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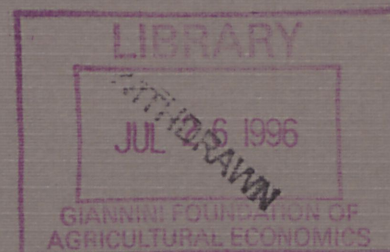
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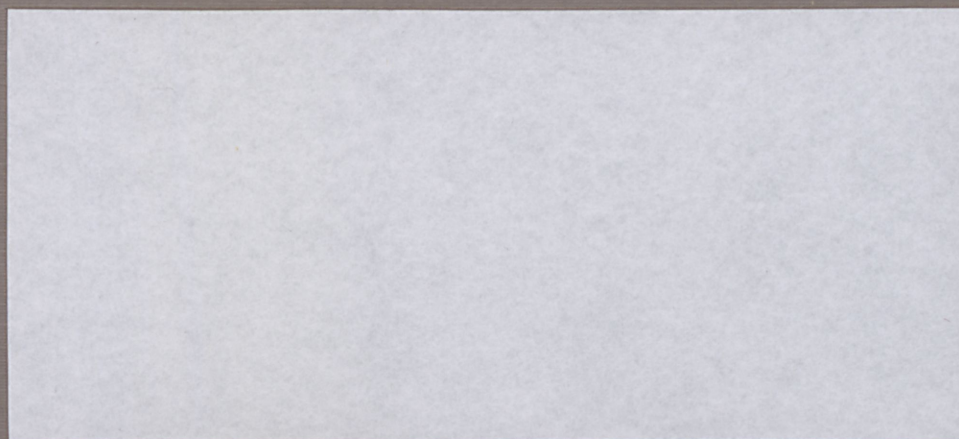
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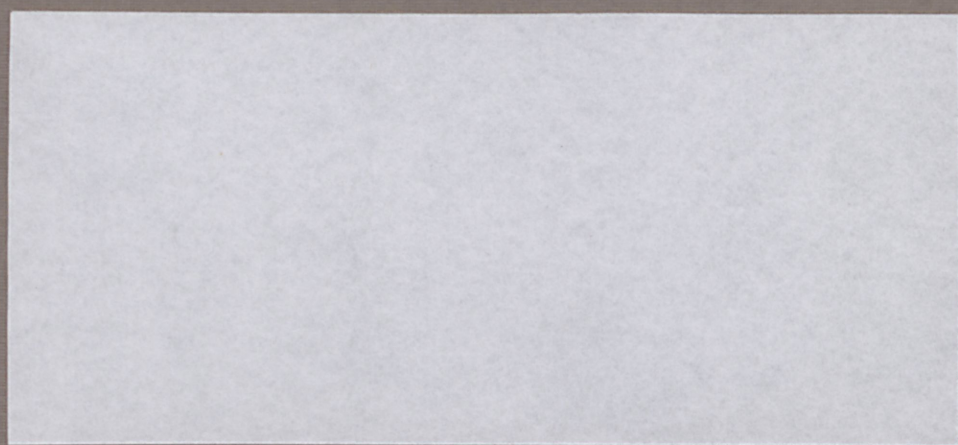


**Organization
and Performance
of World Food
Systems: NC-194**



OCCASIONAL PAPER SERIES

The work reported herewithin contributes to the objectives of North Central Regional Project NC-194, a joint research project of state agricultural experiment stations and the U.S. Department of Agriculture



**Prepared for the NC-194 Technical Committee Meeting
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**IMPACTS OF E.C. 1992 ON THE EUROPEAN
AGRO-FOOD SECTOR**

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OP-10

APRIL 1990

Chairman, Euroconsultants, Inc., Washington, D.C.

THE E.C. 1992 PROCESS IS FIRST OF ALL A CHANGE IN BEHAVIOR AND MENTALITIES. BY ESTABLISHING THE WORK PROGRAM FOR THE COMPLETION OF THE INTERNAL MARKET AND BY SETTING THE DEADLINE OF JANUARY 1, 1993, THE EUROPEAN LEADERS HAVE MANAGED TO AFFECT PEOPLE'S BEHAVIOR AND EXPECTATIONS, BOTH INSIDE AND OUTSIDE THE COMMUNITY. IN THE END, THESE CHANGES IN EXPECTATIONS AND MENTALITIES MAY TURN OUT TO BE MORE IMPORTANT THAN THE ACTUAL MODIFICATIONS IN THE LEGAL FRAMEWORK AND THE POLICIES OF THE COMMUNITY.

IN FACT, THE E.C.'S DECISION TAKEN IN 1982 AND 1985 TO TRY TO COMPLETE ITS SINGLE INTERNAL MARKET BY 1992 WAS DRIVEN BY GLOBAL ECONOMIC CONCERNS. E.C. BUSINESSES WERE NO LONGER ABLE TO COMPETE AS EFFECTIVELY IN TODAY'S INTERDEPENDENT GLOBAL ECONOMY. AND TRADE IS EVER MORE IMPORTANT FOR E.C. COUNTRIES THAN FOR THE U.S., SINCE IT ACCOUNTS FOR AROUND 30% OF GNP (MORE IN GERMANY) VERSUS SOMETHING UNDER 15 PERCENT IN THE U.S. IN FACT, UNTIL 1972, TRADE ONLY ACCOUNTED FOR ABOUT 3 PERCENT OF U.S. GNP. SO, THE 1992 PROCESS HAS TURNED OUT TO BE A MASTERLY-DESIGNED APPROACH TO OVERCOME WHAT WAS KNOWN IN THE EARLY EIGHTIES AS THE PHENOMENON OF EUROSCLEROSIS OR EUROPESSISM.

THE E.C. 1992 INTEGRATION PROCESS DOES NOT OPERATE IN A VACUUM.

IT IS CLOSELY TIED TO THE MAJOR RESTRUCTURING OF THE WORLD ECONOMY AND COMMERCIAL SYSTEM THAT HAS BEEN EVOLVING FOR MORE THAN A DECADE AND WILL CULMINATE WITH THE CONCLUSION OF THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS IN THE GATT.

MORE RECENTLY, NEW DEVELOPMENTS IN EASTERN EUROPE AND MORE SPECIFICALLY, THE PROSPECT OF GERMAN REUNIFICATION ARE LIKELY TO IMPACT THE COMMUNITY AND ITS INTEGRATION PROGRAM AND CANNOT BE IGNORED.

POLITICAL DEVELOPMENTS IN THE EAST AND CHANGES IN ATTITUDE AND MENTALITY IN WESTERN EUROPE WILL PROBABLY SHAPE REALITY MORE SO THAN ANY CHANGES ACTUALLY TAKING PLACE IN THE LEGAL FRAMEWORK OF E.C. 1992. BUSINESSES HAVE ALREADY ANTICIPATED THOSE CHANGES AND ARE INCREASINGLY INTEGRATED ON AN EUROPEAN AND SOMETIMES MULTINATIONAL SCALE IN ORDER TO BUILD ECONOMIES OF SCALE THAT ARE NECESSARY TO TAKE ADVANTAGE OF TREMENDOUS TECHNOLOGICAL INNOVATION AND IMPROVE THEIR COMPETITIVE POSITION.

WITH OR WITHOUT TRADE AND INVESTMENT LIBERALIZATION, BUSINESSES WILL FIND WAYS TO EXPAND THEIR OPERATION AND MARKETS. HOWEVER, TRADE LIBERALIZATION PERMITS BUSINESSES TO USE THEIR RESOURCES MORE EFFICIENTLY AND REDUCE OPERATING COSTS. THIS IS WHY THE URUGUAY ROUND IS A VERY IMPORTANT PARTNER TO THE 1992 INTERNAL E.C. PROCESS. THE OPENING OF MARKETS AND HARMONIZATION OF STANDARDS

MUST GO BEYOND NATIONAL BORDERS OF EUROPE IF WE ARE TO GET THE GREATEST ECONOMIC BENEFITS IN THE 21ST CENTURY.

AGRICULTURE, THOUGH, MAY BE A VERY SPECIFIC VARIATION OF THE 1992 PROCESS. EXCEPT FOR INTERNAL BORDER TAXES AND SUBSIDIES RELATED TO THE GREEN MONEY SYSTEM OF THE COMMUNITY, AGRICULTURAL TRADE AMONG MEMBER COUNTRIES HAS BEEN ESSENTIALLY FREE OF RESTRICTIONS SINCE THE ESTABLISHMENT OF THE COMMON AGRICULTURE POLICY IN THE LATE SIXTIES AND EARLY SEVENTIES. SOME TRADE BARRIERS CONCERNING PLANT AND ANIMAL HEALTH REGULATIONS REMAIN, AND A NUMBER OF THE DIRECTIVES IN THE 1992 WORK PROGRAMME RELATE TO SUCH SANITARY AND PHYTOSANITARY REGULATIONS. HOWEVER, MOST OF THE ROUGHLY 100 (OUT OF A TOTAL OF 279) DIRECTIVES WHICH DEAL WITH AGRICULTURE AND FOOD ARE OF IMMEDIATE CONCERN ONLY FOR THE FOOD PROCESSING AND TRADING INDUSTRY, AND THEY WILL PROBABLY HAVE ONLY MARGINAL EFFECTS ON THE FARMING INDUSTRY AND ON TRADE IN RAW AGRICULTURAL COMMODITIES.

MOREOVER, CONTRARY TO THE FOOD INDUSTRY WHICH IS VERY MUCH ON THE ALERT IN VIEW OF THE INTERNAL MARKET, COMMUNITY FARMERS APPEAR TO BE RELATIVELY RELAXED ABOUT 1992. IT APPEARS THAT THERE IS LESS EXCITEMENT ABOUT 1992 IN AGRICULTURE THAN THERE IS IN OTHER INDUSTRIES, INCLUDING THE FOOD INDUSTRY.

HOWEVER, IT MAY WELL BE THAT, CONTRARY TO EXPECTATION, SOME THINGS IN AGRICULTURE CHANGE SIGNIFICANTLY WITH THE CREATION OF THE INTERNAL MARKET. SUCH CHANGES, THOUGH, MAY COME ABOUT THROUGH THE

WAY IN WHICH THE INTERNAL MARKET AFFECTS THE PURSUIT OF THE CAP, RATHER THAN THROUGH CHANGES IN PRODUCT STANDARDS AND SIMILAR MODIFICATIONS WHICH ARE TYPICAL OF WHAT WILL HAPPEN IN THE AREA OF INDUSTRIAL PRODUCTS (INCLUDING PROCESSED FOODS). OUTSTANDING CAP ISSUES IN THIS CONTEXT ARE THE GREEN MONEY SYSTEM AND NATIONAL AGRICULTURAL POLICIES OF MEMBER COUNTRIES.

FIRST, THE E.C. 1992 INTEGRATION PROCESS. YOU HAVE ALL HAD AN EARFUL OF E.C. 1992 AND ALL THE JARGON THAT GOES WITH IT, SO I AM NOT GOING TO REVIEW THE FATE OF THE 279 E.C. LAWS OR REGULATIONS WHICH COMPRISE THE SINGLE MARKET CONCEPT. THE SINGLE EUROPEAN ACT WAS ADOPTED IN DECEMBER 1985 AS THE FIRST AMENDMENT OF THE TREATY OF ROME WHICH IS THE CHARTER ACT OF THE EUROPEAN COMMUNITY. IT EMBODIES A GLOBAL APPROACH TO POLITICAL INTEGRATION AND ECONOMICAL UNION.

WHEN LOOKING AT THE E.C. 1992 DEVELOPMENTS FROM THE OUTSIDE, THREE QUESTIONS COME TO MIND, WHICH I AM GOING TO TRY TO ANSWER AS CANDIDLY AS POSSIBLE. THE FIRST QUESTION:

1. WILL THE SINGLE MARKET BE COMPLETED AS PLANNED OR CAN THE PROCESS BE STALLED OR REVERSED:

THE ANSWER IS YES - IT WILL HAPPEN - FOR THREE REASONS:

- EUROPEAN BUSINESSES HAVE ALREADY ANTICIPATED THE SINGLE MARKET BY LAUNCHING ACROSS THE BORDER MERGERS AND ACQUISITIONS WHICH WILL BRING ABOUT A RAPID CONSOLIDATION IN THE INDUSTRIAL SECTOR. THIS PROCESS CAN NOT BE REVERSED.

- CONSUMERS HAVE STARTED TO EXPERIENCE THE BENEFIT OF ENHANCED COMPETITION AND LOWER PRICES IN GOODS, AND TO A CERTAIN EXTENT, IN SERVICES.

- THE SINGLE MARKET PROCESS IS ALSO IN MANY WAYS, A DEREGULATION PROCESS, ALTHOUGH SOME WOULD ARGUE TO THE CONTRARY BY STRESSING THE FACT THAT E.C.-WIDE REGULATIONS STILL SUBSTITUTE FOR NATIONAL GOVERNMENT INTERVENTION.

I WOULD DISPUTE THAT ARGUMENT. ONE HAS TO UNDERSTAND THAT, STARTING AT THE DRAWING STAGE UNTIL REGULATIONS ARE ADOPTED, VARIOUS FORCES ARE AT PLAY, SOME OF THEM LIBERAL, SOME OF THEM PROTECTIONIST JUST AS IN THE UNITED STATES. BUT I WOULD MAKE THE POINT THAT THE LIBERAL FORCES AT PLAY WILL PREVAIL, FOR THE STRONG REASON THAT PUBLIC OPINION IN EUROPE IS NO LONGER PROTECTIONIST. IT IS WORTH NOTING THAT EUROPE IS UNDERGOING ANOTHER UNNOTICED BUT IMPORTANT CHANGE: LIKE JAPAN, EUROPEAN INDUSTRIAL POLICIES WERE PRODUCER-ORIENTED POLICIES, AND NOT CONSUMER-ORIENTED POLICIES. I AM SURE YOU WILL BE QUICK TO POINT OUT THAT THE C.A.P. IS A GOOD EXAMPLE OF THE FORMER.

WELL, I WOULD ARGUE THAT THIS IS SLOWLY CHANGING AND THAT THE CONSUMER MOVEMENT IS CARRYING MORE WEIGHT.

2. THE SECOND QUESTION RELATES TO THE IMPACT OF THE E.C. 1992 PROCESS ON INTERNATIONAL TRADE. WILL E.C. 1992 BENEFIT THE WORLD TRADING SYSTEM, OR, ON THE CONTRARY, WILL THE E.C. BECOME "FORTRESS EUROPE"?

"FORTRESS EUROPE" BASHING WAS A FAVORITE SPORT INSIDE THE WASHINGTON BELTWAY UNTIL NOT SO LONG AGO. PERCEPTIONS HAVE CHANGED COURSE, AND NO ONE SERIOUSLY BELIEVES ANY LONGER THAT THE 1992 PROCESS WILL RESULT IN GREATER PROTECTIONISM, WHICH COULD ONLY BE SELF-DEFEATING FOR THE COMMUNITY.

THERE ARE THREE REASONS FOR CHANGING PERCEPTIONS IN THE UNITED STATES:

- THE FIRST REASON IS THAT THE U.S. TRADE DEFICIT WITH THE E.C., WHICH HAD REACHED OVER 22 BILLION USD, WAS REDUCED TO 9 BILLION IN 1988 AND HAS TRANSLATED INTO A SURPLUS IN 1989.

THIS CONTRASTS STRONGLY WITH THE TRADE DEFICIT SITUATION WITH JAPAN, WHICH REMAINS STUBBORNLY CLOSE TO THE 50 BILLION USD MARK. FOR THE DECADE AHEAD OF US, IT IS VERY LIKELY THAT THIS TREND WILL CONTINUE, SINCE MOST ECONOMISTS FORESEE A STRONGER GROWTH IN THE E.C. THAN IN THE U.S.

- THE SECOND REASON IS THAT U.S. MULTINATIONAL FIRMS ALREADY ESTABLISHED IN THE E.C. WILL BE THE MAIN BENEFICIARIES OF THE COMPLETION OF THE SINGLE MARKET AND ECONOMIC INTEGRATION. A FACT THAT IS OFTEN OVERLOOKED: TOTAL U.S. COMPANY SALES IN THE E.C., U.S. EXPORTS TO THE E.C. AND SHIPMENTS OF U.S. SUBSIDIARIES IN THE E.C. ACCOUNT FOR MORE THAN 600 BILLION USD, WHICH IS A FIGURE CLOSE TO THE GERMAN GNP.

- THE THIRD REASON IS THAT THE FUNDAMENTAL OBJECTIVE OF THE SINGLE MARKET ACT IS TO BOOST GROWTH AND EMPLOYMENT IN ORDER TO BE ABLE TO SUSTAIN EXISTING SOCIAL POLICIES. FOR THAT VERY REASON, E.C. 1992 HAS TO BE A PRO-TRADE SET OF POLICIES. AS THE WORLD'S BIGGEST EXPORTER, ACCOUNTING FOR 20% OF WORLD TRADE, THE E.C. CANNOT AFFORD TO BECOME "FORTRESS EUROPE".

AGRICULTURE IS NOT REALLY AN IMPORTANT PART OF THE '92 PROCESS, SINCE THE C.A.P. IS ALREADY AN INTEGRATED POLICY IN ITSELF. THE SINGLE MOST IMPORTANT ISSUE FOR EUROPEAN AGRICULTURE WITH RESPECT TO THE INTERNAL MARKET IS THE FATE OF THE INFAMOUS "GREEN CURRENCY" SYSTEM.

THE SO-CALLED "AGRI-MONETARY SYSTEM" WHICH RELIES ON SPECIFIC AGRICULTURAL EXCHANGE RATES (THE "GREEN RATES") AND RELATED "MONETARY COMPENSATORY AMOUNTS" (MCA'S), DATES BACK TO 1969 WHEN, IN THE WAKE OF REEVALUATION OF THE D-MARK AND A DEVALUATION OF THE

FRENCH FRANC, THE E.C. LET GERMANY AND FRANCE CONTINUE CALCULATING NATIONAL FARM PRICES ON THE BASIS OF PREVIOUS EXCHANGE RATES BEFORE THE PARITY CHANGE.

THE REASONS FOR CREATING THESE DISTINCT "GREEN RATES" HAD NOTHING TO DO WITH ECONOMICS AND EVERYTHING TO DO WITH POLITICS- PARIS WANTED TO DISCOURAGE FOOD PRICE RISES WHICH WOULD FUEL INFLATION AND BONN WAS RELUCTANT TO ACCEPT A CUT IN FARM INCOMES THROUGH THE COMMON PRICE TRANSLATING INTO FEWER D-MARKS FOR ITS PRODUCERS.

BY THE SAME TOKEN, MCA'S - "POSITIVE" FOR REVALUING CURRENCIES, "NEGATIVE" FOR DEVALUING ONES - WERE ALSO INTRODUCED TO AVOID DISTORTIONS IN THE OPERATIONS OF THE E.C. "INTERVENTION" PURCHASE MECHANISM IN THE MEMBER STATES AND ENABLE CROSS-BORDER TRADE TO CONTINUE AT A COMMON PRICE LEVEL.

WITHOUT THEM, LOWER-PRICE COUNTRIES WOULD HAVE BEEN ABLE TO SELL THEIR SURPLUS WHEAT INTO INTERVENTION, I.E. TO THE GOVERNMENT IN HIGHER PRICE COUNTRIES, WHILE FARMERS IN THE STRONG CURRENCY COUNTRIES WOULD HAVE BEEN AT A COMPETITIVE DISADVANTAGE IN TRYING TO SELL THEIR OUTPUT IN THE WEAK-CURRENCY STATES.

THE SYSTEM HAS UNDERGONE CHANGES AND REFINEMENTS, SINCE THE BRETTON WOODS ERA OF FIXED PARITIES ENDED IN THE EARLY SEVENTIES AND THE EUROPEAN MONETARY SYSTEM CAME IN DURING 1979, AND HAS USED THE E.C.U. AS ITS BASE.

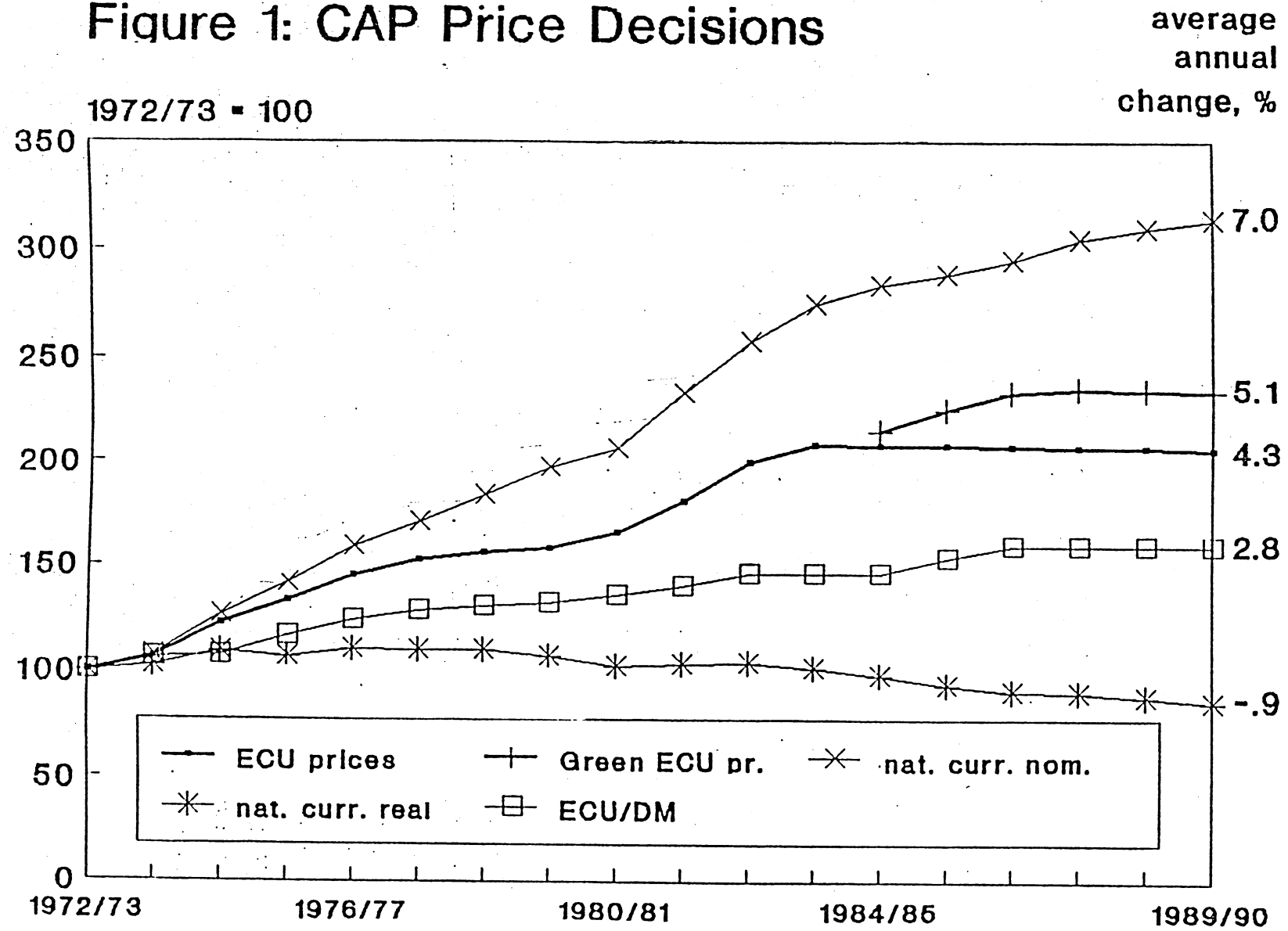
IT WAS IMPLICIT FROM THE START THAT MCA'S WOULD BE ONLY TEMPORARY. BUT IT BECAME RAPIDLY OBVIOUS THAT IT WAS POLITICALLY EASIER TO DISMANTLE THE NEGATIVE GAPS BETWEEN REAL AND GREEN EXCHANGE RATES, BECAUSE IT MEANT AN INCREASE IN FARM PRICES IN NATIONAL CURRENCIES. REMOVING POSITIVE MCA'S PROVED POLITICALLY DIFFICULT FOR THE OPPOSITE REASON.

SUBSTANTIAL NOMINAL PRICE RISES IN ECU IN THE 1970'S PARTLY DISGUISED THE PROBLEM, BUT INCREASING PRICE RESTRAINTS IN THE 1980'S MADE THE TASK OF DISMANTLING POSITIVE MCS'A CLOSE TO IMPOSSIBLE.

THEREFORE, EUROCRATS INVENTED IN 1984 THE "SWITCHOVER" SYSTEM, WHICH APPLIES A CORRECTIVE FACTOR TO ENSURE THAT AT CURRENCY REALIGNMENTS THE COMMON FARM-PRICE LEVEL APPRECIATED IN LINE WITH THE STRONGEST CURRENCY, IN PRACTICE THE D-MARK, AND THAT NO NEW POSITIVE MCAS WERE SUBSEQUENTLY CREATED. IN OTHER WORDS, SINCE 1984, THE COMMUNITY'S AGRICULTURAL SUPPORT PRICES ARE NO LONGER FIXED IN ECU, BUT EFFECTIVELY THEY ARE SET IN DEUTSCHMARK. THIS UNDERLINES THE FACT THAT, FOR ALL PRACTICAL PURPOSES, THE EUROPEAN MONETARY SYSTEM HAS BECOME A D-MARK ZONE.

WHEN LOOKING AT THE PRACTICAL IMPACT OF THE "GREEN RATE SYSTEM" FOR EUROPEAN AGRICULTURE, ONE CAN SEE THE FOLLOWING TRENDS (SEE FIGURE 1).

Figure 1: CAP Price Decisions



Source: EC Commission (1987 and 1989)

* SUPPORT PRICES IN NATIONAL CURRENCIES (AVERAGED OVERALL MEMBER COUNTRIES) HAVE INCREASED IN NOMINAL TERMS AT A HIGHER PACE THAN THE ECU.

* THE INDEXATION OF PRICE SUPPORTS TO THE D-MARK HAS PUT AN UPWARD PRESSURE ON ALL C.A.P. PRICES SINCE 1984 AND HAS BEEN OVERALL A FACTOR OF ADDED INFLATION IN THE COMMUNITY.

* DIVERGENCE OF SUPPORT PRICE LEVELS AMONG MEMBER STATES CAN BE IMPORTANT. FOR EXAMPLE, SUPPORT PRICES FOR A CERTAIN NUMBER OF PRODUCTS IN GREECE WERE 36 PERCENT BELOW THE THEORETICAL ECU PRICE LEVEL IN MID-1989. FURTHERMORE, DIFFERENT GREEN RATES CAN BE USED FOR DIFFERENT PRODUCTS, SO THAT DISTORTIONS HAVE APPEARED NOT ONLY BETWEEN COUNTRIES, BUT ALSO BETWEEN PRODUCTION.

OVERALL, THE SYSTEM HAS ENCOURAGED FRAUD AND HAS PROVEN FUNDAMENTALLY INFLATIONARY. BUT IT IS POLITICALLY COMFORTABLE. HOW IS 1992 GOING TO AFFECT THE GREEN RATE SYSTEM?

IT IS OBVIOUS THAT THE 1992 INTEGRATION PROCESS AND THE GREEN SYSTEM ARE INCONSISTENT, BECAUSE ONE OF THE MOST IMPORTANT GOALS OF THE 1992 PROGRAM IS TO ELIMINATE PHYSICAL BORDER CONTROLS. BORDER CONTROLS HAVE TWO MAIN USES IN INTRA-COMMUNITY TRADE - TO CHECK GOODS SUBJECT TO DIFFERENT RATES OF VALUE-ADDED TAX AND EXCISE DUTIES, AND TO ADMINISTER THE DREADED MCA SYSTEM OF LEVIES

AND SUBSIDIES DESIGNED TO IRON OUT CURRENCY DISTORTIONS IN CROSS-BORDER FARM TRADE.

SCRAPPING THE GREEN E.C.U. SYSTEM ALL TOGETHER IN LINE WITH 1992, SHOULD THEORETICALLY LEAD TO A CUT IN SUPPORT PRICES BY THE SAME AMOUNT. WHAT IS MORE LIKELY TO HAPPEN IS RATHER A ONE-TIME INCREASE IN INSTITUTIONAL PRICES TO CLOSE THE GAP, BUT THIS WOULD GO AGAINST THE WHOLE EXERCISE OF REDUCING AGRICULTURAL SUPPORTS IN THE GATT.

THE MORE IMPORTANT CHALLENGE FOR THE E.C. IS HOW TO AVOID CREATING NEW MCA'S AFTER 1992. A CONFIDENTIAL BUT ALREADY CONTROVERSIAL COMMISSION PAPER PROPOSED ABOLISHING THE MCA'S BUT ENVISAGES THAT SMALL DIFFERENCES BETWEEN NATIONAL PRICES AND GREEN CURRENCIES MIGHT PERSIST.

WHAT IS THE BOTTOM LINE OF THIS LENGTHY STORY ABOUT GREEN MONEY IN RELATION TO THE INTERNAL MARKET? POTENTIALLY, THE ELIMINATION OF GREEN MONEY ON THE WAY TOWARDS THE INTERNAL MARKET COULD HAVE VERY SIGNIFICANT EFFECTS ON AGRICULTURAL MARKETS AND TRADE OF THE COMMUNITY, EFFECTS MUCH MORE PRONOUNCED THAN ANY OTHER AGRICULTURAL CONSEQUENCES OF THE INTERNAL MARKET. IT WOULD CERTAINLY LEAD TO A RESHUFFLING OF AGRICULTURAL PRODUCTION INCENTIVES AMONG STRONG AND WEAK CURRENCY COUNTRIES IN THE COMMUNITY. BUT IT COULD ALSO LEAD TO A SIGNIFICANT ACCELERATION OF THE FALL IN THE LEVEL OF REAL SUPPORT PRICES IN THE COMMUNITY. HOWEVER, THERE ARE A NUMBER OF UNCERTAINTIES. FIRST OF ALL, IT IS NOT IMPOSSIBLE THAT GREEN MONEY

WILL CONTINUE TO EXIST AFTER 1992, EVEN IF IN SOME OTHER TECHNICAL FORM. SECOND, EVEN IF THE GREEN MONEY SYSTEM SHOULD REALLY BE ABANDONED, IT IS NOT CLEAR WHETHER THIS WOULD FULLY ELIMINATE THE INFLATIONARY TENDENCY WHICH IS AN INDIGENOUS FEATURE OF THAT SYSTEM IN ITS CURRENT FORM. YET, WHATEVER THE INSTITUTIONAL ARRANGEMENTS WILL BE--IT IS LIKELY THAT BECAUSE OF MONETARY DEVELOPMENTS AFTER 1992 C.A.P. PRICES IN REAL TERMS WILL COME DOWN SOMEWHAT FASTER THAN WHAT WOULD HAPPEN OTHERWISE. BUT IT IS IMPOSSIBLE TO INDICATE, WITH ANY DEGREE OF PRECISION, THE EXTENT TO WHICH THIS WILL HAPPEN.

REDUCING AGRICULTURAL SUPPORT OVERALL AND BRINGING TO AN END ARTIFICIAL MONETARY DISTORTIONS IN NATIONAL AGRICULTURAL PRICES SHOULD MODIFY TO SOME EXTENT THE LANDSCAPE OF EUROPEAN AGRICULTURE AND BRING ABOUT BETTER RESOURCE ALLOCATION WITHIN THE COMMUNITY. HOWEVER, PRICING OF RAW AGRICULTURAL COMMODITIES WILL STILL BE AFFECTED IN A SIGNIFICANT WAY BY NATIONAL AGRICULTURAL POLICIES OR RELATED POLICIES OF THE MEMBER STATES. THESE RANGE FROM RETIREMENT PROGRAMS TO TAX BREAKS ON FUEL AND OTHER INPUTS AND SPECIFIC FISCAL POLICIES FOR AGRICULTURE. THE E.C. INTEGRATION PROGRAM PROVIDES NO PLAN TO REDUCE THE FLEXIBILITY OF NATIONAL GOVERNMENTS IN THE AREAS OF STRUCTURAL AIDES, INPUT SUBSIDIES, SOCIAL POLICIES OR FISCAL POLICIES RELATED TO AGRICULTURE.

SO, IN GENERAL TERMS, THE REDUCTION IN AGRICULTURAL PRICES THAT WILL OCCUR IN THE E.C. IN THE 1990'S THROUGH A COMBINATION OF

INTERNAL CHANGES AND INTERNATIONAL PRESSURE THROUGH THE GATT PROCESS SHOULD BENEFIT THE FOOD PROCESSING INDUSTRY, ALTHOUGH SUPPLY MANAGEMENT POLICIES -THROUGH PRODUCTION QUOTAS- MIGHT CONTRIBUTE TO KEEP PRICES AT A HIGHER LEVEL THAN EXPECTED AND LIMIT THE AVAILABILITY OF RAW COMMODITIES FOR THE PROCESSING INDUSTRY, AS IS ALREADY THE CASE FOR THE DAIRY SECTOR IN SOME PARTS OF THE COMMUNITY.

WITHIN THE AGRIBUSINESS AND FOOD SECTOR, 1992 HAS SIGNIFICANT IMPLICATIONS, WHICH ARE ALREADY EVIDENT IN THE CONSOLIDATION AND CONCENTRATION TAKING PLACE IN THE INDUSTRY. THIS IS AN INTERNATIONAL TREND - HARDLY EXCLUSIVE TO THE E.C. - BUT THE 1992 PROCESS HAS ACCELERATED IT. THERE ALREADY IS EXTENSIVE MERGER AND ACQUISITION ACTIVITY NOT ONLY IN THE INPUTS AND FOOD PROCESSING AREAS, BUT ALSO THE DISTRIBUTION AND RETAIL MARKETING INDUSTRIES. THIS ACTIVITY IS AFFECTING BOTH PUBLICLY-HELD COMPANIES, BUT ALSO FARMER COOPERATIVES THAT INTEGRATE THEIR ACTIVITIES ACROSS BORDERS AND SEEK TO ENHANCE THEIR POSITIONS THROUGH DOWNSTREAM ACQUISITIONS AND JOINT VENTURES.

LET ME FIRST BRIEFLY REVIEW THE ISSUES AFFECTING THE FOOD AND AGRIBUSINESS INDUSTRIES IN THE ECONOMIC INTEGRATION PROCESS:

1. HARMONIZING PLANT AND ANIMAL HEALTH STANDARDS AND FOOD LABELING, INGREDIENT AND PACKAGING LAWS AMONG MEMBER STATES:

A SURVEY CONDUCTED BY THE E.C. COMMISSION IN 1988 IN THE FIVE LARGEST MEMBER STATES FOUND THAT THERE WERE OVER 200 NON-TARIFF BARRIERS THAT RESTRICTED THE MOVEMENT OF FOOD, RANGING FROM SPECIFIC IMPORT RESTRICTIONS TO LABELING AND PACKAGING LAWS AND PROHIBITIONS OF CERTAIN SPECIFIC INGREDIENTS SUCH AS ASPARTAME (BECAUSE IT COMPETES WITH SUGAR). SOME OF THE OLD RESTRICTIONS IN THE FOOD SECTOR HAVE ALREADY COME DOWN, THROUGH EUROPEAN COURT RULINGS STRIKING DOWN NATIONAL RESTRICTIONS. TAKE FOR EXAMPLE THE RECENT RULINGS THAT HAVE OPENED THE ITALIAN MARKET TO PASTA, THE GERMAN BEER MARKET (PURITY LAW) AND THE FRENCH MARKET TO ARTIFICIAL DAIRY CREAMER MADE FROM VEGETABLE FATS.

THE MOST FAMOUS OF THOSE RULINGS IS THE 1979 CASSIS DE DIJON RULING OF THE COURT OF JUSTICE WHICH HAS ESTABLISHED THE PRINCIPLES OF MUTUAL RECOGNITION OF DIFFERENT NATIONAL STANDARDS UNDERPINNED BY A GENERAL FRAMEWORK OF COMMON RULES. THE DECISION WAS SUBSEQUENTLY MADE TO LIMIT FUTURE COMMUNITY LEGISLATION ON FOODSTUFFS TO PROVISION JUSTIFIED BY THE NEED TO PROTECT PUBLIC HEALTH, PROVIDE CONSUMERS WITH INFORMATION AND PROTECTION IN MATTERS OTHER THAN HEALTH, ENSURE FAIR TRADING AND GUARANTEE THE NECESSARY CONTROLS. PROVIDED THESE CONDITIONS WERE SATISFIED, THE PRINCIPAL OF "MUTUAL RECOGNITION" SHOULD TAKE CARE OF THE REST.

THE FOUNDATION OF THE NEW POLICY RESTS ON SO-CALLED "FRAMEWORK" DIRECTIVES TABLED IN EARLY 1986 AND COVERING ISSUES LIKE FOOD ADDITIVES, MATERIALS IN CONTACT WITH FOOD, NUTRITIONAL USES AND LABELING. ALL FIVE FRAMEWORK DIRECTIVES WERE ACHIEVED IN 1988, BUT

THERE ARE STILL DETAILS TO BE WORKED OUT. ON ADDITIVES, FOR EXAMPLE, THERE IS STILL AN ENORMOUS AMOUNT OF WORK TO BE DONE LAYING OUT CONDITIONS OF USE OF THE 500 OR SO FOOD ADDITIVES NOW ON SALE IN THE E.C., TO BE BASED ON DAILY INTAKE ALLOWANCES.

THE E.C. RECENTLY REACHED A COMMON POSITION ON NUTRITIONAL LABELING. BUT WHILE THE GENERAL FRAMEWORK DIRECTIVE ON FOOD LABELING ESTABLISHED THAT THE "BEST BEFORE" SYSTEM WILL BE STANDARD AFTER 1992, THE "SELL BY" SYSTEM IN USE IN THE U.K. WILL HAVE TO GO AND FROZEN FOODS WITH A SHELF-LIFE OF MORE THAN 18 MONTHS WILL HAVE TO BE DATEMARKED. OTHER GENERAL LABELING RULES HAVE YET TO BE TACKLED.

OVERALL, THE DIRECTION IS SET BUT THE SHEER VOLUME OF WORK WHICH REMAINS TO BE DONE IS A REASON TO BE A LITTLE SKEPTICAL OF THE 1992 DEADLINE.

2. HARMONIZATION OF VALUE-ADDED TAXES AND EXCISE DUTIES: IT IS PROBABLY ONE OF THE THORNIEST ISSUES WHICH REMAINS ON THE TABLE, BECAUSE IT DEALS WITH SOVEREIGNTY AND MONEY. NO STATE SEES WITH DELIGHT DECISIONS ABOUT ITS OWN BUDGET TAKEN SOMEWHERE ELSE, ESPECIALLY WHEN THESE DECISIONS IMPLY A NEGATIVE IMPACT ON ITS RESOURCES. THE SOLUTION THE COMMISSION HAS SUGGESTED HAS BEEN AN APPROXIMATION OF INDIRECT TAX RATES, WHICH WOULD BRING TOGETHER CURRENT VAT RATES INSIDE TWO BANDS: ONE RANGING FROM 14 TO 20 PERCENT, THE OTHER BETWEEN 6 AND 9 PERCENT. FOR THE TIME BEING, MINISTERS HAVE AGREED TO DISAGREE AND HAVE POSTPONED THE DECISION UNTIL 1991.

THE SECOND OBJECTIVE IN THE FIELD OF TAXATION IS TO COMPLEMENT THE

FREE-FLOW OF CAPITAL ACROSS THE BORDER, WHICH WILL BE EFFECTIVE JULY 1ST, 1990. THE COMMISSION HAS PROPOSED THE INTRODUCTION OF A COMMON MINIMUM WITHHOLDING TAX ON INTERESTS AT A RATE OF 15 PERCENT, WITH MEASURES AIMING AT STRENGTHENING THE MUTUAL ASSISTANCE BETWEEN TAX AUTHORITIES OF MEMBER STATES TO PREVENT TAX EVASION. THE MEASURE IS ON HOLD.

3. MERGER AND ACQUISITION LAWS:

UNDER A REGULATION ADOPTED BY THE E.C. IN LATE 1989, THE BIGGEST PROPOSED DEALS WILL BE LOOKED AT NOT BY NATIONAL ANTITRUST AUTHORITIES BUT BY THE E.C. ITSELF. THAT IS TO HAPPEN IF THE SIZE OF THE MERGER TOPS 6 BILLION USD - ADMITTEDLY A VERY HIGH THRESHOLD BUT STILL ONE THROUGH WHICH ABOUT 5 PERCENT OF MERGERS WOULD PASS. ALTHOUGH THE MAIN OBJECTIVE OF THE NEW E.C. REGULATION IS SUPPOSED TO ENCOURAGE COMPETITION, THE BIG QUESTION WHICH REMAINS UNANSWERED IS WHETHER THE PROPOSED MERGER WILL BE LOOKED AT SOLELY ON ANTI-TRUST GROUNDS, OR AS WELL ON "INDUSTRIAL POLICY GROUND". IN ADDITION TO E.C. REGULATIONS, IT IS LIKELY THAT COMMON RULES WILL BE ADOPTED ON MERGERS THAT DO NOT GO TO THE E.C. LEVEL.

THE E.C. FOOD MARKET IS NOW WORTH OVER 600 BU USD A YEAR AND IS EXPECTED TO TOP 700 BU USD BY 1993. ACCORDING TO A 1988 STUDY COMMISSIONED BY THE E.C., THE INTERNAL BENEFITS OF ECONOMICAL INTEGRATION COULD MEAN A 4 TO 7 PERCENT INCREASE IN GROSS DOMESTIC PRODUCT, A SIX PERCENT REDUCTION IN CONSUMER PRICES AND TWO TO FIVE

MILLION MORE JOBS.

ECONOMIC INTEGRATION WILL MEAN LOWER COSTS FOR E.C. FOOD COMPANIES BECAUSE ADMINISTRATIVE EXPENSES AT THE BORDER WILL BE ELIMINATED AND PER UNIT COSTS WILL DECLINE. TRANSPORTATION COSTS WILL DROP BECAUSE DELIVERY TIMES WILL BE REDUCED AND THE PRACTICE KNOWN AS "CABOTAGE" OR "BACK HAULING" WILL BE LEGAL. FOR EXAMPLE, A FRENCH TRUCK DELIVERING GOODS IN WEST GERMANY WILL BE ABLE TO RETURN TO FRANCE WITH ANOTHER LOAD OF GOODS.

IN TERMS OF FOOD DISTRIBUTION, EUROPE IS QUICKLY CONVERTING TO SUPER AND "HYPERMARKETS", WITH CONSOLIDATIONS OF RETAIL CHAINS ACROSS NATIONAL BORDERS. THESE MEGA-CORPORATE ENTITIES IN FOOD RETAILING HAVE TREMENDOUS POWER OVER WHAT THEY BUY AND PUT ON THE SHELVES. IF A BRAND IS NOT IN THE TOP THREE - RELATED TO CONSUMER PREFERENCES - IT IS NOT LIKELY TO GET A POSITION ON THE SUPERMARKET SHELF UNLESS ONE IS WILLING TO PAY THAT RETAILER TO CARRY HIS PRODUCT BY OFFERING A BIG DISCOUNT.

WITH THE COMMUNITY-WIDE MARKET COMES VERY HIGH COSTS FOR MARKETING AND ADVERTISING, BECAUSE THE 320 MILLION CONSUMERS DO NOT REPRESENT UNIFORM TASTES OR CULTURES. WE WILL INCREASINGLY SEE COMMUNITY-WIDE PRODUCTS BACKED BY TREMENDOUS PROMOTIONAL BUDGETS. AT THE SAME TIME, WE WILL PROBABLY SEE INCREASINGLY LARGE NUMBERS OF SMALL SPECIALTY OR NICHE FOOD PRODUCT COMPANIES BEING ABSORBED BY LARGE E.C.- WIDE CONCERNS.

* HOW BIG IS THE EUROPEAN FOOD MARKET AND WHICH WILL BE THE GROWTH SECTORS? ACCORDING TO STUDIES, THE E.C. FOOD AND DRINK MARKET IS

LIKELY TO SHOW AVERAGE REAL GROWTH OF 1 PERCENT PER YEAR BY 1993 FROM ITS TOTAL OF 600 BU USD IN 1989.

BY FAR THE LARGEST EXPANSION IS EXPECTED TO COME IN READY MEALS, WHICH IS FORESEEN TO GROW BY CLOSE TO 10 PERCENT ANNUALLY.

* HOW NECESSARY WILL IT BE TO BE BIG AND HAVE GLOBAL BRANDS? WITH FEW EXCEPTIONS, STRONG POSITIONS WITHIN EACH SECTOR OF EACH NATIONAL MARKET ARE MORE IMPORTANT THAN GLOBAL SIZE. IF COMPANIES LIKE NESTLE, UNILEVER, BSN, HEINZ AND CPC APPEAR IN THE FIRST DIVISION IN ONE COUNTRY AFTER ANOTHER, IT REFLECTS LOCAL STRENGTHS AS MUCH AS CONTINENT-WIDE ECONOMIES OF SCALE.

WINNING STRATEGIES FOR CROSS-BORDER ACQUISITION WILL INCLUDE CONSOLIDATION, (AS BSN IS ATTEMPTING TO DO IN THE ITALIAN PASTA MARKET AFTER GOING ON A BUYING SPREE OF MEDIUM-SIZED COMPANIES FOR SEVERAL YEARS) AS WELL AS ENGINEERING GROWTH IN A DEVELOPING MARKET (AS BSN IS DOING WITH BISCUITS IN SPAIN). BSN OF FRANCE HAS RECENTLY CONSOLIDATED ITS POSITION AS EUROPE'S THIRD LARGEST HOME-GROWN FOOD COMPANY AFTER NESTLE AND UNILEVER, WITH THE 2.5 BU USD PURCHASE OF NABISCO'S EUROPEAN BISCUIT AND SNACK BUSINESS. AFTER DECIDING THAT SNACKS WERE NOT PART OF ITS STRATEGY, BSN RESOLD NABISCO'S U.K. SNACKS TO PEPSICO FOR 1,35 BU USD.

* WHAT ABOUT JAPANESE AND U.S. INVESTMENTS?

THE JAPANESE HAVE COME IN VERY SLOWLY AND ARE NOT EXPECTED TO BECOME A BIG PLAYER IN THE E.C. FOOD INDUSTRY (SUNTORI HAS RECENTLY MADE SOME HIGHLY VISIBLE INVESTMENT IN THE WINE SECTOR IN FRANCE BUT THE ECONOMIC IMPORTANCE OF THOSE INROADS IS NEGLIGABLE). WITH

SOME EXCEPTIONS AMONG COMMODITY-BASED GROUPS LIKE ADM, LITTLE MORE IS EXPECTED FROM U.S. CONCERNS THAN THE COMPANIES ALREADY WELL ESTABLISHED IN THE E.C.

EUROPE'S MAJOR FOOD MANUFACTURERS

Performance ranked by pre-tax profits in \$m

	Main sector	Pre-tax profits 1988
Nestlé	Various	2,917.0
Unilever	Various	2,676.8
Pepsico	Various	1,137.0
BSN	Various	654.4
Associated British Foods	Milling/ baking	423.2
Cadbury Schweppes	Confectionery/drinks	385.7
Reckitt & Colman	Various	341.1
Jacobs Suchard	Confectionery/coffee	323.8
United Biscuits	Various	303.9
RHM	Various	279.6
Hillsdown	Various	269.5
Tate & Lyle	Sugar	214.5
Rowntree	Confectionery/snacks	200.1 ¹
Dalgety	Various	197.1
Berisford	Sugar/various	191.6
Unigate	Dairy	179.5
Douwe Egberts	Coffee, etc	158.6
Northern Foods	Various	152.3
British Sugar	Sugar	146.4
Huhtamäki	Confectionery	124.3
Mars Food Manufacturers	Various	107.0 ¹
Bongrain	Dairy	105.5
Provender	Various	96.2
Kellogg	Cereals	94.6
Cultor	Sugar	92.8
Dairy Crest MMB)	Dairy	89.3
Hazlewood	Various	83.0
Heinz	Various	79.6
Express Foods	Dairy	78.8 ¹
De Danske Sukkerfabrikker	Sugar	72.0
J Lyons	Various	71.3
CSM	Various	64.1
Fromageries Bel	Dairy	59.9
Fitch Lovell	Various	57.1
Hendrix	Meat	54.0
Nora	Various	49.7
Buitoni	Pasta, etc	44.0 ¹
Mars GmbH	Various	33.0
Ferrero	Confectionery	28.5 ¹
Tulip	Meat	19.9
Kellogg Deutschland	Cereals	15.3
DMV Campina	Dairy	15.1
CCFRiesland	Dairy	4.5
KVI	Various	0.2
Arla	Dairy	Negligible

Note: ¹ 1987

The food industry in Europe is highly concentrated among major manufacturers in the UK and the Netherlands, while the degree of concentration in the national food industries varies considerably from country to country.

Source: Euromonitor. London. tel. (01) 251-8024.

Takeovers by European food groups, 1988-1989

Purchaser	Purchased	Product range
BSN (France)	Birker (West Germany) ¹ Galbani (Italy) Nabisco European	Pasta Dairy Biscuits
Cadbury Schweppes (UK)	Bassett (UK) Trebtor (UK)	Confectionery Confectionery
DMV (Netherlands)	Melkunie (Netherlands) ²	Dairy
Douwe Egberts (Netherlands)	Van Nelle (Netherlands)	Coffee
Grand Metropolitan (UK)	Pillsbury (US) Burger King and Wimpy	Various Fast food chains
J Lyons (UK)	Dunkin' Donuts (US)	Coffee & doughnuts
Nestlé (Switzerland)	Rowntree (UK) Buitoni Group (Italy)	Confectionery Pasta, confectionery
United Biscuits (UK)	Raffinerie Tirlemontoise (Belgium) Ross Youngs (UK)	Sugar Frozen foods

Notes: ¹ Still subject to approval; ² Merger

Source: Euromonitor report: European Food Companies, 1990.

Forecast changes in European food markets in \$bn

Major markets	1988	1989	1990	1991	1992	1993	% change, 1988-93
France	97.3	97.9	98.6	100.3	101.9	103.6	6.47
Italy	108.9	109.7	110.4	112.2	114.0	115.7	6.29
UK	61.5	61.9	62.3	63.1	64.0	64.8	5.38
West Germany	116.6	116.9	117.2	119.0	120.7	122.5	5.07
Belgium	18.3	18.4	18.4	18.6	18.8	19.0	3.93
Luxembourg	603m	618m	632m	666m	700m	734m	21.71
Netherlands	19.41	19.7	20.0	20.7	21.3	21.9	12.64
Denmark	10.0	10.1	10.3	10.7	11.2	11.6	16.47
Finland	9.3	9.3	9.3	9.4	9.4	9.5	1.90
Norway	9.3	9.4	9.4	9.4	9.4	9.4	0.97
Sweden	16.9	17.4	18.0	19.2	20.4	21.6	27.63
Portugal	10.7	10.8	10.9	10.8	10.8	10.8	0.58
Spain	59.8	60.3	60.9	61.6	62.3	63.0	5.29
Austria	12.4	12.5	12.5	12.7	12.9	13.1	5.90
Greece	13.3	13.9	14.6	16.1	17.6	19.1	44.12
Ireland	5.3	5.4	5.5	5.8	6.1	6.4	20.86
Switzerland	20.3	20.1	19.9	19.6	19.3	18.9	-6.62
European total	590.6	595.1	599.7	610.6	621.6	632.5	7.10

These projections, from Euromonitor's report, "Consumer Europe, 1989-90," are based upon a number of assumptions which are self-evidently open to challenge, but without which no calculation would be possible. For example, the figures are based upon exchange rates at 1988 levels; and that purchase taxes, value-added taxes and excise duties also remain unchanged at 1988 levels. Details about the full report are available from Euromonitor, London, telephone 01-251-8024.

European food market
This market including the catering industry, was worth \$600bn. In 1988, and is expected to reach \$708bn by 1993

France	\$123.69 bn
West Germany	\$119.61 bn
Italy	\$116.65bn
UK	\$92.27bn
Netherlands	\$25.28 bn
Belgium/ Luxembourg	\$21.00bn
Denmark	\$13.58 bn

Total meat consumption
The Western European market in 1989 was 26.53 million tonnes (includes meat products)

West Germany	5.80m. tonnes
France	5.02m. tonnes
Italy	4.30m. tonnes
UK	4.20m. tonnes
Spain	3.04m. tonnes
Netherlands	1.12m. tonnes
Belgium/ Luxembourg	0.87m. tonnes
Greece	0.78m. tonnes
Portugal	0.61m. tonnes
Denmark	0.48m. tonnes
Ireland	0.31m. tonnes

Chilled food market
The Western European market in 1993 is likely to reach \$46.32 bn, compared to \$36.70 bn in 1988

France	\$12.36 bn
West Germany	\$9.66 bn
Italy	\$8.37 bn
UK	\$8.31bn
Spain	\$4.03 bn
Belgium/ Luxembourg	\$1.91bn
Netherlands	\$1.66 bn

New dairy products mkt.
The Western European market in 1988 was worth \$71.89bn, and could be worth \$73.9bn by 1993

Cheese	\$22.69 bn
Liquid milk	\$15.96 bn
Commodities	\$11.21 bn
Fermented products	\$7.80 bn
Butter & spreads	\$7.01bn
Cream & Desserts	\$3.58bn
Ice cream	\$3.44bn

Source: Frost & Sullivan.

ALTHOUGH there are regional differences among European countries — for example, the Italian preference for cereal foods such as pasta and bread — there is also a great deal of uniformity among the eating habits and buying patterns of the European nations, says a report from Frost and Sullivan, the market analysts. While Europeans spent

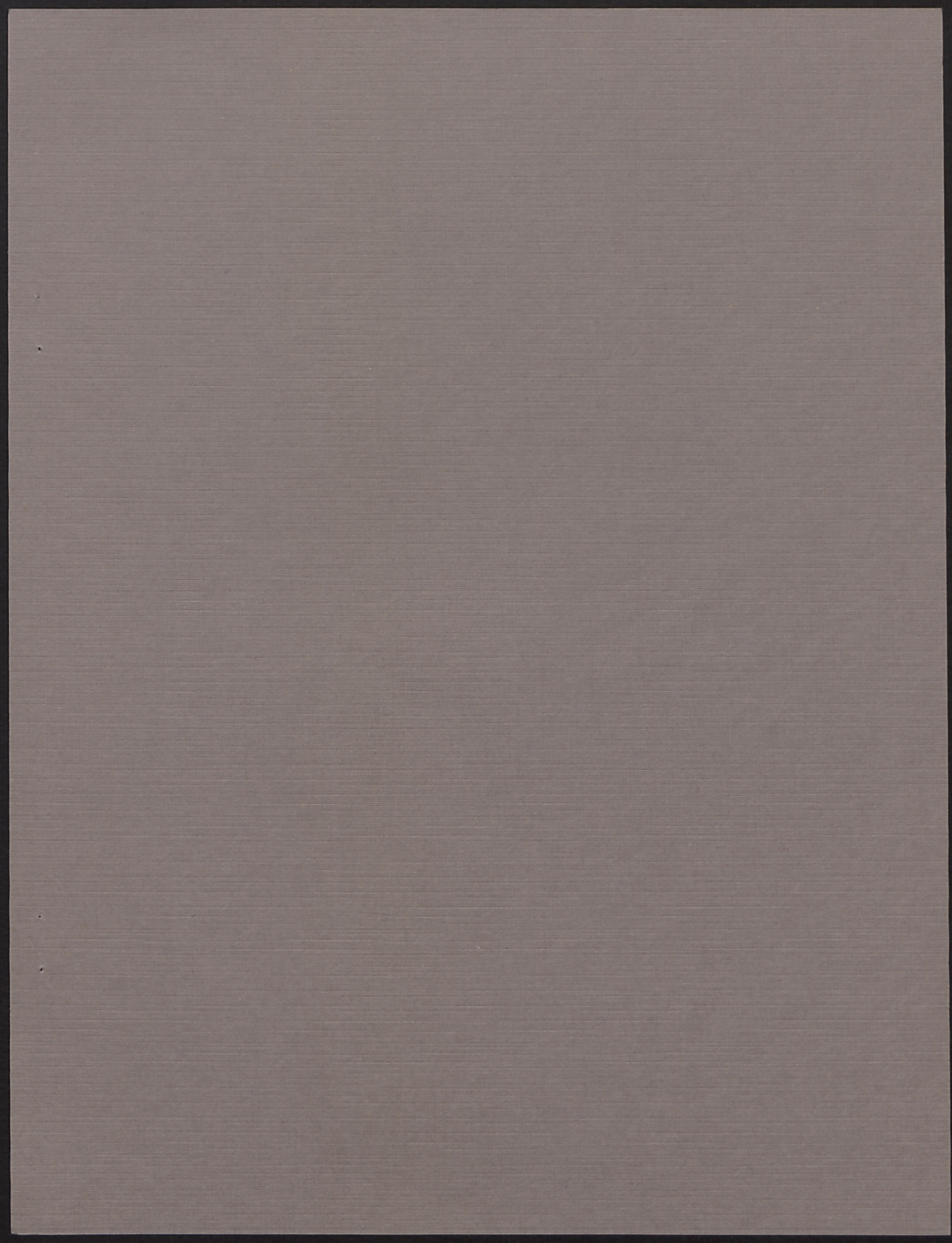
nearly \$196bn on meat and fish in 1988 — the largest product sector in the food market — this figure is expected to rise to \$223bn by 1993. Sharper growth is anticipated in other sectors, due to the nutrition-conscious move away from red meat and toward dairy products, cereals, and fresh fruit and vegetables. Cereal-product sales are projected to rise

to \$100.4bn in 1993 (from \$81.8bn in 1988); dairy products should grow to \$123.7bn (up from \$101.6); and fruits, vegetables and potatoes from \$91.9bn to \$113.2bn, in the same period. Catering — food served in hotels and restaurants — will enjoy a rise to \$136bn (compared to \$118bn in 1988). Pork is "by far the most important meat produced in

the EC," says another report on meat products. "The consumer's attitude is relatively favourable, as pork is felt to have less negative health-related connotations than beef and sheep meats." Meat and meat products account for 52 per cent of chilled food consumption: this sector of the chilled food market is expected to top \$20.7bn by 1993, up from

£19.15bn in 1988. France is the biggest consumer of chilled foods in Europe. In a report on Western Europe's \$72bn dairy products market, analysts predict that yoghurts and other fermented dairy products, dairy desserts of all sorts, and — in some countries — ice-cream, "are products which are likely to enjoy high growth rates," as

the total market — boosted by many new product introductions — grows to \$73.9bn by 1993. Four reports: The Food Industry Market in Europe; Meat and Meat Products Market; New Dairy Products Market; and The Chilled Foods Market, available from Frost and Sullivan in London, tel.(01) 730-3438; and in New York, tel. (212) 233-1080.



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