Main Findings of the COMPETE Project

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22nd September 2015

COMPETE Final Consultation Workshop, Brussels

This project is funded by the European Union

Introduction and Structure

- Trade
- Enterprise Performance
- Market efficiencies and supply chain relationships
- Policy measures and governance

See Tocco *et al.* (2015), Deliverable 10.1 for synthesis

Trade

- EU remains a key player in global agri-food trade
- Balance of trade turned positive in 2010
- Share of global agri-food exports fallen from 47.3% in 2001 to 41.3% in 2011
- Exports biased to processed goods rather than bulk commodities
- Revealed comparative advantage more enduring for products with greater differentiation
- Australia, Canada and USA; trend from higher to lower value added agri-food exports
- Compete on both price and quality. Favorable vertical intra-industry trade – where export price is at least 15% higher than import price increase for most Member States

Trade (2)

- Greater import competition on European food market (e.g. bilateral trade agreements, enlargement)
- Trade openness stimulate productivity growth
- Pro-competitive effect of import penetration accounts for more than 20% of overall growth in TFP
- Size of effect depends on origin of imports (competition in final products from developed countries especially EU-15)
- Positive effect of import penetration increases with the initial level of firm’s productivity
- 2008-9 collapse in world trade. No collapse in quality – firms reduce their mark-ups to maintain their market share

Enterprise Performance

- Analysis of productivity and innovation
- Positive trend in Total Factor Productivity (TFP) for both agriculture and food processing (in majority of examined countries)
- Driven by technical change. Material-saving technology apparent in most countries, whereas labour-saving in Sweden, France, Spain, Hungary, Greece and Italy
- Highest TFPs – Belgium, Germany, France, Italy and Netherlands
- Lowest TFPs – Baltic States, Bulgaria, Romania and Serbia
- No evidence of convergence or catch-up in TFPs
- Most successful producers strengthen their positions – those with poor performance not able to catch up and fall even further behind
- Spill-over effects e.g. improvements in agricultural productivity contribute positively to technical change in dairy food processing sector

Enterprise Performance (2)

- Innovation a key driver of economic growth and productivity
- Consider determinants of innovation strategies for agri-food firms
- Large and internationalised firms more likely to pursue in-house strategies and SMEs outsource innovation
- Open innovation
- Six conditions identified for effective management of open innovation network: network openness, trust, formal governance, sharing knowledge, leadership and network diversity between actors

Market Efficiency and Supply Chain Relationships

- Analysed in several ways: price formation along value chain, spatial market integration, exploitation of market power
- Price transmission from farm to processing to retail and *vice versa*
- Spatial integration in commodity prices
- Highest degree of market integration recorded for pork meat, followed by raw milk, eggs, beef, poultry and sheep meat
- Market integration higher when trade quantities and values higher
- Functioning of international markets examined through pricing to market (PTM) analysis – destination specific adjustment of mark ups in response to exchange rate changes
- Only very modest evidence of PTM for EU wheat exports. Local currency price stabilization strategy - adjust mark ups to offset local exchange rate movements and maintain relatively constant prices in export markets

Market Efficiency and Supply Chain Relationships (2)

- Competition between supply chains rather than individual firms
- Supply chains do not always work in interest of producers
- Small-scale producers in weak position
- What makes buyers more trustworthy? Answers: competition between buyers, suppliers find it easier to switch between buyers, supplier size and membership of a marketing co-operative
- Buyer trustworthiness stimulate improvements in farm output and quality
- Supplier support measures – physical inputs, credit, training etc.
- Farmers more likely to get these when: higher initial supplier capitalization, exclusivity in sales to main buyer, foreign ownership and co-operation between suppliers
- Farmers less likely to receive when: competitive market (lots of buyers competing for the same supply)

Policy Measures and Governance

- Agri-food sector competitiveness depends on macroeconomic governance and business environment
- Institutions matter. Contractual frictions matter
- Agri-food competitiveness in NMS and associated countries would benefit from better macro-level governance
- Best performing countries highly ranked for business sophistication and innovation (R&D) – e.g. Germany and Netherlands

Quality Policy

- Quality policy: organics, geographical indications, short/local food supply chains
- Several successful PDO/PGI that add value to members and facilitate upgrading but benefits not universal
- Greater emphasis on brand building and identity, and networking with external actors to foster supply chain and cross-sectoral linkages
- Local / short supply chains. Mismatch between where adding value most needed and economic potential
- Organic – overall EU growth robust. NMS/Serbia – growth depends on export sales. Certified organic poorly understood by consumers in many markets

Takeaway Themes

- Generalizations about competitiveness of the EU's agri-food sector increasingly difficult to make
- Agri-food industry competitiveness depends on wider governance and business environment. Institutions matter
- Convergence in the EU has been limited. Leaders in EU-15 further pulling away from those lagging behind in terms of productivity
- Structural problems in the poorest NMS persist
- Mixed picture regarding the efficiency of markets
- Trade performance linked to de-commodification
- Quality policy can aid competitiveness but performance very mixed