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Mediterranean agriculture competitiveness

L.M. Albisu

Unidad de Economía Agraria, Servicio de Investigación Agroalimentaria,
Diputación General de Aragón, Apartado 727, 50080 Zaragoza, Spain

SUMMARY – Mediterranean agriculture faces new opportunities in a liberalised trading world. The European Union has been the most common outlet for the Mediterranean agricultural production coming from southern countries but trading among neighbours will expand in the future. The question is how to become more competitive and gain market share in developed and developing countries. Low cost of production nowadays is not a strong reason although it helps. Raw commodities face a fierce competition from many suppliers and agrofood products present a more promising growth. Logistics, information technologies and strategic planning are becoming more important than the physical product characteristics. Consumers concerns about sustainable agriculture and animal welfare are incorporated in the competitive race and agricultural producers should be aware of new possibilities but also of future constraints.

Key words: Mediterranean, agriculture, competitiveness, agrofood products.

RESUME – "Compétitivité de l'agriculture méditerranéenne". L'agriculture méditerranéenne fait face à de nouvelles opportunités dans le contexte de libéralisation du commerce mondial. Cependant, et malgré que l'Union Européenne constitue le principal marché des produits agricoles méditerranéens provenant des pays du sud, le commerce entre ces derniers est appelé à se développer dans le futur. Il convient de voir comment l'agriculture deviendra-t-elle compétitive afin d'acquérir des parts de marché aussi bien dans les pays développés que dans les pays en voie de développement ? Dans ce contexte les faibles coûts à la production ne représentent plus aujourd'hui une forte raison d'aide. Les matières premières affrontent une compétitivité face à certains offreurs et les produits agroalimentaires présentent actuellement un créneau prometteur. La logistique, les technologies de l'information, les stratégies de planification ainsi que les caractéristiques physiques des produits deviennent de plus en plus importantes. La préoccupation de la part des consommateurs à l'égard d'une agriculture durable et le bien-être animal ont été impliqués dans le processus actuel de compétitivité courante et les producteurs agricoles doivent être conscients non seulement des nouvelles possibilités mais aussi des contraintes futures.

Mots-clés : Méditerranée, agriculture, compétitivité, produits agroalimentaires.

Introduction

Trade liberalisation will be the strongest economic leverage for economic development in the next decade, for both developed and not so developed countries. Global markets will be divided into economic blocks or geographical areas where trade flows will even play a more significant role. Food globalisation is much harder to achieve than in other economic sectors. It requires previous consumption of the food traded and established habits if significant quantities have to be achieved among nations.

Currently, the Mediterranean Basin faces different problems whether we consider countries inside or outside the European Union, in the North or the South, depending of their development level or their economic structure. But altogether, in 1995, all Mediterranean countries gathered 472 millions of inhabitants and it is expected that by year 2025 they could amount to almost 700 millions. Of course the demographic growth will be biased towards the South but migration flows could mitigate the lack of balance between the North and the South.

In the same way that we mention Eastern European or Latin American countries we should emphasise more about the Mediterranean countries. Their global homogeneity is greater than their internal heterogeneity and, in a global economy, this block of countries should have a common consideration. Common features should compensate for other dissimilarities and they should attract more political attention. Our different cultures and especially religions have been a determinant factor to separate people in the area.

Nevertheless, the main strength, in the Mediterranean countries, will be their mutual understanding and the reinforcement of socio-economic linkages, which will facilitate their economic development. This common understanding should avoid or minimise trade conflicts. Countries from the South could benefit from the experience accumulated in the Northern countries, especially after their accession to the European Union where competitiveness is the rule and not the exception. Capital flows and the transfer of knowledge towards the South is important to make closer linkages. Information technological developments and transfer could help to alleviate the gaps.

In this paper I will concentrate in the Southern Mediterranean countries, which correspond to all countries around the South of the Mediterranean Basin plus the Middle East. Nevertheless, specific mention refers to other countries in the North of the Mediterranean, either inside or outside the European Union. The purpose of my presentation is not to provide a bundle of data, although some figures will be given, but to give some insights into what could be the competitive environment that most countries will face in the next decade.

Competitiveness under revision

Competitiveness by any means is not a new issue, as it seems nowadays. This concept has become more fashionable because the markets liberalisation and the emphasis in a more global economy. Competition used to be more localised within regions and nations but now, with an increasing international trade, it applies everywhere. Competitors are not fully identified as they used to be and now they might come from far away places, which it was not the case previously. Agrofood firms compete in a more uncertain environment and they are, like other firms, searching the way to have a sound competitive base. This process introduces a great amount of uncertainty.

The agrofood sector is moving from a primary commodity orientation to more finished food products. International trade of food products has over passed commodity products. It is a consequence of wealthier consumers all over the world and a need to incorporate more added value to raw materials. Agrofood firms play an important role in transforming raw materials and adding value to the product. In this process there are quite distinctive situations and we can distinguish among agrofood firms dealing with undifferentiated, differentiated and specific geographic origin products. Product differentiation could be of a great importance to approach a competitive analysis, especially for small and medium firms.

There is a general consensus that firm's competitiveness is a key element for their development. However, competitiveness is a complex issue and it is difficult to find a sound approach and even more difficult to measure it. Porter (1985, 1990) is by far the most mentioned author but there are other approaches, which have been applied in the agrofood sector (Pitts and Lagnevik, 1998).

Hunt and Morgan (1995) have presented a most elaborated approach under a new theory of competitive comparative advantage. It relies on four previous theories: (i) the theory about the enterprise resources based on the strategic literature; (ii) works related to competitive advantage and industrial economics; (iii) the theory of the competitive rationality funded by the Austrian economics school; and (iv) the theory of the differential advantage based on marketing and economic principles. The final outcome comes to demonstrate that a consumer orientation and the marketing activities are of paramount significance to be competitive in international markets. In the new environment dynamic and unstable states are the norm and not the exception.

Mediterranean agriculture trade

The purpose of this seminar, according to its title, is to analyse the future of trade flows in the Mediterranean Basin taking into consideration globalisation and competitiveness. Though, it is of a special significance some knowledge of Mediterranean trade flows in the past to understand the kind of developments, which are taken place.

First of all, we have to delimit the countries, which are considered for the analysis. Although we are talking about the Mediterranean Basin, our main focus should be in the Southern Mediterranean countries, but some examples from the Northern Mediterranean countries could be illustrative. This

implies that the European Union should be under careful analysis because it is the main exporting area for both types of countries, those inside and those outside that area.

Taking the figures gathered by Medagri in 1992 and 1997 we can have an idea of late trade developments. Thus, in general, agricultural trade plays a smaller part in their economies because industrial products trade is arisen. The situation is not similar for all countries. There are countries, like Algeria and Egypt, which still agrofood imports represent an important part of their total imports because it accounts for around 30%.

The agricultural exports of the Southern Mediterranean countries, on the average in between 1961-1965, accounted for 22% of their total exports but it went down to 4% in the period 1986-1990. Those figures vary a lot, from country to country, and the average is very low because it has a biased influence from those countries where petrol is its more important exporting product.

However, according to the latest figures we have countries like Lebanon and Turkey where their agrofood exports account for over 25% of their total exports. But many Southern Mediterranean countries move in the range of 10% to 20%. For some of them agrofood exports are non-existent and such is the case, for example, of Algeria and Lybia. For all of them their main markets are in the European Union, as this economic block imports more than 50%, on average, of the total exports of the Southern Mediterranean countries. In some cases it reaches more than 70%.

Another important feature is the percentage of exports, which corresponds to agricultural raw materials and food products. The entire group of countries have moved from 0.6% to 0.7% for their exports of agricultural raw materials, with respect to their total exports, in the period from 1980 to 1993. Food products have increased more from 2.4% to 3.5%. In both cases those figures are very low.

If we look at absolute figures, in 1993, the main exporting countries for agricultural raw materials were the following (in millions of dollars): Israel (252), Syria (204), Kuwait (93), Morocco (89), Egypt (71) and Lebanon (64). Altogether their exports have decreased by 37% in between 1980 and 1993. Nevertheless, Morocco, Kuwait and Lebanon have followed the opposite trend.

Given a glance at the same year for exports of food products, then the decrease is of 22% in the same period considered before. In this case the ranking is the following: Morocco (987), Israel (845), Tunisia (430), Syria (408), Saudi Arabia (355), Arab Emirates (356) and Egypt (311).

Absolute figures are good indicators of countries strength in the export market but large and small countries are mixed. It is more convenient to provide relative figures to know the export structure of any country without a consideration to its size.

In that respect, and following firstly data for agricultural raw materials, as a percentage of total exports in each country, a different ranking is obtained: Lebanon (12), Iraq (8), Syria (7), Morocco (2) and Egypt (2). Finally, if the percentage of food products is taken into consideration then we obtain the following order: Morocco (27), Iraq (22), Jordanian (21), Syria (13), Tunisia (11) and Egypt (10).

Agrofood imports from the European Union amount to important percentages of total exports, for certain countries like Morocco (23%) and Israel (16%). The main commodities exported from the Southern Mediterranean countries to the European Union are (in million dollars): fruits (474), cotton (380), vegetables (367), citrus (270) and flowers (129).

Going down to more specific products it is important to give some attention to some of them. Thus, in 1994 (in million dollars), exports of tomatoes were important for Morocco (44), Jordan (27), Syria (20) and Israel (10). Potatoes for Syria (58), Egypt (27) and Morocco (27). Onions for Egypt (20), Arab Emirates (18) and Syria (13). Oranges, mandarins and clementins for Morocco (150), Israel (68) and Jordan (20). Olive oil for Tunisia (306). Sugar for the Arab Emirates (70). Wheat for Saudi Arabia (107). Rice for Egypt (79) and the Arab Emirates (72). Barley for Syria (23). Fresh milk for Saudi Arabia (22). Poultry meat for the Arab Emirates (38) and Israel (22).

Most of the main exporting products are sold fresh with some exceptions, such as potatoes, sugar, cereals and olive oil, which can be stored. Olive oil is also a transformed product, which deserves a

different consideration if it is sold in bottles and not in bulk. As well as poultry, which requires a different treatment. Those countries that rely mainly on oil exports have a tendency to subsidise heavily their agricultural products and it might distort the picture when analysing its competitiveness.

Two countries deserve a little more attention, Morocco and Tunisia, as two examples of a large and small country close to Europe. Fruits and vegetables cover in Morocco almost 80% of total agricultural exports. By far citrus cover the most of it followed by tomatoes (Calatrava and Melero, 1996). There is also an increasing trend for strawberries. In the case of Tunisia (Chebbi, 1998) by far oils are the most important item followed by seafood. In both cases the European Union takes over 70% of their exports and neighbour countries still represent a small portion of their total agrofood exports. In both countries exports are concentrated in a few items and still diversification is lacking, which means that risks are highly concentrated and exports depend on climatologic hazards or international prices ups and downs.

Finally, in this section a few words should be given to the agrofood industries. They might not have a direct impact on exports nowadays but their strength and development could induce to further exports in the future as well as to have more competitive agrofood sectors, which can compete against foreign imports. Agrofood industries protect local raw materials and create added value.

In 1990, the value-added figure for all the agrofood industries in the Southern Mediterranean countries amounted to 3408 million dollars. Israel (1367) and Egypt (1086) are the most developed followed by Morocco and Syria. A small quantity comes from drinks and most of it is generated in the food industries.

Southern Mediterranean countries competitiveness

Several empirical approaches could measure competitiveness in the Mediterranean agriculture. One approach can be to analyse internal competitiveness in different countries, which could be interpreted by a diverse set of variables. It assumes the assumption that a country cannot be really competitive in foreign markets unless it has a certain level of competitiveness at home. Its infrastructure and know how cannot be fully separated for internal and external markets.

However, some analysts might propose that trade could be analysed separately from the rest of the agrofood sector. The final interest, in most cases, is to analyse the behaviour of agrofood trade of a particular country and to measure its possibilities in a global environment. In this approach market shares and sustainable profits are the main determinants. Nevertheless, elements from both approaches should be taken into consideration, because although a developing country could have a particular well established trade branch, it can not fully exploit its potential until further development of its total agrofood sector occurs.

This has been the case for Spain along the last decade. This country entered the European Community in 1986. Expectations before the entry were that exports had to increase immediately after the entry. It is true that there was a transition period of five to seven years to fully dismantle trade tariffs. However the first few years showed a deteriorating agricultural trade balance as our competitors were ready to enter the Spanish market but not the other way around.

At that time, the most usual arguments, provided to sustain the Spanish favourable position in the European markets, were that there was not a self-sufficient market situation for many agricultural commodities and the cost of production in Spain was much lower than in other European countries. Both arguments have not been proved to be so crucial for Spanish exports. It seems that the entire Spanish agrofood system was not prepared to compete in foreign markets. The internal distribution system evolution has probably been the main force behind the change of producers and agrofood industries. They have been extremely concentrated, in comparison to the rest of the agrofood system and they interpret consumer needs and desires best than anybody else.

There are still markets in the European Union with a great dependence on imports, such as lamb, but Spain has nor been able to take advantage of that situation. Product differentiation has been the main constraint to develop our market potential. Labour costs were much lower in Spain than in other European countries but this fact did not compensate for other shortcomings in the agrofood chain from

production to delivering the product in the market. Lack of product homogeneity, weak commercial channels and poor information have been main determinants to gain bigger foreign market shares.

There is a tendency to overestimate the influence of tariffs on commercial trade. It is an important factor but might not be so determinant. In order to know if a country is competitive the access to the market is a prerequisite but not a sufficient condition. The European Union has had a very restrictive policy in that respect although some preferential agreements have existed with the Southern Mediterranean Countries along the years. The Euro-Mediterranean Association provides a framework to develop a more fruitful relationship between Northern and Southern countries in the Mediterranean Basin (Núñez, 1997; Ministerio de Economía y Hacienda, 1998).

If I take the case of Spain, the citrus sector was very successful even before joining the European Union and competition with Italian producers was not a constraint even that they were already in. The distinguishing elements of the Spanish citrus sector were to have a well established organisation to handle foreign markets and avoid penalisation from the European Union, a great degree of business concentration in private enterprises and cooperatives, appropriate varieties following consumer trends, high producer technology in very small fields, a good balance between producing abilities and trading capabilities and a historical knowledge about foreign markets.

In general, the experience shows that Spain has taken almost ten years to readjust its exports to the standards of European markets. Cost of production has not been a relevant component but probably the agrofood sector organisation has been the main weakness. Lack of managerial capabilities to tackle foreign markets was also obvious. Many of the favourable elements mentioned for the citrus sector were not existent in other sectors.

The common tendency is to concentrate the competitive analysis in physical factors as the main determinants or, in other cases, in quantitative elements such as tariffs. Nevertheless, international marketing puts a greater dependence in non-tangible elements, which are, most of the times, difficult to measure but they provide sound grounds to enhance international competitiveness (Albisu, 1997; Recio and Román, 1998).

Markets liberalisation is starting to be a reality although there are many constraints, which have to be solved in the future. Currently, some of the main conflicts are presented and solved by the World Trade Organisation. The outcome of the first few years, after the GATT agreements, indicates that trade flows have not changed dramatically and the main beneficiaries have not been the developing countries but the developed countries. Trade and non-trade tariffs have to be analysed more carefully.

This is in accordance with the idea that the new liberalisation trends are similar to a process of opening a door, which could be used in any direction, whether to enter or to go out. Developing countries have a tremendous faith in their possibilities to go out and increased their exports, based on the idea that tariffs are the main constraint, but what happens is that powerful countries come and reinforce their position by using the open door. Other experiences, like the case of Spain after joining the European Union, indicate also those internal restructuring needs to be undertaken before taken advantage of new potentialities.

Enterprise strategies in Southern Mediterranean countries have to move ahead and to incorporate new services in their offer. Logistics are becoming of paramount significance for fresh products especially when contracts are undertaken with supermarket chains. Product homogeneity and supply diversity, just in time delivery and new products development are market requirements to be competitive. New products, in the case of fresh products, are linked to the possibility of implanting new varieties but also with brands recognition. Distribution chains are becoming bigger and bigger but they have a small amount of suppliers who are able to understand their requirements. Mutual trust and medium to long term planning are a common feature.

Fresh products from Southern Mediterranean countries are still sold in traditional countries where distribution channels have been used for many years. This is the case of Northern African countries with France where there is an extreme dependence on that market. Diversification in other markets is a task for the foreseen future in order to diversify risks. New markets might have a totally different perception about new suppliers although it requires time to mature trade relationships.

Transformed products need a more elaborated approach, as it is the case of olive oil. These products can be sold in bulk but a great part of the value added is lost. Product recognition, high quality standards and good image are important attributes. It requires a medium to long term strategy with important investments and trust development between suppliers and distributors. The country of origin and traceability are important considerations to face food security, which is of a great consumers concern.

Foreign investment is playing an important role in shaping what and where to produce. Multinationals are the main enterprises behind those investments. Countries attitudes with respect to foreign investment could be more important, in the medium term, than the terms of trade. The ability to understand distribution channels comes when the distribution chain in the producing country develops up to a certain level and it then makes possible, to small and medium enterprises, to enter the international arena.

Exports to saturated markets, like in the case of the European Union, are difficult and many times not so profitable. Recent experiences indicate that regional trade flows among countries of similar development levels is a more profitable aim for most enterprises. This implies that lack of fears among country neighbours is necessary, especially in raising economies where population is increasing and economic growth is important. This is the approach that many Spanish companies are following by investing in Latin American or Eastern European countries. It could be an intermediate step towards moving to more competitive markets in the most developed countries.

Most developed countries introduce new non-tariff barriers as a result of consumer's demands for environmental concerns and also as a defensive tool to protect their markets. This is the case also for animal welfare or sustainable production. Altogether it requires the adoption, by producers in developing countries, of more sophisticated norms, which are carefully supervised at markets outlets. It introduces a great degree of sophistication but, for those who are able to produce under such specific terms, also great possibilities of bigger profits and recognition.

Final remarks

Liberalisation and the global economy is a new hope for most countries. The Southern Mediterranean countries should take advantage of this new situation but some cautious remarks and thoughts should be taken into consideration. The promised markets might be even more difficult to reach than in previous years. It exists the possibility that, if they are not well prepared, their agrofood trade balances could be deteriorated instead of making an improvement.

This new situation requires strategic decisions at national level, with the help of governments, and the enterprise level by having a better knowledge about markets trends and management. We are entering a new century and information will play a key role, so I encourage not to live with previous patterns but to adjust to a more unstable and competitive environment.

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