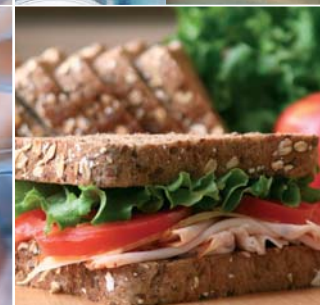
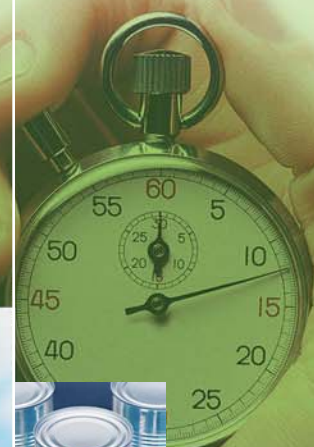


CIAA benchmarking report 2007 update

**The competitiveness of the
EU food and drink industry**



CIAA

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

CIAA is the voice of the European food and drink industry - largest 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;
- 30 EU sectoral associations;
- 20 major food and drink companies.

This report presents EU25 data unless otherwise specified.

Foreword

Brussels, June 2007



This 2007 update of the CIAA benchmarking report sets out how the competitiveness of the European food and drink industry is evolving. It confirms or reviews policy recommendations from last year's report on how European politicians and regulators can help the industry meet its competitiveness objectives.

This update expands on the key indicators for the food and drink industry identified in the 2006 report and sets out the urgent need to increase R&D activity and innovation performance, to develop a better, simpler and more proportionate EU regulatory framework, to ensure sustainable and competitive supplies of raw materials and enhance EU presence on external markets.

The food and drink industry is committed to providing guidance on the framework that needs to be put in place to create the right business conditions. This update is CIAA's contribution to the annual review of the Lisbon strategy aimed at driving the EU towards becoming the most competitive knowledge-based economy in the world.


The CIAA benchmarking report concentrates on industry specific concerns arising from the nature of food and drink processing. It does not expand on horizontal industry requests regarding the necessary improvements required in employment conditions, in tax and financial burdens, in relation with retail trade and distribution channels and in the costs linked to regulatory constraints, in particular those relating to the environment. The data used in this report are based on European, OECD and UN statistical databases.

The objective of the 2007 update of the CIAA benchmarking report is four-fold:

- I. provide an update of the EU food and drink industry key indicators, shifting from EU-15 to EU-25 data where possible;
- II. look at how the European food and drink Industry has dealt with the weaknesses and challenges concerning the growth potential of the sector;
- III. check to what extent the recommendations of the 2006 report related to increasing the food and drink industry's competitiveness have been taken into consideration;
- IV. review the policy recommendations, reiterating the requirements for improved conditions where appropriate.

For the European food and drink industry to remain competitive, European policy makers need to create a stimulating business environment. Industry has responsibility for making appropriate business decisions, embracing latest techniques and streamlining management. Improving competitiveness will contribute to sustainable food and drink industry activity in Europe and will allow companies to continue serving European consumers efficiently while responding even more rapidly to their changing needs.

Finally, I would like to thank our members and particularly the experts of the CIAA competitiveness task force for their involvement and input in this update of CIAA's benchmarking report. Their professional experience in the food and drink sector or as economic researchers has been essential for the development of the report, analysing the data and formulating the right policy messages.



Jean Martin,
President of CIAA



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Executive summary

The EU food and drink industry is the largest manufacturing sector in Europe with a turnover of €836 billion and provides employment to 3.8 million people. The industry serves the approximately 480 million EU consumers with a large variety of safe and high quality products. Over the years, the food and drink industry has responded to changing consumer preferences and the growing demand for value added goods. Cultural diversity and specific food traditions are the foundation and the key assets for the industry's sustainable development.

Greater international challenges and concentrated retail and distribution sectors continue to put strong pressure on the EU food and drink industry's competitive position. The high fragmentation of its structure - the sector is made up of 99% SMEs producing about 50% of total turnover - presents a further constraint that needs to be overcome when addressing these challenges, especially in terms of seeking to enhance competitiveness and for sustaining growth. There are essentially two ways of generating growth in the food and drink industry:

- moving up the value chain, producing higher value added goods and putting more emphasis on innovative products;
- making better use of growth opportunities in international markets to sustain or expand export performance.

A year after the first edition of the CIAA benchmarking report, the 2007 update offers a review of the main indicators and of the key recommendations for European policy-makers in the four specific areas identified as critical to improve food and drink industry competitiveness.

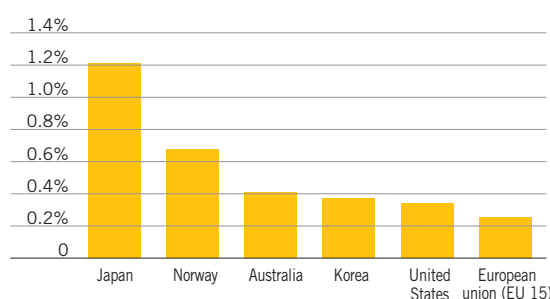
1. Efforts to increase R&D investment must be sustained. Innovation requires a conducive regulatory environment and appropriate support

The food and drink industry investment in R&D, with 0.24% of output in 2004, is below investment by other key players. A radical change in the policies related to research, development and innovation in the food and drink sector is needed and has been initiated through EU policy and private initiatives.

The 7th Framework Programme, the European Technology Platform (ETP Food for Life) and other EU projects like the Competitiveness and Innovation Framework Programme (CIP) must be fully exploited. More food science curricula need to be created to provide adequate competences for the development of new food products and production methods.

The EU regulatory environment needs to be made more conducive to innovations in the food and drink area. Lengthy approval procedures, legal uncertainty and high administrative costs discourage industry initiatives in this field.

Fig.1 Business Expenditure on R&D as a percentage of total output (2004)



Source: OECD, Research and Development Expenditure in Industry, 2005.

2. 'Better regulation' must result in concrete improvements of the legislative environment. Despite considerable efforts, the process still falls short of industry expectations

A better, simpler, more proportionate and a more competitive EU regulatory framework is urgently needed in order to secure the competitiveness of the EU food and drink sector. A majority of the points submitted by CIAA for action in the 2006 benchmarking report have been taken up in the Commission's action programme for better regulation and some of these action points are progressing satisfactorily. However, recent practical experience with the review of the novel foods regulation and the labelling legislation demonstrates that the impact assessment questionnaires posed serious problems for respondents. The answers submitted were often not suitable for proper analysis concerning the impact of these regulations on industry. Furthermore, the way individual and collective responses are taken into account remained unclear.

In addition, some new legislative proposals in the area of hygiene and claims do not follow the better regulation principles, according to which new legislation should have no negative impact on innovation, and legislative requirements should be practically achievable and enforceable. Regulation should be less interventionist and designed to stimulate output and growth of the sector.

In the context of environmental policy making, the important role that voluntary stakeholder initiatives and public-private partnership can play both in terms of sustainable production and consumption and better regulation should be recognised by EU legislators. Such tools are vital alternatives and/or complements to traditional "command-and-control" types of environmental policy making, in particular in areas, such as Integrated Product Policy, where hierarchical government forms show certain limits in promoting continuous improvement and innovation.

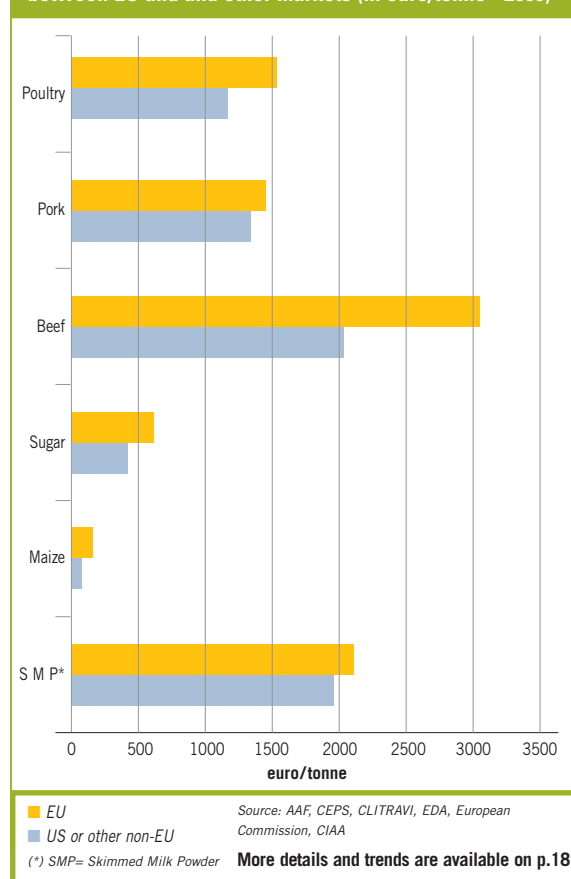
Voluntary industry initiatives and partnerships, self-regulation, or co-regulation should be considered more often on a case-by-case basis in support of better regulation and competitiveness objectives.

3. Access to competitive agricultural raw materials remains a concern

The EU agricultural reforms that are currently implemented or that will be implemented in the coming years will ensure more market-orientation and enhance sustainability of the EU far-

ming system. Despite reform processes, access to competitive agricultural raw materials remains uncertain and will pose a problem to exporters and suppliers of the internal market alike.

Fig. 2 Price differences for main agricultural inputs between EU and other markets (in euro/tonne - 2006)



EU policy must set the framework for a competitive, market-oriented and sustainable agricultural sector.

The review of the CAP and its future orientation must give particular attention to the primary role of agriculture which is to efficiently produce agricultural raw materials and ensure supply of food sectors.

In implementing a future Renewable Energy Roadmap, EU institutions must address food and drink industry's concerns and ensure increased availability and diversity of feedstock through appropriate agricultural and trade policy instruments. The development of biofuels must avoid distortions and negative impacts on agricultural markets.



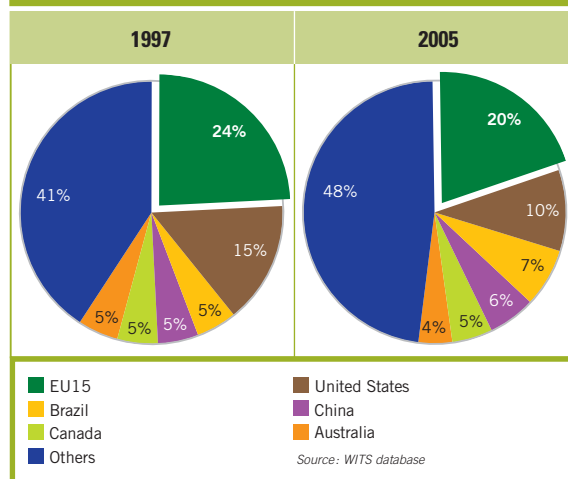
4. Trade policy and export performance: trade policy will require targeted action to improve access to non-EU markets for EU food and drink exports

EU products entering non-EU markets face more problems in emerging economies than in developed markets. Although positive signs have been registered since 2005, this trend must be sustained by trade policy decisions and measures.

Beyond a necessary WTO agreement, EU bilateral trade policy needs to address tariff and non-tariff barriers to trade -notably food legislative provisions, veterinary and hygiene measures-, insufficient or lack of protection of geographical indications and discriminatory taxes. Improved protection of intellectual property rights and brands is essential to maintain the competitiveness of the EU food and drink industry.

The food and drink export strategy requires that, as long as export refunds are operational, they need to fulfil their task appropriately. The strategy must also include a more ambitious export promotion programme.

Fig. 3 Market shares on the global food and drink export market



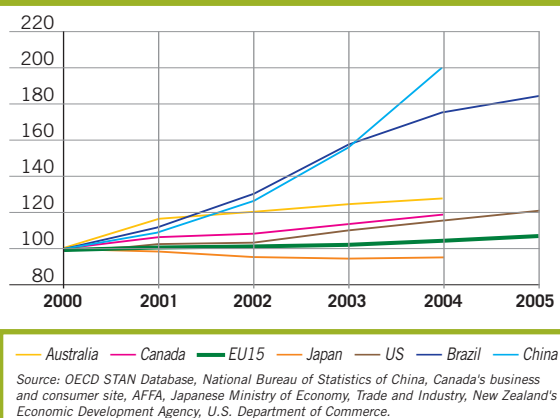
II Main competitiveness indicators

The CIAA 2006 benchmarking report analysed a number of competitiveness indicators for various food and drink industries. By comparing the values of these indicators it became clear that the European food and drink sector is lagging behind in terms of competitiveness. This 2007 update reviews key data: the evolution of production value, value added, labour productivity and the EU export share. The evolution of these four indicators demonstrates that the competitive position of the European food and drink processors continues to deteriorate over time vis-à-vis its main competitors.

1 Production value: slow growth

During the last three years (2002-2005) total production value of the European food and drink industry increased by approximately 1.8% per annum. This growth is slightly inferior to most other developed countries but considerably less than the steep growth of Brazilian and Chinese food and drink production.

Fig. 4 Evolution of production value in various food and drink industries (2000 = 100)



Nevertheless the EU25 remains by far the largest food and drink producing economy, with a total production value of €815 billion in 2004 followed by the US (€468 billion) and Japan (€219 billion). China and Brazil reach €126 billion and €48 billion respectively.

2 Productivity: gap with the US still significant, despite positive growth signs

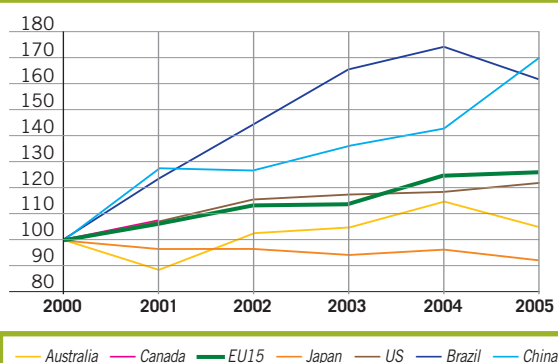
Labour productivity in the EU is significantly lower than that of all its main developed country competitors. Since 2004, labour productivity in the EU food and drink industry is growing slightly faster than in the US although the gap in labour productivity remains important. As compared to western economies, emerging economies such as China and Brazil, show considerable labour productivity growth, which is putting more pressure on European competitiveness.

Table 1 - Labour Productivity in Euro, 2004 (value added/employee)

United States	86,959
Japan	82,548
Canada	62,471
Australia	58,096
EU 25	49,323
Brazil	18,823
China	9,493

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

Fig. 5 Evolution of labour productivity (value added/employee) growth in various food and drink industries (2000=100)



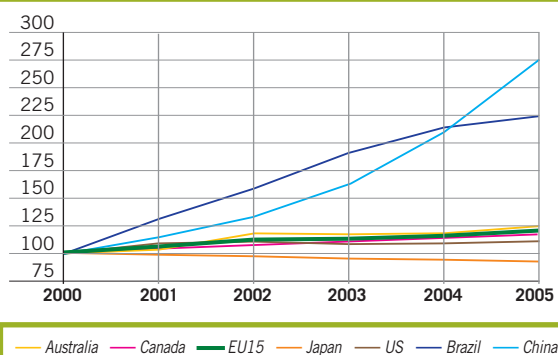
Source: US Census Bureau, Chinese Yearbooks, National Bureau of Statistics of China, Statistics Bureau Japan, Statistics Canada, Australian Department of Agriculture, Fisheries and Forestry, Eurostat, Instituto Brasileiro de Geografia e Estatística.

3 Value Added: efforts start to pay off, meanwhile emerging markets are catching up

Value added continues to grow at a constant pace in the EU25. In recent years the European food and drink industry has been performing slightly better than its main competitors, reflecting the continuing efforts of industry to shift production towards more value added products - where the competitive advantage lies.

The steep increase from the value added of the Chinese and Brazilian food and drink sectors is not itself the sole result of an increase in production, but more of a shift towards higher value added products. The growth of the value added in Brazil appears, however, to have reached its peak and is now viewed to be returning to more moderate levels.

Fig. 6 Evolution of value added in various food and drink Industries (2000 = 100)

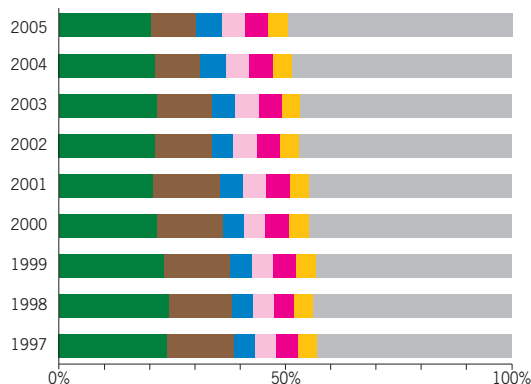


Source: US Census Bureau, Chinese Yearbooks, National Bureau of Statistics of China, Statistics Bureau Japan, Statistics Canada, Australian Department of Agriculture, Fisheries and Forestry, Eurostat, Instituto Brasileiro de Geografia e Estatística.

4 Share in world market: shrinking

The European market share of the global export market in food and drink products (value of exports as a percentage of the value of total world exports) has been "shrinking" over the last ten years much to the benefit of agricultural exporters such as Brazil and other emerging economies such as China. The EU market share dropped from 24% in 1997 to 20% in 2005. In comparison with the US, Europe's share reduced percentage wise at a slower pace: between 1997 and 2005 the US lost 30% of its share, compared to a 15% loss by the EU25.

Fig. 7 Shares of world food and drink exports



Source: WITS Database, Eurostat



Specific food and drink industry benchmarks and requirements

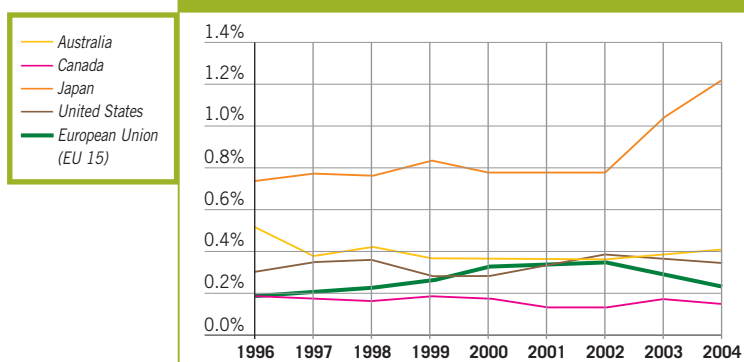
1 R&D investment and innovation performance

- Efforts to increase R&D investment must be sustained
- More support for innovation and a conducive regulatory environment are needed to shift to higher value added food production

In 2004, Research and Development (R&D) investment of the EU15 food and drink industry reached 0.24% of food and drink industry output, as compared to 0.29%¹ in 2003 and it was below the R&D spending of the food and drink industry in other developed countries. Even large EU companies spend per employee only 45% of what non-EU companies invest in R&D².

Between 2002 and 2004, R&D spending as a percentage of industry output has been declining, widening the spending gap between competitors. Despite expected positive EU developments taking place over the last two years, which are not yet visible in available figures, there is no doubt that efforts must be sustained.

Fig. 8 R&D as a percentage of industry output for food and drink industries in various countries



1.1 EU policy in favour of research and development

The European Technology Platform (ETP) - "Food for Life"

The ETP "Food for Life" vision for 2020 and beyond was launched in Brussels on 5 July 2005. The platform developed a Stakeholder Strategic Research Agenda describing a dynamic strategy for achieving this vision and meeting the innovation challenge in the food and drink sector. Furthermore, the ETP elaborates a detailed implementation plan that describes the research, training, education and dissemination requirements needed to fulfil the vision and strategy.

In addition, up to now, 20 European countries have established their own national technology platforms and more are in the pipeline. These national platforms, while important with regard to feeding into the European technology platform strategic research agenda and into the implementation plan, also establish important links between national and European research activities.

Building on the experience of the 6th Framework Programme: Focus on SMEs

Small and medium-sized enterprises (SMEs) became a major focus of the 6th Framework Programme (FP6). In fact, within the thematic priority on food quality and safety, almost €30 million are available each year for SMEs involved in research projects, to be used within the different available instruments, but in particular for integrated projects, networks of excellence and specific targeted research projects.

(1) The 2006 Benchmarking report reported the Business Expenditure on R&D for the EU to be 0.32% of total output. This figure was based on data from Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Spain, Sweden and the UK only. Since 2004, data for 15 EU Member States are available (including Austria, Greece, Luxemburg and Portugal).

(2) EU R&D Investment Scoreboard.

SMEs-Net, a completed FP6 project, established a European SME's Network between industry, consumers and the scientific community and identified European SME's research and technology development priorities through a consultative process (see <http://smes-net.ciaa.eu>).

A new driving force: the 7th Framework Programme

The total budget (2007-2013) agreed by the Council in July 2006 for the 7th Framework Programme saw a decrease to €32.365 million compared to the €44.432 million as initially proposed by the Commission in April 2005. Although the absolute budget allocated to food, agriculture and biotechnology decreased in real terms, the share of the "Cooperation budget" allocated to food, agriculture and biotechnology increased from 5.5% to 8.5% (in the 2006 benchmarking report, CIAA requested 11%). A number of industry priorities as indicated in the stakeholder strategic research agenda of the ETP "Food for Life" are reflected in the first two calls of the 7th Framework Programme.

Other European R&D projects: Competitiveness and Innovation Framework Programme

In addition to DG Research funding, DG Enterprise also has a limited research budget mainly dedicated to support, in particular, SME activities: the Competitiveness and Innovation Framework Programme, CIP (2007-2013). This Programme seeks to support research and innovation in areas such as food chain management. In the work plan for 2007 a project called "dissemination of agro-food industry innovation" is included.

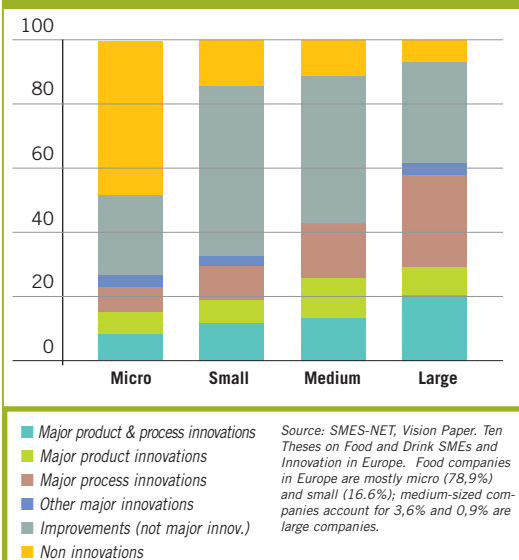
European education related to food production

EU universities are stepping up efforts to develop food science-related degrees such as the European MSc Degree in Food Science, Technology and Nutrition³. The training of EU researchers aimed at gaining sets of competences that are relevant to the food and drink industry is key to link academia and industry research needs. It will allow targeted research into new food products and food production processes. Such research is essential to keep the EU food and drink industry ahead of its competitors.

Medium-sized companies: a promising group for food & drink innovations

Recent research* demonstrates that size remains a major factor in determining whether or not companies invest in innovation activities and the type of activities they invest in. Big companies tend to be proactive in all directions; they invest in product, process and other innovations. Small companies must choose between these innovation-activities. Medium-sized companies are in a sense the most balanced and emerge as the prototype of innovators in the food industry. Medium-sized companies must therefore be treated as a group with its own logic and specific characteristics. This part of the industry has a history of continuous innovation and a greater attention to product development. It is often the place where important and radical innovations are made. Medium-sized firms are typically the most promising group of innovation based food companies.

Fig. 9 Innovation activities of companies over a three year period (%)



(*) According to the result of a survey, sector differences are no major source of segmentation on these issues. A three-year framework has been chosen, which is a reasonable period for surveying innovation types of companies.

(3) A degree developed by four partner institutions: Katholieke Hogeschool Sint-Lieven (Ghent - Belgium), Hochschule Anhalt (FH) (Köthen - Germany), Dublin Institute of Technology (Dublin - Ireland), Universidade Catolica Portuguesa - Escola Superior de Biotechnologia (Porto - Portugal)

1.2 EU innovation policy

The legislative environment in the EU is not conducive to innovation, and more so in the food and drink area. Lengthy approval procedures and high administration costs represent a real deterrent for industry initiatives in this field. A comparison of representative cases submitted to the EU novel food procedure and the US GRAS Procedure⁴ illustrates the basic problem.

Table 2 - Case study		
	EU novel foods procedure	US GRAS Procedure
Novelty	High Pressure Processing	Phospholipase A2 enzyme preparation from <i>Aspergillus niger</i> expressing a gene encoding a porcine phospholipase A2
Procedure	<ul style="list-style-type: none"> ■ Application in France: December 1998 ■ Positive initial assessment by French Competent Authorities: May 2000 ■ Reasoned objections by other MS ■ Hearing of the applicant: agreement on approval without SCF consultation ■ Decision to authorise is published: 23.05.2001 	<ul style="list-style-type: none"> ■ Scientific data summarised in a letter from the FDA ■ Reference made to literature published before and not specifically for this GRAS notification. ■ Company answered additional questions from the FDA.
Duration	2.5 years	6.5 months

Current legislative reviews concerning for example the food improvement package and the novel food regulation have the potential to improve the situation (see under the Better Regulation chapter, table 3, p.17).

(4) "GRAS" is an acronym for the phrase Generally Recognized As Safe. Under sections 201(s) and 409 of the US Federal Food, Drug, and Cosmetic Act (the Act), any substance that is intentionally added to food is a food additive, that is subject to premarket review and approval by FDA, unless the substance is generally recognized, among qualified experts, as having been adequately shown to be safe under the conditions of its intended use, or unless the use of the substance is otherwise excluded from the definition of a food additive.

Recommendations on R&D investment and innovation performance

To EU policy makers

On research and education policy

- EU R&D funds of the 7th Framework Programme must continue to 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. In the upcoming calls, CIAA's priorities as defined in the Stakeholder Strategic Research Agenda of the ETP "Food for Life," should be taken into account, especially the request for supportive measures for communication, training and technology transfer for SMEs.
- The ETP "Food for Life", which has a key role in determining orientations and providing the necessary framework for the establishment of public-private R&D partnerships, needs public recognition leading to appropriate support.
- Other EU research funds, such as the Competitiveness and Innovation Framework Programme (CIP), are supportive and need also to be directed to food and drink related research projects.
- New initiatives and comprehensive action must be developed at EU level on education and training. Food science degrees should be offered at all major universities and colleges.
- Possibilities of improving further the financing of innovation should be explored.

On innovation in food policy

- Regulatory and administrative procedures need to be business-friendly. The proposed harmonised authorisation procedure for additives, flavourings and enzymes is therefore welcome and must be approved.
- Moreover, authorisation procedures for all new foods for different uses should be harmonised and based on one single assessment, undertaken by the European Food Safety Authority (EFSA), in order to avoid duplication of work and costs.

To policy makers in the Member States

- National R&D programmes should maintain the link with the European vision and priorities.
- Member States that have not yet established a national technology platform (Bulgaria, Estonia, France, Ireland, Lithuania and UK) and wish to do so, need support of national governments.
- Member States should also make use of specific national instruments in support of private R&D initiatives and investments, such as positive fiscal incentives and a greater focus on human capital, through adequate training and the development of food science-related degrees.



2 Better regulation

- **Despite considerable efforts, 'Better Regulation' has not yet resulted in substantial improvement of the legislative environment**
- **Costs of inappropriate legislation negatively affect the competitive position of companies**

For CIAA, many of the problems faced by the food and drink industry with existing legislation could be solved through a better, simpler, more proportionate and a more competitive EU regulatory framework. Reducing costs relating to administrative burdens would substantially enhance the profitability of the EU food and drink industry.

- There are requirements and procedures that are burdensome and costly. To favour a level playing field for the European food and drink sector when competing with non-EU industries ongoing reviews are critically important: food improvement package (additives, enzymes, flavourings and a common authorisation procedure), novel foods, food labelling and nutritional labelling, waste, modern customs code, trade related provisions covered by the CAP simplification action plan, export promotion.
- Certain legal texts give rise to diverging interpretation at national level and are often neither effectively nor uniformly enforced throughout the EU. This results in unnecessary burdens and prevents the objective of reaching a level playing field: EU Emissions Trading Schemes, Waste Framework Directive, General Food Law and the Rapid Alert System.

It is a step in the right direction that a majority of the points submitted by CIAA for action in the 2006 Benchmarking report have been taken up in the Commission's action programme for better regulation and that some of these action points are progressing satisfactorily (see table 3 for CIAA's latest priority review).

However, recent practical experience with the review of existing legislation and the legislative process for new regulation has cast doubts about the willingness and ability of EU legislators to make the better regulation approach a success when trying to improve the regulatory framework for European businesses.

2.1 Impact assessments must include meaningful business consultation

New initiatives considered by the Commission are usually subject to an impact assessment, and CIAA has called for early involvement of industry in the consultation process. Since it is of utmost importance that the questions submitted to industry are meaningful and relevant, stakeholders should ideally be involved in this early preparation stage, so that responses bring clarity to the issue at stake. Unfortunately two examples illustrate the gap between guidelines and practice.

Review of the novel foods regulation

The stakeholder consultation, in the form of an on-line questionnaire, included questions considered unsuitable or irrelevant to analyse the impact of this regulation on industry. Nonetheless, a majority of responses indicated that the procedure was deemed too lengthy and therefore, it prevents innovation. It is questionable whether the revision is likely to take the industry's specific concerns into consideration. Furthermore, the way individual and collective responses are taken into account remained unclear.

Review of the labelling legislation

As part of the new process adopted within Commission services to be followed prior to proposing/revising legislative measures, the Commission is conducting an on-line enquiry to understand and quantify some of the costs the food industry might incur because of revisions to EU food labelling legislation. These costs to food business operators are relevant and important in understanding the impact of revisions to legislation. The survey questions posed problem. The exercise triggered difficulties in retrieving data in complex business structures. Moreover, the consideration of new scenarios not included in current business data collection systems, requires longer contribution time than foreseen. There are also serious doubts as to whether the survey results will offer an appropriate evaluation of the cost situation. These drawbacks would have been avoided by an early involvement of industry labelling experts in the drafting of the questionnaire.

2.2 Better regulation must prevail throughout the decision-making process

Among the principles to follow for producing better legislation, CIAA has emphasised the request that new legislation should not have a negative impact on innovation and that legislative requirements must be practically achievable and enforceable. Some recent regulatory actions in the area of hygiene and claims are, for different reasons, not meeting these principles and raise questions as to the credibility of the impact assessment process.

Regulation 852/2004 on the hygiene of foodstuffs

The proposal by the European Commission to exempt smaller food businesses from the Hazard Analysis and Critical Control Points ("HACCP") element of the regulation on the Hygiene of Foodstuffs involves a reduction of administrative burdens at the expense of the level of consumer protection offered by the original regulation. While CIAA supports the idea of having less administrative burdens for micro-enterprises, a total

exemption for very small businesses from the requirements of putting in place, implementing and maintaining a permanent procedure based on the HACCP principles risks lowering the level of consumer protection and ignores the fact that food safety incidents can start in even the smallest of enterprises. Furthermore the definition of the type of micro-enterprises that are exempted is unclear and the achievability and enforceability of the legislative requirements are doubtful.

Regulation on nutrition and health claims made on foods

The compromise proposal for the introduction of the new comitology rules (Council decision 2006/512/EC) into the regulation on claims goes against the core principles of reducing administrative costs and providing legal certainty to businesses which is a necessary condition for investment in innovation. With the compromise Article 17.3 (and article 18.4), the authorisation procedure, which is an essential part of the claims regulation, has been substantially changed. Instead of an authorisation without time limit, the compromise introduces a combination of the first time-limited authorisation of 5 years and a second authorisation without time limit. The compromise substantially changes the position of first applicant food business operators. They will have to decide on heavy investment into research and development without certainty that the outcome of this research can be used commercially for more than 5 years.

2.3 Applying better regulation approach in environmental policy making

The food and drink industry fully recognises its responsibility in contributing to sustainable production and consumption patterns along the food chain and for many years has taken a proactive approach towards sustainability. In addition to extensive legislation, the sector has implemented a series of voluntary initiatives and partnerships, which have resulted in significant improvements in the environmental performance of its products and processes (energy, water, waste, packaging, etc.).

In this context, CIAA underlines the important role that voluntary stakeholder initiatives and public-private partnership can play both in terms of sustainable production and consumption and better regulation. CIAA views such tools as vital alternatives and/or complements to traditional "command-and-control" types of environmental policy making, in particular in areas, such as Integrated Product Policy, where hierarchical government forms show certain limits in promoting continuous improvement and innovation.

Energy efficiency and carbon emissions

In overall terms, the food and drink sector is characterised by a comparably low energy intensity, although major differences exist in the energy intensity of its various sub-sectors. In total, food and drink manufacturing accounts for about 8% of industrial energy use (including tobacco, IEA data, 1998) despite a higher share in industrial value added. The graphs below provide a comparison of total energy use, energy intensity and value added in the food and drink sector in comparison to other, more energy intensive, manufacturing sectors.

Fig. 10 Energy use by manufacturing sub-sector (IEA-11)

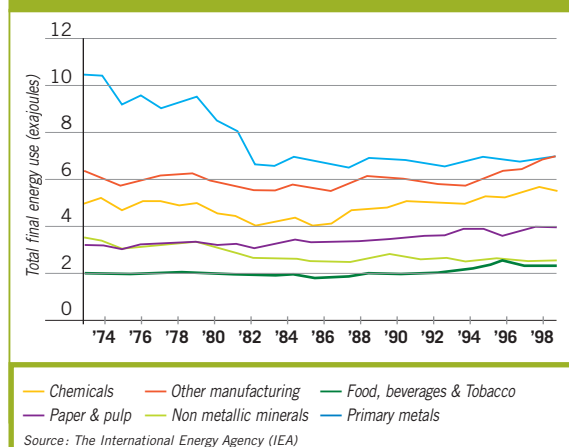
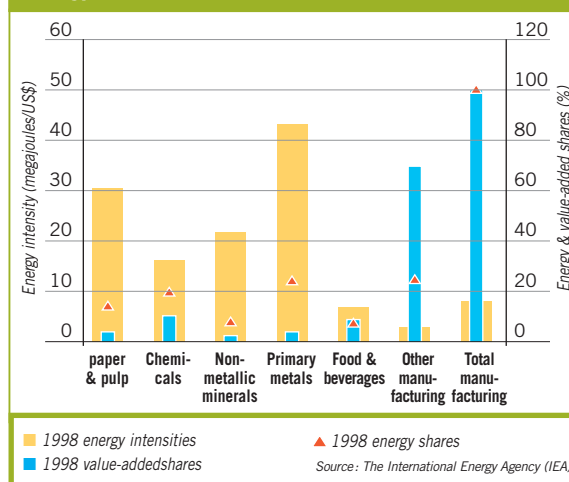


Fig. 11 Sub-sector energy intensities, value-added and energy-shares (IEA-11)





As responsible energy users, food and drink manufacturers, particularly in relatively energy intensive sub-sectors, are undertaking significant investment in improving energy efficiency in order to improve their competitive position and to reduce emissions. Such voluntary initiatives include:

- Adoption of best practices on energy management,
- Investment in energy efficient technology (e.g. co- and poly-generation),
- Participation in national energy efficiency schemes: detailed energy audits of industrial facilities, adoption of energy efficiency targets at the sectoral level, feasibility studies, etc.,
- On-site production of renewable energy (e.g. biogas production),
- Switching from heavy fuel to natural gas.

Upcoming EU Action Plan on Sustainable Consumption and Production (SCP)

In its renewed EU Sustainable Development Strategy adopted in June 2006, the EU integrated sustainable consumption and production (SCP) as one of the 7 key challenges and the Commission is now preparing a SCP Action Plan, with a Green Paper to be presented in 2007. The Action Plan will make specific reference to the environmental impacts of transport, housing and food production.

For many years, the food and drink manufacturing sector has taken a pro-active approach towards sustainability and has significantly improved the environmental performance of its production processes. Besides food manufacturers, the decisions of other life-cycle actors, such as farmers, packaging suppliers, the transport sector, retailers, consumers, the waste industry, and public authorities, can have a significant impact on the environmental life-cycle of food and drink products. SCP must therefore be based on the shared and accurately allocated responsibility of all actors along the life-cycle. All three pillars of sustainable development, including health, nutrition, food safety and the competitiveness of the industry must be fully taken into account. Voluntary industry initiatives, self-regulation, or co-regulation should be used on a case-to-case basis in support of both SCP and better regulation objectives.

Recommendations on better regulation

- The Commission's better regulation approach applied to existing legislation needs to be actively pursued. The inclusion in the better regulation exercise of legislative texts identified by CIAA (as outlined in table 3) must be achieved. Better regulation must lead to concrete results for operators. This calls for an acceleration of the process, notably when the legislative texts are under Commission responsibility.
- Better regulation requires an appropriate impact assessment prior to any Commission initiative. Best practice for these impact assessments still needs to be improved, i.e. effective and meaningful stakeholder consultation is required based on early involvement of key players.
- Impact assessments require broad consultation. However, results need to be weighted accordingly, especially when key stakeholders are involved such as economic operators directly concerned and representative bodies speaking on behalf of a large constituency.
- Better regulation cannot be just a theoretical concept, but must be a credible principle committing institutions. All EU institutions must therefore strive for improved processes including an impact assessment of decisions, including of political decision, throughout the regulatory process. This is totally incompatible with new provisions, concepts or procedures being introduced in proposed legislation at a late stage in the decision making-process.
- Voluntary industry initiatives, co-regulation and self-regulation can in certain cases be alternatives to classical legislative activity and should, when appropriate, be part of the consultation and impact assessment as possible policy options. CIAA is committed to monitoring such self-regulatory initiatives. Such a new approach leads to a debate on the acceptance by all decision makers, partners and stakeholders of a new governance model.

Table 3 - CIAA Priorities and Objectives for Better Regulation

ENVIRONMENT	Sustainable Consumption and Production (SCP) & Integrated Product Policy (IPP)	<p>In the development of the upcoming SCP Action Plan:</p> <ul style="list-style-type: none"> ■ all three pillars of sustainable development must be considered; due attention must be paid to the competitiveness of the industry and to highest nutrition, health and food safety requirements; ■ SCP must be based on shared and accurately allocated responsibility of all actors along the life-cycle, incl. farmers, transport, manufacturers, retailers, consumers, waste industry and authorities; ■ There must be no discrimination between “good” and “bad” products in the market place, instead, the performance of products must be continuously improved; ■ SCP must promote innovation and facilitate development and uptake of eco-efficient technologies; ■ Voluntary industry initiatives, self-regulation, or co-regulation should be used in support of both SCP and better regulation/competitiveness objectives.
	Emission Trading Scheme (ETS) & Climate Change	<ul style="list-style-type: none"> ■ To ensure the cost-effectiveness of the EU ETS as well as a level playing field, the revised Directive needs to provide for a consistent implementation of the ETS scope in all Member States (definition of “combustion installation” in Annex 1), more harmonised allocation rules and a significant reduction of the compliance burden for small sites (e.g. de-minimis rule); ■ To ensure international competitiveness, a global climate protection agreement is essential, involving all industrialised nations and major emerging economies; ■ The competitiveness of climate friendly technologies must be accelerated via increased R&D funding as well as national and EU support mechanisms for industry.
	Waste	<p>In order to avoid different interpretations of the definition of waste at the national and local level, a clear legal distinction between by-products and waste is required in the text of the WFD, based on recent ECJ jurisprudence. This is required to ensure environmental and economic efficiency.</p> <p>The waste hierarchy must be implemented as a guiding principle and flexibility is crucial to guarantee workability. Rigid deviation procedures requiring individual justification by complex LCAs in each case must be avoided.</p>
	Packaging	Better EU scrutiny of national measures on packaging are required to ensure the proper functioning of the internal market for packaged goods and to avoid distortions of competition.
	Integrated Pollution Prevention and Control (IPPC)	To ensure legal clarity and to avoid inconsistent interpretations at the national/level, the revision of the Directive should clarify the scope of installations covered under Annex I, 6.4. (b) and (c).
TRADE	CAP Simplification Action Plan <ul style="list-style-type: none"> ■ Proof of arrival ■ Physical checks ■ Export licences ■ Promotion 	<p>Proofs of arrival at destination, required by Articles 16 and 17 of Regulation 800/1999, for differentiated refunds should be proportionate and related to the risk of the export not reaching the destination stated on the export declaration, or not reaching a neighbouring destination attracting a similar rate of refund.</p> <p>Physical checks according to Council Regulation 386/90 should be targeted on the real risks of fraud and not on a percentage of the number of export declarations.</p> <p>Simplification of the management system for export licences for cereal-based products, Regulation 1342/2003 and removal of licenses in the absence of refunds.</p> <p>Real improvements are necessary to make promotion programmes attractive and user-friendly: the extension to all processed and fish products, the possibilities to show branded products in fairs, the facilitation of the management of cross-country programmes, the simplification of a number of procedures, such as the amendment of the initial programme, the monitoring and payments.</p>
	Modern Community Customs Code	The new customs code and implementation texts should radically simplify customs procedures and facilitate and simplify the use of economic customs regimes (inward processing) as a necessary tool for maintaining export potential. The creation of a genuine single market for customs, a modern IT-based environment is needed.



Table 3 - CIAA Priorities and Objectives for Better Regulation

HEALTH CONSUMER PROTECTION	Food Improvement Package <ul style="list-style-type: none"> ■ Additives ■ Enzymes ■ Flavourings ■ Common authorization procedures 	<p>The many changes to earlier texts must be consolidated. Authorisations must reflect current needs and respond to changes in use and dietary patterns. Temporary national authorisations should be granted until the new additives and enzymes proposals are adopted, otherwise a lengthy 'stand-by situation' will hinder product development and continuous market adaptation.</p> <p>The safety assessment provisions for food enzymes used in the Community need to be harmonised. It is important to adopt a pragmatic approach towards the setting of any conditions of use for food enzymes to be included in a positive Community list. If conditions of use are too detailed, product innovation will be inhibited. The conditions should not be set unless there is a recognised technological or food safety limitation associated with a particular use of a food enzyme.</p> <p>New provisions on food ingredients with flavouring properties and controls of Biologically Active Principles (BAPs) should not lead to removal from the market of food and drink products containing herbs and spices that contribute to high levels of BAPs when they contribute very little to overall dietary intake. Any change in labelling terms should focus on providing consumers with more meaningful information, rather than simply more information.</p> <p>The proposed introduction of the comitology procedure is a welcome move and should speed up authorisation of new substances and amendments to existing conditions of use (including deletion of substances). This will favour research and innovation, and improve technology to the benefit of the consumer. This introduction goes hand in hand with a centralised risk assessment procedure carried out by EFSA.</p>
	Food labelling	All provisions regarding food labels need to be streamlined, simplified and consolidated. In a more fundamental review, a distinction should be made, for food in general and for specific categories of food, between essential and complementary information that has limited relevance to the majority of consumers. Self-regulation could be further explored for certain labelling aspects, in particular for nutrition labelling.
	Nutrition Labelling	The revision of the nutrition labelling directive needs to be carried out after considering what self-regulatory initiatives, such as the CIAA voluntary nutrition labelling scheme, have delivered. Then, the existing legal requirements should be simplified to create a clear and justified regulatory framework.
	Novel Foods	The revision of the regulation should stimulate innovation in the food and drink industry. It should protect the functioning of the internal market, protect public health and, at the same time, facilitate market access for novel food products. The revision should be science-based and should envisage only one application for all new foods for different uses with one single assessment, undertaken by EFSA.
	Genetically modified organisms	Asynchronous authorisation of GMOs world wide could lead to presence of GM at low levels in agricultural products, which are not covered by the EU regulatory system. Such GMO contamination can occur, despite the efforts of all partners in the food chain to prevent the adventitious presence of GMOs. Workable thresholds for cross-contamination should be set. The problem of contaminations needs to be addressed in an open discussion on the enforceability of the European GMO regulatory system.
	General Food Law: Rapid Alert	The European Commission and National competent authorities should assess the efficiency of the system, taking into account stakeholder concerns. The Rapid Alert System for Food and Feed (RASFF) being published on the DG Sanco website should serve the needs of those concerned. Clear implementation rules should be put in place to prevent diverging interpretation at Member State level to the detriment of food industry.

3 Business input costs and agricultural raw materials

- Factor costs remain a concern and pressure on food chain increases

Factor costs

Agricultural raw materials take up a large share of production costs. Depending on the sector and the product, this ranges from 30% up to 80% of total production costs, with many products beyond 50%.

Other meaningful costs relate to packaging, employment and logistics. Energy costs represent a relatively small part of total input costs of the food and drink industry. On average, energy costs amount for 2.1% of total input cost, but between sub-sectors this figure ranges from 0.5% and 8%. Rising energy prices make energy costs an increasingly important part of overall input costs, in particular in the comparably energy intensive sub-sectors. Industry responds with increasing investment in energy efficiency (technology and management) to compensate parts of the additional costs. Given the price pressure exercised by retailers, the increasing energy prices cannot be transmitted to consumers.

Focus on agricultural input costs

As agricultural raw material costs often represent more than half of the production costs of food and drink products, it is no surprise that the cost of agricultural raw materials is a particular area of concern for the sector.

The EU agricultural reforms that are currently implemented or that will be implemented in the coming years will ensure more market-orientation and should enhance sustainability of the EU farming system.

EU policies have led to a high level of standards in the environment and food safety area, further strengthened by the introduction of cross-compliance in agricultural policy. This contributes to enhancing the EU image with regard to quality and safety of its agriculture and food production. Production costs that these standards entail constitute, however, also a constant challenge for EU operators when competing with other players that are far from being subject to equivalent standard levels.

EU reform processes should make EU raw materials more competitive. However, the speed of such reform processes remains uncertain. This constitutes a challenge for industries supplying the internal market and for exporters. Numerous factors influence prices on EU and world markets. Current trends show that for some products, price gaps are closing and, for others, that agricultural raw material prices in the EU are still to the disadvantage of EU manufacturers.

Fig. 12a EU and world dairy prices (in €/tonne)

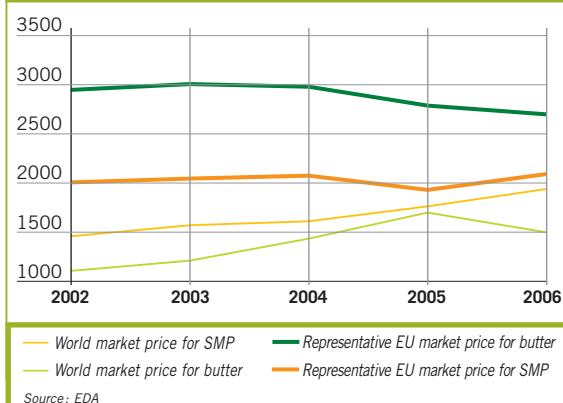


Fig. 12b EU and world crop prices (in €/tonne)

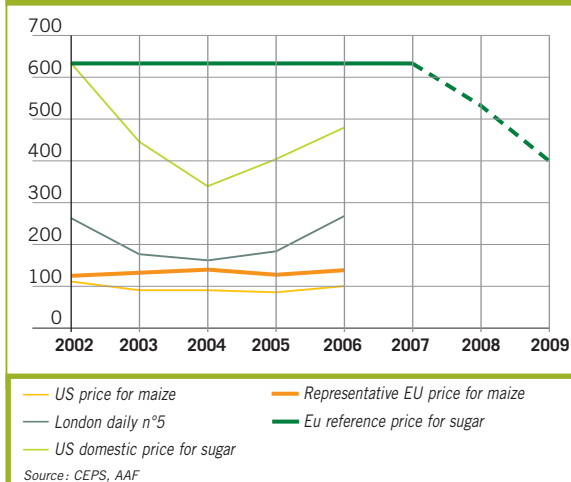
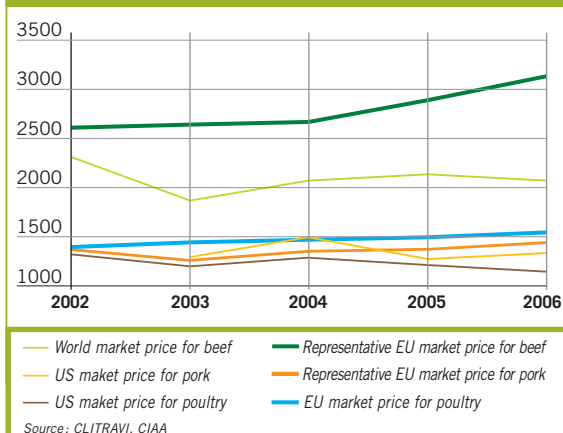
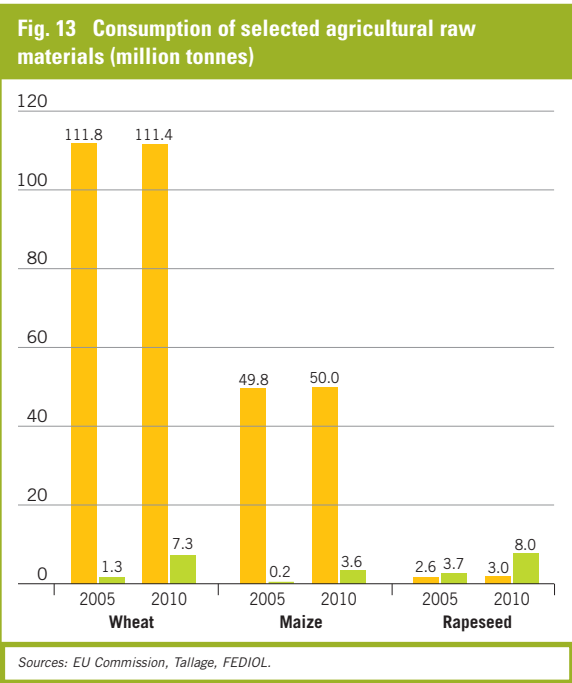


Fig. 12c EU and world meat (in €/tonne)





Furthermore, the increasing demand for agricultural raw materials in the non-food sector, in particular biofuels, puts pressure on food markets. The EU will fall short of reaching the 5.75% incorporation of biofuels in 2010. The ambitious minimum of 10% incorporation to be reached by 2020 assumes that second-generation biofuels will be available and economically viable by then. However, the impact assessment of biofuels on agricultural markets and on food production remains incomplete and only approximate with regard to the availability and price of agricultural products.



Finally, the EU food and drink industry is competing in a food chain largely dominated by a concentrated and globally active retail sector. Retail chains are increasingly pooling their purchasing power and are able to buy from any source to benefit from cost advantages. Cost increases at agricultural production level are being passed onto manufacturing industries. These industries are under constant price pressure from the retail sector and end up being squeezed and unable to readjust their prices due to increased factor costs. SMEs are particularly vulnerable to such a development.

Recommendations on access to raw materials

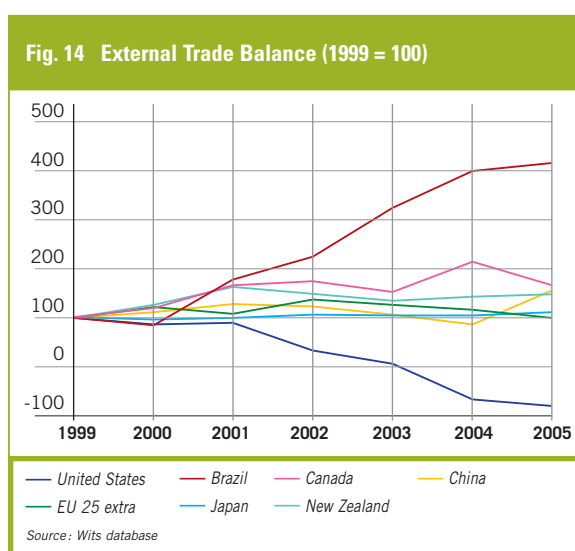
- The review of the CAP and its future orientation must give particular attention to the primary role of agriculture which is to efficiently produce agricultural raw materials and to ensure supply of food sectors. Rural development programmes must complement this with measures supporting innovation capacities, diffusion of information technology and product quality and safety.
- EU policies must set the framework for a competitive, market-oriented and sustainable agricultural sector. There are limits to higher costs that the EU can bear without lasting consequences on competitiveness and profitability.
- Despite positive steps, access to competitive agricultural products remains a matter of concern for the food and drink industry. In the short to medium term, if agricultural reform processes do not provide access to competitive agricultural products, it will be essential to ensure that exporters can use export refunds or alternative instruments. Systems such as inward processing - that allow for the importation of raw materials at world market prices for processing and re-export after manufacturing - must be operational and easy to use.
- In developing and implementing a future Renewable Energy Roadmap, EU institutions must ensure increased availability and diversity of feedstock through appropriate agricultural and trade policies and instruments. They must ensure that the framework provides sufficient flexibility to take into account national situations, feedstock availability and technological progress. Food sector and markets must not be subject to distortion due to the development of biofuels.

4 Trade policy and export performance

- Access to non-EU markets for EU food and drink exports must be improved through a set of trade agreements and export policy measures

The trade balance

The increased competition on the EU market through imported products makes an improvement of access to non-EU markets imperative. Imports into the EU have been increasing more rapidly than EU exports up to 2005, when export growth reached 5.3% compared to 5.5% for imports. 2006 saw further growth of imports (+10%) and an equivalent improvement in exports.



Presence of EU products on foreign markets

The performance of EU products in entering non-EU markets faces more problems in emerging economies than in developed markets. Although positive signs were registered in 2005, this trend must be sustained by trade policy decisions and measures. An EU market access policy needs to address non-tariff barriers to trade - notably food legislative provisions, veterinary and hygiene measures -, insufficient or lack of protection of geographical indications and discriminatory taxes, like differential export taxes.

Elements of an active export policy: export promotion

In 2006, EU programmes provided €37 million to support promotion actions, of which only 25% was dedicated to export promotion. This amounts to 71% of available budgetary resources. It is an improvement compared to the previous years when only 50% and 55% of budget appropriations was used. However, access to EU programmes remains difficult, due notably to management complexity and an absence of flexibility both acting as a disincentive.

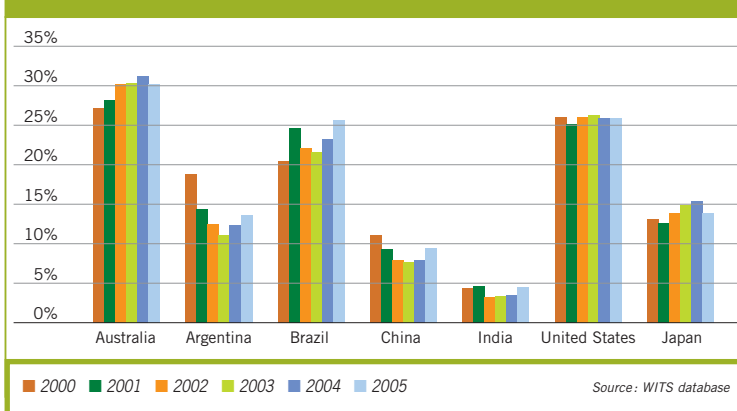
This compares unfavourably with the budget made available by other world players such the US (US\$145 million per annum). The EU policy in this field and its impact remains very limited and lacks ambition.

The role of export refunds is not negligible

As illustrated in chapter 3, the price gap bridging function of refunds is still relevant. Hence, to bring forward the complete elimination of export refunds or to take arbitrary decisions such as lowering refund levels on a sector-by-sector or product-by-product basis, without economic justification, can have considerable consequences for exports of food and drink products. Export refunds account for 9% to 12.5% of the export price of certain processed products (chocolate/confectionery and processed dairy products). While dairy product prices on world markets are currently exceptionally strong, it is generally agreed that, in the medium term, the milk fat fraction at least will continue to need export support until the market is balanced. Considering profit margins estimated between 1% and 8% in these sectors, the removal of export refunds will lead to increases in product prices, making it difficult to keep non-EU customers.

Furthermore, the administrative burden related to the management of export refunds triggers important costs due to the management of certificates, security deposits, proof of arrival at destination, transportation of documents, etc., which can ultimately act as disincentive for exploring exporting opportunities.

Fig. 15 Share of EU products in total food & drink imports of various countries



Counterfeiting: a growing threat to the European food and drink industry

Counterfeiting has become a major issue for the food and drink industry. In 2005, more than 5 million counterfeit food-stuffs, drinks and alcoholic products were seized at EU borders, compared to 4 million in 2004, indicating that the phenomenon is spreading. The share of false food and drink products in the total of seized goods is increasing rapidly (from 1.7 to 6.9% in two years time). Fake products undermine consumer trust in the quality and safety of a branded good, leading to a loss in market share.

Table 4 - Breakdown of counterfeited articles seized between 2003 and 2005 (million of articles)

	2003		2004		2005	
	Articles	% of total	Articles	% of total	Articles	% of total
Food stuffs, alcoholic and other drinks	1.5	1.7	4	3.8	5.2	6.9
<i>Perfumes and cosmetics</i>	1.0	1.1	1	1.0	0.7	0.9
<i>Clothing and accessories</i>	2.6	2.9	8	7.7	11.0	14.6
<i>Electrical equipment</i>	0.5	0.6	4	3.8	3.3	4.4
<i>Computer equipment (hardware)</i>	0.1	0.1	1	1.0	0.8	1.1
<i>Audio CDs, games, software, DVDs etc</i>	32.5	35.8	19	18.3	9.7	12.9
<i>Toys and games</i>	12.3	13.5	18	17.3	1.9	2.5
<i>Other goods</i>	7.1	8.6	7	6.7	9.9	13.8
<i>Cigarettes</i>	33.3	36.6	42	40.4	32.7	43.5
TOTAL	90.9		104		75.2	

Recommendations on trade policy and export performance

- The WTO agreement remains a priority for providing a better framework to discipline agricultural support and to increase trade opportunities for food and drink industry products.
- The bilateral process needs to be pursued in key regions 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. Trade relations with the ASEAN countries, China, India, the Mediterranean region, Mercosur and Russia constitute particular challenges that need to be addressed. There is a need to promote international standards, notably food related but also environmental standards to create a better level playing field.
- The food and drink export strategy must include a more ambitious export promotion activity. This requires the introduction of greater flexibility, the simplification of project management and the extension of the scope to include value added foods.
- As long as export refunds are operational, they need to fulfil their task appropriately, which implies not only fair calculation of the rates but also simplification of procedures and the reduction of system of proves of arrival, of controls and of export licences.
- Improved protection of intellectual property rights and brands is essential to maintain the competitiveness of the EU food and drink industry.



IV Conclusion

The 2007 update of the CIAA benchmarking report takes a closer look at recent developments in the European food and drink sector and seeks to anticipate future development of the EU food and drink competitiveness. Furthermore, it provides an overall insight into the actions required to ensure that the EU maintains its competitive position in an increasingly competitive global environment.

Looking at the performance of the EU food and drink sector during recent years, the sector is facing various challenges. Growth of the EU food and drink sector has been modest when compared to its main competitors such as the US, and even more so when compared to emerging economies. Labour productivity in the EU food and drink sector is still significantly lower than in the US, though the gap is getting smaller due to the constant effort of the sector to increase its range of high value added products.

The EU share in global food and drink exports is declining. Over the last ten years the EU saw its share decline by 15%. During the last three years this trend has been persisting although exports have picked up again in both 2005 and 2006.

The EU food and drink sector is facing ever more international competitiveness pressure. The emerging economies are becoming important players at the global level and the EU food and drink industry should maintain focussed on increasing the added value of its production. Large companies should not only take up this challenge, the many EU SMEs active in the sector should also make sure they invest in new products and production processes in order to ensure a higher value added production.

With the aim of improving the competitiveness of industry a number of initiatives were taken up by the European Commission and the Member States in the light of the Lisbon Strategy for growth and jobs.

With regard to innovation, R&D funds for food sciences have increased. Currently it is too early to make sound conclusions, based on statistical data, on the effect of these measures on the performance and the competitiveness of the sector, though it can be expected that they will have a positive effect. Nevertheless

research, knowledge diffusion and technology transfers remain the key challenges for the sector. The European Technology Platform "Food for Life", has a key role in determining orientations and providing the necessary framework for the establishment of public-private R&D partnerships. It needs further public recognition and appropriate support. Regulatory constraints to innovation and lengthy procedures (e.g. novel foods) have to be changed in order to make the sector more dynamic.

The Commission's action programme for better regulation has taken up many points submitted by CIAA for action, though a few issues identified as priorities by the food and drink industry are still left out. CIAA calls for impact assessments with effective and meaningful stakeholder consultations based on early business involvement. Better regulation requires all EU institutions to be committed to this process and to apply best practice.

Even though the EU agricultural reforms that are currently implemented or that will be implemented in the coming years will ensure more market-orientation, access to competitive agricultural raw materials remains uncertain and will pose a particular problem for exporters and suppliers of the internal market. The increasing demand for agricultural raw materials in the non-food sectors will continue to put pressure on food markets, adding to this uncertainty.

Enhancing the performance of EU products when entering non-EU markets requires a set of policy instruments such as trade agreements, less burdensome procedures for export refunds, export promotion and improved protection of intellectual property.

The EU food and drink industry, as the largest manufacturing sector in Europe, has the ability and the potential to maintain its position in the global market. Nevertheless, urgent action is needed from legislators to create a favourable business environment for EU food and drink processors, enabling them to grasp the competitive challenges they are facing and to transform these challenges into new opportunities.



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Acronyms

AAF	<i>European Starch Industry Association</i>
ABIA	<i>Associação Brasileira das Indústrias da Alimentação</i>
BATs	<i>Best Available Techniques</i>
BREF	<i>Bat (best available techniques) REference documentS</i>
CAP	<i>Common Agricultural Policy</i>
CEPS	<i>European Committee of Sugar Manufacturers</i>
CIAA	<i>Confédération des industries agro-alimentaires/ Confederation of the food and drink industries of the EU</i>
CLITRAVI	<i>Liaison Centre for the Meat Processing Industries</i>
DNA	<i>Desoxyribo Nucleic Acid</i>
ECJ	<i>European Court of Justice</i>
EDA	<i>European Dairy Association</i>
EFSA	<i>European Food Safety Agency</i>
ETPs	<i>European Technology Platforms</i>
ETS	<i>Emission Trading Scheme</i>
EU15	<i>European Union (15 members before the enlargement of 1 May 2004)</i>
EU25	<i>European Union (25 members since 1 May 2004)</i>
F&D	<i>Food and Drink</i>
FDI	<i>Foreign Direct Investment</i>
GI	<i>Geographical Indication</i>
GM	<i>Genetically Modified</i>
GMO	<i>Genetically Modified Organism</i>
GRAS	<i>Generally Recognized As Safe</i>
HACCP	<i>Hazard Analysis and Critical Control Points</i>
IBGE	<i>Instituto Brasileiro de Geografia e Estatística</i>
IEA	<i>International Energy Agency</i>
IEA-11	<i>This group represents the countries for which the IEA has complete time series with detailed data for energy and energy consuming activities. The countries include: Australia, Denmark, Finland, France, Germany, Japan, Italy, Norway, Sweden, the United Kingdom and the United States.</i>
IEF	<i>Information Exchange Forum</i>
IPPC	<i>Integrated Pollution Prevention and Control</i>
IT	<i>Information Technology</i>
LCA	<i>Life Cycle Analysis</i>
RASFF	<i>The Rapid Alert System for Food and Feed</i>
R&D	<i>Research and Development</i>
SCP	<i>Sustainable Consumption and Production</i>
SMEs	<i>Small and Medium-sized Enterprises</i>
TRIPS	<i>Trade-Related Aspects of Intellectual Property Rights</i>
WFD	<i>Waste Framework Directive</i>
WTO	<i>World Trade Organisation</i>



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Notes



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