

# The Danish Commerce and Companies Agency:

Draft Regulation on the provision of food information to consumers

November 2008

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## 1. Summary

This report identifies the expected administrative consequences of the draft regulation of the European Parliament and of the Council on the provision of food information to consumers<sup>1</sup> (the draft regulation).

The expected administrative consequences have been measured and analysed by the Danish Commerce and Companies Agency applying the so-called Standard Cost Model (SCM).

### **Purpose and content of the draft regulation**

The general objective of the draft regulation is to consolidate and update the in the existing labelling legislation. The main purpose of the draft regulation is to ensure a high level of protection of consumers' health. Furthermore, the draft regulation aims at guaranteeing consumers' right to information by establishing general principles for and demands on food information.

The Danish Veterinary and Food Administration has provided the Danish Commerce and Companies Agency with a number of four Information obligations included in the draft regulation, which are expected to have administrative consequences for the businesses involved. These four requirements were in focus during this research:

- Minimum font size for all mandatory labelling on products with packages larger than 10 cm<sup>2</sup>
- Mandatory labelling of allergenic ingredients on all non-pre-packed foods
- Labelling of ingredients on alcoholic products other than liquor, wine and beer
- Mandatory nutrition declaration of all foods

The Danish Veterinary and Food Administration has, in addition to the four requirements mentioned above, requested the Danish Commerce and Companies Agency to also analyse the possible administrative consequences of another labelling requirement, which is not currently included in the draft regulation:

- Mandatory production date on all pre-packed foods

Furthermore, the Danish Veterinary and Food Administration has requested to include several alternatives for the current proposal in the survey, in order to analyse, how these alternatives can alter the administrative burden for the businesses involved.

The draft regulation addresses all businesses producing or selling foods. However, each of the selected Information obligations set out in the draft regulation, target different segments of the food producing sector. The draft regulation thus targets 3 segments:

- Businesses producing/selling pre-packed foods
- Businesses producing/selling non-pre-packed foods

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<sup>1</sup> {SEK (2008) 92}  
{SEK (2008) 93}  
{SEK (2008) 94}  
{SEK (2008) 95}

- Businesses producing/selling alcoholic foods other than liquor, wine or beer

### **Business interviews**

In line with the SCM, face-to-face interviews with the person(s) responsible for quality control, labelling and packaging in 15 Danish food businesses were conducted. The interviews were held by following an interview guide, which was prepared by the consulting firm and the Danish Commerce and Companies Agency and approved by the Danish Veterinary and Food Administration. The purpose of the interviews was to collect data and information that could form the basis for an analysis of the administrative and indirect financial costs that are expected to occur, if the draft regulation is implemented in its current form.

### **Expected administrative consequences of the draft regulation**

The analysis on the basis of the outcome of the interviews shows that the administrative consequences of the implementation of the draft regulation in its current form may be rather significant.

Table I shows a calculation of the total expected administrative costs as a result of the implementation of the draft regulation. It should be noted, however, that there is quite a variation between the businesses as the number of products that they produce or place on the market. This number amounts to somewhere between 10 and 300 products, depending on the segment. Therefore, the calculations regarding businesses producing/selling pre-packed foods are based on the presumption that all businesses produce an average number of 75 products. For the businesses producing/selling non-pre-packed foods the average is 23. And for businesses producing/selling alcoholic foods other than liquor, wine or beer, the average is 18.

The table separately shows the expected administrative costs in the change-over phase and the expected on-going costs for each of the five Information obligations that were included in this survey. Also, where relevant, alternatives to the Information obligations as proposed in the draft regulation are presented. The expected total national costs are based on alternative A, which is the alternative, which is currently included in the draft proposal. The additional Information obligation, mandatory production date, is not included in the expected total national cost.

**Table I - Changeover costs and ongoing administrative costs<sup>2</sup>**

<b>Costs on national level:</b>	<b>Ongoing costs</b>	<b>Changeover costs</b>
<b>Minimum size type</b>		
<b>Alternative A: 3 mm.</b>		
<b>Alternative B: 2 mm.</b>	<b>327.031 EUR</b> (2.435.300 DKR)	<b>10.330.685 EUR</b> (76.929.510 DKR)
<b>Alternative C: 1,5 mm.</b>		
<b>Mandatory labelling of allergenic ingredients on non-pre-packed</b>		
<b>Alternative A: Signing/labelling</b>	<b>23.235.487 EUR</b> (173.027.700 DKR)	<b>2.968.979 EUR</b> (22.109.095 DKR)
<b>Alternative B: Oral information to all customers</b>	<b>25.613.517 EUR</b> (190.736.175 DKR)	<b>2.584.175 EUR</b> (19.243.575 DKR)
<b>Alternative C: Oral information when asked for</b>	<b>15.560.512 EUR</b> (115.874.465 DKR)	<b>2.584.175 EUR</b> (19.243.575 DKR)
<b>Labelling of ingredients on alcoholic products</b>		
<b>Labelling of ingredients on alcoholic products</b>	<b>7.370 EUR</b> (54.880 DKR)	<b>126.206 EUR</b> (939.820 DKR)
<b>Mandatory nutrition declaration</b>		
<b>Labelling nutrition declaration</b>	<b>15.813.670 EUR</b> (117.759.660 DKR)	<b>17.727.610 EUR</b> (132.012.190 DKR)
<b>Total costs</b>	<b>39.383.558 EUR</b> (293.277.540 DKR)	<b>31.153.497 EUR</b> (231.990.615 DKR)
<b>Mandatory production date</b>		
<b>Alternative A: All pre-packed products</b>	-----	<b>1.977.779 EUR</b> (14.727.930 DKR)
<b>Alternative B: All animal products</b>		<b>1.095.718 EUR</b> (8.159.480 DKR)

In general, the interviewed businesses do not consider it impossible to meet the different Information obligations included in the draft regulation. They expect to be able to carry out the administrative work following the implementation of draft regulation. However, all businesses criticize the requirement of minimum font size for all mandatory labelling items, as well as the requirement of mandatory nutrition declaration. These requirements are expected to be highly demanding in terms for working hours and to incur considerable consequences for the daily working process. Also, businesses fear for their ability to promote their products through the packaging. Clearly, businesses with a large number of products will be experience a larger effect of the draft regulation than businesses with a smaller variety in their portfolio.

<sup>2</sup> The rate for EUR the 3rd of November is 744,6700

The businesses producing pre-packed foods pointed out that they will incur high indirect costs, if the draft regulation is implemented in its current form. All of the four requirements that were in focus during this survey, and especially the requirement of minimum font size, are expected to cause a potentially large increase of marketing costs. However, none of the businesses were able to make a more precise estimation in EUR. Furthermore, the businesses producing pre-packed foods predict considerable investments in machinery and materials for labelling and packaging. One of the interviewed companies estimated the costs for machinery to amount to around 97.500 EUR. Another business estimated the costs for materials to amount to around 130.000 EUR.

### **The businesses' overall attitudes and recommendations toward the draft regulation**

Generally, there is a high recognition among the businesses of the importance of protecting consumers by informing about the content of products they consume.

However, most businesses express great dissatisfaction and concern with regard to the current proposal. Most businesses find that the Information obligations set out in the draft regulation are unnecessary and they do not expect any added value to the consumers considering the administrative and economic consequences for the businesses that are expected to be caused by the draft regulation.

The assessment shows that the draft regulation, especially for the bigger businesses producing pre-packed foods, is expected to have not only administrative costs, but also high costs for the replacement of machinery and existing materials for wrapping and labelling.

For the smaller businesses, the draft regulation is mainly expected to cause irritation and changes in the daily work process. These businesses express great dissatisfaction as to the additional administrative work, which is expected to take time away from the customers, being innovative when making the food etc.

The interviewed businesses had a few recommendations on how the draft regulation could become more relevant to the customers, while at the same time minimising the administrative burden for the businesses. The recommendations mainly concern:

- Other ways and methods to inform consumers about the benefits of foods;
- More differentiation as to labelling requirements in the draft regulation depending on food types.

## 2. Briefly about SCM and its background

### 2.1 Introduction

The Danish government has in its growth strategy "*Growth with purpose*" in 2002 taken as its objective the reduction of the administrative burdens year on year for business and industry whereby, in 2010, it should be reduced by up to 25 per cent. In order to achieve this aim the government has, in connection with the action plan "*A more business-friendly public sector*", published goals regarding the extent by which each individual ministry is to reduce the administrative burdens. At the same time it has been decided that there will be an annual follow-up of the preceding year's efforts by the ministries aimed at reducing the burdens.

#### *Ex-ante measurement*

To get the best possible basis for minimising the administrative burdens of new legislation the so called SCM method (Standard Cost Model) can be used to make an **ex-ante measurement** of the *expected* administrative consequences of the draft legislation. With SCM it is possible to assess how many resources the companies use/expect to use to comply with the separate parts of a rule. An ex-ante measurement is made before the legislation **submitted** and serves to illuminate the consequences of the draft and make basis for a discussion on the possibility of reducing the consequences of the draft before the final proposal is submitted/issued.

#### *Ex-post measurement*

A measurement can also consist of the factual administrative consequences for the businesses in respect of an implemented law, statutory instrument or other initiative.

Such a measurement is designated an ex-post measurement of the administrative consequences, and is done after the rule or initiative has come into effect and has been able to be experienced in the businesses.

Each year an ex-post measurement is carried out on all relevant legislation from the last parliamentary year. By constantly keeping the baseline measurement (made in 2004) updated it becomes possible to follow the development of the overall administrative costs within a sector, whereupon it can be followed up with regard to the government's goal of reducing administrative burdens by up to 25 per cent in 2010 in Denmark.

### 2.2 The direct and indirect financial cost of regulation

Legislation which affects businesses may have diverse financial cost for the businesses. Besides the *administrative costs* the legislation can have direct, indirect or structural financial costs for the businesses. *Direct financial costs* are the result of a concrete and direct obligation to transfer a sum of money to the Government or the competent authority. These costs are therefore not related to a need for information on the part of the Government. Such costs include administrative charges, taxes, etc. E.g. the fees for applying for a permit would be a financial cost of regulation. *Indirect financial costs* are created by new obligations in the regulation ex. obligation to have a special safety system on a machine, the government does not profit but the company will hold new expenses. Direct and indirect costs are not included in the standard cost model.

## 2.3 The Standard Cost Model method and central concepts

The complete Danish manual for conducting Standard Cost Model measurements including ex-ante measurements can be downloaded in English from [www.amvab.dk/sw363.asp](http://www.amvab.dk/sw363.asp). Some of the central concepts of the method will be defined in the following.

### *Information obligations, Message and Administrative activity*

An *information obligation* is the passage in a law or regulation text that requires a business to provide or draw up information, and make this available. Each information obligation consists of a range of different information that the businesses shall provide in order to be able to comply with the information obligation – these are the messages. *Messages* comprise the information that is, for example, required in the individual classifications in connection with a reporting in schedule. The time and resource consumption that the businesses use in providing the information that is necessary in order to comply with a given message requirement, is measured by analysing the *administrative activities* in the individual businesses.

### *The normally efficient business:*

The fundamental concept – and unit of measurement – of a Standard Cost Model analysis is the normally efficient business. This means businesses within the target group that handle their administrative tasks in a normal manner. In other words the businesses handle their administrative tasks neither better nor worse than may be reasonably expected. The intention with the Standard Cost Model is thus to identify general contexts that can be traced directly back to political regulation. The Standard Cost Model measurement does not, therefore, include businesses that, for various reasons, are either particularly efficient or inefficient.

The normally efficient business is found by conducting interviews in a number of typical businesses within the target group, with possible external advisors that deal with outsourced tasks for the businesses, and possibly other experts. The objective of the interviews is to find out how much time the businesses use on the individual activity that is associated with a message. A control is made to see that there is consistency in the businesses' answers. If this is not the case, more business interviews are conducted until it is possible to ascertain standardised time consumption associated with the administrative activities for the normally efficient business. The administrative costs on national level are based on the findings from the business interviews. The calculation may be summed up to that the standardised time- and resource expenditure (time multiplied by time/wage cost (including overhead expenses)) of the normal efficient business in one business segment is multiplied by the business population and frequency by how often the information obligation is demanded each year.

### *Changeover costs and ongoing costs*

In connection with carrying out a Standard Cost Model analysis a distinction is made between the changeover costs (or one-off costs) and the ongoing costs (or recurring costs) that follow from the regulation.

### Changeover costs

Changeover costs are the costs that are only sustained once in connection with the businesses adapting to a new or amended legislation/regulation. This does not include the costs that a business may have in relation to complying with existing regulations for the first time, e.g. as a consequence of increased turnover or expansion with new areas of activity in the business. It

is thus only upon the introduction of new or amended regulation that there can be a matter of changeover costs.

The changeover costs are not measured in connection with an ex-post measurement, but only in connection with an ex-ante measurement, so that the result can be included when the bill is presented to the Folketing (the Danish parliament). The results are included in the overall regulatory impact assessment of that draft proposal.

#### Ongoing costs

The ongoing costs are the administrative costs that the businesses constantly have in complying with the information obligations under the legislation. It may be a question of costs that arise at regular intervals, e.g. with VAT returns. It can also be a matter of costs that arise at irregular intervals for the individual business, e.g. if they are to apply for an export subsidy or submit a planning application. It can similarly be a matter of an administrative task that the individual business only experiences on one occasion, e.g. in connection with business registration where one applies for a VAT number or upon application for authorisation. Common to these two types of costs is that they arise in connection with a given situation for the business, hence the term situation-determined costs. The 25 % reduction aim and yearly SCM measurements in Denmark is on ongoing costs.

### **3. Purpose and content of the draft regulation and parameters for SCM**

This chapter briefly describes the draft regulation and the parameters for this SCM-research.

#### **3.1 Purpose of the draft regulation**

The general objective of the draft regulation is to consolidate and update the existing labelling legislation. The main purpose of the draft regulation is to ensure a high level of protection of consumers' health. Furthermore, the draft regulation aims at guaranteeing consumers' right to information by establishing general principles for and demands on food information.

#### **3.2 Information obligations and possible alternatives**

The Danish Veterinary and Food Administration has provided the Danish Commerce and Companies Agency with a number of four Information obligations included in the draft regulation, which are expected to have administrative consequences for the businesses involved. These four requirements were in focus during this research.

The Danish Veterinary and Food Administration has, in addition to the four requirements mentioned above, requested the Danish Commerce and Companies Agency to also analyse the possible administrative consequences of another labelling requirement, which is not currently included in the draft regulation. All in all 5 Information obligations are being evaluated in this report.

The table below shows the Information obligations included in the draft regulation, as well as a number of alternatives:

**Table II - Information obligations and possible alternatives**

Information obligation	Information demand	Segments influenced
Minimum size type of all Mandatory labelling on pre-packed foods with packages bigger than 10 cm <sup>2</sup>	<p><b>Alternative A:</b> Minimum size of 3 mm.</p> <p><b>Alternative B:</b> Minimum size of 2 mm.</p> <p><b>Alternative C:</b> Minimum size of 1,5 mm.</p>	<p>Businesses producing/selling pre-packed foods</p> <p>Businesses producing/selling alcoholic foods other than liquor, wine or beer</p>
Mandatory labelling of all allergenic ingredients on non-pre-packed foods	<p><b>Alternative A:</b> Labelling/message signing of allergenic ingredients</p> <p><b>Alternative B:</b> Oral information to all consumer about allergenic ingredients</p> <p><b>Alternative C:</b> Information about allergenic ingredients when asked for by the consumers</p>	<p>Businesses producing/selling non-pre-packed foods</p>
Labelling of ingredients on alcoholic products with more than 1,2% alcohol other than liquor, wine and beer	-----	<p>Businesses producing/selling alcoholic foods other than liquor, wine or beer</p>
Mandatory nutrition declaration on all foods	-----	<p>Businesses producing/selling pre-packed foods</p> <p>Businesses producing/selling alcoholic foods other than liquor, wine or beer</p> <p>Businesses producing/selling non-pre-packed foods</p>
Mandatory production date	<p><b>Alternative A:</b> On all pre-packed foods</p> <p><b>Alternative B:</b> On all animal pre-packed foods</p>	<p>Businesses producing/selling pre-packed foods</p> <p>Businesses producing/selling alcoholic foods other than liquor, wine or beer</p>

According to the draft regulation the involved businesses have 20 days from the publication of the regulation to implement the information demands. However, for the demand of nutritional declaration, the commencement will be 3 years from publication. Yet, for businesses with less than 10 employees and an annual turnover below 2 million EUR, the nutritional declaration must be implemented 5 years at the latest after publication.

Secondly the Veterinary and Food Administration and the Danish Commerce and Companies Agency want to study whether it would make any cost or practical differences if the commencement of the nutrition declaration for all businesses would be 4 or 5 years after publication of the regulation.

### 3.3 Separation from other legislation

The draft regulation consists from the consolidation and update of two kinds of labelling provisions; general labelling of foods (directive 2002/13/EF) and nutritional declaration (directive 90/496/EØF). This draft regulation has the purpose of developing and modernizing the existing directives.

### 3.4 Segments

The draft regulation is directed towards all businesses selling and/or producing food products. In practice this means that all businesses in the food chain will be influenced. However, the draft regulation is expected to have differentiated consequences, in terms of both administrative and indirect financial costs, for different types of food businesses, belonging to different

segments of the food producing sector. The following segments are influenced by the draft regulation:

- Businesses producing/selling pre-packed foods
- Businesses producing/selling non-pre-packed foods
- Businesses producing alcoholic products other than wine, liquor and beer such as fruit wine or the so-called "Alco-pops"

Within these segments the following business types are expected to be particularly influenced:

- Businesses producing/selling pre-packed foods in small packaging of exactly 10 cm<sup>2</sup> or slightly over
- Businesses producing/selling luxurious food products, of which the packaging has a big symbolic value to the consumer
- Businesses having a changing product portfolio
- Businesses having a less structured form of production leaving more space for innovation in the preparation of the foods such as bakeries, butchers, restaurants etc.

Furthermore, the draft regulation is expected to have differentiated consequences depending on the number of employees in a business. This counts for both the use of administrative man hours and the businesses' ability to implement and comprehend the initial and running extra costs and time usage following the draft regulation.

### 3.5 Populations and frequency

As mentioned, this assessment covers three segments of the food producing sector that are expected to be influenced by the implementation of the draft regulation.

The national population sizes of the businesses in these respective segments have been estimated using the Danish KOB register. The populations include all relevant lines of businesses and the specific businesses among these. However, all businesses with only one employee were excluded. The Danish market includes a high number of more or less inactive businesses with only one registered employee. Inclusion of these businesses in the total number of businesses in Denmark is likely to cause the calculation of administrative costs to turn out incorrect. The effect of exclusion from this analysis of those businesses with one employee that actually is active is regarded as little in comparison with the distortion their inclusion might cause<sup>3</sup>.

The population sizes of the three identified types of food businesses in Denmark are estimated to amount to:

- Businesses producing/selling pre-packed foods = **819**
  - Among these; Businesses producing/ selling animal pre-packed foods = **436**
- Businesses producing/selling non-pre-packed foods = **5848**

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<sup>3</sup> The number of businesses in Denmark with 1 or less registered employers is:

- Businesses producing/selling pre-packed foods: 13752
- Businesses producing/selling non-pre-packed foods: 656
- Businesses producing/selling alcoholic foods other than liquor, wine or beer: 14

- Businesses producing/selling alcoholic foods other than liquor, wine or beer = **14**

*Segment I: Businesses producing/selling pre-packed foods* can be subdivided into two types. Firstly, businesses producing products for direct sale to end-users and for use of “professionals” for further preparation before meeting the end-users. Secondly, wholesale businesses selling, but not producing the products.

This last category includes businesses that import food products, such as coffee and tea, animal foods, dairy products, bread, etc., for further distribution in Denmark. These businesses normally have the final saying and responsibility for the packaging and labelling of the products, and they are therefore expected to be affected by the draft regulation.

The product range of these types of businesses typically varies from 50-100. For the purpose of this study, the average number of products in the portfolio of businesses in this segment is therefore estimated to be 75. Furthermore, on the basis of the data that were required through the interviews, it is estimated that around 6 new products per year are added to the product portfolio, which will have to live up to the requirements defined in the draft regulation on food information to consumers.

The segment is mainly dominated by larger businesses with more than 10 employees.

*Segment II: Businesses producing/selling non-pre-packed foods* can also be subdivided into two types of businesses: businesses that sell prepared foods for the consumers to consume right away, and businesses selling prepared and semi-prepared foods for the consumers to take home.

The first mentioned type of business includes restaurants, canteens, cafeterias, minor food shops at schools and carnivals, etc. The second type includes bakeries, groceries, butchers etc.

The product range of businesses in this segment differs typically from 20-25. Therefore, an average number of products in the portfolio of businesses in this segment were estimated to amount to 23. This number is used in the calculations in this report. The range of new products per year, which are expected to have to be aligned with the draft regulation, varies a great deal for this segment. Businesses like restaurants and canteens, which are dominating the segment, normally change their menu by adding around 10 new products ca. 2 times a year. Groceries and other businesses that depend on concepts such as the “offer of the day”, food markets and their suppliers of bread etc. potentially deal with up to 4 new products a day. The average number of new products per business per year is therefore estimated to amount to 60.

The segment mainly consists of smaller businesses with fewer than 10 employees and often no more than 1-4 employees.

*Segment III: Businesses producing/selling alcoholic foods other than liquor, wine or beer.* The businesses included in this segment make for a rather narrow population compared to the two other segments. The range of products in the portfolio of the businesses involved normally varies from 15-20 products per business. On that basis the average number of products in the portfolio of business in this segment is estimated to be 18.

Businesses in segment III normally add around 4 new products per year to their portfolio.

The segment consists of both larger and smaller breweries and wineries. Larger businesses with more than 10 employees dominate the segment.

### **3.6 The set up of the conducted interviews**

This research project is based on data required through *15 face-to-face interviews* conducted by applying the SCM method. The interviews were held between the 26<sup>th</sup> of August and the 15<sup>th</sup> of September 2008. The principles of the SCM were used to collect concrete information about the administrative costs, as well as indirect financial costs that are expected to be caused by the implementation of the draft regulation.

During the recruitment of candidates for the interviews, the businesses were screened in order to confirm that they in effect can be expected to be influenced by the implementation of the draft regulation. The recruitment focused on planning interviews with businesses from each of the 3 segments.

The number of interviews per business segment was:

- Businesses producing/selling pre-packed foods; *6 interviews*
- Businesses producing/selling non-pre-packed foods; *7 interviews*
- Businesses producing/selling alcoholic foods other than liquor, wine or beer; *2 interviews*

The recruitment aimed to include both smaller businesses with less than 20 employees and larger businesses with more than 20 employees. Finally, it was ensured to include businesses that may be particularly influenced by the draft regulation in the interviews (section 3.4 "Segments"). This means that e.g. businesses producing luxury products, as well as businesses experiencing a high product turnover were interviewed.

The interviews in the larger businesses were held with Quality Managers. In the smaller businesses, the owners and chefs were interviewed.

### **3.7 Cost parameters**

All interviewed businesses were asked for their expected time usage per product. This approach was chosen in order to keep it as simple as possible, while at the same time ensuring valid and realistic answers. The expected number of hours used per product was hereafter multiplied with the average number of existing products in the businesses' portfolio, as well as with the average number of new products per year for each segment (cf. section 7.5 – Populations and frequency). The result of this calculation represents the total number of administrative hours used per business.

In most cases, the interviewees expect that changes to the product labelling will be handled by internal resources. Only a few businesses claim that they would have to hire professional help. In these cases the businesses had difficulties estimating the time usage for these external resources. The calculations of the administrative costs involved, which will be presented later, are therefore only based on internal costs.

In the larger businesses the administrative activities will be primarily carried out by Quality Managers or staff responsible for labelling and packaging of the products. In smaller businesses, labelling-related activities are primarily

performed by the owners of the business or other management personal. Only oral information to customers will be given by sales staff.

In order to be able to calculate the costs incurred by the time usage of management and staff members, the SCM method<sup>4</sup> divides management staff into two cost groups according to business size (below/above 10 employees). The sales staff group is gathered in one single category. The time approximated costs in EUR of the three staff groups are:

- Management staff in a company with less than 10 employees = 44,15 EUR/hour (328,75 DKR/hour)
- Management staff in a company with more than 10 employees = 65,8 EUR/hour (490 DKR/hour)
- Sales staff = 27,7 EUR/hour (206,25 DKR/hour)

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<sup>4</sup> The staff groups and costs are taken from the Danish SCM Manual Appendix 1.

## **4. The administrative and indirect financial costs of the draft regulation**

### **4.1 Expected administrative consequences of the draft regulation**

In this chapter, the expected administrative consequences of the implementation of the draft regulation will be presented. The estimation is based on an analysis of how much time, in terms of working-hours, and how much money a normally efficient business would have to invest in order to comply with the draft regulation, cf. the SCM-manual.

The expected administrative consequences of the implementation of the draft regulation are different for each of the 5 Information obligations that were in focus during this study. Therefore, the expected consequences of each of these Information obligations will be discussed and commented on sequentially in the next sections. The expected administrative consequences will be described both in terms of changeover costs and ongoing costs.

### **4.2 Administrative costs in the changeover phase**

In the following 5 tables, an estimation of the administrative costs expected to occur during the changeover phase, is presented both as working hours and in monetary terms (EUR). The respective tables will be commented on forthcoming.

#### **4.2.1 Information obligation 1: Minimumfont size**

The draft regulation contains an obligatory font size of 3 mm for all mandatory labelling requirements. The Danish Food and Veterinary Administration has requested to include to alternatives for this requirement in this survey: a minimum font size of 2 mm. and of 1,5 mm.

The most important and maybe somehow surprising result on this information obligation is that the administrative costs are not influenced differently whether the font size is 3 mm., 2 mm. or 1,5 mm. This is mainly caused by the observation that most labelling today are less than 1,5 mm. Therefore the businesses will have to change the layout of the labelling no matter if it has to be changed to 3 mm. or 1,5 mm.

However, the change of the required font size to 1,5 mm. instead of 3 mm. would have great influence on the businesses ability to market the products through the packaging. Also the bigger the font size is the larger the risk that the businesses will have to make bigger packages for their products, which eventually will mean an increase in costs for packaging and labelling materials and an increase in costs for transportation. Therefore overall the most important conclusion about this information obligation is that the alternative of 1,5 mm. by far is the less cost full to the businesses.

The interviewees expect considerable administrative costs and indirect financial costs from both the current proposal and the two alternatives. Especially businesses with products in smaller packaging regard a minimum font size as a burden as it leaves less space for other kinds of information that mandatory labelling elements. Businesses producing for instance luxury products consider this element of the draft regulation to be very problematic as packaging and labelling is a crucial part of their marketing and business identity.

In most cases, businesses expect to be able to change the font size themselves by changing the programming of their machinery and/or by slightly changing or adjusting the product layout. These changes can be effectuated within their current computer systems. However, business fear for an overload of additional labelling requirements, which may force them to engage external resources, such as advertising agencies, to carry out more extensive layout changes.

The expected cost-scheme in the table beneath is based on the normally efficient business within the segment - the business that is able to effectuate the necessary changes to the product labelling and packaging itself.

**Table III - Information obligation 1**

	Segment	Normal efficient business		Population on national level	Internal costs on national level	External consequences on national level	Total costs on national level (EUR)
		Internal costs	External costs				
<b>Minimum font size (Alternative A-C)</b>							
Acquaintance with the regulation	1. Businesses producing/selling pre-packed foods	1,7 hours		819	1.392 hours		91.595 EUR <sup>5</sup> (682.080 DKR)
	2. Businesses producing/selling alcoholic foods other than liquor, wine or beer	2 hours		14	28 hours		1.842 EUR (13.720 DKR)
Controlling if existing labels fulfil the demands	1. Businesses producing/selling pre-packed foods	75 hours		819	61.425 hours		4.041.824 EUR (30.098.250 DKR)
	2. Businesses producing/selling alcoholic foods other than liquor, wine or beer	18 hour		14	252 hours		16.582 EUR (123.480 DKR)
Making new labels and packaging	1. Businesses producing/selling pre-packed foods	112,5 hours		819	92.138 hours		6.062.769 EUR (45.147.620 DKR)
	2. Businesses producing/selling alcoholic foods other than liquor, wine or beer	126 hours		14	1.764 hours		116.073 EUR (864.360 DKR)
<b>Total costs</b>							<b>10.330.685 EUR (76.929.510 DKR)</b>

<sup>5</sup> Calculation: 1,7 hours \* 819 businesses = 1.392 hours. 1.392 hours \* 490 DKR = 682.080 DKR. 682.080 / 7,4467 = 91.595 EUR

#### **Additional comments on information obligation 1:**

- The interviewees typically use internal resources to comply with the requirements. However, if the minimum font size is changed to 3 mm, the businesses may need to use external resources as advertising agency and consultancy.
- The time cost used for this Information obligation is 65,8 EUR (490 DKR) (Management staff in businesses with more than 10 employees)

#### **4.2.2 Information obligation 2: Labelling of allergenic ingredients.**

The interviewed businesses were asked to respond to three alternatives to inform consumers about allergenic ingredients in non-pre-packed foods: A) information by labelling or signing, B) oral information to all consumers and C) oral information when asked for.

In general, the interviewees do not expect the changeover costs as a result of implementing this Information obligation to be of significance. The businesses will have to get acquainted with the official list of allergenic ingredients, make some sort of labelling for all the products and/or inform the staff of the new obligation. In general, the businesses tend to be most supportive of alternative C, which in many cases is an integrated procedure today. Restaurants, canteens, cafeterias etc. who are preparing the food on demand tend to be by far most positive towards informing the customers when asked for. Whereas bakeries, shops selling non-pre-packed foods are positive towards both informing when asked for and signing. Alternative B is not considered to be a realistic option, as it would be distracting and unnatural to inform all customers about all allergenic ingredients in the products they purchase. Alternative A is assessed to be slightly more costly than the other alternatives in the changeover phase. However, as is shown in the section on ongoing costs, in the long run alternative C is the less expensive option.

**Table IV – Information obligation 2**

	Segment	Normal efficient business		Population on national level	Internal costs on national level	External consequences on national level	Total costs on national level (EUR)
		Internal costs	External costs				
<b>Informing about allergenic ingredients. (applies to all alternatives)</b>							
Acquaintance with the regulation	2. Businesses producing/selling non-pre-packed foods	2,5 hours		5.848	14.620 hours		645.430 EUR <sup>6</sup> (4.806.325 DKR)
Collect information on allergenic ingredients	2. Businesses producing/selling non-pre-packed foods	4 hours		5.848	23.392 hours		1.032.688 EUR (7.690.120 DKR)
<b>Label with all allergenic ingredients (alternative A)</b>							
Making labelling or signs	2. Businesses producing/selling non-pre-packed foods	5 hours		5.848	29.240 Hours		1.290.860 EUR (9.612.650 DKR)
<b>Oral information to all customers about all allergenic ingredients (alternative B)</b>							
Inform employees about requirement of information and allergenic ingredients.	2. Businesses producing/selling non-pre-packed foods	4 hours sales staff  1 hour manager		5.848	23.392 hours sales staff  5.848 hours manager		906.056 EUR (6.747.130 DKR) <sup>7</sup>
<b>Inform about all allergenic ingredients when the customer asks (alternative C)</b>							
Inform employees about requirement of information and allergenic ingredients.	2. Businesses producing/selling non-pre-packed foods	4 hours sales staff  1 hour manager		5.848	23.392 hours sales staff  5.848 hours manager		906.056 EUR (6.747.130 DKR)
<b>Total costs Alternative A</b>							<b>2.968.979 EUR</b> <b>(22.109.095 DKR)</b>
<b>Total costs Alternative B</b>							<b>2.584.175 EUR</b> <b>(19.243.575 DKR)</b>
<b>Total costs Alternative C</b>							<b>2.584.175 EUR</b> <b>(19.243.575 DKR)</b>

<sup>6</sup> Calculation: 2,5 hours \* 5.848 businesses = 14.620 hours. 14.620 hours \* 328.75 DKR = 4.806.325 DKR. 4.806.325 DKR / 7,4467 = 645.430 EUR

<sup>7</sup> 647.884 EUR + 258.172 EUR = 906.056 EUR.

4.824.600 DKR + 1.922.530 DKR = 6.747.130 DKR

### **Additional comments on information obligation 2:**

- Alternative B and C cause less administrative costs in the change-over phase than alternative A.
- The making of signs and the changing of menus for the existing products are demanding time-wise.
- The 4 hours per business used informing the employees about the regulation (alternative B and C) normally involves a staff meeting with four employees (sales staff) and one manager (Management staff in businesses with less than 10 employees) for one hour.
- There is a general acceptance of both alternative A and C as reasonable solutions.
- Alternative C (oral information when asked for) is already today general practise and all businesses within the non pre-packed food segment consider this alternative to be the right way to inform customers.
- Two different time costs are used to calculate the expected consequences of this Information obligation:
  - Acquaintance with regulation, collect information and making labels and signs, and informing the employees is handled by the management staff at the time cost of 44,15 EUR (328,75 DKR) (Management staff in businesses with less than 10 employees)
  - Information of employees involves the sales staff at the time cost of 27,7 EUR (206,25 DKR) (Sales Staff).

#### **4.2.3 Information obligation 3: Ingredient labelling of alcoholic products.**

The administrative time usage expected in the segment is connected to making new labels or packages. The reason is that alcoholic products normally have very little space for labelling. The inclusion of ingredients on the labels is expected to be time consuming, as it will be necessary to develop a new, nice layout. The businesses in this segment are, as mentioned, mostly large businesses, which have internal resources for marketing related activities, including layout and design. Therefore, the calculation of the costs that are expected to occur if the draft regulation is adopted is based on the presumption that businesses carry out the adaptation of their product labels themselves (table V).

The businesses explain that they currently do not include a list of ingredients on their products. Therefore, they do not expect to need time for controlling whether the existing labelling meets the demands.

**Table V – Information obligation 3**

	Segment	Normal efficient business		Population on national level	Internal costs on national level	External consequences on national level	Total costs on national level (EUR)
		Internal costs	External costs				
<b>List of ingredients on all alcoholic products with a volume over 1,2 %, except wine, spirits and beer.</b>							
Acquaintance with the regulation	3. Businesses producing/selling alcoholic foods other than liquor, wine or beer	2 hours		14	28 hours		1.842 EUR <sup>8</sup> (13.720 DKR)
Controlling if existing labels fulfil the demands	3. Businesses producing/selling alcoholic foods other than liquor, wine or beer	0 hours		14	0 hours		0 EUR (0 DKR)
Collect information about ingredients in existing products	3. Businesses producing/selling alcoholic foods other than liquor, wine or beer	9 hours		14	126 hours		8.291 EUR (61.740 DKR)
Making new labels and packaging	3. Businesses producing/selling alcoholic foods other than liquor, wine or beer	126 hours		14	1764 hours		116.073 EUR (864.360 DKR)
<b>Total costs</b>							<b>126.206 EUR (939.820 DKR)</b>

**Additional comments on information obligation 3:**

- It is not custom to label alcoholic products with a list of ingredients.
- On a national level the administrative costs for the changeover phase are not very high. However, on a business level they are rather high due to the fact that the number of businesses within the segment is limited.
- One of the larger businesses within this segment, which is subdivided in different departments with each their responsibilities, showed a hard time trying to make a realistic estimate of the expected administrative burden. However, by consulting the different departments, the interviewee calculated that the administrative costs are expected to amount to about 26.000 EUR for the changeover process only.
- The time cost used for this Information obligation is 65,8 EUR (490 DKR) (Management staff in businesses with more than 10 employees)

<sup>8</sup> Calculation: 2 hours \* 14 businesses = 28 hours. 28 hours \* 490 DKR = 13.720 DKR. 13.720 DKR / 7,4467 = 1842 EUR

#### **4.2.4 Information obligation 4: Nutrition declaration.**

The information obligation to include a nutrition declaration in all product labelling is expected to be the most expensive of the labelling requirements included in this study in terms of administrative costs.

Businesses expect that the gathering of information on the nutritional value of their products – either by carrying out the necessary analysis or by collecting the relevant data from the producers – will involve a lot of work.

For businesses producing non-pre-packed foods and especially restaurants, canteens etc. find it almost impossible to fulfil this requirement as the recipes may change a bit from one course to another and because they often experiment with different ingredients, mixes and so on. In these cases it might be relevant to let international regulation become effective and not require this of businesses producing non-pre-packed foods.

For businesses producing/selling pre-packed foods and alcoholic foods the general dissatisfaction is targeted the GDA format of nutrition declaration. This format is regarded to take much space on the labelling and can therefore have great marketing consequences at the same time as it will require a more extensive change of the layout. In these cases it might be relevant to consider whether other formats, which are more similar to the ones used today, could be required instead of the GDA format.

Generally, the interviewed persons find it difficult to understand how the additional Information obligations would enhance the information level toward consumers. Nutrition declaration as proposed in the draft regulation is regarded as too complicated and technical for the average consumers to understand.

Table VI, shows the expected administrative costs as a consequence of the implementation of mandatory nutrition declaration on all food stuffs. The costs are based on businesses carry out their own analysis or that gather the nutritional information about the products themselves.

**Table VI – Information obligation 4**

	Segment	Normal efficient business		Population on national level	Internal costs on national level	External consequences on national level	Total costs on national level (EUR)
		Internal costs	External costs				
<b>Nutritional declaration on all food</b>							
Acquaintance with the regulation	1. Businesses producing/selling pre-packed foods	1,7 hours		819	1.392 hours		91.595 EUR <sup>9</sup> (682.080 DKR)
	2. Businesses producing/selling non-pre-packed foods	2,5 hours		5.848	14.620 hours		645.430 EUR (4.806.325 DKR)
Controlling if existing labelling fulfil the demands	1. Businesses producing/selling pre-packed foods	0 hours		819	0 hours		0 EUR
	2. Businesses producing/selling non-pre-packed foods	0 hours		5.848	0 hours		0 EUR
Collect information about nutritional content of existing products	1. Businesses producing/selling pre-packed foods	75 hours		819	61.425 hours		4.041.824 EUR (30.098.250 DKR)
	2. Businesses producing/selling non-pre-packed foods	23 hours		5.848	134.504 hours		5.937.958 EUR (44.218.190 DKR)
Making new labelling and packaging of existing products	1. Businesses producing/selling pre-packed foods	75 hours		819	61.425 hours		4.041.765 EUR (30.098.250 DKR)
	2. Businesses producing/selling non-pre-packed foods	11,5 hours		5.848	67.252 hours		2.968.979 EUR (22.109.095 DKR)
<b>Total costs</b>							<b>17.727.610 EUR</b> <b>(132.012.190 DKR)</b>

<sup>9</sup> Calculation: 1,7 hours \* 819 businesses = 1.392 hours. 1.392 hours \* 490 DKR = 682.080 DKR. 682.080 DKR / 7,4467 = 91.595 EUR

#### **Additional comments on information obligation 4:**

- Only one of the businesses interviewed would have to check if they fulfil the demands, all others know already they don't meet the requirements.
- The listed number of hours for "collecting information" represents businesses that have the resources to do so themselves, or that are able to collect the information directly from the manufactures.
- In other cases, the businesses have to order external analysis of their products. In those cases they could not specify the hour usage. However, the prices for this type of analysis are:
  - 130-195 EUR per product for a short list of nutritional information.
  - 325-390 EUR per product for a long list of nutritional information.
- The time costs used to calculate the expected consequences of the implementation of this Information obligation are estimated to amount to 65,8 EUR (490 DKR) (Management staff in businesses with more than 10 employees) and 44,2 EUR (328,75 DKR) (Management staff in businesses with less than 10 employees)
- The businesses estimated that a longer commencement period would *not* make a difference in the burdens in terms of changeover or ongoing costs. The businesses reported that although they have significant storage of packaging, the 3 years transition period should more than suffice to use up the stored packaging and replace with the new.

#### **4.2.5 Information obligation 5: Labelling with a production date on all products**

On the basis of the feedback from the interviews, this requirement is expected to only induce costs in the changeover phase and no ongoing costs. Once the machinery and software is adjusted to include the production date, it is self-propelled.

However, mandatory production date on all products may be most expensive in terms of indirect financial cost, as most businesses indicate that it would require new machinery or software to be able to fulfil the obligation. Today, most of the businesses do not include production date in their product labelling, which means that they do not currently spend time controlling the products.

**Table VII – Information obligation 5**

	Segment	Normal efficient business		Population on national level	Internal costs on national level	External consequences on national level	Total costs on national level (EUR)
		Internal costs	External costs				
<b>Production date on food (alternative A + B)</b>							
Acquaintance with the regulation	1. Businesses producing/selling pre-packed foods	1,7 hours		819	1.392 hours		91.595 EUR <sup>10</sup> (682.080 DKR)
Controlling if existing labelling fulfil the demands	1. Businesses producing/selling pre-packed foods	0 hours		819	0 hours		0 EUR
<b>Alternative A: All pre-packed products</b>							
Making new labelling and packaging of existing products	1. Businesses producing/selling pre-packed foods	35 hours		819	28.665 hours		1.886.184 EUR (14.045.850 DKR)
<b>Alternative B: All pre-packed animal products</b>							
Making new labelling and packaging of existing products	1. Businesses producing/selling pre-packed <b>animal</b> foods	35 hours		436	15.260 hours		1.004.123 EUR (7.477.400 DKR)
<b>Total costs: Alternative A</b>							<b>1.977.779 EUR</b> <b>(14.727.930 DKR)</b>
<b>Total costs: Alternative B</b>							<b>1.095.718 EUR</b> <b>(8.159.480 DKR)</b>

**Additional comments on information obligation 5:**

- Most of the businesses do not today label with production date.
- However, a few businesses would have to go through the product portfolio to identify the products with and without production date.
- This information obligation will for many businesses mean high costs for new machinery or software, as the present does not have the function of printing the production date on the label.
- One of the businesses expects the indirect costs to be around 97.500 EUR in total. These costs are not included in the costs above.
- The time cost used to calculate the expected consequences of the implementation of this information obligation is 65,8 EUR (490 DKR) (Management staff in businesses with more than 10 employees)

<sup>10</sup> Calculation: 1,7 hours \* 819 businesses = 1.392 hours. 1.392 hours \* 490 DKR = 682.080 DKR. 682.080 DKR / 7,4467 = 91.595 EUR

### **4.3 Ongoing administrative costs**

In the following tables, the expected ongoing costs as a consequence of the implementation of the regulation will be presented for each of the Information obligations included in this study. The expected costs are calculated per year.

As was done for the changeover costs, the ongoing costs per business per year were calculated by using an *average number of new products per year* for each of the three segments. As appeared from the interviews, the average number of new products per year in the normally efficient businesses is:

- 1) businesses producing/selling pre-packed foods (6),
- 2) businesses producing/selling non-pre-packed foods (60), and
- 3) businesses producing alcoholic foods other than wine, beer, liquor (4).

The ratio behind these average numbers is described in section 3.5 – Populations and frequency.

As Information obligation 5 is not expected to induce any ongoing administrative costs, but solely costs in the changeover phase, this requirement is not included in this section.

#### **4.3.1 Information obligation 1 – minimum font size**

The interviewed businesses expressed that they expect the administrative activity of a minimum font size in the long run will consist of making sure that labels and packages for new products fulfil the obligation of minimum font size. For businesses that produce all of their own products the time involved in controlling compliance are expected to be less, because the minimum font size will be implemented as a standard for the development of all new packages. However, the management staff responsible for quality will have to double check all packages and labels to make sure that they fulfil the obligation. Businesses who buy products from international producers will have to use some time controlling and making sure that the products fulfil the obligation. All in all the businesses report that they will use 1 hour per new product controlling the labelling. The two types of affected businesses segments have an average number of new products at respectively 6 and 4 per year.

**Table VIII - Information obligation 1**

	Segment	Normal efficient business		Population on national level	Internal costs on national level	External consequences on national level	Total costs on national level (EUR)
		Internal costs	External costs				
<b>Minimum font size (alternative A-C)</b>							
Controlling if new labelling fulfil the demands	1. Businesses producing/selling pre-packed foods	6 hour		819	4.914 hours		323.346 EUR <sup>11</sup> (2.407.860 DKR)
	3. Businesses producing/selling alcoholic foods other than liquor, wine or beer	4 hour		14	56 hours		3.685 EUR (27.440 DKR)
<b>Total costs</b>							<b>327.031 EUR</b> <b>(2.435.300 DKR)</b>

**Additional comments on information obligation 1:**

- The time cost used to calculate the expected consequences of the implementation of this Information obligation is 65,8 EUR (490 DKR) (Management staff in businesses with more than 10 employees)

**4.3.2 Information obligation 2: Labelling of allergenic ingredients.**

Apart from the proposal in the draft regulation, two alternatives were included in this survey. Consequently, three separate calculations of the expected ongoing costs were made for each of these alternatives.

The calculations show that the difference between the costs per year incurred for each of the three alternatives is rather large. Alternative C, informing customers about allergenic ingredients when asked for, is expected to be the least cost demanding of the alternatives and is most positively received by the interviewees. This way of informing the customers is already broadly applied today and is considered as a necessary part of the professional competences within the food business and as a normal way of ensuring good quality to the consumers. As a result, this alternative would not only be the least cost demanding, it would also be the most natural form to implement in the daily work routines. Alternative B is expected to induce the highest ongoing costs. Moreover, this alternative is regarded as practically impossible to implement - and possible even annoying for customers, as it is expected not only to be time demanding on the businesses to have to inform all customers about allergenic ingredients in foods, but it is also demanding on customers who are busy.

<sup>11</sup> Calculation: 6 hours \* 819 businesses = 4.914 hours. 4.914 hours \* 490 DKR = 2.407.860 DKR. 2.407.860 DKR / 7,4467 = 323.346 EUR

**Table IX - Information obligation 2**

	Segment	Normal efficient business		Population on national level	Internal costs on national level	External consequences on national level	Total costs on national level (EUR)
		Internal costs	External costs				
<b>Labelling of allergenic ingredients (alternative A-C)</b>							
Collecting information on allergenic ingredients	2. Businesses producing/selling non-pre-packed foods	60 hours		5.848	350.880 hours		15.490.325 EUR <sup>12</sup> (115.351.800 DKR)
<b>Label with all allergenic ingredients (alternative A)</b>							
Making new labels and packaging	2. Businesses producing/selling non-pre-packed foods	30 hours		5.848	175.440 hours		7.745.162 EUR (57.675.900 DKR)
<b>Oral information to all customers about all allergenic ingredients (alternative B)</b>							
Inform about all allergenic ingredients to all customers.	2. Businesses producing/selling non-pre-packed foods	62,5 hours		5.848	365.500 hours		10.123.192 EUR (75.384.375 DKR)
<b>Inform about all allergenic ingredients when the customer asks (alternative C)</b>							
Inform about all allergenic ingredients when the customer asks.	2. Businesses producing/selling non-pre-packed foods	26 minutes		5.848	2.534 Hours		70.187 EUR (522.665 DKR)
<b>Total costs Alternative A</b>							<b>23.235.487 EUR</b> <b>(173.027.700 DKR)</b>
<b>Total costs Alternative B</b>							<b>25.613.517 EUR</b> <b>(190.736.175 DKR)</b>
<b>Total costs Alternative C</b>							<b>15.560.512 EUR</b> <b>(115.874.465 DKR)</b>

**Additional comments on information obligation 2:**

- Two different time costs were used to calculate the expected consequences of the implementation of this Information obligation:
  - Collecting information and making labels and signs is handled by the management staff at the time cost of 44,2 EUR (328,25 DKR) (Management staff in businesses with less than 10 employees)
  - Informing customers is handled by the sales staff at the time cost of 27,7 EUR (206,25) (Sales Staff)

<sup>12</sup> Calculation: 60 hours \* 5.848 businesses = 350.880 hours. 350.880 hours \* 328,75 DKR = 115.351.800 DKR. 115.351.800 DKR / 7,4467 = 15.490.325 EUR

### 4.3.3 Information obligation 3: Ingredient labelling of alcoholic products.

On the basis of the data gathered from the interviews, mandatory ingredient labelling of alcoholic beverages is not expected to cause high administrative costs on a national level. The segment is not very large and since the ingredients lists will be integrated in the standard layout for the labelling, this Information obligation is not expected to cause additional costs in terms of time used for the development of new labelling. In most cases the businesses today have information about the nutrition in the products, however they will in a few cases still have to collect the data and for all cases they will have to find and systematise in their databases. The calculation of the expected costs in the below table are based on businesses that are able to conduct this information collection themselves.

**Table X - Information obligation 3**

	Segment	Normal efficient business		Population on national level	Internal costs on national level	External consequences on national level	Total costs on national level (EUR)
		Internal costs	External costs				
<b>Information list of ingredients on all alcoholic products with a volume over 1,2 %, except wine, spirits and beer.</b>							
Collect information about ingredients in new products	3. Businesses producing/selling alcoholic foods other than liquor, wine or beer	8 hours		14	112		7.370 EUR <sup>13</sup> (54.880 DKR)
<b>Total costs</b>							<b>7.370 EUR</b> <b>(54.880 DKR)</b>

#### Additional comments on information obligation 3:

- The time cost used for the calculation of the consequences of the implementation of this Information obligation is 65,8 EUR (490 DKR) (Management staff in businesses with more than 10 employees)

### 4.3.4 Information obligation 4: Nutrition declaration.

Generally, the interviewed businesses expect to have to use around ½ hour per product for collecting information about the nutritional value of the product. Moreover, businesses producing/selling pre-packed foods expect that the designing of the label will be slightly more time demanding (½ hour more than today). The reasons for this are that a mandatory nutrition declaration will take much of the space available on the label. As a result, it will be more complicated to fulfil all labelling demands, while at the same time ensuring the aesthetics of the labels and making sure that the products communicates the desired messages through the packages.

<sup>13</sup> Calculation: 8 hours \* 14 businesses = 112 hours. 112 hours \* 490 DKR = 54.880 DKR. 54.880 DKR / 7,4467 = 7.370 EUR

Businesses producing/selling non-pre-packed foods will have to provide new signs for each new product or, in the case of e.g. restaurants new menu cards will have to be produced a few times a year.

The calculation of the expected costs of the implementation of the regulation in the below table is based on a business that uses internal resources for the entire process every time they add a new product to their portfolio.

**Table XI - Information obligation 4**

	Segment	Normal efficient business		Population on national level	Internal costs on national level	External consequences on national level	Total costs on national level (EUR)
		Internal costs	External costs				
<b>Nutritional declaration on all food</b>							
Collecting information about nutritional content of new products	1. Businesses producing/selling pre-packed foods 2. Businesses producing/selling non-pre-packed foods	3 hours 30 hours		819 5.848	2.457 hours 175.440 hours		161.673 EUR <sup>14</sup> (1.203.930 DKR) 7.745.162 EUR (57.675.900 DKR)
Making new labelling and packaging of new products	1. Businesses producing/selling pre-packed foods 2. Businesses producing/selling non-pre-packed foods	3 hours 30 hours		819 5.848	2.457 hours 175.440 hours		161.673 EUR (1.203.930 DKR) 7.745.162 EUR (57.675.900 DKR)
<b>Total costs</b>							<b>15.813.670 EUR</b> <b>(117.759.660 DKR)</b>

**Additional comments on information obligation 4:**

- The time costs used to calculate the expected consequences of the implementation of this Information obligation are estimated at 65,8 EUR (490 DKR) (Management staff in businesses with more than 10 employees) and 44,2 EUR (328,75 DKR) (Management staff in businesses with less than 10 employees)
- The businesses estimated that a longer commencement period would *not* make a difference in the burdens in terms of changeover or ongoing costs. The businesses reported that although they have significant storage of packaging, the 3 years transition period should more than suffice to use up the stored packaging and replace with the new.

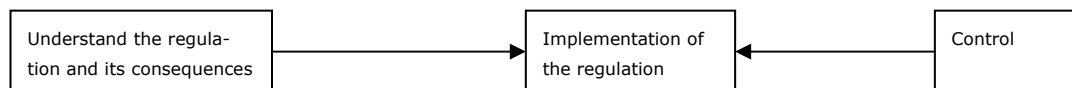
<sup>14</sup> Calculation: 3 hours \* 819 businesses = 2.457 hours. 2.457 hours \* 490 DKR = 1.203.930 DKR. 1.203.930 DKR / 7,4467 = 161.673 EUR

#### 4.4 Administrative processes in the businesses

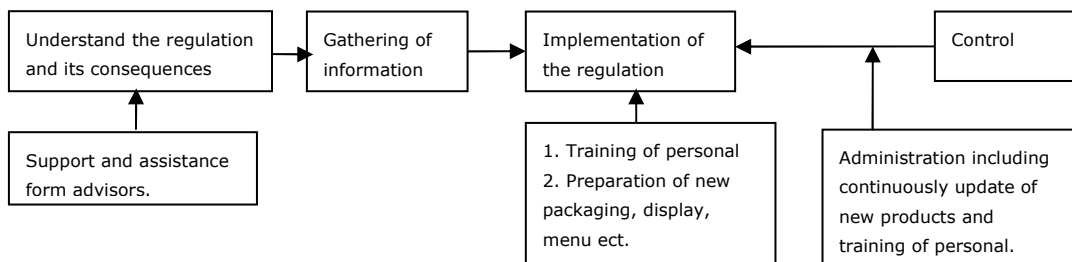
The actual process of implementing the legislation is outlined in four phases. The first phase deals with the understanding of the draft regulation including external support from family or professional advisors. The second phase consists of the gathering of the material necessary to implement the legislation. The third phase is the concrete implementation including training of personal, the making or adapting of post signs or packaging, and development of new administrative systems. The last and fourth phase deals with the company's continuous update of the labelling, providing the compulsory information for the customers.

As described in this section, the interviews showed that the regulation primarily affects smaller businesses, especially those producing/selling non-pre-packed foods. This conclusion can be explained by the administrative burden induced by the draft regulation, which the small businesses are not able to handle. The figure below shows this process:

##### Formal process / formal demands:



##### Actual process in the company:



The first phase consists of understanding the draft regulation and its consequences. Large businesses usually have an administrative department that can handle this phase efficiently. Small and medium-sized businesses do not have such an administrative capacity, and as a result of this, this phase will have the highest economic and administrative consequences for these kinds of businesses. The conducted interviews show that many businesses find this phase confusing and difficult because they are not used to work with legislation.

Given the complexity of the draft regulation and the comprehensive consequences that the draft regulation is expected to have for the design and layout for the packaging of businesses producing/selling pre-packed foods, many businesses express that they will seek consultancy support to understand the legislation correctly which can be cost-intensive. This is the scenario for many medium-sized and small businesses. The owners of small businesses expect difficulties in getting acquainted with the legislation because of limited time, limited interest and/or low education. This group will have to seek assistance from family or friends. The phase is thus associated with a proportionally large amount of work for the small businesses.

The second phase consists of gathering the relevant information about the products. Companies with a small amount of different products expect to be able to gather the required information fast. For most large businesses this phase will probably be problematic. This is expected to be the case if some of the products or parts of the products are produced by different sub suppliers in different countries. A respondent said: "It will be a messy process, I do not know if it is possible to do right". The businesses are to a high degree depended on their sub suppliers to complete the information gathering satisfactory.

The businesses producing/selling non-pre-packed foods expect to have a very hard time gathering the required information about their products. This can be illustrated with the case of restaurants. Restaurants have to gather information about all the ingredients they use in their menus, which can easily add up to hundreds of different ingredients. This process is continuous, as the menu changes regularly.

The third phase consists of the actual implementation of the legislation, which encompasses training of personal, introducing new administrative systems, and preparation of new packaging, displays, menus etc. The demand of a minimum font size for labelling, as well as the demand of new information to the consumers necessitate new labelling of most products produced by businesses producing/selling pre-packed foods and businesses producing/selling alcoholic beverages other than liquor, wine or beer. This will have a concentrated onetime cost. Most businesses find it important that they be guaranteed a transition period.

Businesses producing/selling non-pre-packed foods cannot implement the new requirements by changing the product labelling, because the foods are not packed. Therefore, these businesses will have to introduce an administrative system to live up to the draft regulation.

It became clear from the interviews that this group of businesses find it very hard to implement the regulation, especially the requirement of mandatory nutrition declaration. It is of course expected that many working procedures will become routine over time, but the very high variety of products that characterises the segment (restaurant, cafeterias, bakeries, confectioners, chocolate stores ect.) will affect the burden that is expected to be brought about by the implementation. Many respondents argued that it is likely that the regulation will not be implemented correctly because of limited time, limited understanding of the legislation and its purpose, and limited ability to measure and quantify the used ingredients. This may result in misleading information to the customers.

In line with this argument, businesses producing/selling pre-packed foods and businesses producing/selling alcoholic beverages other than liquor, wine or beer fear that labelling with 'irrelevant' information (for instance content of salt in alcoholic beverages) could possibly mislead the customers or be misused.

The last phase deals with the administration of the legislation after implementing it. Businesses producing/selling pre-packed foods and businesses producing/selling alcoholic beverages other than liquor, wine or beer do not expect continuous higher expenditure, but they anticipate that their marketing possibilities may be affected. This is discussed in the next section.

Businesses producing/selling non-pre-packed foods expect to have to introduce administrative procedures to handle the obligations in the daily work. Thus, the legislation is for this group of businesses expected to result in a continuous administrative burden, which among other consequences may have a negative affect on their ability to innovate.

#### **4.5 Marketing costs of the draft regulation**

The new draft legislation will affect the marketing of most businesses to some extent, but especially smaller businesses will be affected. Three effects on marketing are identified. The effects are not further quantified.

- Firstly, the marketing of businesses producing/selling non-pre-packed foods can be affected by information visible on their menu.
- Secondly, implementation of the draft regulation may influence the marketing of businesses producing/selling pre-packed food products, which they brand themselves by giving these products an exclusive look.
- Thirdly, an indirect impact may be expected on the creativity of businesses producing/selling non-pre-packed foods as a consequence of administrative burdens as a result of the introduction of new products.

The requirement that the nutritional content of allergenic ingredients should be visible and accessible for all customers may have another impact on the businesses producing/selling non-pre-packed foods. Some respondents anticipate a negative effect from the confrontation of all costumers with allergenic ingredients. Some even fear that the customers will feel bothered by such information.

An attractive or/and exclusive look is the basis of many brands, which are expected to be especially affected by the demand of showing consumer information on the front side of products. The marketing of such products will be affected because the front look of exclusiveness and quality is the very reason for customers to buy the product.

An indirect effect of hampering the creativity of businesses producing/selling non-pre-packed can also be identified. It is argued by many respondents that the administrative burden as a result of having to comply with the regulation will make the businesses more inflexible. A baker has to think about filling out forms and making labelling while trying a new sort of cakes or making product for single day events. Restaurants may to a higher extent than today begin to use pre-packed food and fixed recipes, not using their talent, creativity and ingenuity. In the longer run this can lead to a lower quality of the menus, and, as a consequence, to fewer customers.

#### **4.6 Other indirect financial costs of the draft regulation**

Besides the marketing consequences of the draft regulation the businesses in a more or lesser degree expect the following indirect financial costs:

- Short term concrete costs for new machinery, software and packaging material
- Short term rise in the costs for transportation because larger packages
- Long term loss of interest of smaller businesses to be occupied within the food business
- Long term environmental costs, because of more waste as a result of more packaging

About half of the larger businesses producing pre-packed foods expect to be forced to make some investment in new machinery, software and material in the transition phase to be able to fulfil the obligations.

The costs for new machinery or software are mostly connected to the obligation of production date on all foods as this implies functionality not available in the machines today. Most businesses today apply an expiration date on the products but not a production date. Only one business was able to specify this into actual costs in EUR estimated to amount to about 97.500 EUR. Other businesses expressed that the costs for new machinery and software would be almost immeasurable to the business.

The cost for new material for packaging and labelling includes labels, foil, plastic and cardboard etc. These costs are consequences of all mandatory information. If the requirement of a minimum font size of 3 mm is adopted, while at the same time adding labelling with ingredients, nutrition declaration and production date to the mandatory labelling elements, businesses expect to be forced to buy totally new materials, which mean that the present stored production bat will be lost. One of the very large businesses in this study expects the costs for materials to be around 130.000 EUR.

A few of the businesses also shed light on the problem of possibly having to make larger packages for the products as a result of the draft regulation. If this is the case, the businesses may also incur a rise in transportation costs. This consequence is more hypothetical though and harder for the businesses to make concrete.

A lot of the smaller businesses express a great frustration about especially the obligation of mandatory nutrition declaration. Some of the businesses even say that they might not want to stay in the business, if the obligation is implemented. This is mainly because of the extra administrative time at the expense of the time currently spent taking care of the customers, making good food etc. That means that the draft regulation would keep the business owners and workers from doing the job they went into the food business for. On the long term it is possible that this leads to a decrease in the number of smaller food businesses as a result of the fact that the incentive to be self-employed is overshadowed by administrative work.

At last it is worth mentioning that one of the businesses shed light on the potential environmental costs that the draft regulation may have. In general, the businesses fear that they will be forced to make larger packages than they do today in order to be able to include all mandatory labelling elements. This results in the increased use of materials for labelling and packaging and, as a consequence, in an increase of waste. In the long run this may induce costs to the environment.

#### **4.7 Analysis of validity and sensitivity**

The interviewed generally showed a great understanding of the administrative activities caused by the draft regulation. On product level the businesses within the segments generally answered within a small variation of the time usage. Only regarding the time usage for getting acquainted with the draft regulation there was a wider spread in the answers. This spread in time usage is caused by the general difference in the staffs' ability and inclination to gain and understand more complicated regulation material. Some of the businesses will read the entire regulation, whereas others are enrolled to e-mail services that inform about new regulation and will only read these e-mails. In this case the average time usage was used for all the businesses.

It is not possible to get the exact number of the business populations in Denmark. However, it has been possible based on the business types to make estimates of the population sizes using the KOB register.

The consultant firm is confident that the answers of the businesses are realistic and that no further study will be needed.

## 5. Recommendations and overall attitudes

### 5.1 The businesses' approach to the requirements of information

Overall, the interviewed businesses were positive towards the idea of informing the customers about the products they are selling. A lot of the businesses interviewed have voluntarily chosen to add information about e.g. nutritional contents and ingredients on their products, in order to appear trustworthy. Especially the businesses producing pre-packed products of the more luxurious kind have a higher level of information about the content of the products in order to show the high quality.

But the businesses are not overall positive about the information obligations as proposed in the draft regulation. They identify unnecessary practical problems and administrative consequences of the requirements, depending on the kind of products they produce; non-pre-packed or pre-packed.

The businesses producing non-pre-packed products, such as restaurants, delis, bakeries and cantinas, see it as almost impossible to comply with the requirements in their current form; especially in their daily work process. On top of that they expect that the information may confuse their customers.

To reduce the resistance from businesses producing non-pre-packed foods it is recommended to:

- Use alternative C, oral information when asked for, for information obligation 2 on information on allergenic ingredients in all non-pre-packed foods, as this is standard practise in most of these businesses today.
- Let international regulation become effective on information obligation 4 meaning that this regulation does not effects minor businesses producing/selling non-pre-packed foods.

The businesses producing pre-packed products see the problem that the requirements do not take into account the differences between products. The necessity of product information, which the customer needs in order to make a subjective choice, differs from product to product. On top of that it is a practical problem to find room for the information. This is especially pointed at information obligation 4 on nutrition declaration *in a GDA format* on all foods. The format needs lots of room on the products, which is regarded as problematic.

To reduce the resistance from businesses producing pre-packed foods and alcoholic foods it is recommended to:

- Consider whether the format of the nutrition declaration could be in a format other than the GDA format, which is more similar to the format some businesses are using today.
- To demand 1,5 mm. minimum font size instead of 3 mm. as this will mean less consequences for the businesses in regard of marketing and costs for materials and transportation.

Overall, most of the businesses have difficulty seeing the advantages of the draft regulation considering the administrative burden caused by having to comply with it.

## 5.2 Recommendation from the businesses

Some of the businesses had alternative ideas on how to inform customers about their products in a more simple way; these can be summed up in three recommendations:

- The first is a suggestion for an alternative, simpler labelling system for the businesses, especially those producing non-pre-packed products. E.g. a cantina or a restaurant can label their food with green, yellow and red labels depending on how healthy or non-fat the products are. This makes it more manageable, especially for the smaller businesses with fewer resources or those that make new dishes differently every day.
- The second recommendation is a suggestion to differentiate the labelling, depending on the relevance the information has to a specific product. E.g. it is not necessary to label that soft drinks contain no fibres.
- The third is a suggestion of reducing "*unnecessary*" information labelled on the product. Instead an EU-website could be created, where e.g. information about the dangers of alcohol or the advantages of low-fat food was gathered. In this way, the customers could choose themselves, what kind of information they would like.

All in all the recommendations mostly concern the requirements being too detailed and difficult to comply with. In order for the information to be useful for the customer and manageable for the businesses, it has to be simpler, differentiated and customized to the single product.

## Appendix 1: Presentation of the regulation on Danish

18.08.2008

J.nr.: 2008-20-21-02893/PLUM/ANFL/WIHE

### **Lovforklaring til lovforslag om fødevareinformation til forbrugere**

#### **Formålet med og indhold af Lovforslaget**

Formålet med forslaget er at sikre et højt niveau for beskyttelse af forbrugernes sundhed, og garantere deres ret til information ved at fastlægge generelle principper om og krav til fødevareinformation.

Forslaget indebærer, at de vigtigste obligatoriske mærkningsoplysninger bibeholdes, herunder fødevarens betegnelse, ingrediensliste, datoen for mindste holdbarhed / sidste anvendelsesdato, særlige opbevarings- og anvendelsesforskrifter, oprindelsesland og alkoholindhold af drikkevarer, der indeholder mere end 1,2 volumenprocent alkohol.

Som noget nyt vil næringsdeklarationen og mærkning med indhold af allergene ingredienser indgå i listen over obligatoriske angivelser. Forslaget indeholder krav om supplerende oplysninger for specifikke typer eller kategorier af fødevarer, der har særlige egenskaber/karakteristika. Forslaget introducerer desuden et antal nye elementer, blandt andet med hensyn til udformningen af de obligatoriske oplysninger. De vigtigste er:

#### Minimum skriftstørrelse

Efter forslaget skal alle obligatoriske mærkningsoplysninger fremover angives med minimum 3mm skriftstørrelse på produkter, hvis største yderflade er 10 cm<sup>2</sup> eller derover. I henhold til de nugældende regler gælder, at alle obligatoriske mærkningsoplysninger skal være "let læselige"; "klart synlige" og "uudslettelige".

#### Obligatorisk oplysning om allergene ingredienser på ikke-færdigpakkede fødevarer

Efter forslaget vil det være obligatorisk at mærke både færdigpakkede og ikke færdigpakkede fødevarer med indhold af allergene ingredienser. Der vil dog være visse muligheder for, at medlemslandene kan fastsætte nærmere retningslinjer for hvordan de ikke færdigpakkede fødevarer skal mærkes. I henhold til de nugældende regler skal ikke-færdigpakkede fødevarer ikke mærkes med indhold af allergene ingredienser.

### Mærkning med ingrediensliste på alkoholholdige produkter, der ikke er omfattet af kategorien "Vin, spiritus og øl"

Efter forslaget vil kun øl, vin og spiritus være undtaget fra kravet om ingrediensmærkning.

I henhold til de nugældende regler er alle alkoholholdige produkter med en volumenprocent på over 1,2% undtaget fra kravet om angivelse af en ingrediensliste (dog skal de stadig mærkes med tilsætningsstoffer og allergene ingredienser).

### Obligatorisk næringsdeklaration

I henhold til de gældende regler er det frivilligt at anvende en næringsdeklaration på en fødevarers pakning. For de danskproducerede færdigpakkede fødevarer gælder, at langt de fleste er frivilligt mærket med en næringsdeklaration. I de fleste tilfælde anvendes en kort deklaration (energi, fedt, kulhydrat og protein), men en længere version (+ mættet fedt, sukker, kostfibre og natrium) er også meget anvendt. Med forslaget vil der blive indført krav om obligatorisk næringsdeklaration for alle fødevarer, dog med visse undtagelser, fx uforarbejdede produkter, drikkevand, krydderier m.v.

Efter forslaget skal de obligatoriske oplysninger anføres i det primære synsfelt, dvs. på forsiden af pakningen. De frivillige oplysninger kan anføres separat et andet sted på pakken, idet de dog skal anføres samlet og om muligt i en tabel, hvis de ikke optræder på forsiden af pakken.

Efter forslaget skal næringsdeklaration som udgangspunkt anføres pr. 100 g/ml. Der kan suppleres med oplysninger om indholdet pr. portion, hvis det klart fremgår, hvor mange portioner produktet indeholder. Oplysningerne vil i henhold til forslaget kunne gives udelukkende pr. portion, hvis fødevareren er pakket som én portion. Der vil skulle vedtages yderligere regler for portionsstørrelser, så oplysningerne kan gives udelukkende pr. portion også, hvor fødevareren sælges i pakninger med flere portioner af varen, men hvor den ikke er færdigpakket som enkeltportioner.

Som noget nyt er det foreslået, at varens indhold af energi og visse næringsstoffer (fedt, mættede fedtsyrer, kulhydrater - med særlig angivelse af sukkerarter - og salt) skal angives i forhold til et fastsat referenceindtag, der henviser til et vejledende dagligt indtag (dvs. i procent). Formålet er at vise, hvor meget fødevareren giver af energi og de pågældende næringsstoffer i forhold til et samlet indtag af mad og drikke på én dag (referenceindtaget).

Efter forslaget vil der frivilligt kunne mærkes med andre (opremsede) næringsstoffer, f.eks. kostfibre. Det er dog obligatorisk at deklarere mængden af en eller flere af disse næringsstoffer, hvis der anvendes en ernærings- eller sundhedsanprisning.

### **Produktionsdato på færdigpakkede fødevarer**

Der vil i forbindelse med forhandlingerne af forslaget eventuelt tilføjes et krav om at der skal oplyses om produktionsdato for alle færdigpakkede fødevarer. Der er i dag ikke generelt krav om produktionsdato men udelukkende et overordnet krav om, at færdigpakkede fødevarer skal mærkes med datoen for fødevarens holdbarhed.

### **Overgangsordning**

Efter forslaget skal de generelle mærkningskrav anvendes 20 dage efter at forordningen er offentliggjort. Kravet om næringsdeklaration skal anvendes 3 år efter ikrafttræden, dog gælder det for virksomheder, der ved ikrafttrædelsesdatoen har mindre end 10 ansatte og hvis årlige omsætning og/eller årsbalance i alt ikke overstiger 2 mio. EUR, at kravet om næringsdeklaration skal anvendes 5 år efter ikrafttræden.