CHALLENGES TO THE EUROPEAN AGRO-FOOD SECTOR

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In March 2000, in Lisbon, the European Union heads of states and governments agreed to make the EU “the most competitive and dynamic knowledge-driven economy by 2010”. At present, there is growing concern that the ambitious targets will not be reached despite some progress in innovating the Europe’s economy.

Later in January 2006, in its annual progress report on the Lisbon strategy the Commission has defined 4 priority areas: investment in education and research, support for Small and Medium Enterprises (SME’s), increase in employment rate and elaboration of the common EU energy policy.

In can be clearly stated that the Commission is committed to preserve the strategy of developing synergies between the economic, social and environmental pillars to achieve goals of the Lisbon strategy. Industry, however, believes that excessive costs and regulations stand in the way of getting Europe’s competitiveness back on track.

In several EU Member States, the agro-food industry belongs to 3 top manufacturing activities, in terms of turnover and in at least 10 countries it is ranked first. In fact, the annual turnover the agro-food industry is 815 billion Euro and its average growth per annum during the last 10 years was 1.8%. It employs 4 million workers in 280000 companies of which 99.1% are SME’s. It is still the bigger exporter 45 billion Euro (2004) than importer 41 billion Euro (2004) but its trade balance is decreasing. On international markets the EU agro-food industry potential is not sufficiently used less than 7% of the EU production value is exported and only 6% of the consumed food is imported.

In reality, the sector is quite conservative and its 77% of the total turnover result from 4 traditional sectors of activity beverages, dairy, meat and starch and confectionery.

Investment in EU agro-food sector differs among countries but as a whole the sector has not lost its attractiveness.

The competitiveness of the EU agro-food sector, however, is relatively low and is deteriorating. The major threat does not comes from the established developed economies like USA, New Zealand, Australia but from emerging economies like Brazil and China. They do not only increase production volume but also shift to the higher value added products. As a result, the Europe’s global market share is decreasing to the benefit of agricultural exporters like Australia, New Zealand, Brazil and China.

Agricultural raw materials are important and costly component of processed food products, hence the price paid influence considerably the products competitiveness. In this respect, the non-EU producers pay less for their raw materials, decreasing competitiveness of the EU agro-food industry. Taking the above into consideration, the further development of the WTO Doha Development Round (DDR), the comprehensive reforms of the Common Agricultural Policy (CAP) concerning reduction of the support through institutional prices are going in right direction improving competitiveness of the EU raw materials and of the EU agro-food industry. Despite of these facts, the EU products will be still non-competitive for some period of time so some alternative instruments should provide support for export and access for competitive raw material.

It is also difficult to predict to what extent the CAP reforms concerning de-coupled and decreasing direct payments will affect the production of raw materials in the EU countries.

Maintaining and promoting mainstream quality improvement, as a key European asset of agriculture production is hence indispensable.
The raw materials are produced according to the best agricultural practice schemes complying with cross-compliance requirement hence they are costly. Making the agricultural production more market oriented and to increase competitiveness of the agricultural raw material used by the processing sector is therefore extremely important.
The challenges to the European agro-food industry can be responded not only on economic ground but also in more science-related areas. Research networks and pan-European initiatives are important tools to effective increase in R&D investment. Equally important is a broad dissemination of the obtained results and their rapid utilisation by all companies of the agro-food sector, regardless of their size.
The R&D expenditure in agro-food sector is on average 0.32% at the industry output (2003) well below the EU major competitors. Equally bad is also when one consider other parameters. What is worse, almost 50% EU companies do not envisage expanding their R&D activities in Europe.
In this respect, the European Technology Platforms should be driving forces to push collaboration between industry and research and to sharpen the innovation edge. There are 6 Platforms in area of agriculture, food and biotechnology. One of them is European Technology Platform “Food for Life”. Its key areas of interest are food and health, food quality and manufacturing, food and consumer, food safety, sustainable food production and food chain management supported by effective strategies for communication, training and effective technology transfer. According to the Platform statement, the EU funds must be primarily oriented toward these areas.
The European Technology Platform “Food for Life” should enable agro-food industry and research institutions to develop of innovative food products and process innovations that will make a major contribution to the well-being of European consumers.
Another source to support competitiveness of the EU agro-food industry is 7 Framework Programme and the Structural Programmes of the EU. The 7th Framework Programme (7FP) will spend 5.5% its budget on food, agriculture and biotechnology priority twice less than was suggested. In real terms, it is 350 million Euro per annum for 7 years. This is not enough even with national support considering the importance and size of the sector.
In this respect, it is utmost important to use also for this purpose available funds from European Agricultural Fund for Rural Development (EAFRD) available in axis 1 “Improving the competitiveness of the agricultural and forestry sector” as well as these within EU Structural Funds. These funds almost entirely can be spent to support co-operation for development of innovation in terms of new products, processes and technologies within SME’s. There is also a need for co-ordination of projects, expenditures and innovation management within the EU. In reality, one man consider a system where and innovation in agro-food sector done under 7 FP will be implemented within EAFRD or other structural funds without unnecessary delay not to mention other approach to this problem foreseen in the 7 FP. Binding the 7 FP with other agricultural and structural funds will also help to identify production problems facing agro-food industry to be solved in more basic research under 7 FP.
Another possible way to improve the competitiveness of the European agro-food sector is bigger involvement of the Joint Research Centre (JRC). The mission of the JRC is to provide customer-driven scientific and technical support for the conception, development, implementation and monitoring of EU policies. As a service of the

European Commission, the JRC functions as a reference centre of science and technology for the Union. Close to the policy-making process, it serves the common interest of the Member States, while being independent of special interests, whether private or national. The JRC from its nature is supporting the EC in solving its problems and therefore it should help European agro-food sector to solve problems related to EU legislation. The research made by JRC which are supporting the EU policies should led to justification or abolishing regulatory constraints that, at present, are not sufficiently science-based having adverse effect on Europe's agro-food sector competition. That means to provide EC with scientific evidence allowing for such preparation of the EU legislation to avoid different interpretation, to secure uniform implementation in different EU countries. Harmonised rules for all types of claims should be introduced to liquidate differences existing in Member States. The are also other areas that are of special interest of the European agro-food sector which should be more efficiently solved with a help from the JRC such as product counterfeiting, tracebility requirements, GMO detection and labelling, contaminants detection, hygienic standards monitoring, waste management requirements, cross-compliance schemes requirements and monitoring, etc.

In future development of the European agro-food industry, 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 agro-food industry supply.
Production of standard mass food caused improvement in qualitative food parameters and created cheap food products of standardised quality but deprived them characteristic taste. These products, irrespective of the region have similar taste and looks similar. They cannot be competitive on the world markets however secure food availability to the low-income citizens due to low profit margin. The wealthy societies, in economies of food surplus are seeking for food products of high quality parameters (ecological food) and these of particular taste for a given region.
The real strength of the EU agro-food sector 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. High value added agro-food products, however, do not register growth on export that could be expected according to market expansion. In this respect, a WTO agreement on agriculture is expected to provide a better playing field and offer better market access opportunities in non-EU countries but the Community policies should be also adjusted to provide improved support for exporters. But this bright side of the WTO agreement has also its other side, the expected outcome of market access negotiations under WTO Doha Round will significantly reduce protection, increase imports and pressure on agro-food sector in Europe.
Another obstacle in international trade is use of non-trade barriers such as veterinary, phyto-sanitary, hygiene, etc. legislation. In these circumstances, the emphasis put on neighbourhood policy and other regional agreements can contribute to promoting the use of EU technical regulations and standards through the bilateral approach hence facilitate EU export.
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.
Finally, the consumer and its needs and requests are the most important forces pushing innovations and product development. In order to compete successfully with non-European food manufacturers, the European agro-food industry is seeking to develop affordable, high added value, new and traditional products, which incorporate healthiness, convenience are of high quality and safe to eat. Together with a physicians it is also promoting healthy eating and physical activity. Designing and proposing real actions, the European agro-food industry is promoting the conditions for healthy habits and to prevent adult and child obesity in a sustainable way. It is also encouraged for further its product development in line with healthy lifestyle objectives. To satisfy the customers, the industry should use science-based, truthful and not misleading nutrition and health claims. To help the European agro-food industry to deal with the above issues, the CIAA encourages them to implement its Food and Beverage Principles and the new CIAA Food and Beverage Product Marketing Communications Principles.
The European agro-food industry should use existing scientific knowledge and technical expertise to offer and produce enjoyable, good tasting, nutritious, convenient foods which make easier for consumers to make appropriate food choices and to follow a diet suitable for their individual life styles, health and physical activity levels. It is also important that advertising such diet the eating habits of the prospective consumers should be studied and known in details. In particular, the intervention in food choice need to be geared towards identified high-risk population groups taking into account the multiple factors influencing their decision on food choice. There is a broad consensus that the causes of obesity and related diseases are mutifactorial. Given this, the solutions need to be multifactorial, involving multiple approaches and multiple stakeholders.
In Europe and other developed countries people are convinced that appropriate and balanced dietary habits are an important determinant for healthy lifestyles. There are many scientific results confirming that longevity of society results from standards and quality of nutrition of its citizens. An average longevity of the citizens is a result of nutrition habits and level of medical care. The people are aware that spending money for high quality healthy food will result in future in lesser amount of money spend on medicine. This is a matter of the utmost importance to support public activities aimed for securing high quality healthy food to the market and to limit access to products adversely affecting human health (counterfeited products). Taking into account that EU is the biggest and the most reliable food market in the world there is growing trend to counterfeit branded products so the protection of brands at EU and international level is a key importance to maintain European competitive advantage.
In market economy, food-producing companies behave like typical business oriented enterprises. That means, food manufacturers are doing everything possible to obtain the best possible economic results. In the EU, however, the production of food due to its direct connection with citizens' health and life is subject to public control at all production stages from raw material to the final product. There are many existing regulations aimed to protect citizens against fraudulent food manufacturers (cross-compliance, tracebility, etc.). Finally, there are also other regulations that are connected indirectly with food production methods in the whole production chain but which influence the food quality hence introduced legislation concerning animal welfare is aimed not only to secure proper living conditions for animals (concentration

of animals, design of production premises, proper transportation conditions, etc.) but also is assuring final quality of the products that means food for consumers.
The presented, identified challenges to the European agro-food industry are only few of many others and sooner or later they will be overcame but this makes the work in this sector of economy and research so exciting and demanding.