



PRIORITIES FOR THE DEVELOPMENT OF AN EU INDUSTRIAL POLICY FOR FOOD

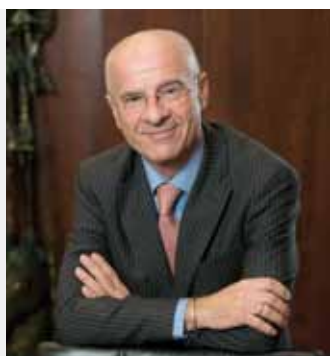
Competitiveness Report 2012

PRIORITIES FOR THE DEVELOPMENT OF AN EU INDUSTRIAL POLICY FOR FOOD

Competitiveness Report 2012

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Jesús Serafin Pérez
President

FOREWORD

As Europe's largest manufacturing sector both in terms of turnover (€956 billion) and employment (generating 4.1 million jobs), the EU food and drink industry is a veritable pillar of the EU economy. The industry's ability to grow sustainably and cater for the ever-evolving needs of Europe's over 500 million consumers is crucial not only for European food security but also for the long-term viability of the sector. To grow successfully, the industry must remain competitive in today's increasingly global environment and take full advantage of a proper functioning EU Single Market for food.

As in the past, the 2012 FoodDrinkEurope Competitiveness Report highlights the trends in the economic performance of EU food and drink manufacturers and compares these against previous years, against the background of the economic downturn, as well as vis-à-vis other EU manufacturing industries, and the food manufacturing industries of Europe's international peers.

In addition, the Report promotes the key priority of FoodDrinkEurope members for the year ahead – namely, the elaboration and implementation of an EU Industrial Policy for food. This builds on the essential work undertaken to date within the EU High Level Forum for a better functioning food supply chain, with the aim to continue building on the achievements of the Forum and its necessary prolongation beyond 2012.

The ingredients needed for success in making this happen are clearly set out in the 'wishlist' of FoodDrinkEurope recommendations in the third part of this Report – covering aspects such as the need for greater legal certainty and consistency for operators across the EU market as well as fairer B2B relations along the supply chain, the completion of a Single Market for food, better access to finance (particularly for SMEs, making up 271,000 of the 274,000 food companies in the EU) and securing better market access opportunities for EU food and drink products.

Allow me to encourage readers to take a special read of the middle pages of this Report for a quick overview of the principal areas of work of the High Level Forum (HLF), which plays an essential role in helping to improve the competitiveness not only of EU food and drink manufacturers but also of our food chain partners. The table sets out the progress made to date as well as an overview of the additional elements that have been added into the HLF workplan to ensure Europe's food supply chain can meet the challenges of successful implementation of the EU2020 Strategy for smart, sustainable, inclusive growth.

Finally, I look forward to working with my counterparts in the High Level Forum as it continues its important work beyond 2012 to help bring about the reality of an EU Industrial Policy for food, to the benefit of consumers and actors along the food supply chain. This will surely help to ensure that EU food and drink manufacturers can sustain their position as world number one in exporting high value added food and drink products and will consolidate the EU food and drink industry's place as a fundamental pillar of the EU economy, serving consumers, generating sustainable growth, and, sustaining healthy levels of employment and local wealth across communities in the European Union.

EXECUTIVE SUMMARY

This report measures the competitiveness of the EU food and drink industry using a set of key performance indicators.

Part one of the report describes a first set of indicators which show that despite the current economic climate, the EU food and drink industry remains a non-cyclical, robust manufacturing sector and a real pillar of the EU economy. Moreover, the analysis shows that food and drink manufacturers have sustained levels of positive growth in the EU economy outperforming the vast majority of other EU manufacturing sectors since the peak of the downturn in 2008, both in terms of production (output) and employment.

Part two of the report assesses the industry performance in terms of worldwide competitiveness. Here, it is clear that despite the EU food and drink industry showing positive signs in production volumes, R&D investment, export market shares and labour productivity, it is nonetheless lagging behind its main international competitors, both in mature and emerging markets.

The main reasons for this are explained in part three and include:

- The lack of an EU Industrial Policy for the food sector;
- The absence of a true Single Market for food which still presents weak market conditions, namely:
 - > The need for a better functioning food supply chain, fair commercial practices, better access to finance (particularly for SMEs), a resolution to late payments and sustainable levels of employment in the food and drink industry in the EU;
 - > Existing bottlenecks to R&D; and finally,
- Insufficient export expansion (particularly among SMEs), especially in emerging countries.

For the EU food and drink industry, these factors combined result in a stagnating competitive position vis-à-vis global counterparts.

In order to address this, FoodDrinkEurope members call for the development and implementation of an EU Industrial Policy for food without delay, supporting the competitiveness of the industry both on the Single Market and worldwide, under the ownership of the EU High Level Forum for a “Better functioning food supply chain”. In addition to the many important areas of work already undertaken within this Forum to deliver on the objectives set out under the Recommendations of the High Level Group (the Forum’s predecessor) and the 2009 Commission Communication initiatives (see: special middle section of the report), FoodDrinkEurope seeks the incorporation of four new areas, conducive to improving the industry’s internal (EU) competitiveness, into the work programme of the Forum beyond 2012. Addressing these areas will help to ensure that the industry, and other food chain partners, is able to deliver on the ambitions of the EU 2020 Strategy for smart, sustainable, inclusive growth. These four areas are (i) access to raw materials, (ii) overcoming bottlenecks to innovation, (iii) smart regulation in the Single Market for food, and finally, (iv) environmental policy and sustainability. In parallel, more work is needed in areas considered equally important for the global competitiveness of the EU food and drink industry but which, to date, have not been covered by the Forum’s activities, notably, the area of EU trade policy and promotion of the internationalisation of SMEs.



01 SETTING THE SCENE

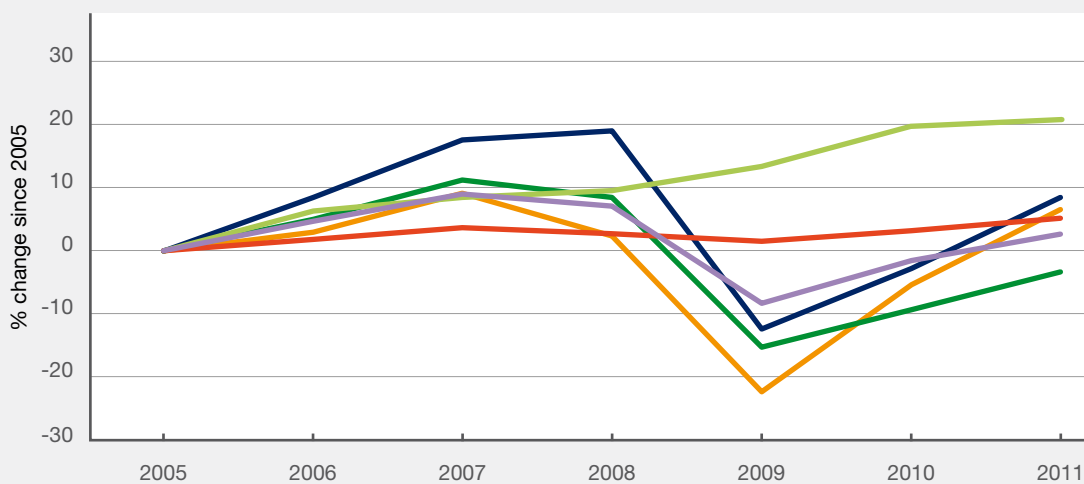
THE EU FOOD AND DRINK SECTOR: A RESILIENT INDUSTRY IN TODAY'S ECONOMIC CLIMATE...

Against the backdrop of today's economic downturn, the EU food and drink industry maintains the characteristics of a stable, non-cyclical and robust manufacturing sector, a real pillar of the EU economy. Confirming previous years' trends, the EU food and drink sector continues to show sustained, positive growth, outperforming, together with the pharmaceutical sector, the other EU manufacturing sectors in terms of production (output) and employment.

Production growth

The European food and drink industries' real production growth (excluding inflation) remained positive in 2011, increasing by 2.2% compared to 2010. Output has increased regularly since the peak of the crisis in 2008, with a 2.6% increase between 2008 and 2011 compared to a 4.2% drop for the EU manufacturing sector as a whole during the same period.

Figure 1: Production by sector in the EU before and after the onset of the economic crisis in 2008



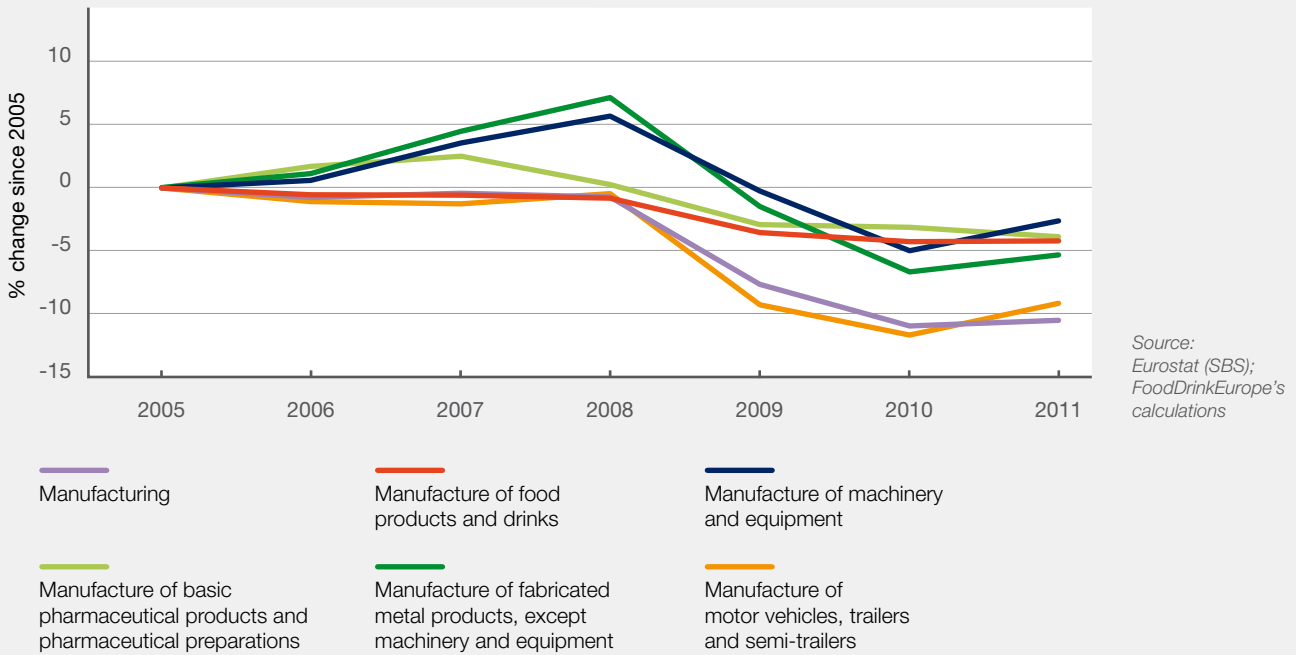
Source: Eurostat (SBS); FoodDrinkEurope's calculations



Employment

Levels of employment in the EU food and drink industry have been affected by the economic downturn, with an average decrease of 3.5% since the peak of the crisis in 2008. However, the sector still employs 4.1 million people making it the largest employer in the manufacturing sector in the EU. In the EU manufacturing sector, as a whole, employment has dropped by 9.9% over the same period.

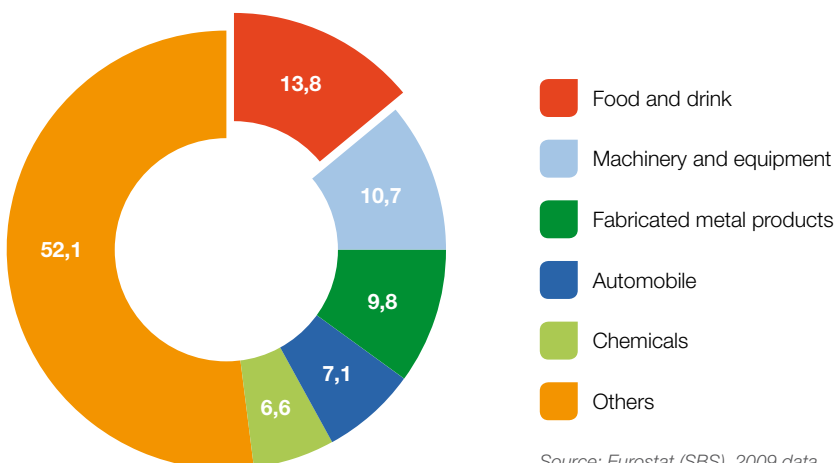
Figure 2: Sectoral employment levels in the EU before and after the onset of the economic crisis in 2008



Value added

The importance of the EU food and drink industry is also shown by its value added which is higher than any other single manufacturing sub-sector in the EU. EU food and drink industry value added was 13.8% of total EU manufacturing in 2009, equivalent to 2% of EU GDP.

Figure 3: Share of value added (%) in the EU manufacturing industry



... AND A SECTOR DRIVEN BY DOMESTIC (EU SINGLE MARKET) DEMAND

Another important characteristic of the EU food and drink sector is that it relies largely on domestic supply and demand given the local dimension of production and consumption. The share of pre-committed spending¹ in total household expenditure has increased by nearly 4 percentage points since 1995, which means that the scope for discretionary spending² has been greatly reduced. By its very nature, discretionary spending is most threatened by a change in consumption patterns, including the purchase of food products, since consumers may decide to buy cheaper products.

The total household expenditure in food and drinks amounted to €1 trillion in 2010 and slightly decreased compared to 2009 (-0.7%), whereas pre-committed expenditure increased by about the same amount, i.e. 0.6%.

Figure 4: Food and drink expenditure versus pre-committed expenditure as a % of total household expenditure in the EU



Note: The scale for food and drink expenditure is on the left hand side and the scale for the pre-committed expenditure is on the right hand side.



¹ Pre-committed expenditure consists of contract based spending which is not negotiable in the short run (e.g. housing, insurance, telecommunication bill services, etc.).

² Discretionary expenditure consists of household spending on items for which consumption can either be more easily increased or decreased (e.g. travel), but for which, as in the case of food, consumers have the option to switch to cheaper products in their purchases.



02 QUANTITATIVE ANALYSIS

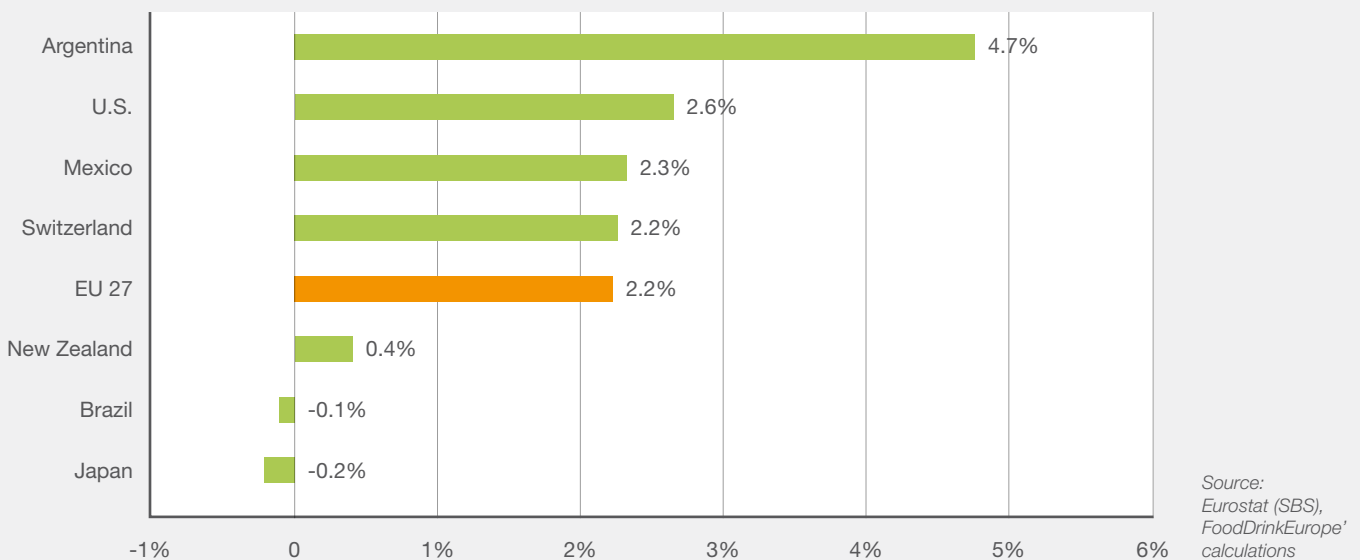
PRODUCTION VOLUMES

Fairly good production³ growth compared to some major international competitors, but still lagging behind many mature and emerging markets.

Facts

Food and drink production in EU27 dipped during the 2008-2009 economic downturn negating the growth seen in previous years. A tentative recovery is currently underway, but overall production increased by only 1.6% between 2007 and 2011. Today, the EU food and drink industry continues to lag behind its main international competitors, in particular, Argentina, Mexico, and the U.S.; nonetheless, it is performing better than New Zealand, Brazil and Japan (see Fig.5).

Figure 5: Change in food and drink industry production volumes worldwide during 2010-2011



EU production volumes grew by 2.2% in 2011 compared to 2010, a good performance given Europe's low population growth. Strong demand from third countries bolstered EU production and export growth.

Similar to its international counterparts, the EU food and drink industry's output in terms of turnover accounts for a high share of total industrial output (accounting for 16% of total EU manufacturing output in 2010).

FoodDrinkEurope recommendation

As an important driver of economic growth in the EU, the food and drink industry should be supported by EU policies that take into account the specificities of the sector and improve the market conditions in which companies operate.



See the special middle section and part three of this Report, pp.18-40

³ In order to be able to measure the real value (excluding monetary effects) of production performance, data on production volumes (and not values) have been used in this Report (in contrast with previous years' Reports). Changes in real values reflect only changes in the quantities and structure and not in price levels.

LABOUR PRODUCTIVITY

Increased labour productivity, but still lagging behind international peers

Facts

Labour productivity⁴ in the EU food and drink industry increased by 4% in 2010 compared to 2009. However, the EU continues to lag behind productivity levels of international competitors in this sector (see Table 1). Among the reasons for this are the promotion of legitimate social objectives, and a low competitive intensity linked to the very large number of companies operating in the EU food and drink sector and their small scale of operation. The combination of these factors brings to higher economic costs for companies in Europe compared to those of their international competitors.

Table 1: Labour productivity comparison worldwide (ratio of production value per employee in \$1,000 international PPPs)

	2009	2010	% change (2010/2009)
EU 27	201	201	4
Brazil	127	165	30
Japan	23,367	27,042	7
Mexico	2,218	2,487	12
Switzerland	633	671	6
U.S.	435	434	0

Source: OECD, STAN industry indicators, Eurostat (SBS), The Brazilian Institute of Geography and Statistics (IBGE), FoodDrinkEurope calculations

FoodDrinkEurope recommendation

EU policies should focus on improving the overall labour productivity of the EU food and drink sector by e.g. increasingly addressing areas related to skills and jobs. The ability to improve professional skills of the existing workforce while being able to attract top talent for the future should be addressed as a matter of importance in the development of an EU Industrial Policy for the food sector. FoodDrinkEurope has been actively involved in the promotion of the establishment of a food Knowledge Innovation Community (KIC) expected to commence in 2014 led by DG Education. Moreover, FoodDrinkEurope and its social partner, the European Federation of Food, Agriculture and Tourism Trade Unions (EFFAT), are currently undertaking a project financed by DG Employment aimed at identifying the gaps between skills and jobs in the EU food and drink industry.



See third part of this Report: Meeting the challenges of the labour market, p.30



⁴ Expressed as output in \$1,000 international PPPs (Purchasing Power Parities) per employee

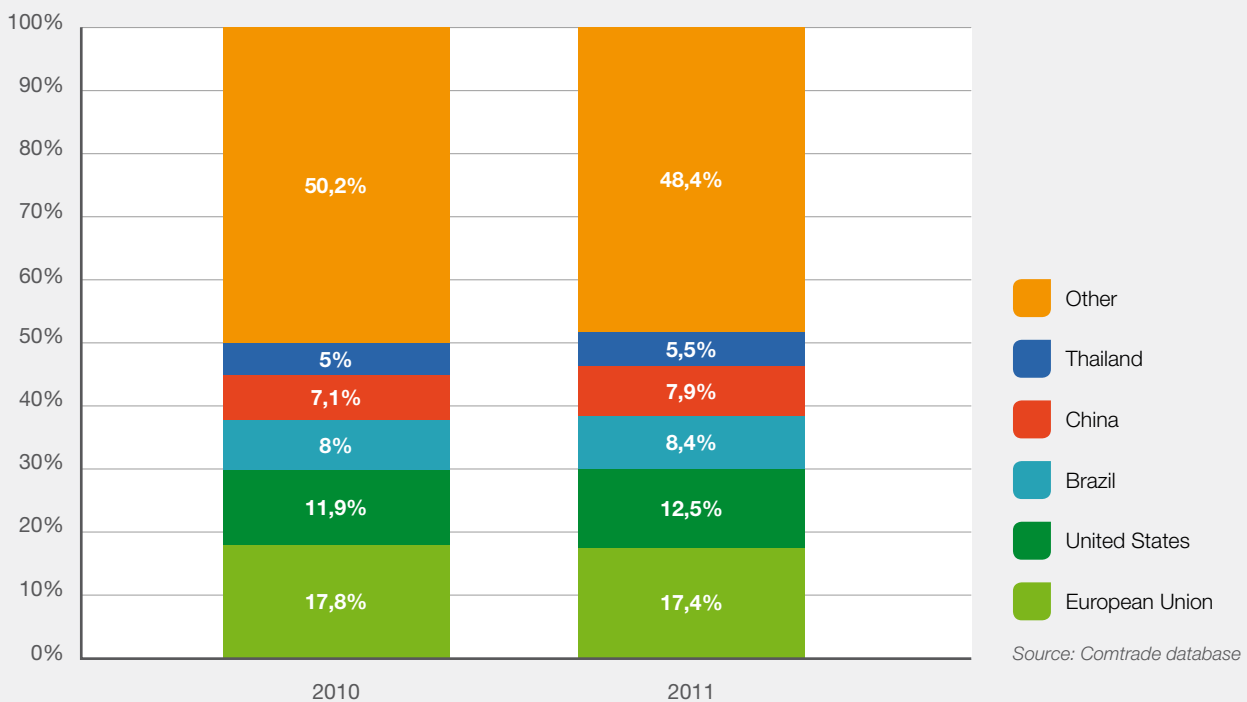
EXPORT MARKET SHARE

An increase in exports, but losing pace with other competitors in the global market

Facts

Confirming the trend of previous years and despite an overall increase in the export value in 2011, the EU is not keeping pace with other players competing for new market access opportunities. The EU share of the global food and drink trade has decreased again in 2011 (17.4%) compared to 2010 (17.8%), whereas other competitors from both mature and emerging markets have increased their market shares (see Fig.6).

Figure 6: International comparison of food and drink sector export market shares



In 2011, the EU food and drink industry exported products worth €76.2 billion. This corresponds to an increase of 16.6% compared to 2010, in the value of food and drink exports, and a boost to the industry's trade balance of more than €13 billion. This confirms the positive trend experienced in 2010, when exports grew by 21.5% leading to a trade surplus of €9.8 billion.

However, these positive results reflect only a small part of the broader picture. Export growth in 2011 is mainly due to two factors. First of all, exceptional performance of two product categories (meat and alcoholic beverages), and, second of all, the increased cost of some raw materials which in turn translated into higher export values. Both the meat and alcoholic beverage categories took advantage of increased demand in emerging markets.

FoodDrinkEurope recommendation

Focussing trade negotiations and market access efforts on emerging markets is needed to consolidate 2010-2011 results and to extend the benefits of trade opportunities to SMEs. If not, Europe may not be able to maintain its position as the leading global food and drink exporter in the long run.



See third part of this Report: Trade policy, pp.38-40

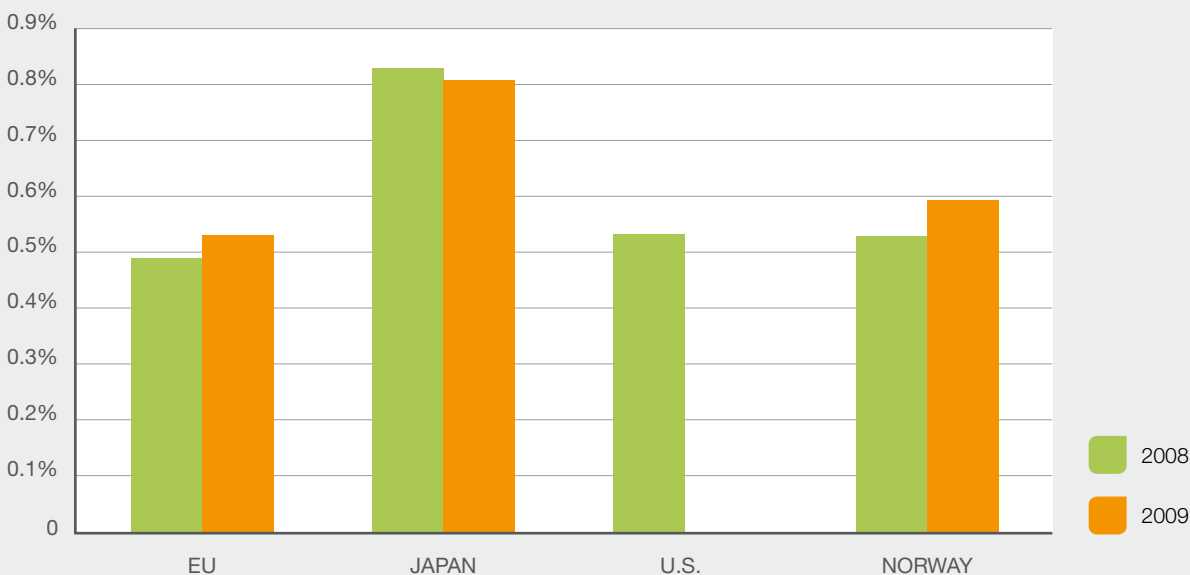
PRIVATE R&D INVESTMENT

Sustained levels of R&D investment, but overall the EU food and drink industry needs to invest more

Facts

The EU food and drink industry is characterised by a lower investment in R&D than other EU manufacturing industries and food industries in other parts of the world. Even though private R&D investment by food and drink companies in the EU increased from 0.49% to 0.53% between 2008 and 2009, despite the economic climate, this level still lags behind that of international peers, notably, Japan, the U.S. and Norway.

Figure 7: Food and Drink private investment in R&D as a percentage (%) of turnover



Source: OECD STAN indicators, Eurostat (SBS), FoodDrinkEurope national member federations, FoodDrinkEurope calculations. Data refer to 19 of the 27 EU member countries.

Moreover, food and drink industry patent applications as a share of total manufacturing were in the range of only 2-3% in 2008, which is also relatively low compared to such investment in other EU manufacturing sectors.

Table 2: Patent applications submitted to the European Patent Office (EPO) as a % of EU manufacturing applications (2008)

10% - 8%	7% - 4%	3% - 2%	
Automobile	Basic chemicals	Medical and surgical equipment	Source: Eurostat - Science, Technology and innovation database
Office machinery and computers	Transport equipment	Fabricated metal products	
Pharmaceuticals		Soap and detergents	
Television and radio		Rubber and plastic products	
		Basic metals	
		Food and drink products	

FoodDrinkEurope recommendation

R&D investments should have a central role in the definition of EU policies, including an EU Industrial Policy and hence both private and public actors should increase their spending in R&D⁵. Among others, attention must be given to whether SMEs, which represent 99.1% of the companies operating in the EU food and drink sector, have the financial means to engage in R&D investment, especially in the current economic climate. It is equally important that public resources made available for investment in R&D are widely communicated and understood by all types of companies in the sector and that procedures to access such funding are not overly burdensome.

 See third part of the Report: *Functioning of the Food Supply Chain: Addressing Unfair Commercial Practices in the EU (p.26), Access to finance (p.28), Late payments (p.30).*



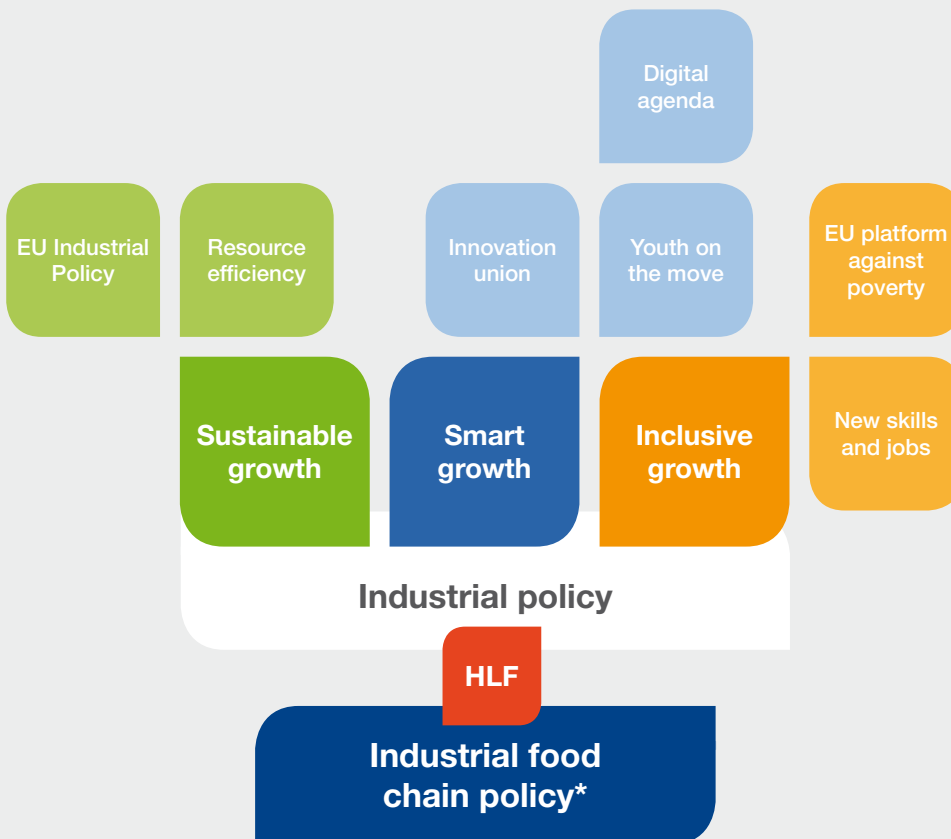
⁵ The food and drink industry has shown strong commitment to research through the European Technology Platform (ETP) "Food for life". The ETP, in September 2012, presented its new Strategic Research and Innovation Agenda for 2013-2020, which sets out the industry's priorities for research and innovation for the coming years.

FOODDRINKEUROPE’S PRIORITIES FOR THE DEVELOPMENT OF AN EU INDUSTRIAL POLICY FOR FOOD:

ENABLING FOOD AND DRINK INDUSTRIES TO BOOST THEIR COMPETITIVENESS

EU food and drink companies benefit from operating within the EU Single Market, a key asset for their business operations. However, to date, the industry still lacks a food sector-specific industrial policy that takes into account the interlinkages of various EU policy areas affecting the sector; this is needed to address the current lack of completion of the EU Single Market for food. The Commission foresaw in 2010⁶ that **“it is the role of the High Level Forum (HLF) to assist the Commission with the development of an Industrial Policy in the agro-food sector”**. As this has not yet been fulfilled, FoodDrinkEurope asks the Commission to extend the mandate of the HLF beyond 2012.

Figure 8: FoodDrinkEurope’s suggested approach to the HLF beyond 2012



*The Forum shall assist the Commission with the development of industrial policy in the agro-food sector. (Art. 2 - Commission Decision establishing the HLF - JOLC 210/4 of 3.8.2012)

⁶ Decision of 30 July 2010 establishing the Forum, 2010/C 210/03.

For FoodDrinkEurope, an EU food chain policy is the integration of the EU 2020 flagships with the objective to improve the business environment to support the development of a strong and sustainable food manufacturing base able to compete globally.

Representing a leading sector of the EU economy, whose competitiveness and sustained growth can play an important role in the overall economic recovery of the EU, FoodDrinkEurope has set out its priorities for the design of an EU Industrial Policy for Europe's food and drink industry. These are threefold, namely, to:

1. develop a **food-sector specific industrial policy**;
2. support competitiveness of food and drink industries in the **EU Single Market**; and
3. support the competitiveness of Europe's food and drink industries **worldwide**.

In FoodDrinkEurope's view, the HLF beyond 2012 could achieve the above by developing, managing and implementing an EU food chain policy via the:

- continuation of unfinished work under the current HLF mandate;
- update of the HLF Roadmap integrating the EU2020 flagships⁷;
- identification of the HLG Recommendations that have been implemented and those that have not⁸.

Table 3 (overleaf) provides more details for each of these actions and suggests important areas in which the work of the HLF should focus in the months ahead.

⁷ Under the three pillars of sustainable, smart and inclusive growth.

⁸ On 17 March 2009, the High Level Group on the Competitiveness of the Agro-Food Industry adopted its final report including 30 recommendations. On 6 July 2009 the Group endorsed the Roadmap of Key Initiatives proposing implementing actions for the 30 recommendations.

Table 3: FoodDrinkEurope’s priorities for the design of an EU Industrial Policy for food put forward for consideration to the HLF for a “Better Functioning Food Supply Chain” beyond 2012

FOODDRINKEUROPE PRIORITIES FOR AN EU INTEGRATED INDUSTRIAL POLICY FOR FOOD		HLF FORUM ACTIVITY ASSESSMENT DURING 2010-2012
INTERNAL COMPETITIVENESS: A SINGLE MARKET FOR FOOD	Access to raw materials, including the management of price volatility	ongoing
		new
	Functioning of the food supply chain	ongoing
		ongoing
		ongoing
		ongoing
	Bottlenecks to research and innovation	new
Smart regulation: completion and harmonisation of the Single Market for food	new	
	ongoing	
	new	
	ongoing	
	ongoing	
Environmental policy and sustainability	new	
EXTERNAL COMPETITIVENESS: INCREASE TRADE OPPORTUNITIES	Trade policy	not covered

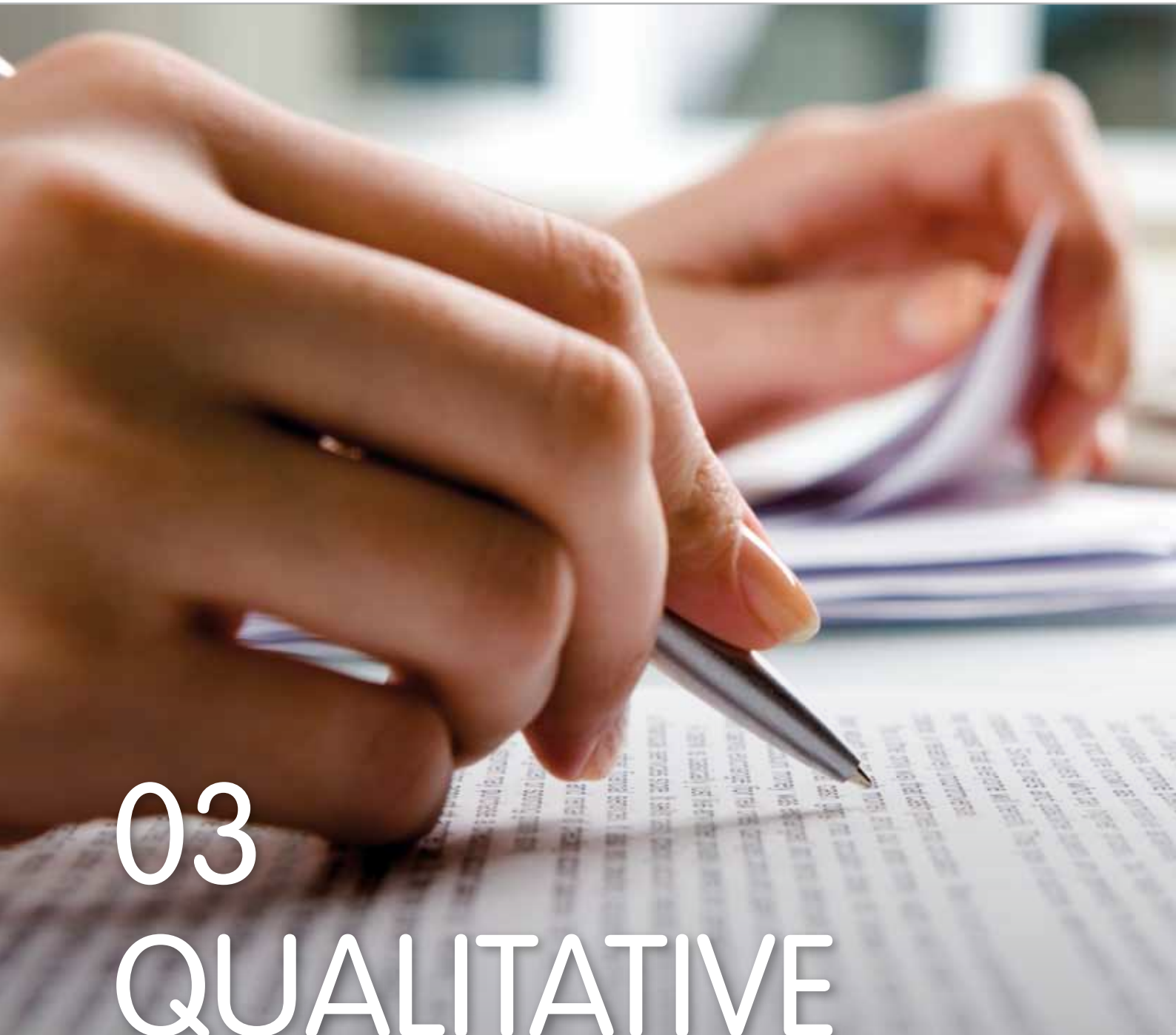
Ongoing: The issue has been identified by the HLG Recommendations⁹ and/or one of the 2009 Commission Communication initiatives and is currently being implemented.

Not covered: The issue has been identified the HLG Recommendations and/or by one of the 2009 Commission Communication initiatives, but it has not been sufficiently addressed by the HLF between 2010 and 2012 and should therefore be addressed by the Forum in an extended mandate.

New item: The issue had not been identified by a HLG Recommendation nor in one of the 2009 Commission Communication initiatives, but it fits into the EU2020 strategy flagships and is necessary to include in the updated roadmap for the HLF beyond 2012.

⁹ Available at: http://ec.europa.eu/enterprise/sectors/food/files/high_level_group_2008/documents_hlg/final_recommendations_hlg_17_03_09_en.pdf

NON-EXHAUSTIVE LIST OF CONCRETE EXAMPLES/CASES THAT IMPACT EUROPE'S FOOD AND DRINK COMPETITIVENESS			RELEVANT SECTION OF THE REPORT
The role played by the CAP towards 2020 in securing the availability of raw materials in the EU			p.24
GMOs: Low Level Presence (LLP)			p.25
Commodity derivatives, OTC markets and the revision of the current legal framework			p.25
Addressing unfair commercial practices in the EU			p.26
Access to finance			p.28
Late payments			p.30
Meeting the challenges of the labour market - Promoting a positive image of the sector - Matching skills and jobs			p.30 p.32 p.32
Nanomaterial definition and food labelling: a case study of a burdensome regulatory framework in the EU - A success story in encouraging SMEs to participate in publicly funded R&D activities			p.32 p.32
Robust impact assessments elaborated both ex-ante and ex-post, including competitiveness proofing			p.33
The need for a Single Market for food	Better implementation and enforcement of rules at EU level	Rapid Alert System: RASSF	p.34
		Bisphenol A (BPA)	p.35
		Health claims	p.36
		Food information to consumers	p.36
	Accelerating the decision-making process	Food fortification	p.36
Objectives, achievements and recommendations of the Food SCP Round Table			p.37
Trade negotiations			p.38
Market access and promotion of international standards in third countries			p.38
Promoting European agri-food products			p.39
Trade instruments for better access to raw materials			p.39
Internationalisation of SMEs			p.40



03 QUALITATIVE ANALYSIS

INTERNAL COMPETITIVENESS: A SINGLE MARKET FOR FOOD

The EU food and drink industry is a major employer and producer in the EU, reaping huge benefits from the Single Market, by conducting €213 billion of intra EU-trade in food and drink products in 2011¹⁰.

As a sector that relies steadily on domestic demand, the well-functioning of the Single Market is of vital importance for food and drink companies and for Europe's consumers alike. However, besides the advantages, food and drink companies in the EU are highly affected by the lack of a Single Market for food, and the lack of an EU Industrial Policy governing the sector.

In FoodDrinkEurope's view, the following are the Single Market 'conditions' needed to improve the competitive performance of food and drink companies in the EU:

- Better access to raw materials, including the management of price volatility;
- Better functioning of the food supply chain;
- Overcoming bottlenecks to research and innovation;
- Harmonisation and completion of a Single Market for food; and
- Ensuring a holistic approach to environmental policy and achieving further sustainability along the food chain.

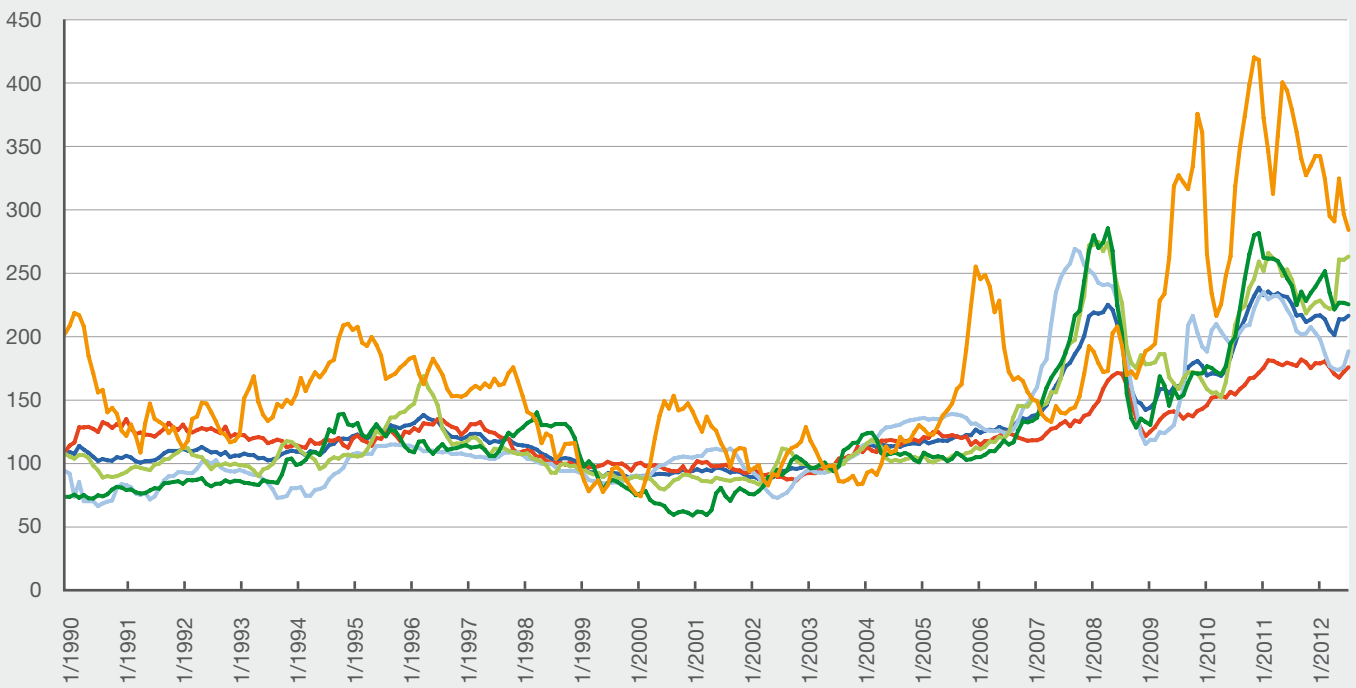


¹⁰ Eurostat Comext, FoodDrinkEurope calculations.

ACCESS TO RAW MATERIALS, INCLUDING THE MANAGEMENT OF PRICE VOLATILITY

In order to deliver value in the form of safe and nutritious foodstuffs, food and drink companies have to compete for access to safe agricultural raw materials. Against the background of high commodity prices (see Fig.9) that are hampering the competitiveness of the food and drink industry, a number of actions are necessary to address this situation.

**Figure 9: Food commodity prices over the period 1990-2012
(FAO Monthly Food Price Indices, 2002-2004 = 100)**



Source: FAO Monthly Food Price Indices, 2002-2004 = 100

Food price index Meat price index Dairy price index Cereals price index Oils price index Sugar price index

The role played by the CAP towards 2020 in securing the availability of raw materials in the EU

The context

The European food and drink industry relies on access to adequate quantities of safe agricultural raw materials that correspond to specific quality criteria, which are competitively priced and produced in a sustainable way. Considering that the EU food and drink industry processes 70% of agricultural raw materials produced in the EU, the CAP is of pivotal importance as regards security of supply of these raw materials for food operators.

FoodDrinkEurope recommendation

The need for higher productivity and production growth, while safeguarding natural resources, should be at the heart of the current CAP reform. FoodDrinkEurope has identified three areas of the CAP which have a particular impact on the security of supply for the EU food and drink industry:

1. Market instruments, which are essential for preventing crisis situations and remedying temporary market imbalances;
2. Research and innovation to support knowledge transfer in view of improving the economic and environmental performances of farms; and
3. Environmental sustainability: CAP measures aimed at securing the environmental sustainability of European agricultural production should not restrict the food and drink industry's access to adequate quantities of agricultural raw materials.

GMOs: Low Level Presence (LLP)

The context

The problem of an unintentional and unavoidable presence of traces of GMOs not yet approved in the EU (and, therefore, prohibited) continues to present a serious and long-lasting threat to all involved in the processing of imports of agricultural raw materials for food in the EU. This puts EU firms at a competitive disadvantage globally, increasing the cost of food and drink industry inputs. Food manufacturers rely on imports of other raw material imports for which Europe is not self-sufficient (e.g soya, cacao, coffee, etc.). Taking soybeans as an example, approximately 80% of all soybeans produced are grown in three countries: the USA, Brazil and Argentina; in each of these markets, many genetically modified (GM) varieties have been authorised for cultivation.

Commission Regulation (EC) 619/2011 of 24 June 2011, laying down the methods of sampling and analysis for the official control of feed regarding the presence of genetically modified material for which an authorisation procedure is pending or the authorisation of which has expired, does not include food. In the absence of a Technical Solution (TS) for food products, traders and first transformation operators¹¹ have not been using the TS permitted for feed because the imported materials are used in food as well as feed (e.g. soybean is used to make soy cake for feed and soy oil for food use). Thus, a lack of legal certainty remains.

FoodDrinkEurope recommendation

To avoid the legal uncertainty created by the Regulation (EC) 619/2011, FoodDrinkEurope urgently calls for its amendment to include food within the scope of the TS achieved already for feed.

Commodity derivatives, OTC markets and a revision of the current legal framework

The context

Food and drink companies use commodity derivatives for price discovery and hedging purposes against price risk of the underlying physical agricultural raw materials. Derivatives and OTC markets enable food industries to manage their exposure to volatility in agricultural commodity markets in order to achieve greater business predictability. This is of particular importance considering that successive CAP reforms have introduced more market orientation in the EU agricultural sector over the years.

FoodDrinkEurope recommendation

The revision of the current legal framework (MiFID/MiFIR, MAR/MAD, EMIR)¹² should contribute to the better-functioning of agricultural derivatives markets. FoodDrinkEurope welcomes the Commission proposals on MiFID which provides a good balance between enhanced transparency and position management versus the need for well-functioning and liquid markets.

¹¹ First transformation' is the first step in the processing/manufacturing of agricultural operators' raw materials into food products.

¹² Review of the EU Markets in Financial Instruments Directive (MiFID), EU Market in Financial Instruments Regulation (MiFIR), Market Abuse Directive, Market Abuse Regulation, and the European Market Infrastructure Regulation (EMIR).

FUNCTIONING OF THE FOOD SUPPLY CHAIN

A better functioning food supply chain with the elimination of unfair commercial practices, better access to finance, a resolution to late payments and more sustainable employment in the food industry are necessary to improve the competitiveness of food and drink companies operating in the EU.

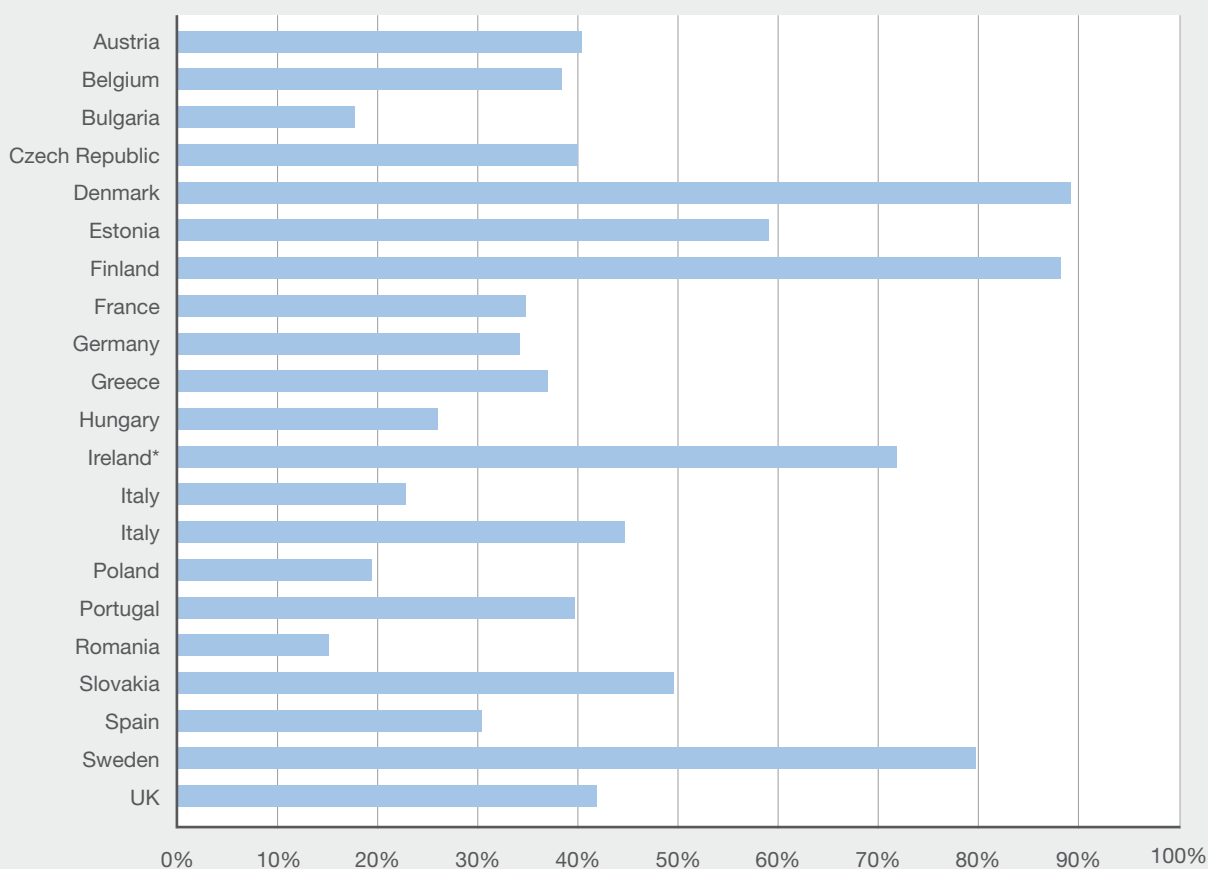
Addressing unfair commercial practices in the EU

The context

Unfair commercial practices and other types of abuses that can come from imbalances in the food supply chain and related asymmetries of bargaining power, affect, in some cases, a food manufacturers' ability to invest in R&D, to reach the consumer with their product offering of choice, while placing cash flows under strain (a crucial issue for many companies particularly in tough economic times).

The European food chain is characterised by a proliferation of unfair commercial practices, the existence of which have been recognised in different fora¹³. In the EU, food retail markets are increasingly concentrated and this can create problems in manufacturers-retailer relations. In most EU countries, the market share of the top 3 retailers ranges from 30% to 50% (see Fig.10). It is above 50% in Estonia, more than 70% in Ireland, almost 80% in Sweden and nearly 90% in both Finland and Denmark.

Figure 10: Market share of the three largest retailers in various EU Member States, 2010



Source: Europanel 2010 and FoodDrinkEurope data 2011. According to the latter, the reference market is defined as 'total food retail market', hence includes specialty shops, open air food markets, etc.
* 2011 data

FoodDrinkEurope recommendation

Imbalances in the food supply chain should be tackled using a two-step approach:

- 1. Short-term deliverable:** Reach an agreement on an EU framework for unfair commercial practices. Since the beginning of 2011, a constructive dialogue has been built among all major food chain stakeholder organisations. This dialogue resulted in an agreement on Principles and examples of good practice in B2B relations, welcomed by the High Level Forum for a better functioning food supply chain (HLF) in November 2011. Since then, the multi-stakeholder dialogue has continued to work on the implementation and enforcement system for the agreed set of Principles. FoodDrinkEurope is fully committed to the ongoing B2B process within the HLF. Manufacturers believe that this represents a first step towards more balanced food chain relations in the EU.
- 2. Long-term deliverable:** Tackle industry-retail relations from a competition law perspective. FoodDrinkEurope welcomes the creation of an “Internal Task Force on Food” within DG Competition and is assessing how to best actively contribute to the Commission’s ongoing work in this area.

New trends at national level on unfair commercial practices from a competition law perspective

The Spanish and Finnish Competition authorities have recently gone beyond purely static analyses of fair competition in the grocery market (i.e. that low prices are the result of good competition in the market) and have undertaken dynamic analyses (i.e. that besides low prices, other variables such as choice and quality should be analysed to assess the level of competition in the market).

In Spain, the Competition Authority ‘CNC’ study in 2011¹⁴ concluded that: (i) the business model of retailers in Spain has an impact on manufacturer/retailer relations, and results in an increase in manufacturers’ access costs to shelves and a decrease in the latter’s incentives to innovate given the unlikelihood to get a return on their investment in R&D to develop new products/processes which deliver innovations to market; and (ii) some retailers’ unfair commercial practices coupled with their strong buyer power have a negative impact on effective competition and consumer welfare.

The Finnish Competition Authority, ‘FCA’, launched an investigation in January 2012, which is still ongoing, and found that retailers use their buying power in several ways that are questionable under competition rules (such as, private label products, category management, risk transfer and gratuitous marketing allowances). In September 2012, the Finnish Government published a draft law to amend the definition of a dominant market position in the grocery retail market in the country.

¹³ Notably, 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), the Bové Report (2009/2237(INI)), the Corazza-Bildt Report (2010/2109(INI)) and the various public and private initiatives inter alia in France, Hungary, Ireland, Romania, Spain and the UK.

¹⁴ <http://cncompetencia.es/Inicio/Informes/InformesyEstudiosSectoriales/tabid/228/Default.aspx>.

Table 4: EU National Competition Authorities' initiatives to address the issue of asymmetries in negotiating power between large retailers and their suppliers in the grocery sector over the period 2009-2011

	Investigation Inquiry	Proceedings	Recommendations	Legislation*	Monitoring
Bulgaria				ongoing	
Czech Rep.				ongoing	
Denmark					
Finland				ongoing	
France				ongoing	
Germany					
Greece					
Hungary					
Italy				ongoing	
Latvia				ongoing	
Lithuania					
Norway					
Portugal					
Romania					
Spain				ongoing	
UK				ongoing	
EU					

**Legislative initiatives can be either a review of legislation to fill gaps in the existing text, the drafting of new bills to amend existing ones, or the revision of existing text to align it to a changed market reality.*

Source: FoodDrinkEurope with data taken from European Commission, DG Competition, ECN Brief 05/2011 and FoodDrinkEurope database on NCAs investigations on retailers' buyer power and concentration in the retail sector.

Access to finance

The context

The economic downturn has badly affected the chances of gaining access to credit by EU businesses, especially for SMEs¹⁵. The percentage of firms that sought external finance increased from 1% to 5% (depending on the source of finance) from 2007 to 2010 as well as the number of firms who were unsuccessful in having their requests granted. This trend is also likely to continue as economic forecasts¹⁶ envisage a significant increase in finance needs for 2013: more than 50% of enterprises surveyed (see Fig.11) indicated that they expected to need finance to maintain their business operations, the most frequent type of finance sought being loans. The rate of unsuccessful bank financing requests has also risen by 7 percentage points in 2010 compared to 2007.

The decrease in the number of EU food and drink companies ranging from 1.4% to 16.1% in some EU countries over the period 2008 and 2009 (see Fig. 12), also presents some concern, with a lack of access to finance for many SMEs operating in Europe's food and drink sector being a key contributing factor to this.

FoodDrinkEurope recommendation

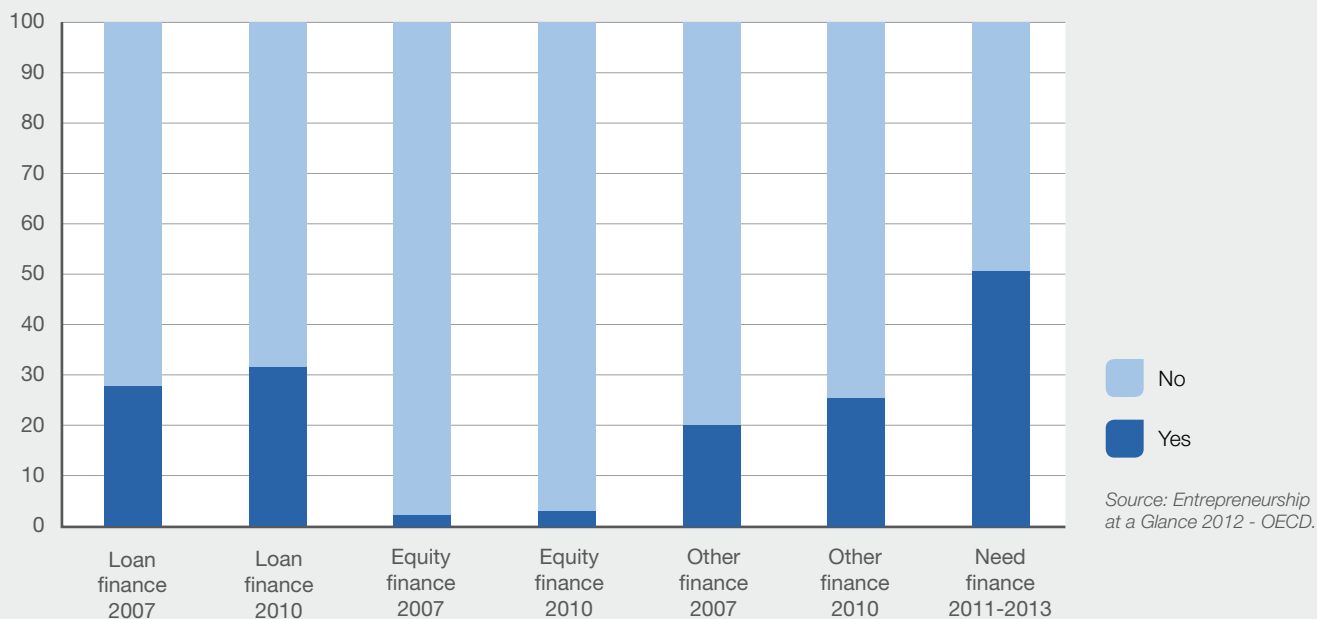
FoodDrinkEurope welcomes the European Council decision to reinforce the European Investment Bank with an increase in capital to ensure significant trans-European investments and its recognition of the relevance of "restoring normal lending to the economy and urgently completing the restructuring of the banking sector"¹⁷. More efforts are needed in order to facilitate access to finance, especially for SMEs.

¹⁵ See also European Central Bank, 'Survey on the access to finance of small and medium-sized enterprises in the Euro area', bi-annual publication since 2009.

¹⁶ Eurostat 2010: Survey on access to finance for SMEs in 20 EU Member States: Belgium, Bulgaria, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Spain, Slovakia, Sweden, and the United Kingdom.

¹⁷ European Council Conclusions 28-29 June 2012, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131388.pdf

Figure 11: Percentage of firms seeking access to finance by type (EU 20) (2007-2010)



Note: EU20 covers the group of 20 countries that participated in the survey.

Figure 12: Number of enterprises operating in the EU food and drink sector by number of employees, percentage change in 2008/2009 across a selected sample of EU countries



Source: Eurostat, SBS statistics, industry by employment size, FoodDrinkEurope calculations.

Late payments

The context

Tackling late payments is another complementary aspect of ensuring better access to finance for businesses. Unfortunately, this continues to be an issue particularly in the current economic climate, despite the entry into force of the recent EC Directive on Late Payments¹⁸. Several EU businesses run the risk of bankruptcy due to serious liquidity problems fuelled by an increasing number of firms and customers who are unable to pay their invoices. In 2012, the main reason for debtors' inability to pay their debts was because of financial problems (80% of cases), but in a considerable number of cases (60%), the issue also concerned intentional tardiness in payments¹⁹. Both cases affect food and drink manufacturers.

FoodDrinkEurope recommendation

FoodDrinkEurope welcomed the adoption of the Late Payment Directive in February 2011 but is concerned about its implementation across EU Member States by February 2013 and asks the Commission to monitor its correct implementation at the national level. Furthermore, the Commission also is also called upon to monitor the possible adverse effects of the Directive such as intentional delays of payments in countries that used to have shorter payment terms than those introduced by the EU Directive prior to the latter's entry into force.

Meeting the challenges of the labour market

The context

In the current socio-economic context, vocational training and education systems matching the EU labour market to the needs of the EU food and drink industry for the latter to remain competitive are absolutely essential (see Table 4). Similarly, as the largest single manufacturing sector in the EU, the food and drink industry can play a major role in securing the social inclusion and long-term employability of large numbers of EU workers.

FoodDrinkEurope recommendation

By engaging in a structured social dialogue with its social partner, 'EFFAT' (the European Federation for Food, Agriculture and Tourism) under the auspices of DG Employment, FoodDrinkEurope is working towards enhancing the attractiveness of the EU agri-food industry (see Box 1) and launching a research project on the topic of sustainable and competitive employment (see Box 2).



¹⁸ Directive 2011/7/EU.

¹⁹ Intrum Justitia Late Payment Index 2012.

BOX 1: Promoting a positive image of the sector

A positive image of the sector needs to be promoted towards young people with the aim of reinforcing the attractiveness of the EU food and drink industry. The sector continues to lack employees educated in food sciences. Moreover, given the peculiarity of the industry in needing employees with different levels of education, from school leavers to post-graduates, two types of actions can be envisaged:

1. An interest in food science qualifications needs to be encouraged in the early stages of education to ensure that more students undertake food science-related degrees;
2. Industry skills should be encouraged through professional/vocational trainings so that employees can perform better and contribute to the enhanced competitiveness of the company, thereby helping the latter sustain decent levels of employment locally across the EU.

Table 5: Level of qualifications (primary, secondary or tertiary education) of food and drink sector employees as a % of total sector employment in some EU countries

	Primary education	Secondary education	Tertiary education
Czech Republic	17	78.5	4.5
Denmark	37	45	13
Estonia	45	44	11
Germany	19.5	59.8	3
Ireland	14	48	22
Norway	32.8	78.5	9.8
Portugal	50.5	41.5	8
Spain	38.8	19.6	41.6
UK	12	38	20

Source:
FoodDrinkEurope national federations, 2012.

BOX 2: Matching skills and jobs: A brief overview of EFFAT and FoodDrinkEurope's research project on the theme of "Sustainable employment and competitiveness: Meeting the challenges of the labour market in the EU food and drink industry"

The project aims to:

- Get an updated economic analysis of the sector as well as an overview of the demographic structure of the workforce employed in the EU food and drink industry.
- Identify the skills and competences currently required in the sector and seek to anticipate the qualifications that will be needed by employees in the next 10-15 years who want to pursue a career in the EU food and drink industry.
- Collect good practices and examples of successful initiatives implemented within EU food and drink companies to secure access to quality employment and training for young people as well as to ensure the up-skilling, mid- and long-term employability of workers, including ageing employees.

Once the analysis is completed and good practices gathered and elaborated, EU food and drink industry social partners, EFFAT and FoodDrinkEurope, will share the findings and disseminate them through a joint action among target groups and relevant stakeholders to ensure a wider dissemination of the information across the industry and to improve the social inclusion and fluidity of the labour market of the sector.

BOTTLENECKS TO RESEARCH AND INNOVATION

Levels of investment in R&D in the EU are already low compared to other manufacturing subsectors and have fallen further during the economic downturn.

Nanomaterial definition and food labelling: An example study of a burdensome regulatory framework in the EU

The context

Nanomaterials are a tool for innovation. In 2011, the Commission²⁰ committed to implement a number of significant adjustments to the definition of “nanomaterial” for food and food ingredients, however, this has not been done successfully.

FoodDrinkEurope recommendation

FoodDrinkEurope calls for a solution to be put in place at least nine months in advance of the date of entry into force of the new labelling provisions set out under the EC Regulation on food information to consumers, due to take effect in December 2014. In FoodDrinkEurope’s view, the basis for the future definition must be that an engineered nanomaterial is a material which was not used for food production before May 1997, and/or which is intentionally produced to contain nanomaterial particles. Moreover, international definitions also deserve further consideration²¹.

BOX 3: A success story in encouraging SMEs to participate in publicly funded R&D activities

Most SMEs in the EU food and drink industry face endless problems regarding the introduction of innovative products and processes. SMEs, although aware of the importance of innovation, have limited organisation and resource capacities, and lack the necessary managerial competencies, experience and strategic vision to take part in such opportunities. For publicly funded activities, SMEs often consider that (i) the project application and reporting systems, (ii) administrative procedures, and (iii) payments/prepayments are complicated but quite often, delayed.

Conscious of the importance of R&D investments for the competitiveness of its sector, FoodDrinkEurope has considerably invested over time in encouraging, in particular, SMEs to participate in publicly funded R&D activities. These efforts are now starting to pay out for firms. A case in point is the Prometheus project²², a 3-year (2011-2014) Commission funded project in the context of the FP7 Research framework. Building on previous EU projects HEATOX and ICARE,²³ Prometheus aims to help the EU food and drink industry reduce consumer exposure to food processing contaminants without affecting food quality or microbiological safety. The project’s consortium has eight research organisations and six industry partners (including 4 SMEs, 1 large company and FoodDrinkEurope). The project aims to improve the competitiveness of food companies, by anticipating future contamination regulations, and help it to innovate by implementing new technologies in order to better control the safety and overall quality of their products.

²⁰ Commission Recommendation 2011/696/EU.

²¹ As stipulated in Article 18(5) of Regulation (EU) 1169/2011.

²² http://cordis.europa.eu/search/index.cfm?fuseaction=proj.document&PJ_RCN=12003352

²³ <http://heattox.org/> ; <http://www.ist-world.org/ProjectDetails.aspx?ProjectId=1c43af1173f74577b83cd2ce05f3c20e&SourceDatabaseId=8a6f60ff9d0c4439b415324812479c31>

Growth and competitiveness, both in the EU Single Market and globally, require effective regulation which does not create cumbersome red tape and legal uncertainty for companies.

The context

The highly-regulated business environment in the EU creates several challenges for food and drink operators, often leading to a lack of clarity and predictability in companies' business decisions.

FoodDrinkEurope recommendation

FoodDrinkEurope calls for the completion of the Single Market for food by emphasising the importance of robust impact assessments elaborated both ex-ante and ex-post and ensuring that all EU legislative proposals affecting the sector are subject to a "competitiveness proofing check".

Robust impact assessments elaborated both ex-post and ex-ante, including competitiveness proofing

The context

Considering the Commission's plans to further improve the quality and relevance of EU legislation²⁴ and to bring the latter into line with the EU2020 Strategy's flagship initiatives²⁵, two key actions for Europe's industrial competitiveness are envisaged:

1. The ex-post assessment "fitness check" of existing legislation aimed at reducing the cumulative effects of legislation in order to cut unnecessary additional costs for businesses operating in Europe.

FoodDrinkEurope recommendation

FoodDrinkEurope welcomes the choice of the agri-food sector to be one of the four strategic sectors to be assessed by the Commission and is looking forward to the outcome of the use of the Fitness Check Pilot exercise at the end of 2012. EU food and drink companies believe that these checks will prove useful in future.

2. "Competitiveness proofing", i.e. an ex-ante analysis of the impact on the competitiveness of a policy. The purpose of this toolkit is to help EU services analyse the impact of a new legislative proposals on a particular sector's competitiveness as part of the impact assessment phase when contemplating a new piece of EU legislation.

FoodDrinkEurope recommendation

FoodDrinkEurope welcomes the creation of these tools as key instruments to help avoid situations whereby a regulatory burden impacts on food and drink companies in the EU. FoodDrinkEurope believes the High Level Forum provides a natural arena in which to coordinate this work on policies affecting Europe's food sector.

²⁴ COM(2010) 543 final.

²⁵ Flagship initiatives under the EU2020 Strategy (http://ec.europa.eu/europe2020/index_en.htm) are: Smart growth: Digital agenda for Europe, Innovation Union, Youth on the move; Sustainable growth: Resource efficient Europe, An industrial policy for the globalisation era; Inclusive growth: An agenda for new skills and jobs, European platform against poverty.

The need for a Single Market for food

Completion and harmonisation of the Single Market for food should be achieved through (i) better implementation and enforcement of EU rules at the national level (ii) and by accelerating the decision-making process.

(i) Better implementation and enforcement of EU rules at national level.

1. Rapid Alert System: RASSF

The context

The Rapid Alert System is a network involving Member States, the European Commission and, where necessary, EFSA to exchange information on direct or indirect risks to human health from food or feed. The exchange of information should ultimately lead to appropriate risk management actions being taken by the Member States. The Rapid Alert System for Foodstuffs and Feedstuffs (RASFF) is operated by the European Commission (DG Health and Consumers).

FoodDrinkEurope recommendation

FoodDrinkEurope fully supports the need to enhance consumer confidence in the safety of the food supply chain. The proper functioning of the RASFF is therefore crucial in facilitating appropriate risk management actions by the Member States and food business operators. FoodDrinkEurope remains concerned that consistency of approach/risk assessment across the EU is not at equal levels. Furthermore, to ensure that this system can achieve its objectives, the food business operator concerned by a particular risk should be involved at the earliest possible stage, even before an alert is issued by the Commission.

BOX 4: Food industry suggestions to improve the functioning of the RASSF system

It is important not to overburden the RASFF system and to avoid falsely attributing responsibility to a producer, tarnishing the company's reputation if the source cause of a potential risk of a food to human health is not absolutely clear. The same stands for the confidence in the functioning of national food safety control systems.

FoodDrinkEurope has outlined 13 concrete suggestions on how the RASSF system could be improved:

1. Relevant Competent Authorities should share key information which lead to the alert with the food industry so as to prevent creating a situation where, on the one hand, there may be public alarm but, on the other, food businesses have insufficient information to put in place effective investigations and mitigation plans.
2. The seriousness of risk should be clearly defined; a noncompliance with legislation does not necessarily lead to a serious risk to human health, which should be the basis for issuing RASFFs, according to our understanding.
3. The European Commission should have clearer roles and powers as the central management body of the alert, it being the authority ultimately responsible for it.
4. The obligation of a formal "closing" of an alert should be established, as well as its communication to the stakeholders via the RASFF web.
5. The European Commission should be able to assess the notification made by a Member State, and decide its withdrawal if no sufficient information is provided, if no risk analysis is provided or if the legal basis is non-existent.
6. European Rapid Alerts should indeed only be issued if more than one Member States is involved.

7. Any alert not following the established channels and procedures should be prevented. Furthermore, the communication of such alerts to the public should be prevented so as to avoid unnecessary alerts and possible economic damage.
8. EFSA's role throughout the alert process should be detailed.
9. A RASFF Committee should be created involving European Commission and national authorities that should be aware of the alerts in order to assess the necessity of analysis, to work on a continuous improvement basis and to improve coordination and procedures. In the event that more than one Member State is involved, an official report could be requested which should include: identification of the alert, analysis of the management and development of the alert, the level of compliance of the procedures and norms of all actors (public and private) and, if necessary, suggestions for improvement. This report should have an official character and legal consequences.
10. A RASFF consultation committee should be created and managed by DG Health and Consumers. It should involve delegates from industry, producers, commerce and consumers. It should aim at inform the public opinion about the management of the alert.
11. An annual report on the functioning of the RASFF system should be introduced and be sent to the Council and European Parliament.
12. The Regulation should be completed with an annex in which a common procedure for alert management for all Member States should be detailed. This would ensure: a high level of food safety and consumer protection, detail the common rights and obligations whilst not disrupting the internal market or create unnecessary barrier to inter-EU trade.
13. The key elements to be included in such a procedure should be:
 - The conditions for the evaluation of the alert, its importance/ seriousness, the true traceability of the product, its withdrawal from the market and/ or its destruction.
 - The condition to carry out analysis, counter analysis.
 - The obligation of collaboration of all competent authorities and operators rules for communication to the general public.
 - The support role of national food safety agencies.
 - The possibilities and conditions for elaborating official reports for alerts that occur solely in one MS.
 - This report would have an official character and legal validity. The report could be requested by interested operators.
 - Clear identification of the legal basis (breach of which European legislation led to the RASFF).

2. Bisphenol A (BPA)

The context

The European Food Safety Agency (EFSA) has performed four thorough assessments of BPA in a timeframe of five years recently. These assessments found that BPA is safe for use in products coming into contact with food. In spite of this, some EU Member States are developing national specific measures, aiming at restricting the use of BPA-based products in different food contact applications. In the light of the Opinions of the European risk assessor, EFSA, such restrictions have no scientific justification.

FoodDrinkEurope recommendation

Together with the food packaging value chain and raw material producers, the food industry urges the European Commission and National Authorities to follow the EU risk assessment agency's advice (i.e. of EFSA) and to act accordingly.

3. Health claims

The context

While the adoption of the EU list of permitted Article 13.1²⁶ health claims and finalisation of the ‘further assessment process’ have provided more legal clarity for food business operators, some uncertainty remains as to the approach to be adopted for the assessment of such claims which are still ‘on hold’, including claims related to botanicals. This legal uncertainty prevents food business operators from further planning and investing in R&D activities in the EU market, thus affecting the competitiveness of the EU food and drink industry. Moreover, despite the publication of specific guidance for applicants on submitting health claims, complexities and difficulties are experienced in the authorisation process. In particular, the process of “learning-by-doing” has been a costly exercise for food manufacturers in terms of R&D expenses – especially for SMEs in the business. Moreover, the Regulation also gives rise to diverging interpretations by EU Member States as regards the wording to be used when making a health claim. The differences are likely to result in a fragmentation of the Single Market as different rules will apply to the same claim when this is made on foods marketed in more than one Member State.

FoodDrinkEurope recommendation

Further efforts are needed for clarifying and streamlining the assessment and authorisation process, including pre-dialogue, that would give a better estimation of the scientific requirements needed in order to obtain a positive scientific Opinion for a claim from EFSA. Moreover, an EU-wide interpretation of the new legislation is needed in order to strengthen the food and drink industry’s competitiveness while ensuring the smooth functioning of the Single Market.

4. Food information to consumers

The context

The new Regulation (EU) 1169/2011 on the provision of food information to consumers is another case of fragmentation of the Single Market. In spite of the objectives to harmonise, simplify and create greater policy coherence in this complex area, voluntary national labelling schemes across the EU will undoubtedly result in a fragmentation of the Single Market. Further obstacles to the smooth functioning of the Single Market are likely to arise from the implementation of the Regulation, as Member States interpret its provisions in diverging ways. If no common understanding can be reached at EU level, this will result in different information being made available to consumers across the EU, and, at the same time, will preclude economies of scale in production lines for food manufacturers.

FoodDrinkEurope recommendation

Efforts are needed to provide a single EU-wide understanding of the new legislation to ensure its uniform implementation and to prevent any distortions of competition. FoodDrinkEurope’s Guidance on the provision of food information to consumers might constitute a useful tool to achieve these objectives.

(ii) Accelerating the decision-making process.

5. Food fortification

The context

Despite the initial timeframe for adoption of a European Commission proposal setting conditions of use for maximum amounts for fortified foods in the EU as part of Regulation (EU) 1925/2006 on the addition of vitamins and minerals and certain other substances to foods, no proposal has been brought forward as yet. This delay of almost four years has led to the absence of harmonised EU rules and the subsequent application of national provisions leading to a fragmentation of the Single Market, adding significant costs for manufacturers.

FoodDrinkEurope recommendation

Food manufacturers call for a veritable Single Market in fortified foods without delay.

²⁶ New Commission Regulation (EU) 432/2012.

The context

The concept of sustainability requires the integration of its three pillars – environmental, social and economic – in a holistic manner. For food and drink products, a coherent policy on sustainability in the EU must take into account essential aspects such as trade and competitiveness, safety, health, quality, the environment, functionality, convenience and other societal concerns.

FoodDrinkEurope recommendation

It is vital that the upcoming European Commission Communication on the sustainability of food becomes a coherent strategy covering each of these aspects by engaging all actors along the supply chain on an equal footing and supporting them in improving R&D, eco-innovation, technology and knowledge transfer. This will result in better product performance along the life-cycle and support the transition towards a more resource-efficient and competitive EU economy. All actors along the chain, including consumers, share a responsibility to help bring this process about.

Objectives, achievements and recommendations of the Food SCP Round Table

The context

The European Food Sustainable Consumption and Production (SCP) Round Table is an initiative that is co-chaired by the European Commission and food supply chain partners and supported by the UN Environment Programme (UNEP) and European Environment Agency. The European Food SCP Round Table's unique structure, with participation of all food supply chain members at European level, on an equal footing, enables it to take a harmonised, life-cycle approach and facilitates an open and results-driven dialogue among all players along the food chain. The European Food SCP Round Table's vision is to promote a science-based, coherent approach to sustainable consumption and production in the food sector across Europe, while taking into account environmental interactions at all stages of the food chain.

FoodDrinkEurope recommendation

The food and drink industry believes that all environmental assessments should be outcome-based and scientifically reliable, hence supports the harmonisation of environmental assessments of food and drink products within the framework of the European Food SCP Round Table.

All initiatives within the EU on the assessment and communication of the environmental performance of food and drink products should be in line with the deliverables of the Round Table, such as the Guiding Principles, the Environmental Assessment of Food and Drink (Envifood) Protocol and the Report on 'Communicating environmental performance along the food chain'. Doing so should result in better consumer understanding through harmonised, environmental assessments and in supporting the Single Market by ensuring the free movement of goods.

Further recognition of the work of the Round Table by the European Commission is needed particularly to set up a governance system in cooperation with the other members of the Round Table to ensure the uptake and future update of the SCP Round Table methodology that has been agreed in line with scientific developments. FoodDrinkEurope supports the Commission taking initiatives to explore the possibilities of communication of environmental information and has worked together with the Commission and other stakeholders within the Round Table to develop guidance in this area entitled, "Communicating environmental performance along the food chain".

EXTERNAL COMPETITIVENESS: INCREASE TRADE OPPORTUNITIES

As the largest food and drink global exporter, European food and drink companies exported a total of 76.2 billion products in 2011.²⁷

An EU Industrial Policy for food and drink, supporting the competitiveness of the sector in the global arena, should be designed in a way so that it:

1. Allows the food and drink industry to maintain its competitive advantage in agri-food production towards both traditional and emerging competitors;
2. Goes hand in hand with an EU Trade Policy that creates new opportunities and ensures the respect of international standards by EU commercial partners; and
3. Helps SMEs to grow and become more competitive, both in the EU market and internationally.



²⁷ Eurostat Comext, FoodDrinkEurope calculations.

Trade negotiations

The context

Export expansion is one of the key sources of growth for any industry. With the percentage of wealthy populations in emerging countries growing, the EU food and drink industry should be equipped to respond to the new demand for European quality products that this generates. EU negotiating strategies must seek to eliminate tariffs for EU exports and facilitate trade through the implementation of internationally recognised standards in the countries with the highest trade expansion potential.

FoodDrinkEurope recommendation

A strong multilateral trading system is of utmost importance and a meaningful multilateral agreement in the WTO would be the most efficient solution for opening markets. In the present circumstances, it is nonetheless important for the EU to achieve its bilateral strategy. In the context of an increasingly dense network of bilateral and regional agreements throughout the globe, the EU must keep pace with its competitors.

The EU food and drink sector gained significantly from the entry into application of the EU-Korea Agreement last year and looks forward to the conclusion of other significant EU trade deals still pending. In particular, prospective negotiations with Japan and South Asian partners can bring considerable advantages to EU food and drink producers in the future.

Market access and promotion of international standards in third countries

The context

When exporting to third countries, food and drink producers often face requirements that diverge from internationally agreed standards. Such measures generate additional administrative burdens, extra costs and, as a result, discourage trade or amount to fully-fledged trade bans. In many cases, measures differing from international standards violate WTO commitments.

FoodDrinkEurope recommendation

The promotion of standards should be considered an important element of any trade relation. In particular, the Commission should leverage full use of its ability in this area offered by bilateral trade agreements. Promotion of international standards should be prioritised for the negotiations with southern and eastern neighbours, with the Mercosur and ASEAN countries²⁸.

²⁸ Mercosur: Argentina, Brazil, Paraguay, Uruguay and Venezuela;
ASEAN: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.

Promoting European agri-food products

The context

The EU food and drink export strategy must include a more ambitious Promotion Policy for EU exports. This tool has the potential to help increase the export capacity of Europe's 271,000 food and drink SMEs, many of which face difficulties in accessing extra-EU markets. The EU's Promotion Policy can help to capitalise on the positive image of European agri-food products worldwide and communicate the key attributes of European foodstuffs including diversity, tradition, high quality and safety standards, towards traders and consumers in third countries.

FoodDrinkEurope recommendation

FoodDrinkEurope welcomes the priority that has been given to the reform of the EU's Promotion Policy and requests for its further adaptation to food operators' needs and to present market conditions. The Commission Communication on promotion, released in March 2012, presents a positive step forward. FoodDrinkEurope is pleased that a number of issues identified as essential for food business operators to improve existing Policy in this area have been taken up in the Communication. These include:

1. Extending the scope of the Policy to include more eligible processed food products;
2. Simplifying administrative procedures, in particular for multi-country programmes;
3. Recognising the strategic importance of brands, especially in third countries; and
4. Considering the possibility for private companies to propose programmes.

FoodDrinkEurope looks forward to the inclusion of these considerations in the forthcoming EU legislative proposal.

Trade instruments for better access to raw materials

The context

The EU food and drink industry relies on adequate supplies of safe, high quality, agricultural raw materials, part of which need to be imported. This creates problems regarding an unavoidable presence of traces of not yet approved GMOs in imports that require a timely EU internal regulatory measure without delay (see p.25). At the same time, security of supply also depends hugely on trade-related measures, such as export restrictions and tariff suspensions, which can be applied unilaterally by the EU's commercial partners and by the EU itself.

FoodDrinkEurope recommendation

Creating stricter international disciplines on export restrictions should remain a priority. Decisions to introduce export restrictions should not be taken without consideration by an appropriate multilateral body and without the support of sound quantifiable provisions of domestic food shortages. Moreover, the temporary nature of such measures should be respected. Considering the implications of export restrictions for food security, WTO partners should seek to agree on measures to enhance existing insufficient provisions despite the general deadlock in multilateral trade negotiations.

In addition, considering the potential impact of EU tariffs on agricultural raw materials on the competitiveness of Europe's food and drink industry, the EU should ensure the continuation of the tariff suspension system. The objective of tariff suspensions is to strengthen the EU's production capacity. This implies exemption from import duties or duty reductions on imports of raw materials for processing in the EU. The EU food and drink industry should be regularly consulted, with regard to potential changes to the system, to allow for greater long-term predictability of import costs for operators.

Internationalisation of SMES

Helping SMEs to benefit from access to foreign markets.

The context

The benefit of access to foreign markets is still beyond the reach of many small and medium-sized companies (SMEs), which represent 99.1% of the EU food and drink sector. For this reason, FoodDrinkEurope welcomes the Commission's efforts to support SMEs in their efforts to become more internationalised.

Public support remains essential in order to:

1. Create favourable export conditions by eliminating barriers to trade;
2. Facilitate access to trade finance (export credit and insurance);
3. Ensure a legal framework favourable to export-oriented clusters and consortia;
4. Support export promotion based on public-private collaboration;
5. Collect information about import requirements in third countries and convey it to the direct interlocutors of SMEs; and
6. Support non-profit organisations directly assisting SMEs where gaps in services provision are identified.

FoodDrinkEurope recommendation

It is important to avoid the proliferation of structures that would result in an unnecessary duplication of existing services. Thus, FoodDrinkEurope welcomes the Commission plan to identify both the gaps in services currently available and potential needs for specific EU actions. FoodDrinkEurope also supports the idea of a single comprehensive internet portal dedicated to providing practical information on export procedures, product requirements and opportunities in third markets. Information pooling between Member States and across European diplomatic networks, as well as raising awareness of the type of website mentioned above towards organisations directly assisting SMEs and SMEs themselves, could provide a solid basis for the future success of such an initiative.



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