



AGRICULTURE & CHEMICALS IN 2018: A MIXED BAG OF NEW POLICIES

Still in its infancy, 2018 is already gearing up to be an action-packed year for the agri-chem sector, from changing farm policies to the all-encompassing Brexit. To ensure that we have captured these developments and to reflect the evolving nature of FTI Brussels' own agri-chem practice, this year's snapshot will be broader than those of years past, adding an outlook for the general chemicals sector. Environmental sustainability is still at the top of everybody's mind with the Circular Economy and CAP reform as the primary issues, which we discuss below. But other questions remain, including about the role of regulators in Brussels.

The agri-chem team at FTI Consulting Brussels offers you a step-by-step guide to the most important developments of 2018.

In the following pages you can find an overview of our take on the coming year, which issues to follow and why these have the potential to provide the greatest opportunities and challenges alike for companies operating in this sector. Companies in the agri-chem sector will face sustained pressure from regulators as well as civil society to innovate – think bio-based products – but the revamp can not only focus on products. Companies should strive to be a part of the debate

with consumers, using interactive communication tools to ensure that they engage in a real dialogue and not a monologue. However, the challenge will always be how to engage with those who are fundamentally opposed to the sector as a whole; a challenge which requires bespoke solutions for each company to assure that they reflect the company culture.

The Journey towards a Circular Economy

As most of the discussions on waste and recycling are heading into the final stretch, the European Commission has shifted its focus to plastics; a shift which is also happening in the public sphere. As part of its Circular Economy Action Plan, the Commission will publish a

Strategy on Plastics the week of 15 January, the main angles of which are:

- a. Moving towards circular plastics
- b. Investing in alternative feed stock (for example plant-based plastics) and
- c. Reducing litter

This strategy will be published together with a Communication proposal on the Interface between Chemicals, Products and Waste, to tackle the issue of hazardous materials and recycling. The new Bulgarian EU Presidency is also on the case and has already suggested a 'political discussion' on the two files during the Environment Council in March. But it doesn't stop there. Both Microplastics and Single Use Plastics have come under growing public scrutiny and the EU has singled them out. Under the Strategy for Plastics, a public consultation on single-use plastics is currently ongoing until 12 February and the European Chemicals Agency (ECHA) is already preparing for a restriction of microplastics under the chemicals regulation REACH.

Water is also under scrutiny and EU policy has evolved from addressing individual substances (pesticides, nitrates) to a more holistic approach with the Water Framework Directive (WFD). Several forthcoming policy evaluations will clarify next steps: that of the WFD, the results of which will be discussed in June, and of the overall impact of the Common Agricultural Policy on water.

We at FTI Consulting Brussels are following all of these developments closely. We will publish a separate, extensive snapshot on plastics the week of 15 January and are organising an event on water policy on 1 February.

What about a Non-toxic Environment?

Closely linked, but not part of the Circular Economy Action Plan is the Strategy for a Non-Toxic Environment. This has its origins in the 7th Environment Action Plan and the Commission has the mandate to develop by 2018 "a Union strategy for a non-toxic environment that is conducive to innovation and the development of sustainable substitutes including non-chemical solutions." A study which was commissioned ahead of the strategy found that current EU legislation does not sufficiently regulate chemicals in articles, especially in imports.

However, Bjorn Hansen, Executive Director of ECHA since January 2018 and former Head of Unit of Sustainable Chemicals cast doubt on the necessity for another framework when he believes that the Commission is already working on incorporating many of the issues into REACH. So far there has been little public debate around the strategy and if it will indeed be published remains to be seen, but if not, the reason is likely due to a desire to cut down on regulation rather than moving away from the overall idea of reducing hazardous substances in products.

Brexit and the chemical sector

Currently the only certainty about Brexit is that there is no certainty. Even though 'sufficient progress' has been made on the three questions of Phase 1 and discussions will soon

transition into Phase 2 to discuss trade, the final deal will only happen if all issues are agreed upon by 29 March 2019. The first issue is that if there is no deal, the rules of the World Trade Organisation will bite. While this is of concern to the food, drink and agricultural sectors that have significant cross-channel trade, it could be even more critical for the chemical sector whose products are the raw material for many other manufacturers.

As the 'industry of industries', chemicals can pass between countries several times in different forms and many tariffs could subsequently multiply.

The industry of industries: 95% of all manufactured products derive from chemicals.

A further point of contention is regulation. The chemical industry may face a host of costly duplications of registrations for products for sale on both sides of the Channel. The UK chemical industry itself has stated publically that it wants to stay in REACH, as the EU does not accept any other country's regulation as equivalent. Ergo, in order to be able to sell its wares both on the continent and at home, the industry would have to register its products under two regulations. It is also unclear how the sector, as an energy intensive industry, would be affected by a change in energy-related legislation such as leaving the Emissions Trading System.

The CAP's next act (or: How to finance the agri sector after Brexit)

Money has always been the name of the game when discussing the Common Agricultural Policy. When deciding on the next Multiannual Financial Framework (MFF) post 2020, the EU needs to not only find a way to compensate for the financial loss of Brexit, estimated at €12 billion, but also balance the CAP budget for 2021-2027 with that of other EU priorities, such as security and defence. The MFF package is due by 29 May and will be followed by a proposal on the future shape of the CAP. Agricultural Commissioner Phil Hogan has already expressed his vision in a Communication: more subsidiarity at Member State level and a less prescriptive approach from Brussels. Recognising the differences among Member States and the need for their increased responsibility, the Commission intends to let Member States play a bigger role and design national strategic plans for the implementation of CAP's objectives linked to the environment, climate change and the UN Sustainable Development Goals, and also immigration. In this respect, boosting the bioeconomy and making use of the digital economy are recognised as

essential for rural development. Related industries have a chance to increase funding opportunities by engaging in discussions on MFF and taking part in the ongoing consultations for the ninth research framework programme (FP9).

An impact assessment and further consultations on CAP are expected in the first quarter of the year. In the meantime, the Commission needs to convince Member States that its intentions are not to “renationalise” the policy and its direct payments, as some have complained, nor to move away from greening measures, as environmental NGOs have accused.

96% of the respondents to the CAP consultation replied that improving farmers’ position in the value chain should be an objective of the CAP

Focus on the supply chain

Players across the food supply chain will be faced with questions around unfair trading practices or dual standards and will be busy defending their position in 2018.

Central and Eastern European governments claim to have proof of food and drink product quality variation in their countries. A common EU methodology to get to the core of this issue is being developed by the JRC, and if a breach of the internal market is verified, President Juncker will not leave the matter unresolved. The Commission is discussing a Code of Conduct with the industry and has put in place guidelines to ensure full transparency of labelling and ingredients. If these measures are deemed insufficient, food and drink manufactures could expect tougher EU action.

Other trading practices that the Commission aims to tackle in 2018 refer to the bargaining power of farmers and the governance and transparency of the food supply chain. The Commission has been trying to define the problem for years and to establish the added value of harmonised EU market intervention. Most Member States have their own measures on how to promote a fair trading environment, and some retailers and food processors oppose EU-wide legislation as it would simply increase the costs for the final consumer without helping farmers. However, the well-being of farmers remains a sensitive issue and Commissioner Hogan would rather do more than less to protect them from the “super power” of retailers as he once put it. The outcome of an impact assessment and a public consultation in the beginning of 2018 will pave the way for proposals on legislative and non-legislative EU measures.

General Food Law to the rescue, again

The most essential EU legislation on food safety is set for revision in 2018. The results of the Fitness Check of the 15-year old General Food Law that launched EFSA and established the precautionary principle for food safety are expected by mid-January and will shed light onto what needs to change.

The moment for an overhaul is opportune. Just like the creation of the General Food Law was a response to the BSE scandal in the late 1990s, its revision aims to address a wave of discontent with the way the EU performs food safety analysis that defined most of 2017. After the decision on the re-authorisation of glyphosate was made, the Commission pledged to increase transparency in the food risk assessment process in response to the European Citizens’ Initiative “Stop Glyphosate”. In a Roadmap, the Commission set the objectives to not only revamp the risk assessment of pesticides, but also of many other sectors such as GMOs, food additives and flavourings and novel foods. This includes a possible overhaul of EFSA’s procedures and structure, although fundamental changes are highly unlikely. After a short consultation period until February/March, we expect a proposal in the second quarter of 2018.

These developments could lead to a broader debate on regulation in the EU, which is timely given that the process of authorising GMO crop imports is not going as smoothly as expected after Member States were allowed to opt out from cultivation. An idea to allow [opt-ins](#) is floating around – seems only fair since a blocking minority of Member States prevented the use of GMOs by the willing. The debate is far from over given the fact that we are still waiting more clarity from the Commission and the European Court of Justice on the future of plant breeding innovation.

All new in 2018?

When looking at the future of the agri-chem sector, no analysis would be complete without a look back. We touch on glyphosate above, but what does the ferociousness of the debate mean for pesticides in general in future years?

“Of course, pesticides will never win any beauty contests [...] But they nevertheless play today a major role in ensuring we have adequate supplies of food.

European Commissioner Andriukaitis

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Few in the sector will need reminding of how the glyphosate re-registration unfurled in Europe, and in a memo by the Commission following the renewal of approval, the institution acknowledges that *“EU policy is already directed towards reducing dependency on pesticides and achieving a pesticide-free future”*. However, even though the Commission has amended the Plant Protection Regulation to allow faster market access to low-risk pesticides, and has pushed Member States to publish National Action Plans on the Sustainable Use of Pesticides, progress has been patchy. Even while calling for an alternative for glyphosate, six EU environment ministers did not differentiate if the alternatives are to be chemical, mechanical or biological in nature.

And judging by the investments of big companies in the area (and the public discourse according to the FT’s Special Report on [50 ideas](#) to change the world), precision farming is the more likely way forward for Europe’s agricultural sector.

We look forward to hearing your thoughts and your take to the year ahead. We welcome your feedback and are happy to discuss any of the above or other key issues affecting your business operations.

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