

An assessment of the EU Fruit and Vegetable Common Market Organisation

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Outline

- overview of EU F&V market and supply chain dynamics
- current profiles of POs and domestic support schemes, and proposals for plausible changes of the CMO
- some conclusions and policy recommendations

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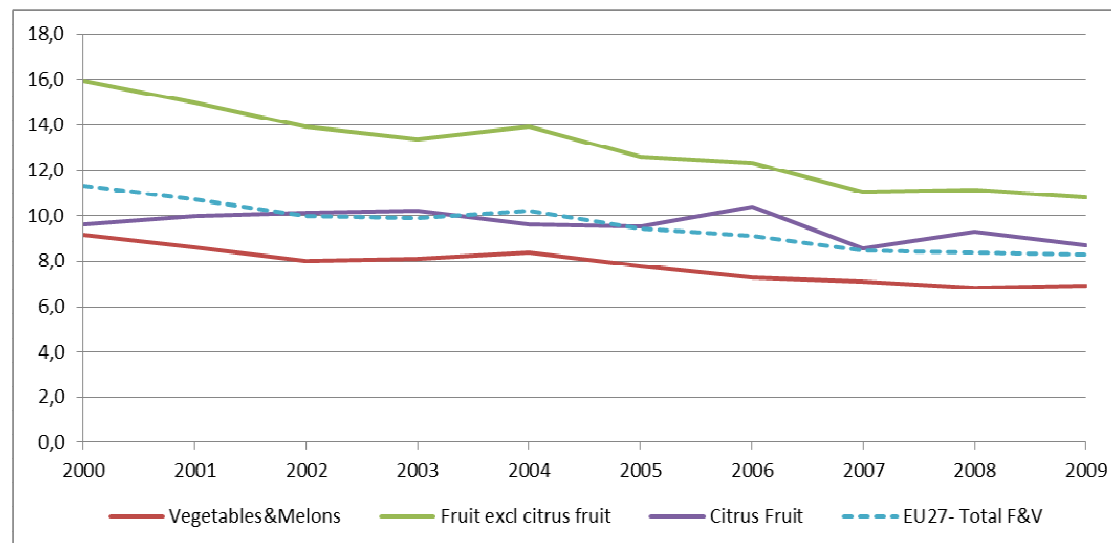
Production and prices (1)

EU-27 fresh F&V production (.000 tons) and % share on the value of total agricultural output (producer prices), 2000-2009

	2000	2003	2006	2009
Vegetables&Melons	64.007	63.816	60.981	60.266
Fruit (excl. citrus)	58.562	52.132	53.499	50.001
Citrus Fruit	10.127	10.778	12.082	10.845
<i>F&V</i>	<i>132.697</i>	<i>126.726</i>	<i>126.561</i>	<i>121.112</i>
<i>F&V/Tot. Agr. Output</i>	<i>17.2</i>	<i>19.4</i>	<i>19.7</i>	<i>18.2</i>

✓ A key sector in EU agriculture

✓ Production slowly declining, along with its weight in world production



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Production and prices (2)

EU production of fresh vegetables (.000 tons), 2000-2009					
Countries	2000	2003	2006	2009	% var. 2000-2009
Italy	15.949	14.781	14.335	11.951	-25,1
Spain	11.229	11.865	11.776	11.550	2,9
France	5.973	5.838	4.990	4.735	-20,7
Greece	4.098	3.902	3.542	3.287	-19,8
Rest of EU-15	14.115	13.669	14.004	16.905	19,8
EU-15	51.365	50.055	48.647	48.428	-5,7
Poland	5.269	4.533	4.807	5.078	-3,6
Romania	3.099	4.334	3.753	3.524	13,7
Rest of EU-12	4.275	4.894	3.774	3.237	-24,3
EU-12	12.642	13.761	12.334	11.838	-6,4
EU-27	64.007	63.816	60.981	60.266	-5,8
EU27/World (%)	9,2	8,1	7,3	6,9	

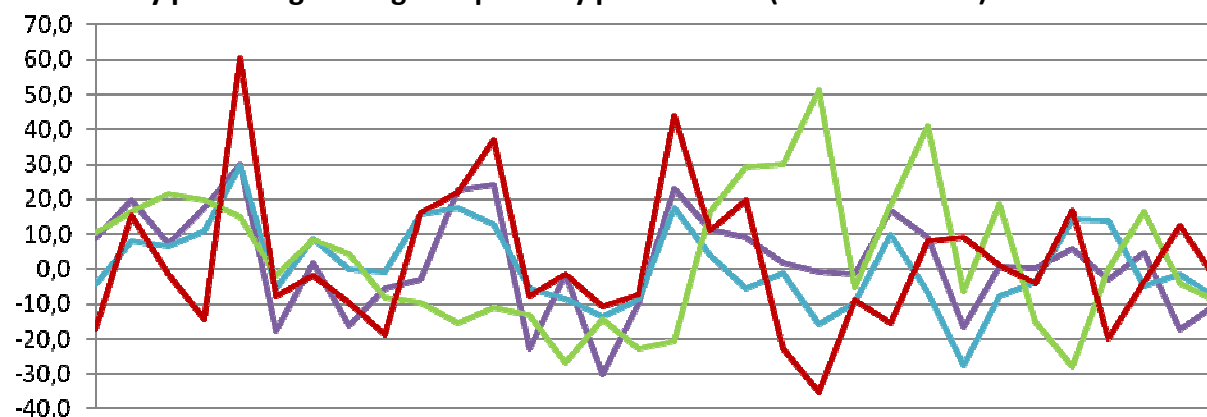
EU production of fresh fruit (.000 tons), 2000-2009					
Countries	2000	2003	2006	2009	var. 2000-2009
Italy	17.989	15.262	18.015	18.041	0,3
Spain	16.114	17.939	17.428	13.990	-13,2
France	11.265	9.584	10.143	8.984	-20,2
Greece	4.142	3.169	3.680	3.208	-22,6
Rest of EU-15	10.280	7.242	7.698	8.102	-21,2
EU-15	59.790	53.197	56.963	52.325	-12,5
Poland	2.247	3.291	3.251	3.677	63,7
Romania	2.596	3.166	2.399	2.247	-13,5
Rest of EU-12	4.057	3.255	2.967	2.597	-36,0
EU-12	8.899	9.713	8.617	8.521	-4,3
EU-27	68.689	62.910	65.581	60.846	-11,4
EU27/World (%)	14,5	12,7	11,9	10,4	

- Production geographically concentrated
- Italy and Spain gather 40% of vegetables and more than 50% of fruit. Along with Greece, they provide 95% EU citrus production
- Poland has grown the most among NMCs

Production and prices (3)

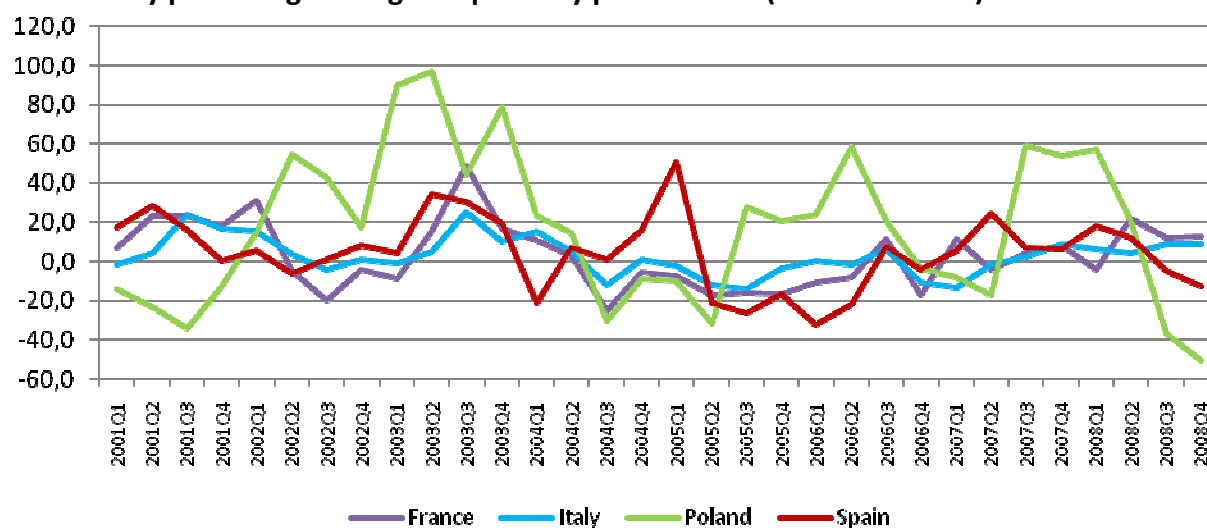
Fresh vegetables

Yearly percentage change of quarterly price indices (base 2000=100). 2000-2008



Fresh fruit (excl. citrus and grapes)

Yearly percentage change of quarterly price indices (base 2000=100). 2000-2008



Producer prices are usually volatile in the short run, with sharp declines following phases of growth in production and anticipating downward turns of it.



weather variability,
products perishability,
high concentration of
production in few regions.

In a longer run, several structural determinants of change in the functioning of F&V world market and supply chains.

Trade (1)

Growing openness to external trade:

- a growing share of Extra-EU imports (from 29.7% to 31.8% of total imports in the last decade);
- an increase of 43% of the structural unbalance between Extra-EU import and export (-7.3 billion euro for EU27 in 2009);
- but the normalized balance of trade improves (from -62,4% to -54,7%).

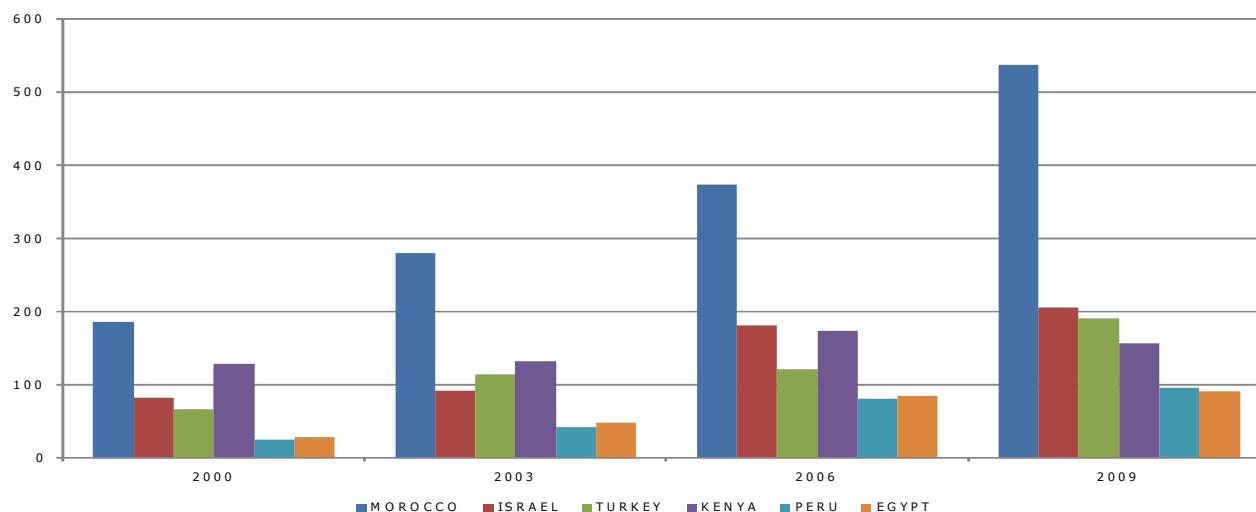
EU import, export and trade balance of F&V. 2000-2009 (million € ,000 tons)

Import	2000		2003		2006		2009	
	Val	Qt	Val	Qt	Val	Qt	Val	Qt
EU27_Intra	15.726	21.329	18.782	22.924	21.291	25.182	22.247	26.183
EU27_Extra	6.656	9.144	8.244	10.672	9.687	12.099	10.377	12.671
Total EU	22.382	30.473	27.026	33.597	30.978	37.280	32.625	38.853
Export								
EU27_Intra	15.525	21.558	18.905	23.014	21.011	24.919	22.652	26.313
EU27_Extra	1.542	2.475	1.978	2.798	2.578	3.585	3.035	4.329
Total EU	17.067	24.033	20.882	25.812	23.589	28.504	25.687	30.643
Trade balance								
EU27_Intra	-201	229	122	90	-280	-262	405	131
EU27_Extra	-5.113	-6.668	-6.266	-7.875	-7.109	-8.514	-7.343	-8.341
Total EU	-5.315	-6.439	-6.144	-7.785	-7.389	-8.776	-6.938	-8.211
Normalized balance								
EU27_Extra	-62,4		-61,3		-58,0		-54,7	

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EU imports of fresh Vegetables from leading suppliers (Million EUR), 2000-2009

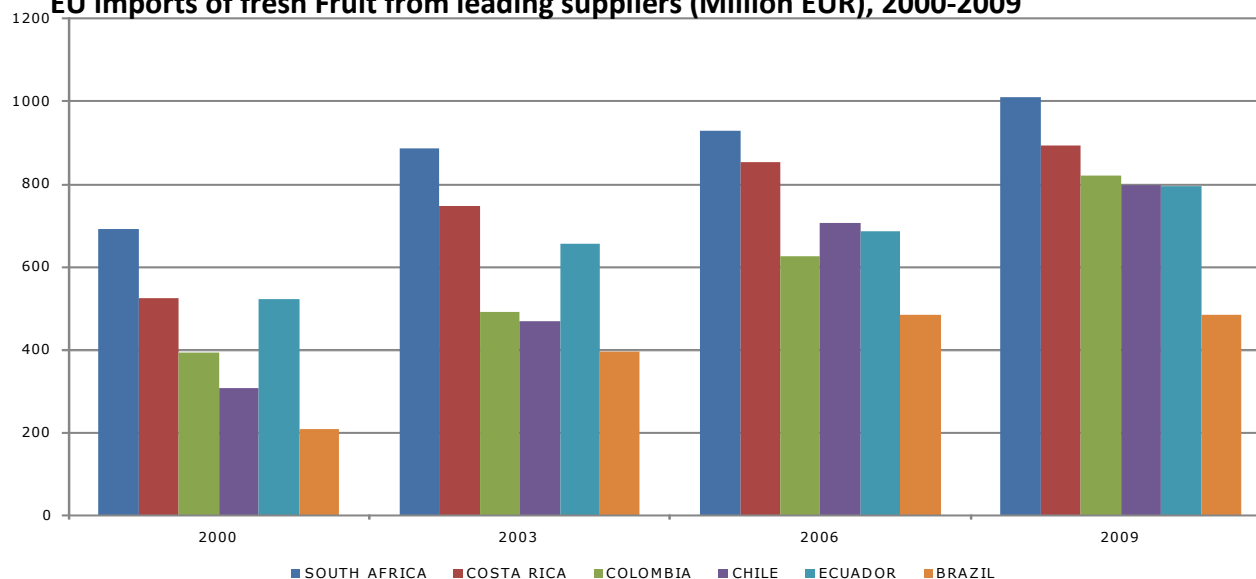


Trade (2)

Increased openness towards non-EU areas, as:

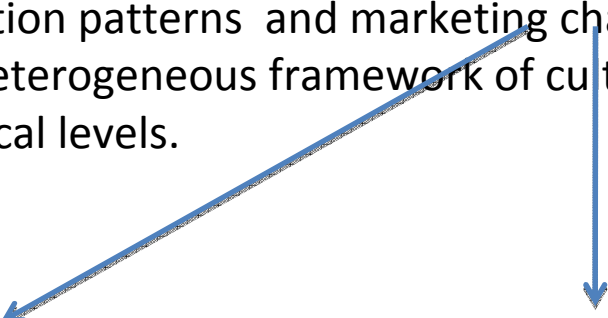
- the Mediterranean area mainly for vegetables and citrus;
- Central-South America mainly for fruit, but also for some vegetables;
- some African countries especially for vegetables

EU imports of fresh Fruit from leading suppliers (Million EUR), 2000-2009



Consumption

- A trend of slow increase in the EU27 F&V consumption (apparent consumption), particularly for those countries starting from lower levels of per capita consumption.
- Relevant differences in consumption patterns and marketing channels among Member States, also due to an heterogeneous framework of cultures and lifestyles, even at regional and local levels.



Development of fast food, supermarkets and high concentration and vertical co-ordination in supply chains is stronger in northern regions of the EU

Still relevant presence of street markets and a higher level of dispersion of specialized grocery stores is still prevailing in southern regions of the EU

Supply chain dynamics (1)

Most relevant for explaining weak dynamics of producers prices and margins are long-term changes in the structure of the global F&V market and supply chains:

- ✓ consumers increasingly demand services, including convenience in food purchasing and preparation, taste, and variety, and are increasingly concerned for food safety and quality;
- ✓ sales are increasingly being controlled by fewer and fewer retailers, with a growing bargaining power;
- ✓ the role of the WTO and bilateral negotiations is becoming more important in widening competition;
- ✓ multinational agribusiness is now more important due to upgrading of logistics, communication and information technology, transport enabling fresh products to be transported from many origins.

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Supply chain dynamics (2)

Changes in food retailing materialize a tendency to exclusion of small independent shops, small enterprises, and small farmers from these developments

Dominant retail players



organize production, processing, logistics, trade, and distribution of the other players



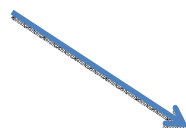
Impose new procurement systems from suppliers:

- ✓ Cutting costs
- ✓ Raising quality
- ✓ Increasing diversity



Competition from small retail shops and other forms of retail (i.e. food-away from home, farmers markets, street sellers, etc.)

cutting costs implies large volumes of products, improvement of all aspects of procurement, including transaction costs



Big retailers work with suppliers whose scale, capital, and managerial capacity are sufficient to meet the requirements of the new procurement system. The scale of large supermarket chains gives them the capacity to pursue the above objectives, since they have the bargaining power, the finance to make investments in logistics, and the geographical presence required.

This makes necessary improving coordination and logistic systems: distribution centers, logistics platforms, cold chain development, contracts with wholesalers and producers, and private standards specifying quality, safety, volume, and packaging of products.

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The F&V Common Market Organization (1)

Objectives

- ✓ a more **competitive and market-oriented** sector
- ✓ fewer **crisis-related fluctuations** in producers' income
- ✓ **greater consumption** of fruit and vegetables in the EU
- ✓ increased use of **eco-friendly cultivation and production** techniques.

The F&V Common Market Organization (2)

Main tools

- ✓ growers are encouraged to join producer organization (**POs**) that receive support for implementing **operational programmes**, based on a national strategy
- ✓ recognition of **interbranch organisations** is favoured under certain conditions
- ✓ **product quality** is supported by applying marketing standards to certain products and supporting operational programme measures for quality
- ✓ crisis prevention/management measures are supported under operational programmes:
 - product withdrawal
 - green harvesting/non-harvesting
 - promotion/communication tools
 - training
 - harvest insurance
 - help to secure bank loans and cover administrative costs of setting up mutual funds (farmer-owned stabilisation funds).

Development and role of producer organisations (POs) (1)

Thanks to the two last CMO reforms, the **EU F&V sector** underwent an extended process of growth and reorganization of the production system.

Empirical evidence shows **uneven dynamics and characteristics** of the strengthening of F&V POs among MS and also products.

Internal factors to the CMO scheme and **external** ones (structural factors, historical and cultural factors) can explain the strong heterogeneity of organisation rates among MS.

The EU-25 average **rate of organisation** in F&V is about 34%, vs. the CMO's objective of 60%.

Development and role of producer organisations (POs) (2)

Notwithstanding difficulties in the POs' development path, the EU experience confirms the **validity** of the **association model**

Strategic **role** of POs:

- ✓ restoring balance to market relationships;
- ✓ acting as a contractual tool for redistributing added value;
- ✓ contributing to reshape forms of economic dominion into models of cooperative behaviour along the chain;
- ✓ consolidating farmers' position on the market

In the **post 2013 CAP scenario**, the policy framework based upon POs and their relevant tool should be maintained.

Market risk and crisis management

The **joining of a PO** may be deemed itself as an **effective tool** of crisis prevention
...but both market sales and the planning of production at farm level should be centrally managed

The usefulness of **market intelligence activities** should be assessed.

As regards the 2007 CMO implementation, only some of the crisis management measures have been used:

- ✓ **Promotion and communication** are the most widely adopted measures
- ✓ The **financial rigidity of the endowment** for market crisis measures in the operational fund is a critical issue
- ✓ The **role of saving/credit** in transferring risk overtime should be enhanced by setting up supported **security funds within POs** (with an approach similar to the Agristability programme implemented in Canada)

Contractual arrangements (1)

An **increased use** in recent years of contracts in agriculture has occurred, characterized by a **wide variety of arrangements**, differing a lot among agricultural sectors

Development of contractual relations is a result of the **process of concentration** in processing and retailing which has led to an **imbalance in power relations** within the agro-food market

An increase in **buying power of large-scale retail** necessarily translates into:

- ✓ strong negotiating power in contractual clauses with supplying subject (Marette, Raynaud, 2003)
- ✓ an increased share in overall profits within the vertical structure that large-scale retail can require (Allain, Chambolle, 2003)

The European Commission (2009) suggested a number of policy initiatives aimed at overcoming problems tied to contractual imbalance associated with unequal bargaining power and promoting sustainable and market-based relationships between actors along food supply chain.

Contractual arrangements (2)

The recent proposal of European Commission (2010) on **contractual relations in the milk sector** provides for optional written contracts between farmers and processors, to be drawn up in advance for deliveries of raw materials, which would include the key aspects of price, timing and volume of deliveries, and duration of contract

The recent **French experience**, where Government has decided, for milk and F&V sectors, to make contractualisation between producers and their buyers compulsory

A **contractual model** that provides the settlement of minimum standard conditions, although with a proper degree of flexibility accounting for specificities characterizing each F&V product and region could be suggested, entrusted to an interbranch organisation

In this context **interbranch devices** (agreement and organisation) can play a fundamental part in helping individual producer associations to acquire a truly active role on the market and reach an effective level of concentration and control of supply.

The issue of competition rules

Encouraging sizeable POs raise the issue of POs' **consistency** with competition rules

The agricultural sector is subject to the EU's competition rules under a **special regime**. However a wide debate has been developed on the **controversial relationship** between competition rules and agricultural policy

The issue of the role of POs and other forms of farmers' associations to increase the bargaining power of farmers is one of the **key points** in analysing the interface between agricultural and competition rules

POs have the opportunity to operate as **cooperative** organisations, recognised by European Courts as **pro-competitive structures**, which may collectively negotiate

The recent "**Milk Package**" has proposed a quantitative limit (market share) which would allow POs to negotiate ensuring at the same time market competition.

Conclusions

The current difficult situation of the European F&V producers arises mainly from long-term changes in the structure of the global F&V supply chain.

Collective action at producer level and effective coordination within the chain appear to be pre-conditions for any successful strategy in coping with declining relative producer prices and the gap between farm and retail prices

Partnerships along the chains can be developed around shared interests in cost reduction, quality upgrading and risk management

Producer organizations (PO) play a key role in rebalancing the bargaining power and stabilizing prices and income. The European Commission itself considers POs “an economic necessity in order to strengthen the position of producers in the market”

In a context where more stringent forms of both horizontal and chain integration and coordination from the retail stage are needed, producer organizations can also act as contractual tool for redistributing added value and contributing to cooperative behaviours along the chain

The policy framework based upon POs should be maintained and their relevant tool, as operational programmes. However room seems available to introduce simplification and flexibility of operational programmes, adjustments in the mix of tools provided for risk and crisis management, refinement of incentives to POs, including forms of premium for commercialisation of quality products. Also, room would be needed for institutional solutions in matter of relationship between competition law and POs.