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ASSESSING THE IMPACT OF
MANDATORY COUNTRY OF ORIGIN LABELLING ON
THE SALT INDUSTRY

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Introduction to the salt industry

In view of the article 26(5) of Regulation (EU) N°1169/2011, Agra CEAS Consulting is to carry out assessment studies on the impact of mandatory country of origin labelling (COOL) or place of provenance on three food categories:

- Unprocessed foods,
- Single ingredient products, and
- Ingredients that represent more than 50% of a food.

As one of the raw commodities commonly used in the food processing industry, as well as directly marketed to the consumer, food grade salt is subject to this study.

In view of the sector-based consultation, EuSalt hereby aims to provide detailed information about the effective procedures that characterise the production and distribution of food grade salt. Likewise, the current document holds the industry's assessment of the impact mandatory COOL would have on its activities and structure.

The salt industry estimates that introducing mandatory labelling of the country of origin or place of provenance would present numerous challenges due to supply chain characteristics and changes it would induce with regard to the sectors organization, that might impact the cost-effectiveness of the current system. These elements are detailed below.

A. Definitions

1. 'Country of origin' and 'place of provenance'

According to EU Custom Codes and articles 23 to 26 of Regulation (EEC) N°2913/92, country of origin is defined as follows:

'[Country of origin covers] mineral products extracted in that country' (This is the case of rock salt and vacuum salt). 'Goods whose production involved more than one country shall be deemed to originate in the country where they underwent their last, substantial, economically justified processing or working in an undertaking equipped for that purpose and resulting in the manufacture of a new product or representing an important stage of manufacture' (this applies to sea salt).

In addition, article 2(2) of regulation (EU) N°1169/2011 refers to the 'place of provenance' as 'any place where a food is indicated to come from, and that is not the "country of origin" as determined in accordance with articles 23 to 26 of Regulation (EEC) N°2913/92'.

In view of the Union Custom Codes and the differentiation interpretation above-mentioned, the salt sector regards the last place of substantial transformation as the most accurate indication of origin for it confers the commodity most of its value.

B. Supply Chain Characteristics

Food grade salt is a raw commodity widely used on a daily basis and is supplied to a wide variety of food processing industries, as well as the individual consumer:

- Business-to-Business: food grade salt is provided to the food processing industry. It is used in the production of a large variety of foods, such as bread, soups, snacks, ready meals, and so on.
- To the end consumer: salt producers supply individual consumers via retail stores, as well as restaurants.

1. Sourcing practices

Salt, including salt meant for human consumption, may be produced from two sources:

- From sea water (commonly designated as sea salt) or natural brine flows, and
- From rock salt deposits that are extracted through mining techniques or drilling into salt layers.

Regardless of the source, however, salt is defined by the characteristics and quality of the end product. The latter shall comply with requirements laid down in national legislations, unless stated otherwise¹. The latter criteria impose a minimum purity of 97% of sodium chloride on dry matter basis.

Apart from small salt undertakings, a producer often own several production sites located in different regions, countries, or even continents. The only determining factor so as to the possibility to market food grade salt lies in the end product's compliance with and hygiene regulations.

In addition, production levels may vary due to seasonality and weather conditions, especially for sea salt². Indeed, the latter is harvested during the summer months (from June to September) and is highly dependent on good weather conditions for it requires the combined action of the wind and sun. Flexibility of supply is, therefore, essential for salt producers to cope with natural vagaries while fulfilling their contracts.

2. Production Model

The impossibility to predict production levels per site makes flexibility and interchangeability a necessity. It also influences the company's structure and production methods used, which rely on batches, rather than on continuous processes.

Given that the quality of the end product is the decisive factor, salt produced in different regions or countries are often part of a same batch, depending upon availability and demands. The country of origin affects neither the technical properties of the product, nor its taste or colour.

Hygiene requirements laid down in Regulation (EC) N°852/2004 compel salt producers to guarantee the safety and traceability of their products through Hazard Analyses and Critical Control Points

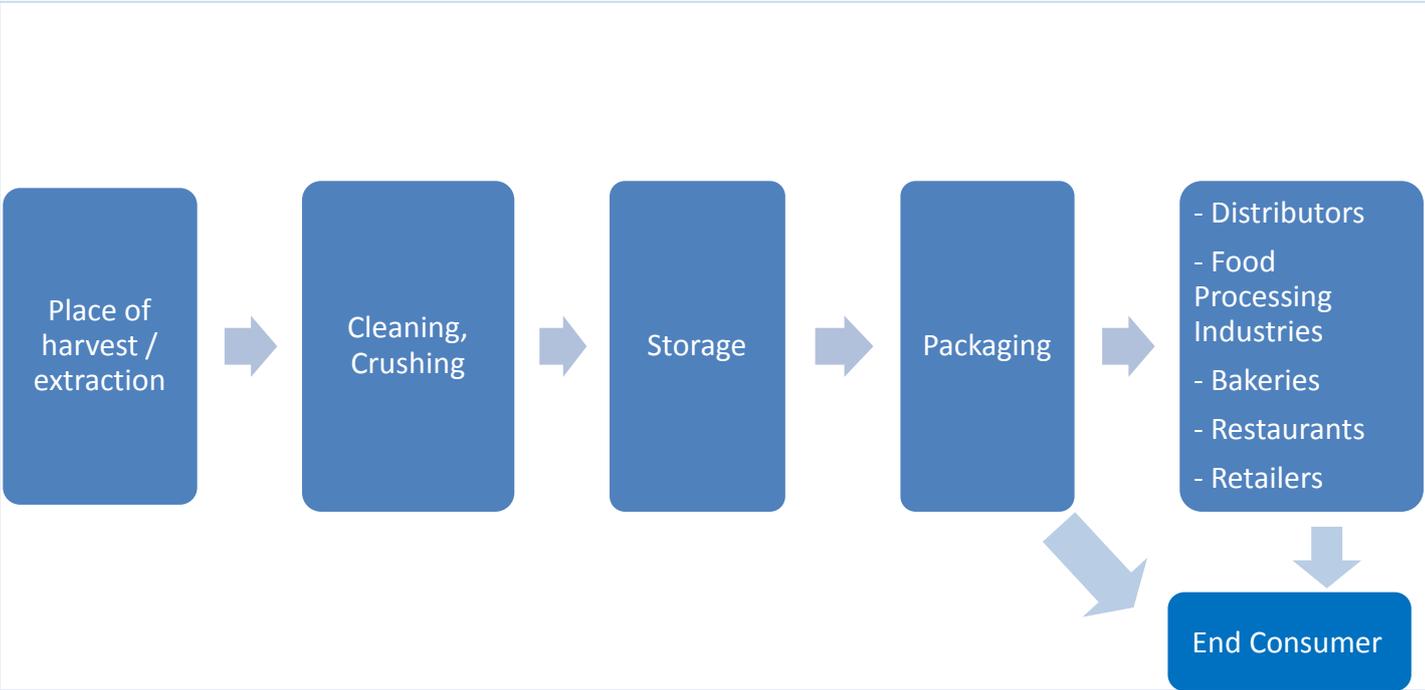
¹ Some countries allow a lower purity, e.g. 94%, for handmade salt produced by small size undertakings.

² The production of sea salt spreads over countries edging on the Mediterranean sea, namely, France, Greece, Italy, Portugal and Spain. Rock salt is produced in over countries in central and northern Europe.

(HACCP) protocols. By so doing, contamination risks are severely monitored and restricted, and the quality of the end product further assessed.

3. Length of the supply chain and bargaining power

Salt is used by a large variety of businesses as part of a long, complex supply chain, and has the particularity of being a cheap commodity.



In this process, the place of cleaning and crushing is considered the place of last substantial transformation.

Mandatory origin labelling would threaten the supply scheme as represented above with regard to the many customers. Besides, it would induce and require the following adaptation:

- Specific cleaning procedures for the cleaning and crushing steps,
- Separate storage depending on the origin of the salt,
- Separate packaging facilities, and
- Separate transports.

Such a fragmentation of the production chain would detract the efficiency of the production process, while causing increased operational and administrative costs.

Food grade salt is one of the commodities at the very beginning of the food industry’s supply chain, just as sugar, dough or milk, for instance. In view of the variety of customers, it is impossible for salt producers to know the origin of the salt that will be provided to a specific client well in advance.

Figure 1 Supply chain of Food Grade Salt

In addition, passing the increased production costs onto the customers will induce a fairly high increase of processed products. Taking into consideration that a wide range of food products may be subject to mandatory country of origin labelling or place of provenance, it is to fear that the prices of many commodities will rise. Price increases will be more sensitive for processed products that are composed of several primary commodities. The cumulative costs will fall upon the end consumer. Not passing the production cost increase onto the next link in the food chain will result in shrinking profit margins for the producers.

Consequently, the bargaining power of salt producers in the supply chain is relatively limited.

C. Impact analysis of Mandatory Country Of Origin Labelling

The stakeholders' working document refers to three possible options for labelling the country of origin or place of provenance:

- Option 1: EU/non-EU or EU/third country,
- Option 2: Member State or third country,
- Option 3: other geographical indication.

In absolute terms, mandatory origin labelling would put severe constraints on salt production and add to operational and administrative costs. Should the impact study conclude to the feasibility of origin labelling, however, the salt industry would favour Option 1 as being the least prejudicial to the sector. Option 1 would further allow for a certain flexibility in the production chain.

1. Technical feasibility

As referred in section B.3., mandatory origin labelling would require tremendous adaptation of the production chain, so as to maintain a strict separation, if 'country of origin' is understood as place of harvest or extraction. Indeed, producers would be required to invest into separate facilities for the packaging, storage and transport (both in-between the different stages of the production process and to the customers) of the salt based on the origin.

Among the induced adjustments of the production chain, adaptations related to the packaging will be the most damaging to the sector, for a wider variety of labels will be required. The more variety in origin possibilities or options, the more burdensome the measure will be. Consequently, providing a still workable framework, the least burdensome option would be Option 1, in the manner of EU/non-EU.

The salt industry, however, would question the relevance and meaning of such an information when it comes to the consumer. Besides, in our view, providing an indication on the origin would infer that the quality and properties of food grade salt vary, depending upon the sourcing. This is incorrect for those properties remain the same (see section B.3.).

Voluntary origin labelling in the salt sector result from marketing strategies from small salt producers and is strictly limited to Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI).

2. Production costs

a. Traceability costs

The salt sector do not expect significant impacts of mandatory COOL on traceability systems. The cost will remain nearly the same. Mandatory COOL would nevertheless require retaining more samples to be stored. Increased storage facilities might be required for that purpose, which would mostly impact larger companies.

Estimated cost: about €10.000.

b. Operational costs

Origin labelling would result in significant operational costs due to the necessary adaptations of the production process, of packaging and labelling practices and facilities.

Production: Every plant would need to adapt and invest in new storage facilities for the raw material will need to be stored separately depending on the country and can't be mixed as it is currently the case. This would involve investing in new silos per plant (estimation: 50.000 €), new transportation belts (50.000 - 100.000 €), new implementation into the production scheme and automation (50.000 €). Investments in separated facilities will increase with the size of the company and the importance of its international presence and trade. In some cases, expansion of the production buildings (that can go up to 1.000.000 €) will be needed. In total, an investment of about 200.000 – 1.200.000 € per plant could be required, especially in the case of large companies. This is to be followed by an increase in maintenance costs (50.000 € per year per plant).

Logistics: as customers require clean batches, producers will no longer be able to supply a batch containing salt from two 'countries'. As already mentioned, this would take away a lot of flexibility and cause more transportation costs. This could also result in more waste given that producers won't be able to mix two batches from one country because the batch-numbers wouldn't be same. Cost estimation is hard to predict.

Storage of finished products: due to the previously mentioned problems, new storage capacities will be required (estimation between 500.000 and 1.000.000 € per plant).

c. Administrative costs

The increased fragmentation of the production chain and expanding of facilities would require additional, and more complex, inspections and controls. This would necessarily result in significant costs for producers.

3. Competitiveness in the internal market and in international trade

A same salt producers might have production sites in different EU Member States, as well as outside the EU. Imposing the mandatory country of origin labelling or place of provenance might result into a fragmentation of the Single Market. Indeed, the salt industry is apprehensive of the impact such labelling might have on consumers' behaviour. There is a risk for consumers to favour commodities from their country on the basis of national or regional preference. This would result in a limitation in trade, both within and outside the European Union.

Traceability of food products is already a requirement under Regulation (EC) N°852/2004 on the hygiene of foodstuffs. Origin labelling would result in additional technical, as well as financial, burdens for producers, with no added value for the consumers. Indicating the country of origin will not lead consumers to make more informed and educated choices, but might inspire discriminatory behaviours that would be damaging to the internal market.

4. Potential benefits

Potential benefits of origin labelling would lie in showing the diversity of sourcing of food grade salt.

Conclusion

Food grade salt is a raw commodity at the beginning of a long, complex supply chain. Imposing mandatory country of origin labelling (or place of provenance) would have no added value for the consumer, for it would not contribute to well-informed and educated choices about food. It might result, however, on inspiring discriminatory choices that would harm the internal market, as well as international trade.

Mandatory country of origin labelling will add to technical and financial burdens weighing on salt producers. This would result in increased production costs that will impact the whole value chain food grade salt depends upon. For these reasons, the salt industry estimates that the costs of mandatory origin would heavily outweigh the benefits and show to be hardly applicable to the sector without thwarting the effectiveness of the production chain and the competitiveness of the sector.

