

## ECONOMIC TRENDS (DIRECTIONS) IN EU AGRICULTURE\*

### **GOSPODARSKE SMJERNICE U POLJODJELSTVU EUROPSKE UNIJE**

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#### ABSTRACT

Agriculture and food offer based on production and resources now and in the future in the EU are the main guidelines in the agrarian policy of this large European association.

By analysing world markets of agricultural products the author gives the main marketing aims in the EU agriculture at the same time preparing potential countries to membership in the EU, among which certainly is Croatia.

Creating and improving agricultural products, finding and rationalising sale channels by analysing consumption and changes in dietary habits of consumers of agricultural products in the EU the author stresses the nutritional aims and forms products from the view of consumers health and safety in consumption. This is achieved through the trade mark of the product and increased control of producers, producer associations and the state.

The author finally concludes that this is a good opportunity for agriculture of the countries which will be included in the EU to already make use of the enormous market of the European Union countries.

*Key words:* Economic trends in EU

#### SAŽETAK

Poljodjelstvo i ponuda hrane na temelju proizvodnje i resursa sada i u budućnosti na EU - prostorima, glavne su odrednice agrarne politike ove velike europske asocijacije.

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Preko analiza svjetskog tržišta poljodjelskih proizvoda autor daje glavne marketinške ciljeve u poljodjelstvu Europske Unije pripremajući i potencijalne zemlje na možebitno članstvo u EU u koje svakako ulazi i Hrvatska.

Stvaranje i poboljšanje poljodjelskog proizvoda, pronalaženje i racionaliziranje prodajnih kanala preko analize potrošnje i promjene u prehrambenim navikama potrošača poljodjelskih proizvoda u EU autor u ovom priopćenju naglašava nutricionističke ciljeve i oblikuje proizvode s gledišta zdravlja potrošača i sigurnosti u potrošnji. To se postiže preko marke proizvoda i pojačane kontrole proizvođača, proizvođačkih udruga i države.

Na koncu autor zaključuje da zemlje koje će se uključiti u EU imaju dobru prigodu da već sada koriste golemo zajedničko tržište zemalja Europske Unije.

*Ključne riječi:* gospodarske smjernice Europske unije

## 1. AGRICULTURE AND FOOD SUPPLY

The past two centuries have witnessed a worldwide, but still incomplete, shift from low-input, low-output agriculture to more intensive farming systems. In extensive agricultural systems, production tends to be raised by cultivating additional land as necessary. The "take off" phase leads to raised productivity (yields per hectare), achieved through the use of new crop varieties, improved cultivation techniques and increased inputs of agrochemicals and fossil fuel energy. The mature phase of the transition is characterized by slower yield growth rates; productivity may even decline locally, if the adoption of more intensive techniques has resulted in damage to soil and water resources.

The overall growth in world food supply conceals a number of trends which, if not corrected, will have disturbing implications for future food security.

Agricultural intensification in recent decades has taken a heavy toll on the environment. Poor cultivation and irrigation techniques and excessive use of pesticides and herbicides have led to widespread soil degradation and water contamination.

Dietary preferences are changing with increasing wealth in favour of meat and dairy products. Direct consumption of grain by humans is the most efficient use of available food supplies but more land in developing countries

is now used for growing grain feed, fodder and forage for livestock in order to supply export feed to industrialized countries and to meet an increasing demand for meat and dairy products in developing countries.

Agriculture in parts of North America and Europe has reached a stage where public interest in "healthy food", recreational use of the countryside (made possible by mass ownership of private vehicles) and protection of wildlife and habitats are encouraging less intensive techniques. Policy incentives are being implemented to remove some cropland from production altogether.

### **1.1 Food for the future**

The challenge in providing adequate nutrition to a population of 9.4 billion in 2050 is threefold: (i) food production must be doubled; given current regional population growth trends, a nearly threefold increase in supply will be required to feed the developing world and a fivefold increase for Africa and the Middle East; (ii) regional self-sufficiency will not be possible everywhere and food imports must increase; since food supply traditionally responds to demand (which is a function of income) and not to human need, the focus must be on ensuring that people have income to purchase the food they need; (iii) increased production must be achieved without further damage to the productive base (soils and water) or to human health.

Projections of future global food production and food security depend on underlying assumptions regarding population growth, available cropland, yield gains and diet (lifestyles). Recent long-term forecasts involve a wide range of outcomes because even small changes in underlying assumptions can lead to huge differences in future agricultural supply and demand.

The International Food Policy Research Institute (IFPRI) has developed a number of scenarios for future food production, including two variants based on differing assumptions regarding investment in agricultural research. Further cutbacks in public investment are expected to reduce production by about 10 per cent in developing countries (relative to a baseline scenario). Higher investment, by contrast, is projected to raise production and to create additional benefits in non-agricultural income growth, to increase public expenditures on social services and to improve access to water, sanitation services and education.

## **1.2 Food production and the natural resource base**

Limiting factors in expanding cultivated land area include the scarcity of high quality agricultural land, the risk of environmental degradation of marginal cultivated lands and competition with alternative land uses, particularly urban growth and development in developing countries and "counter-urbanization" (urban-rural migration), tourism and leisure uses in developed countries. Competition for land between agriculture and forest cover will sharpen; recent estimates suggest that nearly two thirds of tropical deforestation - some 12 million hectares per year - is due to farmers clearing land for agriculture. Scenarios developed by the Finnish Forest Research Institute suggest that tropical forest cover could decline from 1,757 million hectares (1990) to between 1,164 million hectares and 1,360 million hectares in 2025.

## **1.3 Agricultural productivity**

The CDS and IFPRI scenarios represent a "mid-way" point between technologically based projections which recognize few limits to food production and more pessimistic forecasts founded on the belief that world food production is already on a declining trajectory. If historical improvements in agricultural productivity can be maintained, there will be enough food to meet expanding demand. Future improvements will depend critically on continuing investment in improved crop varieties, greater efficiency in water use, improved soil management and socio-economic development which enables farmers to take advantage of new techniques.

## **1.4 The role of policy**

Agriculture is a heavily regulated economic sector. National Governments in both developed and developing countries intervene to influence what is grown and sold, where and how. Trade policies determine market access and can be used to protect the interests of domestic producers. The potential for government action to improve, or worsen, food security at every level is therefore enormous.

Positive impacts:

Public demand for nature conservation, together with budgetary constraints, have encouraged "environment friendly" policy measures to reduce agricultural surpluses and improve environmental protection in some developed countries. Strict regulation and pricing incentives have been introduced in parts of Scandinavia and Northern Europe, for example, which limit the use of agrochemicals and encourage preservation of habitat "enclaves" in farmland.

Negative impacts:

Subsidies in many developing countries for pesticides and herbicides, combined with inadequate education and product labelling, have encouraged excessive use, leading to soil and water contamination and thousands of pesticide-related deaths per year.

### 1.5 Policies and priorities

The fundamental challenge for sustainable agriculture and future food security is to make better use of available physical and human resources. Dramatic gains in agricultural productivity have proven possible to achieve but some regions remain at least partially "locked" in the low-input, low-output phase of the agricultural transition, unable to capitalize fully on available, superior crop varieties and management techniques.

Maintaining, or improving on, current trends in yield gains will depend on continued investment in agricultural research, preservation of biological diversity, both in situ and in gene banks, and substantial increases in fertilizer use in many developing countries.

Technological improvements will not be sufficient, however. The continuing gap between yields achieved by many farmers and at experimental stations suggests that more emphasis must be put on creating thriving rural economies which provide enabling environments for small farmers. Success factors include improved land tenure, remunerative prices, access to credit and markets that, together, encourage farmers to adopt new agricultural crops and techniques.

Food supplies in the future will come largely from higher yields on existing agricultural land, and losses of productive land must be compensated by even greater increases in yields. The more land lost, the greater the technological and economic challenge will be. Better management of irrigated land is a particular priority in this regard. Policy-making in all countries has too often paid insufficient attention to the protection of agricultural land as a natural resource, suggesting the need for re-evaluation of the economic costs of soil degradation due to poor agricultural practices or land loss from unplanned development.

The prospect of future regional imbalances between food supply and demand suggests that the developed countries will increase production again in order to meet global needs, but this will occur only in response to rising prices on international markets. If food subsidies to urban consumers in developing countries were reduced, and food prices allowed to rise, the necessary economic incentives might be supplied.

#### *World Agricultural Trade*

Total world trade continues to grow rapidly. World trade in agri-food products has risen from \$241.5 billion (US \$) in 1980 to a high of \$400 billion (US \$) in 1993. Preliminary data for 1994 (the latest available data) show world trade at \$446.2 billion (US \$). However, nearly all the growth in world trade has been in consumer oriented trade, rather than bulk commodities.

Trade in consumer oriented foods and beverages has more than doubled since 1980, rising from \$127.2 billion (US \$) to \$301.3 billion (US \$) in 1994. In contrast to the sharp rise in consumer oriented trade, trade in bulk commodities has varied only slightly, generally ranging between \$55 billion (US \$) and \$60 billion (US \$). Clearly, the potential for growth is in the consumer oriented, value-added products.

## 2. ADDED VALUES

There are very significant opportunities to add value to agricultural production in areas besides food. Today, food represents about 75 percent of the agricultural processing sector.

The food processing sector will continue to grow, fuelled by the development of new and unique products such as ethnic foods and nutraceuticals and functional foods.

Some people predict that non-food areas, such as pharmaceuticals, special and industrial uses, could reach 50 percent of agricultural value-added processing by 2010.

There will be substantial growth in the industrial uses area because it is already underway. For example, special lubricants and hydraulic oils, especially for marine applications, are being produced. Fibre-board plants are actively planned, straw is being processed into pulp and edible fibre, and several groups are proposing grain processing plants.

Pharmaceutical and bio-medical products are a very intriguing opportunity for production of high value products for both domestic and export markets. For example, a new variety of canola, which contains hirudin, is being developed at the University of Calgary, Canada. Hirudin is an anti-coagulant similar to that produced by leaches. This product will have wide application in medicine.

An Edmonton (Canada) based company is now producing two new products from oats: beta glucans and arrivine. Beta glucans have great promise for use in cosmetics and in food processing. Arrivine acts as an anti-irritant for application on the skin.

There are many other important new proteins and enzymes being developed by the medical research community in f.e. Canada. Many of these will be produced in plant or animal systems. This will be a tremendous opportunity for both agricultural production and processing.

### 3. TRENDS IN WORLD FOOD MARKETS

- Continued global population growth (1.5% annually)
- Rapid income growth in Asia (6 to 12% annually)
- Trade agreements create market opportunities
- Environmental issues: barriers/market differentiation
- Rising demand for natural, wholesome and quality products
- Decline of importance of traditional locational factors
- Rapid growth of value-added products and niche (segmented) markets

- Growth of strategic alliances, supply chain alliances and long-term business relationships

*A number of significant trends have been identified which, at a macro level, will impact the agri-food and fibre sector for the next ten years.*

Global population growth will continue while growth in Canada will remain stable. In 1994, the world population was about 5.4 billion people (World Bank, 1994). Now the world population is to be 6 billion people by 2000 and 8.1 billion by 2025. This implies a relatively stable or flat domestic demand for food products.

Income is expected to grow in Asia faster than in Europe. Income growth in Asia is projected at 6 to 12% annually in the near term. Domestic purchasing power will be constrained compared to income growth and opportunities in Asia.

Globally, the economy is expected to grow in a stable continuous manner at levels approaching 3% annually. This is a positive outlook in relation to the high boom-bust periods in the 1980s.

Trade agreements will continue to form and, in turn, facilitate greater international movement of goods and services. Increased trade creates more market niche opportunities for competitive products as well as more competition into Europe from overseas. Modern technology, lower costs of transport and increasingly sophisticated logistics and communication systems enable this ever increasing flow of trade.

Environmental issues continue to become more relevant and important in business and operating practices. The environment, as an issue, is rising on the agenda of many jurisdictions. This will have two effects: possible industry/trade barrier implications and market differentiation (and demand) for clean, wholesome safe products.

World-wide, consumers are demanding natural, wholesome, quality products at good value. Increasingly, people are demanding natural and wholesome products which, in turn, impacts such issues as animal welfare, production practices and biotechnology. Also, the link between food and health is strengthening. Several significant trends are emerging which will further impact the nature of the demand for food products: population is aging, particularly in Western Europe and North America; health care (and costs) is a broad concern; healthier diets/food products are considered a preventive measure to reduce future health costs.



Traditional siting factors (e.g. taxes, proximity to market) will continue to decline in importance. Other factors are increasing in importance, namely: technology, human capital and market infrastructure (distribution).

Value-added products and niche (segmented) markets will grow rapidly. The world markets continue to open up and value-added differentiated agri-food products will continue to outstrip commodity and intermediate product trade.

Strategic alliances, supply chain alliances, the formation of business groups and long-term business relationships will be critical for survival and growth. Improved packaging, the ability to maintain freshness, information technologies, logistics and efficient transportation systems are transforming the economics of distribution. Companies seeking survival and growth will require an alliance strategy of some type. This may be local, regional or international. In Europe, this phenomenon is termed as supply chain based competition where food processors do not compete individually for market position. Rather, they compete as part of a supply chain system that is targeted to meet the specifications of a particular market segment and retail/distribution channel.

#### 4. THE EU AGRI-FOOD MARKET

Agriculture employs about 6% of the civilian workforce in the EU and output is divided almost equally between crop and livestock production. France and Italy are the leading European food producers, with about 20% each of total EU agri-food production, followed by Germany, Spain, and the UK. Government support (price support and direct payments) provides approximately 50% of gross revenue for EU grain, oilseed, and livestock producers.

Five product groups -- cereals, fresh vegetables, beef, veal, and pork -- each account for more than 10% of total EU agricultural output while milk production accounts for almost 17%. Other important agricultural outputs are wine and poultry meat (each about 5%).

As a share of GDP, agriculture is particularly important in Greece (14%) and Ireland (10%); for all other Member States, the sector does not account for more than about 5% of GDP.

Common Agricultural Policy (CAP): Imports, exports, and production of agri-food products are governed by numerous regulatory measures implemented under the Common Agricultural Policy (CAP). The CAP, which applies equally in all EU Member States, combines direct payments to producers with market price support, i.e. administered prices, export subsidies, and import tariffs. The over-quota tariff rates are, in many cases, large enough to limit imports to levels provided for under Tariff Rate Quotas (TRQs) established under the Uruguay Round. There is, moreover, an increasing tendency to seek to apply other, less transparent, barriers to protect against imports, such as sanitary, phytosanitary, and technical regulations.

While one of the original purposes of the CAP was to provide incentives to food production, the subsequent implementation of these policies has led to the production of large surpluses of many products that are stockpiled or exported only with the help of subsidies. The major commodity sectors deriving the highest rate of support from the CAP are wheat and other grains (such as barley and corn), oilseeds, sugar, dairy products, and beef. Certain other sectors, such as wine, tobacco, and olive oil are also heavily supported. As the CAP relies mainly on market regulation, the result has been both a significant budgetary burden to the EU, as well as high consumer food prices.

Steps have been taken to rein in certain consequences of operating the CAP. In recent years, some of the market price support provided to grains and oilseeds and beef has been replaced with a variety of direct payments to producers, sometimes in conjunction with limits on production. There is also a shift underway towards paying farmers for using environmentally benign production practices, including those that maintain certain features of the rural landscape (i.e., stone walls or hedgerows).

There is a growing interest in the EU to scale down the traditional commodity-specific support regimes that encourage production and exports, by re-directing some government expenditures towards rural development. This evolution is likely to be slow, given the interests that have become entrenched under the current policy provisions. Parts of the food processing industry in the EU, which has to contend with high, regulated prices for many raw materials and complex procedures when exporting outside the EU, are beginning to pay more attention to the detrimental effects that the CAP has on their ability to grow and prosper in an increasingly global environment.

The Commission is expected to launch discussion on the further reform of key sectors by tabling proposals for the cereals, dairy, and beef sectors.

Although most of the world's largest food processing firms are headquartered in the United States (21 of the 50 largest firms), many EU-based firms are also large (10 of the 50 largest). These large firms are increasingly pursuing product branding strategies, both on an EU-wide and world-wide basis. Strategic choices and decisions taken at the firm level are thus becoming increasingly important in determining flows of agri-food trade and investment. Notably, food processors in Europe are tending towards rationalizing their plants and moving to more productive and larger facilities to serve all of the EU and East Block countries. Due to the diverse nature of the European Union, food distribution systems differ across Member States.

In the longer term, additional countries are likely to join the EU. Apart from the smaller countries of Malta and Cyprus, the most likely candidates are Poland, the Czech Republic, Hungary and Slovenia. While some observers have suggested such an enlargement of the EU to be quite imminent, others expect that any of these countries would not be able to join until 2005 or later. Enlarging the EU to include countries in Eastern and Central Europe would have significant consequences both in terms of integration under the CAP, and for the resulting trade patterns.

While an enlarged EU would have an even larger and diverse consuming population, the new members to the east would also have great potential to supply internal EU markets as well as export markets.

## 5. MANAGING THE SUPPLY CHAIN

The trends in procurement place a premium on the supply-chain management capabilities of the business marketer. Agribusiness companies sometimes spend 90 percent of their purchasing dollars with 150 suppliers. Of particular importance to Agribusiness companies is the quality of engineering support that they will receive from their suppliers. Agribusiness companies actively seek supplier partners that will contribute fresh ideas and innovative technology to attract of future agricultural products.

To effectively initiate and sustain a profitable relationship with a customer like Agricultural companies, the business marketer must carefully manage the multiple linkages that define the relationship. Given these new marketing requirements, Agricultural firms emphasize the importance of "concurrent

marketing" among the groups that are most central to customer contact efforts: product, sales, and service units. In their view, recent market developments place more emphasis on the firm's ability to

- generate timely market knowledge by segment and by individual account;
- customize product service packages for diverse customer groups, and
- capitalize on local field knowledge from sales and service units to inform product strategy in real time.

Developing and nurturing close, long-term relationships is an important goal for the business marketer. Built on trust and demonstrated performance, such strategic partnerships require open lines of communication between multiple layers of the buying and selling organizations. Given the rising importance of long-term, strategic relationship with both customers and suppliers, organizations are increasingly emphasizing relationship management skills. Since these skills reside in people rather than in organizational structures, roles, or tasks, marketing personal with these skills will become valuable assets to the organization.

### **5.1 Time and the Supply Chain**

The ways that leading agricultural companies manage time in the supply chain - in new product development and introduction, production, and sales and distribution - are the most powerful new sources of competitive advantage. According to CEO's, "Time as source of competitive advantage is relevant whenever customers have to wait to receive the value that they have decided they want. "Successful time-based competitors are able to conceive, develop, and introduce new products and services much faster than their competitors, without sacrificing product quality of marketability.

Rapid product development provides a firm with a number of competitive advantages. First, the quick product developer enjoys market advantages by incorporating more current technology into the product. Second, the fast product developer can introduce a product before customer preferences change - and then counter with a responsive offering when they do. Third, faster development times cut costs by reducing overhead and by using engineering and production resources more efficiently.

## 5.2 Getting Faster

To compress time and enjoy these competitive advantages, supply-chain leaders can take three steps. First, they can provide each company in the chain with more complete and timely information concerning orders, new products, and special needs. To illustrate, accurate demand-based information saves time and money by reducing uncertainty and the amount of inventory that each member of the supply chain must hold. Performance can also be improved by on-line systems that transmit quality and delivery data to supply-chain members on a realtime basis. Second, supply-chain leaders shorten work cycles by removing the obstacles to compression that one company often unknowingly imposes on another. Third, supply-chain leaders can compress time by synchronizing lead times and capacities among the levels of the supply chain to coordinate work flow. The goal here is to manage the chain so that each member can count on its suppliers to provide needed materials on a consistent schedule, regardless of which version of the final product is being made by the chain.

The quest for quality and the search for competitive advantage have spawned a quiet revolution in the business market. Business market customers are reducing the size of their supplier lists, forming strategic partnerships with "quality" suppliers, and emphasizing long-term contracts and speed to an unprecedented degree. Understanding the needs of business market customers is vital in this challenging environment.

## 5.3 The Value Chain Analysis of ECR

Efficient Consumer Response (ECR: Category Management, Product Replenishment and Enabling Technologies) is a global movement in the grocery industry focusing on the total supply chain (suppliers, manufacturers – including agriculture, wholesalers and retailers) working closely together to fulfil the changing demands of the grocery consumer better, faster and at less cost.

Consumers today are demanding more for less of retailers and manufacturers. But: What does more for less mean? How do we define consumer wishes ? How do we determine how well we are fulfilling these needs ? How do we assess the potential impact of ECR ? How do we make

good choices about where to focus our energy ? Responding to these questions is the purpose of Value Chain Analysis (VCA).

VCA has been defined as an integrated set of tools (Activity Based Cost Structure, Proprietary Costs, External Costs and Internal Costs) and processes that are used to define current costs and performance, as well as to assess the potential impact of proposed ECR improvement concepts across the entire supply chain for consumer goods product categories. Additionally these tools and processes work together collectively to generate priorities and action plans.

In its original version, as developed to support the USA ECR Performance Measurement Operating Committee years ago, VCA was focused on defining current costs and estimating cost reduction opportunities. However, as VCA has matured from hundreds of applications over the last couple of years, its tools have been expanded to include (a) the assessment of ECR impact on business growth, in terms of consumer demand and on market share and (b) the definition and communication of a shared vision, both internally and with key trading partners, regarding the impact of ECR on their business.

VCA supports these needs by providing a common language that can be used by companies and their trading partners to benchmark current performance and set a future for ECR initiatives on vertical cooperations between agriculture and the grocery industry.

*The purpose of the European VCA Study, as stated by the ECR Board, was to assess the applicability of the ECR concepts for typical European trading partners in grocery products, while identifying and quantifying the range of benefits that can be expected from ECR implementations.*

The key findings from the European VCA Study will be grouped into three areas: Shared vision, cost reduction and business growth.

Shared vision: The leading European retailers are already thought to be the most progressive in the world in their implementation of many of the concepts promoted by ECR. These leading retailers are pulling their European manufacturers into more aggressive ECR implementation programs.

Cost reduction: Implementing ECR will result in a 5.7% reduction in consumer prices for the average business in the grocery supply chain. This reduction is composed of a 4.8% reduction in operating costs and a 0.9% reduction of inventory levels. Of course, this number differs for specific product categories and distribution channels, but in every case, ECR creates significant cost reduction opportunities.

Business growth: Most business growth is related to gaining market share by shifting demand. Delay in ECR implementation risks shifting market share to competitors already adopting ECR. Results from companies already pursuing ECR Category Management suggest that business growth for leading companies could result in three times the normal business growth expected using current capabilities.

**The process of implementing ECR within the European grocery industry does not stop with the European VCA Study. Rather, the process will vigorously continue into the future.**

It is proven time and again, that a common language between trading partners is best provided through a VCA process.

## 6. EU CONSUMPTION OF FOOD

A report (Source: Eurostat Date: 30 June 1998) shows Europeans spend less of the household budget on food, drink and smoking but more on recreation and entertainment – and on medical care.

The Dutch spend least on food, drink and smoking: under 15% of final household consumption. Greeks spend most at just over 38%. EU average is 19.4%.

When it comes to 'recreation, entertainment, education and cultural services' category of household spending – Irish spend most (12%) and Luxembourgers least (4%). EU-wide, it's 9.1%.

Medical care 'high' is Germany's 15%, 'low' UK's 2% – with a 13.4% EU average.

And the report – from Eurostat, Statistical Office of the European Communities in Luxembourg – knocks some Euro-stereotypes on the head. For example, Italians are not the biggest coffee-drinkers. Finns are.

In 1996 Luxembourg recorded the highest household consumption per person overall at 13,100 PPS, the artificial unit statisticians use to compare the cost-of-living between countries. Next came Belgium (10,700 PPS) and Germany (10,500). At the other end of the scale were Portugal (5,800) and Greece (4,300).

In the 20 years to '96, EU consumption per person in real terms rose by around 40%. Luxembourg almost doubled. Only Greece fell a little.

Despite a smaller proportion going on food, drink and smoking, they still account for the bulk of EU family spending. In 1995 they were the lead item in Greece (38.1% of all household consumption), Ireland (32.4%), Portugal (30.5%), Finland (23.6%), UK (20.0%), Italy (19.9%), Austria (18.9%) and Belgium (18.2). Lowest share was the Netherlands' 14.7%.

Twenty years earlier this category had been the main item in the household budgets of all current Member States, except Denmark and Sweden. In the intervening years it also lost its primacy in Germany (15.7% in '95), Spain (21.0%), Luxembourg (18.3%), the Netherlands (14.7%) – and even in the spiritual home of food and drink, France (18.9% in '95).

The report states: "When consumption of food is broken down ... some clichés often applied to different countries are contradicted. Countries in southern Europe, for example, are usually considered large consumers of bread and cereals, particularly pasta. But, in fact, Scandinavian countries top the list...

"Scandinavian countries are generally assumed to have a diet based mainly on fish. But in reality Spain and Portugal are by far the biggest consumers of fish in the EU.

"Another assumption is that northern European countries are heavy consumers of milk and cheese. But Greece turns out to be the biggest consumer here, concentrating 68% of its food consumption on animal products (including meat)."

EU-wide, total household consumption volume was up by an average 2.3% a year from 1975 to 1995. The biggest growth was in medical care and health expenses (3.8%) and recreation, entertainment etc (3.3%). The slowest rate was the 1.1% of food, drink and smoking.

Among Member States in this decade, total consumption grew fastest in Portugal (3.7% a year) and Ireland (3.5%), slowest in Sweden (1.0%).

Spending on food, drink and smoking and gross rent, fuel and power was nearly 40% of total EU household consumption in 1995. Transport and communication and miscellaneous goods and services accounted for another 30%.

Whatever else has been 'harmonised', the process doesn't seem to have spread to EU household spending. As the report puts it: "The 'euro-consumer' does not exist."



It says consumption is closely related to the culture, traditions, lifestyles and development of different countries. The study detected "no strict similarity in geographical groupings".

In general, southern countries spend higher shares on food, drink and tobacco – but so do Ireland, Austria and Finland. A more homogenous group are the northern Member States which tend to spend more on gross rent, fuel and power. Clearly the climate plays a part in this.

#### 7. CHALLENGES AND PERSPECTIVES IN TRADE AND FOOD-MARKETING

A variety of factors are responsible for the changes in European consumption patterns in the last 25 years, including changes in consumer preferences, relative prices, increases in real (adjusted for inflation) disposable income, and more food assistance for the poor. New products, particularly more convenient ones, also contribute to shifts in consumption, along with more imports, growth in the away-from-home food market, expanded advertising programs, and changes in food enrichment standards and fortification policy. Socio-demographic trends driving changes in food choices include smaller households, more two-earner households, an aging population, and increased ethnic diversity. An expanded scientific base relating diet and health, new Dietary Guidelines for Europeans designed to help people make food choices that promote health and prevent disease, improved nutrition labeling, and a burgeoning interest in nutrition also influence marketing and consumption trends.

The typical supermarket fresh produce department carries more than two-and-a-half times as many items today as in the mid-1970's. Increases in domestic production, rising imports, and improved storage facilities afford year-round availability of many fresh foods.

As Europeans increasingly embrace national health authorities' recommendation of consuming fruits and vegetables a day, their array of choices continues to widen. Fresh-cut fruits and vegetables, prepacked salads, locally grown items, and exotic produce (as well as hundreds of new varieties and processed products) have been introduced or expanded in the last decade. Supermarket produce departments carry over produce items today, up from 250 in the late 1980's and 150 in the mid-1970's. Also, the number of ethnic, gourmet, and natural foodstores (which highlight fresh produce) continues to

rise. Consumers increasingly have more access to local produce as well. The number of farmers markets has grown substantially over the last several decades.

While the overall market for fruits and vegetables has expanded in the last 15 years, the mix has changed. Shifts have taken place among traditional produce items and between fresh and processed forms. Traditional varieties have lost market share to speciality varieties, and exotic produce has gained favor.

### **7.1 Target optimal nutrition for individual health**

Optimal nutrition enables people to achieve their genetic potential, feel their best, and decrease their susceptibility to disease. Better health through improved nutrition can increase Europeans quality of life, productivity, and learning potential and can reduce health care costs. New methodologies, including those in molecular and cellular biology, have the potential to create new and more reliable indicators of nutrient status and predictors of nutrient needs. This research can be used by agricultural producers, food processors, and manufacturers to enhance the value of foods; by policy-makers to establish nutrition guidelines; and nutrition educators to initiate efforts to improve status.

### **7.2 Design foods for healthy diets**

Manipulating existing foods and designing new foods can help improve Europeans growth and productivity and reduce their susceptibility to disease. The design and use of foods to modify the intake and proportions of nutrients people consume can influence their cell growth, metabolism, and/or function of the immune system. Better understanding of essential and non-essential components within foods, including their content in the food supply, bioavailability, and roles and interactions in nutrition, will provide a basis for developing foods tailored to individual needs. Creating novel (functional) foods using modified constituents, such as fat substitutes, offers additional means for developing and using agricultural products. Research is needed, however, to determine the maximum quantity of modified dietary constituents that can be safely eaten and to evaluate the process used to develop novel

foods. New technologies applied to agricultural products offer unprecedented opportunities to respond to consumer demands for healthy diets.

### **7.3 Promote healthy food choices**

Changing consumer demographics, family structures, and lifestyles, coupled with an expanding array of available products, have had dramatic impacts on food choices. Better understanding the role of consumer food choices and the demand is a necessary step in effectively promoting optimal health through improved nutrition. The economic and behavioral obstacles to adopting healthy food habits must be identified. Complete and current information to monitor food composition and food intake is needed as a basis for effective nutrition policies and food assistance programs.

### **7.4 Improve food safety**

The European food system provides consumers with an abundant of convenient, economical, high-quality, and safe food products. This system is built on the enterprise and innovative capacities of those who produce and market food in the E.U., and it is driven by the high expectations of European consumers for the foods they purchase for their families.

New pathogens, new food products, huge increases in imported foods, the growing importance of food exports, and increasing antimicrobial resistance among foodborne pathogens present new challenges to the nation's food safety programs. The food safety system is in need of reform.

Any initiative designed to improve the safety of the food supply should focus on the hazards and foods that present the greatest risks to public health, should emphasize development and implementation of preventive controls of those risks, and should seek opportunities for such controls through a collaborative process with the responsible sectors of the food industry and all other stakeholders. This prevention-control concept is Hazard Analysis Critical Control Point (HACCP), a science based state-of-the-art process for building safety into the production, handling and storage of food.

Food production and processing often occur thousands of miles apart. Transportation systems for live animals, fresh produce, and packaged foods offer many opportunities for contamination, such as heat, cold, and other

stresses that make animals and plants more susceptible to infection, and cross-contamination from the vehicle itself. Possible research recommendations include the following: a) investigate immune system „biomarkers“ of stress that might indicate predisposition to infection during transport and b) develop in- or on-package sensors of storage conditions to alert consumers of products not stored safely.

### **7.5 Education**

An alliance including industry and consumer groups should mount a comprehensive food safety awareness campaign for consumers, highly focused on messages and tactics targeted to the general public and to special populations such as high-risk consumers. The campaign should be centered around an easily recognized symbol or catch phrase and should include a national print and broadcast media campaign and incorporate food safety messages into school curricula. An emphasis should be placed on multilingual activities to ensure the widest coverage. Innovative methods for sharing information related to food handling behaviors should be developed in order to reach larger audiences.

### **7.6 Retail, food service, and institutional education**

A highly focused campaign should be developed to change food worker's unsafe food preparation behaviors. An alliance of federal, and local health agencies, as well as private parties, should be formed to develop education efforts on food safety issues.

In addition, guidelines should be developed for retail and food service operations which process meat and poultry to train state level inspectors to identify hazards at the retail level. Efforts should also be undertaken to educate the retail, food service and institutional industries in order to increase the use of HACCP principles.

### **7.7 Veterinary and producer education**

Development and implementation of a program could be considered to educate producers of animals for human food consumption, veterinarians, state and local regulators about proper drug use and the incorporation of HACCP

principles into industry quality assurance programs. The program could entail regularly scheduled training sessions, including satellite teleconferences, educational symposia, and presentations at producer and practitioner meetings. Guidelines and educational materials could also be developed and disseminated through a national clearinghouse to food producers and the veterinary medical community.

### **7.8 Industry education in the transportation area**

Government agencies could form an alliance to develop educational materials and train food transportation vehicle owners and operators and food processing establishments on hazards associated with the transportation of food products, particularly hazards associated with temperature controls, prior cargoes, and sanitation methods.

### **7.9 Food labeling**

Labeling refers to the presence of information on the food product's packaging or, when packaging is not used (as in fresh products), in conspicuous point-of-sale material. Labeling plays a key role in a consumer's decision to purchase a product: The marketplace best serves its customers when consumers are free to make informed decisions about the products they wish to purchase.

With increasing consumer awareness of nutrition, and the influence of nutrients on dietary related diseases, the need for accurate and standardization of nutrition labeling is apparent.

From a general marketing standpoint, it is readily apparent that nutrition „sells“ to today's consumer, making nutrition an integral part of product development and promotion. Consumer feedback is a powerful mechanism for manufacturers in developing new products that provide the health and nutrition characteristics sought by the public. Food marketers guard a product's front panel with fervour for the purpose of promotion and competition, they oppose any labeling proposals that threaten their control of this part of food packages.

If consumers are to make the dietary adjustments recommended by health experts, they must be able to make informed choices in food selection, preparation and consumption. Although about half of packaged foods currently carry nutrition labeling, the lack of relevant and consistent information on all

food products is a major deterrent to consumers who wish to make informed choices.

Growing public interest in nutrition has led manufacturers to characterize their products as nutritionally beneficial through widespread use of principal display descriptors; this practice has drawn considerable attention from regulatory bodies and groups concerned with health.

Nutrition information on food labels is a mechanism to provide information and facilitate behaviour modification. The government should allow the information to appear and regulate content, format, and placement. Although information campaigns to promote health are generally aimed at enhancing knowledge, changing attitudes, and improving skills, changes in consumer knowledge and attitudes do not directly result in adoption of health-promoting practices. Consumers need information to make long-term dietary changes, yet more than just information is necessary to achieve this goal.

For the food industry, health professionals, and consumer groups, it will be of interest in terms of their own objectives in promoting nutrition labeling changes that are in line with current dietary recommendations and in product development.

### **7.10 Synopsis**

Europeans increasingly are concerned about nutritional value, quality, and safety of their diets. Consumers interest in the relationship between what they eat and their health offers an unprecedented opportunity for agriculture.

Enhancing the safety and quality of foods requires continued innovation in production and processing practices. Current production and manufacturing technologies and the scope and complexity of the food chain pose new challenges and opportunities for ensuring the safety and quality of foods.

Expended investigations will be needed on topics such as the role of food choice in promoting optimal health, behavioral aspects of food choice and demand, and the impact of food labeling and other nutrition education initiatives in consumer food choice:

(1) A significant activity proposed as part of a food safety initiative is the creation of a process that facilitates the participation of all stakeholders in discussing the issues and setting an agenda for consideration of fundamental change in food safety system.

(2) A contract could be established with an independent organization to bring together all major stakeholders for discussion of fundamental changes to the present food safety system.

## 8. REGIONAL AGRIMARKETING

The liberalisation of the food market has increased both product ranges and assortment depths in the retail and wholesale grocery trades. This has, in turn, led to consumers attaching more weight to product markings or labels when considering which of these food products to buy. In this context, production dates and best-before dates play the most important role, followed by price indications and the country of origin (or producer country). Increased consumer interest in food marking is confirmed by the fact that the frequency of reading packaging information on country of origin or producer country has doubled within three years (1993-1996).

Empirical studies at the University of Agricultural Sciences, Vienna have been able to show that the country-of-origin effect could allow regional specialities to take market share in the “shopping baskets” of both food sellers (supermarkets, catering outlets) and end consumers. It could thus also contribute to regional improvements in agricultural incomes.

Merchandise description using supplementary graphic marking (words and/or pictures) receives special attention in view of its wide use.

In general, marking is an incomplete (i.e. abbreviated) form of merchandise description. When considering the functions of marking symbols (which are to represent, indicate and/or explain something), a difference may be drawn between demonstrative marking symbols (a mark which includes a direct statement about a product characteristic, e.g. quality mark, safety mark) and an explanatory (informative) one (brand name, neutral mark required by law, neutral mark applied on a voluntary basis, e.g. “Product of Styria”).

### 8.1 Marking symbol procedures

A marketing and/or agribusiness organisation seeks to maintain a presence and position within the market environment. This presence/position is constantly threatened by new information, so a system of meaningful symbols and/or super symbols helps communicate and preserve the business image of

the organisation as a whole. In this context, the expression “corporate identity” has recently gained in prominence. The development of a corporate identity consists of three elements:

(a) corporate design - the desired image of the organisation as seen from both within and without

(b) corporate behaviour - the mode of behaviour necessary to preserve the way in which the organisation wishes to present itself symbolically

(c) corporate communication - the carefully planned use of corporate design and corporate behaviour to achieve the desired communication of the organisation’s symbolic image.

The combination (“synergy effect”) of these measures should produce the desired public image - the corporate identity. All three measures use marking symbols. This system of meaningful symbols/super symbols is called corporate language.

For future marketing success, changes in input and output markets (which are regarded in this paper as subsystems of an integrated merchandise management system) are of eminent importance. We know that if we do not want to be swamped by numbers (cf. symbol pollution vis-à-vis the ultimate consumer) we need a uniform system of figures and numbers to codify and identify the merchandise for practical processing.

Consumers are often faced by a confusing range of food products. In such situations, the consumer tries to simplify the decision-making process by only taking into account key information/stimuli when evaluating a product, and more or less ignoring any other information. A quality mark or regional origin mark can represent such a key piece of information. Such marks are extrinsic product characteristics. When consumers don’t know a product that well, or are confronted with too much information about a product, they don’t evaluate the product based on intrinsic (real) qualities such as taste or perishability, but rather on additional attributes which are not themselves direct determinants of functional quality (extrinsic characteristics). Other extrinsic qualities are price, brand, the prefix “Bio-” (German for organic), the label, the importer, the best-before date, the guarantee or a comparative product test result.

The more a region of origin stands (in the experience of the consumer) for a particular intrinsic product characteristic (resulting from the image of this region of origin), or the better the reputation of the institution which awards a particular mark, the more positive the effect the extrinsic product characteristic has on the perception of the intrinsic qualities.



## 8.2 New ways of maintaining income

The increasing importance of food origin for the consumer offers the Lower Austrian farmer new direct marketing opportunities in the form of:

- Mobishops, which can either help secure the local retail supply of food, or (through organic products) can provide an attractive addition to the product range of small grocers
- direct delivery of regional specialities to bulk consumers such as hotels, restaurants and other catering enterprises
- Internet sales through the Austrian Country Market, a virtual farm market

These new forms of origin-orientated direct marketing (“Mobishop”, “Land und Wirt” and the “Austrian Country Market”) can help Lower Austrian farmers sell their regional specialities to bulk and end consumers, at the same time helping to secure farming incomes and thereby contributing to the net economic output in Lower Austria.

All three measures mentioned above are ways of improving the marketing of regional Austrian food specialities; by contributing to product differentiation in the catering trades (“Land und Wirt”), by improving international distribution (the “Austrian Country Market”) or by improving the local supply of food (“Mobishops”). Work has already begun on a future umbrella brand strategy; “Land & Wirtschaft” (lit. land and business, *Landwirtschaft* is German for agriculture) is a co-operative initiative involving high-powered representatives from the worlds of agriculture and forestry, food industry, the food retail and wholesale trades, and the tourist and catering trades. The aim is to develop a vertical marketing concept using the country-of-origin effect, in order to draw consumers and the initiative partners together under the motto “So schön is(s)t Österreich” (lit. so beautiful is Austria / so well eats Austria), where the purchase of an Austrian food product counts towards the cost of an Austrian holiday. This should lead to an increase in consumer patriotism and the realisation of substitution effects in their “shopping baskets”.

## 9. INTERNATIONAL INTEGRATION AND AGRICULTURE

For the transition countries in Central and Eastern Europe as a whole, 1997 saw a positive rate of GDP growth for the first time since the beginning of the transition process.

The countries of Central and Eastern Europe and the Baltic transition countries<sup>45</sup> expanded economic activity overall by 3.1 percent in 1997 compared with 3.6 percent in 1996 and 5.3 percent in 1995.<sup>46</sup> The further deceleration of economic growth concealed uneven trends across countries. Among faster-reforming countries, GDP growth accelerated in Hungary, Poland and Slovenia and slowed down somewhat in Slovakia, while in the Czech Republic economic growth slowed for the second consecutive year, to a mere 1.2 percent. Economic performance continued to improve also in the Baltic republics of Estonia, Latvia and Lithuania, as it did in Croatia. In the other transition countries of southeastern Europe, opposite trends prevailed in economic performance, with a decline of about 7 percent in GDP in Albania, Bulgaria and Romania. In the latter two countries, however, such developments were strongly related to the initial impact of the more comprehensive reform measures finally being undertaken.

Diverging developments in real disposable incomes determined sometimes contrasting shifts in food consumption patterns. Owing to the precarious macroeconomic situation in southeastern Europe, the share of food in household expenditure further increased to 54, 59 and 75 percent in Bulgaria, Romania and Albania, respectively. This provoked food security problems at the household level for the low-income strata of the population. While in these countries more starchy products were consumed at the expense of animal products, the opposite trend could be observed in the fast-reforming countries. In the latter, the share of livestock products in total food consumption increased and the share of food in the total expenditure of families declined.

A significant positive development of 1997 in Central and Eastern Europe was that comprehensive structural reforms finally embraced the agrifood sector of the entire subregion. Privatization in agriculture was drawing towards its completion in several countries while making major progress in others, including Bulgaria. As a result of this process, land fragmentation has become a problem, with agriculture very often divided into a commercial and a subsistence sector. Key issues for further farm structural development include the speeding up of land registration and land legislation as a prerequisite for developing a leasing and land market, necessary for further structural rationalization. Such measures appear to be of critical importance, particularly in countries that are making efforts to improve their competitiveness and structural maturity in view of future accession to the EU.

Early timing of reforms may indeed have been a decisive factor for obtaining foreign investment in the agrifood sector of Central and Eastern European countries, while at the same time some countries (e.g. Bulgaria, Hungary, Croatia and Poland) have offered a series of incentives to foreign investors, such as temporary tax exemptions, import tariff reductions and duty-free customs zones.

Still, the main incentive for foreign agrifood companies to invest may be found elsewhere. Indeed, available experience seems to indicate that foreign companies have been interested mainly by the prospect of capturing the domestic Central and Eastern European markets in view of their future expansion resulting from the expected medium-term economic recovery. So far, foreign investors have favoured subsectors with better prospects for increasing value-added production and that had not been adequately developed before. Thus, up to 1996, above all the subsectors of sugar and confectionery, milk and dairy products, beverages and vegetable oils as well as some others (e.g. tobacco industries) received the highest FDI inflows. In several cases, such as Hungary and Poland, processing companies are specializing in the domestic market with their new products.

However, by establishing new quality standards in food supply, Central and Eastern European food industries have also provided new demand impulses to primary agriculture. In several cases, processors have established new vertical structures, both through buying in or by contractual ties. The impact exercised on quality and management aspects of agricultural operations has been considerable, and FDI has thus acted to further structural change in agriculture with a view to responding to actual market demand. In numerous cases, foreign investors have also transferred production expertise, thereby ensuring the introduction of improved techniques in raw material production that would otherwise not be accessible to producers.

In contrast to the positive effects on processing and, indirectly, on primary agriculture in sectors that have been the target of FDI, food-processing subsectors not benefiting from FDI have continued to struggle with technological obsolescence, scarce finances and marketing difficulties, which has had a depressing impact on their agricultural supply base.

In the course of the ongoing transition process in the Central and Eastern European economies, the current and future role of rural regions as well as their specific problems seem not to have received the attention needed from the point of view of balanced economic and social development, and the issue

has rapidly become pressing. Rural regions in most of the countries inherited major structural deficiencies from the prereform era, including an extreme regional specialization of agricultural production, few or no alternative income sources, underdeveloped infrastructure and services, administrative over-centralization, limited access to good-quality education, poor communications and services, ecological damages and destruction of landscapes.

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