact on counterfeiting, misleading use of labels or any broader trade impacts.

The following figure presents the conceptual understanding of the impacts based on three main types of manufacturers'

- Manufacturers that do not label their products with an indication of origin;
- Manufacturers that label their products with an indication of origin in line with Article 7; and
- Manufacturers that label their products with an indication of origin in a manner that is not compatible with Article 7.

Figure 5 - Impact model: Potential impact on industry



The following sections outline the overall findings with regard to the costs and benefits to businesses, structured according to the individual elements of the above framework. Detailed findings for specific product groups are outlined in Section 6.

### 5.3.1 Impact on industry: Adaptation costs

Stakeholder consultation has confirmed that **adaptation costs will depend primarily on whether and how a producer labels their products**. This, in turn, will be a function of:

- Whether the product is exported to third countries with origin labelling requirements (e.g. the US); and
- The nature and complexity of the supply chain.

Individual businesses can therefore be classified along these two dimensions, as outlined in the figure below:

**Figure 6 - Production characteristics and adaptation costs**

	Simpler supply chain/largely EU production	Complex supply chain/globalised production
Products sold primarily in the EU	<ul style="list-style-type: none"> <li>• Not previously subject to a labelling requirement.</li> <li>• Less complex to determine origin,</li> <li>• More likely to already label products on voluntary basis.</li> </ul>	<ul style="list-style-type: none"> <li>• Not subject to labelling requirement (unless such is applied to exports from a country where production is sourced).</li> <li>• More complex to determine origin.</li> <li>• Less likely to already label products.</li> </ul>
Products sold in the EU and exported to third countries	<ul style="list-style-type: none"> <li>• Subject to third country labelling requirements.</li> <li>• Less complex to determine origin.</li> <li>• Will face an additional labelling requirement (on top of existing requirements), which may or may not be consistent with existing labelling practices.</li> <li>• May need to further segment production.</li> <li>• May face reduced flexibility in the supply chain.</li> </ul>	<ul style="list-style-type: none"> <li>• Subject to third country labelling requirements.</li> <li>• More complex to determine origin, although some investments needed to determine origin might have already been made.</li> <li>• Will face an additional labelling requirement, which is less likely to be consistent with existing labelling practices given a more complex supply chain.</li> <li>• May need to further segment production.</li> <li>• May face reduced flexibility in the supply chain.</li> </ul>
Products not sold in the EU	<ul style="list-style-type: none"> <li>• No adaptation costs</li> </ul>	<ul style="list-style-type: none"> <li>• No adaptation costs</li> </ul>

The final scenario where a producer does not sell the product on the EU market and is therefore not subject to Article 7 is likely to be relatively rare for EU producers and has not been identified during stakeholder consultation.

Overall, based on the above figure, businesses may face very **limited adaptation costs in situations where they already label the product in line with Article 7** (in this case the only likely cost is that of demonstrating compliance during controls). According to the consultation, there are businesses finding themselves in this situation, especially those with simpler supply chains for which determining origin is likely to follow broadly the same principles regardless of jurisdiction. This is for instance the case in the ceramics sector, discussed in more detail in the next section.

Other producers that already label their products with an indication of origin however expect that their **current labelling practices may not be fully in line with Article 7**. As discussed in Section 4, even in situations where the same broad principle of last

substantial transformation is used, the interpretation of that principle may vary and specific rules may apply. While no systematic data is available on the proportion of products on the EU market applying specific principles, potential discrepancies between existing practices were identified primarily in the domestic appliances, consumer electronics, and textiles sectors and are discussed in more detail in the relevant sections.

There is little reliable information on the overall proportion of products on the EU market already bearing the origin mark. The impact assessment for the 2005 country of origin labelling proposal<sup>38</sup> uses a conservative estimate of 50% (“half of the products”), although the basis for this estimate is not clear. Nevertheless, even if an estimate of marked products were available, it would not necessarily indicate products marked in line with Article 7, meaning that arriving at a robust cross-sector estimate of the proportion of products unlikely to face any adaptation costs is difficult.

The remaining businesses will face a certain level of adaptation costs, including the following **direct adaptation costs**:

- Costs of collecting relevant information for determining the country of origin to be included on the label; and
- Costs of designing and affixing the label or modifying an existing label.

The **stakeholders consulted across all the sectors generally believed that the costs of labelling the product itself would be relatively low**, as long as this is carried out in the factory. These costs are likely to increase where the labelling needs to be done at a later stage, as noted by one stakeholder representing the sports footwear and apparel sector. This would be necessary if the expected destination for a product is changed at any point after the product leaves the original production line.

Similarly, two of the interviewed industry stakeholders also highlighted the **potential impact on retailers acting as importers**, who might incur labelling costs to (re-) label un-labelled or incorrectly labelled products. The need for (re-) labelling by importers could for instance arise where the importer intends to sell a product in a different market than the products were initially manufactured for. One of the consulted stakeholders claimed that this could have a disproportionate impact on SMEs, who have fewer resources and also purchase their products from a range of suppliers over whom they exercise less control compared to larger retail chains.

Finally, **costs of labelling can also depend on the nature of the label** (i.e. whether the label needs to be permanent), as has been mentioned by one stakeholder in the

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<sup>38</sup> European Commission (2005). ‘Annex to the Proposal for a Council Regulation on the indication of the country of origin of certain products imported from third countries – Impact Assessment’

domestic appliances sector. In particular, the cost of a sticker is expected to be lower than a cost of a non-removable label, although no specific estimates are available.

Compared to costs of labelling the product, if products are produced using more complex global supply chains **the costs of determining origin are likely to be considerably higher than costs of applying the label**. Consulted stakeholders in the domestic appliances and textiles sector noted that businesses may not have all the information concerning the supply chain (for instance when using contract manufacturers with multiple international facilities) and effectively determining origin may require introducing tailored database systems. This view has also been highlighted by DIGITALEUROPE:

- “In addition, it is hard to pinpoint the exact country of origin of a complex digital product. The supply and manufacturing chain of today’s products is complex. It is common for products to be partially assembled in one country before being transferred to manufacturing sites in one or more other countries for completion”<sup>39</sup>.

It is however important to note that if such manufacturers are subject to third country requirements, they may have already made some of the necessary investments in order to effectively determine the origin of their products. Some costs are still likely to be incurred in order to understand if there are differences between Article 7 and current labelling practices, as discussed in previous sections, but **having systems in place for collecting necessary information is likely to reduce the potential adaptation costs**. While no indications concerning the proportion of manufacturers who may have such systems in place have been identified, the stakeholder consultation suggests that it is more likely to be the case for larger manufacturers operating globally.

Another important consideration is the fact that for products that need to be imported into the EU, origin would most likely already be determined for customs purposes, suggesting that no additional costs would be borne for determining origin. This would however only be the case for products that enter the EU in a relatively final form. In addition, one stakeholder has highlighted that **using the Customs Code is already challenging** due to a range of exceptions pertaining to specific products, as well as differing interpretations by customs authorities. While, according to the stakeholder, currently it is relatively easy to make changes to documentation where a declaration is deemed incorrect, this would be more costly and time-consuming in the case of product labels.

The most significant costs identified by consulted stakeholders (in particular in the toys, domestic appliances and consumer electronics sectors) are the other **indirect**

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<sup>39</sup> DIGITALEUROPE (2014). ‘Press Release - DIGITALEUROPE Urges EU Member States to delete the ‘Made In’ clause in the Consumer Product Safety and Market Surveillance legislative package’

**adaptation costs** resulting from the labelling requirement. The specific costs identified include:

- **Loss of flexibility in channelling production:** where products need to include specific origin labels for specific markets, they are effectively “earmarked” for one market and cannot be sold in another market without modification or re-labelling. This in turn limits manufacturers’ ability to respond to changes in demand, address shortages in specific markets, or dispose of overproduction.
- **Loss of flexibility in the supply chain:** a requirement to label origin might limit manufacturers’ ability to rapidly change suppliers if such a change can affect the label.

While these effects are generally seen as having a significant impact on the above sectors, it is important to highlight the fact that where manufacturers are already subject to third country labelling requirements, some of these effects should already be observed. In that sense, for many businesses operating internationally, the Article 7 requirement could **add to existing inflexibilities and fragmentation** already faced by these businesses, but would **not constitute a completely new and unique source of costs**.

In addition, many manufacturers may already employ a degree of “earmarking” of their production. The input obtained from a major EU toy manufacturer discussed in more detail in the next section, shows the company segmenting its production between, on one hand, the US market and, on the other hand, the European and Asian market. While in that specific case the company argues that Article 7 would require further splitting of European and Asian production, the products for the US market are already “earmarked”. More broadly, **any labelling requirements (also beyond origin labelling) that are not fully harmonised in all markets a producer supplies mean that a degree of “earmarking” or market segmentation is already in place**. This is discussed in more detail for specific sectors in Section 6.

The following table provides a qualitative summary of the identified cost items for the different types of manufacturers. Specific cost estimates are presented in Section 6.

Figure 7 - Adaptation costs: summary

	Simpler supply chain/largely EU production	Complex supply chain/globalised production
Products sold primarily in the EU	<ul style="list-style-type: none"> <li>• <b>One-off costs:</b> None or very low if already labelling products in line with Article 7. Low if not labelling products.</li> <li>• <b>Recurring costs:</b> None or very low.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>One-off costs:</b> Medium to high due to costs of determining origin.</li> <li>• <b>Recurring costs:</b> None or very low if all investment to determine origin is made up front.</li> </ul>
Products sold in the EU and exported to third countries	<ul style="list-style-type: none"> <li>• <b>One-off costs:</b> None or very low if already labelling products in line with Article 7. Low if not labelling products or labelling using other principles.</li> <li>• <b>Recurring costs:</b> None or very low if already labelling products in line with Article 7. Can be significant <i>if</i> not currently labelling or facing different labelling requirements due to need to further segment production, unless the necessary segmentation is already in place.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>One-off costs:</b> Medium to high due to costs of determining origin. Potentially lower where necessary investments for determining origin have been made.</li> <li>• <b>Recurring costs:</b> Can be significant due to need to further segment production, unless the necessary segmentation is already in place.</li> </ul>

**Estimating the overall costs of adaptation to the Article 7 requirements across sectors is difficult due to the range of factors affecting costs and the diversity of producers.** The Impact assessment for the 2005 country of origin labelling proposal estimated the costs to amount to up to 1% of the ex-work price of the product (price minus the handling and freight costs)<sup>40</sup>. While such estimates could potentially be applied to the production value of relevant industries to arrive at an order of magnitude of costs (for instance 1% of the total production value in the toy industry, estimated at EUR 6bn would amount to EUR 60m), they would not reflect the distribution of impact across businesses in different sectors. Adaptation costs individual sectors are outlined in more detail in the next section, although even within each sector substantial variations can be expected.

### 5.3.2 Impact on industry: Impact on businesses' competitive position

Another more indirect impact on industry relates to the impact on the businesses' competitive position. These can refer to:

- **Changes in consumers' evaluation of a product** as a result of a country of origin label and subsequent impact on sales; and

<sup>40</sup> European Commission (2005). 'Annex to the Proposal for a Council Regulation on the indication of the country of origin of certain products imported from third countries – Impact Assessment'

- Broader impact relating to a **“level playing field”** vis-à-vis other third country markets.

With regard to the former impact, the main identified effect is the increased transparency and differentiation of EU production from non-EU production, as noted by Cerame-Unie, the European association representing the ceramics sector:

- “The Product Safety and Market Surveillance package also represents a unique opportunity to take advantage of the advanced European environmental and social legislation and to turn it into a competitive advantage factor for the European products, versus the ones imported from countries with lower social and environmental standards, since origin marking also helps the consumer to distinguish and choose among products”<sup>41</sup>.

While similar arguments have been put forward by stakeholders in the footwear and textiles sectors, it is important to note that **manufacturers that can benefit from a “brand” effect of a country of origin label are likely to already label their products**. In that sense, any **benefit to these producers will result primarily from previously un-labelled products** (or misleadingly labelled products, as discussed in the next subsection) needing to carry a correct origin label. One can in turn expect that such effect is potentially further limited by the fact that some of the consumers that base their purchases on origin labels may already be seeking out labelled products and avoiding non-labelled ones.

In addition, as the previous sections highlighted, **the more complex the product, the less likely an origin label is to contribute to transparency and the less likely it is that consumers would be able to make a more informed choice** concerning product origin.

A second main effect is that of creating a **“level playing field”** compared to third countries where origin labelling requirements are already in place. As noted by the Origin Marking Alliance:

- “[...] mandatory origin marking schemes are widespread outside the EU. They exist in markets such as the USA, Japan and China. Manufacturers active in those markets already comply with strict mandatory origin marking requirements. Its introduction at EU level would simply put European companies and consumers on an equal footing vis-à-vis their foreign counterparts”<sup>42</sup>.

However, despite the point being raised by a number of industry associations in favour of the proposal, there is little available evidence that would allow for assessing the

<sup>41</sup> Cerame-Unie (2013). ‘Cerame-Unie’s Position on Product Safety and Market Surveillance Package’

<sup>42</sup> CEC, Cerame-Unie, COTANCE, EBMA, EFIC, and European luxury goods and creative industries organizations (2014). ‘Joint position paper - Origin marking: a tool to strengthen product safety through transparency and traceability’

potential impact. In addition, it is important to note that differences between origin labelling requirements, as presented in Section 4, would remain even with Article 7 in place.

Overall, the evidence of the impact on businesses' competitive position is mixed and there are no clear cross-sector conclusions that can be drawn. It is important to note that **none of the consulted stakeholders highlighted potential negative impacts as a result of the consumer perception of the label.**

### 5.3.3 Impact on industry: Impact on misleading labelling and counterfeiting

The final industry impact to investigate is the **impact on misleading use of origin labelling and counterfeiting**. While the former effect is a consequence of controlling the way origin labels can be used, the later relates to the potential reduction in the number of IPR infringements, identified as a potential impact for instance in the impact assessment for the 2005 proposal<sup>43</sup>.

It is important to note that these two practices should be viewed separately, since they are not necessarily connected. For instance, **a counterfeit product could bear a correct origin mark** and would therefore not be misleadingly labelled. Nevertheless, since both effects concern the use of Article 7 to challenge and change the existing labelling of products, they are addressed in the same section.

A number of industry associations highlighted that an **operator willing to sell counterfeit products will not shy away from placing a fraudulent origin label on a product:**

- As noted in a joint statement by a number of German industry bodies: "Requiring indications of origin does not protect against piracy. For counterfeiters, it makes no difference if they fake a logo, a design or an indication of origin"<sup>44</sup>.
- A wide range of European associations released a joint statement noting that "A mandatory country of origin label "made in ..." for imported goods arriving from third countries will not protect against nor limit counterfeiting and piracy. Counterfeiters who illegally copy brands, security items, patents and designs are not afraid of such regulations. They even use false origin labelling to deceive consumers"<sup>45</sup>.

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<sup>43</sup> European Commission (2005). 'Annex to the Proposal for a Council Regulation on the indication of the country of origin of certain products imported from third countries – Impact Assessment'

<sup>44</sup> DIHK, BGA, BDI, t + m, and AVE (2013). 'The indication of origin requirement in Article 7 of the proposal for a regulation on consumer product safety (COM (2013), 78) from 13 February 2013 does not benefit consumers'

<sup>45</sup> ACFC, BDI, BGA, British Chambers of Commerce, Cyprus Chamber of Commerce and Industry, Danish Chamber of Commerce, Finland Central Chamber of Commerce, DIHK, FTA, t + m, ICO, Kamer van Koophandel, MODINT, Swedish Chambers, and WKO (2010). 'MADE IN ... labelling should remain on a voluntary basis!'

Nevertheless, the main argument put forward by stakeholders in favour of the proposal is that Article 7 will provide an **additional legal basis** for pursuing counterfeit and misleadingly labelled products. Especially in the latter case of misleadingly labelled products, **Article 7 is seen by some stakeholders as a stronger legal basis than the UCPD** and hence of significant added value, provided that an effective enforcement system is in place. The review of the UCPD application presented in Section 4 appears to confirm that it does not appear to fully address problematic origin labels.

In addition, an origin **labelling requirement would also address situations where unlabelled products have properties (names or design) suggesting a particular origin**, since it would be able to clarify where the product has been manufactured (keeping in mind the aforementioned challenges concerning using the origin label as a single source of information about place of manufacture). While no reliable figures exist to assess the prevalence of this effect, Section 6 discusses this effect in more detail for specific product groups.

#### 5.3.4 Impact on industry: Impact of alternative solutions

While the expected impact of the alternative options will vary significantly by sector, stakeholders presented some general views about the impact of the proposed alternatives on businesses:

- **Alternative 1 - Option to label product packaging or documentation:** The assessment of this option will depend on the overall position of industry stakeholders with regard to potential benefits of Article 7. Where it is seen as having limited benefit, the option has been identified as potentially leading to lower costs for businesses. Conversely, stakeholders in sectors expecting to benefit from Article 7 (i.e. ceramics or footwear) did not see the alternative as acceptable, as origin information could not be effectively communicated to the consumer.
- **Alternative 2 - Alternative principles for determining origin:** This option is generally viewed with scepticism, given that no viable alternative proposal exists. Overall, industry stakeholders see creation of an alternative way of determining origin as a source of further fragmentation and potential confusion.
- **Alternative 3 - Voluntary scheme with controlling the labels:** For industry stakeholders expecting to benefit from the proposal, this option would also not allow to effectively communicate origin to consumers. For other stakeholders, the option was seen as viable alternative, due to being cheaper, allowing existing labelling (where such is not inconsistent with the principle used to control labels), and addressing misleading labels. Nevertheless, some stakeholders highlighted that given no expected impact on traceability, it is not clear why such alternative should be introduced, even if it is cheaper and more acceptable to these stakeholders than Article 7.

## 6 Costs and benefits for specific product groups

- For products where origin labelling is not widespread and where there is no clear evidence of consumer interest in origin labels, Article 7 is likely to have limited benefit to consumers and businesses. This is primarily the case for the consumer electronics and domestic appliances sectors.
- For products where the use of labelling is more widespread and compatible with Article 7 and where there is evidence of consumer interest in origin labels, some market segments could benefit from labelling. Footwear and ceramics are examples of such product groups.
- In the textile sector the current labelling practices are varied and so is the nature of the supply chains. As a result, costs are likely to vary across market segments. Article 7 is therefore likely to represent a net benefit to some producers and a net cost to others.
- In the case of toys, widespread labelling and homogenous product origin mean that Article 7 is not likely to benefit toy producers and consumers. It can also carry costs for larger companies operating on a global level, which may need to adapt their supply chains. Overall, the proposal is likely to represent a net cost to the sector.

The following sections outline the costs and benefits for the six product groups investigated in this study. Each section includes an overview of the sector and outlines the potential impacts for these product groups.

### 6.1 Toys

#### 6.1.1 Characteristics of the sector and products

##### *Product coverage*

Following the NACE classification, the toys product group is defined as including dolls, toys and games (including electronic games), scale models and children's vehicles (except metal bicycles and tricycles). It is important to note that "electronic games" in this case excludes video game consoles and video game software. Overall the **product group investigated can be viewed as corresponding to the "traditional toys and games" category** used for instance in the 2013 study on the competitiveness of the toy industry conducted for the European Commission<sup>46</sup>.

##### *Sector data*

The following table outlines the main characteristics of the EU toy industry.

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<sup>46</sup> ECSIP Consortium (2013). 'Study on the competitiveness of the toy industry'

**Table 3 - Sector characteristics: Toys**

Indicator	Data
Number of enterprises	5,206
Proportion of SMEs	99.5% (see Note to table)
Production value	EUR 6.0bn
Total exports	EUR 1.4bn
Main export partners (by percentage of total extra-EU28 exports)	United states (14%), Russian Federation (14%), United Arab Emirates (4%), Japan (4%), Australia (4%)
Total imports	EUR 5.6bn
Main import partners (by percentage of total extra-EU28 imports)	China (81%), United States (4%), Taiwan (3%), Hong Kong (2%), Japan (2%)

**Source:** Eurostat Structural Business Statistics (enterprise data), PRODCOM (production data and trade totals), Eurostat International Trade Statistics (trade partners), 2012 figures

**Note:** Due to missing data, data on export and import partners reflect the trade patterns for the “BABY CARRIAGES, TOYS, GAMES AND SPORTING GOODS” category (SITC code 894). Total figures are drawn from the PRODCOM database. Data on the proportion of SMEs reflects the proportion of SMEs among enterprises for which the relevant NACE category/categories represent the principal economic activity. Not all of these enterprises are necessarily manufacturers to whom the Article 7 requirement would apply.

As can be seen above, the overall **sector is dominated by SMEs**. The three large manufacturers operating on the EU market include Mattel Inc., LEGO Group and Hasbro Inc. These three producers in 2011 amounted to over 25% of total sales across 9 EU markets (France, Germany, Italy, the Netherlands, Poland, Spain, Sweden, UK, and Romania)<sup>47</sup>.

### *Key sector characteristics*

A number of other important characteristics of the toy sector have been identified:

- **Toy production predominantly takes place in China**, with over 86% of all toys being produced there<sup>48</sup>. As a result, consulted stakeholders argue that most consumers expect toys to be of Chinese origin.
- The aforementioned **Toy Safety Directive** governs labelling in the sector. The Directive sets out a number of minimum requirements to ensure toy safety and includes traceability provisions requiring the manufacturer or importer to: “indicate their name, registered trade name or registered trade mark and the address at which they can be contacted on the toy or, where that is not possible, on its packaging or in a document accompanying the toy”. In addition, according to Annex IV of the Toy Safety Directive, the addresses of the places of manufacture and storage need to be indicated in the technical documentation to be drawn up by the manufacturer.

<sup>47</sup> ECSIP Consortium (2013). ‘Study on the competitiveness of the toy industry’

<sup>48</sup> ECSIP Consortium (2013). ‘Study on the competitiveness of the toy industry’

- While this has not been highlighted by consulted stakeholders within the context of the study, **counterfeiting appears to be significant problem** faced by the toy industry, with toys being the sixth most often detained product group by customs IPR enforcement in 2013 (accounting for 8% of detentions compared to 12% for textiles, the most commonly detained product group)<sup>49</sup>. Particular problems involve **parasitic copying**, which uses near identical product design, packaging, and branding as the original product to mislead consumers. This escapes a potential trademark infringement while still often constituting copying of the original design<sup>50</sup>.

### *Labelling practices*

According to the consulted stakeholders **virtually all toys already bear an origin label**, with, as noted above, the majority of these labels indicating a Chinese origin. While no detailed information was obtained on the nature of the labelling currently used by European toy manufacturers, consulted stakeholders noted that practices differ, with some manufacturers using labelling that may not be in line with Article 7. This includes statements specifying the origin of individual components, or situations where multiple origins are declared (as discussed in more detail below).

One practical example of the approach to origin labelling provided by one consulted manufacturer involves using the location of the factory as a basis for specifying origin, but where factories in one country are supplied by a factory in another country tariff code changes and value of the product are also taken into consideration.

Overall, the existing origin labelling practices used by EU exporters in the toy sector would need to comply with requirements in destination markets such as the US or Russia. These follow similar broad principles to Article 7, but are not identical. The above figures also suggest that a substantial proportion of EU production is not exported. While this production is likely to be labelled, the above input from stakeholders suggests that this **labelling may also not be fully in line with Article 7**.

#### 6.1.2 Impact on national authorities

The consulted national **authorities did not indicate that the impact of labelling of toys in terms of tracing products would differ from the overall impact** of Article 7.

With regard to the **costs of controlling origin**, consulted national authorities saw toys as higher risk products and one of the priority areas for their market surveillance activities. This in turn means that **current costs associated with controlling toys are likely to be higher than those for other product groups**, given additional resources

<sup>49</sup> European Commission (2014). 'Report on EU customs enforcement of intellectual property rights Results at the EU border 2013'

<sup>50</sup> ECSIP Consortium (2013). 'Study on the competitiveness of the toy industry'

being devoted to these products. For instance one authority indicated that 10% of its resources are devoted to toys, compared to 2% for footwear. Another authority noted that out of EUR 160,000 allocated annually to sampling and testing of products, EUR 50,000 is dedicated to toys.

No specific estimates were gathered on the additional costs to national authorities with regard to toys. As discussed in the previous section, the costs of controlling origin will depend on the way additional tasks are integrated into existing practices. If controlling origin labelling were to be carried out alongside other surveillance tasks, one would expect that **additional costs of controlling the origin labelling of toys would be higher than for other product groups**, in as far as these tasks involve more than just “visual checks”. The reasoning behind this assessment is explained in more detail in Section 5.1.2.

### 6.1.3 Impact on consumers: Impact on product safety

As noted above, **national authorities see toys as higher-risk products** due to their intended users, as well as due to the observed number of dangerous products on the market. Toys are also a focus area for consumer organisations. While the organisations note that a lot of progress had been made, there are still issues with regard to **chemical content, level of noise emitted or detachable parts**.

Overall, as is the case for other products, the consulted **consumer organisations did not expect Article 7 to have a positive impact on the safety of toys**. Similarly, input from national authorities suggests that, overall, Article 7 would have no or very limited impact on product traceability and, subsequently, product safety, which also applies to toys.

Finally, industry stakeholders note that the **Toy Safety Directive** already includes traceability requirements, with the Article 7 proposal seen as having limited added value.

### 6.1.4 Impact on consumers: Impact on consumer information

Whether an origin label on toys can contribute to consumer information will depend on the current labelling practices and consumers’ interest in and use of origin labels. As noted above, the consulted stakeholders in the sector highlighted that **practically all toys on the EU market are labelled with an indication of origin**, although one major toy producer currently uses three origin labels on their products reflecting the fact that different parts can be produced at different manufacturing sites.

With regard to the consumer interest in origin, the evidence is mixed. While consulted stakeholders argued that origin does not play a large part in consumer decision-

making, given the consumers' assumption that majority of toys are made in China, there is some evidence of origin playing a part in consumers' purchase decisions with regard to toys.

Although there is no systematic EU consumer research available in this sector, consumer perception of the origin of toys has been explored in other jurisdictions. A 2007 Reuters/Zogby poll conducted in the US following a series of high-profile toy recalls, revealed that 75.8% of consumers claimed they would not purchase Chinese-made toys during the holiday season. The firm behind the poll however noted that it is not clear to what extent this sentiment translates into purchase behaviour, nor how long such a sentiment is likely to last, considering it has not been observed previously<sup>51</sup>. Similarly, a 2011 US study on the country-of-origin effect in the toy sector noted that the effect of a negative country-of-origin evaluation remains present in the case of consumers shopping for toys<sup>52</sup>.

Conversely, one of the stakeholders interviewed in the sector stated that the company in question used "Made in USA" as a marketing strategy for the eligible products in the US market, but found it to be unsuccessful.

Overall, while an **origin label might satisfy some consumers' interest in product origin**, for instance following high-profile product recalls, the fact that origin marking appears to be already widespread and the fact that the evidence with regard to consumer interest is mixed suggests that the **overall impact on consumer information is likely to be limited**.

#### 6.1.5 Impact on industry: Adaptation costs

As noted in the previous sections, adaptation costs will depend primarily on the extent to which products are currently labelled and the nature of that labelling. Given that, as noted above, origin labelling appears to be widely used by the industry, **one would expect the adaptation costs to be limited** and to apply primarily in situations where current practices may not be in line with the Article 7 requirements. While two of the interviewed stakeholders noted that the labelling costs could be high if labels in different languages are required, this concerns requirements going beyond the scope of Article 7. In addition, another interviewed stakeholder noted that the **overall costs of affixing labels are low**.

Potential longer-term costs have however been identified by three stakeholders with regard to the flexibility in managing the supply chain. An example of this is provided by one of the leading companies on the EU market, which argues that it is currently able

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<sup>51</sup> See <http://www.reuters.com/article/2007/10/17/us-usa-consumer-poll-idUSN1619466920071017>

<sup>52</sup> Kabadayi, S. and Lerman, D. (2011). 'Made in China but sold at FAO Schwarz: Country of origin effect and trusting beliefs', *International Marketing Review*, Vol. 28 Iss: 1, pp.102 - 126

to sell the same product produced in China or the EU in both the EU and the Asian market using the same packaging and labelling the packaging with information regarding the potential origin of its content (since a single toy can consist of components produced in different facilities in EU or Asia). An introduction of Article 7 would create a requirement for packaging to indicate a single country of origin, with different packaging necessary for products made in EU facilities and those made in China. According to that company, the direct costs associated with this would include:

- **One-off costs of modifying packaging** amounting to approx. €1.3m-€1.6m; and
- **Annual cost of handling different graphics** of approx. €235,000.

In addition to these direct costs, the company also indicates that the Article 7 requirement would entail **indirect costs resulting from not being able to sell products produced in Asian sites on the EU market and vice-versa as easily as before**, due to the need to change packaging.

This could be seen as an example of the challenges related to the “earmarking” of products, although the company has not been able to quantify the potential impact. It is also important to note that, according to the company, it already faces the issue of “earmarking” with regard to products sold in the US, which require different labelling from those in the EU and Asian markets. Article 7 would therefore effectively create another division in the company’s markets. Finally, the company also noted that given that constituent parts of its toys can come from multiple production sites in the EU, the company is likely to also face a challenge in addressing such products, since it expects that “Made in EU” would not be considered an appropriate label in the Asian market.

Another of the consulted producers also noted **potential challenges with regard to cross-shipping** of products between markets, arguing that additional requirements in specific regions would carry with them additional costs, although the company was unable to provide specific cost figures.

Overall, collected information suggests that **adaptation costs are likely to be limited** and are likely to primarily impact global market players. Even in the case of the global producers, some level of segmentation or “earmarking” is already expected, especially given toy safety regulations in different markets, suggesting that any reduction in supply chain flexibility is likely to further add to limitations firms may already be facing rather than constitute a completely new challenge. Drawing on the review of the EU toy market, which showed the EU market share of the three global toy producers to be 26.5%<sup>53</sup>, one could assume this to reflect the share of the market most likely to be affected by Article 7. Arriving at potential cost estimates is however more problematic. The estimates provided by one major toy producer refer to a specific case of using a

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<sup>53</sup> ECSIP Consortium (2013). ‘Study on the competitiveness of the toy industry’

single packaging in the EU and the Asian market. There is no evidence that other global companies would face a similar challenge.

Firms operating solely in the EU are likely to already label their products, thus facing more limited direct adaptation costs, and are also less likely to face challenges with regard to directing their production to different global markets. Nevertheless, where their labelling is not in line with Article 7, some costs to determine origin and adapt labels could be expected.

#### 6.1.6 Impact on industry: Impact on businesses' competitive position

The **consultation with stakeholders has not identified any potential impact of the proposal on the competitive position of certain businesses when compared to their competitors**. This can be primarily attributed to both high prevalence of labelling, as well as the dominance of China as an origin country for majority of toys on the EU market. As noted in the study on compulsory origin marking conducted for the Department of Business, Innovation and Skills in the UK<sup>54</sup>, which investigated toys among other products, **the advantage of a particular country of origin is diminished if the country of origin of competitor products is relatively homogenous**, as is the case in the toy sector.

The above example of a major toy producer finding a strategy of highlighting a “Made in USA” origin to be unsuccessful further suggests that **individual producers are unlikely to see their competitive position change as a result of an origin label being placed on their product**, assuming the product is not yet labelled.

#### 6.1.7 Impact on industry: Impact on misleading labelling and counterfeiting

Although misleading origin labelling has not been highlighted as a problem, **counterfeiting is a challenge to the sector**. As noted previously, according to customs statistics toys constitute a substantial share of detained products and IPR infringements remain an important topic for the industry. The identified stakeholders however do not see the Article 7 proposal as a means addressing counterfeiting, which could potentially be attributed to the fact that in many cases both genuine and counterfeit products are likely to originate in China.

#### 6.1.8 Summary of impacts

The following table summarises the impact on the toys sector.

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<sup>54</sup> BIS (2015). 'Compulsory Origin Marking research - Full report (Phase 1 and 2)'.

**Table 4 - Summary of impacts: Toys**

Stakeholder group	Type of impact	Costs	Benefits
<b>National authorities</b>	Recurring	<ul style="list-style-type: none"> <li>Additional costs of controlling toys.</li> </ul>	<ul style="list-style-type: none"> <li>No or very limited impact on traceability.</li> </ul>
<b>Consumers</b>	Recurring	-	<ul style="list-style-type: none"> <li>Responds to some consumers' interest in origin, although the evidence concerning consumer interest is mixed.</li> <li>Limited impact due to high prevalence of labelling.</li> </ul>
<b>Businesses</b>	One-off	<ul style="list-style-type: none"> <li>Firms with global production may face costs of re-labelling.</li> <li>Firms using labelling not in line with Article 7 would also face costs of re-labelling, but stakeholders do not view this cost as significant.</li> </ul>	-
	Recurring	<ul style="list-style-type: none"> <li>Some recurring costs associated with market fragmentation and reduced production flexibility may be observed, however existing regulations already force a degree of "earmarking".</li> </ul>	-

Overall, the sector can be characterised as one with a globalised supply chain and supplying both EU and global markets. Unlike many other such sectors, it is however characterised by high prevalence of origin labelling. As shown in the table above, there are few clear benefits of Article 7 identified in the toy sector. Given that national authorities and selected manufacturers are likely to face some costs associated with the proposal, even if these costs are not likely to be significant, lack of clear benefits suggests that **the proposal may result in a net cost to the sector.**

#### 6.1.9 Impact of alternative solutions

While consulted stakeholders expressed a **strong preference for the status-quo option**, the following table provides an overview of the expected impacts of the alternatives compared to Article 7.

**Table 5 - Impact of alternative options: Toys**

Alternative	Impact on national authorities	Impact on consumers	Impact on businesses
<b>Alternative 1 - Option to label</b>	<ul style="list-style-type: none"> <li>Option is not expected to</li> </ul>	<ul style="list-style-type: none"> <li>Option is not expected to</li> </ul>	<ul style="list-style-type: none"> <li>This option is not seen by stakeholders as substantially</li> </ul>

<p><b>product packaging or documentation</b></p>	<p>change the impact on national authorities.</p>	<p>change the impact on consumers.</p>	<p>different from the Article 7 proposal,</p> <ul style="list-style-type: none"> <li>• It could reduce costs for manufacturers that need to re-label products since the labelling would not need to be present on the product itself.</li> <li>• If labelling were possible on documentation, it could also reduce the costs of modifying packaging.</li> <li>• Cost of labelling documentation is likely to be limited given an existing requirement in the Toy Safety Directive concerning information on product documentation.</li> </ul>
<p><b>Alternative 2 - Alternative principles for determining origin</b></p>	<ul style="list-style-type: none"> <li>• This alternative would still involve the cost of controlling origin by national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Given mixed evidence with regard to consumer interest and no identified challenges relating to the use of the Customs Code, the option is also unlikely to have an impact on consumers.</li> </ul>	<ul style="list-style-type: none"> <li>• Given that the use Customs Code as such is not seen as problematic for industry, the option is unlikely to change the overall impact on producers.</li> </ul>
<p><b>Alternative 3 - Voluntary scheme with controlling the labels</b></p>	<ul style="list-style-type: none"> <li>• This alternative would still involve the cost of controlling origin by national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Option is not expected to change the impact on consumers.</li> </ul>	<ul style="list-style-type: none"> <li>• This is a preferred option for one stakeholder, aside from the status quo, assuming that existing labelling can be used.</li> <li>• If the option requires the change of labelling from that used to satisfy third country requirements, it is not likely to benefit producers, since they would still face adaptation costs (removing or changing labels).</li> </ul>

Despite the strong industry preference for the status quo option, **the first and third alternatives could potentially limit some of the costs expected by the industry**, and potentially make the proposal less costly. At the same time, **neither of the two options carries with it any clear benefits** according to the consulted stakeholders.

## 6.2 Domestic appliances

### 6.2.1 Characteristics of the sector and products

#### *Product coverage*

The domestic appliances product group includes a wide range of products, ranging from small electric appliances and electric housewares to larger appliances such as household refrigerators, dishwashers, or garbage disposal units.

#### *Sector data*

The following table outlines the main characteristics of the EU domestic appliance industry.

**Table 6 - Sector characteristics: Domestic appliances**

Indicator	Data
Number of enterprises	3,632
Proportion of SMEs	96.1% (see Note to table)
Turnover	EUR 43.7bn
Production value	EUR 26,6bn
Total extra-EU28 exports	EUR 7.2bn
Main export partners (by percentage of total extra-EU28 exports)	Russian Federation (20%), United states (9%), Turkey (7%), Australia (5%), China (4%)
Total extra-EU28 imports	EUR 11.3bn
Main import partners (by percentage of total extra-EU28 imports)	China (63%), Turkey (18%), South Korea (3%), United States (2%), Malaysia (2%)

**Source:** Eurostat Structural Business Statistics (enterprise and production data), Eurostat International Trade Statistics (trade data), 2012 figures

**Note:** Trade data are for the "HOUSEHOLD-TYPE ELECTRICAL AND NON-ELECTRICAL EQUIPMENT, N.E.S." category (SITC code 775). Data on the proportion of SMEs reflects the proportion of SMEs among enterprises for which the relevant NACE category/categories represent the principal economic activity. Not all of these enterprises are necessarily manufacturers to whom the Article 7 requirement would apply.

#### *Key sector characteristics*

The stakeholder consultation has identified two important characteristics of the sector.

- It is an industry with a **complex supply chain** that is likely to rely on a range of suppliers in multiple countries and these suppliers may often change;
- Consulted stakeholders noted that **consumers tend to place more value on brand than on country of origin.**

Overall, while the European domestic appliance industry consists of a large proportion of SMEs, on average the **manufacturers of domestic appliances appear to be**

**larger enterprises compared to manufacturers in other sectors under investigation.**

### *Labelling practices*

The **current practices with regard to labelling are mixed**, with one stakeholder indicating that the practice is overall not widespread, but that products may be labelled for export markets. One leading manufacturer declared that the products are generally labelled, but that labelling conforms to third country rules and is not necessarily in line with Article 7, with lack of global harmonisation of origin rules being cited as problematic.

As is the case for other products, no sector-wide data on the prevalence and nature of origin labelling is available, but the above figures suggest that European appliance producers would primarily be subject to labelling requirements from countries such as Russia, the United States, Turkey, Australia, and China. While the requirements in a number of these third countries follow common principles, there are potential differences, as highlighted in Section 4. Given that, as discussed in Section 5, domestic appliances are relatively complex products, one can expect that in some cases the diverging application of origin rules can lead to differences in terms of the origin labels.

### 6.2.2 Impact on national authorities

The consulted national **authorities did not indicate that the impact of origin labelling of domestic appliances in terms of tracing products would differ from the overall impact** of Article 7.

With regard to the existing **costs of controlling origin**, these are seen as being higher than for other product groups, given that domestic appliances are considered to be complex products. Domestic appliances are also seen as **higher-risk products** than other consumer products (although generally less so than toys) meaning that more resources are dedicated to controlling them. The consulted stakeholders did not provide specific impact estimates, but one authority's estimate of annual costs associated with controlling conformity with the Ecodesign Directive is EUR 35,000.

Another authority also noted that costs associated with domestic appliances are high due to a large range of existing regulations that the products need to comply with. Overall one would expect that, in absolute terms, the **additional costs of controlling the origin labelling of domestic appliances would be higher than those for other investigated product groups** (with the potential exception of toys), if controlling origin labels were to be integrated into existing surveillance tasks. The reasoning behind this assessment is explained in more detail in Section 5.1.2.

### 6.2.3 Impact on consumers: Impact on product safety

Consultation with consumer organisations identified **key safety concerns with regard to domestic appliances to include in particular high temperatures, and “toy-like” appliances**, as well as ensuring that devices are safe and accessible to a wide range of consumers.

Overall, the consulted **consumer organisations did not expect Article 7 to have a positive impact on the safety of domestic appliances**. Similarly, input from national authorities suggests that Article 7 would have no or very limited impact on the traceability and, as a consequence, the safety of domestic appliances.

### 6.2.4 Impact on consumers: Impact on consumer information

The consulted stakeholders identified domestic appliances as products where **consumers show less interest in origin and brands serve a more important role in consumers’ evaluation of the product**. In addition, domestic appliances are complex products, meaning that, as noted in the previous sections, an origin label may provide a consumer with partial or easily misinterpreted information concerning the place of manufacture. As a result, any impact on consumer information is likely to be limited.

### 6.2.5 Impact on industry: Adaptation costs

Given the complex supply chain and the fact that many European manufacturers operate globally, the consulted stakeholders argued that many of the cost items outlined in the previous section are likely to apply to domestic appliances. These include in particular:

- The direct **cost of determining the country of origin** and the direct **cost of labelling and re-labelling of products**; and
- The **indirect and recurring costs associated with “earmarking” of products** for specific destination markets and resulting loss in production and logistical flexibility.

With regard to the direct costs of determining the country of origin and the cost of labelling and re-labelling of the product, one estimate put the additional costs at 3% of current costs. It is however worth noting that this estimate, based on input from a large manufacturer in the electro technical sector, used the cost of “conformity assessment” as a proxy for potential additional cost, rather than a detailed assessment of the investments needed. The estimate was based on the assumption that an origin label would require the company to realign its conformity assessment in order to determine the origin of the product, hence incurring an additional cost of a similar order of

magnitude as the cost of the existing conformity assessment. In practice this would include primarily one-off costs, such as setting up relevant databases, but also on-going costs of maintaining and updating the information. Since conformity assessment usually includes costs of checking conformity of a number of product characteristics, notably of technical nature, the estimate could be regarded as being rather high. In addition, one stakeholder familiar with the domestic appliances industry indicated that additional costs are likely to be closer to 0.5% of total production costs.

Estimating the monetary impact associated with the above estimates (0.5%-3% increase in costs) will be highly dependent on the existing costs faced by individual manufacturers:

- The Eurostat Structural Business Statistics show the gross operating rate (gross operating surplus/turnover) in 2012 to be 6.1% across the domestic appliance sector in the EU, with total purchases of goods and services and total personnel costs amounting to €41.47bn (€33.4bn and €8.07bn respectively)<sup>55</sup>.
- Taking this figure to reflect production costs faced by the industry, additional costs based on the above estimate would amount to between €207m and €1.24bn for the industry as a whole or between €57,000 and €342,000 per enterprise on average.

Considering also that that the cost figure used above represents a very broad interpretation of what constitutes production costs, these figures should be seen as high estimates. In addition, the figures are illustrations of potential impact based on input from a small number of stakeholders and hence should be interpreted cautiously. It is also important to note that stakeholders in the consumer electronics sector, likely to face similar challenges, have not identified the cost of determining origin to be the key cost faced by the industry.

While no estimates were obtained concerning indirect costs associated with loss of flexibility due to the “earmarking” of products, it is important to note that, while they are seen as significant by one of the consulted stakeholders, the **existing regulations with regard to domestic appliances, highlighted by national authorities, are likely to already force a degree of “earmarking”** of products.

The final important consideration is whether costs would be borne by all enterprises in the sector. While this will depend on their current labelling practices, the stakeholder consultation suggests that some products are likely to not be labelled or are likely to be labelled in ways that do not fully conform to Article 7 criteria. This suggests that a **sizeable proportion of producers would face some costs associated with Article 7**. Large producers already subject to origin labelling requirements are likely to have already made some of the necessary investments, potentially reducing the costs,

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<sup>55</sup> See Eurostat

although input from one leading manufacturer still noted the need to invest in “adequate supply chain and production systems”.

#### 6.2.6 Impact on industry: Impact on businesses’ competitive position

The consulted stakeholders did not identify impacts on businesses’ competitive position other than the effect of the costs outlined above. One stakeholder highlighted that there are **market segments supporting the proposal due to a perceived marketing value of specific origin labels** (in particular “Made in Italy”) on domestic appliances.

While no information has been obtained on the estimated benefit to this segment of the market, it is important to consider the fact that **these manufacturers are likely to already label their products**, while also relying on their respective brand names. This in turn suggests that any additional economic benefit to these manufacturers is likely to stem from their competitors being required to label their products. Given that existing evidence points towards limited impact of origin labels on consumer decisions, it is unlikely that this effect would be significant.

Another potential impact could be observed if the sector faced challenges from products attempting to gain market share by misleading the consumer with regard to their origin, This has however not been noted as a challenge by the consulted stakeholders.

#### 6.2.7 Impact on industry: Impact on misleading labelling and counterfeiting

While industry stakeholders have not highlighted misleading labelling or counterfeiting as being problematic, one consumer association mentioned counterfeiting as a problem. Nevertheless, **stakeholders do not see the proposal as having a potential impact on the domestic appliances sector in terms of combatting counterfeiting and misleading labelling.**

#### 6.2.8 Summary of impacts

The following table summarises the impact on the domestic appliances industry.

**Table 7 - Summary of impacts: Domestic appliances**

Stakeholder group	Type of impact	Costs	Benefits
<b>National authorities</b>	Recurring	<ul style="list-style-type: none"> <li>Additional costs of controlling domestic appliances. These could be higher than in other sectors if this is done alongside other market surveillance</li> </ul>	<ul style="list-style-type: none"> <li>No or very limited impact on traceability.</li> </ul>

		tasks.	
<b>Consumers</b>	Recurring	<ul style="list-style-type: none"> <li>Given complexity of products, there are risks of labels providing incomplete or potentially misleading information to consumers. These costs are likely to be limited due to lower importance of origin compared to brand names.</li> </ul>	<ul style="list-style-type: none"> <li>Responds to some consumers' interest in origin labels. This effect is most likely limited due to lower importance of origin compared to brand names in the sector</li> </ul>
<b>Businesses</b>	One-off	<ul style="list-style-type: none"> <li>Costs include setting up a system for determining origin.</li> <li>However, many firms will already face third country requirements and may have already made some of the necessary investments.</li> </ul>	-
	Recurring	<ul style="list-style-type: none"> <li>Recurring labelling costs are likely to be relatively low.</li> <li>Recurring costs associated with market fragmentation and reduced production flexibility are identified as significant by some stakeholders.</li> <li>However, existing regulations already force a degree of "earmarking"</li> </ul>	<ul style="list-style-type: none"> <li>Benefits identified for some market segments where an origin label is seen as a marketing asset.</li> <li>Impact likely to be limited given relative importance of brand names compared to origin labels.</li> </ul>

The domestic appliance sector is an example of a sector with globalised supply chain supplying both the EU and the global market and one where origin labelling is less common. As shown in the table above, few clear benefits of Article 7 have been identified in the sector, with the manufacturers of domestic appliances likely to face some costs associated with adapting to Article 7. Although consulted stakeholders believe that costs of determining origin could be significant, it is not clear to what extent this would hold for the industry as a whole. Nevertheless, given that the benefits are likely to be limited and, if they are generated, concentrated in specific sector segments, the **proposal may result in an overall net cost to the sector.**

### 6.2.9 Impact of alternative solutions

The identified impacts of the alternative solutions are set out below:

**Table 8 - Impact of alternative options: Domestic appliances**

Alternative	Impact on national authorities	Impact on consumers	Impact on businesses
<b>Alternative 1 -</b>	<ul style="list-style-type: none"> <li>Option is not</li> </ul>	<ul style="list-style-type: none"> <li>Option is not</li> </ul>	<ul style="list-style-type: none"> <li>The option can reduce some of the</li> </ul>

<p><b>Option to label product packaging or documentation</b></p>	<p>expected to change the impact on national authorities.</p>	<p>expected to change the impact on consumers due to little evidence in consumer use of labels.</p>	<p>costs, but it would not address the cost of determining origin, as well as costs associated with reduced flexibility with regard to production.</p> <ul style="list-style-type: none"> <li>• Some reduction of costs associated with the “earmarking” of products could be observed due to eliminating the necessity to modify the product itself, although another stakeholder noted that the cost of labelling packaging should not be underestimated.</li> <li>• Any segments of the sector expecting benefits, are unlikely to observe them if labelling is not visible to consumer.</li> </ul>
<p><b>Alternative 2 - Alternative principles for determining origin</b></p>	<ul style="list-style-type: none"> <li>• Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Option is not expected to change the impact on consumers due to little evidence of consumer use of labels.</li> </ul>	<ul style="list-style-type: none"> <li>• One consulted stakeholder noted that proposed principles are not effective in informing consumers, but an alternative option could also contribute to additional confusion.</li> <li>• This could be particularly problematic if it diverges from principles used in other Member States.</li> </ul>
<p><b>Alternative 3 - Voluntary scheme with controlling the labels</b></p>	<ul style="list-style-type: none"> <li>• Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Option is not expected to change the impact on consumers due to little evidence in consumer use of labels.</li> </ul>	<ul style="list-style-type: none"> <li>• The option could contribute to reducing misleading use of labels. However, this has not been reported as a problem.</li> <li>• Can eliminate investment in determining origin for some manufacturers.</li> <li>• Manufacturers expecting costs associated with Article 7 would be able to avoid labelling their product under this option, but they may not be able to use existing labelling that is not in line with Article 7 principles, which could bring about some costs.</li> <li>• Any segments of the sector expecting benefits, are unlikely to experience them if labelling is voluntary.</li> </ul>

Overall, stakeholders felt that the **first and the third alternatives could result in some reduction of costs**. The first alternative could simplify the cross-shipping of products by eliminating the need to re-label the product itself. The third alternative would eliminate the need to invest in determining origin for some manufacturers, but would however still carry costs for manufacturers currently labelling their products according to other principles. Neither of the two options would however generate any

additional benefits, suggesting that they would not be preferred compared to the status quo option.

## 6.3 Consumer electronics

### 6.3.1 Characteristics of the sector and products

#### *Product coverage*

The consumer electronics product group encompasses audio and video equipment for home entertainment, as well as motor vehicle equipment, public address systems and musical instrument amplification.

#### *Sector data*

The following table outlines the main characteristics of the EU consumer electronics industry.

**Table 9 - Sector characteristics: Consumer electronics**

Indicator	Data
Number of enterprises	2,681
Proportion of SMEs	98.2% (see Note to table)
Turnover	EUR 24.4bn
Production value	EUR 22.5bn
Main export partners (by percentage of total extra-EU28 exports)	United States (12%), Russian Federation (11%), Hong Kong (8%), United Arab Emirates (8%), Turkey (6%)
Main import partners (by percentage of total extra-EU28 imports)	China (51%), Vietnam (8%), South Korea (6%), United States (6%), Japan (5%)

**Source:** Eurostat Structural Business Statistics (enterprise and production data), Eurostat International Trade Statistics (trade data), 2012 figures

**Note:** Trade data are for the "TELECOMMUNICATIONS AND SOUND-RECORDING AND REPRODUCING APPARATUS AND EQUIPMENT" category (SITC code 76). While this category includes consumer electronics, it does not fully map onto the investigated sector and serves as an illustration of potential trade flows. Data on the proportion of SMEs reflects the proportion of SMEs among enterprises for which the relevant NACE category/categories represent the principal economic activity. Not all of these enterprises are necessarily manufacturers to whom the Article 7 requirement would apply.

#### *Key sector characteristics*

The sector has a number of important characteristics. As set out in the 2012 European Commission report on the functioning of the market for electric and electronic consumer goods, the electronic sector is a **flexible and dynamic sector, with supply chains frequently changing depending on product development**<sup>56</sup>. Another key characteristics of the industry, as noted by consulted stakeholders and the

<sup>56</sup> European Commission (2012). 'Functioning of the market for electric and electronic consumer goods'

aforementioned UK study on origin marking<sup>57</sup>, is that the **supply chain is highly globalised**, meaning that most consumer electronics are likely to consist of components produced in a number of countries inside and outside of the EU.

Overall, while the European consumer electronics industry consists of a large proportion of SMEs, as in the case of the domestic appliances sector, on average the **manufacturers of consumer electronics appear to be larger enterprises compared to manufacturers in other sectors under investigation.**

### *Labelling practices*

In terms of existing origin labelling, **stakeholder consultation revealed a very mixed approach**, with some producers labelling the products, some labelling the packaging, and some products currently not being labelled at all. The main export destinations, outlined in the figure above suggest that EU producers are likely to be predominantly facing origin labelling requirements from third countries such as the United States, Russia, China/Hong Kong, United Arab Emirates, or Turkey. As noted in the previous section, these requirements differ across countries, but also from Article 7. Although no systematic information is available on the detailed labelling practices used by companies in the sector, the complexity of electronic products and the nature of the supply chain means that some discrepancies in terms of origin labelling used in different markets could be observed.

#### 6.3.2 Impact on national authorities

The consulted national **authorities did not indicate that the impact of labelling of consumer electronics in terms of tracing products would differ from the overall impact** of Article 7.

Consumer electronics are often grouped together with domestic appliances as **higher-risk and more complex products**, meaning that they tend to have higher shares of market surveillance budgets dedicated to them compared to other consumer products. Therefore, as in the case of domestic appliances, one would expect that, in absolute terms, the **additional costs of controlling the labelling of consumer electronics would be higher than those for other product groups** assuming, that control of origin labels is carried out alongside other market surveillance tasks. The reasoning behind this assessment is explained in more detail in Section 5.1.2.

#### 6.3.3 Impact on consumers: Impact on product safety

Specific safety issues highlighted by consumer associations with regard to consumer electronics include **noise levels, chemical content, high temperatures, as well as problems with batteries** (including aftermarket batteries).

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<sup>57</sup> BIS (2015). 'Compulsory Origin Marking research - Full report (Phase 1 and 2)'

Overall, the consulted **consumer organisations did not expect Article 7 to have a positive impact on the safety of consumer electronics**. Similarly, input from national authorities suggests that Article 7 would have no or very limited impact on the traceability and, as a consequence, the safety of consumer electronics.

#### 6.3.4 Impact on consumers: Impact on consumer information

The 2010 Special Eurobarometer<sup>58</sup> on international trade has shown that **29% of consumers check the origin of electronic devices** they purchase and this influences their purchase decisions, 21% do so but it does not influence their decisions, while 47% do not check the origin. This indicates that half of consumers appear to have an interest in the origin of electronic products and therefore Article 7 would help respond to this consumer interest, especially given that product labelling is not widespread.

At the same time, consulted stakeholders noted that given product complexity, with products produced using a number of components manufactured in multiple countries, **a single country of origin labelled on the product does not necessarily provide meaningful information on product origin**, nor does it provide information about product safety.

Therefore, while Article 7 would be of benefit to consumers wishing to see origin labels on products, it is less clear whether consumers would be effectively informed about the product origin.

#### 6.3.5 Impact on industry: Adaptation costs

The consultation with stakeholders in the consumer electronics sector has shown that **direct costs of applying labels are considered significant**. It is important to note that, unlike stakeholders in the domestic appliances industry, the cost of determining product origin has not been noted as the main cost in the consultation. The challenges of determining origin have however been highlighted in the BUSINESSEUROPE position paper<sup>59</sup>. More broadly, the consulted stakeholders noted that a fragmented situation with regard to origin labelling requirements carries with it costs for the industry and these are expected to rise with an additional EU requirement: The consulted stakeholders highlighted that producers already face different origin labelling requirements in countries such as US, Canada, and Russia. According to the stakeholders, an additional European requirement would require **additional “earmarking” of products for specific markets** or re-labelling when the destination market changes.

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<sup>58</sup> European Commission (2010). 'Special Eurobarometer 357 - International Trade Report'

<sup>59</sup> BUSINESSEUROPE (2013). 'Position Paper - BUSINESSEUROPE's views on the Product Safety and Market Surveillance Package'

The consulted stakeholders were not able to provide estimates of the costs, associated with reduced production flexibility. The UK study on origin labelling<sup>60</sup> which examined consumer electronics along with toys, ceramics and motor vehicles, has not identified a potential loss of supply chain flexibility as a major cost identified by UK companies, which suggests that the overall costs borne by the industry due to additional market fragmentation could potentially be limited. It is also important to consider the fact that, as noted above, market fragmentation and resulting segmentation of production is already a reality for consumer electronics producers, with an additional EU requirement adding to this fragmentation, but not introducing a completely new type of challenge.

There is little additional data on consumer electronics in other studies. The study by the US International Trade Commission investigates electronic products and highlights one estimate from a consumer electronics company, which puts all labelling cost at 4-5% of retail sale price, but notes that the country of origin label will only represent part of that cost<sup>61</sup>.

#### 6.3.6 Impact on industry: Impact on businesses' competitive position

Despite the fact that 29% of consumers report that they check origin and it does influence their decisions, the **consulted stakeholders did not expect any potential changes in businesses' competitive position due to Article 7**. As noted by the aforementioned UK study, this could be explained by the fact that consumer electronics are a **sector with relatively little origin variance**, with many products sharing a common origin in China and Korea, which in turn means that an origin label is likely to have limited impact<sup>62</sup>.

There are potential instances where product origin may have a value. The recent plans by Apple to move manufacturing back to the US<sup>63</sup> suggests that a particular origin mark might be seen as having a value on the marketplace, especially given reports concerning working conditions at Foxconn factories. Nevertheless, other factors are also at play, such as energy costs in the US and rising labour costs in China.

#### 6.3.7 Impact on industry: Impact on misleading labelling and counterfeiting

According to IPR statistics, **electronic products are subject to counterfeiting**, with there being 2.523 cases of detained products covering a total of 341.744 articles. Stakeholder **consultation however did not identify any potential impacts of Article 7 on combatting counterfeiting**. The aforementioned UK study draws similar conclusions, noting that the benefit of tackling and reducing counterfeiting has not been

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<sup>60</sup> BIS (2015). 'Compulsory Origin Marking research - Full report (Phase 1 and 2)

<sup>61</sup> U.S. International Trade Commission (1996). 'Country-of-origin Marking: Review of Laws, Regulations, and Practices'

<sup>62</sup> BIS (2015). 'Compulsory Origin Marking research - Full report (Phase 1 and 2)'

<sup>63</sup> See for instance <http://www.nytimes.com/2012/12/07/technology/apple-to-resume-us-manufacturing.html>

recognised by UK stakeholders in the sectors covered by the study, including consumer electronics<sup>64</sup>.

Similarly, no impact on misleading labelling has been identified by the consulted stakeholders.

### 6.3.8 Summary of impacts

The following table summarises the impact on the consumer electronics sector.

**Table 10 - Summary of impacts: Consumer electronics**

Stakeholder group	Type of impact	Costs	Benefits
<b>National authorities</b>	Recurring	<ul style="list-style-type: none"> <li>Additional costs of controlling electronic products.</li> </ul>	<ul style="list-style-type: none"> <li>No or very limited impact on traceability.</li> </ul>
<b>Consumers</b>	Recurring	<ul style="list-style-type: none"> <li>Given complexity of products, there are risks of labels providing incomplete or potentially misleading information to consumers.</li> <li>These costs are likely to be limited due to lower importance of origin compared to brand names.</li> </ul>	<ul style="list-style-type: none"> <li>Responds to some consumers' interest in origin labels.</li> <li>Most likely limited due to lower importance of origin compared to brand names in the sector.</li> </ul>
<b>Businesses</b>	One-off	<ul style="list-style-type: none"> <li>Some labelling costs or costs of determining origin likely, but these are not identified as substantial.</li> </ul>	-
	Recurring	<ul style="list-style-type: none"> <li>Recurring costs associated with market fragmentation and reduced production flexibility are expected by stakeholders, however there is limited evidence to support this.</li> <li>Producers are already likely to face a degree of market fragmentation.</li> </ul>	-

Similarly to domestic appliances, the consumer electronics sector is an example of a sector with globalised supply chain supplying both the EU and the global market and one where origin labelling is less common. As can be seen in the table above, despite some evidence of consumer interest in origin, origin labels for consumer electronics are seen as having little value to consumers. Hence Article 7 is likely to have limited impact on consumers. It is also likely to carry some costs to industry, without clear benefits.

<sup>64</sup> BIS (2015). 'Compulsory Origin Marking research - Full report (Phase 1 and 2)

Therefore, as in the case of domestic appliances, the Article 7 proposal may **result in a net cost to the sector**.

### 6.3.9 Impact of alternative solutions

The identified impacts of the alternative solutions are set out below:

**Table 11 - Impact of alternative options: Consumer electronics**

Alternative	Impact on national authorities	Impact on consumers	Impact on businesses
<b>Alternative 1 - Option to label product packaging or documentation</b>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on consumers.</li> </ul>	<ul style="list-style-type: none"> <li>This option is expected to lower the labelling costs for producers.</li> <li>Consulted stakeholders still expect the requirement to introduce some fragmentation in the market.</li> </ul>
<b>Alternative 2 - Alternative principles for determining origin</b>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>While this alternative could potentially provide more accurate information to consumers, it is not clear what principle would be needed to address product complexity.</li> </ul>	<ul style="list-style-type: none"> <li>This option is not expected to affect the overall impact on producers.</li> </ul>
<b>Alternative 3 - Voluntary scheme with controlling the labels</b>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on consumers.</li> </ul>	<ul style="list-style-type: none"> <li>Manufacturers expecting costs associated with Article 7 could be able to avoid labelling their product under this option, but they may not be able to use existing labelling that is not in line with Article 7 principles, which could bring about some costs.</li> <li>Due to the latter reason, this option is seen as detrimental by industry stakeholders, since it would require an adaptation by producers selling products in the EU and third markets (either re-labelling products for the EU market or removing labels).</li> </ul>

Given that the main identified impact of the proposal is that of increased fragmentation in the market, the first and second alternatives are not viewed as likely to significantly change this. The final alternative would allow producers not to label their products, but

it was felt that it could still result in adaptation costs for producers using labelling on the European market that is not in line with Article 7, which could be the case given the differences in rules of origin across third countries and the complexity of consumer electronic products.

## 6.4 Textiles

### 6.4.1 Characteristics of the sector and products

#### *Product coverage*

Following the NACE categorisation the textiles product group is understood here to comprise of textiles and wearing apparel, made-up textile articles, all items of clothing and accessories, including fur. The corresponding textiles and clothing sector comprises natural and man-made fibres, and covers production of fabrics, finishing activities, and transformation of fabrics into finished products (i.e. clothing or home textiles).

While it is not feasible to systematically reflect the different segments of the sector in the analysis, the following sections will pay particular attention to the distinction between high-end (luxury) products and mass-market products.

#### *Sector data*

The following table outlines the main characteristics of the EU textile industry.

**Table 12 - Sector characteristics: Textiles**

Indicator	Data
Number of enterprises	185,029
Proportion of SMEs	99.7% (see Note to table)
Turnover	EUR 145.9bn
Production value	EUR 135.7bn
Total extra-EU28 exports	EUR 39.3bn
Main export partners (by percentage of total extra-EU28 exports)	Russian Federation (11%), United states (11%), Hong Kong (5%), Turkey (5%), Japan (5%)
Total extra-EU28 imports	EUR 93.6bn
Main import partners (by percentage of total extra-EU28 imports)	China (40%), Turkey (14%), Bangladesh (10%), India (7%), Pakistan (3%)

**Source:** Eurostat Structural Business Statistics (enterprise and production data), Eurostat International Trade Statistics (trade data), 2012 figures

**Note:** Trade data are for the “TEXTILE YARN, FABRICS, MADE-UP ARTICLES, N.E.S., AND RELATED PRODUCTS” and “ARTICLES OF APPAREL AND CLOTHING ACCESSORIES” categories (SITC codes 65 and 84). Data on the proportion of SMEs reflects the proportion of SMEs among enterprises for which the relevant NACE category/categories represent the principal economic activity. Not all of these enterprises are necessarily manufacturers to whom the Article 7 requirement would apply.

### *Key sector characteristics*

The **key characteristic of this sector is its diversity**. Responses obtained from industry stakeholders show that **the industry is divided with regard to the costs and benefits associated with the proposal**, which is also reflected in the position of EURATEX, the industry association representing the sector. While EURATEX indicates that majority of its members favours the proposal, it also highlights that a sizable minority is in opposition.

Another important characteristic of the sector is the **Regulation 1007/2011 on fibre names and related marking of the fibre composition of textile products**, which includes the requirement to indicate the full fibre composition of textile products, including the presence of non-textile parts of animal origin.

The EU textile sector consists is generally considered to be an **SME-driven industry**, which is also reflected in the above figures.

### *Labelling practices*

There appear to be significant differences with regard to labelling practices in the textile sector. The consultation has yielded a range of **estimates concerning the proportion of products currently carrying an origin label**:

- Estimates for specific products range from 100% for silk products to none for fur products;
- Estimates in specific Member States range from 3% through 70% to “virtually all” products.

Hence, while the 2013 study on the labelling of textile and clothing products<sup>65</sup> estimated that **between 50% and 70% of textile products are labelled**, this masks a substantial variation between Member States, specific sub-categories of products, and market segments.

While there is no clear pattern with regard to type of products more likely to carry origin labels, stakeholders representing the higher-end market segments were overall more likely to indicate that a high proportion of products carry an origin label. At the same time, stakeholders also noted that a number of mass-market clothing brands also consistently label their product with a country of origin.

Consulted stakeholders generally indicated that **current practices are broadly in line with the principle of last substantial transformation** and the non-preferential rules in the Customs Code. One example of a principle that may potentially differ from that used under Article 7 is the principle used in Germany stating that “essential and

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<sup>65</sup> Matrix Insight (2013). ‘Study of the need and options for the harmonisation of the labelling of textile and clothing products’

constitutive characteristics” should be received in Germany in order to label the product as such. It is however not clear how many firms label their products using this principle and how likely they would be to have to adapt the labelling as a result of Article 7.

With regard to principles used in third countries, as shown in Section 4, there can be differences in the way the principles apply to textile products. At the same time, most stakeholders have not highlighted the differences between third country requirements as a challenge. This either suggests that in practice potential differences are not significant, or, alternatively, that global producers already have effective means of addressing the wide range of requirements. A stakeholder in the sports apparel sector confirmed the latter hypothesis noting that one sportswear company’s solution to the different requirement it faces is to use a single way of determining origin that broadly follows the principle of last substantial transformation, with labelling in different languages. While this practice is generally accepted in the different markets, the stakeholder noted that there is a risk that the label in use may not be fully in line with Article 7.

#### 6.4.2 Impact on national authorities

The consulted national **authorities did not indicate that the impact of origin labelling of textile products in terms of traceability would differ from the overall impact** of Article 7.

With regard to the **costs of controlling origin**, textiles were generally seen as a **lower-risk, lower priority product group**, where the current cost of market surveillance is also likely to be lower than for other sectors. Overall, while no specific estimates were obtained for textile products, one would expect that, in absolute terms, the **additional costs of controlling origin labels are likely to be lower than those for other product groups**, assuming that control of origin labelling is carried out alongside other market surveillance tasks. The reasoning behind this assessment is explained in more detail in Section 5.1.2. It is important to note that market surveillance in this sector may also include the control of fibre composition labelling, which could potentially facilitate the integration of controlling origin into other surveillance tasks.

#### 6.4.3 Impact on consumers: Impact on product safety

The key safety issues identified by consumer organisations with regard to textiles concern children’s clothing and issues such as strangulation risk as well as chemical content. Overall, the consulted **consumer organisations did not expect Article 7 to have a positive impact on the safety of textile products**. Similarly, input from national authorities suggests that Article 7 would have no or very limited impact on the traceability and, as a consequence, the safety of textiles.

#### 6.4.4 Impact on consumers: Impact on consumer information

##### *Overall findings*

The textile sector is an area where a substantial amount of research has been conducted on consumer interest in product origin and origin labelling:

- The Special Eurobarometer poll from 2010 found that **28% of consumers check origin of textiles/clothes** and that influences their decision, 22% check the origin but it does not influence their decision, while 48% of consumers do not check origin<sup>66</sup>.
- The 2013 study on the labelling of textile and clothing products found that **65% of consumers have a preference for products made in specific countries**, but most of these consumers are however not prepared to pay a premium for such products. Moreover 23% of consumers always take origin labels into account while shopping, 37% do so sometimes<sup>67</sup>.
- The poll conducted for the Italian footwear association Assocalzaturifici, which examined both footwear and clothing products, found that **73% of French consumers check the made-in country for clothing products and for 34% the origin has an influence on purchase decisions**. The figures are 67% and 32% for German consumers and 48% and 19% for British consumers respectively<sup>68</sup>.

All of the above figures suggest that **consumers are interested in the origin of textile products**, even if they do not always check labels and this does not always impact on consumer decisions. Nevertheless, this implies that Article 7 is likely to be beneficial to at least the proportion of consumers who find origin information valuable.

One important aspect of consumer interest is the potential **impact of large-scale accidents**, such as the 2013 Rana Plaza building collapse in Bangladesh, or other publicised working conditions scandals. The consumer studies outlined above appear to suggest that consumer interest in origin is on the rise, with, for example, the 2010 study<sup>69</sup> showing fewer consumers making use of origin labels than the 2013 research<sup>70</sup>. These studies are however not necessarily comparable and there is little quantitative evidence to show and explain any trends over time.

While some of the stakeholders consulted in the sector agreed that the labelling requirement would be of benefit to consumers, limitations were also highlighted. One consulted association noted that the **last substantial transformation approach does**

<sup>66</sup> European Commission (2010). 'Special Eurobarometer 357 - International Trade Report'

<sup>67</sup> Matrix Insight (2013). 'Study of the need and options for the harmonisation of the labelling of textile and clothing products'

<sup>68</sup> Assocalzaturifici. 'MADE-IN SURVEY: Online survey conducted in the UK, Germany & France'

<sup>69</sup> European Commission (2010). 'Special Eurobarometer 357 - International Trade Report'

<sup>70</sup> Matrix Insight (2013). 'Study of the need and options for the harmonisation of the labelling of textile and clothing products'

**not necessarily provide the consumer with an accurate picture of where a garment is made**, for instance due to the origin of the fabric not being effectively taken into account. The problem exists also where final **products are produced from multiple parts** sourced from different countries, meaning that a single origin label provides little relevant information. This is an issue identified in the fur sector.

#### *High-end and mass-market products*

Stakeholder consultation identified one potential difference between high-end and mass-market textile products with regard to consumer perception of labelling: According to one stakeholder representing the luxury sector, the proposed principle for origin labelling does not provide consumers of luxury products, including textiles, with sufficiently detailed information. Therefore, although the Article 7 would go some way to satisfy consumer interest in origin, it would not necessarily provide the consumer with accurate information concerning the product origin, which might be particularly valued by consumers of high-end products. At the same time it is important to take into account the fact that luxury products are likely to already carry origin labels.

#### 6.4.5 Impact on industry: Adaptation costs

##### *Overall findings*

The **stakeholder expectations with regard to adaptation costs are mixed**. A number of stakeholders argued that **direct adaptation costs are likely to be very low**, since clothing is already required to have a label stating fibre composition. A specific estimate of the costs of printing the label on the product provided by one stakeholder is a range of EUR 0.01 to EUR 0.03 per product, while another stakeholder noted that total direct labelling costs are under 0.5% of all costs faced by producers. It is worth noting that this is lower than the figures from the 2005 Impact Assessment study which estimated the cost to be in the range of €1 to €1.5 per article for “fashionable apparel products”<sup>71</sup> and the estimate from the 2013 study, which put the one-off costs of adapting product labels to be EUR 0.5 per product<sup>72</sup>.

To put these estimates into perspective, one can draw on the figures from the PRODCOM database, which estimates total EU clothing production sold (including workwear, apparel and fur, but excluding leather) in 2013 at 5.4bn pieces<sup>73</sup>. Using the figures presented earlier, which estimated that between 50% and 70% of products are already correctly labelled, the direct labelling costs could be between EUR 16m and 80m, based on the EUR 0.01 to EUR 0.03 cost range, or approximately 0.01% to 0.05% of overall turnover for clothing products. Even using the much higher EUR 0.5 cost figure, the direct labelling costs would remain under 1% of turnover.

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<sup>71</sup> European Commission (2010). ‘Special Eurobarometer 357 - International Trade Report’

<sup>72</sup> Matrix Insight (2013). ‘Study of the need and options for the harmonisation of the labelling of textile and clothing products’

<sup>73</sup> Sum of sold quantities produced under PRODCOM code 14 except 14111000 - Articles of apparel of leather or of composition leather

While most consulted stakeholders identified primarily **direct costs of labelling**, there is a broad consensus that these are relatively low, although there are situations where higher costs could be expected. If products are not already labelled with the country of origin, **some clothing companies with global supply chains may be faced with additional costs of correctly determining the origin of their products**. While these costs would primarily concern producers that currently do not label their products and do not have traceability systems in place, this impact could also be observed where products are labelled but this is not done in line with Article 7. Specific costs for these companies could include investments in human resources, training, and management systems. These costs are seen as particularly significant for SMEs, since larger companies tend to already have made such investments, and are estimated as potentially amount to a two-digit percentage of overall costs, although it was not possible to further explore that estimate. A stakeholder in the sports footwear and apparel sector has also highlighted similar types of costs.

It is important to note that challenges with regard to third country requirements and resulting responses and potential “earmarking” have not been identified in the consultation other than by one stakeholder in the sports apparel sector. This could be attributed to the fact that, like in the sports apparel example, global manufacturers found methods of ensuring compliance with different requirements. While, as the stakeholder from the sports apparel sector highlights, the current practice could not be in line with Article 7, the additional impact with regard to “earmarking” and market segmentation is likely to be limited given that products destined for the EU market already need to comply with EU composition labelling rules.

#### *High-end and mass-market products*

Overall, the adaptation costs appear to be determined by labelling practices and nature of the supply chain rather than the market segment. Nevertheless, as noted previously, stakeholder consultation has shown that **high-end products are more likely to be labelled with the country of origin**, meaning that, overall, any adaptation costs are likely to be lower for such products.

#### 6.4.6 Impact on industry: Impact on businesses’ competitive position

##### *Overall findings*

The stakeholder input with regard to proportion of products already carrying an origin label shows that **producers able to derive a value from the origin of their products generally already label their products**. This is the case for consulted stakeholders in Member States such as Finland, France, Germany, Hungary and Italy. The competitive position of such producers would therefore change only due to other previously unlabelled products bearing an origin label.

While estimating the impact of the expected increased transparency is difficult and stakeholders noted that this would depend on a number of factors, two stakeholders estimated the potential benefit to equal a 5% increase in turnover of European producers, along with contributing to maintaining current employment and, in the longer-term, potential “re-shoring” of production.

While this would imply a sizable benefit of over EUR 7bn (drawing on the turnover figures presented above), there is no specific evidence to back up this forecast. It is also not clear whether such effect would apply to all EU producers and whether such an effect is likely to materialise at all, especially given that, as noted above, consumers do not necessarily act on their declared origin preference.

#### *High-end and mass-market products*

Looking at specific market segments, where benefits are identified, they are believed to be of particular relevance to SMEs, which do not have globally recognised brands and could thus benefit from the differentiating effect of an origin label. This also means, and has been noted by the stakeholders, that any **impact on higher-end production is likely to be limited**, given the importance of brands in that market segment.

#### 6.4.7 Impact on industry: Impact on misleading labelling and counterfeiting

##### *Overall findings*

With regard to misleading labelling, stakeholders noted that in some cases producers withhold information concerning product origin and instead aim to imply incorrect origin through other means (for instance through product design). These stakeholders in turn see the Article 7 proposal as a way of addressing this. While no estimates on the prevalence of this phenomenon were obtained, the 2013 study on textile labelling used a working assumption, based on qualitative stakeholder input, that 10% of textile products carry a misleading origin label. Using this figure, the **Article 7 proposal could potentially contribute to addressing misleading labelling** on these 10% of products. This effect is likely to be observed in particular for products originating in Member States that are viewed as particularly “desirable” as an origin of a textile product.

Looking at counterfeiting, the 2013 customs data show that **clothing was the product category with the largest number of detained products**<sup>74</sup>, suggesting that counterfeiting is a salient issue in the sector. Nevertheless, while the above stakeholders see the proposal also as a means of addressing fraud, two consulted stakeholders noted that counterfeiters are also able to counterfeit the origin label.

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<sup>74</sup> European Commission (2014). ‘Report on EU customs enforcement of intellectual property rights - Results at the EU border 2013’

### *High-end and mass-market products*

While misleading messages concerning product origin target products originating from specific Member States rather than specific market segments, one would expect counterfeiting to disproportionately affect higher-end branded products, including branded sportswear. The potential impact on addressing counterfeiting is however disputed.

#### 6.4.8 Summary of impacts

The following table summarises the impact on the textile industry. The table distinguishes between the high-end and mass-market segments of the textile sector, although, as noted above, this is not necessarily the key determinant of impact, with nature of the product and its supply chain playing an important role.

**Table 13 - Summary of impacts: Textiles**

Stakeholder group	Type of impact	Market segment	Costs	Benefits
<b>National authorities</b>	Recurring	High-end and mass-market	<ul style="list-style-type: none"> <li>Additional costs of controlling textile products.</li> </ul>	<ul style="list-style-type: none"> <li>No or very limited impact on traceability</li> </ul>
<b>Consumers</b>	Recurring	High-end	<ul style="list-style-type: none"> <li>Risk of origin labels providing information that could be misinterpreted by consumers. Limited impact since products are more likely to be labelled.</li> </ul>	<ul style="list-style-type: none"> <li>Responds to consumer interest in product origin. Limited impact since products are more likely to be labelled.</li> <li>Potential to address misleading or incorrect labelling.</li> </ul>
		Mass-market	<ul style="list-style-type: none"> <li>Risk of origin labels providing information that could be misinterpreted by consumers.</li> </ul>	<ul style="list-style-type: none"> <li>Responds to consumer interest in product origin. Higher impact due to products being less likely to be labelled.</li> <li>Potential to address misleading and incorrect labelling.</li> </ul>
<b>Businesses</b>	One-off	High-end	<ul style="list-style-type: none"> <li>Adaptation costs most likely limited due to high prevalence of existing labelling.</li> </ul>	-
		Mass-market	<ul style="list-style-type: none"> <li>Low direct costs of adapting labels (EUR 0.01-0.5 per product).</li> <li>Moderate costs of determining origin of products with complex supply chains .in particular</li> </ul>	-

		for producers not currently labelling their products with the country of origin. More likely to affect SMEs	
Recurring	High-end	-	<ul style="list-style-type: none"> <li>• Potential improvement in competitive position for EU-made high-end products not benefitting from a brand effect, particularly SMEs.</li> <li>• Moderate benefit from addressing misleading products.</li> </ul>
	Mass-market	<ul style="list-style-type: none"> <li>• Costs of maintaining and updating databases for tracking origin.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential improvement of competitive position for EU-made products not benefitting from brand recognition, particularly SMEs</li> <li>• Moderate benefit from addressing misleading products.</li> </ul>

Overall, the textile sector consists of producers employing a range of supply chains, involving both EU and non-EU production, and supplying both the EU and the global market. The diversity of textile producers and the fact that there is evidence of consumers guiding their purchases, at least partially, by the origin label means that the overall impact of Article 7 is likely to be unevenly distributed.

Examining the benefits of origin labelling, Article 7 is **most likely to benefit: manufacturers based in Member States where an origin label identifying this country is positively evaluated by consumers and who do not benefit from a recognised brand**. Such manufacturers are likely to already label their products, thus facing lower adaptation costs, and would benefit not only from differentiating themselves from competitors, but also from addressing misleading labels.

**Other manufacturers are likely to observe fewer clear benefits** and ones with complex and global supply chains who do not currently label their products could also face a net cost associated with the proposal. While high-end textile manufacturers are less likely to face any costs due to being more likely to already label products, they are also less likely to benefit from the label, due to their reliance on brands, meaning that the high-end/mass-market distinction is not necessarily key in this sector.

While Article 7 would benefit consumers wishing to see origin labels on products, it would also risk providing them with information that could be misinterpreted. Hence, the **overall impact on consumers is not necessarily positive**.

## 6.4.9 Impact of alternative solutions

The identified impacts of the alternative solutions are set out below:

**Table 14 - Impact of alternative options: Textiles**

Alternative	Impact on national authorities	Impact on consumers	Impact on businesses
<b>Alternative 1 - Option to label product packaging or documentation</b>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>For consumers this option would mean that they would be less likely to see the origin information on products than under Article 7, but also less likely to be misinterpret such labels, resulting in limited overall impact.</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholders do not see this alternative as reducing the cost to industry.</li> <li>This could be attributed to low expected cost of labelling products and the fact that it does not eliminate the need to determine origin, which could be costly for some producers.</li> <li>The option would also potentially reduce the positive effect on producers expecting to benefit from the labelling requirement.</li> </ul>
<b>Alternative 2 - Alternative principles for determining origin</b>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>Given that no clear alternative has been put forward, the option is not likely to benefit consumers by providing them with clearer information.</li> </ul>	<ul style="list-style-type: none"> <li>Some industry stakeholders see the principle of substantial transformation as not suited for communicating information on the label</li> <li>There is a general agreement that a different principle would create additional confusion with no clear impact.</li> </ul>
<b>Alternative 3 - Voluntary scheme with controlling the labels</b>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>For consumers this option would mean that they would be less likely to see the origin information on products than under Article 7, but also less likely to be misinterpret such labels, resulting in limited overall impact.</li> </ul>	<ul style="list-style-type: none"> <li>Industry views concerning the third option are divided.</li> <li>Some stakeholders see this alternative as insufficient in generating any benefits from increased transparency./</li> <li>The option could generate benefits through addressing misleading products</li> </ul>

From the three alternatives, consulted stakeholders felt that the third alternative could go some way to eliminating costs of determining origin for some producers, while also potentially lowering the benefits expected by some industry stakeholders. They felt that the added value of the first alternative is limited, in that labelling products is not seen as particularly costly. In the case of the second option, lack of a viable alternative that

would ensure improved consumer information means that the option is seen as not likely to generate additional benefits.

## 6.5 Footwear

### 6.5.1 Characteristics of the sector and products

#### *Product coverage*

The footwear product category covers all footwear, including footwear for specific purposes (e.g. protective or sports footwear), as well as parts of footwear. The following sections will pay particular attention to the distinction between high-end (luxury) products and mass-market products.

#### *Sector data*

The following table outlines the main characteristics of the EU footwear industry.

**Table 15 - Sector characteristics: Footwear**

Indicator	Data
Number of enterprises	20,695
Proportion of SMEs	99.4% (see Note to table)
Turnover	EUR 25.2bn
Production value	EUR 24bn
Total extra-EU28 exports	EUR 7.3bn
Main export partners (by percentage of total extra-EU28 exports)	United States (16%), Russian Federation (15%), Japan (6%), Hong Kong (5%), China (3%)
Total extra-EU28 imports	EUR 15.6bn
Main import partners (by percentage of total extra-EU28 imports)	China (51%), Vietnam (14%), Indonesia (8%), India (7%), Tunisia (3%)

**Source:** Eurostat Structural Business Statistics (enterprise and production data), Eurostat International Trade Statistics (trade data), 2012 figures

**Note:** Trade data are for the "FOOTWEAR" category (SITC code 85). Data on the proportion of SMEs reflects the proportion of SMEs among enterprises for which the relevant NACE category/categories represent the principal economic activity. Not all of these enterprises are necessarily manufacturers to whom the Article 7 requirement would apply.

Two thirds of European footwear production is concentrated in Italy, Portugal and Spain<sup>75</sup>, with, according to the consulted stakeholders, sizable footwear production also taking place in countries such as France, Poland, Romania, Finland, and Sweden. **Most European producers are SMEs**, with many having recently moved to high-quality, high-added value market segments, as well as niche markets<sup>76</sup>. While the EU faces a trade deficit in footwear, between 2008 and 2013 EU footwear exports grew by

<sup>75</sup> See [http://ec.europa.eu/growth/sectors/fashion/footwear/eu-industry/index\\_en.htm](http://ec.europa.eu/growth/sectors/fashion/footwear/eu-industry/index_en.htm)

<sup>76</sup> See [http://ec.europa.eu/growth/sectors/fashion/footwear/eu-industry/index\\_en.htm](http://ec.europa.eu/growth/sectors/fashion/footwear/eu-industry/index_en.htm)

31% in quantity and 44.2% in value<sup>77</sup>, showing the sector to be resilient during the crisis period.

### *Key sector characteristics*

In the footwear sector it is particularly important to take into account existing footwear labelling requirements. **Directive 94/11/EC** on the approximation of the laws, regulations and administrative provisions of the Member States relating to labelling of the materials used in the main components of footwear for sale to the consumer (henceforth the Footwear Directive) requires the labelling of composition of three main footwear components, namely the upper, the lining and sock, and the outer sole.

### *Labelling practices*

Consulted stakeholders indicate relatively **high prevalence of origin labelling**: Estimates obtained from stakeholders suggest that over 75% of European companies apply the label. A survey of footwear producers in Poland conducted by the Polish association indicated for instance that 82% of footwear manufacturers label the products with an origin mark. A similar survey in Italy indicated that 95% of surveyed companies label the origin of their products.

While no systematic data on labelling practices is available, stakeholder input with regard to labelling practices suggests that these are broadly in line with the customs code and hence also with Article 7. Although footwear producers would be subject to labelling requirements in countries such as United States, Russia, or China, and stakeholders recognise that these requirements may differ somewhat, this is not seen as a challenge for origin labelling. The divergence of views between stakeholders in the footwear sector and those in the domestic appliances and consumer electronics sectors concerning different labelling requirements could potentially be attributed to footwear products having, relative to the above sectors, simpler and less geographically dispersed supply chains.

One exception relates to the sports footwear and apparel industry, where one stakeholder indicated that companies do face challenges concerning different labelling requirements due to their globalised production and global market. As noted previously, the solution used by one sportswear company is to use a single way of determining origin that follows the principle of last substantial transformation, with labelling in different languages. While this practice is generally accepted in the different markets, the stakeholder noted that there is a risk that the label in use may not be fully in line with Article 7.

## 6.5.2 Impact on national authorities

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<sup>77</sup> See <http://cec-footwearindustry.eu/en/sector/key-facts>

The consulted national **authorities did not indicate that the impact of labelling of footwear products in terms of traceability would differ from the overall impact of Article 7.**

**Footwear, similarly to textiles is considered a low-risk product group**, allocated a relatively low proportion of market surveillance resources. Overall, while no specific estimates were obtained for textile products, one would expect that, in absolute terms, **the additional costs of controlling origin labels are likely to be lower than those for other product groups**, assuming that control of origin labelling is carried out alongside other market surveillance tasks. The reasoning behind this assessment is explained in more detail in Section 5.1.2. It is important to note that market surveillance in this sector may also include the control of composition labelling, which could potentially facilitate the integration of controlling origin into other surveillance tasks.

### 6.5.3 Impact on consumers: Impact on product safety

Some of the safety issues identified by consumer associations include **chemical content and small parts used in children's footwear**. Overall, however, the consulted **consumer organisations did not expect Article 7 to have a positive impact on the safety of footwear**. Similarly, input from national authorities suggests that Article 7 would have no or very limited impact on the traceability and, as a consequence, the safety of footwear products.

### 6.5.4 Impact on consumers: Impact on consumer information

#### *Overall findings*

Most stakeholders consulted in the sector indicated that **consumers are interested in origin of footwear**. This is also supported by a poll commissioned by the Italian footwear association surveying 1,000 consumers in three EU Member States (France, Germany and the United Kingdom). The poll found that:

- 63% of French consumers, 59% of German consumers, and 42% of British consumers check the country of origin of their footwear;
- Origin influences purchase decisions for 32% of French consumers, 28% of German consumers, and 18% of British consumers.<sup>78</sup>

This poll indicates that, taking into account national differences, **there appears to be interest in the origin of footwear**, with approximately half of the consumers indicating an interest in origin actively also taking it into account during their purchase decisions.

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<sup>78</sup> Assocalzaturifici. 'MADE-IN SURVEY: Online survey conducted in the UK, Germany & France'

The only differing view has been provided by a stakeholder in the sportswear sector, who noted that brands tend to play a larger role than origin and consumers appear to not be concerned with the origin of the product. Overall, however, the existing consumer research suggests that **an origin label would benefit the sizable proportion of consumers indicating an interest in knowing the origin of footwear they encounter in retail outlets**. At the same time, it is important to note that, based on the above estimates, while up to 63% of consumers express an interest in origin, this impact would only apply to the products that are currently not labelled.

Finally it is important to consider the fact that footwear, like many other products, can be produced using parts originating from a range of countries. According to one stakeholder, many footwear producers based in the EU tend to outsource the sewing of footwear uppers to third countries. While the resulting products may still be correctly labelled as made in the EU (for example a EU-made shoe with an upper produced at a manufacturing site in Brazil), a possibility still remains that consumers interpret such a label as indicating that the product is fully made in a EU Member State. In that sense, **while Article 7 responds to consumer interest in origin, it does not necessarily ensure that consumers' interpretation of this information accurately reflects the product origin**.

#### *High-end and mass-market products*

As noted above, whether Article 7 adds value in terms of informing consumers will depend on whether the products are already correctly labelled, whether consumers take an interest in the label and whether such label reflects the information consumers would likely to obtain about the product. The key difference between high-end and mass-market footwear is the fact that higher-end products are more likely to already be labelled and hence Article 7 would have more limited impact.

#### 6.5.5 Impact on industry: Adaptation costs

##### *Overall findings*

According to the consulted stakeholders, **adaptation costs in the footwear sector are generally perceived to be low**. This is primarily a result of:

- Most EU producers already labelling their products;
- The labelling being in line with the customs code principles; and
- The fact that footwear composition already needs to be labelled on the product itself, meaning that adding an origin label does not require substantial changes to the production process.

Information provided by stakeholders suggests that on-going direct costs of labelling origin can range between practically none to 25 cents per pair. It is worth noting that

this is considerably lower than the estimate from Impact assessment for the 2005 country of origin labelling proposal, which put the cost at €2 per article for footwear.

Using the former cost estimate and production estimate from the PRODCOM database which estimates EU production in 2013 at 530 million pairs<sup>79</sup>, and assuming that 25% of this production is currently unlabelled (taking the number of enterprises labelling products as a proxy for labelled products on the market), would yield a total annual cost of up to EUR 33.2 million to be borne across the industry, or approximately EUR 6,600 for each of the 25% of European producers currently not labelling their products. Given that this draws on the high estimate provided by industry, the direct adaptation costs appear to be limited.

The consulted **stakeholders generally did not indicate any indirect longer-term costs to the industry** as a result of the Article 7 proposal. While labelling requirements in other jurisdictions have been noted by the interviewees (in particular two interviewees in the sector highlighted the origin labelling requirements in the Middle East, for instance in Saudi Arabia), the compatibility of these requirements with those in Article 7 have not been highlighted as problematic. As a result, additional market segmentation or “earmarking” of products does not appear to be a challenge in the sector, although composition labelling requirements suggest that some degree of “earmarking” is likely to already take place.

One differing view was provided by a stakeholder from the sports apparel industry, who noted that there may be inconsistencies between current labelling practices and those required under Article 7, with one-off costs associated with addressing these (workload to determine origin under Article 7, potential upgrade of IT systems, as well as update of databases with relevant information) estimated to be in the “five digit range”, or ranging between EUR 10,000 and 100,000. It is however important to note that these costs apply to operations of a global footwear and apparel manufacturer and therefore also include costs associated with textile products.

#### *High-end and mass-market products*

Overall, the costs to higher-end of the market are likely to be lower than for mass-market products due to higher likelihood of such products being labelled.

### 6.5.6 Impact on industry: Impact on businesses’ competitive position

#### *Overall findings*

The key impact on businesses’ competitive position highlighted by consulted stakeholders is the **differentiation of European products to those originating in other countries**, in particular in East Asia. While footwear manufacturers who would benefit from having a specific origin label on their products would most likely already

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<sup>79</sup> Sum of sold quantities produced under PRODCOM code 15.

label their products as such, **the labelling requirement in Article 7 would mean that currently unlabelled footwear would need to bear an origin label**, which, according to the interviewed stakeholders, would be beneficial to European manufacturers currently facing competition from lower priced products produced outside of the EU<sup>80</sup>, including so-called “no-name” products.

The expected benefits could be understood as a clearer differentiation between EU production and non-EU production, highlighting the production standards that EU manufacturers are subject to, as well as higher production costs. As noted by one stakeholder, this effect is likely to be the strongest in the case of higher priced non-EU footwear, as it can highlight these products’ higher margins compared to EU production.

The **size of any positive effect will in turn depend on the number of unlabelled products on the market**, and the subsequent consumer decisions when faced with an origin label. While there is no reliable data on the unlabelled footwear sold on the EU market, COTANCE, the European leather producers’ association, in response to the 2004 consultation on origin marking estimates that 15% of footwear produced outside of the EU bears an origin mark, compared to 80% of footwear produced in the EU (which is broadly in line with the more recent estimate above)<sup>81</sup>. This in turn suggests that European producers may benefit from consumers switching their purchase habits towards EU production, although, as noted above, only between 18% and 32% of consumers take origin into account when making a purchase and, even for these consumers, origin will be just one of the factors guiding the decision, alongside price, brand, and other factors. This in turn means that the “substitution effect” is likely to be the strongest where other factors, such as price, are similar.

The total benefit is therefore very difficult to estimate, although one consulted stakeholder argued that 20%-25% of the market could be affected by changing consumption patterns.

Another potential benefit highlighted by one consulted organisation is **the benefit for EU producers based in EU Member States where the origin brand is seen as less desirable as that of other EU Member States**. In some cases these producers are asked not to label their products where these are distributed in other EU markets. The Article 7 requirement would make the label mandatory, with consulted stakeholders arguing that this visibility combined with high quality product would contribute to improved image of the “origin brand”. This has been highlighted in the case of Poland.

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<sup>80</sup> RPA (2012). ‘In-depth assessment of the situation of the European footwear sector and prospects for its future development’

<sup>81</sup> European Commission (2005). ‘Annex to the Proposal for a Council Regulation on the indication of the country of origin of certain products imported from third countries – Impact Assessment’.

Finally, one needs to consider impact on **European producers with production currently based outside of the EU**. Where producers already label their products, they are unlikely to observe any effect, with the potential impact limiting itself to producers currently not labelling their products, who, in addition to the adaptation costs outlined above, could face a potential loss of revenue. One however needs to keep in mind that this is likely to be a limited effect, given that price is likely to remain an important determinant of consumer decisions.

#### *High-end and mass-market products*

Overall, the key distinctions in terms of the impact on businesses competitive position is likely to be that of currently labelled EU-production and currently unlabelled non EU-production, where the substitution effects are more likely to be between similarly priced products. This in turn implies that producers of higher-end/higher-priced footwear are less likely to benefit from the proposal.

#### 6.5.7 Impact on industry: Impact on misleading labelling and counterfeiting

##### *Overall findings*

The final potential impact of the scheme is that of **addressing misleading labelling**, as well as product counterfeiting. The consulted stakeholders noted that misleading labelling is a problem faced by the industry, and includes incorrect labelling as well as situations where a product name (e.g. an Italian or a Spanish name) implies a certain origin, with the product actually made elsewhere.

Although no evidence has been collected on the extent of this problem specifically in the footwear sector, COTANCE in its response to the 2004 consultation estimated that approximately 15%-20% of leather products (shoes, handbags, wallets, belts, leather clothing) sold in the EU “is counterfeited or conveys false indication of origin or misleading indications”<sup>82</sup>. Looking specifically at IPR infringements, shoes, and in particular sports shoes, in 2013 topped the IPR infringement statistics in terms of cases<sup>83</sup>.

The potential impact of Article 7 in terms of addressing misleading labels and counterfeit products is less clear. One area where a mandatory origin can provide a benefit is in **addressing misleading brand names**, which, for products that are currently unlabelled, would need to be accompanied by an origin label, thus avoiding misleading the consumers. With regard to counterfeiting, no clear impact of the proposal has been identified, with a stakeholder from the sports footwear and apparel sector, a sector particularly affected by counterfeit footwear, seeing little added value in the proposal.

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<sup>82</sup> European Commission (2005). ‘Annex to the Proposal for a Council Regulation on the indication of the country of origin of certain products imported from third countries – Impact Assessment’.

<sup>83</sup> European Commission (2014). ‘Report on EU customs enforcement of intellectual property rights - Results at the EU border 2013’

### *High-end and mass-market products*

As in the case of textile products one would expect counterfeiting to disproportionately affect higher-end branded products, including branded sports footwear. The potential impact on counterfeiting is however disputed, as noted above.

### 6.5.8 Summary of impacts

The following table summarises the impact on the footwear industry. As in the case of textiles, the table distinguishes between the high-end and mass-market segments of the textile sector, although, as noted above, this is not necessarily the key determinant of impact, with other factors also playing a role.

**Table 16 - Summary of impacts: Footwear**

Stakeholder group	Type of impact	Market segment	Costs	Benefits
<b>National authorities</b>	Recurring	High-end and mass-market	<ul style="list-style-type: none"> <li>Additional costs of controlling footwear products.</li> </ul>	<ul style="list-style-type: none"> <li>No or very limited impact on traceability</li> </ul>
<b>Consumers</b>	Recurring	High-end	<ul style="list-style-type: none"> <li>Some risk of labels providing incomplete or potentially misleading information to consumers, although lower than for textiles. Limited impact since products are more likely to be labelled.</li> </ul>	<ul style="list-style-type: none"> <li>Responds to consumer interest in product origin. Limited impact since products are more likely to be labelled.</li> </ul>
		Mass-market	<ul style="list-style-type: none"> <li>Some risk of labels providing incomplete or potentially misleading information to consumers, although lower than for textiles. Also limited impact since products are more likely to be labelled.</li> </ul>	<ul style="list-style-type: none"> <li>Responds to consumer interest in product origin. Higher impact due to products being less likely to be labelled.</li> <li>Potential to address misleading and incorrect labelling.</li> </ul>
<b>Businesses</b>	One-off	High-end	<ul style="list-style-type: none"> <li>Low due to low adaptation costs and products likely to already be labelled.</li> </ul>	-
		Mass-market	<ul style="list-style-type: none"> <li>Low due to low adaptation costs.</li> <li>Category more likely to include unlabelled products.</li> <li>May need investments for determining origin of products for producers with complex supply chains (i.e.</li> </ul>	-

		sports footwear).	
Recurring	High-end	-	<ul style="list-style-type: none"> <li>• Potential improvement in competitive position for a limited group of high-end products not benefitting from a brand effect, particularly SMEs.</li> <li>• Potential to address misleading and incorrect labelling.</li> </ul>
	Mass-market	<ul style="list-style-type: none"> <li>• Low costs of maintaining and updating databases for producers with complex supply chains.</li> </ul>	<ul style="list-style-type: none"> <li>• Differentiation from non-EU made products for EU-made footwear.</li> <li>• Potential to address misleading and incorrect labelling.</li> </ul>

Similarly to textile sector, European footwear producers use supply chains involving both EU and non-EU production, and supply both the EU and the global market. Unlike textiles, however, the prevalence of origin marking among EU producers appears to be high, while any adaptation costs are generally expected to be low. The combination of high prevalence of origin marking with low costs of labelling, along with consumer interest in origin means that **Article 7 could result in some moderate net benefits for the sector**. These benefits would most likely be lower for higher-end branded products, which are more likely to be labelled and also more likely to derive value from brand names. At the same time the costs for high-end products are also likely to be lower due to lower proportion of non-labelled products.

Whether the identified benefits would translate into an overall benefit would however also depend on the magnitude of the costs borne by the market surveillance authorities.

#### 6.5.9 Impact of alternative solutions

The identified impacts of the alternative solutions are set out below:

**Table 17 - Impact of alternative options: Footwear**

Alternative	Impact on national authorities	Impact on consumers	Impact on businesses
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<b>Alternative 1 - Option to label product packaging or documentation</b>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>For consumers this option would mean that they would be less likely to see the origin information on products than under Article 7.</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholders do not see this alternative as reducing the cost to industry.</li> <li>Labels on packaging and documents are seen as more prone to forgery.</li> <li>The option would also potentially reduce the positive effect on producers expecting to benefit from the labelling requirement,</li> </ul>
<b>Alternative 2 - Alternative principles for determining origin</b>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>Given that no clear alternative has been put forward, the option is not likely to benefit consumers by providing them with clearer information.</li> </ul>	<ul style="list-style-type: none"> <li>There is a general agreement that a different principle would create additional confusion with no clear impact.</li> </ul>
<b>Alternative 3 - Voluntary scheme with controlling the labels</b>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>For consumers this option would mean that they would be less likely to see the origin information on products than under Article 7.</li> </ul>	<ul style="list-style-type: none"> <li>Some stakeholders see this alternative as insufficient in generating benefits from increased transparency and do not expect control of labels to be effective enough.</li> </ul>

Both the first and third alternatives are seen as likely to reduce potential benefits expected from the Article 7 proposal. The first alternative would however not eliminate the cost of determining origin. While it would reduce the costs of labelling, these are already considered to be low. The third alternative would reduce both the potential costs of labelling and determining origin, resulting in broadly neutral impact.

## 6.6 Ceramics

### 6.6.1 Characteristics of the sector and products

#### *Product coverage*

The ceramics sector refers to a wide range of products, of which only some fall within the category of consumer products. Ceramic products include wall and floor tiles, bricks and roof tiles, tableware and ornamental ware, refractory products, sanitary ware, vitrified clay pipes and technical ceramics<sup>84</sup>. Out of these, the consulted stakeholders identified the following products as effectively consumer products falling under the scope of the CPSR:

<sup>84</sup> ECORYS (2008). 'Framework contract Sector competitiveness Studies – Competitiveness of the ceramics sector. Client: EC, Directorate General Enterprise and Industry'

- Ceramic wall and floor tiles (NACE 23.31);
- Clay roofing tiles, bricks and blocks (NACE 23.32); and
- Tableware (NACE 23.41)

It is however worth noting that one could also consider sanitary ware (NACE 23.42) as a consumer product.

### *Sector data*

The following table outlines the main characteristics of the EU ceramics industry.

**Table 18 - Sector characteristics: Ceramics**

Indicator	Data
Number of enterprises	16,916
Proportion of SMEs	99% (see Note to table)
Turnover	EUR 25.9bn
Production value	EUR 24bn
Total extra-EU28 exports	EUR 4.0bn
Main export partners (by percentage of total extra-EU28 exports)	United States (15%), Russian Federation (13%), Saudi Arabia (6%), Israel (3%), Canada (3%)
Total extra-EU28 imports	EUR 2.0bn
Main import partners (by percentage of total extra-EU28 imports)	China (64%), Turkey (13%), Thailand (5%), United Arab Emirates (4%), Vietnam (3%)

**Source:** Eurostat Structural Business Statistics (enterprise and production data), Eurostat International Trade Statistics (trade data), 2012 figures

**Note:** Trade data are for the product categories corresponding to SITC codes 66231, 6641-6645, and 666. Data on the proportion of SMEs reflects the proportion of SMEs among enterprises for which the relevant NACE category/categories represent the principal economic activity. Not all of these enterprises are necessarily manufacturers to whom the Article 7 requirement would apply.

Cerame-Unie, the European-level ceramics sector umbrella organisation estimates that EU production constitutes approx. 25% of the global production and accounts for over 200,000 direct jobs throughout the EU, around 80% of them in SMEs. It is however important to note that these estimates include products not primarily sold to consumers (sanitary ware, vitrified clay pipes, abrasives and technical ceramics, and refractories), which account for approx. 30% of the market. Another important characteristic is the export-oriented nature of the sector, with Cerame-Unie estimating that approximately quarter of the production is sold in export markets<sup>85</sup>.

Looking more closely at **tableware products**, which are the traditional consumer product within the ceramics category, in 2012, tableware and other related household and toilet articles accounted for EUR 1.5bn of European ceramic production. Imports

<sup>85</sup> See <http://www.cerameunie.eu/en/ceramic-industry/key-facts>

during that period amounted to EUR 1.1bn, with China being the key importer accounting for EUR 874m of imports. Tableware and kitchenware of porcelain and china amounted to EUR 619.8bn of the total imports, out of which EUR 492.2m worth of products were imported from China. Total imports of tableware and related household and kitchen articles from the second largest extra-EU importer (Thailand) amounted to only EUR 78.4m.

### *Key sector characteristics*

In terms of origin labelling, the sector has the following important characteristics:

- **Ceramic tiles and bricks, ceramic sanitary ware and clay pipes are construction products subject to CE marking** according to EU Regulation 305/2011 on Construction Products. Harmonised product standards provide test methods that allow assess the conformity and performance of these products.
- According to consulted stakeholders, **European ceramic tile production generally conforms with the European Standard EN 14411:2012** (itself based on an ISO standard), which specifies that tiles conforming to the standard need to carry the mark and/or trademark of the manufacturer and the indication of origin.
- **European manufacturers face increasing competition from imported products, in particular products originating in China.** Two definitive measures anti-dumping have been adopted in the last years against China: on imports of ceramic tiles in 2011 and on imports of ceramic tableware and kitchenware in 2013.

### *Labelling practices*

Apart for ceramic construction products, mandatory CE marking and harmonised standards do not exist in other ceramics sub-sectors, but the consulted stakeholders generally argue that the **majority of EU ceramic production is labelled with the country of origin**. In particular, products exported to United States, Japan, China and South Korea would bear an origin mark. While no systematic information on origin labelling is available, an internal member survey by Cerame-Unie has shown that out of 27 surveyed firms (six producers of tableware and 21 producers of wall and floor tiles), 26 mark all of their production with an origin mark. According to the stakeholders, **the place of first firing of a ceramic product is universally accepted as the origin of the product** and no significant divergences in terms of origin labelling are expected.

#### 6.6.2 Impact on national authorities

The consulted national **authorities did not indicate that the impact of labelling of ceramic products in terms of traceability would differ from the overall impact of Article 7.**

National authorities consider ceramics to be one of the lower-risk product groups from the point of view of product safety with relatively few resources being dedicated to controlling ceramics. This suggests that while costs of controlling such products would, in relative terms, increase in line with the overall costs to public authorities, **in absolute terms the additional cost is likely to be lower than for most other product groups**, assuming that control of origin label is carried out alongside other market surveillance tasks. The reasoning behind this assessment is explained in more detail in Section 5.1.2.

### 6.6.3 Impact on consumers: Impact on product safety

Ceramics are generally not an area of focus for consumer organisations. As for other product groups, the consulted **consumer organisations did not expect Article 7 to have a positive impact on the safety of ceramics**. Similarly, input from national authorities suggests that Article 7 would have no or very limited impact on the traceability and, as a consequence, the safety of ceramic products.

### 6.6.4 Impact on consumers: Impact on consumer information

Consulted stakeholders in the sector generally argued that an **origin labelling requirement would provide additional transparency to consumers**. Unlike in other sectors, the more straight-forward nature of determining origin means that an origin label on ceramic products is more likely to provide consumers with an accurate understanding of where a given product was made.

Little information is available on consumers' interest in origin of ceramic products, although the **consulted stakeholders argue that due to the traditional characteristics of ceramic products, origin plays a larger role in consumer evaluation than is the case in other sectors**. Unfortunately, the 2010 Eurobarometer survey did not cover ceramic products and does not make it possible to verify this assumption, but other sources appear to support this assessment. The UK study on origin labelling found for instance that the "Made in UK" label is considered to be an important selling point for UK ceramic tableware producers<sup>86</sup>. Similarly, Ewins (2013) in a case study on the UK Ceramics sector shows that the "Made in" label is still seen as important in attracting consumers<sup>87</sup>.

At the same time, it is important to note that, as indicated previously, **a large proportion of European production is likely to already be labelled**. While data from the aforementioned Cerame-Unie survey are not representative of the sector as a whole, they do suggest a relatively widespread use of labelling. The impact on

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<sup>86</sup> BIS (2015). 'Compulsory Origin Marking research - Full report (Phase 1 and 2)'

<sup>87</sup> Ewins, N. (2013). 'UK Ceramic Manufacturing strategies, marketing and design in response to globalization c1990-2010'

consumers will therefore be concentrated on products that do not bear an origin label. Given existing standards for ceramic tiles and the reported widespread use of such standards, unlabelled products are more likely to include tableware and other ceramic products.

Another effect identified by one industry organisation, and, according to this organisation particularly relevant to roof tiles is the fact that an origin label allows **consumers to potentially trace products to find fitting replacements** for broken tiles. It is however not clear to what extent the origin label in itself provides sufficient traceability and any additional benefit concerns only products that are currently unmarked. In addition, it is also important to consider the fact that, as noted above, construction products are already subject to traceability requirements.

#### 6.6.5 Impact on industry: Adaptation costs

Consulted stakeholders generally indicate that **any adaptation costs are likely to be low**. This is a result of:

- European products being already labelled;
- Existing origin labelling using the place of first firing as the origin country, which is viewed by the stakeholders as consistent with the Article 7 requirement and third country requirements; and
- Low cost of stamping the product with an indication of origin.

As noted previously, Cerame-Unie's internal survey indicated that 26 out of 27 firms that responded to the request already label the entirety of their production and 89% of the respondents **expected the proposal to have no additional cost**.

Across the entire ceramics sector, the current costs of stamping products were estimated by the consulted industry associations to be, on average, under EUR 0.01 per unit, with the costs potentially rising to the EUR 0.10 – EUR 0.25 range in exceptional situations, which suggest that even if costs are incurred, they are likely to be relatively low.

#### 6.6.6 Impact on industry: Impact on businesses' competitive position

The consulted **ceramic industry stakeholders expect to benefit from the origin-labelling requirement**. The key effect, as argued by the stakeholders, is the ability of an origin label to highlight the provenance of imported unmarked products, which are currently seen as competing with European production despite being produced at lower costs and, it is argued, often to a lower quality standard. While origin marking is unlikely to result in quality improvements for such products, the consulted stakeholders

expect it to allow consumers to differentiate the two types of products and make a more informed choice.

This effect would however be dependent on:

- The proportion of unlabelled products with non-EU origin on the EU market;
- The extent to which consumers would change their product evaluation, their willingness to pay for products with EU and non-EU origin, and their ultimate purchasing decisions.

With regard to the former point, while robust estimates are difficult to come by, the 2008 report on the competitiveness of the ceramics sector<sup>88</sup> estimated that import penetration in the EU market varies from 3%-8% for floor and wall tiles to over 60% for tableware, with the report suggesting that these figures are likely to rise. Assuming that these figures reflect the consumer products on the EU market and that the impact of introducing an origin label is the highest in the sector with the highest proportion of imports, given the high import penetration in the tableware sector, one would expect such effect to be most noticeable for this product group.

Assuming that the requirement results in some changes in consumers' purchases, the **potential impact can be illustrated by looking at the current value of imports**. As noted above, in 2012 the total value of imports of ceramic tableware and kitchenware of porcelain and china into the EU amounted to €619.8m (out of which €492.2m came from China according to Eurostat trade data)<sup>89</sup>. If an extra 1% of the import value of these products would go to EU producers, this would result in a benefit to European tableware producers of over €6m in sales. The consulted stakeholders have however not been able to estimate the overall impact on the sector, so the figure should be treated as an illustration of the potential orders of magnitude.

#### 6.6.7 Impact on industry: Impact on misleading labelling and counterfeiting

**Counterfeiting and misleading labelling has been identified as a problem faced by producers in the ceramics sector.** Highlighted issues include:

- Use of designs by non-EU producers closely resembling or copying those of EU producers;
- Using marking on non-EU products suggesting EU origin ("Italian Style", "England"); and
- Use of product catalogues for non-EU made products showing European employees.

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<sup>88</sup> ECORYS (2008). 'Framework contract Sector competitiveness Studies – Competitiveness of the ceramics sector. Client: EC, Directorate General Enterprise and Industry'

<sup>89</sup> See Eurostat

In all these cases, a **mandatory origin mark may provide additional transparency and help avoid potentially misleading consumers**. It can be argued that the above practices could also fall within the scope of the Unfair Commercial Practices Directive, although, as noted in the previous section, the Directive does not appear to effectively control misleading origin indications.

The magnitude of the potential positive effect of Article 7 would depend on the prevalence of the above practices, the effectiveness of the requirement in ensuring that the products are in fact labelled correctly (in turn dependent on the effectiveness of the enforcement mechanisms in individual Member States), and the likelihood of the label affecting consumer choice.

There are no reliable estimates of the extent of the misleading labelling and counterfeiting problem in the ceramics sector. In its response to the 2004 consultation on origin labelling Cerame-Unie estimated that 90% of Chinese tableware imports on the EU market carry false or misleading marks of origin<sup>90</sup>. While 90% is a high proportion, there is no reliable data to verify that estimate. Nevertheless, if national authorities gave higher priority to controlling ceramic products more effectively and given the high value of Chinese imports into the EU, even addressing a considerably smaller number of misleadingly labelled products could offset any labelling costs faced by the industry.

#### 6.6.8 Summary of impacts

The following table summarises the impact on the ceramics industry.

**Table 19 - Summary of impacts: Ceramics**

Stakeholder group	Type of impact	Costs	Benefits
<b>National authorities</b>	One-off	<ul style="list-style-type: none"> <li>Additional costs of controlling ceramic products.</li> </ul>	<ul style="list-style-type: none"> <li>No or very limited impact on traceability</li> </ul>
<b>Consumers</b>	Recurring	-	<ul style="list-style-type: none"> <li>Origin labelling is likely to provide consumers with accurate information on the origin of previously unlabelled product.</li> <li>Appears to respond to consumer interest in origin labelling.</li> <li>Potential to address</li> </ul>

<sup>90</sup> European Commission (2005). 'Annex to the Proposal for a Council Regulation on the indication of the country of origin of certain products imported from third countries – Impact Assessment'

			misleading and incorrect labelling.
<b>Businesses</b>	One-off	<ul style="list-style-type: none"> <li>Very low due to low labelling costs and high prevalence of labelling.</li> </ul>	-
	Recurring	-	<ul style="list-style-type: none"> <li>Expected benefit due to differentiating EU production from imports and perceived consumer interest in origin.</li> <li>Potential to address misleading and incorrect labelling.</li> </ul>

Ceramics is an example of a sector with primarily EU-based production serving both the European and the global market. As can be seen in the above table, there is limited evidence of origin marking having substantial costs for the sector. Instead, a number of benefits are expected. Whether Article 7 brings about a net benefit would however also depend on the costs of controlling origin.

#### 6.6.9 Impact of alternative solutions

The identified impacts of the alternative solutions are set out below:

**Table 20 - Impact of alternative options: Ceramics**

Alternative	Impact on national authorities	Impact on consumers	Impact on businesses
<b>Alternative 1 - Option to label product packaging or documentation</b>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>For consumers this option would mean that they would be less likely to see the origin information on products than under Article 7.</li> </ul>	<ul style="list-style-type: none"> <li>This is expected not to generate the benefits of Article 7 due to information not necessarily being communicated to consumer if only present on documentation or discarded.</li> </ul>
<b>Alternative 2 - Alternative principles for determining origin</b>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>No benefit expected due to Article 7 approach being seen as clear and appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>No benefit expected due to Article 7 approach being seen as clear and appropriate</li> </ul>
<b>Alternative 3 - Voluntary scheme with controlling the labels</b>	<ul style="list-style-type: none"> <li>Option is not expected to change the impact on national authorities.</li> </ul>	<ul style="list-style-type: none"> <li>For consumers this option would mean that they would be less likely to see the origin information on products than under Article 7.</li> </ul>	<ul style="list-style-type: none"> <li>This is expected not to generate the benefits of Article 7 due to information not being communicated to consumers.</li> <li>Not seen as effective in addressing misleadingly labelled or counterfeit</li> </ul>

products.

Overall, the three alternatives were not seen as beneficial to stakeholders in the sector. Any option that does not ensure that all products are effectively labelled would reduce the expected benefits. Given that the costs are expected to be low, the consulted stakeholders did not see much value in alternative solutions aiming at reducing adaptation costs.

## 7 Impact on SMEs

- SMEs can be particularly impacted where new systems and processes need to be put in place to comply with the Article 7 requirement, since these costs are likely to be higher in relative terms for SMEs.
- SMEs are more likely to supply only a domestic or European market, meaning that Article 7 would be a completely new requirement for many firms compared to larger companies already complying with third country requirements.
- SMEs are more likely to see an improvement in their competitive position as a result of Article 7, since they are less likely to have globally recognised brands. This means that an origin label would play a more important role in guiding consumer decisions than it is the case for larger brands.

This section focuses on the impact of Article 7 on SMEs across the six sectors based on stakeholder input and identified secondary sources. As the figures presented in the previous sections show, SMEs dominate all six of the investigated sectors, but in particular the footwear, textile, and toy sectors. It is however important to note that while impact on SMEs has been explored in stakeholder consultation across all six sectors, only in some cases have specific differences between SMEs and large enterprises been identified. This does not mean that Article 7 will not have impact on SMEs in other sectors, but it implies that stakeholders in these sectors expect there to be no major differences with regard to types of impact experienced by SMEs and by larger enterprises.

### 7.1.1 Adaptation costs

The stakeholder consultation has identified two factors, which are likely to disproportionately affect SMEs:

- Firstly, where **new systems and processes need to be put in place to comply with the Article 7 requirements** these costs are likely to be higher in relative terms for SMEs.
- Secondly, as **SMEs are more likely to supply only a domestic or European market**, Article 7 would result in a completely new requirement compared to larger companies already complying with third country requirements.

The former impact has been highlighted in particular in the **textiles** sector, where two consulted organisations noted that in the case of SMEs usually only 1-2 employees would be responsible for a range of tasks, such as logistics and customs, meaning that ensuring compliance with an origin **labelling requirement could constitute a**

**relatively large burden in terms of available human resources.** Furthermore, the consulted stakeholders noted that **SMEs would tend to have more limited information about their supply chains**, usually only knowing their customers and suppliers, but not necessarily suppliers further upstream, which can further contribute to adaptation costs.

It is important to note that this type of impact on SMEs has not been highlighted in other sectors with a high proportion of SMEs (toys and footwear). This could be attributed to the higher prevalence of labelling reporting in these sectors, meaning that overall fewer enterprises would be facing such costs.

The second type of impact relevant to SMEs and highlighted by stakeholders in the **consumer electronics and sports footwear and apparel** sectors relates to the fact that, according to the stakeholders, SMEs are less likely to sell their products globally. Although this is not the case for all SMEs, with a number of European SMEs being active on the international market, existing research confirms that large enterprises account for majority of EU exports<sup>91</sup> and are therefore more likely to be exporters compared to SMEs. This in turn means that SMEs **would have less experience of using the customs code rules and complying with origin labelling requirements**, resulting in higher relative costs. **The implications of this effect are less significant for SMEs in sectors where determining product origin is simpler**, such as ceramics or in some instances footwear, where one consulted national-level stakeholder noted that most footwear production takes place in the Member State in question, making labelling easier.

Conversely, in situations where global operations mean that a new European requirement can adversely affect producers' supply chain flexibility, SMEs operating only on the national or the European market are likely to experience lower adaptation costs than global enterprises, assuming they already engage in labelling. Based on stakeholder input, this could be the case in the **toy sector**.

### 7.1.2 Impact on businesses' competitive position

Results of stakeholder consultation suggest that **SMEs are more likely to see an improvement in their competitive position as a result of Article 7** compared to large companies. This effect, identified in particular by stakeholders in the **textile and footwear sectors**, relates to the fact that SMEs are less likely to have globally recognised brands. This in turn implies that an origin label would play a more important role in consumer decisions than is the case for larger brands.

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<sup>91</sup> See for instance: Cernat, L., Norman-López, A., and Duch T-Figueras, A. (2014). 'SMEs are more important than you think! – challenges and opportunities for EU exporting SMEs'

The size of this effect would in turn depend on consumer interest in product origin and its role in consumer decisions. Therefore, while one would expect this effect to be to some extent present for textile products, footwear products, and ceramics, it is less likely to be relevant for sectors where evidence of consumer interest in origin is more mixed, for instance in the case of domestic appliances or toys.

### 7.1.3 Impact on misleading labelling and counterfeiting

No specific evidence has been identified with regard to benefits to SMEs concerning Article 7's potential impact misleading labelling and counterfeiting. One would therefore expect any impacts to be broadly in line with the overall impacts outlined in the sections above.

## 8 Synthesis of findings and conclusions

- The overall assessment of Article 7 is a mixed one and will depend on the product group in question. This also means that the six product groups investigated here do not provide a representative picture of the overall impact of Article 7.
- Given little evidence of impact on product safety across all sectors, for Article 7 to generate a net benefit, resulting labels would need to effectively communicate product origin, respond to consumer interest, and carry low adaptation costs.
- These conditions appear to be at least partly satisfied in the footwear and ceramics sectors, but not necessarily in the toys, domestic appliances and consumer electronics sectors. Overall, products with less complex supply chains are more likely to satisfy these conditions.
- None of the options identified appears to represent a viable alternative to the proposal. They are unlikely to generate some of the identified benefits of Article 7 and for products where Article 7 is not seen as beneficial, stakeholders expressed the strongest preference for the status quo option where no additional origin labelling requirements are introduced.

Based on the overall findings and findings for specific product groups, **the overall assessment of Article 7 is a mixed one**. Given little evidence of impact on product safety across all sectors, for the proposal to carry with it a net benefit one would require:

- **Origin labels that effectively communicate actual product origin;**
- **Consumers that are interested in product origin and would use origin labels to inform their purchase decisions;**
- **Low adaptation costs.**

These conditions appear to be at least partly satisfied in the footwear and ceramics sectors, but not necessarily in the toys, domestic appliances and consumer electronics sectors. The findings with regard to the textile sector will depend on the market segment and type of business involved, with the high-end market segment being more likely to satisfy the above conditions than the mass-market segment. Overall, products with less complex supply chains are most likely to satisfy these conditions.

Crucially, all of the costs and benefits identified in the study will depend on:

- **Origin labels being effectively controlled;** and

- **Control of origin labels not having a detrimental effect on other surveillance tasks** and, consequently, on product safety.

The highlighted **resource constraints** identified by national authorities suggest that there is a risk that either one of these conditions could not be satisfied.

Out of the potential alternatives, **an option to label packaging or documentation does not provide substantial added value over the Article 7 proposal** given that direct labelling costs are low and the alternative does not, for instance, address the higher costs of determining origin. Where communicating origin to consumers is seen as having a positive effect, the alternative would also fall short of generating potential benefits. This is due to origin information being less likely to be seen by consumers compared to Article 7, which also applies to the third Alternative.

No viable proposal for an alternative way of determining origin has been put forward, with **an introduction of another principle seen as a source of confusion and further fragmentation**. Where stakeholders did not expect Article 7 to generate any benefits, they expressed a **preference for maintaining the status quo**.

Finally, the **six product groups investigated here do not provide a representative picture of the overall impact** of Article 7. Differences across sectors suggest that findings from a single or even a selection of product groups might not hold for others. Nevertheless **the broad determinants of costs and benefits identified in the study are likely to be relevant to all consumer products**.

## 9 ANNEX 1: Stakeholders consulted

The following EU-level stakeholders have been consulted within the context of this study.

**Table 21 - Contact list: Consulted stakeholder organisations and businesses**

Organisation type	Sector	Geography	Organisation
Consumer association	General	EU	BEUC
Consumer association	General	EU	ANEC
Industry Association	General	EU	BUSINESSEUROPE
Industry Association	General	EU	UEAPME
Industry Association	General	EU/UK	ECCIA/Walpole
Industry Association	General	IT	Altagamma <sup>92</sup>
Industry Association	General	IT	Confartigianato <sup>93</sup>
Industry Association	General	IT	Confindustria <sup>94</sup>
Industry Association	General	DE	Deutscher Industrie- und Handelskammertag e. V. <sup>95</sup>
Industry Association	Retail	EU	EuroCommerce
Industry Association	Retail	EU	Independent Retail Europe
Industry Association	Retail	AT	Austrian Chamber of Commerce WKÖ
Industry Association	Retail	FR	FCD <sup>96</sup>
Industry Association	Ceramics	EU	Cerame-Unie
Industry Association	Ceramics	ES	Spanish Ceramic Tile Manufacturers' Association: ASCER
Industry Association	Ceramics	FR	French Federation of Tiles and Bricks (FFTB)
Industry Association	Ceramics	IT	Italian Ceramic Industry Association: Confindustria Ceramica
Industry Association	Consumer electronics	EU	Digital Europe <sup>97</sup>
Industry Association	Domestic appliances	EU	ORGALIME
Company	Domestic appliances	DE	Multinational domestic appliance producer <sup>98</sup>
Industry Association	Footwear	EU	European confederation of the Footwear Industry
Industry Association	Footwear	EU	FESI - Federation of the European Sporting goods Industry
Industry Association	Footwear	FR	Fédération Française de la Chaussure
Industry Association	Footwear	IT	Assocalzaturifici
Industry Association	Footwear	PL	PIPS
Company	Footwear	SE	Swedish footwear producer

<sup>92</sup> Consulted through approaching ECCIA The European Cultural and Creative Industries Alliance

<sup>93</sup> Consulted through approaching UEAPME

<sup>94</sup> Consulted on behalf of BUSINESSEUROPE

<sup>95</sup> Consulted through approaching EUROCHAMBRES

<sup>96</sup> Consulted through approaching EUROCOMMERCE

<sup>97</sup> Consultation involved corporate members representing multinational electronics manufacturers

<sup>98</sup> Consulted through approaching CECED

Industry Association	Footwear/Textiles	IT	CNA Federamoda
Company	Footwear/Textiles	DE	Multinational sports apparel producer
Industry Association	Textiles	EU	EURATEX
Industry Association	Textiles	EU	EDANA
Industry Association	Textiles	EU	European Fur Information Center
Industry Association	Textiles	EU	EUROCOTON
Industry Association	Textiles	EU	Children's Fashion Europe <sup>99</sup>
Industry Association	Textiles	FR	Union Française des Industries de l'Habillement
Industry Association	Toys	EU	TIE – Toys Industries of Europe
Industry Association	Toys	UK	Multinational toy manufacturer

**Note:** This list includes both interviews and written submissions

**Table 22 - Market surveillance authorities that provided contributions**

Member State	Authority
Austria	Federal Ministry for Sciences, Research and Economy
Austria	Federal Ministry of Labour, Social Affairs and Consumer Protection
Belgium	Public Federal Service for Economy <sup>100</sup>
Bulgaria	Commission for Consumer Protection
Bulgaria	State Agency for Metrology and Technical Surveillance
Croatia	Ministry of Economy, Directorate General for Economic Inspection Affairs
Cyprus	Competition and Consumer Protection Service
Cyprus	Permanent Representation of Cyprus to the EU
Czech Republic	Czech Trade Inspectorate
Denmark	Danish Safety Technology Authority
Estonia	Ministry for Economic Affairs and Communications
Finland	Safety and Chemicals Agency
France	Ministry for Economy, Industry and Digital technology
Germany	Ministry for Environment, Climate and Energy Economy of Baden-Württemberg
Hungary	Hungarian Authority for Consumer Protection
Ireland	Food Safety Authority of Ireland (FSAI) and Competition and Consumer Protection Commission (CCPC)
Italy	Financial Guard
Italy	Ministry of Economic Development
Italy	Chambers of Commerce
Latvia	Ministry of Economy
Lithuania	State Non Food Products Inspectorate
Luxemburg	Luxembourg Institute of Standardization, Accreditation, Security and Quality of Products and Services
Malta	Malta Competition and Consumer Affairs Authority
Netherlands	Netherlands Food and Consumer Product Safety Authority.
Poland	Office of Competition and Consumer Protection
Slovakia	Department of European Affairs and Standardization - Office of Standards, Metrology and Testing of the Slovak Republic
Slovenia	Market Inspectorate of Republic of Slovenia
Slovenia	Health Inspectorate of the Republic of Slovenia
Spain	National Institute for Consumers

<sup>99</sup> Consulted through approaching UEAPME

<sup>100</sup> Note: Two responses were received from this authority

Sweden	Swedish Board for Accreditation and Conformity Assessment
United Kingdom	Department for Business, Innovation and Skills
United Kingdom	National Measurement Office

## 10 ANNEX 2: References

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## 11 ANNEX 3: Interview topic guides and questionnaires

### Industry associations interview guide

#### Background information

1. Can you briefly outline your role in your organisation?
2. Can you describe your organisation's membership? (*Prompt: Large companies/SMEs, national associations/direct members, distribution across Member States and market segments*)
3. How wide is the market coverage of your organisation? (*Prompt: In absolute terms, as a proportion of the total market size*)

#### Current origin labelling practices

4. Do manufacturers in your sector label products with the country of origin?
5. *If yes to 4: What proportion of products is labelled?*
6. *If yes to 4: What principles are used for determining origin?*
7. What are the main motivations for origin labelling/not labelling of products?
8. How do these differ across market segments or Member States?
9. What third country origin labelling requirements are manufacturers in your sector subject to?
10. What are the current costs associated with existing origin labelling requirements that manufacturers in your sector are subject to? (*Prompt: In absolute terms for the sector, per company or SKU, or as a proportion of total cost or turnover*)
11. What are the other challenges relating to the current situation with regard to origin labelling? Can you provide an estimate on their impact on your sector?
12. What is the consumer perception of origin labelling in your sector?

#### Cost and benefits of the Article 7 proposal

13. What would be the potential costs for manufacturers in your sector associated with the Article 7 proposal?
14. How would these costs differ between SMEs and large enterprises? How would they differ depending on market segments?
15. Can you provide specific cost estimates? (*Prompt: Cost of (re-)labelling and longer-term costs; one-off/recurring costs; Prompt: In absolute terms for the sector, per company or SKU, or as a proportion of total cost or turnover*).
16. What would be the potential benefits for manufacturers in your sector associated with the Article 7 proposal?
17. How would these benefits differ for SMEs and large enterprises? How would they differ depending on market segments?
18. Can you provide specific estimates? (*Prompt: In absolute terms for the sector, per company or SKU, or as a proportion of turnover*)

#### Overall impacts of the Article 7 proposal

19. What impact would the Article 7 proposal have on product traceability and product safety in your sector? Why?
20. What impact would the Article 7 proposal have on the overall competitiveness and

growth of the sector? Why? (*Prompt: Impact on counterfeiting*)

21. Can you provide estimates of this broader sector impact? (*Prompt: In absolute terms for the sector, or as a proportion of total market size*)

#### Alternative solutions

*There are a number of potential alternatives to the Article 7 proposal, including:*

- *Allowing country of origin labelling on product packaging or a document accompanying the product for all products.*
- *Use of different principles for determining product origin other than non-preferential rules of origin of the Customs Code.*
- *Voluntary origin marking based on common EU rules laying down the criteria according to which the origin should be determined.*

22. How would the costs and benefits of these solutions differ to those under Article 7?

23. Is the principle of last substantial transformation underlying Article 7 suitable for the determination of origin in your sector?

24. *If no to 23:* What would be a more suitable principle? How would it affect the costs and benefits compared to the Article 7?

#### Closing remarks

25. What is your overall assessment of the Article 7 proposal?

26. Can you nominate national-level associations or individual companies that are representative of your sector and that can provide additional input on the costs and benefits of the proposal?

27. Are there any data sources or studies that we should consult?

28. What other stakeholders should be consulted?

29. Do you have any other comments or remarks?

### Consumer organisation interview guide

#### Background information

1. Can you briefly outline your role in your organisation?

2. Does your organisation focus specifically on any of the following product groups?

- Toys
- Domestic appliances
- Consumer electronics
- Textiles
- Footwear
- Ceramics

#### Baseline situation

3. What are the main challenges in terms of product safety for the above product groups? How do these differ across product groups?

4. What are the main costs/consumer detriment associated with these challenges? How does this differ across products?

5. Can you provide specific quantitative estimates? (*Prompt: Valuation of health impacts, cost of accidents*)

6. To what extent can improved product traceability address these challenges?  
(*Prompt: Specific data or studies*)
7. To what extent can origin labelling improve consumer information? How does this differ across product groups?
8. What are the current challenges associated with origin labelling? How does this differ across product groups? (*Prompt: Misleading labelling, clarity*)

#### Cost and benefits of the Article 7 proposal

9. What would be the potential benefits to consumers associated with Article 7 proposal? (*Prompt: Consumer information*)
10. How would this differ across product groups?
11. What would be the potential costs/consumer detriment associated with the Article 7 proposal? (*Prompt: Quality/clarity of consumer information*)
12. How would this differ across product groups?

#### Overall impacts of the Article 7 proposal

13. What impact would the Article 7 proposal have on product traceability and product safety for these product groups? Why?

#### Alternative solutions

*There are a number of potential alternatives to the Article 7 proposal, including:*

- *Allowing country of origin labelling on product packaging or a document accompanying the product for all products.*
- *Use of different principles for determining product origin other than non-preferential rules of origin of the Customs Code.*
- *Voluntary origin marking based on common EU rules laying down the criteria according to which the origin should be determined.*

14. How would the costs and benefits of these solutions differ to those under Article 7?
15. Is the principle of last substantial transformation underlying Article 7 suitable for the determination of origin in the specific sectors under analysis?
16. *If no to 15:* What would be a more suitable principle? How would it affect the costs and benefits compared to the Article 7?

#### Closing remarks

17. What is your overall assessment of the Article 7 proposal?
18. Are there any data sources or studies that we should consult?
19. What other stakeholders should be consulted?
20. Do you have any other comments or remarks?

### National authority questionnaire

#### Background information

1. Can you briefly outline your role in your organisation?
2. Which of these product groups is your authority responsible for?
  - Toys
  - Domestic appliances

- Consumer electronics
- Textiles
- Footwear
- Ceramics

#### Current market surveillance practices

3. What are the main costs associated with market surveillance? How do they differ across products?
4. Can you provide specific cost estimates? (In absolute terms or as a proportion of your authority's budget)
5. To what extent is establishing product origin important for your authority's market surveillance tasks?
6. How problematic is establishing the country or origin? Are there any extra costs associated with this?
7. To what extent is identifying relevant authorities in the country of origin important for your authority's market surveillance tasks?
8. How problematic is identifying relevant authorities? Are there any extra costs associated with this?
9. Does your authority currently control origin marking on products? If so, are there any extra costs associated with this?

#### Cost and benefits of the Article 7 proposal

10. What would be the potential costs associated with Article 7 proposal?
11. How would these costs differ across the product groups?
12. Can you provide specific cost estimates? (In absolute terms or as a proportion of market surveillance budget or total budget)
13. What would be the potential benefits associated with the Article 7 proposal?
14. How would these benefits differ across product groups?
15. Can you provide specific estimates? (In absolute terms or as a proportion of market surveillance budget or total budget)

#### Overall impacts of the Article 7 proposal

16. What impact would the Article 7 proposal have on product traceability and product safety for these product groups? Why?

#### Alternative solutions

*There are a number of potential alternatives to the Article 7 proposal, including:*

- *Allowing country of origin labelling on product packaging or a document accompanying the product for all products.*
- *Use of different principles for determining product origin other than non-preferential rules of origin of the Customs Code.*
- *Voluntary origin marking based on common EU rules laying down the criteria according to which the origin should be determined.*

17. How would the costs and benefits of these solutions differ to those under Article 7?
18. What could be other alternative solutions for improving traceability and product safety? How would the costs and benefits of these solutions differ to those under Article 7?

## Closing remarks

19. What is your overall assessment of the Article 7 proposal?
20. Are there any data sources or studies that we should consult?
21. What other stakeholders should be consulted?
22. Do you have any other comments or remarks?

## Trade union questionnaire

### Background information

1. Can you briefly outline your role in your organisation?
2. Does your organisation focus specifically on any of the following sectors/or product groups?
  - Toys
  - Domestic appliances
  - Consumer electronics
  - Textiles
  - Footwear
  - Ceramics

### Current situation

3. Are there any challenges with regard to the current level of product traceability from the perspective of European workers working in the sectors relevant to the above product groups?
4. Are there any challenges with regard to the current use of origin labelling from the perspective of European workers working in these sectors?

### Cost and benefits of the Article 7 proposal

5. What would be the potential negative impacts on workers associated with Article 7 proposal?
6. How would these differ across different sectors?
7. What would be the potential positive impacts on workers associated with the Article 7 proposal?
8. How would these differ across product groups?

### Overall impacts of the Article 7 proposal

9. What impact would the Article 7 proposal have on product traceability and product safety for these product groups? Why?

### Alternative solutions

*There are a number of potential alternatives to the Article 7 proposal, including:*

- *Allowing country of origin labelling on product packaging or a document accompanying the product for all products.*
  - *Use of different principles for determining product origin other than non-preferential rules of origin of the Customs Code.*
  - *Voluntary origin marking based on common EU rules laying down the criteria according to which the origin should be determined.*
10. How would the impact of these solutions differ to those under Article 7?

11. What could be other alternative solutions for improving traceability and product safety? How would the impacts of these solutions differ to those under Article 7?

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Closing remarks

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12. What is your overall assessment of the Article 7 proposal?

13. Are there any data sources or studies that we should consult?

14. What other stakeholders should be consulted?

15. Do you have any other comments or remarks?

## 12 ANNEX 4: Other sectors volunteering contributions

This section provides a summary of input from stakeholders from sectors not covered in the study, but who volunteered contributions. The sections below present their views on main costs and benefits expected from mandatory origin marking in their respective fields of activity. The relevant stakeholders are listed in Table 23.

**Table 23 - Stakeholders' organisations in sectors not covered by the study that wished to transmit their contributions**

Organisation type	Sector	Geography	Organisation
Industry Association	Furniture	EU	EFIC
Industry Association	Jewellery	EU	European Federation of Jewellery
Industry Association	Semiconductors	EU	ESIA European Semiconductor Industry Association
Industry Association	Tyres	EU	ETRMA

### Furniture

#### *Key sector characteristics*

Some furniture producers currently apply origin marking, with estimated 10-20% of products being labelled. This labelling is seen as broadly in line with the Customs Code, with main rationales for existing labelling being:

- To provide transparent and accurate information to consumers;
- To indicate quality, as well as social, environmental and safety standards applied in the country of origin;
- Marketing through capitalising on the reputation of the country of origin;
- Liability and traceability reasons; and
- To comply with third country requirements.

#### *Adaptation costs*

According to the stakeholders, the cost of a labelling requirement is expected to be low, given existing labelling requirements already faced by furniture producers. The cost of a label attached to a piece of furniture is assessed to be in the range of EUR 0.04 – EUR 0.15 per unit.

#### *Impact on businesses' competitive position*

The Article 7 requirement is expected by the stakeholders to benefit European furniture producers primarily by allowing them to more effectively communicate the compliance of European furniture with European and national regulations and, hence, compete more successfully with extra-EU producers.

### *Impact on misleading labelling and counterfeiting*

Misleadingly labelled products are identified by the stakeholders as one of the challenges faced by the European furniture sector. One of the expected benefits associated with Article 7 would be addressing misleadingly labelled products.

## **Jewellery**

### *Key sector characteristics*

There are examples of national voluntary origin labelling schemes used in the jewellery sector, such as the French “*Joellerie de France*” label. This label is used by 50 companies, but relies on different principles than those foreseen in Article 7 since it specifies that the product must be manufactured, assembled, seamed and polished in France.

According to the stakeholders, the country of origin should refer to the country where the product was manufactured, assembled, seamed and polished. Hence, the principle of *last* substantial transformation is not seen as appropriate in the sector and instead the principle of *substantial transformation* is proposed.

### *Adaptation costs*

The costs of adapting to a labelling requirement are expected by the stakeholders to be low, since producers would usually have all the necessary information concerning origin as a result of their participation in voluntary labelling schemes.

### *Impact on businesses' competitive position*

According to the stakeholders, the main benefits of Article 7 are the alignment of EU labelling requirements to those of EU trade partners, as well as additional transparency vis-à-vis the consumer with regard to societal, health and environmental standards used by European manufacturers. As a result, Article 7 could also serve as a marketing tool for European companies. Overall a mandatory origin label is expected to improve the competitiveness of European manufacturers and contribute to employment growth, in particular for SMEs.

## **Semiconductors**

### *Key sector characteristics*

The semiconductor sector is an R&D intensive sector that serves as an enabling industry for a range of other sectors. Origin labelling is not used in the sector.

### *Adaptation costs*

Stakeholders in this sector expect to face a number of challenges if an origin labelling requirement applying to the sector were to be introduced. These include:

- The fact that manufacturers generally do not know the destination country at the production stage, meaning that complying with origin requirements of a particular jurisdiction could not be compatible with the requirements of the ultimate destination country for the product;
- Inability to amend labelling without destroying the product if the label is deemed incorrect within a given jurisdiction; and
- Very small size of semiconductors, which makes labelling technically challenging.

#### *Impact on businesses' competitive position*

Stakeholders expect that there would be no benefits for the industry. Any labelling requirement is instead expected to result in potential costs and loss of flexibility. Article 7 would also not improve the traceability of semiconductor products, since traceability in the sector is generally based on the number of a given manufacturing lot, which is used for quality assurance reasons.

## **Tyres**

#### *Key sector characteristics*

According to stakeholder input, all tyres available on the EU market are marked with the country of origin printed on the tyre sidewall. Tyres on the EU market are also labelled with a DOT code, identifying the plant in which the tyre was produced. The DOT code is a US requirement, but European producers generally comply with US labelling requirements, which is also the main reason for origin marking.

#### *Adaptation costs*

Given that the labelling is already in place, no additional costs or benefits are expected by stakeholders in the sector.

#### *Impact on businesses' competitive position*

Given that European tyre manufacturers already label their production with the country of origin, Article 7 is not expected to generate any additional benefits. Article 7 is also not viewed as beneficial from the point of view of traceability and product safety, in particular given current lack of effective market surveillance in the sector.