



POLICY BRIEFING

April 2015

Strategies for strengthening EU industry and **accessing new markets**

Summary : This policy briefing looks at the EU's agri-food markets, their performances, trends, and their future trajectories. It also raises key relevant questions and discussion points with regards to these markets.

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In 2010 the European Union (EU) became a net exporter, but this development covers contrasting situations.

Despite the global economic situation, and while imports have stagnated, the EU has continued to increase its exports of agri-food products over recent years. By 2013, their value had risen to €120 billion, making the EU the world's biggest exporter. Agri-food products today account for 7% of the EU's total exports of goods, which places them in 4th position behind engineering, chemicals and pharmaceuticals. Europe's balance of trade in agri-food hit a peak in 2013 at €18.5 billion, part of an overall trade balance of €56.4 billion.

Since 2000, on average, 27% of EU agri-food exports have been made up of drinks and spirits – market segments that have a very specific nature. Moreover, 38% of the remainder have been made up of 14% of dairy products (1/3 cheeses, 1/3 milks & creams and 1/3 others), 10.7% meats, 8.2% cereals, 2.8% sugar and 2.8% flours-malts-starches.

The analysis of European markets must therefore go deeper than the policy discourse of high-value added and beyond the customs classification of raw or processed products to take the degree of product processing or transformation into account: marketing strategies, risks and opportunities are not the same for well-known cheeses as they are for milk powder.

The strong performance in financial terms however hides a loss of market share for the EU in the world: our exports have grown at a lower rate than the increase in value of world markets.

Europe's share of global agri-food markets has fallen over a period of a decade from 21.5% to 15.4%. Meat is the only industry to have seen a rise. Our other industries have all experienced either consolidation or falls to varying degrees: cereals (Europe's market share currently stands at around 9% overall and 13.8% for wheat), fruit (8%) and vegetables (11%) have all just about held their own in terms of market share. There have been falls for drinks and spirits (to a market share of 50% in 2012), the EU's milk industry has lost 10% of its market share (to a market share of 30% in 2012), sugar has fallen

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from 19.8% to 7.7% and at 24.9% milled products have fallen back by 17.6 percentage points.

EU domestic markets mirror growth trends in demographics and the rise in living standards in Member States (MS), although despite this the share of household income spent on food should continue its consolidating trend. The main wellsprings of growth for the European agri-food sector will therefore come from product innovation and an effective marketing strategy that showcases the quality of European production.

While most economic studies estimate that Europe's agri-food sector has all the potential to become an engine for growth in the years up to 2020, the question of barriers to such growth and how in concrete terms these can be overcome calls for a swift response by policymakers.

Behind the performance statistics of European agricultural and agri-food industries lies the question of their competitiveness.

The productivity of European agriculture as a whole has been stagnating or even declining for two decades; equally, the specific sectors of crops and animals have also experienced a stagnation and decline. The situation varies between the West, South and East of the EU. Average European productivity is stagnating, and the increase in productivity in, for example, the milk industry over recent years has been significantly lower than that obtained in the United States. Today, EU productivity is on average 66% of the US level.

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FARM EUROPE - **DISCUSSION POINTS:**

If we are to get back to a strategy of sustainable growth in European and world markets we will need to make the right decisions at strategic and policy levels in respect of:

- **Innovation in agriculture and agri-food:** i.e. innovation in products and in technologies used. The advances in agricultural technologies or technologies that can be harnessed by agriculture have been startling over recent years. Some of our major international rivals already have a head start of a decade in this regard. Are there technological trajectories that could be the basis for technological breakthroughs by our farmers in Europe and what should their goals be? Can new technology be part of the answer to the double challenge of competitiveness and sustainability/environmental management? How can farmers make the most of technology? Where, in practice, can the EU have an impact and take action? The EU has opened European Innovation Partnerships (EIPs) and earmarked a nominal 4 billion € in financial support for the 2014-2020 period for the Agri-food sector. Will this money be readily available and will it be used? Is it sufficient in light of the sector's needs?
- **Investment policies:** investments made today are the foundation for a viable agriculture and agri-food sector in 5 years time or more. Investment in agriculture has been entrusted to the MS and is implemented via the Rural Development Policy. Will investment policy remain a second-order priority for MS in the budget allocation decisions they make? Should we invest in specific industries or are there broader types of investment that can be viewed as having the potential to have a leverage effect not only for food but also other markets such as green chemicals or energy? Within European policies and the Common Agricultural Policy (CAP) itself, are the strategic and budget allocation approaches for the future development of agriculture in line with the challenges that must be faced and the needs these

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create?

- Trade policies:** it is, first and foremost, crucial to identify market gaps and to understand one's own strengths and weaknesses relative to rivals. Do we have a clear picture, for each geographic region of the world, of the opportunities and risks for the EU? Market intelligence is clearly a prerequisite to any business initiative, but also to any discussions on trade agreements – bilateral or multilateral – between the EU and its international partners. European agriculture is diverse and rich. It has a presence in all the world's markets, from basic commodities to final products. What, therefore, should the strategy of European negotiators be: to focus action on a small group of products and the debate about Participatory Geographic Information Systems (PGIs) or design policies for types of markets where European agriculture is in a position to implement successful export strategies? The European export support policy that was based on export refunds has had its day. It is over in practice and the principle won't return. The EU has embarked on the path of promoting its agricultural products with increased, if still relatively modest, funding. To underpin this policy, to gather market intelligence and to export products to the world, what action should the European Union take, and with what resources? Which areas should the EU target through product-market strategy? What kind of support should it provide to businesses, and which ones? The impact of Europe in this area will depend on the adequacy of the strategy currently being drawn up by the European Commission, on how easy programmes will be to implement and on the capacity of agricultural stakeholders to access the funding available for effective campaigns – and of the Commission to provide guidance for them.