

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

Introduction

In its 2014 Communication *'For a European Industrial Renaissance'*, the Commission reiterated its call to Member States for mainstreaming industrial competitiveness in all policy areas and to raise the contribution of industry to GDP to as much as 20% by 2020.

The new Commission President Juncker's top priority is to get Europe growing again and increase the number of jobs without creating new debt: *"Jobs, growth and investment will only return to Europe if we create the right regulatory environment and promote a climate of entrepreneurship and job creation."*

The regulatory environment, including European regulations and their enforcement at national level, can prove conducive as much as they can impede on performance of the industrial player they relate to. The High Level Group on Administrative Burdens identified in its final report of July 2014 a number of crosscutting industry concerns and recommendations.

This document aims at describing the specificities that characterize the EU Primary Food Processors – **an industry employing over 120 000 people with 60 billion turnover** - and at presenting the particular challenges the primary food processing industry is facing that negatively impact its competitiveness and in turn affect the different supply chains the industry is related to. Where appropriate, it makes the link and identifies the specific EU regulatory framework that is of interest.

The primary food processing characteristics

Agricultural Commodity Processing

The EU Primary Food Processors (PFP) deal with over 200 million tons of agricultural raw materials sourced mainly from the EU. 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 optimize the processing capacity. Typically, these are **small margin businesses**.

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

PFP play a central role in the food chain, turning agricultural raw materials from farmers into a range of safe and high-quality primary food products for human consumption. The agricultural raw materials they use are often subject to seasonality. PFP sell most of their B2B production to downstream food manufacturers. Only a minor share of their products reaches the market as packaged consumer goods (less than 10%).

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

Besides food and feed, several PFP members also supply bio-based products and ingredients for pharmaceuticals, detergents, plastics, lubricants, biofuels, paintings, cosmetics, textile and other industrial production. This is the reason why they feel their contribution to achieve the goals of the bio-based economy is of major importance.

1. Reducing costly regulatory burden and improving efficiency

Recommendation 1: Maintain the current principles of the General Food Law Regulation, but check the impact of diverging interpretation and hence enforcement at Member State level

The EU food legislation is extremely comprehensive. Primary food operators' main objective and responsibility is to deliver safe products to the market. They make use of their production-specific risk assessments and know-how, together with HACCP and given EU legal product contaminants and pesticides limits, in order to achieve safety for their food products with no need for further prescriptive rules by the legislator.

The Fitness Check of the General Food Law Regulation is an appropriate way of ensuring that the fundamentals of our legal framework are still serving their purpose. In particular, this exercise should **put 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.

Recommendation 2: Abstain from imposing country-of-origin labelling to the EU primary food products

The Food Information to Consumers Regulation requires the Commission to consider a possible mandatory labelling of country of origin. This could affect single ingredient products or ingredients, which represent more than 50% of a food.

PFP welcomes the European Commission report to the European Parliament and Council regarding the mandatory indication of the country of origin or place of provenance for unprocessed foods, single ingredient products and ingredients that represent more than 50% of a food, which was issued on 20 May

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2015.¹ This report clearly stipulates that introducing a mandatory origin labelling would increase the complexity of the food supply chain, by requiring the adaptation of sourcing practices, traceability systems, production process of the final products, packaging & labelling process as well as marketing practices. According to the report, mandatory labelling would lead to a segmentation of the internal market, possible nationalisation of food supply chains and trade disruptions, whilst making the final products more costly to the consumers.

PFP support the Commission's views that keeping the status quo, i.e. current EU voluntary origin labelling rules, is the only realistic option. PFP have previously illustrated that any other option would have considerable repercussions on supply and processing, due to the fact that **our industries regularly need to use raw materials from multiple EU and non-EU sources**. In addition, **it would not bear real benefits to consumers, as country of origin labelling is wrongly perceived as indicator for quality or safety**.

Recommendation 3: Reflect on the use of 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 our 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. Methodologies for Life Cycle Assessment (LCA) have been developed by the Commission (i.e. Product Environmental Footprint) and scientific research centers in parallel with industry initiatives to assess specific environmental performance of their products. Moreover, over the last years, sustainability certification schemes from companies, customers and stakeholder platforms to improve sustainability criteria in their sourcing of raw materials have multiplied.

Today, **primary food processors face a risk of fragmentation of their supply streams, with implications on the availability of raw materials, the efficiency of processing and of logistics**, because of differences in private sustainability requirements and due to possible divergences in sustainability definitions applying in downstream food/feed and non-food markets. PFP would therefore encourage keeping LCA methodologies especially in the context of the EC Product Environmental Footprint methodology on a voluntary basis and allow each link in the supply chain to drive their own rules (Product Category Rules) for assessing the environmental performance of their products as they have the best knowledge of their processes.

¹ Report from the Commission to the European Parliament and Council regarding the mandatory indication of the country of origin or place of provenance for unprocessed foods, single ingredient products and ingredients that represent more than 50% of a food (COM(2015) 204 final), available at http://ec.europa.eu/food/food/labellingnutrition/foodlabelling/docs/com_2015_204_f1_en.pdf.

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Recommendation 4: Set up the European Energy Union enabling users to have access to competitive energy sources.

Over the last decades, our industries have made considerable investment to achieve significant gains in energy efficiency and in turn to reduce costs for energy supplies. Although this effort still continues, companies today need energy sources that are more competitive and with reduced carbon intensity to maximize production and remain competitive at an international scale. The setting up of a European Energy Union with sources of energy that are diversified in terms of geographic origin and technology used should meet industry expectations. In this context, biofuels could play a role in Europe's energy mix.

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 may include food intake but also insufficient caloric expenditure (due to lack of physical activity), the socio-economic environment and genetic predispositions.

Intending to solve obesity with tax measures, and in particular discriminatory taxes as attempted by some Members States, are 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 criteria leads to an unfair competition between foods and may lead 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 nutritious food to all population groups, and at affordable prices, can be more effective than nutrient-related taxes on certain foods.**

2. Sustainable agricultural productivity increase

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 endorses the development of the CAP **enabling European farmers to better respond to market signals**. When necessary, the European Commission should apply the established market management instruments in a balanced way. Equally, it should address extreme market price volatility and availability of agricultural raw materials.

Finally, the EU proposal for national opt-out from the use of authorised GMOs in their territories, will be seriously challenging the competitiveness of our industries through serious impediments to the internal

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market functioning. Besides, 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-authorized 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 7: Enhance agricultural research and innovation efforts

One of the Primary Food Processor’s 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. This requires a strategic vision on the long-term evolution and viability of the European agricultural sector.

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**. This will require the use of new breeding technologies, of new varieties, which at the same time allow reducing the use of inputs: make more with less. Communicating about how our food is produced to avoid rejection by consumer groups should also be given higher attention.

3. Market drive and policy incentives

Recommendation 8: Better coordination between EU policies that affect supply chains and markets

The regulatory framework in Europe is far-reaching and complex. Numerous linkages exist between crosscutting policy areas such as industry competitiveness. This is the case regarding **policies on environment, climate change, energy, agriculture, health, food and feed, trade, development, research and innovation**. Policy measures can pursue contradictory or at least not mutually supportive objectives. The messages it delivers to the EU primary food processors are not enhancing confidence in the business environment and are at best confusing. **We need commitments from the European legislator for better coordination between the different EU policies and Directorate-Generals, when decisions are taken that affect our supply chains and the markets we serve.**



Recommendation 9: A concrete implementation of the recommendations contained in the Lead Market Initiative report on bio-based products², taking a holistic and coordinated approach at EU, Member States and regional levels

Innovation and finding new outlets for existing processing chains is at the heart of the competitiveness boost that the bio-based economy 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. PFP members are keen to apply new know-how and innovation to their processes to provide new, safe and eco-efficient products. PFP urges the Commission to acknowledge the current achievements of our sector in the bio-based economy.

The implementation of the recommendations of the Lead Market Initiative on bio-based products published by DG Enterprise in 2011 aimed at enhancing the uptake of bio-based products through EU standardisation; some PFP members already take part in this process at the European Standardisation Committee TC/411 on bio-based products. Raising awareness about the bio-economy and developing public procurement for innovative and green products are two other key areas under the remit of DG GROW's expert group on bio-based products that would clearly boost the development of EU-made bio-based products. PFP urges the Commission to give the necessary guidance and support to both the CEN Committee 411 on bio-based products and its expert group on bio-based products throughout their work.

4. Being competitive in European and global markets

Recommendation 10: 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.

Recommendation 11: Negotiators should strive not to put the competitiveness of primary food processing sectors at risk by making concessions on market access

For Primary Food Processors exposed to international competition, a level-playing field with imported

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<https://biobs.jrc.ec.europa.eu/sites/default/files/generated/files/policy/2011%20Lead%20Market%20Initiative%20LMI%20Biobased%20Products%20Priority%20Recommendations.pdf>

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products that may be subject to a less stringent regulatory framework is very important. The EU PFP industry fulfils ambitious environmental and social standards set in the EU. It is in the interest of EU policy-makers to avoid that imported products, with a less ambitious sustainability profile and which are less environmentally efficient and produced under a different market framework, progressively replace EU-made products over which they can claim an undue competitive advantage.

Recommendation 12: Ensure efficiency of derivative markets

First and foremost, PFP member companies produce food, feed, technical/industrial and non-food products from agricultural raw materials. These companies may use derivative markets to hedge against the risk of future price fluctuations which provides them with predictability and helps them maintain stable food prices for customers and consumers. The physical and derivative markets used to manage price risk along the chain are interlinked.

PFP is therefore concerned that ESMA's regulatory technical standards do not address the needs of PFP members, in particular when it comes to the thresholds for ancillary activity. The ancillary activity thresholds as they are currently proposed are too low, and would subject market participants in the agricultural supply chain to the regulatory burden of regular financial institutions. If a production company deals with financial instruments on its own account the capital employed will be high due to the capital invested in production facilities. Normal commercial contracts of operators who take physical delivery of the agricultural commodity assets should be excluded from the scope of the financial instruments regulations – the regulations should only apply to activities which are financial in nature.

ESMA's standards should also encourage EU small and medium-sized primary food operators to increasingly use derivative markets by introducing greater transparency with a view to preserving market integrity and supporting orderly pricing.

