



Brussels, 13.12.2013
COM(2013) 866 final

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

on the case for a local farming and direct sales labelling scheme

{SWD(2013) 501 final}

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1. INTRODUCTION

Regulation (EU) No 1151/2012 on quality schemes for agricultural products and foodstuffs¹ entered into force on 3 January 2013. Article 55 states that the Commission shall present *‘a report to the European Parliament and to the Council on the case for a new local farming and direct sales labelling scheme to assist producers in marketing their produce locally’* by 4 January 2014. This report *‘shall focus on the ability of the farmer to add value to his produce through the new label, and should take into account other criteria, such as the possibilities for reducing carbon emissions and waste through short production and distribution chains’*.

Finally, the report *‘shall, if necessary, be accompanied by appropriate legislative proposals on the creation of a local farming and direct sales labelling scheme.’*

This report will examine the socio-economic and environmental implications of local farming and direct sales and discuss possibilities for introducing an EU-level labelling tool.

2. CONTEXT AND DATA SOURCES FOR THE REPORT

In *‘Fair revenues for farmers: A better functioning food supply chain in Europe’*² the European Parliament calls on the Commission to *‘propose the adoption of instruments to support and promote farmer-managed food supply chains, short supply chains and farmers’ markets, in order to establish a direct relationship with consumers and to enable farmers to obtain a fairer share of the value of the final sale price by reducing the number of middlemen and of the stages of the process’*.

In *‘Future of the CAP after 2013’*³, the European Parliament makes clear that improving competitiveness at different levels, including local markets, should be a fundamental objective of the CAP post-2013.

The Committee of the Regions considers⁴ that the Commission should *‘adopt definitions of ‘Local Food Products’ and ‘Local Food Systems’, and introduce a new logo and identify a common symbol and scheme identity for local products [...]’*.

¹ 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, OJ L 343 of 14.12.2012, p. 1.

² European Parliament resolution of 7 September 2010 on fair revenues for farmers: A better functioning food supply chain in Europe, P7_TA(2010)0302.

³ European Parliament Resolution of 8 July 2010 on the future of the Common Agricultural Policy after 2013, P7_TA(2010)0286.

⁴ Opinion of the Committee of the Regions on 'Local food systems' (outlook opinion), 2011/C 104/01.

The Commission, when looking at the challenges of the CAP post 2013⁵, emphasises that ‘EU citizens demand high quality and a wide choice of food products, reflecting high safety, quality and welfare standards, including local products’.

In order to get a better view of local farming and direct sales across the European Union (EU), the Commission has undertaken a broad range of activities, including Member State and stakeholder consultations, creating a dedicated working group and an external study⁶. It invited interested parties to a high-level conference ‘Local agriculture and short food supply chains’ in April 2012. More details on these activities can be found in the accompanying Commission Staff Working Document⁷.

These activities provide essential input to this report. This report also contains information from peer reviewed literature and other external papers and articles.

3. SITUATION WITH REGARD TO LOCAL FARMING AND DIRECT SALES

For the purpose of this report:

- ‘local farming’ means the production of agricultural products and foodstuffs with the aim of selling them in an area reasonably close to the farm of production;
- ‘direct sales’ means sales by a farmer directly to a consumer, without intermediaries on the selling side;
- ‘short food supply chains’ means sales from a farmer to a consumer with a reduced number of intermediaries;
- ‘local food systems’ means that production, processing, trading and consumption of food occur in a relatively small geographical area.

There is no uniform definition of the term ‘local area’. While various sources confirm that this term means a relatively small geographical area, there is no agreement on the distance, varying between 20 and 100 km from the point of production. Taking into account the wide-spread interpretations of the term ‘local area’, a definition at EU level would appear arbitrary. It is essentially the consumer who decides whether a product comes from a ‘local area’ or not.

Local farming and direct sales face numerous challenges, which were addressed during the April 2012 conference. It called on the Commission to: provide appropriate support for developing local farming and short food supply chains; adapt EU public procurement rules; clarify EU hygiene rules; and reflect on how to help improve access to markets, possibly by means of a specific labelling scheme. The Commission Staff Working Document accompanying this report discusses these challenges and how they could be met by existing or new EU instruments.

⁵ The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future, COM(2010)672 final.

⁶ Knefsey, M., Schmutz, U., Venn, L., Balint, B., Trenchard, E.: Short Food Supply Chains and Local Food Systems in the EU. A State of Play of their Socio-Economic Characteristics. European Union, 2013.

⁷ http://ec.europa.eu/agriculture/quality/reports/index_en.htm

3.1. Socio-economic importance of local farming and direct sales

The Eurostat Farm Structure Survey 2007⁸ revealed significant differences among the Member States with regard to the development of direct sales. On average, about 15% of farms sell more than 50% of their production directly to consumers, with significant differences among Member States: ranging from almost one quarter of all farms in Greece to 0.1% in Spain. It is noteworthy that small farms are relatively more involved in short food supply chains.

Empirical studies on purchasing behaviour indicate a high level of interest in buying local food. One study⁹ indicates that in the United Kingdom, 70% want to buy local, nearly 50% want to buy more of it in the future, and 60% are currently buying local. According to the Natural Marketing Institute¹⁰, 71% of French and 47% of Spanish and British consumers claim that it is important to buy local products.

Activities to meet the growing demand for local products can strengthen and develop the competitiveness of rural areas. Supplying local food systems is not only an opportunity for agricultural producers. It also affects post-primary production activities such as processing, distribution and retail and thus has a multiplication effect on the local community by generating employment opportunities. This has become even more important in the current economic crisis. Public support for local agriculture and direct sales could help maximise these benefits.

A European wide IMPACT research project¹¹ found that while the proportion of the total number of farms engaged in direct sales varied considerably among Member States (from 0.5% in Ireland to 34.6% in Italy), the estimated figure for the EU-15 was 20.2%. The additional net value generated by direct sales for the EU-15 was estimated at 2.7% of total net value added. One of the conclusions of the research was that development of direct sales has become a key element of rural development in several Member States.

The lack of quantitative data was compensated for by estimates of economic significance for the sector. For example, estimates for selected Member States provided in the EU Rural Review¹² show significant divergence across the EU: while in Denmark, for example, only around 3% of producers are involved in direct sales, in Austria one third of all farms are involved in direct sales.

The study on short food supply chains analysed 84 short food supply schemes across the EU using the five capital assets framework¹³. It shows that the majority of schemes (54) are strongly oriented towards creating social capital, increasing social contact between people, a sense of community and trust and co-operation between businesses on the one hand and between producers and consumers on the other hand.

⁸ http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Farm_structure_survey_2007

⁹ Local Government Regulation, Buying food with geographical descriptions – How ‘local’ is ‘local’?, 2011.

¹⁰ Les chiffres de la consommation responsable, édition 2010, available at: <http://www.mescoursespourlaplanete.com/medias/pdf/RapportwebVF-2010.pdf>

¹¹ IMPACT project: The socio-economic impact of rural development policies: realities and potentials (CT-4288), 4th Framework FAIR programme, 2002. The Member States involved are the Netherlands, the UK, Ireland, Germany, Italy, Spain and France.

¹² EU Rural Review, 12 (2012), pp. 11-12.

¹³ The five capital assets framework is examining the impact on human, financial, physical, social and natural capital.

The study also demonstrates that close relations between producers and consumers increase consumer knowledge on and understanding of food, and have a positive effect on farming activities and environmental issues. In some cases, this can lead to behavioural changes, for example in eating habits and purchasing decisions. Finally, according to the study, using short food supply chains is more labour intensive for farms than selling agricultural products and foodstuffs through conventional market outlets due to processing, packaging and marketing activities.

3.2. Environmental criteria

In the case of food supply chains, the existing literature tends to look at energy consumption and carbon emissions from farming, processing, storage and the distribution of food products. As the food sector accounts for around 30% of overall energy consumption¹⁴, it has a direct impact on climate change.

A study by **Jones**¹⁵ based on an analysis of the environmental impact of the transport component of the food supply chain found that sourcing locally grown apples in the United Kingdom results in less carbon dioxide emissions than purchasing imported apples from New Zealand at the supermarket. On the other hand, a study by **Saunders et al**¹⁶, using a different approach, found the opposite. In this case New Zealand was more efficient than the UK in terms of the total energy component, when considering the direct and indirect energy used in apple production as well as transport and storage.

A case study carried out in Spain using a transport model shows that switching to more local consumption results in energy savings (**Aranda et al**¹⁷).

Another study (**Sundkvist et al**¹⁸) analyses the environmental consequences of local small-scale versus centralised large-scale bread production. The results show that emissions of CO₂, SO₂ and NO_x are lower for local bakeries than for big bakeries in the Swedish mainland.

A study by **Coley et al**¹⁹ looks at the energy consumption and carbon footprint of a consumer who travels to a farm shop to purchase products. It concludes that a 7.4 km drive to purchase a product is the limit: if the distance is longer, carbon emissions are higher than in the conventional food supply chain.

With regard to the environmental effects of food waste, studies refer to two aspects. The first issue is the amount of energy and water wasted in production. The second

¹⁴ FAO Policy Brief 2011: The case for energy-smart food systems, 2011, available at: <http://www.fao.org/docrep/014/i2456e/i2456e00.pdf>.

¹⁵ Jones, A.: An environmental assessment of Food Supply Chains: a case study on dessert apples, in: *Environmental Management*, Vol. 30, 4 (2002), pp. 560–576.

¹⁶ Saunders, S.; Barber, A.; Taylor, G.: Food miles- Comparative energy/emissions performance of New Zealand's agriculture industry, Research Report, 2006 (285).

¹⁷ Aranda, A.; Scarpellini, S.; Zabalza, I.; Valero Capelli, A.: An analysis of the present food's transport model based on a case study carried out in Spain. 6th International Conference on LCA in the Agrifood sector, Zurich, 2008, pp. 12-14.

¹⁸ Sundkvist, A., Jansson A., Larsson, P.: Strengths and limitations of localizing food production as a sustainability building strategy — an analysis of bread production on the island of Gotland, Sweden, in: *Ecological Economics*, 37 (2001), pp. 217–227.

¹⁹ Coley, D., Howard, M., Winter, M.: Local food, food miles and carbon emissions: a comparison of farm shop and mass distribution approaches, in: *Food Policy*, 34 (2009), pp. 150–155.

issue is the additional amount of carbon dioxide, methane and ammonia produced in the decomposition phase²⁰.

A study by **Gustavsson et al**²¹ shows that the highest amount of food waste comprises fruit, vegetables and cereals. For Europe, figures demonstrate more than a 30% loss for cereals and around 45% for fruit and vegetables. Losses are 20% for seeds, more than 20% for meat and more than 10% in dairy production.

The same study highlights the need to act with caution when interpreting the results of waste issues due to a lack of sufficient data, uncertainties in available data and many assumptions on food waste levels. Similarly, **Hall et al**²² stress that quantifying food waste is difficult because methods rely on using waste factors measured in sample populations. Moreover, **Parfitt et al**²³ point out that different methods and definitions applied to the measurement of food waste make the comparison of studies more difficult.

A Commission study on food waste²⁴ looked at the various causes of food waste in the following four sectors: manufacturing, wholesale/retail, food service and households. The study concludes that it is difficult to draw concrete conclusion on the issue due to limited data which only represents two sectors (dairy and meat). Moreover, the possible role of the short food supply chain in reducing food waste was not mentioned in this study.

More research focusing on the relationship between the type of food supply chain, consumer attitudes and waste reduction needs to be done to be able to draw reliable conclusions. It seems that consumers tend to attach more value to products purchased directly at a farm or at farmers' markets which can result in less waste. However, taking into account the relatively small share of short food supply chains and local food systems in global production, processing and distribution, the potential impact of these systems should not be over-estimated.

The Study on short food supply chains reveals that to minimize the negative impact on the environment, short food supply chains should at the same time be local, be seasonal, use ecologically sound production methods and take into account a low carbon footprint. Combining local and seasonal characteristics reduces storage needs, while ecologically sound production methods may also contribute to reduced use of pesticides, soil and water pollution and soil degradation, and enhance biodiversity and sustainable water usage.

²⁰ Hall, K. D., Guo, J., Dore, M., Chow, C. C.: The progressive increase of food waste in America and its environmental impact, in: PLoS ONE, Vol 4, 11 (2009).

²¹ Gustavsson, J., Cederberg, C., Sonesson, U.: Global food losses and food waste. Extent, causes and prevention, FAO, 2011.

²² Hall, K. D., Guo, J., Dore, M., Chow, C. C.: The progressive increase of food waste in America and its environmental impact, in: PLoS ONE, Vol 4, 11 (2009).

²³ Parfitt, J., Macnaughton, S. Food waste within food supply chains: quantification and potential for change to 2050, in: Philosophical Transactions of the Royal Society: Biology, 365 (2010), pp. 3065–3081.

²⁴ European Commission: Preparatory study on food waste across the EU 27, 2010, available at: http://ec.europa.eu/environment/eussd/pdf/bio_foodwaste_report.pdf

4. FINDINGS ON EXISTING LABELLING SCHEMES ACROSS THE MEMBER STATES

There is a large variety of schemes throughout the EU. Most of them are made up of sales in the proximity of the production site. These are on-farm sales (for example farm shops, roadside sales, pick-your-own) or off-farm sales (for example, farmers' and other markets, delivery schemes, sales to retailers or the catering sector). Some of them are distance sales, for example delivery schemes and internet sales. The Study on short food supply chains shows that labels and logos are most likely to be used by schemes that have been established for a longer period or by larger regional initiatives while they are less frequent in the case of a more localised consumer base with face-to-face communication between the producer and consumer.

The replies by Member States to the questionnaire on the direct and local sale of agricultural products and foodstuffs have shown disparities in the development and support of this type of sales. Similarly, the study on short food supply chains found that there are many tools available at EU and national level which could assist farmers, but these are not applied consistently across the EU, which has led to the uneven development of short food supply chains. The challenges with regard to engaging in local farming differ across the EU; hence Member States should select a combination of actions tailored to their development needs.

The study on short food supply chains shows that labels are also useful in signalling that a product has been certified. This aspect is important to protect products from imitations: labels with a regulated content are a tool for fighting misleading information or even fraud.

The study on short food supply chains also argues that consumers feel confused about different labelling systems. In the first instance, consumers expect labelling information to inform them about the price and the shelf life of a product. Geographical origin and the identity of the producer follow suit. Information about the nature of the supply chain is also important: is the product sold at a fair price, for both producer and consumer?

Finally, the study and the consultation findings suggest that labelling schemes inevitably involve costs for producers and can make their products more expensive.

5. IS THERE A CASE FOR A LABELLING SCHEME AT EU LEVEL?

The April 2012 conference stressed the importance of a shared vision with quality, environment, ethics, culture, social links and conviviality taking precedence. Major ingredients of 'going local' are networking, trust and mutual knowledge, and educating both farmers and consumers. The conference conclusions indicate that these values could be promoted by a new label for short supply chains, on condition that this would be a voluntary and simple tool, without additional costs for producers.

The fora which have addressed the issue of local farming and direct sales highlighted the need to facilitate access to investment and knowledge, to allow for participation in public tenders, and to adapt the hygiene rules which were said to often represent obstacles to this type of farming and sales. The Commission Staff Working Document supplementing this report explains the instruments that are in place to assist producers and suggests to Member States what actions they can take. Member

States should take a more proactive role and adapt legislation where possible for the particular benefit of small farmers and direct sales. Food and catering are among priority sectors for green public procurement. To provide local food to public canteens, public authorities should use innovative approaches to greening contracts while farmers, in order to be able to bid jointly in public procurement tenders, should organise themselves and make use of various models of co-operation.

Consumers who would like to buy locally produced food often cannot recognise it in the market place²⁵. The Eurobarometer survey on Consumer Empowerment²⁶ revealed a lack of knowledge and skills among consumers, including labelling and logo interpretation. These findings were supported by the results of the study on the functioning of the meat market for consumers²⁷.

The Short Food Supply Chains study cites several cases of misleading or wrongful labelling claims, which cause unfair competition. Protection against imitations by appropriate labelling information at EU level could reduce the risk of misleading consumers.

5.1. A specific labelling scheme

The Commission asked for expert advice when analysing the options for creating a labelling scheme²⁸.

Expert advice was clear: if a labelling scheme were to be created, it should:

- be optional for producers;
- avoid certification and accreditation procedures which are perceived as lengthy and costly;
- provide for clear eligibility criteria for products included in the scheme.

The experts suggested that a specific labelling scheme would only be beneficial if the scheme was integrated with or linked to other measures helping farmers find alternative sales channels. Such measures are available in the context of rural development policy, in particular: advice and information support, investments in physical assets; farm and business development; horizontal and vertical co-operation among supply chain actors and promotion activities in a local context; support for participation in quality schemes, and information and promotional actions.

When reflecting on a possible scheme, attention should be paid to the type of the supply chain. ‘Direct sales’ means sales by a farmer directly to a consumer, without intermediaries on the sales side. The aim of labelling information is to replace this direct communication in cases where it is not possible. The more intermediaries there are between the producer and the consumer, the more information that is typically transmitted in direct sales gets lost, and the more labelling information is needed.

²⁵ Special Eurobarometer survey: Europeans’ attitudes towards food security, food quality and the countryside, 389, 2012.

²⁶ Special Eurobarometer: Consumer Empowerment, 342, 2011.

²⁷ http://ec.europa.eu/consumers/consumer_research/market_studies/docs/mms_follow-up_study_2012_en.pdf

²⁸ A Working group was created under the auspices of the advisory group on quality of agricultural production.

The conclusion that may be drawn is that a labelling scheme restricted to direct sales would have limited impact.

5.2. An alternative approach

An alternative approach to a stand-alone certification scheme could be to reserve an optional quality term.

The impact assessment²⁹ concluded that the use of optional quality terms is an effective tool for farmers in communicating the value they add to products and ensuring that these additional efforts are rewarded.

Such an optional quality term could meet the main consumer expectations: to know where a product comes from and the characteristics of the supply chain. However, for legal reasons, an optional quality term would not entail a logo/symbol but words only.

The benefits of reserving an optional quality term would be as follows:

- it is considered a light instrument with a relatively low administrative, control and budgetary burden;
- it can provide protection against misuse, fraud and misleading practices;
- it opens the door to other EU support mechanisms, in particular support in the framework of rural development.

As regards the co-existence and continuation of national, regional and local labelling schemes, public or private, with a possible tool at EU level, there is a need to consider how such co-existence could be ensured and whether this would lead to increase complexity for consumers.

6. CONCLUSION

Local farming and direct sales are a reality within the European Union and will continue to be part of European agriculture. This report has shown the following:

- There is a demand for a genuine farm product sold in short food supply chains, as well as the need to identify it.
- There are large differences among the Member States with regard to development of direct sales which are likely due to national and regional differences in farm structures, distribution channels and cultural differences.
- As detailed in the Commission Staff Working Document, the development of short supply chains faces numerous challenges which should be addressed with tools other than a labelling scheme. There are a number of instruments available at EU and national level, but these are not applied consistently.

²⁹ Agricultural product quality policy: Impact assessment Annex A(II): Marketing standards, 2009, available at: http://ec.europa.eu/agriculture/quality/policy/com2009_234/ia_annex_a2_en.pdf

Stakeholders consider that some EU rules impede the development of local farming.

- A possible new label should be simple and unburdensome for producers while at the same time being controllable and ensuring sufficient credibility for consumers. It should also aim at reducing the risk for consumer confusion although existing EU legislation if correctly enforced allows action to be taken against misleading practices.
- A new label could add value to products generated from local agriculture if it went beyond direct sales and if Member States were to ensure that it is integrated with or linked to other measures.

In this report, the Commission has provided factual elements to facilitate a debate on whether a new EU label should be considered as well as on the broader issues of local farming and direct sales. A set of questions is attached in the Annex to this Report to steer this debate.

The Commission invites the European Parliament and the Council to discuss this report and provide their views.