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4.6 Dairy products: EU Cap enables growth for competitors

Gemma Tacke and Paul Ingenbleek

4.6.1 Key findings

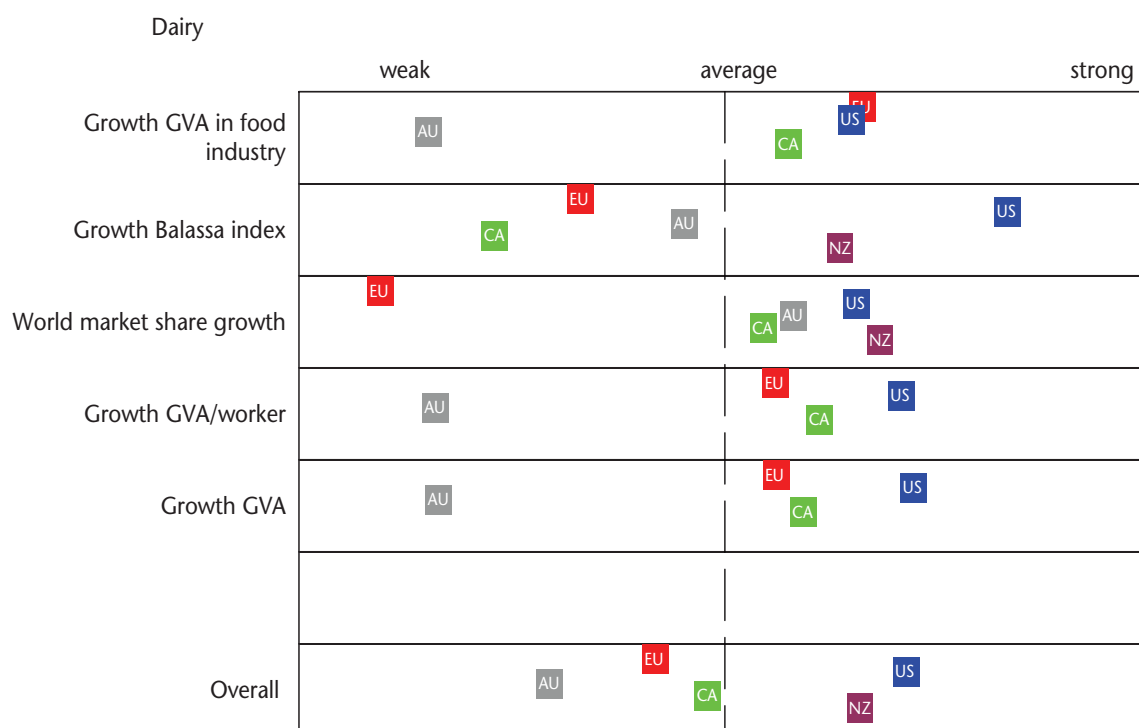
The dairy industry plays a more important role in the food industry in the EU than in the US. This is expressed by the share of turnover, value added and personnel costs in the whole of the food industry. The average turnover of US companies is four times the EU average.

The US has a production value which is only 60% of that of the EU-25. Despite this difference the value added is larger in the US than the EU-25. Australia and New Zealand are relatively small producers with a turnover of approximately 6 to 7% but again a relatively high value added: 12 to 13% of EU-25 level. Even with half of the world top 20 dairy companies being European, the dairy industry seems weak in competition.

The EU competitiveness is weak compared to the US due to a slower growth of the 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. Figure 4.6.16 gives an overview of the competitiveness of the EU countries. Austria and Italy are fairly strong, Ireland weak. A weak or strong performance of a country does not say much about individual companies. Overall, France is valued as

almost EU average whereas French company Danone is known as very competitive. This divergence between companies and regions within Europe makes the European average hard to interpret and reflects the ongoing restructuring in the European area, leading to more specialisation and better competitiveness.

Figure 4.6.1 Overall competitiveness of EU and major competitors



4.6.2 Introduction

The EU benchmark for competitive performance: world exporters

Although a vast share of the dairy production is consumed locally, the EU dairy industry competes on the global market with milk powder, butter and several branded products like ice cream. EU countries play a major role on the world market as over 70% of the world exports originate from the EU countries (table 4.6.1). A major part of these exports are destined for other EU countries. Important non-EU exporters are: New Zealand, Australia and the US. These three countries together with Canada will be used to benchmark the EU dairy industry. Most countries are exporters as well as importers. A more in depth analysis of the trade will be given in section 4.6.3.

Milk processing

Most of the production involves liquid milk, mainly for local consumption. New Zealand is the exception; milk powder is the main product category. Whereas milk powder production declined in the EU, it increased in other countries (table 4.6.2).

Table 4.6.1 Major exporting countries in dairy products (countries with at least 2% share in world markets)

Region/Country	Export share			Import share		
	'96 - '98	'02 - '04	difference	'96 - '98	'02 - '04	difference
EU-25	78	75	-3.2	66	65	-0.5
EU-15	75	71	-3.7	65	64	-0.8
EU-15 < > non-EU	18	16	-2.3	3	4	0.8
Germany	17	15	-2.0	13	12	-0.7
France	15	14	-1.0	8	7	-0.7
Netherlands	13	12	-1.2	8	7	-1.0
New Zealand	8	8	0.5	0	0	0.0
Belgium/Luxembourg	7	7	-0.0	8	8	-0.1
Denmark	5	5	-0.5	1	1	0.4
Australia	5	5	-0.0	1	1	0.1
Italy	4	4	0.8	11	9	-1.5
United Kingdom	4	3	-0.6	7	7	0.4
US	2	2	0.3	3	4	0.9
Austria	1	2	1.1	1	2	0.5
Spain	1	2	0.7	4	5	0.9
Canada	1	1	-0.2	1	1	0.2

Source: ITC/WTO data

Table 4.6.2 Production of dairy products (in million kg)

Product	EU-25		US		Australia		Canada		New Zealand	
	1995	2004	1995	2004	1995	2004	1995	2004	1995	2004
Liquid milk	30670	32858	24757	26950	1951	2025	n.a.	2750		390
Cheese (cow milk-based)	5974	7592	3122	4008	254	370	313	340	197	290
Milk powder	2411	1861	632	727	315	377	77	90	460	905
Butter	1715	1984	572	557	136	85	93	88	241	300
Condensed milk	1280	1218	216	238	99	90	Na	59	30	1

Source: Productschap Zuivel 2004.

The core business of the dairy industry is processing raw milk into different consumer and intermediate products. Raw milk is a commodity with fairly small quality differences between producers. Differences based on cow species, feed quality and composition and farm hygiene may occur and could be exploited more in the future for niche markets including health. Processors can be seen as 'bio-refineries': apart from the 87% of water, cow milk contains approximately 4.9% lactose, 3.7% fat, 3.5% proteins and 0.7% others minerals. (<http://www.food-info.net/nl/national/ww-melk.htm>). Milk is the basis for a wide range of different products meeting the demands of both consumer and industrial markets. Examples include drinking milk (full cream, semi-skimmed, skimmed), cheese, yoghurt, butter and flavoured milk drinks. Lactose, butter, skimmed milk powder and whey are sold on industrial markets in the food industry (including chocolate, sweets and meat). Lactose and newly developed specialty products also target the pharmaceutical industry.

Consumption per head

The EU dairy industry can build on a relatively stable market. On average the EU-25 milk consumption per capita was 73 kg in 2004. This number is below that of the US. Within the EU-25, in 2004 the consumption ranged from 21 kg per capita in Latvia to 140 kg in Slovenia (figure 4.2). The consumption of cheese is relatively large within the EU. Cheese consumption based on cow milks is increasing slightly in the EU-25, from 16.5 kg per capita in 2000 to 17.3 kg in 2004. It now ranges from 3.8 kg per head in Latvia to 28 kg in Greece.

Figure 4.6.2 A: Cheese (based on cow milk) consumption (kg/head) in major EU and benchmark countries.

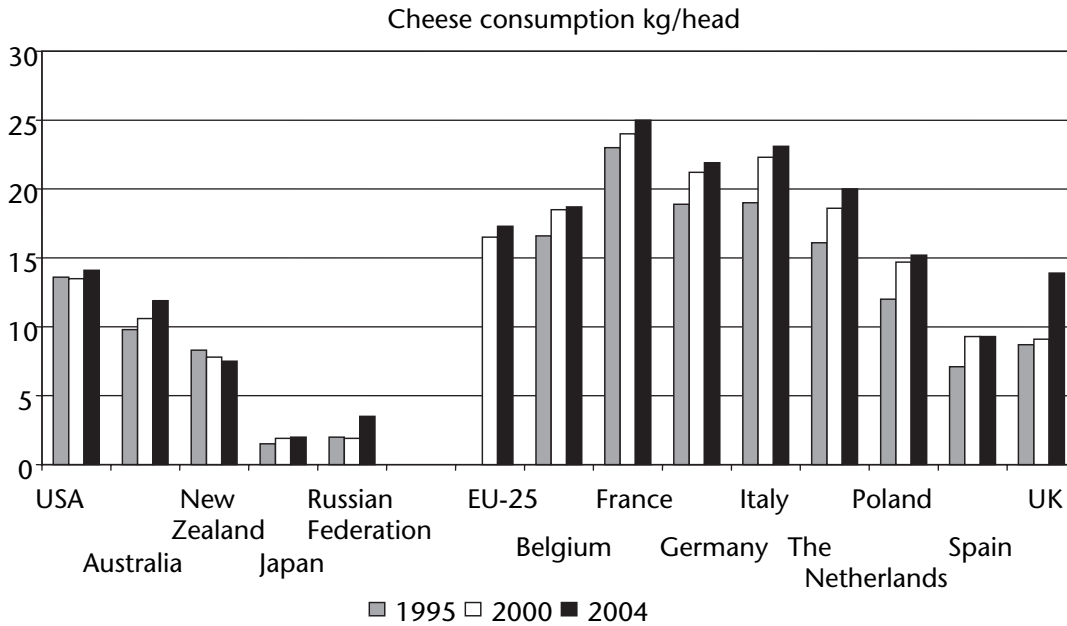
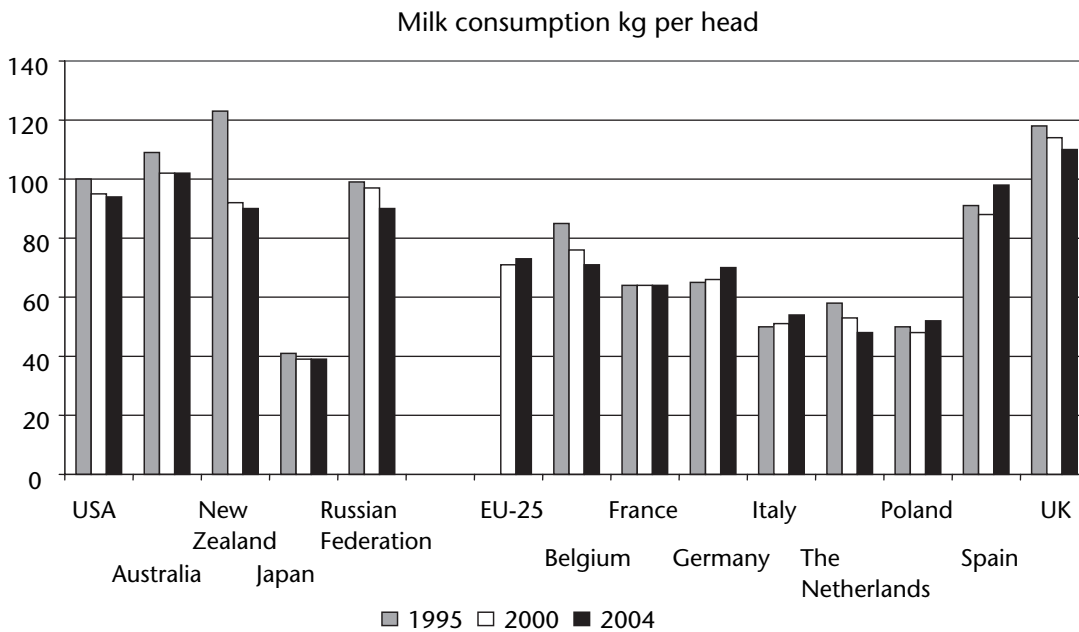


Figure 4.6.2 B: Milk consumption (kg/head) in major EU and benchmark countries.



Source: Productschap Zuivel, 2004.

Competition: Balassa index and share value added.

An industry competes on the domestic market for means of production. The performance can be measured firstly by the Balassa index (Revealed Comparative Advantage) and secondly by the growth of the gross value added compared to the rest of the industry.

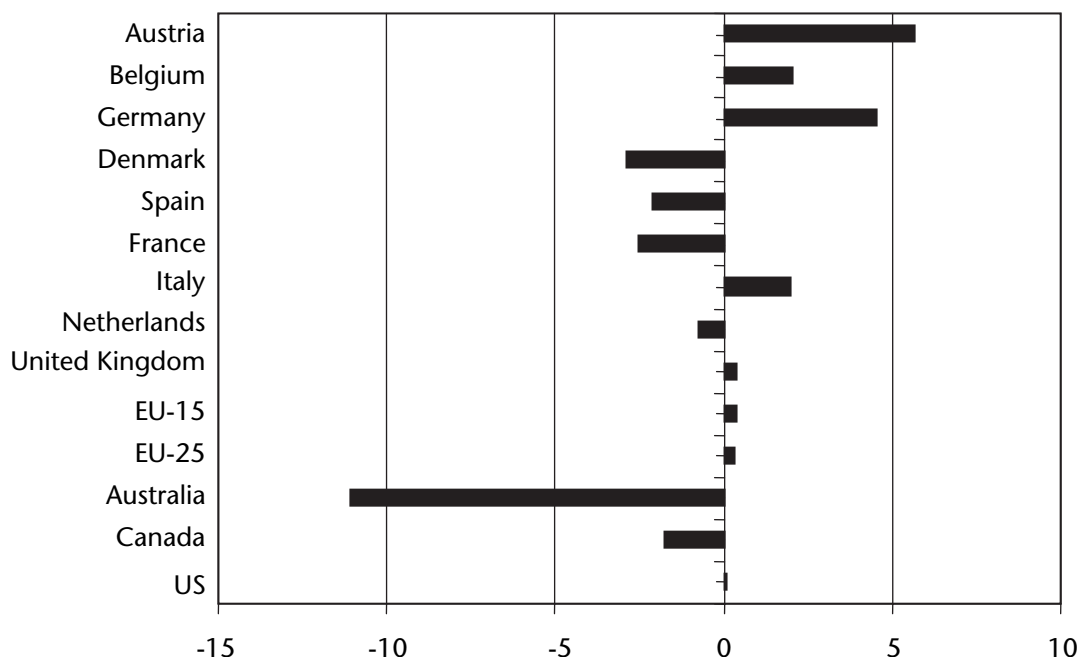
Table 4.6.3 Revealed comparative advantage (Balassa index) and growth rate from '1996-1998' to '2002-2004'

Region/Country	1996 - 1998	2002 - 2004	annual growth %
EU 25	1.7	1.8	0.5
EU 15	1.7	1.8	0.7
EU15 < > non-EU	1.1	1.0	-1.3
Germany	1.6	1.5	-1.4
France	2.5	2.8	1.6
Netherlands	3.7	3.9	0.6
New Zealand	29.5	35.7	3.2
Belgium/Luxembourg	2.1	2.0	-1.0
Denmark	5.4	5.3	-0.4
Australia	4.1	4.3	0.8
Italy	0.7	1.1	6.7
United Kingdom	0.7	0.8	1.2
US	0.2	0.2	6.5
Austria	0.9	1.8	11.6
Spain	0.7	1.0	6.9
Canada	0.2	0.2	-3.0

The Balassa index indicates the specialisation degree of the export portfolio: external orientation. A growth of the index means a better than average performance. The Balassa index indicates that New Zealand is very specialised in dairy exports: the Balassa index is far higher than all other countries. Dairy export of the US is of minor importance: it has the lowest Balassa index, although the index is growing the fastest of all countries. The Balassa index growth is negative for the EU-15 to third countries; the intra trade within the EU became more important (table 4.6.3)

The performance on the domestic market is compared to the food industry as a whole. So if the share of real value added of the dairy industry in the total food industry grows, the dairy industry performs better than the whole. Figure 4.6.3 shows that the selected EU-15 countries (representing 85% of the value added) have a negative growth whereas the US has a small positive growth. So the competitiveness of European dairy industry is weaker than that of the US. The differences within Europe are huge: over 2% annual decrease in Germany and almost 5% growth in Ireland.

Figure 4.6.3 Annual growth of the real gross value added at factor cost: share dairy industry in food industry.



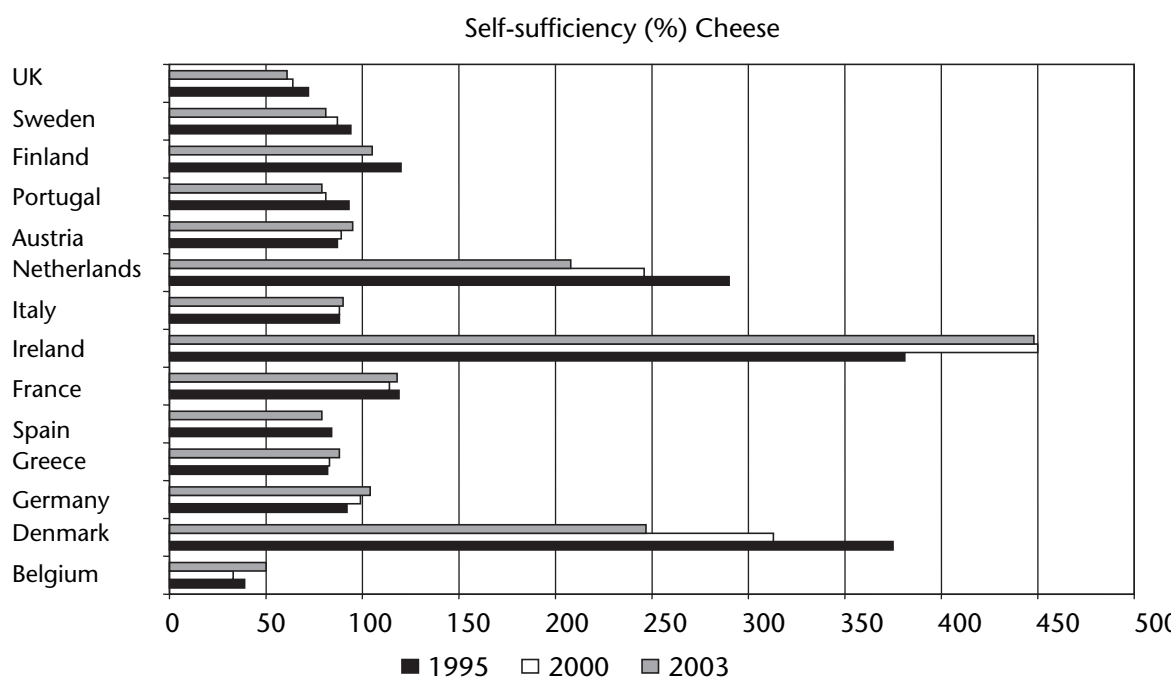
Source: see Annex C. EU countries and Brazil 1999-2003; Australia 2001-2003; US and Canada 1997-2002.

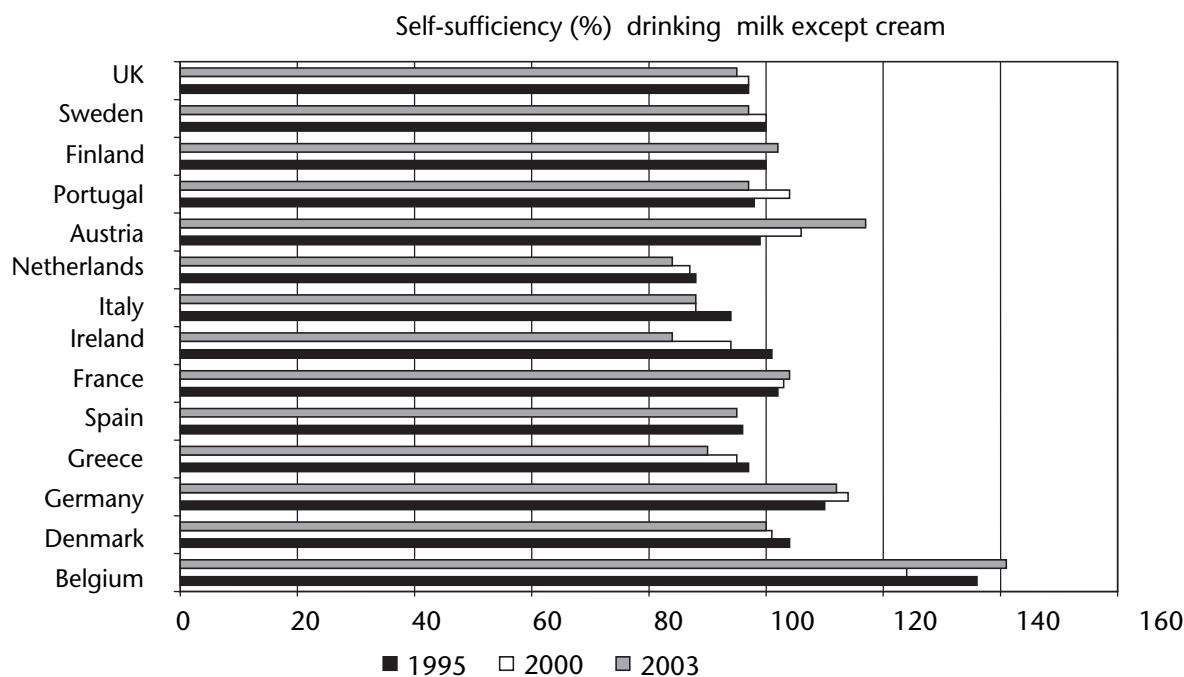
4.6.3 Global trade performance

Self-sufficiency

The share of international trade is fairly small compared to domestic production, as is shown by the level of self-sufficiency (figure 4.6.4) for drinking milk (except cream) and cheese. For drinking milk, a fresh perishable product, the self-sufficiency degree is approximately 100.

Figure 4.6.4 Self-sufficiency degree for drinking milk (except cream)





The Netherlands and Italy are below 100% and import from their neighbours Belgium, Germany and Austria. Self-sufficiency for cheese is quite different; this ranges from 50% for Belgium to 450% for Ireland. This product is less perishable and can easily be transported on long distances. Ireland, Denmark and the Netherlands have relatively large export positions. Product categories that are growing in importance are ice cream and cheese, for example. The growth in the consumption of ice-cream is based on a trend towards more luxury products; the market for cheese is growing predominantly because it is increasingly used in ready-to-eat meals.

Trade patterns

New Zealand is the largest net exporter of dairy products, followed by France (figure 4.6.5). The largest net importer is Italy, followed by the UK. However the largest exporter and at the same time importer is Germany. The figure shows an intensification of trade relation between countries. In the period between 1996 and 2004, the exports and imports increased in most countries at the same time. One-way trade is still visible: New Zealand only imports.

The EU-15 and EU-25 perform below the average of the benchmark countries (figure 4.6.6). The exports of the new member states, however, strongly exceed the world average but they still have a small market share. All benchmark countries (US, New Zealand and Australia) perform better than the world average. In addition the EU import growth exceeds the export growth, which results in a negative trade balance. However differences between export and import growth are even larger in the US. Within the EU, Austria, Spain and Italy are the best performers. An average growth above the world growth means an increase of market share.

The value per ton of the exported dairy products of the EU is also below that of its competitors. At first glance, no relationship seems to exist between the export growth and export value. For Italy, the Netherlands and the EU external trade, the value per ton of exports is higher than the import value. US exports low price products and imports high price products.

Figure 4.6.5 Import and export of dairy products, three years average of values

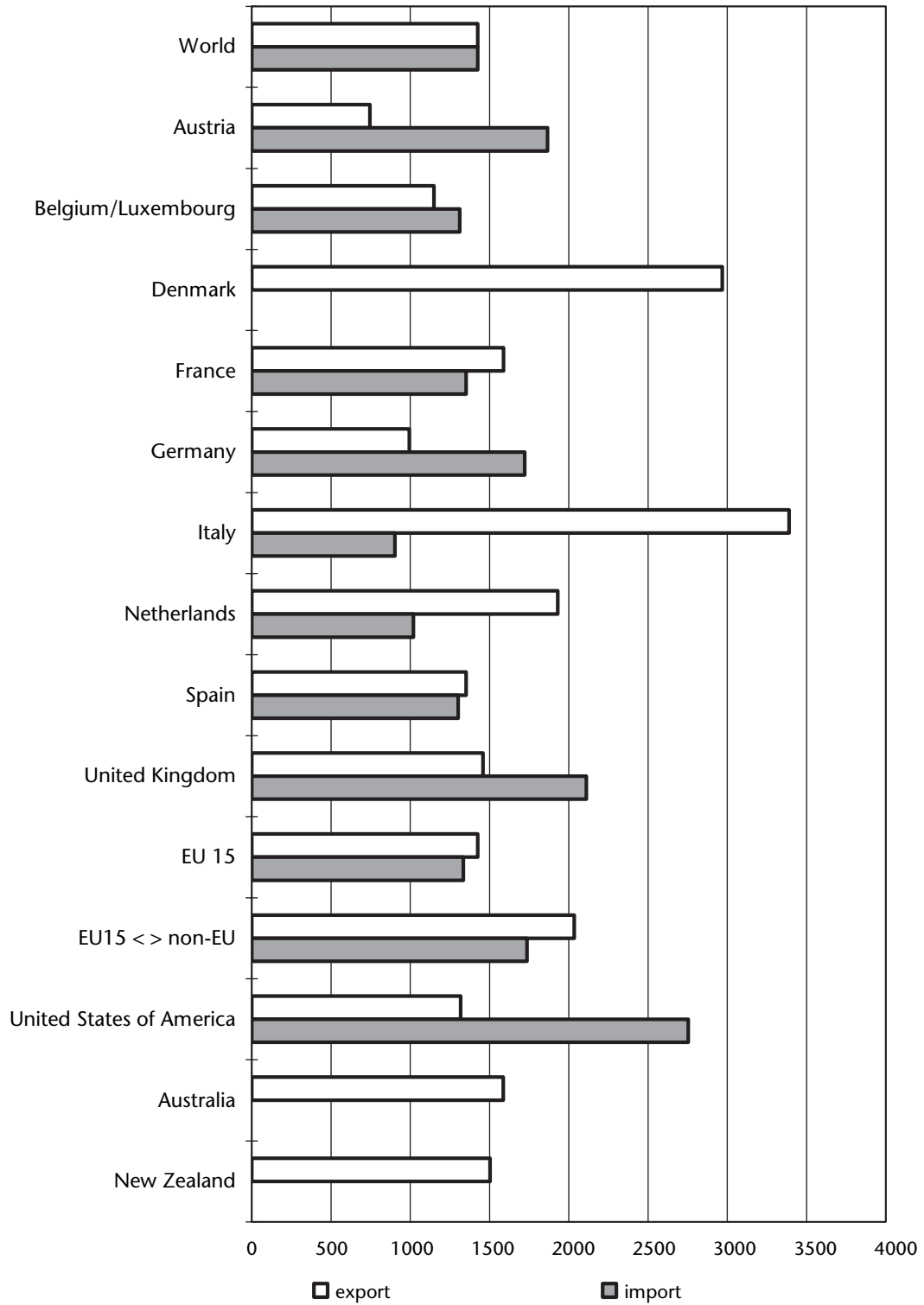


Figure 4.6.6 Annual import and export growth of dairy products

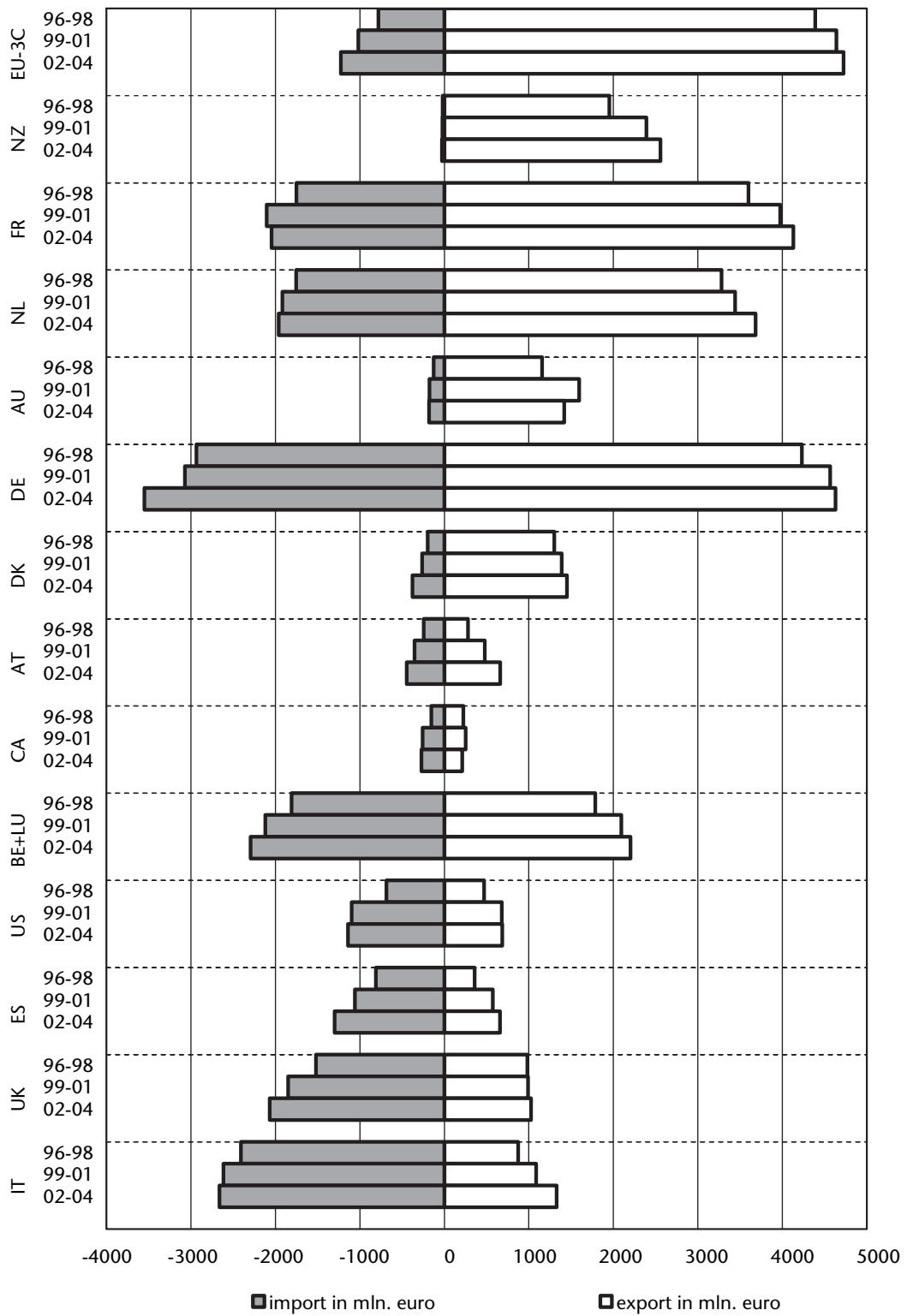
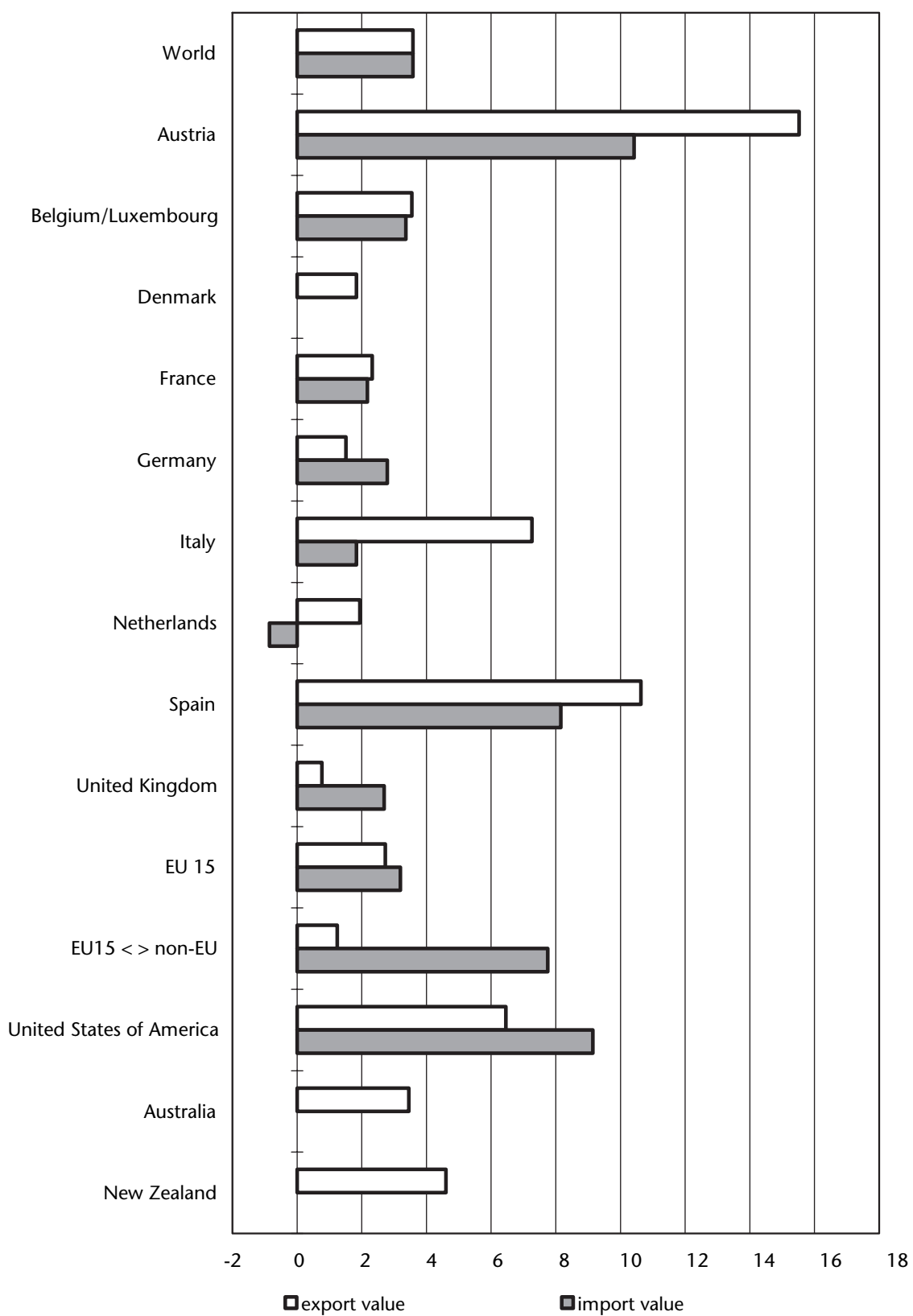


Figure 4.6.7 Import and export prices of dairy product 2002-2004



Main products in detail

Cheese is a commodity. The main importers of cheese are Germany, Italy, France, Spain and the Netherlands. The main exporters are Germany, France, the Netherlands, Denmark, Belgium and Ireland. Cheese from the EU mainly goes to the US, Russia and Japan; these three count for 50% of the export destination. Saudi-Arabia and Switzerland are also significant trading partners for cheese. The main yoghurt and dessert importers are Germany, the Netherlands, France, Spain and Italy. The main exporters are Germany, Belgium, France, Austria and Spain. Less than 1% of yoghurt in the EU comes from third countries or goes to third countries.

Another commodity is milk powder. New Zealand is the market leader on the world market for milk powder with more than 1.5% fat and the EU is a close second. Argentina and Australia are third and fourth at a distance. In the export of low fat milk powder, New Zealand is also the world market leader followed by the EU, with Australia and US as close followers. In particular the US improved its position in 2004. Algeria is the most important destination for milk powder, followed by China, Mexico, Philippines, Saudi-Arabia, Malaysia and Indonesia. Together these countries take nearly 55% of all imports on the world market.

Fresh milk is mainly produced for local markets. Within the EU, only 6% of the total production is exported or imported. In export volume, cheese is the main product: 6% of the cheese production is exported to countries outside the EU (whereas only 1% is imported from countries outside the EU, predominantly Australia and New Zealand). 35% of total production is traded within the EU. Yoghurt and desserts are also mainly produced for the local market; nearly 20% of the total production is traded within the EU and less than 1% with third countries (ZMP, 2005)

China is becoming an important market for exports and foreign direct investment for dairy processors. China has a small dairy production in the northern part of the country, but not in the south where major consumption is. European companies are active here. Nordmilch exports products to China. Friesland imports milk powder (also from New Zealand) and produces the products at local Chinese plants. Other companies like Danone and Nestlé are also active in China.

The market for industrial and intermediate products like milk powder (in combination with proteins and fats or low-fat substitutes) is growing worldwide (also based on the growing consumption of ice cream and chocolate). Nordmilch exports much of its cheese and fresh dairy to Russia. They are almost the market leader in unbranded retail products.

The price of milk powder is currently higher than the intervention price. Butter is increasingly difficult to sell because people consume less fat. The world market price for butter (or fat) is therefore lower than the EU intervention price (ZMP, 2005). In 2015 the EU system will abandon the quota system and intervention prices. Sales of fat will then become problematic for all dairy companies. Companies with a strong relationship with processors might be able to sell the fat in combination with proteins and milk powder to chocolate factories, for example.

4.6.4 Business performance and competitive process*Characteristics of the dairy industry*

The EU dairy industry has a production value of more than 100 billion Euros a year (table 4.6.4). This is 70% above the US and almost ten times the production in New Zealand and Australia. The production in New Zealand is dominated by one company: Fonterra with a market share of 96% (Fonterra, 2005). The production value in Europe has not changed much in the last twenty years. This is largely related to the CAP milk quota system that was installed in the mid-eighties.

With regard to production costs, the purchases of goods (mainly raw milk) take a share of over 90% in the turnover in Europe, over 80% in New Zealand and Australia and between 60 and 70% for the US. The personnel costs take over 60% of the value added in Europe and a mere 20 to 25% in the US.

Table 4.6.4 Key characteristics of the industry

	EU15		EU25		US		Australia		Canada		New Zealand
	1999	2003	1999	2003	1997	2002	2001	2003	1997	2002	2004
Number of enterprises	9234	9748	10837	11377	1830	1681	Na	Na	267	436	
Production value	93030	101902	98390	107939	51923	69337	5256	5181	5240	6534	6582
Value added at factor cost	14912	16744	15839	17307	15595	23138	1074	891	1406	1684	1154
Purchases	87030	95318	92326	102148	36339	46323	3275	3049	4665	5658	5428
Personnel costs	9412	10026	9984	10384	3664	5113	490	519	535	521	
Number of employees	294528	287228	403843	388261	131868	129173	19100	19200	20944	19534	

Source: Eurostat, USDA, Fonterra (2005), Australia (2005).

In the introductory section of this chapter, the production of the EU was benchmarked with the main non-EU producers. Figure 4.6.8 shows the production of individual EU countries. It is clear that production in the benchmark countries increased in that period. Five EU countries are responsible for nearly 75% of the production value of dairy products in Europe: Germany, France, Italy, UK and the Netherlands. These are the countries with a large population. In this respect Spain and Poland lag behind. Belgium, Ireland, the Netherlands and Sweden have a relatively high production compared to the population. Eurostat figures indicate that the production value increased slightly in the last ten years. This increase has been stronger in the southern and eastern countries than in the northern European countries. Despite the milk quota system, the turnover of the industry is growing.

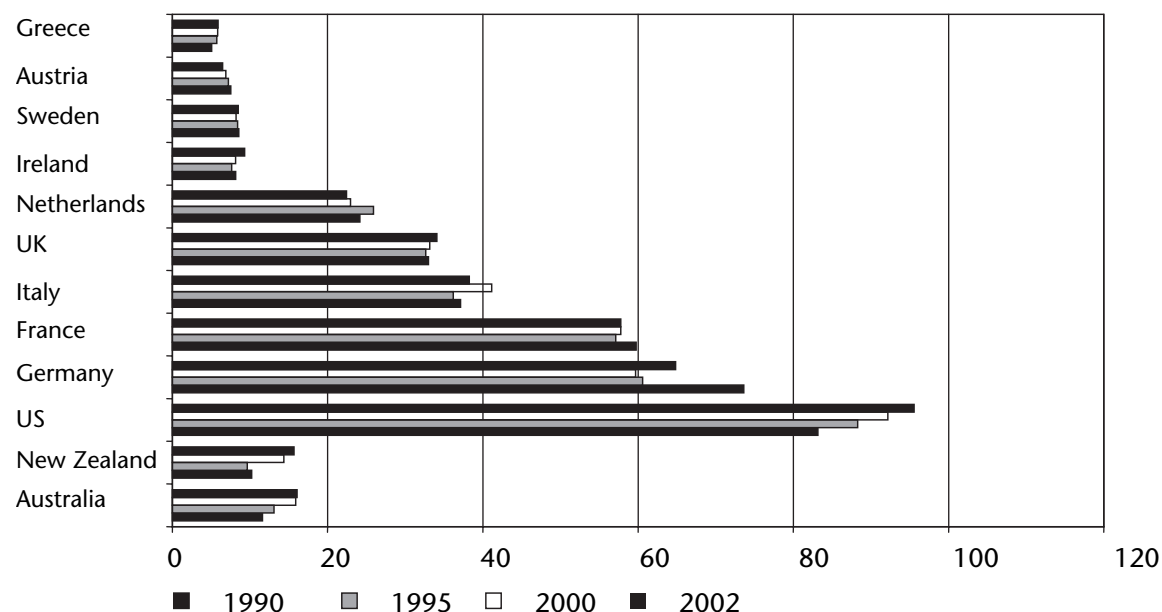
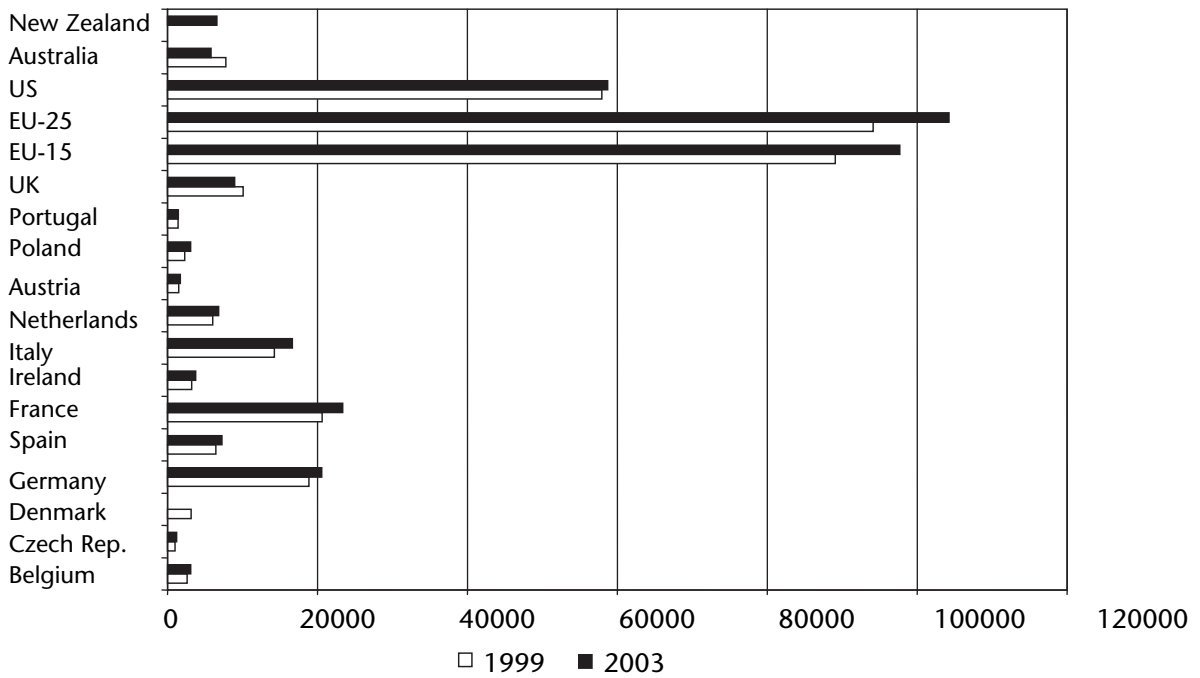
Figure 4.6.8 Dairy production (butter, cheese, milk) in million tons

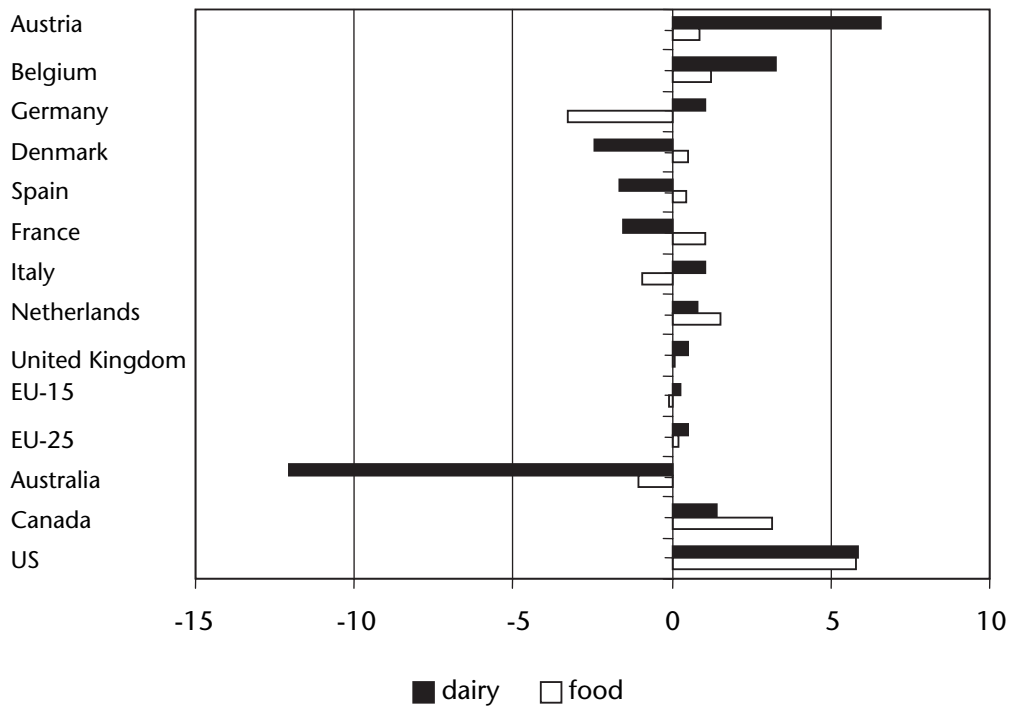
Figure 4.6.9 Distribution turnover in 1999 and 2003 (€ million; US and Australia 2004, New Zealand 2005).



Source: see Annex C. EU countries and Brazil 1999-2003; Australia 2001-2003; US and Canada 1997-2002.

The distribution of employment is almost the same as the distribution of turnover. In countries with relatively low wages such as the Czech Republic, the Baltic States or Hungary, the number of employees is relatively higher.

Figure 4.6.10 Growth real value added 1999-2003



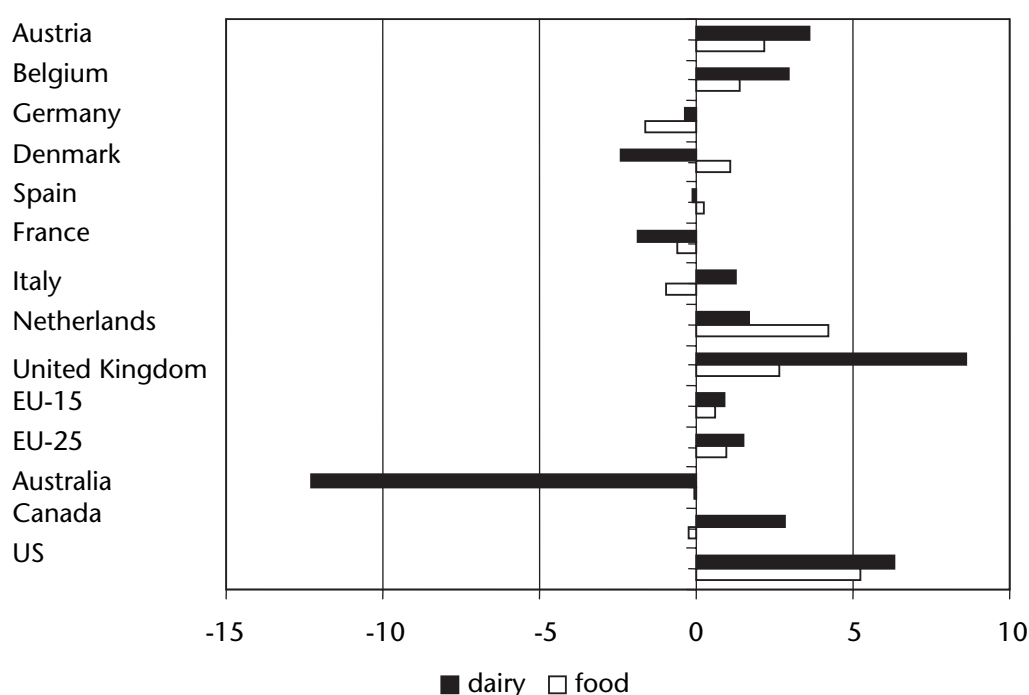
Source: see Annex C. EU countries and Brazil 1999-2003; Australia 2001-2003; US and Canada 1997-2002.

Value added and labour productivity

Due to differences in purchasing power parities, these nominal levels are not comparable. The growth of the real value added is interesting, however. Figure 4.6.10 shows that Europe has a weaker performance than the US. Within Europe there are great differences between countries: good high performance in Ireland and negative performance in France, Spain, Germany and Italy. These last three countries are large producers.

The growth in labour productivity indicates the competitive performance of the industries in the countries. Figure 4.6.11 shows that growth in the US is much higher than in Europe. There are great differences within the European countries. Relatively poor performance in Germany and France - the two largest producers in turnover. The UK and Portugal perform better than the US.

Figure 4.6.11 Growth of the labour productivity 1999-2003.



Source: see Annex C. EU countries and Brazil 1999-2003; Australia 2001-2003; US and Canada 1997-2002.

Market orientation and internationalisation

Table 4.6.5 shows the twenty largest dairy companies in the world, by order of sales. Some of these companies are active in other (food) industries (e.g. Nestlé, Danone, Unilever). Some use milk to produce chocolates and sweets, to the extent that labelling them as dairy products company is arbitrary. Danone as well as Nestlé use little milk as input compared to many other companies and to their turnover: they are not the biggest dairy producers. Product innovations, branding and internationalisation are major themes. The Swiss company Nestlé is the largest dairy company in the world, however not in volume of processed milk (table 4.6.5). The largest company in the EU is Danone, a French company, in fifth place. Among the top 20 of the world, ten companies are from the EU, five from the US and three from Japan. This indicates that the European dairy industry has an important position in the world market for dairy products.

Seven of the European top 10 dairy companies also have production facilities outside the EU. Many of these companies started as cooperatives or are still cooperatives. This governance issue is much discussed in the industry (Donceva et al., 2004), as managing and financing a multinational from a cooperative perspective is sometimes difficult as responsiveness to changes in the market is necessary to stay competitive.

In recent decades, the domestic-oriented cooperative industry switched to a more international focus. Several cooperatives are active all over the world. The Danish/Swedish Arla bought 50% shares in the largest UK Dairy company. Campina has Dutch and German farmers as members. Second brand orientation became more prevalent. Campina has consumer brands in their main markets (Everwand, 2006).

Table 4.6.5 Top-20 Global Dairy companies, by turnover in 2004

Rank 2004	Rank 1992	Company	Cooperative/ Investor Owned Firm	Country of origin	Dairy sales in billion € (2004) a)	Processed milk (mln. ltr.) b)
1	1	Nestlé	IOF	Switzerland	14,7	2,8
2	-	Dean Foods	IOF	US	7,0	
3	16	Dairy Farmers of America	cooperative	US	6,8	14,5 c)
4	4	Danone	IOF	France	6,5	2,43
5	12	Arla Foods	cooperative	Denmark/ Sweden	6,4	8,5
6	-	Fonterra	cooperative	New Zealand	6,3	11,5 c)
7	13	Lactalis	IOF	France	5,7	7,0
8	2	Kraft Foods	IOF	US	5,0	0,65
9	11	Unilever	IOF	Netherlands/ Great Britain	4,8	
10	10+15	Friesland	cooperative	Netherlands	4,3	5,6
11	19	Bongrain	IOF	France	4,1	4,1
12	8	Meiji	IOF	Japan	3,7	
13	6	Campina	cooperative	Netherlands	3,6	5,75
14	9	Morinaga Milk Industry	IOF	Japan	3,3	
15	-	Parmalat	IOF	Italy	3,3	1,83
16	-	Land O'Lakes	cooperative	US	3,2	
17	-	Humana Milchunion	cooperative	Germany	2,7	3,3
18	-	Saputo	IOF	Canada	2,3	
19	-	Schreiber	IOF	US	2,3	
20	-	Nordmilch	cooperative	Germany	2,1	4,2

a) Source: Donceva et al., 2004, ranked by dairy turnover in EUR billions, 2004 + mergers and acquisitions in 2005; b) LTO International Milk Price Comparison, 2002; c) Canadian Annual Dairy Trade Bulletin, <http://www.dairyinfo.agr.ca/main.htm>.

Fonterra (the New Zealand dairy) collaborates with European companies in several markets, but it does not export a large amount of dairy products to the EU. For Fonterra, South America is far more interesting because there they can produce milk powder cheaply. Producing basic milk products such as milk powder is Fonterra's core competence. They often have joint ventures with branding companies like Danone, Arla and Friesland. For European brand producers, they are therefore more an opportunity than a threat: they offer cheap raw material. For European milk producers (farmers), this might be more a problem than for the industry.

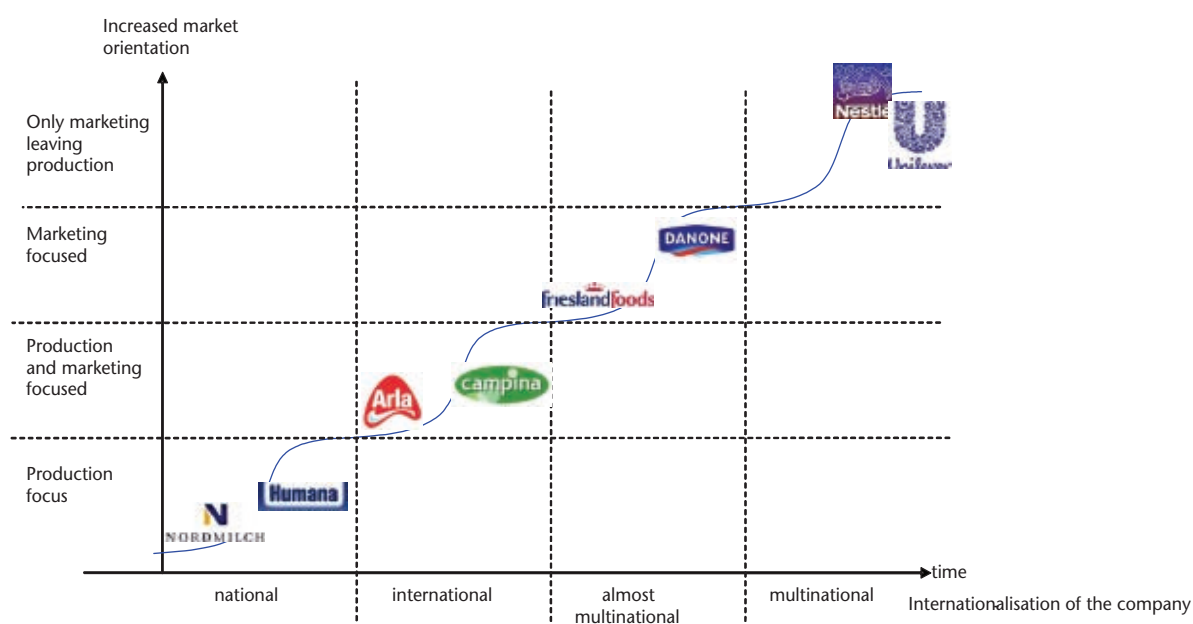
Figure 4.6.12 Evolution of the European dairy industry (Source: Everwand, 2006)*Size classes*

Table 4.6.6 shows the number of companies. Italy, France and Spain in particular have a large number of small dairy companies.

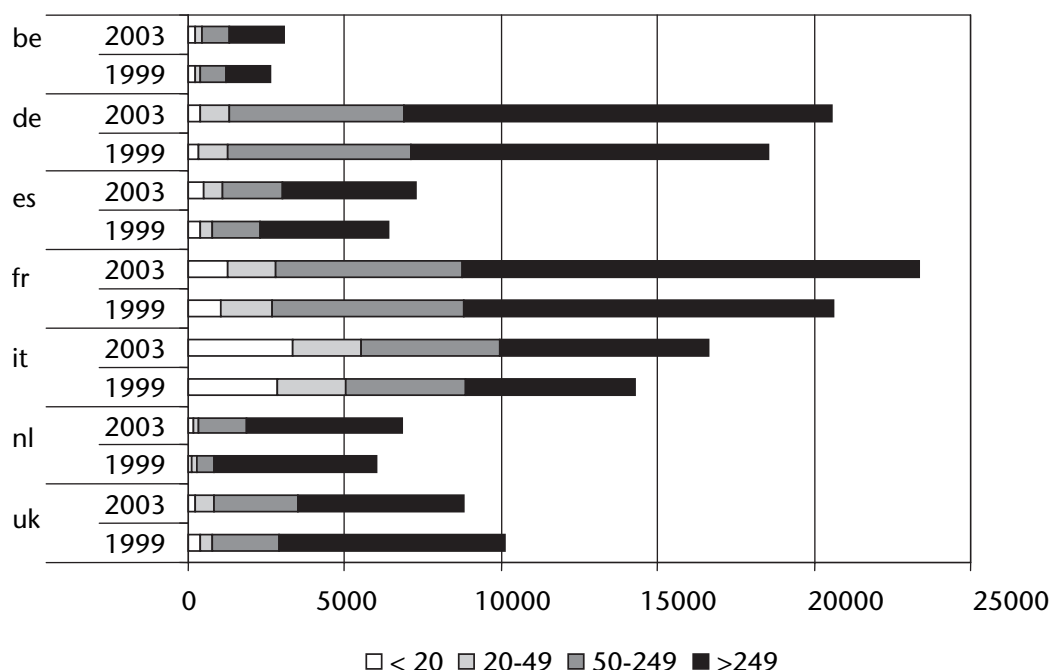
Table 4.6.6 Number dairy enterprises for size classes in number of personnel

		< 20	20-49	50-249	> 249
Belgium	1999	406	10	16	8
	2003	346	13	14	9
Denmark	1999	47	11	6	5
	2003	44	7	8	2
Germany	1999	164	51	102	38
	2003	196	37	84	43
Spain	1999	842	82	42	22
	2003	1348	82	48	18
France	1999	1236	155	131	47
	2003	1198	131	133	57
Ireland	1999	21	8	25	8
	2003	18	7	20	9
Italy	1999	3948	223	103	12
	2003	4031	217	111	19
Netherlands	1999	180	10	7	5
	2003	205	10	19	5
Austria	1999	88	9	18	2
	2003	121	7	19	4
United Kingdom	1999	482	59	62	34
	2003	437	54	59	24

Source: see Annex C. EU countries and Brazil 1999-2003; Australia 2001-2003; US and Canada 1997-2002.

The importance of these small enterprises is negligible from an economic point of view, as is shown in figure 4.6.13. Due to the confidential nature of data in several countries, the turnover of the larger enterprises is not published, which restricts the presentation in the figure. The remaining countries, including Italy, Spain and France, show that the most of the turnover comes from companies with 250 or more employees.

Figure 4.6.13 Turnover to size class.



Source: see Annex C. EU countries and Brazil 1999-2003; Australia 2001-2003; US and Canada 1997-2002.

4.6.5 Competitive potential

Innovation and branding

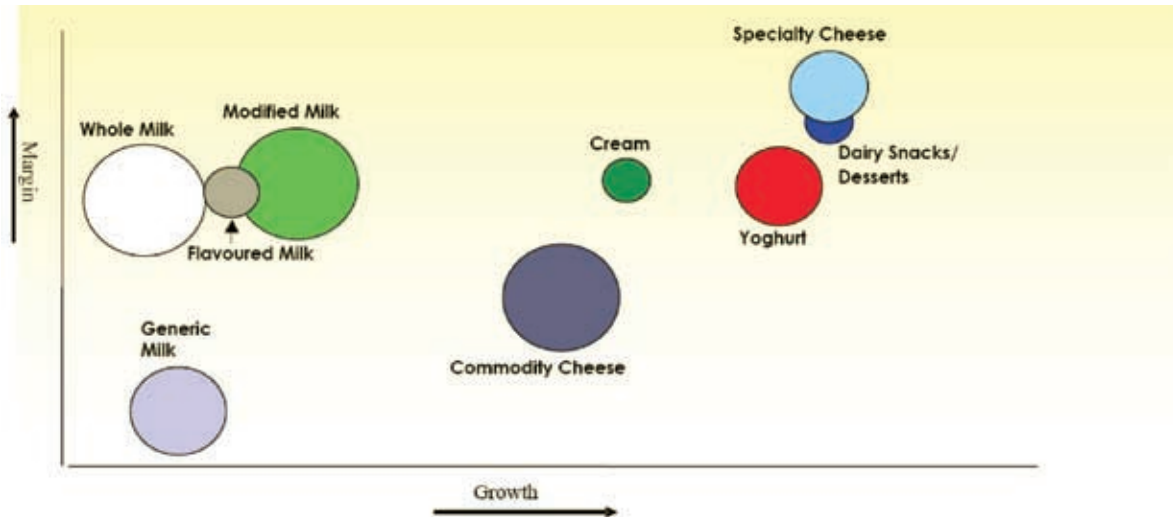
The dairy industry has a relatively strong tradition in new product development. The majority of product innovations deal with incremental innovations, such as variations in taste and packages designed for different consumption moments. Globally, the product group yoghurts and yoghurt drinks count most innovations. In yoghurt and yoghurt drinks, incremental innovations like new flavours are introduced. The market of prebiotics and probiotics is being developed by Yakult, but other companies in dairy are introducing new products in this market as well. In addition, several innovations in low fat products are being introduced in the market in all product types. Research into innovations shows that especially in the US, dairy companies are investing in low carb products, while in other parts of the world this product group is hardly developed at all. Another innovation area is the snack market. In ice cream, cheese and desserts, snacks have been introduced in the last few years which have been quite successful.

The dairy industry effectively follows consumer trends such as increased health and convenience. For example, low fat alternatives are being developed in relatively 'fat' product groups like cheese and whipped cream. Examples of ready-to-eat products include yoghurt snacks with fruit for breakfast and flavoured milk products in a one-person packaging. In addition, the dairy industry benefits from increased sales of ready-to-eat meals such as pasta and pizza. New products have been developed specifically targeting kids. Figure 4.6.14 shows the product portfolio of dairy products, although public statistics are missing for most high margin and innovative products.

Striking innovations (based on new technologies that are applied to new markets) are rare, but they do exist. Campina, for example, entered the market for meat substitutes with a product based on dairy. The dairy products industry is also innovative in the ingredient market: interme-

diate products delivered to the food and the pharmaceutical industry. This ingredient market is quite profitable for companies that invest in this market and sometimes even more profitable than the production of standard consumer products. However, this is a market in which innovation and R&D are very important to be able to keep up. On all continents, large dairy companies are active in this market and in some countries specialised companies are active in this market.

Figure 4.6.14 Dairy product categories on growth/margin matrix (Hooke, 2003)

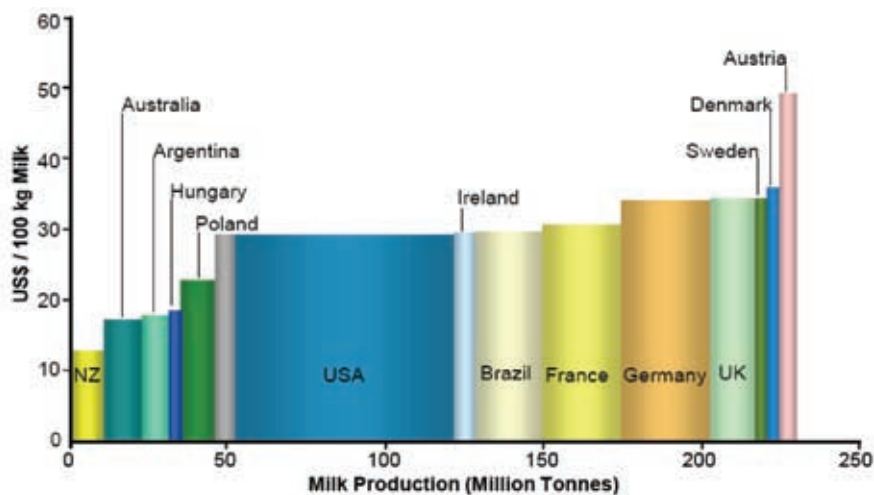


Only Nestlé (Swiss) and Danone (France) rank in the 66th and 67th place among the top 100 best global brands (www.interbrands.com). The European market still has many regional brands (also within one company like Nordmilch or Campina), that are partly a legacy problem. However they also reflect the differences in consumer demands throughout Europe and the ability of European companies to manage those differences. Some small dairy companies also show these skills, e.g. in producing local (cheese) specialties in France or catering for niche markets like halal and kosher food (Rouveen, the Netherlands).

Costs of inputs

Purchases of raw milk are major costs for the dairy products industry. Figure 4.6.14 shows the difference in cost prices of raw milk in several countries. The price seems rather high in Europe. However the low cost price in Australia and New Zealand correspond with a low population density. Logistic costs to the consumption areas are disadvantages for these countries.

Figure 4.6.15 Cost price of raw milk. For several countries



Source: Goldberg and Porraz, 2003.

The trend in consumption to value added products like cheese, ice cream and desserts that can be transported over longer distances means that the relatively safe position of high entry barriers for fresh products is becoming less important. Even though the milk price in Europe is (still) higher (27 cents) than in New Zealand (20 cents), industry experts see large-scale European farmers able to produce at even lower cost prices than 20 cents per kilogram milk. Once the EU quota system ends, these differences will probably become even larger. Countries like Portugal, Spain and Greece will probably end up with a smaller number of dairy cows, while countries in North-West Europe (Ireland, Denmark, the Netherlands) are likely to increase production (and thus reduce costs) even further (Lips and Reader, 2006).

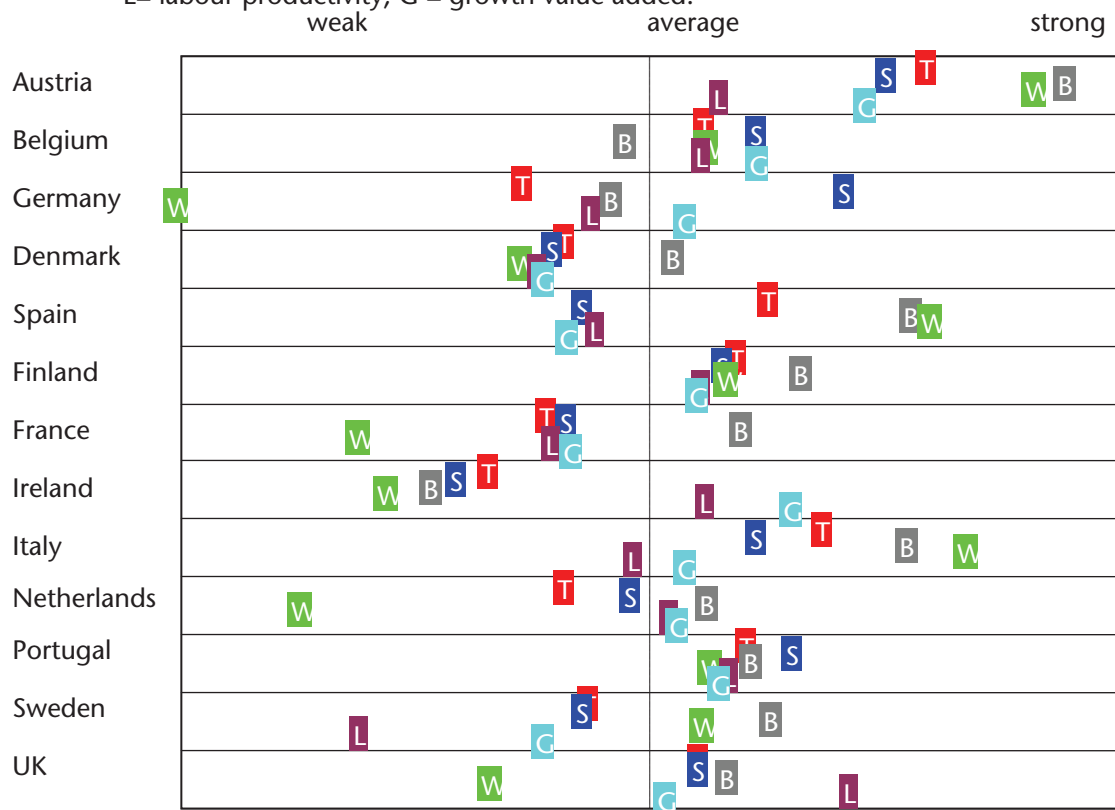
The competitiveness of EU countries

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 compared to the total food industry. Figure 4.6.16 gives an overview of the competitiveness of EU countries. Austria and Italy are among the important producers in a stronger position. Ireland is weak. The relatively strong position of the UK is remarkable, considerable better than some years ago. Since 2000 the UK dairy industry was undergoing a period of tremendous change. It had to evolve rapidly to meet the changing requirements and constraints of an increasingly global marketplace. The strong position of the Italian dairy industries is also reflected in their high prices (figure 4.6.7).

A weak or strong performance of a country does not say much about individual enterprises. In France, for example, has a very competitive company in Danone, but the overall performance of the whole country is valued below EU average. This divergence between companies and regions within Europe makes the European average hard to interpret and reflects the ongoing restructuring in the European area, leading to more specialisation and better competitiveness.

Figure 4.6.16 Competitiveness of the dairy industry in EU countries

T= total Dairy; S = growth share food industry in total manufacturing;
 B= growth Balassa; W = growth world share
 L= labour productivity; G = growth value added.



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

Robert Stokkers and Myrtille Danse

4.7.1 Key findings

The worldwide production of cereals amounted to 2,233 million tons in 2004, and the worldwide trade 234 million tons. Thus almost 90% of the global cereal production is locally consumed either by humans or animals. The world trade of grain mill products totalled 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 world exports of grain-based products. The EU exports 13% of the total world exports to third countries. Important non-EU exporters are: the US (15%), Canada (9%) and Australia (7%).