U.S. Food Companies Access Foreign Markets Through Direct Investment

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U.S. food processing firms use exports to reach foreign markets and consumers, but foreign direct investment (FDI) is more effective at generating overseas revenues. FDI by U.S. food processors generated an estimated $150 billion in sales in 2000, compared with $30 billion generated by U.S. processed food exports (fig. 1).

FDI refers to investment in a foreign entity or affiliate in which a parent firm holds a substantial, but not necessarily a majority, ownership interest. Ownership of assets in a foreign affiliate enables the parent firm to exercise control over the use of those assets. The U.S. Department of Commerce defines FDI as ownership of 10 percent or more of a firm by a foreign firm. More than four-fifths of U.S. food processing affiliates in foreign countries were majority owned by U.S. parent firms in 1998.

FDI has created prominent multinational corporations. For example, Campbell Soup, General Mills, Ralston Purina, PepsiCo, and Tyson Foods are U.S. companies with a strong presence abroad. Similarly, foreign-owned multinational food processing companies, such as Nestle, Unilever, Parmalat, and Danone, have invested in the U.S. food processing industry.

FDI is often a cost-effective way to reach foreign markets. For some food products, it is economically advantageous for a firm to invest capital in overseas production rather than ship the product from a domestic source. Companies use FDI to circumvent trade barriers, gain access to less expensive resources, and tailor products to local tastes in other markets. These factors are especially important to the processed food industry.

Trade barriers, such as tariffs (taxes on imports) or import quotas, encourage companies to set up manufacturing plants in the countries whose markets they are trying to reach. For example, Canada has high trade barriers for dairy products, and large European companies, such as Nestle, Danone, and Parmalat, have entered the Canadian dairy product market through Canadian affiliates. Similarly, U.S. trade barriers for foreign wines and dairy products have led European companies to purchase wineries and build dairy plants in the United States.

Lower input costs, whether for raw materials or labor, also attract food companies to FDI. For example, sugar is less expensive in Canada

Well-known U.S. brands produced in other countries must sometimes be tailored to appeal to local tastes and cultural differences.

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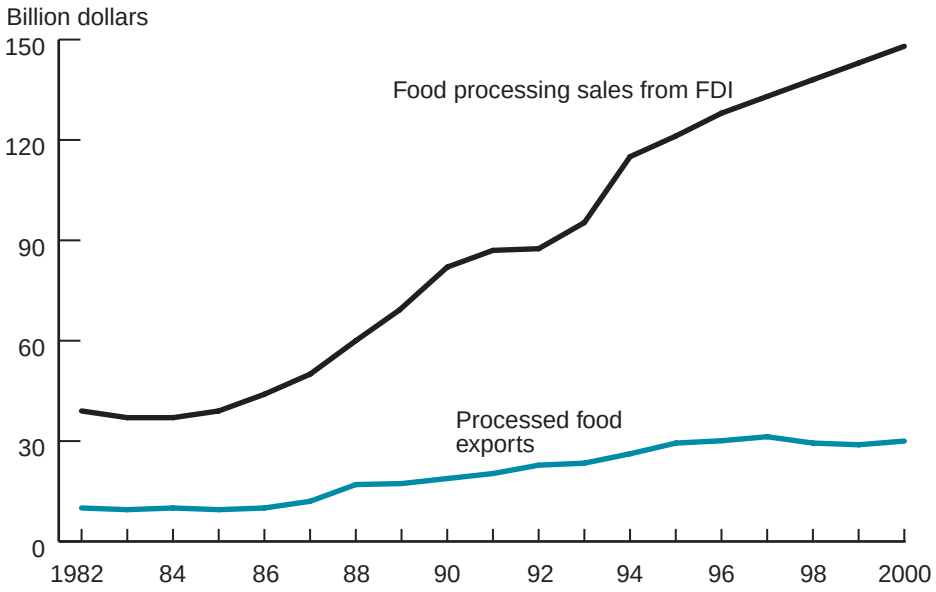
Figure 1
Processed Food Sales From U.S. FDI Exceed U.S. Food Exports



Note: 1999 and 2000 FDI sales are estimates.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

and Mexico than in the United States, making it advantageous to produce confectionery and other bakery products in those countries rather than in the United States. Similarly, low labor costs in Mexico, Argentina, and Brazil have attracted foreign investment. Also, raw materials, such as wheat flour, soybean oil, and tropical products, often cost less in these countries, leading foreign firms to invest in food processing plants.

The need to tailor products to local tastes and cultural differences is another reason to locate manufacturing plants in other countries. For example, in Mexico, Japan, and Korea, recipes for well-known U.S. brands must sometimes be changed to appeal to local consumers.

Trade Agreements Spur Foreign Investment

Foreign food processing affiliates of U.S. companies generated $150 billion in sales in 2000 (table 1). U.S. FDI in foreign food processing companies grew from $9 billion in 1980 to $36 billion in 2000. U.S. companies see FDI as an opportunity to expand their markets beyond the continental United States, and liberalized investment rules that are often included in regional trade agreements allow food companies to expand their markets.

The United Kingdom, Mexico, and Canada had the most sales from U.S. FDI in food processing in 2000 (table 2). In the latter half of the 1990s, sales from FDI were especially strong in Mexico. The 1994 North American Free Trade Agreement (NAFTA), which lowered or eliminated tariffs and promotes market integration between the United States, Canada, and Mexico, boosted investor confidence.

Sales from U.S. FDI in food processing in Brazil and Argentina also increased sharply during the 1990s. These two countries, along with Paraguay and Uruguay, formed MERCOSUR (Mercado Comun del Sur) in 1991. MERCOSUR is a free-trade agreement similar to the European Union and NAFTA. Brazil and Argentina have traditionally been limited markets for U.S. food products because they produce many of the same agricultural and food products as the United States, often at lower costs. U.S. multinationals, however, used FDI as an opportunity to enter the expanded MERCOSUR market.

MERCOSUR and NAFTA have caused U.S. processed food companies to retarget their investments. FDI by U.S. food companies in the European Union grew 124 percent from 1990 to 2000, but U.S. FDI in other Western Hemisphere countries grew 183 percent. U.S. companies also increased FDI in China in the 1990s as that country liberalized foreign investment rules and prepared itself for full membership in the World Trade Organization.

FDI is likely to increase in the near future. The year 2000 was a busy one for mergers and acquisitions by U.S. and foreign multinational food companies. Unilever, jointly headquartered in the United Kingdom and the Netherlands, purchased three U.S. companies: Slim Fast Foods for $2.3 billion, Bestfoods for $8.6 billion, and Ben and Jerry's for $0.4 billion. Fosters Brewing, headquartered in Australia, purchased U.S. Beringer Wines for $1.1 billion, and Cadbury-Schwepps of the United Kingdom purchased Triarc (maker of Snapple) for $0.7 billion. U.S. acquisitions included General Mills' purchase of Pillsbury from Diageo (a United Kingdom food and beverage conglomerate) for $5.1 billion.

Most Output Remains in the Host Country

Although U.S. multinational food processing firms establish affiliates abroad primarily to serve the host markets, there are clear exceptions. In 1998, 74 percent of the sales of U.S. affiliates remained in the host countries, while 22 percent were exported to other countries. Only 4 percent of sales ($4.8 billion) were exported back to the United States.

Of the $4.8 billion in total sales by U.S. food processing affiliates sent back to the United States, Canada accounted for 44 percent, Latin America for 37 percent, and Europe for 15 percent. Interestingly, in the United States and Canada, manufacturing plants of the same multinational firm supply products to two countries. For example, Nabisco in Ontario, Canada, makes cookies sold in both the Eastern United States and Eastern Canada; pasta and confectionery products are marketed the same way. Cargill and IBP in Alberta, Canada, market beef products in Western Canada and the Western United States.

Foreign Firms Also Invest in the U.S. Food Industry

Foreign food companies also invest in the U.S. market, but this inward FDI is at a scale much smaller than U.S. FDI abroad. Following a high of $8 billion in 1996, FDI in the U.S. processed food

Table 1
Sales From FDI by U.S. Food Firms Are Highest in Food Processing

Sector	1982	1987	1992	1997	1998	2000 est.
	Billion dollars					
Food processing	39.2	50.1	89.2	128.3	133	150
Food wholesaling	6.2	9.2	14.4	21.4	24	30
Retail food stores and eating and drinking places	8.7	9.7	21.2	NA	NA	NA
Total, all U.S.-owned affiliates in food marketing	54.1	69.0	124.8	NA	NA	NA

Note: NA = not available. Retail food stores' sales are no longer reported because of the presence of hypermarkets and nonfood retailing.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 2
Sales by U.S.-Owned Food Processing Affiliates Abroad Grew 56 Percent Between 1987 and 1997

Country/region	1982	1987	1992	1997	1998	Share of 1998 total affiliate sales	Change, 1987-97
	Million dollars					Percent	
Total, all countries	39,023	50,067	82,238	128,274	133,141	100	156
Europe	18,974	29,044	53,752	66,055	67,388	51	127
United Kingdom	5,696	7,124	12,274	15,176	17,485	13	113
Germany	2,660	6,160	8,465	9,132	9,162	7	48
Netherlands	2,706	4,753	7,270	9,382	8,852	7	97
Canada	5,258	5,522	NA	13,181	14,166	11	138
Asia and Pacific	5,432	8,559	13,712	22,598	20,487	15	164
Japan	2,363	4,442	4,055	5,893	5,708	4	32
Australia	1,441	1,438	3,569	4,697	4,392	3	226
China	NA	NA	NA	1,626	1,443	1	NA
South America	5,133	3,911	6,794	14,098	15,149	11	260
Argentina	630	758	2,040	3,604	3,409	3	375
Brazil	2,535	1,869	2,874	6,095	6,862	5	226
Central America	2,951	2,176	5,163	10,070	13,000	10	363
Mexico	2,556	1,596	4,460	9,209	12,305	9	477

Note: NA = not available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

industry decreased to $1.5 billion in 2000, mostly due to the divestiture of a large, family-owned, Canadian corporation. Japanese multinationals also decreased FDI in U.S. food processing plants. Mexican companies, however, increased their investments to over $1 billion. GIBSA, a large bread-baking company, and Gruma, a corn-processing company, invested in bread-baking, corn-processing, and tortilla companies in the United States. Estimated sales from total FDI in U.S. food processing companies are $65 billion, of which only $3 billion are exported out of the United States, mostly to Japan and the United Kingdom. The largest foreign investments are in grain and oilseed milling, dairy products, bakeries, tortilla-making plants, and beverages.

European companies still dominate FDI in U.S. food manufacturing, with over 70 percent of total sales, mostly from the United Kingdom (table 3). Sales from Japanese-owned affiliates decreased in 1998 after peaking in 1997.

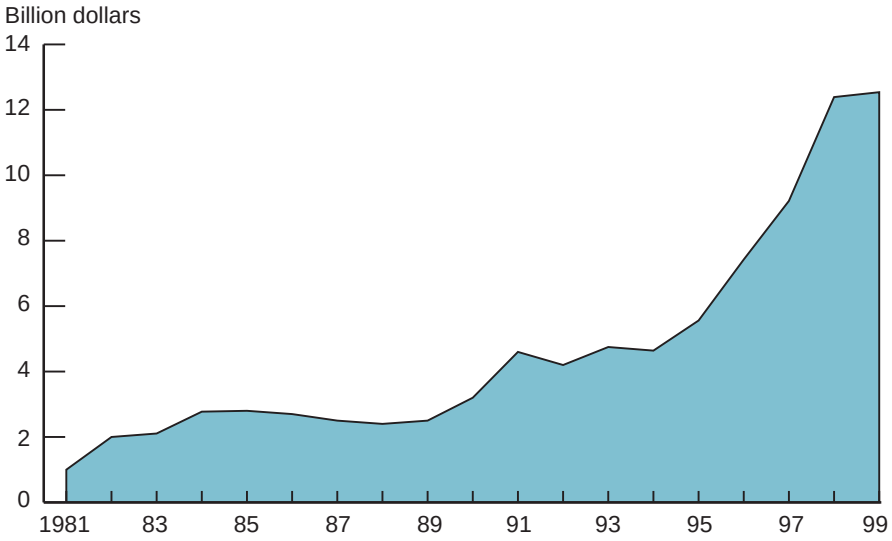
European investments in the United States are broad based. Products of U.S. affiliates of European companies include wine, dairy products, chocolate products, frozen and canned foods, grain products, and bottling plants. European companies with large interests in the United States include Nestle, Unilever, Cadbury-Schwepps, and Danone.

Japanese companies have purchased or built U.S. affiliates that mostly produce ethnic foods, such as noodles, surimi, soy sauce, and dry soup mixes. The Japanese have also invested in livestock and meat processing, and water bottling plants. Mexican companies also mostly invest in U.S. companies that make ethnic foods, but they have added bread-baking companies to

Foreign-Owned Food Stores' Sales Exceed Food Processing Sales

FDI in U.S. food retailing increased rapidly in the second half of the 1990s to nearly $13 billion in 1999 (see figure). Several well-known grocery chains in the United States, including Albertson's, A&P, Food Lion, Ahold (which owns several supermarket chains), and Shaw's Supermarkets, are owned by foreign firms (see table). Four of these food chains are on the list of the 10 largest food retailers in the United States. Their sales increased sharply during the 1990s as some parent companies built new stores and others acquired other U.S. supermarket chains. The $70 billion in sales by foreign-owned food stores in the United States is much larger than the sales of foreign food processing affiliates.

FDI in U.S. Retail Food Stores Took Off in the Mid-1990s



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Many U.S. Food Retailers Have Foreign Ties

Firm	U.S. grocery stores, 1999 Rank	Sales	Foreign investor	Country
		Billion dollars		
Albertson's/American Stores	2	34.0	Theo Albrecht	Germany
Ahold, U.S.A.	4	23.4	Ahold	Netherlands
Food Lion/Hannaford Bros.	7	13.6	Delhaize, Le Lion	Belgium
A&P	9	10.4	Tengelmann	Germany
Aldi, U.S.A.	19	2.4	Aldi Group	Germany

Source: Kaufman, Phil R., Charles R. Handy et al. *Understanding the Dynamics of Produce Markets: Consumption and Consolidation Grow*, Agricultural Information Bulletin 758, U.S. Department of Agriculture, Economic Research Service, August 2000.

their investments. Canadian investments in U.S. food manufacturing are mostly concentrated in fruit juices and frozen foods. For example, McCain's is a large Canadian company that has investments in frozen potato processing.

Sometimes, ownership itself is unclear. For example, Cargill was one of the original investors in Brazil's orange juice concentrate industry, along with France's Louis Dreyfus and Brazil's Cutrale Citrus and Citrosuco Paulista. During the 1990s, these Brazilian companies invested in Florida citrus groves and processing plants. Brazilian companies are now responsible for about 40 percent of the juice processed in Florida.

Foreign companies also invest in other parts of the U.S. food chain, especially food retailing (see box). Sales from foreign-owned food retailers exceed sales of foreign-owned food processing companies in the United States (table 4).

Has Foreign Investment Displaced Trade?

USDA's Economic Research Service examined the reasons behind the increases in FDI by U.S. food companies and in U.S. exports of processed foods. The levels of consumer incomes largely explain why U.S. processed food exports are highest to Europe, Japan, and Canada (see "Consumer Preferences and Concerns Shape Global Food Trade" elsewhere in this issue).

The strong dollar, which makes it more costly for foreign consumers to import U.S. goods, has largely driven U.S. food companies to invest in firms abroad. A strong dollar also makes the purchase of assets in foreign countries less expensive. When domestic capital sources decline, which is common when a country's currency depreciates, countries often seek foreign capital to spur economic growth. The relationship between a strong dollar and increased U.S. FDI is especially evident in NAFTA countries.

Whether FDI complements or competes with exports depends on the country and the product. Products made by foreign affiliates of U.S. companies often compete with U.S. exports. For example, when beer and soft drink plants open in other countries, U.S. exports of those products to these countries decline. In many cases, however, FDI complements U.S. processed food exports. For example, the United States exports syrups and malt for soft drinks and beer that are manufactured abroad. The United States often exports soybean oil and high-fructose corn syrup that are used as ingredients in

Table 3
Value of Shipments by U.S. Food Manufacturing Affiliates of Foreign Firms More Than Doubled During 1987-97

Country of origin	1982	1987	1992	1997	1998	Share of 1998 total affiliate sales	Change, 1987-97
	Million dollars					Percent	
Europe	10,527	17,967	32,994	35,873	38,209	72	100
Canada	2,218	3,174	5,113	3,477	4,570	9	10
Japan	564	612	5,131	5,680	5,308	11	828
Other	1,538	1,109	3,561	5,228	5,417	10	371
Total	14,847	22,862	46,799	50,258	53,405	100	120

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 4
Food Retailing Accounts for the Largest Share of FDI in the U.S. Food Marketing System

Sector	1982	1987	1992	1997	1998	2000 est.	Share of 1998 total affiliate sales
	Billion dollars						Percent
Food processing	14.8	22.9	46.8	47	49.8	50	29
Food wholesaling	7	14	19	44	40	42	24
Retail foodstores	18.8	24.3	48.2	67.7	70.7	73	42
Eating and drinking places	NA	0.5	4.9	7	9.1	11	5
Total, all foreign-owned U.S. affiliates in food marketing	40.6	61.6	118.8	165.7	169.6	176	100

Note: NA = not available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

processed foods like bread, bakery products, frozen dinners, and breakfast foods produced by Sara Lee, Kraft Foods, and Kellogg in other countries. Archer-Daniels-Midland, Ralston Purina, and Cargill often use U.S. agricultural products as ingredients in livestock feeds produced in their foreign plants.

As farming technology abroad has improved and U.S agricultural products have become less cost competitive, U.S. food processing affiliates have sought non-U.S. sources of agricultural commodities. Agricultural production in South America grew more than 30 percent during the 1990s, providing an important source of wheat, corn, and soybeans for U.S. manufacturing abroad.

While foreign investment benefits parent companies, it also has important economic consequences for host countries. FDI can result in increases in new employment opportunities, salaries, and gross domestic product. Foreign affiliates of U.S. companies employed 551,500 persons, earning $13.6 billion, in 1998. Likewise, 188,000 persons, earning nearly $7 billion, were employed by foreign-owned food and beverage companies in the United States. The host countries also gain in less quantifiable ways. The country receiving foreign direct investment gains from the investing firm's knowledge of technology, marketing, management, finance, and information services. Even when FDI occurs by acquisition, the parent firm typically upgrades the acquired firm's production processes and equipment, quality and environmental controls, procurement practices, packaging, and distribution systems.

FDI has become an increasingly important strategy for the U.S. food industry to expand abroad. In many instances, FDI has proved to be more economically feasible than exports as a means to access foreign markets. The value of foods produced by U.S. affiliates abroad have exceeded the value of U.S. processed food exports since the 1960s and this trend will continue in the near future.

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