

CIAA Reflection Paper on Food and Drink Industry Competitiveness



CIAA

Confédération des industries agro-alimentaires de l'UE
Confederation of the food and drink industries of the EU

CONTENTS

4	Introduction
4	■ Revitalise the Lisbon Agenda
4	■ The food and drink industry: challenges, ambition and outlook
5	■ Coordinated action is needed
6	Specific actions to support food and drink industry competitiveness
6	■ Innovation is a major key to success
7	■ Call for a better, more simple, more proportionate, more competitive EU regulatory framework
7	- <i>Biotechnology and novel foods</i>
7	- <i>Novel foods legislation</i>
7	- <i>Additives legislation</i>
8	- <i>Nutrition and health claims</i>
8	- <i>Food labelling</i>
8	- <i>Integrated Product Policy</i>
9	- <i>Waste</i>
9	- <i>REACH</i>
10	■ Agricultural Policy in a reform process
11	■ International trade policies
11	- <i>Building closer links with trade partners and neighbouring countries</i>
11	- <i>Trade in food and drink products</i>
11	- <i>Promoting the export of value added products</i>
12	Current competitiveness and specific action to assess and further monitor the food and drink industry's performance
12	■ Key points on food and drink industry competitiveness
14	■ Monitoring of the competitiveness of the food and drink industry

CIAA Reflection Paper on Food and Drink Industry Competitiveness

Ahead of the Lisbon mid-term review, the Confederation of the Food and Drink Industries (CIAA) has identified issues of particular interest to the food and drink industry sector that represent key challenges to ensure its future competitiveness.

The European Union (EU) food and drink sector is an important pillar of the European economy. For Europe to remain an attractive location for continued industry investments, including in R&D, certain worrying facts such as the slowing down of productivity growth and low value added growth require appropriate and coordinated action to be taken in a number of areas:

- Obstacles to higher research and development activities and better performances in innovation must be addressed and tackled, through concerted action from both the food and drink industry and public authorities, to find appropriate responses. In particular, the industry's access to EU framework programmes must be facilitated, especially for SMEs. Industry-driven research and technology platforms should be promoted.
- CIAA is also prepared to work constructively on a better, more simple, more proportionate and more competitive EU regulatory framework. With a view to reducing administrative burdens, costs and the negative effects of too prescriptive or inadequate legal texts, CIAA proposes that specific improvements be made in a number of different regulatory areas.
 - ☞ The research drain in biotechnology must be reversed.
 - ☞ The cost of pre-market approval of novel foods needs to be reduced and time scales shortened.
 - ☞ The provision for legal additives must be eased so as to adjust to technical progress.
 - ☞ Nutrition and health claims proposals must be supportive of, and encourage innovation, in particular, as regards product development.
 - ☞ The far too numerous provisions on food labelling need to be modernised, simplified and consolidated.
 - ☞ Voluntary initiatives should be encouraged instead of developing new regulations on Integrated Product Policy. The waste definition needs to be clarified to exclude co/by-products.
 - ☞ All food and food ingredients must be excluded from the scope of Reach.
- EU food and drink companies face strong international competition from countries with comparative advantages in basic food production. Against this background, it is essential to ensure a sustainable and competitive supply of EU agricultural products and to develop balanced and sustained trade through multilateral agreements, closer links with trade partners and neighbouring countries, and to promote exports of EU processed foods.

A comprehensive and consistent approach to support the competitiveness of the food and drink industry sector, including its numerous SMEs, requires coordinated action with relevant Commission services. CIAA is committed to being an active partner in this process and providing the necessary support and impetus for progressive change and development. Studying and assessing more precisely the competitiveness of this sector should be taken as the starting point for improving detailed knowledge and encouraging the development of appropriate instruments for the longer-term monitoring of the food and drink industry's performance and its ability to compete.

Introduction

Revitalise the Lisbon Agenda

The Lisbon strategy has defined the objective: *"to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion"* by 2010.

Yet, in many of the key areas that determine business competitiveness, much still needs to be done. Commission President, J.M. Barroso, has recognised that the Lisbon strategy is *"suffering an implementation deficit"*. The appointment of a Vice-President to represent a coherent Commission view in the Competitiveness Council is a positive signal that should lead the Commission and Member States to deliver better and more conclusive results.

The High Level Group, chaired by W. Kok, produced a report considered as the starting point for revitalising the Lisbon Strategy and a key element in the preparation of the mid-term review at the Spring Summit in March 2005.

Actions undertaken by the Dutch Presidency prior to the mid-term review in 2005 have drawn attention to the simplification of legislation and the reduction of the administrative burden, one of the five broad policy priority areas where the EU and Member States need to make progress.

The food and drink industry : challenges, ambition and outlook

The EU food and drink industry sector is the 1st manufacturing sector in Europe, with a turnover value of around € 800 billion (EU-25). It employs over 4 million people in Europe. The sector is dominated by SMEs that employ 61.3% of the total food and drink industry workforce. The food and drink industry is an important pillar of the economy in many EU countries.

The purpose of this CIAA paper is to identify the specific issues that represent the key challenges for the food and drink sector to ensure its future competitiveness (chapter 2). Hence, the CIAA paper does not go into detail on more general industry requests that are of concern to all industry sectors and are adequately addressed by organisations such as UNICE - for example, improvements that need to be made to employment conditions; relief from tax and financial burdens and a reduction in the costs linked to regulatory constraints, such as general texts on the environment. The relationship with the retail trade and the distribution sector is a key aspect addressed by the food and drink industry because of its crucial relevance to the industry's competitiveness.

The EU food and drink industry's future lies in the production of value added food and drink products. Europe's cultural diversity and its deeply-rooted food traditions lie at the foundation of the EU food and drink industry and are key assets for its further development. Maintaining and improving its share of world markets will also require the food and drink industry to make use of its technical know how and considerably strengthen its capacity for innovation. It is of fundamental importance for the EU to be an attractive location for continued industry investments, rather than pushing industry to take advantage of trade agreements, or other forms of bilateral cooperation, and relocate outside the EU to supply EU markets.

However, existing indicators used to assess the food and drink industry's performance highlight specific situations and trends (chapter 3) that raise questions about its capacity to live up to its ambitions:

- ✓ involvement in R&D and performance in terms of innovation need to be strengthened;
- ✓ the food and drink industry faces a high number of regulatory constraints as regards its processing activities and the resulting processed food;
- ✓ globalisation and the increased opening up of food markets is accompanied by strong international competition from countries with comparative advantages in basic food production, particularly from Asia and South America, but also from developed countries such as the USA;
- ✓ productivity growth is slowing down and there is low value added growth.

The food and drink industry in the EU-25, 2002-2003

		2002	2003**	Trend (%) 2003/2002**
Turnover*	€ billion	784	799	1.9
Employees	million	4.2	4.1	- 0.8
Companies	thousand	283		

Source: Eurostat, sbs and CIAA
(*) in current prices
(**) CIAA calculation

Coordinated action is needed

While recognising its own responsibilities to achieve stronger competitiveness, the EU food and drink industry considers that specific and coordinated action should be articulated around the following axes:

The inventory of issues (chapter 2) which appear as major factors influencing the ability of the food and drink industry to compete on EU and international markets should be examined in further detail. CIAA's efforts in this respect, notably as regards the regulatory framework, should contribute to a better understanding and quantification of the impact of existing and future policies.

An assessment of the current competitiveness of the food and drink industry should be undertaken and should include a study on the food and drink industry's competitiveness

and on appropriate indicators (chapter 3.1). This assessment should be carried out by Commission services, with the support and involvement of CIAA.

Industry and Commission services should launch a reflection round, with a view to outlining the main elements of a comprehensive approach in support of food and drink industry competitiveness. Such an action plan should contain objectives and monitoring/benchmarking tools for specifically targeted policies and legislative activities.



“A coordinated and consistent approach to support the competitiveness of the food and drink industry, including its numerous SMEs, is required in order for Europe to remain an attractive location for continued industry investments.”

Specific actions to support food and drink industry competitiveness

Innovation is a major key to success

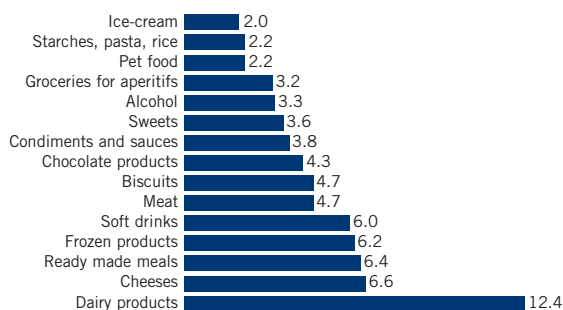
One key asset of the EU food and drink industry is its cultural diversity and its longstanding food traditions. Innovation is essential when responding to consumer needs with respect to quality, health, safety, diversity and convenience at the best possible price. The recipe, the manufacturing process, the packaging or the services provided to consumers, can determine the innovative character of a product.

“Obstacles to higher research and development activities must be overcome. Better performances in innovation require concerted action from both the food and drink industry and public authorities.”

Yet, industry's involvement in research projects on food quality and safety in the 6th Framework Programme has been relatively low. In addition, SME participation, at around 8%, lies far below the 15% funding target, while classical commercial food industry SMEs are in the minority. Hence, the following suggestions require particular attention:

- ✓ R&D investment, both private and public, should be stepped up at national level; government budgets for R&D need to be increased and projects should provide incentives for innovation;
- ✓ industry's early involvement in the strategic preparation of the EU framework programmes is desirable;
- ✓ industry's access to framework programmes needs to be facilitated, including for SMEs, and especially for classical food SMEs;
- ✓ initiatives to create research and technology platforms should be supported and should be industry-driven;
- ✓ instruments other than the framework programme may provide appropriate extra support in order to increase business involvement in R&D; enlarging the scope of rural development programmes to research and development should be one of the alternative options proposed.

The 15 most innovating categories in Europe (share %)



Source: SIAL, International Trends & Innovations Book, 2004
Food Issues Monitor 2004, GlobeScan.

In fact, innovation is not just stimulated by providing appropriate support for research and financial incentives. The legislative framework plays an important determining role as well. Different examples of regulatory texts illustrate the poor quality, the excessive burden, the disadvantage or the disincentives that EU regulation can impose upon companies' innovative activities. In particular, recent legislation on genetically modified organisms (GMO), and the current nutrition and health claims proposal are key examples of legal texts that pose a real threat to future innovative ambitions and are going in the opposite direction, compared to our trade partners.

Many EU legislative texts have not been preceded by a thorough impact assessment on business activity, weighing up the costs against the benefits. Moreover, the possibility of addressing many issues through a self-regulatory approach has not been given serious consideration so far. Legislation can have lasting consequences on industry's activities and perspectives, and it may be difficult to adapt legislative texts to rapid technological change in a flexible manner.

Call for a better, more simple, more proportionate, more competitive EU regulatory framework

Concerns as regards the quality and burden of the legislative framework - Over the last 15 years, EU food legislation has developed considerably to respond to growing concerns as regards food safety, information and fair market conditions. This has, however, resulted in an excessive amount of prescriptive legal texts that have considerably increased administrative burdens and compliance costs. The costs of legislation have been estimated by the Dutch government in 2004 for the industry in general at 3.6% of Dutch GDP.

Biotechnology and novel foods *Avoid further research drain*

Biotechnology is one of the most promising drivers for innovation and growth in the food and drink sector, but in Europe, past uncertainty over the regulatory framework and insufficient public acceptance have driven many research and development investors away from biotechnology projects for agricultural applications. As a result, the gap between Europe and other world regions, where this technology continued to develop, is steadily increasing.

The review of relevant legislative texts on environmental release and market approval, and the new labelling rules on GM-derived novel foods have led to the lifting of the *de facto moratorium*. Despite these overall positive developments, the new EU regulatory provisions have missed the opportunity to follow a clear, science-based approach. Efforts to define guidelines on implementation may not remove inconsistencies, ambiguities and the uncertainty surrounding the future of GM foods in Europe. Under these conditions, the current context is still not sufficiently favourable and supportive of innovation.

Furthermore, it is essential to prevent a similar trend from occurring at the processing level, in particular as regards processing aids and fermentation products. Hence, similar restrictive and inappropriate labelling legislation for these products must be avoided.

In an attempt to address this situation, CIAA is pursuing the following strategy :

- ✓ continue advocating a science-based approach to biotech regulations;
- ✓ all fermentation products, processing aids and food produced using these aids must remain outside the scope of GM-labelling legislation;
- ✓ ensure that the authorisation process is fast, transparent, simple and predictable;
- ✓ when the time is right, develop communication with consumers on this issue in order to build up confidence.

Novel foods legislation *Reduce the costs of pre-market approval*

Companies investing in the development of novel foods and drink products face considerable hurdles in the form of lengthy and costly procedures for pre-market approval that takes two years on average. Developing a novel food and having the product undergo approval according to the EU regulation which has been in place since 1997 can imply costs of up to €20-25 million for just one product.

Therefore, there is an urgent need to reduce the burden and costs imposed on companies.

- ✓ CIAA is in favour of a review of the existing novel foods legislation, with a view to increasing the rapidity, transparency, simplicity and predictability of the authorisation procedure. In particular, the initial assessment should be risk-based, i.e. limited to safety, and there should be clear deadlines introduced for each step of the procedure.
- ✓ The simplified fast-track procedure, where the end product is substantially equivalent to its conventional counterpart should be continued and updated under the initiative of the European Food Safety Authority (EFSA). Additional criteria over and above “substantial equivalence” should be accepted, such as the history of safe use in third countries (including exotic traditional foods) and equivalent risk assessments made in third countries.

Additives legislation *Increase efficiency when adjusting to technical progress*

The authorisation of food additives at EU level is based upon a positive list system - an approach that is more stringent and burdensome and is more likely to negatively affect industry's competitiveness. While the systems in place apply to all operators active in the EU, products destined for export to third countries will also be subject to these systems, thus placing them at a competitive disadvantage compared to products originating from countries not subject to such stringent requirements. Moreover, in order to bring amendments to the existing positive lists, a full co-decision procedure must be followed, which significantly lengthens the process of updating these positive lists.

- ✓ Delegation of implementing powers to the Commission would have a positive impact on the “efficacy” and “rapidity” of the decision-making process and would allow existing legislation to be quickly adapted to technical progress, in particular as regards updating the positive lists of food additives.

Nutrition and health claims

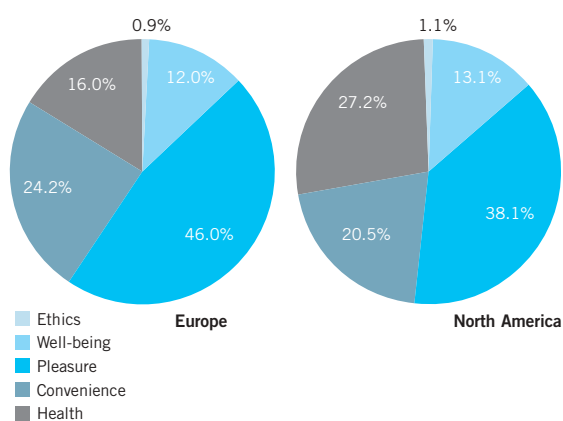
Do not discourage innovation

The debate on nutrition and health claims is another example of how legislation can hamper industry's capacity to innovate. CIAA has supported the elaboration of a harmonised, transparent and predictable legal framework on nutrition and health claims. The current proposed regulation, however, would introduce general prohibitions for certain products, even though they could be scientifically substantiated.

CIAA has argued that measures aimed at excluding product categories from the possibility to claim a nutritional or health benefit will discourage companies from continuing to improve the nutritional content of their products and put a stop to innovation. The US legislator, on the other hand, is currently relaxing national legislation to allow claims even if the scientific evidence is not totally conclusive, provided this is clearly communicated to the consumer. In order to resolve this matter, CIAA's objective can be summarised as follows:

- ✓ more generally, legislative provisions should encourage rather than discourage innovation, and lead to increased R&D investment;
- ✓ specifically, it must be possible for every food and drink product to bear a claim, provided it is based on science and is clearly communicated;
- ✓ procedures must be proportionate, rapid and predictable.

Share of the main drivers for innovation in Europe and in North America



100% Total food innovation over the period in the region
Source: World Innovation Panorama, International Trends & Innovations Book (SIAL, 2004)
Food Issues Monitor 2004, GlobeScan.

Food labelling

Modernise the multiple provisions to make them more transparent and simple

The complexity of EU food labelling, with its horizontal and vertical provisions applying to specific foodstuffs, has led the Commission to consider a review of existing legislation, that started in 2003 with an overall evaluation of the current legal provisions.

The Dutch Presidency has rightly understood the burden faced by industry in this area and decided to put particular emphasis on the simplification of regulations. The Dutch Government is taking these issues forward ambitiously, with the objective of achieving a 25% reduction in the administrative burden. CIAA has long advocated that a distinction should be made between essential information, which needs to appear on the label, and information of lesser importance for the majority of consumers.

Consequently, a number of requests derive from this:

- ✓ the current regulatory framework should be simplified, notably by consolidating and streamlining existing EU labelling provisions;
- ✓ the possibility to opt for a self-regulatory approach should be considered;
- ✓ to ensure that on-label information is legible and useful to the majority of consumers, a better balance must be reached between essential and complementary information, on the basis of clear criteria and with the use of consumer surveys;
- ✓ revision of existing labelling requirements or addition of new ones requires prior assessments to be carried out that look at: the appropriateness of requirements as regards consumer concerns, and the cost implications, including alternative information methods;
- ✓ national differences in labelling requirements should be eliminated.

Integrated Product Policy

Voluntary initiatives instead of new regulations

CIAA considers that food products should be excluded from the scope of Integrated Product Policy (IPP), given:

- the specificity of the food products ingested by the consumers, and the corresponding burdensome regulations which already exist on food and drink products;
- the risk of interference between existing legal requirements and possible new requirements created by IPP, and the ensuing confusion for consumers;
- the numerous voluntary steps which food and drink companies have been taking to continuously meet consumer needs in an environmentally sound and sustainable manner throughout the food supply chain.

CIAA rather advocates:

- ✓ support for sector-specific voluntary initiatives through partnerships, rather than further regulating this area.

Waste

Clarify the definition to exclude valuable co/by-products

The imprecise and open-ended definition of “waste” set out in the Waste Framework Directive triggers significant costs for food operators and their customers. Considering co- and by-products of food processing as waste has a serious economic impact on industry, both for the holder and the breeders, as well as for animal feed producers.

The holder will have to pay to discharge his co/by-products instead of receiving payment (the high costs of land spreading, landfill or incineration). He will also have to cope with an increased administrative burden (e.g. duty of care, carrier registration, site authorisations), bear the logistical costs (storage and transport under waste legislation), as well as being faced with permit procedures, financial guarantees for waste management, compliance with the Integrated Pollution Prevention and Control (IPPC) Directive and emission targets (stricter for waste than for non-waste materials).

Breeders and animal feed producers will lose the supply of quality raw materials that are essential for meeting the needs of the EU livestock population and they will have to find more expensive alternatives. In 2002, for instance, around 60 million tons of co-products produced by the food and drink sector were used in animal feed, quantities that will now have to be purchased at a higher price on third country markets.

- ✓ Clarify the definition, with a view to excluding current co/by-products resulting from food and drink industry processing, from the definition of waste.

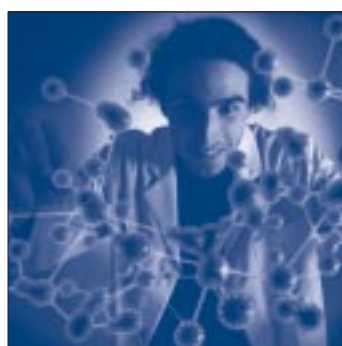
“With a view to reducing administrative burdens, costs and the negative effects of too prescriptive or inadequate legal texts, CIAA is prepared to work constructively on a better, more simple, more proportionate and more competitive EU regulatory framework.”

REACH

There is already an ambitious objective on the protection of human health in food legislation

Existing EU food legislation already ensures the “general objectives of a high level of protection of human life and health and the protection of consumers’ interests” (Regulation (EC) 178/2002). The proposal to include certain food material within the scope of the future regulation on chemicals raises serious concerns. This double legislation would affect the consistency of EU legislation, alter consumers’ perception of food, and introduce disproportionate measures with considerable implications for business, in particular, small businesses.

- ✓ The Commission’s proposal for a revised Chemicals policy should be amended to explicitly exclude all food and food ingredients from the scope, instead of only excluding some.



Agricultural Policy in a reform process – the key to sustainable and competitive supply

The food and drink industry uses around 70% of EU agricultural production and has a clear interest in ensuring that European agriculture maintains its primary function of producing food. CIAA supports reform processes to develop agricultural production in an environment more open to market forces, but these reforms should be both balanced and coherent.

It is equally important to request that international commitments are compatible with the pace of internal EU reforms that have already been decided upon and those that are still to come. Agricultural raw materials, which often represent a large proportion of the value of the end product, need to be available at competitive prices. Otherwise, industry will no longer be able to compete on international markets due to the prospect of the dismantling of export refunds, and further increases in market access granted both in a bilateral and multilateral context, which may cause industry to encounter difficulties on its own market.

CIAA therefore requests:

- ✓ continuation of the CAP reform process, with a view to making farming more sustainable and products more competitive;
- ✓ reforms must be continued at a pace which allows sectors to restructure and companies to adapt to a more competitive environment; this will also mean preparing for the dismantling of export refunds, decided at WTO level, as these are essential to bridge current price differences in agricultural products and to ensure that industry competes on an equal footing with third country competitors;
- ✓ private initiatives to promote sustainable agriculture are welcome, and their integration into national approaches, such as rural development programmes, would provide appropriate incentives;
- ✓ within the framework of the rural development policy and the implementation of national programmes, the food and drink industry should be clearly identified as a possible beneficiary for projects aimed at developing innovative approaches to food processing.



“Given the strong international competition, it is essential to ensure a sustainable and competitive supply of EU agricultural products as well as to develop balanced and sustained trade through multilateral and bilateral agreements.”

International trade policies – in support of the performance of food and drink industry products on third country markets

Building closer links with trade partners and neighbouring countries

- ✓ EU active participation in international standard-setting bodies must be continued as it is an important element in support of international trade since this increases the convergence of standards; in turn, it is equally important that the EU's own rule-making does not diverge more than is absolutely necessary from International Standards. Otherwise, this has serious implications for the competitive position of EU companies and in addition, it is strongly criticised by developing countries that view this as protectionist behaviour.
- ✓ Further economic integration with neighbouring countries (Russia, New Independent States and Mediterranean countries) presents a challenge since these countries represent alternative locations for investment, but in the long term this can increase international competitiveness. This policy would not necessarily aim at further EU enlargement, but rather, for close cooperation on decisions regarding the single market rules, with a step-by-step move towards an Integrated Economic Region.

Trade in food and drink products

The global market place is facing a considerable increase in international competition, which has been particularly influenced by the rapid rise of emerging economies in Latin America and Asia. There are a number of multilateral, regional and bilateral trade agreements that determine the framework in which trade is taking place. Given the rather complex nature of trade relations, it is vital for EU companies to compete with companies from third countries on similar terms.

CIAA is a strong supporter of the multilateral approach to trade and the Doha Development Agenda (DDA) is one of its top priorities. The World Trade Organization (WTO) is

best placed to negotiate continual and comprehensive agricultural trade reforms. This commitment stems from the EU food and drink industry's ambition to improve market access and its capacity to compete with third country products. CIAA continues to consider bilateral agreements as useful, and sometimes necessary, supplements to the multilateral process in order to provide targeted market access improvement.

CIAA advocates:

- ✓ over and above a balanced WTO agreement on agriculture, an agreement on trade facilitation would also lead to significant improvements;
- ✓ continued negotiations within the WTO committee on Trade Related Intellectual Property Rights (TRIPS) should aim at promoting a better protection of geographical indications;
- ✓ particular attention needs to be given to non-tariff barriers to trade and to the implementation of the Sanitary and Phyto-Sanitary (SPS) and the Technical Barriers to Trade (TBT) agreements;
- ✓ international regulatory cooperation with key trade partners should help to reduce trade obstacles such as those related to SPS measures; capacity building may have a role to play here;
- ✓ once the outcome of the WTO negotiations becomes clear, the bilateral process needs to be re-launched, with a view to concluding economically important agreements, such as the one with Mercosur.

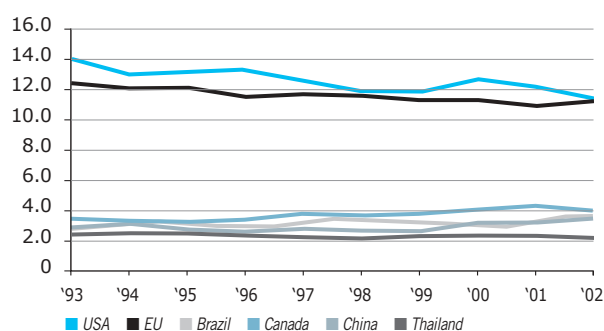
Promoting the export of value added products

The most important challenge in the years to come will be for the food and drink industry to be an active player in the growing processed foods export markets. The EU's food traditions and high quality may be assets, but export promotion often provides essential support for a successful export strategy that requires considerable resources and investment. An EU regulation has been in place since 2001.

CIAA is interested in:

- ✓ introducing more flexibility and simplifying the administration of projects that would have a beneficial effect on the scope and effectiveness of promotion projects;
- ✓ the promotion of food and drink products other than those currently falling under the scope of the regulation (processed products, branded goods) is strongly supported.

Share of key trade players in world trade of food and agricultural products (%), 1993-2002



Source: WTO, International Trade Statistics

Current competitiveness and specific action to assess and further monitor the food and drink industry's performance

Key points on food and drink industry competitiveness

Definition of competitiveness

For CIAA, the competitiveness of the food and drink industry sector is expressed in terms of its ability to achieve sustained growth and market share on both EU and third country markets.

How to measure and evaluate competitiveness

Analyses of competitiveness can be approached from two angles: the analysis of performance and the analysis of the competitive potential. The first approach measures growth, productivity, market share, trade volume and value while the second approach is concerned with analysing the availability and quality of production factors, the innovative potential and other elements that have an impact on future competitiveness.

A number of key trends on competitiveness emerge from a rapid, global analysis of available food and drink industry data.

The declining share of food and drink within EU manufacturing as well as internationally

The EU food and drink industry, compared to other EU industries, has registered relatively limited but stable growth over time, with an average of 1.8% over the last 10 years. The share of food and drink production declined from 15% in 1995 to 13.6% of total manufacturing in 2002. The value added share represents 11% of total manufacturing industry added value. It registered relatively low growth of 1.1% on average over the last ten years.

International comparisons show that, contrary to the situation in the EU, other food production markets are undergoing considerable expansion, hence reducing the EU share of world production. This is particularly the case in Latin America and Asia, where, for example, China's food processing industry is continuing to grow at double-digit rates.

The EU food and drink trade

Key exporter and importer facing strong competition

The EU is a net exporter of food and drink industry products. In 2003, exports reached €44.5 billion, which represents a 3.8% decline compared to 2002. The USA

remains the largest export destination, followed by Japan and neighbouring countries and regions. Furthermore, the EU imports large quantities of mostly unprocessed agricultural products that originate in particular from Brazil, Argentina, the USA and Asia.

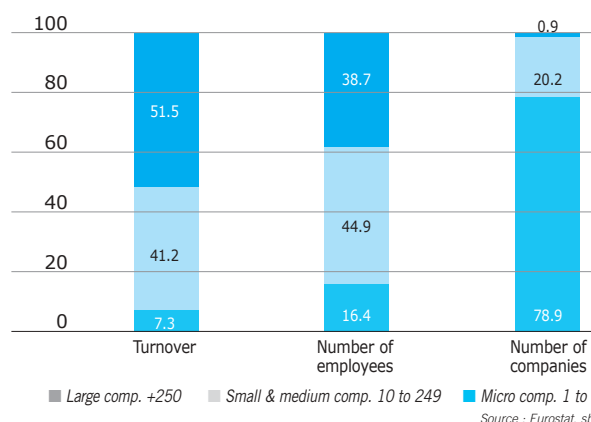
According to the WTO World Trade Report for 2004, world trade in agriculture and food and drink products increased to \$468 billion in 2002. The EU is the number one importer of agricultural and food and drink products, and the number two exporter, with 11% of total world exports in value terms. World agricultural and food and drink exports increased by 38.8% during the 1993-2002 period, with the processed goods category emerging as the most dynamic segment of world agricultural trade. Over the same period, EU agricultural and food and drink exports increased by 25.9%, thus implying a reduction of its overall share in world trade in these products.

Structural diversity can bring both advantages and disadvantages

The food and drink sector is extremely fragmented, although four key sectors (various processed food products, meat, dairy and drinks) make up 78% of total food and drink production in value terms.

The food and drink industry is dominated by a large number of SMEs (less than 250 employees). In 2001, these SMEs represented 99.1% of all companies and employed approximately 61.3% of the total food and drink industry workforce. SMEs accounted for 48.5% of the total food and drink turnover in Europe.

Distribution of EU-25 turnover, employees and companies according to size (%), 2001



Concerns about labour productivity growth similar to concerns in other traditional EU manufacturing industries

The food and drink industry's contribution to overall labour productivity growth is positive but remains low. Annual labour productivity growth reached only 0.8% between 1995 and 2001, compared to 2.7 between 1990 and 1995.

Apparent labour productivity of the EU-15 food and drink industry versus other manufacturing industries, 2001

Apparent labour productivity (€ 1000)	
Food and drink industry	45.7
Chemical industry	91.4
Automobile industry	60.1
Textile industry	34.4
Manufacturing industry	51.2

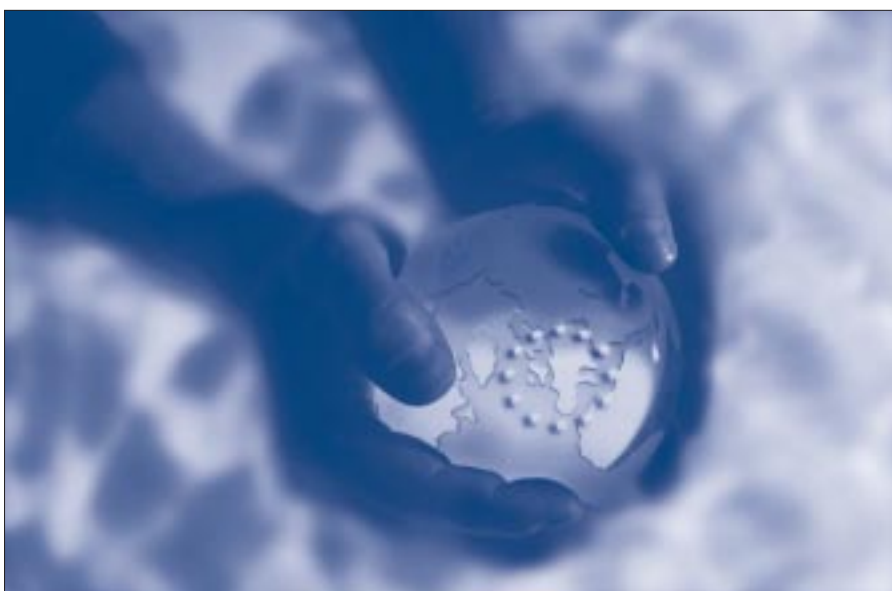
Source : Eurostat, sbs

Manufacturing industry with lower IT intensity

IT (information technology) use needs to be further improved. IT is increasingly being used to improve efficiency at all stages in the production, processing and distribution of food. Yet, further progress in the use of communication technologies is still needed, in particular amongst SMEs. On-line procurement is used by approximately 19% of companies on average, but business to consumer e-commerce is very limited.

Weaker R&D investment and innovation compared to our main competitors

Innovation, leading to new products and production processes, is an important determining factor for productivity improvements and economic growth. The commercial development of innovation in Europe, in particular biotechnology, is however lagging behind the US, as Europe introduces roughly 30% less biotechnology patent applications.



“There is a need to deepen specialist knowledge about the food and drink industry performances and to understand the real challenges so that targeted policy initiatives can be developed.”

Monitoring of the competitiveness of the food and drink industry

Although policies in support of competitiveness and sustainability generally apply across the board, their effect is felt differently by the various sectors of industry. Moreover, there is limited availability of specific EU food and drink data and these data are often so fragmented that it is difficult to make a comprehensive assessment of the situation.

CIAA considers that there is a need to deepen specialist knowledge within relevant Commission services about the food and drink industry's performance and to gain a better understanding of the real problems facing food and drink companies, so that policies can then be developed with the required long-term perspective, in order to meet the food and drink industry's specific needs. Given the many small enterprises in the food sector, with their particular challenges and their capacity to adjust to, and develop, in a changing environment, SMEs should receive particular attention.

Considering that both the food and drink industry and the Commission services are interested in improving the current information available, a number of actions should be developed through partnerships between CIAA and the relevant Commission services, coordinated by DG Enterprise:

- ✓ In general, more efforts should be made on sector specific data and the development of indicators providing information on the performance of the food and drink industry sector in Europe and in comparison with other key players present on world markets.
- ✓ Carry out a study on the competitiveness of the food and drink industry and on appropriate indicators for benchmarking improvements. Commissioned by DG Enterprise, this study should form the basis for further assessment and monitoring work to be carried out on food and drink industry competitiveness.
- ✓ Within the Commission services in charge of industry, specialist knowledge of the whole food and drink industry should be increased, with a particular focus on SMEs. This should then lead to more sector specific initiatives and provide qualitative and quantitative input to other relevant services' policy proposals, notably as regards impact assessments of new regulations on the sector.
- ✓ Step up CIAA activity to assess the precise impact of EU and international policies on food and drink industry activity and to contribute to measuring key performance indicators.

Picture copy rights ©

Cover page European Community, 2005
Page 5 (middle) European Community, 2005
(bottom) European Community, 2005
Page 9 (middle) European Community, 2005
(bottom) European Community, 2005
Page 10 (bottom) European Community, 2005
(top) FNLI
Page 13 European Community, 2005



Confédération des industries agro-alimentaires de l'UE
Confederation of the food and drink industries of the EU

CIAA AISBL
Avenue des Arts 43
1040 Brussels
Belgium

Tel: +32 2 514 11 11
Fax: +32 2 511 29 05
ciaa@ciaa.be
www.ciaa.be

Published in June 2005