FOOD RETAILING IN EUROPE – POST 1992

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GROCERY RETAILING AND 1992

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CONTENTS

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INTRODUCTION

This Paper concerns itself with two questions. Firstly, exactly what is the 1992 programme? Secondly, what effect will "1992" have on the grocery trade in Europe? Trade in food products between the countries of Europe, if compared with many other items, has always been fairly limited. This can probably be attributed as much to national differences of culture and of taste as to barriers to the free movement of goods. What, therefore, will "completion of the internal market" really mean for food retailers?

The following pages present some possible answers to these questions. They are not intended as a definitive and detailed guide to community food law or to other areas of EEC legislation. Rather, they explain the purpose and intent of the different strands of regulation and how they will impact on food retailers.

From the start, however, let it be stressed that the coming of the single market does not mean that the differences that currently exist between countries will disappear. The table on the following page indicates some of the variations to be found in the retailing scene at the present time, both overall and specifically in relation to grocery retailing. The table is as consistent as national statistics and national definitions will allow. Food has been defined in a generic sense to include drink, although tobacco sales and outlets have been excluded from the "food" categories wherever possible.

The West European Retail Market in 1988

	Population	Retail Sales		Sales per person		Retail outlets		Persons per	Sales per
		Total	Food	Total	Food	Total	Food	food outlet	food outlet
	(mn)	(ECU bn)	(ECU bn)	(ECU)	(ECU)	('000)	('000)	No.	(ECU '000)
Belgium	9.9	34.8	16.9	3,519	1,708	113.7	35.4	279	562
Denmark	5.1	17.7	10.2	3,442	1,987	41.7	15.1	340	675
France	55.8	207.6	82.2	3,724	1,474	418.2	134.3	415	612
W. Germany	61.1	233.0	66.7	3.810	1,090	415.0	95.8	638	696
Greece	10.0	17.6	11.2	1,759	1,123	171.5	63.6	157	176
Ireland	3.5	7.1	3.2	2,017	907	31.5	11.5	308	278
Italy	57.4	182.3	100.4	3,176	1,749	871.3	312.0	184	322
Luxembourg	0.4	1.4	0.7	3,750	1,842	3.7	1.1	336	636
Netherlands	14.7	39.3	15.8	2,670	1,071	156.2	43.7	337	362
Portugal	10.2	18.8	11.1	1,838	1,083	97.5	45.0	227	247
Spain	38.9	81.9	41.9	2,107	1,076	540.0	268.5	145	156
UK	57.1	156.9	58.7	2,750	1,028	345.4	98.4	580	597
Total	324.1	998.4	419.0	3,081	1,293	3,205.7	1,124.4	288	373

Source: "Retailing in Europe" (1990), published by The Corporate Intelligence Group Ltd.

Notes:
(1) Estimates are for 1988 sales and have been adjusted to exclude motors and fuel.
(2) 'Food' in the above analysis includes drink but so far as is possible excludes tobacco.
(3) The number of outlets is based on the latest year for which data are available.
(4) ECU exchange rates have been taken as the Eurostat 1988 annual average.

Thus it can be seen that West Germany has the highest number of inhabitants per food outlet and - perhaps not surprisingly - the highest level of sales per food outlet. Denmark, on the other hand, has a very similar sales level per outlet, although it has on average little more than half the number of persons per food outlet. The difference between the two countries is to be found in terms of sales per person. In Denmark nearly 58 per cent of all retail sales expenditure involves food, whereas in West Germany, on the other hand, the corresponding proportion is only 29 per cent. The range of annual expenditure per person on food varies in fact from a low of 907 ECU in Ireland and 1,028 ECU in the UK to a high of 1,842 ECU in Luxembourg and 1,987 ECU in Denmark. From the point of view of market structure the actual number of food outlets varies from 1,100 in Luxembourg to 312,000 in Italy.

Moreover, when the organisation of retailing (in terms of types of outlet) and consumption habits are also taken into account, it has to be said that each country has its own, unique pattern. This uniqueness will not be changed overnight by the coming of the single market.

THE SINGLE MARKET

Its origin

> "The nations of Europe are too circumscribed to give their people the prosperity made possible, and hence necessary, by modern conditions. They will need larger markets . . ."

> "Prosperity and vital social progress will remain elusive until the nations of Europe form a federation or a 'European entity' which will forge them into a single economic unit . . ."

These observations were not made in some recent speech in Brussels. They were made almost fifty years ago by Jean Monnet, widely recognised as the founding father of The European Community. The concept of increasing European prosperity, through the creation of a single European economy founded on a common market, is therefore not new.

The Treaty of Rome, signed in 1957, which established the European Community, reiterated Jean Monnet's belief quite specifically in its opening lines.

> "The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it."

It is clear that the Treaty envisaged that the Community's prosperity and economic unity depended on the creation of a single integrated market. It therefore contained specific provisions for the free movement of people, goods, services and capital between the Member States.

This marked the beginning of a process of dismantling and removal of all barriers and obstacles which were blocking the desired free movements between Member States of the Community. Essentially - and perhaps contrary to popular belief - it is a process of massive de-regulation. It is a process which has been going on for the past thirty-odd years.

Its development

Progress towards the basic goal of a "common market" was much slower than originally envisaged or desired by the enthusiasts at the European Commission. Differences in national interests were hard to reconcile, a process made even more difficult with the addition of new members. Discussions became bogged down at the lowest levels of technical detail.

In 1985, frustrated by the delays, the Governments of the Community Member States called on the European Commission to formulate a new strategy, which was published in June of that year as the "White Paper on Completing the Internal Market". This seminal document is effectively a corporate plan for the Community during the eight year period 1985-1993. Its 279 measures (reduced from an initial 286) have to be agreed and adopted by each Member State in a programme aimed for completion by 31 December 1992.

Thus "1992" was born. It is essentially the child of the European Commission, given the blessing of all Member States, and its progress is going ahead through the legislative processes of the main European Community institutions. A brief summary of the nature of these may make it easier to understand exactly how the Single Market Programme is working.

How it is coming about

The Commission itself is the Community's "civil service". Its 17 Commissioners are appointed by the Member States, but their loyalties thereafter must be to the Community as a whole and not to their individual countries of origin. Divided currently into 23 Directorates, the Brussels-based Commission formulates Community policies, taking account of views held by outside experts, national governments and interest groups lobbying on whatever issue of policy is being determined.

Within its own specific area of responsibility, each Directorate General formulates policies and the proposals for those measures seen as necessary for attainment of the Community's objectives. However, this can rarely be done by one DG alone. For example, DG III (Internal Market and Industrial Affairs) is responsible, amongst many other things, for the free movement of goods. Its policies are therefore of central importance to DG XXIII (Enterprise Policy, Distributive Trades, Commerce, Tourism and Social Economy) which contains a specialist section concerned with the retail sector. This Retail Trades Unit, working together with representatives of trade and governments, seeks to ensure that the interests of the sector are taken into account in the various EC policies, and to ensure that a geographical, structural and operational balance is maintained. Co-ordination and consultation between Directorates are therefore essential ingredients of policy formulation.

Policies formulated by the Commission must then be submitted to the European Parliament, currently in Strasbourg, for consultation. The 518 directly elected members of this Parliament cannot veto the Commission's proposals, but as an ultimate sanction they can pass a vote of censure compelling the Commission to resign.

Final decisions are made by the 12 strong Council of Ministers, which meets at the Commission in Brussels and is composed of politicians from the individual Member States, usually at senior minister level, who are brought in according to their particular interests. There are, for example, Councils of Ministers meeting regularly for Agriculture, Transport and Industry; they have the power to finally accept or reject Commission proposals as part of Community Law.

Once a policy has been formulated, discussed and finally approved by the Council, it is given legal status either as a Regulation or a Directive. Regulations have direct application in all Member States and do not have to be ratified by national legislatures to have a binding effect. If there is a difference between national law and a regulation, the regulation prevails. Directives, however, although binding on the Member States as to what is to be achieved by a specific time, leave the method of implementation to national governments. It is made effective through (a) the vigilance of the Commission and its representatives and (b) final recourse to the powers of the European Court of Justice, situated in Luxembourg (not to be confused with the European Court sitting in the Hague, which is not a Community institution).

There are, therefore, four main parts to the European Community's apparatus - the Commission (policy and implementation), the Parliament (political representation and consultation), the Council of Ministers (decision-making) and the Court (final legislative powers). They provide the framework within which the Single Market Programme is slowly but steadily coming into being.

The European Community was originally set up by the Treaty of Rome in 1957. The White Paper on the Single Market referred to above resulted in an important amendment to the founding treaty, ratified in 1987 as the Single European Act (SEA). This introduced the acceptability of majority voting at the level of the Council of Ministers; previously agreement on most issues had required unanimity and this change has made possible many of the proposals now going through under the Single Market Programme.

At the same time, the SEA also adopted the concept of "mutual recognition", whereby any Member State wishing to exclude something (a food product or a professional qualification for example) from its territory has to show good reason, ultimately at the European Court of Justice, why it should do so if and when that same thing is perfectly acceptable in another Member State. This new approach also has the effect of speeding up the process of harmonisation and "bringing together" which is at the root of the 1992 strategy, although in practical terms it does not mean instant acceptability everywhere for everything. Specific exclusions are allowed for reasons of health, fiscal supervision, fair trading and consumer protection, but these reasons are open to challenge and may be tested at the European Court of Justice in Luxembourg.

The make-up of the 1992 programme

The White Paper identified need for almost 300 specific legislative measures if all barriers to the completion of the internal market are to be removed. To some observers, legislation on this scale might appear excessive and simply bureaucratic self-indulgence on the part of the Community's civil servants.

Such a view would be mistaken. The Commission simply recognised that little would be achieved if barriers to the completion of the market are removed in one area, but left intact in another. What, for example, would be the progress toward free and unrestricted movement of goods between Member States if all restrictions on transport services were removed, but the Member States all maintained different vehicle standards? Or, going a stage further, if transport services are unrestricted and vehicle standards universally accepted, but insurance of the goods and vehicle not?

The White Paper therefore addressed a very wide range of different issues. Its proposals, however, were presented under only three main headings:

1. Measures to achieve the removal of physical barriers.
2. Measures to achieve the removal of technical barriers.
3. Measures to achieve the removal of fiscal barriers.

In some instances it is debatable into which category a particular measure should properly fall. Some serve more than one purpose. That is of little matter, however. The White Paper, by presenting its proposed measures in this manner made very clear, in a neat and tidy way, the intent of each measure.

These broad areas are of relevance to grocery retailing at a general level, much as they are to the rest of industry and commerce. Very few of the individual measures are targeted solely or even primarily at the retail sector, though in the case of food standards and packaging they do tend to have a fairly direct impact.

The 1992 Programme is principally concerned with the removal of barriers to the introduction of a common internal trading market within the Community. It also has, however, another dimension in which the guiding principle is the preservation of rights for consumers and workers, together with the protection of honest traders and producers from cheating and unfair competition at all levels. This is an old preoccupation of the Commission and there are numerous measures now being formulated and introduced which run in parallel with those of the Single Market Programme as strictly defined. These measures cover such matters as : consumer protection, competition policy, health and safety, environmental policies and social policy - workers' rights.

Appendix A to this paper describes the Commission's perceptions of these issues and the thrust of the measures it is proposing.

1992 AND ITS EFFECTS ON GROCERY RETAILING

An overview

The previous pages have outlined the background to the 1992 programme. What immediate effects will the legislation proposed by the White Paper have on grocery retailing in the single market?

There can of course be no simple or single answer to that question. The table at the beginning of this document shows clearly that the pattern of food retailing is not uniform across the Community. In most of the northern Member States the food retailing sector has undergone a process of concentration, while in other countries this process is not so far advanced. These latter countries still contain a fairly fragmented retail sector, comprising a relatively large number of small grocery retailers, usually independently owned. Moreover, businesses throughout the Community have for long had to comply with the requirements of their national frameworks of regulation and control. In some Member States national legislation relating to health, safety, consumer protection, protection of the environment, employment, competition - all the areas which will be affected by 1992 legislation - is highly developed and rigorously enforced. In other Member States the regulatory regime is less well developed or exacting. The impact and the effects of the 1992 legislation on food retailing will therefore vary from Member State to Member State.

If, however, the question is rephrased to enquire "What longer-term effects will completion of the internal market have on grocery retailers?" then the answer might be more consistent. All the food retailing organisations will then be operating in the one enlarged market, facing the same opportunities and the same elements of competition.

It should be borne in mind that the 1992 legislative programme is not food retailing - or for that matter, general retailing - specific. It is addressed to all commerce and industry. Many of the key issues for retailers - such as permitted hours of opening, store siting, store size, traffic regulations and similar matters - will remain unaffected by the Commission's activities and still be controlled by local or national authorities. Stores will continue to serve the same markets and the same consumers whose needs will not change dramatically as the result of 1992.

Immediate implications

The 1992 food laws, whilst obviously of relevance to grocery retailers, will have their greatest impact at the production and processing end of the food chain. Those retail organisations which also produce their "own label" products, or have them manufactured to their own specification, may have to reformulate some of their recipes. But as retailers, their chief concern will be to ensure that what they sell complies with the new food regulations.

Essentially, the intent of the new laws are that food will be safe to eat, and that the consumer will be fully informed of what he or she is buying, not misled and not cheated. Accordingly, under the new laws certain additives are prohibited, materials which come in contact with food are regulated, and labelling of products are required to be explicit as to the contents, composition and "use by" date of the food bought. Additionally, consumers must be informed of the unit price being charged for goods weighed and measured and offered in "pre-pack" form.

In most of the Member States legislation of a similar nature is already in force. Therefore, although the legislation coming out of Brussels may differ from national laws in detail, it is not radically different in intent. For most retailers, therefore, the implication of the new food law is that they may have to make a "once off" adjustment in the composition of some of the things they sell, in the way they are packaged and in the way they are labelled. Having made these changes, supervision of compliance must of course continue, but in most countries that will mean a continuation of existing supervisory practice.

The direct effects of the food laws on retailers is therefore likely to be one of degree, depending on the stringency of their current national controls. For some retailers the effects may be inconvenient, but they are unlikely to have significant impact on their day to day operations.

Other legislative measures may have greater significance. The Commission's proposals concerning refrigerated foods, for example, may require many retailers to re-equip their stores with more effective freezer cabinets. Regulations for refrigerated trucks may also require those retailers who run their own distribution systems to change or modify their vehicles. This, for some large retail organisations, implies a major capital investment, but it will vary from organisation to organisation and a five year period of transition is provided for. This again would be a "once off" effect of the legislative programme. Improvements in the workplace, called for by new legislation on safety, would largely be of a similar once-off nature.

Although the changes described above have been referred to as "one-off", their financial implications[1] may be longer lasting. The costs of funding the changes may affect operating margins, although, since the food retailers competing in a national market are likely to be affected similarly to a greater or lesser extent, they will have some discretion as to how much of the costs of change they absorb themselves.

There are, however, two areas in which legislation will have much longer lasting implications for grocery retailers. One is part of the 1992 programme and the other is not. The first, and considered essential to the completion of the market, concerns the approximation of VAT and excise duties. The second is the proposed "Social Charter".

The Commission is convinced that no real Single Market can exist until VAT rates and excise duties on wines, beer, spirits and tobacco, are harmonised throughout the Member States. The proposal for VAT is that two bands of rates should be created - a low band for necessities and a higher one for non essentials. A proposal has been put forward that food and drink (other than alcoholic beverages) would attract a VAT rate of between 4 per cent and 9 per cent, but no agreement has as yet been reached and the outcome is far from clear. This would, if adopted, clearly have opposite consequences for food retailers in, for example, the UK (VAT on food 0 per cent) and, say, Denmark (VAT on food 22 per cent). In the UK, food purchases would be likely to suffer, while in Denmark sales would benefit. Most divergent, however, are the current excise rates levied on alcoholic drinks and tobacco and once again the Commission is proposing an "approximated" rate for all Member States. The proposed rate for tobacco would reduce the price of cigarettes in the UK by over 10 per cent, while prices in France, Spain, Italy, Portugal and Greece would double. Similarly, proposed rates on drink would more than halve the price of beers and wines in Britain and increase them several times over in

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1 A future paper in this series will examine the financial costs of 1992 on the retail trade.

France. These proposals require unanimous agreement by all Member States for their adoption and given the great disparities which currently exist, early resolution of the problem cannot be expected. Undoubtedly some compromise will be reached in due course, but whatever is agreed is likely to affect sales of these products one way or the other.

The Commission's Social Charter is not yet at the detailed proposal stage but its outlines have been published in draft form. Greater detail is provided in Appendix A to this paper, but its particular significance for the retail sector is that the Social Charter addresses "basic rights for casual and part time workers" and equal pay for men and women. Basic rights would appear to include the right to paid holidays, paid sick leave and the other benefits normally reserved for full-time employees. The implications for the retail sector, often dependent on a large part time workforce, are clear. Equally clear is the consequence of equality of pay in a sector which has a high proportion of female employees.

Labour costs will increase significantly; this would not be a "once off" adjustment and will put pressure on operating margins. These proposals too require unanimity in Council, so some time may elapse before they emerge as directives. It is also probable that to make the proposals acceptable to all Member States, they will have to be modified substantially, but the Commission is unlikely to be deflected from its intent in the long run.

The Commission's measures concerning such issues as the free movement of capital, mutual recognition in some areas of insurance, mutual recognition of professional qualifications, and its proposal for a single system of patent registration do not affect food retailing in particular. But like all other businesses, retailers who have multi-market ambitions will find their plans less hindered by national regulations and red tape.

The longer-term implications

What other longer term effects might the 1992 programme have? The removal of physical and other barriers between the Member States is unlikely to generate a sudden rush of food retailing operations across national borders. The justifications for this forecast are set out below.

Even though the Community has adopted the philosophy of harmonisation to overcome national differences, post-1992 is not going to see the food stores of Europe full of harmonised Euro consumers. It is true that in all Member States there is a greater awareness of "healthy eating" and that fresh produce, health foods and organic products figure more prominently in food ranges. Convenience foods too are in growing use. Some convergence in attitudes towards food products is discernable, but national - and even regional - differences of culture, custom and taste will continue to make differing demands of retailers. Recognising these differences and learning to satisfy them is neither a quick nor inexpensive process, as many would-be international food retailers will testify.

Additionally, in most of the Member States concentration of food retailing has resulted in a relatively small number of very large retailing organisations (including retail companies, symbol group and co-operatives) dominating their national markets. Competition between them is intense, making entry into their markets by a new player difficult indeed.

The absence of barriers, whether physical, technical or fiscal, will not change these characteristics of the food retailing sectors of the Member States. Nonetheless, removal of constraints on the cross border movement of goods will not leave the food retailing sector unaffected. Indeed, in the longer term the consequences are likely to be far-reaching.

The volume of food sales in most Member States has shown little or no growth in recent years and, given current demographic trends, is unlikely to increase in the near to mid-term. Indeed, sales in volume terms may even be expected to fall as Europe's population ages. Only in the less prosperous areas of the Community is there prospect of volume growth in food consumption. Past routes to domestic growth through acquisition or merger are increasingly less available because of national cartel or monopoly regulations and further growth at the expense of the independent sector is unlikely to be significant. The large grocery retailer's only remaining path to volume growth in his domestic market lies through the capture of market share from major competitors. Consequently competition is likely to intensify.

Differentiation from competitors by offering a wider range and choice of products, fresher products and competitive prices, accompanied by better service will become even more important. The 1992 programme is unlikely to have direct effect on service, although concepts of vocational training for employees outlined in the Social Charter may help in the longer term. The other factors in the competitive mix are likely to be more directly affected.

The Commission is determined to remove border controls on the movement of goods. Inspection is being removed away from frontiers and documentation simplified. Cross border transport will therefore be simpler, faster and hence cheaper. Additionally the Commission's de-regulation of road transport services means that "cabotage" - now limited - becomes possible in all Member States. A truck from Amsterdam, for example, making a delivery to Munich will be able to pick up a load there for, say, Hamburg, deliver it and carry another consignment from Hamburg back to Amsterdam. Some transport experts believe that about a third of all trucks now running on Europe's roads at any one time are empty because of current restrictions. Cabotage will reduce this proportion significantly and reduce transport costs yet further.

With the removal of barriers and with lower freight costs, retailers will be able to extend their sourcing horizons. Products from other Member States, which formerly were excluded either on technical grounds or because of high transport costs, will become commercially viable additions to the stores food ranges. Cross border supply relationships will multiply when the single market is completed, bringing change to the food manufacturers as well as to the retailers.

Europe's food industry is highly fragmented and currently over 75 per cent of processed food output is consumed within its country of manufacture. Only some four or five European food manufacturers have Pan-European operations while the majority of the others serve one or two national markets only. Consequently the manufacturers have generally remained as small to medium sized companies while within their national boundaries their retailer customers have coalesced into larger and larger dominant groups wielding purchasing power sufficient to demand and receive high discounts and additional services in the distribution, merchandising and advertising of the products.

In some respects the manufacturer might be considered a captive of the big retail chains and, indeed, if the processing company does not itself own a major brand and is only a processor of products under the retailer's "own label", the process is virtually complete.

The opening of international borders, shortened journey times and reduction in costs of transportation, may lead manufacturers/processors to seek to escape from dependence on a narrow customer base by offering their products and processing services further afield. The large retail organisations, themselves under intensifying competition will be seeking new and possibly less expensive sources of supply. Traditional supply relationships are therefore likely to come under review and new ones will be formed. With former obstacles removed, many of these will be across national borders.

Even the largest manufacturers may find themselves affected by this development. In the past they have established plants in many of the Member States to serve national markets. Protected by the "physical and technical barriers" these factories have not had to compete with each other and have been able to maintain different price structures in each market they serve. With many of the former barriers removed, retailers may in future place their orders at the manufacturer's "lowest cost" factory, leading either to a crumbling of existing price differences or to parallel importing by retail groups.

Such developments, of course, are not likely to go unresisted by the international brand manufacturers. However, the recent emergence of buying consortia wielding the collective buying power of two, three or four retailers, each of which is amongst the market leaders in its own national market, may make effective resistance difficult. No matter how heavily a brand may be advertised and whatever its market strength, access to the major retailers' shelves is vital to the manufacturer. Moreover, under EC competition policy, discriminatory pricing and/or refusal to sell to a customer without valid, objective reason is prohibited.

The food retailers, whether in the form of individual companies, voluntary symbol groups, cooperatives or buying consortia are therefore likely to be sourcing a wider array of supplies from a much greater geographic area than hitherto, both to give their customers a greater choice of products and to be able to obtain better margins for themselves or to offer more competitive prices. The co-ordination of inventories, transport and "just in time" distribution and deliveries will become more complex, the more so as fresh and prepared convenience foods become more prominent in the retailers' product ranges. A very high order of skill in management of logistics will become an even more essential ingredient of successful retailing than perhaps it has been in the past. Information systems which provide real time analysis of what is happening at every stage from the supplier's factory gate, through the intermediate warehouses and storage points to the cashiers' checkout points in the stores will therefore become of greater importance. It is likely, therefore, that one effect of the 1992 programme will be for greater management attention to be given to "back room" rather than "store front" operations.

As earlier noted the organisational and systems skills which will be called for will be of a very high order. They are also likely to be expensive as they are the same ones as all major commercial and industrial companies will be seeking in a labour market which, at least in the coming decade will be shrinking. Such costs will become all the more important if, as the result of re-sourcing of supplies and more aggressive buying policies, the costs of supply are contained. Management and administrative costs will figure much more prominently in the composition of the retailers' total costs, putting yet further emphasis on the need for management skill.

There is of course nothing new in this. All businesses depend for their success on good management and all of the successful retailers have it in good measure. However, it is not beyond conjecture that the future shift in emphasis from store management to logistics and systems management will lead to other, perhaps longer term, developments in the single market's food retailing industry.

Earlier, mention was made of the recent formation of buying consortia comprising major retailing organisations from several Member States. The members of these groups, anticipating the effects which 1992 will have, have already come together to exploit the opportunities presented by open borders and transport de-regulation. Combining their buying power to increase their strength in negotiating supply contracts is one obvious benefit. Utilising each company's particular expertise in the buying of different product groups is another. As one leading retailer has remarked - "Selling is easy. Sourcing and buying are the key to profits". The buying consortia members will benefit from this.

The manufacturers, processors and suppliers to the buying groups will be spread across the Community. Orders, schedules and deliveries from the plants to the individual members' national operations will have to be co-ordinated and their information systems - vital to logistic and inventory management - will have to be integrated, leading in time to greater sharing of expertise. Some members of the consortia have their own production plants which undoubtedly will welcome the opportunity to extend their supply role beyond their parent company's stores. Other group members may seek, through the new association, to market some of their specially developed own brand products, suitably labelled and packaged, for other members of the consortium. Other opportunities for collaboration exist, such as sharing product development costs, joint funding of improved information systems and undoubtedly, over time, these will be exploited leading to greater intimacy between the organisations involved.

This will not happen overnight nor by 1992. It is inevitable that some problems will arise and not all marriages are made in Heaven. But it should be remembered that the organisations coming together in these groupings are not competitors. They have come together to obtain the benefits and economies of scale offered by the creation of the internal market, the raison d'etre of "1992".

How far will the process go? As part of its competition policy Brussels recently agreed that mergers with a worldwide aggregate annual turnover in excess of ECU five billion would need its prior approval. In the context of the single market with food sales over ECU 400 billion a year, there is clearly scope for mergers to take place - well above the Commission's threshold - without raising questions of monopoly or market dominance, the more so as their operations would be multi-national and not concentrated in one Member State.

Is it too fanciful to forecast the same concentration of grocery retailing which has taken place in many national markets happening in the greater single market of the Community? By 2000? 2010? Later? Only time will tell.

IS THE 1992 TIMETABLE REALISTIC?

The previous pages have given a necessarily brief background to the Commission's planned legislative measures and the rationale for their introduction. Further detail, for convenience, is presented in Appendix B of the Regulations and Directives adopted as at late 1989, while Appendix C lists the Proposals currently under consideration. Even from this limited overview a number of features stand out.

Firstly, it is a remarkably cohesive programme with many of the measures in different areas of law supporting each other. As a result, when all the pieces are in place, Europe's internal frontiers, as far as EC citizens, goods, services and businesses are concerned, should have no greater significance than lines drawn on maps.

A second notable feature is that throughout the programme, safeguards have been inserted to protect the European consumers' health and safety, as well as providing protection from fraud whether in buying goods, services or financial instruments. Equally, provision has been made to protect businesses from unfair competition or distortions of trade which would disadvantage them. It is clear that all the players are to play on a level playing field.

Third - and probably the most immediate feature - is the sheer scale of the programme. But the scale of the objectives are also gigantic by any standards - the creation of a unified market containing 320 million people, the creation of a new unified economic entity and the creation of a body of law for the regulation of its affairs.

Will this all be done within the next three years? Will the market be completed by 1 January 1993? The answer must be "mostly" - but with heavy qualification.

The starting point from which progress towards completion of the single market can be measured must be the Commission's White Paper of June 1985. This outlined the Commission's planned programme for action to remove the remaining barriers and distortions in trade between Member States.

In its progress reports published during 1989 the Commission stated in June that over 90 per cent of the detailed proposals required by the White Paper had been tabled for discussion and approval by Parliament and the Council. Thus the Commission was well up with its programme. In September, reporting the progress of implementation, the Commission reported that just over half of the 1992 programme had been adopted or partially adopted by Council.

Thus the preparatory work was far ahead of the decision-making process. This is not surprising. "Proposing" is much the simpler task. "Disposing" requires the reconciliation of many differences of national sectoral and even individual interests - altogether a lengthier and more difficult task. The Commission report acknowledges the difference which the Council's adoption of majority voting has made to progress and comments that "the key proposal on the harmonisation of technical rules concerning machine safety was adopted within 12 months, whereas it had taken 70 months to adopt the first Directive on lawnmower noise."

This quotation from the Commission's report shows quite dramatically the speeding up of the programme. It also indicates clearly that, with only three years to its target date, the Council will have to reach its decisions more quickly.

It is also noteworthy that in the fields requiring Council unanimity, such as VAT, taxation and free movement of people, no measures of consequence have yet been approved. These matters are of central importance to the completion of the market and delay is of concern to the Commission. However, time remains for their resolution by 1992. Greater danger to completion of the market by the target date lies in the slow progress of implementation of the Commission's directives.

In September 1989 the Commission reported that under the White Paper Programme 100 directives, regulations, decisions or recommendations were in force. Directives accounted for most of these instruments and 68 had become applicable to date. It went on to state, however, that of these 68, only 6 had been incorporated in the legislation of all the Member States - and the most complex measures, i.e. capital movements, insurance etc, are due to enter into force in 1990.

Taking note of experience to date, it would appear that by the end of 1992 the Commission will have completed its part of the White Paper programme. The Council, if only under the pressure of its own 1992 propaganda, will not be far behind. Implementation and application of all the rules, however, looks set to take much longer, because of national administrations' slow rate of progress, and because of the many derogations permitted within the legislation adopted by the Council.

These derogations, granted to individual Member States and often for several years, are designed to give time to a Member State to overcome its individual "difficulties" in accommodating change resulting from a particular EC measure. It does not require great imagination to envisage that, as the 1992 deadline approaches and the pressure on decision-making grows, the number of derogations allowed is likely to increase.

It is probable, therefore, that the reality of the internal market will not materialise fully until some time after the middle of the decade. In the context of a process that began in 1957, a delay of two or three years is not material. The White Paper 1992 Programme will have achieved its objective of accelerating the completion of the Common Market.

This is not its only achievement. Through the generation of a new sense of urgency and by demonstrating determination to drive things along, the Community administration conveyed a clear message to commerce and industry throughout the Member States. There can be few companies anywhere in the Community who are not already incorporating "1992" into their thinking and planning.

New cross-border alliances have been formed already and many more will be created. New ways of doing business are now being examined and new markets explored. New strategies are being developed. Since it is so fundamental to the leading companies' thinking, it may well be argued that, in a very real sense, 1992 has already arrived.

APPENDIX A : THE AREAS OF LEGISLATION

Introduction

The White Paper addressed a very wide range of different issues. Its proposals, however, were presented under only three main headings:

1. Measures to achieve the removal of physical barriers.
2. Measures to achieve the removal of technical barriers.
3. Measures to achieve the removal of fiscal barriers.

In some instances it is debatable into which category a particular measure should properly fall. Some serve more than one purpose. That is of little matter, however. The White Paper, by presenting its proposed measures in this manner made it very clear, in a neat and tidy way, the intent of each measure. The areas they cover are discussed below.

1. THE REMOVAL OF PHYSICAL BARRIERS

A common customs tariff has already replaced individual national tariffs throughout the Community. Border checks, however, remain in force and are a substantial cause for delay and expense. 91 of the Single Market measures relate to the removal of these physical barriers to the free movement of both people and goods within the European Community.

1.1 Control of individuals

Frontier controls will remain, but the gradual harmonisation of tax levels (especially VAT) and increased co-ordination between national police and fiscal authorities should limit these controls to a simple matter of screening.

1.2 Control of Goods

Measures to remove national barriers to the movement of goods are partly a matter of simplified procedures (in particular the Single Administrative Document introduced at the beginning of 1988). There are still, however, individual controls and checks for numerous products, especially of animal origin, and although these will be reduced they are unlikely to entirely disappear. The whole area of veterinary and phytosanitary regulation is proving one of the hardest to bring in line with the 1992 aim of having a standard acceptable across the Community. There may even be an increase in the frequency of spot checks made at distribution points within the separate national markets.

2. THE REMOVAL OF TECHNICAL BARRIERS

Technical barriers are not always visible and their removal is hampered by very wide national differences in what is or is not acceptable in individual markets or to individual governments. The Single Market Programme includes 191 measures to attempt improvements in this area.

2.1 The Free Movement of Goods

National rules concerned with aspects of health (human and animal) and safety will remain, but the Commission is trying to erect a series of agreed "frameworks" for basic standards, acceptable throughout the Community. National barriers to the free movement of goods that are not based on health and safety are then subjected to the test of "mutual recognition" (see above) and the intention is to reduce these dramatically. The European Court judgement on the Cassis de Dijon case was the landmark ruling in this area. This dispute began in 1978 when a German retailer wanted to import Creme de Cassis from France, but was blocked by the German Government on the grounds that the drink was not strong enough to be called a liqueur. The Court in Luxembourg subsequently decided that because Creme de Cassis was sold in France, did not harm the consumer (at least if taken in moderation) and was not overpriced, it could equally well be sold in Germany. From this domestic dispute arose a legal principle that is now central to the establishment of a single market.

The "framework" Directives covering labelling, additives and packaging are particularly important for the food sector. These are guided by the simple principle that a food should be safe to eat and that the consumer is fully informed as to what it contains and by when it should be used.

2.2 Free Movement of Labour and the Professions

This has long been held up by the power of professional lobbies in individual countries. It took 17 years, for example, to set up Community legislation enabling appropriately qualified architects to practice in any Member State. There are 18 Single Market measures in this area and they also now depend upon the concept of "mutual recognition", with a considerable increase in speed of acceptance as a result.

2.3 Common Market for Services

The White Paper contained 65 proposals for legislation in services, which are essentially treated no different from goods. This area is presented under three headings - financial services, transport and new technologies/services.

National governments are traditionally keen to protect their rights to legislate on the financial sector. The Commission's proposals therefore concentrate sensibly on establishing basic rules for the protection of investors and policy holders etc. The "mutual recognition" concept is only partly applicable to financial services (including insurance) and may not be much used in this area.

Transport is also a minefield of nationally protective rules and lobbies, but here the Commission is determined to sweep away as many barriers to free provision as possible. Road haulage permits and quotas are to be entirely abolished by 1992 and the practice of cabotage (hauliers registered in one country being able to do jobs within another) is to be allowed, even encouraged.

European co-ordination of rules on new technologies such as satellite broadcasting and EPOS systems is being attempted at a wider level than just within the 12 countries of the Community. Again, there has been an attempt to provide a "framework" of basically acceptable standards, but there remain many national differences, not least in TV advertising. The simple availability of the new media is likely to have more impact on harmonising the market than any regulations worked out by the Commission.

2.4 Capital Movements

The Commission's ultimate objective is the complete liberalisation of financial transactions, including free movement of cash and bank transfers. Again, improved technology is as much a spur to this trend as new rules and regulations, though national interests remain very powerful in this area. Fiscal policy will continue to be protected by individual governments long after 1992, even if there is increased collaboration and co-operation through the instruments of the Community.

2.5 Creation of suitable conditions for industrial co-operation

The Commission is trying to remove many of the barriers which result from national differences in company law. This is partly being attempted by the creation of common standards for the protection of shareholders and employees, but there is an interesting development in the idea for a European Company Statute. This would constitute a new legal form, which effectively creates a trans-national business entity, governed by Community law and automatically acceptable under all the national laws of each Member State. There is as yet no final agreement on the details, but such a European Company could have many advantages, particularly if it could operate a consolidated tax system.

A similar concept is being introduced into patent law, with a proposed single registration for trademarks, patents and even copyrights. If valid throughout the Community, such a system would both strengthen protection and also reduce the costs of obtaining it.

Taxation - both personal and corporate - is obviously an area where the Commission has to tread very cautiously and cannot expect a completely harmonious system to exist so long as there are national governments for each Member State. The Single Market Programme does however contain measures on the tax treatment of parent companies and their subsidiaries, on the taxation aspects of mergers and on the avoidance of double taxation.

2.6 Application of Community Law

Just because the Commission passes a piece of legislation does not mean it becomes immediately binding in all Community Member States. In the past, especially following the accession of the Southern European countries, the timetable for implementing many items of Community legislation has proved in practice almost infinitely elastic.

A new approach by the Commission is to threaten a stronger line against Member States who do not comply with its regulations, especially in regard to government aid which is held to distort free market competition. At the same time, many of the new laws recognise that certain measures cannot be introduced in all countries simultaneously and there are procedures for individual members to postpone full compliance, occasionally for as long as a decade. This is called "derogation" and is one reason why the Single Market Programme may be scheduled in principle for 1993, but in practice will take several years longer.

3. REMOVAL OF FISCAL BARRIERS

> "No means exist of removing the frontier controls, and thus the frontiers, if there are significant tax and corresponding price differences between the Member States."

This extract from the White Paper states concisely why it has always been the Commission's intention to try and harmonise VAT and excise duties within the Community. But the very significant differences in these levels are a key part of national fiscal policy and will not be given up lightly. To remove all frontier checks without changing this situation would of course create distortion of trade and the likelihood of massive fraud.

There are some 30 measures targeted at this area, the two most important of which are (a) the establishment of harmonised VAT bands, with a central rate but permitted variations around it and (b) the setting up of a Community clearing house for VAT, enabling sales and purchases across borders to be treated in the same way as those within one country. Fierce argument persists on these measures, but their eventual implementation would bring about considerable changes in current price differentials and should also greatly simplify administrative procedures for all cross-border traders.

4. OTHER AREAS OF LEGISLATION

4.1 Consumer Protection

There remain many differences between Member States in the level of protection given to consumers, though a general trend towards the upgrading of their rights and representation has been continuing throughout the past two decades. The Commission has addressed itself particularly to the areas of product liability, misleading advertising, consumer credit, the price marking of goods and consumer safeguards for modern payment systems. There is also a proposal for an EC-wide obligation on all manufacturers and traders to market "safe" products.

4.2 Competition Policy

Existing European Community law in this area, based on Articles 85 and 86 of the original Treaty of Rome, is well defined in respect of the general principle of trying to ensure free and fair competition. With the removal of national barriers, however, the focus changes from needing to impose a general principle upon Member State governments into having to prevent the setting up of private sector restrictions that have the effect of limiting competition. The problem is particularly acute concerning mergers and acquisitions, where the totally free movement of commercial power could result in players in smaller markets being swallowed up by those from larger ones.

This is another area where few final agreements have so far occurred. One relatively far advanced proposal is for Community control over mergers and acquisitions that have a "Community dimension" (and fall above a minimum level of combined turnover). The important aspect of this is that it would be decided at the level of the Commission, thereby overriding any objections from national bodies responsible for the control of monopolies and cartels.

4.3 Health and Safety

There are a number of measures, including a "framework" directive, intended to cover basic standards of public safety, especially in the work place. Already adopted are a set of agreed responsibilities for both employers and employees in respect of matters such as fire safety, lighting, manual handling of heavy goods and the use of visual display units. Further areas for legislation include the use of hazardous chemicals, biological agents and similar materials. Compliance should not cause significant extra costs and may even make it easier to introduce new working practices in different Member States.

4.4 Environmental Policies

There are over 100 directives already in force in this area, covering issues such as car emissions, water purity and noise levels. The Single Market Programnme adds two important principles to what had hitherto been a rather piecemeal approach to the subject. These are: (a) preventative action must be taken against the destruction of the environment and (b) the polluter pays the bill. The Commission knows it has growing public support on these issues and will certainly be introducing many more directives.

4.5 Social Policy - Workers' Rights

The Commission has produced a draft Community Charter of Fundamental Social Rights and intends to seek a mandate to introduce legally binding standards based on its proposals in this area. Although the setting of wage levels is accepted by the Commission as being "a matter for Member States and the two sides of industry alone" - and that "it is not the task of the Community to fix a decent reference wage" - there are nonetheless proposals for the concept of "an equitable wage" and for basic rights being accorded to casual and part-time workers.

Related areas of interest to the Commission include: basic conditions of employment (working hours, paid leave, sick leave etc) ; equal treatment (and pay) for men and women ; procedures for the information and consultative rights available to employees, including equity sharing ; and minimum levels of health and safety protection at the workplace.

Although the Commission does not admit to wanting to determine employment and social policies at these detailed levels throughout all the Member States, it is undeniable that there is a strong European lobby for the establishment of firm minimum standards. Individual countries and industries - including very possibly the retail sector - will lobby against the universal implementation of what might be thought too idealistic a set of rules in this area, but it is equally likely that some form of Social Charter will be in place by the mid-1990s.

APPENDIX B

REGULATIONS AND DIRECTIVES ADOPTED

Below are the Regulations and Directives adopted as at late 1989. Regulations are designated by a number followed by the year of adoption (Reg xxx/87), while directives are noted by the year, followed by a number (Dir 88/xxx).

Adopted legislation is published in the Official Journal "L" series (OJ Lxxx), the numbering of which starts again (OJ L1) in each year.

Subject	EEC Ref No.	Published	Date of Implementation
Food Content			
Framework directive on food additives	Dir 89/107	OJ L40 of 1989	Dec 1992
Foodstuffs intended for particular nutritional uses	Dir 89/398	OJ L186 of 1989	May 1991
Flavourings	Dir 88/388	OJ L184 of 1988	July 1991
Extraction solvents	Dir 88/344	OJ L157 of 1988	June 1991
Preservatives	Dir 85/585	OJ L372 of 1985	Dec 1986
Anti-oxidants	Dir 87/55	OJ L24 of 1987	
Emulsifiers, stabilisers, thickeners and gelling agents	Dir 86/102	OJ L88 of 1986	Apr 1988
Amendment on emulsifiers	Dir 89/393	OJ 186 of 1989	Jan 1989
Coffee and chicory extracts	Dir 85/573	OJ 372 of 1985	Jan 1988
Preparation and marketing of liqueur wines	Reg 4252/88	OJ L373 of 1988	Sept 1989
Food Packaging			
Beverage containers	Dir 85/339	OJ L176 of 1985	July 1987
Quick frozen food	Dir 89/108	OJ L40 of 1989	Jan 1991
Materials and articles in contact with food-stuffs	Dir 89/109	OJ L40 of 1989	Jan 1992
Pre-packaged liquids	Dir 85/10	OJ L4 of 1985	Dec 1985

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Subject	EEC Ref No.	Published	Date of Implementation
Pre-packaged liquids (spirits and sparkling wine)	Dir 88/316	OJ L143 of 1988	June 1988
Food Labelling			
Approximation of national laws on labelling, presentation and advertising of foodstuffs for sale.	Dir 89/395	OJ L186 of 1989	Dec 1990 Dec 1992
Indication of alcoholic strength	Dir 86/197	OJ L144 of 1986	May 1989
Definition of spirit drinks	Reg 1576/89	OJ L160 of 1989	June 1989
Sparkling wines (quality marking) amendment	Reg 3309/85 Reg 2045/89	OJ L320 of 1985 OJ L202 of 1989	Sept 1989
Batch/Lot marking of foodstuffs	Dir 89/396	OJ L186 of 1989	June 1991
Pricing			
Prescribed quantities (amendment)	Dir 86/96	OJ L80 of 1986	
Prescribed quantities (amendment)	Dir 87/356	OJ L192 of 1987	June 1988
Unit pricing of foodstuffs	Dir 88/315	OJ L142 of 1988	June 1990
Unit pricing of non-food items	Dir 88/314	OJ L142 of 1988	June 1990
Monitoring and Inspection of Foodstuffs			
Monitoring of foodstuffs	Dir 85/591	OJ L372 of 1985	Dependent on other directives
Meat inspection (financing)	Dir 85/73	OJ L32 of 1985	June 1986
Health problems in intra-Community trade in meat products	Dir 88/658	OJ L382 of 1988	Apr 1989

.../cont'd

Subject	EEC Ref No.	Published	Date of Implementation
Intra-Community trade in fresh meat	Dir 88/288	OJ L124 of 1988	Jan 1989
Hygiene conditions in abattoirs	Dir 85/323 Dir 85/325	OJ L168 of 1985 OJ L168 of 1985	June 1986 June 1986
Heat treatment of meat	Dir 87/491	OJ L279 of 1987	Jan 1988
Official inspection of food	Dir 89/397	OJ L186 of 1989	June 1991
Animal Health and Plant Protection			
Antibiotic residues	Dir 86/469	OJ L275 of 1986	Dec 1988
Pesticide residues in fruit and vegetables	Dir 88/298	OJ L126 of 1988	Jan 1989
Hormones as growth promoters	Dir 85/649	OJ L382 of 1985	July 1987
Evaluation of additives in feeding stuffs	Dir 87/153	OJ L64 of 1987	Dec 87
Pesticide residues in feeding stuffs	Dir 87/519	OJ L304 of 1987	Dec 1990
Aflatoxin	Dir 86/354	OJ L212 of 1986	Dec 1988
Miscellaneous (food)			
Minced meat and similar	Dir 88/657	1989	
Hygiene standards for egg products	Dir 89/437	OJ L212 of 1989	Dec 1991
Designations used in marketing of milk and milk products	Reg 1898/87	OJ L182 of 1987	July 1987
Cocoa & chocolate products	Dir 89/344	OJ L142 of 1989	
Fruit juices	Dir 89/394	OJ L186 of 1989	June 1991
Jams, jellies and marmalades	Dir 88/593	OJ L318 of 1988	

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Subject	EEC Ref No.	Published	Date of Implementation
Miscellaneous (non-food)			
Gaseous emissions from commercial vehicles	Dir 88/77	OJ L384 of 1988	July 1988
Forklift trucks	Dir 86/663	1986	Jan 1989
Tyre tread depth	Dir 89/459	OJ L226 of 1989	Jan 1992
Units of metric measurement	Dir 89/336 Dir 89/619	OJ L139 of 1989 OJ L357 of 1989	
Medicinal Products and Laboratory Practice			
Placing on market of proprietary medicinal products	Dir 87/22	OJ L15 of 1987	July 1987
Tests on proprietary medicinal products	Dir 87/19	OJ L15 of 1987	July 1987
Proprietary products (amendment)	Dir 87/18	OJ L15 of 1987	July 1987
Inspection and verification of laboratory practice	Dir 88/320	OJ L145 of 1988	Jan 1989
Marketing of proprietary medicinal products (amendments to 3 Directives)	Dir 89/341 Dir 89/342 Dir 89/343	OJ L142 of 1989 OJ L142 of 1989 OJ L142 of 1989	
Consumer Protection			
Toy safety	Dir 88/378	OJ L187 of 1988	
Dangerous imitations	Dir 87/357	OJ L192 of 1987	
Consumer credit agreements	Dir 87/102	OJ L42 of 1987	Jan 1990
Product liability	Dir 85/374	OJ L210 of 1985	July 1988
Misleading advertising	Dir 84/450	OJ L250 of 1984	Oct 1986
Counterfeit goods	Reg 3842/86	OJ L357 of 1986	Jan 1988
Cosmetics (labelling provisions)	Dir 88/667	OJ L382 of 1988	Dec 1993

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Subject	EEC Ref No.	Published	Date of Implementation
Noise from household appliances	Dir 86/594	OJ L344 of 1986	Dec 1989
Lawnmower noise	Dir 88/180 Dir 88/181	OJ L81 of 1988 OJ L81 of 1988	July 1991 July 1991
Marketing and use of asbestos	Dir 85/610	OJ L375 of 1985	Dec 1987
Labelling of tobacco products	Dir 89/622	OJ L359 of 1989	Dec 1992
Health and Safety at Work			
Framework directive on health hygiene and safety in the workplace	Dir 89/391	OJ L183 of 1989	
Minimum safety standards for machines (protection of workers)	Dir 89/392	OJ L183 of 1989	
Intellectual Property			
Approximation of national trade mark law	Dir 89/104	OJ L40 of 1989	
VAT and Excise Duties			
18th VAT Directive (amending previous Directive)	Dir 89/465	OJ L226 of 1989	
Company Law			
Listing particulars for the admission of securities to Stock Exchange listings	Dir 87/345	OJ L185 of 1987	Jan 1990

APPENDIX C

COMMISSION PROPOSALS

Presented below are Proposals submitted by the Commission and under consideration by the European Parliament and the Council of Ministers. The list is not comprehensive and includes only those Proposals which have direct relevance for grocery retailers.

Proposals are identified by their COM (Commission) number e.g. COM (89)/156. The figures denote the year in which the Proposal was issued and the serial number allotted to the Proposal. When submitted, the Proposals are published in the Official Journal 'C' Series (OJ Cxxx) the numbering of which starts again in each year.

Subject	EEC Ref No.	Published	Date of Submission
Food Content			
8th amendments to colourings	COM(85)474	OJ C278 of 1985	Sept 1985
Amended proposal	COM(88)132	OJ C111 of 1988	Apr 1988
Re-amended proposal	COM(89)217	OJ C135 of 1989	May 1989
Modified Starches	COM(84)726	OJ C31 of 1985	Jan 1985
Food Packaging			
Amendment to Dir 75/106 on prepackaged liquids	COM(88)750	OJ C31 of 1989	Dec 1988
Food Labelling			
Nutrition and fat content labelling	COM(88)485	OJ C282 of 1988	Oct 1988
Amended proposal	COM(89)420	OJ C296 of 1989	Aug 1989
Irradiation of foodstuffs	COM(88)654	OJ C336 of 1988	Dec 1988
Production and marketing of organic farm produce and foodstuffs (proposed Regulation)			Dec 1989
Miscellaneous (food)			
Pesticide residues (amendment)	COM(88)798	OJ C46 of 1989	Dec 1988

.../cont'd

Subject	EEC Ref No.	Published	Date of Submission
Miscellaneous (food) cont'd			
Amendment to Reg 1898/87 (milk products)	COM(86)222	OJ C32 of 1986	
Marketing of fish and fish products	COM(88)47	OJ C66 of 1988	Feb 1988
Miscellaneous (non food)			
Dimensions of refrigerated lorries	COM(87)220	OJ C148 of 1987	May 1987
Non-automatic weighing machines	COM(88)780	OJ C55 of 1989	Dec 1988
General product safety	COM(89)162	OJ C193 of 1989	May 1989
Calculation of interest rates on consumer credit	COM(88)201	OJ C155 of 1988	May 1988
Tar content of cigarettes	COM(87)720	OJ C48 of 1988	Feb 1988
Amended Proposal	COM(89)398	OJ C238 of 1989	Aug 1989
Advertising of tobacco products	COM(89)163	OJ C124 of 1989	1989
Company Law			
Structure of Public Limited Companies	COM(72)887 COM(83)185	OJ C240 of 1983	Aug 1983
Cross border mergers	COM(84)727	OJ C23 of 1985	Jan 1985
Separate accounts of branches of companies	COM(86)397 COM(88)153	OJ C203 of 1986 OJ C105 of 1988	July 1986 Apr 1988
Annual and consolidated accounts	COM(86)238	OJ C144 of 1986	May 1986
European company statute	COM(89)268	OJ C263 of 1989	Aug 1989
Complementary proposal on employee involvement	COM(89)263	OJ C263 of 1989	Aug 1989
Takeovers	COM(88)823	OJ C64 of 1989	Dec 1988

.../cont'd

Subject	EEC Ref No.	Published	Date of Submission
Health & Safety at Work			
Minimum safety standards at the workplace	COM(88)74	OJ C121 of 1988	Mar 1987
Personal protective equipment	COM(88)76	OJ C161 of 1988	Mar 1988
Visual Display Units Amended proposal	COM(88)77 COM(89)195	OJ C113 of 1989	1988 1989
Lifting of heavy loads and back injuries	COM(88)78	OJ C117 of 1988	Sept 1988
Mobile machines (approximation of laws)	COM(88)86	OJ C70 of 1988	
Protection of workers from biological agents at work	COM(89)404	OJ C218 of 1989	Aug 1989
VAT and Excise Duties			
Global communication	COM(87)320 COM(89)260	OJ C250 of 1987 OJ C? of 1989	Aug 1987
Common system of VAT - approximation of VAT	COM(87)321	OJ C250 of 1987	Aug 1987
VAT - elimination of fiscal frontiers	COM(87)322	OJ C252 of 1987	Aug 1987
VAT clearing mechanism	COM(87)323	OJ C250 of 1987	Aug 1987
Convergence of rates of VAT and excise duties	COM(87)324	OJ C250 of 1987	Aug 1987
Approximation of taxes on cigarettes	COM(87)326	OJ C251 of 1987	Aug 1987
Excise duty on alcoholic beverages and alcohol in other products	COM(87)328	OJ C250 of 1987	Aug 1987
Amendment	COM(89)527		1989

THE SOCIAL CHARTER AND FOOD RETAILING

A study prepared for

THE COCA-COLA RETAILING RESEARCH GROUP EUROPE

by

Professor Amin Rajan
The Centre for Research in Employment and Technology in Europe

December 1990

The Corporate Intelligence Group Limited

Table of Contents

Executive Summary

a Object

This paper provides a tentative assessment of the impact of the Social Charter on the food retailing industry in the member states of the European Community.

As currently proposed by the European Commission, the Social Charter aims to generate 12 basic rights for workers in areas such as job mobility, renumeration, living and working conditions , social protection, collective bargaining, vocational training, equal treatment for men and women, industrial democracy, health and safety, and special protection for children, adolescents, the elderly and the disabled. Some of them are innocuous: they merely reaffirm the existing rights in individual member states. Others are new and contentious from the point of view of the employers because they venture into areas of pay, collective bargaining and industrial democracy.

b Prospects

The Social Charter was accepted in principle at the Strasbourg summit in December 1989. Since then, the European Commission has introduced an action programme that is designed to produce a set of binding directives and non-binding recommendations and communications to individual member states.

There is a strong likelihood that the Social Charter will be implemented soon after 1992.

c Impact

On the whole, the Social Charter is likely to raise unit labour costs, thereby reducing profitability and employment levels in food retailing. This negative impact will stem largely from the industry's historically slim profit margins and high labour intensity.

The degree of impact, however, will vary between the member states, depending upon their respective economic growth in the 1990s and the extent to which their labour markets are regulated by the state. On this reckoning, it is likely that the industry in:

- Greece, Ireland, The Netherlands, Portugal and the UK are likely to suffer a substantial negative impact because of their unfavourable position vis:a:vis both these factors.
- Belgium, France, Italy, Luxembourg and Spain are likely to suffer a moderate negative impact because of the offsetting effects of these two factors.
- Denmark and Germany are likely to have no appreciable impact because of their favourable position vis:a:vis the two factors.

1 Introduction

1.1 Background

The European Commission's programme for the creation of a single market after 1992 will cause large-scale industrial restructuring in Europe, as the prevailing administrative, technical and fiscal barriers are eliminated.

The Single European Act 1987, which constitutes the legislative back-bone of the programme, also stipulates that it should have a social dimension for two reasons. First, there is currently a substantial amount of productive capacity that is uneconomic in the sense that it only exists because of protection provided by the barriers. Much of this capacity will have to be phased out in a frontier-free Europe as it will become surplus to requirements. The Act suggested that in order to minimise the resulting adverse social impact, some concrete actions were needed. Second, the programme's proponents have argued that the single market should generate economic gains for companies and workers alike. This objective can be achieved, so their argument runs, through a new social instrument which guarantees certain rights to workers. Such a new instrument has now been proposed. It is called Community Charter of the Fundamental Social Rights of Workers, referred to hereafter as the Social Charter.

1.2 Aims

This paper's main focus is the Social Charter and its likely impact on the food retailing industry in the member states of the European Community. The paper aims:

- to highlight the salient features of the Social Charter
- to assess the prospects for its implementation in the near future
- to assess its likely impact on food retailing in the individual member states.

The paper is necessarily an informed 'think-piece' because to date no empirical assessment has been made of its potential impact at either macro or micro levels. The assessment presented here is based on discussions with some national experts who have participated in various seminars on distributive trades organised by the European Commission in the recent past.

1.3 Structure

At the outset it is essential to emphasize that the impact of the Social Charter is assessed here against the background of various historical trends in food retailing. In our view, the Social Charter will accelerate some of these trends and decelerate others. It may even initiate some new ones, depending upon the circumstances of the food retailing industry in individual member states. Thus, it is essential to highlight the relevant trends before attempting an assessment of the Social Charter. Accordingly, the plan of the paper is as follows:

- Section 2 provides an overview of the historical trends
- Section 3 outlines the Social Charter and other related instruments
- Section 4 describes the implementation process
- Section 5 assesses the likely impact of the Social Charter on food retailing in the individual member states.

2 Historical Trends

Throughout the European Community, the food retailing industry has been undergoing two distinct sets of changes - one emanating from the demand side and one from the supply side. Although occurring at varying rates in the individual member states, they have been evident at least for the past two decades. They are listed separately below.

Demand-side changes include:

- the increase in competition as retailers and wholesalers diversify into one another's areas; for example, through 'cash and carry' operations;
- the growing diversification by wholesalers and retailers into production of high margin products (e.g. fresh fish, bakery products, pre-cooked meals);
- the growing international orientation, through an expanding base of buying and selling points;
- the stronger linkages with selected manufacturers, through the exchange of know-how relating to product design, content, marketing and logistics;
- the concentration of buying power into fewer and fewer hands.

Supply-side changes include:

- the integration of retail and wholesale functions;
- the increase in the market share of large enterprises, at the expense of family-based enterprises without a special niche;
- the birth of small and medium-sized firms providing specialist services with strong value added (e.g. freshly cooked food, home deliveries);
- the increase in merger and takeover activities to achieve a higher market share;
- the use of information technology;
- the decrease in the number of shop establishments and increase in the average size (floor area) of establishment;
- the increase in labour cost in response to governmental or trade union pressure;
- the growing customer sophistication leading to greater training needs for all workers;
- the increase in the use of low-cost part-time (mainly female) workers in lower level occupations;
- the large-scale investment in new machinery, transfer automation, electronic point of sale (EPOS) terminals and back office automation;
- the increase in central control over all aspects of operations;
- attempts to reduce stock volume in depots, through the use of the 'just in time' mode of operation and delivery, using electronic value-added networks involving manufacturers, wholesalers and retailers within a national economy.

3 The Social Charter

3.1 Genesis

The Social Charter is an extension of the social dimension of the European Community as spelt out in the Treaty of Rome 1957. The Treaty had two sets of social provisions - binding and non-binding - as shown in Figure 1. This distinction apart, it is clear that the central thrust of the provisions has been directed at employment-related areas such as health and safety, freedom of movement, social security and training.

The Single European Act 1987, which provides the basis for a single market, envisages new social previsions , some binding and others not, as listed in Figure 2. At the surface level, these provisions look innocuous: after all, all member states already have their own bodies of rules and regulations on most, if not all,the areas covered by the Act. As such, the Act could be seen as merely reinforcing the existing legal arrangements on employment and social security.

3.2 Social Rights

At the detailed level, however, the Single European Act 1987 envisages some radical changes which are contentious, at least from employers' point of view . The proposed changes are best understood in the context of the Community Charter of Fundamental Social Rights. They are presented in an overview form in Figure 3 and in more detail below. The Charter proposes 12 distinct rights as follows:

- **Right to freedom of movement:** every citizen in the Community should have the right to freedom of movement throughout its territory, for family or occupational reasons without loss of rights under the social security and tax systems. Furthermore, wages and terms of conditions prevailing in the host countries should apply to all workers from other members states employed in the host countries.
- **Right to fair remuneration:** decent wages rates should be established by law or collective agreements at national, regional, occupational, sectoral or company level.
- **Right to improvement of living and working conditions:** this applies particularly to the organisation and flexibility of working time, redundancies and paid leave. The right extends to all forms of employment and particularly to those on fixed term contract, seasonal work, part-time work, temporary work, weekend work, night work and shift work.
- **Right to social protection:** every adult, in or out of work, should have adequate social protection, providing a minimal acceptable standard of living.
- **Right to freedom of association and collective bargaining:** every employer and every worker should have the right to belong to any professional or trade union organisation of his/her choice. This entails recognition of the right to belong to a trade union, freedom to negotiate through collective bargaining and the right to strike in the event of conflict of interests. Collective agreements may be established at a European level and, towards that end, the two sides of industry should develop a social dialogue.

Figure 1

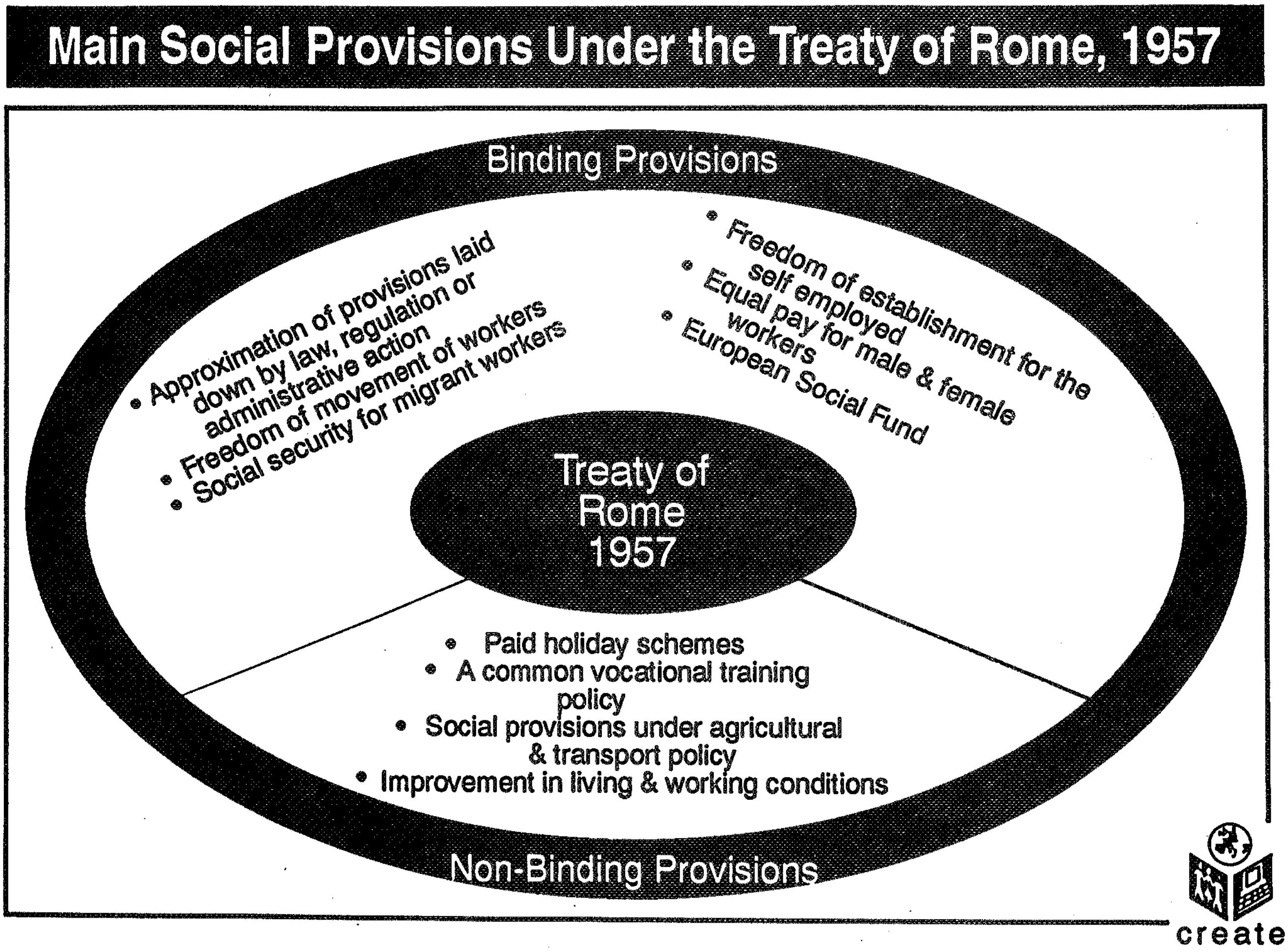
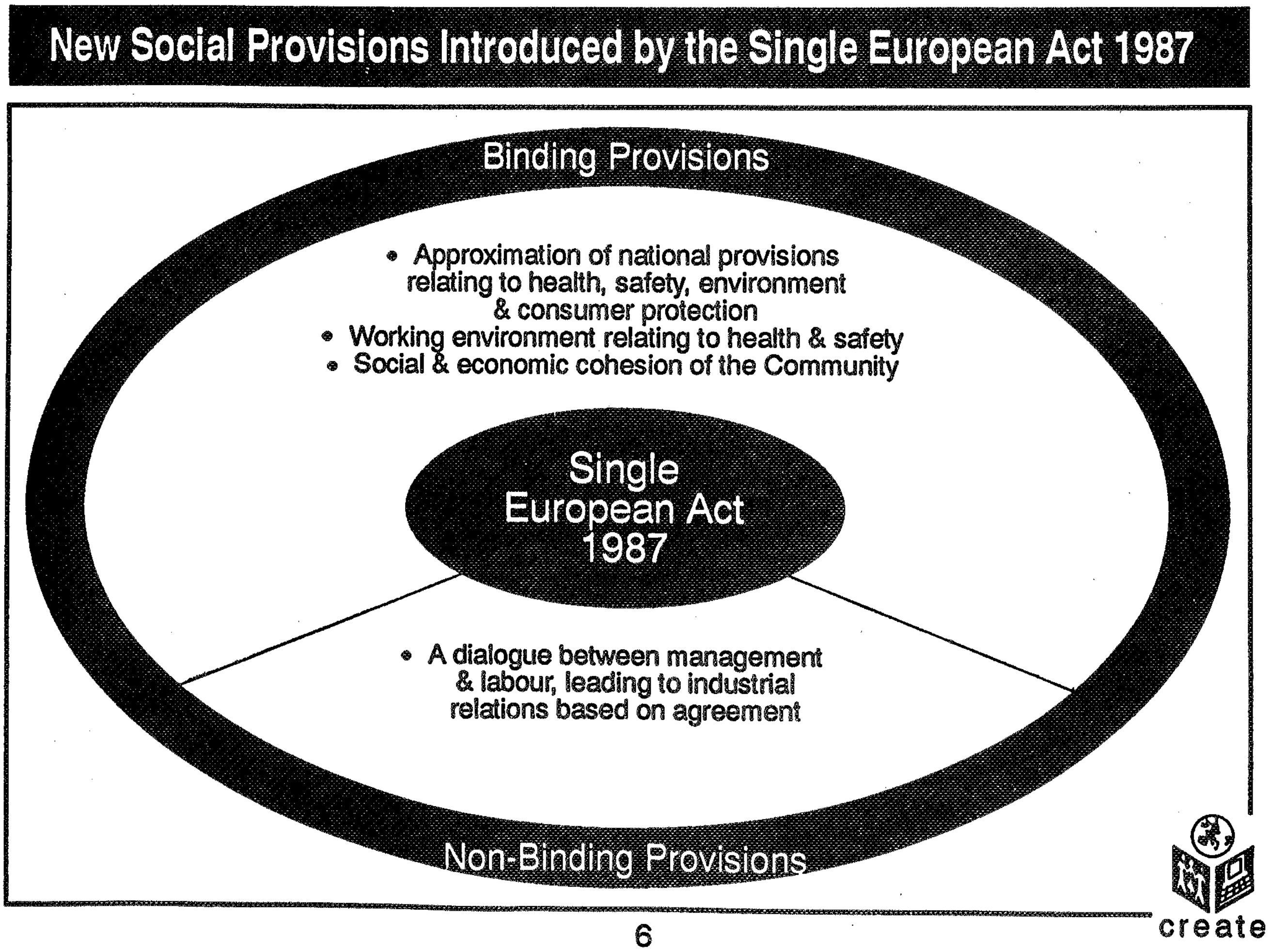


Figure 2



- **Right to vocational training:** each worker should have access to training or retraining on a continuous basis so as to minimise the adverse social impact of industrial restructuring and technological change.
- **Right to equal treatment:** men and women should have equal treatment in matters of remuneration, access to employment, social security, education, vocational training and career development. At present, it is unclear whether this will lead to mandatory quotas for men\women and whites\coloureds.
- **Right to information, consultation and participation of workers:** this applies particularly to areas such as technological change, industrial restructuring, corporate mergers and take-overs and other areas with direct implications for employment.
- **Right to health and safety protection in the workplace:** this involves ensuring satisfactory health and safety conditions and further improvements in them.
- **Rights for children and adolescents:** these involve setting a minimum employment age of 16 years, offering equitable remuneration and complementary vocational training during working hours.
- **Rights to a decent standard of living for the elderly:** this involves ensuring that all citizens in retirement and early retirement have a reasonable income commensurate with a decent standard of living. Mainly, this will be a governmental responsibility.
- **Right to integrate for the disabled:** the disabled should have the opportunity for the fullest possible integration into working life through vocational training, improved accessibility and appropriate means of transport and housing.

In various recent documents from the European Commission, these twelve rights are presented as broad principles. They are too general to the extent that it is virtually impossible to relate them directly to the existing laws in the Community. As a result, it is difficult to assess accurately the extent to which these rights are already enshrined in the national laws of individual member states.

On a looser interpretation, however, it would seem that seven rights are probably available in most, if not all, member states. They include the right to: freedom of movement, fair renumeration, social protection, equal treatment, health and safety protection, a decent standard of living for the elderly and integration for the disabled.

The seeming exclusion of the rights in the general area of collective bargaining and industrial democracy, of course, does not imply that they are not available at present. It is just that it is very difficult to relate the vague principles of the Social Charter in these areas with the legal framework and actual practices in the individual member states. Again, on a looser interpretation, it is possible to say that all the twelve rights are already available in those member states with highly regulated labour markets, as defined in Section 5.3.

3.3 The Statute of the European Company

So much for the Social Charter. While many of its elements are non-controversial, it does have some that are. Those which have attracted most attention are related to the concepts of worker participation and collective bargaining. The European Commission proposes to implement them through the so-called Statute of the European Company, as presented in an overview form in Figure 4.

Under it, greater industrial democracy is to be achieved through an elaborate quid pro quo devised on the basis of the lessons learnt from two previous attempts: the Fifth Directive on the structure of limited liability companies; and the Vredeling Directive which catered for rights and procedures on information and consultation of workers.

Both these directives have been honoured more in the breach than in the observance. At any rate, the momentum behind them died out in the early 1980s against the background of a severe recession and rising unemployment. Since then, a number of loopholes have been discovered, rendering the directives useless.

Accordingly, in order to generate fresh momentum, the European Commission has come up with a carrot and stick approach through proposals on a new Statute of the European Company.

Under it, trans-national firms can acquire the status of a Community company in order to avoid the current penal system of double taxation associated with their multinational operations. Two elements are noteworthy about the proposals:

- **Free choice:** each company will have the freedom to choose whether to register as a Community company or maintain the *status quo*.
- **Options:** as regards the forms of participation, companies have three choices: the German system under which workers are represented on a main board; the Franco-Italian system of a works council with employee representation and operating independently of the management board; or the Swedish system which lays down the rules for participation under a special agreement.

These, then, are the measures that have been proposed for the creation of what is called Social Europe or the European Social Area. Optimistic though it may sound, the purpose behind it is at once bold and determined.

To a large extent, the purpose is in comformity with the existing law in many member states. On a looser interpretation, it can be argued that the proposed rights are already available under the existing systems of industrial democracy and social security in Belgium, Denmark, France, Germany, Italy and Luxembourg.

In the remaining member states - Belgium, Greece, Ireland, Portugal, The Netherlands, Spain and the United Kingdom - many of the rights are also enshrined in the national law. The notable exceptions include the right to fair renumeration, right to information, consultation and participation of workers. Indeed, it is these exceptions that constitute the most contentious elements of the Social Charter, as far as employers are concerned.

Figure 3

Community Charter of Fundamental Social Rights

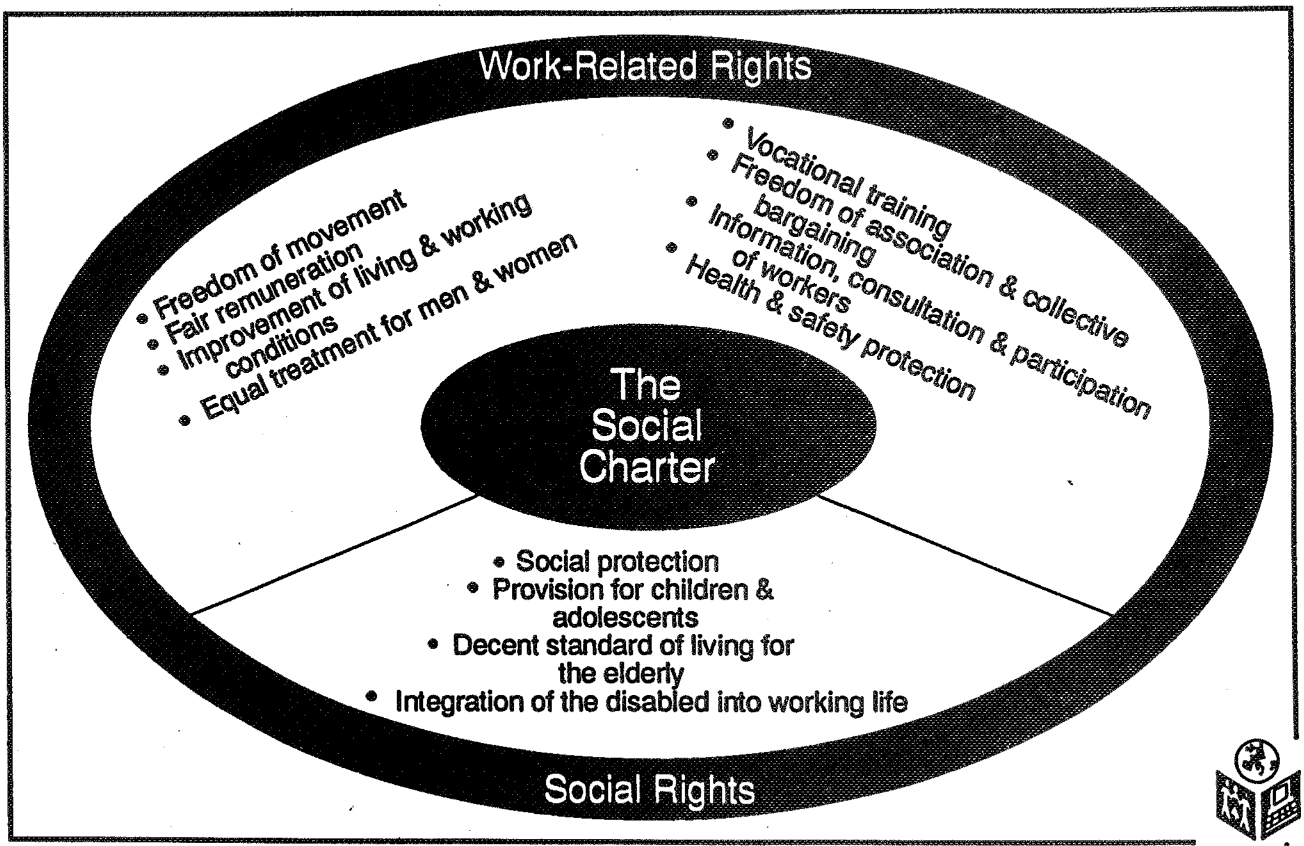
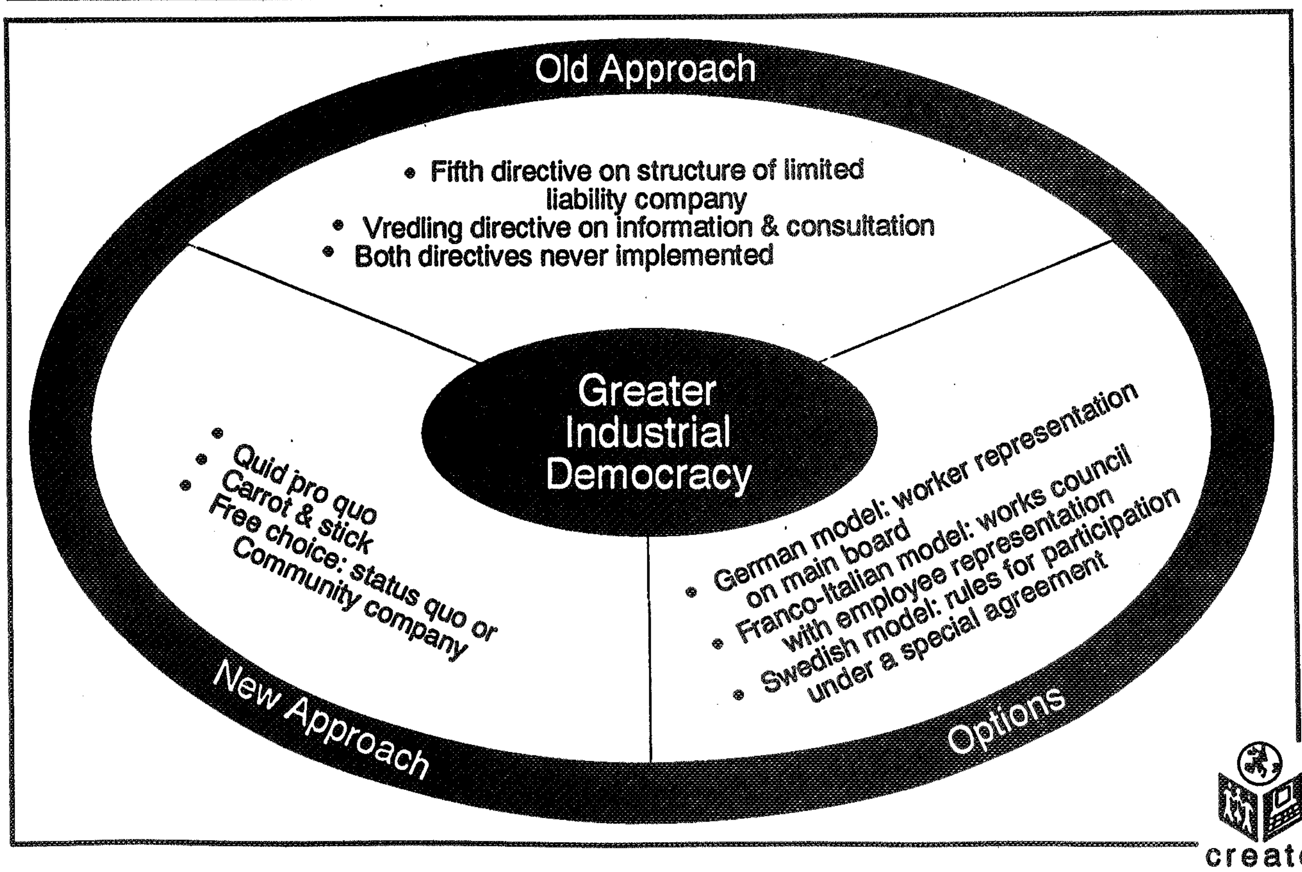


Figure 4

The Statute of the European Company



4 Implementation Process

4.1 The Action Programme

The proposed Statute of the European Company is viewed as a separate entity in its own right. The European Commission is proceeding with the consultation process before the legislative channels are activated. There is a reasonable chance that the Statute will be enacted by the end of 1992.

As for the Social Charter, it too has a separate entity from the substantive 1992 programme. At present it is mainly a declaration of principles that were endorsed by all the member states except the United Kingdom at the Strasbourg summit in December 1989. Since then, however, significant momentum has been generated by creating what has come to be known as the action programme. Its aims are to implement the Social Charter through the issue of directives, communications, and recommendations. As the terms imply, the first of these is binding on the member states but the other two are not.

Directives are likely to be issued in the following areas:

- atypical work, involving part-time and short-contract workers
- working time
- collective redundancies
- pregnant women
- health and safety requirements
- young people
- travel conditions for people with physical disabilities.

Communications and recommendations are likely to be issued in the following areas:

- collective bargaining
- information, consultation and participation leading to greater industrial democracy
- vocational training and retraining
- mutual recognition of qualifications.

Currently three directives are going through the legislative process: one on atypical work, one on pregnant women, and one on working time. Over the next two years, others will be issued as will some 15 communications and recommendations.

4.2 Prospects for Implementation

At the legislative level, considerable momentum has been established since the European Parliament elections in mid-1989. The newly emerging socialist majority has intensified the pressure on the European Commission to hasten the action programme, with the suggestion that the whole of the 1992 programme will be slowed down, if the Social Charter is not implemented. All the member states, except the United Kingdom, have accepted the inevitability of the Social Charter, though Denmark and The Netherlands still harbour certain reservations. As a result, the European Commission has softened its own stance somewhat.

That much is clearly evident from the way it has tried to progress the recent directive on working hours, which has not yet been approved by the Council of Ministers. Uncharacteristically, the Commission has indicated that it would be flexible about how this directive is implemented: employers and unions are given the option to implement it themselves and thereby avoid statutory legislation. However, if the implementation does not occur through the 'back-door' of collective bargaining, individual member states will be exposed to legal proceedings in the European Court of Justice.

In other words, a climate of voluntary implementation is being created but with the ultimate legal sanctions where voluntarism fails. Underlying this evident pragmatism lies the Commission's determination to ensure a full implementation of the Social Charter throughout the Community by the end of 1992.

Of course, the declared opposition from the United Kingdom could frustrate the timetable since many of the necessary directives require unanimous voting in the Council of Ministers where the UK has a long history of exercising its veto in the area of employment legislation.

Yet, the question now is not 'if' but 'when' will the Charter be adopted. This is because there is a momentum behind it which could receive a fresh impetus from two sources. First, there could be a change in government in the UK before the end of 1992. A new Labour Government would be more accommodating. Secondly, governments of other member states have increasingly come under pressure from trade unions in their own countries. In deference to vested interests, such governments could change the voting requirements from unanimity to qualified majority in the Council of Ministers.

Even employer bodies like UNICE (Union des Confédérations de l'Industrie et des Employeurs d'Europe), CECD (Cofédération Européenne du Commerce de Détail) and FEWITA (Federation of European Wholesale and International Trade Sector) have come to accept that the implementation of the Social Charter may be inevitable. Of late, they have acknowledged this whilst at the same time registering various reservations.

The actual process of implementation may be slow and piecemeal. At any rate, it will differ between the member states. But that does not detract from the fact that the chances of the Social Charter being adopted are now high enough to warrant an assessment of its impact on food retailing.

5 Impact of the Social Charter

5.1 An Overview

Once it begins to be implemented in individual member states, the Social Charter will have certain short and longer-term effects.

However, as with all new legislation, the scale of the likely effects will be influenced by various prevailing moderators and accelerators: the former serving to dilute the impact and the latter serving to accelerate it. In the final analysis, the overall size of the effects will depend upon the relative strengths of these moderators and accelerators.

This section attempts to identify the short and longer-term effects first and then goes on to provide a more complete assessment by bringing the key moderators and accelerators into the analysis.

5.2 Short and Longer Term Effects in Food Retailing

Upon its implementation, the Social Charter is expected to generate some economic effects immediately and others over time.

In the *short-term*, to say 1994, it is likely:

- to raise pay-roll costs because of the Charter's emphasis on improving working and living conditions, on equal pay and on training and retraining
- to increase trade union influence markedly in companies registered under the Statute of the European Company and notably in others
- to discourage employment creation on the part of management since managers will have to spend more time on job-related issues.

Between them, these three effects will bring about some adverse outcomes. They will:

- undermine profitability
- reduce employment directly
- encourage technological substitution for labour.

In the *longer-term*, to say 1999, the Social Charter is likely:

- to improve industrial relations through a framework that has the potential for reducing the endemic tension between management and labour
- to improve the skills' base of the industry's workforce through training and retraining
- to improve competitiveness through the resulting improvement in the quality and quantity of customer service.

However, when the two kinds of effects are brought together, it is likely that the Social Charter may well reduce profitability and jobs in retailing by the end of this decade. In other words, from the employers' point of view, the overall impact will be adverse. This assessment invites three caveats, however.

First, the assessment relates exclusively to food retailing and not other industries. It is largely influenced by its two significant characteristics: a highly competitive market environment in which the net profit margins on sales average around 4 per cent; and the industry's high labour intensity which makes pay-roll cost a crucial element in the profits equation.

Second, the size of the anticipated adverse impact on profitability and jobs will depend upon the strengths of the relevant moderators and accelerators that are likely to prevail within individual member states in the 1990s. As such, the impact will vary, as we shall see in the next section.

Third, irrespective of the overall impact, certain historical trends will continue, either because they have their own momentum or because the Social Charter itself will accentuate them. Yet there are other trends which may discontinue largely because of the Social Charter.

Those that will *continue* are:

- greater industrial concentration and gradual demise of the SMEs (small and medium sized enterprises)
- greater use of technology
- prevalence of economies of scale
- diversification into wholesale and production.

Those that will *discontinue* are:

- growing use of part-time female workers
- growth in total employment
- ad hoc-ary in training and manpower planning.

The foregoing analysis thus emphasizes two points. First, the food retailing industry will continue to undergo structural changes both because of and in spite of the Social Charter. Secondly, the impact of the Social Charter will vary between countries, depending on their circumstances in the 1990s. It is time now to turn to the circumstances of individual member states.

5.3 Moderators and Accelerators: A Country-Based Approach

The overall impact of the Social Charter on individual countries in this decade will depend on two opposing forces:

- Moderators: these have the potential to counter the adverse impact on profitability and jobs by generating a higher level of spending. In this context, a high economic growth is perhaps the best moderator. There are, of course, others (like convergence in living standards and patterns). But they are of lesser importance.
- Accelerators: these have the potential to accelerate the adverse impact. An outstanding example in this context is the degree to which the labour market in individual member states is regulated by the state. The lower the degree, the greater the likely impact of the Social Charter. After all, the Social Charter essentially amounts to increased regulation.

Discussions with national experts have helped us to identify tentatively the position of the member states on two axis: one on economic growth in the 1990s and one on the current degree of labour market regulation, as shown in Figure 5. These, in turn, have helped to identify three kinds of impact on food retailing as follows:

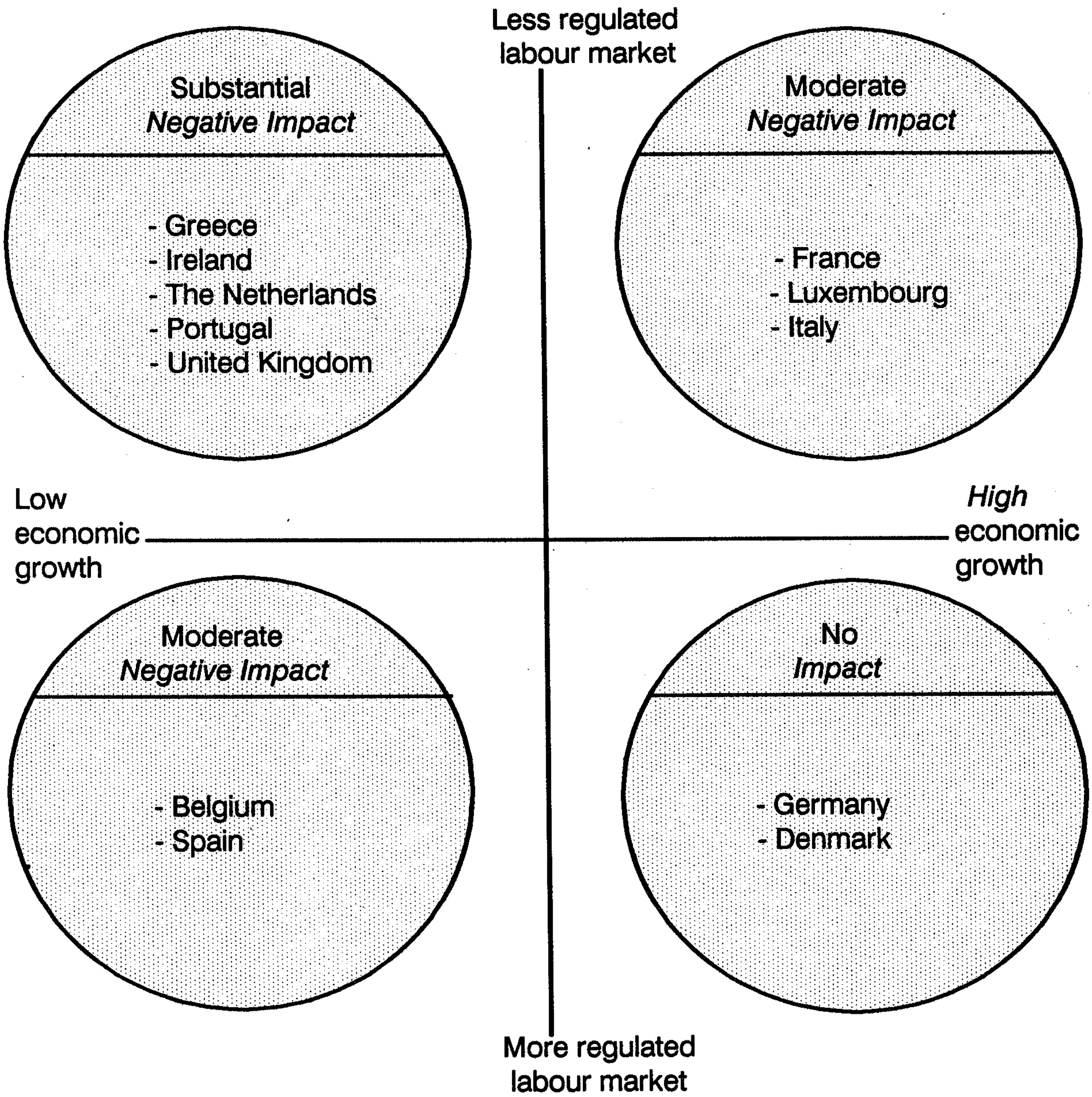
- **a substantial negative impact** is likely to be felt in five countries (north-west quadrant) because on present reckoning they have less regulated labour markets at present to the extent that the Social Charter has clear potential for generating a big effect. This at a time when these countries are likely to have a low economic growth that cannot serve as a countervailing influence.
- **a moderate negative impact** is likely to be felt in further five countries because of the combination of two differing sets of circumstances. Countries in the south-west quadrant will experience a low impact because they already have a high degree of labour market regulation; and such impact that they do experience will not be countered by their expected low economic growth. Countries in the north-east quadrant will also experience a low impact but for precisely the opposite reason: ie. the impact from low market regulation being moderated by a high economic growth.
- **no perceptible impact** will be felt in two countries because their labour markets are already highly regulated (south-east quadrant). In any event, their expected high economic growth will serve to counter any adverse impact of the Social Charter.

To conclude this section, therefore, it is clear that the extent of the impact of the Social Charter will vary considerably between the countries and will substantially depend upon their respective circumstances . From our tentative investigation, it appears that the impact on profits and jobs will be negative in ten out of twelve member states.

Food retailing has been shaped by many significant influences in the recent years. The Social Charter will be yet another influence. That much is clear from this analysis.

At the same time, it is worth emphasizing that this is a broad assessment which necessarily invites three caveats.

Figure 5 Country By Country Impact



First, if the present recessionary conditions in some member states either worsen unduly or spread to other member states, then it is quite likely that the current momentum behind the Social Charter may well weaken. This observation is based on the fact that the 1979-81 economic recession effectively killed off the Vredeling Directive on industrial democracy. This time, however, the momentum is too powerful for the recession to do anything other than delay the implementation of the action programme.

Second, the impact of the Social Charter will clearly vary by size and location of individual retailers. The large incorporated stores are likely to experience a greater impact than independent/franchise retailers. This is because they are more highly controlled by the national authorities and have more trade union members compared to smaller retailers. Similarly, those retailers operating on a transnational basis will also experience a greater impact because they will come under increasing pressure to provide the same advantages and benefits as those prevailing in the countries providing maximum rights.

Third, irrespective of size and location, the Social Charter will work towards enhancing the importance of trade unions. Implicit in it is a vision of industrial democracy that anticipates greater worker participation through the traditional system of collective bargaining. However, the vision envisages *responsible* unionism, leading to improved business competitiveness, in a way that is far removed from the old conflictual model of industrial relations.

FOOD RETAILING IN EUROPE - POST 1992

PROJECT II
THE COCA-COLA RETAILING RESEARCH GROUP
EUROPE

FOOD RETAILING ALLIANCES : STRATEGIC IMPLICATIONS

A study prepared for

THE COCA-COLA RETAILING RESEARCH GROUP EUROPE

by

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The Corporate Intelligence Group Limited

Food retailing in Europe – Post 1992

Food Retailing Alliances : Strategic Implications

Introduction

Making generalisations about trends in EC consumer markets is especially hazardous given a population of 352m spread across the markedly diverse cultures of twelve nations. Such generalisations become even more risky when the upheavals in Eastern Europe, together with German unification, are taken into account. On the basis of OECD purchasing power parities, the GDP of the twelve EC nations is about 10% short of matching the GDP of the United States. The scale of opportunity for European food retailers, used to trading primarily within their own national borders, is great. The one generalisation that can be made comfortably, therefore, is that retailers are likely to become stronger as a result of this opportunity. However, having perceived the opportunity, they are not waiting until January 1st 1993 : planning and restructuring has already begun.

Executive Summary

- With the removal of trade barriers after January 1st 1993, the key to unlocking the benefits of "1992" relates to the "sourcing" of raw materials for food manufacturers and finished products for food retailers.

- This provides the opportunity for individual food manufacturers and food retailers to aspire towards being "lowest cost supplier/buyer". This will be the source of opportunity, challenge and conflict in the European food industry for the rest of the 'nineties.

- The concept of "1992" is here. Retailers and manufacturers have begun to organise: manufacturers are consolidating production facilities while retailers are forming pan-European buying groups and alliances.

- A surge of retailer buying group activity has developed since 1988. The centralisation of retail purchasing power will put pressure on manufacturers' price structures in four ways:

  - quantities ordered will rise so that volume discounts demanded will rise also (although discounts may be unrelated to cost savings, this is the treadmill the manufacturers will find hard to get off).

  - by opening order books to each other, members of retail buying consortia can quickly and easily determine their lowest cost source. Such price levels could become the starting point for negotiating (group) incremental volume to an even lower point.

  - while price differentials across some manufacturers exist, the opportunity for parallel importing (or diverting) will undoubtedly be taken advantage of, and

  - food retailers seeking new sources for own-label products should find plenty of choice amongst major brand manufacturers and their smaller counterparts with surplus capacity. Indeed, given the absence of Euro-consumers, the own label could develop faster than the Euro-brand.

- Food manufacturer/retailer relations will likely be strained in the short-term, while notions of co-operation/participation for the mutual longer run benefit of both sides could succeed eventually (eg. posture of Associated Marketing Services).

- The momentum of "1992" could be slowed because of cultural differences: Europeans will not magically become consumers of Euro-food overnight. However, new product development is certain to be stimulated with, as noted above, retailers' own labels driving those new product introductions.

- As both sides of the European food industry re-structure for post-1992 operations, the greatest uncertainty relates to the reaction of EC legislators to the retailers' push to be "lowest cost buyers": does the sharing of buyer price data among buying group members constitute an abuse of a dominant position that would be contrary to Articles 85 and 86 of the Treaty of Rome?

- The collapse of communism in Eastern Europe, together with unification of Germany, suggests an opportunity in these areas for pan-European food retailers and buying groups, and especially for the Germans, given that German is the second language of many ex-communist bloc nations.

The opportunity

In establishing the EC, the Treaty of Rome (1957) envisaged the creation of a single integrated market with specific provisions for the free movement of people, goods, services and capital between member states. The frustration of this process taking longer than anticipated led, in 1988, to the European Commission formulating a new strategy as a "White Paper on Completing Internal Markets". This document represents the corporate plan for the EC during the 1985-1993 period. It proposed around 280 measures to be adopted by each member state by December 31 1992. Hence, the concept of "1992".

"1992" reflects a process of de-regulation principally concerned with the removal of barriers to the introduction of a common internal trading market. The removal of constraints on the cross-border movement of goods is the source of opportunity for which European food retailers have already started to plan.

Background : Legislative Impact on retail structure

Leaving aside the upheavals in Eastern Europe, individual countries' legislation has had a major effect on shaping retail structures. Generally, the experience of the Continental European markets contrasts with that of the UK. This is characterised by the magnitude of net margin difference: around 6% in the UK versus 2.5% elsewhere in Europe. An explanation for the difference will be helpful.

Continental Europe
For most Western European countries there is some form of legislative control on the development of new shopping space, eg. Le Royer in France, The Baunutzungsverordnungsgesetz in Germany and Le Roi Cardenas in Belgium, and the Town and Country Planning Acts as the basis of legislation in the UK. For the most part these laws have been fairly rigidly applied in Continental Europe, especially in terms of restricting store size, location and, via additional decrees, shop opening hours. This has tended to favour smaller sized stores and relatively higher cost structures, limiting the opportunity to achieve the economies of scale from large store retailing. With saturation (in terms of stores per 100,000 inhabitants) being high (certainly compared with the UK) the prime focus on competition has been "price". Margins have been under pressure continually.

Table 1
Western Europe: Relative Supermarket/Hypermarket Saturation (1989)

Country	Supermarket/ Hypermarket Retail Space per Capita (sq ft/person)	Stores/100,000 Persons	Supermarket/ Hypermarket Sales Intensity (sales/sq ft/pa)
Belgium	2.4	18.1	£225
France	2.0	12.8	£260
West Germany	1.3	14.3	£210
Holland	1.3	15.3	£255
UK	0.7	5.3	£395
Spain	0.5	5.3	n.a
Italy	0.5	5.1	n.a

Notes: Supermarket defined as 4000 sq ft or over
Exchange rates as at 24.8.90

Source : Argyll Group Plc estimates, IGD, ISSO, AC Nielsen

United Kingdom
With the exception of a period of Government imposed price and margin controls in the 1970's, retail prices in the UK have been determined competitively. Following the price-wars of the late '70's-early '80's (the result of the "low growth – no growth" nature of industry volume, excess capacity and leading firm restructuring) the nature of competition between UK food retailers switched to non-price issues: product range, choice, service departments, car parking, location etc. With the Thatcher government coming to power in 1979, there followed through the '80's increasing amounts of land available for all kinds of retail development as industry re-structured itself under the burden of monetarist policies and as privatisation programmes saw the release of land banks held by nationalised industries. There was, therefore, no shortage of sites and with the adoption of generally more laisser-faire attitudes, especially in planning terms, 1989 was a record year for superstore openings*. In fact, of the 23 superstores opened by J Sainsbury in its 1988/89 financial year, only four were the result of planning appeals.

So, in the UK the underlying pressure has been to allow margins to move up. In the five years, 1986-90, the four largest UK food retailers invested in capital projects to the value of 1.5 times their pre-tax profits. This spending was directed at large stores that benefited from scale economies, the ability to sell wider ranges on higher gross margins, and on investments in distribution and information technology infrastructure. That the increasing capital intensity is paying off is no better confirmed than in the fact that gross margins grew by around 1% per year during the last half of the '80's and net margins pretty much doubled, to 6%. (For J Sainsbury, we estimate that over the past 10 years the supermarket's gross margin increased 25% and, of that, 60% came in the last five years).

Our "thumb-nail" sketch of these differences is useful because it highlights the different pressures and opportunities facing retail managements in Europe. Until recently, the UK food retailers were notable for their virtual total lack of interest in the "retail alliance/buying group" as a route to further expansion. This contrasts with the Continental European experience where, given the margin pressures, the growth options had to be faced much earlier:

- to either expand overseas (e.g. Delhaize's acquisition of Food Lion in 1974; Ahold's acquisition of Bi-Lo in 1977 etc),

** according to the UK's Institute of Grocery Distribution, 73 superstores (>25,000 sq ft) were opened in 1989 – the highest annual figure since records began in 1965.*

- acquire other companies (at great expense e.g. Casino-La Ruche Méridionale, Rallye-Genty Cathiard) or merge (with the risk of national cartel office intervention e.g. ASKO-Metro),

- or to join buying groups capable of enhancing market power and expanding margins.

But, buying groups are not new phenomena. In France, for example, Paridoc was formed sixty years ago and SOCADIP in 1966. "1992" has, however, provided the "raison d'être" for more groups to be founded. *

Current impetus to "1992"

Whether from the retailer's or manufacturer's point of view, the key to unlocking the benefits of "1992" relates to sourcing: the sourcing of raw materials for manufacturers and of finished products for retailers.

For multi-national manufacturers, "pan-European" is a sub-set of established global strategy. Operators such as BSN, Coca-Cola, Kelloggs, Kraft/General Foods, Mars, Nestlé, Proctor & Gamble, Unilever etc, have already started to organise for pan-European operation, particularly in terms of centralising and consolidating ("re-focusing" to use Unilever's terminology) production capacity relative to population centres and sources of supply.

The "1992" opportunity does not just lie with multi-national manufacturers. Probably fewer than ten multi-nationals are set up for pan-European operation, while the majority of other producers serve one or two national markets only. In any event, by removing trade barriers and allowing trans-national sourcing and distributing, the impetus for food manufacturing is focused clearly on re-establishing the ethos of "lowest cost producer".

For European food retailers, the removal of trade barriers between EC members also provides the opportunity of a wider range of choice for sources of supply for both brands and own label. (The latter are likely to experience rising sales penetration through the 'nineties.) With margin pressure undiminished the food retailers will aggressively focus on seeking to be "lowest cost buyer".

** We are aware of the cynical suggestion that the motivation for buying group membership is/has been associated with protection from unwelcome take-over approaches. But such protection could only be taken seriously if accompanied by more than just a token exchange of shares.*

What is clear is that neither retailer nor manufacturer is waiting until 1st January 1993 to act. While manufacturers' plant cannot be constructed, re-located or re-focused to come on-stream overnight, the food retailers have, since 1989, set up around a dozen alliances and buying groups. We go on to discuss these in terms of aims and objectives. But, what is certain is that the re-structuring of competition in Euro-food has begun : between manufactures' competing for retailers' business and between the retailers themselves. The retailer-manufacturer interface seems likely to remain as strained as ever.

Buying groups and alliances: a surge of activity

In Table 2 we summarise details of the major European buying groups and retail alliances formed since 1988.

Table 2

Retail Alliances and Buying Groups formed since 1988

Alliance/Buying Group	Members	
Sodei (Societe de Development International)	Paridoc/Docks De France	France
	GIB Group	Belgium
Eurogroupe	GIB Group	Belgium
	Rewe	Germany
	Vendex	Netherlands
European Retail Alliance (ERA)	Arygll Group	UK
	Ahold	Netherlands
	Casino	France
Associated Marketing Services (AMS)	Arygll Group	UK
	Ahold	Netherlands
	Casino	France
	Allkauf	Germany
	Dansk	Denmark
	Hagen-Gruppen	Norway
	ICA	Sweden
	Kesko	Finland
	La Rinascente	Italy
	Mercadona	Spain
	Migros	Switzerland
European Marketing Distribution (EMD)	Socadip	France
	Markant	Germany
	Markant Food Marketing	Netherlands
	Zev-Zentrale	Austria
	Selex Iberica	Spain
	Selex Gruppo	Italy
	Uni-arme	Portugal
Di-fra	Monoprix/ SCA	France
	Rallye Groupe	France
	Montlaur	France
	Arlaud	France
	Francap	France
	Louis Delhaize	Belgium
Interbuy*	Asko	Germany
	Massa	Germany
Spar AG et alia	Spar Handels AG	Germany
	Axel Johnson	Sweden
	Unigros	Netherlands
DeuroBuying	Asda	UK
	Carrefour	France
	Makro	Netherlands
	Metro	Swiss/German

** currently canvassing additional members*

The concept of a buying group is not new : its origins can perhaps be traced back to the Cooperative movement with its political objective of enhancing the social and economic well being of individuals, and to groups like Spar and A&O, whose economic goals were to protect the fortunes of the independent grocer in the face of mounting competition from growing and acquiring multiple groups. Paridoc* was formed in France sixty years ago, and would claim benefits not only in terms of price advantage, but also in terms of broader ranges, especially the ability to offer non-foods. SOCADIP (Société d'Achat, de Diffusion et de Promotion) was formed in 1966, when three wholesalers and three chains got together, the first hypermarket was opened in 1969 under the name "Euromarché". Today there are 72 Euromarché's, (now spun off as a separate company) and the Mammouth chain of hypermarkets source through SOCADIP following a linking with Paridoc (owners of Mammouth) earlier this year. Under a variety of different store fascias and sizes, sales through SOCADIP outlets are equivalent to 23% of French supermarket sales.

The surge of activity in the formation of buying groups and alliances since 1988 reveals two key trends:

- first, cross-border pan-European combinations between retailers and,
- second, the beginning of a super-league of pan-European amalgamations of established buying groups eg. European Marketing Distribution (EMD).

A review of the marketing and public relations literature produced by the post 1988 alliances listed in Table 2 provides a useful guide to understanding their objectives. In this literature the most frequently used words are "partners/partnership", "co-operation" and "synergies". There appear to be three broad levels of objective:

- dissemination of market research, management information, and experiences amongst group/alliance members.
- the co-ordination of marketing, product development (quality standards and own-label opportunities), logistics, distribution and information technology.
- a search for European based suppliers accompanied by co-ordination and optimisation of purchasing agreements to lower the cost of goods and services, thereby raising the efficiency of the group(s). (It would be naive to assume that these groups are

**After Casino joined the European Retail Alliance (May 1989) it withdrew from membership of Paridoc. In consequence, Paridoc is re-structuring but may struggle to regain its former strength.*

acting in a benevolent concerted way with the objective of reducing total industry costs to raise "total systems efficiency".)

There has to be a great deal of difference in the time-span for achieving these objectives. For example, on information technology, the incompatibility between retailers' systems, software and languages suggests little synergy will be achieved operationally in the near-term. Exchanging management information and market research may be "nice to know", but is it actionable for bottom line impact? Physical distribution capacity is unlikely to be rationalised in the absence of any major cross-share holdings. Managing the logistics of common sourcing is a pre-requisite if any success is to be achieved at all.

What this all points to is that it is one thing to put names to a piece of paper and call it a buying group or alliance, it is another to create an administrative and operational structure to make it all happen. This will take time and different languages and cultures will only slow things down. But, provided the participants are serious, there is much to be gained from combining the sales order volumes of group members. **Remember, the whole of the pricing structure of the grocery trade world-wide is one based upon volume related discounts. The fact that those discounts have become increasingly unrelated to the real cost savings is the treadmill the manufacturers are on and the retailers know it. This is why manufacturers remain rightly worried about the traditional balance of power which, in Continental Europe has, by and large, tended to favour the manufacturer, shifting to the retailer.**

The manufacturer faces a threat to his price structure in two ways. First, the retailers' expectation of a lower unit buying price for increased volume is taking place ahead of manufacturers' capacity development/rationalisation. Second : if members of a buying group open their order books to compare prices across suppliers, the lowest price will almost certainly become the price to be driven lower still in any bargaining with any given supplier.

This "you show me yours – I'll show you mine" posture will almost certainly have another effect; namely, it will foster the development of parallel importing (or "diverting" as it is known in the United States) by retail groups. This is a natural outcome of the retailers' desire to be lowest cost buyers. The pressure on manufacturers will prevail until different plant prices come into alignment : an unwelcome irritant while production capacity is being consolidated.

If the take-off in buying group/alliance formations in the last two years is seen as a response to food manufacturers' pan-European plans, then a solid block of countervailing power has already been established. The battle lines are drawn. The "rapport de force" (as the French would say) between food retailers and manufacturers is unlikely to get any easier.

Buying group vs retail alliance

We referred earlier to the emergence of a super-league of amalgamating buying groups (as opposed to amalgamations of retailers into one buying group). In August 1989 EMD AG (European Marketing Distribution) was formed by seven established buying groups joining together. SOCADIP of France and MARKANT AG (headquartered in Switzerland) each hold 25% of the share capital, with the five other members (from Austria, Spain, Italy, Holland and Portugal) holding 30%. The remaining shares are held in reserve by SOCADIP and MARKANT for new members. EMD's motto is "In unity there is strength, in international unity even more strength". Together EMD retail members comprise several million square meters of selling space and access to distribution capacity across Europe. They make very clear that the prime objective is to negotiate with suppliers to obtain the very best terms.

In addition to EMD, the most significant developments of greatest potential are the formation of the European Retail Alliance, which took place in May 1989 and Associated Marketing Services AG two months later. The objectives of the ERA and AMS are no less clear, but are expressed in slightly less aggressive terms than EMD: the word "partner" being linked frequently with "supplier".

The ERA was formed by Argyll Group (UK), Groupe Casino (France) and Koninklijke Ahold (Holland), each member holding a one-third share. Shortly after formation, the members, all public companies, took cross shareholdings in each other. The ERA objectives are : "To investigate areas of co-operation between the three partner companies, including marketing, distribution, production, development and exploitation of store formats as well as management information systems and other computer applications". Since foundation much has been done to set up the appropriate administrative structures. When Argyll in the UK reported its 1989/90 financial results it indicated that the ERA had already produced around £0.3m of cost savings in the combined purchase of computer hardware. In addition, working parties on Information Technology (chaired by Argyll), Distribution (Ahold) and Supplier Relationships and Category Management (Casino), have been established and meet frequently.

The ERA commands total sales of £12.6bn, all but £1.6bn deriving from food, and with £2.5bn in the USA via Ahold's three US food retailers. The total number of ERA food stores in Europe amounts to 3,700, plus 340 in the US.

The ERA is also the dominant partner of AMS, with Ahold, Casino and Argyll (the core members) each holding a 20% stake. The balance is split between the 'non-core" members: Allkauf (Germany), Dansk (Denmark), ICA (Sweden), Kesko (Finland), La Rinascente (Italy), Mercadona (Spain) and Migros (Switzerland). The AMS objectives are:"To work with manufacturers and suppliers of branded, non-branded and own-label goods and services to identify opportunities to improve the efficiency of the supply chain, to reduce the cost of goods and services and to share in the benefits from this cooperation". The AMS has a 12% share of the aggregate of the food markets in which it operates : ranging from 40% in Finland, to 26% in Holland to 1% in Italy. In terms of EC markets, its share is about 6/7%.

The AMS has identified the following fourteen "areas of opportunity":

1. Development of existing business.
2. Co-ordination of supplies.
3. Co-ordination of promotional support.
4. Introduction and market testing of new products.
5. Standardisation of product and packaging.
6. Introduction of suppliers to new markets.
7. Co-ordination of distribution.
8. Development of merchandising and promotional presentation materials.
9. Co-ordination of own label development.
10. Material sourcing for own label brand suppliers.
11. Assistance in production and distribution.
12. Optimisation of stock holding.
13. Management of temporary supply shortages.
14. Forum for retailer/supplier issues.

The general positioning of the AMS "areas of opportunity" suggests the prospect of partnership and cooperation with suppliers "to establish a programme which will yield progressive benefit as our businesses develop together". This win/win strategy is likely to have great appeal and attraction among suppliers. Indeed, manufacturers should view positively the fact that the conceptual founder of ERA/AMS, Ahold's Fritz Ahlquist, is still at the helm and that AMS management goes to great lengths to stress that AMS is not a buying group. AMS insists that its central executive in Zug, Switzerland acts as a "door opener" and clearing house for deals, leaving price negotiations to individual members. It's still early days, with only a few deals concluded (eg. Scotch Whisky, wine, pet foods) and little public evidence so far of the scale of these mutual benefits.

What could go wrong?

While the AMS position on "partnership" suggests "1992" will not be a one way street of margin benefits totally in favour of food retailers, there are four areas which could slow down or radically effect the food retailers' growing strength:

- for buying groups to succeed, the right administrative structures have to be in place: to be really effective, communications have to be in a common language and buying staff in different companies have to be similarly motivated and rewarded.
- it has to be acknowledged that friction could emerge between members for the following reasons:
  - a clash of corporate cultures emerges, or
  - one member becomes more successful that others and, due to physical expansion, the spectre of intra-member competition emerges. (Tengelmann of Germany has cited this specifically as the reason why it prefers not to participate in alliances/buying groups).
- friction could also emerge within a member company if, say, there was disagreement between those executives who negotiated the way-in to an alliance, and those operationally responsible for implementation.
- with both retailers and manufacturers re-structuring operations for "1992" the populations of the countries of Europe will not, overnight, become pan-European consumers : differences in national tastes will remain as barriers for marketing men to overcome. There exist few truly Euro-brands. To develop more will take time.
- given the expanded scale of operations that a pan-European buying group embraces, it is critical that both flows of data and product are supported by first class information technology and logistics systems.
- the greatest area of uncertainty probably relates to the shape that EC legislation could take with regard to competition policy. This is governed by Articles 85 and 86 of the Treaty of Rome which is concerned with ensuring free and fair competition. Any abuse of dominant market power is unwelcome and likely to attract investigation. While under present EC competition policy discriminatory pricing and/or refusal by a supplier to sell to a customer without a valid, objective reason is prohibited, the issue of retail buying group members opening their order books to each other to determine the lowest price supplier/plant represents a "grey area". This could be why AMS is sensitive to describing itself as "not a buying group".

Eastern Europe

All the upheavals of the past eighteen months in Eastern Europe, as communist regimes have collapsed, and Germany has unified, spell opportunity for pan-European food retailers and buying groups. Established West German food retailers have been negotiating for the past year over sites and groups of stores in the former East Germany. Tengelmann of Germany is involved in Hungary, Ahold in Czechoslovakia, and Aldi has designs on Poland.

While for the Western European nations, English is the second language, for the Eastern bloc, German is the second language. This may tend more naturally, therefore, to see German food retailing interests look increasingly eastwards for buying combinations.

On German unification specifically, the prospect of rapid 'westernisation' of the former East German economy has provided the conditions which enable (west) German food retailers to establish a presence quickly:

- no viable food distribution system existed before 1990. The average size of an East German food retail store was 68 square metres (c. 680 sq. ft). The void must, and will, be filled.
- the legal restrictions placed on (west) German food retailers in opening new space (the Baunutzungsverordnung) will, for the time being, not be imposed on food chains in the (east) German länder despite the unification of West and East German law under the unification treaty.
- Deals are already being negotiated with the former East German cooperative organisations. Key (west) German food retailers – Aldi, Metro, Rewe, Tengelmann and Asko in particular – already have a "foot in the door" which can be opened further as the legal position becomes clearer.

Opportunity has a cost, however, in terms of:

- legal difficulties (ownership/tenure of property)/delay and drain on management time (ie. intangible costs).
- establishing a supply chain in order to service new stores profitably (ie. tangible costs), and
- higher cost structure for (east) German branches because of the poor infrastructure in the east (i.e indirect costs).

In the scramble for 'filling the void', those (west) German food retailers now in the east are established in 'non mainstream' premises such as old and disused warehouses, factories, and even under canvass tents and other temporary structures. The costs of upgrading to modern premises will not be insubstantial. Indeed, the President of the German Retail Institute (HDE) indicated recently that over Dm50bn was needed over the the next five years to "fill the east German retailing void".

Non-Participants in Buying Groups

In the table below, we have ranked, according to sales, the top 20 West European food retailers. Of these there are six that stand out as having no participation at all in any kind of buying group or alliance. Two of these are from the UK (Sainsbury and Tesco), and two from Germany (Aldi and Tengelmann), one from France (Promodes) and one from Belgium (Delhaize "Le Lion"). Sainsbury and Tesco presumably feel that their buying power is strong enough already and that the domestic market offers sufficient growth opportunities (both were approached to join the ERA). Tengelmann believes that to join a buying group could be competitively detrimental to its European expansion plans.

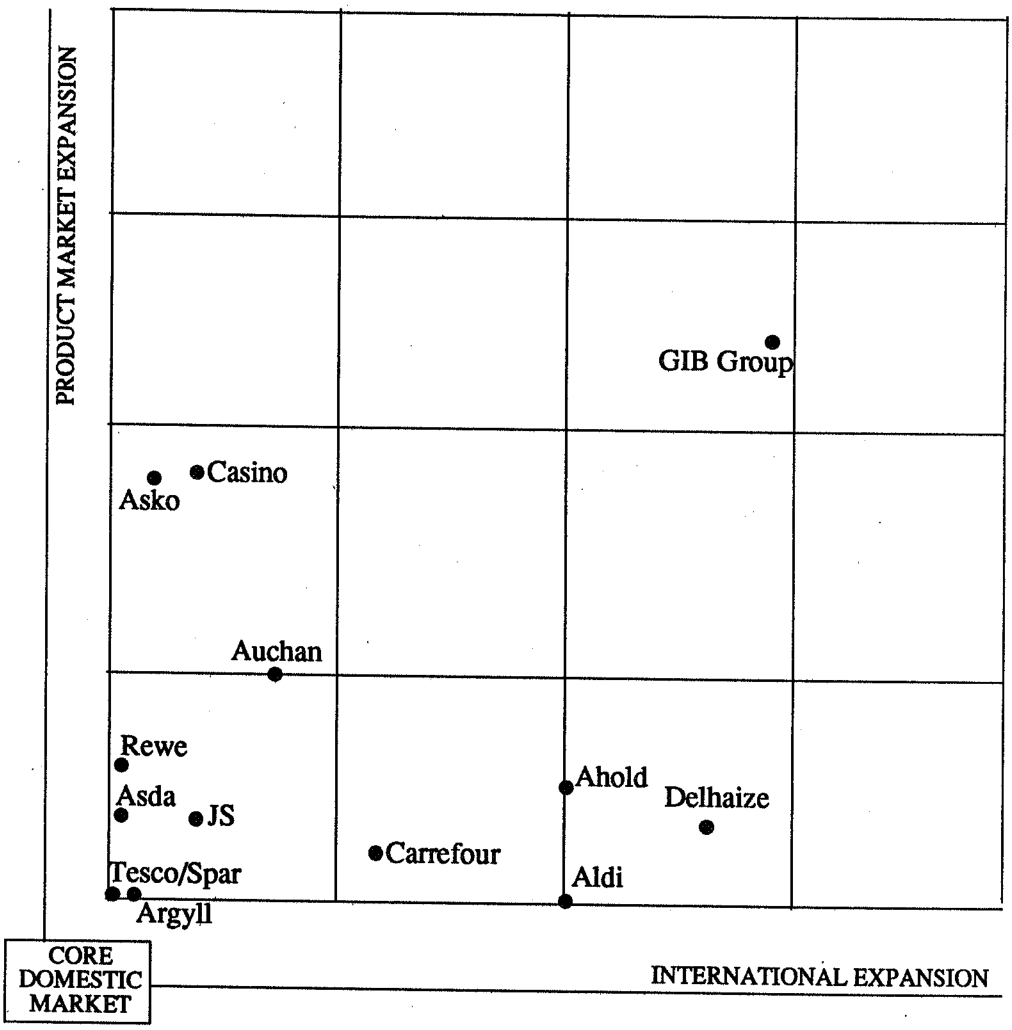
Table 3: Top 20 European Food Retailers

Company	Sales (local)	Sales (£m)	Year to	Share of National Market (%)	Source
Metro*	35.49DMbn	11.83	Dec 88	11.0	
Tengelmann	35.00DMbn	11.66	Dec 88	10.1 (2)	Nielsen
Rewe*	30.00DMbn	10.00	Dec 88	19.6 (2)	Nielsen
Leclerc*	87.00bnFF	8.68	Dec 89	5.44 (1)	IFLS
Intermarché*	85.00bnFF	8.48	Dec 89	5.00 (1)	IFLS
Carrefour*	73.866bnFF	7.37	Dec 89	397 (1)	IFLS
Aldi	22.06DMbn	7.35	Dec 88	12.0	
JS	£7.20bn	7.20	March 90	11.6	DTI-base
Tesco	£5.40bn	5.40	Feb 90	11.3	DTI-base
Asko*	15.8DMbn	5.27	Dec 89	4.5 (2)	Nielsen
Ahold*	17.66Dfl.bn	5.22	Dec 89	26.0	Co.
Promodes	51.859bnFF	5.18	Dec 89	2.76 (1)	IFLS
Edeka*	15.3bnDM	5.10	Dec 88	8.0 (2)(3)	Nielsen
Migros*	12.55bnSWFF	5.02	Dec 89		
Vendex*	14.927DMbn	4.97	Dec 88	9.2	
Spar*	13.00DMbn	4.33	Dec 88	9.5 (2)	Nielsen
Argyll*	£3.92bn	3.92	March 90	8.2	DTI-base
Asda*	£3.55bn	3.55	April 90	6.3	DTI-base
Casino*	33.055FFbn	3.50	Dec 89	2.31 (1)	IFLS
Delhaize "Le Lion"	210.7FB	3.41	Dec 88	30.0	IGD

(1) 1988
(2) 1989
(3) Edeka alone – does not include members of Edeka group
** Membership of Buying Group/alliance*

We present the following chart to depict the relative positioning of European food retailers in terms of product market and international expansion. This shows clearly that it is the UK based food retailers that appear the least internationally minded: Tesco occupying "home-base" with a virtually 100% food (non-diversified) business and no overseas interests.

Chart 1: European Food Retailers – Product and Overseas Market Expansion



Source: From "Only Engagements So Far". European Retail, September 1990
Dr Alan Treadgold. Oxford Institute of Retail Management, Templeton College, Oxford.

Conclusion

The spectre of '1992' is stimulating the growth of retail alliances and buying group membership. This, in combination with a number of other emerging trends (such as German unification) will be an important factor influencing continuing change in the structure of European food retailing into the 'nineties. The removal of trade barriers post -'1992' provides the impetus for both food retailers and food manufacturers to aspire towards being the 'lowest cost supplier/buyer'. This will no doubt be the source of much opportunity, challenge and conflict for the European food industry for the rest of the decade.

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FOOD RETAILING
IN A GREENER EUROPE

A study prepared for

THE COCA-COLA RETAILING RESEARCH GROUP EUROPE

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The Corporate Intelligence Group Limited

CONTENTS

SUMMARY OF FINDINGS

The main points to emerge from this review of current national and European Community environmentally-oriented measures which are likely directly to affect the operations of retailers are that:

* Although there are a wide range of legislative proposals and regulations concerned with the environment, two issues at present appear of particular concern.

* The first is the whole issue of waste management and, in particular, legislation and initiatives relating to packaging. An EC proposal for a Regulation on packaging waste seems likely to emerge in the spring of 1991. A significant element of the proposal is likely to be the recommendation that mandatory deposits on packaging containers of various types are imposed and that recycling targets are established.

* The second concerns the effort to achieve a Community-wide system for 'ecological' labelling. The process has started. In February 1991, the EC Commission put forward a proposal for a Regulation on an EC-wide Eco-labelling system.

* The risk for retailers with regard to packaging legislation is that they become what in effect might be termed the 'dumping ground' for waste by being given the primary responsibility for the collection and disposal of packaging materials. Any such moves would increase greatly both the cost and complexity of the retailing operation. It was precisely this threat which prompted the sector in Germany to devise a voluntary private recycling system in which all participants in the packaging supply and usage chain are involved. It still remains to be decided, however, how the costs of the new infra-structure required to deal with this process are to be allocated.

* A further potential danger of packaging waste legislation is that it goes against the trend towards mass distribution systems seen over the last twenty years. Innovative packaging has formed a vital element of this process and legislation concerned with waste management could harm mass retailers' sales and margins.

* The Eco-labelling proposal could introduce a form of discrimination between those products or product groups bearing such a label and those without it. Unless retailers are fully involved in the system for awarding such a symbol, there is the danger that certain products which have traditionally been the vehicle for growth in retailing sales volumes will be discriminated against.

* While it seems unlikely that in the immediate future the above threats will emerge in the form of binding legislation, retailers must remain fully aware of the potential risks facing them and must consider what strategy they need to adopt to cope with these issues. They are certain to affect the ways in which retailers operate during the 1990s and beyond.

1. INTRODUCTION

1.1 Background

During the 1980s public concern has increasingly been focusing on a wide range of issues relating to the environment. This trend towards what might be termed a `greener Europe' was reflected in the Single Europe Act adopted in 1986, which for the first time provided the Community with a specific legal responsibility to act and legislate on matters relating to the environment by incorporating the objective of protecting and improving the quality of the environment in the Treaty of Rome. Currently there are over 100 EC directives in force in this area, covering a range of diverse subjects, such as car emissions, water purity and noise levels. The guiding principles of legislation at Community level are that it should contribute to the protection of the environment and that, where possible, the polluter should pay. More specifically, in October 1987, when adopting the Community's Action Programme for the Environment for the period 1987-1992, the EC Council of Ministers stated that:

> "In the end, the most important factor of all will be the extent to which more environmentally-friendly processes and procedures are, or can be, made to be economically attractive on a long-term basis."

In addition, the purpose of establishing legislation at Community level is to ensure that differing and sometimes contradictory environmental standards at national level do not constitute barriers to trade in the frontier-free Europe envisaged in the Community programme to complete the internal market.

1.2 Aims

In this report the focus will be on those items of legislation which are likely to have a particular bearing on the operation of retailers. The two major items of concern in this context are legislation relating to packaging and to environmental labelling, although other legislation of more general interest is also discussed briefly. In both cases the legislation already adopted, or in the process of being adopted, at national and Community level is likely to have a profound impact on the manner in which retailers conduct their operations for the remainder of the decade.

1.3 Structure

The report will adopt a three-part structure to discuss the issues of concern. In Section 2 a brief outline of the nature of the consumer protection and food-related legislation is provided and the scale of the packaging waste problem is assessed. In Section 3 a review of national legislation and industry initiatives relating to packaging and Eco-labelling is provided, while in Section 4 an analysis of the likely shape of EC legislation is undertaken. In the concluding section the implications for retailers is discussed.

2. ENVIRONMENTAL AND CONSUMER ISSUES

2.1 EC legislation on food and pesticides

As part of the 1992 programme the European Commission has addressed a number of consumer protection and environmental matters and introduced legislation designed to prevent such issues from becoming barriers to trade. For the most part these measures do not impinge directly on the operation of retailers, either because they are enforceable at the level of food manufacturing or because they are standards which government authorities are required to monitor. They are included here to provide retailers with an overview of legislation already in force or under consideration.

2.1.1 Organic labelling

In December 1989 the EC Commission put forward a draft proposal on the organic production of agricultural products and the labelling required for such products (COM (89) 552 final)[1]. This proposal represents the Commission's first step into the area of organic food as part of an overall 'food quality' strategy for 1992. As well as seeking to protect bona-fide biological produce against non-organic imitations, the legislation will lay down precisely which processes may be described as 'organic' and it sets out the conditions for labelling and advertising such products. Member States will be required to set up an inspection system to ensure that products comply with the Regulation. If approved, the products in question will be able to use a new Community label which is to read "Organic Farming - EC Control System". Imports will also be entitled to the label if the Commission is satisfied that the country of origin of the products has an adequate inspection and licensing system.

2.1.2 Food labelling

There is now extensive EC-wide legislation on food labelling, presentation and advertising. The major items of legislation in this field are:

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1 COM (89) 552 final means EC Commission document No. 552 of 1989 in its final form.

Directive 79/112 of 18 December 1978 (OJ L 33, 8.2.1979)[2] which defines the general principles applicable to the labelling of foodstuffs for sale to final consumers. This has been amended by Directive 89/395 of 14 June 1989 (OJ L 186, 30.6.1989). Taken together the legislation describes the information which is mandatory in labelling:

* `use by' date marking or date of minimum durability;
* ingredient listing;
* product name;
* indication of the physical state or treatment foodstuff has been subjected to;
* special storage conditions or conditions of use;
* place of origin or provenance;
* name or business name of manufacturer or packager;
* instructions for use where necessary.

Member States are obliged to ensure that trade in products which do not comply with this Directive is prohibited from 20.6.1992. In addition to the above general legislation there are other labelling provisions contained in legislation relating to specific products such as cocoa and chocolate, fruit jams and jellies etc. Directive 88/197 of 26 May 1986 (OJ L 144, 29.5.1986) sets out the specific rules for labelling alcoholic beverages.

In 1988 the Commission also presented a proposal on nutrition labelling (COM (88) 489 as amended by COM (89) 420 final), which covers all indications relating to the quantity of proteins, carbohydrates, fats, dietary fibres, vitamins and minerals, as well as energy content of particular foodstuffs. Nutritional labelling becomes compulsory if a nutrition claim is made for a foodstuff.

Food additives are covered by Directive 89/107 of 21.12.1988 (OJ L 40 of 11.2.1989), which sets out the general rules on additives, provides for the development of lists of permitted additives and sets out the conditions for their use.

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2 Directive 79/112 of 18 December 1978 (OJ L 33, 8.2.1979) means EC Directive 112 of 1979 adopted on 18 December 1978 and published in the Official Journal. Series L, Volume 33 on 8.2.1979.

2.1.3 Food quality

As a general rule the Community does not set 'quality' as opposed to grading or classification standards for foods. The approach is that, if a foodstuff has been legally sold and marketed in one Member State, and, if it is correctly labelled, then it should be freely marketable in another. More recently, however, there has been an effort to promote the idea of quality marks for food of specific character or origin and in January of 1991 two Commission proposals on this subject have emerged. These are:

- the proposal for a Council Regulation on certificates of specific character for foodstuffs (SEC (90) 2414 final);

- the proposal for a Council Regulation on the protection of geographical indications and designations of origin for agricultural products and foodstuffs (SEC (90) 2415 final).

2.1.4 Pesticide residues

In December 1990 the Council adopted a regulation fixing the maximum levels of pesticide residues in and on certain products of plant origin, including fruit and vegetables (OJ L 350, 14.12.19890). The aim of the Regulation is to make maximum residue levels compulsory throughout the Community and The Commission is currently going through the process of establishing the levels for each individual active ingredient. Compliance with the Regulation is the responsibility of individual Member States.

2.1.5 Other measures

Directive 89/108 (OJ L 40, 11.2.1989) specifies the characteristics of materials to be used, and the temperatures to be maintained, for quick-frozen foodstuffs.

Directive 89/109 (OJ L 40, 11.2.1989) specifies the rules governing materials intended to come into contact with foodstuffs and a first detailed implementing measure relating to plastics was adopted in 1990 (Directive 90/128, OJ L 75, 21.3.1990).

While the above issues may have an indirect impact on retailers, the packaging problem which is described below is, however, likely to be of considerably greater direct concern.

2.2 Packaging waste - the scale of the problem

In a recent discussion document on packaging waste the European Commission has provided tentative estimates of the volumes of waste derived from different industries sectors. For basic manufacturing industry waste, such as raw material packaging, plastic industrial bags, cans, drums, flexible intermediate bulk containers, shock absorbing packaging etc, the figures are as follows:

Packaging waste produced by manufacturing industry
(million tonnes)

Material	Total	Not recycled	Recycled *
Paper, cardboard	4.2	3.1	1.1
Plastics	1.2	0.9	0.3
Glass	1.2		1.2
Iron	1.4		1.4
Wood	2.0	1.5	0.5
Total	10.0	5.5	4.5

* Recycled in this context means some form of material recovery takes place.
Source: The European Commission

In addition to the above, it is estimated that industrial premises generate an additional 400,000 tonnes of waste from their offices and canteens. Packaging waste thus represents a significant proportion of the total waste from manufacturing industry.

While no accurate figures are available for the retailing, office and service sector packaging waste, such as stretch and shrink wrapping, adhesive tape, boxes, cans etc, the EC estimates the volumes of waste at some 15 million tonnes, of which only 2.5 million tonnes are currently recycled or recovered.

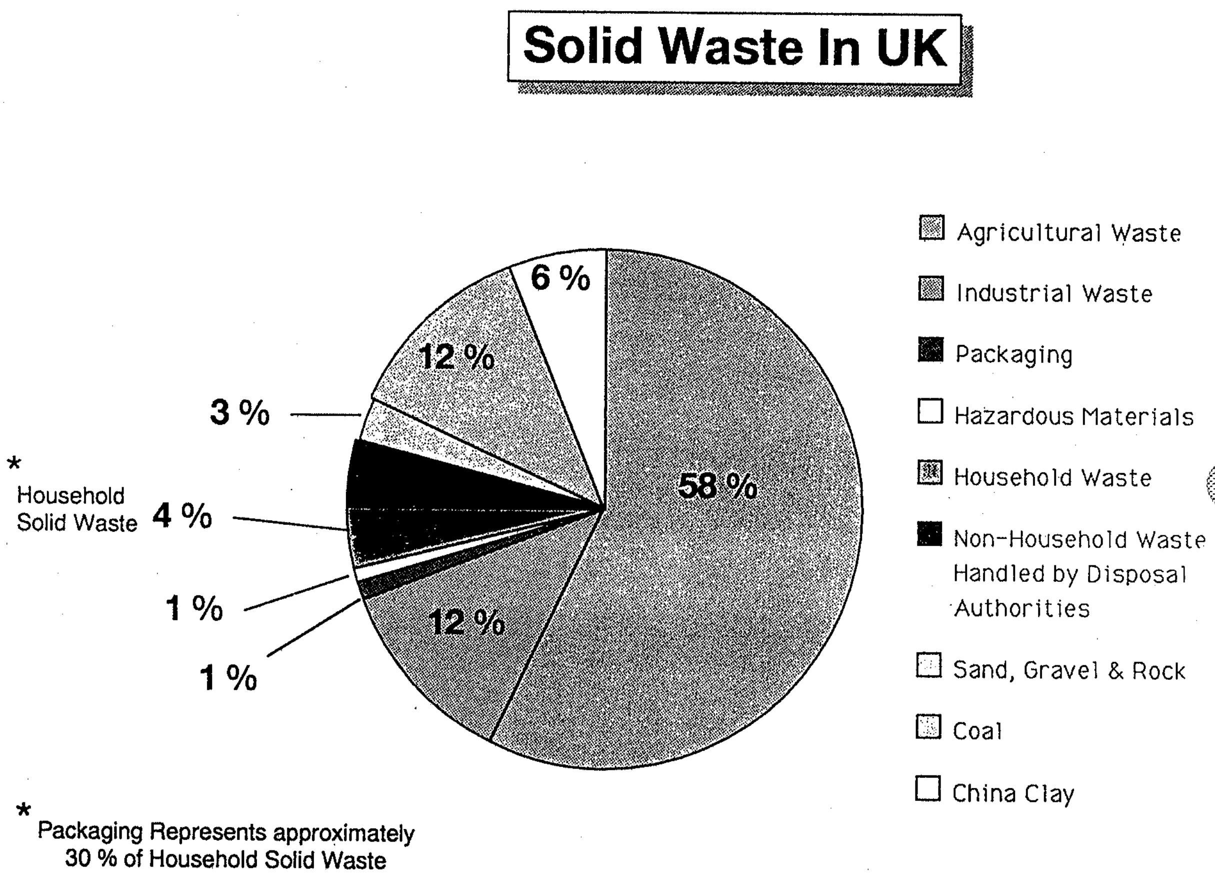
Total domestic waste volumes are calculated to amount to a total of 100 million tonnes of which packaging accounts for some 25 per cent. The compositional make-up of this packaging waste is thought to be roughly as follows:

	(%)
Paper/board	20
Plastics	20
Glass	50
Ferrous & non-ferrous metals	10

Some 6 per cent of household packaging waste is estimated to derive from one-way beverage containers, although light-weighting and recycling have meant that they are a decreasing proportion of total packaging waste. In total, currently some 2.5 million tonnes or 10 per cent of the 25 million tonnes of domestic packaging waste produced per year are thought to be recycled.

It is clear from the above that domestic packaging waste accounts for only a relatively small, albeit highly visible, proportion of total household waste and approximately half total packaging waste. In terms of solid waste generated in the economy as a whole the proportion is even less significant as is seen in the findings of the United Kingdom Royal Commission on the Environment, which showed that household packaging waste accounts for only about 1.3 per cent of total solid waste generated (see diagram below). The key point about packaging waste is that it is such a highly visible element in the total volume.

Diagram 1



Source : The Royal Commission on Environmental Pollution - U.K.

At present these wastes are disposed of by means of a combination of landfill (estimated to be used for 60 per cent of packaging waste), incineration (estimated to be used for 20 per cent of packaging waste), and recycling (20 per cent). The problem arises with regard to what is to be done to dispose of this stream of waste in future. As was indicated in the memorable words of the then mayor of New York, Ed Koch:

> "You can do four things with garbage. You can burn it. You can bury it. You can recycle it. Or you can send it on a Caribbean cruise."

In reality the scope for landfill, which has traditionally been the cheapest form of disposal in most EC Member States, is limited both by an absolute shortage of sites and by an imposed shortage deriving from the so-called `NIMBY' (Not in my backyard) syndrome. Even where landfill sites exist, their viability may be constrained by the prohibitive cost of actually transporting waste to them. Incineration poses problems both because of the difficulty of preventing the release of unwanted substances into the atmosphere and because there is an absolute shortage of plants of the required standard. Indeed, some Member States of the Community have no such plants at all. The cost of building and bringing plants to the required standard is often regarded as prohibitive by government authorities, who are therefore unwilling to make the required investment. This leaves recycling as a solution. Even here there are problems, in the sense that some recycling schemes use more energy to carry them out than is saved by the collection and re-use process. In order to cope with these problems, one of the professed aims of the Commission is to seek to reduce overall packaging waste volumes.

3. NATIONAL MEASURES AND INDUSTRY INITIATIVES

3.1 Packaging

In 1985 the Community adopted a Directive on containers of liquids for human consumption (Directive 85/339 of 27 June 1985). This Directive, which governs measures to be taken with respect to the production, marketing, use, recycling and refilling of liquid containers destined for human consumption, called on EC Member States to draw up programmes for reducing the tonnage or volume of such containers. The choice of the type of measure to be adopted was left largely to the Member States themselves, with the inevitable consequence that there is now a wide variety of measures relating to drink containers and other types of packaging. These in themselves constitute a barrier to free trade within the Community. The range of measures currently in force, or planned, in the major European Community and other European countries is presented below.

Germany

In the summer of 1990, the German Environment Ministry published a proposal which would make retailers and other distributors wholly responsible for the re-use or recycling of primary and secondary packaging outside the public waste disposal system. The sector responded by establishing the so-called `Dual System' whereby a sector-funded organisation guarantees to collect and ensure recycling or disposal of the packaging, as well as itself bearing the cost of this operation. The organisation established incorporated the whole chain in the packaging process from raw material suppliers, packaging manufacturers, fillers of containers and retailers through to waste management and recycling companies. All material which can be sorted or recycled in this way will in future be labelled with a `Green Dot' symbol. The German Government had indicated that the Dual System participants would be exempted from mandatory deposits and compulsory acceptance back by retailers, but in October 1990 it published a new draft regulation which set out high recycling targets for July 1992 and 1995. These aims include the requirement that at least 72 per cent of beverage container volume, including wines and spirits, should be sold in refillable containers. More specifically, the recycling targets established by the draft legislation are as follows:

Recycling Targets
(%)

Material	By Jan 1993 (%)	By Jan 1995 (%)
Glass	70	90
Tin plate	65	90
Aluminium	60	90
Paper/board	60	80
Plastics	30	80
Laminates	30	80

Belgium

Industry and government authorities in the Flemish region have recently concluded a 'voluntary agreement' covering all packaging waste. The action programme agreed requires industry to:

* develop lightweight packaging;
* stimulate environmentally friendly production processes;
* design materials suitable for recycling (not incineration);
* remove pollution-causing components from packaging;
* establish a packaging database.

Italy

Italy has introduced the following measures:

* separate collection of containers, by material;

* efforts to be made to establish a recycling scheme where operating costs are covered by material specific consortia of manufacturers, users, importers and local authorities. The aim is to achieve a 40 per cent recycling target for plastic containers and laminated cartons and a 60 per cent recycling target for glass and metals by 1992. Where this target is not achieved taxes will be imposed;

* a 10 per cent levy on PET containers to be charged at the point where the container supplier invoices the filler. Recovery by incineration is to be allowed.

* a tax which trebles the price of non-biodegradable plastic bags is imposed. It is reported that this has already reduced consumption by 40 per cent.

Denmark

In the mid-1980s Denmark adopted legislation which made it compulsory for beer and soft drinks to be sold in re-usable containers approved by the National Environment Protection Agency. Retailers are required to accept empty bottles and taxes are charged on containers of still drinks. All use of cans is banned and PVC containers are subject to voluntary delisting. The European Court of Justice has ruled that these restrictions on trade are legitimate until such time as there is EC-wide legislation on the subject.

France

While there is a free market at present, the Government has concluded a series of voluntary agreements with operators producing and using glass, plastic, tin plate, aluminium and cardboard to reduce environmental impacts. It is understood that industry is being asked to introduce a national recycling scheme and that failure to achieve this will result in a compulsory scheme. The Government has also raised the cost of using landfill by means of a tax.

United Kingdom

The Government is committed to achieving a recycling rate of 50 per cent for household waste by the year 2000. Credits for cost saving resulting from the reduction in waste disposal may be passed on to recyclables. It is understood that industry has launched its own initiatives to encourage recycling. There is, for example, one large retailer now encouraging plastic bags to be re-used, while Coca-Cola has launched a scheme to encourage can recycling.

Netherlands

Industry in the Netherlands is at present under considerable pressure to introduce a comprehensive recycling scheme and in particular there is a major initiative in favour of refillable glass containers. Currently PET containers are allowed, subject to the establishment of a return and recycling system.

Non-refillable containers carry a 10 per cent recycling premium. Retailers have agreed to a voluntary delisting of PVC and are encouraging their suppliers to switch to recyclables.

Other EC countries

It is understood that Spain, Portugal, Greece and Luxembourg are likely to introduce voluntary waste management schemes in the near future. Ireland had put forward a draft measure which banned the sale of beer in metal cans, but the European Commission rejected the proposal because the measure was largely restricted to imported cans.

OTHER EUROPEAN COUNTRIES

Austria

Austria has now adopted a law which specifies the following recovery (i.e. recycling and refilling) rates for glass containers and cans:

	By 1992 (%)	By 1994 (%)
Beer	90	90
Carbonates	60	80
Juices	25	40

From April of this year all one-way glass, plastic and metal beverage containers (other than for wine or milk) will be subject to a levy of between ASh 0.5 (for containers up to 1 litre) and ASh 1.0 (over 1 litre). Refillable PET containers are subject to a mandatory deposit of ASh 4.0.

Sweden

The Swedish Government is currently considering a Waste Bill which would make producers responsible for all waste derived from their activities. This responsibility would include the cost of disposal and the R & D required to develop new, alternative products. Currently all cans are subject to a mandatory deposit, which is redeemable for aluminium only. From 1994 onwards domestic waste must be sorted at source and a target of 90 per cent refillable and returnable containers will be set. Economic incentives are likely to be provided to achieve this target. Swedish manufacturers have already agreed to a voluntary ban on the use of PVC as a packaging material and it is hoped to eliminate imports of this material as well. From June 1991 one-way PET containers will be banned.

Switzerland

The Federal Government has established waste reduction targets for each type of packaging material for the period 1991-1993. If these targets are not achieved, mandatory deposits on non-refillable containers will be imposed. Currently deposits are required for all refillable containers and a voluntary levy has been applied to plastic containers and cans to fund the development of a recycling infra-structure. It is reported also that Switzerland has recently banned the use of PVC.

Norway and Finland

Norway and Finland currently apply a tax on all non-refillable packaging and in Norway a reverse vending scheme is being introduced for PET containers.

3.2 Environmental labelling

In order to raise environmental protection and awareness a number of governments and the EC Commission are currently considering the introduction of environmental labelling schemes. The position in the different EC countries is described below:

Germany

In the European Community the only national scheme for environmental labelling currently in operation is the `Blue Angel' scheme which has operated in the Federal Republic of Germany since 1978. Originally the German scheme awarded the label on the basis of a single criterion, but this has now been extended to cover all aspects of environmental protection through the whole life-cycle of a product. It now covers the use of hazardous substances, noise, waste, non-renewable energy usage and disposal, to give but a few examples.

The award is given to categories of product rather than particular brands. This means that there are now 66 product groups and some 3.600 products which carry the label. The product groups are fairly broad and varied, ranging from retread tyres and returnable bottles to solar energy products and mechanical watches. The number of products in a category may range from one product (for example, re-usable crates for food products) to 891 (low pollutant coatings). It is interesting that only some 10 per cent of applications for the label have come from foreign companies.

Three agencies are involved in the procedure for awarding the label. These are the Federal Environmental Agency, the German Institute for Quality Control and Labelling and the Environmental Label Jury. The Jury contains representatives of industry, government, consumer and environmental groups. Applications are received by the Federal Environmental Agency and passed on to the Jury for an initial examination. Once a product group has passed this stage and specific criteria have been established, individual products are tested by the Quality Control and Labelling Institute and submitted to the Jury for final approval. Currently between eight and fifteen new product groups are accepted each year. After initial industry resistance, it appears the system operates effectively and the sign is reported to be recognised by some 80 per cent of German households.

<u>Other EC countries</u>

Denmark, France, the Netherlands, Ireland and the UK are all in the process of considering, or preparing, legislation to provide for environmental labelling.

4. EUROPEAN COMMUNITY LEGISLATION PROSPECTS

4.1 Packaging

At the time of writing the EC Commission had not yet prepared the draft legislation promised on the subject of packaging waste. It is understood that this is due to emerge formally later in the spring of 1991. Nevertheless, some of the elements likely to be contained in such a proposal have already become apparent. The indications are that:

i. the Commission is likely to emphasise that it seeks a global and harmonised EC-wide approach to waste, of which household packaging waste represents a small proportion;

ii. so far as household packaging waste is concerned, the Commission is likely to emphasise the consumer `education' value of mandatory deposit schemes. These could in theory be applied not only to rigid containers and bags, but also to flexible wrappings made from plastics, paper and plastic coated paper.

Broadly speaking, the Commission proposals are likely to bear a significant resemblance to those put forward in 1990 by the German Environment Minister Toepfer. It does, however, seem likely that the scope will be wider, in that it will cover the entire range of waste and not just packaging waste and there will probably be a greater emphasis on fiscal incentives to achieve the objectives. In addition, in line with the thinking in its recent Green Paper on the Urban Environment, the Commission will probably attach a greater importance to the role of the municipal authorities in the solution of the waste problem.

Clearly the Commission is becoming more demanding so far as packaging waste is concerned. In 1985 the attention was on the packaging of liquids. In 1989 it turned to food packaging. Now the likelihood is that a much wider range of packaging will be covered. The concept is still evolving.

It is likely that the Commission will determine the objectives and the general framework within which Member States will have to develop their own sytems. There must, however, be the danger that these systems will vary from country to country, which would go against the concept of a single market and make international trading more difficult.

4.2 Eco-labelling

On 11 February 1991, The Commission put forward a proposal for a Council Regulation on a Community Award Scheme for an Eco-label (COM (91) 37 final). The purpose of the proposal is to establish an EC-wide designation, which will be used to encourage the production and use of environmentally-friendly products. The criteria for the product categories to be covered, which exclude food, drink and pharmaceuticals at least at this stage, will be defined by the newly-created European Environment Agency. The purpose of the awards will be to promote products which minimise adverse environmental impacts during their whole life cycle from manufacturing to end-use, as well as in their disposal after use: it is truly a `cradle-to-grave approach. The reduction of environmental impacts will be achieved by minimising:

* use of natural resources and energy;
* emissions into air, water and soil;
* generation of waste and noise;

as well as by maximising product life.

It is thought that initially the system will be applied to products, such as detergents, paints and other chemical products used domestically. Label awards will be granted for a fixed period by a jury consisting of representatives of all sectors involved in the product's life cycle.

5. IMPLICATIONS FOR RETAILERS

5.1 Packaging waste

For retailers the implications of any measures, which are designed to alter the current usage and disposal patterns for packaging, are certain to be profound. Packaging is an essential component of modern mass retailing and the development of new materials and new types of containers have played an important role in the development of the sector as a whole.

While the twin aims of reducing the volumes of packaging waste and increasing the amount of material recycled are in themselves desirable, there is a serious risk that partial solutions will be developed to cope with more fundamental issues. One such partial solution would be the introduction of mandatory deposits. This would in effect make retailers into the `dumping ground' for the wide range of packaging currently in use. The logistics and costs of both collecting and returning the deposits, and subsequently of disposing of the materials collected, would be very substantial. Retailers would also have to be concerned with matters of hygiene arising from the collection and return of the empty containers and smaller retailers in particular might find it particularly difficult to cope with the requirements.

More specifically, by externalising the cost of the convenience offered to consumers by large retailers, such a move would tend to go against the trend towards mass distribution systems which has developed over recent years, making use of course of packaging innovations. Likewise a return to doorstep delivery systems for products, such as milk, would also threaten retail sales volumes.

If the process went further and the demand was, for example, for mandatory refillable bottles rather than mandatory deposits, the consumer could actually suffer. The likelihood would be that retailers would go for a more limited brand offering. They would obviously keep their own brands and presumably the market leaders, while it would be the smaller or lesser known brands that would not be stocked. At the moment this is mere speculation, but the possibility does exist.

Ultimately the aim of legislation for the management of waste is to reduce overall volumes and increase efficiency in the use of resources. Wide sections of industry argue that recycling is only one measure of resource efficiency and that what is required is the so-called `cradle-to-grave' approach to legislative initiatives. Partial solutions, such as the setting of recycling targets, overlook the fundamental fact that at current raw material and energy costs it is in fact more expensive to recycle secondary products (i.e. convert packaging back to its original raw form) until return rates are increased beyond the current average of 12-15 returns for most deposit-based schemes. The `cradle-to-grave' approach seeks to assess the merits of different raw materials and packaging types in terms of their overall impact on the environment (for example, in terms of resource use, impact on water and air etc). This approach stresses the need to define environmental and resource efficiency objectives and to alter correspondingly the basic cost relationships to provide both industry and consumers with the right incentives. Thus, if the objective is defined as reducing the amount of landfill, the cost of this option must be increased. If the objective is to reduce energy consumption, then the cost of energy intensive products needs to be raised or concerted efforts made to encourage energy recovery, for example, through incineration. Furthermore, the operators concerned argue that it is necessary to ensure that solutions appropriate to different manufacturing and retailing systems in the different EC countries are adopted. Thus, for example, if refillable containers are to be encouraged and for glass such systems work within a radius of 200 km of the filling point, they are likely to operate more efficiently and more easily in Germany with 1,200 breweries than in France with 25.

Recycling clearly has a role to play in this process, but the collection sites need to be defined. It is almost certainly more effective to have collection take place at household rather than retail level and markets for the recycled material have to be developed. The European Recovery and Recycling Association (ERRA), a grouping of 24 large packaging users and producers, has launched a number of pilot schemes throughout the EC to encourage this development. These differ from the retailer collection schemes now being launched in some countries in that they are household based and thus do not encourage the belief that retailers are best suited to undertake direct responsibility for collection of packaging waste. ERRA has participated in kerbside or household collection schemes in Sheffield and in the Adur district in the UK, as well as in Dunkirk and Chambery in France. Ultimately it will be up to the entire supply chain to ensure that markets for recycled materials are developed through their own procurement policies and a number of major companies have started to launch initiatives in this direction.

5.2 Eco-labelling

The Eco-labelling system will introduce a form of discrimination between products and it will clearly be necessary for retailers to become involved fully in the system for awarding such labels, if they are not to be disadvantaged. In addition, there would be a potential risk to retailers if the award schemes were to be applied to individual brands, rather than product categories, or if the awards were to be graded. Such changes, if they were to occur, could possibly operate to the disadvantage of retailers' own brands.

6. CONCLUSION

From the preceding review it is evident that the most significant issue likely to affect retailers directly as a consequence of the emergence of environmental concern in Europe is the subject of the disposal of packaging waste. It seems likely that, in its initial form at least, the draft legislation being produced at EC level will contain elements which will cause retailers considerable concern, in that they tend to be seen as the focus for the waste collection process. Undoubtedly any legislation which emerges will undergo a number of modifications before adoption and it seems unlikely that the Community will, in the short term at least, adopt mandatory measures.

Nevertheless, it seems essential that retailers remain well informed and fully involved in the decision-making process, considering carefully what strategies are required to deal with an issue which will certainly continue to be significant throughout the decade.

FOOD RETAILING IN EUROPE - POST 1992

PROJECT II
THE COCA-COLA RETAILING RESEARCH GROUP
EUROPE

RETAIL LOGISTICS : PHYSICAL DISTRIBUTION POST 1992

A study prepared for

THE COCA-COLA RETAILING RESEARCH GROUP EUROPE

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CONTENTS

SUMMARY

The main points to emerge from this study of the prospects for retail logistics within Europe are that:

* Increasing concentration in grocery retailing will mean a shift in control of the supply chain. Suppliers will lose influence, retailers will gain.

* Inventory will increasingly be kept upstream of retail outlets. This has important implications for the management and control of storage and delivery.

* As retailers concentrate more on their core activities, the contracting out of logistics services will grow.

* Deregulation of the haulage sector will make the contracting out of retail logistics services more attractive as hauliers become more responsive to the changing needs of retailers.

* The importance of information technology as a means of controlling the supply chain will grow. This will again contribute to the attractiveness of contracting out specialised logistics activities.

* The information technology capabilities of logistics contractors, notably hauliers, will have to grow substantially to meet the expectations of retailers.

* As information technology is used more to integrate the different logistics activities (especially transport and warehousing) the responsibilities of individual contractors will increasingly extend to embrace more than one activity.

* There will be a tendency for retailers to want to use fewer, larger logistics contractors. A main aim of the retailers is to achieve economies from the "bulk buying" of services, together with reduced administration costs.

* Deregulation of the haulage sector will make hauliers better able to grow in line with the changing needs of retailers.

* The pace of the above developments will be very variable across Europe. In general, northern Europe will progress faster than southern Europe. Logistics in support of retailing in eastern Europe will be difficult for many years to come.

* Prices for transport services will fall in some markets as a result of deregulation and other "1992" factors, especially in Germany and in cross-border transport.

* this downward trend in prices, however, will be counteracted by the impact of increasing congestion and environmental controls on transport which will raise operating costs.

1. INTRODUCTION

This report examines the prospects for retail logistics within Europe. Retail logistics is defined as management of the supply chain linking retailers and their suppliers. Accordingly, retail logistics embraces a range of activities, from freight transport, through to warehousing and information technology. Indeed, one of the key points about logistics is its emphasis on taking an integrated approach to a number of related activities; only through integration can inefficiencies within the supply chain be eliminated. Grocery retailing, which provides many examples of best practice in logistics, is widely used for the purposes of illustration throughout the report.

The scope of the report is Europe-wide, but the main focus is on the European Community (EC). The reason for this is that the EC represents one of the world's leading economic powers, at least potentially. As a result, economic developments within the EC outweigh those in countries belonging to Comecon or the European Free Trade Association (EFTA). This is true of retailing and logistics, just as it is for almost any other area of economic activity.

2. RETAILING AND LOGISTICS

Retailing and logistics development

At the outset it is important to consider some of the variables in retailing which have a key bearing on the development of logistics. Three of the most significant retailing variables are:

* concentration of ownership in retailing;
* retail formats;
* retail internationalisation.

European countries are often very different from one another in respect of these variables, making it very difficult to generalise about retailing or retail logistics in Europe. While this may appear to be an obvious point when comparing, say, Bulgaria with Belgium, there are often considerable differences between countries of the European Community (EC) which is itself far from an homogeneous economic bloc. Variations in national incomes illustrate this point very simply; the per capita income in Denmark is nearly four times the figure for Portugal.

The European grocery retail sector's turnover has been calculated by The Corporate Intelligence Group as being in excess of 520 ECU billion. Within the individual countries are extremes of retail and producer concentration. In food retailing the UK scene is one of considerable concentration of ownership. Five retailers account for around 60 per cent of sales, with supplies delivered through retailers' distribution depots and with such trade often being handled by third party distributors. At the other end of the spectrum, most food retailers in Italy are independents, often family-run and with the traditional wholesaler route dominating. This is a pattern which is repeated in most European countries, including Spain, Portugal and Greece. Food retailers in the UK have gained competitive advantage through innovations in logistics and it is one of the objectives of this report to determine the degree to which such logistics innovation will continue to influence the development of the EC's grocery retail sector. Similarly, producer concentration varies between countries. Overall, European food manufacturing is fragmented. The UK, France, Denmark and the Netherlands have the ten leading producers accounting for more than 30 per cent of food industry output and the top fifty firms accounting for more than 50 per cent. This is in sharp contrast to the situation in Southern Europe where the top fifty producers account for 25 per cent of output. Here again, however, there is - in overall terms - increasing concentration. Such developing manufacturer-retailer concentration, and the implications of such a development, will have significance for developments in the logistics sector. Indeed, the potential offered by increasing sophistication in the logistics sector will materially influence the nature of the manufacturer-retailer interface.

Retail formats tend to follow ownership trends to a large extent. Hypermarkets and superstores tend to be operated by the larger food retailers while corner shops and small supermarkets will often be independently operated. So, not unexpectedly, the average size of outlet varies considerably between European countries. The UK and Italy are about equal in terms of both population and size of economy. But the UK has little more than one-third of the number of retail outlets of Italy. In terms of numbers of persons per store, Italy has 66 against 166 in the UK ("Retailing in Europe", Corporate Intelligence Research Publications, 1990). This has considerable importance for logistics since larger retailers can take a more creative approach to logistics by, for example, setting up distribution centres to serve superstores. Small stores will depend to a much greater extent upon the operations of wholesalers.

Again, in food retailing, there are considerable differences in the way that retailers have sought to internationalise their businesses; retailers from northern Europe have generally developed further in this direction than their counterparts in southern Europe. Appendix 1 gives some examples of such firms, although the list is not in any way intended to be exhaustive. One important implication for logistics is that retailers will often take their suppliers with them into new markets. A case in point is Marks and Spencer which has contracted Exel Logistics for its French transport and warehousing operations. This process can therefore contribute to the development of logistics contractors, both in respect of expanding business and developing internationally.

Recent developments in retail logistics

In recent years there have been a number of important developments in retail logistics. UK grocery retailers have been particularly active participants in promoting these developments. Indeed, it is interesting to draw a parallel between UK grocery retailing and Japanese manufacturing, where a number of large players, especially in cars and electronics, are locked in fierce competition in the domestic market-place. Porter (1990) has noted that competition of this kind has been an important factor in promoting innovation. This is certainly true of UK grocery retailers in the field of logistics.

Three main areas of logistics innovation are particularly important to grocery retailers; these are:

* using information technology to develop better control of the supply chain;

* releasing more sales space in retail outlets by eliminating storage space;

* contracting out to specialist companies those logistics activities such as transport and storage which are not "core" retailing business.

One of the major contributions of information technology to retail logistics is that it increases transparency within the supply chain. Innovations such as electronic point of sale (EPOS) systems keep an on-line record of how many items of any particular product line are on the shelves - a major improvement on periodical physical counting. In turn, this translates into better ordering and delivery practices, a development which is especially important to fresh food retailers who want to maximise the life of fresh food on the shelves of stores and in the customer's home (Boatman, 1989).

Much effort has been devoted by many grocery multiples towards eliminating storage space at retail outlets. This is because the opportunity cost of storage space is often substantial, especially at high street locations. Converting this storage space into sales space has important implications for retailing and retail logistics. For retailers, the revenue-earning potential of a site can be increased, but there is also the increased risk of empty shelves. This is where the creation of regional distribution centres (RDCs) is important, since they offer the opportunity for keeping inventory in reserve just upstream of the retail outlet, rather than relying on inventory replenishment coming directly from suppliers. When linked with information systems such as EPOS, the retailer can rely on the efficient replenishment of inventory, without the need for extensive storage at the retail outlet.

As retailers have vertically integrated upstream along the supply chain, their involvement with logistics has increased. Many retailers have themselves operated both the RDCs and the transport fleets supplying retail outlets from the RDCs. In recent years, however, there has been a change in operational responsibilities within retail logistics. More and more, these responsibilities have been contracted out to third party specialists. In many instances, a specialist will perform more than one of the logistics functions, say transport and warehousing combined, on behalf of a retail client (Cooper and Johnstone, 1990). Once more it is important to recognise that information technology is a crucial factor in this process of contracting out. The retailer's own fleet, for example, can be replaced by a contractor's fleet because information technology makes it possible to exercise "control by information" rather than "control by doing" (Quarmby, 1985). In effect, information technology can be used by retailers to ensure that contractors fully "mimic" the high operational standards established by the retailers' own fleets.

Future changes in retail logistics

The grocery retail environment is clearly one which is changing very rapidly. Logistics will remain a key factor in this process of change throughout the 1990s and beyond. Among the most important changes affecting logistics will be:

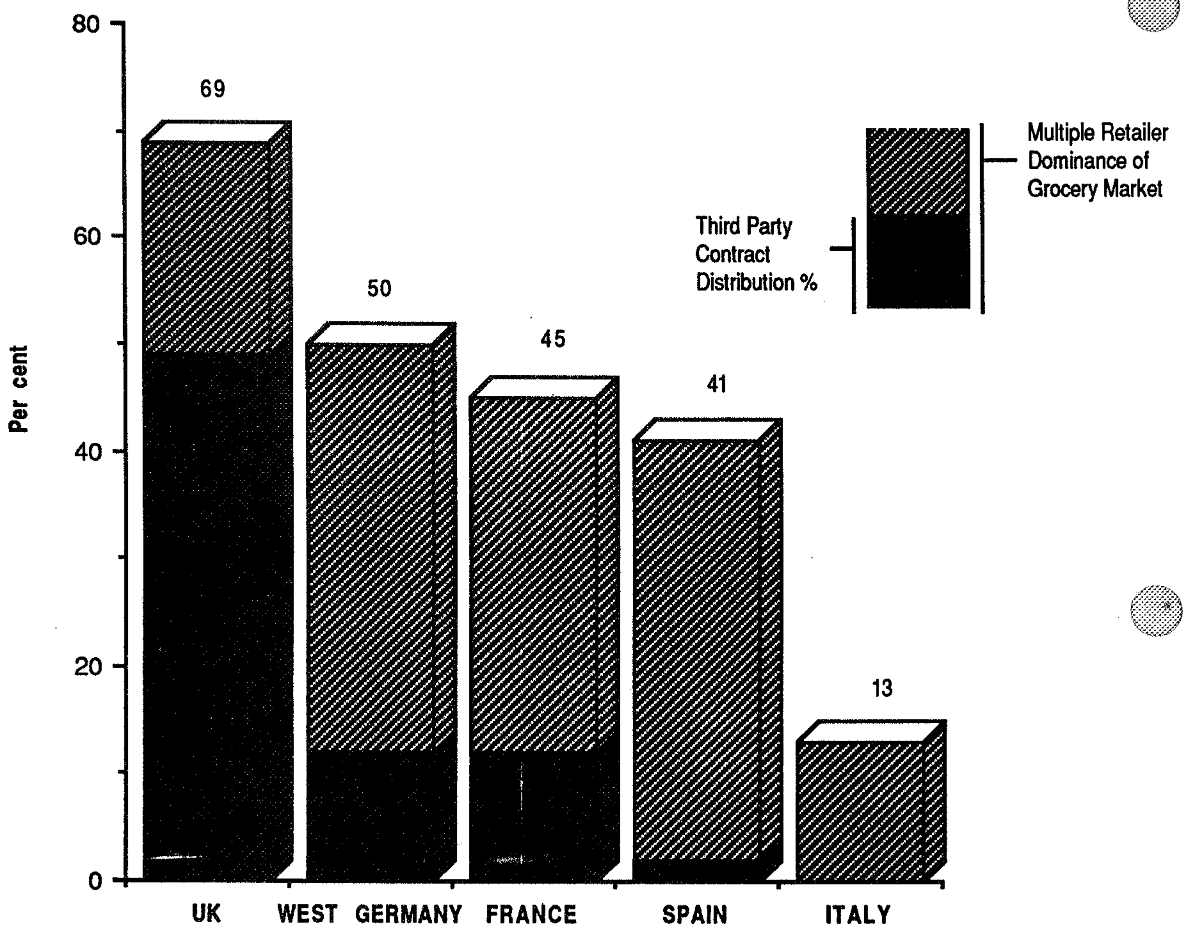
* retailers' concentration on their core retailing businesses;
* the increasing internationalisation of retailing;
* the shift in logistics control to retailers from their suppliers;
* the use of advanced information technology systems, especially electronic data interchange (EDI) systems.

There has been a tendency in retailing, as in many other businesses to concentrate on core business. The attractions of this focused approach to business are many and vary from business sector to business sector. For many retailers, investing in retailing rather than, say, in fleets of trucks, is likely to remain a preferred course of action. Furthermore, as the business of logistics becomes ever more specialised, it will make sense to leave the work to specialist contractors, providing they can continue to meet the exacting standards demanded by retailers.

As the following diagram shows, there still remains considerable scope for contracting out by European grocery retailers. Only in the UK is the majority of grocery distribution in the hands of third party contractors.

DIAGRAM 1

Grocery Market Share Held by Multiple Retailers and Share of Grocery Retail Distribution held by Third-Party Operators



Source: NFC Contract Distribution Report, 1989

Retailers have lagged behind manufacturers in their efforts to internationalise their businesses. There are signs now, however, that this is changing. A number of retailers have found that their domestic markets are becoming saturated and are looking for opportunities elsewhere (Treadgold, 1989). This is true of food as well as non-food retailers; Sainsbury's, for example are now established in the eastern states of the USA, following its purchase of Shaw's supermarket chain. Other retailers prefer "border-hopping" as a means of internationalisation. Here the French hypermarket chains have been particularly active, especially in Spain. As a result the suppliers of logistics services to these retailers have to take an increasingly international approach. This means not just having an international transport capability, but also developing their expertise to manage cross-border information systems.

As retailers have grown, either within the domestic market or through international development, they have progressively taken over more control of the supply chain from suppliers. This is clearly evident in a physical sense through, for example, the setting up of RDCs. But this is simply a manifestation of a change in who decides how and when goods should be supplied to retail outlets. As retailers have increasingly adopted logistics as a competitive weapon, it follows that they will further attempt to dictate to suppliers the conditions under which products reach the shops. Information technology is certain to be a prime consideration in this process as it is the key to future logistics development. The retailers will want the main say in which systems should be used for controlling delivery to their stores.

Retailers are now in the process of taking their interest in information technology to a more advanced stage. In particular, the use of electronic data interchange (EDI) systems will grow, as it promises to improve the efficiency of activities such as order processing. Developments of this kind have important implications for logistics contractors who will need to be linked to the EDI systems (see Browne, 1989). Increasingly they will need to switch their skills portfolio away from traditional areas, such as fleet engineering, into areas related to information technology, such as database management.

3. LOGISTICS SERVICES : THE PHYSICAL ENVIRONMENT

A major factor which will affect the growth and development of retail logistics within Europe is the infrastructure - particularly road, and to some extent rail. The United Kingdom has been grappling with road problems for some time; the concentration which has taken place within the retail sector was materially influenced by the developing motorway system. Now, however, that system is proving to be increasingly inadequate; partly as the result of a slowing down in motorway building but, also, because of the congestion caused by an increase in traffic volumes, and the widening or refurbishment of many existing roads.

It is a matter of conjecture as to how such congestion will occur in a number of key areas in Europe. Alleviating congestion is a key concern for many European governments, but no clear direction has yet emerged. Road pricing is one option but there are political difficulties relating to implementation. Road building, the traditional way of dealing with congestion, is now not a popular option, and the lead times for major developments are long. However, in the case of "missing links" in the road infrastructure there may be no ready alternative. One of the conclusions that has emerged from the writing of this paper is the difficulty of getting relatively quick, firm information on the likely shape of the European road system in particular. Enquiries made both of EC institutions and of road transport associations - which might be expected to have an interest in this area - produced either very general views or statements to the effect that, normally, such information was not collected and analysed. Consequently, several leading transport firms were questioned as to the information they held on infrastructure developments; in these cases the response was that such information would provide an input into the planning of operating management in particular territories.

There is certainly some information available on road improvement schemes in Spain and Portugal, upon transport improvements in the Lille area, upon the Channel Tunnel and the development of high speed rail links in France, Germany, the Netherlands and Belgium. What appears to be lacking - or at least not immediately available - is a readily available central view upon infrastructure trends and planning which might form an important input into the planning of existing and potential participants in the market.

Somewhat similar considerations apply to an appraisal of environmental factors. There are many broad statements about the Commission's intention to monitor the environmental implications of, for example, road improvements but, at a more detailed level, proposals affecting firms have to be built up in a painstaking fashion. Individual firms will undoubtedly do this but any organisation wanting an overview might not obtain such an overview too easily. It might be argued that the obtaining of such information is an essential part of the data collection and analysis process which organisations go through in formulating strategic thinking but there is certainly unevenness in broad information availability across the functional area normally considered when strategic thinking is being formalised.

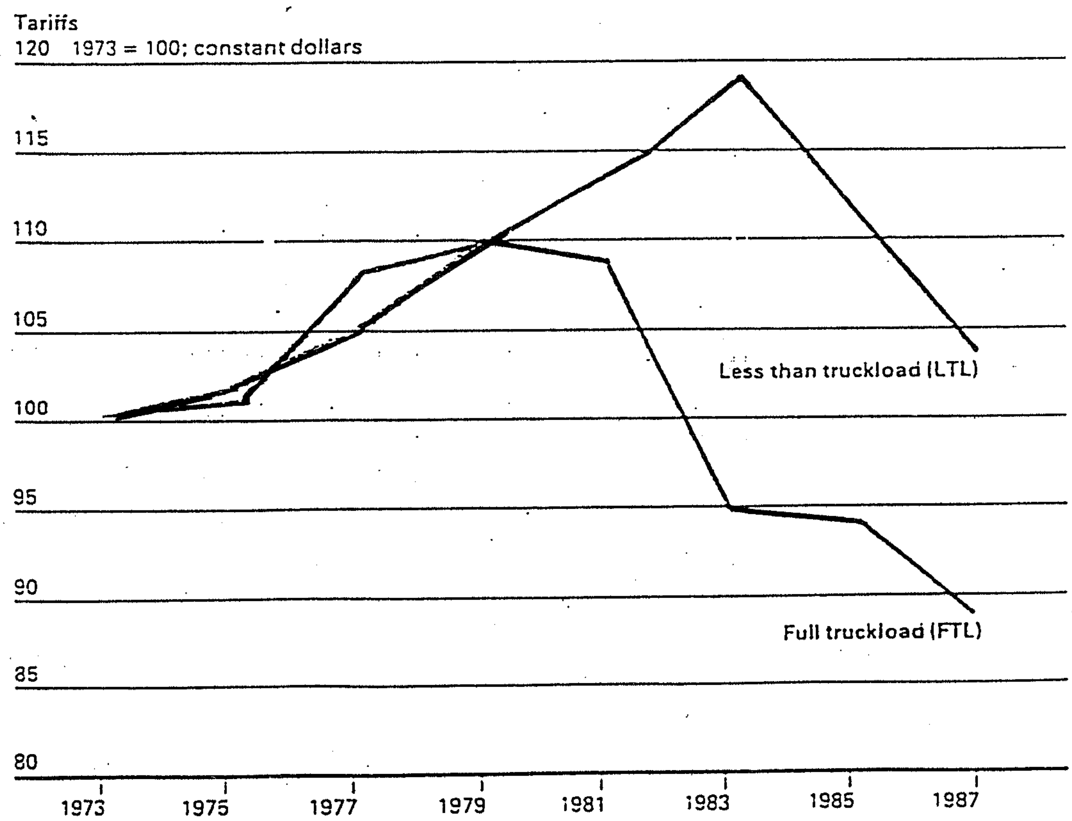
4. LOGISTICS SERVICES : CHANGES TO THE MARKETPLACE

Deregulation of the international haulage sector

Retailers, as important users of logistics services, need to be aware of changes which affect the market for these services. A crucial development affecting the supply of logistics services to the market place is the deregulation of road freight transport.

Some observers have predicted that the European road freight sector is in for a turbulent time following the deregulation of international haulage in the European Community. They take as their model the USA in the 1980s after the Motor Carrier Act (MCA) which deregulated the inter-state trucking sector. The MCA allowed many non-union entrants into the sector after 1980 and there was fierce competition with established truckers. As a result of these competitive pressures, there was a collapse in freight rates. Both full-truck-load (FTL) and less-than-truck-load (LTL) rates fell dramatically in the early 1980s (see diagram below).

Diagram 2. The effects of truck deregulation in the United States



*1980 Motor Carrier Act
Source: S&P; *Commercial Carrier; Industry Week*

Not surprisingly, many established freight companies were severely destabilised by these events. Of the 30 largest LTL carriers in 1979, only 10 were still in business by 1988 (Ross, 1990). The others either went bankrupt or were taken over by former business rivals.

The deregulation of international haulage within the EC is unlikely to have the same impact as inter-state deregulation did in the USA, for a variety of reasons. One of the most important is that the objectives of deregulation are different. In the USA the federal administration recognised that inter-state trucking was highly expensive and wanted to reduce the cost to users. Crucially, the Teamsters' union was a powerful influence in a sector where entry was restricted because of the regulations. Wages for union drivers in the late 1970s were 50 per cent above those of non-union drivers (Journal of Law and Economics, 1978). Deregulation in the USA, by allowing lower-cost entrants into inter-state trucking, brought down rates.

EC deregulation has different origins. It derives from the Treaty of Rome and the right of any individual from any member state to provide goods and services anywhere within the Community. The European Commission rightly observed that the system of bilateral permits which controlled most international haulage within the Community amounted to cargo reservation. If a consignment needed to be moved from, say, France to Italy, then French or Italian hauliers were most likely to receive the necessary permits. A not unimportant consideration was the role of national governments, both in negotiating quotas for permits and allocating them to hauliers.

Deregulation of international haulage within the EC began in 1988 and is due to be completed by the end of 1992, at which time any properly qualified haulier should be able to enter the international haulage market. When considering the consequences of this deregulatory process, there are three vital points to consider.

* Firstly, although international permits of all kinds were in short supply in some countries at various times prior to deregulation, there is little evidence that this significantly inflated the price level for international haulage services in the EC.

* Secondly, there is no suggestion that labour union activity in international haulage led to excessively high wages and, hence, prices; the fragmented structure of labour unions in Europe has simply not allowed this to happen.

* Thirdly, the European Commission has powers to intervene in the market "when a serious disturbance to the market is likely to persist"; a collapse in freight rates, leading to the bankruptcy of major companies, would certainly be regarded as sufficient grounds for intervention.

Clearly then, both freight market conditions and the objectives of deregulation in the USA and Europe are very different. Changes in prospect as the result of European deregulation are therefore unlikely to follow closely the US model. There will be falls in price, but these are likely to come from other "1992 factors" as much as from deregulation alone. The following are likely to be among the most important contributors to price falls.

* the deregulation of national freight markets;
* cabotage;
* efficiency improvements.

These are now examined in detail in the following paragraphs.

<u>Deregulation of national freight markets</u>

The European Commission has no authority to change the rules of domestic freight operation in any member state, except in circumstances where there is a breach of the Treaty of Rome. However, it is clear that the Commission has had an indirect impact on domestic regulation as a result of successfully promoting change in regulations affecting international freight regulation. In effect, many national governments have noted the trend towards deregulation, not just in Europe, but also in the USA, and have tried to keep in step. One important reason for this is that governments have had to consider the future of haulage sectors in their own countries, particularly with respect to future competition. Many European governments have reached the conclusion that it is better to deregulate than not.

Before 1985, the UK and Luxembourg were the only two EC countries which had no economic regulation of their haulage sectors affecting capacity or price or both. By 1990, in a Community expanded by the membership of Spain and Portugal, member states were taking a very different approach to the regulation of national freight markets. Now, only Germany, Italy and Greece have no stated plans for deregulation. All the same, a weakening of regulation, especially in Germany, must be in prospect.

This change in the regulatory environment, in both national and international freight markets, has important implications for the users of freight and logistics services, such as retailers. In particular, the users can expect a better responsiveness to their needs as competition increases amongst haulage companies. This is essentially a qualitative change, as opposed to a quantitative one (e.g. falls in price), but users should not underestimate its impact. As Joy notes in relation to Australian deregulation:

> "Freedom of entry imparts (to haulage) a dynamism not found under regulation"
> (Stewart Joy, 1964)

Similarly, for US deregulation:

> "The relaxed regulatory climate has also spawned new concepts in trucking and logistics management. Shippers may now use dedicated contract carriage, in one of its many forms, as an alternative to trucking services controlled either by the shipper or entirely by the carrier. There is now a range of for-hire trucking services beyond the traditional common and contract carriage, which can be tailored to the needs of a particular shipper".
>
> (Richard Schweitzer, 1988)

Deregulation therefore poses a major threat to own account operations as haulage services become more attractive to retailers and other shippers.

Cabotage

Cabotage is domestic work performed wholly within one country by an international haulier from another country who has just completed an international journey. So if an Italian international haulier delivered a consignment from Milan to Paris and then picked up in Paris a consignment bound for Lyon, then the Paris-Lyon work would be termed cabotage.

For many years cabotage has been prohibited in member states of the EC. However, in June 1990 a permit system was introduced as a limited experiment in cabotage.

In assessing the impact of cabotage on European freight markets, it is helpful to distinguish between two forms of cabotage (Cooper, 1990). First, there is what may be called "casual cabotage". This is opportunistic work where an international haulier offers his services in a foreign domestic market after delivering goods, often as a second-best alternative to securing an international return load. Casual cabotage, by its very nature, seems likely to have a very limited appeal. It is hard to imagine that food retailers, operating very sophisticated distribution systems, will value the services of itinerant hauliers from other countries.

In contrast, "network cabotage" is a potentially important development. Its application is in the operational networks of large freight companies where the opportunities for performing cabotage results in more efficient operation (and hence lower prices). Appendix 2 illustrates how cabotage can eliminate empty running within freight networks. In this hypothetical example, designed to show the importance of permitting cabotage, freight rates would reduce by nearly 40 per cent. Achievable savings by freight companies are bound to be rather less, but still significant and worthwhile.

Network cabotage has two important implications for retailers:

* Firstly, any retailer with international operations can benefit, since network cabotage implies the need for cross-border freight movements. Many retailers have this requirement either in sourcing or in the movement of products between distribution centres and retail outlets. With the increasing internationalisation of retailing (Treadgold, 1988), network cabotage has a growing potential impact on retail businesses.

* Secondly, the freedom to perform cabotage operations applies only to the haulage sector, and not to own account fleets. This means that contracting out freight operations will become more attractive to many retailers with international business interests.

Nonetheless, it is important to realize that the overall impact of cabotage is likely to be extremely localised. Estimates vary but in France, for example, the Ministry of Transport estimates that 1 per cent of French domestic freight could be captured by caboteurs, while the FNTR (the main trade association for road transport operators) believe that up to 3.5 per cent of freight could be at risk (Artous, 1990). Retailers operating in areas which straddle borders are clearly likely to be among the main beneficiaries from cabotage.

Efficiency Improvements

There are a number of elements in the European Commission's 1992 programme that will help to improve the efficiency of logistics and freight transport, in particular. For example, the Single Administrative Document introduced in 1988 eliminated the need for 70 other trading documents. This has resulted in fewer errors and fewer delays to goods in transit because of incorrect documentation. A clear benefit to retailers has been in the international sourcing of products, which has become less erratic and less costly, a very important consideration especially for food retailers.

However, the one most important 1992 measure for international hauliers and their customers is the prospect of reducing, or even eliminating, delays at borders. These have been estimated to cost up to 830 million ecu per annum (Cecchini, 1988). Much effort has been devoted within the 1992 programme to improve border crossing times. At present, delays arise for a variety of reasons, including the following:

* Value Added Tax (VAT) collection;
* Excise Duty payments;

* checks for drugs and illegal arms;
* plant and animal health checks;
* collection of trade statistics.

Total elimination of delays at borders will be difficult to achieve simply because borders are such convenient checking places. Nonetheless there is good scope for a substantial reduction in the present levels of delay, some of which are considerable. As Table 1 shows, a haulier travelling from Belgium to Italy is typically delayed at borders for 11.66 hours.

Table 1. Border delays, 1988
(hours)

From/To	Belgium	France	Germany	Italy	Holland	UK
Belgium	x	4.03	2.91	11.66	1.44	4.50
France	3.76	x	2.61	7.58	1.81	4.64
Germany	3.35	2.98	x	7.74	1.43	4.85
Italy	6.63	5.87	4.90	x	5.70	7.72
Holland	1.54	2.30	1.72	8.27	x	3.96
UK	4.16	5.01	4.36	9.75	4.21	x

Source: Ernst & Whinney, 1988

Shortening the length of time drivers spend at border crossings will lead to better productivity, offering scope for freight rate reductions. Yet interestingly, research shows that the greatest impact will be on international transport over short distances rather than long distances (Cooper, Browne and Peters, 1991). This is because border delays are more significant as a proportion of total transit time on shorter journeys, even though they are less in absolute terms.

Changes in the price of freight services

The driving forces behind freight rate reductions in Europe are manifold, ranging from deregulation effects to improved efficiency. Table 2 represents a summary of the overall impact on price resulting from the most important changes.

Table 2. Predicted falls in freight rates, 1990-2000

	National		International	
	short distance	long distance	short distance	long distance
Specialised transport	0	0	1-5%	1-5%
General haulage	0	1-5%*	10-15%	5-10%

* Deregulation in Germany will cause rates to fall by around 20% (Kandler, 1989).

Source: Cooper, Browne & Peters, 1991.

The key conclusions to be drawn from this summary are that:

i. There will be a wide variation in transport price reduction; no change can be expected in short-distance national work while short-distance international work will see falls of up to 15 per cent.

ii. General haulage will see the greatest falls in price; specialised transport, provided in association with warehousing and information technology systems, will be less susceptible to price reduction because its market positioning is more defensible.

iii. The price reductions are mainly predicated on operating cost reductions which will be widely enjoyed by hauliers. As a result it is unlikely that there will be widespread bankruptcies among freight companies. German companies are the most vulnerable in the event of instant deregulation but all the signs are that the German government will bring in a slow programme of reform, providing hauliers with a soft landing.

iv. It is also important to note that the predicted falls in rates are the result of institutional change within the EC. Other events, such as worsening traffic congestion in urban areas, could contribute to price rises.

Changes in prospect for logistics providers

Retailers in Europe have considerable scope to improve the efficiency of their logistics (Cooper, Browne and Peters, 1990). In aiming for improvement they are increasingly able to enlist the support of providers of logistics services, notably freight companies. As noted above, the continuing process of deregulation in the freight sector is making suppliers of logistics services altogether more competitive and innovative. Moreover, the providers will also become larger, again partly in response to regulatory change.

Many European freight companies have long had designs on becoming bigger, but this has often been far from straightforward. In countries where regulation has been strict, the only way to grow was to acquire other companies which were in possession of vital, scarce (and therefore expensive) permits. As recently as 1987, the going rate for a single national journey permit in Germany was DM 200,000. Permits in France are now virtually worthless as deregulation nears completion; they were worth 165,000 francs in 1986, but only 70,000 francs by the end of 1987 (Bonnafous, 1988). So the process of growth for ambitious freight companies has, until now, been a very expensive process. Moreover, because the permits themselves were usually non-transferable the acquisition of companies to achieve growth frequently resulted in the purchase of some unwanted assets (depots, for example).

Now in Europe there is the prospect of larger, more efficient, freight companies to meet the changing needs of retailers and manufacturers alike. In retailing, many of the larger retailers will welcome the prospect of being able to buy freight services from fewer, larger, companies. Up until now, services have often been bought from a wide array of small to medium-sized hauliers, for want of anything else. This has not only led to operational inefficiency (for example, by being unable to exploit the use of advanced information systems) but has also been administratively costly.

Importantly, many of the larger retailers, in partnership with large freight companies, are bound to concentrate on the development of freight services which are "tailor-made" to the requirements of the retailer, and "dedicated" to the retailer's use. This will mean freight companies setting up vehicle fleets and warehouses for the exclusive use of client retailers and working to closely specified standards of operation.

Changes elsewhere in Europe

The above discussion has focused almost entirely upon changes in retail logistics in EC countries, for the very good reason that the most important changes will take place within the Community, brought about by economic growth, the 1992 programme, and freight deregulation. Most other European countries belong to two other trading blocs, EFTA or Comecon, or have formal associations with one or other of the blocs (e.g. Malta, an associate member of the EC). Since the future of both EFTA and Comecon remains somewhat uncertain, it is not easy to predict the future of retail logistics in either of them. In EFTA, Austria has already applied for membership of the EC, and Sweden will follow shortly. EFTA could therefore soon be deprived of two of its most important members. Comecon is in even worse disarray, with its member countries having to make the painful transition from command to market-based economies.

In many of the Comecon countries of eastern Europe there are severe difficulties already apparent in simply trying to keep the supply chain to retail outlets working. The problems are acute, ranging from irregular production to the poor quality of transport services. Transit times for goods are often slow as a result of inadequate roads, a major problem in the distribution of perishables. Telephone links are often outdated, making it difficult to carry out transactions with suppliers. The time-scale for retail logistics reaching the sophistication of western Europe will undoubtedly be long.

5. CONCLUSION

This report has revealed the role which sophisticated logistics will play in the EC's changing retail scene. Changes in manufacturer and retailer concentrations have been considered and the potential which exists for logistics to affect and influence relationships between the two groupings has been outlined. In particular, the opportunity which exists for retailers to improve the efficiency of their logistics could result in a further shift in control to retailers from their suppliers.

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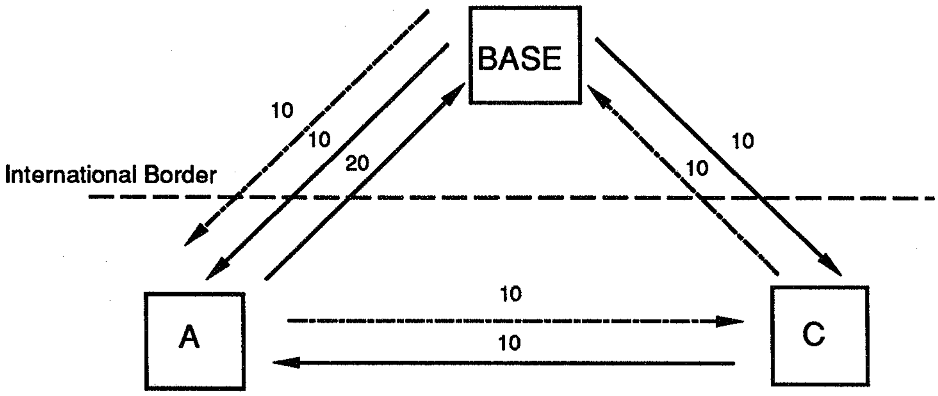
Appendix 1. Examples of food retailers with an international presence

Name	Country of Origin	Main trading activity
Anhold NV	Netherlands	Food retailing
Albrecht Group (Aldi)	W. Germany	Food retailing
Asko	W. Germany	Food and clothing
Auchan	France	Food retailing
Carrefour	France	Food retailing
Coles Myer	Australia	Food, Dept Stores, Discount Stores
Dee Corporation	GB	Food, Sports Goods
Delhaize	Belgium	Food Retailing
Docks de France	France	Food Retailing
GB-Inno-BM	Belgium	Dept Stores, Food, DIY, Sports Goods, Fast Food and Drink
Grand Metropolitan	GB	Food and Drink
Marks & Spencer	GB	Clothing, Food, Household
McDonalds	USA	Fast Food
Promodes	France	Food Retailing
J. Sainsbury	GB	Food Retailing
Southland Corporation	USA	Convenience Stores
Tengelmann	W. Germany	Food Retailing
Safeway Stores Corporation	USA	Food Retailing
Vendex	Netherlands	Dept Stores, Fast Food, DIY, Bookshops

Source: adapted from Davies & Treadgold, 1988

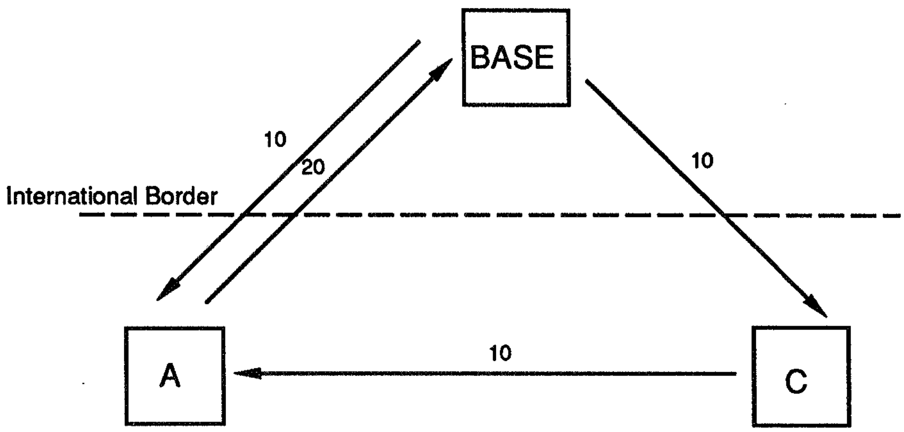
Appendix 2. Transport networks and cabotage restrictions

a) Transport network with cabotage restrictions

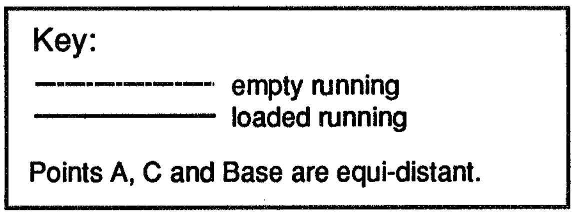


50 loaded truck movements
30 empty truck movements

b) Transport network without cabotage restrictions



50 loaded truck movements



Source: Cooper, Browne & Peters, 1991

PROSPECTS FOR GROCERY BRANDS IN THE SINGLE EUROPEAN MARKET

A study prepared for

**THE COCA-COLA RETAILING RESEARCH GROUP
EUROPE**

by

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September 1991

The Corporate Intelligence Group Limited

CONTENTS

EXECUTIVE SUMMARY

* The coming of the Single Market does not imply the coming of the Euro-consumer. National identities will be preserved, as will regional and national variations in consumers' tastes, habits and lifestyles. Brand strategists must remember this, for Euro-brands need Euro-consumers if they are to succeed.

* Some major manufacturers have, for their part, sought to develop Euro-brands or global brands with a sales potential that transcends borders. A few, like Coca-Cola, have made it work. Others have found it a difficult task. Even Heinz now realises that the appeal of baked beans in a tomato sauce varies greatly by country. Mars has been somewhat more successful, but has found it necessary in the process to change brand names (see Section 5 of this report).

* Nonetheless, the major manufacturers will continue this policy post 1992, either by growing their own Euro-brands or, like Nestle, via acquisitions.

* The main competition will come from the retailer alliances (see Section 6.0). The UK's two largest grocery retailers may have stayed out, but the fact remains that 14 out of Europe's top 20 grocery retailers have already become involved with the alliances.

* The real benefits of the alliances, however, come from their bulk buying potential and from the ability to share information and expertise. The concept of an alliance Euro-brand does not really apply, since participating retailers would then have to start offering yet another brand name to their customers. The attraction might be much more in putting the retailer's own label onto product centrally sourced at the least cost price. Only the successful development of Euro-stores would offer potential for the true alliance Euro-brand and this is unlikely to happen in the short term.

* Other cost-driven strategies are 'generics' and 'cheapest price'. Generics (see Section 2.3) have been abused in the past and turned into nothing more than extensions of retailers' own labels; there is no reason to believe they will make a come-back in the 1990s. Likewise, as the pressure on margins increases, the 'cheapest price' strategy becomes generally less attractive, although Aldi has shown that it can be made to work, both internationally as well as nationally. The market for such products is there, but it is probably sufficiently small to accommodate only a few players.

* The better alternative to these cost-driven purchasing strategies is for the retailer to go for his own added-value own label. The 1980s saw a steady growth in own label penetration in the grocery sector, particularly in Great Britain, Germany, Switzerland and France, and the added-value concept has contributed greatly to this. There is still potential for growth for these added-value own brands, at least at the national level. But the fact remains that relatively few retailers have taken the organic route to international expansion and so few will actually benefit in overseas markets from added-value own labels that they have developed at home.

* Historically retailers have derived the greatest benefit from the own label when the retailer's name becomes incorporated also into the brand name. This will certainly continue in the 1990s. The more that these retailers invest in customer services and product quality, the more their own labels will be seen as offering even greater added values when the store's name is on the label. This, however, will only be true if they can afford the heavy promotional expenditure that will increasingly be necessary to achieve and maintain market share.

* Those, like Gateway or Auchan, who have dropped the store name from the brand name, may well find that they have lost the real benefits of own branding and that they are doing no more than playing manufacturers at their own game.

* The most likely scenario for the post-1992 period is that the trend to polarisation already seen in the food distribution field will continue. Those retailers that base their growth programmes on international expansion will get even greater benefit from their added-value own brands. Elsewhere in the marketplace manufacturers' Euro-brands will become more important; increasingly so as time goes on.

1.0 INTRODUCTION

The 1990s present a daunting challenge to grocery manufacturers and retailers. The future of grocery brands will be affected by the Single Market (SEM), environmental issues, physical distribution and producer and retailer concentration. This paper considers the role of retailers' own labels and manufacturers' brands in grocery retailing in the SEM.

It starts by taking a historical perspective of grocery branding and retailing, since this provides a good basis for anticipating likely branding developments in the future. The paper clarifies the word "brand" and goes on to consider manufacturers' brands, retailers' own labels and generics in the context of the SEM. The issues facing brands and own labels in the SEM are considered and questions asked about what challenges they are going to face.

The removal of trade barriers will facilitate retailers' expansion beyond their national boundaries, to meet the needs of an EC population of 340 million consumers.

The initial opportunities may be from much larger economies of scale through purchasing, marketing and retailing. There is already growing evidence of cross-border activity in advance of the legislative reforms, with Aldi and Netto's move into the UK and Carrefour into Germany.

These expansion programmes have implications for retailers' own labels. More people can be targeted, but there are problems. Consumers from different cultural backgrounds, with established loyalties to one or two outlets, will be faced with new retail groups. These will be either foreign retail chains who have maintained their independence in expanding (for example, Tengelmann) or chains that have entered into alliances with other retailers (for example, the European Retail Alliance with Argyll, Ahold and Casino).

Finally, it has to be acknowledged that the issue of branding policy is one that raises strong emotions, particularly given the uncertainty about the future. This paper tries to follow an objective course, based predominately on published literature.

2.0 THE EVOLUTION OF MANUFACTURERS' BRANDS

Through the process of distinguishing their groceries by using unique names and packaging design, manufacturers in the nineteenth century were able to differentiate their products from competitors. Branding resulted in higher quality products, a guaranteed level of consistency, distinctive packaging and a cluster of added values which were promoted to consumers. As consumer satisfaction grew, so did loyalty to particular brands. The evolution of manufacturers' brands heralded a period of manufacturer dominance, which, particularly for the UK, lasted until the 1960s.

From a consideration of the evolution of brands, it can be appreciated that a brand is:

> An identifiable product augmented in such a way that the buyer or user perceives relevant, unique added values which match his or her needs most closely. Furthermore, its success results from being able to sustain these added values in the face of competition.

Brands play many different roles in satisfying consumers' needs. For example, brands such as Nescafe Gold Blend, Ferrero Rocher chocolates or Glenfiddich malt whisky, primarily satisfy a status need.

Other brands are used by consumers as a means of reducing uncertainty about product performance. For example, risk averse consumers may only buy Colgate toothpaste because of a perception of its dental protection, reinforced through assurances from advertising about its "Ring of confidence".

Alternatively, brands act as shorthand devices, rapidly facilitating choice without the need to seek lots of information about competing products. For example, from a large variety of wines, Le Piat d'Or, a blended wine, offers consistency and familiarity. Brands therefore facilitate rapid choice in grocery superstores which often carry more than 20,000 lines.

2.1 <u>Increasing retailer power</u>

A fragmented retail trade throughout Europe through to the 1960s left major brand owners in a powerful bargaining position, able to dictate terms to retailers who were anxious to sell big brands with a loyal following and on-going advertising support. However, the 1970s saw a change in retailers' strategies. Smaller stores were being shut while fewer, but larger, stores were being opened. Rationalisation resulted in power being concentrated in the hands of a relatively small number of multiple retailers.

Such generalisations are not true of the whole of Europe. While powerful grocery multiple retailers became more dominant in northern Europe, southern Europe's grocery retail trade remained largely fragmented. A survey by Nielsen [1], shown in Table 1 on the following page, provides evidence of the way retailer power varies by country. Its survey valued the European Grocery sector at $386 billion in 1988 and highlighted an increasing trend towards a greater share of the market for hyper and supermarkets, especially in northern countries. Their research showed that the top five chains accounted for only 4.1% of store numbers but 33.2% of turnover.

Table 1: Grocery retailer concentration across Europe

Country	Market share of top 5 retailers (%)
Finland	96.4
Sweden	80.8
Austria	70.2
Switzerland	65.0
Great Britain	62.0
Ireland	52.9
Belgium	50.0
Germany	46.7
Netherlands	45.2
France	45.1
Denmark	42.5
Spain	20.4
Portugal	12.1
Norway	11.4
Italy	10.0

Source: Nielsen [1]

2.2 The rise and rise of retailers' own labels

An own label is defined as:

> A product or service which is commissioned, marketed and owned by a retailer.

Retailers' own labels (also called private label or own brands) can be traced back to the 1870s. Unable to cut the price of manufacturers' brands, multiple retailers initially competed against each other on a service platform. To increase their profitability they bought commodities such as flour, sugar and tea which they packaged under their own name. These early own labels were priced more cheaply than manufacturers' brands. Constrained by only being able to employ simple production processes, they commissioned grocery manufacturers to produce own labels to their specifications and gradually widened their own label range. The quality of own labels was generally below that of comparable manufacturers' brands.

A rationalised approach to marketing and production, combined with increasing sales to satisfied consumers, enabled retailers to price their own labels 10-20% below the prices of the brand leaders. Furthermore, with the growth of large national retailers, consumers soon began to associate specific own label ranges with particular chains.

The emphasis on price advantage was followed right through to the early 1980s. By 1982 own labels accounted for 22% of grocery sales in the UK and 19% in France. With less developed multiples in southern Europe, own labels were less prevalent, for example they accounted for only 5% of grocery sales in Italy.

Retailers' perceptions that price was the key critical success factor in own labels, reinforced the rationale for minimising added value. However, during the 1980s the larger multiple retailers began to compete against each other less on price and more on quality and service. As a consequence, own label quality rose to the standard of manufacturers' brands, but retailers retained a lower price.

By 1988 Nielsen [1] figures showed own label packaged groceries' market shares to have grown to 26.5% in Great Britain, 24% in West Germany and 20.1% in France. Own label has continued to increase its market share with Great Britain now past the 30% threshold. Brian Sharoff, President of the Private Label Manufacturers' Association [2] commented on the increase:

> "It looks as if 'own label' is growing between 10-15% a year on the Continent."

Own labels are now an important strategic tool in multiple retailers' armoury. They offer retailers many advantages, including the ability to:

- exert greater control over their product range, for example by rationalising the range and control of costs;

- reinforce the retailers' positioning;

- counter the power of the manufacturers;

- attract and sustain consumer loyalty to stores;

- obtain improved margins in markets with slim returns.

The financial advantages of own labels are such that in Ahold's Albert Heijn's stores, 25% of sales and 30% of gross margin are returned by own label.

Own labels have historically been particularly dominant in grocery product fields where:

- there is surplus manufacturing capacity;

- there are no powerful manufacturers' brands;

- there is limited advertising by manufacturers;

- the production process does not involve high technology;

- where the margins on good quality own labels are significantly higher than on manufacturers' brands.

North European consumers, who have witnessed the changing structure of grocery retailing and the evolution of own labels, represent an educated and discerning target market. Retailers have responded to more discerning consumer tastes by improving their own labels and endowing them with their own personalities to match consumers' lifestyle needs. As a consequence, own labels have become more popular. This has put pressure on manufacturers who have had to work harder to communicate their added values and justify price premiums.

2.3 Generics: The third tier in grocery branding?

In 1976 Carrefour in France launched their 50 "Produits Libres". These more plainly packaged commodity type products were typically 20%-40% cheaper than the equivalent brand leaders. This launch was quickly followed by other European retailers and industry analysts regarded this as the advent of the generics era. Generics are defined as:

> Products distinguishable by their basic and plain packaging. Primary emphasis is given to the contents, rather than to any distinguishing retail chain name.

In France, Carrefour's launch was quickly followed by Promode's Produits Blancs, Paridoc's Produits Familiaux and Euromarche's Produits Oranges. In Germany generics were not that successful, with Carrefour, Deutsche Supermarkt and the Co-Operative Movement encountering the problems of a poor quality perception associated with the low prices. With own labels accounting for approximately half the grocery market in Switzerland, generics failed, yet with only a 5% own label penetration in Belgium, GIB had more success with its generics. In the UK, International launched its Plain and Simple range in 1977 and was followed by Carrefour's Brand Free, Fine Fare's Yellow Packs, Argyll's BASICS and Tesco's Value Lines.

However, where there was a strong own label presence, generics failed badly. Their presence became less noticeable in Europe and by 1987 no UK retailers stocked generics.

The true generic concept had not been implemented. The reality was that multi-colour packaging was used clearly to associate generic ranges with specific retailers. Advertising and in-store promotions were employed. In fact, during 1977 Carrefour spent FF10m promoting its generics compared with Euromarche's FF6m [3]. These lines were branded (e.g. BASICS from Argyll) and did not have utilitarian packaging. Retailers had in reality developed an extension to their original own labels, rather than an innovative generic range.

Consumers accordingly perceived generics as an extension of own labels. As such, those buying generics switched from higher margin own labels rather than lower margin manufacturers' brands. Not only were retailers worried about the profit implications, but perceptions of poorer quality impeded attempts to raise store images.

The generics failure indicated that a basic price proposition was insufficient to attract significant consumer interest. It is no longer the case that price is the sole arbiter for purchasing. Many retailers have accepted this and moved to a position where added value is now an integral part of own labels.

In summary, manufacturers' brands, retailers' own labels and generics are all examples of brands. For their particular target groups, they are all positioned to reflect specific added values, be that of a pedigree heritage (manufacturers' brand) or quality at an attractive price (own labels) or a "no frills" approach (generics).

3.0 STRATEGIES FOR OWN LABELS

Four own label strategies appear to have been followed by different retailers. These are:

* **Generics** - Aldi, Casino, Plus, Carrefour
* **Cheapest price proposition** - Tesco (late seventies/early eighties), Asda, Asko in eighties (Metro, Massa)
* **Me-too versions** of manufacturers' brands, - GIB, Gateway, Argyll
* **Extension of retailers' added-value propositions** - Sainsbury, Ahold, Marks and Spencer, Asko in nineties (Isabelle O'Lacy's)

The extent of own label dominance varies by retailer. The extreme is with companies like Migros and Marks and Spencer which sell almost 100% of their product ranges under their own labels. Next in line are companies like Aldi, where the consumer often has no choice but to purchase the own label or generic since no alternative is offered on many product lines.

Sainsbury, the strongest own label retailer in the UK, stocks 7,000 own labels out of a total range of 15,000 products (48%), where own label account for 55% of turnover. Tesco and Safeway attribute 35% of their sales to own label, with Asda following behind on 30%.

Table 2 below uses the food and soft drink sectors to estimate recent past own label share across Europe:

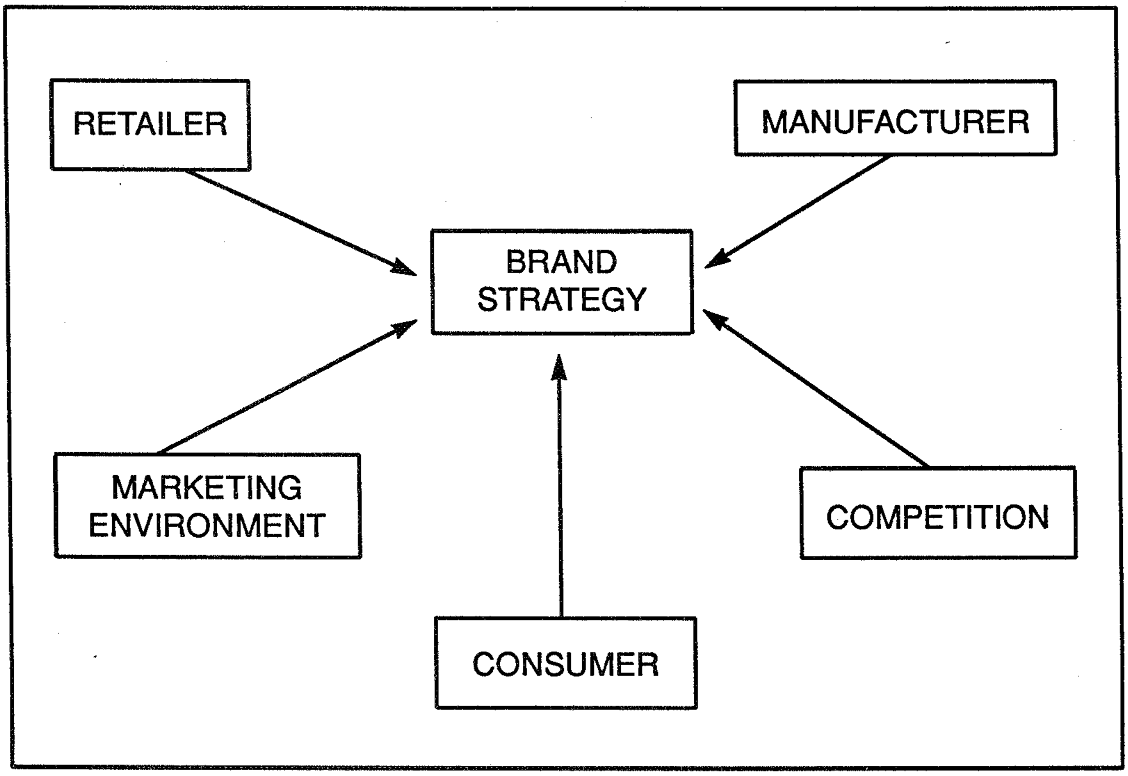
Table 2: Own label penetration in the Groceries sector

Country	Average mkt share of OL '88 (%)	Annual growth rate (1983-88) (%)
Austria	11.0	0.9
Belgium	17.6	6.9
Denmark	17.9	N/A
France	20.1	3.5
Germany	24.0	6.7
Great Britain	26.5	6.7
Italy	5.4	2.4
Netherlands	17.0	8.7
Norway	3.0	-5.6
Portugal	0.5	N/A
Spain	6.4	N/A
Switzerland	24.0	N/A

Source: Nielsen [1]

A brand planning methodology (de Chernatony, 1990) has been developed which highlights the five forces that need to be considered when developing a brand strategy, be this for a retailer or a manufacturer. The forces are shown in figure 1.

Figure 1: Forces influencing brand strategy



Any organisation developing a brand strategy needs to address:

i. Retailer considerations:
   - what objectives are they striving to achieve; for example, volume growth or profit growth?
   - what power can they exert over suppliers?
   - are they seeking to present a value added proposition to consumers or a lowest price offer?
   - what criteria must suppliers meet before they can be considered potential own label producers?

ii. Manufacturer considerations:
   - what objectives have brand manufacturers set? For example, to maintain consumer loyalty?
   - what distinctive capabilities do individual brand manufacturers have? For example, successful new product programmes or highly memorable advertising?
   - are they following a value added or a lowest cost route?
   - what distribution channel priorities have they set?

iii. Competitor considerations:
   - how many competitors are there?
   - how powerful are the top three competitors?
   - what their likely response will be to any other players' marketing activity?

iv. Consumer considerations:
- what role do competing own labels and manufacturers' brands play? For example, satisfying a need for functional excellence or supporting a lifestyle need?
- how do consumers buy brands?

v. Marketing environments:
- economic outlook
- political developments
- EC legislation

A brief application of this model to the Italian and British grocery retail markets highlights different factors affecting brand strategy.

In Italy there are few large multiple retailers. In 1988 grocery multiples only accounted for 9% of grocery sales in Italy, compared with 74% in Britain. This resulted in weak Italian distributor power and hence a lack of own labels. Brand manufacturers accordingly retained greater power. Consumers are consequently less confident with own labels and would be likely to need a strong incentive, such as a marked price reduction for a good quality own label, before being motivated to sample it.

In the UK several factors in the marketing environment, such as information technology and legislation, have encouraged the growth of powerful grocery retailers. Their dominance has forced many manufacturers to acquiesce to their demands. Most multiple retailers spend a lot of time anticipating consumer changes, giving manufacturers briefs for innovative own label development programmes.

It is therefore entirely consistent for the highly competitive north European grocery retailers, who have tried price competition in the form of generics and cheapest price strategies, to move towards own label strategies of higher quality and added value.

The ability to develop a successful range of own labels grows initially out of a retailer's size in the marketplace. Once retailers exceed a critical size, their own label importance depends on their ability to undertake strategic planning to match increasingly sophisticated consumer needs and counter competitive activity.

North European consumers have considerably more experience of own labels than their southern neighbours. A simple price proposition is not enough; it is only one element in the consumers' quest for value. Product quality, packaging, store layout, service and image all affect their attitudes to retailers' own labels.

Gilles Pinoncely [4] conducted research on behalf of Casino into consumers' perceptions of the relationship between own label and the store. Pinoncely substantiated the point above that a number of factors affect attitudes to own label, when he concluded:

> "The consumer believes that a company that takes care in terms of presentation and the quality of its fresh products will necessarily demand high standards from its product (own label) manufacturers."

The current saturation of sales in the packaged goods sector of the market has led to retailers in the UK looking for added value opportunities. Marks and Spencer's success in selling own labelled prepared meals and Safeway's emphasis on the quality of its fresh fruit and vegetables, have both been a signal to other retailers to re-focus their attentions.

In southern Europe, retailers have not yet achieved critical mass in obtaining large enough market shares to develop own labels as a serious threat to manufacturers' brands. Nevertheless the process is under way. In the Iberian peninsula Pingo Doce, Pryca, Alcampo, Continente and Hipercor are all receiving support from larger operators, respectively Delhaize, Carrefour, Auchan, Promodes and El Corte Ingles. Given this backing and their increasing numbers, own labels are likely to become more significant. This will substantially change the market status quo, altering all five forces in the brand planning process.

4.0 MANUFACTURERS' RESPONSE

As grocery retailers have developed strategies for their own labels, so manufacturers have had to respond to changing market structures and the dilution of their traditional power base.

Retailers' increasing buying power and their commitment to own labels have squeezed manufacturers' margins. Many manufacturers responded in the 1970s with quantity discounts, at the expense of reduced consumer advertising. With consumers then questioning why they should pay a price premium for manufacturers' brands, they switched to own labels, compounding the vicious circle for brand manufacturers.

Reduced margins adversely affected profitability and many compromised on quality as well as cutting marketing support. Some manufacturers introduced more price competitive brand alternatives that received little or no advertising, for example, Scottowels, as distinct from the Scotties brand. These strategies were reactive and appropriate only for a short time. As a consequence, the original added values that formed the basis for success were diluted.

Ironically the key to brand success is through developing unique added values which competition find difficult to copy. This needs to be backed by advertising so that brands convey their added values, such as quality, taste, lifestyle benefits, personality, reassurance, or whatever, to their target audiences. Myopic manufacturers ignored this.

Innovation and product investment bring points of differentiation to the premium prices associated with manufacturers' brands. Heinz achieved this with much improved logistics, providing a leaner business operation. United Biscuits responded with innovative products which lead the market and reduce the threat from own labels. Over the past seven years, more than a sixth of their revenue has come from new brands, including Hob-Nobs, Muesli-Cookies and Jaspers.

To give another example in the strongly branded mineral water market, brand manufacturers in the UK increased media expenditure by 720%, in real terms, between 1983 and 1989. This enabled them to sustain a respectable 22% price premium over own labels. By contrast, fruit juice manufacturers acquiesced to retailers, cutting media spend by 60%. As a consequence, own labels dominate this market with a 63% share. Furthermore manufacturers' brands can only achieve a 1% price premium over own labels.

5.0 THE STRATEGIC ROLE OF EUROPEAN BRANDS IN THE 1990s

5.1 The Euro-consumer

The imminent arrival of the Single European Market (SEM) will not be matched, unfortunately for marketers, by the corresponding arrival of the Euro-consumer. The Economist [5] and John Whitaker, former Managing Director of AGB Information [6] assure us there is no such thing as the Euro-consumer. Not everybody is in accordance with this point of view. Tony O'Reilly, President of Heinz claims that:

> "The global brand is at hand" [7]
> and that
> "The Euro-consumer is about to emerge" [8].

Whilst it is acknowledged that there will be an increase in the number of manufacturers' Euro-brands, the process of convergence will be gradual and will remain incomplete. Tastes and culture will continue to vary by nationality, if not by region. Such differences will often be carefully guarded as a means of preserving national identity.

5.2 The Euro-brand

Euro-consumers or not, manufacturers are seeking new marketing and corporate strategies to take account of the SEM. Larger manufacturers are striving to create Euro-brands whose functional capabilities and imagery can transcend borders. This is a natural response to the threat of increasing retailer power from newly constructed alliances. Some companies are growing their own Euro-brands, while others, such as Nestle, are acquiring them.

The recent spate of brand acquisitions (there were 450 recorded cases of takeovers in EC countries in 1988 and 1989 involving food producers), is highlighted by the table of major acquisitions in the European food industry shown below. This signifies manufacturers' confidence in brands and their ability to extend brand licences overseas. Brand purchases also provide access to other markets. For example, Pepsi Co's purchase of Smiths and Walkers crisps will provide openings for its Frito-Lay brands in the UK.

Table 3: Major Acquisitions and Mergers in the European Food Industry, 1987-1990
(In descending order of value)

Purchaser	Country	Purchase	Country	Year
Grand Met	UK	Pillsbury	USA	1989
Nestle	Switzerland	Rowntree	UK	1988
Philip Morris	USA	Jacobs Suchard	Switzerland	1990
BSN	France	RJR Nabisco (Eur)	USA	1989
BSN/Ifil	France/Italy	Galbani	Italy	1989
Pepsico	USA	Smiths/Walker	UK	1989
Nestle	Switzerland	Buitoni	Italy	1988
Ferruzzi	Italy	Lesieur	France	1988
United Biscuits	UK	Ross Youngs	UK	1988
Sudsucker	Germany	Raffinerie	Belgium	1989
RHM	UK	Avana	UK	1988

(continued on next page)

Table 3: Major Acquisitions and Mergers in the European Food Industry, 1987-1990
(In descending order of value) (cont'd)

Purchaser	Country	Purchase	Country	Year
Paribas	France	Guyomarch	France	1990
BSN	France	HP Foods	UK	1988
KIO	Kuwait	Ebro	Spain	1988
CPC	USA	Ambrosia/Marmite/ Bovril (Beecham)	UK	1990
Cadbury -Schweppes	UK	Trebor	UK	1989
Campbell	USA	Freshbake	Freshbake	1988
Bouyges	France	Grand Moulins	France	1989
Cadbury -Schweppes	UK	Poulain	France	1987
Unilever	UK/ Netherlands	Boursin	France	1989
United Biscuits	UK	Verkade	Netherlands	1990

Source: Corporate Intelligence Group research

Firms such as Heinz have been trying to take their brands into different international markets where tastes are still varied. Their success to date is indicated by the fact that Heinz UK's 1989 turnover of £430 million was more than the rest of Europe put together. Beans in a tomato sauce are less well regarded on the Continent. If Heinz tomato ketchup is a semi-global brand, their other potential global winners are limited to Star-Kist Tuna and Weight Watchers diet meals. Their experience, of taking brands that reflect particularly local tastes across borders, highlights the difficulties that face manufacturers and retailers alike.

Mars, the US confectionery and petfoods group, has adopted a more successful pan-European strategy. They have been aided by the fact that both confectionery and petfood are sectors, acknowledged by Corporate Intelligence Group [9] in their report into Food Distribution in Europe, that are less affected by regional tastes.

Mars have accordingly rationalised their brand names. The longstanding Marathon bar in the UK, has changed into Snickers, the name in the US and the rest of Europe. Twix is likely to follow suit and become Raider and in petfoods Cesar has already overtaken the Mr. Dog name.

This increasingly international outlook has been similarly applied to the development of the Mars Bar Ice Cream. After test marketing, £20 million was invested in a new factory in Steinbourg in France. This acts as a hub from which it serves the whole of Europe. The brand was subsequently launched in April 1989 across sixteen European countries.

Just as manufacturers rush to create or acquire potential Euro-brands, so the multiple grocery retailers have developed a network of alliances (see table below). The SEM has acted as a catalyst in forcing manufacturers and retailers to take a wider perspective than the predominately national one previously applied.

If manufacturers can be seen to be creating Euro-brands, retailers must consider what the own label response should be and what chances they have of creating Europe-wide alliance labels.

6.0 THE RETAILERS - ALLIANCES AND OWN LABELS

From the mid 1980s, retailing in the SEM has been characterised by retailers forming cross-border alliances, as shown in Table 4. It is interesting to note that Jean Jacques Fougerat, Managing Director of Paridoc, saw retailer alliances as a means to:

"Counter the hegemony of big brand names".

Table 4: European Grocery Retail Alliances (August 1991)

Name	Participants	Country	Year of Formation
AMS	Ahold	Netherlands	1988
(Associated	Allkauf	Germany	
Marketing	Argyll	UK	
Services)	Casino	France	
	Dansk	Denmark	
	Supermarked	Denmark	
	Hagen	Norway	
	ICA	Sweden	
	Kesko	Finland	
	Rinascente	Italy	
	Mercadonia	Spain	
	Migros*	Switzerland	
	(*Associate Member)		
CEM	Codec	France	1989
(Cooperation	Conad	Italy	
Europeenne	Crai	Italy	
de Marketing)	Edeka	Germany	
	Uda	Spain	
Deuro Buying	Metro	Germany	1990
	Makro	Netherlands	
	Asda	UK	
	Carrefour	France	
Di-Fra	Arlaud	France	1968
(Distributeurs	Casino	France	
Francais)	Catteau	France	
	Louis Delhaize	Belgium	
	Francap	France	
	Genty	France	
	Montlaur	France	
	Rallye	France	
	SCA	France	
EMD	Markant	Germany	1989
(European	Socadip	France	
Marketing	ZEV	Austria	
Distribution)	Selex Iberica	Spain	
	Markant Foodmarketing	Netherlands	
	Uniarme	Portugal	
	Selex Gruppo	Italy	

Table 4: European Grocery Retail Alliances (August 1991) (cont'd)

Name	Participants	Country	Year of Formation
ERA (European Retail Alliance)	Ahold	Netherlands	1989
	Argyll	UK	
	Casino	France	
EuroCoop	ANCC	Italy	1957
	BVK	Germany	
	Hispa Coop	Spain	
	CRS	UK	
	FDB	Denmark	
	Federation Nationale des Cheminots	Luxembourg	
	FNCC	France	
	Fena Coop	Portugal	
	Konsum	Germany	
	COOP '82'	Netherlands	
	Coop Schweiz	Switzerland	
	Febe Coop	Belgium	
	FNCC	Belgium	
	KF	Finland	
	KK	Finland	
	NKL	Norway	
	SOK	Finland	
Eurogroup	GIB Group	Belgium	1988
	Vendex International	Netherlands	
	Rewe Zentrale	Germany	
	Coop Schweiz	Switzerland	
	Paridoc	France	
IDA (Independent Distributors Association)	Nisa Today's	UK	1990
	Europa Foods	UK	
	Londis	UK	
	Huyghebaert	Belgium	
	Diapar	France	
	Ripotot	France	
	Pidout	France	
	Dirk Van Den Broek	Netherlands	
	Karsten	Netherlands	
	Superquinn	Ireland	
	Tiburon	Spain	
	Centra	Spain	
InterCoop	21 Co-operatives from 18 countries		1971
	Bulgaria	UK	
	Yugoslavia	Denmark	
	Iceland	Norway	
	Germany	Israel	
	Austria	Finland	
	Italy	Poland	
	France	Japan	
	Sweden	Switzerland	
	Czechoslovakia		

Table 4: European Grocery Retail Alliances (August 1991) (cont'd)

Name	Participants	Country	Year of Formation
NAF (Nordisk Andelsforbund)		Denmark	1918
		Finland	
		Iceland	
		Norway	
		Sweden	
		UK	
		Coop Italia	
BIGS (Buying International Gedelfi Spar)	Spar	Austria	1991
	Spar Handels	Germany	
	Gedelfi	Germany	
	Despar	Italy	
	Spar Unigro	Belgium	
	ISC	Netherlands	
	IGT Unigro	Netherlands	
	Spar	UK	
	Unil	Norway	
	Tuko	Finland	
	Dagab	Sweden	
	Dagrofa	Denmark	
	Karstadt	Germany	
	DWV	Germany	

Source: Oxford Institute of Retail Management [11]

Table 4 provides an indication of retailing strategies for the 1990s. Fourteen out of Europe's top twenty grocery multiple retailers have already become involved with one of the above alliances.

One of the reasons for such co-operation rather than independent, international expansion is explained by Peter Howitt, a director of Argyll's Safeway [10]:

> "If our friends (competitors in Europe) did a worse job there would be an opportunity; but they do a good job."

Alan Treadgold of the Oxford Institute of Retail Management [11] is similarly convinced about the partnership route:

> "It allows retailers to learn about continental Europe without making a large commitment financially."

Retailing in the food sector is a notably nationalistic activity. Alliances may give own labels some of the scale benefits from moving into European markets without the associated risks of trying to introduce domestic own labels across European borders.

Retailers are concentrating their buying power, giving them further economies of scale and more power over suppliers. Products are being sourced from the most efficient suppliers in Europe. Greater expertise in logistics is being developed to co-ordinate the optimum level of stock holding, using just-in-time techniques and quick response systems. The UK retail sector leads in this area, with freight and logistic experts such as Exel Logistics and Tibbett and Britten, providing third party contracting services.

Economies of scale are not restricted simply to price reduction. Pierre Everaert, President of Ahold, cited the example of approaching a computer manufacturer for a specially designed till. For five hundred units it was not a cost-effective exercise, however, with partners Argyll and Casino the till number increased to 55,000 and the project became worthwhile.

There are some notable absences from the list of those participating in the alliances, including Tesco, Sainsbury, Aldi and Tengelmann. For these independent chains the attraction of increased buying power was not enough. Tengelmann has stated that membership of an alliance could restrict its international expansion plans (58% of Tengelmann's turnover was earned outside its domestic marketplace in 1989). Aldi has made clear its plans to expand in the UK as well as at home. Moreover, low price operators in Germany have opportunities of former Eastern Germany on which to focus their attentions before looking further afield.

For Tesco and Sainsbury the situation is rather different. They are market leaders in the UK which offers its two premier grocers net profit margins of 6 and 7% respectively, ahead of Europe's norm of 3-4%. Tesco has stated an interest in expanding abroad in the future through acquisition, while Sainsbury already owns Shaw in the US. Both companies have taken advantage of their strong own label positions as a central theme in contemporary television advertising.

All four of these companies have a strong rationale for concentrating on their domestic markets rather than stretching the management process by expanding abroad with a number of partners, where the opportunities appear less rewarding. This strategy has significant repercussions for own brand strategy.

6.1 Cost Driven vs. Added-Value Own Labels

Brands succeed because they provide value to consumers which others find hard to copy. In seeking to establish competitive advantages, brands can be cost competitive and/or add benefits in a way that enables them to command a price premium. Retailers' own labels and generics followed a cost driven strategy in the 1970s, offering consumers attractive prices. By contrast, premium priced manufacturers' brands, often with extended heritages, were positioned as offering unique added values, for example, strong brand personalities, communicated through pack design and advertising.

Scale and improved logistics skills are potentially sources of cost driven competitive advantage for retailers' own labels, saving distribution costs, delivering fresher goods and providing faster turn round of inventories. Further cost-related advantages can best be appreciated by one anonymous retailer's views about his priorities for the 1990s:

"Selling is easy. Sourcing and buying are the keys to profits".

This is a particularly good summary of the strategic thrust behind the alliances. Their focus is cost reduction achieved through centralised buying. Not so much attention has been given to adding value to the consumer's shopping experience.

Central to this idea of own labels' added value benefits, is the contribution of the retailer's marketing activity to the branding process. When grocery shopping, consumers first consider which retailer to use and subsequently which brands or own labels. Seeing store names, for example, Sainsbury or Ahold, conjures up a bundle of values in consumers' minds, such as variety of choice, pricing, quality of products and services, car parking etc. This is sometimes overlooked by retailers in their approach to own labels. Of the four own label strategies identified earlier in this paper, i.e. generics, cheapest price, me-too and an extension of the retailer's added-value proposition, the last strategy is likely to be particularly attractive to those quality retailers in the 1990s who take advantage of their store image.

"Generics" and "cheapest price" are both cost driven strategies. "Me-too" is predominately concerned with driving down costs with an element of added value as these own labels mimic brand leaders. The fourth strategy enables own labels to build on the quality and service positioning retailers have adopted. It offers the retailer the opportunity to add value to its own labels through courteous, knowledgeable staff, rapid service, electronic point of sale systems, wide range of choice, pleasant well laid out stores and expansive car parks.

This added value service offering will be at the core of grocery own label development in the SEM. By offering consumers a choice between leading manufacturers' brands and top quality, competitively priced, own labels in a pleasant environment that makes grocery shopping a pleasure, rather than a chore, consumers will trust both stores and the products bearing their names. This hypothesis is supported by Casino's research into own label and the relationship with the store, mentioned above (see page 9).

As retailers grow in size, increase their buying power and become more vocal in communicating their proposition, it is likely that consumers will become even more familiar with consistent sets of values that are unique to retailers' own labels. Shoppers in Aldi, Casino or Auchan will be aware of the central importance of lowest price, while the Sainsbury shopper will appreciate that "Good food costs less ...".

Ahold is a particularly good example of the fourth own label strategy with its use of the Albert Heijn name on all own label groceries. Its objectives for supporting its own labels include:

- quality comparable to manufacturers' brands;
- prices significantly lower than manufacturers' equivalent brands;
- obtaining higher margins than on manufacturers' brands;
- representing an integral part of the store formula by carrying the same name as the store to provide a link in the mind of the consumer.

6.2 Own Label or New Brand?

Belgium's GIB group, a member of Eurogroupe, has co-operated with its fellow members to produce pan-European own labels that can be sold throughout the alliance without store names on the packs. Gonzalez and Le Bon Petit Diable biscuits, James, Star-Cat and Persa petfoods have already resulted. These are in effect new brands, that have neither the support of a retailer on the label nor a familiar brand name from a recognisable manufacturer.

With the popularity of alliances, retailers will be increasingly tempted to use names that look as if the own labels emanate from manufacturers. This will result in names that can be carried across Europe, without mention of any particular retailer. To take full advantage of alliance buying economies, members will have to produce own labels which are alliance own labels rather than retailer own labels.

Alliance Euro-own labels will not succeed on a cost driven basis alone. New brands like GIB's Star-Cat could conceivably give traditional manufacturers, like Mars, an opportunity to regain some strength, as consumers make risk averse decisions, shying away from new and untested names that do not carry the endorsement of their preferred supermarket's name or logo. This is in addition to the difficulty of having to find and communicate a positioning that is equally attractive to housewives in Bonn, Barcelona and Birmingham.

Alliance born own labels are not commended as the way ahead in the short term. A medium term outlook is being evaluated by Alistair Grant, Chairman of Safeway. In contemplating European own labels in the context of the ERA alliance, an exercise was undertaken to assess:

> " The compatibility of own brand merchandise across every sector." [12]

This had led to the conclusion that while co-operation would continue, there was no quick fix to developing a true alliance- wide (and thus Euro) own label.

> "I believe we will have a European own brand in ten years time." [12]

In addition to this medium term approach, ERA members are considering the possibility of a new type of retail environment, the Euro-store. ERA's plans for a Euro-store are controversial in themselves. Whether this is seen as a Euro-brand (at the retail level) or 'Euro-bland', as some critics have labelled it, remains to be seen. This route at least offers the facility for the alliance own label programme to sit comfortably with the alliance retail brand. For the consumer, who patronises the store, the name on the package would be consistent with that on the own label.

There still remains the potential conflict between a market consisting of consumers, from different countries and regions with different tastes and cultures on the one hand, and on the other hand the retailers' desire to provide a consistent and uniform offering.

Asko Deutsche Kaufhaus' attempt to circumvent the problem of developing a true alliance Euro-own label, is an interesting one. Its intention is to introduce the beginnings of a Euro-own label across its MHB holding, combining both Massa and Metro.

A separate company based in Switzerland has been created to handle the own label operation. It has developed a range of own labels to compete against manufacturers' brands. To give its own labels a clear image, it created the personality of its own fictitious consumer, Isabelle O'Lacy. This name is protected throughout the world and its packaging has been tailored to cope with six languages. Their Vice-Chairman, Fred Lachotski, described its aims in terms of:

> "We wanted a [own label] product range with personality, with added-value, with an umbrella label; a product that took into account the environment; and a product range that was internationally usable and a defense against possible strategic alliances without Asko." [13]

Some retailers, notably Aldi, Auchan and Gateway have created their very own brand names, dropping the store name altogether; Gateway, for example, has Thistleton's chocolate, Butler's biscuits and Bella pasta. Aldi, on the other hand, rationalize this strategy by supplying a generic range under the Aldi name, which is consistent with their corporate strategy and the no 'frills' positioning of the store in the mind of the consumer.

For the organisation that has made little investment in the quality or range of its own labels, a name which has no associations with a store may seem an attractive option. Its strength is that it can be easily accommodated by all members of a retail alliance. However, the weakness is that it leaves the new name to compete against established manufacturers' brands, which often have a long heritage and loyal following.

Retailers' own labels, which are disguised as emanating from manufacturers, have little chance of establishing a consumer franchise unless they offer particularly attractive prices or are supported by significant promotional activity. Own labels which follow this naming route will not be that successful unless they are backed by sufficient stand-alone promotional activity.

Finding a new name to carry the retailer's own label across Europe is totally inappropriate for those own labels which are an extension of retailers' added-value propositions (the fourth own label strategy). This paper contends that risk averse consumers have come to patronise retailers' own labels over an extended period because they trust the retailer or its own labels - for the quality of service offered by staff, store design, layout and cleanliness, range of goods offered as well as perception of value for money etc. Retailers have responded by improving the quality of the products to which they attach their name. From this perspective own labels are an extension of the retailers themselves. Changing the own label name to penetrate Europe will cause confusion amongst loyal consumers.

In terms of the naming issues, the contention of this paper has been that successful own label is in part dependent on the support of the store name. Retailer alliances will have to use new names to convey a consistent pan-European positioning. The challenge is for the alliances' Euro-stores to sponsor their own label, complete with their own name.

The advent of the Euro-store is some time away. The current relatively loose-knit arrangement of the alliances does not facilitate such ambitious projects.

7.0 FACTORS THAT WILL INFLUENCE GROCERY BRANDS

It has already been suggested that brands have a number of roles to perform, from acting as shorthand devices for decision-making to satisfying status needs or reducing perceived risk in purchasing. In this context the store is as much a brand as the added value product that it sells.

A number of critical factors that will affect food distribution in Europe were identified by The Corporate Intelligence Group's report on this subject. These were:

1. the Green issue;
2. physical distribution;
3. retailer concentration and saturation;
4. producer concentration;
5. the impact of the Single Market itself.

Brands are inextricably linked with all five critical factors. As environmental issues take on greater significance for consumers and legislators alike, manufacturers and retailers will have to tailor their range and create new brands. The real significance of this is only now becoming appreciated.

As retailers lock into third party distribution contracts, with increasing use of information technology and just-in-time techniques, inventories will be turned around even faster. These services will be provided by added-value freight hauliers or logistics experts, such as Exel, Tibbett & Britten and Christian Salvesen. This will further facilitate multiple retailers' ability to supply fresh goods, an area targeted for growth.

The near saturation of the packaged groceries sector means that retailers must look for new opportunities in fresh goods and prepared meals. Ahold's "The Fresh Company" concept in Amsterdam, selling only fresh produce, is a brave venture and presents a further branding opportunity. In the UK, Marks and Spencer has set the standard for quality own label groceries, in particular with its innovative development of prepared meals. Major competitors are, however, beginning to make in-roads in this area.

Nielsen's research highlighted increasing concentration in grocery retailing, with the trend continuing in northern Europe and increasing in the south. Big store names, like Tengelmann, Ahold and Aldi, seem set to continue their drive into new geographical markets. In the UK, Sainsbury and Tesco will continue to capitalise on opportunities in their home market and so develop their brand profile.

Producer concentration has been seen to increase dramatically at the end of the 1980s as manufacturers from Europe and America rush to purchase brand names, often at more than premium prices in order to attempt to build Euro-brands or even simply beat 'Fortress Europe'.

Lastly but most importantly, there is 1992 and the Single European Market. A series of legislative reforms that will alter the way Europe does business has motivated near frenetic activity in the grocery retail sector. As barriers fall and trade is facilitated, aspirant retailers have either maintained independence or, through the alliances for example, taken up with other like-minded retailers in order to develop synergies and economies of scale. Such moves will affect their corporate brands in years to come. The greater the commitment to the alliance, the less the facility to build brand identity.

Finally, innovation should be mentioned for its importance in times of such sea-change. ERA's Euro-store concept could permit them to develop the brand identities of their stores across Europe. With this evolution, ERA will be in a much stronger position to sponsor their own labels carrying the Euro-store name. This would be an innovation that would counter the problem of own labels unsupported by store name.

All these issues are brand-related. A successful brand is a means of differentiation and ultimately of gaining competitive advantage. Brand owners in the 1990s must look further than the pack, product and promotion to develop winning brands that can transcend borders. Strategic thinking and planning, as well as an understanding of consumers' needs and motivations, rather than cost reduction per se, should be the "plat du jour".

8.0 CONCLUSIONS

As history has shown, forecasts and predictions are rarely realised. Consequently, this paper can do no more than provide general pointers to the future and pose key questions about the future for grocery brands.

In the short term, own label penetration seems set to continue its growth pattern. In southern Europe this will be aided by increasing retailer concentration and help from allied northern retailers. In northern Europe too, the predicted pattern is for still further increased retailer concentration. In addition management of own label programmes is becoming more sophisticated and can be seen to offer better returns than manufacturers' brands.

In the medium term (mid 1990s) the forecast is less optimistic. An increasing portfolio of own labels will require a commensurate increase in corporate promotion, especially through advertising the corporate brand. This has been evidenced in the UK by the increasing spend on advertising of its leading retailers and in particular, Sainsbury and Tesco's focus on own label as the theme for their campaigns.

Increasing shares of own label also make greater demands on retailers' management resources, both in terms of research and development investment, logistics and marketing.

The threat of manufacturers' Euro-brands is more important than the emergence of the retailer alliances' Euro-labels. Such alliances will necessitate the creation of new and unsupported brand names. This is a substantially different concept from traditional store-named own labels and must be a high risk strategy that has been cost driven rather than value added.

The future for existing own labels will be determined by the extent to which the larger retailers build up their cross-border activities. The brightest future has to be for the store-named own brands, particularly those offering significant added-value.

In contemplating the future for own labels, the issues that retailers will have to keep under constant review include:

* Will the mid-1990s see the dilution of nationalistic and cultural differences?

* Can such differences be overcome by skilful promotion, packaging and by product presentation, rather than by product modification?

* Is collaboration, in the form of the alliance, really a better route than competition for Europe's top twenty retailers?

* What is the 'ideal' balance of own labels and manufacturers' brands in a modern superstore or hypermarket?

* Can and should retailers look for opportunities to distribute their own labels outside their own outlets?

* How will the improvements in information technology systems affect the development of own labels?

* Will tele-shopping further separate manufacturers from consumers, with a consequential shift to own label?

* How significant are the facets of the corporate brand and service for the development and success of the own labels?

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FOOD RETAILING IN EUROPE - POST 1992

PROJECT II
THE COCA-COLA RETAILING RESEARCH GROUP
EUROPE

THE OPENING UP OF EASTERN EUROPE : THE IMPLICATIONS FOR WEST EUROPEAN BUSINESSES

A study prepared for

THE COCA-COLA RETAILING RESEARCH GROUP EUROPE

by

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CONTENTS

SUMMARY OF MAIN FINDINGS

In most East European countries purchasing power remains low, currency conditions are still uncertain and the facilities for money transfer are somewhat limited. In some cases the import of goods is made conditional upon exports, which means that commercial companies from Western Europe are required to participate in offset transactions.

The key role in the opening up Eastern Europe will probably be played by wholesalers. It will be wholesalers that pass orders to domestic companies in Eastern Europe and become responsible for import functions.

For some time to come it will be less of a problem to start a retailing operation - provided that the market for selling exists. A variety of retailing options are available: in particular, the establishment of new independent outlets, the renting of shops and "the shop-in-a-shop" concession.

Commercial companies from Western Europe will also be required to become heavily involved in the sale of domestic goods. This means that these Western companies will have to have much closer links with production sources in Eastern Europe.

Any wholesale or retail company interested in doing business in an East European country should take action as quickly as possible. It should appoint specialists familiar with the countries in which the company wishes to do business. These specialists are essential because the conditions in individual countries in Eastern Europe vary considerably. Moreover, the speed of progress towards a market economy will also vary.

These specialists must have an in-depth knowledge of the wholesale and retail trade in the countries concerned. In particular they must be able to integrate themselves and the operations of the company for which they are working into existing logistical systems.

There are different ways to develop those specialists. First level management should go to the Eastern countries one year or more before starting an economic link-up, to learn how the respective economy is functioning and developing. It would be advantageous from the beginning to build up a tandem-organisation with highly educated people with international business experience actually living in that country.

Second and third level management should then be transferred to the West European Company, to get a three to six months practical and theoretical crash course.

Any company considering business links with Eastern Europe must have good staying power. Apart from activities involving a small number of specific products which require only a minor commitment, e.g. selling coffee or a narrow product range, companies must accept a lean period of between 3 and 5 years.

To earn respect and trust in Eastern Europe a company will have to show that its commitment to that East European country is serious and is likely to remain so for some considerable time.

Mental attitudes in Eastern Europe, the commercial ideology and the main emphases in the business world are very different from those in Western Europe.

1. BACKGROUND - INITIAL SCENARIO

Never before in history has there been anything remotely comparable to the complexity of variables which companies are now being asked to master. These include:

- the completion of the Single European Market;
- the creation of a market economy in the new German Federal States;
- the economic and political opening up of Eastern Europe;[1]
- the increasingly global dimension of trade;
- the North/South problem and, with it, the problems of developing countries.

Two main events have put their stamp on action for the 1990s; firstly, the quantum leap precipitated by the signing of the Single European Act on the 1st July 1987, which paved the way for the Single European Market and the elimination of barriers within Western Europe; secondly, the ideas of perestroika introduced by the USSR in 1985 which, in principle, were the catalyst for the opening up of Eastern Europe in the first place. From July 1992 it is possible that residents of the USSR may even have the right to travel abroad - although the initial draft legislation to implement this freedom has been rejected.

What are the implications for the business community?

- firstly, companies must re-examine their vision and strategy of their own future.

- secondly, companies must identify the markets in which they would like to be active in the future.

Companies may decide to restrict their activities to a national or a regional level. They may equally decide to be active in several or many countries in Western Europe. However, they may decide to look towards Eastern Europe. The opportunities for trade are particularly good in what was East Germany and in Czechoslovakia. West German companies have already moved into the former East Germany. In the immediate future Czechoslovakia is likely to be the most attractive country for retailing, more so than Hungary or Poland.

This is so because the quality of products stemming from Czechoslovakia is above average. In view of its industrial tradition and earlier experiences with democracy and the principles of a free-market economy, the CSFR will have fewer adaptation problems than other countries. In addition, it is more attractive because it is a low-wage country.

The principles of a Planned Economy and a Market Economy

The differences between the two basic options (i.e. a socialist society and one based on democratic pluralism) stem from a different conception of the fundamental rights which the State considers important and therefore worth protecting and from the influence which the State exerts on its citizens.

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1 For the purposes of this report Eastern Europe also includes the USSR.

In the Marxist-Leninist ideology basic attitudes to human interaction are pre-determined and irrevocable. They form an integral part of the system, although no attempt has been made to assess whether these attitudes have any link with reality.

In a socialist society there is a universal assumption that the individual is prepared to do something for the common good without the need for tangible motivation. It is expected that the individual will subjugate himself/herself willingly to the dictates of the State. The opportunities for choice in all walks of life are either reduced or eliminated completely.

In contrast, in a society based on democratic pluralism there is general freedom for the individual to think and act as he/she wishes within a framework of basic constraints. Political parties are in competition. They vie with each other for the political support of their electorate. Press freedom guarantees in-depth information on diverse subjects, thus contributing towards the development of public opinion. To restrain egotistical traits and to ensure an acceptance of social responsibility and commitment, the State will fix parameters. In addition human interaction, which is in a permanent state of friction, means that compromise solutions, which are compatible with the requirements of society, will have to be found for any problem.

In a centrally-planned economy citizens and consumers are treated as children. It is Utopia to think that the individual will act for the common good. Man is not altruistic; on the contrary he is strictly egotistical. The pressure exerted by bureaucracy on its citizens alters the inherent strength of individuals. It numbs their ability to achieve. A market economy established within a democracy respects decisions made by the individual. In terms of politics, however, this respect of an individual's decision will only exist if that decision is supported by the majority.

In the centrally-planned economy decentralised bodies are primarily agencies to enforce the authority of the State. Individual initiative can only move within narrow bounds between preset political and economic parameters.

2. THE DYNAMICS OF EAST EUROPEAN SOCIAL AND ECONOMIC SYSTEMS

The reform process in all Eastern bloc countries started in the 1960s. However, until the end of the 1980s the following inalienable principles existed in all of the countries:

1. the automatic leadership right of the Communist Party;

2. the retention of basic elements of centralised planning despite greater participation, greater freedom of action for individual companies and a certain market orientation.

In particular the entrenched power structures were strongly resistant to fundamental changes. The unwillingness of the authorities to adapt was significant.

Problems common to all Eastern European countries include:

1. the major lack of a sound infra-structure;
2. serious environmental pollution;
3. serious supply problems - in the main;
4. major currency problems;

5. in most cases high inflation rates;
6. high - and increasing - budget deficits;
7. in most cases significant pent-up demand which cannot be met;
8. generally high rates of subsidies (e.g. in 1980 subsidies accounted for 60.7 per cent of the Polish national budget and in 1988 41.9 per cent);
9. high budget-financed investments;
10. recession brought on by restructuring.

Eliminating fears

Those living in Eastern Europe have wide ranging fears about the reform process. These include:

- the fear of job losses;
- for those on low incomes, the fear of a reduction in the necessities they can afford following the elimination of subsidies and the resultant price increases;
- the fear of losing their savings;
- the fear of reduced state welfare benefits.

These fears go hand in hand with the dismantling of unsuitable, though sensible, structures. The perceptions of a market economy are lacking. People find it difficult to sort out problems which, in a market economy, would be clearly defined (e.g. the question of ownership). There is a general belief that viable alternatives can be established reasonably quickly, but this actually encourages chaos. On top of this there are the issues of political uncertainty and mutual insecurity.

The problem of excessive demands

Western Europe must be clear as to what can be expected from Eastern Europe in the medium term. It must be able to recognise if the economy or society of a country is being subjected to excessive demands. Environmental and energy problems are examples of this. Despite the catastrophic conditions which exist, economic development cannot be stimulated if, in the short term, the demands on Eastern European countries in terms of, for example, anti-pollution measures are equal or greater than those which would be considered reasonable in EC states such as Portugal or Greece.

Any attempt to establish priorities and achieve a consensus in Eastern Europe will remain influenced by efforts to safeguard the supposed achievements of the welfare state. In contrast to a more open and more ruthless market orientation these influences will inhibit development to a greater or lesser extent. In such circumstances the price mechanism will not be effective because of the subsidies that are available.

The major differences between East and West European societies are highlighted in the table on page 5.

Summary 1

Selected differences in East and West European societies

Western Europe	GDR (1990)	Eastern Europe
	- Market and Democracy -	
Well - established understanding of the synthesis between democracy and a market economy	Growing understanding of the relationship between democracy and a market economy	Start of the democratisation process with a move away from the one party system including, by necessity, the end of the primacy of the communist party, the practice of plurality of offices and the end of patronage and nepotism
	- Market versus Plan -	
Ever increasing importance of marketing, even if the proportion of marketing value and product value of any market output varies depending upon the development stage of the economy	Rapid change from a planned to a market economy Inadequate knowledge of marketing and management	Difficult process and resistance to the ideological rejection of a third way which would combine elements of collectivism and market principles and a movement towards the market economy
Clear ownership structures	Still serious difficulties on the question of ownership; no clear understanding of central issues; Treuhandanstalt (trustee body) badly structured	Trend towards several forms of ownership - state - collective - co-operative - private
Companies have wide discretion in decision making	Attempts to protect domestic companies	As before more (USSR, Bulgaria) or less (Czechoslovakia, Hungary) in the way of Guidelines and Central Directives
	- Price Formation -	
Despite considerable price regulation in many sectors, internal and external price freedom with prices playing a market role	Laborious elimination of subsidies and price levies with a trend towards market prices in the absence of pricing principles, pegged to West German price levels (advantage and disadvantage)	Repeated postponement of price liberalisation, gradual approach often with a half-hearted linkage to the freedom of factor prices i.e. wage support for social reasons, continuing lack of understanding between pricing, decentralised decisions and ownership structures

Differences in Reform Policies

It is a mistake to assume that all East European countries are at an identical stage of development. Differences in social and economic structures within individual East European countries (e.g. comparing Czechoslovakia with Rumania) are greater, at least in psychological terms, than those within Western Europe, (e.g. comparing West Germany with Portugal or Greece). Similarly, there are significant differences in the reform policies adopted by the various countries within Eastern Europe.

Take, for example, the differences in privatisation policies:

Czechoslovakia: There is a great fear of foreign domination. For this reason price reform and restructuring have taken priority over privatisation and the encouragement of foreign companies.

In 1991 Czechoslovakia started to privatise the retail sector, which had previously been under state control, together with thousands of small companies such as taxi firms and restaurants. Privatised companies cannot be resold for a specified period - currently two years. The first auction was held in Prague in January 1991 at which 17 food and electronic shops went under the hammer. About 100,000 retail outlets, previously under state control, are scheduled to be privatised in Czechoslovakia on a gradual basis.[2] Larger companies are to be offered for sale after April 1991. Foreign applicants may be considered when these come up for sale.

Hungary: In Hungary an attempt has been made to counter the dangers inherent in a sell-off of national assets by the creation of a Commission which will monitor the privatisation of state property (the State Assets Agency). This Commission is answerable to Parliament and not to Government.

Hungary has passed legislation providing compensation for earlier expropriations. This has created the framework for an acceleration in the rate of privatisation and should increase the interest of foreign investors.

In September 1990 the State Assets Agency drew up an initial privatisation programme covering 20 large Hungarian state-owned organisations. These privatisations - which include the Centrum chain of department stores with 36 shops and a turnover of 18.6 billion (thousand million) Forint and the Danubius hotel chain - are scheduled to be implemented after June 1991.

As a further step about 600 smaller Hungarian companies are to be transferred to private ownership.[3]

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2 See non-attributed article: "Czechoslovakia - 100,000 shops under the hammer" published in the "Textil-Wirtschaft", 46th Year, 1991 No. 6, page 51.

3 See non-attributed article: "Budapest adopts a step-by-step approach to the stony path of privatisation", published in the Handelsblatt, 46th Year, No. 83, 30 April 1991, page 8.

Poland: The radical economic policy introduced in Poland is bearing fruit. In 1990 more than 500,000 companies were established, exports increased by 34 per cent to about DM 9 billion (= thousand million), and the trade surplus was US$ 4.7 billion. However, unemployment has increased to 17 per cent of the working population and is currently standing at 2.7 million.

3. THE FUTURE SOCIAL AND ECONOMIC SYSTEMS OF EASTERN EUROPE

The current transition period in Eastern Europe is characterised by a series of fundamental weaknesses: social, economic but above all psychological.

In Eastern Europe, unlike Western Europe, industrial leaders are often also the political leaders. Many of these individuals are unable and unwilling to come to terms with the facts that for their entire lives they have supported a system which was not tenable in the long term and that they have identified themselves 100 per cent with the system. It is extremely difficult for them to accept the superiority of a system adopted by their former class enemy. Struggles for both self- affirmation and a substantiation of their own professional positions are perceived as difficult by many managers involved in the process of converting to a market economy. Changes to the economic system generated from within remain limited. The half-measures adopted for economic reforms remain the major problem in the process to transform Eastern Europe.

Thus, there is a so-called "as well as" economy to be found in the USSR, which is still trying to combine communism and a free-market economy despite the coup on 19 August 1991.

Despite the new processes of democratisation and decentralisation leading to the sovereignity of the Soviet republics or even their total independence from the USSR, the democratic forces are still being confronted by a powerful "Nomenklatura" trying to jeopardise reforms. The development in Russia will most of all depend on Jelzin's power to assert himself.

There are two possible scenarios for developments in Eastern Europe:

Scenario A: a rigorous switch to a market economy;

Scenario B: an attempt to find a new social order within the market economy incorporating democratic features with strong collectivist elements.

It is still not absolutely clear which countries will opt in the long run for Scenario A and which for Scenario B. As far as can be ascertained at present Poland, Czechoslovakia and Hungary have so far opted for Scenario A. If a country seeks to pursue an option on a long term basis for Scenario B, further delays to the process of social and economic restructuring are inevitable. The recession brought on by structural changes will be extended and an economic resurgence prevented.

In the search for a new, third path the lack of a clear understanding of the functions of the market will result in objectives which are both contradictory and incompatible.

1. They will be seeking to combine a better supply of goods and services at cheap prices with measures to protect existing jobs and to pay high wages. Live as under capitalism and work as under socialism.

2. Despite a hesitant and vague approach, the establishment of independent companies will have to be implemented through the ownership mechanism.

3. Because of the desire to remain independent, which in some cases is deeply entrenched, countries may reject co-operation with Western companies although they lack the ability to operate their own market-based economy.

A realistic interpretation of the future in Eastern Europe is that an attempt will be made to follow Scenario B for several more years, until it is realised that the various constituent parts of the system which they have adopted are incompatible. There is incontrovertible evidence that countries which opt for Scenario B will gradually be forced to go over to Scenario A.

The overall conclusion has to be that each and every East European country will have extreme difficulty in finding its new social, political and economic path.

The new fragmentation of Eastern Europe should strengthen market forces since smaller independent states are probably more capable of adaptation to changed conditions. The former economic structure will, however, make sure that the republics of the Soviet Union continue to depend on each other. The deterioration of foreign trade after giving up the RGW (Rat für Gegenseitige Wirtschaftshilfe) inflicted damage on all parties concerned.

Developments in Yugoslavia will be characterised by the need to opt for federative solutions.

<u>The rejection of the plan and its replacement by the market and marketing</u>

The switch in Eastern Europe from a planned economy to a market economy has confirmed the realisation that the market, which by definition includes the process of marketing, is more than just an element in economic control. The process of perestroika will be characterised by a growing acceptance of the principles of freedom and democracy and a greater understanding of the principles of a market economy. The following are said to be the major features of a market economy:

- personal freedom;
- supremacy of the rule of law;
- acceptance of private ownership;
- a realistic perception of human nature with its strong ambivalence between egoism and altruism;
- opportunities for choice and variety in all walks of life;
- management conducted by decentralised companies;
- trade conducted by decentralised institutions.

The realisation that the countries of Eastern Europe must restructure their economies from the bottom upwards requires a:

1. rapid and intensive development of marketing expertise;

2. development of management practices based on market economy principles.

One of the main challenges is the need to awaken the instincts required for a market economy. This will necessitate immediate changes to the educational system in Eastern Europe.

An important part of the learning process in Eastern Europe must be the realisation that the means of production must undergo a fundamental rationalisation so that production costs can be reduced. In addition it must be accepted that the switch to a market economy will almost inevitably result in rapidly increasing transactional and marketing costs. Accompanying this will be a willingness to attach far greater importance to the trading function.

Chaotic developments

The possibility that developments in some East European countries may take a chaotic course, which would delay the profits anticipated by Western investors, cannot be excluded with absolute certainty.

The reason for this is that inevitably the old/new managers in the East have no basic trust in the market. It is difficult for economists formerly schooled in the ideology of the planned economy to change their behaviour to accord with the principles of the market economy and yet at the same time retain their authority to make decisions.

The dynamics of the social and economic systems in Eastern Europe are summarised in the table on the following two pages.

Summary 2

The Dynamics of Social/Economic Systems in Eastern Europe

Initial position 1985	Current Situation	Future Scenario A	Future Scenario B
	- Basic Elements of the Social Order -		
Strict or very strict centralised economy	Switch to a market economy but with major efforts to retain elements of the planned economy	Development of a clearly identifiable market economy despite major friction during the 5-10 year conversion period	Attempt to "plan" the conversion to the market economy with an attempt - probably unsuccessful - to avoid friction
Rather slow and leisurely changes	In some cases contradictory policies and measures	Rapid awakening and a new beginning	Serious delays to the process of economic development
One party system with the parties dominating social policy	Several parties allowed to operate, Communist Party renounces its monopolistic right to govern	Switch to a parliamentary democracy	Attempts to anchor fundamental elements of the communist system within a multi-party system
State and co-operative ownership, hardly any private ownership, suppression of private companies continued in some cases well into the Eighties	Conditions for domestic private ownership increasingly based on legal principles, serious administrative problems remain	Extensive privatisation of companies & combines, including the basic privatisation or de-collectivisation of land, co-operatives maintained	Limited privatisation of productive assets, collective farming retained but with variations in the level of collectivisation
Foreigners only allowed minority shareholdings	Foreigners allowed to hold majority shareholdings in commercial companies	General acceptance of foreign ownership and entrepreneurs	Foreign ownership and entrepreneurs only allowed on a controlled basis
	- Basic Features of the Economic System -		
Weak economic growth	Economy fluctuates between negative and slow growth, high inflation	After an initial transitional period marked by continuing negative growth GNP grows rapidly and in real terms	The new system will mean major transitional problems with little economic growth
Productivity ranging from very poor to average	Productivity ranging from very poor to average; unemployment high	Rapid increase in productivity; gradual reduction in certain sections of unemployed population	Only limited increases in productivity because of the superimposed social network

.../continued

Summary 2 (continued)

The Dynamics of Social/Economic Systems in Eastern Europe

Initial position 1985	Current Situation	Future Scenario A	Future Scenario B
Planned production with fixed prices and control of price characteristicsand increasingly volume characteristics	Reduction in the planned element; in some cases completely (Poland) but sometimes retaining considerable elements of planning, subsidies and price adjustments	Switch to price control with management decisions decentralised	Mixture of planning and price mechanisms; however, no historical model and effects difficult to gauge
	- Role of market mechanisms -		
Markets not based on consumer requirements	Beginnings of a deliberate orientation to customer/consumer requirements	Adoption of the marketing philosophy of Western industrial countries	An attempt to follow a path of socialist market principles
Distribution and rationing	Intense awareness of undersupply compared with Western industrial countries	After a transitional period convergence of supply and demand	Attempt to organise demand and in some cases demand controlled by non-market mechanisms
Pent up purchasing power	Reduction in pent up purchasing power by cross border shopping forays and imports	Shortages overcome by market mechanisms and the beginnings of an affluent society; development of new marketing and transaction companies	Market orientation slow to develop with supply bottlenecks
No knowledge of the workings of the market	radual build-up of knowledge on the workings of the market; black market	Rapid development of a market philosophy and marketing knowledge	Protracted search for a separate market/ marketing ideology
Apart from a few Western export companies foreign trade run on a monopolistic basis	More decentralisation in foreign trade as an important core process in the acquisition of marketing expertise	Foreign trade unrestricted, desire for a freely convertible currency and membership of international institutions	Obligation to control currency and foreign trade policy because policies of liberalisation incomplete

The trend is for all East European countries to strive towards:

1. Privatisation by:

    a) the sale of state companies and agricultural units;
    b) the leasing of state companies and agricultural units.

2. Creation of an independent banking and monetary system, with a central bank and commercial banks competing with each other.

3. Creation of competition by allowing new companies to enter the market.

4. Foreign capital admitted and Western external trade encouraged.

Even so, the problems which still exist are diverse:

1. All countries have a sizeable black or parallel economy which in some cases - as in the USSR - is run by permanent criminal organisations closely linked to the official economic system.

2. The principles of a market economy have been adopted either half-heartedly or not at all. This has led to major problems, particularly high inflation rates and unstable markets.

3. The time before any up-turn in the economy can be expected has been seriously under-estimated.

4. The effects of inadequate infrastructure are underestimated.

5. It is difficult to dismantle existing power structures.

6. The question of the division of power between politicians, civil servants and industrialists has not yet been resolved in Eastern Europe.

7. The outstanding question of how to safeguard the democratic framework remains unresolved.

8. The serious structural problems in Eastern Europe will take several decades to solve. Solutions will require priorities to be agreed by those in power and for a consensus to be found. In the initial stages it will be impossible to achieve this through the mechanism of the market.

9. Even if Western institutions are copied (e.g. the creation of a two tiered banking system and separation of party and government), the actual results will differ from those in Western democracies and market economies because Eastern Europe has been locked into a completely different social structure for many decades.

Future problems for East European societies

It can be assumed that for the foreseeable future it is unlikely that many of those in positions of authority in Eastern Europe within the ranks of the civil service, industry and other institutions will be discriminating or subjected to fundamental changes. There will be no radical breaking down of the existing informal network of decision makers in government and industry - at least not in the immediate future. The strength of personal relationships will be crucial in determining which aspects of the market economy succeed. The previous situation of complex alliances between decision makers in industry, politics and the civil service will still be encountered.

New decentralised solutions in connection with private property will have to be developed by managers holding important positions in public authorities and private enterprises. The development of a new kind of interaction between democratic partners, parliament, administrators, and private enterprise and other institutes must be broadly supported by the public. There is a high risk of social unrest if the economic development remains unstable.

Implications for companies from Western Europe

The Western investor in Eastern Europe is confronted with numerous barriers, in particular:

- the legislative framework is still unsuitable for foreign investment;

- at the local level authorities lack experience; diplomatic representatives abroad lack experience; communication networks are inadequate; telephone links are particularly poor.

Enormous reconstruction work remains to be done in Eastern Europe to bring it up to West European levels of affluence. Politicians, civil servants and industrialists in both East and West must, therefore, co-operate.

When the economic upturn occurs and the satisfaction level of the population has increased, discrimination against those foreign organisations, which were instrumental in bringing this improvement about, cannot be excluded. It is possible that the only way to counter the expected debate in Eastern Europe on foreign domination will be for the complete integration of Western managers employed locally. Ultimately this may have to include the adoption of the nationality of the host country. In addition joint undertakings or joint ventures may act as an antidote to hostility towards foreigners.

If companies from Western Europe are to succeed in Eastern Europe it is essential that they integrate into the strong informal network of transaction control.

4. COUNTRY BY COUNTRY ANALYSIS OF EASTERN EUROPE

The Gross National Product of the entire East European market is only 40 per cent that of the EC despite the fact that its population of some 410 million inhabitants (1990) is about 30 per cent higher than the comparable figure in the EC. At present Western business in Eastern Europe is minimal: Western countries account for only about 1.4 per cent of Soviet foreign trade and 3 per cent of Poland's foreign trade.

In 1990 population figures for selected countries and economic regions were estimated to be:

EC	342 mn
USA	250 mn
Eastern Europe	120 mn
Japan	124 mn
USSR	290 mn

Using the parameters of population, economic strength, degree of economic liberalisation and acceptance of foreigners, countries in Eastern Europe can be divided into three groups:

Top group	Middle Group	Bottom group
Czechoslovakia	Poland	Rumania
Hungary	Bulgaria	Albania
	USSR	

The efforts to fragment the Republic of Yugoslavia mean that it must be considered separately. It was previously in the top group but has fallen back. Its economic decline will only be replaced by a economic up-swing when the already existing economic constraints are allowed for and federative or confederative solutions adopted.

The basic statistical data on the East European countries are set out in Tables 1 and 2 below:

Table 1. Statistical Data for East European Countries, 1988

Item	Albania	Bulgaria	Czech.	GDR	Yugoslavia
Area ('000 sq m)	29	111	128	108	226
Population (mn)	3	9	16	16	24
National Product (US$ bn)[1]		14	92	154	61
National Product per capita (US$)[1]		1,500	5,900	9,200	2,600
Exports (US$ bn)		17.2	24.9	31.1	12.6
Imports (US$ bn)		16.6	24.3	32.2	13.1
Exports to OECD countries[2]		0.7	3.8	2.7	5.7
Imports from OECD countries[2]		2.4	3.6	3.0	7.3
Debt/Exports (%)[3]		45	21	62	63
Industrial production[4]				3.5	2.0
Inflation rate[4]		11	10	10-15	1256
Per capita income, (EC average = 100)[5]		45	65		45
Econ. growth in %[6]		-11	-3		-3

Table 1. Statistical Data for East European Countries, 1988 (continued)

Item	Poland	Rumania	USSR	Hungary
Area ('000 sq m)	313	238	22,400	93
Population (mn)	38	23	285	11
National Product (US$ bn)[1]	68	28	685	28
National Product per capita (US$)[1]	1,800	1,200	2,400	2,600
Exports (US$ bn)	14.0	12.9	110.6	10.0
Imports (US$ bn)	12.2	9.5	107.2	9.4
Exports to OECD countries[2]	5.7	4.0	23.7	4.1
Imports from OECD countries[2]	5.0	1.2	24.8	4.0
Debt/Exports in %[3]	279	21	36	173
Industrial production[4]	-4.0	-	3.5	-1.0
Inflation rate[4]	270	-	>10	18
Per capita income, (EC average = 100)[5]	30	20	35	55
Econ. growth in %[6]	-12	-12	-4	-5

Notes:

1) in some cases estimates
2) in US$ billion (thousand million)
3) gross, less credits with Western banks
4) 1989, % change compared with previous year, in some cases estimates
5) estimates based on comparisons of purchasing power
6) 1990

Source: Dresdner Bank; quoted in article by Grassau, Gunther. "Full steam ahead to the East" published in Industriemagazin, 1990 No. 9, pages 98-102, page 101, see also non-attributed article " I am an eternal optimist" in Der Spiegel, 1991, No. 17 pages 149 - 158, page 151.

Table 2. Changes to selected external trade indicators in the seven European COMECON countries, 1986-1989

Item	1986	1987	1988	1989
	(US$)	(US$)	(US$)	(US$)
Balance of trade with:				
OECD countries	-1.082	+1,491	-2,502	-2,816[1]
Current account balance	+0.449	+5,251	+3,885	-1,900[2]
Gross debt	113,249	129,603	133,335	148,200[2]
Net debt	83,886	97,899	98,910	114,574[2]
Net interest payments	5,466	6,385	7,255	8,153[2]
	(%)	(%)	(%)	(%)
Net debt/exports	152	158	153	169[2]
Net interest payments/ exports	10	10	11	12[2]
Debt service quota[3]	33	33	35	35[2]
Reserves/imports	58	62	59	53[2]

Notes:

1) January to September
2) Forecast or estimate
3) All interest and amortisation payments to service the medium and long term debt as a proportion of annual exports.

Source: OECD Financial Market Trends No.45; quoted in non-attributed article: Germany feels the Upheaval in Eastern Europe, sobering OECD analysis in the Neue Zurcher newspaper, Year 211, Foreign edition No.50, 2.3.90, page 16.

The COMECON Common Market

The trend which predominated well into 1989, that of transforming the economic bloc formation of COMECON into a political entity, was terminated by the process of liberalisation in East European countries. For all practical purposes COMECON has ceased to exist.

Recession in Eastern Europe

In 1991 the WIIW, the Vienna based Institute for International Comparative Economic Studies, published a research report which contained estimates of the industrial production in and the Gross Domestic Product of Eastern Europe and the USSR in 1990. According to this report industrial production in East European countries, including the Eastern part of Germany but excluding the Soviet Union, had dropped by 20 per cent. The drop in GDP was estimated at 14 per cent. Compared with the situation in Eastern Europe the recession in the Soviet Union was "modest". Industrial production dropped by 5 per cent and GDP by 3 per cent. For the entire region including Yugoslavia the WIIW estimated that in 1990 industrial production had dropped by 9 per cent and GDP by 6 per cent.

It is probable that the recession brought on by the need to adapt, as currently being experienced by East Germany and other East European countries, is a necessary element of the process to convert from a planned to a market economy. The recession acts to create the new economic basis from which the upturn will emerge.

Most countries in Eastern Europe must expect the recession to continue in 1991 and in some cases into 1992 as well; in Czechoslovakia it is likely to get worse and in Hungary, the Soviet Union, Rumania and Bulgaria it will probably remain the same. In addition, all countries will have to cope with deteriorating world economic conditions. The collapse of COMECON, high energy costs, recession in the West and rising interest rates on the world Financial Markets will put a burden on their current account balances and reduce growth potential.

Taking Eastern Europe as a whole the recession in 1991 is likely to be similar to that in 1990 (see Table 3). Attempts to stabilise economies, particularly in the Soviet Union and Yugoslavia but to a somewhat lesser extent in the remaining East European countries as well, will have little chance of success because of political, social and ethnic tensions.

Table 3. Eastern Bloc Economies, 1990

Country	Industrial Production	GDP
Bulgaria	-13.0	-12.0
Czechoslovakia	-3.5	-3.0
Hungary	-10.0	-5.0
GDR	-29.0	-22.0
Poland	-25.0	-17.0
Rumania	-21.0	-15.0
Eastern Europe	-19.5	-13.8
Soviet Union	-5.0	-3.0
Yugoslavia	-10.6	-10.0
Region as a whole	-9.3	-6.3

Source: Institute for International Comparative Economic Studies, Vienna; quoted in non-attributed article in "Dramatic Recession in Eastern Europe - Production minus in the Soviet Union still moderate: published in the Saarbrucker Zeitung, No. 31, 6th February 1991, Page 7.

In March 1991 Jacques Attali, President of the New European Bank for Reconstruction and Development, stated that 2,000 billion ECU would be required to bring East Europe living standards, including the USSR, up to those in Western Europe.

Debt figures for Eastern Europe

According to an OECD survey debts levels in the seven European countries of COMECON increased rapidly between 1986 and 1989 and they now have a negative current account balance. In Poland the ratio between net indebtedness and annual exports is similar to that in the worst countries of Latin America. Similarly the debt limit is considered to have been reached in both Bulgaria and Hungary. Inflation has accelerated and the Net National Product has scarcely risen. Trade with OECD countries was weaker in 1989 than in 1988.

In 1990 the external indebtedness of the USSR exceeded US$ 54 billion; the foreign trade deficit was US$ 4.7 billion.

By 1990 the combined indebtedness of Czechoslovakia, the Soviet Union, Hungary, Poland, Bulgaria and Rumania totalled US$ 123 billion, i.e. an 85 per cent increase on 1985. The hard currency debts of the above countries amounted to 211 per cent of their export revenue.

Table 4. Net Hard Currency Debts of East European Countries, 1990

Country	Debt figure (US$ bn)	Interest paid as % of export revenue (%)
Bulgaria	9.8	43
Czechoslovakia	6.3	10
Poland	41.8	41
Rumania	1.3	1
Hungary	20.3	35
USSR	43.4	14
Total	122.9	-

Source: OECD; German Economic Institute, Cologne quoted in non- attributed article: "Chronic shortage of foreign exchange" published in Handelsblatt, 46th Year., No. 81, 26/27th April 1991, Page 12

Generally speaking, private banks in the West are cautious in the credit policy adopted towards these countries because they are unable to gauge the inherent risks. This compounds the problem further and the conditions required for growth are impaired because of lack of investment resources. Several countries such as Bulgaria and the USSR have already stopped paying or have asked for a moratorium. The position is similar to that in developing countries; i.e. lenders are being forced to make value adjustments. This creates a further problem, because the inflow of money is reduced whereas it needs to be increased. The World Bank, the International Monetary Fund, the new East/West Bank and other institutions have been under pressure for some time to tackle growing recession by taking appropriate counter-measures.

In some cases the conditions imposed on loans to East Bloc countries have been unrealistic. For example, the International Monetary Fund makes funds conditional upon the introduction of a free market economy and the elimination of import restrictions despite the poor state of the balance of payments. This cannot succeed. Because of this, credit is being reduced and interest increased.

This highlights the dilemma confronting the growth policy adopted in Eastern Europe. Despite the validity of demanding a process of liberalisation, Eastern bloc countries will be forced to continue a policy of restricting imports for many years. This means that it will be almost impossible for them to buy capital goods from the West. It will be impossible to develop conventional industrial locations in Eastern Europe producing goods of a standard comparable to that in the West.

Balance of payments problems are forcing Hungary and the other small countries in Eastern Europe to adopt a stop-go policy as part of their reform process.[4]

The situation in Hungary is an example of the balance of payments dilemma which has confronted East European countries following the liberalisation of economies in socialist countries. In 1988 the gross debt in convertible currencies was US$ 17 billion from an annual debt service of only US$ 3 billion. This is more than 50 per cent of its export income. The expected trade surplus of about US$ 500 million for 1989 would only cover about one third of its interest liabilities of US$ 1.5 billion.

Future prospects

The economic prospects for countries in Eastern Europe remains adverse. The efforts to convert economies will take longer than was previously expected.

There are variations in the speed of change to a market economy in Eastern Europe. The switch to market principles in Eastern Europe is first apparent in the export of goods and services for Western currency and in the existence of wage and salary differentials. For example, wages paid by Hungarian companies which have entered into joint ventures with the West are about 50 per cent higher than the norm for that country.

The confusing policies for reform in Eastern Europe, including the USSR, are creating difficulties for all foreign investors. Western companies are, however, still well advised to prepare themselves for co-operation in the future.

Reliable and topical information on the changing legal and economic structure has to be available on all those countries of interest to Western enterprises. A consistent information programme, as well as reliable sources to be contacted locally, are essential requirements.

5. DIFFERING MARKET CONDITIONS IN EASTERN AND WESTERN EUROPE

In the early stages the transition from a scarcity/supply economy in Eastern Europe to an affluent society will be achieved by established products and services and by using established marketing methods. Any fears that markets might become saturated are superfluous for several decades.

Established products will be required to bring Eastern Europe up to a Western standard of living. In addition known and well-practised marketing strategies will be required once these countries have overcome their inherent ideological and psychological resistance to change.

By contrast, in the Single Market the existing range of marketing tactics used by suppliers and retailers will continue to develop; innovations will be needed to meet the steadily increasing demands made by increasingly affluent customers. Moreover, high living standards and low population growth, combined with high standards of education in Western Europe, will increase the international potential for both products and for retail operators.

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4 See also Schenk, Karl-Ernst: "Perestroika: Opportunities for the World Economy?", published by Volkswirtschaftliche Korrespondenz by the Albert-Weber Foundation, 28th Year, 1989, No. 9, no page numbers.

There is a clear polarisation between the situation in Western Europe and that in Eastern Europe, where economies are less well developed and population growth is comparatively buoyant. The main requirements in Eastern Europe are for basic mass-produced products and for clearly defined niche products for a small elite. A mass market for quality goods with the import of products sold internationally will not appear until a middle class has become established and middle income levels achieved.

The dynamics of consumption and demand

In Eastern Europe the dynamics of consumption and demand are likely to follow a specific wave-like pattern.

Riding on the crest of the wave will be communication products; for example, consumer electronics and modern photographic equipment and related products such as books. Rising demand for records, tapes and CD discs will follow the acquisition of basic equipment. The quality of that basic equipment will be determined by how fast incomes grow.

Another important factor will be mobility, with a strong demand for cars. An international study of car ownership in 1986 revealed the following number of cars per 1000 head of population:[5]

USA	570	Hungary	145
West Germany	446	Yugoslavia	125
France	388	Bulgaria	120
Japan	235	Poland	105
East Germany	204	USSR	42
Czechoslovakia	173	Rumania	11

Donald Petersen, the former Ford boss, has forecast that 60 per cent of growth in the motor industry over the next 20 years will be accounted for by Eastern Europe.

At the same time demand for housing and household goods will be stimulated, resulting in opportunities for the building and furniture sectors. The increase in demand for clothing and foodstuffs will be more tentative. As consumers will be unable to afford everything at the same time savings will be made in these areas. It is likely that in the short term demand will be for high quality products, at least in the new German Federal States, Czechoslovakia and Hungary. This will arise, not just because of environmental factors, but because of the desire for things which will retain their value.

The polarisation of demand will be much more evident in Eastern Europe than in Western Europe.

Brand awareness

Because the quality of their own products leaves much to be desired and because Western goods, despite their limited availability, are already well known, brand and quality awareness already exist in Eastern European countries. International brands such as Coca Cola, Levi jeans and Canon cameras, for example, are already well known in Eastern Europe. In addition

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5 CIA (publisher) Handbook of Economic Statistics 1988.

and for historical reasons former brand leaders such as Meinl coffee and Bata shoes are very popular.

Brands known in the West and introduced to the East quickly become well known and accepted. As symbols they soon gain acceptance in Eastern Europe. Branding is a vital way of building up market share.

Experiences in Eastern Europe show that the demand for high quality products very quickly follows Western trends.

6. TRADE IN EASTERN EUROPE

I. Overview

The disregard of both consumer demand and the production of consumer goods which is prevalent in East European economic systems is, for all practical purposes, associated with a disregard of trade. It is important to understand the historical doctrines which brought about the development of attitudes towards trade and its role in a centrally-planned economy.

In the Marxist-Leninist system trade has its roots in:

1. The mercantile system, which was the prevalent economic policy in European countries in the age of absolutism after the year 1500 and which at its extreme manifested itself in bullionism (i.e. attempts to maximise the difference between exports and imports);

2. The physiocratic system and the theory of an inherent natural order developed by Francois Quesnay in 1758, in which the trading class and dealers were seen as a sterile class.

The Marxist ideology is based on a separation of production and distribution. As the trading class is unable to provide any added value it is seen as unproductive.

The administrative and control structures imposed on the trading sector are still having an effect. The trading function was fully integrated into the system of parameters, guidelines and controls operated by the state planning system.

The trading function in Eastern Europe has been based on the following principle: "The role of the trading sector is to sell whatever agriculture can produce, mining can extract and industry can manufacture". Industry was organised primarily on the basis of monopolies and insufficient attention was paid to market conditions.

International Comparison of Employment in the Trading Sector

The neglect of trade in East European countries is evident from a comparison of employment levels. In 1985 about 15.4 per cent of the working population in EC countries was employed in the distributive sector. The equivalent percentage in East Germany was only 10.2 per cent, while in the USSR it was only 6.9 per cent.

Table 5. Changes in Employment Levels in the Retail/Wholesale Trade in Selected Economic Regions, 1985-1988

Economic Area	Number employed in Trade (mn) 1985	Number employed in Trade (mn) 1988	% of Working Population employed in Trade (%) 1985	% of Working Population employed in Trade (%) 1988
EC	19.01	-	15.4	-
USA	24.19	-	21.1 [1]	-
Japan	10.89	-	17.7	-
USSR	8.12	8.43	6.9 [2]	7.2 [2]
East Germany	0.87	0.88	10.2 [3]	10.3 [3]

Source: Kamp, Klaus: Major gaps in Trading Network published in Dynamik im Handel, 34th Year, 1990, No. 10, pages 9-14, page 10.

Notes:

1) Wirtschaftswoche, No. 33/1989, pages 56/57
2) Economy of the USSR in 1988, officially authorised statistics, pages 34/35
3) 1989 East German Statistical Yearbook, page 19

ii. The Structure of Retail Trade

In Eastern Europe the retail sector is split into three main groups:

1. food retailers;
2. retailers of industrial goods;
3. general retailers.

and these in turn are divided into:

1. retailers with their own sales space;
2. retailers without their own sales space; e.g. kiosks, petrol stations, outlets selling fuels and cars

In contrast to Western Europe the number of sales outlets in Eastern Europe continues to increase, partly because numbers were previously very low and partly - as in Hungary - because privatisation has resulted in a sharp increase in the number of stalls.

Table 6. Retail Outlets in East European Countries, 1988

Country	1980 ('000)	Outlets 1988 ('000)	Outlets 1988 with sales space ('000)	Outlets 1988 without sales space ('000)	Population 1988 (mn)	Outlets per 1,000 inhab. with sales space	Outlets per 1,000 inhab. without sales space
E. Germany	103.5	94.8	73.3	21.5	16,675	4.4	1.3
Bulgaria	40.0	44.0	34.4	9.5	8,987	3.8	1.1
Czechosl.	64.8	62.8	55.9	6.9	15,624	3.6	0.4
Poland	203.7	227.0	160.7	66.4	37,775	4.3	1.8
Rumania	58.1	58.8	52.1	6.7	23,112	2.3	0.3
Hungary	46.9	63.7	53.2	10.5	10,590	5.0	1.0
USSR	695.2	736.0	565.3	170.7	286,717	2.0	0.6

Source: 1989 COMECON Statistical Yearbook, Moscow 1990 based on internal statistics.

Major importance of state ownership and co-operatives

The ownership of retail outlets in Eastern Europe is split between:

1. state ownership;
2. co-operative ownership;
3. private ownership.

The relative importance of each of these ownership forms is illustrated on a country by country basis in the table below. As can be seen, in Eastern Europe distribution has predominantly been in the hands of the State and of co-operatives.

Table 7. Changes in Ownership of Retail Outlets in Eastern Europe, 1980-1988 (%)[1]

Country	State Ownership 1980	State Ownership 1988	Co-operative Ownership 1980	Co-operative Ownership 1988	Private Ownership 1980	Private Ownership 1988
Bulgaria	42.5	52.0	42.5	43.0	15.0	5.0
Czech.	57.5	60.0	42.5	40.0	-	-
E.Germany	47.5	37.5	30.0	31.3	22.5	31.2
Poland	15.0	17.5	75.0	65.0	10.0	17.5
Rumania	55.0	52.5 [2]	45.0	47.5 [2]	-	- [2]
Hungary	35.0	27.5	42.5	32.5	22.5	40.0
USSR	47.5	45.0	52.5	55.0	-	-

Notes:

1) rounded up

2) 1987

Source: 1989 COMECON Statistical Yearbook quoted by Seitz, Helmut: The new order in the Soviet Union - Trading Options, lecture given at the 1st European Trade Forum "New opportunities in East Germany and Eastern Europe" 28/29th June 1990 in Berlin.

In some countries, even in the 1980s, private ownership, which in some cases had been allowed to supply certain very local needs, was seriously restricted and curtailed. Bulgaria and East Germany are examples of this.

Furthermore, state-owned outlets are even more important in terms of the proportion of total retail sales that they handle than they are in terms of actual proportion of outlets.

Table 8. The Importance of State and Co-operative Retail Outlets in selected East European countries, 1986
(%)

	Retail Trade State		Retail Trade Co-operatives	
Country	% of outlets	% of turnover	% of outlets	% of turnover
Bulgaria	52.0	71.4	45.2	28.5
Czechoslovakia	59.2	74.7	40.7	25.3
E. Germany	35.1	54.3	29.8	31.7
Rumania	28.9	69.1	33.8	36.2
USSR	46.8	71.0	53.2	26.4

Source: Handelshochschule (Commercial University) Leipzig quoted by Seitz, Helmut: The new order in the Soviet Union -Trading Options, lecture given at the 1st European Trading Forum "New opportunities in East Germany and Eastern Europe" 28th/29th June 1990 in Berlin.

Small shops and few large outlets

In Eastern Europe retail sales space per head of population is only 20-30 per cent of that for Western Europe. In Western Europe the sales space per 1,000 head of population is about 1,000 sq m; in West Germany it is even higher at 1,200 sq m.

Table 9. Size of Retail Outlets in Eastern Europe

Country	Sales space ('000 sq m)		Population in 1988 (mn)	Sales space per 1000 population	Department Stores absolute	
Bulgaria	2,012	(1985)	8,987	224	348	(1984)
Czech.	,769	(1986)	15,624	306	172	(1983)
Poland	13,610	(1986)	37,775	362	367	(1984)
Rumania	-		23,112	-	-	
Hungary	2,413	(1986)	10,590	226	1,342	(1986)
USSR	52,292	(1985)	280,717	189	800	(1984)

Source: Handelshochschule Leipzig, 1989 COMECON Statistical Yearbook, Moscow 1990.

In the 1980s the average shop size in the majority of East European countries changed very little. This is true of both food and non-food outlets. In 1986 retail outlets varied in size between 50 sq m (Hungary) and 95 sq m (USSR).

Table 10. Changes in the Average Size of a Retail Outlet
In Selected East European countries, 1980-1986
(sq m)

Country	1980	1986
Bulgaria	56	60
Czechoslovakia	71	85
E. Germany	64	66
Poland	66	70
Hungary	52	50
USSR	87	95

Source: Handelshochschule Leipzig quoted by Seitz, Helmut: The new order in the Soviet Union -Trading Opportunities, lecture given at the 1st European Trading Forum "New opportunities in East Germany and Eastern Europe" 28/29th June 1990 in Berlin

Food outlets dominate the retail scene in Eastern Europe. Leading the field in Eastern Europe is Hungary where 70 per cent of the turnover in the retail sector comes from food and drinks (excluding the restaurant trade): Rumania has the lowest percentage with food accounting for 55 per cent of retail turnover.

Table 11. Structure of Retail Sales in selected East European Countries, 1988
(%)

Country	Specialist retailer [1]	Restaurant Trade [1]	Food Total [2]	Non-Food
Bulgaria	81.1	18.9	68.75	31.25
Czechoslovakia	87.3	12.7	60.00	40.00
E. Germany	89.9	10.1	60.00	40.00
Poland	94.1	5.9	62.50	37.50
Rumania[1]	-	-	55.00	45.00
Hungary	90.3	9.7	70.00	30.00
USSR	91.5	8.5	57.50	42.50

Notes:
1) 1987
2) Turnover from food and drinks retailers excluding restaurant sales.

Source: 1989 Comecon Statistical Yearbook, Moscow quoted by Seitz, Helmut: The new order in the Soviet Union - Trading Options, lecture given to the 1st European Trading Forum "New Opportunities in East Germany and Eastern Europe" 28th/29th June 1990 in Berlin: Comecon Statistical Yearbook, quoted by Stutzer, Dietmar: Unlimited demand but limited capacity published in Lebensmittel journal, 42th Year, No. 41, 12th October 1990, page 82.

Poor infra-structure

Poor transport infra-structure and the small number of private households with access to a vehicle has meant that most people have to walk to the shops. This has favoured retail outlets in town centre locations or near residential areas and made it difficult to establish retail outlets on greenfield sites.

Profit margins

Profit margins in Eastern Europe are much lower than in Western Europe. For example, gross profit margins in Czechoslovakia in 1990 for the combined wholesale and retail sector (as a percentage of retail turnover) were as follows:[6]

basic foodstuffs	20%	glass and china	20%
confectionery	14%	sports equipment & toys	17%
outer clothing	21%		
shoes	15%		

In 1991 alone margins in the retail sector were increased from a rate of 15 - 20 per cent to a rate of 35 - 40 per cent. This was meant to alleviate the effects of the doubling of interest rates and the increase in personnel costs.

High losses in turnover in recent years

In recent years the actual turnover of the Eastern European retail trade has been tumbling. Between 1980 and 1990 it fell by 50 per cent in Yugoslavia. In the first seven months of 1991 alone the turnover in retail trade reduced by 44 per cent while the inflation rate in the same period of time amounted to 60 per cent in Czechoslovakia. In Bulgaria, Romania, Poland and the USSR it is known that consumption levels have decreased considerably. An upswing cannot be expected before 1994 at the earliest.

Rents in Eastern Europe

Considerable interest has been shown by investors wishing to invest in East European towns, particularly in their capital cities. This has been generated by the increasing demand for office space. For example, monthly rents in Budapest and Prague have increased by an equivalent of DM 50 per sq m and in Warsaw the increase has been even higher. Experts reckon that the return on office space in these cities is between 12-15 per cent.[7]

Retail trade in the USSR

According to Soviet statistics the 1988 turnover in the retail sector in the USSR was 366.4 billion Rubles, which represents 1,200 Rubles per head of population. Yet the annual per capita income was only 2,500 rubles. It is unlikely that the figures for 1990 will be as high.

The reforms in the USSR introduced in 1985 have not solved any supply problems but have favoured the black market.

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6 Statistics from the Internal Trade Research Institute, Prague.

7 See also non-attributed article: Continuing increase in rents in East European cities, published in Blick durch die Wirtschaft, 33rd Year, No. 222, 15th November 1990, page 1.

Since 1988 companies may offer those products on the free market which they produce beyond the level prescribed by the central government. This has led to extremely high prices, fuelled even further by speculation.

In 1990 about 23,000 retail shops were privatised and offered on lease in the USSR. In addition to these small outlets the department store GUM in Moscow with a turnover of 2.5 million Rubles, making it the biggest department store in the USSR, was also leased. The total turnover of the retail trade in 1989-90 has been estimated to be some 340 thousand million rubles. In 1990 the turnover of the privatised sector accounted for 8 per cent of this total volume. In the meantime a number of wholesale establishments and restaurants have been founded.

In late 1990 a further privatisation programme for the retail sector was presented stating that about 75,000 food stores with less than 100 square metres and 80,000 non-food stores with less than 160 square metres of sales area were to be privatised.

It is also proposed that at some time in the future larger stores are to be turned into public limited companies. The monopolies in the Soviet wholesale trade sector are to be broken up in various ways:

1. National inspectors will be dismissed.
2. Warehousing businesses will be let on lease.
3. Existing companies will be turned into public limited companies.
4. A co-operative wholesale trade will be founded.

Privatisation in Czechoslovakia

Tumbling turnovers have had a negative impact on privatisation. The expected privatisation of 13 per cent of all shops was reduced to 8 per cent by the Ministry of Trade. Most privatised shops have a sales area of less than 100, or even less than 60, square metres.

Privatisation also includes real estate. Food shops have to be run for a minimum of 2 years after privatisation. Such limitation does not apply to the non-food sector.

Privatisation is achieved through auctions. In the first round only Czech citizens may make offers. Only those shops that are offered a second time may be purchased by foreigners.

Black and grey markets

In order to guarantee better supplies and to fulfil the economic targets set by the central government, black and grey markets developed in all Eastern European countries. In some, especially in the USSR, this has led to a strong shadow economy.

Since all producing companies are obliged to make contributions to the supply of consumer goods and to take care of their staff, a supply cycle outside of the classical retail trade was created. At present some goods do not even reach the open market.

Experience has shown that black market systems fall apart as soon as goods are no longer scarce and currencies function properly; hence black and grey markets tend to be of a transitional nature.

7. A GENERAL BUSINESS STRATEGY FOR WESTERN COMPANIES TRADING IN EASTERN EUROPE

i. The Philosophy in Eastern Europe

Any consideration of the strategic options resulting from the opening up of the Eastern countries must start with the philosophy prevalent in Eastern Europe. The problems of infrastructure and distribution which exist in Eastern Europe mean that a somewhat more comprehensive view of trade is required.

An important criterion for successful involvement in Eastern Europe is 'increasing convergence'; i.e. the creation of production facilities and trading outlets which can offer services capable of being marketed throughout Europe. A fundamental requirement for any trading venture in Eastern Europe is, therefore, the immediate creation of a well-rounded policy which avoids fundamental differences between East and West, as travel and cross-border shopping forays will bring about a rapid increase in the awareness of Western products and practices.

Languages

Some knowledge of the national language is almost an absolute essential. Russian has to be spoken by people interested in the USSR, since the older generation tends to speak German, while the younger people are more familiar with English.

In all other Eastern European countries German is the first and English the second foreign language. In Poland, French is rather more important than English.

The axiom of complete commitment

The central principle fundamental to success is the commitment of top management to Eastern Europe. Unless the level of identification is extremely high, the risks of an involvement in the East will be under-estimated and its opportunities over-estimated. As a rule the time span required in Eastern Europe tends to be under-estimated.

Aspects of authority - the dominance principle

The dominance principle is essential and unavoidable in Eastern Europe, because for decades a belief in the strength and importance of institutions was nurtured; in the early stages capitalism in East Europe will have to orientate itself accordingly. The most realistic market structure will be a narrow oligopoly with the concept of decentralisation only gradually gaining acceptance.

II. Individual Strands of an East European Strategy for Commercial Companies

A strategy involving entry into Eastern Europe must be based upon:

1. analysis of the market;
2. analysis of potential locations;
3. analysis of potential partners;
4. selection of partners;
5. agreements with partners;
6. training and transfer of expertise.

Factors that will promote the development of trade are:

- the existence of the right contacts with administrative authorities;
- the ability to find the right partners;
- the training of local management in the country of the Western partner;
- the willingness to be involved in offset trading;
- the ability to adopt a long-term approach;
- the ability to develop production in Eastern Europe with components supplied from Western Europe;
- the ability to develop local production or production through joint ventures;
- the ability to develop language skills;
- the willingness to employ former East European residents who have completed an appropriate business training.

The development of trade will be impeded by:

1. a lack of foreign exchange;
2. the fact that few of the consumer goods produced in Eastern Europe at present will survive in the long term;
3. the need for good staying power;
4. the lack of language skills.

Product restrictions in Eastern Europe

If equipment and products are developed abroad, they must fit in with the servicing potential within individual countries. There are several service constraints at both the local and the regional/national level that must not be overlooked.

Product quality must adjust to servicing capabilities. The greater the division of labour and sophistication of skills within the service infrastructure of any country, the fewer the constraints imposed by servicing factors. The opposite will also apply: if division of labour and trade skills are less well developed, the constraints imposed by servicing requirements will increase accordingly.

Eastern Europe is weak in this respect and this will impose considerable constraints on product complexity for some considerable time; this is certainly true of such products as electrical equipment and electronic components in motor vehicles. Product complexity will gradually increase in line with infrastructure developments, but in the initial stages this will mean, for example, less electronics in products ranging from household equipment to cars.

The lesson to be learnt is that if the servicing infrastructure is weak, the complexity of products must not exceed:

1. local technical skills;
2. logistical structures.

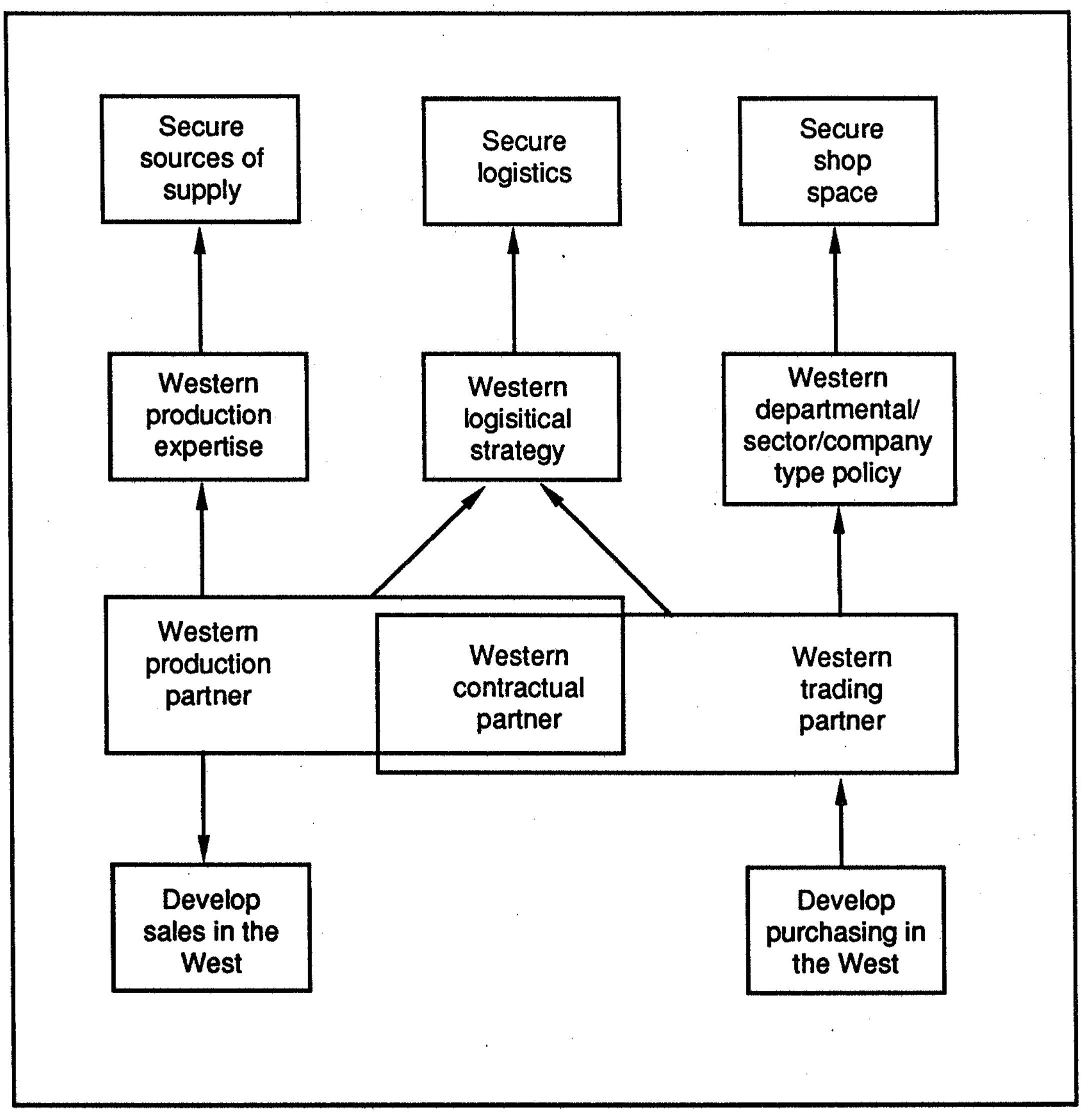
The constraints of complementary products should also be borne in mind. For example, tractors with powerful engines cannot be coupled to agricultural machinery designed for tractors with a low engine capacity.

Integrated strategies

From the outset any company wishing to trade in Eastern Europe must develop an integrated strategy which takes account of all purchase and sales conditions.

Summary 3

The Development of a Trading Organisation in Eastern Europe



iii. Management Strategies for Western Companies in Eastern Europe

In terms of management structures there are differences between developments in Eastern and Western Europe:

1. in Western Europe, there is increasing centralisation of market-oriented decision-taking, with divisional structures having control over regional structures;

2. in Eastern Europe, orientation is primarily on a country basis, with regional structures having supremacy over divisionalisation.

This variation is explained by the fact that the markets are worked differently and with different intensity.

One word of caution, however: unless there are mass markets or niche dominance, the principles of divisionalisation should not be followed slavishly. Excessive divisionalisation can represent self-inflicted wounds.

Project management for Eastern Europe

Standardisation in Western Europe has resulted in a logical shift from a country-based philosophy to one based on country groups or on Western Europe as a whole. However, in Eastern Europe there will be differences in the way individual countries develop and in the way they cast off their former COMECON links and develop their own national structures. This means that any strategy should be country-based, at least for the next decade.

Admittedly the products to be sold in all East European markets can be very similar. However, the way the market is approached and the marketing strategy adopted should vary from country to country. In all cases it will make sense to assign separate project/working groups to each of the countries in Eastern Europe where a company is already present or intends to be present in the future.

Because of the speed with which change occurs, changes in direction cannot be assessed from abroad. A qualified management team must be developed in each country. Every company must employ East European specialists who have permanent contacts in the country in question.

The role of any management team is as follows:

Summary 4

Role of Management Teams in Eastern Europe

1. Contacts

   i. Foster contacts with national, regional and local authorities and administrations;

   ii. Foster contacts with trading organisations with potential for co-operation or integration;

   iii. Foster contacts with the increasing number of specialist released by state institutions as a result of deregulation;

   iv. Rigorous development of contacts with all scientific institutions in Eastern Europe with a bearing on trade.

2. Structural activities

   i. Prepare development programmes with the relevant companies and enterprises concerned with:

      a) trading;
      b) production, to support the trading activities;

   ii. Prepare contracts for such development programmes.

3. Operational activities: Prepare operational activities in line with agreed policies

   - own projects;
   - joint projects.

4. Financial activities: Secure required finance.

5. Budgeting: Rolling budgets extending over several years to cover the activities in any given country.

8. RETAIL STRATEGIES FOR WESTERN COMPANIES IN EASTERN EUORPE

The most sensible policy for retailers will probably be to start with city and urban outlets and gradually extend to rural areas. There is much to be said for coming to an arrangement with existing state trading organisations and co-operatives, so that existing capacity can be utilised for both food and non-food retailing.

Because of limited product ranges and the existing level of supply it is unlikely that the establishment of large food outlets will be an overriding priority.

Even during the initial phase the development of specialist markets can be successful, particularly in locations where a specialist market can be linked to a non-food self service department store acting as an anchor store. Discount stores will be particularly welcome.

Most active Western Countries in Eastern Europe

Precise information on which West European retailers have moved into Eastern Europe is hard to find and, moreover, becomes out of date quickly. The Corporate Intelligence Group in London, however, published in September 1991 a report on 'Cross-Border Retailing in Europe', in which it identified 77 Western retail operations that had moved into Eastern Europe. German retailers had been by far the most active, accounting for 25 of the 77 operations, followed in order of importance by Italy (14 operations) and Austria (13 operations). No other Western country came near to this level of activity.

Table 12. Foreign Retailers in Eastern Europe by Country of Origin, 1991

Country of Operation	Host country: Bulgaria	Czechoslovakia	Hungary	Poland	Romania	USSR	Yugoslavia	Total
Austria	-	3	5	1	-	1	3	13
Belgium	-	-	2	-	-	1	-	3
Denmark	-	-	-	1	-	-	-	1
Finland	-	-	-	-	-	1	-	1
France	-	-	-	3	-	3	-	6
Germany	3	2	8	4	-	6	2	25
Italy	1	2	2	2	2	3	2	14
Netherlands	-	2	-	-	-	-	-	2
Spain	-	-	-	-	-	-	1	1
Sweden	-	1	1	1	-	1	1	5
Switzerland	-	-	1	-	-	-	-	1
UK	-	-	1	1	-	1	1	4
USA	-	1	-	-	-	-	-	1
Total	4	11	20	13	2	17	10	77

Source: Cross-Border Retailing in Europe, The Corporate Intelligence Group

Most attractive retail sectors

The retail sector that has attracted the most attention from Western retailers is clothing. The report from The Corporate Intelligence Group showed that the fashion/clothing sector in fact accounted for one-third of all the moves into Eastern Europe (23 of the 77 moves identified to date). Next in order of importance came mail order or catalogue selling (11 moves), food and groceries (9 moves) plus supermarkets and discount groups (6 moves) and department stores (8 moves). The full analysis is as follows:

Table 13. Foreign Retailers in Eastern Europe, analysed by Retail Sector, 1991

Retail Sector	Country: Bulgaria	Czechoslovakia	Hungary	Poland	Romania	USSR	Yugoslavia	Total
Clothing/fashion	1	4	6	3	1	6	2	23
Grocery	-	1	4	-	-	3	1	9
Supermarkets/ Discount stores	-	2	-	2	-	-	2	6
Total food	-	3	4	2	-	3	3	15
Mail Order/ Catalogues	1	2	2	1	-	3	2	11
Department Stores	2	1	2	1	-	2	-	8
Furniture/Household	-	1	1	2	-	1	1	6
Footwear	-	-	2	2	1	1	-	6
Health & Beauty	-	-	-	1	-	1	-	2
DIY	-	-	-	1	-	-	-	1
Miscellaneous	-	-	3	-	-	-	2	5
Total	4	11	20	13	2	17	10	77

Source: Cross-Border Retailing in Europe, The Corporate Intelligence Group

A full list of the retailers concerned is contained in The Corporate Intelligence Group's report.

Franchising

One suitable approach for Eastern Europe may well be to invest in efficient franchise systems. This could offer rapid expansion prospects, even within the framework of existing state trading organisations and co-operatives.

The concept of franchising includes many features which are not unknown in a centrally-planned economy. The concept will, therefore, be more easily understood. The customary commission element included in franchising schemes will, for example, be acceptable.

As an example of such a development, Leclerc has started to train Polish entrepreneurs to open their own shops in Poland. In addition, the Italian clothing group Stefanel has signed an agreement with Universal, a Romanian retail group company, to establish a chain of franchised clothing stores. Stefanel already has one shop in Bucharest. The plans are to have seven franchised units at the end of this year and a chain of 60 shops within three years.

Direct selling by West European manufacturers

Manufacturers from Western Europe are already active in Eastern Europe, either on their own or through joint-ventures.

As examples of this, BSHG, the Munich based Bosch/Siemens household equipment company, has opened shops in Belgrade, Split and Zagreb in Yugoslavia in a joint venture with Genex; Scholler-Movenpick is seeking to pull the rug from under the feet of competitors like Langnese (Unilever) by selling direct from stalls in East Germany and Eastern Europe.

Another example would be Yves Rocher, which has for ten years had eight employees working in a central department responsible for trade relations with the state-trading countries. This department has been taking care of the entire "Eastern market" from the People's Republic of China to Cuba, from the USSR to Yugoslavia. Business was quite monotonous until the Berlin Wall collapsed. The goods went to trade centres which dominated the distributive channels, had foreign currencies at their disposal and sold Rocher cosmetics in exchange for foreign currencies to customers. Yves Rocher, however, also used barter deals in order to stimulate sales in the socialist countries.

Whenever possible, Rocher also made use of any domestic production capacity that was available. This was based on co-operation or joint ventures. With national currencies a broader circle of female customers was able to buy products at reasonable prices. The range of products was deliberately extended to essential goods, such as soaps and shampoos, in order to avoid the image of a luxury goods supplier.

In Czechoslovakia the goods were sold via a national organisation and paid mostly with the domestic currency. Much of the Polish market has been conquered by Rocher. Most payments are made in foreign currencies. In Yugoslavia the majority of Rocher products go to the duty free shops in the tourist areas. Turnover amounted to 15 million French Francs. In Bulgaria Rocher is extending its popularity by sponsoring sporting events. The USSR is at present controlling 80 per cent of the companies' activities in the East primarily on the basis of barter and clearing contracts.

In Romania first steps have been taken since the "revolution". Rocher admits, however, that the Hungarian market has been neglected because of all the activites elsewhere.

Organic growth by retailers

Retailers can of course opt for a policy of organic growth. In Poland, for example:

Spar	has started a test market operation in the Krakau area.
Otto	is supplying non-food products to 12 Sezam department stores.
Hertie	is opening a small department store in Posen in co-operation with Bovis.
Quelle	is setting up a joint venture to sell a range of products in Southern Poland.

Acquiring Eastern firms

The Austrian group Julius Meinl has acquired a 51 per cent share of the Hungarian food chain, Csemege Trading Company of Budapest, a consequence of the privatisation policy of the Hungarian government.

Csemege is the largest food retailer in Hungary with 119 shops, sales of 15 billion forint (2.3 billion Austrian schillings or $ 190 mn) and 4,300 persons employed. In addition the company has 95 Intourist shops offering Hungarian specialities aimed mainly at tourists.

Julius Meinl was prominent in Hungary before the second World War. Market research has shown that the name Julius Meinl is recognised by 53 per cent of the Budapest population as being synonymous with coffee and quality foodstuffs.

Servicing Policy

For technical equipment it may well be appropriate to develop service networks which are largely independent of the supplying company. The former repair stations are available as a starting point. This offers the possibility of extending the concept of franchising to technical skills.

Consignment depots and shop-in-a-shop units

The large multiple retailers in Eastern Europe have now established wholesale departments linking with supply depots; for example, the Centrum department stores in Hungary have linked with Moulinex in France and Media Markt in Germany. In addition franchised departments and shops-in-shops have been introduced in some stores, e.g. Ardek EG, Germany, selling clothes for children and teenagers.

Through its subsidiary Eduscho Osterreich GmbH, Vienna, the Bremen based company Eduscho has set up a joint venture company in Budapest - Eduscho Budapest GmbH. Alfa Mozaik AFESZ, the Hungarian food production and distribution company, has a 50 per cent stake in the joint venture. Initially three sorts of coffee, "Gala", "Wiener Gold" and "Mokka

Grande", are to be sold through food and restaurant outlets. In addition a separate distribution network consisting of Eduscho branches and Eduscho depots will be developed using the West Germany structure as a model. Eduscho reckons that coffee consumption, currently running at 4 kg per head, could double in Hungary in just a few years.[8]

Tchibo decided to go east by producing coffee jointly with government-owned enterprises. Thus Tchibo Praha is producing the brand "Le Cafe" in Czechoslovakia. Similar methods are being applied in Hungary, Poland and Yugoslavia.

Direct marketing in Eastern Europe

Mail order and direct marketing operations should be able to achieve a good market share within a very short time, either with or without facilities locally, particularly if customers are also offered instalment terms.

Avon, the cosmetics company, which is already represented in over one hundred countries and which employs some 1.5 million consultants, entered the Hungarian market in 1990. Its policy is similar to that adopted in other countries i.e. products can be obtained exclusively from an Avon consultant who sells direct. About 220 products are offered at reasonable prices with payment in Hungarian Forints. The Avon catalogue has been reprinted with 32 pages in Hungarian. Orders are processed and dispatched from the Head Office and Production Plant of Avon Cosmetics GmbH Deutschland at Neufahrn near Munich. In addition a separate sales organisation has been set up in Budapest. Market research has estimated that personal spending on cosmetics in Hungary is about DM 200 billion. Avon is reckoning on a market share of between 5 and 10 per cent.[9]

Suppliers with a fixed base are also involved, at least in the catalogue/campaign business; an example of this would be the campaign launched by Konsum/Interbuy in co-operation with the Association of Consumer Co-operatives (VdK) in East Germany to sell TV sets.

Financial services

The "unleashing of consumer credit in Eastern Europe" correctly predicted by Helmut Wagner of ASKO, (i.e. the widespread willingness of the individual to incur personal debts), also creates a need for suitable financial services and banking products in Eastern Europe, offered in co-operation with Eastern and Western banks.

Mail order

Neckermann Versand AG has been active in Hungary since 1987 where it co-operates with the trading organisation Skala Coop/Skala World Trade. In 1990 it launched a 16 page, four-colour brochure in Hungarian for the Hungarian market. 500,000 copies have been distributed. It contains a range of 80 hardware products. The customer can order the goods in writing or by telephone from the Neckermann sales office in Budapest. The goods are delivered direct to customers irrespective of where they live.

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8 See non-attributed article: Eduscho goes to Hungary in the Lebensmittel journal, 42nd Year, 6th July 1990, No. 27, page 18.

9 See non-attributed article Avon - now in Hungary also published in the Direct Selling Bulletin 1990, No. 3, page 14.

As well as from the traditional sales outlets - shops, collective purchasing and gift services - customers have since 1989 been able to order products direct from the Neckermann AG, Frankfurt, head office using a screen. Via a link to the Neckermann Accounting Centre customers can obtain immediate information on delivery dates enabling them to place an order and receive an immediate confirmation of delivery.[10]

CONCLUSIONS: THE DEVELOPMENT OF BUSINESS IN EASTERN EUROPE

Currencies are not stable and are not convertible. These factors, combined with the chronic shortage of foreign exchange associated with indebtedness, make it difficult to assess the economic potential of any involvement in Eastern Europe. However, the attractiveness of markets in Eastern Europe is determined less by the current economic structure and more by the speed and intensity of the liberalisation process.

There is overwhelming evidence that the first major upturn in Eastern Europe will be in the wholesale trade, which may well exert a dominant influence over both the supply industry and retailing in the initial phase. At the same it should be possible to develop the retail trade by using existing companies or by developing land already in use. The opening up of Eastern Europe by trading organisations will be characterised by a twin dynamism:

1. the wholesale trade as joint developers with industry and promoters of domestic and foreign markets;

2. the retail trade, ensuring that the consumer is supplied with products commensurate with market demand.

Important developments in this respect are:

1. The considerable head start enjoyed by companies already active internationally in Western Europe;

2. The trend towards reciprocity between partners in the West and East, through the medium of joint ventures;

3. Close strategic alliances between West European banks, insurers and other service providers and production and trading companies in Eastern Europe.

Several countries, in particular the Soviet Union, previously neglected the import of consumer goods despite the weaknesses of its own consumer goods industry. It is, therefore, important to use trade to encourage the development of an independent, viable consumer goods industry in Eastern Europe.

The implication is that West European trading companies must seek to overcome the one-sidedness and over-specialisation associated with both industry and the distributive trades.

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[10] See non-attributed article: Neckermann launches mail order catalogue in Hungary published in Horizont, 1990, No. 44, page 21.

Every company must concentrate on achieving a maximum level of self-sufficiency fairly quickly. This means that trading organisations from Western Europe must also establish contact with industrial companies from Western Europe and encourage them to grant licences in Eastern Europe or to pass on expertise to East European partners. This will ensure that goods acceptable and exportable to the West can be offered as quickly as possible on the domestic market and then made available for export as well.

Such considerations as these show that successful involvement in Eastern Europe will require major networking; i.e. there will be companies who will manufacture westernised goods in one production shift or within the production department of an existing company. These goods will be sold partly at home and partly abroad. As the materials for such goods, for example in the textile and shoe industry, cannot be produced in Eastern Europe, they will have to be imported from Western Europe into Eastern Europe during the initial phase.

The involvement of western companies in solving logistical problems will be far greater than one would have assumed at the outset, because poor logistics are a root cause of bottlenecks in Eastern Europe.

A major emphasis must be placed on the training of local managers. Several West European companies have started training programmes running for several months in which managers from the East are trained in the West.

West European companies must be wary of under-estimating the cost of an involvement in Eastern Europe. Any company that decides to trade in one or more countries should set up a firm budget covering a period of several years. It must assume that the return on both market investment and the investment in the trading infra-structure will take several years to materialise.

Despite these enormous problems entrepreneurial initiative is the only way to make a contribution towards increasing the pace of economic development in Eastern Europe, the only way to secure peace in the Northern hemisphere and to create a framework in which the problems of developing countries and the threatening North/South conflict can be solved.

FOOD RETAILING IN EUROPE - POST 1992

PROJECT II
THE COCA-COLA RETAILING RESEARCH GROUP
EUROPE

TALKING TO GOVERNMENTS

A study prepared for

THE COCA-COLA RETAILING RESEARCH GROUP EUROPE

by

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EC Committee
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July 1992

The Corporate Intelligence Group Limited

EXECUTIVE SUMMARY

This report examines the structure and influence of the retail lobby in the European Community. To bring the review down to manageable size, it focuses mainly on interaction with the Community institutions. The main points to emerge from the study are that:

* The environment for dialogue with government is currently under pressure in the Community to change and adapt to more formalized, but open, consultative procedures.

* Considerable restructuring is occurring within the Commission and it is not clear, at the present time, whether retail interests will be reallocated inside the Commission.

* Organizations involved in lobbying activities at the EC level will come under increasing pressure not only to focus their EC activities, but also to establish good interaction between national organisations and EC institutions. It is clear that the interaction of national organizations with EC organizations determines the nature and influence of the retail lobby.

* The current diversity of the retail trade representation clearly reflects the diversity of interests in the sector (retail, wholesale and distribution) and the concentration of corporate interests within those areas.

* The conclusion has to be that a more focused retail lobby is necessary, with well integrated links to national federations and an active, direct participation of company representatives at both national and EC levels.

* Representation of corporate interests through an association will be increasingly necessary as the pressures for regular and formalized consultation increase.

* Activity is already underway to group the resources of the retail lobby under an umbrella organization. These should be encouraged if the retail lobby is to improve its effectiveness in influencing all parts of the EC policy process and its standing with the European Commission.

CONTENTS

1 INTRODUCTION: THE TASK OF TALKING TO GOVERNMENTS

There is no simple and ideal type solution to the problem of how to talk to government. This paper outlines the reasons why trade representatives and government need to have an on-going dialogue and considers what form this dialogue should take.

It is clear that there are various levels at which a company can lobby in the Community (for example, at national or at EC levels and within each, at direct or indirect levels). The options will vary according to the issue, the actors, the recipients and the goal to be achieved. The move towards concentration in the retail trade and the creation of retail alliances will put further pressure for more horizontal (i.e. cross-sectoral) issues to be addressed by the retail trade. These issues will have to be addressed increasingly at the EC level to affect policy-making and at the Member State level to affect decision-making in the Community. It will become much harder for the government of a Member State and for regional authorities to avoid implementing EC legislation and to erect barriers to trade. The task of the retail sector will be to ensure with the Commission the completion, the operation and the safeguarding of the Single Market. This will be a joint task for both business and government which will require a continuing dialogue and good organization at all levels.

New challenges to this dialogue have already emerged. The Community has expanded its external agenda to embrace closer trade relations with Central and Eastern Europe. Secondly, there is the creation of an European Economic Area (EEA). Thirdly, the possibility of a multilateral trade agreement in the GATT Uruguay Round negotiations has still to be resolved. All of these agreements will need to be fleshed out by further dialogue with business interests.

In its internal agenda, the Community is completing the current Single Market program and the Commission is enforcing the implementation of the internal market directives where Member States have not carried out their transposition into national law. New policy initiatives in the area of the environment, social policy, consumer affairs and economic and monetary union will also require more attention. The retail trade will have to respond to these and other initiatives which will determine the new business environment in which it will work.

In the words of a recent report from the Roundtable of European Industrialists (ERT) on Reshaping Europe "Business must be strong and well-organised. It is the responsibility of business to compete in the world and create the wealth and the jobs on which Europe's prosperity depends". The ERT qualifies further the role of government by saying that "Europe's economic and political institutions must also be strong and well-organised. Business can only do its job effectively within such a stable framework". This message is especially important in the light of current Commission and Parliamentary activities on the registration of lobbyists and the possible future control of access to information.

2 THE INSTITUTIONAL FOCUS

Since 1958, policy-making and legislative power within the Community has progressively moved from the EC Member States to Brussels. This trend was further confirmed by the signing in February 1992 in Maastricht of the Treaty on Political, Economic and Monetary Union. Policy-making and decision-making are in the hands of the EC Commission and the Council of Ministers. The European Parliament is developing a greater role in this process since the Single European Act and the Treaty on Political Union. Community institutions have attracted the attention of lobbyists, consultants, lawyers, trade association officials, and union representatives, consumers and business representatives during the policy process in proposing, deciding and executing Community policy.

The Treaty on European Union agreed in Maastricht 1992, subject to its ratification, will further strengthen the role of Community institutions in governing the EC. The extent of Community powers vis a vis Member States has been clarified in Article 3b on subsidiarity which states "... in areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or the effects of the proposed action, be better achieved by the Community ...". There are plans within the member states, particularly in the UK, to clarify this principle even further and the high level group set up under the chairmanship of the previous Commissioner Sutherland to examine institutional functioning and structure after 1992 is paying particular attention to this topic.

THE EC INSTITUTIONS:

a **The European Commission** is the policy initiator in those areas where it is necessary for legislation to be made at the EC level and continues its work as guardian of the Treaty. The Commission has, under the Single European Act, gained extra powers and under the Treaty of European Union these will be extended in the areas of the environment, social policy, defence, security and economic and monetary union. The Commission, given the Single Market programme, has become the principal focus for those wishing to influence policy making.

The European Commission is divided into Directorates-General (DGs) which formulate draft proposals for secondary legislation in a particular area of activity of the Treaty of Rome. These proposals for legislation are adopted in college by the Commission itself which, after enactment by the Council, oversees their implementation and execution. Each DG is split into divisions which deal with sectors of a policy area.

Apart from the specific focus on DG XXIII (Commerce, Small and Medium Sized Enterprises) trade interests are principally concerned with the following DGs:

DG I (External Affairs);
DG III (Internal Market and Industrial Affairs);
DG IV (Competition);
DG VI (Agriculture);
DG VII (Transport);
DG XII (Research & Development);
DG XIII (Telecommunications);
DG XXI (Customs and Tax issues, Consumer Policy Service).

Increasingly retailers have been finding that their interests are dealt with by a number of the DGs listed above and it is difficult for them to obtain a focal point in the Community institutions, apart from DG XXIII. This issue has been addressed by the Commission, notably in its Communication on Commerce, and some reorganization has occurred, including the setting up of an advisory committee to act as a watchdog ensuring that food law aspects are handled adequately from the commerce point of view.

The Commission consults industry, commerce, consumer and other interests either formally, to varying degrees but in a regular manner, through advisory committees or on an ad hoc basis through hearings and/or by publishing consultative documents (often called green papers or discussion document). In some technical areas, industry is invited, though trade federations, to send experts to work with the national government experts who are assisting the Commission to prepare drafts. In these cases it is essential that the federation is fully representative of an industry sector and that inter-company rivalries are not played out within working groups.

* **Commission Advisory Committees**

  Advisory committees were set up by the Commission in order to further the goals of the Communities, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the states belonging to it. The Commission itself underlines that the best way to achieve this is through "...the establishment of close and permanent links with trade interests...". Approximately 65 advisory committees have been set up by the Commission, the majority dealing with agricultural issues by agricultural commodity sector.

* **The Consultative Committee on Commerce and Distribution (CCD)**

  In response to pressure from trade interests the Commission has set up the Committee on Commerce and Distribution (CCD) for the retail trade. The CCD was originally established in 1978 for an experimental period of three years. Its continued existence was confirmed in the Commission decision of 20 May 1981 and justified by the statement that "...since its inception in 1978....the CCD has produced beneficial results for the Commission's departments...". (OJ L 165/24)

  According to the Commission the purpose of the CCD is "...to provide the Commission, at its request, with opinions on all matters relating to commerce and distribution in the Community and on the repercussions which the Commission's activities in other sectors have on commerce...".

  The CCD has 42 members taken from representatives of European and national trade organizations and other prominent persons with special knowledge of commerce and distribution who are heads or managers of undertakings. Observers from UNICE (Union of European Employers Federations) and the permanent Conference of Chambers of Commerce and Industry also attend as well as relevant experts.

The Commission is obliged to develop its initiatives through negotiation with representatives of Member States in the Council of Ministers and Council working groups which have in most instances the ultimate decision making power (unless the Commission is mandated by the Council otherwise). The Commission is obliged to consult with the European Parliament and ECOSOC (see section d below), but is not obliged to take their views into account.

b The Council of Ministers is the ultimate legislative body of the Community, although once a legislative framework is established it may delegate powers for detailed legislation to the Commission according to Article 155 of the EEC Treaty. Negotiations between Member States on EC legislation take place in working group meetings of national officials, COREPER, the Committee of Permanent Representatives (National ambassadors to the EC), or meetings at ministerial level. The Council working groups are attended and monitored by officials from the Permanent Representatives and at this stage of the process it is the Permanent Representatives who become the focus of lobbyists and pressure groups in Brussels.

c The European Parliament reviews policy from the EC Commission and proposes amendments on behalf of the Community's general electorate. Since the enhancement of its powers under the Single European Act and the changes to occur under the Treaty on European Union, it has become an important source of information and a rallying point for lobbying campaigns (notable examples are the campaigns on tobacco advertising and data protection).

Parliamentary reviews are carried out by committees, which follow cross-sectoral EC policy areas. Issues are discussed in the committees on the basis of a report prepared by a draughtsman (called rapporteur) who is selected by the committee to monitor the issue. The rapporteur has much more influence on the opinion and amendments proposed by the Parliament than does a draughtsman in a national parliament. The report and proposed amendments, once voted in committee, are carried through for a final vote in the monthly plenary meeting where the rapporteur puts forward the conclusions of the committee for approval and more amendments can be proposed. The Commission has to take a position on the amendments and a report can be sent back to the committee for further discussion; in the extreme case the draft legislation can be rejected by Parliament when it then has to be adopted by unanimity in the Council. (e.g. the proposal for a directive on sweeteners in foodstuffs in 1992.)

The retail trade is most concerned with the parliamentary committees on Economic and Monetary Affairs and Industrial Policy (economic, monetary and industrial policy, tax, company law), on Legal Affairs (Financial Services, Competition and Liability issues), and on Environment and Consumer Affairs, Agriculture, and Transport.

The European Parliament is open to close consultation with industry and other interests when necessary (sometimes by questionnaire) and holds public or closed hearings. Its committee proceedings are open to observers but it can vote to hold a closed meeting (as the Legal Affairs committee has, for example, done). Often parliamentary rapporteurs on a particular piece of EC legislation will canvass relevant organizations (often business) for their views. The choice of rapporteur and the relationship with him or her is vital to concerned interest groups, as is the position of the political party groups which determines the voting in the Plenary.

d **The Economic and Social Committee** is an additional tripartite review body for EC legislation and has representatives from industry, unions and other economic and social groups. ECOSOC is divided into directorates and divisions, which manage the committees. Issues are discussed in the committees before adoption of an opinion in the monthly plenary sessions. It is not a prime focus for lobbyists but can be an extremely useful indicator of views on an issue, especially since the ECOSOC's opinion often appears prior to that of the Parliament.

e **The Permanent Representations (or Perm Reps)** are the offices of the Member State civil service in Brussels. They are the official conduit for communications between the Commission and Member States and coordinate the representation of Member States in the Council. The Perm Reps usually have a limited number of specialist advisors, but call largely on their various civil service departments to staff Commission and Council working groups. They are thus important actors influencing both national and Community decision-making. Since the signing of the EEA agreement on 2 May 1992, the Permanent Representatives or Heads of Mission of the seven EFTA countries (Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland) will be able to feed into most of the EC policy process, except agriculture, certain areas of taxation and transport.

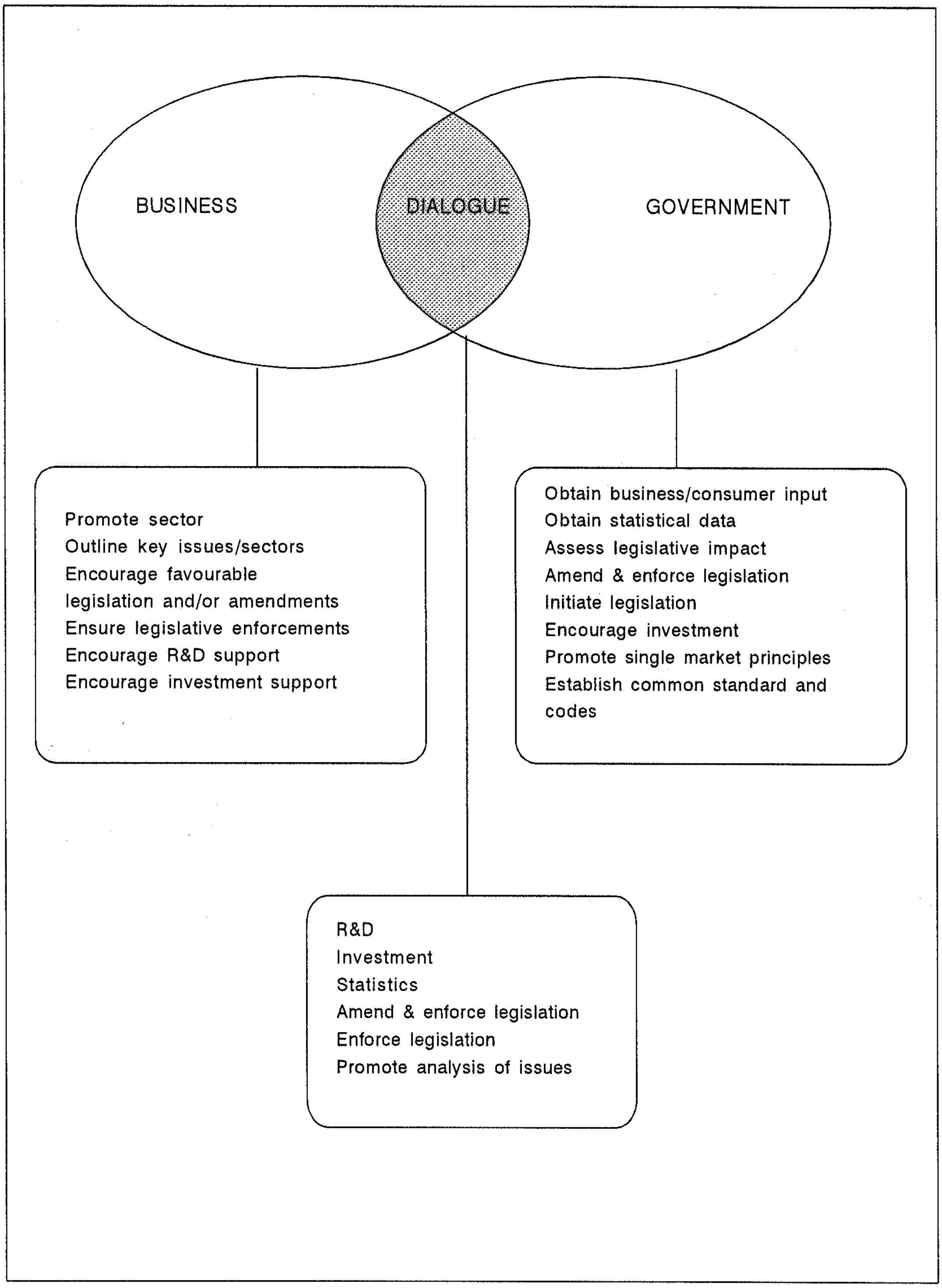
The Perm Reps are becoming increasingly important for lobbyists, particularly when a Perm Rep's country assumes the presidency or the forthcoming presidency of the Council.

3 HOW TO TALK TO GOVERNMENTS

The need to talk to government

There are two interrelated reasons why business should talk to government. Firstly, business needs to make its presence known; secondly because government needs to hear and understand business views. A recognition of the latter can be found in the unratified Maastricht Treaty declaration on estimated costs under Commission proposals. The declaration states "...the Commission undertakes by basing itself where appropriate on any consultations it considers necessary and by strengthening its system for evaluating Community legislation, to take into account in its legislative proposals of costs and benefits to the Member States' public authorities and all the parties concerned...". Diagram 1 on the following page summarizes the main reasons for maintaining the business/government dialogue.

DIAGRAM 1: THE NEED FOR BUSINESS/GOVERNMENT DIALOGUE



The ways to talk to governments

There are several ways to influence Member State governments and Community institutions, and these are summarized in the diagram 2 on 'How to talk to Governments'. These methods are used in varying combinations by companies and trade associations according to the resources available and the complexity of the issue to be dealt with. Issues such as data protection and comparative advertising have involved companies in lobbying at all stages in the legislative process and through different organizations, consultancies or law firms.

DIAGRAM 2: How to talk to governments

DIRECTLY

- **Send a letter to government officials/government members/MEPs**
- **Visit relevant institutions in national capitals**
- **Establish strategically located public affairs/government affairs office**

INDIRECTLY, AT THE NATIONAL LEVEL

- **Locate and use Chambers of Commerce**
- **Use trade associations**
- **Use government departments**
- **Contact government members**

INDIRECTLY, AT THE EC LEVEL

- **Locate and use Chambers of Commerce**
- **Use European federations (sectoral or umbrella)**
- **Contact MEPs**

AT ALL LEVELS

- **Consult lobbyists/consultants/law firms**

Often companies wishing to influence the EC legislative process have opened Public Affairs/Government Affairs offices in Brussels linked to their main corporate government affairs department. This decision not only reflects the need for more company and issue specific lobbying but also the need to participate more actively in the numerous sectoral and umbrella business organizations. There are currently over 200 companies which have set up offices in Brussels specifically to deal with public affairs and EC matters. Over the last ten years many of the one man public or governmental affairs office in Brussels have been expanded to include two or three specialists usually in trade, legal affairs, environment or consumer affairs. A large number of American companies have established Public Affairs offices in the last three years or have set up arrangements with local law firms or consultancies. Often the corporate structure of American and Japanese companies has given them an advantage in EC affairs over European companies, in that they have a designated vice-president for EC affairs.

Many companies input information on a regular basis to both government members and MEPs and together with relevant organizations take MEPs on tours of factories or set up briefing sessions.

In terms of using business organizations to lobby, the choices are numerous. There are over 800 European sectoral and umbrella federations operating at the EC level, of which there are at least 53 organizations representing trade, retail and distribution interests. The main trade organizations are described further on in this paper. Chambers of Commerce are also useful lobbying organizations, both at Member State and EC level, due to their cross-sectoral nature. Amongst the most active are the British and French Chambers of Commerce. The interests of American subsidiaries are represented by the EC Committee of the American Chamber of Commerce which wields much influence and respect from EC institutions. The International Chamber of Commerce (ICC) based in Paris has been successful in coordinating public statements signed by company Chief Executive Officers on issues such as the GATT negotiations.

At both levels a lobbyist, lawyer or consultant will be used to represent corporate interests directly to the Community institutions or through participation in a business or other organization. As long ago as 1981, for example, the UK's Retail Consortium (now the British Retail Consortium) used a consultancy to influence the UK parliament's debate on the EC directive regarding door to door selling. A consultant has also been used at the EC level for almost ten years to represent the Retail Consortium on particular issues. The Retail Consortium set up a Brussels office two years ago, as a result of the increase in relevant issues debated at EC level (both in the Community institutions and in the European retail federation (CECD)), thereby leading to a more complex network of representation at the EC level.

Staff of the EC Commission and members of the European Parliament are increasingly short of time to spend with representatives of companies or organizations. They also have little time to read documentation sent to them or to decide for themselves on the key points of an issue. Brussels is becoming, in short, a battleground for 'airtime' with Community officials between company representatives, lobbyists, consultants and trade association officials. It is also rapidly becoming a place for more professional lobbying on the scale of that found in Washington.

Once access is obtained to officials any dialogue must be concise, to the point, knowledgeable about EC policy-making and well-briefed with business examples of which the official may not be aware. The approach should be constructive with a view to helping officials with the task they have in hand in order to continue and develop access. Documentation or letters which are sent or given to officials should, for example, ideally be no longer than three pages and always have an executive summary.

4 THE RETAIL TRADE LOBBY

a <u>The evolution of commission retail trade representation and its lobby:</u>

Commercial interests have been organized at the EC level ever since the creation of the Community in 1958. Principal milestones in Community policy which the retail trade wished to influence were the Common Agricultural Policy (CAP) established in 1958 and the White Paper on the Completion of a Single Market launched in 1985. The Community's external policy, particularly in relation to each GATT Round of negotiations on agriculture, market access and textiles, have also been of prime importance for organized commercial interests, especially in the last ten years.

A number of small EC trade organizations were established to influence mainly sectoral issues. Up to 1989 the Commission did not have a Commissioner or a Directorate-General with the specific responsibility for trading interests which thus lacked focus with regard to Community institutions. Before 1989 retail trade interests were being handled by DG III, which was also responsible for sectoral industrial interests and the Single Market programme. The retail lobby was faced with a difficult task which was further compounded by the fact that the Commission spoke principally to cross-sectoral European organizations rather than to sectoral or national bodies. An umbrella European trade organization called the Committee of Commercial Organisations of the EC (COCCEE) was set up to coordinate both horizontal and vertical retail trade views. Due to resources limitations and the impossibility of reconciling the divergent interests of retailers, wholesalers and distributors, this organization quickly became difficult to manage.

The 1980's saw the atomization of the EC trade lobby, although this did not happen at the national level over the same period. Particularly in the North European states national organizations concentrated and focused their activities. By the mid 1980s COCCEE had been replaced by the CECD (coordinating horizontal retail interests), FIGED (representing department stores) and GEMAS (representing the interests of large food retailers). National retail associations realized, following the release of the Single Market program, the importance of obtaining rapid information on Community activities and of exerting influence in Brussels: this eventually lead to several of them setting up offices in Brussels.

The Commission came under pressure for it to deal specifically with retail interests and this in 1989 resulted in the identification of a specific Commissioner and creation within DG XXIII of a unit with responsibility for retail trade, together with a consultative committee on retail interests. Currently the future of DG XXIII is under review.

b Main actors at EC level

Commercial interests in the Community are represented by several international organizations. The 1992 Longmans Directory of Pressure Groups in the European Community lists over 53 organizations related to trade issues. A brief description of the key organizations by relative order of importance is given below. For fuller details on each of the main organizations please see Appendix B.

General horizontal retail interests are represented by, among others, the following organisations:

* **The European Federation of Retail Traders (CECD)**

  The CECD is rapidly emerging as the focal point for representing commercial interests with the Community. It shares a common secretariat and offices with GEDIS and FEWITA. The CECD is currently planning a re-organization of its structure to ensure coverage of retail issues and effective corporate participation which will make it the centre of EC retail representation. It is based in Brussels, near the main Commission building.

* **The European Multiple Retailers Association (GEDIS)**

  The representative of the European multiple retail organizations. It was formed from a fusion of FIGED and GEMAS. GEDIS shares a common secretariat and offices with the CECD and FEWITA and is based in Brussels. GEDIS participates closely in most of CECD activities and working groups.

* **The Federation of European Wholesale and International Trade Associations (FEWITA)**

  The representative of international wholesale interests. It shares a common secretariat and offices in Brussels with CECD and GEDIS but remains fairly independent from the other organizations.

* **The Association of Retailer Owned Wholesalers of Europe (UGAL)**

  The association of retailer owned wholesalers in Europe; it mainly represents co-operative buyers. UGAL works closely with the CECD at the working level on food and competition policy issues. It is based in Brussels, Belgium.

* **The International Centre for Companies of the Food Trade and Industry (CIES)**

  The association "...functions as a club for its members, providing a forum of the profession through meetings and through publications ..." (CIES Annual Report). This organization has been in the past more orientated towards research and training projects rather than influencing EC policy. It is currently reorganizing its activities regarding EC policy. The CIES is coordinating its expertise on conference management with the CECD (i.e. European day of commerce). CIES is based in Paris, France

* **The European Liaison Committee of Traders of Agro-Food Products (CELCAA)**

  The EC retail umbrella organization which assures the liaison of mainly European food retail federations, ranging from fruit and vegetables to cereals. GEDIS is a member of CELCAA, which is based in Brussels.

* **The European Retail Trading Centre (CECOD)**

  An information exchange facility organized by a member of CECD predominantly for the members of the CECD. CECOD is based in Cologne, Germany.

* **The Liaison Committee for European Retail Trade Associations (CLD)**

  A centre for information exchange between national retail organisations across Europe and European retail associations. GEDIS is a member organization. It is also based in Brussels.

* **International Association of Department Stores (IADS)**

  A long established international organisation that researches department store retailing issues and is based in Paris, France.

* **International Federation of Grocers' Associations (UIDA)**

  An international association representing the international grocery trade. It is based in Berne, Switzerland.

Vertical retail interests. The 1992 Longmans directory lists more than 40 EC wide retail organizations representing diverse sectoral interests from textiles and bookshops to pharmaceuticals. The more important of these are:

* **The European Mail Order Traders Association (AEVPC)**

  An EC federation of mail orders traders. It has strong contacts with the CECD and is based in Brussels.

* **The European Union of National Associations of Health Food Stores (GEAMR)**

  GEAMR represents an emerging new area of interest to consumers. It is based in Oberursel, Germany but its contacts in Brussels, other than on technical questions, are made through the CECD.

* **The European Federation of Dairy Retailers (UNECOLAIT)**

  The association of dairy retailers based in London.

c <u>The national retail lobby</u>

Currently there are 6 national associations (Belgium, Denmark, Italy, Netherlands, Spain and the UK) which have an office or paid representative in Brussels and have a great interest in Commission activities. Since the UK association has had a prime role in internal policy-making both in the EC Commission and in the British Parliament it is useful to use it as a model.

The UK has in general an advanced set of interest groups and trade associations, probably due to the early development of parliamentary government and representative bodies. The UK retail lobby is well developed, with various interests represented through the British Retailers Association, the Co-operative Union Ltd, The Mail Orders Traders Association, the Specialist Retailers Group and the Voluntary Group Association.

These five organisations are the constituent members of the British Retail Consortium which acts as the umbrella association for UK retail interests. The British Retail Consortium has regular contacts (at least twice a week) with the Department for Trade and Industry (DTI) and less regular contacts with the Ministry of Agriculture and the Departments of Transport, Health and Social Security. The Consortium has opened an office in Brussels to become the first national retail organisation to be represented at the European level. This move may reflect the development of the retail industry in the UK and its interest in trading in a Single Market without physical frontiers. From 1979 onwards "the Retail Consortium placed increasing emphasis on channels of representation direct to EC bodies rather than through intermediaries" says Jane Sargent, in her book on 'Business & Politics in Britain' (see Appendix C).

d **Identified Problem Areas**

From first appearances it would seem that the retail lobby is in good shape. The EC retail trade has on paper a large number of organizations and a good network of contacts at both EC and national levels. It has an advisory committee to discuss issues with the Commission and has improved relations with the Parliament. However, there seems to be a recognition by both the retail trade and the Commission that retail interests are still not adequately taken into account in EC policy-making. Retailing is heavily impacted by different policy areas and it is has been difficult so far to gain an integrated approach to commercial interests. The Commission acknowledged this fact in its 1991 communication "Towards a Single Market for Distribution", which in itself is a landmark in the Community's response to retail interests.

There are four main problems which essentially have caused the retail industry lobby to be atomized, diffused, and less effective than other groups at the EC level:

i Representation

* Problems in the representativeness of the European trade organizations; many of the existing EC pressure groups represent sectoral retail interests. Creating a single organization could solve the issue.

* Problems in obtaining direct company views and company participation in an EC trade organization. There is a ground swell movement in corporate circles to be informed more rapidly and systematically about the Community initiatives, to assess their impact on corporate planning and to have greater regular influence over the development of these initiatives.

* Resource problems. The European federations have had limited success in obtaining physical or financial resources, arising from problems related to the structure of the industry and the nature of the representation.

ii Structure problems have arisen because of the:

* Heterogeneity of retail lobby
* Large number of sectoral trade organizations
* Lack of appropriate liaison and the resultant competition for influence
* Economic structure and progress of the retail sector.

iii **Access**

* Access to government for the retail lobby has become complex because of the diffuse and heterogenous lobby structure.

* Both industry and the European Commission recognise that the CCD advisory committee needs to be reformed in order to increase its effectiveness. One ground for criticism is that it has national retail organization representatives who, in contrast to other advisory committees, do not necessarily represent the views of the European organization as a first priority.

* Instead of being mutually supportive, the diverse number of options used by the retail lobby have led to intense competition within the retail lobby itself for the attention of government officials at EC level. This phenomenon is not present at the national level to the same degree because of the more comprehensive nature of organizations such as the British Retail Consortium.

* Despite the creation of DG XXIII the lack of focus for retail interests within the Community institutions has led to access problems, arising from the diverse number of contacts necessary to influence Community policies. A list of current and future issues in the Community which the retail trade might want to address is included in Appendix A.

iv **The relationship between national and EC levels**

* There are a large number of EC initiatives which have attracted the attention of national organisations (including local authorities) and made them wish to get involved at the EC level. An example of a current and future area of interest can be found in the social dimension, where the attitude of national organizations, particularly in the UK, is not the same as their European counterparts. The protocol of the Maastricht Treaty on European Union grants all Member States, other than the UK, the ability to adopt common social legislation. UK business organizations will have to follow closely the development of social legislation in the rest of Europe in order to negotiate with British trade unions.

* The 'subsidiarity' principle (i.e. that which is necessary to regulate at EC level is regulated in that way and that which can be left to Member States is regulated at the member State or local authority level) has been formally defined in the Treaty on European Union, but the retail lobby does not seem to have focused on it. There is a lack of liaison and allocation of issues between organizations at both national and European levels and this has led to an inefficient use of human and material resources. This phenomenon is true also of a large number of non-retail sectors and their organizations.

* Underdeveloped national organizational co-operation in mediterranean countries; the problems of networking in Mediterranean countries have been caused by:

  1) the relatively late democratic development of these countries, particularly in Spain, and a lack of tradition of using trade associations as a focus for collective views;

2) late entry into the EC and the transition period for membership have meant an underdeveloped EC affairs industry and knowledge of institutions.

* National organisational involvement at EC level; The involvement of national associations directly at the EC level can lead to conflicts of interest with the European federations, particularly with regard to the representativeness of the interests being lobbied and the justification of resources allocated to them. A direct result has been the weakening of their collective voice at the EC level and a proliferation of bodies attempting to influence the Commission and the Parliament. The Commission thus has to choose between the messages it is receiving from national and EC sources. If an element of choice is given to the EC official the retail lobby would seem to have failed to direct the official along a single path and has thereby failed to provide the Commission with unity and clarity of argument.

* Liaison with other organizations; In order for the trade lobby to be effective at the EC level good and efficient liaison is needed between the organizations, as these are both numerous and have limited resources. An example of a move towards better liaison can be seen by the establishment of the CECD, FEWITA and GEDIS in the same location and their sharing of secretarial resources.

* Liaison problems may not be easy to solve, as they often result from the development of the retail lobby, the nature of retail activities and interests and characters involved. The Commission has made it clear that it prefers to speak to an organization at the European rather than at the Member State level. It also prefers to speak to one rather than several organizations in the same sector because of time and other constraints.

v Economic and Other Factors

Other papers in the Coca-Cola European Retailing Research series have been concerned with the structure of retailing across Europe and this report does not need to go back over what has already been said. However, it is useful to note those trends in retail structure that may affect the structure of the retail lobby.

The concentration of retailing, especially in food and other household goods, is particularly strong in Germany, France and the United Kingdom, where the retail structure resembled that of North America. Similar general trends can be observed in Denmark, the Benelux and the industrial regions of Italy, but the process of concentration and organisation has tended to occur further upstream. It is interesting to note that the developed retail trade associations, both national and international, are based in the most developed retail markets of Germany, France, the United Kingdom and the Benelux. Retail trade associations at the EC level tend thus to represent the interests of medium and large-scale retailing concerns in those countries; the so-called 'national champions'. These countries also have the longest history of consultation with trade and industry interests.

The commercial revolution arrived much later in Spain, Portugal, Greece, Ireland and rural areas of Italy. Retailing in those countries may continue to operate through large numbers of small shops and the process of concentration and organisation will occur further upstream. Retail trade associations are new in these countries (especially Spain where associations were banned under Franco) and tend to reflect the interests of small and medium sized retailing concerns. The national associations are also hindered by the strong regionalisation of trade, which is only now being eroded in favour of national champions.

The wholesale trade shows a similar uneven pattern of development. Specialisation and diversification in distribution upstream of the retailer is so complex that it is increasingly difficult to consider the wholesale trade as a single sub-sector. Wholesale activities are difficult to separate from mail order houses, cash and carry stores, upstream purchasing by retailers and the marketing, sales and distribution activities of manufacturing firms and suppliers of commercial services. The wholesalers' traditional intermediary role has been severely squeezed by large-scale retailing in both food and bulk raw materials areas.

There is a considerable difference in the structure of commerce in the Community from North to South. In the northern Member States the retail trade is very much more concentrated than in the Mediterranean countries. In the UK, for example, 80 per cent of turnover in food retailing occurs through about five major supermarket chains. This could lead at the EC level to a direct conflict of interest between the federations which represent the larger groups, such as GEDIS, and with those which predominantly represent smaller groups, such as UGAL and UIDA.

Within any national market, and also at the European level, there is a fundamental conflict of interest between the large multiples and smaller traders, who see the increase in economic and political power of the multiples as a direct threat to their continued existence. This is heightened by the trans-frontier or regional differences in concentration mentioned above.

As in many other sectors EC representation has evolved from national representation. EC federations are almost invariably financed by the national federations who are caught in the dilemma between needing representation in Brussels and seeing a haemorrhaging of power and funding towards the centre. This conflict frequently leads to the underfunding of the EC organization and a consequent atomization of the lobby. National organizations can even go so far as to set up their own Brussels office.

A recent example of this is the British Retail Consortium which originally was only a member of CECD and employed private consultants to look after their specific affairs in Brussels. It has recently joined GEDIS and in early 1991 set up its own office in Brussels, staffed permanently by one person. There has therefore been a dilution of the funds available to lobby at EC level. Other examples can be found; for example, with the Confederation of British Industry, the National Farming Union, the French farming union (FNSEA) and the Portuguese Farmer Unions. In many instances it is the strength of the national organization, compared to the European organization, that has determined the opening of an office in Brussels.

This historical construction of the Community means that in order to create more effective federal bodies by sector, the smaller organizations would have to disappear or be taken under an umbrella structure. It is not surprising that the permanent staff and the elected officers resist this trend, since the merger or disappearance of organizations would inevitably lead to job losses, changes of status for the permanent staff and loss of the opportunity for federation presidents to hold office.

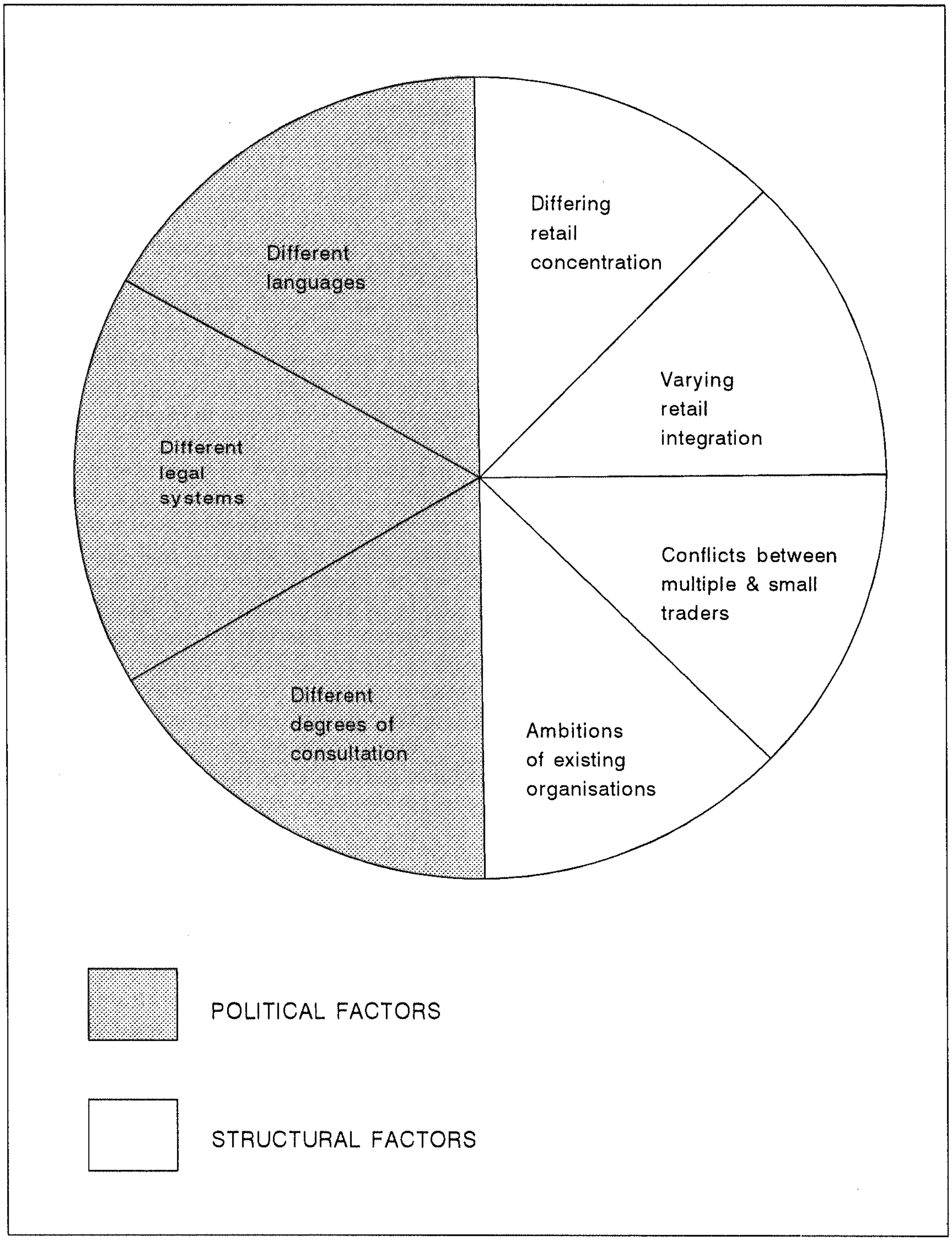
The sectoral, and some umbrella, EC retail trade organizations are normally provided with two to three permanent staff. They are thus unable themselves to provide the range of technical and legal services which are necessary to run an effective pressure group organization of the order of CEFIC and COPA. Important sectors of manufacturing industry are much better staffed; the Chemical Industry Federation CEFIC employs 80 staff in its Brussels office for example, although in general there is a high degree of atomization in the industry lobby also.

There are a number of other factors, chiefly political in nature, which tend to weaken the retail trade lobby particularly at the EC level. They are illustrated in diagram 3. Although all of these are historical and derive from the fact that the EC itself is in the process of rapid political evolution, some are related to the political structure of the Community whilst others are related to the economic structure of the retail trade itself.

Government at all levels, (local, regional, national or federal) in a democratic society involves the interaction of those who govern and those who are governed. There are many functions to be performed; policy formation, legislation, implementation and enforcement. In an international body like the European [Economic] Community the pattern is complicated by the different levels at which these functions are carried out. In addition, the jurisprudence of the EC Court of Justice can impose constraints on the freedom of action of national governments. Community policy inherent in the EC treaty may be developed into proposals for policy instruments by the EC Commission, enacted by the Council with the cooperation of the European Parliament, implemented by EC Member States and enforced at regional or national level. In the UK this may involve local authorities and in Germany the Länder. Business interests are not excluded from this equation and may interact with government to different degrees at all levels.

Although it is often said that, in terms of lobbying, Europe is several decades behind the US, this is based on an assumption that the US is an appropriate role model for Europe. Since the EEC is an evolving entity, models of industry/government interaction based on those which have developed in nation states may not be appropriate. In such cases the relationship between business and government may vary from an almost corporatist one (as in Japan, where business and financial interests have an extremely close relationship with government in the formation and execution of policy) to Germany (where the government, having heard the views of interested parties, sees it as its role to take 'independent' decisions). In other countries, such as France, there is an institutionalized consultation of the social partners, while in the UK the role of the NEDO (National Economic Development Organisation) has been allowed to wither but government consults actively with interested parties on a formalised basis unparalleled by other Member States.

DIAGRAM 3: FACTORS WEAKENING RETAIL TRADE LOBBYING AT MEMBER STATE LEVEL



In the US the use of trade and professional associations has been limited and greater use is made of direct representation through industry representatives, lobbyists and consultants. This is perhaps due to the greater concentration in industry and commerce, where the major actors do not feel the need for support from their colleagues in making their views heard; possibly also because US antitrust laws have discouraged cooperation between companies, even where competitive elements are not involved.

In the US the direction of legislation has been increasingly influenced by single interest groups which have exerted pressure on the legislature. These movements were strengthened by the decision of the Reagan administration to decentralise government. This has undermined federal preemption and led to state initiatives such as the Californian proposition 65 (Safe drinking water and toxic enforcement act voted in 1986 by Californian public referendum. CAL. Health and Safety Code para 25249.5 - 13). This act stipulates that "No person in the course of doing business shall knowingly and intentionally expose any individual to a chemical known to the State to cause cancer or reproductive toxicity without first giving clear and reasonable warning to such individual". This legislation did not occur at federal level and caused direct conflict between federal and state authorities over pharmaceutical and food products. Such conflicts have and will arise in the EC when 'unauthorized' subsidiarity occurs (a current notable example being the Italian SIMS law which provides that all securities dealing activities must be conducted through an Italian entity known as the Societa di Intermediazone Mobialiare (SIMS)).

In addition the law of liability and the system of litigation in the US has allowed single interest groups, such as consumers and environmentalists, to pressurize legislators through court cases, exploiting wherever possible state laws. The position of those willing to attack industry and commerce for placing goods on the market which could constitute a 'danger to the consumer' is strengthened even more by the possibility of 'bounty hunting'. Although a penalty may be in itself small, those bringing a prosecution have the possibility of claiming a penalty for each and every infringement. In a case such as lead migration from ceramic glaze, or as in a current case in the Californian court involving crystal glass, an infringement could be serving an individual meal on a plate or glass. The cumulated penalties could amount to very large sums. These forces have put industrial and commercial interests on the defensive and are a force for disintegration which could lead to an atomization of the US market.

In contrast, in Europe the use of primary EC legislation (article 30 of the EC Treaty) by companies, and in particular by the retail trade, has been a cohesive force in the EC. Such celebrated cases as the 'Cassis de Dijon', which reinforced the principle of the free circulation of goods within the Single Market, have had the effect, not only of establishing the right to trade across EC Member State frontiers but of fundamentally affecting the course of EC law-making and consequently the legal and political structure of the EC itself. The judgements of the Court, using the principle of proportionality, oblige Member States to take into account the economic interest of the trader and of the consumer in terms of access to markets and to goods and to use those measures which would be the least disruptive to the EC. The importance of these cases can be seen from the fact that the whole thrust of the 1992 White Paper programme derived from this case law. If Member States resisted harmonization, then they were faced with the principle of mutual recognition which was often a less acceptable solution.

The largest number of cases has been in relation to food and, although of the 143 cases reported up to the end of 1988 a very large number were brought by individual retailers, wholesalers and importers such as REWE, Albert Heijn, Delhaize and Bauhauis, none have been brought by retail federations. In other areas, such as the use of hormones, the manufacturers federation FEDESA brought the case rather than an individual firm. (Droit et Consommation XXI, Le Droit Communautaire Relatif aux Denrées Alimentaires. Patrick Deboyser. Story Scientia Leuven.)

It is difficult to decide whether the failure to use federations is due to the strength of the individual firm, the weakness of the federation or the fact that most cases originated in an individual prosecution in a national court. There is a natural tendency for companies to wish not to get involved in other firms' litigation even if the result is for the general benefit. Whatever the reason, the success of these cases has given individual firms the feeling that they do not need to talk to government since they can, through the Court, determine not only how government is carried on but, at this evolution stage of the Community, how its legal and political structure will be determined. The Commission has been an active partner in these activities, since it sees these cases as reinforcing the role of the Community against the protectionist tendencies of Member States.

5 OVERVIEW OF MAJOR NON-RETAIL ORGANIZATIONS BY SECTOR

To evaluate the EC retail lobby, it is useful to consider organizations in other sectors to establish whether there are any similarities in the types of problems encountered and how sectoral representation has been structured.

a <u>The food industry sector</u>

The food industry, in common with the retail sector, is extremely diverse in its activities, ranging from primary processing of food, through secondary processing some elements of retailing and catering.

The food industry, together with agricultural interest, is represented both at national and EC level by the largest number of sectoral trade associations (there are over 65 food industry associations at the EC level). The existence of a large number of food industry groups at the EC level bears some similarity to the retail trade lobby, the main difference being that there is an umbrella EC food industry association, the CIAA.

The CIAA was formed very late in Community history in 1981 and thus has missed building up influence with Community institutions. It does not have the large educational and consumer drive which the US FMI has assumed.

The effectiveness of the CIAA has been hindered by the conflict of industrial interests and lobby organizations and lack of direct industrial representation. Although attempts have been made at reform, national organisations are strong, especially in UK and the Netherlands where the food industry is the most developed and concentrated. The early existence of pressure groups in these countries, together with the late formation of the CIAA, has meant that national organizations still play a very strong role. The CIAA is relatively understaffed and cannot effectively face up to the large scale farming concerns as expressed through COPA, the major EC farm lobby organization. Consequently, its ability to influence policy and public opinion is much less, as witnessed by the fact that in its response to agricultural and food policy issues it does not have to get the almost daily press coverage that the agricultural lobby does.

Sectoral organizations are also strong at both national and EC levels. A good example is the chocolate, biscuit, cake and confectionery sector represented at the EC level by CAOBISCO and at the national level strongly in the UK by the BCCA. Institutionalisation of communication and liaison of sectoral organizations at EC level through a newly formed committee is one of the most positive aspects of the recent reform and of the food industry and CIAA involvement.

Food industry representation also illustrates how member companies can become concerned about effectiveness of federation activities. Large firms, such as Nestlé and Unilever, have been key motivators for change. Long established European companies of American parentage, such as Philip Morris and Mars, are also important movers and shakers in the CIAA.

Wyn Grant describes the food industry as "not generally well organized for representational purposes" He notes that "when compared to agriculture, the system of associations appear highly pluralist in character, reflecting the heterogeneity of interests". This heterogeneity can also be observed in the retail industry. Grant's comments could be reproduced to describe the retail lobby "There are a large numbers of associations often serving very narrow interest categories. The domains of these associations often overlap, and there is sometimes direct competition for influence. Higher order associations are often poorly resourced, incomplete in their coverage, and with weaker links to those associations they do organize" (Grant & Coleman 1987 p. 212).

b <u>The chemical sector</u>

Like the food and agricultural sector, the chemical industry also has a large number of sectoral industry associations at both national and EC levels. Unlike the food industry, however, the chemical industry associations are bound strongly together within the CEFIC, the Chemical Industry Council. CEFIC has a structure which includes direct company representation at the EC level, thus bringing a more pragmatic approach to its operations.

This pragmatic approach is demonstrated in working groups and technical committees. This forms an effective, if somewhat organisationally complex, lobby structure. CEFIC associations, like those of FDF in the UK, are centrally based around one building with varying levels of independence of member organizations from the CEFIC structure.

CEFIC has strong links with US (SOCMA) and Canadian (CCC) interests with which it often produces joint statements, thereby lending credence to international influence.

The strength of CEFIC lies in its large number of contacts and the mix of company and federation interests which have made it one of the most influential lobbying organizations in Brussels. It is currently undergoing major reorganization which will bring corporate activities even closer to the frontline of EC policy-making and decision-making.

c General industrial interests (see UNICE and EC committee)

UNICE, the representative of European industrial employers interests, is an umbrella organization representing national employer federations. It is a federation of federations which has little direct corporate representation, although some industry reps sit on its working groups, (e.g. GATT, Data Protection, Export Controls). UNICE is considered to be a social partner with regard to the Commission and, together with the unions, enjoys a special consultative status on social legislation. It also has a good consultative status on trade and industrial policy matters, obtaining early drafts of legislation or policy positions direct from commission officials. It produces a large number of statements, which are on the whole general in nature.

The interests of American companies in Europe are represented principally through the national chambers of commerce which typically address legal and taxation issues as well as trade and investment information. The EC COMMITTEE was created to represent the views of European companies of American parentage (subsidiaries). It has direct membership of corporations which participate in the 12 cross-sectoral committees and 35 working groups. The corporate representatives prepare the positions of the organization whilst the secretariat coordinates the activities and facilitates the formation of policy and lobbying on positions adopted. The EC Committee has a huge information network and is linked into the national chambers and US organizations. It is considered in terms of its lobbying activities and publications on EC Affairs to be one of the most influential actors in the EC lobbying environment.

d Agricultural sector

Although this paper has so far examined industry groups, the sectoral organizations most successful in communicating their views to government at both national and EC levels are the agricultural producer groups.

The producer groups COPA, COGECA and CEJA have existed since the inception of the EC's Common Agriculture Policy in 1958 to monitor and influence the progress of the CAP. The Commission's policy which it wishes to affect can be influenced politically through the Cabinets, Permanent Reps, national civil servants and government members. The farmers' unions, despite some initial differences, are united in the focus of their activities.

The national organizations, which have much influence as they represent the interests of numerous large, medium and small farmers, participate in the national annual price review for agricultural products. Despite differences between farm organizations in the North and South of Europe they are fairly united in their views. Many of these national farm organizations have their own office in Brussels, such as the UK National Farmers Union, FNSEA (French Farmers Union), Landbrugsraadet (Danish Farmers Union), PASEGES (Greek Farmers Union), Irish Farmers Association, COLDIRETTI, CONFRAGRICOLTURA, FEDERCONSORZI, CIC (Italian Farmers Unions) and the CAP (Portuguese Farmers Union). These offices usually employ about three people and are intelligence gathering sources as well as influencing on a daily basis the position of the European organization COPA/COGECA.

6 THE CHANGING ENVIRONMENT FOR LOBBYING IN BRUSSELS

a Community activities

So far as **the Parliament** is concerned, as a result of a report written by Marc Galle, MEP, and questions raised by Alman Metten, MEP, the Parliament commissioned a report and a public hearing on the issue of lobbying. The Parliament is concerned with the number of lobbyists and with access to information. Mr. Wijsenbeek, MEP, summed up the parliamentary debate in three clear messages "... there is no ideal form of lobbying, openness of the EP must be maintained and any action to limit access may have undesirable consequences ...". The Parliament has adopted a much more restrictive approach to lobbying than the Commission and is principally concerned with limiting the access of lobbyists to information, whilst also establishing a register of lobbyists.

Despite much criticism, **the Commission** is considered to be a fairly transparent institution. However the degree of transparency may not be uniform between, or indeed within, DGs and the Commission has no real focal point for dealing with lobbying activities and pressure groups. The Commission has no effective means at present to make working documents of the Commission publicly available other than through publication in the Official Journal. Often leaks occur of documents through national officials or on a complimentary basis by Commission officials themselves. The Commission has recognised that for many groups or individuals the access to information on EC initiatives is crucial to EC business activities. Some abuse of privileged information has occurred mainly from the press and national officials. The growth in the number of EC wide organizations from 300 in the 1960's, to 400 in the 1970's and 800 in 1992 bears witness to the enormous demand for Commission and Parliamentary airtime. It also demonstrates the diversity of interests now represented at the EC level.
The Commission in its 1992 work programme states "... lobbies are likely to proliferate once the Single market is in place. Relations between the Community's institutions and interest groups, useful though they may be, must be more clearly defined. Parliament has recently made moves in that direction. Consideration will therefore be given to a code of conduct to govern relations with organizations set up for the specific purpose of handling relations with the commission. This step will in no way compromise the freedom of trade or professional groupings or hinder essential dialogue with institutional committees".

The Commission's report is already at the 'soft pencil stage' and addresses three aspects:

* **External Aspects**

  There should be registration of lobbyists and a code of conduct. The Commission could put in place a system where a body composed of a representative from each lobbying sector (Employers federation, Chambers of Commerce ....) and neutral observers would supervise a lobbying code. The register would be for organizations of a pan-European nature.

* **Internal Aspects**

  There should be an internal code of conduct and rules and procedures; also more coordination with Parliament.

* **Availability of documentation and access to meetings**

  More attention should be given to the holding of hearings and consultation with business interests.

The current Commission proposal requires a:

* directory of all organizations;

* central body overseeing a code of conduct and the collection of position papers;

* central office to provide copies of Commission consultative papers at a minimal cost to any interested party;

* cost benefit sheet to be published by Commission services with every proposal.

The result of both Commission and Parliamentary activities on the control of lobbying activities will have widespread implications for the future of talking to EC government and the structure of business interests at the EC level. If an organization representing retail interests is not on the suggested list of registration then it may be excluded from the direct dialogue with the Commission. Corporate representatives will certainly be hindered by such initiatives and especially consultants and lawyers.

Arguably the Commission's communication activities are of most concern. The Commission is obliged under Article 118b of the Treaty of Rome to consult with social partners "... The Commission shall have the task of promoting close cooperation between Member States in the social field .... to this end, the Commission shall act in close contact with Member States by making studies, delivering opinions and arranging consultations both on problems arising from the national level, and on those of concern to the international organizations...". This, however, only applies to social legislation.

The 17th declaration to the Maastricht Treaty on European Union regarding the right of access to information states "... This Conference considers that transparency of the decision-making process strengthens the democratic nature of the institutions and the public's confidence in the administration. The Conference accordingly recommends that the Commission submit to the Council no later than 1993 a report on the measures designed to improve public access to the information available to the institutions".

b Retail trade representation

As a result of the need to concentrate the trade lobby at the EC level, developments are already underway to give trade interests a single voice in Brussels and the national capitals. At the heart of the new planned structure would be the three organizations CECD, FIGED and FEWITA with their joint secretariat and offices. CECD is cementing ever closer relations with FIGED and it is expected that the two organizations will merge in the near future. FEWITA may also merge with the CECD and FIGED but the particular interests of wholesalers need to be adequately reconciled within the new structure.

The first tier of the structure could be the national association representatives of the above-mentioned three organizations. The next tier in the new structure could be the associated retail organizations which would include some umbrella and vertical interest retail organizations such as CELCAA, CLD, CIES, UGAL etc.. A final tier could involve all other forms of trade representation, including direct company membership, consultancies and law firms. The resultant structure could appear along the lines illustrated in Diagram 4 below.

DIAGRAM 4: Possible future structure of EC confederation of commerce interests

President

$\updownarrow$

Board of Directors

$\updownarrow$

Secretariat

$\updownarrow$

Cross-sectoral issue working groups

The new organization would have three levels of membership:

Level 1	CECD + FIGED + FEWITA (National Organizations/Companies)
Level 2	Associate member federations
Level 3	Individual Members (For example, companies/consultants/lawyers)

Much work remains to be done to concentrate the activities of the retail trade lobby but the need for concentration is underlined by the Commission's need for the focusing of business interests, the restricting of lobbying activities and the need for an effective corporate EC voice. In the light of recent discussions over the Maastricht Treaty ratification and the need for clarification of subsidiarity in the Community, effective networks between national and EC level organizations will be essential to ensure effective influence.

7 CONCLUSIONS

This study set out to examine the problems facing the retail trade when talking to governments, particularly at the EC level, and to compare the public affairs structure of the retail trade with those of other large heterogenous interest groups.

The European Community is at a stage of rapid development and European public affairs are hard put to keep pace with this rapid evolution. Existing public affairs structures have developed through a historical process in parallel with the development of the Community institutions. As such, they reflect the pressures resulting from a national rather than a European view being taken by the national federations from which the European federations derive. To this can be added the heterogeneous nature of the retail sector itself and of its interests. The stresses and conflicts which have arisen have led to a progressive disillusionment with the current dialogue by all parties and the proliferation of actors trying to influence government, particularly at the European level. At the same time, with the internationalization of capital and markets and with increased global sourcing, companies are operating on a more multi-national basis. They are now tending to deal company to company rather than through a governmental or non-governmental organization.

Now that much of the Single Market legislation is in place, the retail trade will have a greater interest in seeing that it is effectively managed. It will be essential that adequate networks are developed between the Commission and the national bodies to enable practical solutions to be found by administrative cooperation rather than by further lawmaking. Particular attention will have to be given to the application of the principle of subsidiarity, which can on the one hand aid flexible administration, but on the other could be used as a protectionist device by national governments.

Those contacted during the research for this report suggested that "... trade organizations formally liaise their activities and if possible allocate responsibilities for issues. These representatives could be coordinated within a Council structure such as that of CEFIC together with national federations and companies. This would mean a liaison group of retail and wholesale trade organizations in one assembly and another assembly which could consist of representatives from national and European retail/wholesale champions ...". These recommendations have been largely met by the planned reorganization of the retail trade lobby described in the last chapter.

However, the reorganization so far does not deal adequately with direct corporate participation. The interests of national and multinational companies and retail alliances could better be reconciled with the views of trade organizations if companies were given an active role in EC federations. Company participation through national federations lengthens unnecessarily the communication chain and dilutes views by filtering them through two layers of administration in the national and European Federations. Company expertise and a pragmatic approach could be injected directly into the retail trade lobby at European level and coordinated through a collective structure. Some good models for these structures exist as in CEFIC and the EC Committee of AMCHAM. If the future of dialogue with government is to be orchestrated by the Commission, then business should form the orchestra and play through it.

The attention being paid to lobbying by both the Commission and the Parliament cannot but result in a greater structuring of the institution/pressure group dialogue. In such a scenario groups which have a well organized and coordinated structure will have the best access to policy makers and decision makers. The EEA, the developments in central Europe and the potential enlargement of the Community mean that public affairs in the retail trade will change rapidly and will have to be developed both on an EC and a pan-European level.

The structure of the retail trade lobby will need to be kept under continuous review and an institutional affairs working group could be set up and entrusted with this task as well as with following the Commission's activities on enforcement, such as in the Sutherland group and similar committees.

APPENDIX A: ISSUES RELEVANT TO THE RETAIL TRADE

Current and future EC issues for the retail lobby to address

These issues have been, or are currently, under discussion within the Community institutions with the likelihood of regulation in the future:

Company Law: Product Liability (EC directive.), Liability for Defective Services (EC Draft dir.) and the European Company Statute (EC Draft directive.).

Social Affairs: Social Dimension, Works Council, Worker Participation (EC draft dir.), Health and Safety for Workers (EC draft directive.).

Consumer Affairs: Labelling, Comparative Advertising, Advertising of Tobacco, Distance selling

Environment: Packaging, Disposal of Waste, Recycling, Eco-labelling, Eco-Auditing, Fiscal incentives for the Environment.

Transport: Transport Networks, Port of Entry and Port of Destination.

Telecommunications: Electronic Data Interchange, Green paper on telecommunications

Industrial: Industrial policy guidelines, Retail trade communication, Health requirements and labelling.

Trade: Single Administrative document, Port of Entry/ Port of Destination, Customs Reform, Negotiations in the Uruguay Round for a revised General Agreement on Tariffs and Trade, Common Agricultural Policy reform, Developments in Eastern Europe (in particular the signing of the Europe (Association) agreements with Hungary, Poland and Czechoslovakia and the possibility of establishing similar agreements with the Baltics, Bulgaria and Rumania). The negotiations with EFTA countries to establish an European Economic Area (EEA).

Financial Services: Payment Systems (EC discussion paper and report), Pension Funds, the Treaty on Economic and Monetary Union and the Commission report on legal barriers to the promotion of the ECU.

Competition Policy: Mergers and Acquisitions (EC draft and adopted proposals)

Fiscal; Fiscal Incentives for Environment (EC document), CO2 Tax, Harmonisation of direct (EC proposals and expert committee discussions) and indirect (VAT and excise duties) taxes

Intellectual Property; Trademark and data privacy (2 EC draft directives and a decision. Draft legislation in the pipeline for credit and direct marketing industry).

Research and Development: The reorganization of R & D in the forth multiannual programme. (Pandolfi document) Communication on bio-technology (Commission document).

General Policy areas: Maastricht ratification, Enlargement of the Community, CAP reform and Subsidiarity (definition of).

Other; Development and growth of DG XXIII. The regulation of lobbyists (EP discussions and report).

APPENDIX B: MAIN EC RETAIL TRADE ORGANIZATIONS

TABLE OF CONTENTS

Much of the information in this Appendix is based on information in the 'Directory of Pressure Groups in the EC' published by Longmans, to which Oliver Gray was a contributor, and is used with kind permission of Longman Industry and Public Service Management.

AECGV	Association Européenne du Commerce en Gros des Viandes The European Association of Wholesale Meat Trade		
Address	29, Rue Fortuny, F-75017 Paris, France	**Founded**	1959
Telephone	(46) 22.93.80 **Fax** (44) 40.48.62	**Languages**	French
Aims	To promote the interests of the European wholesale meat trade at the EC level.		
Scope	Members from the member states of the EC.		
EC Links	Contacts with DGs III and VI in the EC Commission.		

AEPC	Association Européenne de Vente par Correspondance European Mail Order Traders' Association		
Address	17, Avenue Edouard Lacomblé, B-1040 Brussels, Belgium	**Founded**	1971
Telephone	(2) 736.03.48 **Fax** (2) 736.05.42	**Languages**	English, French
Aims	To promote the interests of the European mail order traders at the EC level.		
Scope	Deals in EC affairs and its members are from EC and EFTA countries.		
EC Links	Contacts with DGs III, XIII, XXIII and the Consumer Policy Service in the EC Commission.		
Statistics	Compiles statistics on the direct mail order industry.		

CECD	Confédération Européenne du Commerce de Détail European Federation of Retail Traders

Address	123/133, Rue Froissart, B-1040 Brussels, Belgium	**Founded**	1981
Telephone	(2) 231.07.99 **Fax** (2) 230.00.78	**Languages**	English, French

Aims	To represent and promote the views of the EC retail traders at the EC level.
Scope	Deals with European affairs. It has members from both EC and EFTA countries. CECD is affiliated with the CECODE and the CLD.
Activities	Liaises closely with other retail interests represented in the CECODE and the CLD. It publishes an annual report and information leaflets on retail trade in both of its working languages.
EC Links	Contacts with DGs III, XXIII and the Consumer Policy Service in the EC Commission.
Committees	Represented on the Commission's advisory committee for Commerce and Distribution.
Statistics	A contributor to the Retail trade section of the EC Commission's annual Panorama of EC Industry.

CECODE	Centre Européen du Commerce de Détail European Retail Trading Centre

Address	89, Sachsenring, G-5000 Köln 1, Germany	**Founded**	1965
Telephone	(221) 339.81.36 **Fax** (221) 339.81.19	**Languages**	English, French, German

Aims	To promote and coordinate the views of the European Retail Trade Organizations at the EC level. To exchange information with members of the CECD.
Scope and Membership	Deals with EC affairs and its members are from associations based in all member states of the EC. The associations AEDT, CED, FEPD, FTA, GEAMR, la Fédération Internationale des Horlogers, Bijoutiers, Joualliers, Orfèvres Détaillants de la CE, the UIDA and UNECOLAIT are members.
EC Links	Contacts with DGs III, XXIII and the Consumer Policy Service in the EC Commission.

CECRA	Comité Européen du Commerce et de la Réparation Automobiles. European Committee for Motor Traders and Repairers.		
Address	46, Blvd de la Woluwe, Bte 10, B-1200 Brussels, Belgium	**Founded**	1984
Telephone	(2) 771.01.88 **Fax** (2) 772.65.67	**Languages**	English, French
Aims	To promote the views of the Motor traders and repairers at the EC level.		
Scope	Deals in EC affairs and its members are from all member states of the EC.		
EC Links	CECRA has contacts with DG III in the EC Commission.		

CELCAA	Comité Européen de Liaison des Commerces Agro-alimentaires European Liaison Committee of Traders of Agro-Food Products		
Address	9, Rond Point Schumann, B-1040 Brussels, Belgium	**Founded**	1979
Telephone	(2) 230.99.70 **Fax.** (2) 230.43.23	**Languages**	French
Aims	To promote the views of EC traders of agro-food products at the EC level.		
Scope	Deals with EC affairs and its members are European federations which have members from all EC member states and EFTA countries. The members of CELCAA are AECGV, AEEF, ASSUC, CIBEP, CIMO, COBCCEE, COCERAL, Confederation of EC game and fowl traders, EUCOLAIT, EUWEP, GEDIS, FIPA, FRUCOM, Florist Union, FEUPF, OPIC Europe, EUCOFEL, EURO-TOQUES and ACME.		
EC Links	Contacts with DGs III and XXIII in the EC Commission. CELCAA's members are represented on the Commission's advisory committee for commerce and distribution. CELCAA has contacts with the European parliament and ECOSOC.		

CICILS	Comité Permanent CEE de la Confédération Internationale du Commerce et des Industries des Légumes Secs EEC Standing Committee of the International Pulse Trade and Industry Confederation.		
Address	Bureau 286, Bourse de Commerce, 2, Rue de Viarmes, F-75040 Paris Cedex 1, France	**Founded**	1964
Telephone	(1) 42.36.84.35 **Fax** (1) 42.21.03.71	**Languages**	English, French, Spanish
Aims	To promote the interests of the international pulse trade and industry at the EC level.		
Scope	Deals with EC affairs and its members are from EC member states.		
EC Links	Contacts with DG VI in the EC Commission.		

CIMO	Confèderation of Importers and Marketing Organisations in Europe of Fresh Fruit and Vegetables		
Address	272, Avenue de Broqueville, Bte. 4, B-1200 Brussels, Belgium	**Founded**	1972
Telephone	(2) 771.36.35 **Fax** (2) 762.94.25	**Languages**	English, French, German
Aims	To promote the interests of the EC importers and marketing organizations of fresh fruit and vegetables.		
Scope	Deals with EC affairs and its members are from EC member states.		
EC Links	Contacts with DG VI in the EC Commission.		

CLD	Comité de Liaison des Associations Européennes du Commerce de Détail. European Committee of Associations of European Retailers.		
Address	17, Avenue E. Lacomblé, B-1040 Brussels, Belguim	**Founded**	1980
Telephone	(2) 771.06.80 **Fax** (2) 736.05.42	**Languages**	English, French, German
Aims	To promote the liaison and exchange of information between national and European retail organizations at the EC level.		
Scope	CLD deals with EC affairs and its members represent interests from all EC member states. AEPVC, EFF, IVE, UGAL and GEDIS are members of CLD.		
EC Links	CLD has contacts with DGs III, VI, XI, XXIII and the Consumer Policy Service in the EC Commission.		
Committees	CLD is represented on the Commission's advisory committee for commerce and distribution.		
Statistics	CLD is a contributor to the retail trade section of the Commission's annual panorama of EC industry.		

COCERAL	Comité du Commerce des Céréales et des Aliments du Bétail de la CE EC Committee of Cereals and Animal Feedingstuffs Traders		
Address	197, Rue Belliard, Bte.6, B-1040 Brussels,Belgium	**Founded**	1958
Telephone	(2) 230.61.70 **Fax**(2) 230.30.63	**Languages**	English, French, German
Aims	To promote the interests of the Cereals and Animal Feedingstuffs Traders at the EC level.		
Scope	Deals with EC affairs and its members are from all EC member states.		
Activities	Provides a daily telex service on the problems of the cereals market and publishes a monthly newsletter.		
EC Links	Contacts with DGs III, IV and VI in the EC Commission. COCERAL also has contacts with the European Parliament.		
Committees	Represented on the Commission's cereals and cattle feed advisory committees.		

ECCTO	European Community Cocoa Trade Organisation		
Address	1, Commodity Quay, St. Katharine Docks, UK-E1 9AX London, United Kingdom	**Founded**	1974
Telephone	(71) 481.20.80 **Fax** (71) 702.99.24	**Languages**	English
Aims	To promote the interests of the cocoa trade at the EC level.		
Scope	ECCTO deals with EC affairs and its members are from EC member states (Germany, France, Holland and the United Kingdom).		
EC Links	ECCTO has contacts with DGs III, VI and VIII in the EC Commission.		

EUCOLAIT	European Union of Importers, Exporters and Dealers in Dairy Products.

Address	26, Avenue Livingstone, B-1040 Brussels, Belgium	**Founded**	1959
Telephone	(2) 230.44.48 **Fax** (2) 230.40.44	**Languages**	English, French, German

Status International Association (Belgium)

Aims To encourage study and research into intra- and extra- Community trade in dairy products and products derived therefrom. to give scientific and legal support in harmonizing national legislation. to represent the union's interests vis-à-vis the EC's institutions and other international organizations and associations.

Organisation & Structure EUCOLAIT has one general meeting a year, the nine members of the executive committee are appointed by the general assembly.

Resources EUCOLAIT has three full-time staff, the budget for 1990 was BF 7,000,000 and was financed entirely by members subscriptions.

Scope Deals with EC affairs and its members are from EC member states.

Activities EUCOLAIT publishes two times a month a members newsletter, plus a regular information service by **Telex.** It maintains links with CELCAA at EC level.

EC Links Contacts with DGs III and VI in the EC Commission. EUCOLAIT has contacts with the European parliament and ECOSOC. EUCOLAIT has contacts with ASSILEC and ASSIFONTE.

Committees Represented in the Commission advisory committees on dairy and dairy products, food, agricultural structures, customs mattters and animal feed.

Assessment EUCOLAIT together with ASSILEC and ASSIFONTE has a strong network of contacts and influence at both national and EC levels. Its representation on several Commission advisory committee ensures that EUCOLAIT has a direct influence on policy-makers in the agricultural area.

Member Organizations

BELGIUM	Belgian Dairy Trade Federation, Association Belge du Commerce Des Fromages (ASFROBEL).
DENMARK	MD Foods, United Danish Butter Export Associations (BUTTERDANE).
FRANCE	Féderation Nationale du Commerce des Produits Laitiers et Avicoles (FNCPLA), Distribeurre, Syndicat National des Importateurs, Syndicat National du Commerce D'Exploitation des Produits Laitiers et Avicoles (SYLAITEX), Groupement Syndical des Exportateurs de Caseine (EXCA).
GERMANY	Bundesverband Des Gros-Und Aussenhandels Mit Mölkereiprodukten (GROMO), Export Union für Milchprodukte, Verband Des Deutschen Dauermilch-Gros-Und Aussenhandels.
ITALY	Associazione Nationale Stagionatori e Grossisti di Prodotti Caseari (ASSOCASEARI).
NETHERLANDS	Stichting Gemeenschappelijk Zuivelsekretariaat (GEMZU).
SPAIN	Asociation Espanola de Importadores de Productos Lacteos y Derivados (ANEIQ).
UNITED KINGDOM	Dairy Crest Creameries, Philpot Dairy Products Ltd, Garden Cottage Foods Ltd, Brooks Mc Robbie Ltd, Staple Dairy Products Ltd, Ernest George Ltd.
SWITZERLAND	Dairyworld SA. Genlac SA.

EUWEP	European Union of Wholesale with Eggs, Egg-Products, Poultry & Game.		
Address	2, Buschtrasse, D-5300 Bonn 1, Germany	**Founded**	
Telephone	(225) 21.20.37 **Fax** (228) 21.09.89	**Languages**	
Resources	EUWEP has a secretariat of 1 full-time staff.		

FEWITA	Federation of European Wholesale and International Trade Associations.		
Address	123/133, Rue Froissart, B-1040 Brussels, Belgium	**Founded**	1980
Telephone	(2) 231.07.99 **Fax** (2) 230.00.78	**Languages**	English, French
Status	Asbl (Belgium)		
Aims	To represent the interests of the retail and wholesale trade vis-à-vis the European Community institutions.		
Organization & Structure	FEWITA convenes an annual general assembly and a board of directors meets four times a year. Representatives are appointed by national organizations to represent their interests on the board.		
Resources	FEWITA has three fulltime staff.		
Scope	Deals with European affairs and its members are from EC member states and EFTA countries.		
Activities	Organized several conferences on retailing issues, notably on the impact of the internal market and Eastern Europe. It produces a weekly information report and provides its members with an information service.		
EC Links	FEWITA has contacts with DGs I, II, III, IV, V, VI, VII, XI, XIII, XXI, XXIII in the EC Commission. It also has contacts with the European parliament. FEWITA has close contacts with GEDIS and CECD as well as other retail organizations.		
Committees	Represented on the Commission advisory committees for food law, commerce and distribution, agricultural consultative committees, European standing committee for employment, EC Customs committee and EC Payment Systems Committee.		
Assessment	FEWITA together with GEDIS and CECD work closely to influence EC institutions and have a good range of contacts with officials and other business organizations.		

FIGED	Fédération Internationale des Grandes et Moyennes Entreprises de Distribution International Federation of Retail Distributors

Address	17, Avenue E. Lacomblé, B-1040 Brussels, Belgium	**Founded**	1969
Telephone	(2) 736.04.04 **Fax** (2) 736.05.42	**Languages**	French

Status	ASBL (Belgium)
Aims	To facilitate the exchange of information between members, notably by the exchange of ideas and experiences as well as all documentation on issues which interest large and medium sized retail companies. To promote the common professional interests of its members (including non-EC such as Austria and Switzerland) to the EC and other international organizations.
Organization	FIGED convenes an annual general assembly which elects the four executive committee members.
Resources	FIGED has one full time staff member and its 1990 budget of 5 000 000 BF was financed entirely by member subscriptions.
Scope	Deals with European affairs and its members are from EC member states and EFTA countries (Austria and Switzerland).
Activities	Produces a monthly newsletter for members. FIGED has close contacts with other retail organizations CELCAA, CECD, GEDIS. It is affiliated to the FTA and CLD.
EC Links	Contacts with DGs III and XXIII in the EC Commission.
Committees	FIGED is represented on the Commission's advisory committee for commerce and distribution.

FRUCOM	Fédération Européenne du Commerce en Fruits Secs, Conserves, Épices et Miel. European Federation of the Trade in Dried Fruit, Edible Nuts, Preserved Food, Spices, Honey and Similar Foodstuffs.

Address	Plan 5, W-2000, Hamburg 1, Germany	**Founded**	
Telephone	(40) 32.64.14 **Fax** (40) 32.26.39	**Languages**	

Aims	FRUCOM works to protect the interests of the import trade in dried fruit, almonds and other nuts, preserved food, spices, honey, and similar foodstuffs. FRUCOM promotes these products within the EC, particularly among authorities and institutions in the EC.

FTA	Foreign Trade Association		
Address	5, Avenue de Janvier, Bte.3, B-1200 Brussels, Belgium	**Founded**	
Telephone	(2) 762.05.51 **Fax** (2) 762.75.06	**Languages**	

GEAMR	Groupement Européen des Associations des Maisons de Réforme European Group of Health Food Shops' Associations		
Address	6, Waldstrasse, D-6373 Oberursel, Germany	**Founded**	
Telephone	(6172) 320.02 **Fax** (6172) 310.45	**Languages**	

GEDIS	Groupement Européen des Entreprises de Distribution Intégrée European Multiple Retailers' Association

Address	123-133, Rue Froissart, B-1040, Brussels, Belgium	**Founded**	1965
Telephone	(2) 231 11 26 **Fax** (2) 230 00 78	**Languages**	English, French, German

Status	ASBL (Belgium)
Aims	To inform members on EC matters and progress of legislation. To represent the interests of the members to the institutions of the EC. To promote the principles of free enterprise and competition to ensure the conomic health of the entire sector and this to the benefit of the final consumer.
Organisation & Structure	GEDIS convenes an annual General Assembly. The 23 members of the Executive Committee are elected/appointed by the General Assembly. GEDIS has six working groups (Agro-Food, Eco-Legal, Social, Consumer, environment and EFT/new technology) to analyze EC matters.
Resources	A full-time secretariat staff of three run the day to day activities of the organisation.
Scope	Deals with EC affairs and its members are from all EC member states.
History & Achievements	GEDIS with other retail organizations was influential in the creation of DG XXIII for small and medium sized enterprises, tourism and commerce.
Activities	Produces a monthly information bulletin on member activities and EC legislative initiatives. GRDIS also produces an annual report.
EC Links	GEDIS has contacts with DGs III, IV, V, VI, XI, XV, XXI, XXIII and the Consumer Policy service in the EC Commission. GEDIS also has contacts with the European parliament (Environment and Consumer Affairs committee and the Economic and Monetary Affairs committee), ECOSOC and the secretariat of the Council of Ministers. GEDIS has contacts with the ICC, UNICE, BEUC, FTA and CIAA. It also has good contacts with CLD and CELCAA where it is a member. GEDIS has close contacts with CECD and FEWITA through the close collaboration of its technical working groups and joint statements.
Committees	GEDIS is represented on the Commission's advisory committee for commerce and distribution.
Statistics	GEDIS collects statistics on EC retail industry.
Assessment	GEDIS is a relatively new organization which together with the other retail organizations CELCAA, CLD, CECD and FEWITA has good range of EC and national contacts to exercise influence.

Poultry and Game Retailers	European Confederation of Poultry and Game Retailers of the EC Confédération des Détailants en Volaille et Gibier des Pays de la CE

Address	8, Avenue Pasteur, B-1780 Wemmel, Belgium.	**Founded**	1969
Telephone	(2) 512.61.78 **Fax** (2) 512.03.74	**Languages**	French

Aims	To promote the interests of the poultry and game retailing trade at the EC level.
Scope	Deals with EC affairs and its members are from EC member states.(Belgium, France, Germany and the Netherlands only).
Activities	The confederation convenes an annual general meeting.
EC Links	The confederation has contacts with DGs III, VI and XXIII in the EC Commission.

UGAL	Union des Groupements d'Achat Coopératifs de Détaillants de l'Europe Association of Retailer Owned Wholesalers of Europe.

Address	3, Avenue L. Gribaumont, Bte. 7, B-1150 Brussels, Belgium	**Founded**	
Telephone	(2) 771.91.91 **Fax** (2) 771.32.52	**Languages**	

Resources	UGAL has a secretariat of 2 full-time staff.

UIDA/IFGA	Union Internationale des Organisations de Détaillants de la Branche Alimentaire International Federation of Grocers' Associations

Address	1, Falkenplatz, Case Postal 2740, CH-3001 Berne, Switzerland	**Founded**	
Telephone	(31) 23.76.46 **Fax** (31) 23.76.46	**Languages**	

UECBV	Union Européenne du Commerce du Bétail et de la Viande European Livestock and Meat Trading Union

Address	81a, Rue de la Loi, bte. 9, B-1040 Brussels, Belgium	**Founded**
Telephone	(2) 230.46.03 **Fax** (2) 230.94.00	**Languages**

Status	ASBL (Belgium)
Aims	To give all the members of the Union information on the sets of laws and regulations laying down the rules for solving the economic, trade, social, health, customs, transport and problems met in international livestock and meat trade; to defend and represent at international level the interests of the members of the member federations; to take any decisions and measures necessary for promoting the international livestock and meat trade; to examine the economic, technical, social and professional issues relative to the international livestock and meat trade and to give the interested parties information on such issues.
Organization	A general assembly of the UECBV meets once a year and elects the board. The executive committee comprises 32 members.
Resources	UECBV has a secretariat of 3 fulltime staff.
Scope	EEC, Sweden, Switzerland, Austria, Norway, Poland and Hungary.
EC Links	The UECBV has contacts with DG VI.
Committees	The UECBV is represented on the Beef/Veal, Sheepmeat and Pigmeat Advisory committees of the EC Commission.

UECGPT	Union Européenne du Commerce de Gros des Pommes de Terre European Union of the Wholesale Potato Trade

Address	31, Van Stolkweg, JN-2585 Den Haag, Holland	**Founded**
Telephone	(70) 351.24.46 **Fax** (70) 354.42.90	**Languages**

Status	Association International.
Aims	The Union studies all aspects of the wholesale potato trade. In 1956 the Union established the first Rules and Usages for the inter European Trade in Potatoes (last edition 1987), codifying professional usages and instituting a simple and effective procedure for valuation and arbitration, henceforth known under the name (RUCIP). Since that time RUCIP has been used for nearly all European transactions.
Resources	UECGPT has a secretariat of 1 full-time person.
Activities	UECGPT publishes Information bulletins monthly for members. UECGPT has links with the UN/ECE (Economic Commission for Europe of the United Nations) in Geneva, the FAO (Food and Agriculture Organisation) in Rome and the OECD (Organisation for Economic Cooperation and Development) in Paris.
EC Links	UECGPT has contacts with the EC Commission.

UNECOLAIT	Union Européenne du Commerce Laitier European Federation of Dairy Retailers

Address	19, Cornwall Terrace, UK-NW1 4QP London United Kingdom	**Founded**
Telephone	(1)842.53.85 **Fax** (1) 841.62.40	**Languages**

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FOOD RETAILING IN EUROPE - POST 1992

PROJECT II

THE COCA-COLA RETAILING RESEARCH GROUP
EUROPE

EC RETAILERS AND NON-EC SUPPLIERS: THE IMPACT ON TRADING RELATIONSHIPS POST 1992

A paper prepared for

THE COCA-COLA RETAILING RESEARCH GROUP EUROPE

by

Martin Digby
Institute of Grocery Distribution

September 1992

The Corporate Intelligence Group Limited

CONTENTS

INTRODUCTION

This paper sets out to identify the key parameters which will shape the relationship between EC retailers and their non-EC suppliers post 1992. It is set against the background of the Single Market and its implied impact on trading relationships via the lowering of internal barriers, but is equally cognizant of the influence of political and economic change both within the continent of Europe, reference for example EC expansion and the development of the central European economics, and at an international level through revisions to the General Agreement on Tarrifs and Trade (GATT).

The context within which the development of EC/non-EC trading relationships may be judged is examined in the first section of the paper. The theoretical picture, embodied in the Single European Act, of the free movement of goods within the Community as physical, technical and fiscal barriers are lowered, is set alongside the changing demands of the European consumer and the drive for competitive advantage within the retail sector, factors which have increasingly pushed buyers to source product from outside the EC to add both diversity of range and ensure out of season quality and consistency of supply.

The nature of existing trade flows from non-EC sources is outlined and some discussion of the impact of the rapidly changing political map of Europe on such flows is undertaken. It is in this context that the issues of the current GATT negotiations and the corresponding changes to the CAP are considered.

An examination of the reaction of the major non-EC suppliers to the development of the EC retail market forms the third main section of the paper. If "Fortress Europe" was ever an issue for the non-EC supplier it is clear that many of the major externally owned suppliers, in the grocery field at least, have established significant bridgeheads within the walls. In practice of course the development of the Single European Market (SEM) has not been the spur for such action. The existence of a group of consumer markets of the like of those captured within even the existing boundaries of the EC would not realistically have been ignored by the major branded and other suppliers and such a market will always have the need to look outside its boundaries for sources of supply. As is clearly the case for retailers and suppliers within the Community, the development of the SEM has proved the facilitator to activities rather than the catalyst.

The paper concludes that the keys to successful partnership with the EC retailers are common to both the EC and the non-EC supplier. The effective management of business relationships evolving against the backcloth of the new Europe will require a focus on the needs of the customer, on customer service in its broadest sense. Technical efficiency throughout the supply chain and effective communications, whether in marketing and merchandising or in logistics and distribution management, will underpin all successful relationships and these will be born, not out of 1993 and the Single Market, but on foundations common to all, whatever their geographical locations.

THE CONTEXT

A Diverse and Competitive Market

The EC, as it is configured today, represents one of the largest consumer markets in the world. But Europe's 345 million consumers are not to be found within neatly packaged national units and, although the 279 measures detailed in the 1985 white paper on "Completing the Internal Market" will have moved the Community towards the removal of those physical, technical and fiscal barriers that exist between member states, the diversity of the regions within "the twelve" remains. This is perhaps nowhere more evident than in the food sector where the range of lifestyles, attitudes and tastes present both an opportunity and a challenge to retailer and supplier alike.

Equally significant within the context of this discussion is the extent to which the original concept of the Single Market has found itself subsumed by the enormity of the political change which has taken place in Europe. Thus, the implied theory behind the title of this paper, i.e. that the creation of the single market of the twelve, with all its constituent regulatory changes, will directly impact the relationships between EC retailers and their non-EC suppliers, now addresses only part of an increasingly complex question.

The elements of the Single Market programme are well known and their impact on the grocery retail sector has been addressed on many occasions in the previous papers in this series and elsewhere. At its most simplistic level the removal of internal barriers and the free movement of goods and services across borders should facilitate a broadening of retailers sourcing horizons and may impact the current structure wherein over three quarters of processed food output is consumed within its country of manufacturer. Whether such horizon extension will effectively be limited to within EC is a point of some debate.

Single Market legislation in areas such as food law, tax rates, the social charter, transport and even advertising and promotional activity will certainly have immediate impact in the grocery sector. Transport deregulation and freedom of movement across borders will cut distribution costs facilitating revisions to sourcing on the part of the retailer and adding competitive edge and promoting production rationalisation among suppliers in the long term. However, such factors should be set against the background of the consumer and competitive environment in which EC retailers find themselves.

At Community level consumers' expenditure has been growing in real terms by an average of 1.8 per cent over recent years and in the first half of the 1990s is expected to show an annual increase of the order of 1.4 per cent (see table 1 on the following page). However, many of the largest European markets face very limited population growth and with the proportion of consumers' expenditure allocated to food dropping across all the European member states, the prospect is for little or no improvement in food market growth rates over the next decade. Retail business growth in the most developed markets has been focused on enhanced technical efficiency, on extended and value added product range, over which increasing direct control may be achieved through the introduction of private label, and on capitalising on a service or on a price driven offer with a clear customer perception. Rapid growth of individual retail businesses has been achieved through merger and acquisition activity, by joint venture, through diversification and via internationalisation.

Table 1: EC: Spending on Food, Growth Rates by Country 1980-95
(% annual change for period shown, national currency)

Country	Constant (1985) Prices		
	1980-85	1985-90	1990-95 (F)
Belgium	1.0	1.2	1.3
Denmark	0.6	0.8	1.4
France	1.3	1.7	1.5
W. Germany*	0.2	3.2	1.6
Greece	0.4	1.2	0.8
Republic of Ireland	-0.1	0.5	1.9
Italy	1.0	1.1	1.2
Luxembourg	0.1	-0.5	0.2
Netherlands	0.8	2.4	1.7
Portugal	-	-	-
Spain	0.3	2.3	2.1
UK	-0.1	0;2	0.7
Total	0.6	1.8	1.4

* including beverages and consumption in bars and restaurants
Source: EIU

Table 2: Food Retail Trade Structure and Market Share

	Belgium	France	FRG	Great Britain	Italy	Nether-lands	Spain	EC
Multiples % (value) - 1986	22.4	62.4	37.2	71.8	9.0	64.7	27.0	-
- 1990	32.7	68.0	41.0	74.7	10.0	69.0	35.0	-
Total sales area of hyper-markets and super-markets per person (m^2) - 1986	0.18	0.16	0.17	0.07	0.04	0.10	0.05	0.10
- 1990	0.24	0.20	0.20	0.10	0.05	0.12	0.08	0.13
Number of general food stores per 1,000 inha-bitants, 1990	1.6	1.4	1.2	1.0	3.2	0.7	3.0	2.0

Source: IGD/Europanel Database

Growing market share, for example among the multiples (see Table 2 on the opposite page), has not therefore been achieved through expanding the core market but by strengthening competitive position, winning share from others in the market and broadening the scope of the market, whether within national boundaries or across borders. Such opportunities are increasingly few.

The impact of this intensely competitive grocery retail environment on sourcing policy has been, and will continue to be, much much wider than that of the creation of the SEM. The drive for competitive edge makes range differentiation imperative. The need for a wider range of products of assured quality and consistency of supply, together with the need to be lowest cost purchaser, will not allow the retail buyer to fix geographic or political limits to his sourcing horizon.

Set in a Changing International Environment

It would be wrong to leave the question of the context within which we may judge the relationship between EC retailer and non-EC supplier without looking briefly at the fundamental question of what will constitute the EC in the future. How will not only the current twelve but any extended community manage their international trade relationships? The question of the impact of political change in Europe and of the GATT negotiations will be addressed specifically in the next section of this paper as we assess the EC/non-EC trade flows, but it is clear that both issues add significantly to the complexity of the supply relationships developing in Europe. In practice, this impact is likely to be confined in the short term to commodity and ingredient supply rather than processed products, but already Association Agreements with central European countries are impacting supply patterns in some sectors and revisions to the Common Agricultural Policy arising from the principles being established in the current GATT round promise to bring about further change. The political, economic and social impact of a changing Europe and the drive to international trade liberation may seem a long way from the retailer's buying decision, but we need look no further than the fruit and vegetable or meat sections of our supermarkets to find evidence of their importance today. Tomorrow, as suppliers like Unilever and Proctor and Gamble capitalise on their current long term investment in central Europe, the influence will undoubtedly spread to other product categories.

The context within which we set out here to judge what factors may influence the relationships between the EC-retailer and non-EC suppliers is therefore a complex one. The simplistic argument that the lowering of barriers within the Single Market of the twelve would facilitate a broader sourcing of product within that market is clearly clouded by the increasingly competitive nature of our retail market, the drive to differentiate and to grow business in a limited growth environment. A further complication is evident in the current international political and economic initiatives the longer term impact of which is, at this stage, extremely difficult to determine.

TRADE FLOWS

Given the complexity of this background of likely influences, it is perhaps worth considering more specifically the nature of the current trade flows into the EC from non-EC suppliers, the reasons for such flows and what the future might hold as GATT/CAP, The European Economic Area and central European liberalisation exert their influences.

Table 3: EC Food, Drink and Tobacco Trade 1987 - 1990

	1987	1988	1989	1990
Imports Extra EC	16,350	18,695	19,833	19,917
Exports Extra EC	19,653	20,810	24,360	24,861
Balance X/M	1.20	1.11	1.23	1.25

Source: Eurostat

At the broadest level the external balance of the EC trade in food, drink and tobacco products is positive with self sufficiency having risen in some key product areas and exports having grown at a faster rate than imports from non-EC sources (see Table 3). However, within the total of food, drink and tobacco the Community is not self-sufficient in all products and this demands imports from external sources. As is shown in Table 4 opposite, individual countries within the EC show a much greater level of import requirement than indicated by the global figures and the source of these imports may, for geographical or historical reasons, be external to the Community. Further details of EC imports by country are given in Appendix 1.

Table 4: EC Self Sufficiency in Certain Agricultural Products (%) 1989/90

Product	Self-sufficiency %	National Exceptions
Wheat	127	Belgium/Luxembourg, Ireland, Italy, Netherlands, Portugal
Rye	109	Belgium/Luxembourg, Greece, Spain, Ireland, Italy, Netherlands, Portugal, UK
Barley	131	Belgium/Luxembourg, Greece, Italy, Netherlands, Portugal
Grain/Maize	101	Only France and Greece self-sufficient
Total Milled Rice	76	Only Greece and Italy self-sufficient
Potatoes	100	Only Benelux self-sufficient but of the others only Ireland is significantly below 90%
Sugar	123	Greece, Portugal, UK
Fresh Vegetables	106	Denmark, Germany, France, Ireland, UK
Fresh Fruit (excl. Citrus)	85	Spain, Italy, Greece
Citrus Fruit	70	Spain, Italy, Greece
Wine	112	Denmark, Germany, Ireland, Netherlands, UK
Eggs	102	Germany, Greece, Spain, France, Italy, UK
Beef & Veal	101	Greece, Spain, Italy, Portugal, UK
Pigmeat	103	Germany, Greece, Spain, France, Italy, Portugal, UK
Poultry Meat	104	Only Denmark, France, Ireland, Netherlands self- sufficient
Sheep & Goat Meat	82	Only Ireland self-sufficient
Oils & Fat	70	Only Greece self-sufficient

Source: EC Commission, 'Agricultural situation in the Community', 1991

Even at a commodity wide level and excluding seasonality of supply from the assessment, there is a clear import requirement for products such as rice, fresh fruit, citrus fruit, sheep and goat meat and for oils and fats. At a country level these requirements are more acute. Only France and Greece are self sufficient in maize, all the southern EC states fall below self sufficiency in beef and veal, only Greece is self sufficient in oils and fats and only Ireland in sheep meat. Fresh fruit and citrus fruit are major import requirements of all EC member states except Spain, Italy and Greece. In practice, overall self-sufficiency in a category may also disguise an import requirement for a component of that category and this is often the case at commodity level where domestic production of cereals, for example, may be predominately in a single grade leaving a significant overall import requirement in other product grades.

At a commodity, ingredient and fresh product level therefore we can identify major import requirements which highlight the dependance of the EC retailer, and at the ingredient level his EC supplier, on non-EC sources. This dependence is all the more critical in product areas such as fruit and vegetable where the need for annual year round supply and for quality has led EC retailers to build relationships with non-EC suppliers. As noted earlier the drive for competition advantage in an increasingly competitive retail environment, coupled with the demands of the consumer for a greater depth and breadth of product range in critical areas such as fruit and vegetables, will almost certainly lead to a strengthening of the relationship with non-EC suppliers in the future.

Although not exclusively, it in in these commodity areas that the greatest immediate impact of EC enlargement, Central European political change and, above all, revision to international trade agreements through the GATT will be felt. There will be longer term implications for processed and branded product categories and these will be discussed later in the paper.

EC/EEA/CEECs/PECOs/PITs!*

The speed of change on the European political map has rarely been greater than in the last eighteen months and apart from getting to grips with the range of new acronym which now trip off the tongues of the Brussels followers, it is worth catching up, albeit briefly ,with the current state of play for, as our definition of EC changes, so must our understanding of the potential non-EC supplier. This is not just in the obvious sense of the political boundary but more importantly in respect of the rapid change to production facilities, practices and trading direction which may result from the changes currently facing Europe.

Table 5: EC Expansion, Applications Held or Expected

Country	Date of EC application	Commission opinion	Main problems	Likely entry date
Turkey	April 1987	Dec 1989**	- Islam - Relative poverty - Human rights	After 2000
Cyprus	July 1990	End-1992?	- Mini-state - Division of island	End of decade?
Malta	July 1990	End-1992?	- Mini-state	End of decade?
Austria	July 1989	July 1991	- Neutrality	1995-96
Sweden	July 1991	Mid-1992	- Neutrality	1995-96
Finland	March 1992	End-1992	- Neutrality	1995-96
Switzerland	Imminent	End-1992	- Neutrality - Too much direct democracy	1995-96
Norway	Autumn 1992	End-1992	- Fisheries - Agriculture	1995-96
** The opinion on Turkey said no to membership in the short term				

Source: The Economist, May '92

The community currently holds or expects before the end of the year, application for membership from Austria, Cyprus, Finland, Malta, Norway, Sweden, Switzerland and Turkey. Poland, Hungary and Czechoslovakia are known to be keen to join as soon as possible as are the Baltic states of Estonia, Latvia and Lithuania.. Romania and Bulgaria are also known to be trying to establish Association Agreements which in the very long term may build towards membership. A summary of the position is shown in Table 5.

* CEECs = Central and Eastern European Countries
PECOs = Pay d'Europe Centrale et Orientale
PITs = Partners in Transition (Poland, Hungary, Czechoslovakia)

In practice, the establishment of the European Economic Area among the EFTA countries will bring about a transitional period before full EC membership, probably in 1996. The applications from the Mediterranean countries of Turkey (already having received a negative response in 1989), Cyprus and Malta are longer term propositions, as is the prospect of the central European and Baltic states becoming full members. However the absence of full membership does not preclude an impact on trade. Association Agreement made with Poland, Hungary and Czechoslovakia for example, are already having an effect on imports to the EC. Additionally, the longer term prospect of closer ties with many of these non-members is helping to stimulate investment from both inside and outside the Community which will significantly benefit the competitive position of these countries vis-a-vis the EC market.

GATT/CAP

The other major political/economic issue impacting both intra and extra EC trade in food products is the question of GATT and its knock-on into CAP. The current round of GATT negotiation was due to be concluded in 1990 having started in 1986. It is perhaps no coincidence that this round of international trade talks proposed, for the first time, to address the area of world trade in agricultural products and in particular non-tariff barriers. GATT is unlikely to be resolved this side of the US presidential election and the detail of the various issues under negotiation would warrant a separate paper. In practice what is important to establish is the principal that protectism in international trade is under fire, Common Agricultural Policy support levels are being reduced and a move to a freer market in agricultural goods is underway.

Few would wish to place timescales on the specifics of these matters.

Food Trade Impact

The complexities of influence which are being exerted currently, and which may develop further over time as a result of EC political enlargement and the GATT/CAP relationship, are perhaps best understood by way of example. It was shown earlier that two major areas of non-EC supply to the Community's retail sector are red meat and fresh and citrus fruit. Both give valuable indication of the potential impact on trade flows.

Red Meat

The EC imported 575,153 tonnes of beef and live bovine animals, 132,466 tonnes of pigs and pigmeat and 281,968 tonnes of sheep and sheepmeat from non-EC sources in 1990. The primary source of supply of live animals were Eastern European countries while beef imports were mainly from Southern and Central America, pigmeat from North America and sheepmeat from New Zealand and Australia.

All three red meat sectors will be directly affected by EC enlargement, the transitional agreement connected with it, and by changes to CAP support linked to the GATT negotiations. However, the beef sector provides the best example of the complex nature of these inter-related issues.

The current GATT position for the beef sector calls for reductions in both the level and quantities of product eligible for export refunds. This would lead to a reduction in the competitive position of EC beef exports. At the same time there is likely to be pressure on the EC to raise the level of import quotas. However, EC producers will no doubt oppose such moves given the reduction in support to the sector resulting from the 1992 CAP price review. Intervention prices on beef have been significantly reduced, pushing more product onto the free market and placing further pressure on already weak prices. Internal trade flows may also be impacted as those member states previously making extensive use of intervention, eg. Ireland, look to new markets. Cereal beef producers will see some benefit from the significant reduction in support to the cereals sector, but grass beef producers will be reliant on compensation via the premium system. How far such balancing action will receive GATT "Green box" protection is questionable, particularly in the longer term. The GATT/CAP combination for beef may therefore see a more open EC market as import quotas rise and exports may prove more difficult. In practice, it is the international trade pattern which will be more directly impacted as CAP support fades away.

EC enlargement and, in particular, the liberalisation of trade with central and Eastern Europe will also have a significant impact. For example, Association Agreements with Poland, Hungary and Czechoslovakia already exist for beef and live cattle and calves allowing reduced import levies on product quantities which will rise year by year over the next five years. Such agreements are likely to form the basis of closer relationships with those non-EC states looking to full membership of the Community longer term.

Fresh and Citrus Fruit

The other major product category for which the EC relies heavily on non-EC suppliers is that of fresh and citrus fruit. Here again the issues of trade liberalisation and EC expansion will impact the longer term sourcing pattern against the background of rising demand within the community. Commenting on these issues, Geest has stated that "the reformed Common Agricultural Policy will discourage production of surpluses within the Community and lead to the development of a liberal external trade policy. At the same time the pursuit of quality is expected to overtake quantity as the aim of Community farm policy. The combination of these factors will provide third world countries with an expanding market and an opportunity to fiercely compete within it" (Geest 1991).

The EC currently imports around 6 million tonnes of fruit and 800,000 tonnes of vegetables. These serve to satisfy demand for out of season product and for produce not grown in sufficient quantities with the EC to satisfy demand. Imports are growing at around 7 per cent per year as retailers make increasing use of fresh produce as a competitive tool, enhancing their range/quality perception and margin potential. Geest suggest major opportunities for increased trade with the Mediterranean countries, highlighting Turkey and Morocco as having particular potential. With the added impact of improved logistics and technology, it is difficult to see anything other than a strengthening of the relationship between EC retailers and non-EC suppliers in the future.

The examples of red meat and fresh fruit and vegetables serve to highlight the dependance of EC retailers on external sources of supply and the potential strengthening of such relationships which may result from both EC enlargement and international trade reform. The question remains, however, as to what will influence trading relationships outside the commodity and fresh produce categories. What have been the reactions of non-EC supplies of manufactured product to the forthcoming Single Market and what does this evidence tell us about the likely future relationship between the EC retail sector and these non-EC sources of supply?

SUPPLIER REACTIONS TO EUROPE

During the late 1980's the casual observer would have been forgiven for assuming that the only tools in the food manufacturers strategic portfolio for application in Europe were merger and acquisition. London based strategy consultants OC&C recorded an increase in the number of merger and acquisition deals in the European food industry from 269 in 1988/89 to 463 in 1990/91, the effect of which has been to increase concentration levels within individual product categories as manufacturers strive to lead rather than follow in their sector. If the Single Market is to bring increased competition to the food manufacturing sector, those best placed to take advantage of the opportunities generated will be those who have generated sufficient size and scope of operations.

There are many examples of this drive for category leadership. Industry research published by OC&C suggests that almost 70 per cent of the chocolate confectionery market in Europe is controlled by just five companies with Nestle/Rowntree holding a market share in excess of 20 per cent overall and as high as 36 per cent in the rapid growth Spanish market. In the snack sector United Biscuits hold a European market share approaching 22 per cent through KP and again just five companies control around 63 per cent of the sector. BSN, among the most active of the European manufacturers on the 1980's expansion trail, dominate their domestic biscuit market with a 50 per cent share and are building share across Europe with UB hard on their heals.

As the costs of acquisition have risen and the availability of attractive targets begins to dry up, attention has shifted towards joint venture opportunities and to the organic development of multi-national brands. Eastern and Southern Europe, however, continue to attract inward investment.

For the non-EC supplier the options remains clear: secure a position in the rapidly concentrating EC arena or establish a bridgehead in part of the new Europe. Trade into Europe from an external manufacturing base (other than in new Europe) is not a preferred option. The example of the United States suppliers is instructive in this respect. While the EC represents the second largest processed foods export market for the United States after Japan, trade is, as highlighted earlier, primarily in the form of bulk commodity type products. Apart from niche products, the majority of branded and other packaged product is produced in or near to its target market. In these cases the relationship between the EC retailer and the non-EC owned supplier is built through a local production, sales and marketing operation.

Buying into Europe

Of the 463 food industry M&A deals recorded by OC&C in the year to June 1991, 157 involved a cross-border move. Of these, 33 involved non-EC European companies and 22 involved non-European companies, the majority of which were US based. The most popular target nations were Germany (11) the UK (11), Denmark (10) and the Netherlands (6). Further evidence is provided by the results of a recent survey of 440 US businesses conducted by the University of Baltimore.

Table 6: Company's Strategies for Competing with the new EC: Survey of 440 US Businesses

	High knowledge group (n=215)		Low knowledge group (n=255)	
	Has used	Would use	Has used	Would use
Sales office in EC	22.5%	20.2%	4.1%	10.1%
Add new product lines	21.6%	20.7%	2.8%	16.1%
Joint ventures	16.4%	36.2%	4.6%	22.1%
Task force to study issues	16.4%	13.6%	3.7%	10.6%
Use export agent	14.1%	13.6%	3.7%	12.4%
Core of 'Euro-managers'	13.6%	16.0%	1.4%	9.2%
Adapt products	13.6%	20.7%	4.1%	9.2%
Subsidiary in EC	13.6%	15.0%	2.3%	5.5%
Change pricing strategy	9.4%	24.9%	1.8%	14.3%
Acquire/merge with EC firms	10.8%	26.3%	2.8%	9.7%
Adapt advertising	12.2%	21.1%	3.7%	12.9%

Source: Harmonisation of the European Market: Implications of American Business, Vol 1 Part 1, July 1992, A Randolph and D Smith-Cooke, Merrick School of Business, University of Baltimore

When questioned about strategies for competing in the EC, 36 per cent of companies with a "high knowledge" of Europe stated that they would use joint venture with 16.4 per cent having already done so. Just over 26 per cent of companies would use M&A as a preferred option. Among those companies with less detailed knowledge of the European markets a similar profile was given to the joint venture and M&A approaches.

Whilst the days of doubling European sales through acquisition, as Philip Morris did when it acquired Jacobs Suchard in 1990, are either already gone or numbered, inward investment to build market position clearly remains attractive to non-EC suppliers. PepsiCo for example will invest $1bn in Spain over the next five years to develop its snack foods, drinks and fast food business; Kellogg acquired the Italian breakfast cereals operation Gram last year, and the world's fourth largest food processing company, US owned ConAgra, has moved into the Portuguese meat and poultry sector with 50 per cent stakes in two companies. This is a tactic that can be used in reverse of course, as was shown by BSN's acquisition of Nabisco's European business in 1989 and Grand Metropolitan's purchase of Pilsbury in the same year. A summary of recent acquisitions made in the EC by non-EC companies is given in table 7.

Table 7: Major Acquisitions of EC Food Companies by Non-EC Purchasers 1988-91

Year	Purchaser	Target	Sector
1988	Marabou (Sweden)	AS Lagerman Jar (Dk)	Chocolate
	Cerealia (Sweden)	A/S Paaskebrod (Dk)	Bakery
	Procordia (Sweden)	Marina A/S (Dk)	Seafood
	Jacobs Suchard (CH)	Paulides (Greece)	Confectionery
	Jacobs Suchard (CH)	DS Italiana (Italy)	Confectionery
	Nestle (CH)	Buitoni (Italy)	Various
	Goodman Fielder Wattie (Australia)	Meneba Nv (Neths)	Bakery
1989	Procordia (Sweden)	Benzon Brands A/S (Dk)	Confectionery
	Borden (USA)	Congo (Dk)	Dairy
	Hugli (Switz)	Firma Heiler (D)	Dairy
	KGF (USA)	Fini Brand (Italy)	Pasta,Cheese, Salami
	PepsiCo (USA)	Walkers/Smiths (UK)	Snacks
	Mitsubishi (Japan)	Princes/Trex	Oils/fats
1990	Huhtamaki (Finland)	Gepro (Belgium)	Confectionery
	Nora (Norway)	Danish Fancy Food (Dk)	Snacks/Bakery
	Nora (Norway)	Dragsback (50% stake) (Dk)	Margarine
	CPC (USA)	Heidelberg (Dk)	Dressings
	Hero (Switz)	Les Verges d'Alsace (Fr)	Fruit Juice
	Procordia (Sweden)	Lindavia (D)	Fruit Juice
	Procordia (Sweden)	Rayner & Co (UK)	Beverages
	Procordia (Sweden)	Damel (Spain)	Confectionery
1991	Procordia (Sweden)	Glyngore limfjord (Dk)	Seafood
	Cerealia (Sweden)	Harnemollerne (Dk)	Bakery
	Hershey (USA)	Gubor (D)	Confectionery
	Lindt & Sprungli (Switz)	Lindt & Sprungli (D)	Chocolate
	Heinz (USA)	Copais Canning Industry (Greece)	Tomato processing
	HBDI (USA)	Canard Dore SA (Greece)	Foie gras
	Parke Davis (USA)	Alipark (Italy)	Cereals
	Kellogg (USA)	Gram (Italy)	Cereals
	Meiji Seika (Japan)	Tedec-Zambeletti (Spain)	Health Foods
	Nabisco (USA)	Conservas Ibericas (50%) (Spain)	Canned Foods
	ConAgra (USA)	Isidoro (50%)(Portugal)	Meat & Foods
	ConAgra (USA)	Cobral & Oliveira (50%)(Portugal)	Poultry
	CPC (USA)	Heidelberg (Denmark)	Dressings

Source: Seymour Cooke

Targets on the EC borders, in central and Eastern Europe, have also proved attractive to both EC and non-EC food companies. During 1990/91 for example, BSN invested in Poland and Czechoslovakia, while Nestle took positions in both Hungary and Czechoslovakia. PepsiCo and Gerber moved into Poland and Sara Lee took up a position in the Hungarian coffee sector (Table 8).

Table 8: Eastern Europe - Examples of Acquisitions by US Food Companies

Acquiror	Acquired	Country	Sector
Gerber	Alima (60%)	Poland	Baby food
PepsiCo	E Weddel	Poland	Confectionery
Sara Lee	Compack Trading (40%)	Hungary	Coffee

Source: Seymour Cooke

Joint Venture and Alliance

There have been a number of high profile joint venture agreements between major US and European companies over the last two years which illustrate the effectiveness of this route to growth in Europe. The Nestle/General Mills development of Cereal Partners in 1990 as a challenge to Kellogg's leadership in the cereal market is one such example, followed up by Nestle last year when it joined forces with Coca-Cola to develop products in the ready-to-drink tea and coffee sector. Nestle has also found benefit in joint venture with others in Europe. BSN for example proved a valuable, if forced, partner for the acquisition of a biscuit and confectionery manufacturing base in Czechoslovakia and the cooperation between the two in the Perrier bid has also proved important.

Joint ventures between non-EC suppliers for development in Europe have been a less common feature. The 1992 agreement between PepsiCo and General Mills for development of the snacks market in Europe presents one of the few examples. In practice this relationship owes a great deal to the production base already held in Europe by the two companies and highlights the often "one off" nature of many of these strategic opportunities.

Distribution joint ventures have also been a significant feature. Kellogg, for example, have developed important alliances with companies in Italy and Greece for cereals distribution with similar agreements in Finland and Norway pathing the way for involvement in the expanded Community. Kraft and Campbell have developed similar relationships.

Developing International Brands

Developing international brands which lend a global orientation to the business has also been a route employed by many in the food industry. In practice however, many such brands are, as noted previously, manufactured locally either in owned facilities or under licensing agreements. Thus, while moves to develop such brands will ensure a strong paper relationship between EC retailers and the parent companies managing international brands for whom national boundaries are becoming less and less significant, in practice the day to day trading interface will be regionally based.

EC RETAILERS AND NON-EC SUPPLIERS: CONCLUSIONS

Significant trade flows exist between the EC in its current form and non-EC suppliers. These relationships have been forged in response to a lack of domestic supply, a need to ensure out of season stocks and as a result of the drive to compete in servicing the consumer with a greater choice of product. However the physical trading of goods across the European border is largely confined to commodity and ingredient areas such as fruit and vegetables and meat.

Branded and processed packaged product tends not to be traded over great distances. Hence those non-EC manufacturers currently trading with EC retailers have long established local production facilities. This localised supply base has not been developed in response to the Single Market but it might be argued that the vigorous M&A activity witnessed in Europe in the late 1980's was in part prompted by a need to ensure positioning as sector concentration increased rapidly.

More recently the focus of activity has been shifted with both EC and non-EC manufacturers identifying opportunities to invest in production facilities in the former East European countries. These investments have not been made purely to service the 'new' markets.

The drive to become least cost supplier to a retail sector increasingly demanding of that facility has led many national and international manufacturers to rationalise their production towards a European supply structure. Investments in the former Eastern European countries, whilst high risk in the short term, will provide an advantageous cost base from which to bring product into the EC in the longer term.

Increasingly therefore, national boundaries have become irrelevant in determining sources of supply and EC boundaries perhaps even less so, except where Community policy remains eg. in commodity areas. Overtime, as trade is liberalised and the Community expands geographically, the question of EC and non-EC in terms of food industry trading relationships will be less and less important.

It is likely, therefore, that the factors which will govern the development of successful trading partnerships between EC retailers and non-EC suppliers will be no different from those which provide the foundation to the relationship with any other supplier.

The essence of success will be customer service at its broadest level. Service of the end consumer, of the demands which that consumer is placing on his/her retailer and consequently of the pressures which those demands put on the retailer's business. Faced with the need to compete harder for limited growth markets, Europe's successful retailers have continued and must continue to drive for focus within their business operations. Whether this focus has resulted in strategic growth within a single national market with a range, quantity, or customer service base, or with a price offer, or it has led to the transfer of a format (eg. French style hypermarket or limited line discount) across borders or perhaps to an alliance with others, the preferred suppliers will be those who can demonstrate an understanding of the needs of the retailer, and who understand the consumer trends which influence their category and the broader inter-relationships within the business. They will be those who can offer assured supply, assured quality, technical efficiency in systems and those who show themselves to be innovative in response to the increasing demands of the consumer.

Such criteria are not bound by 1993 or by political boundaries but will be the cornerstones of the successful relationships built between retailers and suppliers both within the Community and outside.

APPENDICES

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Appendix 2

Extra EC Food Imports by Importing Country (Jan-Sept 1991) (000 Ecu)

Major Import Product Categories	Total EC	Belgium/ Luxembourg	Denmark	Germany	Greece	Spain
Live Bovine Animals and Meat	427,740	4,761	790	110,454	26,388	3,643
Fish	2,527,851	39,053	375,461	414,623	30,551	342,436
Cereals	16,035,846	1,564,211	95,858	1,679,208	21,701	3,013,529
Rice	500,063	85,590	784	62,424	1,499	44,918
Fresh Fruit and Vegetables	3,705,845	355,994	28,672	822,732	27,324	91,861
Processed Fruit and Vegetables	2,263,208	126,241	48,711	841,311	25,656	69,370
Oils and Fats	26,668,782	1,828,805	1,344,908	5,701,015	271,134	3,319,535
Grains and Seed	364,622	4,102	3,554	59,477	8,626	27,892
Sugar	4,810,222	210,060	183,977	238,795	839	332,934

Major Import Product Categories	France	Republic of Ireland	Italy	Netherlands	Portugal	UK
Live Bovine Animals and Meat	20,307	126	147,777	24,766	2,264	86,464
Fish	314,645	11,472	307,293	157,862	119,821	414,634
Cereals	1,578,977	501,131	1,517,566	3,704,044	1,166,568	1,193,053
Rice	77,448	1,308	18,992	117,816	12,445	76,839
Fresh Fruit and Vegetables	614,655	14,016	214,591	678,525	39,181	818,294
Processed Fruit and Vegetables	277,364	12,069	115,665	428,181	8,904	309,736
Oils and Fats	3,075,570	105,597	2,506,191	5,405,462	1,074,907	2,035,658
Grains and Seed	30,125	369	96,767	104,537	16,759	12,414
Sugar	814,011	176,733	516,479	671,883	290,142	1,374,369

Source: Eurostat

FOOD RETAILING IN EUROPE - POST 1992

PROJECT II
THE COCA-COLA RETAILING RESEARCH GROUP
EUROPE

THE SINGLE MARKET LEGISLATION - AN UPDATE

A study prepared for

THE COCA-COLA RETAILING RESEARCH GROUP EUROPE

by

D. Gray

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The Corporate Intelligence Group Limited

THE SINGLE MARKET LEGISLATION - AN UPDATE

CONTENTS

SUMMARY OF FINDINGS

The main conclusions regarding the effects of the Single Market on food retailing are that:

* The Single Market Programme is substantially on course for the implementation of most of its main measures by January 1993, and this has already lead to action by grocery retailers throughout the Community in complying with a wide range of measures.
* Though the Programme is more directly concerned with food and drink manufacture rather than its retail distribution, the range of indirect effects on food and drink retailers covers many aspects of their business activities, especially for the larger companies.
* The freeing of exchange controls on capital payments is likely to be an incentive to cross-border acquisitions by retailers from 1993 onwards. The more general benefit to cross-border trade through the reduction of currency charges,however, will have to wait until monetary union is much more of a concrete possibility than it is now.
* Success in GATT negotiations and reform of the CAP are indissolubly connected, with the certain subsequent result that major grocery retailers will improve (a) the range of products they can purchase and (b) their purchasing power vis-a-vis food and drink suppliers.
* Only the larger grocery retailers fall within the remit of EC competition legislation, but it is likely to have the effect of making the German market more open.
* Grocery logistics will gain in efficiency from an improved transport infrastructure, but lose through higher costs brought about by stricter environmental controls.
* The theoretical mutual recognition of products throughout the Community is not as important as their practical acceptance - or rejection - in individual markets.
* Postponement of a truly harmonised indirect tax system has not prevented the imposition on traders of an administrative burden concerning tax collection that will lead to increased costs in 1993.
* Compliance with the employer-employee aspects of the "Social Chapter" will be one of the most costly elements of the Single Market Programme for large grocery retailers. The impact will, however, vary widely between Member States, with that on the UK being postponed until such time as it comes into line with the rest of the Community.

* Stricter environmental controls will obviously increase costs. A more long-lasting effect, however, is likely to be the encouragement of closer relationships between retailers, their suppliers, their customers and, not least, with the municipal authorities in the areas in which they operate.
* Consumer legislation, while creating some new responsibilities for retailers, provides positive opportunities for building closer relationships between retailers and their customers.
* There are substantial changes either in place or in the pipeline regarding the manufacture and processing of numerous food and drink products. The effect on retailers is mostly indirect, though new product development will have to take account of legislation that in several areas is still highly contentious.
* New rules on food inspection place greater responsibilities on retailers, particularly for meat and fish products. Most Northern European countries, however, already have adequate methods and codes of practice in force.
* Compliance with new rules on additives, flavourings and colouring agents will not pose a major burden, since these measures are being phased in gradually.
* Changes in transport costs and practices will spread the benefits of modern grocery distribution more widely across the European Community although the greatest concentration of activity will continue to be in the so-called "Hot Banana" region along the central spine of the Community.
* During the next five years, there will be considerable changes in food and drink packaging, specifically in the materials used and in the level of reclamation at the retail level.
* For most retailers in nearly all countries, the new requirements on labelling, pricing and the measurement of quantities pose few problems or costs in compliance.
* The establishment of common vocational qualifications in food and drink retailing is likely to prove long and difficult, especially so far as semi-skilled workers are concerned.
* The introduction of a workable standard for organic foods may help boost the scale of their production and consumption, especially if it improves the reliability of the supply of such products to large grocery retailers.

In overall terms, while the production and retail sale of some specific food and drink products is affected markedly by the Single Market Programme, the range and variety of food and drink sold in the Community's grocery shops will definitely not be diminished. In many individual outlets, moreover, easier cross-border supply will increase the number and type of products available for sale.

INTRODUCTION

The subject of "Grocery Retailing And 1992" was discussed, under that title, in the first of the papers on 'Food Retailing in Europe - post 1992', published in March 1990. The broad conclusions of that paper were

(a) that the removal of trade barriers within the EC Single Market would not of itself transform the essentially national structures of grocery retailing,

but also

(b) that there were several aspects of the Single Market Programme which would impact upon the business activities of grocery retailing, in both the medium and long-term. Specified aspects included the buying relationship between grocery retailers and the food industry, the employment relationship with grocery chains' staff and, thirdly, what might be called the social relationship between grocery retailers and their customers.

The 1990 paper also concluded that while most of the Single Market Programme would be in place by the target date of 1/1/1993, achievement of the tax and monetary parts of the Programme was likely to drag behind, with Member States progressing at markedly different speeds of implementation.

Now that 1993 is upon us, this is the opportunity to report on just how far the Single Market Programme has progressed, and what are proving to be its real impacts upon the business of grocery retailing in Western Europe. There have been many changes in the economic and political life of the region since March 1990, not the least of which are the enlargement of Germany and the whole context of a "Wider Europe", incorporating the countries of EFTA and the former COMECON. Another aspect is the settlement, as yet unresolved, of the Uruguay Round of GATT. These issues may not strictly be part of the EC's Single Market, but they certainly have profound implications for large companies doing business within the Community, notably in the food sector. Trade in food products is at the heart of the problems surrounding the completion of the GATT Round. Transforming the distribution of food products is perhaps the most important immediate task in the regeneration of Eastern Europe and Russia.

The conclusion reached in 1990 that grocery retailing operates within predominantly national structures has not been disproved by subsequent developments. Cross-border movement of retail grocery operations (as distinct from buying activities) has been limited in comparison with the non-food sector. But what is now showing strongly is the way in which the business of grocery retailing within each European country is being affected by

(a) the falling into place of most of the pieces of the jigsaw of the Single Market, and

(b) the trading relationship between the EC, the wider Europe and the rest of the world.

Changes in the international trading and regulation of food products are bound to affect grocery retailers, even if they actually sell such products only in a national or regional market.

This paper examines how grocery retailing now stands in relation to these changes in regulation and trade, in respect of what has been achieved and what developments are currently pending. Following a brief summary of the current state of the Single Market Programme, it is divided into two parts. Firstly, the impacts upon food and drink retailers as trading businesses. Secondly, details of some more specific effects upon the retailing of food and drink products. Information on the relevant pieces of legislation, together with an indication of how different Community countries are performing in their actual implementation of the new rules, is contained within each of these two parts.

THE SINGLE MARKET PROGRAMME - Background

In retrospect, the Single European Act of 1986 was a remarkable commitment by the 12 Member States of the Community, not least Britain. Following years of trying to build a proper "Common Market" through piecemeal legislation, often rendered unworkable by national protectionism, the basic idea of the Single Market was disarmingly simple. The Member States agreed in principle to accept each other's commercial (and various other) rules as adequate, and to use these as the basis for forming a common framework whose components would be assembled through majority voting between the members. Hitherto, agreement tended to be blocked by the veto of one or other individual state. In 1983, the EC had been involved in no less than 700 separate arguments arising from national objections to trade in particular products and services.

Freeing the flows of trade and business was the underlying aim of the Single Market Programme. A major economic study - the Cecchini Report of 1988 - tried to identify the most important targets for the removal of barriers by estimating what it would cost the Community if it did <u>not</u> remove them. Retailing was not as such an area to which Cecchini paid much attention (being mainly concerned with trade in manufactured goods), but the perceived benefit of removing barriers was expected to flow across all sectors of the EC economy. In total, the potential economic gain of completing the Single Market Programme has consistently been estimated at the equivalent of some 5 per cent of the Community's GDP (i.e. up to $340-350 bn in 1992/93).

The Single Market is designed to work by increasing four "freedoms" of movement within the Community. These are:

Goods	Their physical distribution and sale, together with taxation and standards
Services	Their provision and availability, from banking to air transport, insurance to television broadcasting
Capital	Removal of exchange controls and full freedom of capital flow, hence more or less demanding a common monetary policy
People	Free movement for both social and economic reasons

Actual progress in achieving these freedoms has been very considerable - at least in terms of agreement at the Community level. In spite of all the arguments over "Maastricht" (the Treaty on European Union signed in February 1992) and "GATT" (the global trade agreement that remains unresolved in November 1992), the EC's Single Market Programme has remained steadily on course, often compared (not unfavourably) to a tortoise. Over 250 of the 282 individual measures in the Programme had been adopted by the EC Council by October 1992. The principal remaining hurdles concern

(a) the removal of controls on physical movement (people, goods and, especially, animals) and

(b) agreement on overcoming national monopolies in areas like energy and telecommunications.

Where the Programme has been less successful is in getting the commonly agreed measures actually implemented in individual Member States. The problem here is that agreement in Council does not automatically translate into national law, even if such agreement does imply that it must eventually do so. Some countries (Spain, Portugal, Ireland, the UK to some extent) have been allowed - or are insisting on being allowed - to defer implementation for several years. Other countries, notably Belgium and Germany, create unavoidable delays because their national systems require separate regional ratification of many measures. In the case of Italy, there is a combination of problems, political and bureaucratic (though a recent law has been passed there which may speed up implementation considerably). The fact that a particular Member State appears to have a "good" record on the Single Market may only be one side of the truth - Denmark, which has enacted 95 per cent of existing legislation, is of course also the country whose rejection of Maastricht has brought so much turmoil in Community politics. The UK, commonly thought of as being "anti-European", has actually been relatively swift and efficient in its implementation of Single Market legislation.

It was never intended that the first day of January 1993 would mark the beginning of an entirely new era in European integration, merely the completion of the first phase of the integrating process agreed in the Single European Act of 1985. Many of the most important current issues in Community development are not actually part of the Single Market Programme itself - including:

merger control and competition policy in general

a Central Bank

other aspects of monetary union

immigration (from outside the EC)

expansion of the Community

defence

and, the most ambitious aim of all:

ultimate political union.

The events of 1992 have shown that whatever is achieved by the beginning of 1993 still leaves very large question marks over the pace and nature of future integration between the existing 12 countries of the Community.

The immediate prospect for 1993 is that virtually all the Programme will be agreed at the Community level by March or April, but that this achievement is likely to be overshadowed by events in the monetary and political fields. The main task for both the Commission and the Member States in 1993 will be to ease the passage of Single Market legislation into practice, especially where it might be tested in the courts (both national and European). One area that will require very careful handling is that concerning indirect taxation, notably VAT collection. Success in establishing the framework for the Single Market by January 1993 will undoubtedly boost confidence in the Community. That confidence will then be tested as arguments continue over the details of how European integration is to continue in practice.

1. GENERAL IMPACTS ON THE BUSINESS OF FOOD & DRINK RETAILING

This report looks, firstly, at the ways in which different aspects of European Community integration (arising from both the Single Market Programme and other policies) impact on how major grocery retailers operate as businesses. The emphasis is upon what has actually been achieved by the end of 1992 and how the situation can be expected to develop during 1993.

Several of these areas have been previously examined in more detail in other Coca-Cola Research Papers. The relevant references are:

"EC Retailers And Non-EC Suppliers" (trade policy);

"Prospects For Grocery Brands" (mutual recognition of products);

"Retail Logistics" (movement of goods);

"Food Retailing In A Greener Europe" (environmental standards);

"Food Retailing Alliances" (cross-border activity);

and, lastly:

"The Social Charter And Food Retailing" (consumer and employee protection).

Monetary union and exchange controls

Monetary union is obviously a logical goal for the Single Market, but events show that it will not be easily or swiftly achieved. The Maastricht Treaty (1992) rather optimistically stated that European Monetary Union (EMU) should proceed in three stages:

(i) ratification of the Treaty and closer alignment of member currencies and monetary policies (1993);

(ii) setting up a European Monetary Institute (EMI), which co-ordinates the roles of national Central Banks and gradually assumes the powers of national monetary policy-makers (1994-96);

(iii) establishment of a European Central Bank (ECB) to take over from EMI and operate all the principal aspects of monetary policy, including the introduction of the ECU as a European Single Currency (1997-98).

The plans allow for some Member States to reach the final stage (full monetary union) earlier than others, though there is no agreement on how the European Community could hold together if there were to be such a "two-speed" split. Germany is absolutely central to the entire process - the proposed European Central Bank is modelled on the Bundesbank, and the German economy and currency are the strongest in Europe, so much so that how the other currencies fare in relation to the Deutschmark will be a main determinant of whether or not those countries progress to Stages 2 and 3. Monetary Union will not be achieved if Germany chooses to keep control of its own monetary policy, while the main problem for other countries is how to create an EMU that is not in practice controlled by German interests. At the present time (November 1992), the jury is still out on all these questions. The Community will continue to have a broadly converging monetary policy, but EMU remains an ambition on the horizon rather than a clear target in view.

Should EMU and a common currency be set up, then obviously there would be no exchange controls (within the Community) to act as barriers to trade and investment. As it is, Community policy on exchange controls has already achieved considerable liberalisation. Some Member States have not had controls for many years (Germany since 1974, the UK since 1979) but others have retained barriers mainly to prevent outflows of investment capital. The Single Market Programme includes measures to remove such barriers as remain in countries such as Spain, Greece and Portugal. Exchange controls on current payments are already liberalized throughout the Community, while those on capital payments will disappear during 1993.

In reality, France, Italy and Belgium have recently finished removing such exchange control barriers as they retained. Spain has done so during 1992 and Portugal, Greece and Ireland intend to complete the process by early 1993.

The freeing of exchange controls has undoubtedly helped major retail businesses in their international purchasing of goods. The final removement of controls on capital payments to and from certain countries may assist in inward retail investment, though it has to be said that pre-existing Spanish and Portuguese controls have not hindered French retailers in their successful expansion into those countries.

Much more important is the question of currency co-ordination and possible eventual monetary union. Uncertainty over the prices of imported goods is damaging for retailers who want to offer a consistent range of products to their customers, especially at times of recession when their margins are being squeezed in every other way. The existing Exchange Rate Mechanism (ERM) has certainly helped stability in this respect, though its weakness has been exposed by events in the currency markets in September 1992. Individual governments may have doubts about losing their powers to a common monetary policy, but large businesses have everything to gain by having currency stability throughout the region within which they do the majority of their trade.

Then there is the obvious benefit of a single currency removing the need for conversion and handling charges. Large businesses already have ways of minimising these costs, but they are still significant. Their removal would also encourage smaller businesses to widen their sources of supply. Lastly, a single European currency would also play an important part in global trade. Many internationally traded commodities are still typically priced in US Dollars, for the simple reason that this was the currency of the single most powerful economy. Denomination in a European currency would be a useful counter-balance to the $US, whose fluctuations often distort world markets in several goods, notably food products.

The relevant legislative measures are:

<u>Articles 106-109 of the Maastricht Treaty</u>
- plans for a European Central Bank

<u>Article 109C of the Maastricht Treaty</u>
- achievement of EMU Second Stage to begin in 1994

Note: At the time of the Maastricht Treaty, the UK negotiated an opt-out clause for eventual participation in Stage 3 of EMU. Following the currency upheavals in September 1992, it seems almost certain that Spain, Italy, Portugal and Greece (beside the UK) will not be able to move to either Stage 2 or Stage 3 at the same time as Germany, France and the Benelux countries. Ireland and Denmark may be able to join the "faster track" to monetary union.

<u>Directive 88/361</u>
- liberalizing capital movements throughout all Member States.

Trade policy and protection

Although not, of course, part of the Single Market Programme, the role of the EC in the regulation of world trade is of significance to all businesses operating within the Community. The Community dominates world trade - 40 per cent of the total in 1990, compared to 13 per cent for the USA and 8 per cent each for Japan and the EFTA countries. Success in the Uruguay Round of GATT is of particular importance for the Community countries, not least because it implies having to make long overdue changes to the Common Agricultural Policy (CAP). Reduction of agricultural protectionism is at the heart of this GATT Round and the current cost of EC farm support policies is over ECU 35 bn. Although some food prices may rise in the immediate wake of reducing subsidies, in the longer term there is a much greater benefit from freer trade in food products. Reductions in tariffs on food products imported into the EC will also improve the range and profitability of such imports for EC-based food retailers.

The potential damage posed by GATT to European interests is to food producers rather than food retailers. The EC has had a growing surplus in food and drink (almost ECU 5 bn in 1990) and this may be reduced by the concessions required by GATT. In particular, there is scope for low-cost imports from several countries on the fringe of the Community. Several major EC food retailers are now becoming much more directly involved in sourcing their supplies in other countries - through joint ventures with food processors in Eastern Europe, for example. Such deals can be expected to increase in number and scope.

The principal components of the GATT Uruguay Round (1986-92) are to:

* Expand the scope and resources of GATT so that it becomes a Multilateral Trade Organisation, including the settlement of disputes and the scrutiny of national trade policies.
* Reduce protectionism in agricultural trade.
* Establish rules for trade in services and protection of intellectual property rights.
* Reduce global tariff levels (general) by 30 per cent.
* Improve regulation on trade in textiles and clothing.
* Improve the compliance of developing countries with trade rules.

The main EC country that would lose out through a settlement of the Uruguay Round is France, whose farmers currently benefit from almost 20% of the total of CAP support (compared to the UK, which receives only 7.4%).

Competition policy

The EC has three strands to its competition policy, all of them with a long and tortuous history of development. In the first place, particular attention is paid to mergers of public companies in which there is held to be "a European dimension". This is defined as being where

(a) the aggregate worldwide turnover of the parties is more than ECU 5 bn, and

(b) the turnover within the Community of the parties is more than ECU 250 mn.

Secondly, differences between company laws in Member States should be removed or reduced where they are seen as acting as obstacles to "cross-border industrial co-operation". This involves trying to impose common rules within the national company laws to cover takeovers and share-trading in public companies. In third place is a longer term aim to establish a framework of pan-European company law, including the concept of a European Company (known as an "SE" after the Latin phrase "Societas Europaea"). Introducing such a company depends on having previously harmonised national company laws sufficient for it to be acceptable throughout the Community. Thus far, progress has been much faster on Merger Control than the other aspects of EC Competition Policy.

There are many major European grocery retailers with intra-Community turnover of more than ECU 250 mn, but relatively few that are publicly listed companies (except in the UK and France). As a result, the current and immediately proposed EC legislation on mergers and takeovers is unlikely to have a direct effect on the sector. Of the 52 cases examined by the Merger Task Force in its first year of operation (1990/91), none involved retailers of any kind. As for takeovers, the separate characteristics of each national market have not yet been influenced by EC legislation. In France, the past two years has seen considerable change in the ownership of grocery chains, but none of this activity has been referred to the authorities in Brussels. Equally, the major developments in Germany (including the break-up of the Co-op) have been policed exclusively by the Federal Cartel Office.

It is indeed questionable how much pressure there is for cross-border merger and takeover activity in the grocery sector in the Community. Two discernible flows have clearly emerged - French-based multiples moving into Southern Europe and German-based discount grocers spreading into adjacent markets in Northern Europe. Apart from these, relatively little movement has taken place. A European Commission study in 1992 (carried out by The Corporate Intelligence Group) identified almost 1,400 cross-border retail operations throughout the Community in all sectors ; only 176 (13 per cent) of these were in the food and drink sector.

Most Northern EC countries already have merger and takeover laws that comply in principle and practice with the aims of EC legislation (the UK Takeover Code was used as a model for the EC's Directive). The main problem is that EC legislation concentrates on public companies, whereas the majority of those in Germany, the Netherlands and several other countries do not fall into this category. German corporate law - and the prevailing business culture - is hostile to the idea of cross-border mergers and will find ways of continuing to resist them.

The legislation concerned consists of:

<u>Merger Control Regulation 4064/89 (in force September 1990)</u>
- applies to cross-border mergers with "a European dimension" and is regulated by a Merger Task Force.

<u>Takeover Directive 88/823</u>
- to protect the interests of takeover targets (listed companies only), supervised on a national basis

<u>Regulation on a European Company Statute 89/268</u>
- to establish a framework for an "SE" company which is independent of the national laws of individual Member States.

Cross-border commercial activity

Apart from developing policies that attempt to regulate competition throughout the Community, the EC is also trying to lay down new rules for other aspects of cross-border commercial activity, in particular the relationship between parent and subsidiary companies. Few of these measures are yet in place and the most important of them, dealing with the relationships of companies within a group, is still at the discussion stage. The guiding principles are for the protection of minority shareholders and employees, especially where the parent company is foreign-owned. Existing German law and practice has been used as the basis for several aspects of the proposed legislation.

As with the cross-border merger rules, this is an area where relatively few grocery retailers are likely to become involved. The exception is for the very large multiple groups that have developed a group structure across several Member States. These include Metro, Aldi and Spar (Germany), Carrefour, Auchan, Docks de France and Leclerc (France), GIB (Belgium), Ahold (Netherlands) and Marks & Spencer (UK). Of these, the French companies will have to make the greatest changes to conform to the EC's proposed rules, but bearing in mind that they are not yet finalised and may well alter significantly before being adopted in 1993 and 1994.

So far as individual countries are concerned, substantial changes will have to take place in French company law for it to conform with EC requirements on the relationship between parents and subsidiaries. Dutch law will also have to adapt to the suggested new rules. The UK and Italy are having to change their rules in respect of information disclosure on branches of foreign companies.

The Directives proposed include:

Proposed Directive on taxation of Parent and Subsidiary Companies 85/360
- to attempt to reduce the problems of double taxation, including allowing giving a parent company the choice of being taxed in its home country on a consolidated basis.

Proposed 9th Directive on Relationships between Parent and Subsidiary Companies
- to protect minority shareholders, employees and creditors within such groups of companies.

Proposed 11th Directive on Disclosure Requirements for Branches of Foreign Companies 88/153
- to establish a minimum standard for the compulsory disclosure of basic information on a company's ownership, address and officers.

Movement of goods

The efficient physical movement of goods throughout the Community was given a high priority in the Cecchini Report, which estimated that the road haulage industry alone represented some 7 per cent of Community GDP and restrictions within it were costing the EC economy the equivalent of ECU 415 mn in 1988. Certainly, the Community countries suffered from a long-established network of restrictive quotas, rules and trade practices in almost every aspect of transport. Removing these restrictions was an important task for the Single Market Programme and, to a large extent, it has succeeded in achieving its goals. There remain problems in the German market, but the most significant recent development has been agreement with the Swiss to permit easier trans-shipments through Switzerland, a key route between north and south Europe (especially since the closure of roads through the former Yugoslavia).

An earlier Coca-Cola paper ("Retail Logistics" 1991) emphasised how important physical transport was to the efficient running and profitability of retail businesses, especially in the grocery sector. Deregulation was seen as a definite boost to both efficiency and cost-cutting, with savings being particularly welcome because they could balance the rising costs that will derive from stricter environmental standards and ever-increasing traffic congestion. The importance of these findings is that they apply to major grocery businesses even when they confine themselves to selling in their home markets - such retailers are typically increasing the range and volume of supplies they source from around the Community, thereby benefitting from better transport facilities in all the Member States. Of relevance to the carriage of certain products (high-value and seasonal foodstuffs, fresh fish, flowers) is the EC's current move to try and liberalise the market for air freight, finally coming into line with its general policy for air transport in general.

Apart from deregulation of the haulage industry, the EC is also improving the efficiency of transport by backing the improvement of the Community's infrastructure - on the roads, the railways and, in certain countries, canals and rivers. In respect of the latter, the recent completion of the missing link in the Rhine-Main-Danube canal could be an important conduit for goods, including foodstuffs, from South East Europe.

Germany was the country that continued for a long time with objections to liberalising road transport (especially cabotage), but since 1991 has started to implement the main measures. Italy, by contrast, put up few objections but has yet to actually draft the EC rules into its national legislation. Although not yet part of the EC, it is Switzerland that has posed the greatest problem to road transport between the north and south of the Community; only in September 1992 was a compromise reached by which transit through Switzerland will be greatly eased with the building of new Trans-Alpine routes.

The legislative measures to note are:

<u>Regulation 1841/88 on Community Quotas and a Free Road Transport Market</u>
- to remove the pre-existing system of quotas that limited the activities of haulage companies outside their own domestic markets.

<u>Directive 89/4059 on Cabotage and subsequent Draft Regulation of October 1991</u>
- to permit full cabotage throughout the Community by 1/1/93.

<u>Proposed Regulation 91/293 on a Community Road Haulage Licence.</u>

<u>Directive 89/4060 on the Removal of Frontier Checks and subsequent Amendment OJ 1991 C 117/6</u>
- to abolish all frontier checks within the Community, including (the Amendment) checks on food products.

<u>Directive 89/4058 on Road Transport Prices</u>
- to liberalise the existing national systems of "reference prices", but only for cross-border journeys.

<u>Proposed Directive 91/66 on HGV Vehicles Speed Limits</u>
- affecting heavy vehicles carrying either goods or passengers (still under discussion).

<u>Regulation 294/91 on Air Freight Services</u>
- to liberalise the air freight market within the Community in line with other measures (the 3rd Liberalisation Package) to remove barriers to free trade in air transport in general).

Mutual recognition of products

The mutual recognition of goods is one of the key planks of the Single Market Programme, although the basis for enabling legislation was laid down in the original Treaty Of Rome (Articles 7 and 30). What the Single European Act succeeded in doing was to specify that mutual recognition would be more or less automatic, unless examined in the European Court against highly specific tests on whether the proposed restriction was acceptable for purely health and safety reasons. This procedure has proved much more effective at speeding up the acceptance of products in different markets than the previous system of having to agree a new common standard for every contentious item. The role of the Court is essential to the new policy of mutual recognition. The most major recent judgement concerned the sale in Germany of beer which contained additives not permitted under the traditional German "beer purity" laws ; because the additives could not be proved to be actually harmful to health, the European Court overruled the national rules, only allowing that the additives in question should be clearly labelled on the products.

With the principle of mutual recognition now effectively in place throughout the Community, attention is devoted to removing the remaining national barriers on health grounds to trade in specific products, most of them either foodstuffs or medicines. All these developments are potentially beneficial to retailers who want to stock the widest possible range of goods and be able to source its supplies from all around the Community. The only potential cloud on the horizon is that mutual recognition is likely to be tested with the increase in products coming from countries on the fringe of the Community, not to mention problems of integrating some of the EFTA members as they apply to join the system. Lastly, it remains the case that there is nothing to prevent a national legislation from applying a <u>stricter</u> standard to a home-produced product than an imported one ; this is one barrier to free trade not yet addressed by the Commission.

Bureaucratic barriers to the principle of mutual recognition still remain in some countries, notably Spain, Portugal and Italy. More important are the restrictions that continue to exist based on health, safety and veterinary rules governing specific food and drink products. The Single Market Programme is still working through the elimination of these barriers at the national level.

The key legal requirements are:

<u>Article 7 of the original Treaty of Rome</u>
- prohibits discrimination against goods imported into one Member State from another.

<u>Article 30 of the Treaty of Rome</u>
- prohibits duties, quotas and all other national measures that may make the importing and sale of any product from another Member State more difficult or expensive for no other reason than that it comes from another State.

<u>Article 100B of the Single European Act</u>
- which introduces the concept of mutual recognition, that "the provisions in force in a Member State must be recognized as being equivalent to those applied by another Member State".

<u>The European Court Judgement in the "Cassis de Dijon" case (1978)</u>
- which permitted national rules to block the distribution of imported products, but only in highly specified circumstances (such as consumer or environmental protection) and where the use of such national regulation was the least restrictive means of achieving that end.

<u>VAT and excise duties</u>

The harmonisation of VAT and excise duties has proved one of the thorniest aspects of the Single Market Programme, while also being one of the most necessary elements of the Programme's success. Quite apart from the problem of trying to iron out the very large differences in rates and tax structures between Member States, there is also the question of setting up a workable system for the collection of indirect taxes on products as they are moved (increasingly) around the Community.

After much argument, an accord was finally reached in October 1992 - this consists of a package of eight Directives which fix a legally binding minimum VAT rate of 15 per cent across the Community until 1996, together with minimum excise duty rates on a range of products, including tobacco, alcohol and mineral oils. In fact, the accord is a weak compromise on earlier plans, since it will leave most existing rates virtually unchanged. Exceptions include the removal of excise duties on some basic foodstuffs in Germany, the reduction of VAT in the Netherlands (already achieved) and a small increase in excise duties on alcohol and tobacco in Belgium, France, Italy and Spain.

Following the October 1992 agreement on VAT and excise duties, considerable differences will remain between the rates levied in Member States, though a common system of collection is agreed from 1/1/1993. France has the widest variation from other countries in respect of VAT rules and there will be great difficulty in bringing them into line during 1993. Germany still levies excise duties on a number of food products not so taxed elsewhere (including tea, coffee, salt and sugar) ; this will have to change during 1993. Excise duties on alcohol products in all Southern European Member States remain significantly lower than elsewhere in the Community.

The plans for common collection and administration of VAT are almost certain to cause problems for all businesses trading goods in the Community. Because border controls and customs posts are abolished from 1/1/1993, the job of monitoring VAT payments (and collecting intra-Community trade statistics) falls on businesses themselves. The fact that the compromise on VAT rates has left existing differences little changed means that the administrative load will be enormous - the Japanese company Sony, for example, has had to employ 200 staff to develop 12 reporting systems for VAT returns and statistics collection. A further complication is that having to register for VAT collection in some countries (notably Italy) may incur a corporation tax liability. Lastly, the whole process is not helped by several countries still only having draft legislation on VAT and duties, while in Italy, Belgium and Portugal there was no official information available on the new procedures as late as October 1992.

These changes on VAT and excise duties are bound to cause at least a temporary increase in costs for all major retail businesses. Certain food products are taxed at low rates in some Member States and grocery retailers that source throughout the Community cannot expect the benefits of a truly harmonised system until 1997 at the earliest. Differences in rates on alcoholic drink and tobacco products will continue to cause problems for the foreseeable future.

The measures relating to VAT and Excise Duties include:

<u>6th Directive 77/388 on a Common System of VAT (and subsequent amendments)</u>
- to establish common rules for VAT throughout the Community.

<u>18th Directive 89/465</u>
- to iron out national differences in VAT arrangements and establish a timetable for the approximation of rates.

<u>Commission Communication 89/260 on Harmonisation of Excise Duties</u>
- to be brought in over a period of several years.

<u>Proposed Directive (January 1992) on the Movement of Products Subject to Excise Duties</u>
- to permit the free movement of such goods throughout the Community, with the excise duties being levied in the country of retail sale.

Consumer protection

The EC has developed a firm structure for rules on product liability, based on safety rather than fitness for use. Full implementation, however, will not take place until mid-1994, particularly for agricultural products. The situation on consumer rights is much looser, mainly because the Commission sees this as an area for national legislation (influenced hopefully by ideas developed in Brussels). There is a general aim that consumers should have a "collective right" which has easy access to national courts. In addition, there are a number of specific measures aimed at protecting consumer interests when and how they pay for goods (credit protection, electronic payments, price displays etc). It is possible that the Commission will help set up a European Consumer Agency, though this remains at the discussion stage.

Many of the largest and most successful grocery retailers have already made a point of supporting moves to better product liability standards, consumer rights and services. They therefore have nothing to worry about in respect of EC policy in these areas. The tightening up on standards for agricultural products, however, will lead to a re-appraisal of suppliers and some changes in the storage and presentation of goods. Lastly, as electronic and credit payments become more common for basic, everyday shopping, retailers will have to keep abreast of new EC rules on consumer protection.

All EC Members except France and Spain have brought product liability legislation into line into force, though there are considerable differences in the nature and amount of damages that can actually be applied. Inclusion of agricultural products, however, will in most countries have to wait until 1994 (89/193 above). The situation on consumer protection is very different. Many of the EC's proposals are based on exiting UK legislation, so that country is ahead of most others in this respect. Consumer rights in representation are strong in France, Germany, the Netherlands and Belgium; much less so in Italy, Spain, Portugal and Greece.

The measures to be noted are:

<u>Directive 85/374 on Product Liability</u>

- to make the manufacturer (in the EC) or importer (into the EC) of any product liable for damage caused by a defect in its safety (not in its fitness for use).

<u>Directive 89/193 on General Product Safety</u>

- to establish a general requirement of safety for any manufactured, processed or agricultural product (agricultural products were not fully covered in Directive 85/374 above). This was adopted in June 1992 and will come into force in June 1994.

<u>Commission Communication 87/210 on Consumer Redress, developed in the EC Consumer Policy Action Plan (1990)</u>

- to encourage a common policy and standards for consumer representation, information given to consumers, safety for consumers (in shops, for example) and protecting consumer interests in sales transactions.

<u>Employee protection</u>

The increasing role of the Community in determining protection standards and rights for employees is one of the most significant areas of concern for businesses operating there. Grocery retailers have to pay particular attention, since they typically employ large numbers of staff in categories (women, part-time) which are given specific attention in EC legislation. In the Maastricht Treaty, all Member States except the UK agreed to comply with an extensive package of measures under the heading of the "Social Chapter". These are being introduced during the period 1992-94 and the most relevant ones are listed in the Appendix.

An earlier Coca-Cola paper - "The Social Charter And Food Retailing" (1990) - examined this subject in detail. It concluded that while the implementation of employee protection legislation would raise costs and reduce profitability in the short-term (to 1994), it would eventually bring benefits in terms of increased competitiveness, productivity and employee skills. Certain countries were judged to suffer higher levels of increased costs and greater dislocation of their traditional labour patterns - notably Ireland, Greece, Portugal, the Netherlands and the UK. In Germany and Denmark, by contrast, the adoption of Social Charter legislation would not have any such negative impact, for the simple reason that high enough standards were already in place.

The UK is the only Member State not to have signed the Social Chapter of the Maastricht Treaty (1992), the other 11 countries all adopting it in the form of a Social Protocol. There are, however, problematic areas for some of the other countries, notably in respect of worker participation in Spain and Belgium. So far as the health and safety aspects of employee protection are concerned, however, the position is reversed - the UK, along with Germany, is in the forefront of adherence to the standards proposed by the Commission. Implementation in Italy is particularly problematic, while some of the social security and pension provisions are requiring considerable changes to existing legislation in the Netherlands, Belgium and Germany.

This makes the position of the UK particularly interesting, since it is most implausible that the country could remain in the Community in the long-term (through the 1990s) and not eventually fall into line with standards that had become universal in all other Member States. Any cost-saving through not implementing legislation at the present would therefore merely postpone - and almost certainly increase - the costs of having to comply at a later date. Grocery retailers that are based in the UK and then set up in other Community countries would have the greatest difficulty in attracting qualified workers with conditions of employment completely out of line with the rest of the EC.

There are some specific employment and social protection measures that will impact considerably on grocery retailers. The introduction of new health and safety requirements in the workplace will mean possible structural changes to many premises, a particular problem for smaller and medium-sized retail locations in town centres. The contracts of employment for part-time workers will in many cases need to be changed, with businesses employing more than 1,000 staff (full and part-time) will have certain obligations to adjust the balance of full and part-time employees. Legislation is proposed (but still tentative) to regulate working time to a maximum of 48 hours a week ; it will, however, be up to each Member State to decide on the role of Sundays in the working week. Lastly, the prospect of a minimum guaranteed income for all Community citizens, even if based on different national standards of living, would threaten an increase in costs for grocery retailers in all the Member States, especially the UK, Ireland, Spain, Italy, Greece and Portugal.

The legislation affecting employee protection consists of:

<u>Social Charter 89/568</u>
- containing 45 specific proposals on social and employment rights and standards, 25 of which are intended to be legally binding on the Member States.

<u>Directive 89/391 on Health and Safety of Workers (General).</u>

<u>Directive 90/276 on Standards for Work with VDU's.</u>

<u>Directive 90/394 on Protection of Workers against Carcinogens.</u>

<u>Directive 90/269 on Handling Heavy Loads.</u>

<u>Directive 75/117 on Equal Pay</u>
- sex discrimination.

<u>Directive 76/207 on Equal Treatment at Work</u>
- sex discrimination.

<u>Draft Directive 89/268 on Worker Participation.</u>

<u>Proposed Directive 90/281 on Rights of Pregnant Workers.</u>

<u>Directive 91/533 on Written Employment Contracts.</u>

Environmental standards

The EC has made environmental protection one of its most important aims and ambitions, though actual compliance by the Member States remains very laggard in many areas. In 1992, the Commission announced an "Action Programme" for 1993-2000, intended to improve energy efficiency, reduce pollutants of every kind and strongly encourage better waste management and greater use of recycling and reclamation. An Environmental Agency is to be established, at first just to gather data, but potentially with powers of inspection and control. The concept of "Green Auditing" is being encouraged. Underlying the EC's approach is the theory that the environment is one subject that demands a collective approach, while also recognising the potential danger of a split between a highly regulated North and less regulated South of the Community.

The impact of environmental issues on food retailing have already been examined in a Coca-Cola paper - "Food Retailing In A Greener Europe" (1991). This identified packaging materials and their disposal as posing the most important potential problem for retailers. It also, quite rightly, drew a distinction between the Commission's environmental ambitions and what was actually likely to happen in individual Member States. In fact, these two observations can be combined into a single conclusion. Retailers will have to improve their environmental efficiency in recycling and waste disposal, but the extent will depend on the country in which they operate. A "greener" environment can only be achieved where there is a collective will to help it come about ; a single business in isolation can do virtually nothing. Member States such as Germany and the Netherlands are already requiring retailers to take part in extensive waste management schemes, but they are only able to do so because of massive investment in and subsidies for the necessary facilities. The same process can be seen at work in the market for recycled and reclaimed products, especially paper and board (which grocery retailers produce in abundance) ; a viable market, as in Germany, needs to be supported by some form of price intervention, especially in its early stages of development. The position in the UK is precisely the reverse - the market for such materials is consequently both small and fragile. In Italy, as a third example, there has been a flurry of legislation that encourages waste recycling, but hardly any organisation on the ground to bring it into practice.

Lastly, there remains an interesting imbalance in the current European environmental legislative package. There is nothing to prevent a Member State government from imposing national rules that are stricter than the standards laid down by the EC, even if it could be argued that this represented a barrier to free trade. A European Court Judgement upheld this position in respect of the Danish Government in 1989. Retail businesses operating throughout the Community will therefore have to look out for such national differences.

Although the Commission sees environmental legislation as one of its most important responsibilities, this is an area where almost all Member States have dragged their feet in implementing the rules that have emerged from Brussels. In general terms, the countries of Southern Europe have been slowest to conform ; in Italy and Spain there is no clearly defined organisation responsible for environmental matters. Progress on waste management and the use of recyclable materials has been greater in Germany, Denmark, France and the Netherlands than elsewhere in the Community. Apart from water standards and the disposal of hazardous waste, the UK has environmental legislation either in place or in prospect that more than meets EC rules.

Articles 130R and 130S of the Single European Treaty (1986)
- established principles of Community environmental law to (a) enable preventive action, (b) direct such action to the source of environmental damage, and (c) apply the rule that "the polluter pays".

Directive 91/156 and Community Strategy COM89/934 on Waste Management
- obliges Member States to give preference to waste recycling and reclamation for a wide range of materials (including many food and drink containers), to come into force from April 1993.

Directive 91/689 on Hazardous Waste
- details all types of hazardous waste which Member States have to inform the Commission concerning their methods of disposal, to enter into effect from the end of 1993.

Proposed Directive 89/282 on Civil Liability for Damage by Waste and Proposed Directive (1992) on Liability for Environmental Damage
- measures to make Member States introduce rules that impose liability for damage on all non-domestic producers of waste materials (including retail businesses).

Directive 88/76 on Air Pollution by Motor Vehicles
- to provide a framework for increasingly rigorous standards on minimum emissions by all types of motor vehicles, bringing the Community into line with existing US standards by July 1992 and with provision for even stricter rules from 1996.

Commission Recommendation 89/349 on CFC's, amended in 1992
- to set a deadline of the end of 1995 for the total elimination of all Chlorofluorocarbons (CFC's).

Council Regulation 90/1210 for a European Environmental Agency
- to establish such an agency, initially for the collection of information, but, after 1994, to be given powers of inspection and control throughout the Community.

Proposed Regulation (1992) on Certified Environmental Auditing
- suggesting a system (initially voluntary) for the evaluation of environmental performance in industrial activities, including food and drink manufacture and processing.

2. SPECIFIC EFFECTS ON THE RETAILING OF FOOD & DRINK PRODUCTS

This second part of the report examines the effects of European Community integration on the retailing of specific food and drink products. Most policy areas affect entire categories of products, though there are also some relevant policies on trade in specific product items.

Manufacturing and processing standards

The Single Market Programme laid considerable emphasis on food and drink manufacturing, less so on the retailing of these products. This reflected not only the size of the EC food industry, but also the fact that it was very highly regulated at the national level. The Cecchini Report estimated that the net cost to industry of all the barriers to free trade in the food sector was equivalent to some $1.1 bn (1988). This is of course a speculative figure - so much of the food industry is localised in manufacture and consumption, suggesting that the removal of barriers between countries would not necessarily lead to a surge in cross-border trading. But at the highest level of concentration in the sector - branded groceries, toiletries, drinks - it is clear that freer trade leads to higher volumes and potentially greater profits.

An earlier Coca-Cola paper - "Prospects For Grocery Brands In The Single European Market" (1991) - observed how international food manufacturers were investing heavily in the search for successful "Euro-Brands". That paper sensibly suggested that such brands had to be built up appropriate to varying market demands, rather than launched in the hope that a "European" market already existed for them. It also identified the spectacular growth of retailers' own-label brands in nearly all the EC countries. Both retailers and manufacturers therefore have an increasing stake in the success of the Single Market Programme to encourage a larger, more efficient flow of food and drink products around the Community.

The concept of mutual recognition is tailor-made for the food and drink business, given its vast multiplicity of products. To have to legislate for each individually - the old "vertical" approach of the Commission - was obviously a hopeless task. There is no doubt that the new approach has greatly speeded up the intra-Community flow of food and drink products, making it possible for manufacturing and processing plants in one country to serve markets in other ones. From the retailers' point of view, notably the very largest grocery chains (multiples, associated and co-operative), it is becoming possible to have a purchasing strategy that treats the whole Community as one market. If such chains start to do their buying through alliances, then the potential economies of scale multiply, without in any way diluting their position in their respective home markets. Several papers in the Coca-Cola series have identified the importance of this changing balance of power between food manufacturers and food retailers. It is the Single Market Programme that is providing them with their new battlefield.

But mutual recognition is not of itself enough to remove all the barriers between food manufacturing and processing industries in different countries. These industries are of course concerned to protect their own markets and will resist what they see as unfair or inappropriate imports. They often see no good reason why they should change manufacturing and processing methods that have served them and their markets well for many years. Similarly, retailers and consumers will also resist changes to products and/or their presentation with which they are familiar and which they do not want altered in any way.

It is this side of the Programme - its effect on traditional products made in the home market, rather than the introduction of products brought in from other markets - that is causing the most problems. Almost all national arguments against EC-imposed standards are based on a defence of traditional custom. Some of the largest markets in Europe - France, Germany and, especially, Italy - are proving resistant to such changes. Nothing that happens on 1 January 1993 will make the slightest difference to this. The food and drink products that do succeed on a European scale will be those which can be viably marketed where there is a demand for them. The Single Market Programme cannot impose such conditions, even if it does make it easier for such appropriate products to be made and sold.

The other basic issue on manufacturing and processing concerns the introduction of entirely new types of products and processes. Modern technology comes up with these new developments and, by definition, there are no agreed standards in all 12 countries for ingredients, safety, transport and so on. Irradiation (for longer shelf-life) is one such process, developed first in the Netherlands and currently being discussed for its acceptability throughout the Community. Other examples include rapid freezing, chilled distribution of prepared foods, synthetic proteins and almost all applications of biotechnology to food production. Under the environmental policies of the EC, there remain provisions for individual countries to impose stricter rules than those agreed as a minimum Community standard. It may well be that some of these new methods of food production and processing are contested in certain Member States on these grounds.

Implementation of the legislation proposed varies very widely between the individual Member States, mainly where local taste and custom precludes conformity to a hypothetical European "norm". In the case of extraction solvents, the Germany food industry permits much greater use of these than elsewhere and will have to change considerably to fall in line with the EC Directive. On issues of food safety, however, most countries now have legislative standards (in theory if not in practice) that conform to EC intentions. The UK Food Safety Act of 1990 is likely to prove hard to implement - Belgium and the Netherlands have a liberal approach to this form of treatment, while several other Member States are resisting it strongly. The Dutch have also had to postpone their implementation of the Directive on Quick-Frozen Foods.

The measures concerned include:

<u>Directive 89/108 on Quick-Frozen Foodstuffs</u>
- to lay down standards for both the initial freezing and subsequent processing, handling and storage of such foodstuffs.

<u>Proposed Directive 89/596 on Foodstuffs Treated with Ionising Radiation</u>
- intended to harmonise the standards of equipment and methods used in the irradiation of foods. A further Directive will be required to list the foods which may be treated in this way. These are hotly contested measures and may not survive into legislation.

<u>Directive 88/344 on Extraction Solvents</u>
- to establish a list of permitted extraction solvents, together with their uses, standards of purity and other issues. Compliance with the new rules is being staggered during 1992 and 1993, with prohibition of non-authorised solvents from 1/1/1994.

<u>Council Regulation (OJ L 350 14/12/1990) on Pesticide Residues</u>
- to set maximum levels for such residues, as defined in lists to be developed by the Commission. Compliance will be the responsibility of national food inspection agencies.

<u>Proposed Regulation (1992) on the Reduction of Contaminants in Foodstuffs</u>
- gives the Commission the power to draw up lists of such contaminants, with subsequent legislation to encourage the reduction in their use.

<u>Food inspection and quality control</u>

A Single Market for food inspection and quality control is proving less contentious than for manufacture and processing. This is mainly because there is a greater consensus on basic rules for food safety, covering the whole chain from manufacture to final consumption. The legislation has been developed to share the responsibility for safety protection between growers, manufacturers and distributors, so this is an area where grocery retailers have to keep up with requirements as they come into force.

One problem, however, is the role of inspection at the Community level. Originally, the Commission planned a European Food Agency with full powers (and budget) to pursue a "hands-on" approach to food inspection. One advantage of this would have been that new testing and monitoring techniques could have been brought in quicker when they were applied centrally than if developed piecemeal. It is also accepted that there are wide variations between Member States in the practical efficiency of their food control (even if they have all signed up in theory to maintain the same standards). The European Agency plan has been postponed for lack of funds, with responsibility at the European level remaining with the Scientific Committee on Food (SCF).

The area where changes in inspection and control is having the greatest effect on the existing market structure is in the meat industry, specifically in slaughterhouses and wholesale meat markets. Not only are hygiene standards much stricter, there are also new rules that greatly increase the extent (and costs) of inspection. In the UK, over half the existing 600 slaughterhouses are almost certain to close because they cannot afford to conform to the new EC rules, which are administered by the national regulatory agency (as with all other aspects of EC inspection and quality control legislation). Similar closures are occurring in France, Spain and Italy. The Irish, Dutch, Danish and German markets are relatively unaffected.

All the countries of Northern Europe have inspection and quality control regimes that are unlikely to fall foul of proposed EC legislation. German standards are indeed considerably more rigorous. Spain intends to implement the Control Directive (89/397) during early 1993, but this may be delayed. The situation in Italy is unclear. Implementation in Portugal and Greece will be slow and patchy.

The measures proposed covering food inspection and quality control include:

<u>Plans for a European Food Agency</u>
- an EC-funded Food Agency remains an ambition of the Commission, but current developments rely on existing national Food Regulatory Bodies, co-ordinated by the Brussels-based Scientific Committee on Food (SCF). Eventually, food products given approval by the national organisations will have to have this confirmed by the SCF.

<u>Directive 85/591 on Food Sampling and Analysis</u>
- established that national food agencies could conduct tests to EC standards (as they are developed), but at the same time prohibited the continued use of certain types of tests previously employed by national agencies.

<u>Directive 89/397 on Official Control of Foodstuffs</u>
- a Framework Directive that established general principles for the control and inspection of foods throughout the Community, the underlying intention being to protect consumers while also not imposing too great a burden on food producers and processors.

<u>Proposed Directive 91/525 on the Hygiene of Foodstuffs</u>
- to develop further the basic standards of 89/397 (above), also covering the standards of training of food inspectors and EC-approved quality standards for inspecting laboratories.

<u>Proposed Directive (1992) on Harmonisation of Hygiene Rules</u>
- an ambitious plan to set harmonised rules for quality control along the entire distribution chain, from manufacture right through to ultimate sale to the consumer.

Additives and colouring agents

The Commission has been trying for a long time to harmonize Community use of additives, flavourings and colouring agents. There are longstanding national differences in this area - France, for example, banned in the 1970s several colouring agents that are still in use in the UK and Spain. Many flavourings are of such local preparation and consumption that it is unlikely they will ever appear on a common EC list. Additives, including those used in animal feedstuffs, are a particularly difficult issue because of the heavy investment in their use. Sweeteners, used extensively in drinks, are influenced by national taste as much as anything else. Once again, variation in tastes puts a brake on the rapid implementation of EC-wide legislation.

The general principle of Single Market legislation in this area is to build up lists of approved products and eventually prohibit the use of those that are not permitted. Because of their number and long history of use, the disallowed products cannot be banned overnight - it is expected that in most cases Member States will have up to three years to comply with legislation. Minerals and vitamins are classed as nutrients and are subject to separate legislation (see below). The use of the word "natural" in respect of additives (etc) is also covered elsewhere - under requirements on labelling and product claims.

Nearly all Member States are proving slow to implement EC legislation on additives and colours. In Germany (again) most of the objections arise because local practice and tastes do not permit such agents and the new common standards are seen as being too liberal. In France, the use of many colouring agents was disbanded in the 1970s following consumer campaigns. The situation in Spain, Greece and Ireland, on the other hand, is that there are numerous additives in use that are unlikely to be included on the EC-approved lists.

The legislation comprises:

Directive 89/107 on Food Additives
- a Framework Directive that establishes basic rules for the use of additives in general, with the subsequent development of lists of authorized additives.

Proposed Directive on Sweeteners
- to attempt to lay down maximum permitted levels for specified artificial sweeteners. This is having to be amended to allow some countries (including France and Denmark) to ban certain sweeteners in drinks.

Directive 88/388 on Flavourings
- lays down basic rules on the purity of flavourings and the percentage composition of additives used in them. Subsequent draft legislation (1991 and 1992) is intended to define the use of the word "natural" in flavourings.

Directive 92/4 on Emulsifiers, Stabilizers, Thickeners and Gelling Agents
- to update previous Directives (from the 1970s and 1980s) and bring them into line with 89/107 (see above).

Proposed Directive 91/444 on Colours in Foodstuffs
- to bring the legislation on colouring agents in line with that now in place for additives (89/107, see above). Existing EC rules on food colours date back to 1962.

Transport and storage

The overall Single Market strategy for transport has already been discussed. On balance, it is and will prove of considerable benefit to grocery retailers, particularly those who source from all around the Community. Activity is, however, likely to be concentrated in the central part of the region - France, Germany and the Benelux countries. This is because neither southern Europe nor the UK yet has an appropriate modern transport infrastructure. A further reason is the increasing success of the Schengen Agreement in removing all border delays between these central countries of the Community. Denmark will be brought into the net with the completion of major new links up from Germany (and across to Sweden), while Swiss policy is now making it easier for shipments to and from the Italian market. It is no accident that the major French grocery retailers who have set up in Southern Europe have concentrated on areas with relatively good transport links - northern Italy, the largest Spanish cities (especially Barcelona), Lisbon and Oporto in Portugal.

In Spain, the food market still presents many barriers to the free movement of products. The Spanish government is introducing new rules to try and reduce these barriers, but there is still a long way to go. So far as physical transport is concerned, Germany still presents some barriers to free movement (see earlier Section). The requirement to refrigerate all fresh fish products (see below) is causing problems in several countries, including the UK and France.

Deregulation of the haulage industry will further help grocery retailers as they, rather than their suppliers, determine the physical chain of distribution. UK-based retailers, who are among the most successful in Europe, have made a point of contracting out much of their transport to specialist companies (especially in chilled and frozen distribution). By heavy investment in information technology, these grocery businesses are in a position to make the most efficient use of such distribution, while their sheer size gives them a strong position to secure advantageous contracts with the specialist distributors. Deregulation means that similarly efficient retail grocers can take the benefit of such transport networks on a Community scale. The freeing-up of the German market is particularly important in this respect.

The two chief measures involved are:

<u>Directive 87/220 on Refrigerated Road Transport</u>
- introduced new energy-saving standards for the insulation of such vehicles, covering the transport of both frozen and chilled products.

<u>Commission Communication 1989 C271 on the Free Movement of Foodstuffs</u>
- this reinforces the mutual recognition principle that any foodstuff legally made and sold in one Member State should be able to be moved to and marketed in another Member State.

Packaging and labelling

The use of packaging materials and the disposal of packaging waste are major issues for grocery retailers and the Single Market Programme encourages them to change their attitudes towards the whole subject. The EC has estimated the total volume of retail, office and services sectors packaging waste throughout the Community at 15mn tonnes (1990), of which just 2.5mn tonnes are currently recycled. This compares with only 10.4mn tonnes of such waste produced by manufacturing industry (4.5mn tonnes recycled). A large proportion of estimated domestic packaging waste (25mn tonnes) comes of course from products bought in retail groceries. These figures, even if only estimates, show the scale of the problem - and the potential for recycling and reclamation.

The most important Single Market measure in this area is the proposed Framework Directive on Waste Packaging (1992). This aims at recovery rates of up to 90% of all such waste, with a target for recycling of up to half that volume. The Commission realises that implementation will have to be (a) introduced over a considerable period, and (b) will be applied at very different rates in individual Member States. As mentioned earlier, you cannot implement a waste management strategy without the infrastructure for doing so, plus ensuring there is a viable market for the reclaimed and recycled materials. It is likely that particular products will be early targets for action, notably one-way drinks containers (of all materials), canned goods and board packaging. Retailers will have to establish relationships with all the other parties involved - their suppliers ; the municipal authorities responsible for collection and disposal in their areas ; and, not least, their customers, who may be bringing waste materials back to the store for collection.

The situation on labelling is also a key subject of the Single Market Programme. The general rules on food labelling are almost all in place, with the majority of grocery businesses having no difficulty in complying with them. The principle of "Use By" rather than "Sell By" is now established throughout the Community for highly perishable foods. Uncertainty remains, however, on how the EC proposal for an "Eco-Label" will develop. Who, for example, will judge that a given product is less "environmentally damaging" than its competitor(s) ? The Commission has already shown it does not currently have the resources for a European Food Agency, so it is unlikely to be able to directly operate this scheme.

A further cause of problems is the proposal to try and closely define the "Geographical Indications and Designations of Origin" for food and drink products. Apart from the obvious absurdities (Yorkshire Pudding, Frankfurters, Mars Bars etc), there are the costs of complying with product registration and proving that the item does actually come from the claimed place (or has been prepared in the claimed manner). These would be far too high for many of the small producers of such regional specialities. Retailers would be deterred from stocking products that might be subject to legislation of this sort. On the other hand, there are genuine cases of speciality producers needing to protect their exclusivity (the makers of Parma hams are one example). The likely outcome is that the present proposal will be watered down, while a mechanism will be found for producers to use the Courts to settle any disputes.

Packaging is a particularly contentious issue and nearly all Member States have examples of traditional practices that fall foul of current and proposed EC legislation. France and Italy are likely to conform slowly (if at all in the case of some products). Provision for the recycling of food and drink packaging is much greater in Germany, Denmark and the Netherlands than elsewhere. As of January 1993, French law imposes minimum recycling requirements on food and drink producers and importers (^Snot^S retailers). The UK was slow to conform to earlier EC rules on labelling, but has now caught up. Several countries, including the Netherlands, are insisting that certain information on food labels should continue to be in their own language (the EC legislation only states that it should be in a language easily understood by the purchasers).

The measures to be considered involve:

Directive 89/395 on the Labelling, Presentation and Advertising of Foodstuffs
- an important Directive that updates original legislation from 1979 and covers foods that are sold both retail and through catering channels (but not when sold either wholesale in bulk or for export in any quantity).

Directives 89/109 and 90/128 on Materials Coming into Contact with Foodstuffs
- important Framework Directives that give the Commission powers to regulate the use of all such materials, including plastics. They update previous legislation (from 1976) and will use the EC Standing Committee on Foodstuffs to draw up lists of permitted and banned materials. In the case of plastics, compulsory compliance comes into force on 1/1/1993.

Directive 90/496 on Nutritional Labelling
- this fits in with other legislation on nutritional foods (89/398, see below) and requires that any food for which the manufacturer makes a "healthy" claim should substantiate this with detailed labelling. A related Directive (90/339 on Compulsory Nutritional Labelling) prohibits any type of labelling that does not conform to the new standards, to take effect from October 1993.

Proposed Directive (1992) on Waste Packaging
- a major Framework Directive that is intended to establish a waste management strategy for the whole Community. Member States will have to conform to specific targets in reducing and/or recycling waste materials, with an eventual aim of recovering between 60 per cent and 90 per cent of all packaging waste and, even more ambitiously, of recycling between 40 per cent and 60 per cent of such waste. Full implementation is not expected for at least five years after adoption (in 1993).

Council Regulation 92/880 for an Eco-Label
- provides for a "European Ecological Label" (a 12-starred flower with the letter E in the middle of it) which is awarded to products meeting an approved standard. The standards (as yet undeveloped) will apply to every aspect of the product - from manufacture through use and to final disposal - and will require that suitable products be less environmentally damaging than other ones in the same category.

Proposed Council Regulation (1990) on the Protection of Geographical Indications and Designations of Origin for Agricultural Products and Foodstuffs
- intended to protect the consumer from false claims by food manufacturers. This is proving a highly contentious measure, encouraged by Germany but rejected by nearly all the other Member States. Well meaning in theory, but unlikely to survive in its present form.

Pricing and quantity measures

Policies to harmonize the pricing and quantity measurement of food and drink products do not pose any notable problems for large grocery businesses throughout the Community. Food producers and processors have already made the changeover to "mandatory dual pricing" for the goods where this is required. The situation in the UK is different from elsewhere, solely because of the retention of so many non-metric measures, but a sufficiently long timetable (to the end of the decade) has been agreed for the conversion that it will not impose significant costs on either producers or retailers.

One potential problem does present itself over plans to harmonize national standards (BSI in the UK, DIN in Germany, AFNOR in France etc). As with the ideas for an EC Food Agency and an EC Eco-Label, the Commission does not have the resources to set up an effective standards regulatory body of its own, while the existing national bodies are naturally resistant to losing the right to set their own standards. This does not affect many food and drink products in terms of their ingredients (dealt with by other legislation), but it does impact on the machinery and equipment used in the food trades, including at the retail level.

All the Member States are falling in line with the pricing rules. The situation on standard weights and measures is mainly a matter of the UK versus the rest. Although the UK started to switch to the metric system in 1963, it will be the end of the 1990s before it is completed. Even then, certain products (milk, draught beer and cider) can continue to be sold in pints. Packaged groceries have to be metric from 1995, while goods sold loose (e.g. from greengrocers) can remain in pounds and ounces until 1999.

The measures proposed are:

<u>Directive 88/315 on the Indication of Selling Price and Measurement of Foodstuffs</u>
- this amends earlier legislation (1979) and is intended to provide consumers with clear pricing information, particularly when comparing products sold in differently sized packs. It relies on mandatory dual pricing - the price of the article and the price by weight (or volume). Full implementation is spread over a long period - to 1995 for most countries and even later for the UK and Ireland.

<u>Directive 90/189 on Non-Automatic Weighing Instruments</u>
- sets out minimum standards for such instruments (in force since mid-1992).

<u>Directive 90/384 on Units of Measurement (Metrology)</u>
- to bring all Member States into line with a common system of weights and measures.

<u>Commission Green Paper on European Standardization (OJ 1991 C 20)</u>
- proposes a European Standards Office to co-ordinate the harmonization of national standards (eg BSI in the UK or DIN in Germany). Although mainly concerned with industrial products, the food and drink sectors also fall under the remit of this proposed European organisation. Criticism of the cost and complexity of the proposal is leading to a compromise whereby the national Standards Offices retain most of their existing powers.

<u>Store handling and staff training</u>

Retail grocery businesses are very important in the labour market in every Community country. Equally, the largest such grocers are significant employers on an individual basis. Because of this, the implications of the EC's "Social Chapter" are considerable for the whole sector, except, for the time being, in the UK, which has opted out of almost all the main provisions of such policies.

Most of the general impacts have been discussed earlier, but there are a number of specific effects that must be mentioned. In the first place, there are new standards for the operating of equipment common in large retail businesses. These include : fork lift trucks (new safety specifications since 1989) ; the avoidance, wherever possible, of the manual handling of heavy loads (from 1993) ; health, safety and ergonomic aspects of working with VDU's (also from 1993) ; and increased responsibility for employers in respect of equipment such as meat slicers, frozen food handling and electrically operated machinery (from 1992). Secondly, there are potential (as yet undetermined) changes in the training obligations for retail employers. Particular attention is paid to young (16-18) employees, who will have rights to "complementary vocational training" - paid for by the employer and during normal working time. Eventually, there is planned to be a system of mutually acceptable vocational qualifications for retail workers in food preparation, food handling and various levels of store management. Community funds will be available to encourage such training, especially in countries where it is undeveloped (Spain, Portugal and Greece in particular).

In terms of variation by country, Dutch and German vocational qualifications for the retail trade are more highly organised than elsewhere, so these countries may resist mutual recognition. France, with its elaborate system of training in food processing and production, may do the same in that area. Retail training in Spain, Portugal and Greece remains undeveloped. The fact that the UK has opted out of the "Social Chapter" means that most of these proposals will not apply at all.

Retailers need to pay particular attention to:

<u>Directive 86/663 on Fork Lift Trucks</u>
- in force since 1989, this measure laid down Community-wide safety specifications for such vehicles.

<u>Directive 90/269 on Handling Heavy Loads</u>
- sets health and safety requirements for handling such loads, mainly through encouraging a reduction in manual handling generally. This Directive comes into force in July 1993.

<u>Proposed Directive on the Mutual Recognition of Vocational Qualifications</u>
- this extends the principle of mutual recognition of professional qualifications to a wide range of trades where workers have only basic secondary education plus the relevant national trade diploma. Several trades in the food and retail sectors are included.

<u>Council Decision 90/267 on a Programme for Continuing Vocational Training</u>
- a measure that forms part of the "Social Chapter", this proposes that employees, especially those aged 16-18 years, should receive "complementary vocational training" during working hours. Employers would have to fund this programme.

<u>Organic food standards</u>

The Commission first proposed legislation to regulate the production, processing and sale of organic foods back in 1989. Apart from responding to consumer pressure in this area, the Brussels authorities also had an eye to the fact that organic produce achieves high prices, thereby offering a potential boost to farmers' incomes at a time when CAP subsidy cuts were beginning to reduce them. Whatever the likelihood of the latter trade-off, the regulation of organic production is now in place, at least for plant products (organic meat and fish products are still being discussed for inclusion later). Each EC country has had to appoint a national body for regulating such production (during 1992) and the legislation becomes binding from the middle of 1993.

The Commission drew heavily on the experience of existing national organic associations in preparing this legislation - the Soil Association in the UK, Nature et Progres in France, Bioland in Germany. In some Member States there has been little difficulty in setting up a regulatory body (in the UK it is the United Kingdom Register of Organic Food Standards), but others have presented problems (Greece, because there was no established association ; France, because there are 16 competing ones). As part of the package of requirements, organic products must be suitably and accurately labelled. If, for example, the organic ingredients make up less than 50% of the product, then the packaging cannot make any claim at all to be organic. Drinks, including wine, are included in the 1992 regulations.

A related measure is proposed to cover what the Commission calls "Novel Foods". These include products made by chemical synthesis, biotechnology and the use of natural organisms which are being used for the first time for food manufacture. The basic idea is to appoint control bodies who will build up expertise in assessing such products from the health and safety point of view. Suppliers will have a duty of care imposed upon them. Given the role of technology in food production (and the constant search for new products), it will be interesting to see how the EC will be able to define what is and is not a truly "novel" food.

The UK has a fairly long-established system for maintaining the content and quality of organic foods. Similar but less developed organisations now exist in France, Germany, Denmark and the Netherlands. Other Member States will have to look to the new EC rules to set the relevant standards.

The two measures that deserve special attention are:

<u>Council Regulation 91/2092 on Organic Production of Agricultural Products</u>
- to set strict rules on every aspect of organic foodstuffs, including production, processing and labelling. It also suggests a system of inspection and regulation (to be undertaken by national authorities).

<u>Proposed Directive on Novel Foods (1991)</u>
- an ambitious proposal to cover new types of food that are developed by chemical synthesis, biotechnology and similar methods. The aim is to make it easier for such foods, if approved, to be sold throughout the Community.

Specific measures on individual food products

The old "vertical" approach to harmonization, together with the incredible length of time that such measures typically took to come into force, means that the Single Market Programme still contains legislation that is specific to particular products or narrow categories of products. The most relevant of these are listed in the last section of this survey.

Of these, the measure on fish products is causing the most difficulty. It imposes a refrigeration requirement from the handling stage right through to final sale. For many products - and in distribution areas of limited size - refrigeration has never been used before and the cost of introducing it is proving cripplingly expensive for the typically small firms involved. Similar problems may arise with the implementation of the Poultry and Poultry Products Directive, which seeks to define differences between "battery" and "free range". Retailers will have an obligation to ensure that the products they stock should be correctly described. Similar requirements, already in place, cover all foods (and drinks) for which a "nutritional" claim is made. Lastly, in this group of specific products, there will be a ban from mid-1994 on all infant foods (formulae) that do not conform to EC standards in place since 1991.

Because of the highly localised nature of many European food products (their manufacture, distribution and consumption), any blanket legislation imposed by the EC is bound to cause problems with specific foods. National pressure groups are proving quite successful at lobbying for exemptions from such legislation, including kipper smokers in the UK, jam makers in Portugal and ham producers in Italy.

The measures proposed for food products include:

Directives 88/658 and 88/288 on Trade in Meat Products
- to establish rules on the preparation and description of many meat products, including minced meat. This covers both intra-Community trade and imports.

Directive 88/47 on Fish and Fish Products
- to impose minimum standards for the handling, processing and transport of freshly caught fish and fish products. This includes refrigeration of such products to under 2C, a rule that has been fiercely criticised by some trade interests in the UK, France and elsewhere.

Directive 90/539 on Poultry and Poultry Products
- to set down basic rules for the inspection and certification of such products. A related subsequent proposal is for a four-part classification of poultry according to rearing conditions (Indoor, Free Range etc).

Directive 89/398 on Nutritional Foodstuffs
- this is a Framework Directive that updates rules dating back to 1977 and lays down that such foods should be "suitable" not just in use but also in their marketing and presentation. The Directive has been in place in national legislations since early 1992, but the EC has given a 5-year transitional period for manufacturers to change their products and presentation (for rules on nutritional labelling, see above).

Directive 91/321 on Infant Foods
- to set standards for infant formulae and follow-on formulae, with the banning of non-conforming products from June 1994.

Directive 88/593 on Fruit Jams
- a specific piece of legislation that dates back originally to the 1970s, but did not in fact come into effect until 1991. This is mainly concerned with the sulphur dioxide content of such products.

Specific measures on individual drinks products

Specific measures from the era of "vertical" legislation cover fruit juices and chicory-containing coffee (see later section for details). There is also a proposed Directive that seeks to set minimum reclamation and recycling targets for drinks cartons (all types of drink).

Apart from the environmental aspects of packaging, the main interest in the drinks sector concerns the EC's aim to eventually approximate the rates of duty that apply throughout the Community on alcoholic drinks of every kind. This has been discussed earlier under VAT & Excise Duties. One thing is certainly clear - if the EC had persisted with its original plans for approximation, then all the countries of Southern Europe would have faced an almost impossible task in raising their levels of duty. Market distortion would have been greatest at the level of normal retail distribution, since purchasers would have been likely to bypass such channels in search of untaxed products. This particular problem has now effectively been postponed until later in the decade, by which time gradual changes in duty rates in all Member States may have rendered it harmless.

Implementation of the current compromise on excise duties is unlikely to cause major problems in any Member State, though the position will of course change if and when the EC tries to approximate rates more closely. As it is, taxes on wine will have to increase slightly in all the wine-producing countries, including Germany. Belgium has already increased its rates in anticipation of EC legislation. So far as non-alcoholic drinks are concerned, Germany will have to remove the excise duties currently imposed on coffee and tea.

The most important Directives that have been proposed are:

Directive 89/394 on Fruit Juices
- similar to the legislation on Fruit Jams (88/593, see above).

Directive 85/573 on Chicory Extracts in Coffee
- a measure to permit the trade in this (mostly French-made) product, with specifications on its labelling.

Proposed Directive on Drink Cartons (1992)
- intended as part of the EC's environment strategy and aimed specifically to force manufacturers of drinks (of all types) in cartons to recycle up to 70% of their packaging materials.

Directive 86/197 on Labelling and Advertising of Alcoholic Drinks
- this brought drinks labelling in line with that for foodstuffs. Any alcoholic strength greater than 1.2% by volume has to be indicated on the new labels. Subsequent measures are still being developed on labelling the other contents of such drinks (water volume, cereals, fruit content etc).

Directive 89/525 on Duties on Alcoholic Drinks and subsequent Communication 89/260 on Excise Harmonization (see above)
- establishes minimum rates of duty of alcohol and aims to set target rates for Member States to achieve during 1993-97. The excise duty is to be calculated per hectoliter of pure alcohol at 20C and based on the quantity actually available to consumers.

FOOD RETAILING IN EUROPE - POST 1992

PROJECT II
THE COCA-COLA RETAILING RESEARCH GROUP
EUROPE

THE SINGLE MARKET:
1992 IN RETROSPECT

A study prepared for

THE COCA-COLA
RETAILING RESEARCH GROUP
EUROPE

by

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The Corporate Intelligence Group Limited

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The Corporate Intelligence Group Limited

INTRODUCTION

This series of papers, produced by the Coca-Cola Retailing Research Group, Europe, over the last two and a half years, has been concerned with assessing the implications of the Single European Market for food retailers in the twelve Community Member States.

The intention was to produce a series of practical, working documents which would help smaller and medium sized retailers understand what the Single Market meant for them. Whilst the largest multi-national operators were likely to be aware of the legislation and the trading opportunities, the same might not be true of all other retailers.

Moreover, the intention was to focus on food, as opposed to non-food, retailing. The legislation relative to these sectors obviously differs, even though the changes in company and employment law are common to both.

A full list of all the papers published in this series is included at the end of this document as an appendix.

It was planned that this, the final paper in the series, should be published soon after the Single Market opened for business on 1st January 1993. It looks back at the build up to the Single Market, from the signing of the Single European Act of 1986 to the present day, to see what has been achieved so far, what remains to be done to complete the Single Market and how food retailers have reacted to the enlarged market now available to them for both selling and sourcing.

The paper also considers the question 'what next?'

CONTENTS

SUMMARY

Throughout this series of papers it has consistently been argued that:

* retailing was going to be less affected by the proposed Single Market legislation than manufacturing or food processing

* the existing structural variations between countries in food retailing were unlikely to be changed

* national and regional variations in consumer markets and consumer preferences would persist, certainly in the short to medium term

This remains the case, especially so far as food retailers are concerned.

Even though more than 450 retailers had, by the autumn of 1992, become involved in cross-border trading operations, the overwhelming majority are involved in non-foods. Of the foreign operations set up in the Member States, only 13 per cent involve food.

Before the Single Market even came into effect, attention was turning to the prospects offered by the inclusion of EFTA countries to create the European Economic Area and by the opening up of Eastern Europe. There is little in the former to attract food retailers, but the latter does offer exciting prospects. Investment in Eastern Europe, compared with investment in the Single Market, will be long term, high risk and difficult, but the ultimate prospects are good.

The creation of the Single Market has been a considerable achievement, no-one supposed that all the planning would be completed, and all the legislation in place by 1st January 1993. That was merely a start date for trading. So it has been. Many of the details still have to be worked out and definitions agreed, but it is really only in the field of indirect taxation that major problems still exist.

The removal of the boundaries created the enlarged Single Market, but the real economies of scale only come when the same products can be sold in all, or at least all the major, countries. National and regional differences will make this hard to achieve. Whilst this is more of a problem for suppliers, it does affect retailers with own brands. Creating Euro-brands remains as difficult as ever, even in the Single Market.

THE COMING OF THE SINGLE MARKET

On 1st January 1993 the Single Market came into existence.

Politicians lit a series of beacons across Europe to welcome the birth of the Market. Newspapers included reviews for their readers telling them - to a greater or lesser extent - what it meant for them and their country. Television news gave the event rather less coverage. Were it not for the media, businessmen might have forgotten the significance of the actual date.

There are two reasons why the actual day itself was not made more of an event - apart, of course, from the fact that it was a public holiday in most countries:

(i) there had been a progressive build-up over the last five years in the attention focused on the Single Market, as government departments, trade bodies, consultants and other interested parties tried to inform, and interest, business organisations in the Single Market

(ii) it had never been intended that the first day of January 1993 would mean the start of a new era in European integration. It was merely the deadline for the completion of the first phase of the integrating process agreed in the Single European Act of 1985. Much has actually been achieved, but there is still a lot more that needs to be done

Nonetheless, the Single Market is now 'open for business' and it is reasonable to ask how important an event this really is.

This paper considers, therefore, such issues as

* what has actually been achieved to date?
* what remains to be done?
* have retailers been encouraged to trade cross-borders as a result of the coming of the Single Market?
* is the Single Market still the key attraction?
* are traders and suppliers taking advantage of the Euro-market?

THE ACHIEVEMENT TO DATE

The extent of the achievement in setting up the Single Market has been somewhat obscured by the length of the preparatory period between the signing of the Single European Act in 1987 and the opening of the Market in January 1993. The pace may have been tortoise-like, but the ground covered was considerable:

* more than 250 of the 282 individual measures in the Programme have been adopted by the EC Council

* getting these measures adopted at the national level has been more difficult, with some countries insisting on the right to defer implementation for several years. Nonetheless, on average some 80 per cent of EC directives had, according to the European Commission, been incorporated into national legislation by December 8 1992. The range was between 73 per cent in Italy and 96 per cent in Denmark

To get where it has the Commission has had, among other things, to

* harmonise technical standards for all products, so that the same specifications could be used everywhere. At the start of the process, in 1986, it was estimated that there were more than 100,000 different sets of technical specifications existing in the Community

* liberalise rules on the service sector, including transport

* remove border controls

* likewise remove fiscal boundaries, by agreeing on VAT systems for all countries and an end to controls on excise duty at internal frontiers

Details of the progress in processing the legislation were given in the most recent of these papers on 'Food Retailing in Europe - Post 1992', published in November 1992. The boundaries between the 12 Member States have now been effectively removed and companies are free to trade where they wish, subject only to environmental constraints.

The underlying objective of the Single Market Programme was to free the flows of trade and business between the 12 Member States. Long before January 1993 it was accepted that this was happening. If the process was not completed by January 1st, then it was only a matter of time. Attention had already moved on to other issues of Community development. In particular

* the move towards monetary union, if necessary with a fast and a slow lane
* arising from this move, issues related to the establishment of a Central Bank and to competition policy and merger control
* the ultimate aim of political union

By comparison the creation of the Single Market was relatively simple.

As noted above, the objective was to remove the constraints on cross-border trading within the Community. This, however, does not necessarily mean that the job of selling to the end-user, the consumer, is any easier. In no way has the Single Market

* removed national or regional variations in consumers' life-styles, tastes or purchasing patterns. Countries are no more alike than they were previously.
* changed the structure of retailing within individual Member States. There are still very marked variations in the degree of retail concentration between countries, in wholesaling and supply patterns and in the importance of the various forms of retailing.

The differences remain as much of a challenge as they ever were.

WHAT REMAINS TO BE DONE?

The Single Market has opened, but there is much 'tidying up' to be done. This comes as no surprise. January 1 1993 was just one of the key dates in the process. In particular there is much implementation at the national level to be achieved, but this should not detract from the progress that has been made.

Perhaps the most serious omissions to date are concerned with indirect taxes. Some agreement was reached in October 1992 on VAT, when a package of eight Directives fixed a legally binding minimum VAT rate of 15 per cent across the twelve Member States until 1996, together with minimum excise duty rates on a range of products, including alcohol, tobacco and mineral oils. Nonetheless, big differences still remain between the rates levied in the separate States, and already a few non-food retailers are trying to turn this to their advantage by taking orders in their own country but actually supplying the goods from another. As the previous paper in this series showed, there are major problems and variations to be overcome.

It is true that a system has been set up for the common collection and administration of VAT across all Member States. There are likely to be problems that still have not been anticipated. Certainly businesses are now finding out just how much paperwork and administrative burden has been placed on them regarding collection procedures.

Then there are the more short-term problems. Two examples will suffice. Firstly, one of the four 'freedoms' that form the basis of the Single Market which still needs to be implemented fully concerns cross-border movement. Products can now cross borders easily. The controls over people doing so are being removed by stages and should be gone by the end of 1993. The position regarding the movement of animals, and to a lesser extent plants, has to be clarified.

Secondly, the harmonisation of company law is making slow progress. A directive dealing with takeover procedures is currently under review, but the plans for a voluntary European Company Statute for multi-national organisations seem to have come to a halt.

Finally, there is the host of technicalities - often related to matters of definition - that need to be resolved. To give but a few examples of those relevant to food retailers:-

* To retailers' relief, the European Commission has given up trying to harmonise ingredients and recipe rules for most foods. Fears that much loved national and regional products will be killed off are virtually gone. The exceptions are fruit juices and chocolate products.

* There are also no plans for harmonising the names of products, so consumers will have to look at the labels to see what they are buying. Yoghurt, for example, has different names in different countries. What are regarded as fruit purées in some countries are not so regarded in others. Many other foods are likely to have similar problems, including pâté, ham and smoked salmon.

* The Commission has boasted that no products will disappear as a result of the new regulations. The French, for example, will still be allowed to produce unpasteurised cheese. The principle of mutual recognition will mean that any food made in one Member State will be allowed to go into another Member State. National rules, however, will probably still apply to the manufacturing of some products, as for example foreign brewers wanting to set up production plants in Germany are finding out.

* Regional foods will be protected if registered as 'traditional' products, but the rules will not be extended to include the use of a country in a product name. The situation gets very complex. Scottish smoked salmon, for example, will be safe because Scotland is regarded as a region and not a 'country'.

* Likewise, what are regarded as 'generic terms' may not be registered as 'traditional' products. A list of what constitutes 'generic terms' still has to be agreed, but it is likely to include such names as Black Forest Gateau and Frankfurter sausages.

* The position has to be clarified over the use of colourings and additives in food. As time passes, it seems that the rules will be less strict. It may even be that all colourings and additives used in at least one Member State will be allowed in all 12 countries. The latest suggestion from the Commission is to draw up a list of all E numbers currently used and allow them all. That will certainly not be accepted with ease by the French, Belgians, Danes and Dutch, who all have relatively strict rules.

It could never have been expected that, by January 1993, the Market rules would be both comprehensive and unambiguous. The details will be debated for some time to come.

HAVE RETAILERS BEEN ENCOURAGED TO TRADE CROSS-BORDERS?

The fundamental idea behind the establishment of the Single Market was that an enlarged and open market would be created and that businesses should benefit from serving this multi-country market. Have retailers seen it in this way?

At first sight the answer has to be 'yes'. Research by The Corporate Intelligence Group has identified 469 retailers who have crossed borders and invested in retailing within the 12 European Community Member States. Of these 469 retailers -

342 were retailers already within the European Community who have crossed borders and started to trade in one or more of the other 11 Member States. This represents 73 per cent of those investing in the Single Market countries

57 came from EFTA countries (12 per cent of the total). Of these countries Switzerland was by far the most important with 24 investors, Sweden came in second place (12 investors) and Austria third (10 investors)

70 (15 per cent of the total) came from outside Western Europe. This group is dominated by 43 U.S. retailers who have moved into Europe and by 20 retailers from Japan. The Japanese presence has developed relatively recently, but is becoming increasingly important

Of these cross-border operators, therefore, 73 per cent were retailers in the EC countries seeking to benefit from the opening up of the Single Market, while 27 per cent would appear to be 'outsiders' seeking to establish a presence before 'Fortress Europe' was created.

Within the Community countries, France and the U.K. have dominated the list for both investors and for foreign retail operations established -

Active investors and their investments

EC country	Active investors No.	Invested in retail operations in No.
Belgium	17	60
Denmark	12	24
France	95	349
Germany	47	195
Greece	0	0
Ireland	9	12
Italy	26	75
Luxembourg	0	0
Netherlands	23	93
Portugal	7	14
Spain	15	23
UK	91	284
Total	342	1,129

Thus 95 of the retailers developing cross-border operations are based in France and 91 in the UK; between them these two countries alone account for 54 per cent of all the retail investors found in the EC Member States. Germany, in third place with 47 investors, came some way behind.

A natural hypothesis is that these retailers found their home markets sufficiently competitive or even saturated to encourage them to go abroad for development purposes. Yet, conversely, it was still France and the U.K. that attracted the highest levels of foreign investment; the latter apparently because of the relatively high margins that were thought to be attainable and the former because of the sector opportunities that were still thought to exist.

These cross-border retailers did not confine their attention to one country only, or indeed to the Single Market countries only. The 469 investors have each gone to an average of 4.5 countries and between them become involved in 2,131 retail operations. Of these 1,374 were in the Single Market countries and 1,129 of these come from existing Single Market country members. The pattern is as follows:

The Flow of Retail Investments

To / From	EC No.	EFTA No.	Other countries No.	Total No.
EC	1,129	220	355	1,704
EFTA	83	69	52	204
Other countries	162	19	42	223
Total	1,374	308	449	2,131

Source: The Corporate Intelligence Group

The total number is impressive, but it is non-food rather than food retailers who have been responsible. So far as the investments in the Single Market countries are concerned, the breakdown is as follows:

Investments in Retail Sectors

	No.	%
Food	179	13
Non-food	897	65
Mixed & others	298	22
Total	1,374	100

Source: The Corporate Intelligence Group

Given that the 'mixed and others' category essentially relates to department and variety stores and to mail order operators, all of which are predominantly non-food operations, food retailers only account for 13 per cent of cross-border moves.

Much of this cross-border investment in food retailing is found in Southern Europe. Spain is the single largest target market for food operations. It has attracted 45, with the largest contribution coming from France, although Portugal also has a relatively sizeable number (13 out of a total of 57 foreign investments). The Spanish operations include most of that country's hypermarket, supermarket and convenience store chains. The 7 food operations into Greece also include the most modern types of store there. Southern Europe in general has seen its food retailing being modernised by operations owned, or invested in, by retailers based in other EC countries. In complete contrast, the Scandinavian countries (including Denmark) have attracted hardly any food operations, while relatively few have gone into the Netherlands (only 10 out of a total of 138 cross-border operations), Belgium (12 out of 180), Germany (16 out of 164) or the UK (19 out of 207). All these countries, of course, have highly developed and efficient multiple grocery chains in their domestic markets. In this context, it is interesting that as many as 25 cross-border food operations appear to have moved into France, which also of course has a sophisticated, but relatively fragmented, domestic grocery sector.

This still begs the question of whether this increase in cross-border activity is the result of the creation of the Single Market. One way of analysing this is to look at the timing - did the investment take place during the build up to the establishment of the Single Market? So far as the 12 EC Member States are concerned, the position is as follows:

Date of Retail Investment

Initial investment	No.	%
Pre-1970	63	5
1970-79	184	13
1980-84	254	19
1985-89	378	27
1990 onwards	495	36
Total	1,374	100

No-one is going to pretend that cross-border activity is purely a recent phenomenon. In the non-food sector companies like Woolworths, C&A and Bata have been doing it for decades. But it is very significant that, of the 1,374 new operations set up in the EC countries by foreign retailers, as many as 873 (63 per cent) have essentially taken place since the signing of the Single European Act, while no less than 495 (36 per cent of the total) occurred between January 1990 and May 1992. Does this not indicate the influence of the Single Market?

When The Corporate Intelligence Group asked these cross-border operators this very question, the replies minimised the impact of the Single Market on their decision-making. Typical responses were:

> There has been for many years now a move towards internationalisation. It is merely a reflection of that process.

> The way retailing is developing, it was now or never. If we had not opened in other countries now, it would have been too late.

The Single Market is said to have facilitated the move to cross-border trading, with the removal of natural boundaries and of the restrictions on trading, and thus to have encouraged retailers to expand their spheres of operation.

More detailed questioning of these retailers, however, suggests a high degree of rationalisation in this. In reality, the Single Market does appear to have acted as the catalyst. Sooner rather than later they would have developed their international network of outlets, but the coming of the Single Market made it happen in the last few years.

Cross-relating the country and the type of investment involved reveals some interesting variations:

		Country											
Type of investment	Total	Belgium	Denmark	France	Germany	Greece	Ireland	Italy	Luxembourg	Netherlands	Portugal	Spain	UK
Organic	47	5	1	8	3	1	0	2	2	2	1	15	7
Acquisition	35	2	1	4	2	0	4	3	0	2	0	16	1
Joint Venture	24	2	0	4	3	3	0	3	0	0	6	3	0
Franchise	33	1	1	2	3	3	3	6	0	2	2	5	5
Concession	2	0	0	0	1	0	0	0	0	0	0	0	1
Buying Group	13	1	0	0	2	0	0	4	0	1	2	3	0
Alliance	19	1	0	6	1	0	1	0	0	3	0	2	5
Equity Stake	6	0	0	1	1	0	0	1	0	0	2	1	0
TOTAL	179	12	3	25	16	7	8	19	2	10	13	45	19

Organic growth accounts for 47 (26 per cent) of the investments made by food retailers. Among non-food retailers it was also the most popular investment route and was actually chosen for as many as 40 per cent of the cross-border moves. Food retailers were relatively more interested in acquisitions (accounting for 20 per cent of their cross-border moves) than non-food retailers (10 per cent) and in joint ventures (14 per cent, compared with 8 per cent). Conversely, franchising and concessions were far more important to non-food retailers.

Nearly half the acquisitions that took place in the food sector were in Spain, as well as one third of the organic developments. This presumably reflects the relative ease of entry into that country. Spain apart, acquisitions were spread fairly evenly over the other EC Member States, as were joint ventures. Both France and the UK, however, attracted an above-average number of organic developments. It is interesting that, behind the figures for organic development, there is a clear tendency for retailers to move across the nearest border into a very similar retail and market environment; for example, from France to Spain or from the Netherlands to Belgium. Conversely, the greater the distance and/or the greater the variation in cultures and market environment, the less attractive organic growth becomes.

THE ATTRACTIVENESS OF THE SINGLE MARKET

Is the Single Market still as attractive a target as it appeared during the run-up period? The answer is almost certainly 'No'. Time has moved on and other things have happened - in particular the formation of the European Economic Area and the opening up of Eastern Europe.

The European Economic Area

Before the Single Market even started, we were proposing to broaden it. The idea was for the EFTA members to come in and turn the Single European Market into the European Economic Area. The voters of Switzerland have expressed their disapproval and the time scale has accordingly been set back, but the process is under way.

There is much to be said for such a development. The size of the marketplace is increased, with up to a further 40 mn consumers coming in to join the 345 mn in the SEM. The concept of a commercially united and open Western Europe is taken nearer to completion. But it is only an economic move. The EFTA states are basically taking on most of the economic rights and obligations of Community members, without becoming full members and without having a vote in the EC Council of Ministers.

It is unlikely, however, that retailers' view of the Single European Market will be enhanced by the addition of the EFTA members. On the positive side, these are developed economies, politically stable, with stable currencies and with reasonably good transport and distribution infra-structures. But they:

- have relatively low population levels (50 per cent more countries only raise population numbers by 13 per cent);
- have low densities of population;
- offer developed and highly competitive market places;
- are high cost countries in which to operate;
- offer little opportunity for new entrants.

Few retailers in the EC member states will feel excited about the joining of the EFTA countries. More likely the reverse will be true and retailers in the EFTA countries may see better prospects opening up for them inside the 12.

To be more specific, food retailing in many of the EFTA countries is dominated by co-operatives and buying groups (Migros in Switzerland, ICA in Sweden are examples) to the extent that there is little room for market entry (other than with discount chains like Aldi's). The trend in non-food has already brought major retailers from Sweden into Community markets (irrespective of official membership of the EC). IKEA, with a turnover of SKr 22,325 mn in 1991/92, has 39 of its massive furniture and household superstores in Community markets (compared with only 12 in Sweden). Hennes & Mauritz earns over half of its fashion chain turnover outside Sweden, most of it in Community countries (especially in Germany, Denmark, The Netherlands and the UK). Neither of these large firms have had the slightest difficulty in setting up in the EC. Official membership could, however, make it easier for some of the smaller retailers in EFTA countries to spread across Europe - Polarn & Pyret, a children's wear specialist based in Stockholm, is an example, having already moved successfully to Switzerland, Norway and Iceland (all EFTA countries).

The conclusion has to be that if anything has awoken retailers' interest in foreign development or investment, it is the Single Market. The extension into EEA will have minimal impact in this respect.

<u>The opening up of Eastern Europe</u>

The possibilities offered by the opening up of Eastern Europe are much more exciting. There are potentially 120 mn consumers coming into reach in Eastern Europe : 400 mn if what was the USSR is included, and up to 1.2 mn retail outlets. Any move into Eastern Europe has to be seen as

* high risk
* long term

but with potentially high rewards for those who stay the course and are successful.

The risks arise from the fact that the East European countries are in the process of moving from centrally planned command regimes to market economies. The transition is causing severe economic disruption, as shown by the falls in output and employment and by the strong inflationary pressures. Investors' hopes must be that stabilisation programmes, combined with the privatisation of former state-owned enterprises, will gradually improve economic efficiency. This, however, will take time.

Moreover, on the political front the changes are equally dramatic. The process of democratisation has led to the unleashing of nationalism and ethnic hostility. In such an environment all investment is high risk.

Nonetheless, many Western retailers have been more attracted by the prospects than deterred by the dangers. In an analysis carried out last September, The Corporate Intelligence Group identified as many as 90 western retailers who had established a presence in Eastern Europe. The prospects were thought good enough for 40 of them to have ventured into more than one country. Even then others were known to be studying the territory and either to be waiting for more advantageous times or to be already in direct negotiations with prospective partners.

These 90 retailers had established more than 180 operations in East Europe. Not surprisingly Hungary, Czechoslovakia and Poland were the prime targets. The analysis by country showed the following picture:

Eastern Europe: Summary of Western Retailers' Penetration, September 1992
(No. of companies)[a]

		East European Country						
Country of origin	Total	Bulgaria	Czechoslovakia	Hungary	Poland	Romania	Former USSR	Yugoslavia
Austria	26	-	7	11	2	-	3	3
Belgium	8	1	3	2	2	-	-	-
Finland	2	-	-	-	-	-	2	-
France	12	-	2	2	3	1	3	1
Germany	60	2	12	17	13	-	11	5
Italy	17	1	2	3	2	3	3	3
Netherlands	2	-	1	-	-	-	1	-
Spain	3	-	1	-	-	-	-	2
Sweden	7	-	2	2	3	-	-	-
Switzerland	3	-	1	1	-	-	1	-
UK	18	1	4	2	2	-	6	3
USA/Canada	19	2	5	2	4	2	4	-
Others	4	-	-	1	1	-	2	-
Total	181	7	40	43	32	6	36	17

a Many companies are represented in more than one country.

Source: Corporate Intelligence Research Publications's 'Retailing in Eastern Europe'.

The report looks at the position in the two leading countries in a little more detail:

* Hungary's reputation as the most liberal of the former Eastern bloc countries has encouraged a relatively large number of western retailers to establish operations there; in 1992 the foreign share of the retail sector is estimated to have exceeded 20 per cent. Important liaisons which have already been established include those of Julius Meinl (Austria) with a leading food group, Csemege; Spar Austria with General (a major consumer goods retailer); and the German giant, Tengelmann, which is looking to build up a majority shareholding in Hungary's leading retailing and wholesaling organisation, the Skala Co-op. The arrival of Quelle, Otto Versand and Neckermann from Germany is expected to herald a radical expansion of the mail order business, while a host of other big names - encompassing Group André (France), Asko (Germany), Louis Delhaize (Belgium), Marks & Spencer (UK) and Metro (Germany) - has established a toehold which may well lead to more extensive ventures.

* Despite its imminent partition, Czechoslovakia continues to attract foreign retail investment, especially from neighbouring Austria and Germany. Others from further afield include the Dutch food group, Ahold, and its Belgian counterpart, Delhaize Le Lion; both have established joint ventures with prominent local firms. The Italian duo, Benetton and Stefanel, are here too - as they are in most East European markets, while another old Eastern hand, IKEA, has opened two stores since mid-1991. Bata, in exile in Canada for the last 40 years, has returned home and is bringing in other foreign brands to widen its footwear offer. A recent entrant, however, has been Kmart, the US leviathan, which has made Czechoslovakia its first overseas venue; it hopes to put its expertise in discount retailing to good effect across Eastern Europe eventually.

It is noticeable that there is considerable latent interest in Poland but foreign investment in general has been held back by a surfeit of bureaucracy and political instability. The domestic retail sector has undergone a dramatic metamorphosis from rigid state control to over 80 per cent privatisation, but foreign participation has been cautious and small-scale. Some 30-40 western retailers, including Belgium's GIB, have become involved in relatively minor joint-ventures. With nearly 40 mn people and aspirations to become a reasonably prosperous member of the EC, Poland should, in theory, present new investors with fascinating opportunities. So far, it has stubbornly resisted putting theory into practice.

The disintegration of the old Soviet Union has created a plethora of independent republics all, in varying degrees, competing for the foreign investment they need to prop up their restructuring programmes. Retailing has not been high on the list of priorities, although it is blindingly apparent, no where more so than in Russia, that grossly inefficient distribution systems are fundamental barriers to progress. There is a fairly long list of retailers which have set up shop, usually in joint venture, in Russia - where the main magnets have been Moscow and St Petersburg - but most are small-scale hard currency operations. The newly-privatised GUM department store group is acting as a conduit for bringing in western retailers which include Karstadt and Galeries Lafayette. There are also several food-based supermarkets and cash and carries run by a diverse band which includes Aer Rianta (Ireland), Spar (Germany), Stockmann (Finland) and Intermarché (France).

It is apparent that retailers' interest in Eastern Europe differs from that shown in the Single Market in that

- a relatively higher proportion of the cross-border moves involve food retailers. The emphasis to date has been very much on the essentials of food, clothing and footwear.

- joint ventures tend to be the favoured approach, as opposed to organic growth in the EC countries. The reasons for this are obvious enough: language problems and cultural differences are even greater, while national legislation may even make any other method of entry impossible.

Among the main findings of The Corporate Intelligence Group's study were that

* For most, if not all, western retailers involved in the East, the central motivating factor has been the belief that they simply could not afford to ignore the opportunities there; to wait might be too late.

* Notwithstanding the urgency factor, however, most new entrants view their investments as long term and are inclined to expand cautiously.

* They have also tended to be very selective in their choice of countries, following the general trend of foreign investment flows which in turn are yardsticks of perceived political and economic stability. Hungary and Czechoslovakia are, therefore, favoured locations, followed at a distance by Poland. For many German retailers, naturally, the former East Germany was the focus of attention and this is pre-occupying them at the present time.

* Western retailers are clearly apprehensive about short term prospects elsewhere in Eastern Europe and have been slow to move into Romania, Bulgaria and the independent republics of the former USSR; much of former Yugoslavia remains beyond the pale.

* Those western retailers which have entered Eastern Europe appear to be well aware of the risks involved and have tailored their approaches (either in terms of location or scale) to accommodate these. By the same token, few appear to be despondent about their ventures and all remain convinced of their long term potential.

The overall conclusion has to be that, certainly in the longer term, the development prospects in Eastern Europe are far more exciting than they are in the other EC Member States.

ARE SUPPLIERS AND RETAILERS TAKING ADVANTAGE OF THE EURO-MARKET?

The answer has to be 'Not to the extent that they should be'. The reason for this is twofold.

1 The actions of national governments

Whilst, as already noted, national governments have gone a long way towards implementing EC directives, the rigour with which they have implemented those directives has varied greatly.

This is true of both foods and non-foods. So far as non-foods are concerned, one example will suffice. EC directive 89/336 referred to the construction and manufacture of electrical apparatus. In France the legislation involved in its implementation amounted to two pages. In the UK the draft regulations issued by the Department of Trade & Industry covered 84 pages.

So far as foodstuffs are concerned there are, for example, loud complaints in the U.K. that the number of butchers' shops and of slaughterhouses will be drastically reduced - some say by as much as 50 per cent - because of the cost of complying with the new EC regulations. But examination shows that the British authorities are in fact applying these directives in a very heavy handed way.

There is probably a 'domestic' reason for this. Ever since the salmonella in eggs scare in 1989, the Department of Health has become highly preoccupied with hygiene: the Amendment Orders it put through in both 1990 and 1991 prove this. As a consequence, it is setting standards far higher than are actually required by EC regulations, but letting the blame appear to fall on 'Brussels' for the measures being proposed. In reality if EC is responsible, it is probably Edwina Currie rather than the European Commission.

Other traders particularly vulnerable in the UK are likely to be market stallholders and operators of mobile vans, although fixed site food retailers will all obviously be affected by the hygiene requirements.

Some national governments are more bureaucratic than others and undoubtedly 'extend' Brussels directives to suit their own ends. In such circumstances neither retailers nor suppliers are getting all the benefits from the Single Market to which they should be entitled.

2 Country differences

As noted earlier in this paper, country and regional variations have persisted, despite the coming of the Single Market. The Euro-consumer has not been created.

If suppliers and retailers with multi-country operations were to benefit from the true economies of scale that the Single Market should be offering them, they would be selling the same products in the same form across all countries. But retailers have a vested interest in selling their customers what they want in the usual pack format, which is often at variance with the concept of the Euro-brand. In such a conflict, it is the latter's arguments that usually win the day.

Hence a survey conducted by AC Nielsen and published in the Financial Times on 4 January 1993 concluded that

> "of the tens of thousands of products commonly sold in European supermarkets only 45 "Euro-brands" were widely on sale in identical format in at least the four largest countries."

Companies in the cosmetics and toiletries sector have gone a long way in standardising their products across country boundaries : obvious examples would be multi-national operators like L'Oreal, Colgate-Palmolive and Gillette. Many of the drink companies have been equally successful; for example Heineken and Guinness. Snacks and pet foods have achieved some success. But with a few exceptions - Kelloggs cereals and Heinz ketchup would be obvious examples - the food brands have not achieved the same degree of standardisation.

Food suppliers are trying to remedy this situation. At the end of 1991 Unilever, for example, was surprised to find that it used 85 varieties of flavouring in the chicken soups it sold across Europe and had 15 different cone shapes for Cornetto ice creams. It concluded that these variations came about partly because of national preferences and partly because national subsidiaries had been given too much freedom. The latter is more easy to correct than the former. But if it is hard to convert existing brand variations into a Euro-brand, it is easier to design and develop a new product so that the same format can be sold in a number of countries.

The rule seems to be that the easiest products to standardise are those with a high level of impulse purchasing. Conversely, the closer a product becomes to being part of a consumers' staple diet, the more difficult it is to take it across national borders.

Retailers heavily into 'own brands' have a particular interest in seeing the same format sell in all the countries in which they operate. With manufacturers' brands they will more readily specify what they feel sells best.

The fact remains that prices for the same product still do vary widely across Europe and will doubtless continue to do so for some time to come. The Nielsen survey suggested that Kelloggs Cornflakes are more than twice as expensive in France and Italy than they are in the U.K.; Evian water costs twice as much in Ireland as it does in France. In part such variations can be attributed to distribution or volume factors; in part it may be argued that price is still a marketing weapon, to be used tactically and strategically as required. In theory prices should converge as the Single Market develops. In practice this will only happen when there are more similar products and when there is greater consumer awareness of what is available in other parts of the Market.

Better communication and greater travel undoubtedly lead to some convergence in international food preferences. Such changes, however, happen slowly. So long as these national variations persist, some of the benefits of size that should come from the enlarged Single Market will be lost.

APPENDIX

FOOD RETAILING IN EUROPE - POST 1992

The eleven papers published in the 'Food Retailing in Europe - Post 1992' consist of:

Title	Date of Publication
Grocery Retailing and 1992	March 1990
The Social Charter and Food Retailing	December 1990
Food Retailing Alliances: Strategic Implications	January 1991
Food Retailing in a Greener Europe	April 1991
Retail Logistics: Physical Distribution Post 1992	May 1991
Prospects for Grocery Brand in the Single European Market	September 1991
The Opening up of Eastern Europe	November 1991
Talking to Governments	July 1992
EC Retailers and Non-EC Suppliers	October 1992
The Single Market Legislation - an update	November 1992
The Single Market - 1992 in retrospect	January 1993