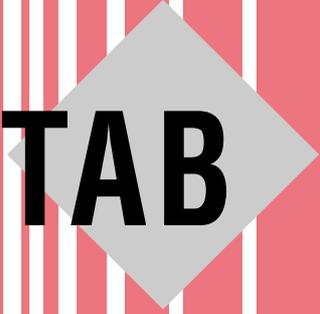


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TAB

Potentials for the expansion of regional food supply

Summary



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SUMMARY

Potential undoubtedly exists for expanding the regional food supply, and this could be more efficiently and professionally exploited. However, there is a need for greater attention to the economic framework conditions and developments in consumer demand, and for more specific promotion of cooperative ventures in the supply chain.

The present report comprises one of the three parts of the final TAB reporting on the TA project »Trends in food supply and demand and their consequences«, carried out at the suggestion of the Committee for Food, Agriculture and Forestry (now the Committee for Consumer Protection, Food and Agriculture). The two other parts are »Potential for improving food quality« and »Potential for improving consumer information«.

Objective and key topics of the report: interactions between regionality and quality aspects

Regionality is playing an increasingly important role in the debate about the production of food, in view of the trends towards concentration, levelling and globalisation in the food sector. Among consumers, there is considerable interest in food of regional origin. Among other factors, this interest is the result of emotional ties to home region and other regions, and the desire for variety and change.

Stronger promotion of regional food production and marketing is accordingly a goal which is being pursued by many sides. There is, however, often confusion about how realistic this effort is. It is not unusual for idealised goals to run into unimaginative profitability arguments which take price and turnover as the sole parameters, without making any effort to consider further (quality) criteria.

It is impossible to give a general answer to the question if and when regionality can mean increased quality. Regionality would, at the same time, facilitate transparency, proof of origin and traceability as central requirements of food safety policy.

The TAB study accordingly was not concerned with supplying a rationale for or opinion in favour of or against stronger regional orientation in the food supply. Its commission was to investigate the following questions:



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- > Which foods are particularly suitable for regional production?
- > What chances do regional food processing and marketing have in the face of growing corporate concentration?
- > What supportive and what obstructive influences derive from EU policy and global trade agreements?
- > What sales channels are particularly suitable for regional food production?
- > What new interactions are required to regionalise the food supply?

The diversity of arguments for and against strengthening regional food production and marketing is reflected in a range of different terms and definitions, approaches and levels of action. These are presented in an overview (section II). There was no scope or mandate in the TAB project for a more detailed analysis of the enormous diversity of existing regional initiatives and projects – mostly multisectoral – which very often include aspects of regional food supply. Detailed information on these activities is available over the relevant Internet portals (including <http://www.modellregionen.de>, <http://www.reginet.de>, <http://www.regionalvermarktung.info>, <http://www.nachhaltig.org>).

As the heterogeneity of approaches to regional food supplies made it impossible to study all facets of regionality in food, the report focuses on selected developments and fields of action which are particularly important for further political treatment of the issue of regionalising the food supply, and on which comparatively little information has been available on to date.

Two themes are accordingly treated in particular detail, the current and possible future regional dimension of the German food industry as a whole, including and specifically with regard to the conditions imposed by the trends towards concentration and globalisation (section III.2), and the importance and use of protected labels of origin under EU Regulation 92/2081/EEC (section III.3). Forms of public regional promotion from EU to local community level are reviewed (section III.1), motives and problems of actors in a regional food supply are discussed in a general presentation ranging from factors determining consumer demand to questions of logistics and communication (section III.4).

Possibilities for action to enhance and utilise potential for regional food supply (section IV) are described in the context of three scenarios for the food sector which pull together the possible longer-term lines of development of all three parts of the TA project (i.e. including quality and information and labelling): »polarisation«, »convergence« and »differentiation«.

GOALS OF THE STUDY: OVERALL APPRAISAL, FIVE GUIDELINES

The issue of a regional food supply is highly controversial in science and politics, because of the extreme heterogeneity of interpretations, motives and goals in dealing with this field. Reasons for misunderstanding and controversy include e.g.

- > at interpretation level the lack of distinction between regional food production, processing and marketing,
- > at motivation level, value conflicts between »holistic« but small-scale regional projects in the NGO sector and food industry activities aimed at larger markets, and
- > at goal level the resulting programmatic restriction to one region (even where there are supraregional chances of success) or limitation to the parameter of competitive equality without taking regional peculiarities into account.

As part of the overall concept of the TA project, the present TAB report focuses on the question which quality aspects will have (macro)economic significance in the medium and long term for raising the share of regional foods, and how these can be communicated to consumers. Summarising, the overall appraisal is:

- > Significant expansion of regional food supplies will only be possible through food retailing – direct marketing or sales through restaurants and other major customers will remain niche markets (although for individual producers and as part of multisectoral projects – such as tourist projects – these will definitely be significant).
- > Regionality alone is not a viable product characteristic for lasting success. To survive against national and international competition, which increasingly is extending to the organic segment as well, regional products must present specific qualities. Geographic proximity to origin is only perceived as an additional benefit in the case of particularly perishable foods (such as meat), and then by a portion (in phases heavily fluctuating) of consumers.
- > In the organic sector in particular there is a concrete but limited prospect of a regional food supply in the narrower sense of the word, based on nostalgia for a conscious, holistically-grounded regional attachment to organically produced food, which can be successfully offered to a small but prosperous group of buyers as a feature of premium quality (»organic plus«).
- > The most promising economically (and also compatible with EU law and policy) seems to be developing regional products into regional specialities with protected declaration of origin. Marketing is logically not limited to a region



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- on the contrary, it looks for the broadest possible market. In Germany in particular, the possibilities of the EU labels of origin are still far from exhausted.
- > Not all regional foods qualify as specialities. »Standard products« competing with supraregional suppliers can succeed particularly in the middle price segment. Again, producers of such regional goods cannot logically limit their sales region, and have to take advantage of opportunities to expand their markets. The regional nature of the German food industry seems (still) to be greater than generally assumed.
- > The »megatrend to convenience« is distinguished by the high degree of processing of a large number of raw materials and intermediate products, and poses special challenges in technology, quality assurance and delivery quantities. For smaller regional suppliers in particular, this poses a major and often unmanageable challenge.

Based on these assessments and the overall view of the TA project, five guidelines for realistic analytic and critical assessment of the political goals and possible promotion of the regional food supply itself are formulated. These guidelines are important for policy, not only at Federal level but also at other political levels and for other actors.

Taking an open approach to questions of regional food supply – avoiding imbalances – setting realistic goals

It seems neither helpful nor appropriate to exaggerate the ecological, economic and social (problem-solving) potential of a regional food supply, or to condemn it globally on the basis of heavily reductionist ecological balance sheets or (agro-)economic cost-benefit calculations. Regional production and marketing of food is neither inherently environmentally friendly and socially sustainable nor intrinsically wasteful of subsidies and protectionist.

Actors, supporters and promoters of regional food production should always be aware of the specific claim, potential capability and realistic limits, and communicate these in order to avoid false expectations.

Distinguish between regionality of production, processing and marketing, and combine them appropriately on a case-by-case basis

The »degree of regionality« in a food's life cycle should not be set dogmatically, as this might destroy opportunities. It seems incomprehensible and even counterproductive for regional promotional programmes to set a condition of su-

praregional marketing of products or exclude regional marketing activities from promotion or to make it impossible to develop potentially successful supraregional products and marketing further for programmatic reasons. The suitability of regional products for a given sales channel should be determined primarily on their specific quality.

Define, differentiate and communicate regional product quality – from on-farm sales to global distribution of specialities

Successful marketing of regionally produced food, whether regional and even just local or supraregional and possibly even global, depends exclusively on a clear quality definition which is convincingly communicated to consumers and experienced as such by them. Claims in terms of scope, labelling, comprehensibility or traceability and controls grow with increasing size of the marketing area or channel, from direct distribution to food retailing. Only in a few cases is regionality alone sufficient for success. Objectively demonstrable quality criteria of concrete benefits to consumers or supplementary emotional attributes are becoming increasingly important.

Modify structures, create synergies, promote cooperative ventures

Increases in quality, appeal and efficiency of regional food production and marketing could be achieved specifically through improved horizontal and vertical integration and (even greater) expansion of overarching cooperative ventures. More systematic effort should be put into promoting suitable links and synergies. This relates to deliberate links to regionally-based cultural and tourist traditions, structures and activities, and to greater attention to the needs e.g. of supraregional food retailing, although the adjustments are very different in the two cases. In the first case, they involve individualisation and specialisation of the regional product, in the second case standardisation and professionalisation.

Promote professionalisation, remove obstacles

Depending on the producer establishment, processing structure and distribution channel, the emphasis may be more on the necessary professionalisation or removing potential obstacles. Major obstacles are created both by deficiencies in processing, marketing and logistics structures and by problems with attitudes and motivation for (potential) actors. Central structures, such as abattoirs or dairies, or generally applicable hygiene regulations for food processing have specific impact on exploiting the potential of a regional food supply.

OPTIONS FOR ACTION – PACKAGED BY SCENARIO

Options for action to increase and exploit the potential of a regional food supply can be assigned to the three scenarios formulated in the TA project for the future development of the food sector: polarisation – convergence – differentiation. The options are alternatives, which would need to be operationalised through specific steps.

Polarisation

The »polarisation« scenario assumes a long-term crystallisation of the two primary qualities »conventional and »organic«. Approaches to »internal differentiation« between conventional foods have little success in this scenario, with organic foods dominating the higher price segments. As the market share of the middle price segment for food continues to shrink, and regionally produced foods are less competitive in the low price segment, this only leaves the upper price segment for them. Success will be limited to genuine specialities and organic products with regional origin as an additional quality (»organic plus«). Other qualities and products from and for the region are left with small niches, e.g. under supraregional tourism, Agenda 21 or cooperative projects. This scenario has the following options:

- > Fleshing out the Common Agricultural Policy: Even greater priority to promoting specific production processes, and particularly organic farming and other eco-friendly methods of cultivation, would further strengthen the organic segment.
- > Brands, labels and programmes: protecting the origin of organic foods – new label: »Organic plus«. A new premium area with particularly strict requirements could be defined and labelled (»Organic plus«) within the growing organic segment, with one of the requirements being regional origin.
- > Another priority could be concentrating on establishing and utilising EU-protected labels of origin under Regulation 92/2081 EE, which requires inter alia creating institutional elements in the state administration. This would presumably have to be done at the expense of promoting other regional labels.

Convergence

The »convergence« scenario assumes that demands for the various production systems will move together, ranging from aspects of food safety to standards for environmental protection and animal welfare. As a result, the quality level in the conventional segment would rise, while quality in the organic segment would at

best stagnate, if not decline. This could well be the result of growing success in the sense of greater market penetration by organic food, if e.g. increasing use is made of traditional processing and marketing channels or international procurement expands. The general convergence of the quality standards will mean a decrease in the importance of individual product characteristics. Regionally-produced foods compete almost exclusively through price with supraregionally-produced goods, including in the organic segment. Besides price, the emphasis is on direct benefits to consumers, specifically the convenience factor. Corresponding expansion of the product range by regional producers is likely to result only through major mergers, and requires a high degree of professionalisation. This scenario has the following options:

- > **Fleshing out the Common Agricultural Policy:** even greater linkage of direct payments to the level of standards met in production (environmental protection, nature conservation, animal welfare and food safety) or direct and general increase in statutory minimum standards raises the basic quality but reduces opportunities for differentiation.
- > **Brands, labels and programmes:** the general rise in level also involves approximation to the point of harmonisation of regional labels at German Länder level, for which the Bavarian regional seal as approved by the EU is an example.
- > **Processing and marketing structures:** investment aid should be used primarily to establish logistics structures and marketing channels for large producer associations, as in the long term only these will be able to produce a broad product range at competitive prices.
- > **Upgrading:** to establish professional production and marketing structures, qualification measures are essential at all stages of the production chain. This applies to both training and upgrading for those involved and to solving attitude and motivation problems.

Differentiation

The »differentiation« scenario describes growing segmentation of the food market in which growing differentiation of consumer wishes is reflected in definition, labelling and advertising of different quality criteria, ranging from animal welfare to environmental conservation to enjoyment, nutritional and health value and convenience. The regionality of foods is – alongside product diversity – an almost ideal differentiation feature, as it can address and reach a very wide range of target groups with different messages through various marketing – channels. Depending on suitability, the emphasis can be on origin alone, or a resulting special quality (environmental and social benefits, health benefits, enjoyment, exclusivity), or if ties to tradition, identity, personal origins, pioneering sustainable production concepts or gourmet needs, the relevant products can be



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distributed from levels ranging from farmers' markets to Internet gourmet channels. This scenario has the following options:

- > **Fleshing out the Common Agricultural Policy:** the differences and special features of regions can most easily be differentially addressed within the framework of strengthened promotion of integrated (rural) development.
- > **Brands, labels and programmes:** quality seals could become more strongly regional, regional labels would have to be more strongly qualitatively distinguished. Depending on the nature of the project, an »umbrella sustainability seal« could emphasise the primary dimension (ecological – economic and structural improvement – social).
- > **Processing and marketing structures:** existing regulations particularly with impacts on the food craft trades should be reviewed and if necessary amended, in future updating of regulations, the needs of small establishments should be systematically taken into consideration (for the purpose of comprehensive inclusion of quality dimensions). Decentralised processing structures (abattoirs, dairies) would have to be reactivated or newly constructed.
- > **Communication:** further differentiation in the supply of regional foods would have, above all, to be associated with differentiation in information and communication. Depending on the project, product and target group, different qualities of regional products would have to be advertised, ideally in connection with existing consumer trends (including health, wellness, enjoyment, exclusivity, naturalness, tradition, homeland).

An option in all scenarios: protected labels of origin

More intensive use of protected labels of origin basically fits into all scenarios, first because this requires a clear link with quality and second because there is clear need for catching up here in Germany. The two following approaches to action accordingly cover all the scenarios:

- > **Processing and marketing structures:** at least in an initial phase and in the longer term for regions of with particularly weak structures, public (co)financing for the establishment of producer cooperatives and (initial) operation of control and certification agencies in the sense of Regulation 92/2081/EEC could be necessary.
- > **Research, upgrading, communication:** the basic measure for expanding protected origins of regional specialities is systematic documenting and suitability testing of existing products in terms of possible protection as geographical specialities. This is followed by testing and – if necessary – modification of production and producer structures.



- > The EU will take over 50% of information measures (i.e. advertising activities) if the public sector contributes 20% and producers 30%.

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