

FICIL Position Paper No. 7

Foreign Investors' Council in Latvia's Position Paper on the Food and Drink Industry

10 September 2020

Executive Summary



The food and beverage industry is the second largest sector in Latvia, producing around 20% of the country's total manufacturing output. The Latvian food and drink industry were forecasted to reach 5% export growth in 2019, continuing a positive trend. Also, recent events have proved that the industry is essential for both society and the economy, and thus should be prioritised by decision-makers.

The food and drink industry supports the European-level ambition to move towards sustainable food systems following the key directions indicated in the European Commission's "Farm to Fork" strategy. To achieve this, it is necessary to facilitate collaboration and dialogue between the industry and decision-makers, to ensure the best results for the economy, consumers and industry development.

The key aspects affecting the industry are the lack of labour as well as the lack of additional investments and support for exports. The industry is also strongly affected by changes in the tax regime, thus requiring strong analysis and cooperation with the industry before implementing additional regulatory changes.

A well-designed tax regime and pragmatic approach in connection with the key EU policy initiatives can positively affect the food industry's development and competitiveness. It is important to support the industry's self-regulation efforts, investing in improving environmental and nutritional aspects, improving packaging and the recycling volume, educating consumers on how to maintain a balanced diet as well as reformulating products to ensure safe and sustainable food options.

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Recommendations

Follow the Farm to Fork strategy guidelines to ensure sustainable food industry development

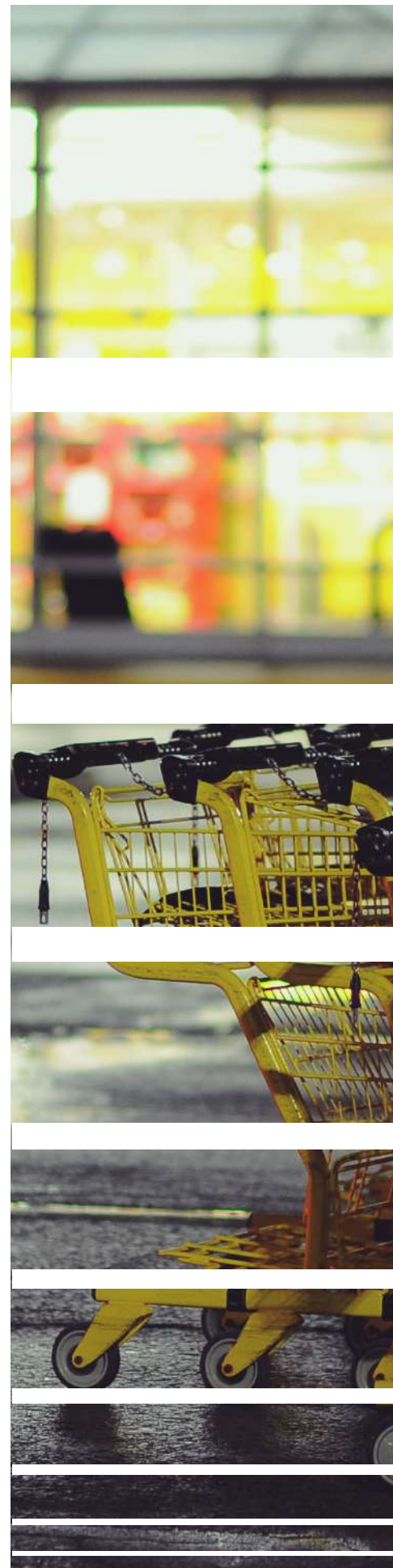
Implement the European Commission's Farm to Fork strategy locally in close cooperation between policymakers and industry representatives. Establish appropriate regulatory frameworks encouraging sustainable business chains and innovation without limiting the competitiveness of businesses. Develop an effective support system for innovations as well as support the attraction of foreign investments and facilitate know-how exchange for the development of innovative products. Encourage the industry's self-regulation activities rather than implementing regulatory restrictions. Promote the development of responsible advertising content while avoiding additional regulatory burdens. In cooperation with the industry, develop guidelines on responsible advertising for binding product categories..

Coordination of tax policy

Predictability and stability of the tax system affect all business sectors, the food and drink industry is no exception. FICIL emphasises the need to promote tax policy that facilitates the development of food production and innovations, avoiding discrimination between product categories. Tax policy needs to be predictable and based on a realistic economic impact assessment. The development of planned and well considered tax policy in consultation with the industry to avoid risks to the industry's development would be highly beneficial in the long term. Additional taxation on the food and drinks packaging should be based on economic and environmental assessment, depicting how changes would allow the achievement of environmental goals.

Promote sustainable business practices to raise competitiveness

Strengthen the industry's cooperation with state institutions in order to ensure that the interests of the industry are represented and that mutual objectives are coordinated by introducing sectoral support mechanisms to improve competitiveness. Provide effective support mechanisms to promote digital development in the food sector in order to make businesses more competitive on the local and global markets. Support and incentivise sustainability practices in the food industry, including the industry in debates when implementing new solutions.



Recommendations



Further education of consumers on a balanced diet

Promote the education of consumers on a healthy and balanced diet, as well as promote the self-regulation process of the industry through product innovations and reformulation. Avoid fragmentation of the Single Market in the area of food information and nutrition labelling by supporting harmonisation of front-of-pack nutrition labelling. Decision-makers should develop a comprehensive approach to educate and raise consumer awareness on food, nutrition and diet based on science and evidence.

Support the food and beverage industry after the Covid-19 crisis

Include the food and drink industry among the essential industries in times of crisis, supporting not only local producers but also importers and distributors in order to ensure the availability of products.

Rationale for Recommendations



The Ministry of Health and several Latvian food and drink industry businesses have started work on a pledge where the businesses have agreed to reduce ingredients such as salt, sugar and fat in their products. Such self-regulation activities encouraging businesses to reformulate have been proved to be more effective than restrictive measures. The Estonian food industry recently signed a self-regulation pledge in line with the European Green Deal focusing on F2F strategy, including objectives regarding health, the environment, sustainable production and cooperation.

It is a common practice for large producers to voluntarily pledge implementation of responsible advertising practices. The EU pledge is such an example and consists of a voluntary initiative involving leading food and beverage companies under which they change the way they advertise to children. This is a response from industry leaders to calls made by the EU institutions for the food industry to use commercial communications to support parents in making the right diet and lifestyle choices for their children. Together, EU Pledge member companies account for over 80% of food and beverage advertising spending in the EU.

Follow the Farm to Fork strategy guidelines to ensure sustainable food industry development

As the food systems remain one of the key drivers of climate change and environmental degradation, the European Commission's Farm to Fork (F2F) strategy sets concrete targets and measures for the system transformation. The strategy includes four blocks focusing on food production, food processing, food consumption and waste reduction. The policy makers should implement the strategy locally in close cooperation with the industry.

Latvia has a suitable environment for technological development and innovative business. Strengthening cooperation between academia and the industry would develop new opportunities and product development, increasing the competitiveness of the industry and attracting additional investments. There are already many cases of successful cooperation between businesses and academia in Latvia in order to achieve new product implementation; this could be developed further by also enhancing the international experience and best practice sharing. Currently there is an active Food Product Quality Cluster in Latvia, which is also actively promoting national and international cooperation between the members of the cluster, scientific and academic organisations, and other institutions in order to foster the competitiveness of the industry.

Rationale for Recommendations

Coordination of tax policy


In February 2020 the Latvian Parliament approved an increase in excise tax duty for non-alcoholic beverages with added sugars in order to reduce the overall consumer sugar consumption and reduce the health risks associated with the overuse of sugar. Latvia is already one of the few states in Europe to currently have an excise tax for non-alcoholic beverages, and at present the tax has not shown significant results in sugar reduction. Before making any amendments, it is necessary to prepare a throughout Nutrition study for Latvia as well as an impact analysis on how changing the excise tax will impact the Latvian economy while taking into account the industry's reformulation efforts and practices limiting the consumption of unhealthy nutrients.

World Health Organization data has shown that there is no strong evidence-based proof that taxation of soft drinks would reduce the consumption of added sugar. This is mainly because the tax is absorbed by the consumers and does not lead to a behavioural change.

There is not a single country in Europe where a soft-drinks-discriminating taxation has brought a sustainable decrease in energy consumption. The overall consumption of soft drinks has not decreased. Accelerated inflation, increasing bureaucracy, the additional burden on consumer income and increased cross-border trade were the reasons why excise duty on sweetened drinks was repealed in Denmark after an 18-month trial, and such issues have also been identified by Finland. The examples of other countries also show that in most cases the tax is passed to consumers, but it does not fundamentally change consumer behaviour. The consumer might switch to cheaper brands or cheaper shops (Hungary, Denmark) or buy more of other high-calorie products. Soft drink beverage consumption in Latvia is below the European average.



Rationale for Recommendations



In July 2019 during an Emergency sitting, the Latvian Parliament approved a decrease in the excise tax rate for strong alcohol as a response to excise tax changes for alcohol in Estonia. The new rate was in place till revaluation in 2020. This change was implemented in order to maintain cross-border sales with Estonia; however, the rate was not balanced with other product categories, for example, beer. As a result, the beer market fell significantly in Latvia, state budget revenues were lost and also jobs were lost in the Latvian beer industry. Still, the excise tax on strong alcohol and fermented products (wine) is significantly lower in Latvia in comparison with other Baltic states, providing an advantage for those categories. Currently, there is an ongoing discussion on new excise tax rates for alcohol and beer, and so it is important to take into account a balanced approach, not favouring any single category, as well as base discussions on economic impact analysis.

As a part of the State Tax Policy Guidelines 2021-2025, the Ministry of Environmental Protection and Regional Development has suggested several changes in the methodology regarding the calculation of the Natural Resource Tax (NRT). The proposal includes also changes in the tax exemption calculation for packaging, currently working under the producers' liability scheme and receiving 100% exemption. There are plans to reduce the exemption to 80% for businesses under the Producers' Responsibility Scheme with a fiscal effect on the budget estimated to be EUR 30 million per year. The proposal should be based on economic assessment, and the Ministry should collaborate with the industry to find the best solution. Currently, the proposed rate of NRT is very high in order to encourage producers to join the responsibility scheme, but if there is no exemption, the new proposal would create an additional burden for producers and consumers. There should be an assessment detecting whether the change in the tax exemption would contribute to the achievement of the waste collection goals for Latvia and how it would affect local businesses.

Rationale for Recommendations

Promote sustainable business practices to raise competitiveness

There is a common EU target for recycling 75% of packaging waste by 2030. Latvia is one of the countries that is lagging behind the common goals, thus it is important to implement initiatives and support businesses in taking action. A one-way beverage packaging deposit system will be introduced in Latvia in February 2021. Currently, there is ongoing work regarding the Cabinet regulation as well as the establishment of the system operator, which will be fully administered by producers and retailers. Legislators and policy-makers should support sustainability practices initiated by the industry more, helping to create a regulatory framework and avoid creating an additional burden on the businesses and consumers.

COVID-19 has affected the digitalisation of the food industry as well as increased the popularity of e-commerce. Maxima Retail Compass (Quarterly report on key retail trends in Latvia) data for June 2020 shows that the popularity of online grocery shopping has doubled in the past five years, showing the greatest increase of 1.5 times in the past year. In 2020, 3.9% of the consumers surveyed are buying groceries online, and that number is increasing. Therefore, it is important to support the development of e-commerce and encourage more businesses to create an online presence, also ensuring transparency and safe transactions.

It has been noted that in order for the Latvian food and drink industry to achieve positive growth, it is important to invest in technologies and innovation, education of specialists, attraction of new labour force, and increasing the awareness of Latvian businesses on foreign markets. It is necessary for policy-makers to encourage export opportunities for local businesses.



Rationale for Recommendations

Further education of consumers on a balanced diet

According to Eurostat, in 2016 Latvia had the second highest number of overweight people in the European Union, with 21.3% of people in Latvia being overweight. The key to treating this problem is a balanced diet and physical activity. The food and drink industry has the responsibility to provide consumers with all the information they need to make an informed choice and plan their diet accordingly.

The World Health Organization Food and Diet plan for 2015-2020 emphasised that the key priority for a healthy diet is to ensure the availability of healthy products, including product reformulation. The Member States are asked to conduct product reformulation in order to decrease the amounts of salt, trans-fat and sugar, as well as decrease the number of calories and the amount of packaging. In October 2019 the Ministry of Health stated the common EU project reformulation objectives for the next for years: to decrease the amount of salt by 4% every year; to decrease the amount of trans-fat in products by 5% by 2020; to decrease the amount of sugar in products by at least 10% by 2020.

In order to inform customers on product contents and the amounts of nutrients, various companies and countries around the world have implemented various types of developed nutrition labelling schemes. The European Commission is working to evaluate which systems are the best for customer information and unified implementation within the European Union in order to avoid fragmentation of food labelling rules across the Member States, which could create an unnecessary burden and inefficiencies for businesses, acting as a detriment to more sustainable food systems.



Rationale for Recommendations

Support the food and beverage industry after the Covid-19 crisis

The Ministry of Agriculture proposed a plan for economic recovery after the COVID-19 crisis for agriculture and food production. The plan indicates that the food industry faces a slow-down in exports; therefore, there should be additional support for in this area. The plan also emphasises that internal consumption should be encouraged to support local producers; the plan focuses on increased quality - national quality scheme and biological food quality scheme products. It is important to support the EU single market as a whole and to avoid protectionism, and so such support mechanisms should not only be targeted at local producers, but also at distributors and importers in order to ensure the availability of necessary products for consumers.

The food industry as a whole should be included in the list of essential industries. A similar initiative has been undertaken by several countries during the COVID-19 pandemic, allowing special treatment for those industries providing essential products and services for consumers. Similarly as in the point above, it is necessary not only to focus on national and local producers but to support all businesses and not cultivate protectionism in times of crisis, as the main goal is to ensure consumers are provided with essential products.





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FICIL is a non-governmental organisation that unites 37 largest foreign capital companies from various industries, 10 foreign chambers of commerce in Latvia, French Foreign Trade Advisers and Stockholm School of Economics in Riga. The goal of FICIL is to improve Latvia's business environment and overall competitiveness in attracting foreign investment, using the experience and knowledge of its members to provide recommendations to Government and state institutions.