THE COMPETITIVENESS OF THE EU FOOD AND DRINK INDUSTRY

Facts and Figures 2009

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

SETTING THE SCENE

The work of the High Level Group (HLG) on the competitiveness of the EU agri-food industry established by Commission Vice-President Verheugen in June 2008, has lead to the adoption in 2009 of a Report, a list of 30 Recommendations and a Roadmap (set of accompanying actions), all of which aim at boosting the performance of the food and drink sector and achieving predictable and stable framework conditions for years to come.

In the 2009 Facts and Figures Competitiveness Report, we concentrate on food and drink-specific competitiveness indicators (production value, productivity, value-added, share in world markets, etc.), place particular emphasis on the business environment, which is largely influenced by EU policy and legislation, and concentrate on the place of the food and drink industry in the food chain.

The EU food and drink industry, the largest manufacturing sector in Europe, has the ability and the potential to maintain its position on the global market.

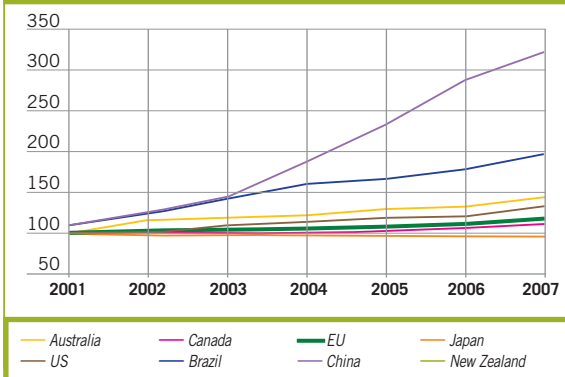
Nevertheless, urgent action is needed from legislators to create a favourable business environment for European food and drink manufacturers, enabling them to grasp the competitive challenges they are facing and to transform these challenges into new opportunities. To do so, the EU food and drink industry relies on the swift and timely implementation of the recommendations of the HLG .

Jesús Serafín Pérez
President of CIAA

EU slow production growth

The figures reflect the considerable expansion of emerging markets. Over the recent years, the European food and drink industry grew by merely 15% while their Brazilian and Chinese counterparts grew by 68 and 178% respectively.

Fig. 1 - Evolution of production value in various food and drink industries (2001 = 100)



Source: OECD STAN Database, National Bureau of Statistics of China, Canada's business and consumer site, AFFA, Japanese Ministry of Economy, Trade and Industry, New Zealand's Economic Development Agency, U.S. Department of Commerce.

Positive EU labour productivity trend

The labour productivity growth of the EU food and drink industry shows a positive trend (6.2% growth in 2007). Labour productivity growth in Brazil and China, however, remains higher (9% and 12% respectively).

Table 1 - Labour productivity in euro, 2006 and 2007 (value added at factor costs/employee)

	2007	2007/2006* (%)
Canada	74,891	8.4
United States	67,029	2.3
Australia	57,934	1.8
EU	**46,538**	**6.2**
Japan	45,989	-3.5
Brazil	28,195	9.0
China	14,991	12.0

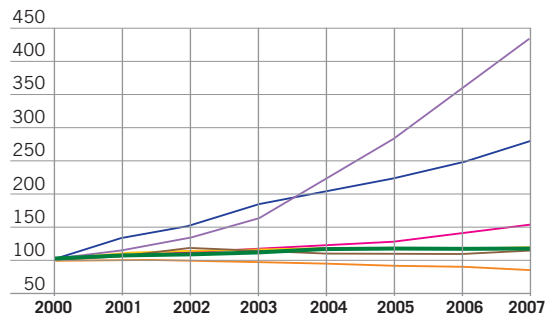
(*) Growth rate in local currency
Source: OECD STAN Database, Eurostat, Chinese Statistical yearbook, IBEG.

SETTING THE SCENE

Stabilising of EU value added growth

EU food and drink industry value added growth has begun to stabilise over the past couple of years (+2% in 2007). Nevertheless, the value added growth rates for the Chinese and Brazilian food and drink sector are beyond comparison; reaching 22 and 14% respectively between 2006 and 2007.

Fig. 2 - Evolution of value added growth in various food and drink industries (2000=100)

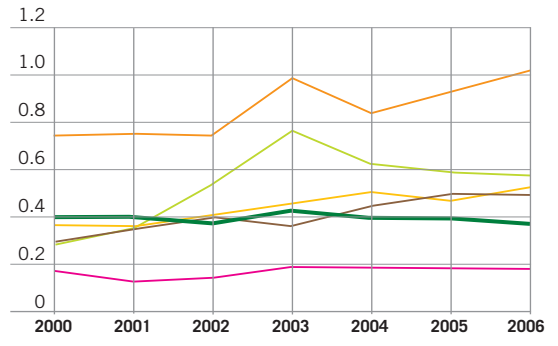


Source: US Census Bureau, Chinese Yearbooks, National Bureau of Statistics of China, Statistics Bureau Japan, Statistics Canada, Australian Department of Agriculture, Fisheries and Forestry, Eurostat, Instituto Brasileiro de Geografia e Estatística.

Insufficient EU R&D investment

In recent years, Research and Development (R&D) expenditure as a percentage of food and drink industry output has been lower in the EU than in most other developed countries and the gap tends to widen with some competitors. In 2006, R&D spending by the EU15 food and drink industry reached 0.37% of the EU15 food and drink industry's total output, similar to the percentages observed in 2005 (0.38%).

Fig. 3 - Business expenditure on R&D by food and drink industries in various countries (% of industry output)



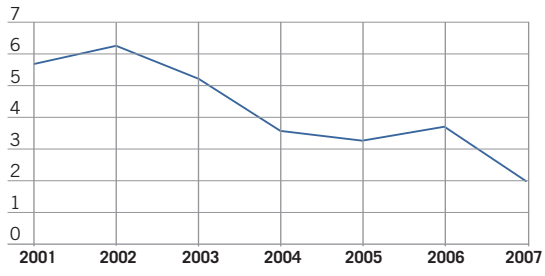
There have been changes in the way R&D data are updated for some countries. Therefore the data in this report differ from the ones in the 2008 report.

Source: OECD main Science and Technology Indicators, 2009 and CIAA.

Declining EU trade balance

The EU trade surplus decreased by 46% in 2007 compared to the previous year, as a result of significantly increased levels of imports (9%) than of exports (5%) from and to the rest of the world.

Fig. 4 - EU food and drink trade surplus, 2001-2007 (€ billion)

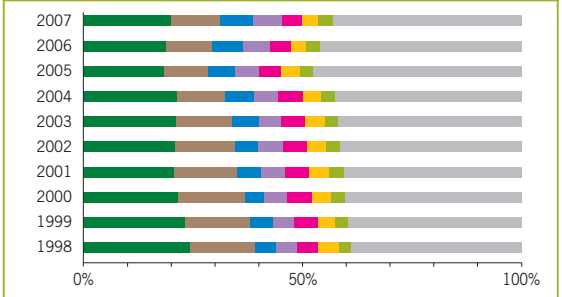


Source: Eurostat

Shrinking share in global markets

The share of EU exports in world markets has fallen over the last ten years from 25% down to 20%, to the benefit of other agricultural players. Brazil and China's exports continue to expand.

Fig. 5 - Shares of various countries in global food and drink exports (% of total expressed in $)



Source: WITS Database, Eurostat.

Despite slow EU production growth and the gap in labour productivity between developed countries such as the US and the EU, there are some positive signs of growth, most notably with regard to value added growth rates.

The EU food and drink industry remains the first exporter on global markets. However, it is facing increasingly strong international pressure, as emerging countries become important players at global level.

To achieve sustainable growth of the food and drink industry, EU policies must seek to create an optimal business environment.

IMPACT OF THE REGULATORY ENVIRONMENT ON BUSINESS ACTIVITY

For the industry to continue to grow, prosper, invest and innovate (thus, to sustain growth), EU policies must seek to create an optimal business environment.

Consideration should also be given to the fact that some key EU collective values or preferences are translated into legal requirements that do not need to be met by imported products, thus creating possible distortions in levels of production costs to the detriment of European operators.

The examples below identify the forces shaping today's food industry and the challenges it faces.

The EU food and drink industry and the crisis

It is true to say that the EU food and drink had thus far suffered less than other sectors during the financial and economic crisis. It cannot be said however that it has been left untouched: access to financial services, trade restrictive measures, decreased demand for some products, changes in consumer behaviour are symptoms and consequences affecting the food and drink industry.

In order to counteract the effects of the crisis, food and drink companies have made considerable efforts to enhance productivity in their manufacturing processes.

However, this alone will not suffice; that is why the Roadmap of accompanying actions as adopted by the High Level Group in July 2009 is welcomed by the EU food and drink industry, paving the way to boost the competitiveness of companies both large and small.

Source: CIAA

Labelling - impact of changes and mandatory requirements

Labelling changes generate costs for the food and drink business, the impact of which is more important to a greater extent for SMEs compared to bigger companies. This is largely due to the fact that bigger companies change their labels more often.

Table 2 - Percentage of labels changed

	Once a year	Once every 2 years	Once every 3 years	other
RAND Survey	37%	26%	20%	18%
SME Panel Survey	29%	26%	25%	19%

Source: Rand Cooperation study: Assessing the impact of revisions to the EU nutrition labelling legislation, Prepared for the European Commission, 2008

The cost of label changes on an average of 50 products for SMEs across the EU has been estimated to cost over €800 million. The compliance with mandatory nutritional information requirements is estimated to cost in the margins of €6 billion.

Table 3 - Cost of label changes for SMEs

	Changing labels	Providing nutritional information
Cost per product (€)	56	400
Nbr of products (average)	50	50
Nbr of food and drink SMEs in the EU	296,100	296,100
Total cost for SMEs (€ million)	829	5,920

Source: UEAPME survey 2008

GMO - Low level presence and the zero tolerance threshold

The asynchronous nature of GMO approval procedures, coupled with the application of a zero tolerance threshold for the low level presence (LLP) of GMOs not yet approved in the EU, impacts on the food and feed sector.

The cost of finding traces of unapproved GMOs deemed safe can prove to be disastrous. Given that the number and range of GM events authorised worldwide is extending rapidly (there are around 30 commercial GM events cultivated worldwide), by 2015 there could be over 120 GM events, and thus, LLP problems in the EU are more than likely to intensify.[1]

By way of example, in June 2009, minute traces of GM maize events not yet authorised in the EU were discovered in US soybean and soybean meal consignments. The economic impact of a total loss of US soybean imports until March 2010 is currently estimated to be in a range of €3.5 to €5 billion. In short, this corresponds to a lack of revenue for the crushing industry and to increased costs of raw materials for compound feed and food industry supplies.

Source: Economic consequences of EU-unapproved GM maize in US soy from October 2009 to March 2010, LEI Wageningen, August 2009

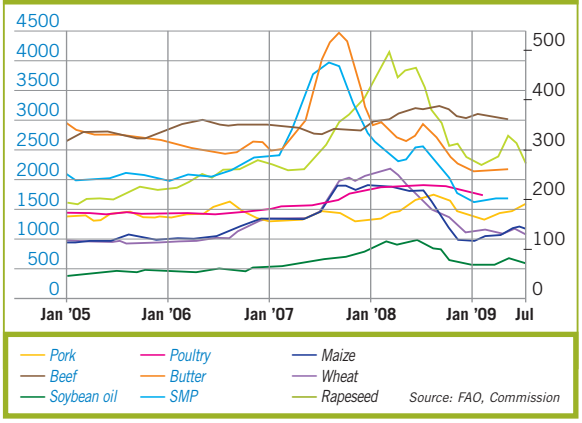
(1) Source: The global pipeline of new GM crops: implications of asynchronous approval for international trade, JRC report, 2009

BUSINESS INPUT COSTS AND AGRICULTURAL RAW MATERIALS

After a period of significant and sharp increase, the cost of raw materials had declined by the end of 2008, both in Europe and on other world markets. For a number of commodities, the cost has returned to levels similar to or even below those before the price increase. In other cases, however, they are still higher than before the peak.

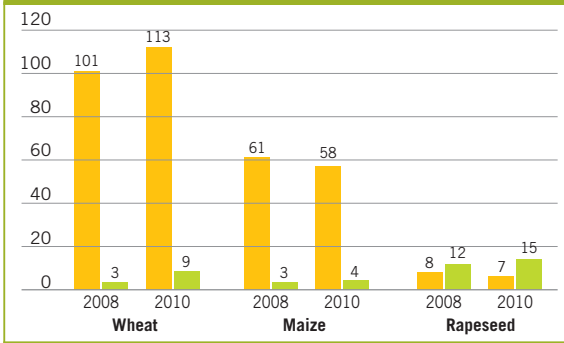
Agricultural materials are essential components for processing industries but the share of agricultural inputs in total production costs varies a great deal according to sectors (from 30 to 80%). Other meaningful costs relate to packaging, energy and transport. The agri-food sector is, thus, constituted by a number of food supply chains, each of which function in a different way.

Fig. 6 - Evolution of EU raw material prices since January 2005 (€/tonne)



Source: FAO, Commission

Fig. 7 - Different sectors competing for the same crops (consumption in million tonnes)



Sources: Strategie Grain, USDA

ENVIRONMENTAL POLICY

The food and drink industry is strongly committed to continuously improving its environmental performance and is engaged in a broad range of voluntary initiatives.

Sustainable Consumption and Production (SCP)

The food industry supports the voluntary provision of reliable and understandable environmental information to consumers. To this end, CIAA, together with its food chain partners and the European Commission, in 2009 launched a European Food SCP Round Table in order to establish scientifically reliable, EU-wide environmental assessment methods for food and drink products, to identify suitable tools for communicating with consumers and to promote continuous environmental improvement across the entire food chain.

In addition to engaging in numerous voluntary sustainability initiatives, the food and drink industry operates in an increasingly stringent EU regulatory environment. Below are three examples:

■ Climate change

About 900 food and drink processing installations are covered by the EU Emissions Trading Scheme and deliver continuous reductions of CO_2 emissions in support of the EU 2020 targets. In the implementation of the revised EU ETS Directive, particular attention must be paid to safeguarding the competitiveness of internationally exposed food sub-sectors in order to avoid carbon leakage and to designing CO_2 benchmarks that respect the immense diversity of food and drink products.

■ Packaging

Packaging recycling and recovery is highly successful in the EU. In 2002, all recycling and recovery targets under EU legislation have been met. In addition, numerous Member States had reached their 2008 targets already by 2005. Any future policies to further improve the environmental performance of packaging must protect the highest standards in terms of food safety and product quality. National packaging legislation must not impede the proper functioning of the internal market.

■ Industrial emissions

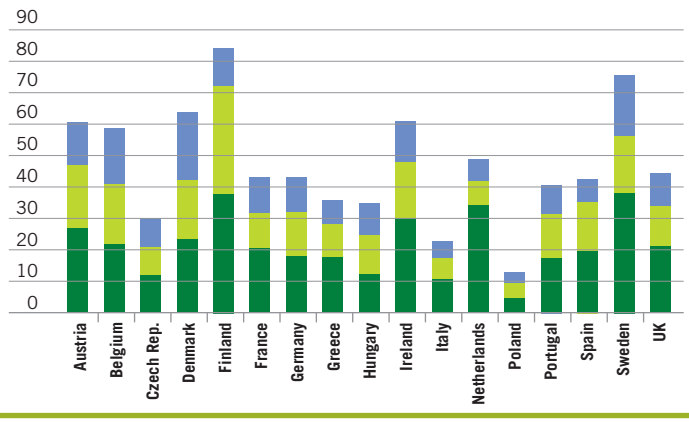
For over 5 years, CIAA has cooperated with the Commission and Member States to establish the Best Available Techniques (BATs) for the food and drink sector, which form the basis for the environmental permitting of food industry installations covered by the IPPC Directive. Against its current recast, CIAA calls for the flexibility principle enshrined in the current Directive to be preserved in order to allow local environmental conditions to be taken into due account. There is no one-size-fits-all technical solution for all IPPC installations across the EU.

POWER RELATIONS IN THE FOOD CHAIN

Highly concentrated retail sector vs. highly fragmented food and drink industry

When assessing the power of operators in the food chain, it becomes clear that concentration in the retail sector is extremely high: in most EU countries, the three largest food retailers represent more than 40% of market share, and in Nordic countries, even more than 75%. In contrast, the food and drink industry is a highly fragmented industry: SMEs make up 99% of the food and drink business population.

Fig. 8 - Current market share of the three largest retailers in various member states



Source: CIAA

Late payments affecting businesses

All EU food and drink companies, especially SMEs, are vulnerable to problems of long contractual terms, late payments and in some cases, no payment, which cause an income loss of 2% on average throughout the EU. 60% of companies who responded to a recent European Commission questionnaire (carried out in light of the revision of the Directive 2000/35 on late payments), mentioned that they "quite often to very often" experience problems with other businesses and public authorities paying later than required by normal business terms. This becomes particularly burdensome in times of crisis when access to credit is considerably scarce.

Table 4 - Ranking of negative effects on businesses resulting from late payments

		% of businesses that experience the effect
1	It takes up too much management time and valuable working hours	66
2	Our business needs bank credit	57
3	It slows down the growth of our business	50
4	It has a negative effect on investment	38
5	It affects the productivity of the business	37
6	It threatens the survival of our business	36
7	It discourages us from engaging in public procurement contracts	23
8	It discourages us from engaging in cross-border transactions	8
9	It does not really affect our business	8
10	Other	2

Source: Late payments survey, DG Enterprise

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