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Sponsored by the

U.S. Agency for International Development

Assisting AID Bureaus, Missions and Developing Country Governments
to Improve Food and Agricultural Policies

Prime Contractor:	**Abt Associates Inc.**
Subcontractors:	**Harvard Institute for International Development, Harvard University**
	Food Research Institute, Stanford University
	North Carolina State University
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EUROPE'S SINGLE MARKET: IMPLICATIONS FOR AGRICULTURAL EXPORTERS FROM NORTH AFRICA AND THE NEAR EAST

APAP II
Collaborative Research
Report No. 350

July 1993
Final Report

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PREFACE

The European Community market offers vast potential for Near East agriculture exporters. Even with the many elements of the Single Market program that are yet to be decided, the general form of the Single Market has been accepted across the community. The approval of the Maastricht treaty by the United Kingdom in late July, 1993 indicates that the Single Market program will continue, along with the march toward European unity and expansion by the end of the century.

This report, completed in June, 1993, provides an overview of the European community's Single Market program and policies affecting trade with the Mediterranean countries. The next several years promise to be very exciting in terms of opportunities and changes in this dynamic market.

This report has been benefitted from contributions from numerous members of the trade throughout Europe as well as staff of the European Community Commission in Brussels and Governmental officials in individual EC members countries and the United States. John Balis and Tom Olson of USAID's Near East Bureau provided the stimulus for this activity as well as helpful comments in developing the report. Near East Bureau staff as well as USAID's Agribusiness group provided helpful comments in the course of a seminar presentation of results during June 1993. Helpful comments and insights have also been provided by numerous Abt Associates staff including Dick Pace, Wayne Batwin, Maiko Chambers, John Holtzman, Charlie Stathacos, and Gary Ender. To Gloria Thieman goes credit for the final presentation.

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Director, Agribusiness Consulting
Abt Associates Inc.

EXECUTIVE SUMMARY

With the creation of the European Single Market on January 1, 1993, barriers to the flow of goods, services and people among the 12 member countries of the European Community (EC) are to be gradually phased out. For exporters to the EC, this will mean that access to one country will provide potential access to the 350 million consumers throughout the Community. Negotiations have begun to create an even larger market, and eventually including members of the European Free Trade Agreement (EFTA), former Eastern Bloc countries of Central and Eastern Europe. This means that the Common Market will offer even more vast opportunities with nearly one-half billion consumers by the end of the century.

For the Near East (NE) countries of Egypt, Jordan, Morocco and Tunisia, the EC is already a market for $1.5 billion in agricultural exports annually. The EC Single Market will expand market opportunities among the 12 member countries once products enter the EC. The enlarged European market presents even greater potential as an outlet for exports. This report highlights key regulatory changes taking place in the European Community that will affect market opportunities and competition.

A number of current and planned support activities of the U.S. Agency for International Development (USAID) are aimed at developing agribusiness exports of these countries to the EC. Under a buy-in to the Agricultural Policy Analysis's Project II, by USAID's Near East Bureau, Abt Associates conducted this research aimed at understanding the implications of the Single Market, EC enlargement and Association Agreements with the former Eastern Bloc for market development prospects for selected Near East agricultural exports.

Abt Associates reviewed implications of the Single Market for fresh fruits and vegetables, processed foods, seafood products, cut flowers and other miscellaneous products. An overall summary follows.

This report presents findings on implications of the Single Market and constraints and competition issues that will affect future market opportunities. It is based on a review of regulatory developments as part of the Single Market

program, and interviews with representatives of the trade and regulatory agencies including the EC Commission, in Belgium, France, Germany, the Netherlands and the United Kingdom. Implications for competition with U.S. agricultural exports are also addressed. A first phase report presented analysis of current and historical trade flows and the competitive situation in European markets for specific products and commodities.[1]

European Markets for Near East Agricultural Products

Agricultural exports to the EC are especially important to Tunisia and Morocco, accounting for about three-fourths of their exports. The EC is a market for one fourth of Egypt's agricultural exports, but only accounted for 6 percent of Jordan's exports until the Gulf War seriously eroded Jordan's exports to other countries, raising the EC share to 37 percent of total exports in 1990, despite a slight decline in value.

Near East (NE) agricultural exports are extremely diverse and are important contributors to the national incomes of the countries involved. At the same time, imports from each of the four NE countries is a small share of total EC agricultural imports, with the four providing only 2.5 percent of supplies from outside the EC.

The Common Agricultural Policy and Market Access

The EC's Common Agricultural Policy (CAP) provides protection for European producers through import tariffs, seasonal reference prices that function as price floors, import quotas and bans as well as production and export subsidies. The move toward a Single Market will affect the national administration of some of these barriers. An eventual agreement in the on-going negotiations under the General Agreement on Tariffs and Trade (GATT) may also have important impacts on market access for Near East products.

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[1] Mark D. Newman, Christine Erbacher and Annie Fung. The European Market and Near East Agricultural Exports: Trends, Trade Barriers and Competition. APAP Collaborative Research Report 349. Abt Associates Inc. March 1993.

Enlargement and Mediterranean Policy

As the EC negotiates expansion to include EFTA countries, and develops Association Agreements with the former Eastern Bloc Countries, concern is rising among NE countries that this not lead to competitive disadvantages. Led by Morocco, and followed by Tunisia, NE countries are pushing for free trade arrangements with the EC. A request to the EC Council to authorize negotiations with Morocco was submitted in December, 1992. If approved in June, it may be possible for negotiations to begin in the fall. In the case of Tunisia, only preliminary contacts have been undertaken. EC enlargement and Mediterranean policy developments can negatively affect the relative competitive position of NE exports. For this reason, the ultimate outcome of the GATT negotiations will be important to NE countries in levelling the playing field. A GATT agreement is likely to push the EC to reform the reference price system that currently can rapidly exclude NE products from European markets.

In preparation for the Single Market, Spain and Portugal have attracted important agribusiness investment from other countries in Europe and other parts of the world. This trend is leading to increased competition for NE exports. At the same time, Near East and North African countries, especially Morocco, are promoting investment based on their proximity to the EC market.

Trade in agricultural products among EC members (intra-EC trade), as opposed to imports from outside the EC (extra-EC trade), will continue to grow, and with it competitive pressures on Near East suppliers. Additionally, as a result of Spain's relationship with the Canary Islands, the Canaries began a transition to the CAP in 1991. This too will cut the share of total trade coming from outside the EC.

The Single Market

When Spain and Portugal joined the European Community in 1986, a ten year adjustment period was put in place for the opening of markets of the other ten EC countries to Spanish and Portuguese horticultural products. Thus far, North African exporters have benefited from limited duty reductions in tandem with reduced duties on Spanish and Portuguese exports. As part of the Single Market program, the transition was accelerated, and along with it, duties on selected products from North Africa were eliminated for specific quotas during selected

periods. Nonetheless, the protection of the CAP means that Spanish, Portuguese and other European producers can be protected from NE competition through the imposition of countervailing duties. For example, countervailing duties halted imports of Moroccan tomatoes during April, 1993.

Health and safety standards and packaging regulations will affect quality requirements for NE exports and the competitive position of specific products. In the transition to the Single Market, national barriers to movement of goods are being eliminated. In the absence of harmonized EC-wide standards, mutual recognition of national requirements is the norm. This means that imports that can meet an individual EC member country standards can be shipped throughout the Community. Progressively, there will be a move toward harmonized standards, with pressures to raise standards, and associated costs, across the board.

Growing environmental concerns mean increased emphasis on reduced packaging and reusable and recyclable packaging. German standards, currently the most stringent, are expected to become the norm over time. They prohibit wooden crates for fresh produce, provide for deposits on cartons, and permit only a limited range of plastic containers.

The Single Market is changing the structure of the food marketing and distribution system. The growing number of Euro-brands and cross national joint ventures is expected to give rise to substantial scale economies. At the same time, national tastes, styles and languages mean that many unique aspects of national and regional markets will remain. New product innovation, including specialty fresh and processed fruits and vegetables, the growing demand for frozen foods, and precut vegetables, prepared foods and other processed products all present opportunities for exporters.

Meeting changing demands of the European market will place increased burdens on exporters to meet exacting standards of product quality and business relationships. Staying or becoming competitive will require new investments in processing, packaging and transportation technology, as well as management and marketing expertise. This will make NE agribusiness look to outside sources of know-how through foreign investment and joint ventures presenting opportunities for U.S., European and Asian investors.

Implications for USAID and Other Donors

The European Market offers major opportunities and challenges to Near East food and agriculture. While many of the decisions regarding the Single Market that was put in place in January 1993 have been made, many of the details are still being worked out, resulting in a market that's clearly in transition. Market access and the competitive position of NE exports will change as a result of the Single Market, EC enlargement and association agreements, developments in EC Mediterranean policy, and eventual resolution of the GATT.

For USAID support activities aimed at promotion of agribusiness, trade and investment in Egypt, Jordan, Morocco and Tunisia we recommend the following:

- Monitoring Single Market Developments. On-going tracking of changes in EC markets and the regulatory environment will be especially critical over the next 1-3 years as the transition to a true unified market continues. It will be important to keep country USAID missions apprised of developments on the trade policy front that will affect the potential market access for products being promoted with USAID support, as well as health, safety, packaging and environmental regulations.

- Technical assistance for specific products and markets with regard to meeting EC product standards, including quality, labelling, health and safety and environmental. The underlying objective should be to help exporters to meet technical requirements and satisfy customers in new markets. Such activities can also be valuable in developing domestic markets in the countries involved, and regional markets, such as those within the Maghreb Union.

- Identify new niche markets. Near East food and agricultural exports to the EC currently focus on a relatively limited range of products. Opportunities for market diversification into additional specialty fresh and processed food products should be examined, including new opportunities in seasonal niche markets.

- Identify foreign investment partners. Market studies should go the next step beyond identifying market opportunities and technology requirements to identifying potential sources of foreign investment or joint venture partners in processing, packaging and handling technology, as well as management and

marketing expertise, to serve EC markets.

- Support Trade Associations. The potential role of local and foreign trade associations in supporting NE agribusiness export development activities should be underscored. The objectives can include establishment of quality control standards to develop and protect the image of specific products from specific origins, coordination with producer organizations in Europe and other markets to share information on key policy issues and regulatory requirements and identify potential foreign partners, and development of generic "umbrella" promotion efforts to support individual companies in market development.

- Support Public Policy Reform and Infrastructure Development. While the role of private business in successful agribusiness development is key, USAID should not neglect to follow up on the important strides it has supported in policy reform that will facilitate trade and investment. Continuing the policy reform efforts undertaken with USAID support will make it possible for individual private exporters to compete more effectively in European markets. Of additional importance are public infrastructure investments in roads, ports and airport storage and handling facilities, and public organizations and laboratories to test for product quality, residues and other factors that will affect the ability of exporters to meet European standards. All of these factors will affect the potential competitiveness of the local industry on international markets.

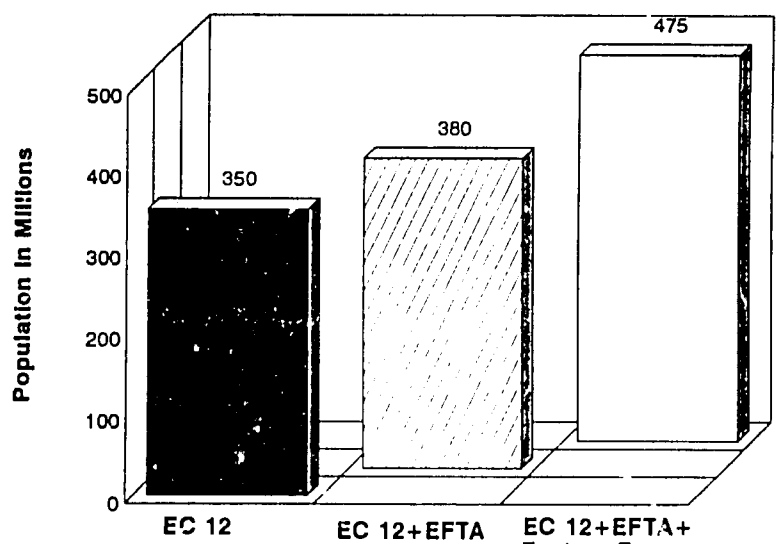
1. INTRODUCTION

With the creation of the European Single Market on January 1, 1993, barriers to the flow of goods, services and people among the 12 member countries of the European Community (EC) are being gradually phased out. For exporters to the EC, this will mean that access to one country will provide potential access to the 350 million consumers throughout the Community. Plans to create an even larger market, eventually including members of the European Free Trade Agreement (EFTA) and former Eastern Bloc countries of Central and Eastern Europe, will mean that the Common Market will offer even more vast opportunities with close to one-half billion consumers by the end of the century.

For the Near East (NE) countries of Egypt, Jordan, Morocco and Tunisia, the EC is already a market for $1.5 billion in agricultural exports annually. The enlarged European market presents even greater potential as an outlet for exports. This report highlights key regulatory changes taking place in the European Community that will affect market opportunities and competition and related market developments.

Figure 1.1

The Growing European Market



Note: Only the Eastern European Countries with EC Association Agreements
Source: Abt Associates Inc.

1.2 Future Issues

The European market is in the process of a major transition. The free movement of goods across national borders among the 12 EC member countries is only the beginning of a process that will influence market opportunities and the competitive situation of export products in a European Economic Area that will include numerous other countries, including the current members of the European Free Trade Agreement (EFTA), countries from Eastern and Central Europe, and potentially others. For example, Morocco has formally requested a free trade agreement with the EC.

Transitional measures to allow goods to cross national frontiers in the absence of truly "European" standards and regulations will gradually be replaced by harmonized rules. As markets grow, consumer tastes across national boundaries are bound to change as well, although national and regional differences can be expected to prevail for a long time. Distribution systems are already changing to take advantage of more open markets, and this should signal new opportunities for exporters, who have traditionally focused on one or two major European markets.

Quality, health, safety and environmental standards will also change over time. On the one hand, this will simplify sales throughout the EC. On the other hand, certain market niches that were not as demanding in terms of product and packaging quality will become more difficult to access for exporters who cannot meet quality requirements. Exporters who have developed the capacity to compete in markets for reliable supplies of high quality products will see some opportunities grow, chiefly in specialized seasonal niches and in markets for specialized products.

Competition from suppliers within the EC will increase, making the final outcome of a GATT agreement important in assuring that the single European market not become a fortress, protected from imports. In any event, competition is already increasing among suppliers outside the EC for commonly exported products, such as off-season green beans. This means that labor and transportation costs, as well as the other factors mentioned above, will be critical in affecting the competitive position of individual countries and exporters.

1.3 Report Organization

Chapter 2 of the report provides perspective on the Single European Market, Enlargement Issues and Mediterranean Policy issues. Chapter 3 addresses regulatory and policy issues. It begins with an overview of EC decision making, followed by discussion of trade barriers, health and safety standards, packaging, transport, commercial, banking and financial services, and quality standards (ISO 9000). Chapter 4 presents commodity specific issues in the Single Market, with discussion of fresh produce, processed foods, seafood, and cut flowers. U.S. trade issues are also addressed. Chapter 5 presents conclusions and implications for USAID programming and that of other donors and financial institutions.

2. EUROPEAN COMMUNITY/NEAR EAST TRADE: AN OVERVIEW

With the creation of the European Single Market (previously called EC '92) on January 1, 1993, barriers to the flow of goods, services and people among the 12 member countries of the European Community (EC) are being gradually phased out. For exporters to the EC, this will mean that access to one country will provide potential access to the 350 million consumers throughout the Community. Plans to create an even larger market, eventually including members of the European Free Trade Agreement (EFTA) and former Eastern Bloc countries of Central and Eastern Europe, will make the Common Market even larger by the end of the century. For the Near East (NE) countries of Egypt, Jordan, Morocco and Tunisia, the EC is already a market for $1.5 billion in agricultural exports annually. The enlarged European market presents even greater potential as an outlet for exports.

2.1 European Markets for Near East Agricultural Products: An Overview

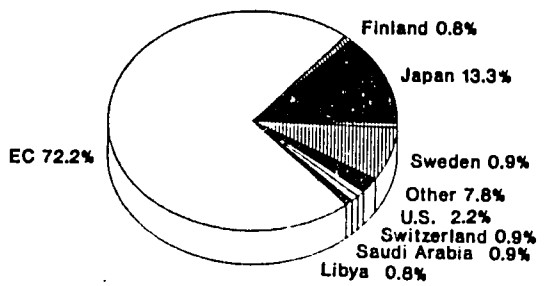
Agricultural exports to the EC are especially important to Tunisia and Morocco, accounting for about three-fourths of their exports. The EC is a market for one fourth of Egypt's agricultural exports, but only accounted for 6 percent of Jordan's exports until the Gulf War seriously eroded Jordan's exports to other countries, raising the EC share to 37 percent of total exports in 1990. Selected export products and destination countries are shown in Table 2.1. Principal agricultural exports to the EC of the four countries are shown in Figures 2.1- 2.2.

Near East (NE) agricultural exports are extremely diverse and important contributors to the national incomes of the countries involved. At the same time, imports from each of the four NE countries constitute a small share of total EC agricultural imports, with the four providing 2.5 percent of supplies from outside the EC.

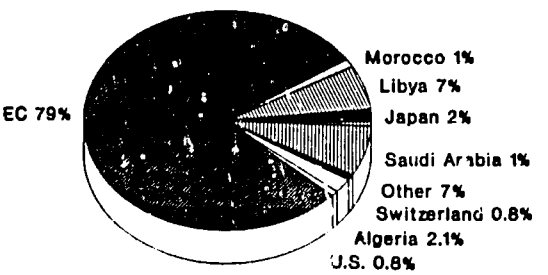
The EC's Common Agricultural Policy (CAP) provides protection for European producers through import tariffs, seasonal reference prices that function as price floors, import quotas and bans as well as production and export subsidies. The move toward a Single Market will affect the national administration of some of these barriers. Composition of an eventual agreement in the on-going negotiations under the General Agreement on Tariffs and Trade (GATT) may also have important impacts on market success for Near East products.

Figure 2.1
Destinations of Near East Agricultural Exports

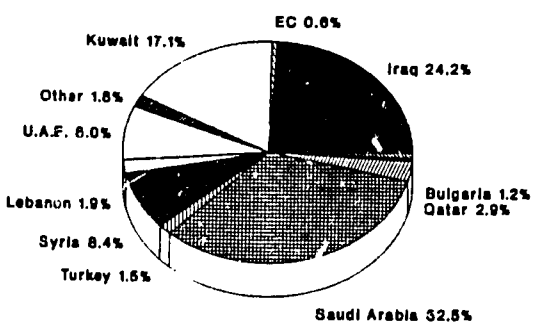
Morocco, 1990
$1697 million



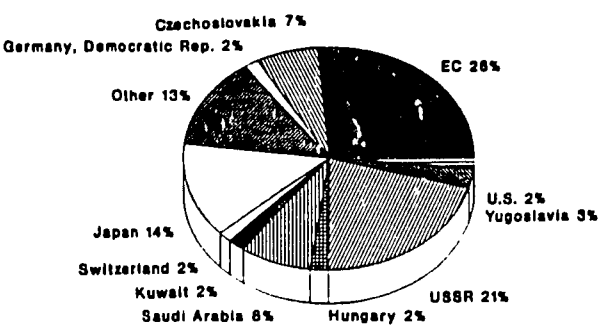
Tunisia, 1990
$396 million



Jordan, 1987
$113 million



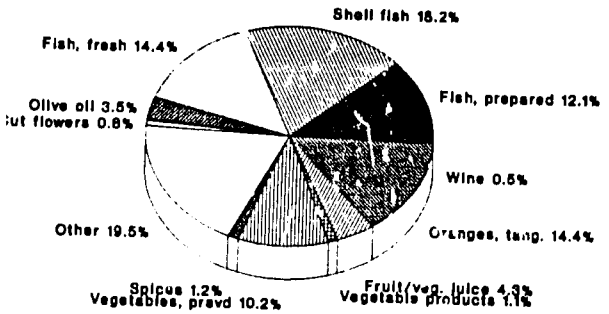
Egypt, 1989
$535 million



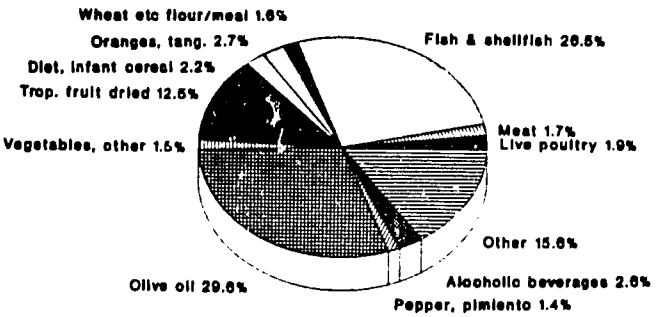
Source: Eurostat data\Abt Associates Inc. analyses

Figure 2.2
Composition of Near East Agricultural Exports

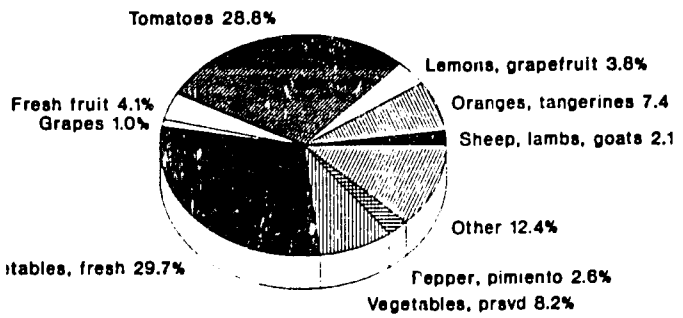
Morocco, 1990
$1697 million



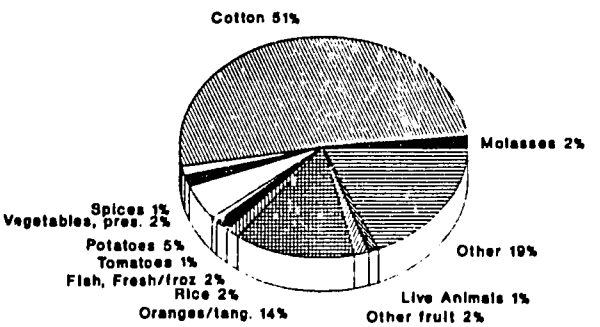
Tunisia, 1990
$396 million



Jordan, 1989
$113 million



Egypt, 1989
$535 million



Source: Eurostat data\Abt Associates Inc. analyses

When Spain and Portugal joined the European Community in 1986, a ten year adjustment period was put in place for opening markets of the other ten EC countries to their horticultural products. As this period nears its end, Near East producers will face greater competition from Spanish and Portuguese producers of numerous products. In preparation for the Single Market, these two countries have also attracted important agribusiness investment from other countries in Europe and other parts of the world.

The share of trade in agricultural products among EC members (intra-EC trade), as opposed to imports from outside the EC (extra-EC trade), will continue to grow, and with it the competitive pressures on Near East suppliers. Additionally, as a result of Spain's relationship with the Canary Islands, the Canaries began a transition to the CAP in 1991. This too will cut the share of total trade coming from outside the EC.

Table 2.1

European Community Imports of Selected Agricultural Products by Value and Origin, 1990

per 100 ECU

NE Export Country	EC 12	France	U.K.	Germany	Italy	Neth.	Bel/Lux
TOMATOES 07.02.00.10		Nov 1. – May 14					
Morocco	97,367	86,822	626	8,205	287	528	612
Total Extra EC	259,810	90,673	85,683	16,548	455	61,221	1,346
POTATOES 07.01.90.51 Jan 1 – May 15							
Morocco	29,224	27,489	102	1,073	40	200	316
Tunisia	6,738	6,627	0	62	5	0	11
Egypt	29,448	1,222	25,825	421	7	145	4
Total Extra EC	109,238	49,731	40,490	4,793	88	1,493	10,236
SWEET PEPPERS 07.09.60.01							
Morocco	1,873	1,737	7	71	0	0	58
Jordan	1,285	344	342	152	0	29	418
Total Extra EC	33,331	3,591	6,147	18,392	1	4,416	590
COMMON BEANS 07.08.20.10							
Morocco	4,023	3,808	0	18	58	78	36
Egypt	5,776	195	237	454	5	4,801	84
Jordan	523	59	73	73	0	3	315
Total Extra EC	50,176	26,585	8,285	2,018	442	9,184	3,408
FROZEN BEANS CN 07.10.22–0							
Morocco	12,567	12,526	0	0	0	37	0
Total Extra EC	20,572	12,836	248	3,387	83	954	1,889
DRIED ONIONS CN 07.12.20.00							
Egypt	5,189	87	1,914	10	0	1,312	8
Total Extra EC	32,722	739	9,697	14,317	285	4,788	313
ORANGES							
CN 08.05.10.35 May 16 – October 15							
Morocco	25,070	9,689	4,037	3,485	0	4,867	2,636
Total Extra EC	195,520	44,964	54,953	17,136	0	56,777	15,348
CN 08.05.10–45 October 16 – March 31							
Morocco	32,220	11,056	8,709	7,857	0	3,149	1,290
Tunisia	4,645	4,617	0	0	0	28	0
Egypt	1,292	13	939	0	0	318	22
Extra EC	85,007	18,309	30,613	18,802	0	10,82[illegible]	2,372
CN 08.05.10–15 April 1 – April 30							
Morocco	20,185	10,685	1,694	3,487	0	3,032	1,102
Total Extra EC	39,331	13,937	9,966	8,470	0	4,880	1,455
CN 08.05.10–25 May 1 – May 15							
Morocco	13,850	5,575	3,229	1,857	0	1,996	1,174
Total Extra EC	23,391	6,412	7,325	3,536	0	3,888	1,873
CLEMENTINES CN 08.05.20–10							
Morocco	48,048	27,047	4,823	9,521	0	4,326	2,104
Total Extra EC	49,034	27,137	5,376	9,696	0	4,471	2,119

European Community Imports of Selected Agricultural Products by Value and Origin, 1990

per 100 ECU

NE Export Country	EC 12	France	U.K.	Germany	Italy	Neth.	Bel/Lux
DATES CN 08.04.10.00							
Tunisia	38,018	18,811	1,404	2,429	10,174	263	734
Total Extra EC	65,541	33,789	8,123	3,589	10,842	1,260	1,570
SHRIMP AND PRAWNS CN 03.06.13-90							
Morocco	15,244	0	0	0	120	0	0
Tunisia	20,470	395	0	0	7,328	21	0
Total Extra EC	713,132	170,649	76,625	41,994	84,593	23,890	47,587
OTHER FRESH FISH CN 03.02.69-95							
Morocco	40,804	8,288	4	658	22,428	316	259
Tunisia	13,591	3,919	10	12	9,101	4	3
Egypt	10,074	5	24	0	9,094	7	0
Total Extra EC	140,289	33,469	7,392	1,941	76,016	597	622
FROZEN CUTTLE FISH CN 03.07.49-19							
Morocco	11,354	92	0	0	5,679	0	0
Tunisia	7,707	116	0	174	6,276	0	0
Total Extra EC	92,610	9,117	0	1,094	42,953	53	164
LOLIGO VULGARIS SQUID CN 03.07.49-31							
Morocco	11,330	39	13	0	4,071	0	0
Total Extra EC	47,305	2,091	99	1,192	11,735	96	489
FROZEN OCTOPUS CN 03.07.59-10							
Morocco	28,275	184	0	12	13,853	48	687
Tunisia	17,939	948	0	52	13,132	76	261
Total Extra EC	14,175	2,834	7	810	58,977	453	1,334
LAMPANTE VIRGIN OLIVE OIL CN 15.09.10-10							
Morocco	30,202	18,297	0	0	11,905	0	0
Tunisia	61,617	0	0	0	61,617	0	0
Total Extra EC	93,265	18,297	10	0	74,955	3	0
CANNED SARDINES CN 16.04.16-00							
Morocco	37,579	11,182	8,796	9,599	2,226	4,592	715
Total Extra EC	42,471	11,323	9,550	9,632	2,251	5,007	792
CANNED ANCHOVIES CN 16.04.16-00							
Morocco	10,279	6,880	381	361	386	5	1,664
Total Extra EC	12,072	7,092	402	384	435	8	2,908
CANE MOLASSES CN 17.13.10-00							
Morocco	2,303	875	235	0	0	0	0
Egypt	5,172	1,558	324	0	2,844	0	0
Total Extra EC	198,514	27,138	47,371	13,121	16,473	48,359	13,214

European Community Imports of Selected Agricultural Products by Value and Origin, 1990

per 100 ECU

NE Export Country	EC 12	France	U.K.	Germany	Italy	Neth.	Bel/Lux
OLIVES CN 20.05.70–00							
Morocco	40,308	33,852	586	1,124	3,196	559	975
Total Extra EC	45,330	34,197	780	4,804	3,205	917	1,022
MIXED SPICES CN 09.10.91–10							
Tunisia	1,032	1,022	0	6	0	0	0
Total Extra EC	1,786	1,124	238	278	33	13	39
OTHER CRUSHED GROUND SPICES CN 09.10.99–99							
Tunisia	1,580	1,577	3	0	0	0	0
Total Extra EC	2,594	1,714	282	199	205	33	48
CUT FLOWERS CN 06.03.10–51 and CN 06.03.10–53							
Morocco	8,412	6,455	236	577	240	794	58
Total Extra EC	109,964	8,271	32,832	33,108	620	30,880	297
WINE CN 2204.21–29 and CN 2204.29–29							
Morocco	3,330	3,085	0	2	0	0	233
Tunisia	5,810	881	0	983	3	0	1,943
Total Extra EC	105,545	11,553	34,746	40,198	242	5,104	6,527

$1 = .79 ECU

Source: Eurostat/Abt Associates Analysis

2.2 The Single Market and Maastricht

January 1, 1993 marked the scheduled completion of the European Community's Single Market Program to eliminate most of the remaining physical, technical, and fiscal barriers to trade among the 12 member countries. At the beginning of the year, the EC Council of Ministers had adopted roughly 95 percent of the proposed directives needed to implement the program, and national authorities had approved about 79 percent of the implementing legislation. Presently, the most visible progress is in facilitated ground transportation as customs formalities have been reduced or eliminated at national borders, and documentation requirements have been shifted to the company level.

Based on the 1985 White Paper report entitled "Completing the Internal Market," the Single European Act provides the legal framework to implement roughly 300 directives to achieve the goals of EC '92. The program proposes to eliminate physical barriers (customs and passport border controls), technical barriers (product, health, and safety standards), and fiscal barriers (taxation, subsidies, and public procurement policies) to trade among the 12-member countries of the EC.

By reducing and eventually eliminating these barriers, a primary objective is to increase trade among the EC 12 and consequently develop more globally competitive firms. Conducted for the EC Commission, the Cecchini Report predicted a 2.5 percent - 6.5 percent rise in EC output and dramatically increased growth rates as firms benefit from the greater economies of scale. While analysts continue to debate the calculations, increased growth is one important likely result of more integrated economies.

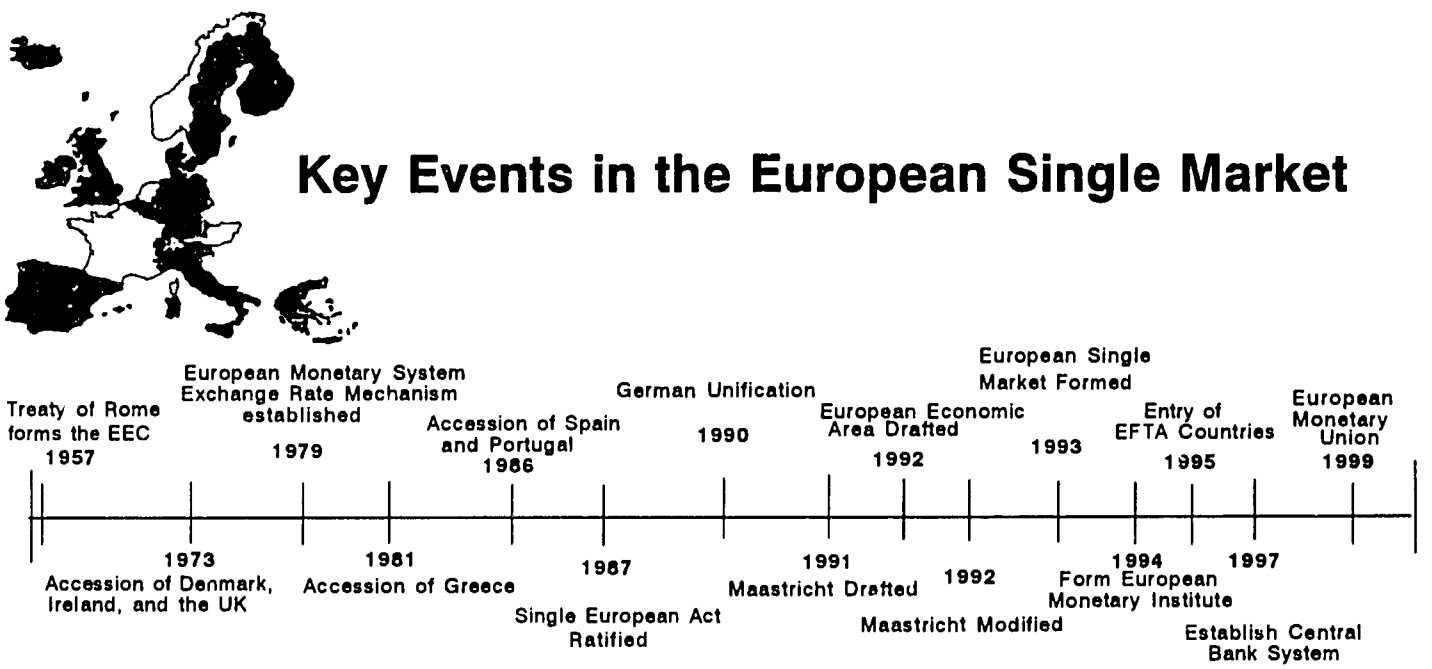
In order to speed up the reform process, the Single European Act provided for all decisions not sensitive to national security to be decided by majority rule of the twelve member countries instead of unanimity. Examples of sensitive areas include taxation and the Common Agricultural Policy, however.

Further steps in European unification were spelled out in the 1991 Maastricht treaty, which is still in the process of being ratified by member governments. It sets out a time line for monetary union by the year 2000, grants greater decision making power to the EC parliament, increases EC regional funds, and establishes

a precedent for greater political cooperation and a commitment to eventual political union.

Despite significant problems, ratification of Maastricht has just been achieved. However, the U.K. ratified the treaty in July 1993 and Denmark's voters approved ratification in a national referendum on May 18, 1993. The new referendum was necessary because of the country's "NO" vote to the treaty last June and the subsequent adaptations at the Edinburgh Summit to make the treaty more palatable to the Danish people. In a national referendum in September 1992, the French public voted "YES" by a very slim margin. Europe's current recession has reduced incentives to open national economies to competition from other EC countries. Furthermore, the currency crisis in October 1992 which led to the UK's withdrawal of the pound sterling from the European Monetary System's "Snake," will complicate the process of achieving monetary union by 2000.

Figure 2.3



Source: Abt Associates Inc.

2.3 Mediterranean Policy

2.3.1 Background

Preferential trading agreements between the EC and Mediterranean countries[2] date back to the 1960s and 1970s and were largely based on existing trade relations with individual EC member countries. Cooperation agreements were signed with Israel in 1975, with the Maghreb countries of Morocco, Tunisia, and Algeria in 1976, and with the Mashraq countries of Egypt, Lebanon, Jordan and Syria in 1977. Additional preferential trade agreements were negotiated in 1970 with Israel and Egypt.

The Cooperation Agreements signed by the EC with the Maghreb countries of Morocco, Algeria, and Tunisia in 1976 provided for a broad range of assistance to these countries to: (1) develop production and economic infrastructure in order to diversify their economies, (2) promote the export of local products, and (3) encourage industrial development through financial aid, promotion of contacts with EC investors, removal of trade barriers and scientific cooperation. Cooperation in trade matters was to "assure a better equilibrium in trade in order to accelerate growth in trade and to improve access for their products to the EC market." Industrial products, other than processed foods, are admitted free of any duty.

Pursuant to these Cooperation Agreements, EC regulations issued in September 1978 provided for entry into the EC at reduced tariffs for an extensive list of fresh and processed food items. For some fresh products (tomatoes, onions, aubergines, table grapes, berries, melons) these reduced tariffs applied only to specified time periods.[3]

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[2] The term "Mediterranean countries" in its broadest sense as used by the EC includes all countries around the Mediterranean littoral, including the EC member countries of Greece, Italy, and Spain. For purposes of this discussion, the EC member countries are excluded. The remaining eleven countries are Morocco, Algeria, Tunisia, Egypt, Jordan, Syria, Israel, Cyprus, Malta, Yugoslavia, and Turkey. Lebanon is sometimes included in this list.

[3] Official Journal, L 264, 27 Sept 1978.

As preparations were made in 1985 for the accession of Spain and Portugal to the EC, the Mediterranean countries expressed serious concern about the continuation of their preferential access to European markets. Their concern was based on competition from the expected increases in shipments from Spain and Portugal into EC countries of traditional Mediterranean exports such as tomatoes and citrus. In response, the EC Council agreed to do all it could to "permit the maintenance of traditional trade in sensitive agricultural products coming from the Mediterranean countries" and directed the Commission to negotiate revisions to trading agreements. Protocols were drafted in 1986 revising the various cooperation and association agreements and were signed in 1987 with all Mediterranean countries except Morocco. The protocols called for phasing out of duties in parallel with those of Spain and Portugal within average quotas based on 1980-84 imports.

Morocco objected to the use of 1980-1984 average exports as a base in the protocols, claiming that shipments were abnormally low due to drought conditions. Negotiations stalled, and in the meantime the EC-Morocco fisheries agreement expired (in July 1987), Morocco apparently using renewal of that agreement as leverage to obtain higher quotas for its products. Agreement was finally reached in May 1988, at which time both the protocol and the fisheries agreements were signed. Approval by the EC Council followed.[4]

2.3.2 The New or "Renovated" Mediterranean Policy

Beginning in late 1989, the need was recognized to modify existing EC policies toward the Mediterranean countries and a number of proposals were put forward for consideration. In June 1990, the EC Commission sent a "Communication" to the Council of Ministers incorporating its proposals on "Redirecting the Community's Mediterranean Policy, 1992-1996". The Council took action on the Communication in December 1990, proclaiming a "New Mediterranean Policy".

The first actions taken under the new policy were the signing of protocols of financial and technical cooperation with Egypt, Algeria, Morocco, and Tunisia and Israel. Trade issues, however, are still under discussion. In May 1991 the Commission sent a Communication to the Council of Ministers on trade which

[4] Council Decision of June 30, 1988, 88/452/CEE

repeated its commitment to continuing traditional export flows and put off a detailed assessment of the situation until 1994. The Commission found that the establishment of a comprehensive agreement between the EC and all the Mediterranean non-member countries, as long urged by the Economic and Social Committee of the Commission, was "premature". It was, however, accepted that "at the request of certain Mediterranean partners, some changes in market access could already be made involving increases in quotas or ceilings, extended time schedules and the inclusion of new products".[5] In effect, the Commission failed to deal with the need for a clear long-term trade and development policy vis-a-vis the Mediterranean countries.

2.3.3 EC - Maghreb Negotiations

Given the strong traditional trade links between France and the Maghreb countries, EC Mediterranean policy has always focused on Morocco, Tunisia and Algeria. And within the Maghreb, Morocco, as by far the largest exporter to the EC of the three, receives the most attention.

The EC has long recognized the need to reshape EC-Maghreb agreements, which have changed little since the 1976 cooperation agreements were signed, despite the fact that they have been updated every four years since then. The Maghreb countries have continued to protest the EC trade barriers which affect trade, especially in agricultural products. The EC maintains that it has already made substantial tariff concessions as part of the accession agreements for Spain and Portugal, but there is general agreement that these concessions have done little more than maintain traditional commercial links.

Events moved a step further in April 1992 with the EC Commission's Communication to the Council on "The Future of Relations between the Community and the Maghreb". It sets out to move toward a "partnership" approach, the ultimate objective being to establish a "Euro-Maghreb economic area".

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[5] "Opinion on the Mediterranean Policy of the EC", EC Economic and Social Committee, (92/C 40/19), 17 Feb. 1992

The need for a changed relationship is made more urgent by consideration of the following:

- the heavy trade dependence of Maghreb countries on Europe and increasing disparities in development,
- the rise of Islamic fundamentalism,
- trade liberalization measures (e.g. product standards) within the EC which increase difficulty of access of Maghreb products,
- marginalization of Maghreb economies as EC trade and investment focuses more on Eastern and Central Europe, and
- increasing migration to Europe as unemployment worsens in the Maghreb countries.

The Economic and Social Committee of the EC Commission has consistently lobbied within the Commission for the adoption of a broad "co-development" or partnership arrangement with all the Mediterranean countries, rather than a country-by-country approach focusing on financial and technical cooperation and gradual easing of trade restrictions. The Committee noted that:

> "Measures to promote mutual horizontal complementarily, regional integration and insertion in the Community economy should have priority over exaggerated export-led economic policies and import-substitution arrangements".

At the same time, the Committee noted that the Maghreb countries themselves must face up to the need for reforms, upgrading of public institutions, radical economic and structural reforms to establish market systems, a broader productive base, generation of employment opportunities, democratic reforms, and social justice.

However, a truly new EC Mediterranean policy has not yet emerged. Draft proposals to modify existing EC-Maghreb agreements were presented by the EC Commission to the Council of Ministers in December 1992. One outcome of the discussions was that the EC has agreed to additional financial aid amounting to

more than one billion ECUs for the eleven countries of the Mediterranean basin in the areas of environment, structural adjustment compensation, inter-university cooperation, aid to small and medium enterprises, etc. The sentiment in favor of "keeping them at home" by developing the economies of these countries and providing more jobs is now a key element in EC discussion on the future of EC - Maghreb relations. Domestic industry would be developed by encouraging European investment in joint ventures, and grants and credits would help develop infrastructure.

As ever, trade issues are proving much harder to resolve. Internal EC politics are such that the Mediterranean countries are not being given a high priority at present. Few new proposals have come from the Maghreb countries either, who have not been able to achieve a unified position vis-a-vis the EC. The possibility of a global EC-Maghreb agreement appears to have receded, despite an attempt by Spain to restart the process.

A proposal presently before the EC Council would allow negotiations to proceed separately with each of the Maghreb countries, beginning with Morocco. The Morocco agreement would become the model for Tunisia and Algeria. The basic rationale for a new agreement was spelled out as the need to create a new relationship between the EC and the Maghreb which would develop the economies of these countries and "anchor" them to Europe in a "partnership" relationship.

One proposal under study by the EC Commission is a proposal for an EC-Morocco free trade area to be introduced over a twelve-year period. However, in view of the rapidly increasing flow of Moroccan imports into the EC, European fruit and vegetable growers are opposed to unrestricted entry of Moroccan produce. Likewise, Moroccan industry would feel threatened by cheaper European industrial and consumer goods. In the meantime, as described in Section 3.1, discussions continue on more modest proposals to gradually ease access for Maghreb produce to the EC for particular products.

One can imagine the complicated negotiations which will ensue on these issues as attempts are made to balance economic and social considerations. The dream of forming a global "Euro-Maghreb Union" appears likely to be delayed until some time in the future.

2.4 The European Economic Area, Enlargement and Association Agreements

Three sets of developments affecting the size of the EC market are of special interest in terms of market prospects and potential competition for third country exporters: the European Economic Area (EEA), Enlargement of the European Community, and Association Agreements with Eastern and Central Europe.

2.4.1 The European Economic Area and Enlargement

Concluded on October 21, 1992, the EEA treaty creates a 19 nation grouping (the EC and EFTA countries). All EFTA countries (Austria, Finland, Norway, Sweden, Iceland, Liechtenstein, and the Swiss Parliament) ratified the treaty. However, in December 1992, the Swiss voted against their country's participation in the EEA.

In March 1993, EC and EFTA foreign ministers amended the treaty to exclude Swiss participation but allow them to join at a later date. The contentious issue now is how to replace the planned Swiss contribution to EC structural funds, which are intended to assist the more disadvantaged EC member countries. Other EFTA members have agreed to make up 60 percent of the planned Swiss contribution, but this may be insufficient to secure ratification. The EEA is seen largely as a transition to full EC membership. Austria is eager to join the EC; Sweden hopes to be able to join by 1995; EC membership continues to divide public opinion in Norway and Finland; Iceland's Trade Minister envisages tying the country's currency to the ECU in 1993.

Under the EEA agreement, goods are to flow freely through the EC, with special arrangements on agricultural products, fish, energy, coal, and steel. EFTA remains outside the CAP. The EEA is not a customs union; the EFTA countries and EC will maintain their own tariff schedules on imports from third countries.

In agriculture, there are either bilateral agreements that provide for elimination of duty on specified quantities of imports (called zero tariff quotas), or in the case of the least advantaged EC member countries, provisions for elimination of duties on specific products coming from Spain, Portugal, Greece and Ireland, the so-called "cohesion" countries.

Roughly 70 products are covered on the EC list of agricultural products from Spain, Portugal, Greece and Ireland. A few examples are: olive oil, certain fresh or chilled vegetables (Nov. 1- Mar 15), certain preserved and/or dried fruit and vegetables, citrus fruit, certain stone fruit, strawberries, fruit juice, rice, nuts (fresh or dried), Irish Whisky, ouzo, agricultural rum, Irish cream liqueurs and cut flowers. Iceland was willing to accept this list; Sweden and Austria only accepted roughly 40 - 50 of these products.

2.4.2 Association Agreements

The three-year PHARE program is the core relationship between the EC and countries in Eastern and Central Europe. Through PHARE, EC technical assistance is provided along with some investment and technical assistance. Preferential market access agreements are also provided. In December of 1991 the EC signed Association agreements with Poland, Hungary, and the Czech and Slovak Republics (known as the Visegrad Four for their more ambitious market reforms) and more recently with Romania and Bulgaria. These agreements establish reciprocal free trade between the EC and each country over the next ten years. However, special provisions were made for agriculture, steel, and textiles which are key export earners for the EC in Eastern Europe. The EC has recently been criticized for the limited benefits, especially in investment promotion, that have accrued to former Eastern Bloc countries under the PHARE scheme.

The Eastern European countries are applying increasing pressure for membership applications and more equal trade status. The Commission continually offers the standard EC line that there is no reason to set a firm date for EC membership. Unlike the EFTA countries, which are relatively wealthy and potentially net contributors to the EC budget, there is considerable fear of the costs to the EC of full membership in the EC for former Eastern bloc countries. The experience of German unification has sensitized the EC to the potential costs of enlargement. There is a gap between the EC's stated political commitment to help the former centrally planned economies and an economic reality that the trade concessions thus far are quite meager. Europe's recession has made the EC more sensitive to opening its markets with the former Eastern bloc, although it currently enjoys a $1.3 billion trade surplus. Controlling immigration to the EC is also an important aspect of the association agreements.

The EC advocates increased regional trade liberalization among the former centrally planned economies themselves. However, all the eastern European countries are wary of being pushed back towards the former Soviet Union. Regional cooperation is not viewed as a substitute for superior East/West trade.

While the Single Market drive toward common standards will facilitate export to the EC, strict sanitary and phytosanitary standards will prove difficult for Eastern Europe an suppliers to meet in the short run.

As more association agreements are granted and the Baltic states establish preferential agreements with Norway, Sweden, and Finland, but not the EC, the picture becomes increasingly confusing.

3. Regulatory and Policy Issues Affecting EC Markets

This chapter begins with a brief overview of EC decision making, followed by discussion of trade barriers, health and safety standards, packaging transport, banking and commercial service, and quality standards.

3.1 European Community Decision Making

An understanding of how laws are made in the EC is important to understanding the EC regulatory climate. Within the Community, four organizations play key roles in the regulatory system:

- The Commission, initiator and drafter of proposals, which are then sent to the Council;
- The European Parliament, elected by EC Citizens;
- The Economic and Social Committee, representing employer organizations, trade unions and interest groups, which comment on commission proposals, and;
- The Council, made up of representatives of member countries, usually Ministers, which act on commission proposals. If approved, the proposals become law. In some cases, the Commission can exercise this role.

European Laws and related measures fall into four broad categories:

Regulations are binding in all member countries without the need for national implementing legislation. Regulations can be adopted by both the Council and the Commission.

Directives are EC laws that bind the member countries with respect to the result to be achieved, but leave the determination of method to national implementing legislation. As a result, businesses operating in the EC need to consider both EC directives and national implementing legislation. Most of the measures adopted as part of the Single Market Program take the form of Directives.

Decisions are made by the Council or the Commission, and are binding on the affected party without national implementing legislation.

Recommendations have no binding effect, but can be adopted by both the Council and the Commission.

Since the passage of the Single European Act in July, 1987, there are two distinct procedures for adopting a directive, consultation and cooperation, shown in Figure 3.1. The choice of method depends upon the article of the EC Treaty upon which it is based.

The process always begins with a proposal from the Commission to the Council.

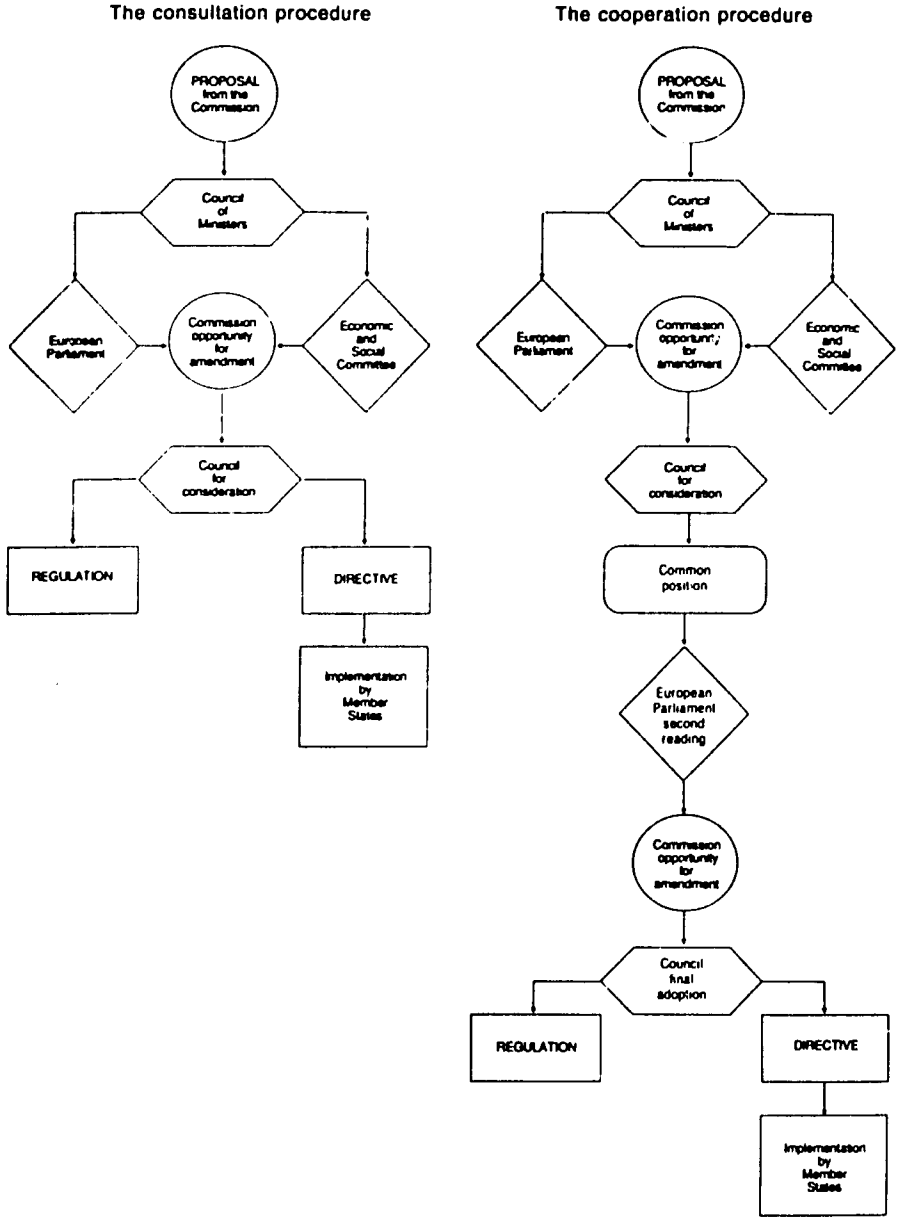
Under the consultation procedure, the Council passes the proposal to the Parliament and to the Economic and Social Committee for comment. The Commission may incorporate any amendments before submission to the Council for final consideration. Under the cooperation procedure, this Council approval becomes a common position, which is submitted to the Parliament for a second reading. After this, the Commission can again amend the proposal that goes to the Council for final adoption.

Council decisions can sometimes be adopted by qualified majority. However, under certain circumstances, unanimity is still required. This includes cases where the Council wants to amend a proposal on its own initiative, when it wants to adopt amendments proposed by the Parliament, but not accepted by the Commission; and under the Cooperation procedure, when it wants to adopt a measure when the Council common position has been rejected by the Parliament.

Once adopted, texts are published in the Official Journal of the European Communities. There is an "L" series that includes legislation and a "C" series that includes Commission proposals and opinions of the European Parliament and the Economic and Social Committee.

FIGURE 3.1

The EC Legislative Process



Source: EC Commission

3.2. Protecting the EC Internal Market: Tariff and Non-Tariff Barriers

One key to the EC market is understanding protection of agriculture under the Common Agricultural Policy (CAP). The CAP is directed at reducing competition faced by EC agricultural producers through a system of import tariffs, production subsidies, export subsidies, price floors, and import quotas and bans aimed at assuring a preference for EC sources of products.

Trade barriers to Mediterranean produce are of several types:

Ad valorem duties: Duties under the Common Customs Tariff imposed on all imports from outside the EC, varying according to season in order to protect EC producers during main production seasons. In accordance with the 1987 and 1988 protocols for the Maghreb countries, these duties are being progressively "dismantled". For products from Mediterranean countries, this process was accelerated with the January 1993 creation of the Single Market, so that duties were reduced to zero.

Tariff quotas: Volume limits on off season imports which benefit from reduced or zero duty. These have been negotiated separately with non-EC countries based on average exports during the 1980-1984 period.

Minimum or reference prices: These are prices which may be set annually for any product and which determine the minimum price at which the product may enter the EC without payment of additional levies.

The reference price system is one of the EC protection mechanisms for fresh fruits and vegetables. Reference prices become effective price floors for fresh fruits and vegetables during the specified periods in which they are applicable. The importer is charged a duty equal to the difference between the reference price and the import price when either (1) the import price remains at least 0.6 ECU per 100 kg below the reference price for two consecutive days, or (2) the import price stays below the reference price for two out of seven days.

Import prices (net of import duties and levies) of products from third countries are determined at the importer-wholesaler level. The levels of reference prices are set during the yearly price negotiations in the EC Council of Ministers. Prices are determined at certain representative markets in the EC. The difference

between the reference price and the import price which the importer must pay when applicable is a variable duty or levy, which the EC calls a *countervailing duty*. It is designed to put a floor on prices of the protected commodities. Table 1 presents a list of commodities subject to the reference price system. The results of on-going negotiations in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) are likely to affect the future of the reference price system and other barriers to access to the EC market. This will require on-going monitoring by Near East exporters.

FIGURE 3.1 Reference Price Application Periods

Reference prices are applied to some fruit and vegetable products imported into the EC, differentiated by season and quality standards, as follows:

• Apples	July 1-June 30
• Apricots	June 1-July 31
• Artichokes	Nov. 1-June 30
• Cabbage Lettuce	Nov. 1-May 31
• Clementines	Nov. 1-end February
• Courgettes	April 21-Sept. 30
• Cucumbers	Feb. 11-Nov. 10
• Eggplant	April 1-Oct. 31
• Endives	Nov. 15-March 31
• Grapes, table	July 21-Nov. 20
• Lemons	June 1-May 31
• Mandarins	Nov. 1-Feb. 29
• Orange hybrids	Nov.-end February
• Oranges, sweet	Dec. 1-May 31
• Peaches	June 11-Sept. 30
• Pears	July 1-April 30
• Plums - Group I	June 11-Sept. 30
Group II	Aug. 1-Sept. 30
• Tomatoes	April 1-Dec. 20
• Zucchini	April 21-Sept. 30

Reference prices become effective price floors during the specified periods.

Source: The CAP Monitor

Changing Trade Barriers and Near East Exports

In May 1991, the EC Commission submitted a Communication to the Council on implementing changes to import arrangements for agricultural products from the Mediterranean countries, as previously directed by the Council under the New Mediterranean Policy. These changes were formalized in Council Regulation 1764/92 of 29 June 1992. Tariff dismantling was to be accelerated, completion being scheduled for 1 January 1993, instead of 31 December 1995. Tariff quotas and reference quantities were to be increased in four equal stages of 5 percentage each year for some agricultural products between 1992 and 1995, but 3 percentage for the most important exports, including potatoes, tomatoes, oranges, clementines, cut flowers, tomatoes, orange juice and wine.

These measures were significant since they went well beyond the Commission's previous position which simply reaffirmed the importance of maintaining traditional trade flows. However, as of March 1993, the policy had not been fully implemented.

Tariffs and tariff quotas currently applicable to the principal exports of Mediterranean countries to the EC are shown in Exhibit A. The largest volumes concerned are oranges from Israel and Morocco. Above the tariff quota limits, duties are applied in order to protect Spanish producers, but levels are quite modest. Tomato imports from Morocco continue to be the most contentious item, since Dutch and Belgian greenhouse producers strongly object to the flood of Moroccan tomatoes reaching Europe in March and April and competing with their early production.

Figure 3.2 EC TARIFFS AND TARIFF QUOTAS FOR MEDITERRANEAN PRODUCE

Product	Country	Quota, MT	Period	Duty
Tomatoes	Morocco	90,462 of which 15,900 in April	15 November 1992 - 31 December 1992	0.3ecu /100 kg[6]
			1 January 1993 - 30 April 1993	0
Oranges[7]	Israel	306,185	1 July 1992 - 30 June 1993	0
	Egypt	7,315	1 July 1992 - 30 June 1993	0
	Morocco	277,640	1 July 1992 - 30 June 1993	0
	Tunisia	29,335	1 July 1992 - 30 June 1993	0
Mandarins, clementines	Israel	14,839	1 July - 31 December 1992	3.3%
			1 January - 30 June 1993	0
	Morocco	114,950	1 July - 31 December 1992	3.3%
			1 January - 30 June 1993	0

[6]Levied only when exceeds 2% ad valorem.

[7]For orange exports above these tariff quotas, duties range from 0 to 3.3% ad valorem, depending on season.

Product	Country	Quota, MT	Period	Duty
New Potatoes	Morocco	41,340 t.	1 January - 31 March 1993	0+AGR[8]
	Egypt	103,880 t.	1 January - 31 March 1993	0
Orange Juice	Morocco	15,900 t. (of which 4,770 less than 2 liters)		0
Onions	Egypt Morocco	11,110 t. 4,620 t.	1 February - 15 May 1993 15 February - 15 May 1993	0
Beans (fresh or chilled)	Egypt	3887 t.	1 January 1993 - 30 April 1993	0
Dried onions	Egypt	5390 t.	1 January 1993 - 31 December 1993	0
Sardines	Tunisia	100 t.	1 January 1993 - 31 December 1993	0
Peas	Morocco	9570 t.	1 January 1993 - 31 January 1993	0
Apricot pulp	Morocco Tunisia	9,075 t. 4,730 t.	1 January 1993 - 31 December 1993	0
Wine	Algeria Morocco Tunisia	212,000 hl 43,000 hl 53,000 hl	1 January 1993 - 31 December 1993 1 January 1993 - 31 December 1993 1 January 1993 - 31 December 1993	Free Free Free

Source: Official Journal

[8] Agricultural variable levy.

In practice, these tariff quotas have not proven to be significant barriers to entry for most products, and this will be even more true as tariff dismantling proceeds. For example, Morocco exported over 134,000 tons of tomatoes to the EC in 1991, far in excess of the 86,000 ton quota even though duty had to be paid on this excess. The same was true of Moroccan oranges in 1991, when exports were almost 350,000 tons compared to a quota of 265,000 tons.

In addition to these quota limitations, "reference quantities" were established for another category of food items. In these cases, the EC may decide to impose quota limitations when the reference quantity is exceeded. These products, and applicable quantities and periods of application, are shown in Table 3.3

One of the obstacles preventing full implementation of freer trade in produce is the lack of harmonization of EC member country import restrictions with those established by the EC as a whole. Tomatoes are a case in point. French import quotas for Morocco of 120,000 tons exceed the current EC tariff quota of 90,462 for that country. Belgium imposes a total ban on imports of tomatoes during May to November, while France allows Moroccan imports during this period subject to a minimum price system. Denmark allows imports but requires a special authorization together with an import license. A similar situation prevails with potatoes, where the French quota for Morocco is 50,000 tons and that for EC imports from Morocco as a whole is 39,000 tons.

EC officials are considering several ways to harmonize the Moroccan tomato quotas. An alternative to the already-mandated EC directive to increase the quota by 3 percent a year is to increase the EC quota immediately to the actual level of imports of 134,000 tons.

It can be expected that there will be difficulties in resolving these differences, particularly for tomatoes. French importers will want to keep the French 120,000 ton import quota. On the other hand, Dutch and Belgian greenhouse tomato producers, already hurt by unrestricted entry of Spanish tomatoes, are anxious to restrict Moroccan exports, especially during the month of April when their early varieties come on the market. In fact, their voice has

Table 3.3

EC Reference Quantities and Periods of Free Entry by Country			
Product	Free Entry Period	Country of Origin	Metric Tons
New potatoes	1 Jan - 31 March	Tunisia	2,678
New potatoes	1 Jan - 31 May	Malta	3,090
Garlic	1 Feb. - 31 May	Egypt	1,680
Cucumbers, <15 cm.	1 Jan. - 28 Feb.	Egypt	105
		Jordan	105
		Malta	52
Artichokes	1 Oct. - 31 Dec.	Egypt	105
		Cyprus	105
Aubergines	15 Jan - 30 Apr	Israel	1,260
Sweet peppers	all year	Morocco	1,050
Dried onions	all year	Syria	735
Dried garlic	all year	Egypt	1,050
Seed peas	all year	Morocco	420
Dried leguminous veg.	all year	Lebanon	2,310
Avocados	all year	Israel	32,550
Table grapes	1 Feb - 30 June	Israel	1,995
Melons, <600 gm.	1 Jan - 31 March	Egypt	105
		Jordan	105
Kiwifruit	1 Jan - 30 Apr	Israel	105
		Cyprus	210
		Morocco	210
Canned apricots <1 kg.	all year	Morocco	6,615
Canned apricot and peach halves, <4.5 kg	all year	Morocco	6,300
Grapefruit juice	all year	Israel	30,135
		Morocco	840

apparently been heard because the EC imposed a countervailing duty on Moroccan tomatoes effective April 7, 1993.[9]

In the face of these difficulties, the mood in Brussels seems to be to wait for resumption of GATT negotiations and hope that the matters can be resolved in a broader forum.

3.3 Harmonization of EC Regulations Affecting Food Products Standards

Under the Treaty of Rome, which established the EC in 1957, Article 36 permits countries to restrict the movement of goods on such grounds as health protection, so long as they are not used to discriminate arbitrarily or to disguise trade restrictions.

Because of such restrictions, the EC has remained an assemblage of independent national markets which often entails higher costs for marketing and distribution in individual countries rather than as a coordinated whole. The objective spelled out in the 1985 Commission "White Paper" on "Completing the Internal Market," and confirmed in ratifying the 1987 Single European Act, is to capture the potential economies of scale of a Single Market.

In the transition to a Single Market, the EC Commission set forth the principle of mutual recognition of national rules, limiting the required harmonization to 'essential requirements' with regard to health, safety, consumer protection, the working environment and the environment.

This is part of a new approach to standards and technical regulations being advanced by the Commission, including:

- Setting compulsory requirements that are essential to marketing products;
- Establishing Harmonized European Standards set by European standards bodies; and
- Mutual recognition of national standards as transitional measures until European Standards are established.

The Community has taken actions in a number of areas affecting food:

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[9] Agra Europe, April 23, 1993

- Additives
- Materials coming into contact with food
- Food labelling
- Official inspection, sampling and methods of analysis, and
- Product Standards

The following provides highlights of directives and status of their implementation:

3.3.1 Additives

Harmonization of regulations of additives is being pursued in order to facilitate the free movement of food within the Community and assure that differing national regulations of food additives do not serve as trade barriers. (Council Directive 89/107/EEC). Food additives are defined as ingredients which are intentionally added and become part of the finished product, but which are not normally consumed as a food themselves.

Annex 1 of the Directive specifies a list of substances that may be used as additives and conditions under which they may be used, for example as preservatives, sweeteners, emulsifiers, etc. The Directive specifies that a list of permitted substances will be drawn up including solvents, and specific foodstuffs. Special procedures are established to permit the Commission to legislate after consulting with the Standing Committee on Foodstuffs in such areas as purity criteria, methods of analysis, sampling procedures.

Directives on sweeteners, flavorings, extraction solvents, preservatives, emulsifiers, stabilizers, thickening and gelling agents have all been proposed and are at various stages of approval and implementation.

One of the issues of on-going contention is how differing national standards will be harmonized, and whether the result will be increased safety and food quality, or a net lowering of standards to meet the easiest requirements of the 12 member countries. The EC has 412 approved food additives, which has generated some criticism. For example, Erik Millstone of the Sussex University Science Policy Research Unit states that this goes even farther than taking the lowest common denominator. The UK currently only allows 300; Germany 150; Greece only 120.

3.3.2 Materials in Contact with Food

The Commission is in the process of proposing Directives to prevent the endangerment of human health or unacceptable product changes as a result of materials or articles that are intended to come in contact with foodstuffs. This excludes coating or covering substances like cheese rinds. The intent is to adopt specific directives for plastics, regenerated cellulose film, elastomers and rubber, paper and board, ceramics, glass, metals and alloys, wood, cork, textile products, and paraffin wax or microcrystalline wax. Materials sold to come in contact with foodstuffs must be labelled "for food use' and meet other requirements.

Directive 90/128/EEC prohibits the use of plastic materials which do not comply with new standards effective January 1993. Standards for testing migration of constituents of plastic materials and other materials intended to come in contact with food have also been established.

In September, 1992 EC ministers adopted a regulation which bans all food having exposure to toxic substances at any point in its path of production. Toxicity levels will still have to be set.

3.3.3 Labelling

Directives intended to harmonize national requirements for labelling, presentation and advertising of foodstuffs to consumers, including requirements on listed ingredients, determination of listed net weights, durability or "sell by" dating, whether the food has been treated with ionizing radiation, storage conditions, place of origin, and the name and address of manufacturer or seller. etc. was put in place by Directive 89/395/EEC. Foodstuffs intended for sale to restaurants, hospitals and other institutional outlets are also affected.

Specific nutrition labelling requirements and regulations of nutritional claims, as well as efforts to harmonize national nutritional labelling requirements are also in process. Effective October, 1993 goods which do not conform to requirements on labelling of energy values and amounts of protein, carbohydrate, fat, and, in some cases, sugar, saturated fatty acids, dietary fiber, sodium and vitamins, as specified by Council Directive 90/496/EEC, will not be allowed to be sold.

The Commission is considering the need for additional nutritional information on labels. The EC recommends this be done on a voluntary basis until

a more concrete position is adopted. Proposals to regulate the nutrition claims on food labels were on the agenda of the Edinburgh Conference, making agreement unlikely in 1993.

An evaluation of progress toward the Single Market by the group "Consumers in the European Community" reported that issues remaining to be resolved include: mandatory nutrition labelling of food, controlling misleading food claims, labeling of organic meat, quantitative ingredient labeling, training of food inspectors, standards for laboratory food testing, a final list of colorings and other additives to be permitted in foods, the testing or release of genetically modified organisms, the labelling of novel foods, or improvement of food hygiene principles. Some estimate that it will take several years before an EC-wide labelling program can be implemented.

An EC standard for identification of product lots was to be implemented by 1993, but has been delayed to respond to technical problems encountered by manufacturers in purchasing appropriate labelling equipment.

3.3.4 Inspection

The Community is attempting to harmonize legislation on the official inspection of foodstuffs, as well as the training of inspectors, and quality standards for laboratories, and methods of sampling and analysis. The possible establishment of a Community Inspection Service is also under discussion.

In an effort to ease the transition to the Single Market, there is a move toward certification of inspection of products at their origin and mutual recognition of national inspection while this harmonization takes place. For example, selected Moroccan-inspected fruit and vegetables are being re-inspected in some markets.

In February, 1993 the Council adopted a regulation to ensure that imports meet EC and national safety rules. The Commission will draw up a non-exhaustive list of targeted products within three months after implementation. Customs authorities will stop a product from entering if they believe it poses a "real and immediate" danger to public health. The absence of a document accompanying the goods, the mark required by the EC or national safety rules is reason enough for detention. Ministers adopted a draft regulation banning foods with toxic levels of mercury or lead. The Commission along with the Standing Committee on Foodstuffs will draw up a list of maximum levels. (Food Chemical News).

3.3.5 Product Standards

A number of Council Directives are aimed at facilitating trade by harmonizing laws related to products and their handling. Quick frozen products, alcoholic and spirit beverages, fruit juices, jams and marmalades, and coffee are among the products affected.

Directive 89/108/EEC provides for harmonizing requirements for quick-frozen foodstuffs for human consumption, including specification of equipment, authorized cryogenic fluids, temperature, and labelling requirements. An eight year transition is provided for retail display cabinet requirements.

Requirements for "fruit nectars," sweeteners, coloring and standards of identity have been established to harmonize Community requirements for fruit juices, jams, marmalades, and jellies.

Alcoholic beverages and spirit drinks must meet new requirements for labelling of alcohol content. Common rules governing spirit "coolers" have been set forth in a variety of regulations and implementing rules.

A number of proposals regarding certification of products of specific characteristics and geographic origin have been under discussion.

Proposals regarding harmonization of national requirements for the sale and labelling of foods treated with ionizing radiation have been under discussion since 1988. Agreement has not yet been achieved on a proposal to harmonize irradiated food standards. Denmark, Belgium, France, Italy, Holland, Spain, and the U.K. currently allow irradiation of specific categories of food; however, Greece, Portugal, Luxembourg, Ireland, and Germany do not. Controversy recently arose over imports of irradiated egg products from Belgium into Germany. Food irradiation is used to eliminate potential microbiological contaminants, such as *salmonella* and *e coli*.

3.4 Packaging

Packaging and labelling are governed by national regulations; the European Commission, Parliament, and Council have consistently debated and proposed ideas, yet very little has been organized on a European scale. Harmonization of national labelling, packaging, and ingredient requirements that restrict internal trade are expected to contribute substantially to efficiency gains resulting from a

unified market. Simplification would greatly reduce costs for third country exporters. As of early 1993, industry participants acknowledge the confusion of the many standards caused by the continuation of internal trade barriers. Thus it will be important to continue to monitor developments over the next 12-24 months so that potential exporters are aware of critical decisions.

Packaging and Solid Waste Management Issues

In packaging, mounting environmental awareness by consumers and pressure from the European "Green" political parties have reinforced the national regulations and delayed European level agreement. European countries have some sort of environmental legislation, except for Greece, Portugal, and Spain. Because of potential trade problems, the EC has drafted a proposal, primarily based on the German model, establishing guidelines on packaging and waste disposal. However, at present, Europe is still a patchwork of conflicting regulations.

At this point, Germany's packaging laws are the most influential and stringent. As of January 1, 1993 all consumers will be able to return packaging materials to the sales outlet. Producers and distributors must assure that recycling or proper disposal is available. As part of the Waste Avoidance law, the Duales System Deutschland (DSD) was established to certify product packaging materials eligible for the "Green Point" system. All accepted materials will be identified by a green dot. Germany's targets are : 80 percent of all glass recycled by 1995, and 90 percent of the collected materials recycled. There is talk that a deposit on all disposable materials will be required if these goals are not met. The main idea is to only use packaging materials that either are recyclable or reusable. Also these regulations promote packaging design using only the volume and height needed to protect the product, and refilling whenever possible. The law places the burden on distributors to accept the return of transport or secondary packaging and to reuse or recycle the packaging independent of the public waste disposal system. This makes it increasingly difficult and costly for foreign producers/distributors. Soon commercial pressure may require distributors to assume this burden in the German market.

Furthermore, Denmark has prohibited the use of metal cans as packaging materials for beer or carbonated drinks. In the Netherlands, industry and government have agreed to reduce packaging waste to 10 percent below the 1986 level by the year 2000. France and the U.K. are currently discussing national standards, but some confusion currently exists.

The EC has established some goals concerning packaging and waste removal. Annual per capita output of packaging waste should not exceed the output in the year the law is passed. This will be achieved by a) using returnable packaging, b) eliminating unnecessary packaging, and c) reducing packaging weight. A minimum of 60 percent, by weight, of all packaging will be recycled, and landfills will be used for disposal as a last resort. Responsibility will be shared at all levels of distribution and consumption.

The national packaging restrictions pose a threat to the fundamental principles of the Common Market. They create barriers to free trade by favoring domestically produced products. For instance, Denmark protects the local breweries by erecting constraints to non-Danish beer producers. Similarly, in Germany, if the cost of the regulations becomes too high, other countries will limit exports. This becomes more significant when the exporter or distributor is not on the continent and can not easily arrange for recuperation of recyclable materials.

Like many other issues, packaging policy is challenging because the Commission is eager to develop stringent standards and at the same time satisfy its constituents. For instance, it is difficult to implement a rigorous system and also avoid trade barriers based on the current market practices. **If the German packaging laws are implemented on an EC scale, the southern countries would either suffer market share loss or face significant costs to meet new packaging requirements. The Community is faced with a decision on how to ensure an equitable sharing of responsibility and the costs of managing the problem.** In the meantime, national regulations prevail, and the debate continues in Brussels.

3.5 Transport

3.5.1 EC Transport Policy

Free movement of goods and services is one of the basic tenets of the EC Single Market. Thus far in 1993, some of the most visible gains in implementing the Single Market take the form of economies arising from the elimination of border control of goods on the transport. Nonetheless, although the EC Commission has been advocating an EC-wide transportation policy since 1987, this has proved difficult to achieve. There is a delicate balance to be struck between responsibilities of the member states and EC coordinating bodies.

The EC study group, known as the "Transport Group 2000", has proposed an "EC 1992 Transportation Program". It noted that the current level of

investment in transport infrastructure is inadequate to deal with the rapid growth in traffic likely to result from normal growth plus growth spurred by the Single Market. Most of the growth is in road traffic, while maritime shipping, rail, and barge traffic is stagnating. The result has been an increase in air pollution, inefficient energy use, and traffic congestion in urban areas.

One reason for this distortion, the Group notes, is that the poor quality of rail and inland waterways has encouraged greater road use. They report that the root of the problem is differences in state intervention in regulation of different modes of transportation (subsidies distort the market). The Group recommends a policy of both modernization and improvement and better utilization of existing facilities. Integration of transport modes (intermodality) is a good way to achieve the latter objective, and this will require transfer or interface facilities for truck/rail (piggy-backing), maritime/inland waterway transfer, and truck/rail/inland waterway transfers. The greater use of standardized containers is a necessary feature of intermodal shipping. Finally, there have been proposals, notably by the Dutch truck manufacturer DAF, to reduce urban congestion by constructing distribution centers outside major European cities, where cargo from long-haul trucks would be transferred to lighter, diesel-electric trucks for movement of goods to stores during the night hours with minimal air pollution (Financial Times).

While there is general agreement on the needs described above, finding a means to pay for it is more difficult. The Group has proposed a user energy tax of 0.01 ECU per BTU consumed, which would contribute to a transportation fund. The fund would supplement taxes collected by member states. Harmonization of these taxes is a controversial subject. For example, Germany suggests requiring all trucks which pass through its territory to purchase a special license, rather than impose more taxes on its citizens for road upkeep. This "burden sharing", Germany maintains, would compensate for the disproportionate share of European traffic which uses German highways (because of its central location).

The EC Commission's recent paper on a Common Transport Policy [10] lays out a comprehensive transport development program. "Liberalization" of the EC transportation market is a key feature of the plan. The EC believes that the costs of shipping can be reduced by 10 to 15 percent on a global basis, citing the U.S. liberalization as a model. One example of liberalization measures is "*cabotage*" -

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[10] "The Future Development of the Common Transport Policy: A Global Approach to the Construction of a Community Framework for Sustainable Mobility", Commission of the European Communities, Brussels, 2 December 1992.

- the freedom for a truck from one EC country to pick up and deliver goods in another EC country. This will be an on-going issue in negotiations during 1993. Agreement will necessitate harmonization of transport taxes or some other means to address tax differences among EC member countries.

3.5.2 Transporting Perishable Crops from the Mediterranean to the EC

Perishable fresh fruit and vegetables are currently shipped from Mediterranean countries to Europe by air, sea and by combined truck-sea (roll-on, roll-off) transport.

Reliable and low-cost transport links between Mediterranean countries and Europe are one key to expansion of exports from these countries. And other things being equal, proximity equals low cost. Morocco has had a clear advantage over all other Mediterranean countries in this respect and it is instructive to see how it has profited from this position. The experience of Egypt illustrates the opposite point -- how transport constraints can inhibit export growth.

Moroccan produce, mainly tomatoes and citrus, moves by sea (roll-on, roll-off refrigerated trucks) from ports at Casablanca, Tangier, and Agadir to Spanish ports at Cadiz and Algeciras, and to the French port of Perpignan. Transit time is short and from these ports, trucks serve southern Europe and sometimes go all the way to northern Europe. However, most shipments to northern Europe, including the UK, move on refrigerated ships (on conventional pallets) to such ports as Le Havre, Rotterdam, Portsmouth and Southhampton. In the south, the deep water port of Marseilles is expected to see more use, as the monopoly of the CGT (longshoreman's union) was broken in 1993. As the elimination of border controls eases cross-border shipments, and reduces transit times, exporters from North Africa will need to re-examine the economics of transportation to specific European markets.

None of the Near East countries have yet to fully profit from their proximity to Europe. Several cash examples provide useful insight. For example, Moroccan shipping costs are higher than they should be as they are controlled by the state company COMANAV. The same is true of air shipment by Royal Air Maroc, though relatively little produce moves by air to Europe.

Egypt ships higher value crops such as strawberries, asparagus and fresh garlic by air to Europe, though only small volumes are involved. Importers in the UK, who are the main buyers of Egyptian produce, state that the cost of air

transport from Egypt is going up and it is becoming less attractive to deal in this way. One reason is that the devaluation of the Egyptian pound has reduced the volume of imports and reduced back-haul air cargo traffic. The use of refrigerated ships moving from Alexandria to southern or northern European ports would be the logical lower-cost alternative. Currently only potatoes, which do not require refrigeration, move to Europe by sea. Importers report that there are two reasons why this is not happening. One is the lack of modern port facilities, including handling of refrigerated containers, and the other is the lack of interest by shipping companies in calling at the port due to lack of demand, and traditional difficulties such as reported corruption and congestion.

The Single Market is already having a limited direct effect on transportation of Mediterranean products, as free movement across internal EC borders reduces transit times. Indirectly, though, increased inter-European trade within the EC is leading to much greater use of high capacity trucks. This in turn favors the use of inter-modal transport, such as roll-on roll-off ships and piggy-back truck/rail transport.

3.5.3 Future Transportation Issues

While free movement of goods and services is fundamental to the EC Single Market Program, there remain problems in its practical application. A transportation policy, including rail, road, canal, and maritime modes is an essential complement to the legislation of free movement of goods and people. For instance, quota systems are still used when filling a truck for a return trip through Europe. 20 percent of trucking mileage is estimated to be running empty because of national restrictions. If more efficient use were made of the existing trucks, transport costs would fall, and pollution and congestion problems would be eased.

Since 1987, the EC Commission has been advocating an EC level transportation policy to assist in opening up markets and eliminating factors which distort competition between carriers. However, these plans have had little impact on the infrastructure itself to date. New demands on transportation will develop with increased trade with central and eastern Europe.

There is a delicate balance between national responsibilities and EC level coordination. The community will for the most part recognize the principle of *subsidiarity,* meaning that some EC legislation is subordinate to national, regional, and local legislation.

Based on the recommendations of the transport Group 2000, the Commission and Council advocate the following measures

- incentives to combine transport of goods with several forms of transportation over the same distance;
- development of a European infrastructure network, i.e., high speed rail;
- better use of existing infrastructure (development of cabotage, international road transport, air traffic control);
- financing of transport by those who use it (excise duties on fuel, and a road tax for the transport of goods by road)
- adoption of a three year program to prioritize initiatives.

Liberalization of the EC market will create more competition among transport companies, improve and expedite services by manufacturers and distributors, and is expected to reduce shipping costs to customers by 10 - 15 percent.

Legislation has already emerged which harmonizes vehicle safety and common operating standards.

There are also plans for a European wide high speed rail network. This would reduce travel times by roughly 50 percent and bring economic benefits by creating employment and boosting the EC's export capacities in a field where export technology is already highly advanced.

3.6 Commercial Services, Banking and Financial Services

With the elimination of border controls on the movement of most goods and services, on January 1, 1993, the role of freight forwarders within the EC has been sharply reduced. At the same time, reduced border controls mean that responsibility for completion of paperwork for documenting trade flows and collection of value-added taxes (VAT) has been shifted to the individual exporting companies. Recognizing the reduced demand for their services, some freight forwarders have shifted to other activities, such as collecting data on freight movements for the EC.

The Single Market is also intended to free capital flows, and eventually lead to a single European currency. Value-added taxes, which vary considerably among EC member countries, are also to be gradually harmonized, with the VAT paid only at the goods final destination.

Increased harmonization in banking and financial services can only facilitate and improve trade relationships between the EC and the NE. While the achievement of complete monetary union by 2000, as outlined in the Maastricht treaty, is somewhat unlikely, other issues such as the special exchange rates, free flow of capital and VAT harmonization are important to NE trade and are receiving attention.

The Single Market development with the most impact thus far is the free movement of capital throughout the EC 12. Banks, insurance groups, and lending institutions will be able to operate throughout the EC without a required presence in each country. For exporters and distributors of NE products, this will greatly reduce costs as one central operation can be established to service the entire EC market. This is evident in the dramatic increase of joint ventures and acquisitions in the financial services industry in the EC over the past two years.

Convergence of VAT rates will affect NE/EC trade; however, many national governments are reluctant to relinquish the right of taxation to European bureaucrats. Fiscal disputes about taxation are by nature contentious issues because they reflect differences in economic and social philosophy. They also can be perceived as limiting national sovereignty and discretionary policy making. Accordingly, decisions related to taxation continue to require unanimity. The EC is working towards convergence of the VAT rates to discourage excessive cross-border shopping; however, the gap remains relatively significant. Germany, Spain, and Luxembourg maintain the lowest rate of 15 percent while Denmark has the highest at 25 percent. The VAT is supposed to be paid in the country in which goods are ultimately consumed. However, the removal of border controls makes it more difficult to make this work and to avoid fraud and tax avoidance. Despite the Single Market, Denmark has instituted strong controls to try to limit its loss of tax revenues.

Financial integration is progressing at a slow pace, but when achieved, there will be many benefits for the NE traders. Efficiency and the reduced costs alone will be significant.

The currency crisis of October 1992 raises doubts on the feasibility of monetary union by the year 2000. If the Maastricht Agreement is implemented, the EC 12 will slowly converge in the areas of exchange rate parity, inflation rates, and percentage debt/GDP. All those countries and currencies within a certain band of the strongest EC currency are to enter the preliminary stages of monetary union in 1997.

All EC currencies are currently members of the European Monetary System which was created following several currencies crisis in the early 70's; eight of the 12 countries are also members of the Exchange Rate Mechanism (ERM) of the EMS which essentially forces currencies to remain within either the narrow band of 2.25 percent of the strongest currency (applies to Ireland, Netherlands, Belgium, Germany, Denmark, and France) or within a wider band of 6 percent (applies to Spain and Portugal). Triggered by the severe recession, the currency crisis in early October 1992 forced England and Italy to withdraw from the ERM and devalue their currencies. Membership within the ERM is required for advancement to monetary union.

Germany's unification costs have put increasing pressure on the strength of the Mark, which has acted as the unquestioned anchor of the ERM and EMS. Furthermore, the ECU is a basket of all EC currencies yet to date very few actual transactions are completed in ECUs.

The "green rates" in the agrimonetary system of the Common Agricultural Policy present another policy challenge to the EC Single Market Program. Within the ERM/EMS, there are additional exchange rates, the green rates, specifically for agricultural trade. Thus, while agricultural prices are set at a single level in ECU, as a result of green rates, support prices differ among EC countries. These differences are offset by Monetary Compensatory Amounts (MCA's) in the form of border taxes or subsidies. However, with the elimination of border checks of the Single Market, this program cannot operate effectively. The elimination of the agrimonetary system would ensure price decreases in some countries, notably Germany, Netherlands, and Belgium, and price increases in countries such as Greece and the UK.

Monetary Union and a single currency would phase out these payments over time but some form of agri-monetary policy is necessary for the interim. Furthermore, the Single Market calls national quotas and farm support from national treasuries into question.

3.7 Quality Assurance and ISO 9000 Standards

Quality Assurance is becoming one of the most important issues in international competitiveness for firms in a wide range of industries. As NE exporters seek to meet the requirements of European customers, attention to quality assurance will be critical. Originally a set of U.K. standards, since adopted as a model for the entire EC, ISO 9000 is gaining in importance. ISO 9000 is the most comprehensive standard for quality assurance from product design through customer servicing. All industries are covered by ISO 9000 except for electrical goods manufacturers and electronic engineering. While it is primarily used in the EC, there is increasing commercial pressure to implement the system as a universal framework of quality.

ISO 9000 is becoming a tool to open foreign markets. In June 1991, the EC formally adopted ISO 9000 as its quality standard via the European Norm (EN 29000), and the negotiations of the EEA with the EFTA countries will further extend the standards. Certification is being used by Eastern European and third world countries to gain the confidence of European customers and to gain EC market access. Since ISO implementation is not mandatory or widespread, registration is being used as an effective international marketing tool. Although awareness is growing, U.S. companies have not yet embraced the concept. Only 450 firms in the U.S. have instituted the ISO program; the majority are chemical companies with only one or two food companies nearing certification.

Currently, the driving competitive force for ISO 9000 comes from the export trade opportunities rather than domestic safety pressures. As non-price factors become increasingly important in export competition in value-added foods and other agricultural products, the adoption of ISO 9000 becomes more valuable as a distinguishing characteristic.

In addressing quality as part of production processes, rather than only as a post-production regulatory issue, ISO certification has the potential to reduce regulatory burdens and improve market access. A universal quality framework would place the burden to guarantee safety and quality on the producer instead of the importing country, and consequently reduce the time-consuming regulatory process. Furthermore, since countries in Europe and many other regions use health and safety standards as a means to restrict market access, an internationally harmonized system would effectively eliminate the grounds for the unfair trade barriers.

Although ISO 9000 does not define product quality, it does identify the basic disciplines and criteria necessary to ensure that the final product meets the purchasers' requirements. The International Standards Organization is a non-governmental global federation of national standards setting bodies; currently 91 countries are represented. American National Standards Institute (ANSI) is the American representative. Over 52 countries, including the U.S., use ISO 9000 as national standards.

Adopted from existing British standards in 1987, ISO 9000 is a set of five global standards; each standard described below is broken down into approximately 20 additional sections.

ISO 9000 Provides an overview, concepts, and guidelines for selecting and using standards.

ISO 9001 An external quality assurance standard to assure contractual conformity over the total spectrum of production, design, development, installation, and servicing of manufactured and support activities.

ISO 9002 An additional external quality assurance program when only production and installation needs to be monitored. This is thus far the most popular of the standards.

ISO 9003 A less restrictive external quality assurance standard which requires conformance only to final test and inspection standards.

ISO 9004 An internal quality management program which helps companies to better understand the interplay between the technical and managerial elements involved in guaranteeing quality products.

A year or longer of preparation is required for ISO 9000 certification. This process is costly and involves a thorough third party audit including the following steps: scope definition, information and document gathering, internal assessment, conformance plan and action, implementation, external assessment and correction, and finally ISO audit and certification. Following certification, spot checks are conducted every six months and a full audit is required every three years. The principles of the standards are applicable whether the company employs 10 or

10,000 people, and have been described as "simply common sense" written in an organized way.

ISO 9000 is a quality management program (not exclusively a safety program), but its implementation catches potential problems before they erupt into serious issues. As quality will be a critical issue affecting the future competitiveness of exports, attention to the implications of quality management, and AID support for its development, will be valuable.

More than 13,000 firms in the UK have instituted the ISO 9000 program, compared with 450 in the U.S. This number will increase when competitive pressure requires it; such pressures are currently present in Europe. ISO 9000 is compatible with Hazard Analysis Critical Control Point (HACCP) programs.

While the number of companies implementing full blown ISO 9000 programs is relatively limited, the development of Total Quality Management (TQM) programs, including customer satisfaction measurement and quality control programs such as HACCP is gaining momentum. As Near East exporters consider ways to meet the challenge of EC markets, increased emphasis on quality assurance, perhaps with AID support, can contribute to addressing one of the key competitive constraints faced by many NE exporters.

4. Commodity and Product Specific Issues and the Single European Market

The previous chapter presented an overview of impacts of the Single European Market on export opportunities from a functional perspective. This chapter highlights commodity and product specific impacts of the Single Market Program. Fruits and vegetables, processed foods, seafood, and cut flowers are examined. Findings are based on personal and telephone interviews with more than 80 trade contacts throughout the EC. Individual sections include discussion on major market trends, market access and distribution issues in major markets, and competition. Potential implications of NE export development for income and employment growth in NE countries and market opportunities and competition for U.S. agriculture and agribusiness are also examined briefly.

4.1 Fresh Fruit and Vegetables

4.1.1 Major Market Trends

European consumers appreciate fresh produce, and with the Single Market reducing transit times among EC countries, NE exporters will have the opportunity to serve larger markets with a growing array of fresh fruits and vegetables. Major European produce importers and marketers like Pomona are urging their customers to increase profit margins by improving management and merchandising to better respond to consumer priorities. According to a consumer survey in Nantes, France by "*Les Marchés Magazine*," the supermarket produce department was second only to the meat department in attraction of customers. Freshness of products, assortment and quality were all reported as keys to increasing sales and profits.

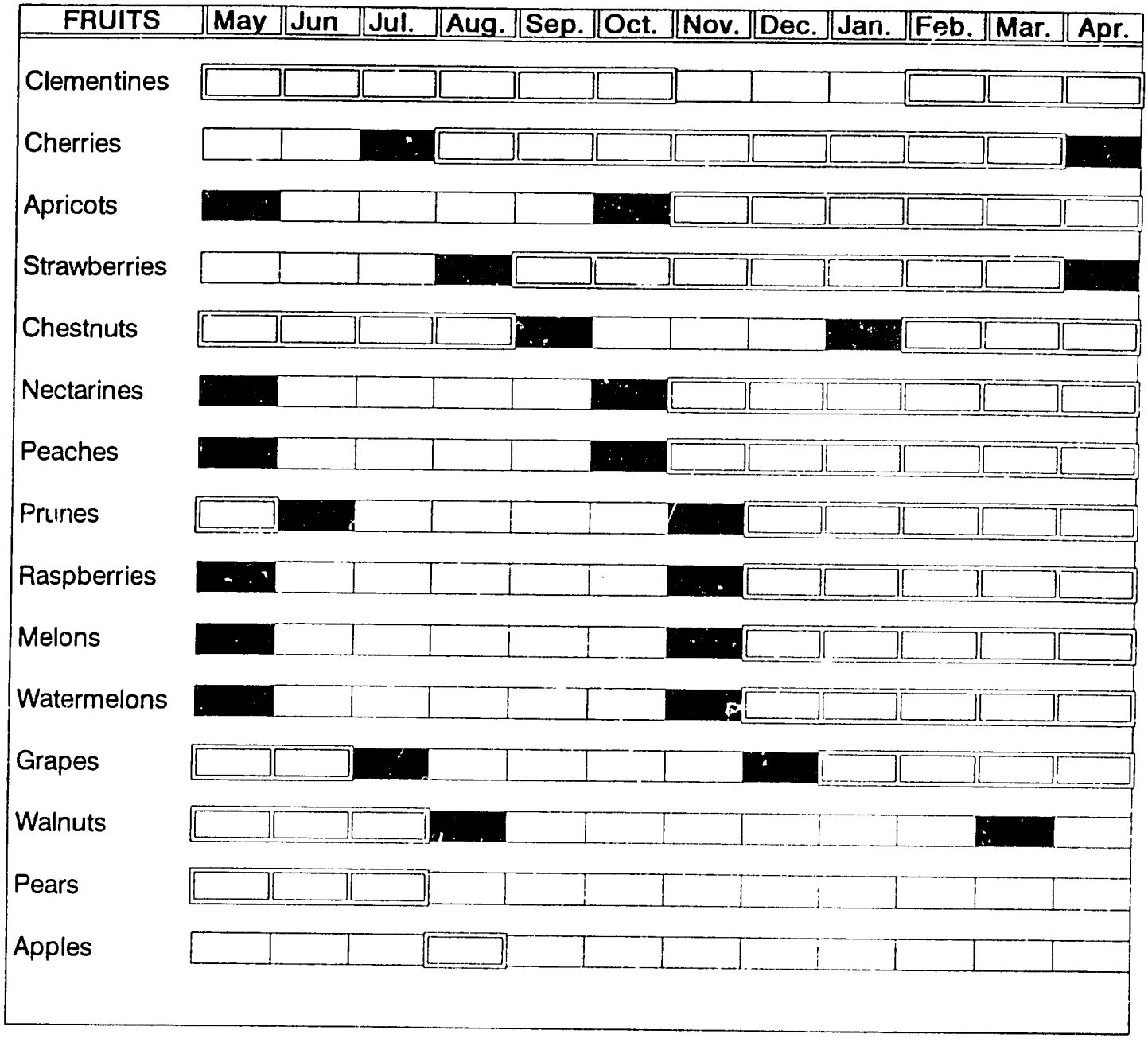
One key to the potential success of Near Eastern and North African exporters will be an understanding of the seasonal market niches which offer special opportunities. While the climatic difference between the EC and Morocco, Tunisia, Egypt and Jordan will not permit them to exploit the counterseasonal opportunities the way producers in the southern hemisphere can, an extended growing season and economical greenhouse production are already being exploited by certain producers in each of these countries.

The off-season market windows for some traditional exports like tomatoes and some citrus are being made smaller as technologies, varieties and the expansion of the EC place NE supplies in increasingly direct competition with production from Southern Europe. Nonetheless, there are still opportunities for early and late season and off-season production of a number of traditional fruits and vegetables, as well as numerous exotics, for which niche market opportunities are growing. Off-season market windows for a number of products are shown in figure 4.1 and figure 4.2.

New market opportunities will lead to initiatives by entrepreneurs, some with USAID support. In evaluating the feasibility of several projects, special attention should be directed to trends in European production, and developments in off-season production in similar climatic zones around the world, as well as the southern hemisphere. While it is not possible to avoid all competition in an increasingly global economy, it is important that USAID support activities be sufficiently coordinated so as to avoid unintentionally supporting the development of competing suppliers that will glut limited niche markets for exotics and fail. That said, the successful experience of kiwi fruit producers clearly demonstrates that it is possible to develop strong new markets for specialty products, with outlets for production from different climatic zones to provide year-round supplies.

One industry source in Holland, noting the increasing market demand for year-round availability of vegetables, as has already occurred in the U.S., indicated that export promotion efforts in Mediterranean countries should be directed at new export crops which would find winter markets in Europe. Examples he mentioned were sweet corn, strawberries, green beans, and melons. Tomato production should be discouraged, the source indicated, to avoid competition with the European industry and a glutted market as was the case during the 1993 off-season.

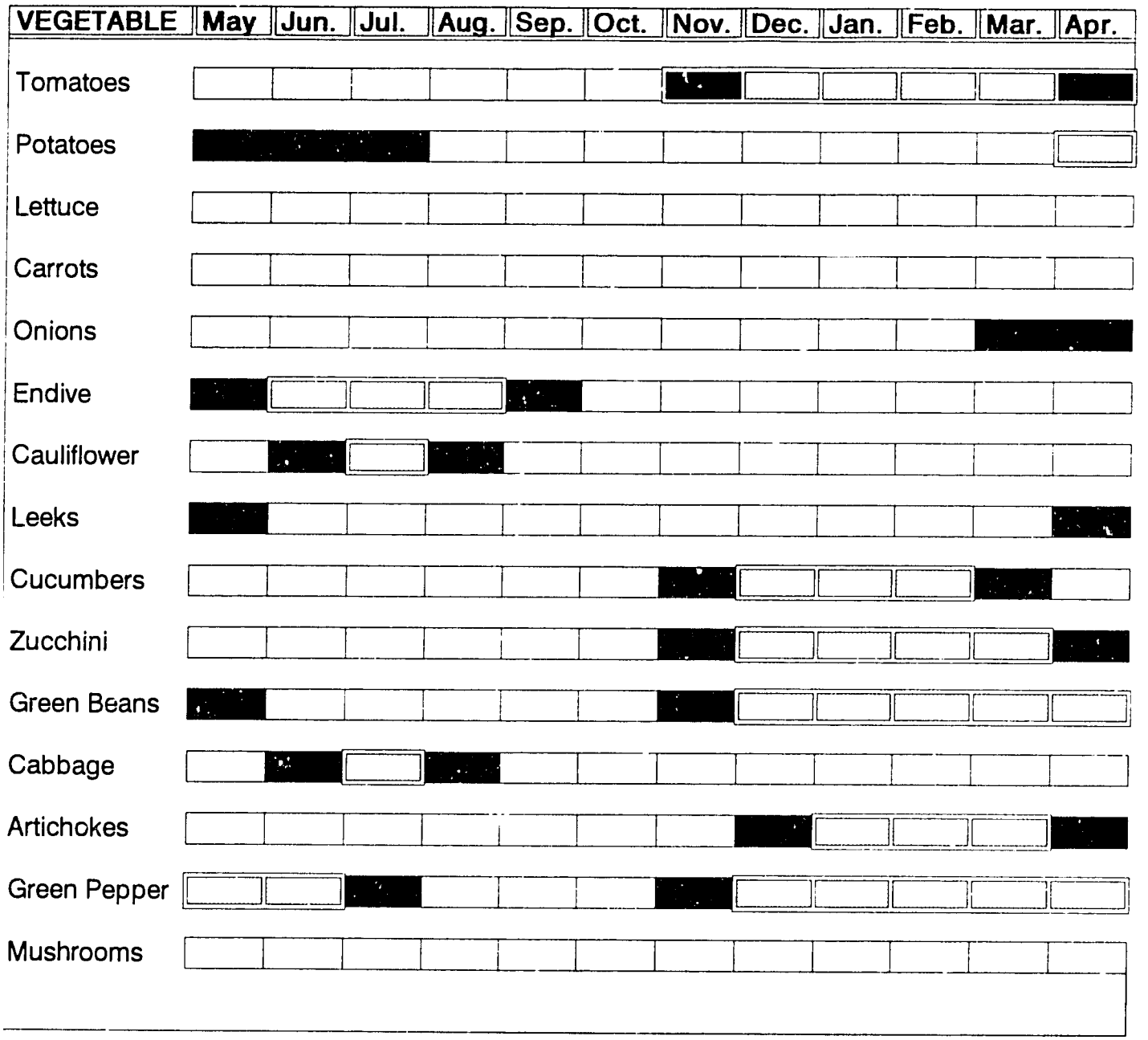
FIGURE 4.1
THE EC SEASONAL FRUIT MARKET



EC Production Season
Counter Season
Early/late Season

Source: Semmaris/Abt Associates Inc.

FIGURE 4.2
THE EC SEASONAL VEGETABLE MARKET



EC Production Season
Counter Season
Early late Season

Source: Semmaris/Abt Associates Inc.

A French grower's cooperative, which supplements its product line with off-season imports, said they would be interested in small quantities of squash, leeks, and melons. There was no interest in lettuce -- they can get all they need in the winter from open field production in southern Spain.

4.1.2 NE Country Export Trends

Interviews with European importers indicate that there is significant interest in receiving a wider range of quality products from NE suppliers. As a result of major strides by a number of Moroccan suppliers, many in the European produce industry are convinced that others in North Africa and the Near East have the potential to exploit growing European market opportunities. Major challenges facing the industries in all countries are to develop and maintain consistent supplies and product quality, and be responsive to the changing requirements of their European customers. Another is to take advantage of the Single Market to expand sales throughout Europe, rather than only in the traditional French market for Morocco and Tunisia, and the United Kingdom for Egypt.

Morocco is by far the largest exporter of fresh produce to the EC among the four countries examined. France retains its traditional commercial links to Morocco, accounting for 90 to 95 percent of the tomatoes (valued at $138 million in 1991), potatoes ($56 million) and sweet peppers exported by Morocco. Only in the case of citrus, specialty clementines ($84 million) and blood oranges, as well as valencias ($132 million), has Morocco managed to diversify its markets -- roughly half of its orange and clementine exports go to other EC member countries.

A similar situation exists with respect to Tunisia. France takes 98-99 percent of Tunisia's potato and orange exports, though quantities are much smaller than Morocco. At $49 million in 1991, dates are Tunisia's premier export to the EC in the fruit and vegetable category, and here Tunisia's markets are diversified, France taking half the total and Italy most of the remainder.

Egypt exported $59 million in potatoes to the EC in 1991, of which 88 percent goes to the UK with its traditional commercial links with Egypt. Dutch importers have been shipping green beans by air from Egypt for some years; 83 percent of Egypt's $6.6 million in bean exports go to the Netherlands.

Jordan has had some success exporting sweet peppers ($1.3 million), other peppers ($680,000), green beans ($1.1 million), cucumbers ($340,000) and eggplant ($226,000) to EC countries but quantities are small.

4.1.3 Competitiveness of NE Suppliers

Importers' reported views on Moroccan produce were generally very positive. A frequently expressed opinion is that "Morocco has its act together". Tomato quality is reported to be the equal of Dutch product, and oranges and melons were reported as good as Spanish. This comment applies to both quality and packaging. Improvement is a recent phenomenon and is generally attributed to market forces and technology transfer from France through joint ventures with Moroccan producers and packers. Political stability and a competent work force were reported as other contributing factors. In the opinion of one French importer, Morocco will eventually replace Spain as the principal supplier of products such as tomatoes and citrus. "Sons of Spanish farmers want to be bankers, not farmers", he said. The future of seasonal access to the EC market will play a key role in determining the likelihood of this development. Achievement of a GATT agreement with gradual increases in market access could accelerate this process.

The only negative comment from importers was that Moroccan exporters should be more responsive to market requirements, as communicated by EC importers. For example, importers reported reluctance to move from the traditional wooden crates for oranges to the cardboard cartons preferred by retailers.

Tomato exports have enjoyed the most rapid growth in the past few years, but the European market is saturated, and there is strong opposition from Dutch and Belgian greenhouse growers to increased Moroccan product entering the market in March and April. A produce cooperative in France was equally concerned, claiming that Moroccan imports exceeded tariff quotas and nothing was done about it. (The implication is that countervailing duties were not applied, but this is unconfirmed.) Spanish producers directly compete with Morocco during the winter months and they are reportedly seeking protection from Moroccan exports through the EC. They note that the reference price system does not help them; European market prices are low due to oversupply and this means that the reference price is also low.

French tomato growers continue to blame the Moroccan tomato growers for the collapse in prices; however, the French Fruit and Vegetable Federation cites the Spanish growers as the culprit. The Moroccans have reduced their quantities for export by 25 percent. The Spanish are also hit by Moroccan competition. Trade sources report that Spanish tomatoes will always be more competitive than the French tomatoes produced "under glass." In any event, countervailing duties applied to Moroccan exports beginning in early April 1993 eliminated Moroccan tomatoes from the market in short order (AgraEurope). This underscores the potential impact of trade barriers on market access for exports.

As for specialty citrus and oranges, the outlook for Morocco is for a stable seasonal market. Importers like to have access to both Moroccan and Israeli suppliers to avoid over-dependence on one supply source. In the view of one importer, Morocco has a cost advantage and fewer weather problems than Israel. Moroccan clementines have a dominant position in the market and that seems likely to continue.

The trade reported mixed views on the value of the "Maroc" label. Several wholesalers indicated that with the move toward private exporter development, the umbrella "Maroc" label, which was once quite successful, has in many cases given way to independent packing house labels. Importers reported that the "Maroc" label is not being promoted vigorously, as it once was before the OCE monopoly was broken, so that it is not seen as offering a marketing advantage. This issue merits further attention, as the development of a label that establishes a regional identity and attests to certain quality standards has proven successful for suppliers in a number of markets and may be important to maintaining the improved market image from which Moroccan produce currently benefits.

In contrast to Moroccan suppliers, Egyptian produce has not yet developed a quality image, though one importer said he had noticed some improvement recently. One of the two varieties of imported oranges is reportedly suitable only for juice processing. Green beans packed in the field by small farmers are said to suffer from quality and presentation that do not measure up to beans imported from Kenya. Substantial quantities of artichokes were being sold on the French market. Most were packed in cartons originally labelled for green beans. Fresh garlic was being sold in Paris, air-shipped from Cairo.

Egypt formerly exported large amounts of produce to the Middle East and the former Eastern Bloc, but Mid-Eastern countries have now increased their own production, forcing Egypt to look more toward European markets. The Gulf War

has also had an effect on exports. Markets in the former Soviet Union and Eastern Bloc are constrained by availability of foreign currency.

Packaging quality is not good and this problem illustrates the effect of the Egypt's current economic difficulties. Trade sources said that the recent devaluation of the Egyptian pound has made imports more expensive in local currency terms and virtually halted imports of packaging materials from Europe and Cyprus. Two local Cairo manufacturers can supply only corrugated boxes, which do not stand up well.

Another effect of the economic problems has been to increase the cost of air shipment, upon which Egypt relies for all shipments other than potatoes (mostly grapes, beans, and squash). Because the cost of imported goods has increased, imports from Europe are reduced and this means that air cargo operators have difficulty arranging profitable back-hauls. The system continues to function, however, for the higher value crops. One large UK importer reports as "very successful" his regular imports by air of strawberries and asparagus.

Several importers felt that Egypt had a huge potential to increase produce exports if post-harvest handling and transport could be improved. One UK trade association official referred to Egypt as a "sleeping giant." Several key obstacles to doing business in Egypt were mentioned by importers. A French company said that Egypt was an "interesting country but very difficult to work in." Problems in dealing with the government bureaucracy were cited by several importers. The lack of regular ship movements between Egypt and Europe is also hindering development of export markets. Some thought it was a "chicken and egg" situation, since growers and shippers won't invest unless shipping is improved, and shipping companies won't call because there isn't enough product to make it worthwhile.

Foreign investment accompanied by technology transfer, which was the key to Morocco's success, would improve Egypt's competitive position. Transportation problems have to be solved. Modern port facilities are needed, and shipping line operators have to be induced to schedule regular sailings. The cost of air shipment would also have to be brought down if Egypt is to increase exports of higher value crops.

While Tunisia is known for its *deglet noor* dates and maltese or blood oranges, it is relatively unknown as a supplier of other fresh produce. While some Tunisian products encountered in France were relatively well packaged, product

quality was somewhat inconsistent. One British importer reporting some seasonal imports of oranges and dates from Tunisia, he commented that packaging was often poor.

Jordan, too, is a relatively unknown supplier of fresh produce in the overall EC market. Prior to the Gulf War, the EC was an insignificant market for Jordanian produce. The growing relative importance of the EC to Jordan has really been the result of loss of other markets, rather than increased exports.

For Egypt, Tunisia and Jordan, the challenge in developing markets for other fresh produce will be to develop quality products and packaging and an image to go with it. Morocco, too, will need to maintain and further develop its emerging image as a quality supplier.

4.1.4 Importer Operating Procedures

All imports from the Mediterranean are on a consignment basis, although some importers offer the seller a guaranteed minimum return on each shipment. UK importers take a commission (typically in the 5 percent to 8 percent range) on the delivered ("*ex quai*") price, which is usually Portsmouth or Southhampton, though it may be also be a Northern European port such as Rotterdam. The importer also deducts from the sale price all in-country (or cross-channel) shipping, handling, and storage costs and remits the balance to the exporter. According to the Director of a UK importer's association, wholesalers are said to take another 8 percent, and with 4 percent for internal transport and handling, the total markup from port of entry to retail is about 20 percent.

The main effect of the EC Single Market has been to reduce the importance of freight forwarders for movement of goods within the EC. The need for shipping documents has been greatly reduced for these intra-EC shipments, but not for shipments entering the EC from third countries. Many freight forwarders are making a living by compiling statistics on freight movements for the EC, a requirement imposed on importers and paid for by them.

4.1.5 Phytosanitary controls

The EC has not been able to achieve complete harmonization in phytosanitary regulations among member countries. In the case of pesticide residues, EC action to date has led to the establishment of two categories of pesticides -- one for the more common products which meet maximum residue

(MRL) standards in all EC countries, and a second for less common products which are not acceptable in some countries. UK procedures for checking on pesticide residues, the most stringent in the EC, require laboratory testing over three years, followed by monitoring in use over another two years.

New EC regulations, scheduled to go into effect on 1 July 1993, call for inspection of fresh produce either on arrival at an EC port of entry or prior to departure by EC-approved inspection or quality control agencies in the country of origin. Some 60 countries around the world are said to have applied for pre-clearance authorization. The Moroccan agency EAPPRE has already been authorized. One knowledgeable UK importer, while fully supportive of the plan, felt that there would be delays in implementing the new policy.

4.1.6 Packaging

Germany is leading the way with packaging standards, and expected to provide the model for the rest of the EC. Within the country, the use of wooden crates is prohibited. Plastic containers are approved if they can be recycled or incinerated without damaging the environment, and require payment of a 1 pfennig (roughly U.S. $ .02) deposit by users. Exporters may continue to use wooden crates, for which there is a separate regulation.

At the EC level, a proposal has been put forward to adopt the German system for the entire EC. This is a controversial subject since it would require a large investment in re-usable containers by traders. A plastic crate pooling system has recently been introduced in Germany, Belgium and Holland, and experience with this system will probably be influential in guiding future EC policy. Most traders object not only to the extra cost, but also because plastic containers do not permit brand labels to be applied.

No packaging standards have yet been proposed for EC exports and imports. As to containers, wooden boxes and cardboard cartons continue to be used rather than plastic containers. The use of returnable or re-usable containers from foreign markets is not considered feasible by many in the trade, but this issue merits on-going monitoring. USAID support for export development activities will have to consider how different environmental requirements in potential markets affect the competitive position of NE suppliers.

The views of importers on the packaging of Moroccan, Tunisian and Egyptian produce have already been noted. The success of Moroccan produce

relative to that of Egypt well illustrates the importance of presentation of the product in attractive and durable containers. Typically, investments in packing equipment accompanied by improved sorting and grading equipment, so quality and packaging are closely linked.

4.1.7 EC Produce Trade Views on the Single Market

The overall view of the trade is that Europe has been a single market for fresh produce, in terms of growing intra-community trade and that the reduction of barriers that accompany the "Single Market" program, and gradual elimination of physical barriers and differing standards will further ease sales throughout the EC.

The produce trade is undergoing some structural change as some of the larger produce firms expand across the Community. Likewise, a number of "Euro-skeptics" in the UK reported frustration at the ability of politicians in Brussels (the EC headquarters) to use the differing interests and positions of producers, importers, distributors and retailers in individual countries to let trade groups in other countries, like France, who are more organized, determine EC policy. One result is that the UK industry has established an organization, the Fresh Produce Consortium, aimed at bringing the different industry groups together. This group, together with other independent organizations will communicate with the European Produce Industry Associations in Brussels (EUCAFEL and CIMO). As NE countries develop trade associations directed at promotion of exports and market development, they should coordinate at different stages in the marketing process in their own countries and establish contacts with their European counterparts. Although many will be concerned with them as competitors, the reality is that success in development of production and marketing of quality products will require some sort of partnership of development with the European industry. The same should be pursued with U.S. industry. Partnership may take the form of importer/distributor arrangements, purchase of technology and marketing know-how, joint ventures, or direct investments.

The future of trade barriers remains an important issue for an industry where the ability to supply consumers with attractively priced products is critical to profitability. Creation of the Single Market will have advantages for exporters in terms of gradual harmonization of import requirements across the EC. However, those interviewed pointed to the resolution of market access issues in the Uruguay Round of GATT negotiations, now in their seventh year, as important to a boom in import demand.

Several importers and trade association officials indicated that they feel that the Single Market is potentially a good thing, but that EC intervention in markets is excessive and counterproductive. An example cited was a regulation recently introduced to control apple imports by imposing quotas and requiring importers to obtain licenses and post deposits which are forfeited if less than 90 percent of the licensed amount is actually imported. Importers fear that the system, designed to protect (primarily French) apple producers during a time of market oversupply, could be extended to other products.

While the UK already has a potato marketing scheme, there is a proposal under discussion for an EC-wide potato regime which would establish floor prices below which governments would purchase and dispose of product.

UK importers interviewed were particularly disturbed by EC market intervention. Some claimed that the UK's negative trade balance with the rest of the world could be improved, if price support schemes did not limit production of some items which the UK could export. Likewise, importers say that they could import some products more cheaply from non-EC countries were it not for EC trade barriers. One importer stated that he could import Mexican lettuce at certain times of the year more cheaply than he could obtain it on the continent.

A Dutch importer, who deals in Egyptian produce and ships to other EC member countries, says that the advent of the Single Market has not improved things for him. The same documentation for intra-EC shipments is required, he maintains, but the situation as regards recovery of VAT has become more complicated. The buyer now pays the VAT in the country of destination, but if for some reason it is not paid, a levy is assessed against the value of the goods. This complicates matters for the shipper since additional paperwork is required. The same importer believes that there are fraudulent practices with regard to the payment of EC export subsidies. This has been an on-going issue within the community.

4.1.8 Foreign investment and technology transfer

The importance of new technology and investment was highlighted in the discussion above of the potential for expansion of Egyptian produce exports. In this connection, Morocco has recently benefitted from French-Moroccan joint ventures in modern packing house equipment which also assured market outlets for the product. Traditional Egypt-UK links, while not as strong as those between France and Morocco, might be expected to produce similar joint operations, to the

profit of both parties. British importers and traders, asked why this was not happening, cited the Egyptian government bureaucracy as a major obstacle to setting up a business there. An importer told us that he could not find an Egyptian investor who was prepared to go into production of quality packaging materials. On the other hand, there were reports of a Japanese company which has a produce growing/packing operation which successfully exports produce to Japan. It would be interesting to learn how this was done.

Several Dutch importers were asked why they fear Moroccan exports so much. The response was that the French are too well entrenched there, and that there would be a language problem. However, the Dutch are sufficiently concerned to have sent a delegation to Morocco under the auspices of the Auction Bureau (CBT) to become more familiar with Moroccan tomato production. The delegation took particular note of the fact that new Israeli long shelf-life tomato varieties were being introduced, a further threat to Dutch markets.

4.1.9 Implications for Income, Employment and U.S. Exports

Fresh produce export development by the NE countries presents the opportunity to develop significant multiplier effects throughout the individual country economies. Successful market development will also require substantial investments in infrastructure in order to get individual projects established and running, and to make them cost competitive in shipping products to the EC and other markets.

A recent Abt Associates analysis of the contribution of agribusiness to income and employment in the major NE countries demonstrated that agribusiness plays a major role in national income, ranging from 21 percent in Jordan to 48 percent in Morocco (Ismael Ouedraogo, Mark Newman and Rosemary Hyson, 1993). Construction of irrigation systems, greenhouses, packing sheds, refrigeration facilities will be required, as will purchases of fertilizer and agricultural chemicals, farm machinery, packing equipment and supplies, transport vehicles and other local and imported products in order for NE countries to successfully develop fresh produce exports.

The European Community Investment Partners Program (ECIP) has been established by the EC to help European business take part in these market opportunities through creation of joint ventures in the Mediterranean. **ECIP will pay up to 50 percent of the cost, or $125,000 as a grant to professional associations, chambers of commerce and financial institutions to help identify and screen potential joint venture projects and partners.** ECIP will also provide up to $1.25 million per project in a combination of loans, grants and equity holdings to support operations prior to launching a joint venture, financing of capital requirements, human resource development and management assistance.

The U.S. Congress, through Section 599 of the Foreign Assistance Act of 1992, has clearly indicated a concern with knowing that U.S. foreign assistance does not result in the export of U.S. jobs. The Bumpers Amendment prohibits the development of substantial competition or injury for U.S. exports with foreign assistance[11].

In the case of the NE countries' potential exports, the opportunities for attracting U.S. business into partnerships with NE agribusiness can be expected to generally complement the limited U.S. exports of fresh produce to the EC. As

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[11] Originally Sec. 209 P.L. 99-349 of 1986

was indicated in the first phase report, the U.S. is not generally a competitor in the seasonal market windows which are currently supplied by NE fresh produce. Joint ventures in some cases might contribute to the competitiveness of U.S. firms in Europe, allowing the season to be extended through sales of produce from both the U.S. and the NE partners.

Furthermore, and equally important, the existence of EC support programs like EPIC means that in the absence of some sort of U.S. program aimed at attracting U.S. partners, the future of NE exports to Europe will benefit European companies and result in the sale of European goods rather than American goods. As with the NAFTA in the U.S., Europe's fear of massive migration from its southern neighbors is likely to contribute to ongoing pressure to support business investments that will create jobs and increase income in NE countries. U.S. participation and support will not only provide NE exporters with access to important technology and management and marketing expertise, it will help to develop relations that will lead to growing export markets for U.S. products.

4.2 Processed Food Products and Beverages

The European Community is a growing market for processed food products, including fruits and vegetables, olive oil and wine from NE countries. Overall, the market for processed food products in Europe is relatively unexploited by NE exporters. As processing offers the opportunity to add value to raw agricultural products, create employment and complement the development of markets for fresh products, it is an attractive area for support by USAID funded agribusiness projects. In many cases, such support will be necessary to help U.S. business match the support provided to European businesses in getting involved in the development of joint ventures and investments that will create markets for U.S. technology, equipment, and supplies. Such ventures can be complementary with U.S. export interests as they permit U.S. firms to become more attractive suppliers of fuller product lines and over longer production seasons, making them more competitive in European markets as well.

4.2.1 Major Market Trends

4.2.1.1 Demand Growth

A number of trends are important in influencing future market opportunities in the EC. While barriers to the movement of goods are coming down across Europe, national and regional differences will continue to influence product choices and market opportunities, and positioning requirements. For example, "light" low calorie/ low fat products appear to be gaining favor across Europe, but there are important national differences with 10 percent annual growth in France, Spain and Germany, but 50-60 percent in the U.K. over the last two years.

Demand for processed food products is being influenced by growing numbers of women working outside the home. The share of "working" women ranges from 71 percent in the UK to 37 percent in Spain. In other countries: France 65 percent, West Germany 60 percent, and Italy 43 percent of women work outside the home.

Euromonitor predicts that per capita consumption of frozen food products, which has been growing rapidly in recent years, will continue to grow at a sharp pace over the coming decade, up 30.9 percent in Germany, 12.9 percent in Denmark, 8.4 percent in France, 7.2 percent in the UK, 17 percent, in Spain, 36.7 percent, in Portugal, 11 percent in Italy, and 67.4 percent in E. Germany (Hall).

Just as there is a move toward some global food brands, there has been some development of "Euro-brands" by companies like Perrier, Unilever, Mars and Nestle, but this has not eliminated demand for national and regional products. In some cases, a common brand image is being pursued across Europe, but with specialized products in national markets.

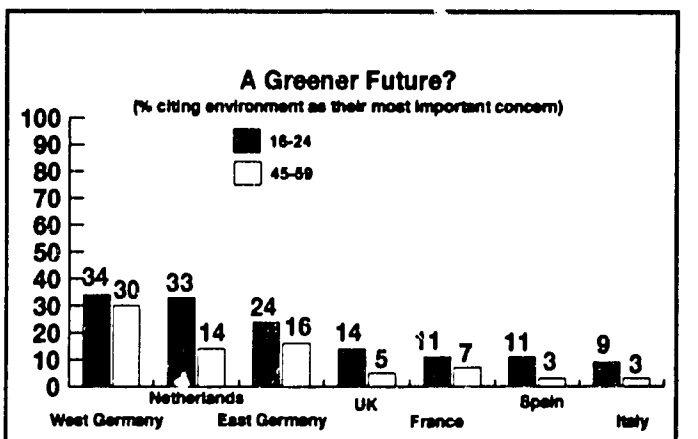
The development of strong retailer brands is expected to increase competition faced by national and Eurobrands in the years ahead. Private label packaging may offer an opportunity for Near East producers of selected products.

4.2.1.2 Packaging

Other trends of importance in the processed foods market are the environmental concern with packaging, and ethical concerns with such factors as treatment of workers by manufacturers, animal testing, and corporate social responsibility.

Reuse, recycling and reduction of packaging are all gaining increased attention throughout Europe. For example, Switzerland's Migros supermarkets eliminated packaging around toothpaste tubes. While sales initially fell, a publicity campaign explaining the purpose revived sales. (Hall) Younger consumers throughout Europe report environmental concern as more important to them, with a Henley Forecast Centre survey finding that one third of West Germans and Dutch aged 16-24 report environmental concern as their most important.

Figure 4.3



Source: S. Hali, Coley, Porter, Bell.

Germany has taken the lead on a range of environmental and packaging issues, including introduction of the Blue Angel program, a commercial testing program which can confer the right to use the Blue Angel badge for products that meet certain requirements. Legislation passed in 1991 in Germany places the responsibility on the retailer and manufacturer to take excess packaging back. While it may be 10-15 years before this is required across the EC, it will increasingly be an issue affecting the competitive position of Near East products on European markets.

4.2.1.3 Distribution

Retail food distribution in individual European countries is increasingly dominated by a relatively small number of retailers. While the companies are different across national borders, there is a definite trend toward international strategic alliances and joint ventures. Both of these factors mean that suppliers who can assure regular supplies and large volumes of consistently high quality products are of interest. The large chains (or multiples) are also increasing their private label business. For example, in the UK, private label accounts for about 30 percent of food grocery sales, and as much as 55 percent for frozen vegetables (Jones). Sainsbury's, one of the UK's leading chains, sells about half of its products under house brands.

In France, the share of private label products is about 20 percent, but in large retailers like Carrefour, Monoprix and Casino, the share is about 30 percent. In Holland and Belgium, the share of private label is lower, about 18 percent. Private labels are emerging in Spain, where French retailers control over half of the supermarkets and hypermarkets, as well as in Italy and Germany.

Table 4.1

Private Label Market Shares 1992
Packaged Grocery

UK	30%
France	20%
Holland	18%
Belgium	18%
Spain	7%
Italy	7%
Germany (West)	20%
Denmark	19%
Finland	20%
Norway	3%
Sweden	3%

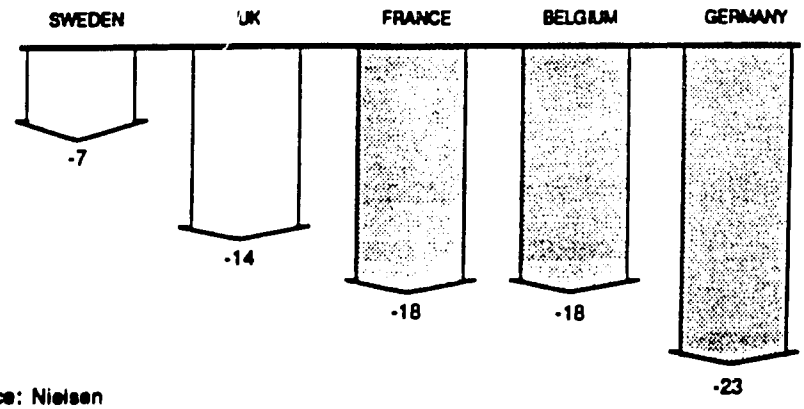
Source: Trade estimates/Nielsen

4.2.1.4 Competing Trends - Discounting and Value Added

The discount grocery sector in Europe, accounts for 25-35 percent of grocery demand, and many observers indicate that it is here to stay (Kaas), but for manufacturers in Europe as well as potential exporters from NE countries, the key issue is whether they can profitably focus on the discount market. As seen in figure 4.4, price discounting is sharpest in Germany.

Private Labels have different positioning across countries

PRICE DISCOUNT PRIVATE LABELS vs LEADING BRANDS - 1988
(% value)



Source: Nielsen

Value added products are also a growing market. "4th band" products such as pre-cut vegetable products that are prepared and ready to eat, preserved in controlled atmosphere packaging, and "5th band" products that are pre-cooked as well, are apparently achieving mixed success in different market segments and national markets.

4.2.2 NE Country Export Trends, Market Access and Competitiveness

Near East Countries receive preferential access to EC markets for a limited number of processed food products. For example, Morocco and Tunisia have access to specific quotas for duty free access of olive oil. Orange juice, preserved fruit salads, apricot pulp and prepared sardines are other examples of processed food products for which individual countries receive duty free access for specific quotas. The same applies to wine. These are specified by annual Council regulations, as shown for 1993 in Figure 3.2 on page 27.

Among the major NE exports to the EC, processed foods other than seafood, are of limited importance, but have high potential. For Morocco, prepared foods exports to the EC were valued at $53 million in 1991. Preserved olives, fruit pulp and orange juice and wine are the principal processed exports, along with canned olives, peeled tomatoes and apricots. Some in the industry see the future as including processed olives, such as rings, pickles, capers in cans, especially for the institutional markets. Frozen products are also viewed as the wave of the future.

For Tunisia, olive oil exports to the EC were valued at $247 million in 1991, Tunisia's primary processed export. Much of what is exported is refined and bottled in Italy. The EC has given Tunisia a 46,000 mt annual duty free quota for olive oil. Wine exports from Tunisia and Morocco to the EC were valued at about $9 million in 1990. While this was traditionally bulk wine for blending, the countries have duty free quotas of 53,000 hl and 43,000 hl, some of which is now A.O.C. (specified origin) wines. France and Belgium have been the major markets.

For Egypt processed products are primarily dried onions and cane molasses. Jordan does not report processed foods as a major export.

For future NE export development, some value-added processing is clearly desirable, if for no other reason than to add value to production that cannot be sold into the fresh market, either because of quality or the timing of production. As domestic incomes grow, markets for processed food products will also grow.

The changing structure of food distribution in Europe, with more chains and larger stores, means that suppliers who can provide adequate quality and regular shipments will be able to contact a more limited range of suppliers. However, it also means that there will be fewer outlets for suppliers who cannot meet the

quality standards or provide regular supplies. The growth of private label means that co-packing for European retailers may be a market opportunity.

4.2.3 Implications for Income, Employment and U.S. Exports

As indicated in section 4.1.9, the contribution of agribusiness to income and employment in the NE countries is important. The potential contribution of additional growth in processed food exports to the EC relative to fresh produce exports is that, if the products are sold, even greater job opportunities and higher economic multipliers can be expected.

While U.S. suppliers are exporting some processed food products to the EC, the potential for competition is likely to be outweighed by the potential new market opportunities and the chance for U.S. suppliers to build longer-term commercial relationships that result in better access to the EC market for themselves .

In addition, U.S. firms will be able to sell equipment, supplies, technology and know-how to NE agro-processing firms. In the absence of some U.S. government support to offset competitive advantages of other suppliers, it is likely that these sales and business relationships will be weighted toward European and Asian firms.

4.3 Seafood Products

4.3.1 Major Market Trends

Although the recession in Europe cut imports in 1992, seafood consumption is growing in the EC, and seafood exports are an important component of European exports of several NE countries. To take the French market as an example, seafood consumption has been growing at 5 percent annually. Imports grew ten percent from 1990 to 1991, valued at $2.4 billion despite the fact that France is a major seafood product exporter. The market for fresh and frozen seafood products has been growing, while the market for canned products, except for tuna, has been flat. The growth of frozen food stores, like Picard in France, and larger frozen food sections in growing hypermarkets and supermarkets has introduced opportunities for a wider array of seafood products, including value-added, ready-to-cook seafood entrees, salads and brochettes, in addition to filets and sliced products, breaded products, etc.

National access for seafood products has been a contentious issue among EC member countries lately, with blockades and demonstrations by protesting French fishermen aimed at fish imported from the United Kingdom and Denmark at French ports, some of which originates in Iceland, Norway and Russia. This has not centered on products from NE countries, or products that NE countries export, however.

A 15-30 percent drop in fish prices throughout the EC led the EC Commission to impose minimum import prices on several types of fish in late February, 1993. EC Ministers responsible for fisheries policy have been examining the market organization for seafood products and additional measures aimed at emergency aid for fishermen. France's previous government announced in late February, a $1.8 million program aimed at aiding 4,000 fishermen and their families . Within the EC, exchange rate fluctuations resulting from devaluation of the Spanish peseta and Italian lira, coupled with the fall of the pound sterling following the U.K.'s withdrawal from the EMS and the devaluation of the Irish pound have all hurt the French fishing industry in terms of markets and competition from British and Irish fish.

4.3.2 NE Country Export Trends

Seafood products are predominant among Tunisia's food and agricultural exports to the EC, after olive oil and dates. Sales of shrimp, octopus, cuttlefish, squid, snails, mussels and other fish, primarily frozen, were valued at about $80 million in 1991. Morocco is actually a larger exporter of many of these products, with octopus exports alone valued at $68 million in 1991. Morocco also exported canned sardines and anchovies valued at $8 million. Italy, France and Spain are the largest import markets for all of the major NE seafood exports.

One of the challenges facing NE seafood exporters relates to assurance of continued supplies despite overfishing of the Mediterranean. Aquaculture, imports for further processing, and improved management of the production zones will all be important in meeting this challenge.

For NE exporters like Tunisia, customer familiarity is one of the major hurdles to be overcome. Few of the European importers contacted had any experience with Tunisian products. This is perhaps positive, because it means that producers who can provide a consistent supply of high quality product in appropriate packaging will be developing a new image rather than trying to overcome an unfavorable image. Where there is familiarity with NE products, price competitiveness was often cited as a major constraint.

4.3.3 Distribution, Single Market Issues and Competition

As with the market for other food products, the distribution of seafood products is changing, although somewhat less rapidly than for some other products. For example, in France about 50 percent of fresh fish and shellfish is still sold through fish stores and open air markets. However, hypermarkets and supermarkets now handle 35 - 45 percent. For frozen seafood, supermarkets and hypermarkets accounted for about 60 percent of sales, with freezer centers accounting for 16 percent in 1991.

As part of the Single Market program, the EC has approved a number of Directives aimed at harmonizing health and safety regulations affecting seafood products, their production and marketing, including general seafood products (91/493), aquaculture products (91/67), and mollusks (91/492, 92/92). Some regulations took effect in January 1993 and will be reviewed again prior to 1998.

With the Single Market, competition among European suppliers is already intensifying, leading to investments in infrastructure modernization, including port handling facilities and refrigeration, standardized containers and computerized pricing systems. All of this is directed at assuring freshness and quality. Improved processing technology and distribution system changes are contributing to a major change in the structure of processing industries. For example, the number of fish canneries in France dropped from 127 in 1964 to 31 in 1989 (USDA). Italy and Morocco are now the primary sources of canned sardines.

Competition among suppliers of frozen products now comes from around the world, with Thailand, Ecuador, Indonesia and Senegal supplying important quantities of shrimp, for example.

4.3.4 Implications for Income, Employment and U.S. Exports

As with the products discussed previously, the development of seafood product exports offers the potential for substantial opportunities for income and employment generation in NE countries.

Production of seafood through fishing, aquaculture and further processing of imports all present employment generation possibilities that can be relatively labor intensive. Nonetheless, successful competition in these markets will require substantial capital investments to assure that product quality and hygiene are high, that refrigeration can be maintained, and that products can reach markets rapidly. The development of successful opportunities for small-and medium-sized enterprises in exporting can be enhanced by the development of trade associations which establish coordinating programs to assure consistently high product quality, monitoring international market developments, obtaining technical support for the industry, and developing an image internationally for country-specific products.

While U.S. seafood exporters are also targeting European seafood markets, they are exporting a range of different products, such as salmon, monk fish, turbot and lobster, with which NE exports will not compete directly. Furthermore, with a very small share of the European market, U.S. exporters' market prospects are unlikely to be affected by the development of sales of any of the products that are currently important to NE seafood exporters. In fact, development of joint ventures with U.S. suppliers might benefit local NE industry and allow the U.S. firms to offer a broader product line in the European market.

4.4 Cut Flowers

A variety of specialty products are important potential exports from the NE countries. This section focuses on the European markets for cut flowers.

4.4.1 Major Market Trends in Cut Flowers

World trade in fresh cut flowers expanded dramatically from 1987 through 1991. World cut flowers exports increased from $2.2 billion to $3.9 billion in five years. This represents an increase of 74 percent during that period of time.

Developing countries are responsible for about one fourth of cut flower exports. Among these developing countries are: Colombia, Israel, Kenya, Ecuador, Zimbabwe, Peru, Morocco, Turkey and others, including Tunisia, Egypt and Jordan.

The Flower Council of Holland estimates that more than 65 percent of world flower exports pass through the Flower Auction system in the Netherlands on their way to markets within the EC and beyond, with approximately 11 percent of those coming from developing countries.

The Flower Council of Holland further notes, however, that for the first time in forty years, turnover (gross dollar sales) was less than the previous year, in spite of a higher tonnage of volume. This means that there had been a significant leveling off of flower sales growth as well as a decline in average unit values. This is generally attributed to the global economic downturn and a current "over supply" of flowers entering the world market trade.

4.4.2 NE Country Export Trends

Morocco is the largest NE exporter of cut flowers to the EC and in fact is ranked number 20 compared to all flower exporting countries with at least $15 million or 0.4 percent of world cut flower exports, according to ITC data for 1991/92. As can be seen from Table 4.2, the other NE countries export only limited amounts of cut flowers.

Table 4.2 EC Flower Imports From NE Countries

ORIGIN	MT 1,000	ECU'S (million)
Tunisia	5	8
Egypt	44	112
Jordan	-	2
Morocco	2,365	11,577

Source: Eurostat, Abt Associates

4.4.3 Competitiveness of NE Suppliers

One of the issues that comes into play with the Single Market is a general effort to promote trade from "within" the EC over trade from outside. This can have an impact on the trade of flowers imported from outside the EC, but tends to be more seasonally oriented. As a result, targeting seasonal market opportunities will be critical to successful market development.

Significant amounts of flowers are produced and traded within the EC itself. The Netherlands is the largest producer of cut flowers for trade in the world. But there is also significant "domestic" production coming from the United Kingdom, France and Germany.

This production enters the market place generally around late March each year and continues through September. This dramatically affects the export market to the EC during those periods of time. It reduces volumes significantly and also depresses prices for imports during the domestic producing season.

Italy and Spain, both flower producing countries within the EC, have had recent forays into production for the EC market. Italy produces gladiolus and carnations. Spain, in particular, in 1990 engaged in a major expansion of its

carnation production with an eye toward cutting into the "extra EC imports" coming primarily from Colombia, the world's leading exporter of carnations, which shipped 73,546 tons of carnations to the EC in 1991/92.

In 1990 Spanish exporters believed they had the differential advantage of low labor rates combined with the fact that they were located within the EC. In addition, Colombia and some other producing countries were having to pay a 15 percent duty to get flowers into the EC, thus making it feasible to expand Spanish production.

However, the industry expanded too quickly, flooding the market with product, resulting in lower prices and poor returns to the producers. This occurred at a time when Spanish wage rates began to increase and Colombia was exempted from EC (and US) flower duties as part of an Anti-Drug effort on behalf of the US and EC in November of 1991. Trade sources report that this all but devastated the fledgling Spanish industry.

Morocco, the major NE flower exporting country, continues to struggle with a tariff quota on flowers into the EC. With Morocco's traditional trade ties with France, that country remains a market for approximately 50 percent (1,163 tons) of the flower exports from Morocco. France has a special duty free quota for flowers from Morocco of 500 tons. The whole of the remaining EC market has an additional quota of 300 tons, for a total duty free quota for Morocco into the EC of 800 tons. Quotas are measured on a seasonal basis that runs from November 1 for one year through October of the following year. Flowers exported into the EC, beyond quota, are levied a duty of 15 percent on landed value, at point of import. Quotas are also set for Jordan, Cyprus and Israel.

In 1991/1992 Morocco exported 2,365 tons of product to the EC, exceeding their quota on January 27, 1993. Therefore, the balance of imports beyond the quota of 800 tons (1565 tons) was subject to the 15 percent tariff. Morocco views this as an unfair trade barrier for product entry into the EC. The government of Morocco is addressing this issue in Brussels along with its push for a free trade agreement with the EC.

From a practical perspective, the duties on Morocco's exports are a barrier to profitability for Moroccan flower producers. They effectively reduce their profit potential by the same amount as the duty or 15 percent. From the importer's perspective, the only difference it makes to them is following the quota

and knowing when and if they must pay duty on shipments from Morocco, and how that affects their competitiveness relative to other suppliers.

Price quotes from Morocco flower producers to EC import distributors have to account for the duty impact on the delivered price of goods into the EC, thus eliminating, from a practical point of view, any price advantages to Morocco flowers vis-a-vis flowers from anywhere else in the world.

4.4.4 Market Opportunities, Single Market Issues and Competition

As with other fresh produce, the general consensus among the European traders interviewed is that most real changes resulting from the European Single Market were realized before January, 1993. However, a number of sub-issues surfaced.

Although the major market for Moroccan flowers has traditionally been France, its Moroccan exports are targeting Germany, the United Kingdom, Italy and Scandinavia as new and developing markets. The easing of intra-EC trade within the Single Market and enlargement of the Community should facilitate market development. Table 4.3 details Morocco's recent expansion beyond the French market.

Major markets within the EC for flowers being exported from Near East countries are Germany, France, United Kingdom and Italy. The largest markets for flowers in these countries are roses and carnations. Roses are the highest value flowers and carnations run a distant second. Trade sources in France report that Moroccan roses have traditionally fallen in a lower valued "street quality" market segment, as opposed to the higher priced "quality" segment.

Germany is by far the largest import market for flowers from all origins, purchasing $1,245,000,000 worth of product in 1991. This represents steady growth since 1988, where imports were $881,000,000. This is a growth rate of 10 percent annually. Per capita consumption in Germany is the fourth largest in Europe after the Netherlands, Italy and Switzerland.

Holland, the leader in per capita consumption of flowers, is not an attractive export market because of the Flower Auction System in the Netherlands. It is dominated by Dutch producers, and does not return attractive prices to exporting countries or for "imported products." Market development of distributors within the EC (and outside of the Dutch Auctions) is far more attractive for profit potential.

Table 4.3

Moroccan Flower Exports to EC Country Markets

COUNTRY	TONS	ECU's (000)	ECU/KG
United Kingdom	494	1205	2.44
Germany	381	1919	5.04
France	1133	6370	5.62
Italy	90	895	9.94
Holland	186	719	3.86
Belgium	54	338	6.26
Others	27	131	4.85
Nov. 1991 - Oct. 1992, All Flowers			

The United Kingdom is an attractive export market having recently developed a strong network of import distributors serving the 64 wholesale markets of the UK. The UK has also realized strong growth in the recent past, although this growth has now leveled off.

Finally, Italy has the second highest in per capita flower consumption rate within the EC and offers an attractive market not only because of its high rate of consumption, but also because of the perceived value of flowers in the Italian culture. Italians place a much higher value on flowers and are not as price sensitive.

4.4.4.1 Grades, Standards and Phytosanitary Regulations

The grades and standards applied to floral products entering (and traded within) the EC have been in place commercially for some time. These EC Grades

and Standards were developed and published in March of 1968 and have basically been in use since then.

Although standards have been applied commercially within the EC for many years traders felt that now there will be more consistent application of EC standards. Once flowers are entered and standards applied, they can now be moved anywhere within the EC.

UK flower importers interviewed indicated that phytosanitary regulations unique to the UK would continue to be applied, even though they might be at variance with the EC as a whole. It was generally understood by all importers on the continent that phytosanitary issues would continue to be handled as they have in the past, at entry point in the EC.

4.4.4.2 Flower Quality Issues

It is commonly accepted that flowers produced domestically within the EC, generally have a fresher quality than that of imports. This is because of transportation distance and the time required for imports from other countries. One can argue, however, that flowers grown in Holland and 'exported to Italy' travel as far as flowers grown in Morocco and exported to France. However, the simple fact of life is that the post harvest handling of flowers grown within the EC is still much better than that of most developing countries.

For this reason, as mentioned earlier in this report, 'domestic' production within the EC is preferred to that from outside the EC during the spring and summer season in Europe, which extends from late March through September.

Flowers grown in Holland, UK, Germany, France and Italy are far more prevalent and lower priced than exports from developing countries in part because of protection during the primary production season. This will always be the case until the rising cost of production within the EC or trade negotiations simply makes it impossible to continue. This has yet to happen despite the fact that Holland, the world's largest flower producer pays wages of $20 per hour, fully burdened, in a hostile climate to flower production. So far the high productivity differential between EC producers and developing country producers is too difficult to compete against.

4.4.4.3 Major Competitors

The major competitive producing developing countries servicing the EC market are Colombia, Kenya, Israel, Zimbabwe, and Turkey. Most of the competition is in roses and carnations.

Israel has the strongest sales network established in the EC, through its Agrexco sales offices, which markets the generic product from Israel under the brand name Carmel. By controlling sales throughout Europe, with their own sales offices within the EC, they are able to feed product into markets paying the highest prices, thus ensuring top returns to their producing cooperative Agrexco, in Israel. This is a unique and very effective system.

Kenya has undertaken a 'joint venture' in distribution with the inception of "Kenya Flowers" which is a subsidiary organization of Florimex, the world's largest floral importer, headquartered in Kelsterbach, Germany, just outside Frankfurt. This has helped develop the German market for product from Kenya. It also continues to place flowers through the Dutch flower auctions.

Turkey has begun to develop its carnation industry with an eye toward the EC market. It has done a modest job of servicing the market but has suffered with the anomalies of irregular weather patterns, causing much of its outdoor production to come to market at once. This always depresses prices and returns.

4.4.4.4 Single Market Issues

The import distributors interviewed generally concurred that one of the most visible changes with the EC Single Market since January of 1993, was that trucks travelling from one country to another carrying flowers traded 'within the EC' were moving much faster. For example, trucks delivering flowers grown in Spain to German markets were arriving two hours sooner because they didn't have to stop at the borders of France for border checks.

This has some implications for Morocco, since it is now successfully shipping carnations into France and the UK by trucks crossing through Spain. Experimentation with roses is expected to begin in the near future. With a highly perishable product like flowers, the savings of even a few hours in transportation can make a significant difference in price in the marketplace.

One important issue which appears to be coincidental to the Single Market issue is that of the new 'Green Laws' being applied in Germany. Beginning in 1993, all packaging materials for flowers (and other items) entering Germany from anywhere (outside or inside the EC) require destruction or removal from Germany. The cost for this effort is the responsibility of the flower importer.

This has made some significant changes in commercial practices in Germany and for those countries exporting to Germany. For example, where Colombia has formerly been able to pass along a 'packing charge' for flower boxes exported to Germany, that cost has now been eliminated by the flower importer who must now pay to have the Colombian box destroyed or removed from Germany. The net result is higher costs throughout the distribution system (ultimately passed along to the consumer) to protect the environment.

As pointed out above, German environmental and packaging requirements are becoming the guides for EC level regulations. While not likely to become the norm immediately, any exporter doing business within the EC should expect to have to meet German standards at some point in the future. The spokesperson for the Aalsmeer Auction, the largest of the Dutch Auctions, reported that the coalition of Dutch Flower Auctions speaking with the governments of Scandinavia, is Austria, France and Belgium in anticipation of potential changes necessary to adopt a safer approach to product packaging and distribution.

The majority of importer-distributors interviewed indicated that in the long run the production of flowers would move to the NE and Africa, as labor costs became prohibitive within the EC, particularly in Spain and Italy, two of the traditional producers of flowers for the EC.

4.4.5 Implications for Income, Employment and U.S. Exports

Cut flower export development offers clear opportunities for the other NE countries, again following on Morocco's lead. As with other products, product quality, handling, and packaging will all be important determinants of the potential profitability of individual ventures. This will be affected by training of workers as well as availability of facilities and supplies to compete successfully.

Cut flower export development will contribute to income and employment opportunities in NE countries, and also offer opportunities to use U.S. technology, expertise, equipment and supplies. European suppliers are already targeting this sector on a limited basis.

Competition with U.S. exports on the European markets is not likely to be an issue, according to industry sources.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 The European Single Market and NE Export Prospects

The 350 million consumers of the EC offer an extremely attractive market for exporters in the NE countries of Egypt, Jordan, Morocco and Tunisia. Furthermore, with enlargement of the Community to include the EFTA countries, and eventual addition of former Eastern bloc nations of Eastern and Central Europe, the total market will be about one-half billion consumers.

From their locations on the Mediterranean, NE exporters can be extremely competitive if they can provide consistent supplies of quality products that respond to the needs of customers in individual country and regional markets across Europe. This in turn will generate income and employment opportunities within NE countries, adding to demand for locally produced and imported products and services.

The Single Market program has already eased access to the entire European Community, once products enter any EC country. The general framework for the Single Market program is in place, meaning that NE exporters can plan now to increase their competitiveness in this important market.

While transportation barriers have been the first to come down, barriers such as product standards, health, safety, labelling and packaging requirements will gradually be harmonized. Harmonization of standards and regulations across the EC is an on-going process, and keeping abreast of changes will be essential to potential exporters.

Changing distribution systems will increasingly mean that sales to a single importer/distributor will offer access to increasingly broad markets in Europe. In order to assure consistent quality and develop and protect the image of suppliers in individual countries, partnerships through local trade associations can be valuably developed, permitting small, medium and large suppliers to be more competitive internationally.

The growth of hypermarkets and supermarkets, joint ventures and strategic alliances that cross national borders, and developments in private label food sales all are contributing to change that can mean market opportunities for NE suppliers

who can meet the quality and product supply standards, including competitive pricing.

Technology, management and marketing know-how, and modern processing and handling equipment and supplies will all be critical to the success of NE exporters in meeting these challenges. International partners will be essential to their success. The EC already has a number of programs to work with NE country suppliers, and encourage joint ventures that will lead to sales of EC products in the process.

U.S. suppliers have considerable expertise and technology that can be valuable in meeting these same needs, spelling opportunities to contribute to the economic development of NE economies, and jobs and employment in the target countries and in the U.S. as well.

In many cases, joint ventures or other arrangements with NE suppliers may actually enhance the competitiveness of U.S. exports and exporters in EC markets by extending product lines and taking advantage of market segmentation possibilities offered by complementary products. Where competition with U.S. food and agricultural exports does result, it is likely to be limited and failure to support NE export development will not prevent such competition from developing from other sources, or from the NE countries independent of U.S.foreign assistance. Thus, if USAID or other U.S. government agencies do not encourage the involvement of U.S. companies in agribusiness development in the region, other countries will simply seize those opportunities, affecting the longer term business interests of the U.S., and opportunities that would lead to U.S. sales and jobs, as well as development of the NE countries.

5.2 Implications for USAID AND OTHER DONORS

The European Market offers major opportunities and challenges to Near East food and agriculture. The Single Market that was put in place in January 1993 is clearly in transition. Market access and the competitive position of NE exports will change as a result of the Single Market, enlargement, association agreement, development in the Mediterranean Policy, and eventual resolution of the on-going GATT negotiations.

For USAID support activities aimed at promotion of agribusiness, trade and investment in Egypt, Jordan, Morocco and Tunisia we recommend the following:

- Monitoring Single Market Developments. On-going tracking of changes in EC markets and the regulatory environment will be especially critical over the next 1-3 years as the transition to a true unified market continues. It will be important to keep country USAID missions apprised of developments on the trade policy front that will affect the potential market access for products being promoted with USAID support, as well as health, safety, packaging and environmental regulations.

- Technical assistance for specific products and markets with regard to meeting EC product standards, including quality, labelling, health and safety and the environment. The underlying objective should be to help exporters to meet technical requirements and satisfy customers in new markets. Such activities can also be valuable in developing domestic markets in the countries involved, and regional markets, such as those within the Maghreb Union.

- Identify new niche markets. Near East food and agricultural exports to the EC currently focus on a relatively limited range of products. Opportunities for market diversification into additional specialty fresh and processed food products should be examined, including new opportunities in seasonal niche markets.

- Identify partners interested in Europe. Market studies should go the next step beyond identifying market opportunities and technology requirements to identify potential sources of foreign investment or joint venture partners in processing, packaging and handling technology as well as management and marketing expertise. In keeping with USAID's emphasis on sensitivity to U.S. commercial interests as well as development priorities, opportunities need to be explored that will allow U.S. suppliers to expand their marketing season or product lines in European markets through joint ventures, investments and marketing alliances.

- Support Trade Associations. The potential role of trade associations in supporting NE agribusiness export development activities should be underscored. The objectives can include establishment of quality control standards to protect the image of specific products from specific origins, coordination with producer organizations in Europe and other markets to share information on key policy issues and regulatory requirements and identify potential foreign partners, and development of generic promotion efforts for market development.

- Support Public Policy Reform and Infrastructure Development. While the role of private business in successful agribusiness development is key, USAID should not neglect to follow up on the important strides it has made in supporting policy reform to facilitate trade and investment. Keeping the policy reform efforts undertaken with USAID support going will make it possible for individual private exporters to compete more effectively in European markets. Of additional importance are public infrastructure investments in roads, ports and airport handling facilities, and public organizations and laboratories to test for product quality, residues and other factors that will affect the ability of exporters to meet European standards. All of these factors will affect the potential competitiveness of the local industry on international markets.