

# **Labelling of agricultural and food products of mountain farming**

## **Executive Summary**

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### **Background**

Mountains represent a significant share of the EU territory, population and economy. Most definitions, including the one established for the purpose of compensating natural handicaps for mountain agriculture (Less Favoured Areas (LFA), laid down by article 18.1 of Regulation (EC) No 1257/1999), rely on criteria relating to minimum altitude (between 500m and 1000m for mountain LFAs), minimum average slope (between 15 and 25 percent) or a combination of both minimum altitude and slope. According to the LFA definition, mountain areas represent 18.5 % of the total EU area.

In the mountains, agriculture faces several limitations, related to the existence of permanent natural handicaps, which are not easily tackled with investments. Low temperatures and the limited length of the crop growing period combines with steep slopes with less fertile soils and the need for more complex machinery and more working time. This results in lower labour productivity and lower land productivity. Such limitations also imply that farmers have less choice on the productive sectors they can invest in. Finally, farms are smaller on average compared to on plains or flatter, lower-lying areas. Poor accessibility increases the difficulties of mountain farms and also affects the mountain food industries (increased collection and transport costs, smaller structures implying less economies of scale).

The existence in mountain areas of traditions and know-how relating to agricultural production and food processing is an opportunity for mountain communities, reinforced by synergies with tourism. With a view to making the mountain products on the market more clearly identifiable and thus less misleading for the consumer, the EU institutions legislated on a common definition of an optional quality term, 'mountain products', in the labelling of agricultural products. According to the Regulation (EU) No 1151/2012 of the European Parliament and of the Council of 21 November 2012 on quality schemes for agricultural products and foodstuffs, the term 'mountain product' shall only be used for products for which the feed and the raw materials come essentially from mountain areas and for which the processing also takes place in mountain areas. The new Regulation empowers the European Commission to adopt implementing acts setting derogations to the general principles of the new Regulation in order to take into account the specificities of the different sectors involved.

In this context, the present report aims to:

- (i) gather information on the supply chains for agricultural and food products in mountain areas (products involved, main issues related to the location of the different stages of the supply chain such as feed, production of raw material, processing, etc.;
- (ii) review the possible reasons why citizens, economic stakeholders (including farmers) and consumers might ask for clarity regarding the provenance of mountain products; and
- (iii) assess past and present labelling practices for mountain products (national protection schemes in France or Switzerland, geographical indications and trademarks relating to mountain agricultural and food products).

### **A large diversity of mountain agricultural and food products ...**

In each particular mountain area, farmers have fewer production options than in neighbouring lowland areas. However, overall, all agricultural sectors are present in one or several mountain areas within the EU. FADN (Farm Accountancy Data Network) data are used to analyse the value and volume of agricultural production in mountain areas (at farm gate).

Globally, animal production is the dominant output in EU mountain areas: 54% of the total turnover of mountain farms comes from livestock activities. However, in Mediterranean mountain areas the situation is different as crop production (arable and permanent crops) is more widespread.

The main livestock sectors in European mountain areas are the dairy sector (28% of the total turnover, three-quarters of which is related to cow milk production) and the grazing livestock meat sector (16% of the total turnover, more than two-thirds of which is related to beef and veal). The share of these two sectors in mountain farming is higher than average in EU farming. Meat production from monogastric animals (pigs and poultry) is, in contrast, less present in mountain areas than in the rest of the EU.

Cows' milk represents 25% or more of the total mountain agricultural turnover in Germany, Austria, Czech Republic, Slovakia, Slovenia and France. Sheep and goats' milk is particularly important in mountain areas of Greece (17% of total turnover). Grazing livestock meat-related activity is the most important in mountain areas of France (close to one third of the total turnover, principally beef) and the United Kingdom (more than half of the total, equally distributed between beef and sheep).

The situation is similar in terms of physical quantities. Mountain areas produce a large proportion of sheep and goat products (34% of milk and 25% of meat), a significant share for bovine products (9.5% of milk and 12% of meat) and less for other animal products such as pork meat, although this can still be more important in particular locations e.g. in Spain and Portugal.

Honey production is also significant in mountain areas, but more difficult to capture in the absence of records and because of important transhumance of beehives. Mountain production can be estimated at between 5% and 20% of the total production of honey in mountainous MS.

Crop sectors of importance are cereals (9% of total production value, half the proportion in lowlands areas) and permanent crops (fruit orchards, olive groves and vineyards). The share of the fruit sector (in particular apples, pears, stone fruit and nuts) and the olive sector in the total turnover of mountain farms (6.3% and 7.1% respectively) is significantly higher than the share of the same sectors in total EU agricultural turnover (3.7% and 2.6% respectively). In terms of physical quantities, mountain areas produce significant quantities of products from permanent crops (15% of total EU fruit production, 17% of total EU olive production, 12.5% of total EU wine production). For nuts, the share of EU production located in mountain areas is above 35%.

**...the supply chains of which are often overlapping mountain areas and neighbouring zones...**

If mountain farming activity is precisely defined by the LFA classification, information concerning the provenance of feed and raw materials and the location of processing facilities is not directly available.

Concerning feed, the situation is different for ruminants (bovine, ovine and caprine animals) than for other livestock sectors (pigs, poultry, etc.). Ruminants' feed is largely obtained from pastures or grass (hay, silage), which are present and produced in mountain areas. Other components need to be imported from non-mountain areas, in particular concentrated feed (cereals, protein crops, vitamins and minerals, etc.). On the basis of data related to the purchase of concentrated feed and a theoretical model of dietary needs, it can be calculated that the majority (over 90%) of dairy cows in French mountain areas get more than 70% of their feed (dry matter contents) from mountain areas. Similar calculations for dairy cows in Austria result in an average of 12% to 13% of the feed ration being imported from non-mountain areas. Similar patterns apply in the Alps and Central Europe (Germany, Slovenia, Czech Republic, Slovakia), but the share of feed imported from lowlands is higher in Mediterranean areas (Spain, Portugal, Italy, Greece).

Ruminants intended for meat receive a higher proportion of mountain feed than dairy cows as long as they stay in mountain areas. A large proportion of bovine and ovine animals born in mountain areas are however fattened ('finished') for several months in lowlands before slaughter.

Concerning other animals, most are fed entirely from non-mountain feed (cereals and protein crops) and arable crop production capacities in mountain areas are such that only a minimal proportion of feed for pigs may reasonably be sourced from mountain areas. There are however some niche products or traditional practices in mountain areas: inclusion of dairy sub-products (whey) in pigs' rations, acorn-fed traditional breeds of pigs, outdoor pig and poultry rearing etc.

Processing of raw material does not necessarily occur in mountain areas, even if mountain farms are in general characterised by more diversification towards on-farm processing than non-mountain ones. Slaughterhouses or dairy industries are less present in mountain areas than in lowlands. The density of processing establishments per km<sup>2</sup> is 25% to 50% lower in mountain areas and the structures are smaller and less modern. The overall processing capacities within mountain areas are usually not sufficient for the processing of raw materials produced in the mountains. Only 65% to 70% of mountain milk production can be processed within mountain areas in France and Austria; the rest needs to be processed in lowlands.

Concerning meat products, the production of fresh meat in the mountains is anecdotal compared to the importance of the breeding animals in terms of turnover. Most bovine animals born and bred in mountain areas are sold alive for further fattening in non-mountain areas (e.g. traditional trade of live young bovine animals between French mountains and Italian lowlands). Cured and dried meat products produced in mountain areas (bovine and porcine) are often made from raw material imported from lowlands. Illustratively, there are many geographical indications for meat products corresponding to mountain areas. They represent 24% of the total value of meat products' geographical indications, but hardly any of them includes an obligation to source the raw material from mountain areas. *De facto*, raw material is imported from lowlands.

**... might potentially be subject to misleading practice because of higher prices and specific features for citizens and consumers...**

Specific costs of production (e.g. variable cost such as plant protection or feed) of mountain products (per unit of product) are on average slightly higher than in lowlands. Crop production costs per hectare might be lower in mountain areas, but they have lower yields. Livestock production costs per livestock unit are equivalent in mountain and non-mountain areas and lower yields in mountain areas result in a higher production cost per unit of product.

In addition to slightly higher specific costs in mountain areas, the weight of investments (more expensive buildings and machinery) and the impact of a lower labour productivity increase the gap between mountain farms and non-mountain farms. As shown for the dairy sector in France, with exception of the region of Jura where the vast majority of the production is dedicated to PDO cheeses, the remuneration of family employees in dairy farms is between 10% and 40% lower in mountain areas compared to in the lowlands. In addition, mountain production faces higher transport and collection costs (particularly for milk), as well as higher processing costs (smaller structures, etc.).

In parallel, on average, most agricultural products benefit from a higher farm gate price (around 10% for cows' milk or bovine animals and up to 20-50% for certain sub-sectors such as apples and pears or stone fruit). In those Member States where quality segmentation is only a recent evolution (in new Member States in particular), the farm gate price premium is not always present; such a premium might also reflect different average qualities of products classified under the same sector (e.g. a higher proportion of mountain milk processed in high value added PDO cheese, more cherries than peaches in mountain stone fruit).

With higher unit costs and higher unit prices at farm gate, mountain agricultural and food products are a potential target for fraud by free riders. Operators might charge more for products by claiming a mountain provenance for them without shouldering higher production costs.

There are additional reasons why consumers might desire to be reliably informed of the mountain origin of products: mountain farming contributes to the sustainable development of mountain areas by:

- i) means of a higher delivery rate of public goods (in particular thanks to the importance of grazing practices over pastures and meadows),
- ii) a key contribution to social aspects (traditions and know-how, among others related to transhumance) and
- iii) a decisive direct impact on the local economy, particularly because agriculture and food are sectors that are more strongly represented in local mountain economies than in the rest of the EU, or indirectly via synergies with tourism or induced contribution to the rest of the mountain economy.

Consumer perception of mountain products relates to local and cultural values first (local area identity, employment, small scale productions, etc.) and to environmental values second (extensive production systems, etc.).

**... and are already somehow protected directly and indirectly.**

At present, many food products on the market show labels referring to mountains, directly or indirectly (images, other terms such as synonyms, names of massifs, etc.). In many cases, the label reflects the true origin of the product; in other cases, the justification is open to debate (product only processed in a mountain area, product prepared according to a mountain tradition, pure fairy tale or unrelated marketing strategy, etc.).

Many labels that refer to mountains are combined with another quality message (a geographical indication, a regional label or compliance with organic production). There are also a few cases of products that have acquired a generic character: in the case of '*Jamon Serrano*' (Traditional Specialty Guaranteed), the product concerned was originally at least processed in mountain areas (appropriate climate for drying and curing ham), but now the designation covers a production process which can be carried out anywhere.

Many of the practices mentioned above correspond to registered trademarks. Owners of such trademarks, containing the word 'mountain' or synonyms, or graphic references to mountains, benefit from pre-existing intellectual property rights. An optional quality term is not explicitly considered an indication of origin and therefore might not necessarily represent sufficient grounds to impede the registration of new potentially misleading trademarks referring to mountains.

The Case Law on the matter is limited and relies primarily on Consumer Protection and Lawful Competition as well as Trademark Laws as a legal basis.

In France and Switzerland, the existence of national rules on the labelling of mountain products seem to have clarified the situation to a certain extent, resulting in less unclear labels and more Case Law.

The Swiss ordinance seems to be the best developed national scheme in place in terms of defining what a mountain product is. It contains clear rules addressing the issues of feed and processing: minimum share of mountain feed (70%) and of mountain ingredients (90%). It includes rules on minimum time spent on mountains by animals, which can be slaughtered outside mountain areas within a reasonable time (2 months). It also regulates the use of alternative terms (Alps), provides rules for a third party certification process (similar to the one for organic production) and ensures coexistence with pre-existing trademark rights.

The French rules are simpler (administrative authorisation procedure) but provide a lower level of protection: there is no protection related to terms other than '*Montagne*' and no mention of relations with trademarks rules. It is therefore unlikely that the French rules are opposable to trademark rights. In some cases, the French rules are less stringent than the Swiss rules (possibility to source all feed in lowlands for pigs) and in others equivalent (70% minimum dry matter of feed from mountain areas for dairy cows) and in some cases even more stringent (impossibility to slaughter and cut carcasses outside mountain areas for meat products). Other existing rules (Italy, Spain - Galicia) are poorly or not applied.

In the absence of statistics kept by the regulators, the precise uptake of these schemes is not known. However, more than 100 million litres of French mountain milk is labelled with a reference to mountains ('*lait de montagne*') falling under the French rules, this represents less than 12% of the mountain milk processed in mountain and not processed in PDO cheese.

PDO and PGI schemes are an alternative way to protect mountain products. In Italy, it is possible to include within the PDO or PGI specification a reference that the product is a mountain product, when this is the case. This possibility has been used in the specifications of several Italian PDO cheeses such as *Asiago* or *Montasio*, allowing an intra-PDO segmentation. This is banned by the French rules which impede a 'mountain' distinction within the same PDO.

Close to 40% of the EU registered denominations refer to mountain or semi-mountain products. Mountain products are more often likely to be labelled as PDO/PGI products than as 'mountain products': in the case of milk in France, 30% of the deliveries of mountain milk are directed to PDOs (4% only to the mountain milk scheme). In all sectors, the presence of PDOs is larger in mountain areas than the EU average: 2 to 3 times more for dairy products (mostly cheeses) and fruit (in particular apples), 10% to 40% more for meat or olive products. However, there are still large segments of mountain products that are not (yet) protected as a geographical indication, leaving space to further segmentation of markets for mountain products.

### **Conclusions**

The Regulation (EU) No 1151/2012 of the European Parliament and of the Council of 21 November 2012 on quality schemes for agricultural products and works on the general principle that the term 'mountain product' shall only be used to describe products for which the raw material and the feedstuffs for animals come essentially from mountain areas and, in the case of processed products, the processing also takes place in mountain areas. The Commission is empowered to adopt delegated acts to derogate from these general principles, in order to take into account the natural constraints affecting production in mountain areas.

The various aspects raised in this study contribute to better understand the agricultural production and its processing in mountain areas. This study shows that flexibility might be sought in the derogations to the rules governing the term 'mountain product':

- which kind of feed for which animals and under which threshold can be sourced from non-mountain areas to take into account the impossibility to fully source from within mountains?
- which processing stages might be authorised to take place outside mountain areas?
- what share of non-mountain ingredients (main raw material and/or secondary ones, additives) can be accepted in a mountain processed product?

The study also highlights the importance of further aspects of the labelling of mountain products, notably the need for proper enforcement and for specific arrangements such as certification going beyond the existing consumer protection and lawful competition acts. Finally, it also raises the issue of the coexistence between the new optional quality term 'mountain product' and other existing tools such as trademarks and geographical indications.

In the absence of derogation to the general principle that mountain products should be produced and processed in mountain areas, the scope for application of the 'optional quality term' would be reduced. Animals cannot be 100% mountain fed; processing capacities in mountain areas are insufficient to process all the locally produced raw material; mountain processing industries traditionally incorporate ingredients from lowlands. A fair solution may consist of implementing rules ensuring that the value added is to a great extent obtained in mountain areas.