A Competitive EU Food and Drink Industry for Growth and Jobs

Ambitions for 2025
Priorities and policy recommendations

FOODDRINK EUROPE

This report covers the entire EU food and drink industry, identified by the NACE rev2 codes C10 (food products) and C11 (drinks). EU refers to the 28 Member States, unless indicated otherwise.

FoodDrinkEurope's publications mentioned in this report are available at and can be downloaded from www.fooddrinkeurope.eu.

September 2016

The EU food and drink industry is…

- **the first manufacturing industry in the EU**, leading in terms of turnover (15.6%), value added (13%) and employment (15.2%)

€1,090 billion
turnover

€212 billion
value added

4.25 million people
direct employment

285,000 SMEs account for:

49.4%
of food and drink turnover

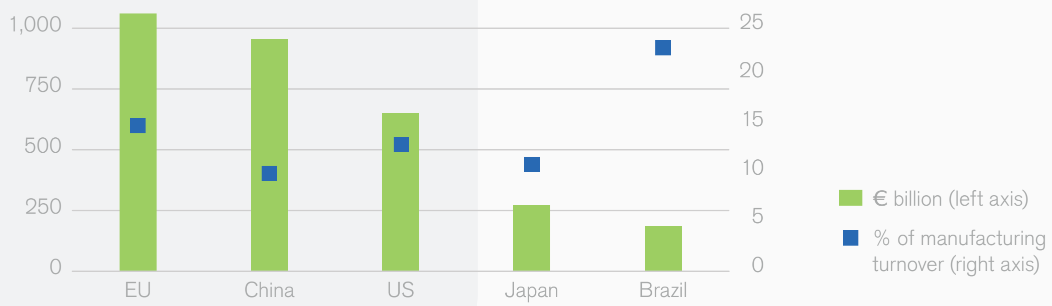
48.1%
of food and drink value added

62.8%
of food and drink employment

99% of food and drink companies are SMEs

- **the first food and drink industry worldwide**

Turnover of the food and drink industry



- **the first exporter of food and drink products in the world**

€92 billion
value of exports to non-EU markets

€27 billion
trade surplus

17.8%
global export market share

Sources: Eurostat, LEI Wageningen UR, UN COMTRADE

No time for business as usual

The food and drink industry is the leading manufacturing sector in Europe and inextricably intertwined in Europe's social, cultural and economic fabric with companies in every region and strong local ties. Pleasure and tradition are the roots of our business.

With the EU under strong economic, political and social pressure, the context is crucial for the food and drink industry, which is now at a turning point. It is **our responsibility to address the challenges** of sustainability, consumer trust, balanced diets and healthier lifestyles while also contributing to creating growth and jobs in Europe. In order to accomplish this, innovation, a strong Single Market and dynamic exports to non-EU countries play a key role. To demonstrate their commitment, FoodDrinkEurope members have set **ambitions for the industry in 2025.**

The food and drink industry continues to operate responsibly, but it relies on **an enabling policy framework** to support its aspiration to grow. Acting on food-related policies at EU level with the objective of completing the Single Market and boosting innovation, among others, can make a difference. We ask policy makers to **swiftly implement the Juncker Commission's priorities in the food and drink industry**, in order to generate real added value for the EU.

Finally, the industry ambitions for 2025 can only be achieved if all the members of the food chain, present in the **High Level Forum for a Better Functioning Food Supply Chain**, work together.

Find out more about our ambitions…

Priorities and recommendations

With the contribution of the High Level Forum for a Better Functioning Food Supply Chain, policy makers must develop an ambitious policy framework for the competitiveness of the EU food and drink industry through…

Competitiveness ambitions of the EU food and drink industry for 2025

The food and drink industry: a key pillar of the EU economy

#1 manufacturing sector in terms of turnover, value added and employment

#1 exporter of food and drink products worldwide

Constantly meeting consumer demand by…

- Creating new and innovative products
- Contributing to healthy and nutritious diets
- Driving environmental improvements

Drivers for **growth** of the food and drink industry **over the past 20 years**

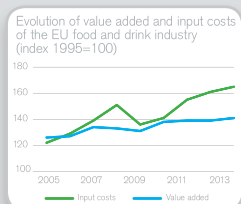
Turnover **+€405 billion** to reach €1 trillion

Exports **+€62 billion** to reach €92 billion

Leadership is challenged

The industry is losing its competitive edge:

- Value added is being outpaced by input costs, which impacts the profit margins of companies and their ability to invest.



Annual average increase between 2005 and 2013: +1.5% value added +3.8% input costs of the EU f&d industry

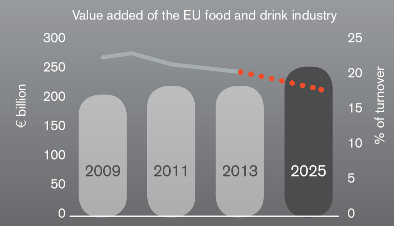
- EU market share worldwide has decreased from 19.8% in 2005 to 17.8% in 2014.

Upcoming economic, social and environmental challenges:

- Resource scarcity and more volatile prices of raw materials;
- Increased pressure on prices from retailers has an impact on investment in the sector;
- Regulatory hurdles, red tape and skill gaps do not encourage R&D, innovation or entrepreneurial behaviour;
- Trust and reputation of the industry are under increased public scrutiny;
- Societal challenges, such as obesity and non-communicable diseases.

The food and drink industry is at a turning point

Either...
Business as usual



If the past trend continues, growth will slow down by 2025

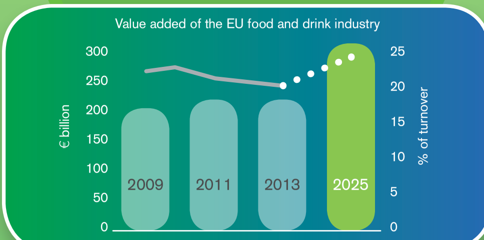
Or...
The industry should think of new ways of working, creating opportunities that will have a positive impact on growth

Industry must step up its efforts:

- to leverage market opportunities, increasing trade within the EU and with non-EU countries;
- to bring innovative products to the market with the highest level of food safety, environmental and social standards, in order to respond to consumer demands in relation to nutrition, health and sustainability;
- to further integrate sustainability in its operations and across the supply chain with increased commitments to sustainable sourcing, prevention of food waste and innovation;
- to hire new talents and match skill needs;
- to increase speed of digital transformation.

The food and drink industry's key ambition for 2025

Generate value added growth of 2.5 to 3.5% per year by 2025



Generate co-ownership

The whole food chain must work together in support of sustainable growth and employment.

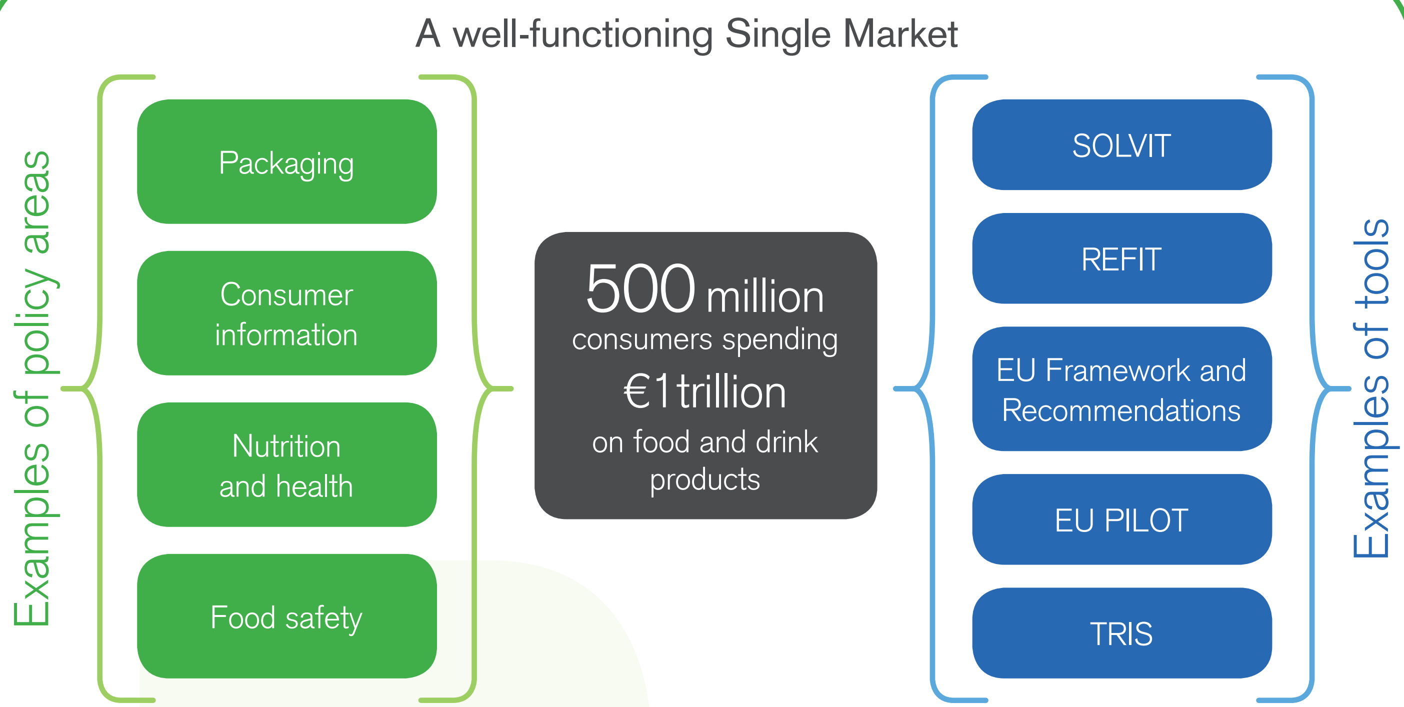
Policy makers must create an enabling policy framework for the EU food and drink industry.

Source of data: LEI Wageningen UR

1. Building a strong Single Market

Facts

A well-functioning Single Market is of vital importance for food and drink companies and for consumers alike. It creates efficiencies which are beneficial to companies. However, still today companies face a number of barriers within the Single Market.



- The EU is our industry's main market with around 90% of industry's turnover generated within the Single Market.
- The value of EU food and drink products traded across Member States reached €242 billion in 2014.

Source: Eurostat

The food and drink industry's ambition for 2025

Make a wider variety of food and drink products accessible to all consumers across EU Member States

Policy recommendations

Completing the Single Market for goods must remain the first priority for EU policy makers. Food and drink companies still struggle with obstacles to cross-border business and adapting products to local rules creates unnecessary burdens and generates costs.

FoodDrinkEurope asks EU policy makers to:

- Prevent renationalisation of EU policies, whether they concern food legislation or the Common Agricultural Policy. Food and drink manufacturers are increasingly confronted with a proliferation of national initiatives that counter an EU-wide approach.
- Ensure proper harmonised application and enforcement of all EU legislation. Considering that 98% of all food laws are harmonised at EU level, the Better Regulation process (notably through REFIT) and other tools such as EU Pilot and SOLVIT, are essential to support effective enforcement and implementation of existing legislation, including secondary legislation, at national level.
- Promote harmonisation and coordination of legislation/policies at EU level in the food and drink sector, and support a holistic approach in food policy aimed at increasing the resilience of food systems.
- Support an improved functioning of the mutual recognition (MR) principle in non-harmonised areas, in the context of the upcoming Action Plan and revision of the MR Regulation 764/2008.
- Complement the Single Market for goods with a harmonised Digital Single Market.

Further reading (www.fooddrinkeurope.eu):

A Time to Act - Climate Action and the Food and Drink Industry
FoodDrinkEurope statement on the CAP

2. Improving trade opportunities

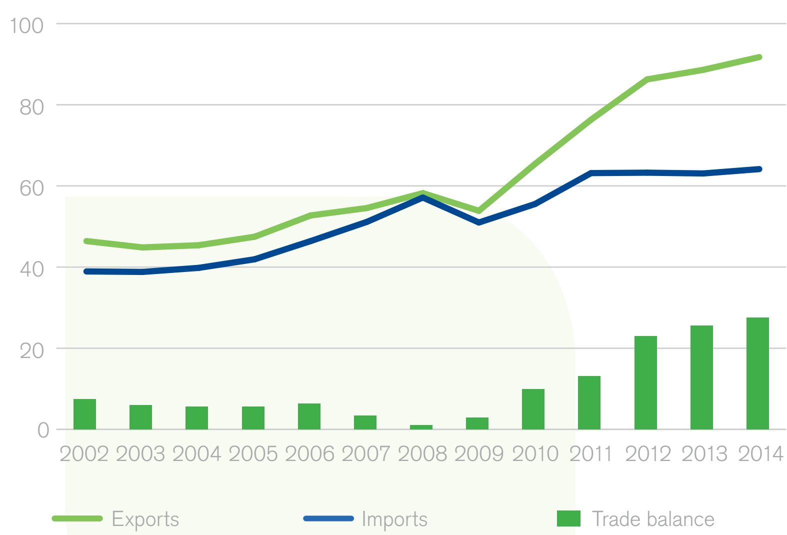
Facts

The EU is the largest exporter of food and drink products in the world. In 2014, EU exports reached €92 billion. With a record export performance and a growing positive trade balance in recent years, the industry has shown that it is dedicated to delivering safe, high quality, value added innovative food and drinks to consumers worldwide.

However, the EU has lost market share in global food and drink trade (17.8% in 2014, compared to 19.8% in 2005). This is mainly caused by increased competition in the international marketplace and trade barriers in foreign markets.

Future success on international markets will in particular depend on our ability to increase our competitive edge through innovation and value addition as well as our capacity to make production more cost and resource efficient.

Extra EU trade of food and drink products (€ billion)



6% of EU food and drink SMEs export to non-EU countries

- EU exports doubled over the past decade. Top export markets are the US, Russia, China, Switzerland and Japan.
- Exports to China, Brazil, South Korea and other emerging markets have significantly grown in recent years.
- Key products exported include spirits, wine, dairy products, meat products, chocolate and confectionery, and processed fruits and vegetables.
- EU market shares in traditional markets have declined whereas steady growth is observed in emerging markets (e.g. China).

Sources: Eurostat, UN COMTRADE

The food and drink industry's ambition for 2025

Expand its international position as leading supplier of value added products

Policy recommendations

Growing the EU's leading position in international markets and meeting global demand for EU products require policy makers to:

- Help create a favourable trade environment for EU food and drink products and secure access to foreign markets, by addressing barriers to trade (tariffs and non-tariff barriers).
- Support a strong, rules-based multilateral trading system administered by the World Trade Organisation. In the absence of a global multilateral agreement, the EU should continue to seize market opportunities by concluding ambitious and balanced bilateral trade agreements.
- Ensure that the EU trade policy creates new export opportunities and facilitates security of supply, while providing fair terms of competition and a level playing field for EU producers.
- Recognise the strategic importance of EU food and drink SMEs and promote their internationalisation. EU support services (e.g. SME Helpdesk, Market Access Database and dialogues) must be adapted to the needs of these companies.
- Support an efficient promotion policy which covers a large variety of EU food and drink products.

Further reading (www.fooddrinkeurope.eu):

FoodDrinkEurope contribution to the Future EU Trade Policy Strategy

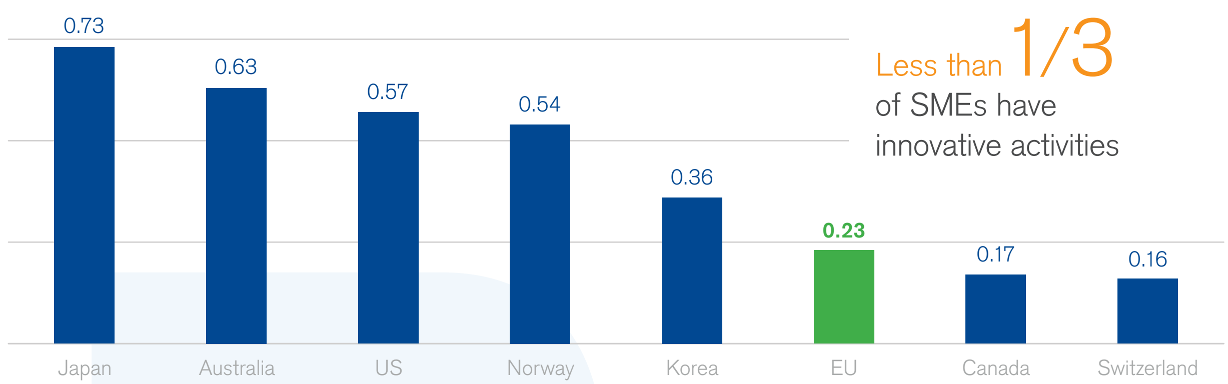
3. Nourishing R&D and innovation to the benefit of society

Facts

R&D and innovation are essential to delivering new products, improving the quality of existing ones and developing more efficient production processes. Moreover, they can provide strategic solutions to address pressing social and environmental challenges, including food safety, nutrition and health, resource scarcity and climate change. Therefore, R&D and innovation contribute to making the food and drink industry more productive, more resilient and better able to satisfy the evolving demand of consumers.

The EU has a strong knowledge infrastructure composed of top level industry players, and academic and research institutions conducting ground-breaking research in the food area. However, several indicators on R&D and innovation show that the EU food and drink industry is not performing to its full potential and lags behind its international peers.

Private expenditure of the food and drink industry[1] in R&D (average 2010-2012[2], % of output)



Less than 1/3 of SMEs have innovative activities

[1] including tobacco [2] 2009 data for Japan, 2010 for Korea and the US

- €2.3 billion EU food and drink companies' yearly expenditure in R&D (average 2010-2012).
- Average time for approval process of novel foods in the EU at the end of 2014: 35 months. This long period can reduce the rate of return on R&D costs by an average of €4 million per product.
- More than 90% of topics in research calls under the food-related areas of the Knowledge-based Bioeconomy section of FP7 directly correspond to topics suggested in 2007 by the European Technology Platform (ETP) Food for Life.
- Decreasing costs and increasing turnover are important goals for 60% and 56% respectively of food and drink companies innovating in the EU.

Sources: European Commission, Eurostat, FoodDrinkEurope, OECD

The food and drink industry's ambition for 2025

Create more opportunities for pre-competitive research and innovation

Policy recommendations

An enabling framework for innovation in the European food and drink industry to the benefit of society, requires policy makers to:

- Remove bottlenecks to innovation, by pursuing coherence between different policies and regulatory requirements, a science-based approach to regulation at EU and national level and predictable decision making procedures.
- Give the possibility to communicate to consumers the benefits of innovation, based on scientific evidence, in view of increasing public acceptance and trust in the food and drink industry.
- Take into account the limited resources and risk propensity of SMEs by facilitating their participation in specific research programmes and networks, knowledge transfer and the uptake of technologies (e.g. Information and Communication Technologies - ICT).
- Facilitate legislation that encourages an optimised use of resources (water, energy, raw materials, by-product and co-products), following a cascading approach and the "food first" principle, in line with the Circular Economy Action Plan.
- Based on the updated Strategic Research and Innovation Agenda of the ETP Food for Life, which is run under the auspices of FoodDrinkEurope, create appropriate implementation opportunities through, among others, public-private collaboration.

Further reading (www.fooddrinkeurope.eu):

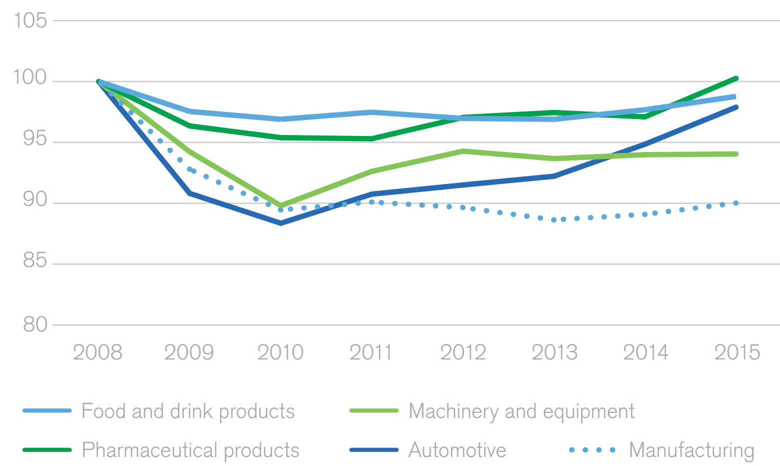
European Technology Platform (ETP) Food for Life
FoodDrinkEurope Principles for Research Conduct
FoodDrinkEurope contribution to a circular economy

4. Focussing on employment and skills

Facts

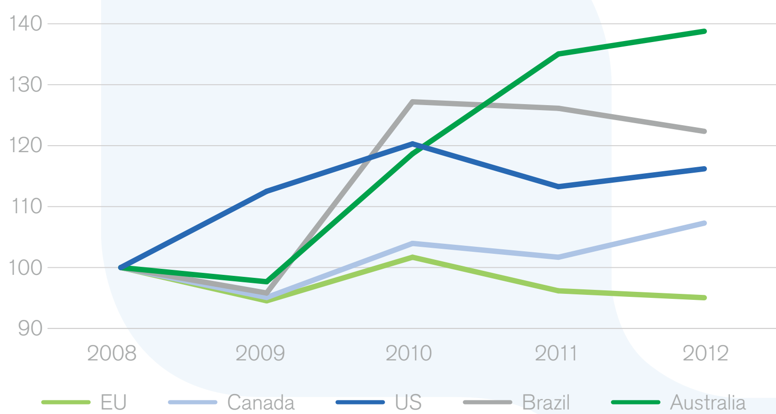
Compared to other manufacturing sectors, the EU food and drink industry is a key provider of jobs and a relatively stable employer. However, skill mismatches, talent shortages and an ageing workforce have an impact on the industry's labour productivity and, therefore, hamper future growth in the food and drink industry.

Employment in the EU manufacturing industry (index 2008=100)



2 out of every 3 jobs in the EU food and drink industry are generated by SMEs

Real labour productivity of food and drink industries worldwide (index 2008=100)



- 14%: share of employees with high level qualifications in the food and drink sector as compared to an all-sector average of 30%.
- €47,000/person: labour productivity of the EU food and drink industry in 2013 vs €55,000 in manufacturing.

Sources: Eurostat, FoodDrinkEurope, LEI Wageningen UR

The food and drink industry's ambition for 2025

Become a more attractive employer for new talents and workers of all ages

Policy recommendations

Creating a virtuous circle across competitiveness, growth and employment requires both skilled workers and investments. A highly skilled workforce is essential to drive innovation in terms of new product development, adoption of new technology and efficient use of increasingly scarce resources.

Policy makers must support the food and drink industry to:

- Close the gap between skills and jobs and avoid the costs of over- and under-skilling, by improving labour market information, fostering STEM (Science, Technology, Engineering and Mathematics) education in Europe and better linking education and business.
- Access finance, enabling SMEs to further invest in new technologies and processing techniques which drive up productivity and, in parallel, recruit appropriate skills (for instance e-skills).
- Promote youth employment, manage an ageing workforce and encourage lifelong learning, for both employers and employees, in order to face societal changes.
- Attract young talent and train to upskill existing workforce, to boost the transition towards more sustainable and resilient food production systems, also by promoting a strong sectoral social dialogue.

Further reading (www.fooddrinkeurope.eu):

Ensuring Sustainable Employment and Competitiveness in the EU Food and Drink Industry: 'Meeting the Challenges of the Labour Market'
Bringing in new talents and managing an ageing work-force: two sides of the same coin
Social partners call for ambitious agreement on climate change
FoodDrinkEurope and EFFAT joint Apprenticeships Pledge

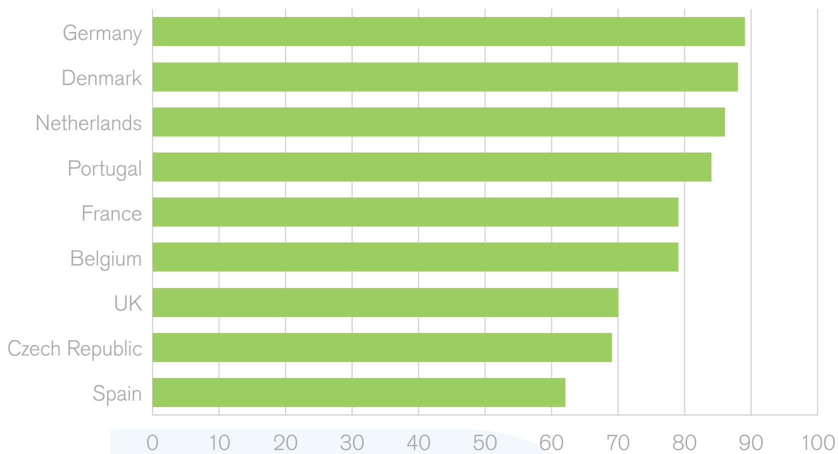
5. Facilitating dialogue in the food supply chain

Facts

To grow sustainably, the food and drink industry needs to rely on well-functioning and balanced food supply chains.

With a central role in the chain, to operate efficiently, food and drink companies count on the availability of agricultural raw materials that are competitively priced, and on good business practices.

Top-5 retailers market shares (2015, %)



14 million enterprises in the food supply chain, a vast majority of which are SMEs

- The food chain, including agriculture, the food and drink industry, wholesale and food and drink retail, accounts for 6% of the EU gross value added and employs 24 million people.
- The food and drink industry processes 70% of the agricultural raw materials produced by EU farmers.
- The EU food and drink industry is engaged in a series of concrete initiatives to support sustainable agricultural practices in the EU and globally. Moreover, 90% of the industry's respondents to FoodDrinkEurope's Climate Change survey affirm tackling GHG emissions across the full life cycle of food production and consumption.
- Food retail markets are increasingly concentrated. This trend is complemented by a growing network of retail entities working together through national or European buying alliances.

Sources: FoodDrinkEurope, Kantar Worldpanel, GFk, Europanel

The food and drink industry's ambition for 2025

Work together in the food supply chain to promote fair trading practices

Policy recommendations

Industry's competitiveness relies on a holistic approach to policies governing the European food chain. Permanent dialogue through the High Level Forum for a Better Functioning Food Supply Chain and the European Food Sustainable Consumption and Production (SCP) Round Table, among others, has the potential to bring real value added to the chain.

FoodDrinkEurope asks EU policy makers to:

regarding commercial relations

- Address unfair trading practices, which affect companies' ability to invest, by creating an EU framework that allows the Supply Chain Initiative, a voluntary framework aimed at promoting fair business practices, to deliver.
- Tackle late payments which add significant costs with critical consequences on company cash flows. The upcoming report on the implementation of the Late Payment Directive 2011/7/EU should notably provide greater clarity on potential differences in application between Member States.

regarding working towards more sustainable food systems

- Further promote a circular economy approach and industrial symbiosis across the food chain through, for example, preventing food waste and exploring all available options for waste management.
- Further engage in the European Food SCP Round Table supporting an open dialogue among all players along the food chain to promote sustainable consumption and production in the food and drink sector.
- Promote a market-oriented CAP that enables an efficient and sustainable EU agriculture and foster stakeholders' dialogue to further promote sustainable sourcing of key commodities by food and drink companies.

Further reading (www.fooddrinkeurope.eu):

AIM - FoodDrinkEurope comments on the study 'Impact of the modern retail on innovation and consumer choice'
The Supply Chain Initiative
A Time to Act - Climate Action and the Food and Drink Industry
FoodDrinkEurope contribution to a circular economy
European Food Sustainable Consumption and Production Round Table

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