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THE FOOD SECTOR*

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PREFACE

The creation of the European Single Market is the most significant step in economic integration so far taken. The creation of a single economic area in which capital and labour, goods and services all move freely is the target set by the countries of the European Community to be achieved by the end of 1992. Given the size and strengths of the Community, the changes under way may be expected to have significant impacts beyond its borders.

UNIDO, with financial support from the Government of the Netherlands, is holding an Expert Group Meeting to examine the main implications of this process for industrialization in developing countries. The expected growth effects of the Single Market will have implications for the world economy, including changes in trade and investment patterns. Other associated EC policies, especially in the areas of regional policy, competition, technology, environment, energy and technical standards will also affect a wide range of industrial sectors, and thus the prospects for industrialization in developing countries. The Expert Group Meeting will review the implications in terms of key industrial sectors: food, textiles and clothing, footwear, steel, chemicals, and electronics.

The present paper deals with one of these key sectors, the food sector. It reviews trends in the world industry and examines the implications of the Single Market and European Community policy for the food sector in developing countries.

The paper was prepared by the Regional and Country Studies Branch of UNIDO, with Prof. Alan Matthews, Department of Agricultural Economics, Trinity College, University of Dublin, Ireland, as UNIDO consultant.

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1. INTRODUCTION

1.1 Food - a highly regulated industry

Government intervention in the processing, manufacture and distribution of food has a very long history.[1]

Early regulations were aimed at fair trading to combat the frauds of adulteration of food with cheaper substitutes like watering milk or biasing the scales. As the importance of food to public health became recognized, legislation began to deal with a variety of food safety issues from dangerous adulterants to hygiene. Governments also introduced marketing standards to raise the quality of produce sold, particularly on the export market, in an effort to obtain a quality premium for their own producers. A more modern concern has been the promotion of the food industry for employment and industrial policy reasons.

These different measures collectively make up the regulatory environment for the food industry. The European Single Market has important implications for this environment and for the behaviour of European food firms which have developed within this framework. This paper examines the likely response of the European food industry and the challenges and opportunities this will create for the food industry in developing countries.

1.2 The single market in food

The Single Market is designed to eliminate obstacles that cause borders to have significance within the EC. These obstacles are of three kinds (Schmitt, 1990):

- the physical borders themselves, which impose administrative and time costs on business estimated at 1-3 per cent of the value of EC trade;
- obstacles which create local markets, including public procurement policies, national standards, technical regulations, certification procedures and national subsidy programmes;
- the profit-maximising behaviour of firms induced by the existence of borders. Studies have shown that European markets are very segmented in the sense that the spread of prices between national markets is much greater than the cost of existing obstacles can justify. In turn, this is explained by the discriminatory pricing policies of firms which enjoy some monopolistic power in their national markets.

In the Groupe MAC's study (1988) of the European food industry five principal barriers were identified:

- restrictions on the use of specific ingredients (for example, the ban on aspartame in non-alcoholic beverages in France).
- regulations relating to content and its description (for example, the purity law on pasta in Italy).

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[1] The food industry in this paper is taken to include drinks and tobacco as well. For brevity the industry will be referred to as the food industry or FDI for short.

- packaging and labelling (for example, the compulsory use of recyclable containers for non-alcoholic beverages in Denmark).

- tax discrimination (for example, specific taxes on beer in the United Kingdom and Italy).

- specific import restrictions (for example, health regulations in the United Kingdom).

Not surprisingly, the food industry featured prominently in the Commission's original 1985 White Paper on Completing the Internal Market. A major programme of Community legislation, covering both veterinary and phytosanitary regulations as well as food law, has been initiated. These initiatives, and the adjustments which firms have made and will make to them, will change the nature of competition in the European food market. It is an additional factor influencing a market which is already undergoing enormous changes under the impact of changing food technologies, changes in eating habits and in consumer demand, changes in structures of food distribution, etc.

1.3 Outline of the paper

Section 2 of the paper describes some of these changes taking place in the European food industry. Section 3 highlights important changes in the European market for food. The nature of LDC food exports to the Community is discussed in Section 4, while Section 5 provides an overview of Single Market effects.

In Part B of the paper a number of specific policy initiatives, some of which are related to the Single Market, are discussed. Section 6 comments on aspects of European research, investment and competition policy for the food industry. Trade policy in the food sector and how food trade might be affected by the GATT Uruguay Round is discussed in Section 7. Section 8 discusses the consequences of changes in food standards introduced by the Single Market. The implications of environmental legislation are discussed in Section 9. Conclusions and recommendations of the paper are summarized in Section 10.

2. GLOBAL TRENDS IN THE FOOD INDUSTRY

Trends in output and employment in the food industry at the global level are shown in Tables 1 and 2. At the world level, food industry output grew as rapidly as manufacturing output as a whole between 1973 and 1980, but slightly less rapidly in the period 1980-1989. In both periods, growth in food industry output was slightly more labour-intensive than for manufacturing as a whole. The better performance of the food industry in the earlier period, in output terms, was due entirely to its stronger growth in developed countries (including the EC).

In developing countries, the food industry has grown at the same rate as for all manufacturing in both time periods. In Latin America, employment in the food industry remained static while employment in all manufacturing fell considerably during the 1980s. In Asia the pattern is reversed with both food industry output and employment performing less strongly than for all manufacturing. The food industry in developing countries is often

characterized by a structural dualism between those sectors producing food for high income markets (with a high degree of processing) and those producing food for low income markets (with an emphasis on local staples).

Table 1. OUTPUT IN FOOD AND MANUFACTURING INDUSTRY BY REGION

	FOOD PROCESSING			ALL MANUFACTURING		
	1980 = 100					
	1973	1980	1989	1973	1980	1989
Developed countries	84	100	116	89	100	126
EC	86	100	117	92	100	117
Developing countries	69	100	160	68	100	161
Dev. America*/	70	100	125	71	100	129
Dev. Asia	67	100	201	65	100	213
WORLD*/	81	100	125	81	100	132

*/ 1988 end year.

Source: UNCTAD. Handbook of International Trade and Development Statistics. 1990.

Table 2. EMPLOYMENT IN FOOD AND MANUFACTURING INDUSTRY BY REGION

	FOOD PROCESSING			ALL MANUFACTURING		
	1980 = 100					
	1973	1980	1988	1973	1980	1988
Developed countries	102	100	95	104	100	89
EC	105	100	90	111	100	84
Developing countries	68	100	110	71	100	112
Dev. America*/	79	100	101	79	100	84
Dev. Asia*/	65	100	114	70	100	120
WORLD*/	82	100	104	90	100	100

*/ 1987 end year.

Source: UNCTAD Handbook of International Trade and Development Statistics, 1990.

The principal characteristics of the food industry in the EC at present are the following:

- the industry employs around 2.4 million people and since the mid-1980s has contributed positively to the EC's balance of trade (in 1987 imports of 16.9 bn ECU were exceeded by exports of 20.2 bn ECU).

- a rapid trend towards industry concentration and globalization Larger European food firms argue that size is an essential criterion if they are to compete with the American and Japanese multinationals. Only two of the largest ten largest food companies operating in Europe, Nestle and Unilever, are Europe-based.

- mergers and acquisitions have been the preferred route for company expansion. There are two main reasons. First, mergers and acquisitions immediately provide companies with an established distribution network. Second, the cost of building brands in foreign markets has become prohibitively expensive owing to high media costs and the large risk element. Financial sector deregulation provided a further impetus for the recent spate of mergers and acquisitions with the boom in leveraged buyouts being partly driven by bankers. Finally, the single market is encouraging companies to expand their interests outside their domestic markets.

- retail food markets are also becoming increasingly concentrated, partly as a countervailing phenomenon to the growth in manufacturing firms, but aided by technological innovations such as the growth in EPOS and EFTPS systems which has provided retailers with increased control of sales information and thereby considerable leverage over manufacturers.

- green issues have become increasingly influential in the food industry, particularly the packaging sector. Premium packaging has gained favour as manufacturers seek to add value to their products.

3. THE EUROPEAN FOOD MARKET

3.1 Size of the European food market

The growth in recent years in the European food market distinguished between food, alcoholic and non-alcoholic drinks and tobacco is shown in Table 3.

Table 3. GROWTH IN THE EUROPEAN FOOD, DRINK AND TOBACCO MARKET, 1980-1988, current values

	1980	1984	1988
		Mrd ECU	
Food	251.3	337.3	419.7
Non-alcoholic beverages	7.3	10.1	12.9
Alcoholic beverages	28.5	38.3	47.9
Tobacco	24.5	36.5	45.3
Total FDT	311.6	422.2	516.9

Source: Eurostat, National Accounts: Detailed Tables by Branch 1980-1988, Series 2C, 1991.

Note: Because of an apparent misprint in the printed volume, the figures for beverages and tobacco in 1988 appear over-estimated and the totals do not sum.

Expressing growth in volume terms permits a clearer view of the real growth in food consumption (Table 4). Overall food, drinks and tobacco (FDT) consumption grew by around 1.3 per cent per annum over the period 1980-1988. Consumption of food alone increased slightly faster (1.6 per cent annually). While consumption of non-alcoholic drinks was relatively bouyant (growth of 2.9 per cent annually), there was little expansion in the market for alcoholic

drinks (0.6 per cent annually) and consumption of tobacco products fell (-0.8 per cent annually) (These last three figures are based on the 1980-85 period because of the probable error in the published statistics for the later years).

Table 4. VOLUME GROWTH IN THE EUROPEAN FOOD, DRINK AND TOBACCO MARKET, 1980-1988 (1985 prices)

	1980	1984	1988
		Mrd 1985 ECU	
Food	342.1	350.2	391.8
Non-alcoholic beverages	9.5	10.5	n.a.
Alcoholic beverages	39.0	39.8	n.a.
Tobacco	39.7	38.2	n.a.
Total FDT	429.4	438.2	480.3

Source: Eurostat, op. cit.
Note: The published 1988 figures for certain components appear to be unreliable.

FDT consumption by EC member state is shown in Table 5. Expenditure on food as a proportion of total consumer expenditure shows a strong inverse correlation with level of GDP, with the smallest share in the northern European countries and the highest shares in Ireland and southern Europe.

Table 5. RELATIVE IMPORTANCE OF EUROPEAN FOOD MARKETS, 1988

Country	FDT	FDT expenditure per capita	FDT expenditure	Population as % of total
	mECU	ECU	%	mill.
Belgium	15782	1597	19.8	9.9
Denmark	10643	2075	22.3	5.1
Germany	99518	1620	16.4	61.4
Greece	12180	1220	38.2	10.0
Spain (1987)	46017	1180	26.1	39.0
France	95488	1709	19.6	55.9
Ireland (1987)	6117	1729	40.6	3.5
Italy	98378	1712	22.7	57.5
Luxembourg	691	1842	21.1	0.4
Netherlands	20944	1419	18.7	14.8
Portugal (1986)	7557	735	37.1	10.3
United Kingdom	72627	1272	17.1	57.1

Source: Own calculations based on Eurostat, *op. cit.*

3.2 Food consumption trends

Trends in consumption of major food items have been affected by various factors:

- the health debate. Food consumption during the past decade has been strongly influenced by health concerns. These largely explain the decline in consumption of red meat, sugar and salt and the rise in consumption of white meats, breakfast cereals and yoghurts.
- demographic factors. Ageing populations and smaller households have stimulated growth in convenience foods such as chilled desserts and ready meals.
- eating outside the home. Some 15-20 per cent of food is now consumed outside the home - provided by restaurants, cafes and pubs, or by public authorities (hospitals, schools, prisons).

The major trend in meat products has been the shift from red to white meat and fish. This is largely the result of the health debate although the relative cheapening of white meats because of more intensive production methods has helped. This trend could be arrested by health fears arising from the reported incidence of the salmonella virus in chickens and the effects of sea pollution in fish.

Growth rates among dairy products are also influenced by the health debate. Yoghurt and cream have experienced the most rapid growth, with the former benefting from numerous product innovations. Cheese has also been a significant growth sector especially in value terms as consumers have traded up towards softer varieties and foreign brands.

Among oils and fats overall butter consumption has been falling as has margarine consumption, the latter the result of relatively cheap vegetable oils which substitute for margarine in cooking.

Fresh fruit and vegetable consumption has risen only marginally, although consumption of exotic fruits and vegetables is a rapidly-growing niche sector.

Breakfast cereals and biscuits have been the major growth sectors among bakery products. Pasta and bread both show slight declines in consumption although the fall in pasta consumption is concentrated entirely on the Italian market and elsewhere demand is rising.

Demand for chocolate confectionery has out-performed sugar confectionery in the past decade partly owing to the decline in cocoa prices and the high level of advertising support given to the major chocolate brands.

Frozen foods have been the most dynamic of all food sectors during the past decade. Reasons for this growth include increased household penetration of freezers and microwaves coupled with new product developments.

In the beverages sector particular growth areas have been ground coffee (taking market share from instant coffee), decaffeinated coffee (owing to health concerns), speciality and herbal teas (due to the large number of new products) and low sugar, additive free food drinks.

The consumer is looking for diversity, quality, healthiness, and environmental awareness. Important markets for new product developments include the delicatessen sector, the ethnic foods sector, ready meals confectionery and the dairy sector. In some of these markets there are export opportunities for developing countries.

4. DEVELOPING COUNTRY FOOD EXPORTS TO THE COMMUNITY

Table 6 provides information on the broad composition and characteristics of world food trade. Information is presented at the level of the SITC 3-digit groups on the value of world trade, the LDC share of such trade at the beginning and end of the decade of the 1980s, and the growth in trade over this period. The table includes 32 food groups where the value of world trade exceeded US$2 billion in 1987-88. Meat, fruit and nuts, and alcoholic beverages emerge as the three most important food sectors in international trade, with developing countries having a two-fifths share of international trade in fruit and nuts.

Another view of the data is shown in Table 7 where the trade data is ordered by the growth of the value of trade in each group. Thus the three fastest growing sectors in world food trade are shellfish, fish and manufactured tobacco. Developing countries hold a two-thirds share of the world shellfish market and an important, if declining, share of world exports of fish. It is striking that a disproportionately high number of the food sectors in the faster-growing categories at the head of the table consist of processed foods, while a disproportionately high number of the food sectors in the categories showing a contraction in international trade consist of staple commodity exports (coffee, butter, cereals and sugar). The message for developing country exporters would seem to be that the processed food sectors offer more opportunities for growth.

The distribution of LDC food exports to the EC for the years 1984-86 and 1990 is shown by degree of processing in Table 8. Total LDC food, drink and tobacco exports to the EC were worth just over 30 billion ECU in 1990.[2] Food exports are divided into commodity exports, primary processing and secondary food manufacturing. LDC food exports are predominantly in the commodity category, though there is some evidence of a slow diversification into more processed products over time. Manufactured food exports, broadly defined, accounted for just 1.3 billion ECU of LDC exports in 1990.

The table indicates that imports of processed foods from LDCs have grown more rapidly than commodity food exports (a caveat must be entered about the measurement of the trend in the value of commodity exports over time, however, as this is very susceptible to changes in commodity prices. The fall in tropical beverage prices between the mid-1980s and 1990 heavily influences the measured rate of growth in commodity food exports between these years). The components of each of the three categories of exports are discussed in more detail in the next three tables.

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[2] For a definition of the food, drink and tobacco exports included in this table, as well as the classification of sectors by degree of processing, see Annex Table 1.

Table 6. VALUE OF WORLD TRADE BY SITC 3-DIGIT GROUPS (ordered by value of world trade)

		World exports	Developing countries share of world exports		Growth in world exports
		1987-88 US$million	1980-81 %	1987-88 %	1980-88 %
011	Meat fresh, chilled, frozen	21468.2	12.7	11.5	35.9
057	Fruit, nuts, fresh, dried	15066.9	43.5	40.1	38.7
112	Alcoholic beverages	13809.7	6.2	5.2	52.3
081	Animal feedstuffs	13375.0	34.8	33.7	25.0
041	Wheat unmilled	12960.4	5.4	5.4	-20.6
054	Veg fresh, smply preserved	11888.3	33.5	26.2	50.1
071	Coffee and substitutes	11513.5	91.0	85.5	-0.4
034	Fish, fresh, chilled,frozen	10865.9	34.0	27.2	100.5
061	Sugar and honey	10478.8	63.6	64.4	31.6
222	Seeds for 'soft' fixed oil	9862.8	14.8	13.9	9.2
036	Shellfish, fresh, frozen	9424.1	60.1	62.1	142.9
022	Milk and cream	7525.9	0.0	0.0	52.2
122	Tobacco, manufactured	7320.5	10.8	7.3	90.8
044	Maize unmilled	7306.6	12.7	8.2	-38.0
058	Fruit, preserved, prepared	6838.3	37.1	39.3	69.0
001	Live animals for food	6743.5	14.4	14.1	34.5
024	Cheese and curd	6206.8	0.0	0.0	54.5
048	Cereal etc. preparations	5816.7	9.2	7.6	77.1
098	Edible prdcts, preps nes	5556.8	0.0	9.7	85.8
037	Fish prepd, presevd, nes	4670.1	33.9	47.4	72.7
423	Fixed veg oils, soft	4568.9	27.9	30.6	16.8
072	Cocoa	4549.1	77.7	75.7	13.2
056	Veg prsvd, prepd	4124.1	30.5	25.0	45.3
121	Tobacco, unmanfctured, refus	3876.3	48.2	43.4	3.4
042	Rice	3450.1	50.4	55.7	-28.3
424	Fixed veg oil nonsoft	3330.7	84.5	81.6	-4.9
592	Starch, insulin, gluten etc.	3267.8	5.7	5.6	88.4
023	Butter	3232.5	0.0	0.0	-7.2
014	Meat prepd, prsvd, nes	3042.9	30.4	21.3	30.8
073	Chocolate and choc products	2971.0	7.3	5.9	73.2
043	Barley unmilled	2448.0	0.0	0.0	-21.7
074	Tea	2114.8	85.7	69.6	31.1
	TOTAL		31.9	28.8	22.7

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1990.

Table 7. VALUE OF WORLD TRADE BY SITC 3-DIGIT GROUPS (ordered by growth in the value of world trade)

		Growth in world exports 1980-88 %	World exports 1987-88 US$million	Developing countries share of world exports 1980-81 %	1987-88 %
036	Shellfish, fresh, frozen	142.9	9424.1	60.1	61.1
034	Fish, fresh, chilled, frozen	100.5	10865.9	34.0	27.2
122	Tobacco, manufactured	90.8	7320.5	10.8	7.3
592	Starch, insulin, gluten etc.	88.4	3267.8	5.7	5.6
098	Edible prdcts, preps nes	85.8	5556.8	0.0	9.7
048	Cereal etc. preparations	77.1	5816.7	9.2	7.6
073	Chocolate and choc products	73.2	2971.0	7.3	5.9
037	Fish prepd, presevd, nes	72.7	4670.1	33.9	47.4
058	Fruit, preserved, prepared	69.0	6838.3	37.1	39.3
024	Cheese and curd	54.5	6206.8	0.0	0.0
112	Alcoholic beverages	52.3	13809.7	6.2	5.2
022	Milk and cream	52.2	7525.9	0.0	0.0
054	Veg fresh, smply preserved	50.1	11888.3	33.5	26.2
056	Veg prsvd, prepd	45.3	4124.1	30.5	25.0
057	Fruit, nuts, fresh, dried	38.7	15066.9	43.5	40.1
011	Meat fresh, chilled, frozen	35.9	21468.2	12.7	11.5
001	Live animals for food	34.5	6743.5	14.4	14.1
074	Tea	31.1	2114.8	85.7	68.6
014	Meat prepd, prsvd, nes	30.8	3042.9	30.4	21.3
081	Animal feedstuffs	25.0	13375.0	34.8	33.7
423	Fixed veg oils, soft	16.8	4568.9	27.9	30.6
072	Cocoa	13.2	4549.1	77.7	75.7
222	Seeds for 'soft' fixed oil	9.2	9862.8	14.8	13.9
121	Tobacco, unmanfctured, refuse	3.4	3876.3	48.2	43.4
071	Coffee and substitutes	-0.4	11513.5	91.0	85.5
424	Fixed veg oil nonsoft	-4.9	3330.7	84.5	81.6
023	Butter	-7.2	3232.5	0.0	0.0
041	Wheat unmilled	-20.6	12960.4	5.4	5.4
043	Barley unmilled	-21.7	2448.0	0.0	0.0
042	Rice	-28.3	3450.1	50.4	55.7
061	Sugar and honey	-31.6	10478.8	63.6	64.4
044	Maize unmilled	-38.0	7306.6	12.7	8.2
	TOTAL	22.7		31.9	28.8

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1990.

Table 8. DISTRIBUTION OF DEVELOPING COUNTRIES FDT EXPORTS TO EC BY COMMODITY CLASS

	1984-86	1990	Growth %	% share 1984-86	% share 1990
	mECU				
Total commodity	15462.7	17175.0	11.1	59.3	56.3
Total primary food	9623.0	12005.2	24.8	36.9	39.4
Total secondary food	1009.3	1307.4	29.5	3.9	4.3
Total FDT exports	26095.0	30487.6	16.8	100.0	100.0

Source: Author's calculations.

The single most important LDC food export to the EC is now oilseeds, accounting for almost 25 per cent of the total. The dramatic increase in the value of its exports over the period reflects partly volume growth but also a substantial recovery of prices from the mid-1980s. The rank ordering of products is, of course, in part a function of the level of aggregation used. If individual oilseeds were distinguished, it is possible no one oilseed would figure in the top places. In choosing the level of aggregation used in this section, more concern was placed on distinguishing vertically (by level of processing) than horizontally (by similar commodities within a class).

Six commodities - oilseeds, fruit, coffee, cocoa, sugar and tea - account for 92 per cent of the total value of commodity food exports and 52 per cent of the total value of LDC food, drink and tobacco exports to the EC (Table 9). The dramatic increase in the value of oilseed exports and the equally sharp declines in the value of exports of coffee, cocoa, tea and tobacco are noteworthy. Apart from oilseeds, exports of fruit and nuts and tomatoes and other fresh vegetables were the only other products to show significant increases in the value of exports over the period.

Exports of food products which have undergone primary processing in developing countries are shown in Table 10. By-products used for animal feed in the EC are the single most important item, followed by vegetable fats and oils, shellfish and fish. While the value of by-products for animal feed declined, significant increases in the value of vegetable oil, shellfish, fish and fruit juices were recorded over the period.

Table 9. COMMODITY FOOD EXPORTS OF DEVELOPING COUNTRIES TO THE EC

SITC Rev.1		1984-86	1990
		mECU	
22	Oilseeds	1604.3	7401.6
051+052	Fruit and nuts, fresh or dried	2391.3	3603.0
0711	Coffee, roasted and unroasted	6116.3	2614.7
0721	Raw cocoa	1766.0	1026.8
0611	Raw sugar	695.7	787.3
074	Tea and mate	767.3	397.2
121	Unmanufactured tobacco	984.3	298.5
0544	Tomatoes	68.7	257.1
0545	Other fresh veg	131.7	219.3
0541	Potatoes	100.0	141.7
0542	Peas, beans, lentils	123.3	92.7
0751	Pepper	141.3	90.0
0752	Other spices	107.7	80.9
044	Maize, unmilled	276.7	78.0
041	Wheat, unmilled	0.0	31.4
001	Live animals	129.7	26.8
045	Other cereals, unmilled	49.3	22.0
025	Eggs	9.0	4.8
043	Barley, unmilled	0.0	1.1
	TOTAL COMMODITY FOOD EXPORTS	15462.6	17175.0

Source: Annex Table 1.

Table 10. PRIMARY FOOD EXPORTS OF DEVELOPING COUNTRIES TO THE EC

SITC Rev.1		1984-86	1990
		mECU	
08	Byproducts for animal feed	3113.3	2801.4
42	Vegetable fats and oils	1507.3	2795.3
0313	Shellfish	661.3	1234.0
0311	Fresh fish	372.3	930.9
0548	Roots and tubers (inc. manioc)	916.3	895.2
0535	Fruit juices	592.7	849.6
0111	Fresh/frozen beef	407.0	460.7
0539	Other prepd or presvd fruits	260.3	303.0
43	Processed animal or veg oils or	121.3	233.2
0615	Molasses	223.0	174.1
07232	Cocoa butter	237.0	167.6
0567	Presvd veg	204.0	158.3
0114	Fresh/frozen poultrymeat	0.0	118.5
0713	Coffee substitutes and extracts	177.0	104.4
41	Animal fats and oils	48.0	102.7
112.1	Wines	61.0	68.7
0421	Rice, husked	131.3	64.6
0115	Fresh/frozen horsemeat	62.7	62.8
0116	Meat offal fresh/frozen	49.0	54.2
07231	Cocoa paste	118.7	50.8
0616	Honey	77.3	46.7
05461	Frozen veg	33.3	45.8
01189	Other meats	80.3	44.9
05462	Partially presvd veg	36.3	19.0
0612	Refined sugar	10.0	17.7
0561	Dried or sliced veg	65.3	26.6
122	Manufactured tobacco	0.0	22.3
0422	Rice, milled	0.0	38.6
0312	Dried, salted, smoked fish	15.3	37.1
0112	Fresh/frozen lamb	32.7	34.2
0532+0536	Fruit & nuts, provisionally prep	0.0	11.2
08192	Cocoa shells and waste	0.0	6.4
046	Wheat flour	0.0	5.9
0564	Flour (inc. sago)	0.0	5.3
024	Cheese	0.0	2.9
0619	Other sugar	0.0	2.5
022	Milk and cream	0.0	2.2
023	Butter	0.0	1.8
0533	Jams and jellies	0.0	1.7
0722	Cocoa powder	0.0	1.2
0722	Cocoa powder	0.0	1.2
047	Other flours	0.0	0.8
0113	Fresh/frozen pigmeat	8.7	0.3
012	Bacon/ham and salted meats	0.0	0.1
	TOTAL PRIMARY FOOD	9623	12005.2

Source: Annex Table 1.

Note: A zero in a column indicates that exports were not significant enough to be recorded in the source rather than that they were actually zero in 1984-86.

LDC secondary food exports to the EC are dominated by prepared fish, meat and shellfish products (Table 11). Manufactured foods as such account for only 266m ECU or 20 per cent of the secondary foods sector and less than 1 per cent of all LDC exports of food, drink and tobacco to the EC.

Table 11. SECONDARY FOOD EXPORTS OF DEVELOPING COUNTRIES TO THE EC

	1984-86	1990
	mECU	
Prepd/presvd fish	304.7	513.6
Prepd/prsvd meats or offal	297.7	275.3
Prepd/presvd shellfish	150.7	251.9
Spirits	106.7	71.2
Non-alcoholic beverages	0.0	42.2
Other food preps		40.0
Sauces and preps		28.5
Prepd or presvd fruits, frozen	46.7	18.8
Cereal preps	11.3	17.2
Beer	0.0	16.7
Sugar confectionery	0.0	15.9
Chocolate & cocoa preps	15.0	9.3
Soups		3.5
Yeasts		1.7
Fermented beverages	0.0	0.7
Homogenized food preps		0.6
Margarine	0.0	0.2
Miscellaneous food	76.7	
TOTAL SECONDARY FOOD	1009.3	1307.4

Source: Annex Table 1.

Note: Miscellaneous food exports of 72.4m ECU have been distinguished separately by category (other food preps, sauces, soups, yeasts and homogenized food preps) in the 1990 column.

5. OVERVIEW OF SINGLE MARKET EFFECTS

5.1 Effects on the EC industry

Groupe MAC was commissioned by the Commission to investigate the impact of removing non-tariff barriers with respect to trade in food within the Community. They selected ten product sectors for study (drawn from four processed food groups): biscuits and cake, chocolate and confectionery, ice cream, beer, mineral water, soft drinks, spirits, pasta, soup and baby food. Non-tariff barriers to trade in these sectors were identified and the effects of their removal classified into three categories:

- immediate direct effects
- deferred direct effects due, for example, to an increase in competition or the realization of scale economies over time
- indirect dynamic effects arising from industry restructuring, increased consumer choice, etc.

The direct benefits arise from reduced costs. Three types of immediate cost reduction were identified in the study: use of less expensive ingredients (the major cost reduction); reductions in labeling and packaging costs (negligible savings since more producers will choose to use country-specific labels) and elimination of red tape in trading across frontiers. Groupe MAC

estimate these benefits would amount to 1-2 per cent of the turnover of the food processing industry.

These direct benefits are very heavily concentrated on the ten products examined. Some 80 per cent of the total benefit from removing non-tariff barriers is concentrated on six barriers: the German beer purity law, the Italian pasta purity law, elimination of the prohibition of sales of chocolate and ice cream containing vegetable fat, and elimination of the prohibitions on soft drinks containing aspartame and saccharine.

Included as indirect benefits are the increase in consumer choice as a result of an increase in imports, and increase in efficiency through restructuring and consolidation. Removal of barriers will reduce the costs and risks of trading across frontiers, and will encourage food processors to increase their geographical coverage and market leadership through Europe-wide brand marketing. However, Groupe MAC did not attempt to quantify the importance of these effects.

5.2 Overview of effects on developing countries

Analysis of the 1992 effect on third countries usually proceeds by distinguishing between trade creation and trade diversion. (Note, however, that the concept of trade diversion in this context has a rather different interpretation than its classical usage in customs union theory).

Trade creation effects will be export-enhancing for developing countries. They refer, first, to any increased demand for exports generated by increased incomes and output in the EC. Second, there may be a terms of trade effect where any increased EC demand leads to an increase in prices for developing country exports (or where the improved efficiency of Community manufacturing and services lowers their import bills). The simplification of standards and certification procedures may also be export-enhancing for developing countries (see Section 8).

Trade diversion effects are export-reducing for developing countries. Trade diversion occurs if the Single Market results in improved efficiencies for Community enterprises and thus encourages greater intra-Community trade at the expense of trade with developing countries. Trade diversion effects could also occur if the harmonization of standards led to a general increase in standards which developing country suppliers had difficulty in meeting.

Other aspects of the 1992 programme will primarily involve a redistribution of exports from one supplier to another. The elimination of remaining national quotas for particular products in EC member states will bring about some substitution of trade which may lead to gains for some countries at the expense of others. The removal of some technical standards which implicitly favour the use of one particular product over another (e.g. as in the differing regulations regarding vegetable oils in chocolate) will also result in some trade substitution between developing country suppliers.

In addition, there may be relative price effects resulting from the harmonization of excise duties (for example, on drinks, tobacco and tropical beverages) which may lead to demand increases in some markets and demand reductions in others. The net outcome for developing countries will depend on how the final weighted level of duties compares with the initial level.

5.3 Estimates of the trade effects

Trade creation follows if completing the Single Market leads to higher EC incomes and has both a volume and a price component. The volume effect can be simply estimated once the changes in economic activity resulting from the Single Market and the import elasticity of demand for food imports from LDCs are known. The assumption is made, based on the Cecchini Report, of a 5 per cent cumulative increase in EC GDP following completion of the Single Market programme.

On this basis, and using an income elasticity of 0.6 for the FDT sector, Matthews and McAleese (1990) estimate that the volume of LDC food, drink and tobacco exports to the EC might increase by 636m ECU. Using a lower income elasticity of demand of 0.4 (partly reflecting the inelastic import demand for CAP products arising from CAP price support arrangements), Davenport and Page (1991) suggest the trade creation effect would amount to 349m ECU.

To this should be added the terms of trade gain arising from higher food product prices due to the increased demand. This effect is estimated at 234m ECU by Matthews and McAleese and at 380m ECU by Davenport and Page. Adding the two effects together, the positive trade creation impact on export earnings of food, drink and tobacco products is estimated at between 729m ECU and 870m ECU. This effect would be distributed across individual commodities largely in proportion to their income elasticities of demand. The bulk of the gains will accrue to commodity food exports. The benefit to the processed foods sector will be relatively small, partly because the initial scale of these exports is anyway relatively small and partly because the supply of these foods is very elastic so no terms of trade effect would be expected.

In the case of food, drink and tobacco products the overall scale of trade diversion is not expected to be very great. This is because in the case of commodity trade and trade in processed products of interest to developing countries, either the Community is itself often not a producer or economies of scale are not an important factor. In the case of secondary processed foods where Groupe MAC expected significant cost savings and where trade diversion against third country suppliers could occur, the volume of such trade from third countries in general, and from developing countries in particular, is so slight that its quantitative importance can be ignored.

5.4 Effects of fiscal harmonization[3]

There are high excise duties on coffee in Germany (40.9 per cent), Denmark (15.1 per cent) and Italy (9.0 per cent), while they are much lower in Belgium (5.7 per cent) and zero in all other EC countries. The most significant change would be the elimination of Germany's excise tax on coffee. Assuming a price elasticity of demand of -0.3, German consumption would increase by 8 per cent at least, representing an increase of 3 per cent in EC consumption. Davenport (1988) calculated that eliminating coffee excise taxes would generate additional exports of ECU 650 million a year.

A later estimate by Davenport and Page (1991) suggests rather smaller effects from the elimination of coffee excise taxes and the harmonization of VAT rates at 5 per cent. EC consumption would increase by 3 per cent as

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[3] This section and the next are drawn largely from the work of Davenport and Page, 1991.

before, but the estimated impact on world market prices is estimated at only 1.3 per cent and the total increase in the value of world coffee exports at 235m ECU.

They also point out that higher EC incomes would lead not only to an increase in the volume of coffee imports but also a rise in their quality. This would mean that the Central American producers and Kenya, Rwanda and Tanzania, who produce the milder coffees, would expect to benefit more than Cote d'Ivoire, Uganda, Zaire, Cameroon and Indonesia who produce robustas.

Davenport and Page further estimate that the same tax regime for cocoa would lead to increases in world prices of 1.8 per cent and EC import volumes of 1.4 per cent, and would generate additional imports worth about 47m ECU. The principal beneficiaries would be Cote d'Ivoire, Nigeria, Cameroon, Ghana and Malaysia.

Tobacco will remain highly taxed in the EC for health and fiscal policy reasons. The original Commission proposal that duties be aligned on the Community average has been withdrawn in favour of a proposal that excise rates will gradually be harmonized upwards with negative consequences for tobacco exporters. Davenport and Page estimate the total loss to developing country producers at around 63m ECU, with Brazil, Zimbabwe, India and Malawi bearing the brunt. They point out that a liberalization of the CAP tobacco regime and thus an end to the dumping of low-quality EC tobaccos on the world market could offset this loss.

Apart from the harmonization of excise taxes, VAT rates themselves will be harmonized. Early Commission proposals suggested that this would mean an end to the zero-rating of food for VAT purposes in both the UK and Ireland, with a consequent depressing effect on food consumption in these countries. More recent proposals from the Commission indicate that zero-rating of food may not be under threat, although economic pressures over time may force an increase.

5.5 The removal of national quotas

In some member states national quantitative restrictions on imports of horticultural products and fish which pre-dated the establishment of the European Community have been maintained under the so-called 'grandfather clause' despite their inconsistency with the principle of free circulation of goods within the Community. A new set of transitional restrictions were established after the accession of Spain and Portugal. The former restrictions are due to be eliminated in 1993 and the latter by 1996. Although not strictly a 1992 effect, the loss of the sanctions implied by Article 115 will make them unenforceable in any case.

The Commission in 1990 published a list of such quantitative restrictions (QRs) and Davenport and Page (1991) have estimated the possible trade creation resulting from their removal. They caution that inclusion on this list does not imply that the restriction is being enforced, nor that the list is necessarily all-inclusive. The list of restricted exporters in Table 12 is drawn up on the basis that their exports to the member state with a QR in force are 15 per cent or more below that 'predicted', where predicted imports are given by taking the value of imports to the non-restrictive member states and assuming that the restrictive states would have imported a value proportional to their share in total Community expenditure on food in 1987.

A negative sign in the table indicates that the exporting country is exempted from the restriction and thus profits from special access to the market in question.

Davenport and Page estimate that the annual shortfall (in 1988 prices) in exports due to the QRs cited in Table 12 comes to 300m ECU. The great bulk of this reflects the restraints on exports of Brazilian orange juice to the French and Italian markets. In addition, they conclude that QRs on potatoes not included in this table probably prevent a further 80m ECU in exports from developing countries.

Table 12. ESTIMATES OF EFFECTS OF AGRICULTURAL AND FISHERY QRs ON EXPORTING COUNTRIES

Products/ Exporter	Restricted Markets	Imports, restricted markets Actual	Predicted '000m ECU	Shortfall
Honey				
Mexico	France	347	4955	4607
Argentina	France	584	4010	3426
Tomatoes				
Morocco	BLEU/Greece	502	5438	4936
Beans				
Egypt	France	503	1850	1347
Kenya	France	8421	1628	-6793
Kenya	Greece	0	236	236
Table grapes (nor Emperor)				
Chile	BLEU/France/Greece	2399	20121	17722
Melons				
Brazil	France/Greece	4	1497	1493
Israel	France/Greece	393	1626	1233
Pineapples				
Cote d'Ivoire	France	46021	10095	-35925
Kenya	France	160	1879	1719
Costa Rica	France	3	2651	2648
Tuna, skipjack				
Mauritius	France	250	2283	2033
Thailand	France	2	14029	14027
Fiji	France	0	3053	3053
Black Skipjack				
Thailand	France	0	362	362
Orange juice				
Morocco	France	12507	2622	-9885
Morocco	Italy	0	2908	2908
Cuba	France/Italy	0	2057	2057
Brazil	France/Italy	9881	272988	263107
Israel	France/Italy	8674	31868	23194
Total				**297505**

Source: Davenport and Page (1991).

In two cases the removal of national quotas will lead to a redistribution of exports between developing countries rather than an overall increase. The rum protocol to the Lomé Convention allows for a quota, equivalent to at least 170,000 hectolitres of pure alcohol, to be imported duty free. It itself is not contrary to the objectives of the internal market. But in order to protect EC distillers and, in particular, to ensure a market for French rum (from French overseas departments) which would not otherwise be competitive, the EC quota is each year subdivided among the member states and re-exporting from the UK, which has the largest share, to other member states is barred. With the abolition of customs posts it will not be possible for France to exclude rum from elsewhere. A programme of investment to lower costs in the French overseas departments is currently being examined.

A similar issue of trade redistribution arises in the case of bananas. Here six of the twelve member states have national arrangements which discriminate in favour of preferred suppliers (generally African, Caribbean and Pacific countries) and against lower-cost imports from Central and Latin America ('dollar' bananas). The elimination of these arrangements would lead to a substantial increase in the market share of dollar bananas at the expense of the preferred suppliers. The issue is complicated, however, by the protocol attached to the Lomé Convention under which the Community assures each ACP supplier that "In respect of its banana exports to the Community markets, no ACP State shall be placed, as regards access to its traditional markets and its advantages on those markets, in a less favourable situation than in the past or at present." The Commission has not yet formulated a proposal for a common banana regime which would address this commitment.

A number of studies have investigated the impact of liberalising the EC banana regime post-1992. Their findings are summarized in Table 13. The mean world price change in the six sets of results reported is an increase of 5 per cent resulting from liberalization. In all simulations exports from preferred suppliers would fall by around 45 per cent (somewhat greater in the ODI II simulation where a higher supply elasticity for exports from preferred suppliers is assumed). The loss of welfare for these suppliers is estimated at around $210m in the World Bank and CIE studies, somewhat less than the $379m estimated in the Matthews paper which assumes rather higher export prices for these countries. Welfare in other banana exporting countries is estimated to increase by either $82m (CIE) or $173m (Matthews), the difference here reflecting the higher world price increase estimated to follow from EC liberalization in the latter study.

Table 13. COMPARISON OF DIFFERENT BANANA STUDY RESULTS OF MOVING TO A LIBERAL EC BANANA IMPORT REGIME

Study	ODI I	ODI II	World Bank I	World Bank II	CIE	Matt-hews
Elasticity assumptions:						
EC import demand	-0.5	-0.5	..	-0.4/-1.0	..	-0.4
ES preferred exporters	1.73	1.73	1	1	1	1
ES nonpreferred	oo/3	1.73	3	1	3	2
Trade effects (%):						
World price change	0	13	2	6	3	5
EC consumption	5	3	9	9	20	6
Preferred supplier exports	-39	-59	-46	-46	-45	-41
Nonpreferred supplier exports	37	22	12	10	16	8
Welfare effects (US$m):						
Benefits to EC consumers	)		693	656	1438	579
Import rents	)				-906	-50
EC budget effects			-307	-307	-90	-71
Total EC welfare effect			386	349	442	518
Preferred suppliers' welfare			-209	-207	-228	-379
Nonpreferred suppliers' welfare					82	173

*Note: The ODI liberal trade option includes a 14 per cent CET

Sources: The ODI study is reported in Davenport and Page (1991); the World Bank study in Borrell and Yang (1990), the Centre for International Economics (CIE) study in Borrell and Cuthbertson (1991), and the Matthews study in Matthews (1992).

6. TECHNOLOGY, INVESTMENT AND COMPETITION POLICY FOR THE FOOD SECTOR

The Community recognizes the importance of technological development to sustain the competitiveness of the European food industry. In particular, developments in biotechnology will be at the forefront of new developments in the food production system, first at farm level but also in food manufacturing, particularly in the high value, low volume end of the market (aromas, preservatives, flavours, and textures which have a healthier image than the chemical alternatives) and in improved process efficiency (enzymes, biosensors).

The Commission has identified a number of weaknesses with European biotechnology including insufficient patent protection, fragmentation of the Community market, the poor public image of biotechnology and concern over the ethical implications of advances in biotechnology.

Three Community programmes are concerned with the promotion of biotechnology, agro-industrial and food technologies respectively.

BRIDGE (Biotechnology Research for Innovation, Development and Growth in Europe) was set up to to promote cross-border research for the purpose of speeding up the production of biological data, materials and processes

necessary for the optimal use of natural organisms and to establish Community regulations for biotechnology. The programme has a budget of 100m ECU for the period 1990-93.

ECLAIR (European Collaborative Linkage of Agriculture and Industry through Research) is designed to encourage 'pre-competitive' research, i.e. applied research which still falls short of immediate commercial application. Its objective is to promote the application of new developments in the life sciences and in biotechnology, to research, adapt and develop agricultural products designed for industrial use, to research and promote new industrial techniques for processing and transforming agricultural raw materials, and to research and develop environmentally less harmful industrial inputs for agriculture. The programme has a budget of 80m ECU for the period 1988-1993.

FLAIR (Food Linked Agro-Industrial Research Programme) is designed to contribute to Europe's competitiveness in the food industry, to the improvement of food safety and quality for the consumer and to the strengtheneing of food science and technology. Particular areas identified for research include the asssessment and enhancement of food quality and diversity; food hygiene, safety and toxicological aspects; and nutrition and wholesomeness aspects. It has a budget of 25m ECU for the period 1989-1993.

The competitiveness of the European food industry is also promoted through programmes of grant aid and assistance for the modernization of processing and marketing facilities (Reg. 355/77). Under the reformed 1988 structural funds directive, this aid has a regional development emphasis with a primary focus on the more disadvantaged Community regions.

Because of the relative lack of buoyancy in the European food market, growth in individual food firms occurs largely through merger and acquisition. Food and food retailing were the most popular sectors for European cross-border deals in 1989. French and British companies have been by far the most active, led by firms such as BSN, Hillsdown and Unilever, and dairy products, confectionery and snacks have been the most popular products (Commission, Panaroma of EC Industry 1991-1992, p. 71). Not surprisingly, EC competition policy plays an important role in the sector.

The core of EC competition policy is contained in three articles in the Treaty of Rome. Article 85 prohibits restrictive business practices arrived at between nominally independent enterprises. Article 86 is concerned with the behaviour of individual enterprises having a dominant position in their industries. Finally, Article 92 is concerned with actions by governments which have the effect of interfering with the natural outcome of the free play of market forces.

An example of a restrictive practice prohibited by Article 85 is applying diffferent terms and conditions to different purchasers of the same product, enforced in the context of international trade by attempts to prevent 'parallel imports'. The UK Distillers Company, for example, supplied Johnny Walker Red Label whisky at a lower price within the UK and to its own distributors elsewhere in the Community but charged a higher price to other customers. This was ruled illegal by the Commission and the company was required to either sell the product at the same price in both the UK and the remainder of the Community or to cease selling the product at all in one or other market (it chose the latter option).

Another restrictive practice outlawed by this Article is any arrangement whereby a prospective purchaser of a product is required to purchase other, unconnected products as a condition of sale. Tenants of British public houses benefited under this provision in 1987 when the Commission ruled that the practice of requiring tenants of 'tied' public houses to buy their supplies, other than beer, through the brewery company owning the establishment, contravened the Treaty.

Merger activity is now carefully monitored by the Commission to check on the emergence of dominant positions by FDI firms in the Community. When Phillip Morris acquired a 50 per cent stake in Rothmans Tobacco (Holdings) Ltd. the Commission struck out parts of their agreement providing for the exchange of commercial information. When the three leading Community spirits manufacturers in the Community, Grand Metropolitan plc, Allied Lyons plc and Guinness plc, made a joint bid for one of their competitors Irish Distillers Group the Commission refused permission for this bid because of its market-sharing implications.

Of importance to third countries is that it is not necessary that offending firms be located within the Community. The European Court's view is that it is sufficient that the practices are likely to affect trade between member states to give it the authority to intervene.

7. TRADE POLICY CONCERNING THE FOOD PROCESSING SECTOR

There are three trade policy issues of relevance to developing country food exports:

- the role of the Common Agricultural Policy in protecting EC production of temperate and Mediterranean zone produce and the likely implications of its reform
- the role of preferential access arrangements in this sector
- the implications of a successful outcome to the GATT Uruguay Round negotiations.

The operation of the EC's Common Agricultural Policy means that minimum import price requirements apply to 50 per cent or more of EC fish, beverage and fruit and vegetable imports while quotas are applied extensively to the latter products, as well as to live animals and meat products. Under the MacSharry Plan for CAP reform, an increasing proportion of farm income support would be provided through direct payments, with less reliance on price support mechanisms. However, improved market access for third countries will more likely emerge from a successful GATT round than from the internal process of CAP reform.

Agricultural and food products are included in the Community's GSP offer, though the concessions are restricted and products protected by the CAP are completely excluded. In 1989 only 45 per cent of LDC exports of nonsensitive agricultural products and 34 per cent of sensitive agricultural products benefited from GSP preferences (this low rate of coverage also reflects zero MFN tariffs in some cases and exports entering under more favourable preferential arrangements, such as the Lomé Convention) in other cases (Eurostat, System of GSP Imports 1989).

Agreement in a number of the dossiers included in the Uruguay Round of GATT talks could have implications for LDC food drink and tobacco exports. Commodities included in the Tropical Products Negotiating Group include coffee, cocoa, tea, spices, cut flowers and live plants. The EC offer circulated in December 1990 covered 220 tariff lines and a trade value of about $9 billion (the scope of this offer, which had originally been more generous, was limited following intensive lobbying by, inter alia, the ACP states). Because in most cases the lower MFN rates would still be equal to or above GSP rates, the offer will have little impact.

On coffee and cocoa, the EC offer is to bring MFN rates down to zero, making the GSP on these goods irrelevant. The reduction in Community tariffs would mean that ACP suppliers would suffer both a loss of export volumne through trade diversion and, because of the reduction in the EC import price, the elimination of their economic rent. Without further reductions in the tariffs on processed foods this will mean increased tariff escalation and further discrimination against added value processing in developing countries (Table 14).

There is still disagreement about the form of tariff cuts and the relative emphasis to be given to a formula-based approach (which would reduce the highest tariffs most) and a 'zero for zero' option (favoured by the US) under which tariffs on a range of imports could be eliminated on a reciprocal basis; this tends to remove tariffs which are already low. Fish and beer would be included in the latter approach. The elimination of EC tariffs on fish (over 15 per cent) could benefit Asian suppliers at the (small) expense of ACP producers who would lose their current margins of preference.

There are four issues at stake in the talks on temperate agricultural products: domestic support, market access, export competition and sanitary and phytosanitary matters. The objective in the first three areas is to bring about a progressive and substantial reduction in support and to extend discipline over the use of support measures in the future. Policies will be classified into 'red' and 'green' boxes, the former outlawed, the latter permitted. Price support, income support policies linked to production and other subsidies discriminating against imports will be reduced over time.

Table 14. EC POST-TOKYO ROUND TARIFFS FOR FOOD PROCESSING CHAINS

	Tariff rate (%)
Raw coffee	7.0
Roasted, ground coffee	13.5
Coffee extracts, preparation	18.0
Cocoa beans	3.0
Cocoa paste	12.0
Cocoa butter	9.0
Cocoa powder	12.0
Oilseeds	0.0
Fixed vegetable oils	7.1
Fatty acides, fatty alcohols	9.1
Unmanufactured tobacco	24.4
Manufactured tobacco	81.0
Fresh, dried tropical fruit	9.7
Preserved tropical fruit	10.4
Prepared fruit juices	22.2

Note: Simple average of post-Tokyo MFN tariffs

Source: UNCTAD, Protectionism and Structural Adjustment, Trade and Development Board TD/B/1240/Add.1, 1989

Disagreement over how particular policies will be classified and about the extent of possible cuts in domestic support and export subsidies is holding up a successful outcome at the time of writing.

The EC GATT-offer specifically excludes important LDC export commodities, for example, fruit and vegetables, tobacco and wine. On these the Community has said it is prepared to reduce support by 10 per cent from 1986 levels. To the extent that ACP and GSP countries have preferential access for these commodities, a reduction in tariffs would lead to trade diversion, but this would be balanced by trade creation for commodities where no preference is given.

8. IMPLICATIONS OF CHANGES IN FOOD STANDARDS

8.1 Food standards and the Single Market

Differing food standards and other technical regulations in the individual member states are a very real obstacle to the creation of the internal market. One consequence is that the European food industry is exceptionally fragmented. Of 46 leading companies, 44 per cent operate in only one other Community country outside their country of origin (Groupe MAC, 1988).

The original approach to harmonization was to attempt to harmonize national regulations across the Community. Previous EC food legislation set down detailed requirements for the composition of certain foodstuffs, e.g. jam, cocoa, chocolate and fruit juices. This 'recipe law' approach proved complicated and difficult to agree and numerous national derogations were allowed. In its communication 'Completion of the internal market: Community legislation on foodstuffs' issued in November 1985, the Commission recommended a new strategy. The basic principle is the mutual recognition of national rules, in principle limiting the harmonization of laws to those points involving 'essential requirements' concerning health, safety, consumer protection, the working environment and the environment. This follows from the European Court's case law including the 'Cassis de Dijon' and subsequent cases where the Court ruled that the Treaty does not permit member state laws which prevent the marketing of a product lawfully produced and marketed in another member state.

The principle of mutual recognition means that if, e.g. the Spanish authorities certify that a local producer has actually complied with these directives, there will be nothing a German official can do to prevent the product from entering his country. German officials can, of course, continue to promulgate their own criteria concerning, for example, the description or the composition of a good, or hygiene standards which must be met by local processors, which will continue to apply to local producers. Importantly, these rules will also apply to imports into Germany from third countries.

Thus third countries may fully benefit from the principle of mutual recognition only with indirect exports. For example, Swiss beer does not comply with the German definition of beer. Swiss producers, therefore, must ship their product first to France and only then to Germany, implying extra costs.

The 'Cassis de Dijon' case did not prohibit national laws necessary for the protection of public health and consumer interests. When it comes to health and environmental hazards, therefore, European norms will be laid down in Community legislation, probably well beyond the definition of essential requirements.

The Single Act requires that a 'high level of protection' is necessary against health, safety and environmental hazards. The new approach is implemented in the first instance by horizontal framework directives which lay down the philosophy and controls for a particular area, e.g. additives. These directives are complemented by specific horizontal directives detailing how these requirements are to be applied to specific segments of a wider area.

To this end seven framework measures have been introduced (some being amendments to existing horizontal measures). These cover the areas of:

- food additives; this directive prohibits the use of substances not appearing on lists for particular purposes, e.g. preservatives, emulsifiers, sweeteners, raising agents. It establishes that the Council should draw up a list of substances the use of which is authorized to the exclusion of all others, a list of foodstuffs to which these substances may be added and the conditions under which they may be added. It sets out the general criteria of purity, need and safety to be met before an additive can be included on the permitted list.

- flavourings; two flavourings framework directives set out the common Community position in this area. One directive requires the Council of Ministers to adopt provisions relating to flavouring sources (natural flavourings) and flavouring substances (nature identicals and artificials). Controls are to extend to the use and methods of production of flavourings as well as their specification and methods of analysis where appropriate. The other flavourings directive requires the Commission to establish inventories for the various categories of flavourings to be controlled and then keeping these inventories up to date.

- materials coming into contact with foodstuffs; this directive requires that materials must be manufactured so that they do not transfer their constituents to food in quantities which could endanger human health or bring about an unacceptable change in the composition of the food. Specific directives will be adopted, after consultation with the Standing Committee on Foodstuffs, for plastics, regenerated cellulose film ('cellophane'), elastomers and rubber, paper and board, ceramics, glass, metals and alloys and paraffin wax or microcrystalline wax.

- labelling; this directive applies to the labelling, presentation and advertising of foodstuffs and clarifies the requirements for labelling and listed ingredients. It amends previous legislation on the labelling of food and ends national exemptions. Specific directives extend food labelling requirements to include the percentage of alcohol in alcoholic drinks, set out common rules for describing alcoholic drinks, and lay down rules on nutrition labelling which are compulsory when a member states decides to introduce such labelling or when a particular product makes a nutrition claim either on the label or in advertising material.

- food for particular nutritional uses; this directive requires such foodstuffs to be suitable for their claimed nutritional purposes, and to be marketed in such a way as to indicate their suitability. It provides for specific directives for particular groups of foods which might lay down compositional requirements, hygienic requirements, list of additives, purity criteria, etc. Specific directives adopted or proposed include ones covering infant and follow-up milks;

- official inspection of foodstuffs; this directive is designed to facilitate the free movement of foodstuffs within the Community by establishing mutual confidence between the various systems of inspection in the member states. It aims to ensure that differences in enforcement severity do not become a barrier to trade by setting down Community methods of sampling and analysis.

Other measures include:

- the lot directive; this requires indications or marks identifying the lot to which a foodstuff belongs.

- irradiation of foodstuffs; this directive lists foodstuffs authorized for irradiation treatment and the maximum radiation doses and requires such products to be labelled as such. Irradiated foodstuffs may not be imported from third countries unless they comply with these provisions. Documents accompanying the foodstuffs must provide the name and address of the irradiation unit and the necesssary records. It must be confirmed that the irradiation has been officially supervized ensuring that the irradiation conditions are equivalent to those required by the directive.

In addition, there remains a need for commodity or product directives for certain types of foods, e.g. jams. At present content regulations prevent producers from using a generic name unless its product conforms to certain content requirements, e.g. in all but the UK, Ireland and Denmark, chocolate is not allowed to contain any vegetable fat. Existing compositional directives cover the following products or product groups:

- coffee and chicory extracts
- fruit juices and similar products
- fruit jams, jellies, marmalades etc.
- cocoa and chocolate
- honey
- sugar
- preserved milk
- caseins and caseinates
- natural mineral waters

Since the EC is unlikely to introduce further recipe laws some form of agreement will be necessary for those groups of products which are traded under the same name in all member states (e.g. beer, margarine, vinegar).

With the continual development of new food technologies, some way of quickly reacting to proposals for new additives or processes is required. There is a need to rework the procedures for food safety assessment which previously were always conducted at the member state level. Under the new directives the Commission is required to consult with the Standing Committee

on Foodstuffs, a body of scientific experts. When a safety assessment is made the Commission consults the Advisory Committee on Foodstuffs before the results are translated into regulatory action. Some form of cooperative assessment between national standards agencies coordinated by the Commission will probably be established (Gray 1990).

8.2 Effects on developing countries

Prior to the 1992 programme, there were some 218 individual EC barriers with which outside suppliers of manufactured foods had to contend. Of these 64 were specific member state import restrictions, 68 were controls on labelling and packaging, 33 were bans on specific ingredients, 39 were rules on product description and 14 were instances of tax discrimination (Groupe MAC, 1988). By 1992 a single set of rules covering all member states should be in place which should considerably simplify export access for developing country food exporters.

On the other hand, the new rules on food hygiene, labelling and health checks on plant and animal products may impose higher costs on LDC exporters.

For meat products to be allowed into the Community from third countries, for example, slaughterhouses and processing plants must be licensed by EC inspectors. Such agreements will specify which laboratories or government services will conduct the tests and controls in the country of origin. There is also a proposal to establish additional or tighter rules on veterinary inspection and health certification for each consignment, on wrapping and packaging, and conditions of storage and transport, as well as on inspection on arrival and conditions of transport in the Community.

For example, under the Lomé Convention five countries have a meat quota in the EC and may have their slaughterhouses inspected by the EC: Madagascar, Kenya, Swaziland, Zimbabwe and Botswana. The first three countries have not benefited from the meat protocol for the last eight years because their slaughterhouses do not conform to EC requirements.

Imports of plant materials from third countries will usually be inspected at the EC's external border and then issued a 'passport' allowing for free circulation in the EC. There is a fear that more thorough inspection of third country imports than of EC produce might prove a 'hidden' barrier to trade.

For fish, too, the Commission has proposed common quality and production standards. Under the new regime the Commission will 'for each third country, lay down conditions for the importation of fishery products', which may include establishing a list of processing plants and factory vessels which are authorized to export to the Community. How often inspections will take place will depend on 'the guarantees a third country can offer in relation with the checks carried at the place of origin (Davenport and Page, 1991).

Tovias (1990) quotes an example of the way new health rules may affect Sub-Saharan African (SSA) countries. Shrimp heads blacken after contact with air, and although this does not imply any health hazard, consumers usually want the head to be red. To prevent necrosis (the blackening of the head) SSA countries (such as Senegal) have been using boric acid, which is already banned in some EC consumer countries like Spain. After 1992, the EC plans to allow only one specific preservative, which will probably not be the one used

in SSA. Higher quality norms (e.g. oil content and can quality in the case of canned tuna) may be difficult for SSA exporters relying on older machinery to meet.

The new EC regulations may cause particular difficulties for certain Mediterranean, Africa, and South-East Asian suppliers of fresh or frozen fish or shellfish to the Community. The main exporters are Morocco, Tunisia, Mauritania, Senegal, Madagascar, Mozambique, Cuba, Argentina, India, Thailand and Taiwan.

An interesting case of the potential for export substitution arising from the harmonization of standards concerns chocolate. Some EC countries prohibit the use of any vegetable oil in chocoate, others allow it to a certain degree. The EC has compromized between both camps, defining chocolate as a product not containing more than 6 to 7 per cent vegetable oil. Such a decision may lead some French and Belgian (and Swiss) producers to reduce the cocoa content of their chocolates so as not to lose substantially in terms of local market share. On the other hand, the UK, a large producer of vegetable oil-rich chocolate, will expand exports of some brands of chocolate. These changes may have a slight net negative incidence on LDC exporters of cocoa beans or butter (though the situation would have been worse if the EC had decided to apply the principle of mutual recognition). On the other hand, exporters of palm oil may benefit slightly.

A general problem for developing countries with respect to food and other standards is that they do not participate in decision-making on essential requirements or common norms, and they do not participate in the elaboration of new European standards. This is not a problem faced by developing countries alone, and indeed it has been a sticking point in coming to an agreement on a European Economic Area with the EFTA countries. The EC says it will inform (and even consult) ACP countries in preparing the definition of rum and other spirits, and also in formulating quality norms for fish products, but there is no obligation on the Community to listen to these views.

9. IMPLICATIONS OF ENVIRONMENTAL LEGISLATION

The Single Market will have a similar impact with respect to environmental standards and regulations affecting the food industry as in the case of health and safety standards. Common European norms will be established, which will probably be pitched at a higher level than in the least-regulated states at present, but possibly not as high as in the most environmentally-conscious states. The net result will be a gradual raising of standards throughout the European area.

Probably the area of greatest impact on the food industry will be with respect to packaging and its disposal. While specific regulations have not been adopted as yet, it is not hard to imagine that this will become an area for Community legislation in the future.

As in the case of health and safety measures, member states will remain free to set their own, higher standards should they so wish, provided these standards are not used to keep goods which otherwise meet the common European minimum out of their domestic markets. An interesting case in this area was the Commission's objection to the recycling laws for beverage containers in

Denmark. Although the laws apply equally to domestic as well as imported products, the Commission argued their nature was such that importers were proportionately more affected and therefore these laws were an effective barrier to trade. The European Court, however, rejected this argument. While it may well be the case that the Danish regulations impose a greater cost burden on manufacturers supplying distant markets compared to those supplying local markets, and that in consequence most foreign firms are placed at a competitive disadvantage, the 1992 programme cannot negate transport costs.

Environmental standards raise delicate questions in the context of world trade. Consider the question of animal welfare. Supposing that a country's legislation on animal welfare raises the cost of producing livestock products, should similar animal welfare controls be then imposed on imported products? While the domestic and imported products may be treated equally, the foreign producer may feel the action is protectionist and smack of a revival of the pauper-labour argument (see Matthews 1991). One might argue that imported produce should be allowed provided it is clearly labelled. But if shoppers can be trusted to choose between imported products produced under different animal welfare regimes, why cannot they be allowed a similar choice on domestic goods?

The recent GATT panel ruling on the Mexican complaint against the US embargo on yellowfin tuna and tuna products is relevant here. Yellowfin tuna often swim beneath schools of dolphin, and when tuna is harvested with purse seine nets, dolphins are trapped in the nets and die unless released. The US Marine Mammal Protection Act sets dolphin protection standards for the domestic fishing fleet. If a country exporting tuna to the US cannot prove to US authorities that it meets the dolphin protection standards set out in the Act, the US must embargo imports of fish from that country.

The GATT panel found that the standards of Article II - namely, that imported product be accorded no less favourable treatment than domestic products - required a comparison between products of exporting and importing countries, and not a comparison between production regulations of the exporting and importing countries that had no effect on the product as such. It thus held that existing GATT articles did not provide a basis to justify the US import embargo. The implication of the panel judgement is that a country could not restrict imports of a product merely because it originated in a country with environmental policies different from its own. The EC has supported the panel ruling.

10. SUMMARY AND CONCLUSIONS

The completion of the EC's internal market will have a number of specific implications for the food exports of developing countries. On balance, this paper finds that the impact of the 1992 exercise on developing country food exports will be positive, although a number of the proposals will have important trade substitution effects between individual developing countries.

On the positive side, the paper lists the locomotive effect of faster EC growth and the greater transparency of the EC market arising from the harmonization of food standards and acceptance of the 'mutual recognition' principle in intra-Community trade. The harmonization of excise taxes should also have a small positive effect on the demand for tropical beverages.

The direct negative effects of trade diversion are considered relatively minor in the food sector. This is becaus the bulk of LDC food exports are of a commodity nature or the products of primary processing, where non-tariff barriers of the kind addressed by the Single Market are relatively unimportant. In the longer term, if the Single Market provides the hoped-for boost to the competitiveness of the European food industry, it may make diversification of LDC food exports into manufactured foods more difficult.

The main immediate negative impact will arise from the raising of food and environmental standards throughout Europe. Whether this can be attributed to the Single Market or would have happened anyway is difficult to say. The only response of developing countries to this is greater investment in their food firms to meet these standards. This implies that developing countries must not only be aware of the introduction of standards which affect them, but should also develop the capacity to try to influence the formulation of standards in areas of particular concern to them.

The Single Market will be completed in an environment of dynamic change in the food industry. The tentative moves to reform the EC's Common Agricultural Policy, the possibility of a successful outcome to the Uruguay Round, changes in consumers' food tastes and preferences arising from health concerns and demographic developments and the ongoing technological and structural innovations in both food manufacturing and food distribution in the Community, all will combine to create a more competitive food market in Europe. There is no reason why developing countries should not have a more important place in that food market in the future.

ANNEX 1

The major problem in drawing up a classification of food imports and monitoring trade flows over time is the revision of the SITC classification (Revision 3) in 1989. This affects the detailed classification of fish products and fruit in particular. A recent EUROSTAT analysis of EC-LDC agricultural trade used the SITC Rev.1 classification, and it was decided to use its results for the 1984/86 period as the benchmark for this analysis. This study classified all LDC agricultural exports to the Community of at least 5 million ECU in 1986. The 1990 EUROSTAT data (based on SITC Rev.3) was adjusted to conform to the earlier headings. The classification by degree of processing (shown in Column 1 of the Table) is based on the author's subjective judgement.

Table 1. EC FOOD IMPORTS FROM DEVELOPING COUNTRIES, 1984-86 AND 1990 (ordered by value of 1990 imports)

Proc class	SITC Rev.1		1984-86 mECU	1990
1	22	Oilseeds	1604.3	7401.6
1	051+052	Fruit and nuts, fresh or dried	2391.3	3603.0
2	08	Byproducts for animal feed	3113.3	2801.4
2	42	Vegetable fats and oils	1507.3	2795.3
1	0711	Coffee, roasted and unroasted	6116.3	2614.7
2	0313	Shellfish	661.3	1234.0
1	0721	Raw cocoa	1766.0	1026.8
2	0311	Fresh fish	372.3	930.9
2	0548	Roots and tubers (inc. manioc)	916.3	895.2
2	0535	Fruit juices	592.7	849.6
1	0611	Raw sugar	695.7	787.3
3	03201	Prepd/presvd fish	304.7	513.6
2	0111	Fresh/frozen beef	407.0	460.7
1	074	Tea and mate	767.3	397.2
2	0539	Other prepd or presvd fruits	260.3	303.0
1	121	Unmanufactured tobacco	984.3	298.5
3	013	Prepd/prsvd meats or offal	297.7	275.3
1	0544	Tomatoes	68.7	257.1
3	03202	Prepd/presvd shellfish	150.7	251.9
2	43	Processed animal or veg oils or	121.3	233.2
1	0545	Other fresh veg	131.7	219.3
2	0615	Molasses	223.0	174.1
2	07232	Cocoa butter	237.0	167.6
1	0541	Potatoes	100.0	141.7
2	0114	Fresh/frozen poultrymeat	0.0	118.5
2	0713	Coffee substitutes and extracts	177.0	104.4
2	41	Animal fats and oils	48.0	102.7
1	0542	Peas, beans, lentils	123.3	92.7
1	0751	Pepper	141.3	90.0
1	0752	Other spices	107.7	80.9
1	044	Maize, unmilled	276.7	78.0
3	099	Miscellaneous food	76.7	74.5
3	112.4	Spirits	106.7	71.2
2	112.1	Wines	61.0	68.7
2	0421	Rice, husked	131.3	64.6
2	0115	Fresh/frozen horsemeat	62.7	62.8

(continued)

Table 1 (continued)

Proc class	SITC Rev.1		1984-86 mECU	1990
2	0116	Meat offal fresh/frozen	49.0	54.2
2	07231	Cocoa paste	118.7	50.8
2	0616	Honey	77.3	46.7
2	05461	Frozen veg	33.3	45.8
2	01189	Other meats	80.3	44.9
3	111	Non-alcoholic beverages	0.0	42.2
2	0422	Rice, milled	0.0	38.6
2	0312	Dried, salted, smoked fish	15.3	37.1
2	0112	Fresh/frozen lamb	32.7	34.2
1	041	Wheat, unmilled	0.0	31.4
1	001	Live animals	129.7	26.8
2	0561	Dried or sliced veg	65.3	26.6
2	122	Manufactured tobacco	0.0	22.3
1	045	Other cereals, unmilled	49.3	22.0
2	05462	Partially presvd veg	36.3	19.0
3	05361+053	Prepd or presvd fruits, frozen	46.7	18.8
2	0612	Refined sugar	10.0	17.7
3	048	Cereal preps	11.3	17.2
3	112.3	Beer	0.0	16.7
3	062	Sugar confectionery	0.0	15.9
2	0532+0536	Fruit & nuts, provisionally prep	0.0	11.2
3	0567	Presvd veg	204.0	10.1
2	073	Chocolate & cocoa preps	15.0	9.3
2	08192	Cocoa shells and waste	0.0	6.4
2	046	Wheat flour	0.0	5.9
2	0564	Flour (inc. sago)	0.0	5.3
1	025	Eggs	9.0	4.8
2	024	Cheese	0.0	2.9
2	0619	Other sugar	0.0	2.5
2	022	Milk and cream	0.0	2.2
2	023	Butter	0.0	1.8
2	0533	Jams and jellies	0.0	1.7
2	0722	Cocoa powder	0.0	1.2
1	043	Barley, unmilled	0.0	1.1
2	047	Other flours	0.0	0.8
3	112.2	Fermented beverages	0.0	0.7
2	0113	Fresh/frozen pigmeat	8.7	0.3
3	0914	Margarine	0.0	0.2
2	012	Bacon/ham and salted meats	0.0	0.1

Source: 1984-86 Eurostat, Agricultural Trade between the EC and the Developing Countries, 1990
1990 Eurostat SCE 2512

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