

2ND POLICY BRIEF

MAY 2014

INTRODUCTION

Although the EU-27 member states are one of the larger players in the global agri-food markets – both on the export and import sides – their market shares decline. The EU-27 share in global agri-food exports declined from 47.2% in 2000 to 43.3% in 2011. The EU-27 share in global agri-food imports declined from 46.5% in 2000 to 40.7% in 2011. Since 2010 the EU-27 switched to a net-exporter in global agri-food trade. The EU-27 member states, which have contributed to the agri-food trade surpluses, were: the Netherlands, France, Spain, Denmark, Ireland, and Belgium among the old EU-15 member states, and Hungary, Poland, Bulgaria, and Lithuania among the new EU-12 member states. So the EU is composed of heterogeneous groups of countries concerning their level of global competitiveness

” EU-27 competitiveness on global agri-food markets is strongly heterogeneous.”

The best performing EU members measured by GCI (Global Competitiveness Index) rank in 2013/2014 Report have better ranks for pillars that represent higher competitiveness sophistication, while the worst ranked EU countries experience problems with institutions, market efficiency and macroeconomic stability. Although competitiveness of the EU agri-food sector is still high, policy makers will have to take regular actions to improve the global market position. Knowledge-based and innovation-driven competitiveness becomes more important for EU-15 and only a few EU-12. Innovation addresses equally production (productivity and specialization) and organization (vertical integration and coordination within food chain). As far as other New Member States are concerned, the improvement could be still achieved by efficiency-driven factors.

” More competitive EU-27 agri-food-chains need innovation for higher market efficiency.”



RESULTS: MOST COMPETITIVE PRODUCTS AND MAJOR COMPETITORS IN AGRI-FOOD-TRADE

COMPETE identified competitive products and major competitors on the international and internal markets. The most important agri-food product groups in value of EU-27-agri-food exports are: fruit and vegetable produces, grain products, meat products, and dairy products.

Change 2000-2011 in export shares on the world market for selected EU member countries (in %)

	Grain	Fruit and vegetable products	Dairy products	Meat products
EU-27	-4.3	-6.6	-7.9	-0.7
EU-15	-7.8	-7.5	-10.8	-3.8
EU-12	3.5	0.9	2.9	3.1

Source: Own calculations based on UNSD Comtrade database with WITS (World Trade Integration Solution) software

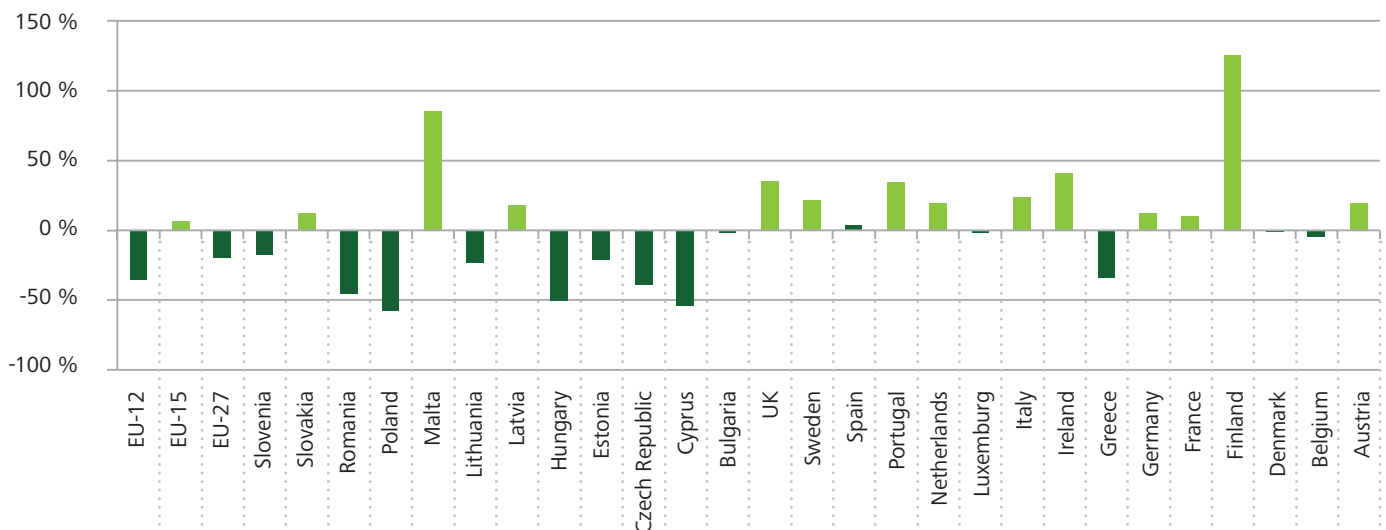
These results state that the EU-27 member states realized the highest, but lately deteriorating, global export shares for dairy products, more stable export shares for meat products, and declining export shares for fruit and vegetables and grains. Among these four groups of agri-food products the lowest export shares were achieved for grain products.

Differences by EU member countries

The competitiveness of EU-27 member states exports sectors and food chains in global agri-food trade increases with the revealed comparative export advantage indices B compared to total global trade as benchmark.

The B indices are a suitable output-linked indicator to measure competitiveness on global agri-food-markets. The empirical results show that the level and patterns in development of the B indices for agri-food products for each of the EU-27 countries in the world markets are mixed.

Changes 2000-2011 of mean values of B indices for total agri-food trade



Source: Own calculations based on UNSD Comtrade database with WITS (World Trade Integration Solution) software

Differences by products

Differences between the EU-27 member states were also identified for the main four agri-food product groups.

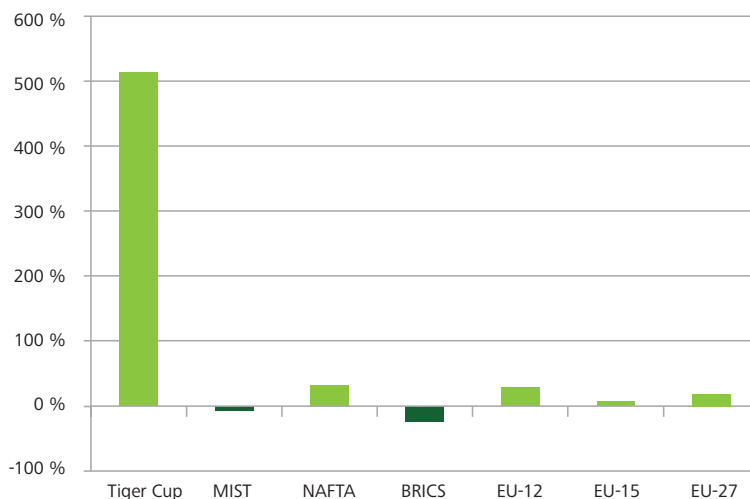
” Among the most successful member states in agri-food export competitiveness on global markets are the Netherlands, France and Spain.”

Global grain markets



EU-27 in focus: On the global grain markets, Latvia, Bulgaria, Estonia, Lithuania and Romania among the new EU-12 member states, and Luxembourg, Finland, France, Denmark and Ireland among the old EU-15 member states reached the highest B indices.

Changes 2000-2011 of mean values of B indices for grain trade

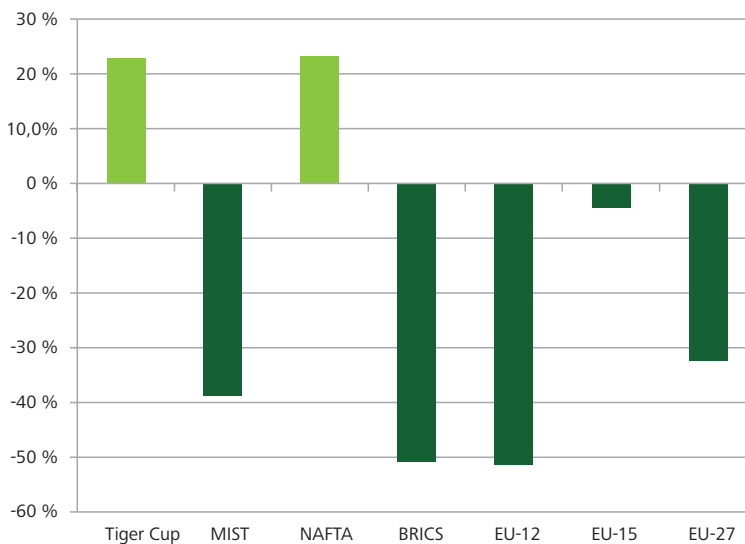


Global fruit and vegetable markets



EU-27 in focus: On the global fruit and vegetable markets, among EU-15 Greece, Spain, the Netherlands, Italy and Portugal achieved strong B indices, among EU-12 the top five were Cyprus, Lithuania, Bulgaria, Hungary and Poland.

Changes 2000-2011 of mean values of B indices for fruit and vegetables trade



Sources: Own calculations based on UNSD Comtrade database with WITS (World Trade Integration Solution) software

CONCEPTUAL EXPLANATION

EU-15 Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, United Kingdom, Austria, Finland, Sweden

EU-12 Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia Bulgaria, Romania

Tiger Cup Hong Kong, Singapore, South Korea, Taiwan, Indonesia, Malaysia, the Philippines Thailand

BRICS Brazil, Russian Federation, India, China, South-Africa

MIST Mexico, Indonesia, South Korea and Turkey

NAFTA United States, Mexico and Canada

Global dairy markets



EU-27 in focus: On the global dairy markets, Denmark, Luxembourg, Ireland, the Netherlands and France from the EU-15 realized the highest B indices, among EU-12 these were Latvia, Lithuania, Cyprus, Poland and Estonia.

Global meat markets



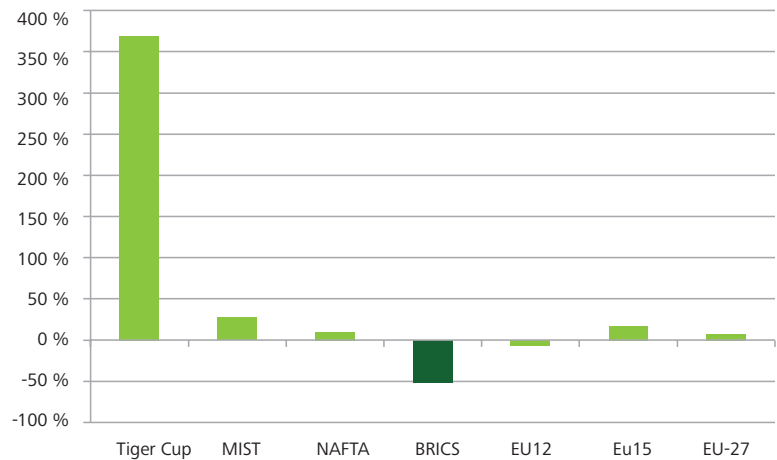
EU-27 in focus: On the global meat markets, among EU-15 Ireland, Denmark, Spain, France and the Netherlands and among EU-12 Cyprus, Bulgaria, Hungary and Poland accomplished the best B indices.

Global competitiveness

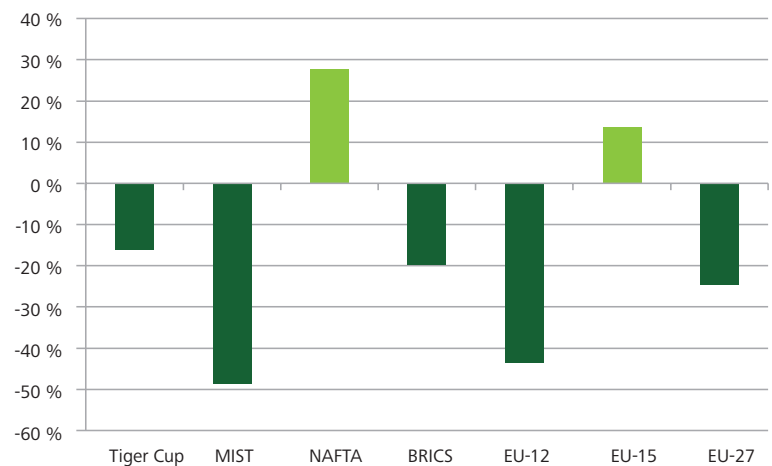
”COMPETE finds that the major competitors of the EU-27 member states on global agri-food markets are the United States of America (USA), Canada, Argentina, New Zealand, and Australia.”

EU-27 in focus: On the global grain products markets important competitors of the EU-27 member states were the USA, Canada, Thailand, India, Russia, Brazil, Turkey and South Africa.

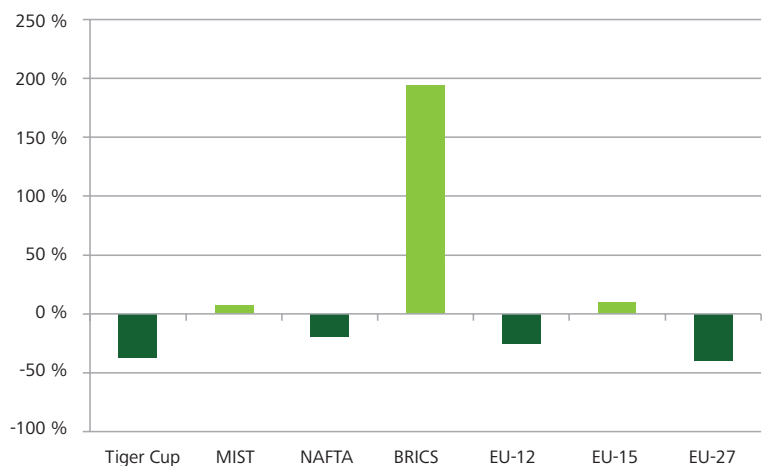
Changes 2000-2011 of mean values of B indices for milk trade



Changes 2000-2011 of mean values of B indices for meat trade



Changes 2000-2011 of mean values of B indices



Sources: Own calculations based on UNSD Comtrade database with WITS (World Trade Integration Solution) software

The USA and China were major competitors in the global fruit and vegetables produce markets. Turkey, Thailand, India and South Africa have also increased their importance and export competitiveness on the global fruit and vegetables produce markets. Among the countries with the revealed comparative export advantage on the global fruit and vegetables produce markets were also Mexico, Philippines, Thailand and to a lesser extent for South Africa. The USA was important competitors on global dairy products as well as the Philippines particularly in processed dairy mainly for household consumption. On the global meat products markets among the main competitors were the USA, Brazil, Canada, China, India, Thailand and in primary meat products also South Africa and Philippines.

A high competitiveness in agri-food-trade can either result from successful price competition – when trade surplus is achieved at lower export than import price – or successful quality competition – when trade surplus is achieved at higher export than import price. For the EU-27 member states' agri-food trade the share of successful price and the share of successful quality competition are greater in the structure of the two-way matched agri-food trade than the share of unsuccessful price or quality competition. Only the one-way export share or only the one-way import share was less important in the EU-27 member states agri-food trade structures.

”EU-27 are more successful in price and quality competition in two-way agri-food trade structures.”

Top 10 of external EU-27 agri-food importers, 2000-2011 (billion US\$)

2000	country	2005	country	2011	country
1.38	Switzerland	2.14	Indonesia	3.69	Cote d'Ivoire
1.42	Indonesia	2.40	Australia	3.80	Ukraine
1.57	Cote d'Ivoire	2.54	South Africa	3.92	India
1.80	New Zealand	2.55	Switzerland	4.95	Turkey
1.89	Australia	3.12	New Zealand	5.33	Indonesia
1.90	Turkey	3.47	China	5.91	Switzerland
2.08	China	3.91	Turkey	6.76	China
3.49	Argentina	5.90	Argentina	9.37	Argentina
6.88	Brazil	8.64	United States	12.35	United States
8.51	United States	12.14	Brazil	20.99	Brazil

Source: Own calculations based on UNSD Comtrade database with WITS (World Trade Integration Solution) software

”COMPETE finds that among the top three external agri-food competitors on the EU-27 member states markets were Brazil, the USA and Argentina.”

The Top-3 are followed by China, Switzerland, Turkey, New Zealand, Indonesia, Cote d'Ivoire, Australia, and South Africa. In addition, among important external competitors on the EU-27 member states agri-food markets during the most recent years were also Ukraine, Chile, and India.

The increased proportion of similar or intra-industry trade (IIT) in the matched two-way agri-food trade of the EU-27 member states is consistent with economic integration and economic growth. However, only Belgium experienced continued prevailing IIT in their agri-food two-way matched trade flows. The switches from more specialized inter-industry trade to IIT were identified for Austria, Estonia, Germany, Latvia, Lithuania, Luxembourg, the Netherlands, Slovakia, and for the Czech Republic in 2011.

RESULTS: POLICY INTERVENTIONS AND IMPACT ON SUPPLY CHAINS

COMPETE conducted in-depth interviews with agri-food chain stakeholders to identify the link between agri-food trade policy and competitiveness. The most important export and import barriers are strongly related to policy, market and institutions.

The most important barriers in the food sector according to experts interviewed

Import	Export
Import tariffs and quotas in the EU.	Subsidies and tariffs in export countries.
Non-tariff barriers - EU Certification (GMO, origin etc.).	Non-tariff trade burdens (phytosanitary/hygiene, veterinary and quality control).
Production methods and quality control (crop protection/pesticides use, growth hormones in meat production etc).	Consumer` preferences and labelling.
Price/exchange rate and transport distance.	Complicated administration, corruption and inconsistency of regulation in destination markets.

”Overcoming these barriers requires market liberalization and harmonization of trade access either on a bilateral or multilateral level. Bilateral agreements have a positive impact on market liberalization as they lead to trade improvements.”

This also includes EU-wide requirements for labeling. From the institutional point of view, competences and responsibilities between the national and EU policy levels should be clearly defined. Partly state and ministry support is perceived as insufficient. In the new Member states particular attention should be paid to harmonization of national agri-food policy with EU Strategy. Innovation in these countries is still largely oriented toward production efficiency, while for the EU-15 insists on product innovations that fully meets changed consumer preferences is of greater importance.

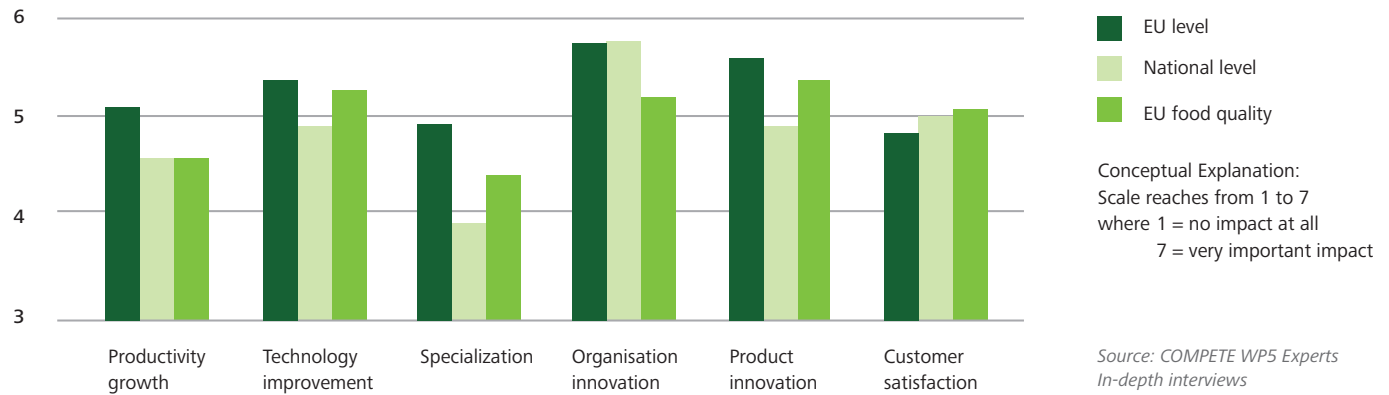
Additionally, the innovation process is not equally supported by publicly available R&D funds and activities in different countries. Moreover R&D activity is generally not well aligned to the interests of agri-food chain stakeholders. Investments in the agri-food sector of

transition countries/New Member States has been dominated by foreign traders/retailers who insist on the implementation of international and their own private quality standards. Simultaneously investments in new technologies in agri-food sectors in countries like Germany are mainly driven by new animal welfare, energy efficiency, environmental and consumer protection requirements, which might be implemented as well in other developed EU countries. In these cases the drivers of competitiveness are consumer generated.

”EU and national policies toward competitiveness improvement are, overall, perceived to be heterogeneous and often undefined. Innovation policy has to align to the interests of the agri-food-chain.”

There is a discourse regarding the main drivers of agri-food chain competitiveness policy at the EU and national level. While EU policy orientates toward productivity growth, technology improvement, product innovation and specialization, national policy tends to be more concerned with organizational innovation and consumer satisfaction.

Expert opinion regarding policy measures and food chain competitiveness



Minimizing this discourse requires (1) to build up a common policy frame flexible enough to allow specific adjustments at the national level; (2) to create a proactive consumer protection policy – particularly at the EU level – that facilitates the EU innovation driven competitiveness at the international agri-food market.

“A common, well-coordinated but flexible policy frame is needed.”

Another important obstacle is the absence of effective coordination between actors at different stages of agri-food supply chains and this was felt to particularly harm farmers. Simultaneously, cooperation with and between local and national governmental bodies is considered to be insufficient and should be improved. The promotion of a bottom-up approach could therefore lead to an improvement of local agri-food chain competitiveness.

EXCURSUS AND OUTLOOK:

Innovation and competitiveness

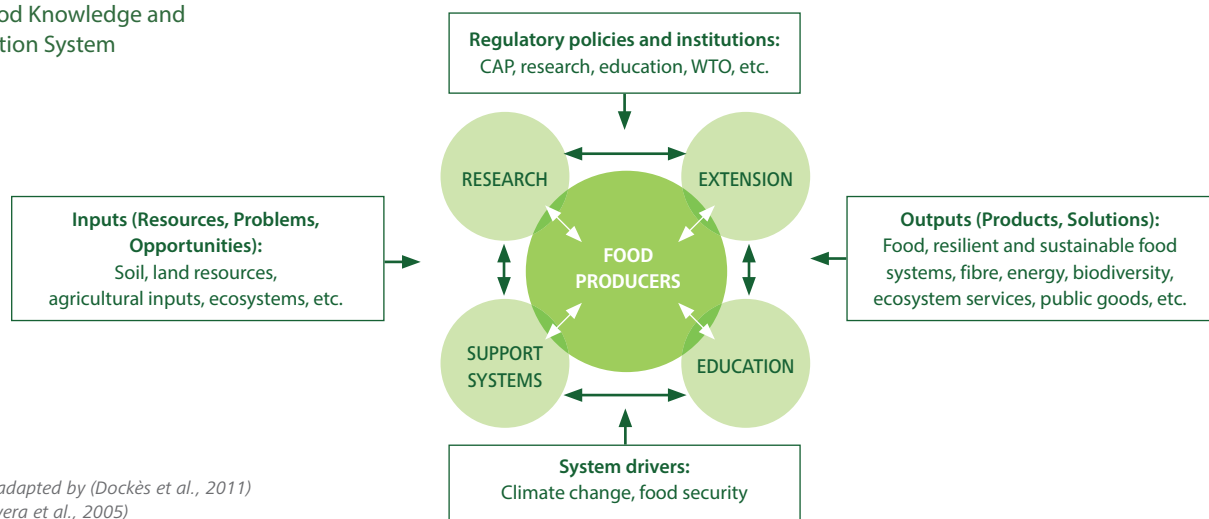
COMPETE follows a systems approach when studying innovation. The Food Knowledge and Innovation System includes actors’ interactions in the generation, exchange and use of agriculture-related knowledge, and the institutional context in which these actions and interactions occur (see figure at page 8). EU research and innovation policy also broadly reflects the systems approach to innovation by encouraging the creation and growth of innovative enterprises and establishing the key interfaces in the innovation system through a network approach.

This approach has to be applied on the total agri-food-chain. COMPETE will analyze the support of policy strategies oriented towards the creation of business parks and rural clusters, where farmers, processors and tech-companies can establish joint ventures and networks to create new products and/or processing technologies.

EU food quality schemes

COMPETE will also identify market potential for products produced and processed according to the EU quality schemes – organic food products, protected designation of origin (PDO) products, protected geographical indication (PGI) products and traditional speciality guaranteed (TSG) products in internal EU markets and international markets. The adoption and diffusion of the EU quality schemes as well as their impact on value added has shown that organic food and PDO, PGI, and TSG products are considered potential challenging issues. However, in some richer EU member states, such as Germany and the UK, the demand for organic, PDO, PGI and TSG products has been already stagnating. In poorer EU countries such as Romania, the price premium for organic products restricts demand due to the lower purchasing power of consumers. Attempts to establish successful PDO, PGI and TSG protected products in the New Member States have, at best, achieved mixed results. The associations between agri-food trade and the EU quality schemes are issues for further research.

The Food Knowledge and Innovation System



Source: adapted by (Dockès et al., 2011)
from (Rivera et al., 2005)

RESEARCH PARAMETERS AND PROJECT IDENTITY

The EU-funded collaborative research project “International comparisons of product supply chains in the agri-food sectors: determinants of their competitiveness and performance on EU and international markets” (COMPETE) addresses this problem. COMPETE gains a more comprehensive view on the different elements which contribute to the competitiveness of the European agri-food supply chain in order to provide better targeted and evidence based policies on the EU as well as on the domestic level. The Consortium of COMPETE is coordinated by: LEIBNIZ-INSTITUT FÜR AGRARENTWICKLUNG IN MITTEL- UND OSTEUROPA (IAMO), Germany, and brings together academics, trade bodies, NGOs, agricultural co-operative, industry representative advisory services. In addition, the project will be supported by the group of societal actors, incorporating farmer, food processing and consumer associations, providing in-depth knowledge on the agri-food sector and speeding up the achievement of the project goals. The COMPETE project partnership consist of the following organizations:

Institute of Agricultural Economics, IAE/Romania

Wageningen University, WU/The Netherlands

Univerza na Primorskem Univerzita del Litorale, UP/Slovenia

Ceska zemedelska univerzita v Praze, CULS/Czech Republic

Università degli Studi di Milano-DEMM, UMIL/Italy

University of Newcastle upon Tyne, UNEW/UK

Ekonomiski Fakultet, Univerzitet u Beogradu, BEL/Serbia

Magyar Tudományos Akademia Kozgazdasag - es Regionalis Tudomanyi Kutatokozyont, CERS-HAS/Hungary

Uniwersytet Warszawski, UNIWARSAW/Poland

Vod Jetrichevec, DRUZSTVO, VODJ/Czech Republic

Potravinarska Komora Ceske Republiky, FFDI/Czech Republic

Balkan Security Network, BSN/Serbia

Asociatia Romana de Economie Rurala si Agroalimentara Virgil Madgearu, ARERA/Romania

Bundesvereinigung der Deutschen Ernährungsindustrie e.V., BVE/Germany

Federazione Italiana dell'Industria Alimentare, FED/Italy

For further information about the project, please visit the official website:

www.compete-project.eu

or refer to the projects' most recent **newsletter**.

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