

Renata Grochowska¹

Institute of Agricultural and Food Economics – National Research Institute,
Warsaw, Poland

Adam A. Ambroziak²

SGH Warsaw School of Economics, Warsaw, Poland

Selected Aspects of Protectionism of EU Member States in the EU Agri-Food Market

Abstract. Tendencies in national actions against foreign products currently observed in the European Union indicate protectionism or at least discrimination. The aim of this article is describe economic mechanisms of applying selected import-related policy instruments of Member States and to identify some potential directions of their impact on the functioning of the EU agri-food internal market. The presented mechanisms are related to three situations: (a) hindering the market entry through retargeting of consumer demand; (b) promotion of own products contrary to the fair rules of competition; (c) limiting economic activity of foreign companies. The analyses carried out allowed to identify economic activity areas, where negative effects could reveal and to state that the potential result of these activities may be selective reduction of trade or change of its directions.

Key words: EU internal market, non-tariff barriers, agri-food products

JEL Classification: F14, Q18

Introduction

The effective functioning of the internal market, including ensuring the free movement of goods, should definitely strengthen the effects of the existing integration processes (effects of creation and shift related to the establishment of the customs union) and free new ones resulting from broadened and deepened liberalisation (Ambroziak, 2013). This applies in particular to general economic growth and higher productivity, which should improve the climate for saving and investment and, as a consequence, lead to strengthening the effects of the scale (Baldwin, 1989), as well as the production specialisation (Krugman, 1991). Significant consequences of a preferential agreement may also be the effects of the allocation of means of production, accumulation (investment creation and shift) and location of enterprises (Baldwin, Venables 1995; Marques, 2008). Ultimately, the size, scope and strength of these effects depend largely on the return of capital (Baldwin, 1992).

However, it should be noted that the effects mentioned assume progressive integration processes, and thus mutual liberalisation of access to markets and the introduction of new solutions eliminating completely or at least reducing differences between Member States. In the practice of the European economic integration, it can be noticed that the gradual reduction, and ultimately the complete elimination of traditional trade barriers (customs,

¹ Dr hab., professor IERiGŻ–PIB, Świętokrzyska 20 Street, 00-002 Warsaw, e-mail: Renata.Grochowska@ierigz.waw.pl

² Dr hab., professor SGH, Jean Monnet Chair of European Integration, Collegium of World Economy, Al. Niepodległości 162, 02-554 Warsaw, e-mail: Adam.Ambroziak@sgh.waw.pl

quantitative restrictions and similar measures), is accompanied by development of non-tariff barriers. In the face of lack of customs protection (due to the creation of the customs union on 1 July 1968), limited ability to artificially improve the competitive position of domestic producers by granting public aid (prohibition introduced by Article 107 of the Treaty on the Functioning of the European Union), tools which hinder, and sometimes even prevent, the entry to the market of another Member State remained the last instrument of protection.

On the one hand, the Treaty provisions in this area are unambiguous and require the elimination of and introduce the prohibition to use any measures limiting trade between Member States. On the other hand, they allow the use of certain restrictions if one of the criteria provided for in Article 36 of the Treaty on the Functioning of the European Union is met. Based on these premises governments of Member States introduce restrictions on the export of certain products. Designed to protect health and life of humans, plants and animals, ensure protection of cultural goods, specific norms, including morality and public order, they have become a set of criteria which Member States often refer to while introducing barriers to trade, including agri-food products.

After the economic crisis of 2008-2010, many EU Member States decided to introduce barriers in trade and investment in order to protect their national entrepreneurs against foreign competitors. The results of chosen economic mechanisms vary among them, as well as, primary objectives were different. These non-tariff barriers within the EU internal market are relatively new and deeply undiscovered. Therefore, due to relatively short period of time of application of selected trade instruments, data time series on intra EU trade are very short and available with considerable delay. Additionally, each of identified factors had its own specificities with multidimensional perspectives, what causes other difficulties to investigate the subject. Therefore it is impossible to find out a direct and undoubtful relation between categories of obstacles and their influence on trade in terms of changes in value and dynamic of exchange trade.

Taking into consideration preliminary stage of our investigation, the aim of the article is to describe economic mechanisms of applying selected import-related policy instruments of Member States and to identify some potential directions of their impact on the functioning of the EU agri-food internal market. To this end we use the method of literature analysis, and review, as well as, observation of changes in intra EU trade, where it was possible, however with aforementioned reservations. Research is based on primary and secondary sources of information and Eurostat database. The original sources are EU legal acts concerning the issues in question as well as documents of EU institutions and Member States, whereas the secondary sources used are press reports as well as domestic and foreign scientific literature.

Economic mechanisms of selected non-tariff barriers on the EU agri-food market

The introduction of restrictions on trade between Member States is not a new phenomenon. Many cases of breaches of EU law by discrimination of imported goods have been described in detail: from the flagship “Cassis de Dijon” to “by Irish.” However, these cases, in the first years of functioning of the customs union, could be explained by the lack of a broad and specific body of case law of the European Court of Justice, interpreting the

general Treaty provisions on the prohibition of discrimination. Currently observed practices, regardless of the real premises for their introduction, clearly indicate protectionist or at least discriminatory actions. It is not only about limiting trade, but also about hindering economic activity in the EU internal market.

In order to assess the types of barriers that firms encounter, their impact and variation across states and sectors some studies have used data sets on infringements to the free movement of goods or the Solvit dataset, focusing mainly on issues of enforcement and compliance with European rules (Guimaraes and Egan, 2012 and 2014). The most academic and policy literature show that there is a tendency for analysing *ex post* mechanisms, especially litigation efforts, rather than measures to prevent new barriers to trade. Our approach is to pay more attention to pending mechanisms, which can create negative trade effects. On the basis of our research we classified the cases presented below in three groups of mechanisms: (a) hindering the market entry through retargeting of consumer demand; (b) promotion of own products contrary to the fair rules of competition; (c) limiting economic activity of foreign companies.

Hindering the market entry through retargeting of consumer demand

One of the examples of interfering in the market by changing preferences of the consumers is the “Traffic lights” scheme introduced in Great Britain. In March 2006 the Food Safety Board (FSB) agreed to recommend that voluntary front of pack signpost of labelling schemes should provide information for fat, saturated fat, sugar and salt. Therefore, 3 colours traffic light scheme (red, amber or green) has been developed to deliver at a glance information on the level of individual nutrients in a product (companies may additionally include the descriptors “High,” “Medium” or “Low” to reinforce their meaning). According to official statements, its main objective was to give consumers a dietary advice to help them make healthier choices quickly and easy: red colour - a given product is fine to eat occasionally or as a treat. Therefore, the message from the FSA is clear that customers should check out the colours to make a healthier choice (FSA, 2007). Moreover, there were required additional information on the levels of nutrients present in a portion of the product according to the nutritional criteria developed by the Agency (Department of Health, Food Standard Agency, 2016). It is worth noting that the FSB did not choose a specific format, preferring to encourage industry to innovate to develop improved consumer formats tailored for their consumers. At the same time, there was a suggestion to provide information on Guideline Daily Amounts and/or calories as this might be helpful for some customers (Webarchive, 2008).

The scheme entered into force in June 2013. Although the system is voluntary, all major retailers agreed to join it, including Tesco, Sainsbury’s, Asd, Lidl Morrisons, Marks&Spencer, the Co-op and Waitrose (Dutta, 2012). It is worth noting that Morrisons, Aldi and Lidl were opposed traffic lights at the earlier stage before 2012, while the last two have used their own scheme some years earlier. Finally, supermarkets together with some bigger food manufacturers which decided to use the scheme accounted for more than 60% of the food that was sold in the UK then (The Guardian, 2013).

There are some micro and macro consequences of ‘traffic lights system’ in the United Kingdom. Firstly, the system is too simplistic and stigmatises certain foods. The main opponents to this concept are Mediterranean countries due to some specificities of their

regional products. Although they contain some traditional or regional ingredients, which are more healthy than regular substitutes (like oil of olives in comparison to sunflower and rapeseed oil), they are labelled as products exceeding the prescribed standards³. Moreover, the scheme can warn consumers of high fat or salt content, what can damage the reputation of the Mediterranean diet. That would concern products with the EU Protected Designation of Origin, Protected Geographical Origin, and Traditional Speciality Guaranteed status, while they are recognised as ‘quality products’ at European level (Council, 2016). Due to the fact that a strict adherence to certain production methods, it would be difficult to change formulations not to gain red light label. According to some estimations, 99% of meat (including some hams) produced in Mediterranean countries would be classified as ‘unhealthy’ (Newmark, 2016). The governments of Cyprus, Greece, Italy, Portugal, Romania, Slovenia and Spain say that ‘aimed at classifying food as more or less ‘healthy’ mainly by assigning a specific colour,’ did not respect the EU’s food information to customers’ requirements provided by the EU regulation⁴.

Secondly, it is also worth noting, that the system can be relatively easily introduced by big companies, while costs of adjustment to new (voluntary) requirements for SMEs can be much higher and in some cases unaffordable. Although the system is not obligatory, customers can expect ‘traffic light’ labelling on all food products sold in the UK, what creates a pressure on food manufacturers, particularly small firms and own-label product suppliers, to apply the colour labels (Newmark, 2016). As it can be acceptable to companies focused on the UK market, foreign companies and exporters will have to spend much more financial resources on adjustment to the British system of labelling (remaining separate labelling systems for other markets). It is of the highest importance, while the biggest supermarkets decided to join the scheme. Consequently, their small suppliers will have no choice but to apply the colour-coded labels on their products, if they want to continue selling them.

The confirmation of the above conclusions is the introduction of a mechanism similar to the UK’s one for interfering with the preferences of the consumers – the ‘Nutri score’ scheme in 2017 in France. Similar voluntary schemes, labelled with the ‘keyhole logo’, have been functioning since 2009 in Denmark, Norway and Sweden, and more recently in Iceland and Lithuania, serving consumers in the selection of products with lower sugar, fat and salt content and higher grain content (OECD, 2017).

The result of the introduction of such a scheme could be weakening the effect of trade creation⁵. However, the final results depends on the behaviour of consumers changing (or not) their purchasing preferences through, as indicated by Mediterranean countries, misleading colour markings (Council, 2016). Therefore, there was expected a significant reduction in the overall turnover of the suppliers in the UK, since many customers would be discouraged to buy the products labelled as ‘red’, although they were healthy. It is also worth

³ Already, in 2010 the European Parliament rejected a similar proposal issued in 2008 by the European Commission.

⁴ Article 13 of the Regulation (EU) No 1169/2011 of the European Parliament and of the Council of 25 October 2011 on the provision of food information to consumers says that “without prejudice to the national measures (...), mandatory food information shall be marked in a conspicuous place in such a way as to be easily visible, clearly legible and, where appropriate, indelible. It shall not in any way be hidden, obscured, detracted from or interrupted by any other written or pictorial matter or any other intervening material”.

⁵ Italy predicted a reduction in food exports between EUR 189.7 and 253 million, which would mean a significant reduction in overall export of Italian products to the UK by 8.4-11.2% (Council, 2014).

noting that the implementation of the scheme in markets that are based upon large-scale retail trade are likely to produce important spill-over effects also in other Member States. Moreover, as there are not harmonised requirements on traffic-colours, it can be expected that each Member State may introduce its own system, what can lead to a fragmentation of the market (Council, 2013, 2014)⁶.



HS 0406 - Cheese and curd
 HS 1509 - Olive oil and its fractions, not chemically modified
 HS 1602 41 - Hams and cuts thereof swine.
 7MS: Cyprus, Greece, Italy, Portugal, Romania, Slovenia and Spain.

Fig. 1. Changes in the UK's import of selected agricultural goods (2004=100)

Source: Eurostat.

In order to show the trade effect of implementation of the aforementioned restrictions, we analysed the UK's import of cheese, olive oil and ham, as typical Mediterranean products. On the basis of our study of trade of the UK we cannot observe any substantial changes in the UK import of selected agricultural goods, which are under new labelling legislation (including especially imports from seven Mediterranean countries). Only import of ham recorded a decrease in 2017 (especially from Portugal, however that tendency started 3 years earlier and up to 2016 was compensated by a dramatic increase in import from Spain). Therefore we cannot state unambiguously that aforementioned measures had any impact on trade, while the final buying decision is in consumers' hand based on quality and prices.

⁶ Since October 2014, the European Commission has been investigating the case, but so far no results have been presented.

Promotion of own products contrary to the fair rules of competition

Another mechanism for favouritism of own market is forcing specific behaviours on manufacturers and sellers by the requirement of using national products. An example of this is the introduction in January 2017 in Romania, under the Act No. 150/2016 (the so-called Act on supermarkets), the requirement to purchase at least 51% of products from local supply chains by large retail suppliers (with annual turnover above EUR 2 million) (this applies to meat and its products, eggs, vegetables, fruit, honey, dairy and bakery products). In addition, the Act No. 88/2016 on dairy products was amended, introducing additional requirements in relation to the provisions of EU Regulation 1169/2011, such as the name and identification of the packer, the name and address of the processor, or such details as 'natural product', 'Romanian product', which can be introduced under certain conditions (Gavra and Negoita, 2016).

The main problem is the definition of 'short supply chains', especially the term 'local', which is not clearly specified, so products from the vicinity of Romania could possibly be considered 'local'. However, this applies to a limited number of producers and processors, which raises the question of sufficient supply of food products in accordance with the expectations of consumers in the Romanian market. It is worth emphasising that in the light of the case-law of the European Court of Justice and the interpretation of rules on the prohibition of quantitative restrictions on imports (e.g. Article 34 of the Treaty on the Functioning of the EU), even instruments such as encouraging the purchase and promotion of domestic products (ECJ Case 249/1981 Commission v. Ireland (Buy Irish) 24.11.1982), or the requirement to display the percentage of domestic products sold in stores, are treated as having the potential of being in breach of the EU law⁷ (Gavra and Negoita, 2016).

The official objective of the act is to support local producers located in rural areas, especially in the current conditions of difficulties with selling their products in the Romanian market. It is assumed that short supply chains should provide fresher products and lower costs by passing over intermediaries and reducing transport costs. However, the introduced restrictions are mainly aimed at impeding the sales of imported food products, which should improve the competitive position of small and inefficient farms in Romania (Constantinescu and Barbarasa, 2017).

Considering that Romania has 5 million farmers, i.e. a quarter of the total population, the economic situation of Romanian agriculture is becoming a significant problem for this typically agricultural country. Some experts believe that the state of the sector has deteriorated as a result of an open market policy, pushed by the EU and the Romanian government. As a result, the market has been brought under control of agricultural giants, intercepting most of the subsidies granted to Romania under the Common Agricultural Policy. Farmers from small farms are faced with a choice: either to sell the farm and look for work in the city, or to keep it accepting increasing poverty (Dale-Haris, 2014).

The specific nature of the agricultural market was a sufficient premise for the Romanian government to make efforts to protect it with commercial policy measures. The dependence of the agricultural sector on such factors as weather conditions, length of the

⁷ On 15 February 2017, the European Commission announced the initiation of the procedure against Romania for infringement of EU law in view of the introduction of the requirement for stores to purchase at least 51% of products from the Romanian market (Gheorghe 2016). In a similar case, in November 2015, the Commission sent a formal request to Slovakia to amend the food law.

production cycle or breeding or technological progress does not guarantee generating the expected income. Therefore, in order to increase it, it was decided to limit the import of similar products from outside the country. However, according to the representatives of the Association of Big Commercial Networks in Romania, the new law does not provide consumers with access to good quality Romanian products and ‘undermine the modern retail sector’ (Posirca, 2016). The effects may therefore be completely opposite than expected: a rise in prices, a drop in employment and problems with deliveries of the required quantity of products. In the case of entrepreneurs from outside Romania, the new law forces them to search for other markets and incur additional costs of entering these markets. Moreover, it is worth noting that forcing the purchase of national products may facilitate further expansion of the above-mentioned international corporations operating and producing food in Romania. Therefore, it seems that this instrument will ultimately fail to support small family farms in Romania, which will keep on losing competition with large market players.

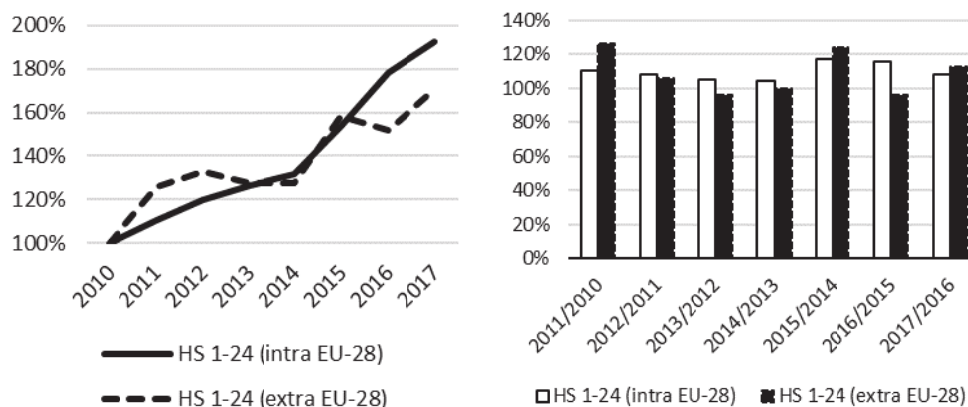


Fig. 2. Change in Romania's import of agricultural goods (left figure 2010=100%; right figure: change y/y)
Source: Eurostat.

As regards international trade, one can observe that Romania recorded a substantial increase in import of agri-food goods from other Member States of the EU in the period of 2010-2017, although new restrictive regulations entered into force in the last year. As we observed no important deviation in Romanian's import of agri-food products, we can expect, that Romania will record further increase in their imports. It can be the effect of customer demand and country economic development. Nonetheless, it should be taken with caution, due to a short period under research (available data for only one year) and presence of many other factors, which can have an influence on Romania's intra EU trade.

Limiting the economic activity of foreign companies

Ban on export of water as a national good

An example of a multilevel impediment to conducting economic activity of a foreign investor is the case of “Muszynianka”. Spółdzielnia Pracy Muszynianka, producer of water with the same name, acquired the GFT Slovakia company in 2012 and started preparations for the construction of the infrastructure necessary to extract water in Legnava. For this purpose, it invested in the identification of the springs and construction of a pipeline for transferring water to the Polish plant with a length of 1.5 km (total investment of approx. EUR 3.7 million). Eventually, more than a dozen people needed to operate the extraction station were to be employed. In 2014, the company submitted the last documents in order to obtain a license for water extraction and transmission to Poland. In that year, the Regional Office in Prešov agreed to the construction of an appropriate infrastructure, however, the consent of the Slovak Ministry of Health for the extraction of water from the source was still required.

The process of granting consent was prolonged, and in the meantime the Slovakian parliament changed its constitution. Pursuant to Article 4(2) of the Constitution of the Slovak Republic (whose amendment came into force on 1 December 2014), export of water extracted from sources located in Slovakia is unlawful, unless it is not poured into consumer packaging in that country (Ratajczak, 2016). Therefore, on 26 January 2015, the Ministry of Health rejected the request of Muszynianka.

It is worth noting that this amendment to the Constitution was made in connection with the recognition of water as a strategic good, hence its export was to be prohibited by the Constitution. Supporters of this solution pointed out in the media that this amendment will solve the problem of water for irrigation and the protection of larger drinking water areas (Slovak Government, 2014). However, the problem is that it is impossible to build a bottling plant on the area of the water well in Slovakia, as it is a marshy flood land, and there is no road infrastructure. In addition, the too small distance between the modernised bottling plant in Poland and the source in Slovakia indicates the lack of economic justification for the construction of a new plant.

From the point of view of EU law, the requirement that spring water exported outside Slovakian borders be bottled is a restriction on the free movement of goods by favouring companies located in Slovakia. This means discrimination against enterprises outside this market which deal with the exploitation and distribution of Slovak natural mineral water.⁸ There are several effects and economic phenomena involved.

Firstly, this instrument limits both the possibility of development of a company which so far has been producing water on the domestic market and the expansion into other markets, including the country introducing the restriction (Slovakia). Thanks to this, Slovak companies gain some protection from a competitor from Poland, which could, under own name (not necessarily Polish), offer Slovak water in Slovakia. In addition, the development restriction for Spółdzielnia Pracy Muszynianka prevents its entry into other markets within the EU.

⁸ In response to the complaint of Muszynianka and the Polish Confederation Lewiatan lodged in April 2015, in December 2015 the European Commission made formal charges of violation of the EU freedom of movement of goods against Slovakia (case no: 20154225 on the basis of Article 258 TFEU; Ratajczak, 2016). Meanwhile, Polish investor initiated a €75 million investment arbitration claim against Slovakia under the Polish-Slovak BIT (Arpas, 2017).

Secondly, the introduced tool, contrary to appearances, does not constitute a special incentive for investment on the Slovak side. Due to the lack of infrastructure, including transport routes, and prepared investment grounds, possible investments in extraction, bottling and packaging of water at the present stage are unprofitable for the Polish entrepreneur. It is also hard to assume that many people from the local market could find a job, because in the face of free movement of employees one can rather expect employment of Polish workers (only 2 km from the Polish city).

From the point of view of consumers of both the country introducing the barrier and the state of the affected entrepreneur, the existing restriction, by eliminating competition, creates space for both raising prices and non-competitive behaviour of other entities. The country whose deposits Spółdzielnia Pracy Muszynianka was interested in also suffered negative consequences. Taking into account poor infrastructural preparation of the area of water exploitation, the probability of domestic investment and, therefore, any development of Legnava based on the available water resources is significantly limited. Moreover, local authorities lose revenues from potential local taxes, and the central budget does not receive receipts from potentially increased direct taxes (CIT, VAT) and extraction fees.

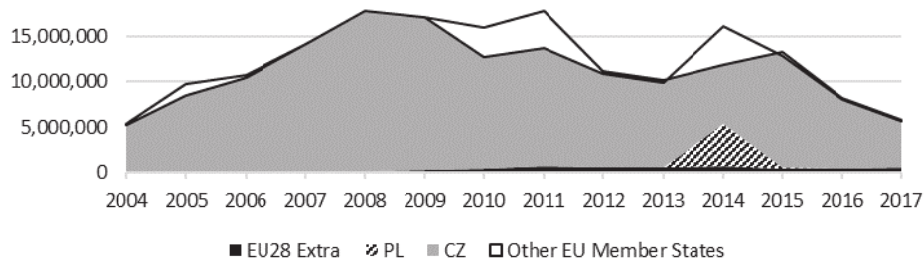


Fig. 3. Slovakia's export of mineral water (in euros)

Source: Eurostat.

Considering the fact that until now water has not been transported via a pipeline from Slovakia to Poland, it can be assumed that the above-mentioned action will prevent the effect of trade creation related to this product between the said partners. Consequently, it is worth mentioning the lost benefits in the form of the absence of production and consumer effects in both countries.

Based on analysis of Slovakia's export of water one can state that the Czech Republic was the leading importer after the accession to the EU, and it increased its import also in 2015, when the new restrictive regulation was introduced. Only in 2014, we could also observe a single year substantial increase in export to Poland, as a trade creation effect, which was stopped and suppressed after the change in the Slovak constitution.

Ban on the use of certain symbols

The case of the red star in Hungary is another example of limiting the possibility of selling arbitrary products. On 16 March 2017, Hungarian government proposed the introduction of a ban on the use and public display of symbols of Nazi occupation and 40 years of communism in order to protect "public interests and public morals." Therefore, it

intends to impose a ban on the commercial use of symbols such as the swastika, arrow cross, hammer and sickle, and the red star.⁹ Under the new law, businesses using these symbols could be fined up to 2 billion forints (\$6.97 million) and jail sentence.

Such a provision would force many companies¹⁰ (including Heineken¹¹, San Pellegrino¹², Converse Shoes, Mars with MilkyWay, Texaco, Macys and companies offering Italian Martinazzi vermouth), as well as sports teams temporarily staying in Hungary (French club Red Star FC, Red Star Belgrade club, PFC CSKA Sofia club) to change their trade and sport marks by eliminating symbols recognised by Hungary as communist¹³, including a five-pointed red star¹⁴.

Each of the companies mentioned above, including Heineken as a global brand, may still fight for their rights to the trademark by considering the small Hungarian market insignificant. However, deciding to introduce a certain modification to its logo, it would have to ensure that the new mark is recognisable, and placing a new mark only on the Hungarian market brings additional costs of maintaining two markings. Moreover, other countries could similarly require a global brand to adapt to their national requirements. A large international company will rather not agree to the possibility of escalation of demands, which may mean that Heineken will withdraw from the market, if Hungarian regulations are introduced.

⁹ It is worth noting that this ban concerns the use of symbols only in trade, which raises some doubts as to the intentions of the project authors.

¹⁰ There are many indications that the problem raised was initially directed against Heineken which, as a 1998 investor, won a court patent dispute with a small Romanian brewery partly owned by the Hungarian minority. The decision prohibited the use of the name 'Csiki,' resembling Heineken's 'Ciuc,' because 'Csiki' means 'Ciuc' in Romanian language and refers to a small region of Transylvania with massive ethnic Hungarian majority; the dispute between the two brewers stems from the 'Igazi Csiki Sör' name ('the real beer of Csiki'), which has a similar name to a Romanian beer owned by Heineken, 'Ciuc beer' (Loránd, 2017). This situation, because of the Hungarian politicians, ended with a boycott of Heineken's product in the region, which led to serious problems for the company. From the political point of view, the result was the accusation of the Hungarian Government against Heineken abusing its position towards local companies, while the symbol of the red star on Heineken's products as being used in an obvious political context (Saeed, 2017; Pieters, 2017). Apart from its main brand, Heineken also produces Soproni, Gössel, Amstel, Kaiser and Steffi, whereas the defeated brewery offers a beer called Tiltott Sör (Forbidden Beer).

¹¹ Heineken was founded in Amsterdam in 1864, however its oval logo with a five-pointed white star with black contours in white, black and green with the original inscription "Pilsener" was introduced in 1883. The five-pointed star was to symbolise the ingredients of the beer: water, barley, hops, yeast and the fifth ingredient: 'brewing magic.' In the 1930s, the logo was changed by introducing a red star and the inscription – Heineken. After the Second World War, in connection with a significant political and military threat from the USSR, one of the symbols of which was a red star, Heineken decided to maintain the star, but in white with red borders. After the collapse of the USSR in 1991, Heineken returned to the previously introduced red star.

¹² San Pellegrino was the first bottled water in the world in 1899, and in this case the label with a red star, registered in 1906, has been used as a symbol of the highest quality of products exported from Italy (FDL, 2011).

¹³ From legal point of view it is worth noting that already in 2008 the European Court of Human Rights ruled that the prosecution of a left-wing politician for wearing a five-pointed red star on his jacket while participating in a peaceful demonstration constituted a violation of Article 10 of the European Convention on Human Rights providing freedom of expression. The Court stated that while public use of the emblem may elicit bad feelings in victims of Communism and their families, there is no indication whatsoever of the restoration of the Communist dictatorship in Hungary (ECHR, 2008).

¹⁴ The red star was a symbol of the communist political movement during the Patriotic War in 1917-1922, and then of the Red Army and the Union of Soviet Socialist Republics. However, it is worth noting that it also appears on the flag of, among others, New Zealand, Panama, as well as California for completely different reasons (wikipedia.pl).

It is worth noting that this regulation limits the flow of strictly defined products. Along with the introduction of the above-mentioned prohibitions, from the point of view of trade, one can expect effects opposite to the effect of creation, and thus the total abandonment of the inflow of prohibited goods. As a consequence, the effect of an increase in trade flows from other suppliers, both domestic and within an integration group, and from outside it, can be expected. This is a clear shift effect occurring due to the restriction of trade to one entity for the exchange with others.

In this case, when the global company – Heineken has its plants located in the country which introduces restrictions, the effects can be much greater. In addition to limiting investment activities and gradual withdrawal from the market, one can expect that a negative approach to one of the global corporations is not perceived positively by others which are aware of the unpredictability of their economic position in a given country. As a consequence, not only trade, but above all, investments of a foreign entrepreneur whose products are questioned by national authorities and other entrepreneurs may be ceased. As a result, the outflow of foreign capital in a given industry may be accompanied by the flight of investors from other industries, which is usually not compensated by the development of domestic entrepreneurs. Although their products appear on the market more widely, they are usually much more expensive and, as a consequence, negative consumer effects that contradict the effects of trade creation appear.

Summary and Conclusions

Economic theory suggests the single market includes gains related to direct cost reductions resulting from an abolition of trade barriers and indirect dynamic growth effects coming from increased innovation and organisational change in the economy. However, after 25 years of operation of the internal market, while analysing the current legal and economic situation, we can see a reviving pressure of Member States on protectionist actions. These trends are intensified by the wave of protection measures on national markets and discrimination against imported goods, particularly in the case of agri-food products.

This paper identifies three mechanisms for the use of Member States' economic policy instruments in the area of movement of goods in the EU internal market, i.e. (a) hindering the market entry through retargeting of consumer demand; (b) promotion of own products contrary to fair rules of competition; and (c) limiting economic activity of foreign companies. The analyses carried out indicate that the result of these activities may be selective reduction of trade, change of its directions, as well as limitation of investments, primarily foreign ones, in these countries.

These measures are mainly taken to protect domestic producers from competition from other countries, offering cheaper and/or higher quality products. This protection is often introduced in the name of the strategic necessity of maintaining food security of the population of a given country. In fact, it protects less effective producers unable to stay on the market. The effect of such actions is the inhibition of the processes of modernisation and restructuring of the agri-food sector, which, consequently, has an adverse effect on the competitiveness of the entire economy.

In the case of entrepreneurs from outside a given country, the barriers used force additional costs to meet new standards or search for other outlets and additional costs of

entry into these markets. Interestingly, the introduced requirements can be circumvented more easily by large retail chains and manufacturers, and usually strike small producers and local stores, i.e. those who were to be protected by them.

The benefits of the above-mentioned measures are also doubtful for consumers. By stigmatising imported food products, they force certain purchasing preferences among consumers, often misleading through the use of specific food labels. At the same time, they limit the choice of consumers to domestic products, not always competitive in terms of price and quality compared to imported products. Preferences for domestic producers may be conducive to monopolistic behaviour and raising prices of agri-food products.

The effects of analysed economic policy instruments cannot be precisely estimated due to a short time of implementation and/or an impact of many factors with diverse specificities. However, based on our study it would be possible to indicate two results of these protection activities: selective reduction of trade or change of its direction. In case of ban for trade (Muszynianka example) restrictions affects products or entrepreneurs and limit their expansion into a given market. The rest of examples (special labels in UK and support for local products in Romania) shows no negative effects of applied instruments. Moreover, it should be underlined, that due to the single market in the EU companies are not restricted to a one specific national market, but can change a direction of trading products and explore other markets within the EU. As trade effects in such situations are not accurate known there is a need for further research of the subject.

References

- Ambroziak, A.A. (2013). New challenges for the free movement of goods within in the EU internal market. In: D. Milczarek, A. Adamczyk, K. Zajęczkowski (eds.) *Introduction to European Studies: A New Approach to Uniting Europe*, Center of Europe, University of Warsaw, Warsaw.
- Arpas, A. (2017). Intra-EU Investment Protection: Up the Creek Without a Paddle. Available 6.02.2018 from: https://www.iisd.org/itn/2017/06/12/intra-eu-investment-protection-up-creek-without-paddle-andrej-arpas/#_edn2.
- Baldwin, R. (1989). The growth effects of 1992. *Economic Policy*, 9, 247-282.
- Baldwin, R. (1992). Measurable Dynamic Gains from Trade. *Journal of Political Economy*, 100(1), 162-174.
- Baldwin, R., Venables A.J. (1995). Regional Economic Integration. In: *Handbook of International Economics*, vol. III, Edited by G. Grossman and K. Rogoff, Elsevier Science B.V.
- Constantinescu, O., Barbarasa, T. (2017), Romania: Is Romania's Attempt to Protect and Support Local Products Legal? *Legal Insights*. Available 6.02.2018 from: <http://roadmap2017.schoenherr.eu/is-romanias-attempt-to-protect-and-support-local-products-legal/>.
- Council (2013). 'Hybrid' nutrition labelling system recommended in some Member States'. Information from the Italian delegation. Brussels, 22.11.2013, ST 16575/13.
- Council (2014). Impact on the EU Acquis of 'Hybrid' nutrition labelling system recommended in some Member States'. Information from the Italian delegation. Brussels, 30.01.2014, ST 5899/14.
- Council (2016). 'Hybrid' nutrition labelling system recommended in some Member States'. Information from the delegation of Italy, Cyprus, Greece, Portugal, Romania, Slovenia and Spain. Brussels, 29.02.2016, ST 6585/16.
- Guimares M.H., Egan M. (2012) Barriers to business in the Single Market, Available 15.03.2018 from: <http://www3.eeg.uminho.pt/economia/nipe/iibc2013/6.5.pdf>.
- Guimares M.H., Egan M. (2014) Tackling barriers to trade in the Single Market, ACES Cases No. 2014.2. American Consortium on European Union Studies (ACES) EU Center of Excellence Washington, D.C.
- Dale-Harris, L. (2014). Romania's peasants: standing in the way of foreign investors making a lot of money, *The Guardian*. Available 6.02.2018 from: <https://www.theguardian.com/commentisfree/2014/feb/19/romania-peasants-land-market-local-farming-economy>.

- Department of Health, Food Standard Agency (2016). Guide to creating a front of pack (FoP) nutrition label for pre-packed products sold through retail outlets. November 2016.
- Dutta, K. (2012). Victory for health campaigners as supermarkets inform shoppers of nutritional values. Available 6.02.2018 from: <http://www.independent.co.uk/life-style/food-and-drink/news/tesco-relents-to-give-healthy-food-labelling-system-the-green-light-8219873.html>.
- ECHR (2008). Case of Vajnai v. Hungary. Judgment of 8.07.2008. Strasbourg.
- ECJ Case 249/1981 Commission v. Ireland (Buy Irish). Judgment of 24.11.1982.
- FDL (2011). S. Pellegrino Label: Do you know the story? Available 6.02.2018 from: <https://www.finedininglovers.com/blog/food-drinks/s-pellegrino-label-history/>.
- FSA (2007). Food. Using traffic lights to make healthier choices. Available 6.02.2018 from: <http://www.resources.org.co.uk/assets/pdfs/foodtrafficlight1107.pdf>.
- Gavra, D., Negoita, I. (2016). '51% Local Products'- New Romanian Law on Food Sale, In-between Encouraging National Production and the EU Legal Order?, Lexology. Available 6.02.2018 from: <https://www.lexology.com/library/detail.aspx?g=2214a5ed-fa21-46ef-b80d-d7565624b552>.
- Gheorghe, G. (2016). President Iohannis passes law compelling supermarkets to sell 51pct food products of Romanian origin, Business Review. Available 6.02.2018 from: <http://www.business-review.eu/business/agriculture/president-iohannis-passes-law-compelling-supermarkets-to-sell-51pct-food-products-of-romanian-origin-112282>.
- Krugman, P.R. (1991). Geography and Trade. Cambridge, Mass. and London: MIT Press.
- Loránd, C. (2017). Hungarian PMO Chief visits Csíki Beer Factory in Transylvania, Discusses Heineken Trademark Dispute. Available 6.02.2018 from: <https://www.bocskairadio.org/en/hungarian-pmo-chief-visits-csiki-beer-factory-transylvania-discusses-heineken-trademark-dispute/>.
- Marques, H. (2008). Trade and Factor Flows in a Diverse EU: What Lessons for the Eastern Enlargement(s)? *Journal of Economic Surveys*, 22(2), 364-408.
- Newmark, L. (2016). Seven EU states oppose British traffic light labelling. Available 6.02.2018 from: <https://www.globalmeatnews.com/Article/2016/03/21/Seven-EU-states-oppose-British-traffic-light-labelling>.
- OECD (2017) Obesity Update. Available 12.03.2018 from <https://www.oecd.org/els/health-systems/Obesity-Update-2017.pdf>.
- Pieters, J. (2017). Hungarian gov't could ban Heineken's red star logo over communism concerns. Available 6.02.2018 from: <https://nltimes.nl/2017/03/21/hungarian-govt-ban-heinekens-red-star-logo-communism-concerns>.
- Posirca, O. (2016). Bill forcing retailers to source 51% of produce locally gets vote in Parliament, Business Review, Available 6.02.2018 from: <http://www.business-review.eu/featured/bill-forcing-retailers-to-source-51-pct-of-produce-locally-gets-vote-in-parliament-108267>.
- Ratajczak, M. (2016). Problemy polskiego producenta wody mineralnej. Komisja Europejska pomoże Muszynie. Available 6.02.2018 from: <https://www.money.pl/gospodarka/wiadomosci/artykul/problemy-polskiego-producenta-wody,46,0,1998382.html>.
- Regulation (EU) No 1169/2011 of the European Parliament and of the Council of 25 October 2011 on the provision of food information to consumers, OJ 2011 L 304/18.
- Saeed, S. (2017). Hungary mulls banning red star on Heineken logo. Available 6.02.2018 from: <https://www.politico.eu/article/hungary-mulls-banning-red-star-on-heineken-logo/>.
- Slovak Government (2014). (June 8). Robert Fico: Voda je strategická surovina, jej vývoz zo Slovenska chceme zakázať v ústave. Available 6.02.2018 from: <http://www.vlada.gov.sk/robert-fico-voda-je-strategicka-surovina-jej-vyvoz-zo-slovenska-chceme-zakazat-v-ustave>.
- The Guardian (2012). All supermarkets to adopt 'traffic-light labelling' for nutrition. Available 6.02.2018 from: <https://www.theguardian.com/business/2012/oct/24/supermarkets-traffic-light-labelling-nutrition>.
- The Guardian (2013). Food packaging 'traffic lights' to signal healthy choices on salt, fat and sugar. Available 6.02.2018 from: <https://www.theguardian.com/society/2013/jun/19/traffic-light-health-labels-food>.
- Webarchive (2008). Minutes of Enforcement Liason Group meeting. Available 6.02.2018 from: http://webarchive.nationalarchives.gov.uk/20140403210109tf_/http://www.food.gov.uk/enforcement/enfcom/m/elg/elgmeet/elgminutesnov07.

For citation:

Grochowska R., Ambroziak A.A. (2018). Selected Aspects of Protectionism of EU Member States in the EU Agri-Food Market. *Problems of World Agriculture*, 18(2), 82–94;
DOI: 10.22630/PRS.2018.18.2.36