



# Supporting the competitiveness of the European food and drink industry

**FOODDRINKEUROPE COMPETITIVENESS REPORT 2011**



# Foreword

I am delighted to present the FoodDrinkEurope Competitiveness Report 2011. The report provides a snapshot of how Europe's first manufacturing industry – the food and drink sector – is performing in economic terms, and looks at how we can bolster our growth potential through capitalising on existing and new opportunities and by removing barriers to growth.

Boasting an annual turnover of €954 billion and generating 4.2 million jobs (not to mention the huge number of jobs also created in the services and related sectors), Europe's food and drink industry not only generates wealth in the community due to its unique base and close proximity to market, but it is also a strong pillar of the EU economy. As such, we play an important role in helping to achieve the objectives set out under the EU 2020 Strategy, namely, to secure smart, sustainable, inclusive growth.

Ensuring a more business-friendly regulatory environment underpinned by a strong Internal Market, securing access to new markets, promoting higher levels of R&D which is then translated into successful innovations, enhancing labour productivity and boosting levels of production value are all necessary 'success factors' in order to increase the growth potential of Europe's food industry.

Recognising that we cannot achieve our objectives alone, FoodDrinkEurope and its members play an active and supportive role in the work of the High Level Forum (HLF) for a Better Functioning Food Supply Chain. The HLF aims at boosting the competitiveness of the entire supply chain and facilitating the swift implementation of the Recommendations of the High Level Group, the Forum's predecessor. Both of these entities were set up under the guidance of the EU Commission's DG Enterprise and Industry.

We recognise the importance of safeguarding the Internal Market and of furthering its completion, and call on policy-makers to resist the urge to introduce measures which could lead to its fragmentation. Yet, with the continuing economic crisis, confidence in the EU's ability to respond



to macro-economic problems extending beyond its borders, and credence in the benefits of EU membership have suffered a huge blow. As more and more Member States desperately search for new ways to contain the effects of the crisis within their constituencies, proposals for food taxes have emerged or are being discussed by several governments as a revenue-generating means of reducing their burgeoning public deficits under the populist 'public health' agenda of tackling obesity.

Notwithstanding the impact that food taxes have on the competitiveness of the industry, such measures by default, also undermine European policies through fragmentation of the Internal Market, dissuade investment and stifle innovation, place a strain on B2B relations and, ultimately, are a regressive measure in bringing about positive behavioural change in consumption patterns of consumers to tackle obesity.

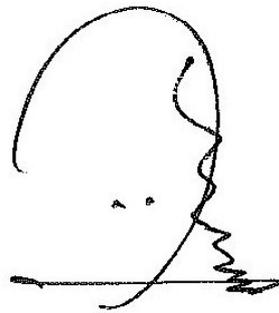
## Foreword (continued)

So, what is the solution? In times of crisis, we must look to our partners and work together. The EU needs a helping hand to accelerate its economic recovery if it is to stand a chance of fulfilling the goals set out under the EU 2020 strategy. Europe's food and drink industry can help feed that recovery through growth: securing access to new markets, developing new and healthy product choices for consumers and, last but not least, helping to keep jobs in Europe thus in turn, generating local wealth.

Let us work together, then, in partnership, to find ways better suited to tackling the complex problem of obesity and to generate growth as a way out of these turbulent economic times. Let us do this in a smart, sustainable and inclusive way which does not see the industry as 'the enemy' or demonise certain products in the fight against obesity. Similarly, we should avoid placing an added burden on consumers, many of whom are already struggling to feed themselves and their families in the current crisis.

So, my plea to governments is this: obesity is a complex problem to which there is no 'quick fix' solution. Multi-component and multi-stakeholder actions are needed. Building on the many important actions undertaken to date with the EU Platform on Diet Health and Physical Activity, the industry is ready to take up this challenge, working together with other stakeholders, to find new and creative ways to tackle obesity through nutrition education programmes and partnerships in the promotion of balanced diets and healthy lifestyles.

By resisting the temptation of adopting short-term 'band aid' solutions, governments would do better service to their citizens and industry will be in better shape to grow – both in Europe and on world markets – thus helping the EU to more ably navigate its way out of the current economic crisis.



**Jesús Serafín Pérez**  
President

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# Executive Summary

## An analysis of Europe's food and drink industry's competitiveness<sup>1</sup>

With an annual turnover of €954 billion and generating direct employment for 4.2 million people, Europe's food and drink industry is a key pillar of the EU economy. Food manufacturers have been less affected by the economic crisis than other manufacturing sectors in the European Union registering, on average, positive growth of 0.4% (figures for Q1 2008 – Q1 2011). The industry thus maintains its robust position as Europe's first manufacturing industry.

Nonetheless, the outlook for Europe's food and drink industry is less promising when we consider its competitiveness vis-à-vis Europe's global counterparts. Following the trend in previous years, Europe's food and drink manufacturing industry is lagging behind its peers in terms of production value, labour productivity and investment in R&D. Moreover, despite retaining its position as the leading global exporter of foodstuffs, Europe's food and drink export market share continues to shrink<sup>2</sup>.

### Key Competitiveness Indicators

<b>PRODUCTION VALUE</b>	Slow decrease in production value, losing out to global competitors	
<b>LABOUR PRODUCTIVITY</b>	Increased labour productivity, but lagging behind global peers	
<b>EXPORT MARKET SHARE</b>	EU still first exporter, but with a decreasing export market share	
<b>R&amp;D INVESTMENT</b>	EU lags behind its competitors and not growing	

Source: FoodDrinkEurope 2011

To help improve the industry's competitiveness, Europe's food manufacturers urge policy-makers to:

- Ensure a better regulatory framework with timely EU rules in specific areas guaranteeing higher levels of legal certainty for operators and cutting red tape to take into account the specific needs of the sector – particularly the large number of SMEs;
- Avoid fragmentation of the Internal Market coupled with the need for a holistic approach to EU policy-making which promotes a level playing field and global regulatory convergence;
- Support the introduction of an enforceable means with which to handle unfair commercial practices along the food supply chain;
- Help create a more positive environment in support of EU food and drink exports via EU trade policy;
- Devise effective tools and systems to address market volatility and increasingly high input prices of raw materials.

Efforts made to fulfil the above criteria in a timely and coherent manner will pave the way to improving the competitiveness of Europe's number one manufacturing industry in line with the objectives of the EU 2020 strategy to achieve smart, sustainable, inclusive growth.

<sup>1</sup> This report presents 2009 data, i.e. the latest data available at the time of writing unless otherwise specified.

<sup>2</sup> Similar to trends seen in other developed markets.

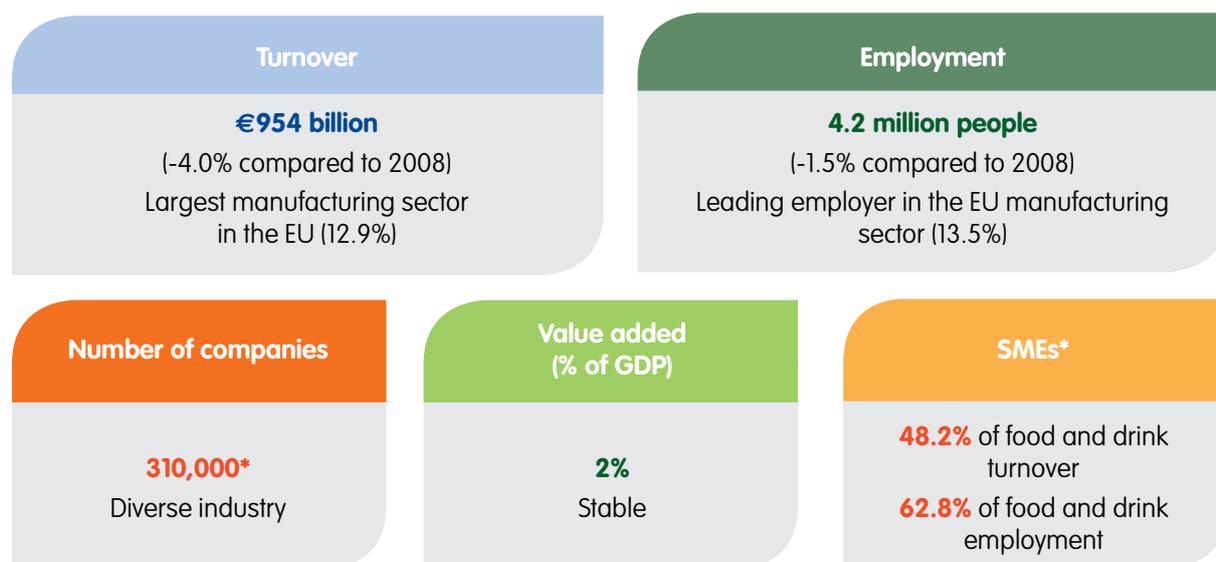
# 1. SETTING THE SCENE: Europe's food and drink industry as a key pillar of the EU economy

Europe's food and drink industry represents a stable manufacturing sector firmly rooted close to its market providing jobs and generating growth as a pillar of the EU economy (see Fig.1). The sector is also very diverse (over 310,000 companies in total), characterised by the large number of SMEs (99.1% of the number of companies).

Europe's food and drink has been less affected by the economic crisis than most of other manufacturing sectors in the EU.

## 1.1 Key statistics

Fig. 1 Key data on Europe's food and drink industry (2009)



\*2007 data

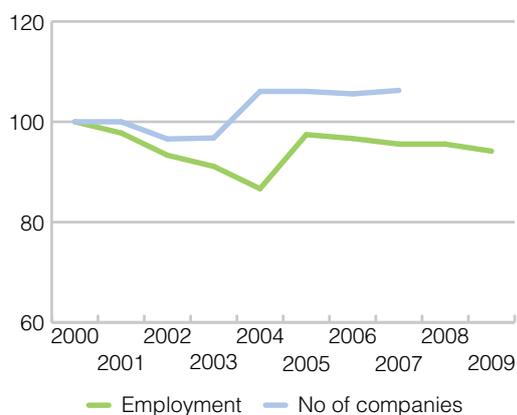
Source: CIAA data & trends 2010

## 1.2 How does Europe's food and drink industry fare compared with other EU manufacturing sectors in previous years?

Over the past few years, the number of EU food and drink companies and employees has remained relatively stable (see: Fig. 2) even though employment decreased slightly in 2009 (-1.5% compared to 2008) following a generally

negative trend in the EU (-7.2% for the total manufacturing sector compared to 2008). Despite this fall, the EU food and drink sector remains the leading employer in the EU manufacturing sector (accounting for 13.5% of the manufacturing sector) and plays an important role in creating jobs in rural areas, and close to factory locations, thus generating economic growth in local communities.

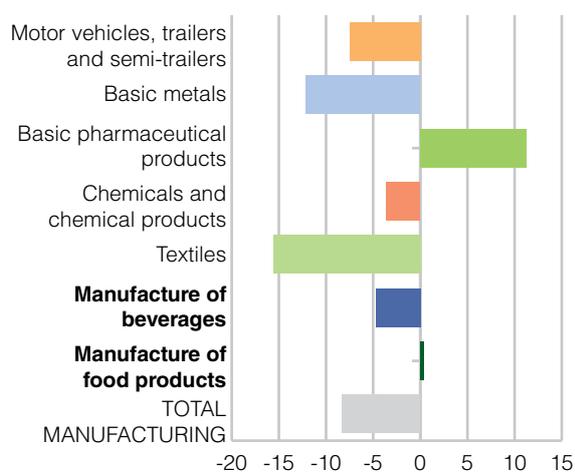
**Fig. 2** Evolution of the number of companies and employment in the EU food and drink industries (2000=100)



Source: Eurostat SBS; FoodDrinkEurope calculations.

Despite the negative trend in output growth experienced by the overall EU manufacturing industries (-8.3% since Q1/2008), during the economic downturn food companies performed above average when compared to other manufacturing sub-sectors, registering a +0.4% increase in the period Q1/2008-Q1/2011 (see: Fig. 3).

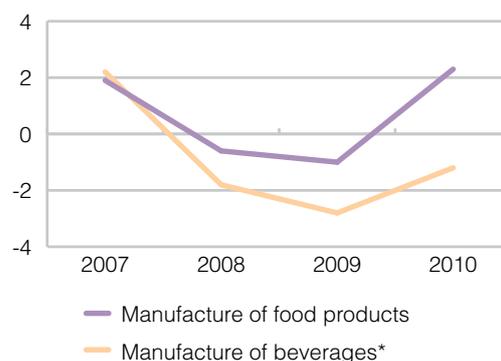
**Fig. 3** Average sectoral output performance in the EU in the period Q1 2008 to Q1 2011 for the total manufacturing sector and main EU manufacturing sub-sectors



Source: European Commission, DG Enterprise and Industry, "The Economic Recovery in industry", 2009-2011.

Demand for processed food products tends to be less susceptible to fluctuating economic conditions than other manufacturing industries; the food sector registered positive output growth in 2010 (+2.3%) similar to pre-crisis levels (see: Fig. 4).

**Fig. 4** Evolution of output growth for EU food and drink sectors in the period 2007-2010



\* Manufacture of beverages include all types of beverages (soft drinks, alcoholic drinks, etc.)

Source: European Commission, DG Enterprise and Industry, "The Economic Recovery in industry", 2009-2011.

## 2. QUANTITATIVE ANALYSIS: How does Europe's food and drink industry rate alongside its international counterparts?

The 2011 FoodDrinkEurope Competitiveness Report builds on that of previous years reviewing the same set of quantitative indicators for the food and drink industries worldwide, enabling a useful comparison over time. The general picture shown by previous reports is that Europe's food and drink sector is lagging behind its main competitors.

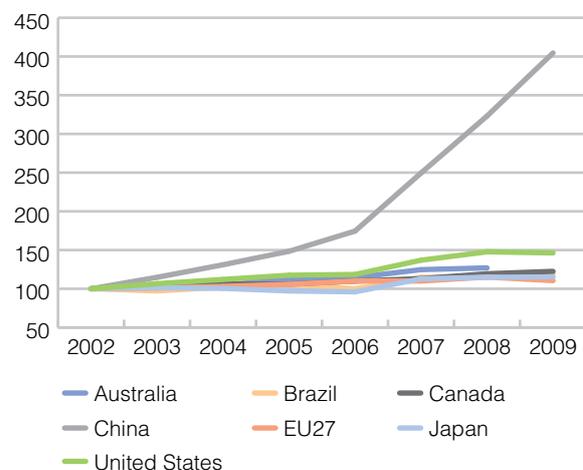
This year's report shows that the competitive position of the EU food and drink industry has not improved on that of previous years with regard to production value, labour productivity, investment in R&D<sup>3</sup> and export market shares. The EU is underperforming compared to its traditional competitors (such as the U.S.) and is faced with enormous growth in production values from emerging markets (e.g. China). The EU food and drink industry remains, however, the leading global exporter of foodstuffs in spite of a continuing downward trend in export market shares, to the benefit of emerging economies.

### 2.1. Production value

#### Slow decrease of production value: losing ground versus competitors

On the international scene, the EU food and drink production value decreased slightly in 2009 similar to other industrialised countries, e.g. Canada. This is in line with the negative result overall registered by the EU manufacturing sector in the same year, which suffered from reduced access to finance (particularly for SMEs) including trade credit finance<sup>4</sup>, among other factors. As a result, EU food and drink production continues to lose ground to other key competitors in developed countries, like the U.S.<sup>5</sup> and in developing markets, most notably China, whose production value has quadrupled since 2003 (see: Fig. 5).

**Fig. 5** Evolution of production value in various food and drink industries (2002 =100)



Source: OECD STAN database, IBGE (Brazilian Office of Statistics), National Bureau of Statistics of China, Statistics Canada (CANSIM), Eurostat (SBS 2011), Instituto Nacional de Estadística y Geografía (INEGI) – Mexico.

<sup>3</sup> Note: Pre-economic crisis data are the latest available.

<sup>4</sup> "The Economic Recovery of Industry", DG Enterprise and Industry 2009-2011.

<sup>5</sup> Several factors may help to explain the gap existing between EU and US production value that started in 2006. These can be identified in low EU exchange rates that decrease the value of EU volumes produced, the concomitant increase of raw material prices, the decrease in the volumes of EU production experienced in certain sectors and possible adverse weather conditions that hampered some crop yields in Europe.

## 2.2 Labour productivity

### Increase in labour productivity, still lagging behind global counterparts

Labour productivity (value of output per unit of input in international \$ PPP<sup>6</sup>) increased by almost 3% in 2009 compared to 2008<sup>7</sup>. However, the EU continues to lag behind food and drink industry productivity levels in the U.S., Canada and Switzerland (see: Table 1).

**Table 1** Evolution of food and drink labour productivity (ratio of production value per person employed)

	Labour productivity (1,000 \$ international PPP)		%
	2008	2009	
EU 27	223	229	3
US	337	342	1
Canada	270	277	2
Switzerland	426	450	6
China	38	49	27
Mexico	171	172	0.4

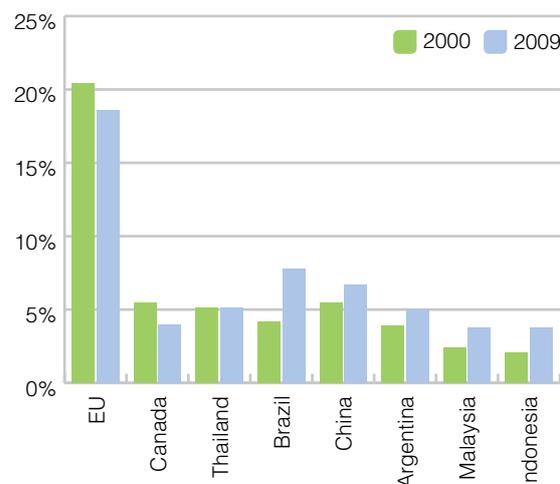
Source: Eurostat 2011 (SBS 2011), IBGE 2009/2010 (Mexico), National Bureau of Statistics of China (2009/2010), OECD STAN statistics 2011, FoodDrinkEurope calculations

## 2.3 Export market share

### The EU retains its position as the leading global exporter, most notably of high quality, value-added foodstuffs but its export market share continues to shrink

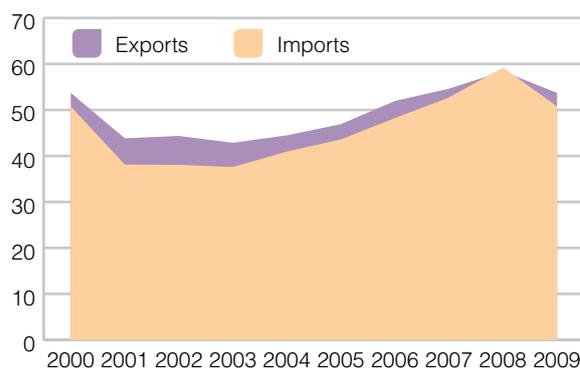
During 2000-2009, figures show that EU export market shares decreased from 20.4% to 18.6% (see: Fig. 6). Despite an important increase in EU exports in 2010, recent estimates confirm this downward trend (see: Fig. 7).

**Fig. 6** International comparison of food and drink sector export market shares



Source: Comtrade database, 2011

**Fig. 7** Evolution of EU food and drink export surplus, 2001-2009 (in € billion)



Source: Eurostat-COMEXT, 2011

This follows the general trend for developed countries worldwide while that of developing economies registered growth. Among the latter, Brazil emerged as the undisputed global winner in the past decade as its export market share grew by 3.6 percentage points to nearly 8% of the total value of internationally traded foodstuffs.

<sup>6</sup> Purchasing power parities expressed in international dollars (that is, currency conversion rates that both convert to a common currency and equalise the purchasing power of different currencies).

<sup>7</sup> This is in line with results in the European Competitiveness Report 2010, SEC (2010) 1276, European Commission, DG Enterprise and Industry, p.212.

Nonetheless, the EU continues to be the leader in exports of high value-added food and drink products. Despite being affected by the economic crisis, EU exports of such products still amounted to 35% of internationally traded highly processed foodstuffs in 2009. However, this success is not equally distributed among producers of different categories of foodstuffs. While the EU is the leading exporter of alcoholic beverages, other categories face more competition – e.g. in chocolate, confectionery, bakery wares and processed meat products<sup>8</sup>.

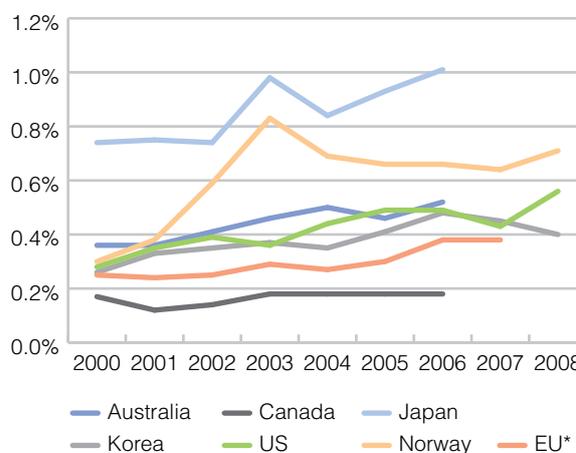
## 2.4 Private R&D investment in the EU food and drink industry

### Sustained levels of R&D investment<sup>9</sup> but the EU food industry continues to lag behind global competitors

EU food and drink investment in R&D has traditionally been low compared to other EU manufacturing industries and other countries' food sectors. Out of the top 1000 EU companies investing in R&D in 2009, 38 of them were food and drink companies which invested in total €2.2 billion in 2009<sup>10</sup>. When compared with the best 38 companies in the pharmaceutical industry, for example, this figure is not impressive as the latter invested a total of €19.8 billion during the same period. R&D expenditure by Europe's food sector remained stable in the last year for which observations are available (pre-crisis data) slightly reducing the gap with the U.S. for the same year (see: Fig. 8).

In general, EU investment in R&D still lags behind that of its peers, notably Japan, U.S. and Norway.<sup>11</sup> It is reasonable to assume that the crisis has further affected levels of companies' investment in R&D.

**Fig. 8** R&D as a percentage of industry output for the food and drink industry in various countries (%), (2000=100)



\*EU aggregate include: Austria, Belgium, Czech Rep., France, Germany, Greece (only until 2005), Hungary, Italy, Slovak Rep., Slovenia, Spain, and the UK

Source: OECD Main Science and Technology Indicators

However, low levels of private R&D investment in the EU food and drink industry do not reflect negatively in terms of the sector's continued ability to generate value-added. Data shows that this remained rather stable from 2004 to 2007 and at comparable levels with major competitors, with a general dip worldwide in 2008 (see: Table 2).

**Table 2** Value-added as a percentage of output generated by food and drink companies for selected countries worldwide

	2004	2005	2006	2007	2008
Canada	28%	29%	29%		
Korea	16%	16%	16%	16%	14%
United States	24%	23%	24%	24%	22%
EU	24%	24%	24%	24%	21%
Japan	33%	33%	33%		

Source: OECD STAN database (2011); Eurostat, (SBS 2011).

<sup>8</sup> UN COMTRADE 2011; FoodDrinkEurope calculations (2011).

<sup>9</sup> Note: Pre-crisis data are the latest available.

<sup>10</sup> 2010 EU Industrial R&D Investment Scoreboard, European Commission, JRC and DG RTD.

<sup>11</sup> Note: Publicly available data in R&D investment for the EU food and drink industry currently offers an unclear picture of real levels of such investment by R&D companies, which may be underestimated. In the case of the Commission Scoreboard, only data from the top 1000 ranking companies in the EU are taken into account, whereas the OECD data obviously only present data for the EU countries that are also OECD members.

# 3. QUALITATIVE ANALYSIS: How can Europe's food and drink industry improve its competitiveness?

A number of qualitative aspects impact on Europe's food and drink industry competitiveness, these include:

- The need for a more business-friendly EU regulatory environment;
- Fragmentation of the Internal Market;
- Unfair commercial practices along the food supply chain;
- Rising input costs and security of supply in agricultural raw materials;
- An EU trade policy that supports EU food and drink exports; and
- The need for a holistic approach to EU policy-making aligned with international developments as appropriate.

## 3.1 The need for more business-friendly regulatory environment

**The EU is renowned for its complex, *sui generis* system of decision-making and is often criticised for the amount of burdensome red tape which it creates for business operators (particularly SMEs) with little or indeed no clear benefit for the consumer. In specific cases, an absence of a coherent EU legal framework, a delay in the entry into force of a new law or a failure to reach an EU-level agreement on a much-needed piece of legislation demonstrates the need for simplification and a reduction of administrative burdens if the EU's 'Better Regulation' objectives to promote industry competitiveness by 2020 are to be met.**

### Novel Foods

One key example in the food industry is the recent failure to reach an agreement on the Revised Novel Foods Regulation which would have brought important gains in streamlining application procedures, particularly for SMEs, and would have helped reduce the lead-time to market for novel foods. Unfortunately, agreement on the proposal was not reached due to deep disagreements among legislators regarding a

separate issue (cloning). This has meant that the legislative discussions on the revised Novel Foods Regulation will now start over again based on a new proposal. Delays of this sort hamper forward planning activities of companies and discourage R&D investments in the EU.

### Nutrition and Health Claims

Similarly, the lengthy timeframe taken to compile a Community-wide list of permitted health and nutrition claims on foodstuffs (and the complexities and difficulties experienced along the way in this new legislative process), has resulted in considerable levels of legal uncertainty for food business operators thus affecting forward planning and R&D activities. Moreover, as the scientific evidence needed for certain claims has gradually become known, this has become a costly "learning by doing" exercise for food manufacturers in terms of R&D expenses – especially for food industry SMEs, which account for over 99% of the number of Europe's food companies and 50% of the industry's turnover in Europe. While improvements to the process have been made by various EU actors, further improvement is still possible – not least in the field of harmonised guidance on the interpretation of individual claims across Member States.

## Low level presence of not yet authorised GM events in Europe

In addition, the problem of asynchronous approvals of GM events between the EU and the rest of the world is resulting in serious and long-lasting threats to all involved in the processing of agricultural products as well as putting European businesses at a competitive disadvantage globally. The cost of problems associated with asynchronous approvals of not yet authorised GM events to a single food company alone can amount to as much as €14 million<sup>12</sup> – and a total of €4.4 billion for the entire food and feed chain. There is an urgent need for an agreement on a ‘technical zero’ for low level presence of not yet authorised GM events in shipments destined for food in the EU in order to better ensure legal certainty for operators and to prevent the types of crises and major trade disruptions and losses of competitiveness that have proven so damaging for so many food and feed operators in recent years. While a technical solution has recently been agreed for feed, this must also be reached urgently for food if food operators are to strengthen the security of European food supply in the future.

### Fitness checks

The competitiveness of Europe’s food and drink industry undoubtedly could be enhanced by creating a more business friendly environment where operators have more confidence that their investments in R&D will help to drive innovation with new products to serve consumers and drive returns on investment. The system of ‘fitness checks’ foreseen by the European Commission in the year ahead looks certain to help address problems of administrative burdens, cumbersome red tape for SMEs, etc. We look forward to the outcome of the use of Fitness Check Pilot Exercises already launched by the Commission in 2010 (see: Table 3) under the framework of the EU 2020 strategy and we have no doubt that these fitness checks will prove useful in the future.

Table 3: Fitness Check Pilot Exercises

**Four pilot exercises launched in the Commission Working Plan for 2010 as part of its “Smart Regulation” Policy. According to the Commission, results will be presented in 2012 for:**

- Employment and Social Affairs: Information and consultation of workers
- **Enterprise: Agro-food industry**
- Environment: Protection of EU freshwater resources
- Transport: Internal market for aviation

Source: Smart Regulation Policy, European Commission Working Plan for 2010

## 3.2 Fragmentation of the EU Internal Market

**With over two decades of the establishment of the Internal Market and its four freedoms (the free movement of goods, capital, services and citizens throughout the EU), it is timely to step up efforts towards its completion but also to stem the areas in which the Internal Market’s effectiveness is being hampered as an intra-EU trading area.**

**In recent years and months, we have seen measures agreed which would result in a *de facto* fragmentation of the Internal Market or, due to the absence of a legislative proposal being brought forward, the benefits of the Internal Market have not been realised for consumers and/or food manufacturers.**

<sup>12</sup> FoodDrinkEurope data.

## Proliferation of food taxes

A number of European countries have agreed (Denmark, Hungary and Finland) or are discussing the introduction of food taxes (France, Belgium, Ireland, Romania and Sweden) to fight obesity. Food manufacturers believe that such taxes are not an effective approach to tackle the complexity of diet and lifestyle-related problems. Moreover, food taxes might lead to discrimination between competing food categories. Furthermore, since food taxes are regressive, the impact of these taxes would be felt hardest by low income families<sup>13</sup>.

## Food information to consumers

The recent agreement on the Regulation on food information to consumers is a classic case for the *de facto* fragmentation in the Internal Market. In spite of the objectives to harmonise, simplify and create greater policy coherence in this area, the reasons for permitting the use of voluntary national labelling schemes across the EU will undoubtedly result in a fragmentation of the Internal Market. This will certainly result in different information being made available to consumers across the Union and, at the same time, prevent economies of scale in production lines for manufacturers. Efforts are needed to prevent voluntary national schemes being used as a *de facto* means of fragmenting the Internal Market. On the other hand, even though the approval of this Regulation took a considerable length of time, it is far from completion. Important questions for the food industry will be the subject of implementing acts to be decided in the coming years, leading to uncertainty for food business operators as they will need to prepare for the new labelling requirements.

## Food fortification

Similarly, despite the initial timeframe for adoption of a European Commission proposal setting conditions of use for maximum amounts for fortified foods in the EU, no proposal has yet been brought forward. This delay of almost three years has led to the absence of harmonised EU rules and subsequent application of national provisions leading to a fragmentation of the Internal Market and adding significant costs for manufacturers across the Union. Food manufacturers call for a veritable Internal Market in fortified foods without delay.

## 3.3 B2B relations along the food supply chain

**Acknowledging that the EU food and drink industry's competitiveness has declined over recent years, the European Commission<sup>14</sup> set up the High Level Group (HLG) for the Competitiveness of the European Agri-Food Industry in 2009 grouping together actors from across the food chain. With a workplan founded on a set of 30 Recommendations, a Roadmap and list of accompanying actions, in 2010, the remit and membership of the HLG was eventually broadened to found a High Level Forum (HLF) for a Better Functioning Food Supply Chain in order to address, among others, asymmetries and possible misuses of bargaining power across the food chain.**

<sup>13</sup> Amarasinghe, Anura & D'Souza, Gerard, 2010. Obesity prevention: A review of interactions and interventions, and some policy implications, West Virginia University, Regional Research Institute, Research paper 2010-2, 2010.

<sup>14</sup> DG Enterprise and Industry.

## Unfair commercial practices

Cognisant of reports of manifestly unfair commercial practices revealed in different fora<sup>15</sup>, the European Commission facilitated the creation of a multi-stakeholder dialogue with all food chain partners to address this matter in spring 2011. Based on the premise that any mechanism of redress needs to be enforceable, a list of principles and examples of good practice have been agreed among food chain stakeholders. While these principles can help to address obstacles (unilateral changes in contracts, the transfer of unjustified and/or disproportionate entrepreneurial risk onto the contracting party, misuse of confidential information, etc.), members of the HLF and the Commission must not lose sight of the importance of promoting the implementation and the enforceability of these principles.

Moreover, the elimination of these obstacles will lead to better financing of the industry, a crucial issue in this period of economic downturn.

## Late payments

EU food and drink manufacturers welcomed the adoption of the Late Payment Directive<sup>16</sup>, which entered into force in February 2011. Its newly agreed provisions cover business-to-business relations whereby payments between operators should be completed within two months unless other specific conditions are met. This should finally put an end to the problems faced by an increasing number of companies, especially SMEs, who are experiencing massive strains on cash flow during the economic crisis.

Meanwhile, late payments still remain a major issue for European businesses (written-off debt by companies grew to 2.7% of total income to reach a staggering €312 billion in the 2011 survey<sup>17</sup>). Hence, EU Member States are urged to swiftly implement the Directive in their national legal systems.

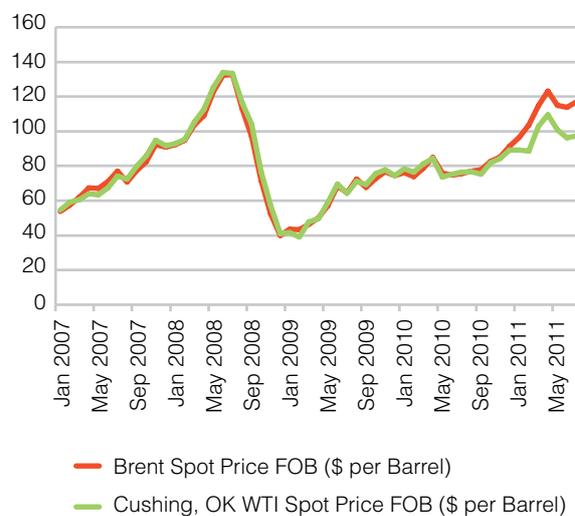
## 3.4 Rising input costs and security of supply in agricultural raw materials

**Rising input costs (crude oil, gas, electricity, etc.) as well as rising agricultural commodity prices and the need for greater market transparency in derivatives have all had an impact on the competitiveness of Europe's food and drink industry. This, compounded with the future reform of Europe's Common Agricultural Policy post-2013, will have a number of important implications for the future.**

### Rising input costs

West Texas Intermediate (WTI) and Brent spot prices (\$ per barrel) have been very volatile in recent years (see: Fig. 9) with global upward trend fluctuations affecting several other input costs for the industry.

**Fig. 9** Monthly WTI and Brent spot prices FOB (\$ per barrel)



Source: International Energy Agency (IEA), 2011.

<sup>15</sup> Since the creation of the High Level Group (HLG) on the Competitiveness of the Agri-Food Industry, the European institutions and EU Member States have tried to address the matter of asymmetries in the food supply chain and the possible misuse of bargaining power that can result thereof. Clear examples are represented by the following initiatives: the Final Recommendations of the High Level Group (HLG.006), the Communication on a Better Functioning Food Supply Chain in Europe (COM(2009) 591), the Retail Market Monitoring Report (COM(2010) 355), the Single Market Act (COM(2011) 206/4), the Bové Report (2009/2237(INII)), the Corazza-Bildt Report (2010/2109(INII)) and the various public and private initiatives *inter alia* the UK, France, Spain, Romania, Hungary and Ireland.

<sup>16</sup> Directive 2011/7/EU.

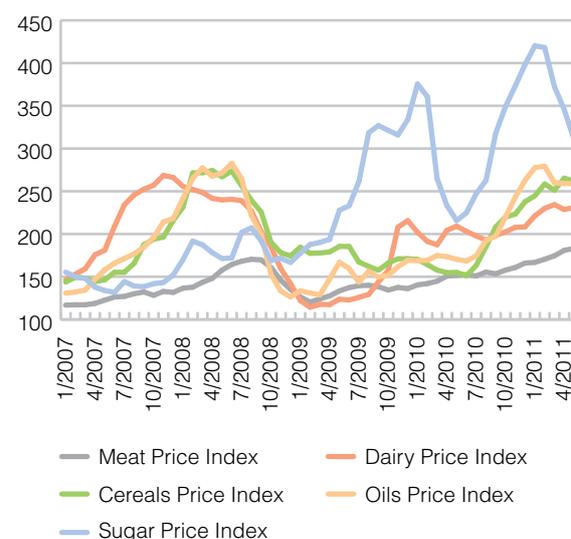
<sup>17</sup> European Payment Index 2011, Intrum Justitia.

Cases in point include prices of gas and electricity which were affected by increasing fuel costs. Gas prices for industrial consumers steadily increased after a brief period of levelling off in the second semester of 2010. The trend is equally visible for electricity prices. With gas prices and electricity prices reaching €0.11 cents/GJ and €0.15 cents/KW/h respectively in this period, this represents an average additional input cost of approximately 5% for the EU food and drink industry with respect to costs in the second semester of 2009. This partly reflected the increase in the dollar per barrel prices of crude oil that amounted to +14% in the period from Q2 2009 to Q2 2010<sup>18</sup>.

### Access to sufficient, high quality agricultural raw materials

Food and drink operators in Europe process 70% of the EU's agricultural raw materials. As such, the Common Agricultural Policy (CAP) presents an essential policy for food and drink manufacturers in contributing to the supply of safe and sustainable agricultural raw materials for manufacturing. To meet this objective, the future CAP must reinforce the producing role of European agriculture for food and feed while promoting sustainable agricultural practices, preventing extreme price volatility of agricultural commodities (see: Fig. 10) and, finally, to optimise the market-driven nature of the CAP and its ability to support R&D. Moreover, a market-driven, efficient CAP policy is needed using all of the tools available to help increase agricultural productivity to meet growing demands for food as the world's population continues to grow towards FAO forecasts of 9 billion by 2050. In doing so, this will help Europe's food industry play its part, together with other actors, in meeting the challenges of global food security.

**Fig. 10** Evolution of monthly food price indices (2002-2004=100)



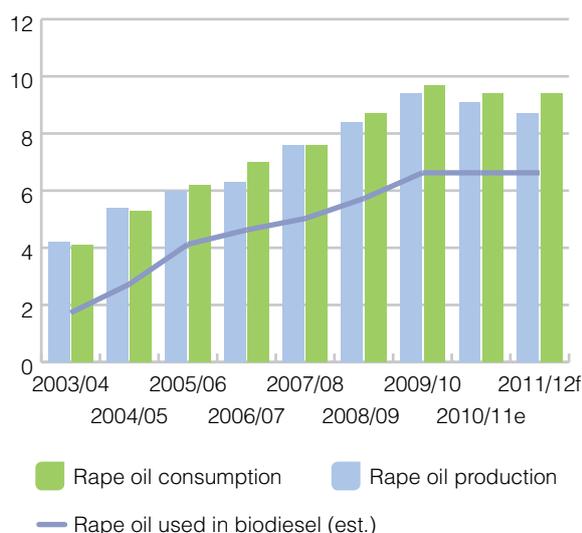
Source: FAO, 2011.

### Food first, then fuel

Similarly, there is a need for coherence across all policies driving supply of agricultural raw materials, including the CAP, trade, energy and environment policies. Increased demand for biomass to meet the 10% target for renewable energy must not harm the supply of agricultural raw materials for the food industry. Food operators support the primary role of EU agriculture to remain the production of raw materials for food and feed. Given the importance of rapeseed as the main source of biomass to produce biodiesel in the EU, this has important implications for land use (see: Fig. 11).

<sup>18</sup> International Energy Agency (EIA), monthly Europe Brent spot Price FOB (\$ per barrel).

**Fig. 11** EU rape oil balance



Source: European Commission (Note: 2010/11: Estimates; 2011/12: Forecasts).

### Transparency in derivatives markets

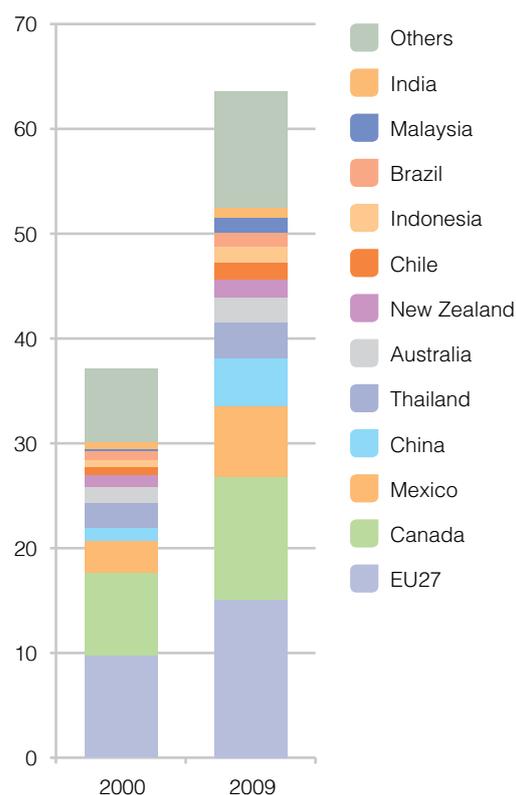
As we have seen in the past several years, greater transparency in derivatives markets is also essential. Derivatives markets play a key role for hedging price risks of underlying physical agricultural raw materials and price discovery for food manufacturers. Against the backdrop of rising agricultural commodity prices and discussions in the G20, the review of the EU Markets in Financial Instruments Directive (MiFID)<sup>19</sup> is timely with plans to improve transparency, robustness and confidence. This, in turn, should help to improve the functioning of agricultural derivative markets worldwide.

### 3.5 Efforts needed to improve EU food and drink industry exports

The EU cannot compete with the outstanding rates of export growth registered by Asian and Latin American emerging economies. EU food and drink products have tended to weaken their position in the major traditional and emerging markets in the past few years, losing the advantage gained at the beginning of the past decade. The main exception to this trend was China, where EU food and drink exports have been growing at a rate outpacing competitors.

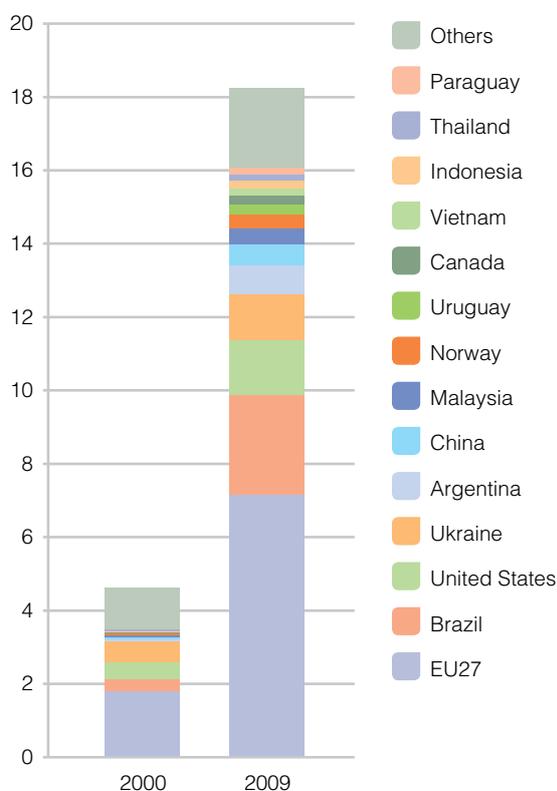
Meanwhile over the past ten years (2000-2009), in its key trade markets (U.S. and Russia), the EU has performed fairly well (see: Fig. 12 and Fig. 13).

**Fig. 12** The EU and its major competitors: evolution of the share of food and drink imports in the U.S., 2000-2009 (in \$ billion):



Source: COMTRADE database 2011.

**Fig. 13** The EU and its major competitors: evolution of the share of food and drink imports in Russia, 2000-2009 (in \$ billion):



Source: COMTRADE database 2011.

Maintaining a solid, rules-based multilateral trading system remains a priority for Europe's food and drink industry. Regrettably, given that a balanced agreement under the Doha Development Agenda of the World Trade Organisation seems out of reach for the foreseeable future, the EU should pursue its bilateral agenda to seize market opportunities vis-à-vis its competitors. Bilateral talks should cut remaining high tariffs for EU exports, in parallel provide a better framework for the elimination of food-related regulatory issues and promote the use of international standards in partner countries. In more precise terms, to enhance its competitiveness, the EU food industry calls for the effective application of the EU-Korea Free Trade Agreement, the prompt start of the EU negotiations with Japan and the successful conclusion of balanced agreements currently under negotiation.

In parallel to the elimination of trade barriers, Europe needs an ambitious, efficient and flexible agri-food export promotion policy. This should open up new opportunities, especially for SMEs, so that they can benefit, among others, from rapid consumption expansion in emerging countries.

### 3.6 A holistic approach to EU policy-making

**Europe's food operators sometimes find that they are required to comply with EU rules and regulations which have conflicting policy objectives. A holistic approach to EU law-making is therefore essential.**

#### Consumer information versus health policy objectives

Laws calling for increased consumer information 'on pack' in the form of labelling contrasted with the need to reduce portion size in order to meet health criteria present a pertinent example of where food operators are being pulled in two diverging directions.

#### Water savings versus hygiene standards

While water savings are continuously achieved by food and drink manufacturers, there are technical limits and a certain level of fresh, clean water use always remain necessary to ensure compliance with strict EU hygiene standards.

#### EU policy-making aligned with international developments

Legislative and non-legislative measures taken at the EU level must give due consideration to relevant developments at a global level. While the EU is seen as one of the world's most ambitious leaders in the process of 'greening' its economy, measures and targets put in place in the European Union must not result in Europe's industries' suffering a disadvantage vis-à-vis competitors. Meanwhile, voluntary efforts must also be given due consideration and encouraged as appropriate, taking care to bear international developments in mind so as to ensure a coherent global approach.



## **Greenhouse Gas Emissions (GHG): A case study**

Cutting GHG emissions by 20% by 2020 represents a key part of the EU's efforts to drive 'sustainable growth' in Europe. Food and drink manufacturers are firmly on track to meet the EU target of a 20% reduction having attained a 15% reduction in GHG emissions already since 1990. While this is a very positive development for the EU and for the food manufacturing business in Europe, food and drink manufacturers urge for political ambitions to move to a reduction beyond 20% in EU GHGs, provided similar efforts are mirrored on a global scale, thus ensuring European companies are not at a competitive disadvantage.

## **European Food Chain Sustainable Consumption and Production (SCP) Round Table: An example**

Set up in 2009 and co-chaired by the European Commission, involving a number of Directorates-General, the methodology agreed among food chain partners allows for a more uniform framework of voluntary environmental assessment of food and drink products along the food chain, and environmental communication, including to consumers. These efforts and those of Sustainability Consortium in the USA, for example, should seek to be as aligned as possible.

# EU 2020 Strategy: Relevance for Europe's food and drink industry

FoodDrinkEurope welcomes the Commission's EU 2020 strategy proposal to "deliver a more sustainable, social, greener and knowledge-based EU market economy". Transforming today's challenges (such as the effects of the economic downturn and globalisation, world demographic trends, resource depletion, climate change, competition over land use for food and fuel and food security) into opportunities is necessary if we are to meet the EU 2020 strategic objectives and improve the competitive capacities of Europe's food and drink industry.

As the single largest manufacturing sector in terms of turnover and employment the EU food and drink industry is a major player in the implementation of the EU 2020 strategy. The setting of specific strategies for the food industry as part of an overall European food policy will facilitate meeting the EU objectives. The Recommendations and the Action Plan adopted in 2009 by the High Level Group (HLG) for the Competitiveness of the Agro-Food Industry provide a sound basis for such a policy that will allow sustainable growth for the sector.

The HLG recognised that a holistic approach and policy coherence are essential for all food-related legislation. Further consistency between policies is necessary in all areas touching on Europe's food

and drink industry such as agriculture, food safety, industrial policy, environment, trade, financial markets and research and innovation - in order to be able to meet the general EU food policy objectives.

Europe's food and drink manufacturers count on the continued support of the Commission in overseeing the swift implementation of the HLG Recommendations under the work of the High Level Forum for a Better Functioning Food Supply Chain in Europe as this will unlock further opportunities for Europe's food sector and enable manufacturers to equip themselves with the tools they need to be competitive in the global environment.

## SMART GROWTH

**EU 2020 target - Innovation:** 3% of EU GDP to be invested in R&D innovation (public private combined) - the EU food and drink industry currently invest 0.23% of its turnover in R&D investment.

EU 2020 FLAGSHIP	PRIORITY POLICY TOPICS FOR THE EU FOOD AND DRINK INDUSTRY
"Innovation Union"	<b>Access to finance for innovation:</b> Financial instruments (incl. state aid revision); <b>European Innovation Market:</b> EU patent, screening of regulatory framework and identification of hurdles, legislation on standardisation, Eco-Innovation Action Plan; <b>European Innovation Partnerships:</b> Pilot EIP (European Innovation Partnership) on Active and Healthy Ageing (AHAIP); Consultation on EIT (European Institute of Innovation and Technology); Common Strategic Framework for EU Research and Innovation Funding
"A Digital Agenda for Europe"	<b>E-commerce:</b> Contract law, consumer rights, review Intellectual Property Rights (IPR) Enforcement Directive, online dispute resolution system
"Youth on the move"	<b>Employing young people:</b> Various initiatives on (high-quality) traineeships, incentives (recruitment subsidies, wage arrangements...), open-ended single contract in segmented labour markets

## SUSTAINABLE GROWTH

### EU 2020 target:

- **A 20% reduction in greenhouse gas (GHG) emissions from 1990:** EU food and drink manufacturers have achieved a 15% reduction in GHG emissions over the past 20 years so the sector is firmly on track to meet this EU 2020 target.
- **A 20% increase in energy efficiency:** The EU food and drink industry is increasingly attentive to efficient ways of using energy, e.g. through the use of Combined Heat and Power (CHP) techniques. Incentives could be used to drive the use of CHP more widely throughout the industry – particularly among SMEs.
- **20% of energy from renewable:** The EU food and drink industry is directly contributing towards reaching the EU 20% renewable energy target through increasingly using renewable energy sources for their processes and by producing energy on site (e.g. biomass boilers, solar panels on warehouse roofs, production of bio-gas from sources such as food leftovers, agricultural by-products and factories' waste water treatment systems).

EU 2020 FLAGSHIP	PRIORITY POLICY TOPICS FOR THE EU FOOD AND DRINK INDUSTRY
"Resource efficient Europe"	<p><b>Climate change / Energy:</b> Roadmaps on low-carbon economy 2050; Energy 2050 and Resource efficient Europe; Revised energy efficiency action plan; White Paper on future of transport; energy taxation; Strategy towards bio-based economy 2020;</p> <p><b>Waste management:</b> Roadmap on resource efficiency; <b>Water:</b> Water scarcity and drought; climate change adaptation and water; <b>Biodiversity:</b> 2020 biodiversity strategy; <b>Raw materials:</b> Common Agricultural Policy, derivatives</p>
"An industrial policy for the globalisation era"	<p><b>Smart regulation:</b> Fitness checks, roadmaps, impact assessments covering competitiveness</p>
	<p><b>Single Market:</b> Single Market Act, European Observatory on Counterfeiting and Piracy, EU patent, standardisation communication/proposal, future VAT strategy, collective redress</p>
	<p><b>Industrial innovation:</b> Initiatives on Key Enabling Technologies, advanced manufacturing technologies, knowledge alliances business-universities, cross-fertilisation between sectors</p>
	<p><b>Globalisation:</b> International regulatory cooperation, internationalisation of SMEs, raw materials communication, Market Access Scheme for Procurement, various trade agreements</p>
	<p><b>Industrial modernisation:</b> Resource efficiency (see above), long-term sectoral industrial strategies, SCP/SIP review, various restructuring initiatives, CSR communication, corporate non-financial reporting, ecological (environmental) footprint of products</p>
	<p><b>Food-sector specific (food policy):</b> High Level Forum for a Better Functioning Food Supply Chain</p>

## INCLUSIVE GROWTH

**EU 2020 target - Employment:** Increasing the employment rate of the active population aged 20-64 years from the current level of 69% to 75%. The EU food and drink industry is the leading employer in the EU representing 13.5% of total employment. Moreover, the food and drink industry plays an important role in creating jobs in rural areas and close to factory location thus generating economic growth in local communities. Efforts to promote the attractiveness of the food sector in Europe coupled with further investment in jobs and skills are needed.

EU 2020 FLAGSHIP	PRIORITY POLICY TOPICS FOR THE EU FOOD AND DRINK INDUSTRY
"An agenda for new skills and jobs"	Flexicurity, social dialogue, matching skills supply with labour market needs







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