1992 IMPLICATIONS of a SINGLE EUROPEAN MARKET

Agriculture and Food Products

1992

CANADA EUROPE

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OF A SINGLE EUROPEAN MARKET

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FOREWORD

The European Community (EC), with a GDP similar to that of the United States, is Canada's second-largest trading partner and source of investment and technology. Canadian companies therefore have a particular interest in the completion of the European Community's internal market. The goal of the Single Market program, or Europe 1992 as it is often called, is the complete removal of barriers to the movement of goods, services, labour and capital within the 12 states of the Community to create a dynamic and rapidly growing market.

External Affairs and International Trade Canada (EAITC) is pleased to present this study as part of a series of reports on the implications of a Single European Market on Canada's trading, investment and technology interests. The areas to be covered by these reports include (in publication order):

- Agriculture and Food Products
- Consumer Goods and Cultural Industries
- Telecommunications and Computers
- Automotive Industry
- Minerals and Metals
- Forest Products
- Defence, Aerospace and Transportation
- Specialty Chemical Products, New Materials, Pharmaceuticals and Biotechnology
- Industrial Products and Services
- Financial Services
- Fisheries Products
- Professional and Consulting Services

These reports, prepared by Raymond Chabot International Inc., BIPE (Bureau d'Informations et de Prévisions Économiques) and Informetrica Ltd. analyse the trends, export impact, competition, investment implications and technological acquisitions arising from the EC Single Market of 1992.

This series of reports complements an earlier study published by EAITC, *1992: Effects on Europe*, which details the major economic and trade effects of the integration. Now in its third printing due to popular demand, the report provides a clear picture of the unification legislation and implementation measures and the general expectations and response of European industry.

Following the publication of these sectoral reports, EAITC will focus on subsectors of Canadian industry in which particular opportunities arise from the Single Market. These studies will go into much more detail on the trade ramifications specific to each subsector.

Together these reports, the overview presented in *Effects on Europe*, the sectoral analyses of this series of studies, and the subsector details of the next phase of Europe 1992 reporting, are not simply an information base for Canadian business people, but can be seen as a call to action. Europe 1992 is happening now. It will affect the way we do business. We have to know about it. And we have to plan to profit from it.

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LIST OF ACRONYMS AND ABBREVIATIONS

B-L	Belgium and Luxembourg
CAP	Common Agricultural Policy
Cdn	Canadian
EC	European Community
ECU	European Currency Unit
F.R.G.	Federal Republic of Germany
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
ISTC	Industry, Science and Technology Canada
R&D	Research and development
U.K.	United Kingdom
U.S.	United States
VAT	Value-added tax

EXECUTIVE SUMMARY

The agri-food industry, because of its past history and current situation, will be significantly affected by Europe 1992.

Although a common EC agricultural policy has promoted the tariff-free circulation of agricultural products within the EC, the fact remains that processed products continue to be impeded by a diversity of standards, norms and specific controls. As a result, this sector is characterized by domestic rather than multinational firms, a multitude of small businesses, serious overcapacity and limited efficiency.

By opening its interior borders through harmonization or common acceptance of norms and standards, Europe 1992 is seeking to set the stage for greater efficiency in the industry. Restriction-free access to a potential market of 325 million inhabitants should promote concentration and economies of scale.

The Canadian agri-food industry has relatively few contacts with the European Community, either through exports, imports or investments. Canada's principal export market has been the United States and free trade will likely increase this trend. However, Europe 1992 and its consequences could add a new dimension to this situation. New opportunities and risks are likely to appear:

- opportunities arising from the possible access to a market of 325 million inhabitants with common standards and norms;
- opportunities to enter this market as a result of the move towards merger and concentration;
- opportunities to detect interesting niches due to greater world standardization in consumption trends;
- risks in certain areas that standards (phytosanitary standards, veterinary controls) influenced by the Green movements will be more restrictive for third country exporters; and
- risks that Canadian industries will face stronger competition, in Canada and abroad, from European agri-food products.

In the face of these possibilities, the Canadian agri-food industry should seek to adopt the following strategies:

- Invest rapidly in the EC, thus benefiting from a greater facility to penetrate the market and from better acquisition or participation opportunities.
- Begin exporting to the EC. Firms already doing business in the EC, and whose product is doing well, should not be adversely affected by Europe 1992. On the contrary, they should be in a position to expand their market share. Firms not currently in this market but who would like to benefit from the new Single Market should rapidly enter one of the national markets; that is, identify the appropriate country, the right niche, the best partner in a distribution network and good commercial agents.

- Seek to protect its share of the Canadian market and other traditional export markets. For many Canadian businesses this means increasing efficiency and adopting international standards. The fact that Canadian businesses must already contemplate such measures in view of free trade with the U.S. is to their advantage and provides them with somewhat of an advantage over potential European competitors.

PRELIMINARY REMARKS

In Canada, the agri-food sector consists of crop and animal raising (unprocessed primary products intended for human consumption), and the production of processed agricultural products and beverages of all kinds (groups 10 and 11 in Statistics Canada's Standard Industrial Classification).

In the European Community, primary products and processed products are treated quite differently. Primary products are subject to the Common Agricultural Policy (CAP), instituted in 1964, and not directly affected by the advent of the Single European Market referred to as Europe 1992. On the other hand the processing industry, which until now has developed within a national framework shielded by strong non-tariff barriers, is being significantly affected by the Europe 1992 process.

For these reasons, this report concerns itself exclusively with the impact of Europe 1992 on the processing industry. With the exception of slaughterhouse products, insemination products and seed potatoes, it passes over the problems posed for Canada's agriculture and breeding industries by the CAP and the amendments that might be made to it as a result of GATT negotiations.

INTRODUCTION

In 1957, six countries in Western Europe began building a common market. Their objective was to provide an economy comparable in size to that of the United States. They envisioned the creation of an economic/political entity in which there would be free movement of persons, goods and capital. From its six founding countries, the European Economic Community, now called the European Community (EC), has grown to include 12 countries -- France, Belgium, Luxembourg, the Netherlands, West Germany (F.R.G.), Italy, the United Kingdom, Ireland, Denmark, Greece, Spain and Portugal. Austria has applied for admission and several other countries are considering a similar move.

These 12 very different countries constitute a potential market of 325 million consumers. However, there are and always have been many non-tariff barriers limiting the movement of products within the Community and restricting most European enterprises to their national markets. In 1985, the EC countries agreed on a detailed schedule for completing the unification process by 1992.

After 1992, citizens of each Member State will be able to move freely and work anywhere within the EC. Border controls on the movement of goods and services will be largely eliminated, and restrictions on the movement of capital between Member States will be removed. Firms from all 12 countries will have open access to the public procurement market.

These changes will have far-reaching consequences. For example, a French citizen will be able to settle in West Germany, Italy or any other Member State, without restriction. Fiat or Renault automobiles will be sold on the same terms in all 12 Member States, as will Yoplait yogourt, Gouda cheese or anything else produced in an EC country. Nothing will stop a German from opening a bank account or starting a business anywhere within the Community. Moreover, a firm such as Siemens will be able to tender for contracts on the public procurement market in the United Kingdom, France or any other Member State.

The economic objective is obviously to permit firms to maximize their ability to profit from economies of scale -- to attain levels of efficiency comparable to the huge (largely American) multinationals. Despite the Common Agricultural Policy and the removal of customs duties in the 1960s, the existence of non-tariff barriers and border controls has restricted the circulation of goods. Europe 1992 aims to eliminate these barriers. This report attempts to analyse its effect on the Canadian agri-food industry.

1. THE AGRI-FOOD SECTOR IN CANADA AND THE EC, AND BILATERAL TRADE

1.1 The Canadian Agri-Food Sector

In 1988, the portion of Canadian GNP contributed by the production of agricultural products was over $11.6 billion (see Table 1). This amount was distributed equally between the sale of cultivated products and the sale of animals and animal products. That same year, the food products and beverage industries contributed over $14.2 billion to Canada's GNP. Thus, what is generally termed the agri-food sector had a production value of $25.8 billion alone, almost 5 per cent of total Canadian economic activity. This proportion is continually decreasing, as it is elsewhere in the industrialized world; in 1971, for example, it was over 6 per cent of the GNP. Such a decrease does not necessarily signify an industry in decline. Canadian agriculture has undergone a fundamental restructuring since the 1970s: smaller farms have increasingly given way to larger ones, production and management technologies have been appreciably improved, and both animal and vegetable genetics have made immense progress. These changes have resulted in enhanced productivity in all areas (work, soil, animals, capital). Moreover, Canadian agriculture is at the forefront of recent technological developments.

The situation is similar for processed products. From 1971 to 1986, the number of firms decreased by almost 40 per cent, whereas the number employed rose by about 10 per cent. In fact, during this period and especially in the last five years, a major trend towards business concentration arose in this sector, with the dual objective of significant growth in productivity and better control of markets. It should be noted that, during the same period, the wholesale and retail food distribution sector achieved a rather exceptional degree of merchandising power through concentration.

TABLE 1

Evolution of the Agri-Food Share of the Canadian Gross National Product (GNP), 1971-1988

GNP	1971		1985		1988	
	$billions	**%**	**$billions**	**%**	**$billions**	**%**
Agriculture	2.8	3.4	10.9	2.5	11.6	2.2
Food and beverages	2.6	3.2	11.0	2.5	14.2	2.7
Agri-food total	5.4	6.6	21.9	5.0	25.8	4.9
Canadian total	82.5	100.0	431.6	100.0	532.3	100.0

Source: Informetrica estimates.

TABLE 2

Characteristics of the 10 Principal Sectors of the Canadian Food and Beverage Industries in 1986

Industry	Number of firms	Number of jobs	Production ($millions)	Exports ($millions)	Imports ($millions)	Degree of concentration *
Meat and meat products	530	31 000	8 762	1 320	496	4 firms = 55% sales
Eggs and poultry	96	11 000	1 650	11**	63**	4 firms = 36% sales
Dairy products	392	25 505	6 279	195	129	Little concentration
Processed fruits and vegetables	222	12 201	2 357	208	693	5 firms = 66% sales
Flour milling	38	2 934	825	93	19	3 firms = 75% sales
Bakeries/pastries	479	22 000	1 552	73	44	8 firms = 47% sales
Oilseed crushing	11	1 052	732	203	231	8 firms - 100% sales
Breweries	53	13 982	2 190	189	20	3 firms = 97% sales
Distilleries	31	4 358	809	338	174	4 firms = 75% sales
Wineries	50	1 400	218	3	263	4 firms - 70% sales
Total	1 902	125 432	25 374	2 633	2 132	

Source: Industry Profiles Series, Industry, Science and Technology Canada, 1988.
* For 1985.
** Poultry only.

1.2 The Canadian Food and Beverage Sector

In 1986, the value of production in the food and beverage production industries was nearly $39 billion, with $34 billion in the food sector and $5 billion for the beverage sector. The industry employed more than over 226 579 people.

To simplify analysis, the study focused on the 10 principal subsectors in the industry: the meat and meat products industry, eggs and poultry firms, dairy products industry, fruit and vegetable processing, bakeries and pastry-makers, the flour milling trade, the oilseed crushing industry, breweries, distilleries and wineries. In 1986, these 10 subsectors represented 65 per cent of production in the food and beverage group. Table 2 presents these industries' principal characteristics.

Overall, these industries employed some 125 000 people across Canada and produced over 25 billion dollars' worth of food products. These industries have a trade balance surplus, and exports represent approximately 10 per cent of production value.

The most important industry in terms of production value is the meat and meat products industry. Dairy products is second, followed in order of importance by fruit and vegetable processing, breweries, the eggs and poultry industry, and bakeries.

On the other hand, in terms of external trade, distilleries rank first; in 1986, they exported nearly 40 per cent of production. Oilseed producers come second with exports of 28 per cent of production. Next are the meat industries and the flour milling industry, which export almost 15 per cent of production. The remaining six have exports of under 10 per cent. The proportion of these exports destined for Europe will be discussed below.

An important characteristic of food and beverage production industries is their degree of concentration. The number of enterprises is not always indicative of the situation. For example, in the meat and meat products industry, statistics indicate 530 businesses operating in Canada in 1986. However, 55 per cent of sales in this sector were achieved by four firms. This indicates that several businesses belong to the same firm. It also means that this industry is dominated by a few major firms but that there are several small firms exploiting specialized niches, such as a very localized market. The few large firms with major production share are capable of significant lobbying and can make foreign investment decisions. The sectors with the greatest concentration are the breweries, distilleries, flour millers, wineries, the oilseed crushing industry, and the fruit and vegetable processing industry, in that order. The dairy industry, despite a strong trend towards rationalization over the past few years, still exhibits the least concentration.

Of the 10 principal sectors discussed in this report only three are not Canadian-owned (distilleries, fruit and vegetable processing industry and flour milling firms). (See Table 3.) This is an important characteristic, for it means that marketing and investment strategies can be developed in Canada.

TABLE 3

List of Major Firms in Each Sector

Meat and meat products:	Country
Better Beef Limited	Cdn.
Burns Meats	Cdn.
Canada Packers	Cdn.
Cargill Foods	U.S.
Coopérative Fédérée	Cdn.
Fletchers	Cdn.
F.W. Fearman Co. Ltd.	Cdn.
Gainers Inc.	Cdn.
Intercontinental Packers Ltd.	Cdn.
J.M. Schneider	Cdn.
Lakeside Centennial Corp.	Cdn.
Quality Meat Packers Ltd.	Cdn.
Salaison Olympia Ltée	Cdn.
Turcotte & Turmel Inc.	Cdn.
XL Food Systems Limited	Cdn.
Dairy products:	
Agropur	Cdn.
Ault Foods	Cdn.
Fraser Valley Milk Pro.	Cdn.
Kraft Foods	U.S.
Palm Dairies	Cdn.
Purdel Agro-Alimentaires	Cdn.
Scotsburn Dairy Cooperative	Cdn.
Fruit and vegetable processing:	
Campbell	U.S.
Canada Packers	Cdn.
Cavendish Farms	Cdn.
Cobi Food	Cdn.
E.D. Smith & Sons Ltd.	Cdn.
FBI	Cdn.
Heinz	U.S.
McCain	Cdn.
Nabisco	U.S.
Pillsbury Canada Ltd.	U.S.
Bakeries:	
Ben's	Cdn.
Corporate Food	U.K.
Eastern Bakeries	Cdn.
McGavin Food	Cdn.
Multimarques	Cdn.
Weston Bakeries	Cdn.

Eggs and poultry:	Country
Bexel	Cdn.
Canada Packers	Cdn.
Cold Springs Farm	Cdn.
Cuddy Food Products Ltd.	Cdn.
Export Packers Co. Ltd.	Cdn.
Granny's Poultry Coop Ltd.	Cdn.
LilyDale Coop Ltd.	Cdn.
Maple Leaf	U.K.
Maple Lodge Farms	Cdn.
Plain Poultry	Cdn.
Oilseed crushing:	
Agri-industries	U.S.
Canada Packers	Cdn.
CSP Foods	Cdn.
Victory Soya	U.S.
Flour milling:	
Dover Mills	Cdn.
Maple Leaf	U.K.
Ogilvie Flour	Cdn.
Robin Hood	U.S.
Breweries:	
Labatt	Cdn.
Molson	Cdn.
Distilleries:	
Corby	U.K.
Hiram-Walker	U.K.
Seagram	Cdn.
Wineries:	
Andrés	Cdn.
Calona Wines	U.S.
Casabello Wines	Cdn.
TG and Bright	Cdn.

1.3 The EC Agri-Food Industry

Agriculture was the first sector of economic activity where Europeanization was attempted. As early as 1964, the EC Member States were developing the groundwork for what was to become the Common Agricultural Policy. At that time, it was essentially a matter of freeing up the movement of agricultural products from one country to another, of loosening boundaries within the EC so as to promote purchasing from within rather than without. In terms of other countries, this policy was intended to produce a common frontier which would be more difficult to penetrate. Compensatory payment mechanisms and export aid were the principal protectionist measures in this policy.

Despite the ups and downs of such a policy, and the negotiating difficulties experienced by the partners, the CAP was clearly successful, at least for unprocessed agricultural products, in increasing exchanges within the EC, and permitting a much higher degree of EC self-sufficiency. On the other hand, for processed agricultural products, it was much less successful. Here it came up against the multiplicity of standards and norms within the EC, which varied widely from one country to the next. Such norms and standards constituted non-tariff barriers between the EC countries which, for all practical purposes, prevented the free circulation of processed agricultural goods. This consequently fostered the maintenance and development of an agri-food sector in each of the EC countries which focused on its respective national markets.

1.4 The EC Food and Beverage Industry

In such circumstances, a global presentation of the food and beverage industry in the entire EC is a somewhat fictitious undertaking. It is only interesting and worthwhile to the extent that one can claim that, after 1992, there will be free movement of food products without non-tariff impediments or significant border controls.

In 1987, the food, beverage and tobacco industry (the tobacco industry has traditionally been incorporated into the agri-food sector in the European nomenclature) had a production figure of 330.7 billion ECU (C$422 billion), and the total market was estimated at 391.7 billion ECU (C$499 billion). (See Table 1.) The main producers were France (23 per cent of the total), West Germany (22 per cent), the United Kingdom (17 per cent) and Italy (16 per cent).

Despite the size of the European market, European companies are on the whole much smaller than their American counterparts. Until recently, only Unilever, BAT Industries and Nestlé (whose headquarters is outside the EC), could compare with them. Furthermore, the situation is much different from sector to sector and country to country. In general, the northern Member States' industrial structures comprise the largest firms and business establishments. The United Kingdom has the most concentrated structure. In 1985, 16 of the 20 largest EC firms in the agri-food sector were from the U.K. (see Table 4). The more southern Member States' structures are made up of smaller enterprises and establishments, of which the latter are often still of the cottage industry type.

Geographical differences are multiplied by sectoral differences. In general, the most corporate concentration is in the production of sugar, oil, coffee, chocolate, instant products, beer and spirits. This is also the case for canned soups, baby food, frozen foods, prepared cereals, canned milk, potato products, fats and margarine. Conversely, the milk, flour, canned fruits and vegetables, meat and meat preparation industries are much less concentrated.

Thus production structures are widely diversified. Firm size shows equal diversity. According to a study in *The Times* in 1985, 31 of the 500 largest European enterprises were in the food and beverage sector. Yet small family firms

TABLE 4

Ranking of Principal Agri-Food Industry Enterprises within the EC

Rank	Enterprise	Country	Total sales 1985 (millions of francs)
1	Unilever	Netherlands/United Kingdom	180 682
2	BAT Industries	United Kingdom	169 109
3	Grand Metropolitan	United Kingdom	64 548
4	Allied-Lyons	United Kingdom	36 663
5	Gallaher (American Brands)	United Kingdom	35 741
6	Associated British Foods	United Kingdom	33 843
7	Hanson Trust	United Kingdom	30 885
8	Imperial Group	United Kingdom	30 570
9	Rothmans International	United Kingdom	30 522
10	BSN	France	28 475
11	BASS	United Kingdom	27 840
12	Unigate	United Kingdom	22 170
13	United Biscuit	United Kingdom	22 024
14	Cadbury Schweppes	United Kingdom	21 637
15	Tate & Lyle	United Kingdom	18 137
16	Heineken	Netherlands	17 324
17	Union International	United Kingdom	15 464
18	Northern Foods	United Kingdom	14 694
19	Ranks Hovis MacDougall	United Kingdom	14 592
20	BAT	West Germany	14 082

Source: Europe in 1993, Bureau d'Informations et de Prévisions Économiques, 1989.

continue to play a role in extremely specialized segments of production or in regional or local markets.

A closer look at the situation in a few of the major industries will provide more insight. In this sector, even in 1989, it is not easy to obtain information and perfectly consistent statistical data for the EC countries as a whole. Often, due to the recent admission of Spain and Portugal, the data are either incomplete or on different bases. The most recent year for which complete statistics are available is 1985.[1] These statistics were used for the following overview.

a) Slaughtering and Preparing of Meat

In 1985, production in this industry was valued at 44.2 billion ECU, employing some 300 000 workers. The trade balance showed a slight deficit, and exports represented approximately 11 per cent of production value. Regardless of the country or subsector examined, the same structural problems remain -- too many establishments and firms; too much production capacity. For example, in the meat slaughtering subsector, some 8 150 establishments were enumerated in 1987: 175 in Belgium, 350 in West Germany, 250 in France, 430 in Greece, 475 in Spain, 870 in the United Kingdom, 850 in Ireland and 3 680[2] in Italy. In many cases, these establishments were small. In the United Kingdom, 70 per cent of them slaughter less than 10 000 t annually. The case is similar for West Germany and even worse, from this perspective, in Italy, Greece and Ireland. Although there have been moves towards concentration throughout this sector, the problem of low efficiency and overcapacity is far from being resolved. This is certainly one of the sectors that will benefit from the new openness resulting from Europe 1992.

b) Dairy Products

In 1985, the value of EC-manufactured dairy products was 51 billion ECU. This industry employed approximately 252 000 people. The trade balance showed a distinct surplus, and exports represented 8 per cent of production value. All EC countries produce dairy products, and the EC, like Canada and the U.S., is regularly faced with large surpluses of butter and powdered milk. In 1986-87, the EC effectively confronted the surplus problem and imposed production quotas.

Precise data are not available on the structural level. However, according to the information that is available, there is a major trend towards concentration in this sector. Among other aspects, there seems to have been a rapid decrease in the number of establishments processing less than 20 000 t of milk per year.

c) Bakeries/Biscuit Manufacturers

Bread and biscuit consumption habits vary considerably from one EC country to the next. In the more northerly countries such as Belgium, Luxembourg, the Netherlands, West Germany, the United Kingdom and Ireland, bakery products are similar to those found on the Canadian or American markets. As is the case here in North America, the manufacture of such products is fairly easily industrialized. Conversely, the more southerly countries such as France, Italy, Greece, Spain and Portugal consume goods produced by a more elementary manufacturing process. Consequently, two levels of industrialization are found in this EC sector: the first level mainly consists of large, relatively modern and technologically developed firms, where there is an increasing emphasis on concentration; the second level comprises cottage industries, that is, neighbourhood bakeries usually run by a family and where the owner is often the principal artisan. It appears this second level will soon move rapidly towards concentration under pressure from the more modern sector.

In 1985, the industrial bakery and biscuit-manufacturing sector employed some 395 000 people. Production in this industry was essentially aimed at an internal market (exports in the biscuit-manufacturing industry were approximately 6 per cent of production value).

d) Alcoholic Beverages

Despite the major importance of the winemaking industry in France, Italy, Spain and Greece, the beer industry ranks first in the EC as a whole. For example, in 1986, Europeans consumed some 80 L of beer per capita as compared to 45 L of wine. Consumption varies greatly from one country to another: in Belgium, 120 L of beer were consumed compared to 22 L of wine. In West Germany, the figure was 147 L of beer and 23 L of wine, whereas in France, it was 78 L of wine and only 40 L of beer.

e) Breweries

In 1986, there were some 1 400 brewing firms in the EC, owning 1 556 beer-manufacturing establishments.
West Germany alone had 1 150 firms, which owned 1 200 establishments. From this perspective, the second most important country was Belgium and the United Kingdom was third. These countries also have a very significant number of smaller breweries. In West Germany, annual production volume in over 75 per cent of the breweries is less than 60 000 hL; in Belgium, the figure is close to 60 per cent. Furthermore, a strong trend towards concentration seems to have begun

in the last few years that will allow European breweries to increase efficiency through economies of scale and accelerating technological penetration.

Beer production in 1985 in the EC was 235 million hL, of which 6 per cent was exported; 157 000 people worked in this industry.

Regardless of which agri-food industry we look at, the situation seems to be fairly similar. The industry is becoming concentrated and modernized, following the lead of the retail sector. But, for the moment, most of the concentration is still occurring at the national level, at a growing but nonetheless fairly slow pace, with the major consequences being a relatively large number of small enterprises and production overcapacity in virtually all industries. Much room remains for concentration. Europe 1992 should hasten the elimination of non-tariff barriers and further such concentration.

1.5 Food Product Trade between Canada and the EC

In 1988, Canadian agri-food exports (not including fish products) amounted to $3 047 million for the food industry and $537 million for the beverage industry. The main export sectors were meat products (37 per cent of the total), vegetable oils (8.9 per cent), flour and table cereals (8.9 per cent, of which over half was for animal feed), distilled products (8.4 per cent), processed fruit and vegetables (7.3 per cent) and beer (5.6 per cent).

The value of imports was $4 064 million for food and $551 million for beverages the same year. Beverage imports and exports were closely balanced, in comparison to a trade deficit of $1 billion for food. However, that deficit amounts to only $190 million if the "other food products" category, consisting mainly of tropical products, is excluded from the calculation.

For most products, Canada's main customer by far is the United States, which consumes more than 30 per cent of Canada's agricultural exports. The only processed Canadian exports for which the American market does not consume more than half are vegetable oils and dairy products. For baked goods/pastry, sugar, confectionery and beverages, more than 80 per cent is exported to the U.S. The figure for beer is 100 per cent.

The European Community receives a relatively low proportion of Canadian exports: 8.5 per cent for food and 2.2 per cent for beverages (see Table A.2). The percentage exceeds 10 per cent only for processed fruit and vegetables (mainly beans, corn and frozen blueberries sent to the U.K. and West Germany), dairy products (Cheddar exported to the U.K.), meat products and seed potatoes, and is 5 per cent or less for all other products. The percentage also tends to decrease over time: overall food exports to the EC stood at 9.5 per cent in 1984. All the categories saw a decline in their market share except dairy products, processed flour and cereals, and poultry. The last two are low-volume goods. The main high-volume exports from Canada to the EC are meat products (44 per cent) and processed fruit and vegetables (20 per cent). In general, imports from Canada represent a small portion (2 per cent) of total EC agri-food imports, with the U.K. being Canada's most important customer (see Figures 2, 3, 4 and 5).

Imports from the EC are more substantial: 14.5 per cent for food and 68.5 per cent for beverages. The biggest imports are dairy products (52 per cent), baked goods/pastry (35 per cent) and, of course, wine (85 per cent) and alcohol (70 per cent). From 1984 to 1988, EC food imports tended to remain stable while beverage imports decreased slightly. Canada's high-volume imports from the EC include wine (23.5 per cent), sugar and confectionery (13.9 per cent), processed fruits and vegetables (12.3 per cent), alcohol (11.8 per cent) and dairy products (8.6 per cent). (See

Tables A.3 and A.4 and Figures 6, 7, 8 and 9.)

The Canada-EC trade balance in 1988 showed a deficit of $366 million for beverages and $329 million for food. On the other hand, a trade surplus of $486 million was achieved for agricultural industries (see Table A.5).

What about investments? While a complete set of statistics on investments with only the largest amounts being identified is unavailable, total investment figures by country or group of countries are available (see Table A.6). In 1988, total foreign investments in Canada equalled $110 billion. The EC contributed 21 per cent of this figure -- mainly from the U.K., West Germany and the Netherlands -- with 69 per cent coming from the U.S. and 3.3 per cent from Japan.

Of this total, about 5 per cent was invested in the agri-food sector, mainly in vegetable processing and meat preparation. The EC's share in such investments was proportional to its overall percentage, i.e., 21 per cent. These investments mainly targeted vegetable processing and originated from the United Kingdom.

The situation for Canadian foreign investment is virtually the same, at least in terms of total investment figures. In 1988, total Canadian foreign investment was $61 billion. Some 70 per cent of this amount was directed toward the U.S., 15 per cent to the EC, and 15 per cent to other countries. Seven per cent of this investment went into the agri-food sector, two-thirds in the US and one-third in the EC. Agri-food investments represented 18 per cent of Canada's total investments in the EC, and mainly targeted the beverage sector and the United Kingdom.

Thus, whether in terms of imports, exports or investments, the Canadian agri-food sector does not seem to have now, or to have had in the recent past, very much contact with the EC market, and virtually the same can be said of contacts between the European agri-food sector and the Canadian market. Canada only exports specific products (offals, seed potatoes, maple syrup, etc.) and the EC supplies the Canadian market with deluxe, limited-consumption goods (wine, cognac, fine cheeses, biscuits, etc.). Moreover, European investment in Canada is fairly weak and currently restricted to the vegetable processing sector. Canada's investment in the EC is weak as well, limited mainly to activity on the part of major Canadian distilleries and breweries (McCain being the exception). In short, at least at the present time, Canada and the EC do not exhibit very close contact in their agri-food sectors. And with only a few exceptions, a survey of Canadian firms in the agri-food sector revealed that those who plan to do business outside Canada place greater priority on the U.S. and Asian markets than on the EC market.

2. EUROPE 1992: REMOVING THE BARRIERS TO TRADE

2.1 Changes

As mentioned previously, the aim of Europe 1992 is to provide access to a market of 325 million people for European firms so they can attain levels of efficiency comparable to the huge American firms. Reaching this objective requires building a common market where free movement of persons, goods and capital prevails.

How will this shift to a Single Market affect the agri-food sector? It is well known that a "green" or agricultural Europe was one of the EC's central concerns from the time of the signing of the Treaty of Rome in 1957. The CAP was taking shape as early as 1964 with the common grain market (internal borders opened up, a common internal price, an import price compensation mechanism, EC aid for exports, etc.). Since that time, considerable progress has brought the agri-food sector closer to being a truly common market, especially for unprocessed agricultural products. On the other hand, because processed agricultural products have been subject to widely different national phytosanitary and health regulations and norms, this sector has been unable to really profit from a common market. Europe 1992 is likely to generate the greatest impact through eliminating these non-tariff barriers to trade within the EC itself. Moreover, since concentration has been limited by national controls on outside investment, removing them in 1992 should encourage more rapid concentration in all sectors, including agri-food.

More specifically, Europe 1992 is attempting to eliminate three types of barriers: physical, technical and fiscal.

a) Physical Barriers

Although it is becoming easier to cross borders within the EC, border control posts continue to exist. Agri-food products must be stopped for various checks: import quota control, the EC compensation system, value-added tax (VAT), sanitary controls, transport controls, etc. Reducing or eliminating such border controls within the Community should directly result in a significant reduction in transportation costs (waiting time at the common borders can currently take as long as the actual transportation time from point of origin to point of destination), and indirectly result in the displacement of sanitary control points.

b) Technical Barriers

A multitude of technical barriers exists at present between the various EC countries. In the agri-food sector, these norms, standards and regulations are mainly intended for human health safety reasons (phytosanitary norms, content declaration, health regulations on construction and sanitation measures in agricultural product processing firms, packaging norms, etc.). These technical barriers lead to duplication in certification and oblige national producers to continually modify production conditions if they wish to have access to other national markets within the EC. They also provide justification for national public authorities to keep producers from other EC countries out of their public procurement markets. Such technical barriers currently constitute the major non-tariff barriers between EC Member States.

Two different methods for reducing such non-tariff barriers have been considered. The first is "mutual recognition." Each country agrees that if a product is manufactured and sold in accordance with one of the Member States' norms, it can be sold in any other EC country unless it is a demonstrable threat to health and public security. The ruling in the Cassis de Dijon case set a legal precedent in this respect. The second method is the "harmonization of norms." In this case, it is a matter of the EC setting new standards to replace the various national norms. The goal is to set minimum standards required for health, safety and environmental protection. Insofar as such a procedure required the unanimous agreement of all the countries for the new norms to be adopted, it proved to be a very long process in most instances. The Single European Act passed in 1986 now allows such changes to be adopted by majority rather than a two-thirds vote, and this should speed up the harmonization process.

c) Fiscal Barriers

Value-added taxation rates vary considerably from country to country. This discrepancy implies a complex system of compensation for food products traded from one EC country to another. This necessitates important border and administrative controls. EC members are undertaking a process to tighten the rates of VAT within predetermined scales, remove the physical controls, and alleviate administrative burdens.

3. IMPACTS ON THE EUROPEAN AGRI-FOOD SECTOR

The Europe 1992 process is having two types of impact on the European economy: (1) the direct impacts are the result of the various measures concerning market access conditions and production costs and conditions; and (2) the indirect impacts are the result of changes in corporate strategies brought about by the direct impacts.

3.1 Direct Impacts

Direct impacts can be defined in terms of six criteria:

1. tax harmonization and the elimination of border controls;
2. the mutual recognition or harmonization of technical standards;
3. the opening of public markets and less state intervention;
4. the liberalization of markets, services and labour;
5. the easing of restrictions on the movement of capital and the liberalization of the right of establishment; and
6. the existence of European R&D programs.

The first three criteria mainly concern demand and market access, whereas the last three primarily concern supply and production conditions.

If the impacts of these criteria are rated from 0 (insignificant impact) to 2 (considerable impact), it is seen that the agri-food industry is, after telecommunications, the industrial sector most directly affected by the Europe 1992 process.

The criteria concerning market access are most affected because of the elimination of border controls, the mutual recognition of standards, and less intervention in the form of national government regulations. From German beer to Italian pasta and to the disputes between France and England over sheep, turkeys and cheese, there were countless non-tariff barriers either preventing intra-European trade or increasing its costs. Hassles at the borders were another example of the same phenomenon. The dismantling process is well under way.

With respect to supply, there are no European R&D programs pertaining to the agri-food industry, and the liberalization of services is having little effect on this sector. However, the easing of restrictions on the movement of capital and the conditions governing mergers and acquisitions, which are making it easier for firms from a given country to establish themselves or grow in the other EC countries, are having a significant impact.

On the whole, primary products are being affected significantly less than processed products. For the latter, the greatest impacts are on slaughterhouse products, dairy products, unprocessed oils, canned food, and beverages (see Table 5).

3.2 Indirect Impacts

The possibility of European firms actually having access to a 12-country market has caused them to make significant changes to their strategies and has led to a very strong upsurge of restructuring and merger-related activity.

This activity must be situated in the context of the evolution of the world agri-food industry, where the leaders, i.e., mainly the American corporations, continue to strengthen their position by extending their territory, asserting the predominance of their brands and imposing distribution based on an increasingly stronger bargaining position. Recent studies show that for each type of

TABLE 5

Effects on European Supply and Demand of Agri-Food Products[a]

	Elimination of border controls	Standard techniques	Gov't intervention	Services Liberalization	Capital flow	R&D programs	Total
Agriculture							
Grains	0	0	2	0	0	0	2
Beets	0	0	1	0	0	0	1
Oil	0	0	1	0	0	0	1
Fresh fruits	1	0	1	0	0	0	2
Vegetables	1	0	1	0	0	0	2
Table wines	2	1	1	0	0	0	4
Quality wines	2	2	1	0	0	0	5
Milk	0	0	2	0	0	0	2
Beef	2	1	1	0	0	0	4
Veal	2	1	1	0	0	0	4
Pork	2	1	1	0	0	0	4
Food and beverages							
Slaughter-house products (meat)	1	2	2	0	0	0	5
Slaughter-house products (poultry)	1	2	2	0	0	0	5
Preserved meats	2	1	1	0	0	0	5
Butter	0	1	0	0	1	0	2
Spreads	0	2	0	0	1	0	3
Cheeses	2	2	1	0	0	0	5
Fresh dairy products	2	2	1	0	1	0	6
Unprocessed oils	2	2	1	0	1	0	6
Flour	2	2	0	0	1	0	5
Pasta products	2	0	1	0	1	0	4
Biscuits	1	2	0	0	1	0	4
Canned vegetables	2	2	0	0	2	0	6
Alcoholic beverages	2	2	1	0	2	0	7

[a] Effects of the direct impacts of the six criteria are rated from 0 (insignificant impact) to 2 (considerable impact).

product, little room exists for more than one or two leaders in the marketplace, and the cost of launching new products is climbing.

In relation to their American counterparts, European corporations are starting off with a significant handicap. For them, 1992 is their chance to try to correct the situation. They are making no secret of their intentions. Business people know that upon completion of the process, two or three large corporations will dominate the market for each type of product: Nestlé has asserted its dominance in the chocolate sector by purchasing Rowntree, and it dominates many other segments, such as instant coffee; Ferruzzi is asserting itself in the sugar and oil sectors, having bought up LeSieur, Berio and Caparelli; BSN is strengthening its position in the cookie and grocery sectors, having purchased Nabisco's European operations; and so on. This activity is occurring outside Europe as well, as evidenced by the purchase of Pillsbury by Grand Met.

Tables 6 and 7 describe this activity, showing the increasing number of mergers and acquisitions since 1986 and the most noteworthy acquisitions that have taken place over the past year.

Behind these leaders, the small- and medium-size businesses and family businesses are either regrouping to strengthen their positions (e.g. Bongrain) or being gradually swallowed up, which is often the case.

From a geographical standpoint, as a result of the predominance of small- and medium-size businesses in West Germany, Italy or Spain that focus primarily on the domestic market, these mergers are largely to the benefit of foreign -- British, Swiss and French -- corporations. This is reflected in the flow of trade: the United Kingdom and France have a trade surplus, whereas West Germany, Italy and Spain have a trade deficit.

Sectors affected the most will be slaughterhouse products and meats, cheeses and fresh dairy products, unprocessed oils, canned vegetables and alcoholic beverages. The factors affecting supply will have the greatest impact; that is removal of physical, technical and fiscal barriers and impediments to foreign investments (see Table 5). It should be noted that sectors more affected by Europe 1992 will be those currently subject to the strongest standards and controls (meats and meat products, dairy products and alcoholic beverages).

We have seen that most European agri-food industries are made up of small firms, firms of national status at most, and that most of these industries are suffering from production overcapacity. The major modifications brought about by Europe 1992 will facilitate access for these firms to a market of 325 million people, which will simultaneously mean lower transportation costs due to reduced waiting time and achievement of production levels which will allow them to benefit from economies of scale. In short, in most agri-food sectors, Europe 1992 should mean lower production costs and higher efficiency levels. Moreover, given existing production overcapacity, this rise in efficiency will inevitably coincide with a decrease in the number of business establishments and most probably, in the number of firms, so that concentration will occur.

TABLE 6

Examples of Major Acquisitions by EC Firms in 1988 and 1989

Year	Investor	Investee	Industry	Price ($millions)
1988	Nestlé (Switz.)	Rowntree (U.K.)	Candies	4 500
1988	Nestlé (Switz.)	Buitoni/Perugina (It)	Pasta and candies	1 400
1988	Pernod Ricard (F)	Irish Distillers (Irl)	Alcoholic beverages	435
1988	Feruzzi Group (It)	LeSieur (F)	Cooking oils	250
1989	BSN (F)	European Division of Nabisco (U.K., F, It)	Biscuits	2 500
1989	BSN (F) & Ifil (It)	Galbani (It)	Dairy products and meat	1 580
1989	Unilever (U.K. & Neth.)	Boursin (F)	Dairy products	N/A

TABLE 7

Number of Acquisitions in the EC Agri-Food Sector, 1986-1988

	1986	1987	1988
EC firms	67	81	87
Non-EC firms	6	2	14
Total number of acquisitions	73	83	101

4. IMPACTS ON THE CANADIAN AGRI-FOOD SECTOR

Changes brought about by Europe 1992 are likely to affect the Canadian agri-food sector on two levels. The first level concerns Canada's ability to export to or invest in this market. The second level, which will probably be more important, concerns the new capacity of European firms to compete in Canada's domestic market and in its traditional export markets. These two types of changes will have varying impacts and risks for different firms. In the agri-food sector, the general trend is towards concentration and the predominance of major brands. Concentration at the distribution level has triggered a bargaining capacity at the wholesale and retail level that substantially reduces profit margins. Only the major brands are still able to impose their own terms. A U.S. study indicates that the major brand names are increasing their share of sales. In 1967, they represented 23 per cent of sales, a figure that had risen to 41 per cent by 1982. They are responsible for the concentration and are also the big investors. In Canada, most brand names belong to the major, largely foreign, multinationals (refer to list of dominant firms in Table 3). These firms are generally present on the European market at this time and, through their subsidiaries, are in an ideal position to take full advantage of Europe 1992 (Table 8).

Moreover, in each of these industries, a number of large Canadian companies cover the domestic market without having a major brand name as such (Table 9). When these businesses have expanded to Europe, they occupy very specific niches (McCain frozen french fries). For firms in this category, entry into the EC will be based on the identification of specific business opportunities. Finally, in each sector, there are a number of small businesses that target specific regional markets. According to the survey conducted as part of this study, these businesses are more concerned with the impacts of free trade than Europe 1992 and their efforts are directed towards defensive rather than offensive strategies.

TABLE 8

Major Canadian Multinationals Doing Business in Europe (with major brand names) (partial list)

Parent company	Subsidiary
Hiram Walker	Courvoisier
McCain	McCain Alimentaire
Molson	Diversey
Seagram	Mumm et Cie, Martel

TABLE 9

Major Canadian Firms Doing Business in Europe (without major brand names) (partial list)

Parent company	Subsidiary
Canada Packers	Haverhill Meat Products
Labatt/Ogilvie Mills	Ogilvie Aquitaine
Lallemand	Equilait, Setric Biologie, S.A.
National Sea Products	Bretagne Export, Surgélation Lorientaise
Weston	Associated British Foods

4.1 Ability of Canadian Firms to Sell to or Invest in the European Market after 1992

As we have seen, Canada's current agri-food exports to the EC are minimal. Moreover, they involve a limited range of goods and relatively marginal products.[3] According to the information obtained from interviews and from the survey conducted for this study, there are many reasons for this situation. These include the more or less protectionist measures set up in connection with the CAP, the great diversity in consumption habits, the difficulty of gaining access to the entire EC market with the same production conditions and product factors, the proximity and predominant interest of the American market, and a certain pride in European production quality; several Canadian firms emphasized that they produce under European licences (e.g., A. Lassonde et Fils has a container licence; Agropur has a licence for the production of Yoplait and Miko products; and Canadian breweries have licences to produce Carlsberg, Tuborg and Heineken beer).

Will Europe be more protectionist? For many, a "green" Europe was constructed in the past through a flurry of protectionist measures and there is nothing to indicate that Europe 1992 will change anything in this respect. They feel that Europe 1992 is first and foremost for European firms and that, considering the rather limited efficiency of European firms in this sector, the EC will have no other choice but to protect their common border through tariff and other measures. Adherents of this point of view speak of the "Fortress Europe."

On the other hand, some see this concept of a protectionist EC as outdated. For them, such a diversity of situations and interests exists within the EC itself that any inclination on the part of one or a few countries to restrict certain imports will be blocked by others interested in permitting such imports. And at the current pace of mergers (concentration), the efficiency of EC firms will be such that they will soon no longer require protectionist measures to hold their own against competition from outside; on the contrary, they will increasingly target international markets.

Both sides agree, however, that the multilateral GATT negotiations (Uruguay Round) will likely have a greater impact (at least for unprocessed products) on reducing protectionist barriers than will Europe 1992.

There is agreement also that if any form of protection remains, it will be largely non-tariff in nature. It is believed that EC producers will be required to comply with regulated or generally accepted standards. The following analysis is limited to examining the standards most likely to have an impact on Canadian exports.

a) **Animal Health Regulations and Veterinary Controls**

Changes

The elimination of internal borders implies that animal health controls will be effected in other-than-border locations. Efforts are in fact being made to have all EC countries set up efficient programs to eradicate major diseases such as brucellosis and tuberculosis. These programs will have to be approved by the EC, and on-site verifications of the application and efficiency of such programs will have to be performed.

Non-veterinary norms will be harmonized concerning the trade in pure-bred animals for reproductive purposes, and concerning the animal sperm and embryo trade. There should no longer be any prohibitions, restrictions or obstacles to the trade in pure-bred females for breeding, or in terms of the movement of pure-bred males for natural services.

Concerning the semen trade, the product will have to originate from official A1-approved centres. The state where the sperm sample originated or which authorizes the import of sperm from another country will be responsible for seeing that the semen has been collected and processed at approved and supervised semen collection centres and obtained from animals whose health status ensures that the risk of the spread of disease is eliminated.

Impact on Trade with Canada

Canada and the EC's mutual commercial interests in the trade in pure-bred animals and genetic material are a guarantee that barriers will be minimal.

Sanitation controls at point of departure rather than at the borders should not create additional problems for Canadian exporters.

Better animal disease control programs in Member States where diseases are most rife will increase their productivity and create new competitors for countries such as Canada that have a good reputation for the quality of their animals and have developed an export market based on this reputation.

b) **Regulations on Meat and Other Animal Products**

Changes

Harmonization of methods of microbiological analysis of equipment used in slaughterhouses and meat and poultry processing establishments will occur.

Health requirements have been revised for people working in sectors where they come into contact with fresh meat, poultry or poultry products.

There are new guidelines for hygiene regulations in offal products. Inspection regulations now take possible changes into account which may occur in the animal health context in producer Member States or other countries.

It is now easier for Member States to import glands and organs used in the pharmaceutical industry.

Impact on Trade with Canada

Slaughterhouses and meat processing factories will be subject to inspection by the EC and will have to meet construction norms. This is not very different from the present circumstance. Certain Canadian firms who wish to continue trading with the EC will probably have to make some very expensive investments.

There are two types of problems currently encountered by Canadian firms who wish to export meat and meat products to the EC: (a) certain requirements concerning production installations in these firms; and (b) norms on the use of growth hormones in animal feed. It does seem likely that EC standards in these areas will become international standards. If this scenario does occur, it may eventually affect Canadian exports of such products to other countries.

c) Plant Health Regulations

The present system of controls is based on the absolute necessity for all Member States to prevent certain diseases from spreading. Every Member State is obliged to ban the entry of vegetable products infected with such diseases. Countries exporting vegetable products (wood, wood products, vegetables, fruits, seeds, cut flowers, etc.) must provide the importing country with a certificate demonstrating compliance with all control measures required by the EC.

Changes

To facilitate the free movement of vegetable products throughout the Community, the burden of proof that controls and verifications have in fact been effected has been placed with the exporting Member State.

All plants with commercial usages, including wood, potatoes and cut flowers, will have to be inspected at the production site and obtain certification of compliance with EC standards.

Products thus inspected will be provided with a "passport" which will accompany them to their destination.

Imported products will be subject to the same requirements, and upon inspection and approval, will be able to circulate freely in all EC countries.

Controls will be carried out by national inspectors who will be supervised and monitored by EC inspectors.

Finally, the principle of financial responsibility will be applied to producers, who will be held responsible for the spread of a disease caused by a negligent application of controls on their part.

Impact on Trade with Canada

There will be better disease control in products from other countries, and even products in transit within an EC country will have to be inspected and satisfy EC standards.

The problematic seed potato case clearly illustrates the difficulties that can arise from implementing uniform EC standards. Canadian seed potatoes are currently entering the EC under derogation from EC standards, which has been allowed on the principle of products necessary to certain Member States. It is not certain if such a principle will be maintained after 1992.

d) Harmonization of Food Product Legislation

Harmonization will be directed towards additives, objects and materials that may come into contact with food, labelling, foods for particular nutritional uses (baby food, diet foods, etc.), food processes, sampling, food inspection, food irradiation and artifical flavouring. In what would seem to be the results of pressure from the Green Movements, such norms are likely to become stricter for outside exporters, but also and especially for Member States.

Impact on Trade with Canada

Canadian firms who wish to export products such as canned or frozen fruits and vegetables to the EC will probably have to incur additional costs to meet these new norms.

On the other hand, once standards have been met, their goods will be able to circulate in all EC countries. Moreover, as in the case of meat regulations, the new EC norms on food products will probably be adopted at the international level. In this case, expenses incurred by Canadian firms to meet EC norms could prove to be highly cost-effective.

Should we conclude from all this that after 1992, the EC will be more protectionist than it is at present? We do not believe this to be the case.

Europe 1992 means harmonization of norms and standards in all EC countries, modernization of food product distribution, and greater standardization in consumer habits, which will eventually be comparable to North American consumer tastes. In other words, Europe 1992 is likely to create a new food product market of 325 million people, with market characteristics far more similar to the North American market than is currently the case. All this should make the EC increasingly attractive to Canadian firms.

4.2 New Ability of European Firms to Penetrate Canada's Domestic and Export Markets

Despite the fresh attraction the new European market could represent, it is highly probable that most Canadian firms will accord priority to the U.S. and Asian markets. Export statistics support this. All the exporting firms surveyed for this study consider the U.S. as their principal export market, by a wide margin. Moreover, more than half of these firms have no interest in the European market and are not preparing for Europe 1992. Europe 1992 will not succeed in diverting their interest from such priorities, or if it does, only to a marginal degree. As a result, in most cases, Canadian firms will not be affected by the first group of effects.

On the other hand, they are likely to be far more strongly affected by the second group of effects, that is, those concerned with European firms' new competitive capacities. As previously noted, Europe 1992 will likely result in major movements towards concentration. Such concentration, which will be fostered by the freer movement of capital, as well as by concentration in retail sales networks and standardization in consumption habits, will allow European firms to profit from appreciable economies of scale, and thus reduce production costs and significantly increase efficiency. These movements towards concentration are already well on their way in several sectors.

In this new context, European firms are likely to show far more interest and prove far more aggressive in the export markets. Moreover, their new size will make foreign investment much easier for them. Already well established in Canada's imports of dairy products, bakery products, spirits and wine, they will certainly endeavour to increase their share of the Canadian market, either by exporting more or directly investing here. The 1984-1988 evolution of Canada's imports from the EC already reveals rising imports from several product groups (see Table A4). With their new competitive capacities, this trend will certainly become even more marked. As well, considering that in certain respects Canadian consumption habits may be moving closer to European tastes, and considering the Canada-U.S. free trade deal, European firms will likely become more interested in acquiring a foothold on the North American market via Canada.

Rising European imports, increasing European investment and takeovers in Canada, and a growing market share on the part of European firms in Canadian export markets: these are some of the likely effects of Europe 1992 liable to have the greatest impact on Canadian firms in the agri-food sector.

5. STRATEGIES AND ACTIONS

Confronted with the various changes and their presumed effects, Canadian agri-food firms can neither afford to remain indifferent, nor to adopt a "wait-and-see" stance. On the one hand, there are new market opportunities and new opportunities for investment in the EC which certain Canadian firms should try to act upon. On the other hand, there is the very real threat of far more aggressive competition from European firms.

The survey responses of a number of Canadian firms seem to indicate that, with the exception of a few large, often multinational, enterprises (Seagram, Ogilvie, Molson, Labatt, McCain), few Canadian firms have prepared or are preparing for this event. Most of these firms are not and never have been involved in the European market, and are at present focusing all their attention on the new dynamics of free trade with the U.S. However, almost all of them say they are concerned with what is likely to occur in Europe, and plan to prepare for this in the near or more distant future. In many cases, one of the major obstacles to adequate preparation for this event seems to be the uncertain nature of the changes to come.

For large firms, preparing usually means investing in Europe (either creating a new firm or taking over a European firm); for small- and medium-size firms, preparing means finding a good sales agent, improving productivity and adopting international norms (A. Lassonde et Fils, Les Miels Labonté, Les Viandes Olympia, Island Shipping Ltd.). It can thus be seen (and could perhaps have been predicted) that Canadian firms' attitudes and actions regarding Europe 1992 are largely a function of their size.

In view of the foreseeable changes in Europe and what is known about Canadian firms, we can briefly outline some potential strategies and possible action they should consider.

5.1 Objective: Acquiring or Increasing One's Share of the New Market

This objective can be achieved in two ways: either by investing in the EC to create an entirely new production unit or to buy or acquire control in an existing firm; or by exporting to the EC.

a) Investing in the EC

Since trends towards concentration have begun in most EC agri-food sectors, on both the distribution and production levels, and since there will always be significant and probably increasingly stringent controls on imports, the second alternative seems to be clearly preferable. This means that Canadian firms interested in acquiring a share of the new EC market would be well advised to take advantage of the movement towards concentration to find a good business opportunity and establish a foothold in the Community. Good opportunities are probably more abundant now (given the rising rate of acquisitions) than they will be in a year or two from now, or after 1992. On the other hand, foreign investment regulations are not fully standardized (certain states, the United Kingdom among others, are currently more receptive than others). For these different reasons, Canadian firms who wish to acquire a foothold in the EC to take advantage of the common market should do so quickly, in the coming months. Such a strategy is obviously not possible for every firm. The number of Canadian firms in the agri-food sector who have become established in the EC is limited, and only consists of large, multinational-type enterprises. The reason for this is simple. It is a costly operation, with significant risks involved. Only a firm with large amounts of capital to invest can seriously attempt such an operation.

b) Exporting to the EC

A Canadian firm that is unable to establish a European foothold may wish to acquire or increase its share in the new EC market.

If the firm's product is already in place in one of the national markets and is performing well (e.g., the offal market), Europe 1992 does not present a very great risk. The firm should keep its eyes open to adjust to new policies and watch for new niches in markets it is currently exploiting. If, on the other hand, the firm's product is in an already extremely competitive market (seed potatoes, semen and animal embryo, pork products), Europe 1992 is likely to make it very difficult for the firm to maintain its market share. The firm may have to authorize significant investments not only to satisfy the new norms, but also mainly to reduce production costs to the level of its new European rivals. If the firm has already begun such an operation in order to adjust to the new conditions of free trade with the U.S., it is probably already a few laps ahead of its European competitors; if not, the firm will have to make such adjustments as soon as possible.

If a firm wishing to take advantage of the new market is not currently in this market (which is the case for most Canadian firms), it should quickly take several preliminary steps. First, in the current conditions, the country and market niche where the firm's product(s) has (have) the greatest potential should be identified. Second, norms and standards currently in effect in this country should be verified and changes which will be brought about by the new EC policies analysed. The third step is to take advantage of the surge of concentration to identify a partner who is already preparing to acquire a good European distribution network, or at least to identify a good sales agent.

These are "preliminary steps" not only in the sense that they are necessary for a firm to become properly established in this market, but especially in the sense that there is every interest in taking such steps before 1992.

5.2 Objective: Maintaining and Increasing One's Share of the Canadian and Other Markets

A major and expected effect of Europe 1992 is the enhancement of European firms' capacity to compete, primarily on the European market, but also on the Canadian and eventually Canada's traditional export markets.

A primary countermeasure in response to this new situation, one used constantly in the past, would be to protect the Canadian market by tariffs or other measures. The survey of Canadian firms conducted for this study found that several still believe in such measures (not only small- and medium-size firms but some larger ones as well), but that the majority feel such measures are outdated. Overall, however, with only about two or three exceptions, they feel the best countermeasure is to augment Canada's own competitive capacities. They believe that it is very important to have movement towards concentration here, increasing utilization of new production technologies, and a greater R&D effort. Most firms, moreover, feel that it is important and urgent to adopt international norms and standards where applicable. In fact -- and this opinion comes out strongly in the survey -- if Canadian firms can adapt well to the new market situation produced by free trade with the U.S., this is proof that they can effectively resist the effects of Europe 1992 in Canada's market and in markets outside Canada (La Fédérée, Les Viandes Olympia, A. Lassonde et Fils).

CONCLUSION

The European agri-food industry has developed in more or less isolated pockets within national markets. Many factors can explain the lack of interpenetration between markets: non-tariff barriers of all kinds, extensive blocks and controls at intra-European borders, consumer habits that differ widely from country to country, and great discrepancies in the level and pace of development. As the main consequence of this situation, the European agri-food industry is suffering from a lack of concentration, the absence of large economies of scale, and overcapacity. This means the efficiency level is lower than it could be. By liberalizing intra-European borders to permit the movement of food products, while introducing uniform norms and standards and promoting investment mobility, Europe 1992 will be a powerful tool to rectify the causes of inefficiency. Already, concentration in the industry is beginning.

Recent trade between Canada and the EC has been relatively minimal, namely 5 per cent to 10 per cent of all Canadian agri-food exports and 15 per cent of imports. Except for a few items (cheddar cheese, canned vegetables), Canada exports products that do not figure greatly in Canada's agricultural industry (offals, maple syrup, seed potatoes, etc.) and purchases luxury products with a rather limited consumption (wine, spirits, fine cheeses, etc.) from the EC. The exchange of capital between the two in the agri-food sector has also been very limited.

What Changes will Europe 1992 Bring?

The essential aim of Europe 1992 is to complete the process begun in 1957 of creating a Single Market allowing free passage of people, goods and capital. For the agri-food sector, this translates into the following:

- elimination of physical barriers (abolition of numerous controls at intra-European borders);
- elimination of technical barriers (reciprocal acceptance or uniformity of norms and standards);
- elimination of fiscal barriers;
- unhampered flow of capital and hence investment (acquisitions, takeovers, agreements of all kinds);
- greater uniformity and standardization of consumer habits under pressure from the concentration of retail distribution networks and production standardization.

All these changes indicate easier access to a market of 325 million people and, therefore, the possibility of expanding mass production and raising production volumes. In short, the European agri-food sector will derive benefits from economies of scale, will encourage concentration, and will greatly improve its efficiency and competitiveness.

For the Canadian agri-food sector, the first question is whether the EC will become more or less protectionist after 1992. Although there is no consensus, the answer appears to depend more on multilateral trade negotiations (GATT) (at least for unprocessed products) than on Europe 1992. In such a context, the EC will probably find it hard to be more protectionist than it is now. On the other hand, pressure from environmental groups may force regulations, standards and norms to become more restrictive, though any such constraints would apply to European and foreign producers alike. It seems, for instance, that norms for purebred animals and genetic material (embryos, semen) sold by Canadian producers would not be stricter than they are already. Canadian meat exports, however, may have to conform to more stringent regulations on slaughterhouse construction standards, thus necessitating considerable investment. Inspection standards for offals could vary according to changes in the health of livestock in the exporting country. Finally, standards on the health of plants will have to be implemented by the exporting country to the satisfaction of the EC, the former being held financially responsible for any spread of disease from its exports.

Generally speaking, the process of achieving uniformity among the existing standards and regulations might make them a bit stricter than they are now, and chances are the results will be adopted as international standards. Accordingly, it is definitely in the interest of the Canadian industry to follow the developments closely and adopt these new standards as soon as possible.

More protectionist? Or less protectionist? One thing is sure: Europe 1992 should make the EC market much more attractive to Canadian businesses. The elimination of internal borders, together with the concentration and modernization of distribution and greater uniformity in consumer habits, raise hopes of reaching all promising segments of this market. Moreover, the clear trend toward concentrating production, already under way, opens up investment and participation opportunities for Canadian agri-food businesses.

In addition, the greater efficiency of European companies may turn them into more aggressive competitors both on the Canadian market and in third countries.

Although less important to Canadian businesses than the Canada-U.S. Free Trade Agreement, Europe 1992 presents risks and opportunities that are not to be taken lightly.

It would be advisable for Canada's agri-food industry to adopt action strategies without delay:

. Invest in the EC promptly (those who have the means). By doing so, businesses will likely benefit from greater ease of penetration for foreign investment and better purchase or participation opportunities.

. Export to the EC. For businesses already doing so with good results, Europe 1992 presents little risk. On the contrary, they will probably find more opportunities to expand their market. Those not yet in the EC and who would like to benefit from this new market, should penetrate one of the national markets quickly. This means identifying the right country, the right gap in the market, the right partners in distribution networks and the right salespeople.

. Protect your share of the Canadian and third-country markets. For many Canadian companies, this means boosting efficiency and adopting international norms as quickly as possible. Since Canadian businesses already have to move along these lines as they prepare for the opening of the U.S. border, they have a head start and may take a slight lead over the European competitors likely to appear.

APPENDICES

TABLE A.1

Size of the Agri-Food Sector for Several EC Countries

	Price 1987				Average annual rate		
	1979	1982	1987	1993	79-82	82-87	87-93
France (billions of francs)							
Production	488.60	506.40	521.70	565.00	1.20	0.60	1.30
Imports	49.30	55.40	72.00	94.00	4.00	5.40	4.50
Exports	54.80	62.00	76.40	100.50	4.20	4.30	4.70
Domestic market	483.10	499.80	517.30	558.50	1.10	0.70	1.30
West Germany (billions of marks)							
Production	135.80	144.70	150.10	159.70	2.10	0.70	1.00
Imports	19.50	22.30	25.80	30.90	4.50	3.00	3.00
Exports	14.90	19.30	22.00	28.20	9.00	2.60	4.20
Domestic market	140.40	147.70	154.00	162.40	1.70	0.80	0.90
Italy[1] (thousands of billions of liras)							
Production	69.16	72.34	80.20	86.18	1.50	2.10	1.20
Imports	9.11	10.20	12.52	16.25	3.80	4.10	4.40
Exports	3.54	4.42	5.56	6.64	7.60	4.60	3.00
Domestic market	74.73	78.12	87.16	95.79	1.50	2.20	1.60
Spain (thousands of billions of pesetas)							
Production	3.32	3.53	3.90	4.52	2.00	2.00	2.50
Consumption	4.35	4.55	4.92	5.54	1.50	1.60	2.20
United Kingdom (billions of pounds)							
Production	37.41	37.08	38.97	40.88	-0.30	1.00	0.80
Consumption	35.87	34.49	36.43	37.53	-1.30	1.10	0.50
Total EC (billions of ECU) (12 Member States)							
Production	303.30	311.60	330.70	359.50	0.90	1.20	1.40
Consumption	359.90	370.80	391.70	423.30	1.00	1.10	1.30

1 ECU (in 1987) = 6.93 francs = 2.07 DM = 1 495 liras = 142.19 pesetas = 0.70 pounds

Source: Europe in 1993, Bureau d'Informations et de Prévisions Économiques, IFO-Institute and Prometeia.

1 These figures do not include the tobacco industry.

TABLE A.2

Canadian Exports and Principal Destinations in 1988
(in millions of dollars)

		Export				
		Total	% U.S.	% EC	% Japan	% Other
01	**Agricultural industries**	7 109.0	16.7	8.5	14.3	60.5
02	**Agricultural services**	32.6	15.0	42.9	8.9	33.1
10	**Food industries** *	3 046.5	55.7	8.5	13.7	22.2
101	Meat and poultry	1 352.5	55.7	8.5	13.7	22.2
1011	Meat and products except poultry	1 338.6	55.7	10.5	17.1	16.7
1012	Poultry products	14.2	56.3	12.7	14.8	16.2
103	Processed fruit and vegetables	262.9	50.1	19.9	7.0	23.1
104	Dairy products	192.4	9.9	13.5	4.3	72.3
105	Flour, table cereal	318.0	54.1	5.4	19.9	20.6
1051	Milling	94.6	52.4	1.1	2.0	44.5
1052	Prepared flour and cereal	24.5	71.0	4.5	15.9	8.6
1053	Animal feed	198.9	52.7	7.6	28.9	10.8
106	Vegetable oils	320.3	43.2	0.4	12.1	44.3
107	Bakery/Pastry products	157.4	95.2	1.5	0.4	2.9
1071	Biscuits	54.7	97.8	0.9	0.2	1.1
1072	Bread and other	102.7	93.9	1.8	0.6	3.8
108	Sugar and candies	190.4	91.4	0.8	2.3	5.5
109	Other food products	252.3	62.4	5.9	21.2	10.5
11	**Beverage industries**	536.8	85.6	2.2	9.9	2.3
111	Soft drinks	30.2	77.8	2.0	9.9	2.3
112	Alcoholic beverages	302.0	77.0	3.5	17.4	2.2
113	Beer	200.2	100.0	0.0	0.0	0.0
114	Wine	4.4	75.0	15.9	4.5	4.5
Total *		10 724.9	31.2	8.3	13.9	46.6
102	Processed fish	2 515.7	49.4	17.6	23.7	9.3
10	**Fish included**	5 562.2	52.8	12.6	18.2	16.3

Source: ISTC: Industry, Science and Technology Canada: *Trade by Industrial Sector, Evaluation 1984-1988.*

* Processed fish excluded

TABLE A.3

Canadian Imports and Principal Sources in 1988
(in millions of dollars)

		Export				
		Total	% U.S.	% EC	% Japan	% Other
01	**Agricultural industries**	2 402.9	87.3	5.0	0.9	6.58
02	**Agricultural services**	22.4	98.7	1.3	0.0	0.0
10	**Food industries** *	4 063.5	54.8	14.5	0.3	30.5
101	Meat and poultry	736.2	58.6	3.0	0.0	38.4
1011	Meat and products except poultry	671.7	55.2	3.2	0.0	41.6
1012	Poultry products	64.5	94.0	1.2	0.2	4.7
103	Processed fruit and vegetables	828.7	55.7	14.3	0.5	29.5
104	Dairy products	159.3	19.6	51.9	0.0	28.6
105	Flour, table cereal	242.0	84.8	7.9	0.6	6.7
1051	Milling	15.7	89.8	2.5	0.0	7.6
1052	Prepared flour and cereal	54.9	93.4	3.8	0.4	2.4
1053	Animal feed	171.4	81.6	9.6	0.8	8.0
106	Vegetable oils	311.0	80.0	8.6	0.2	11.3
107	Bakery/Pastry products	134.8	56.3	35.2	1.2	7.3
1071	Biscuits	78.1	41.4	48.0	1.9	8.7
1072	Bread and other	56.7	76.9	17.6	0.2	44.0
109	Other food products	1 079.7	54.4	12.6	0.4	32.6
11	**Beverage industries**	551.3	13.6	68.5	0.4	17.4
111	Soft drinks	81.5	15.2	28.1	0.4	56.3
112	Alcoholic beverages	162.2	13.6	70.4	0.2	15.8
113	Beer	41.3	48.7	33.4	1.2	16.7
114	Wine	266.3	7.7	85.2	0.5	6.6
Total *		7 040.1	62.8	15.4	0.5	21.3
102	Processed fish	698.5	52.5	5.2	5.6	36.7
10	**Fish included**	4 762.0	54.5	13.1	1.1	31.4

Source: ISTC: Industry, Science and Technology Canada: *Trade by Industrial Sector, Evaluation 1984-1988.*

* Processed fish excluded

TABLE A.4

Evolution in the EC's Relative Share in Canadian Imports, 1984-1988

		Imports % EC 1984	Imports % EC 1988
01	**Agricultural industries**	4.4	5.0
02	**Agricultural services**	0.0	1.3
10	**Food industries***	14.6	14.5
101	Meat and poultry	13.6	3.0
1011	Meat and products except poultry	15.3	3.2
1012	Poultry products	1.3	1.2
103	Processed fruit and vegetables	12.9	14.3
104	Dairy products	54.9	51.9
105	Flour, table cereal	2.2	7.9
1051	Milling	1.3	2.5
1052	Prepared flour and cereal	1.2	3.8
1053	Animal feed	3.8	9.6
106	Vegetable oils	4.7	8.6
107	Bakery/Pastry products	42.0	35.2
1071	Biscuits	62.6	48.0
1072	Bread and other	17.9	17.6
109	Other food products	10.9	12.6
11	**Beverage industries**	77.8	68.5
111	Soft drinks	42.9	28.1
112	Alcoholic beverages	73.2	70.4
113	Beer	42.4	33.4
114	Wine	91.0	85.2
Total *		15.6	15.4
102	Processed fish	6.7	5.2
10	**Fish included**	13.6	13.1

Source: ISTC: Industry, Science and Technology Canada: *Trade by Industrial Sector, Evaluation 1984-1988.*

* Processed fish excluded

TABLE A.5

Canadian Agri-Food Trade Balance
(in millions of dollars)

		Total 1988	U.S. 1988	EC 1988	Japan 1988	Others 1988	Total 1984	EC 1984
01	**Agricultural industries**	4 706.1	-912.0	485.5	996.5	4 136.1	5 311.0	652.5
02	**Agricultural services**	10.2	-17.2	13.7	2.9	10.8	23.2	7.7
10	**Food industries ***	-1 017.0	-530.6	-329.4	405.2	-562.2	-826.7	-258.0
101	Meat and poultry	616.6	322.3	120.3	230.2	-56.2	533.7	72.0
1011	Meat and products except poultry	666.9	374.9	119.3	228.2	-55.5	591.3	71.7
1012	Poultry products	-50.3	-52.6	1.0	2.0	-0.7	-57.6	0.3
103	Fruit and vegetable products	-565.8	-329.8	-66.5	14.3	-183.8	-519.3	-50.3
104	Dairy products	33.1	-12.2	-56.7	8.3	93.7	128.4	-47.1
105	Flour, table cereal	76.0	-33.4	-1.7	61.7	49.4	280.9	19.4
1051	Milling	78.9	35.5	0.6	1.9	40.9	117.0	3.7
1052	Prepared flour and cereal	-30.4	-33.9	-1.0	3.7	0.8	33.1	-0.4
1053	Animal feed	27.5	-35.0	-1.3	56.1	7.7	130.8	16.1
106	Vegetable oils	9.3	-110.5	-25.2	38.0	107.0	-14.9	2.7
107	Bakery/Pastry products	22.6	74.0	-45.2	-0.9	-5.3	20.6	-31.1
1071	Biscuits	-23.4	21.2	-37.0	-1.4	-6.2	-1.2	-25.5
1072	Bread and other	46.0	52.8	-8.2	0.5	0.9	21.8	-5.6
108	Sugar and candies	-381.4	-11.2	-132.8	3.9	-241.3	-247.2	-106.4
109	Other food products	-827.4	-429.8	-121.6	49.7	-325.7	-1 008.9	-117.2
11	**Beverage industries**	-14.5	384.6	-366.1	50.6	-83.6	103.0	-347.8
111	Soft drinks	-51.3	11.1	-22.3	0.1	-40.2	-36.6	-20.1
112	Alcoholic beverages	139.8	210.5	-103.7	52.0	-19.0	223.3	-114.8
113	Beer	158.9	180.1	-13.8	-0.5	-6.9	141.7	-7.2
114	Wine	-261.9	-17.1	-226.3	-1.0	-17.5	-225.4	-205.7
Total *		3 684.8	-1 075.2	-196.3	1 455.2	3 501.1	4 610.5	54.4
102	Processed fish	1 817.2	875.0	407.1	558.2	-23.1	910.1	191.6
10	**Fish included**	800.2	344.4	77.7	963.4	-585.3	83.4	-66.4

Source: ISTC: Industry, Science and Technology Canada: *Trade by Industrial Sector, Evaluation 1984-1988.*

* Processed fish excluded

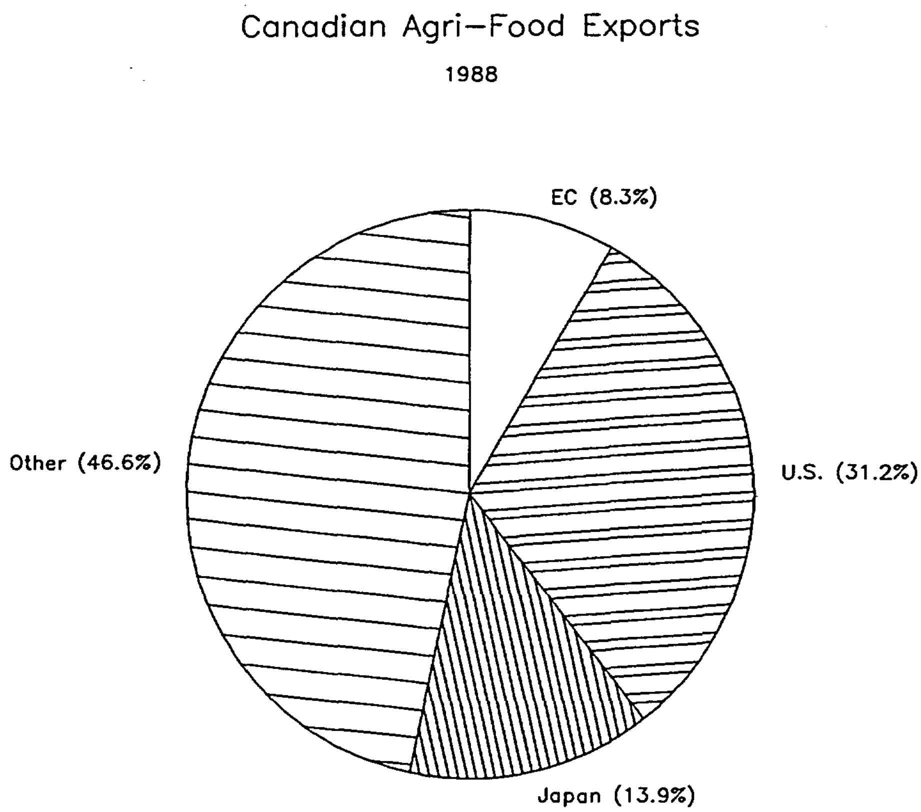
TABLE A.6

Canadian Foreign Investment Targets and Sources, 1987-1988

Country	Canadian foreign investment targets (in billions of dollars)		Sources of foreign investments in Canada (in billions of dollars)	
	1987	1988	1987	1988
U.S.	40.2	42.5	72.3	76.3
EC	8.0	8.8	19.4	23.1
JAPAN	0.2	0.2	2.7	3.6
Other	8.5	9.0	6.0	7.3
Total	56.9	60.5	100.4	110.3

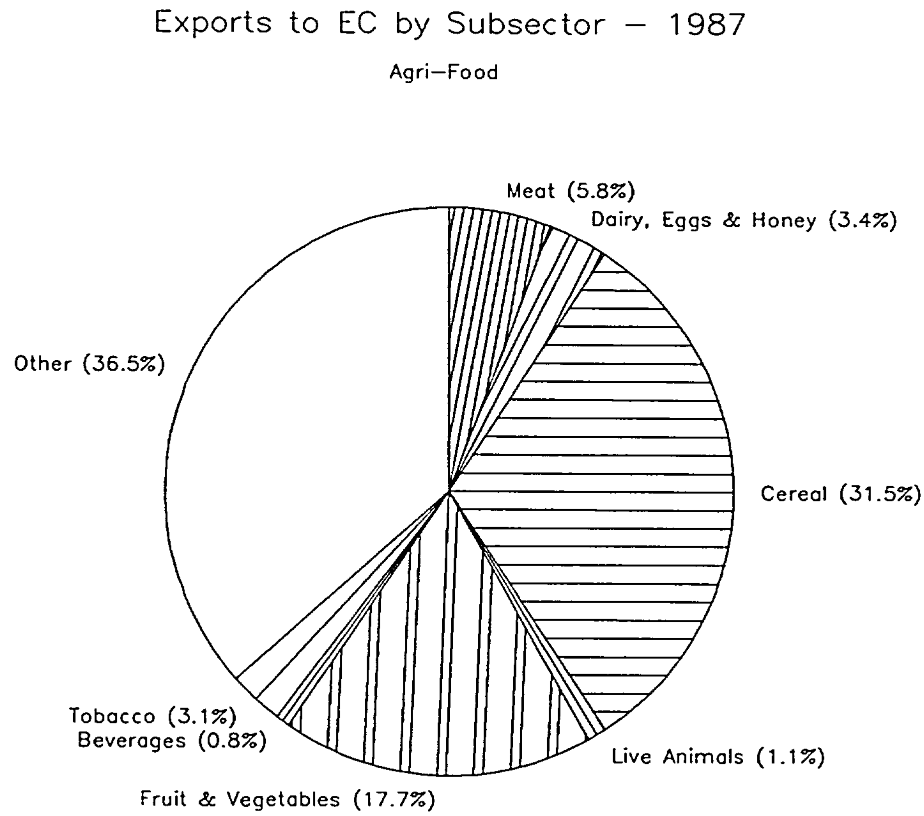
Appendix B: Charts and Graphs

FIGURE 1



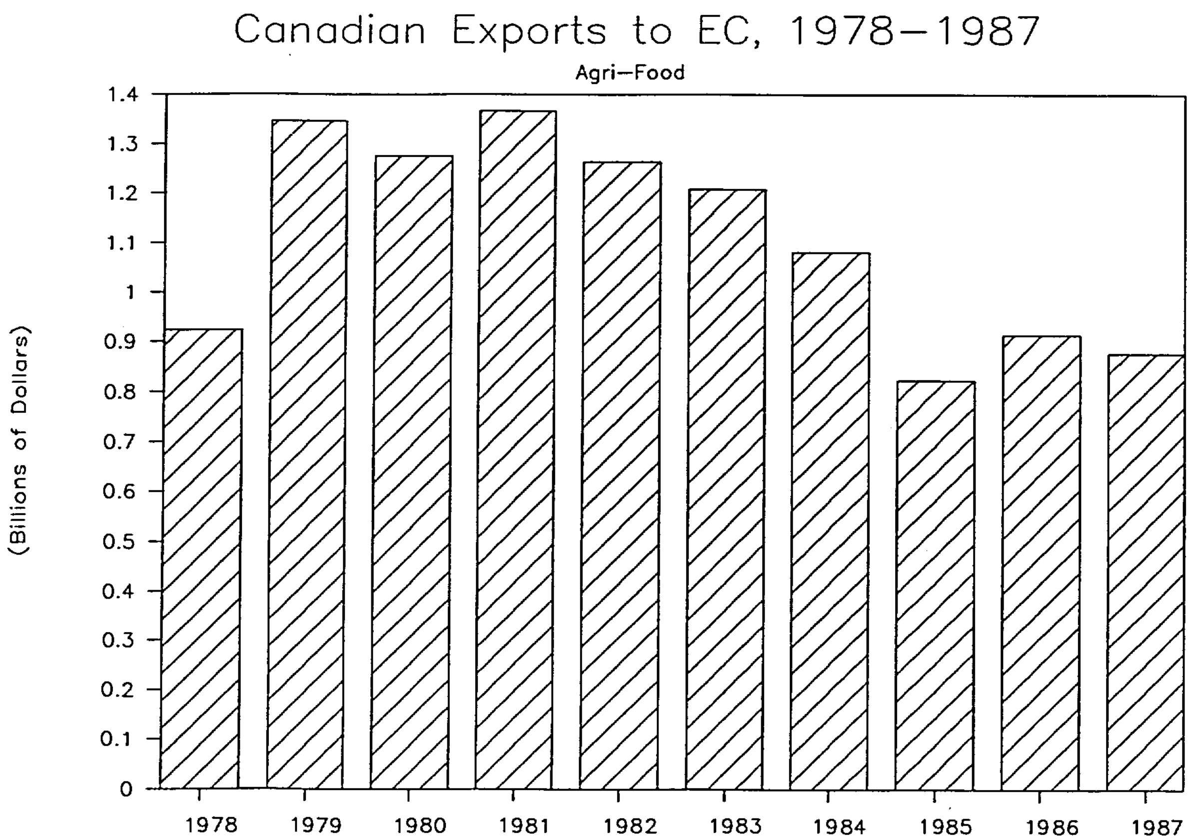
Source: Industry, Science and Technology Canada, *Commodity Trade by Industrial Sector, Historical Summary, 1984-1988.*

FIGURE 2



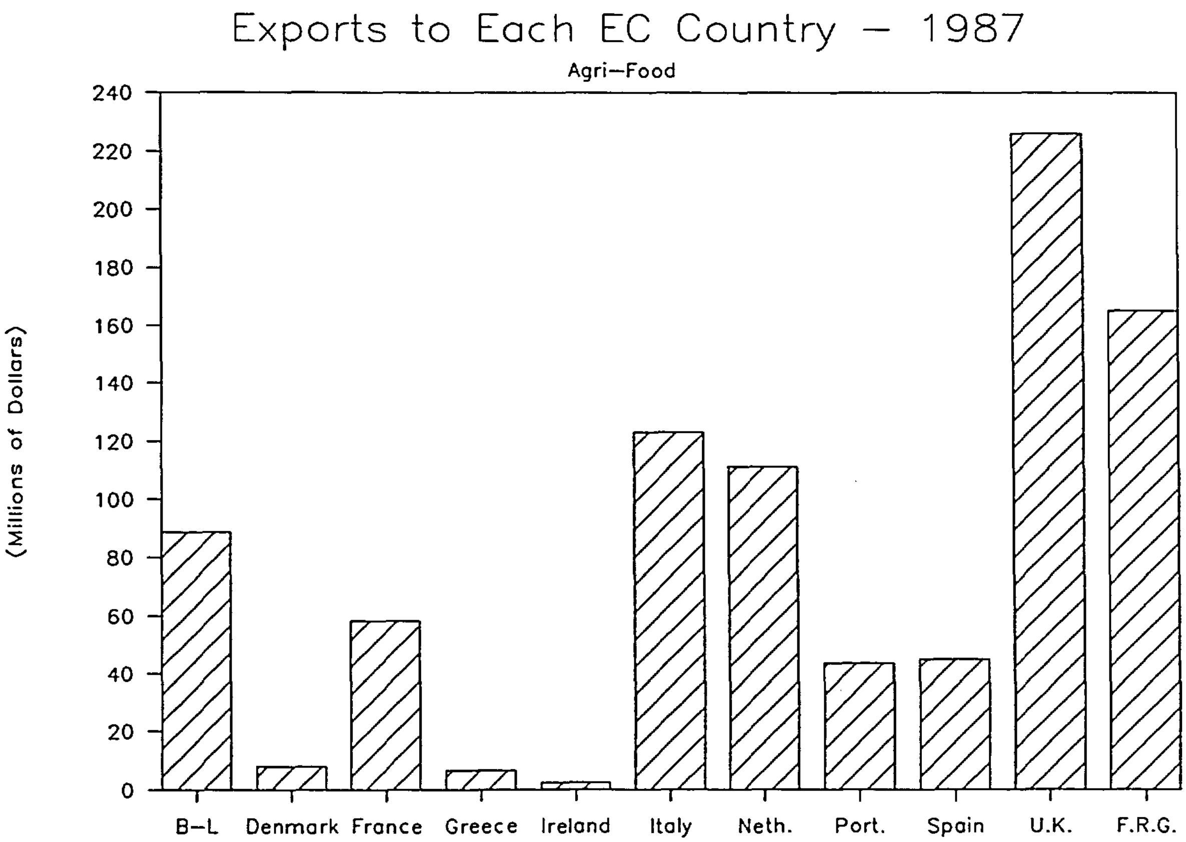
Source: Informetrica and Statistics Canada.

FIGURE 3



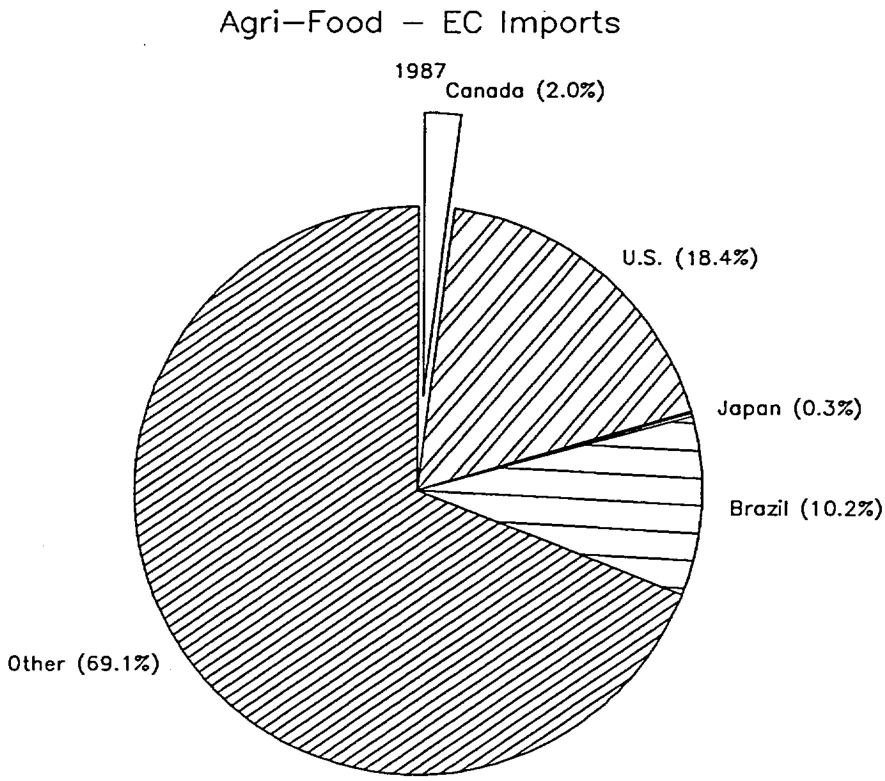
Source: Informetrica and Statistics Canada.

FIGURE 4



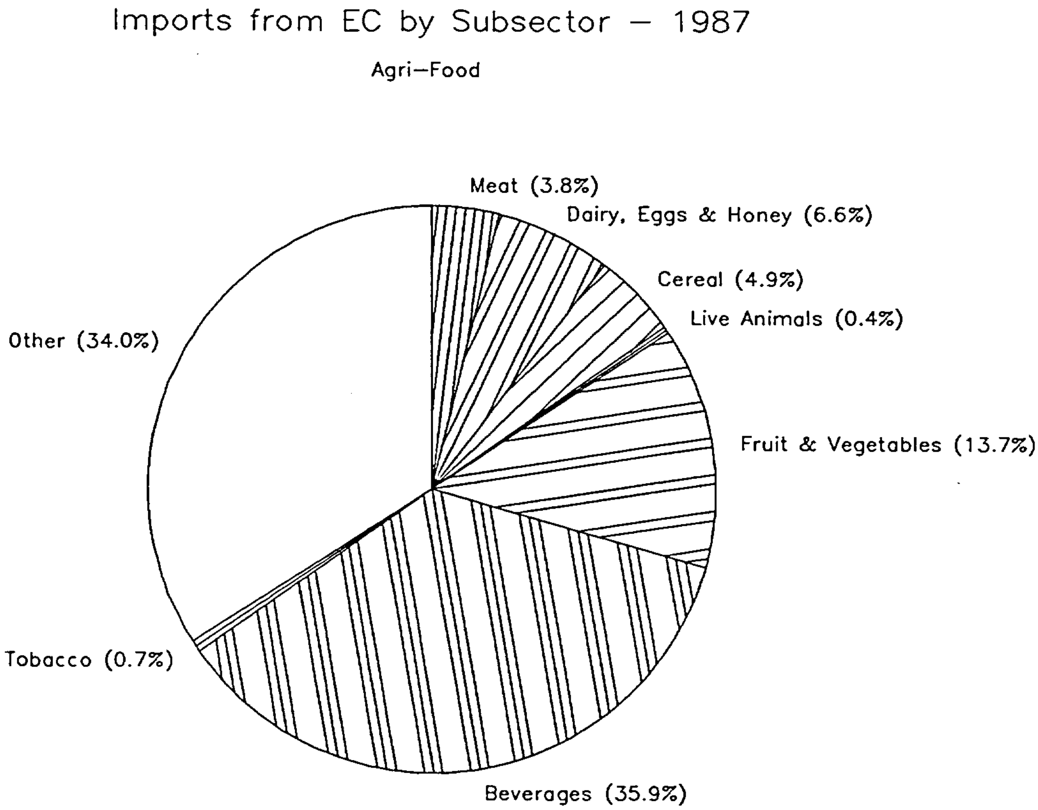
Source: Informetrica and Statistics Canada.

FIGURE 5



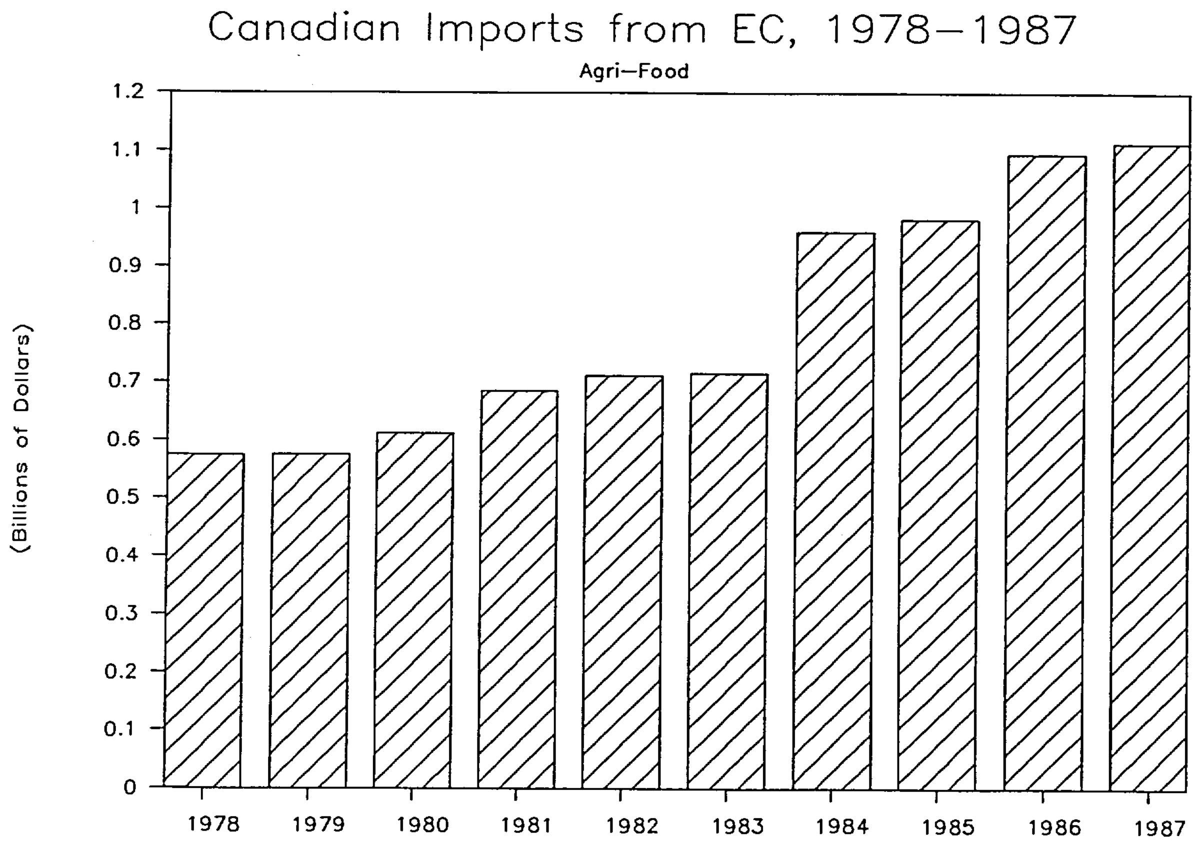
Source: Informetrica and Statistics Canada.

FIGURE 6



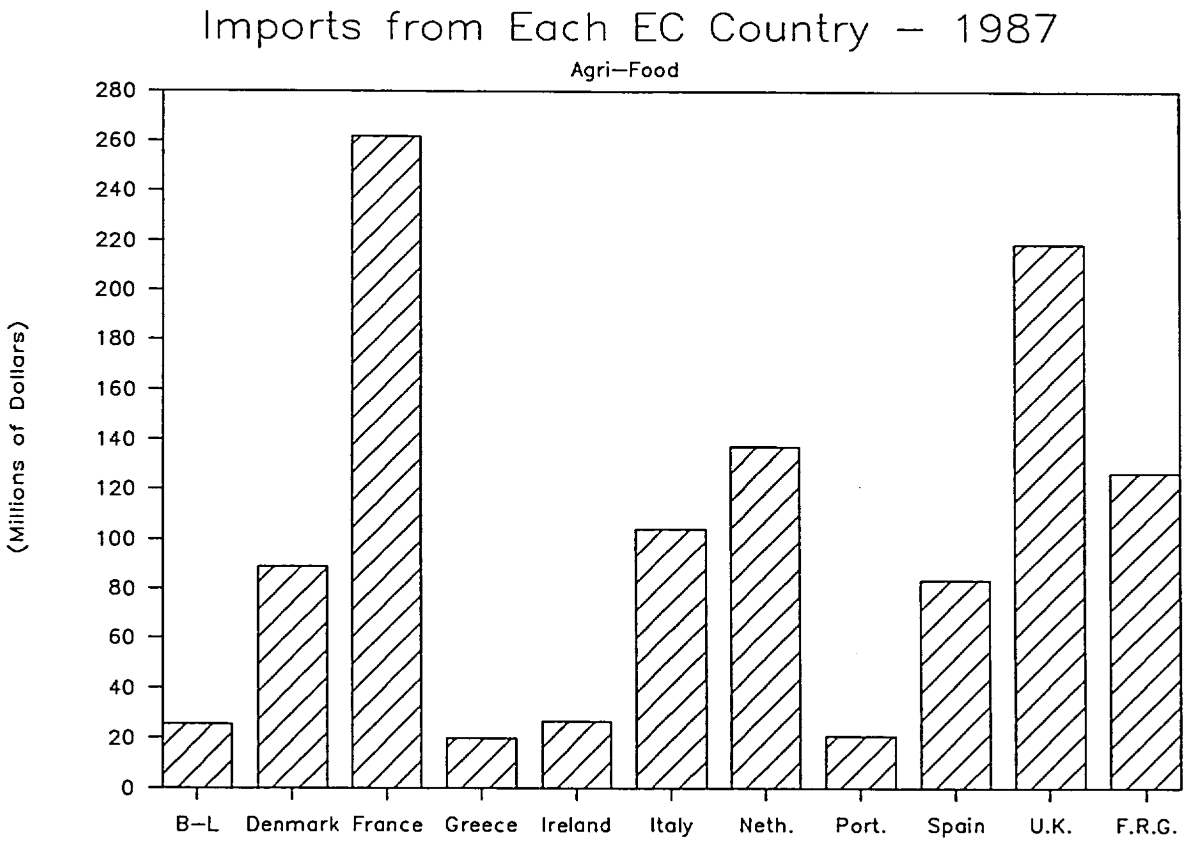
Source: Informetrica and Statistics Canada.

FIGURE 7



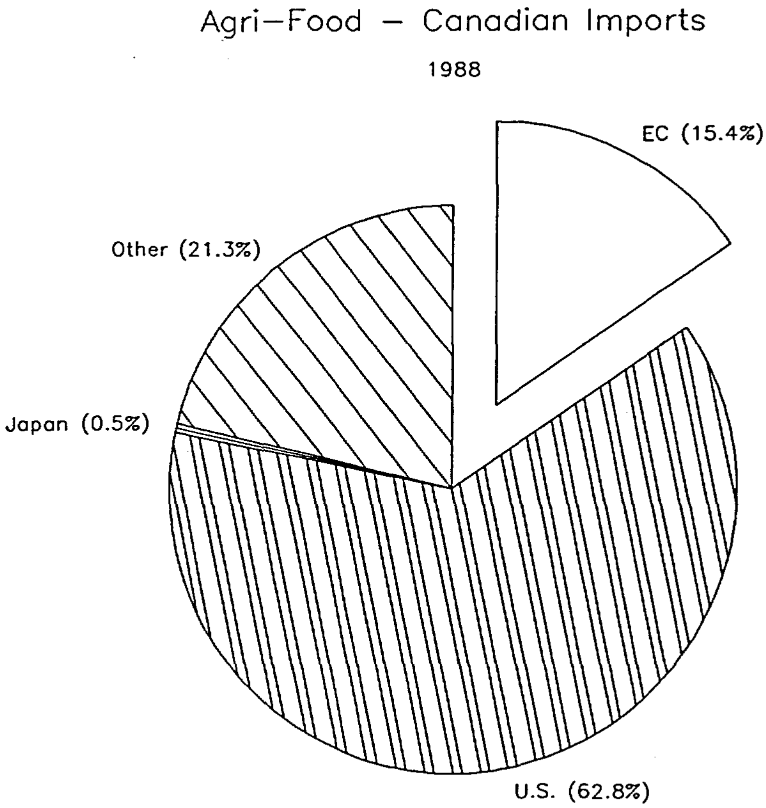
Source: Informetrica and Statistics Canada.

FIGURE 8



Source: Informetrica and Statistics Canada.

FIGURE 9



Source: Industry, Science and Technology Canada, *Commodity Trade by Industrial Sector, Historical Summary, 1984-1988.*

Appendix C: List of Firms Participating in the Survey

Molson Companies Ltd.
Toronto, Ontario

Joseph E. Seagram & Sons Ltd.
Montreal, Quebec

Island Shipping Ltd.
Charlottetown, P.E.I.

P.E.I. Produce Co. Ltd.
Summerside, P.E.I.

McCain Produce Inc.
Florenceville, N.B.

Catelli Inc.
Montreal, Quebec

Hygrade Foods
Montreal, Quebec

Best Foods Canada Inc.
Etobicoke, Ontario

Ogilvie Mills Ltd.
Montreal, Quebec

A. Lassonde et Fils
Rougemont, Quebec

Les Viandes Olympia Ltée
Saint-Hyacinthe, Quebec

Les Miels Labonté Inc.
Victoriaville, Quebec

Labatt Breweries Ltd.
LaSalle, Quebec

David Lord Ltée
Montreal, Quebec

Weston Bakeries Ltd.
Longueuil, Quebec

XL Beef
Calgary, Alberta

Hiram Walker
Windsor, Ontario

Kraft General Foods Canada
Don Mills, Ontario

Aliments Carrière Inc.
Saint-Denis-sur-Richelieu, Quebec

Aliments Kouri Inc.
Sainte-Rose, Laval, Quebec

Aliments Delisle Ltée
Boucherville, Quebec

Canada Packers Inc.
Toronto, Ontario

NOTES

1. Source: *Panorama of EC Industry, 1989*, Commission of the European Communities, Brussels, Luxembourg, 1988.

2. Includes some 1 900 public establishments.

3. In certain cases, such as seed potatoes, these products may be more significant at the regional level.

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