

FOOD MILES/SUSTAINABILITY MARKET INTELLIGENCE

January 2009 Quarterly Report

The growing importance of sustainability as a market driver in some of New Zealand's food and beverage export markets has led the Ministry of Foreign Affairs and Trade and New Zealand Trade and Enterprise to prepare a quarterly report for business people highlighting trends and issues in key markets.

GERMANY

IN SUM:

- Seven in ten Germany consumers consider that buying locally-sourced fruit and vegetables would help support sustainable consumption.
- The German network of consumer advisory centres has called for mandatory Country of Origin labelling and continues to lobby for EU-wide mandatory "traffic light" nutritional labelling that uses different colours to indicate the nutritional values of products.
- Results from the private sector's pilot study into product-level carbon footprinting show that it is increasingly valued as a management tool, rather than as a marketing instrument.
- An article on carbon footprinting in the wine sector's leading magazine made mention of initiatives under way in New Zealand.
- Marine Stewardship Council (MSC) certified fish is gaining market share in Germany, and the first German fishing fleet has been awarded an MSC label for its pollock fishing in the North Sea.
- Farmers and food producers are being encouraged to promote the regional origin of their produce.
- A number of non-government organisations and trade unions have joined together to launch an initiative promoting social and environmental standards along the whole supply chain.
- A government study into carbon footprinting continues, with methodology recommendations scheduled for release in May 2009. In line with industry thinking, the government sees value in carbon footprinting as a tool to help reduce emissions but remains sceptical about the benefits of carbon labelling.

CONSUMER TRENDS

Affordability

Fresh food has been cheaper recently than it was twelve months ago, according to Germany's central agricultural market and price reporting office, ZMP. Consumer

confidence remains modest but stable despite the current global economic crisis. The monthly GfK consumer climate survey has identified lowering inflation (down to less than one percent year-on-year) and recent wage increases as positive factors, but warns of the detrimental effects of the expected increase in unemployment in Germany during 2009. See www.gfk.com/group/index.en.html

Buy local

When asked how they could best support sustainable consumption, seven in ten German consumers replied that buying locally sourced fruit and vegetables would help, according to the Federal Environment Ministry's (BMU) bi-annual *Environmental Awareness Survey*, the results of which were released in December 2008. While the survey found that moral support and actual shopping behaviour are two different things, a global ACNielsen survey (released October 2008) confirms a relatively high affinity to the concept. Asked what citizens could do against climate change, "buy local" came out first of a list of seven suggested measures in Germany, with a support rate of 28 percent (compared with 17 percent for all of Europe; support was highest in Austria and Switzerland).

The German Council for Sustainable Development, an advisory body established by the government, has issued a free consumer guide *The Sustainable Consumer Basket*. It recommends: "healthy" food; organic produce; locally sourced seasonal fruits and vegetables; reduced meat consumption; fish from sustainable sources; fair trade products; and beverages in returnable bottles. As a rule of thumb, food should be "organic, seasonal and regional, though products from overseas may have an acceptable energy balance". Finally, it says that a sustainable farming label – along the lines of the labels of the Marine Stewardship Council (MSC) for fish and the Forest Stewardship Council (FSC) for wood-based products – would be useful.

Food safety

The large-scale dioxin contamination of Irish pork (as reported in the UK market intelligence report for January 2009) has been widely covered in the German media yet meat consumption seems largely unaffected, possibly because Irish exports into Germany are low.

Country of Origin Labelling

In its submission on the EU's Green Paper on agricultural product quality standards, VZBV, a network of consumer advisory centres, confirmed its call for mandatory Country of Origin labelling including for processed products. It also wants consumers to be told whether production standards in exporting countries are lower (or higher) than those in the EU. For a copy of the EU's Green Paper, see http://ec.europa.eu/agriculture/quality/policy/index_en.htm.

Healthy nutrition

VZBV continues to lobby for EU-wide mandatory "traffic light" nutritional labelling that uses different colours to indicate the nutritional values of products, suggesting that EU regulations need to be fairly prescriptive as far as the layout is concerned. A recent survey by market research agency TNS found that 84 percent of German consumers want mandatory "traffic light" nutritional labelling.

Carbon labelling

Two recent surveys confirm the general interest of German consumers in carbon labelling. According to the BMU's Environmental Awareness Survey, when asked what should be done to combat climate change one in four respondents saw mandatory labelling – covering both production and use – as a priority. However, nearly 60 percent then went on to say they were not prepared to pay a premium for carbon labelled products. Slightly contradicting these findings, GfK's national *ConsumerScope Survey 2008* found that one in two would consider a carbon label when shopping and opt for a climate-friendly alternative, even if it was more expensive.

VZBV seems to have lost its initial interest in carbon labelling (it hosted a conference on the topic in early 2008), possibly because of the complexity of the issue and fears that consumers could be overwhelmed with information.

Food miles

References to "food miles" still appear occasionally: the German branch of Friends of the Earth (BUND) offers free posters and computer screen wallpapers that claim: "Travelling fruit endangers the climate."

Sustainable food production

A new study presented by BUND claims that German meat and dairy production contributes heavily to the logging of rain forests, due to the large amount of soy imports needed for animal feed. BUND says that as a consequence, European meat and milk production should be reduced and a farm's herd size linked to the land it cultivates. BUND goes on to state that ambitious climate goals are needed for the agricultural sectors, and that consumers should eat less meat.

Sustainable seafood

Marine Stewardship Council (MSC) certified fish is gaining market share in Germany, according to the German WWF. Nearly 30 percent of the available fish from wild catch are reportedly now sourced from certified fisheries. Separately, *ÖkoTest*, a German product testing magazine, found that while shrimps on the market were of good quality, most products performed badly on sustainability considerations, regardless of whether they were from wild sources or aquaculture.

Organics

Organic food sales continue to grow, although at a slower pace than in previous years. According to the latest annual Eco-barometer survey, food safety and quality are the key aspects German consumers consider when opting for organic products. An increasing number (40 percent) also stressed the relative climate-friendliness of organic produce. In a separate ZMP study, the origin (of organic meat in particular) was identified as another decisive factor. ZMP reports that information about the farm, the processor and possibly the source of the feed helps to differentiate a (preferably German) product from a no-name product.

In its submission on the earlier mentioned EU Green Paper on agricultural product quality, VZBV called for stricter controls of third-country organic imports, because it believes guarantees provided from these producers may not be sufficient.

Animal welfare

VZBV also called for binding animal welfare labelling. In the same way that eggs are currently labelled ('cage', 'free range' etc), VZBV argues that different levels of animal welfare should also be defined and communicated for other products (e.g. meat). The organisation suggests that European produce would not necessarily be found to be of a very high standard, while third countries with pastoral farming could benefit.

Genetically Modified food

German consumers remain highly opposed to (Genetically Modified) GM food. Two thirds would opt for a GM-free product if they had a choice, according to a representative survey done by GfK for Greenpeace in November 2008. Some 80 percent are prepared to pay more for certified GM-free milk (i.e. the feed for the cows was GM-free). Three in four agree that all dairy processing plants should be supplied only with GM-free milk. Greenpeace suggests that a swap to GM-free feed would increase costs by just one cent per litre. It has launched a campaign inviting consumers to each send one Eurocent to German milk processors and thereby express their willingness to pay a premium for GM-free milk.

Fair trade

Sales of fair-trade goods (including non-food items) grew by 25 percent in the first half of 2008, compared with the previous half year, to nearly €80 million. Sales of juice and coffee grew particularly quickly. According to the BMU Environmental Awareness Survey, nearly all Germans (largely) agree that trade between the rich and developing countries should be "fair". Another survey, conducted by Infratest, found that 80 percent are prepared to opt for fair trade products and support producers committed to social development and environmental protection. Two thirds said they would be prepared to pay a premium, if this was to the benefit of producers. On the other hand, an ACNielsen survey reports that one third of German consumers are not yet aware of the existing availability of fair trade products and others had difficulty identifying fair trade products, or believed they were available only at specialised stores.

PRIVATE SECTOR ACTIVITY

Carbon footprinting

The German Product Carbon Footprint (PCF) pilot project presented its results and recommendations on 26 January 2009. Fifteen case studies were undertaken, four of which covered food and beverage products. PCF is generally found to be a suitable tool for assessing (and eventually reducing) a product's impact on the climate, provided a global harmonised methodology is established and the whole life cycle of the product is covered. The case studies revealed that emissions 'hot spots' can differ significantly from product to product, for example the use phase may be irrelevant for some products, but account for most of a PCF for other products.

The following PCF limitations were identified:

- it risks ignoring other environmental impacts that could actually be more relevant;
- the level of accuracy that can be achieved is limited;
- the work required to calculate a sound PCF is immense; and
- PCF is not always the best tool to assess a product's impact on the climate.

The communication of PCF to consumers is deemed useful only if greenhouse gas emissions are a key factor in a product's sustainability performance and if it enables consumers to make a real difference through their choice and/or use of that product. REWE and Tengelmann, the two food retailers involved in the project, said that while applying PCF labelling was not on their agendas, the methodology would provide a useful tool to work with suppliers on emissions reductions. See www.pcf-project.de for more information, including the case studies.

AGVU, a consortium of German industry, retailers and recycling companies, has welcomed the concept of PCF in principle, but warns of inconsistent application and calls for greater transparency of the government's PCF work (see Government Activity). To help develop a joint approach of German business, it has established its own study group.

German wine growers are paying increasing attention to carbon footprinting. The sector's leading magazine, *Der deutsche Weinbau*, recently published an article about the consequences of climate change to the industry and looked at carbon footprinting and food miles, mentioning New Zealand initiatives and discussing the benefits of shipping vs. road transport. It commented that carbon neutrality was on the agenda now, and that wine growers should pay more attention to it, including in their marketing.

Energy efficiency

Food industry magazine *Lebensmittelzeitung* reports that promoting energy-efficient logistics is a big issue, even going as far as collaboration between competitors. For example, Mars now shares a warehouse with its rival, Ferrero. Tengelmann has opened a pilot 'climate supermarket', which is a state-of-the-art store striving to use 50 percent less energy and based on the greater use of renewable energies and heat savings. Goods are to be supplied by low-emission trucks.

A restaurant has opened in Berlin claiming to be the first certified climate-neutral restaurant in Germany. Features include the use of biogas and renewable electricity, staff that live close to work, and local sourcing. The restaurant manager is quoted in a local newspaper saying: "Why does meat have to come from Argentina or New Zealand? Meat from the region is just as tasteful."

Sustainability in the supply chain

Significant sustainability activity is under way in the seafood sector. A German fishing fleet has been awarded the MSC label for its pollock fishing in the North Sea. The move is expected to trigger a wholesale premium of around 10 Eurocents per kilo. The company is now seeking certification for its herring fishing in the Baltic Sea. On the retailer side, Germany's biggest direct marketer of frozen food, Bofrost, has listed its first MSC-certified product, saying that eventually "as many fish products as possible" should follow. Greenpeace has published a ranking of retailers, recording progress in

the sustainable sourcing of seafood (e.g. with Aldi-Süd and REWE) but blaming others for failure (including Metro and Tengelmann). In an interview with a German weekly, a Greenpeace fishing expert commended the MSC scheme but regretted that New Zealand Hoki was included, despite the by-catch involved. Germany is said to already be the world's biggest market for MSC-certified fish, and the German Retail Federation is said to have recorded a shortage in sustainable seafood supply.

Tegut, a medium-sized retailer, has been awarded the first German sustainability award (a private initiative), for its business strategy. The jury commended Tegut's application of sustainability principles across the whole supply chain. For instance, Tegut purchases meat from family-run farms in a biosphere reserve, to the benefit of both the businesses and the landscape. The retailer runs some 350 stores and offers a broad range of organic and regional products.

Local sourcing

Farmers' Union president Gerd Sonnleitner has urged farmers and food producers to strongly promote the regional origin of their produce. A recent example is a new co-operation between retailer Edeka and the German Slow Food initiative, where the Edeka headquarters will allow local store managers to independently source and promote more regional produce.

Corporate responsibility

Nearly 20 non-government organisations and trade unions have joined forces to launch an initiative investigating the market power and practices of German retailers. The movement promotes social and environmental standards along the whole supply chain and calls for effective legislation, control, sanctions and labelling. A study commissioned by VZBV has found strong examples of best practice corporate responsibility among German retailers (e.g. food retailers Alnatura and Tegut), but urges them to do more, especially when listing products.

Organics

The share of organic farmland in Germany is increasing, now reaching some 5 percent of total agricultural land.

In the fruit and vegetables sector, market share for organics has reached 10 percent. In meat production, the share is highest for sheep and goat (8 percent, low absolute numbers), followed by beef (4 percent), pork and poultry. Organic milk production has also been growing, one reason being the increasing premiums paid. On the retailers' side, supermarkets and discounters continue to increase their market share, whereas specialised stores face difficulties and occasionally have had to close outlets.

Healthy nutrition

Farmers, food industry and retailers have issued a joint resolution on the EU's food labelling review. The resolution said that while the need for mandatory nutritional labelling was "not evident", any requirements eventually introduced should be applied EU-wide and in a harmonised way. There should be no obligation to put nutritional

information on the front of packaging, and no minimum font size. For more information on the EU review, see http://ec.europa.eu/food/food/labellingnutrition/foodlabelling/proposed_legislation_en.htm

Animal welfare

A number of major retailers, including Edeka, Aldi, Lidl and Tengelmann, have reportedly promised to delist all “cage” eggs, even though only larger cages (as opposed to batteries) have been allowed in Germany since 1 January 2009. The German animal welfare union has welcomed the move.

GM-free milk

Dutch dairy co-operative Campina has started marketing its milk in Germany as ‘GM-free’ under German regulations, i.e. guaranteeing that the cows producing the milk are fed with GM-free feed. Other products sold under its popular Landliebe brand are to follow, including cheese. While supplying farmers are reportedly receiving a premium, Campina says it will not seek higher retail prices for the GM-free products. The move has enjoyed much attention, with GM-free labelling previously used only by niche producers. The German milk industry association sees this development as an “interesting field trial”, but retailers are reported to have their doubts about the idea. Other major food suppliers are said to be watching developments closely and could possibly follow.

Fair trade

The variety of fair trade products listed by retailers continues to increase, for example discounter Penny’s now offers wine (e.g. Cabernet Sauvignon from South Africa) and oranges. New product groups made available to German consumers include pepper and ice-cream from Danish manufacturer Skee.

Food safety

The German Retail Association has urged the federal government to take a tougher stance on pesticides. In a letter to the new federal Agriculture Minister it promotes the reduction of residue levels below maximum legal levels, as is already actively pursued by some retailers.

GOVERNMENT ACTIVITY

General sustainability policy

The German federal government has published a national sustainability progress report that also covers farming and sustainable consumption. The government is aiming for a 20 percent share of organically farmed land (current share is 5 percent), but has abandoned the target date of 2015 set by the previous government. It also aims for a nitrogen surplus reduction from currently 100 kg/ha to 80 kg/ha (the German WWF has recently suggested a nitrogen tax imposed on farmers).

At its party conference in early December 2008, the co-ruling Conservatives adopted their first explicit sustainability agenda. The party supports the development of new

environmental and climate labels, including for food, initiatives explaining the “links between local sourcing, quality and the saving of resources” and mandatory Country of Origin Labelling for food.

Carbon footprinting

Government work continues on a PCF methodology, as undertaken by BMU and the Öko-Institut (and in addition to the industry-led PCF pilot project). A workshop of national experts was held in September 2008 and a questionnaire has been sent to selected companies to collect their views about the requirements and application of a PCF methodology. An international workshop of experts in early February will inform the final methodological recommendations, due for publication in May 2009.

In line with the initial findings of the industry pilot study, BMU considers PCF a tool to record and help reduce greenhouse gas emissions, but remains sceptical about the benefits of PCF labelling. Instead, the scope of BMU's Blue Angel label, the German equivalent to the Environmental Choice New Zealand label, has been extended to cover “climate-friendly” products. The new category will mainly look at products' energy efficiency when in use (as opposed to a full life cycle assessment), and will therefore focus on (for example) electrical devices and possibly insulating materials, but not on food and beverage products. BMU says it has no interest in creating other new official climate labels.

Healthy nutrition

The German regional Ministers for Consumer Affairs have confirmed their preference for Europe-wide mandatory and fairly prescriptive “traffic light” nutritional labelling. The federal agriculture and food ministry (BMELV) backs the concept in principle, but still seems reluctant to promote mandatory “traffic light” nutritional labelling, reflecting the division within the ruling coalition of Conservatives and Social Democrats on the issue.

The federal government is considering a mandatory label on alcoholic beverages (as applied in France), warning pregnant women about the risks of consuming alcohol.

Food safety

The German parliament has adopted a cross-party motion calling for stricter controls of pesticide residues and better European harmonisation. The federal government is urged to control imports better.

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