Working Group 4

Non-Environmental Aspects of Sustainability

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Contents

I. Introduction

Sustainability is a 'holistic' concept: it demands that decisions by policy makers, businesses or individuals are made in such a way as to ensure that our present needs are met and future wellbeing is not put at risk. Taking care of the environment therefore needs to go hand in hand with providing the framework for global welfare creation and with improving quality of life. At the same time, economic viability of all economic actors participating in the food chain is also essential, thus the concerned actors should be allowed to gradually adapt to any possible new standards and requirements. Sustainability is also holistic in the sense that there is a shared responsibility to work together and to assess actions against their consequences for other stakeholders and society as a whole.

Any initiative, governmental or otherwise, should take into account the holistic approach in both senses when assessing the impact of its potential actions. The Round Table has been established on this basis, as it uses life-cycle thinking and considers the impact of environmental sustainability on other areas of sustainability. In line with the Mandate, this Working Group 4 report is aimed at complementing the work of the three other Working Groups, where emphasis is placed on the environmental issues, by providing a priority list of non-environmental aspects of sustainability.

II. Priority list of non-environmental aspects of sustainability

II.A Economic sustainability

1. Internal market & international trade

Economic partners in the Single Market and in third countries should enjoy a level playing field. Certain forms of environmental schemes may create risks of trade barriers and disguised protectionist measures, which could discriminate against certain suppliers without any environmental justification. We have identified the following issues as examples threatening the free movement of goods:

- **Food miles**

  The links between transport and environmental, social and economic considerations are complex and involve a number of trade-offs. Food transport sustainability critically depends on an integrated approach, based on environmental life-cycle thinking and the consideration of all the social and economic implications of transport.

- **Carbon footprint and the use of national energy mix**

  Since a country's energy mix is beyond the control of manufacturers, the use of national values could undermine the level-playing field between producers from different Member States if a product's carbon footprint was chosen as key environmental indicator (e.g. due to a country's reliance on nuclear energy).

- **National environmental assessment and communications schemes**

  Proliferation and inconsistency between different national or private environmental assessment and/or communication schemes unnecessarily increases costs for EU companies who want to export to other Member States and has the potential to confuse consumers.

- **Different national environmental policy requirements**

  In addition, on a very general level, different costs due to different environmental policy requirements in different Member States will distort competition. The same applies to the international level (for instance with regard to carbon leakage).

A proper functioning of the EU internal market and of international trade implies taking into equal consideration all aspects of sustainability, meaning economic, environmental and social ones. There is a need to ensure the free circulation of goods within the EU and internationally, based on sound scientific evidence. A key element is adopting uniform, scientifically robust environmental assessment methodologies for food products across the EU and working with international partners towards a global approach or recognition.

2. Economic impacts on operators of environmental assessments, communication and improvement

Costs and benefits of environmental improvement measures greatly differ from one measure to another. The application of best practices can often result in rapid low or no-cost environmental improvements and costs savings ("low hanging fruits"). However, others measures entail considerable constraints for business.

The mains costs will generally include:

- Human resources
- Awareness raising and gaining consensus (communication, promotion, consumer information/education...)
- In some cases, lower yields and/or higher raw material cost
- Life-cycle assessment studies
- Investment costs to adopt new technologies (water treatment, energy…)
- Inefficiencies led by multiple standards
- Certification costs and related costs, including:
  - Verification processes
  - Training
  - Transportation / Logistics
  - Cost of maintenance of the standard
  - Auditing costs
- Legislative compliance costs: e.g. carbon trading costs, eco taxes etc.
- Costs to deliver to different stakeholders' needs / requests that may not be aligned to current business strategies or to agreed prioritisation.

The main economic benefits will generally include:

- Economic savings through resource efficiency (e.g. productivity increases, waste reduction, energy savings, savings of natural resources)
- Possibility to communicate on corporate responsibility
- Increased sales (volume and/or price) as result of improved marketing opportunities

- Attracting investments
- Increase the credibility of operators or associations addressing societal challenges.

Potential additional benefits include:

- Promote knowledge economy (Europe 2020 strategy)
- Innovations
- Incentivise companies to increase research and development activities
- Motivation of employees, capacity to incentive staff and stimulate productivity
- Better relation with suppliers and customers
- Operational management; improved knowledge and understanding of the food chain leading to better operational management

<u>The following priority issues have been identified related to these costs:</u>

- **Internalisation of externalities**

  The internalisation of externalities or other requirements introduced by the legislators can lead to cost rises which operators are not always able to incorporate at the different stages of the food chain where they arise. This can ultimately generate a distorted price signal both along the food chain and to the final consumer. These may include e.g. eco-taxes, tradable permits, packaging recovery fees, logistics costs related to traceability requirements.

- **Pay-back periods**

  Whereas investment in resource efficient technologies usually pays-off in the long-run (e.g. due to continuous energy savings), pay-back periods are often too long (5-7 years and more). Operators also consider opportunity costs with regard to returns from alternative investment opportunities.

- **Operational constraint**

  The lack of coordination of infrastructure, of the appropriate raw materials and of relevant, available and freely accessible data can lead to prohibitively high costs for operators.

The food supply chain is responding to increased consumer demand for products with a better environmental and social performance.

Moving away from commodities and going towards increased product specialisation and differentiation has a higher cost impact on production systems and the parts of the food chain that rely on economies of scales and scope. As regards logistics costs, there is a clear interest for these production systems to favour a mainstream and joint approach in order to minimize costs.

Environmentally unsustainable production is not a viable choice in the medium or long run. The food supply chain as a whole shares an interest in sustainable supplies, both in terms of quantity and quality. Well-designed initiatives improving the environmental performance (of a product, point of sale, plant…) will level out additional costs. Promoting resource-efficiency, for example, will both reduce environmental pressures and help companies save costs, e.g. by replacing outdated irrigation systems with modern efficient irrigation systems/ methods.

In addition, well-designed initiatives will often result in cross over benefits. For example, measuring the environmental impact of packaging in your business and setting internal targets

and key performance indicators (KPIs) that go beyond legislation can result in savings (e.g. lower material and transport costs). Another example is that modern refrigeration saves money as well as reducing harmful greenhouse gas emissions.

However, such initiatives may have differentiated economic impacts on the actors of the chain. The distribution of economic costs and benefits depends on many aspects, including where in the chain they arise.

3. Viability of SMEs

SMEs involved in sustainability schemes may be more flexible in adjusting to changing conditions than large corporations. They may therefore benefit from increased visibility, new market opportunities and capacity building. However, the general challenge for SMEs is their frequent lack of financial and human resources. This challenge applies to all different types of requirements introduced both by public policy makers and business partners along the food chain and is not limited to environmental requirements. Particular challenges for SMEs are:

- Administrative burden;
- Lack of human resources to deal with the complexity of environmental assessment and communication initiatives;
- Costs for implementing the programmes e.g. certification, control of claims;
- Insufficient in-house expertise on environmental and energy management to deal with continuous environmental improvement;
- Lack of remuneration by dominant operators;
- Lack of financial resources for investments; and
- Insufficient dissemination of best practices.

Particular attention must be paid to disseminating best practice to SMEs, which constitute a large part of the food supply chain (for example in the EU food manufacturing sector, they represent 99% of all companies, totalling 310,000[1]).

However, different actors along the food chain will be affected by the required transition towards a resource-efficient economy in different ways. Stricter environmental requirements most of the times lead to a corresponding rise in the investment intensity in the sector. Higher investment intensity also means higher risks. While this may not be a major issue for large, financially strong food operators, it may well constitute a major challenge for SMEs.

II.B Social sustainability

It is worth noting that the UNEP has developed guidelines for social life cycle assessment of products[2] which aim at contributing to the full assessment of goods and services within the context of sustainable development.

[1] Source: Eurostat (Structural business statistics)
[2] http://www.unep.fr/shared/publications/pdf/DTIx1164xPA-guidelines_sLCA.pdf

1. Food security

According to the definition adopted by the 1996 World Food Summit, food security is ensured "when all people at all times have access to sufficient, safe, nutritious food to maintain a healthy and active life". This includes both physical and economical access to food that meets the peoples' dietary needs.

Over the coming decades, the availability and affordability of food will mainly depend on the ability of global agriculture to produce significantly higher amount of output (up to 70% higher food demand by 2050 for a world population of more than 9 billion[3]), while facing increased environmental stresses on agricultural crops, for example due to climate change or water shortages. In case of limited harvests or of problems with the supply chain of raw materials, food prices could increase and become unaffordable for consumers. Therefore, resource-efficiency and environmentally sustainable agricultural practices will play a key role in meeting this major challenge.

In cases of win-win situations, resource efficiency measures should not affect food prices and may even save costs along the food chain. Nevertheless, there might be cases in which the implementation of a specific sustainability initiative can create disproportionate costs, which are then reflected in prices. Still, the cost of non-sustainable development is not viable.

2. International development and rural development

Either in the medium or long run, all countries will benefit from the sustainability path, including developing or least developed ones. In general, environmental protection and sustainable development can be said to go hand in hand.

Environmental sustainability objectives and production requirements can be an opportunity to develop trade with developing countries, thereby increasing their economic development.

However, schemes that would create market access problems could have a negative impact on the development of some producer countries. At the same time, there are issues around the ability to compete in international trade, particularly for less developed countries.

Initiatives on environmental improvement may have an impact on rural development, which needs to be considered while designing and implementing schemes.

Fair trade

Fair trade is a broad concept which goes beyond labelling. It is a practice of sustainable development encompassing its three pillars, i.e. environmental, social and economic sustainability.

Under fair trade conditions, producers get a premium for their products, which in turn contributes to developing the social and environmental aspects of their production and living conditions. Certified fair trade schemes include environmental standards, in accordance with the Charter of Fair Trade Principles developed as a guidance document by Fair Trade movements.

3. Consumer trust and choice

The fundamental aim of providing environmental information is to help consumers make better lifestyle choices from an environmental perspective. Consequently, the information provided

[3] according to FAO : http://www.fao.org/news/story/en/item/35571/icode/

must be relevant and the communication should educate and elicit the desired behavioural changes in the consumer. To this end environmental consumer communication should aim to:

1. Help enhance environmental literacy and consumer engagement on environmental issues;
2. Help consumers make informed choices with an enhanced knowledge of the opportunities and challenges regarding the environmental sustainability of products and the efforts undertaken to improve their performance.

Moreover, it is critical that the information provided is scientifically reliable, consistent, understandable and not misleading – otherwise, it will lead to accusations of "greenwashing" and eventually undermine consumer trust in the food chain. The effectiveness of the information depends also on consumer understanding of environmental issues. Therefore, all stakeholders (including governmental bodies, food chain operators, NGOs and the media) have a responsibility in improving this understanding otherwise there is a risk that consumer demand may conflict with effective environmental improvement.

More broadly, as the food chain operators work with its partners and civil society to address the twin challenges of environmental degradation and concerns regarding food security, it is important that consumers can continue to trust that any food or drink product placed on the market adheres to strict health, safety, animal welfare and environmental standards – in particular if these products are based on new technologies. To this end it is essential that the regulatory framework in place that provides the risk assessment upon which risk management decisions are taken remains science-based and independent. The role of organisations such as the European Food Safety Authority and the Codex Alimentarius in this respect are critical in providing this framework.

4. Health & nutrition

There are health benefits from measures aimed at greening the economy, such as reducing air or water pollution and mitigating climate change. These benefits may offset already an important part of the implementation costs.

In order to sustain humankind, it is vital to provide consumers with nutritious, healthy and safe food. Nutritional guidelines provide an indicator as to the dietary and health requirements of consumers and there should be no compromises in this respect. In turn, the supply of nutritious, healthy and safe food has to be environmentally sustainable.

However, the relations between environmental improvement and health, from a nutrition perspective, are complex and deserve a particular attention. On the one hand, environmental improvement can foster the nutrition, health and diet objectives. There may indeed be cases in which win-win situations are feasible in both dietary and environmental terms. On the other hand, there may be cases when supplying nutritious, healthy and safe food that is environmentally sustainable, or indeed vice versa, poses challenges. In these cases it is desirable to find a complementary approach which ensures a holistic concept of sustainability.

There is therefore a need to adopt the right balance between environmental objectives and health and nutrition objectives. Concerns around diet and health also have to be seen in a much wider context of choices and lifestyles rather than as something which can be adequately addressed through production-related legislation only. Improving environmental performance needs to be seen as a challenge to society as a whole and not something separate from consumer behaviour or public infrastructure.

5. Animal welfare

Animal welfare issues are given more and more attention in the food supply chain. Farming (including aquaculture), transport, processing and distribution methods have evolved towards meeting the increasing ethical concerns of EU citizens with regard to animal welfare. Good animal welfare helps to minimise disease which is beneficial for both food quality and human health. The "Community Action Plan on the Protection and Welfare of Animals 2006 – 2010" and its follow on initiatives are of relevance as they, amongst other activities, set down standardised animal welfare indicators.

Animal welfare may play a positive role in the protecting of the environment. However, it is not always evident that the environment benefits from animal welfare practices.

When considering measure it is therefore necessary to avoid conflicts between ethical concerns and search for ways to favour complementarities. Consumers should be enabled to make conscious, informed choices. Animal health and nutrition, animal rearing conditions and environmental protection should all be part of a coherent framework.

6. Land grabbing

Land grabbing is a growing concern for developing countries and may have major impacts on small farmers and land workers in countries where land rights are not clearly established. These issues should be carefully assessed when developing sustainability schemes and policies.

III. Recommendations and advice to the Round Table

III-a General recommendations

Context

Sustainability is a 'holistic' concept in two senses of the word. On the one hand, it means that meeting our present needs should not put future wellbeing at risk. The holistic sense of sustainability also implies shared responsibility and solidarity, which means taking into account the consequences on other stakeholders and society as a whole.

Recommendations

- In view of the holistic approach, it is imperative that policymakers **support vulnerable businesses, in particular SMEs and agricultural enterprises,** in managing the transition towards a sustainable economy to avoid undermining their ability to remain economically competitive.
- Public policies should **favour the application of market-based approaches** relying on socially and environmentally sustainable consumer demand. In particular, they should aim at increasing consumer awareness, creating a level playing field to avoid unfair competition and stimulating demand, e.g. by fostering green public procurement.
- **Unjustified environmental trade barriers should be avoided**, particularly because of the potential impact on producers from least developed countries.
- Generally speaking, **a positive and supportive approach must be applied vis-à-vis developing countries** in continuously cooperating to improve their environmental performance, e.g. through knowledge and technology transfer. Operators in least developed countries should be advised on the best available techniques and education and the sustainable farming technology to help their development.
- **Sustainable agriculture should be further developed and promoted by all actors** in the chain through identification and dissemination of sustainable farming practices at EU and global level. The knowledge gained so far from existing practices, such as organic farming or sound agricultural management can provide useful input to this objective. Also, animal welfare standards should be taken into consideration to act in a holistic manner. Relevant networks, such as the Enterprise Europe Network (EEN) [4], could be used to disseminate best practices to SMEs.
- When developing social aspects of sustainability schemes, **use should be made of internationally recognised guidelines such as the UNEP social LCA guidelines**.

[4] http://www.enterprise-europe-network.ec.europa.eu/index_en.htm

III-b Recommendations concerning the assessment of the environmental impact of food and drink products

Context

Life-cycle assessments (LCAs) can be an important source of robust environmental information. Primary and secondary data sets and their availability can have a significant impact on cost and quality. LCAs based on ISO 14040 and ISO 14044 are conducted by different food chain partners for various purposes and this variation can impact the usefulness and applicability of these tools beyond assessments for internal purposes. Furthermore, a wider range of standards are available and promoted by different bodies, causing further cost issues and confusion.

LCAs that are conducted in compliance with existing standards and recommendations currently involve costs that can range from around tens of thousands of Euros up to hundreds of thousands, which make their systematic use across entire product portfolios unrealistic and virtually prohibitive for use by SMEs. This is related to the complexity of assessment caused by some of the particular characteristics of the food chain, such as:

- Diversity of suppliers, operators, production methods, products etc. spread across the world;
- Lack of sufficient information upstream and downstream the food chain;
- Seasonality;
- Different transport options; and
- High uncertainties about the consumer phase.

LCA standards also leave a high degree of flexibility in making methodological choices and results are not universally comparable. This comparability is further hindered by the large uncertainty often associated with the results meaning that margin of error is in fact in several cases higher than the actual difference between products.

Recommendations

- Food chain operators, other stakeholders, civil society representatives and policy makers should collaborate at European and national level to **further harmonise standards and avoid putting at risk the internal market while maintaining a high level of environmental protection and social cohesion**.
- The EU should **adopt sustainability standards and act as a model within the international community**. The EU has been an internationally recognised sustainability standard-setter and thus can be seen as a reference for international trade. This should be further promoted through active involvement in international institutions like ISO, FAO, WTO, CODEX, etc.
- Governments, food chain operators, the scientific community and the NGOs should work together in Europe and globally to **establish a network of compatible open source databases** based on a harmonised environmental impact assessment methodology.
- **Group certification should be promoted** as a way to reduce certification costs for SMEs.

- Environmental assessment methodologies and communication tools should be designed in such way as to **avoid any disproportionate burdens for SMEs** (see Principle 8 of the RT "Guiding Principles"). Uniformity of underlying assessment methodologies across the EU and the development of an open sourced database for environmental information will reduce complexities and costs for SMEs (e.g. by preventing a multiplication of different reporting requirements to different suppliers).

III-c Recommendations on communicating the environmental impact of food products

Context

Initiatives can be differentiated into:

- Internal environmental targets internal communication & training
- B2B and B2C schemes

An increasing number of different initiatives to inform consumers and other stakeholders about various environmental characteristics of food and drink products have been introduced over the past years. This ongoing proliferation of different initiatives shows a high degree of diversity in terms of chosen scope, assessment methodologies and means and tools of communication. This situation presents a series of challenges for consumers, businesses and the environment alike:

- Undermined environmental effectiveness by driving consumer demand and environmental improvement initiatives into potentially adverse directions;
- Consumer confusion due to incoherent or even contradictory messages;
- Lack of consumer trust in the entire concept of sustainability and accusations of "greenwashing";
- Obstacles to the functioning of the Internal Market and international trade; and
- Increased complexities and costs along the supply chain.

Recommendations

- Common efforts by public authorities, food chain operators, civil society and the scientific community should be undertaken to **raise consumer awareness and enhance environmental literacy**.
- **A variety of appropriate communication tools should be chosen** to transfer relevant information to the different groups.
- **All the relevant actors (public authorities, NGOs, companies, etc.) should cooperate to raise awareness on the impact of waste along the supply chain** with a particular **focus on food waste** in households.
- **Use should be made of existing studies on consumer perception and behaviour** in order to inform to initiatives to drive more environmental sustainable consumption.
- Where there are gaps in this knowledge **the scientific community should be encouraged to take action**.

III-d Recommendations on continuous environmental improvement

Context

Sustainable supply chains are vital for the long-term competitiveness of all constituencies in the food and drink sector. There is a diverse range of environmental sustainability schemes within the food chain that go from internal, self-determined environmental targets to international and multi-actor initiatives, as well as a trend of corporate responsibility reporting of actions to promote sustainability. These schemes and actions indicate the enhanced attention of companies and organisations on their environmental performance. The emphasis on embedding environmental sustainability in operations is demonstrated, inter alia, by the co-operative sector, whereby cooperative enterprises apply the "7th co-operative principle", which foresees that "co-operatives must care for the communities in which they operate" and includes the obligation to work for their sustainable development by engaging in environmental sustainability initiatives.

In addition to a shared commitment to environmental sustainability or to co-responsibility, several factors positively influence companies' decisions to get involved in such initiatives. These include:

- Corporate image of the company and relations with civil society
- Long-run costs savings from avoiding resource loss (energy, water, raw materials, fertilisers…)
- Sustainable use of resources
- Pro-active self regulation and avoid unnecessary administrative burden
- Benefit from incentives created by environmental legislation (potential to avoid eco-taxes, to get emission credits…)
- Go beyond environmental legal requirements

In any case, at enterprise level, senior management support is essential for the success of an initiative.

Only a careful approach and a long-term view may encourage innovation in a way that is favourable both to the business, consumers and the environment. If not carefully designed and tested, attempts to address only one life-cycle stage or environmental impact category in isolation can unfortunately be counterproductive from environmental, economic and social points of view.

For example, badly designed sustainability initiatives may:

- Transfer environmental burden from one part of the life-cycle to another or from one environmental impact category to another;
- Cause product failure, which has negative economic impacts in terms of costs associated with product losses, and negative social impacts when products reach consumers in a poor or unhealthy condition;
- Cause unwanted market distortions, resulting in loss of market share and significant economic damage;
- Cause supply chain disruptions; and
- Damage corporate reputations.

Recommendations

- **Environmental sustainability initiatives should be embedded in the supply chain** in order to gather a wide range of actors, as per the holistic approach. Such initiatives should focus on issues where the highest potential for environmental improvement lies. Areas that not only improve environmental sustainability but also reduce business costs and boost productivity are most likely to succeed.
- Policy makers should **adopt innovative incentive schemes** aiming to support sustainable initiatives and investments. Public support schemes to eco-innovation should be further developed.
- **Tailor-made tools should be adapted to the food supply chain**. Such tools should promote harmonised methodologies for environmental assessment and continuous improvement.
- Public authorities should **continuously promote best practices**, e.g. through "BAT" references. In parallel, food chain **operators should cooperate by sharing logistics and best practices**.
- **Information on environmental improvement options and public support schemes must be made available** to operators in an easy to understand manner.
- **Required expertise**, e.g. in the form of environmental and energy audits, **should be provided to operators at low or no cost** through public funds or voluntary initiatives throughout the chain, such as mutual recognition of standards.
- SMEs require investment support (information on investment parameters, availability of funds). **Support schemes for SMEs should be implemented** at national, regional and local level.