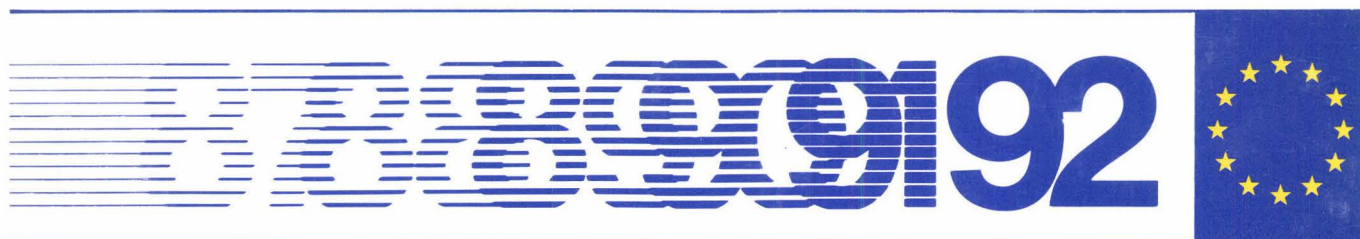


RESEARCH ON THE “COST OF NON-EUROPE”  
BASIC FINDINGS  
VOLUME 12 PART A



THE “COST OF NON-EUROPE”  
IN THE FOODSTUFFS INDUSTRY

*Document*

COMMISSION OF THE EUROPEAN COMMUNITIES

This publication was prepared outside the Commission of the European Communities.  
The opinions expressed in it are those of the author alone; in no circumstances should they be taken as an authoritative statement of the views of the Commission.

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**The "Cost of Non-Europe"**  
in the Foodstuffs Industry

Groupe MAC



# The Cost of "Non-Europe" in the Foodstuffs Industry

## Executive summary

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## **Preface**

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

**Report I : Identification of barriers and selection of pilot barriers**

**Report II : Analysis of pilot barriers (Volumes I and II)**

**Report III : Extrapolation of benefits**

**Report IV : Consolidation of the European food industry : An implication of the 1992 Common Market.**

**Executive summary**



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# 1. Introduction

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## A. Objectives of the study

This study was motivated by the European Commission's "white paper"<sup>(1)</sup> and was designed to answer the following question : What will be the impact of the "1992 Common Market" on the foodstuffs industry ?

In this context, the 1992 Common Market means a European Community in which any foodstuff produced and commercialized in one member country may be freely commercialized in any other member country. Non-tariff trade barriers represent one of the main obstacles to the 1992 Common Market. Evaluating the impact of removing these barriers was therefore the principal objective of this study.

Two corollary objectives followed from the principal objective. The first was to evaluate and quantify the total net benefits to the EEC from eliminating trade barriers; and the second was to identify the countries and product sectors that would be most significantly affected.

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(1) "Completing the Internal Market," June 1985.

## **B. Summary of conclusions**

- **Europeanization in the foodstuffs industry is facing a critical transition. In ten product sectors, this study identified over 200 non-tariff trade barriers. Recent years have witnessed an increase rather than a decrease of barriers.**
- **Creating a single market in the foodstuffs industry will engender significant benefits. Within the sectors studied, the positive impact will be on the order of 500-1000 million European currency units (Ecus) in annual cost savings. These benefits represent two to three percent of total industry value-added, and correspond to a one- to two-year gain in industry productivity. The benefits are, however, highly concentrated; over 80% can be traced to the elimination of six barriers.**
- **The indirect effects of a single market are likely to considerably enlarge the benefits that result from the removal of trade barriers. One-third of the primary 50 product/markets studied will enjoy major positive effects, the most important of which will be an increase in consumer choice. On a case-by-case basis, some industry restructuring will occur, intra-community trade will increase, and in a few cases extra-community competitiveness will be enhanced.**
- **The "missed opportunities" of not achieving the 1992 Common Market are great. Trade barriers reinforce a national focus among food concerns that, in turn, creates a fragmented industry. While few EEC food companies have built strong competitive positions across a majority of EEC markets, several non-EEC companies have succeeded in doing so.**
- **Removing trade barriers will encourage EEC food concerns to increase their geographical coverage and market leadership, both measures necessary to ensure future EEC competitiveness. As a consequence, a wide-scale industry restructuring and consolidation among the largest companies could take place.**

- **While dismantling trade barriers is a necessary prerequisite for exploiting these opportunities and maintaining EEC competitiveness, it is not the only one. The overall impact will be hindered or enhanced by commitment changes in related trade barriers, rules on competition, the regulation of financial markets, and the attitudes of member governments.**
  
- **Although not sufficient in itself, the advent of a single European market in the food industry will be necessary to :**
  - **reverse the observable trend of an increase in trade barriers within the EEC ;**
  
  - **allow market forces to provide consumers with a wider choice of products at a lower cost ;**
  
  - **influence positively trade, investment, and the structure of the EEC food industry to reinforce its competitiveness in the European and world markets.**



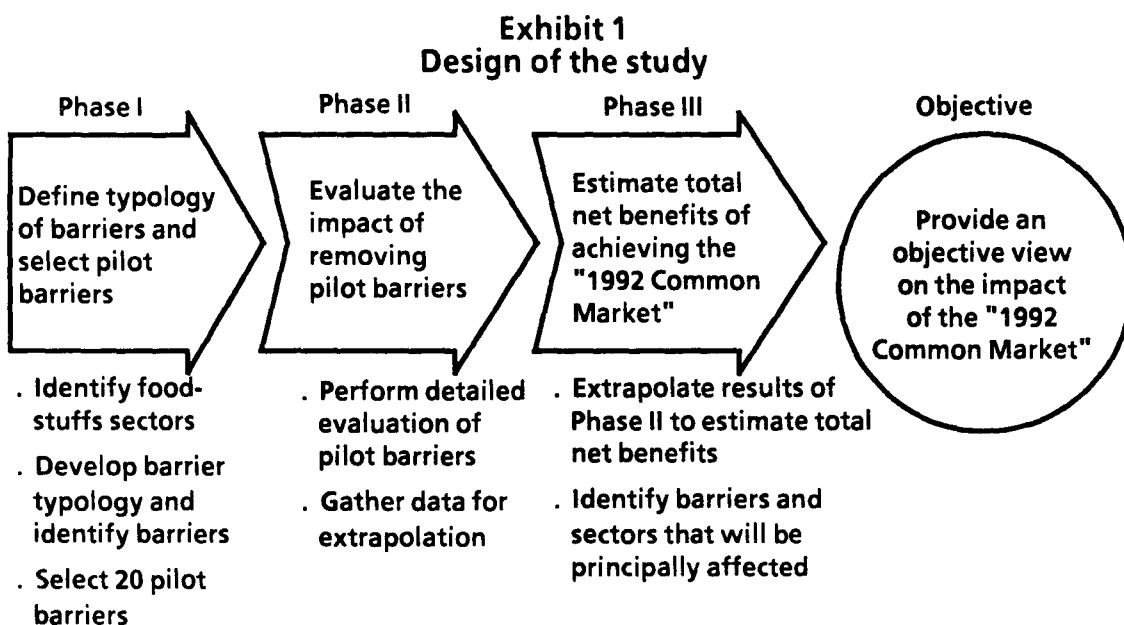


## 2. Study methodology and scope

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### A. Design of the study

The study was conducted in three phases, as illustrated in Exhibit 1.



The absolute size and diversity of the foodstuffs industry make it especially complex to analyze thoroughly. Therefore, the study was designed to begin with a detailed analysis of high-impact trade barriers in a limited number of sectors, followed by an extrapolation of the analysis to estimate a more general impact.

During the first phase, ten foodstuff sectors, which became the focus of the study, were evaluated and selected. Next, specific barriers were identified and classified according to barrier type. The objective of this exercise was not to produce an exhaustive list of all trade barriers, but rather to identify the most significant ones. Finally, 20 pilot barriers were chosen from among the more than 200 barriers identified to serve as case studies for the next phase of the study.

In the second phase, the 20 pilot barriers were evaluated based on existing industry information and over 200 interviews with major companies and industry experts.

The effects of removing each of these barriers were classified into three categories :

- **Immediate direct effects** :  
Principally a measure of the fall in production or distribution cost as an immediate result of removing a barrier.
  
- **Deferred direct effects** :  
Direct effects of eliminating a barrier which appear gradually over time. An increase in competition or the realization of scale economies are examples of this second category of effects.
  
- **Indirect dynamic effects** :  
Long term effects such as changes in intra- or extra-community trade, increased consumer choice, industry restructuring, etc.

During the study's final phase, the net benefits of removing the pilot barriers were extrapolated across barriers, countries, and the ten product sectors to arrive at the total net benefits of achieving the 1992 Common Market. The direct effects of removing the barriers were quantified, and the indirect, longer term effects were analyzed in a qualitative manner.

## B. Definitions and assumptions

Throughout the study, a barrier is defined as a generic impediment to trade, or a regulatory discrepancy, within the EEC. Purity laws or specific ingredient restrictions are both examples of barriers.

A specific barrier is a combination of a barrier with two other dimensions : product sector and country. An example of a specific barrier would be the "Reinheitsgebot" or the beer purity law in Germany ; a second example would be the restriction against using aspartame in soft drinks in France.

A pilot barrier is a specific barrier that was selected to be studied in-depth in Phase II of the study, to understand the net benefits of removing the barrier.

Net costs are the total direct and indirect costs incurred by the existence of a barrier. Net benefits of removing a barrier are defined as equal to the elimination of net costs. In this study, the terms net cost and net benefits will be used when referring to the existence and the elimination of barriers, respectively.

Finally, the costs of non-Europe are equal to the sum of all net costs across the barriers and product sectors covered.

The reader should be aware of two important assumptions made in this study about the removal of barriers. The first relates to what is meant by removing a barrier. In general, this means that a good produced in one country may no longer be impeded from traveling freely and being commercialized in another. This is the basis of the principle of mutual recognition, which in a strict sense only concerns intra-Community trade. However, for some of the cases, in evaluating the effects of removing barriers, the study assumed that barriers are removed within as well as between countries in the EEC. As an example, the study assumes that the beer purity law is lifted in Germany both for domestic brewers as well as for importers. Such an assumption is stronger therefore than the simple mutual recognition principle, and is akin to an assumption of a total harmonization of regulations.

The second assumption is related to the first in that the study does not take a position on whether the removal of trade barriers (or the harmonization of regulations) could undermine public health, safety, or the environment. These potential "social costs" are not explicitly evaluated, even though member states often justify the existence of trade barriers for reasons of protecting the consumer and the environment.

### **C. Product sectors and pilot barriers**

The ten product sectors studied were selected based on the importance to EEC trade, the absolute size, and the likelihood of containing important trade barriers. In addition, the study focused on downstream, rather than upstream, products in order to avoid the complications introduced by the Common Agricultural Policy and its related support programs. For this reason the product sectors were chosen from the four processed food sectors : breads and cereals, confectionery, beverages, and other grocery products. Excluded from the study's scope were : meats, fish, fruits and vegetables, dairy products and eggs. The former group of processed food sectors accounts for about 40% of total food expenditures in the 5 largest EEC countries.

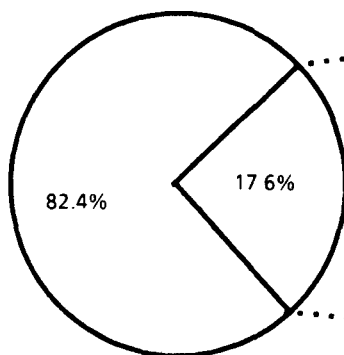
The ten product sectors selected include :

Food sector	Selected product sectors
Breads and cereals	* Biscuits and cake
Confectionery	* Chocolate and confectionery
	* Ice cream
Beverages	* Beer
	* Mineral water
	* Soft drinks
	* Spirits
Other grocery products	* Pasta
	* Soup
	* Baby food

As shown by Exhibit 2, these sectors account for about 18% of total EEC household food expenditures :

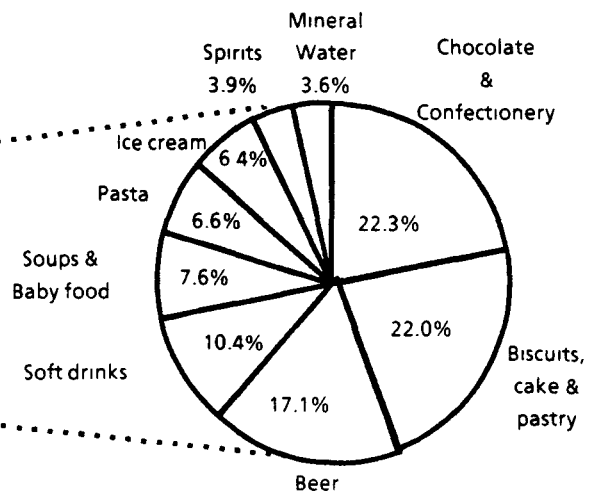
### Exhibit 2

1985 total EEC household food expenditures (377 Billion Ecus)



Source : Eurostat 1985 data

Ten product sectors (66 Billion Ecus)



Pilot barriers were selected from among the over 200 barriers identified in the first phase of the study. Each barrier was classified with respect to its likely impact on trade, consumer choice, production costs, and industry structure. In selecting the 20 pilot barriers, high-impact barriers were favored, and care was also taken to ensure adequate coverage of the largest five EEC countries, the ten product sectors, and the different types of barriers.

Exhibit 3 contains the list of 20 pilot barriers selected during Phase I, and analyzed during Phase II. Six to eight interviews of industry players and experts were conducted to evaluate the impact that removing each barrier would have.

### **Exhibit 3 Pilot barriers**

1. **Beer purity law in Germany**
2. **Pasta purity law in Italy**
3. **Aspartame restriction in soft drink industry in France**
4. **Vegetable fat restriction for chocolate in France**
5. **Vegetable fat restriction for ice cream in Germany**
6. **Juice content limit in soft drink industry in Italy**
7. **Recycling law for beverages in Denmark**
8. **Wort excise tax in beer industry in UK**
9. **Health registration requirement for baby food in Spain**
10. **Bulk transport regulation for mineral (spring) water in France**
11. **Saccharimetric content law for beer in Italy**
12. **Chlorine restriction for biscuits and cake**
13. **Carotene restriction for biscuits and cake in the UK**
14. **"German water bottles" for mineral water in Germany**
15. **Tax differences for Dom Rum in France**
16. **Label detail for soup in Spain**
17. **Plastic containers for mineral water in Italy**
18. **Wort tax method for beer in Belgium**
19. **Import certificates for spirits in Italy**
20. **Double inspection for spirit imports in Spain.**

## 3. Findings

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### A. Trade barriers in the foodstuffs industry

#### i. Over 200 barriers exist in the ten product sectors

Over 200 specific barriers were identified in the ten product sectors studied. The barriers identified are diverse, so it is useful to classify them into five categories :

1. Specific ingredients restrictions
2. Content/denomination regulations
3. Packaging/labeling laws
4. Fiscal discrimination
5. Specific importing restrictions

**Specific ingredient restrictions.** These barriers prohibit the consumption of a product containing specific ingredients, such as additives, pesticide residues, or vitamins. An example of this type of barrier, which is generally erected by a country under the auspices of protection of consumer health, is the restriction of aspartame in the French soft drink industry.

#### *Example : Aspartame*

*Aspartame is a non-nutritive sweetener used for the "diet" segment of the soft drink industries in North America and in most EEC countries. Aspartame can not be used, however, in soft drinks in France or Spain. One result of the restriction is that in France a mass diet segment does not exist. If the barrier was removed, it is estimated that such a segment would emerge, ultimately capturing 10%-15 % of the soft drink market.*

**Content/denomination regulations.** These barriers prevent a producer from using a generic name unless its product conforms to certain content requirements. The most well-known content law is the reinheitsgebot, or beer purity law, in Germany.

***Example : Beer purity law in Germany***

***The Reinheitsgebot, in effect for four and a half centuries, stipulated that beer containing substances other than hops, malted barley, yeast, and water could not be sold in Germany under the name "beer". Partially as a result of this law, the German beer market is highly fragmented--over 1200 breweries exist--and imports make up only about 1% of consumption. Recently, the European Court of Justice ruled that imported beer containing other substances can use the beer product name.***

**Packaging and labeling laws** make up the third category of barriers. These laws affect all aspects of packaging, including the shape, materials, size, recycling and disposal, as well as labeling requirements.

***Example : Labeling laws***

***Despite the Community labeling directive (79/112/EEC), several EEC countries operate with different label requirements, which implies that an EEC producer is effectively prohibited from using a uniform label for its EEC sales. In Spain for instance, labels must contain the following information :***

- ***Definition of the product***
- ***List of ingredients***
- ***Net weight***
- ***Number of units***
- ***Consumption date ("best-before" date)***
- ***Conservation instructions***
- ***Manufacturer's lot number***
- ***Importer's name***
- ***Manufacturer's name***
- ***Country of origin***
- ***Health registration number.***

***Certain of these requirements (notably the health registration number) differ from the Community labeling directive, and thus form a subtle but effective barrier to trade.***



**Fiscal discrimination** is the fourth type of barrier examined. The only fiscal laws considered in this study are only those that might disadvantage an importer vis-à-vis a local producer. While wide differences in excise and VAT taxes between neighboring countries (e.g., Denmark and Germany) will ultimately have a large impact on the ability to create a single market, they are not considered in this study. For other reasons, differences in excise taxes among different types of alcoholic beverages were not included. An example of a fiscal law that could discriminate against importers is the wort taxation method for beer.

*Example: Wort tax method for beer*

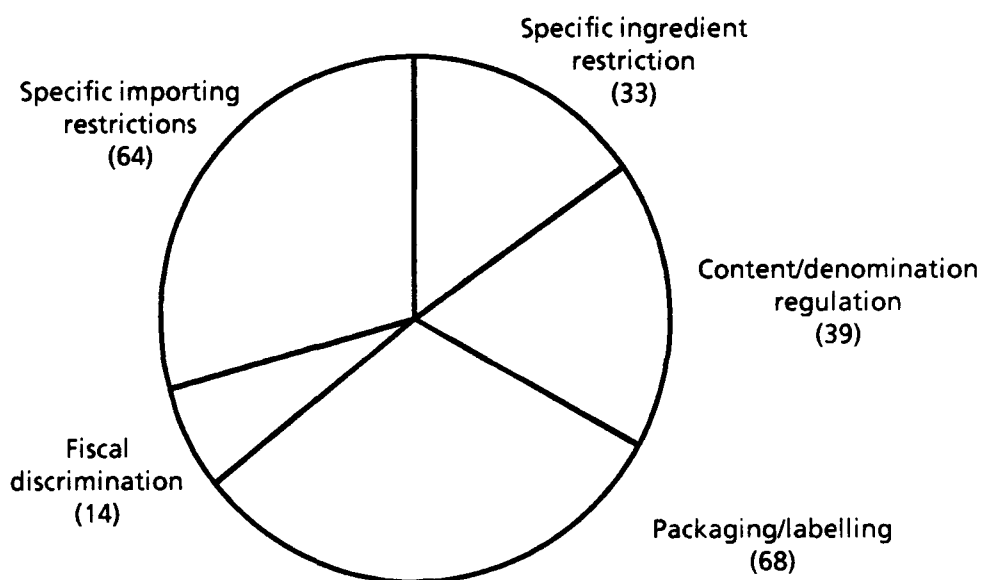
*Five EEC countries levy excise taxes on beer prior to fermentation, less a set wastage allowance. Excise taxes for imports into these countries is levied on the final product. If a domestic producer can routinely beat the pre-set wastage factor, it may derive a cost advantage compared to an importer.*

**Specific importing restrictions.** This final barrier type captures many of the diverse and subtle types of discrimination that a producer/exporter must undergo before the cross-border commercialization of goods. In the words of one barrister, these are all the barriers that "make life difficult for the producer/exporter". Included in this category are import licenses, health registration requirements, border inspections, and product testing.

Excluded from this study are delays resulting from the monetary compensatory amounts scheme. While clearly significant based on the responses from company interviews, they are not considered, because they are inextricably linked to the Common Agricultural Policy and thus could not be analyzed in isolation.

Barriers were found in each of the ten product sectors and in each major EEC country. Interestingly, a significant number of barriers were found in each of the barrier categories, which reflects the appropriateness of this typology (see Exhibit 4).

**Exhibit 4**  
**Distribution of specific barriers by category**  
**(Total number of barriers : 218)**



Source : MAC Group interviews.

## ii. The number of barriers is not diminishing

Of concern to EEC food producers and exporters is the fact that the number of barriers does not appear to be decreasing; on the contrary, new barriers appear each year as A. Mattera reports, "modern restrictions on free trade are the new types of frontier barriers whose proliferation is one of the most disturbing features of the last few years". (1)

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(1) "Protectionism inside the European Community," Journal of World Trade Law, Vol 18, N° 4 (July/August 1984).

Several of the 20 pilot barriers have emerged and evolved over the past few years. The health registration requirement for food products in Spain was implemented at about the time Spain entered the Common Market. As one EEC producer/exporter put it, "our products were readily acceptable by the Spanish government up until the time Spain joined the EC. Now we have to go through the registration procedure."

Other barriers are becoming more widespread over time. For instance, 150 municipalities in Italy now ban the use of plastic bottles for soft drinks and mineral water. This ban limits the ability of some foreign producers to export to these communities because transportation costs for glass bottles make it uneconomic. Moreover, despite the EEC Directive on liquids, which encourages competition between glass and plastic containers, this ban may be extended throughout all of Italy by 1991, and Germany reportedly is considering a similar law.

### **iii. Barriers are not easily eliminated**

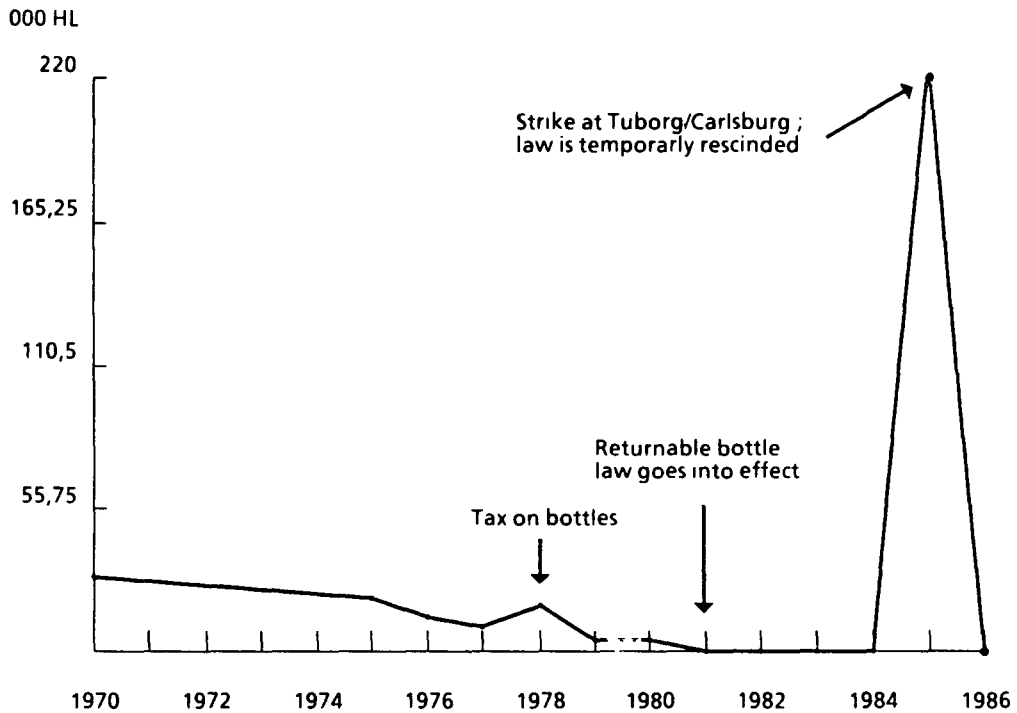
Legal attempts to remove barriers have had some striking successes--such as Cassis de Dijon, and Reinheitsgebot--but in many cases, manoeuvres by the enforcing states can drag out the process for years. The history of the recycling laws in Denmark provides a telling example.

#### ***Example : Recycling laws in Denmark***

***In 1977, the Danish government enacted decree 136, which banned the imports of soft drinks in non-refillable containers. Three years later, the European Commission ruled against decree 136 --reasoning that it violated article 30 of the Treaty of Rome--and the Danish government promptly replaced it with decree 397, which banned the sale of soft drinks and beer in non-refillable bottles, imported or domestic. While on the surface it would appear this does not discriminate against importers, the transportation costs of two-way bottles makes them impractical over about 200 km--a distance easily surpassed when exporting to Denmark.***

**Beer imports into Denmark had been dropping since the mid-1970s. In 1981, after article 397 was enacted, what low level of beer imports that remained was further reduced by a factor of 10 (see Exhibit 5). Denmark has the lowest level of beer imports of any member of the EEC.**

### **Exhibit 5 Beer imports into Denmark**



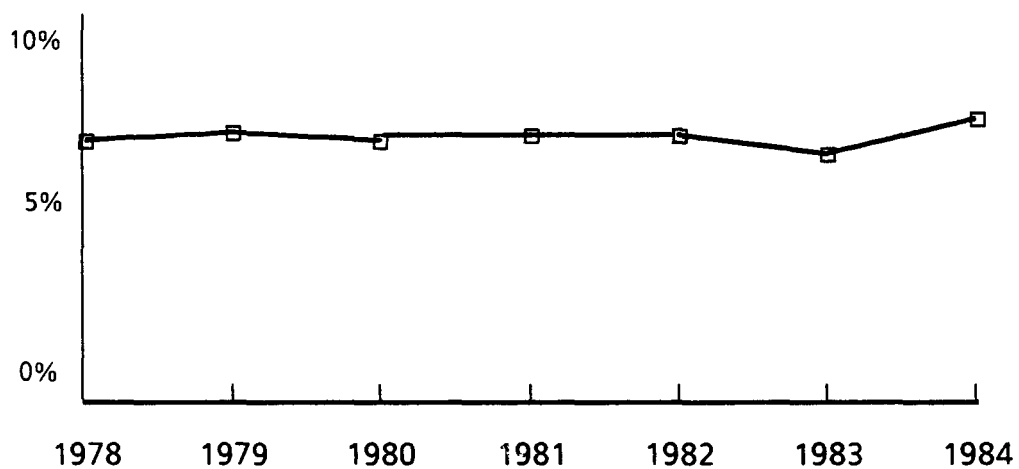
Source : CBMC.

**In 1982, the European Commission opened a new case against decree 397, but before it could be referred to the European Court, the Danish government introduced decree 95, which modified decree 397 by permitting the sale of non-refillable containers, but only in limited volumes and only if a return and mandatory deposit system on non-refillables was introduced. Decree 95 went into effect in April 1985. This last substitution of one decree for another has succeeded in keeping the case out of court at least to the date of this writing.**

iv. Partially as a result of trade barriers, intra-EEC trade has been stable.

Intra-EEC food imports represent about 6% of consumption in the community (see Exhibit 6). This proportion has been stable over the years. It can be surmised that if it were not for trade barriers, the relative amount of intra-EEC trade would be higher.

**Exhibit 6**  
**Intra EEC imports as a proportion of consumption**



Source : Eurostat : Food, beverages and tobacco imports of EEC 9.

In theory, Article 30 of the Treaty of Rome ensures free trade among member states of the EEC. In practice, this is not fully the case. What, therefore, is the cost of "non-Europe" ?

## **B. Benefits of removing barriers**

### **i. The direct benefits of removing trade barriers are significant**

The total direct benefits of removing trade barriers in the ten product sectors covered are estimated to be 500-1000 million Ecus per year. This total represents 1% to 2% of total food sales (at manufacturers' prices) or 2% to 3% of total industry value added. Such a savings corresponds to a one- to-two-year productivity gain for the sectors concerned. (It is appropriate to state the benefit in terms of a productivity gain, because it is a benefit that occurs year after year.)

#### **a.) Direct benefits result from three types of cost reductions**

Quantifiable direct benefits are classified into three categories:

- use of less expensive ingredients,
- reductions in labeling or packaging costs,
- elimination of "red-tape".

Use of less expensive ingredients is the principal source of quantifiable direct benefits engendered by the removal of barriers. The restriction against the use of soft wheat in pasta in Italy demonstrates such a costs savings.

#### ***Example : Pasta purity law***

***Pasta can be made from two types of wheat--duram or soft. In Italy, France and Greece, pasta made from soft wheat is not permitted. In other countries--and in Italy during the 1960s before the law was established--pasta can be made from both duram wheat and from a combination of duram and soft wheat, the latter being less expensive by 10%-15%. Industry experts believe that if the Italian law were removed, the penetration of the soft/duram combination could reach 10%-20% of total pasta consumption, reaching 2 billion Ecus by 1992. Taken together, these estimates suggest that the direct cost savings from the substitution of a less costly ingredient could be 20-60 million Ecus in 1992. The direct cost savings from removing similar pasta purity barriers in France and Greece increase the total net benefit to 35-100 million Ecus per year.***

Net benefits due to the substitution of less costly ingredients are also significant for beer purity laws and for laws concerning the use of vegetable fats in ice cream and chocolate.

The second type of direct cost savings is the reduction in labeling and packaging costs. In most cases, however, resulting cost savings are comparatively low, with one exception--the restriction against plastic containers in some 150 Italian municipalities. It is estimated that, due to the 10% to 30% cost savings realized by using plastic bottles instead of glass, removal of this barrier could engender a savings of 5-15 million Ecus by 1992. In addition, if the ban on plastic is extended throughout all of Italy, the cost savings could rise to 115 million Ecus. As an order of magnitude, if these savings were all passed on to consumers, it would be the equivalent of a 10% rebate on every bottle of mineral water purchased.

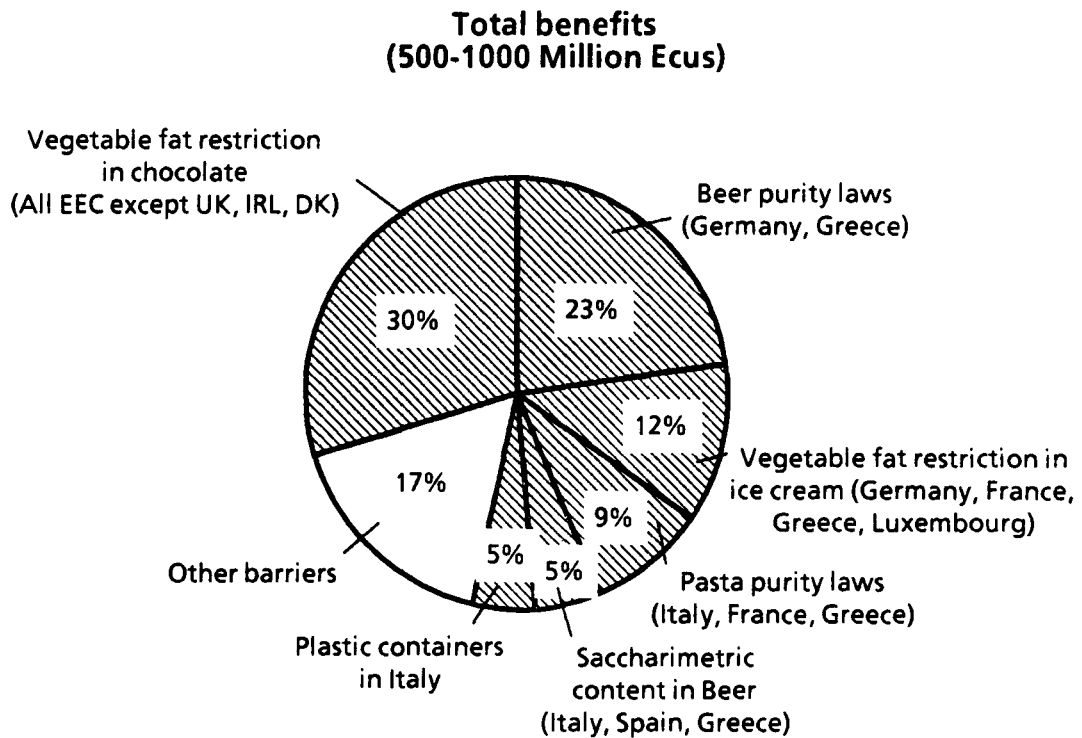
Potential cost savings to producers from using a common EEC label for exports are minimal, mainly because producers/exporters would choose to use country-specific labels, even without the various restrictions, for marketing reasons. As one exporting producer put it, "Foreign languages in Spain are not well understood. We would always use a Spanish label to make sure our product is understood and stands out." Another producer made a comment echoed by many others polled on this and other barriers: "The requirement to have a separate label for Spain is insignificant compared to the other marketing and distribution obstacles we face."

The third type of cost saving is the elimination of "red tape" surrounding the importing process. These cost savings are, in general, difficult to quantify. However, an estimation is possible regarding the double inspection that spirit imports must undergo by Spanish customs authorities. While the total quantifiable benefit is small --0.6 million Ecus per year-- it represents just over 1% of the value of spirit imports, and thus reduces the attractiveness to spirit producers of mounting an export campaign to Spain.

**b) Immediate direct benefits are concentrated.**

Quantifiable direct benefits are highly concentrated within the ten product sectors studied. Over 80% of quantifiable benefits could be generated by the removal of six types of barriers (see Exhibit 7).

**Exhibit 7**  
**Concentration of immediate direct benefits among specific barriers**



The restrictions on vegetable fat in chocolate and ice cream alone account for over 40% of the estimated benefits. Other high-impact barriers are the purity laws for beer and pasta, the saccharimetric content restrictions in beer, and restrictions on the use of plastic containers for mineral water and soft drinks in Italy.



**c) Deferred direct effects are low.**

Reductions in most of the pilot barriers considered would stimulate imports. Any increase in imports has a positive influence on the degree of competitive rivalry in an industry. It is not surprising, therefore that an increase in competition would result from eliminating eleven of the fifteen pilot barriers. The subsequent effect on end-user prices is more difficult to estimate, and is tempered by the fact that for many of these industries, profit margins are so low that significant price reductions are unlikely. This is the case, for example, for beer in Germany and for chocolate in France.

The effect on scale economies--which is the second type of deferred direct effect--is less frequent across the sample of pilot barriers. Removing barriers would have an appreciable effect on scale economies for only three out of the fifteen pilot barriers. The Danish recycling law provides an example of how scale economies could be achieved. Very simply, if the requirement to use refillable bottles were dropped, beer exporters into Denmark could avoid the down-time in their bottling plants that is necessary to switch to refillable bottles.

**d) Removing barriers could engender some costs.**

For each pilot barrier analyzed, consideration was given to possible costs that would be incurred by its removal. In all cases, the types of costs centered on production, such as labor or raw material suppliers. For example, if aspartame could be used in French soft drinks, sugar producers might suffer from reductions in demand. For two reasons, however, the net impact of these costs is arguably zero. First, many of the suppliers affected are raw material producers outside the EEC. Cocoa producers and some sugar producers fall into this category. From a pure EEC standpoint, then, these effects would occur outside the Community, and can be assumed to have a negligible impact on EEC social welfare (and might, in fact, have a positive impact, notably on the EEC balance of payments). Second, for affected suppliers within the EEC, their loss is another's gain, so it can be argued that what is at stake is the distribution of social welfare, not the absolute size. If beer imports from the Netherlands into Germany were to displace some German brewery workers, their local unemployment would be balanced by increased employment in the vicinity of the exporting Dutch breweries, whose volumes would increase.

**ii. The largest benefits from removing barriers are the indirect effects**

Although quantifiable direct benefits are significant, amounting to 2% to 3% of total industry value-added, it is in the area of indirect benefits where the removal of trade barriers could have the most profound impact. In total, one third of the fifty product/markets <sup>(2)</sup> considered in the study would be significantly affected, including :

- Beer in Germany, Italy and Spain
- Pasta in Italy and France
- Soft drinks in France and Spain
- Chocolate in Germany, France, Italy and Spain
- Ice cream in Germany and France
- Mineral water in Germany and Italy
- Spirits in Spain.

**a) The most frequent benefit is the broadening of consumer choice**

The broadening of consumer choice, emerged as the most frequent indirect effect. Removing barriers would significantly increase consumer choice for sixteen of the fifty product/markets considered. In ten cases, this would result from an increase in imports. Beer imports into Germany, for example could increase from 1% to 5% of total consumption as the German market opens up to large European breweries in close proximity to key population centers. In six other cases, consumer choice could be enhanced through product-line extensions by existing domestic producers. Spanish chocolate producers might begin substituting high-grade vegetable oils, mainly palm oil, for butter fat in selected lines of chocolate products if that barrier were removed.

---

(2) Formed from the ten product sectors and the five largest EEC countries.

Product/markets that could benefit from a particularly significant increase in consumer choice are summarized below:

<u>In these product/markets...</u>	<u>...Consumers would be able to consume the following products</u>
Soft drinks in France and Spain	Diet soft drinks
Pasta in Italy and France	Less expensive pasta products
Beer in Germany	Wider range of imported beers
Beer in Italy and Spain	Lighter beers

**b) Ten product markets could experience a significant increase in trade**

Closely related to the increase in consumer choice is the indirect effect of an increase in trade. While some trade increase would result from the removal of nearly every barrier studied, ten product/markets would experience moderate to large increases in imports. In two sectors, the increase could be substantial, with imports rising from negligible levels to 3%-5% of domestic consumption. These are the beer market in Germany, discussed above, and the pasta market in Italy, where removing of the pasta purity law could engender an influx, at least in the short term, of pasta made from soft wheat from neighboring countries.

**c) Removal of barriers could improve the efficiency of selected industries**

Improvement of the efficiency of a domestic industry is a third important indirect effect of removing barriers. Nine out of fifty product/markets should experience moderate to large effects, including industry restructuring and consolidation.

Removing trade barriers in the Italian pasta industry and the German beer industry could significantly increase the efficiency of these sectors by reinforcing the industry consolidation currently taking place.

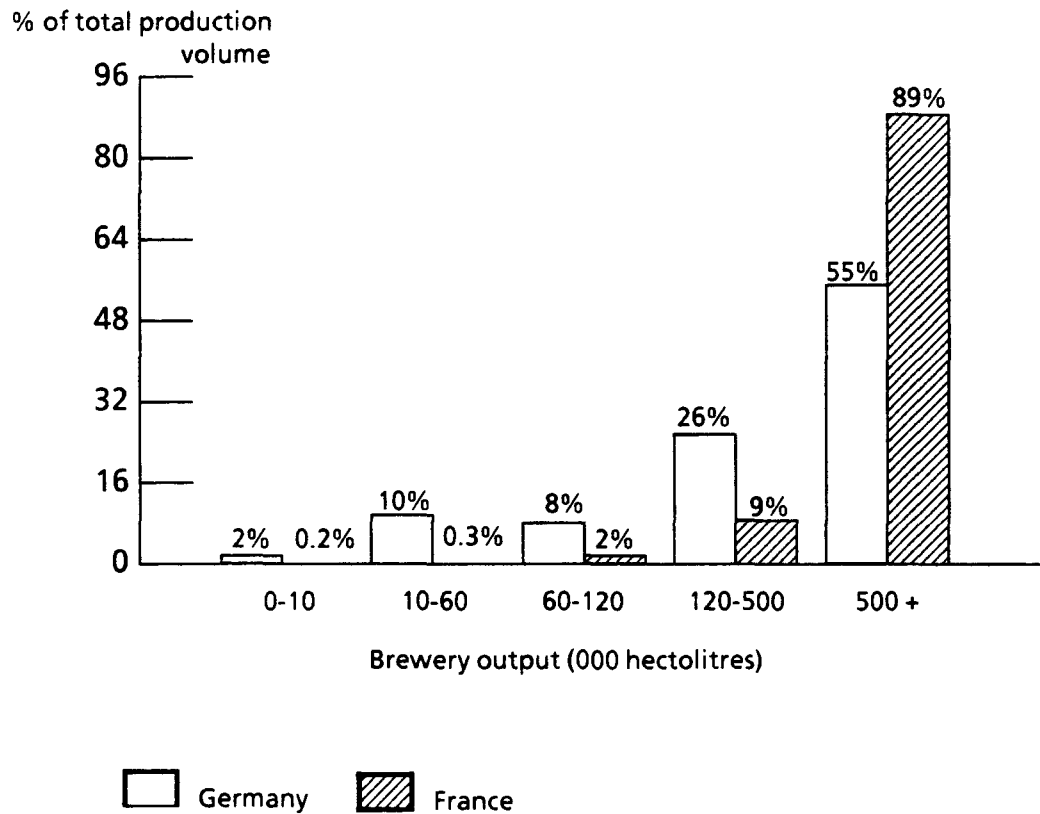
***Example: Consolidation of the German beer industry***

***The beer industry in Germany provides a striking example of how the removal of a barrier could help further consolidate an industry already going through consolidation. There are currently about 1200 breweries in Germany, accounting for 75% of all breweries in the EEC. Moreover, two thirds of these breweries are located in Bavaria, where the tradition of drinking only locally brewed beer is strong.***

***As might be expected, the German beer industry is consolidating; each year about 3% of the breweries are closed. Some breweries are rumored to be trying to establish the first national branded beer in Germany through acquisition and consolidation of smaller breweries.***

**The relative fragmentation of the German beer industry is demonstrated by a comparison with that of France, shown in Exhibit 8.**

### Exhibit 8 Distribution of beer production by brewery size



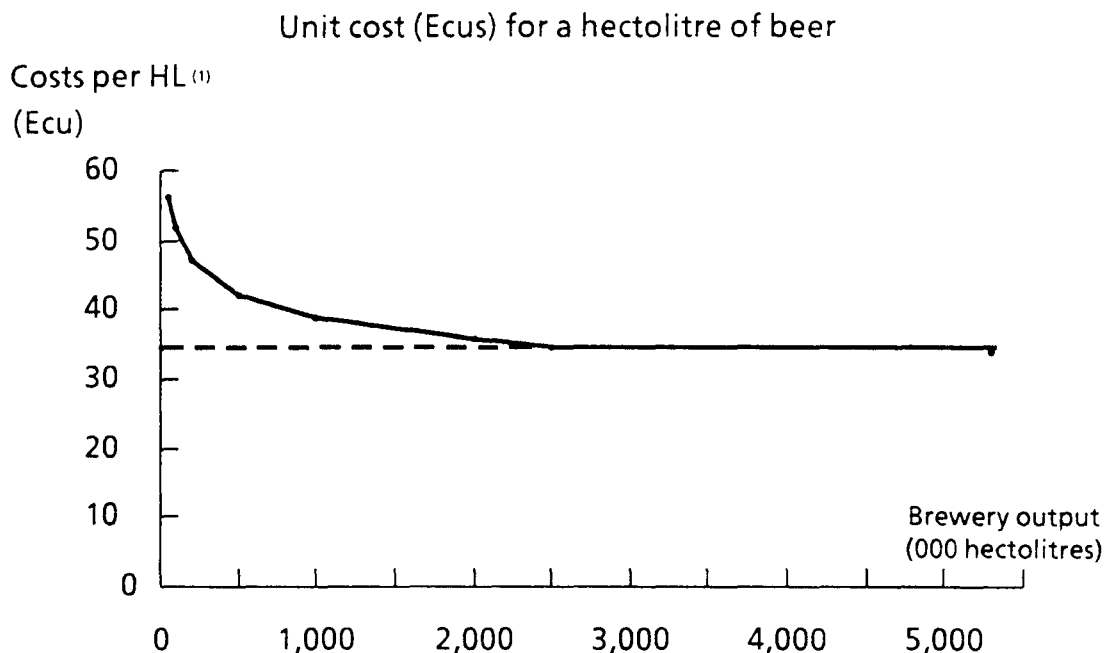
Source : CBMC.

**In Germany, 45% of output is produced by breweries whose volume is less than 500,000 hectolitres, compared to just 11% for France.**

**With the relaxation of the purity law, the consolidation process in the German brewing industry will be augmented. It is estimated that foreign breweries will begin exporting to Germany, which could displace up to 20 small and medium sized breweries. Domestic producers, sensing this threat, could step up their consolidation efforts, which could lead to the displacement of an additional 30 breweries. Structural changes in the German retail trade could reinforce these effects, as growing retail chains seek out producers willing to supply branded beer on a nationwide basis and promote it with media advertising.**

*Such a consolidation will most likely affect the medium-sized German breweries (100,000 - 500,000 hectolitres). Small breweries will probably be able to continue servicing local market niches, whereas medium and some larger breweries will be too large to play a niche strategy and yet too small to benefit from the considerable scale economies in beer production (see Exhibit 9).*

### Exhibit 9 Economies of scale in beer brewing



Estimation :

- 5.300 KHL is minimum efficient scale for a brewery (Scherer F.M. ch. (M75) The Economics of multiplant operations, Cambridge (MA)
- 5% cost disadvantage for a brewery 1/3 this size
- Cost data for smaller breweries : Schwalbach; Weinenstephan ; interviews.

<sup>(1)</sup> Production, sales and marketing, administration ; transportation costs are not included.

*Given these scale economies, the industry restructuring will ultimately generate a cost savings, as a larger proportion of beer will be produced by scale-efficient breweries. In total, the net benefits from removing the German purity law are on the order of 100 to 200 million Ecus per year, or 3% to 7% of beer industry value-added.*

**d) Extra-community effectiveness is the least significant effect**

The least important indirect effect from the removal of trade barriers would be an increase in extra-community effectiveness, where this is taken to mean the competitive position of EEC food companies vis-a-vis their non-EEC counterparts. In two product/markets--mineral water in Italy and beer in Germany--removing trade barriers could possibly strengthen the domestic country's ability to compete in the long term. In both cases, the market is highly fragmented, and a global producer does not yet exist. An industry consolidation, resulting in part from the removal of barriers, might produce large competitors capable of developing strong competitive positions within and outside the EEC.

Pursuing further the question of extra-community competitiveness requires an evaluation of how EEC food companies are positioned competitively within what could become the largest unified market in the world--the EEC. This question forms the basis of the next and final chapter.

### C. "Missed opportunities" and EEC competitiveness

Exploring the question of missed opportunities required an expanded scope of study beyond the product sectors and barriers examined so far. The primary conclusion from this broader view is that there could be significant missed opportunities in not creating a single market in the foodstuffs industry, and that removing trade barriers is a necessary (but not sufficient) prerequisite for capitalizing on these opportunities.

#### i. The world food industry is consolidating, and global food groups are being created.

The last ten years have been a remarkable period for the world food industry. From 1976 to 1986, over a hundred major mergers of \$50 million or more took place in the food industry. Moreover, the pace of merger activity seems to be quickening. From 1984 to 1986, nine acquisitions of over \$ 1 billion occurred:

Date	Acquiring company	Country	Sector	Target company	Country	Sector	Price (\$ million)
5/84	Beatrice Foods	USA	Diversified food products	Esmark	USA	Diversified food products	2840
9/84	Nestlé	Switzerland	Diversified food products	Carnation	USA	Dairy ; diversified food products	3000
5/85	RJ Reynolds	USA	Tobacco	Nabisco	USA	Biscuits ; canned foods	4907
9/85	Phillip Morris	USA	Tobacco	General Foods	USA	Diversified food products	4750
12/85	Hanson Trust	UK	Diversified products	Imperial Group	UK	Food and tobacco	2800
1/86	Guinness	UK	Brewery	Distillers	UK	Spirits	3481
4/86	Allied Lyons	UK	Diversified food products	Hiram Walker	UK	Spirits	1860
6/86	Coca-Cola	USA	Soft drinks	BCI Holdings	USA	Bottler	1000
7/86	Coca-Cola	USA	Soft drinks	JTL Corp	USA	Bottler	1400

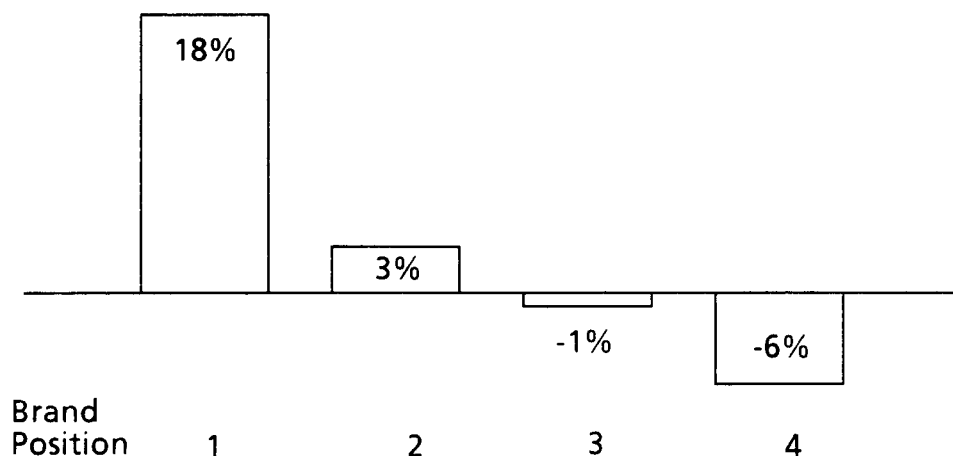


Global food corporations are being formed through acquisition of increasingly larger companies. In these days of debt financing, nearly any large food company could become the target of a takeover bid.

US companies, by and large, have led this consolidation trend, and they continue to dominate the world food industry. Over thirty US food companies have annual sales of \$1 billion or more. With the exception of Unilever and Nestlé, the world's top ten food groups are US-based firms. Given their importance in the food industry, and given the comparable size of their home market to that of the EEC, it is useful to examine more closely the evolution of the US food industry and the strategies of major players.

In the last five years, US food companies have been pursuing a two-fold strategy in their domestic market: become the dominant brand in a product sector, and achieve nationwide coverage. The logic underlying this strategy is straightforward. Within a product sector, profitability of brand leaders is greater than that of "second-tier" brands (see Exhibit 10), and nationwide coverage maximizes volume over which fixed costs (such as advertising, R&D, and marketing)--critical for the food industry--can be amortized, leading to further increases in profitability:

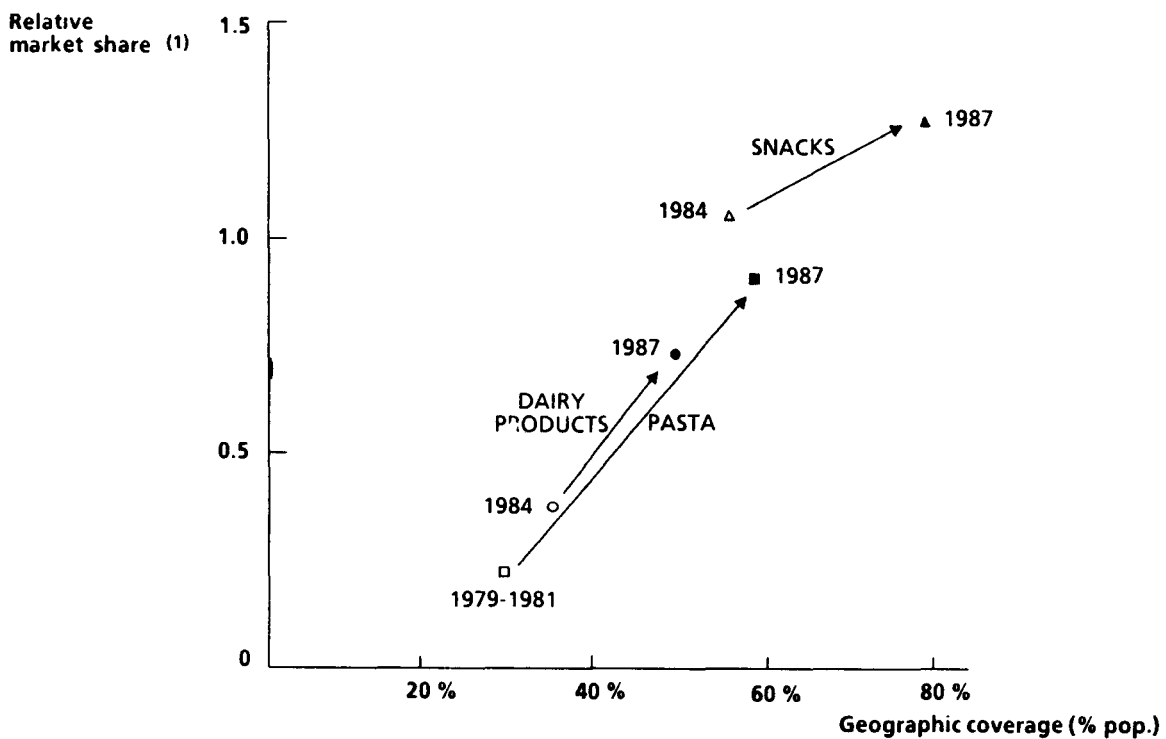
**Exhibit 10**  
**Return on investment for different brand positions**



Source : PIMS Database, Strategic Planning Institute, Cambridge, Mass, USA.

In recent years, US food groups have been reevaluating their product portfolios. Rather than dominating a region with a diverse range of unrelated products, they are now focusing on achieving nationwide brand dominance with a selected product range. As a result, US companies have been acquiring new companies and, more importantly, "swapping" business units with each other to realize their dual objectives. One top-ten US food manufacturer is a case in point (see Exhibit 11):

**Exhibit 11**  
**Portfolio adjustments by a US food manufacturer**



The company's two strategic thrusts are to dominate a selected number of product sectors and achieve nationwide coverage. In the last several years, through acquisition and "swapping", it has established leadership in snacks, dairy products, and pasta.

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

Statements in its 1986 annual report underscore the brand dominance/nationwide strategy :

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

"We purchased (a leading dairy company)...picking up many well-known brands and broadening our geographic reach substantially"

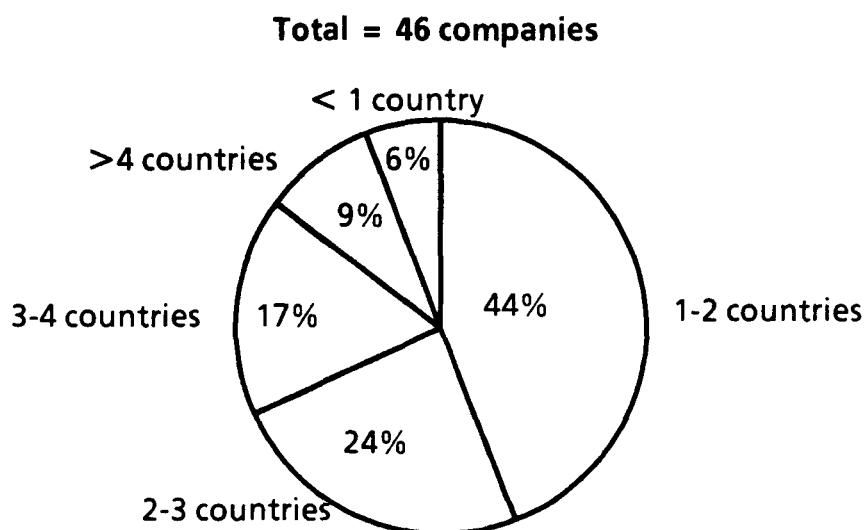
"We've gone most of the way... in launching our flagship... pasta brand across the country."

Given this trend in the US, what is the current trend within the EEC among European food groups ?

## ii. European food companies are nationally focused

By contrast to the US experience, EEC companies operating in the Common Market do not follow an "EEC-wide" strategy. Out of a sample of 46 major EEC-based food companies, half have a presence in only two or less countries.

**Exhibit 12**  
**Average major countries per product line**  
**for EEC-based<sup>(1)</sup> companies**



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

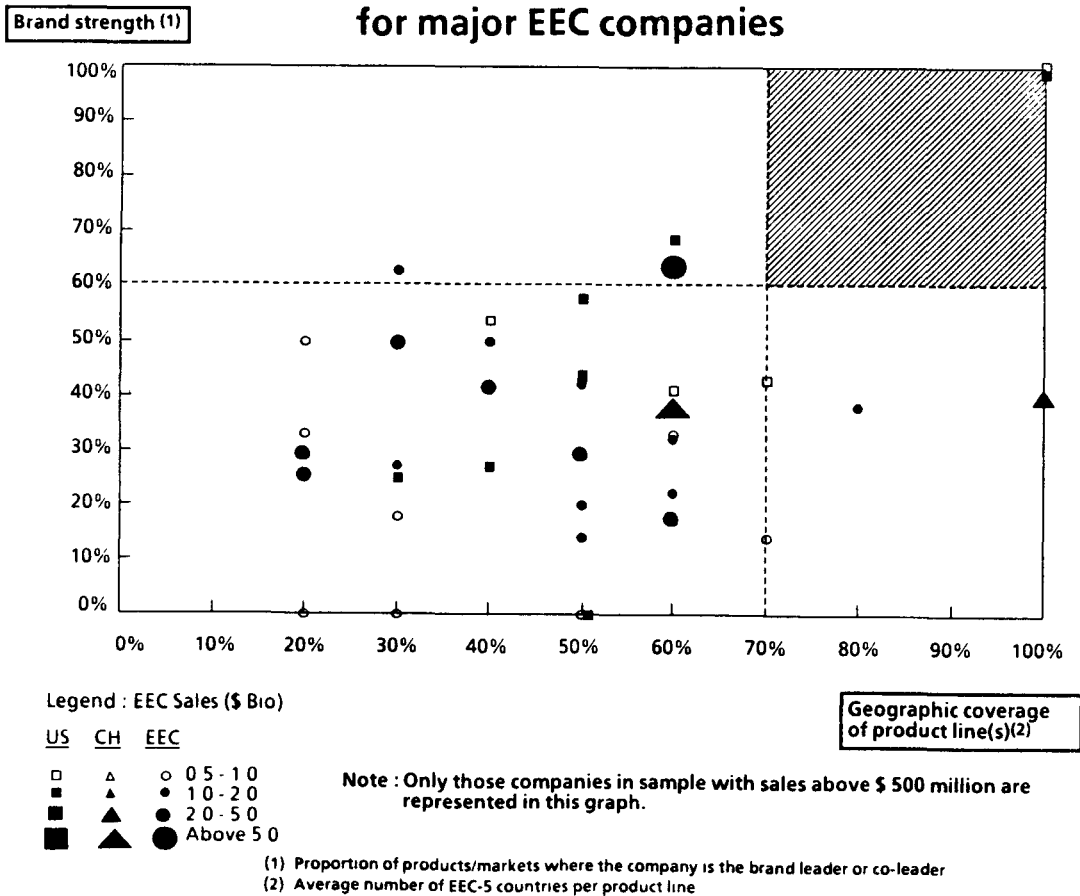
Only about one in ten companies follows an EEC-wide strategy with a presence in the five largest EEC countries. EEC food companies have by and large remained nationally focused, which, in the broader context of the Common Market, translates into regional coverage. Moreover, EEC companies tend to diversify into new product sectors within their home country, rather than diversifying across countries in a limited number of product categories.

**iii The European food industry will likely undergo a restructuring and consolidation**

As a result of a national focus, few major EEC companies enjoy high brand strength with wide geographic coverage. Instead, many companies operate in one or a small number of countries, with both strong and weak brand positions.

Exhibit 13 arrays thirty-eight large EEC food companies across two dimensions: geographic coverage and brand strength. The shaded area in the upper right corner represents the desirable position of high brand strength and wide geographic coverage. This is the comparable position that US firms have been targeting in the North American market.

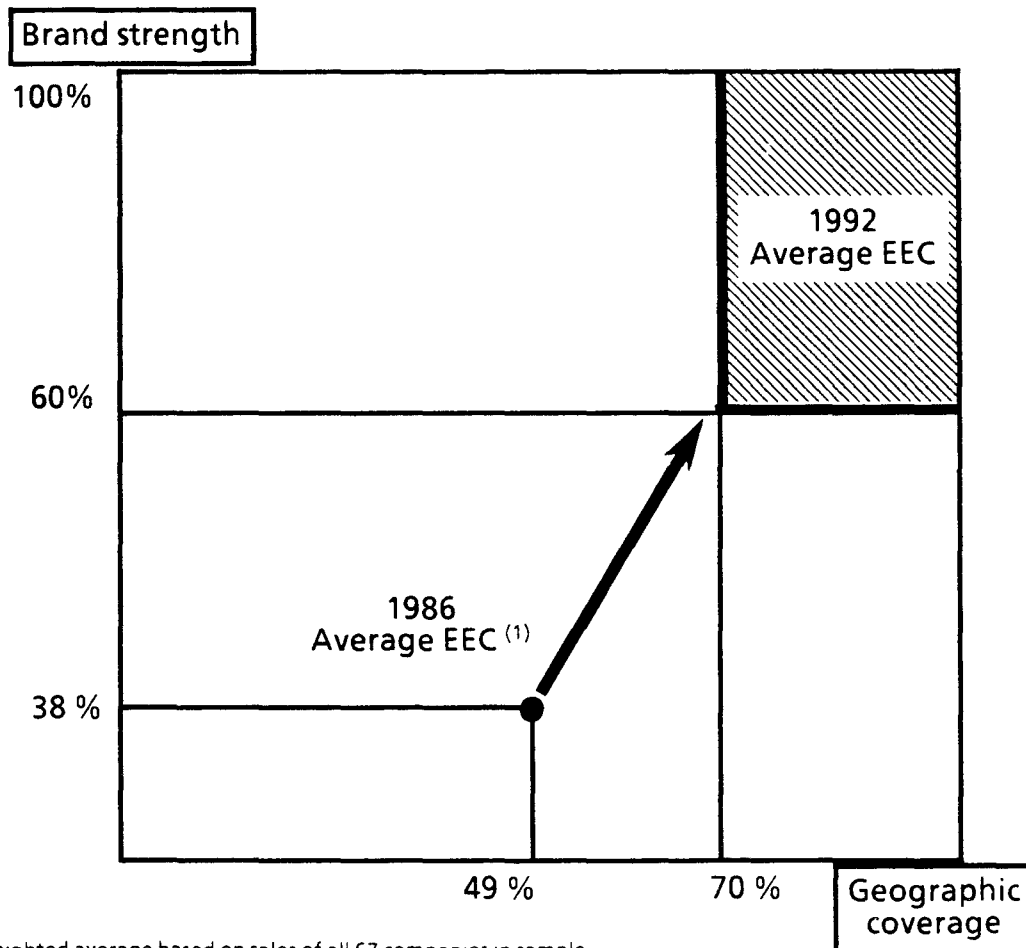
**Exhibit 13**  
**Brand strength versus geographic coverage**  
**for major EEC companies**



It is apparent from Exhibit 13 that very few companies operating in the EEC have reached the desirable quadrant, where they would have a dominant brand position in most or all major EEC countries. Obvious historical reasons account for this result. Differences in taste, culture, and language--not to mention the national characteristics of the retail trade--have all explicitly contributed to the national focus, and thus to the relative fragmentation of the EEC food industry. But additional, less tangible factors, such as trade barriers and governmental "protection" of domestic companies from foreign competition and control, have also played a role. With the creation of a single market in 1992, all of these elements will be decreasing in importance.

As the single market is increasingly realized, it is reasonable to expect EEC food companies to seek to substantially increase both their brand strength and their geographic coverage to reach the desirable position. Exhibit 14 plots the average food company operating within the EEC and indicates the relative increases required across the two dimensions.

**Exhibit 14**  
**1986 Average position for companies operating in EEC markets**



(1) Weighted average based on sales of all 67 companies in sample

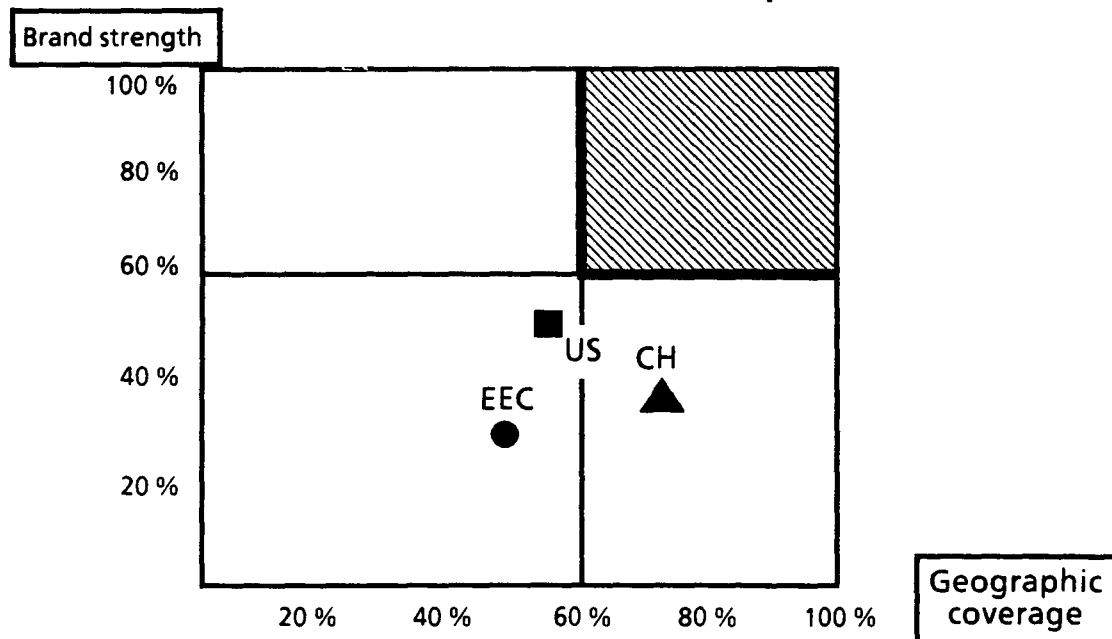
Such movements, however, could trigger--as they did in the US--a major consolidation and restructuring of the food industry. EEC companies will begin initiating mergers or "swaps" of competing companies within their home country as well as across borders to achieve brand dominance and broaden geographic coverage (1).

Given the potential for consolidation of the food industry, complex questions emerge: Which companies seem poised to undertake such a restructuring? Within the Common Market, how do EEC-based food companies compare with their non-EEC counterparts?

#### iv. EEC-based food companies may get left behind

The data suggest that EEC-companies are weaker than non-EEC companies, on the EEC market itself. This is true from a brand strength and a geographic coverage standpoint. In Exhibit 15, the average score for US, Swiss, and EEC food companies operating in the EEC are plotted on the brand strength/geographic coverage matrix.

**Exhibit 15**  
**Brand strength versus geographic coverage**  
**for EEC versus non-EEC based companies (2)**



(1) Interestingly, this scenario for the future of the European food industry is not inconsistent with the findings of Jürgen Miller and Nicholas Owen. In their article "The effect of trade on plant size", Miller and Owen found a positive correlation between growth in trade and the size of plants in twelve German manufacturing industries. However, it should also be noted that such a scenario is only one possible result. Many factors specific to the European market, such as different cultures, tastes and languages could mitigate such an outcome.

(2) Weighted average based on sales.

\* M. J. SCHWALBACH éd., Industry Structure and Performance, Sigma Berlin

**Both US and Swiss companies operating in the EEC are closer to reaching the desirable quadrant than domestic companies. Though they represent one third of the companies in the sample, non-EEC companies control nearly half of the strong brand positions within major EEC markets. They account for over 60% of total equity devoted to the food business. Non-EEC companies have also been very active in making food acquisitions within the Common Market.**

**It appears, therefore, that in the context of a restructuring of the EEC food industry, non-EEC firms could be in a relatively stronger position compared to EEC-firms, and thus could become relatively more successful than their EEC counterparts.**

**iv. Removal of trade barriers is a necessary but insufficient condition for ensuring EEC competitiveness.**

While removing trade barriers is a necessary prerequisite for achieving the benefits the "1992 Common Market", and for ensuring the continued competitiveness on a global scale of the EEC food industry, it is not enough.

The removal of trade barriers will have a direct benefit on the order of 2%-3% of total industry value-added. Indirect benefits will be significant, and will serve to increase consumer choice and improve the efficiency of selected industries.

The existence of trade barriers, both those that were the subject of this study as well as others, has also served to protect potentially weak domestic companies, and has encouraged strong companies to expand only domestically rather than attempt cross-border expansion. These results of trade barriers have reinforced the relative fragmentation of the EEC food industry. Removing these barriers should decrease or eliminate these tendencies.

However, other critical factors have a major impact on achieving the full benefits of the "1992 Common Market". Among the most important are rules on competition, and in particular merger and acquisition laws. If there were to be a natural trend towards consolidation in the food industry, and at the same time mergers were restricted, EEC firms could be prevented from exploiting the full benefits of the Common Market. Given that EEC firms are relatively behind their non-EEC counterparts, such restrictions could widen this gap.

Regulations on financial markets must also be considered. Global companies no longer rely on local financing, but seek funds on a global basis. Restrictions in cross-border financing could serve as a further impediment to EEC companies seeking to expand across borders.

Finally, the attitudes of member governments are very important. In many cases the attitudes are a deciding factor in the success or failure of a major cross-border merger. Prevailing nationally-based attitudes could be a major (albeit invisible) obstacle to EEC companies seeking to expand their geographic coverage and grow to reach a global scale.



# The Cost of "Non-Europe" in the Foodstuffs Industry

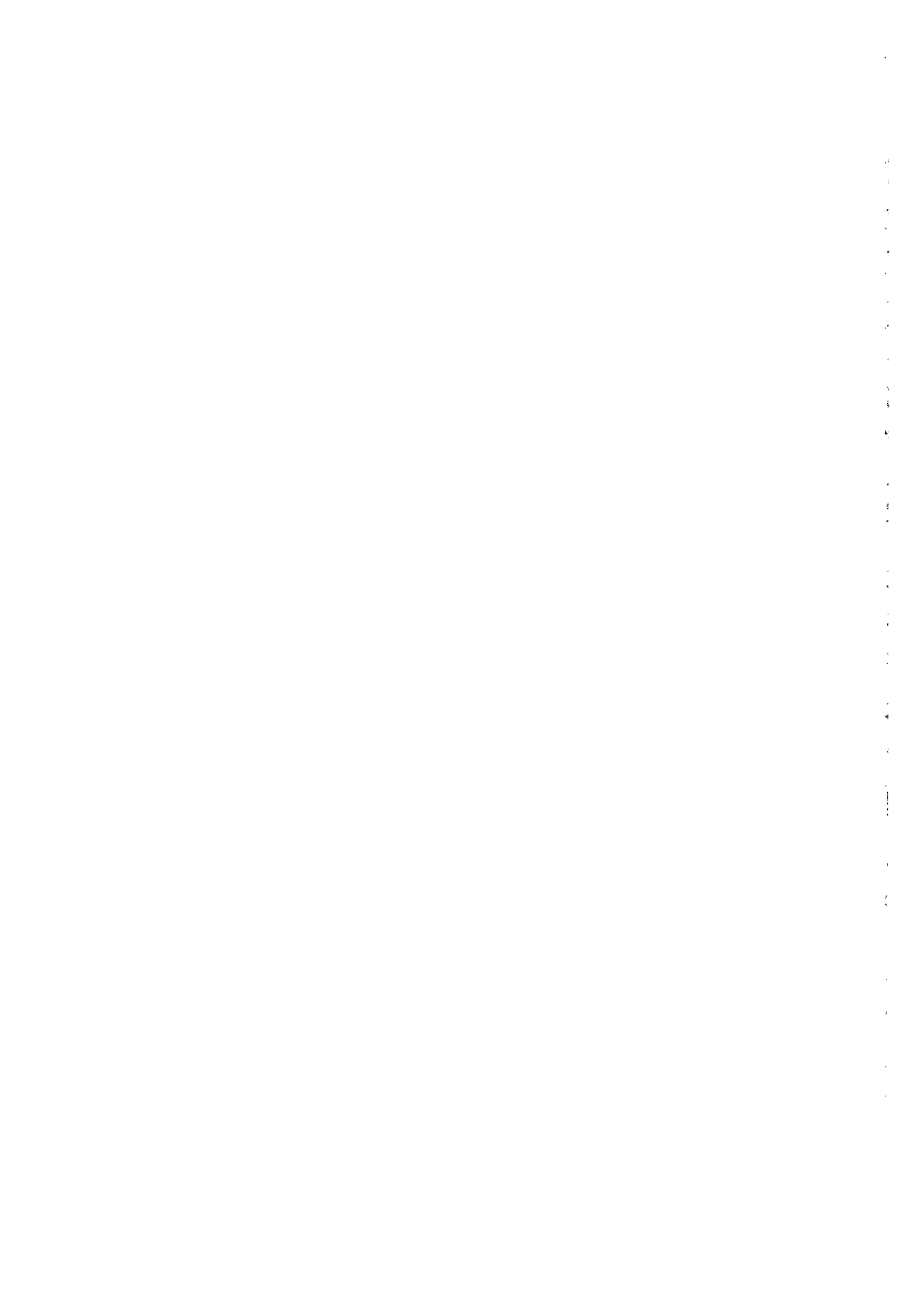
## Full Report

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Groupe MAC - 11 Bd Latour Maubourg - 75007 PARIS - TEL. : (1) 45.55.91 78

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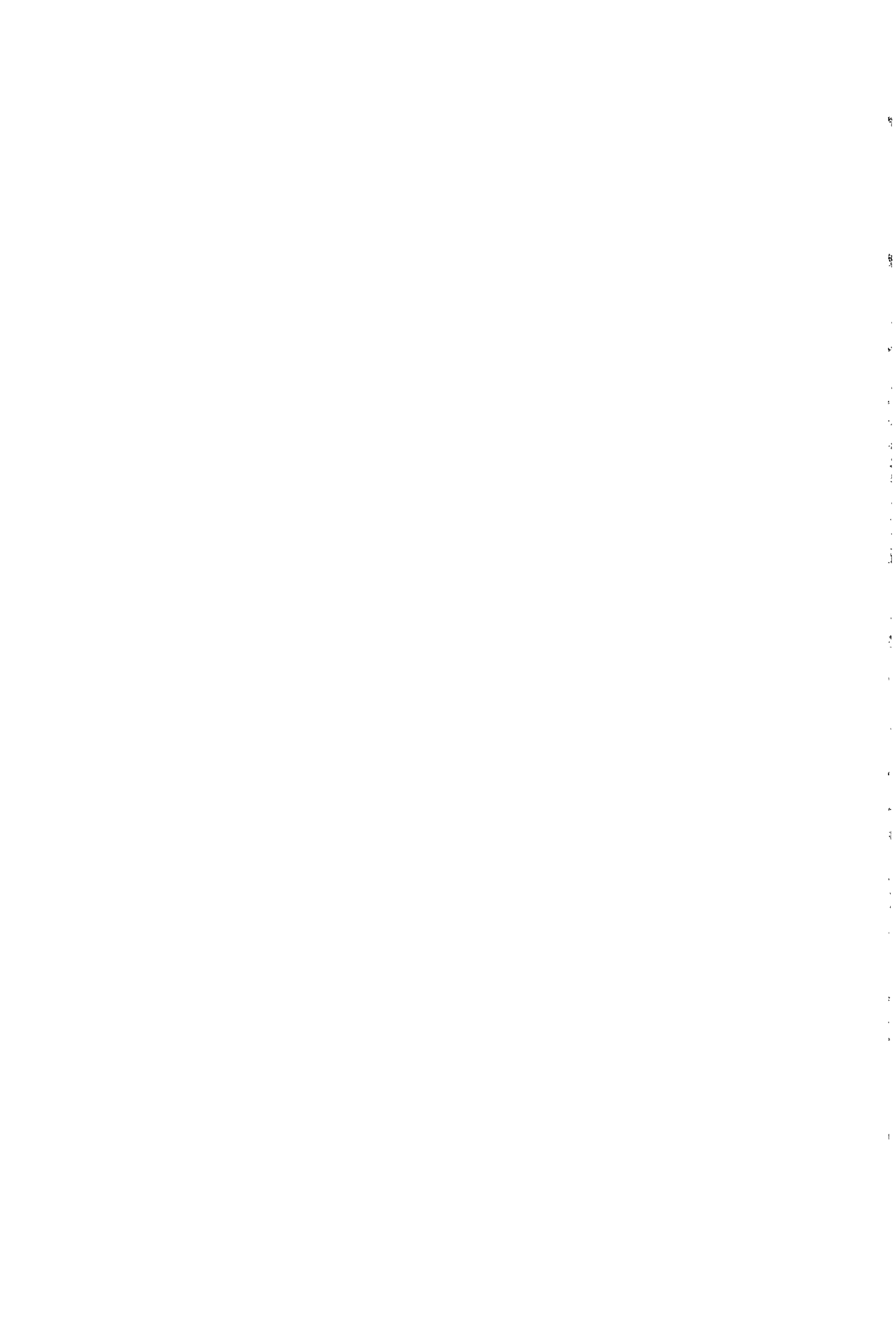
Paris	Boston	San Francisco
Londres	Chicago	Buenos Aires
Bruxelles	Washington	Hong Kong



# **The Cost of "Non-Europe" in the Foodstuffs Industry**

## **Report I**

### **Identification of Barriers and Selection of Pilot Barriers**



## PREFACE

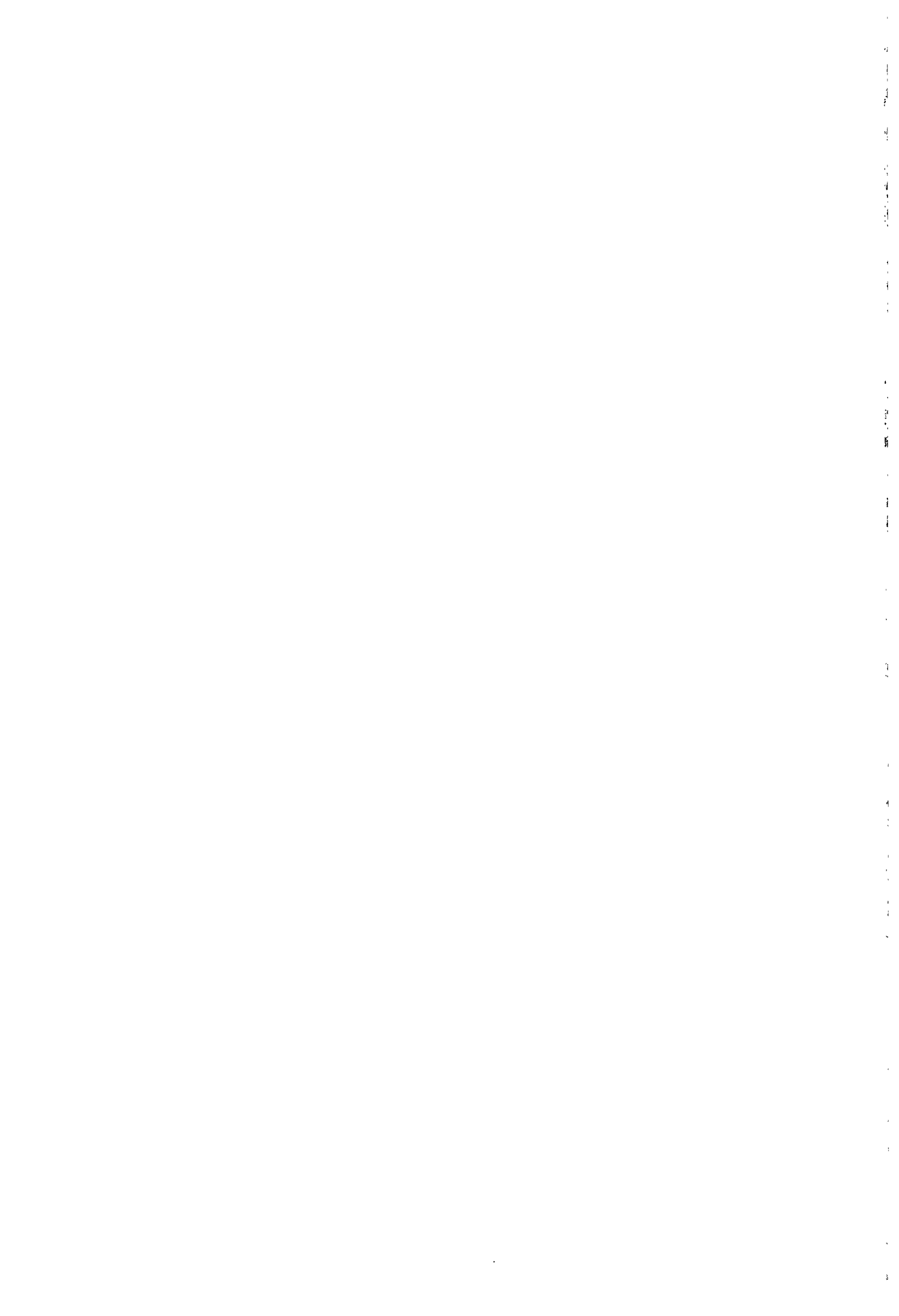
The MAC Group was retained by the European Commission to conduct a study on the completion of the internal market by 1992 in the foodstuffs industry. Four reports and an executive summary resulted from this effort :

**Report I** Identification of barriers and selection of pilot barriers

**Report II** Analysis of pilot barriers (Volumes I and II)

**Report III** Extrapolation of benefits

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



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## **OBJECTIVES OF THE STUDY**

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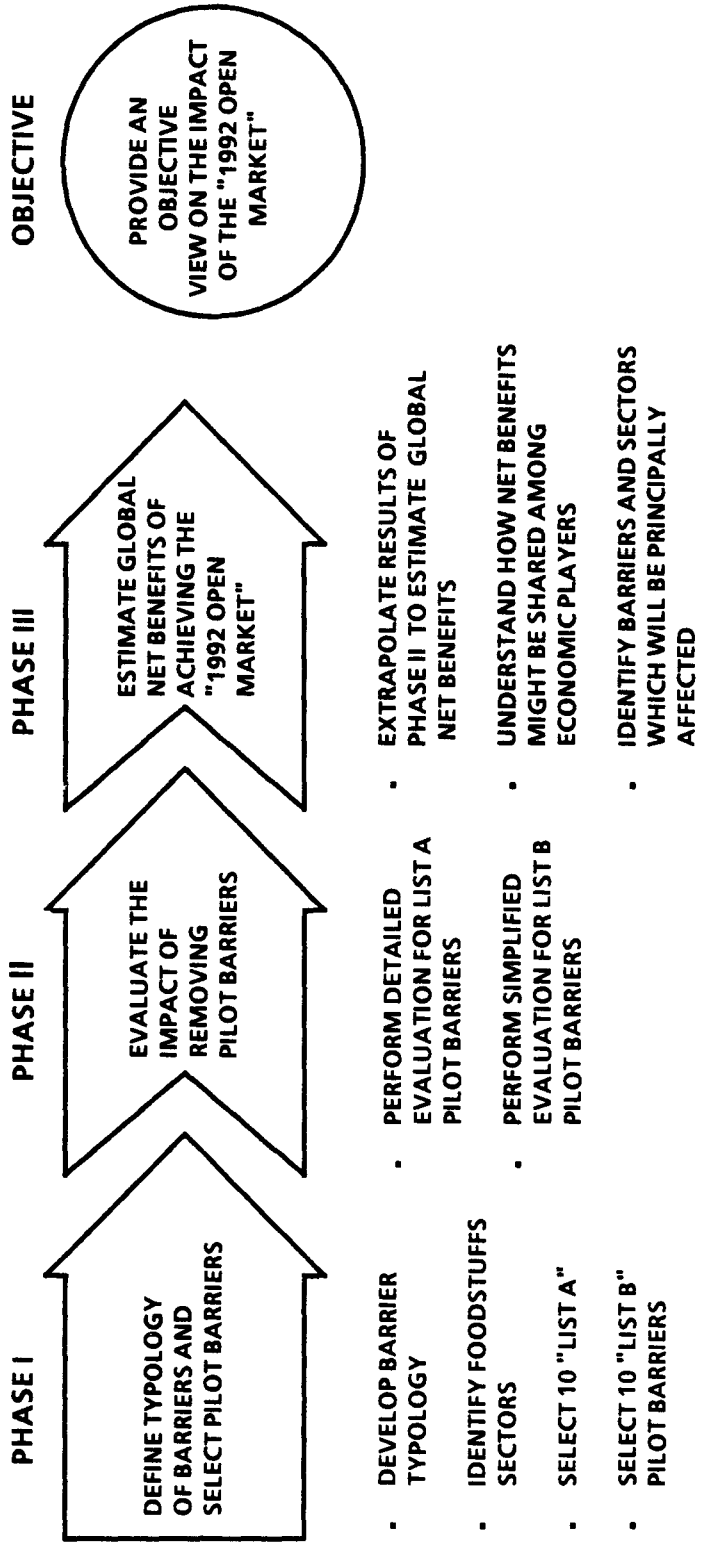
### **PRINCIPAL OBJECTIVE**

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

### **COROLLARY OBJECTIVES**

- 1. EVALUATE THE GLOBAL NET BENEFITS TO THE EEC FROM  
ELIMINATING TRADE BARRIERS AND REGULATORY DISCREPANCIES.**
- 2. UNDERSTAND HOW THE NET BENEFITS MIGHT BE SHARED AMONG  
ECONOMIC PLAYERS.**
- 3. IDENTIFY BARRIERS AND SECTORS WHICH WILL BE PRINCIPALLY  
AFFECTED BY THE "1992 OPEN MARKET".**

# APPROACH OF THE STUDY



This report presents the findings from Phase I of the Study

## DEFINITIONS

---

- **A BARRIER IS A GENERIC IMPEDIMENT TO TRADE, OR A REGULATORY DISCREPANCY, WITHIN THE EEC.**
- **EXAMPLE : PURITY LAWS, SPECIFIC INGREDIENT RESTRICTIONS.**
- **A SPECIFIC BARRIER IS A FUNCTION OF THREE DIMENSIONS : BARRIER, PRODUCT SECTOR, COUNTRY.**
- **EXAMPLES :**
  - PURITY LAW IN THE BEER INDUSTRY IN GERMANY**
  - RESTRICTION ON USE OF ASPARTAME IN THE SOFT DRINK INDUSTRY IN FRANCE**
- **A PILOT BARRIER IS A SPECIFIC BARRIER WHICH WILL BE SELECTED FOR AN IN-DEPTH ANALYSIS.**

## DEFINITIONS (CONT'D)

---

- NET COSTS ARE THE TOTAL DIRECT AND INDIRECT COSTS OF THE EXISTENCE OF BARRIERS.
  
- NET BENEFITS OF REMOVING A BARRIER ARE EQUAL TO THE ELIMINATION OF NET COSTS. IN THIS STUDY, THE TERMS NET COST AND NET BENEFITS WILL BE USED WHEN REFERRING TO THE EXISTENCE AND THE ELIMINATION OF BARRIERS, RESPECTIVELY :
  - THE NET COSTS OF THE EXISTENCE OF BARRIER X ARE Y MILLION ECUS PER YEAR
  
  - THE NET BENEFITS OF REMOVING BARRIER X ARE Y MILLION ECUS PER YEAR
  
- THE COSTS OF NON-EUROPE ARE EQUAL TO THE SUM OF ALL NET COSTS ACROSS THE BARRIERS AND PRODUCT SECTORS CONSIDERED.

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## **SELECTION OF PRODUCT SECTORS WAS BASED ON 4 CRITERIA.**

---

- **PRODUCTS NOT EXPLICITLY TREATED AS PART OF THE COMMON AGRICULTURAL POLICY.**
- **PRODUCTS WHICH HAVE A RELATIVELY HIGH INCIDENCE OF TRADE.**
- **PRODUCTS WHICH FORM AN IMPORTANT PART OF TOTAL FOOD EXPENDITURES.**
- **PRODUCTS WHICH ARE WELL-KNOWN TO BE ASSOCIATED WITH BARRIERS.**

**MEATS, FISH, FRUITS AND VEGETABLES, AND DAIRY PRODUCTS ARE OUTSIDE THE SCOPE OF THIS STUDY**

---

**INCLUDED**

- BREADS AND CEREALS
- CONFECTIONERY
- BEVERAGES
- OTHER GROCERY PRODUCTS

**EXCLUDED**

- MEATS
- FISH
- FRUITS AND VEGETABLES
- DAIRY PRODUCTS AND EGGS

## THIS STUDY WILL FOCUS ON 10 PRODUCT SECTORS WITHIN THE FOUR MAJOR PROCESSED FOOD SECTORS.

### FOOD SECTOR                      PRODUCT SECTOR                      FOOD SECTOR SALES COVERED BY PRODUCT SECTORS (1)

29 %

• BISCUITS AND CAKE

BREADS AND CEREALS

CONFECTIONERY                      • CHOCOLATE AND CONFECTIONERY

84 %

• ICE CREAM

BEVERAGES

• BEER

• MINERAL WATER

• SOFT DRINKS

• SPIRITS

60 %

OTHER GROCERY PRODUCTS

• PASTA

• SOUP

• BABY FOOD

23 %

ALL

ALL

42 %

(1) Eurostat : Family budgets, 1981, EEC-5

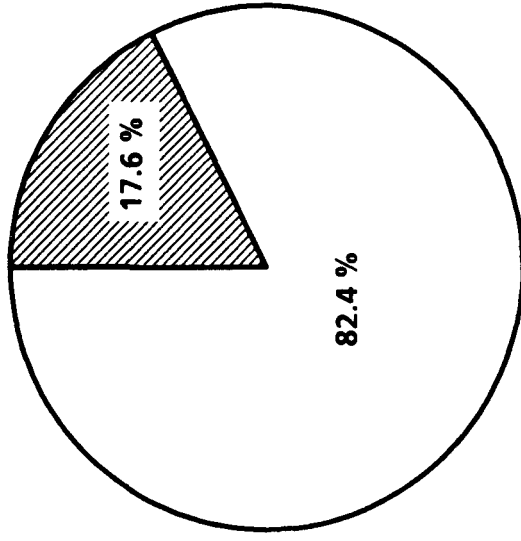


**THE TEN PRODUCT SECTORS ACCOUNT FOR ABOUT 18 % OF TOTAL EEC-12 HOUSEHOLD FOOD EXPENDITURES.**

---

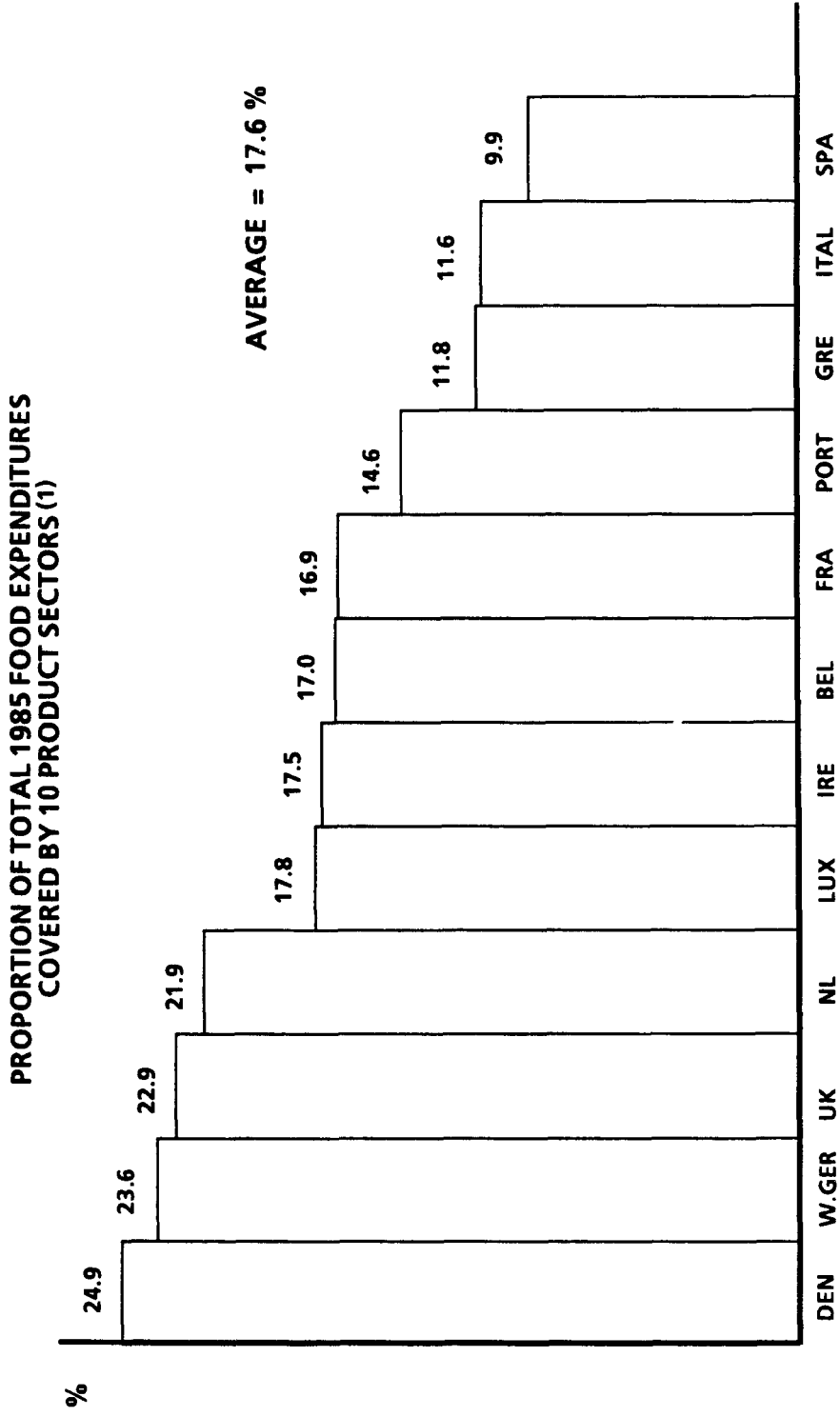
**1985 EEC TOTAL HOUSEHOLD FOOD EXPENDITURES (1)  
(377 B ECU)**

**COVERED IN 10 PRODUCT SECTORS**



**(1) 12 EEC countries  
Source : EUROSTAT**

# THE PROPORTION OF TOTAL FOOD EXPENDITURES COVERED BY THE 10 PRODUCTS SECTORS VARIES ACROSS COUNTRIES.

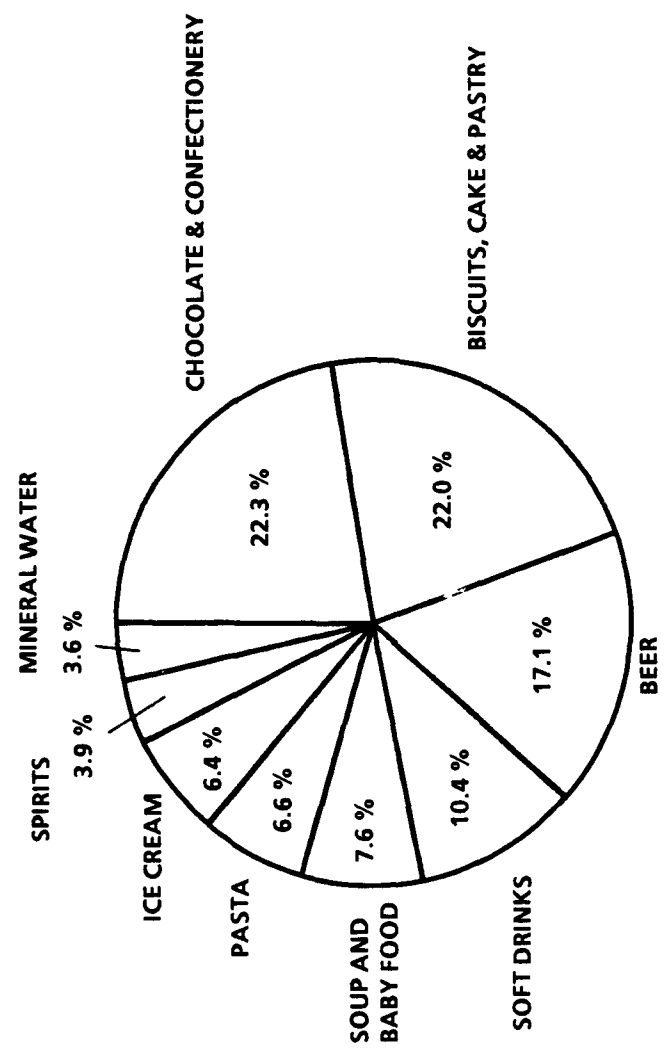


(1) EUROSTAT 1985

# CHOCOLATE AND CONFECTIONERY, BAKER'S WARES AND BEER ARE THE LARGEST PRODUCT SECTORS IN THE SAMPLE.

---

10 PRODUCT SECTORS STUDIED :  
(66 B ECUS)



SOURCE : EUROSTAT 1985 DATA

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## **THE PROPOSED BARRIER TYPOLOGY WAS DEVELOPED FROM 3 SOURCES**

---

- 1. TYPOLOGY OUTLINED BY A. MATTERA IN HIS ARTICLE "PROTECTIONISM INSIDE THE EUROPEAN COMMUNITY" (1)**
- 2. DISCUSSIONS WITH MEMBERS OF DG III : DISTRIBUTIVE TRADES**
- 3. DISCUSSIONS WITH FOOD ASSOCIATIONS AND COMPANIES**

**THE RESULTING PROPOSED TYPOLOGY WAS DESIGNED TO :**

- INCLUDE THE TYPOLOGIES MENTIONED ABOVE
- PROVIDE BROAD YET DISTINCT CLASSES OF TRADE BARRIERS
- BE EASILY IDENTIFIABLE AND RECOGNIZABLE (FOR THE PURPOSE OF EXTERNAL INTERVIEWS AND DATA GATHERING).

(1) MATTERA A. "PROTECTIONISM INSIDE THE EUROPEAN COMMUNITY" JOURNAL OF WORLD TRADE LAW, VOL. 18, N°4, JULY/AUGUST 1984

## **MATTERA SPECIFIED 19 BARRIER TYPES THAT MAY BE RELEVANT FOR THE FOODSTUFFS INDUSTRY**

---

- 1.1 TRADE RULES :
  - 1.1.1 PRODUCT COMPOSITION
  - 1.1.2 WEIGHT
  - 1.1.3 SHAPE/SIZE
  - 1.1.4 PRICE
  - 1.1.5 PACKAGING
  - 1.1.6 LABELING
- 1.2 TECHNICAL STANDARDS
- 1.3 NATIONAL RULES ON PRICES, MARK-UPS, AND DECLARED PRICE INCREASES
- 1.4 IMPORT/EXPORT FORMALITIES, AND CERTIFICATES OF ORIGIN
- 1.5 FRONTIER CONTROLS
- 1.6 DUPLICATED CHECKS
- 1.7 CUSTOMS CLEARANCE PROCEDURES
- 1.8 MARKING OR ORIGIN
- 1.9 CONFINING OF NAMES TO DOMESTIC PRODUCTS ONLY
- 1.10 BUY NATIONAL CAMPAIGNS
- 1.11 PAYMENTS AND CREDIT RESTRICTIONS
- 1.12 LIMITED IMPORTATION PERIODS
- 1.13 TECHNICAL OR OCCUPATIONAL CONDITIONS IMPOSED ON IMPORTERS
- 1.14 CONDITIONS GOVERNING THE GRANT OF AIDS (EG TAX RELIEFS)
- 1.15 DISPROPORTIONATE PENALTIES
- 1.16 ADVERTISING CONTROLS
- 1.17 OBLIGATION TO USE NATIONAL LANGUAGE
- 1.18 RESTRICTIONS ON PRODUCTS IMPORTED FOR EXHIBITION FAIRS
- 1.19 INSUFFICIENT OR EXCESSIVE TIME LIMITS

## **MEMBERS OF DG III HAVE OUTLINED A MORE GENERAL SET OF CATEGORIES**

---

**2.1 IMPORTING FORMALITIES OF PRODUCTS ALREADY PLACED ON THE MARKET**

**2.2 PRODUCT COMPOSITION AND PRESENTATION RULES**

**2.3 FORMALITIES RELATING TO PRODUCT INTRODUCTION**

**2.4 ENVIRONMENTAL RULES**

**2.5 FISCAL DISCRIMINATION**

## THE PROPOSED BARRIER TYPOLOGY INCORPORATES THESE TWO TYPOLOGIES AND IS DIVIDED INTO 5 CATEGORIES

---

### CONTAINS

- |   |   |
|---|---|
| <p><b>1. SPECIFIC INGREDIENTS RESTRICTIONS</b></p> <ul style="list-style-type: none"> <li>- ADDITIVES, PESTICIDE RESIDUES, VITAMINS</li> <li>- NOTE : PRODUCT CONTAINING INGREDIENT CANNOT BE CONSUMED IN COUNTRY, UNLESS AUTHORIZED</li> </ul>                         | <p>1.1.1, 1.2, 2.2</p>  |
| <p><b>2. CONTENT/DENOMINATION REGULATION</b></p> <ul style="list-style-type: none"> <li>- CONTENT REQUIREMENTS, PURITY LAWS, ETC</li> <li>- NOTE : PRODUCT CAN BE IMPORTED AND CONSUMED, BUT CANNOT USE GENERIC PRODUCT NAME (EG BEER, CHOCOLATE, ICE CREAM)</li> </ul> | <p>1.1.1, 1.9, 2.2, 2.3</p>   |
| <p><b>3. PACKAGING/LABELING</b></p> <ul style="list-style-type: none"> <li>- SHAPE</li> <li>- MATERIALS</li> <li>- SIZE</li> <li>- RECYCLING</li> <li>- LABELING</li> </ul>   | <p>1.1.2-1.1.6, 1.8, 1.7, 2.4</p>   |
| <p><b>4. FISCAL DISCRIMINATION</b></p> <ul style="list-style-type: none"> <li>- VAT DIFFERENCES</li> <li>- EXCISE TAXES</li> <li>- SPECIFIC TAXES</li> </ul>  | <p>1.14, 2.5</p>  |
| <p><b>5. SPECIFIC IMPORTING RESTRICTIONS</b></p> <ul style="list-style-type: none"> <li>- DELAYS RELATING TO MCA PAYMENT SCHEME (1)</li> <li>- IMPORT LICENSES</li> <li>- PRODUCT TESTING</li> <li>- CONSERVATION RULES</li> </ul>                                      | <p>1.3, 1.4, 1.5, 1.6, 1.7, 1.10,<br/>1.11, 1.12, 1.13, 1.15, 1.16,<br/>1.18, 1.19, 2.1</p> |

(1) DELAYS RELATED TO MCA PAYMENT SCHEME WERE CONSIDERED A BARRIER BY EEC EXPORTERS. HOWEVER, AS IT RELATES TO THE CAP IT IS OUT OF THE SCOPE OF THIS STUDY.



## **CONTENTS**

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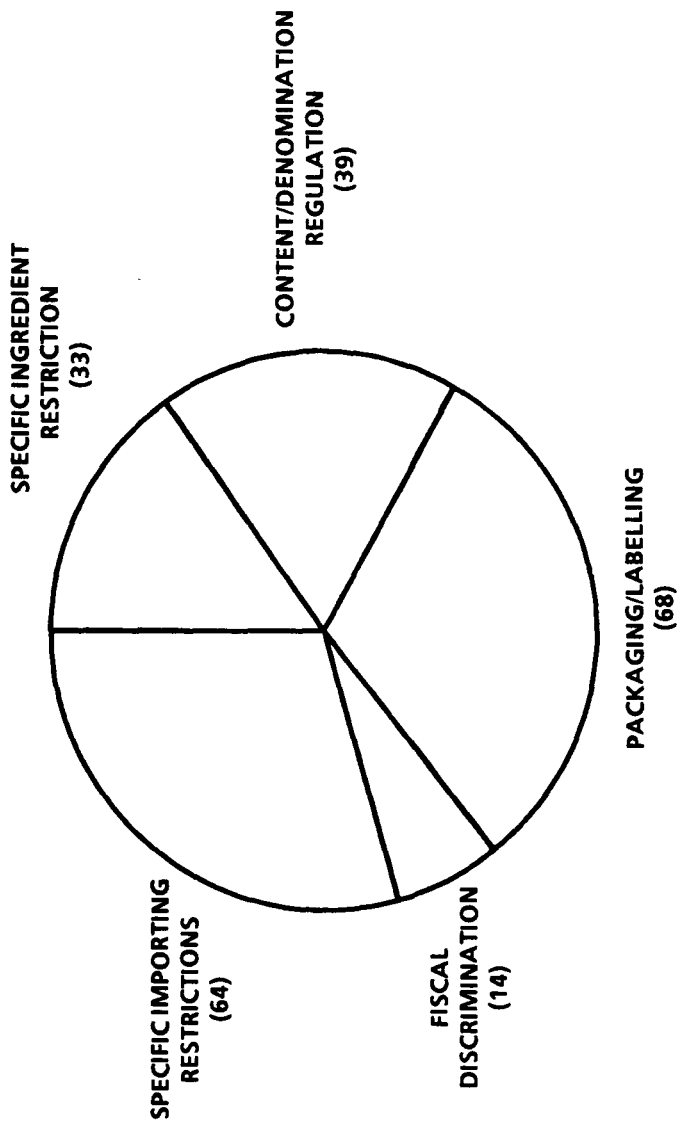
- 1. OBJECTIVES AND APPROACH OF STUDY**
- 2. PROFILE OF PRODUCT SECTORS INCLUDED IN STUDY**
- 3. BARRIER TYPOLOGY**
- 4. IDENTIFICATION OF SPECIFIC BARRIERS**
- 5. SECTION OF PILOT BARRIERS**
- 6. APPENDICES**

# OVER 200 BARRIERS HAVE BEEN IDENTIFIED

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- BARRIERS ARE DISTRIBUTED ALMOST EVENLY ACROSS THE BARRIER CATEGORIES

TOTAL NUMBER OF BARRIERS : 218



Source : MAC Group interviews

**OVER 200 SPECIFIC BARRIERS HAVE BEEN IDENTIFIED (1)**

- **EACH SPECIFIC BARRIER CAN BE DESCRIBED ACCORDING TO 3 DIMENSIONS :**
  - BARRIER TYPE
  - PRODUCT SECTOR
  - COUNTRY ENFORCING BARRIER
  
- **IN ADDITION, EACH SPECIFIC BARRIER CAN BE EVALUATED ON A QUALITATIVE SCALE BASED ON THE PROBABLE IMPACT OF REMOVING THE BARRIER :**

IMPACT	FOREIGN TRADE	UNIT COSTS	CONSUMER CHOICE	STRUCTURE OF DOMESTIC INDUSTRY
HIGH	SIGNIFICANT INCREASE	DECREASE > 1 %	SIGNIFICANT INCREASE	CHANGE RADICALLY
MED	INCREASE	0-1 %	SOME	SOME CHANGE
LOW	NO CHANGE	0 %	NEGLECTIBLE	NO CHANGE

- **THE FOLLOWING TABLES SUMMARIZE THESE DATA**

(1) See Appendix A for list of organizations and individuals contacted to identify specific barriers.

### SPECIFIC BARRIERS : 1. SPECIFIC INGREDIENT RESTRICTIONS (ABSOLUTE RESTRICTION)

	BABY FOOD	BEER	BISCUITS AND CAKE	CHOCOLATE AND CONFECTIONERY	ICE CREAM	MINERAL WATER	PASTA	SOFT DRINKS	SOUP	SPIRITS
GERMANY			CHLORINE	ARTIFICIAL SWEETNERS						ARTIFICIAL FLAVOURING COLORANTS
FRANCE			CHLORINE				PURITY LAW	ASPARTAME		
U.K.			CAROTINE							
ITALY	ANTIPARASITIC AGENTS	..... : PURITY LAW : .....	ALIGNATE, CHLORINE IRON AND VITAMIN IN ADDITIONS	BUBBLE GUM ADDITIVES			PURITY LAW	COLORING ADDITIVE	ANTIPARASITIC AGENTS	AMARANTH
SPAIN			CHLORINE POPPY SEEDS	ARTIFICIAL SWEETNERS				ARTIFICIAL SWEETNERS		MINIMUM AGE ETHONAL CONTENT WHISKY STRENGTH
OTHER EEC MEMBERS			ALL : CHLORINE	D : PRPG			G : PURITY LAW			

HIGH IMPACT

OTHER EEC :

B : BELGIUM

I : IRELAND

L : LUXEMBOURG

MEDIUM IMPACT

D : DENMARK

N : NETHERLANDS

G : GREECE

P : PORTUGAL

See Appendix B for detailed descriptions

SPECIFIC BARRIERS : 2. CONTENT/DENOMINATION REGULATIONS

	BABY FOOD	BEER	BISCUITS AND CAKE	CHOCOLATE AND CONFECTIONERY	ICE CREAM	MINERAL WATER	PASTA	SOFT DRINKS	SOUP	SPIRITS
GERMANY		PURITY LAW	PUR BEURRE EGG CONTENT MARZIPAN	VEGETABLE FAT CHOCOLATA	VEGETABLE FAT					
FRANCE			PUR BEURRE PRALINE	VEGETABLE FAT CHOCOLATA	VEGETABLE FAT			JUICE CONTENT LIMONADE		
U.K.			MADELEINE	CHOCOLATA						
ITALY		SACCHARI-METRIC CONTENT		CHOCOLATA				JUICE CONTENT FRUIT SYRUPS ARTIFICIAL SWEETENERS		
SPAIN		SACCHARI-METRIC CONTENT						JUICE CONTENT		
OTHER EEC MEMBERS		G : PURITY LAW G : SACCHARI-METRIC CONTENT	B : PUR BEURRE							

 HIGH IMPACT  
 MEDIUM IMPACT  
 OTHER EEC :  
 B : BELGIUM  
 D : DENMARK  
 G : GREECE  
 I : IRELAND  
 N : NETHERLANDS  
 P : PORTUGAL  
 L : LUXEMBOURG

See Appendix B for detailed descriptions

SPECIFIC BARRIERS : 3. PACKAGING/LABELLING

	BABY FOOD	BEER	BISCUITS AND CAKE	CHOCOLATE AND CONFECTIONERY	ICE CREAM	MINERAL WATER	PASTA	SOFT DRINKS	SOUP	SPIRITS
GERMANY						BULK TRANSPORT GERMAN WATER BOTTLES				BOTTLE SIZES
FRANCE						BULK TRANSPORT				BOTTLE SIZES
U.K.	INGREDIENT CATEGORIES	INGREDIENT CATEGORIES	175 GRAMS INGREDIENT CATEGORIES	INGREDIENT CATEGORIES	INGREDIENT CATEGORIES	INGREDIENT CATEGORIES	INGREDIENT CATEGORIES	INGREDIENT CATEGORIES	INGREDIENT CATEGORIES	INGREDIENT CATEGORIES
ITALY	LANGUAGE	BEER TYPES LANGUAGE	LEAD SOLDERING LANGUAGE	LEAD SOLDERING LANGUAGE	LANGUAGE	BULK TRANSPORT PLASTIC CONTAINERS LANGUAGE	LANGUAGE	LANGUAGE	LANGUAGE	LANGUAGE
SPAIN	LABEL DETAIL	LOCAL BOTTLING LABEL DETAIL	LABEL DETAIL	LABEL DETAIL STICKER PROHIBITION	LABEL DETAIL	BULK TRANSPORT LOCAL BOTTLING LABEL DETAIL	LABEL DETAIL	LABEL DETAIL	LABEL DETAIL	LABEL DETAIL 3 LITRES NO REFILLS
OTHER EEC MEMBERS		D : RECYCLING				D : RECYCLING		D : RECYCLING		D : RECYCLING

HIGH IMPACT  
 MEDIUM IMPACT  
 OTHER EEC :  
 B : BELGIUM    I : IRELAND    L : LUXEMBOURG  
 D : DENMARK    N : NETHERLANDS  
 G : GREECE    P : PORTUGAL

See Appendix B for detailed descriptions



**SPECIFIC BARRIERS : 5. SPECIFIC IMPORTING RESTRICTIONS**

	BABY FOOD	BEER	BISCUITS AND CAKE	CHOCOLATE AND CONFECTIONERY	ICE CREAM	MINERAL WATER	PASTA	SOFT DRINKS	SOUP	SPIRITS
GERMANY										
FRANCE									VIGNETTE CERTIFICATE D'IMPORTATION	
U.K.									VETERINARIAN'S CERTIFICATE	
ITALY	SALES AUTHORI- SATION SAMPLES	IMPORT CERTIFICATE SAMPLES	SAMPLES	SAMPLES	SAMPLES	SAMPLES	SAMPLES	SAMPLES	SAMPLES	IMPORT CERTIFICATE SAMPLES
SPAIN	HEALTH REGISTRATION IMPORT LICENCE	HEALTH REGISTRATION IMPORT LICENCE	HEALTH REGISTRATION IMPORT LICENCE	HEALTH REGISTRATION IMPORT LICENCE	HEALTH REGISTRATION IMPORT LICENCE	HEALTH REGISTRATION 2 LITRES	HEALTH REGISTRATION IMPORT LICENCE	HEALTH REGISTRATION	HEALTH REGISTRATION	DOUBLE INSPECTION HEALTH REGISTRATION IMPORT LICENCE
OTHER EEC MEMBERS	G : MARGIN LIMIT	G : MARGIN LIMIT	G : MARGIN LIMIT	G : MARGIN LIMIT	G : MARGIN LIMIT	G : MARGIN LIMIT	G : MARGIN LIMIT	G : MARGIN LIMIT	G : MARGIN LIMIT	G : MARGIN LIMIT

HIGH IMPACT  
 MEDIUM IMPACT  
 OTHER EEC :  
 B : BELGIUM I : IRELAND L : LUXEMBOURG  
 D : DENMARK N : NETHERLANDS  
 G : GREECE P : PORTUGAL

See Appendix B for detailed descriptions



## **CONTENTS**

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- 1. OBJECTIVES AND APPROACH OF STUDY**
- 2. PROFILE OF PRODUCT SECTORS INCLUDED IN STUDY**
- 3. BARRIER TYPOLOGY**
- 4. IDENTIFICATION OF SPECIFIC BARRIERS**
- 5. SELECTION OF PILOT BARRIERS**
- 6. APPENDICES**

## **PROPOSED PILOT BARRIERS**

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- **A PILOT BARRIER IS A SPECIFIC BARRIER (I.E. TRIPLET OF COUNTRY, BARRIER TYPE, AND PRODUCT SECTOR) CHOSEN FOR IN-DEPTH STUDY.**
  
- **PILOT BARRIERS ARE SELECTED BASED ON THEIR LIKELY IMPACT :**
  - **LIST A BARRIERS ARE GENERALLY THOSE WITH A HIGH IMPACT**
  - **LIST B BARRIERS ARE GENERALLY THOSE WITH A MEDIUM IMPACT**
  
- **IN SELECTING THE PROPOSED PILOT BARRIERS, HOWEVER , CARE WAS TAKEN TO ENSURE AN ADEQUATE COVERAGE OF :**
  - **COUNTRIES (LARGEST FIVE EEC COUNTRIES PLUS SOME SMALLER ONES)**
  - **PRODUCT SECTORS (AT LEAST ONE PILOT BARRIER PER SECTOR)**
  - **BARRIER TYPES**

**PILOT BARRIERS : LIST "A"**

---

1. BEER PURITY LAW IN GERMANY
2. PASTA PURITY LAW IN ITALY
3. ASPARTAME RESTRICTION IN SOFT DRINK INDUSTRY IN FRANCE
4. VEGETABLE FAT RESTRICTION FOR CHOCOLATE IN FRANCE
5. VEGETABLE FAT RESTRICTION FOR ICE CREAM IN GERMANY
6. JUICE CONTENT LIMIT IN SOFT DRINK INDUSTRY IN ITALY
7. RECYCLING LAW FOR BEVERAGES IN DENMARK
8. WORT EXCISE TAX IN BEER INDUSTRY IN U.K.
9. HEALTH REGISTRATION REQUIREMENT FOR BABY FOOD IN SPAIN
10. BULK TRANSPORT REGULATION FOR MINERAL (SPRING) WATER IN FRANCE

**PILOT BARRIERS : LIST "B"**

---

1. SACCHARAMETRIC CONTENT LAW FOR BEER IN ITALY
2. CHLORINE RESTRICTION FOR BISCUITS AND CAKE IN THE NETHERLANDS
3. CAROTINE RESTRICTION FOR BISCUITS AND CAKE IN THE U.K.
4. "GERMAN WATER BOTTLES" FOR MINERAL WATER IN GERMANY
5. TAX DIFFERENCES FOR DOM RUM IN FRANCE
6. LABEL DETAIL FOR SOUP IN SPAIN
7. PLASTIC CONTAINERS FOR MINERAL WATER IN ITALY
8. WORT TAX METHOD FOR BEER IN BELGIUM
9. IMPORT CERTIFICATES FOR SPIRITS IN ITALY
10. DOUBLE INSPECTION FOR SPIRIT IMPORTS IN SPAIN

# THE 20 PROPOSED PILOT BARRIERS COVER ALL MAJOR COUNTRIES, PRODUCT SECTORS, AND BARRIER TYPES (1)

	BABY FOOD	BEER	BISCUITS AND CAKE	CHOCOLATE AND CONFECTIONERY	ICE CREAM	MINERAL WATER	PASTA	SOFT DRINKS	SOUP	SPIRITS
GERMANY		PURITY LAW (2)			VEGETABLE FAT (2)	GERMAN WATER BOTTLES (3)				
FRANCE				VEGETABLE FAT (2)		BULK TRANSPORT (3)		ASPARTAME (1)		DOM RUM (4)
U.K.		WORT TAX (4)	CAROTINE (1)							
ITALY		SACCHARA-METRIC CONTENT (2)				PLASTIC CONTAINERS (3)	PURITY LAW (1)	JUICE CONTENT (2)		IMPORT CERTIFICATES (5)
SPAIN	LABEL DETAIL (3)								HEALTH REGISTRATION (5)	DOUBLE INSPECTION (5)
OTHER EEC MEMBERS		B : WORT TAX (4) D : RECYCLING (3)	N : CHLORINE (1)						D : RECYCLING (3)	

OTHER EEC:

- B : BELGIUM
- D : DENMARK
- G : GREECE
- I : IRELAND
- L : LUXEMBOURG
- N : NETHERLANDS
- P : PORTUGAL

BARRIER TYPE

- 1 : SPECIFIC INGREDIENT RESTRICTION
- 2 : CONTENT DENOMINATION REGULATIONS
- 3 : PACKAGING/LABELLING
- 4 : FISCAL DISCRIMINATION
- 5 : SPECIFIC IMPORTING RESTRICTIONS

(1) Note: The Danish recycling barrier for beer, mineral water, and soft drinks, will be evaluated together as one pilot barrier

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## 6. APPENDICES

---

### A. LIST OF ORGANISATIONS CONTACTED

### B. SPECIFIC BARRIERS

## **INTERVIEWS : 7 EUROPEAN ORGANIZATIONS**

---

- **CONFEDERATIONS DES INDUSTRIES AGRO-ALIMENTAIRES DE LA CEE**
- **LA COMMUNAUTE DE TRAVAIL DES BRASSEURS DU MARCHÉ COMMUN**
- **ASSOCIATION DES INDUSTRIES DE LA CHOCOLATERIE, BISCUITERIE-BISCOTTERIE, ET CONFISERIE DE LA CEE**
- **EUROPEAN FEDERATION OF MANUFACTURERS OF BAKERS' AND CONFECTIONERS' INGREDIENTS AND ADDITIVES**
- **UNION EUROPEENNE DES ALCOOLS, EAUX DE VIE ET SPIRITUEUX**
- **UNION EUROPEENNE DES SOURCES D'EAUX MINÉRALES NATURELLES**
- **ASSOCIATION DES INDUSTRIES DES GLACES ALIMENTAIRES DE LA CEE.**



## INTERVIEWS : 21 GERMAN ORGANIZATIONS

---

- **GOVERNMENT :**
  - \* BUNDESANSTALT FUER LEBENSMITTELRECHT UND LEBENSMITTELKUNDE
- **ASSOCIATIONS :**
  - \* BAYERISCHER BRAUERBUND
  - \* DEUTSCHER BRAUERBUND
  - \* BUNDES VERBAND DER DEUTSCHEN TEIGWARENINDUSTRIE
  - \* BUNDESVERBAND DES DEUTSCHEN SUESSWARENGROSS- UND AUSSENHANDELS
  - \* BUNDESVERBAND DES DEUTSCHEN SUESSWARENINDUSTRIE
  - \* BUNDESVEREINIGUNG DER DEUTSCHEN ERNAEHRUNGSINDUSTRIE
  - \* BUNDESVERBAND DES DIAETHETISCHEN LEBENSMITTELINDUSTRIE
  - \* VERBAND DER SUPPENINDUSTRIE
  - \* BUNDESVERBAND DER FEINKOSTINDUSTRIE
  - \* BUNDESVERBAND DES MITTELSTAENDISCHEN PRIVATBRAUEREIEN
- **COMPANIES :**
  - \* BAVARIA ST. PAULI-BRAUEREI
  - \* HENNINGER BRAEU
  - \* SPATEN-BRAEU
  - \* PAULANER BRAEU
  - \* STERN BRAUEREI
  - \* HERM. G. DETHLEFFSEN
  - \* DOORNKAAT
  - \* HENKELL UND SOEHNLEIN
  - \* MEICA
  - \* MEGGLE

## INTERVIEWS : 26 FRENCH ORGANIZATIONS

---

- **GOVERNMENT**
  - \* MINISTERE DE L'AGRICULTURE
  
- **ASSOCIATIONS :**
  - \* FEDERATION NATIONALE DU COMMERCE EXTERIEUR DES NEGOCIANTS SPECIALISES EN PRODUITS ALIMENTAIRES (FNCE)
  - \* SOCIETE NATIONALE D'IMPORTATION ET DE REPRESENTATION (SNAIR)
  - \* CENTRE FRANCAIS DU COMMERCE EXTERIEUR (CFCE)
  - \* ASSOCIATION FRANCAISE POUR LA NORMALISATION (AFNOR)
  - \* ASSOCIATION NATIONALE POUR L'INDUSTRIE ALIMENTAIRE (ANIA)
  - \* DIRECTION GENERALE DE L'ALIMENTATION (DGA)
  
- **COMPANIES :**
  - \* CARREFOUR
  - \* EUROMARCHE
  - \* MAMMOUTH
  - \* AUCHAN
  - \* CASINO
  - \* MONOPRIX
  - \* SUMA
  - \* COOP
  - \* AMANDINE
  - \* CANDICE
  - \* CONFIBIS
  - \* CONFILUX
  - \* GEL 2000
  - \* GACO
  - \* LEKKERLAND - FRANCE
  - \* NICOLAS
  - \* PICARD SURGELES
  - \* SADUC
  - \* SANAC

## **INTERVIEWS : 12 U.K. ORGANIZATIONS**

---

- **GOVERNMENT**
  - \* **MINISTRY OF AGRICULTURE**
  
- **ASSOCIATIONS :**
  - \* **ICE CREAM FEDERATION**
  - \* **BRITISH CAKES, CHOCOLATE, AND CONFECTIONERY**
  - \* **THE INFANT FOOD FEDERATION**
  - \* **THE BREWER'S SOCIETY**
  - \* **THE SCOTCH WHISKY ASSOCIATION**
  
- **COMPANIES :**
  - \* **OJ BRUNNER**
  - \* **GROCERS'SUPPLIES**
  - \* **TRUSTIN KERWOOD LTD**
  - \* **NORICO**
  - \* **TESCO'S**
  - \* **GILBY VINTERS.**

## INTERVIEWS : 26 ITALIAN ORGANIZATIONS

---

- **GOVERNMENT :**
  - \* MINISTRY OF AGRICULTURE
  - \* MINISTRY OF HEALTH
  - \* MINISTRY OF TRADE AND INDUSTRY
  - \* MINISTRY OF FOREIGN TRADE
  - \* INSTITUTE OF FOREIGN TRADE
  
- **ASSOCIATIONS :**
  - \* THE FEDERATION OF ALIMENTATION
  - \* NATIONAL ASSOCIATION OF FOREIGN TRADE
  - \* NATIONAL UNION OF PASTA (UNIPI)
  - \* INDUSTRIAL ASSOCIATION OF ITALIEN SWEETS (AIDI)
  - \* NATIONAL UNION OF CARBONATED BEVERAGE INDUSTRIES (UNIBG)
  - \* ASSOCIATION OF BEER AND MALT MANUFACTURERS
  - \* ITALIEN FEDERATION OF MINERAL WATERS AND NON ALCOHOLIC BEVERAGES (FEDERTERME)
  - \* ITALIEN SPIRIT AND WINE FEDERATION (FEDERVINI)
  
- **COMPANIES :**
  - \* D&C. SPA.
  - \* ALITE DISTRIBUZIONE
  - \* AGRIFOODS
  - \* SORBA SPA.
  - \* VISAMAR & BIFFI
  - \* SIDAS DOLCIARIA SPA.
  - \* COMAL
  - \* WHURER SPA.
  - \* SANGEMINI FERRARELLE
  - \* KANTERBRAU ITALIA
  - \* APT UNION
  - \* RAMAZZOTTI DISTILLERIE
  - \* WAX & VITALE

## **INTERVIEWS : 19 SPANISH ORGANIZATIONS**

---

- **GOVERNMENT :**
  - \* MINISTRY OF ECONOMY AND TRADE
    - CATALONIA REGIONAL DIRECTORATE FOR ECONOMY AND TRADE
    - DIRECTORATE OF FOREIGN TRADE
  - \* MINISTRY OF HEALTH
  
- **ASSOCIATIONS :**
  - \* CATALONIAN FOUNDATION PRO-EUROPE
  - \* BARCELONA CHAMBER OF COMMERCE
  - \* ITALIAN COMMERCIAL OFFICE
  - \* UNIT MANAGER OF TRADE ECONOMIC AND COMMERCIAL STUDIES
  
- **COMPANIES :**
  - \* MUNOZ Y CABRERO
  - \* PAYBESA KRONENBOURG
  - \* ROWTREE MACKINTOSH
  - \* DIETISA S.A.
  - \* ATLANTICO S.A.
  - \* AFERSON S.A.
  - \* COMERCIAL ALIMENTARIA
  - \* REUNIDA S.A.
  - \* FONTVELLA
  - \* NESTLE
  - \* CONTINENTE HYPERMARKET
  - \* CUHEDA S.A.
  - \* C.I.L.E.

## 6. APPENDICES

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### A. LIST OF ORGANISATIONS CONTACTED

### B. SPECIFIC BARRIERS

## **SPECIFIC BARRIERS ARE CLASSIFIED INTO 5 CATEGORIES**

---

**1. SPECIFIC INGREDIENT RESTRICTIONS**

**2. CONTENT/DENOMINATION REGULATIONS**

**3. PACKAGING/LABELING**

**4. FISCAL DISCRIMINATION**

**5. SPECIFIC IMPORTING RESTRICTIONS**





## **1. SPECIFIC INGREDIENT RESTRICTIONS**

1. **NUMBER :**

1.1

2. **NAME :**

PURITY LAW

3. **SECTOR :**

PASTA

4. **COUNTRIES ENFORCING BARRIER :**

- ITALY
- FRANCE
- GREECE

5. **DESCRIPTION :**

- PASTA HAS TO BE MADE OF DURUM WHEAT EXCLUSIVELY. PASTA MADE OF TENDER WHEAT MAY BE PRODUCED, BUT ONLY FOR EXPORT.
- REASON : TO PROTECT CONSUMERS FROM LOWER QUALITY PASTA

6. **IMPACT :**

- PROTECTS DURUM WHEAT PRODUCERS
- LIMITS CONSUMER CHOICE OF VARIOUS PASTAS WITH DIFFERENT PRICE/QUALITY RELATIONSHIPS.
- COUNTRIES AFFECTED : GERMANY, BELGIUM, HOLLAND, DENMARK, U.K.

7. **DEGREE OF IMPACT :**

- HIGH
- THE IMPACT WILL CERTAINLY BE IMPORTANT IN THE BEGINNING, THOUGH CONSUMER READJUSTMENTS MAY TAKE PLACE.
- A LOWER PRICED MARKET SEGMENT FOR PASTA COULD BE CREATED

1. **NUMBER** :

1.2

2. **NAME** :

ASPARTAME

3. **SECTOR** :

SOFT DRINKS

4. **COUNTRIES ENFORCING BARRIER** :

FRANCE

5. **DESCRIPTION** :

- USE OF ARTIFICIAL SWEETENERS IS PROHIBITED IN SOFT DRINKS IN FRANCE
- LAW WAS ESTABLISHED FOR HEALTH REASONS
- ASPARTAME IS APPROVED IN MOST EUROPEAN COUNTRIES AND IN THE U.S.

6. **IMPACT** :

- PROTECTS FRENCH SUGAR INDUSTRY
- FRENCH AND FOREIGN PRODUCERS CANNOT SELL DIETETIC SOFT DRINKS CONTAINING ASPARTAME IN FRANCE
- COUNTRIES AFFECTED : FRANCE (DOMESTIC PRODUCERS), BELGIUM, GERMANY, SPAIN

7. **DEGREE OF IMPACT** :

- HIGH
- NEW DIET SOFT DRINKS SECTOR WOULD BE CREATED IN FRANCE
- BROADEN CONSUMER CHOICE

1. **NUMBER :**

1.3

2. **NAME :**

PURITY LAW

3. **SECTOR :**

BEER

4. **COUNTRIES ENFORCING BARRIER :**

ITALY

5. **DESCRIPTION :**

- UNDER THIS LAW, THE ALLOWED INGREDIENT SOFT BEER ARE : HOPS, MALTED BARLEY, YEAST, WATER (SAME AS GERMANY AND GREECE). HOWEVER, THE BARLEY MALT MAY BE SUBSTITUTED IN ITALY BY MALT FROM WHEAT, RICE OR OTHER GRAINS-- EVEN BROKEN, MILLED OR IN THE FORM OF FLAKES-- UP TO A MAXIMUM OF 25 %, (GERMANY AND GREECE = 0 %).
- IN FRANCE, BELGIUM AND LUXEMBURG, THE LIMIT IS SET AT 40 %.
- IN THE U.K., NO LIMIT APPLIES.

6. **IMPACT :**

- BY DIMINISHING THE CONTENT OF UNMALTED CEREALS ALLOWED, AND THUS USING MORE BARLEY MALT, THE COSTS MAY INCREASE, PROVIDED THE BREWER CHANGES HIS RECIPE.
- THE MAIN COUNTRIES AFFECTED ARE : BELGIUM, HOLLAND, FRANCE AND THE U.K.

7. **DEGREE OF IMPACT :**

- MEDIUM
- IN PRACTICE, HOWEVER, THIS IS NOT A LIMITING FACTOR FOR FOREIGN PRODUCERS

1. **NUMBER** :

1.4

2. **NAME** :

ETHANOL CONTENT

3. **SECTOR** :

SPIRITS

4. **COUNTRIES ENFORCING BARRIER** :

SPAIN

5. **DESCRIPTION** :

- AUTHORIZED METHANOL CONTENT/GRADE IS LOWER IN SPAIN THAN IN SOME EEC COUNTRIES.

6. **IMPACT** :

- LIMITS IMPORTS OF SOME SPECIFIC LIQUORS.

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER :**

1.5

2. **NAME :**

AMARANTH

3. **SECTOR :**

SOFT DRINKS, SPIRITS

4. **COUNTRIES ENFORCING BARRIER :**

ITALY

5. **DESCRIPTION :**

- SINCE 1976, THE USE OF THE COLORING AGENT E 123 "AMARANTH" IS PROHIBITED.
- REASON : HEALTH

6. **IMPACT :**

- PREVENTS IMPORTS OF CERTAIN SPIRITS
- COUNTRIES AFFECTED ARE : U.K., FRANCE

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER** :

1.6

2. **NAME** :

ALGINATE RESTRICTIONS

3. **SECTOR** :

BISCUITS AND CAKES

4. **COUNTRIES ENFORCING BARRIER** :

ITALY

5. **DESCRIPTION** :

- ANY BISCUIT OR GINGER BREAD CANNOT CONTAIN ANY ALGINATE
- REASON :HEALTH

6. **IMPACT** :

- PREVENTS IMPORTS OF BISCUIT PRODUCTS, OR FORCES PRODUCERS TO CHANGE RECIPES
- COUNTRIES AFFECTED : FRANCE, BELGIUM

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER :**

1.7

2. **NAME :**

ARTIFICIAL FLAVORING

3. **SECTOR :**

SPIRITS

4. **COUNTRIES ENFORCING BARRIER :**

GERMANY

5. **DESCRIPTION :**

- ARTIFICIAL FLAVORING OF SPIRITS IS NOT ALLOWED IN GERMANY

6. **IMPACT :**

- INCREASES COST TO SOME SPIRIT EXPORTERS AND/OR LIMITS CONSUMER CHOICE

7. **DEGREE OF IMPACT :**

- LOW



1. **NUMBER :**

1.8

2. **NAME :**

CAROTINE

3. **SECTOR :**

BISCUITS

4. **COUNTRIES ENFORCING BARRIER :**

U.K.

5. **DESCRIPTION :**

- CAROTINE IS A COLORING AGENT USED PRIMARILY FOR EEC BUTTER
- BAKED PRODUCTS CONTAINING CAROTINE ARE NOT ALLOWED IN THE U.K.

6. **IMPACT :**

- PRODUCERS WHO USE CAROTINE MUST CHANGE RECIPE IN ORDER TO EXPORT TO THE U.K.
- INCREASES COSTS AND LIMITS CONSUMER CHOICE

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER :**

1.9

2. **NAME :**

PRPG

3. **SECTOR :**

CHOCOLATE

4. **COUNTRIES ENFORCING BARRIER :**

DENMARK

5. **DESCRIPTION :**

- UK CHOCOLATE PRODUCERS USE AN EMULSIFIER PRPG, WHICH IS NOT ALLOWED IN DENMARK.

6. **IMPACT :**

- INCREASES COST TO UK PRODUCERS WHO MUST CHANGE THEIR RECIPES BEFORE EXPORTING TO DENMARK

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER** :

1.10

2. **NAME** :

CHLORINE

3. **SECTOR** :

BISCUITS AND CAKES

4. **COUNTRIES ENFORCING BARRIER** :

ALL EEC COUNTRIES EXCEPT U.K.

5. **DESCRIPTION** :

- U.K. PRODUCERS USE CHLORINE
- IT IS ILLEGAL TO USE CHLORINE AS A COLORANT IN ALL COUNTRIES EXCEPT THE U.K.
- REASON : HEALTH REASONS

6. **IMPACT** :

- INCREASES COST FOR U.K. PRODUCERS WHO WISH TO SELL PRODUCTS IN OTHER EEC COUNTRIES.

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER :**

1.11

2. **NAME :**

ARTIFICIAL SWEETENERS

3. **SECTOR :**

SOFT DRINKS

4. **COUNTRIES ENFORCING BARRIER :**

SPAIN

5. **DESCRIPTION :**

- **LIMITATION ON USE OF ARTIFICIAL SWEETENERS :**
  - **SACCHARIN 0.02 GR/L**
  - **CYCLOMATE 0.4 GR/L**
- **REASON : HEALTH**

6. **IMPACT :**

- **COULD PREVENT SOFT DRINK PRODUCERS FROM EXPORTING TO SPAIN**
- **LIMITS CONSUMER CHOICE**

7. **DEGREE OF IMPACT :**

- **LOW**

1. **NUMBER :**

1.12

2. **NAME :**

POPPY SEEDS

3. **SECTOR :**

BISCUITS

4. **COUNTRIES ENFORCING BARRIER :**

SPAIN

5. **DESCRIPTION :**

- SOME RESTRICTIONS ON USE OF POPPY SEEDS

6. **IMPACT :**

- IMPEDES SOME DANISH BISCUIT PRODUCTS FROM BEING EXPORTED TO SPAIN

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER** :

1.13

2. **NAME** :

MINIMUM AGE

3. **SECTOR** :

SPIRITS

4. **COUNTRIES ENFORCING BARRIER** :

SPAIN

5. **DESCRIPTION** :

- WHISKY MUST BE OLDER THAN 3 YEARS
- THE AGE MUST BE SPECIFIED ON THE LABEL

6. **IMPACT** :

- PREVENTS SOME IMPORTS FROM THE U.K.
- INCREASES LABELLING COSTS FOR U.K. PRODUCERS

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER :**

1.14

2. **NAME :**

WHISKY STRENGTH

3. **SECTOR :**

SPIRITS

4. **COUNTRIES ENFORCING BARRIER :**

SPAIN

5. **DESCRIPTION :**

- WHISKY MUST HAVE BETWEEN 40 AND 58 DEGREES ALCOHOL
- ALCOHOL CONTENT MUST BE SPECIFIED ON THE LABEL

6. **IMPACT :**

- PREVENTS SOME IMPORTS OF WHISKY FROM U.K.
- INCREASES LABELLING COSTS TO U.K. PRODUCERS

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER :**

1.15

2. **NAME :**

ARTIFICIAL SWEETENERS

3. **SECTOR :**

CHOCOLATE AND CONFECTIONERY

4. **COUNTRIES ENFORCING BARRIER :**

GERMANY

5. **DESCRIPTION :**

- CERTAIN SWEETENERS, PRESERVATIVES, AND COLOUR AGENTS ARE ALLOWED IN BENELUX BUT NOT GERMANY.

6. **IMPACT :**

- LIMITS EXPORTS FROM BENELUX TO GERMANY.

7. **DEGREE OF IMPACT :**

- LOW



1. **NUMBER** :

1.16

2. **NAME** :

COLORANTS

3. **SECTOR** :

SPIRITS

4. **COUNTRIES ENFORCING BARRIER** :

GERMANY

5. **DESCRIPTION** :

- COLORING AGENTS ARE ALLOWED IN ITALY BUT NOT IN GERMANY

6. **IMPACT** :

- RESTRICTS EXPORTS OF CAMPARI TO GERMANY

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER :**

1.17

2. **NAME :**

IRON AND VITAMIN ADDITIONS

3. **SECTOR :**

BISCUITS

4. **COUNTRIES ENFORCING BARRIER :**

ITALY

5. **DESCRIPTION :**

- THE ADDITION OF IRON AND VITAMINS TO FOOD PRODUCTS IS PROHIBITED. VITAMINS AND IRON ARE FREQUENTLY PRESENT IN FLOUR USED FOR THE INDUSTRIAL PRODUCTION OF BISCUITS AND SNACKS IN SOME EEC COUNTRIES (ie. U.K.).
- A SPECIFIC AUTHORIZATION, THE SAME AS THE ONE REQUIRED FOR SPECIAL DIETETIC PRODUCTS IS REQUIRED.

6. **IMPACT :**

- ANY PRODUCT CONTAINING ADDITIONS OF VITAMINS OR IRON ARE LIABLE FOR CONFISCATION, SANCTIONS AND PENALTIES. THIS OBLIGES FOREIGN PRODUCERS TO ALTER PRODUCT COMPOSITION AND LABELING.

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER** : 1.18

2. **NAME** :

RESIDUAL CONTENT OF ANTIPARASITIC AGENTS

3. **SECTOR** :

SOUP AND BABY FOOD

4. **COUNTRIES ENFORCING BARRIER** :

ITALY

5. **DESCRIPTION** :

- THE MAXIMUM CONTENT OF ANTIPARASITIC AGENTS IN VEGETABLES IS SET BY A DECREE OF THE ITALIAN HEALTH DEPARTMENT DATED JULY 6, 1985. THE DECREE IS LARGELY BASED UPON THE RELEVANT EEC DIRECTIVE, BUT BOTH THE NUMBER AND QUANTITY OF ANTIPARASITIC AGENTS ALLOWED IN ITALY DIFFER FROM THE EEC SPECIFICATIONS.
- QUANTITIES ARE DEBATABLE AS THE EEC DIRECTIVES ARE ONLY SUGGESTIVE.

6. **IMPACT** :

- FINANCIAL DAMAGES DERIVING FROM VERY COSTLY CHECKS, TO BE PAID BY ITALIAN IMPORTERS.
- LEGAL SANCTIONS, PENALTIES AND CONFISCATIONS OF THE GOODS WHICH DO NOT RESPECT THE DECREE.

7. **DEGREE OF IMPACT** :

- LOW

1. NUMBER : 1.19

2. NAME :

BUBBLE GUM ADDITIVES

3. SECTOR :

CONFECTIONERY

4. COUNTRIES ENFORCING BARRIER :

ITALY

5. DESCRIPTION :

- IN FRANCE BUBBLE GUM CAN CONTAIN UP TO 66 ADDITIVES. IN ITALY ONLY 20 ARE ALLOWED.

6. IMPACT :

- RESTRICT FRENCH EXPORTS.
- COSTLY PRODUCT ALTERATIONS.

7. DEGREE OF IMPACT :

- LOW

## **2. CONTENT/DENOMINATION REGULATIONS**

1. **NUMBER :**

2.1

2. **NAME :**

PURITY LAW

3. **SECTOR :**

BEER

4. **COUNTRIES ENFORCING BARRIER :**

- GERMANY
- GREECE

5. **DESCRIPTION :**

- THE GERMAN PURITY LAW (OR REINHEITSGEBOT) IS A TRADITIONAL FOOD-LAW WHICH WAS CREATED IN GERMANY IN THE YEAR 1516
- UNDER THIS LAW THE ALLOWED INGREDIENTS OF BEER ARE :
  - HOPS
  - MALTED BALLEY
  - YEAST
  - WATER
- HISTORICALLY THE LAW WAS DESIGNED TO PROTECT CONSUMERS, AND OWES ITS CREATION TO THE IMPORTANCE OF BEER AS A FOODSTUFF IN GERMANY.

6. **IMPACT :**

- "IMPURE" BEER COULD NOT BE SOLD IN GERMANY AND USE THE NAME "BEER". THIS MEANT THAT FOREIGN PRODUCERS OF BEER COULD ONLY SELL "BEER" IN GERMANY IF THEY CHANGED THEIR RECIPE.
- COUNTRIES MOST AFFECTED WERE : HOLLAND, BELGIUM, FRANCE.

7. **DEGREE OF IMPACT :**

- HIGH
- BEER IMPORTS ARE EXPECTED TO RISE WITH THE RECENT RETRACTION OF THE PURITY LAW IN GERMANY
  - HOWEVER, DOMESTICALLY PRODUCED BEER MUST STILL BE MADE ACCORDING TO THE REINHEITSGEBOT FORMULA.
- THE ENDING OF THE PURITY LAWS SHOULD ALSO INCREASE THE CONSOLIDATION OF THE BREWING INDUSTRY.

1. **NUMBER :**

2.2

2. **NAME :**

VEGETABLE FAT

3. **SECTOR :**

CHOCOLATE

4. **COUNTRIES ENFORCING BARRIER :**

ALL COUNTRIES EXCEPT : UK, IRELAND, DENMARK

5. **DESCRIPTION :**

- UK CHOCOLATE CONTAINS > 20 % MILK SOLIDS AND USES SOME VEGETABLE FAT TO COUNTERACT SOFTENING.
- OTHER EEC COUNTRIES DISALLOW USE OF "CHOCOLATE" NAME FOR PRODUCTS CONTAINING NON-COCOA BUTTER VEGETABLE FAT.

6. **IMPACT :**

- RESTRICT EXPORTS OF MILK CHOCOLATE FROM AFFECTED COUNTRIES TO COUNTRIES ENFORCING THE BARRIER
- COUNTRIES MOST AFFECTED : U.K. EXPORTS TO GERMANY AND FRANCE

7. **DEGREE OF IMPACT :**

- HIGH
- NEW MARKET SEGMENT COULD BE CREATED

1. **NUMBER :**

2.3

2. **NAME :**

VEGETABLE FATS

3. **SECTOR :**

ICE CREAM

4. **COUNTRIES ENFORCING BARRIER :**

- FRANCE
- GERMANY

5. **DESCRIPTION :**

- FROZEN MILK-BASED DESERT PRODUCTS CONTAINING VEGETABLE FATS CANNOT BE SOLD IN GERMANY OR FRANCE UNDER THE NAME ICE-CREAM
- REGULATION WAS CREATED TO PROTECT CONSUMERS

6. **IMPACT :**

- FOREIGN ICE-CREAM MAKERS WHO USE VEGETABLE FATS CANNOT SELL THE PRODUCT UNDER THE GENERIC NAME "ICE-CREAM"
- USE OF ANIMAL FATS-ONLY IS MORE EXPENSIVE THAN USING SOME VEGETABLE FATS
- COUNTRIES MOST AFFECTED : U.K.

7. **DEGREE OF IMPACT :**

- HIGH
- NEW MARKET SEGMENT WOULD LIKELY BE CREATED IN FRANCE AND GERMANY IF BARRIERS WERE REMOVED.



1. **NUMBER :**

2.4

2. **NAME :**

CITRUS FRUIT JUICE CONTENT

3. **SECTOR :**

SOFT DRINKS

4. **COUNTRIES ENFORCING BARRIER :**

- ITALY
- FRANCE
- SPAIN

5. **DESCRIPTION :**

- **MINIMUM PORTION OF FRUIT JUICE IN SOFT DRINKS**
  - ITALY : 12 %
  - FRANCE : 10 %
  - SPAIN : 8 %, EXCEPT LEMON (6 %), PINEAPPLE (4 %)
- **IN ITALY, LAW WAS CREATED TO MAXIMIZE USE OF CITRUS PRODUCTS. PRODUCTS WITH LESS THAN 12 % FRUIT JUICE MUST NOT CONTAIN ANY REFERENCE TO FRUIT ON PRODUCT PACKAGE**

6. **IMPACT :**

- **FOREIGN SOFT DRINK PRODUCERS MUST CHANGE RECIPES WHICH INCREASES THEIR COSTS**
- **COSTS TO THE CONSUMER INCREASES, AND PRODUCT CHOICE IS LIMITED**

7. **DEGREE OF IMPACT :**

- **MEDIUM**
- **NEW PRODUCT SEGMENT COULD BE CREATED**

1. **NUMBER** :

2.5

2. **NAME** :

CHOCOLATA A LA TASSA

3. **SECTOR** :

CHOCOLATE

4. **COUNTRIES ENFORCING BARRIER** :

ALL EEC COUNTRIES EXCEPT SPAIN

5. **DESCRIPTION** :

- CHOCOLATA A LA TASSA IS A TRADITIONAL HOT CHOCOLATE DRINK IN SPAIN. THE CHOCOLATE CONTAINS FLOUR TO IMPROVE ITS CONSISTENCY.
- IN OTHER EEC COUNTRIES, THIS PRODUCT, WHICH IS PURCHASED IN BAR FORM, CANNOT BE CALLED "CHOCOLATE".

6. **IMPACT** :

- INCREASES COST TO SPANISH CHOCOLATE MANUFACTURERS WISHING TO EXPORT PRODUCT.

7. **DEGREE OF IMPACT** :

- MEDIUM
- ELIMINATION OF BARRIER COULD CREATE A NEW PRODUCT SEGMENT

1. **NUMBER :**

2.6

2. **NAME :**

SACCHARIMETRIC CONTENT

3. **SECTOR :**

BEER

4. **COUNTRIES ENFORCING BARRIER :**

- ITALY
- SPAIN
- GREECE

5. **DESCRIPTION :**

- NO "BEER" MAY BE SOLD WHICH HAS A SACCHARIMETRIC DEGREE IN VOLUME LESS THAN
  - 11 : ITALY AND SPAIN
  - 11.5 : GREECE.
- THE DENOMINATION "BEER" CANNOT BE USED FOR THOSE PRODUCTS NOT MEETING THIS REQUIREMENT.

6. **IMPACT :**

- INCREASE COSTS TO EXPORTERS WHO HAVE TO CHANGE THEIR LABELLING AND/OR BREWING PROCEDURES.
- RESTRICT THE CONSUMER'S CHOICE OF "BEER" WITH A LOWER SACCHARIMETRIC DEGREE.

7. **DEGREE OF IMPACT :**

- MEDIUM
- ELIMINATION OF BARRIER COULD LEAD TO A NEW PRODUCT SEGMENT

1. **NUMBER** : 2.7

2. **NAME** :

FRUIT BASED SYRUPS

3. **SECTOR** :

SOFT DRINKS

4. **COUNTRIES ENFORCING BARRIER** :

- ITALY

5. **DESCRIPTION** :

- LEGAL DENOMINATION AND CONTENT ARE SET BY A ROYAL DECREE DATED 1925. UNDER THIS DECREE, THE MAXIMUM QUANTITY OF GLUCOSE SYRUP ALLOWED IN THE TOTAL PREPARATION EQUALS 25%. THIS LAW WAS ENFORCED TO PROTECT NATIONAL ECONOMIC INTERESTS.
- FRENCH SOFT DRINKS ALLOW A MUCH HIGHER PERCENTAGE OF GLUCOSE SYRUPS.

6. **IMPACT** :

- RESTRICTS IMPORTS FROM FRANCE.
- INCREASES COSTS TO EXPORTERS WHO HAVE TO CHANGE THEIR RECIPE.

7. **DEGREE OF IMPACT** :

- MEDIUM
- NEW PRODUCT SEGMENT COULD BE CREATED

1. **NUMBER** :

2.8

2. **NAME** :

PUR BEURRE

3. **SECTOR** :

BISCUITS AND CAKE

4. **COUNTRIES ENFORCING BARRIER** :

- FRANCE
- GERMANY
- BELGIUM

5. **DESCRIPTION** :

- "PUR BEURRE" TERMINOLOGY MEANS DIFFERENT THINGS IN DIFFERENT COUNTRIES :
  - FRANCE : 100 % BUTTER FAT --- NO VEGETABLE FAT
  - GERMANY : BUTTER FAT IS 10 % OF WEIGHT
  - BELGIUM : 50 % BUTTER FATS.
- IF PRODUCTS DO NOT COMPLY WITH THESE RULES, THE TERM "PUR BEURRE" CANNOT BE USED

6. **IMPACT** :

- FORCES PRODUCERS/EXPORTERS TO CHANGE RECIPES
- INCREASES PRODUCTION COSTS.

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER :**

2.9

2. **NAME :**

ARTIFICIAL SWEETENER CLASSIFICATION

3. **SECTOR :**

SOFT DRINKS

4. **COUNTRIES ENFORCING BARRIER :**

ITALY

5. **DESCRIPTION :**

- ALL ARTIFICIAL SWEETENERS CONTAINED IN SOFT DRINKS (SUCH AS ASPARTAME) ARE CONSIDERED DIETETIC PRODUCTS.

6. **IMPACT :**

- SOFT DRINKS PRODUCERS OF EXPORTING COUNTRIES HAVE TO COMPLY WITH ITALIAN DIETETIC PRODUCT RULES, E.G. SPECIAL LABELLING RULES.

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER** :

2.10

2. **NAME** :

EGG CONTENT

3. **SECTOR** :

BISCUITS

4. **COUNTRIES ENFORCING BARRIER** :

GERMANY

5. **DESCRIPTION** :

- MINIMUM EGG CONTENT FOR A "BISCUIT A LA CUILLER" IS 0.25 G/BISCUIT IN GERMANY, WHEREAS IN FRANCE IT IS 0.24 G/BISCUIT.

6. **IMPACT** :

- INCREASES COSTS TO FRENCH PRODUCERS WHO WISH TO EXPORT TO GERMANY.

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER** :

2.11

2. **NAME** :

MARZIPAN

3. **SECTOR** :

BISCUITS AND CAKE

4. **COUNTRIES ENFORCING BARRIER** :

GERMANY

5. **DESCRIPTION** :

- IN GERMANY, MARZIPAN MUST HAVE A MINIMUM CONTENT OF ALMONDS.
- IN DENMARK THE DEFINITION OF MARZIPAN IS NOT AS STRICT

6. **IMPACT** :

- INCREASES COSTS TO DANISH PRODUCERS WHO WISH TO EXPORT TO GERMANY.

7. **DEGREE OF IMPACT** :

- LOW



1. **NUMBER** :

2.12

2. **NAME** :

PRALINE

3. **SECTOR** :

BISCUITS

4. **COUNTRIES ENFORCING BARRIER** :

FRANCE

5. **DESCRIPTION** :

- IN FRANCE, IN ORDER TO CALL SOMETHING A "PRALINE" IT MUST CONTAIN AT LEAST 24 % DRIED FRUIT.

6. **IMPACT** :

- INCREASES LABELLING COSTS TO PRODUCERS/EXPORTERS
- PREVENTS PRODUCERS/EXPORTERS FROM MAINTAINING A COMMON LABELLING POLICY

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER** :

2.13

2. **NAME** :

LEMONADE

3. **SECTOR** :

SOFT DRINKS

4. **COUNTRIES ENFORCING BARRIER** :

- FRANCE

5. **DESCRIPTION** :

- LEMONADE IN BELGIUM MEANS SOFT DRINK WHEREAS IN FRANCE IT MEANS A CITRUS BASED DRINK.

6. **IMPACT** :

- COULD INCREASE LABELLING COSTS TO FRENCH/BELGIUM EXPORTERS.

7. **DEGREE OF IMPACT** :

- LOW
- IMPACT MUST BE MINIMAL GIVEN THAT EXPORTERS WILL WISH TO USE THE LABEL THAT CONSUMERS MOST CLOSELY ASSOCIATE WITH A PRODUCT.

1. **NUMBER** :

2.14

2. **NAME** :

MADELEINE

3. **SECTOR** :

CAKE

4. **COUNTRIES ENFORCING BARRIER** :

UK

5. **DESCRIPTION** :

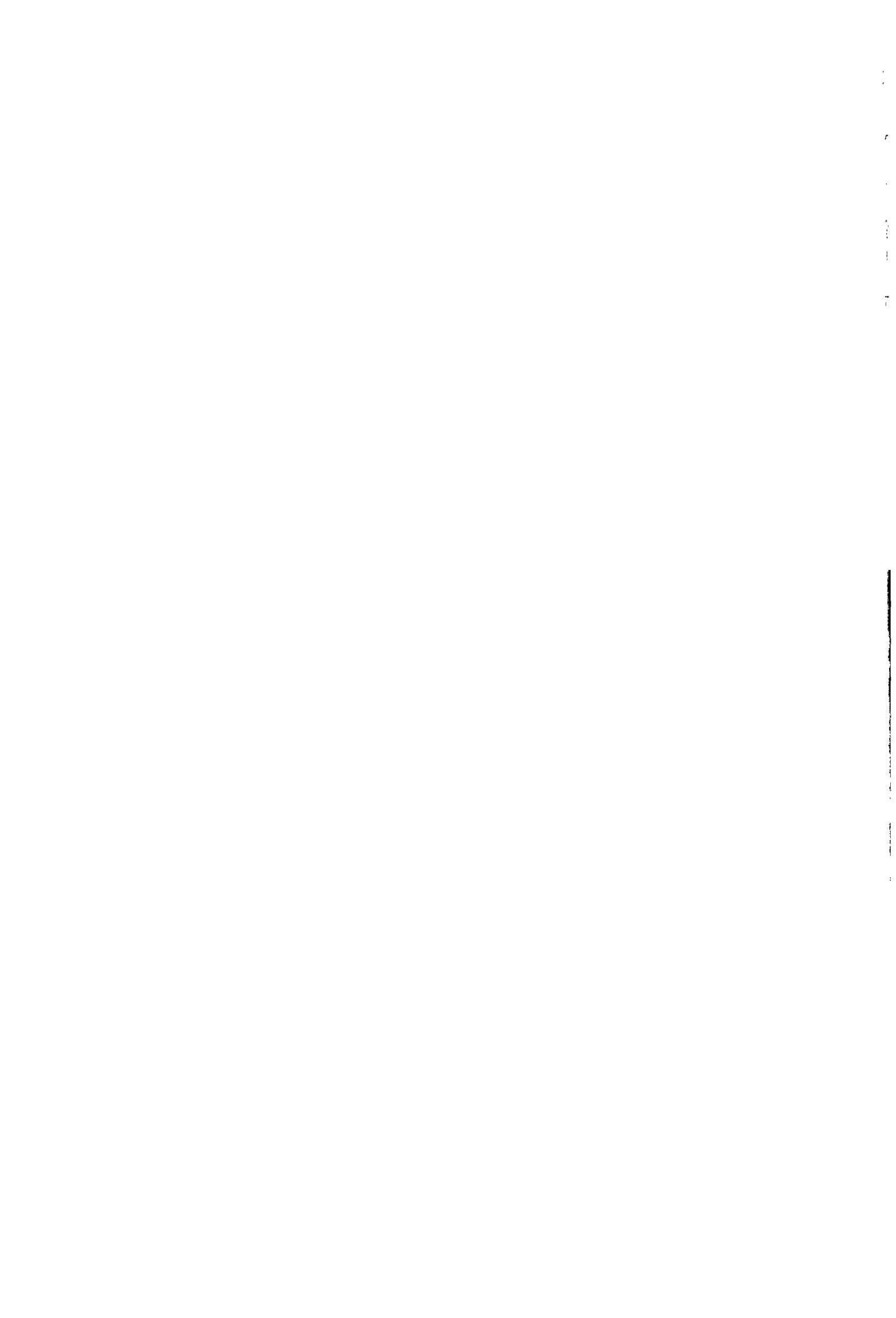
- MADELEINE IN FRANCE DOES NOT MEAN THE SAME AS IN THE UK, WHERE IT MEANS CURRENT CAKE.

6. **IMPACT** :

- PREVENTS PRODUCER/EXPORTERS FROM MAINTAINING A COMMON LABELING POLICY.

7. **DEGREE OF IMPACT** :

- LOW



### **3. PACKAGING/LABELING**

1. **NUMBER :**

3.1

2. **NAME :**

RECYCLING

3. **SECTOR :**

SOFT DRINKS, BEER AND MINERAL WATER

4. **COUNTRIES ENFORCING BARRIER :**

DENMARK

5. **DESCRIPTION :**

- NO CANS ARE ALLOWED IN DENMARK
- ALL BOTTLES MUST BE REFILLABLE AND CORRESPOND TO DANISH STANDARDS

6. **IMPACT :**

- INCREASES DISTRIBUTION COSTS
  1. RECYCLING SYSTEM IS NEEDED
  2. BOTTLES MUST BE SHIPPED BACK TO BOTTLING PLANT
  3. LABELS MUST BE CHANGED
- THESE COSTS, ESPECIALLY (2), WILL ADVERSELY AFFECT FOREIGN PRODUCERS, WHO IN GENERAL MUST SHIP BEVERAGES OVER LONGER DISTANCES THAN DOMESTIC PRODUCERS.

7. **DEGREE OF IMPACT :**

- HIGH
- CASE HAS BEEN TAKEN TO THE EUROPEAN COURT OF JUSTICE.

1. **NUMBER :**

3.2

2. **NAME :**

"SPRING WATER BULK TRANSPORT"

3. **SECTOR :**

MINERAL WATER

4. **COUNTRIES ENFORCING BARRIER :**

ALL EEC COUNTRIES EXCEPT THE NETHERLANDS AND THE U.K.

5. **DESCRIPTION :**

- BULK TRANSPORT OF SPRING WATER IS FORBIDDEN IN ALL EEC COUNTRIES EXCEPT U.K. AND NETHERLANDS

6. **IMPACT :**

- LIMITS TRADE (WITHIN AND BETWEEN COUNTRIES) IN SPRING WATER.

7. **DEGREE OF IMPACT :**

- HIGH
- ELIMINATION OF BARRIER COULD CAUSE A RESTRUCTURING OF WATER CONSUMPTION IN MAJOR COUNTRIES IN FAVOR OF SPRING WATER

1. **NUMBER :**

3.3

2. **NAME :**

LABEL DETAIL

3. **SECTOR :**

ALL

4. **COUNTRIES ENFORCING BARRIER :**

SPAIN

5. **DESCRIPTION :**

SPAIN REQUIRES THE FOLLOWING INFORMATION ON LABELS IN SPANISH :

- DEFINITION OF THE PRODUCT
- LIST OF INGREDIENTS AND ADDITIVES
- NET WEIGHT (IN A DIFFERENT WAY FROM THE EEC RULES ; I.E. : 500 GR IS NOT ENOUGH)
- NUMBER OF UNITS (IF POSSIBLE).
- CONSUMPTION DATE (BEST BEFORE DATE).
- CONSERVATION INSTRUCTIONS.
- MANUFACTURER'S NAME.
- IMPORTER'S NAME.
- MANUFACTURING LOT NUMBER.
- COUNTRY OF ORIGIN.
- HEALTH REGISTRATION NUMBER.

SOME OF THESE REQUIREMENTS ARE NOT SPECIFIED IN THE EEC LABELING DIRECTIVE (79/112/EEC) NOTABLY THE HEALTH REGISTRATION NUMBER.

6. **IMPACT :**

- INCREASES COST TO PRODUCERS WHO WISH TO EXPORT TO SPAIN.
- PREVENTS PRODUCERS FROM MAINTAINING UNIFORM LABELLING POLICY.

7. **DEGREE OF IMPACT :**

- MEDIUM



1. **NUMBER :**

3.4

2. **NAME :**

USE OF NATIONAL LANGUAGE ON LABELS

3. **SECTOR :**

ALL SECTORS

4. **COUNTRIES ENFORCING BARRIER :**

ITALY

5. **DESCRIPTION :**

- THE ITALIAN GOVERNMENT HAS RULED THAT THE ITALIAN LANGUAGE MUST BE USED IN ALL LEGAL DESCRIPTIONS OF PRODUCTS. FURTHERMORE, WHEN THESE DESCRIPTIONS ARE PRESENT IN ANOTHER LANGUAGE (WHICH IS A NORMAL OCCURRENCE) THE PRINTING CHARACTER OF THE ITALIAN WORDS MUST BE EQUAL TO OR LARGER THAN THE ONE USED FOR THE OTHER LANGUAGES.
- PACKAGING FORCES MOST FOREIGN PRODUCERS TO CHANGE THEIR MULTILINGUAL LAYOUTS.

6. **IMPACT :**

- EXPENDITURES BY PRODUCERS TO COMPLY WITH LABEL RESTRICTION.
- COUNTRIES AFFECTED : ALL EEC COUNTRIES.

7. **DEGREE OF IMPACT :**

- MEDIUM

1. **NUMBER** :

3.5

2. **NAME** :

GERMAN WATER BOTTLES

3. **SECTOR** :

MINERAL WATER

4. **COUNTRIES ENFORCING BARRIER** :

GERMANY

5. **DESCRIPTION** :

- GERMAN MINERAL WATER PRODUCERS ALL USE THE SAME TYPE OF BOTTLE FOR THEIR RECYCLING BOTTLES. "GERMAN MINERAL WATER" IS WRITTEN ON THE BOTTLE ITSELF.
- FOREIGN PRODUCERS (EG. SPA, BELGIUM) ARE NOT PERMITTED TO USE THIS BOTTLE, AND THEREFORE CANNOT PARTICIPATE IN THE RECYCLING SYSTEMS IN PLACE IN GERMANY.

6. **IMPACT** :

- FOREIGN PRODUCERS CANNOT PARTICIPATE IN THE RECYCLING MARKET, WHICH ACCOUNTS FOR 90 % OF THE MINERAL WATER MARKET IN GERMANY.

7. **DEGREE OF IMPACT** :

- MEDIUM
- FOREIGN PRODUCERS COULD ENTER GERMAN MARKETS, THEREBY INCREASING COMPETITION AND AUGMENTING CONSUMER CHOICE.

1. **NUMBER** :

3.6

2. **NAME** :

PLASTIC CONTAINERS

3. **SECTOR** :

MINERAL WATER

4. **COUNTRIES ENFORCING BARRIER** :

ITALY (ONLY IN CERTAIN MUNICIPALITIES)

5. **DESCRIPTION** :

- ANY DRINK IN A PLASTIC CONTAINER IS PROHIBITED IN CERTAIN MUNICIPALITIES.
- REASON : ENVIRONMENTAL AND HEALTH PROTECTION.

6. **IMPACT** :

- RESTRICTS MINERAL WATER EXPORTS TO THESE MUNICIPALITIES
- COUNTRIES MOST AFFECTED : FRANCE

7. **DEGREE OF IMPACT** :

- MEDIUM

1. **NUMBER** :

3.7

2. **NAME** :

LOCAL BOTTLING

3. **SECTOR** :

- BEER
- SOFT DRINKS
- MINERAL WATER

4. **COUNTRIES ENFORCING BARRIER** :

SPAIN

5. **DESCRIPTION** :

- THESE PRODUCTS CANNOT BE BROUGHT INTO THE COUNTRY IN BULK CONTAINERS AND BOTTLED LOCALLY
- THEY MUST ENTER SPAIN ALREADY IN BOTTLED FORM WITH LABELS.

6. **IMPACT** :

- PREVENTS POSSIBLE IMPORT STRATEGY OF SHIPPING BEVERAGES IN BULK FORM
- INCREASES COSTS TO PRODUCERS OF PRODUCTS WHO WISH TO EXPORT TO SPAIN.

7. **DEGREE OF IMPACT** :

- MEDIUM

1. **NUMBER** :

3.8

2. **NAME** :

RESTRICTION OF ADVERTISING ON THE LABEL

3. **SECTOR** :

GENERAL

4. **COUNTRIES ENFORCING BARRIER** :

SPAIN

5. **DESCRIPTION** :

LABEL ADVERTISING IS VERY STRICT. IT CANNOT EXPRESS BY WORD, SIGN, OR DRAWING :

- (1) ANY CHARACTERISTIC THAT THE PRODUCT DOES NOT HAVE ;
- (2) ANY SUGGESTION THAT THE PRODUCT HAS SPECIFIC CHARACTERISTICS WHICH, IN FACT, ARE COMMON TO SIMILAR PRODUCTS ;
- (3) ANY SUGGESTION THAT MIGHT MAKE THE IDENTIFICATION OF THE PRODUCT UNCLEAR.

6. **IMPACT** :

- PREVENTS PRODUCERS FROM MAINTAINING A UNIFORM EEC LABELLING POLICY.
- THIS BARRIER HAS LIMITED THE ENTRY OF A FRENCH PRODUCED SOFT-DRINK WHOSE LABEL STATED "MAXIMUM ENERGY".

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER** :

3.9

2. **NAME** :

OVER THREE LITERS PROHIBITION

3. **SECTOR** :

- SPIRITS

4. **COUNTRIES ENFORCING BARRIER** :

SPAIN

5. **DESCRIPTION** :

- LIQUORS SHOULD BE IMPORTED IN BOTTLES OF THREE LITERS OR LESS. MORE THAN THREE LITERS IS CONSIDERED "BULK IMPORT" WHICH IS CURRENTLY FORBIDDEN.

6. **IMPACT** :

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER** :

3.10

2. **NAME** :

175 GRAMS

3. **SECTOR** :

BISCUITS

4. **COUNTRIES ENFORCING BARRIER** :

UK

5. **DESCRIPTION** :

- 175 G PACKETS OF BISCUITS ARE PRODUCED ON THE CONTINENT AND CANNOT BE SOLD IN THE UK.
- REASON : TO GIVE CONSUMERS A MEANS OF COMPARING PRODUCTS.

6. **IMPACT** :

- COULD PREVENT SOME PRODUCERS FROM PENETRATING UK MARKET.

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER :**

3.11

2. **NAME :**

BOTTLE SIZES

3. **SECTOR :**

SPIRITS

4. **COUNTRIES ENFORCING BARRIER :**

- FRANCE
- GERMANY

5. **DESCRIPTION :**

- EACH COUNTRY IN THE EEC USES DIFFERENT STANDARD BOTTLE SIZES FOR SPIRITS AND WINES
- EX : .FRANCE AND GERMANY REQUIRE SPIRITS TO BE SOLD IN 70 CL SIZE, WHEREAS SCOTCH WHISKY IS SOLD IN THE 75 CL SIZE.

6. **IMPACT :**

- INCREASES BOTTLING COSTS FOR EXPORTERS WHO MUST HAVE MULTIPLE SIZE BOTTLING PLANT.

7. **DEGREE OF IMPACT :**

- LOW



1. **NUMBER :**

3.12

2. **NAME :**

NO REFILLS

3. **SECTOR :**

SPIRITS

4. **COUNTRIES ENFORCING BARRIER :**

SPAIN

5. **DESCRIPTION :**

- BOTTLES OF SCOTCH WHISKY SHOULD BE MADE SO THEY MAY NOT BE REFILLED.

6. **IMPACT :**

- INCREASES COST TO UK WHISKY PRODUCERS.

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER** :

3.13

2. **NAME** :

BEER TYPES

3. **SECTOR** :

BEER

4. **COUNTRIES ENFORCING BARRIER** :

ITALY

5. **DESCRIPTION** :

- THE CONTAINERS MUST REPORT EITHER ON THE LABELS OR ON THE CAPS THE DENOMINATION OF THE TYPE OF BEER CONTAINED, IN TERMS OF ITS SACCHARIMETRIC CONTENT.
- THE CLASSIFICATION IS THE FOLLOWING :
  - BEER : THE SACCHARIMETRIC DEGREE IN VOLUME IS >11
  - SPECIAL BEER : " " " " " " >13
  - DOUBLE MALT BEER : " " " " " " >15

6. **IMPACT** :

- EACH COUNTRY EXPORTING TO ITALY HAS TO MATCH ITS PRODUCTION/LABELLING PROCESS TO THESE THREE CATEGORIES.
- ADDITIONAL LABELING REQUIREMENT OVER AND ABOVE THE EEC LABELING DIRECTIVE.

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER** :

3.14

2. **NAME** :

INGREDIENT CATEGORIES

3. **SECTOR** :

ALL SECTORS

4. **COUNTRIES ENFORCING BARRIER** :

UK

5. **DESCRIPTION** :

- THE UK IS MORE STRINGENT THAN OTHER MEMBER STATES IN TERMS OF LABELING OF INGREDIENTS.
- ADDITIVES MUST BE CATEGORIZED INTO 19 DIFFERENT CLASSES : EG THICKENERS, FLAVORINGS, COLORANTS, ETC.

6. **IMPACT** :

- INCREASES LABELLING COSTS TO PRODUCERS/IMPORTERS.

7. **DEGREE OF IMPACT** :

- LOW

1. NUMBER :

3.15

2. NAME :

STICKER PROHIBITION

3. SECTOR :

CHOCOLATE/CONFECTIONERY

4. COUNTRIES ENFORCING BARRIER :

SPAIN

5. DESCRIPTION :

- USE OF A "STICKER" TO FULFILL LABELLING REQUIREMENTS IS NOT PERMITTED DUE TO THE SMALL SIZE OF THE PACKAGE.

6. IMPACT :

- WOULD INCREASE THE COSTS OF AN IMPORTER.

7. DEGREE OF IMPACT :

- LOW

1. **NUMBER** :

3.16

2. **NAME** :

LEAD SOLDERING

3. **SECTOR** :

- BISCUITS, CHOCOLATE, CONFECTIONERY

4. **COUNTRIES ENFORCING BARRIER** :

ITALY

5. **DESCRIPTION** :

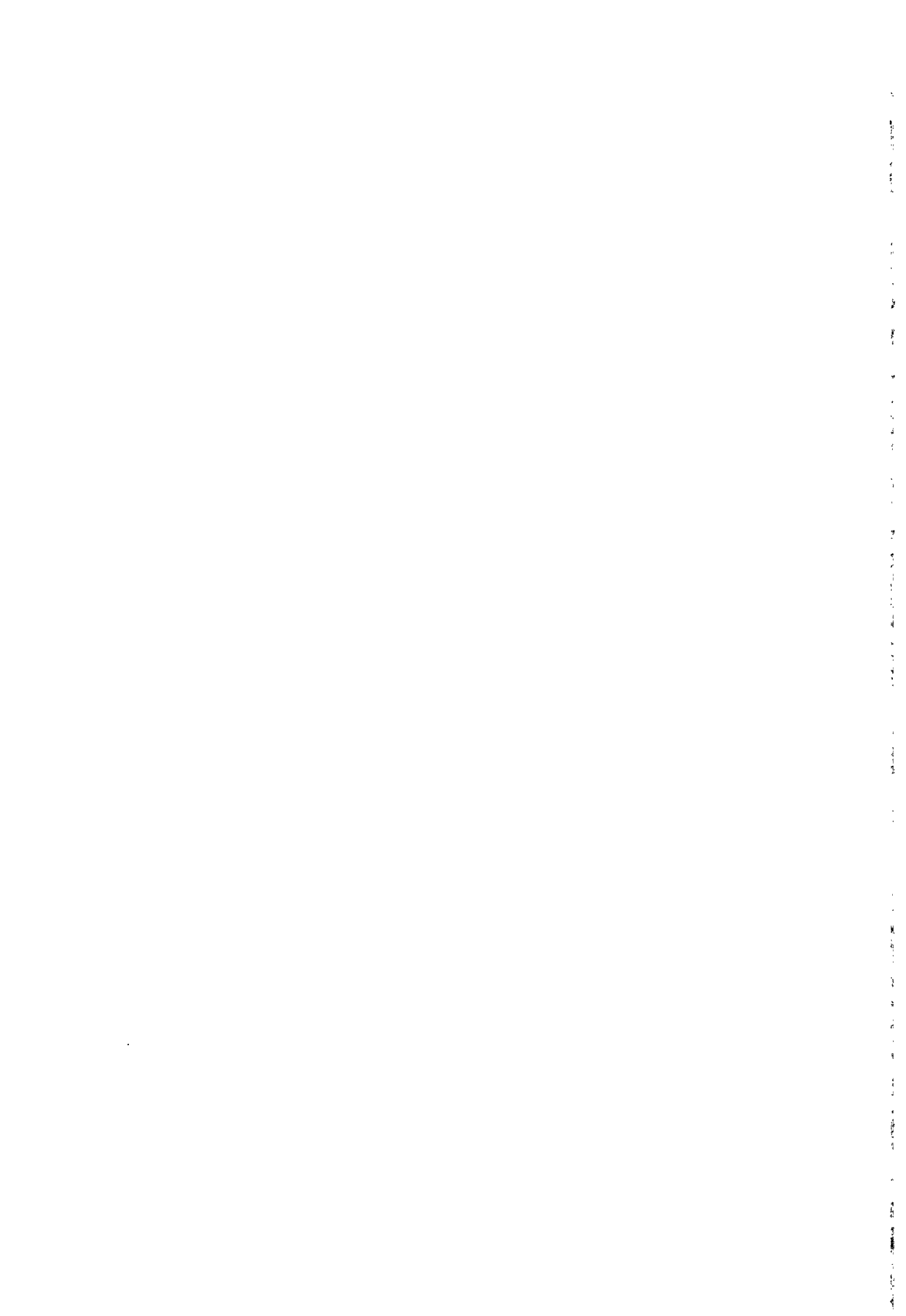
- A DECREE OF THE ITALIAN HEALTH DEPARTMENT, DATED FEBRUARY 18, 1984 SETS THE CHARACTERISTICS OF TIN CONTAINERS COMING IN CONTACT WITH FOOD, AND STRICTLY LIMITS THE AMOUNT OF LEAD WHICH ENTERS THE FOOD.

6. **IMPACT** :

- AS THERE SEEMS TO BE NO EEC DIRECTIVE ON THE SUBJECT, IT IS REASONABLE TO ASSUME THAT MANY PRODUCTS CONTAINED IN TINS DO NOT CONFORM WITH THIS LAW.
- THE IMPLICATION IS : COSTLY CONTROLS UNDERTAKEN BY THE IMPORTER IN ORDER TO ASCERTAIN THE SUITABILITY OF PRODUCTS ON THE NATIONAL MARKET.

7. **DEGREE OF IMPACT** :

- LOW



## **4. FISCAL DISCRIMINATION**

1. NUMBER :

4.1

2. NAME :

WORT EXCISE TAX

3. SECTOR :

BEER

4. COUNTRIES ENFORCING BARRIER :

- IRELAND
- ITALY
- BELGIUM
- LUXEMBURG
- NETHERLANDS
- UK

5. DESCRIPTION :

- TWO METHODS ARE USED TO LEVY EXCISE TAXES ON BEER :
  - 1) TAXATION OF THE FINISHED PRODUCT,
  - 2) TAXATION OF THE FERMENTATION VOLUME OR "WORT".
- THE ABOVE MENTIONED COUNTRIES LEVY EXCISE TAX ON BEER USING WORTS METHOD, I.E. BASED ON FERMENTATION VOLUME MINUS A WASTAGE FACTOR.
- BUT PRODUCERS CAN ROUTINELY BEAT THE WASTE FACTOR WHICH VARIES BY COUNTRY :
 

- IRELAND	: 6%	- BELGIUM	: 10 %
- UK	: 6%	- NETHERLANDS	: 10 %
- ITALY	: 10%		

6. IMPACT :

- COMPANIES TRYING TO EXPORT TO THESE COUNTRIES MAY BE DISADVANTAGED IF THEY ARE TAXED AT A HIGHER EFFECTIVE RATE IN THEIR HOME COUNTRY.
- COUNTRIES MOST AFFECTED : DENMARK.

7. DEGREE OF IMPACT :

- HIGH
- CASE IS BEING CONSIDERED BEFORE THE EUROPEAN COURT.  
REFERENCE NUMBER : A 157/83



1. **NUMBER** :

4.2

2. **NAME** :

DOM RUM

3. **SECTOR** :

SPIRITS

4. **COUNTRIES ENFORCING BARRIER** :

FRANCE

5. **DESCRIPTION** :

- FRENCH DOM RUM IS TAXED AT 4405 FF/HL ---WITHIN A QUOTA OF 204 HL.
- SPANISH AND WEST INDIAN RUM IS TAXED AT 7655 FF/HL.

6. **IMPACT** :

- ADVERSELY AFFECTS SPANISH RUM PRODUCERS.

7. **DEGREE OF IMPACT** :

- MEDIUM

1. **NUMBER :**

4.3

2. **NAME :**

SOUP TAX

3. **SECTOR :**

SOUP

4. **COUNTRIES ENFORCING BARRIER :**

ITALY

5. **DESCRIPTION :**

- SPECIFIC DECREE OF THE MINISTRY OF HEALTH APPLICABLE TO PRODUCERS AND IMPORTERS.
- THIS DECREE SETS A FIXED ANNUAL TAX TO BE PAID IN ORDER TO OBTAIN THE AUTHORIZATION FOR A COMMERCIALIZATION.

6. **IMPACT :**

- SINCE ITALY'S SOUP PRODUCTION IS VERY LOW, THE RESTRICTION APPLIES MAINLY TO IMPORTERS.

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER :**

4.4

2. **NAME :**

BORDER TAX

3. **SECTOR :**

BEER

4. **COUNTRIES ENFORCING BARRIER :**

ITALY

5. **DESCRIPTION :**

- TO IMPORT BEER IN BARRELS, ONE MUST PAY A SUM FOR THE BARREL AT THE FRONTIER AS A GUARANTEE.
- THIS SUM WILL BE REIMBURSED WHEN THE BARREL (EMPTY) LEAVES THE COUNTRY :
  - 6,000 LIT FOR A BARREL CONTAINING 30 LITERS OF BEER
  - 9,000 LIT FOR A BARREL CONTAINING 40 LITERS OF BEER.

6. **IMPACT :**

- TIES FUNDS UP FOR THE IMPORTER .

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER :**

4.5

2. **NAME :**

PASTA TAX

3. **SECTOR :**

PASTA

4. **COUNTRIES ENFORCING BARRIER :**

FRANCE

5. **DESCRIPTION :**

- FRANCE TAXES ITALIAN PASTA 18 CENTIMES/KILO.
- TAX IS THEN RETURNED TO IMPORTER.

6. **IMPACT :**

- IMPEDES IMPORTS FROM ITALY TO FRANCE.

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER** :

4.6

2. **NAME** :

SPECIFIC TAX

3. **SECTOR** :

MINERAL WATER

4. **COUNTRIES ENFORCING BARRIER** :

DENMARK

5. **DESCRIPTION** :

- SPECIFIC TAXES (MUNICIPAL/STATE) ARE DIFFERENT FROM COUNTRY TO COUNTRY (UP TO 5 % OF SALES IN FRANCE)
- IN DENMARK, THE TAX DIFFERENTIAL IS IMPORTANT (UP TO 10 %).

6. **IMPACT** :

- THE DANISH MINERAL WATER INDUSTRY IS LESS COMPETITIVE THAN ITS DIRECT COMPETITORS.
- COUNTRIES AFFECTED : DENMARK.

7. **DEGREE OF IMPACT** :

- LOW
- THE DANISH POTENTIAL FOR CONSUMPTION IS LOW

1. **NUMBER :**

4.7

2. **NAME :**

SPECIFIC TAX

3. **SECTOR :**

BISCUITS, CHOCOLATE, CONFECTIONERY INDUSTRIAL PASTRY

4. **COUNTRIES ENFORCING BARRIER :**

ITALY

5. **DESCRIPTION :**

- INGREDIENTS SUCH AS INVERTED SUGAR, GLUCOSE, COCOA, COCOA BUTTER ARE SUBJECT TO PAYMENT OF TAX. PRODUCTS CONTAINING THE ABOVE INGREDIENTS ARE SUBJECT TO DIFFERENT TAXES ACCORDING TO THE PERCENTAGE OF CONTENT. FOR EXAMPLE : A SWEET CONTAINING 3 % OF SUGAR PAYS LESS TAX THAN ONE CONTAINING 5 %, ETC..

6. **IMPACT :**

- THOUGH THIS TAX DOES NOT DISCRIMINATE BETWEEN FOREIGN PRODUCTS AND DOMESTIC ONES, IT DOES CREATE A BARRIER IN THAT IMPORTERS MUST OBTAIN VERY PRECISE DOCUMENTS DECLARING THE COMPOSITION OF THE GOODS THAT ARE SUBJECT TO THIS TAX.

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER :**

4.8

2. **NAME :**

DUTY STAMPS

3. **SECTOR :**

SPIRITS

4. **COUNTRIES ENFORCING BARRIER :**

ITALY

5. **DESCRIPTION :**

- ITALIAN LAW REQUIRES A DUTY STAMP TO BE APPLIED ON BOTTLES. ALTHOUGH THIS LAW DOES NOT DISCRIMINATE BETWEEN NATIONAL AND FOREIGN PRODUCTS, IT REPRESENTS AN UNNECESSARY COMPLICATION.

REASONS FOR THE LAW :

- TO STAMP OUT THE ILLEGAL SMUGGLING OF ALCOHOL IN THE COUNTRY.

- THIS DECREE SETS A FIXED ANNUAL TAX TO BE PAID IN ORDER TO OBTAIN THE AUTHORIZATION FOR COMMERCIALIZATION.

6. **IMPACT :**

- THE IMPORTER HAS TO GO THROUGH ADDITIONAL PAPERWORK IN ORDER TO OBTAIN, PAY AND DISPATCH THE STAMPS TO THE PRODUCERS.

7. **DEGREE OF IMPACT :**

- LOW





## **5. SPECIFIC IMPORTING RESTRICTIONS**

1. **NUMBER** :

5.1

2. **NAME** :

DOUBLE INSPECTION

3. **SECTOR** :

SPIRITS

4. **COUNTRIES ENFORCING BARRIER** :

SPAIN

5. **DESCRIPTION** :

- ANY IMPORTED CARGO HAS TO BE SEALED AND GO THROUGH A DOUBLE INSPECTION:  
1) ECONOMY (IMPORT DUTIES AND TAXES), AND (2) HEALTH (PRODUCT TESTING), EVEN THOUGH A HEALTH CERTIFICATION ISSUED BY THE EXPORTING COUNTRY'S HEALTH AUTHORITIES IS ALREADY REQUIRED.

6. **IMPACT** :

- CAUSES DELAYS OF 1-2 WEEKS.
- INCREASES COST TO SPIRIT PRODUCERS WISHING TO EXPORT TO SPAIN

7. **DEGREE OF IMPACT** :

- HIGH

1. **NUMBER** :

5.2

2. **NAME** :

HEALTH REGISTRATION

3. **SECTOR** :

ALL

4. **COUNTRIES ENFORCING BARRIER** :

SPAIN

5. **DESCRIPTION** :

- FOOD PRODUCTS MUST PASS A HEALTH INSPECTION AND RECEIVE A HEALTH REGISTRATION NUMBER BEFORE BEING ALLOWED INTO THE COUNTRY.
- THE HEALTH REGISTRATION NUMBER MUST BE PRINTED ON THE PACKAGE.

6. **IMPACT** :

- INCREASES COSTS TO IMPORTERS
- CAUSES A DELAY OF 3-5 WEEKS.

7. **DEGREE OF IMPACT** :

- HIGH

1. **NUMBER :**

5.3

2. **NAME :**

**MCA PAYMENT DELAYS**

(NOTE : MCA PAYMENT DELAYS APPLY TO MOST FOOD PRODUCTS. THIS SPECIFIC BARRIER IS SIMPLY AN EXAMPLE OF THE TYPE OF BARRIERS THE PROGRAM CREATES. FURTHERMORE, THIS BARRIER WILL NOT BE CONSIDERED IN THIS STUDY AS IT RESULTS DIRECTLY FROM THE CAP)

3. **SECTOR :**

BISCUITS

4. **COUNTRIES ENFORCING BARRIER :**

FRANCE

5. **DESCRIPTION :**

- ALL IMPORTERS OF BISCUITS HAVE TO MAKE A DEPOSIT OF UP TO 10 % ON THE VALUE OF THE BISCUITS IMPORTED..
- THE SUM IS RECOUPABLE SIX TO EIGHT MONTHS LATER AT THE "FONDS D'INTERVENTION ET DE REGULARISATION DU SUCRE" (FIRS).

6. **IMPACT :**

- THIS SYSTEM INCREASES THE PRODUCT'S IMPORT PRICE, AND SERVES TO PROTECT THE FRENCH BISCUIT INDUSTRY.
- COUNTRIES MOST AFFECTED : GERMANY, BELGIUM, ITALY.

7. **DEGREE OF IMPACT :**

- MEDIUM

1. **NUMBER** :

5.4

2. **NAME** :

**COMPENSATION DELAYS**

**(NOTE : MCA PAYMENT DELAYS APPLY TO MOST FOOD PRODUCTS. THIS SPECIFIC BARRIER IS SIMPLY AN EXAMPLE OF THE TYPE OF BARRIERS THE PROGRAM CREATES. FURTHERMORE, THIS BARRIER WILL NOT BE CONSIDERED IN THIS STUDY AS IT RESULTS DIRECTLY FROM THE CAP)**

3. **SECTOR** :

**BISCUITS, CHOCOLATE, PASTA**

4. **COUNTRIES ENFORCING BARRIER** :

**SPAIN**

5. **DESCRIPTION** :

- **MCM COMPENSATION DELAYS FOR THE IMPORTED PRODUCTS.**

6. **IMPACT** :

- **INCREASES COST TO PRODUCERS/IMPORTERS.**

7. **DEGREE OF IMPACT** :

- **MEDIUM**

1. **NUMBER :**

5.5

2. **NAME :**

2 LITRES

3. **SECTOR :**

MINERAL WATER

4. **COUNTRIES ENFORCING BARRIER :**

SPAIN

5. **DESCRIPTION :**

- ANY BOTTLE OVER 2 LITRES NEEDS A SPECIAL AUTHORIZATION BASED ON SANITATION REQUIREMENTS.

6. **IMPACT :**

- INCREASES COSTS AND CAUSES DELAYS FOR MINERAL WATER PRODUCERS WHO WISH TO EXPORT TO SPAIN.

7. **DEGREE OF IMPACT :**

- MEDIUM

1. **NUMBER** :

5.6

2. **NAME** :

IMPORT LICENSE

3. **SECTOR** :

- BISCUITS AND CAKE
- CHOCOLATE
- PASTA
- BABY FOOD
- SPIRITS
- ICE CREAM

4. **COUNTRIES ENFORCING BARRIER** :

SPAIN

5. **DESCRIPTION** :

- AN IMPORTING LICENSE IS REQUIRED.
- THE SPANISH CUSTOMS UNION REQUIRES THIS FOR STATISTICAL REASONS.

6. **IMPACT** :

- CAUSES A DELAY OF UP TO TWO WEEKS.
- INCREASES COST TO PRODUCERS WISHING TO EXPORT TO SPAIN.

7. **DEGREE OF IMPACT** :

- MEDIUM

1. **NUMBER :**

5.7

2. **NAME :**

SEA FREIGHT HEALTH ANALYSIS FEE

3. **SECTOR :**

- GENERAL, SEA IMPORTED FOOD AND BEVERAGES

4. **COUNTRIES ENFORCING BARRIER :**

SPAIN

5. **DESCRIPTION :**

- ALL FOOD AND BEVERAGES IMPORTED ARRIVING TO SPAIN BY SEA (NOT AIR OR LAND) MUST GO THROUGH A HEALTH ANALYSIS. THE IMPORTER HAS TO PAY A "HEALTH FEE" TO THE HEALTH AUTHORITIES PRIOR TO CLEARING THE GOODS THROUGH CUSTOMS.
- THE FEE IS A VARIABLE AMOUNT OF MONEY CALCULATED ON THE QUANTITY OF THE IMPORTED MERCHANDISE.

6. **IMPACT :**

- INCREASES COSTS FOR ALL SHIPPED (IMPORTED) FOOD AND BEVERAGES, ESPECIALLY THOSE ARRIVING FROM THE U.K. AND IRELAND SINCE THEY ARE SHIPPED TO SPAIN FOR TRANSPORTATION CONVENIENCE.
- SPIRITS IMPORTED FROM THE U.K. SHIPPED TO SPAIN MUST PAY PTAS. 96,80 PER CASE OF 12 BOTTLES. THE FEE IS CHARGED ACCORDING TO THE NUMBER OF CASES IMPORTED, NOT AS A PAYMENT OF WORK DONE OR DOCUMENTS ISSUED.

7. **DEGREE OF IMPACT :**

- MEDIUM



1. **NUMBER** :

5.8

2. **NAME** :

IMPORT DEPOSIT

3. **SECTOR** :

BISCUITS

4. **COUNTRIES ENFORCING BARRIER** :

GREECE

5. **DESCRIPTION** :

- IN 1983/84 EEC ALLOWED GREECE TO REQUIRE A DEPOSIT FROM IMPORTERS : 80% OF VALUE OF IMPORTS.
- DEPOSIT IS HELD BY THE BANK OF GREECE FOR 6 MONTHS.

6. **IMPACT** :

- INCREASES COST TO PRODUCERS WISHING TO EXPORT TO GREECE, AS THEY LOSE INTEREST ON THE AMOUNT OF THE DEPOSIT.

7. **DEGREE OF IMPACT** :

- MEDIUM

1. **NUMBER :**

5.9

2. **NAME :**

IMPORTING CERTIFICATES

3. **SECTOR :**

- BEER
- SPIRITS

4. **COUNTRIES ENFORCING BARRIER :**

ITALY

5. **DESCRIPTION :**

- BEER AND SPIRIT IMPORTS MUST BE ACCOMPANIED BY AN IMPORTING CERTIFICATE, WHICH CERTIFIES THE PRODUCT CONFORMS WITH ITALIAN LEGISLATION.
- THESE CERTIFICATES CAN BE OBTAINED WITHIN THE EXPORTING COUNTRY FROM INSTITUTIONS INDICATED BY THE ITALIAN GOVERNMENT.

6. **IMPACT :**

- DELAYS IN OBTAINING CLEARANCE.
- RED TAPE DIFFICULTIES
- COUNTRIES AFFECTED :
  - SPIRITS : UK, FRANCE,
  - BEER : UK, FRANCE, GERMANY, BELGIUM, HOLLAND

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER** :

5.10

2. **NAME** :

MARGIN LIMIT

3. **SECTOR** :

4. **COUNTRIES ENFORCING BARRIER** :

GREECE

5. **DESCRIPTION** :

- IMPORTERS CAN ONLY LEGALLY EARN A MARGIN OF 28% ON IMPORTED PRODUCTS.

6. **IMPACT** :

- REDUCES THE ATTRACTIVENESS OF IMPORTED PRODUCTS.

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER** :

5.11

2. **NAME** :

VIGNETTE SECURITE SOCIALE

3. **SECTOR** :

SPIRITS

4. **COUNTRIES ENFORCING BARRIER** :

FRANCE

5. **DESCRIPTION** :

- IMPORTED BOTTLES OF SPIRITS WHICH CONTAIN MORE THAN 25 DEGREES ALCOHOL MUST HAVE A STICKER, "VIGNETTE SECURITE SOCIALE".
- DESIGNED TO HELP FUND THE FRENCH SOCIAL SECURITY SYSTEM.

6. **IMPACT** :

- INCREASES TIME LAG FOR IMPORTERS OF SPIRITS.
- REDUCES THEIR FLEXIBILITY.

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER :**

5.12

2. **NAME :**

IMPORT CERTIFICATE

3. **SECTOR :**

SPIRITS

4. **COUNTRIES ENFORCING BARRIER :**

FRANCE

5. **DESCRIPTION :**

- ALL PORTO IMPORTS MUST HAVE A "CERTIFICAT D'IMPORTATION".

6. **IMPACT :**

- DISCRIMINATES AGAINST PORTO PRODUCERS.

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER** :

5.13

2. **NAME** :

SALES AUTHORIZATION

3. **SECTOR** :

BABY FOOD

4. **COUNTRIES ENFORCING BARRIER** :

ITALY

5. **DESCRIPTION** :

- SPECIAL SALES AUTHORIZATION, DELIVERED BY THE MINISTRY OF HEALTH, IS REQUIRED TO IMPORT AND SELL PRODUCTS.

6. **IMPACT** :

- THIS ONLY CONSTITUTES A MINOR CONSTRAINT, SINCE THERE IS ACTUALLY A EEC DIRECTIVE ALLOWING THE FREE CIRCULATION OF PRODUCTS IN THIS SECTOR.

7. **DEGREE OF IMPACT** :

- LOW

1. **NUMBER :**

5.14

2. **NAME :**

IRRADIATION

3. **SECTOR :**

4. **COUNTRIES ENFORCING BARRIER :**

- FRANCE
- GERMANY
- ITALY
- BELGIUM/NETHERLANDS

5. **DESCRIPTION :**

- DIFFERENT COUNTRIES HAVE DIFFERENT REGULATIONS
  - FRANCE : ILLEGAL
  - GERMANY : ILLEGAL
  - ITALY : ILLEGAL FOR SOME PRODUCTS
  - BELGIUM/NETHERLANDS : ILLEGAL FOR SOME PRODUCTS
  - SPAIN : LEGAL IF IT DOES NOT CHANGE THE ESSENTIAL CHARACTERISTICS OF THE PRODUCT.

6. **IMPACT :**

- COULD INCREASE A PRODUCER'S COSTS WHO WISHED TO EXPORT PRODUCTS TO COUNTRIES WITH MORE STRICT RESTRICTIONS.

7. **DEGREE OF IMPACT :**

- LOW

1. **NUMBER** :

5.15

2. **NAME** :

VETERINARIAN'S CERTIFICATE

3. **SECTOR** :

SOUP

4. **COUNTRIES ENFORCING BARRIER** :

UK

5. **DESCRIPTION** :

- SOUPS CONTAINING MEAT ARE SUBJECT TO STRICT UK MEAT REGULATIONS.
- IMPORTERS MUST OBTAIN A VETERINARIAN'S CERTIFICATE FROM THE PRODUCER CLAIMING THAT THE ANIMAL WAS KILLED UNDER PRESCRIBED CONDITIONS.

6. **IMPACT** :

- INCREASES COSTS TO CONSUMERS
- MAY MAKE IT DIFFICULT FOR IMPORTERS.

7. **DEGREE OF IMPACT** :

- LOW



1. **NUMBER** :  
5.16

2. **NAME** :  
SAMPLES

3. **SECTOR** :  
ALL SECTORS

4. **COUNTRIES ENFORCING BARRIER** :  
ITALY

5. **DESCRIPTION** :

- ACCORDING TO ITALIAN LAW, A SAMPLE IS THE MINIMUM QUANTITY REQUIRED TO TEST/TRY THE GOODS. THERE IS NO FIXED QUANTITY, MINIMUM OR MAXIMUM, AND NO OTHER FIXED RULE. THIS LACK OF PRECISION MAKES IT DIFFICULT TO INTRODUCE SAMPLES IN THE COUNTRY AS CUSTOM'S OFFICERS MAY JUDGE THEM TO BE OF SUCH A QUANTITY THAT THEY DO NOT QUALIFY AS SAMPLES.
- AN ADDED PROBLEM IS THE FACT THAT THESE SAMPLES SHOULD, IN THEORY, BE CORRECTLY LABELLED TO ENTER THE ITALIAN MARKET.

6. **IMPACT** :

- DELAYS, AND COSTS ARE INCURRED.

7. **DEGREE OF IMPACT** :

- LOW



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

**Report II  
Analysis of Pilot Barriers**

***Volume I***

## **PREFACE**

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

- Report I**      Identification of barriers and selection of pilot barriers
- Report II**     Analysis of pilot barriers (Volumes I and II)
- Report III**    Extrapolation of benefits
- Report IV**    Consolidation of the European food industry : an implication of the 1992 Common Market

**Executive summary**

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**This volume contains chapters 1-4.7**

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- ➔ **1. Objectives and approach of study**
- 2. Methodology followed to evaluate pilot barriers**
- 3. Summary results and conclusions on the "Cost of Non-Europe"**
- 4. 15 pilot barrier analyses**
- 5. 5 low-impact pilot barriers**

# Objectives of the study

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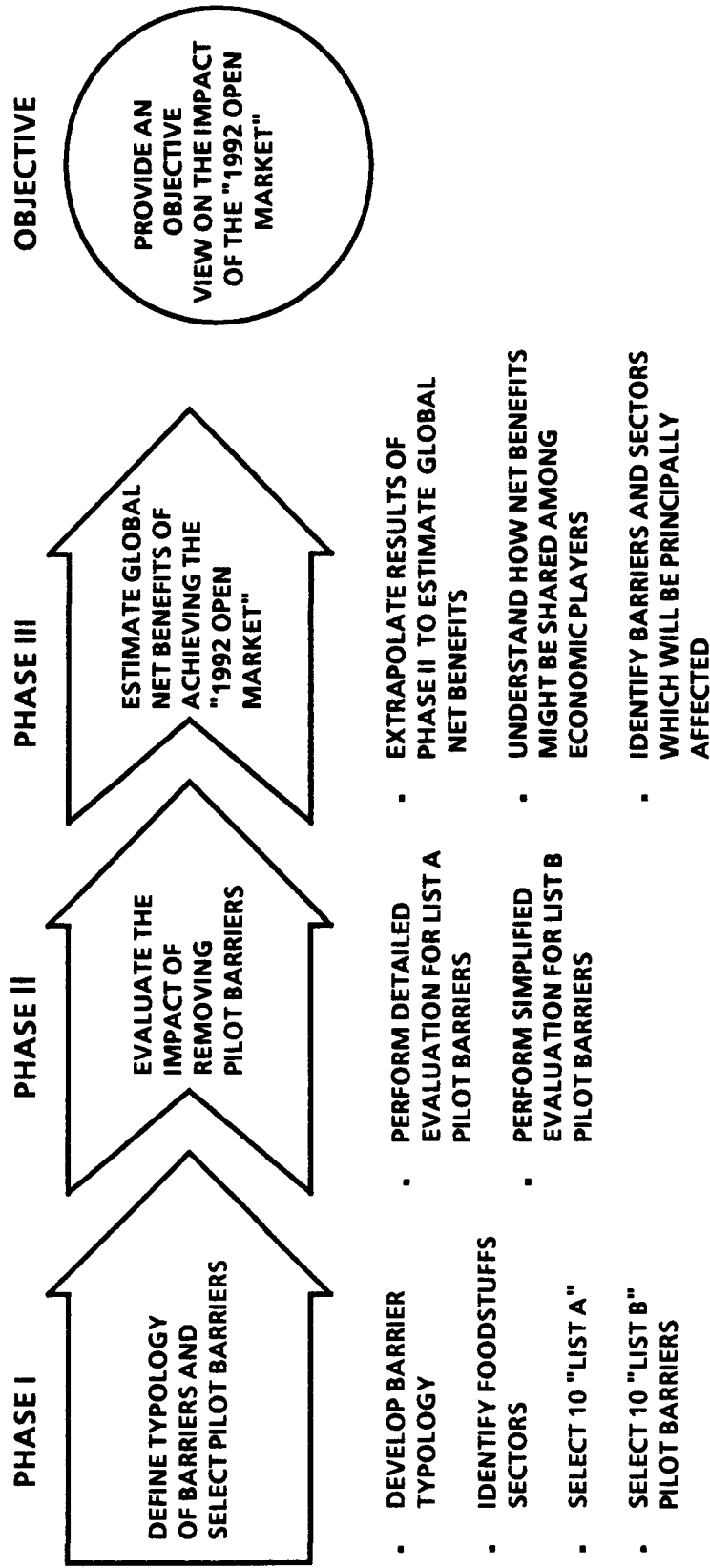
## Principal Objective

Provide an objective view on the impact of the "1992 open market" on the foodstuffs industry.

## Corollary Objectives

1. Evaluate the global net benefits to the EEC from eliminating trade barriers and regulatory discrepancies.
2. Understand how the net benefits might be shared among economic players.
3. Identify barriers and sectors which will be principally affected by the "1992 open market".

# Approach of the study



**This report presents the findings from Phase II of the study**



# Definitions

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- **A barrier is a generic impediment to trade, or a regulatory discrepancy, within the EEC.**
  - Example : purity laws, specific ingredient restrictions.
- **A specific barrier is a function of three dimensions : barrier, product sector, country.**
  - Examples :  
Purity law in the beer industry in Germany  
Restriction on use of Aspartame in the soft drink industry in France.
- **A pilot barrier is a specific barrier which will be selected for an in-depth analysis.**

## Definitions (Cont'd)

---

- Net costs are the total direct and indirect costs of the existence of barriers.
- Net benefits of removing a barrier are equal to the elimination of net costs. In this study, the terms net cost and net benefits will be used when referring to the existence and the elimination of barriers, respectively:
  - The net costs of the existence of barrier x are y million ecus per year
  - The net benefits of removing barrier x are y million ecus per year.
- The costs of non-Europe are equal to the sum of all net costs across the barriers and product sectors considered.

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## **A caveat**

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- **The pilot barrier analyses were completed in a two month period, May-June 1987.**
- **Given the time delay involved, only readily available information was collected and analyzed. No systematic primary research was conducted. The main implication of this is that, in some cases, information is missing and/or information sets may be slightly inconsistent with each other.**
- **Industry experts were used to give estimates where key information gaps existed. These estimates and hypotheses are clearly referenced in the body of the report.**
- **Having stated this caveat, it is the MAC Group's opinion that while completing the data set might alter the precise estimated results, the principal conclusions would not change.**

# Twenty pilot barriers were selected in Phase I for detailed analysis

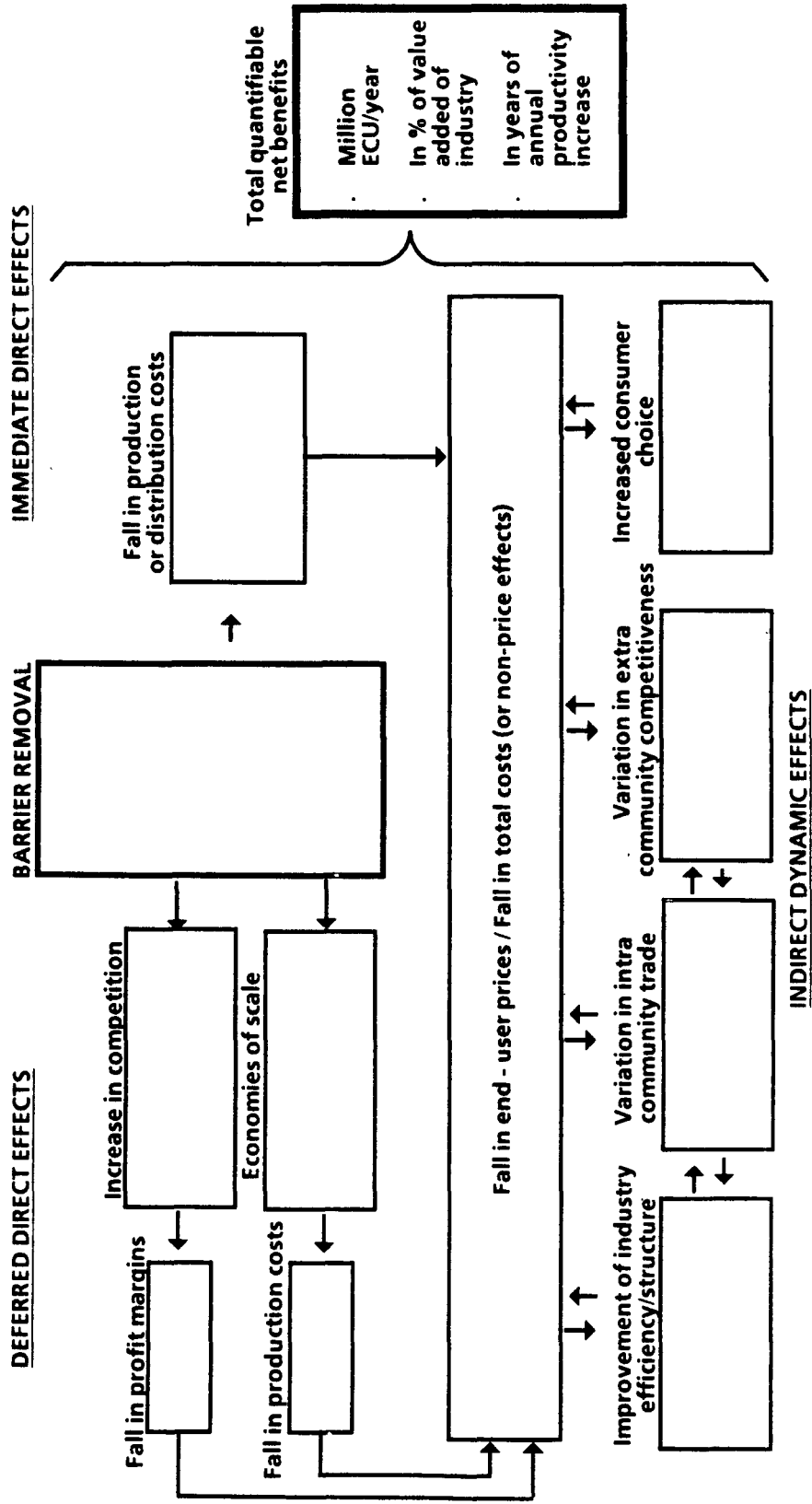
	BABY FOOD	BEER	BISCUITS AND CAKE	CHOCOLATE AND CONFECTIONERY	ICE CREAM	MINERAL WATER	PASTA	SOFT DRINKS	SOUP	SPIRITS
GERMANY		PURITY LAW (2)			VEGETABLE FAT (2)	GERMAN WATER BOTTLES (3)				
FRANCE				VEGETABLE FAT (2)		BULK TRANSPORT (3)		ASPARTAME (1)		DOM RUM (4)
U.K.		WORT TAX (4)	CAROTINE (1)							
ITALY		SACCHARA-METRIC CONTENT (2)				PLASTIC CONTAINERS (3)	PURITY LAW (1)	JUICE CONTENT (2)		IMPORT CERTIFICATES (5)
SPAIN	LABEL DETAIL (3)								HEALTH REGISTRATION (5)	DOUBLE INSPECTION (5)
OTHER EEC MEMBERS		B : WORT TAX (4) D : RECYCLING (3)	N : CHLORINE (1)			D : RECYCLING		D : RECYCLING (3)		

- OTHER EEC:
- LIST A
  - LIST B
- B : BELGIUM    I : IRELAND    L : LUXEMBOURG  
 D : DENMARK    N : NETHERLANDS  
 G : GREECE    P : PORTUGAL

- BARRIER TYPE**
- 1 : SPECIFIC INGREDIENT RESTRICTION
  - 2 : CONTENT DENOMINATION REGULATIONS
  - 3 : PACKAGING LABELLING
  - 4 : FISCAL DISCRIMINATION
  - 5 : SPECIFIC IMPORTING RESTRICTIONS

(1) Note : The Danish recycling barrier for beer, mineral water, and soft drinks, will be evaluated together as one pilot barrier

# Effects of removing pilot barriers were analyzed and classified using the following model



## Methodology

---

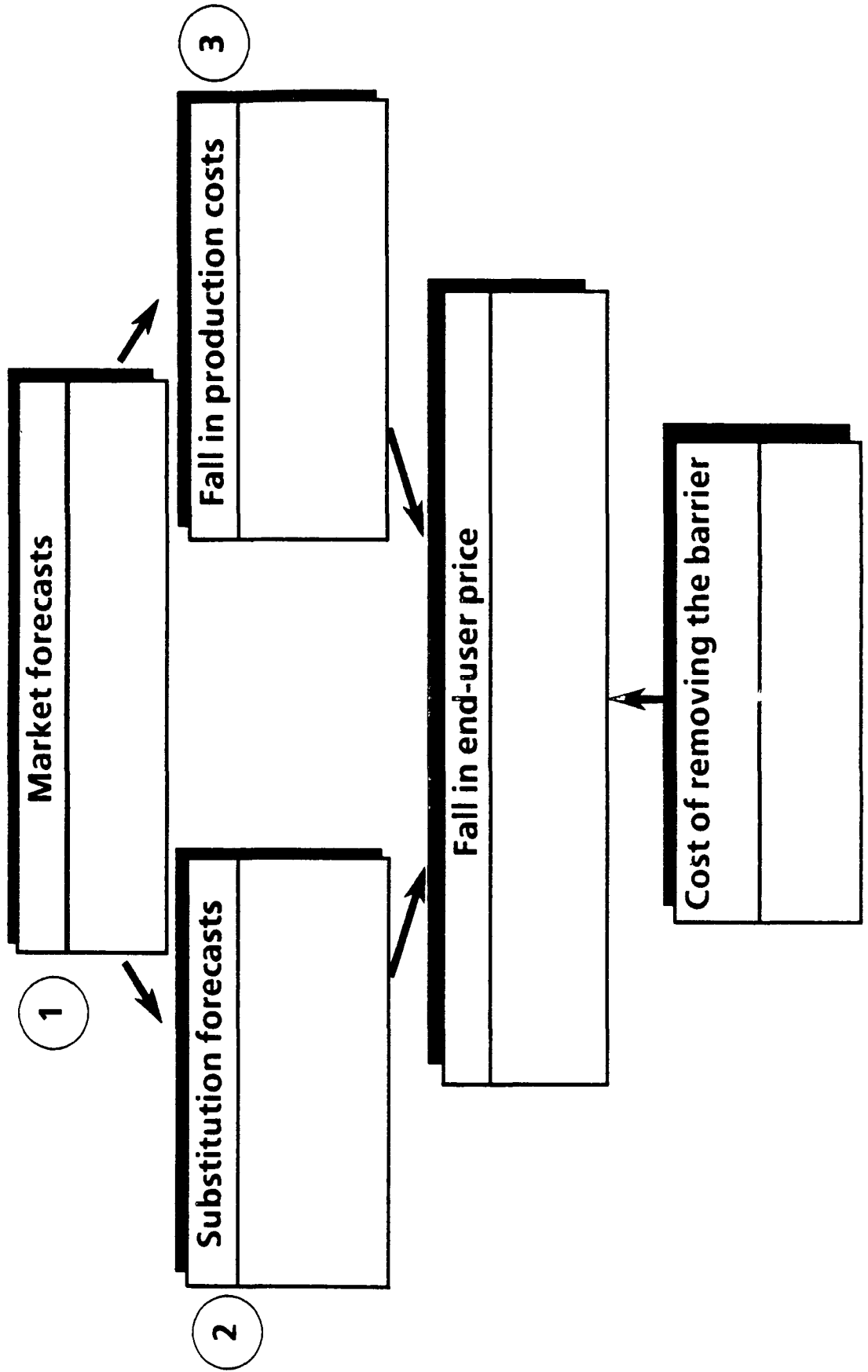
- This model was derived from "Methodological note N° 2 : Connection and Consistency Between the Different Sectorial and Horizontal studies", and from discussions with members of the DG II and DG III. Notable aspects of the model are as follows.
- Immediate direct effects are principally a measure of the fall in production or distribution costs, as a result of removing a barrier. The substitution of vegetable fat for milk fat in ice-cream is an example of how costs could be reduced as a direct and immediate result of removing a barrier.

The total absolute value of this effect (in million ECUs per year) was calculated as the product of three key estimates :

1. Market size in 1992
2. Reduction of unit production cost as a direct result of removing the barrier
3. Penetration of the lower cost method or product type within the overall market.

**In addition, costs imposed on economic players were also considered qualitatively in this estimate.**

# Immediate direct effects were calculated as the product of three key estimates





## Methodology

---

- Deferred direct effects are those effects that result directly from the removal of a barrier, but as they are based on reactions on the part of economic agents, they will appear gradually over time.

Deferred direct effects were by and large qualitative, and focused on two separate categories : an increase in competition, eventually leading to price reductions and a fall in profit margins ; and, economies of scale, eventually leading to a fall in production costs. It should be noted that the scale economy effect concerns only the economic agents already in the industry, in most cases producer/exporters. Scale economies as a result of an industry restructuring are considered as part of the indirect dynamic effects.

## Methodology

---

- Indirect dynamic effects include both quantitative and qualitative effects on the industry in question.

Quantitative effects result from an industry restructuring and/or from a change in trade levels. As an example, if the removal of a trade barrier results in structural changes in an industry, and if scale economies are therefore achieved, then the resulting benefits would be quantified and classified as an indirect dynamic effect.

A second quantitative effect is the change in trade engendered by the removal of the barrier. Attempts have been made to estimate these effects.

Two non-quantifiable effects are also considered in the indirect dynamic effects : variation in extra community competitiveness and increased consumer choice, which often results from changes in intra-community trade.

## Methodology

---

- For each of these effects --immediate direct, deferred direct, and indirect dynamic-- the time period over which the effects will occur is also subjectively estimated. Three categories are used which have the following meaning :
  - Short term : effects which will (begin) occur within one year of a barrier being removed,
  - Medium term : effects occurring between 1 and 3 years after a barrier is removed,
  - Long term : effects occurring 3 years after a barrier is removed.
- Finally, all the quantifiable benefits resulting from the barrier removal are summarized (far right box on the diagram). Wherever possible, the total effect was expressed in absolute terms, (million of ecus per year 1987 and 1992), as well as in relative terms: as a proportion of industry value added or in years of annual productivity increase.

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# Summary of Pilot Barrier Analyses

Barrier	Deferred Direct Benefit			Dynamic Indirect			Total Net Benefit	% Value Added
	Immediate direct benefit (M ECU/year)	Competition increase	Scale Economies	Industry Restructuring	Increase in trade (1)	Increase in Consumer Choice		
1 BEER PURITY	15	MED	LOW	HIGH (90 M ECUS)	+ 5%	YES	105-230	3-7%
2 PASTA PURITY	20-60	MED	MED	MED	MED	YES	20-60	2-6%
3 ASPARTAME	0-2	LOW	LOW	LOW	LOW	YES	0-2	0-2%
4 VEG FAT. CHOCOLATE	40-50	MED	LOW	LOW	+	YES	40-50	3-6%
5 VEG FAT: ICE CREAM	50-60	MED	LOW	MED	LOW	YES	50-60	8%
6 RECYCLING	+	HIGH	MED	MED	+ 5%	YES	+	0%
7 WORT TAX	0	MED	LOW	LOW	+ 0.1%	YES	+	0%
8 HEALTH REG	+	LOW	LOW	LOW	LOW	YES	+	0%
9 BULK TRANSPORT	+	LOW	LOW	LOW	MED	YES	+	0%
10 SACCHARIMETRIC	15-30	MED	LOW	LOW	MED	YES	15-30	2-6%
11 CHLORINE	+	MED	MED	LOW	MED	YES	+	0%
12 LABEL DETAIL	+	LOW	LOW	LOW	LOW	YES	+	0%
13 "GERMAN WATER"	0	MED	LOW	LOW	HIGH (+ 2-3%)	YES	+	0%
14 PLASTIC CONTAINERS	5-15	MED	LOW	MED	+ 5%	YES	5-15	0-0.1%
15 DOUBLE INSPECTION	+	MED	LOW	HIGH	LOW	YES	+	1-2%
FIVE REMAINING PILOT BARRIERS	0	LOW	LOW	LOW	LOW/MED	YES	0	0
<b>TOTAL</b>	<b>160-240</b>	<b>MED</b>	<b>LOW</b>	<b>LOW/MED</b>	<b>MED</b>	<b>YES</b>	<b>250-450</b>	<b>1.3-2.5%</b>

(1) As % of consumption

# Conclusions : immediate direct benefits

---

- Immediate direct effects are positive...
  - 160-240 million ECUS for the 20 pilot barriers
  - 0.5-1% of industry value added for the sectors concerned
- ... and are concentrated among a few key pilot barriers in our sample

	<b>M ECUS</b>	
- Beer purity in Germany	15	} > 90% of immediate direct effects
- Pasta purity in Italy	20-60	
- Vegetable fat in chocolate in France	40-50	
- Vegetable fat in ice cream in Germany	50-60	
- Saccharimetric content in Italy	15-30	
- Plastic containers in Italy	5-15	
	<b>145-230</b>	

## Conclusions : deferred direct benefits

---

- **Deferred direct benefits exist to varying degrees but are difficult to quantify.**
  - **Removal of 11 of 15 pilot barriers will result in some significant increase in competition, mainly from imported products,**
  - **Ex : allowing non-refillable bottles in Denmark would significantly increase the competition in the Danish beer market, possibly with an effect on prices,**
  - **The effect on prices and profit margins, however, was not a foregone conclusion in most cases.**

## **Conclusions : deferred direct effects (Cont'd)**

---

- **The impact on economies of scale only applied to a few cases.**
  - **Use of chlorinated flour for EEC exports would allow UK cake producers to lengthen their production runs and improve raw material logistics.**
  
- **But significantly, often marketing constraints, and not barriers, lead producers to "tailor" products to individual markets.**
  - **Even if producers could use a standard EEC labels for their Spanish exports, they would maintain a spanish-specific label for marketing reasons.**



## **Conclusions : indirect dynamic effects**

---

- **Indirect dynamic effects can be very large... but are also concentrated among a few pilot barriers.**
  - **Ex : Relaxation of the recycling law in Denmark could increase beer imports from 0% to 5% of consumption,**
  - **Ex : Abolishing the German beer purity law could significantly broaden and speed up the restructuring of the industry.**
- **In all cases, however, the removal of barriers would broaden consumer choice (eg : Aspartame, Saccharimetric, Pasta, ...)**

## Conclusions : effects by barrier type

---

- In the pilot barrier sample, the largest effects were found for the two product specific barrier types :
  - specific ingredient restrictions (85-90% of total quantifiable effects)
  - content/denomination regulations (10-15%)
- Third in importance were packaging/labelling restrictions (2-3%)
- Of no quantifiable significance were type 4 and 5 barriers :
  - fiscal discrimination
  - specific importing restrictions

## Conclusions : Costs of removing barriers

---

- In most barriers analyzed, the costs of removing barriers, where significant, involve producers and suppliers of factors of production.

Example	Cost
Beer purity law in Germany	Medium sized German breweries ; Local unemployment
Pasta purity law in Italy	Durum wheat producers
Aspartame restriction	Sugar manufacturers
Vegetable fat for chocolate in France	Cocoa suppliers
Vegetable fat for Ice-cream in Germany	Milk producers
Recycling law in Denmark	Environmental costs ; medium sized brewers
Plastic containers in Italy	Environmental costs

## Conclusions : Costs of removing barriers

---

- However, whether these are "costs" may be debated for two reasons :
  - In most cases they represent the negative side of transfers between factors of production. By considering the positive counterpart of these transfers, it could be argued that the cost is balanced by a benefit elsewhere, with a resulting zero impact on social welfare. As an example, the fact that brewery workers in Germany suffer from temporary unemployment could be counterbalanced by the reduction in local unemployment around French, Dutch and Danish breweries, as a result of stepped up production to export to Germany.
  - The second reason which lessens the impact of these costs is that, in some cases, the negative effects occur outside the EEC. This is notably the case with the vegetable fat barrier for chocolate in France, which, if lifted, could reduce cocoa butter imports, most of which comes from non-EEC countries. Indeed, such an effect would have a positive impact on the EEC balance of payments.

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## 4. Pilot barrier analyses

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## 4. Pilot barrier analyses

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- 4.2 Pasta Purity Law in Italy**
- 4.3 Aspartame restriction in the soft drink industry in France**
- 4.4 Vegetable fat restriction for chocolate in France**
- 4.5 Vegetable fat restriction for ice cream in Germany**
- 4.6 Recycling law for beverages in Denmark**
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- 4.14 Plastic containers for mineral water in Italy**
- 4.15 Double inspection for spirit imports in Spain**

# 4.1. Beer Purity Law in Germany

---

## → 1. Summary

### 2. Overview of Pilot Barrier

- Description of Barrier
- Description of Industry

### 3. Impact of Barrier Removal

- Industry and Competitive Structure
- Attitudes of Major Players

### 4. Quantitative Estimate of Impact

### 5. Appendix

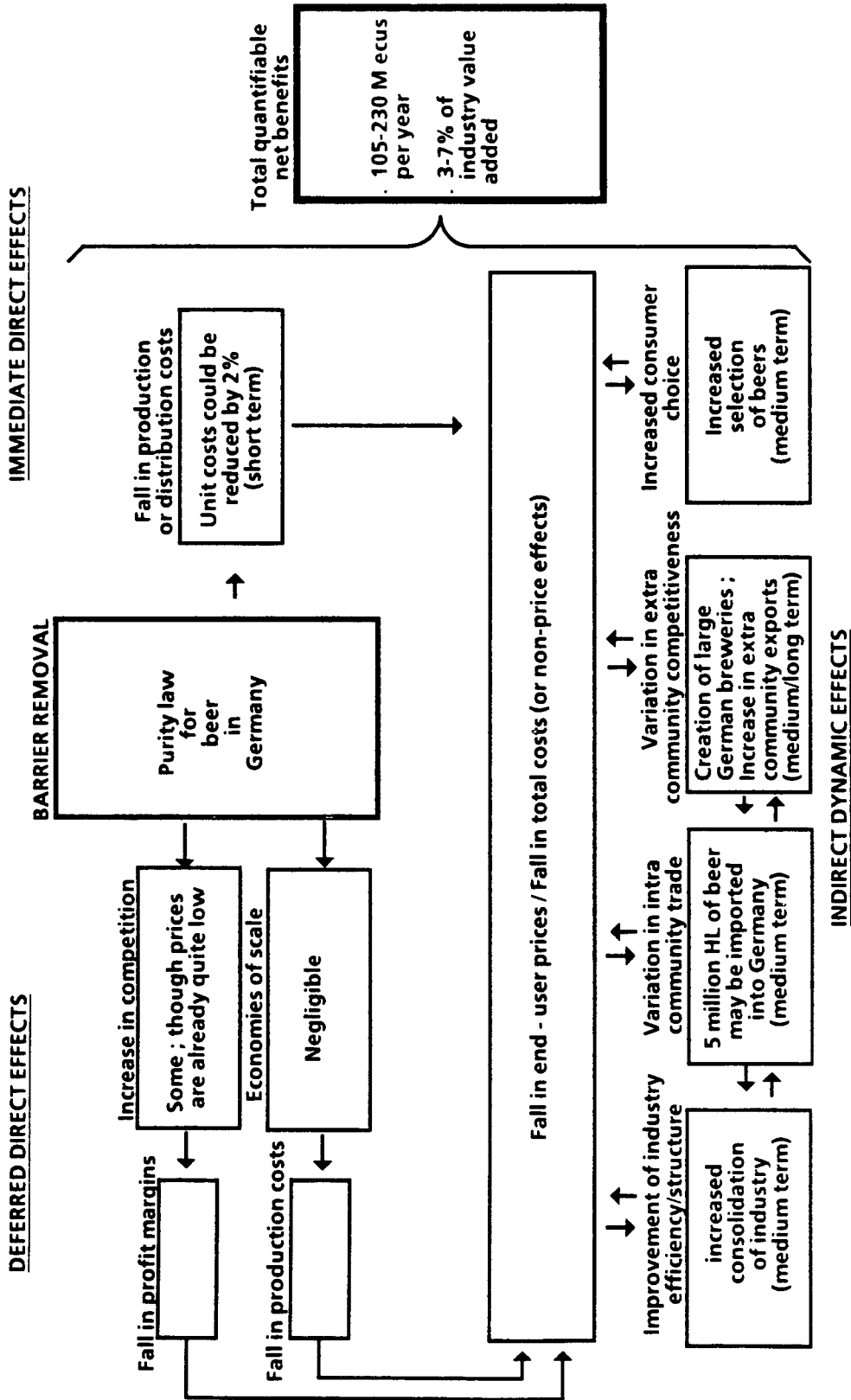


## Summary

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- **The German purity law states that "beer" must only contain four ingredients (hops, malted barley, yeast, water)**
- **Partially as a result of this law, the German beer market is highly fragmented and imports amount to only about 1 % of consumption.**
- **If the purity laws were removed, in the short term, there would be little effect. Over the medium and long terms, it could be envisioned that :**
  - **Foreign breweries would begin exporting to Germany,**
  - **Further consolidation would take place in the brewing industry,**
  - **Large national retail chains would begin distribution national brands,**
  - **Costs would be reduced from using less expensive ingredients,**
  - **The selection of beers available on the market would increase.**
- **These effects could produce net benefits of 105-230 million ECUS per year, or 3.1-6.8 % of total beer industry value added.**
- **Reactions by competitors and consumer loyalty could significantly reduce these effects.**

# Summary of impact of barrier removal



## 4.1. Beer Purity Law in Germany

---

### 1. Summary

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## Description of barrier

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- The German purity law ("Reinheitsgebot") is a traditional food-law, which has been in existence since 1516.
- Under this law the allowed ingredients of beer are
  - Hops
  - Malted barley
  - Yeast
  - Water
- Beer containing any other substances could not be sold in Germany under the generic product name "beer".
- The historic reason for the purity law is linked to the importance of beer in Germany as a food item. As an example, in Bavaria an average adult male receives 25 % of his daily calorie intake from beer consumption.

## Description of barrier (Cont'd)

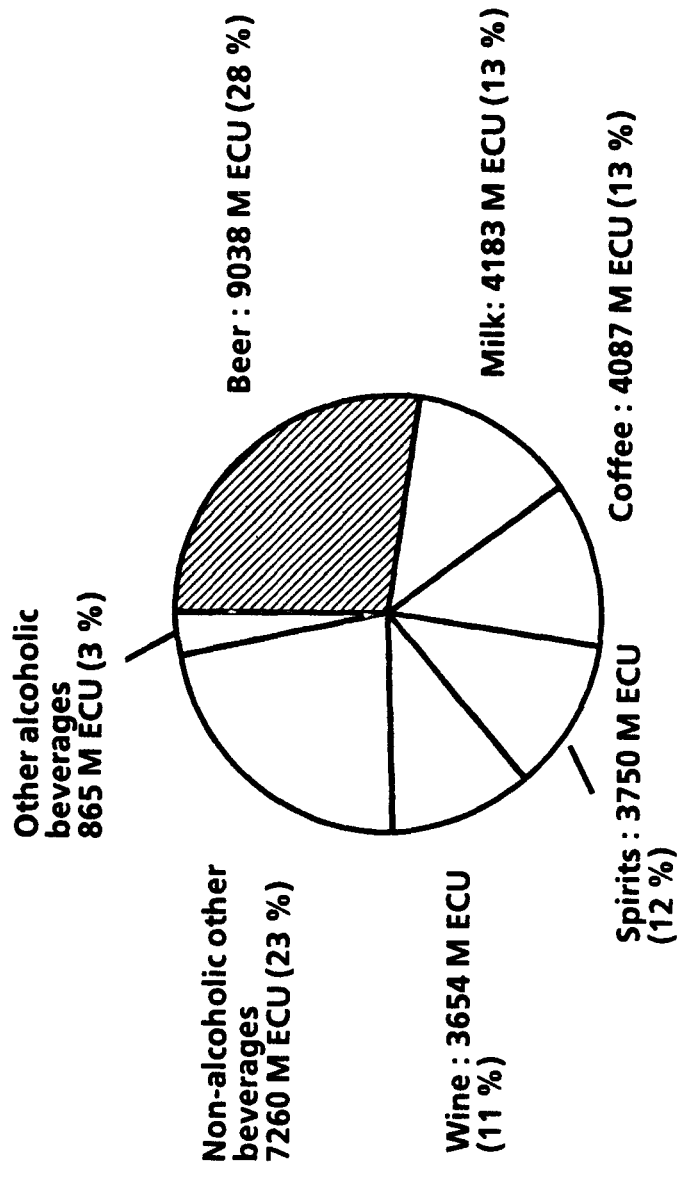
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- The European Commission commenced a legal proceeding against the purity law in the European Court of Justice, arguing that the law violated article 30 of the treaty of Rome. In March 1987, the court ruled that imported beer containing substances other than the four mentioned above could be sold in Germany using the "beer" product name.
- The purity law still applies however to all German made beer.

# Beer is the largest product sector within the German beverage market

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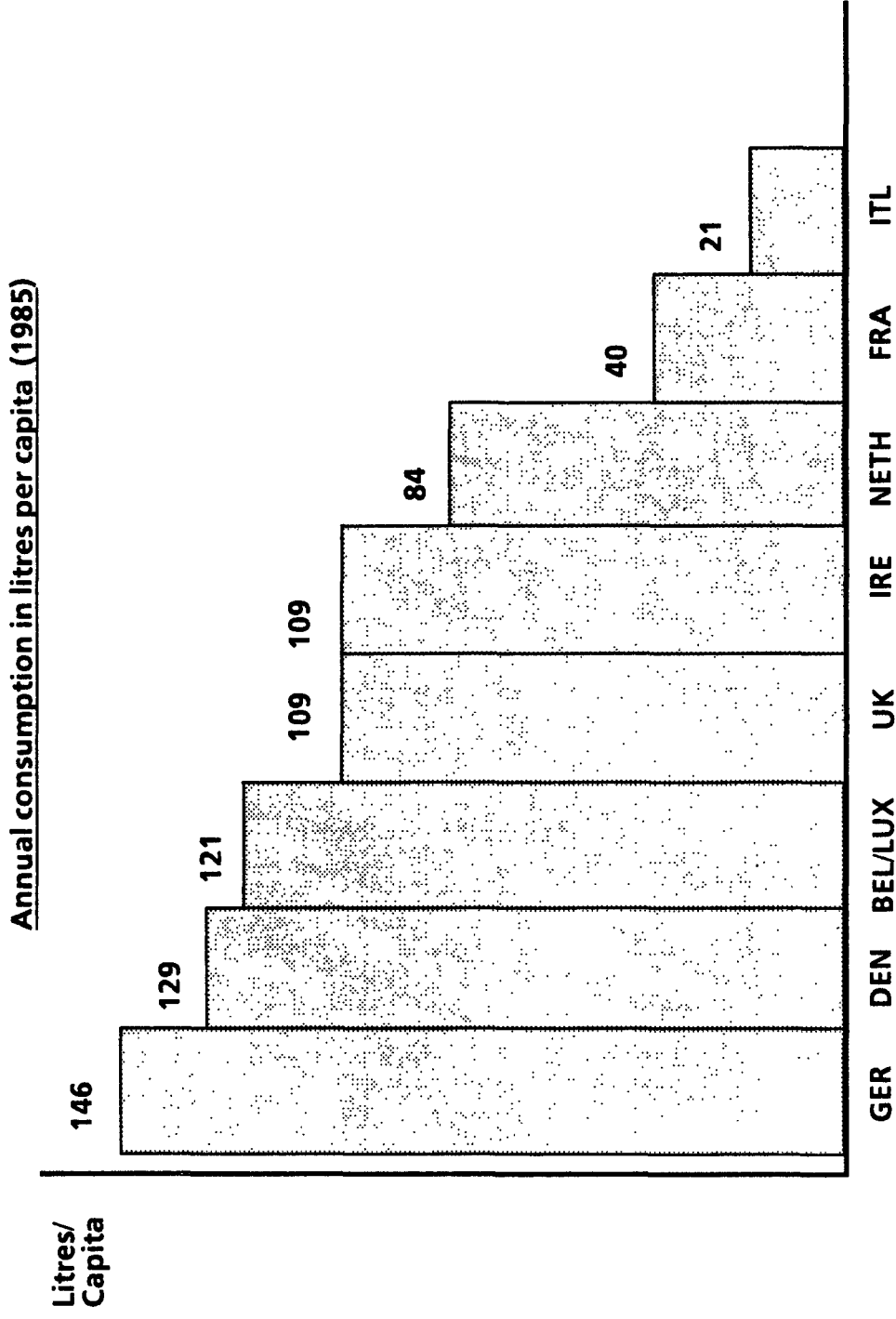
Total 1985 Consumer expenditures = 31731 Million ECU



Source : Statistisches Bundesamt.

# Per capita, beer consumption in Germany is the highest in Europe

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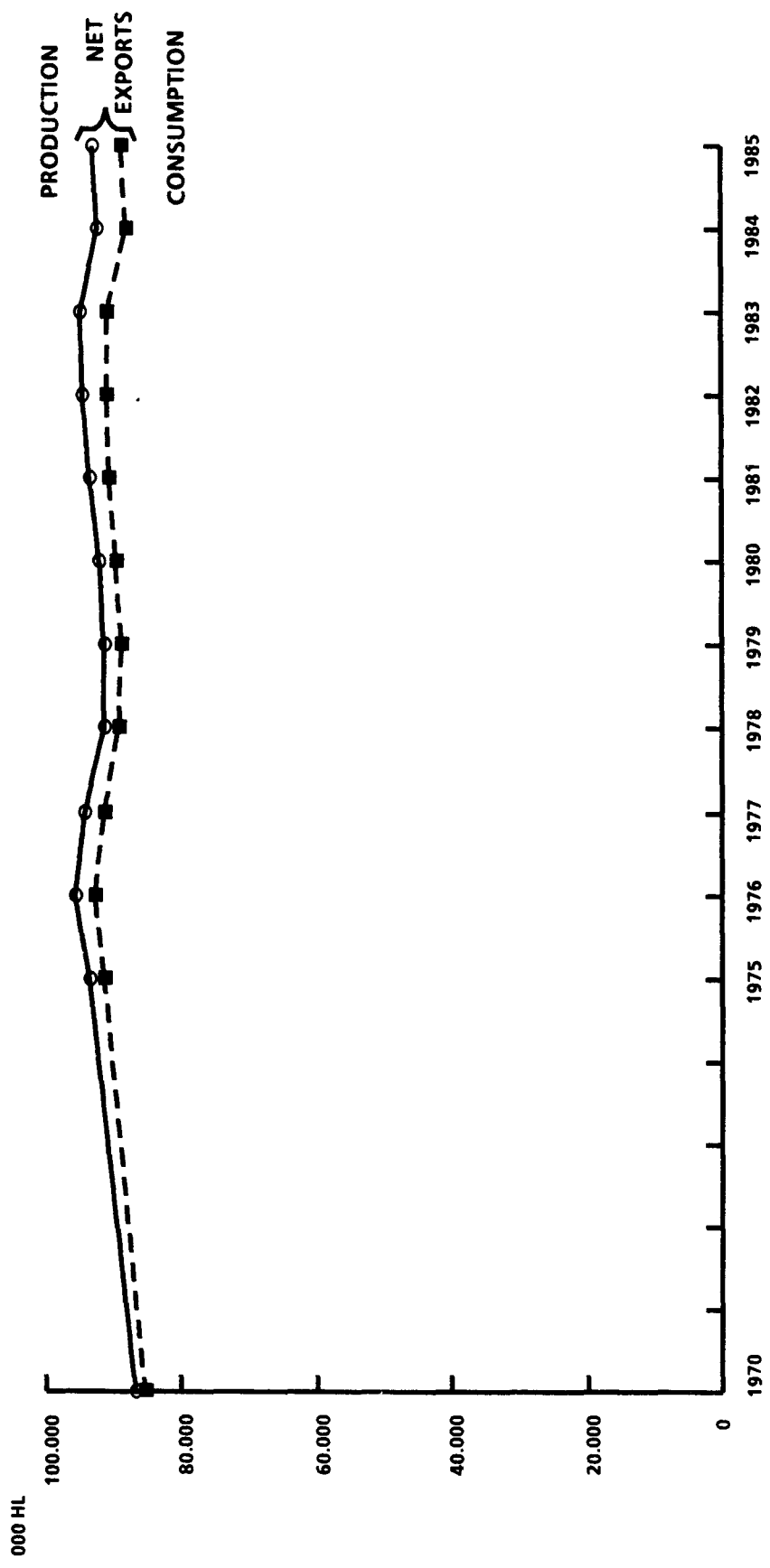


Source : CBMC

# Production and consumption have been stable in Germany

- Germany is a net exporter of beer

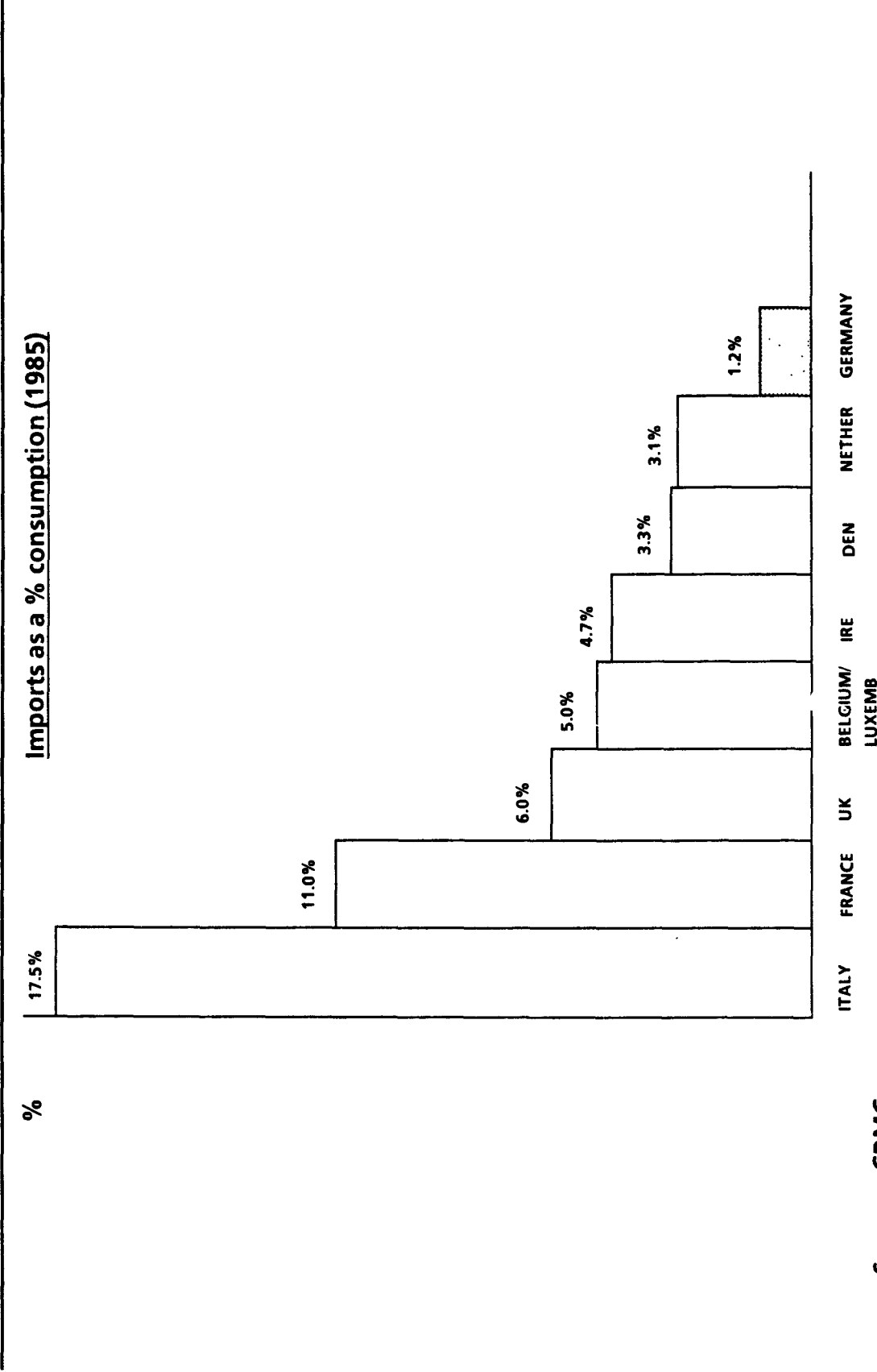
German production and consumption in thousand hectolitres



Source : CBMC



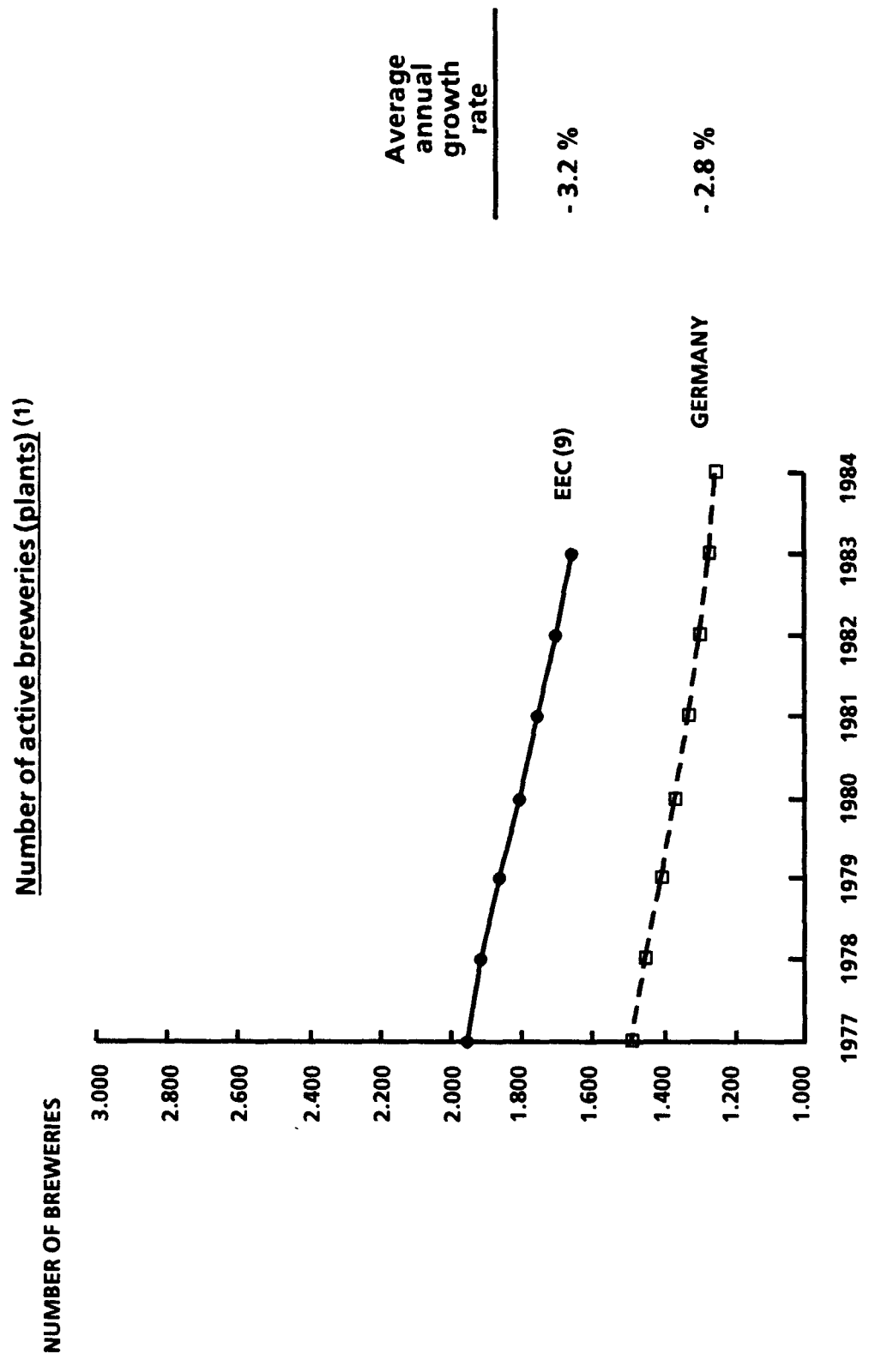
# Germany has the lowest import penetration rate among EEC members



Source : CBMC

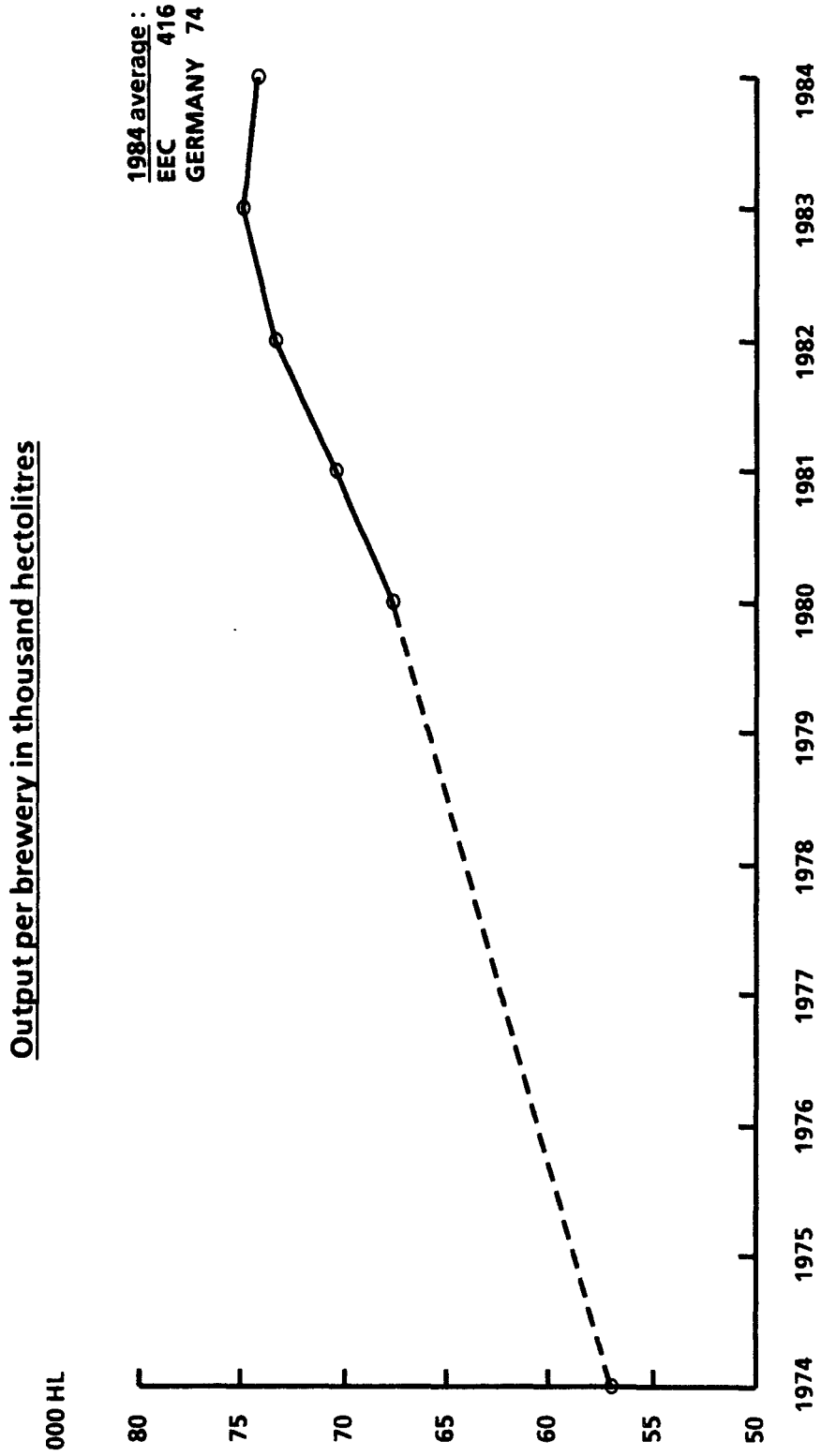
# The German brewery industry is consolidating ...

- Germany accounts for over three quarters of the breweries in the EEC(9)
- About two thirds of Germany's breweries are located in Bavaria.



(1) EEC (9) : Excludes Greece, Spain and Portugal

# This consolidation is increasing the average brewery size

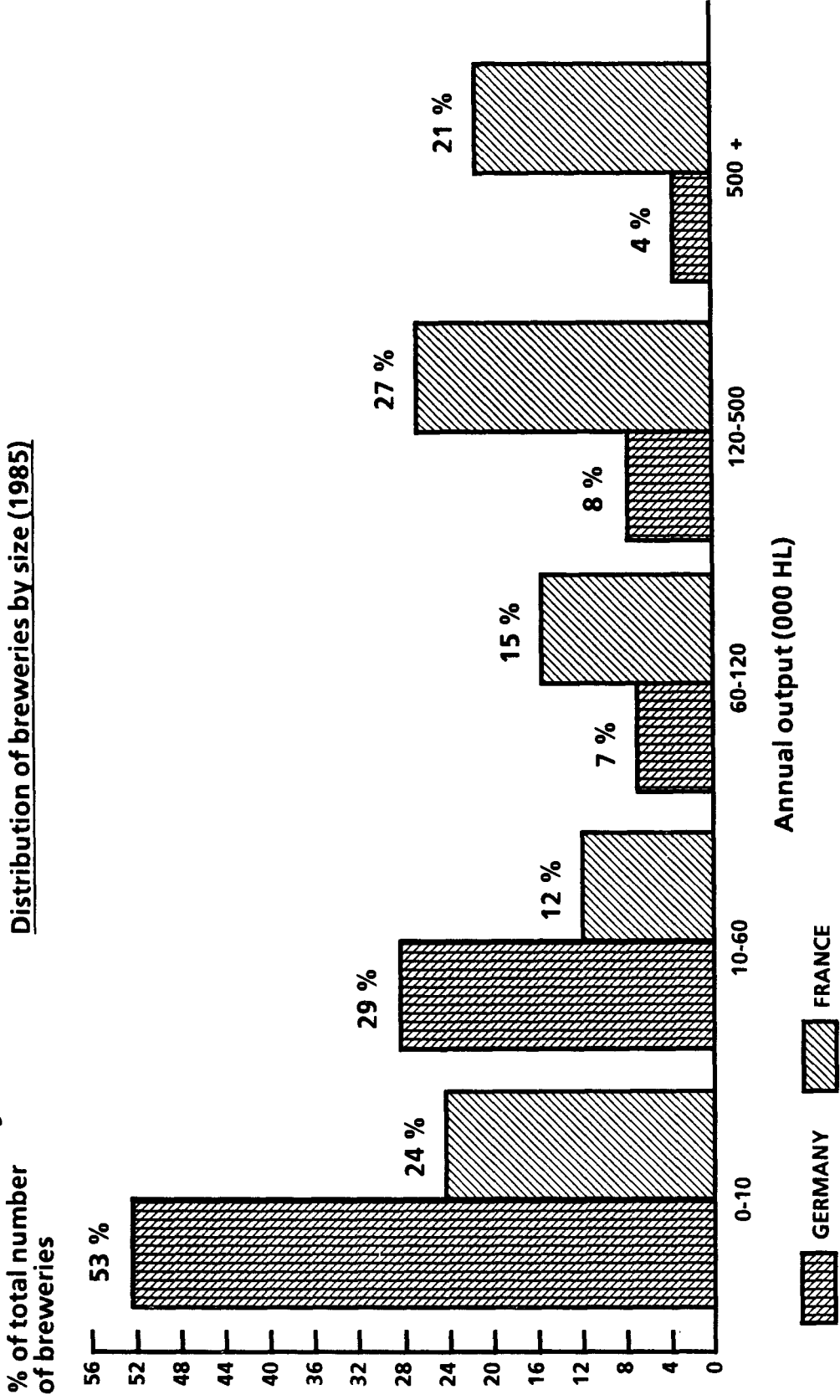


... However, the EEC average (excluding Germany) volume per brewery is five times higher than the Germany average.

# Germany's brewery industry is composed of many small breweries.

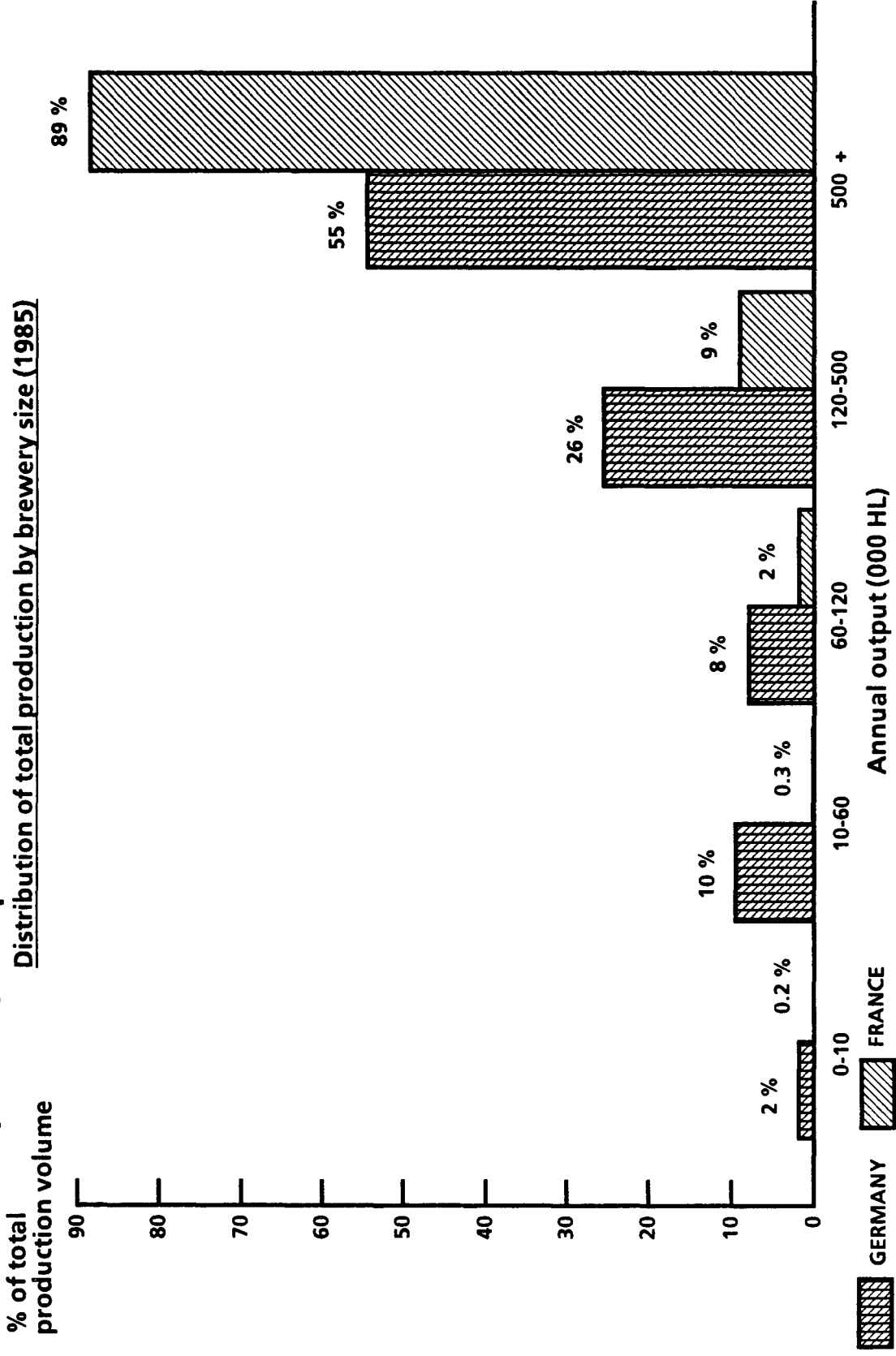
- Over half of German breweries produce less than 10,000 HL per year.
- 21 % of France's breweries are larger than 500,000 HL compared to 4 % for Germany.

Distribution of breweries by size (1985)



# A Relatively large portion of Germany beer output is produced by small and medium sized breweries.

- 45 % of total output is produced by breweries whose volume is less than 500,000 HL, compared to 11 % in France.



## Consumer and distribution trends.

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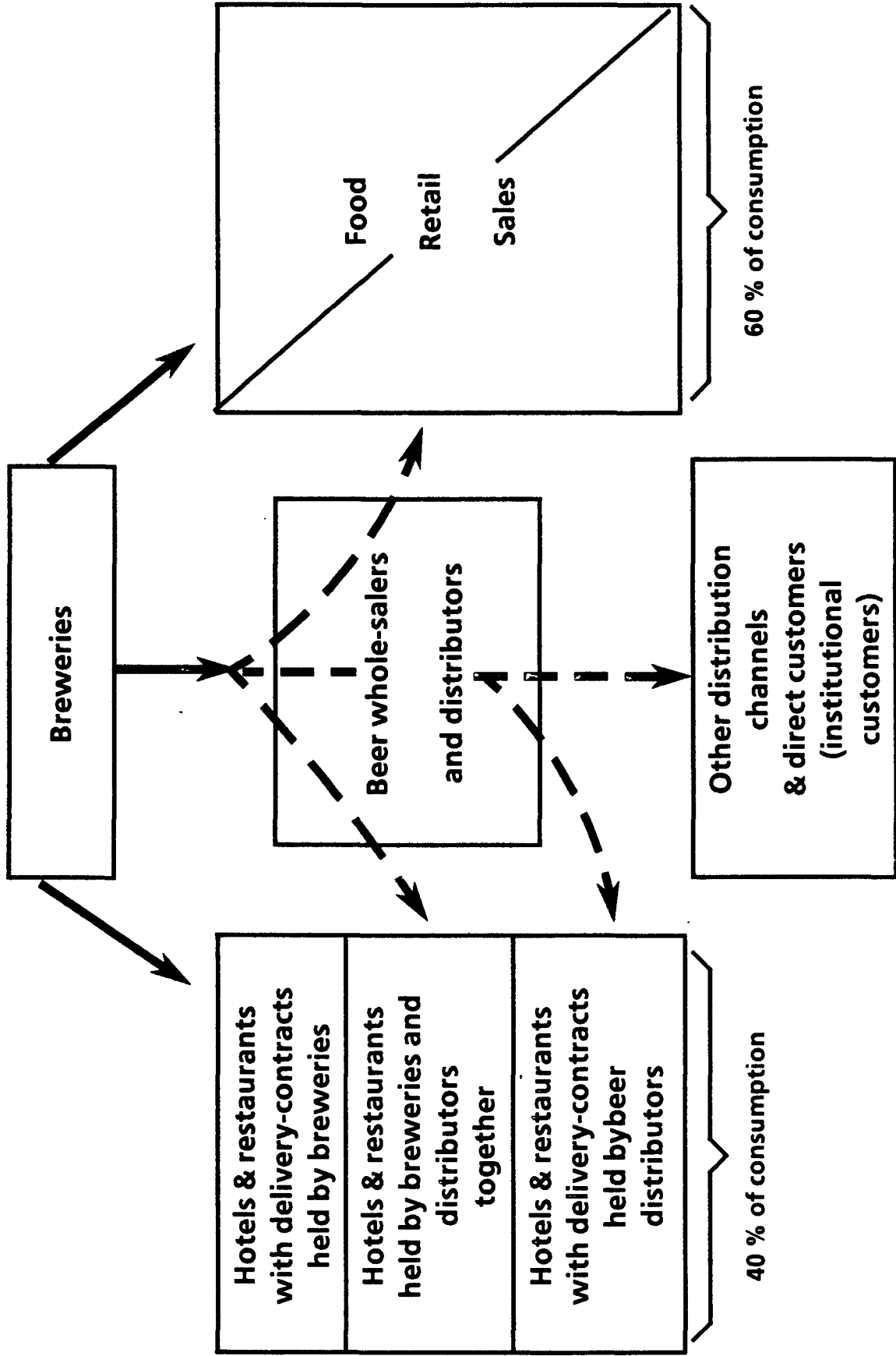
- **Beer is a very traditional, and in most cases regional product in Germany :**
  - Over 1500 different brands exist,
  - Brand loyalty is very high and consumers tend to drink only beer produced in their locale or region,
  - No national brand exists in Germany.
- **About 60 % of beer is consumed in private homes within Germany. The remaining 40 % is consumed in beerhouses, hotels and restaurants which are either owned by, or have delivery contracts with, local/regional breweries :**
  - This distribution structure creates a barrier to entry for a new producer or importer,
  - "The biggest trade barrier in Germany was not the purity law, but the distribution system which is locked in by the local breweries" (1)

- GENERAL SECRETARY OF A NATIONAL BEER ASSOCIATION.

- **Presence of a beer brand in the hotels and restaurants is critical to a brewery's success as it leads the consumer to demand the brand in retail outlets.**

(1): Quotations which appear in this study are used to illustrate points of view of industry players, and do not necessarily reflect the views of the MAC Group.

# Channels of physical distribution



# The regional nature of the beer industry is reflected in competitor market shares.

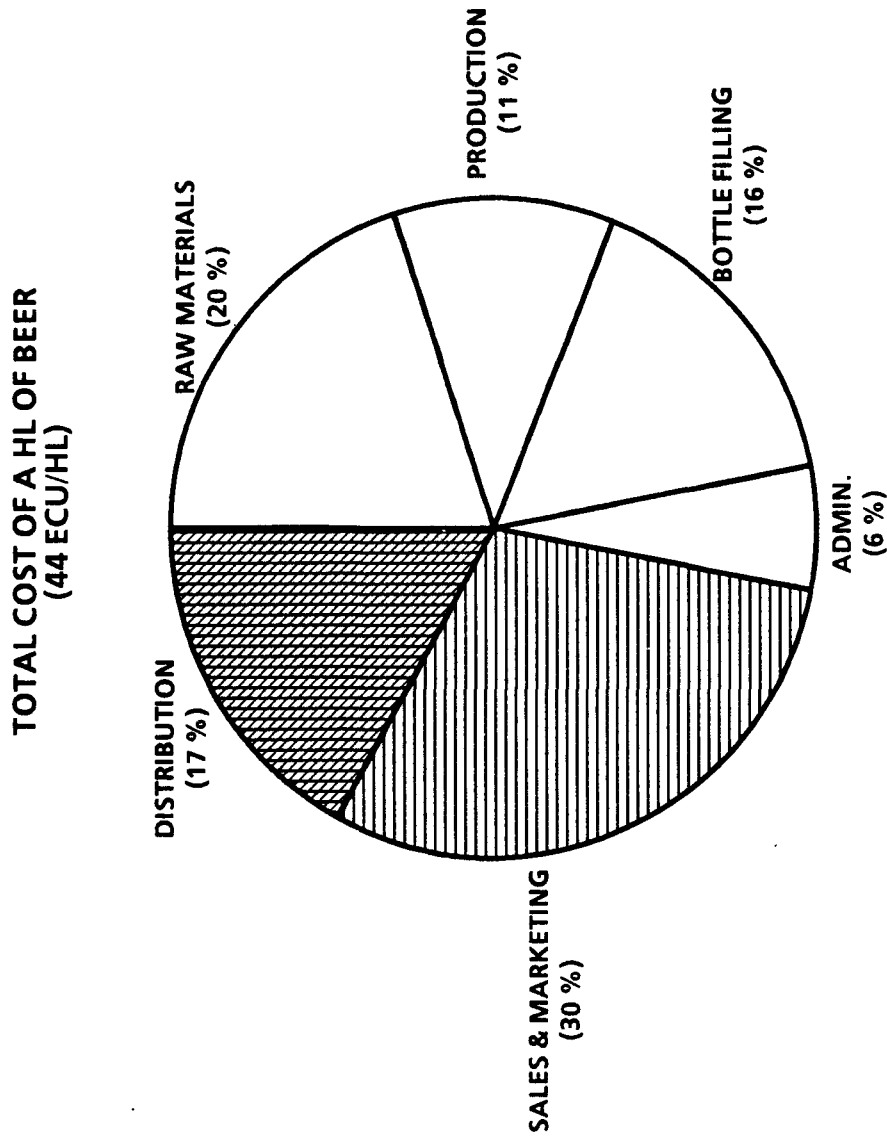
- The largest brewer has less than 3 % of the market,
- The top 10 brewers have a combined market share of just 21.4 % ,
- 100 medium sized brewers produce over half of all beer output.

COMPANY	CITY	1985 TURNOVER (M ECU)	1985 VOLUME (OOO HL)	MARKET SHARE (%)
1. HOLSTEN	HAMBURG	247	2 680	2,9
2. BINDING	FRANKFURT	169	2 520	2,7
3. DORTMUNDER ACTIEN	DORTMUND	129	2 363	2,5
4. KONIG	DUISBURG	-	2 260	2,4
5. WICKULER KUPPER	WUPPERTAL	155	2 080	2,2
6. WARSTEINER	WARSTEIN	135	2 076	2,2
7. DORTMUNDER UNION	DORTMUND	-	2 075	2,2
8. BITBURGER	BITBURG	118	2 069	2,2
9. BAVARIA ST PAULI	HAMBURG	151	1 750	1,9
10. BRAUEREI BECK & CO	BREMEN	-	1 678	1,8
TOP 10 TOTAL			21 551	23,1
NEXT 100 LARGEST BREWERIES (> 140,000 YEAR)			51 784	55,5
REMAINING 1 100 BREWERIES (< 140,000 YEAR)			19 968	21,4
TOTAL PRODUCTION			93 303	100



# Nearly 50 % of the cost beer is accounted for by sales, marketing and distribution

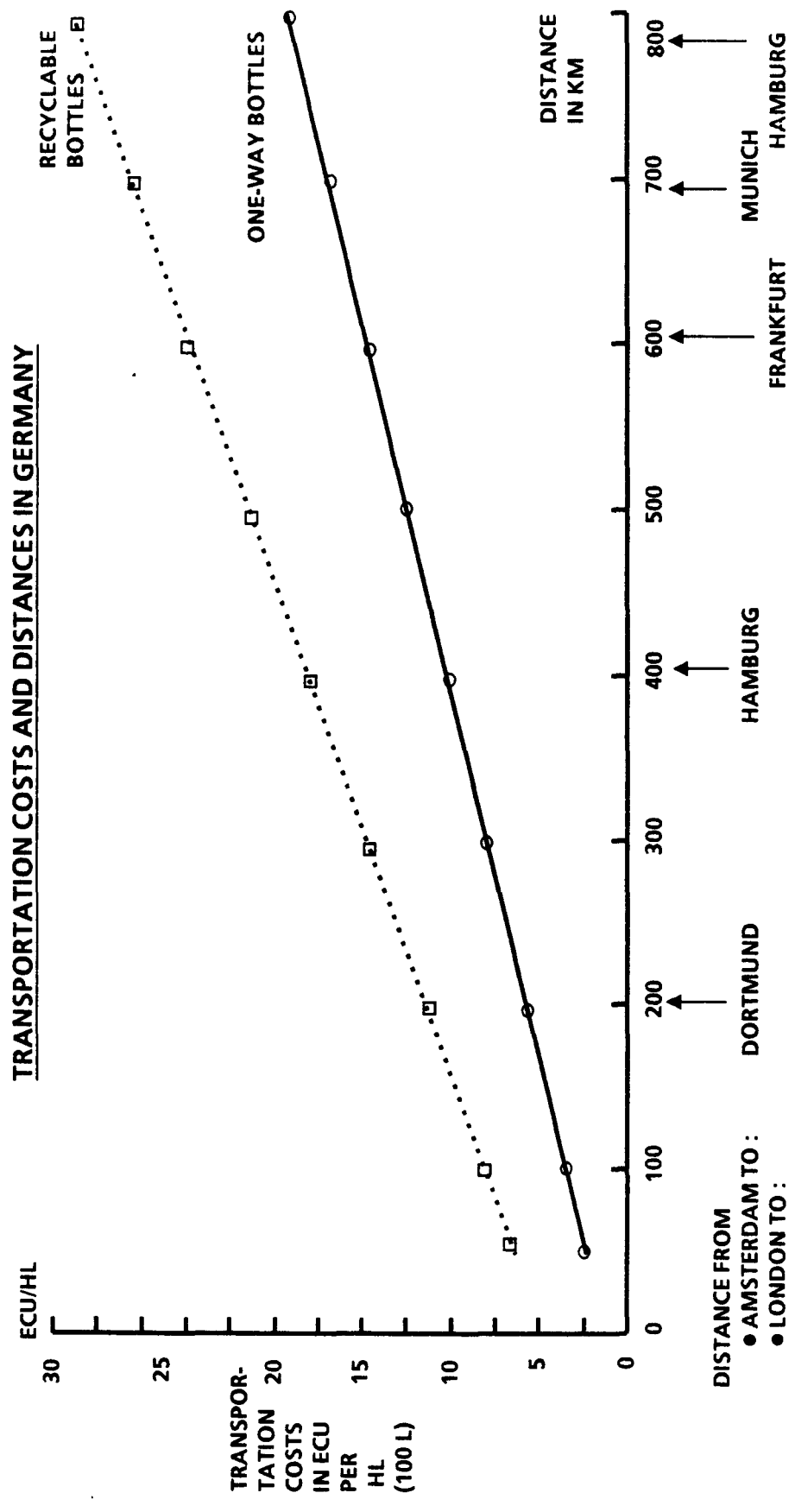
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- Sales and marketing costs include the financing costs of the restaurants and hotels under license to the brewery.

# Transportation costs are a significant factor in the cost structure of beer

- A brewer in Amsterdam selling in Hamburg would be at a 16 % cost disadvantage compared to a local producer (1)
- A brewer in London would be at a 35 % cost disadvantage.



(1) Assumptions : One way bottles ; Local producer transport costs are 2.4 ECU/HL ; Total costs/HL = 44 ECU

# Production and bottling costs are subject to scale economies.

---

- In a study conducted on US breweries, Elzinga (1) found that the optimal sized brewery lies between 1.5 million Hl (minimum efficiency level) and 5 million Hl (maximum efficiency level).
- Scherer et Al (2) found that the minimum efficient scale (MES) for a brewery was 5.3 million Hl, and that a brewery one third this size would have a unit cost disadvantage of 5 %. Breweries larger than the efficient scale do not reap additional cost advantages.
- Schwalbach found that beer production costs decrease with brewery size (3)
- Evidence also suggests that this scale effect is more pronounced for smaller scale plants and for older plants.
- It is reported that a German brewery who moved from an older plant to a more modern one gained a cost advantage of 10 DM per hectolitre.

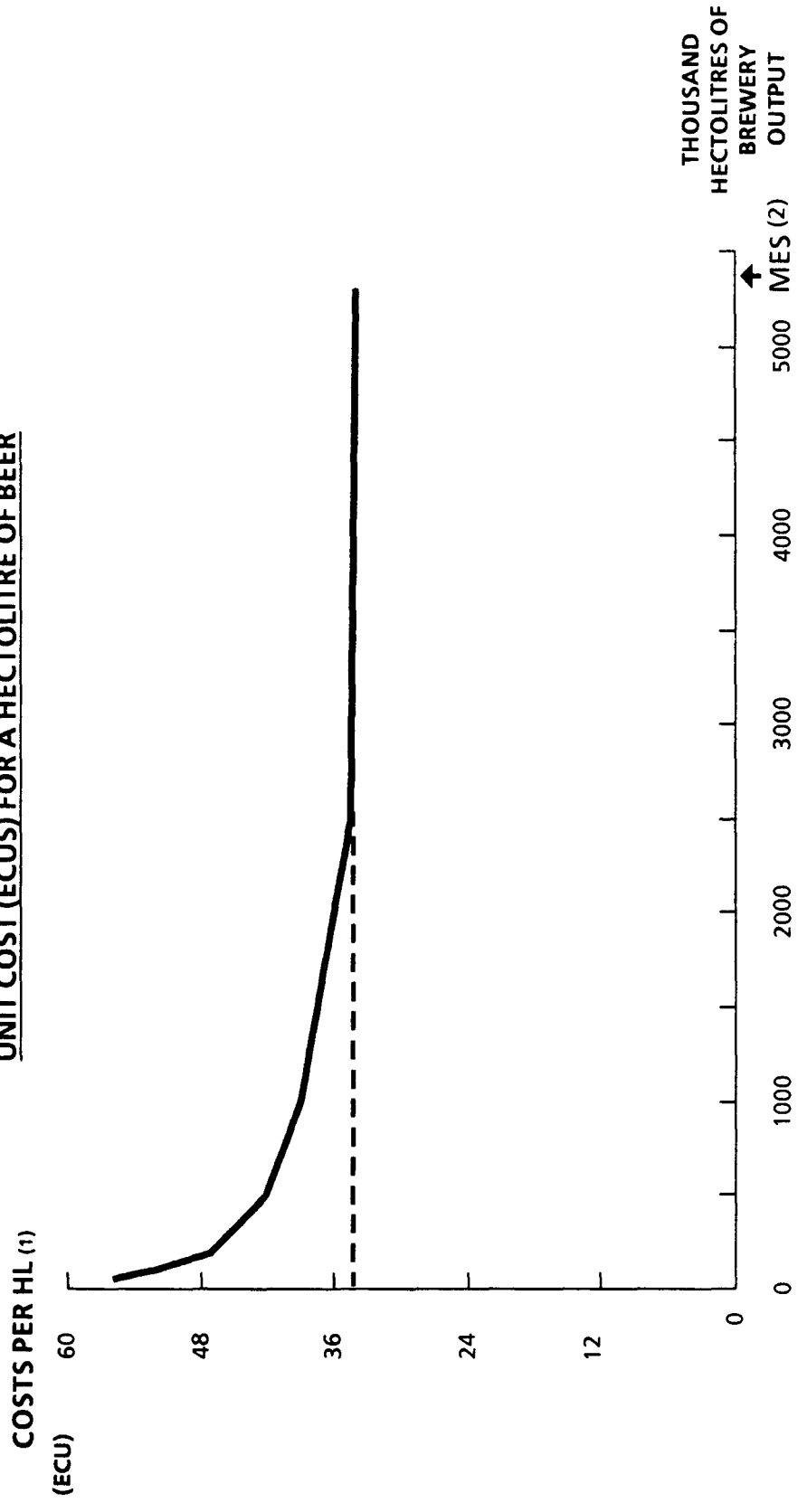
(1) K. ELZINGA, "The beer industry", the structure of American industry, 6th edition, edit by W.Adams, New York, 1982.

(2) FM SCHERER, A. BECKENSTEIN, E.KAUFER, R.D. MURPHY, "The Economics of multi-plant operation : an international comparisons study, Harvard University Press, Cambridge, Mass., 1975

(3) SCHWALBACH Joachim : Ausmaß und Entwicklung von Größenvorteilen in der deutschen Bier- und Zementindustrie, Discussion Papers, IIMV/Strukturpolitik, Wissenschaftszentrum Berlin, April 1984.

# Combining these findings, a cost curved can be estimated ...

UNIT COST (ECUS) FOR A HECTOLITRE OF BEER



ESTIMATION :

- 5.300 KHL IS MINIMUM EFFICIENT SCALE (MES) FOR A BREWERY (SCHERER 1975)
- 5 % COST DISADVANTAGE FOR A BREWERY 1/3 THIS SIZE (SCHERER 1975)
- COST DATA FOR SMALLER BREWERIES : SCHWALBACH ; WEIHENSTEPHAN ; INTERVIEWS

(1) PRODUCTION, SALES AND MARKETING, ADMINISTRATION ; TRANSPORTATION COSTS ARE NOT INCLUDED

(2) MES : MINIMUM EFFICIENT SCALE

## 4.1. Beer Purity Law in Germany

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## Removal of the barrier.

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- The beer purity law in Germany can be separated into two distinct barriers :
  - BARRIER 1 : Prevents foreign made beer-- not made according to the Reinheitsgebot formula-- from being sold in Germany as "beer",
  - BARRIER 2 : Prevents German made beer-- not made according to the Reinheitsgebot formula-- from being sold in Germany as "beer".
- The European Court of Justice effectively removed the first barrier in its ruling in March 1987.
- The second barrier remains today. The following discussion on the effects of removing the purity law assume both barriers are removed.

## **Impact of removing the barrier.**

---

- **Over the short term (up to one year) it is estimated that the structure of the beer industry in Germany will not change :**
  - Foreign producers still face important obstacles (transportation costs, lack of access to distribution system),
  - Consumer habits.
- **However by 1992, five distinct results could be envisioned :**
  1. Immediate direct effect : costs are reduced from using less expensive ingredients
  2. Deferred direct effect : competition will increase as foreign brewers enter the market
  3. Indirect dynamic effect : foreign breweries begin exporting to Germany
  4. Indirect dynamic effect : further consolidation will take place in the Germany brewery industry
  5. Indirect dynamic effect : the selection of beers available on the German market is increased
- **Each of these results is discussed and quantified in section 4.**

# Attitudes of major players concerning removal of the barrier

---

FAVORABLE

UNFAVORABLE

Domestic breweries	<ul style="list-style-type: none"> <li>No change ; people will continue to drink German beer</li> </ul>	=
Foreign brewery	<ul style="list-style-type: none"> <li>No change : cost cutting is marginal</li> </ul>	= / +
Beer association	<ul style="list-style-type: none"> <li>It will lead to lower quality</li> </ul>	-
Supplier	<ul style="list-style-type: none"> <li>Scale effects may occur as foreign breweries have optimised their filling capacities</li> </ul>	+
Consumer	<ul style="list-style-type: none"> <li>Increased beer selection</li> </ul>	+
<hr/>		
TOTAL		+ / =



# Attitudes of major players

---

- **"I DON'T THINK FOREIGN BREWERIES ARE ABLE OR WILLING TO SELL A CASE (20 BOTTLES) FOR AS LOW AS 6.95 DM IN BAVARIA, AS SOME BAVARIAN BREWERIES ARE DOING"**  
**BEER-ASSOCIATION OFFICIAL**
- **"THE PURITY-LAW-REMOVAL WILL NOT CHANGE THE GERMAN BEER MARKET, AS OTHER FACTORS ARE MORE IMPORTANT"**  
**TOP-EXECUTIVE OF A GERMAN BREWERY**
- **"THE PURITY-LAW-DISCUSSION WILL SPEED UP THE CONSOLIDATION PROCESS IN GERMANY"**  
**TOP-EXECUTIVE OF A GERMAN BREWERY**
- **"NO DRAMATIC CHANGES CAN BE EXPECTED"**  
**BEER-ASSOCIATION-OFFICIAL**

## Attitudes of major players (Cont'd)

---

- "FOREIGN BREWERIES WILL ENTER ONLY THE PREMIUM-SEGMENT OF THE MARKET - AS UP TO NOW"  
BEER-ASSOCIATION-OFFICIAL
- "IF FOREIGN BREWERIES WILL ENTER THE MARKET, LOW-PROFILE MEDIUM-SIZED BREWERIES WILL BE MOST AFFECTED"  
BEER-ASSOCIATION-OFFICIAL
- "COST-CUTTING-POTENTIAL IS MARGINAL"  
BEER-ASSOCIATION-OFFICIAL
- "WE ARE AFRAID, THAT THIS WHOLE AFFAIR WILL LEAD TO A LOWER QUALITY-PROFILE"  
BEER-ASSOCIATION-OFFICIAL
- "AN INCREASE IN SPECIALITIES FROM FOREIGN COUNTRIES CAN BE EXPECTED"  
BEER-ASSOCIATION-OFFICIAL

## **Attitudes of major players (Cont'd)**

---

- **"SCALE EFFECTS MAY OCCUR, AS FOREIGN BREWERIES HAVE OPTIMIZED THEIR FILLING-CAPACITIES, WORKING IN TWO OR EVEN THREE SHIFTS"**  
**PRODUCER OF BREWERY EQUIPMENT**
- **"THIS WILL LEAD TO LOWER QUALITY"**  
**MINISTER-PRESIDENT OF BAVARIA**
- **"MORE IMPORTANT FOR MARKET SUCCESS IS MARKETING-POWER"**  
**TOP-EXECUTIVE OF A GERMAN BREWERY**
- **"THE GERMAN CONSUMER WILL STICK TO THE HIGH-QUALITY GERMAN BEER"**  
**TOP-EXECUTIVE OF A GERMAN BREWERY**

## Attitudes of major players (Cont'd)

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- "WE WILL FOLLOW THE "REINHEITSGEBOT" IN THE FUTURE ALSO"  
TOP-EXECUTIVE OF A GERMAN BREWERY
- "THIS WILL NOT AFFECT OUR BUSINESS"  
TOP-EXECUTIVE OF A GERMAN BREWERY
- "WE DON'T EXPECT MORE LOW-PRICED BEER"  
BEER-ASSOCIATION-OFFICIAL
- IF FOREIGN BREWERIES WILL ENTER THE GERMAN MARKET, THE KEY FACTOR WILL BE  
MARKETING, NOT THE PRICE"  
TOP-EXECUTIVE OF A GERMAN BREWERY

# 4.1. Beer Purity Law in Germany

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1. Summary
2. Overview of Pilot Barrier
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## **1. Immediate direct effects : costs are reduced from using less expensive ingredients.**

---

- Due to the ending of the purity law less expensive ingredients can be used to produce beer. This amounts to a cost reduction of up to 1 ECU/HI or an 11 % reduction of raw material costs (2.2 % reduction of total unit costs).
- However, many German breweries will be hesitant to use less expensive ingredients. Currently most of the German breweries are promoting the fact that their beer "is still brewed according to the Reinheitsgebot formula for the best quality".

## 2. Differed direct effects

---

- **Increase in competition**
  - Competition should increase as foreign breweries enter the German market,
  - However, prices will not be expected to decrease, as German beer prices are already quite low.
  
- **Economies of scale**
  - The direct scale effect on existing imported beer from removing the barrier will be negligible (see below for indirect scale effect),
  - In 1985, imported beer represented 1.2 % of German consumption.

### 3. Indirect dynamic effects : foreign breweries begin exporting to Germany

---

- Despite high transportation costs, three major European brewing companies are within reach (• 200 KM) of significant German markets :

COMPANY	GERMAN REGION	APPROXIMATE MARKET SIZE (MILLION HL)
1. HEINEKEN	NORDRHEIN WESTPHALIA	27
2. CARLSBERG/TUBORG	NORD	13
3. BSN (KRONENBOURG)	MITTE	16
TOTAL		56

- Given the financial strength of these companies, and the importance of the German regional markets, it is reasonable to expect that they will launch export penetration programs :
- Heineken's worldwide beer production is 15 times larger (approximately 40 million HI) than the market leader in Germany.



## **4. Indirect dynamic effects : further consolidation in the brewing industry.**

---

- **The number of German breweries is decreasing by 2.8 % per year.**
- **Relaxation of the purity laws will speed up this process :**
  - **A large foreign brewery may choose to enter regional markets in Germany by acquiring and consolidating breweries, in hopes of developing a national market for its brand,**
  - **A large German competitor may see this threat and follow a similar strategy.**
- **Such a consolidation will most likely effect the medium sized breweries (100-500,000 HI). Small breweries will probably be able to continue servicing local market niches. Medium and some larger breweries are most vulnerable because they are too large to play a niche strategy, yet are too small to benefit from scale economies.**

## **This consolidation will be reinforced by the German retail trade.**

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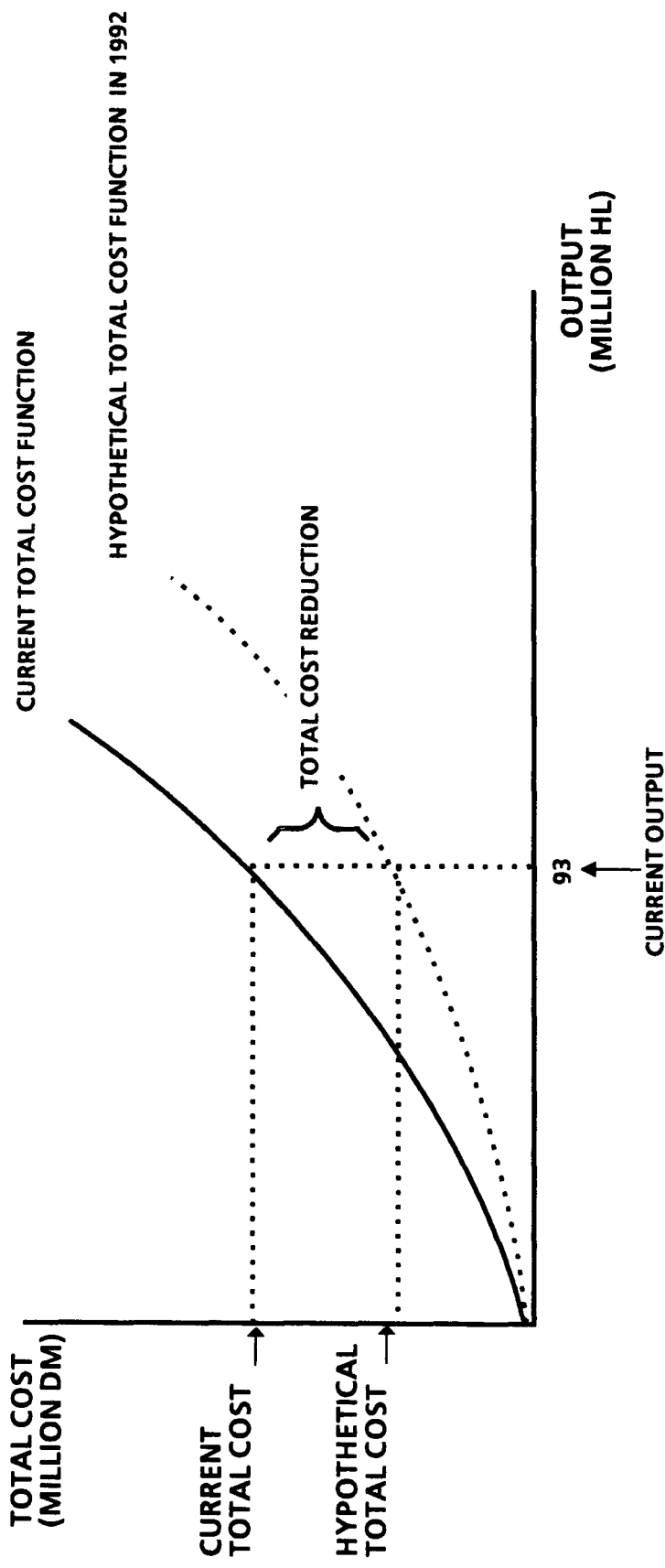
- The retail trade in Germany --as in other EEC countries-- is consolidating :
  - Nationwide chains are emerging.
- Among the most successful players in the retail trade are the discounters (e.g. ALDI) who are reputed to have up to 30 % of the retail market. Aldi alone has a market share of 13 %. Because of their size, discounters are extremely aggressive with suppliers. They guarantee a supplier a large volume in exchange for low prices.
- It is foreseeable that the nationwide retail chains, especially the discounters, may begin seeking to offer national beer brands in their networks of stores. This would put further consolidation pressure on the brewing industry, as only large breweries (including foreign breweries) could compete for such a contract.

## **5. Indirect dynamic effects : increased selection of beers.**

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- **The number of German beer types has historically been limited by the purity laws. The variety of beers in Germany is less than that available in the U.K., as an example, because of the restriction against using flavorings and colorants.**
- **It could be expected that domestic and foreign producers will begin offering new types of beer for sale to the German consumer.**

The principal quantifiable benefit of removing the purity law will be a reduction in total costs required to produce a given quantity of beer



**METHODOLOGY :**

- Derive an output/cost function for German beer industry
- Quantify impact of scenarios on output/cost function
- Total cost reduction = difference between current total cost and hypothetical total cost

**ASSUMPTIONS :**

1. Output remains constant
2. Consumer utility functions and demand curves do not change
3. Impact on factor suppliers (e.g. labor) are transfers with no social welfare implications.

# The impact of each result can be quantified

RESULT	ASSUMPTION	EFFECT	COST REDUCTION (MILLION ECU PER YEAR)	% OF INDUSTRY ADDED VALUE (1)
Ingredient cost reduction	<ul style="list-style-type: none"> <li>Cost are reduced by 2 % for 20 % of production</li> </ul>	<ul style="list-style-type: none"> <li>Cost reduction</li> </ul>	15	0.4 %
Foreign breweries export to Germany	<ul style="list-style-type: none"> <li>Capture 6 million HL of market, mainly from medium sized breweries (120-1000 KHL)</li> </ul>	<ul style="list-style-type: none"> <li>The output of 14 small breweries (120-500 KHL) and four medium breweries (500-1000 KHL) is replaced by foreign imports</li> </ul>	35	1.0 %
Further consolidation in industry	<ul style="list-style-type: none"> <li>Large breweries (&gt; 1 M HL) capture 50 % of market</li> </ul>	<ul style="list-style-type: none"> <li>The output of 22 small breweries and 7 medium breweries is displaced</li> </ul>	40	1.2 %
Large retail chains distribute national brands	<ul style="list-style-type: none"> <li>National brands produced in scale efficient plants capture 5% of market</li> </ul>	<ul style="list-style-type: none"> <li>The output of 4 large breweries (1000-2,000,000 HL) is displaced</li> </ul>	15	0.4 %
<b>Total</b>			<b>105</b>	<b>3.1 %</b>

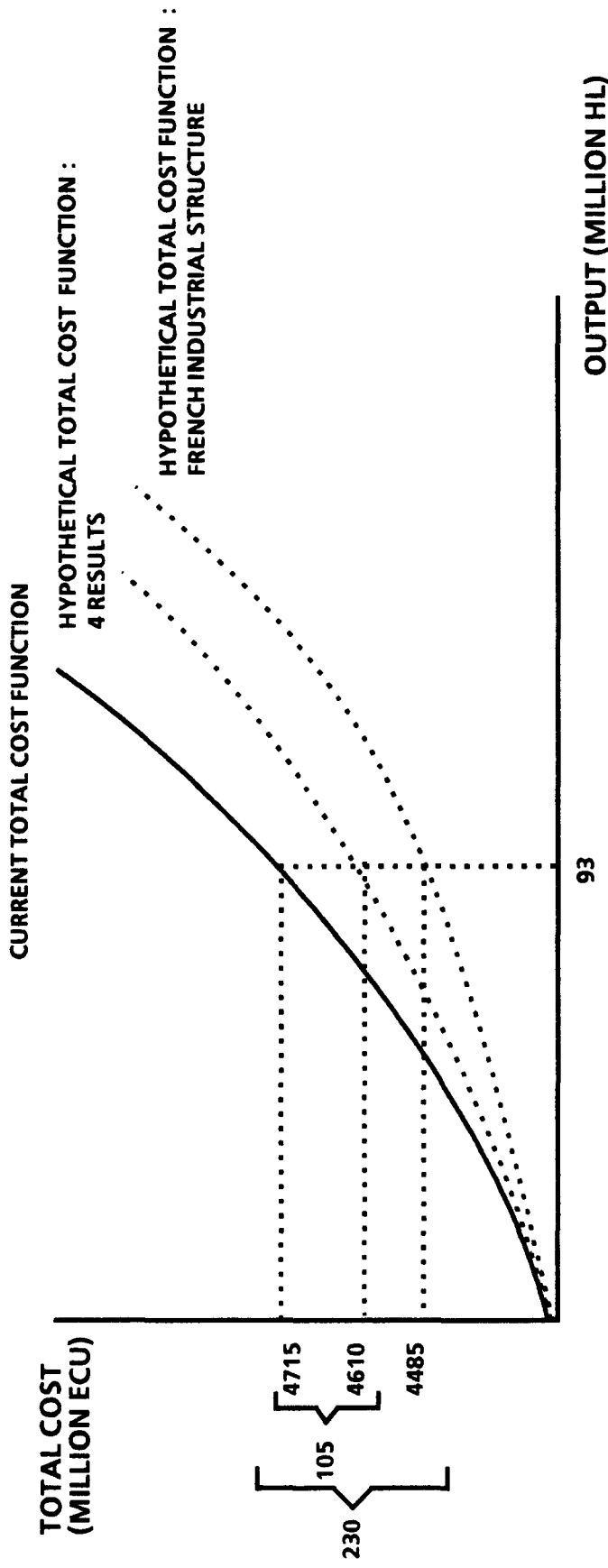
(1) Assuming value added equals turnover (at manufacturers selling prices) less raw materials costs (20 %)

## **An alternative calculation.**

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- **A second calculation involves examining how the cost curve would vary if the distribution of beer production among German breweries was the same as it is in a neighboring country with no purity laws.**
- **France is chosen as a representative example. If the distribution of beer production in Germany were the same as it is in France, a cost savings of 230 million ECU could be realized.**

The two methods of estimating the net benefits are represented below.



- These estimates suggest that removing beer purity law could yield cost reduction of approximately 105-230 million ECU per year.
- This represents 3.1 % - 6.8 % of total industry value added.

## **Substantial uncertainty surrounds these estimates.**

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- **Competitors will act to minimize the impact of removing the barrier :**
  - **Promotional campaigns**
  - **Erect new barriers**
  - **Further lock-in distribution**
  
- **Consumers may be reluctant to accept new beers not made according to the Reinheitsgebot formula.**
  
- **Transfer of beer production to foreign countries could result in unemployment in German locales where breweries are closed.**



# 4.1. Beer Purity Law in Germany

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## **Organizations contacted**

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- **Five breweries**
- **Two trading companies**
- **German National Association**
- **Bavarian Association**
- **Economic institutes**
- **Two Beer institutes**
- **Industry experts.**

## 4. Pilot barrier analyses

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- 4.1 Beer Purity Law in Germany
- 4.2 Pasta Purity Law in Italy
- 4.3 Aspartame restriction in the soft drink industry in France
- 4.4 Vegetable fat restriction for chocolate in France
- 4.5 Vegetable fat restriction for ice cream in Germany
- 4.6 Recycling law beverages drinks in Denmark
- 4.7 Wort excise tax in beer industry in UK
- 4.8 Health registration requirement for baby food in Spain
- 4.9 Bulk transport for spring water in France
- 4.10 Saccharometric content law for beer in Italy
- 4.11 Chlorine restriction for biscuits and cake
- 4.12 Label detail for soup in Spain
- 4.13 "German water bottles" for mineral water in Germany
- 4.14 Plastic containers for mineral water in Italy
- 4.15 Double inspection for spirit imports in Spain

## **4.2. Pasta purity law in Italy**

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### **→ 1. Summary**

#### **2. Overview of Pilot Barrier**

- **Description of Barrier**
- **Description of Industry**

#### **3. Impact of Barrier Removal**

- **Industry and Competitive Structure**
- **Attitudes of Major Players**

#### **4. Quantitative Estimate of Impact**

#### **5. Appendix**

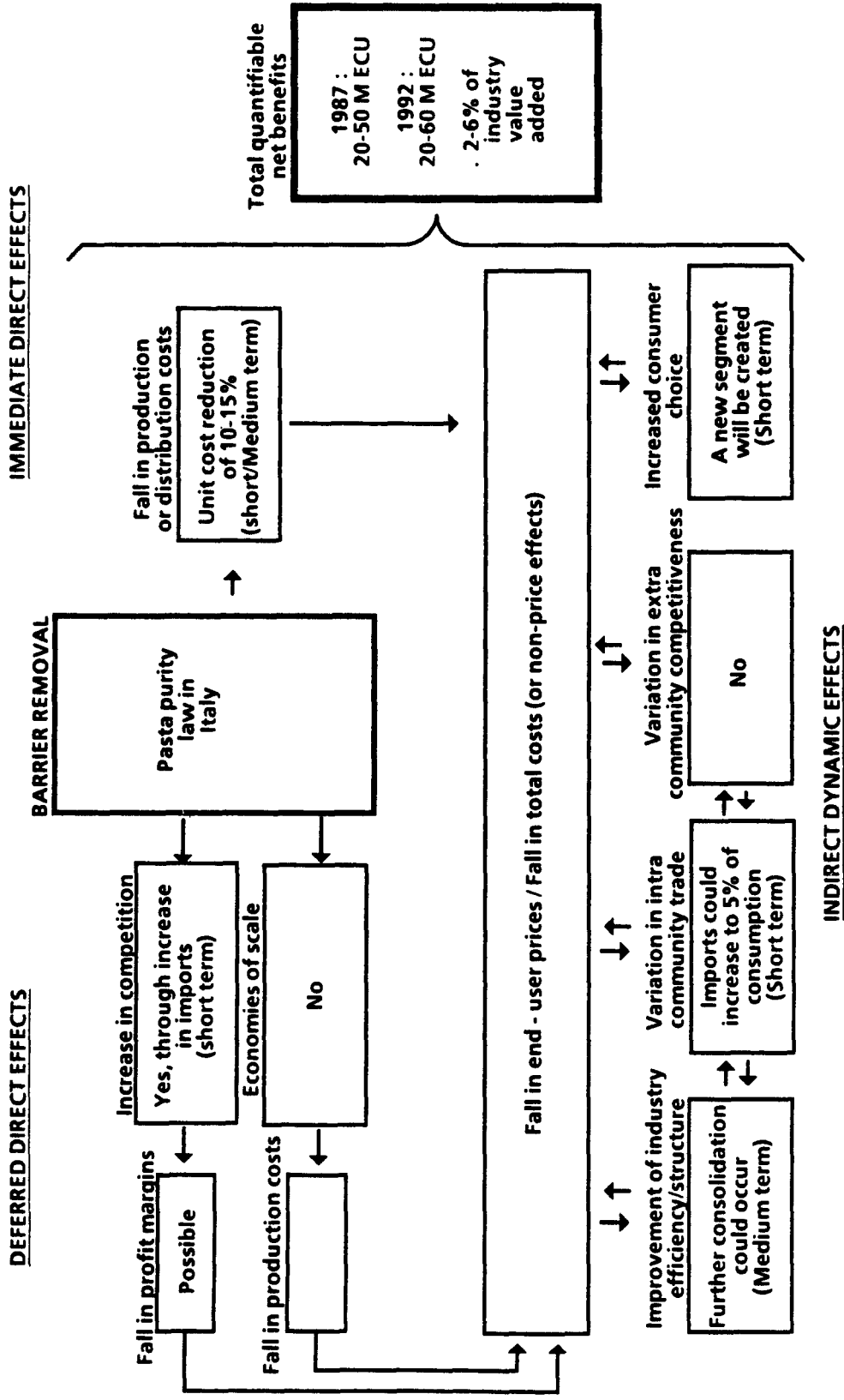
## Summary

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- In Italy, the product name "Pasta" can only be used for pasta made solely from Durum Wheat.
- Prior to the introduction of this law in 1967, "mixed pasta" (Durum plus soft wheat) accounted for about 50% of Italian dry pasta consumption.
- Removal of this barrier would engender
  - A unit cost reduction of 10-15%
  - An increase in imports into Italy of up to 5% of consumption
  - A further consolidation of the industry
- In quantitative terms, removal of this barrier would generate an annual cost savings of 20-60 million Ecus by 1992.



# Summary of impact of barrier removal



## 4.2 Pasta purity law in Italy

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### 1. Summary

### → 2. Overview of Pilot Barrier

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### 3. Impact of Barrier Removal

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### 4. Quantitative Estimate of Impact

### 5. Appendix



## Definitions

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- **Pasta types differ from one EEC country to another.**
  - Spain : Pasta made of durum wheat is dominant; substantial amounts of durum wheat are cultivated in Spain
  - Portugal : Pasta contains both durum and soft wheat
  - UK : Canned pastas prevail containing soft wheat ; Some dry pasta is made of durum wheat
  - Netherlands : Mainly soft wheat, compensated by the use of additives
  - Belgium : Pasta is made from both soft and durum wheat
  - Luxembourg : Durum wheat pasta is dominant
  - Germany :
    - A large portion of pasta contains eggs, using either durum or soft wheat
    - Mixed pasta represented about 66 % of total German pasta consumption in 1984.

"When one speaks of pasta in the EEC, one doesn't refer to the same product".  
French Pasta Association.

- **In this report, dry pasta, refers to pasta made exclusively from durum wheat. Mixed pasta refers to pasta which contains both durum and soft wheat.**

## **Description of Barrier**

---

- **Among the EEC countries, Italy, France, and Greece have established a purity law for pasta.**
- **Legislation in these countries stipulates that "pasta" may be produced and commercialized under this denomination provided it is produced exclusively from durum wheat and water.**
- **The purity law has been in existence since :**
  - **1934 in France**
  - **1967 in Italy**
  - **1972 in Greece**
- **In this report, the term pasta refers to industrially produced pasta only, as opposed to fresh "home-made" pasta.**

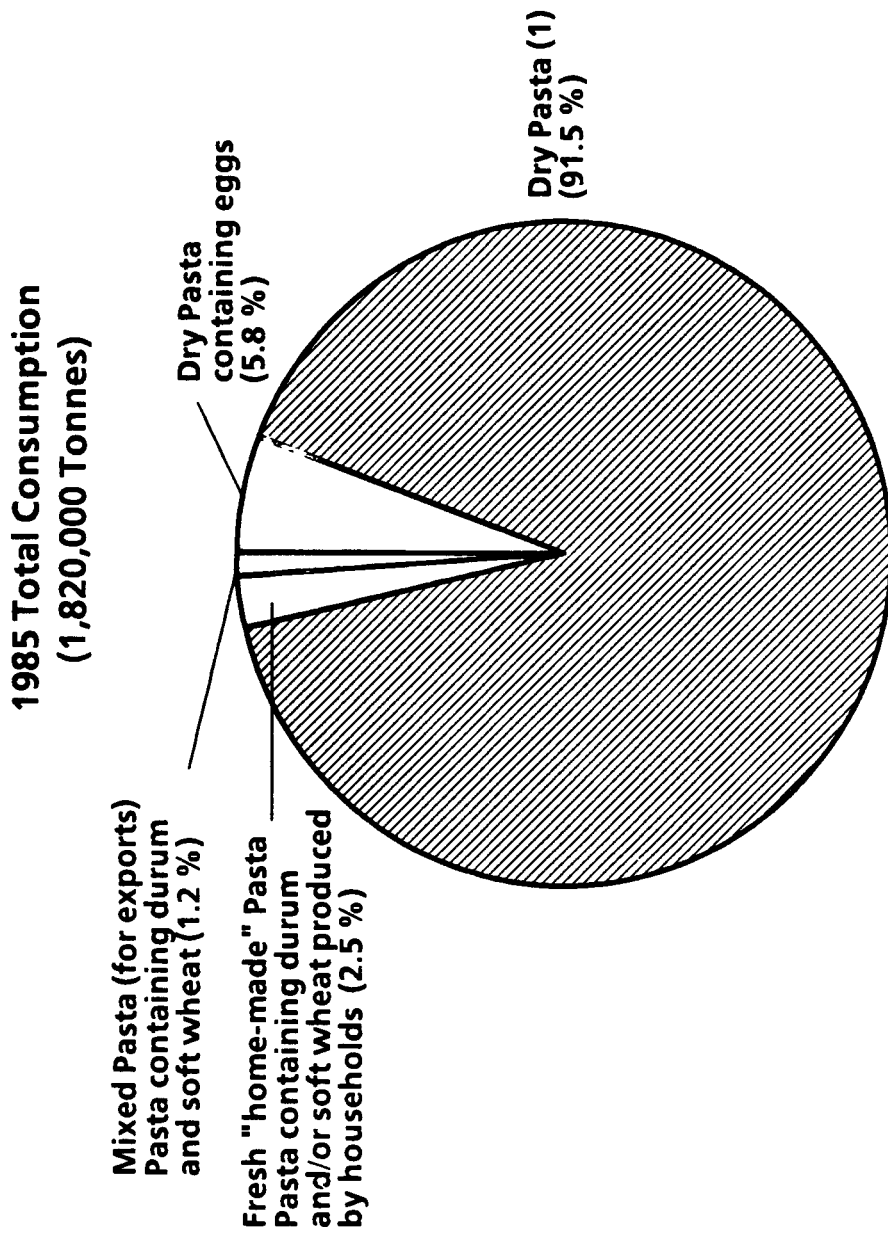
## Description of Barrier

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- **In Italy, the pasta purity law was erected to help Italian durum wheat producers (essentially in the south) obtain a market for their product.**
  - Before the law, "Mixed pasta" (made with soft and durum wheat) accounted for up to 50% of Italian pasta consumption
  - After the law, this proportion fell to close to zero
- **There are only 2 foodstuffs made from durum wheat :**
  - Pasta
  - Couscous.
- **Conversely, soft wheat can be processed into flour, which can be used for :**
  - Pasta
  - Bakers' wares

# Segmentation

- Dry (durum based) pasta dominates Italian pasta consumption



Mixed Pasta (for exports)  
Pasta containing durum  
and soft wheat (1.2 %)

Fresh "home-made" Pasta  
Pasta containing durum  
and/or soft wheat produced  
by households (2.5 %)

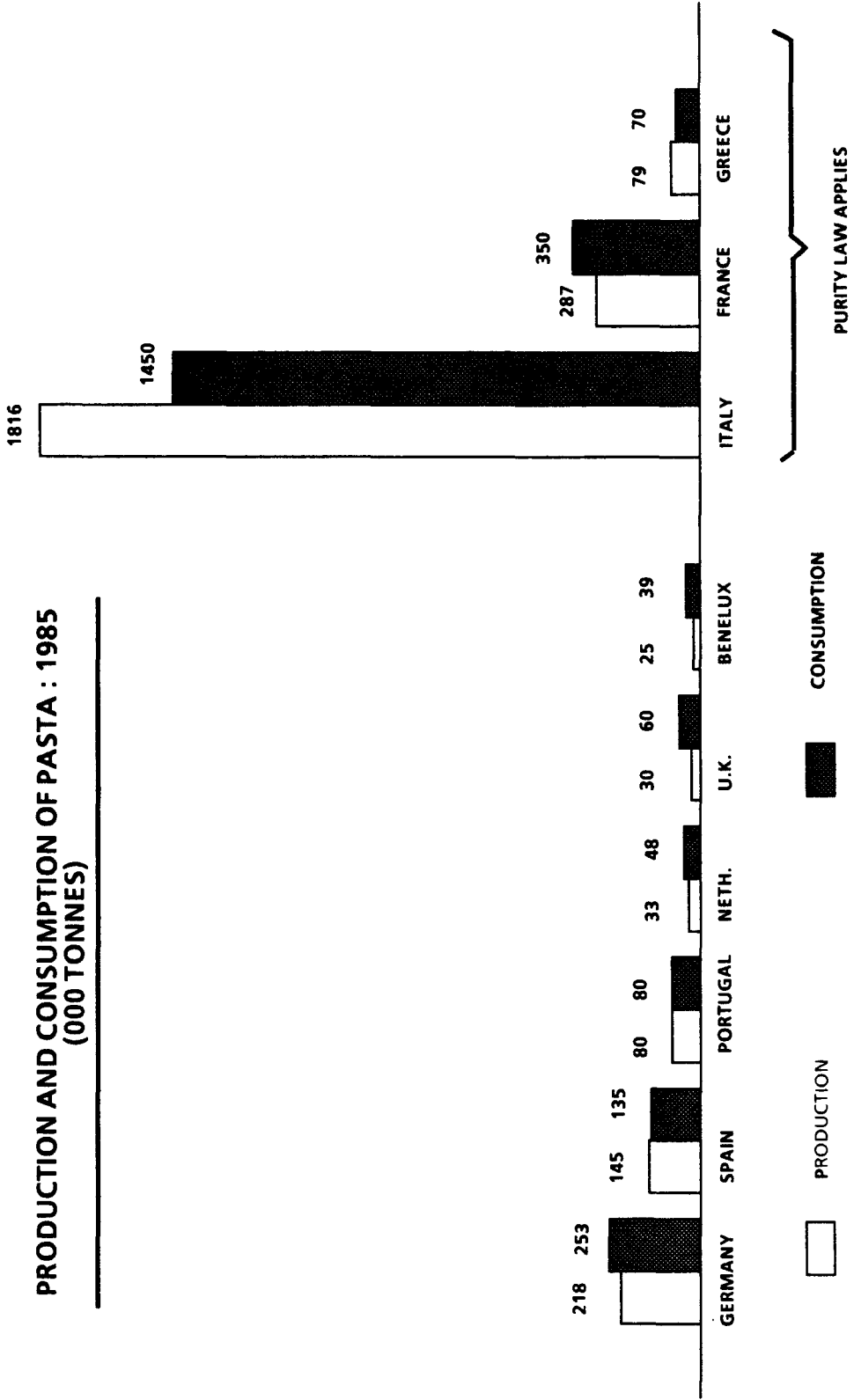
Dry Pasta (1)  
(91.5 %)

Dry Pasta  
containing eggs  
(5.8 %)

(1) short (45 %), long (41 %), specials (5,5 %)  
Note : these segments include filled pasta (eg raviolis)  
Source : Largo Consumo

# Market

- Italy, France and Greece together comprise 80% and 75% of production and consumption respectively.



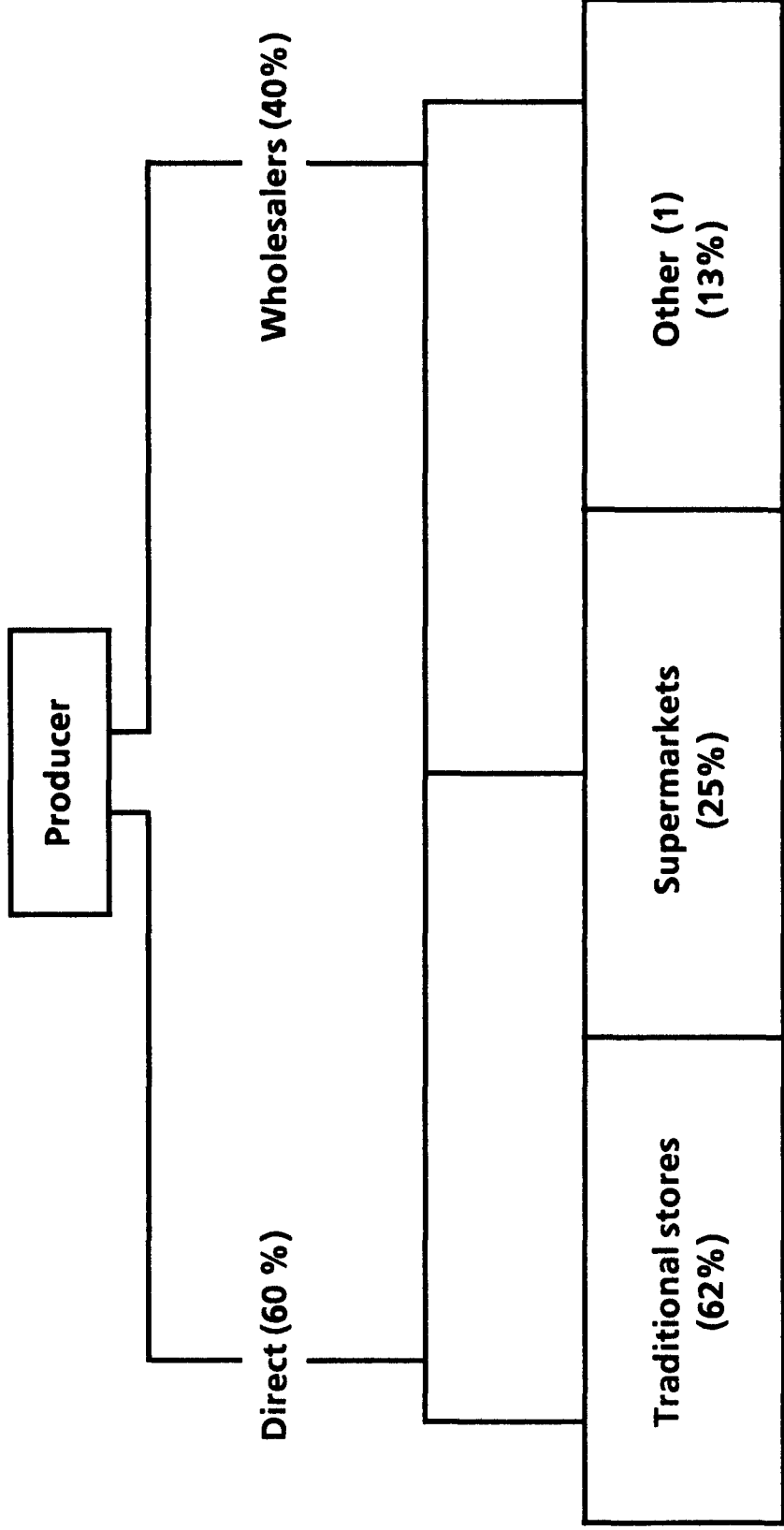
## Consumer trends

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- **Pasta is a traditional, product that varies regionally, and is the most highly consumed food product in Italy**
  - Its penetration rate in Italian families equals 100 %
  - Over 100 different pasta types exist
  - Except for the two leading brands in terms of market share (Barilla, Buitoni), few national brands exist
  - Company names almost always relate to a family name
  - Consumption is highest in the south and the islands, however this trend is reversing with the "dieta mediterranea" in the North, of which pasta is the main dish.
  - About 85 % of pasta is consumed in private homes. The remaining 15 % is consumed in hotels and restaurants. About 20 % of Italian families make home-made pasta, "pasta fatta in casa".

# Distribution Trends

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(1) restaurants, institutions, etc,  
Source : Largo Consumo, Interviews

# Manufacturers

- The top 10 Italian pasta manufacturers have a combined market share of 50% ; the average profitability (ROS) in 1985 was 1,66%

COMPANY	MARKET SHARE (%)	1985 TURNOVER (Bio. Lit.)	1985 NET INCOME (Bio. Lit.)	R.O.S. (4) (%)
BARILLA ( + Voiello) (1)	27	1204	50,6	4,2
BUITONI (Gruppo CIR)	6	1177	0,4	0,7
AGNESI	3,8	81	0,97	1,2
AMATO	3,4	92	2,3	2,5
FEDERICI	2,2	N.A.	N.A.	N.A.
PONTE S. GIOVANNI (2) (Perugia)	2,1	78	0,72	0,1
CORTICELLA	1,9	141	0,95	0,7
DE CECCO	1,7	N.A.	N.A.	N.A.
SPIGADORO PETRINI	1,5	142	3,2	2,3
ALBADORO	1,0	N.A.	N.A.	N.A.
<b>TOP 10</b>	<b>50,6</b>			
Approximately 200 other manufacturers (3)	49,4			

(1) Turnover and profits include, Pasta 46%, Bakery products 45%, Other 11%

(2) Since 1986, Ponte S. Giovanni merged with Liebig to become Ponte-Liebig (BSN)

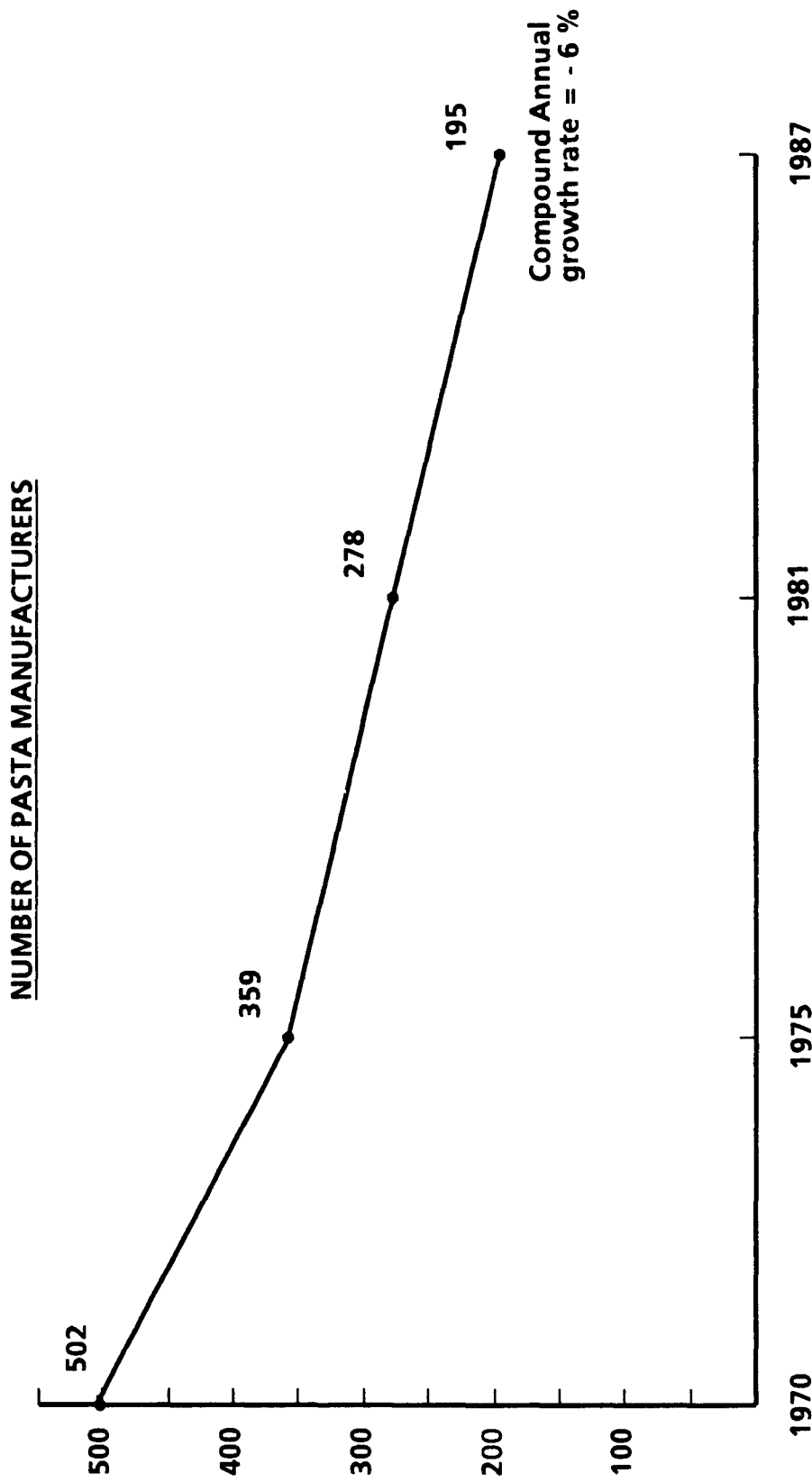
(3) Approximately 4 tons per year on average in annual production volume

(4) Return on Sales in %



## Manufacturers (Contd)

- The Italian pasta industry is consolidating. Manufacturers are distributed evenly throughout the country ; though there are relatively fewer producers in the center of the country.



Source : UNIFI, Interviews

## 4.2. Pasta purity law in Italy

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## **Impact of Barrier removal**

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- **Before the purity law, mixed pasta accounted for 50% of Italian pasta consumption**
- **According to industry specialists, new technologies (e.g. high temperature) have significantly reduced differences between soft and durum wheat pastas in terms of :**
  - **taste**
  - **cooking process**
- **Because of the relative cost advantage of soft wheat versus durum wheat, in most EEC countries (e.g. Germany), manufacturers tend to market both mixed (at a lower price) and dry pasta.**
- **If the barrier is removed in Italy, a similar substitution of soft for durum pasta would occur**
- **In the short term, removal of the barrier would also engender an increase in pasta imports**

# Attitudes of Major Players

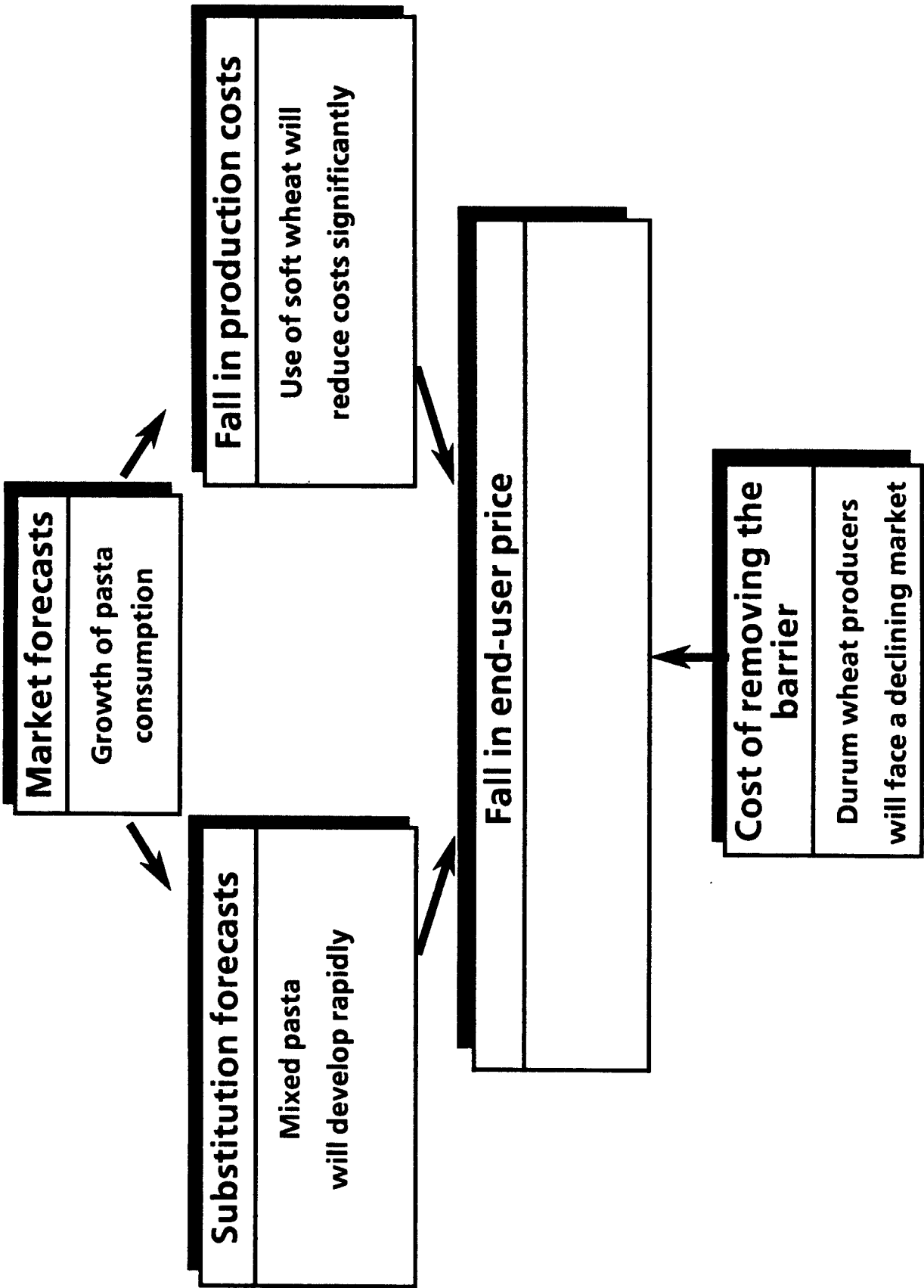
	FAVORABLE	UNFAVORABLE	GLOBAL
Wheat Producers	Soft wheat producers	Durum wheat producers	-
Millers	Soft wheat millers	Durum wheat millers	=
Pasta Manufacturers	Large companies may increase their market share through investments in soft pasta technology	Medium-sized companies will face increased competition	=
Consumer/retailer	Cost of pasta may be significantly reduced	-	+ +
Total			+

## 4.2. Pasta purity law in Italy

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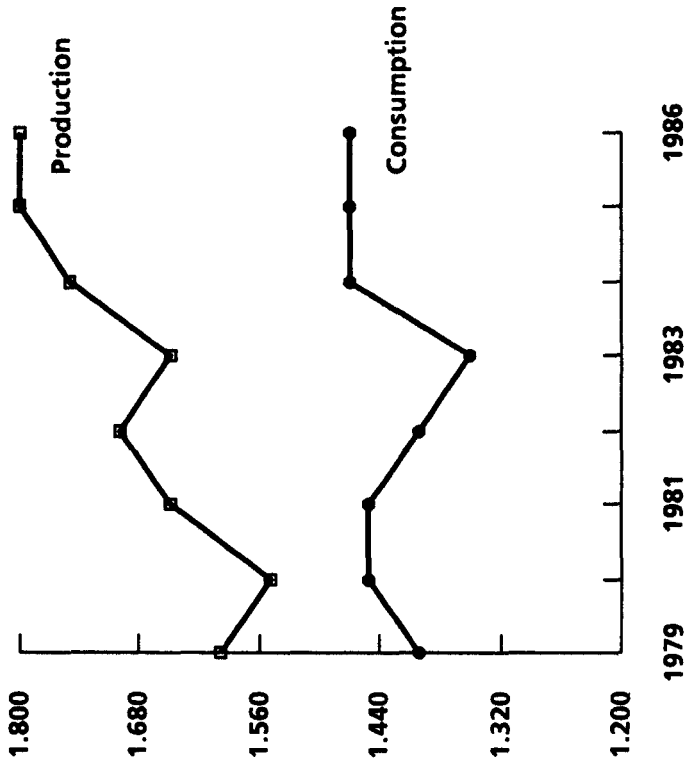
# Immediate direct effects



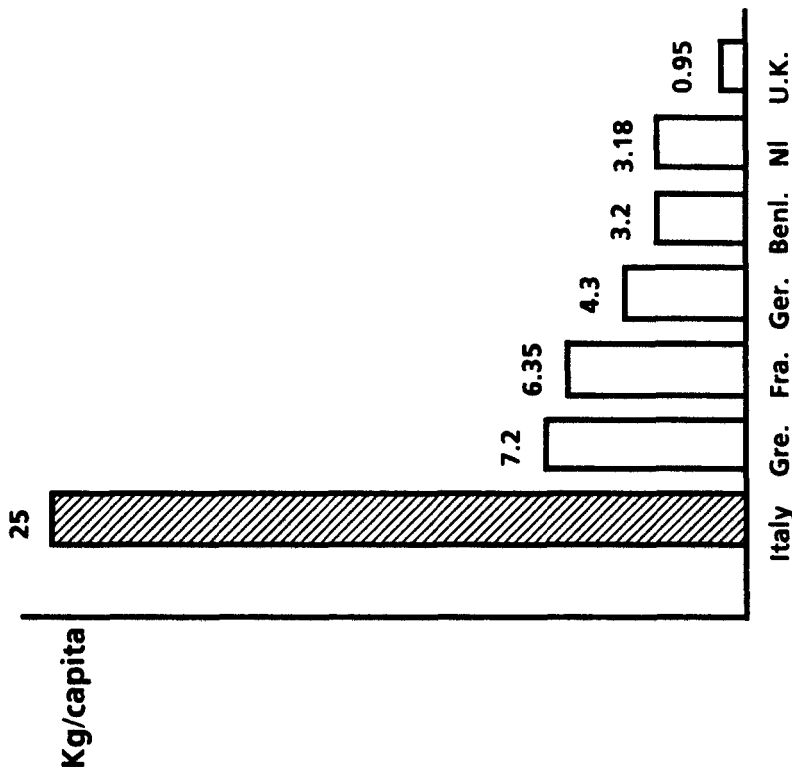
# Market Forecasts

- Since the 1970's, pasta has reached a maturity stage in terms of volume. However, niches exist for certain segments of the industry. Industry specialists estimate that the pasta industry will grow at 1-2 % per year.

Italian production and consumption ('000 T)



Annual consumption in Kg per capita (1985)



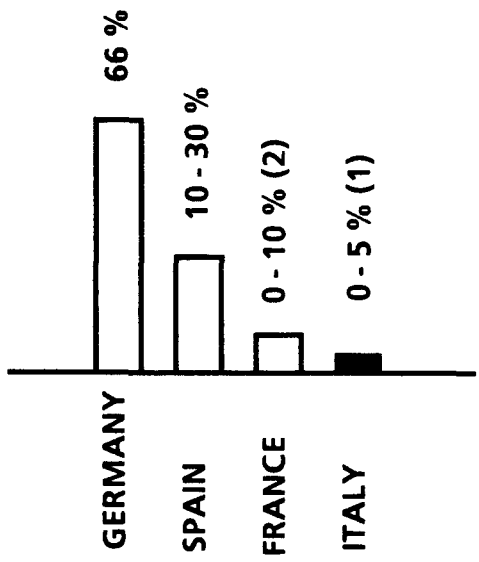
Source : UNIFI

Source : Interviews, industry estimates

# Substitution Forecasts

- Penetration of mixed pasta could reach 10 to 20 % of the Italian global consumption.

Current penetration is low ...



... However, interviewees felt that it could become significant

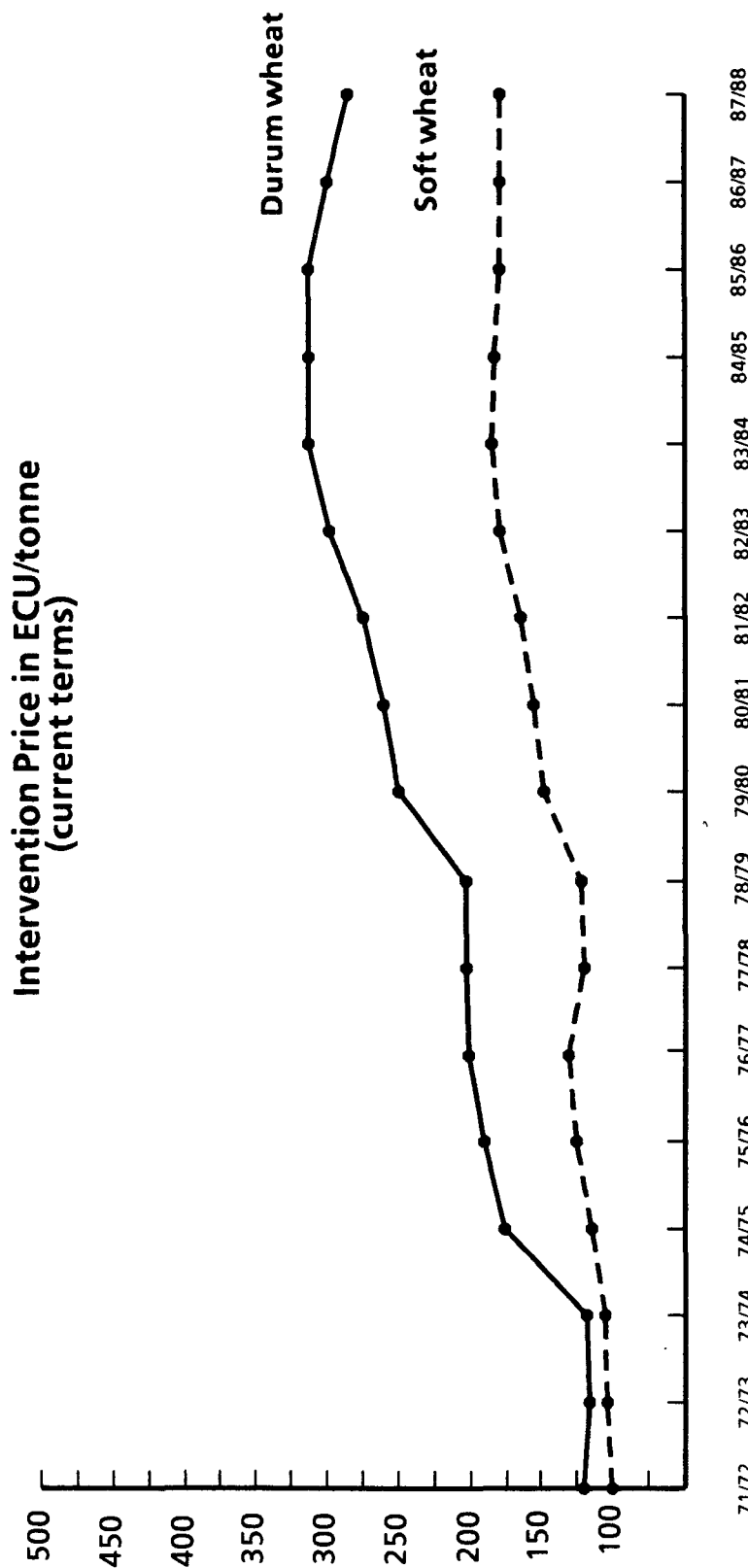
- "In Germany, soft wheat consumption in pasta has continually grown in the past 5 years".
- "Nutritional properties of durum wheat are much higher than soft wheat".
- "Due to Italian pasta tradition, Italian manufacturers will not accept a change in the composition of their products".
- "In 1965, mixed pasta represented 50 % of the total Italian consumption"
- "The penetration of mixed pasta could go as high as 20 %"

- (1) according to interviews ; some local manufacturers already include soft wheat in their production
- (2) This penetration occurs despite the purity law



## Fall in Production Costs

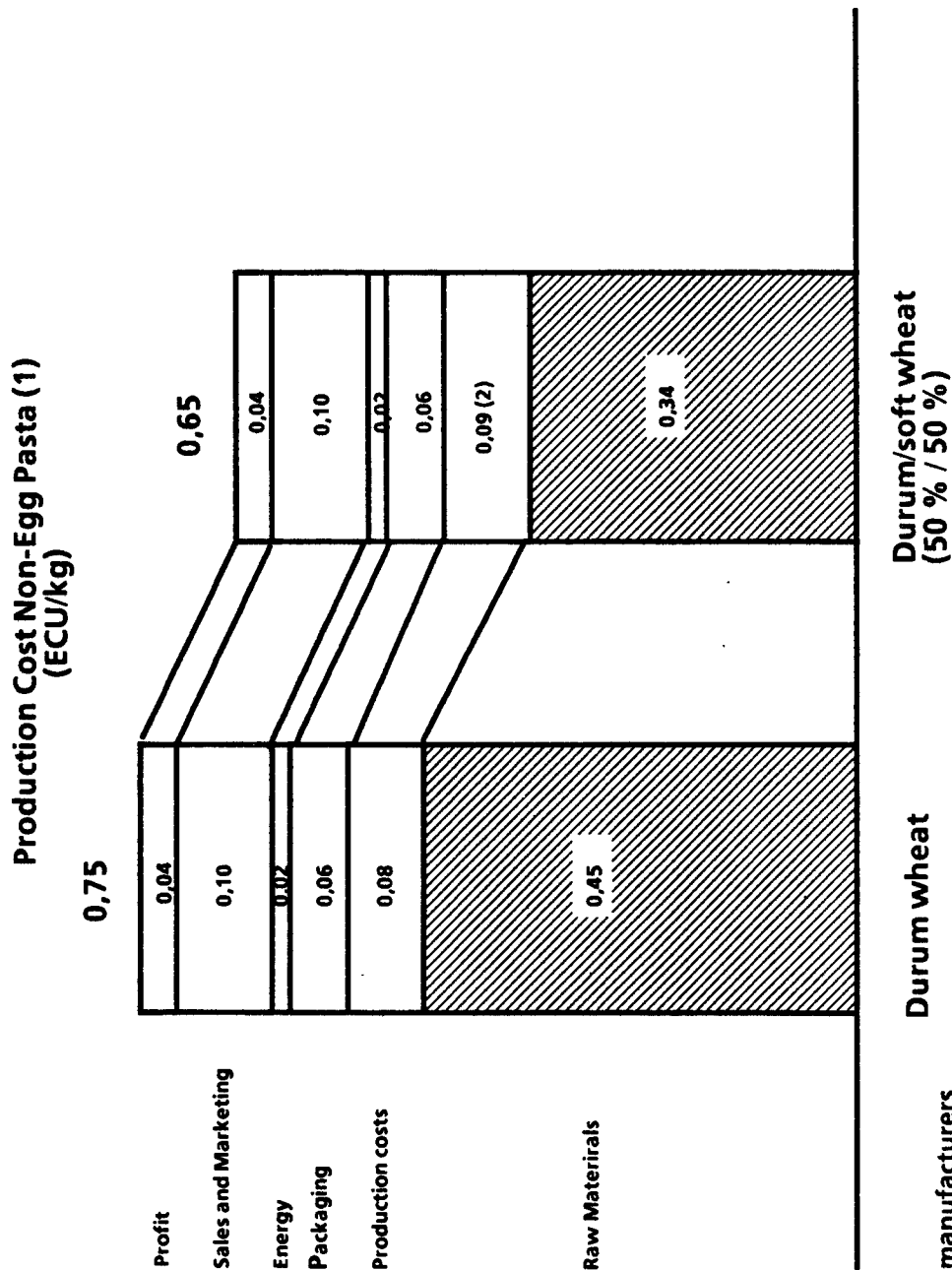
- Soft wheat is 40-60 % less expensive than durum wheat. According to interviews, because of the physical and nutritional properties of this wheat, this price difference will not be less than 20% in the future



Source : Comité Français de la Semoulerie Industrielle

# Fall in Production Costs (Contd)

- Use of 50 % of soft wheat could reduce the costs of the final product by 10-15 %



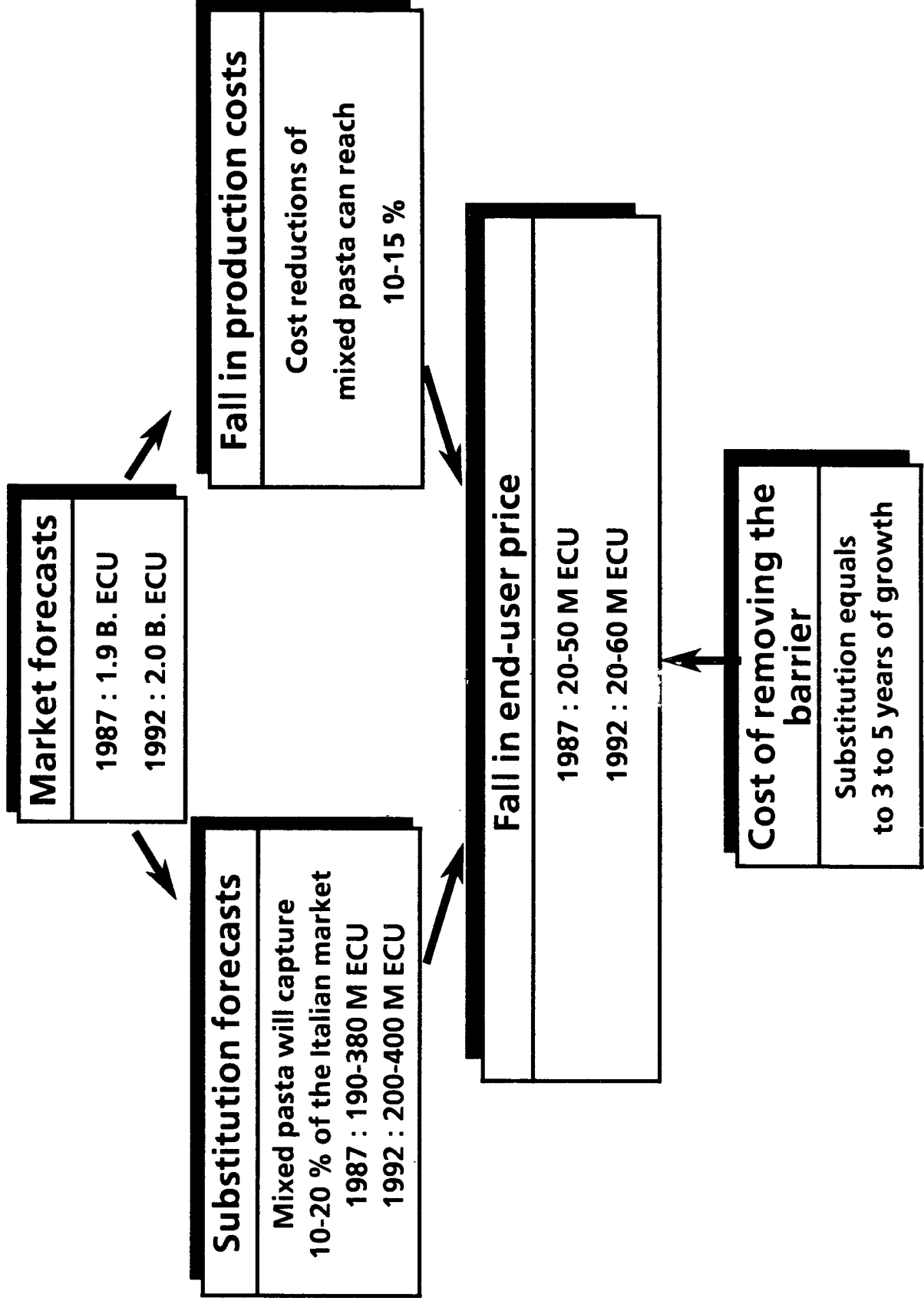
Source : Pasta manufacturers  
 (1) plant size : 100 T/day  
 (2) Increase is due to the higher capital intensity required to produce mixed pasta

# Costs of Removing the Barrier

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- **Restructuration of durum wheat industry**
  - Global consumption of durum wheat for the Italian pasta industry amounts to 3 million Tons (67 % of total production in 1986)
  - Increase in mixed pasta consumption would reduce the output by 150,000 T to 300,000 T for durum wheat (assuming 50%/50% mixed pasta, and 10 to 20% penetration). This amount represents 3,5 to 7% of actual Italian production of durum wheat.
  - This equals to 3 to 5 years of growth in demand for durum wheat. Despite a stagnant Italian consumption, demand for durum wheat has increased due to rising exports
- **Adaptation of plants.**
  - Durum milling companies will face a substantial reduction in capacity utilization.
  - Manufacturers will easily adapt their production facilities.

# Immediate Direct Effects : Pasta Purity Law in Italy



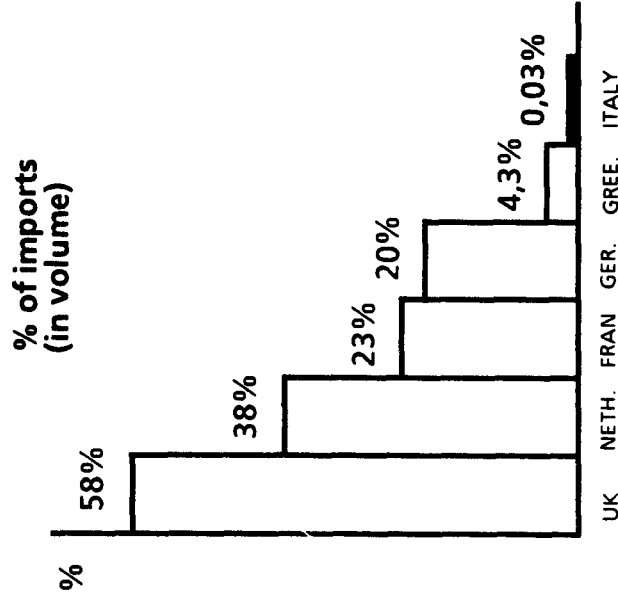
## Deferred Direct Effects : Weak

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- Increase in competition
  - Competition should increase because of the threat of imports, and because of the consolidation of the industry
  - Prices to the final consumer may fall ; however, the Italian pasta industry is not very profitable to begin with, so it is unlikely that producers could sustain lower prices
    - Italian average net income over sales : 1-2%
- Economies of scale
  - The pasta industry is currently experiencing an increase in the optimal size of production units (e.g. technology investments). However, this increase is not linked to the pasta purity law.
  - If further technological investment is required to produce mixed pasta --that can compete successfully with durum pasta-- this consolidation trend may be augmented.

# Indirect dynamic Effects : Medium (up to 5% of trade)

## • Variation in intra-community trade



Source : UNIFI, Eurostat

- The Italian market is nearly closed to trade. This is largely due to the Italian tradition of world leadership in the pasta industry.
- Italian industry claims "before 1967 (date of establishing the purity law), imports were inexistant".
- "At the beginning, imports may significantly increase before national industry adjustment takes place".

## • The removal of this barrier will create a new consumer segment in Italy : mixed pasta.

- Industry experts predict that while mixed pasta may never again reach 50% of the market, it could become 10-20% of the market.
- The mixed pasta segment will largely be consumed by lower socio-economic classes.

## 4.2 Pasta purity law in Italy

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## **Organization contacted**

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- **UNIPI (Roma)**
- **ITALMOPA**
- **French Pasta Association (Paris)**
- **German Pasta Association**
- **4 Italian pasta manufacturers**



## 4. Pilot barrier analyses

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- 4.10 Saccharimetric content law for beer in Italy
- 4.11 Chlorine restriction for biscuits and cake
- 4.12 Label detail for soup in Spain
- 4.13 "German water bottles" for mineral water in Germany
- 4.14 Plastic containers for mineral water in Italy
- 4.15 Double inspection for spirit imports in Spain

## **4.3. Aspartame restriction in soft drink industry in France**

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### **→ 1. Summary**

#### **2. Overview of Pilot Barrier**

- Description of Barrier
- Description of Industry

#### **3. Impact of Barrier Removal**

- Industry and Competitive Structure
- Attitudes of Major Players

#### **4. Quantitative Estimate of Impact**

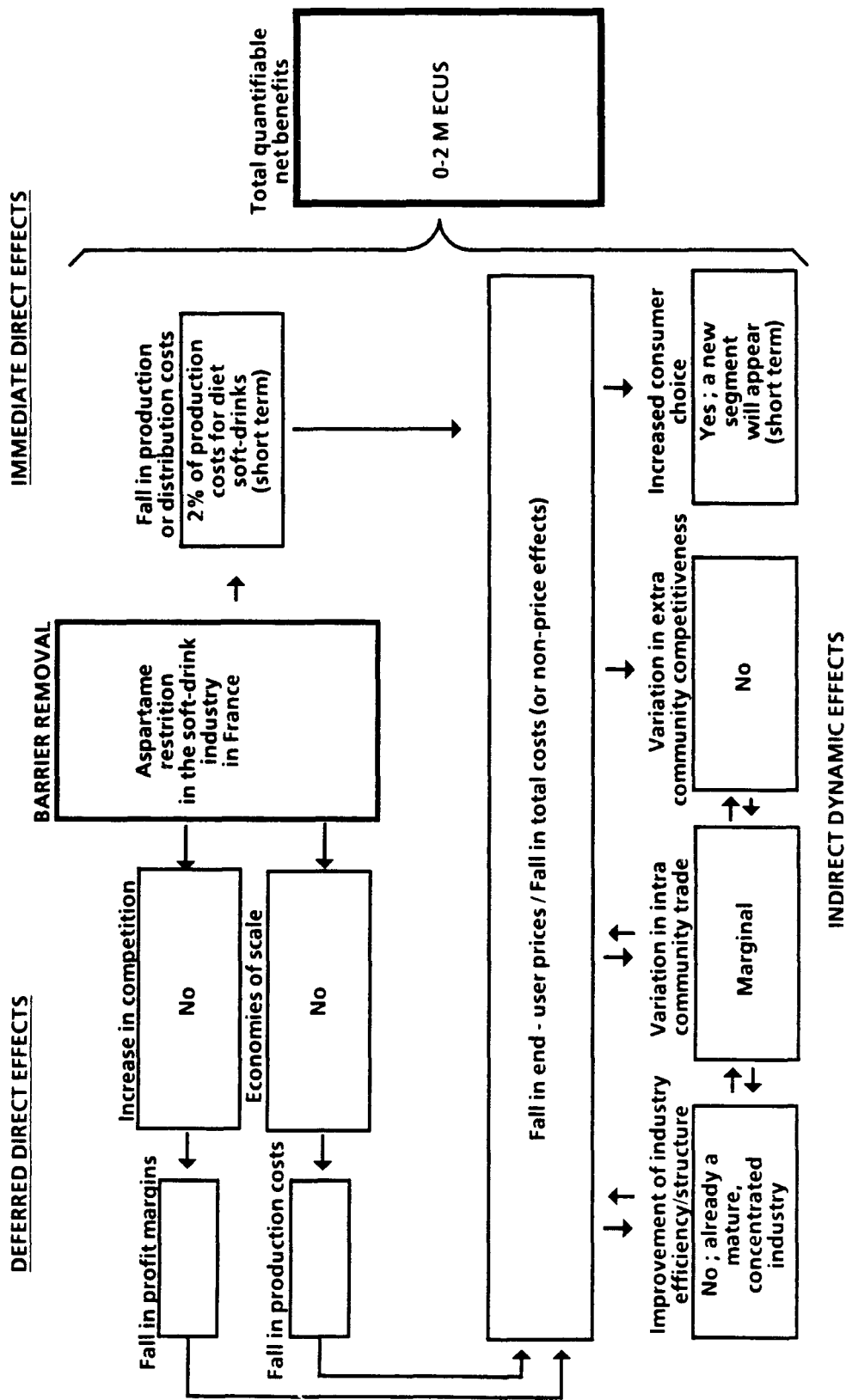
#### **5. Appendix**

## Summary

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- **In France, the artificial sweetener aspartame is forbidden in soft drink manufacturing.**
- **Removing this restriction will have two effects**
  - **A new diet segment will be created,**
  - **Lower the costs of producing diet soft drinks will be lowered.**
- **The direct cost reduction from removing the barrier is low : 0-2 million Ecus.**
- **The most significant effects will be the creation of a diet segment in France, which could grow to 5-10% of French soft drink consumption.**

# Summary of impact of barrier removal



## 4.3. Aspartame restriction in the soft drink industry in France

---

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### 5. Appendix

## Definitions

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- **Soft drinks are defined as thirst quenching drinks, without alcohol, consisting of five product groups : lemonades, fruit-based drinks, sodas, tonics and bitters, and colas.**
- **Fruit-based drinks include drinks with 12-25 % fruit juice content.**
- **Fruit juice is not included in the soft-drink category.**

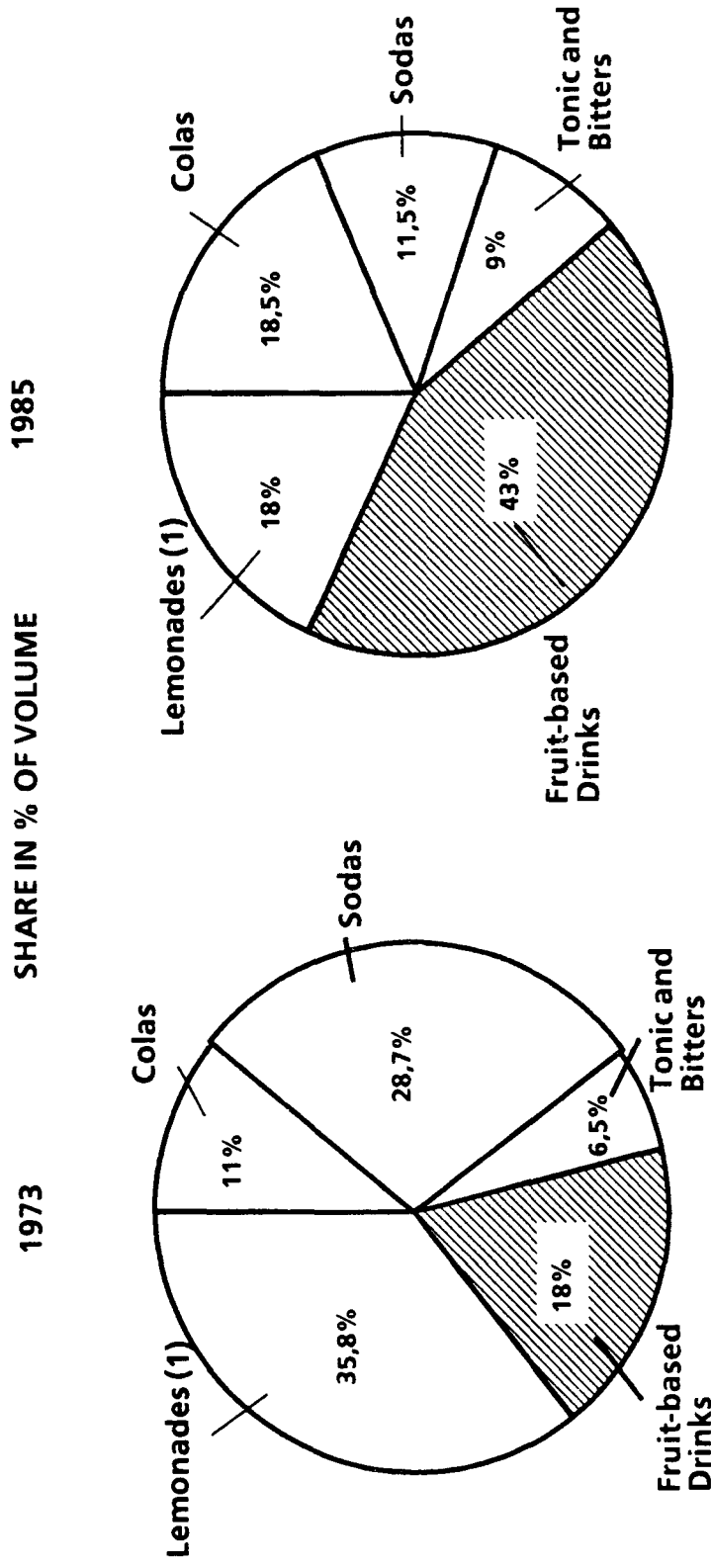
## Barrier description

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- The traditional non-nutritive sweetener in soft drinks has been saccharin. However, questions have been raised in recent years about the safety of this product, and legislation currently requires that consumer safety warnings be displayed on soft drinks containing saccharin. Other non-nutritive sweeteners have more recently made their appearance, the most notable of which is the product aspartame, pioneered by the G. D. Searle Company.
- Aspartame is, on a pound for pound basis, some one hundred and eighty times sweeter than the natural sugar (sucrose) used in soft drinks.
- Aspartame has been approved in most European countries for use in soft drinks, and already, several diet brands have appeared with this product as a major sweetening ingredient.
- In France, Aspartame utilization is forbidden in soft drink manufacturing. In this section, we will focus on all non-nutritive sweeteners that can be used in the soft drink industry. Aspartame will be taken as an example, knowing that major brands use simultaneously different sweeteners in their composition.

# Segmentation

- Fruit-based drinks constitute the largest soft drinks sector in France.



(1) including lemonades and lemon lines

Source : Industry statistics, CSA



## Consumer Trends

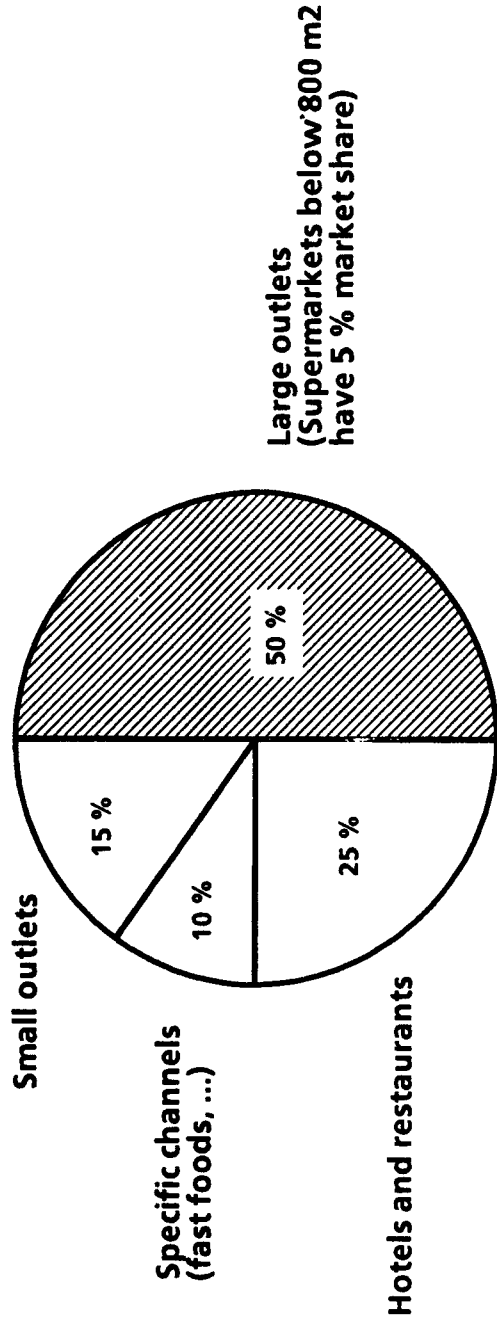
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- The aging of the population has a major influence on soft drink consumption. The 15-24 and 25-34 age groups, which historically have been the highest groups in per capita consumption of soft drinks, are both becoming a smaller percentage of the total population and are decreasing in absolute size.
- Although many consumers will maintain their preference for caffeinated, naturally sweetened soft drinks, it is likely that these products will, at best, face level demand, and market growth will be driven by other alternatives such as diet and caffeine free soft drinks, fruit juices and sodium free beverages.
- This is because of the aging of the population, and because of an increasing health consciousness among soft drink consumers.

# Distribution trends

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- Soft-drink packaging varies from segment to segment ; but on average, glass bottling represents more than 70 % of all packaging types.
- The retail sector accounts for more than 60 % of sales



Source : Secodip, Nielsen

# Manufacturers

- The 3 major players capture more than 45 % of the total market.

Group	Company	Brand	1984 shares (%)
Pernod	Orangina	Orangina	<u>15.3</u>
	JFA Pampryl	Banga	10.7
Coca-Cola (1)	Coca-Cola	Coca-Cola	<u>17.6 (1)</u>
	Coca-Cola	Fanta	14.2
Perrier	Volvic	Oasis	<u>12.2</u>
	SBGV	Pepsi-Cola	5.7
BSN	SBGV	Pschitt	2.5
	SBGV	Gini	2.5
Nestle	Evian	Fruite	<u>2.4</u>
	Vittel	Delices	<u>1.4</u>

(1) Pernod has a major share in Coca-Cola sales (bottling/distribution)

Source : Industry estimates

# Manufacturers

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## Coca-Cola Export Corporation, France

- The french subsidiary of the Coca-Cola Export Corporation, part of Coca-Cola Company, coordinates the marketing of Coca-Cola in France via a complex system of franchises. The company has a plant at Lille, which manufacturers Coca-Cola concentrate that is purchased by the franchisees
- The main concessionaire of the Coca Cola Company in France is Société Parisienne et Régionale de Boissons Gazeuses, a 100 per cent owned subsidiary of Pernod Ricard. The company is involved in the bottling and distribution of this product and other products of the Coca-Cola company (Fanta, Finley, Sprite and Caffeine-free Coca-Cola).

## Schweppes, France

- Schweppes, France was founded in 1928 and became a subsidiary of the British Cadbury-Schweppes group (the world's fifth leading producer of soft drinks) in 1980. Schweppes France operates two factories producing Indian Tonic, Bitter Lemon, Ginger Ale, Soda Water.

## **Manufacturers**

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### **Schweppes, France (cont'd)**

- **Schweppes France is the leading supplier of tonics and bitters in France and dominates the sector with a market share of 40 per cent. Overall, Schweppes France is the fifth leading supplier by volume and the fourth by value of soft drinks in the grocery sector.**

### **Pernod Ricard**

- **In recent years, Pernod Ricard has acquired famous french companies in the soft drinks industry : Orangina (brand Orangina, Fruidam) and JFA Pampryl (Banga).**
- **Cie Française des Produits Orangina is the leading supplier to the French market of fruit based drinks, with an overall market share of some 35 per cent (by volume) in this segment. Orangina has the virtual monopoly of sales of fruit based drinks in the restaurant / hotel sector, but accounts for only about 20 per cent of sales in the grocery trade.**

## **Manufacturers (Cont'd)**

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### **Perrier**

- **Perrier, the world's leading producer of sparkling mineral water, is also an important supplier of soft drinks. Perrier's subsidiary, the Compagnie Française des Boissons Gazeuses, created in 1962, has the sole concession for the bottling and sales of Pepsi-Cola in France. Another Perrier subsidiary produces the Pschitt range --Orange, Citron, Limonade, Tonic, Bitter and Menthe-- as well as the Gini and Bali fruit drinks.**
- **In 1985, Perrier has acquired Volvic (Sellier-Leblanc Group) which produces mineral water and fruit drinks marked under the brands of Oasis, Volvilante and Orphea.**

### **Société Générale des Eaux Minérales de Vittel**

- **The company is a société anonyme with a capital of Fr 35.6 M, 33 % of which is held by Nestle Alimentana Company. Apart from the Vittel mineral water (Vittel Grande Source and Source Hépar), Vittel markets Sparkling drinks and sodas sold under the brands of Vitteloise, Petillante, Delices and Ricqlès (Ricqlès - Zan subsidiary).**

## **Manufacturers (Cont'd)**

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### **Société Anonyme des Eaux d'Evian**

- **The company is a subsidiary of the BSN-Gervais Danone group.**
- **Société Anonyme des Eaux d'Evian is involved in the production of mineral water and of soft drinks including Fruité sparkling fruit drinks; Eva fruit juices and syrups; and Athlon drinks, recommended to people engaged in sports.**

## **4.3. Aspartame restriction in the soft drinks industry in France**

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### **1. Summary**

### **2. Overview of Pilot Barrier**

- Description of Barrier
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### **→ 3. Impact of Barrier Removal**

- Industry and Competitive Structure
- Attitudes of Major Players

### **4. Quantitative Estimate of Impact**

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## **Impact of barrier removal**

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- **Introduction of Aspartame in the soft-drink industry will significantly stimulate the market. A new diet segment will be created.**
- **The development of this segment could have different impacts.**
  - **Lower the cost of producing soft-drinks, because Aspartame may become less expensive than sugar.**
  - **Cannibalize the traditional segments in the market.**
  - **Potential increase of foreign soft-drinks containing Aspartame**

# Attitudes of major players

	Favorable	Unfavorable	Global
Suppliers	Chemical companies will find a new market (but small)	Sugar producers will face a reduction in their potential output	-
Producers	Use of Aspartame will lower the costs of production. Diet segment will stimulate the soft drinks market	Creation of new products may increase the intensity of competition between manufacturers	+ +
Bottlers	Growth of the market	Scale effects in the bottling industry (linked to the output per product) with increase plant consolidation	=
Retailers/ consumers	New choice ; attractiveness of sugar-free segments	Costs of referencing new products for retailers	+ +
<b>Total</b>			<b>+</b>

## Attitudes of major players

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- In most cases, manufactures believe that the growth of a diet segment will not "cannibalize" the global growth of soft drink consumption in France.
- "It would be against the interest of the strong brands to permit consolidation of regular and diet versions using Aspartame into a single brand... because product proliferation acts to help the competitive position of strong brands vis-a-vis the weaker competition".
- "To some extent, the introduction of a diet segment may increase the competition among manufactures".

## **4.3. Aspartame restriction in the soft drink industry in France**

---

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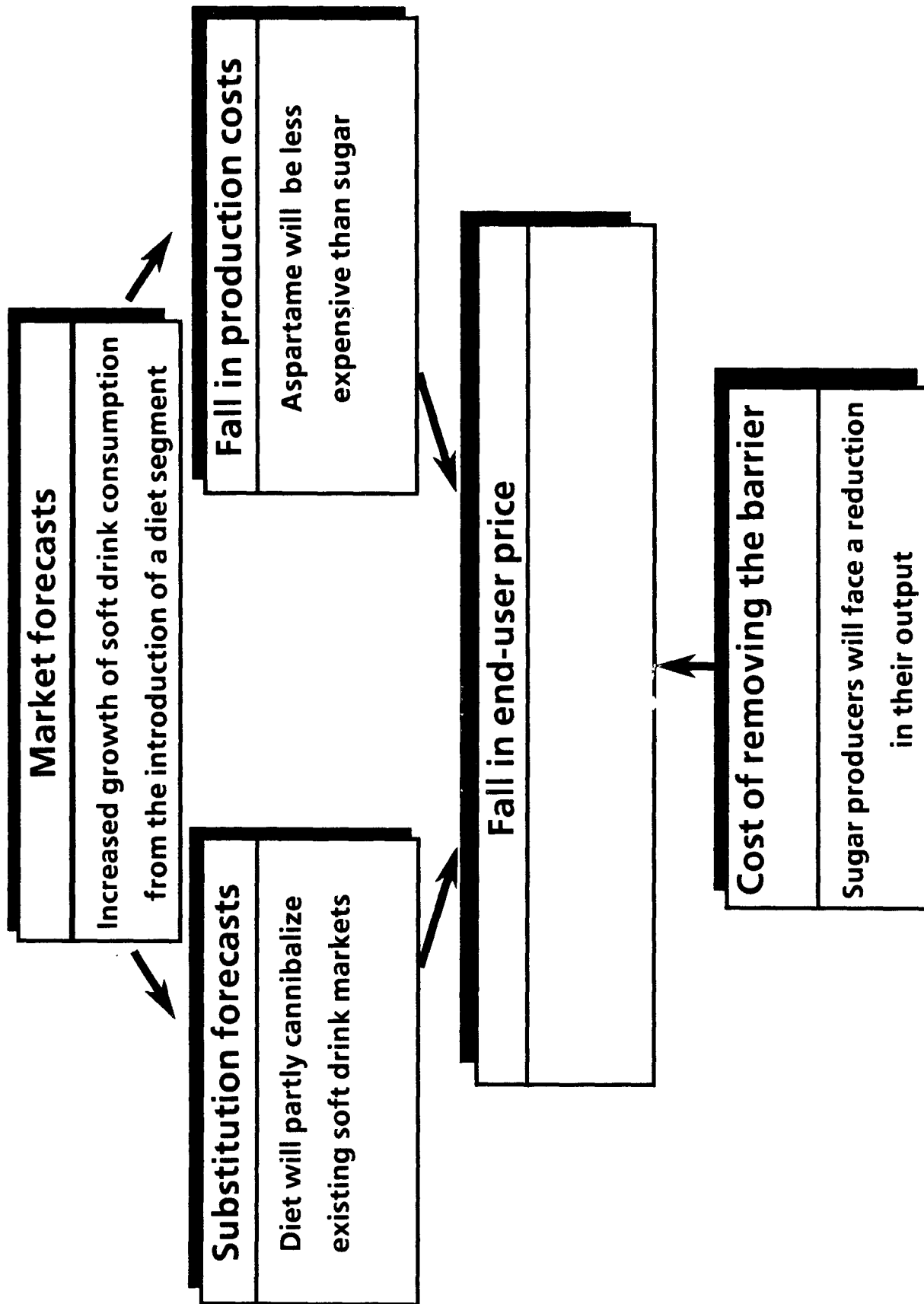
### **3. Impact of Barrier Removal**

- Industry and Competitive Structure
- Attitudes of Major Players

### **→ 4. Quantitative Estimate of Impact**

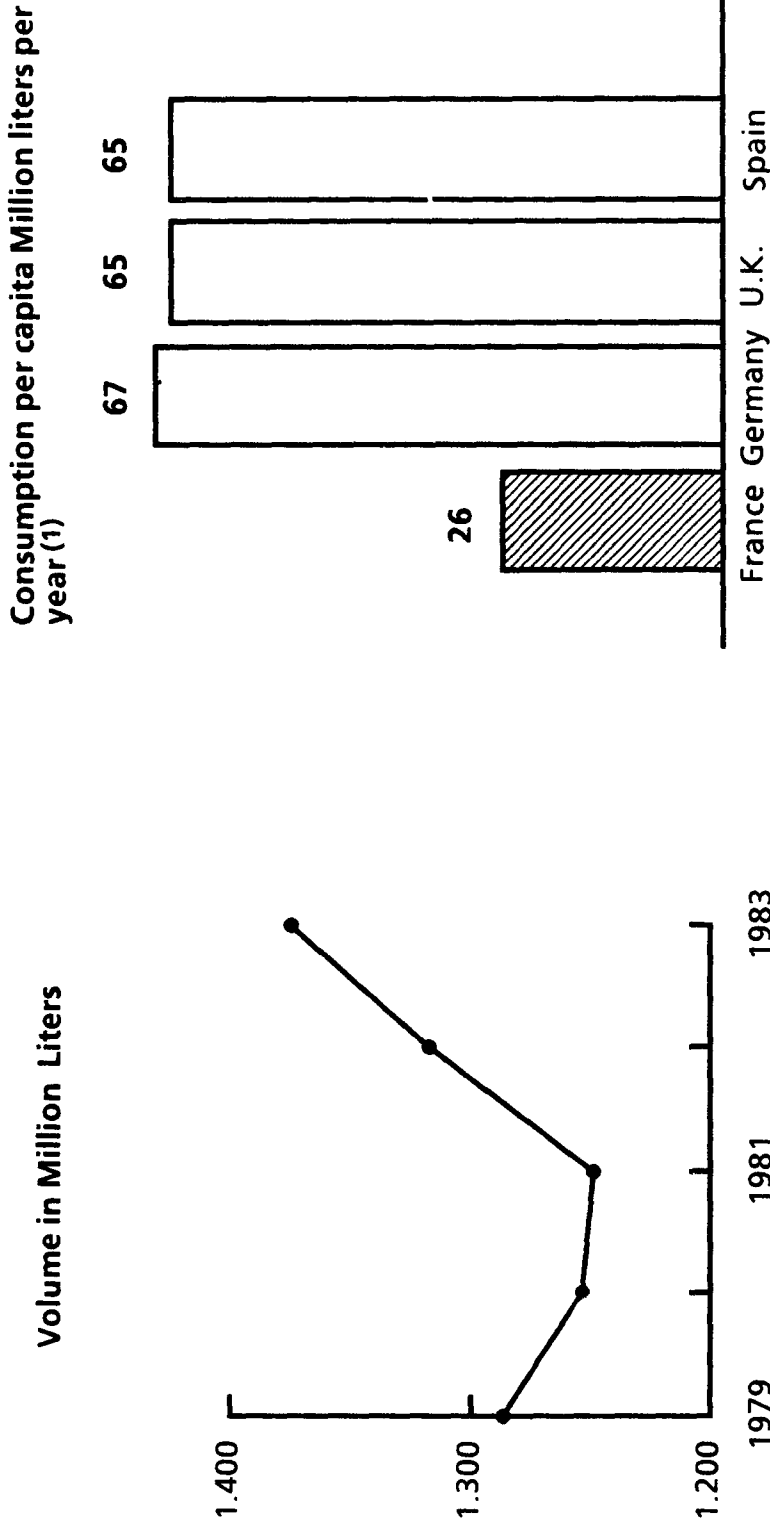
### **5. Appendix**

# Immediate direct effects



# Market forecasts

- The French soft drink industry will be revitalized with the introduction of a diet segment. According to industry specialists, growth potential is greater than 3 % per year.

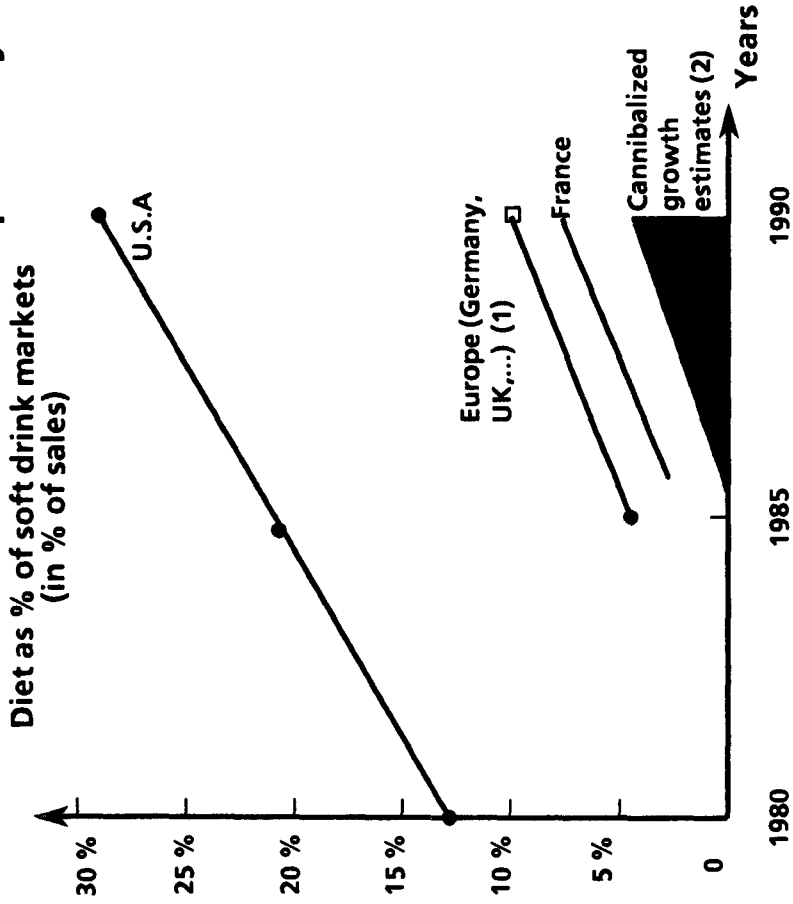


Source : Canadian European Soft Drinks service, French Soft Drink Association

(1) No evidence suggests that the markets are declining in any of these countries

# Substitution forecasts

- Cannibalization (between diet and classic soft drinks) will be less than 5 % of total French consumption by 1990.



Source : Industry estimates

- (1) In Europe, sugar free absorbs 4.5 % of total market (but between 12 and 15 % in Germany, Denmark, the Netherlands, the United Kingdom ...)
- (2) Cannibalized growth estimates represent estimates of substitution between diet soft drinks and existing brands
- (3) Naturally sweetened soft drinks would have grown faster if diet drinks did not exist

- "In the US beer industry, one can see that light beer hasn't cannibalized regular beer market" (Compound Annual Growth 1977-1985)

- regular : 0 %
- light beer : 23 %
- total : 2 %

- "In the US, soft drinks face a considerable growth in all segments" (Compound Annual Growth 1977-1985) (3)

- naturally sweetened : 2.3 %
- diet : 11.1 %
- total : 2.7 %

## Fall in production costs

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Aspartame price will decline significantly.

- As yet, Aspartame is not fully price competitive with alternative sweeteners. Aspartame is a product which is synthesized from two amino acid intermediates called L-aspartic acid and L-phenylalanine. The latter of these two intermediates is currently relatively expensive, and partly as a result of this, the cost of aspartame itself is also quite high.
- Cost information on neither aspartame, nor its intermediates, is publicly available at this time.
- However, costs of almost all chemical products tend to decline according to fairly predictable patterns, the rate of decline being determined by the slope of the so called "experience curve" (at a rate of about 20 to 25 percent each time accumulated production volume doubles).



# Fall in production costs (Cont'd)

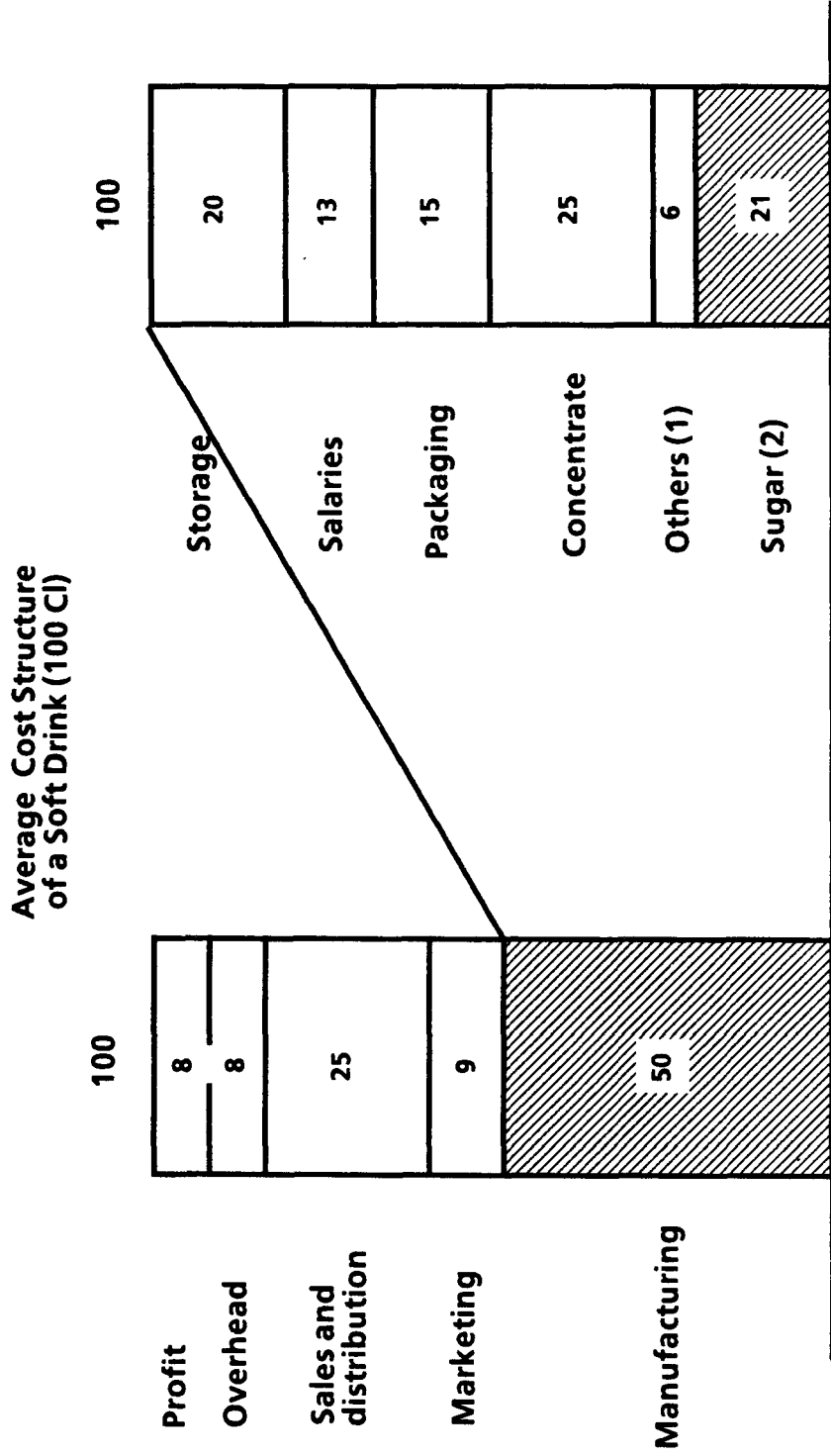
Aspartame may permit a reduction of 20-25% in the cost of sweeteners

SWEETENERS	PRICE PER LB (\$)	RELATIVE SWEETNESS INDEX	PRICE INDEX PER DEGREE OF SWEETNESS (SUGAR = 100)
SUGAR	0.27	1	100
HFCS-55	0.20	1	71
SACCHARIN	2.90	300	3
CYCLAMATE	4.00	30	49
1985 ASPARTAME	80.00	180	163
1990 ASPARTAME	30-40	180	75-80

Source : US Food and Drug Administration, US Soft Drink Association

## Fall in production costs (Cont'd)

- Industry interviewees estimate that the global potential for cost reduction is probably less than 2%. New brand introductions will necessitate heavy promotion investments.

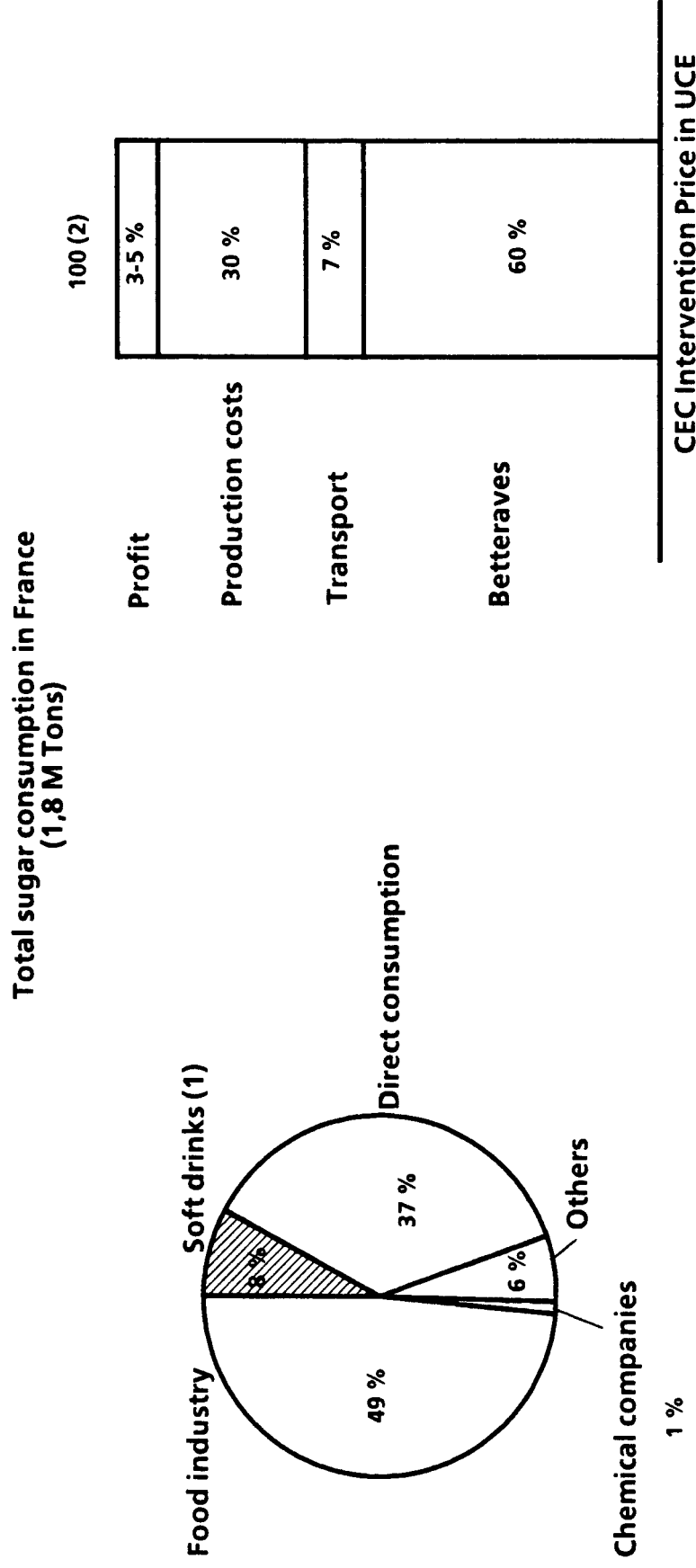


(1) gaz, tabs, ...  
 (2) sugar and sweeteners

Source : Industry Interviews

# Cost of removing the barrier

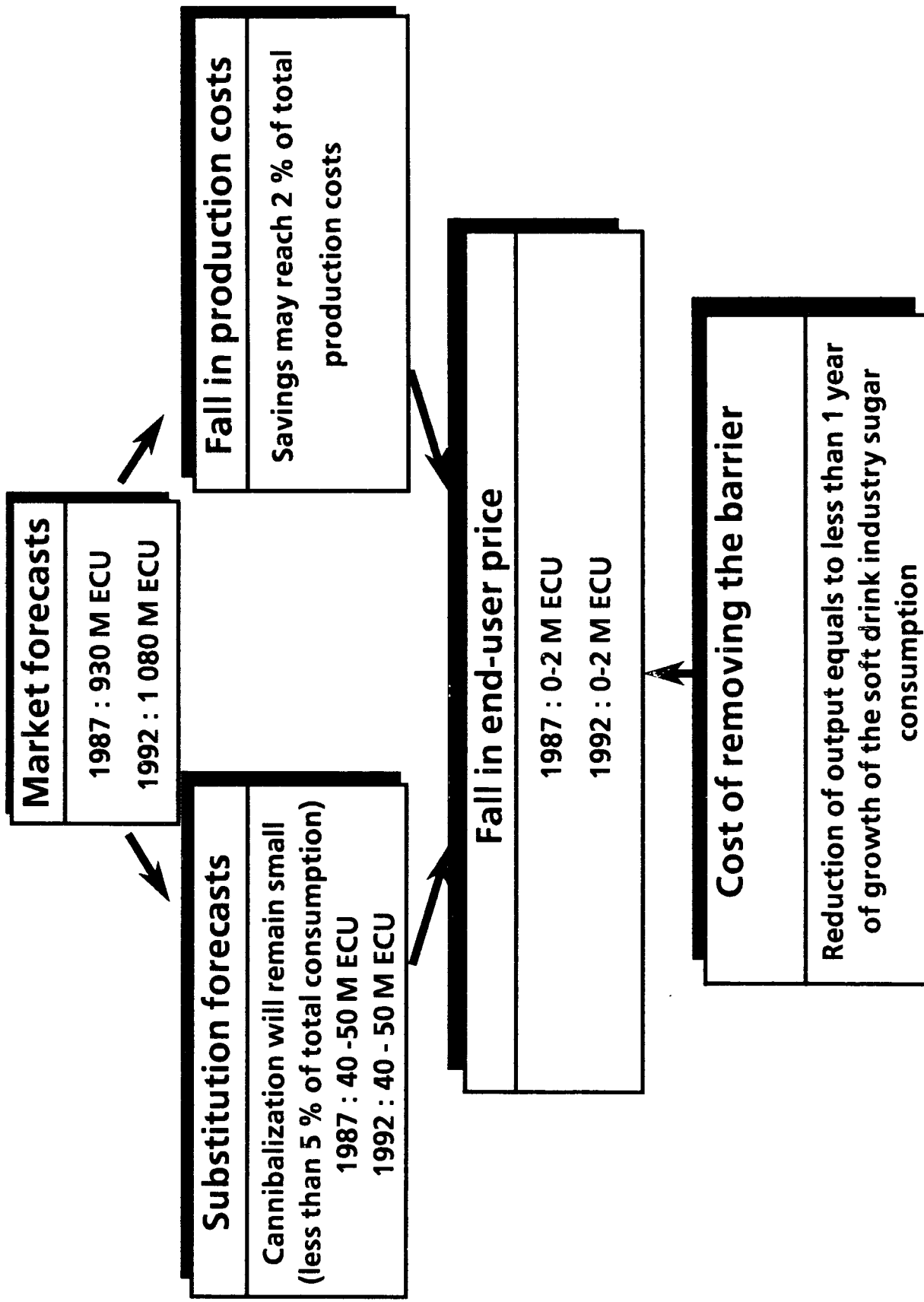
- The soft drink industry represents a small share of the global output of sugar (which is already heavily subsidized). Reduction of final consumption equals to less than 1 year of growth of the soft drink sugar consumption.



(1) This includes fruit juice  
Source : CEDUS

(2) Excluding income obtained through melasse recycling

# Immediate direct effects : Aspartame restriction in soft drinks in France



## **Deferred direct effects : weak**

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- **Increase in competition**

The soft drink industry is quite competitive in France compared to other major countries.

- **Economies of scale**

The soft drink industry is highly dependent on economies of scale which are easily attained in France.

The removal of the barrier would have a very marginal impact on the industry scale structure.

## **Indirect benefits : medium**

---

- **Variation in intra-community trade**
  - Given the costs of transporting soft drinks, removal of this barrier will have little impact on intra-community trade.
  
- **Variation in extra-community competitiveness**
  - The soft drink industry is a global industry ; where major players have captured large shares of the markets :
    - **Coca-Cola**
    - **Pepsi-Co**
    - **Cadbury-Schweppes**
  
  - In Europe, few companies can easily compete on a global basis : **Pernod Ricard (Orangina), Cadbury-Schweppes, ...**
  
  - A new consumer segment will be created.

## 4.3. Aspartame restriction in the soft drink industry in France

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## **Organizations contacted**

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- **UNESDA**
- **French Soft Drink Association**
- **2 Distributors of soft drinks**
- **US Soft Drink Association**
- **1 European manufacturer (2 locations).**



## 4. Pilot barrier analyses

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- 4.1 Beer Purity Law in Germany
- 4.2 Pasta Purity Law in Italy
- 4.3 Aspartame restriction in the soft drink industry in France
- 4.4 Vegetable fat restriction for chocolate in France
- 4.5 Vegetable fat restriction for ice cream in Germany
- 4.6 Recycling law for beverages in Denmark
- 4.7 Wort excise tax in beer industry in UK
- 4.8 Health registration requirement for baby food in Spain
- 4.9 Bulk transport for spring water in France
- 4.10 Saccharimetric content law for beer in Italy
- 4.11 Chlorine restriction for biscuits and cake
- 4.12 Label detail for soup in Spain
- 4.13 "German water bottle" for mineral water in Germany
- 4.14 Plastic containers for mineral water in Italy
- 4.15 Double inspection for spirit imports in Spain

## 4.4. Vegetable fat restriction for chocolate in France

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### 4. Quantitative estimate of impact

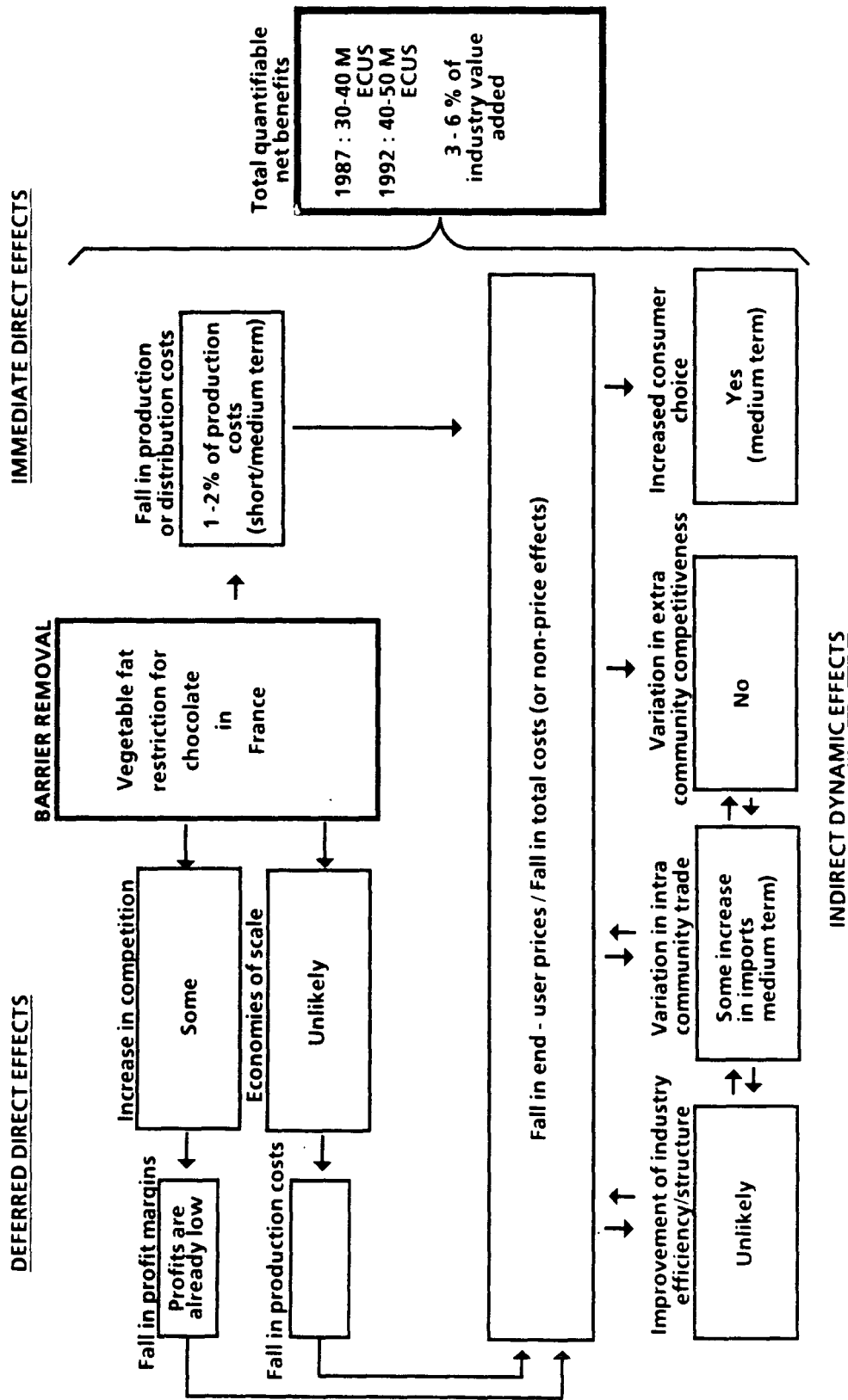
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## Summary

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- In all EEC countries (except the UK, Ireland and Denmark) it is forbidden to use the name "chocolate" for cocoa products which contain vegetable fat.
- If the barrier were removed in France, the main effects would be:
  - a cost reduction from the substitution of a lower cost ingredient (i.e. vegetable fat for cocoa butter)
  - a possible increase in imports into France
- This could result in an annual saving of 30-40 million ECUs by 1992.

# Summary of impact of barrier removal



## 4.4. Vegetable fat restriction for chocolate in France

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## Definitions

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- **There are five main types of chocolate bars :**
  1. **solid plain dark chocolate bars, including both eating bars and bars used to make desserts and cakes,**
  2. **solid plain milk chocolate bars,**
  3. **solid dark or milk chocolate bars with nuts;**
  4. **special lines of solid chocolate bars with various additions (this category includes solid white chocolate bars)**
  5. **and filled chocolate bars.**
  
- **A count line is sold for individuals consumption rather than as a specific weight or quantity. Count lines include mainly chocolate coated bars such as Rowntree Mackintosh's Kit Kat and Nestlé's Sundry.**
  
- **The main denomination chocolate, can be supplemented by descriptions such as "superieur", "surfin", "extra-fin", or "bitter", provided the product contains at least 43 per cent total cocoa butter. "Household", "croquer" and "fondant" solid dark bars are also called dessert chocolates, although only some of these items are bought for the preparation of desserts.**

# Description of barrier

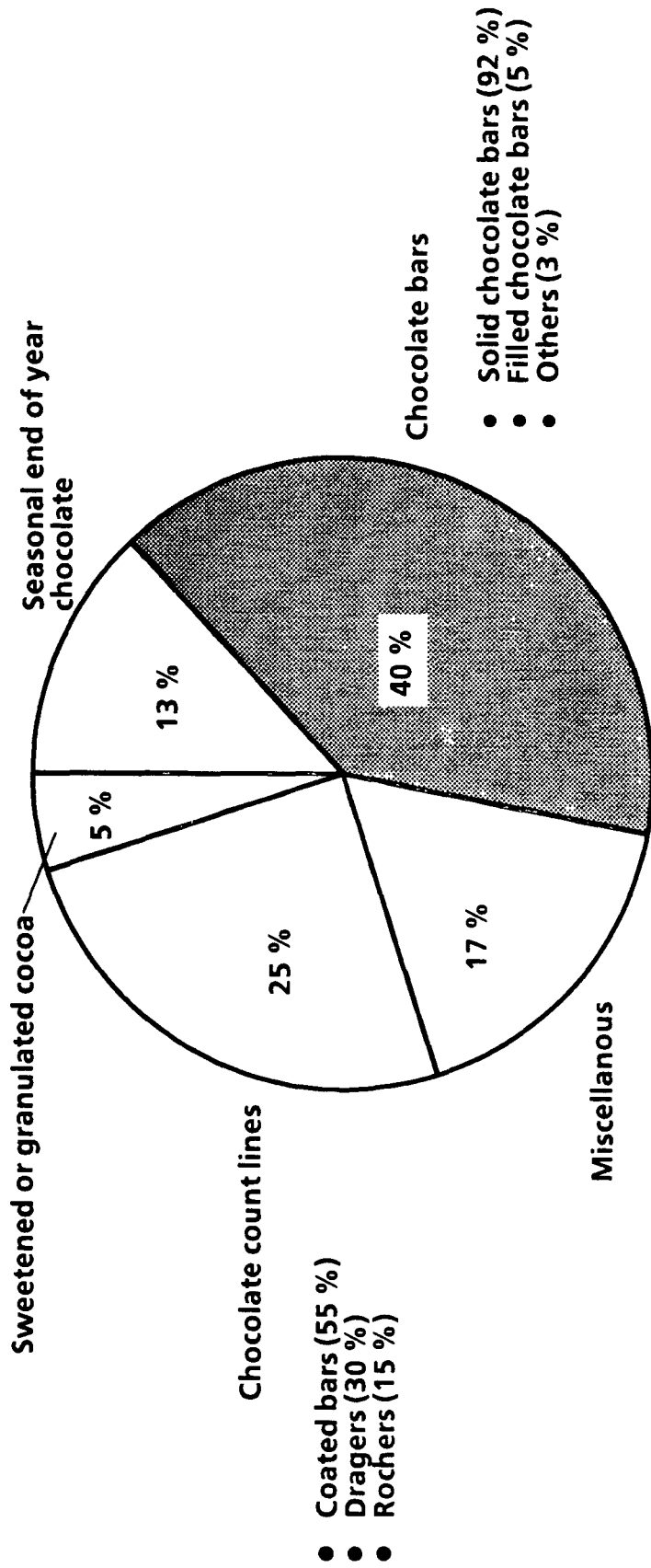
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- Chocolate products are made of numerous ingredients which also depend on the end product:
  - cocoa butter
  - cocoa powder
  - milk
  - ...
- Recent technological developments allow the use of new ingredients (based on vegetable fats like palm oil) in place of cocoa butter.
- In all EEC countries (except the UK, Ireland and Denmark), it is forbidden to use the name "chocolate" for products which include vegetable fats. In the UK, the authorized limit of use is 5% of total fats.
- According to interviews, major interviewed manufacturers tend to agree on a limit of 5% of total weight, which corresponds to the best compromise between cost (price) and quality. Disagreement arises on the definition of vegetable fats that can be used (palm oils versus soja, ...). In this section, we will focus on high-quality vegetable fats (e.g. palm oil).

# Segmentation

• Chocolate bars represent 40% of total volume

Tonnage 1985 (228 000 T)



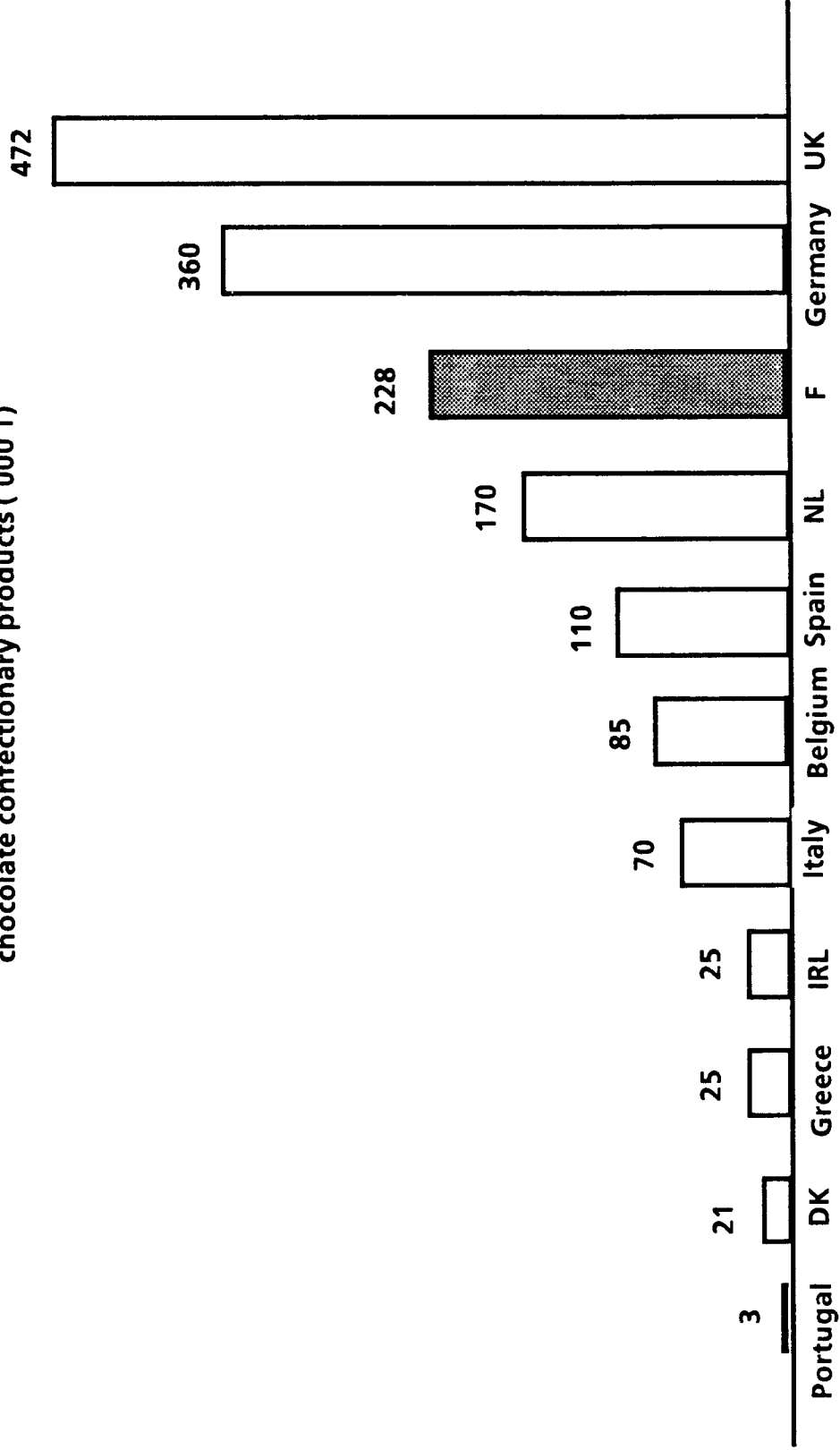
Source : Union des Chocolatiers et des Confiseurs de France



# French market in the EEC

- The French market is a medium sized market in the EEC

1985 Total production of chocolate and finished chocolate confectionary products ('000 T)



(Source : Caobisco)

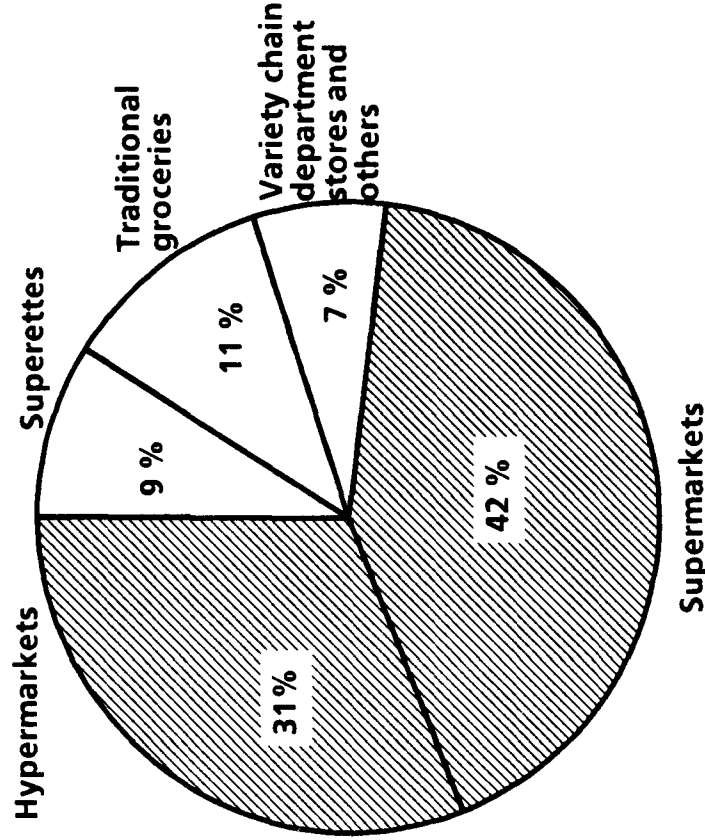
## Consumer trends

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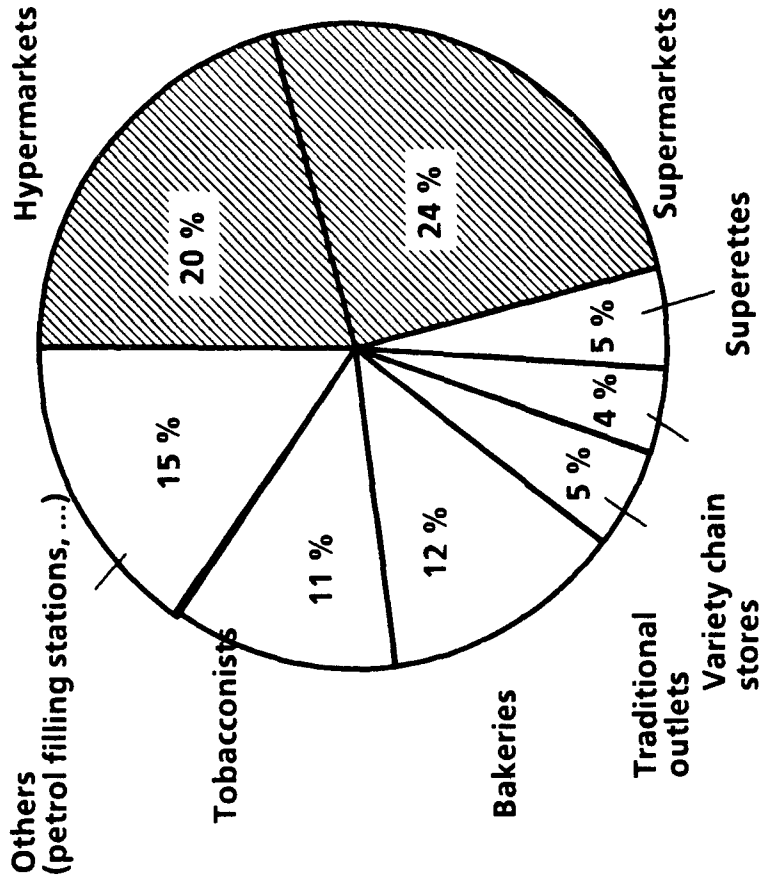
- Consumption of chocolate varies regionally. Thus, the relative strength of the main brands varies regionally : Suchard/Lindt are more strongly established in the East, while for Cote d'Or the best area is the North (Poulain is the West, Nestlé is the South).
- Understandably, there is considerable seasonal variation in consumption. Autumn and winter are the periods of highest sales. However, sales of chocolate bars are affected by the end-of-year confectionery trade. Some 70 to 80 per cent of sales of dark chocolate for the preparation of desserts occurs in the months from September to January.
- However, impulse buying is important for coated bars which are less subject to seasonality.

# Distribution trends : about 50% of total volume is distributed through large retail stores

Chocolate bars  
% of volume



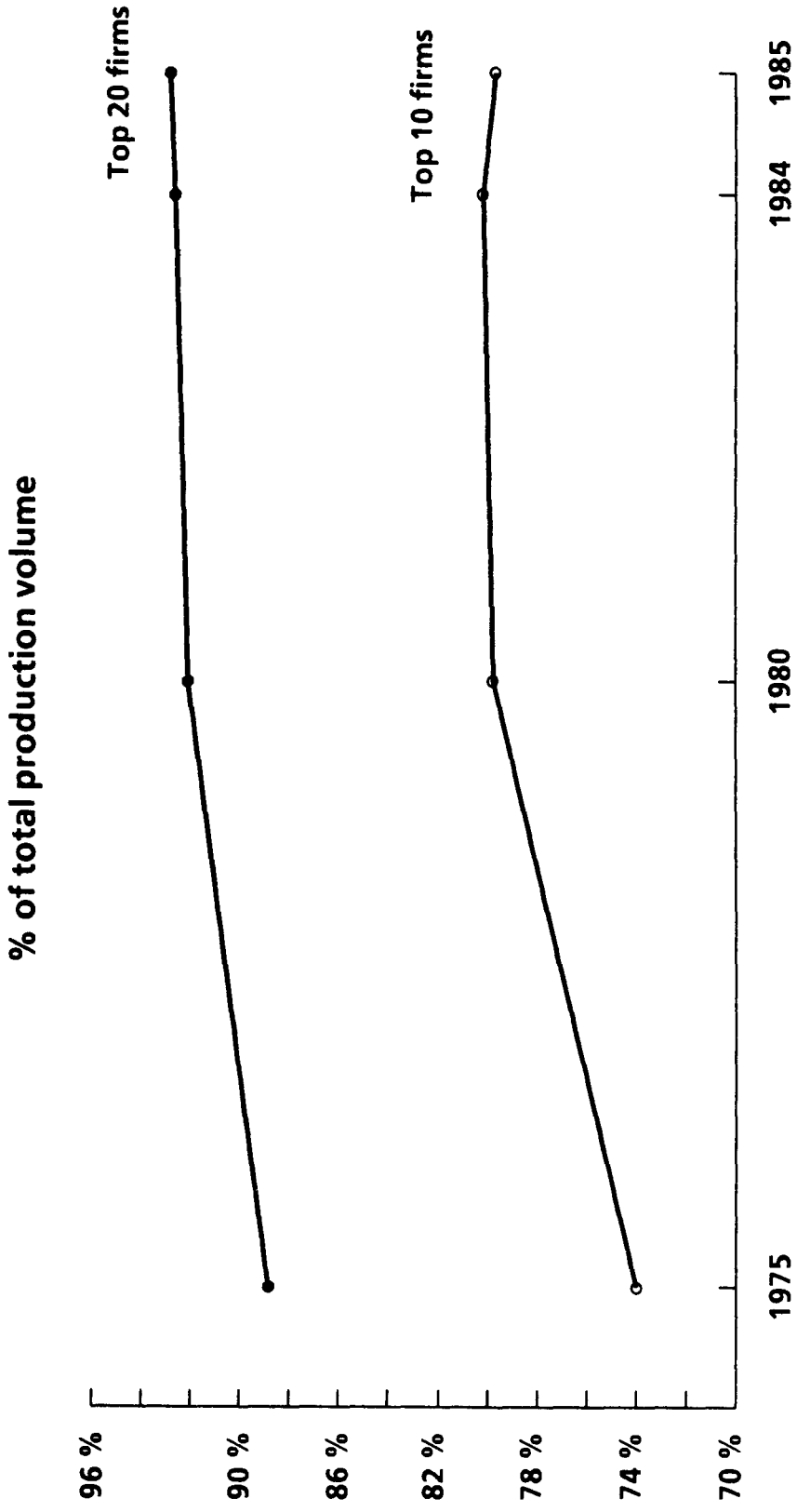
Count lines  
% of volume



Source : LSA

# Manufacturers

- The french chocolate/confectionery industry is consolidating



Source : Industry statistics

# **Manufacturers**

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## **Suchard - Tobler (CH)**

- **Suchard-Tobler is part of the Swiss group Jacobs-Suchard, which took over the Suchard company in the beginning of the 1980's. Suchard - Tobler owns and operates a plant in Strasbourg producing chocolate bars and confectionery. The company also supplies drinking chocolate. It employs about 1,000 people and had a turnover of nearly Fr 955 m in 1985.**
- **Acquisition of Cote d'Or in 1986 gives Suchard a prominent position in the chocolate bar business.**

## **Sopad - Nestle (CH)**

- **Chocolate bars and confectionery are made in two plants in France -at Pontarlier (Doubs) and Marseille.**
- **Count lines include the Crunch bar containing rice, the Yes cocoa and nut cakes imported from West Germany and the Picorette coconut flavored chocolate coated biscuit.**
- **Chocolate bars account for a little over two thirds of turnover in chocolate confectionery.**

## **Manufacturers**

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### **Mars (US)**

- **Mars Alimentaire SA is an American company, which manufactures at Hagenau. It has around 65 % of sales on the chocolate coated bars market.**

### **Rowntree Mackintosh (UK)**

- **Rowntree Mackintosh entered the French market in 1963 through imports. With the development of demand, the group decided to establish itself in France and successfully took over three chocolate confectionery companies: Chocolat Meunier in 1971, Chocolat Ibled (Chocorêve brand) in 1973 and Lanvin in 1977.**
- **Rowntree Mackintosh SA, which was constituted by merging these three companies, supplies confectionery produced in two plants in France (Noisiel near Paris, and Dijon) and products manufactured in Germany, the Netherlands and Ireland.**
- **The company employs 1400 people.**

# Manufacturers

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## Poulain Industries (F)

- Poulain was set up in Blois in 1848. Chocolat Poulain is a part of a group including Banania which makes drinking chocolate <sup>AND BREAKFAST CEREALS.</sup>
- The Poulain Industries group has subsidiaries in the USA, the UK and Italy. Chocolat Poulain SA, which operates two plants in and near Blois and employs 900 people, is involved in all sectors of the chocolate market: bars of all sorts, drinking chocolate, chocolate spread, standard and seasonal chocolate confectionery.
- Chocolate bars and drinking chocolate account for 50 per cent and 35 per cent respectively of total sales volume, the remainder being accounted for by confectionery and chocolate spread.

## Manufacturers

### Cantalou

- Chocolaterie Cantalou, in Perpignan, is the leading French producer of chocolate bars, sweets, seasonal products, chocolate spread and drinking chocolate. In chocolate bars, Cantalou has a share of 30 percent of national output; It accounts for 12 per cent of total production of drinking chocolate and for 20 percent of chocolate spreads. About 80 per cent of output is under distributors' labels and 20 per cent under its own brands.
- Cantalou operates five plants in France, two in West Germany (Wurzberg and West Berlin) and three in Spain. It is also studying the possibility of opening a plant in the USA.

### CFC

- Consortium Français de Confiserie is a subsidiary of the Swiss chocolate manufacturer Lindt & Sprüngli, which since 1977 owns 65 per cent of its capital, the remaining 35 percent being held by Perrier.
- CFC manufactures high quality chocolate bars and confectionery under the Lindt and Rozan brands. CFC started to produce Lindt chocolate under license in its plant at Oloron Sainte Marie in 1954.



## 4.4. Vegetable fat restriction for chocolate in France

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## **Impact of barrier removal**

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- **Authorization and normalization of use of vegetable fats will have a significant impact on the European chocolate industry because production costs will be reduced (with an inexpensive adaptation of the production cycle).**
- **Consumers (even experts) will hardly notice the difference in taste and in physical properties (resistance to heat, ...) when high quality vegetable fat (e.g. palm oil) is substituted for cocoa butter.**
- **Cocoa producers will face a reduction in their total output for cocoa butter (but not for cocoa powder).**
- **Trade into France could increase.**
- **These effects are dependent on the outcome of the EEC deliberation on a tax on vegetable fats. If such a tax were levied, many of the effects described below would be nullified. This paper assumes, however, that no such tax is levied.**

# Attitudes of major players

	Favorable	Unfavorable	Global
<b>Suppliers</b>	Palm-oil producers will find new market opportunities	Cocoa butter producers will face a significant reduction in their output for butter (1) (which is four times more expensive than cocoa powder)	-
<b>Manufacturers</b>	Cost of cocoa is highly volatile; but palm-oil will remain a less expensive ingredient		+
<b>Retailer/consumers</b>	Reduction in final price will not affect taste of chocolate	Labelling should mention vegetable fat use and its origin.	+
<b>Total</b>			+

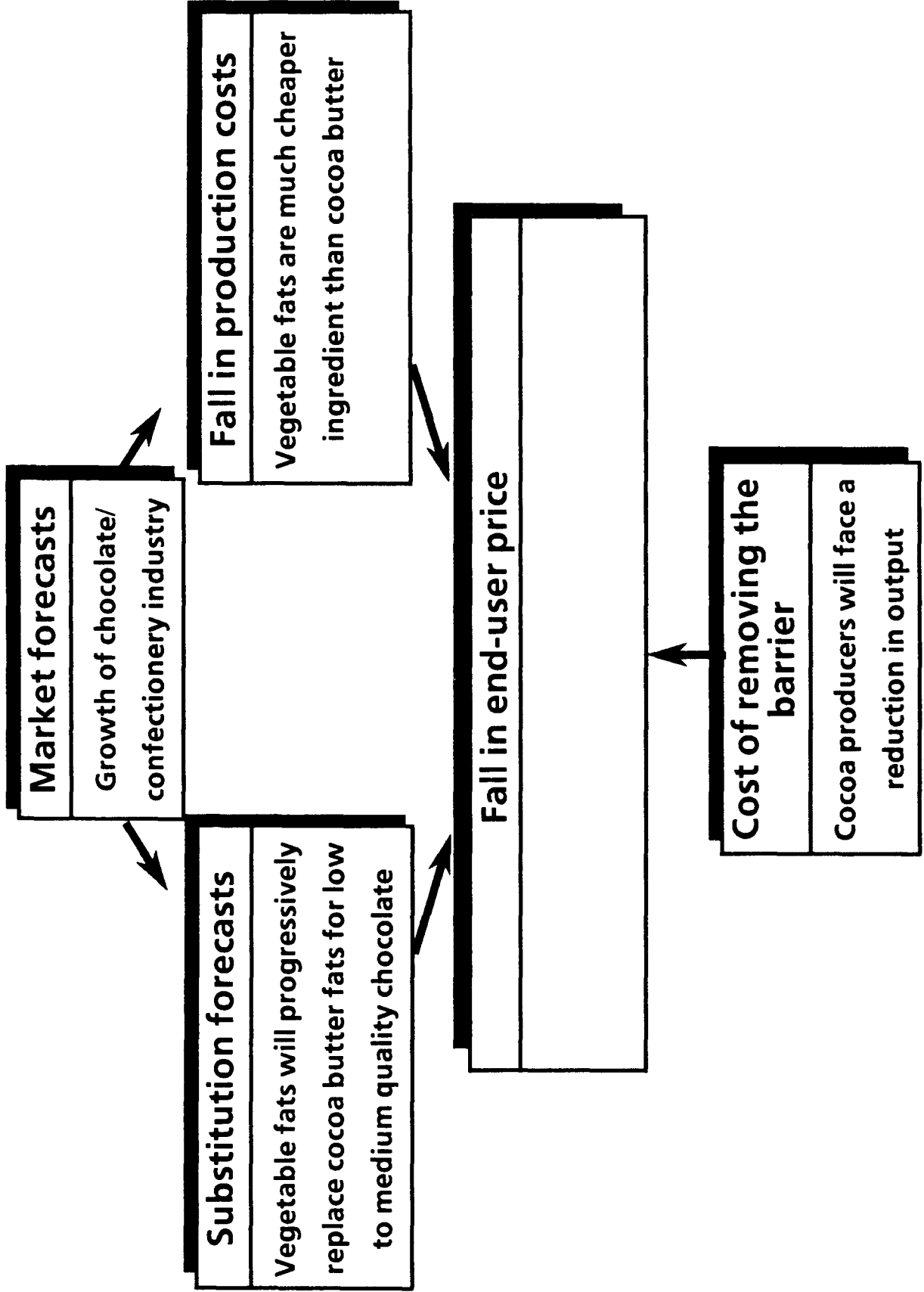
(1) It should be noted that in 1985 the EEC and France are net importers of cocoa butter (318 M Ecus imports versus 235 M Ecus exports) and cocoa paste (116.5 M Ecus imports versus 35.9 M Ecus exports) most of the imports come from developing countries.

## 4.4. Vegetable fat restriction for chocolate in France

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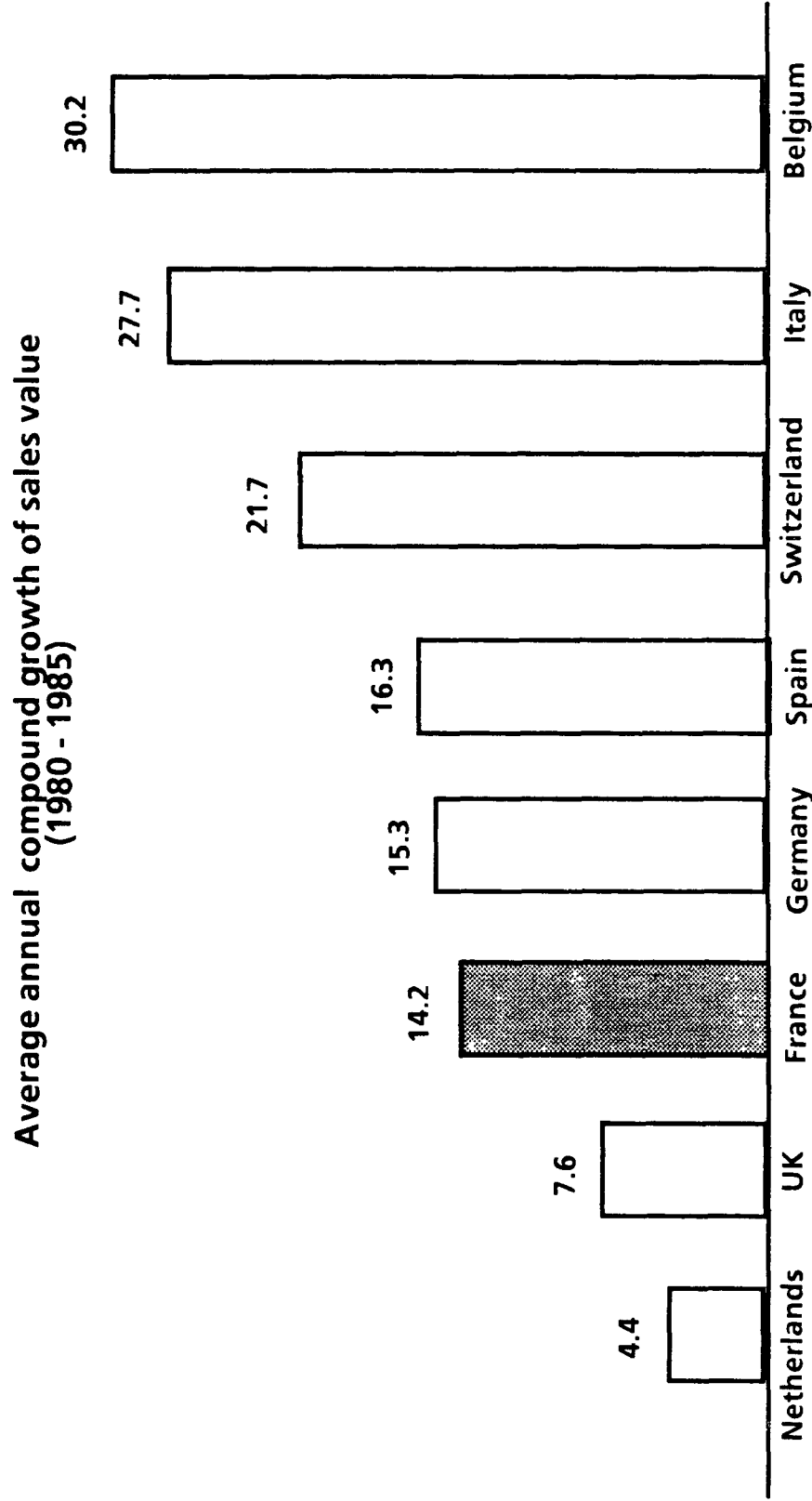
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# Immediate direct effects



# Market forecasts

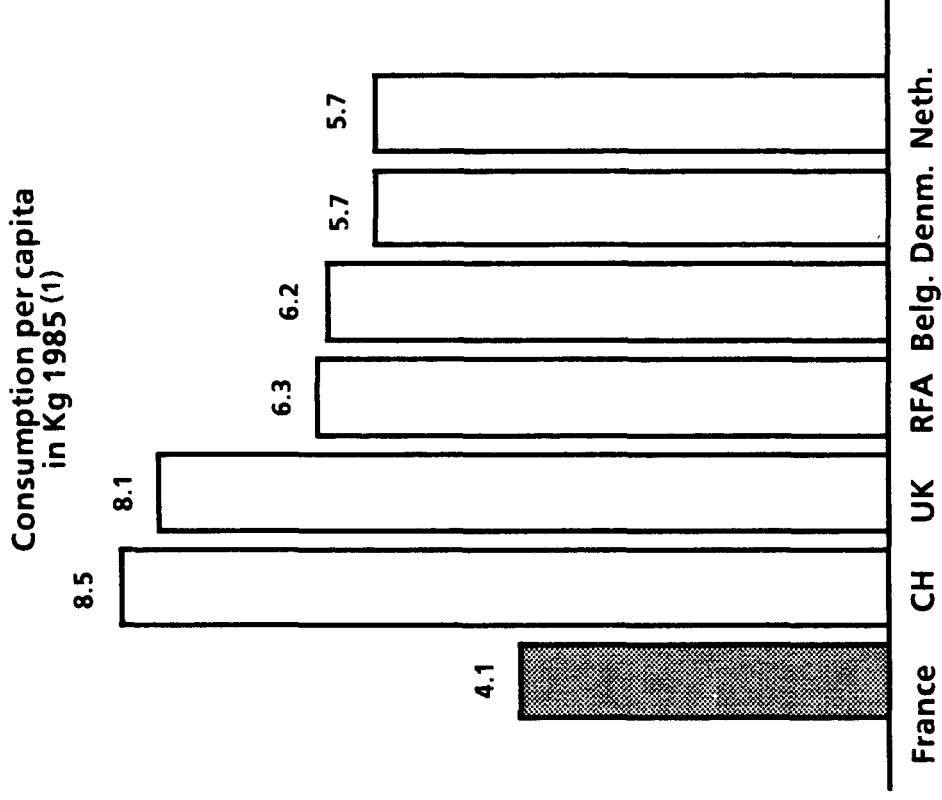
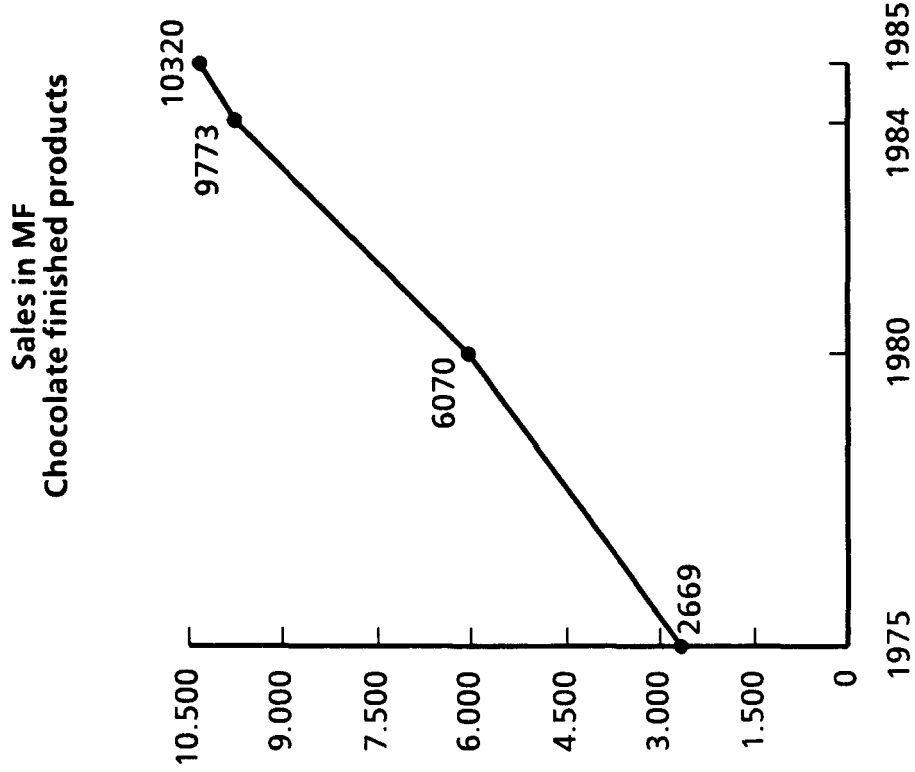
- Potential growth in France is high



Source : Industry estimates

# Market forecasts

- According to industry experts, growth in sales should reach 4 to 5 % per year in the next five years

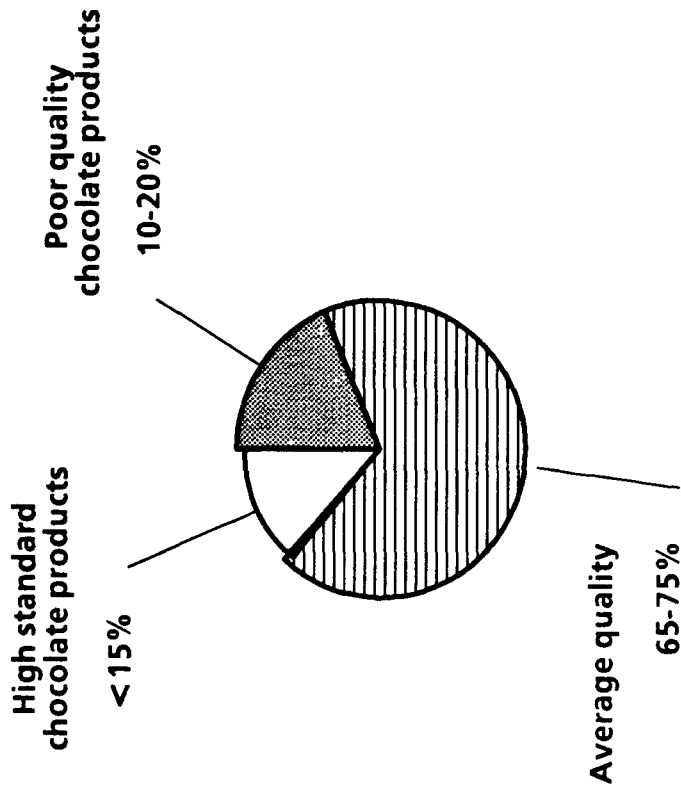


Source : CAOBISCO  
 (1) There is no evidence that the market in countries other than France have major declining trends

# Substitution forecasts

- About 90% of the industry will introduce vegetable fats into their products

## Chocolate and other food preparations containing chocolate



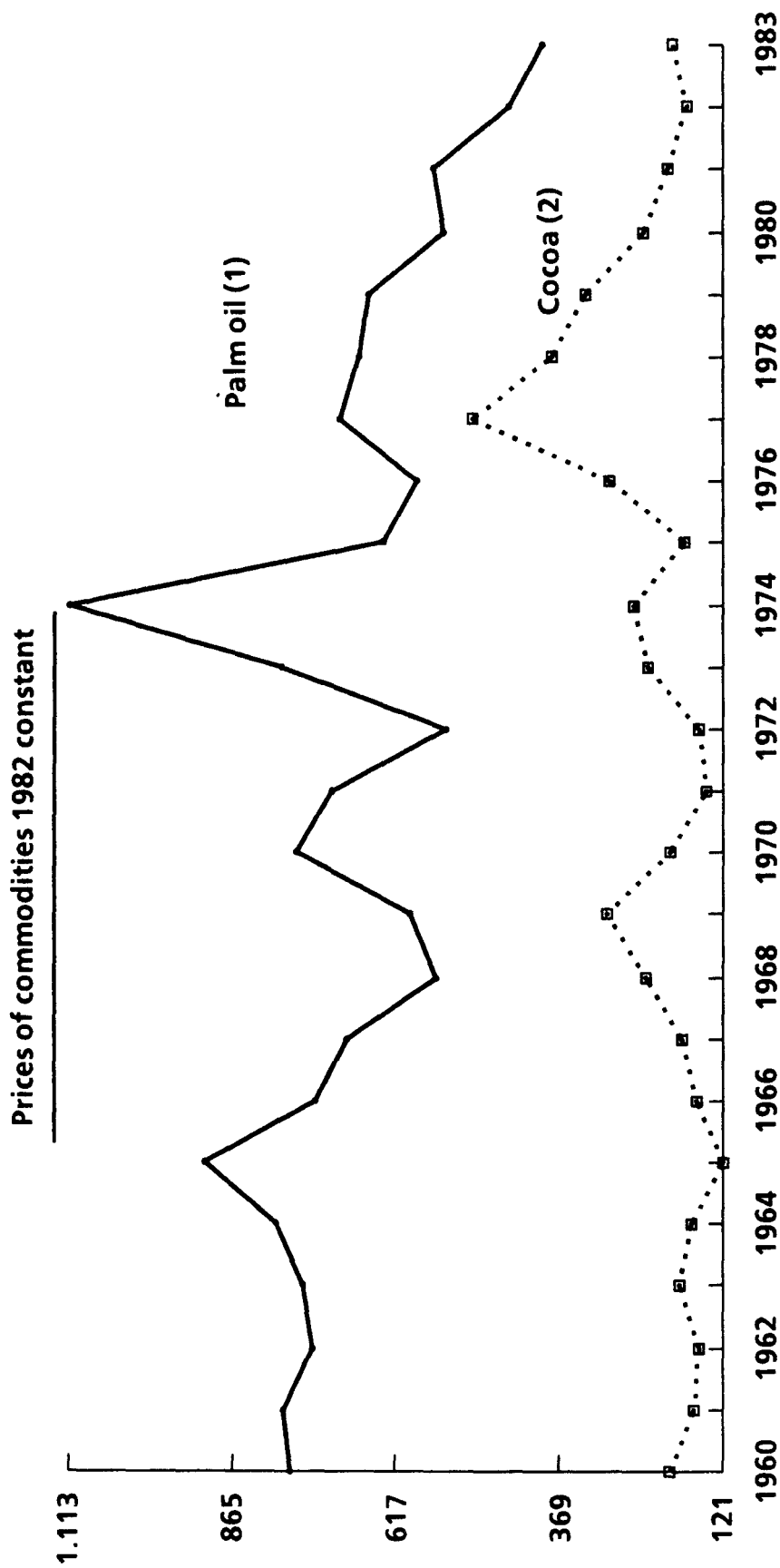
- "Chocolate products of poor quality will probably use medium quality vegetable fats within the limit fixed by the EEC".
- "High quality vegetable fats (palm oil-based) have same characteristics as cocoa butter". "This is not true for soja-base fats which change melting points and chocolate taste".
- "Some manufacturers may desire to keep their top-segment products with cocoa butter only".

Source : Industry interviews



# Fall in production costs

- Cocoa and palm-oil prices are highly volatile



Source : World Bank  
(1) in US \$ per metric ton ; Cif European ports ; Malaysian palm oil  
(2) Cocoa beans in cents US/kg ; ICCO, average daily price ; New York

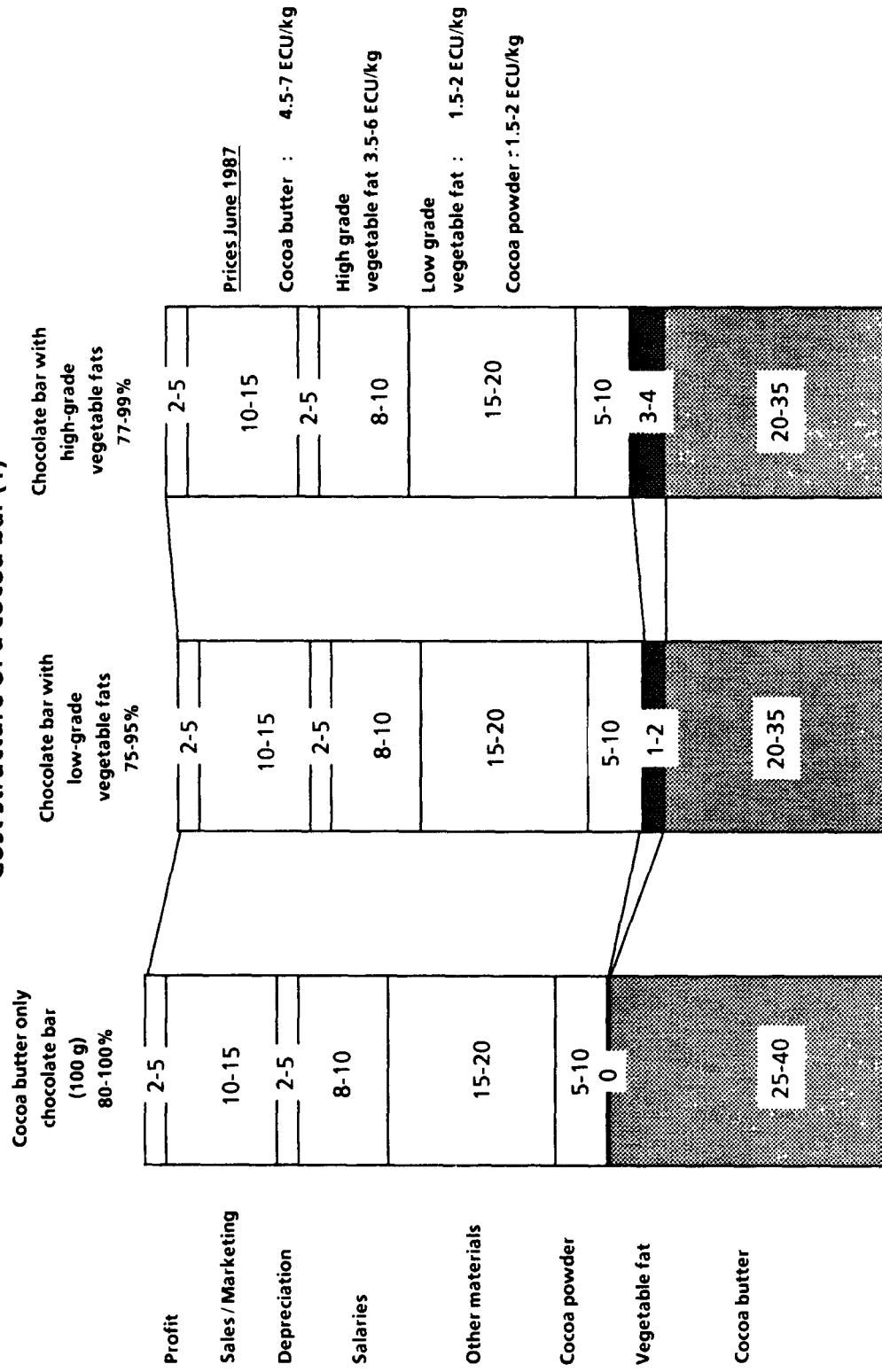
## **Fall in production costs (Cont'd)**

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- **Cocoa and palm-oil prices are highly volatile**
- **"The cocoa market is highly sensitive to small variations in demand" .**
- **" No one can predict price trends" .**
- **"There is a link between the cocoa butter and cocoa powder prices as far as they are both produced from cocoa beans. 1 kg of cocoa beans gives 400 g of butter and 400 g of powder (80% yield). Surprisingly, today's price of butter is four times more expensive than powder**
- **"Palm oil refinement has a low yield (30-35%). Most combined products are used in the food-stuff industry, the refining industry is highly concentrated and faces under-capacity."**

- Savings on production costs may reach 1 to 2% for average quality chocolate bars; but more than 5% for poor quality ones.

Cost structure of a cocoa bar (1)

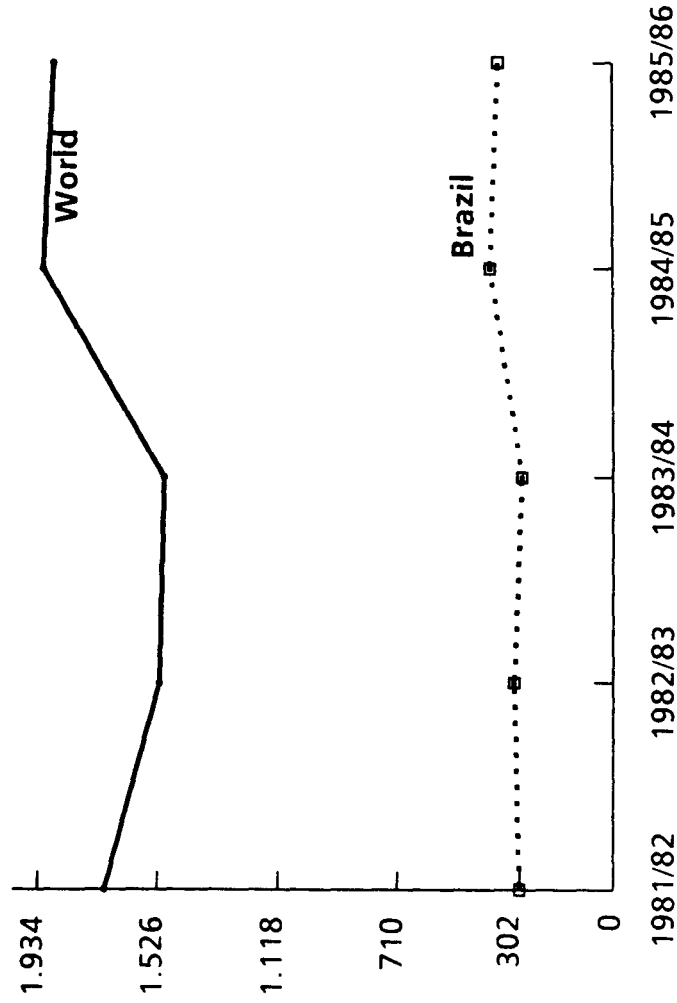


(1) Fats represent 28 to 40% of total weight, vegetable fats are tolerated up to 5% of total weight  
 (2) The range of price depends on cocoa price trends  
 Source : Industry interviews

# Costs of removing the barrier

- Due to the removal of the barrier, reduction in output for cocoa producers will represent less than 2% of their total world market, which is marginal compared to the spread of yield in annual production of cocoa (2 to 20%).

World production in 000 tonnes



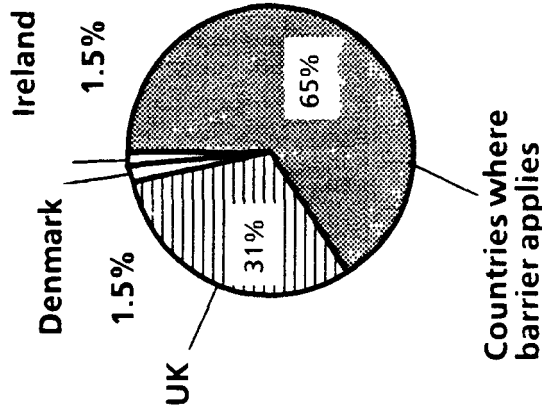
- "Reduction in potential output for cocoa butter will necessarily have an impact on cocoa powder prices and output".
- "Palm oil producers will develop new markets for their production. To some extent cocoa producing countries may also, supply palm oil".

Source : Industry interviews

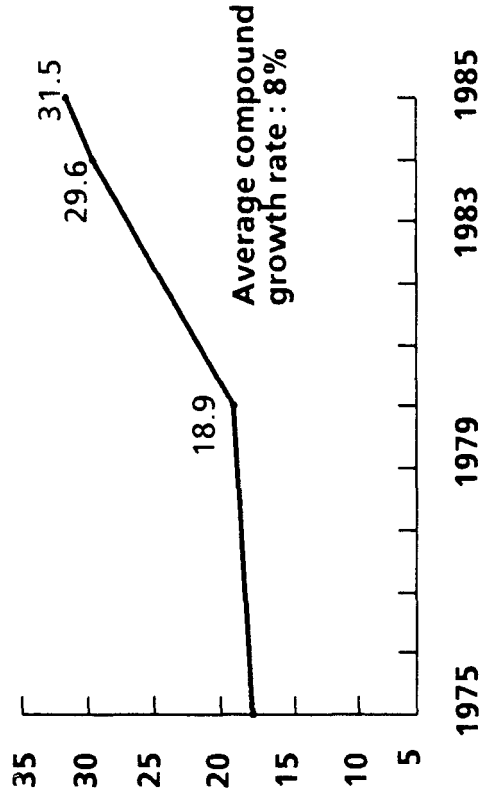
# Cost of removing the barrier

- When the barrier is removed, production output for cocoa butter will be reduced by 10 to 15% (hypothesis of 5% of total weight allowed for vegetable fats). This represents one year of growth (6 to 10% of total cocoa output).

European consumption of chocolate products

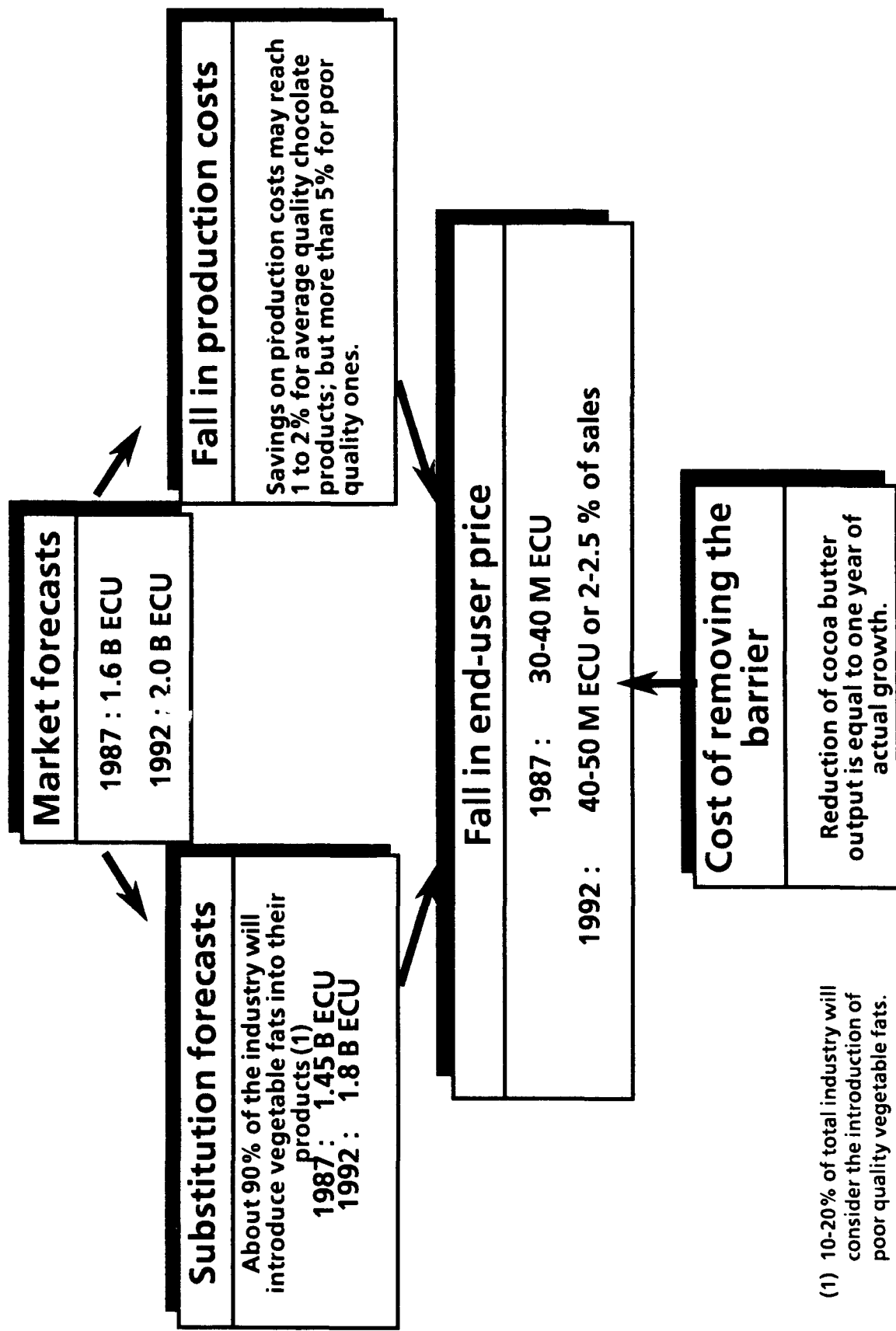


French Consumption of cocoa butter in 000 T



Source : OICC/AIFC

# Immediate direct effects : Vegetable fat restriction for chocolate in France



(1) 10-20% of total industry will consider the introduction of poor quality vegetable fats.

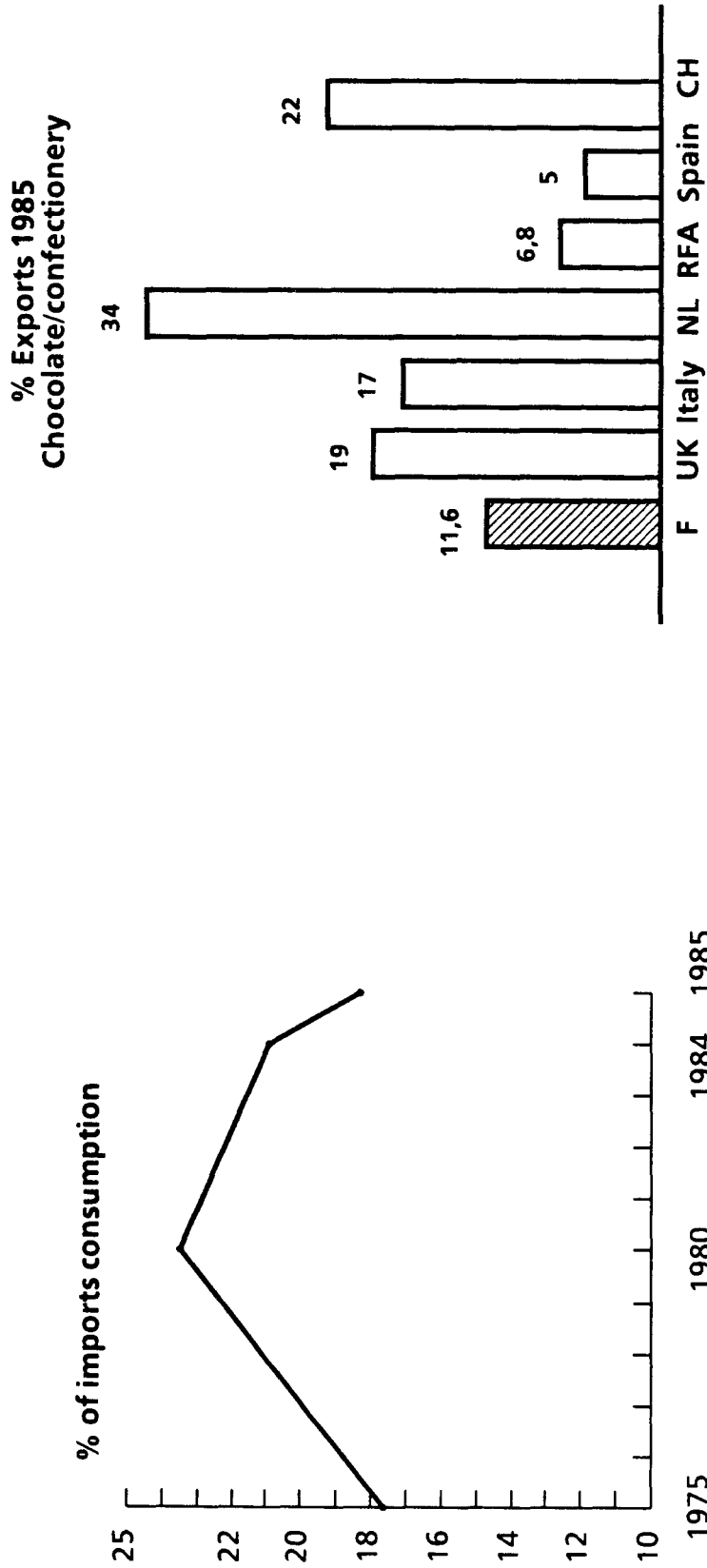
## Deferred direct effects : low

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- **Increase in competition**
  - In many ways, the chocolate industry in France is a stalemate industry. Profits remain lower than global profit of major world players (e.g. Cantalou = 0.6%).
  - However, profits are high for leaders in chocolate count lines products (e.g. MARS)
- **Economies of scale**
  - New chocolate bar plants (like Cantalou's fully automated plant in Perpignan) necessitate a minimum capacity of 200 tons/day to reach optimal scale.
  - In count lines chocolates, scale effects are largely sufficient to justify large plants which distribute across Europe.
  - The removal of the vegetable fat barrier should have a marginal impact on these trends; because in most cases the production process will remain the same.

## Indirect dynamic effects : weak

- Variation in intra-community trade : Some**  
 The French industry has been relatively open to major EEC manufacturers, however, some new imports may come from the UK (e.g. Cadbury).



Source : Industry and trade estimates

- Variation in extra-community competitiveness**  
 The French market is a medium sized market in the EEC. Major players in the industry already have a global strategy which covers major parts of Europe : Mars, Rowntree Mackintosh, Jacobs-Suchard/Cote d'Or, Nestlé. The removal of the vegetable fats barrier may encourage European strategies for German and French-based companies.



## 4.4. Vegetable fat restriction for chocolate in France

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# **Organizations contacted**

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- **Caobisco**
- **3 Chocolate companies with local or international strategies**
- **Local chocolate Associations**
- **2 Retailers**

## 4. Pilot barrier analyses

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- 4.1 Beer Purity Law in Germany
- 4.2 Pasta Purity Law in Italy
- 4.3 Aspartame restriction in soft drink industry in France
- 4.4 Vegetable fat restriction for chocolate in France
- 4.5 Vegetable fat restriction for ice cream in Germany
- 4.6 Recycling law for beverages in Denmark
- 4.7 Wort excise tax in beer industry in UK
- 4.8 Health registration requirement for baby food in Italy
- 4.9 Bulk transport for spring water in France
- 4.10 Saccharimetric content law for beer in Italy
- 4.11 Chlorine restriction for biscuits and cake
- 4.12 Label detail for soup in Spain
- 4.13 "German water bottles" for mineral water in Germany
- 4.14 Plastic containers for mineral water in Italy
- 4.15 Double inspection for spirit imports in Spain

## 4.5. Vegetable fat restriction for ice cream in Germany

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### → 1. Summary

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### 4. Quantitative Estimate of Impact

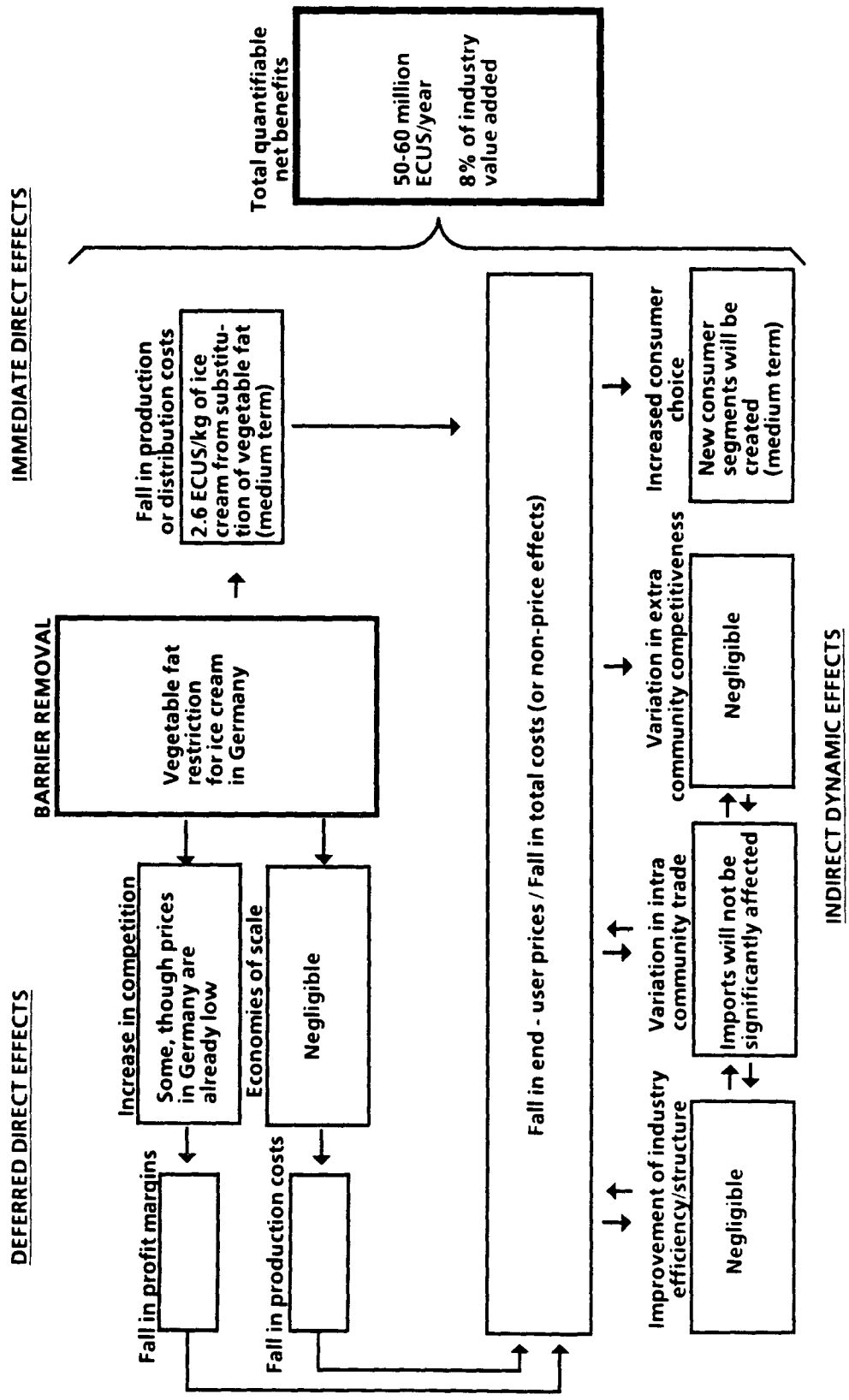
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## Summary

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- **A traditional food law in Germany only allows milk-fat to be used in ice-cream. Vegetable fat is not permitted.**
- **Since the cost of vegetable fat is considerably lower than milk fat, the removal of this regulation will result in a large cost saving effect.**
- **The substitution of milk fat by vegetable fat could generate a savings of up to 50-60 million ECUs per year.**
- **Ice cream imports account for just over 5 % of German ice cream consumption ; the majority of imports come from a German owned factory in Belgium.**
- **The removal of the regulation might lead to more imports into Germany ; However :**
  - **The ice-cream market in Germany is already highly concentrated.**
  - **Major pan-European firms are already present in Germany.**

# Summary of impact of barrier removal



## 4.5. Vegetable fat restriction for ice cream in Germany

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### 1. Summary

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## Description of barrier

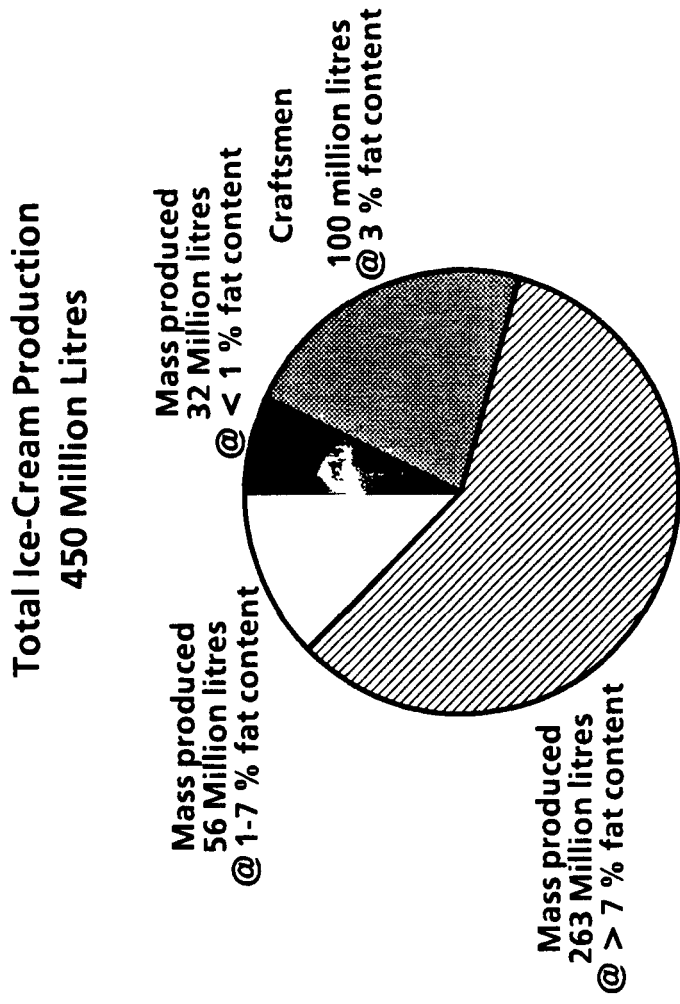
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- According to the "Verordnung über Speiseeis" (1933) ice-cream may not contain vegetable-fat.
- The percentage of milk-fat required in different kinds of ice-cream varies by type :
  - Speiseeis
    - Ice-cream                    10 % milk-fat
    - Milk ice-cream            70 % milk
    - Plain ice-cream            3 % milk-fat
  - Fruit ice-cream            no percentage required
  - Artificial ice-cream        no percentage required
- The historical reason for implementing this regulation was to support the milk-industry, to reduce surplus milk.



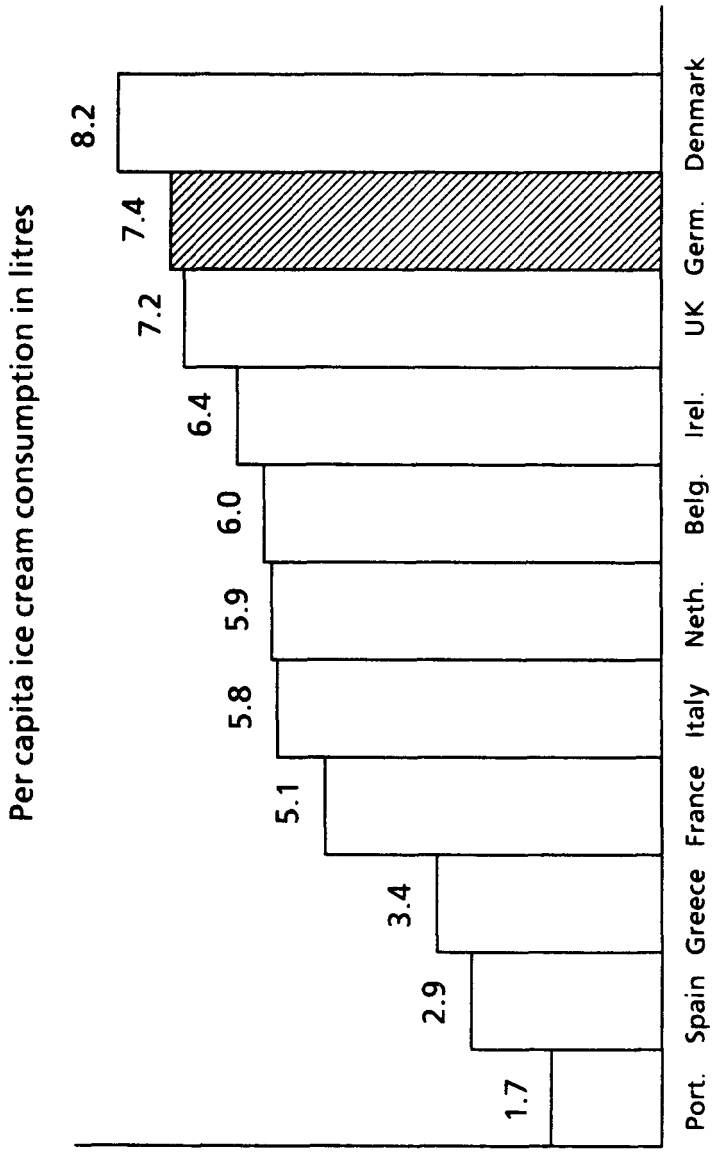
# Description of industry : total German ice cream production is 450 million litres

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- Mass produced ice cream accounts for 350 million litres ; Craftsmen (artisanal) for 100 million litres
- The total retail value of the mass produced market is 1.44 billion ECUs
- The average retail price of mass produced ice cream is 4.12 ECUs/litre (2.4 ECU/litre at manufacturer's selling price)
- The market in volume terms is growing at 13-14% per year

# Per capita consumption in Germany is the 2nd highest in the EEC



Source : Langnese/Iglo

## Description of industry

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- **Imports play a moderate role in the market with a share of 5%**
  - most of this comes from a German-owned producer in Belgium
- **Exports account for just 2% of total production**

**The price of vegetable fat is 50% cheaper than the EEC reduced price for milk fat and 70% cheaper than the normal EEC price for milk fat**

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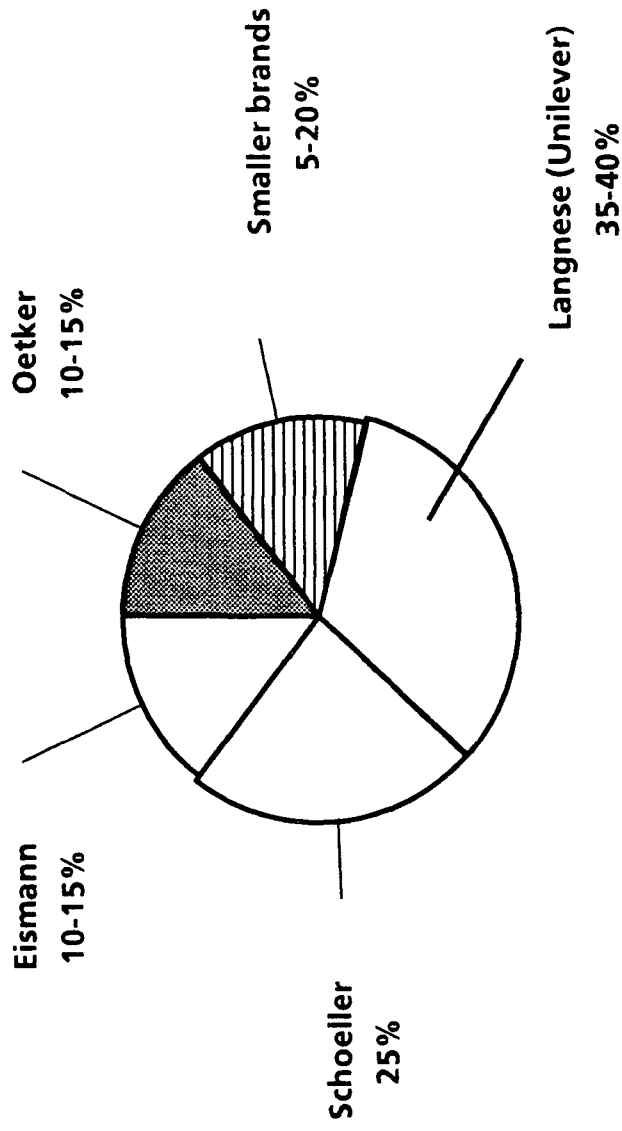
	<u>Price per kg</u>	<u>Total EEC consumption for ice-cream</u>
<b>Milk fat</b>		
- reduced price	1.9 ECU	28,000 tonnes
- normal price	3.6 ECU	22,000 tonnes
<b>Vegetable fat</b>	.96 ECU	

- **Ice cream producers have varying opinions as to whether ice cream made with milk fat (only) tastes better than ice cream with vegetable fat.**

# Manufacturers : The German ice cream market is concentrated

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Market share of mass produced market



- Langnese, Schoeller and Eismann are reported to be profitable. Oetker may be making losses.
- Industry experts expect Nestle to enter the German ice cream market

# 4.5. Vegetable fat restriction for ice cream in Germany

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## Description of industry

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- **If the restriction on vegetable fats in ice cream is removed two primary effects can be envisioned.**
  1. **Substitution by domestic producers towards the low cost ingredient**
  2. **Increase in imports by foreign ice cream producers, who currently use vegetable fat**
  
- **These effects are dependent on the outcome of the EEC deliberation on a tax on vegetable fats. If such a tax were levied, many of the effects described below would be nullified. This paper assumes, however, that no such tax is levied.**

# Attitudes of major industry players

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	Favorable _____	Unfavorable _____	
<ul style="list-style-type: none"> <li>• Ice cream association</li> <li>• Vegetable fat restriction limits innovation</li> </ul>			+ / =
<ul style="list-style-type: none"> <li>• Producer</li> <li>• German producers are strong</li> <li>• Foreign producers could export now already</li> </ul>			= .
<ul style="list-style-type: none"> <li>• Consumer</li> <li>• Increased selection</li> </ul>			+
<b>Total</b>			<b>+ / =</b>



# Attitudes of major industry players

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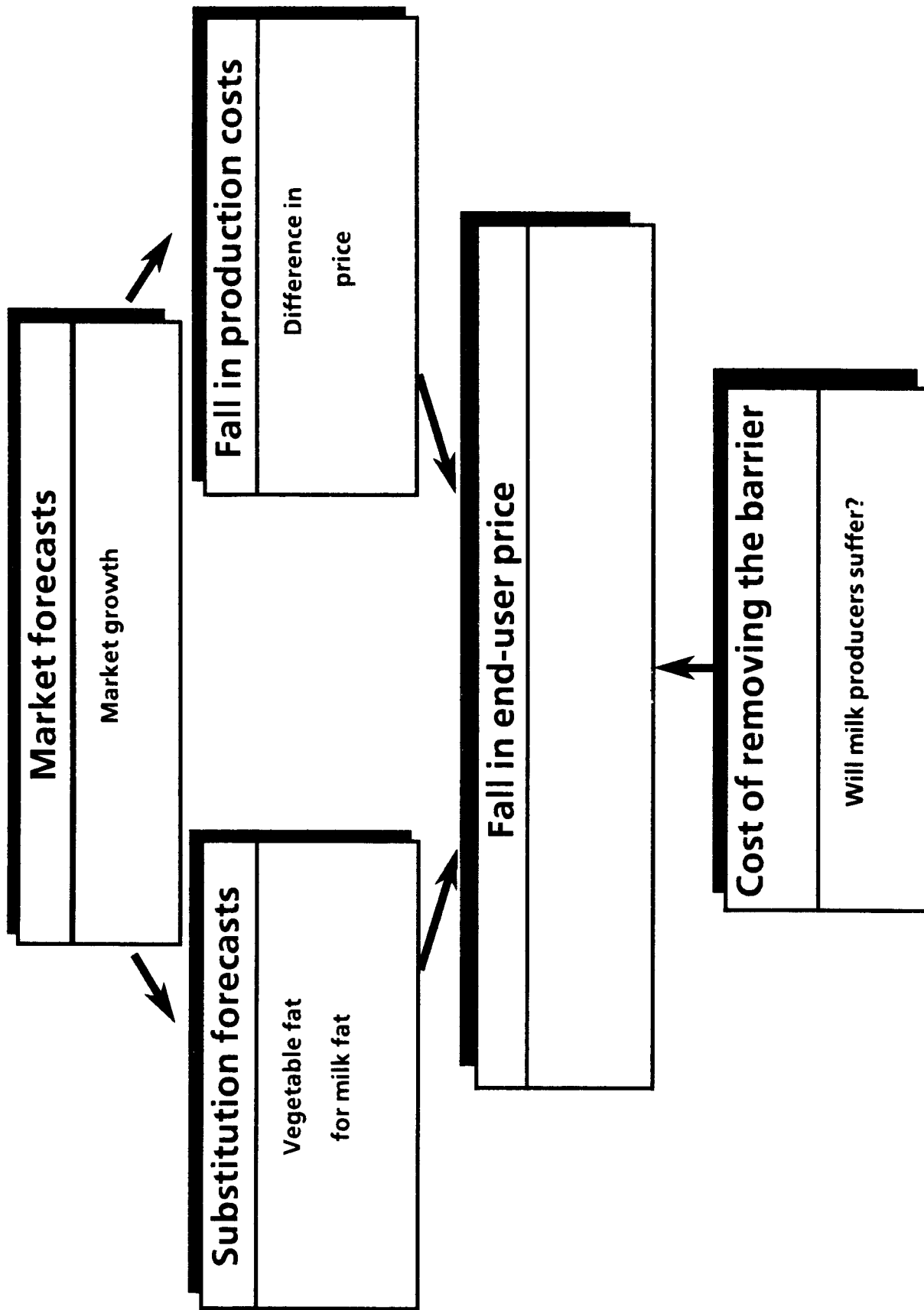
- "Nothing is going to happen"  
Ice-Cream Association official
- "As the price-level is higher in other countries, foreign producers will not sell their vegetable-fat ice-cream cheaper in Germany"  
Ice-Cream Association official
- "If butter-fat will not be subsidized in the future, a considerable reshaping of the industry might occur"  
Ice-Cream Association official
- "German producers would use vegetable-fat only in the economy-class segment of the market"  
Ice-Cream Association official
- "Marketing is the key success factor"  
Executive of a leading German supplier
- "The German law limits the product-innovation"  
Ice-Cream Association official
- "German producers are very strong compared to most foreign producers"  
Executive of a leading German supplier

## 4.5. Vegetable fat restriction for ice cream in Germany

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# Immediate direct effects



## **Immediate direct effects**

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### **Market Forecasts**

- The ice-cream market has been growing by 12-14% in volume terms per year. The market is likely to grow by 8 % per year over the next five years.

### **Fall in production costs**

- Use of vegetable fat would save up to 2.6 Ecu per kg of ice-cream produced (compared to the normal EEC price for milk fat)<sup>(1)</sup>.

### **Substitution forecasts**

- Since the cost disadvantage of milk fat is considerable, entry threats by foreign producers might force domestic producers to use vegetable fat.
- "There will always be a milk fat (only) upmarket segment, of approx. 25% of the market".

- Industry Expert

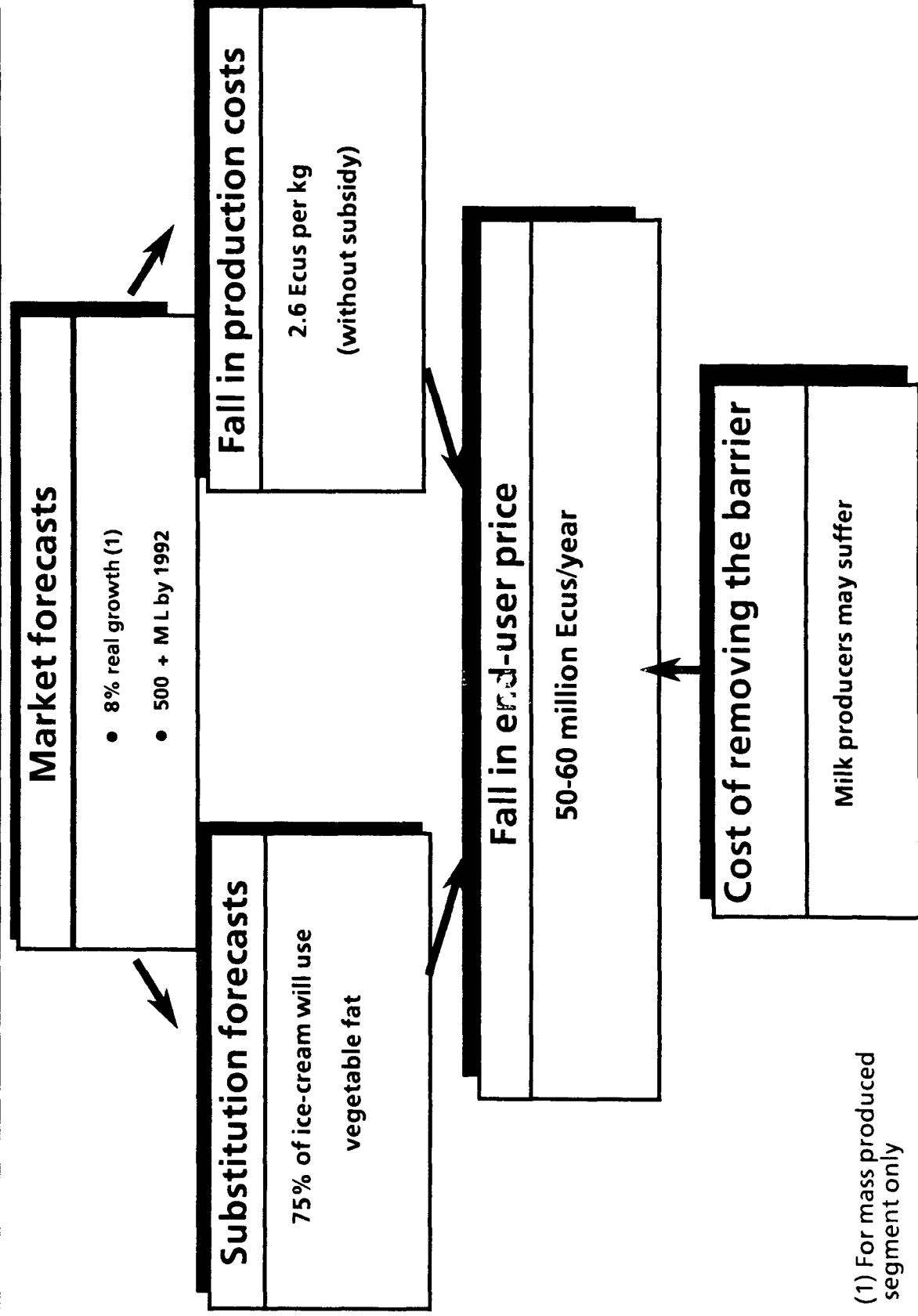
(1) Compared to the EEC reduced price for milk fat, the advantage would be about 1 ECU per KG

## **Costs of removing the barrier**

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- **Milk producers would ultimately be disadvantaged, however, this depends largely on the CAP milk programs.**
- **Other costs of removing the barrier are minimal : eg recipe changes, labelling, etc.**

# Immediate direct effects : Vegetable fat in Ice Cream in Germany



## **Deferred direct effects : low**

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### **Increased competition**

- **Foreign competition may enter the German market, but the effects of this will be mitigated by**
  - **the fact that the German market is quite concentrated**
  - **the prices in Germany are low compared to other EEC countries**

### **Economics of scale**

- **Given the low levels of inputs (5%), the benefits from scale economies on the part of foreign producers will be low.**

## **Indirect Dynamic effects : low**

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### **Industry restructuring**

- **Unlikely because the market is already highly concentrated.**
- **Nestle may enter the German market, but this would not be related to the vegetable fat restriction.**

### **Increase in intra-community trade**

- **Not likely to be a significant effect**

### **Consumer selection**

- **Elimination of this barrier would create a new product segment in Germany, broadening consumer choice.**



## 4.5. Vegetable fat restriction for ice cream in Germany

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## **Organizations contacted**

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- **Government Office**
- **Four German National Associations**
- **UK, ice-cream Federation**
- **Industry experts**
- **Five producers of ice-cream.**

## 4. Pilot barrier analyses

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- 4.2 Pasta Purity Law in Italy
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## 4.6. Recycling law for beverages in Denmark

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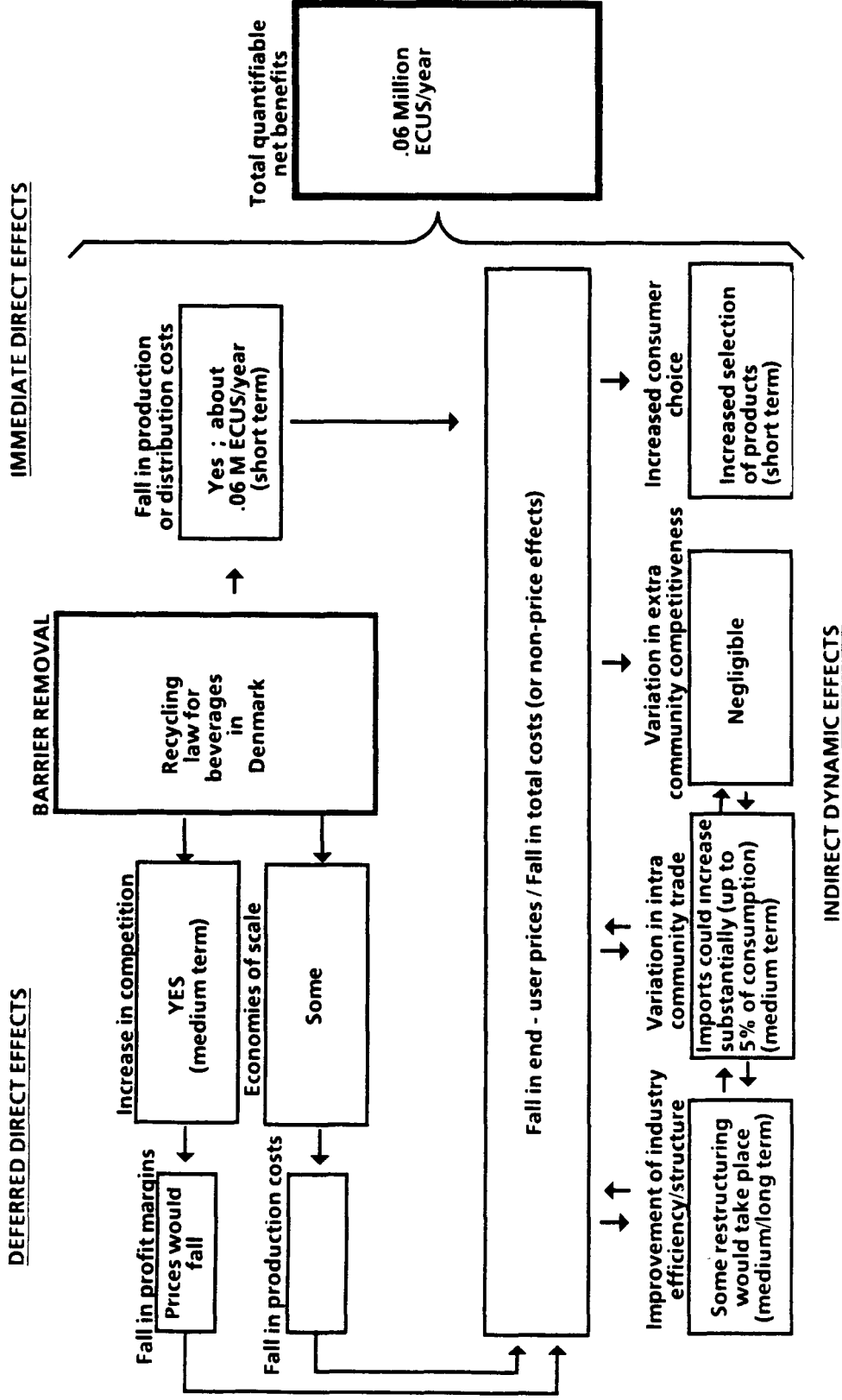
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## Summary

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- All bottles containing beer, soft drinks, and mineral water must be returnable (two-way bottles). No cans are allowed in Denmark,
- Since additional costs associated with two way bottles increase with distance transported, importers are adversely effected compared to domestic.
- If this barrier were removed
  - There would be a small cost savings by current importers from using one way bottles
  - There could be a reduction in prices for these products,
  - There would be a significant influx of imports into Denmark.
- The costs associated with this barrier are environmental. The rate of glass reutilization could fall.

# Summary of impact of barrier removal



## 4.6. Recycling law for beverages in Denmark

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## Description of barrier

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- **The barrier in Denmark is composed of three related laws :**
  - All bottles must be refillable and must correspond to standard Danish specifications,
  - No cans are allowed in Denmark,
  - Each bottle which is produced in or enters Denmark is subject to a tax.
- **Though each of these laws applies equally to domestic as well as imported products, the nature of these laws is such that importers are proportionately more affected and therefore these laws are an effective barrier to trade.**
- **The refillable bottle law is currently being contested by the European Commission in the European Court of Justice**



## **Why do these laws affect importers more than domestic producers ?**

---

- **Two-way bottles are more expensive to transport than one-way bottles (or cans) because of the required return trip. This added expense varies positively with distance transported.**
  - **Since foreign beverage producers are, almost by definition, more distant to key Danish markets than are domestic producers, the returnable bottle law disproportionately affects foreign producers who wish to sell in Denmark.**
- **Due to pressure from the Commission, in 1983 Denmark modified the law (decree 397) to permit sale of non-approved (i.e., non-returnable) bottles for "test marketing purposes". A foreign producer may import product in their own bottles (no cans) up to 3000 hectolitres per year.**

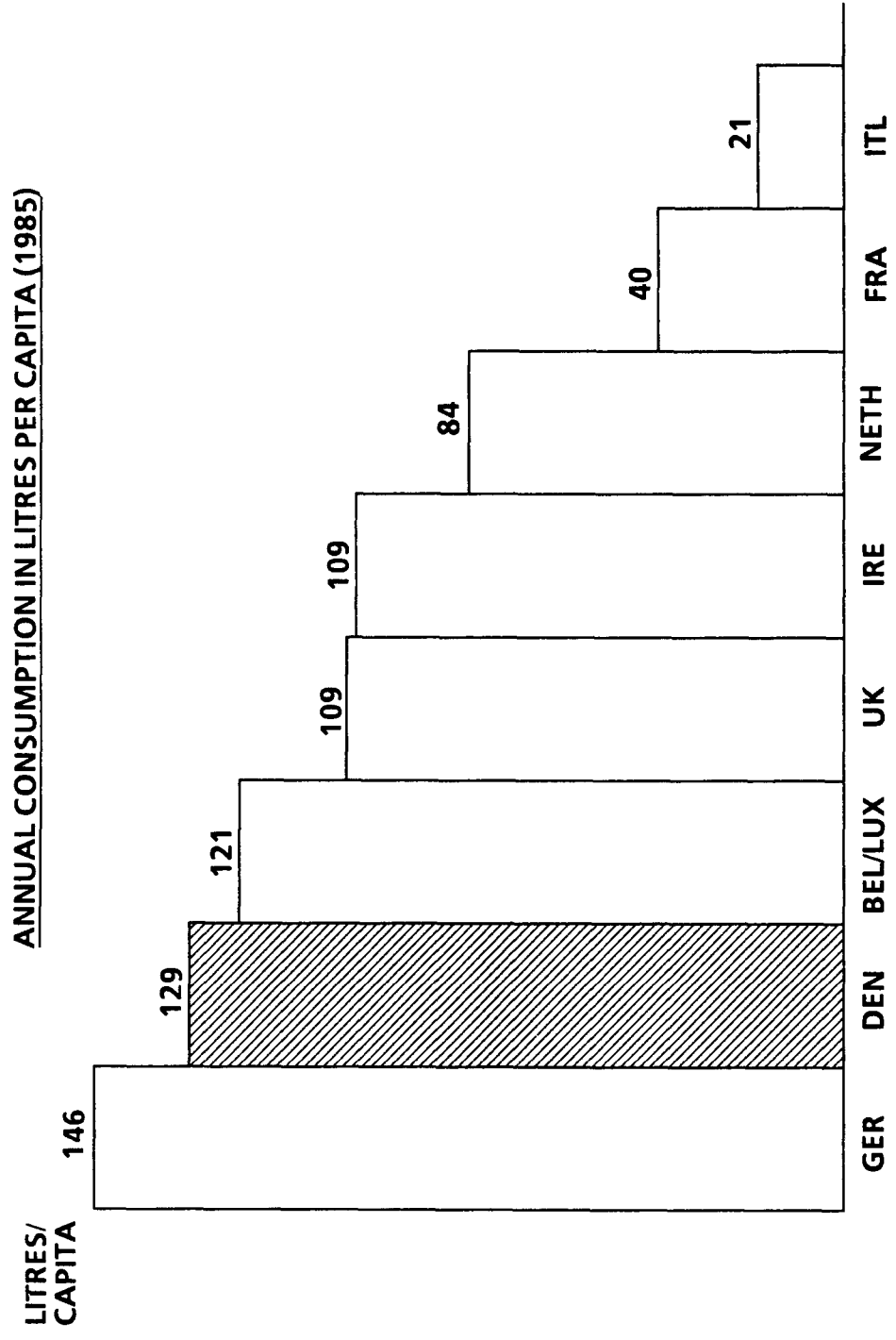
## Why do these laws affect importers more than domestic producers? (cont'd)

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- **Two key features, however, render the 3000 HL allowance ineffective.**
  - **First, the importer must still pay the tax on the bottle. Assuming an importer would be using a one-way bottle, the burden of this tax would fall entirely on the single usage of the bottle. By contrast, the same tax is paid by a domestic producer, who may use the two-way bottle 30 or more times. The tax (1) paid by an importer on a six pack of beer, for example, could amount to 7% of the retail selling price (including VAT and excise tax)**
  - **The second feature is that an importer must institute a return and mandatory deposit system on the imported bottles, increasing administrative and packaging costs.**
  - **Partly as a result of these two features, which must be considered along with the principal returnable bottle law, no existing importer has yet reached the 3000 L limit.**

(1) see appendix A for tax schedule.

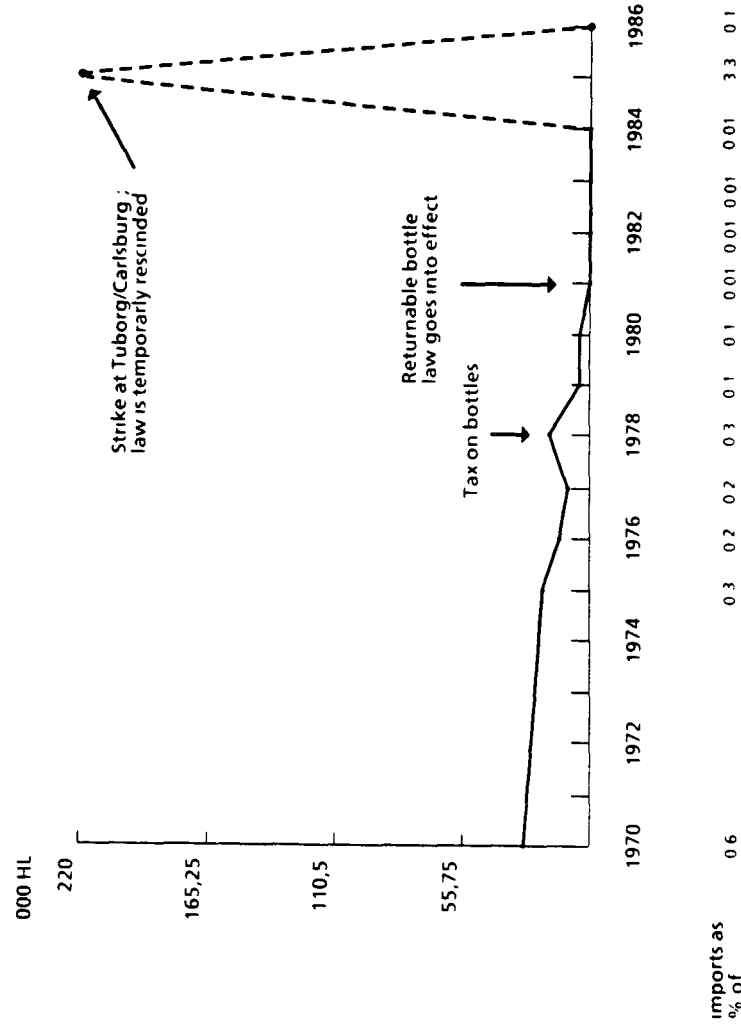
# After Germany, beer consumption per capita in Denmark is the highest in Europe



Source : CBMC

# Description of the industry : beer imports into Denmark are negligible

- The bottle tax enacted in 1978 significantly reduced imports
- After the returnable bottle law went into effect in 1981, what low level of imports that remained were reduced further by a factor of 10.
- Imports climbed to 3.3% of consumption in 1985 when the law was temporarily rescinded because of a strike at Tuborg/Carlsberg.

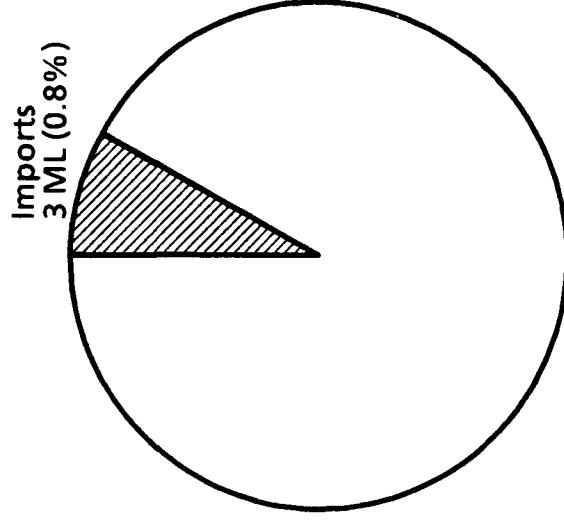


Imports as % of consumption  
 1985 EEC average = 4.90%  
 Source CBMC

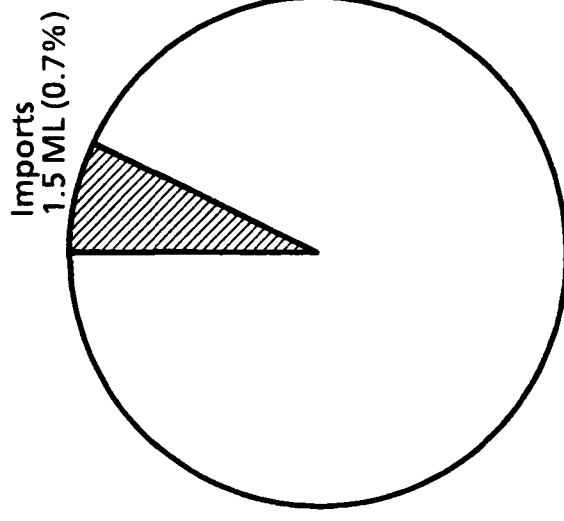
# This same pattern holds true for mineral water and beer

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Mineral water  
1985  
consumption = 39 million litres



Soft drinks  
1985  
consumption = 208 million litres

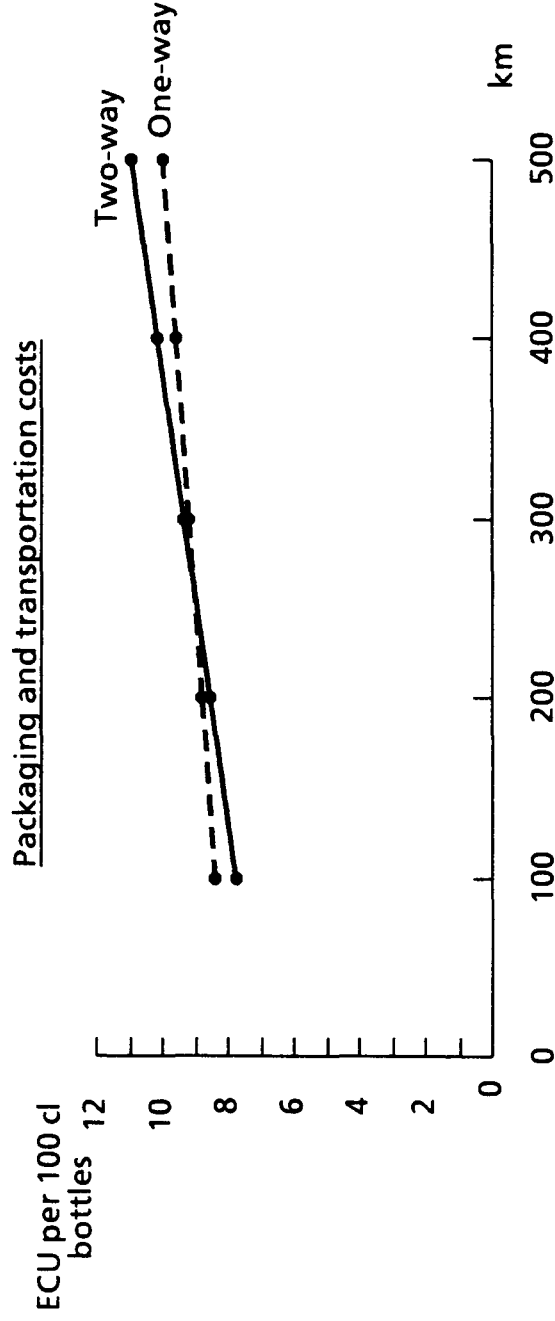


- These penetration rates are far lower than most EEC countries : Germany 2.2% ; Netherlands 20.6% ; France 5.1% ; Belgium/Lux 15.2%

Source : CANADEAN ; European Commission ; Eurostat

## The costs of two-way bottles make them uneconomic when shipping beyond approximately 200 km

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- Several bottlers said that 200 km was even an outside limit for the breakeven point.
- Assumptions :
  - Cost of bottle : two way 0.13 ECU ; one way 0.08 ECU
  - Bottle washing for two way bottle : 0.06 ECU/bottle ; used 33 times
  - Transport cost : 0.004 ECU/100km for one way ; double cost for two-way

Source : interviews ; European Commission

## 4.6. Recycling law for beverages in Denmark

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# Impact of barrier removal

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- **Immediate direct effects :**
  - Packaging and shipping costs for existing importers into Denmark would decrease
  
- **Deferred direct effects :**
  - Competition would increase on Danish beverage market
  - Existing importers could achieve some scale economies.
  
- **Indirect dynamic effects :**
  - Imports would significantly increase into Denmark
  - Less efficient local producers could possibly be displaced, resulting in a cost savings
  - Consumer choice would increase.



# Attitudes of major industry players

	Favorable	Unfavorable	Global
Danish agency for the environment		<ul style="list-style-type: none"> <li>This law protects the environment</li> <li>New entrants can always test their products under the 3000HL allowance</li> </ul>	--
Foreign beverage supplier	"If it weren't for this barrier, we would enter the Danish market"	-	+
French chamber of commerce in Copenhagen	It causes problems	-	+
Danish retailer	"It would make our life easier"	-	+
Consumers	Increase product selection	Damage environment	=
Global			+

## Attitudes of major industry players (cont'd)

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- The Danish Government, not surprisingly, supported the law :
  - "We achieve a re-utilisation of glass of 97% through this program. If we used only recycling, we could not come close to this proportion".
    - Agency for environment
  - "If an importer wishes to enter the market he may under the 3000 hl clause. Then if his product is successful he can import the syrup and produce under license"
    - Agency for environment
  
- Foreign beverage suppliers were unanimous in their view of the law
  - "It prevents trade"
    - UK soft-drink supplier
  - "If it weren't for the law, we would be trying to enter the Danish market"
    - UK beer manufacturer

## Attitudes of major industry players (cont'd)

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- The law prevents foreign producers from getting to the test market stage
  - "Orangina considered importing their product, but they studied the costs and found the two way bottle was too expensive"
    - French Chamber of Commerce in Copenhagen
  - "We haven't even attempted Denmark. It is a complete barrier"
    - UK beer manufacturer
- One UK manufacturer suggested that relaxing the law could have a price effect as well as increase product selection
  - "Prices would come down. In Denmark there are few innovative soft-drinks."
    - UK soft-drinks manufacturer

## Attitudes of major industry players (cont'd)

---

- Danish retailers felt the law restricted imports and increased their costs
  - "The law restricts imports"
    - Danish retailer
  - "Removing the law would make things easier for us"
    - Danish retailer

## 4.6. Recycling law for beverages in Denmark

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# Immediate direct effects : the direct cost reduction is minimal, about 60,000 ECUS/year, owing to the low penetration of imports

	BEER (1986E)	SOFT DRINKS (1984)	MINERAL WATER (1984)	TOTAL
Imports (1) (000 litres)	100	1532	313	1945
Approximate packaging and transport cost using two-way bottles (2) (000 ECUS)	33	511	104	648
Hypothetical packaging and transport cost using one-way bottles (3) (000 ECUS)	30	464	95	589
Cost savings ( 000 ECUS)	3	46	9	59

(1) Beer (1986 E) imports from EEC only. Mineral water and soft drinks include other countries as well ; EEC probably represents about 80% of these values

(2) Assuming : two-way bottles. 50% of products are shipped an AVG distance of 400 km ; 50 % a distance of 600 km.

(3) Assuming : one-way bottles

## **Deferred direct benefits : competition will drive prices down**

---

- **Competition will substantially increase in Denmark, as foreign producers enter the market.**
- **It can be expected that prices will fall, reducing profit margins.**
- **Some economies of scale will be realized as bottlers will no longer have to shut down production lines for the Denmark-bound products.**

# Indirect Dynamic effects : the increase in imports could be substantial

- Imports into Denmark will increase substantially

	(000 LITRES)			
	BEER	SOFT-DRINKS	MINERAL WATER	TOTAL
Consumption	1,236,200	208,000	39,000	1,483,200
Imports	1,000	1,532	313	2,845
As % of consumption	0.01%	0.7%	0.8%	0.2%
Hypothetical import penetration	4.9% (1)	5.0% (2)	5.0% (2)	4.9%
Hypothetical imports	60,574	10,400	1,950	72,924
Difference	59,574	8,868	1,637	70,074

(1) EEC average for beer ; interviews

(2) French import penetration



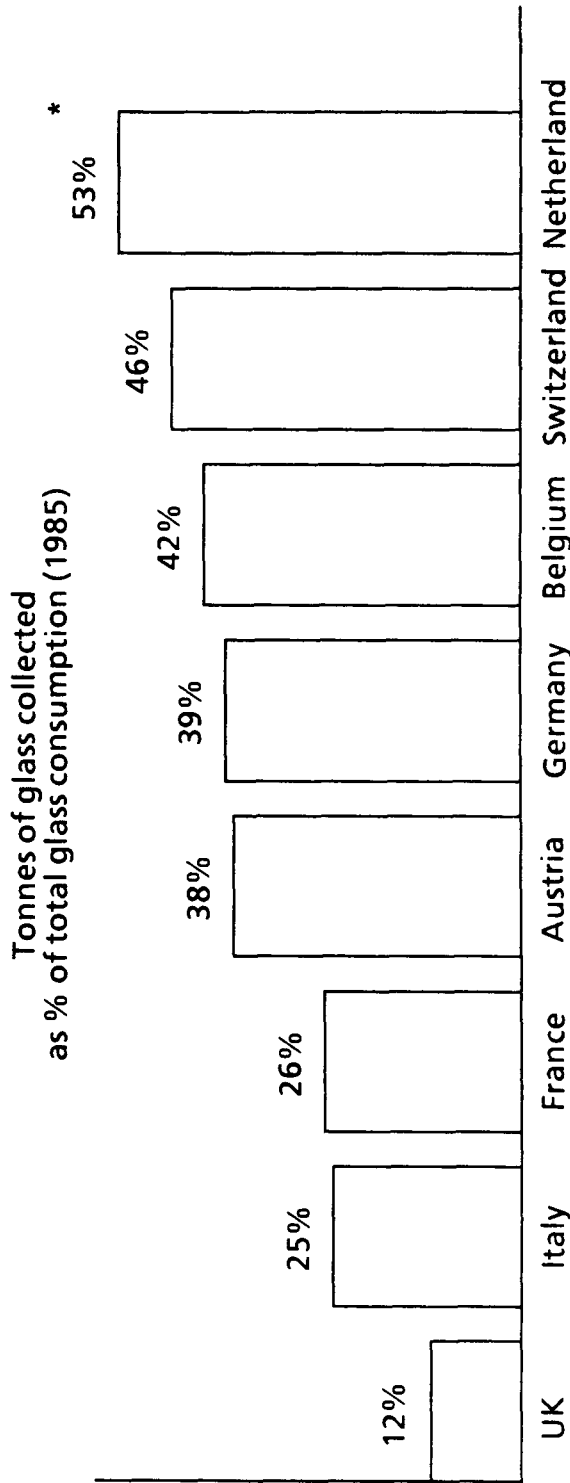
## Indirect Dynamic effects (cont'd)

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- **Such an influx of imports could cause a limited restructuring of the Danish brewing industry ...**
  - **Some of Denmark's 20 breweries less than 500 hl could be threatened,**
  - **Similarly, some restructuring could take place within the soft drinks industry.**
  
- **... And would definitely increase consumer selection.**

# Potential costs of the barrier : environmental effects

- The Danish returnable bottle system permits the reutilization of 97% of bottles that are sold to consumers.
- Even the best recycling program does not achieve this same level of reutilization.
- Therefore, removing the barrier could engender a reduction in glass recovery for imported bottles.



\* excludes returnable bottles  
Source : FEVE

## 4.6. Recycling law for beverages in Denmark

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# Appendix A : Bottle tax

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<b>Glass and plastic bottles</b>	<b><u>ECUS</u></b>
<b>10-60 cl</b>	<b>0.05</b>
<b>60-106 cl</b>	<b>0.16</b>
<b>&gt; 106 cl</b>	<b>0.22</b>

Source : FEVE

## **Organizations contacted**

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- **Fédération Européene du Verre d'emballage**
- **Danish Agency of the Environment (Copenhagen and Brussels)**
- **Soft Drink Company, UK**
- **British softdrink association**
- **UK brewery**
- **Chambre du Commerce Franco-Danois (Copenhagen)**
- **Danish supermarket**

## 4. Pilot barrier analyses

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- 4.1 Beer Purity Law in Germany
- 4.2 Pasta Purity Law in Italy
- 4.3 Aspartame restriction in the soft drink industry in France
- 4.4 Vegetable fat restriction for chocolate in France
- 4.5 Vegetable fat restriction for ice cream in Germany
- 4.6 Recycling law for beverages in Denmark
- 4.7 Wört excise tax in beer industry in UK
- 4.8 Health registration requirement for baby food in Spain
- 4.9 Bulk transport for spring water in France
- 4.10 Saccharimetric content law for beer in Italy
- 4.11 Chlorine restriction for biscuits and cake
- 4.12 Label detail for soup in Spain
- 4.13 "German water bottles" for mineral water in Germany
- 4.14 Plastic containers for mineral water in Italy
- 4.15 Double inspection for spirit imports in Spain

## 4.7. Wort excise tax in beer industry in UK

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→ **1. Summary**

**2. Overview of pilot barrier**

- Description of barrier
- Description of Industry

**3. Impact of barrier removal**

- Industry and Competitive Structure
- Attitudes of major industry players

**4. Quantitative estimate of impact**

**5. Appendix**

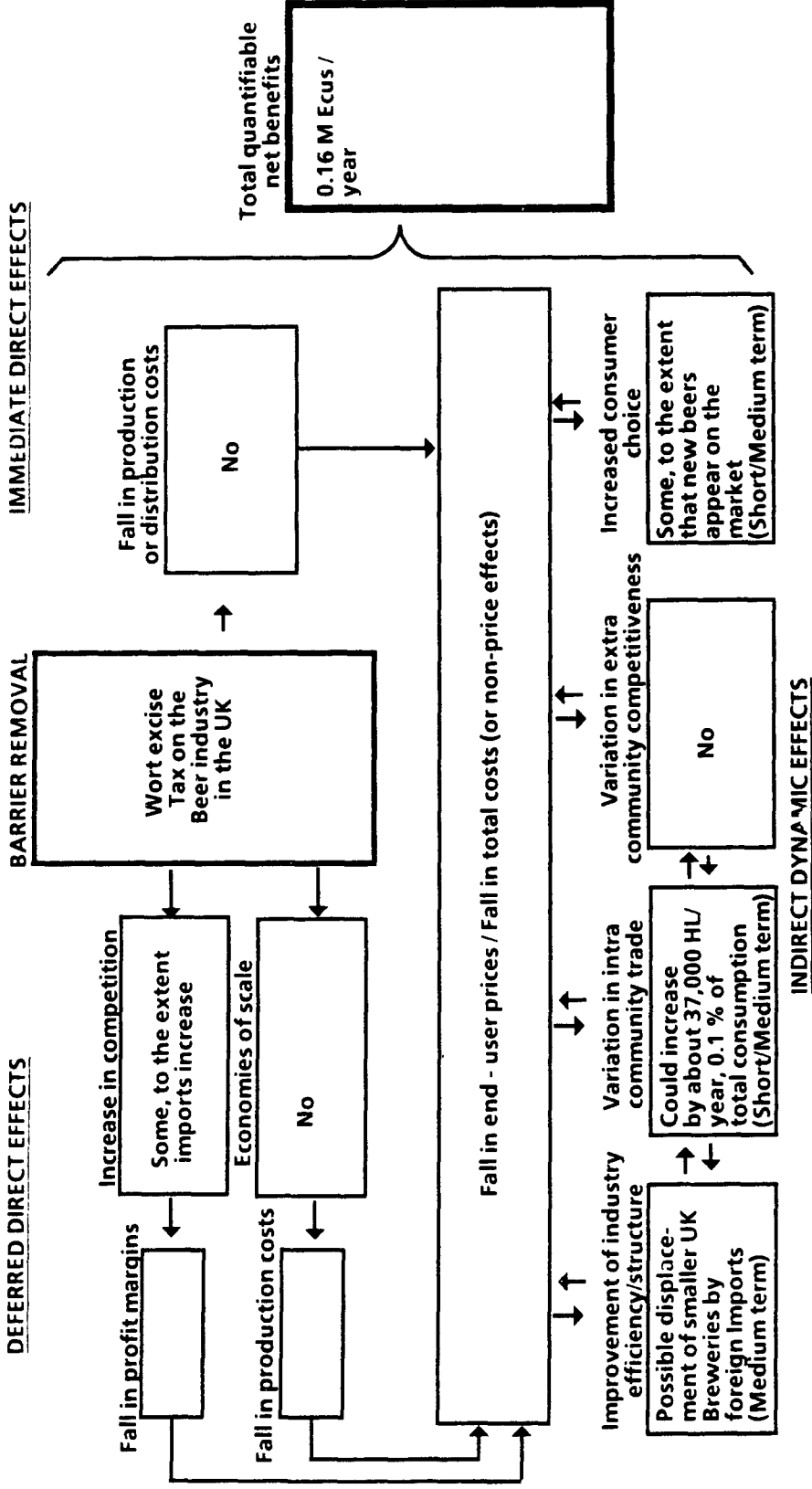
## Summary

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- **Excise tax payable on beer is calculated differently for domestically brewed beer versus foreign beer.**
- **This may lead to a cost advantage for UK brewers vis-à-vis importers**
- **Elimination of this barrier may increase imports into the UK slightly (about 0.1% of consumption). It may also lead to a small cost saving (of about 0.16 million ECU/year).**



# Summary of impact of barrier removal



## 4.7. Wort excise tax in beer industry in UK

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- Description of industry

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## Description of barrier

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- **Beer sold in the UK has direct tax paid on it by two different parties :**
  1. sales tax (VAT), paid by the consumer and levied at 15% of retail sales price irrespective of country of origin
  2. excise tax, paid by the brewer and which is greater for imported beer than for domestically brewed beer because of the taxation system used.
- **Excise tax is charged for all beer on a rate per volume basis, according to its strength**
  - Since 1985, the rate has been £25.80/hectolitre for 1030°OG beer, (1) plus £0.86/hl for each degree above this strength
- **However, the volume on which the excise tax liability is calculated is different for domestically brewed beer compared to foreign beer**
  - the volume of domestic beer is measured in the brewery prior to fermentation. The authorities then calculate what the volume of finished beer will be, based on an assumed 6% wastage rate - the "worts method".
  - the volume of imported beer is measured on entry to the country, so that it is a direct measure of the volume of finished beer.

(1) The conversion between degrees original gravity and degrees plato is not quite linear but may be approximated by :  $OG = 1000 + 4P$  (eg.  $12.5^{\circ}P = 1050^{\circ}OG$ )

## Description of barrier (cont'd)

- Because UK brewers can frequently achieve less than the assumed 6% wastage, they can pay less excise tax per hectolitre than their non-UK competitors

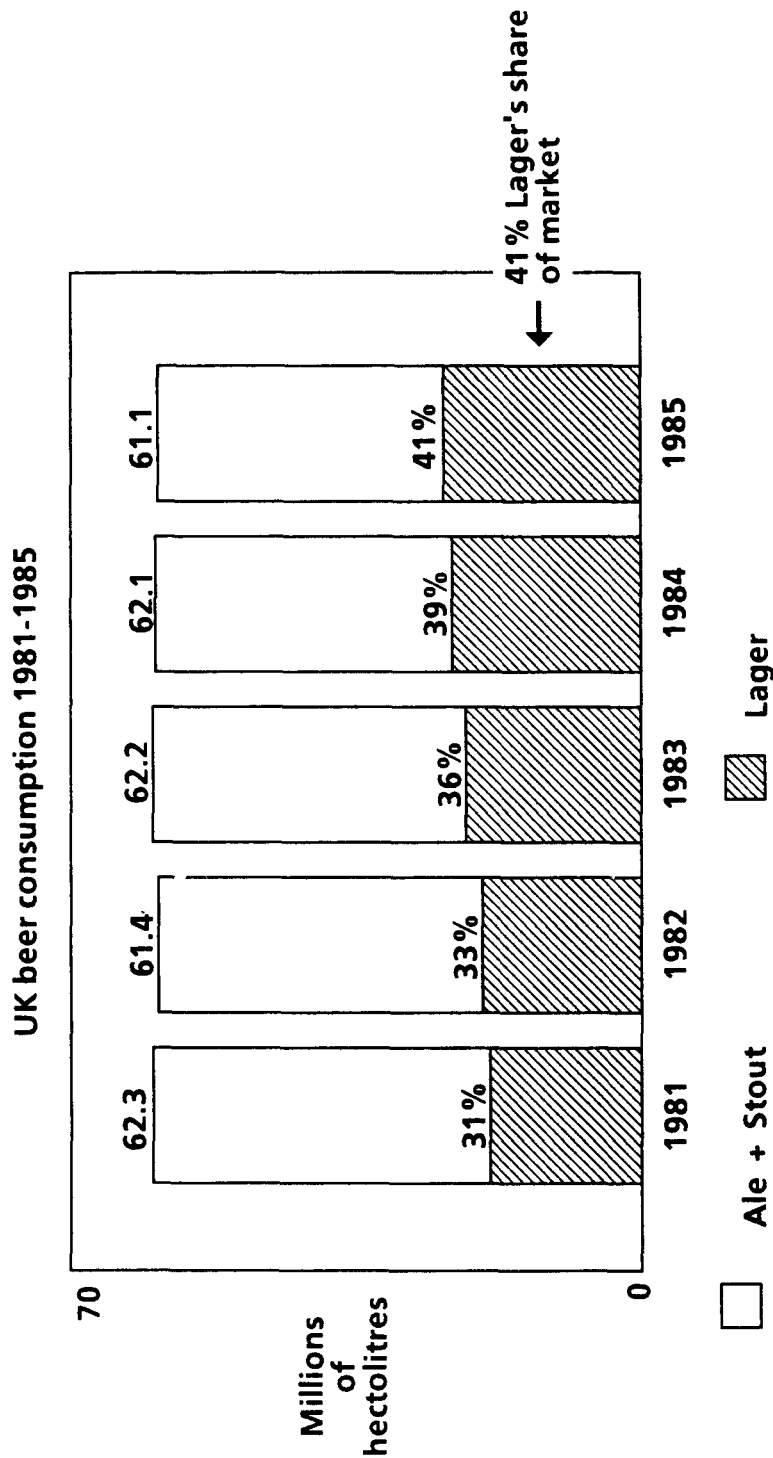
eg. a UK brewer of 1037°OG beer achieving a 2.5% wastage rate will pay 1.64 ECU/hl less tax

	Volume in fermentation vessel (hl)	Volume of actual finished product (hl)	Volume of finished product assumed by tax (hl)	Tax payable @ £31.82 per nominal hectolitre	Tax paid per actual hectolitre
UK brewer	106.4	103.7	100.0	£ 3,182	£ 30.68
Non UK brewer		100.0	100.0	£ 3,182	£ 31.82

- Non-UK brewers wishing to import to the UK must therefore do so at a cost disadvantage to domestic producers because of the worts method of taxation.

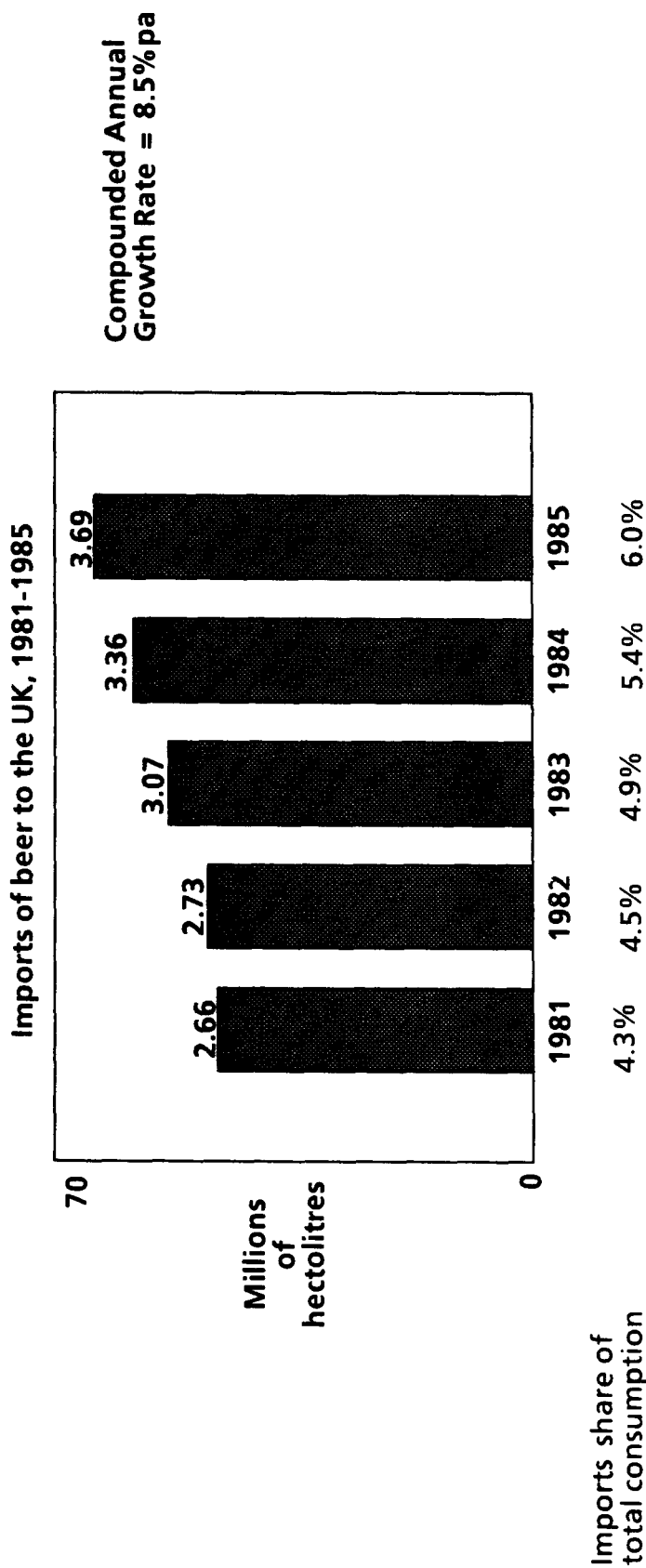
# Overall consumption of beer in the UK has remained static over the last five years

- Within this trend, however, lager has increased in popularity



(Source : UK Customs and Excise, Brewers Society)

# The growth of beer imports to the UK reflects this change in tastes towards lighter beers



- There are currently 180-200 regularly available imported brands of beer in the UK.

(Source : UK Customs & Excise)

# There is significant downstream vertical integration by brewers in the UK, such that they control about 77 % of retail beer sales

	<u>Channel</u>	<u>Tied on trade (1)</u>	<u>Free on trade (2)</u>	<u>Off trade (3)</u>	<u>Total</u>
(1)	% of all beer distribution	49 %	36 %	15 %	100 %
(2)	Breweries' control of sales in that channel	100 %	67 %	27 %	
(3) = (1) x (2)	Breweries' control as a % of all sales	49 %	24 %	4 %	<b>77 %</b>

- The figure for breweries' control of sales in the Free on trade channel (67%) is the most contentious. It reflects the leverage that breweries gain over free house landlords by extending trade loans, extended credit and discounts. These were estimated to amount to £ 800 million in 1984, or an average of over £ 8,000 per free house

(Source : Monopolies & Mergers Commission ; Off Licence News, 1987)

- (1) Tied on Trade : Beer sold for consumption on premises, where premises are owned and controlled by the brewery
- (2) Free on Trade : Beer sold for consumption on premises, ownership of the premises is independent of the brewery
- (3) Off Trade : Retail sales

# UK beer production is dominated by the "Big Six"

---

Estimation share of  
production  
(1986)

1. Bass	22 %
2. Allied	14 %
3. Whitbread	12 %
4. Scottish & Newcastle	11 %
5. Watney	11 %
6. Courage	9 %
Total of 6	79 %
57 Others	21 %
80 Small wholesale & 8 retail breweries	< 1.0 %
Total	100 %

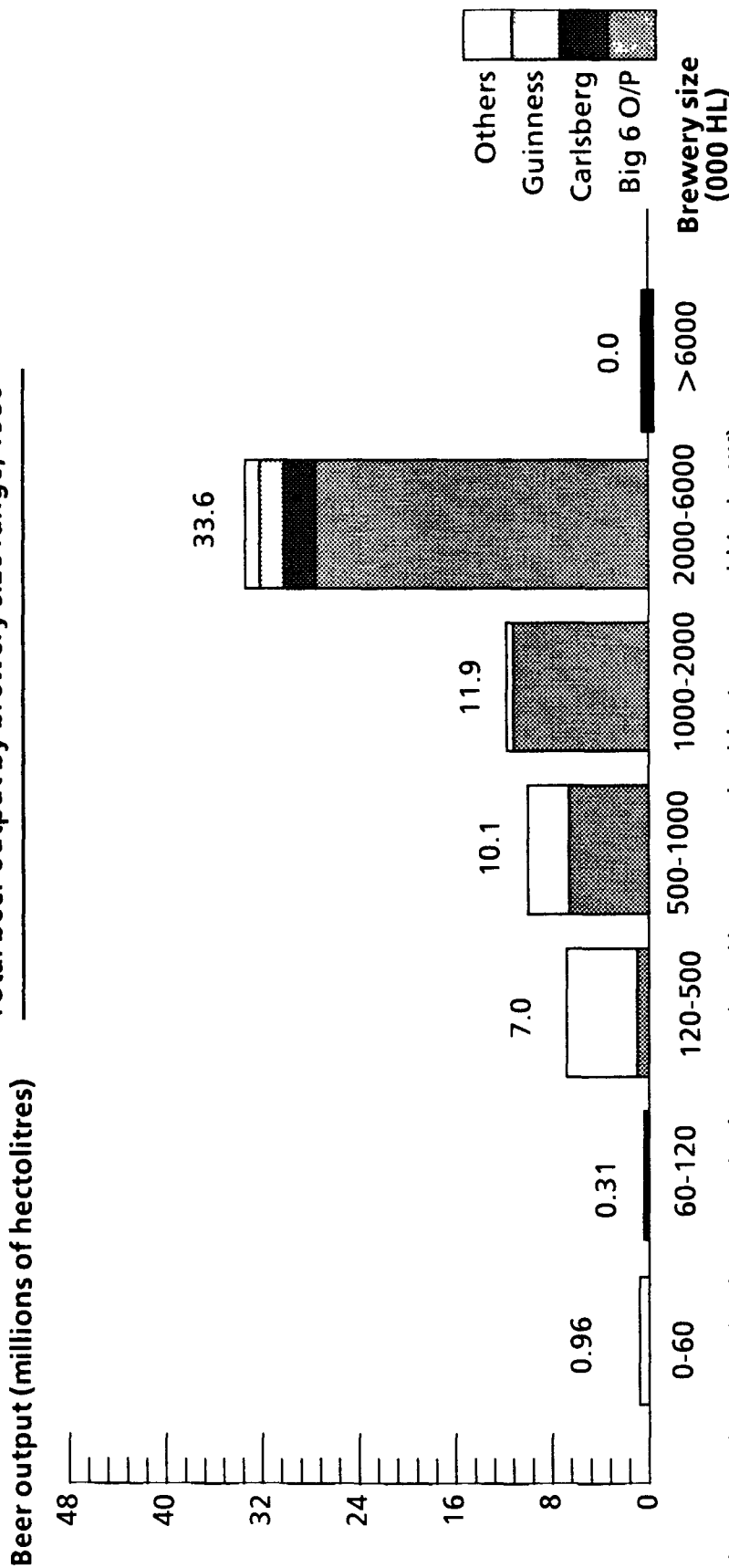
(Source : Messel; Brewer's Society)



Similarly, a small number of large breweries, largely owned by the Big Six, account for the bulk of UK beer production.

- However, there is a significant volume of production from breweries in the middle size ranges, owned by both national and regional brewers.

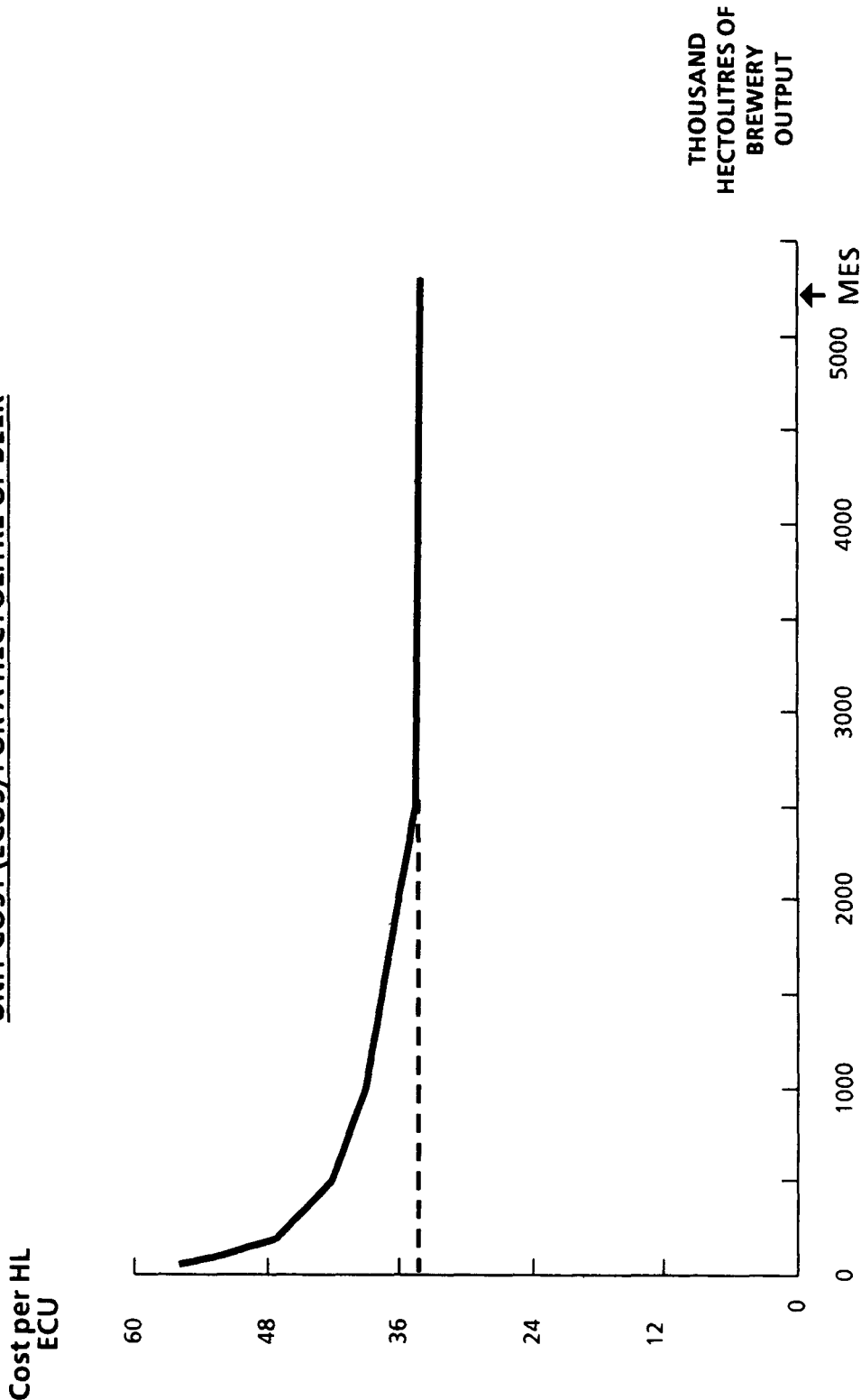
Total beer output by brewery size range, 1986



(Note : Carlsberg and Guinness are both non-UK based brewers, each with a brewery within the UK)  
 (Source : Messel, Brewers' Society)

# Economies of scale exist in beer production

UNIT COST (ECUS) FOR A HECTOLITRE OF BEER



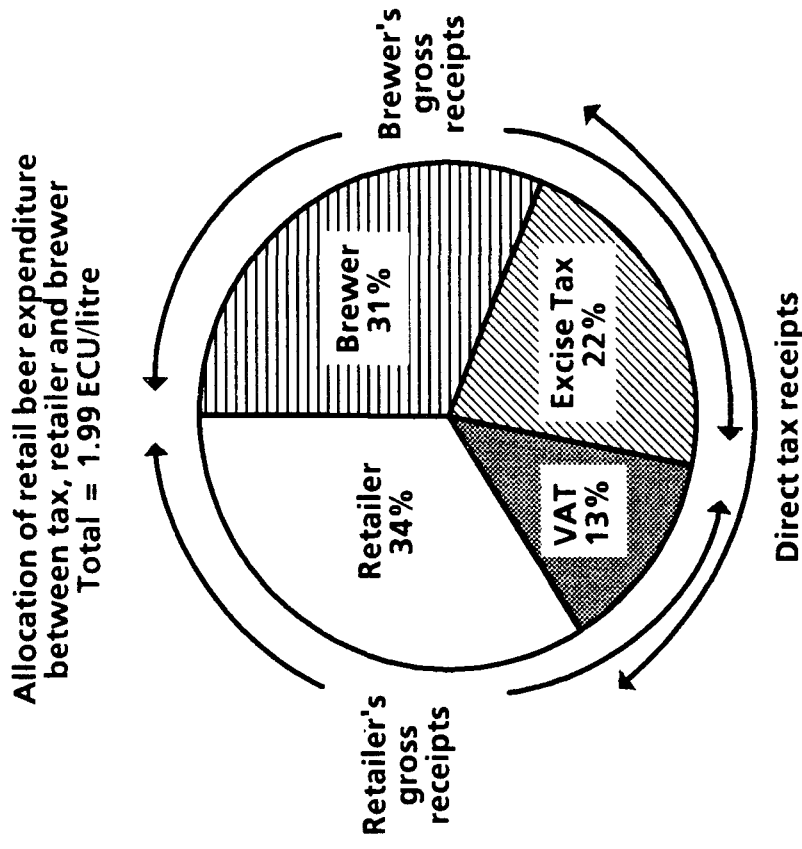
ESTIMATION :

- 5.300 KHL IS MINIMUM EFFICIENT SCALE (MES) FOR A BREWERY (SCHERER 1975)
- 5 % COST DISADVANTAGE FOR A BREWERY 1/3 THIS SIZE (SCHERER 1975)
- COST DATA FOR SMALLER BREWERIES : SCHWALBACH ; WEIHENSTEPHAN ; INTERVIEWS

(1) PRODUCTION, SALES AND MARKETING, ADMINISTRATION ; TRANSPORTATION COSTS ARE NOT INCLUDED

# Consumer expenditure on beer in the UK is split roughly equally between tax, the retailer and the brewer

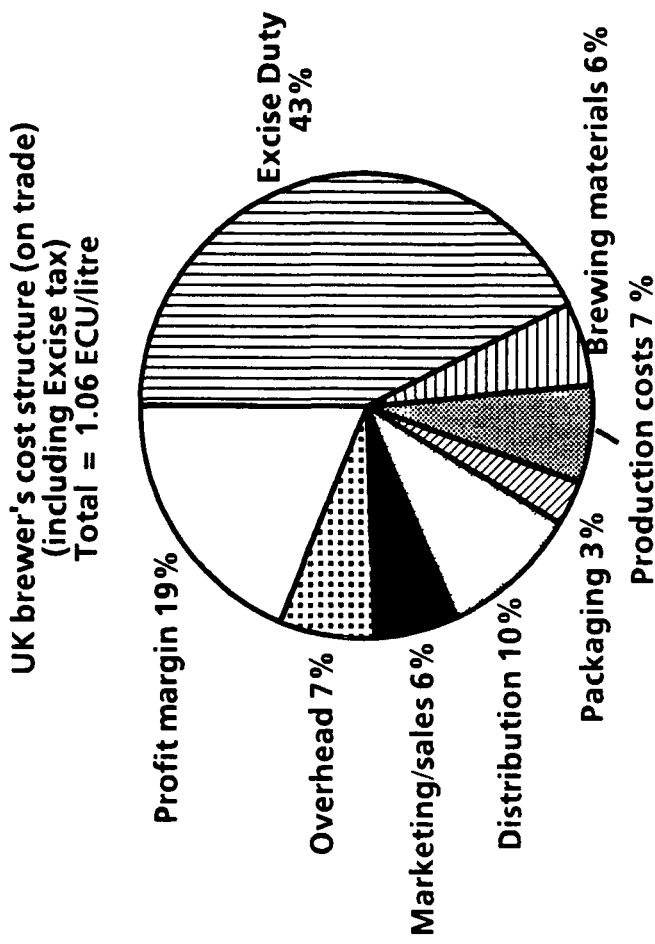
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- Excise tax is 22% of the retail sales price. Therefore, a UK brewer achieving a 2.5% wastage gains an advantage relative an importer due to the worst taxation system amounting to about 0.8% of the retail sales price - or about 0.016 ECU/litre

(Source : Wood Mac Kenzie, MAC interviews)

**43% of brewer's gross income is paid out in excise tax. Distribution and direct manufacturing costs are the most significant other costs**



(Source : : Wood Mac Kenzie)

- **A 19% margin implies about 0.20 ECU/litre in profits for sales to the tied on trade**
- This figure is typically halved for sales to the off-trade because of generally lower prices
- **If a non-UK producer makes 0.10 ECU/litre profit on his UK beer sales then the 0.016 ECU/litre advantage for UK brewers represents 16% of his profit margin.**

## 4.7. Wört excise tax in beer industry in UK

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## Impact of barrier removal

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- Removal of the barriers will remove importers' cost disadvantage
  - greater penetration by foreign beer could then result as the price is dropped and / or the UK market becomes more profitable for non-UK brewers
  - because overall consumption is stable, this increase in foreign beer sales is likely to be at the expense of higher unit cost domestic brewers
    - These will be the medium range UK brewers who are too large to adopt niche strategies for small local markets, and not large enough to achieve full scale advantages on unit costs.
- However, it is not envisaged that the impact of removing the barrier will be substantial
  - The current tax disadvantage of importing brewers amounts to under 1% of the retail sales price
  - other possibly more significant barriers to entry exists :
    - Transportation costs : shipping beer to an overseas market is typically viewed as a preliminary volume- building activity prior to setting up production there (usually under license in the UK)
    - Distribution channels : dominated by the domestic brewers
    - Advertising expenditure : could be stepped up by domestic brewers in response to competitive threats from abroad.

## Impact of removing the barrier (cont'd)

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- Nevertheless, there are some indications that a transfer of production could occur between foreign and domestic producers in the form of imports.
  - the popularity of lager and light imported beer is increasing
  - the traditional dominance of the tied brewery pub as the retail outlet in the UK has shown signs of weakening recently
    - drinking at home is increasingly popular
    - the main growth in off licence sales has come from the major multiple grocers who are aggressive, independent and powerful in the UK and who are actively importing beer from Europe.
- Because importing brewers' margins on UK sales are likely to be quite small (of the order of 3.4% of retail prices), a small decrease in costs will lead to a substantial percentage increase in profits per litre
  - they can therefore be expected to increase their sales efforts in the UK.

# Summary of position of major players

	<u>Favorable</u>	<u>Unfavorable</u>	<u>Global</u>
<b>Supplier industry</b>			=
- UK		Loss of output	
- Europe	Gain in output		
<b>Brewers</b>			
- UK		Loss of tax "bonus"	-
		Loss of output for medium sized producers.	
- Europe	Gain in output for low cost producers		+ +
<b>UK retailers</b>			
	Some increase in fragmentation of suppliers		+
<b>Consumer</b>	Some extra choice		+
<b>TOTAL</b>			+



## Overall comments from major players indicate that the effect of removing the barrier will not be substantial

---

- Retailers do not anticipate a large impact, particularly in the premium end of the market :

"The well-known imported beers are strongly branded premium beers, which would not be effected by small changes in price. These brewers would probably not pass any advantage on to the consumer ... However, there is also a number of imported beers at the other end of the scale which do compete on price".

- Specialist Drinks Retailer

"We had cans of Heineken at 53p/can and Carlsberg at 55p/can. Manufacturers' price increases came at around the same time, to 59p and 63p respectively. However, we obtained a discount from Carlsberg so that we could hold it at 55p. The result was 30% switch in demand from Heineken to Carlsberg. That sort of effect is only typical of the "commodity" brands of beer".

- Specialist Drinks Retailer

"A one or two per cent disadvantage on retail price is not likely to impact sales volumes. You could argue that a more significant barrier is the alcoholic strength basis of the system which discriminates against imported beers which are generally stronger than domestically brewed ones"

- Multiple Grocery Chain.

## Comments from major players (cont'd)

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- **Foreign brewers/importers indicate that tax reductions on premium beers would not be passed on to the consumer :**  
"We do no price promotions - ours is not that kind of beer. However, investment in brands is important for success".
  - German brewer"San Miguel Beer is positioned as a premium beer. We would not see much point in small reductions in our price".
  - Importer of Spanish beer
- **UK brewers have few incentives to be positive about the removal of the barrier :**  
"You must remember that most beer is sold through public houses where the beer price reflects the whole package of decor, atmosphere, amusements, etc".
  - The UK Brewers' Society"We must compete against European brewers whose energy consumption is subsidized by their national governments".
  - Regional Brewer"There is a lot of water in beer; it is expensive to transport. Any foreign brewer with any volume of sales in the UK will stop importing and start licensing out its brewing to domestic brewers".
  - The UK Brewers' Society

Aside from any volume implications of UK brewers' tax advantage over foreign competition, it can be calculated that the benefits accruing to them from the UK Government underestimating their output amounts to approximately 98 million ECU

## 4.7. Wort excise tax in beer industry in UK

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# Summary of benefits and costs of removing the barrier

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## BENEFITS

Type	Comment
<u>Immediate Direct effects</u>	
- None	- No immediate benefits are anticipated
<u>Deferred direct effects</u>	
- Some increase in competition	- Foreign breweries may wish to step up their UK Sales effort
<u>Indirect dynamic effects</u>	
- Increase in penetration of lower cost imported products	- The most important quantifiable effect, though nevertheless probably limited
- Increase in industry specialisation	- Following a period of building up import volumes non-UK brewers could set up capacity in the UK which is more efficient than that of the established brewers
- Increase in consumer choice	- Likely to be limited because there are already a wide range of products available which are similar to those offered by the most likely entrants.

# Summary of benefits and costs of removing the barrier (cont'd)

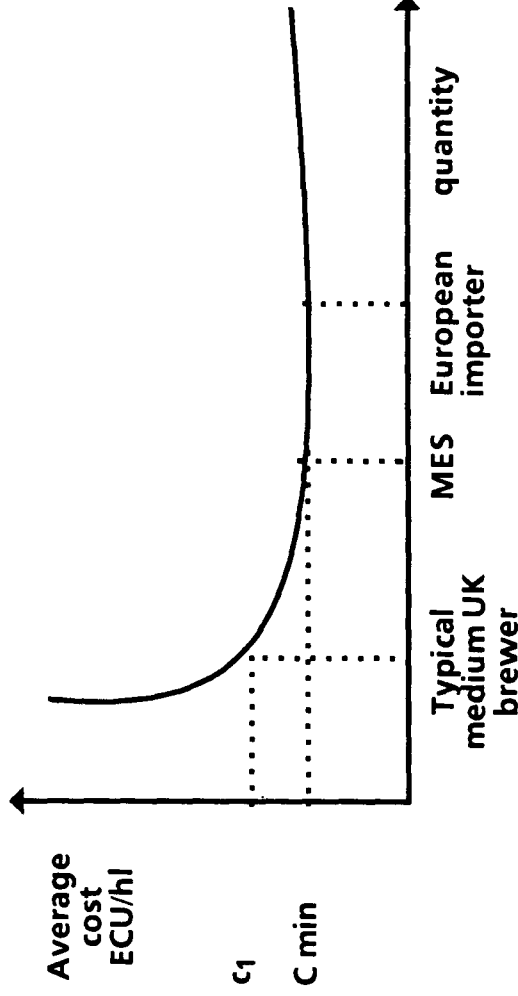
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## COSTS

- Finished product taxation is reported to encourage some black market activity in Germany.
  - Some German beer is illegally sold by brewers who have not declared it to the authorities. The brewer and purchaser then share the saving in unpaid excise tax.
- Monitoring levels of output on a finished product basis will involve more complicated recording procedures than using the (prefermentation) method and could therefore be more expensive for the excise authorities
  - a quantity of beer at the "wort stage" could finish up as a variety of different types of beer in different packages

# Indirect dynamic effects : the main quantifiable benefit of removing the barrier will be a unit cost reduction

- This would result from a transfer of production from middle range UK producers to European suppliers who produce in excess of the minimum efficient scale (MES)



## Methodology

- Estimate of the quantity of production transferred,  $q_t$
- Estimate of the unit production cost saving,  $c_1 - c_{min}$ , achieved by this transfer
- Estimate the unit transport cost for importing beer from Europe,  $c_t$
- Net cost reduction =  $q_t (c_1 - c_{min} - c_t)$

**The effect of removing the barrier will be an increase in trade of 37,000 hectolitres per annum and a total cost saving of 157,000 ECU per annum**

---

- **The cost of the trade barrier is therefore relatively small.**
  
- **This may represent an upper bound**
  - **UK brewers may exploit existing barriers to entry (distribution, shipping costs) or create new ones (advertising, promotion) to defend effectively their existing position.**
  
  - **potential non-UK importers may consider that a 1% change in their cost disadvantage is insufficient incentive for them to step up their import efforts, or they may prefer to pursue the newly opened and closer German market.**

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# Cost model for quantitative estimate of the impact of barrier removal

Status Quo	0-60	60-120	120-500	500-1000	1000-2000	2000-6000	> 6000	Imported	Total
Brewery size (000 HL)									
No of breweries	124	7	50	18	10	16	0		
Output/Brewery (000HL)	7	42	131	522	1112	1962			
Total output (000HL)	893	292	6,564	9,401	11,120	31,395	0	3,688	63,343
Unit Cost (ECU/HL)	61	57	51	49	47	43	43	43	
Overseas ship cost (ECU/HL)	0	0	0	0	0	0	0	3	
Total unit cost (ECU/HL)	61	57	51	49	47	43	43	46	
Total cost (000ECU)	54,622	16,515	336,490	458,485	521,765	1,364,254	0	168,910	2,921,050
Foreign imports replace high unit cost UK production									
Brewery size (000 HL)									
No of breweries	124	7	50	18	10	16	0		
Output/Brewery	7	42	131	522	1112	1962			
Total ou.put	893	292	6,535	9,382	11,120	31,395	0	3,725	63,343
Unit Cost	61	57	51	49	47	43	43	43	
Overseas ship cost	0	0	0	0	0	0	0	3	
Total unit cost	61	57	51	49	47	43	43	46	
Total cost	54,622	16,515	336,551	458,586	521,765	1,364,254	0	170,600	2,920,050

Total cost savings = 157,000 ECU

Note : the key assumptions underlying these calculations are outlined on the next page.

# Main assumptions underlying the cost model

---

- 1. Total production remains constant**
  - Overall UK demand has remained approximately static in recent years
- 2. Imports increase by 1%**
  - Discussion with retailers indicate a cross elasticity of the order of two for downmarket beers, and rather less than that for premium beers
- 3. Imports gain volume at the expense of UK breweries in the size ranges 120-500 and 500-1000 thousand hectolitres**
  - These breweries are the ones which will be least able to compete with new imports
- 4. Unit costs of imports equal those of the UK's lowest cost producers**
  - Assuming it is the most efficient European who are most likely to exploit the barrier removal
- 5. Transport costs for imports are 2.8 ECU/hl**
  - Based on discussions with a number of importers

## **Organizations contacted**

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**UK Brewers' Trade Association**

**Regional brewer; importer of San Miguel from Spain**

**Multiple grocery chain**

**Multiple grocery chain**

**Specialist retailer**

**German brewer**

**Subsidiary of Danish brewer with brewery in UK**

**Various trade journalist and stockbrokers' industry analysts**



**Research on the "Cost of non-Europe" — Basic findings  
Vol. 12 Part A — The "Cost of non-Europe" in the foodstuffs industry**

by Group MAC

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