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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**regarding the mandatory indication of the country of origin or place of provenance for  
meat used as an ingredient**

## TABLE OF CONTENTS

1.	Introduction .....	3
2.	Mandatory Origin labelling – a brief overview.....	3
3.	The EU supply chain of foods with meat used as an ingredient .....	4
3.1.	Overview of the EU sector .....	4
3.2.	Consumption of meat and meat-related products.....	4
3.3.	Production and outlook .....	4
3.4.	Structure of the EU meat sector .....	5
4.	Consumers' attitude towards mandatory origin labelling for meat used as an ingredient.....	6
5.	Possible scenarios and origin modalities concerning the provision of origin labelling for meat used as an ingredient.....	7
6.	Feasibility and analysis of costs and benefits of the different scenarios.....	7
6.1.	Impact concerning consumer behaviour .....	7
6.2.	Technical feasibility .....	8
6.3.	Economic impacts .....	8
6.3.1.	Operating costs of FBOs .....	8
6.3.2.	Competitiveness, trade and investment flows .....	9
6.3.3.	Administrative burden on businesses .....	9
6.3.4.	Burden on public authorities .....	9
6.3.5.	Costs for consumers and possible social impacts .....	10
6.3.6.	Environmental impacts.....	10
6.4.	Advantages and disadvantages of origin modalities under Scenarios 2 and 3.....	10
7.	Conclusions .....	11

# **REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

## **regarding the mandatory indication of the country of origin or place of provenance for meat used as an ingredient**

### **1. INTRODUCTION**

Regulation (EU) No 1169/2011 of the European Parliament and of the Council on the provision of food information to consumers (hereinafter, 'the FIC Regulation')<sup>1</sup>, which will enter into application on 13 December 2014, introduces a set of provisions on origin labelling of prepacked foods intended for supply to the final consumer or to mass caterers. Article 26(6) of the FIC Regulation requires the Commission to submit a report to the European Parliament and the Council concerning the possibility to extend mandatory origin labelling for meat used as an ingredient in prepacked foods.

The present report meets this obligation. It covers meat of all species (*e.g.* beef, pigmeat, poultry, sheep and goat meat, game, rabbit meat, horse meat) used as an ingredient in prepacked foods. The products covered by this report can be distinguished in three main categories in an increasing order of processing:

- Category I – meat preparations and mechanically separated meat ('MSM');
- Category II – meat products; and,
- Category III – multi-ingredient foods with meat used as an ingredient.

The main goals of this report are the following:

- To assess consumers' attitude towards mandatory origin labelling for meat used as an ingredient;
- To examine the feasibility of such labelling; and,
- To analyse the costs and benefits of the introduction of such measures, including the legal impact on the internal market and the impact on international trade.

It is accompanied by a Commission Staff Working Document which provides detailed information underpinning the conclusions set out herein.

### **2. MANDATORY ORIGIN LABELLING – A BRIEF OVERVIEW**

Prior to the adoption of the FIC Regulation, mandatory origin labelling has been applicable for specific foodstuffs. Origin is currently mandatory for unprocessed beef

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<sup>1</sup> Regulation (EU) No 1169/2011 of the European Parliament of the Council of 25 October 2011 on the provision of food information to consumers, amending Regulations (EC) No 1924/2006 and (EC) No 1925/2006 of the European Parliament and of the Council, and repealing Commission Directive 87/250/EEC, Council Directive 90/496/EEC, Commission Directive 1999/10/EC, Directive 2000/13/EC of the European Parliament and of the Council, Commission Directives 2002/67/EC and 2008/5/EC and Commission Regulation (EC) No 608/2004, (OJ L 304, 22.11.2011, p. 18).

and beef products (e.g. minced beef)<sup>2</sup> following the bovine spongiform encephalopathy crisis, prepacked imported poultry meat, honey, fruit and vegetables, fish, and olive oil.

The FIC Regulation introduces specific provisions concerning the indication of origin on foods on a horizontal basis. In particular:

- Article 26(2)(b) of the FIC Regulation requires the mandatory origin indication for **prepacked unprocessed meat** of swine, poultry, sheep and goats. The modalities for this mandatory origin labelling will be laid down in a Commission implementing act.
- Article 26(3) of the FIC Regulation provides that where the origin of a food is given and where it is not the same as that of its primary ingredient, the origin of the primary ingredient must also be given or be indicated as being different to that of the food. The modalities for the application of these rules will also be laid down in a Commission implementing act.

### **3. THE EU SUPPLY CHAIN OF FOODS WITH MEAT USED AS AN INGREDIENT**

#### **3.1. Overview of the EU sector**

The EU meat sector represents about 13,000 companies which together manufacture around 13,5 million tonnes of meat-related products. The European Meat Processing Industry employs about 350,000 people and represents a turnover of EUR 75,3 billion. As such, it is the largest sub-sector after bakery of the total EU food sector. The processed meat sector itself comprises more than 800 companies across Europe.

The meat supply chain of meat used as an ingredient is both highly heterogeneous in actors involved as well as in products. Products can range from relative simple, e.g. fresh meat with spices/additives, to extremely sophisticated, especially in the case of meat products and multi-ingredients foods with meat ingredients. In addition, the supply chain of meat used as an ingredient is quite complex and lengthy, involving several steps in production and marketing of the final products.

#### **3.2. Consumption of meat and meat-related products**

The overwhelming majority of EU consumers (83%) eat meat at least two or three times a week<sup>3</sup>. In addition, 88% of the EU27 consumers buy prepacked meat<sup>4</sup>. The majority of meat is beef (19%), pig (49%) and poultry (29%) meat, while sheep, goat and other meats account only for 3% of EU meat consumption<sup>5</sup>.

#### **3.3. Production and outlook**

Generally, 30-50% of the total slaughtered meat volume is processed into meat ingredients for foodstuffs (mostly into minced meat/meat preparations/meat products). In total, an estimated 70% of the EU processed meat production volume is made of pig meat, followed by poultry meat (18%), beef (10%) and other types of

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<sup>2</sup> Regulation (EC) No 1760/2000 of the European Parliament and of the Council of 17 July 2000 establishing a system for the identification and registration of bovine animals and regarding the labelling of beef and beef products, (OJ L 204, 11.8.2000, p. 1).

<sup>3</sup> Impact Assessment – Commission Staff Working Document – Mandatory Origin indication for Unprocessed Pig, Poultry, Sheep and Goat Meat.

<sup>4</sup> Commission Report on the functioning of the meat market for consumers in the European Union, May 2013.

<sup>5</sup> DG AGRI data.

meat (2%). According to forecasts, meat production in the EU should remain stable in 2013, after its slight decrease (1.1%) in 2012.

### **3.4. Structure of the EU meat sector**

The EU meat processing sector is characterised by a low degree of concentration, with the majority of companies being small- and medium-size enterprises ('SMEs') (90%). These SMEs are highly specialised and operate independently at different stages of the supply chain. Furthermore, there is limited vertical integration, especially in the pig meat and beef sectors. Vertical integration tends to be more prevalent in the poultry sector.

Meat processors tend to procure raw material mainly from traders on spot markets. Larger vertically integrated companies tend to procure both from slaughterhouses/cutting plants and traders.

The sourcing decisions as well as the frequent changes in the mix of suppliers depend on the availability of suitable raw material in sufficient volumes, the standard quality specifications determined by the quality specifications of the final products, the competitive price and the need to quickly adapt to any shortages, market disruptions and/or price fluctuations, by switching suppliers. In terms of sourcing practices, EU meat processors tend to procure unprocessed meat and other meat ingredients from multiple sources. Multiple sourcing within the EU is a prevailing practice for pig meat-based products, whereas multiple sourcing from EU and non-EU countries is mainly observed for beef- and poultry-based products. Food business operators ('FBOs'), and in particular SMEs, tend to change their suppliers three or more times per year to guarantee an adequate level of raw material at an affordable price.

Once the companies process meat ingredients and incorporate them into meat-related products, these are then further sold to retailers/catering/butchers, whether or not sliced and/or packed.

Due to the characteristics of the EU meat processing sector and its complexity, there seems to be limited demand from processors for origin information on meat ingredients. It mostly concerns specific meat preparations coming from a 'single meat piece' (e.g. dried ham) or products for which meat is a specific condition for the production process, e.g. *bresaola* which requires quality specifications of meat that can be assured in sufficient quantity only by a specific origin.

For the majority of products, the raw materials arrive at the processing stage already mixed and/or trimmed. The product sectors using trimmings are quite extensive. Even when trimmings or blending of raw materials is not involved prior to the arrival at the processing plant, the mix of raw materials from different suppliers is often the case.

Producers of multi-ingredient foods with meat ingredients procure raw materials from a wide-range of suppliers along the food chain, (e.g. cutting plants, processors, mechanically separated meat producers, wholesalers or traders); these operators do not have enough bargaining power to impose origin requirements to their suppliers, as the quantities supplied are relatively small compared to other key buyers.

Slaughterhouses and meat cutting plants are key actors for passing origin information to the next player in the food chain. The higher the degree of vertical integration and the larger the company size is, the easier it is to ensure that origin information is passed along the food chain. On the contrary, the more complex the cutting and

processing stages and the more advanced the level of processing, the more complex traceability becomes for the purposes of origin labelling.

In that respect, the existing traceability systems are not adequate to pass on origin information along the food chain for the following reasons:

- The existing EU traceability legislation is based primarily on the need to ensure food safety<sup>6</sup>. It is set up only 'one step back – one step forward' along the food chain, *i.e.* FBOs must be able to identify the businesses to which their products have been supplied and to trace down raw material inputs back to the immediate supplier. For foods of animal origin, more detailed information requirements are imposed to be passed on along the food chain<sup>7</sup>. However, these traceability requirements do not foresee readily origin information. Consequently, "cumulative traceability for origin purposes" is not currently required at EU level.
- Where more detailed traceability systems exist, these vary significantly between the different animal species and do not extend beyond the unprocessed phase (*i.e.* slaughterhouses/packing plants).

Overall, because of the structure of the supply chain and the absence of any significant 'business-to-business' interest in this information, the transmission of origin information tends to stop at the earlier stages of the supply chain (slaughterhouses and cutting plants).

#### **4. CONSUMERS' ATTITUDE TOWARDS MANDATORY ORIGIN LABELLING FOR MEAT USED AS AN INGREDIENT**

Consumer interest in origin labelling for meat used as an ingredient appears to be considerably strong (90% of consumers). However, there are significant differences between Member States in consumer preferences and understanding of origin information and levels of motivation/reasons for such information. The reasons behind the strong consumer interest for origin labelling seem to be related to preferences for national meat and to concerns regarding safety.

However, origin labelling consistently ranks behind price and quality/sensory aspects in terms of the most important factors affecting consumer choice. Moreover, it appears that consumers currently buy meat with origin indications less often than they want, because of price considerations. This price-sensitivity is also reflected in the weak consumer "willingness to pay" ('WTP') for origin labelling on meat used as an ingredient<sup>8</sup>. At the first price increase over and above the base price, the consumer WTP falls significantly, *i.e.* by 60-80%, and continues falling with every further price increase.

These findings confirm a 'paradox' or a discrepancy between consumers' interest in origin labelling and WTP for that information. Consumers would be interested in receiving the information – at the highest level of detail possible – if this information

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<sup>6</sup> Article 18 of Regulation (EC) No 178/2002 of the European Parliament and of the Council of 28 January 2002 laying down the general principles and requirements of food law, establishing the European Food Safety Authority and laying down procedures in matters of food safety, (OJ L 31, 1.2.2002, p. 1).

<sup>7</sup> Commission Implementing Regulation (EU) No 931/2011 of 19 September 2011 on the traceability requirements set by Regulation (EC) No 178/2002 of the European Parliament and of the Council for food of animal origin, (OJ L 242, 20.9.2011, p. 2).

<sup>8</sup> Annex D to the FCEC study.

was to be offered without any price increase. Consequently, if mandatory origin labelling results in a price increase for the consumers, the consumption of foods with meat used as an ingredient is likely to be decreased.

## **5. POSSIBLE SCENARIOS AND ORIGIN MODALITIES CONCERNING THE PROVISION OF ORIGIN LABELLING FOR MEAT USED AS AN INGREDIENT**

For the purposes of this report, the following scenarios are being highlighted<sup>9</sup>:

- Scenario 1 – Maintain origin labelling on voluntary basis;
- Scenario 2 – Mandatory origin labelling based on (a) EU/non EU or (b) EU/third country;
- Scenario 3 – Mandatory origin labelling indicating the Member State or third country.

For the determination of origin under scenarios 2 and 3, different modalities have been studied for each of the three main product categories:

- For Category I: Meat preparations and mechanically separated meat:
  - Origin as defined in the Customs Code, *i.e.* depending on the product concerned, minimum period of rearing prior to slaughter or place of last substantial transformation;
  - More extensive origin information relating to the provenance of the raw material, *i.e.* place of minimum period of rearing prior to slaughter and place of slaughter.
- Category II: Meat products:
  - Origin as defined in the Customs Code, *i.e.* place of the last substantial transformation;
  - More extensive origin information relating to the provenance of the raw material, *i.e.* place of minimum period of rearing prior to slaughter and place of slaughter.
- Category III: Multi-ingredient foods with meat ingredient(s):
  - Origin as defined in the Customs Code, *i.e.* place of the last substantial transformation;
  - More extensive origin information relating to the provenance of the raw material, *i.e.* place of minimum period of rearing prior to slaughter and place of slaughter.

## **6. FEASIBILITY AND ANALYSIS OF COSTS AND BENEFITS OF THE DIFFERENT SCENARIOS**

### **6.1. Impact concerning consumer behaviour**

Under scenario 1, origin information for meat ingredient(s) would not be systematically provided to consumers. As such, it does not provide a fully satisfactory solution to consumer demand for origin information, although it better

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<sup>9</sup> Other scenarios (*i.e.* mandatory labelling indicating place of provenance at higher or lower level than a country, mandatory origin labelling based on origin split in three stages – "born, raised and slaughtered" or mandatory origin labelling based only on the place of birth, or place of birth and slaughter or only place of slaughter) were considered unfeasible and therefore they have not been analysed in detail.

corresponds to the low consumer willingness to pay for additional origin information.

Scenarios 2 and 3 would systematically provide consumers with origin information on meat used as an ingredient. Scenario 2, being less informative than scenario 3, may be considered as too generic and not worthy of any resulting price increase. Scenario 3 would provide meaningful information to consumers, but it is likely to result in a price increase that may affect negatively the consumption of meat-related foods.

## **6.2. Technical feasibility**

Scenario 1 does not raise any additional operational challenges compared to the current situation. It may be more appropriate in instances, where meat of EU and non-EU origin is mixed in the production process.

Scenarios 2 and 3 would pose operational challenges and require radical adaptations especially with respect to meat ingredients of mixed origin (EU/non-EU). They would have an impact on the sourcing practices, which are often complex and involve multiple EU and non EU origins. In addition, operators may be required to switch to smaller production batches and/or interrupt continuous phases of the production process to achieve segregation by origin within the premises. Finally, the frequent changes in the mix of suppliers would require systematic adaptation of labelling/packaging. However, scenario 2 is more feasible than scenario 3.

In terms of modalities, FBOs considered as feasible the determination of origin on the basis of the Customs Code for processed products, *i.e.* the country of last substantial transformation. All other modalities would require the implementation of additional traceability systems over the entire length of the supply chain.

## **6.3. Economic impacts**

### **6.3.1. Operating costs of FBOs**

Under scenario 1, the operating costs (*e.g.* production, sourcing and traceability costs) would be kept to the minimum. However, under scenarios 2 and 3, FBOs are likely to incur additional operating costs as follows:

- The extent of additional costs could vary as they would depend on the specific operational situation of the concerned FBOs, the animal species concerned and the type of traceability systems.
- The most impacted costs items are likely to be: the adaptation of sourcing practices and possible changes in the mix of suppliers, the adaptation of production process, the adaptation of packaging/labelling and the implementation/adaptation of traceability systems.
- The additional costs for scenario 2 are likely to range from negligible up to 25%, whereas for scenario 3 are likely to range from +15-20% up to 50%. Additional traceability costs are estimated in the range of +3% to +10% of the total production costs.
- The trade of trimmings and fat is likely to be negatively affected. Given the difficulty to implement an appropriate traceability system, FBOs are likely to use such products less and less. This could result in additional losses, which are estimated at 10% of the turnover of slaughterhouses/meat cutting plants.



However, the impact would largely depend on the applicable modalities for determining origin labelling.

#### 6.3.2. *Competitiveness, trade and investment flows*

The impact on competitiveness and intra EU/international trade under scenario 1 would be minimal.

Scenarios 2 and 3 are likely to have the following impacts on competitiveness and intra-EU trade:

- Changes in the supply chain, which would further result in a nationalisation of trade and in a decrease in the number of intermediaries and the number of meat ingredients, are likely to occur. Indeed, FBOs consider more cost effective to adapt the supply structure (sourcing, batch sizes, reducing intermediaries) than upgrading the internal traceability systems.
- FBOs are likely to face higher prices as their overall supply base would become limited.
- The outlets for meat ingredients of mixed origin or for trimmings/fat would become limited.
- FBOs using meat ingredients would be adversely affected compared to FBOs that do not use such ingredients.
- Potential changes in intra-EU trade flows for live animals, unprocessed meat and meat ingredients are likely.
- A risk for re-nationalisation of food products may emerge under scenario 3.

As regards international trade, scenarios 2 and 3 are likely to result in changes in the geographical structure/volume of trade flows, in additional costs for third country FBOs and in a risk for a shift of EU FBOs towards EU suppliers.

#### 6.3.3. *Administrative burden on businesses*

Scenario 1 would result in negligible administrative burden and only for the businesses that provide the origin of the final food and that origin is different from the primary meat ingredient(s). Under scenario 2, the total burden is also estimated to be negligible. However, under scenario 3, the additional administrative burden may result in an increase of 8-12% of the total production costs.

#### 6.3.4. *Burden on public authorities*

Scenario 1 is not expected to result in additional control costs except for the costs entailed by the general application of Article 26(3) of the FIC Regulation.

However, an increase by 10-30% in control costs is expected under scenarios 2 (to a lesser extent) and 3. This increase would be more in terms of the number of staff needed, while under scenario 3 this increase may also include additional staff time, as compliance costs are mainly based on documentary checks. If the funding allocated to control authorities by the state budgets is not increased – which in the current economic environment is the prevailing tendency – the expected increase in staff/staff time needed may lead to a reduction in the frequency of controls or a change in priorities, which may also result in increased risk for fraud. This could be particularly the case in the pig and poultry sector under scenario 3, jeopardising the effectiveness of controls. However, the burden on public authorities could be mitigated in case fees are put in place for the conduct of official controls.

### 6.3.5. *Costs for consumers and possible social impacts*

The provision of origin information is expected to result in increased costs, approximately 90% of which is estimated to be passed onto the consumer and only 10% to the producer. These percentages may vary depending on the sector, the country concerned and the degree of vertical integration and market concentration.

Scenario 1 is not likely to result in an overall price increase. Where origin, however, is provided, the additional costs are likely to be passed onto the consumers resulting in products at price premium.

Scenarios 2 and 3 are likely to result in an overall price increase in the consumer price, which would be higher in the latter case. As such, scenario 3 – and to a lesser extent scenario 2 – may result in a decrease in the consumption of meat-related products. Other social impacts may also involve the following: re-nationalisation of meat consumption; adaptation of sourcing patterns; elimination of intermediaries; and, employment may be negatively affected.

### 6.3.6. *Environmental impacts*

The environmental impact of scenario 1 is likely to be minimal. Both scenarios 2 and 3 are likely to increase waste ingredients, especially in the case of trimmings/fat. Scenario 3 could also provide an incentive to consume products produced in proximity.

## 6.4. **Advantages and disadvantages of origin modalities under Scenarios 2 and 3**

The Table below provides a summary of advantages and disadvantages of the origin modalities considered under scenarios 2 and 3 (mandatory origin labelling):

Modalities under 2 <sup>nd</sup> and 3 <sup>rd</sup> scenarios		Advantages	Disadvantages
Category I: Meat preparations/mechanically separated meat	Place of minimum rearing prior to slaughter or country of last substantial transformation (Customs Code)	<ul style="list-style-type: none"><li>– Provides meaningful information to the consumer;</li><li>– Trimmings and fat could be used as ingredients, where origin is determined as the country of the last substantial transformation.</li></ul>	<ul style="list-style-type: none"><li>– Additional traceability systems;</li><li>– Implementation could be challenging if multiple origins are involved;</li><li>– Trimmings and fat are not likely to be used as ingredients in cases, where origin is determined as the place of minimum rearing prior to slaughter.</li></ul>
	Place of minimum rearing prior to slaughter + place of slaughter	<ul style="list-style-type: none"><li>– Provides more extensive information to the consumer.</li></ul>	<ul style="list-style-type: none"><li>– Additional traceability systems;</li><li>– Implementation could be challenging if multiple origins are involved;</li><li>– Trimmings and fat are not likely to be used as ingredients.</li></ul>

Category II: Meat products	Country of last substantial transformation (Customs Code)	<ul style="list-style-type: none"> <li>– Places more emphasis on the place of processing;</li> <li>– Technically feasible for FBOs;</li> <li>– More practical, if multiple origins are involved;</li> <li>– Trimmings and fat could be used as ingredients.</li> </ul>	<ul style="list-style-type: none"> <li>– Provides no information on the provenance of the raw material.</li> </ul>
	Place of minimum rearing prior to slaughter + place of slaughter	<ul style="list-style-type: none"> <li>– Places more emphasis on the provenance of the raw material.</li> </ul>	<ul style="list-style-type: none"> <li>– Provides no information on the place of processing;</li> <li>– Additional traceability systems;</li> <li>– Particularly challenging where multiple origins are involved;</li> <li>– Trimmings and fat are not likely to be used as ingredients.</li> </ul>
Category III: Multi-ingredient foods with meat used as an ingredient	Country of last substantial transformation (Customs Code)	<ul style="list-style-type: none"> <li>– Places more emphasis on the place of processing;</li> <li>– Trimmings and fat could be used as ingredients.</li> </ul>	<ul style="list-style-type: none"> <li>– Provides no information on the provenance of the raw material;</li> <li>– Additional traceability systems;</li> <li>– Particularly challenging where multiple origins are involved.</li> </ul>
	Place of minimum rearing prior to slaughter + place of slaughter	<ul style="list-style-type: none"> <li>– Places more emphasis on the place of provenance of the meat concerned.</li> </ul>	<ul style="list-style-type: none"> <li>– Provides no information on the place of processing;</li> <li>– Additional traceability systems;</li> <li>– Particularly challenging where multiple origins would be involved;</li> <li>– Trimmings and fat are not likely to be used as ingredients.</li> </ul>

## 7. CONCLUSIONS

Consumer interest in origin labelling for meat ingredients appears to be considerably strong. There are significant differences amongst the different Members States as to consumer preferences and understanding of origin information as well as levels of motivation/reasons for such information. Despite the overall strong consumer interest in origin labelling, (a) it consistently ranks behind price and quality/sensory aspects in terms of the most important factors affecting consumer choice and (b) it is not reflected in the relevant consumer "willingness to pay".

The feasibility and the impact of origin labelling depend largely on the nature and applicable modalities. For the purpose of this report, three scenarios have been examined:

- Scenario 1 – Maintain origin labelling on voluntary basis;
- Scenario 2 – Mandatory origin labelling based on (a) EU/non EU or (b) EU/third country;
- Scenario 3 – Mandatory origin labelling indicating the Member State or third country.

Scenario 1 would not raise any additional operational challenges for FBOs, as operating costs, impact on EU and international trade, administrative burden, burden on public authorities, additional costs passed onto to the consumer would be kept to the minimum. However, it would not provide a fully satisfactory solution to the consumer demand for origin information.

Scenarios 2 and 3 would respond to the consumer demand for origin information, albeit, not to the same extent. Scenario 2 may be considered as too generic and not worthy of any resulting price increase. Scenario 3 would provide meaningful information to consumers but likely to result in a price increase affecting consumption.

Both scenarios 2 (to a lesser extent) and 3 would pose operational challenges and require radical adaptations in the food chain, although scenario 2 is considered more feasible than scenario 3.

The economic impacts of scenarios 2 and 3 can be summarised as follows:

- Operating costs of FBOs: The additional overall costs for scenario 2 are likely to range from negligible up to 25%, whereas for scenario 3 are likely to range from +15-20% up to 50%. From those, additional traceability costs are estimated in the range of +3% to +10% of the total production costs.
- Competitiveness and trade: Changes in the supply chain are likely to occur, resulting in a nationalisation of trade and in a decrease in the number of intermediaries and the number of meat ingredients. This impact would be more prominent under scenario 3.
- Administrative burden for food business operators: While under scenario 2, the total burden is estimated to be negligible, under scenario 3, the additional administrative burden may result in an increase of 8-12% of the total production costs. This burden would be additional to the incurred operating costs.
- Burden on public authorities: Under scenarios 2 and 3, an increase by 10-30% in official control costs is expected. However, the costs are likely to be higher under scenario 3. The future imposition of fees for the conduct of official controls could mitigate the official control costs.
- Costs for consumers: Scenarios 2 and 3 are likely to result in an overall price increase in the consumer price, which would be higher in the latter case. As such, scenario 3 – and to a lesser extent scenario 2 – may result in a decrease in the consumption of meat-related products.

- Environmental impacts: Scenarios 2 and 3 are likely to increase waste ingredients. Scenario 3 could also provide an incentive to consume products produced in proximity.