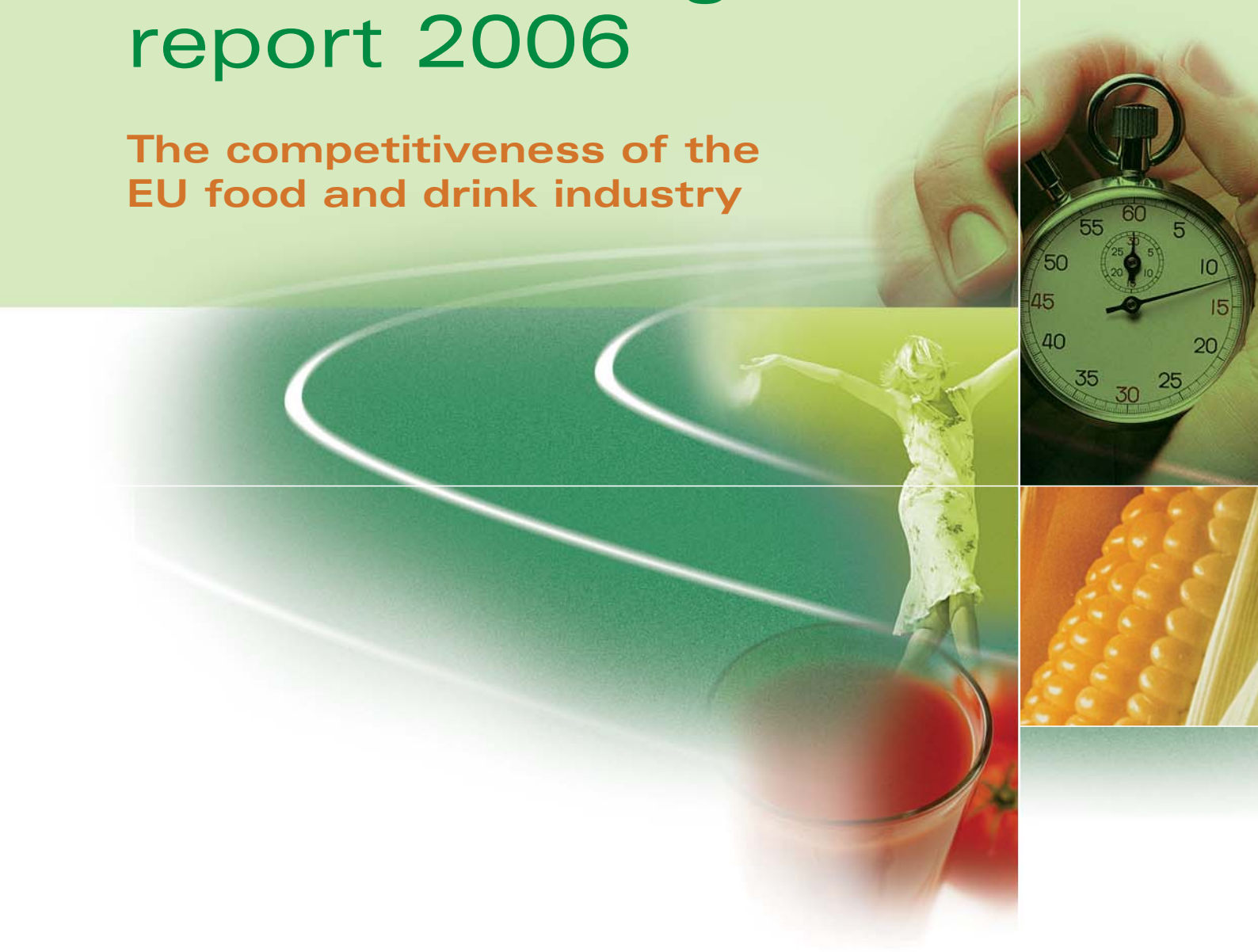
CIAA benchmarking report 2006

The competitiveness of the EU food and drink industry



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

The CIAA is the voice of the European food and drink industry - leading manufacturing sector, major employer and exporter in the EU.

CIAA's role and mission is to represent the food and drink industries' interests at the level of both European and international institutions.

CIAA membership is made up of:

- 25 national federations, including 3 observers;
- 32 EU sectoral associations;
- 22 major food and drink companies.

This report presents EU25 data unless otherwise specified.

Foreword

Brussels, May 2006

This benchmarking report on the competitiveness of the European food and drink industry is CIAA's input to the annual review of the Lisbon strategy aimed at driving the EU towards becoming the most competitive knowledge-based economy in the world. It reviews the progress being made, or not, in one of the major pillars of the European economy and provides suggestions for necessary actions that will allow the food and drink sector to contribute to the Lisbon agenda.

This year's Spring European Council held a first examination of the agenda following the mid-term review of the Lisbon strategy in 2005 and the fundamental re-focus on growth and employment, simplification and national ownership via national action plans. European leaders agreed to pursue action on four priority action areas, namely: research and innovation, SMEs and the business potential, reform of social systems and of energy policies. The EU food and drink industry supports the focus on these overall objectives and the need for strong commitments to be backed by action.

CIAA represents a sector that is largely composed of SMEs and welcomes the European Council's acknowledgement of their crucial role in creating growth and better jobs in Europe. CIAA also shares the recognition of the need to develop "comprehensive supportive policies for SMEs of all types, as well as a regulatory environment that is simple, transparent and easy to apply."

Companies in the food and drink industry are aware of the many strengths and weaknesses of their businesses. Products manufactured by them face a daily test vis-à-vis their competitive position on both European and international markets. Linking this business expertise with the European regulatory environment is essential in guiding policy makers in their decisions.

The report illustrates that the food and drink industry competitiveness is challenged by a number of clearly identified factors and developments which are already affecting business and risk having lasting consequences if they are not tackled rapidly. It further outlines the changes that are needed to invert this trend. We hope you will find this tool both a valuable support and an asset when it comes to understanding the forces that influence food and drink industry activity and the changes that are necessary to enhance its international competitiveness.

Finally, I would like to thank our members and particularly the experts of the CIAA competitiveness task force for their involvement and active contribution throughout the elaboration of this benchmarking report. Their company experience and business expertise has been essential in guiding the process, identifying relevant indicators and providing appropriate interpretation of data.

Jean Martin,
President of CIAA

TABLE OF CONTENTS

Scope and objectives of the CIAA benchmarking report

The European food and drink industry is the largest manufacturing sector in Europe with a turnover of 815 billion euro and it employs 4 million workers. The sector produces safe and high quality products to serve consumer needs and to respond to changing consumer preferences. As a result of globalisation, international challenges are increasing. Remaining competitive and achieving sustained growth is essential.

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

CIAA's Benchmarking Report 2006 sets out how European politicians and regulators can help the industry meet these objectives.

The CIAA Benchmarking Report 2006 is published a year after the 2005 "CIAA Reflection Paper on Food and Drink Industry Competitiveness" which stressed the urgent need to ensure increased R&D activities and innovation performance, developing a better, simpler and more proportionate EU regulatory framework and ensuring sustainable and competitive supplies of agricultural raw materials. These framework conditions demanded by CIAA were part of the key challenges identified as necessary focus in the mid-term review of the Lisbon strategy.

The re-launch of the **Lisbon strategy** at the Spring European Council in 2005, following the European Commission's communication "Working together for new growth and jobs. A new start for the Lisbon Strategy," has re-focused priorities on growth and employment and placed the main emphasis on knowledge and innovation, on making Europe a more attractive place to invest and work, and on shaping policies in support of social cohesion and human capital.

The new **EU industrial policy** adopted by the Commission in October 2005 is intended to complement the work that is undertaken at Member States' level. This new horizontal industrial policy aims at supporting a strong and dynamic industrial base. It includes seven new initiatives - on competitiveness, energy and environment, on intellectual property rights, on better regulation, on industrial research and innovation, on competitiveness and market access, on skills, and on managing structural change. While addressing common concerns, these initiatives will also allow giving sector specific priority.

As regards the **scope** of the CIAA Benchmarking Report 2006, it concentrates on specific concerns arising from the nature of the food and drink processing activity. It touches briefly on the relations with retail trade and distribution. However, the report does not expand on other horizontal industry issues regarding the necessary improvements required in employment conditions, high energy costs, tax relief and financial burdens. All of these costs affect industrial competitiveness.

The **objective** of the CIAA Benchmarking Report 2006 is threefold:

- it reviews the EU food and drink industry key competitiveness indicators;
- it identifies weaknesses and challenges to potential growth of the sector;
- finally, it sets out a number of recommendations that should address food and drink industry specific problem areas through clearly identified actions.

For the European food and drink industry to remain competitive, it requires European policy makers to create a stimulating business environment. Industry has to take up responsibility by making appropriate business decisions, embracing latest techniques and streamlining management. Improving competitiveness will contribute to a sustainable food and drink industry activity and to maintain valuable employment opportunities in Europe. It will allow companies to continue serving European consumers efficiently and responding even more rapidly to their changing needs.

Executive summary

The EU food and drink industry serves primarily and traditionally EU consumers with a large variety of products and has responded over the years to the growing demand for value added goods. Europe's cultural diversity and its deeply rooted food traditions are the foundation of the EU food and drink industry and a key asset for further industry development.

As the most important manufacturing sector in Europe, the food and drink industry is characterised by high fragmentation of its structure. Further, it is exposed to pressure from the increasingly concentrated and globally active retail sector, calling for action to find a more balanced framework for the relations between suppliers and retail.

Overall profitability has not been maintained at a sufficient level throughout the food and drink sector to keep and expand investment, notably in R&D. To maintain its position and improve its share on world markets the industry requires greater use of technical know-how and a considerable strengthening of its capacity for innovation.

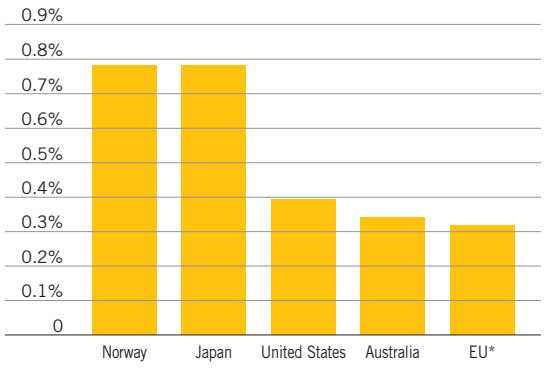
It is of fundamental importance for the European Union to be an attractive location for continued industry investments, rather than pushing industry to take advantage of trade agreements and relocate outside the EU to supply the EU and other markets.

In order for the European food and drink sector to remain competitive in the global market, it must preserve and improve its competitive advantage. This requires addressing problems of specific concern to the food and drink industries that are further addressed in the CIAA Benchmarking Report.

There is an urgent need to increase R&D investments in order to support innovation and promote a shift to higher value-added food production.

Investment in R&D reaches, on average, 0.32% of EU food and drink industry output and is constantly below the R&D spending of the food and drink industry in other developed countries. Even large EU-based companies spend per employee 45% of what non-EU food and drink companies invest in R&D. Most innovation indicators of the food and drink sector are below the manufacturing industry average.

Business expenditure on R&D as a percentage of output (various food and drink industries - 2003)



Source: OECD, Research and Development Expenditure in Industry, 2003.
(*) European Union: based on industry output and R&D expenditure of Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Spain, Sweden, UK.

Necessary action:

■ The 7th Framework Programme must maintain a high level of ambition and provide a higher share (11% instead of 5.5%) of EU R&D funds for the agriculture, food and biotechnology priorities and hence for the food and drink industry. Particular attention to SME involvement is essential, calling for adjustment of the procedures to their needs and capacity. EU R&D funds should be used to support food research that is health-,

quality- and safety-related as well as process-oriented with a view to generating high value-added products or processes aimed at better addressing consumer needs.

■ European Technology Platforms, such as the ETP Food for Life, are key to stepping-up innovation activity. Their capacity to provide the necessary framework for the establishment of public-private and private-private R&D partnerships and for ensuring the diffusion of knowledge will be essential for the future R&D activity in the sector; they need to be encouraged and supported by the Member States as well as by the European Commission.

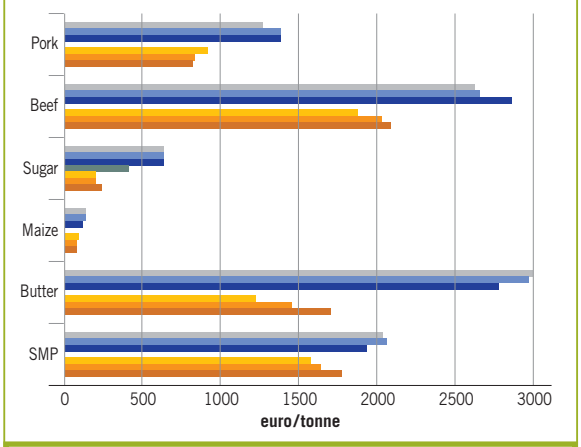
■ Administrative procedures need to be business-friendly and supportive of innovation, which calls for improvement of approval procedures such as for the novel foods and additives legislation with a view to being rapidly adapted to technological development.

■ Member States need to take up their responsibility in supporting private R&D investments along the priorities set at European level.

The cost factor remains a concern of exporters calling for access to competitive agricultural raw materials.

The EU agricultural reforms that are currently implemented or that will be implemented in the coming years will make EU agricultural raw materials overall more competitive. However, despite these reform processes, access to competitive agricultural raw materials remains uncertain and poses a particular problem, notably to exporters.

Price developments for main agricultural inputs in the EU and in other markets



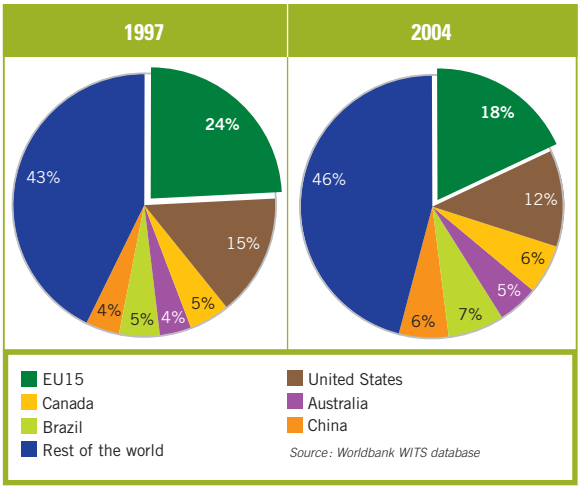
Necessary action:

■ Further to some market organisations that are awaiting reform, a review or a deepening may have to be considered in certain sectors where reforms have already been implemented.

■ If agricultural reform processes do not provide access to competitive agricultural products, it will be essential to ensure that exporters can make use of alternative instruments. Systems like the inward processing - that allow importing raw materials at world market prices for processing and re-export after manufacturing - must be operational and easy to use.

A multilateral agreement is still a priority but trade policy will require more targeted action to improve access to third country markets for EU food and drink exports.

The European market share of the global export market in food and drink products has been shrinking over the last ten years much to the benefit of other exporters such Australia, New Zealand, China and Brazil.



Necessary action:

■ The WTO agreement is expected to provide a better framework to discipline agricultural support and to increase trade opportunities for food and drink industry products and needs to be concluded by the end of 2006.

■ The bilateral process needs to be pursued in key regions like Mercosur, the Mediterranean and the Asian region, where the EU has particular interests, where markets register strong growth and where trade agreements with other trade partners risk putting the EU at a disadvantage.

■ Non-tariff barriers to trade, including veterinary and hygiene measures, food legislative provisions, insufficient or lack of

protection of geographical indications and discriminatory taxes need to be addressed in a more targeted way.

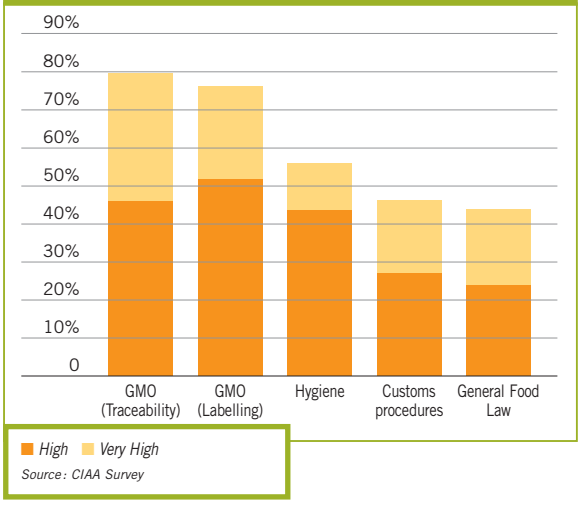
■ The food and drink export strategy must include a more ambitious export promotion activity. This requires the introduction of more flexibility, the simplification of the project management and the extension of the product scope to value added foods.

■ There is a need to promote international standards, notably food related but also environmental standards to create a better level playing field. There are limits to higher costs that the EU can bear without lasting consequences on competitiveness and profitability.

The high level of administrative burden must be addressed in both a preventive and corrective way to reduce pressure and costs for companies.

EU regulations have become very specialised and complex and the excessive amount of prescriptive legal texts has considerably increased administrative burdens and costs of compliance to the detriment of companies and particularly SMEs.

Survey results 2006: % of European food and drink processors associating the following European legislation with a high or very high administrative burden



Necessary action:

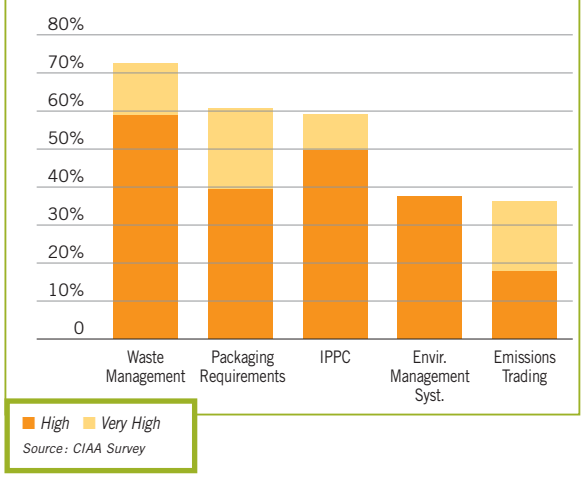
■ The Commission's better regulation approach applied to existing legislation needs to be actively pursued and must lead to concrete results. Further to certain initiatives that have been launched, for example with regard to the Community customs code or to food additives, action will still be necessary with regard to other areas, such as on waste management, on novel foods and on labelling provisions. It should lead to a review, simplification, streamlining of legislation that has been identified as negatively affecting the level-playing field, posing an unnecessary risk to business operations and creating disproportionate burdens.

■ In some areas, EU harmonisation is still necessary in overcoming national differentiation of the regulatory framework, such as in the area of claims and addition of nutrients. Policy makers should regulate only when necessary and consider alternatives to legislation. When developing new legislation, they must carry out an impact assessment and ensure that laws are:

- sufficiently clear to prevent diverging interpretation,
- practically achievable and enforceable;
- introducing proportionate measures compared to declared objectives or risks;
- science-based;
- taking into account and avoiding divergence from existing international standards.

■ The internal market shows discrepancies and uneven implementation, which are a source of inequalities and inefficiencies. Strong Commission action is necessary to ensure enforcement of EU law as effectively as possible throughout the EU. Action is necessary with regard to the general food law, hygiene, packaging and IPPC (Integrated Pollution Prevention and Control).

Survey results 2006: % of European food and drink processors associating the following European environmental requirements and procedures with high or very high costs



II The EU food and drink industry

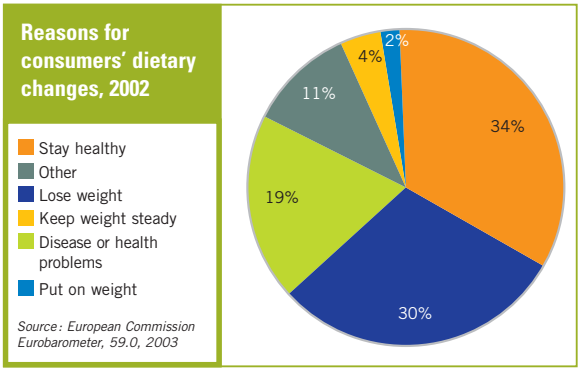
1 Dynamics of the value chain

European food and drink industry companies have to compete in an integrated food chain that is subject to considerable change. Every change in one of the different elements of the food chain affects the other elements. Hence, performance and new trends in consumer, retail and primary sector challenges affect the food and drink industry. Global challenges exert pressure on all elements of this food chain, but due to fragmentation, certain players are more affected by shifts in power than others. Addressing the problem of dimension and of efficiency will be part of the responses to these challenges.

Consumer

In terms of volume the European market for food and drink products is mature, though in terms of value there is still growth potential for food and drink producers. As a result of a changing European population in terms of age and occupation, food and drink processors face constant changes in consumer demand. The increased health consciousness of consumers and their interest in the nutritional properties of food and drink is leading to the growth of foods with specific properties and nutritional characteristics.

Reasons for consumers' dietary changes, 2002



Source: European Commission Eurobarometer, 59.0, 2003

Products addressing specific health concerns are for example related to coronary health and cardiovascular disease, to bone and joint health, indeed to cancer. Over the next few years, heart healthy diets are expected to attract most consumer attention[1].

In Europe the compound average growth rate of sales between 2002 and 2007 of heart healthy products will increase by 7.1%. German consumers are the biggest purchasers of heart healthy products followed by UK consumers.

Although price also remains a key criterion for most purchasing decisions, pleasure, quality and convenience are driving factors of market evolution. Changing consumer lifestyles and smaller households are increasing focus on convenience and immediate availability. Higher out-of-house consumption, more interest in food or drinks that are easy to serve, easy to eat, easy to open, quick to prepare and portable are trends that will continue developing in future. For example, the compound average growth rate of prepared meals (between 2004 and 2009) is expected to be 4.5% in Europe compared to 2.1% in the US.

Agricultural production

The primary sector has experienced an important restructuring over the last few years, leading to a reduction in the overall number of holdings and an increase in average farm sizes. However, the sector remains highly fragmented.

Key facts on agricultural sector	2003
EU average farm size, ha	***20.7***
Number of holdings, million	***6.2***
Utilized Agricultural Area, million	***126.1***
Size of holding run by farmer younger than 35 years, ha	***31.3***

Source: European Commission

1. *Source: Business Insights. Future Health Trends in Food and Drinks. Growth opportunities in daily dosing, GI, heart health, right fats and food. Jessica Sadler. 2005*

Faced with the Common Agricultural Policy (CAP) reform and international commitments, the sector is expected to react increasingly to market signals. In order to increase confidence in agricultural production, legislative requirements have been made more stringent over the last few years, a trend that has been confirmed with the 2003 CAP reform and the need to comply with essential food safety and environmental requirements.

Following periods of abundant supply in the past, there is no certainty as to the primary sector's future ability to supply food and drink industries at appropriate quantities and prices. Non-food uses, including energy uses, have already increased demand for EU agricultural products. Considering the targets set by the EU Directive of 5.75% of fossil fuel replacement in the transport sector and the important non-food growth potential, demand is likely to increase exponentially and may increase competition between the food and non-food uses of limited arable land.

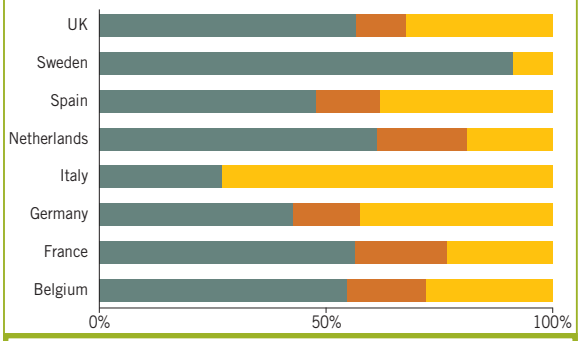
Retail

Retailer consolidation has been considerable in recent years and is still in progress across Europe. Although food retailing varies greatly from one EU Member State to another, all countries are seeing a trend towards larger stores.

Sweden is the most consolidated market, with 91.7% of market share belonging to the leading 5 retailers in the country. The Netherlands, the UK, France and Germany all have very consolidated markets with 61.5%, 56.7%, 56.6% and 42.7% of the market taken up by the top 5 retailers, respectively. In these markets there is more pressure on prices, larger retailers are changing their product offering by introducing more non-food items and larger retailers are developing and increasing private label share.

Globally active retail-sector chains are increasingly pooling their purchasing power and are able to buy from any source to benefit from cost advantages at the expense of local manufacturers that have higher production costs.

Market share of the top 5 and top 10 retailers in Europe, (%), 2004

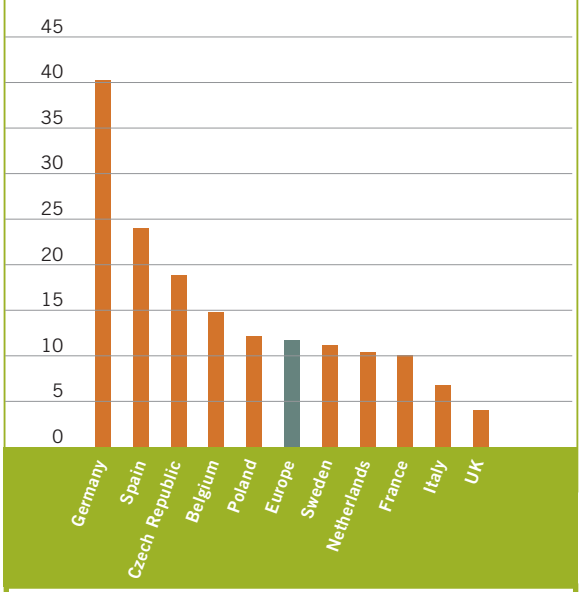


Source: Business Insights. "The future of European Food and Drink Retailing."

The discount sector has been most active in the European food and drink market since 2000. Aggressive market leaders continue to push further, and pressure retailers, forcing supermarkets to increase their offerings of budget private label ranges to maintain their share of sales. Retailers in turn, are continuing to exert pressure on the food and drink industry in an attempt to pass price pressure on to suppliers.

Discount strategies and the discount sector are in fact the fastest growing activity in Europe, with countries such as the UK, Poland and the Czech Republic expected to experience an increase in discounter presence.

% of discounters in various European Countries, 2004



Source: Business Insights. "The future of European Food and Drink Retailing."

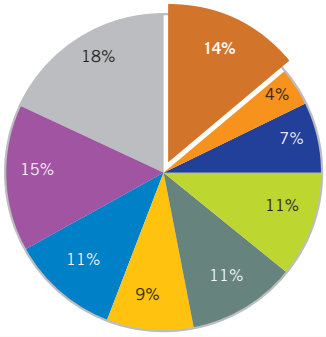
2 Facts and figures

The food and drink industry is a pillar of the EU economy

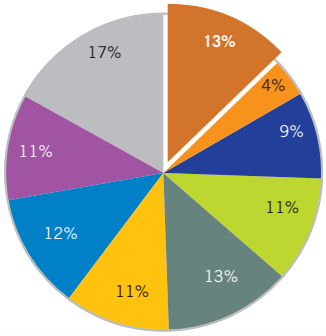
■ Accounting for 14% of the total turnover of the manufacturing industry and 13% of the total value added, the food and drink industry is of the same importance as the transport equipment industry and more important than the chemical and the electrical and optical equipment industry.

■ With 14% of the total employees in the manufacturing sector, the food and drink industry is the number one European employer.

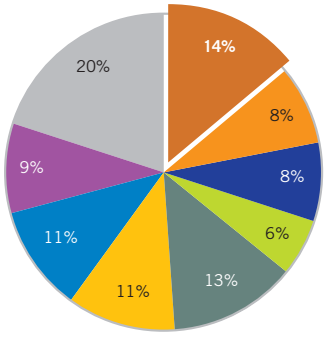
Turnover



Value added



Employment



■ *Food and drink* ■ *Textile Products* ■ *Paper and Pulp* ■ *Chemicals*
■ *Basic metals* ■ *Machinery* ■ *Electrical and optical equipment*
■ *Transport equipment* ■ *Other*

Source: Eurostat (Structural Business Statistics), EU25 (2003)
Note: the manufacturing sectors are defined at 2-digit level of the NACE Rev.1 (food and drink industry: division 15)

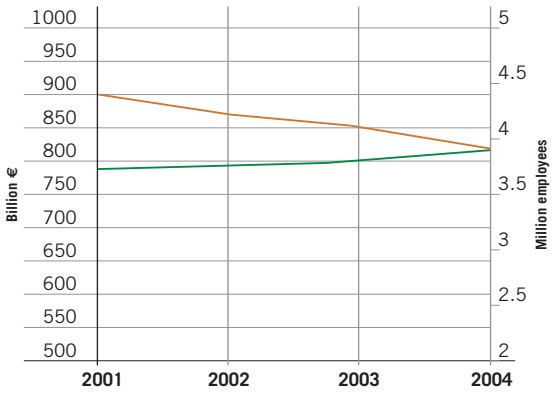
Leading position of the food and drink sector at national level

In several EU Member States, the food and drink sector features in the top 3 manufacturing activities in terms of turnover. Moreover, in at least 10 countries, it is ranked first. The sector has a key role in maintaining industrial activities across the EU territory. France, Germany, the UK, Italy and Spain are the leading producers of food and drinks in the EU, accounting for more than 70% of the total EU turnover.

A sector characterised by a modest but stable growth

In 2004, the food and drink industry turnover reached 815 billion euro. It registered a modest 2% increase compared to the previous year. It thus followed the trend observed over the past 10 years during which the food and drink industry experienced 1.8% average growth per annum. The food and drink industry employs 4 million workers in over 280.000 companies. The trend towards a reduction of the workforce is confirmed in 2004 with a 4.9% drop in the number of employees compared to 2003.

Evolution of turnover and number of employees in the European food and drink industry



— *Turnover*
— *Employees*

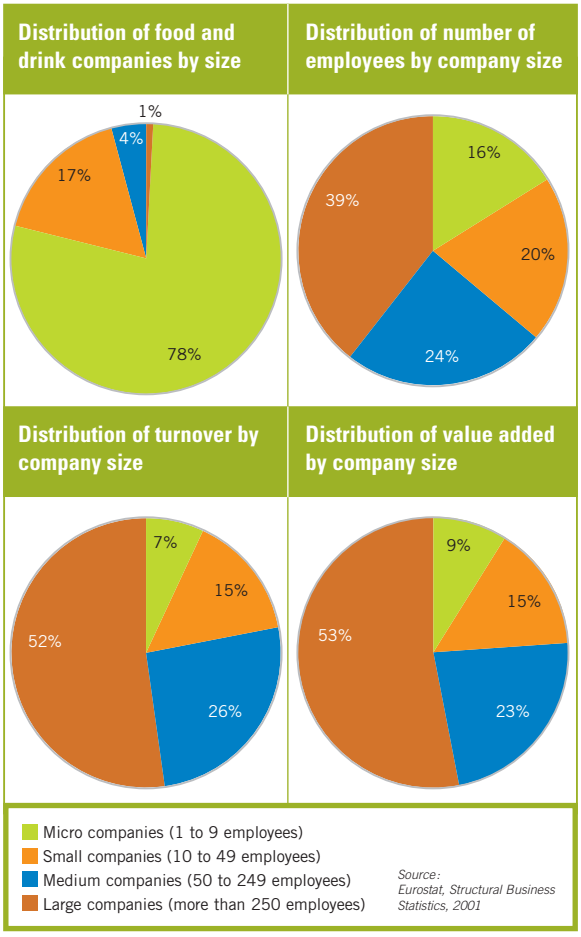
Source: Eurostat (Structural Business Statistics) and CIAA calculation

The European food and drink industry is (still) a net exporter

In the last ten years, the value of EU food and drink imports in relation to the level of EU exports has risen from 80% to 90%.

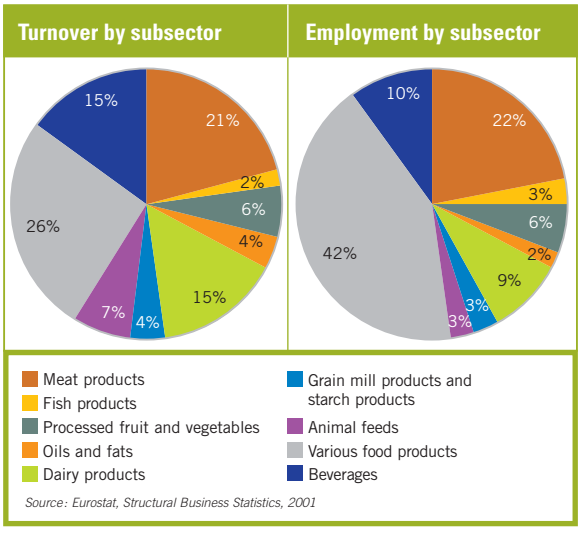
High fragmentation across the sector

The F&D industry is composed of a diverse range of enterprises, from SMEs (small and medium enterprises) to large operations. 99.1% of the food and drink companies are SMEs. These 280,000 SMEs employ 61.3% of food and drink workers and generate 48.5% of sectorial turnover.



Diversity is the main asset of the EU food and drink industry

The food and drink sector produces a wide range of foodstuffs. Food is part of the EU culture and tradition. Variety and diversity are essential assets of the EU industry. Four distinct sectors of activity stand out from the numerous others: beverages, dairy, meat processing industries and various food products (including goods like biscuits, confectionery, pasta, prepared meals, chocolate, etc.). They represent 77% of the total turnover and 84% of the total number of employees.



EU labour productivity is lower compared to other European industries

Labour productivity in the European food and drink industry is considerably lower than in most other industries.

Apparent labour productivity of the EU-15 food and drink industry versus other manufacturing industries, (1000€)

	2000	2001	2002
Textile industry	*28.7*	*29.2*	*28.8*
Food and drink industry	***36.8***	***40.2***	***40.2***
Manufacturing industry (average)	*44.6*	*45.1*	*45.3*
Automotive industry	*52.4*	*56.2*	*54.5*
Chemical industry	*83.7*	*84.1*	-

The profitability of European food and drink processors

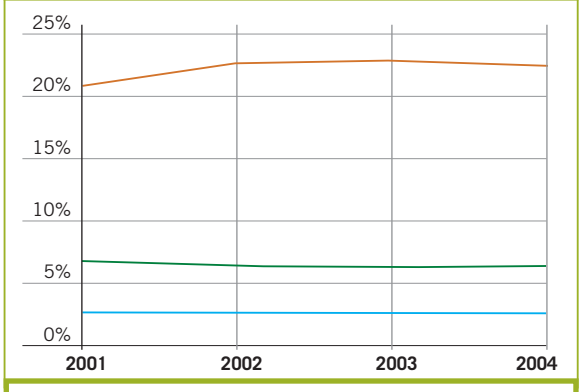
The profitability of European food and drink processors is not increasing sufficiently to remain competitive in the long run: SMEs are especially vulnerable in economic downturns.

The situation of SMEs is fragile: not only is the profit that they make on their sales low (for small companies this was only 2.59% of operating revenue in 2004), they also are less efficient in terms of procurement, production, sales and distribution processes and their returns on capital invested are lower, which jeopardises their growth.

Gross profit margins[2]

From the graph below, it is clear that large companies have higher gross profit margins than SMEs. Large companies make a higher profit on their goods sold. This means that large food and drink companies in the EU can spend more on other business operations such as R&D and marketing.

Gross margin of food and drink companies in the EU25



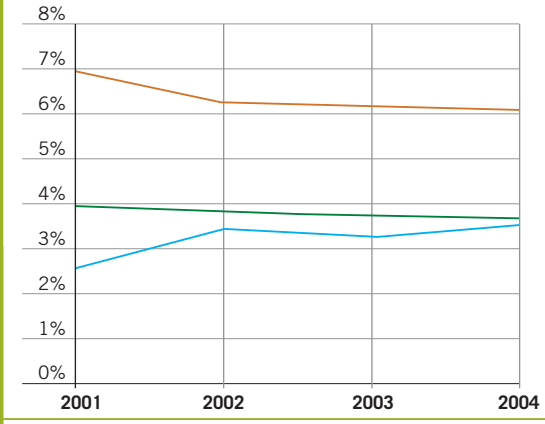
Source: Bureau Van Dijk, Electronic Publishing, Amadeus Database, CIAA calculations

The pressure on gross profit margins of small, medium and large companies reflects an increase in production costs that cannot be passed on to consumers in the form of higher prices. If this trend persists in the future problems facing the bottom-line will occur.

Earnings before interest and taxes (EBIT) margin[3]

The EBIT margin of large EU food and drink companies is remarkably higher than that of small and medium-sized companies, even though the gap is declining. The graph below suggests that large EU food and drink companies are able to command a higher price premium for their products or services in the marketplace than small and medium-sized food and drink producers and/or that they are more efficient than SMEs in terms of procurement, production, sales and distribution processes.

EBIT margin of food and drink companies in the EU25



Source: Bureau Van Dijk, Electronic Publishing, Amadeus Database, CIAA calculations

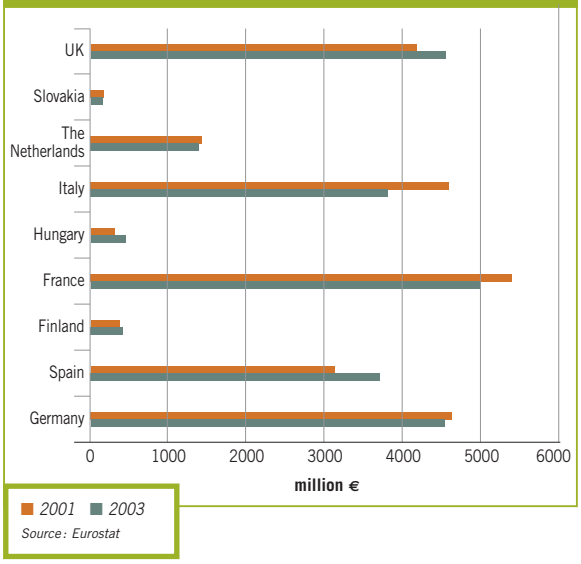
*2. Gross Profit Margin = (Gross Profit / Operating revenue) * 100*
*= ((Operating Revenue - Cost of goods sold) / Operating revenue) * 100*

*3. EBIT margin = (Earnings before interest and taxes / operating Revenue) *100*
*= (Operating profit/loss / operating Revenue) *100*
*= ((Operating revenue - Costs of goods sold) - Other operating expenses)/Operating Revenue) * 100*

Investment in EU food and drink companies

In recent years, gross investments in EU food and drink businesses have faced a slight downward trend in certain EU Member States (The Netherlands, France, Germany, Italy). Other Member States, like Hungary, Spain and the United Kingdom, have had the opposite development. Despite the apparent maturity of the food and drink sector, supply chain innovation, introduction of new styles of product and innovative product presentation continue to drive investment in the sector across Europe.

Gross investment in food and drink industry



European Investment Report (2005) of Ernst and Young provides a partial analysis of investment flows into Europe as a whole (including non-EU countries and foreign investment with intra-European FDI). According to this report, the food and drink sector has increased its share of registered investment projects as compared to other sectors from 4% in 2000 to 6.2% in 2004[4]. Although not providing information on investments in absolute terms, this seems to indicate that the European food and drink sector has not yet lost its attractiveness as compared to other sectors.

Counterfeiting of food and drink products in the European Union[5]

Brands are particularly important for the food and drink sector. 18% of companies sell branded products[6]. Until recently, the European food and drink industry was spared from counterfeiting, but lately a clear increase of cases was registered by EU customs. In 2004, counterfeited goods originated from Russia (13%), Ukraine (13%), followed by the Dominican Republic (9%), Nigeria (6%) and Argentina (4%).

In 2004, 53 cases were registered by EU customs and more than 4 million articles were seized (an increase of 197% compared to the previous year). Furthermore the share of food and drink products in the total of seized goods is growing. In 2003 food and drink represented only 1.64% of all seized counterfeited goods, while in 2004 they already accounted for 4.3%.

Considering the importance of brands for the food and drink sector counterfeiting should be monitored closely. The protection of brands at EU and international level is key in view of maintaining the European competitive advantage in high value added and up-market products.

Breakdown of counterfeited articles seized in 2003 and 2004 (million articles)

	2003		2004	
	Articles	% of total	Articles	% of total
Food stuffs, alcoholic and other drinks	***1.5***	***1.64***	***4***	***4.3***
Perfumes and cosmetics	*1.0*	*1.11*	*1*	*0.8*
Clothing and accessories	*2.6*	*2.9*	*8*	*7.6*
Electrical equipment	*0.5*	*0.58*	*4*	*4.1*
Computer equipment (hardware)	*0.1*	*0.09*	*1*	*0.8*
Audio CDs, games, software, DVDs etc	*32.5*	*35.77*	*19*	*17.9*
Watches and jewellery	*0.7*	*0.74*	*0*	*0.5*
Toys and games	*12.3*	*13.56*	*18*	*17.5*
Other goods	*6.4*	*7.03*	*7*	*6.5*
Cigarettes	*33.3*	*36.62*	*42*	*40.2*
TOTAL	**90.9**		**104**	

4. Source: Ernst & Young. European Investment Monitor. 2005 Report.
5. European Commission, DG Taxud.
6. Source: European Trend Chart on Innovation. European Sector Innovation Scoreboards, p.25-26 and CIAA calculations

III Competitiveness: challenge of the EU food and drink industry

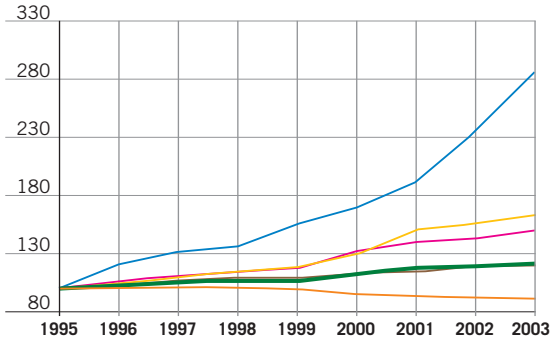
A - International competitiveness benchmarks

The analysis of key competitiveness indicators shows that the European food and drink sector is lagging behind. The situation with regard to production value, value added, labour productivity and export market share vis-à-vis its main competitors is deteriorating over time.

Slow growth of the total production value

The production value of the European food and drink industry grew at the same pace as the US over the last ten years, but clearly at a lower rate than many of its competitors. Emerging economies like Brazil registered a steep growth of food and drink production.

Evolution of the production value in various food and drink Industries (1995 = 100)

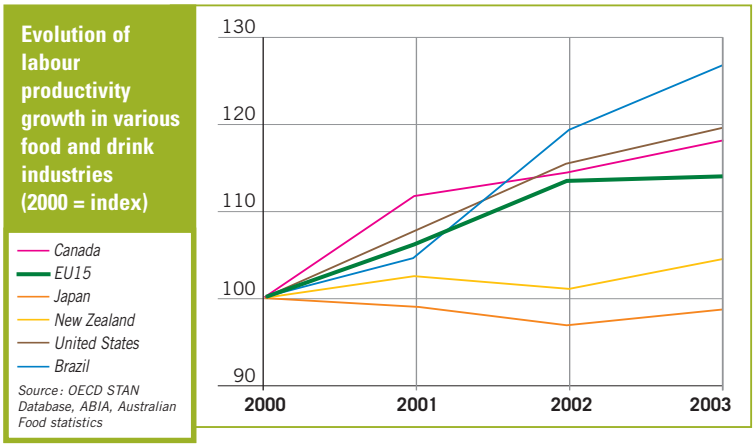


Source: OECD STAN Database, ABIA

Slower growth of labour productivity

Until 2002, labour productivity in the European food and drink industry rose at the same pace as its main competitors. Since 2002 labour productivity growth slowed down and the gap with the US increased even further. The strongest growth of labour productivity is noted in Brazil (27% between 2000 and 2004 compared to 16% in Europe).

Evolution of labour productivity growth in various food and drink industries (2000 = index)

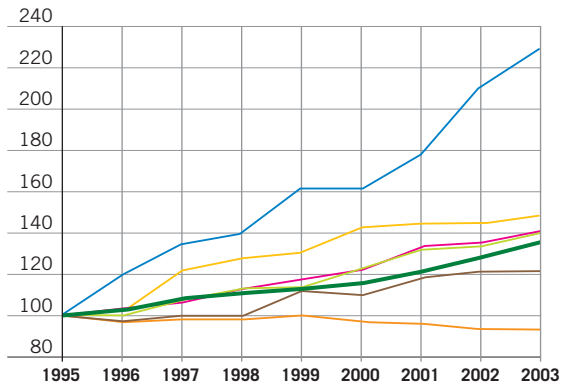


Source: OECD STAN Database, ABIA, Australian Food statistics

Constant growth in value added

The value added has increased in almost all food and drink sectors, due to the access to better technology and more efficient production techniques. The European food and drink sector performs slightly better than the American one, but worse than the Australian, Canadian and Brazilian food and drink processors. The graph shows the steep growth of the Brazilian food and drink sector which does not only result from an increase in production volume but also from a shift to higher value added products. This has an important impact on the competition in the global market for high value food and drink products.

Evolution of value added in various food and drink industries (1995 = 100)

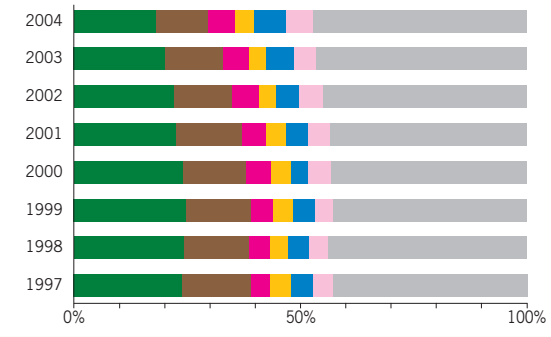


Source: OECD STAN Database, IBGE Contas Nacionais

Shrinking share of global exports

The European market share of the global export market in food and drink products has been shrinking over the last ten years much to the benefit of agricultural exporters like Australia, New Zealand, China and Brazil.

Shares of world food and drink exports



Source: Worldbank WITS database

B - EU food and drink specific benchmarks

The food and drink industry has the same concerns as other industries with regard to general business environment issues, such as employment conditions, taxes and financial burdens, relations with retail trade, distribution and costs of energy. However, these are not further examined in this report because priority is given instead to sector-specific issues that have a direct impact on the food and drink industry competitiveness and that can be addressed in particular at European level: R&D and innovation, agricultural inputs, international trade policy and burdens derived from Community legislation.

1 Knowledge industry: R&D and innovation

Importance of R&D for EU food and drink industry competitiveness

Investment in research and development (R&D) often leads to more efficient production and also improvements of food quality, compliance with standards and regulations, an improvement of safety and working conditions, the establishment of new products and markets, a reduction of production costs, and higher profitability.

R&D expenditure for advanced technology in the food and drink sector, as in other sectors, requires investment that many individual companies have difficulties in financing on their own. Research networks and pan-European initiatives are important tools to help meet this challenge. Equally important is a broad dissemination of the results to all segments of the food and drink sector and to all companies, regardless of their size.

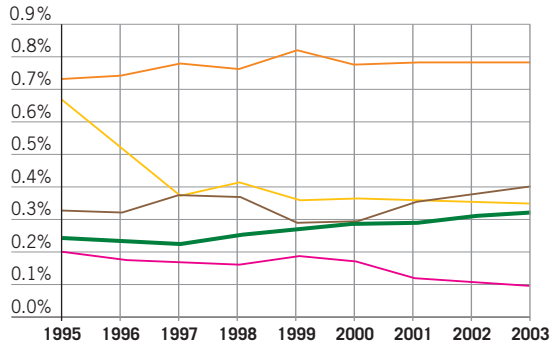
Increased innovation within the European food and drink sector is essential with regard to maintaining a competitive market advantage, and in order to maintain and indeed expand the European share in value added products on global food markets.

European R&D expenditure is lower than that of its main competitors.

Over the last decade R&D expenditure in Europe has been generally lower for almost all industries compared with that of their main competitors. Overall gross domestic expenditure on R&D amounted in 2003 in the US to 2.59% of GDP and in Japan 3.15% whereas in the EU25 this was only 1.92%[7].

In 2003, R&D as a percentage of industry output of the European food and drink industry was, on average, 0.32%, which is below the spending by the food and drink industries of its main competitors: the US (0.40%), Australia (0.35%) and Japan (0.79%)[8].

R&D expenditure as a percentage of industry output for food and drink industry in various countries



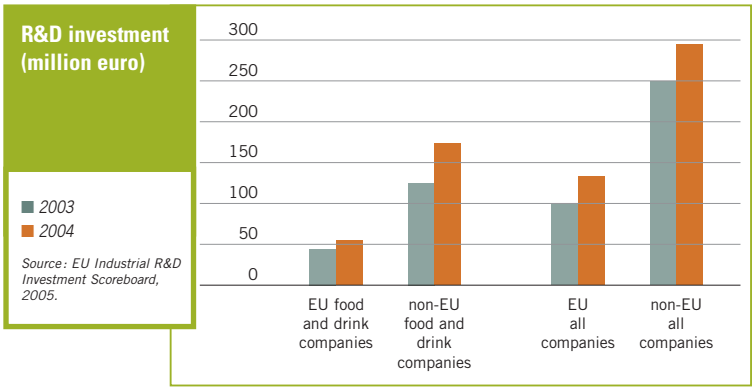
Source: OECD, Research and Development Expenditure in Industry, 2003.

(*) EU: based on industry output and R&D expenditure of BEL, FIN, FRA, GER, IRE, ITA, NL, SP, SWE, UK.

European food and drink companies, including large companies, spend less on R&D than other EU industries.

The large amount of SMEs active in the food and drink sector can partly explain low R&D expenditure by European food and drink companies compared to their main competitors and to other industry sectors. However, according to the EU Industrial R&D Investment Scoreboard*, even large European food and drink producers spend less on R&D than their non-EU competitors.

R&D investment (million euro)



Source: EU Industrial R&D Investment Scoreboard, 2005.

7. Source: OECD, Main Science and Technology Indicators, November 2004

8. Source: OECD, Research and development Expenditure in Industry, 2003

(*) The 2005 EU Industrial R&D Investment Scoreboard lists the Research and Development (R&D) investment of the top 700 EU and the top 700 non-EU corporate R&D investors, based on annual audited company consolidated reports and accounts.

In addition, R&D spending by European food and drink producers, as a percentage of net sales, is lower than that of their non-European competitors (respectively 1.7% and 2.0% in 2004). The average R&D expenditure per employee by the largest European food and drink industries amounted in 2004 to 3400 euro, while the largest non European food and drink producers spend on average 7500 euro on R&D per employee.

A survey among CIAA member companies highlighted that 48% of food and drink companies do not envisage expanding their R&D operations in Europe, 4% consider even closing down R&D activity.

Requirements to increase R&D spending

The 7th Framework Programme currently under discussion foresees a 350 million euro annual budget for the food, agriculture and biotechnology priority, corresponding to a 5.5% share in total spending over the next 7 years. These amounts are insufficient considering the priorities that have been set and disproportionately low compared to the size of the economic sectors involved. To make use of synergies, national R&D programmes should maintain the link with the European vision and priorities set and Member States should keep positive fiscal incentives in support of private R&D initiatives and investments.

Particular attention has been given in the current Framework programme to the involvement of SMEs in research projects with a clearly identified budget share and a target participation. Further efforts are required to stress the importance of innovation for SMEs and to ensure their strong participation in R&D activities.

The Community rural development policy and the implementation of national measures, during the years 2007-2013 is another tool that can contribute to serve the needs of the small and medium sized industries of the food processing sector. Of particular interest for the inclusion in national programmes should be the measures to improve competitiveness under the Axis 1, with the provisions on the cooperation for development of new products, processes and technologies in the agriculture and food sector.

Regulatory constraints hinder innovation in Europe because procedures are too burdensome and lengthy.

More is needed than increased investments into research and development to foster innovation in the food and drink industry sector. The stigmatisation of technology, the accumulation of regulatory constraints, of laws that are insufficiently science-based, of burdensome and excessively lengthy procedures act as disincentives to innovation and hamper successful exploitation of research and development in Europe.

Two specific examples of novel foods and additives help to illustrate the obstacles faced by companies in Europe compared to other key players. Other examples addressed under the "administrative burden" chapter (page 27) concerning the GMO labelling and traceability requirements and the use of claims act as disincentive to innovate.

The results from a survey amongst CIAA member companies show that the EU novel foods legislation 97/258/EC is a burden for the development of new products.

■ **Novel foods** refer to foods which have been hitherto not widely known in the EU or which have been produced with novel processing techniques that often require important research and development costs. Companies are experiencing serious administrative problems when trying to obtain the approval of novel food products. The burden and length of these procedures can be a disincentive for EU food and drink companies wishing to invest in R&D and innovative products.

Case study

Unilever Novel Foods approval

Plant sterol enriched yellow fat spreads

Unilever has invested 6 years and nearly 25 million euro in bringing plant sterol enriched yellow fat spreads to the market through this approval process. Launching new products in the food sector incurs costs to business in terms of research, product development and post launch monitoring. The table below sets out a summary of the costs, incurred by Unilever, in developing plant sterol esters as a novel ingredient and yellow fat spreads as a suitable novel food matrix.

Activity	Including	Cost (million)
Research (1996-2000)	*15 FTEs* 30 Clinical/Safety Trials, 14 Publications*	*15-18*
Product Development (1996-1999)	*3 FTEs* Ingredient development and sourcing, product trials*	*3-4*
Post Launch Monitoring (2000-2002)	*3 FTEs* design, assessment, careline training (for 15 lead staff), market research, reporting*	*1-2*
TOTAL		***19 - 24***

(*) Cost of full-time employees (FTEs) estimated at 120k Euros per person per year.

Time-spans that have been necessary to obtain approval for a Unilever novel food as of the submission of the formal application

Country	Application	Approval	Duration
USA	*11 January 1999*	*30 April 1999*	*3 months*
Switzerland	*July 1998*	*24 September 1999*	*14 months*
Brazil	*4 March 1999*	*31 March 1999*	*1 month*
Japan	*29 September 1999*	*09 April 2001*	*18 months*
South Africa	*25 May 2000*	*26 May 2000*	*1 day*
Australia	*14 March 2000*	*30 May 2001*	*2 months*
EU	***November 1997***	***24 July 2000***	***31 months***

Source: Unilever

■ **Food additives** are substances added intentionally to foodstuffs to perform certain technological functions, for example to colour, to sweeten or to preserve. There is evidence that the administrative burden faced when trying to obtain the approval for a new application of an additive hinders the commercialisation of new products.

Case study

PREMIUM INGREDIENTS, S.L.

Costs of a new application of an additive

Premium Ingredients is a small Spanish company. Its core activity is the design, production and marketing of blended ingredients and additives to create better quality processed foods for all sectors of the food industry. Their formulations are based on a blend of hydrocolloids, emulsifiers, milk proteins, animal proteins and other functional ingredients and/or additives.

The company has developed a new trend setting emulsifier/stabilizer for meat emulsions and other food industry emulsions that can entirely substitute both sodium casein and soy proteins at a very competitive price and in addition, free of allergenic and GMO substances, called PREMULTEX®. One of the two active substances which are part of the PREMULTEX® product composition, i.e. Sodium Stearyle Lactilate E-481, is included in the European regulation as 'other permitted additives' and not as 'permitted additives for general use' due to the fact that the functionality of SSL E-481 until the invention of PREMULTEX® gave no desired functionality alone when used in meat and other food products. Though Premium Ingredients has been awarded Bronze with PREMULTEX® in the last Food Ingredients Europe 2005 Awards / World Food Ingredients Trade Fair and is receiving orders from potential customers all over the world, they are still waiting (after more than 2 years) for national and EU administration to work on the inclusion of SSL - E-481 in Annex 1 - "permitted additives for general use".

Most innovation indicators of the EU food and drink industry are below the EU manufacturing industry average.

The share of companies using trademarks is 18%, which is largely above the manufacturing average of 13.1%. This confirms the importance that brands, with clearly identified quality characteristics, have within the food and drink sector. The percentage of firms innovating in-house and the share of firms receiving public funding are slightly below the industry average. However, most other innovation indicators are considerably below the manufacturing industry average, such as the share of sales from new-to-market and new-to-firm products and the percentage of firms cooperating with other firms.

	Food & drink (%)	All manufacturing industry (%)	Food & drink compared to all manufacturing (%)
Share of firms that receive public subsidies to innovate	*14.2*	*16.0*	*89*
Percent of firms innovating in-house	*35.6*	*38.5*	*92*
Percent of firms co-operating with other	*3.9*	*5.6*	*70*
Innovation expenditures as a percentage of total turnover	*1.1*	*3.4*	*32*
Share of total sector sales from new-to-market products	*2.9*	*8.2*	*35*
Share of total sector sales from new-to-firm (not new-to-market) products	*9.1*	*23.7*	*38*
Share of firms that patent	*4.7*	*10.1*	*47*
Share of firms that use trademarks	*18.0*	*13.1*	*137*

Source: European Trend Chart on Innovation. European Sector Innovation Scoreboards and CIAA calculations

Requirements to step up innovation

European Technology Platforms (ETPs) should be driving forces to sharpen the innovation edge. Around 25 European Technology Platforms have been set up over the last two years, 6 alone in the agriculture, food and biotechnology area, including one dedicated to "Food for Life", under CIAA's leadership.

A coherent research strategy for the future must be developed based upon the shared vision of the diverse stakeholders and must be supported by public authorities. Key elements of this flexible strategy comprise initiatives in food and health, food quality and manufacturing, food and consumer, food safety, sustainable food production and food chain management. These elements are to be supported by effective strategies for communication, training and effective technology transfer.

There is an increasing societal awareness of the opportunities to improve the quality of life through healthy eating. The preferences of consumers for quality, convenience, diversity and health, and their justifiable expectations of safety, ethics and sustainable food production serve to highlight the opportunities for innovation. A step-change in research intensity and investment, using private and public resources available for an effective integration of strategically-focused, trans-national, concerted research, is a prerequisite for ensuring that the European food and drink sector remains innovative.

The regulatory framework must be conducive to the food and drink industry innovation initiative. In particular, novel food approval procedures should be changed. They should consist of an initial scientific assessment that is risk based and hence limited to safety, and with clear deadlines for each step of the procedure, transparency of process and communication with applicants; a simplified fast track procedure should be introduced, when the end product is substantially equivalent to an appropriate reference product. The "history of safe use" principle, as practiced in the US, should be considered in Europe. Further, it must be possible to rapidly adapt additives legislation to new technological development.

There is a shortage of R&D personnel. Vacancies for highly specialised food scientists can be especially difficult to fill.

Food and drink companies employ fewer workers with higher education[9] as compared to other industries. Food and drink industry companies reported difficulties to hire highly qualified employees. Indeed, a CIAA survey amongst European food and drink companies revealed that 30% of companies experienced difficulties in filling vacancies in their R&D departments. The responses indicated that especially highly qualified food scientists could be particularly hard to find. It should be noted that this is not generally the case when filling vacancies for other positions (only 17% of respondents mentioned that they experienced difficulties trying to fill vacancies in their production units, mostly in the new Member States). The share of food and drink companies that use training[10] is also considerably lower than in other manufacturing industries.

	Food & drink (%)	All manufacturing industry (%)	Food & drink compared to all manufacturing (%)
Share of employees with higher education	*6.6*	*11.1*	*59*
Share of firms that use training	*12.8*	*16.8*	*76*

Source: European Trend Chart on Innovation. European Sector Innovation Scoreboards and CIAA calculations

Requirements to address the personnel question

A constantly increasing share of the production of the European food and drink industry is made up by high value added products. In order to cope with this evolution an adequate human resources management is necessary, as well as continued training of personnel, which enhances the employability of people. Close cooperation between public authorities and the industry should lead to degrees that are more adjusted to the requirements of business. This should extend to both applied degrees (technical personnel) as well as research degrees for future personnel of research centres of excellence and should usefully continue promoting educational exchange programmes.

Recommendations on R&D and innovation

To European policy makers

On research policy

- The EU budget for the 7th European Framework Programme must be maintained at a high level of ambition; the share allocated to food, agriculture and biotechnology must be increased to 11% to better reflect the needs and to be more proportionate compared to the importance of industrial sectors involved.
- Access to EU R&D funds for the food and drink industry, especially for SMEs, must be improved, in particular administrative burdens have to be reduced and adjusted to the needs and capacities of partners involved.
- EU R&D funds must be oriented towards priority initiatives in food and health, food quality and manufacturing, food and consumer, food safety, sustainable food production and food chain management. These elements are to be supported by effective strategies for communication, training and effective technology transfer.
- European Technology Platforms, such as the ETP Food for Life, that have a key role in determining orientations and providing the necessary framework for the establishment of public-private and private-private R&D partnerships, need public recognition and appropriate support.

On innovation in food policy

- Regulatory and administrative procedures need to be business-friendly: a) novel food approval procedures should be reviewed, made more transparent, less lengthy and offer a simplified fast track procedure for certain applications. b) Existing legislation, like additives legislation, must rapidly be adapted to technological development.

To policy makers in the Member States

- National R&D programmes should maintain the link with the European vision and priorities set.
- Member States should keep positive fiscal incentives in support of private R&D initiatives and investments.
- National implementation of rural development programmes can provide a helpful supplementary support to food and drink industry innovation projects in rural areas.
- Continuous investment in human capital: adequate training and the development of food science-related degrees should be promoted.

9. *The indicator "Share of employees with a higher education" is defined here as the share of all employees of the food and drink industry with a tertiary degree. This is a general indicator of the use of advanced skills. It is not limited to science and technical fields because the adoption of innovations depends in many areas on a wide range of innovations.*
10. *The indicator "share of forms that use training" refers to the share of firms that used internal or external training for their personnel directly aimed at the development and/or introduction of innovations.*

2 Agricultural inputs

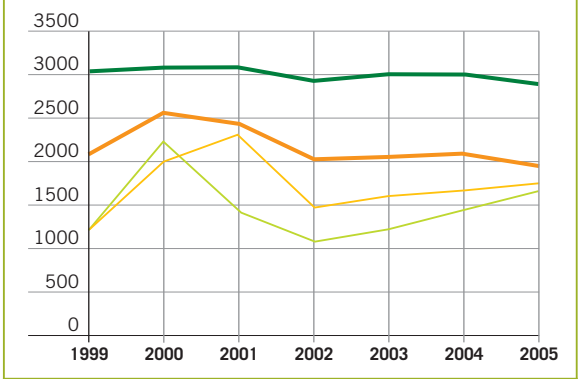
Importance of the costs of inputs for EU food and drink industry competitiveness

The EU food and drink industry needs supply of agricultural raw materials that correspond to specific quality criteria, that are in sufficient quantity and that are adequately priced. Agricultural raw materials are an important component of processed food products. Depending on the product, the cost of agricultural inputs compared to total production costs ranges between 30-75%. Hence the price paid for purchasing raw materials can considerably influence the product's competitiveness.

European food and drink processing industries pay generally higher prices for their inputs than their competitors.

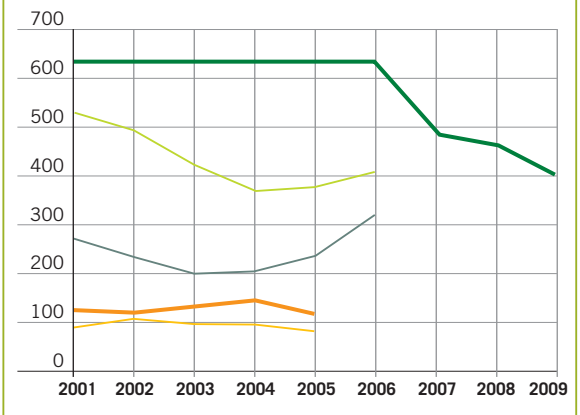
EU-based food and drink companies pay higher prices than food and drink companies outside the EU for several of their agricultural inputs, such as dairy, maize, sugar, beef meat and rice. These agricultural inputs represent an important part of the total cost of a food product. The tables below highlight that non-EU food and drink producers pay less for their agricultural inputs, which results in lower production costs and hence a competitive advantage vis-à-vis their EU competitors.

EU and world dairy prices (in €/tonne)



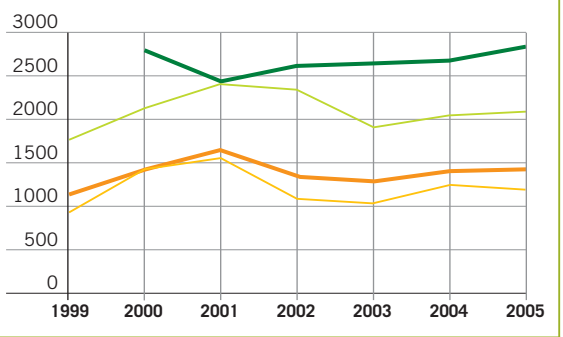
Source: CIAA calculations based on data from the European Commission, the Worldbank, different official price quotations and sector organisations.
(SMP = Skimmed Milk Powder)

EU and world crop prices (in €/tonne)



Source: CIAA calculations based on data from the European Commission, the Worldbank, different official price quotations and sector organisations.

EU and world meat prices (in €/tonne)



Source: CIAA calculations based on data from the European Commission, the Worldbank, different official price quotations and sector organisations.

With the Agenda 2000 and its mid-term review in 2003, comprehensive reforms have been decided for the Common Agricultural Policy that also include reduction of support through institutional prices. For example, wheat (-15%), rice (-50%), skimmed milk powder SMP (-15%), butter (-25%) and recently sugar (-36%) in a major reform that will be implemented from 2007-2009. Reforms in other sectors, like wine, fruits and vegetables are still awaited. Overall, these reforms should improve the competitiveness of EU agricultural raw materials.

A possible conclusion of the Doha Development Round should also reduce protection and provide increased access to competitively priced agricultural raw material. Despite these developments, it is doubtful, however, whether the gaps that currently exist between EU and representative world market prices or prices paid by the main EU competitors will be completely or at least sufficiently bridged.

For the moment, these price differences can to a certain extent be compensated through export refunds. In December 2005, the EU agreed to eliminate all refunds by 2013 and a substantial part of these refunds at mid-term of the implementation of the WTO agreement. This implies that even before this end-date industry will need alternative instruments that will provide support for export and access to competitive raw material.

Economic custom regimes, such as inward processing regime, have been tailored to allow exporters for economic or other reasons to buy raw materials at lower prices on world markets without paying duties, provided the goods are exported after processing. However, administrative and logistics constraints make this regime difficult to use and too burdensome for SMEs.

Maintaining and promoting mainstream quality improvement as a key European asset of agriculture production.

The different reforms of the agricultural policy have put a strong emphasis on improving the production processes and the quality and safety of agricultural products. Quality assurance schemes have developed mostly between 1995 and 2000. According to a study on best agricultural practices schemes in Europe[11], approximately 70% of schemes identified in 2005 were created in the last ten years. Another recent study by the European Commission, Joint Research Centre, also looked at the main features of existing schemes. There is a wide variety of cases, but some of these schemes aim at promoting safety and quality standards of products and set a voluntary frame for mainstream production processes based on regulatory requirements, but going often beyond these. Other schemes have an objective to provide product differentiation for the consumer, that give rise to specific labels. This still increasing trend of quality assurance schemes has led in certain countries to numerous systems demonstrating the importance of quality for the whole food chain.

Recommendations on agricultural inputs

To European policy makers

■ The agricultural reform exercise undertaken by the European Union needs to be completed, with a view to making agricultural production more market-oriented and to increase competitiveness of the agricultural raw materials used by the processing sector. This will notably cover the work on the common market organisations on fruit and vegetable production and wine. In addition, a review may have to be considered in certain sectors in which reforms have already been implemented.

■ If agricultural reform processes do not lead to access to competitive agricultural products, it will be essential to look at alternative instruments. Ensuring that the inward processing regime is operational and easy to use for exporters will be key. The current review of the Community Customs Code, including the inward processing provisions, can provide for such improvement through more harmonised implementation providing improved access in certain countries.

■ The focus that has been given to the quality of agricultural production must be maintained as it is an important asset of Europe's farm activity, it is the basis of the European food chain and an important criterion for the EU food and drink industry supply.

Overview on the number of quality assurance schemes in selected countries developed since the early 90's

Objective pursued	Spain	France	Denmark	Sweden	Finland	Czech Rep.	Poland
Schemes aimed at standardising production			*+/-10 in total*			*5-6*	*5-6*
Schemes offering product differentiation	*>20*	*>20*	*+/-10*	*+/- 10*	*+/-10*	*5*	*2*

Source: European Commission, Joint Research Centre, Final Report on food supply chains dynamics and quality certification.

11. Plant Research International BV., Wageningen UR, F.J. de Ruijter, November 2005 for SAI Platform and CIAA

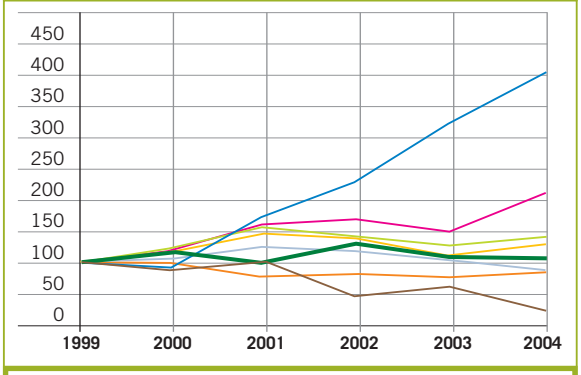
3 Trade policy and export performance

Importance of trade for the EU food and drink industry competitiveness

The strength of the EU food and drink industry is the large variety of its products, its capacity to adjust to consumer demand with a particular emphasis on technically sophisticated and high value added products. Faced with relatively saturated European markets, the only sources of growth beyond adding further value to food products are growing export markets. However, the EU food and drink industry is not benefiting from the expansion of global food and drink markets, whereas emerging economies in Latin America and Asia have largely increased their market share to the detriment of traditional processed food exporters.

External trade balance registers a slight downward trend.

External trade balance (1999 = 100)



Source: WITS database and CIAA calculations

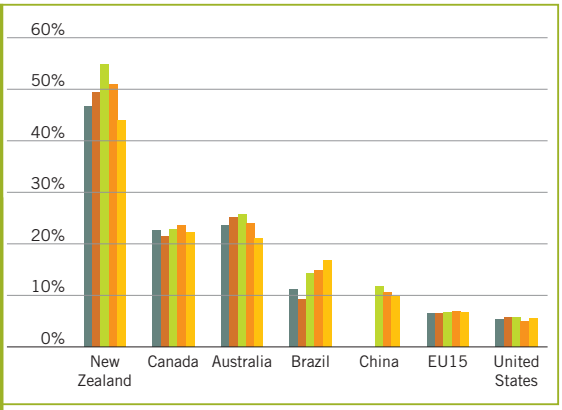
Over the last six years, the EU external trade balance registered a slight downward trend. Exports of food and drink products are stagnating at around 45 billion euro, while imports are increasing (plus 8% in 2004) to reach nearly 41 billion euro. The EU food and drink trade balance has resisted better than that of the United States or Japan.

Nonetheless, the EU is not exploiting its export potential to the full. A WTO agreement on agriculture is expected to provide a better level playing field and offer better market access opportunities in non-EU countries. Community policies (agricultural policy, export promotion, customs regulations) should also be adjusted to be conducive to trade activity and provide improved support for exporters.

Export intensity (exports/gross output) remains overall relatively low compared to the size of the EU market.

Less than 7% of the EU production value is exported with important disparities, however, among the different sectors of industry. The overall export intensity is comparable to US levels, but much lower than agricultural exporting countries, such as Australia and New Zealand.

Export intensity (Exports/Gross Output) for various food and drink industries

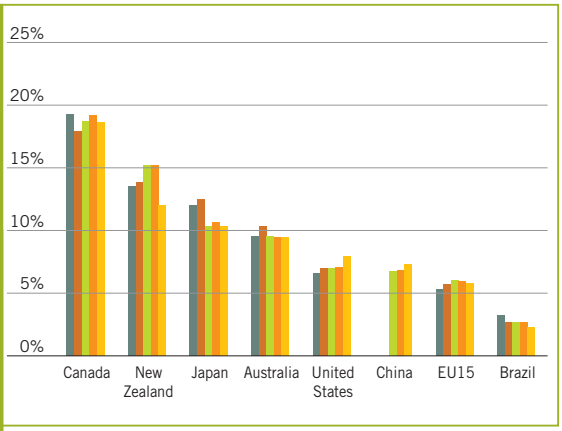


Source: Worldbank, WITS database and CIAA calculations

Starting from low import penetration (imports/apparent consumption), pressure is expected to rise due to market access commitments.

The imports of food and drink products into the EU compared to apparent consumption are around 6%. Although imports have significantly increased over the last few years, they remain low compared to the overall market size for food and drink industry products in Europe. The outcome of market access negotiations under the WTO Doha Round will significantly reduce protection, increase imports and put pressure on certain sectors in Europe. A number of countries including emerging economies like Brazil are characterised by decreasing import penetration percentages, even though their market and national consumption are growing.

Import penetration (imports/apparent consumption) for various food and drink industries

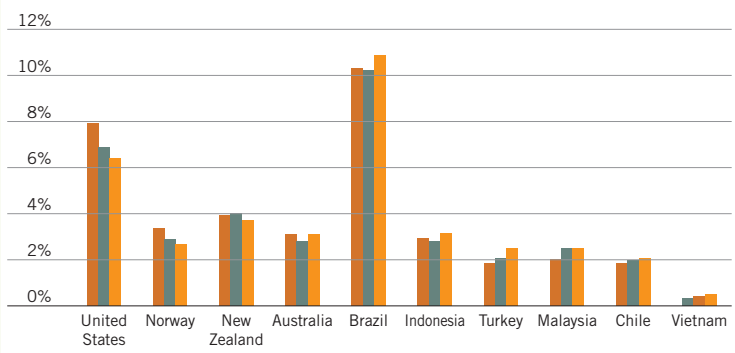


Source: Worldbank, WITS database and CIAA calculations

Emerging countries are 'winners' of import share on EU market at the expense of developed countries.

The increasing role of products originating from emerging economies in EU food and drink imports demonstrates that the dominant position of developed countries as players on world food and drink markets is weakening as they are losing their competitive advantages.

Country of origin of main EU imports and share of total food and drink imports

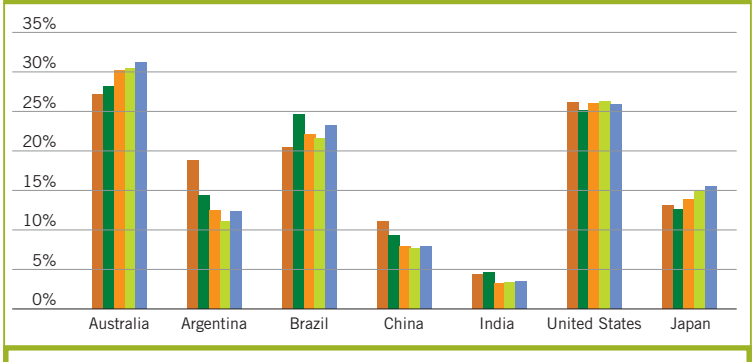


Source: Worldbank, WITS database and CIAA calculations

EU exports do not maintain their market share in emerging markets.

Although relatively stable or slightly increasing in developed countries like US, Australia, Japan, the performance of EU products in quickly expanding markets like China, India and Argentina, is showing a downward trend in the share of EU goods compared to imports of food and drink products of other origin. In certain cases, the switch to other suppliers appears clearly, as in the case of Argentina, where EU dairy, processed meat, bakery and chocolate products have to a large extent been replaced by goods originating from other neighbouring countries, such as Chile or Mercosur partner Brazil.

Share of EU products in total food & drink imports of various countries



Source: Worldbank, WITS database and CIAA calculations

The decreasing share of European imports in non-EU countries is further worsened by the relocation of European companies outside the EU, in particular in countries that have bilateral trade agreements with countries with which the EU does not have such agreements. As a result, a European company can export from non-EU countries to the preferential trade partners of this non-EU country at better conditions than if it would export from its European divisions.

Difficulties faced by EU companies to supply their export markets can incite these to shift production and invest in non-EU countries, particularly if bilateral agreements provide tariff advantages.

Case study

SOS-CUETARA

Investment by an EU company in Mexico due to NAFTA agreements between Mexico and the US resulting in a decrease of European production and exports

SOS Cuetara S.A. is the second Spanish-based food processing company with sales in 2005 of over 1.250 million euro (before it bought Carapelli company, the second largest Italian olive oil company). The company mainly produces and markets rice, crackers, biscuits and oils.

One of the company's objectives is to enhance international sales in the biscuits division in the United States, the largest biscuit market in the world. In 2005 the company opened a biscuit factory in Mexico (for its Tosta Rica brand), in order to commercialise these products by using the already established supply channels through its company American Rice. It is a strategic market for SOS-CUETARA, which also wants to benefit from lower import tariffs to the US granted to products originating from Mexico. This new investment is helping the company export into the US without customs duties and represents additional advantages compared to exporting directly from Spain.

Sector experiences illustrate difficulties for EU products, notably for high value added goods, to sustain export performance in third country markets.

■ High value added food and drink products do not register growth on exports that could be expected according to market expansion.

■ Production costs and particular uncompetitive raw materials used in the EU are factors that explain in certain cases the relatively weak export performance of high value added goods, while tariff and particularly non-tariff problems add serious constraints to the export business.

A. Meat products, particularly prepared and preserved meat products, face many non-tariff problems

Meat exports reach 12% of EU food and drink exports and are largely dominated by fresh or frozen pork meat exports. These exports have recovered their 2000 levels after 3 years of weaker performance. High value added products can be found in the prepared and preserved meat exports (raw and cooked hams, pâtés, sausages…) that account for 19% of meat exports, a figure that has remained stable over the past five years thanks to the better performance of ham exports (+14%). Overall, exports of prepared and preserved meats to most OECD countries have increased. But in some of the key markets like the US and Russia, they registered a downward trend as well as in a series of emerging markets where exports dropped, like China, South Africa, Argentina, Brazil. The reasons for this situation are due to a large extent to veterinary and hygiene requirements and to administrative and documentary complexity.

B. Dairy products, in particular cheeses, need to consolidate export growth

Dairy product exports account for 12% of food and drink product exports with two leading product groups that are milk powders and cheeses. Total dairy industry exports have decreased by 4% over the past 5 years and are now again on an upward trend. Cheese exports, as value added goods, perform better than the more basic dairy products, but have experienced weak expansion over the last five years (+1.5%). Despite good results in cheese exports in 2004, the detailed picture considering the past five years is uneven. Cheese exports to key developed countries, like US, Japan, Switzerland and Canada have still registered increases (around 10%). Exports to emerging economies have seen considerable increases, like China (400%) and India (190%), but also serious reductions, like Brazil (-58%), Mexico (-35%), Egypt (-30%), Chile (-30%) and some others. Problems are related to both tariff and non-tariff barriers.

C. Alcoholic beverages still have an important potential for growth

Beverages amount to about 30% of EU food and drink exports, with wines and spirits taking about two thirds of these exports in terms of value. Wines and spirits registered 8% and 4% increases respectively between 2000 and 2004. This medium term development hides the fact that exports have been following a downward trend since 2002, but showed signs of recovery in 2004 and more clearly in 2005. Nevertheless, exports are still experiencing difficulties in several Latin American markets, such as Brazil and Argentina for both wines and spirits. Fluctuating performances in Asian countries have also been recorded, i.e. in Japan and Asean countries for spirits and in China for wines. Very strict and protectionist measures, as applied by India, lead to EU exports that are very far below their potential.

D. Biscuits, chocolate and sugar confectionery face a diminishing export growth

Biscuits, chocolate and sugar confectionery products are the main components of the "various" food product group that covers about 25% of exports. Due to highly competitive international markets, sugar confectionery has experienced an 18% reduction in the last 5 years. Biscuits/bakery products and chocolate products have been able to increase their exports by 21% and 14% respectively over the past few years. There are a few exceptions to this overall positive trend however in the US, Canada, Brazil and Argentina, where EU lost market share. It must also be noted that most of the trade expansion took place in 2001 while in the years that followed, growth has been much weaker. This can be explained by strong international competition, by EU cost disadvantages added to a refund system that posed a number of problems to exporters.

Recommendations on trade policy

To EU policy makers

■ The conclusion of the WTO agreement under the DDA (Doha Development Agenda) is necessary. It should provide a better framework to discipline agricultural support and improved market access to increase trade opportunities for food and drink industry products. The agreement will have to balance offensive market access interests on non-EU markets for the EU food and drink industry against defensive interests on its own EU market. The agreement on agriculture must be accompanied by an agreement on trade facilitation and a better protection for geographical indications within the WTO TRIPS agreement.

■ The bilateral process needs to be looked at in key regions where the EU has particular interests in rapidly expanding markets and to avoid the EU being at a disadvantage due to trade agreements with other trade partners. This will be the case with Mercosur, but also with Mediterranean countries. Considering the market opportunities in Asia, and notably China, the possibility for other regional trade agreements should be further explored.

■ Community export promotion policy, an essential support in the success of an export strategy that requires important means and investments, should be stepped up. Introducing more flexibility and simplifying the administration of projects would have beneficial consequences on the scope and effectiveness of promotion projects. The promotion of food and drink products other than those currently falling under the scope of the regulation (processed products, branded goods) is strongly supported.

■ Non-tariff barriers to trade, such as veterinary, hygiene, labelling and ingredients legislation must be addressed in a structured way, because they very generally hamper EU exports. The strong and active Commission involvement in international standard setting bodies, like the CODEX alimentarius, is necessary and it should constitute the basis of the strategy as they create the framework at international level. However, this is likely to be insufficient in addressing more prescriptive or different "standards" that are deliberately aimed at creating a trade barrier. All possible approaches need to be considered, from ad-hoc coordinated action under the leading role of the European Commission, to action under the WTO, and even the negotiation of bilateral agreements. The emphasis on Neighbourhood policy and other regional agreements can contribute to promoting the use of EU technical regulations and standards through the bilateral approach.

4 Administrative burden

Importance of administrative burden for EU food and drink industry competitiveness

Administrative burden can be defined as "costs to enterprises for drawing up, storing or transferring information or data stemming from requirements in laws, government ordinances and public authority regulations or instructions contained in general advice"[12]. The sum of these costs can substantially affect profitability. It is therefore important to identify those that are putting heavy pressure on companies, because of "red tape", i.e. procedures or requirements that are unjustified, unnecessary or disproportionate. Identification of the problem and of its roots is the first step in addressing it and possibly changing the laws for the benefit of industry competitiveness.

A survey carried out among CIAA member companies provides some guidance on such an assessment. To support the European Commission's initiative for better regulation, CIAA has identified the priority areas where existing legislation needs review, simplification and improvement.

	Not applicable (%)	Low (%)	High (%)	Very High (%)
Costs related to environmental policies				
IPPC	14	27	50	9
Emissions trading	23	41	18	18
Packaging requirements	0	39	39	22
Waste management	9	18	59	14
Environmental management systems	12	50	38	0
Costs related to administrative burden				
GMO (Traceability)	4	17	46	33
GMO (Labelling)	4	20	52	24
Hygiene	0	44	44	12
Customs procedures	0	55	27	18
General food law	12	44	24	20

Source: CIAA members' survey on costs related to environmental policies and administrative burden, 2006

Several EU requirements and procedures need to be reviewed or improved because they are burdensome, costly and do not favour a level playing field for the European food and drink sector.

■ GMO food and feed labelling and traceability requirements

79% of the respondents consider the costs of GMO traceability requirements high or very high and 76% describe the costs related to labelling requirements as high or very high.

12. Definition by the Swedish government. Source: The Swedish Ministry for Industry, Employment and Communications. "The Swedish Government's Action Plan to reduce administrative burden for enterprises". 2005.

The EU has made a political decision to ensure that European consumers can choose between GM and non-GM products. Conscious about consumer preference, industry is ensuring separate treatment of GM and non-GM ingredients, consequently looking for identity preservation of its ingredients and food products. This increases costs for separate storage or production facilities and for the paper work aimed at documenting GM or non-GM sources of the ingredients used. Furthermore the prices for raw materials increase because they are more difficult to obtain and because of extra costs throughout the chain to prevent non-GM products getting mixed up with GM material.

EU companies face a competitive disadvantage compared to their third country competitors, where either the labelling requirements of GMO derived products are not comparable to European requirements or the acceptance of the products is different. The generally negative perception concerning new technologies in Europe cannot be changed rapidly. The development of GM foods with clear consumer or health benefits would however help overcome this negative perception. Consequently, industry would not need to continue sourcing non-GM material only.

Case study

Extra Costs of non-GM feeds

The calculation of extra costs of production of non-GM animal feed includes surplus raw material costs, production cost and costs of audits and analysis. Surplus costs are estimated at 2.4 % on average in a sector that is known to have relatively low margins. The calculation does not take into account higher insurance fees, costs of possible product recalls, government fines for incorrect labelling in case GM contamination occurs.

Total surplus costs involved in the production of non-GM animal feed according to animal type (€/tonne)

Surplus costs		Minimum	Average	Maximum
Hard-IP soybean	*Layer hen*	1.8	2.5	3.8
	Broiler	3.4	4.5	6.9
	Pig	1.0	1.7	2.4
Production		0.6	2.8	8.1
Audits and analysis		0.1	0.5	1.1
		↓	↓	↓
Total surplus costs non-GM feed production	*Layer hen*	2.4	5.8	13.0
	Broiler	4.0	7.8	16.1
	Pig	1.7	5.0	11.6

	Cost feed (€/tonne)	Average surplus cost non-GM (€/tonne)	Average proportion (%)
Layer hen	225-275	5.8	2.3
Broiler	310-350	7.8	2.4
Pig	190-230	5.0	2.4

Surplus costs of non-GM animal feed (€/tonne) in proportion of the total price of 1 tonne animal feed

Source: Study by Ir. Tom Neijens, Bemefa

Requirements related to GM food and feed labelling and traceability

■ Labelling provisions, which would allow industry to test for the presence of GMO derived protein or DNA leading to less burdensome traceability procedures, making European food and drink companies more competitive in the global market.
■ Gaining acceptance of GMO derived products, to enable the food and drink industry to put both GMO derived and non GMO derived products on the market at the same time.

■ Waste management

73% of the European food and drink companies responded that the costs related to the EU waste management requirements are high or very high.

The unclear definition of waste under EU law can lead national authorities to wrongly classify by-products from food and drink production as "waste" instead of a product. This wrong classification triggers administrative restrictions and permitting requirements concerning storage, transportation, control, further processing and use of these products. This distorts production and marketing costs, selling price and further use that can be made of these goods and risks leading some operators to discard rather than to market these products. The inappropriate definition of waste has consequently clear negative business implications, besides the negative impact on resource-efficiency.

Requirements related to waste management

■ A revision of EU waste law to clarify the legal status of by-products of food and drink production: to classify them as products and not as waste and to make sure this definition is applied uniformly in all Member States in order to ensure the functioning of the internal market.

Case study

Beet pulp and molasses as animal feed instead of waste

In 2002, 60 million tonnes of by-products from the food and drink sector were used in animal feed. This application is very common for beet pulp and molasses generated in sugar beet processing. Both materials have long been recognised as animal feed products and are highly appreciated by farmers. In Europe, over 8 million tonnes of pressed beet pulp, 5.5 million tonnes of dried beet pulp and 4 million tonnes of molasses are used in animal feed every year. A possible classification of animal feed by-products as "waste" by national authorities would make them subject to restrictive EU waste law requirements that are unsuitable for materials of clear market value (e.g. waste permit procedures, waste site authorisation, waste transport and storage restrictions). These restrictions would divert these products away from their most resource-efficient and economically useful application towards environmentally harmful and costly destinations, such as landfill. In addition, potential users would lose the supply of high quality raw materials and have to find expensive alternatives. Additional resource extraction would be required to replace these products on the markets concerned.

Source: Comité Européen des Fabricants de Sucre

■ EU export and customs procedures

Customs' procedures are rated as highly burdensome by 45% of companies responding to the CIAA survey and involved in export operations.

Procedures make the export business risky and the opening up of export markets difficult. The procedures in place are rigid and not adapted to the export business. Exporters have no certainty as to whether they will be paid export refunds, particularly when the payment is subject to providing proof of arrival at destination. Specific resources have to be devoted for the managing of procedures. In fact, companies spend more time coping with administrative requirements, managing paperwork and procedures than with developing export operations. Some have even to out-source part of these activities to specific agencies at high costs.

Requirements related to EU export and customs procedures

■ Enhanced export activity through a series of different legislation adjustments and subsequent implementation: the setting up of a modernised IT based customs' environment and real trade facilitation for authorised exporters.
■ Simplified and more harmonised implementation of economic customs regimes as proposed in the modernisation proposal.

Policies that are not effectively or not uniformly enforced throughout the EU are giving rise to diverging interpretation at national level, create unnecessary burden and prevent reaching a level playing field.

EU packaging requirements

Costs related to the EU packaging directive are rated high or even very high by 61% of the respondents to the survey.

Meeting the essential requirements mentioned in the packaging directive has a price and complying with the conformity procedure is time consuming and costly. There is currently no pan-European enforcement of the essential requirements of the directive. France and the UK act to ensure compliance, which means that companies in these countries have higher compliance costs than companies in other Member States. The European standards organisation (CEN) has recently developed a series of standards for measuring compliance with the essential requirements, which could be the basis for uniform enforcement of the directive in all Member States, in order to obtain a level playing field in the EU.

Case study

Case-Study: Danone

The application of the standards to the Evian one-litre PET bottle.

The application of the essential requirement to the Evian one-litre PET bottle enabled the bottle weight to be reduced from 32g to 23g. An investment of 500,000 euro was necessary to reach this saving of packaging. It was not the first light weighting exercise undertaken on this pack, but the prevention standard provided a systematic method for effective evaluation.

Danone uses 200 different types of packaging, and for all of these packages it has to comply with the essential requirements standards.

Furthermore, company representatives mention in the context of the packaging requirements that the European standards for recycling and recovery of packages are higher than those of many of their competitors. The higher the recovery, the higher the prices for an extra percentage of material recovered or recycled.

Finally, several Member States have introduced disproportionate and discriminatory national measures on packaging and packaging waste (e.g. deposit systems, quotas, packaging taxes, etc) that result in unjustified distortions of competition. This has negative effects on the competitiveness of companies operating in various Member States, as they incur extra costs both in terms of market access and for adopting different national packaging rules.

Requirements related to EU packaging

- Uniform implementation of the packaging directive in all Member States in order to create a level playing field for all European food and drink companies of recovery or recycling targets.
- Increased scrutiny by the European Commission to avoid disproportionate and discriminatory national measures on packaging and packaging waste that create distortions of competition in the internal market.

EU Integrated Pollution Prevention and Control (IPPC) requirements

59% of the respondents to the CIAA survey amongst European food and drink companies described the costs related to the IPPC requirements for prevention and control of water, waste and soil contaminations as high or very high.

EU food and drink companies have made significant investment in clean technologies and Best Available Techniques (BATs) in order to conserve natural resources and minimise waste generation. In the implementation of the IPPC directive, several technical-legal ambiguities concerning the scope are currently posing problems to companies, which has a negative impact on their competitiveness. A pragmatic clarification of the scope should be achieved and applied in a uniform manner across the EU. In November 2005, the IPPC Information Exchange Forum (IEF) officially endorsed the Food, Drink and Milk sector BREF document (i.e. a reference list of BATs). A flexible implementation of the BREF will be vital to avoid negative impacts on the competitiveness of companies. The BREF should remain a 'reference document' and never impose a 'one-technique-fits-all' approach applicable to all cases.

Requirements related to IPPC

- A pragmatic clarification of the scope of the IPPC directive and a uniform implementation across the EU.
- Interpretation of the Food, Drink and Milk sector BREF by national authorities as a "reference document", never imposing a "one-technique-fits-all" approach for all cases.
- Proper consideration of geographical location, local environmental conditions and hygiene and food quality constraints when deciding the techniques to be applied.

Hygiene directive

The survey amongst European food and drink processors revealed that 56% of manufacturers consider the administrative costs related to the hygiene directive as high or very high.

Recent changes in the hygiene directive have resulted in different interpretations of the new rules in place in different Member States. The revision has not solved the problem of diverging enforcement, especially in the new Member States. This creates uncertainty and extra administrative costs for companies, which negatively affects their competitiveness.

Requirements related to hygiene directive

- Uniform implementation of the EU legislation, closely watched by the Dublin Food and Veterinary Office.

General food law

The general principle of food law has been pinpointed by 44% of respondents to the CIAA survey as source of burden. In 2002, the European Parliament and the Council of Ministers adopted regulation (EC) 178/2002 laying down the general principles of food law, establishing the European Food Safety Authority (EFSA) and laying down procedures in matters of food safety. The regulation entered into force in February 2002. The text sets obligations regarding producer responsibility and market withdrawal. It introduces the rapid alert system, defines traceability to follow food, feed, and ingredients through all stages of production, processing and distribution. The new traceability rules that entered into force on 1 January 2005 put an extra administrative burden on European food and drink companies (in terms of paper work, archiving of papers for unreasonable periods of time, etc.). This is of particular concern for SMEs.

The new regulation also defines the term 'food' for the first time at the European level and thus removes differences that existed in the various definitions of "food" used by several Member States. While this is an advantage for some countries, in others this requires reclassification of categories of products, e.g. Germany where products are then subject to different labelling provisions.

The main problem is raised because of insufficient rigour applied by competent authorities and the European Commission to check the accuracy of the information before an alert is triggered. Accuracy of information is fundamentally important in order to facilitate rapid, appropriate risk management actions and strengthening consumer confidence in the longer term. National safeguard clauses therefore can trigger European Rapid Alerts, without a clear indication of a food safety hazard, in the whole of Europe.

Requirements related to general food law

- Avoidance of unjustified national safeguard clauses.
- In case European Rapid Alerts are to be triggered, validation by the European Commission with an early involvement of the companies concerned.

EU laws are still needed in a limited number of areas and in their absence companies face costs to comply with different national legislations.

Several companies draw attention to the difficulties raised by the use of claims and by the addition of nutrients.

EU rules for claims

The problem is two-fold: a) In the absence of EU harmonised rules certain health claims (disease risk reduction claims) remain effectively prohibited in the EU. The context is not favourable to the development of technology leading to new products with health properties, if clear scientifically proven health benefits cannot appropriately be advertised to consumers. This situation works as disincentive to innovation. b) As regards all other claims, rules and detailed criteria for claims are set at national level. Hence companies have to comply with existing national legislation which requires them to submit separate requests for authorisation in individual Member States and to adjust to national law. A proposal for harmonised rules for all types of claims is currently discussed at EU level. It is unclear yet to what extent this proposal will ultimately contain procedural rules that would be considered as over burdensome by operators.

Requirements related to EU rules for claims

- Approval and enforcement of EU rules for health claims. Whilst the full authorisation procedure is justified for disease risk reduction claims, seeking a shorter and simpler procedure for the marketing of other innovative health claims needs still to be agreed.

EU fortification directive

Whilst a draft EU legislative text on the addition of nutrients is still in the decision making process, several companies also highlighted the administrative burden related to the diverging national laws on fortification obliging companies to seek national authorisations in the different Member States.

Requirements related to EU fortification directive

- Approval and enforcement of an EU-wide legislation on fortification.

Recommendations on administrative burden

To EU policy makers

The Commission's better regulation approach applied to existing legislation needs to be actively pursued and must lead to concrete results. It should lead to a review, simplification, streamlining of legislation that has been identified as negatively affecting the level-playing field, posing an unnecessary risk to business operations and creating disproportionate burden. Examples of required action refer to areas, such as labelling and traceability of GM food and feed, waste management, community customs code, further to novel foods and additives mentioned in chapter III B1 (on page 18). To promote a regulatory framework for biotech products similar to that of Europe's main competitors, the framework should remain science-based, but avoid unnecessary restrictions undermining the development of biotechnology in the European food and drink sector.

The internal market shows discrepancies and uneven implementation which are a source of inequalities and inefficiencies. Strong Commission action is necessary to ensure enforcement of EU law as effectively as possible throughout the EU. Action is necessary with regard to the general food law, hygiene, packaging and IPPC (Integrated Pollution Prevention and Control).

In some areas, EU harmonisation is still necessary to overcome national differentiation of the regulatory framework, such as in the area of claims and addition of nutrients. Policy makers should regulate only when necessary and consider alternatives to legislation. When developing new legislation, they must carry out an impact assessment and ensure that laws are:

- sufficiently clear to prevent diverging interpretation,
- practically achievable and enforceable;
- introducing measures proportionate compared to declared objectives or risks;
- science-based;
- take into account and avoid divergence from existing international standards.

IV Conclusion

The EU food and drink industry shows modest overall growth of production and a positive EU trade balance. But several of the indicators considered in the CIAA 2006 Benchmarking Report for the food and drink industry competitiveness give rise to concern. Low productivity growth rates, slow value added growth and lesser R&D investment demonstrate a weaker performance of the sector in an international comparison. Despite a continued trend of concentration, the sector is still highly fragmented with numerous small and very small structures that tend to show lower profitability than medium sized or large companies.

The EU food and drink industry operates within a complex business environment. It is part of a value chain subject to pressure from a highly concentrated retail sector and is facing numerous challenges. Considering that the European market is mature, growth opportunities will come from either enhanced value added goods or from increased exports to rapidly growing non-EU markets. But the sector could lose out on world and on EU markets unless appropriate actions are taken.

Actions must be taken simultaneously on various fronts. Industry has responsibilities in taking appropriate business decision. Politicians and legislators must ensure that the business environment is conducive to their development.

Research, knowledge diffusion and technology transfers are among the biggest challenges, because of the large amount of SMEs in the sector and because of the increased focus on value added. Building on the longstanding food tradition and quality of EU food production, the European food and drink industry must be in a position to step up investment in strategic areas and gain new markets through the emphasis on value added up-market products, product development and innovation. This requires higher private and public R&D investments and the use of synergies between EU and national research programmes. It further calls for a business environment that does not hamper innovation through the cumulative effect of numerous regulatory constraints and lengthy procedures. SMEs, because of their limited capacities deserve specific attention designed to allow easier involvement in development activity and take up of innovative concepts.

The report identifies agricultural raw material prices as another factor of uncertainty for industry competitiveness, considering their share in the overall cost of production. Access to competitive inputs will continue to be essential to industry performance on both the internal and external markets.

Trade policy must be designed to support the food and drink industry ambitions in supplying quickly expanding non-EU markets. Multilateral and bilateral approaches need to be pursued allowing to tackle tariffs but also to address effectively the increasingly constraining non-tariff barriers.

Margins for specific cost reduction have also be identified in a CIAA members' survey in administrative burden derived from EU regulation. The European Commission initiative, aimed at improving existing legislation, by cutting red tape, and ensuring that new laws are responding to the basic criteria of clarity, enforceability, science-base and proportionality, is welcome and should lead to effective improvement of a number of legislative texts.

The food and drink industry, as the largest manufacturing sector in Europe, has the potential to maintain and expand its role in increasingly global markets. Companies are determined to live up to the challenges they face and need the support of legislators to facilitate and support the process wherever possible.

Bibliography

ABIA (Associação Brasileira das Indústrias da Alimentação). Indústria da alimentação - principais indicadores econômicos (1998-2004).

Australian Government. Department of Agriculture, Fisheries and Forestry. Australian Food Statistics, 2004.

Bureau Van Dijk, Electronic Publishing, Amadeus Database.

De Ruijter, F.J.. Best Agricultural practices schemes in Europe. Plant Research International BV, Wageningen UR (November 2005).

Ernst & Young. European Investment Monitor Report, 2005.

European Commission, DG Enterprise & Industry, Innovation Policy Development unit. European Trend Chart on Innovation. European Sector Innovation Scoreboards, 2005.

European Commission, Joint Research Centre, Final Report on food supply chains dynamics and quality certification.

European Commission. Counterfeit and Piracy. Community-wide statistics for 2004 and major changes 2003-2004.

European Commission. Eurobarometer 59.0. HEALTH, FOOD AND ALCOHOL AND SAFETY, 2003.

European Commission. The 2005 EU Industrial R&D Investment Scoreboard.

Hollanders, H. and Anthony Arundel. European Trend Chart on Innovation. European Sector Innovation Scoreboards, December 2005.

IBGE (Instituto Brasileiro de Geografia e Estatística). Contas Nacionais - Brasil, 2003.

Neijens Tom (Bemefa), Estimating the Cost of Production of Non-GM Animal Feed in Belgium. 2005.

OECD, Research and Development Expenditure in Industry, 2003.

OECD, STAN database.

Sadler, Jessica. Future Health Trends in Food and Drinks. Growth opportunities in daily dosing, GI, heart health, right fats and food. Business Insights, 2005.

Sadler, Jessica. The future of European food and drinks retailing. Implications of fast growth formats and private label for brand manufacturers. Business Insights, 2006.

Verbeek Arnold, Debackere Koenraad, Wouters Raf. De Voedingsindustrie in Vlaanderen. Vlaamse Raad voor mediabeleid. 2004.

Worldbank WITS database.

Acronyms

ABIA	*Associação Brasileira das Indústrias da Alimentação*
BATs	*Best Available Techniques*
BREF	*Bat (best available techniques) reference document*
CAP	*Common Agricultural Plolicy*
CIAA	*Confédération des industries agro-alimentaires de l'UE/Confederation of the food and drink industries of the EU*
cif	*cost-insurance-freight (standard contract terms)*
DNA	*Desoxyribo Nucleic Acid*
EFSA	*European Food Safety Agency*
ETPs	*European Technology Platforms*
EU15	*European Union (15 members before the enlargement of 1 May 2004)*
EU25	*European Union (25 members since 1 May 2004)*
F&D	*Food and Drink*
FDI	*Foreign Direct Investment*
GI	*Geographical Indication*
GM	*Genetically Modified*
GMO	*Genetically Modified Organism*
IBGE	*Instituto Brasileiro de Geografia e Estatística*
IEF	*Information Exchange Forum*
IPPC	*Integrated Pollution Prevention and Control*
IT	*Information Technology*
R&D	*Research and Development*
SAI Platform	*Sustainable Agriculture Initiative Platform*
SMEs	*Small and Medium-sized Enterprises*
TRIPS	*Trade-Related Aspects of Intellectual Property Rights*
WTO	*World Trade Organisation*

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

CIAA AISBL
Avenue des Arts 43
1040 Brussels
Belgium

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

Published in May 2006