Special Article

Nabisco International

Globalization of the Processed Foods Market

Part One: U.S. Trade in Processed Foods

The growth of U.S. processed foods trade in the past few years has been phenomenal, with exports exceeding imports since 1992. Since 1991, the value of exports has grown 55 percent, while imports grew 21 percent. U.S. consumer prices during that time rose 15 percent, so real growth in the value of exports has been about 40 percent over the past 5 years. Total U.S. trade in processed foods and beverages amounted to $54.2 billion in 1995. The $29.4 billion in exports exceeded imports by $4.6 billion.

Processed foods and beverages are often referred to as "value-added" products, in that some combination of labor, technology, and materials is applied to raw commodity inputs such as wheat and yeast, and transformed into a product such as bread or pastry. The processing may be minor, as in the case of canned fruits and vegetables, or may be quite extensive, as in the conversion of cocoa, sugar, milk, and nuts into candy bars.

Some processed foods are sold at a number of levels relative to value added. For example, beef sold "on hoof" is listed as a raw commodity and would not be included in processed foods. However, as beef moves through various distribution channels toward the consumer, it becomes a processed product, whether it is sold as carcass beef, as boxed beef, or as a final shrink-wrapped cut in the grocery display case. Each of these products requires increasing levels of employment and raw materials.

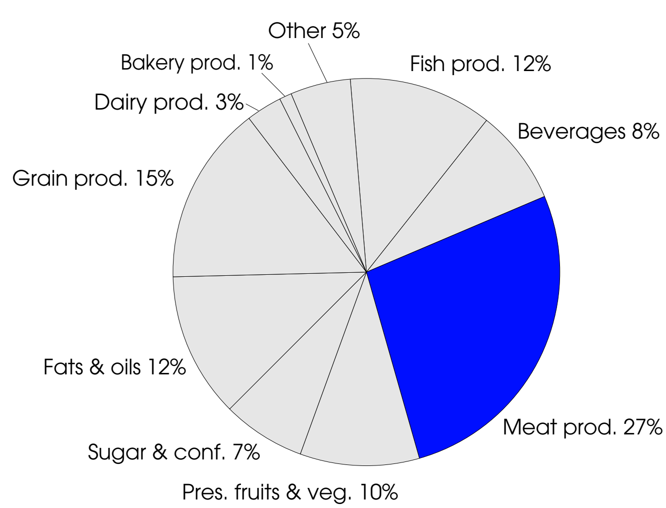
Many processed foods are "brand name" products from well-known companies (such as Pillsbury or Hershey). However, a number of processed food products, such as milk, reflect very little product differentiation between the various suppliers.

The leading industry groups for U.S. processed food exports are meat and poultry products, fish, grain mill products, and fats and oils. These four groups accounted for 66 percent of the value of U.S. exports of processed foods during 1993-95. Meat and poultry accounted for over one-quarter, with fish responsible for 12 percent of total U.S. exports.

Five individual industries averaged over $1 billion per year and 48 percent of processed food exports during 1993-95: meat packing, fresh fish, soybean oil mills, poultry processing, and wet corn milling. Meat packing alone accounted for 20 percent, with fresh and frozen fish registering another 10 percent.

On the import side, fish products and beverages are the leading industry groups. These two groups accounted for 45 percent of U.S. imports of processed foods during 1993-95. Nine individual industries averaged over $1 billion per year and 70 percent of processed food imports during 1993-95: fresh fish; meat packing; distilled and blended spirits; canned fruits and vegetables; wines, brandy and brandy spirits; malt beverages; chocolate and cocoa products; vegetable oil mills; and processed fishery products. Fresh fish accounted for 23 percent, with meat packing registering another 12 percent.

Meat Products Lead U.S. Exports of Processed Food



Processed food exports, 1993-95
$79 billion

Source: U.S. Bureau of the Census.
Economic Research Service, USDA

Major Destinations & Sources

The U.S. buys and sells processed foods and beverages in nearly every country of the world. During 1989-95, the U.S. exported over $158 billion in processed foods to 233 countries (including the 15 nations of the former Soviet Union), while importing nearly $153 billion in processed foods from 227 countries. During 1994-95, the U.S. averaged approximately 190 export trade partners and 170 import trade partners.

While the U.S. trades with many countries, relatively few nations account for the bulk of that trade. During 1993-95, nearly half of U.S. exports of processed foods went to only three countries: Japan, Canada, and Mexico. These three nations rank among the top five destinations for U.S. processed products in each of the nine major product groups of processed foods and beverages. Over 60 percent of Japan's imports of U.S. processed foods are from two industries—meat packing and frozen fish. Japan also imports large amounts of U.S. frozen fruits and vegetables, prepared feeds, and poultry.

The leading industries exporting to Canadian markets are meat packing, frozen fish, canned fruits and vegetables, and miscellaneous products (spices, teas, and food preparations). These four industries accounted for one-third of U.S. processed food exports to Canada during 1993-95. Meat and poultry products are the leading U.S. export industries for Mexican markets. Mexican imports of U.S. processed foods were down in 1995 compared with prior years, due mostly to economic hardships in Mexico. However, the nations of the former Soviet Union increased their purchases substantially, up 67 percent over their average from the previous 2 years.

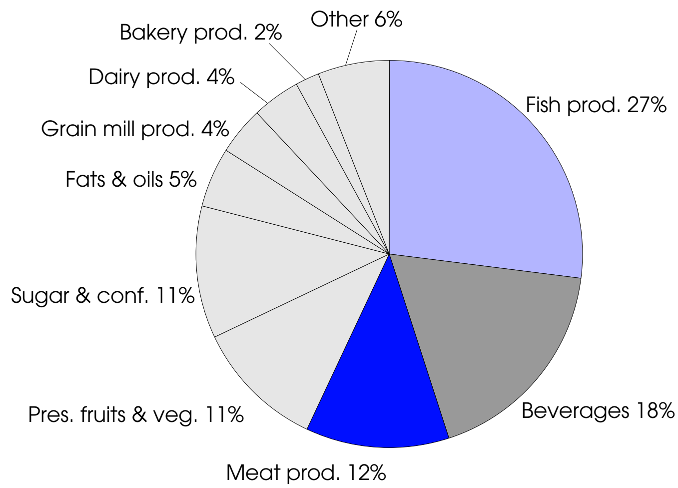
Slightly more than half (51 percent) of total U.S. purchases of processed foods during 1993-95 came from eight countries: Canada, Thailand, Mexico, France, Italy, Australia, Brazil, and New Zealand. Canada, by far the leading exporter of processed foods to the U.S., commanded a 19-percent market share during 1993-95.

Japan and the former Soviet nations are relatively minor suppliers of U.S. processed products. On the other hand, the nations of Western Europe and Oceania are much more important as sources of processed products for U.S. consumers than as purchasers of U.S. products.

Although import sources are more widely dispersed than are export destinations, the *growth* in imports has been more tightly distributed. Over 60 percent of the growth in U.S. imports of processed foods between 1989-90 and 1994-95 (combined years) was due to increased U.S. purchases from only two countries, Canada and Thailand.

The dominant U.S. imports from Canada are meat packing and frozen fish, accounting for 40 percent of U.S. imports of processed foods from Canada during 1993-95. Nearly three-fourths of U.S. processed food imports from Thailand are fresh and frozen fish and canned and cured fish.

Beverages, Fish and Meat Products Dominate U.S. Imports of Processed Food



Processed food imports, 1993-95
$71 billion

Source: U.S. Bureau of the Census.
Economic Research Service, USDA

Outlook for U.S. Processed Food Exports

Recent trends in U.S. trade in processed foods are likely to continue into the near future. The trade surplus that originated in 1992 has continued to grow in each of the 3 years since. Exports have exhibited strong growth in the past decade, particularly in a number of food processing industries with historically smaller export levels. Import growth, though positive, has been at a much slower rate.

Although the industrialized countries of Western Europe have long served as major sources and destinations for U.S. processed foods and beverages, trade between the U.S. and Western Europe has seen little growth in recent years. Should this trend continue, the share of U.S. exports going to Western Europe is expected to slowly decline.

Trade in value-added products is generally more sensitive to income levels and income growth in importing countries than is trade of raw commodities. As income levels have increased in smaller, less developed countries, these countries have become the fastest growing destinations for U.S. processed food exports. In particular, the newly industrialized countries of East Asia have been responsible for a large chunk of the overall growth of U.S. processed food exports. Continued income growth is crucial to increased U.S. processed food exports to the more highly populated, lower income countries, like China, Vietnam, Indonesia, and India.

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With the signing of major trade agreements (the North American Free Trade Agreement and the GATT Uruguay Round), Mexico and Canada have increased their processed food and beverage imports from the U.S. along with other items. It is likely that these trends will continue, even though 1995 exports to Mexico were down due to the peso devaluation. Further negotiations on trade agreements with other Western Hemisphere countries, notably Chile, Costa Rica, and the MERCOSUR countries (Brazil, Argentina, Uruguay and Paraguay), could also increase U.S. exports to Latin America.

The U.S. is among the world leaders in exports and imports of processed foods. The appeal of U.S. brand names and the influence of U.S. multinational firms abroad help promote its exports in international markets. And with a large population base of high-income consumers, the U.S. is a natural magnet for food imports, bringing a variety of choices to U.S. consumers. *[Fred Ruppel (202) 219-0883; fruppel@econ.ag.gov]* AO

Part Two: Foreign Affiliates of U.S. Food Firms

Foreign trade tells only part of the story in international commerce in the food processing industry. In fact, U.S. food processing firms reach overseas markets mainly through product sales of their foreign affiliates. Only 2 percent of affiliate sales in 1995 were shipped to the U.S. Third countries purchased 19 percent, while the balance of sales were made in the host country.

The U.S. is among the largest investors in foreign food processing industries. U.S. investments doubled from $15 billion to $31 billion in just 5 years (1991-95), increasing steadily each year. U.S. investments in food manufacturing abroad are not concentrated in any particular products, but are spread across the board. Nearly 70 percent of U.S. food industry investments are in Western Europe, Canada, and Mexico. Within Europe, the U.K., Germany, Netherlands, and France are the major recipients of U.S. foreign direct investment (FDI). While U.S. investment is growing rapidly in some areas of Latin America and Asia, the investments are starting at a lower base.

Most investments have been in countries with relatively high consumer incomes and with similar tastes, but there have been many reasons for the recent growth in FDI. It is not always economically feasible to export bulky products to countries that are a long distance from the U.S., particularly when those countries produce about the same farm products that the U.S. does.

So firms do the next best thing and set up processing plants. A plant may sell its product in just one country, or it may export from that plant to other countries in the region. The products made in such plants include a range of items, such as mayonnaise, salad dressings, cookies and biscuits, and soft drinks.

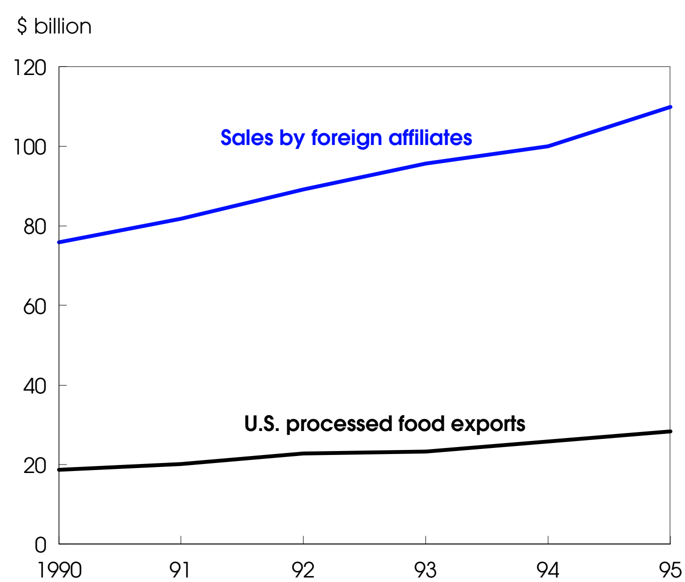
The European Union (EU), with its affluent consumers and high tariffs, has been a magnet for FDI. Tariffs for many processed products are high enough so that it is more profitable to have processing plants within the EU than to export.

Free trade agreements such as NAFTA have also led to increased investment as well as trade, with U.S. exports and investment to Mexico doubling in the last 5 years. While both declined in 1995 due to the peso devaluation, they are on the upswing in 1996. MERCOSUR (Brazil, Argentina, Uruguay, and Paraguay) has spurred new growth in U.S. investment in the region. MERCOSUR's Common External Tariff (CET), initiated in 1995, applies to imports by member countries. While CET's are not as high as the tariffs they replaced, the common tariffs have motivated U.S. firms to invest directly in these countries. MERCOSUR is now viewed as a potentially integrated regional market with common trade rules and an improved degree of economic stability.

FDI has also been aided by liberalized investment rules abroad. The Uruguay Round of GATT (and subsequently WTO) has influenced FDI growth. While tariffs are being reduced by the Uruguay Round, investment rules are also being liberalized within the GATT/WTO. In addition, individual countries have been liberalizing their investment rules.

FDI is not one-sided, but U.S. investments abroad have exceeded inward foreign direct investment in the U.S. food processing industry. Foreign direct investment in the U.S. food industry was $25 billion in 1995, compared with $23 billion in 1990. The large increase in FDI in the U.S. occurred in 1989, when the UK's Grand Metropolitan purchased Pillsbury. Japan's entry into the U.S. food industry occurred in the late 1980's. Cur-

Processed Food Sales by U.S. Affiliates Exceed Exports



Economic Research Service, USDA