Study on Employment, Growth and Innovation in Rural Areas (SEGIRA)

ANNEX - Agro-industrial development





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1 Analysis of the agro-industrial developments

This annex contains the analysis of the literature on the agro-industrial development that has been developed for the 'Study on Employment, Growth and Innovation in Rural Areas (SEGIRA).

1.1 Meat products: competition from low cost countries

The EU is a leading exporter of meat: a net exporter for pork and poultry and net importer for beef. The major flows are trade between EU countries. The trade balance in meat for the EU developed negatively: the surplus decreased. The EU has a negative trade balance for beef. International trade is mainly based on frozen, cooked or further processed meat products. The EU industry should focus on the production of fresh products for the demanding European customer. In this market segment the local industry has an advantage over third countries. The competitiveness of the EU meat industry is weak. Third countries like Brazil and Argentina have competitive advantages. Large and reliable livestock supplies, low costs of labour and feed (an abundance of land) combined with economies of scale are key factors contributing to the competitiveness of the Brazilian meat industry. Due to higher labour costs, the US has these advantages to a limited extent. The need for consolidation will be a key issue in the meat industry mergers to achieve economies of scale. Only bigger companies with an adequate scale can exploit the opportunity to cater for the various preferences for particular meat cuts between countries. The competitors are not consistently strong in all competitiveness indicators. The Brazilian meat industry is of growing importance within their food industry and on the export market. The Brazilian growth of real value added and labour productivity, however, is weak. The opposite applies to the US. On average all competitors are stronger than the EU-15.

1.2 Fish and Seafood industry: consolidation and outsourcing of processing

The seafood sector remains very fragmented, in particular markets for fresh seafood, but this is in a process of consolidation and globalization. With 4 of the top 10 seafood companies, the EU still has a modest position in global perspective. Cross border consolidations that give access to global sources, low costs of processing and access to markets is expected. The companies that take the initiative are likely to become industry leaders and the ones that define and shape the industry for the future. Seafood is one of the fast growing segments of the food industry. Buying power is increasing, in particular in emerging seafood markets like China and Russia. The European seafood industry faces competition with other main developed economies like Japan and US in terms of access to the sources and (labour) costs of processing. The EU-15 is the largest exporter with 23% of the total world exports. The trade to non-EU member states is a mere 4%, below China (9%), Thailand (7%), Norway (6%), US (6%) and Canada (6%). All indicators show the weak competitiveness of the EU seafood industry compared to US and Canada. Spain and Belgium are the most competitive of the EU countries with the largest exports; Denmark and Germany are weaker.

1.3 Processed fruit and vegetables: faster growth export to third countries

Less than 5% of global production (1.7 billion tons) of fruit and vegetables (F&V) is traded between countries: over 95% is consumed locally. F&V are generally consumed fresh, although in high income countries over 50% of consumption is related to processed fruit and vegetables (including juices). China is the largest producer of F&V with a market share of one third. Processed F&V has a share of 43% in the exports of all F&V. Leading countries in the trade of processed F&V are EU (the Netherlands and Belgium), China, US, Canada and Brazil. The largest importers are the EU (Germany and the UK), the US, Japan and Canada. The leading export product group of processed F&V is canned vegetables, accounting for 36%, followed by fruit juice concentrate (29%), frozen vegetables (14%), a considerable part of which is processed potatoes, canned fruit (9%) and frozen fruit (6%). The EU-15 competitiveness is stronger than that of the US and Brazil, but weaker than Canada. The export to third countries is growing faster than intra communitarian trade and the importance of F&V in the food industry is increasing. Germany, Spain and Belgium are relatively strong, France as a large producer is weak in terms of competitiveness.

1.4 Oils and fats industry: Brazil is increasing in strength, EU strong in value added

The US exports of edible oils and fats are larger than the exports of the EU to third countries. The EU processing industry has a larger turnover. The competitiveness of the US and Brazil is stronger, while that of Canada is weaker. Spain appears to be strong as one of the European countries with a substantial production. EU competitiveness is weak compared to the US with regard to the production of crude oils and fats. However, Europe produces more refined oil and fat products compared to the US, which are products that can be marketed against higher values. The US and Brazil are the main producers of crude oils and fats, mainly soybeans. However, the European countries produce more refined oil and fat products. The EU-25 is the world's largest margarine producer and accounts for 54% of the world's margarine production. Europe is therefore the major world player in the production of refined and consumer end products. The EU-15 growth of real value added is lower than that of the US and Brazil. Labour productivity growth in the US is much higher than in Europe. Three of the nine biggest oil and fat companies in the world come from the EU.

1.5 Dairy products: EU CAP enables growth for competitors

The dairy industry plays a more important role in the food industry in the EU than in the US. This is expressed by the share of turnover, value added and personnel costs in the whole of the food industry. The average turnover of US firms is four times the EU average. The US has a production value which is only 60% of the EU-25. Despite this difference, the value added is larger in the US than in the EU-25. Australia and New Zealand are relatively small producers. Even with half of the world's top 20 dairy companies being European, EU competitiveness is weak compared to the US due to the slower growth of labour productivity, real value added and also the growth of the value added compared to the total food industry. The EU milk quota system restricts growth in the EU, whereas the production in New Zealand, for example, is not restricted. Austria and Italy are fairly strong in competitiveness, while Ireland is weak. The weak or strong performance of a country does not say much about individual enterprises. France is valued overall as almost EU average whereas the French company Danone is known to be very competitive.

1.6 Grain-based and starch products dominated by a few key players

Almost 90% of the global cereal production is locally consumed either by humans or animals. The global trade of grain mill products totaled 2.98 billion Euros in 2004, divided over 68% flours and 32% starches. The global trade of bread and bakery products and pasta is far more important and amounted to 29.8 billion Euros in 2004, divided over bread and bakery 86% and pasta 14%. The EU has a share of 47% in the world export share in grain-based products. The EU exports 13% of the total world exports to third countries. Important non-EU exporters are: the United States of America (15%), Canada (9%) and Australia (7%). The EU grain-based industry had a production value of 108 billion Euros in 2003, almost 40% above the US production value. Canada and Australia are relatively small producers. However, the scale of the grain-based enterprises in the EU is much smaller than in the US and Canada as indicated by the lower production value and number of employees per enterprise. Consolidation, internationalisation and specialisation will continue, also resulting in a more concentrated grain-based industry in Europe. The EU competitiveness is weak compared to the US, but equally strong as Canada and stronger than Australia. Austria, Belgium and Germany are relatively strong within the EU. The extra communitarian trade grew less than the intra communitarian. The weak EU performer in competitiveness - France - has several companies in the global top companies. World leading companies like Danone and Kraft foods are also leading in other food segments.

1.7 Beverage industry: small scale in wine, large in beer and spirits

The beverage industry produces a wide range of products: wine, beer, spirits and soft drinks. The industry structure depends on the product: many small producers in wine, some large breweries next to many small ones especially in Germany and large scale spirit producers. The overall competitiveness of the EU is slightly lower than the competitors. EU competitiveness is low due to the slower growth of labour productivity and real value added. The development of the share in the total food industry and export specialisation is positive. Five European brewers are in the top 10; in the spirits production they are at number 1 and 10 and in wine the highest ranked of the four in the top 10 is number 6. Within Europe Austria, Belgium and Denmark are strong in competitiveness, whereas UK, France and Portugal are weak.

1.8 Sugar: EU competitiveness lagging far behind

The worldwide production of sugar amounted to 148.4 million tons in 2003, whereas the worldwide trade only accounted for 35.7 million tons. This means that around 75% of the global production is consumed locally. EU-15 countries play an important role on the world sugar market with an export share of 34%. However, two thirds of these exports are destined for other EU countries. Over the last decade, Brazil has become the world’s leading sugar exporter by far with an export share of 22%. Another important non-EU exporter is Thailand with a share of 9%. The sugar export of the US is of minor importance with a share of only 4%. The EU sugar industry had a production value of almost 12 billion Euros in 2003. This is 70% above the US and 125% above Brazil’s production in 2002 or 2003. However, the production value in the EU decreased in five years’ time, whereas the production value in the US and Brazil increased. Nevertheless, the sugar industry in Brazil is more important than in the EU and the US, expressed as share of turnover, value added and employment in the total food industry. EU competitiveness is weak compared to the US and Brazil. The largest producers, France and Germany, reflect the weak competitiveness of the EU-15. Spain and Belgium are strong.