

CIAA comment on the DG Trade Issues Paper on Trade and Competitiveness

CIAA considers the release in September 2005 of the DG Trade Issues Paper on Trade and Competitiveness as a welcome opportunity to intensify the debate on this matter. Analyzing whether EU trade policy helps or hinders the competitiveness of the different industry sectors should lead to a better assessment of the contribution of trade policy and external aspects in the context of the Lisbon Strategy mid-term review.

A rapid analysis of EU trade figures shows that in 2004 the EU remained a net exporter of foodstuffs with exports amounting to 45 billion euro and a positive balance of more than 4 billion euros. Nevertheless, this trade surplus followed the 2003 downwards trend and have decreased by 37% since 2002.

Although the scope of this Issues Paper is not to provide a detailed analysis by industry sector, CIAA notes with satisfaction that it does however look into the EU agricultural protection and the competitiveness of the food and drink industry.

Analysis of the food and drink industry

CIAA shares in part the analysis concerning the particular situation and factors influencing the food and drink industry competitiveness. However, it raised a number of comments:

- The relative importance of 3% costs of agricultural inputs as compared to the final price is a rather extreme example. In many more other cases do the agricultural inputs range between 25-75 % of the value of the final product.
- The level of EU MFN tariffs that has been analysed, gives indication as to the protection for agricultural inputs but it is questionable whether tariffs only are an adequate and sufficient indicator for industry competitiveness. The prices of agricultural inputs or other instruments providing access to competitively priced inputs are an important factor for food and drink industry competitiveness.
- The comparison of EU tariff structures for agricultural products with main competitors, the US and Japan, should not hide the fact that many emerging economies have become major exporters of agricultural product and are more and more turning to the production of processed agricultural goods, including of high value added goods. Companies in these countries have access to low priced agricultural inputs, are less subject to stringent environmental and social legislation, can manufacture food and drink products at much lower cost and benefit of developing country derogations as regards international

trade commitments. This provides them with a strong competitive advantage on world markets.

- The relative compensation of these disadvantages through import duties on processed foods and export refunds must somewhat be put in perspective. The import tariffs reflect the content of the basic agricultural product contained. The “industrial element” of the tariff has been considerably eroded over the years and is low or zero. Hence there is debate and strong contest by certain sectors about the suspected tariff escalation. As to export refunds, in principle they do allow exporters to be compensated for higher prices they pay for their agricultural raw material. However, both internal budgetary and WTO constraints have reduced available budgets and considerably increased pressure on the refund payment systems. With their scheduled phasing out until 2013, it will become urgent for the food and drink industry to ensure that there is access to competitive basic agricultural products (i.e. IPR) in case there is still a difference between EU and international prices despite major reform steps.

Points of concern as regards the conclusions on food and drink industry competitiveness

Although CIAA agrees with some of the conclusions as regards to processed agricultural products, following comments need to be made as regards the paper's assessment :

- *Assessment: the cost of some agricultural inputs are increased by the level of protection, but the US and Japan are in the same situation.*
=> Although other developed countries are in a similar situation, their agricultural systems provide manufacturers access to cheaper raw material for exports or provide other export support. Other key exporters in dairy and cereals make use of their single desk operation power to keep their market share and to balance internal and external market benefits.
- *Assessment: although there are some costly restrictions to foreign supply, the EU food and drink industry, due to its strong assets as regards know how, quality, brands and value added, can effectively compete on international markets.*
=>CIAA considers that DG Trade seems to overestimate the advantage that European Union companies have in this field. Over years, industry has had to cope with ever demanding legislation to address environmental, consumer and other societal concerns. The EU has also chosen to be a front runner on such initiatives with the result that it also increased costs, put pressure on margins and on industry's ability to invest in R&D. The absence of adequate R&D investments within Europe is alarming. The level of investments in research and development in Europe are far from reaching US levels, fewer technological inventions or novel foods are registered in the EU and the current framework for biotechnology hinders meaningful developments in Europe and does not provide a basis for improving performance in up-market products.
- *Assessment: the US and Japan are important points of comparison; the paper assumes that the EU situation is not severely different from these players.*
=> If this was true, it would not necessarily be reassuring. As indicated previously and also noted by DG Trade, other players with clear competitive

advantages are increasing pressure in food markets that have become more and more competitive and where brands are no longer a guaranty for success. But the relatively poor R&D investment in the EU represents a serious difference and a threat, because it is negatively affecting future competitiveness.

- *Assessment: more overseas market opening should be pressed for*
=> This view is certainly shared by CIAA. This should, of course allow tackling in a more targeted way tariff barriers. But more importantly, such policy will have to address critical non-tariff problems that cannot be solved in a multilateral context. This will include not only geographical indications, but veterinary and phyto-sanitary matters. An important number of food regulatory issues call for more significant action at international level to promote European food related standards.
- *Assessment: agricultural concerns and competitiveness requirements are sensitive issues*
=> CIAA is hopeful that a balance can be found in the multilateral negotiations. Addressing the adverse effect of EU market opening through adequate instruments allowing anticipation and management of transition and even crisis management may be necessary and are in specific cases already addressed. However, market opening and access to competitive agricultural raw material should not too easily be taken for granted. In addition, certain distorting instruments like export taxes that prevent EU industry's access to specific raw materials have so far not been addressed adequately.
- *Assessment: the CAP reform goes far in the right direction both in terms of price reduction and quality improvement.*
=> Access to competitive agricultural products, despite agricultural reform processes, could be difficult or unsatisfactory. There is no certainty as to the price level at which industry will ultimately be able to buy its raw materials. In certain cases, shortages may even have the adverse effects. This will require considering other instruments to overcome certain difficulties. Improved economic customs regimes like inward processing, strong emphasis on trade facilitation will be necessary. Export promotion projects will also have a role to play but need to be reviewed in order to be made more user-friendly and to cover high value processed products.

Conclusion

CIAA welcomes this issue paper and the effort that has been made in putting particular emphasis on the food and drink industry's competitiveness. CIAA shares only part of the analysis of this sector. The outlook of the food and drink industry's capacity to be competitive on international market appears as very optimistic.

High production costs, difficulty to access competitive raw materials, low investment level in R&D, and high competition on international market, should according to CIAA, lead to a more hesitant business perception and need to be addressed specifically. The study on the food and drink industry competitiveness that is carried out by DG Enterprise should provide better knowledge and more detailed assessment. Suggested solutions provided by DG Trade are a basis for further discussion and should as far as the food and drink industry is concerned be extended and be more precise as to its specific needs. CIAA looks forward to a continued cooperation on this issue.