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**Macro-level analysis of food supply  
chain dynamics and diversity in  
Europe**

**Synthesis Report**

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*SUS-CHAIN deliverable no. 10*



# **Macro-level analysis of food supply chain dynamics and diversity**

## **EUROPE**

*SUS-CHAIN WP2 Synthesis Report (deliverable 10)*

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## **Country Abbreviations**

BE	Belgium
CH	Switzerland
DE	Germany
IT	Italy
LV	Latvia
NL	Netherlands
UK	United Kingdom





## **1 Introduction**

This synthesis report is based upon the seven individual partner country reports completed as part of SUS-CHAIN WP2. It describes the 'State of the Art' with respect to our understanding of the dynamics and diversity of food supply chains (FSCs) in Europe (as represented by the countries within the Suschain project) and, together with the synthesis report of WP3 (consumers' attitudes towards sustainable food products), contributes towards Milestone 2 within the overall Suschain project. The report is also intended to feed into WP1 (development and fine-tuning of food supply chain performance indicators), WP4 (case study methodology), and WP7 (recommendations).

The stated objectives of WP2 were to:

1. Establish an overview of the territorial diversity of the socio-economic dynamics of FSCs regarding sustainability and transparency in relation to their socio-institutional environment, including:
  - a. approaches to and organisational forms of FSCs;
  - b. policies and regulations with respect to sustainable food production in general and FSCs in particular;
  - c. stakeholder perceptions of and involvement in FSCs.
2. Assess the general performance of FSCs in terms of sustainability, transparency, and trust.
3. Identify major bottlenecks to increasing sustainability within FSCs.

Specifically, this report will:

- Outline the policy and regulatory framework within which food supply chains operate;
- identify some major driving forces for change in the food supply chain, with a focus on similarities and differences between countries or European regions;
- stress the diversity of approaches, socio-economic dynamics and socio-institutional settings with respect to food supply chains;
- identify major bottlenecks and opportunities for enhancing the performance of food supply chains;
- highlight initiatives which reflect the diversity of food supply chains across Europe and develop a typology based on those initiatives.



## 2 The regulatory and policy environment and institutional setting

The Common Agricultural Policy (CAP), the framework of which was established by the Treaty of Rome in 1958, dominates agricultural policy in the European Union. Although the original purpose was to increase agricultural productivity, during the 1980s it was increasingly criticised for failing to meet the changing circumstances of agriculture. Reforms to the CAP such as the Macsharry reform of 1992 and Agenda 2000 developed against a background of financial and political pressures, namely the cost and food surplus implications of EU enlargement and the need to meet World Trade Organisation (WTO) commitments, and social and environmental pressures, in particular the impact of industrial agriculture on the environment and rural society. The perceived fundamental flaws of the CAP led to proposals for a so-called *European Model of Agriculture* in the Amsterdam Treaty of 1999 which sought to realign existing commodity-based payments towards an expanded package of rural development measures. This culminated in three major phases of reform, the CAP Reform of 1992, which established an agri-environment policy for the EU and Agenda 2000. In 2003, further reform of the CAP was agreed on in line with the overall objectives of Agenda 2000, which aimed to better balance support by decoupling direct payments and strengthening rural development.

This section provides an overview of the policy, regulatory and institutional context that has emerged at European, national and regional level. The development of the policy framework is explored insofar as it impacts on sustainable food production and rural development in general, and FSCs in particular.

### 2.1 Agri-environment and rural development programmes

Throughout the period up to the 1992 CAP reform, the industrial agricultural model of agriculture was a feature of most of the countries involved in the study, although, as in many other instances, **Latvia** is an exception. Guaranteed markets and prices (irrespective of demand) for most commodities meant that agricultural producers were isolated from the market for their products. Whilst production was below overall consumption, budgetary and political pressures for change were not excessive. However, food surpluses and their associated costs, rising concerns from environmentalists and consumers about the adverse externalities of exclusively productionist policies, and pressure from the world trade organisations to abolish subsidies led to a changing policy agenda from the 1980s.

The drive towards a more sustainable agriculture at national and regional level was facilitated by (or in some cases pre-empted) the 1992 reform which saw the introduction of both 'mainstream measures' and 'accompanying measures', most notably the agri-environment programme (EC 1992) which for the first time provided direct support for an array environmental objectives at EU level. At the same time, **Switzerland** introduced the PER, replacing production payments with direct payments linked to environmental objectives. In terms of food production, these measures provided support to encourage methods which adopted less intensive techniques, for example, the reduced use of fertilisers, or maintenance of reductions already made, as well as the introduction or continuation with organic farming.

The first structural measure to take into account environmental concerns was the Directive 75/268/EEC on less-favoured areas in 1975 (EC 1975). Subsequently structural funds aiming at a better integration of the agriculture, the environment and the rural economy were made available in 1988, modified in 1993 (EC 1993). The key to this integrated approach to rural

development was an attempt to break down the traditional distinction between rural development policies and sectoral policies for agriculture and acknowledged the dominant influence that agriculture exerts on the rural environment as well as its varied role over and above the production of food.

Funds for rural development were initially provided through regional programmes (Objectives 1, 5b, 6), horizontal actions (Objective 5a), and LEADER. The Rural Development Regulation which came into force in 2000, established a national/regional framework for a sustainable and integrated rural development policy governed by a single instrument to ensure better coherence between rural development and the prices and market policy of the CAP (EC 1999). This regulation incorporated and supplemented the above measures, including the agri-environment programme. The strengthened rural development policy of 2003 provides specific new elements of support, for example, to promote food quality, to assist producers in meeting standards and foster animal welfare, rather than focussing on production.

Outside the EU policy framework, a number of countries have made use of other national and, in some cases, regional legislation to support a more sustainable agriculture and rural development, for example, Italy's agricultural and rural policy targeted some support at small family farms.

Objectives 1 and 5b (now under Agenda 2000, Objective 1 or 2) were very much concerned with facilitating the structural adjustment of specific rural areas and reconnecting farmers with markets. These designations have embraced many rural areas across Europe and the programmes for such areas often include policy instruments that affect local food production, processing or distribution. Horizontal (non-region specific) schemes such as the Processing and Marketing Grant (EC 1990) have encouraged the development of new outlets for agricultural products, in particular through facilitating the production and marketing of new products or of high-quality products. Switzerland also has legislation to promote the sales of agricultural products through improved marketing communication. Rural Development Plans (RDPs) have been implemented regionally in all EU countries in the study apart from the Netherlands where there is a single national plan.

Part of the new rural development agenda has been the promotion of more locally based, so called 'bottom-up' development. The LEADER Community Initiative, with its origins in the early 1990s has been seen as the mechanism through which more locally based approaches to development have been nurtured. Within LEADER, local identity manifested in tourism, foods, craft products etc. has been a central platform in strategies for development.

## **2.2 Organic farming**

The development of the market for organic food has been largely consumer-led, however in recent years, organic farming has emerged as one of the key themes in European agricultural and regional policy in recent years.

Council Regulation, (EEC) 2092/91 created, for the first time, a common legal definition for all fresh and processed organic produce of plant origin covering all EU member states (EC 1991). This was later supplemented by a regulation for organic livestock production. In 2000, the Commission introduced a logo to be used on a voluntary basis by producers whose systems and products satisfy EU regulations.



The use of the agri-environment programme provides an example of how more sustainable farming systems can be supported by CAP reform. The 1992 agri-environment programme gave a significant boost to the organic food and farming sector by providing a framework for conversion and maintenance support. By 1996, all the EU countries in this study (**BE; DE; IT; NL; UK**) had introduced policies to support organic farming within the agri-environment programme (Lampkin *et al.* 1999), although UK funds, up until recently, have been limited to the conversion period only. In **Switzerland**, the 1995 agricultural law provided similar support for both organic and integrated farming, and also animal friendly and free-range livestock production. Prior to this, the EU's extensification programme to reduce commodity surpluses provided the basis to adopt less intensive agricultural practices, and in 1989 **Germany** took advantage of this to introduce support for conversion to organic farming, and some Swiss cantons introduced support for conversion to organic farming from 1989 (Schmidt 1994). Legal standards for organic production were finalised in Latvia in 2003 allowing organic producers to participate in the supply chain with certified products.

A number of countries (among them **Belgium, Germany, the Netherlands**, some regions in **Italy**, and the **UK**, where there are separate plans for the four UK regions - England, Scotland, Northern Ireland and Wales) have implemented or are in the process of implementing so-called Action Plans for organic agriculture which broadly aim to provide an integrated approach to support of the organic sector by targeting a range of actions which go beyond production to include aspects such as market development, the harmonisation of certification, technical advice and extension and research. The ultimate aim is to facilitate a more integrated development of the organic food supply chain. In 2002, the German parliament adopted The Organic Farming Act, which pools specific executive functions for organic farming in Germany, whilst improving the efficiency of the implementation of the EU Regulation. The European Commission is currently preparing a "European Action Plan for organic food and farming" which is due to be finalised in 2004.

### **2.3 Regional and quality food marketing and promotion**

As mentioned above, EU rural development measures offer support for initiatives to improve marketing and processing of agricultural products as well as for the production and marketing of new or of high-quality products, for example, the formation of collaborative groups to market quality products, marketing of organic products, consumer and quality assurance schemes, speciality foods, establishing farmers' markets, regional or local branding of foodstuffs. In all the EU countries in the study, their Rural Development Plans (RDPs) offer grants for food processing and marketing, although the **Dutch** plan, along with some regions in Italy, is does not mention support for the marketing of quality agricultural products. In 2002, support for regional processing and marketing became a new component of the **German** RDP at federal level and it also provides a framework for support in the area of quality production and short supply chains (both in the context of the improvement of marketing structures and marketing) with an emphasis on organic and regional produce. Similar kinds of support were already available earlier at regional level though specific Länder programmes. Many **Swiss** regions have measures in place

to support the promotion of food from their region. Moreover, 5% of the national Swiss budget for the promotion of sales of agricultural products is allocated to projects promoting regional food products.

National and regional level organisations have also played a role in promoting local and regional food products. In the **UK**, the Countryside Agency, through its Eat the View campaign, has tried to reconnect consumers with food production by developing “local marketing and branding initiatives which utilise unique features such as production systems, locality, breed, landscape and local customs in the promotion of products” (Countryside Agency 2002). In **Italy**, through the process of devolution local public bodies have gained new competencies and responsibilities in the design and delivery of local development plans and have played a significant role in promoting local and quality food production and short supply chains.



Other European legislation (PDO/PGI/TSG<sup>1</sup>) offers protection of the name or product type and/or place of production for producers subject to scrutiny and approval (EC 1992). As part of the 1995, agricultural law, **Switzerland** has a specific regulation for Protected Designation of Origin (PDO), which is similar to the EU regulation in order to facilitate trade. Producer group co-operatives and a history of regional culture and food consumption are major factors in determining the existence of PDOs and PGIs in particular areas. Such measures have only been adopted for relatively few food and drink products in the **UK**, but are much more widely adopted in EU countries

with more local or regional specialities, especially **Italy** and to a lesser extent **Germany**, and also France which is not included in the current study. Four products have PDO status in **Belgium**, all in Wallonia perhaps reflecting its closer relationship to France.

As part of the 2003 CAP rural development reforms, measures were introduced to provide for incentive payments for farmers who voluntarily participate in EU or national schemes designed to improve the quality of agricultural products and production processes and which give assurances to the consumer on these issues, including PDOs and PGIs, organic products, and quality wine produced in specific regions. Support is also available for producer groups for communication activities that inform consumers and promote the products produced under quality schemes.

## 2.4 Food safety

In 2002, the EC transformed its food law to improve food safety and traceability along the food chain (EC 2002). Supported by the recently established European Food Safety Authority, the general principles of food law now apply to every stage of production, processing and distribution of food and also to the production and distribution of animal feed.

Prior to this, **Belgium** had already introduced the national *Sanitel* system for livestock production ensuring traceability of every animal or groups of animal throughout its progression along the food supply chain. A new law was implemented in November 2003 in Belgium which requires the respective chains to ensure food traceability, while the government remains responsible for controlling the overall process. A recent national law introduced in **Italy** in 2001 also contains measures concerning food safety matters and traceability. Transparency in food production and the highest professional standards have become key objectives of its new agricultural policy. In

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<sup>1</sup> PDO: Protected Designation of Origin; PGI: Protected Geographical Indication; TSG: Traditional Speciality Guaranteed

2001, the new state “*Bio-Siegel*” for organic products was successfully launched in **Germany** to try and ensure transparency and quality assurance in its ‘over-labelled’ organic sector.

In **Latvia**, since the collapse of the Soviet Union and collective farms, there have been many problems with legislating on new rules for farming. According to a new law on food supply and distribution adopted in 1998, all food producers and processors have to achieve certain quality standards and get certification in order to participate in agricultural business.





### 3 Structure and governance of food chains in the SUS-CHAIN countries

The purpose of this chapter is to present a comparative analysis of the conventional agrifood chain structures in the SUS-CHAIN countries. Where possible, we have compared variables of chain organisation such as chain length, governance, traceability, and value-added, from the national WP2 reports, supplemented by other data sources where necessary. For selected chains, we also briefly discuss the implications of chain structure and governance from the perspective of sustainability.

#### 3.1 Importance of food within household expenditure.

The contribution of food to total household consumption varies from a low of under 10% in the UK to around 25% in Latvia (Table 3.1). The Latvia example is a classic reflection of the lower per capita incomes, though the relative contribution of food expenditure is declining rapidly towards western European averages. But the differences between the extremes of the UK on one hand (9.7%) and Italy on the other (14.6%) reflect different food cultures and different expectations of freeing up disposable income from within the household food budget.

What the figures hide is the shift from preparation and eating food at home to disassembly of meals, purchase of ready meals, and eating out, which has led to strong growth in the food service sector. Within 15 years, the value of eating out of home and eating at home are expected to be equal.<sup>2</sup>

Table 3.1. Food and non-alcoholic beverages, at current prices, as percentage of total household consumption expenditure

Country	1998	1999	2000	2001	2002
Belgium	13.8	13.1	13.0	12.9	13.5
Germany	12.1	11.9	11.9	12.3	12.1
Italy	15.3	14.7	14.4	14.4	14.6
Latvia	31.71	28.47	25.5	Not available	Not available
Netherlands	12.1	11.6	11.1	11.2	11.2
Switzerland					
UK	10.3	10.0	9.7	9.7	Not available

Source: Eurostat

#### 3.2 Chain organisation and governance

##### 3.2.1 The end of 'national chains'

The first point to make about the structure of food chains in the SUS-CHAIN countries is the extent to which it makes sense to talk about *national*/FSCs. The Netherlands report makes the point that both the national food *supply* function as well as the *destination* are disconnected from Dutch agriculture and from the Dutch food market. After all, the greater part of the consumption of Dutch agricultural products is not domestic (around 75% is exported) and a growing part of supply and processing is concentrated in multinational companies like Unilever, Nutreco and Numico. Unilever is a Dutch company, but gets 98% of its agricultural raw materials from abroad.

<sup>2</sup> Grievink J-M (2003). The changing face of the global food supply chain. OECD Conference on Changing Dimensions of the Food Economy: Exploring the Policy Issues. February 6-7, 2003, The Hague, Netherlands

Even for countries that are not global agrifood players such as Latvia, 'national' FSCs are being by-passed by cross-border sourcing of retail chains. When regional procurement replaces national procurement, farmers and food manufacturers can be completely marginalised. The Lithuanian company VP Markets, for example, is now the biggest supermarket chain in the Baltic states; it is market leader in Lithuania (30% market share) and Latvia (22% MS) and is looking to expand into Estonia, Poland, Ukraine and Russia. Economies of scale from regional sourcing are an integral feature of the internationalisation of retail.

### 3.2.2 Value-added

The value added by primary agricultural production within the SUS-CHAIN countries has been presented in different ways. But what is clear is that the share of farming in gross value added is low and declining (Table 3.2); the UK figures show that farming adds only 14% of value to the UK food chain, compared with over 30% each by retail and catering.

**Table 3.2. Gross value added by different steps of national food chains**

	Germany	UK*	Italy
Agricultural inputs			€ 15.1
Domestic agriculture	€ 30.6 bn	£ 7.9 bn	€ 30.8 bn
Assembling wholesale trade	€ 4.9 bn	£ 5.5 bn	
Food handicrafts	€ 34.8 bn		
Food industry	€ 97.2 bn	£ 19.2 bn	€ 23.1 bn
Food wholesale	€ 154.5 bn	£ 7.2bn	€ 63.6 bn
Retail trade	€ 117.2 bn	£ 17.4 bn	
Catering	€ 84.6 bn	£ 18 bn	
TOTAL		£ 56 billion	

\*Source: country WP2s; UK figures updated—Q4 2003

### 3.2.3 Retail structure

In Germany and the UK, the transition from small 'corner' grocery stores and craft outlets (bakeries, butchers) to one-stop shopping in supermarkets is almost complete, even in rural areas, leaving giant retailers to fight it out in a market that is stagnant or experiencing food price deflation. The Belgium report states that the number of food stores halved between 1980 and 2001. In Germany, the most competitive and unforgiving market, the market share of 'deep discounters' is growing, and is expected to account for 40% by 2007.

Market shares of the top five retailers are listed in Table 3.3. When only food is taken into account, these shares can increase even further—the Netherlands report that the four major retailers sell some 85% of all food in the country.

**Table 3.3. Market share of top 5 retailers in SUS-CHAIN countries (2003)**

Country	Market share	Companies
Belgium	80.0%	Carrefour, Delhaize Group, Colruyt, Metro Group, Aldi
Germany	64.0%	Metro Group, Rewe, Edeka, Alsi, Schwarz Group
Italy	38.9%	Coop Italia, Carrefour, Auchan, Conad, Esselunga
Latvia	46.1%	VP Market, Ahold. Kesko, Reitan
Netherlands	68.4%	Ahold, Casino, Metro Group, Sligro, Aldi
Switzerland	89.5%	Migros, Coop Schweiz, Manor, Rewe, Denner
UK	55.9%	Tesco, Sainsbury, Wal-Mart, Safeway, Marks and Spencer

Source: M+M PlanetRetail

Italy retains a large number of specialist independent retailers; small wonder that Italy is among the three most attractive countries for growth of modern retail according due to the fact that “the number of stores operated by global retailers is currently limited and it has a relatively benign competitive environment and large market size.”<sup>3</sup>

The Latvia report notes how the rapidly growing supermarket sector cooperates primarily with big processing industries, large growers, and importers, “thus acting as driver towards market concentration and expansion of conventional chains. Small processing industries and producers have difficulties in relations with supermarkets for various reasons (e.g. difficulties to provide regular supplies of consistent quality products in large volumes).”

### 3.2.4 Characteristics of supermarket-driven chains

Increasing supermarket purchasing power is exerting downward pressure on processor and primary producer margins. Retailers are increasing their strength relative to even the largest brand marketers such as Nestlé and Unilever. Sales of unprocessed food are usually ‘own brand’ (ie private label), meaning that primary producers have very little market power. The major multiples are also rationalising their supplier bases. In this system of ‘preferred suppliers’, supply chain management and vertical coordination, *it can be a mistake to equate ‘conventional’ with ‘long’ chains*. For example, the Latvian reports states that, in line with advent of big retail stores over the past 5 years, most of the big fresh fruit and vegetable producers now deliver their production directly to these supermarkets—ie the mainstream chain is extremely short. The Netherlands report also point out that the big retailers organise their supplies directly, through obtaining an increasing part of their supplies through contract farming.

### 3.2.5 Standards and chain governance

Most reports note a decline in role of the state and the rise of *private regulation* of chains via *standards* (eg hygiene and compositional quality), codes of conduct, seasonality requirements and transport and collection options. The changing marketplace has resulted in many buyers being able to demand different requirements of their individual producers compared with the previous arrangements dealing with wholesale markets. Certification according to integrated chain strategies such as Integrated Quality Control (IKB), KCR and NEN-ISO in the Dutch meat sector

<sup>3</sup> IGD Press Release, 16/01/2003

demonstrates the trend towards the introduction of basic quality and transparency standards in the dominant industrialised FSCs.

Retailers endow themselves with private certification schemes either to ‘fill a governance gap’ left by weak state regulation and in response to consumer concerns about food safety crises, or, viewed less generously, to push costs and risks up the chain to primary producers. Both interpretations are probably correct. The outcome is that retailers act as *gatekeepers*, and may decide on the behalf of consumers that ‘there are too many labels’ (as in Switzerland) and thereby limit the growth of PGO and PDA labels, or as noted in the Italian report, that consumers are asking for more sustainability criteria, including ‘typicality’. The emergence of *private supply chain governance* has potentially severe implications for how producers view standards for ‘sustainability’, when standards such as for animal welfare are imposed without negotiation and without any price or market access premiums. The changing nature of retailer-driven food chains means that standards, including standards for sustainability, can be pushed up the chain as an unfunded mandate.

Growth of supermarkets in Italy has been built around marketing strategies that go beyond price and convenience, in the defence of *trust* and *quality* through *traceability* systems especially for private labels; thus supermarkets can insulate themselves from food scares and animal health crises, or even gain market as a result. It is noteworthy than the more anonymised system in Germany reported that in the beef and meet sector, some shifting of buying habits back to craft outlets (butchers) occurred during the BSE crisis, as these outlets “are accorded more confidence than the anonymous points-of-sale.”

### 3.2.6 De-commodification strategies

Since the mid-1990s, supermarkets and food companies have seen benefits from internalising ‘alternative’ chains such as ‘organic’, ‘Fairtrade’ and ‘local’ branding, as a means to both improve reputation and de-commodify sectors with low profit margins. The German report states that the large food processors and retailers are more and more interested in the new trends towards regionalisation and environmental friendliness, including “the rapidly increasing engagement of very large supermarket chains in the organic food market.” The UK report states that large integrated producers, eg of poultry, eggs or FFV, have been very adept at adapting to more ‘sustainable’ production systems. In the Netherlands and the UK, multiple retailers such as Tesco or Albert Heijn have successfully grown the organic niche; supermarkets now account for 48% of the organic market in the Netherlands, much sold through the Albert Heijn company. The Italy report also stresses how supermarkets have marketed the enhancement of typical and traditional characteristics, which Italian consumers strongly associate with quality. This is part of the wider tendency in Italy towards a growth of regional production-consumption networks.

### 3.2.7 Not a an inevitable path to consolidation

The Latvian report states that while the process of rapid development and institutionalisation of ‘modern’ food chains in Latvia continues between large commodity producers, large processing industries and large retail companies, there remains a dynamic sector based around chains that “are structurally similar to those re-emerging alternative food networks in many Western European countries”. Applying the term ‘traditional’ to these chains risks underestimating their adaptability and dynamism—other regions which have seen a rapid growth in supermarkets, such as Latin America, have shown that the ‘traditional’ sector of street markets and small shops can innovate in quality and presentation to provide a competitive alternative to the centralised ‘modern’ chains.

### 3.3 Dairy FSCs

Dairy is a very important sector in all SUS-CHAIN countries, and has become highly concentrated in many of them, especially for the processing of milk. Cheese, which takes the bulk of milk supply (nearly 70% in Italy) is more fragmented. In the Netherlands the number of processing companies decreased from 31 in 1990 to 13 in 2002. The two biggest companies in the Netherlands, Friesland Coberco Dairy Foods and Campina, both co-operatives, have 84% market share in milk processing. In Switzerland, the eight largest milk processing companies control 96% of the market. Even in Italy, the production of fresh milk and related products is very concentrated, with a great number of mergers and acquisitions still ongoing. The other side of this coin is the situation in Latvia, where the milk processing industry is excessively *fragmented*. There are 53 enterprises, which results in a lack of overall competitiveness of the national dairy sector.

The German report comments on the imbalance of power that has grown between dairy producers and processors—there are no real big players in milk production with enough weight to compete with the huge dairies of the conventional sector. The level of producer cooperative ownership of milk processing—which ranges from about 10% in the UK to the majority in the Netherlands, seems and offer very little difference in the farmers' position when the market is oversupplied; cooperatives such as Friesland Coberco Dairy Foods and Campina “resemble major corporations”. As the German paper points out, these trends of reduced farmer negotiation power and downward pressure on price also weighs on alternative chains through widening the gap between conventional and organic milk. Consolidation in processing has had to follow retail, in order to retain some countervailing power and meet retailers' price and quantity requirements. The huge scale of business between concentrated processors and retailers introduces high risks into the market. In the UK, when third-ranked Robert Wiseman recently lost a EUR105m contract with second-ranked supermarket Asda Wal-Mart in May 2004, when the supermarket chain made the decision to buy its milk solely from giant Arla Foods.

The shift of dairy retailing to supermarkets (Table 3.4) has led to the demise of some chains such as home delivery and specialised milk shops. Some of these changes are astonishingly rapid; in the UK, for example, sales of cheese by independent grocers declined by 50% in the 1998-2000 period.

**Table 3.4 Multiple retailers' dominance over dairy chains (% sales)**

	Consumption milk and products		Cheese	
	UK	NL	UK	NL
Supermarkets (incl. Co-ops)	76.2	96.8	94.0	81.1
Doorstep delivery	23.8	1.5	-	-
Special stores, markets, others		0.1	6.0	18.9

Source: Country WP2s

Dairy is one of the most regulated and structured agricultural sectors, and from a *sustainability* perspective, this regulation in support of uniform milk quality and food safety has in most countries been part of the push to high productivity, standardisation of logistic processes and scale enlargement. As the Belgian report states, “concentration, cooperation and internationalisation are the keywords in the dairy industry” rather than building alternative chains based on sustainable production. State regulation has also gathered around minimising externalities (nutrients, environment, animal welfare) from mainstream production, supported in

the case of the Netherlands by covenants between dairy industry, government and social organisations. But this form of legislation has limited contributions to sustainability and rural development, in terms of a diversity of extensive production systems.

The German report states that extensive milk production tends to be relatively disadvantaged economically in the present framework, and has lost market share. Within a very price-sensitive market, there are only a few gaps where initiatives such as branding for milk from outdoor-grazed cows, direct marketing, regional brands, or organics can operate. Italy is something of a contrast, although production is concentrated in the most fertile areas, and the milk processing sector is highly concentrated. Italy is one of the most important producers in the EU of origin-labelled (PDO and PGI) cheeses with their own restrictive standards; these represent the biggest share of national output. State legislation for hygiene standards is designed to avoid any crises in PDO production. In Switzerland, national policy supports collective action, provides a baseline of environmental protection through highly innovative cross-compliance measures, and delimits mountain zones for special support.

### 3.4 Fresh fruit and vegetable FSCs

The level of private sector governance is particularly high in fresh fruit and vegetable (FFV) chains, but the level of supermarket dominance varies considerably, from 38% in Italy to over 80% in the UK and Netherlands (Table 3.5). Rapid consolidation of these chains is taking place in Germany from a relatively dispersed base. Even in Latvia, the growth of multiple retailers has dramatically changed fresh produce marketing, with the big producers now delivering their production directly to the supermarkets.

**Table 3.5 Multiple retailers' dominance over fresh produce chains (% sales)**

	Italy	UK	NL (veg-2002)	Belgium
Supermarkets	38	83	85	75 by volume; 70 by value
Traditional retail	28	11	5	
Open air markets, hawkers	29	3	8	
Other channels	5	3	2	

Source: Country WP2s

FFV chains generally do not have a high degree of corporate concentration. There is much horizontal integration of production through cooperatives or producer associations, some of which sell direct to supermarkets. As the fresh produce chain is relatively short (in terms of numbers of intermediaries) in many countries, primary producers got involved in due diligence issues at an early stage. But there may be long geographical distance between consumers and producers; in the Netherlands, most of the consumption takes place in other European countries, so these are not 'national' FSCs. Much of chain governance for safety, quality and *sustainability* is private and retailer-driven, such as the EUREPGAP standards, or the *Flandria* label introduced by the auction houses in Belgium for environmentally friendly production. Dynamism, including the introduction of more 'sustainable' lines, has largely occurred within the mainstream chain structure. The UK report notes that industrial-scale suppliers to the multiple retailers are well placed to meet retailers' demands for organics, by establishing conventional and organic production systems within chain elements of logistics, quality control, and traceability.

A significant part of FFV production is in relatively intensive systems and often in controlled environments (glasshouses, plastic tunnels), creating a disjuncture between the naturalness of

products and the artificiality of production methods, especially since the widespread adoption of substrate as a substitute for soil. In NW Europe, labour shortages are a seasonal problem that regularly brings the sector into problems with the use of undocumented migrant workers. The Italy report notes that FFV allows the maintenance of a high number of farms, especially in the South, and therefore is an essential source of employment. If the more fragmented chains originating in the south of Italy do not meet the new requirements of retailers, there are likely to be serious rural development implications.

### 3.5 Meat FSCs

Consolidation in meat processing is a common theme; in 2002, the two largest slaughterhouses in the Netherlands (Dumeco and the Hendrix Meat Group, part of the multinational company Nutreco) accounted for 75 % of the total number of pig slaughters, and the three biggest slaughterhouses Dumeco, Weyl and Brada had a market share of 56% of beef slaughter. The trend is away from spot markets and towards integrated packer-processors contracting with dedicated producer groups to reduce cost and ensure traceability and consistency.

In some countries such as Belgium, meat remains a refuge for small retailers from the domination of supermarkets, but in the UK, that transition too is fairly complete (Table 3.6).

**Table 3.6 Multiple retailers' dominance over red meat chains (% sales)**

	UK (beef)	Netherlands (all meat)	Belgium	Italy (beef)	Germany
Supermarkets (incl. co-ops)	80	51	41	67	75
Non-household market		13			
Butchers, Special stores, others	15	14	35	36	25

Source: Country WP2s

The multiple retailers are the main governors of the poultry chain, which in all SUS-CHAIN countries is highly industrialised, vertically integrated; short, consumer-driven, and largely unbranded. The supermarkets' market share can be very high—almost 90% of the market by value in the case of the UK. Sensitivity to labour costs and standards means that domestic markets are easily undermined by imports, especially for processed product. This is clear in Latvia, where national self-sufficiency in poultry meat declined from 150% to 27% between 1990 and 2002.

From a sustainability perspective, similar trends were reported in all SUS-CHAIN countries. These are:

- Increasing regulatory demands from government (environment, welfare, etc.), processing industry and supermarkets (integrated chain management.) to boost consumer confidence. A disproportionate cost of the regulatory burden is falling on the smaller producers, distributors and retailers, often without negotiation, and especially affecting the survival of small and medium-sized slaughterhouses.
- Integrated chain control and management is a positive development for safety and traceability, but has limited effects on sustainability. Animal production still has image problems associated with the disconnection of production process from nature.
- As for dairy, the concentration of marketing structures tends to favour the concentration of cattle farming, while extensive cattle husbandry and grazing systems are constrained

and not able to maintain their income and employment levels. Price competition for bulk meat products in supermarkets may have a negative affect on sustainability.

- As butchers are often important for regional products, the market shift away from traditional butcher shops to supermarkets is likely to have impact on the local rural economies
- Higher added value at industry level does not imply a higher added value in the whole chain

But there are still parts of the market which are fragmented and successful in adding value through protection of craft systems. Italian pork production contains both 'tracks', with a split between large enterprises (especially in the North) with traceability as their emphasis, and small enterprises with emphasis on PDO and PGI production, including a remarkable 25 denominations of salt pork, with sales of EUR 7.2 billion and the recovery of some traditional races.

### **3.6 Cereal FSCs**

In contrast to fresh produce, meat and dairy, the cereals chains in all countries are characterised by rather neutral and quite distant relationships between the primary producers and the processing industry, and weak private sector governance. This may change as the quest for traceability and processing traits enters the market—these systems such as 'Integrated Chain Quality Management (ICQM) in Belgium are becoming conditions for market entry. Because this is not a buyer-driven chain, producers have looked to public policy rather than the structure of the industry (the millers, maltsters, feed compounders, processors or shippers) to explain problems of price. In Germany, the milling sector has undergone a significant concentration: in 2001 the seven biggest mills hold a market share of 57%.

Linkages between cereal farming and rural development are small and indirect, with relatively small multipliers in local economies due to the extensive, mechanised cultivation and low level of added value in the rural sector. In the SUS-CHAIN countries, there were few market signals reported for more sustainable production systems, as the produce is not destined for direct human consumption; much cereal production is tied into intensive animal production eg through feed wheat in northern Europe or irrigated maize in southern Europe.

### **3.7 Conclusions**

The same trends of concentration and private sector governance are visible across most chains, though there are bastions of regional food culture, as in Italy, and also in Latvia where a dynamic 'grey' food economy has endured. This consolidation in agrifood has big implications for share of risk and value between different chain actors. Furthermore, if we are looking for differences in 'sustainability' by comparing chain *length, criteria of 'sustainability'* (such as pesticide use, fairtrade labelling, commitment to organic produce..) between the 'mainstream' and 'alternative' chains, then the comparisons are not going to be clear cut.



## 4 Drivers of change in food supply chains

The institutional setting for food supply chains has undergone dramatic change in all the countries included in this study. No longer are producers the dominant actors; the balance of power has shifted firmly in favour of an increasingly concentrated retail sector whose main focus is satisfying consumer expectations and demands. This has occurred against a background of increased consumer concerns about the environment, food quality and safety along with a redirection of policy to move away from the industrial model of agriculture and take into account the broadening scope of agriculture.

This section seeks to draw out similarities and differences across the countries using a PEST framework which includes:

- **Political factors.** For example: the relative power and agendas of those actors involved within FSCs; the multiple retailers as arbiters of quality; the waning power of the farming lobby; the impact of NGOs; the sustainable development of FSCs; health and diet; food access; control within FSCs at various levels.
- **Economic factors.** For example: economic marginalisation; regional identity; falling farm incomes; globalisation and localisation; adding value; comparative advantage; acknowledgement of externalities such as 'food miles'.
- **Social factors.** For example: the individualisation of risk; changing perceptions of quality; the effect of food scares; ethical awareness of environmental and equity issues; food access; local identity; personal health; trust.
- **Technical factors.** For example: distribution; scale; GMOs; the Internet; vacuum packing.

### 4.1 Political

At European level, the reform of the CAP in 2003 shifts the form of regulation in the farm sector away from production support towards direct payments. It can be argued that such an approach will lead farmers to reduce levels of production, especially in more marginal areas and this could result in adverse knock-on effects in some areas. However, alongside the decline in production-oriented support, there has been an increase in the level of support for diversified enterprises on farms (and rural development), as well as a necessity to introduce agri-environmental programmes, which are likely to impact beneficially on the environmental sustainability of farming systems.

The drive to decouple European farm policy from production can be seen to be influenced largely by WTO imperatives, although the eastward expansion of the EU can also be seen as an influence, because of concerns relating to the affordability of the old CAP. There is a principal difference in food cultures between countries that have a history of more open trading and those that have protected their national agricultures to a greater degree stands out. The **UK** and the **Netherlands**, with their long histories of international trade and their colonial enterprise, appear to have advanced further down the route, which more willingly throws their farming and food sectors open to market forces. The impacts of globalisation have proceeded faster where there is a policy predilection towards more open trade and a national culture that has fostered farm modernisation and a commodity production approach to farming.

Clear policy differences exist in the special case of **Latvia**, until 1991 a socialist republic in the Soviet Union; now on the threshold of EU membership. Inevitably, the Latvian situation is coloured

by the massive extent of state ownership and by the problems of creating private companies from previously state owned assets and letting market forces rip in an agro-food sector that was struggling to reacquaint itself with markets.

The shift from an agricultural to a more rural policy is evident throughout Europe without exception, placing a new emphasis on opportunities for the development of sustainable food chains. However, as the **Belgian** report points out, the success of this process could be impeded by the fragmented nature of different political competencies. The acceptance of such a change differs and the precise configuration of the rural policy varies from country to country, but there is nowhere that has not experienced this trend and no-one who anticipates that it will not continue. In **Latvia**, the SAPARD programme of the EU has endeavoured to prepare the country for a more rural policy orientation after accession. In the other non-EU country, **Switzerland**, a more rural and more environmentally friendly agricultural policy is in place.

Food production and the utilisation of the countryside has become increasingly contested and political, incorporating a broad range of issues and interests, such as heightened consumer awareness of (the impact of) food production methods, a succession of food scares and associated concerns over food safety, nutritional issues, and environmental concerns. Fuelled by the emergence of strong public concern about food quality and safety and the emergence of a EU rural policy, the roles and spheres of responsibility of national government ministries are undergoing a process of restructuring or reorientation to develop a more integrated, regional approach to the development of agro-food systems, which addresses the needs of a broader range of rural and food stakeholders, in particular consumers. As the **Dutch** report puts it, its ministry has moved from a “farmers’ ministry” to a “ministry for consumer and citizen”. The **British, German** and **Dutch** ministries of agriculture have been replaced (or renamed) to encompass food safety and environmental responsibilities and/or consumer protection. Both the **UK** and **Belgium** have newly established agencies to deal with food safety and public health issues, whilst in **Italy** the roles of the Ministry of Environment and the Ministry of Health have become increasingly significant as far as food and agricultural policy is concerned. Although the Italian Ministry of Agriculture has apparently retained its influence over agricultural policy without major restructuring, this has been achieved by a change of focus that takes on board the changed circumstances of agriculture. In **Italy**, a much broader range of institutions is involved in the re-regionalisation of food systems and the policy integration is more regional than rural.

Against a backdrop of the diversification of agriculture and a shift towards integrated rural development, a process of territorialisation of policies has occurred. Regional governments and the local administrative level in both **Italy** and **Germany** have extended their roles beyond that of policy implementation and delivery to make a more strategic contribution. It is found in most highly developed form in Germany, where a profound restructuring of farming and food systems into a more regional model has underpinned FSC policy reform. Italy’s strong regional orientation in policy is reinforced by an existing strong identity for regional food and where origin of production is a strong signifier of quality. **Switzerland** also has a long tradition of decentralisation and the cantons have considerable decision-making autonomy. Even a country as small as **Belgium** can and has regionalised its farming and food policies, although this has been less influenced by the regional food agenda and more by the general evolution of the country’s institutional setting. Agricultural policy in the **UK**, with its strong tradition of centralised government, has also undergone a process of regionalisation. As in the Belgian case, at this stage this development is more a by-product of the country’s overall devolution process as opposed to a strategic change in direction for food and farming, although it has no doubt been influenced by the general trend towards integrated rural development in the regions and latterly the fall out from the UK’s Foot and Mouth crisis in 2001.

A significant policy difference is the extent to which FSC developments are seen holistically or as completely separate policy arenas. **Germany** and the **UK** stand out as taking a holistic and integrated view of policy for FSCs, what is described in the German report as a 'whole chain ethos'. The publication of the *Curry Report* (Defra 2002) in the UK and its demands to reconnect the production and consumption of food indicates a milestone in policy development. This message of reconnection might be pursued in a different way in Germany but the resonances of the policy are very similar. In other countries, the rather more traditional productivist sectoral policy for the farm sector still seems to prevail. The **Belgian** report notes how this strong production orientation remains as a major policy influence, and in the **Netherlands**, whilst there is no specific policy aim with regard to FSCs and rural development at national level, the willingness to engage in these issues is much higher at community or regional level.

The trend away from a producer-oriented policy setting is reflected in all countries, to a varying extent, in the waning influence of the traditionally powerful farming lobbies and unions in the policy making process. The one clear exception is **Latvia** where the *Latvian Agricultural Joint Consultative Council* (LOSP) uniting 48 agricultural organisations still has a significant role in policy making. **Italian** and, to a lesser extent, **Belgian** farming unions appear to have bucked this trend by moving away from a predominantly productivist ideology to embrace the concept of the multifunctional role of agriculture. Both **Italy** and **Switzerland** have reinforced the role of producers' associations and inter-professional bodies through legislation. Small-scale producers in general are politically less organised and represented in policy networks, but there are signs in the **Netherlands**, **Belgium**, **Italy** and, to a lesser extent, the **UK** that producers are (re)organising to regain the initiative by forming organisations that represent small-scale, regional or alternative methods of production, fostering greater collaboration between producers (and other rural stakeholders) so that they can take advantage of new marketing opportunities. Such developments represent new territory for these countries with their tradition of centralised policy making and food systems.

Simultaneously, other rural and food stakeholders and non-governmental interest groups are emerging as an important force in rural decision making processes. Increasing attention to the links between agriculture and other fields of activity such as tourism, the environment, health and food quality have progressively broadened the policy network. Some of these are well-established national organisations such as the **German** *Deutscher Verband für Landschaftspflege* (DVL), an umbrella organisation representing countryside conservation groups and *Legambiente* in **Italy**. International NGOs such as *Greenpeace* and *WWF* have also become heavily involved in the debate on food and farming, and, the *Slow Food* consumer movement has been particularly significant in Italy. In the **UK**, *Sustain* has emerged as a significant co-ordinating NGO over a relatively short period of time. It is an umbrella organisation for 100 NGOs with an interest in sustainability in the FSC from both a farming and health standpoint. At the same time, the Belgian report observes a tension between predominantly environment-oriented groups and other countryside inhabitants who are grouping together to preserve their traditional rural ways of life. This clash of interests is evident in both **Belgium** and the **UK** in the area of field sports such as hunting which, in the UK, is actively supported by the Countryside Alliance.

Some countries (**CH**, **IT**, **DE**, and to a lesser extent **UK**) have witnessed increased activity at a regional/local level to revitalise rural areas by building up networks involving a range of local actors. A strategy of localisation through intensified interaction and cooperation is perceived as a way to (re)empower rural actors (including producers) and provide a buffer against the forces of globalisation. This process has been greatly facilitated by an increasingly devolved administrative and political framework influenced by NGOs, and actions such as LEADER, whose projects are a

prominent and pan-European example of local partnerships that have developed throughout Europe. These partnerships and coalitions of stakeholders have emerged, sometimes endogenously but often with some public sector support, as a form of resistance to the globalising tendencies in economy and society. Some conflicts between the local, regional and national policies may, however, occur.

All of the country studies give evidence of a myriad of groups and initiatives, for example the **Regionen Aktiv** pilot programme in **Germany** (see box), constituted as co-operatives or other coalitions, some sectoral, some regional, some organic, although the extent and impact varies between countries. Even in traditionally unitary action states as the **UK** have witnessed the emergence of such activity. Most are trying to reassert local control over development processes and regain power and retain more value added in the region in question, although the extent to which this trend is embedded in the notion of 'defensive localism' as opposed to an actual shift towards sustainable and quality food production and consumption has been questioned (Winter 2003). Within LEADER there have been high grant rates, but unlike other measures, low volume spend. There is potential for additionality but the extent to which this is realised is questionable.

#### **"Regionen Aktiv – Land gestaltet Zukunft"**

#### **"Active Regions – Shaping Rural Futures"**

The German RA pilot programme, involving 18 model regions, seeks to establish rural areas that promote their own development independently and co-operatively as a model for the future. A main aim is to guide the agricultural sector towards higher quality and environmental compatibility, and away from a strategy that is geared to the lowest possible production costs and increasingly higher yields.

The improved marketing of sustainable agriculture is a common thread running through all 18 model regions (Knickel and Peter 2004), and effective regional co-operation arrangements in the area of processing and marketing of agricultural products are an important concern. The programme supports new initiatives in which various companies and business sectors within a region work together. Forms of regional co-operation, which have been demonstrated by the Agenda 21 processes, round table discussions or local action groups serve as examples to be emulated.

The RA initiative can be seen as a new future-oriented policy measure with a very high potential for policy-practice synergies (Knickel and Peter 2004). Stakeholders are the farming sector, consumers, taxpayers, citizens with food safety, environment and animal welfare interests, the food industry as well as regional level decision-makers and administrators.

<http://www.modellregionen.de>

An agenda which underpins much policy is the commitment to Rio principles for sustainable development and the articulation of sustainability through/under Local Agenda 21. In most reports this is an invisible presence, whereas it was highlighted in the **German** report as part of the new regionalisation ethos.

The policy drive to increase the safety of food and better regulate the food from a quality perspective aims to ensure healthy and safe food following a spate of food scares (especially **Belgium** and the **UK**), and the dramatic decline in consumer confidence. Partly as a response to this, agencies were established in Belgium (Federal Agency for the Safety of the Food Chain) and the UK (Food Standards Agency) in 2000 to restore public confidence in the food system through providing a science-based and objective assessment of risk.

The demand of consumers for higher quality and food safety has triggered new initiatives both from the government and market-middlemen in a number of countries. There is now greater emphasis on self regulation and the **Belgium, Italy, Netherlands** and **UK** reports all observe how responsibility for food quality control has shifted away from government and public health authorities, towards industry actors (mostly the major retailers). For example, in the UK, the 1990 Food Safety Act effectively gave corporate retailers “political legitimacy for regulatory control” within the food chain (Marsden and Wrigley 1996). The 2002 EU food law has reinforced this by placing responsibility on the food operator to ensure compliance. In essence, these regulatory changes exemplify a change from public to private interest regulation, which has resulted in the regulatory domain becoming more closely aligned with the consumption end of the food chain, rather than the production end (Marsden and Wrigley 1996). Growing concerns that the regulation of the food chain had favoured economic actors over the public interest, led to the formation of the Directorate General for Consumer Protection (DG-XXIV), or DG-SANCO, in 1997 and the EFSA now takes responsibility for food science in order to restore public confidence in the food system and to protect the public interest.

Some countries (**DE; BE; NL; UK**) mention regulations that can be counterproductive to the development of more sustainable food supply chains. These apply, in particular, to fields of activity involving shorter supply chains (farm shops, box schemes, farm butcheries, on-farm processing) that can be severely hampered by demanding hygiene and food safety regulations, and, in the case of organic food, packing requirements. Eligibility thresholds for grants such as the Processing and Marketing Grant in the UK exclude some smaller operators from accessing these sources of funding.

## 4.2 Economic

The dominant economic force is that caused by competition in a highly competitive market place. This competition is the motor of the market economy. As mentioned above, in many but not quite all of the countries, there has been a marked shift of power away from producers and processors to retailers. The European farm sector has lost some of its mantle of protection as the CAP has reformed and the policies for the farm sector have been drastically altered in the accession states and Switzerland in the last decade. This has brought market forces to bear with a vigour not previously experienced since before the Second World War in the UK, and for even longer in some of the other countries.

The main economic outcome in FSCs has been the decline in the number of farmers, the cost-price squeeze affecting the farm sector, major price pressure on processors and attempts to strip out costs of production and distribution in a drive for competitive advantage. Particularly in the retail end of the chain, but to a degree in processing, there has been a marked concentration of ownership, creating firms with very substantial buying power. Discount supermarkets, in particular in **Germany** and **Belgium**, are bringing increased pressure to bear on producer prices. These processes of consolidation and concentration are evident from Italy to Latvia.

Increased standardisation and concentration of power in the hands of major retailers raises concerns about the diminishing diversity of products and excluding smaller supply chains. Many supermarkets now deal with ‘preferred suppliers’, whereby suppliers are obliged to conform to the standards and specifications set by the multiples in order to have access to these markets. In **Switzerland** considerable efforts are undertaken upstream of the supply chain to develop production standards and control procedures. In the **UK**, there has been a growth of (private sector and NGO initiated) quality assurance schemes (QAS), which seek to positively differentiate food produce from the ‘norm’. However, despite being ‘independently’ established, many QAS do

eventually become linked with and in some cases dominated by the large retailers who may insist on sourcing through a particular QAS. In this way, standards for products that were initially earning a premium become 'normalised' and the minimum point of entry into the supermarkets. It has been suggested that these schemes are an attempt by the multiples to consolidate competitive advantage with a spin-off effect that responds to consumer's concerns (Marsden *et al.* 1997). A great deal is invested in registering and promoting PDO/PGI products. However, according to the **Swiss** report, PDO/PGI products are de-facto de-classified on the shelves of the retailers, as there is no legal obligation to mention or use the PDO/PGI logo on the packaging.

At the same time, whilst the concentration of the major retailers has a tendency to push towards greater industrialisation of the supply chain, it also forces producers to seek added value options, for example, by processing and marketing through alternative supply chains. In almost all of the countries there is a large number of small and medium sized enterprises (SMEs) and micro-businesses and a large number of small farmers, which create an almost dualistic industrial structure. In several countries, observers commented on the desperately difficult challenges of being a middle-sized firm (or farm) connected to the mainstream FSCs. The sharpness of the adjustment pressures in the farm sector can be seen in many countries as creating a search for alternative and usually shorter FSCs, over which farmers can exercise a greater degree of control.

A principal difference is the relative size of the alternative and traditional sectors. In some countries, such as the **Netherlands** and **Belgium**, this sector is very small indeed, probably at well under 2% of the market for food (although there is no clear definition as to what comprises the alternative food sector). In somewhere like **Italy**, the share of this sector is much larger, possibly as much as four or five times so. This re-regionalisation of food markets in **Italy** would appear to be largely a demand driven phenomenon, in contrast to the more policy driven approach in **Germany**.

In all countries, there is evidence of product differentiation and brand creation. Brands can be created by any chain actor, from biodynamic farmers, to food processors, to retailers and these may be producer driven, retail driven, demand driven or may be mediated by the state. Many smaller operators have sought to create value added and competitive advantage by capitalising on consumer demand trends through quality production and labelling, as well as labels of origin. Perhaps one of the most successful examples of this common to all countries is the organic sector. PDOs and PGIs are also a means of preserving regional traditions and economically marginal enterprises from international competition. Such measures are widely adopted in countries with more local or regional specialities such as **Germany** (where it is used more on a national level and less in the form of PDOs and PGIs), **Switzerland** and **Italy**, but even in a country like the **Netherlands** with its industrialised food systems, farmers are looking interested in PDO products such as Parma ham. The **UK** report suggests that demand for PDOs and PGIs is most likely to come from those businesses that see it as a good marketing opportunity, rather than as a means of protecting SMEs (Ilbery *et al.* 2000).

Major retailers and other industry players have also perceived a demand trend towards sustainable agriculture products and are looking for differentiation and higher value added options. In **Switzerland**, for example, the two main retailers have built up their own sustainable agriculture labels (either for organic products or integrated pest management products).

The extent to which there is transmissibility of production standards along the supply chain varies considerably between countries. In **Switzerland**, the branding strategies of the two major retailers have the potential to override new regional labelling initiatives, whereas in a number of

other countries, there is clear transparency whereby the product attributes are evident and transmitted all along the FSC. There is widespread use of supermarket 'own labels' (also for organic products) in the **UK** and **Switzerland** with the accompanying implications for decision-making and negotiation within the supply chain. The **German** report points to the lack of clear regulations on labelling which has led to the unsubstantiated exploitation of environmental, animal welfare, nutritional and health claims on food labels leading to lack of transparency and loss in consumer confidence.

The mainstream food sector in the **UK** has proved adept at taking up certain products from the alternative food sector and mainstreaming them. Organic food is perhaps the best example of this, although it has been suggested that the economic advantage of local or regional sourcing may drive certain changes in the food system for major retailers in the foreseeable future. **Belgian** and **Swiss** supermarkets have similarly taken up the mantle of organic food, whereas, for a variety of reasons, it is weakly represented in **Dutch** and **German** supermarkets, although in the case of the latter the situation is rapidly changing. In general, the **UK** big retailers have been keener to embrace (albeit at slightly different pace/time) the more sustainable forms of food product than some of their continental counterparts. This partly stems from close cooperation between UK multiples and some sections of the organic farming sector to increase availability and access, whilst **Germany** has a well-known tradition of marketing organic food outside the major multiples through well-established customised and, to a large extent, regionalised retail channels.

### 4.3 Social

There is no doubt that social factors strongly shape the course of FSCs. Societal pressure has put issues such as the environment, animal welfare and food quality high on the agricultural policy agenda and these demands have been recognised as new opportunities for many farm households. A principal socio-cultural difference is the extent of consumer attachment to regional food production. This is flagged as a key feature of the **Italian** food system. Although there are parts of the **Swiss** system that illustrate a partial consumer attachment to locally specific production, such demand constitutes a smaller proportion of the food system than in Italy. The **German** study also indicates how consumer surveys yield evidence of a strong desire for re-regionalisation of food. In the **UK**, amongst a minority of consumers, there is an ambivalent attitude to supermarkets and other large-scale elements of the FSC, and an increasing association between sustainability and locally produced food which has provided a context in which an alternative food sector has been able to develop. In the Flanders region of **Belgium**, consumers are apparently less interested in regional identity, while this approach has a certain success in the Walloon region where there is perhaps a closer association between origin and quality.

There is evidence that more sustainable products are conceptualised more in environmental terms in northern Europe and more in terms of local specificity of production in southern Europe. With only one southern European partner, it is difficult to get corroborative evidence, but the notions of 'specificity' and 'typicity' are much more strongly highlighted in the **Italian** report than any other.

Three general common trends stand out with respect to other social factors. First, many more people live in smaller households where more adults work, there is less time for meal preparations and more 'grazing' and snacking takes place than in the past. Second, increasingly affluent populations are spending a much greater proportion of expenditure on food outside the home. Third, there are now many NGOs operating from international down to local level that are

energising the construction of alternative food futures. Their existence is itself a manifestation of concern about the contemporary state of FSCs.

In spite of all the hype surrounding the development of the alternative sector and the renewal of traditional food systems, and interest in short chain marketing initiatives, there has been a remarkable willingness of the average consumer (if one exists) to embrace the conveniences of the supermarket. The inexorable rise of the supermarket system reflects its capacity to deliver a wide range of produce that the contemporary consumer wants or that he/she can be persuaded to want in a convenient place.

However, from a demand perspective, there is also widespread evidence of consumer distrust, which has arisen in different countries from different food scares, in almost all of which the large-scale food sector is implicated. The BSE crisis has cast a dark shadow not just over the red meat industry, but is seen as the prime example of where modern farming, feeding and meat processing practices have gone badly wrong. But, as noted above, behind the mistrust, there is still a remarkable willingness to use the large-scale sector with its enormous variety, its convenience and apparent low prices.

#### **4.4 Technological**

A number of technological factors have impacted on FSCs across all countries including the development of more efficient cool chains, allowing longer shelf life, easier long distance storage and the rapid advance of pre-prepared food technologies. Electronic tagging of food at reasonable cost, to be able to ensure traceability, is a core issue confronting large-scale processors and retailers. The **Italian** report notes a particular technical development in liquid milk, which allows a longer shelf life for the product. Whilst communications technologies such as the Internet have expanded distribution options for niche products, for example in **Italy** and the **UK**, this strategy has been successfully embraced by some of the major UK multiples creating an even more competitive environment for smaller scale operators. The issue of GMOs was mentioned as a factor in only four countries; the **UK, Switzerland, Germany** and **Belgium**, although in the case of the latter this was not judged to be important.



## 5 Areas of dynamism

### 5.1 Introduction

The purpose of this and the following sections is to identify areas of dynamism within the FSCs of the SUS-CHAIN partner countries with respect to improving their overall sustainability, and to identify the bottlenecks and constraints impeding this process. Clearly, these issues are closely interlinked and it is appropriate to read the two sections in conjunction with one another. It is acknowledged that the term 'sustainability' is fraught with problems (something that is being explored within WP1). Suffice it to say that it incorporates environmental, socio-cultural and economic dimensions.

### 5.2 Areas of dynamism – national

#### 5.2.1 Netherlands

Dutch national agricultural policy is more concerned with free trade and looking at the market for food in terms of economic sustainability, with relatively less policy acknowledgement of rural development issues, although there are differences between national and lower administrative scales. The Dutch food industry is large-scale and internationally oriented, and it is suggested that much of the Dutch FSC is operating at a European, if not a global level, often effectively disconnected from Dutch agriculture and the Dutch food market. Nevertheless, there has been a change in name of the Ministry of Agriculture, Nature Conservation and Fisheries, to Agriculture, Nature Conservation and Food-quality. I.e. a move from a 'farmers-ministry' towards a 'ministry for consumer and citizen'.

There has been a huge concentration in the retail sector, with the four major retailers handling 85% of all food sales. This has resulted in a growing concentration and normalisation within the FSC, as the corporate retailers have sought to ensure the safety of their food supply chains, as well as exerting fierce price competition. Industrial logic and private regulation initiatives dominate, often being in conflict with rural development and reducing the room for manoeuvre by smaller farmers: either they follow the rules laid down by the corporate actors, or they find an alternative route.

At the same time as this process of concentration, a myriad of new short FSCs based upon regional speciality, high-quality, and direct contact between the producers and consumers concerned have emerged, and they are acknowledged as involving the creation of new networks and identities. A major driver for the emergence of these alternative FSCs has been a cost-price squeeze on agricultural producers, coupled with a growing distrust of the mainstream FSC on the part of consumers. Food used not to be part of Dutch culture<sup>4</sup>, but increasingly it is, leading to a demand for 'quality' produce as consumers' critical awareness grows. On the other hand, consumers are also demanding convenience, which is being fulfilled by the corporate retailers who are increasingly providing 'quality' produce.

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<sup>4</sup> This is how it is described within the Dutch report, although of course culture (in its broadest sense) will always have had a pivotal part to play in the determination of FSCs. What is meant by culture in this context has more to do with the profile that food has within society, and the interest afforded it.

The pig sector typifies the Dutch FSC, and is very similar to the poultry sector. Currently, there is hardly any contact between farmers and processors on the one hand, and consumers on the other. Industrial interests and logic prevail over primary producer interest, and product specification is very much under the control of the large processors and supermarkets. Private quality initiatives are becoming the norm for acceptance to slaughterhouses and access to supermarkets (such as within IKB - integrated chain control and management). If the sector continues to compete only on cost, it is likely that cheaper foreign imports will mean the end of Dutch pig and/or poultry production. Societal demands are also starting to be taken into account, such as animal welfare concerns and manure issues. There is a real sense of crisis in the pig and poultry sectors of the Netherlands, although supermarket interest in organic production is seen to represent a possible opportunity.

Financially, potatoes are the most important crop for Dutch arable farmers and they are technically very efficient producers, but are struggling to compete solely on price. Like many other sectors there are two simultaneous processes occurring: standardisation and efficiency on the one hand, and the development of alternatives (intent on adding value) on the other. Similarly, the Dutch dairy sector is identified as being unable to compete solely on price in the future, so on the one hand it is seeking to reduce costs and standardise processes, and on the other to produce differentiated products. The organic differential has become minimal due to a surplus of production, with production having risen from 0.3% of milk sales in 1996 to 2.3% in 2000 due to a covenant between supermarkets, the dairy industry and government.

The question is asked: there are small FSCs and large FSCs, should the gap be bridged? Can they strengthen each other, or should mid-sized industries be developed? What is the balance needed? FSCs are dominated by financial capital, what about social, ecological and cultural capitals?

### **5.2.2 United Kingdom**

The growing primacy of multiple food retailers is the major dynamic within the UK FSC. This, coupled with increased concerns about food safety, traceability and quality, has led to changes in the food chain. The major retailers are sourcing their products from preferred suppliers, who in turn have groups of designated producers supplying them to particular specifications. The dominant trend in FSCs in the UK is one of concentration, specialisation and normalisation and the emergence of oligopolies, most noticeably at the retail end of the food chain, but also in the food manufacturing sector. This trend is both in terms of food safety issues and the fulfilment of 'due diligence' (such as within EurepGap), but also in terms of quality differentiation and the growth in (largely private sector) QAS, wherein the large retailers again put pressure on their suppliers to conform to particular QAS if they wish to supply them. For example, within the egg sector many retailers will no longer accept eggs that do not carry the Lion Mark (or the RSPCA's 'Freedom Food' symbol). From the retailer perspective this is in order to raise consumer perceptions of the quality of the produce in their store, but it has also meant that those producers and processors not operating within supermarket strategies are struggling across many sectors, mainly because of the contraction of alternative retail outlets such as small independent shops.

Within the pork and beef sectors, competitors both within the EU and the wider global marketplace have considerable production advantages over UK producers, meaning that British producers are unlikely to be able to compete on the world market. They must therefore positively distinguish their produce, or market it in a different way. There has been a generally low level of branding and promotion, although this has been changing since the late 1990s. Some marketing groups specialise in regionally identified produce, such as the Llyn Beef Group in Wales. The

major retailers are also coming under increasing political pressure to source domestic meat, rather than imports. This is starting to happen, with Sainsbury's announcing in 2002 that it aims to stock 100% British sourced meat and dairy products by January 2004. PDO/PGI are seen to offer some possibilities for sustainable FSC initiatives, although they are perceived more as a marketing opportunity, rather than as a means of preserving traditional or artisan production systems (as they are in Italy). Large integrated producers have often been very adept at adapting to more 'sustainable' production systems, such as with organic production and free-range eggs (e.g. Deans Foods).

Over the last decade, the prevailing ideology regarding FSCs in the UK has been to source from anywhere in the world and to remove barriers to free trade. A counter-trend has been the emergence of alternatives, which in economic terms are comparatively small, meaning that it is critical to understand their capacity to grow, particularly in the face of their possible appropriation/absorption by the mainstream actors.

Institutional and policy changes are having/will have a major impact on the UK FSC. Firstly, a change from the Ministry of Agriculture Fisheries and Food (MAFF) to the Department for Environment Food and Rural Affairs (DEFRA), signalling a move away from farm sector dominance to a more broadly-based rural agenda. Secondly, the Curry Report (2002) actively promoted the reconnection of farming, the food processors, retailers and consumers. Local and 'locality' food was explicitly singled out as an area with growth potential, as was public sector food procurement. Thirdly, Rural Development Agencies in England, and national governments in Wales and Scotland, have been taking a more proactive and strategic view of the food and drink industry. Fourthly, there has been a proliferation of local level activity by NGOs, local authorities, partnerships and consortia focusing on sustainability issues.

Two areas of potentially enormous dynamism within the UK FSC concern public sector food procurement, and a growing emphasis on linking health initiatives to the consumption of fresh fruit and vegetables. As yet, these two broad areas of interest are somewhat nascent, but they both have high-level support and the recognition that they can impact positively on sustainable rural development.

In addition to these processes, there has also been a massive proliferation of smaller-scale initiatives within the UK which often exhibit high levels of sustainability as well as the potential for substantial growth. Notable amongst these initiatives are farmers' markets and farm shops. The latter, in particular, have become much more sophisticated in recent years, often incorporating Internet sales and a box scheme (in addition to the farm shop), whereby their scale of operation may encompass as many as 200 farmers (Graig Farm Organics).

### **5.2.3 Switzerland**

The emphasis in Switzerland is on environmental sustainability and, since the agricultural reforms of 1992, all farmers must comply with a set of environmental requirements (or PEP - proof of ecological performance) if they are to receive any direct payments. The result of this is that 95% of agricultural land in Switzerland is farmed according to IPM or organic methods. The diversity of FSC is considerable in Switzerland, although two relatively impermeable systems are identified: the 'industrial' and the 'artisan'.

The main stream is typified by a gradual liberalisation of the market and is dominated by two retailers (Migros and Coop), who control over 75% of all fresh agricultural products. Normalised food supply chains are developing and there is a general tendency towards vertically coordinated

systems involving the large retailers, industrial processors and large-scale conventional farmers. The principal concern is to ensure food safety in the FSC and conform to the demands of 'due diligence' through such quality normalisation programmes as EurepGap. These are intent on protecting the retailer against food safety problems, but are not intent on providing transparency for the end consumers. However, there is a tendency for these production standards to become the norm, which ties the producer to these higher standards even though they often receive no price premium and conventional trading relationships are effectively replicated.

The dominance of these two retailers also makes their strategy on 'sustainable' products critical to the overall sustainability of the FSC. For example, the Coop's Naturaplan, which is an aggressive promotion strategy for organic and sustainable food, has led to a marked increase in the quantity of organic produce sold. Indeed, specific quality attributes of produce are increasingly being used to differentiate the identities of these two large actors.

Despite the dominance of the industrial FSC within Switzerland, there are increasing spaces for an artisan approach which is more concerned with the produce of mountain-type economies, particularly for products such as cheese (artisan production has always had an important heritage in Switzerland). Artisan FSC are concerned to enable smaller producers to gain access to the market and receive better prices for their produce in order to defend a specific way of life in a particular area or region. As such, the introduction of PDO/PGI certification in 1997 was seen as significant, given considerable impetus by the registration of Gruyere cheese in 2001. However, these products with 'terroir' struggle to get on the shelves of the large retailers unless they are considered to be part of the retailers' overall image, and produce is frequently sold without its PDO/PGI label in that there is no obligation to include it at the point of sale. As a result, many smaller local distribution channels are developing which involve very short supply chains that highlight the origin of production and direct sales to consumers.

#### **5.2.4 Italy**

In Italy, as elsewhere, there has been a general tendency towards de-territorialisation, standardisation and concentration within the Italian FSC. Large-scale companies, especially retailers, now dominate and agriculture can be divided into those aspects which integrate with national and international markets, and those which have weakened over time in economic terms but have become significant from the point of view of social cohesion, environmental management and rural development. In general, there is an increasing emphasis being given to food produce that has regional or traditional characteristics, and the large retailers have incorporated this within their marketing strategies. Additionally, the belated and incomplete modernisation of Italian agriculture (in relation with other EU countries) is now being seen as something of an advantage, in that those areas bypassed by modernisation processes are seen as being in a good position to supply emerging markets for speciality food and leisure.

Typical, traditional, regionally identifiable and organic are all elements of the sustainability dynamic within Italy, as is rural/gastonomic tourism. Regional governments have also become important in defining new rules and providing new opportunities for local/quality products, as well as promoting them. In consumers' eyes, the origin of production is a strong signifier of quality, and therefore the relationship between locality and quality is central to the evolution of FSCs in Italy. Sustainable FSCs are seen to represent the key to rural development processes in Italian rural areas: a symbol around which rural revitalisation may occur. PDO/PGI are very important, but in addition Italy has many 'traditional agri-food products' which are recognised by a national decree (1999) as having potential value for the Italian food economy. These include both niche products, which are small-scale and for local sale, and commodities produced on a large-scale for national

and international markets. Unlike Switzerland, the origin of production is considered very important by the retailers and is widely promoted. For example, CoopItalia (the biggest retail chain in Italy) has developed the brand 'Carni con amore' (within the context of the beef sector), which indicates a 'quality product' rather than an 'anonymous staple', linking production to extensive grazing systems and traditional breeds. This initiative incorporates 450 farms and 12 slaughterhouses, and participants undertake to follow specific norms of production, slaughtering, transportation etc. Following this initiative, several other supermarket chains have launched similar initiatives.

### 5.2.5 Belgium

Dynamic factors with the Belgium FSC include: various food crises that have reduced consumer confidence; an increase in food safety and quality issues; the governmental introduction of a system of self-regulation within FSC, whereby key actors elaborate guidelines or prescriptions leading to greater standardisation and normalisation; in many cases quality assurance schemes have effectively become obligatory if producers want access to the market; a growing concentration and scaling-up of agricultural production; the growing power of retailers; a growing price-squeeze; farmers increasingly seeking to add value through branding, although PDO/PGI are not very effective in Belgium - more so in Wallonia than Flanders; and a general rise in citizen interest in the sustainability of agricultural production, coupled with animal welfare issues.

The agricultural sector is characterised by continuous concentration, scaling-up and internationalisation, with the number of farmers decreasing and the average farm size increasing. There has also been a growing concentration within, and domination by, the retail sector. Coupled with this, food crises and changes in legislation have meant that food safety and traceability have become increasingly important, with each element of the FSC elaborating its own prescriptions for ensuring the safety of its sourced produce, leading to concentration and normalisation. For example, the 'Integral Quality Management for Milk' initiative was developed in 2000; in 2003 the 'Integrated Chain Quality Management' initiative within the cereals sector; and the hallmark *Flandria* within the fruit and vegetables sector. Although participation is usually not obligatory, producers know that their commercial prospects are limited if they do not participate in these schemes. Likewise, many retailers are involved with the pan-European retailer initiative EurepGap, established in 1997. These FSC initiatives have tended to become the norm, meaning that they effectively become obligatory. Legislation increasingly gives responsibility to the respective chains, with the government remaining in overall control.

The development of alternatives is described as being rather limited within Belgium and usually linked to organic farming, other specific quality attributes, or a shortening of the FSC. Belgium currently has a low level of organic production (0.63%), and the demand for organic produce is recognised to be larger than supply, meaning that several retailers buy mainly foreign organic products without paying attention to the wider sustainability conflicts inherent within this approach. There is a recognition that domestic production needs to increase, and the Flemish government is intent on reaching 10% of total acreage by 2010.

There has also been the development of specific quality hallmarks and initiatives, such as *Porc Qualite Ardennes* within the pork sector. Many farmers are looking to create added value through direct sales. However, in reality it is difficult for these initiatives to compete with the price on the world market, meaning that many smaller producers need to look for alternative production methods, diversification, or organic production.

The availability of sustainable products is limited in Belgium and often poorly communicated to consumers. Organic producers encounter problems when selling to the supermarkets in that they are under pressure to produce as cheaply as possible, which in turn puts pressure on the quality of the produce they can supply. New initiatives (and in particular SFSCs) may be relatively small economically, but may be important when it comes to the survival of small enterprises and the development of quality production initiatives. They may also be significant in terms of consumer confidence and pushing the political agenda towards sustainability. Distribution costs are likely to be very high. SFSCs are in practice often difficult to scale up, due to the inevitable loss of directness between the producers and consumers concerned.

### 5.2.6 Latvia

Within Latvia, very high numbers of households are engaged in agriculture in some way or another and it seems that there has always been an alternative, more localised, sector working at the same time as larger FSC structures, whatever the overarching initiatives. FSC are suggested as being either conventional, traditional, or new. Two main tendencies characterise the current farming sector. On the one hand there is a process of rapid development and institutionalisation of conventional food chains in Latvia, and at the same time the continuance of strong traditional channels of food production, distribution and consumption. The latter include household production, direct sales, social networks etc, known here as traditional. It is suggested that they are structurally similar to many emerging alternative food networks within Western European countries, such as FMs. These traditional chains are 'unofficial', but may make up 30% of agricultural production. Within these chains, direct sales to local markets, barter, food for relatives etc. dominate. These networks are still important and represent real livelihood strategies for many of the rural population. In general, modernisation processes will continue with farm concentration and intensification likely. The number of small farms is decreasing, with a tendency towards larger farms. Joining the EU means that the larger ones can compete and the smaller ones either go out of business, diversify their products, or as at present rely on local marketing.

Retailing has perhaps been the fastest developing segment in Latvian FSC in the last decade, with on the one hand a proliferation of local food markets, and on the other an increasing concentration amongst the large retailers. The latter co-operate with processing industries, large growers, and importers, thus acting as a driver towards market concentration and expansion of conventional chains. Small processing industries and producers find it difficult to relate to large retailers, due to the demand for regularity of supply and quality issues. New FSCs emerge where there are novelty products (e.g. goat's cheese, ostriches), new production methods (e.g. organic), or new marketing approaches (e.g. green markets and agri-tourism).

Three overriding tendencies are identified within Latvian farm restructuring: intensification, diversification and reorientation. Intensification involves more involvement in the market through land concentration, technological modernisation and specialisation. Diversification means a widening of activities at farm level. Reorientation means a radical change in farm activities and income structure, and might involve specialisation, conversion to organic etc. The suggestion is that these tendencies correlate with an involvement in the conventional, traditional or new FSCs.

An interesting contradiction between dynamism, livelihood and sustainability at a farm level is identified. Dynamism usually involves expansion, which might undermine traditional farming styles and sustainability in certain ways. E.g. at a subsistence producer level there is minimal dynamism, but strong elements of liveability and sustainability, such as through supplying local family members, social networks etc.

The fruit and vegetables sector is indicative of what is happening within Latvia. The last five years are characterised by the advent of big retail stores in Latvia, and most of the big producers now deliver their production directly to the supermarkets. This means that the produce is always fresh and well labelled, as the retailers demand high quality standards. Prior to that, shops bought what they wanted from farms each day and quality, freshness and labelling accuracy could not be guaranteed. In 2001 a quality control system throughout the whole FSC was introduced. There are many problems with sustainability and traceability in this sector, including many illegal small farmers who do not pay taxes, as well as many illegal imports. Much of the production, therefore, operates in a tax-free environment, distorting prices, and imports are not properly controlled. Producers are reluctant to form cooperatives, to some extent because they are seen as a Soviet hangover, even though they would enable greater bargaining power with wholesalers and retailers, help with transportation costs, and facilitate the sharing of technical support.

The biological (or organic) chain is very new (at least in terms of certification), effectively only since 2003. There are now a number of labels signifying biological products, as well as a number of 'alternative' labels denoting particular qualities, such as the *Green Spoon* label that highlights the environmental credentials of Latvian food. There is also an intention to introduce a similar label for external markets, to be called *Grown Green in Latvia*. Recently the food industry has paid growing attention to locally and regionally branded products. Producers see them as a marketing opportunity, in that consumers are perceived to be increasingly aware about quality issues and to trust food that is associated with a specific region of origin.

Generally, perceptions of a sustainable FSC have been associated with environmental sustainability, but since the end of the 1990s this has been broadened to incorporate rural development, farm income, diversification, and food quality (aided by the 'Latvia Rural Development Programme'). 3.6% of Latvian farms are organic, but it is only from the end of April 2003 that legislation setting organic standards has been in place. This has allowed them to participate more widely within the FSC through utilising organic labelling, exporting production to European markets, and applying for EU funding.

### 5.2.7 Germany

A growing concentration and industrialisation of production, processing and marketing, with large corporate retailers increasingly dominating. Until recently, the large companies engaged in food processing and marketing had only been interested in the mainstream normalised processes, but increasingly they are interested in new trends towards regionalisation, environmentally friendly products, and the high quality segments of the food market, as a means of market differentiation. On the one hand there is specialisation and polarisation, and on the other diversification and regionalisation, with an increasing quality orientation.

However, alongside the corporate retailer dominance are growing numbers of initiatives characterised by more direct linkages and shorter chains, and direct and regional marketing initiatives are now seen as central to the sustainable development of rural areas. Particularly since 2001 there is high-level institutional support for the sustainable development of rural areas in Germany, such as through the GAK (Joint Task for the Improvement of Agricultural Structures and Coastal Protection), which is intent on supporting regional processing and marketing as a way of achieving this. Low intensity grazing systems are also seen as having potential, typified by the *Bergisch Pur* initiative which is a successful quality label for regionally produced and regionally marketed beef and lamb. Directly marketed produce and 'food with a story' is seen as denoting quality amongst consumers, with many perceived as being willing to pay a price premium for this

produce. It is, therefore, seen as important to establish an emotional link between the consumer and the region of production. Regional products and direct marketing are seen as re-establishing trust within the FSC and encouraging economic stimulus for rural areas.

Organic farming is also seen as an important means of developing environmentally sound food production, and at the same time having the potential to safeguard jobs in rural areas. As such, organic production has always been well supported, both at a regional and federal level, with the National Organic Farming Act (2002) specifically aimed at balancing supply and demand. In conjunction with the Organic Farming Act is a very comprehensive Organic Farming Action Programme which provides support for farmers, financial incentives for processors, and targeted information for consumers about the values and benefits of organic products. Initially, organic produce was marketed through direct sales, specialist organic and health-food outlets, and local shops, but supermarkets are starting to take a larger share now.

Sheep are basically unprofitable in economic terms but they are recognised as being important for the creation of landscape and biodiversity, which in turn can contribute towards tourism. Within the cereals sector, milling is highly concentrated but there is particular dynamism associated with regional-level producer associations and marketing initiatives, which is considered important to rural development. These are often in Southern Germany, such as *Regio-Brot Bodensee*, which involves farmers, bakeries and a mill making regional bread. The emphasis is on transparency and sustainability, although organic milling is relatively expensive due to a lack of economies of scale.

Within the potato sector, a new potato processing industry initiative in 2002 aims to inform consumers about potatoes (*InfoBuro Kartoffelverarbeitung*). It is typical of the many regional level initiatives that are involved in new forms of production and marketing across a number of food sectors. Regional initiatives emphasise sustainability and transparency, and many are consumer oriented and entail direct marketing.

### 5.3 Areas of dynamism – a synthesis

#### 5.3.1 Introduction

A number of factors impacting on the dynamism of FSCs seem to be common across all the partner countries, although there are certainly differences in emphasis. These factors include: a succession of food scandals and crises that have led to a growing distrust and critical awareness amongst certain consumers concerning the production of their food; increasingly differentiated consumer demands; market liberalisation and a growing cost-price squeeze on mainstream producers (most noted in the **Netherlands** and **Belgium** reports); a tendency towards de-territorialisation, standardisation and concentration within the conventional FSC, leading to a loss of transparency and a disconnection between producers and consumers; governmental introduction of food safety self-regulation within the FSC (especially within the **UK**, **NL** and **BE** reports), which has led to greater standardisation but also normalisation; average farm sizes are increasing and the numbers of farmers are decreasing; a reduction in the power of the agricultural policy community and a rise in corporate retailer power, whereby the latter are now (invariably) seen as the most powerful actors within the FSC; and the emergence of a myriad of small-scale, local, regional, artisan, organic, ethical, traditional and direct FSC initiatives.

As a result of these elements of dynamism, there is a widely identified bifurcation between those food supply chains linked to normalised and concentrated systems (dominated by corporate retailers and large processors), and those more intent on product differentiation linked to regional or localised production systems (typified by producer co-operation and more direct producer-



consumer interaction). Within the context of the SUS-CHAIN project these have often been described as the 95% (in that in simplistic terms they deliver circa 95% of all food) and the 5%, respectively. The latter have attracted enormous attention as being inherently more 'sustainable' than the 95%, and yet they are relatively insignificant economically. Conversely, the 95% are generally perceived to be less 'sustainable', but of much larger economic significance. Arguably, therefore, dynamic processes that result in a small 'sustainability' gain within the 95% may have a larger overall impact on aggregate welfare, than a proportionately larger 'sustainability' gain within the 5%. Critically, this suggested dichotomy is not impermeable and the two sectors are in a constant state of dynamic interaction, with critical implications for the future sustainability of FSC. However, what also seems to be likely is that there is no middle ground between these two extremes.

### 5.3.2 The 95% - normalised, concentrated and conventional

Within the context of SUS-CHAIN it is the growing dominance of the corporate retailers that is highlighted as the most dynamic element affecting the sustainability of FSCs. Their primacy within the FSC varies, but in many cases four or five companies (two in the case of Switzerland) are responsible for over 80% of food retail sales. Across many of the different food sectors described, and all the partner countries, there is a process of concentration and normalisation within conventional FSCs, driven forward by large food processing and marketing companies. Industrial logic and private regulation initiatives dominate, leaving little room for manoeuvre by individual producers and suppliers: either they follow the rules of the mainstream actors, or they must develop an alternative approach.

A major component of this concentration and normalisation has been an increase in vertically coordinated systems (piloted by a channel captain) between large-scale conventional farmers, industrial-scale processors, and the corporate retailers, whereby the retailers (in particular) have sought to control the quality (in food safety terms) of the produce they sell in order to ensure they comply with their obligations of 'due diligence'. Food safety legislation increasingly gives responsibility to the large private actors within the respective chains, and most now have their own codes of quality (such as EurepGap) which suppliers must adhere to if they wish to sell to the retailer (or processor) concerned. Within this context, sustainability is equated with the ability to compete on price, which in turn necessitates that suppliers/producers increase their scale of operation through concentration and intensification in order to remain economically viable. The effect is that smaller producers/suppliers are effectively denied access to this FSC. Nevertheless, in the **Latvian** report, the increased involvement of the large retailers is viewed as having improved quality control within the FSC.

As such, there has been a proliferation of private quality assurance schemes within the conventional FSC (usually driven by the corporate retailers), which seek to demonstrate 'higher' quality standards (with this focus on 'higher quality' being in addition to food safety concerns). In some cases these initiatives may result in extra income for the producers concerned, but it is apparent that they are frequently becoming the 'norm' if producers/suppliers want to access a particular outlet, at which stage there is commonly no longer a price premium available. In **Belgium**, for example, fruit and vegetable producers are not obliged to obtain the hallmark *Flandria*, but there is a recognition that their produce will not continue to be accepted by large-scale buyers if they do not. The producer is then tied to particular production standards, even though there is no contract as such and often no financial premium in doing so. Nevertheless, it should be remembered that *Flandria* was in fact an initiative of the sector itself. To some extent it seems that large-scale producer cooperatives are redressing the power imbalance between

corporate retailers and relatively smaller-scale producers, particular in **Italy**, but less so in other countries (most notably the **UK** and **Latvia**).

Until recently, large companies engaged in food processing and retailing were essentially only interested in mainstream food products, but clearly they are now increasingly concerned to differentiate themselves through providing 'high quality' produce, wherein quality is equated with traceability and origin, artisan production methods and ethical concerns. In relation to the *quantities* of 'sustainable' produce sold, the strategy of the large retailers is critical. In many countries, for example, organic produce has until fairly recently been sold through specialist outlets, or by direct sales, meaning that in economic terms it has remained marginal. Organic produce continues to be sold through these traditional outlets, but progressively (even in **Germany**) the large retailers are selling more and more organic produce (markedly raising its profile and economic significance), and in the **UK** over 80% is now sold in this way. Likewise, the **Swiss** report noted the impact of the Coop supermarket starting to sell organic produce in 1993 (as a means of differentiating itself from its main competitor). Similar tendencies were noted in the **UK** and **Belgium** reports with respect to 'fairtrade' produce. Nevertheless, despite the involvement of actors within the 95% (most notably the corporate retailers) in providing greater quantities of 'sustainable' produce, there are widespread concerns amongst the reports that less benefit/value added will go to the producers concerned; that the mainstream actors emphasis on sourcing produce at the lowest possible price (whether of higher quality or not) means that the produce is often sourced on a global basis, thereby bringing into question its environmental sustainability (as identified with some organic produce); and the lucrative nature of certain 'quality' produce is prompting large-scale actors to industrialise what were once artisan processes in order to capture the value-added potential. As highlighted within the **Dutch** report, it is critical to understand the dynamics between smaller-scale (5%) operations within the FSC and those of the large-scale (95%).

In rural development terms, the dynamics of the 95% lead inevitably towards industrialised farming and a reduction in the number of farmers, as well as international sourcing which means that those rural areas unable to supply what is demanded by the mainstream players are marginalised.

### 5.3.3 The 5% - diversified, regionalised and alternative

Those suppliers and/or regions unable (or unwilling) to compete within the mainstream FSC have sought to create production niches, often utilising traditional species or varieties, artisanal skills, and making specific quality claims related to the origin of production (including ethical considerations), thereby increasing the transparency of food provision ('food with a story'). Coupled with this, direct and regional marketing initiatives are perceived to produce additional income and employment in rural areas, as well as enabling synergies with other rural development activities such as rural tourism. However, it is stressed that these initiatives must always be seen against the ever increasing concentration of the mainstream (or 95%) FSC. It is also pertinent to ask to what extent these processes are the result of market and producer-driven pressures, or supply-side driven (by ethical consumers, for example).

As mentioned in the introduction to this section, a myriad of what might be termed 5% initiatives have emerged across the partner countries, although there are certainly differences in emphasis. It is also the case that the figure 5% is somewhat arbitrary: useful descriptively, but in reality the economic market share of these initiatives is likely to range from perhaps 1-2% (in the case of the **UK, BE, NL**), up to perhaps 10-15% in the case of Italy and more still in the case of **Latvia**. These figures are little more than guesswork, but the point is that the economic significance of

the '5%' is not uniform across the SUS-CHAIN partners. It is also worth noting that the relatively high Latvian percentage is a consequence of prior production systems and policy and is now decreasing, while the alternatives (or 5%) are growing in many of the other countries.

In the **Dutch** report, the primary motivation is on providing 'alternatives' to the mainstream FSC in order to diversify production, add value, and circumvent the cost-price squeeze. However, even within these 'alternatives' the aim is often towards extending their range to a national or pan-national level, and ensuring convenience to the consumer. Nevertheless, there are also initiatives intent on circumventing the 95% structures and enabling direct relations between producers and consumers, such as farmers' markets and specialist farm shops. There seems to be a certain ambivalence as to whether the 95% and the 5% should remain as separate identities, or whether there is any future in bridging the divide (and if so, how). Although not articulated in quite the same terms, these ideas find a resonance within the **Belgium** report, where a wide range of 'alternatives' are identified. Yet, at the same time they are described as being rather limited, usually linked to organic farming (often sold through the 95%), the promotion of specific quality attributes (adding value to counter the cost-price squeeze), or making direct linkages between producers and consumers (such as within farmers' markets).

As with the NL and BE reports above, the **UK** report suggests that initiatives within the 5% are an opportunity for producers (and consumers) to overcome some of the constraints of the 95%, even though some of these initiatives often end up becoming part of the 95%. Again, as with the NL and BE reports, initiatives such as farmers' markets and farm shops are an important and rapidly growing development within the 5%, distinct from the 95%. The 5% initiatives are specifically linked to rural development and a strongly emerging regional agenda. This is encapsulated with the twin notions of 'local' and 'locality' food products, with the former intent on localising the FSC (i.e. remaining within the 5%), and the latter on valorising local/regional food products (which may, or may not, remain within the 5%). The **German** report indicates an even stronger regional emphasis, coupled with organic production and the direct marketing of produce. The notion of 'food with a story', which is told either through direct contact between the producers and consumers concerned, or through ensuring that consumers have access to good information about the produce they are buying. Again it seems likely that some of this produce will remain within the 5%, but some will also be channelled through the 95%.

Dynamism within the **Italian** report is heavily focused towards regionalisation and the promotion of traditional products. Some of this production remains orientated towards the local or regional level, utilising local markets and shops; some retains strong linkages to its production roots and yet is large scale and sold through large national retailers, or even internationally (e.g. where large cooperatives are involved); some even starts off with a regional identity, but becomes part of a 95% actor's marketing strategy. These tendencies are also evident in the **Swiss** report, although more in terms of artisan production rather than regional identity *per se*. Artisan production is seen to be vital for the protection of the way of life in particular (usually mountainous) areas, through enabling better prices for smaller producers. As with many of the reports, localised outlets for these products certainly exist, but the introduction of PDO/PGI certification is perceived as a real opportunity for traditional products to enter large retailers and to access to the export market.

Dynamism within the 5% sector of the **Latvian** FSC differs from the other reports, mainly due to Latvia's recent history of state ownership and the emergence of a market economy since 1991. Unlike the other partner countries, a much more significant localised 'alternative' structure has

continued to exist within Latvia<sup>5</sup> (household production, direct sales to local markets etc.), whatever the overarching structures. As such, the continuance of these FSCs is not considered to be new or dynamic, but traditional, making up perhaps 30% of the whole FSC. New 5% FSC initiatives in Latvia refer to new products, new production methods and new marketing outlets. Nevertheless, in large part due to Latvia's imminent entry to the EU, there is an emphasis on engaging the larger-scale actors in these initiatives in order to increase their economic scope and developmental potential.

It seems clear, therefore, that although FSC dynamism can be identified in terms of the 95% and the 5%, there is very considerable interaction between the two sectors. As suggested in a number of the reports, it is critical to understand what happens to the sustainability criteria inherent within the 5% once they engage with the 95%, whether this be in terms of selling through the corporate retailers, or being appropriated by a large processor. It is also critical to understand the nature of the permeability between the two sectors, in order to clarify the nature of the bottlenecks inhibiting the development of more sustainable FSCs.

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<sup>5</sup> The current continuance of this 'alternative' structure is a function of the transition process towards a market economy, and the economic casualties of this transition needing to find cheap food in local markets and from household plots.

## 6 Bottlenecks and constraints

### 6.1 Introduction

Sections 0 to 6.2.7 summarise the principal bottlenecks and constraints identified within the national reports, before section 5.3 provides a synthesis of the individual reports in order to facilitate an understanding of how these issues might hinder the development of sustainability within FSCs.

### 6.2 Bottlenecks and constraints – national

#### 6.2.1 Netherlands

- There are inherent contradictions within the regulation of the FSC. Essentially regulations are geared towards the normalised, standardised FSC and are based on the dominant scientific-based 'expert' system, which may not be appropriate for alternative FSCs. Regulation, therefore, often disadvantages smaller producers and processors and it is suggested that there is a serious friction between regulation and rural development.
- The pig and poultry sectors are struggling due to tight economic margins and strong foreign competition, with the latter often perceived to be unfair competition because of the less strict regulations involved.
- A large reduction in the numbers of abattoirs (40% between 1994-2000) is adversely affecting the development of alternative small-scale FSCs.
- Bottlenecks within the dairy industry include: a price squeeze together with growing societal demand for food safety, traceability, welfare etc.; lack of a level playing field in terms of imports where regulations are less strict; and scaling up requires substantial investment.
- Horticulture/fruit and vegetables is the most important sector in the Netherlands and has an international orientation. Bottlenecks to more sustainable alternatives include the power of the large supermarket chains to set up contracts and conditions, and the fact that organic horticultural products are still very expensive.
- The challenge of scaling up smaller-scale initiatives, whilst still retaining the underlying quality and exclusivity of the product concerned.

#### 6.2.2 United Kingdom

- The overwhelming market power of the principal actors within the FSC, predominantly retailers.
- 85% of organic produce is imported, with slight differences between the sectors, often due to more favourable climates overseas (e.g. Israel for potatoes).
- Within the organic milk sector there used to be a shortage of domestic supply which meant that there was a price premium available. But recently there is a surplus, leading to an erosion of the premium and threatening the economic viability of organic milk producers.
- The liberalisation of trade raises concerns about imports undermining national food safety and animal welfare standards, and there are calls for clearer country of origin labelling. This is particularly the case in the poultry sector.

- Over 1000 abattoirs have closed due to new meat hygiene inspection charges. This is creating a significant bottleneck to the development of alternative chains, such as those serving farmers' markets etc.
- Inertia created by the scale and structure of the existing agro-food complex, with large-scale processors and distributors operating with tight margins and locked into established market structures and supply chains. Whilst there may be innovation within a sector, this is likely to be principally cost-driven, and sustainability gains may or may not be a by-product of such actions.
- Many policy instruments still remain geared towards the support of business competitiveness. Where competitiveness can be enhanced through sustainability initiatives, there is no conflict. However, the unilateral imposition of a tax to account for environmental externalities in food distribution would provoke uproar.
- Government attitudes in the UK remain focused on a free trade agenda.
- Processors are often locked into supermarket buyers by contractual arrangements and have limited room for manoeuvre. Some have adapted to more sustainable products, but product authentication may require separate lines from normal products and this can require major investment.
- Retailers are principally driven by the pursuit of profit. Where this coincides with environmental or social sustainability concerns, they will engage, such as through local sourcing initiatives, partly in order to nurture their 'public good' credentials.

### 6.2.3 Switzerland

- Due to the overwhelming dominance of the two large retailers (Migros and Coop), their overall strategy is critical to the development of sustainable initiatives within Switzerland. Critically, neither have as yet integrated origin of production labelling into their strategy, meaning that most consumers are unaware of the high levels of environmental sustainability inherent within Swiss-produced food.
- Most Swiss-produced food is environmentally friendly, but it is not clear how to inform the consumer about this. Swiss products are often mixed with imported products during processing, and Swiss consumers are shown to be ignorant of the high levels of environmental standards in Swiss agriculture. There is almost no information on integrated production at the point of sale. Without differentiation, the environmental attributes of Swiss agriculture are just experienced as added cost.
- The capacity of environmental and ethically labelled products to increase in the future, depends upon communicating their underlying details to the consumer and preventing their absorption by the retailers. Often the retailers do not include this information for fear that it might limit the impact of their own labels. For example, PDO/PGI products are seen as having potential, but the principal stumbling block is that the retailers do not see them as part of their overall marketing strategy.
- Producers, even of 'quality' products, are still engaged in relationships with the large retailers that is based upon lowest cost and usually they have no contract of supply. There is a danger, therefore, of replicating conventional relationships.
- A reduction in the number of abattoirs has occurred due to EU hygiene standards. Those remaining tend to be linked with the large retailers, as are the main national distribution channels. There is resistance by the small local abattoirs that work for small producers and local initiatives, but their future is not yet clear.
- Within the organic FSC there are still premiums available, but increasingly the 'industrialisation' of organic agriculture is starting to put pressure on smaller-scale producers.
- A critical factor in improving the sustainability of FSC is to increase the volume, whilst still retaining artisan production methods. A balance needs to be found between practical market

elements and underlying philosophical considerations. The growing interest of the Coop supermarket in organic produce is perceived, for example, as both an opportunity and a risk. An opportunity in terms of promotion and scale, and a risk because the retailer trademark may begin the labelling, and retailer standards (rather than underlying ethics per se) prevail.

#### 6.2.4 Italy

- The increased consumer demand for organic products is growing faster than the domestic production volume, necessitating a growth in imports. Particularly in the south of Italy, inefficient administration and a lack of suitable processing facilities hinders the growth potential of alternative FSC, such as those involving organic produce.
- The dairy industry is the most important sector in Italy, and Italy is one of the most important producers in the EU of PDO/PGI cheeses. This growth in PDO/PGI registrations is seen positively, but EU quota restrictions mean that there is an insufficiency of domestic milk for processing, necessitating the increased importation of milk. There are also dangers of intensification; high levels of fragmentation and low levels of co-operation between producers; lack of collection centres; and difficulties of compliance with EU hygiene rules.
- The fragmentation of agricultural holdings, particularly within central and southern Italy, is frequently mentioned as a problem across a number of sectors for producers trying to work with much more powerful processors. Institutional and administrative inefficiency, again particularly in the south, are also highlighted.
- Within the pig, poultry and beef sectors a reduction in slaughtering facilities is highlighted as a problem. In 1996, about 2700 abattoirs were shut down in Italy due to EU regulations. There is also insufficient contractual negotiation power amongst producers, mainly because the average farm size tends to be small.
- Sustainable food production tends to be on very small units, often part of a wider family income stream. Their success requires coordination between a large number of actors at the local level, and a lack of coordination and leadership are often bottlenecks. Networks of large numbers of small producers can succeed in scaling up, if there are good second level organisations such as promotional bodies.
- Supermarket chains are interested in sustainable food, but their principal mission is supplying reasonably cheap food to consumers and they tend to impose conditions on farmers to reduce costs and rationalise operations, thereby undermining the ethical/sustainability motivations that may be involved.

#### 6.2.5 Belgium

- Belgian organic production faces strong competition from other countries which have lower distribution costs and scale advantages. There is also poor co-operation between farmers.
- Individual sector quality initiatives are becoming the norm. For example, within the milk sector farmers not participating in the IQM initiative are increasingly failing to gain access, which is leading to the disappearance of many smaller farms. A real bottleneck for the development of alternative chains within the milk sector has been the concentration of the processing industry, with the larger processors not interested in niche products, or in separating organic production. Sales of organic milk have been problematic, with much being sold as conventional, leading to the establishment of *Biomelk Vlaanderen* in 2003 (see initiatives below).
- As in the dairy sector, producers seeking to develop alternatives are confronted with a shortage of small and regional processing units such as abattoirs and meatpacking facilities.
- Bottlenecks within the pork and poultry industries include the disposal of manure, and a 'Manure Action Plan' has been developed.

- The development of small-scale initiatives within the meat sectors, in particular, are limited by such norms as HACCP.
- Quality labelled products are often not well communicated to consumers, nor sufficiently distinct on supermarket shelves. Where this is the case, quality labelled products effectively become the minimum requirement, often receiving no price premium.
- The major bottleneck is that agricultural priorities are oriented mainly towards the world market, and this cannot easily be combined with the concept of sustainability.

### 6.2.6 Latvia

- The dairy industry is a priority in Latvia, but processing is fragmented and inefficient and there is a low level of coordination between dairy farmers, low productivity per cow and a lack of investment.
- A lack of processing capacity and poor producer coordination are bottlenecks across many sectors in Latvia.
- Mixed dairy-meat production is traditional in Latvia, but state-control is inefficient and there is much suspected illegal meat on the market. There are insufficient numbers of small abattoirs in relation to organic and high-quality niche producer demands, with many abattoirs closing down after failing to meet EU regulations. Low purchasing capacity amongst consumers and food traditions limit the demand for beef.
- A particular issue to be addressed within Latvia are black chains, or illegal imports of food products which do not pay taxes or pass quality controls. This black-market food distorts the legal chains and local growers are the main losers. Food quality is impossible to control and consumer health might be affected.
- The development of new chains is hampered by the fact that agricultural production on most farms is not specialised, and is many-branched, making it easier to use traditional and/or conventional channels (even though these channels may be inherently sustainable in basic livelihood terms).
- Biological (organic) farmers are generally small, spread all over the country and represent about 0.5% of agricultural land. Poor co-operation is typical and there are often no separate meat processing facilities for organic milk or meat, meaning that the produce is predominantly marketed through individually built networks, or the conventional chain without a premium. The purchasing capacity of consumers is low, and there is often insufficient information about organic farming and products, meaning that the qualities of organic produce may not be obvious to consumers.
- Bottlenecks identified within the national seminar include: a concentration of capital; power imbalances; marketing problems (low purchasing power, poor information amongst consumers); lack of communication between actors in the chain; and problems defining and regulating quality. Amongst producers: lack of co-operation; problems of competition in a global market; lack of information about technical modernisation and political regulation; and a lack of financial capacity. Amongst retailers: economically the most dominant actor within the FSC, concentrated within 4-5 big players who currently have no distinct approach to marketing sustainable products, although they express an interest; and problems of regular and consistent supply of quality produce. Amongst consumers: a lack of knowledge about sustainable products and produce origin; and weak consumer organisations.
- The FSC concept, and its potential role in rural development, is unfamiliar both to institutions and to society in general.
- A lack of capital is often expressed as a bottleneck in the development of new initiatives.



### 6.2.7 Germany

- A lack of appropriate small and medium-scale processing, storage, preservation and marketing facilities. There is a general orientation towards large-scale actors within the FSC. The loss of small-scale abattoirs and dairies due to concentration processes means that farmers have higher transport costs and reduced regional and/or direct marketing possibilities.
- Within the dairy sector, the lack of really big 'alternative' dairies able to compete with the huge dairies of the conventional sector. A particular deficit in the organic milk sector is the lack of adequate (regional level) processing facilities, and it is estimated that as little as 50% of organic milk is actually being sold as 'organic'. There is also a lack of effective marketing.
- Within the beef sector, many abattoirs have closed because they could not cope with EU hygiene standards. It is difficult to run conventional and organic side-by-side. A substantial proportion of organic beef is sold directly at a regional level. Many organic beef marketing initiatives lack marketing and transformation capacity for inferior cuts, meaning that they have to be sold very cheaply through the conventional market. Correspondingly, the better quality pieces have to be very expensive to cover the overall expenses.
- Within the poultry sector, conventional production is extremely concentrated. Alternatives do exist, but they have higher production costs, meaning that the products are expensive in comparison with the conventional. Poor labelling and a consumer perception of high prices are the principal bottlenecks.
- A lack of clear regulations on labelling, which are often unsubstantiated in terms of environmental, animal welfare, nutritional and health claims.
- The relatively high price of organic produce is seen by some as a significant limiting factor. For example, organic potatoes are twice the price of conventional.
- Often regulations that are designed for large actors within the FSC are unnecessary and unhelpful when applied to shorter FSC and small producers.
- Alternative chains are normally engaged in high quality, regionally embedded food, retailed in such a way that enables consumers to feel a personal connection with the product and the producer. Increasingly, companies currently serving the mass market want a piece of this lucrative market and are incorporating sustainability criteria within their marketing strategies (evidenced by the increase in organic food sold through supermarkets). This has sustainability potential, but at the same time there is a danger that price premiums will gradually be eroded, which in turn jeopardises the ability of organic and regionally identifiable produce to achieve environmental and ethical demands and make a contribution to sustainable rural development. The idea of structural incompatibility, with direct marketing as a means of overcoming this problem, although it is likely to incur extra costs and is necessarily limited in terms of scale.
- Most support still goes to mainstream production and marketing, and is not well targeted to the support of alternatives.

### 6.3 Bottlenecks and constraints – a synthesis

- Regulations within the FSC tend to relate to the 95%, meaning that they may sometimes be inappropriate for emerging FSC relations within the 5%. For example, in the **Dutch** report it is suggested that a dominant expert system is exclusively science-based (appropriate for the 95%), whereas within alternative FSC non-scientific motivations and trust negotiations may also be valued and yet not recognised within the dominant expert system.
- Most financial support still goes to mainstream production and marketing (the 95%) in order to support their business competitiveness, and is not well targeted to the support of alternatives (the 5%). An increased regional emphasis within many countries would seem to be changing this, but the whole system of subsidies needs to be examined and their legitimacy questioned.

- Particularly within the **Dutch, UK** and **Belgian** reports there is a recognition that agricultural policy (or perhaps the agricultural sector) is oriented mainly towards production for the world market, which cannot easily be combined with improving the overall sustainability of FSCs. However, it is necessary to distinguish between sector and policy objectives. For example, whilst agriculture as a sector might have a global orientation in Belgium, in Flanders the policy objectives are orientated towards the 5%, including subsidies for organic and other sustainable production methods.
- The liberalisation of trade is contributing to a cost-price squeeze, wherein many cheaper food imports are perceived as unfair competition for domestic producers due to less strict regulations, most notably concerning animal welfare standards. Within the **Latvian** report there are particular concerns about illegal imports of food, and in general there is a recognised need for clearer country of origin labelling.
- A lack of appropriate small and medium scale processing, storage, preservation and marketing facilities is adversely affecting the development of alternative small-scale FSCs. These facilities are mainly geared towards large-scale production and marketing structures. Many of the reports highlight the recent closure of large numbers of smaller-scale abattoirs as a problem. A lack of specific organic processing facilities is recognised in many of the reports as leading, on occasions, to organic produce being sold as conventional with no price premium being paid.
- There has been a general 'stripping out' of the middle within FSCs through processes of competition. This is manifest in the declining numbers of regional wholesalers; the demise of medium-sized processors; and the huge reduction in smaller and medium-sized retailers. The effect of this has been that it is now much harder to scale up smaller-scale (5%) initiatives, because in many cases there is no longer an infrastructural stepping stone available.
- There is often an asymmetry in negotiation power between small-scale producers and large scale processors/retailers, meaning that the latter are able to (unfairly?) determine contracts and conditions of supply. Even where 'quality' products are involved, there is a danger that the emphasis on lowering costs leads to a replication of conventional supply chain relationships. This tendency is recognised in all of the reports, although the **Italian** report in particular stresses that sustainable food production often takes place on very small units and the need, therefore, for these small (and often fragmented) producers to coordinate their actions.
- The high percentage of food sold in supermarkets is recognised as highly significant across all the countries. In terms of being a bottleneck, this is generally understood in terms of the emphasis on price competition and the pursuit of profit, which may have the effect of undermining the ethical or sustainability attributes of a product and reducing margins to the suppliers concerned. The **German** report, in particular, highlights the need for fair prices to be paid for food, or else sustainability and rural development generally becomes impossible.
- There is widespread recognition that the large retailers will only promote a particular initiative if it is in their own commercial interests to do so.
- Domestic organic production is often highlighted as being insufficient to meet the domestic demand (often due to climatic limitations, but in the **Italian** report associated with EU quota restrictions), meaning that organic produce frequently needs to be imported. This tendency is particularly noted in the **UK** where 85% of organic produce is imported, with clear sustainability implications.
- A critical factor in improving the sustainability of FSC is to increase the volumes involved (within the 5%), whilst retaining the underlying quality and exclusivity of the product concerned. There is a recognition that a balance needs to be found between practical market elements and underlying philosophical considerations. Coupled with this, are concerns that 'high quality' initiatives that exhibit sustainability potential (within the 5%) are often being appropriated by

the large-scale actors (the 95%) once they are perceived to be sufficiently lucrative. Again, the question is how to balance their 'quality' sustainability credentials with their scale of operation.

- Poor communication to the end-consumer about the sustainability attributes of a particular food product denies the opportunity to persuade them of the broader 'value' of a product they might wish to pay a price premium for. Within the Latvian report, low financial purchasing power is seen as limiting the demand for food that needs to command a price premium.



## 7 Initiatives identified

### 7.1 Introduction

As part of WP2, each partner was required to identify the diversity of FSC initiatives within their own country that exhibit dynamism in terms of contributing towards sustainable rural development (Appendix I contains a summary of the initiatives identified within the national reports). The purpose of identifying these initiatives was partly to provide some contextual data for the development of sustainability indicators, but also to help inform the selection of case studies within Workpackages 4 and 5. As part of this latter process, section 7.2 suggests a possible typology, or categorisation, of the initiatives identified within the national reports, before section 7.3 draws out the principal differences between the partner countries' identified initiatives.

### 7.2 A typology of initiatives

It is apparent that initiatives have often been set up on the basis of a wide range of motivations, which means that any attempt at categorisation, or the development of a typology, is to some extent arbitrary. It is also likely, that whatever the original intention of the instigator of an initiative, the dynamics (and hence categorisation) will change over time. Nevertheless, in order to facilitate the choice of case studies and to develop a methodology, the following broad categorisation is suggested.

#### 7.2.1 Regional development initiatives

Within this category, the primary intention is to establish an initiative that can directly contribute to regional development. For example:

- *Naturli us de Region Zurcher Berggebeit (CH)*
- *Marchio collettivo agriqualita (IT)*
- *Ökomodell Achenal (DE)*
- *Waddengroep Foundation (NL)*
- *The Latvia Association of Meat Cattle Breeders (LV)*
- *Lekker Limburgs (BE)*
- *Collective regional brand Valais-Wallis (CH)*

#### 7.2.2 Environmental initiatives

Initiatives within this category have a primary focus on having a positive impact on the environment. N.B. It is acknowledged that 95% of Swiss production has an environmental emphasis, but specific examples in other countries include:

- *Altmühltaler Lamm (DE)*
- *Marchio consorzio (IT)*
- *LEAF Marque (UK)*
- Sheep are mentioned as having environmental (even if not economic) credentials in a number of the reports (LV, BE, DE).

### 7.2.3 Producer associations/cooperatives: collective branding and marketing

These are initiatives that involve groups of producers forming a cooperative with the express intention of creating a collective brand, or to improve the marketing potential of their produce. Examples include:

- *Melinda and Trentina cooperatives (IT)*
- *Upländer Bauernmolkerei in Hessen (DE)*
- *Green Hat (NL)*
- *Westhoek and Meetjesland Hoeveproducten (BE)*
- *Gruyere cheese (CH)*

### 7.2.4 Producer cooperatives: artisan production

This category and the previous one are certainly very similar, although in this case there is usually a specific intention to safeguard a specific production system based upon artisan methods. For example:

- *L'Etivaz (CH)*
- *Marchio consorzio (IT)*
- *Kemper Special Poultry (NL)*
- *Groats production – Annele (LV)*
- *Het Hinkelspel (BE)*

### 7.2.5 Retailer initiatives

Retailer initiatives in this context are taken to be those that involve (usually large-scale) companies seeking to gain market advantage by adopting/adapting more 'sustainable' practices. Examples include:

- *EngageMent Migros (CH)*
- *The Coop's Naturaplan (CH)*
- *Linea di prodotti (IT)*
- *Tegut (DE)*
- *Bio-planet (BE)*
- *Waitrose Locally Produced (UK)*
- *EUREP-GAP (Euro Retailer Produce Working Group) (NL, UK & others)*

### 7.2.6 Quality assurance labelling (QAS)

Significantly, QAS are frequently at the instigation of the corporate retailers. Initially, they may incorporate a price premium, but usually they gradually become the norm for suppliers wishing to access particular outlets. For example:

- *Quality and Safety (QS) Label for Conventional Food (DE)*
- *LEAF Marque (UK)*
- *Granarolo (IT)*
- *Flandria (BE)*

### 7.2.7 Organic supply chain initiatives

Attempts to improve the supply side/marketing of the FSC for organic produce is common across all the partner countries. For example:

- *Biodomenica (IT)*
- *Biosiegel (DE)*

- *Ecomel – Groene Koe (NL)*
- *Latvia Association of Biological Agriculture Organisations (LV)*
- *Biomelk Vlaanderen (BE)*
- *Graig Farm Organics (UK)*
- *Bio-Suisse (CH)*

### 7.2.8 Direct marketing and short food supply chains (SFSCs)

Referred to directly (or indirectly – not always within the initiatives section) in many of the reports, and clearly an important component of sustainable FSCs within all the partner countries. Transparency is usually of paramount importance. These SFSCs take a number of different forms. For example:

- Regular food packages with a group of families (*BE*).
- *FÖG Fördergemeinschaft regionaler Streuobstanbau (DE)*. Regionality and transparency as the main marketing strategies, with an emphasis is on direct marketing high-quality products.
- *Farmers' markets. (Highlighted in BE, NL, DE, and UK)*
- *Allotments (UK)*
- *Box schemes (various)*
- *Farm shops*
  - *Green Heart Landshop cooperative (NL)*
  - *Butchers' shop: Jelgavas (LV)*
  - *Graig Farm Organics (UK)*

Often these initiatives have been coordinated by a local or regional body. In the UK, for example, *Food Links UK/EAFI* has been instrumental in facilitating a wide-range of localised and direct marketing initiatives aimed at regional, local and community development.

### 7.2.9 Other initiatives:

Two initiatives in particular fall into this category, both of them from the UK. It is relevant to include them at this point because both offer considerable potential to improve the sustainability of the FSC and to contribute towards rural development.

- *Public Sector Food Procurement (UK)*. Only mentioned in the UK report but it is of course happening elsewhere, particularly in Italy, and indeed the UK literature on PSFP draws heavily on the Italian model.
- *Department of Health Five a Day programme and Fruit for Schools (UK)*.

## 7.3 Drawing out the differences

This section briefly draws out the main differences between the initiatives described in the individual country reports. Nevertheless, care must be taken when assessing these differences, in that they may be as much to do with individual reporting perceptions of what is alternative and sustainable about an initiative, rather than the identification of any substantive trends. 'Sustainable', in particular, is in the process of being defined within SUS-CHAIN as indicators that are being developed.

### **7.3.1 Netherlands**

Where quality is linked to the ecology and the landscape, it is usually in terms of valorising an alternative product rather than protecting a way of life as such (the Waddengroep Foundation excluded). Cost-price pressures are often a clear driver for the development of alternative initiatives, which seek to take advantage of regional identity, traditional breeds and distinctive products, often through producer cooperatives developing specific quality hallmarks. It is noticeable that there are a number of initiatives, at a variety of scales, aimed at improving the distribution of organic produce, as well as initiatives aimed at improving producer-consumer interaction through improving transparency within the FSC and direct marketing. There are also some quite large-scale initiatives aimed at supplying demonstrably 'higher quality' produce to the large retailers, whilst allowing producers to retain a higher percentage of the value-added potential. In addition, the Dutch initiatives often have a global, or at least European, scale orientation and to compete on international markets.

### **7.3.2 UK**

Reconnecting the various elements of the FSC and improving traceability are key elements of the UK initiatives described, at local, regional and national levels. As with the Dutch (and Belgian) reports, these initiatives are often in response to a cost-price squeeze. At a local level the emphasis is on directly connecting producers and consumers through such initiatives as farm shops and farmers' markets. At a regional level, regional development agencies and local authorities are starting to take an active interest in developing food economies, and there is a recognition that the FSC can be seen as a tool of rural, and indeed regional, development. At a national level, the value of 'locality' food (or food with a geographical identity) is recognised as important to enabling added value for UK producers. There are also a range of QAS (usually associated with the large-scale retailers), often intent on improving quality transparency within the FSC. Finally, public sector procurement and various health initiatives are both uniquely highlighted within the UK report as having the potential to contribute to sustainable rural development, provided producers can grasp the emerging opportunity.

### **7.3.3 Switzerland**

Accepting the overriding emphasis on environmental sustainability within Swiss agriculture, most of the initiatives described relate to benefiting the socio-economic sustainability of mountainous regions, and the protection/promotion of artisan production. The overwhelming significance of the two large retailers is also apparent, the Coop in terms of organic sales and Migros for their promotion of sustainability.

### **7.3.4 Italy**

There is a heavy emphasis on regional initiatives intent on protecting and valorising the artisanal production heritage of rural areas, often linked to rural tourism. There are also a number of regional initiatives (indeed laws) designed to protect/promote the individuality of particular regions, through the promotion of the products from those regions. Food quality is very much associated with the region of origin, and traceability in this respect seen to be very important. There is an example of a large-scale cooperative of small-scale producers facilitating access to the big retailers. Attempts are also being made to improve organic promotion and facilitation, including the provision of more local slaughtering facilities. There are also a couple of large-scale retailer initiatives intent on improving the transparency of provision, although in some cases there is some doubt as to the benefit to the individual producers concerned.



### **7.3.5 Belgium**

The 120 initiatives identified are categorised into six groups. A number of the initiatives are aimed at improving the profile and economic potential of organic produce, whereas others involve quality hallmarks, the promotion of regional products, artisanal processing, and direct selling. Nevertheless, it is pointed out that many of these 'quality' hallmarks appear to become the norm, whereby a premium price is no longer paid to producers. It is also acknowledged that availability of sustainable products is limited in Belgium and often poorly communicated to consumers, with the origin of production generally not considered to be important to consumers. This observation is linked to a recognition that agricultural policy is aimed mainly at the global market, which is perceived to be somewhat incompatible with the concept of sustainability.

### **7.3.6 Latvia**

There is a major emphasis on improving meat and milk processing facilities, as well as an intention to preserve traditional FSC and to improve the infrastructure for organic producers. Integration with the EU is a major driver. Black FSCs and inadequate quality controls are recognised as a major problem in Latvia, which the growth in corporate retailer power is seen as helping to overcome. Latvian FSCs are described as intensifying, diversifying and re-orientating, which can be correlated to conventional, traditional or new FSCs.

### **7.3.7 Germany**

There are two cross-sectoral initiatives identified, both of which involve communicating specific quality attributes to consumers through labelling: one involves organic produce, the other conventional. The German initiatives are largely focused on promoting and valorising regional production in order that the FSC can make a positive contribution to rural development. Products are promoted as being of a 'higher quality', which often includes organic certification and links to expressed environmental sensitivity. Many private trademarks have been developed, intent on improving the sustainability and transparency of produce within the FSC, often through direct marketing. There is also some evidence of an attempt to improve the processing capacity for smaller-scale regional food initiatives. 'Artisan' and 'regional' are less an end in themselves than in Switzerland and Italy (respectively), and more about transparency, communication and rural development.



## Appendix I

### *A summary of national initiatives*

#### Netherlands

- *Distreko*. Involves 24 producers distributing regional organic products. Product quality is linked to ecology and landscape. The motivation was to overcome distribution problems for small organic producers, reduce 'food miles' and to achieve higher prices. A future challenge is to develop a national network that links regional distribution initiatives.
- *Green Heart Landshop*. A co-operative of 15 (largely dairy) producers/Greenheart landshop owners with 5-15 suppliers from other regions. The produce is sold in a series of franchised farm shops and the Greenheart hallmark stands for a certain quality (linked to ecology and landscape), meaning that the shops must meet certain conditions, as must producers and processors. The objective was to develop a self-controlled franchise enabling better prices and income. The distinctiveness of certain products from the norm can sometimes be questioned.
- *Waddengroep Foundation*. Involves an assortment of 135 products. Three initiators were concerned about the future of agriculture on the Wadden Islands due to the cost-price squeeze, and their intention was to develop a clear marketing concept for regional products with specific qualities (small-scale, organic, alternative). The hallmark 'Waddengold' was developed, which incorporates local processing, added value for the region, short distribution, high consumer involvement, and animal and environmental friendly practices. Delivery is to 500 outlets, but the main challenge is to enable these products to access regional supermarkets, thereby allowing scaling up, but at the same time retaining quality and exclusivity.
- *Green Hat*. 70 producers plus a distributor intent on integrating all sustainable initiatives in the region (North Holland), and to enable up-scaling, professionalisation and better prices. Production is linked to local ecology and landscape, and a sustainability hallmark has been developed which includes production and processing elements. The motivation for the initiative was a limited ability to reduce costs, and the unwillingness of anonymous marketing channels to pay sufficient prices for products with specific qualities. An identified problem is to improve production and distribution efficiency whilst retaining quality, service and exclusivity.
- *Kemper Special Poultry*. Involves 30 farmers producing high-quality, traditionally grown, small-scale and animal friendly poultry, intent on achieving higher prices for their chickens. A motto of '100 farms with 1000 birds instead of 10 farms with 10,000 birds.
- *Livar*. 5 pig farmers intent on escaping the cost-price rat race and bad image of the sector, and to derive more satisfaction by producing a distinctive high-quality pig meat product which can command a higher price. Aiming to increase scale, but concern to retain quality and exclusivity.
- *Ecomel – Groene Koe*. Initiated by an organic dairy co-operative of 120 dairy farmers. It is effectively a channel captain, involving a high quality production brand that consumers can associate with. The motivation was to merge resources and increase processing and production capacity to compete on the international markets.
- *EUREP-GAP (Euro Retailer Produce Working Group)*. Business to business certification system started in 1997 by retailers. Fresh fruits and vegetables principally at present. A supranational EU and potentially worldwide initiative. Many big retailers involved, including

Tesco and Sainsbury. A channel captain. Certification organised on a national level. Intended to fulfil the 'food safety and regulation gap' left by governments and the EU.

- *Nautilus*. A co-operative of 140 organic producers. Established in 1988 to strengthen farmers' bargaining position when marketing their products. It is now the largest seller of organic vegetables, fruits and other products in the Netherlands. They also export products, mainly within Europe, and the intention is to expand and to improve co-operation at a European level with other market organisations in organic products.
- *Tasty Tom*. A growers' association of 7 producers intent on improving margins and developing a tomato with good taste, and in the process a particular brand. The main bottleneck is competition from other market gardeners who, based on the success of Tasty Tom, are copying the concept.
- *Unilever Growing for the Future*. A pilot project concentrated in the UK, Malaysia, Ghana, Kenya, India, Tanzania, Brazil, Australia, USA, Germany, and Italy. Wide range of processed products with strong international brands. The intention is to ensure a sustainable supply of high quality goods produced in an environmentally and socially responsible way, to fulfil Unilever's actual or potential needs.

## United Kingdom

62 initiatives were described in the UK national report, categorised into a suggested typology of 9. The essential elements of this typology are reproduced here.

- *Facilitatory*. NGOs, such as East Anglia Food Link, are intent on empowering producers and consumers at a local and regional level to create a fair and sustainable food system. In addition, regional development agencies and local authorities are also acting as facilitators and coordinators in developing food economies within their regions.
- *Ethical*. There has been a marked growth in fairtrade produce, which was originally sold through alternative circuits but is increasingly sold through large retailers. There is a growing tension between commerciality and the retention of underlying philosophies. There is also an Ethical Trade Initiative which is an industry attempt to improve labour standards in the production of goods they sell.
- *Health*. The Department of Health has initiated a 'Five a Day' programme and 'Fruit for Schools', which are all about increasing awareness and accessibility to fresh fruit and vegetables. It is seen as an opportunity for British farmers.
- *Community*. Community Supported Agriculture, city farms, food access partnerships. Often intent on allowing communities to regain some control over their food provision. Very often NGO supported and driven.
- *Producer*. Ranging from large scale farmer-controlled businesses or co-ops, to farm shops, and producer certification schemes. *Little Red Tractor (British Farm Standards)* is an initiative that came from British farmers and growers and involves 78,000 farmers. It is intended to engender UK consumer confidence in UK produced food, to simplify the many existing quality symbols, and to be easily recognised at the point of purchase. It incorporates a number of other farm assurance standards which consider production, handling and processing at every stage of the food chain. However, some consider that it is not nearly exacting enough. *The LEAF Marque* has IFM at its core and involves most of the multiple retailers. It enables producers to access the quality food market and attract a premium price. Correspondingly, it provides consumers with a guarantee that the produce comes from farms committed to incorporating high environmental standards. *Graig Farm Organics* is all about improving the communication between producers and consumers. It has developed a 200 member co-operative, and all the members are organically certified. The intention is to provide a viable outlet for producers, who are paid a fair price for their produce. A system of labels and

barcodes on the meat enables complete traceability, with the produce being sold through a number of outlets, that include a farm shop and the Internet. Similarly, *Riverford Farm Shop*, where again the intention is to provide a genuine alternative to supermarket shopping.

- *Public sector procurement.* This concerns encouraging public bodies to purchase more of their food requirements from locally/regionally produced food. There is high level governmental support for this process which, critically, demands that purchasing bodies consider what is meant by 'best value', as distinct from lowest price. Public sector food procurement is valued at £1.8 billion a year, which is recognised as a good opportunity for UK producers.
- *Local/localised. Farmers' markets,* which are all about reconnecting producers and consumers and allowing smaller producers to make better profits and gain access to the market, have grown rapidly in the UK since their inception in 1997. *Allotments,* which are essentially about providing food for the family have recently been given a £500 000 investment boost. Local level *box schemes,* and now some larger more commercially run box schemes, provide a growing outlet for organic (usually) produce. Again, they allow consumers to make direct connections with the produce they are buying, as well as providing very fresh produce.
- *Retailer/processor.* Somerfield Local Life and Waitrose Locally Produced are examples of initiatives that have been developed by corporate retailers in response to perceived customer demand for local produce. However, there are concerns that existing buying practices will be replicated, although Waitrose have developed a Small Producers Charter to help prevent this, and they claim that 'Waitrose Locally Produced' is a partnership between themselves and small-scale producers, with a focus on quality rather than quantity.

## Switzerland

- *L'Etivaz* is a co-operative of 76 producers making cheese in a tourist mountain area, with the objective of securing sales, gaining a better price for what is produced, and defending a very specific way of life (both economic and socio-territorial).
- *Napf milch AG.* Initiated by an organic farmer from Napf with a strong concern for the development of the region, and a vision of the marketing possibilities of a very clean region. 42 producers are involved in selling dairy products with mountain herbs, and some tourism.
- *Valplant.* A co-operative of 150 producers of organic mountain herbs in a very mountainous region, heavily dependent on tourism. The objective is to provide a source of income for farmer members in the region.
- *Naturli us de Region Zurcher Berggebeit.* The objective is to coordinate the production and marketing of high quality milk and milk products for the benefit of the region's development (the area is mountainous and semi-mountainous, with some tourism). This has included developing a trademark, and investing in a common marketing infrastructure. Initiated by a not-for-profit organisation for regional development.
- *Gruyere* cheese involves 3500 producers, 210 cheesemakers, and 10 cheese ripeners. Regional and artisanal production aimed at protecting traditional production methods and to prevent its industrialisation.
- *EngageMent Migros.* Migros is the premier retailer in Switzerland and this initiative is a partnership of 10 national labels dedicated to sustainability promotion, with the principal objective of Migros improving its image in relation to its main competitor, the Coop.
- *Bio-Suisse.* A national producer initiative from the 1940s aimed at increasing the provision and recognition of organic products.
- *The Coop's Naturaplan.* An aggressive promotion strategy for organic and sustainable food which has led to a marked increase in the quantity of organic produce sold. This is seen as an

opportunity, but also a risk, in that it might start to take control of the producers' association label ('Le Bourgeois') developed within *Bio-Suisse*.

## Italy

- *Biodomenica*. Organic food products involving hundreds of producers at a national scale. Aimed at promoting sustainable food production and giving farmers visibility with consumers, thereby improving communication on consumer rights, environmental defence and sustainable development.
- *Marchio consorzio*. Producers located in Abruzzo's Park. Protection of agricultural and pastoral products in the park and biological certification, in that the environment is considered an important resource in this region. Intended to guarantee typical products made with organic methods.
- *Emilia Romagna*. Regional producers association intent on promoting valorisation and encouraging rare breeds, genetic improvement, and technical assistance. The objective is to shorten the chain between the producer and consumer and to obtain a price premium for organic production.
- *Canaveis cheese*. A local alpine region with a strong tourist attraction and the purpose of this initiative is to valorise mountain products.
- *Linea di prodotti*. A large retailer initiative (Carrefour). A FairPrice initiative intent on valorising local gastronomy and helping small farms develop, and to enable the origins and traditions of the food to be transparent. It is questioned whether farmers gain from this initiative.
- *Carta di qualita*. Typical products from 9 farms within a park. The park has set up a code of practice, which includes environmentally friendly methods that producers must follow if they wish to use the brand. Higher prices than conventional are available.
- *Granarolo*. A traceability system for organic eggs and milk involving 484 producer associations and 20 cooperatives. The eggs attract a premium price due to the guarantee of traceability. Consumers can also insert a bar code into the Internet for more information. Aimed at corporate retailers at the national level.
- *G.O.D.O.* (Gruppi Organizzati di Domanda e Offerta). Collective purchasing inspired by health, well-being, respect for nature and socio-cultural conditions. The initiative is concerned to create direct relationships and confidence between producers and consumers for mutual advantage. Each purchasing group has its own motivations for starting up, but often there is a deep critique against the current global model. Resultant projects include local food chains, Fairtrade and ethical shops.
- *Il canestro*. 10 kg basket of organic horticultural and fruit products delivered weekly. Operated by an association of producers intent on developing the production, transformation, and commercialisation of organic and typical products. Organic horticulture.
- *Organic slaughter houses*. In a number of places there are attempts to provide more locally convenient organic facilities for small farms in mountain areas.
- *Marchio di qualita*. This involves 20 farms and the goal is to valorise the products of farms located in a national park (a mountainous area). The park authority determines regulations that farms must respect, and ensures that they are adhered to, and the products are labelled as such.
- *Melinda and Trentina cooperatives*. Over 6500 producers in 20 cooperatives producing high-quality apples through integrated methods, including the rediscovery of ancient tastes and flavours. Their scale of operation allows them to access to the big retailers.
- *GMO free*. There is a regional law in Tuscany that prohibits the cultivation and introduction into the regional territory of GM modified produce. The Tuscany region, as with all the other regions in Italy, has legislative power over agriculture.

- *Development of integrated information system* for the traceability of fruit and horticultural products. 75,000 producers involved, grouped together by UNAPROA. Involves 5.5 million tonnes of production. The Ministry of Agriculture and Forestry (MiPAF) provides institutional, technical and financial support.
- *Presidio Slow Food*. Slow food is a consumer association for the promotion of a quality food culture. The association helps consumers gain empowerment and awareness, and to avoid cultural commoditisation. Specifically, a sheep cheese initiative in Tuscany is described, involving 20 producers and agri-tourism. The promotion and valorisation of a particular type of cheese. Definition of a code of practices, quality, hygiene controls, and promotion. Intended to improve producer income and protect rural life, and employment.
- *Promotion and valorisation* of typical and regional agro-food products in the Lazio region. To enable synergies, communicate the image of typical products, safeguard regional territory, find new commercial outlets. Initiated by the official regional coordinator of agricultural activity in the Lazio region.
- *Marchio della farfallina*. 14 cereal farms in the Tuscany region adopting integrated production methods. A regional Tuscany law establishes a code of practice. All farmers adhering to the code may use the logo identifying Tuscany products.
- *Valorisation of the Scrisi and Cuta plateau*. AIAB Calabria Legambiente is an environmental association operating at a national level, which has 14,000 associates. It lobbies at a national and regional level for more environmentally and rural development friendly policy. The intention is to valorise local agricultural products to enable more profit for the producers concerned. Its central task is to preserve rural communities through new employment opportunities in the agricultural sector.
- *Valle del Biologico*. A network of 40 small organic farms in a valley in the Liguria region producing environmentally friendly goods and green tourism, intent on valorising quality products and the image of the valley.
- *Le vie della pastorizia, per la riscoperta, a passo d'uomo, del nostro territorio*. Sheep products. Environmental associations involvement (including the WWF). To promote the sustainable utilisation of natural resources and to limit pollution. To understand the historical-scientific development of sheep breeding in the local economy. To valorise the territory for sustainable tourism and encourage the typical products sector to grow. Local orientation.
- *Il pagliaio, Fierucola*. Organic farmers and craftsmen selling directly to consumers. The Tuscany ASCI were the initiators with the aim of defending, reconstructing, promoting and upgrading particular values, jobs, and characteristics of the Italian rural countryside.
- *E-commerce of typical products of Abruzzo*. The environment of the Abruzzo region has always been considered one of its most important resources. The e-commerce plan intends to give visibility and opportunity to 31 regional producers to express their history and traditions, thereby supporting the local economy, maintaining existing production, and protecting the environment.
- *Prodotti con amore COOP*. Farmers supplying the Co-op adopting integrated production methods. The Co-op (consumers' co-operative), is the largest Italian retailer with 1320 shops and 39,000 employees. The Co-op Italia has created the hallmark 'Prodotti con Amore' (produced/products with love). Products must comply with certain quality standards that are stricter than conventional products, especially in relation to the use of chemicals. The Co-op is aiming to communicate its efforts to increase safety, to its consumers. Initially, it was for fresh fruit and vegetables, it has since been extended to fresh meat and processed fruit.
- *Marchio collettivo agriqualita*. A regional government (Tuscany) initiative involving 46 farms intent on valorising cereal production through improved traceability, including clarifying the history/origin of the product. A Toscana Regional Act has been passed which allows for a collective label to be used, and producers using this label must follow particular practices. The brand guarantees traceability and that the product has come from Tuscany.

- *Consorzio della Quarantina*. Involves the sale of traditional potato varieties and products from a mountainous area of Genova. Involves a voluntary association of 50 potato producers, with a production code and a distinctive brand. Initially, aimed primarily at the conservation of potatoes, now more generally to the enhancement of a variety of local traditional produce.
- *Critical wine*. Involves 200 wine producers, with the potential to extend to all wine producers in Italy and beyond. Its aim is to improve product traceability and quality and to make the market a 'source of social relations'. Essentially, it is about linking the producer to the consumer.
- *Alce Negro (Black elk)*. It is a co-operative involving 30 producers and 40 employees. It is set within the beautiful landscape and is intent on communicating the culture and tradition of the area. Schoolchildren are often involved in learning about the co-operative's activities. An intention to revitalise the area's ancient rural traditions, and to communicate that a new type of localised economy is not only viable, but sustainable.
- *Biomense (organic canteens)*. National regulations in 1999 stated that food for children should be free from pesticide residues. Since then, 6 regional governments have introduced these norms into their regulation. In 2000, there were 155 'organic canteens'. They set out requirements not only for the type of food, but also for the service and menu.

## Belgium

120 initiatives were identified within the Belgium report, categorised into six groups shown below.

1. *Direct selling, short supply chains and other specific outlets* (65 identified). Diversification was often mentioned in the discussion of sustainability and rural development, with these types of initiative seen as being good examples. *Atalanta*, for example, involves 25 farmers of organic and sustainable products coordinating their production to supply a system of weekly box schemes.
2. *New actors in the FSC*. *Arpobel* which facilitates the availability of organically produced seed. *Biomelk Vlaanderen* is a co-operative of organic dairy farmers that enables them to market their milk more effectively. Established in 2003, it represents 23 organic farmers with a combined production of almost 6 million litres of organic milk per year. *Bio-planet* is a large supermarket (Colruyt) initiative that involves two supermarkets who only sell organic food and ecological non-food products. There are two such Bio-planet supermarket in Belgium. *BioShop* is a common property logo of 33 organic retail trade shops in Flanders.
3. *Hallmarks and brands referring to specific production methods and product characteristics* (23 identified). Mainly initiatives situated within alternative or new FSC, but with produce also sold through traditional channels. Mainly involving meat, and most indicate high quality in some way. Some are voluntary for producers, but others organised by processors or slaughterhouses may be compulsory. VBT has developed a logo depicting environmentally friendly production methods which includes several hallmarks, the most important of which is *Flandria*. Although participation in this latter initiative is not obligatory, producers know that their commercial prospects are limited if they do not participate.
4. *Regional products* (15 identified). There are few PDO/PGI in Belgium, but the regional identity of food produce is sometimes promoted. A recent inventory suggests 2029 regional products and 1167 producers, although not all are agricultural. Institutions, such as in *Lekker Limburgs*, may well be involved in promoting all the products from a particular territory.
5. *Initiatives for specific (artisan) processing* (10 identified). This especially involves cheese, fruit juices and sliced cold meat. For example, *Het Hinkelspel* is a cooperative that makes different kinds of cheese. The cheese is made from raw milk delivered by associated organic farmers, and the products are sold in a shop in the dairy, together with other organic products.



6. *All other initiatives* (11 identified). These concern farmers with specific production methods, but without a hallmark. It may be for social employment, or perhaps associated with tourism. For example, *Peter Suy* with his sustainable pig breeding initiatives for social employment.

About 40 of the initiatives concern organic products, most of which are in the first group (alternative sales), which illustrates the problems organic farmers often have to sell their produce.

## Latvia

- *The Latvia Association of Meat Cattle Breeders*. This producers' association involves 69 members and is a ministry-led initiative intent on improving environmental, socio-territorial and economic sustainability. It seeks to develop local abattoirs, specialised butchers shops, and to enable farm diversity.
- *Butchers' shop: Jelgavas*. A small family business with 60 employees, working in co-operation with local cattle breeders; imported meat is never used. The intention is to control the whole chain and to open another shop and find a market niche in Riga.
- *Specialised cheese production: SIA and Francu gaume*. Small milk processing enterprise. The milk supplied by local farmers, and the mature cheese is sold directly to consumers.
- *Groats production – Annele*. Small cereals processing enterprise employing 30 people. Intent on preserving traditional cereal production, particularly barley and wheat. Supplying small bakeries with traditional meal, the company has developed its own brand name and packaging. The product is sold mostly in small retail outlets.
- *Latvia Association of Biological Agriculture Organisations*. This association unites 300 farmers from all over the country, stimulating co-operation, developing a quality certificate, organising training, and establishing international contacts.
- *Regional dairy – Lazdonas piensaimnieks*. 40-50 tonnes of milk are supplied daily by local dairy farmers. A wide range of dairy products are produced and four products have received the 'Green spoon' label (where at least 75% of the raw materials are produced in Latvia). The rye bread yoghurt is a fusion of the traditional with the new – the yoghurt is very new, and rye bread puddings are very traditional.
- *Medium size meat processing enterprise – Ruks*. Capacity 60 pigs or 12 veal calves per hour. A new abattoir was built in 2003 to conform to EU regulations. Until now, Latvia has not used its export quota to the EU due to a lack of adequate abattoirs. The principal motivation was to conform to EU quality standards and to enable exports.
- *Bakery – Zelta klingeris*. 62 employees producing traditional style rye bread. Mostly for the domestic market, but small amounts are also exported.

## Germany

The German initiatives are divided into those that are considered to be cross-sectoral, and those which are more situationally specific.

### ***Cross-sectoral.***

- *Quality and Safety (QS) Label for Conventional Food*. The aim is to assure the quality and safety of food products from the producer to consumer. The QS label is only given to products produced and handled by QS-licensed facilities throughout the food chain. The novelty is that it comprises all members of the production chain, including retailers. After initial reservations, the German farmers' union now supports the system as being critical to regaining consumer confidence. This label, and the Biosiegel label below, operate in tandem with existing labelling.

- *Biosiegel*. This is a voluntary label for organic food introduced at the end of 2001 as a contribution to extending organic production to 20% of farmland by 2010. Based upon relatively mild EU organic standards it is intended to be easily recognisable by the consumer. Some express that it is too mild and threatens many German organic farmers who operate to the higher standards of German organic farming associations. However it is also seen as an important means of increasing transparency and reaching a wider range of consumers.

### **Specific initiatives.**

- *Tegut*. A regional retail company that aims to have at least one organic article in each product group. It has the highest market share of organic sales in Germany, which it wants to increase further. Organic products are an important part of the promotion of Tegut, which includes communicating the attributes of organic products to consumers, in part through its own consumer magazine Marktplatz. It is the only German retailer allowed to sell Demeter certified produce.
- *Ökomodell Achental*. A community initiative in Bavaria with 34 regional farmers and regional shops. The main objective is to raise the quality of rural life, to improve farm incomes, to promote regional timber, and sustainable tourism. Regionality and transparency are the main marketing strategies. The main emphasis is on direct marketing high quality products.
- *Bergisch Pur*. 14 farmers and 6 butchers intent on promoting BSE-free beef. It is a collective brand and a marketing strategy that incorporates codes of practice.
- *Bäuerliche Vermarktung Oberes Donautal e.G. (BODEG)*. 18 producers, wholesalers, consumers, and other associations intent on developing a regional label to promote environmentally produced food from the region, in order to preserve the region and to synergistically combine agriculture and tourism.
- *Interessengemeinschaft Enzkreis – Biobauern*. A regional initiative in the Black Forest aimed at increasing the sales of a range of organic products that include; grain, pasta, honey, tea, coffee, wine, spices, and cosmetics.
- *FÖG Fördergemeinschaft regionaler Streuobstanbau*. An association of 70 traditional fruit orchard owners and two small beverage industries who have developed a private trademark and sell their produce through specialised stores. Regionality and transparency are the main marketing strategies, and the emphasis is on direct marketing high-quality products.
- *Freisinger Land*. Five groups (church, consumers, environmentalists, agriculture, trade) working together to improve the quality of life for men, animals and plants. The initiative wants to support sustainable agriculture and build up a regional marketing strategy (and label) that offers the fair trade of regionally produced products.
- *IGERO - Interessengemeinschaft Extensivrinderhaltung Osnabrück e.V.*. 40 producers (with environmental organisations) producing high quality beef in accordance with animal welfare guidelines and low intensity production. The area is of tourist interest and contains many endangered flora and fauna. Farmers only allowed to keep Galloway or Highland Cattle. The cattle are slaughtered within 90 minutes drive of the farm and then sold directly in the region. A private trademark.
- *Neuland - Verein für tiergerechte und umweltschonende Nutztierhaltung e.V.* Pork, beef, lamb, poultry, eggs. Producers, processors, consumers' associations, and environmental associations. Every part of the supply chain is monitored by Neuland, who award quality certificates on the basis of animal welfare, quality, and ecologically-friendly farming. It is a private trademark/collective brand which is in competition with other sustainable agriculture labelled products. The farmers sell to butchers shops, canteen kitchens etc. but not to supermarkets because they want to provide transparency. The Neuland label is only available if every step of the supply chain conforms to the guidelines.
- *Tagwerk Genossenschaft*. Meat, dairy, wine, bread, vegetables, cosmetics. Tagwerk is an association of producers and consumers who want to farm environmentally sensitively. Its

products are sold to specialised shops, weekly markets, green boxes and consumers. It is a collective brand.

- *Upländer Bauernmolkerei in Hessen*. 74 dairy farmers, processors, wholesalers, consumers, and environmental associations intent on promoting regional, high-quality organic products and developing a regional/collective brand. A large share of the total production is sold through two smaller supermarket chains, including Tegut. The whole dairy is run by farmers who are intent on promoting regional, high-quality organic products. The origin of the initiative is organic dairy farmers searching for a dairy to process their milk.
- *Altmühltaler Lamm*. Seven districts co-operate to support shepherds in a national park where sheep are considered important for the preservation of the landscape. The initiative consists of 35 shepherds that have created this association with 11 butchers and 40 restaurants. Production guidelines refer to the use of fertilisers, livestock density etc. The future includes diversifying into other products, co-operating with tourist activities, and improving the marketing of the region.



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