

# High Level Forum for a Better Functioning Food Supply Chain

Final report

June 2019



## Disclaimer

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## LIST OF ACRONYMS

### Acronyms and abbreviations

AI	Artificial Intelligence
AMTF	Agricultural Market Task Force
B2B	Business-to-Business
CAP	Common Agricultural Policy
COSME	Programme for the Competitiveness of Enterprises and SMEs
FPMT	Food Price Monitoring Tool
GDPR	EU General Data Protection Regulation
HLF	High Level Forum for Better Functioning Food Supply Chain
ICT	Information and Communication Technologies
NGO	Non-Governmental Organisation
PAPs	Processed Agricultural Products
SCI	Supply Chain Initiative
SDG	Sustainable Development Goals
SME	Small and Medium-Sized Enterprise
TFEU	Treaty on the Functioning of the European Union
TRIS	Technical Regulation Information System
TSC	Territorial Supply Constraint
UTP	Unfair Trading Practice
UN	United Nations
WHO	World Health Organisation

### EU bodies and agencies

EFSA	European Food Safety Agency
EIP AGRI	Agricultural European Innovation Partnership
DG SANTE	Directorate General Health and Food Safety
DG AGRI	Directorate Agriculture and rural development
DG GROW	Directorate Internal Market, Industry, Entrepreneurship and SMEs
DG ENV	Directorate Environment
IMCO	European Parliament Committee on the Internal Market and Consumer Protection
JRC	Joint Research Centre

## 1. FOREWORD

### On the Forum's three priorities – Single Market, Single Market and Single Market

The Members of the Forum underline the benefits the Single Market has brought for the citizens and economic operators in Europe. The effective and frictionless functioning of the Single Market based on common rules is essential to growth, jobs and consumer health and welfare. Thanks to the four freedoms, European consumers can enjoy diverse, safe and affordable food and drink products.

In its Conclusions of 22 March 2018,<sup>1</sup> the European Council asked the European Institutions to keep working towards a future-proof and fair Single Market that is fit for the digital age and an enabler for competitiveness, innovation and sustainability. The European Council invited the Commission to present a state of play regarding the implementation, application and enforcement of existing legislation that is a key for the functioning of the Single Market and an assessment of remaining barriers and opportunities for a fully functioning Single Market.

The Forum plays an important part in this debate in relation to how the Single Market can contribute to better functioning food supply chains and foster sustainable growth. As stated in its mandate, the Forum assists the Commission with the development of policy measures that contribute to a better functioning food supply chain.

Over the last 25 years, the Single Market has made Europe one of the most attractive places to live and to do business. Its four indivisible freedoms – the free movement of people, goods, services and capital – have helped improve our citizens' prosperity and strengthen the EU's competitiveness.

To exploit its full potential in the digital era and ensure sustainable growth of our economy, the Single Market needs to function properly and constantly evolve in a rapidly changing world. However, today, deeper integration requires more political courage and commitment than 25 years ago and greater efforts to close the gap between rhetoric and delivery.

Thanks to the Single Market, European citizens can buy the food they want, where they want, and benefit from greater choice and lower prices. European businesses – large and small – can expand their customer base and exchange products and services more easily across the EU. Long gone are the days of empty supermarket shelves.

The Single Market provides Europe's citizens with the freedoms and opportunities that were only a dream for our parents and grandparents, and our social market economy benefits us all. Commission President Juncker in his 2017 State of the Union address stated that “*in a Union of equals there can be no second-class consumers*”: as there are no second-class Europeans in our Single Market, so there is no room for second-class products.

A properly functioning Single Market is vital to the European food supply chain. By making the Single Market function properly, the EU can generate a major boost to the allocative efficiency of the food sector, and thereby growth and jobs. The Single Market is also helping European food business operators, whenever they are internationalising.

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<sup>1</sup> [European Council Conclusions of 22 March 2018](#), EUCO 1/18

Our competitors are continent-sized economies, providing companies a continent-sized platform from which to jump to the global market. Every time unjustified regulatory and non-regulatory barriers hinder market entry and fragment the single market, they chip away from our platform. And in the last few years we have witnessed some worrying signals in this respect.

This Forum would like to send a strong message. The time has come to put an even stronger emphasis on the Single Market for food. Not for its own sake. But for the sake of our industrial economy, for the sake of high quality products, for the sake of consumer choice and for the sake of our future living standards.

In times of Eurosceptic tendencies from different corners of Europe, our focus should be on communicating better how the Single Market benefits consumers and businesses, how the Single Market is a delivery tool of competitiveness of food sector and consumer welfare.

## **2. EXECUTIVE SUMMARY**

In 2015, The European Commission launched a new generation of the High Level Forum for a Better Functioning Food Supply Chain (HLF), following the successful experience of the first mandate, which ran from 2010 to 2014. Through this decision, the Commission expressed its ambition to foster a constructive dialogue among European public and private stakeholders on key developments that affect the competitiveness of the food supply chain and transform it.

The Forum comprises 50 members representing 28 Member States and 22 representatives of relevant stakeholders and civil society and is chaired by Commissioner Bieńkowska (Internal Market, Industry, Entrepreneurship and SMEs).

The report reflects the outcome of the deliberations of the Forum Members that worked together for the past three years in a spirit of positive forward-looking cooperation. The Forum has been working on the following four areas identified in its Work Programme as priorities for the food supply chain: Fair and efficient B2B trading practices, Competitiveness and new opportunities in the Single Market, Price transparency, and Composition differences between branded food products sold on the Single Market. In particular, the Forum:

- contributed to the proposal for an EU framework against Unfair Trading Practices (UTPs) through a discussion on a possible framework to tackle UTPs.
- deliberated on a number of relevant topics linked to the improvement of the Single Market for food,
- promoted dialogue on new challenges and emerging opportunities for the competitiveness of the food supply chain,
- developed a project plan for the Food price composition Indicator (#foodeuro) that is expected to be initiated in early 2019,
- steered work on the issue of differentiated composition of identically branded food products ("Dual Food Quality").

The Forum successfully delivered tangible results, in particular:

- The Forum mandated and facilitated a project led by the Joint Research Centre (JRC) to develop a harmonised approach to sampling, testing and data interpretation to improve food product comparative tests and tackle the issue of perceived quality differences of

products offered under the same brand and packaging in several EU Member States. The methodology was finalised and is being used for carrying out an EU-wide testing campaign in 2018.

- Two out of the four priority areas of the Forum are taken up in regulatory proposals by the Commission: A Directive to tackle unfair trading practices in the food supply chain (UTPs) and an amendment of the Unfair Commercial Practices Directive (Dual Food Quality). The Forum continuously supports the work of the Commission on those two proposals by providing input and fostering debates.
- A pilot project to create the first European price composition indicator for food products, the "FoodEuro", will be launched in 2019 to improve price transparency in the food supply chain at the initiative of the Forum.
- In this report, the Forum provides two sets of policy recommendations: (i) a list of barriers affecting the single market of food and concrete ways to address them, (ii) an assessment on the proportionality of cases of compositional differentiation of identically branded food products,
- The Forum has intensified debates and provided inputs on new opportunities arising in the food supply chain, in particular on digitalisation, sustainability, private labels, social responsibility and innovation.

Looking to the future, the Forum notes the pace of ongoing changes that fundamentally transform the food supply chain. Trends such as climate change, 'gastronomicalism', e-commerce, the rise of artificial intelligence, globalisation and consumer engagement already have a deep impact on how the food supply chain operates. In the nearest future these developments are expected to gather pace. In this context, the Forum has promoted a debate that could help in defining the issues of pertinence for the work of the next Commission.

2019, the last year of the mandate of the Forum, will be dedicated mainly to the implementation and monitoring of ongoing actions (#foodeuro project, JRC activities on Dual Food Quality, and Territorial Supply Constraints) and to the promotion and dissemination of the outcomes of the Forum toward a wider public audience.

### **3. INTRODUCTION**

#### **Mandate of the Forum**

In 2010, the European Commission set up the High Level Forum for a Better Functioning Food Supply Chain (HLF), to assist with its work on the development of a solid industrial policy in the agri-food sector. Until 2014, the Forum analysed the major competitiveness factors of the whole food supply chain and a final report, published on 15 October 2014,<sup>2</sup> provided recommendations and acknowledged the importance of a holistic approach and a constructive debate among stakeholder to ensure consistency between all policy areas affecting the food supply chain.

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<sup>2</sup> [Final report of the High Level Forum for a better functioning food supply chain, 15.10.2014](#)

In 2015, under the leadership of Commissioner Elżbieta Bienkowska, the Commission reiterated the importance of the work of the Forum and decided to launch a new generation<sup>3</sup> of the Forum. The new mandate was set from 1 June 2015 to 31 December 2019, with the ambition to continue the constructive dialogue among European public and private stakeholders about key issues, as well as new challenges affecting the competitiveness of the food supply chain.

During this new four-year mandate, the Forum was asked to assist the Commission with the development of an industrial policy in the agri-food sector and with the development of related policy measures, which contribute to a better functioning food supply chain. For this purpose, and based on the recommendations of the report published in 2015, the mandate comprised nine potential topics:

- competitiveness of the food chain and SMEs,
- business-to-business trading practices,
- internal market,
- market access and trade,
- sustainability,
- social dimension,
- innovation,
- prices,
- future challenges influencing the competitiveness of the food supply chain.

The Forum, at the behest of the Commission or on its own initiative, may identify any other relevant issue linked to the functioning of the food supply chain in the Single Market in order to draw up new recommendations.

This flexibility has been used to extend the mandate of the Forum and include Dual Food Quality as a priority area due to the prominence of the topic on the political agenda of the Commission and after President Juncker's 2017 State of the Union address<sup>4</sup> which explicitly referred to this issue.

### **Economic importance of the food supply chain**

Each European citizen is a food consumer who requires to have access to safe and wholesome food of the highest standard. This reflects the uniqueness and the importance of the food supply chain as an economic sector and as a contributor to society's goals for ensuring adequate and secure food supply.

In the EU, around 11 million farms produce agricultural products for processing by about 300.000 enterprises in the food and drink industry. The food processors sell their products through the 2.8 million enterprises within the food distribution and food service industry, which deliver food to the EU's 500 million consumers<sup>5</sup>.

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<sup>3</sup>COMMISSION DECISION of 1 June 2015 establishing the High Level Forum for a better functioning food supply chain, [COM \(2015/C 179/03\)](#)

<sup>4</sup> President Jean-Claude Juncker, State of the Union address 2017, 13.09.2017

<sup>5</sup> See [https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/factsheet-food-supply-chain\\_march2017\\_en.pdf](https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/factsheet-food-supply-chain_march2017_en.pdf)

Furthermore, primary production together with food processing, food retail and food services make up a sector providing nearly 44 million jobs in the EU. Food production alone (agriculture, fisheries and the food processing industry) provides for 10% of total employment in the EU and the EU food supply chain provides a gross value added of more than €707 billion, which represented 5 % of EU's total value added in 2015. Europe's food and drink industry directly employs some 4.57 million people and has a turnover of €1.1 trillion; this makes it the largest manufacturing industry in the EU. In half of the EU's 28 Member States, the food and drink industry is the biggest employer within manufacturing.<sup>6</sup>

The majority of the over 15 million holdings/enterprises in the food chain are small or medium sized enterprises. The small and medium enterprises in the EU food processing industry represent more than 99% of all companies in the sector and 48% of its turnover. This diversity and the unique expertise of the European food operators have enabled the sector to build high standards of quality and safety, which protect and promote consumers' health. These standards are widely recognised as being the highest in the world.

Food retail provides a further essential contribution to the food value chain creation. Food retail sales generated a turnover of around €1.1 trillion in 2017 and a value added of €183 bn. The food retail sector employed about 7 million people in the EU in 2017, which is 3% of total EU employment.

With an agri-food trade value of €255 billion in 2017, the EU confirms its position as the largest global exporter and importer of agri-food products. EU exports of agri-food products reached €138 billion, with a net trade surplus of €21 billion.

### **Priority areas and objectives of the Work Programme**

The Forum has defined a set of four main clusters of topics for its mandate: Fair and efficient B2B trading practices, Competitiveness and new opportunities in the Single Market, Price transparency and Composition differences between branded food products sold on the Single Market. Each cluster aims to integrate specific objectives and deliverables put forward by the members of the Forum.

For each cluster, the Forum selected a wide range of primary topics to be included in its work programme. Those topics affect the whole food supply chain and the competitiveness of the agri-food sector. Specific objectives have been defined for each of these topics to encourage the uptake of good practices and innovative solutions, to foster exchanges and cooperation within the supply chain and between public authorities, to tackle bottlenecks identified by the Forum and to deliver political guidelines for both policy makers and stakeholders. Besides, the work of the Forum should enable the Commission to analyse and consider the necessity for further regulatory actions in the light of its findings.

The Forum also defined more tangible deliverables to achieve these objectives. Identifying solutions and their potential, assessing threats and opportunities for the supply chain and providing evidences of possible direct and indirect effects are types of deliverables targeted by the Forum.

This report describes the work of the Forum from 2015 to 2019 and reflects the conclusions and objectives reached by its members as well as the deliverables produced by them.

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<sup>6</sup>See

[https://www.fooddrinkeurope.eu/uploads/publications\\_documents/FoodDrinkEurope\\_Data\\_and\\_Trends\\_2018\\_FINAL.pdf](https://www.fooddrinkeurope.eu/uploads/publications_documents/FoodDrinkEurope_Data_and_Trends_2018_FINAL.pdf)

## **Structure/methods of Forum work**

The Forum is composed by 50 members: 28 representatives of Member States national authorities and 22 representatives of relevant EU stakeholders. In addition, the European Parliament (represented by the IMCO Committee secretariat) and Norway participated in the discussions of the Forum with an observer status.

Since its first mandate, the Forum's work has been organised around its yearly plenary meetings. The Plenary is the political body of the Forum, it has the role to adopt the Work Programme of the Forum and adapt it at any time during the mandate. It is empowered to give political guidance and steer the work of the Forum. The Plenary of the Forum is responsible for the validation of the work done each year.

The "Sherpa group", a preparatory group of the Forum, lays the groundwork for the Forum main meeting. The Sherpa group hosts debates, develops position papers and opinions with the support of the secretariat of the Forum. This group is composed of high representatives of each members of the Forum and meets 3-4 times per year.

In order to address effectively several complex topics, the Forum has created four expert sub-groups to examine specific questions: digitalisation in the food supply chain, Single Market for food, food price composition indicator, private labels. The different sub-groups were composed of members of the Forum who have the necessary expertise and expressed their interest in participating in the work on these specific issues. The sub-groups had the mandate to foster debate, identify challenges and solutions and report to the Plenary and the Sherpa group where appropriate.

As far as possible, the Forum adopts decisions, opinions, recommendations or reports by consensus. In the event of a vote, a simple majority of the members obtains the result. Dissenting opinions or abstentions are reflected in the proceedings of the group at the request of the members concerned.

Outside these bodies, the work of the Forum is conducted on an everyday basis with the support of the secretariat operated by the Commission. A continuous flow of information and sharing of ideas is guaranteed to maintain the activities of the Forum as close as possible to the current issues affecting the food supply chain.

## **4. FAIR AND EFFICIENT TRADING PRACTICES IN THE FOOD SUPPLY CHAIN**

### **Background**

The Forum has been working towards a fairer and more balanced food supply chain since the beginning of its first mandate. In the Final Report of the first generation of the Forum, the Members invited the Commission to build on the work and experience gained in order to promote fair trading practices along the food supply chain, and to develop adequate measures against unfair trading practices.

In its new mandate, the Forum decided to take up the work on fair and efficient trading practices (UTPs), as its first priority and set the following objectives:

- promoting fair and efficient practices in B2B relations along the food supply chain, including through the Supply Chain Initiative, that was established under its auspices;

- tackling unfair trading practices in the food supply chain, in line with the Commission Work Programmes for 2017 and 2018;
- fostering the cooperation and exchange of best practices between national authorities on the issue of UTPs;
- examining the potential impact of UTPs on the internal market for food;
- encouraging the smart use of ICT solutions to reinforce B2B relations along the chain, in line with the broader objectives of the Digital Single Market Strategy;
- providing input to the Commission initiative for an EU framework against UTPs;

The work of the Forum in this area received special recognition in the Commission Work Programme for 2017 where the Commission committed to consider the necessity of further action in the light of the findings of the Forum and of the Agricultural Market Task Force.<sup>7</sup>

The Forum has held regular exchanges of information and views between Member States and other relevant stakeholders, such as the Agricultural Market Task Force (AMTF). The discussions focused on finding the best ways to foster a fairer and more efficient trading environment. The main outcomes of Forum debates were passed onto policymakers in the European Commission. The value added of Forum in addressing unfair trading practices has been recognised in the Impact Assessment accompanying the proposal for a Directive on unfair trading practices.<sup>8</sup> To date unfair trading practices were on the agenda of two High Level Meetings, five Sherpa meetings, and two meetings of the internal market expert groups.

### **Reforms in the Supply Chain Initiative**

The Supply Chain Initiative (SCI)<sup>9</sup> is a voluntary scheme developed in the context of the Forum. Its purpose is to promote good practices in the food supply chain as a basis for fair commercial dealings.

The SCI is designed for companies operating at any point along the food and drink supply chain, irrespective of their size and their geographical location in the EU. When joining the initiative, companies commit to fair trading practices by integrating the Principles of Good Practice into their day-to-day operations and monitoring their application. At the time of registration, companies also confirm that they comply with their process commitments and support the application of the Principles of Good Practice. The SCI requires that companies address disputes in a fair and transparent manner whilst reassuring the complaining party that it will not be subject to retaliation.

In its report on unfair trading practices (UTPs) in the food supply chain of January 2016,<sup>10</sup> the European Commission recognised the added value of the SCI in building trust in the food supply chain, while highlighting that certain areas of the SCI require a deep reform for it to be truly

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<sup>7</sup> [Commission Work Programme 2017 – Delivering a Europe that protects, empowers and defends, COM\(2016\) 710 final, 25.10.2016, p.6](#)

<sup>8</sup> [Commission Staff Working Document, Impact Assessment – Initiative to improve the food supply chain \(unfair trading practices\), SWD\(2018\) 92/970828, p. 29 - 30](#)

<sup>9</sup> <https://www.supplychaininitiative.eu/>

<sup>10</sup> [European Commission, Report from the Commission to the European Parliament and the Council, on unfair business-to-business trading practices in the food supply chain, COM\(2016\) 32 final, 29.01.2016](#)

effective. In particular, the Commission identified following weaknesses in its assessment of the SCI:

- in the eyes of a number of operators, the SCI lacked effective deterrents against UTPs,
- the SCI did not allow for individual confidential complaints by potential victims of UTPs or for own-initiative investigations by an independent body,
- use of the available dispute resolution options had only been limited in the first years of the SCI.

The Commission, based on the findings of the report, suggested opening a dialogue with the relevant stakeholders on ways to improve the SCI and extending its membership to the entire food chain (including primary producers). In particular, the Commission recommended to:

- step up efforts to promote the SCI, especially among SMEs.
- ensure the impartiality of the governance structure, for instance by establishing an independent chair who is not affiliated to specific stakeholder groups.
- allow alleged victims of UTPs to complain confidentially. Nominate an independent body with power to investigate and impose sanctions.
- enhance internal processes to check that individual operators comply with their process commitments and monitor the occurrence and outcome of bilateral disputes in a confidential manner.

The members of the SCI took this guidance seriously and embarked on a complex discussion on how to improve the Supply Chain Initiative. The work quickly started to bear fruit. Following-up on a commitment made at the Forum in December 2016, the Governance Group of the SCI appointed its first independent Chair. This change of the governance structure is likely to reinforce the impartiality of the decision making in the SCI and ensure the confidentiality of the process.

Furthermore, to further strengthen the governance of the SCI, the Rules of Governance and Operations<sup>11</sup> were revised and adopted in February 2018 with the aim to:

- introduce the independent Chair and his role,
- clarify the aggregated dispute mechanism,
- simplify and clarify existing requirements for members,
- formalise the rules of governance and operations,
- update outdated provisions,
- introduce provisions on the financing of the SCI,
- establish a procedure for reviewing of the SCI.

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<sup>11</sup> [The Supply Chain Initiative, Rules of Governance and Operations, 02.02.2018](#)

The Forum welcomed those reforms as a very positive development. Most notably, Commissioner Hogan in the plenary meeting of the Forum of 12 December 2017 commended the Chairman of the SCI on his formidable work and underlined the importance of good coordination between the Commission and the SCI. The HLF Members underlined the need to exploit the potential synergies between the SCI, national voluntary platforms and the regulatory measures deployed at EU and national levels. The Commissioners present also invited the primary producers to join the SCI.

Following the political agreement reached by the co-legislators on the adoption of an EU Directive on UTPs and the existence of national legislation in this field in most Member States, the SCI will continue to play an important role as a platform for dialogue between the sectors in the food supply chain at the EU as well as at the national level, as the SCI also operates with national platforms. The Belgian platform offers an excellent example of how relations and efficiency in the supply chain can be improved by means of these platforms.

### **Commission Regulatory Proposal**

On 12 April 2018, the Commission adopted a proposal for a Directive on unfair trading practices in business-to-business relationships in the food supply chain.<sup>12</sup> With this new proposal, the Commission is targeting the most damaging unfair trading practices to grant small and medium sized sellers of food products greater certainty and less need to manage risks over which they have little or no control. In addition, the proposal provides for the establishment of effective enforcement mechanisms.

On 19 December 2018, the Institutions have reached a provisional political agreement on a directive on unfair trading practices (UTPs) in business-to-business relationships in the agricultural and food supply chain. If the political agreement is confirmed, the following practices will be banned:

- payments beyond 30 days for perishable food products,
- last minute order cancellations,
- unilateral retroactive changes to contracts,
- supplier paying for wasted products.
- misuse of confidential information

Other practices will only be permitted if subject to a clear and unambiguous upfront agreement between the parties:

- returning unsold food products,
- charging a payment to secure or maintain a supply agreement on food products,
- contributions to the promotion or the marketing of food products.

The practices identified in the proposal build on the policy discussion of the Forum and they largely correspond to the list that is present in the SCI's Principles of Good Practice.<sup>13</sup>

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<sup>12</sup> Proposal for a Directive of the European Parliament and of the Council on unfair trading practices in business-to-business relationships in the food supply chain COM/2018/0173 final, 12.04.2018

<sup>13</sup> [The Supply Chain Initiative, Vertical relationships in the Food Supply Chain: Principles of Good Practice, 29.11.2011](#)

In March 2017 the Sherpa Representatives were directly asked about their ideas regarding the character and scope of a potential framework for tackling UTPs. This brainstorming session was shared with the Commission Services directly responsible for the work on the legislation. Thanks to the active involvement of the Forum, the Commission decided to cover in its proposal all the food products traded in the food supply chain, and not only (non-processed) agricultural products as initially envisaged.

A large majority of Forum Members welcomed the launch of the legislative process, which they consider represents a significant contribution to a fairer and more efficient food supply chain in the EU.

## **Deliverables**

- The Forum steered the multi-stakeholder debate on finding possible solutions to tackle more effectively UTPs in the food supply chain.
- The Forum fostered the improvement of the Supply Chain Initiative along the lines proposed by the Commission in its report of January 2016, in particular with regard to confidentiality and impartial governance structure.
- The Forum provided expertise to the Commission process announced in the Commission Work Programme on the proposal for an EU regulatory framework against UTPs.
- The Forum held discussions on possible direct and indirect effects of UTPs on the functioning of the Internal Market for food.

## **5. COMPETITIVENESS AND NEW OPPORTUNITIES IN THE SINGLE MARKET FOR FOOD**

### **Towards a future-proof and fair Single Market in Food**

#### *5.1. Background*

The Forum Members underline the benefits the Single Market has brought for the citizens and economic operators in Europe. The effective and frictionless functioning of the Single Market based on common rules is essential to growth, jobs and consumer health and welfare. Thanks to the four freedoms, European consumers can enjoy diverse, safe and affordable food and drink products.

In the Council Conclusions of 22 March 2018,<sup>14</sup> the European Council asked the European Institutions to keep working towards a future-proof and fair Single Market that is fit for the digital age and an enabler for competitiveness, innovation and sustainability. The European Council invited the Commission to present to the Council a state of play regarding the implementation, application and enforcement of existing legislation that is a key for the functioning of the Single Market and an assessment of remaining barriers and opportunities for a fully functioning Single Market.

The Forum plays an important part in this debate in relation to how the Single Market can contribute to better functioning food supply chains and foster sustainable growth. As stated in its

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<sup>14</sup> [European Council Conclusions of 22 March 2018](#), EUCO 1/18

mandate, the Forum assists the Commission with the development of policy measures which contribute to a better functioning food supply chain.

In these following Policy Recommendations, the Forum Members identify the most significant barriers in the Single Market for food and suggest concrete ways to address them. The Members call on the European Institutions, competent national authorities and private stakeholders to consider implementation of these recommendations to reinforce further the functioning of the Single Market in the agri-food sector.

## 5.2. *Regulatory barriers*

The last few years have seen an increase in national measures introduced by Member States in relation to aspects covered by European food law. Such national measures may lead to a re-nationalisation of the regulatory framework and may create barriers to trade within the Single Market. It is worth noting, however, that often divergences in national regulations are due to a lack of adequate EU-wide measures.

### a) National rules on mandatory origin labelling of various food products

Several Member States have recently introduced various national rules imposing mandatory labelling requirements for the geographical origin of certain food products. The justification given by these States is the need to inform domestic consumers about the origin of the products and to limit the risk of consumers being misled as to the origin of the product. They argue that there is a strong consumer interest in origin labelling and that there is correlation between the quality of product and its geographical origin. However, there are indications that those measures could have the additional effect of boosting domestic production to the detriment of products coming from other Member States. In this context, Forum would like to draw attention towards the 2015 Commission's report,<sup>15</sup> which concluded that mandatory origin labelling at the EU level and even more at the level of the country is highly complex to implement in many areas of food, leading to substantial increases of costs of production, which ultimately would be passed on to consumers.

While consumers generally seem largely favourable towards mandatory rules on origin labelling, the recent emergence of various, diverging national labelling schemes risk creating a fragmentation of the Single Market. National origin labelling rules might therefore create a barrier to the cross-border marketing of food products.

### **Forum recommendations on mandatory origin labelling**

- The majority of Members of the Forum notes the potential value of the information that mandatory origin labelling schemes provide to consumers, and their role in promoting an informed consumer choice. However, given the impact that diverging national schemes may have on the Single Market, the Members call on the European Commission to assess in which cases these could be considered proportionate to the policy objectives pursued.
- The majority of Members of the Forum recommend the European Commission to consider whether the current list of products eligible for mandatory origin labelling at

<sup>15</sup> [Report from the Commission to the European Parliament and the Council regarding the mandatory indication of the country of origin or place of provenance for milk, milk used as an ingredient in dairy products and types of meat other than beef, swine, sheep, goat and poultry meat, COM\(2015\) 205 final, 20.05.2015](#)

European level laid down in the Regulation for food information to consumers (Regulation (EU) No 1169/2011), should be re-evaluated in view of the existing consumer interest and economic consequences of country-specific national origin labelling measures.

b) More harmonised rules and baselines in certain key areas

Diversity, tradition and culture play an important role on the European food market. Over nine out of ten food and drink companies in Europe are SMEs. In this environment, the Forum Members recognise that special attention should be paid to the subsidiarity and proportionality of any EU-level regulatory action.

At the same time, there are areas where further harmonisation of rules and baselines can secure a level playing field for businesses in the food sector, while ensuring a high level of health and consumer protection. Further harmonisation of rules could bring benefits to consumers and businesses alike, e.g. in areas such as (1) advertising rules for food products, (2) nutritional standards and profiles, (3) nutritional and allergen labelling and (4) maximum level of vitamins and minerals.

**Forum recommendations on more harmonised rules in key areas**

- The Forum recommends that the European Commission engages in discussions with Member States and stakeholders on the areas in which further harmonisation could provide benefit, while respecting the principles of subsidiarity, proportionality and Better Regulation.
- The Forum encourages the European Institutions to engage, where necessary, in the development of evidence-based measures, which can lead to higher levels of public health, consumer protection, animal welfare and environmental preservation in the EU (article 114 (3) TFEU).
- The Forum encourages the Member States and the Commission to improve the application of the principle of Mutual Recognition and to initiate an assessment process as to whether all the national rules are still fit for purpose and are not creating non-tariff barriers.
- The Forum calls on the EU Institutions to complement the Single Market for goods with a harmonised Digital Single Market and Energy Union and strive for their rapid implementation.

c) Better enforcement of the EU law

The growing complexity of the regulatory framework for food products contributes to differences in interpretation of the relevant legal provisions. Different legal interpretations between competent authorities of the EU Member States can cause difficulties for food businesses as they may have to change their practices depending on the interpretation.

An uneven enforcement weakens the effectiveness of existing rules. Lack of compliance, for example to the EU rules on animal welfare, is a threat to the competitiveness of those who follow the rules. It is therefore of fundamental importance to make the most of the existing legislative framework and ensure that its implementation is uniform, smooth and consequential for all partners in the food supply chain across the Single Market.

### **Forum recommendations for a better enforcement**

- The Forum encourages the European Institutions and competent national authorities to increase their collaboration towards a more harmonised implementation and effective enforcement of EU law concerning food supply chain.
- The Forum calls on the Commission to step up its work on precise guidelines and implementation plans in the policy areas affecting the food supply chain.
- The Forum calls on the European Commission to step up its role as guardian of the Treaty, in particular as regards the timely and decisive enforcement of EU legislation.
- The Forum invites the European Commission to come forward with concrete proposals to improve the functioning and effectiveness of existing tools (e.g. TRIS, infringement procedure, SOLVIT, EU Pilot, etc.).

### *5.3. Non-regulatory barriers*

#### a) Unfair Trading Practices

Unfair Trading Practices (UTPs) are Business-to-Business practices that deviate from good commercial conduct and are contrary to good faith and fair dealing. When they occur, they are usually imposed unilaterally by one trading partner on another. UTPs can occur in any business relation throughout the supply chain, both downstream and upstream, but the exposure to UTPs can be more likely significant in the relationships between SMEs and non-SMEs. The food supply chain can be particularly vulnerable to UTPs due to its complexity and to the big differences in bargaining power of its different actors.

UTPs may create significant challenges in the Single Market, as they can decrease the efficiencies in the chain. Whilst a majority of Members pointed out that vulnerability to UTPs can increase in cross-border relationships, to date there is a lack of conclusive evidence supporting this notion. In this context, a majority of Members highlighted difficulties in dealing with the growing cross-border dimension of trade relationships. The proposal for a Directive adopted by the Commission in April 2018<sup>16</sup>, as amended by the co-legislators according to the political preliminary agreement reached on 19 December 2018, once enacted, could alleviate these concerns.

### **Forum recommendations on UTPs**

- The majority of Members recommends a swift adoption and implementation of the Directive on unfair trading practices.
- The Forum underlines the need for close cooperation between national authorities and the EU in the implementation of common rules, the exchange of best practices and future evaluation of regulatory framework.

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<sup>16</sup> [Proposal for a Directive on unfair trading practices in business-to-business relationships in the food supply chain COM/2018/0173 final - 2018/082](#)

- The Forum emphasises the importance of voluntary conflict resolution mechanisms, most notably the Supply Chain Initiative and recommends further harmonisation in its operations. The Forum encourages the representatives of all the links in the food supply chain to join it in order to further optimise its operations.

#### b) Territorial Supply Constraints

Territorial supply constraints (TSCs) are practices set by private operators which may limit retailers' possibilities to purchase products from whom and where they wish within the Single Market. There are growing indications that territorial supply constraints may drive market segmentation, limit competition and likely cause discrepancies between wholesale and consumer prices or the choice of products offered to consumers across the EU. Nevertheless, more hard evidence is needed to confirm this. TSCs can take different forms:

- Buyers based in one Member State dealing with a multi-national supplier are not given the choice to decide from which national entity of the suppliers the goods should preferably be sourced and are instead referred to a specific national subsidiary, making parallel imports impossible.
- Buyers may face restrictions on quantities provided by suppliers to avoid them supplying their own subsidiaries in other Member States.
- Suppliers engage deliberately in other types of obstacles that hamper parallel trading of products (e.g. unjustified modifications of product recipes, different labelling or packing sizes and restricting the range of products that may be available in a Member State).

#### Forum Recommendations on Territorial Supply Constraints

- The majority of Members of the Forum calls on the Commission to undertake further fact-finding on the effects of such practices on the Single Market and consumer choice.
- The majority of Members recommends conducting a sector analysis in the agri-food sector that could help identify the nature and substance of market distortions.
- The majority of Members welcomes and encourages further analysis designed to increase the understanding of the scope, the scale and the impact of territorial supply constraints in the food sector and suggest adequate measures to address them.

#### c) Insufficient access to market-relevant or product relevant information

An adequate level of transparency can help generate a better understanding of the contribution of each link in the food supply chain, and, in an aggregated form, of how prices are formed, thus allaying some of the misconceptions about the functioning of the supply chain, and offering a strong foundation for evidence-based policy making.

An adequate level of transparency supports dialogue and mutual understanding among operators and can help improve the understanding of consumer demand and market trends. On the other hand, scarcity of information on food products existing beyond local markets limits consumer

awareness across the Single Market. Furthermore, consumers perceive a significant lack of transparency behind many 'quality labels' and the criteria behind their eligibility, especially in a cross-border context. Further concerns are voiced by consumer associations with regard to information available on-line.

#### **Forum recommendations on tackling information asymmetry**

- The Forum calls on all the actors to promote actions aimed at increasing the general understanding of the market trends occurring in the food supply chain.
- The Forum calls on business operators to take initiatives in order to increase the transparency of various B2C communication tools that are not regulated by the law (e.g. private 'quality' awards, online communication).
- The Forum supports the European Commission's endeavour to create a food labelling database and suggest considering how existing platforms can be used to streamline market relevant information concerning food supply chain in the EU and other countries.

#### **Digitalisation of the food supply chain**

##### *5.4. Background*

In May 2015 the EU Digital Single Market<sup>17</sup> strategy was launched by the European Commission, highlighting the willingness to open up digital opportunities and establish Europe's position as a world leader in the digital economy. In January 2017, the European Commission communication "Building a European Data Economy"<sup>18</sup> has identified priority issues to be addressed to enable the best possible use of the potential of digital data to benefit the economy and society. At the same time, an Open Public Consultation<sup>19</sup> was launched and the results showed that more and more businesses depend on data gathered by other businesses, thus, access to and re-use of data are rather crucial. On 25 May 2018, the EU General Data Protection Regulation (GDPR) came into application to strengthen individuals' fundamental rights in the digital age and facilitate business by clarifying rules for companies and public bodies in the digital Single Market.

As a part of the Regional Innovation Strategies for Smart Specialisation<sup>20</sup> of EU regions, agri-food was indicated as a key sector by 25% of EU regions and one out of five identified innovation and new technologies as a key priority in the area. Digitalisation is regarded as having a great potential for addressing the sector's challenges driven by the need to increase quality, animal welfare, traceability of food production, sustainability in the use of resources, foster farming entrepreneurship in line with dynamic markets, and improve living conditions in rural areas.

In that context, the expert sub-group on "Digitalisation in the Food Supply Chain" was created in the beginning of 2017, under the umbrella of the Forum. The group was composed by members representing European farmers, agricultural cooperatives, processors, retailers, traders, consumers and Member States. Digitalisation was identified as an opportunity to increase the

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<sup>17</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52015DC0192> Digital Single Market Strategy for Europe, [COM/2015/0192](#)

<sup>18</sup> Communication from the Commission " Building a European Data Economy ", [COM/2017/09 final](#)

<sup>19</sup> [Public consultation on Building a European Data Economy, European Commission, May 2017](#)

<sup>20</sup> See [http://ec.europa.eu/regional\\_policy/en/information/publications/brochures/2014/research-innovation-strategies-for-smart-specialisation](http://ec.europa.eu/regional_policy/en/information/publications/brochures/2014/research-innovation-strategies-for-smart-specialisation)

competitiveness of the food supply chain but also as a cross-cutting priority area of the four main clusters of topics of the Forum work programme. This roadmap explicitly suggested to foster the debate on the uptake of new ICT technologies and to assess the potential of ICT solutions to reinforce B2B relations, promote sustainable and ecological initiatives and facilitate accessibility and practicality of market databases.

#### 5.5. *Digitalisation in the food supply chain: opportunities, challenges and barriers*

Digitalisation impacts every actor along the supply chain, public and private institutions alike. The objectives of the expert sub-group were to promote dialogue and co-operation on digital developments affecting the food supply chain and to create synergies among the agri-food stakeholders. Furthermore, the group had a goal to identify challenges, bottlenecks and opportunities regarding digital solutions for the food supply chain and propose policy recommendations.

According to researchers<sup>21</sup>, four main technologies are expected to be very influential in the food area: individual genomic DNA sequencing, artificial intelligence computing, autonomous machinery for real-time data analysis and last-mile product delivery. Starting from this point, the Forum addressed a range of topics (digital skills, big data usage and sharing, digital infrastructure, access to broadband and connectivity, access to finance, e-commerce, issues related to food safety and traceability, standardisation and inter-operability, links with IT providers, etc.) to see how actors at the various stages of the chain responded to the digital revolution.

##### a) New opportunities for sustainable growth of agri-food supply chain

Digitalisation is reshaping relationships in the food supply chain and has impacted the market structure of the value chain, allowing sellers to optimise the use of market related tools that facilitate the sales and provide alternatives to usual selling paths. While facilitating and speeding the flow of information within actors, digitalisation has the potential to create more efficient B2B relations within the food supply chain.

Furthermore, stores are creating experiences where consumers interact with the products through connectivity, sensors and digital devices. E-commerce creates new opportunities for market entrance because digital technology advances allow for a more direct communication with customers. This digital revolution implies greater choice and customised offers to consumers provided that digital solutions are user-friendly and consumer education and openness to technology are taken into account. This trend towards the individualisation of offers has developed through the increasing use of social media and availability of customers' data. In addition to higher consumer fulfilment, digitalisation offers opportunities to respond to societal expectations: reduction of food waste with automatic discount on expiring products, better traceability and nutritional information, improved communication between producers and consumers and many more.

In combination with well-identified new technologies such as robotics, automation, satellite and positioning systems, big data was also identified as one major opportunity for stakeholders. Big data refers to large amounts of data produced very quickly by a high number of diverse sources. Data can support food stakeholders to optimise the management and planning of the production

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<sup>21</sup> [The Future of Food and Agribusiness 2027, August 2017, CEIBS and Wageningen University](#)

(e.g. technical data from automatic system), ensure price transparency or risk management, strengthen relations along the chain, improve use of resources, increase traceability, foster entrepreneurship or adapt to shifts in climate path. In addition, data infrastructures help scientific organisations and public authorities to manage, share and combine food data. Big data and blockchains, which store blocks of information distributed across the network, can fundamentally change business processes, allowing chain participants to have the same information, with secure transactions and lower costs.

Investing in such digital solutions and new technologies, from production equipment to smart finished products, is an opportunity for the food supply chain to create more value and increase competitiveness. Digitalisation can positively affect important factors of competitiveness of the European food supply chain:

- Develop new business relationships through digital platforms and inter-connected agri-food systems,
- Replace repetitive and physically demanding tasks and allow for substantial increases in productivity and flexibility,
- Increase attractiveness and employment within the sector creating new digital jobs,
- Increase productivity and resource efficiency at every level of the chain,
- Better capture consumer insights through business intelligence strategy,
- Improve traceability contributing to safer products and less counterfeiting,
- Facilitate decision-making for a more efficient management of production, storage, transport, handling of inventory and information to consumers and authorities,
- Decrease time spent and costs for administrative tasks.

Impacts of digitalisation are forecast both at individual level, e.g. improving productivity and business to business relations, and at supply chain level as it contributes to the achievement of the four main clusters of topics identified by the Forum: reinforce fair and efficient trading practices, increase competitiveness of the food supply chain, improve price monitoring and increase the accessibility, practicality and interoperability of existing databases.

#### b) Challenges for a successful digitalisation of food supply chain

Along with the opportunities that digitalisation presents, changes brought in the food supply chain require adaptations from stakeholders to new technologies, which are rapidly evolving. Agri-food actors need to keep pace with regulation in new domains (privacy and property rights of data, e-commerce directive<sup>22</sup>, EU-wide invoicing rules<sup>23</sup>, etc.). Regulators and control authorities also need to keep up with new practices within the supply chain. The impact of regulation needs to be assessed in the digital environment and ensure a level playing field among operators. For example, while on-line cross-border sales are increasing, controls remain national and are not always harmonised across national borders. The Forum discussed the importance of better cross-border cooperation in food controls through the strengthening of enforcement authorities. Another problematic issue is the case of e-invoices, which are increasingly used by

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<sup>22</sup> [Directive 2000/31/EC](#) of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on e-commerce)

<sup>23</sup> [Council Directive 2006/112/EC](#) of 28 November 2006 on the common system of value added tax

operators whereas governments still require a physical record. The impact of competition rules in the online environment might also create new challenges, both for competition authorities and companies e.g. when adapting offline world rules to new online ecosystems. Digitalisation is changing the competitive landscape leading to increased competition arising from greater transparency about prices, products, and services, emerging business models and direct selling to consumers.

In addition, there is also a need for increasing skills and knowledge on new technologies among supply chain actors. Capacity building and education among operators are essential to facilitate the adoption and use of new technologies and ICT by the food supply chain. Digitalisation is not only about investment in digital solutions, but requires consideration of delivery, customer relations, maintenance and following technology updates. The questions on how to make better use of existing technology, stimulate investments, scale them for small operators and adopt new skills remain crucial. Digital jobs are on the rise in the EU, but so is the demand for them: ICT specialist employment is the fastest growing job category but the lack of trained specialists is also substantial and growing. In agriculture, the interest in digital skills is high and growing. While the agricultural sector seems to perform rather well (59% of skilled agricultural workers claim they possess basic digital skills<sup>24</sup>), there is a clear training gap. Furthermore, there is an increasing competition among food businesses for attracting digitally proficient workers.

More generally, entry barriers and the cost of digitalisation can imply a competitiveness gap between big and smaller actors in the supply chain who remain at a relatively basic stage of technology usage. The size and diversity of agri-food businesses in Europe constrain the uniform adoption of digitalisation across the chain. The need for an integrated approach, involving the entire chain has been raised. Adapted digital solutions need to be developed taking into account the size and the needs of existing operators. Ensuring a level-playing field and knowledge transfer for SMEs is a milestone for the successful digitalisation of the food supply chain as a whole.

The issue of big data illustrates well the necessity of a combination of awareness of applicable legislation, integrated approach and soft skills. In a complex value chain, each issue needs to be seen as part of a whole ecosystem involving the entire chain and its stakeholders. When data is collected to be shared, processed and used to be transformed into information and knowledge, analysis skills and expertise are required from operators or specialists and data sharing also requires complying with personal data and privacy protection rules.

#### 5.6. *Solutions and initiatives to meet food supply chain expectations for digitalisation*

- a) Promote dialogue and exchange to enhance digital innovation and solutions

There is an overarching consensus that a lot of knowledge and technologies exist, but do not always reach practitioners in the food supply chain because of the lack of communication and synergies among operators. The expert sub-group on digitalisation enabled participants to discuss and reflect on different aspects of digitalisation and its potential implications for the food supply chain. It also gave participants the opportunity to learn about existing programmes and trends in digitalisation at European and Member State levels.

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<sup>24</sup> [ICT for Work: Digital skills in the workplace](#), European Commission, 2017

To ensure efficient knowledge sharing, several European initiatives should be underlined and up-scaled:

- Creating more synergies between scientists, solution providers and agri-food operators: this is the objective of the programme Horizon 2020 and the EIP AGRI (EU Innovation Partnership) managed by the European Commission (DG AGRI). Interactive innovation models are used involving all actors, where end users define the problems and then solutions are proposed by scientists. EIP AGRI focus groups gather experts from science and practice. One of the thematic networks under rural development covers 'Data Driven Dairy Decisions for Farmers'<sup>25</sup>.
- Encouraging clusters of agri-food companies to support knowledge transfer and share innovative digital best practices among operators: the case of the Flemish platform Flanders' Food<sup>26</sup> could be used as a model at EU level. As a spearhead cluster for agri-food, their main ambitions for food companies are competitiveness (locally and globally), social and societal responsibility and the implementation of a smart, resilient and inter-connected agri-food system, while creating a trust zone. Creating a digital platform with companies and other regions has allowed raising awareness and validating innovative solutions for companies. The added value of the network is the involvement of all relevant stakeholders and a multidisciplinary team to ensure inclusiveness.
- Facilitating Open Science for food systems to share, connect and collaborate along the chain: Projects like the AgroDataCube<sup>27</sup> (a big open data collection for open innovation) or e-ROSA<sup>28</sup> (e-infrastructure roadmap for open science in agriculture) or the GODAN Action program<sup>29</sup> (open data for nutrition, landownership and tracing in value chains) provide good examples. An EU initiative, the future "EU Food Cloud Demonstrators" project<sup>30</sup>, has also the ambition to federate existing and emerging research data infrastructures, and provide researchers with services for Open Research Data (ORD) storage. Open access ensures that research and good initiatives will reach a wide audience and have the intended impact.

#### b) Education and e-skills

The main prerequisites for the up-take of ICT and other technologies in food supply chain are the availability of broadband and ICT in rural areas, the development of new skills and awareness improvement. Having this in mind, there is a strong need to provide people with adequate skills so they can be successful marketers in this new digital environment. Trainings and educational programmes need to be created and adapted to fit with the new needs and skills required by digitalisation.

The Digital Skills and Jobs coalition is a network of stakeholders, including representatives from EU Member States, companies, farmers, the social sector, non-profit organisations and education providers. This initiative of the European Commission has pledged to take specific actions to

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<sup>25</sup> See <https://4d4f.eu/>

<sup>26</sup> See <http://www.flandersfood.com/about-us>

<sup>27</sup> See <http://agrodatacube.wur.nl>

<sup>28</sup> See <http://www.erosa.aginfra.eu/>

<sup>29</sup> See <http://www.godan.info/godan-action>

<sup>30</sup> See <http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/topics/dt-sfs-26-2019.html>

tackle the lack of digital skills in Europe and the scope expands beyond the ICT sector. The goal for 2020 is to train 1 million young people for digital jobs and support the upskilling and retraining of the workforce (in particular support SMEs). The result is 7 million trainings and 18 national coalitions created up to date. The Coalition also shares digital skills initiatives, which can be replicated and scaled up across Europe. All types of job and economic sectors are targeted by the coalition, including manufacturing and agriculture which is seen with a high potential since investments in ICT are more frequent in sectors with traditionally low levels of digital intensity.

Educational programmes should not only focus on graduates but should consider developing trainings for SMEs to enable the development of talent internally within agri-food companies. Reflexion should be conducted to make those trainings more accessible, flexible (taking into account the work conditions) and proposed in a more systematic manner by employers.

c) Public and Private digital sector has a role to play in digitalisation of the food supply chain

The need for public support is fundamental to support the development of efficient infrastructure, services and high-performance broadband, which are crucial for the digitalisation of the food supply chain. Investments in such directions also ensure that rural areas retain their vitality and attractiveness for future generations. According to the latest European Commission study on broadband coverage in Europe<sup>31</sup>, although 92.4% of rural EU homes had access to at least one fixed broadband technology in mid-2017, less than 50% (46.9%) had access to the high-speed connectivity that is necessary to enjoy the benefits of next generation e-services.

Additional, the involvement of private digital companies might boost the broadband access and connectivity in remote areas, support operators in their digitalisation and provide expertise. Viable business models for those actors are required to guarantee the sustainability of digital food systems. They are also vector of interoperability and standardization providing unique, complete and ready to use services for a range of operators such as standardized identification of products or harmonizing data from different sources.

Strategic alliances and partnerships, between food companies and digital technology companies should be encouraged in order to facilitate take up of the technology. Such cooperation may boost the use of digital solutions and potentially provide other, currently undiscovered possibilities of ICT to strengthen the value chain. Thus, cooperation with ICT suppliers is necessary at the design stage to adapt digital solutions to the food supply chain. This is the objective of the Internet of Food and Farm project (IoF)<sup>32</sup> which aims to make the "Internet of Things" (IoT) beneficial and adapted to the food supply chain. For that, IoF has used pilots in various sectors (dairy, fruits, vegetables and meat) which could serve as a show-case for companies who apply digital solutions. The 'Internet of Dairy' allows measuring in real time the quality of milk (including protein and fat content) and sending it directly to laboratories. The 'Internet of Fruits' uses sensors for humidity in fruit boxes to track temperature and hence control safety and quality. IoF has the objective to create through the pilots a viable business model for food producers and for ICT suppliers. The project contributes to securing Europe's leading position in the global IoT industry by fostering a symbiotic ecosystem of technology providers and players from the food supply chain, as well as promoting innovative/disruptive business models.

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<sup>31</sup> [Study on Broadband Coverage in Europe 2017](#), European Commission, June 2017

<sup>32</sup> See <https://www.iof2020.eu/>

#### d) Code of good conduct (CoC) on agricultural data sharing

Creating an environment of trust is important to address the issues of privacy and property rights of generated data, access and control rights and liability issues.

An "EU Code of conduct on agricultural data sharing by contractual agreement"<sup>33</sup> has been launched on 23 April 2018 by a coalition of associations from the EU agri-food chain (COPA COGECA, CEMA, Fertilizers Europe, ECPA, FEFAC, CEJA, ESA, CEETAR, EFFABs). This voluntary initiative sets principles and defines different types of data (e.g. 'agricultural data') and their sensitive character. The Code sheds greater light on contractual relations and provides guidance on the use of agricultural data, particularly the right to access and use the data. It also clarifies responsibilities in order to ensure access of data by the relevant actors aiming at creating trust among partners. The signatory organisations agree that right to determine who can access and use the data is attributed to the data originator. For instance the rights on data produced on the farm or during farming operations is attributed ("owned") to the farmer and may be used extensively by them. The CoC recognises the need to grant the data originator a leading role in controlling the access to and use of data from their business and to benefit from sharing the data with any partner that wishes to use their data. The code includes model cases and a checklist of questions. The need for consent for data to be made available to a third party is underlined. For now, members of the coalition have opted for voluntary code in contractual relations. The objective is that these principles are now translated into the contracts for collection of data.

The presentation of the "Code of conduct on agricultural data sharing" has triggered a discussion and further reflection on potential merits of data sharing arrangements across the wider food supply chain.

#### 5.7. Deliverables

The first deliverable of the Forum on digitalisation has been to foster a debate on the uptake of new technologies and digital solutions between representatives of the food supply chain and public authorities at European level. While stimulating the share of good practices and national programmes across EU, the subgroup has contributed to improve knowledge transfer on this topic and better disseminate projects and initiatives for the smart use of digital in agri-food at EU and national level.

The second deliverable of the subgroup is the identification of major bottlenecks in the process of digitalisation and potential policy options to address them. This statement is a first step to anticipate and be up to date with fast-paced developments of new technologies viewing the food supply chain as a whole.

#### 5.8. Forum recommendations

- The Forum invites private and public stakeholders to continuously share best practices and innovative digital solutions at local, national and European levels to better disseminate solutions, create synergies and scale up existing initiatives.
- The Forum welcomes the creation of the "Code of conduct on agricultural data sharing" and invites further discussions with other representatives from the whole food supply chain.

<sup>33</sup> See [https://www.copa-cogeca.eu/img/user/files/EU%20CODE/EU\\_Code\\_2018\\_web\\_version.pdf](https://www.copa-cogeca.eu/img/user/files/EU%20CODE/EU_Code_2018_web_version.pdf)

- The Forum emphasises the importance of broadband access in the EU and connectivity in remote rural areas and encourages public-private partnerships to support investments in hard and soft infrastructures.
- The Forum welcomes the increased cooperation between agri-food stakeholders, ICT suppliers and researchers to develop adapted and standardised digital solutions for the food supply chain and to integrate existing solutions from other sectors.
- The Forum underlines the necessity for building capacities and skills in digital tools targeting both education programmes and vocational training in the food supply chain

## **Sustainability of the food supply chain**

### *5.9. Background*

Consumption and production models are increasingly oriented towards sustainability. The behaviour and practices of consumers and agri-food stakeholders are rapidly changing with a view to reducing their environmental impacts. The food and drink value chain in the EU produces a sizeable proportion of our direct greenhouse gas emissions and of Europe's material resource use.<sup>34</sup> Our consumption patterns have global impacts. To date, much debate about a sustainable food value chain has centred on the farm level but the approaches are changing and are becoming more and more oriented toward a consideration of the whole production system from farm to fork.

The UN definition of sustainable development is built on three pillars: economic development, social development and environmental development. The European Union uses this definition as guidance to develop its policy of food supply chain. The modern food supply chain is complex and driven by many economic, cultural and environmental factors. The sustainable challenge is to understand better, how these factors interact, how to limit waste throughout the food supply chain, and how to ensure that our food system is using resources efficiently to lower its environmental impact.

The Forum has made sustainability a central element in its discussions. During the previous mandate, members underscored the urgent need to develop a holistic approach to safeguard the sustainability of food systems for future generations through a Joint Declaration on Actions towards a more sustainable European food chain<sup>35</sup>. In the current mandate, in addition to the follow-up of the Declaration, the Forum has more proactively followed up specific initiatives and well-identified weaknesses to make food businesses more sustainable by sharing best practices in this area and striving to observe the effects on sustainability of each priority covered by the work programme of the Forum.

### *5.10. Circular economy in the food supply chain*

The circular economy is where the value of products, materials and resources is maintained in the economy as long as possible and the generation of waste is minimised. The circular economy offers the opportunity to boost EU' competitiveness by protecting businesses against scarcity of resources and volatile prices, helping to create new business opportunities and more efficient ways of producing and consuming. At the same time, it has the ambition to save energy and help

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<sup>35</sup> [Actions towards a more sustainable European food chain](#), Stakeholder Dialogue Group on Food Sustainability, 2014

avoiding the irreversible damages caused by using up resources at a rate that exceeds the Earth's capacity to renew them in terms of climate and biodiversity, air, soil and water pollution.

The potential of the circular economy in the food supply chain is very high since the production, distribution and storage of food use natural resources and generate environmental impacts. Discarding agricultural and food products that are still edible increases these impacts, and causes financial loss for consumers and the economy.

a) The circular economy package of the EU

To meet the challenge to transform EU economy into more sustainable system, the European Commission has adopted a set of measures in January 2018, entitled "the Circular economy package". This package consists of a concrete action plan<sup>36</sup> covering the whole cycle from production to consumption (strategy for plastics, market for secondary raw materials, products and waste, fostering energy savings and reducing Green House Gas emissions) and legislative measures from which two out of four are directly impacting the food supply chain: Directive on waste<sup>37</sup> and a Directive on packaging waste<sup>38</sup>.

The Forum has identified the fight against food waste as a key element of the food sustainability debate. Globally one third of food produced for human consumption is wasted or lost. Food waste in the EU is quantified at 88 million tonnes per year - meaning that over 20% of food production goes to waste<sup>39</sup>. It is a global issue and part of the Sustainable Development Goals (SDG) to reduce food waste. Different studies illustrate how tackling food waste contributes to the fight against hunger, results in a better distribution of food and new job opportunities. In addition to the legislative side, the Commission is engaging all actors on food waste prevention in the EU Platform on Food Losses and Food Waste. The platform has the objective to share best practices, define measures, develop a methodology on quantification of food waste and reporting, monitor progress towards SDG and set guidelines to facilitate food donation.

Finally, Forum members have also actively discussed the EU Plastic Strategy<sup>40</sup>, which has a significant impact on the food supply chain, as plastics are used intensively in food packaging. The objective of the Commission is to support the sustainable plastics industry of the future through (1) economic incentives for environmental gains, (2) a strategy for jobs, (3) investment in infrastructure and innovation, (4) integrated value chains, (5) a growing market for recycled content, (6) alternative feedstock, (7) innovative and sustainable materials and (8) decoupling growth from plastic waste generation.

b) Consumer incentive through communication on environmental footprint of products

The food supply chain partners, supported by the European Commission, are also working on increasing consumer incentives to purchase more environmentally and climate-friendly products by providing reliable information for consumers on the environmental performance of products. Analyses are being performed on common voluntary methodologies facilitating the future

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<sup>36</sup> [Communication from the Commission "Closing the loop - An EU action plan for the Circular Economy", 2015, COM\(2015\)614](#)

<sup>37</sup> [Directive of the European Parliament and the Council amending Directive 2008/98/EC on waste](#)

<sup>38</sup> [Directive of the European Parliament and the Council amending Directive 94/62/EC on packaging and packaging waste](#)

<sup>39</sup> See [http://www.eu-](http://www.eu-fusions.org/phocadownload/Publications/Estimates%20of%20European%20food%20waste%20levels.pdf)

[fusions.org/phocadownload/Publications/Estimates%20of%20European%20food%20waste%20levels.pdf](http://www.eu-fusions.org/phocadownload/Publications/Estimates%20of%20European%20food%20waste%20levels.pdf)

<sup>40</sup> Communication from the Commission "A European Strategy for Plastics in a Circular Economy", [COM\(2018\)28 final](#)

establishment of carbon audits and the calculation of the environmental footprint of products. Faced with a plethora of labels or environmental claims, EU consumers often find it difficult to differentiate between products and to trust the information available. The idea of this harmonised methodology for measuring environmental performance is to help consumers and other partners along the food chain to make informed choices by providing them with accurate and understandable information on product characteristics, including environmental performance.

The Forum has continued to closely follow the work of the European Food Sustainable Consumption and Production (SCP) Round Table<sup>41</sup>, an initiative co-chaired by the European Commission and food supply chain partners and supported by the UN Environment Programme (UNEP) and European Environment Agency. The aim of the initiative is to promote science-based, coherent approach to sustainable production and consumption in the food sector. In addition of communication and open dialogue among stakeholders on the importance of a sustainable, low carbon, resource efficient and competitive economy, the SCP roundtable work on identification of uniform environmental assessment methodologies for food and drink products to assess the product environmental footprint. In 2013, the roundtable delivered the ENVIFOOD protocol, a life-cycle assessment methodology elaborating on ISO 14040 and on DG ENV's Product environmental footprint guide (PEF Guide) with further specifications for foodstuffs.

#### *5.11. CAP contribution to sustainability of food supply chain*

The Common Agriculture Policy (CAP) has undergone several waves of reforms, with the latest reform decided in 2013 and implemented in 2015. The modernisation and the simplification of the CAP have made a substantial share of subsidies subject to the preservation of the environment and the fight against climate change. The sustainability of EU farming has thus become a key component of the CAP in response to new environmental challenges, societal expectations and signature of new international commitments climate change through the 21st Conference of Parties COP 21.

The Forum has highlighted that the current CAP offers a number of instruments to find adequate answers to the challenges of climate change and sustainability in the food supply chain and not only by farmers: eco-friendly investments, knowledge-building and eco-innovation. Besides, CAP tools designed to strengthen the socio-economic fabric of rural areas are relevant to the food supply chain, e.g. support for investments including for diversification out of farming, business start-ups, improvement of local infrastructure, services (incl. digital), pursuit of innovation, development of short supply chains, local markets. At least 30% of the budget of each rural development programme must be reserved for voluntary targeted measures that are beneficial for the environment and climate change.

#### *5.12. New business models to reduce environmental impact throughout product life-cycle*

As one of the priorities of the Forum, sustainability has not been covered only as a stand-alone topic but has been taken into consideration into each of the areas covered by the Forum as a horizontal priority (digitalisation, competitiveness, trading practices, price transparency, etc.). The new practices identified and discussed by the Forum have demonstrated strong potential to foster products and process innovation for sustainable growth and employment in the food supply chain.

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<sup>41</sup> See <http://www.food-scp.eu/>

The continuous efforts of the Forum to ensure a fairer and more efficient trading environment within the chain contributes to build more constructive partnerships and thus to develop innovative products responding to societal expectations regarding sustainability. Besides, increasing competitiveness of the food supply chain is an important factor to ensure long-term investment and innovation and thus, create more opportunity to change production and consumption toward more sustainable processes.

Innovation was an important topic covered by the Forum and explicitly mentioned as a priority in the Decision of the European Commission to establish the Forum. Innovation in technologies and the use of big data are promising pathways to increase sustainability of the food supply chain, to offer opportunity to create new production systems which take into account the full life-cycle of the product and to provide decision making tools to assess the environmental performance of the product.

Finally, the work of the Forum to improve market transparency and reduce asymmetry of information within the food supply chain lead to more informed production and marketing decisions which is a first step toward more commitments to sustainability approach and its economic benefits for agri-food stakeholders.

### *5.13. Forum recommendations*

- The Forum underlines the need for a holistic approach to sustainability in the food sector and cooperation among policy makers at national and European levels. Best practices need to be shared (from governmental, local and private initiatives) to establish possible overlaps and facilitate knowledge transfer.
- The Forum reiterates its support for - and alignment with - the Joint Declaration on Action towards a more sustainable European food supply chain. The Forum welcomes the improvements made to encourage the circular economy model and environmentally sustainable food consumption patterns and calls for further efforts, in particular on the social pillar of the declaration and the reduction of greenhouse gas emissions.
- The Forum encourages the better integration of the consumer expectations for healthier, environmentally sustainable and fair food products. Product and process innovations as well as educational campaigns should be supported to take consumers' demands into consideration.
- The Forum reminds the importance of the commitment of actors and EU to address the UN's post-2015 Sustainable Development Goals in order to achieve a more sustainable economy which would benefit the food supply chain.
- The Forum encourages the Commission to set the long term direction for a modern CAP which facilitates sustainable growth of the entire food supply chain.

## **Private Labels**

### *5.14. Background*

The growth of private labels can affect the business environment in the food supply chain. Consumers in Europe increased their purchases of private labels in recent years. Private labels are products, produced by manufacturers, that carry the brand of a retailer or are separate brands

controlled by the retailer. Private label goods are often also referred to as 'store brands' or 'own brands' as opposed to 'name brands' that are sold under a brand name of a manufacturer.

According to Nielsen Panel<sup>42</sup>, the average market share for private label increased again in the EU between 2015 and 2016, and now stands above 30%. Private label reached an all-time high in Europe which is the biggest market for private label at global level. The highest market shares are observed in Spain (42 %), UK (42 %) and Germany (36 %).

In this context, on the initiative of a number of its Members, the Forum decided to open a dialogue among its Members to better understand the role of private labels and their impact on the European food supply chain.

#### *5.15. When private label benefits consumers and the whole supply chain*

Private labels offer certain advantages for retailers, as well as for consumers and producers. The economic crisis of the past few years has been an important driver behind the recent success of private label products. They are a means to complement a retailers' brand assortment. Even if there is a trend for premiumisation of private label products, they usually can be offered at more competitive prices compared to name brand products thanks to costs saved on marketing and brand development. Through increased competition in the market, private labels may drive innovation in the food supply chain. This is a strategic advantage for the food value chain responding to consumer demands for price, quality, choice and innovation.

The rising share of private labels has led to an increase in consumer choice<sup>43</sup>. Retailers often work in collaboration with suppliers, mostly SMEs, to develop private labels, thus contributing to drive growth and innovation across the entire food supply chain. Through collaborating on private label products, retailers offer SMEs access to their network of stores (local, regional, national or international) and knowledge of the market. To differentiate from competition and to reinforce quality and consumer perception of those products retailers have created multi-tiered store brands (premium, organic, "free-from" food, healthy food, etc.).

Finally, from a manufacturer perspective, private labels provide new opportunities for small and medium-sized enterprises which do not have enough capacity to develop their own brand.

#### *5.16. Risks and occurrence of negative effects of private labels*

Some members of the Forum have expressed concerns over the effects of private labels on the food supply chain in the medium to long term. Some economists argued that there could be a 'tipping point' above which private label market shares in a product category could turn their nowadays positive effects into negative effects on the competitiveness of the food supply chain.

Those negative impacts could be a restricted choice for consumer and less innovation in the food supply chain. Fewer new products, it is argued, could be introduced on the market as a consequence of the growth in private labels. By copying successful branded products, private labels may lower the incentives for manufacturers to innovate, potentially resulting in lower innovation, and thus in less choice for consumers. A higher market share of private label

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<sup>42</sup> [The rise and rise again of private label](#), Nielsen, 2018

<sup>43</sup> [The economic impact of modern retail on choice and innovation in the EU food sector](#), European Commission (2014)

products could also limit the shelf space available for manufacturer brands reducing their likelihood of being added to the shop assortment and possibly leading to less visibility for the branded products.

Whilst brand names continue to dominate other product categories<sup>44</sup>, several Members have highlighted the potential dominant position of retailers in the case of a high share of private label. Several Members expressed concerns that retailers would be both customers and competitors of their other suppliers, making it possible for them to undertake actions that serve their own interests and not necessarily those of their customers, who may be faced with a lack of retailer choice. In a situation of imbalanced bargaining power, certain other actors of the food supply chain might have relatively limited influence over choices offered to consumers. The risk of tying the commercial relationship with the manufacturer brand to the obligation to produce the retailers' private label was also raised. In addition, several Members further expressed concerns that the retailers' price strategy can be lead in the interest of its own private label products and distort category price architectures through promotions or price increases detrimental to other brand products.

#### 5.17. *Forum recommendations*

- The purpose of the expert sub-group on private label was to identify possible common priorities and new issues to investigate at European level. A common position has yet to be found regarding the question as to whether on balance private label products are beneficial to the European food supply chain or potentially detrimental on some points and would need a better follow-up.
- The Forum recommends pursuing a structured stocktaking approach to identify common elements and specifics of private labels in the Single Market.

## 6. PRICE TRANSPARENCY IN THE FOOD SUPPLY CHAIN

### Background

Price transparency of a supply chain can be defined as the extent to which all its stakeholders have a shared understanding of, and access to, the price-related information that they request, without loss, noise, delay and distortion. In the food supply chain, data on prices, production, stocks and trade help producers to take well-informed production decisions rooted in an understanding of market conditions. Market transparency benefits producers' market expectations and their understanding of what shapes their commercial relation with processors, their direct partners in the supply chain. On that basis they can adapt their production and decide upon appropriate risk management strategies.

Besides improving market efficiency, greater price transparency can help SMEs negotiate their contracts. Robust, specific and transparent price data for specific commodities facilitate acceptable contract settlement and can thus promote the development of future markets for food commodities. Transparent markets can improve access to finance by enabling more robust business planning and thus better understanding of market risks by decision markers. Last but not least, accurate and complete market information supports evidence based policy measures.

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<sup>44</sup> [The economic impact of modern retail on choice and innovation in the EU food sector](#), European Commission (2014)

Nevertheless, price transparency in the food supply chain is not devoid of risks. There have been certain studies claiming that excessive price transparency can potentially lead to price collusion. Furthermore, if communicated without appropriate narrative, price information can be misinterpreted and contribute to a distorted picture of the supply chain.

Recently, there has been a significant increase of political attention to price transparency in the food supply chain. The reflection on this matter was largely triggered by the 2014 milk crisis, which exposed the vulnerabilities that volatile price transmissions can generate.

Since 2014 the European Commission has set up various Price Observatories that aim to provide all interested parties with a robust and up-to-date data monitoring tool. In 2016 the Agricultural Market Task Force has come up with strong recommendations on how to improve the market transparency throughout the food supply chain. Furthermore, in the Council Conclusion of 12 December 2016<sup>45</sup>, the Council noted that in order to secure a better functioning food supply chain, it is crucial to reduce information asymmetry and increase market transparency, in particular as regards timely information on prices or margins at every level of the food supply chain. On top of that, the Council made a strong call on the Commission to address, in a reasonable timeframe and in a coordinated way minimizing administrative burden and costs, the issue of lack of transparency and information asymmetry at all levels of the food supply chain, where possible, including at consumer level.

Given these complexities, there is a clear need for a multi-stakeholder guidance to policymakers on how to understand the benefits, effects and potential limitations of price transparency. Following this line of thought, the Members have decided to make price transparency in the food supply chain an area of priority for the Work Programme of the Forum.

## **Recent initiatives supported by the Forum**

### *6.1. Market observatories*

On 16 April 2016, the European Commission launched its new European Milk Market Observatory which aims to monitor the development of milk production, consumption patterns and market volatility in the EU. The market observatory provides an early warning system for all dairy farmers and offered a robust market analysis. The Observatory launch took place just a year ahead of the end of the milk quota regime on 31 March 2015 and played an important role in increasing the preparedness of the milk sector for the upcoming market fluctuations.

The success of the Milk Market Observatory inspired the creation of various other sectorial price observatories such as Meat Market Observatory (founded in 2016), Crop Market Observatory (2017) and Sugar Market Observatory (established in 2017, also in advance of the end of sugar quotas). All existing market observatories focus on providing short-term analyses and statistics about the relevant market, as well as analyses and economic outlook to help economic operators to manage their businesses more effectively.

Outside the agricultural realm, a market observatory also exists for fishery and aquaculture products. With a first testing phase launched in 2010 and a full-fledged development since 2013, the [European Market Observatory for Fisheries and Aquaculture Products](#) provides production

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<sup>45</sup> [Strengthening farmers' position in the food supply chain and tackling unfair trading practices](#) - Council conclusions (12 December 2016)

and trade data, market analyses and price formation studies, as well as periodical reports on specific markets and macroeconomic trends.

The Members of the Forum expressed their full supports for these initiatives established by the Commission as they demonstrate a good practice on how the relevant market data can be monitored and disseminated at EU level. The Members underline also that the key part behind the success of the Market Observatories is the regular involvement of the stakeholders and experts in the work of the Observatories.

### *6.2. Food Price Monitoring Tool*

The Food Price Monitoring Tool (FPTM) publishes time series of prices throughout the food chain at varying level of aggregation, both at Member State and European levels. It was created in 2009 and during the last few years it has been further developed and considerably improved, following also calls from the Forum.

Since 2014 import price indices are included in addition to the already existing consumer, agricultural commodity and producer price indices. It has also improved its dissemination and the values are not only published on a dataset, but also in a dedicated website in the 23 official languages of the EU. That new website also includes analyses of price transmission (proportion of the price change at one stage of the food supply chain transmitted to the next stages, for example from the farm to the supermarket). However, these price transmission analyses should still be considered as experimental statistics.

Furthermore, in addition to the current 15 food supply chains covered by the FPMT, additional ones are planned to be included in the following months (lamb and goat, sugar, wine, beer, etc.). Due to its design, which is to gather existing data from diverse sources, it cannot provide absolute prices or price margins. In addition to that, it has the constraint that each stage of the food supply chain follows a different classification. The coverage of data is far from being complete. The availability of the indices depends on the stage (producer prices and consumer prices are compulsory by Regulation, agricultural commodity prices on voluntary basis) and the level of detail (e.g. small countries are not required to deliver detailed producer price indices).

In the general terms FPTM serves as an important and useful tool for academic and business purposes. It is also an inspiration for a further action into the area of food price transparency that would enable an even greater functionality of the tool.

## **Deliverable – #FoodEuro**

### *6.3. The preparatory work of the expert group*

In the beginning of 2017 the Expert Sub-Group on the feasibility of a Food price composition Indicator was established to support the development of a food price composition index '#foodeuro' and other related policy measures that can contribute to increase price transparency within the food supply chain. The expert group met twice in 2017.

On the basis of brainstorming analyses, the experts developed a project proposal and covered major aspects of the work: (1) benefits, (2) scope, (3) challenges, (4) process and (5) communication. In December 2017, the project plan was presented to the High Level Forum plenary meeting and was endorsed by consensus. Members voiced their active support for the project and called for its swift implementation. To date a project with a value of 1 million euro is included in the draft COSME budget for 2019.

#### 6.4. Objectives of #foodeuro

'#foodeuro' is intended as a food price composition indicator that aims to specify how consumer spending on food is distributed between the different stages of the food supply chain (farmers, processors and retailers). All Members of the Forum see the value in being able to compare the trends in price formation between various markets.

The #foodeuro will especially support the SMEs in the food supply chain, as they are mostly affected by the asymmetry of information on price composition. The SMEs, unlike the larger businesses in the chain, cannot afford to procure a reliable market data information from private consulting companies. Furthermore, they are often not aware of what are the average costs and prices in the markets beyond the national one. They often lack resources to develop a comprehensive market analysis. The project aims to increase the public awareness on the distribution of the added value and other components across the food supply chain. It will allow food business operators to compare costs and margins across EU members' states, enabling them to identify best practices and replicate them in the local context.

An important aspect of the #foodeuro, drawing from the experience of existing national initiatives in this domain, is the potential to create a forum of experts that could promote trust in the chain and mutual understanding between stakeholders.

The #foodeuro is designed to stimulate greater competitiveness as it will give consumers more evidence into who benefits most from their money spent on groceries. Finally, the project will provide a better identification of market failures and better forecast of market conditions.

#### 6.5. Scope of the #foodeuro

The project will focus on product baskets with a limited number of specific food products that are frequently bought by the EU consumers. These baskets should not necessarily be fully harmonised, but they should have a high level of similarity. Local consumer preferences will be duly taken into account. Not all products are relevant for every Member State due to diverging consumer preferences and availability of products. For smaller Member States, finding a balanced product basket might be challenging due to the size of the market and fragmentation of the food supply chain. The project will therefore prioritise basic products in order to facilitate the definition of their value chain; however processed products will not be left out of the scope.

The Members recommended focusing first on products that are of strong interest for every participant in the food supply chain and for which each value stage is predominantly occurring within the EU Single Market. At a later stage, products involving third countries could be considered. The Members suggest the following products to be explored: fresh meat, fish, tomatoes, carrots, cabbage, potatoes, onions, eggs, cheese, milk, olive oil, butter, oranges and fresh apples. Importantly, each of the products group should have a specified type (e.g. UHT milk, Gouda cheese).

The #foodeuro should be based on average price levels of specific products at each stage of the value chain. This information will be complemented by an analysis of costs at each stage of the value chain in the Member States covered (production ingredients and labour, distribution, storage, promotion, investment, R&D and taxation).

#### 6.6. Data collection and modelling

Data collection is one of the main challenges for analysing price and cost. Accurate data should be collected to prevent presenting a distorted picture due to the radically changing of profits and losses (e.g. caused by the mergers, take-overs). The pilot project should be conducted in a

representable number of Member States. The participation of each MS in the project might depend on the availability of data. National characteristic in consumers' choices, price collection method and burden of data collection should be explained. Data gathered should be used to model national and EU level indicators, charts and indexes. In this respect, data collection should be based on existing practice at Member States level avoiding unnecessary costs for supply chain operators.

In the first stage, an appropriate inventory of existing data sources should be conducted. Members obliged themselves to check if there are any data sources of potential value for this project which have not yet been communicated to the Commission. Whenever possible, existing databases should be used in order to optimise the cost efficiency of the project. If the project steering group comes to the conclusion that the main objectives of the exercise could not be fulfilled on the basis of the available data, it could ask stakeholders whether they have an interest in enhancing data collection mechanisms in the concerned areas.

Data should come primarily from official and public sources. If necessary, project managers could explore the possibility of procuring certain data from professional food data collection services. However, the experts underlined that this might increase the cost of the project, while reducing its transparency and reliability.

The lack of data availability will be complemented by economic models, as experts suggested to aggregate different models of different sectors to illustrate the interaction between different business and consumer behaviours.

#### *6.7. Data interpretation and communication*

Information communicated to the public should be accompanied by an adequate description of the findings. Narratives should be included next to the description of the data illustrated in figures (and not in a separate document,).

The project steering group should aim at consensus when taking positions on the interpretation of findings. The project steering group has to ensure that there is no miscommunication and misinterpretation (deontological precaution).

Information should be aggregated, validated and endorsed by the project steering group before being published. Confidentiality of the information shared must be guaranteed since the very start of the project to avoid the partial utilisation of draft information for unrelated purposes. Competition rules should be strictly respected. The project should not imply any additional administrative burden to companies in terms of data provision. Projects such as this should not support any form of price collusion or affect companies' negotiation capacity and strategic positioning.

The Members should use a tailored communication, when promoting the results of the project to their audience. This targeted communication should not stray from the findings and rationale agreed in the report. The Commission should be able to intervene and clarify the results of the project on behalf of the project steering group, in case findings in a draft report are misinterpreted in the public domain.

With regard to data availability to third parties, the principle should be transparency, meaning that the data collected for the report and its detailed findings should be made available to the general public (preferably via a dedicated website). Transparency can help generate a better understanding of the contribution of each link in the food supply chain and in an aggregated way how prices are formed, thus allaying some of the misconceptions about the functioning of the

food supply chain. The Commission and Members of the steering expert committee should actively promote the use of the data and findings by third parties (academia, consumer associations, civil society, policy-makers, and private sector).

The report should be transmitted to various political entities in order to stimulate a wider debate on the price and cost transmission within the food supply chain. This includes the European Parliament, National Parliaments and the Forum.

### Forum Recommendations

- The Forum calls on the Commission to ensure a swift implementation of the #foodeuro project and encourage a wide communication about its outcomes.
- The Forum supports the Commission activities aimed at increasing market transparency in the food supply chain, while ensuring strict compliance with competition rules and seeking to avoid unnecessary administrative burden on economic operators.
- The Forum recommends organising platforms around the existing market transparency tools where stakeholders and competent authorities can exchange good practices.
- The Forum suggests exploring the potential for harmonisation of the existing formats for data reporting and data classification through all stages of the food chain and in all Member States.

## 7. DIFFERENTIATED COMPOSITION OF FOOD PRODUCTS SOLD ON THE SINGLE MARKET (DUAL FOOD QUALITY)

### Political context

Consumers from a number of EU countries have expressed their concerns regarding differences in the composition and sensory profile of several food products when compared to products sold under the same brand in other Member States. Several studies carried out at national level confirmed that in the Single Market there are products with a similar brand, which are sold with a slightly or significantly different composition. This issue has gained prominence on the political agenda of the Commission.

The European Council of 9 March 2017 mandated the High Level Forum to address this issue by stating that: *"The European Council welcomes the decision of the Commission to address the issue of dual quality of foodstuffs in the Internal Market in the High Level Forum for a better functioning food supply chain."*<sup>46</sup>

In his 2017 State of the Union Address,<sup>47</sup> President Juncker explicitly referred to the issue of dual food quality and stated that *"in a Union of equals, there can be no second-class consumers. I cannot accept that in some parts of Europe, people are sold food of lower quality than in other countries, despite the packaging and branding being identical"*.

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<sup>46</sup> [Conclusions by President of the European Council, 09.03.2017, p.2](#)

<sup>47</sup> President Jean-Claude Juncker, [State of the Union address 2017](#), 13.09.2017

Responding to this call for action, on 11 April 2018 the Commission adopted a proposal for an amendment of the Unfair Commercial Practices Directive (UCPD)<sup>48</sup> made under the New Deal for Consumers initiative. This initiative aims to make explicit that marketing products as identical, while they have significantly different composition, may constitute a misleading commercial practice.

The Forum, mandated by the Commission with the endorsement of the European Council, promoted a bridge-building dialogue between Member States, stakeholders and consumer representatives. Dual food quality was on the agenda of one plenary meeting in 2017, five Sherpa meetings and two expert group meetings. The discussions in the Forum have contributed to increasing a shared understanding of the issue. The Commission used the Forum as a primary platform to interact with stakeholders and Member States about its actions aimed at tackling dual food quality.

The Forum developed a set of recommendations, which are incorporated in this report. These recommendations are intended to advise the stakeholders in the food supply chain on the best ways to approach differentiated composition and characteristics of identically branded food products (including private labels) in the Single Market.

These recommendations represent the assessment of the Members of the Forum as regards the most frequently evoked reasons behind such differentiation practices. The aim is, in particular, to propose ways to improve transparency around the composition of food products.

The recommendations are without prejudice:

- to the applicable national and EU legislation,
- to the ongoing negotiations of the Commission proposal to clarify the applicable rules by amending the Unfair Commercial Practices Directive (UCPD) in the context of the New Deal for Consumers initiative of 11 April 2018,
- to the outcomes of the JRC pan-European testing campaign and its results, especially with regard to establishing the criteria for ‘significant differences’ between identically branded food products.

## **Factual background**

Differences in composition and sensory profiles of identically branded products occur throughout the Single Market, across different Member States or even within the same Member State. The Members of the Forum believe that food business operators should be able to legally differentiate their products under the condition that all legal requirements established by EU food and consumer protection laws are met, and that such differentiations are easily identifiable by consumers and are based on legitimate factors. This is in line with the Commission’s recent guidance on this issue.<sup>49</sup>

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<sup>48</sup> [Proposal for a Directive of the European Parliament and of the Council amending Council Directive 93/13/EEC of 5 April 1993, Directive 98/6/EC of the European Parliament and of the Council, Directive 2005/29/EC of the European Parliament and of the Council and Directive 2011/83/EU of the European Parliament and of the Council as regards better enforcement and modernisation of EU consumer protection rules, COM\(2018\) 185 final, 11.04.2018](#)

<sup>49</sup> [the European Commission Notice of 26 September 2017 \(C\(2017\)6532 final\) on the application of EU food and consumer protection law to issues of dual quality of products – the specific case of food.](#)

In accordance with the existing legal framework, the potential non-compliance of any marketing or production practices needs to be established by the competent authorities on the basis of a case-by-case assessment that takes into account all relevant circumstances as well as the potential impact on the consumers' purchasing decision.

When it comes to national food composition rules or standards, Member States should bear in mind that, although they are usually designed to guarantee a high level of quality for consumers, in certain cases those rules/standards could have a negative impact on the good functioning of the Internal Market. Therefore, it may be desirable to map them and create a dedicated public inventory.

At the same time, the Members of the Forum acknowledge that in certain cases, differentiations in product composition can have an unfair character and a negative impact on consumers and business operators. Therefore, Forum Members unanimously call for the elimination of practices, which are potentially misleading and have a detrimental effect on consumers.

## **The work of the JRC**

### *7.1. Methodology for sampling, testing and data interpretation*

In June 2017, the HLF has mandated the JRC to develop a harmonised approach to sampling, testing and data interpretation for differences in composition of identically branded food products. The methodology is part of a set of measures deployed by the European Commission to tackle the issue of composition differences of products offered under the same brand and under the same or very similar packaging across several EU Member States. The President of the European Commission Jean-Claude Juncker expressed the need to improve the comparability of comparative tests so that Member States can discuss this issue on a sound and shared scientific basis. The methodology should allow competent authorities to base their eventual enforcement actions on authoritative evidence. The implementation of this harmonised framework will provide the required evidence for consumer protection authorities to decide, on a case-by-case basis, whether the provisions of the Unfair Commercial Practice Directive (Directive 2005/29/EC) or relevant food laws are or have been infringed.

The EU harmonised testing methodology<sup>50</sup>, which was published in April 2018, was developed by the JRC in close co-operation with EU Member States' competent authorities, consumer organisations, various other stakeholders of the food supply chain and relevant Commission services. During the entire development process, the Forum has facilitated the work of the JRC by acting as a liaison between the JRC and stakeholders in the chain. The JRC regularly reported on the progress of its research to the Members of the Forum. All Forum Members were invited to join the network of stakeholders, which directly oversaw the project.

The EU harmonised testing methodology builds on general principles to ensure transparency, comparability, inclusiveness, and fairness vis-à-vis all food chain stakeholders, including consumers. Furthermore, a number of key recommendations for the selection of products, sampling, testing (including sensorial aspects) and data interpretation shall be respected in the design of comparative testing campaigns to assess branded food products offered on several markets in the EU.

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<sup>50</sup> [The JRC, Framework for selecting and testing of food products to assess quality related characteristics: EU harmonised testing methodology, 25.04.2018](#)

This framework is used in the EU-wide testing campaign in 2018 that launched in Autumn 2018, with the purpose, to create the evidence to what extent differences in composition and sensory properties of foods and drinks exist in the Member States and how significant those differences are. The results of the campaign will lead to a better understanding of what constitutes a significant difference of product characteristics, so that authorities in the EU Member States can enforce consumer protection legislation in a consistent manner.

## 7.2. *Implementation EU Pilot Project "Economic assessment of the dual quality of food products in the Single Market"*

In December 2017 the EP adopted a Pilot Project "On assessing the differences between products in the Single Market". It was initially planned that this project will fund the development of a harmonised testing methodology and pan-European testing campaign. However, already before the adoption of the Pilot Project sufficient funding for this work was secured through the Consumer Programme.

Nevertheless, there are still significant gaps in our knowledge of the so-called dual food quality phenomena. In particular, there is a strong need for a better understanding of the economic and consumer-related implications of practices differentiating composition of similarly branded food products. Policymakers, stakeholders and consumers have expressed a strong interest in the economic rationale behind those practices and the impact they have on consumer choice.

In this context, The Commission decided that the Pilot Project will be implemented in a way that will allow for:

- assessing the impact of differentiated composition of identically branded products on transactional decisions of consumers,
- analysing the economic advantages and costs connected to altering the composition of products to regional markets,
- assessing the economic benefits of maintaining seemingly identical front-pack labelling while altering the composition,
- forecasting future trends on the alignment of identically branded products' recipes in the Single Market,
- assessing the potential determinants of price differences between the same branded products supplied in different Member States,
- evaluating the expectations of different consumer groups on food products (uniform quality vs. tailored quality),

The evidence coming from the Pilot Project will inform the policy makers and will contribute to development of optimal policy solutions in the area of food. Furthermore, the results are expected to stimulate further discussions among stakeholders, competent authorities and consumers' representatives on the way forward in addressing the issue of differentiated product composition. The project is expected to report back by the end of the Commission's mandate.

The Members would like to stress that the results of the JRC testing campaign and the EU pilot project "Economic assessment of the dual quality of food products in the Single Market" are crucial in finding an appropriate solution to the problem of dual quality. It is therefore very important to receive these results as soon as possible.

## Forum's assessment: Differentiation of identically branded food products

The Commission Proposal for the amendment of the Directive 2005/29/EC in its provisions related to dual quality of products points out that *'the enforcement experience has shown that it may be unclear to consumers, traders and national competent authorities which commercial practices could be contrary to the Directive 2005/29/EC in the absence of an explicit provision.'*

Furthermore, it continues by stating that *'Competent authorities should assess and address on a case by case basis such practices according to the provisions of the Directive. In undertaking its assessment the competent authority should take into account whether such differentiation is easily identifiable by consumers, a trader's right to adapt products of the same brand for different geographical markets due to legitimate factors, such as availability or seasonality of raw materials, defined consumer preferences or voluntary strategies aimed at improving access to healthy and nutritious food as well as the traders' right to offer products of the same brand in packages of different weight or volume in different geographical markets.'*

While this report is without prejudice to the deliberations on the legal proposal, it constitutes an attempt of finding a common ground between stakeholders on the assessment of potential reasons behind the differentiation of the composition of identically branded food products. None of the cases set out further in points 7.3 to 7.6 can be regarded *per se* as justifying the marketing to consumers of identical or seemingly identical products while those products have significantly different composition or characteristics.

### *7.3. Cases where the differences respond to differences in defined consumer preferences.*

Brand owners customise their products to the defined preferences of local consumers. This rationale stems from the argument often evoked by food business operators that a brand carries the promise of tailored quality rather than the promise of a given composition.

Food manufacturers argue that consumers can have different lifestyles, customs and habits, which may forge a special preference towards certain product characteristics. Nevertheless, there are indications that consumers often take brands as a proxy for a product having a similar, if not identical, composition whenever and wherever they buy it in the Single Market.

Furthermore, there is not always evidence showing that defined consumer preferences and tastes stop at the border of a Member State. They are dynamic not only in the geographical sense, but they can change over time, often faster than companies' marketing policies.

*Example: consumers in certain Southern Member States may traditionally prefer sweeter jams than those in some Northern Member States; therefore a manufacturer may choose to produce two versions of their jams for the EU market.*

Forum Members recommend that economic operators keep a constant dialogue with independent consumer organisations and with individual consumers in order to closely monitor consumer preferences and make sure that consumers can understand and value respective product adaptations.

For this purpose, food business operators should be transparent about the fact that they market different recipes in different geographic regions in order to tailor their products to consumers' defined preferences.

Food business operators should ensure that, where there are significant differences in the composition of two identically branded products, the consumer should be able to identify them based on the front of the pack of a product.

At the same time, in order to avoid an undesirable fragmentation of the internal market, it is important that businesses do not engage in artificial packaging differentiation.

#### 7.4. *Cases when the differences are rooted in natural, technical and logistical reasons.*

Differences in product composition can be caused by the local availability of particular ingredients. Companies are seeking to have sustainable supply chains in terms of environment (emissions reductions) and have a positive socio-economic impact where they produce. Furthermore, it should be noted that various differences can be time-related (caused by seasonality, the duration of transport and storage).

*Example I: Product A is labelled as 'produced from local ingredients' and has two recipes. One in a country with abundance of raw material 'A', and another in a country with abundance of raw material 'B', having the same function as 'A'.*

*Example II: a product with a limited shelf life comes from the same factory and has the same recipe, but due to the distance is sold usually a few days later in country A than country B. In effect its sensory profile may differ between two countries.*

The Forum Members consider that sensory differences, caused by logistical reasons, in principle should not be 'significant'. However, Members do note that if the differentiation caused by those reasons is significant, brand owners should clearly inform consumers thereof, in order to mitigate the risk of consumers being misled.

#### 7.5. *Consumers' price expectations related to the brand.*

Brand owners may choose to adjust the composition of their products in order to increase their price competitiveness on markets where consumers are more price sensitive (e.g. by using more or less expensive ingredients). In some cases, the brand owner does not modify the packaging of the products.

This rationale of differentiation is similar to the one evoked in the case of defined consumer preferences, with one important distinction: here the main driver for the differentiation is consumers' price expectations rather than taste or nutritional preferences.

*Example: a producer of sausages uses a more expensive kind of meat in market A, and a less expensive kind of meat in market B where consumers are more price-sensitive.*

While food prices in different Member States are determined by multiple factors, including many that are not directly related to the cost of ingredients (e.g. taxation, labour costs, transport, logistics, competition among retailers or real estate prices), additional research should be conducted in this area to better understand the relationship between the composition of a product, its price, and consumers' purchasing power. The Members of the Forum note that there is no conclusive evidence that would allow establishing a correlation between consumer price elasticity and the deliberate differentiation of product composition.

The Members of the Forum call on the Commission to conduct additional analysis in the area of price composition. The Forum expresses its support for all planned activities in this field, such as the 'foodeuro – price composition indicator' and the Pilot Project of the European Parliament on

assessing the differences in the food composition of products sold in the Single Market that aims at investigating the economic aspects and rationales behind product differentiations.

The Members recommend that economic operators, when making a significant compositional adaptation motivated by the price sensitivity of the target consumer group, should clearly inform the consumers, where necessary by adapting the front of the pack, in order to reflect the compositional differences and mitigate the risk of consumers being misled. Consumer price sensitivity should not be considered *per se* as a legitimate factor in the differentiation of identically branded products.

#### 7.6. *National regulation or national initiatives that influence the composition of the product.*

National authorities are responsible for public health matters and to a large extent for consumer protection. Various national composition requirements may exist in the area of food, provided that they are compatible with EU legislation (e.g. General Food Law and Food Information to Consumers Regulation). Where those national rules diverge across different Member States, they can constitute a direct cause for different product composition.

*Example: a brewery sells its beer in country A with <3.5 % alcohol content in order to be allowed to sell it in supermarkets, while it sells a 5% version for country B, where there are no similar retail restrictions.*

This category also includes product reformulation as part of nutrition and health strategies, either voluntary basis or as part of public-private agreements between national governments and industry.

*Example: a soft drink producer signs the public-private agreement, in which he commits to decrease the content of sugar in all his brands marketed in a Member State.*

The Members recommend that brand owners should ensure that consumers are sufficiently informed of significant differences in the composition of food product, even if the difference is caused by local or national regulations. If the adaptation was done due to a higher level of requirements placed on the local market or self-imposed, this could be an attribute worth displaying to the local consumers.

The Members consider that many differences caused by national regulations or initiatives, following a case by case assessment, could be recognised as legitimate (e.g. beneficial to public health).

National food composition rules and standards (e.g. prescribing a minimum fish or fruit content in certain products) can aim to guarantee a high level of quality to all consumers in a given market. The European Commission could consider mapping out such existing national food composition rules and facilitate the access to this information for business operators and SMEs in particular.

#### **Deliverables: Shared principles in addressing the dual food quality**

*This is without prejudice to the competences of relevant authorities to assess the compliance with the law.*

- The Forum Members will, based on the results of the testing campaign, use to the maximum possible extent the harmonised testing approach developed by the JRC for any future comparison of quality related characteristics of food products in the single market.

- The Forum commits to support activities and actions that aim at raising consumer awareness and help consumers make better-informed choices.
- The Forum calls for an appropriate level of support for national consumer organisations, so that they can build capacity, develop their activities and play their advocacy role effectively.
- The Forum Members commit to seek and offer greater clarity on their use of the frequently evoked reasons behind the differentiation of identically branded products.
- The Forum calls on the European Commission to assess the impact of so-called 'territorial supply constraints' on consumer choice in various member States.
- The Forum calls on the Member States and the European Commission to eliminate the remaining barriers in the single market for food and promote the free movement of food products in the EU.
- The Forum Members commit to ensure that the quality of food products meets the consumers' ever-growing expectations throughout the EU and is up to date with the scientific progress.

## 8. FUTURE CHALLENGES AND ACTIONS

### Upcoming challenges for the food supply chain in Europe

The global food supply chain is arguably one of the most vibrant sectors in our economic systems. Every single aspect concerning the global food supply chain is affected by transformations taking place in agriculture, weather and climate, regulatory compliance, labour, consumer preferences, sustainability, technology and retailing. The factors mentioned are significantly influencing the way in which the food supply chain operates, and it is expected and required to keep growing as technology, consumers and regulations evolve and the world's population continues to grow.

#### 8.1. *Climate change*

Today the food supply chain is one of the economic sectors with the largest impact on the environment through its direct impacts on the soil and on ecosystems, and on global and regional supplies of carbon, nutrients and water. Although Europe is at the forefront of promoting sustainable agricultural and food production practices<sup>51</sup>, at the global level food production contributes to climate change through emission of greenhouse gases and reduction of carbon storage in vegetation and soil. Locally, monoculture can reduce biodiversity and affects natural habitats through land conversion, eutrophication, pesticide inputs, irrigation and drainage. Unsustainable agricultural practices may also lead to direct environmental consequences such as soil erosion and loss of pollinators.

Agriculture is by no means the only stage in the food chain that has an impact in this respect. Food manufacturers need to step up their efforts on e.g. sustainable packaging across all food

<sup>51</sup> [European Food Sustainable Consumption & Production Round Table, Enhancing the contribution of the Agri-Food Value Chain to the Circular Economy, 19 February 2018](#)

products and combating food waste. Moreover, efforts to fill existing gaps in informing consumers about the environmental footprint of the food products should be undertaken. The European food sector needs stronger incentives to step its climate engagement. By 2050, humanity's ranks will likely have grown to nearly 10 billion people. In a scenario with moderate economic growth, this population increase will push up global demand for agricultural and food products by 50 percent over present level projects, intensifying pressures on already-strained natural resources.<sup>52</sup>

At the same time, a greater number of people will be eating fewer cereals and larger amounts of meat, fruits, vegetables and processed food, a result of an ongoing global dietary transition that will further add to those pressures, driving more deforestation, land degradation, and greenhouse gas emissions. However, other factors will also affect the global food production. More and more consumers willingly switch to food with a lighter environmental footprint. On the other hand, organically produced food is rapidly gaining popularity. Yet to date organic techniques of production are far less efficient than the conventional ones. An adequate regulatory framework for innovative plant breeding techniques could help provide a solution. There is also a significant tension between expectations on the need to produce for more people and existing overcapacity in certain sectors in the food supply chain. Alongside these trends, the planet's changing climate will throw up additional hurdles. These include greater variability of precipitation and increases in the frequency of droughts, floods and other environmental disasters. The viability of farming in various geographic areas is expected to significantly decrease, increasing the risk of hunger and impoverishment in the most affected regions.

The debate on how to combine the humanity's environmental efforts with growing nutritional needs is without exaggeration one of the most important and urgent problem that our planet faces. As the Paris Agreement<sup>53</sup> underlines, the challenge here is to “increase resilience and low greenhouse gas developments in a manner that does not threaten food production”. The European Union has a special role to play here as a global frontrunner in the climate action and a global leader in food production

## 8.2. *Gastronationalism*

During the last few years, we have seen an increase in national measures introduced by Member States in relation to aspects covered by European food law. These measures are an indicator of the general trend leading to where responsibilities for the food policies are being reclaimed by the national authorities. The possible causes of this trend are multidimensional. A lack of EU action could be seen as an important trigger for this shift of responsibilities. However, this is just one side of the coin, the other being the fact that consumers across the Europe pay more and more attention to the origin and cultural identity of the food products they buy.

Gastronationalism is a new term that was coined by political scientists,<sup>54</sup> and it describes the powers that the food production, distribution, and consumption have to create and sustain the emotive feeling of national attachment and cultural identity. In the last years, consumer interest

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<sup>52</sup> FAO, *The Future of Food and Agriculture, Alternative pathways to 2050*, 2017

<sup>53</sup> Art 2 of the Paris Agreement, United Nations Treaty Collection, 8 July 2016

<sup>54</sup> DeSoucey, M. (2010). *Gastronationalism: Food Traditions and Authenticity Politics in the European Union*. *American Sociological Review*, 75(3), [432–455](#)

in the various qualities of food has been growing (organic, fair trade, environmental food-print). Nevertheless consumers have been also vocal in expressing their needs for more accurate claims on geographical origin. This can be seen as a positive trend – gastropatriotism, where people want to promote the local production and culinary heritage of their regions.

However, the line between gastropatriotism and gastronationalism starts where consumers would chose domestic products over the non-domestic that are superior in every dimension including price, quality, environmental footprint and animal welfare standards .

This modern tendency in its severe form can create miscellaneous risks for the supply chain, relating in particular to inefficiencies and barriers to the single market and global trade (poorer consumer choices, barriers to entry for non-domestic products, incentives for regional rules on food). In the future, it can contribute to a progressive fragmentation of the food supply chain. “Successful” nations would able to rebalance crop production towards greater diversity, positioning smaller producers to successfully meet local demand, while “unfortunate” countries (import-dependent) could be struggling to feed a growing population and facing a significant hike of food prices and increased risk of malnutrition.

The question that will lead the future political debates is how to strike the right balance between the consumer preference for national products and the functioning of the Single Market and liberalisation of trade in food at global level.

### 8.3. *E-commerce*

Consumer behaviour in the food industry is changing thanks to emerging e-commerce and technological trends. Whilst today in Europe food sales are still predominantly store based, there is a growing integration between on-line and store-based retail services. The food supply chain is becoming more and more digital.

We are experiencing the introduction of several trends throughout the food industry, integrating themselves in every level from restaurant recommendation apps to home assistance in the kitchen. So far, the United Sates are pioneering progress in this area, where the rise of online subscription boxes and meals baskets has been at the forefront of emerging developments changing the face of the industry. These facilities are removing the need to go to a physical shop and are removing the age-old conundrum of meal planning for busy professionals and families. Moreover, the initiative has attracted not just the consumers’ attention. In February 2018, the US government announced plans to replace food stamps with boxes similar to those currently on the market.

The same patterns are steadily emerging in Europe. Third Party Courier Delivery referred to as the “D2C – Direct to Consumer” bring smaller third party delivery services into the mix of the food supply chain. Private courier services more and more often deliver groceries and restaurant orders directly to consumers’ doors. While this is often more expensive for consumers because it eliminates the economy of scale, it does provide an added level of convenience which can be highly desirable for busy consumers. These services are frequently being implemented in large, densely populated cities. Furthermore, online platforms such as Amazon start to compete with the traditional supermarket for the shares of the e-commerce business. The European food supply chain needs to be prepared for this future, if it wants to keep pace with its global competitors.

#### 8.4. *Artificial Intelligence (AI) impact on jobs in the food supply chain*

The advantages of an automated supply chain are significant for operators in the food sector. Wages are still the one of the highest cost borne for companies, and reducing them is usually the starting point when looking to increase margins. Therefore, implementation of any technology that enables this is inevitably going to be swift. However, the wider implications for human labour, and society as a whole, remain unknown, and they are potentially damaging for societies.

Looking at the labour displacement and productivity effects of AI on employment, many experts argue that middle-level jobs that require routine manual and cognitive skills are the ones that are most at risk. This poses a real challenge for the employment in the food supply chain, where still a considerable proportion of jobs fits in that description. While AI has a potential to offer tremendous benefits for the supply chain in various areas (improved forecasting of products that are soon to be expired, optimisation of raw materials use for processed products, optimisation of farming techniques) the impact on jobs should not be taken lightly.

Planning for a digital future will be crucial to develop policies and business models that promote efficient labour markets for the benefit of workers, employers and food supply chain as a whole. In the long run, initial labour displacement effects of jobs with routinized manual or cognitive skills, as in previous industrial revolutions, is expected to be at least partly compensated by the growth in non-routine jobs at the high and low end of the economy. The policy makers and business operators should empower this shift, by facilitating transition, requalification of the workers and creating jobs that can attract young and highly qualified people.

#### 8.5. *Globalisation of food supply chains*

Supply chain globalisation is increasing across the board due to various factors such as (1) the progressing trade liberalisation, (2) growing demands for food in countries with expanding population or increasing purchasing power and the development of new transport and (3) refrigeration technologies making the transportation on long distances cheaper and more product friendly.

On the positive side, trade liberalisation can be seen as a perfect win-win scenario. EU companies are gaining access to various new markets with millions of potential consumers. The EU trade partners benefit from an opening to a lucrative EU market, showing significant demand for all kinds of food products. Ultimately, consumers are the ones who benefit the most, notably from lower prices, more product varieties, and higher quality.

Conversely, a far-reaching and more complex supply chain is prone to risks brought by regulatory and non-tariff barriers, disruptions due to natural disaster, political upheaval and economic instability, rising energy prices and their effect on food production and transportation, and the dynamic and unrelenting variations in consumer demands and desires. The larger trade connections can also translate in more dependency and vulnerabilities to the currently shifting global political context.

Moreover, one of the main challenges for trade policy makers nowadays is to show individual consumers that there are tangible benefits of trade for everyone. While there is clear empirical evidence at an aggregate level that trade offers multifaceted consumer benefits, individual consumers cannot clearly see them and often lack information on the origin of imported goods and the lower prices brought about by new trade policy initiatives. Therefore, the efforts on ensuring the transparency and visibility of the FTA formation should become a priority for the next decade.

It is worth mentioning that this trend is not a given one, as in the past years we observe a strong challenge to the free trading doctrine that was on the rise in the last decades. Events like Brexit, the US withdrawal from Trans Pacific Partnership and freeze of Transatlantic Trade and Investment Partnership negotiations, and stagnation of multilateral progress in WTO put a significant question mark on the notion of everlasting trade liberalisation.

#### 8.6. *Culinary revolution*

It is a fact that consumers' interest in on food has grown considerably in recent times. The food supply chain has a long history of responding to changing demands for the products and services its customers' desire. Consumer interest in food products and services has evolved, deepened, and diversified from array and price, to convenience and safety, to nutritional characteristics, to how and where foods are available, to how they are produced, processed, and distributed.

The consumer interest beyond the origin described above also focuses on the aspects such as fair labour, nutritional values, environmental footprint, animal welfare, authenticity and moral principles of the producers. The dual quality debate has clearly shown not only the growing interest of consumers in the composition of branded food products and the ethics of food business operators. The close relationship between people's dietary choices and their general well-being are being more and more evident, thanks to the growing research in the area.

However, while the increased consumer awareness in the dietary choices is an extremely positive trend, it poses a challenge on the policymakers and stakeholders to ensure that the growing consumer scrutiny is met with an adequate transparency and educational efforts. Without a proper communication and information, the consumers risk being misled and manipulated.

#### 8.7. *Global competitiveness of European food industry*

The European food sector is facing fierce global competition. It is not a given that in a few decades it will be able to maintain its position as a global leader.

The Forum believes that the strengths and weaknesses of the European food sector at the global level and of the relevant regulatory framework should be properly assessed. This assessment should form part of the ongoing work on innovation and the global competitiveness of the European industry, and its results should feed into concrete policy actions aiming at improving the global competitiveness of European food industry.

### **Recommendations for future action**

- 1.) The Forum stresses the urgency to shift to more sustainable food systems which make more efficient use of land, water and other inputs and sharply reduce the dependency on fossil fuels.
- 2.) The Forum calls for policy makers and stakeholders to strike the right balance between the consumers raising demands for food of national provenance and the needs for inter-connective food systems.
- 3.) The Forum recommends an increased investment in R&D in the food sector, so that the technology can be deployed to address social and environmental challenges in food systems.
- 4.) The Forum calls for further reflection on how to stimulate the growth of high value added jobs in the food supply chain.

5.) The Forum recommends that the EU pursue a trade agenda which creates opportunities for EU food products on international markets, while operating to the highest standards of transparency.

6.) The Forum highlights the need to balance the increasing interest of consumers in the different dimensions and aspects of the food they purchase and their interest in adequate information with the interest of completing the Single Market and avoiding unnecessary costs for supply chain operators.

7.) The Forum asks policy makers to consider the Single Market and the global competitiveness of the European food supply chain in all its future decisions.

8.) The Forum calls for a roadmap on how to ensure the global competitiveness of the European food sector in the upcoming decades.