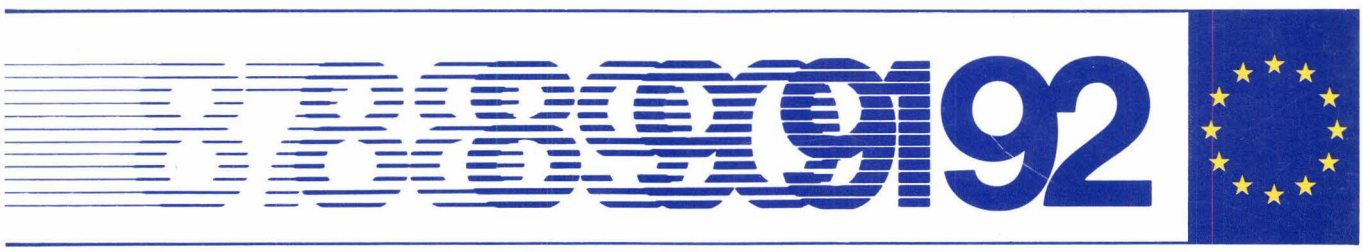
RESEARCH ON THE "COST OF NON-EUROPE"

BASIC FINDINGS

VOLUME 12 PART B



THE "COST OF NON-EUROPE" IN THE FOODSTUFFS INDUSTRY

Document

COMMISSION OF THE EUROPEAN COMMUNITIES

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RESEARCH ON THE "COST OF NON-EUROPE"

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VOLUME 12 PART B

THE "COST OF NON-EUROPE" IN THE FOODSTUFFS INDUSTRY

by

Group MAC

Document

COMMISSION OF THE EUROPEAN COMMUNITIES

Printed in the FR of Germany

THE COST OF "NON-EUROPE" IN THE FOODSTUFFS INDUSTRY

Report II
Analysis of Pilot Barriers

Volume II

GROUPE MAC

PREFACE

The MAC Group was retained by the European Commission to conduct a study on the completion of the internal market by 1992 in the foodstuffs industry. Four reports and an executive summary resulted from this effort :

Report I Identification of barriers and selection of pilot barriers

Report II Analysis of pilot barries (Volumes I and II)

Report III Extrapolation of benefits

Report IV Consolidation of the European food industry : an implication of the 1992 Common Market

Executive summary

Contents

This volume contains chapters 4.8 - 5

4. Pilot barrier analyses

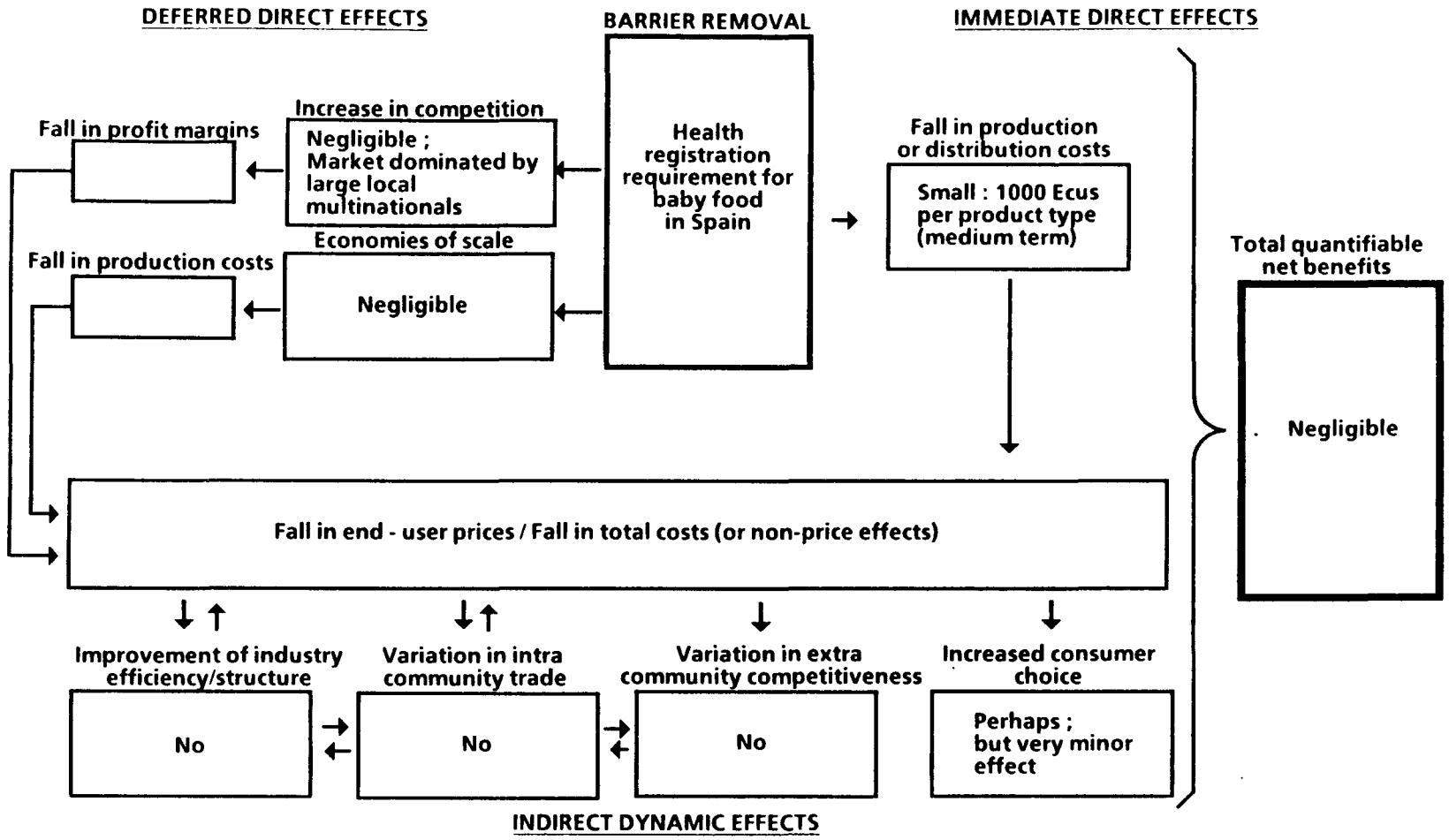
4. Pilot barrier analyses

4.8. Health registration requirements for baby food in Spain

Summary

- The objective of health registration for food and beverages is to protect consumer health.
- Consumption of baby food in Spain is low compared to other European countries.
- Sales of baby food are stable in Spain.
- A few multinational companies control the market; imports are low.
- Barrier removal is not expected to have any major economic impact,.
- Local producers do not fear the barrier removal since they have very solid market positions.
- The government is willing to modify its health registration process to be consistent with those of other EEC member states.

Summary of impact of barrier removal



4.8. Health registration requirements for baby food in Spain

Description of barrier

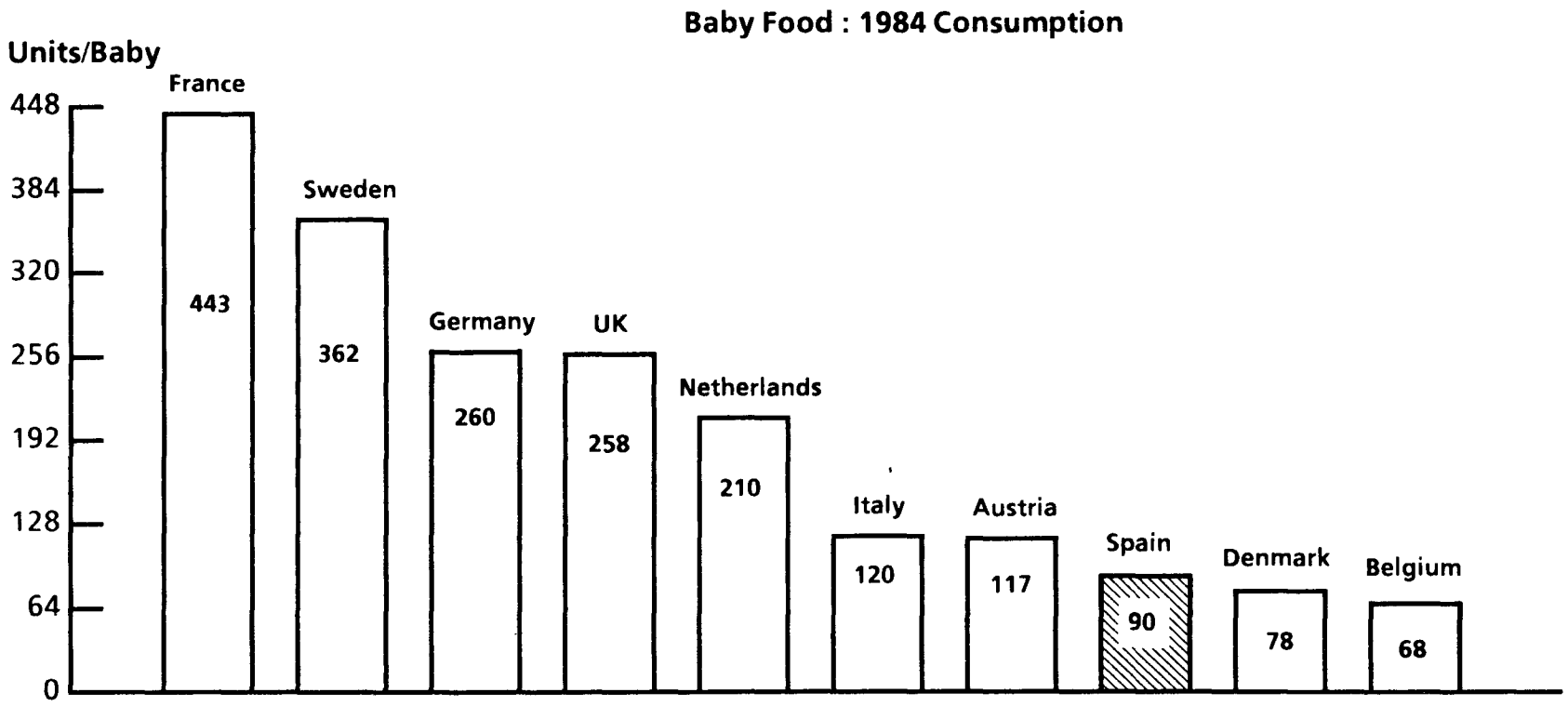
- **The objective of the registration is the protection of consumer health**
  - The analysis is done by an official institution at the time of registration only.
  - The analysis has to take place even if the product has been previously analyzed and approved in its country of origin.

- **Sales of unregistered baby food and beverages is illegal in Spain.**

- **Registration of products may take from three to six months**
  - Depending on complexity of the product
  - Depending on how busy the official laboratories are.

Source : "Rd 2825/1981 de 27 Nov. (Trabajo, Sanidad y Seguridad Social) sobre registro sanitario de alimentos"

Description of industry : consumption of baby food in Spain is low compared to other European countries



Source : LSA Dossier " Alimentation infantile", n°1043, October 86

The baby food market in Spain has been very stable, though it may decline in the future

- **The market for baby foods is inextricably linked with the birth rate, which at the present time is decreasing.**

- **Family purchasing power largely affects a family's decision whether to use manufactured or home-made food.**

  - Baby food is usually expensive and thus a burden for young parents with modest incomes .

  - Spain is currently experiencing high inflation and unemployment rates, especially in the younger population segments, that reduce purchasing power of potential buyers.

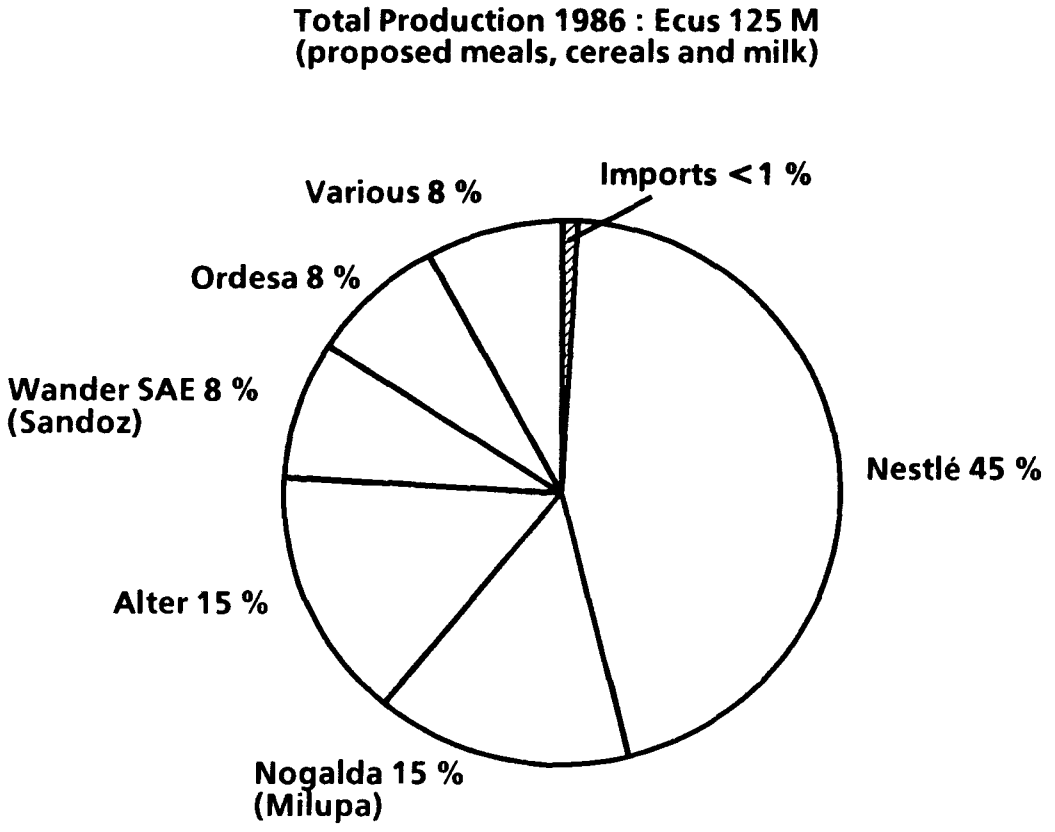
- **Cultural and social habits affect baby nutrition trends.**

  - Fresh food is perceived as the most suitable baby food by an important segment of families.

  - Higher income young couples may be more innovative and willing to buy processed baby food.

  - Breastfeeding is becoming increasingly common.

As in most European countries, the baby food market in Spain is dominated by three main producers, local and multinational



Source : Baby Food Association of Spain

Imports of baby food in Spain are less than 1% of consumption

- **Doctors recommend to mothers the kind of nutrition they are familiar with, which tends to be locally produced.**
  - Doctors may occasionally prescribe some product not produced in Spain for specific medical reasons.

- **Locally produced baby food is of high quality and is perceived as such by buyers.**
  - Fresh raw materials are widely available in Spain
  - Advertising emphasizes use of fresh raw materials

- **In order to be in a price competitive position, the products have to be produced locally**
  - Local producers sourcing locally are in a better competitive position than their EEC counterparts.

- **New comers are not expected**
  - There are no unserviced market segments
  - Nestlé, with a strong worldwide position in baby food, is the leader in Spain
  - Some local producers concentrate their activities on the production and distribution of new products by using the technology and production process of foreign producers.

Source : The MAC Group interviews: Baby Food Association and industrialists

4.8. Health registration requirements for baby food in Spain

1. Summary

2. Overview of Pilot Barrier
   - Description of Barrier
   - Description of Industry

→ 3. Impact of Barrier Removal
   - Industry and Competitive Structure
   - Attitudes of Major Players

4. Quantitative Estimate of Impact

5. Appendix

Impact of barrier removal

- Importers from EEC countries would save on costs of registering their products.

- This effect will be mitigated by the fact that baby food imports amount to less than 1% of total consumption.

- Domestic producers are no less efficient than their EEC counterparts, so an industry restructuring is unlikely.

Attitudes of major industry players about removing the barrier

	Favorable	Unfavorable	
Spanish Baby Food Association	Does not pose a problem		=
Importer	Registration is inconvenient	But it is not the main problem	+ / =
Retailers	-	-	=
Government	Homogenization of Health Registration requirement is under consideration		=
Total			= / +

Attitudes of major industry players

- **Spanish Baby Food Association :**
  - "Health registration is not that complicated, it may take time and require some paper work, but still it is quite simple".
  - The registration process is being simplified little by little : some standard products such as flour, normal baby milk, some prepared meals, etc, are no longer required official analysis.
  - Baby food is also highly regulated in other EEC countries. In the future, homogenization of food and beverage registrations may occur.

- **Baby food importer (and also producer in Spain) :**
  - Imports of baby food are very small since raw materials are cheaper in Spain than in other EEC countries ; but still some imports take place for products with medical specifications. However, overtime raw materials in Spain will have the same price than the rest of the EEC.
  - Usually once the imported product reaches a certain sales level, the producer starts local production.
  - Registration is inconvenient because it takes time; but it is a one time expense.

- **Baby food retailers :**
  - Consumers do not perceive any effect due to the registration
  - All popular products currently sold to the mass market are produced in Spain
  - Imported baby food is composed largely of products consumed for medical reasons.

Attitudes of major industry players (cont'd)

- **Spanish Government :**

  - Relaxation of health registration requirements is currently under consideration.

  - Homogenization of health registration among EEC countries is likely to happen soon.

  - The Government claimed that health registration requirement for food and beverages in Spain was approved by the EEC, though this was contradicted by EEC officials.

4.8. Health registration requirements for baby food in Spain

Immediate Direct Effect : reduction of costs due to barrier removal is negligible

- **The main cost involved in health registration is the product analysis, which amounts to 1,000 ECUs per product (1).**

  - This is a one time cost

  - Other bureaucratic requirements related to registration (a product description and a sample of the label must be submitted) could create a further obstacle to trade, though the effect is of secondary importance.

- **The registration cost of imported baby food does not have a significant economic effect on the price of the product (1).**

Source : (1) The MAC Group estimation based on interviewees' data.

Indirect Dynamic Effect : displacement of less efficient domestic producers by foreign imports is not likely

- Most baby food is either produced by subsidiaries of multinational groups, or it is subcontracted/licensed by multinational groups.

- The competitive position of domestic producers is very solid
  - in terms of price
  - in terms of quality of ingredients
  - in terms of image and public perception

- Multinational companies would never allow imported products from their own group to displace their own local sales.

Source : The MAC Group interview industrial producer

4.8. Health registration requirements for baby food in Spain

Organization contacted

- Baby Food Association of Spain: Executive Secretary.
- Laboratorios Alter S.A.: Manager, New Products Division (Production and Imports)
- Nogalda S.A.: Commercial Manager
- Nestlé-AEPA: Diet Food Division
- Ministry of Economy and Finance: Manager, Instruments for Commercial Defense Service
- Ministry of Economy and Finance: Manager, Foreign Trade Service for Beverage and Processed Agricultural Products.
- Ministry of Economy and Finance: Manager, Prepared Food Division (Soups and Baby Food).
- Ministry of Health and Consumption: Manager, Food Health Registration Service.
- Barcelona Chamber of Commerce: Manager, EEC Relations' Department.
- Pro-Europe Catalonian Foundation: Economic Advisor.

4. Pilot barrier analyses

4.9. Bulk transport for spring water in France

Summary

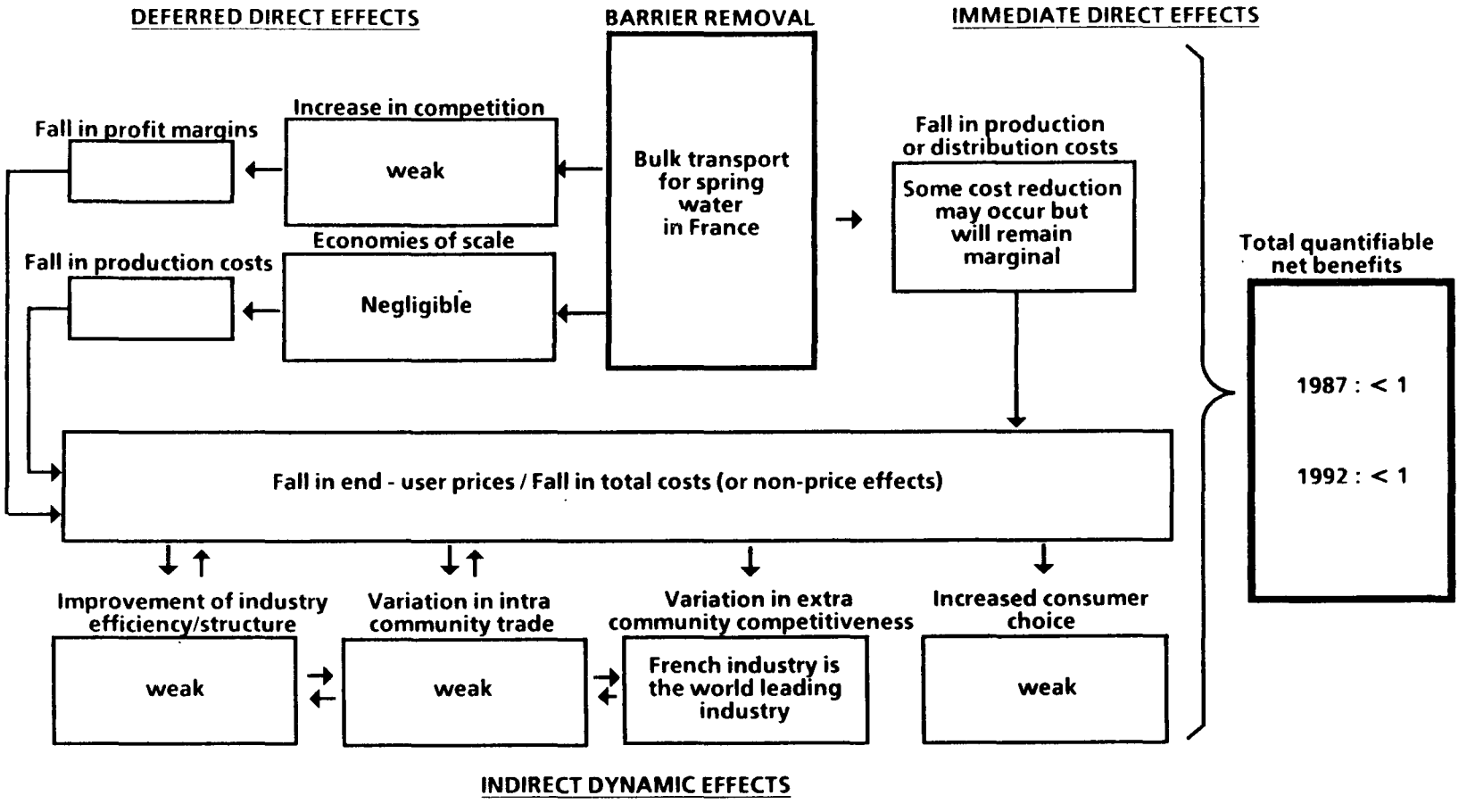
- An EEC directive, established to harmonize regulations regarding mineral water production, specifies that it should be bottled on-site

- The regulation has been extended in most countries to spring water, which therefore prevents the transport of spring water in bulk

- Given that transportation may alter the consistency of the spring water, this water is not allowed to use the "spring water" product name ; instead it is called "potable water".

- In this case, the impact of removing the bulk transport restriction will be low because the table water market will remain quite small.

Summary of impact of barrier removal



4.9. Bulk transport for spring water in France

1. Summary

→ 2. Overview of Pilot Barrier

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- Description of Industry

3. Impact of Barrier Removal

- Industry and Competitive Structure
- Attitudes of Major Players

4. Quantitative Estimate of Impact

5. Appendix

Definitions

- Natural mineral water comes from springs which are bacteriologically pure and of constant composition ; they are collected at the spring without any treatment and are endowed with properties beneficial to health. Mineralization, temperature at source and flow must be constant, bacteriological purity assured, and no treatment can occur except filtration and elimination of iron. Their exploitation is subject to prior authorization of the Ministry of Health, after approval by the Academy of Medecine, and is regularly checked. There are two broad categories of mineral water : still and naturally sparkling.

- Spring water is naturally pure drinking water, bottled at the source without treatment for which no therapeutic claims are made, though subject to full bacteriological purity tests. Its exploitation is authorized and checked by regional authorities.

- Table water is simple bottled drinking water. A draft regulation envisions the elimination of this category of bottled water.

Description of Barrier

- The EEC directive was established to design rules regarding mineral water production and distribution. This includes :

  - Approval of the Ministry of Health/EEC
  - Collection of the water without any treatment
  - Bottling on-site.

- In order to protect consumers from treated waters, this regulation was in most countries (Germany, France, Spain, Belgium) extended to spring water.

- Countries without sources of spring water (e.g. UK, NL), have complained about the restriction against bulk transport of spring water .

Description of Barrier

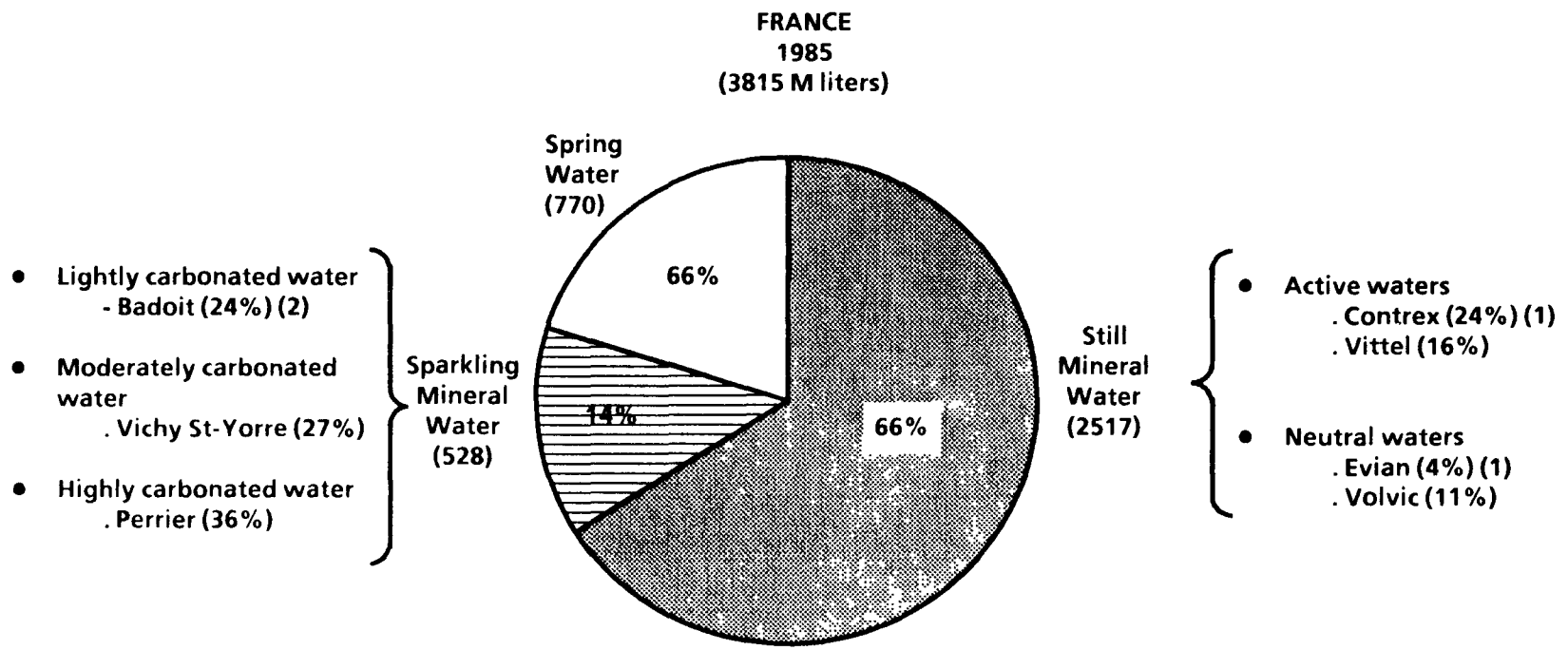
- Industry experts estimate that spring water contains unstable chemical compounds. Transportation would change their physical properties.

- Experts conclude that spring water, which has been transported in bulk, should only carry the name "table water" .

- As no consensus can be easily obtained on conditions that should be respected in transporting spring water in bulk, it is assumed in this analysis that the water which has been transported in bulk will be called "table water".

Segmentation

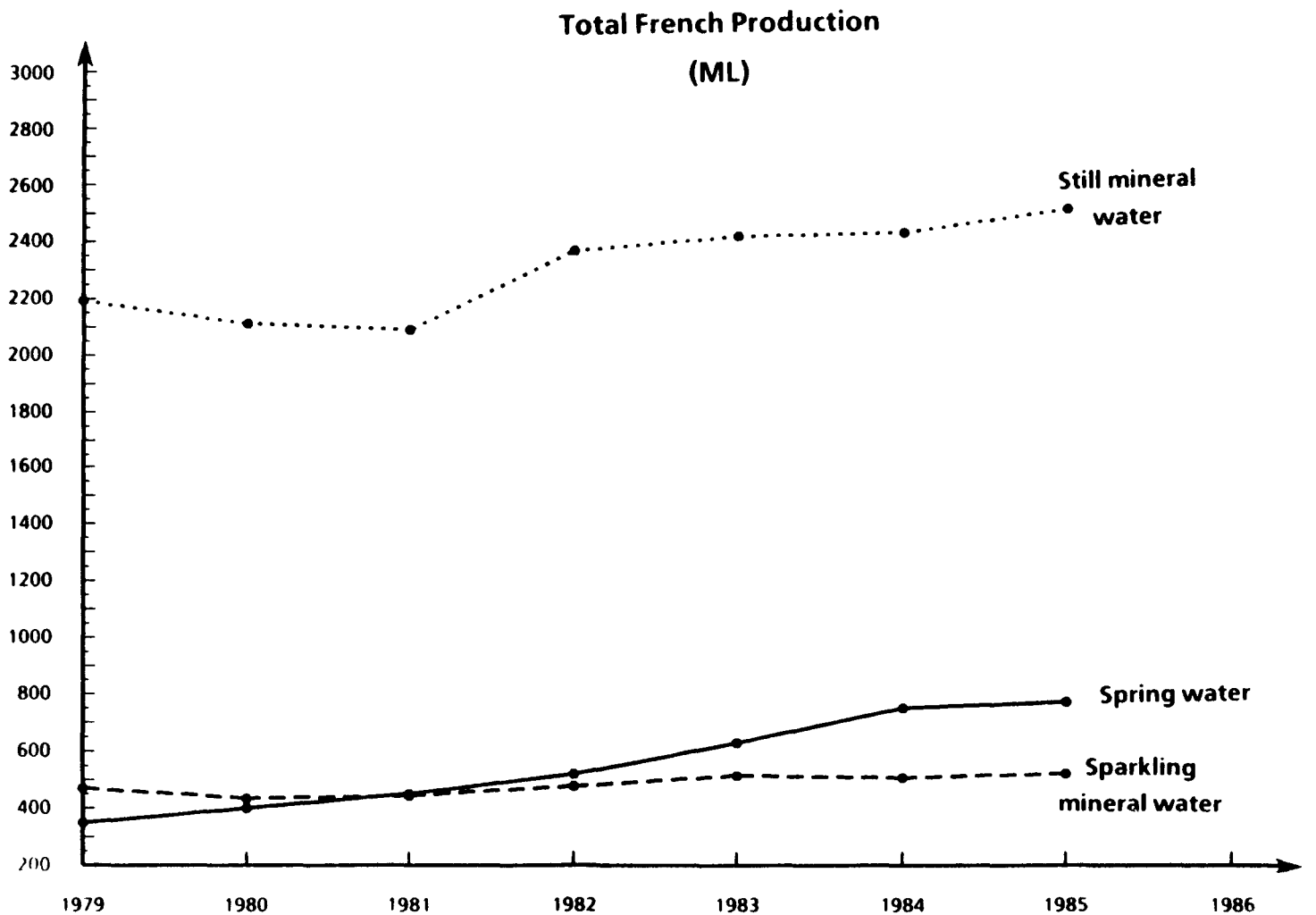
- **Contrary to other countries where sparkling mineral waters account for a major share of bottled water consumption, the French market is dominated by still waters ; it is estimated that in 1981 still mineral and still spring water accounted for about three quarters (in terms of litres) of total sales of bottled water in France.**



(1) % of total mineral water consumption
(2) % of total sparkling water consumption

Consumption

- **Total delivery of water by French producers amounted to 3815 M liters in 1985. The average Growth rate is 3% per year.**



Manufacturers

	1985 MF TOTAL SALES	1985 Water Sales		Market Share (%)	Profit after tax (% sales)	ROE
		M litres	M. FF			
PERRIER (1)	11100	1400	3200	45%	2,2%	18%
. Perrier/Contrex/...	-	-	2400	N.A.	0,6%	N.A.
. Saint-Yorre	-	-	280	N.A.	4,6%	N.A.
. Volvic (2)	-	-	520	N.A.	N.A.	N.A.
EVIAN	-	950	-	26%		
	-					
VITTEL	1200	8-900	1000	24%	1,1%	

(1) Excluding 35 % of San Pellegrino and 400 MF of sales of mineral water from local sources in Spain and the US.
(2) Production of soft drinks : Oasis/atoll

Manufacturers

- 3 Groups largely dominate the French Market (90 % of mineral water sales)

  PERRIER Société Anonyme Source Perrier, directed for almost forty years by a former Paris stockbroker Gustave Leven, is the largest mineral water producer in France. The company now contains, besides Perrier itself, Contrexéville (which rivals Evian as the largest selling still water), and two other leading sparkling waters Vichy Celestins and Vichy Saint-Yorre. In 1984 Perrier acquired Volvic as well. Besides these nationally distributed brands, the Perrier group also owns six other mineral waters which are marketed primarily in the regions where they are bottled. Plancoët, for example, a still mineral water from the north near Dinard, is sold throughout Britanny. Perrier also owns five eaux de source. The most important is Montegut in Haute Garonne - which sells along the Mediterranean coast and is exported from Marseille to the Middle East. 45 per cent of the water from Source Perrier itself is exported to 150 countries. Perrier is strengthening its position in world markets, notably in the US where it recently purchased Arrowhead Water from Beatrice Foods

Manufacturers (cont'd)

EVIAN Société Anonyme des Eaux Minerales d'Evian is part of France's leading food and beverage conglomerate, BSN. Evian and Contrexéville compete for top place in the still mineral water. Evians sparkling water Badoit, from Saint-Galmier in the Massif Central, is increasing sales more rapidly than any other French mineral water. It could soon top 150 million litres annually, or the same volume as Vichy Saint Yorre which is second place behind Perrier.

Manufacturers (cont'd)

VITTEL Société Générale des Eaux Minérales de Vittel (in which Nestlé has a 24 per cent share) bills its product as the largest selling mineral water in France, which is true in number of bottles but not in litres of water. Vittel's Grande source still water sold 732 million litres in 1983, slightly lower than Evian and Contrexéville. Vittel also owns the highly mineralized Source Hépar, and another still mineral water, Abatilles, near Bordeaux. The Group also owns the Pierval eau de source at Pont-Saint-Pierre near Rouen, and has embarked in the United States by purchasing the Barlett Mineral spring in Northern California. The group has a share in Sohat, the leading Lebanese mineral water, in Source Baraka in Egypt, and in Aquas de Pizöes Moura in Portugal.

4.9. Bulk transport for spring water in France

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Impact of Barrier removal

- **If it were possible to transport spring water in bulk with no alteration the impact on the water industry would be significant :**

  - Increase in spring water penetration ; which is cheaper than mineral water.
  - Decrease in transport costs for large mineral water groups, whose sources are primarily located in 3 mountainous areas (the Alps, the Massif Central, the Vosges) and far from the main cities

- **By contrast, if no transportation is possible without changing the name to "potable water", the impact of removing the barrier is considerably weaker.**

Position of Major Players

	Favorable	Unfavorable	Global
Water producers	Spring water manufactures	Mineral water manufactures (though most have spring water production also)	=
Bottlers	Large soft drink bottlers have over capacities on some plants	Spring Mineral water companies have modern integrated bottling plants	=
Consumers		Spring water which has been transported does not have the same water properties.	-
TOTAL			=

4.9. Bulk transport for spring water in France

Direct effects : weak

- **Immediate direct effects**

  - Some retailers may encourage "table water" consumption through private label products as a promotion tool
  - According to interviews, benefits will be low since the table water market will remain small
  - In fact regional mineral water sources have substantially increased their market share in the water markets in the past two years : 26% (84), 27% (85). In some key regions (like the North of France : Lille, Roubaix, ...), regional brand can reach more than 42% of mineral water sales.

Deferred direct effect

- Increase on competition will be slight
- Scale effects are already obtained in the highly concentrated french industry

Costs of removing the barrier

- Water producers have significantly increased their investments in the past 5 years.
- Investments are mostly located in the logistic side of the industry.

Indirect dynamic effect : Weak

- **Increase in intra community**

  Trade :
  - Trade already takes place in major countries without local sources (UK, NL)
  - "Over 70% of total trade concerns sparkling water which could not be transported in bulk with no treatment"

- **Increase in extra-community competitiveness**

  - Major world manufactures are French : Perrier, BSN.
  - Removing this barrier could, on the contrary, weaken major players of the industry

- **Increase on consumer choice : Some**

4.9. Bulk transport for spring water in France

Organizations contacted

- French Mineral Water Association

- Belgium Mineral Water Association
- UNESDA
- 2 Mineral water companies
- 1 Retailer
- 2 Italian manufacturers

4. Pilot barrier analyses

4.10.Saccharimetric content law for beer in Italy

Summary

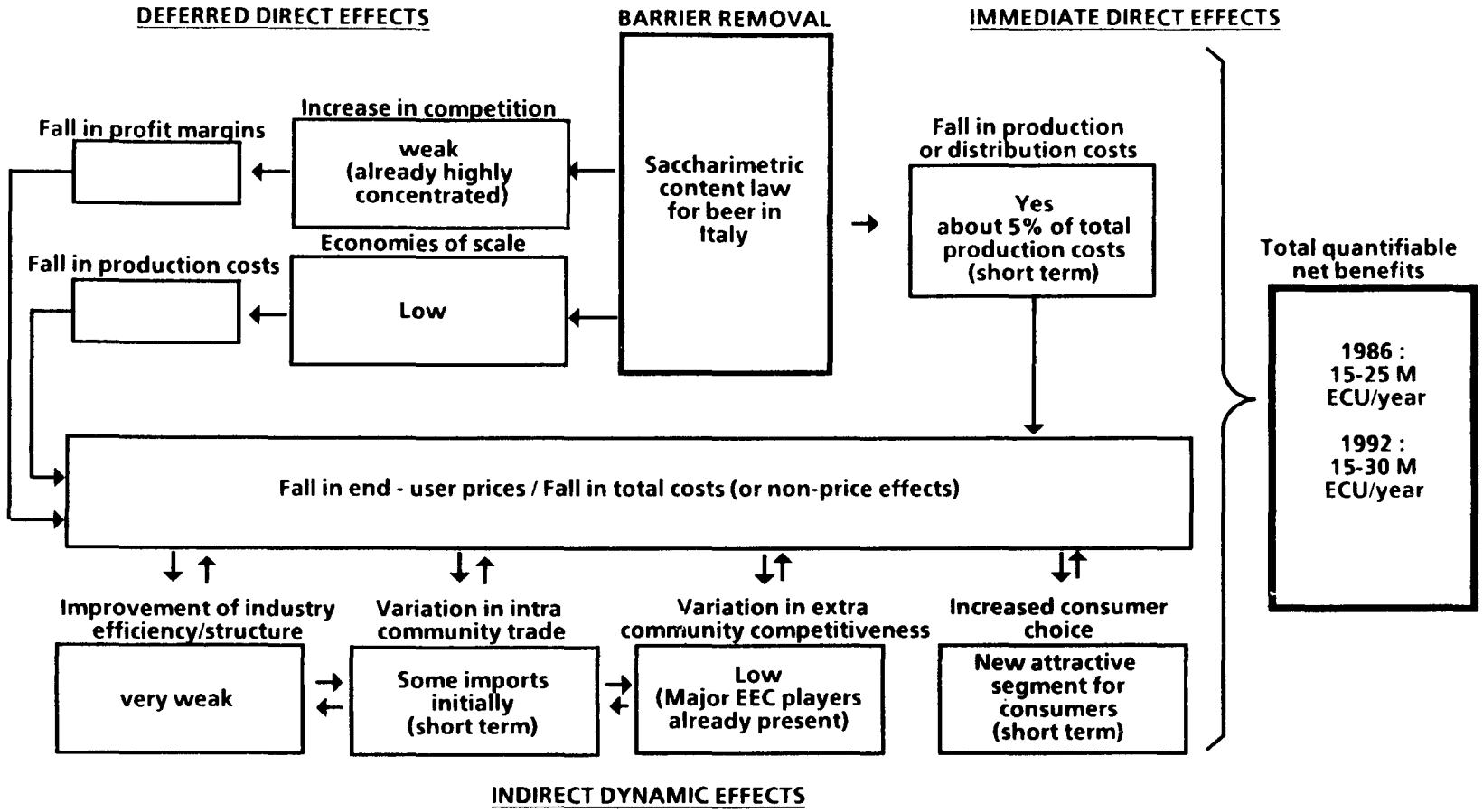
- In Italy, beer must have a saccharimetric content in volume of eleven or greater

- This regulation restricts consumption of "light beers" in Italy

- Removal of this barrier would engender
  - A unit cost reduction
  - A slight increase in imports into Italy

- These effects would amount to a benefit of 15-30 million Ecus by 1992.

Summary of impact of barrier removal



5.10.Saccharimetric content law for beer in Italy

Definitions

- Saccharimetric degree refers to the starch and sugar content present in beer before the fermentation process.

- It is a measure of density of the sugar liquid before the fermentation.

- There is not necessarily a direct relationship between saccharimetric degree and alcohol content

- Among EEC members, beer is classified and taxed according to different density measures (Plato, OG, Balling, Régie).

Definitions

- **Beer is classified as either Ale or Lager**

Ale "(U.K. School)"	Lager "(German school)"
- Low fermentation (bottom fermentation of yeast)	- High fermentation (top fermentation of yeast)
- High temperature fermentation	- Low temperature fermentation
- Short fermentation period	- Long fermentation period

- **Moreover, beer can either have a high or low saccharimetric degree and be light (colour), dark or shades in between**

Description of Barrier

- **The Italian law dated 1962 stipulates :**

  - The denomination "beer" (birra) is reserved for the product obtained from alcoholic fermentation of stocks of Saccharomyces carlsbergensis or of Saccharomyces cerevisiae of most prepared with barley malt, also roasted, with water, embittered with hops.

  - No "beer" may be sold which has a saccharimetric degree in volume of less than eleven (11)

  - the denomination "special beer" (birra speciale) is reserved for beers with a saccharimetric degree in volume of no less than thirteen (13), and the denomination "double malt beer" (birra doppio malto) is reserved for those having a saccharimetric degree in volume of not less than fifteen (15).

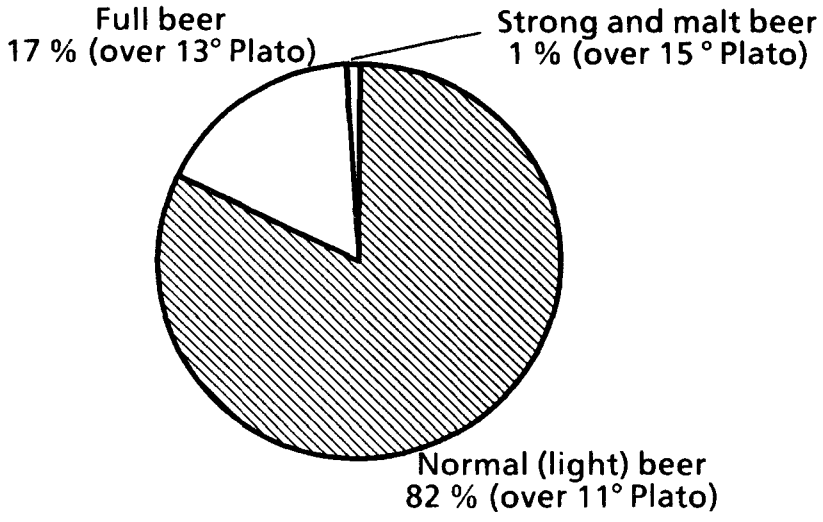
- **In Spain, the same requirement applies.**

- **In Greece, the minimum saccharimetric degree is 11.5**

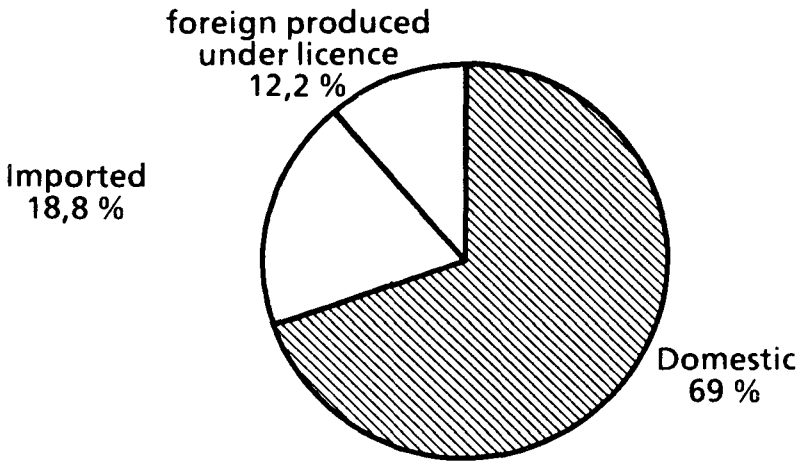
Segmentation

- **In Italy, light coloured national beer is predominant**

Segmentation by type



Segmentation by origin/type

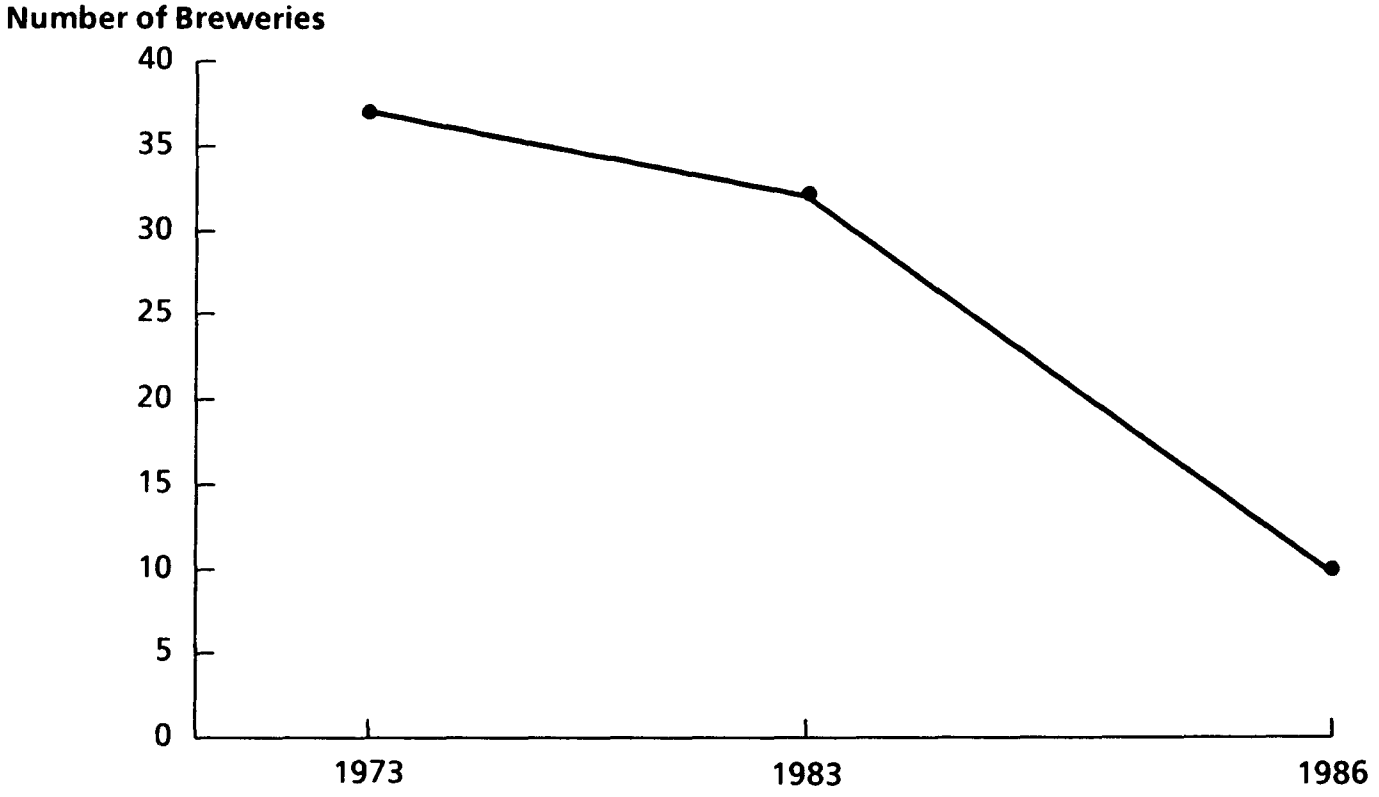


- **"The consumer does not distinguish between beer imported and foreign beer produced under license" (Italian importer)**

Note : Saccharimetric degree performs the same function as Plato degree
Source : UIFBM, ASSOBIRRA

Manufacturers

- **The Italian Brewery Industry has consolidated substantially. Ten companies remain.**

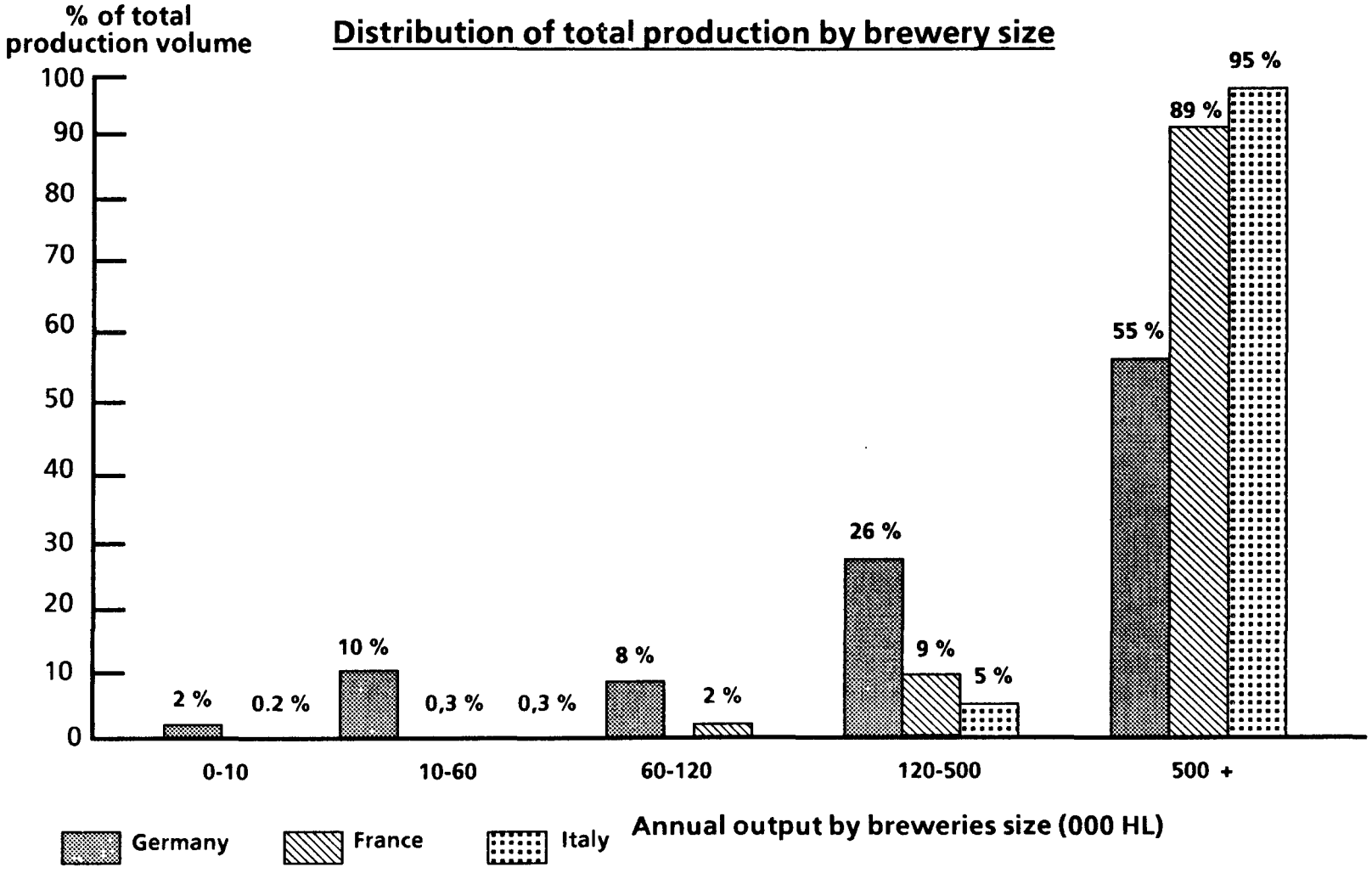


- **The number of breweries has decreased by more than 75 % over the past ten years.**
- **The utilization rate of breweries is about 75 % of production capacity.**

Source : ASSOBIRRA

Manufacturers

- **8 breweries produce 95 % of Italian beer**



Source : Largo Consumo, Assobirra

Manufacturers

- **2 companies account for 50% of the Italian market**

COMPANY	AFFILIATION	PRINCIPAL BRANDS	1986 VOLUME (000 HL)	1985 TURNOVER (Bio Lit)	1985 N.INCOME (Bio Lit)	1985 ROS (1)	1985 MARKET SHARE (%)	
								(2)
Peroni	Peroni	Peroni, Nastro, Azurro, Italia Pilsen, Amstel, Raffo	3 292	242	2,1	0,9	24,71	29,50
Dreher + Spai	Heineken (Netherlands)	Dreher, Heineken, Ichlusa	2 382	N.A.	N.A.	N.A.	17,79	21,35
Wührer	BSN (France)	Wührer, Kronenbourg, Simplon	1 108	114,1	-4	-3,5	8,49	10,15
Sib-Nuova Biera Messina	Faranda	Henninger, Messina	984	66,0	0,33	0,5	7,37	8,85
Industrie Poretti	Bassetti and United Breweries (Denmark)	Splugen, Tuborg, Carlsberg	843	74,7	-4,3	-5,8	6,55	7,80
Forst	Fuchs	Forst	786	60,2	1,9	3,5	8,97	7,10
Wunster	Van Wunster	Van Wunster	773	49,0	0,06	0,0	8,89	7,00
Prinz	Oetker (Germany)	Prinz Braü	537	N.A.	N.A.	N.A.	4,15	4,95
Moretti	Merazzi-Moretti	Moretti	326	55,3	0,33	0,6	2,47	2,95
Q.G. Menabrea	Thedy	Menabra, Edel	37	N.A.	N.A.	N.A.	0,29	0,35
TOTAL			11 068				83,68	100

(1) Return on sales in %
(2) Without considering imports

Consumer trends

- Consumption of beer is highest in the north of Italy, and among people in the medium income groups
- In Italy, beer is regarded very largely as a refreshing drink
- There is an increasing trend to drink beer during mealtimes
- Beer is a seasonal product (over 50 % of total consumption in the summer months)
- Beer is replacing wine to some extent, particularly among the younger drinkers
- Packaging in Italy shows the following patterns :
  - bottles : 67 %
  - drought : 21 %
  - cans : 12 %

4.10.Saccharimetric content law for beer in Italy

Impact of Barrier removal

- Annual per capita beer consumption is the lowest compared to other EEC members (see beer purity law in Germany). The wine tradition is still predominant in most Italian regions.

- There is not necessarily a correlation between saccharimetric degree and alcoholic content. However, in practice a high saccharimetric degree tends to lead to higher alcoholic content. According to manufacturers, with a conventional fermentation process (62-68° for Ale beer), a difference of approximately 3 Plato degrees (from 8 to 11) would increase the alcohol content by 30 % (from 3 $\frac{1}{2}$ to 4 $\frac{1}{2}$ %).

- The removal of the "saccharimetric degree" barrier in Italy (adjusting minimum required to the regulation in major EEC countries e.g. 7 or 8 Plato degrees) will allow the development of a new market for lower alcohol beers

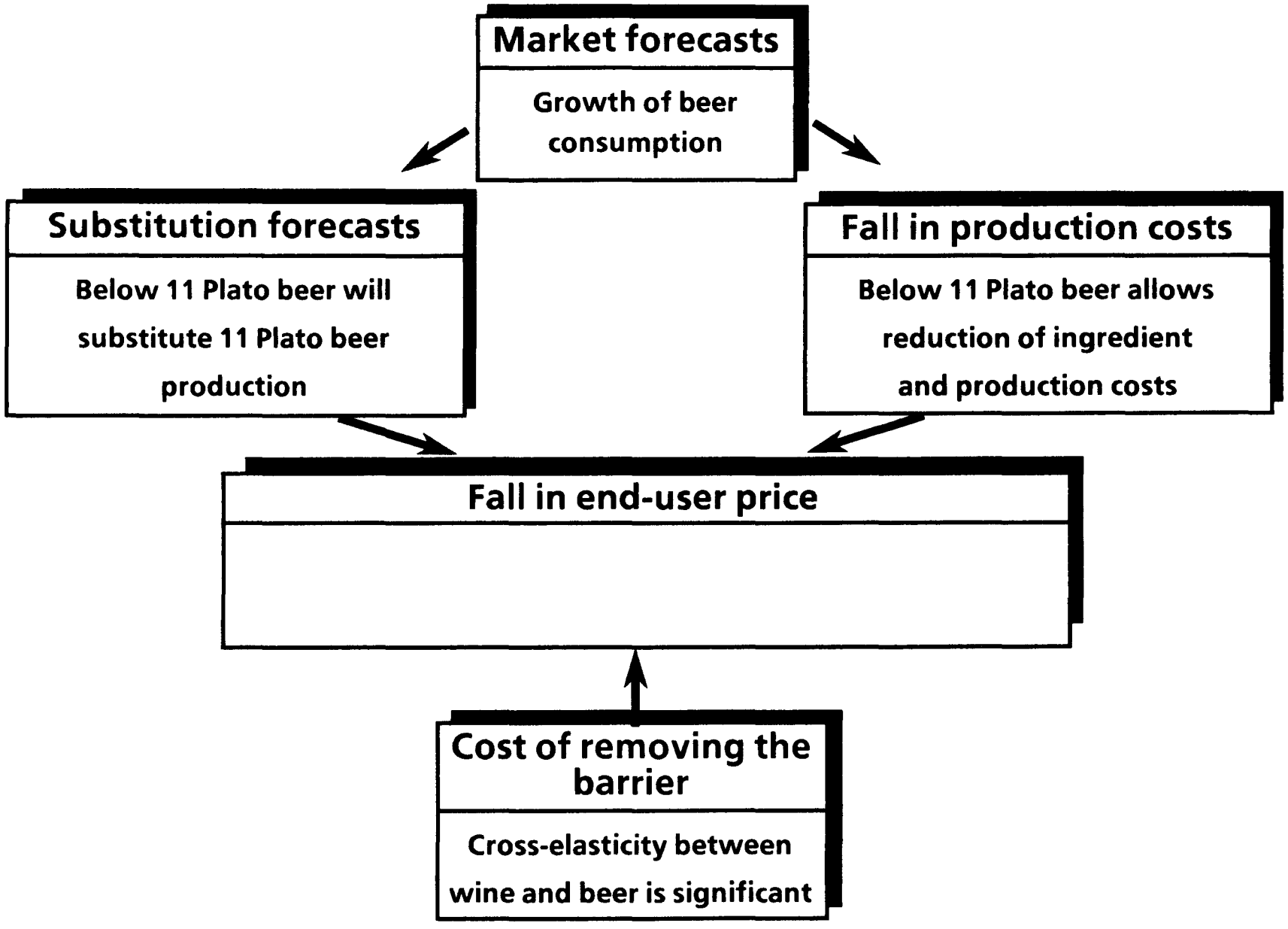
- Some increase of imports will take place at the beginning (UK, Germany, Belgium and France).

Attitudes of Major Players

	Favorable	Unfavorable	Global
Suppliers	Barley and malt producers in Italy	Wine producers face possible substitution effects	?
Manufacturers	A new regulation (minimum of 7,5 Plato) would increase beer consumption and decrease production costs	-	+
Retailers	New segment	Additional costs	+
Consumers	Low alcohol beer constitutes an alternative for consumers willing to reduce their alcohol consumption (especially women)	-	+ +
TOTAL			+ +

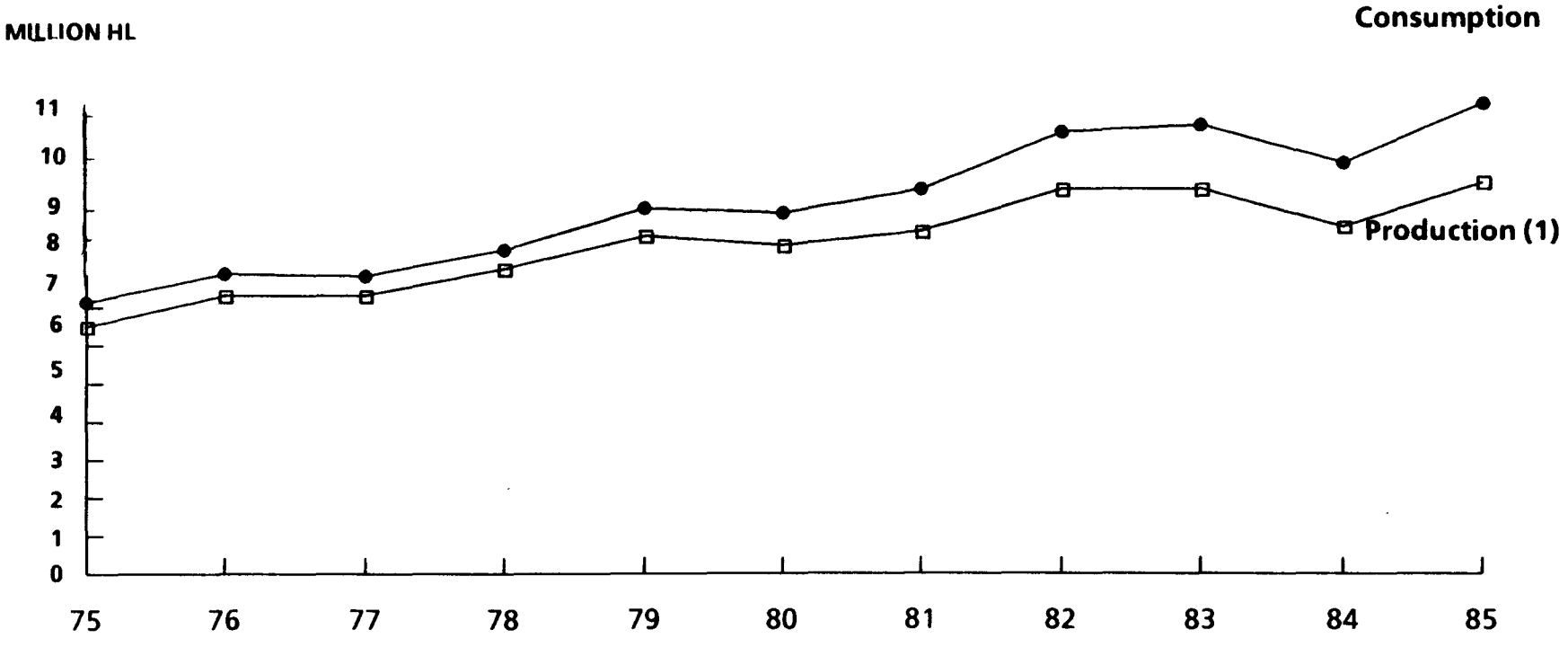
4.10.Saccharimetric content law for beer in Italy

Immediate Direct Effects



Market Forecasts

- **The beer industry estimates a sustained growth of 3-4 % per year in the next 5 years.**
- **Consumption has been increasing steadily over the past ten years**



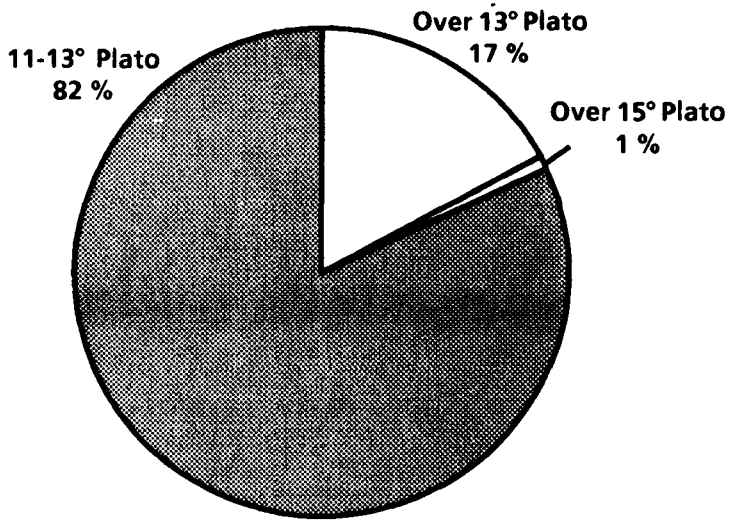
(1) production includes foreign beer produced under license in Italy

Source : Istat, Assobirra

Substitution Forecasts

- **According to industry estimates, beers below 11 Plato degrees will capture between 30 to 50 % of the Italian market.**

Italian consumption of beer 1986 (in hl)



Source : Largo Consumo

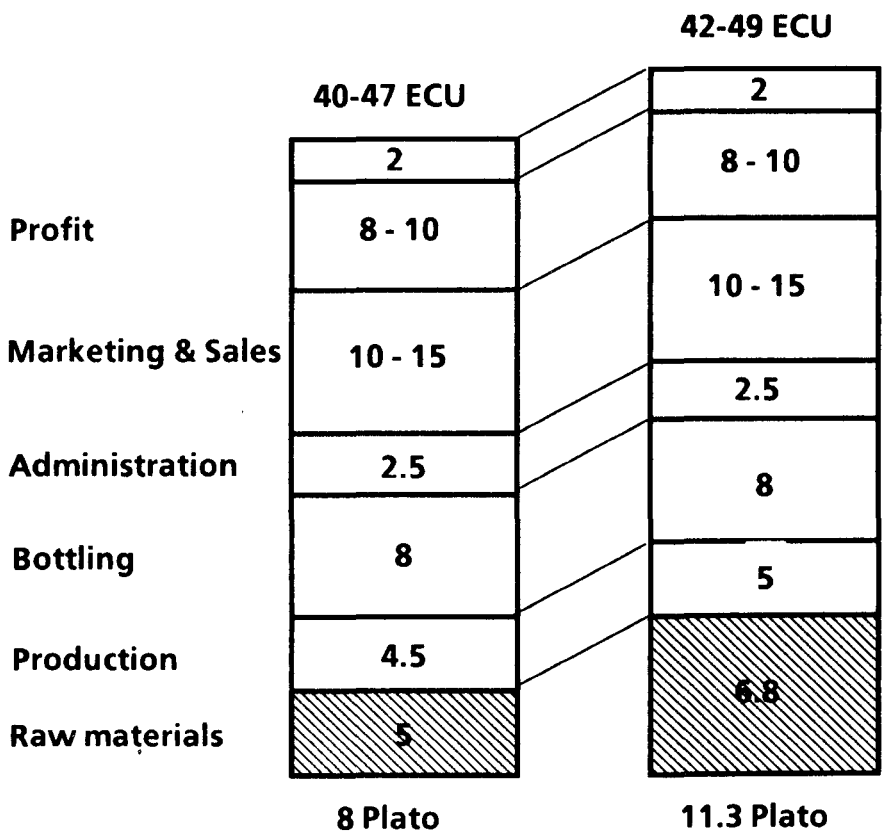
Key elements for substitution forecasts :

- "Consumption patterns follow varying traditions in the EEC"
- "In the UK, over 70 % of consumption is represented by light beers with plato degrees between 7.5 and 11° Plato"
- "Most Italian beer drinkers are already favouring beers close to 11° Plato"

Fall in Production Costs

- **According to industry estimates, costs could be reduced by 5%, on average**

Typical cost/Hl 1985
Light coloured beer (1)



- **"Cost of manufacturing depends on :**
  - **the balance between sugar and starch**
  - **the type of starch (rice, barley malt, maize)**
  - **the handling efficiency of the plant"**
- **"In general, the higher the strength of saccharimetric degree required, the less efficient the extraction of materials and therefore the cost per degree of saccharimetric strength"**

Source : UK and Italian manufacturers

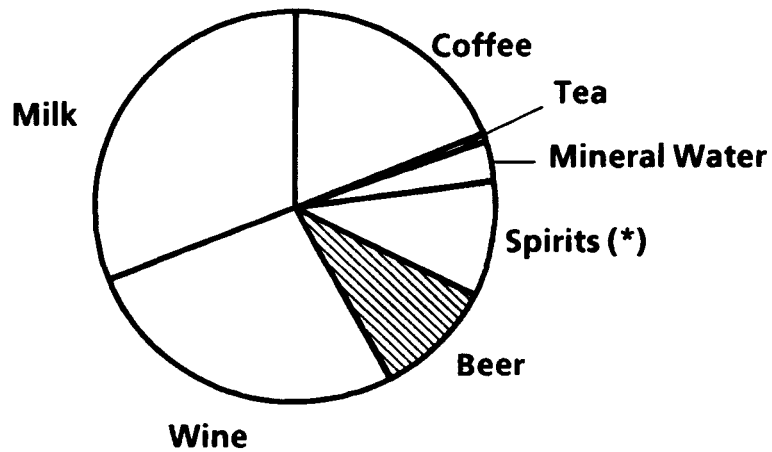
(1) Lager fermented conventionally ; 800 000 Hl plant

Cost of Removing The Barrier

- **Beer manufacturers :**
  - "Technical adaptation can be managed"
  - "Know-how of producing 7 or 8 Plato degree beers is widely spread in Europe"
  - Some increase in imports at the beginning

- **Wine producers**
  - Beer represents about one-third of wine consumption expenditures

Total 1985 consumer expenditures
(14 296 Bio Lit)

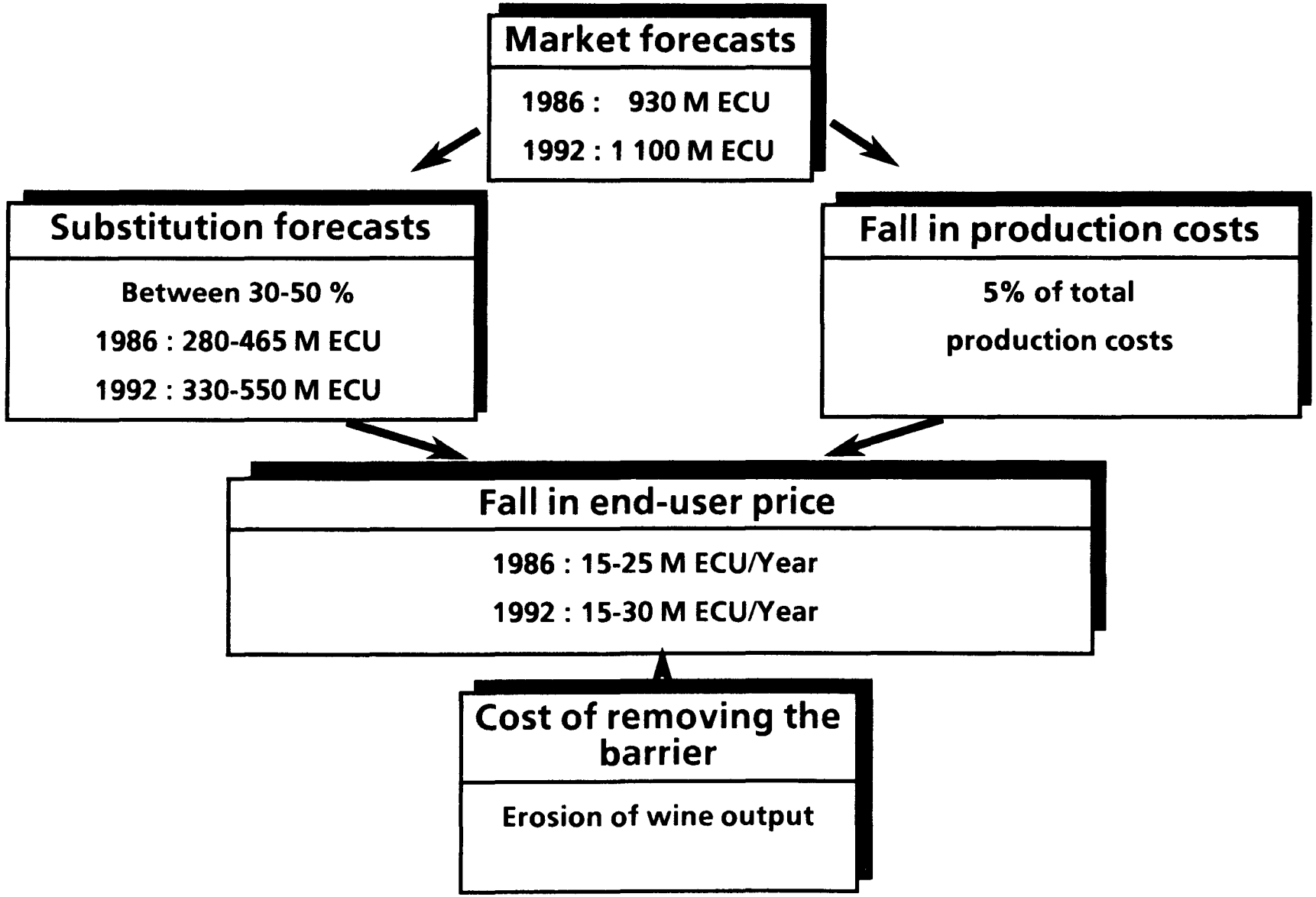


  - Growth of beer could cannibalize wine output

* Including wine-based aperitifs and champagnes

Source : Eurostat

Immediate Direct Effects : Saccharimetric content law for beer in Italy



Deferred Direct Effects : very weak

- **Increase in competition :**

  - The Italian beer industry is highly concentrated

  - Removal of the barrier will increase competition due to increased imports

  - It is unlikely however that profit margins would fall in Italy ; net return on sales appear to be relatively low compared to other European brewers

    . PERONI : 0.9 % (1985)
    . KRONENBOURG FRANCE : 4.3 % (1986)
    . HEINEKEN GROUP : 4.2 % (1986)

- **Economies of scale :**

  - The Italian beer industry is already highly concentrated

    . 95 % of Italian production in plants over 500 000 Hl
    . 89 % of French production in plants over 500 000 Hl
    . 55 % of German production in plants over 500 000 Hl

  - Few additional economies of scale are obtainable.

Indirect Dynamic Effects : very weak

- **Variation in intra-community trade :**

  - The Italian market is already very open to other EEC countries (17.5 % of consumption is imported in Italy, 6 % in the UK, 1.2 % in Germany)

  - Imports of light beers should increase initially, however, eventually most of the potential light beer consumption will be supplied through national manufacturers .

- **Specialization/Extra-community competitiveness :**

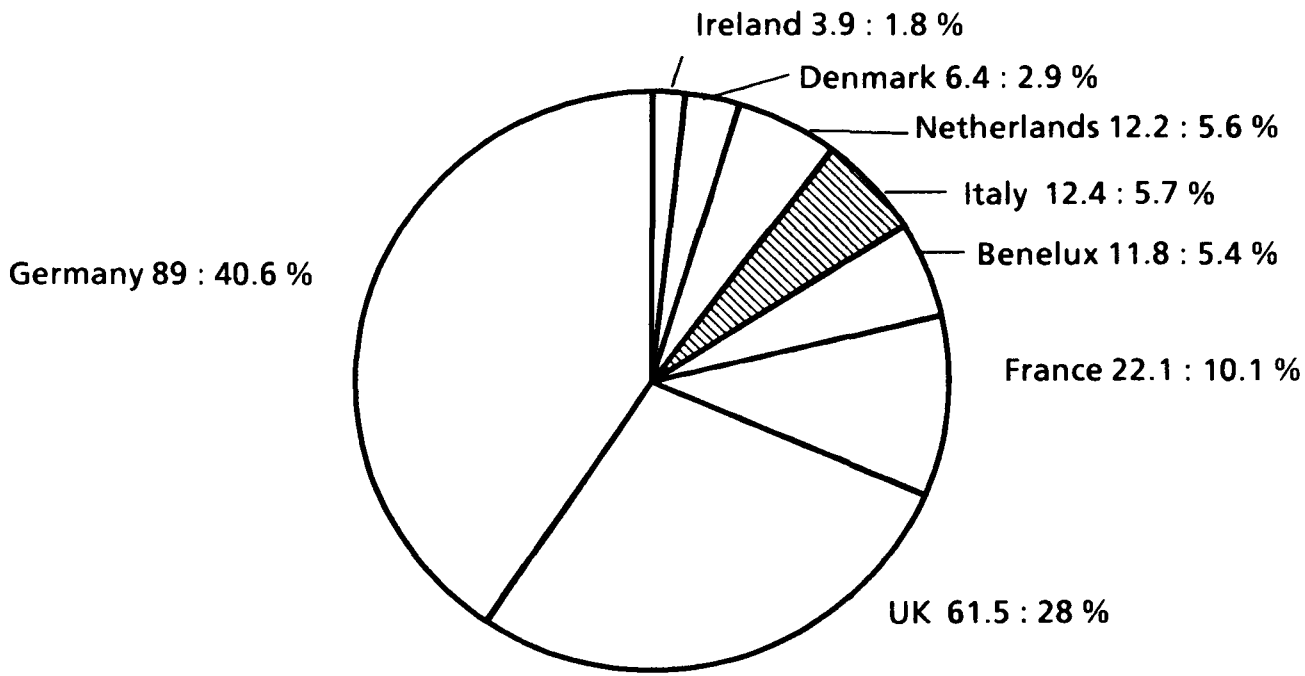
  - Removal of this barrier will have a low impact on extra community competitiveness.

    .The Italian market remains small (less than 5.7 % of EEC consumption)
    .Major EEC players are already present in Italy (BSN, Heineken, United Breweries, Oetker)

- **The removal of this barrier will encourage the creation of a new product segment for consumers.**

Italian beer market is less than 6% of total EEC market (1)

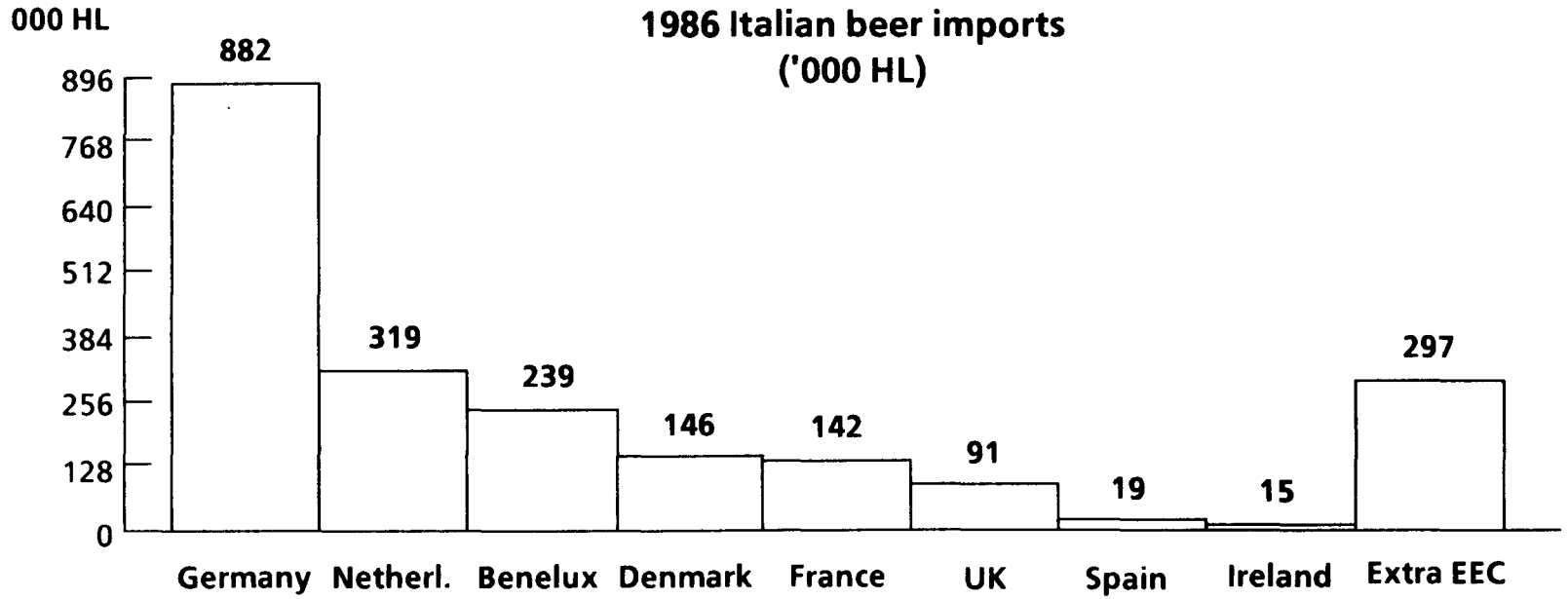
EEC beer consumption in 1985 (1)
(MILLION HL)



(1) Excluding Portugal, Spain, Greece
Source : Largo Consumo

Imports of beer in Italy

- German beer has a high quality image by Italian standards and constitutes almost 50 % of total imports
- However, nearly all beer produced in Germany (99%) is above 11 degrees plato
- "Most imported beers are full beer, dark beer and malt beer with high plato content"



EEC : 1 853 000 HL (86 %)
Source : Assobirra, Anibe

4.10.Saccharimetric content law for beer in Italy

Organizations contacted

- ASSOBIRRA (Roma)
- Brewers Society (London)
- ANIBE (Milano)
- 10 Italian companies (3 producers, 7 importers)

4. Pilot barrier analyses

4.11.Chlorine restriction for biscuits and cake

Summary

- All European governments except the UK and Ireland prohibit for health reasons the use of chlorinated flour in cakes sold in their countries.

- UK cake manufacturers must therefore change their recipes and undertake dedicated production runs for their export activities.

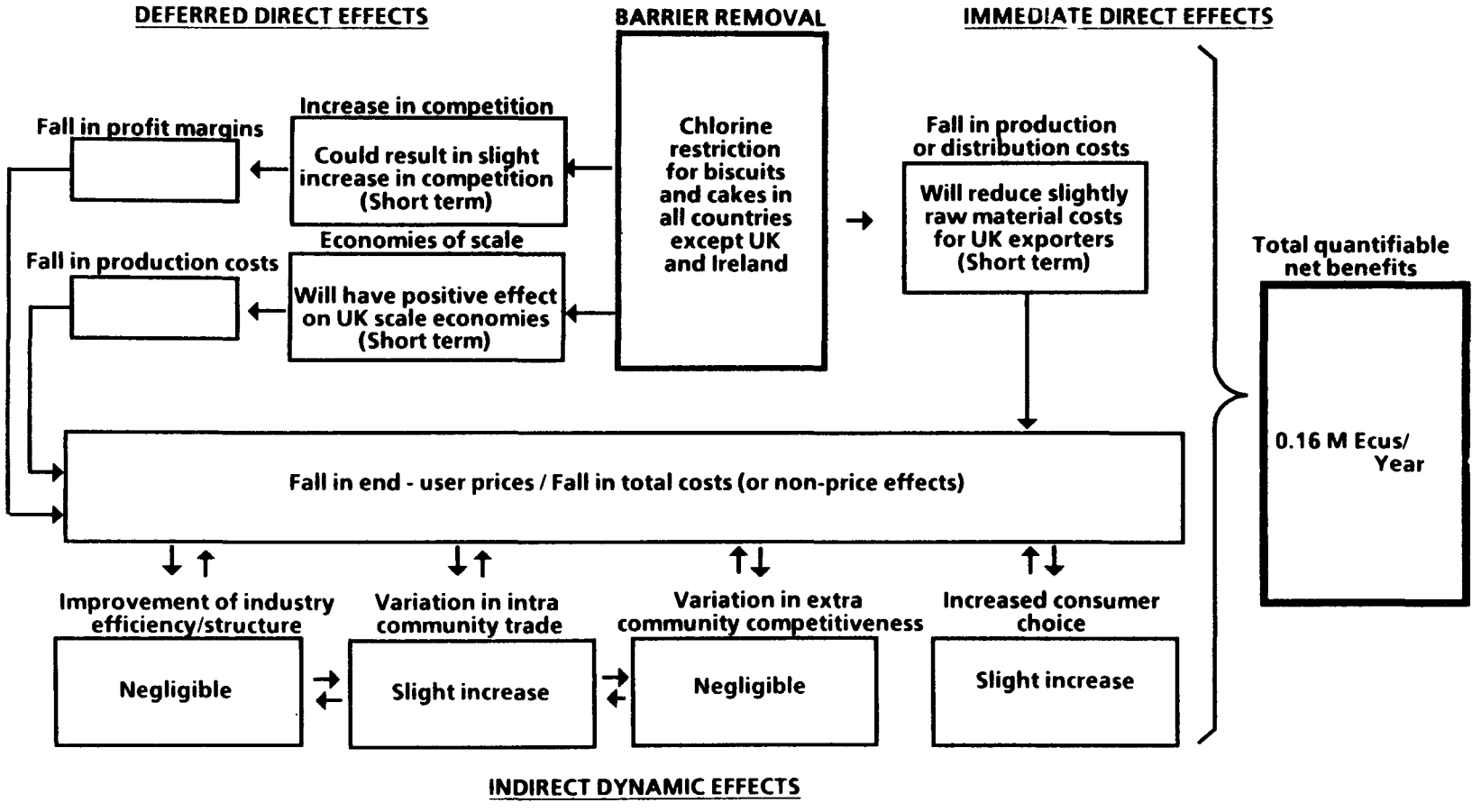
- This adds to the unit costs of cake manufacturing
  - Cakes made without chlorinated flour have higher raw material costs
  - Increased production costs due to special, small batch sizes

- Removal of the restriction will lead to immediate cost savings amounting to about 160,000 ECU per annum
  - There is unlikely to be any appreciable immediate effect on trade

- In the longer term two other benefits may be achieved
  - Some (probably limited) increase in exports by UK cake manufacturers
  - Switch of production by non-UK manufacturers to cake with chlorinated flour, with the accompanying raw material cost savings.

Note : While the barrier affects both UK and Irish producers, this study only considers the effect on UK producers.

Summary of impact of barrier removal



4.11.Chlorine restriction in biscuits and cake

1. Summary

→ 2. Overview of pilot barrier

- Description of barrier
- Descriptio of industry

3. Impact of barrier removal

- Industry and Competitive Structure
- Attitudes of major industry players

4. Quantitative estimate of impact

5. Appendix

Description of barrier

- **Most European governments have banned the use of chlorine treated flour in cake and biscuit products sold within their countries :**

  - Exceptions to this are the UK and Eire where chlorinated flour is allowed.

- **UK producers wishing to export to these countries must therefore change their recipes and thereby incur extra costs relative to their foreign competitors.**

- **Chlorinated flour is preferred by UK manufacturers because it facilitates the preparation of "high ratio" cakes, i.e. cakes with a high weight percentage content of water. These have two advantages over cakes made with untreated flour :**

  - Because more of their weight is water, the overall material costs/ton of finished product are lower.

  - Their texture is moister and lighter, which is perceived by the manufacturers to be desirable for the consumer

Description of barrier (cont'd)

- **The extra costs to a UK manufacturer of producing for export has two components :**

  - "Unavoidable" higher overall material costs inherent in cake manufacture using untreated flour.

  - Higher costs due to the small batch sizes of the production runs for "export" cake. E.g. the smaller quantities in untreated flour is ordered from the supplier, means that the supplier charges a premium. Also, lower unit cost bulk handling (silo-based) methods for the flour cannot be used.

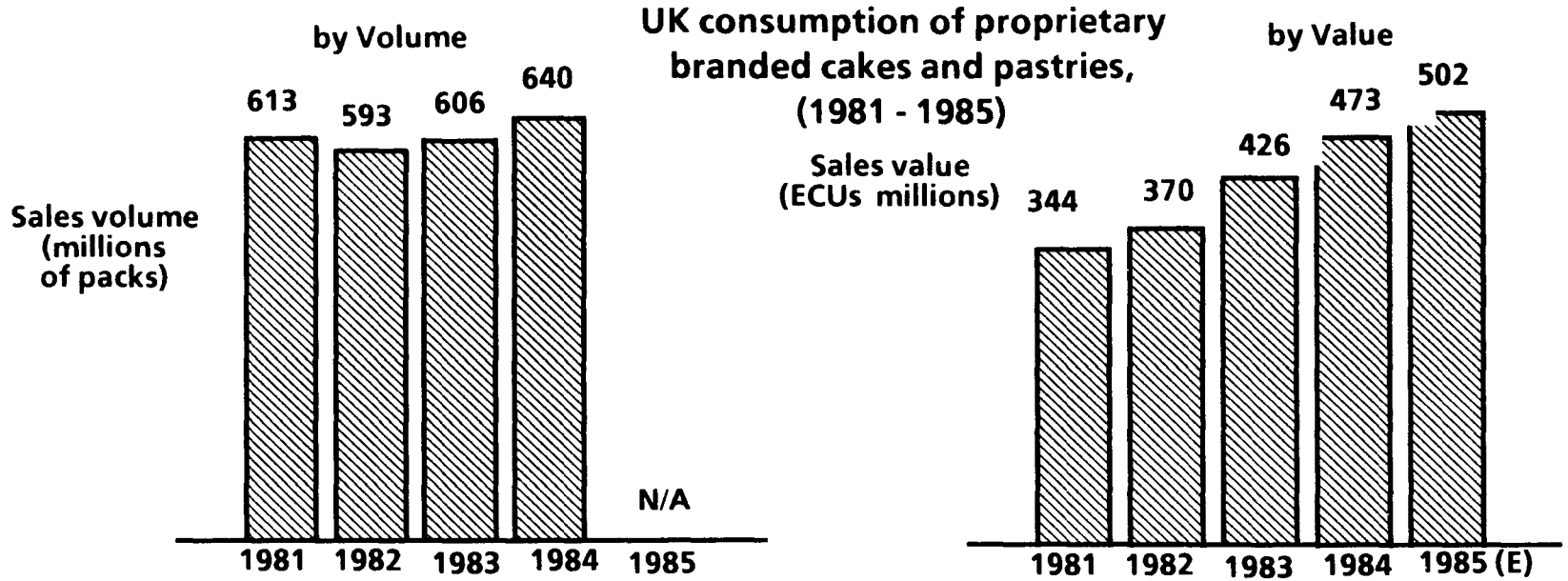
- **Two points should be noted about the barrier :**

  - The restriction is also applied to domestic producers, who will incur the first "unavoidable" component of the extra cost, and it therefore deters exports by UK manufacturers only insofar as the second component of the extra cost is significant.

  - Because chlorinated flour is almost never used in biscuit production. The barrier effectively only applies to the cake trade, and not to biscuits.

UK consumption of packaged cakes has increased slowly since 1981

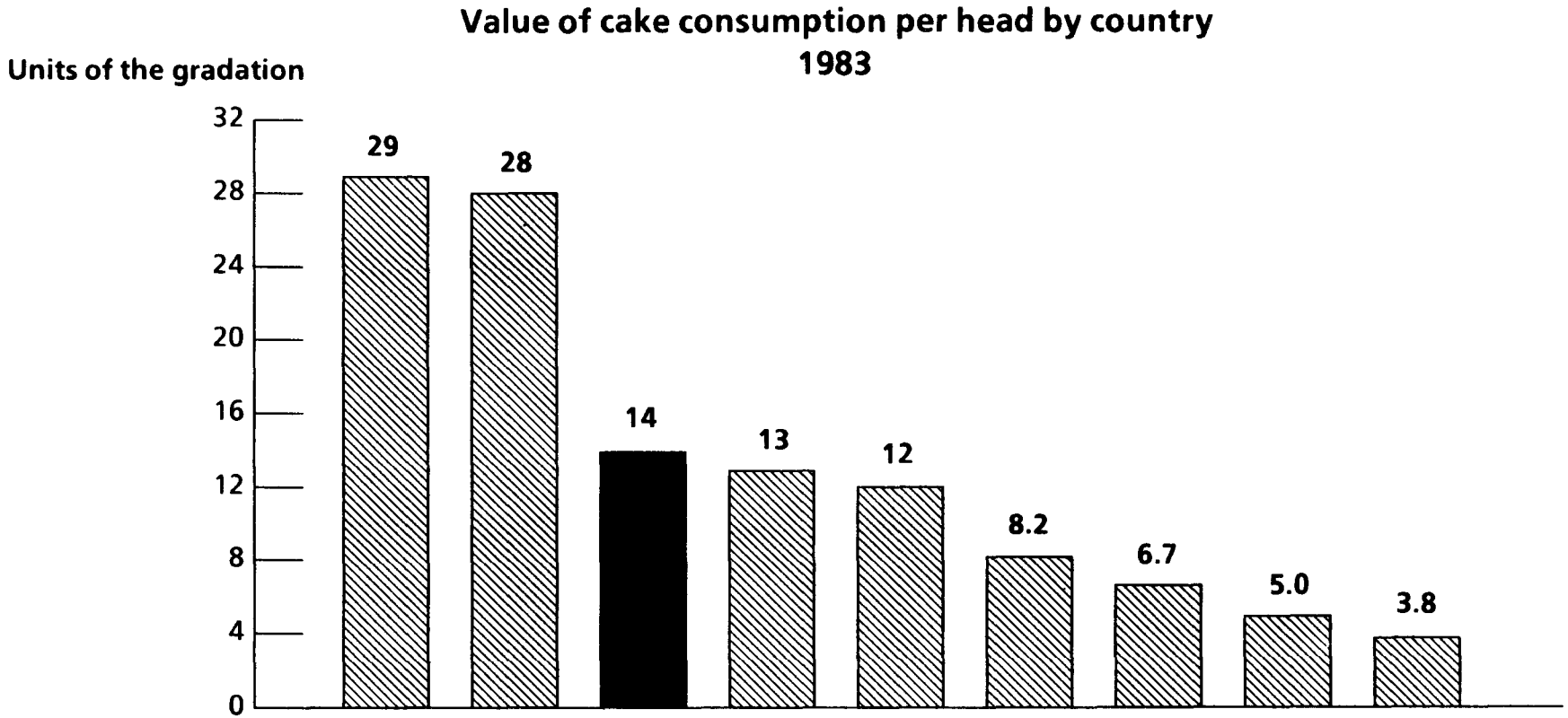
- **The growth in value of consumption has largely been due to an increase in value per pack rather than in number of packs consumed.**



Source : Trade Estimates

- **These figures do not include private label sales by retailers, which have grown in importance and therefore probably underestimate consumption growth rates**
  - If proprietary brands accounted for 80 % in 1981, then the volume compound annual growth rate would increase to 12 %
- **1984 proprietary brands accounted for 61 % of the value of consumption. Total value of consumption in 1985 was therefore about 819 million ECUs.**

UK consumption of packaged cakes is high relative to most other European countries on a per capita basis, and appears to have been among the fastest growing

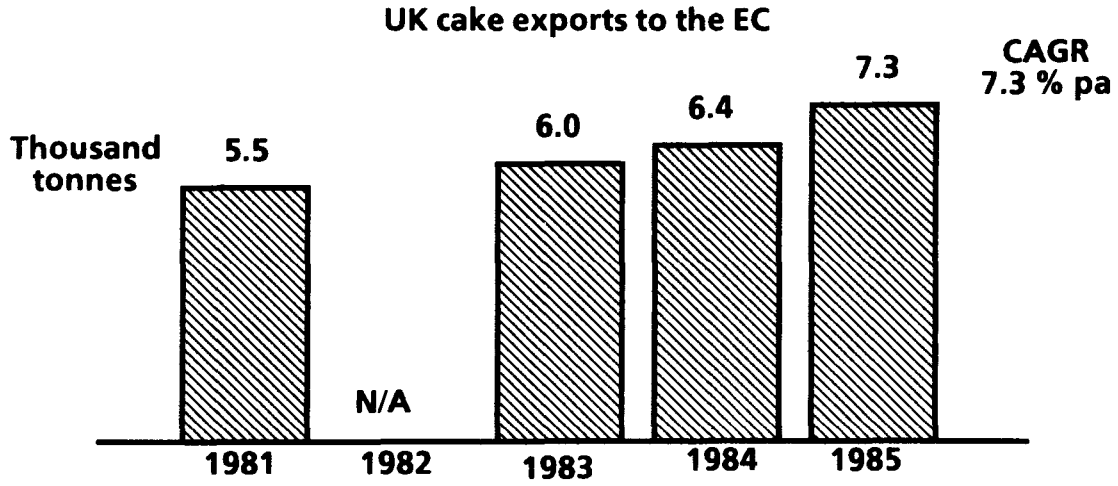


Consumption growth rates 1980-84	Denmark	Neth	UK	Italy	Spain	Belg/Lux	Ireland	France	Germany
	N/A	N/A	12 %	9.0 %	- 10 % (1)	2.5 %	N/A	4.7 %	- 4.0 %

(Source : Trade Estimates)

Although cake exports by UK manufacturers are growing, they amount for only a very small proportion of the industry's total revenues

- **Volume growth of exports**



(Source : UK Customs and Excise)

- **Exports' contribution to total industry**

Manufacturers' sales value	1984		1985	
	M ECUS	%	M ECUS	%
Home market	443	98.4 %	461	97.9 %
Export market	7	1.6 %	9	2.1 %
Total	450	100 %	470	100 %

(Source : UK Cake & Biscuits Alliance)

Over 50 % of proprietary branded cakes are produced by the top two players

Brand name	Share of proprietary branded market (1985)
Mr Kipling	37.3 %
Lyons	17.3 %
Cadbury	6.5 %
Memory Lane	4.9 %
Park Bakeries	4.8 %
Hale	4.5 %
McVities	4.3 %
Other brands	20.3 %
	100 %

(Source : Trade Estimates)

The major European countries probably all have a similar degree of industrial concentration in cake manufacturing

- **The top three players' share of the market is comparable in the UK, France, Germany and Spain**

  - In each country, these are the manufacturers which are most likely to be engaged in export activities

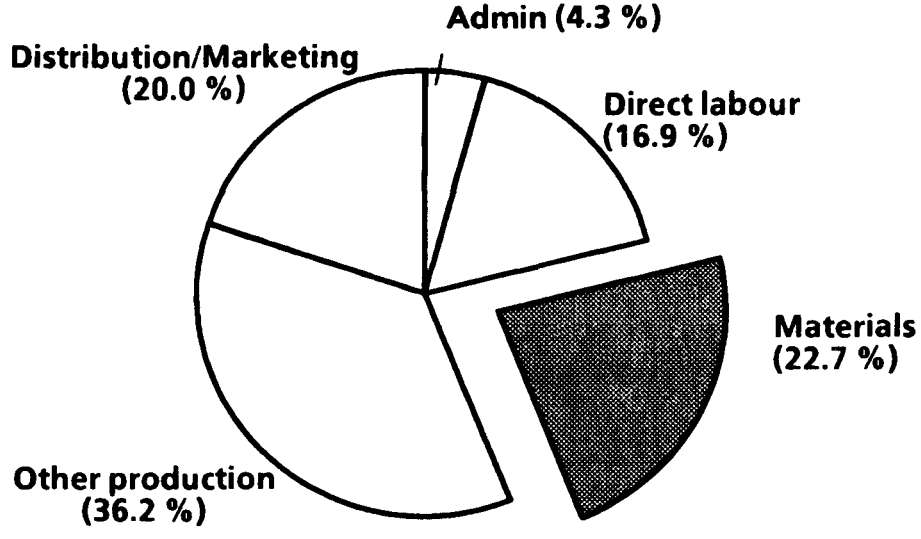
- **The number of small bakeries, producing more specialist cakes, probably varies more widely**

	Top 3 manufacturers' share of market	Total number of bakery companies
Germany	58 %	N/A
Spain	53 %	100
UK	44 %	65
France	36 %	204

(Source : Trade Estimates)

Production costs account for 75 % of UK manufacturers' costs. Of these, about one third are material costs

UK manufacturers' cost structure for cake sold within the UK
Total : 2.9 ECU/Kg



- **Distribution costs for exported cake are reportedly substantially larger because most companies undertake their own distribution to retailers within the country of consumption.**

(Source : Company Accounts, MAC Interviews)

4.11.Chlorine restriction for biscuits and cake

Impact of barrier removal

- The most immediate benefit of removing the barrier will be a reduction in cost to UK producers of their export activity

- This cost reduction will be due to a combination of two factors :
  - Inherently cheaper total raw material costs for high ratio cakes.
  - No longer require special short production runs for their export products.
- The UK's leading exporter currently estimates the total extra unit cost of export duty the chlorine restriction amounts to £ 15.70/ton, or about 0.75 % of invoice value.

- In the longer term, two further effects might be expected :
  - Increase in exports by UK cake manufacturers, as the export activity becomes more attractive to them and as their competitive disadvantage from having to do special short production runs is eliminated.
  - Switch to high ratio cake production by European manufacturers, with accompanying raw material cost savings.

- These two deferred benefits are considered further below.

Benefits from greater export activity by UK cake manufacturers are not likely to be appreciable

- **Increases in cake exports from the UK activity are likely to be limited**

  - Manufacturers view their exports as of minor importance
  - Short shelf lives limit the geographical extent of exports
  - Manufacturers were not especially positive about the impact of removing the restriction
  - Some of the cost saving will be available to non-UK domestic manufacturers if they wish to use the extra margin available to defend their position.

- **Any increases in exports that do occur will have only marginal benefits**

  - Given the similar industry concentration of the UK compared to other countries, unit costs (if they are only a function of scale) are likely to be similar. Therefore there will probably not be any appreciable cost reduction accruing from transfers to UK producers.

  - Some improved non-UK consumer choice is possible but other "standard" benefits of increased competition in non-UK cake markets (greater dynamism, etc) are likely to be negligible because the penetration rate of imports from the UK is very low (1-2 %)

- **If non-UK manufacturers were also able to use chlorinated flour, the total benefits could be considerably higher.**

The cost benefits accruable from non-UK manufacturers transferring to high ratio production (using chlorinated flour) are not considered here

- This saving could be easily estimated as :

$$\left(\begin{array}{c}\text{Volume of production throughout EC}\\ \text{which transfers to high ratio cakes}\end{array}\right) \times \left(\begin{array}{c}\text{Difference in raw material costs between}\\ \text{high ratio and low ratio production}\end{array}\right)$$

- This benefit would be deferred :
  - Non-UK consumers are accustomed to the dryer texture of low ratio cakes
  - Adjustment times of non-UK cake producers
  - Adjustment times of non-UK flour suppliers

- However, this is a separate issue from considering the restriction on chlorinated flour as a trade barrier, and is therefore not considered here.

Summary of benefits and costs of barrier removal

Benefits

Type	Comment
Immediate direct effects	
- Fall in ingredients (processing costs)	UK producers can harmonize their cake recipes (non-UK producers may realise benefits if restriction is lifted from them also)
Deferred direct effect	
- Increased penetration of lower cost imports	Only beneficial if UK unit costs are lower
Non-quantifiable effects	
- Increase in consumer choice	Assuming UK exports are stepped up and assuming they reach outlets/markets they have not yet penetrated

Costs

- Possible health implications of increased consumption of chlorinated flour

Summary of positions of major players

	Favourable	Unfavourable	Global
Supplier			=
- Untreated flour	Increased output		
- Chlorinated flour		Reduced output	
Manufacturer			
- UK	Lower cost Increased output		+ +
- Non-UK		Reduced output	=
Retailer (non-UK)	Increased sales	Wider product range	=
Consumer	Some cost benefit may be transferred Increased choice	Health risk	=
Global evaluation	Reduced product costs and effects of increased trade		+

Attitudes of major players

- **UK manufacturers indicated that they would welcome a removal of the restriction ...**

"We have to alter our recipes for export production, and therefore we have to be sure that there will be sufficient sales volumes to justify the extra cost ... although it is not something we have ever quantified"

- UK cake manufacturer

" It's a nuisance which does not appear to have a good raison d'être"

- UK cake manufacturer

... but that they would probably not increase their export activity significantly as a result

"I doubt it would change our position much. Given the transportation costs, our exports are necessarily restricted anyway"

- UK cake manufacturer

"The change would not substantially alter the attractiveness of our export activity ... we are near full capacity anyway ... we would probably maintain level volumes and just enjoy higher margins."

- UK biscuit and cake manufacturer

Attitudes of major players (Cont'd)

- **Flour manufacturers appeared indifferent to the prospect of the removal.**

  "We supply chlorinated and untreated flour, and we have developed a good substitute for chlorinated flour, heat-treated flour, I am not sure whether we would welcome a lifting of the restriction or not ... it probably would not impact our overall volumes very much."

  - UK Flour producer

- **For some producers, the regulation is regarded not as a trade barrier erected by protectionist non-UK governments but as a regrettable "fact of life" arising from the less tolerant approach to food legislation outside of the UK.**

  "An ingredient restriction is not really a trade barrier if it is applied to domestic manufacturers as well as to importers ... I spend a lot of my time telling trainee export managers that the whole world is not against them ; we just have it relatively easy here in the UK"

  - UK biscuit manufacturer

Attitudes of major players (Cont'd)

"The UK has a different philosophy on ingredients laws. In other countries, a specific ingredient or additive is basically not allowed until it has been proved harmless ; here, most things are OK. Until they are shown to be not harmless"

- UK Flour Milling and Baking Research Association

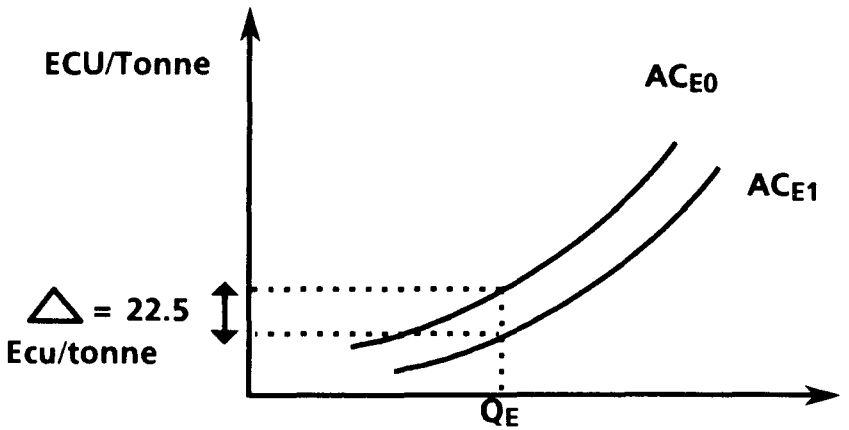
"In this country we have decided that chlorinated flour is not harmful ; almost every other country has decided the opposite. Under those circumstances, I think it unlikely that normalization will result in universal acceptance of chlorinated flour ... it is far more likely that the British government will have to impose a restriction itself, though I know of no convincing reason for such a restriction".

- UK Flour producer

4.11.Chlorine restriction for biscuits and cake

The main benefit to be quantified is that the cost reduction enjoyed by UK producers who no longer have to use special flour inputs for their small volume export activity

- The average cost for UK cake exports is reduced by £ 15.70/ton or 22.5 Ecu/ton (Δ).
- The benefit may be quantified assuming the level of UK exports remains unchanged at 7,300 tons per year,(Q_E) (1)



- The net cost saving will then be Qe x△

(1) i.e., either non-UK demand, or UK supply is perfectly inelastic, or non-UK manufacturers absorb all increases in non-UK demand.

Under these assumptions, removal of the barrier will have no impact on trade, but will result in a net cost saving of 70,000 ECU per annum

- **This figure could increase if :**

  - **UK manufacturers are both lower cost producers than non-UK manufacturers and succeed in increasing their export volumes at the non-UK bakers expense.**

  - **The decreased costs for non-UK manufacturers due to the removal of the restriction are included.**

4.11.Chlorine restriction for biscuits and cake

1. Summary

2. Overview of pilot barrier
   - Description of barrier
   - Description of industry

3. Impact of barrier removal
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   - Attitudes of major industry players

4. Quantitative estimate of impact

→ 5. Appendix

Organizations contacted

UK bakers trade association

Trade technical research body

UK cake manufacturer

UK biscuit and cake manufacturer

UK cake manufacturer

UK flour manufacturer

UK biscuit and cake manufacturer

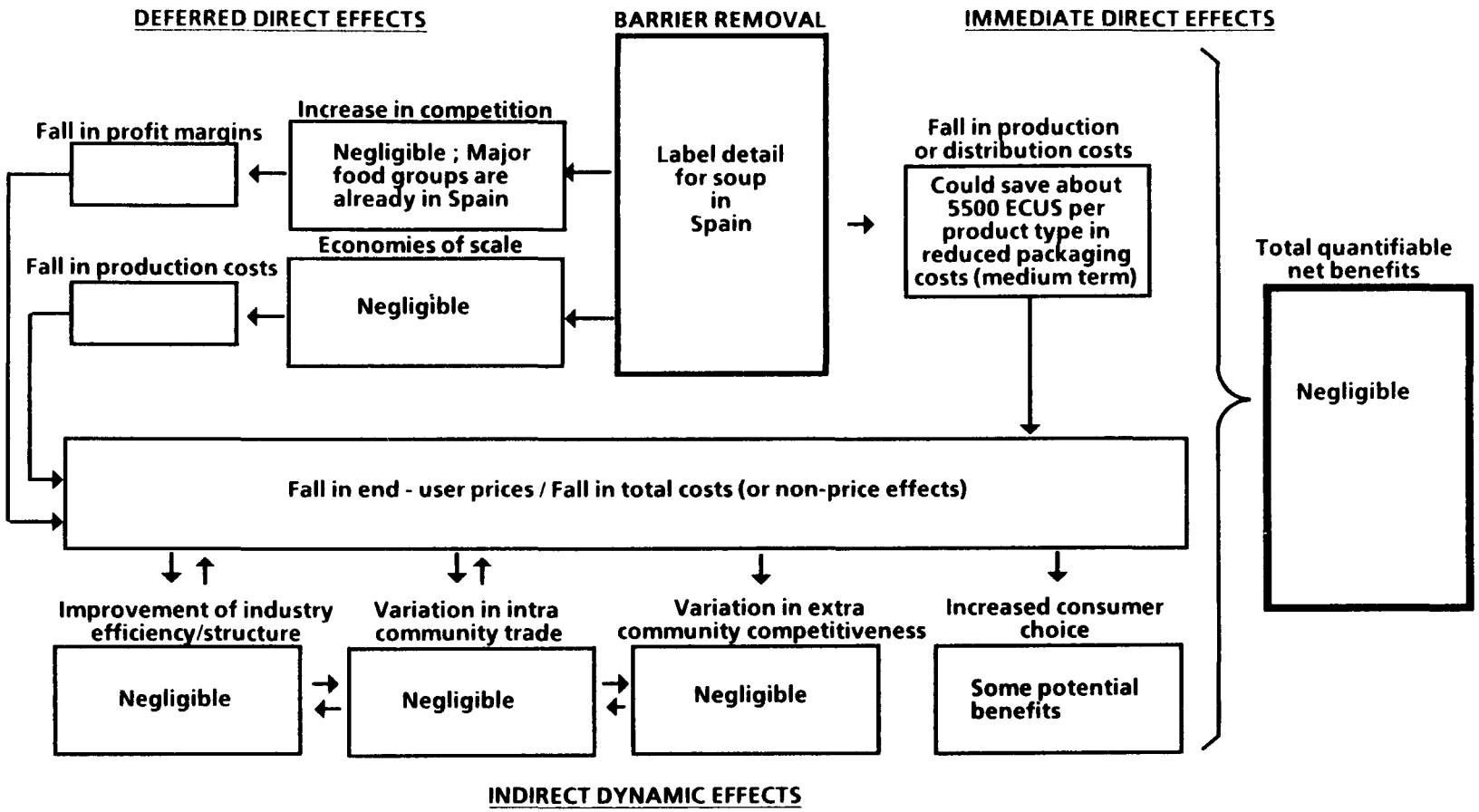
4. Pilot barrier analyses

4.12.Label Detail for Soup in Spain

Summary

- This label requirement applies to all packaged food and beverages for direct sales to final consumers in Spain.
- Dehydrated/dried soup is a mature product in a profitable industry.
- Three subsidiaries of multinational companies compete in the Spanish market ; imports are negligible.
- Barrier removal would not have a major economic impact, since Spanish-specific labels would have to be used for marketing reasons.
- There is no strong Spanish opposition to EEC homogenization of label requirements.

Summary of impact of barrier removal



4.12. Label Detail for Soup in Spain

Description of Pilot Barrier

- **The label requirement applies to all packaged food and beverages for direct sales to final consumers :**

  - It is also compulsory for supplies of restaurants, hospitals, etc.
  - It does not apply to products wrapped in front of the client (e.g. fresh vegetables).

- **Spain requires the following information on labels in Spanish :**

  - Definition of the product
  - List of ingredients and additives
  - Net weight (in a different way from the EEC directives ; i.e. : 500 g is not enough)
  - Number of units (if possible)
  - Consumption date (best before date)
  - Conservation instructions
  - Manufacturer's name
  - Manufacturing lot number
  - Country of origin
  - Health registration number.

Some of these requirements are not specified in the EEC labeling directive (79/112/EEC) --notably the health registration number-- and thus could prevent an EEC producer from using a uniform label for its EEC sales.

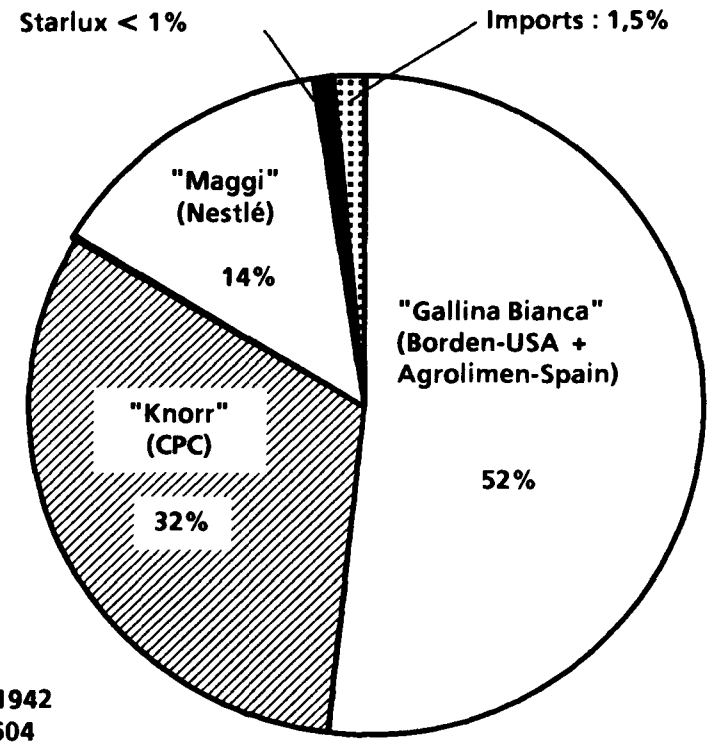
Description of industry : dehydrated or dried soup is a mature product, but its market is attractive.

- **At the present time, it is growing at a yearly growth rate of 3-4 % (1) :**
  - This trend is expected to continue.
- **The maturity of this market makes it very stable (2) :**
  - Each producer's share has been steady for years (3)
  - Except for a seasonal set-back a few years ago, sales fluctuations are not substantial.
- **Consumption of other types of soups in Spain are minimal :**
  - Canned and instant soups are not mass marketed in Spain (3).
- **Dried soups in Spain are produced with the technologically advanced equipment (3) :**
  - Product innovation due to technological advancement is not expected within the dried soups sector.
  - Further product development will take place in the instant soups sector, as is happening worldwide.

Source : (1) Alimarket, March 1987. (2) Nielsen : "1987 Anuario Evolución". (3) The MAC Group interview : CPC España SA.

Total production of dehydrated soups in Spain is shared among the local subsidiaries of three multinational groups.

Total consumption in 1986
38 Million ECUS



Source : Alimarket, March 87, ref. 21942
Alimarket, April 87, ref. 22604
MAC Group interviews

Consumption of soups in Spain is low.

- **Per capita consumption of soup (in general) in Spain is 2.3 liters per year (1), which is low compared to average consumption in the rest of the EEC (2)**
  - Warm weather conditions in Spain discourage consumers from eating hot dishes during most part of the year.

- **The traditional connotation of family cooking in Spain favors freshly prepared soup (2) :**
  - There is a great concern in Spain for food quality and natural taste.

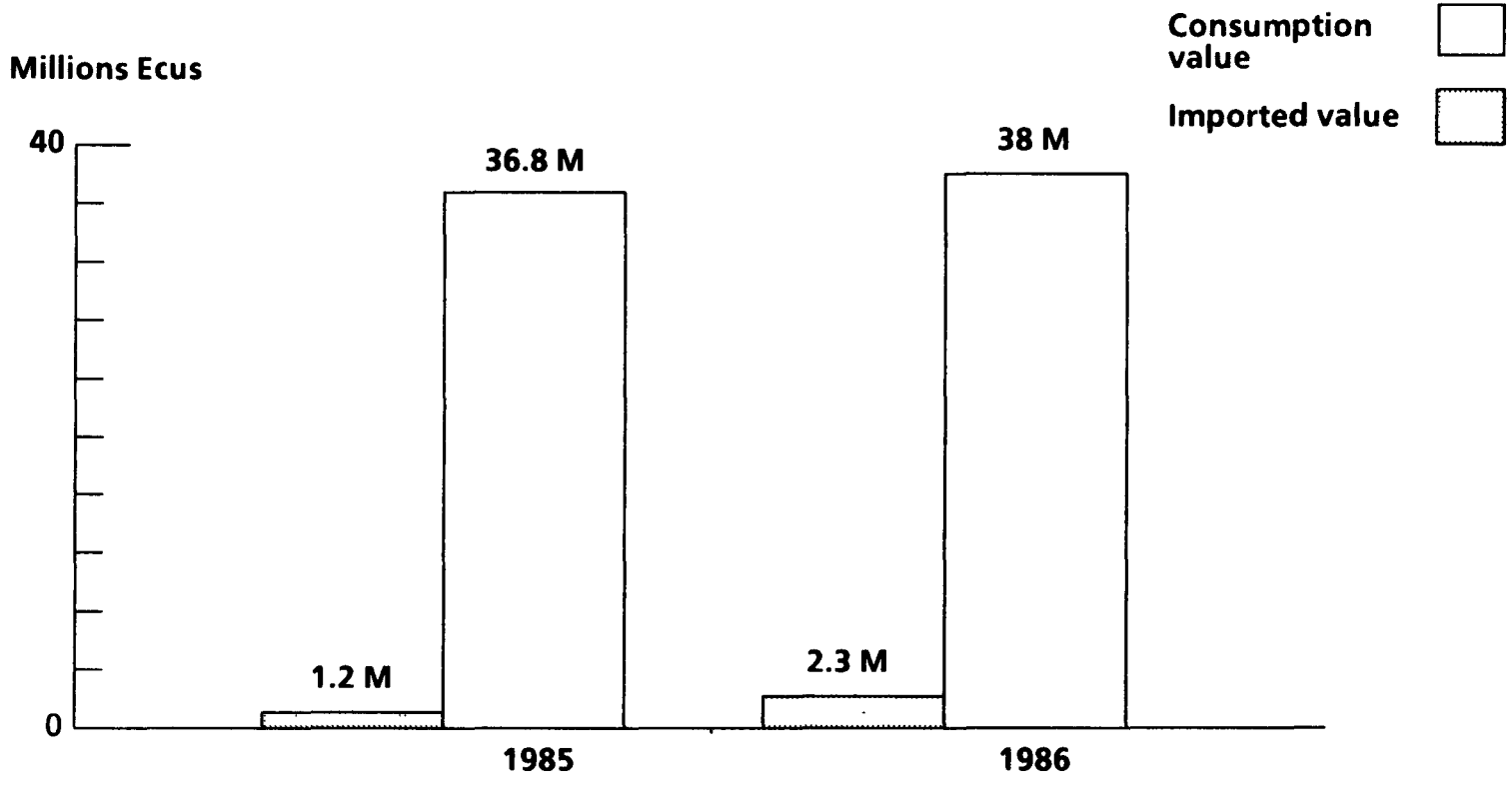
- **Consumption and cooking habits are changing, favoring ready prepared foods :**
  - Greater participation of women in the workforce,
  - Simplification of the cooking practice ; desire to shorten cooking time,
  - Younger age groups are more likely to consume prepared foods than elder people.

- **The increasing quality of prepared soups, together with a wider range of recipes and types of soups (instant, dried, canned, ...) implies a large potential for expansion.**

Source : (1) Alimarket, March 1987. (2) MAC Group interviews.

Imports of soups into Spain doubled as a result of joining the EEC

- From 1985 to 1986 imports increased from 1.2 M Ecus to 2.3 M Ecus.



Source : Alimarket 23-29 March ,1987

Imports of soup in Spain are speciality products.

- **Imported soups are often up-market products sold in speciality shops :**
  - Their price is not affordable by the mass market,
  - Imported soup recipes are not very popular in Spain and are purchased by "(innovators) snobs" and some foreign residents in Spain (i.e. : goulash soup).

- **Imported soups are produced by the same multinational food groups which have subsidiaries in Spain :**
  - However, they are imported by small importers and wholesalers, not by the multinationals themselves.

- **If imported soups would become popular in Spain, the local subsidiaries of the multinationals would begin their own production and distribution (2).**

Source : (1) Alimarket, March 1987. (2) MAC Group interviews.

Industry profitability and cost structure for Spanish producers does not differ considerably from their EEC counterparts.

- Since local producers are subsidiaries of multinational groups, we estimate they will have similar production costs per unit; they will be using similar equipment and following the same production process.

- Raw materials account for 50 % of final sales price (1) :
  - This percentage may be slightly higher in non-agriculture producing EEC countries,
  - Spain is in a favourable position for soup production due to the comparatively low cost and yearlong availability of agricultural products. However, in the future, prices will probably become more aligned with other EEC countries.

- Production cost plus fixed costs and profit margin are another 25% of final sales price (1).

- The marginal cost of printing a different text on the label is ECUS 5,500 per type of soup (1) :
  - This figure includes extra expenses that are not incurred in the usual printing process, such as design, film, etc.

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(1) Source : The MAC Group interview : industrial producer.

4.12. Label Detail for Soup in spain

Impact of Removing the Barrier

- **Impact is likely to be negligible because**

  - **Importers would probably choose to use a "Spanish specific" label, even without the requirement, for marketing reasons.**

  - **The potential cost saving for having the same labels in Spain as in the importer's country is small : about 5500 Ecu/product type for the film.**

- **The potential impact is also limited by the fact that the soup industry in Spain is highly concentrated, and dominated by subsidiaries of Pan-European food groups (Nestlé, CPC, Borden-USA)**

Attitudes of major industry players about removal of the barrier

	Favorable	Unfavorable	
Producers	Label detail requirements discourage a European labeling policy	But the gain would be small	=
Importers	—	Specification of country of origin may even help sales	=
Retailers	—	-	=
Government	—	Defends consumer interest	–
Total			= /–

Attitudes of major industry players

- **Industrial producers :**

  - The information required on the label does not seriously affect the packaging of dried soups,

  - The label detail requirement might discourage small EEC producers from introducing their products in Spain, but will never stop a producer committed to the Spanish market,

  - The label detail requirement is an insignificant difficulty compared to marketing challenges faced by producers.

- **A soup importer :**

  - The specification of country of origin may even help sales,

  - Producers are accustomed to selling the same products with different labels, and the introduction of minor changes does not increase the cost substantially.

Attitudes of major industry players (Cont'd)

- **Spanish Government/Authorities :**
  - Label detail requirements were introduced to defend consumer interests,
  - Due to Spain's entry to the EEC, these regulations will be reset along with EEC recommendations.

- **A Spanish retailer :**
  - Popular soups (products in general) targeting the mass market are produced locally,
  - Imported soups are imported in small quantities and sold in some specific shops to a very special kind of consumer.

Source : The MAC Group interview.

4.12. Label Detail for Soup in Spain

1. Summary

2. Overview of Pilot Barrier
   - Description of Barrier
   - Description of Industry

3. Impact of Barrier Removal
   - Industry and Competitive Structure
   - Attitudes of Major Players

→ 4. Quantitative Estimate of Impact

5. Appendix

Direct Immediate Effects : Reduction of costs .

- **Two main hypotheses can be outlined regarding the reduction of costs from removing the barrier :**

  1. **Minimum effect is zero under the hypothesis that producers would use Spanish specific labels in any event.**

  2. **Maximum effect is 110,000 ECUS under the hypothesis that European wide label could be used if it were not for the barrier.**

1. Zero effect since producers would use Spanish specific labels in any event.

- Dried soups are very similar in taste and quality among producers. Therefore the packaging is very important to attract buyer's attention and elicit the purchase (1).

- A differentiated specific label with a well designed package and text that fits the consumer's culture is essential for a successful marketing campaign.

- A clear and understandable description of the content is necessary for the buyer :

  - Foreign language knowledge in Spain is not widespread ; therefore, Spanish language must be used to make sure that the whole message printed on the package is understood.

Source : (1) The MAC Group interview : industrial producer.

2. Using a European-wide label in Spain could save ecus 110.000

- Varieties of imported soups range between 10 and 20 types
- Extra film cost is ECUS 5,500 per type of soups
- Maximum effect is 110,000 ECUS
  - It is 4.8 % of imported soup value
  - It is 0.3 % of total soup market value

Possible savings would range between ECUS 55,000 and 110,000

Indirect dynamic effects are low

- **Displacement of domestic producers is unlikely :**
  - Local producers are subsidiaries of multinational groups and as such, they have competitive prices and wide product ranges,
  - Domestic producers are in a strong and solid position that would not be jeopardized by importers,
  - Multinational companies would not allow any of their subsidiaries to cannibalize each other's market share.
- **The only important food multinational company not currently active in the dried soups market in Spain (Unilever) is not expected to enter now (1)**
- **Imports could increase marginally, expanding consumer choice.**

Source : (1) MAC Group interview.

4.12. Label Detail for Soup in Spain

Organizations contacted

- CPC España S.A. : Manager, Market Research Division
- CPC España S.A. : Product Manager, Soups
- Nestle-AEPA Maggi-Soups Division
- Starlux : Product Manager, Soups
- CINSA (Importer) : Manager
- Atlantico S.A. (Importer) : Manager
- Nielsen (Market Research) : Director
- Asociacion de Fabricantes de Alimentacion y Bebidas (Allaveca) (Food and Beverage Association)
- Alimarket (Food and Beverage Publication) : Director

Appendix people and organizations interviewed (Cont'd)

- Barcelona Chamber of Commerce : Manager, EEC Relations'Department
- Pro-Europe Catalonian Foundation : Economic Advisor
- Ministry of Economy and Finance : Manager, Instruments for Commercial Defense Service
- Ministry of Economy and Finance : Manager, Foreign Trade Service for Beverage and Processed Agricultural Products
- Ministry of Economy and Finance : Manager, Prepared Food Division (soups and baby food)
- Ministry of Economy and Finance : Manager, Internal Commerce Division.
- Catalonian Territorial Directorate of Economy and Trade : Manager, Economic and Commercial Studies Unit

4. Pilot barrier analyses

4.13."German water bottles" for mineral water in Germany

Summary

- 95% of the Mineral water in Germany is sold in refillable bottles.

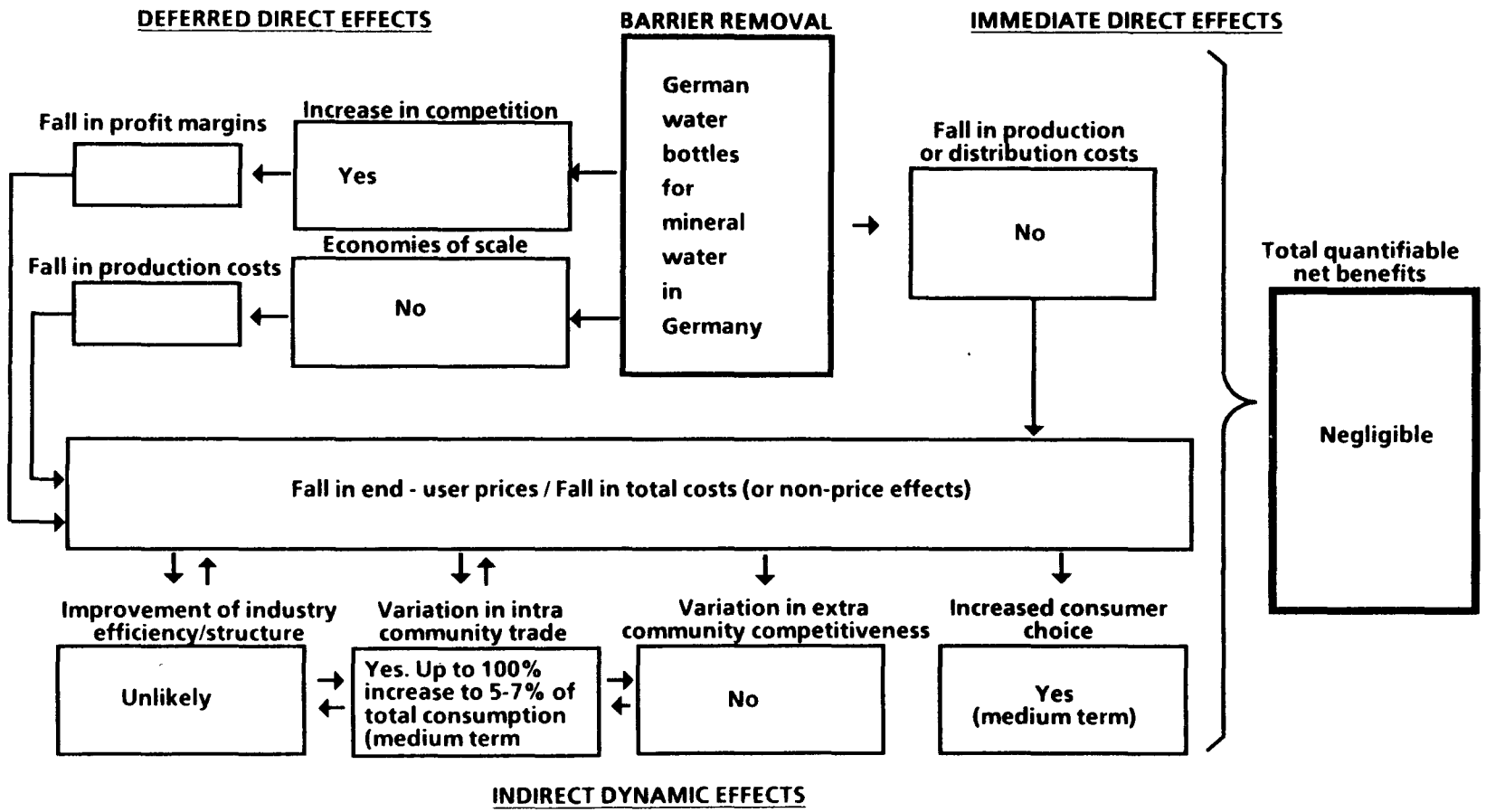
- Members of the "Verband Deutscher Mineralbrunnen " (Association of German Mineral Water Producers) have created a "Standard Water Bottle" for the recycable-bottle-distribution-network.

- The right to use these bottles is restricted to the members of the German association.

- This exclusive right restricts the entry for foreign waters in Germany, as it is very hard for a foreign producer to create its own "recycable-bottle-distribution-network".

- Removal of this Barrier would have a negligible quantifiable cost savings, but could increase imports by up to 100 %.

Summary of impact of barrier removal



4.13 "German water bottles" for mineral water in Germany

Description of barrier

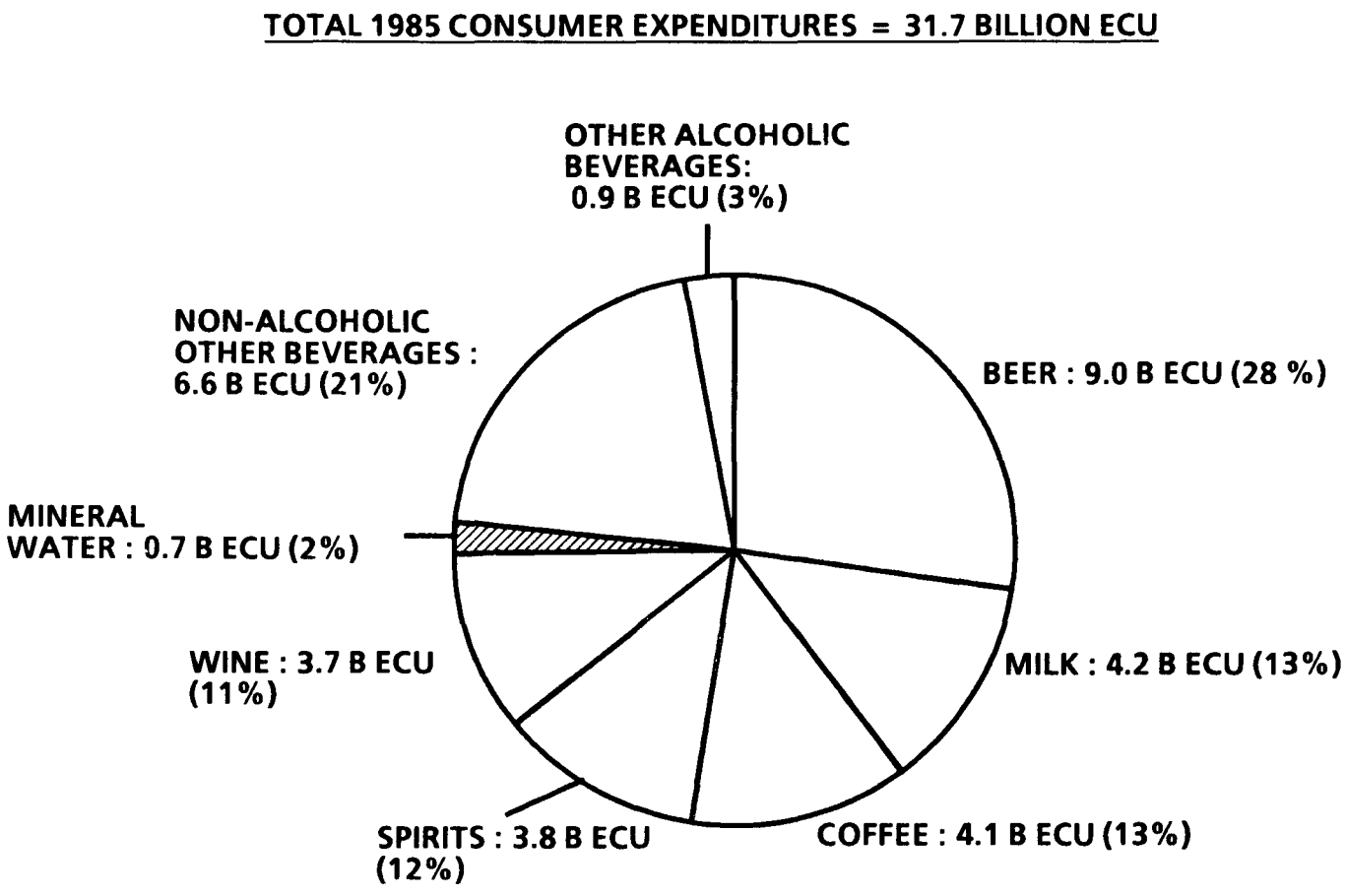
- The members of the "Verband Deutscher Mineralbrunnen e.V." (German Mineral Water Association) use the same recyclable bottle all over Germany. They state that this is a product declaration for German water.

- Use of a single bottle type aids small and medium sized companies for whom it would be too expensive to develop a recyclable bottle distribution system.

- This in effect restricts market entry for foreign water producers, whose own bottles would be physically incompatible with the German recycling system.

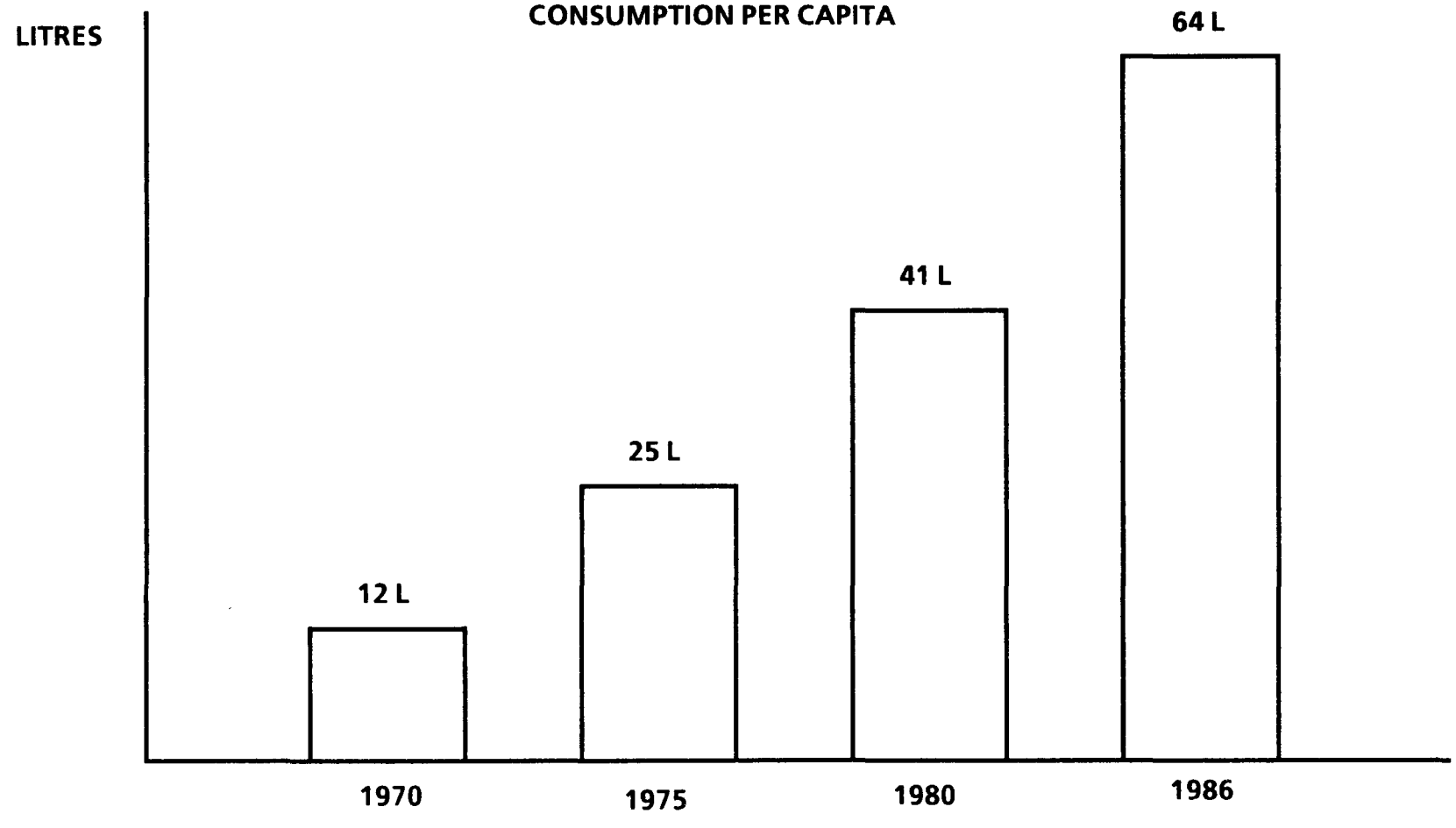
- German producers and the national association object that this is a trade barrier :
  - It is a product declaration for German water
  - Foreign producers could sell their products in other bottles. One of the market-leaders in Germany (Appolinaris) sells 50% of its production in other bottles.

Mineral water makes up a small proportion of German consumer expenditures on beverages

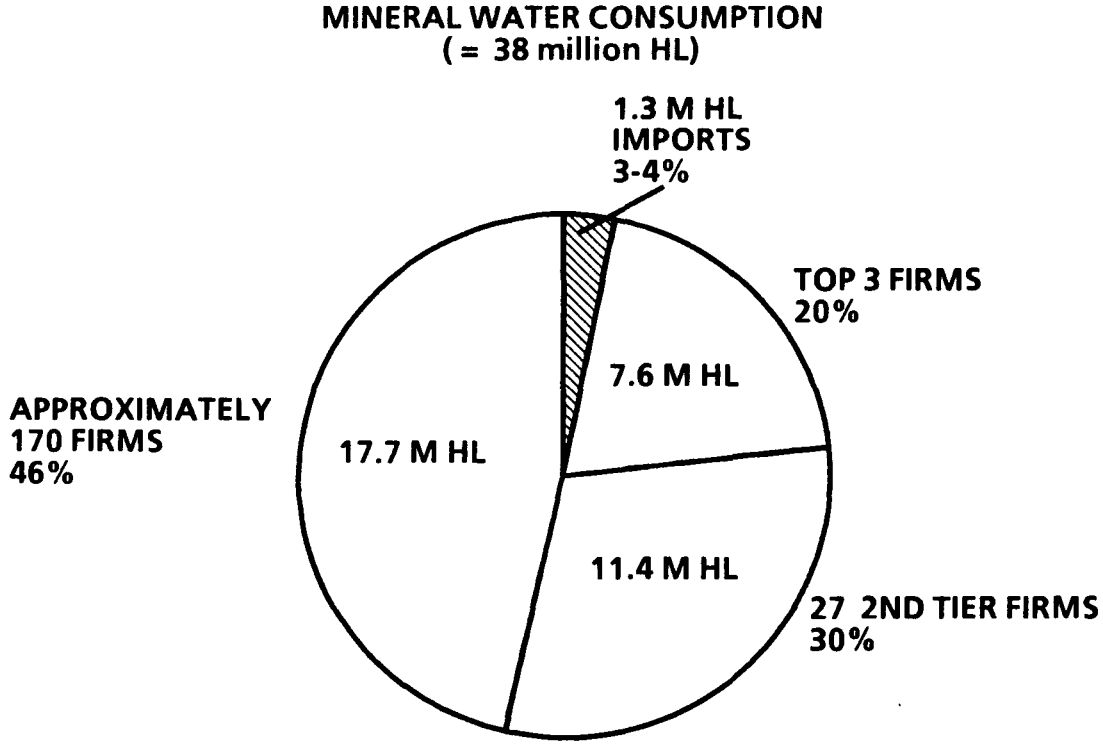


Source : Statistisches Bundesamt.

However, mineral water is one of the fastest growing segments in the beverage sector



By 1986, the market reached 38 million hectoliters



- **Imports only account for 3-4% of consumption.**
- **The market is relatively fragmented :**
  - **The top 3 firms account for 20% of the market**
  - **The remainder of the market is shared by about 200 firms.**

Manufactures : Three of the top four producers are engaged in other food sectors

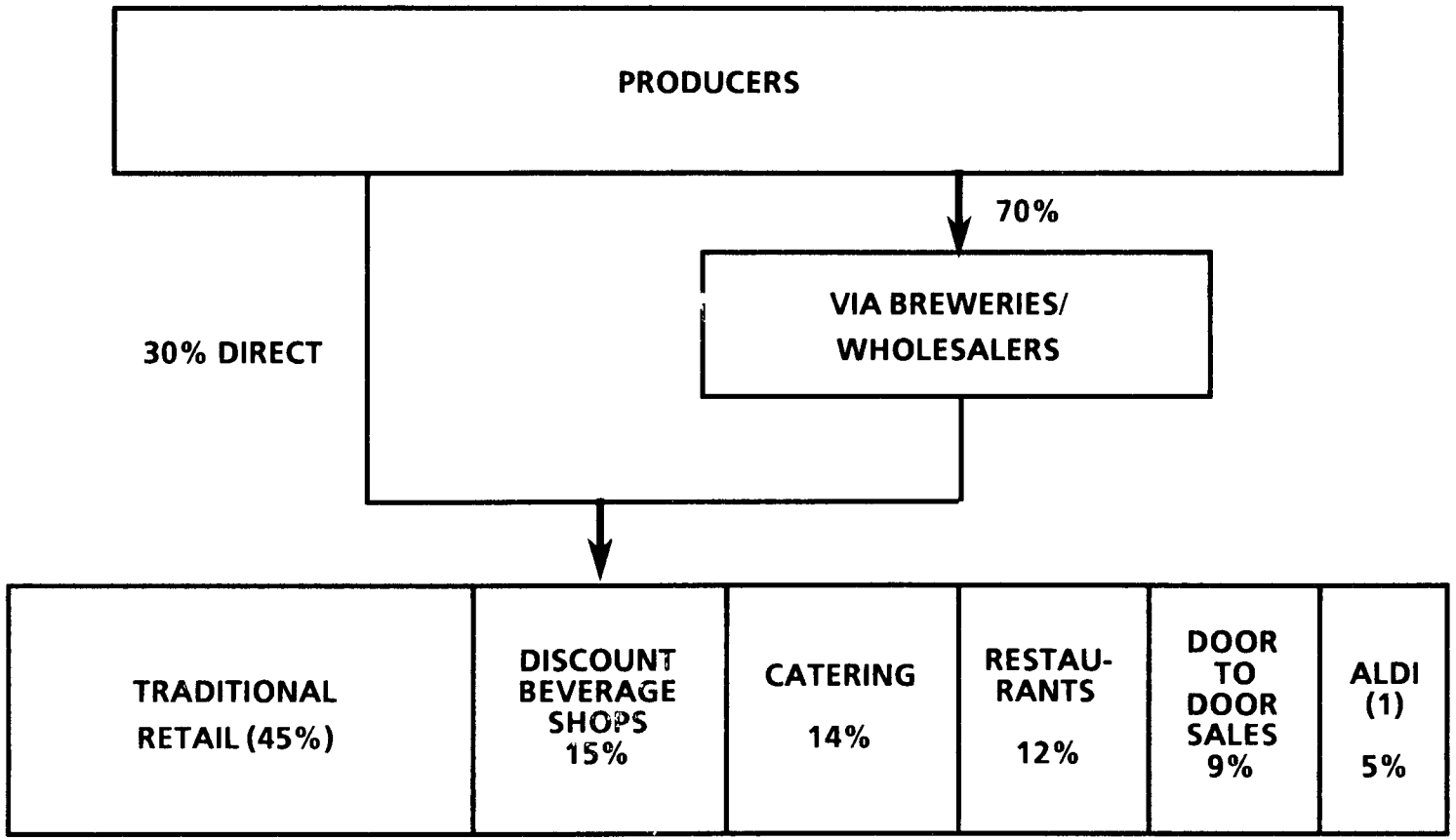
	owner	market share
- Apollinaris	DUB-SCHULTHEISS (BEER)	8 %
- Uberkinger-Teinach AG	INDEPENDENT	7%
- Blaue Quellen AG	NESTLE (chocolate, ...)	6%
- Gerolsteiner Brunnen	BITBURGER (BEER)	6%

Consumer Trends

- The mineral water market is a very regional orientated market.

- There are only 2 national mineral water brands :
  - Apollinaris
  - Faschinger.

Distribution trends : most mineral water reaches the consumer/retailer through wholesalers or breweries



(1) Germany's largest discounter-retailer

Reusable bottles

- **Members of the German Water Bottle Association all use the same water bottle :**
  - After use, they are sent to washing plants
  - Specific labels are placed on the bottles when they are refilled by individual producers
  - A bottle, costing 0.22 ECU, may be used up to 40 times.
- **95 % of Mineral Water in Germany is sold through this system.**
- **Most of the mineral water is transported less than 200-300 KM.**
- **A foreign producer who wished to enter this system would be discouraged from doing so :**
  - Could not belong to the German Mineral Water Association
  - "German Mineral Water" is engraved on the bottles.
- **Since no single importer could justify the creating of its own refillable bottle system, this barrier effectively prevents foreign producers from competing in the bottled water segment :**
  - Thus protecting small regional water producers.

4.13."German water bottles" for mineral water in Germany

Impact of barrier removal

Immediate direct effects are negligible :

- **Removing the barrier, that is allowing foreign producers to use the German bottles, would not engender any direct cost savings.**

- **Dynamic indirect effects :**
  The most significant effect will be an increase in imports of mineral water into Germany, with the resulting effect on competitiveness, trade flows and consumer selection.

- **The trade effect is tempered by the fact that transport of two way bottles becomes more expensive than one way bottles (or plastic bottles) over about 200 KM.**

Attitudes of major industry players

	FAVORABLE	UNFAVORABLE	GLOBAL
IMPORTERS	PRODUCERS WITHIN 200 KM OF GERMANY COULD LIKELY USE TWO WAY BOTTLES		+
DOMESTIC MINERAL WATER PRODUCERS	-	THE CONSUMER ASSOCIATES THE BOTTLE WITH GERMAN MINERAL WATER	-
FOREIGN PRODUCER	WE WOULD STEP UP OUR EFFORTS	-	+ +
CONSUMER	MORE CHOICE	ENVIRONMENTAL CONCERNS	+ /-
TOTAL			+

Attitudes of major industry players

- "If foreign producers come to Germany, they will do it with one-way-packaging"

  Executive of trade-company.

- "If foreign producers would use the same recyclable bottle, the empty-bottle-stream would not be controllable any longer"

  Mineral water association official.

- "If one distributes recyclable water bottles over a distance longer than 300 km, he is going to incur losses"

  Top executive of a German supplier.

- "Out of cost considerations foreign producers could only participate in the premium-segment with recyclable bottles. SPA is not in this segment so far and the large French suppliers are neither".

  Top executive of a German supplier.

Attitudes of major industry players (cont'd)

- "If we are able to sell a large proportion of our water in other bottles than the standard German-water-bottle, why should other producers not be able to do so also ?"

  Top executive of a German supplier.

- "The German care for nature leads to an increased usage of recyclable bottles. This is helping the regional suppliers to survive"

  Top executive of a German supplier.

- "We would try to have a national distribution in Germany for our water"

  Top executive of a leading Belgium supplier.

4.13."German water bottles" for mineral water in Germany

Immediate direct effects (cont'd)

- **Immediate direct effects are negligible.**

- **The cost reduction to existing importers would be negligible :**

  - **They only make up 3-4 % of market**

  - **The cost reduction from switching to reusable bottles may be small or zero, given the longer distances involved.**

Deferred direct effects

- **Deferred direct effects are low.**

- **Competition would increase given an increase in imports (dynamic indirect effect).**

- **Economies of scale for existing importers would not apply because they would be using a different bottle than they are currently :**

  - **In fact, if existing suppliers switched to a "German water bottle" there may be some diseconomies of scale.**

Dynamic indirect effects (cont'd)

- **Mineral water imports would increase :**
  - **Belgium (eg SPA) and french (eg VITTEL) mineral water producers are physically located within striking distance of key German markets (Northrhein-Westphalia and Mitte)**
  - **It could be envisioned that these and other imports could account for 2-3 % of the german mineral water market in these regions; a near doubling of the current import level.**

- **Given the limited potential imports into Germany, removal of this barrier is unlikely to engender a significant restructuring of this relatively fragmented industry; at least no more than what would take place anyway.**

- **Finally, consumer choice would be widened.**

4.13."German water bottles" for mineral water in Germany

Organizations contacted

- 1 Belgium Mineral Water Producer
- 5 German Mineral Water Producers
- German Mineral Water Association
- 2 German importer
- Industry experts.

4. Pilot barrier analyses

4.14.Plastic containers for mineral water in Italy

Summary

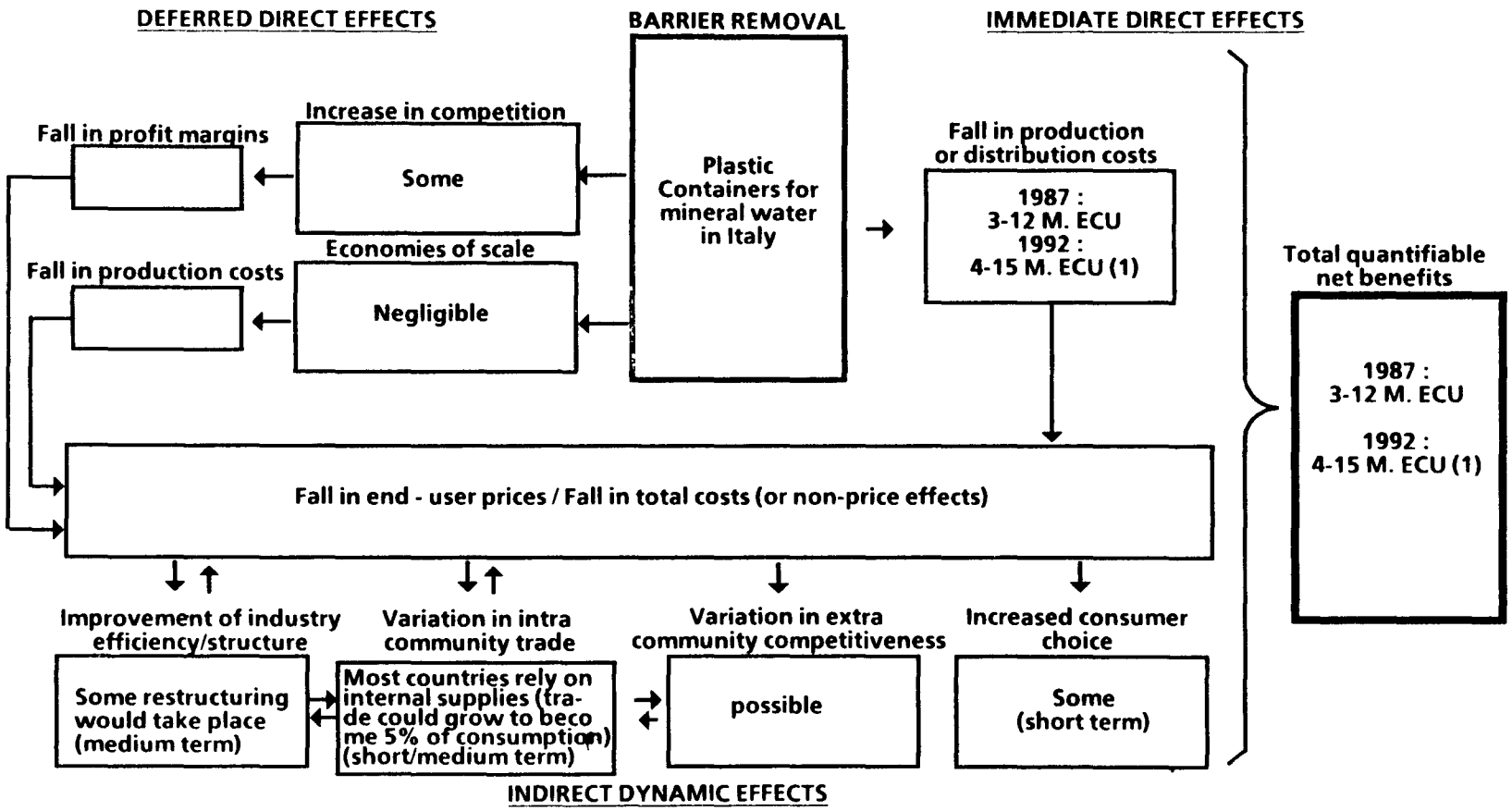
- Despite the EEC Directive on liquids which encourages competition between plastic and glass, 150 Italian municipalities have banned non-biodegradable containers.

- For mineral water, this means only glass containers are permitted.

- Using glass is more expensive than plastic. The cost difference increases as a function of distance shipped. Thus this restriction could favor local producers who ship relatively short distances.

- The cost saving effect of removing this restriction could range from 4-15 millions Ecus in 1992. There would also be a slight increase in trade (An increase of up to 2 % of consumption).

Summary of Impact of Barrier Removal



(1) If by 1992 all municipalities in Italy are affected, this figure could rise to 115 m Ecus

4.14.Plastic containers for mineral water in Italy

Description of barrier

- Each region in Italy is entitled to define its own standards in terms of municipal waste incineration. As a result, some 150 municipalities (representing 15% of the national population) have banned the use of plastic bottles for beverages.

- The reason linked to environmental/health considerations, is aimed at reducing air pollution arising from solid municipal waste incineration.

- This ban is scheduled to be extended throughout all of Italy by 1991. All drink containers will have to be biodegradable (see section 4, below).

- In short, no mineral water nor soft drink may be commercialized in plastic containers by 1991.

Description of barrier (cont'd)

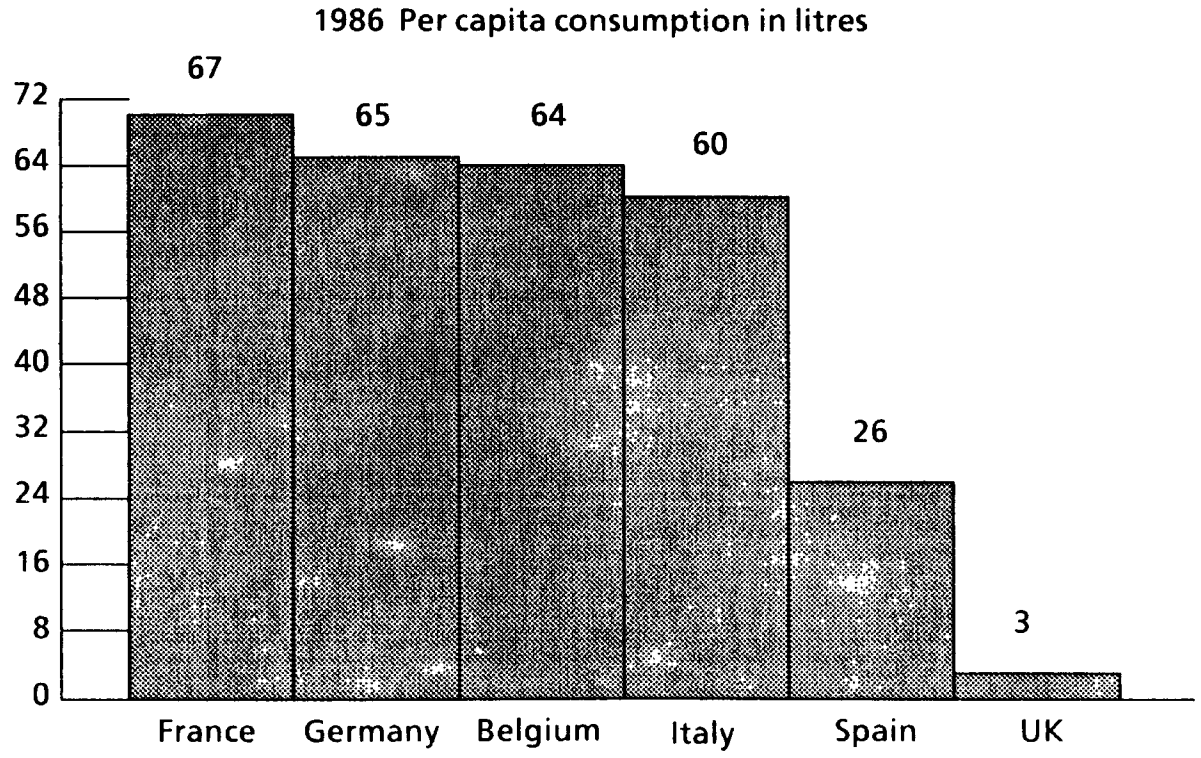
- These facts are occurring during a period when the 12 EEC member states are implementing the Liquid Foods Containers Directive adopted by the EEC in 1985.

- The Directive instructs member states to draw up a series of 4-year "national programs" to reduce waste caused by these containers, but leaves them discretion as to the content of these programs. The Directive, however, does not view the ban of using a specific material as being part of the "national programs".

- The banning of plastic is a trade barrier. The EEC directive states there should exist competition between plastic and glass bottles.

Italians have become large consumers of mineral water

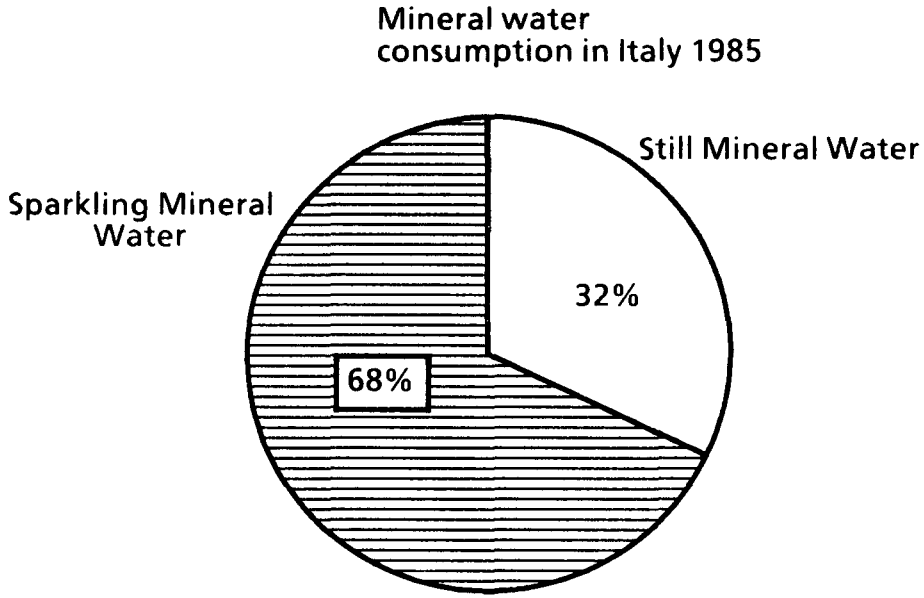
- **Ten years ago, Italian per capita consumption was 50% lower**



Source : UNESEM

Segmentation

- **Contrary to France, sparkling mineral water is preferred to still mineral water.**



Note : In Italy, as opposed to most other European countries, there are no waters denominated "spring waters"

Source : Federterme

Consumer trends

- **Natural mineral waters are spread over the entire Italian peninsula, with a predominant concentration of production and consumption in the north.**

- **Consumers have become more and more quality-minded, wishing to have a known source of healthy and clean water, as opposed to the water from the public systems.**
- **Mineral water is a highly regional product. There are no national brands covering the entire country. Over 400 renown thermal stations are present.**

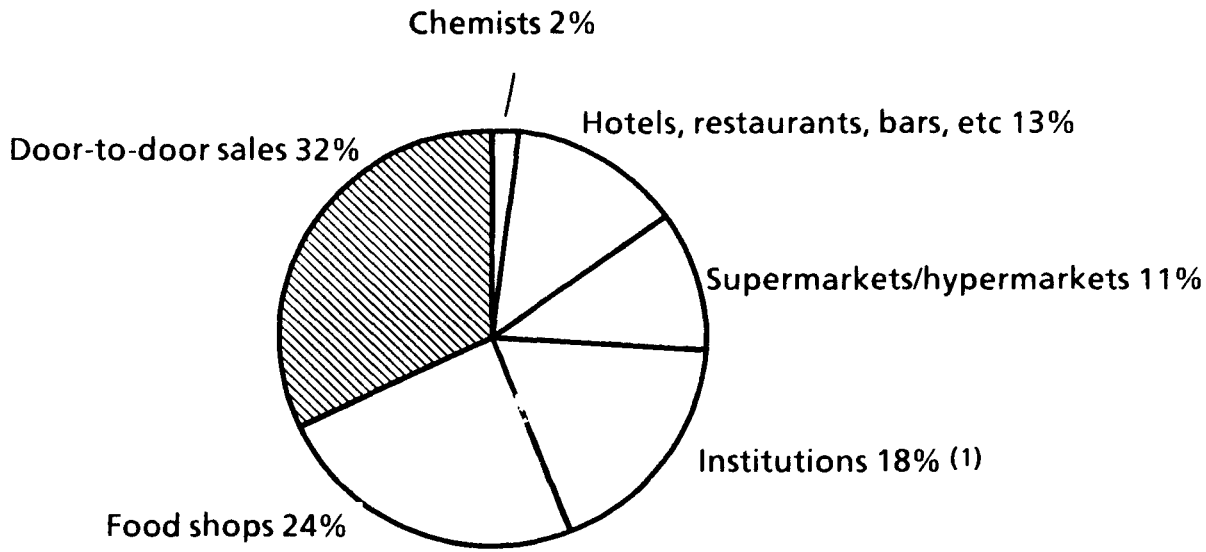
- **Contrary to France, the degree of concentration remains low. Small local producers have a competitive edge over larger producers. This stems from several facts :**

  - Local consumers are loyal to "their" local product, thus local producers may avoid costly advertising and promotional campaigns,
  - Distribution still remains heavily fragmented, favoring the local relationship between small producers and traditional retailers,
  - Due to the fact mineral water has a low retail value, distribution costs become a key factor when trying to obtain national distribution coverage.

Distribution trends

Specialist food delivery firms have an important influence on household purchasing behavior

Mineral water sales by channel



Source : Largo Consumo, Federterme

(1) Schools, etc.

Manufacturers

- **The first three groups account for over 40% of total production, however, the category "other" is composed of over 160 companies and 200 brands**

Group	Company	Brands	Group Market Share (%)	Brand Market share (%)	1986 Turnover (Bio Lit)	1986 Net Profit (Bio Lit)	ROS (1)
SAN GEMINI/FERRARELLE			18.0		170	8 9	5.2
- Gruppo Agnelli (Ifil) : 32%							
- BSN . 32%	- Ferrarelle Spa	. Ferrarelle		7.5	73 6	2.7	3.7
	- Nepi -	. Nepi					
	- Sorgenti San Paolo	. Sorgenti San Paolo		2.0			
	- Santagata	Santagata					
	- Sangemini	. Sangemini		3.5			
	- Fabia	. Fabia					
	- Boario	. Boario		5.0	41.9	2.3	5.5
SAN PELLEGRINO (Groupe Perrier : 35%)			15 0		180	5.8	3.2
	- San Pellegrino	S Pellegrino		4 0			
	- SIAT	. Acqua Claudia		N A			
	- Hydroterme di Villasor	Sandaglia		N A			
		. Acqua Giarra		N.A			
	- Ponti Minerali	. Precastello		1.5			
	- Sorgente Panna	Panna		8.0			
ITALFIN 80			9 5		N.A	N A	N A
	- Recoaro	Recoaro		2.2	62.6	1 4	2 2
	- Fiuggi	Fiuggi		2.5			
	- San Pietro	. San Pietro		N A			
	- Pejo	Pejo		N.A			
	Bognanco	Bognanco		4.0			
	- Appia	Appia		N.A			
SAN BENEDETTO	- Fonte San Benedetto	. San Benedetto	2 8	2.8	104.0	0.44	0.4
LEVISSIMA	- Fonte Levissima	. Levissima	2 3	2.3	65 1	0.09	0 1
CRODO	- Fonte Crodo	. Crodo	2 0	1 0	61 8	4 3	6.9
OTHER			51 4				
TOTAL			100 0				

Manufacturers

- **3 groups dominate the Italian market (40% of mineral water sales). Due to high distribution costs each group's strategy is focused on the acquisition of sources to gain regional brand awareness as opposed to national coverage.**

SAN GEMINI/FERRARELLE the group consists of 7 companies. Recently, BSN and the Agnelli Gruppo (Ifil) acquired 32% each of the entire group.
The three main companies are :

- San gemini Spa. produces two brands : Sangemini and Acqua Fabia

  San gemini is known throughout Italy for its purity and lightness, because of its bicarbonate minerals. It is always recommended for baby formulas and is often given to patients entering hospitals and clinics.
  Production : 150 million liters annually.

  Acqua Fabia. This water was discovered by chance when the company was drilling nearby for fresh sources of Acqua San gemini.
  Production : 60 million liters (15 million US gallons), annually.

- Ferrarelle's subtle touch of effervescence makes it one of the most pleasant of all Italian mineral waters to accompany good food and wine. Ferrarelle still looks to Italy for 90 per cent of all sales ; it is nationally distributed but is most widely encountered in restaurants or supermarkets south of Florence, and especially, in Rome and Naples.
  Production : about 200 million litres annually

- Boario mineral waters have long been valued for their medicinal qualities, particularly in aiding digestion and preventing kidney stones. Bottling of Boario water began in 1945, and in 1974 the company was bought by the San gemini group. Boario is one of the few Italian mineral water companies to use the water in a special cosmetic range of facial and body creams, made and sold at the spa.
  Production : 180 million litres annually.

Manufacturers (cont'd)

GRUPPO SAN PELLEGRINO

The group produces mineral water and soft drinks. The Perrier Group holds a 35% share.

The two main companies are :

- San Pellegrino is Italy's best-known mineral water. It is found in Italian restaurants in fifty countries throughout the world. It is the only Italian water to achieve substantial exports ; it has been shipped to the United States for over half a century.

- Sorgente Panna, Italy's top seller, is a very light mineral water, equally suitable for making up milk formulas for babies' bottles or for the oldest members of the family. Panna is distributed throughout Italy, but is not often found abroad.
  Production : 240 million litres in 1984.

Manufacturers (cont'd)

GRUPPO ITALFIN 80

The three main companies are : Fiuggi, Recoaro, Bognanco

- Fiuggi is known as the water of health and has been famous throughout Italy since medieval times for its diuretic effect, and its action in breaking down kidney stones.
  Production : around 100 million litres annually.

- Recoaro
  Production : 150 million litres annually, for the group.

- Bognanco comprises 13 regional
  mineral waters

4.14.Plastic containers for mineral water in Italy

Barrier impact on industry and competitive structure

- The EEC Directive on liquid containers stipulates that there should exist fair competition between plastic and glass bottles.

- The breakdown of containers varies across countries :

  - Germany > 95% recyclable glass bottles,
  - France > 95% plastic bottles,
  - Italy > 65% glass bottles.

- The removal of the barrier existing in 150 municipalities in 1987 would have a significant impact on the industry

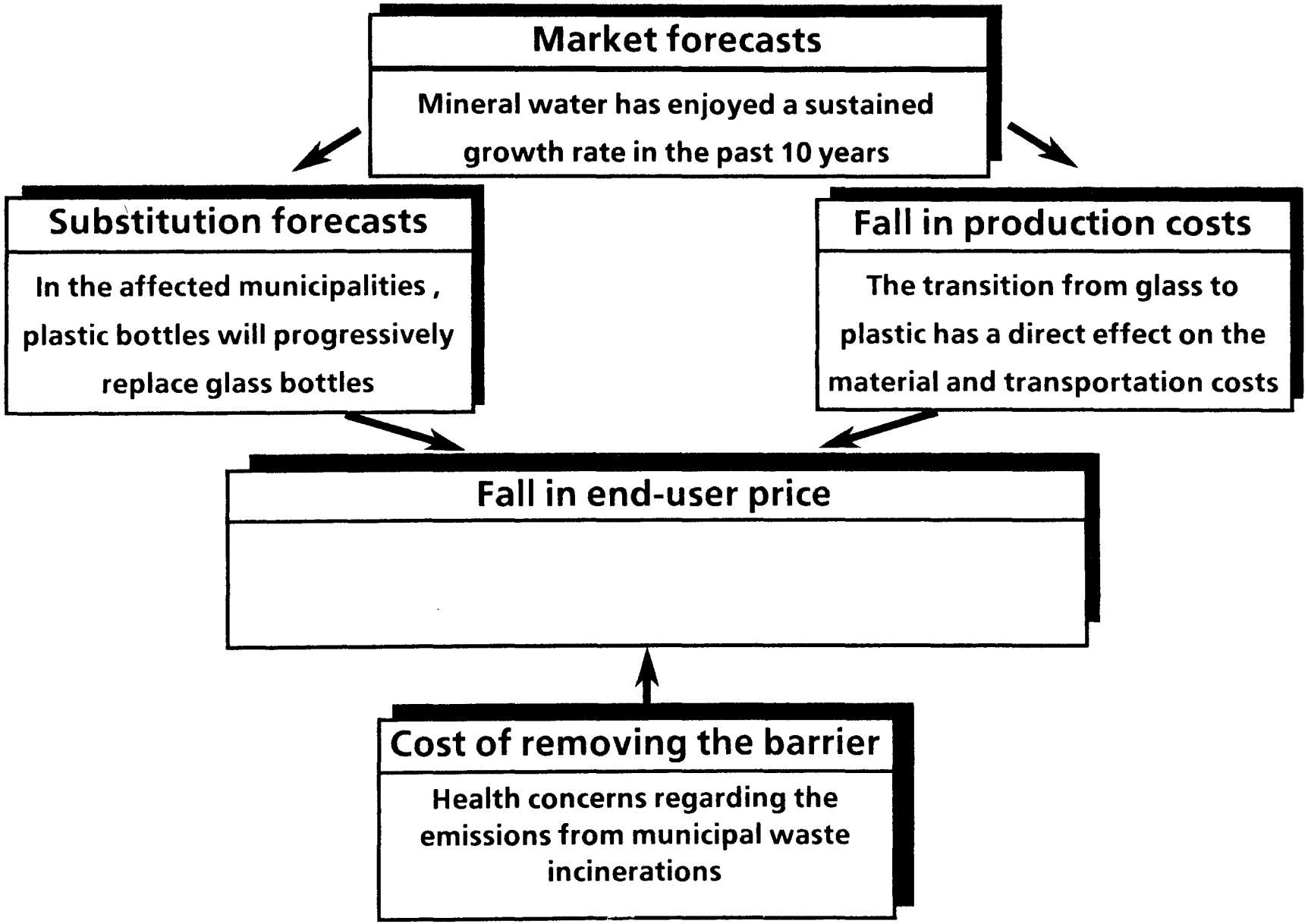
  - Plastic bottles are cheaper than glass bottles,
  - National brands may increase their market shares in remote regions
  - Mineral water business may maintain its growth.

Attitudes of major players

	Favorable	Unfavorable	Global
Mineral Water manufactures	Large brands (with a large carbonated content) will increase their market shares. Industry will maintain its growth	Small local mineral water companies will be handicaped by price squeezes	+
Foreign mineral water producers	Export would increase		+
Bottles	Plastic bottling is usually integreted with the mineral water company	Glass companies will face a minor reduction in this output	-
Retailers	Cost of handling will be significantly reduced	-	+ +
Consumers	Plastic bottles are viewed as a practical alternative	Environmental concerns will appear	= /-
Total			+

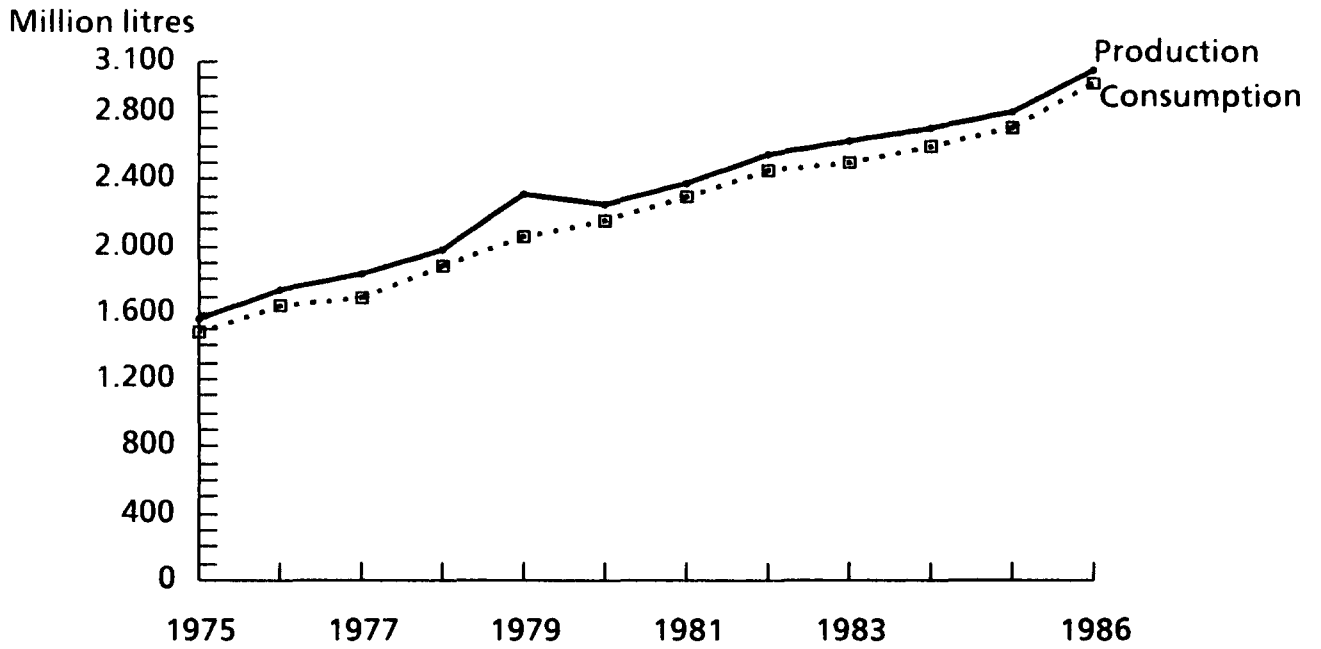
4.14.Plastic containers for mineral water in Italy

Immediate direct effects



Market forecasts

- **According to industry estimates, the industry will continue to grow at 4-5% over the next five years.**

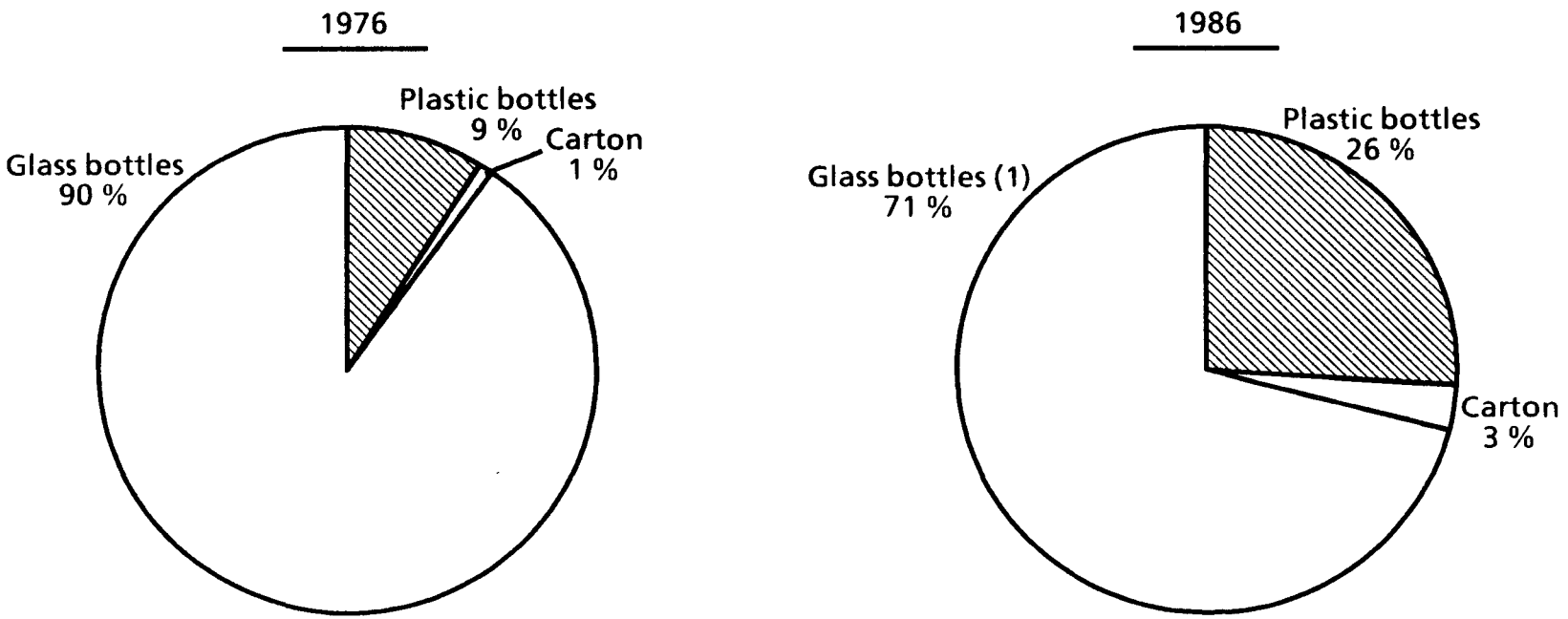


Source : Federterme

- **Italy has enjoyed the highest consumption growth rate in the EEC over the past 10 years.**

Substitution forecasts

- **Recyclable glass bottles have historically been preferred by consumers from a hygienic viewpoint, however, consumers are becoming more open to new types of materials such as plastic, which they view as more practical.**



(1) 0.33/0.50 L bottles : 16 % ; 1 L bottles : 52 % ; over 1 L bottles : 3%

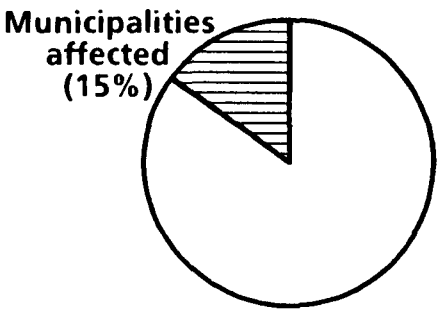
Note : Only 7% of the total glass bottles are one-way

Source Largo Consumo, Industry interviews

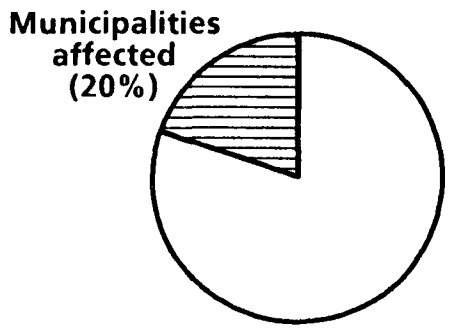
Substitution forecasts (cont'd)

- About 20% of mineral water consumption is actually affected by the law. Municipalities affected are relatively concentrated in the high consumption and production areas (North).

% Population



% Consumption

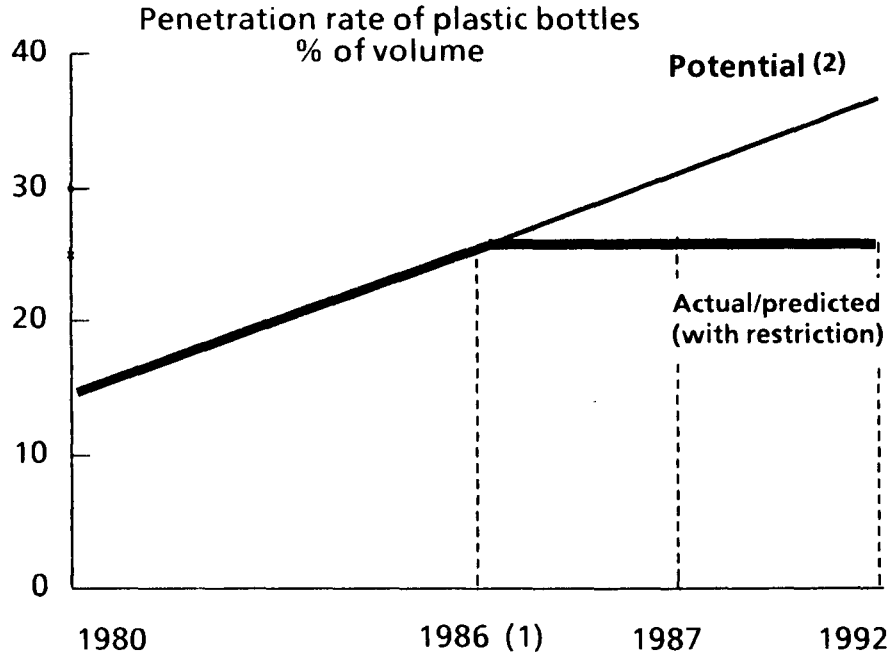


Major municipalities

- Florence (Center)
- Genova (North)
- Livorno (Center)
- Varese (North)
- Modena (North)
- Palermo (South)

Substitution forecasts (cont'd)

- **According to interviews, penetration of plastic bottles in the municipalities affected will be lower than average penetration in Italy. This stems from the fact that these municipalities have promoted environmental public campaigns favoring glass bottles.**
- **By 1992, there will be a significant gap in penetration of plastic bottles, between actual penetration and that penetration which would have occurred in the absence of restrictions on plastic.**

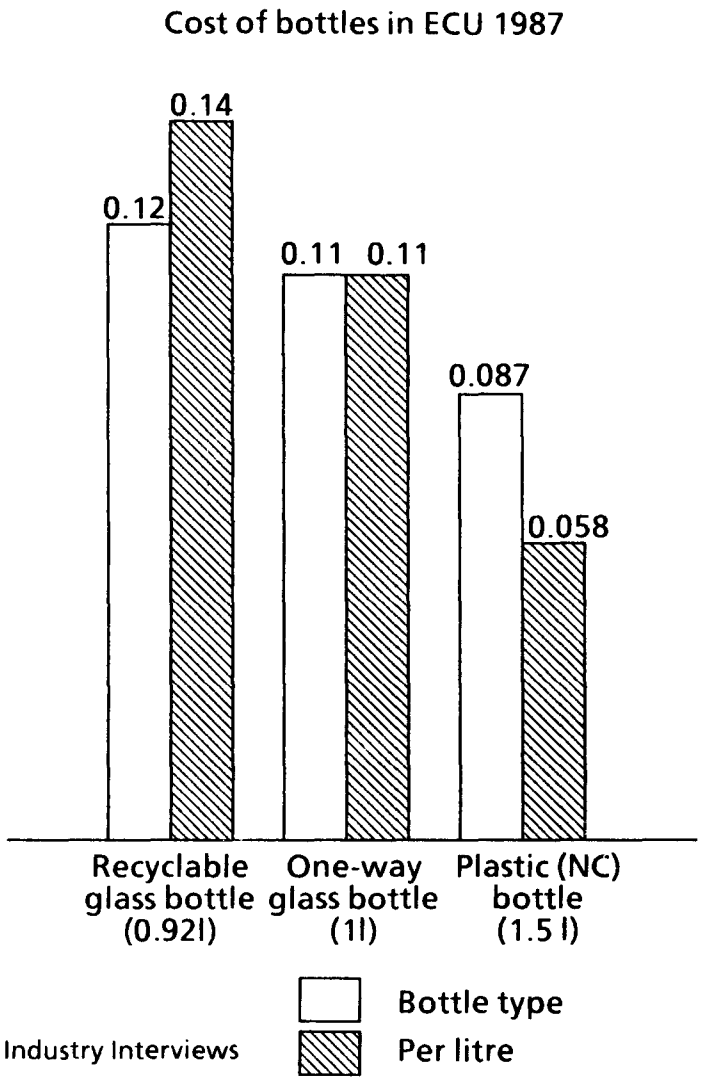


- **"In the north, local companies have a large market share in their local trading areas. Traditional containers (glass) remain high".**
- **"Emission standards in Italy for municipal waste incinerators are highest in the northern regions".**
- **"Recycable glass bottles are a competitive alternative to plastic, given medium transportation distances and high bottle turnover rates (3-5 times)".**

(1) 1986 was the year when municipalities first banned the use of plastic containers
(2) Potential for growth of plastic bottles if no municipalities were affected by the new law
Source : Industry interviews

Fall in production costs

In 1987, the cost of glass bottles is twice as expensive as plastic bottles

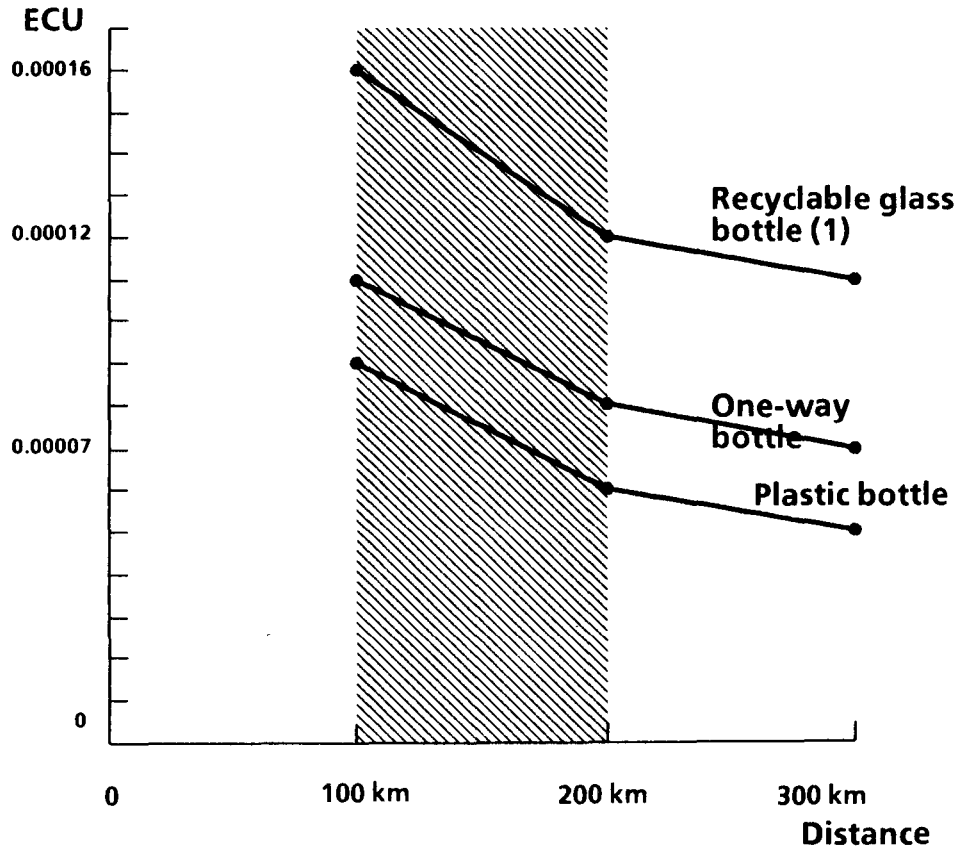


Source : Industry Interviews

- **"Cost of producing plastic bottles depends on fuel-oil prices" . "Today, plastic is highly competitive".**
- **"Manufacturers have significantly improved shapes of glass and plastic bottles ; which allows high reduction of bottle and logistics costs".**
- **Since 1976 in France plastic bottle weight has been reduced by more than 15%".**
- **"More and more, sparkling waters can be filled in plastic bottles". Only Perrier for marketing reasons "sticks to glass".**

Fall in production costs (cont'd)

Transportation costs can be reduced by 25 - 70%



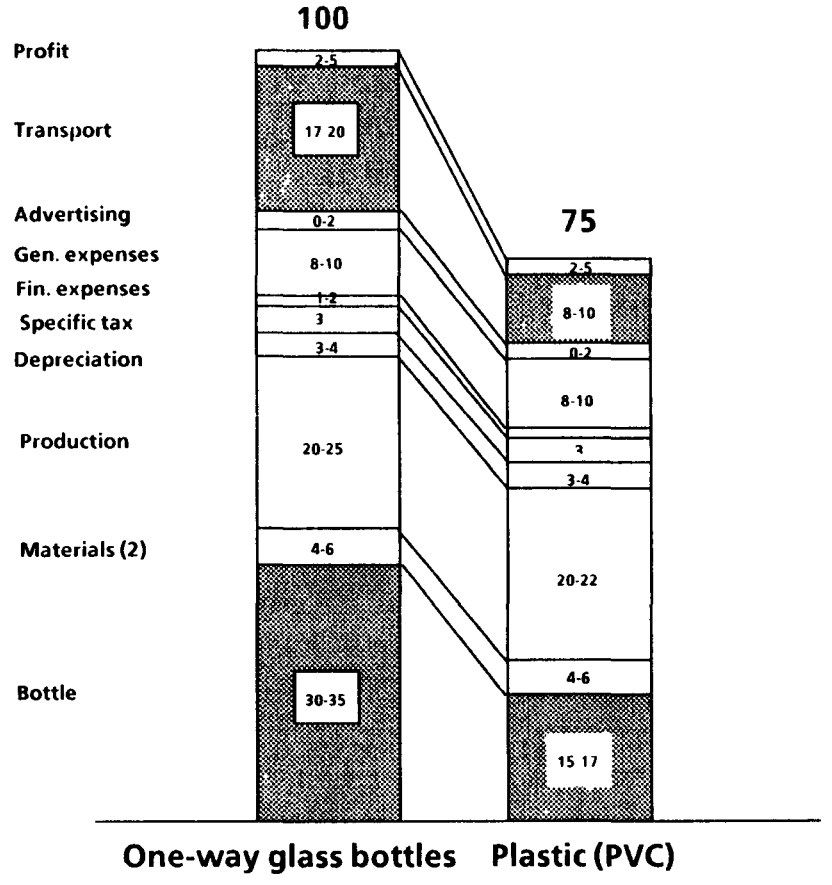
- "Markets are highly regional, the distances between production and consumption areas remain small".
- "In Italy, the transportation system is dependent on trucks".
- "Italian geography is a natural obstacle to transportation . (north-south axis : 2000kms)".

Note : the average distance in Italy is 150 Kms
(1) : the return transportation cost has been considered for recyclable glass bottles
Source : Industry interviews

Fall in production costs (cont'd)

- **On average, savings will be between 10-30% of total ex-factory costs**

Average production cost one litre bottles (1)



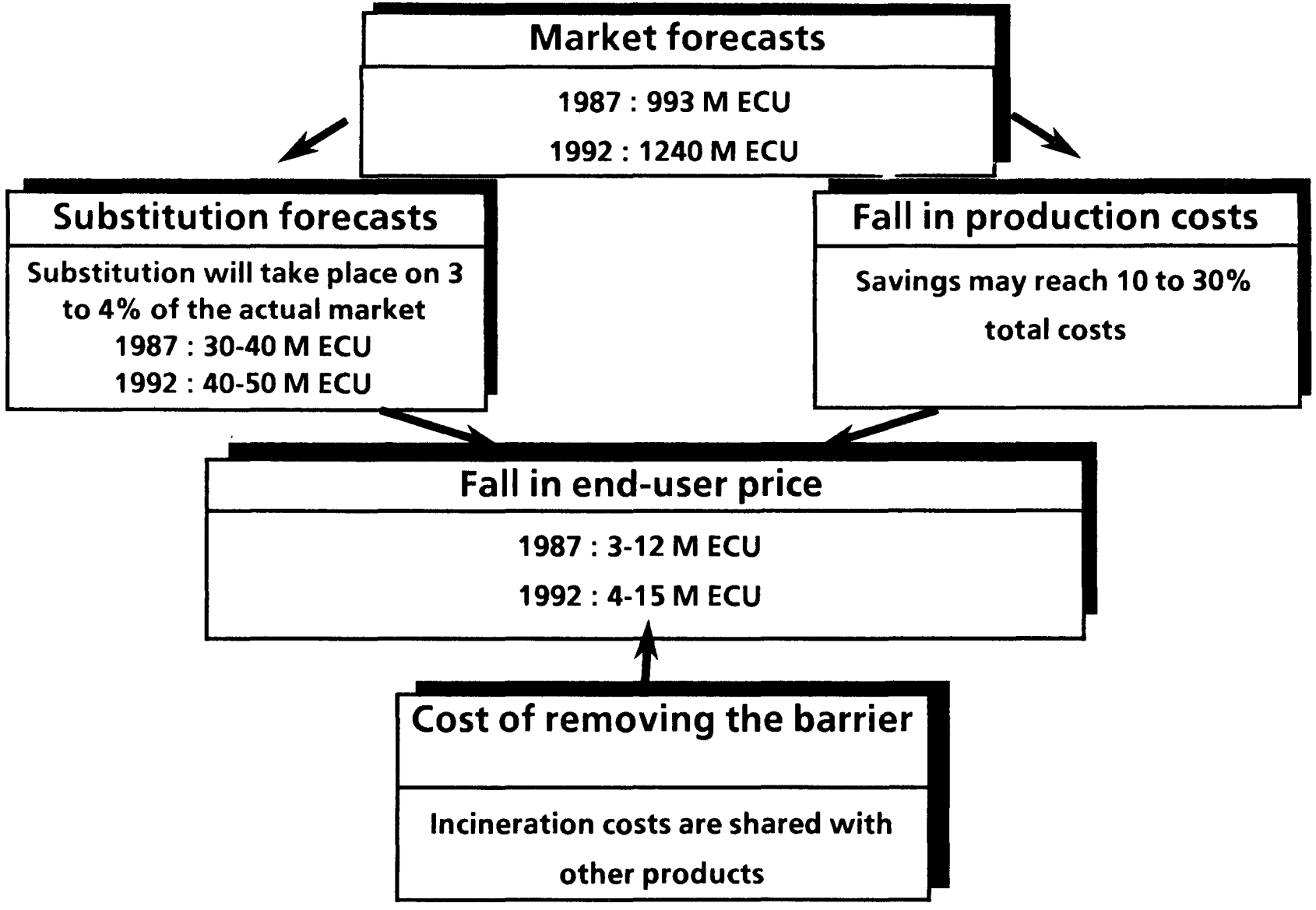
- "Recyclable bottles have a similar cost structure than one-way glass bottles".
- "Savings on bottle costs are highly volatile." "Transport costs are also dependent on fuel-oil prices".
- "Costs of production are highly dependent on source qualities".

(1) : Hypotheses calculated with comparable bottles (1litre) transported over a distance of 150 kms
(2) : caps, labels, ...
Source : Industry interviews

Costs of removing the barrier

- Local public opinion may be opposed to plastic after having been informed of its negative effects on the environment.

Immediate direct effects : Plastic containers for mineral water in Italy



Immediate direct effects (cont'd)

- **If the ban on plastic is extended throughout all of Italy, the cost savings from removing the barrier would be substantially larger.**

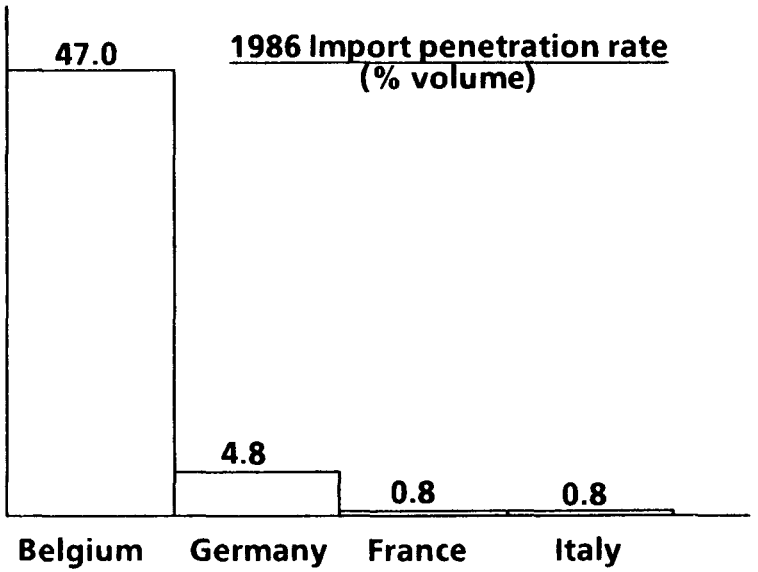
  - **up to 115 millions Ecus by 1992.**

Deferred direct effects

- **Increase in competition**
  - Over the long run, plastic will replace glass and therefore, transportation and material costs will become less important, encouraging the formation of larger companies,
  - The large groups become more concentrated,
  - Some regional brands might become national
  - imports may also serve to increase competition, though this effect should be small.
- **Economies of scale**
  - Very low.

Indirect dynamic effects

- **Increase in intra-EEC trade : 0-5% of consumption**



Source : UNESEM

- Most countries rely on internal supplies
- Imports may increase.
- French mineral waters, however, have a relatively low customer appeal in Italy because they are mostly non-sparkling.

- **Increase in Extra-community competitiveness**

  - Major European companies (except SPA) are currently present in Italy : BSN and Perrier
  - Their increased penetration of the Italian market could improve their ability to compete outside the EEC.

4.14.Plastic containers for mineral water in Italy

Organizations and companies contacted

- UNESDA (Bruxelles)
- UNESEM (Paris)
- FEDERTERME (Roma)
- A.B.G. (Milano)
- U.N.I.B.G. (Roma)
- 8 Italian mineral water or bottling companies

4. Pilot barrier analyses

4.15. Double inspection for spirit imports in Spain

Summary

- On average, spirit imports (1) into Spain are delayed one month because of the laboratory analysis administered by custom's officials.

- The spirit industry in Spain is going through significant change :
  - Small spirit producers are giving way to larger producers,
  - Local production of spirits is increasing,
  - Imported spirits have increased competition.

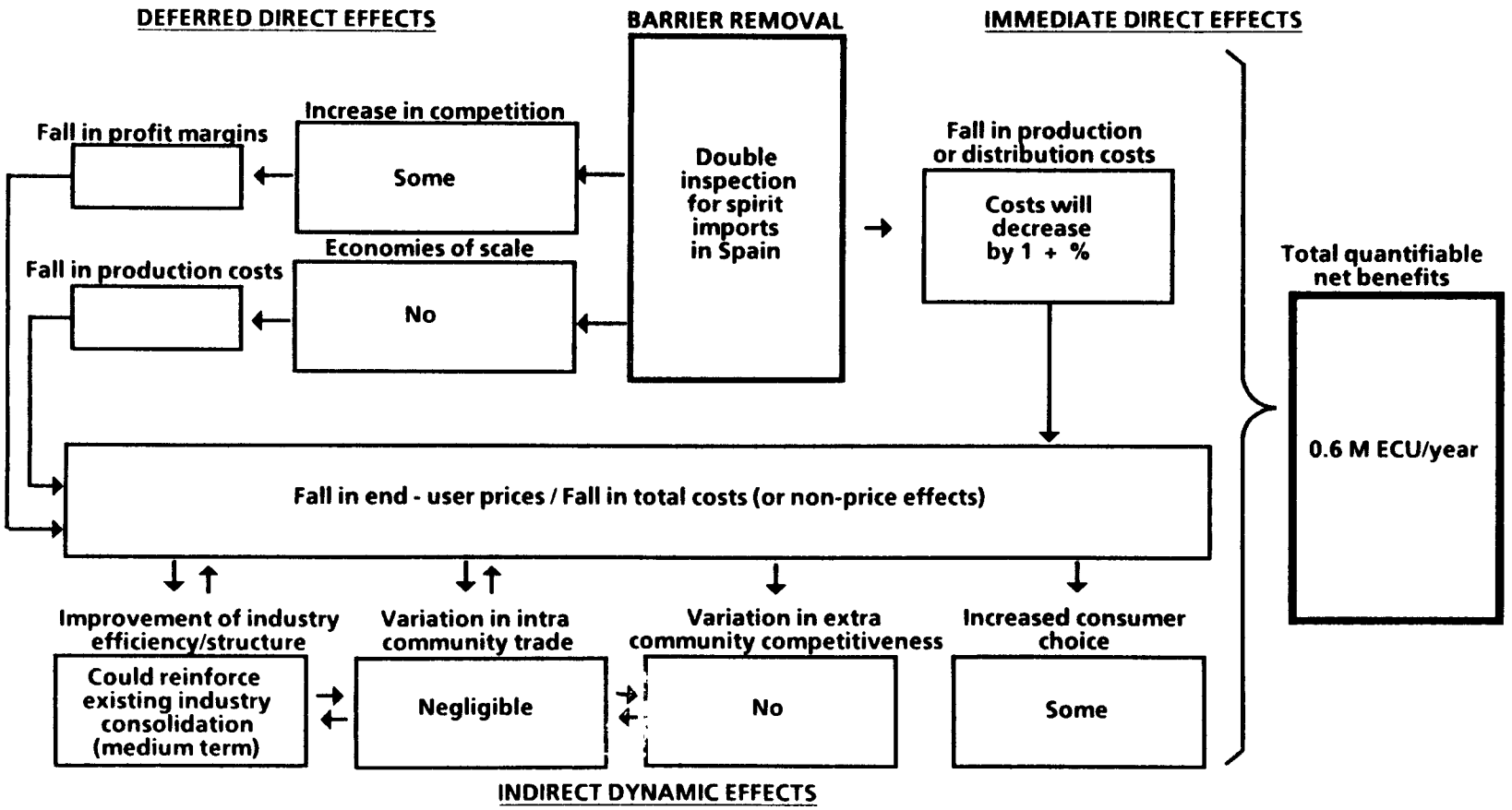
- Consumption of spirit in Spain is decreasing :
  - Consumption is decreasing in the EEC in general.

- Barrier removal would save importers up to 1.2% of imported spirits'value.

- Laboratory inspection for spirit will probably disappear when the EEC reaches an agreement on product definition and control.

(1) Whisky, Gin, Brandy, Rum

Summary of impact of barrier removal



4.15. Double inspection for spirit imports in Spain

Description of pilot barrier : double inspection for spirit imports in Spain

- **Imported spirits undergo two inspections before being allowed across the border.**

- **The most complicated inspection is the customs' laboratory analysis :**
  - Total delay averages one month per imported cargo/shipment
  - During the delay, the importer suffers various types of costs : storage, financing, administrative
  - The bureaucratic process around custom's laboratory analysis and certification is getting worse.

- **The second inspection is performed to verify the quantity of imported merchandise :**
  - The application is being simplified
  - The effect on the importer is negligible in terms of direct cost and time delay
  - It is an artifact remaining from when EEC imports were taxed at the border, before Spain was a member of the EEC.

Description of industry : the spirit industry in Spain has been under constant change

- **Small producers are giving way to larger producers :**

  - Small less cost efficient producers are displaced by larger producers
  - Spirits commercialization in Spain is characterized by heavy advertizing campaigns, that smaller producers cannot afford
  - Larger producers benefit from economies of scale.

- **Production of spirit in Spain fluctuates constantly but has grown at an average annual rate of 3 % :**

  - Fluctuation of spirit production in Spain is due to the taxation changes on alcoholic beverages
  - Still 40% of the production is brandy and 20% is gin (1).

Source : (1) Alimarket : "Informe anual 86 de Alimentación y Bebidas".

Description of industry : the spirit industry in Spain has been under constant change

- **Consumption of spirits in Spain is decreasing :**
  - Higher fiscal pressure has increased the price to consumers
  - Change of consuming habits : higher consumption of alcohol mixed with soft drinks or juices.

- **Imports of spirits into Spain is a growing business :**
  - The main reason for this increase is the reduction of import duties since Spain's integration into the EEC.

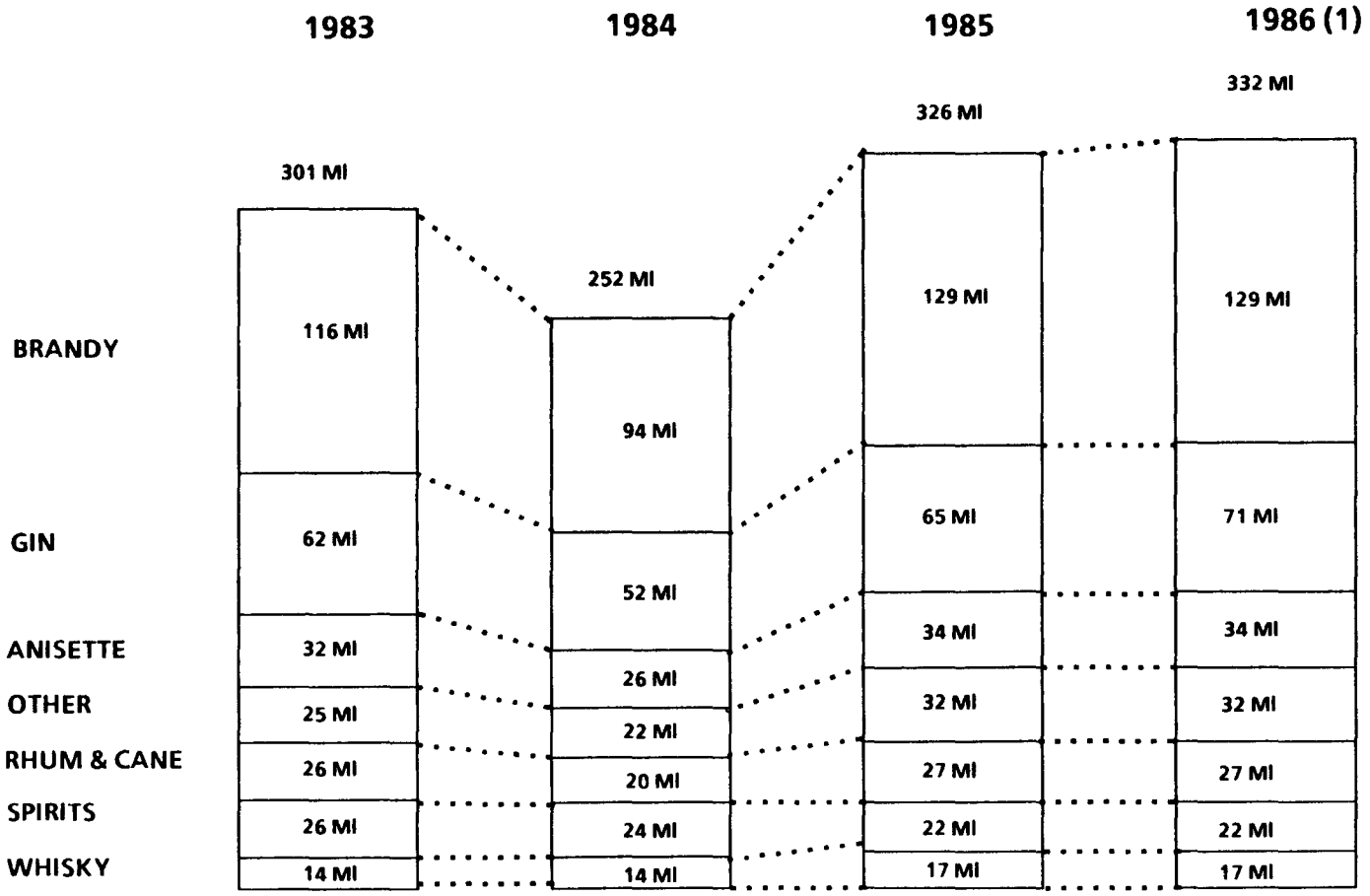
Small spirit producers are giving way to larger producers

Evolution of the number of spirit producers by production volume

Production in litres (000)	Number of Companies			% change 1985/83
	1983	1984	1985	
Up to 100 l	449	400	375	- 16.5
From 100 to 250 l	48	41	39	- 18.7
From 250 to 500 l	37	31	30	- 18.9
From 500 to 750 l	9	5	9	0.0
From 750 to 1,000 l	3	2	6	100.0
More than 1,000 l	40	41	45	12.5
Total	586	520	506	- 13.9

Source : National Federation of Spirit Producers.

Production of spirit is increasing



Source : Spirits' Producers National Federation

(1) Nielsen : "1987 Evolution" and the MAC Group estimates.

Imported spirits have increased the competition

- **The percentage of growth in the imported spirits sector has been high :**
  - The previous years base was low however, so the increase in absolute terms is not large,
  - The main reason has been the phased reduction of import duties.

- **Imported spirits from other EEC countries usually has a lower alcohol content and are thus taxed at a favorable level compared to domestic spirits :**
  - At the present time, taxes are still low, but will eventually reach EEC vat standard levels,
  - Taxes depend on alcohol content, so strong spirits are taxed at a higher rate.

- **Imported spirits are in a better price position :**
  - Small local producers cannot benefit from economies of scale

Consumption of spirits in Spain is decreasing

- **An important reason is the higher tax rate on alcohol beverages :**

  - Strong spirit consumption has decreased
  - Other alcohol consumption remains stable
  - Consumption of drinks with low alcohol content has increased.

- **Change of working habits confirm these trends :**

  - Young people prefer drinks with less alcohol
  - A declining agricultural sector implies a reduction of strong alcoholic beverages, traditionally favored by rural populations.

- **Local producers are following the consumption trend and are reducing the strength of their products.**

4.15. Double inspection for spirit imports in Spain

1. Summary

2. Overview of Pilot Barrier
   - Description of Barrier
   - Description of Industry

→ 3. Impact of Barrier Removal
   - Industry and Competitive Structure
   - Attitudes of Major Players

4. Quantitative Estimate of Impact

5. Appendix

Immediate direct effect : reduction of costs due to delay removal

- **Costs due to laboratory testing delays amount to about 1.2 % on CIF value of imported spirits (1)**

- **Direct costs due to laboratory inspection of samples of imported goods :**
  - **Administrative (including cost of analysis) : immaterial**
  - **Storage : average 1 month delay = ECUs 2.1 Hl (2)**
  - **Financing : average 1 month delay = ECUs 1.7 Hl (2).**

Source : (1) See section 4 for calculations. (2) The MAC Group interviews : importer's Estimation.

Indirect dynamic effect : structure possible displacement of less efficient domestic producers by foreign imports

- **Local producers perceive the incoming foreign competition as a serious threat for smaller local producers :**
  - Larger producers benefit from economies of scale,
  - Smaller producers cannot afford the advertising expenditure usually done by multinational producers.

- **Massive imports of spirits in Spain are due to the removal of import duties :**
  - All import duties are being phased out.
  - Licensing requirements were removed for EEC producers.

- **Barrier removal would only facilitate the importing process and save costs for importers :**
  - Importers would save one month of storage and financial expenditure,
  - Supply of goods would be more fluid.

- **Barrier removal would not open the market any further :**
  - All potential competitors are already present in Spain's spirits market,
  - Double inspection is nothing compared to past tariff and licensing barriers,
  - Consumption is decreasing in Spain, as it is happening in most European countries.

Attitudes of major industry players

- **Scotch whisky Association :**
  - Bureaucratic problems are a difficulty but not a serious impediment for normal trade,
  - Trade relations with Spain have improved dramatically with Spain joining the EEC,
  - Remaining barriers such as customs inspection will eventually disappear.

- **Spirits Importers :**
  - Non tariff barriers are an artifact from past tariff systems,
  - Imports of spirits in 1986 have been very high and local producers may begin pushing for stronger controls .

- **Spanish government :**
  - There is a desire to homogenize health controls, but it is still in process,
  - Some progress has already been made to simplify customs controls both at the border and at the bonded warehouse.

- **Spanish Retailer :**
  - The main problem facing this sector is the high tax level,
  - These is a wider range of spirits nowadays.

4.15. Double inspection for spirit imports in Spain

Quantitative estimate of impact : importers would save 1.2 % of their imported value (1)

Hypothesis :

- **Imports of spirits will remain stable from 1986 on**
- **Data prior to 1986 is not significant since heavy import tariffs were being applied**

Spain's Imports of spirits from the EEC
Period January-September 1986

	(000 litres)	(000 ECUS)
Whisky	14,095	43,687
Gin	966	2,804
Brandy	160	907
Rum	15	36
TOTAL	15,236	47,437

Estimated Storage cost : (15,236 x 21 =) 320 000

Estimated Finance Cost : (15,236 x 17 =) 259 000

} 579 000 ECUS (0.6 M ECUS)

$\frac{579}{47,437}$ = 1.2%

Source : Aral 28 Feb - 7 March 1987 and the MAC Group estimates (1) Valued at CIF value.

4.15. Double inspection for spirit imports in Spain

People and organizations interviewed

- Spirit Producers Catalonian Association : Legal Advisor
- Spirits Producers National Federation : General Manager
- Aferson S.A. (Importer) : Financial Manager
- Atlantico S.A. (Importer) : Manager
- Manuel Vallejo S .A. (Importer and Retailer) : Manager
- Ciá. Internacional de Negocios S.A. (Importer) : Manager, Customs Clearance Department
- Ministry of Economy and Finance : Manager, Instruments for Commercial Defense Service
- Ministry of Economy and Finance : Manager, Foreign Trade Service for Beverage and Processed Agricultural Products.
- Barcelona Chamber of Commerce : Manager, EEC Relations' Department
- Pro-Europe Catalonian Foundation : Economic Advisor
- Ministry of Health and Consumption : General Directorate for Food and Beverages.

Contents

Low - impact pilot barriers

- **Five pilot barriers were researched only superficially, as preliminary findings suggested their impact would be negligible.**

  - Juice content limit in soft drink industry in Italy
  - Wort tax for beer in Belgium
  - Carotine restriction for biscuits and cake in the UK
  - Import certificates for spirits in Italy
  - Tax differential on Dom Rum in France

- **The following pages present hypotheses on the impact of these barriers.**

1. Juice content limit in soft drink industry in Italy

Hypothesized effects

- Foreign soft drink producers must change their recipes when exporting to Italy.
- The restriction increases costs to the consumer, and limits consumer choice.

Reason for low-impact

- Soft drinks with less than 12% fruit juice in Italy are still marketed, but they do not contain any reference to fruit, on the label.
- Cost savings could be generated through the use of common labeling policies by foreign producers ; However, research has shown this benefit to be small (see 4.12)

Summary of impact

- Immediate direct benefit : low
- Deferred direct benefit :
  - Competition increase : low
  - Scale economies : low
- Indirect dynamic benefits :
  - Industry restructuring : low
  - Trade : low
  - Consumer choice : yes
- Overall impact : low

2. Wort tax for beer in Belgium

Hypothesized effects

- Protects domestic producers vis à vis foreign producers

Reason for low-impact

- Same reasoning would apply to Belgium as for the UK : impact is low
  - Imports are only 5% of consumption
  - Net cost advantage to domestic producers is positive but minimal (< 0.5 % of selling price).

Summary of impact

- Immediate direct benefit : low
- Deferred direct benefit :
  - Competition increase : low
  - Scale economies : low
- Indirect dynamic benefits :
  - Industry restructuring : low
  - Trade : low
  - Consumer choice : yes
- Overall impact : low

3. Carotine restriction for biscuits and cake in the UK

Hypothesized effects

- Producers who use carotine must change their recipes for exports into the UK.
- Increases costs and limits consumer choice.

Reason for low-impact

- Cost increase from using alternative coloring agents is negligible.
- Low level of imports into UK (< 5% of consumption)

Summary of impact

- Immediate direct benefit : low
- Deferred direct benefit :
  - Competition increase : low
  - Scale economies : low
- Indirect dynamic benefits :
  - Industry restructuring : low
  - Trade : low
  - Consumer choice : low
- Overall impact : low

4. Import certificates for spirits in Italy

Hypothesized effects

- Increases Administrative costs.
- Limits consumer choice.

Reason for low-impact

- Importers said the process is well-defined, simple, and therefore of negligible costs.

Summary of impact

- Immediate direct benefit : low
- Deferred direct benefit :
  - Competition increase : low
  - Scale economies : low
- Indirect dynamic benefits :
  - Industry restructuring : low
  - Trade : low
  - Consumer choice : low
- Overall impact : low

5. Tax differential on Dom Rum in France

Hypothesized effects

- Favors French rum producers versus Spanish rum producers.

Reason for low-impact

- While this is a barrier, its effect is negligible :
  - Rum is a declining market
  - Spanish Rum production is small

Summary of impact

- Immediate direct benefit : low
- Deferred direct benefit :
  - Competition increase : low
  - Scale economies : low
- Indirect dynamic benefits :
  - Industry restructuring : low
  - Trade : low
  - Consumer choice : low
- Overall impact : low

THE COST OF "NON-EUROPE" IN THE FOODSTUFFS INDUSTRY

Report III
Extrapolation of benefits

GROUPE MAC

PREFACE

The MAC Group was retained by the European Commission to conduct a study on the completion of the internal market by 1992 in the foodstuffs industry. Four reports and an executive summary resulted from this effort :

Report I Identification of barriers and selection of pilot barriers

Report II Analysis of pilot barries (Volumes I and II)

Report III Extrapolation of benefits

Report IV Consolidation of the European food industry : an implication of the 1992 Common Market

Executive summary

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OBJECTIVES OF THE STUDY

PRINCIPAL OBJECTIVE

PROVIDE AN OBJECTIVE VIEW ON THE IMPACT OF THE "1992 OPEN MARKET" ON THE FOODSTUFFS INDUSTRY.

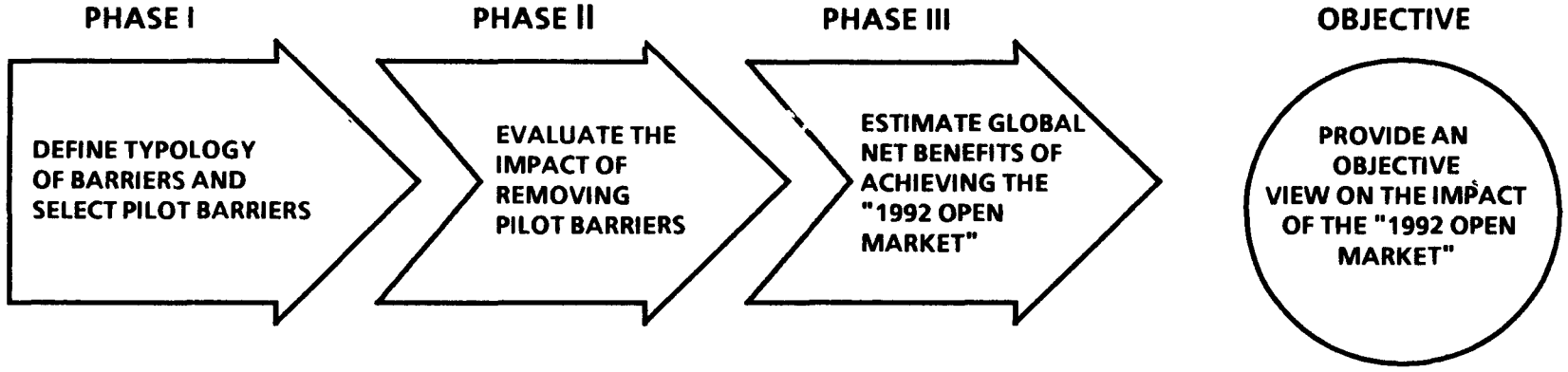
COROLLARY OBJECTIVES

1. **EVALUATE THE GLOBAL NET BENEFITS TO THE EEC FROM ELIMINATING TRADE BARRIERS AND REGULATORY DISCREPANCIES.**

2. **UNDERSTAND HOW THE NET BENEFITS MIGHT BE SHARED AMONG ECONOMIC PLAYERS.**

3. **IDENTIFY BARRIERS AND SECTORS WHICH WILL BE PRINCIPALLY AFFECTED BY THE "1992 OPEN MARKET".**

APPROACH OF THE STUDY



- DEVELOP BARRIER TYPOLOGY
- IDENTIFY FOODSTUFFS SECTORS
- SELECT 10 "LIST A"
- SELECT 10 "LIST B" PILOT BARRIERS

- PERFORM DETAILED EVALUATION FOR LIST A PILOT BARRIERS
- PERFORM SIMPLIFIED EVALUATION FOR LIST B PILOT BARRIERS

- EXTRAPOLATE RESULTS OF PHASE II TO ESTIMATE GLOBAL NET BENEFITS
- UNDERSTAND HOW NET BENEFITS MIGHT BE SHARED AMONG ECONOMIC PLAYERS
- IDENTIFY BARRIERS AND SECTORS WHICH WILL BE PRINCIPALLY AFFECTED

This report presents the findings from phase III of the study

DEFINITIONS

- A BARRIER IS A GENERIC IMPEDIMENT TO TRADE, OR A REGULATORY DISCREPANCY, WITHIN THE EEC.

  - EXAMPLE : PURITY LAWS, SPECIFIC INGREDIENT RESTRICTIONS.

- A SPECIFIC BARRIER IS A FUNCTION OF THREE DIMENSIONS : BARRIER, PRODUCT SECTOR, COUNTRY.

  - EXAMPLES :

    PURITY LAW IN THE BEER INDUSTRY IN GERMANY
    RESTRICTION ON USE OF ASPARTAME IN THE SOFT DRINK INDUSTRY IN FRANCE

- A PILOT BARRIER IS A SPECIFIC BARRIER WHICH WILL BE SELECTED FOR AN IN-DEPTH ANALYSIS.

DEFINITIONS (CONT'D)

- NET COSTS ARE THE TOTAL DIRECT AND INDIRECT COSTS OF THE EXISTENCE OF BARRIERS.

- NET BENEFITS OF REMOVING A BARRIER ARE EQUAL TO THE ELIMINATION OF NET COSTS. IN THIS STUDY, THE TERMS NET COST AND NET BENEFITS WILL BE USED WHEN REFERRING TO THE EXISTENCE AND THE ELIMINATION OF BARRIERS, RESPECTIVELY :

  - THE NET COSTS OF THE EXISTENCE OF BARRIER X ARE Y MILLION ECUS PER YEAR

  - THE NET BENEFITS OF REMOVING BARRIER X ARE Y MILLION ECUS PER YEAR

- THE COSTS OF NON-EUROPE ARE EQUAL TO THE SUM OF ALL NET COSTS ACROSS THE BARRIERS AND PRODUCT SECTORS CONSIDERED.

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Extrapolation methodology

- The effects of removing barriers have been analyzed in detail for 20 pilot barriers (detailed analyses for 15 pilot barriers and abbreviated analyses for 5 low impact barriers). The results of this analysis are shown on the following page.

- In this document, these results are extrapolated across countries and product sectors to determine the total "Cost of Non-Europe" for the ten product sectors considered in this study. In most cases, results are extrapolated across countries whose laws are similar to those in the country considered in the pilot barrier analysis. In other cases, results are extrapolated across product sectors within the pilot barrier country.

- Data underlying the extrapolation are presented in the appendix.

Summary of Pilot Barrier Analyses

		Deffered Direct Benefit		Dynamic Indirect				
Barrier	Immediate direct benefit (M ECU/year)	Competition increase	Scale Economies	Industry Restrucutring	Increase in trade (1)	Increase in Consumer Choice	Total Net Benefit	% Value Added
1 BEER PURITY	15	MED	LOW	HIGH (90 M ECUS)	+ 5%	YES	105-230	3-7%
2 PASTA PURITY	20-60	MED	MED	MED	MED	YES	20-60	2-6%
3 ASPARTAME	0-2	LOW	LOW	LOW	LOW	YES	0-2	0-2%
4 VEG FAT: CHOCOLATE	40-50	MED	LOW	LOW	+	YES	40-50	3-6%
5 VEG FAT:ICE CREAM	50-60	MED	LOW	MED	LOW	YES	50-60	8%
6 RECYCLING	+	HIGH	MED	MED	+ 5%	YES	+	0%
7 WORT TAX	0	MED	LOW	LOW	+ 0.1%	YES	+	0%
8 HEALTH REG	+	LOW	LOW	LOW	LOW	YES	+	0%
9 BULK TRANSPORT	+	LOW	LOW	LOW	MED	YES	+	0%
10 SACCHARIMETRIC	15-30	MED	LOW	LOW	MED	YES	15-30	2-6%
11 CHLORINE	+	MED	MED	LOW	MED	YES	+	0%
12 LABEL DETAIL	+	LOW	LOW	LOW	LOW	YES	+	0%
13 "GERMAN WATER"	0	MED	LOW	LOW	HIGH (+ 2-3%)	YES	+	0%
14 PLASTIC CONTAINERS	5-15	MED	LOW	MED	+ 5%	YES	5-15	0-0.1%
15 DOUBLE INSPECTION	+	MED	LOW	HIGH	LOW	YES	+	1-2%
FIVE REMAINING PILOT BARRIERS	0	LOW	LOW	LOW	LOW/MED	YES	0	0
TOTAL	160-240	MED	LOW	LOW/MED	MED	YES	250-450	1 3-2 5%

(1) As % of consumption

Contents

Direct effects

Quantifiable direct effects of creating a single market in the foodstuffs industry will be positive, generating 500-1000 million Ecus in net benefit per year

- In the ten sectors considered, total benefits may reach 500-1000 M ECU. This represents between 1-2 % of EEC sales(1) in the ten sectors considered (or 2-3 % of total industry value-added, or one to two years of annual productivity improvement)(2)

- Benefits are highly concentrated : 6 barriers account for more than 80% of estimated total benefits.

- The 20 pilot barriers considered in Phase II represent about one half of the total benefits.

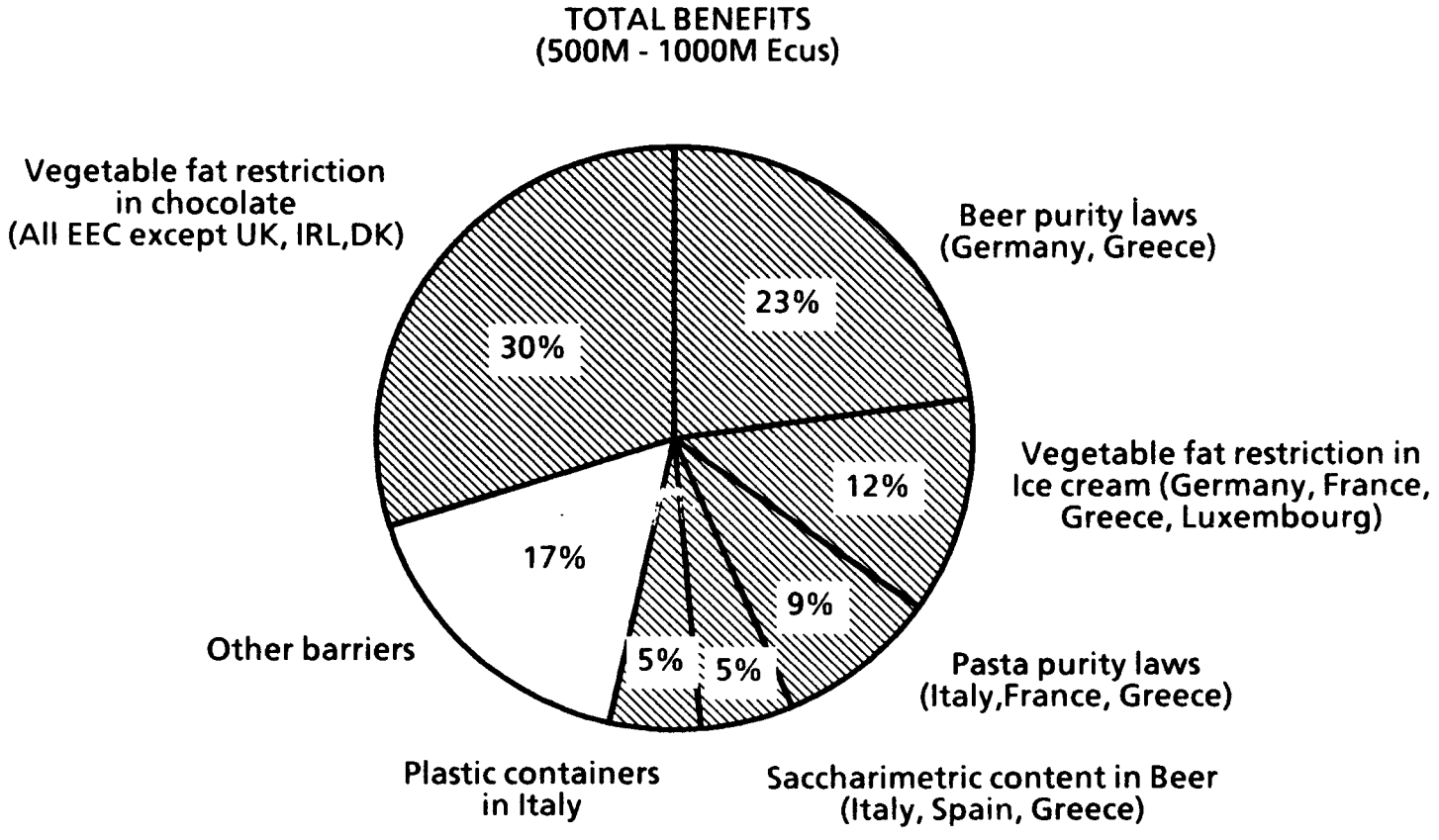
(1) At manufacturers selling prices
(2)See appendix B for calculation

Global direct benefits could reach 500-1000 million Ecu per year

Barrier	Country analysed	Net benefit of removing pilot barrier	Extension	Extension net benefit 0-5	Total Net benefit
1. Beer purity law	Germany	105-230 (2)	Greece	0-5	105-235
2. Pasta purity law	Italy	20-60	France, Greece	15-40	35-100
3. Aspartame	France	0-2	Belgium, Spain	0-5	0-10
4. Vegetable fat chocolate	France	40-50	All (except UK,DK,IRL)	140-185	190-235
5. Vegetable fat ice cream	Germany	50-60	France,Greece, Luxembourg	25-40	75-100
6. Recycling	Denmark	< 1		-	< 1
7. Wort tax	UK	< 1	Belgium, Ireland, Netherland, Luxembourg	-	< 1
8. Health registration	Spain	< 1	Other product sectors	-	< 1
9. Bulk transport	France	< 1	All (except UK, NL)	-	< 1
10. Saccharimetric	Italy	15-30	Spain, Greece	5-15	20-45
11. Chlorine	UK	< 1	Ireland	< 1	< 1
12. Label detail	Spain	< 1	Other product sectors	-	< 5
13. German water	Germany	< 1	-	-	< 1
14. Plastic containers	Italy	5-15	Soft drinks	10-35	15-50
15. Double inspection	Spain	< 1	-	-	< 1
Five other barriers	-	< 1	About 200 barriers	0-200 (1)	0< 200 (1)
Total	-	250-450	-	200-525	450-975 (1)

(1) Assuming the average cost of a low impact barrier is less than 1 million Ecu ; As about 200 of these barriers exist, the additional total cost is 0-200 million Ecus.
(2) Includes indirect dynamic effects of 90-230 M Ecus.

Quantifiable benefits are highly concentrated : 6 barriers account for more than 80% of estimated total benefits



Indirect effects

Indirect effects of removing barriers will have a significant impact affecting one third of the 50 product/markets (1) considered

- **Large effect on 7 industries**
  - Beer in Germany, Italy and Spain
  - Pasta in Italy and France
  - Soft drinks in France and Spain

- **Moderate effect on 9 industries**
  - Chocolate in Germany, France, Italy and Spain
  - Ice cream in Germany and France
  - Mineral water in Germany and Italy
  - Spirits in Spain.

(1) Couplings of product sector and country (eg beer in Germany)

Indirect effects

- **The most frequent indirect effect is the broadening of consumer choice. Out of 50 product/markets (1)**

  - 16 would experience a significant increase in consumer choice
  - 10 would experience a significant increase in imports
  - 8 would undergo an industry restructuring
  - 2 would experience a variation in extra-community competitiveness

- **The countries(2) most affected will be Italy and Germany**

  - Italy (11)
  - Germany (11)
  - Spain (8)
  - France (6)
  - UK (0)

(1) Formed from the 10 product sectors and the five largest EEC countries

(2) EEC-5

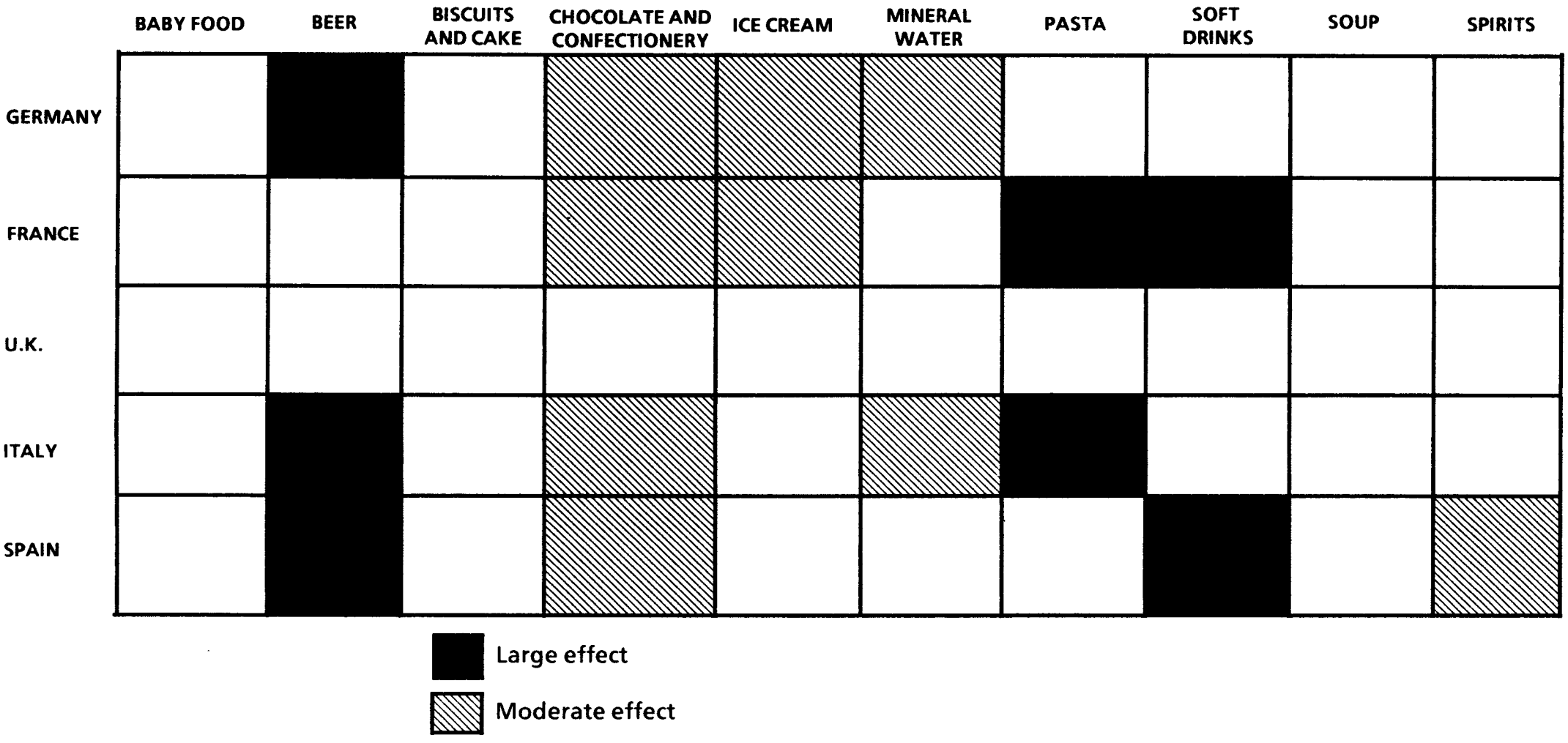
Indirect effects

- **In all, removal of barriers would exert 36 significant effects on 50 product/markets, though many product/markets would be affected more than once.**

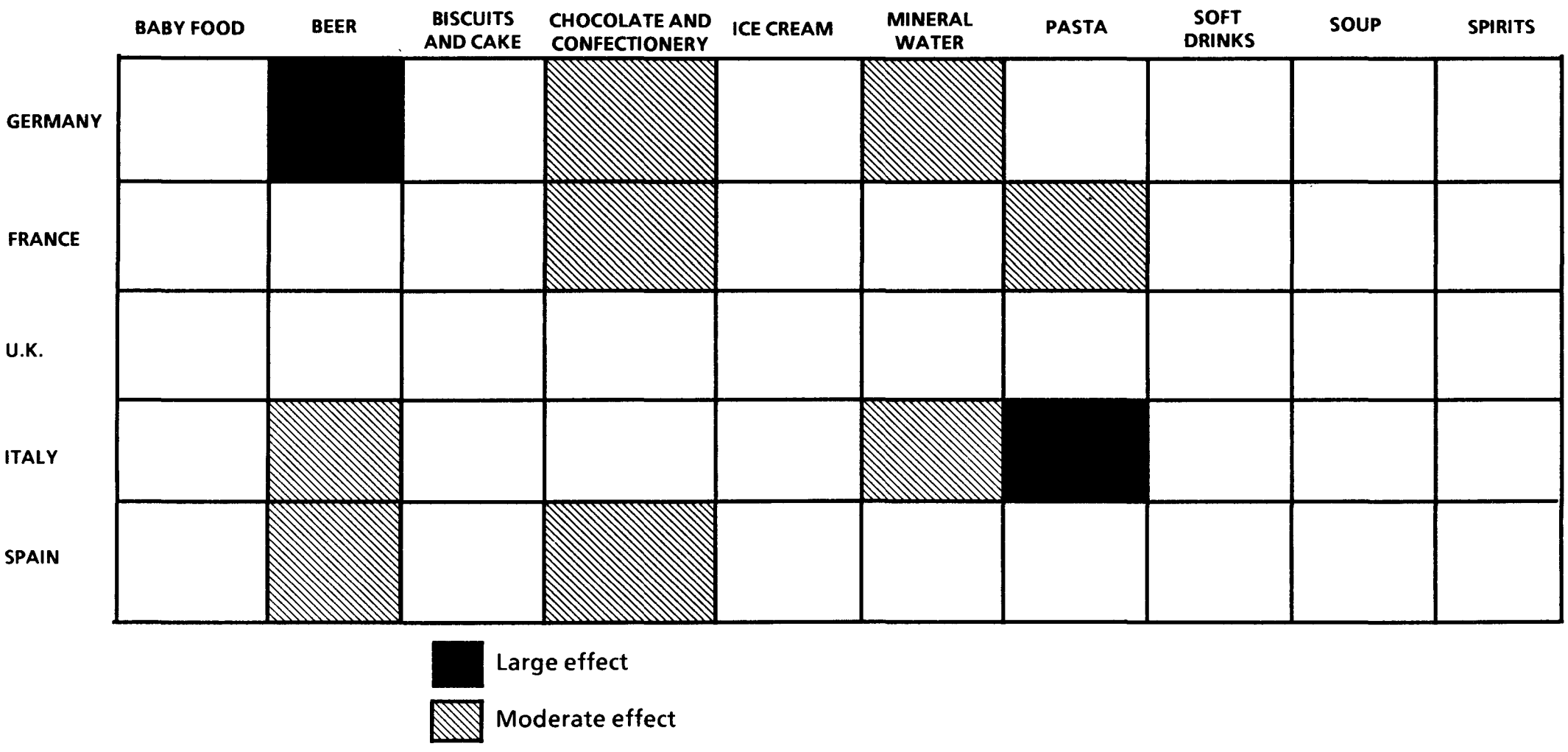
- **The sectors most affected will be the chocolate/confectionery, beer and mineral water**

  - Chocolate (9)
  - Beer (8)
  - Mineral water (7)
  - Pasta (5)
  - Ice cream (3)
  - Soft drinks (2)
  - Spirits (2)
  - Baby food (0)
  - Soup (0)
  - Biscuits and cake (0)

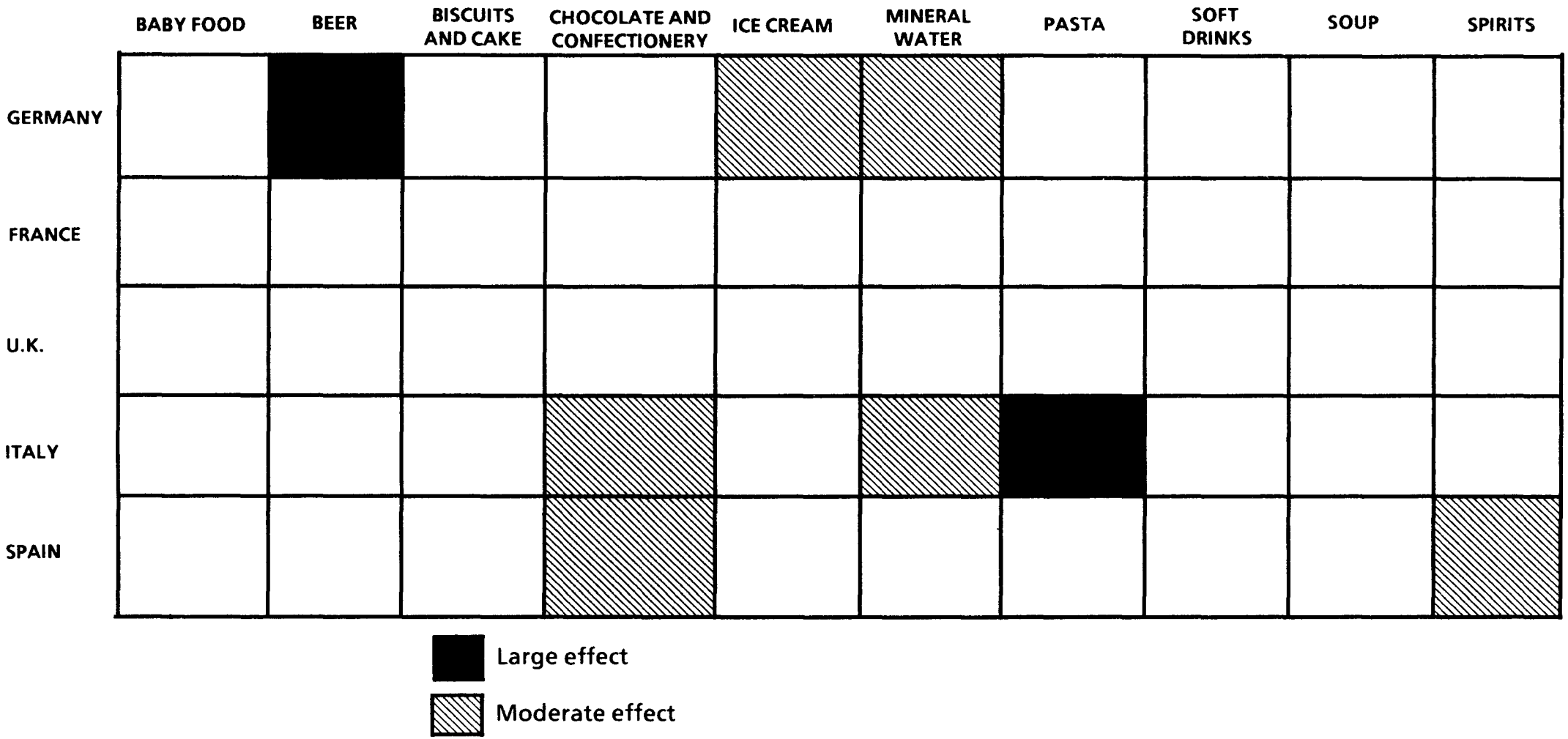
Increased consumer choice



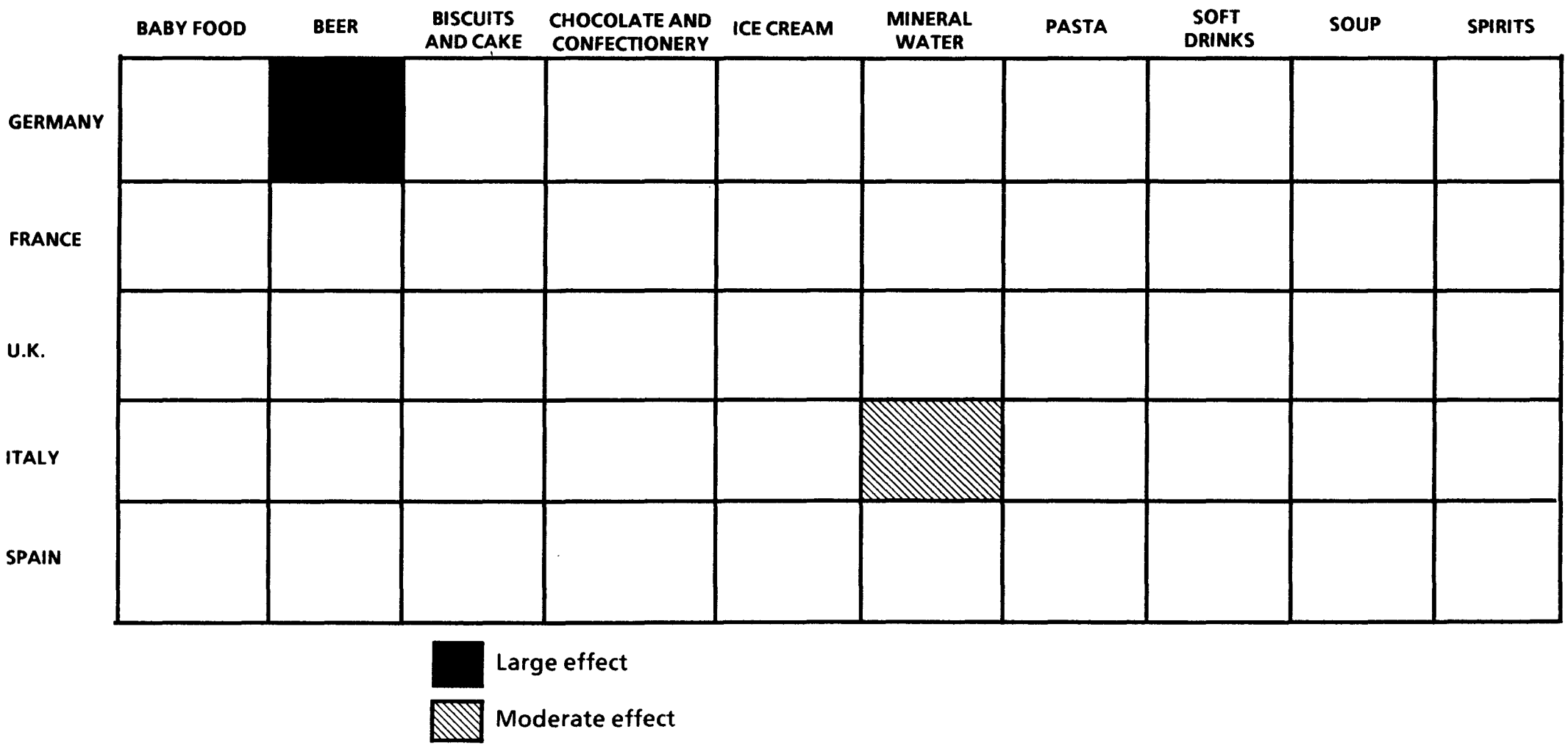
Variation in intra community trade



Improvement of industry efficiency



Variation in extra community competitiveness



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A. Detailed extrapolation sheets

B. Calculation of benefits as percent of value added

EXTRAPOLATION SHEET

1. **Barrier :**

   Beer purity law in Germany (1)

2. **Extention (country/product sector) :**

   Greece

3. **Extrapolation :**

   i) **Immediate direct effects**

Country/ sector	1992 market size	Unit cost savings	Penetration	Total
Germany	93 M HL	1 Ecu/HL	20%	15-20
Greece	1 M HL (4)	1 Ecu/HL	40%(1)	0-5
Total				15-25

3. Extrapolation (cont'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
Germany	Med	Low
Greece	Low (2)	Low (2)

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
Germany	High (90 M Ecus)	High	High	High
Greece	Low	Low	Low	Low

4. Notes :

(1) Penetration rate of "Non-pure" beer is assumed to be double that of Germany
(2) Main brewing groups are already located in Greece ; Transportation costs limits large import or export volumes. Imports account for less than 1% of consumption.
(3) Market is already quite consolidated
(4) Eurostat

EXTRAPOLATION SHEET

1. Barrier :

   Pasta purity law in Italy (2)

2. Extention (country/product sector) :

   The same law exists in France and Greece

3. Extrapolation :

   i) Immediate direct effects

Country/ sector	1992 market size	Unit cost savings	Penetration	Total
Italy	2000 M Ecus	10-15%	10-20%	20-60 M Ecus
France	500 M Ecus (1)	10-15% (2)	30-50% (3)	15-35 M Ecus
Greece	100 M Ecus (1)	10-15% (2)	10-20% (4)	1-3 M Ecus
Total				35-100 M Ecus

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
Italy	Med	Low
France	Low(5)	Low(6)
Greece	N.A.	N.A.

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
Italy	High	High	Low	High
France	Low (5)	Low (6)	Low	High
Greece	N.A.	High (6)	Low	High

4. Notes :

(1) Assuming Italian growth rate applies to France and Greece.
(2) Assuming same proportion of mixed pasta will be used in both countries .
(3) Assuming that half of France (North East and West) follows the same pattern as in Germany (66%) ; and half (south) follows the pattern of Spain (10-20%).
(4) Assuming same as Italy.
(5) The 3 major manufacturers already account for more than 60% of the market (Panzani, Lustucru, Rivoire et Carret). The french industry is highly efficient
(6) Penetration in Greece is 4.3% compared to 20% in France.

EXTRAPOLATION SHEET

1. Barrier :

   Aspartame restriction in the soft drink industry in France (3)

2. Extention (country/product sector) :

   Spain

3. Extrapolation :

   i) Immediate direct effects

Country/ sector	1992 market size (B Ecus)	Unit cost savings (1)	Penetration (2)	Total M Ecus
France	1.0	0-2%	5%	0-2
Spain	1.5-2	0-2%	5%	0-4
Total				0-6

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H) (1)
France	Low	Low
Spain	Low	Low/Med

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
France	Low	Low	Low	High (4)
Spain	Low	Low	Low	High (4)

4. Notes :

(1) Unit cost savings will result from the use of cheaper sweeteners (eg., Aspartame or combinations of Aspartame and saccharin).
(2) Penetration for "diet" will reach about the same level as for France.
(3) The bottling industry enjoys some economies of scale which are linked to the number of products they have to bottle.
(4) As the soft drink industry is highly competitive in Europe, it follows that the removal of the barrier will have a weak impact on the supply side. However, the impact is very significant on the demand-side, where the consumer will enjoy a new range of products.

EXTRAPOLATION SHEET

1. Barrier :

   Vegetable fats in the chocolate industry in France (4)

2. Extention (country/product sector) :

   All EEC countries except the UK, Ireland and Denmark

3. Extrapolation :

   i) Immediate direct effects

Country/ sector	1992 market size (M Ecu)	Unit cost savings	Penetration (2)	Total
France	2.0	1-2%	90%	40-50
Germany	3.0	Same as France (1)	70-80%	45-55
Holland	2.0	" "	70-80%	35-45
Spain	1.5	" "	90%	30-40
Belgium	1.0	" "	60%	15-20
Italy	1.0	" "	60-90%	15-25
Total	-	-	-	190-235

   ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (3) (L-M-H)
France	Med	Low
Germany	Low	Low
Holland	Low	Low
Spain	Med	Low
Belgium	Low	Low
Italy	Med	Low

iii) Indirect dynamic effects (4)

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
France	Low	Low	Low	Med
Germany	Low	Low	Low	Med
Holland	Low	Low	Low	Med
Spain	Low	Low	Low	Med
Belgium	Low	Low	Low	Med
Italy	Low	Low	Low	Med

4. Notes :

(1) Savings or production costs are independent of countries : they may reach 1 to 2% for average quality chocolate products ; but more than 5% for poor quality ones.
(2) Penetration depends on cultural perception of chocolate (quality standards). All figures are based on estimations.
Some vegetable fats are already used in countries with a weak tradition of quality chocolate. However, future penetration of vegetable fats will be significant even in major chocolate consuming countries : the UK (where the law doesn't exist), Germany, Holland and Belgium.
(3) The removal of the barrier has a marginal impact on the scale of a chocolate plant.
(4) Removal of this barrier will have a weak impact on the structure of the industry ; as it is already highly concentrated.

EXTRAPOLATION SHEET

1. Barrier :

   Vegetable fat in ice cream in Germany (5)

2. Extention (country/product sector) :

   . France,
   . Greece
   . Luxembourg (6)

3. Extrapolation :

   i) Immediate direct effects

Country/ sector	1992 market size	Unit cost savings	Penetration	Total
Germany	500 ML	2.6 Ecus/KG of fat	75%	50-60 M Ecus
France	350 ML (1)	2.6 Ecus/KG (2)	50-75% (3)	20-35 M Ecus
Greece	45 ML (5)	2.6 Ecus/KG	50-75%	5 M Ecus
Total				75-100 M Ecus

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
Germany	Med	Low
France	Low (4)	Low
Greece	Low	Low

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
Germany	Med	Low	Low	Med
France	Low	Low	Low	Med
Greece	Low	Low	Low	Med

4. Notes :

(1) 1985 market size 275 ML ; 4% real growth
(2) As in Germany
(3) could be lower penetration ; assume 6% milk fat in ice cream
(4) market is concentrated : 3 companies control 50% of market. Big players have already entered market : UNILEVER ; NESTLE, MIKO/ORTIZ
(5) 1985; market size 35 ML ; 4% real growth
(6) Luxembourg is not considered in the extrapolation.

EXTRAPOLATION SHEET

1. **Barrier :**

   Recycling law for beverages in Denmark (6)

2. **Extention (country/product sector) :**

   No extention

3. **Extrapolation :**

   i) **Immediate direct effects**

Country/ sector	1992 market size	Unit cost savings	Penetration	Total
Denmark				< 1

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
Denmark	High	Med

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
Denmark	Med	H (+5%)	Low	High

4. Notes :

EXTRAPOLATION SHEET

1. Barrier :

   Wort tax on the beer industry in the UK (7)

2. Extention (country/product sector) :

   . Ireland
   . Italy
   . Belgium
   . Luxembourg
   . Netherlands

3. Extrapolation :

   i) Immediate direct effects

Country/ sector	1992 market size	Unit cost savings	Penetration	Total
UK	61 M HL			0
Ireland	4 M HL			0
Italy	12 M HL			0
Belgium/Lux	12 M HL			0
Netherlands	12 M HL			0

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
UK	Med	Low
Ireland	Med	Low
Italy	Low (1)	Low
Belgium/Lux	Med	Low
Netherlands	Med	Low

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)		Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
UK	Low	(.16 M Ecus)	Low	Low	Low
Ireland	Low	(0.016 MEcus)	Low	Low	Low
Italy	Low	(0)	Low	Low	Low
Belgium/Lux	Low	(0.05 M Ecus)	Low	Low	Low
Netherlands	Low	(0.05 M Ecus)	Low	Low	Low
Total		0.3 M Ecus			

4. Notes :

(1) Imports already account for 17% of consumption

EXTRAPOLATION SHEET

1. **Barrier :**

   Health registration requirement for baby food in Spain (8)

2. **Extention (country/product sector) :**

   9 other product sectors covered in study

3. **Extrapolation :**

   i) **Immediate direct effects**

Country/ sector	1992 market size	Unit cost savings	Penetration	Total
Baby Food		1000 Ecus/ Product type	× 20 product types	20,000 Ecus
9 product sectors		1000 Ecus/ Product type	× 20 product types	180,000 Ecus
Total				200,000 Ecus

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
Baby Food	Low	Low
9 product sectors	Low	Low

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
Baby Food	Low	Low	Low	Low
9 product sectors	Low	Low	Low	Low

4. Notes :

EXTRAPOLATION SHEET

1. **Barrier :**

   Bulk transport for spring water in France (9)

2. **Extention (country/product sector) :**

   All countries except UK and NL

3. **Extrapolation :**

   i) **Immediate direct effects**

Country/ sector	1992 market size	Unit cost savings	Penetration	Total
France (1)	0.7	-	-	0
Other countries	4.0	-	-	0
Total				0

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
France	Low	Low
All other countries	Low	Low

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
France	Low	Med	Low	Med
All other countries	Low	Med	Low	Med

4. Notes :

(1) Direct effects are minimal under assumption that transportation is possible without changing the name to "potable water".

EXTRAPOLATION SHEET

1. **Barrier :**

   Saccharimetric content law for beer in Italy (10)

2. **Extention (country/product sector) :**

   . Spain
   . Greece

3. **Extrapolation :**

   i) <u>Immediate direct effects</u>

Country/ sector	1992 market size	Unit cost savings	Penetration	Total
Italy	1100 M Ecus	5%	30-50 %	15-30 M Ecus
Spain	380 M Ecus	5% (2)	30-50% (3)	5-10 M Ecus
Greece	120 M Ecus (1)	5% (2)	30-50% (3)	0-5 M Ecus

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
Italy	Med	Low
Spain	Med	Low
Greece	Low (4)	Low

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
Italy	Low	Med	Low	High
Spain	Low	Med	Low	High
Greece	Low	Low	Low	High

4. Notes :

(1) Source : EUROSTAT ; Assumed Growth 2.5%/year
(2) Saccharimetric content in Spain is the same as Italy : 11.0%, Greece is 11.5%.
(3) Consumption pattern assumed to be the same throughout southern Europe
(4) already highly concentrated.

EXTRAPOLATION SHEET

1. **Barrier :**

   Chlorine restriction for biscuits and cakes in all countries except the UK and Ireland (11)

2. **Extention (country/product sector) :**

   Ireland

3. **Extrapolation :**

   i) **Immediate direct effects**

Country/ sector	1992 market size (exports)	Unit cost savings	Penetration	Total
UK	3000 tons(1)	22.5 Ecus/tons(2)	100%	70,000 Ecus
Ireland	150 tons(3)	22.5 Ecus/tons	100%	3500 Ecus
Total				73,500 Ecus

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
UK	Med	Med
Ireland	Med	Med

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
UK	Low	Low	Low	Low
Ireland	Low	Low	Low	Low

4. Notes :

(1) Exports to EEC countries which do not accept chlorinated flour
(2) Of exports
(3) Over 90% of Irish biscuit and cake exports are to the UK

EXTRAPOLATION SHEET

1. **Barrier :**

   Label detail for soup in Spain (12)

2. **Extention (country/product sector) :**

   9 other product sectors

3. **Extrapolation :**

   i) **Immediate direct effects**

Country/ sector	1992 market size	Unit cost savings	Penetration	Total
Soup		5500 Ecus/ product type	x 10-20 Product types (1)	55.000 - 100.000
9 Product sectors		5500 Ecus/ product type	x 10-20 Product types (1)	495,000 - 990,000
Total				500,000 - 1.000.000

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
Soup	Low	Low
9 product sectors	Low	Low

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
Soup	Low	Low	Low	Low
9 product sectors	Low	Low	Low	Low

4. Notes :

(1) Though on average 20 prouct types exist per product sector, some may choose to use a Spanish-specific label for marketing reasons.

EXTRAPOLATION SHEET

1. **Barrier :**

   German water bottles for mineral water in Germany (13)

2. **Extention (country/product sector) :**

   No extention

3. **Extrapolation :**

   i) **Immediate direct effects**

Country/ sector	1992 market size	Unit cost savings	Penetration	Total
Germany	(No	immediate	direct effects)	

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
Germany	Med	Low

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
Germany	Low	Med	Low	Med

4. Notes :

EXTRAPOLATION SHEET

1. **Barrier :**

   Plastic containers for mineral water in Italy (14)

2. **Extention (country/product sector) :**

   Soft drinks

3. **Extrapolation :**

   i) <u>Immediate direct effects</u>

Country/ sector	1992 market size	Unit cost savings	Penetration	Total
Italy/ Mineral water	1240 M Ecu	10-30 %	3-4%	5-15 M Ecu
Italy/ Soft drinks	1300 M Ecu(1)	10-30%(2)	7-9%(3)	10-35 M Ecu
Total				15-50 M Ecus

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
Mineral water	Med	Low
Soft drinks	Low (4)	Low

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
Mineral water	Med	High/Med	Med	Med
Soft drinks	Low	Med/low	Low	Low

4. Notes :

(1) Eurostat ; growth 3-4% (largo consumo)
(2) cost savings will be same as mineral water
(3) In 1986, 50% of soft drink market was sold in plastic bottles, compared to 26% for mineral water.
(4) Main players already exist in Italy through licencing arrangements.

EXTRAPOLATION SHEET

1. **Barrier :**

   Double inspection for spirit imports in Spain (15)

2. **Extention (country/product sector) :**

   No extention

3. **Extrapolation :**

   i) **Immediate direct effects**

Country/ sector	1992 market size (imports)	Unit cost savings	Penetration	Total
Spain	15,000 litres	38 Ecu/ 1000 litres	100%	600,000 Ecus

3. Extrapolation (con'd)

ii) Deferred direct effects

Country	Increase in competition (L-M-H)	Economies of scale (L-M-H)
Spain	Med	Low

iii) Indirect dynamic effects

Country	Improvement of industry efficiency (L-M-H)	Variation in intra-community trade (L-M-H)	Variation in extra-community competitiveness (L-M-H)	Increased consumer choice (L-M-H)
Spain	Med	Low	Low	Med

4. Notes :

Appendices

A. Detailed extrapolation sheets

→ B. Calculation of benefits as percent of value added

Calculation of direct benefits as a percent of value-added

- **Total 1985 food expenditures for EEC-12** — **377 Billion Ecus**

- **10 products represent 17,6%(1) of total food expenditures, therefore food expenditures for the 10 product sectors is :** — **66 Billion Ecus**

- **Grown at 1% per year until 1992 yields :** — **71 Billion Ecus**
  - MSP/RSP — 0.75 (2)
  - Value added/turnover — 0.6 (3)

- **Total value added for 10 products** — **32 Billion Ecus**

- **Total net benefit from barrier removal** — **0.5 B Ecus** — **1 B Ecus**
  - as % of VA — 1,6% — 3,1%
  - as % of sales — 0,9% — 1,9%

(1) based on 1985 Eurostat statistics
(2) Manufacturers prices/retail prices
(3) Eurostat found an average for .29 ; for 7 of 10 product sectors in this study, analysis suggests 0.6

The Cost of "Non-Europe" in the Foodstuff Industry

Report IV
Consolidation of the European Food Industry : An implication of the 1992 Common Market

GROUPE MAC

PREFACE

The MAC Group was retained by the European Commission to conduct a study on the completion of the internal market by 1992 in the foodstuffs industry. Four reports and an executive summary resulted from this effort :

Report I Identification of barriers and selection of pilot barriers

Report II Analysis of pilot barries (Volumes I and II)

Report III Extrapolation of benefits

Report IV Consolidation of the European food industry : an implication of the 1992 Common Market

Executive summary

Contents

Contents

Objective and Methodology

- The objective of this paper is to examine possible implications for the European food industry resulting from the creation of a single market by 1992.

- Findings presented in this paper are based on an analysis of 67 food companies operating in the EEC. These companies are active in the following product sectors :

Baby food	Condiments/Preserves	Pet food
Beer	Cooking oil and fats	Pasta
Biscuits	Dairy products	Rice
Breakfast cereals	Flour	Soft drinks
Canned Foods	Frozen Foods	Soup
Chocolate/Confectionery	Ice cream	Spirits
Coffee	Meat products	Sugar
	Mineral water	Tea

- The company sample is representative in that it includes the largest (above $ 100 million in annual turnover) EEC food companies which are active in the above product sectors.

Objective and Methodology (cont'd)

- The companies covered in the study are presented in the appendices :

  - Appendix A : list of companies by size
  - Appendix B : list of companies in alphabetical order with their product sectors.

- For the purpose of this analysis, companies operating in the EEC can be divided into three categories :

  - EEC-based food companies : companies with their world headquarters in an EEC country,
  - US-based companies : companies operating in the EEC but whose world headquarters are in the USA,
  - Swiss-based companies : companies operating in the EEC but whose world headquarters are in Switzerland.

- The focus of this sample was on processed food sectors, therefore companies who operate primarily in "upstream" food sectors may be excluded (see appendix C for notable EEC companies excluded from sample).

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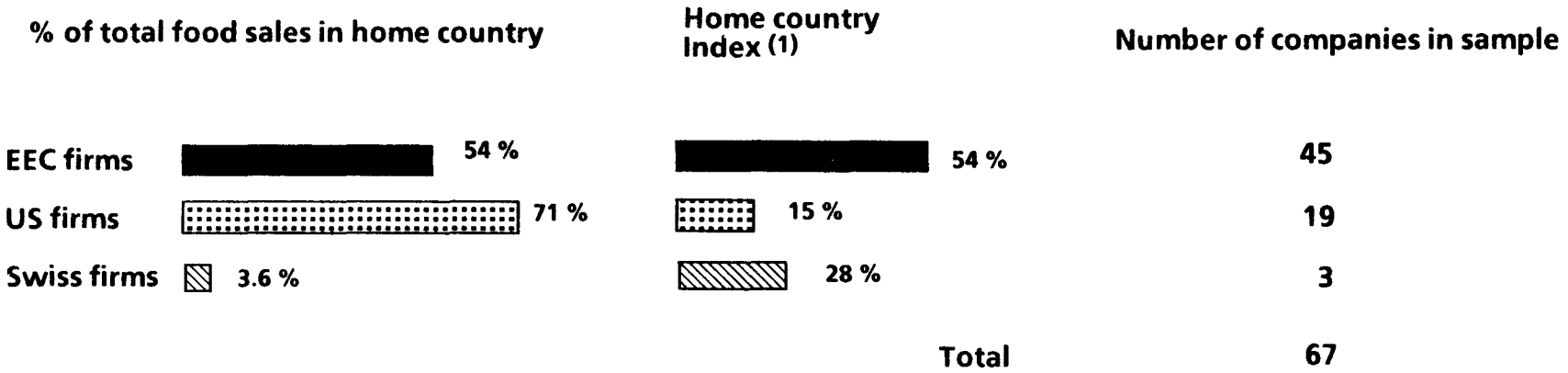
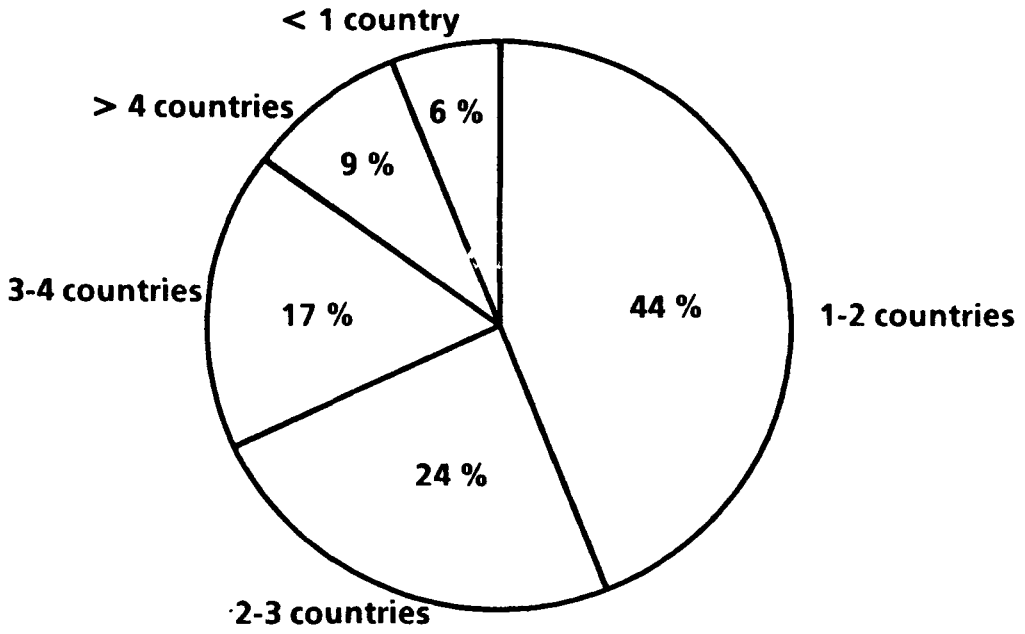
EEC companies are about four times more nationally orientated than US companies



(1) the index controls for the fact that home countries are of different sizes. It calculates the percent of home sales as if all countries (US and Switzerland) were the same size as a large European country (about 50 million population).

Few EEC companies follow a pan-European strategy

Average major countries (1) per product sector for EEC based companies
Total = 46 companies

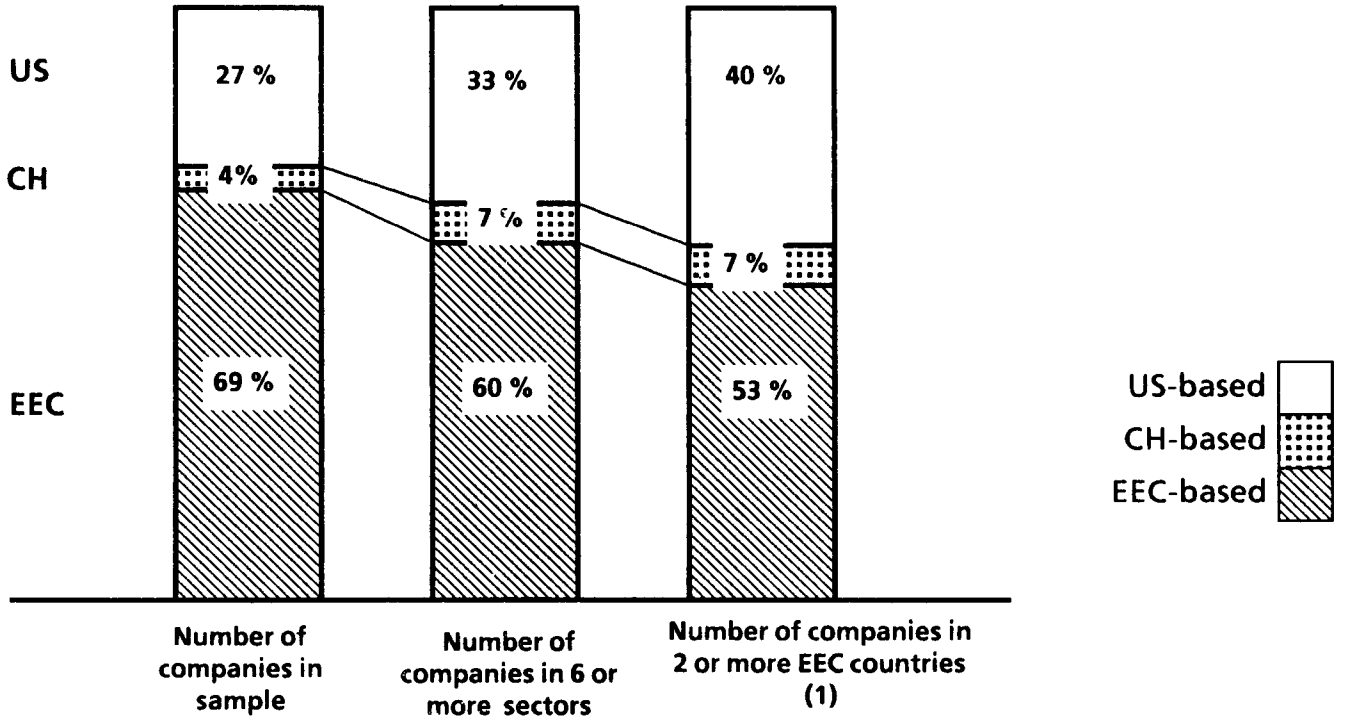


- **50 % of companies in the EEC have an average presence of two countries or less, which implies a nationally focused strategy in that the home country accounts for one of the countries.**

- **Only 9 % of the major EEC companies follow a pan-European strategy.**

(1) Major countries are the EEC-5 : France, Germany, Italy, Spain, UK. EEC-based companies are those whose world headquarters are in the EEC.

EEC companies have a narrower geographic and product focus than their non-EEC counterparts



- **The proportion of broad product focus companies which are EEC-based (60 %) is greater than the proportion of companies with wide geographic coverage which are EEC-based (53 %) :**
  - **This is explained by the tendency of EEC-based firms to diversify into new sectors within their country rather than diversifying across countries in a limited number of product categories.**

(1) Excluding own country

It is useful to compare the EEC food industry to that of the US, where a "single market" exists of about the same size

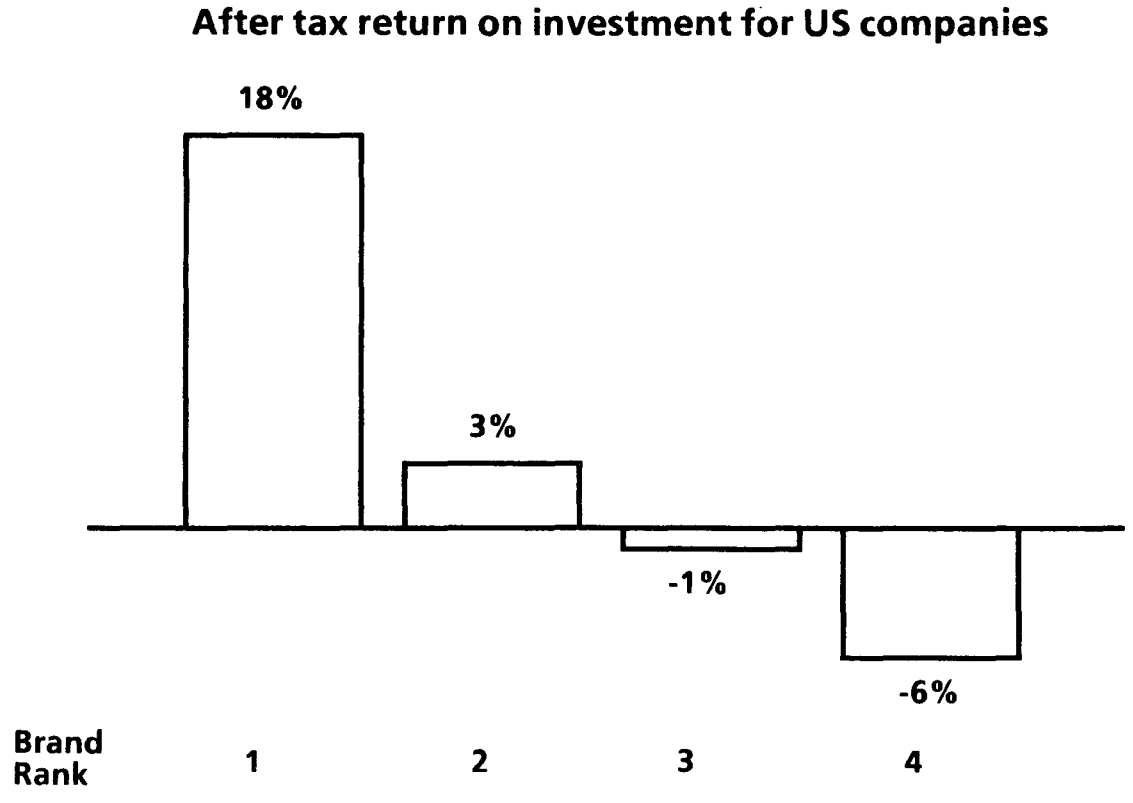
- In the US, food companies have been pursuing a two-fold strategy :
  - Become the dominant brand in a product sector
  - Achieve nationwide coverage

- Profitability of brand leaders or co-leaders is greater than that of "second tier" brands within a product sector.

- Nationwide coverage maximizes volume over which fixed costs (advertising, R&D, administration) can be amortized, leading to further increases in profitability.

Profitability of brand leaders and co-leaders is greater than that of non-brand leaders

This is true for return in investment...

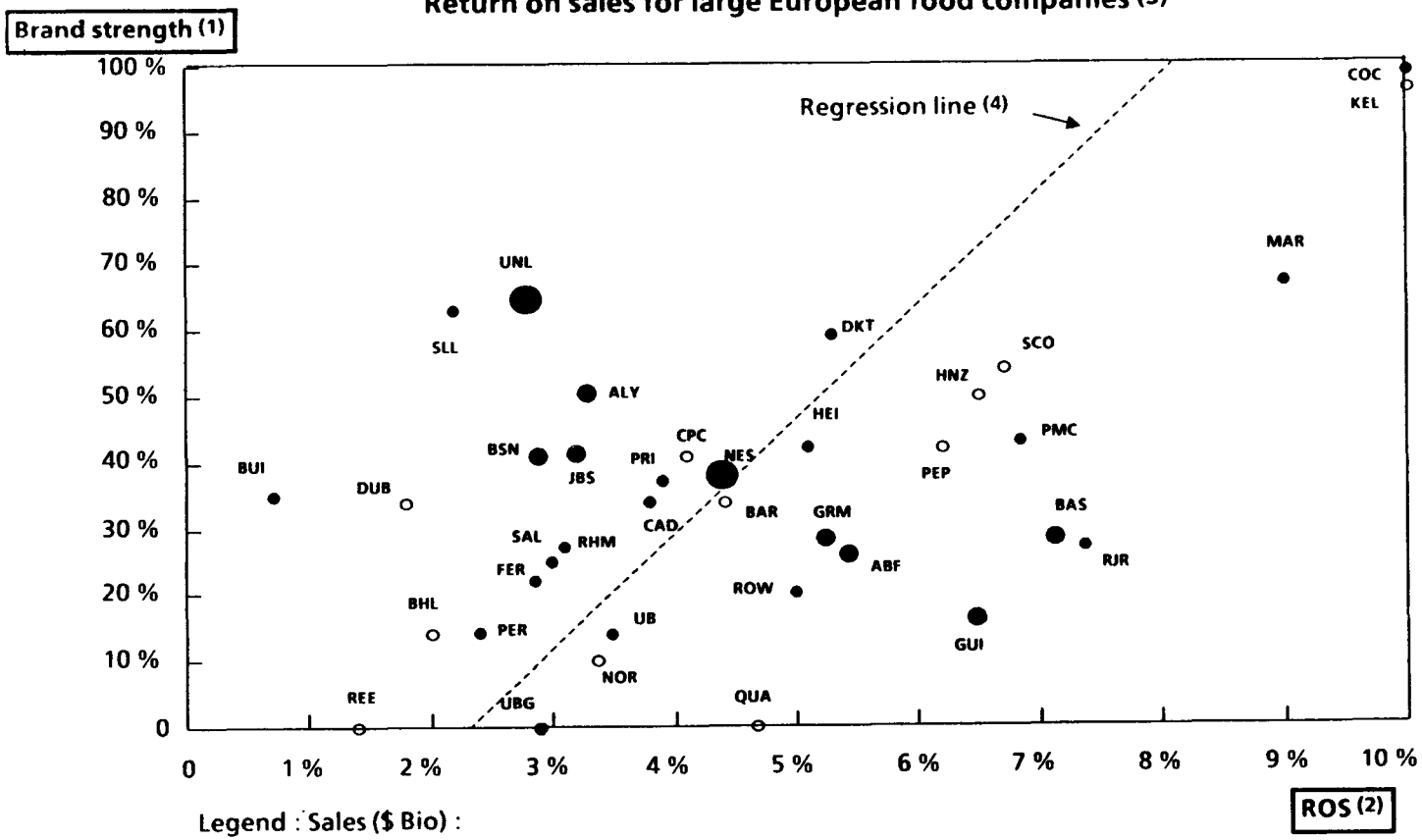


Source : Quaker 1986 Annual Report, Derived from PIMS Database, Strategic Planning Institute Cambridge, MA

Profitability of brand leaders is greater than that of non-brand leaders

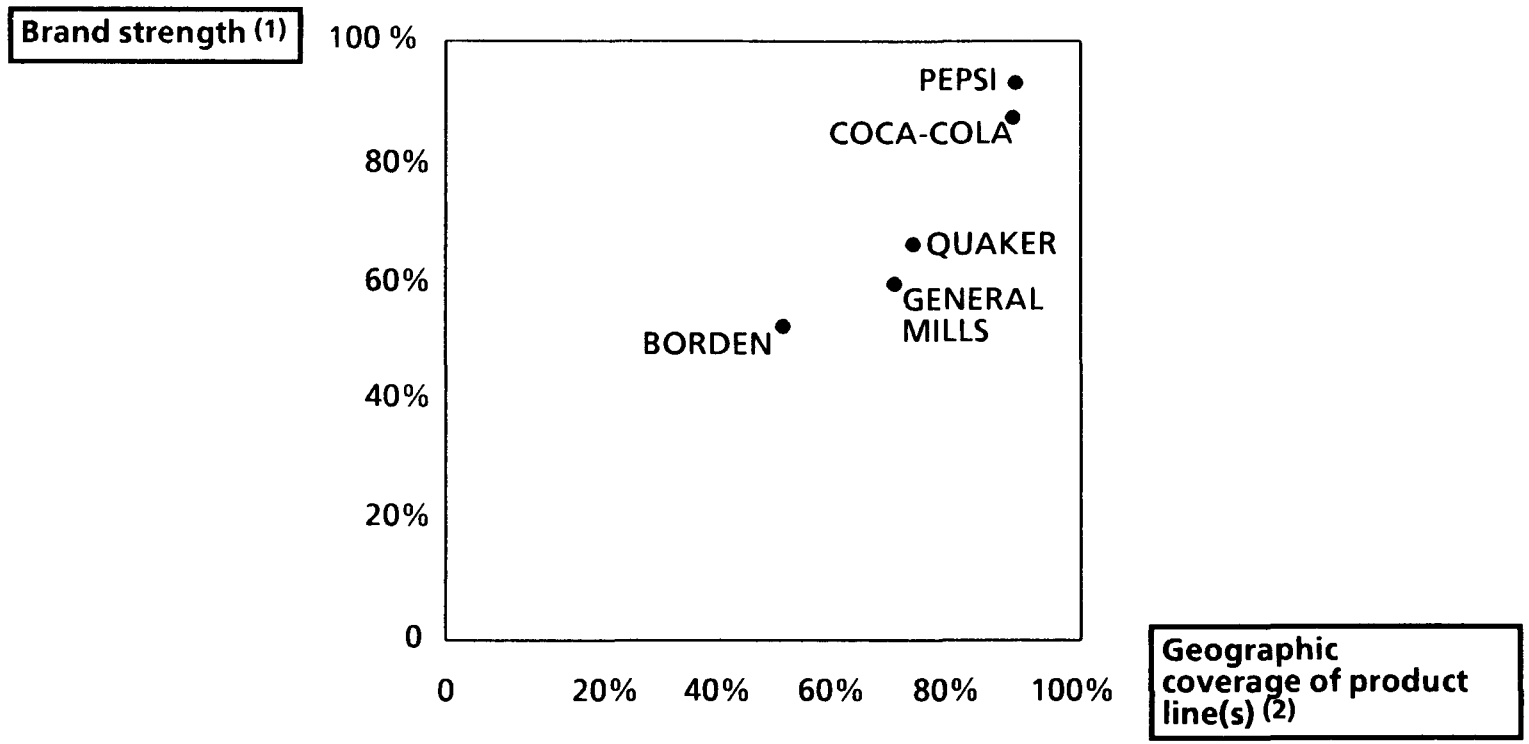
... as well as for return on sales.

Return on sales for large European food companies (3)



(1) Proportion of products/markets where the company is the brand leader or co-leader (see appendix D for explanation)
(2) Net income divided by total world sales
(3) From sample of 67 companies ; only those with sales above $ 500 million are represented in this graph.
(4) Fitted regression curve : ROS = 5.7 (brand strength) + 2.3 ; R-squared = .31

Major US food companies are attempting to achieve wide geographic coverage with high brand strength

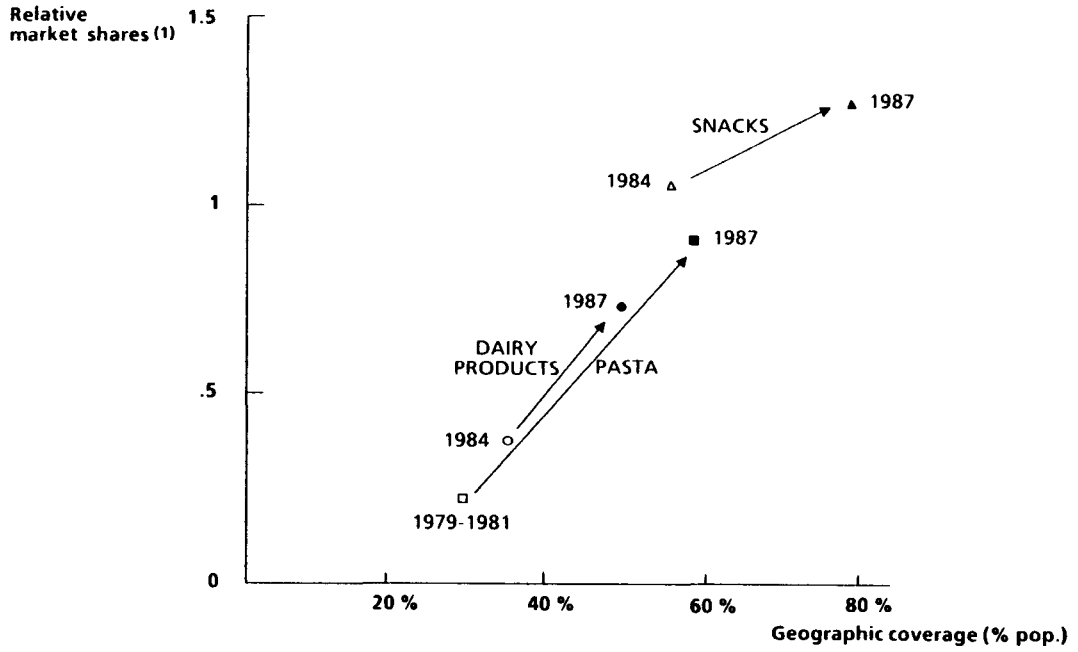


"Quaker brands ranked number one or number two in their categories generated over 63% of our US and Canadian Grocery products sales in fiscal year 1986"

1986 Quaker annual report

(1) Proportion of product/markets where the company is the brand leader or co-leader
(2) Coverage of national population

Borden has been reshaping its food portfolio over the past 3 years



- **Borden's strategy is to dominate a selected number of product sectors and achieve nationwide geographic coverage.**

  "We are expanding our leading snack brands ... towards nationwide distribution"

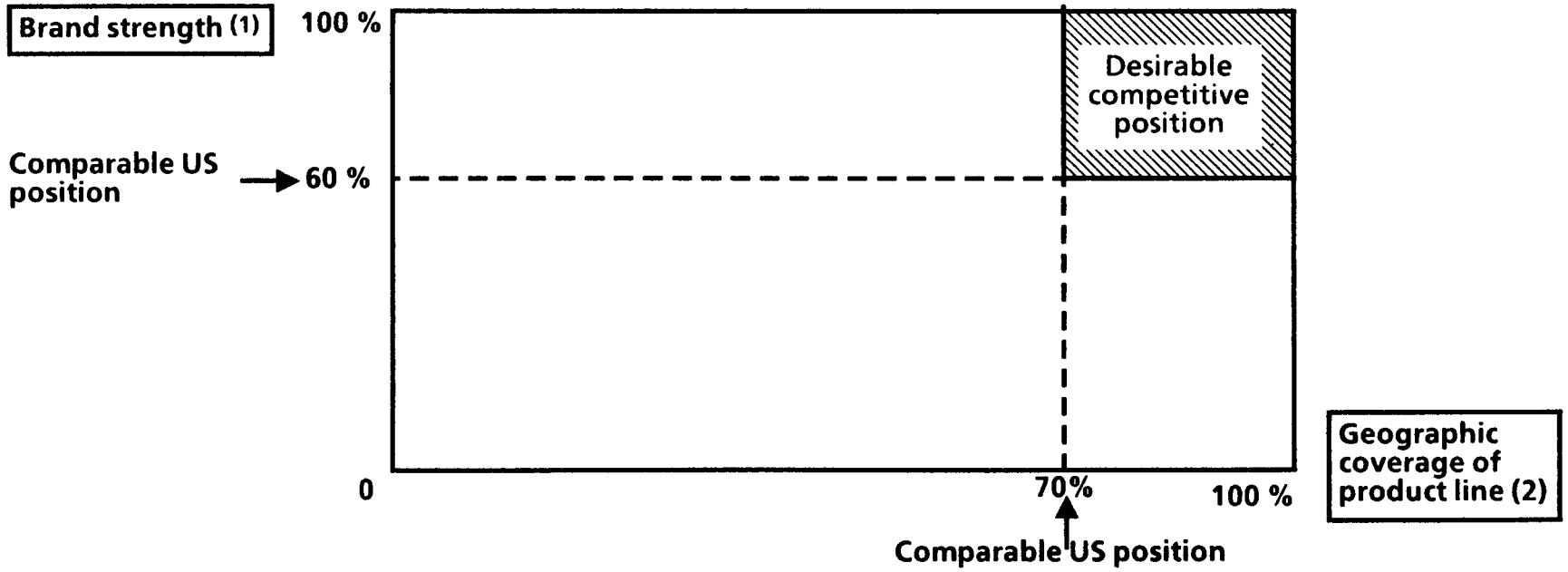
  "We purchased ... Meadow gold dairies... picking up many well-known brands and broadening our geographic reach substantially"

  "... We also made three other acquisitions totaling eight more strong regional brands. We've gone most of the way ... in launching our flagship creamette pasta brand across the country."

  R.J. Ventres, CEO of Borden

(1) Relative market share for a company is equal to its market share divided by the market share of the market leader. If the company is the market leader, the relative market share is equal to its market share divided by the share of the next largest competitor.

Treating the EEC as a unified market, competitive positions, comparable to those sought in the US, would be in the upper-right corner of the brand-strength/geographic coverage matrix



- **Derivation of comparable US position (see next page) :**
  - **Brand strength : based on position of leading US food companies**
  - **Geographic coverage : Based on population of US and EEC. Nationwide coverage in US would be approximately equivalent to 70% coverage of EEC.**

(1) Proportion of product/markets where the company is the brand leader or co-leader (see appendix D for explanation)
(2) Average number of EEC countries per product sector (see appendix D for explanation).

Derivation of the desirable position

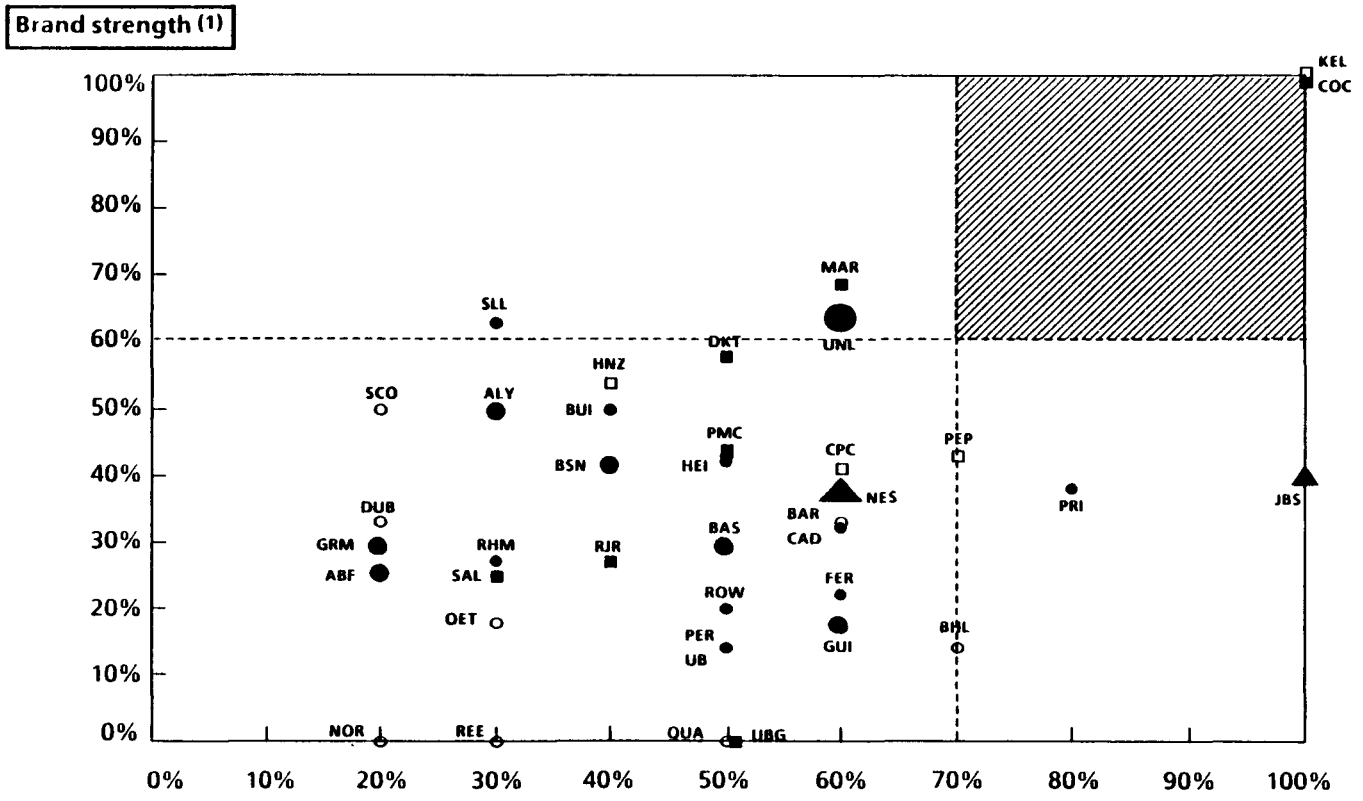
- The derivation of the 70 % value for geographic coverage is based on the fact that US firms have been attempting to gain 100 % geographic coverage in the US, which, in population terms, would correspond to obtaining a 70 % major country coverage in the EEC (1). It could be argued however that an EEC firm, too, should attempt to obtain 100 % coverage of the "single" EEC market. Therefore, the 70 % value should be treated as a minimum target for geographic coverage.

- The derivation of the 60 % brand strength value is based on an average of a sample of three successful US firms (2). Looking back to the correlation between brand strength and ROS (page 11), the 60 % brand strength value also corresponds to an ROS (about 5.8 %) which is in the highest quartile of EEC companies in the sample. The 60 % value, too, should be treated as a minimum.

- Given the two "target" values are minimums, the desirable position that EEC companies will be seeking is in the shaded portion of the brand strength/geographic coverage matrix.

(1) Assuming that a company's coverage of smaller EEC countries is the same as its coverage of major EEC-5 countries.
(2) Diversified food companies : Borden, General Mills, Quaker.

Few European food companies occupy the desirable position



Note : Only those companies in sample with sales above $ 500 million are represented in this graph.

(1) Proportion of products markets where the company is the brand leader or co-leader (see appendix)
(2) Average number of EEC-5 countries per product line (see appendix)

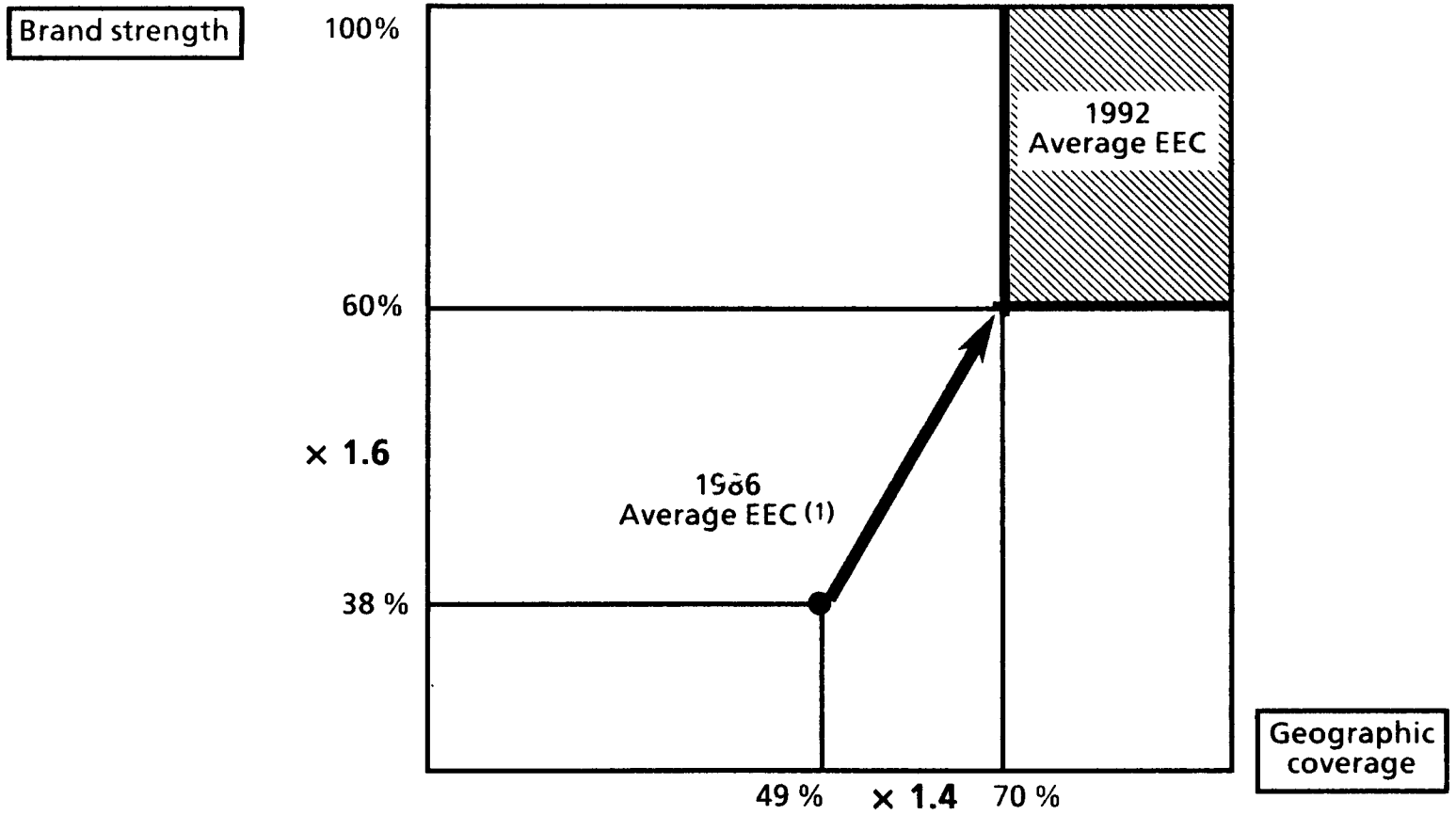
Few European food groups occupy the desirable position (cont'd)

- In fact, only two US-based companies, Kellogs and Coke, occupy the desirable position.

- Most EEC companies (whether EEC, US or Swiss-based) fall well short of the desirable position.

- The graph on the preceding page plots only the largest (> $ 500 million in sales) EEC food companies. Smaller companies, in general, would be located even further toward the lower, left corner of the graph.

To reach the desirable position, the typical EEC company would need to increase both its brand strength and geographic coverage...



- ... Which could lead to a major consolidation and restructuring of the European food industry
  - Mergers of competing companies within countries to achieve brand dominance
  - Mergers or alliances of companies across borders to achieve geographic coverage

(1) Weighted average based on sales of all companies in sample

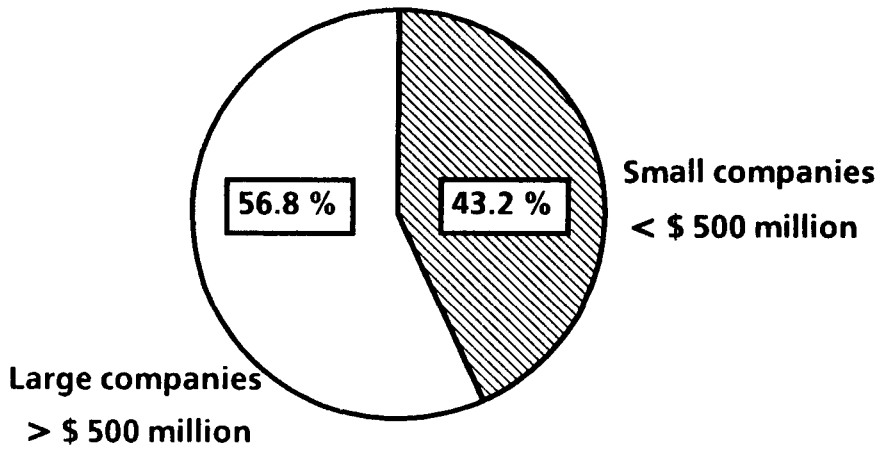
Some larger food companies are already pursuing acquisition programs to expand brand strength and geographical coverage.

- **Barilla :**
  - 27 % of Italian pasta market,
  - Significant share of Italian biscuit market,
  - Announced intention to expand outside Italy through acquisition,
  - Close to acquiring Rio of Valencia of Spain :
    - . $ 31 million turnover (1986)
    - . 10 % of Spanish biscuit market
    - . 6 % of Spanish pasta market
  - Through this related acquisition Barilla will gain entry into the growing Spanish market in two important products segments and could :
    - . Achieve benefits through consolidation
    - . Achieve benefits through scale economies

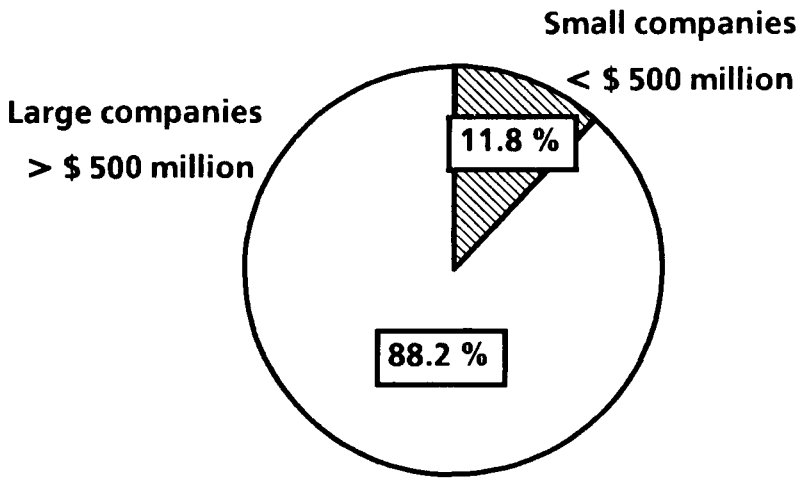
- **BSN :**
  - Second largest pasta maker in Europe
  - Third largest biscuit maker in the world
  - Largest producer of mineral water in the world,
  - In 1986/1987 BSN pursued a vigorous acquisition program in its principal businesses :
    - . Acquired Sunnen-Bassermann, a German pasta and soup maker,
    - . Acquired minority or majority interests in five Italian pasta producers,
    - . Acquired General Biscuit, a French biscuit maker,
    - . Acquired interest in Ferrelle, an Italian mineral water producer,
    - . Acquired majority interest in Aguas Fort Vella, a Spanish mineral water producer.
  - BSN's stock price increased by 58 % during 1986.

A restructuring in the food industry will likely involve major players as few brand leadership positions are held by small companies

Number of companies in sample (by annual sales)

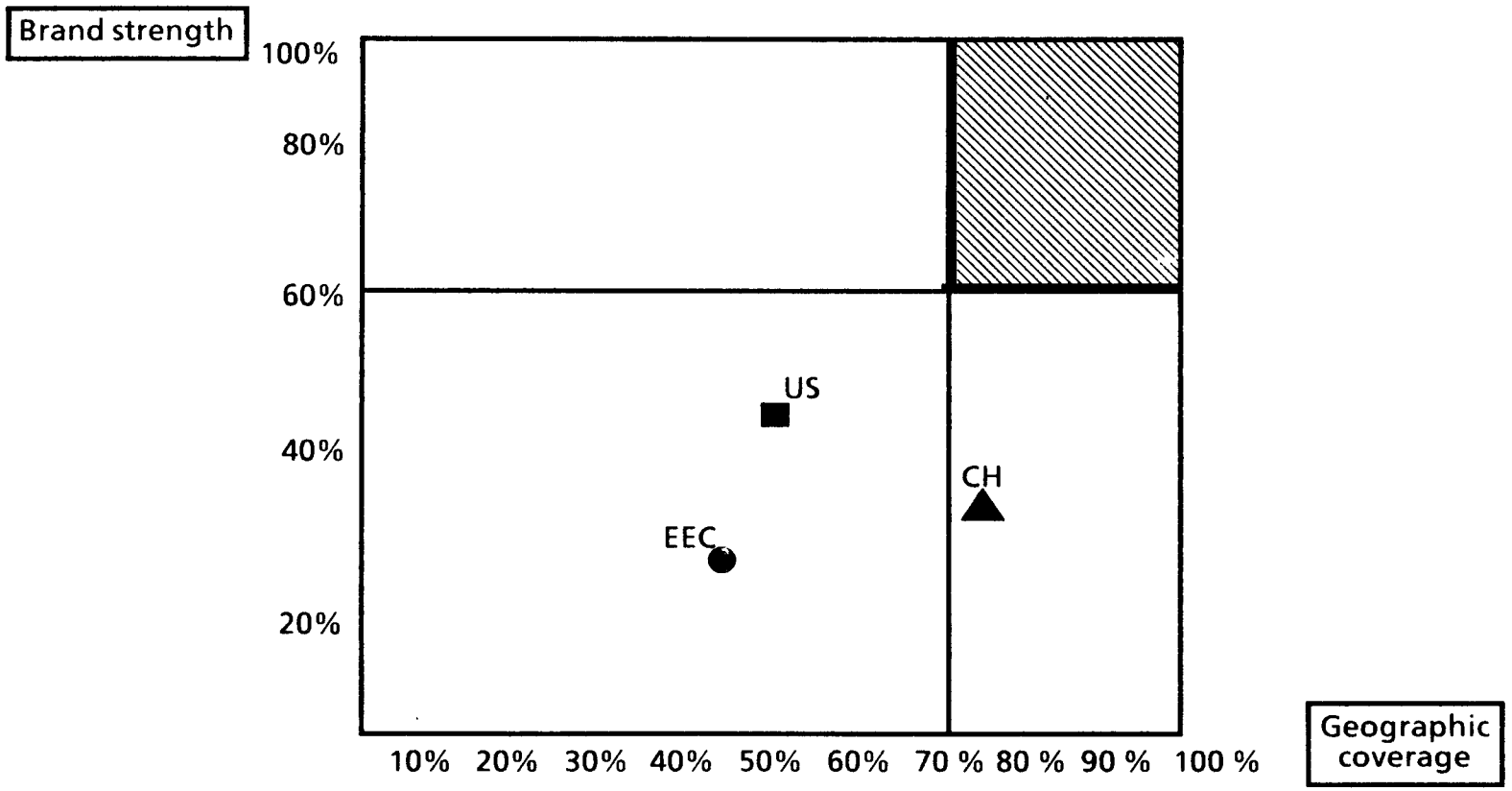


Number of brand leadership positions (by annual sales)



- Only about 12% of high brand positions are held by companies with food sales of $500 million or less

Non-EEC firms have a relatively stronger position than their EEC counterparts

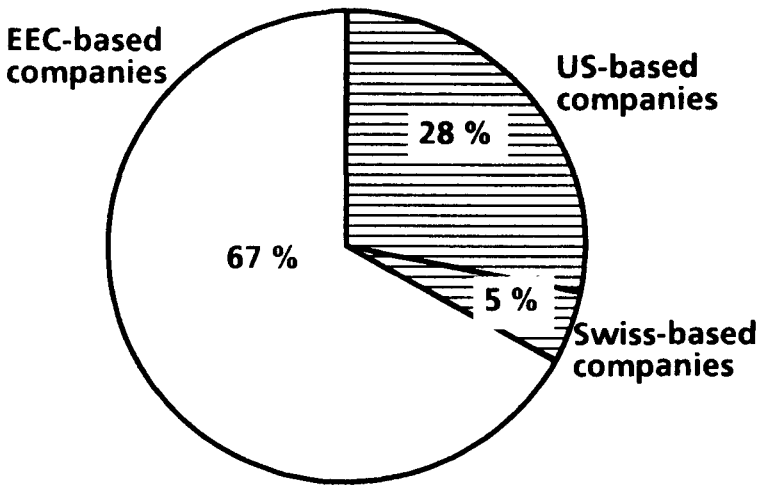


- **On average (1), US and Swiss companies have both wider geographic coverage and stronger brand positions than EEC companies**
  - **US firms tend to have much stronger brand strength than EEC firms,**
  - **Swiss firms tend to have much wider geographic coverage than EEC firms.**

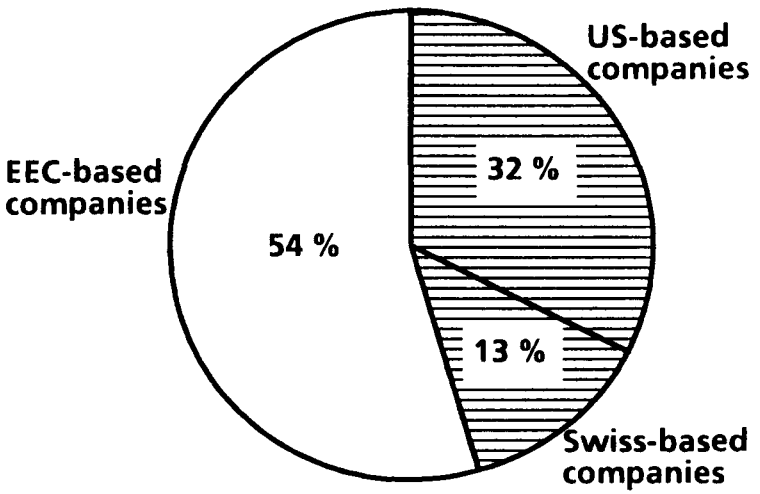
(1) Weighted average based on sales of all companies in sample classified according to location of world headquarters

Non-EEC companies have taken a major share of the EEC market

Total number of companies in sample

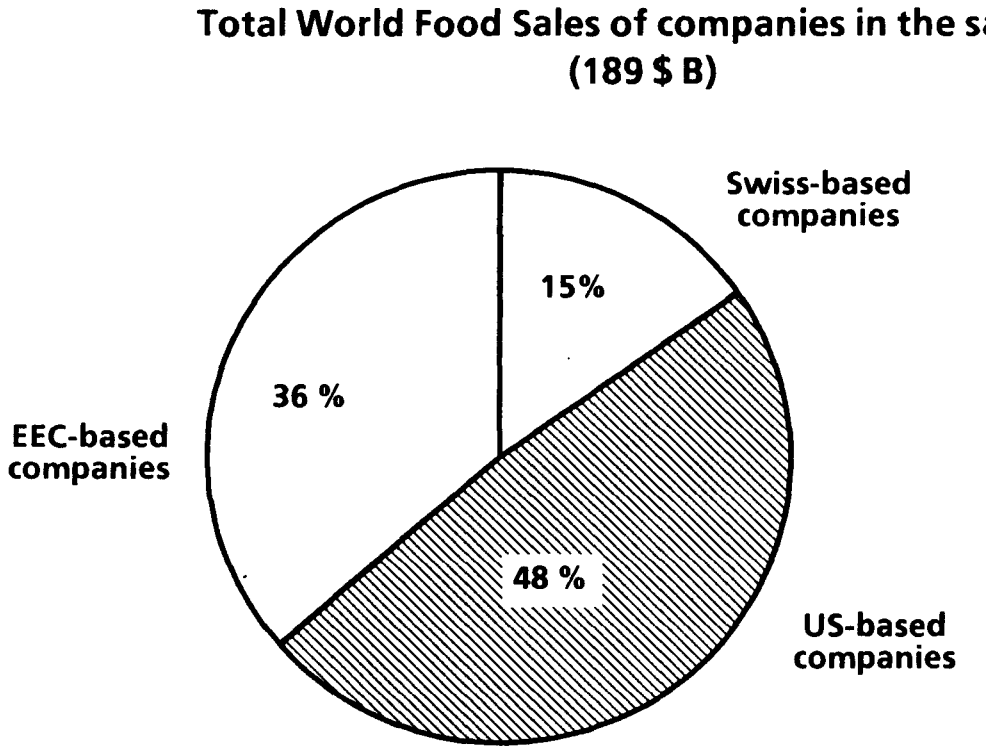


Total brand leadership positions



- Although they represent only 33 % of companies in the sample, non EEC firms control 45 % of strong brand positions.

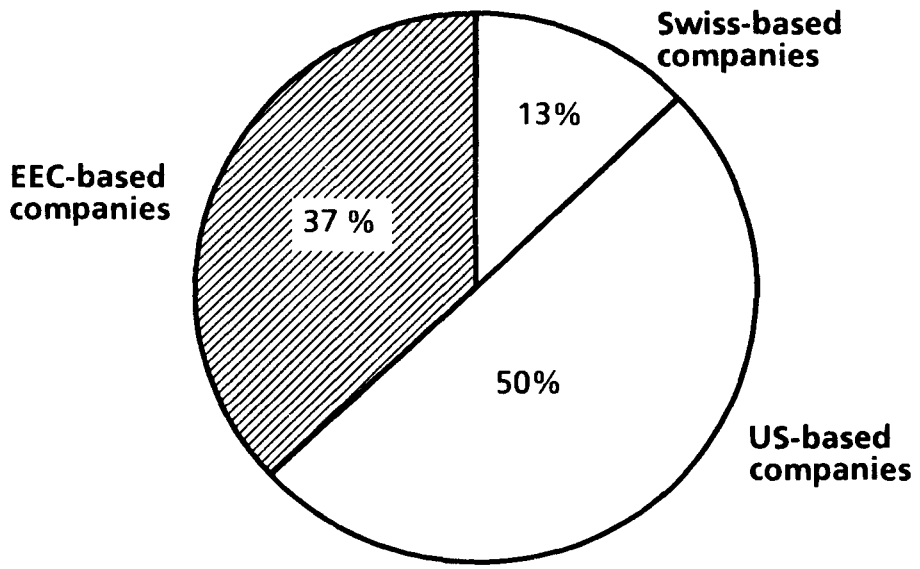
Non-EEC companies represent nearly two-thirds of world food sales of EEC based companies (1)



- US companies account for 48% of total food sales of the companies in the sample.

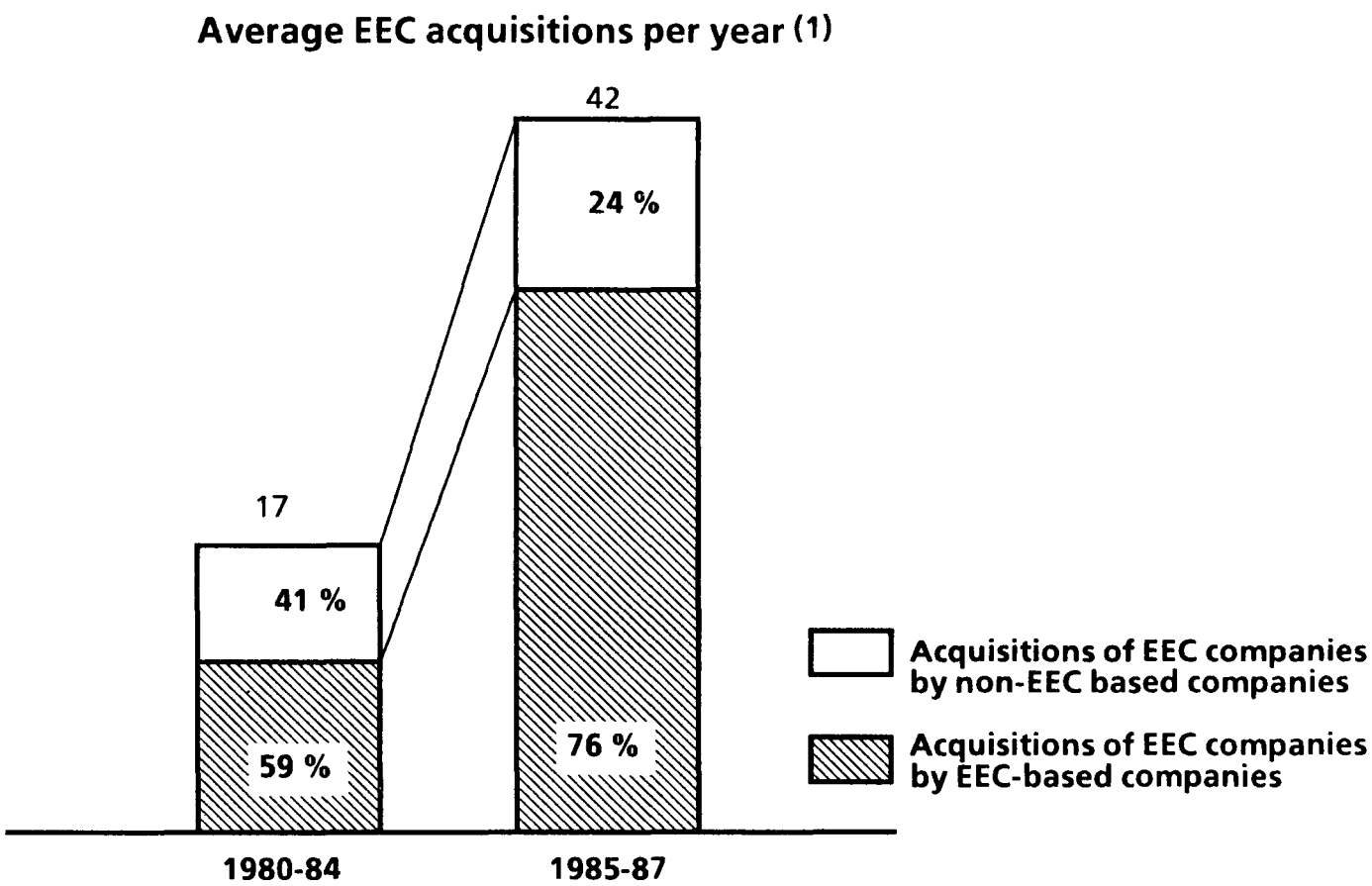
Non-EEC companies hold 63% of total equity of large companies operating in the EEC (1)

Equity shares of food companies operating in the EEC with over $500 million in equity (total equity = $ 42.6 B)



(1) of EEC companies in sample with more than $500 million in equity

The pace of acquisitions in the EEC has been increasing



Source : Food-related acquisitions of the 67 companies in the sample since 1980. Over 180 acquisitions occurred

- **Non-EEC firms accounted for 41 % of acquisitions during the 1980-84 period :**
  - **This percentage has dropped to 24 % in recent years, through the absolute number of acquisitions has risen.**

Contents

Conclusions

- **Few companies follow a pan-European strategy in the food industry**
  - Firms tend to be nationally focused
  - The exceptions to this are mainly US and Swiss companies operating in the EEC.

- **In the US, companies have been following a two-pronged strategy :**
  - Achieve brand dominance in a selected number of product sectors,
  - Achieve nationwide coverage.

  In pursuing this strategy, top US food companies have engendered an industry restructuring.

- **If the EEC is viewed as a unified market, it can be concluded that very few companies have achieved a comparable position within the EEC.**

Conclusions (cont'd)

- **It is therefore likely that a similar restructuring could take place in the European food industry**

  - Companies could significantly change their portfolios :

    . companies could "swap" businesses to increase either brand strength, geographic coverage or both,
    . companies could increase their overall brand strength and geographic coverage through acquisition.

  - Such a restructuring will involve major players as few brand leadership positions are held by small companies.

  - Some of the larger EEC companies have recently been pursuing acquisition programs to increase their brand strength and geographic coverage.

- **In the context of such a restructuring, US and Swiss firms appear to be in a relatively strong position compared to EEC-based firms. They could become relatively more successful than their EEC counterparts.**

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A List of companies by size

B List of companies in alphabetical order with their product segments

C Notable European companies excluded from the sample

D Definition of brand strength and geographic coverage

4. Appendices

Companies covered in the study.

#	Company	Code	Country of Origin	World food sales 1986 ($ Bio)	EEC food sales 1986 ($ Bio)	Total world equity in food (1) 1986 ($ Bio)
1	NESTLE	NES	CH	20.10	6.43	4.50
2	UNILEVER	UNL	UK/NL	12.70	7.62	2.80
3	PHILIP MORRIS CORP.	PMC	USA	12.00	1.08	2.95
4	RJR NABISCO INC.	RJR	USA	9.20	1.38	3.40
5	BEATRICE FOODS	BEA	USA	8.14	0.16	1.51
6	DART & KRAFT	DKT	USA	7.80	1.09	1.60
7	COCA COLA	COC	USA	7.29	1.31	3.50
8	PEPSI CO	PEP	USA	6.88	0.55	1.50
9	MARS	MAR	USA	6.00	1.38	NA
10	HEINZ	HNZ	USA	4.37	0.96	1.40
11	ALLIED LYONS (2)	ALY	UK	4.20	3.61	2.36
12	GRAND METROPOLITAN	GRM	UK	4.07	2.85	1.57
13	SARA LEE CORP	SAL	USA	4.06	1.30	0.45
14	CAMPBELL SOUP	CSC	USA	3.99	0.32	NA
15	BSN	BSN	F	3.80	3.23	1.20
16	GUINESS (3)	GUI	UK	3.60	2.52	1.76

(1) For diversified companies, equity in food businesses is estimated based on total food sales
(2) Excludes Hiram Walker
(3) Excludes Distillers

Companies covered in the study.

#	Company	Code	Country of Origin	World food sales 1986 ($ Bio)	EEC food sales 1986 ($ Bio)	Total world equity in food (1) 1986 ($ Bio)
17	BORDEN	BOR	USA	3.55	0.20	1.02
18	KELLOGS	KEL	USA	3.30	0.53	0.91
19	JACOBS-SUCHARD	JKS	CH	3.20	3.01	0.95
20	ASSOC.BRITISH FOODS	ABF	UK	3.14	2.36	2.1
21	GENERAL MILLS	GMI	USA	3.06	0.15	0.46
22	PILLSBURY	PIL	USA	3.03	0.39	0.68
23	QUAKER OATS	QUA	USA	2.97	0.52	0.67
24	CPC INTERNATIONAL	CPC	USA	2.77	0.89	0.59
25	CADBURY SCHWEPPES	CAD	UK	2.74	1.56	0.69
26	BASS CHARINGTON	BAS	UK	2.66	2.66	1.42
27	UNITED BISCUITS	UB	UK	2.40	1.39	NA
28	HEINEKEN	HEI	NL	2.30	1.47	0.78
29	RANKS HOVIS Mc DOUGALL (2)	RHM	UK	2.10	1.66	0.52
30	ROWNTREE MACKINTOSH	ROW	UK	1.79	1.07	0.55
31	SAINT LOUIS LESIEUR	SLL	F	1.60	1.52	0.25
32	FERRERO	FER	I	1.50	1.35	0.22
33	HERSHEY'S	HRS	USA	1.50	0.03	0.55

(1) For diversified companies, equity in food businesses is estimated based on total food sales
(2) Excludes Avana Group

Companies covered in the study.

#	Company	Code	Country of Origin	World food sales 1986 ($ Bio)	EEC food sales 1986 ($ Bio)	Total world equity in food (1) 1986 ($ Bio)
34	UNIT.BREWERIES GROUP	UBG	DK	1.35	1.15	0.35
35	PERRIER	PER	F	1.30	1.17	0.15
36	BUITONI	BUI	I	1.20	1.08	0.15
37	PERNOD RICARD	PRI	F	1.20	1.02	NA
38	BARILLA	BAR	I	1.05	0.95	0.10
39	MOET HENNESY	MOE	F	1.05	0.45	0.49
40	DR AUGUST OETKER	OET	D	0.95	0.95	NA
41	HANSON TRUST	HAN	UK	0.92	0.44	0.15
42	BAHLSEN GRUPPE	BHL	D	0.85	0.77	0.12
43	SCOTTISH NEWCASTLE	SCO	UK	0.81	0.80	0.51
44	AMERICAN BRANDS INC.	ABI	USA	0.79	0.04	0.24
45	NORTHERN FOODS	NOR	UK	0.78	0.78	0.15
46	DUB SCHULTHEISS	DUB	D	0.68	0.68	0.16
47	RECKITT COLEMAN	REC	UK	0.68	0.37	0.21
48	REEMTSMA	REE	D	0.65	0.64	0.12
49	PETER ECKE	PTR	D	0.49	0.47	NA

(1) For diversified companies, equity in food businesses is estimated based on total food sales

Companies covered in the study

#	Company	Code	Country of Origin	World food sales 1986 ($ Bio)	EEC food sales 1986 ($ Bio)	Total world equity in food (1) 1986 ($ Bio)
50	BECK	BCK	D	0.49	0.49	0.11
51	STAR	STR	I	0.46	0.45	0.09
52	MELITTA	MEL	D	0.44	0.35	0.05
53	REMY	REM	F	0.43	0.23	0.09
54	GRUPPO ALIVAR	ALI	I	0.42	0.39	0.06
55	ORTIZ MIKO	MIK	F	0.41	0.41	0.11
56	MC CORMICK	MCC	USA	0.40	0.04	0.13
57	PREMIUM BRANDS	PBR	UK	0.40	0.34	NA
58	ITALGEL	ITA	I	0.35	0.34	NA
59	VERENIGDE NUTRICIA	VER	NL	0.35	0.29	NA
60	BONDUELLE	BON	F	0.30	0.30	0.03
61	HERO	HER	CH	0.28	0.11	NA
62	MARTINI & ROSSI	MRO	I	0.25	0.24	0.12
63	SAUPIQUET	SAU	F	0.25	0.25	0.03
64	VANNELLE	NEL	NL	0.20	0.18	NA
65	BIRRA PERONI	BPE	I	0.20	0.2	NA
66	CANTALOU	CAN	F	0.20	0.2	0.02
67	MARTELL	MRT	F	0.20	0.08	0.13

(1) For diversified companies, equity in food businesses is estimated based on total food sales

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	Code	Name		Number of EEC-5 Countries	Number of Products	Baby food	Beer	Biscuits / Cake	Chocolate	Ice cream	Mineral water	Pasta	Soft drinks	Soup	Spirits	Condiment Preserves	Frozen food	Coffee	Tea	Yogurt Milk Prod	Canned food	Pet food	Cooking Oil & fats	Jam	Meat products	Flour	Sugar	Breakfast cereals	Rice
1	ALY	ALLIED LYONS	UK	2	9		X	X		X					X		X	X	X						X			X	
2	ABI	AMERICAN BRANDS INC.	US	1	1										X														
3	ABF	ASSOCIATED BRITISH FOODS	UK	1	7			X		X							X	X	X	X						X			
4	BHL	BAHLSEN GRUPPE	GERMANY	2	3			X								X					X								
5	BAR	BARILLA	ITALY	2	3			X				X				X													
6	BAS	BASS	UK	1	3		X						X		X														
7	BEA	BEATRICE CIES	US	2	3				X	X															X				
8	BCK	BECK	GERMANY	1	2		X						X																
9	BPE	BIRRA PERONI	ITALY	1	1	X																							
10	BON	BONDUELLE	FRANCE	2	1																X								
11	BOR	BORDEN	US	3	2			X						X															
12	BSN	BSN	FRANCE	2	13	X	X	X	X		X	X	X	X	X	X				X	X	X							
13	BUI.	BUITONI	ITALY	2	7			X	X			X				X	X				X		X						
14	CAD	CADBURY SCHWEPPES	UK	3	2				X				X																
15	CSC	CAMPBELL SOUP COMPANY	US	3	6			X	X					X		X	X				X								
16	CAN	CANTALOU	FRANCE	2	1				X																				
17	COC	COCA-COLA	US	3	2	X							X																
18	CPC	CPC INTERNATIONAL	US	3	5									X		X				X			X					X	
19	OKT	DART & KRAFT	US	3	5							X				X	X			X			X						
20	OET	DR AUGUST OETKER	GERMANY	2	7		X	X		X			X		X		X											X	
21	DUB	DUB SCHULTHEISS KONZERN	GERMANY	1	3		X				X		X																
22	FER	FERRERO	ITALY	2	3			X	X				X																
23	GMI	GENERAL MILLS	US	2	3			X									X											X	
24	GRM	GRAND METROPOLITAN	UK	2	6		X						X		X	X				X		X							
25	ALI	GRUPPO ALIVAR	ITALY	1	3			X													X		X						
26	GUI	GUINESS	UK	2	2		X								X														
27	HAN	HANSON TRUST	UK	1	4			X								X	X				X								
28	HEI	HEINEKEN	NL	3	3		X						X		X														
29	HNZ	HEINZ	US	3	7	X		X	X					X		X					X	X							
30	HER	HERO	SWITZERLAND	2	4	X								X							X			X					
31	HRS	HERSHEY'S	US	1	1				X																				
32	ITA	ITALGEL	ITALY	2	2					X							X												
33	JBS	JACOBS-SUCHARD	SWITZERLAND	2	2				X									X											
34	KEL	KELLOG	US	2	1																							X	
35	MAR	MARS	US	5	4				X							X						X			X				
36	MRT	MARTELL	FRANCE	2	1										X														
37	MRO	MARTINI & ROSSI	ITALY	2	1										X														
38	MCC	MC CORNICK	US	2	1											X													
39	MEL	MELITTA	GERMANY	1	2								X					X											
40	MOE	MOET-HENNESY	FRANCE	5	1										X														
41	NES	NESTLE	SWITZERLAND	5	15	X			X	X	X	X		X		X	X	X	X	X	X	X			X			X	
42	NOR	NORTHERN FOODS	UK	2	5			X												X	X				X	X			
43	MIK	ORTIZ-MIKO	FRANCE	1	2					X							X												
44	PEP	PEPSI COLA	US	5	2			X					X																
45	PRI	PERNOD-RICARD	FRANCE	5	2								X		X														
46	PER	PERRIER	FRANCE	2	3						X		X							X									
47	PTR	PETER ECKE	GERMANY	1	2								X		X														
48	PMC	PHILLIP MORRIS CORP	US	3	4				X									X			X				X				
49	PIL	PILLSBURY	US	3	6			X		X				X		X	X				X								
50	PBR	PREMIER BRANDS	UK	2	3			X										X	X										
51	QUA	QUAKER OATS	US	2	4			X	X													X						X	
52	RHM	RANKS	UK	2	7			X	X			X				X	X				X					X			
53	REC	RECKITT COLEMAN	UK	1	3	X									X	X													
54	REE	REEMTSMA	GERMANY	1	3		X				X		X																
55	REM	REMY	FRANCE	2	1										X														
56	RJR	RJR NABISCO INC.	US	2	6	X		X	X								X		X		X								
57	ROW	ROWNTREE MACKINTOSH	UK	3	2			X	X																				
58	SLL	SAINT LOUIS LESIEUR	FRANCE	2	5											X					X		X			X	X		
59	SAL	SARA LEE CORP	US	2	2													X	X										
60	SAU	SAUPIQUET	FRANCE	1	1																X								
61	SCO	SCOTTISH-NEWCASTLE	UK	1	1		X																						
62	STR	STAR	ITALY	2	7	X			X					X		X			X			X	X						
63	UNL	UNILEVER	NL	5	8					X				X		X	X	X	X		X		X						
64	UB	UNITED BISCUITS	UK	1	1			X																					
65	UBG	UNITED BREWERIES GROUP	DEN	2	2			X									X												
66	NEL	VANNELLE	NL	2	3													X	X										
67	VER	VERENIGDE NUTRICIA	NL	1	2	X		X																					X

4. Appendices

A List of companies by size

B List of companies in alphabetical order with their product segments

→ C Notable European companies excluded from the sample

D Definition of brand strength and geographic coverage

Notable European companies excluded from the sample

Company	Country	Sales ($ Bio)	Product sector	Reason for exclusion
UNIGATE	UK	3.4	Dairy	Primarily a dairy company
TATE AND LYLE	UK	2.8	Sugar	Primarily a sugar company
SODIMA	F	2.0	Dairy	Primarily a dairy cooperative
GROUPE SOCOPA	F	1.9	Milling	Primarily a miller
KONINKLIJKEWESSANEN	NL	1.8	Oils & fats, flour, starch, meat products, dairy products	Sectors out of scope of study
GRUPPO FERRUZZI	I	1.0	Sugar	Primarily a sugar company
CCF	NL	0.85	Dairy products	Dairy cooperative
SEAGRAM	CANADA	NA	Spirits	Insufficient data
ELDERS	AUSTRALIA	NA	Brewer	Insufficient data
HARIBO	D	0.3	Confectionery	Insufficient data
SIDALM	I	0.31		Insufficient data
CINZANO	I	0.11	Spirits	Insufficient data

4. Appendices

A List of companies by size

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→ D Definition of brand strength and geographic coverage

Definition of brand strength

- A company's brand strength can be defined in many ways (e.g. market share, relative market share, consumer brand awareness).

- For the purposes of this analysis a company's brand strength was defined as the proportion of products/markets where the company is the market leader or co-leader.

- Example :

  Company X has 2 products which it offers in three of the major EEC-5 countries. This gives company X a total of (2 × 3) 6 products/markets. Company X is the leader or co-leader in 3 of these product/markets. Therefore, company X's brand strength, as defined here, would be 50 % (= 3 ÷ 6).

Definition of geographic coverage

- Geographic coverage is defined as the average proportion of major EEC-5 countries where the company's products are present.

- Example :

  Company y produces products in three different product sectors. The maximum number of products/markets it could have is 15 (equal to the number of product sectors (3) multiplied by the number of major countries (5)). One of company y's products are sold in all five major EEC countries ; the other two are present in just two countries. This gives company y a total of 9 products/markets (5 plus 2 plus 2). Company y therefore has a geographic coverage of 60 % (9 divided by 15).

- I -

Annex

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