Conference report

The contribution of producer organisations to an efficient agri-food supply chain

On 21 September 2018, the Commission organised a Conference on “The contribution of producer organisations to an efficient agri-food supply chain”. The event was attended by around 150 participants from many Member States and from all along the food supply chain, as well as from the public sector in Member States, EU institutions, academia, and the media.

This report summarises the principal issues presented by the speakers at the conference, the main points of the discussion as well as the findings from the four breakout groups, which debated different aspects of producer organisations (POs).

The Commission has always been adamant to advocate measures that aim to strengthen the position of the farmer in the food supply chain. The Agricultural Markets Task Force (AMTF) – an independent expert group created in 2016 on the initiative of Commissioner Phil Hogan and chaired by former Dutch Agricultural Minister Cees Veerman – found in its report from November 2016 that with greater market orientation and increased integration of European agriculture into global markets, ‘farmers often become the main shock absorbers in the supply chain as regards market risks such as price volatility or prolonged periods of low prices’ (p. 6). With a view to improving their position and ultimately increase the efficiency of the entire agri-food chain, the AMTF recommended measures to be taken in seven areas.

Following the AMTF report, and being aware that no single measure will be able to work as a panacea, the Commission undertook a range of complementary initiatives: The possibilities for POs to inter alia plan production and conduct sales have been enhanced with the Omnibus Regulation of December 2017, the Commission has put forward a proposal for a Directive on unfair trading practices in April 2018, and currently the Commission reflects on the need to increase market transparency.

Farmers cooperate in POs to realise joint objectives, but POs are also commercial partners of other operators in the food supply chain. POs not only sell products of their members, they also innovate agricultural production, increase the quality of agri-food products, and organise the trade within the food supply chain more efficiently – often in cooperation with the food processing and retail industry.

To capture these different roles of POs the conference was divided into a morning session, which focused on the benefits that POs can bring to their farmer members, and an afternoon session, which dealt with the integration of POs into the food supply chain. Researchers and representatives of the various stages of the food supply chain, including POs, gave the presentations.

Introduction

The conference was opened by Director Jens Schaps of DG AGRI who illustrated the above-mentioned initiatives of the Commission that followed the recommendations of the AMTF. He referred to the larger cooperation possibilities for producers under the Omnibus Regulation, which enhanced legal certainty. As to unfair trading practices, Mr Schaps informed the audience about the status of the proposal, namely that it was currently scrutinised by the European legislator. With regard to market transparency, he explained that market observatories have already been developed for milk, beef, sugar, and cereal, oilseed and protein crops, and that reflections about greater market transparency are ongoing. As to producer cooperation, Mr Schaps underlined that the objective of the conference was not only to analyse the benefits that POs bring their members, but also to explore what can be done to strengthen the ways of working together with downstream operators, and to ensure a smooth functioning of the food supply chain. He highlighted the importance of learning from successful POs and vertical cooperation within the chain.
MEP Paolo de Castro took the floor and underlined the importance of POs for strengthening the position of farmers in the food supply chain. He referred in particular to the work of the COM-AGRI committee within the European Parliament, which – with the Omnibus Regulation – had strengthened the position of the farmers in the chain by giving them greater bargaining powers and a mandate to negotiate contracts in derogation from the competition rules, which should contribute to a better equilibrium in the chain. In this context, the Court’s judgment in the Endives case, which allowed for price cooperation within a PO, is also of importance. As to the ongoing work, Mr De Castro underlined the importance of the proposal on unfair trading practices, which should be adopted within the mandate of the EP. He emphasised that this initiative is not only crucial for protecting farmers from unfair practices by their trading partners, but that it can also bring greater efficiency to the food supply chain. More future oriented, Mr de Castro referred to the importance of the CAP reform, in which the sectoral interventions that so far are only provided for the fruit and vegetables sector (F&V) should be opened to all other agricultural sectors on a voluntary basis.

Morning session

Dr Angelo Zago, University Verona, opened the session by presenting an analysis of POs in the F&V sector in southern Europe. He noted that in this sector participation rates differ by member states, regions and products. Asking why farmers should hand over their products to a PO (in the F&V sector recognised POs market almost the entire production of their members), Dr Zago examined the external and internal factors that determine whether the benefits of joining a PO outweigh the costs. As to the external factors, the structure of the retail sector, pressure from proximity markets and imports, as well as public funding might incentivise participation in a PO. In particular the average size of wholesale firms, number of members in a PO, and regional specialisation play an important role. For the internal factors, a comparison of different PO business models and their performances shows that large POs with smaller farmers as members attract more affiliates than small, medium-sized, or processing POs. POs are also often stronger in poorer regions and their impact on socio-economic and environmental issues merits deeper investigation.

Dr Sabine Duvaleix-Tréguer, Agro Campus, reported her research on POs in the meat sector. For the French market Dr Duvaleix-Tréguer noted striking differences between the number of recognised POs in the F&V sector (254) and in the pig sector (37). However, whereas the recognised POs in the F&V sector cover only 50% of production, in the pig sector 89% of the production are covered. Dr Duvaleix-Tréguer also described how each sector organises itself differently. Whereas in the French dairy sector 50% of production is done by cooperatives, the other 50% are done by POs, which negotiate framework agreements with industry. In the pork sector, there is a high prevalence of economic POs, but not all of them are organised in the form of a cooperative. She presented a case study on the marginal costs in hog production that distinguished between ‘independent’ POs that concentrate supply (horizontal cooperation), ‘marketing’ POs that have links with downstream operations (slaughterhouse), and ‘supply & marketing’ POs that have also links with upstream operations (feed). Members of supply & marketing POs have the lowest marginal costs (i.e. the costs of increasing or decreasing production by one head), possibly because they are mostly joined by large and efficient farms or because they can realise economies of scale for their members. Compared to the marginal costs, the output price that members of supply & marketing POs receive is relatively high. More generally, membership in POs can increase the efficiency of producers and, in particular, quality schemes that are operated by POs can increase the overall value-added in the food supply chain.

Dr Jerzy Wierzbicki, Polish Beef Association, shared his experience with POs in Poland, acknowledging the fact that the country has one of the lowest rates of PO membership in the EU, which he explained by historic reasons. The Polish Beef Association (PBA) was founded with the objective to support producer and processor organisations to promote beef consumption within
Poland and abroad. PBA’s main focus is to ensure the production of high quality meat through setting up a quality programme, which is implemented by its members and for which PBA also works closely with Polish universities. Dr Wierzbicki stressed that this approach of working towards a higher quality product not only benefits producers in terms of higher prices, it also leads to cost decreases that come about when producers are better qualified. He added that this approach benefits the entire food supply chain as consumers are interested in better beef quality – as evidenced by the fact that slaughterhouses are indeed prepared to pay premium prices. Moreover, he underlined that the initiative also ensures higher animal welfare standards. Given these successes, he reported that the PBA increased its membership from 12 founding members in 2005 to 630 producers in 2018. Dr Wierzbicki emphasised that good leadership and trust between the partners were key elements in the success and that POs have to aim at achieving cost benefits at all levels of the chain. He also acknowledged that receiving administrative and monetary support is crucial during the start-up phase of a PO, but he also underscored that it takes commitment, time and work to convince farmers to enter such cooperation and to change their production method to meet higher quality standards. If these factors are fulfilled, the cooperation as practiced by the PBA could be a model for POs in other food supply chains and for vertical cooperation within these chains.

The panel discussion concentrated on how sustainable POs are. It was stressed that a lot of POs were formed quite recently (milk sector France), but that there is now a tendency to higher concentration, at least in France. Answering the question what ‘keeps POs going’, panellists referred to financial support and strong and committed leadership. The PO must be efficient and produce results, also in terms of extra profit, otherwise farmers would not commit channelling their production through them. On the question whether POs achieve stronger bargaining power, panellists stated it was hard to get data, but they referred to some examples, in particular regarding cooperatives in Denmark. Panellists also called on the Commission to actively support the work of POs. As to the legal aspects, the audience requested a reaction from the Commission on the framework surrounding the work of POs, in particular on competition law referring to the omnibus changes and the Court’s judgment in the Endives case. The Commission explained that derogations from the competition rules are not only to be found in the derogations contained in agricultural law, but also under the competition law itself. It then illustrated that Article 152 of the Common Markets Organisation Regulation gives economic POs legal certainty, under the conditions mentioned in that article, to plan production and conduct sales in derogation from the competition rules. The Commission further pointed to the ongoing discussions in the CAP reform to extend the possibilities to fund POs also to other sectors than F&V.

Afternoon session

Dr Jos Bijman, Wageningen University, stressed that POs were traditionally created to have countervailing (i.e. bargaining) power and economics of scale, but that in more modern organisations also quality management, logistic efficiency and innovation reasons play a role. There is a move towards more vertical integration, but there is no ‘either/or’ between bargaining power and vertical cooperation, both are needed. Dr Bijman also showed that to a large extent, with the exception of price and CSR (corporate social responsibility) activities, the interests of producer and their buyers often match, e.g. to have reduced transaction costs (examples Dutch auctions), manage quality which increasingly is important also in terms of sustainability, innovate and improve logistics. When it comes to the organisation forms, Dr Bijman pointed out that in the F&V the cooperative is most used, but other organisation forms of POs exist. Cooperatives are farmer oriented and farmer owned, but they are also companies on their own, some of them quite large. As to motivation for farmers to join POs, better and stable prices, assuring supply, enforcing the position in the food supply chain and more efficient use of inputs were mentioned. However, farmers are also a less homogenous group today than maybe in the past and want their individual business ideas taken into account. Member heterogeneity can be a hurdle. The reason why POs and
buyers sometimes do not realise their joint interests, are not only power differences, but also differences in risk attitude, lack of trust, ineffective technical support or simple misunderstanding of each other’s interests. Dr Bijman also stressed, as other speakers before, the importance of finding good managers who give room for entrepreneurship. POs can be very attractive partners of the downstream operators and should also focus on the vertical cooperation.

Mr Antoni Bandrés, Danone, stresses that Danone invests a lot in farmer relationships and is working with 12 POs in France, Germany, Belgium and Spain, but that the characteristics of POs in each country are quite different and local strategies have to be developed. Common challenges for the farmers and Danone are to ensure competitiveness, keep high food standards, ensure animal welfare and deal with market uncertainties and volatility. Mr Bandrés highlights that also new markets need to be reached, but that operators will face competition from many competitive international buyers. Mr Bandrés underlined that professional negotiations have become easier and that the market knowledge and the supply capacity are interesting for Danone. Transparency and trust are pillars elements for efficient cooperation within the chain. There is always room for improvement and Mr Bandrés emphasised that the collaboration needs to extend beyond the price. In particular the ongoing work needs to be explained to the consumer.

Mr Florin Capatana, Carrefour, presented an example of local cooperation in Romania. He referred back to the history of cooperatives in communist times, which left farmers with a cultural trauma. Romanian farmers are now often against any form of PO. He pointed out that for many of the small-scale farmers it is difficult to change their weak economic situation. Reaching critical scale, with the help of subsidies, is an important element for success and farmers often lack the necessary infrastructure. Retailers, however, need local producers to deliver the products that the consumers want. Consumers in Romania are highly interested in local products. Carrefour thus engaged in a cooperation with vegetables producers in the Vărăşti cooperative (founded by the retailer with producers as a pilot project). Farmers can enter into dialogue within that cooperative and with the retailer. Nothing is imposed on the farmers, partners work trustfully together. The cooperation resulted in the investment in a local warehouse, to which farmers can deliver their goods, and where dedicated packaging solutions are offered, too. However, this is a lengthy process, which takes time and a lot of convincing.

Discussion

Some retail members stated that working with POs also decreases their costs, as easier to work with POs than with many farmers. Further, different association models were discussed.

Results from the breakout groups

Facilitated by Mr Mark Cropper, DG AGRI, four breakout groups worked in the breaks after each sessions, analysing four aspects of POs.

The first group facilitated by Ms Véronique Guérin, FNSEA, dealt with the question ‘To what extent are the lessons from the presentations and discussions applicable across stages (e.g. farmers or retailers) of the food supply chain?’ Ms Guérin pointed out that farmers wish to take responsibility and have the necessary tools to do their work efficiently. Adaptation to the market and concentration of supply were mentioned as key elements. Also, it is very important for the farmer that production corresponds to the demand. Dialogue with all operators needs to take place, this means manufacturers and retail, but also – often forgotten – the catering sector (hotels, restaurants, cafés). Creation and sharing of values, and sharing of knowledge, are key elements for effective vertical cooperation of POs with their partners in the food supply chain.

The second group, chaired by Mr Bart Teuwen, VPVO, dealt with the question ‘To what extent are the lessons from the presentations and discussions applicable across sectors (e.g. meat or fruit & vegetables) in the food supply chain?’ Mr Teuwen stressed that there are really significant dif-
ferences between sectors, e.g. milk, meat and F&V. Of interest was the sugar sector, in which relations between parties are already regulated, but there still might be an interest of POs to establish themselves. In general, there are also country related issues and historical reasons why participation rates differ according to Member States. There are obviously differences between POs, such as service POs and economic POs. They have different functions, but both are beneficial to the farmers.

The third group, facilitated by Mr Nuno Manana, Portuguese Ministry of Agriculture, discussed the question ‘Based on the presentations and discussions, what are the benefits of POs both for their members and their partners in the food supply chain?’ The chain is very interlinked, which needs to be taken into account. Benefits may be economic, e.g. support to POs matters, access to risk management tools and to financing, but very important is in particular predictability. Traditional benefits of POs include access to technical assistance, logistics, storage, transport, enhanced technical and knowledge support matters, in particular for perishable products. Broader benefits result not only for rural areas, but also for the entire food chain. Connection with downstream partners is of importance: the farmer might never connect to retail industry directly, which is made easier as a member of a PO.

The fourth discussion group, facilitated by Ms Hanna Leiponen-Syyrakki, MTK, dealt with the question ‘Based on the presentations and discussions, what are the hurdles for establishing successful POs that benefit both their members and partners?’ Ms Leiponen pointed out the varieties between the sectors. But a general key hurdle was the lack of government support, a lack of trust, in particular in Eastern Europe because of historical reasons, lack of clarity on competition law, and on the legal status of POs and the work between POs. More guidance is needed from the European Commission. More discussions between farmers should be encouraged, to get the success stories across. More discussion is needed about the socio-economic functions.. For existing POs, there are still administrative burdens to work cross-border. Also more training programmes are needed. Information about POs and their benefits are lacking. Long-term policies are needed, both in legal terms and in financial terms.

Conclusions

Mr Bruno Buffaria, DG AGRI, underlined that farmers, and farmer organisations, are at the heart of the CAP. This conference contributed positively to the work of DG AGRI and gave ‘food for thought’.

External and internal factors play a role to join, or not to join, a PO. There are surely benefits in working together, but there are also opportunity costs for a producer. Size and membership of a PO are factors on which farmers choose to join a PO. POs can have a positive impact on stable economic relationships between the agricultural and downstream sectors. One important lesson from the day is that the role of POs is not only about bargaining power but also about vertical cooperation.

Mr Buffaria also drew attention to the ongoing study ‘Analysis of the best ways for producer organisations to be formed, carry out their activities and be supported’, which will be published in spring next year and for which this conference offered some further inspiration.