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**An exploratory study of the forces and actors  
influencing the marketing of functional foods in  
Finland and Estonia**

**Empirical example: Fazer Bakery's iLove products**

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## **ABSTRACT**

This thesis is an analysis of the Finnish and the Estonian marketing environments with respect to functional food marketing. Economic, technological, cultural and political-legal forces are the areas of discussion in the macroenvironment analysis while competition and customers are analysed from the microenvironment perspective. Main emphasis is given to the legislative situation as current laws restrict the marketing of functional foods by prohibiting the use of words *prevent, treat and cure* in marketing practices. As well as companies, consumers are affected by the forces of macroenvironment. The way consumers make food choices, and factors influencing the decisions, will be another main theme of this paper.

Fazer will be used as an empirical example. Its marketing mix solutions for iLove products will be presented and their suitability to Estonian markets briefly evaluated.

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## 1. INTRODUCTION

Developments in the food industry reflect typically societal, cultural and fashion trends. Consumers of today are increasingly interested in their diets and well-being. Companies are responding by providing more and more functional food products in the markets. The term implies that in addition to its nutrient effect, the food product has a positive influence on human health. There are many sources for nutraceuticals, such as betaglucan of oats; isoflavones of soybeans and omega-3 fatty acid, which all have a range of health benefits, from anti-cancerous to cardiovascular effects. The health property of the product must be scientifically proved and justified more than in one occasion and by more than one research institute.

The recent food scares have resulted in intense discussions concerning food safety and consumers' right to reliable information. Different European Union bodies have acknowledged the need to improve and harmonise the legislation in this area because Member States have implied the existing rules differently, and therefore the effective functioning of the internal market has been hindered, and to some extent, the consumer confidence has decreased. In addition, an increasing amount of functional food products has been appearing into the markets. Their marketing is problematic since food products are prohibited by law from claiming medicinal properties, i.e. claims for the prevention, treatment or cure of a disease, whether true or not. Therefore, marketers meet two big challenges; to show the health effect of a product in a legally acceptable manner, and to get over the consumer scepticism, to attain consumers' trust and acceptance. Although difficult, it is extremely important to draw the line between medicinal and health claims and establish clear common rules for their use, so that consumers are protected and not misled, and the functioning of internal market is ensured via fair competition.

Fazer Bakeries, Finland's leading bakery company and part of the Fazer Group, launched functional food products into the markets in the beginning of 2002. The so-called iLove brand includes sliced wheat and multigrain breads, oat-crisps, two snack bars and two low-lactose chocolate bars. The first three of these are produced by Fazer Bakeries whereas the confectionery side is responsible for the production of snack bars and chocolate. The joint project is organised directly under the supervision of board of directors<sup>1</sup>. Fazer has revealed

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<sup>1</sup> Wiklund, P. (2002)

that the meaning is to introduce more iLove products already next autumn<sup>2</sup>. So far iLove products can only be found in Finland but the idea is to expand markets for these products since the popularity of functional food seems to be a growing trend. Another driving force behind future market expansion for this brand is that creating a functional food product requires huge research and development expenses. Finnish markets are small, and thus slow in paying back the high investment costs.

In addition to Finland, Fazer has bakery operations in Sweden, Estonia, Lithuania, Latvia and St. Petersburg Russia. Estonia, though geographically close to Finland, is characteristically somehow different. When Estonia declared the restoration of its independence in 1991, Finland had already been an independent country for 74 years. Finland joined the European Union (EU) in 1995, whereas Estonia is an accession country at the very moment. From the perspective of a business operator, these two markets represent very diverse market environments. Living standards and cultural backgrounds, including traditions, are among the main factors resulting in different consumption habits. Furthermore, price levels are far from being even. Food is traditionally seen as a necessity for survival. However, as the living standards improve, consumers become more demanding and picky in what they buy and eat, they invest more in their well-being and thus choose healthy and high quality food products. This kind of development has been more obvious in Finland but is accelerating in Estonia too.

The purpose of this thesis is to examine how different forces and actors influence the marketing of functional foods in Finland and Estonia. Legal limitations and consumer scepticism seem to pose the greatest challenges for the functional food marketers. Therefore, the current legislation and consumers will be the main areas of discussion. The prevailing legislative situation at national level as well as from the EU law perspective will be assessed. Furthermore, the consumer decision-making process model will be applied as understanding consumer needs and the way consumers make decisions are critical in marketing practices. This is so especially with functional food products, which are still, to some extent, unfamiliar to consumers and thus create uncertainty. The analysis of marketing environments will point out factors influencing the demand for functional foods in the two countries. That analysis will work as a platform for marketing mix considerations. The final part of the thesis will show firstly, how Fazer Bakeries has decided to operate in the kind of circumstances

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<sup>2</sup> [www.ilove.fazermakeiset.hosted-by.axel-group.com](http://www.ilove.fazermakeiset.hosted-by.axel-group.com) 2002 [Visited 2002-05-08]

described and specifically, what are their marketing mix decisions for iLove products. Main focus will be on decisions regarding products and promotion. It has not been decided yet, whether the markets for iLove products will be expanded to Estonia. The concept has been built for the Scandinavian market and possibly also the Baltic region, but before Fazer makes decisions in terms of market expansion, the Finnish experience will be evaluated<sup>3</sup>. In this thesis, a hypothesis is made that iLove products will be marketed in Estonia. A brief evaluation regarding the suitability of Fazer's current marketing mix for iLove products to Estonian markets will be provided.

### **1.1 Research questions**

1. What are the major factors in the marketing environment that a company must consider when marketing functional foods, and how these factors affect the functional food marketing in Finland and Estonia?
2. What are Fazer Bakery's marketing mix decisions for their iLove products in the Finnish marketing environment?
3. Would Fazer's current marketing mix be suitable to Estonian markets?

### **1.2 Limitations to the study**

Since the marketing of functional foods is a complex and broad subject, involving a various disciplines, there will be some limitations to this study. In micro environmental analysis, only customers and competitors are discussed. Because of the lack of information available about Estonian consumers, the Finnish aspect is more comprehensive. As regards the marketing mix decisions, I have decided to focus on product and promotion aspects. Therefore, the marketing mix analysis is limited to cover these two elements, although price and place will be mentioned. Finally, as legislation changes, it is important to state that the legal part of the study was concluded in April 20, 2002. Therefore, legal issues are considered up to that date.

### **1.3 Motivation**

As a Finn I wanted to write my thesis about a company of Finnish origin. I decided to write about Fazer, whose products are well-known and very popular among the Finnish people, and as a matter of fact, have been that over 100 years.

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<sup>3</sup> Lehtelä, L. In Wiklund, P. (2002)

The idea to write about functional foods came from Fazer Bakeries' marketing director Jan Tengström. iLove products were launched to the Finnish markets in the beginning of this year, and therefore could work as empirical examples for my study. A motivating factor to write thesis about functional foods is the fact that the subject is topical – there is a continuous flow of functional foods bringing ever more choice for consumers. Functional foods seems to be in fashion. The challenges and problems connected to their marketing are topical both nationally and at the European Union level. Master of European Affairs Programme has provided me some new insights to European issues and how decisions made at the European level affect the Member States.

Finland is famous for its functional food products. It has even been suggested that biotechnology, and that way also functional foods, could be the country's new 'Nokia'<sup>4</sup>. Therefore, it is interesting to examine functional food marketing just in Finland. I found Estonia to be an interesting comparison because in many ways it is so close to Finland yet differences do exist. Finally, functional foods fascinate me personally because athletics has always been a big part of my life, and in order to reach better results in that, a healthy diet is needed.

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<sup>4</sup> Virtanen, A. (2000)



## 2. THEORY AND METHODOLOGY

*"The process by which businesses analyse the environment and their capabilities, decide upon courses of marketing action, and implement those decisions is called marketing planning"<sup>5</sup>.*

Jobber has defined a theoretical model for the marketing planning process, including a number of steps. In reality, the planning process is not usually as clear-cut as the model suggests, but it works as a theoretical framework. I will present the model in order to show how those parts of marketing, which I have decided to focus on, are related to the whole marketing process.

### The Marketing Planning Process



Source: Jobber, D. (1998:31)

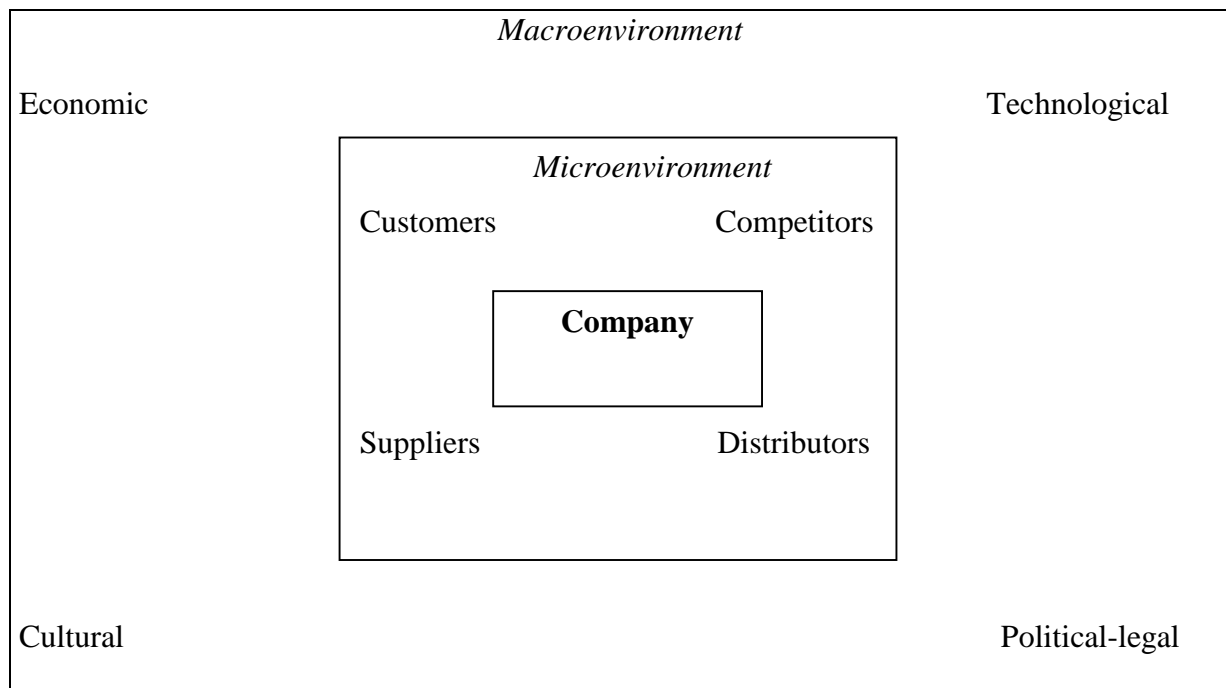
The areas of marketing, which will be discussed in this thesis, are mainly the marketing environment, consumer behaviour and marketing mix. The analysis of the marketing environment is part of the marketing audit, although the stages in the marketing planning

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<sup>5</sup> Jobber, D. (1998:29)

process overlap to some extent. Marketing audit is considered to be *"the basis upon which a plan of action to improve marketing performance can be built"*<sup>6</sup>. It is *"a systematic examination of the business's marketing environment, objectives, strategies and activities with a view to identifying key strategic issues, problem areas and opportunities"*<sup>7</sup>. Since marketing audit is a broad stage of the marketing planning process, I will focus only on the marketing environment. There are a number of actors and forces affecting a company's capability to operate effectively in a given market. The marketing environment can be divided into macro- and microenvironments. The latter consists of the actors in the company's immediate environment, while the former consists of broader forces that are uncontrollable and have an influence on all the actors in the market. The marketing environment analysis will be based on the following model:

### The Marketing Environment



Source: Jobber, D. (1998:106)

The model is a modified version of David Jobber's original marketing environment model. In his version, the macroenvironment is divided into economic, legal, social, technological and physical environments. I regard culture as one of the strong influences on food consumption habits. Therefore, I wanted to place emphasis on that aspect of social environment. Other social forces will be discussed later in the paper under the heading of socio-demographic factors. Although the physical environment is important, I will not include environmental issues into my thesis because that goes beyond the topic of this paper. For the analysis of the

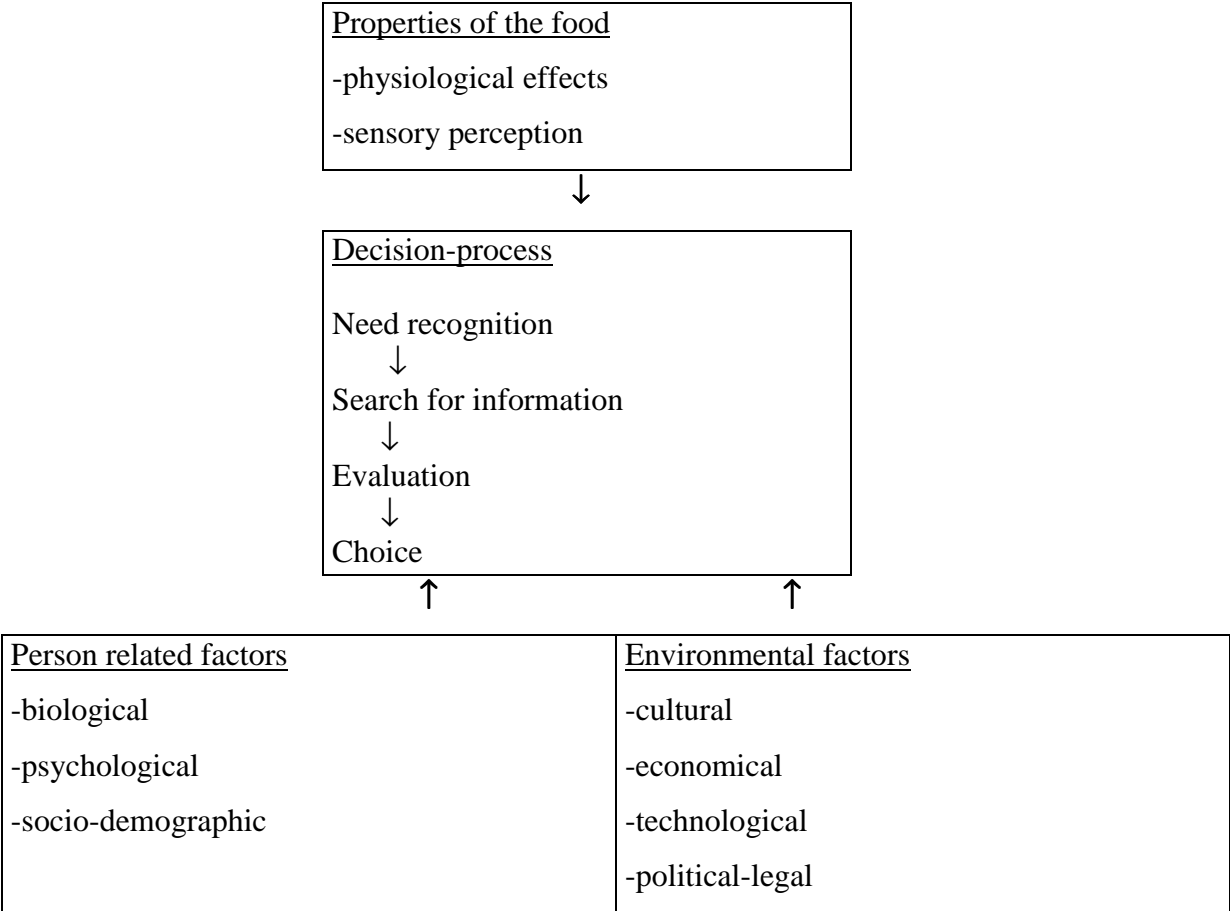
<sup>6</sup> Jobber, D. (1998:35)

<sup>7</sup> Ibid

legal environment, I will examine the existing rules and regulations of the EU, Finland and Estonia having relevance to functional food marketing. Therefore, Treaty articles, Directives, Regulations, national laws and other relevant legal texts will be used. The purpose is to show how the current laws affect the practice of functional food marketing. Study of other important market forces will be based on various country reports, articles and statistics, which will provide useful insights of the markets in which Fazer Bakeries operate and the Finns and Estonians consume.

In terms of the microenvironment, the competitive environment will be briefly described but supplier and distributor analyses will not be discussed. In stead, the emphasis will be on customers. In order to better understand the reasons consumers buy / do not buy functional food products, the conceptual model for consumer behaviour with respect to food will be introduced and applied.

The conceptual model for consumer behaviour with respect to food:

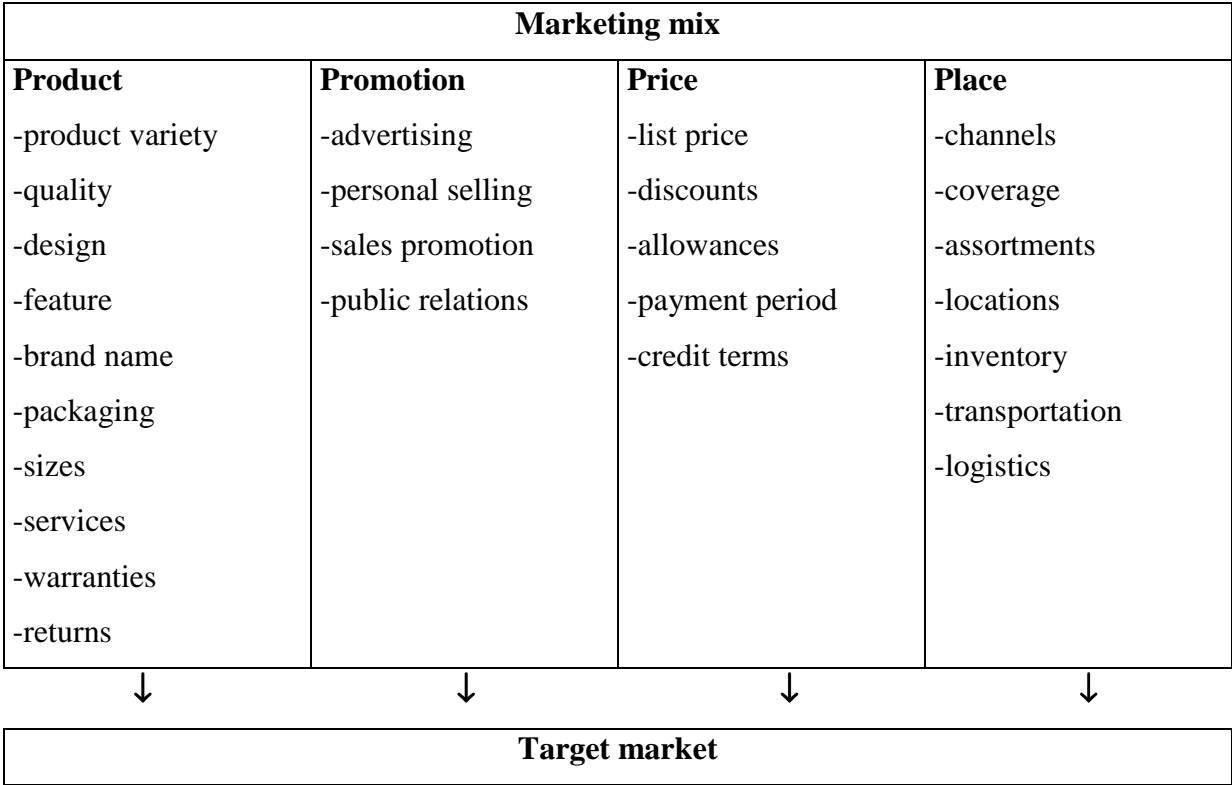


Source: Traill, W. B. (1999)

The interpretation of the consumer behaviour model will be based on relevant literature and the analysis will refer to several consumer surveys. Again, a little change is made to the original model. In W. B. Traill's model, the environmental forces included cultural, economical and marketing factors. However, since the political-legal and technological forces are affecting consumer choices in terms of functional foods, I decided to use the same headings, which were used in the marketing environment analysis, also in this model.

The final part of the thesis will concern the marketing mix decisions stage of the marketing planning process. A well-planned and implemented marketing mix, which fits to the environment and to the needs of consumers, is likely to contribute to market success. Therefore, when creating a marketing mix, a company must pay attention to earlier stages of the marketing planning process. Marketing mix is defined as *"the set of controllable tactical marketing tools – product, price, place and promotion - that the firm blends to produce the response it wants in the target market"*<sup>8</sup>. The following model, which is provided by Armstrong and Kotler<sup>9</sup>, shows the various marketing tools available for companies.

The Four Ps: The Marketing Mix



<sup>8</sup> Kotler, P. et al. (1999)

This model will be used as a basis for the discussion regarding Fazer Bakeries marketing mix decisions for their iLove products. However, only product and promotion decisions will be discussed deeply because they are most closely related to the legal problem of functional food marketing. The methods used in this part include company reports and news, interviews and other relevant literature. Interviews were carried out in Fazer's headquarters in Vantaa Finland, as well as via e-mails.

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<sup>9</sup> Armstrong, G. And Kotler, P. (2000:55)

### 3. COMPANY PROFILE - FAZER

Fazer was founded in 1891 when Mr Karl Fazer opened a cafe in Helsinki to offer customers delicacies. Over the years, the family company has expanded not only at the national level but also internationally. Since Fazer has a long history, during which the Finns have experienced two wars, the company has become an important part of the Finnish national identity.

The Fazer Group consists of Fazer Bakeries, Amica, Candyking and Cloetta Fazer. During the recent years, Fazer has invested in expansion. According to Hans Olof Danielsson, the president of Fazer, a company has to be big enough if it is to survive and succeed<sup>10</sup>. In 2001, the profits before taxes were €58,3 million and the total turnover €790,3 million. The share of foreign operations, including exports was 42% of the turnover. Fazer's self-sufficiency is as high as 69%. The core values of the company, namely high quality, customer focus and consumers' taste experiences, have been the cornerstones throughout the company's existence. "Say Fazer when you want the very best" is a phrase all Finns recognise. Although the three business areas, i.e. bakery operations, confectioneries and catering, are different from each other, they enable the Group to gain synergy benefits e.g. in information technology and know-how. The Fazer Group is engaging in research co-operation with national and international projects, which is important in terms of the development of functional foods<sup>11</sup>.

The vision of Fazer Bakeries is to be the leading company in its business area in the Nordic countries and to attain a strong market position in the Baltic region, Poland and St. Petersburg. In 2001, its total turnover was €274,5 million indicating a growth of 6% from the previous year<sup>12</sup>. In Finland, Fazer Bakeries is the leading bakery company with the market share of 33%. The annual production totals up to 75,000 tons. Fazer Eesti AS was established in 1994. Its market share in Tallinn area is approximately 17% while the share of the whole country is around 8%. The bakery is known for its Fazer Pagarid brand. Fazer Pagarid bakes 4,500 tons bread and pastries annually<sup>13</sup> by using the methods common to all Fazer bakeries. The main strategy lines are made in Finland, which is to say that the decision-making process is centralised. However, the representatives of the Fazer bakeries operating in other countries have a possibility to influence the decisions<sup>14</sup>.

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<sup>10</sup> Fazer Concern 2001, [www.fazer.fi](http://www.fazer.fi) [Visited 2002-03-23]

<sup>11</sup> Ibid

<sup>12</sup> Ibid

<sup>13</sup> Fazer Bakeries 2001 -leaflet

<sup>14</sup> Krister Friberg (2002)

#### 4. FUNCTIONAL FOODS

Although the protective and healing effects of food have been part of the Chinese culture for centuries, it can be argued that the Japanese created the concept of functional foods. By the late 20th century, eating and consumption habits in the country had become more and more Western-like. The consequence was a huge increase in diabetes and cardiovascular diseases, which happened during a short time period. Moreover, there was a growing concern about the ageing population and the increased health expenses that would follow. For these reasons, a wide study about the health effects of food was started in the 1980's, which was participated by universities, various authorities and the food industry<sup>15</sup>. Between 1988 and 1998, about 1721 functional food products were launched in the country<sup>16</sup>. In 1991, the FOSHU licensing system (Foods for Specific Health Use) was introduced, meaning that FOSHU health claims were to be verified prior approval and those products had to include ingredients accepted by the scheme as being beneficial in maintaining a healthy body<sup>17</sup>. Although the concept was new, content-wise functional food had existed earlier - the positive effects of xylitol on dental health for example had been tested with clinical tests already in the beginning of the 1970's in Finland.

The fact is that every food has a function, "good" and "bad" foods per se do not exist, but rather balanced and unbalanced diets<sup>18</sup>. Functional foods have been designed to offer a particular health benefit over and above the traditional nutrients they contain. By affecting one or more target functions in the body, they have the potential to improve mental and physical well-being and to reduce the risk of diseases. Therefore, the idea of developing functional food products is to focus on preventing diseases rather than on treating them. It is important to emphasise that functional foods do not include tablets, capsules and pills but are foods, consumed as part of a normal food pattern. Functional foods can help in reaching a healthy way of living but in order to maximise the benefits, the whole diet shall be healthy and balanced, and physical exercises shall be regular. In other words, functional foods as such do not guarantee health - they are rather a positive, health enhancing addition to an overall balanced diet and active lifestyle.

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<sup>15</sup> [www.elintarvikevirasto.fi](http://www.elintarvikevirasto.fi), "Japanilaiset aloittivat..." [Visited 2002-04-11]

<sup>16</sup> Anon, 1999 in [www.ifis.org/](http://www.ifis.org/) [Visited 2002-02-28]

<sup>17</sup> [www.ifis.org/](http://www.ifis.org/) (2001) [Visited 2002-02-28]

<sup>18</sup> Discussion Paper on nutrition claims and functional claims

"Functional foods" is a term, which can be used when the beneficial effects to normal bodily functions can be scientifically justified<sup>19</sup>. Moreover, the beneficial effect shall be such that it can be gained by enjoying regularly a moderate amount of the particular food. There are many counterparts for that term, such as nutraceuticals, pharmafoods and health enhanced foods, but functional foods is the term used in this thesis. Almost any food or drink product can be made to a functional food product by one of the following ways<sup>20</sup>:

- by eliminating an ingredient, which is typically present in the basic product and which is hazardous to one consumer group (e.g. lactose from a dairy product)
- by increasing the amount of a useful substance that is already present in the product
- by adding a substance that has a positive effect on health and that is not naturally present in the basic product
- by replacing one substance in the product with a similar but healthier or more beneficial substance (e.g. sugar by xylitol in chewing gum)

The last three methods seem to be the most common. In Europe, dairy products constitute the largest share of functional food market but grain products, such as bread, biscuits and cereals, have also become more popular within the recent years<sup>21</sup>. In terms of the different health conditions having a strong influence on the functional food market, coronary vascular disease was ranked as number one by European manufacturers, followed by cancer, obesity, osteoporosis, gut health and immunity<sup>22</sup>.

Despite the growing interest towards functional food products, there are still people having the opinion that functional foods are only about marketing, and that their existence is unnecessary since fruits, vegetables and other basic food products can as well form a balanced healthy diet. However, the question then raises of how many people do actually have a balanced, healthy diet? If functional foods are capable of improving the well-being of even a small proportion of people, why should they not exist? Another criticism is that, there are products in the markets which have been there for a long time and which could be considered as functional foods but are not. For example, skimmed milk is fat free and very high in calcium, and therefore, very good in preventing osteoporosis. Thus, there is a clear point behind the critics and the prevailing confusion is easy to understand. The need for an accurate definition is obvious.

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<sup>19</sup> Vainikainen, T. (1999)

<sup>20</sup> Salminen, K. (2001), "Terveysvaikutteisten elintarvikkeiden kaupallistaminen"

<sup>21</sup> [www.ifis.org/](http://www.ifis.org/) [Visited 2002-02-28]

<sup>22</sup> Sloan, A.E., 2000 in [www.ifis.org/](http://www.ifis.org/) [Visited 2002-02-28]



## **5. THE ANALYSIS OF THE MARKETING ENVIRONMENTS**

The first step in the marketing planning process for each company is to define the business mission, i.e. the purpose of the business and the boundaries within which new opportunities are sought<sup>23</sup>. The better defined mission statement, the more useful it is for the next step of the process. The marketing audit includes the analyses of those external and internal environments, which are defined in the business mission.

### **5.1 MACROENVIRONMENT**

As the marketing environment model indicates, economic, technological, political-legal and cultural forces are shaping the macroenvironment in which businesses operate. All macroenvironment forces are essential for marketers since they are strongly reflected in demand figures for particular products, for functional foods in this case. Likewise, they are essential for consumers as they have an influence among other things on supply. Since macroenvironment forces affect both customers and marketers, they will be discussed before the analysis of the microenvironments.

#### **5.1.1 Economic environments**

The population figures, which are 5,181 115<sup>24</sup> in Finland and 1,442 390<sup>25</sup> in Estonia, are indicators of the market size. However, markets require not only people but people with money. Gross domestic product (GDP), i.e. the total value added of the goods and services produced, reflects economic activity within a country's borders. According to the classification submitted by the World Bank Economic Group in 1998, Finland belongs to the group of countries with high income per capita (US\$25,870) while Estonia is in the group of lower-middle income per capita (US\$1,740)<sup>26</sup>. The purchasing power, measured by the quantity of money divided by the price level, shows the quantity of goods and services that can be bought with the money. The purchasing power parity (PPP) in Finland and Estonia differ significantly from each other. PPP is a condition that holds when the prices of goods in the different countries are equalised once the adjustment is made for the exchange rate. Comparative international data from 1999 shows such figures as US\$21 209 for Finland and US\$7 826 for Estonia<sup>27</sup>. However, purchasing power in Estonia is increasing. Yet another

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<sup>23</sup> Jobber, D. (1998)

<sup>24</sup> Finland in Figures 2001

<sup>25</sup> [www.cf.heritage.org/](http://www.cf.heritage.org/) [Visited 2002-04-23]

<sup>26</sup> *World Development Indicators 1998* in Terpstra and Sarathy 2000, pp.72-73

<sup>27</sup> Finland in Figures 2001

interesting comparison can be made between the average monthly wages. That figure turns out to be more than six times higher in Finland than in Estonia<sup>28</sup>. In this context, it is also useful to point out that about 30% of Estonians live in rural areas, where income levels are generally lower than in cities<sup>29</sup>. Finally, inflation and unemployment rates are relevant in the context of the economic environment. According to Statistics Finland, the year-on-year change in consumer prices, i.e. inflation, was 1,8% in March 2002<sup>30</sup>. The unemployment rate has been around 9% since January 2002<sup>31</sup>. In Estonia, the figures from 2001 were 4,2% and 12% respectively<sup>32</sup>.

Economic factors affect food consumption directly by setting the limits for what one can afford to buy. In addition, economic factors influence food consumption by affecting one's lifestyle and level of education, which in turn are linked to attitudes for example to the environment, functional foods and biotechnology. Moreover, economic factors determine partly where the person can shop. Engel's Law gives a negative figure for the relationship between income and the proportion of expenditure on food. It has been proved that the Law holds nationally and internationally, meaning that the poor spend a higher proportion of their income on food than the rich do within a country, and correspondingly, poor countries spend more of their GNP on food than wealthy ones<sup>33</sup>. On the other hand, the total expenditure per capita on food rises as income per capita rises<sup>34</sup>. Rise in income makes people less price sensitive and more willing to pay for value-adding elements of food products. In other words, even though the income and price elasticities for food per se are low in wealthy countries, the elasticities with respect to the value-adding activities associated with food are higher.

In Finland, the share of household expenditure spent on food and non-alcoholic beverages has been decreasing, 13,6% in 1998<sup>35</sup>, but the money spent on food has not decreased<sup>36</sup>. The share of total food expenditure spent on bread and other grain products was 15,7% in 1996<sup>37</sup>. Also in Estonia, the part of daily necessities, including food, of the total consumption is

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<sup>28</sup> In 2001 the average monthly wage was 2 142 (EUR) in Finland ([www.stat.fi](http://www.stat.fi)) while the figure was 312 (EUR) in Estonia in 2000.

<sup>29</sup> Anderson, J. (2002)

<sup>30</sup> [www.stat.fi](http://www.stat.fi) [Visited 2002-04-23]

<sup>31</sup> [www.bof.fi](http://www.bof.fi) [Visited 2002-04-23]

<sup>32</sup> [www.europa.eu.int/comm/enlargement](http://www.europa.eu.int/comm/enlargement)[Visited 2002-02-08]

<sup>33</sup> Traill, W. B. (1999)

<sup>34</sup> Ibid

<sup>35</sup> Finland in Figures (2001)

<sup>36</sup> Lahti-Koski, M. and Kilkinen, A-M. (2001)

<sup>37</sup> Tilastokeskus in Tapionlinna, U-R. (1999)

decreasing<sup>38</sup>. In Finland, the annual bread consumption adds up to FIM 869 per person, while the Estonians spend money around FIM 266 on bread each year<sup>39</sup>. Even though the price of bread has gone up from the times of socialism, it is still clearly lower than the price in Finland.

The presented figures indicate that the Finnish and Estonian markets represent very different kinds of economic environments. Among other things, that can be seen in the standards of living, price levels and consequently on consumption habits. On the other hand, the economic integration with EU Member States resulted in a rapid increase in the growth rate of Estonia's economy in 2000, and that high rate of growth continued in 2001<sup>40</sup>. In 2000, Estonia was among the fastest growing economies in Europe<sup>41</sup>. It seems that the difficulties, caused by the transition from a planned economy to a market economy in the beginning of the 1990's, are mainly over now, and the economical conditions are improving. The cornerstone of the reform was the introduction of a national currency (kroon) under a Currency Board Arrangement, which was supported by tight budgetary policies, foreign trade liberalisation, and extensive privatisation. In Finland, the parliament approved the government's motion in 1998 to allow the country to enter the first round of European Monetary Union (EMU). Therefore, the Euro replaced the Finnish mark in the beginning of 2002. Once the currency is same on these two markets, prices will be easier to compare. In the course of time, this is likely to make prices to converge. After considering all these factors, it can be argued that in a few years time, the economic environments of the two markets may be much more alike.

The marketing factors refer to the retailing and food manufacturing systems and consequently to the range of products available. Marketing factors are often related to the economic factors; a wealthy country has a better chance to possess a well-developed marketing system. The food retail sector in Finland is largely integrated and concentrated. The three largest import/wholesale groups cover over 70% of the food markets. In 2000, there were 4 283 retail outlets in the country. In Estonia, the structure of retailing and wholesaling changed due to privatisation and liberalisation during the transition from central planning to market economy<sup>42</sup>. In 2000, there were 38 retail food chains in the country and the number of retail

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<sup>38</sup> [www.denmark.ee/](http://www.denmark.ee/) [Visited 2002-05-09]

<sup>39</sup> Market Report (2001)

<sup>40</sup> Ibid

<sup>41</sup> Andersone, J. (2002)

<sup>42</sup> Esbjerg, L and Skytte, H. (1999)

outlets amounted up to 2 664<sup>43</sup>. The open air markets presented approximately a quarter of the total retail food turnover<sup>44</sup>.

### 5.1.2 Technological environments

Economical factors are often related to the technological developments in the country. The expenditure on research and development (R&D) has more than doubled in Finland during the last ten years. In 1999, that figure was FIM 23 062 million, representing 3.2% of the GDP<sup>45</sup>, while in Estonia, the sum invested in R&D in that year was only 0,76% of GDP<sup>46</sup>. In order to make Estonia more competitive, the Ministry of Economic Affairs launched a strategy with the vision to see Estonia as *“a knowledge based society in which research, oriented towards new knowledge and development of human resources, are the source of economic and labour competitiveness and the quality of life”*<sup>47</sup>. The aim is that by 2006, the total R&D expenditure will represent 1,7 % of GDP<sup>48</sup>.

Since high investment in R&D is a prerequisite for developing functional foods, the technological environment is extremely important. The development of functional foods requires cross-sectoral expertise as well as long and expensive clinical tests. Finland, with a history of health-enhancing food innovations, is constantly investing in functional food research. The country has even been called 'the Silicon Valley of functional foods'<sup>49</sup>. Universities are improving their educational offerings with respect to the subject and the National Technology Agency of Finland (TEKES) is providing financial support for Finnish research<sup>50</sup>. Furthermore, co-operation between the food sector and other branches of industry and research, such as medicine and biotechnology, is encouraged since well-functioning networks will promote further new discoveries.

Estonian biotechnology suffered from the recession in the 1990's but is back on track again. Political and economic circumstances are more favourable to biobusiness today than a few years ago. Now Estonia is a full member of the European RTD programmes. Moreover, government policy is supportive as one of the three most favoured areas for the coming years

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<sup>43</sup> Andersone, J. (2002)

<sup>44</sup> Andersone, J. (2000)

<sup>45</sup> Finland in Figures 2001

<sup>46</sup> Ratso, S.

<sup>47</sup> Ibid p.15

<sup>48</sup> Ibid

<sup>49</sup> Savola, P. (2000)

will be gene technology<sup>51</sup>. However, nothing was mentioned about functional foods in the context of R&D investments.

### 5.1.3 Cultural environments

According to J-F. Bergier, *"culture is a network of referential values and characteristics of a group to which the individual belongs and therefore differentiated with respect to the other groups' cultures"*<sup>52</sup>. Each culture consists of a number of variables, such as language, education, religion, aesthetics, attitudes and values.

Although different, similarities can also be found in the cultures of Finland and Estonia because of their close geographical situation. Finland is a bilingual country with Finnish and Swedish being the official languages. The official language of Estonia is Estonian, which is a Finno-Ugric tongue and closely related to Finnish. It is common in Estonia to watch Finnish television programmes, which is why many Estonians can understand Finnish language. 28,7% of the people living in Estonia are of Russian origin while 64,2% are ethnic Estonians<sup>53</sup>. Therefore, Russian is another language often heard in Estonia. The high level of education is reflected in the adult literacy rates, which in both countries stands at 100%<sup>54</sup>. The leading religion in both countries is Evangelical Lutheran. Cultural factors, particularly attitudes and values, will be further discussed in the context of consumers.

Culture consists of many areas of which the most relevant for this thesis is food culture. Even though food culture is becoming more homogenous and food from different parts of the world is easily available, differences still exist between ethnic groups. It has been said that *"food is like language allowing groups to be unique and different from other groups"*<sup>55</sup>. Most likes and dislikes are learned and tastes in food are socially shaped<sup>56</sup>. It is the interaction between biology and culture that shapes the individual food preferences. Food taboos refer often to systems of health beliefs, i.e. what is good and bad for the body. Culture therefore sets reservations on one's eating behaviour. A good example is that an innate biological desire to

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<sup>50</sup> Savola, P. (2000)

<sup>51</sup> Estonian Investment Agency

<sup>52</sup> Bergier, J-F (1998:2)

<sup>53</sup> <http://media.maps.com/> [Visited 2002-05-09]

<sup>54</sup> Ibid

<sup>55</sup> Chiva (1996) in [www.geocities.com/nvaladi/food.html](http://www.geocities.com/nvaladi/food.html) [Visited 2002-03-04]

<sup>56</sup> Mennell, S. (1996)

eat animal foods has been overlaid by reservations of culture which are based on both ideational values and possible health consequences of high fat and cholesterol intake<sup>57</sup>.

### 5.1.3.1 Finnish food culture

The Finnish diet has been healthy and rather functional throughout the history. It has been based on grain products, mainly rye, oats and barley, potatoes and root vegetables, milk, fish and sometimes meat<sup>58</sup>. Traditionally, the food was low in fat but salty. In the end of the 1950's, when the difficult times started to be over and more food was available, the consumption of fatty foods and meat increased resulting in growing amount of cardiovascular diseases<sup>59</sup>. Fortunately, during the last 30 years, various campaigns and media have managed to improve the situation. Vegetable consumption has increased so that in 2001 25% of men and 43% of women consumed them daily<sup>60</sup>. Moreover, margarine has replaced butter, and skimmed and semi-skimmed milk have replaced full milk. A survey pointed out that among adults, 38% decreased the amount of fat used, 21% changed the type of fat and 33% increased the use of vegetables during the previous year<sup>61</sup>. The results clearly indicate that the Finnish consumers have become more and more health conscious. It has actually been claimed that the nutrient intake of the Finns is now better than ever, keeping in mind however, that differences exist between individuals<sup>62</sup>. For the interest of this thesis, attention shall be paid to bread and functional food consumption. Bread has always been an important part of the Finnish diet. The average bread consumption per year per person is 51kg, of which 45kg are bought and 6kg self-baked<sup>63</sup>. Moreover, cakes, biscuits and other sweet grain products are consumed for 22kg per person per year<sup>64</sup>. The annual consumption of crisp-bread amounts up to 2,5kg per person<sup>65</sup>. In 1999, the share of functional food products of all food consumed in Finland was 6%, which was one percentage more than in 1997<sup>66</sup>. However, the trend is increasing rapidly.

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<sup>57</sup> [www.geocities.com/nvaladi/food.html](http://www.geocities.com/nvaladi/food.html) [Visited 2002-03-04]

<sup>58</sup> Lahti-Koski, M. And Kilkkinen, A-M. (2001)

<sup>59</sup> Savola, P. (2000)

<sup>60</sup> Helakorpi, et al. (2001)

<sup>61</sup> Ibid

<sup>62</sup> Aro, A. (2001)

<sup>63</sup> [www.leipatiedotus.fi](http://www.leipatiedotus.fi) [Visited 2002-02-08]

<sup>64</sup> Ibid

<sup>65</sup> [www.vaasan.com](http://www.vaasan.com) [Visited 2002-05-08]

<sup>66</sup> Tapionlinna, U-R. (1999)

On average, a Finn eats five times a day<sup>67</sup>. A typical example contains: bread and porridge for breakfast, a warm lunch with salad, a sandwich or coffee bread in the afternoon, dinner around 5-6pm and a sandwich in the evening. The food habits are traditional and modern at the same time. The changes with respect to eating habits are further discussed in the context of lifestyles.

### **5.1.3.2 Estonian food culture**

Both east and west have influenced the Estonian food culture. The food culture in northern and western parts of the country has been strongly influenced by Finland and Sweden while Russia and Lithuania have shaped it in eastern and southern parts<sup>68</sup>.

Traditionally, Estonian diet is rather heavy although barley and rye have always been a big part of it. It has been argued that bread has been the most important type of food in Estonian history<sup>69</sup>. It has been the symbol of wealth and power - it was cut and dealt by the master of the house. Nowadays, there are more fruits and vegetables available which has decreased the bread consumption from those days. Yet Estonians still eat a lot of bread: approximately 56,5kg per person per year<sup>70</sup>, of which about half is rye bread<sup>71</sup>. The popularity of rye bread is typical in Eastern Europe. On the other hand, white bread, which is more popular in Western countries, is increasing its share in Estonians' bread consumption. Ready-sliced bread as well as buns are becoming more popular<sup>72</sup>, the latter probably being the result of the increasing number of hamburger restaurants in the country. Overall, the consumption volumes of most foods are smaller than the optimum basket necessary for healthy nutrition<sup>73</sup>. In terms of vegetable consumption, a study showed that 48% of Estonians consumed vegetables daily<sup>74</sup>. No information was found about the functional food consumption.

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<sup>67</sup> Mäkelä, J. (2002)

<sup>68</sup> Vesterinen, I. (1997)

<sup>69</sup> Ibid

<sup>70</sup> Market Report (2001)

<sup>71</sup> Estonian Association of Bakeries

<sup>72</sup> <http://w3.verkkouutiset.fi> (1999) [Visited 2002-01-12]

<sup>73</sup> Andersone, J. (2000)

<sup>74</sup> Pomerlau, J. et al. (2001), "Macronutrient..."

#### **5.1.4 Political-legal environments**

Political forces and legal rules set the framework within which businesses must work. Finland operates as a republic. The country has a president but the real governing power comes from the parliament consisting of 200 members. The republic of Estonia has also a president and parliamentary democracy.

Each company, which operates internationally, must consider political and legal issues at national as well as international level. As regards functional food marketing, the lack of precise rules and definitions can create legal problems. Therefore, the legal environment, will be given a deeper analysis.



## **6. FOOD LEGISLATION IN THE EUROPEAN UNION**

The body of food law in the European Union developed historically with the aims of protecting the consumer from food adulteration, and of protecting the traditional composition of food<sup>75</sup>. Over the last 40 years, the food legislation has evolved by reflecting scientific, societal, political and economic forces. Today, its major objectives are to ensure the effective functioning of the internal market and to provide a high level of protection of human health, safety and consumer interest. As a consequence of the recent food scares, namely BSE and dioxin crises, a new so-called 'farm to table' approach has been introduced. This implies that Community food legislation shall cover all stages of the production and distribution of food, from the primary production of food to its sale to final consumer<sup>76</sup>.

The European food legislation has a crucial role to play because the food and drink industry is a leading industrial sector in the EU, with an annual production worth almost 600 billion Euro<sup>77</sup>. Moreover, about 15% of EU's total annual manufacturing output originates from the food and drink industry making it the world's largest producer of food and drink products<sup>78</sup>. Comprehensive and integrated food legislation, together with a coherent, effective and dynamic food policy is of great importance and would clearly contribute to the competitiveness of the European food industry in the global market.

### **6.1 The legal problem and the legal considerations in the context of functional food marketing**

For the time being, only Japan has a specific law for functional food products<sup>79</sup>. In the absence of a specific legal framework at the European level, the marketing of functional foods becomes problematic. Despite the fact that the existing Member States have adopted European Directives to their national legislation, differences in relation to concepts, principles and definitions of food still exist. The fact that the rules have been implemented differently may hinder the free movement of food, create unequal conditions for competition, and therefore impede the effective functioning of the internal market<sup>80</sup>. Furthermore, varying definitions reduce legal certainty and consumer confidence.

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<sup>75</sup> Kendall, V. (1994)

<sup>76</sup> Common Position (EC) No 2/2002

<sup>77</sup> White Paper on Food Safety (2000)

<sup>78</sup> Ibid

<sup>79</sup> Salminen, K. (2001), "Terveysvaikutteisten elintarvikkeiden kaupallistaminen"

<sup>80</sup> Common Position (EC) No 2/2002

As mentioned earlier, consumers are increasingly interested in their diet and its relationship to health. They look for quality and taste but also nutritional value of food products. However, due to the recent food scares, their confidence on food safety has been questioned. By virtue of the provisions of the Amsterdam Treaty, which emphasise citizens' rights and concern with social problems<sup>81</sup>, consumers are entitled to basic information<sup>82</sup>. They have the right to expect clearly presented information about foodstuffs, which shall enable them to make informed and secured choices. However, the continuous developments in the food industry and increasing variety of new products available, including among others genetically modified foods, organic foods and functional foods, have made this very complex. In order to respond to consumer concerns, many leading food producers have made available more information than is legally required. On one hand, this is a good thing but on the other hand, some companies have started to use claims as a marketing tool<sup>83</sup>. This kind of practice may distort competition and is disrespectful towards consumers.

Innovation and technological advancements are speeding up the development of new products with specific attributes, and consequently resulting in new challenges for the EU and national governments. The legal processes are often very protractile which is why the legislation relating to the marketing of functional foods seems to be lagging behind the product developments in the industry. Prior launching a new functional food product, a business operator needs to receive a license for his product<sup>84</sup>. This is a bureaucratic process that may take many years. During that time, the product may lose its novelty value and the competitors have a chance to catch up in development process. Therefore, in addition to consumers, producers and the industry as a whole suffer from the lack of common legislation in the subject. The legislative situation, in its present form, discourages companies from investing in research and innovation. The problem in terms of marketing functional food, arises from the fact that the Member States, and different national and international bodies are struggling in coming to an agreement regarding the appropriate definitions to be used since different types of claims may often overlap or the difference between them is minimal. Reaching a mutual understanding and creating common rules regarding the use of the nutritional, functional and health claims is also difficult because the issue is so multifaceted and complex. The dilemma behind all this, is that law defines a product intended for

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<sup>81</sup> Santer, J. (1997)

<sup>82</sup> [www.europa.eu.int/scadplus/leg/en/lvb/a17000.htm](http://www.europa.eu.int/scadplus/leg/en/lvb/a17000.htm), [Visited 2002-03-04]

<sup>83</sup> Discussion Paper on nutrition claims and functional claims

consumption either as a food or medicine but it cannot be both because different legislation applies for each. Categorised as foods, functional food products have to obey rules on food labelling, and thus cannot make medicinal claims.

With respect to these problems, transparency of labelling and advertising legislation would definitely be needed. Especially now, at the accession of new Member States, it is extremely important to ensure that food products in the internal market are correctly and adequately labelled, and advertised in an appropriate manner. As mentioned, functional foods are not yet subject to specific legislation in the EU but are treated as normal food products. However, functional claims on food products have gained particular attention, and have been considered by the EU bodies in several Papers. The legal aspects that are of main importance for marketing of functional foods concern food safety, labelling and misleading advertising. Therefore, these aspects of law will be scrutinised in this thesis.

## **6.2 Primary legislation**

The EC Treaty forms the primary legislation by laying down the general aims to be achieved. EU food legislation can be based on various provisions of the EC Treaty. In the context of the legal problems discussed in the previous chapter, attention must be paid on treaty articles concerning the functioning of the internal market and consumer protection.

Article 14(2) of the EC Treaty clarifies the idea behind the internal market by stating that "*the internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty*". In order that to become reality, barriers have to be eliminated via harmonising national rules. Art. 95EC deals with approximation of laws and presents measures for the functioning of the internal market. It takes as a basis a high level of consumer and health protection. More specifically related to consumer protection, Art. 153EC points out that ensuring a high level of consumer protection requires Community to act in a manner which contributes to health and safety protection and promotes consumers' right to information.

Relevant articles in terms of marketing of functional foods are also Art. 28EC and Art. 30EC. The former prohibits quantitative restrictions on imports and all measures having equivalent

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<sup>84</sup> Salminen, K. (2001), "Terveysvaikutteisten elintarvikkeiden kaupallistaminen"

effect, whereas the latter consists of possible expectations to this fundamental right, including the protection of health and life of humans. In other words, Art. 30EC can be used by Member States to justify some national measures that restrict intra-Community trade. The Court's task is then to determine whether the protection of public health is the real purpose behind a Member State's action, or whether the particular measure was actually designed to protect the domestic traders.

### 6.3 Case law

In 1974, the European Court of Justice (ECJ) was working with a case regarding the free movement of goods. The case became legendary since it resulted in the so-called Dassonville formula, which still gives guidance for interpreting the Art. 28EC. According to the formula, *"all trading rules enacted by Member States which are capable of hindering, directly or indirectly, actually or potentially, intra-Community trade are to be considered as measures having an effect equivalent to quantitative restrictions"*.<sup>85</sup>

Another famous case in the sphere of free movement of goods is *Cassis de Dijon*<sup>86</sup> from 1979. The ruling in the case helped in harmonising the food laws of different Member States, and thus contributed to the functioning of the internal market. The ECJ judged the case on the basis of Dassonville formula but added that in the absence of common rules, certain measures, even though within the formula, will not breach Art. 28EC as long as they are necessary to satisfy mandatory requirements relating to e.g. protection of public health. This has been since known as the rule of reason. Another principle, namely the principle of mutual recognition, was also created, meaning that if a good is legally commercialised in one Member State, it must be recognised in other Member States too given that there is no reason related to necessary provisions to prevent that. In other words, Member States can only restrict imported products lawfully marketed in another Member State when this action can be justified by a legitimate interest such as the protection of public health and further, if measures taken are proportionate. The latter condition refers to the principle of proportionality that requires the means used to achieve a given end to be *"no more than that which is appropriate and necessary to achieve that end"*<sup>87</sup>.

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<sup>85</sup> Case 8/74 *Procureur du Roi v Dassonville*

<sup>86</sup> Case 120/78 *Rewe Zentrale v Bundesmonopolverwaltung für Branntwein*

<sup>87</sup> Steiner and Woods (2000:114)

The uncertainty about the scope of Art. 28EC made the Court to re-examine its case law in the matter. In 1991, in the so-called *Keck*-case<sup>88</sup>, the Court distinguished between rules, which lay down product characteristics, including those relating to designation, presentation, labelling, composition, weight, size and packaging, and rules relating to selling arrangements. The former rules, if falling within the *Dassonville* formula, remained to be subject to the rule of reason. Selling arrangements on the other hand, are to escape the ambit of Art. 28EC, as long as they are applicable to all traders and apply equally to domestic and imported products.

Mars GmbH<sup>89</sup> provides an example of a case in which misleading labelling and consumer protection were considered in the context of free movement of goods. The preliminary question referred to the interpretation of Art. 28EC. The plaintiff argued that "+10%" marks on ice-cream bars, used by Mars GmbH in its publicity campaign in Europe, were misleading. Ice-cream bars were produced and packaged in France and were imported to Germany. According to the plaintiff, consumers would firstly gain the impression that despite of the increase in size, the price would remain same. Secondly, consumers would be likely to believe that the product had been increased by a quantity corresponding to the coloured part of the new wrapping, although that was more than 10%. The ECJ referred to *Dassonville* and to *Keck*, and concluded that Art. 28EC precludes a Member State *"from prohibiting the importation and marketing of a product lawfully marketed in another Member State"*.<sup>90</sup> The main reason behind the ruling was that although applicable to all products, the prohibition would hinder the intra-Community trade. Moreover, there were several factors making it impossible to justify the prohibition as being necessary in order to satisfy requirements relating to the protection of consumers.

#### **6.4 Secondary legislation**

EC secondary legislation is a means of filling the gaps in the Treaty. It exists in the form of Regulations, Directives and Decisions<sup>91</sup>. Prior the examination of the most relevant ones in the context of functional food marketing, I will explain their differences. According to Art. 249EC of the Treaty, *"a regulation shall have general application. It shall be binding in its entirety and directly applicable in all Member States"*. In other words, a regulation is intended to take immediate effect in all Member States with no need for further implementation. Being

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<sup>88</sup> Joined cases C-267/91 and C-268/91 *Keck and Mithouard*

<sup>89</sup> Case C-470/93 *Verein gegen Unwesen in Handel und Gewerbe Köln e.V. v Mars GmbH*

<sup>90</sup> *Ibid*, paragraph 25

directly effective implies that EC provisions give rise to rights or obligations which individuals may enforce before their national courts. These are provisions, which must be applied by Member States over any conflicting provisions of national law. Although regulations are typical in producing direct effects, that is not always the case. In order to be directly effective, a provision must be unconditional, sufficiently clear and precise, and leave no room for discretion in implementation<sup>92</sup>.

Directives on the other hand, can be addressed to a number of Member States. Although binding in its nature, a directive shall leave some discretion for Member States as to the form and method of implementation, yet the aim of the directive is to be secured. In its rulings, the ECJ has extended the principle of direct effect beyond regulations: directives, or even provisions of international agreements, can be directly effective as long as they fulfil the above mentioned criteria<sup>93</sup>.

Finally, a decision is a binding, individual act, which is designed to be addressed to specified States or individuals<sup>94</sup>.

## 6.5 Advertising

Advertising reaches beyond the borders of one Member State, and is therefore affecting the functioning of the internal market and the global market. Since misleading advertising can be harmful to consumers, other business operators and to the public in general, Council Directive 84/450/EEC was established. Its purpose is to protect these various groups, and to create effective means to control and prevent misleading advertising from taking place. In Article 2(2), misleading advertising is defined to mean *"any advertising which in any way, including its presentation, deceives or is likely to deceive the persons to whom it is addressed or whom it reaches and which, by reason of its deceptive nature, is likely to affect their economic behaviour or which, for those reasons injures or is likely to injure a competitor"*. In order to determine whether advertising is misleading, all its features must be taken into account. In the context of advertising functional food products, article 3 plays an important role by stating that in particular, account shall be taken of any information concerning the results to be

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<sup>91</sup> Steiner and Woods (2000)

<sup>92</sup> Ibid

<sup>93</sup> Ibid

<sup>94</sup> Ibid

expected from the use of the products. In 1997, Directive 84/450 was amended by Directive 97/55/EC to include comparative advertising.

To an extent, advertising is considered in the labelling directives. Therefore, advertising will also be discussed in the following chapter.

## 6.6 Labelling Directives

The fact that Directive 79/112/EEC on the labelling, presentation and advertising of foodstuffs was amended seven times after its establishment, reflected not only the growing demands for more and different labelling information, but demands for clarity and rationality of labelling<sup>95</sup>. Therefore, in March 2000, the Directive 2000/13/EC on the labelling, presentation and advertising of foodstuffs came into existence and combined the Council Directive 79/112/EEC and its amendments.

Directive 2000/13/EC stresses the importance of informing and protecting consumers. The Directive states that a consumer should be able to make his choice *"in full knowledge of the facts"*. Moreover, *"the rules on labelling should prohibit the use of information that would mislead the purchaser or attribute medicinal properties to foodstuffs"*. Therefore, it is forbidden to attribute to any foodstuff the effects or properties *"which it does not possess"* or property of *"preventing, treating, or curing a human disease, or refer to such properties"*<sup>96</sup>. Furthermore, it is not allowed to claim that *"the foodstuffs possesses special characteristics when in fact all similar foodstuffs possess such characteristics"*<sup>97</sup>. The same rules should be applied in food presentation and advertising activities. According to article 3, food labelling must include: the name under which the product is sold, the list of ingredients, the quantity of certain ingredients or categories of ingredient, net quantity, the date of minimum durability or the 'use by' date, any special conditions for storage or conditions of use, the name and address of the producer, packager or the seller, the place of origin and instructions for use when required, and the alcohol content when more than 1,2%. Member States have to allow trade in foodstuffs, which comply with the rules of the Directive, in question. However, this does not

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<sup>95</sup> [www.europa.eu.int/scadplus/leg/en/lvb/](http://www.europa.eu.int/scadplus/leg/en/lvb/) [Visited 2002-04-11]

<sup>96</sup> Directive 2000/13/EC, Article 2

<sup>97</sup> Ibid

apply to non-harmonised national provisions when the provisions can be justified for instance by protection of health<sup>98</sup>.

In 1990, the Council Directive 90/496/EEC was adopted for the specific purpose of nutrition labelling for foodstuffs, i.e. regarding information about the energy value and contents of protein, carbohydrate, fat, fibre, sodium and certain vitamins and minerals. According to the Directive, nutrition claim means *"any representation and any advertising message which states, suggests or implies that a foodstuff has particular nutrition properties due to the energy [calorific value] it provides..."* (Article 1 (4)(b)). However, the ten-year-old Directive does not acknowledge the fact that there are a number of substances included in foods, such as fibre, antioxidants or lactic bacteria, which have a physiological rather than a nutritional effect<sup>99</sup>. Therefore, there is a reason to revise the Directive so that it would also cover functional and health claims.

## **6.7 Food Safety**

Commission's Green Paper on the General Principles of Food Law from April 1997 was followed by the White Paper on Food Safety<sup>100</sup>. The latter was more or less a response to the need for building back consumers' and trading partners' lost confidence. Although not legally binding, the Green and White Paper have contributed to the discussion regarding food safety issues. In the meantime consumers have been receiving different levels of protection because wide variations have existed in the manner in which Community legislation has been implemented and enforced. By presenting over 80 separate actions to be taken, the White Paper was proposing a more precise legal framework to be created which would cover the whole food supply chain. The recent food crises had made it obvious that food production chain must be considered as a continuum since each element may have a potential impact on food safety. The establishment of an independent European Food Authority was considered to be one of the most important factors contributing to the highest possible level of consumer health protection. Another important motive to establish the Authority was the growing need to carry out scientific assessments prior enforcement of Community food legislation principles. In its White Paper, the Commission continued to have the view that a good balanced diet is a pre-requisite for good health, but claims that the intake of food can prevent,

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<sup>98</sup> Directive 2000/13/EC, Article 18

<sup>99</sup> Discussion Paper on nutrition claims and functional claims

<sup>100</sup> White Paper on Food Safety, 12 January 2000, COM (1999) 719 final



treat or cure a disease could in fact lead consumers to unbalanced dietary choices. The Commission started considering whether specific provisions governing functional claims, such as the claims *"relating to beneficial effects of a nutrient on certain normal bodily functions"*<sup>101</sup>, and nutritional claims, including claims describing the presence, absence or the level of a nutrient contained in a foodstuff, should be introduced in EU law. Moreover, the Commission issued the need to revise the Nutrition Labelling Directive, and decided to propose an amendment to the Misleading Advertising Directive so that labelling and advertising provisions in respect to claims would be in line with each other.

The key objectives of the White Paper were applied on 30 November 2000 when the Commission presented its proposal for a Regulation of the European Parliament and of the Council laying down the general principles and requirements of food law, establishing the European Food Authority, and laying down procedures in matters of food safety. In accordance with the procedure given in Art. 251EC, the European Parliament delivered its opinion in June 2001, which in this case included several amendments. The Council, after reading the Parliament's opinion, adopted common position on 17 September 2001 because of two reasons; the members of the Council wanted to amend still a number of provisions, and they considered that a longer time period was needed for a successful introduction and implementation of the provisions in question. The proposal issued the necessity to approximate the varying concepts, principles and definitions used by different Member States. It started by defining food as meaning *"any substance or product, whether processed, partially processed or unprocessed, intended to be, or reasonably expected to be ingested by humans"*. This was followed by a list of ingredients, which are not considered as food, including medicinal products within the meaning of Council Directives 65/65/EEC and 92/73/EEC. Another key element of the proposal was the responsibility of food businesses to ensure that only safe food is placed on the market. In the context of this thesis, article 16 shall be noted since it relates directly to labelling and advertising by stating that *"without prejudice to more specific provisions of food law, the labelling, advertising and presentation of food or feed, including their shape, appearance or packaging, the packaging material used, the manner in which they are arranged and the setting in which they are displayed, and the information which is made available about them through whatever medium, shall not mislead consumers"*<sup>102</sup>. While the entry into force for most of the provisions of the Regulation was set

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<sup>101</sup> White Paper on Food Safety, Paragraph 101, p.32

<sup>102</sup> Common position (EC) No 2/2002, Article 16

for January 2002, Article 16 among several other articles shall apply from 1 January 2005. The proposal also defined the exact scope, tasks and responsibilities of the European Food Safety Authority, one of the tasks being to provide scientific advice on questions of human nutrition in relation to Community legislation.

On 28 January 2002 in Brussels, the Regulation was formally adopted<sup>103</sup>. Therefore, one phase of the EU food law reformation launched in the White Paper was completed<sup>104</sup>. The Council is now in the process of appointing the Management Board for the European Food Safety Authority, which is expected to function in the near future at the highest level of scientific excellence in a wide-ranging field of food and feed safety<sup>105</sup>.

### **6.8 The international requirements to be considered**

Since the EU trades with countries all over the world and is the world's largest importer and exporter of food products, food legislation has to be considered both internally and externally. With respect to ever-increasing global market, the EU supports free trade, and finds it important to contribute to further developments of international standards<sup>106</sup>. The Community has entered into international agreements and therefore has international obligations that need to be recognised. The texts of Codex Alimentarius have gained particular importance under the World Trade Organisation (WTO) Agreements in the context of food law.

Codex Alimentarius is an international organisation, whose membership in 1998 comprised 163 countries, representing 97% of the world's population<sup>107</sup>. This system, whose parent bodies are the Food and Agriculture Organisation (FAO) and World Health Organisation (WHO), has an ultimate aim of facilitating international trade. The system exists to provide guidance and establish definitions and requirements for foodstuffs internationally. For the interest of this thesis, few definitions will follow. The Codex General Guidelines on Claims<sup>108</sup> define the term claim as *"any representation which states, suggests or implies that a food has particular characteristics relating to its origin, nutritional properties, nature, production, processing, composition, or any other quality"*. Being more precise, nutrition claim, as defined in The Codex Guidelines on Nutrition Labelling, should mean *"any representation*

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<sup>103</sup> Regulation (EC) No 178/2002

<sup>104</sup> EU Institutions Press Release (2002)

<sup>105</sup> [www.efsa.eu.int](http://www.efsa.eu.int) [Visited 2002-03-15]

<sup>106</sup> [www.europa.eu.int/comm/food/ts/ifsi/eupositions/](http://www.europa.eu.int/comm/food/ts/ifsi/eupositions/) [Visited 2002-03-26]

<sup>107</sup> [www.codexalimentarius.net/](http://www.codexalimentarius.net/) [Visited 2002-03-26]

which states, suggests or implies that a food has particular nutritional properties including but not limited to the energy value and the content of protein, fat and carbohydrates, as well as the content of vitamins and minerals"<sup>109</sup>. In comparison to the EU definitions, many of the elements are common but the Codex definition seems to be broader<sup>110</sup>. The guidelines also state that nutrition claims should not be made without nutrition labelling, and nutrition labelling should not be false, misleading, deceptive or insignificant in any matter. Finally, the most relevant definition for this thesis is the definition of a nutrient function claim. Codex Alimentarius Guidelines for the Use of Nutrition Claims define that as "*a nutrition claim that describes the physiological role of the nutrient in growth, development and normal functions of the body*"<sup>111</sup>. In total, the Codex Alimentarius contains over 200 standards for individual foods or groups of foods<sup>112</sup>. However, these are only recommendations, and therefore not legally binding.

## **6.9 Discussion paper on nutrition claims and functional claims**

Discussion paper on nutrition claims and functional claims (SANCO/1341/2001) was again initiated by the reason that in the absence of specific provisions at European level, Member States have adopted different approaches regarding both the definition of the terms used and the conditions warranting the use of claims. The existence of discrepancies implies that the high level of consumer and public health protection cannot be guaranteed. The Discussion Paper, prepared by the Directorate General Health and Consumer Protection of European Commission, has been built mainly upon the Directives 90/496/EEC and 2000/13/EC as well as upon the Codex Alimentarius. Though primarily concerned with food labelling, the paper does have relevance to food advertising too. Discussion Paper did not present Commission's opinion but introduced the important points that must be considered prior a legislative proposal for harmonisation. One of the points concerns the ways in which information is communicated to final consumers and the appropriate quantities of nutrients a product must contain before a claim can be made. Moreover, the Commission regarded it important to be decided whether claims should refer to the food as it is sold or as it is consumed when first prepared in accordance with provided instructions. The Paper also stated that if rules on

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<sup>108</sup> Codex General Guidelines on Claims CAC / GL 1-1979 (Rev.1-1991)

<sup>109</sup> Codex Guidelines on Nutrition Labelling CAC / GL 2-1985 (Rev.1-1993)

<sup>110</sup> Discussion Paper on nutrition claims and functional claims

<sup>111</sup> Codex Guidelines for the Use of Nutrition Claims CAC / GL 23-1997

<sup>112</sup> Codex Guidelines on Nutrition Labelling CAC / GL1 2-1985 (Rev.1-1993)

claims are to be laid down, they should apply to all foods, not only to some specific groups of food.

As regards the functional claims, the definition of "nutrient function claim" in Codex Alimentarius Guidelines for the Use of Nutrition Claims was considered to be the best alternative to be used as a basis for defining functional claims in possible future Community legislation. The ten point criteria warranting the use of functional claims proposed firstly that the claims should not encourage over-consumption of a given food. Furthermore, the claims must be stated in the context of the total diet, the quantity of the nutrient for which the claim is made has to be significant to justify the claim, and a functional claim must be based on generally accepted scientific evidence. Since science is continuously developing, the scientific substantiation must be reviewed regularly.

The Discussion Paper opened also a debate regarding the potential methods to control and to ensure that rules on functional claims will be seriously respected. Pre-marketing approval was suggested together with a list of acceptable claims for each nutrient or substance. Another notable solution presented was a notification procedure to the competent authorities of Member States. Finally, the so-called "two-steps" Swedish system was brought up. In this system the claim is formulated in two parts: the diet-health relationship is included in the first part of the claim, while information on the composition of the product forms the second part of the claim. These kind of claims are subject to an application to market the product as foodstuffs for particular nutritional uses, or for registration as a natural remedy, via the medicinal product's agency.

Member States and different committees studied the Discussion Paper and handed in their comments in July 2001 so that the Commission could use them as a basis when preparing a proposal for the issue. Both the European Federation of Health Product Manufacturers (EHPM) and the European Food Law Association (EFLA) were critical in their responses since the discussion was only partial, limited to nutrition and functional claims and not addressing the issue of health claims in general, e.g. disease risk reduction claims. The incomplete definition and the inconsistency of terms used could in worst case lead to further trade barriers and legal uncertainty. Furthermore, EFLA criticised the confusing use of the term "functional claim" in the context of the Discussion Paper, and suggested replacing it with

"nutrient function claims" as used in Codex<sup>113</sup>. EHPM on the other hand, proposed a definition for functional claims, which would cover also the ingredients with physiological effect: *"A functional claim is a claim that describes the physiological role of the nutrient or other substances in growth, development and normal functions of the body"*<sup>114</sup>. The Finnish group of experts suggested either amendment of Directive 90/496/EEC or adoption of a new directive comprising the definition of functional claim and the conditions under which claims may be made in food labelling<sup>115</sup>. The group also emphasised the importance of scientific substantiation behind the presented claims. With regard to the proposed monitoring methods, all three above-mentioned bodies considered the pre-marketing approval procedure to be too burdensome. In general, the notification procedure was seen sufficient.

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<sup>113</sup> European Food Law Association (2001)

<sup>114</sup> European Federation for Health Product Manufacturers (2001:1)

<sup>115</sup> Ministry of Trade and Industry

## **7. THE LEGISLATION IN FINLAND**

### **7.1 The Finnish laws having relevance to the marketing of functional foods**

Also in Finland, functional food is considered to mean that the foodstuff, or a nutrient it includes, has beneficial effects on certain normal bodily functions<sup>116</sup>. As such, it is subject to normal food law. From the consumer's perspective, the Finnish food legislation weakened in many ways when Finland joined the EU<sup>117</sup>. An example is that before, many ingredients causing over sensitivities had to be included in product labels, written in Finnish not in codes. Moreover, before 1995, the country of origin had to be mentioned in all foods. Now it must be mentioned only when used in advertising and always on meat products. Finland kept however some of its previous principles. For instance, the ingredients causing over sensitivities are still to be included on food labels of products sold in Finland. This rule does not follow EU rules and does indeed restrict competition. However, this has not yet become a legal matter. A likely reason is that the EU is tightening its food safety regulations and moving to the direction which has many similar characteristics to the earlier Finnish legislation<sup>118</sup>.

In 1995, the earlier regulations from 1941 and 1952 regarding food were repealed by Food Law No 361/1995. As declared in its first article, the purpose of the Food Law is to ensure safety and quality of foodstuffs, as well as truthful, accurate and adequate information provided on them. The fourth article of the law defines food to mean any packed or unpacked product, or its ingredient or raw material, which is intended for human consumption.

In May 2001, the Finnish government gave its proposal to the parliament regarding the necessary changes to be made to the Finnish regulations in order it to be precisely in accordance with the rules laid down in Directive 2000/13/EC. Previously article 6 stated that information in brochures, advertising and package labels of foodstuffs must not be misleading - but is to be truthful. Moreover, the use of health claims on food labels and giving medicinal information of food products, or referring to such facts, was forbidden. According to the Medicine Act 395/1987, medicine is a product or ingredient, which purpose is to cure, ease or prevent a disease or its symptoms<sup>119</sup>. Products and ingredients, intended to restore or correct some bodily functions, are also considered as medicines<sup>120</sup>. The prohibition in article 6 turned

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<sup>116</sup> Government proposal 73/2001, 11.05.2001

<sup>117</sup> Luukka, T. (2002)

<sup>118</sup> Ibid

<sup>119</sup> Medicine Act 395/1987, article 3

<sup>120</sup> Amendment 1046/1993 to Medicine Law

out to be difficult to apply, which is why the National Food Administration published a surveillance Guide on Medicinal- and Health Claims in 1997. The Guide provides ways and solutions to interpret the specific article. Additionally, it includes a broad list of permitted and forbidden claims. From 1 September 2001, the reformed article 6 has been enforced which now prohibits the use of claims attributing to any foodstuff the property of *preventing, treating or curing* a human disease or referring to such properties<sup>121</sup>.

Finnish regulations on advertising and marketing are more comprehensive in scope than Community legislation<sup>122</sup>. The law prohibits advertising, which contravenes good practice or is unfair to the consumer. International Code of Advertising Practice, given by the International Chamber of Commerce in 1997, is widely applied in Finland. It is emphasised that marketers must keep in mind the role of social responsibility and fair competition in their marketing practices. Moreover, it is strictly forbidden to misuse consumer trust and to try to take the advantage of consumers' lack of knowledge or experience<sup>123</sup>.

Furthermore, the Directive 794/1991 on foodstuffs labelling<sup>124</sup> has relevance in the context of functional foods marketing. This Directive points out in its fourth article that information on foodstuffs must be easy to read and understand. The latter may turn out to be difficult to implement, as the functional food products are usually more complex than simple food products. Article 5 states that labels shall not mislead the consumer in terms of product's properties, composition, features, quantity, durability, origin, manufacturing- or production methods, or in any other way. Furthermore, a label cannot claim that the product has a special property or effect, which it does not have, or when that property or effect is actually common to all similar products. The Decision 611/1998 on the name of food products and on the disclosure of ingredients<sup>125</sup> states in its seventh article that the amount of ingredient is to be announced in the list of ingredients especially if this particular ingredient has been emphasised on the labelling. The same holds true if the ingredient is essential and distinguishes the product from other food products having similar name or appearance. Finally, not to include information is also considered as being misleading. Therefore, in labels

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<sup>121</sup> Modification 737/2001 to Food Law

<sup>122</sup> <http://europa.eu.int/index-en.htm> "Misleading advertising" [Visited 2002-02-04]

<sup>123</sup> Ibid

<sup>124</sup> Asetus elintarvikkeiden pakkausmerkinnöistä 794/1991

<sup>125</sup> Kauppa- ja teollisuusministeriön päätös elintarvikkeen nimestä ja aineosien ilmoittamisesta No 611/1998,

and advertisements of functional foods, it is important to emphasise that in order to benefit from the products, a healthy diet and living style is also required.

## 7.2 Permitted and forbidden claims

Nutrient claims, such as "free of lactose", "high in fibre" and "includes natrium", are permissible, as are claims relating to the maintenance of good health or to the product's role in a healthy diet. Moreover, it is acceptable to use claims, which relate to certain body functions. For instance claims referring to the control of digestion, fat balance or level of cholesterol in blood are allowed<sup>126</sup>. The condition is however that the link between the nutrient/ingredient and the claimed effect on the particular body function is clear and based on scientific evidence. On the other hand, claims on food product referring to the functions of heart, liver or brain are against the law<sup>127</sup>. Since the law reformation in 2001, claims concerning risk reduction of a disease have been allowed, presupposing that a number of conditions have been met<sup>128</sup>. Reduction of disease risk claims relate to the risk factor of a particular disease. The information must make it clear that the overall benefit is within the context of a healthy diet and lifestyle with the aim of reducing the risk factors for disease rather than having any preventative effect on the development of a disease. Furthermore, the "two-step" model shall be used and the claim must be based on qualified scientific research findings. Problems in using these claims occur because it is difficult to determine which are the measurable physiological features that point out the risk of disease. Since issues related to functional foodstuffs develop continuously, a refurbishment of the Guide on Medicinal and Health Claims began in 2000. A separate guide on cholesterol claims has already been published, in which the "two-step" model is used<sup>129</sup>.

The following example shows clearly how vague the line between acceptable and unacceptable claims is. A permitted claim referring to the risk reduction of a disease can be for instance, "insufficient intake of calcium may expose to osteoporosis - product X includes a lot of calcium", while claim stating "product X prevents osteoporosis" is not allowed as the word prevent is included.

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<sup>126</sup> Saarela, A-M, (2000)

<sup>127</sup> Ibid

<sup>128</sup> [www.akseli.tekes.fi/Resource.phx/bike/elite/toimittajapaketti.htx](http://www.akseli.tekes.fi/Resource.phx/bike/elite/toimittajapaketti.htx). "Terveysvaikutteisten elintarvikkeiden lainsäädäntö Suomessa"[Visited 2002-03-04]

<sup>129</sup> [www.elintarvikevirasto.fi](http://www.elintarvikevirasto.fi) [visited 2002-09-04]



### 7.3 Responsibilities

The White Paper on Food Safety declared that Member States are responsible for establishing control systems, which ensure that Community rules are being respected and enforced. Primary responsibility for ensuring food safety should rest with business operators<sup>130</sup>. Article 8 of the Finnish food law rules that the business operators have to know the facts about foodstuffs they manufacture, produce, import, export, pack, sell, serve or otherwise provide<sup>131</sup>. As mentioned earlier, the health benefits of functional foods as well as the safety of the products, must be scientifically proved. In Finland, there is a Functional Foods Research Council, consisting of independent and impartial researchers, which against an application can give a statement that shows the scientific evidence of the functional food product<sup>132</sup>. However, the Council is not official and there are no rules concerning the way in which these statements can be used in marketing, and therefore, interest, though increasing, has not been perceptible. A few months ago, Hannu Korhonen, one of the professors in the Council, expressed his opinion about the functioning of the system. Korhonen considered it necessary to have an official body in the future, which would declare whether presented health claims are acceptable<sup>133</sup>. The prevailing legislation does not require a pre-approval for health claims made. The legality of marketing functions is controlled by the National Food Administration while the authorities of the counties control that the claims, used in labelling, are accordance with the law<sup>134</sup>. An example case, in which the National Food Administration forbid the importation, exportation, trading and serving of a product on the grounds of illegal claims, is from 1998. The reason was that the marketing claims stated that Noni-juice helps in HIV, diabetes, cancer, blood pressure, cholesterol, etc. Morinda Inc., the company responsible for the products' marketing and packaging, was obliged to change the claims so that they were in accordance with the rules and regulations. Furthermore, Noni-juice should have gone through the prior inspection according to the Novel foods Directive set by the EU. Morinda Inc. did send the product to the evaluation afterwards<sup>135</sup>. The degree of control shall not be dependent on the future destination of the product; i.e. exportables are to be controlled in the same manner as products staying in the national markets<sup>136</sup>. Furthermore, the consumer ombudsman, who is there to protect consumers, monitors that advertising carried out by

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<sup>130</sup> Common position (EC) No 2/2002

<sup>131</sup> Food law 361/1995, article 8

<sup>132</sup> Salminen, K. (2001), "Terveysvaikutteisten elintarvikkeiden kaupallistaminen",

<sup>133</sup> Nurro, M. (2001)

<sup>134</sup> [www.elintarvikevirasto.fi](http://www.elintarvikevirasto.fi), Tiedote 29/ 26.9.1997 [visited 2002-04-09]

<sup>135</sup> Kallio, M. (2000)

<sup>136</sup> Food law 361/1995, article 17

traders does not include misleading or false information<sup>137</sup>. But as has become clear from the case law, the marketers carry the full responsibility for their marketing practices. If required, marketers must be able to prove the claims to be correct. They have to present two or more tests which all have to prove to be true. Tests must include comparisons and are to be carried out by different experts or research institutes which are independent, qualified and possess the required competencies.

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<sup>137</sup> Ibid

## 8. THE LEGISLATION IN ESTONIA

### 8.1 Enlargement and food safety

The enlargement process as such is an enormous challenge for the EU but also for the candidate countries that are devoting huge efforts in many areas of accession preparations. In November 2000, Commission completed its Enlargement Strategy Paper, which states that *"in the area of food safety the candidates need to ensure coherent transposition, implementation and controls throughout the whole food chain"*<sup>138</sup>. It is extremely important to ensure that the present level of food safety within the Union is not going to decrease as a result of the accession of new Member States. Consumers must be able to feel confident that standards of food control remain high and the food circulating within the enlarged Union is safe so that the food they buy will be safe and of high quality. In addition to the preservation of consumer confidence, coherent food legislation in the enlarged Union will be crucial for the functioning of internal market. Therefore, negotiations with the candidate countries are based on the principle that the countries accept the Acquis and have the capacity to apply it right from the beginning of their membership. Transitional measures are accepted only if they are exceptional in nature, limited in time and scope, accompanied by a plan which lays down clearly defined stages for application of the Acquis, and the most important condition is that they must be incapable of reducing the food safety in the EU in one way or another<sup>139</sup>.

Estonia submitted its application to accede to the EU in November 1995, the negotiations started in March 1998, and by the end of 2001, 20 out of 29 negotiation chapters between the EU and Estonia were provisionally closed<sup>140</sup>. Food safety and consumer protection is mainly dealt with under negotiation chapters 1(free movement of goods), 7(agriculture) and 23(consumer protection). The first chapter, consisting of the general rules on food hygiene and on the official control of foodstuffs, rules on labelling, additives, flavourings, contaminants, materials in contact with food and authorisation for novel foods, has been provisionally closed with Estonia. The aim of the negotiations under this chapter has been on ensuring the transposition and implementation of the foodstuff acquis in good time prior accession<sup>141</sup>. The time is needed to allow business operators to get accustomed to the working of EU legislation and to make sure administrative and control bodies are prepared to take the full responsibility. Since the closure of the chapter, the focus has been on monitoring the

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<sup>138</sup> Commission staff working paper (2001)

<sup>139</sup> Ibid

<sup>140</sup> [www.europa.eu.int/comm/enlargement/estonia/index.htm](http://www.europa.eu.int/comm/enlargement/estonia/index.htm) [Visited 2002-02-08]

progress. In case monitoring led to a negative result, the chapter could be reopened. However, the Commission is providing its assistance to make it easier for candidate countries to reach and maintain the Community standards required in the field of food safety. For instance, Phare and SAPARD programmes exist to provide financial assistance, the latter devoting some €3 billion to this<sup>142</sup>. Moreover, one fourth of the resources of Commission's Food and Veterinary Office will be devoted to enlargement inspections in 2002.

Despite Estonia's positive progress in many areas of accession preparations, David Byrne, European Commissioner for Health and Consumer Protection, mentioned in his speech in January 2002 that only Slovenia's adoption and implementation of EU legislation has been satisfactory. The Commission has been disappointed with the other candidate countries who have failed in providing essential information in time, which in turn may delay closing chapters<sup>143</sup>. Therefore, substantial efforts are still needed to achieve compliance with EU requirements, and furthermore, to keep up with the fast moving and continuously developing food safety issues.

## **8.2 The Estonian laws having relevance to the marketing of functional foods**

The Estonian Food Act, which entered into force 1 January 2000, defines food as "*a foodstuff or a mixture of foodstuffs which is intended for human consumption in either processed or unprocessed form*"<sup>144</sup>. In addition, substances, such as food additives and food supplements, which are used to prepare food and are not generally consumed separately, are deemed to be food<sup>145</sup>. Functional food products are to be subject to the rules laid down in this Act.

To obtain necessary and correct information is one of the fundamental consumer rights set in the Consumer Protection Act<sup>146</sup>. The same Act states that it is sellers' obligation to provide that<sup>147</sup>. The prohibition to mislead consumers is clearly important and is thus stated in a number of laws, such as in article 6 of the Food Act, article 10(3) of the Packaging Act and article 4(3) of the Advertising Act. The Advertising Act also states that "*advertising shall not*

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<sup>141</sup> Commission staff working paper (2001)

<sup>142</sup> Byrne, D., (2002)

<sup>143</sup> Ibid

<sup>144</sup> Food Act (RT I 1999, 30, 415; consolidated text RT I 2002, 13, 81), Article 2(1)

<sup>145</sup> Ibid, article 2(2)

<sup>146</sup> Consumer Protection Act (RT I 1994, 2, 13; consolidated text RT I 1999, 35, 450), Article 4(3)

<sup>147</sup> Ibid, Article 7(2)

*suggest that claims presented have a scientific basis they do not possess*<sup>148</sup>. The Act includes a specific article for food advertising, which lays down the same three restrictions that are laid down for labelling in the article 39 of the Food Act and similar to those included in the Finnish law. Namely, it is forbidden to attribute such characteristics or properties to the food, which the food does not possess; or such special characteristics, which are common to all food in the same food group. Additionally, exactly like the laws of Finland and the EU, the Estonian law prevents food advertising and labelling from referring *"to the properties of the food which prevent, treat or cure diseases"*<sup>149</sup>. This, again, would fall under the Medicinal law, which in Estonia defines medicinal products as *"any substance intended for the prevention, diagnosis or treatment of a disease or disease symptom, for the relief of a disease condition in a human or animal, or for the restoration or correction of vital functions in a human or animal"*<sup>150</sup>. Besides, advertising of medicinal products may only be commissioned by the manufacturers of medicinal products<sup>151</sup>. The labelling rules assess that the nutrition information is to be on place if a nutrition claim is made on the labelling. Nothing is however mentioned directly about functional claims.

### **8.3 Responsibilities**

The Association of the Estonian Food Industry prepares its members, i.e. professional associations and companies involved in food-processing, for the integration into the EU and co-ordinates the communication with the relevant bodies of the EU<sup>152</sup>. In October 2001, the inspectors of the European Commission's veterinary and food bureau visited Estonia and checked the methods of food control. On the whole, Estonian's supervisory and practical steps to secure food safety, was evaluated as being satisfactory, but some regulatory acts were missing and fixing was needed for the register of farms<sup>153</sup>. In the country, the national Veterinary and Food Board possess the task of exercising supervision over food business operators<sup>154</sup>. The Consumer Protection Board (CPB), whose main duty is to protect the legitimate rights of consumers, is responsible for exercising supervision over the conformity of the composition of food, conditions of preservation and presentation of information<sup>155</sup>. This national body is also an important player in adopting EC laws. The Estonian Chamber of

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<sup>148</sup> Advertising Act (RT I 1997 52, 835), Article 4(3)

<sup>149</sup> Ibid, Article 20 (3)

<sup>150</sup> Medicinal Product Act (RT I 1996, 3,56) Article 2(1)

<sup>151</sup> Advertising Act (RT I 1997 52, 835), Article 14 (4)

<sup>152</sup> The Association of Estonian Food Industry

<sup>153</sup> Estonian Review (2001)

<sup>154</sup> Food Act (RT I 1999, 30, 415; consolidated text RT I 2002, 13, 81), Article 47

Agriculture and Commerce (ECAC) participates also in the process of elaboration of legislative acts, its main task being the supporting of balanced development of Estonian Food Sector.

In case Fazer decides to import ready iLove products from Finland to Estonia, instead of producing them in the bakery in Tallinn, the import rules must be considered. The importation of food is allowed through border inspection posts. Supervisory operations there are carried out by the supervisory officials of the Veterinary and Food Board, which makes sure that food products are in conformity with the requirements of the legislation<sup>156</sup>.

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<sup>155</sup> Ibid

<sup>156</sup> Ibid, Article 41

## **9. MICRO ENVIRONMENT**

As the theoretical model of the marketing environment shows, the microenvironment consists of customers, competitors, suppliers and distributors. In this thesis, the first two will be discussed. Customer analysis will follow the consumer behaviour model presented in the beginning of the thesis.

### **9.1 Competition**

Fazer Bakeries face competition at three different levels. Firstly and most importantly, their iLove products compete against other bakeries' bread products. A kind of competition will also take place among Fazer's own products, implying for instance that consumers will start buying iLove toasts instead of Fazer's traditional toasts. All kinds of new products in the bakery sector are likely to create competition. During the recent years, the Finnish bakery sector has faced overcapacity, increasing concentration in the trade and rise in costs, which have consequently weakened profitability in this sector. Bakeries have been forced to find new strategies in order to survive. In general, large bakeries have increased their market share through acquisitions whereas smaller companies have sought alliances. Fazer Bakeries has managed well in this difficult environment by focusing on customers and assortment development. During 2001, the company grew faster than the total bakery market in Finland. The total value of the domestic market is approximately FIM 4500 million, when calculations are based on consumer prices. Fazer Bakeries market share is 33%<sup>157</sup>. Its main competitor, Vaasan&Vaasan Oy, which is owned by EQT Scandinavia II investment fund, has reached market share of 28%. Vaasan&Vaasan Oy is one of the largest producers of crisp bread in the world, with the domestic market share as high as 60% in this specific field<sup>158</sup>.

In Estonia, the early days of independence in the beginning of the 1990's were difficult. The flourbins, previously regulated by Moscow, were now closed, which led to the shortage of bread, and thus to rationing of bread. However, the situation improved quickly, and soon the competition in the food industry was fierce. By now bakeries have been privatised and a large number of new, mainly small, bakeries have emerged<sup>159</sup>. In 1994, Fazer opened its first bakery in Tallinn. The machinery was brought from Finland, which was a competitive

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<sup>157</sup> Fazer Concern 2001, [www.fazer.fi](http://www.fazer.fi) [Visited 2002-03-23]

<sup>158</sup> [www.vaasan.com/english/](http://www.vaasan.com/english/)(2002)

<sup>159</sup> Estonian Association of Bakeries (2002)

weapon in the industry at the time<sup>160</sup>. Its main competitor is Estonian's biggest bakery company Leibur, which is owned by Vaasan&Vaasan Oy. The history of Leibur goes back to the 18th century, which gives the company the time advantage. During 2001, the bread market was not growing, the total value stayed at FIM 364 million, despite the fact that purchasing power improved<sup>161</sup>. However, Fazer Pagarid managed to strengthen its market position as sales increased by 24% and market share rose to 8%<sup>162</sup>. Sales and profitability of Leibur developed also well during the previous year. The market share of Leibur is approximately 30%<sup>163</sup>. It is expected that concentration and specialisation will take place also in Estonian bakery industry<sup>164</sup>.

Secondly, iLove products fight for consumers' popularity among other functional food products. Moreover, it is likely that functional foods compete against diet foods, both providing some extra benefits for consumers. In the absence of a specific definition for the term, it is difficult to estimate the exact value for functional food markets. In 1999, according to a narrow definition, it was estimated to be US\$ 1,79 billion in Europe whereas according to the broader definitions, the market value was between US\$ 5,6-14 billion. The Finnish functional food market is estimated to be worth FIM 400-500 million. Despite of the varying estimations, the relevant issue is that the value of functional food market is increasing rapidly<sup>165</sup>. Moreover, it has been predicted that by 2010 functional foods would present 30% of the whole food selection<sup>166</sup>. Finland is already famous for its functional food products, such as Benecol, Xylitol and Lactobacillus GG (LGG). Benecol is the world's first plant sterol margarine to lower serum cholesterol. It was launched by Raisio Group in 1995. Although Raisio is now competing mainly in cholesterol lowering margarine market, it has to be considered as a potential competitor for Fazer. Namely, Raisio's strategy is to broaden their business by developing other functional food ingredients, from oats for instance<sup>167</sup>. LGG is a lactic acid bacterium, which is known to prevent and cure intestinal disorders, to protect the intestines from harmful microbes and toxins and to reduce allergic reactions. Valio launched the first LGG products in Finland in 1990 under the name GEFILUS. Before that the dairy company had already launched a range of lactic acid products called ASIDOPHILUS. In 2000,

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<sup>160</sup> Alanen, P. (1997)

<sup>161</sup> Market Report (2001)

<sup>162</sup> Fazer Concern 2001, [www.fazer.fi](http://www.fazer.fi) [Visited 2002-03-23]

<sup>163</sup> [www.vaasan.com/english](http://www.vaasan.com/english) [Visited 2002-05-08]

<sup>164</sup> The Estonian Association of Bakeries (2002)

<sup>165</sup> Salminen, K. (2001) "Terveysvaikutteisten elintarvikkeiden kaupallistaminen"

<sup>166</sup> Salminen, K. in Saleva, M. (2000)



Raisio and Valio, the major players in the functional food industry, started co-operation in order to expand their international functional foods markets and to better be able to introduce and launch new products. In May 2001, their first product, namely Evolus Benecol yoghurt, which has the effect of reducing cholesterol, was launched. A few months later, a light milk drink, totally free of lactose, was introduced to the Finnish markets<sup>168</sup>. There are many dairy products on the Finnish market, which have health-enhancing effects. However, functional foods in the form of grain products are not that common yet.

As mentioned, iLove product range is not yet available in Estonian markets. However, Fazer Pagarid has introduced the so-called functional Homne breads. The product range includes rye breads, mixed breads and wheat breads. Valio's Laeva Dairy has operated in Estonia since 1995. Therefore, functional Gefilus products are available also for Estonian consumers<sup>169</sup>. The lack of information about Estonian functional food markets makes it impossible to analyse the competition from this perspective. The functional food market seems to be still in its infancy.

Finally, functional food producers are facing competition from pharmaceutical companies. However, like the following example shows, the food manufacturers seem to be leading this competition. In 1999, Novartis, a world leader in healthcare, launched a range of functional foods to markets. Success did not follow in this new business area, like the failure of their Aviva range in 1999 in the UK showed. On the 4th of February 2002, Novartis announced that it would sell its Functional Food business and concentrate on its "core healthcare business". The company believes that their established health and functional food brands would succeed in other companies where "there is a good strategic fit"<sup>170</sup>.

## 9.2 Customers

The people who represent the actual or potential demand for the specific product form the market for that product<sup>171</sup>. Therefore, the consumer perspective is of particular importance. Understanding customers is indeed the basis upon which the marketing concept is built. It is a prerequisite for successful marketing - *"the better that marketers understand the needs and*

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<sup>167</sup> Chemical Market Reporter (2002)

<sup>168</sup> Kihl, M. (2001)

<sup>169</sup> Baltic Guide, (2001)

<sup>170</sup> [www.new-nutrition.com/newspage/](http://www.new-nutrition.com/newspage/) [Visited 2002-05-12]

<sup>171</sup> Jobber, D. (1998)

wants consumers are seeking to satisfy through purchasing behaviour, the better able they will be to meet these needs and wants." <sup>172</sup> The conceptual model for consumer behaviour with respect to food shows the different stages, which a consumer goes through when deciding which products to buy. An individual's food choice is influenced by a number of person-related and environmental factors, as well as by the perceived properties of the food. Companies shall consider all those factors in their marketing practices. In the following, the different stages of the decision-making process will be introduced and the person-related factors, that influence the choice and therefore demand, will be examined. Since the focus is on functional foods and on the Finnish and Estonian consumers, reference will be made to special factors in that respect. Although the model is useful, it must be noted that the differing groups of influencing factors are not always as clear-cut as the diagram suggests.

## **9.2.1 Decision process**

### **9.2.1.1 Need recognition**

A need arises when there is *"a drive to eliminate the discrepancy between one's current state and some ideal state"*<sup>173</sup>. The ideal state may be influenced by one's culture, lifestyle, demographics, or by product experiences and advertising. In the context of food, the need is usually hunger, but hunger is not the only need food can satisfy. For instance, a need can be recognised for a functional food product to ward off cardiovascular disease.

Abraham Maslow placed human needs on five different levels. The theory maintains that a person will satisfy lower needs before attempting to satisfy higher order ones. Being the most fundamental, physiological needs, such as need for food, are at the bottom. The next need is safety. The third level consists of needs for love, friendship and group acceptance whereas the fourth level is concerned with egoistic needs, such as success, self-esteem and prestige. Finally, the fifth level includes the need for self-actualisation involving the desire for self-fulfilment, that is to become all that one is capable of becoming<sup>174</sup>. Although useful for general behaviour, Maslow's theory ignores the fact that a consumer may want to satisfy more than one need at the same time. For instance, an iLove product may satisfy consumer's need for food (hunger), safety (prevention of diseases) and self-actualisation. Another disadvantage of the theory is that it does not provide a universal view cross-culturally because the rank

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<sup>172</sup> Foxall, G. and Goldsmith, R. (1994)

<sup>173</sup> Wells, W.D., and Perensky, D., (1990)

<sup>174</sup> Solomon, M. Et al. (1999)

ordering and the degree of emphasis on specific needs vary between countries<sup>175</sup>. In developing countries for instance, people usually have more basic survival needs.

### 9.2.1.2 Information search

The second stage of the decision-making process involves the identification of alternative solutions to eliminate the need. Search for information can be internal or external. The former involves a review of relevant information of memory, including past experiences, recommendations and advertising messages. If one's own memory cannot provide a satisfactory solution, external search begins. This means that the person starts seeking information from other sources, such as from other people, advertisements or product reports. Such measures as newspaper readership and number of Internet users give ideas of the most used mediums for information search in a country. According to data from November 2001, 59% of the Finnish population aged 15-74 years had used the Internet during the last three months<sup>176</sup>. Finland has a large number of newspapers in proportion to its population. Newspapers are widely read and highly valued: more than nine out of ten Finns aged 12-69 years, read a newspaper daily<sup>177</sup>. In Estonia, the newspaper readership dropped sharply during the 1990's<sup>178</sup>. Also television has lost its value as a trustworthy source of information because in several occasions, the Estonian broadcasters have failed to make a clear distinction between an advertisement and a news report<sup>179</sup>. On the other hand, the number of Internet users has grown rapidly during the recent years. In winter 2002, 39% of Estonian population aged 15-74 years belong to the Internet users group<sup>180</sup>.

It has been argued by Engel et al.<sup>181</sup> that information search is relatively unimportant for food compared to more complex and expensive items. The fact is that consumers are not usually prepared and willing to spend a lot of time searching for information on individual foods. Food facts of Finland from 1999, pointed out that 17% of the consumers read food product labels regularly, 43% fairly regularly, 31% fairly seldom and 10% almost never<sup>182</sup>. Many consumers check only the price and use by date<sup>183</sup>. This does not mean however, that

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<sup>175</sup> Usunier, C-J. (2000)

<sup>176</sup> Nurmela, J. (2002)

<sup>177</sup> Finnish Newspapers Association (2002) "Finns great newspaper readers"

<sup>178</sup> Georgieff, A. (1999)

<sup>179</sup> Ibid

<sup>180</sup> [www.emor.ee](http://www.emor.ee) (2002) [Visited 2002-05-17]

<sup>181</sup> Engel et al (1995) in Traill, W. B (1999)

<sup>182</sup> Tapionlinna, U-R. (1999)

<sup>183</sup> Saarikivi, J. (2002)

consumers do not demand information or that the provided information does not influence food consumption decisions. Especially with respect to functional foods, the role of available information is essential, because the consumer cannot experience the health benefit by trying the product. Often consumers want specific information regarding for instance the recommended daily intake. The common dilemma in functional food labelling is that too much information can confuse consumers while too little can mislead them.

### **9.2.1.3 Evaluation of alternatives and choice**

The choice a consumer makes depends on the value he/she places on the specific product attributes. In the product evaluation stage, the level of involvement plays an important role and varies according to the perceived relevance and personal importance of the choice. High involvement purchases are usually those, which incur high expenditure or personal risk, whereas low involvement situations are characterised by simple evaluations about purchases<sup>184</sup>. Food purchasing belongs typically to the latter category, as do other repeat purchases of fast-moving consumer goods. However, functional foods are new to many, and therefore, require often deeper evaluation and higher involvement than normal food products.

The choice criteria can be technical, economic, social or personal. The valued attribute respectively for each category can be for instance taste, price, fashion or self-image. According to a survey of European consumers, the most important attributes influencing the product choice are product quality, price, brand name / reputation, freshness and guarantee<sup>185</sup>. A so-called means-end chain theory (mec) argues that consumers do not buy foods because of their attributes per se, but rather for the consequence of those attributes and what they contribute for those values. A consumer may believe that both positive and negative consequences would follow with a purchase of functional food products. The positive outcome could possibly be the reduction of the risk for a disease whereas the negative can be an increase in the food budget. The consumer at this stage would evaluate which is more important. These values guide consumption but vary between individuals and cultures. It has been claimed that valued attributes with a high income elasticity of demand include organic food, low calorie products, safety, low fat, functional foods, convenience, freshness, ecological products, animal welfare and additive free<sup>186</sup>. Another study, which was completed

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<sup>184</sup> Solomon, M. Et al. (1999)

<sup>185</sup> Traill, W. B. (1999)

<sup>186</sup> Ibid

in Finland in 2000, showed that important attributes for Finnish consumers influencing food choice include ethicality, healthiness, easiness and innovatory<sup>187</sup>. A survey conducted in the Baltic countries, showed that among Estonian consumers, cost is the most important factor influencing food choice, followed by taste and family preferences<sup>188</sup>. Another valued product attribute is the shortage of additives<sup>189</sup>. The prevention of diseases and the need to follow special diet were less frequently reported, by the Estonian consumers, as main reasons for choosing foods<sup>190</sup>.

After the consumer has made his/her choice, the post-purchase evaluation takes place. The outcome is dependent on many factors. However, the most important factor leading to customer satisfaction and consequently to repeat purchases is a marketing mix that has been realistic. As long as the marketer manages to ensure that the consumer is aware of the important attributes of the product and correctly evaluates their consequences, the probability that cognitive dissonance, i.e. post-purchase concern experienced by the consumer, takes place is minimal.

### 9.2.2 Properties of food

Physiological properties and sensory effects are important factors affecting an individual's food choices. In terms of functional foods, the initial emphasis is on physiological properties, that is the contents of the food product. The sensory effect induced by foods refers to the different qualities of foods, such as taste, appearance and texture. For example, sweet, sour, bitter, crunchy, creamy, spicy and juicy present such qualities. Naturally, foods with sensory properties that give pleasure are the most liked and consumed. The understanding of pleasure however is not universal. It is said to derive from a culmination of biology and culture<sup>191</sup>. It has also been claimed that *“people learn to like what nature offers them”*<sup>192</sup>. In other words, changes in the environment can alter the order of preferences.

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<sup>187</sup> Varjonen, J. "Elämyksiä, terveyttä, vaihtelua - 2000-luvun ruokatottumukset" (2001)

<sup>188</sup> Pomerlau, J. et al (1999)

<sup>189</sup> [www.hurmaster.ee](http://www.hurmaster.ee), [Visited 2002-05-17]

<sup>190</sup> Pomerlau, J. et al (1999)

<sup>191</sup> [www.geocities.com](http://www.geocities.com) [Visited 2002-03-04]

<sup>192</sup> Pantzar, M. (1996)

In 2000, a broad research studied the views and expectations of Finnish consumers on functional foods<sup>193</sup>. The findings showed that taste is the most important property of a functional food product. The study also pointed out that the consumers do not believe to gain the health benefit from the products if not enjoyed regularly. In other words, Finnish consumers want the functional food product to be part of the daily diet. Another research from 1996 regarding the attributes most valued by Finnish consumers when buying bread showed that Finnish consumers pay attention to the nutrient value of the bread<sup>194</sup>. The properties of food, highly valued by Estonian consumers, are taste and naturality<sup>195</sup>.

### **9.2.3 Person-related factors influencing consumer behaviour**

#### **9.2.3.1 Biological factors**

Biologically, people are born with an innate need for food. In order to survive, one must eat. According to the recommendations, the appropriate calorie intake for a male is approximately 2200-2600 kcal/day and for a female 1800-2100 kcal/day, of which 55% should come from carbohydrates, 30% from fats and 15% from proteins. The quantity of calories needed is however individually determined, and depends on such factors as age, gender and the amount of physical exercise.

#### **9.2.3.2 Psychological factors**

There are a number of psychological factors operating within individuals, which have an influence on people's behaviour and thus their behaviour as consumers. The psychological influences on consumer behaviour, which will be discussed in this thesis, include perceptions, motives, beliefs and attitudes.

Perception is defined as *"a process through which individuals are exposed to information, attend to the information and comprehend the information"*<sup>196</sup>. Perception involves the processes a person uses to select, sort, organise and interpret sensory data. One's native physical environment shapes his/her perceptual universe, which is why people perceive for instance colours, forms, smells and shapes differently<sup>197</sup>. In the case of a new functional food product, perception has a crucial role to play. Whether the product is perceived as offering

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<sup>193</sup> "Terveysväittämät ja terveysvaikutteisten elintarvikkeiden hyväksyttävyyys" (2000), KTK, VTT, MTT in [www.finfood.fi](http://www.finfood.fi) [Visited 2002-03-04]

<sup>194</sup> Heinonen, R-M (1996)

<sup>195</sup> [www.hurmasteer.ee](http://www.hurmasteer.ee), [Visited 2002-05-17]

<sup>196</sup> Mowen, J. C. 1995:70

something very different than another existing product, will clearly influence the choice. Different marketing tools can influence consumers' perceptions. For instance, a study conducted in Scotland pointed out that consumers perceive the product differently depending on the wording of the labels: "contains 25% fat" was perceived less healthy than "75% fat free"<sup>198</sup>.

*"A motive is a construct representing an unobservable inner force that stimulates and compels a behavioural response and provides specific direction to that response"*<sup>199</sup>. In other words, motives function both to arouse behaviour and to direct it to certain ends. The credibility of the health claims and the relevance to one's own health are found to be motivating factors for functional food buying<sup>200</sup>. Motives are likely to vary according to person's age. Older people want to live longer and preferably without medicines, whereas parents want to maintain their children's health as well as teach them healthy food habits. Among young people on the other hand, a lot of emphasis is placed on physical appearance. Therefore, to feel and look good are the likely motives for young people to buy functional foods. A less motivating factor is that the consumer cannot taste or smell the benefits of functional foods. The 'reward' of using the product will be received sometime in the future.

Perceived risk is an issue closely related to motivation and people's buying behaviour. The degree of uncertainty and the consequences that result from a wrong decision are its key components<sup>201</sup>. Perceived risk can take many forms, but in the context of functional foods, the most relevant ones are performance and physical risks. The former refers to the uncertainty consumer experiences about the functional aspects of a product while the latter is involved when a product is potentially harmful to consumer's health. Knowledge reduces the perceived risk and can increase motivation whereas uninformed consumers possess higher levels of perceived risk and possibly wrong beliefs. For instance, they may find functional foods unnatural only because many of the ingredients used have names, which are still unfamiliar to consumers. Moreover, the inadequate knowledge of the products may make consumers consider functional foods as medicines, and as a consequence make them believe that eating functional foods may have some negative side effects. Therefore, providing reliable

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<sup>197</sup> Usunier, J-C (2000)

<sup>198</sup> Korpela-Kosonen, K. (2002) "Rasvamerkinntät..."

<sup>199</sup> Hawkins et al. (1992)

<sup>200</sup> www.finfood.fi (2002)

<sup>201</sup> Solomon, M. Et al. (1999)

information adequately about functional food products has a capability to lower the perceived risk and consequently, to speed up the very long process of changing consumers' consumption patterns.

Beliefs and attitudes are interrelated. In a marketing context, a belief is a thought that one holds about a product whereas an attitude is a person's overall favourable or unfavourable evaluation of the product<sup>202</sup>. In other words, a person's attitude towards a product, positive or negative, is the consequence of a set of beliefs. As mentioned earlier, the most important criteria influencing one's food choice is taste liking. If a consumer holds a negative belief about a particular product, it is unlikely that he/she will even try that product<sup>203</sup>. An unfortunate fact regarding functional foods is that unhealthy food, i.e. sweet and fatty food, is usually regarded as tasty. On the contrary, many consumers do not believe that healthy food can be tasty. Therefore, one's attitude to change has an important role to play. A survey carried out in Finland, showed that Finnish consumers' attitudes to functional foods were positive but reserved<sup>204</sup>. The reason behind the reserved attitudes was a concern about the relationship between functional foods and technology. Consumers suspected that modified and supplemented foods might cause some harmful effects. A corresponding study about Estonian consumers was not found but it has been said that Estonians are among the most open-minded people in Europe when it comes to genetical engineering, genetically modified foods and other biotechnology issues<sup>205</sup>. On the other hand, it has been stated elsewhere that attitudes and therefore preferences for new products are strong among the younger population but overall, many Estonians are still fairly conservative<sup>206</sup>.

Finally, in the context of beliefs, it is important to acknowledge that beliefs about the healthiness of food may vary between cultures. In Estonia, there are many incorrect beliefs, myths, related to dietary salt, types of fat, meat consumption as well as to bread and potatoes. For example, only 43% of 2018 respondents knew that all types of fat do not give the same risk of various coronary diseases. Furthermore, 73% either believed that bread and potatoes are fattening or did not know the correct answer<sup>207</sup>.

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<sup>202</sup> Jobber, D. (1998)

<sup>203</sup> Research: "Terveysväittämät ja terveysvaikutteisten elintarvikkeiden hyväksyttävyy" (2000), KTK, VTT, MTT [www.finfood.fi](http://www.finfood.fi), [Visited 2002-03-04]

<sup>204</sup> [www.finfood.fi](http://www.finfood.fi) (2002)

<sup>205</sup> Estonian Investment Agency

<sup>206</sup> Andersone, J. (2002)

<sup>207</sup> Pomerlau, J. et al (1999)



Attitudes towards foreign-made vs. domestic products are also influencing people's purchasing patterns. A study from 1977 demonstrated that Finnish consumers deemed their products to be better on almost every attribute than those of United Kingdom, France, West Germany, Japan, Sweden, the Soviet Union and the United States<sup>208</sup>. Although the study is old, the preference for domestic products is still strong. Finnish consumers consider domestic products to be safe and of high quality. This is so in particular with respect to food purchasing. Like the study regarding Finnish bread consumption showed; the Finns find it important that the bread they buy is domestic<sup>209</sup>. Also Estonian buyers prefer domestic foodstuffs to imported foods<sup>210</sup>. The main reasons are said to be the familiar taste and the shortage of additives<sup>211</sup>. However, the interest in domestic products over imported ones has not been a trend for long. It was only in the end of the 1990's, when the choice of domestic products started to increase.

### **9.2.3.3 Socio-demographic factors**

Socio-demographic factors, such as age, gender, education and lifestyle influence the food consumption habits. The age distribution of population is changing in a similar way in Finland and Estonia; 0-14-year-old group is falling while the number of over-65 year olds keeps on rising. In other words, the populations in both countries comprise more and more old people. Disposable income and purchasing requirements typically vary according to lifecycle stage and thus affect consumption patterns. As mentioned earlier, the motives to buy functional foods vary according to age. Studies have also shown that food consumption patterns vary between men and women. Finnish female consumers buy more fruits, vegetables, cheese and coffee bread than their male counterparts. Men, on the other hand, buy sausages, beer and bread more often than women<sup>212</sup>. Also Estonian women consume more vegetables than Estonian men do. This is probably related to another research finding, according to which special diet and disease prevention are more important choice factors for women than for men<sup>213</sup>.

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<sup>208</sup> Darling and Kraft (1977) in Usunier (2000)

<sup>209</sup> Heinonen, R-M. (1996)

<sup>210</sup> [www.hurmaster.ee](http://www.hurmaster.ee) [Visited 2002-05-15]

<sup>211</sup> Ibid

<sup>212</sup> Viinisalo, M. (1998)

<sup>213</sup> Pomerlau, J. et al (1999)

Education increases knowledge and skills but also shapes one's beliefs. The National Public Health Institute (KTL), which has been monitoring health behaviour in Finland since 1978, shows that a relationship between one's level of education and diet exists. Although such food habits, which are in line with dietary recommendations, have become more popular in all educational groups, those with a higher educational level still seem to have healthier food habits<sup>214</sup>. Another finding is that the food choices of highly educated people are more modern<sup>215</sup>. Therefore, it can be assumed that functional foods are more popular among the highly educated people since these foods are modern foods. The study, which examined selected dietary beliefs in the Baltic countries and the association of beliefs related to salt intake and to the types of fat with food behaviour, found that people with high education were more familiar with the health and diet issues. However, in Estonia, this was not consistently associated with healthier food behaviours<sup>216</sup>.

Lifestyle patterns refer to one's interests, activities and opinions, and are reflected in food consumption patterns. Leisure time activity has increased in Finland since the early 1980's. The hobbies of family members have reduced their time together and consequently, family meals have become less common. Indeed, approximately every fourth Finnish family has given up the attempt to find mealtime that fits to everyone's schedule<sup>217</sup>. Busy lifestyles have led to the decrease of proper meals enjoyed whereas snacks are eaten more often. Moreover, an increase in convenience food consumption, i.e. ready-meals and processed food products, has been obvious and eating out has become more popular: about 20% of meals are currently eaten out of home<sup>218</sup>. In Estonia, about half of the families prefer home meals to out-of-home dining but the large amount of two-income families has increased the out-of-home dining as well as the popularity of convenience foods. Estonians spend approximately 13% of their total food budget on eating out<sup>219</sup>. The study found that only about a quarter of the population have regular eating times. Approximately 19% reported that they eat often between meals. Snacks were found to be more common among young people<sup>220</sup>.

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<sup>214</sup> Helakorpi, S. et al (2001)

<sup>215</sup> Lahti-Koski, M. and Kilkkinen, A-M. (2001)

<sup>216</sup> Pomerlau, J. et al (2001) "Dietary beliefs..."

<sup>217</sup> Varjonen, J., "Trendejä vai kaaosta...", (2000)

<sup>218</sup> Dahlbacka, B. (2001)

<sup>219</sup> Andersone, J. (2002)

<sup>220</sup> Pomerlau, J. et al. (1999)

Unhealthy behaviour was very common in Estonia in the beginning of the 1990's, which can be partly explained as a way of coping with the distress created by the new demands of transition society. Nowadays, Estonians value good health highly, but more in theory than in practice<sup>221</sup>. A survey shows that 43% of Estonians participate only in sedentary activities, e.g. reading, during their leisure time. In addition to that, the study found that one in three Estonians has a low physical activity level at work and the levels of physical activity during leisure time were more often low or moderate than high or very high. For a question regarding weekly participation in regular physical activity, such as jogging, 70% of male and 79% of female respondents answered never<sup>222</sup>. In Finland, approximately 60% of men and 64% of women pursue some sort of physical activity at least twice a week for the minimum 30 minutes<sup>223</sup>. The issue of physical activity is relevant in the context of functional foods because healthy lifestyle and healthy food habits go often hand in hand. A well-accepted fact is that the combination of healthy diet and living style reduces the risk for many diseases. For instance, a diet that is low in saturated fat and cholesterol and rich in fruits and vegetables reduces the risk of heart disease. Since the aim of functional foods is to prevent diseases and improve well-being, human diseases are naturally a factor influencing the demand for these foods. In 1998, cardiovascular diseases were the most common causes of death in Finland. Tumours were second on the list, followed by respiratory diseases and gastrointestinal diseases<sup>224</sup>. It is estimated that in Estonia, every fourth person has an elevated blood pressure, which consequently increases the risk of cardiovascular diseases<sup>225</sup>. Also in Estonia, cardiovascular diseases are the leading cause of death<sup>226</sup>. An increasing number of overweight people seems to be one of the negative results of welfare societies where there are more cars and food products available, and where people are continuously under the influence of food marketing. In Europe, the amount of overweight men (measured according to BMI<sup>227</sup>) between 16-24 years has grown by 25% during the last ten years<sup>228</sup>. In 2001, 54% of Finnish men and 36% of women were overweight, and the unfortunate fact is that the number is still increasing at least on men's side. This is so despite of the fact that the Finnish diet is healthier than ever and the physical exercising has increased. The only reasonable explanation is that the level of physical activity is often low at work and cars, lifts and escalators reduce it even

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<sup>221</sup> [www.undp.ee](http://www.undp.ee) [Visited 2002-05-17]

<sup>222</sup> Pomerlau, J. et al. (1999)

<sup>223</sup> Taubert, S. (1998)

<sup>224</sup> Finland in Figures 2001

<sup>225</sup> Jurgenson, J. (2001)

<sup>226</sup> Kaasik, T. et al (1998)

<sup>227</sup> BMI = Body Mass Index measured as weight / height\*height, overweight: BMI>25kg/m<sup>2</sup>

more<sup>229</sup>. In comparison, approximately 42% of Estonian men and 30% of women are overweight<sup>230</sup>. Obesity was found to increase with age, but no consistent association was observed with income<sup>231</sup>. The consequences of overweight can be serious as fatness is connected to many health problems. Moreover, consequences can be costly for the society. Therefore, the importance of healthy diet has been taken seriously by national authorities as well as by international bodies. Different projects with the aim of improving people's eating habits have taken place. The North Karelia Project for instance, studied the causes of high blood pressure and fatal heart disease in the region. Food industry participated in the project, and consequently reduced the levels of salt and fat used in bread, sausages and other comestibles<sup>232</sup>. Health education programme has been running in Estonia since the restoration of its independence. The focus has been on promoting healthy lifestyle. The idea is to train teachers and medical staff so that they can educate the remainder population. However, a distracting factor for the campaign is the shortage of funds, especially for health information programmes in the mass media<sup>233</sup>. A campaign against fatness will be a Danish EU theme for the autumn 2002. Denmark wants the EU countries to make plans to reduce the problem. After that, the EU can develop a common health strategy. Even though functional foods are not necessarily low in calories, they promote health in other ways.

#### **9.2.4 A typical functional food consumer**

It has been claimed that in general, being female, of lower age, possessing higher nutritional knowledge, and belonging to the higher social class are most often related to healthier food behaviour<sup>234</sup>. However, depending on the exact variables and samples used, different studies have drawn different conclusions. The Finnish Nutrition Report 2000, states that healthy choices are less frequent among adolescents and young adults compared to older people, who eat rye bread, potatoes, fresh vegetables and fruits more frequently<sup>235</sup>. According to a ten-year-old Finnish study, a typical health conscious consumer is rather over 55 years old than under 35, not highly educated, retired person<sup>236</sup>. It must be noted though that the sample for this study was small, consisting of 248 households, and the area covered only one city. Still

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<sup>228</sup> Nilsson, G. (2002)

<sup>229</sup> Prättälä, R. In Korpela-Kosonen, K. (2002) "Suomalaisten..."

<sup>230</sup> Pomerlau, J. et al (1999)

<sup>231</sup> Pomerlau, J. et al. (2000), "Patterns of bodyweight..."

<sup>232</sup> Tanttu, A-M., (2001)

<sup>233</sup> [www.undp.ee](http://www.undp.ee) [Visited 2002-05-17]

<sup>234</sup> Taubert, S. (1998)

<sup>235</sup> Lahti-Koski, M. and Kilkinen, A-M. (2001)

<sup>236</sup> Viertola, J. (1992)

another source argues that Finns, especially young adults, are health conscious, and interested in buying functional and healthy foods<sup>237</sup>. In Estonia, young female consumers seem to be best aware of the facts between diet and health<sup>238</sup>. Generally, functional food buyers are considered to be modern, ambitious, enthusiastic and independent<sup>239</sup>. Certain functional foods have regular users. For instance, people suffering from lactose-intolerance are the main users of low-lactose chocolate. In the context of iLove products, it is too early to define the typical features of an iLove product consumer. Risto Pitkänen, who is responsible for the brand, assumes that one part of the consumers includes experimentalists, but most of the consumers are probably users of the same food, who want to try the new product alternatives. For instance, the consumers who normally buy certain crisp bread want to try iLove oat crisps instead, and those who eat toasts want to try the new kinds of toasts.

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<sup>237</sup> Tantu, A-M. (2001)

<sup>238</sup> Pomerlau, J. et al (1999)

<sup>239</sup> Tuovinen, A. (2002)

## **10. MARKETING MIX**

The results of the marketing audit are key determinants in the later stages of the marketing planning process. A SWOT analysis, which identifies the strengths, weaknesses, opportunities and threats of the business, is a method of synthesising the results of the marketing audit. The combination of the results of the audit and SWOT analysis lead then to the definition of marketing objectives, which shall include decisions regarding which products to sell and in which markets. The next step is to create a core strategy including the means of achieving the objectives<sup>240</sup>. By calling attention to their understanding of customer needs as well as to the business environment, companies develop their marketing mix, i.e. decisions regarding product, price, promotion and place. For the company, marketing mix represents tools that are used to influence buyers. From the consumer perspective, each marketing tool must deliver a customer benefit<sup>241</sup>.

### **10.1 Fazer's current marketing mix for iLove products in Finland**

Before analysing Fazer Bakeries' marketing mix decisions, it is useful to summarise the most relevant points found in the marketing environment analysis of Finland.

The scientific research regarding the health effects of foodstuffs is on a very high level in the country. Economically, the environment seems to be open for foods with value-added properties. Therefore, the Finnish technological and economical environments seem to be very favourable for functional food marketing. Moreover, the Finnish food culture seems to be suitable for iLove products because bread consumption is high and the trend is towards healthier food habits. On the other hand, the present legal situation, although improved, is not as encouraging towards functional food marketing as the other macro environmental forces. The legislation slows down the development process and makes the marketing task difficult by setting limitations.

The microenvironment analysis pointed out firstly that the competition in functional food markets is on a relatively high level, although most functional foods belong to dairy sector. In the bakery industry, Fazer Bakeries is the leading competitor. Secondly, the Finnish consumers were analysed as iLove products are targeted for the whole Finnish population. According to Fazer's marketing manager Leena Lehtelä, it is not necessary to specify any

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<sup>240</sup> Jobber, D. (1998)

<sup>241</sup> Kotler et al. (1999)

narrow segments for iLove product consumers. She states that “*the target customer of the products is the whole family*”<sup>242</sup>. However, target consumers are said to have some common features; they are interested in their well-being and they possess some knowledge of the correlation between diet and health<sup>243</sup>. Overall look at the Finnish population shows among other things that the population is growing older which is likely to result in changes in food patterns as well as in the disease structure. Particular attention is to be paid to survey findings, which showed that the Finnish consumers value taste, the nutrient content and healthiness of products when choosing foods. Increased physical activity among the Finns further enhances the health trend. On the other hand, the reserved attitude towards functional foods is an issue that is good to bring forward. It is a challenge for functional food marketers. Finally, changes in the lifestyle patterns are important factors in the marketing environment. The busy lifestyles have increased the amounts of snacks enjoyed and correspondingly decreased the number of proper meals.

Now, when the most relevant factors in the marketing environment have been analysed, the focus will be on Fazer Bakeries’ marketing mix decisions with respect to iLove products, i.e. oat-crisps, wheat toasts and multigrain toasts, in the Finnish marketing environment. The analysis will follow Kotler’s marketing mix model, which was presented in the beginning of this paper, with respect to product and promotion tools.

### **10.1.1 Product decisions**

Product is said to be “*anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need*”<sup>244</sup>. In the marketing mix model, Kotler defined various product decisions to be made. These tools can be categorised under the following titles: product attributes, branding, packaging, labelling and product support services<sup>245</sup>. In the context of this thesis, the product attributes and labelling are the most important issues, and thus, will be the main areas of discussion.

#### **10.1.1.1 Product attributes**

Defining the benefits that a new product will offer is a basis for a product development. These benefits are communicated and delivered by product attributes. Fazer defines functional foods

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<sup>242</sup> Lehtelä, L. in Wiklund, P. (2002)

<sup>243</sup> Ibid

<sup>244</sup> Armstrong, G. And Kotler, P. (2000)

as products having a positive influence on health and, in addition to their nutritional effects, they possess a scientifically proven health enhancing and maintaining property<sup>246</sup>. The idea to include functional foods for Fazer's selection originated from Peter Fazer's visit to the US. The former CEO became convinced that functional foods would be the future trend within the food markets. In 1999, the development of functional foods was chosen to be the key area of the development process in the company. The decisions of the product attributes were based on company's own ideas and core values as well as on customer research findings. Among customers, oat fibre and calcium were the most wanted health enhancing ingredients, whereas taste was still the most important factor influencing food choice<sup>247</sup>. Therefore, Fazer Bakeries decided that in addition to the health enhancing effect, taste would be a key factor in functional food product development. Moreover, Fazer wanted to use ingredients that fulfil two more criteria: they must be perceived as natural by consumers and they should have a positive effect for a large group of consumers<sup>248</sup>. The emphasis in the first iLove products is on oat- and wheat fibre, calcium and omega-3 fatty acids.

As known, the amount and type of fat are the cornerstones of a healthy diet. Abundant fat intake increases the risk of coming down with such diseases as cancer and cardiovascular diseases. During the recent years, Finns have improved their diets in terms of fat intake and the intake of omega-3 fatty acids is found to be adequate. However, the health benefits of omega-3 fatty acids are many; they are necessary for the development of the nervous system, they have a positive influence on blood pressure, lung functioning and inflammation reactions. In addition, it is claimed that omega-3 fatty acids help preventing and treating both cardiovascular diseases and depression<sup>249</sup>. Long winters are known to create depression in the country and cardiovascular diseases are still the biggest causes of death. Therefore, iLove multigrain toasts seem to fit to this picture as five slices provide 70% of recommended daily intake of omega-3 fatty acids. About 18% of the Finns suffer from lactose intolerance, i.e. inability to produce sufficient amounts of the enzyme lactase, which breaks down lactose for digestion<sup>250</sup>. This means that those people cannot enjoy normal dairy products containing lactose, without getting stomach pains. Yet dairy products are the main source of calcium in people's diet and necessary in preventing osteoporosis. Therefore, iLove wheat toasts, which

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<sup>245</sup> Ibid

<sup>246</sup> [www.fazer.fi/Fazer/news.nsf/Webpages](http://www.fazer.fi/Fazer/news.nsf/Webpages) [Visited 2002-01-03]

<sup>247</sup> Hongisto, S-M. (2002) in [www.fazer.fi/Fazer/news.nsf/Webpages](http://www.fazer.fi/Fazer/news.nsf/Webpages) [Visited 2002-01-03]

<sup>248</sup> Haarasilta, S. in Wiklund, P. (2002)

<sup>249</sup> Hongisto, S-M. And Lehtelä, L. (2002)



are milk and lactose free but contain calcium, can help in ensuring the adequate calcium intake. Additionally, wheat fibre has been added so that iLove toasts contain more fibre than normal wheat toasts. The Finnish nutrition report from 2000, pointed out that with respect to total nutrient intake, the Finns could increase the proportion of carbohydrate and the fibre intake could also be bigger<sup>251</sup>. iLove oat crisps contain a lot of oat fibre called betaglucan. Betaglucan slows down the rise of blood sugar and maintains it on a high level for a long time. Another remarkable property of oat is its decreasing effect on cholesterol level. High level of cholesterol is namely related to the increased risk of cardiovascular diseases. There is no upper limit for the use of iLove products. In other words, a large intake that exceeds the recommended daily intake does not lead to harmful effects but does not lead to corresponding health benefits either.

#### **10.1.1.2 Branding**

Brand can be “a name, term, symbol, or design, or a combination of these, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors”<sup>252</sup>. Various studies have declared Fazer to be the most well-known and valued brand in Finland<sup>253</sup>. This is naturally an advantage for the company and enhances chances to succeed with new products. Nevertheless, launching a new product to the market is always a challenge, implying that also Fazer has to work hard to make the new iLove brand known among the customers. Since developing a new functional food product is a long and expensive process, it is common to apply an international strategy right from the beginning<sup>254</sup>, meaning that the plan is to create a product which will be sold not only domestically but also in foreign markets. That is also the idea for iLove products. Originally, the idea was to give products a Finnish brand name, which was considered to give “a shimmer of mystique on the international markets”<sup>255</sup>. In the end however, a more generic name was chosen out of more than a hundred suggestions<sup>256</sup>. The brand name “iLove” can be understood almost anywhere in the world and it is less capable of creating unwanted associations than a Finnish name would be.

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<sup>250</sup> <http://anthro.palomar.edu/> [Visited 2002-05-15]

<sup>251</sup> Lahti-Koski, M. and Kilkinen, A-M. (2001)

<sup>252</sup> Armstrong, G. And Kotler, P. (2000:227)

<sup>253</sup> Fazer Concern 2001, [www.fazer.fi](http://www.fazer.fi) [Visited 2002-03-23]

<sup>254</sup> Salminen, K. (2001) ”Terveysvaikutteisten elintarvikkeiden kaupallistaminen”

<sup>255</sup> Wiklund, P. (2002)

<sup>256</sup> Ibid

### 10.1.1.3 Packaging

In terms of packaging, two tasks need to be completed: the design and the production of the container or a wrapper for a product. iLove products resemble Fazer's traditional products. The package size for iLove toasts equals the size of Fazer's traditional toasts. Oat crisps are sold in 180g and 300g packs. The product design can help consumers in identifying products. In order to make it easy for consumers to identify the products, Fazer has used the same colours and style in the whole iLove product range. iLove brand name is followed by the product name. The idea behind that is to create a word association "love for the product" in consumers' minds<sup>257</sup>.

### 10.1.1.4 Labelling

Labelling, the printed information appearing on or with the product, is another area where decisions must be made. The label can identify, describe and / or promote the product. Labels are always important, but on functional foods, they have a central role to play. A claim that is not understood is useless whereas a claim that is misunderstood can be misleading. Therefore, companies should ensure that claims are written and presented in a manner understood by consumers. This implies that terms used must be familiar to consumers. Claims shall be positive and simple but still based on science. In the following table, the labels used on the iLove products are summarised:

<b>Product</b>	<b>Red circle</b>	<b>Text with a claim</b>
Oat-crisp	Useful oat fibre, betaglucan	Includes a lot of soluble oat fibre (betaglucan), which helps to balance blood sugar and control cholesterol. Oat fibre is good for stomach and heart.
Wheat toast	Strengthening calcium and useful wheat fibre	In five slices of iLove calcium wheat toast, there is the same amount of bone strengthening calcium than in one glass of milk. Includes a lot of wheat fibre, which is good for stomach. Lactose- and milk-free, rich in fibre.

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<sup>257</sup> Wiklund, P. (2002)

Multigrain toast	Vitaly important Omega-3 fatty acid	I Love Omega-3 multigrain toast's heart-friendly omega-3 fatty acid descends from flax, and enhances the well-being of blood circulation organism as well as is an important building material of growth and development. Lactose- and milk-free.
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According to Lehtelä, Fazer is trying to communicate with people in their own language<sup>258</sup>. An easily recognisable red circle on the front side tells the special health property of each product, while the claim explaining the beneficial effect is written in gold on the side labels of the toast package and back labels in the case of oat crisps. One study has examined the effectiveness of various front-sided health claims when used in combination with a full health claim on the back panel. The results were positive when considering Fazer's labelling decisions. They showed that the presence of a short health claim on the front label generates more specific attribute-related thoughts, more inferences and a more believable and positive image of the product in the consumers mind than does a longer health claim on the front label<sup>259</sup>.

From the legal perspective, it must be pointed out that claims do not include the words prevent, treat or cure. Moreover, no diseases are mentioned on product labels, even though reduction of disease risk claims are now allowed. Focus is more on the preventative effects of particular ingredients, and assumption supposedly that customers will know for instance why it is important that blood sugar is in balance. Certain body functions, e.g. blood circulation, and body parts, e.g. stomach and heart, are mentioned. Attention must be paid to the word heart since that is on the list of forbidden claims. However, the law prohibits only referring to the functions of the heart<sup>260</sup>, and in the claims, the body part is mentioned, not its functions. Permissible nutrient claims, such as lactose free or rich in fibre, are used in all of the products. The words calcium and fibre have been used in product labels for a fairly long time and their positive effects to human body are generally known. On the other hand, betaglucan and omega-3 are less common words appearing on normal food labels. However, their functional effect has been explained in the labels, and thus the information can be claimed to be adequate. Moreover, there are other companies currently marketing products with the same

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<sup>258</sup> In Wiklund, P. (2002)

<sup>259</sup> Wansink, B. et al. (2001)

<sup>260</sup> Saarela, A-M. (2000)

ingredients and consequently, increasing the awareness of the health benefits<sup>261</sup>. According to the Decision 611/1998, a particular ingredient is to be included in the list of ingredients especially if that ingredient is emphasised on the labelling and/or if it distinguishes the product from other similar products. At least one of the two conditions holds true for all iLove products. The examination of the product labels shows that the specific requirement is met. For instance, the amount of fatty acids is mentioned on the list of ingredients of the multigrain sliced bread because that is emphasised on the labelling and because not all sliced bread include omega-3 fatty acids. The only criticism about iLove product labels from the legal perspective is that the information may be misleading as labels do not mention that in order to benefit from the products, a healthy diet and living style are also required. However, this information is included in the product leaflet. Overall, Fazer has been careful with the claims to be used. Sampsa Haarasilta, R&D manager in Fazer, has stated that Fazer does not want to test the boundaries for what can and cannot be claimed<sup>262</sup>.

#### **10.1.1.5 Product support services**

The final decision in terms of product strategy concerns product support services, i.e. “*services that augment the actual product*”<sup>263</sup>. Particular attention should be paid to these services in terms of new products. Fazer provides customer service both via telephone and the Internet. Moreover, comments can be sent via mail.

#### **10.1.2 Promotion decisions**

“*Promotion means activities that communicate the merits of the product and persuade target customers to buy it*”<sup>264</sup>. This is rather difficult with functional foods considering the legal limitations as well as the fact that the benefits of functional foods cannot be tasted or smelt. In addition, some of the terms are fairly new to people, which consequently make consumers sceptical. Like Haarasilta comments, “*the situation is forcing us to use more innovative solutions in communication*”<sup>265</sup>. In terms of iLove products, omega-3 fatty acid has been the most difficult to communicate to consumers<sup>266</sup>. There are clearly many challenges in functional food marketing. Therefore, it would be useful to use many marketing channels,

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<sup>261</sup> Haarasilta, S. In Wiklund, P. (2002)

<sup>262</sup> Ibid

<sup>263</sup> Armstrong, G. And Kotler, P. (2000:240)

<sup>264</sup> Armstrong, G. And Kotler, P. (2000:56)

<sup>265</sup> Ibid, p. 2

<sup>266</sup> Haarasilta, S. In Wiklund, P. (2002)

which all should provide customers the same basic message. Especially when kept in mind that one of the motivating factors to buy functional foods is the credibility of health claims. Like Kotler's model shows, advertising, personal selling, sales promotion, direct marketing and public relations are all different forms of promotion.

Advertising includes any paid form of non-personal communication of ideas, goods or services in the prime media<sup>267</sup>. In other words, advertising can be carried out via such mediums as television, radio, press and the Internet. The attitudes towards advertising has become more positive among the Finns<sup>268</sup>. Fazer is one of the biggest food advertisers in Finland. In 1998, Fazer Bakeries ranked 9th on the top ten list<sup>269</sup>. For iLove products, television advertising campaign, consisting of two 30 seconds long TV-spots and 10 seconds long tails, was carried out during four weeks in January and February. Additionally, the products have been advertised in magazines and newspapers which is very important considering that 65% of the Finnish population find newspaper advertising most interesting, clear and informative<sup>270</sup>. Fazer's plan for the first nine months includes further two months of advertising in May and September when TV and newspaper/magazine advertising are running simultaneously<sup>271</sup>. A brochure and a leaflet of the products have been published, which contain information about the ingredients and explain what makes these products beneficial to health. Furthermore, own WebPages have been created for iLove brand, which provide product information and relevant news about functional foods. Internet is a good marketing tool as information can be updated continuously and people can reach the information 24 hours a day.

The wording, logos and images used in advertising are all influencing the way in which products are perceived and understood by the final consumer. An advertising phrase, which is common to all iLove products, states: "Fazer iLove. For people who appreciate themselves. And good taste." According to Risto Pitkänen, the message crystallises two fundamental values: self-indulgence and good taste. Fazer wants to emphasise consumers' interest towards themselves and their lives. In other words, the message aims to say that enjoying iLove products is a way to take care of oneself. This can also be expressed as appreciating oneself.

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<sup>267</sup> Jobber, D. (1998)

<sup>268</sup> Suomen Lehdistö (2001)

<sup>269</sup> Tapionlinna, U-R. (1999)

<sup>270</sup> Suomen Lehdistö (2001)

<sup>271</sup> Wiklund, P. (2002)

Fazer decided not to refer to illnesses and diseases because that would create less positive perceptions among consumers. It has been suggested that it is better to refer to health than to diseases<sup>272</sup>. Secondly, message aims to convince consumers to believe that products taste good and are worth trying. In other words, Fazer wanted to prove wrong the general impression that healthy food cannot taste good<sup>273</sup>.

Sales promotion refers to activities and incentives, which are designed to stimulate purchase<sup>274</sup>. Fazer has carried out product presentations in retail stores. Moreover, the brochures that are available in shops, are encouraging customers to buy iLove products. The marketing strategy is twofold, targeting not only consumers but also professionals<sup>275</sup>. Fazer has engaged in direct marketing activities by sending leaflets and samples approximately to 300 health experts in the country, including nutritionists and health care professionals<sup>276</sup>. The term public relations (PR) refers to the relationship building with the company's various publics. PR tools are many, including speeches, special events and news. Personal selling means the oral communication between the firm's sales force and prospective buyers. It is also a way to create publicity and build customer relationships. Fazer has participated in such events as Health Care Fair and Nutrition Fair not only because health professionals are prospective buyers but because it seems that consumers have more confidence on health authorities than food manufacturers in health and diet issues. Therefore, it is useful to increase the product awareness among the professionals. In October 2001, Fazer Bakeries participated in Anuga Fair in Köln with a range of products including some of the iLove products. The Anuga Fair is the world's biggest international food fair - last year there were participants from 147 different countries<sup>277</sup>. These kind of exhibitions are a unique way to bring buyers, sellers and competitors together in a commercial setting.

As regards all the printed information available, it can be argued that the information provided of Fazer's iLove products meets the legal requirement of being accurate and adequate as is laid down in the first article of the Finnish Food Law. In its communication strategy, Fazer is using threshold information levels<sup>278</sup>. The first threshold is the red circle on the package

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<sup>272</sup> Coussement, P. (2000)

<sup>273</sup> Ibid

<sup>274</sup> Armstrong, G. and Kotler, P. (2000)

<sup>275</sup> Pitkänen, R. (2002)

<sup>276</sup> Ibid

<sup>277</sup> Haapanen, M-L. (2001)

<sup>278</sup> Lehtelä, L. in Wiklund, P. (2002)

explaining the health benefit of the product. For further information, people can read the golden texts on the packaging and have a look at the ingredient list. For those who want to know more, there are leaflets available in the supermarket. Finally, people who still want to know more, the Internet site provides detail information. This method is also a kind of solution for the dilemma of functional food labelling that too much information confuses consumers whereas too little misleads them. In Fazer's communication strategy, consumers are provided the opportunity to gain further information easily, if they want that.

### **10.1.3 Price and place**

Price, i.e. the amount of money customers pay for the product, is largely determined by the economic environment. Fazer Bakeries sell their products to the consumers via retailers. Therefore, Fazer does not determine the consumer prices for iLove products. Generally functional foods tend to be little more expensive than normal food products because of the long and expensive development processes. Yet, according to Patricia Wiklund's report, iLove products are equally priced with Fazer's traditional products. However, in K-Supermarket Hertta, which is part of the Kesko chain, iLove wheat- and multigrain toasts cost €1,50, whereas the package of same size containing Fazer's normal toasts costs €0,99<sup>279</sup>. The adoption of Euro in the beginning of this year has not changed the level of prices significantly. Some companies, not Fazer however, have changed the product sizes to fit to new psychological price points. In general, new psychological prices have compensated each other so that changes in the food prices in total are minor if any.

Place component of the marketing mix includes "*the company activities that make the product available to target consumers*"<sup>280</sup>. Fazer's bread and pastries can be basically bought in retail shops all over the country. Fazer has managed to sell iLove products to all major retailers in the country<sup>281</sup>, meaning that the same distribution network is used for functional food products.

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<sup>279</sup> Hertta Supermarket, March 2002

<sup>280</sup> Armstrong, G. And Kotler, P. (2000:55)

<sup>281</sup> Pitkänen, R. (2002)

## **10.2 The suitability of the marketing mix to Estonian markets?**

The final part of this thesis touches the issue of standardisation versus adaptation. If Fazer decides to expand markets for iLove products to Estonia, should the marketing mix be adapted to local circumstances or could it work in its current state?

As the marketing environment analysis showed, there are both differences and similarities in the Finnish and Estonian marketing environments. However, in terms of functional foods, it seems that just the differences make the Estonian market less suitable for functional foods. From the economical point of view, some issues have to be pointed out. As mentioned, the development process of functional foods requires high investment costs. Estonian economic environment presents several factors, such as relatively low purchasing power, which make Estonian markets slow in paying back these investment costs. Despite of the strong economic growth during the recent years, a significant segment of the population remains, including the pensioners and the people living in the rural areas, whose income levels do not allow much variety in food purchases. Overall, consumer demands remain very price sensitive. Improvements have taken place in the technological environment. However, in this case the technological environment does not play such an important role because Fazer could utilise the Finnish technology. Estonia is moving towards EU membership and therefore, implementing many of the EU's food, labelling and food safety standards. Specific laws for functional foods marketing do not exist yet but Estonia is likely to follow the EU developments in the future in that respect. From the cultural perspective, language is an element that must be taken into account in marketing practices. Food culture is adapting trends from Western countries but national traditions are also strong. Bread is an important part of the Estonian food culture. Therefore, in that sense, iLove functional bread products could fit to the Estonian food culture.

The most important issues in the microenvironment refer to consumers' choice criteria, beliefs and lifestyles. Cost is still the most important factor influencing Estonians' food choices whereas healthiness was less common choice criteria. Furthermore, various incorrect healthy myths still exist among consumers, meaning that the whole concept of functional food would be new to many. On the other hand, health education programme is running and resulting in at least little improvements despite of the shortage of funding. There are some factors that would favour new functional foods. For instance, the researchers of the study examining the macronutrient and food intake in the Baltic republics, concluded their report by stating that in



these countries, *"there is a pressing need to replace high-fat energy dense foods by foods rich in complex carbohydrates and dietary fibre"*<sup>282</sup>. Therefore, functional foods could be a good response to that need. The current structure of diseases refers to the need for healthier diet. Functional foods would provide people an increased protection against diet related diseases. This protection is really needed in the country where population is ageing rapidly.

### 10.2.1 Products

A close attention should be paid to the total nutrient intake in the country when determining the product attributes, specifically, the ingredients to be used. That kind of data shows the biggest flaws in Estonians' dietary habits, and thus reveals the greatest needs. The study from 1997, pointed out that calcium intake met the European guidelines but carbohydrates were lower and fat intake higher than is recommended<sup>283</sup>. The structure of diseases is another indicator of nutrient flaws in the country. That issue becomes even more relevant as the population is growing older. Like in Finland, cardiovascular disease is the most common cause of death. As many as 28% of Estonians suffer from lactose intolerance<sup>284</sup> and osteoporosis is one of the most common diseases among over 65-year-olds<sup>285</sup>. Therefore, in that sense, iLove wheat toasts with calcium and wheat fibre and oat crisps with beneficial betaglucan would fit well to Estonian markets, as well as would multigrain toasts with useful omega-3 fatty acids. In other words, all the health enhancing properties of iLove products that were described earlier would be useful in Estonia too because the overall structure of diseases is similar to that of Finland.

Another important product attribute is taste. Each culture has its own set of flavours to draw from. The typical feature of Finnish bread is its sour taste. Estonians on the other hand, want their bread to be rich<sup>286</sup>. Therefore, some product modifications in that respect may be needed.

In terms of the sensory properties of the products, it has been suggested by Quelch et al., that Western brand names and packaging graphics should be retained when marketing products in Eastern Europe. Eastern European consumers are said to view such products as being of high

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<sup>282</sup> Pomerlau, J. et al. (2001), "Macronutrient..."

<sup>283</sup> Pomerlau, J. et al (1999)

<sup>284</sup> <http://anthro.palomar.edu/> [Visited 2002-05-15]

<sup>285</sup> Saks, K. et al. (2001)

<sup>286</sup> Tengström, J. (2002)

quality<sup>287</sup>. On the other hand, the preference for domestic food products has been recently increasing in Estonia. Due to the local Fazer Pagarid bakery, Estonians are aware of Fazer brand. iLove products would be marketed under the Fazer umbrella brand, implying that the new product launch could benefit from Fazer's name, which is already known in the market. As mentioned, iLove brand name was chosen because it was considered to fit to international markets.

In case iLove products will be exported from Finland to Estonia, the law states that labelling is to be translated or affixed in Estonian, and based on the original text<sup>288</sup>. However, referring to the table of labels used on the iLove products, the content of labels may require some modifications. Since omega-3 fatty acid has been a difficult concept to communicate to the Finnish consumers, it is more than likely that the term is strange to Estonians too. Kept in mind that the red circle on the product labels is the first threshold of the information levels, it should be as simple as possible. Therefore, the labels on the package of multigrain toasts may have to be changed. Similarly, labels on oat crisp packs require some knowledge from consumers. On the other hand, labels on wheat toast packs are fairly clear and simple. Unfortunately, many Estonians become aware of the relationship between diet and diseases only after they have already developed a health problem. In that sense, it could be useful to refer to diseases in the product labels.

Finally, the limited knowledge about a healthy diet and the fact that many of the terms are strange to Estonian consumers, enhance the important role of the product support services.

### **10.2.2 Promotion**

In Finland, such companies as Valio and Raisio made the tough preliminary work in developing the Finnish functional food markets. Valio has reported that the major challenge with their new functional food products was to get the message across about probiotics and LGG<sup>289</sup>. That process took many years. Therefore, in Estonia, where functional foods are not common yet, comprehensive publicity campaigns should take place. Moreover, since many incorrect healthy myths still exist among consumers, a comprehensive consumer education

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<sup>287</sup> Quelch, J. A. (1991)

<sup>288</sup> Government Regulation No 390 of 21 Dec 1999, Article 3

<sup>289</sup> Mellentin, J. and Heasman, M. (2002)

campaign would indeed be a prerequisite for success. The use of various marketing channels would be needed and the campaign should be carried out for a longer time period.

Since television is not considered as an especially trustworthy medium by many Eastern European citizens, any television advertisements should be factual and straightforward<sup>290</sup>. Getting the message through of the health benefits if the use of words is limited is a challenge in a society where the knowledge of a healthy diet is limited. Although the newspaper readership has decreased, newspapers are still useful mediums for advertising since they are generally considered more trustworthy and the information can be more specific with detailed explanations. The number of Internet users on the other hand is growing, which is good for Fazer as the Internet is an important link in the company's communication strategy. Moreover, the Internet site for iLove products is already available for Estonian consumers. So far, in-shop advertising has been Fazer's most used marketing channel in Estonia<sup>291</sup>. Considering the disadvantages of TV- and newspaper advertising discussed above, iLove product presentations and leaflets in shops would be a very valuable way of promotion. Free product samples are found to be extremely popular in Eastern European countries<sup>292</sup>. A Finnish survey found out that the attitudes towards certain products were more positive when consumers could try the products<sup>293</sup>. Therefore, in order to decrease the scepticism and to create positive attitudes towards functional foods, iLove taste samples could be provided to Estonian consumers. In that way Fazer could more easily change consumers' beliefs that healthy food cannot taste good.

Fazer's current way of direct marketing, i.e. sending more detailed information to health professionals, would probably work well in Estonia where the health education programme is carried out via medical staff. By exhibiting products at the international trade fairs and advertising in the industry trade journals are useful ways in reaching broader audiences. It has been said that the journals are widely and thoroughly read in Eastern Europe<sup>294</sup>. Participating in international food fairs, is a good way to establish relationships and create publicity also among the Estonians.

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<sup>290</sup> Quelch, J.A. et al. (1991)

<sup>291</sup> Tengström, J. (2002)

<sup>292</sup> Quelch, J.A. et al. (1991)

<sup>293</sup> www.finfood.fi (2002)

<sup>294</sup> Barr, B. (1987) in Quelch (1991)

According to Jan Tengström, the marketing director of Fazer Bakeries, the company is willing to standardise their marketing practices more. Scandinavian style is mainly used in advertising, nature and family values being the key themes. The advertising message for iLove products, i.e. "Fazer iLove. For people who appreciate themselves. And good taste.", fits to the modern Western kind of lifestyle. The sentence "For people who appreciate themselves" refers to individualistic values rather than to collectivistic ones. It is good to remember however, that especially the older Estonian population got used to collectivism during the many years of Soviet power. On the other hand, the restoration of independence resulted in self-confidence in Estonia and now individualistic values seem to be more common, especially among the younger population.

The communication strategy with the various threshold information levels is useful in a sense that labels and leaflets reach everyone, and as the use of the Internet increases in the country, it is also in the reach of more and more people. Therefore, the mediums of the communication strategy would probably fit to the Estonian environment. However, as mentioned earlier, the content of messages may need to be modified.

### **10.2.3 Price and place**

If iLove products will be introduced to Estonian markets, the price of the products must be set on a lower level than in Finland. As mentioned earlier, the difference in price levels between the two countries is still significant. One of the reasons behind the difference in prices of bread originates from the difference in labour law. Bread is usually baked during the night time. The labour law regulations with respect to night shifts are stiffer in Finland implying that the differences in pay between night and day shifts are much bigger there than in Estonia<sup>295</sup>.

Fazer Pagarid delivers its products to 400 retail shops and wholesale dealers. It is likely that the existing distribution channels would be used with iLove products.

### **10.2.4 The legal aspect**

In order to sell and market food products in Estonia, the products have to comply with the terms prescribed by the Food Act, the Consumer Protection Act, the Packaging Act, the

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<sup>295</sup> Tengström, J. (2002)

General Hygiene Rules, some regulations of the Ministry of Agriculture and the Advertising Act. Some of these, the most relevant with respect to functional foods marketing, have been described earlier in this paper. Since the legislation regarding functional foods is further developed in Finland than in Estonia, the marketing of iLove products in the way they are now marketed in Finland, should not pose any problems in Estonia. Therefore, at the moment, the legislation would not hinder the free movement of goods. Once Estonia is a member of the EU, the principle of mutual recognition will hold. That means that since iLove products are lawfully marketed in Finland, they must be recognised in Estonia too. However, if Estonia has something against that and the country wants to prevent iLove products from being introduced in their markets, it can try to prove that in order to satisfy mandatory requirements, measures must be taken. But like Steiner and Woods state, “*the burden of proving that a measure is necessary is a heavy one, particularly when, although justifiable in principle, it clearly operates as a hindrance to intra-community trade*”<sup>296</sup>. Therefore, it is very unlikely that Estonia would try to hinder Fazer’s market expansion for iLove products.

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<sup>296</sup> Steiner, J. and Woods, L. (2000:159)

## 11. CONCLUSION

This thesis has examined the various forces and actors, which build the framework for functional food marketing. Economical forces have an influence among other things on the speed of paying back the high investment costs of functional food developments. Moreover, the economic environment determines to certain extent the type of consumer needs that shall be fulfilled and consequently, influences the food consumption habits in a given market. Technological environment plays an important role since functional food developments require high technological knowledge. Moreover, funding is needed, which is why R&D expenditure of the state is crucial. To some degree, food culture determines which products are suitable for a specific market. Finally, a number of laws affect the way functional foods can be marketed. The most important issue is that functional foods are treated as normal foods, meaning that the current legislation prohibits marketers from using the words *prevent*, *treat and cure* in their marketing practices.

Customers and competitors were the actors in a company's immediate environment discussed in this paper. Functional food marketers face competition on several levels, depending on the type of food in question. In general, competition among functional foods is increasing as more and more products are appearing into markets. Since companies are fighting for consumer's popularity, they need to analyse thoroughly consumers' motives, beliefs and attitudes as well as socio-demographic factors.

The study of the Finnish marketing environment showed that the economic, technological and cultural forces are favourable for functional food marketers. Moreover, the Finnish diet has become healthier and the consumers are ever more health conscious. Additionally, the ageing population is likely to result in growth in functional food consumption. On the other hand, despite of the legislative reforms, the present state of article 6 of the Food Law and the Guide on Medicinal- and Health Claims are still hindering the functional food industry from reaching its full potential. It is likely that bigger modifications to national regulations will have to wait until changes have taken place at the European level. If it was known for sure that increased use of functional foods would reduce the health expenses of the state, it would probably speed up the process. Unfortunately, that can only be seen after a long term.

The analysis of the factors influencing the marketing of functional foods in Finland, and the examination of Fazer's marketing mix decisions, leads me to the conclusion that Fazer's

marketing mix fits very well to the Finnish marketing environment. Fazer is being careful in its marketing practices, it is not challenging the current rules and regulations. With iLove products, Fazer is responding in a various ways to the needs of the Finnish customers. First of all, iLove products contribute to the attempts to fight against diet related diseases. iLove products are also a response to the ageing population since people want to live longer without medicines. In terms of the lifestyle patterns, functional foods are a response to consumers' ever busier lifestyles as healthy snack is always better than an unhealthy one. In general, iLove products are a response to consumers needs and wants to eat healthy. With respect to promotion decisions, the communication strategy with various information levels seems to be a clever solution keeping in mind the dilemma of functional food labelling, as well as consumers' limited knowledge and reserved attitudes.

The good sales results during the first months support that conclusion. Namely, during the first three months, the sales exceeded the targets in all iLove products. Especially oat crisps have gained large popularity. Publicity campaign was a success and now the brand awareness is better than expected. Now the pace of sales has slowed down a little, but that is natural after the first fuss around the new products<sup>297</sup>.

Estonian marketing environment on the other hand, has features of both industrialised and developing countries. As the changes in food culture show, some of the trends come from the west. Therefore, it could be thought that functional foods could be a trend in Estonian food markets in a near future. On the other hand, although the purchasing power has increased, the economic environment may not be ready for that trend yet. The Estonian market would be slow in paying back the high costs the company has invested in the development of functional foods. Moreover, Estonia is in a state where many laws have to be harmonised and adapted according to the EU standards. In practice, this means that improvements must be made in many areas, which basically implies that at the moment, there is no time and resources to consider new regulations regarding functional foods. This is likely to follow later when the basis for new laws is stronger, and when the changes have first been made in the EU. Therefore, it can be argued that the legal environment is not ready to meet a big flow of new functional food products.

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<sup>297</sup> Pitkänen, R. (2002)

Whether the marketing mix as such would fit to the Estonian markets is questionable. Health properties of the products would match to the needs of Estonian people. However, the limited knowledge of the correlation between diet and diseases and incorrect health beliefs lead me to the conclusion that the publicity campaign should be long and involve basic information about the relationship between health and diet. Particular attention should be paid to the wording of product labels as well as to the formulation of advertising messages. Moreover, price has to be set so that it fits the economic environment. Therefore, my conclusion is that the current marketing mix will have to be adapted in order to better match to the Estonian environment and to the needs and wants of Estonian consumers. Overall, Estonian markets, regarding both macro and micro perspectives, are likely to be more suitable for functional foods in a few years time. Since Fazer is present in all the three Baltic states, the future prospect look bright as the aggregate Baltic population sums up to eight million people.

Finally, I want to conclude my thesis with a little consideration regarding the legislative problems. In comparison to the development of the European food legislation, the history of national food legislation of Member States is much longer. Naturally, this makes the harmonisation process difficult, complicated and slow. Furthermore, the issue of functional food is multifaceted and complex, which means first of all that a specific and well-defined legislation is difficult to create. That process would include firstly the establishment of a comprehensive list of acceptable and forbidden claims and secondly, the type of controlling system should be decided upon. However, such legislation is, in any case, likely to lead to both positive and negative consequences. An example of the former is that precise and trustworthy health claims could work as health enlightenment. In other words, consumer knowledge about the relationship between food and health and / or diet and risk of particular diseases would increase. As a result, the health expenses of the state could be reduced. Furthermore, the attempts to use health claims in food marketing have clearly increased. In the absence of specific rules, the legality of each case must be evaluated separately. In Finland for instance, many of the National Food Administration's resources are tied for that activity<sup>298</sup>. In case a specific legislation was introduced, some of these resources could be used in other important tasks. A negative consequence on the other hand, may be that marketing based on health and medical claims would divide food products into healthy and unhealthy products. This would be, at least to a certain extent, misleading because a product without a health

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<sup>298</sup> Government proposal 73/2001, 11.05.2001



claim is not necessarily unhealthy. Moreover, the line between food products and medicines would probably blur. A study made in Finland showed that consumers considered it important to have a clear line between foods and medicines; the use of functional foods was not seen as a short cut to health<sup>299</sup>. However, it is more than likely that food laws and medicinal laws will clash when issues of functional foods are considered. Despite of the possible negative consequences, common definitions and regulations regarding functional food marketing are needed if consumer safety and fair competition are to be ensured in the internal market.

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<sup>299</sup> Research: ”Uusien innovaatioiden vastaanotto elintarvikeketjuissa” carried out 1998-2000  
[www.akseli.tekes.fi/Resource.phx/bike/elite/toimittajapaketti.htx.liite.liitteet.3.doc](http://www.akseli.tekes.fi/Resource.phx/bike/elite/toimittajapaketti.htx.liite.liitteet.3.doc) [Visited 2002-03-04]

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