

## High Level Group (HLG) on the Competitiveness of the Agro-Food Industry

### CIAA submission and contribution to the discussions of the Working Group: “Access to raw materials”

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#### **Background and issue**

A key issue for EU food and drink manufacturers is their ability to access competitive agricultural raw materials as they represent a significant part of overall production costs.<sup>1</sup> Access to good quality and competitively priced agricultural raw materials is vital for the manufacturing industry and for the consumer they serve.

Gaps between EU and world market prices for agricultural raw materials have narrowed and this trend is continuing. However, a number of EU prices for key agricultural products remain above world market prices. EU manufacturers therefore find it difficult to compete on an equal footing with third country competitors on the world market.

The industry has recently been experiencing unprecedented surges in the price of some agricultural raw materials which is proving challenging for EU manufacturers and indeed consumers. The reasons are complex and, as outlined in the Commission's recent Communication on rising food prices, factors include increasing global food and feed demand; high energy and fertiliser prices; the increased demand for biofuels; crop failure due to extreme climatic conditions; regulatory restrictions; and falling world stocks. Lack of market-orientation over past years has led to disincentives to invest in a competitive EU agricultural sector.

#### **CIAA Priority Objectives and Recommendations**

##### **Common Agricultural Policy (CAP) Health Check**

Whilst successive rounds of CAP reform are moving EU agriculture towards market orientation, further improvement is required to safeguard the long-term competitiveness of the EU industry. CIAA therefore supports the EU CAP “Health Check”<sup>2</sup> which aims to build-on the 2003 reforms and prepare the way for the 2009 mid-term review of the EU Budget, where one of the key objectives will be to deliver the EU's vision of a new CAP post-2013.

The competitiveness of the food and drink industry relies on a farming sector that is efficient, innovative and rapidly responding to market developments. Hence, EU

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<sup>1</sup> CIAA's Benchmarking Report on the competitiveness of EU FDM shows that depending upon the product, the costs of agricultural raw materials compared to total production costs ranges between 30-80%.

<sup>2</sup> Detailed CIAA position TCO/141/08 of 25 June 2008.

agricultural policy has to provide the framework for appropriate farmers' decisions through further decoupling, with few targeted exceptions.

Market instruments have a role to play in preventing crisis situations and remedying temporary market imbalance. Certain market-related instruments (public intervention) should only be retained to act as a "safety net". Support for private storage, which is welcome, will have to include implementing rules that are effective in improving fluidity of market supplies and softening high price volatility. Other measures upon imports of agricultural raw materials, i.e. tariff rate quotas or tariff suspension, will have to be available to prevent tensions on the EU market.

Taking into account agricultural market developments, the removal of instruments that constrain European production, i.e. the elimination of milk production quotas in 2015 with a gradual annual increase in quotas from now on to that date and the permanent ending of the set-aside scheme, is a necessary development.

Furthermore, it is expected that the EU will need to increase production in agricultural raw materials. Price increases constitute an incentive for farmers to step up production. Furthermore, agriculture will require further research into new technologies to be able to provide crops that are: more productive; better adapted to local requirements; and responding to new agronomic requirements. The funding for this research could come from Pillar II of the Common Agricultural Policy.

### **EU Policy on Genetically Modified Organisms (GMOs)**

In the light of increased global use of GMO crops outside Europe, which have not yet obtained approval in the EU, it is necessary to speed up approval process within the EU. It is also imperative to consider a low-level presence of GM events approved in the exporting country, which have not been approved in the importing country. DG Agriculture's study on unapproved GMOs in EU feed imports and on livestock production, undertaken in 2007, highlighted the economic implications of current GM policy on the feed sector.

Other analyses indicate<sup>3</sup> that the impact of the current zero tolerance policy for EU-unapproved GMOs could have considerable consequences on the food sector. It is important that this situation gets the necessary recognition by policy makers. This should lead to the introduction of a workable and realistic threshold for the low level adventitious presence of non-EU GMOs approved, according to Codex plant guidelines safety assessed GM events. Such solution must imperatively apply to both food and feed. Recent developments according to which this may apply only to feed are totally unacceptable. Industry needs to continue trade with non-EU countries and at the same time to produce the products which are responding to consumer preferences.

The fact that EFSA's science-based advice is overruled by political decision also requires a debate at EU level.

### **Monitoring Agricultural Markets**

The EU Commission should improve and formalise existing monitoring mechanisms, introducing a feedstock observatory to look closely and regularly at availability and price of agricultural raw materials and anticipate trends.

### **EU Biofuels Policy**

Biofuels policies trigger fierce competition between food, non-food and energy outlets for agricultural production. The sectors are competing for the same agricultural raw materials and for the same limited resources (water, soil). Food must remain the

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<sup>3</sup> See notably report by G. Brookes "Economic impacts of low level presence of not yet approved GMOs on the EU food sector, released in May 2008

primary outlet for agricultural products. CIAA is concerned about the impact the EU's proposed 10 % mandatory target would have on the supply of agricultural raw materials for the EU food and drink industry in terms of availability and price. It is therefore critical that Council and Parliament introduce the following aspects into the proposal during the co-decision procedure:

- The 2007 Spring European Council decision must be followed: the 10% biofuel targets must be subject to second generation being commercially available and sustainability schemes being effective.
- A full impact assessment should be commissioned to consider: the availability of second-generation biofuels; worldwide developments in biofuels to ensure the availability of raw materials imports; and finally, the impact on other sectors directly or indirectly affected by the policy.
- The introduction of a formal review clause linked to the availability of second-generation biofuels should include a trigger/threshold for action, in 2015 the latest, for the case that it can be anticipated that second-generation biofuels are not commercially available and the sustainability scheme is not effective in practice by the 2020 deadline.
- A mechanism to prevent crisis situations in agricultural markets and notably food markets should be included in the draft directive to ensure rapid reaction, if necessary. The Commission should work on concrete criteria to trigger temporary action such as, tariff rate quota opening, a temporary suspension of tariffs, target opt-out clauses for biofuels.

#### **EU's Pesticide Directive**

The revision of Directive 91/414/EEC concerning the placing of plant protection products on the market rises concern as regards the proposed "cut-off" criteria agreed in June 2008 in the common position of the Agricultural Council. This proposed "cut-off" criteria would limit the use of pesticides within the EU potentially resulting in a reduction of arable crop yields. At a time when supplies are tight, this would prove detrimental for EU food supplies. CIAA considers that such provision requires a full EU-wide impact assessment which takes into account its impact on food supply and prices; environment; and public health before the Agricultural Council's Common Position is approved within the European Parliament.

#### **How to implement the quality policy in the food sector**

Quality is a competitive issue for all food and drink companies. Food quality characteristics are supplementary to regulatory requirements (with a number of exceptions, like PDO/PGI, TSG, organic production notably). For CIAA, it is not the role of the legislator to impose new legislation in the field of quality. Neither would it be useful to try proposing a supposed high quality scheme, which would be impossible to define. The consumer is able to judge the quality of products. The food and drink industry, together with other actors of the food chain, is ready to take its share of responsibility in enhancing understanding and transparency on quality assurance scheme. Such actions are already underway. The role of the Commission should be to continue giving visibility and support to these efforts.

PDO and PGI products provide added value to European farmers or food processors and they respond to specific consumers' expectations. The current tendency of a rapid increase in registered names may lead to the loss of comparative advantage for these products. The PDO and PGI system has to be based on an identified link between the specific characteristics of a product and the area of origin, on clear, strict and harmonised rules, with efficient controls at any stage of production, processing and distribution.