



The Vital Link in the Food Chain

December 2018

Recommendations for the competitiveness of the EU Primary Food Industry Cornerstone of sustainable growth and jobs

Introduction

Sound manufacturing industries have always been the backbone of the EU and must remain so going forward. PFP is a strong supporter of the efforts of the Industry4Europe coalition to ensure that a strong EU industrial policy remains a central pillar of the EU when a new European Parliament and Commission are elected in 2019.

The EU primary processing **industry employs over 120 000 people with 70 billion EUR turnover, providing indirect employment to more than 1 million EU farmers**. This document aims to describe the specificities of this industry and the particular challenges that negatively impact its competitiveness and supply chains.

The primary food processing characteristics

Agricultural Commodity Processing

The EU Primary Food Processors (PFP) deal with over 220 million tonnes of agricultural raw materials on an annual basis, sourced from the EU but also from third countries. Primary processors are the largest users of domestic cereals, starch potatoes, sugar beet and oilseeds in the EU. They are also sizable users of imported commodities, like cocoa, soybeans, tropical oils and, to a certain extent, high-quality wheat.

The processing of agricultural bulk commodities generally requires the transformation of large volumes to reach economies of scale and be profitable. Primary processing plants have to manage stocks to supply the continuous transformation process and to optimise the processing capacity. Typically, these are **small margin businesses**.

A central position in food, feed, non-food industrial and energy chains

PFP play a central role in the food and feed chain, turning agricultural raw materials from farmers into a range of safe and high-quality primary food products for human consumption and feed materials destined to animals. The agricultural raw materials they use are often subject to seasonality. PFP sell most of their B2B production to downstream food manufacturers and to compound feed operators. Only a minor share of their products reaches the market as packaged consumer goods.

As food and feed business operators, the primary food processors have key obligations deriving from the EU food and feed safety legislations.

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Besides food and feed, several PFP members also supply bio-based products and ingredients for pharmaceuticals, detergents, plastics, lubricants, biofuels, paintings, cosmetics, paper, textile and other industrial applications. In this way they contribute substantially to the realisation of the goals of the bio-economy.

Recommendation 1: Ensure the protection of crops

With many additional active substances expected not to be re-approved in the coming years, in part due to changes of EU legislation (new approval criteria under Regulation 1107/2009, cut-off criteria), the challenge for EU primary food business operators will be to adapt to these developments. First, where active substances are not re-approved, agricultural practices both in the EU and in third countries supplying to the EU will have to be adjusted accordingly. This in itself already represents an enormous challenge. Second, over the medium and long-term, reduced availability of authorized substances in the farmers' toolkit is leading to pest resistance and the emergence of previously banished pests and plant diseases. Additionally, the fewer authorized substances are being used to a greater extent and amount. Finally, all those aspects risk jeopardising the availability of primary processed products and to endanger farmers' livelihoods. These elements combine to create both an economic and an environmental problem for the agricultural community, food operators and consumers.

The EU must support farmers and improve agricultural productivity so that consumers have a stable supply of affordable food is one of the objectives of the CAP. The food chain needs a diversified range of sustainable plant protection products to protect their crops and deliver the quality and quantity of safe affordable food required by EU consumers. If these are not available, not only yields will drop, supply will decrease and prices will rise but it will also be increasingly difficult to grow crops in some EU countries, in particular in a context of climate change that is expected to increase the presence of pests.

Recommendation 2: Support an increased transparency in the up-dated General Food Law Regulation, and funding for EFSA, but continue to check the impact of diverging interpretation and hence enforcement at Member State level

The Fitness Check of the General Food Law Regulation was an appropriate way of ensuring that the fundaments of our legal framework were still serving their purpose. We support the updated proposal's focus on increased transparency and the important role of EFSA, whilst reiterating the need for setting boundaries of confidentiality.

However, concerns remain that this exercise has not **put sufficient emphasis on diverging interpretation at national level and on discrepancies between the overall intentions of the GFL Regulation and the aims and objectives of secondary legislation**, which do not always match. As a clear take-away of the Fitness Check of the General Food Law Regulation, PFP calls on this point to be further addressed by the EU.

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Recommendation 3: Abstain from imposing country-of-origin labelling on EU primary food products

Country of origin labelling (Cool), including mandatory Cool, could result in significant extra costs for sectors like primary food processors, which regularly need to use raw materials from multiple sources. Country of origin would hence have very limited, if any, consumer benefit. Indeed, some PFP sectors do not produce final consumer products and in a majority of cases, the origin will not provide any particular characteristics to the product, as they are standardised.

PFP welcome the fact that our concerns have been incorporated into the European Commission's approach. PFP continue to support a voluntary approach that provides flexibilities for certain sectors and which takes into account the primary food production constraints. PFP remains concerned however that individual Member States continue to introduce national origin labelling schemes, which are clearly undermining the EU Single Market.

Recommendation 4: Use LCA methodologies for hot-spot analysis and for continuous improvement of environmental performance and existing sustainability schemes.

The markets we serve have faced pressure to improve the environmental performance of the production processes "from cradle to grave". This has in part been driven by legal sustainability requirements in the biofuels sector, but also through voluntary initiatives from food industry, retail and other sectors. A methodology for Life Cycle Assessment (LCA) has been developed by the Commission (i.e. Product Environmental Footprint or PEF) and scientific research centres and industry have assessed specific environmental performance of their products.

Today, primary food processors face a risk of fragmentation of their supply streams, with implications for the availability of raw materials and for the efficiency of processing and logistics operations. This is due to differences in private sustainability requirements and to possible divergences in sustainability definitions applying in downstream food/feed and non-food markets. PFP is welcoming the harmonisation that PEF brings. Any -well defined- environmental claim made by an operator should be PEF compliant. However environmental claims should remain voluntary.

Recommendation 5: Favour education and awareness raising on healthy lifestyles rather than targeting food with nutrient-related taxes.

Obesity is due to a variety of factors that include insufficient caloric expenditure (due to lack of physical activity) compared to calorie intake, the socio-economic environment and genetic predispositions.

Intending to solve obesity with tax measures is not an effective approach for tackling complex diet and lifestyle-related problems. Such measures are arbitrary and discriminatory and penalise all consumers, regardless of how balanced their diet is or how healthy their lifestyle is. Discrimination based on subjective

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criteria leads to market distortions by creating unfair competition between similar products and by triggering a substitution effect. These measures also impact primarily low income populations. **Education and awareness raising initiatives on healthy lifestyle, and ensuring the availability of a wide range of foods to all population groups, and at affordable prices, can be more effective than nutrient-related taxes on certain foods.**

Recommendation 6: Continued support for an ambitious CAP and for securing the supply of EU agricultural raw materials

The CAP will remain pivotal in securing constant and regular access to high-quality and safe agricultural raw materials (mainly maize, wheat, soybeans, sugar beet, starch potatoes, rapeseed, sunflower seed...) in sufficient quantities. PFP endorse the development of the market orientation of the CAP **enabling European farmers to better respond to market signals**. However, PFP is concerned that the proposal for the new CAP (2021-2027), which increases Member State subsidiarity, will distort competition between farmers and industries across Member States. We are also highly concerned about potential budget cuts to the CAP.

Communicating about how our food is produced to avoid rejection by consumer groups should also be given higher attention.

Recommendation 7: Enhance agricultural research and innovation efforts and clarify regulatory status of new breeding techniques

One of the Primary Food Processors' key challenges will be to secure the availability of sustainable agricultural raw materials grown on limited arable land, to produce more in the context of a sharp increase in global demand. PFP support the Commission's proposal on Horizon Europe to dedicate 10 billion Euros to food, agriculture rural development and the bioeconomy. EU R&D support is crucial to realising the potential of the bioeconomy in the EU.

There is a need for the European Commission and Member States to strengthen agricultural research and innovation with a view **to improving agricultural production and productivity while reducing its environmental impact both in the short and long term**. On the one hand, this means being able to continue using essential plant protection products in a more sustainable way and to promote the developments of workable alternatives (see recommendation 1). On the other hand, this will require the use of plant breeding innovation, of new varieties, which at the same time allow reducing the use of inputs: make more with less.

Particularly as pressure on pesticide use increases, new breeding techniques will become increasingly important to EU farmers and food and feed processors. Further clarity on their regulatory status is strongly needed from the EU legislator. The recent ECJ ruling on mutagenesis failed to provide this much needed clarity. Plant varieties obtained with plant breeding innovation are already commercialised in other parts of the world. In this context, PFP is also very concerned by the negative consequences that the ruling may have on its needed supply of imported raw materials considering the different regulatory approach adopted by several key trading partners. Faced with these outlined serious uncertainty, it is becoming imperative for the Commission to outline how the ECJ ruling should be implemented.

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Further, several EU Primary Food Processors that need to complement supplies with imported raw materials are among the food industry groups **calling for European policy makers to introduce a technical definition of “zero” for the sampling and testing of non-authorised GM material by extending the limited scope from ‘feed only’ to ‘food and feed’.** Any solution must provide certainty for European food processors to continue supplying high quality and safe agricultural commodities from a wide range of origins.

Recommendation 8: A strong focus on the need to create a stable regulatory environment for the bioeconomy

Innovation and finding new outlets for existing processing chains is at the heart of the competitiveness boost that the bioeconomy can bring to Europe's food chain, including a regulatory framework, which encourages innovation in the first-processing industry. Besides food and feed, PFP sectors have a long tradition of processing renewable raw agricultural materials to produce ingredients for pharmaceuticals, detergents, plastics, lubricants, fuels, paint, paper, cosmetics and other industrial products.

As such, PFP welcomes the newly updated EU Bioeconomy Strategy published in October 2018. Together with the other members of the European Bioeconomy Alliance (EUBA) of which PFP is a founding member, we welcome the increased focus of the updated strategy and its associated action plan. Implementation of the updated strategy should focus on delivering on five main policy priorities, including: making the circular bioeconomy an integral part of EU-level frameworks and policies; increasing funding and improve coherence of financing mechanisms for the circular bioeconomy; securing the Bio-Based Industries Joint Undertaking (BBI JU) 2.0; creating incentives for bio-based products in strategic sectors; and promoting bio-based products' visibility to stimulate market demand.

Recommendation 9: Facilitate the access of EU first-processing industries to global markets

PFP supports the promotion of regulatory convergence with our trading partners. This should imply encouraging partners to apply equivalent standards. In general, unfair competitive advantage of imports that do not meet the EU environmental and sustainability criteria and are not subject to a comparable regulatory market framework by protecting EU production to the extent necessary should be balanced out.

Brexit is a particular concern for Primary Food Processors with the UK market so closely integrated with the EU-27. Whatever the outcome of ongoing negotiations, they must result in minimal disruption to trade between the UK and the EU-27 in PFP's raw materials and final products.

Recommendation 10: Negotiators should strive not to put the competitiveness of primary food processing sectors at risk by making concessions on market access

PFP supports a multi-lateral approach to trade negotiations but also recognizes its limitations. Given those limitations PFP supports the EU's leading role in trying to secure bi-lateral trade agreements with third countries. For Primary Food Processors exposed to international competition, ensuring a level-playing field

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with imported products that may be subject to less stringent regulations is very important. The EU primary processing industry conforms to ambitious environmental and social standards set in the EU. Sustainable EU production must not be substituted by imports produced to lower environmental standards and within distorted and/or subsidised market frameworks.

Recommendation 11: Access to affordable and sustainable energy and consistent climate policies

PFP call for energy policies ensuring access, for the EU industry, to affordable and sustainable energy. Energy efficiency levels are constantly improving but physical limits are being reached. Energy costs are already higher for EU industry compared to non-EU countries. It is therefore key that EU energy policies ensure a steady supply of energy for the industry. It is also key that the sustainability of energy used by the EU industry is addressed at EU level as PFP have limited leverage, as energy consumers, to increase by themselves the sustainability of their energy supply (e.g. natural gas).

PFP also call for the competitiveness of the EU industry to be continuously addressed in the development of EU climate policies. For EU legislation such as the EU ETS, it is important to consider that non-EU countries have less stringent policies in place compared to the EU. When developing climate policies, it should be ensured either that a level playing field is created worldwide, or that the competitiveness of the EU industry continues to be protected via continued carbon leakage protection measures.

In this respect, PFP also welcomed the EU's preliminary Carbon Leakage List, published in May 2018, for the phase IV of the Emission Trading Scheme, which recognises the need to protect PFP sectors from 3rd country producers with lower energy costs. For some members however, more consideration should be given for sectors that should be included in the list at disaggregated level, due to the nature of their activities.

Finally, corporate initiatives to addressing sustainability concerns are a means to tackle embedded deforestation in a further attempt to pursue climate objectives. European public authorities should build on these initiatives and play a role by engaging in a dialogue with producer countries. This could provide a real contribution towards solving sustainability "hot spots", such as deforestation, rather than turning away from these issues because of their apparent complexity.