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THE EU FRUIT AND VEGETABLE SECTOR IN THE POST 2013 CAP SCENARIO¹

JEL classification: Q18, Q13, L22, L42

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Abstract. *The current debate on the role of Producer Organizations (POs) for the fruit and vegetables (F&V) sector of the EU focusses on a changing competitive environment, with price instability and downward pressure on producers' margins. With the aim of analysing perspective improvements of the common market organisation (CMO) for F&V in the new CAP, the article discusses the main structural changes affecting the F&V supply chain and the results of a recent survey on the implementation of the CMO reform of 2007 in the sector. Proposals*

for possible improvements in PO's performance are examined, with special reference to the implications of contracts and competition policy, in shaping the role played by POs, their effectiveness in rebalancing the bargaining power of F&V producers and in stabilizing prices and income. Among the key measures provided by the current CMO, the article analyses in depth the performance and limitations of the package devoted to market risk and crisis management.

Keywords: *fruit and vegetables, CAP, supply chain, producer organizations, vertical coordination*

1. Introduction

The Fruit and vegetable sector (F&V) presents particular characteristics on the agro-food scene due to the perishable nature of its products and their strong vulnerability to weather changes. These, alongside changes in consumption patterns and in market power along the supply chain can lead to important effects on producer prices and incomes even with “normal” fluctuations in crops.

Until the last reform of the Common Market Organisation (CMO) for F&V, specific market measures (withdrawals, entry price schemes and export subsidies) guaranteed a certain stabilization of prices and income in the F&V market. The role played by producer organizations (POs) since the 1996 CMO reform, through the use of operational programs, also contributed to improving adaptation of supply to demand and producers' margins. Nevertheless, the sector suffers frequently recurring market crises, reflected in the wider range of tools for crisis management provided to POs through the 2007 CMO reform. This last reform also provided for the integra-

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tion of the F&V into the single payment scheme and moved the sector further towards market orientation, with increased exposure to market fluctuations.

EU experience in the F&V sector has demonstrated the key role played by POs in rebalancing bargaining power and stabilising prices and income through concentration and planning of F&V supply. For this reason, in the post-2013 CAP scenario, the EU Commission is proposing to maintain the existing support framework based upon POs and operational programs in the new Single CMO regulation. Taking into consideration both the impacts of the 2007 reform of the F&V CMO and the strategic issues for F&V market measures within the post-2013 CAP, the paper investigates current features and plausible improvements of the support system to F&V producers and POs in the light of the recent EU Commission's proposals for CAP reform.

The paper is arranged in three sections concerning: *i*) a brief overview of EU F&V market and supply chain dynamics; *ii*) an assessment of the impact of the F&V CMO measures, as a result of the INEA survey on opinions and proposals from POs on the review of regulation; *iii*) a profile of domestic market measures as strategic issues of the F&V CMO within the Post 2013 CAP.

2. Dynamics of F&V supply chain and producers' income

The current picture of the European F&V sector is strongly affected by long-term changes in the structure of the global F&V supply chain, related to: a) consumers' increasing demand for services, including convenience in food purchasing and preparation, taste, variety, and consumers' increasing demand for food safety and quality; b) sales controlled by fewer and fewer retailers with growing bargaining power, which in turn encourages tendency to concentration and consolidation also in upstream stages of supply chains; c) the increasingly important role of the WTO and bilateral trade negotiations in widening competition, due to on-going trade liberalization and domestic policy reforms related to trade liberalization; d) expansion of the activities of multinational agribusiness due to upgrading of communication, information technology and transport, enabling fresh products to be transported from many origins and due to a related increase of trade and investment, consolidation, and foreign direct investment (FDI) in many countries (often developing countries) are suppliers to the EU market (EU Parliament, 2011).

F&V is, however, still a key sector in EU agriculture, with a weight of about 18% of the value of EU agricultural production and a high geographic concentration, as the two main producing countries, Italy and Spain, account for 40% of vegetable production and more than 50% of fruit (including citrus). The dynamics of EU production, as well as its weight in the worldwide picture, suggest that, in global terms, the sector has been slightly shrinking over the last decade. In terms of trends, producer prices also show a general pattern which is stable or slightly declining. However, in the short-run, the picture is different, as producer prices have always been rather volatile for fresh F&V, with sharp declines in prices that usually follow phases of growth in production and anticipate its downturn. Production variability and price fluctuations, therefore, have to be understood in two different dimensions: in the short-run, they are typical features of the functioning of the F&V sector, mostly due to weather variability and some structural characteristics of the sector, such as product perishability, fragmentation of production decisions, or the high concentration of production in few regions which influence the whole European market. Perishability makes market imbalance potentially very onerous to producers because it fuels a high responsiveness of producer prices to the quantity being sold (CFEPSR, 2009). In the longer run, a declining trend in production and prices depends on the previously mentioned long-term

changes in the functioning of world markets for F&V and supply chains (EU Parliament, 2011).

Even more than producer price volatility, the dynamics of production costs and marketing margins should be investigated in order to gain a better understanding of negative income dynamics. Against the weakness of the long-run dynamics of producer prices in the last few years, retail prices show a pattern which is either constant or increasing, indicating either increasing rents being captured by downstream actors or increasing levels of value added generated at downstream stages of the supply chains (EU Parliament, 2011). F&V in the EU are grown mainly by small farmers, with a great number of suppliers mainly in Southern EU regions. This causes higher costs for many farmers, not allowing an efficient scale of production to be reached, and poses limits on competitiveness on an open market. A number of suppliers call for a number of intermediaries to intervene at various stages. The complexity of this type of chain implies structural inefficiencies often coupled with low productivity of different actors in the chain (Petriccione et al., 2011).

Changes in food retailing bring about a tendency to exclusion of small independent shops, small enterprises, and small farmers from on-going developments. In order to function effectively these dominant retail players have to organize production, processing, logistics, trade, and distribution of numerous other players. The major effects of the emergence of food retailers in the global food supply chains are through the procurement system of large volumes of products from suppliers. Competition from both small retail shops and other forms of retail (i.e. food-away-from-home farmers' markets, street sellers, etc.) provides incentives for cutting costs and raising quality and diversity. Cutting costs in turn requires the improvement of all aspects of procurements, including product and transaction costs. This is done by improving coordination and logistic systems with distribution centers, logistics platforms, cold chain development, contracts with wholesalers and producers, and private standards specifying quality, safety, volume, and packaging of products (Bazoche et al., 2005; Green, Schaller, 1996; Sans, Coquart, 1998). Distribution centers imply an increase in the scale and volume of procurement, which tends to lead to product procurement from large areas, in higher volumes, and to serve a number of stores, working with suppliers whose scale, capital, and managerial capacity are sufficient to meet the requirements of the new procurement system. The scale of larger 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.

Processes of concentration and consolidation driven by large retailers are also affecting upstream of F&V supply chains. Large retailers build up long term relationships with key suppliers – either producers or wholesalers – capable of meeting the requirements necessary to respond to the increased consumer interest for purchasing fresh F&V products from supermarkets. Suppliers are in turn required to make larger investments deemed to be worthwhile if they can get on a retail chain procurement list. This restructuring process has taken place in recent decades in the wholesale sector with a concentration and internationalization of wholesale and logistics platforms (e.g. Mercabarna in Spain, Rungis and Perpignan in France, etc.) (Marotta-Perito, 2000).

Along with changes in consumer choice, such processes will continue to shape the future of the F&V economy in the EU and will deepen as the sector becomes more globalized and interconnected. Moreover, it is also true that the asymmetry in bargaining power puts upstream actors under unfair trading practices, with larger and more powerful actors who require contractual arrangements to their advantage, either through better prices, late payments or through improved terms and conditions (EU Commission, 2009b).

Effects of structural changes can be detected also when observing changes in the trade pat-

tern of the EU F&V sector showing a growing space for external providers on the EU market. Although in aggregate, increasing imports seem to go hand in hand with the growth of the EU market and trade, increased openness to external trade permits further supplies from non-EU operators, capable of meeting demand and retail requirements stemming from globalized supply chains.

Non-EU suppliers of vegetables on the EU market are mainly from the Mediterranean area, but also from Central-South America and some African countries, while Central and South America prevail for fruit (particularly because of the role played by tropical and off-season F&V products), although with a significant role of Mediterranean countries for some products, such as citrus. Survival of traditional marketing channels in the EU market, structural backwardness of non-EU suppliers, and EU trade policy devices, converge in determining a relatively slow pace of inclusion of external F&V suppliers in the EU-based supply chains for F&V (EU Parliament, 2011).

The bias against small farms favours forms of association at farm level stage. 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. Moreover, forms of producer organization should continue to be encouraged as an effective way of increasing collaboration between growers and other members of the supply chain and developing partnerships around shared interests in cost reduction, quality upgrading and risk management.

3. The impact of the F&V CMO measures: a survey

A survey concerning opinions and proposals of POs on the F&V CMO provides some first evidence of the impact of the 2007 reform and a map of issues for plausible improvements. The survey has been run in Italy, Spain and France¹ with a questionnaire covering themes spanning from impacts of CMO measures and trade policy to POs' opinions and suggestions about new aid schemes for the sector. Answers are summarized in Table 1 and briefly discussed below.

3.1. An assessment of the 2007 CMO

The 2007 reform of the F&V CMO stated as broad objectives to be pursued: a) improving the competitiveness and market orientation of the F&V sector; b) reducing producers' income fluctuations resulting from crises; c) promoting F&V consumption, as a contribution to healthier food habits; d) enhancing environmental safeguards in cultivation and production techniques.

The effectiveness of the CMO provisions² in pursuing those objectives was recognized by a very high percentage of POs assessing the CMO's approaches to to "improve the attractiveness of

² The survey is part of a wider work carried out for the EU Parliament (2011). In Italy it concerns a fairly representative sample of 74 POs placed in all relevant F&V producing areas. The sample has been chosen taking into account POs' dimensions (large, medium, small) and their territorial localization. In Spain it concentrates on the region of Valencia (30% of the Spanish POs and strong concentration of citrus fruit) with 9 interviews to an APO significant on the EU scale for citrus trade and POs of different dimensions. France is covered by interviews to 2 large APOs in the Loire region.

³ They are: product range of a producer organisation; the extent of direct sales permitted; the extension of rules to non-members; permitting APOs to carry out any of the activities of their members; permitting the outsourcing of activities; more incentives to mergers of POs, APOs, etc.; more incentives to regions where the level of concentration of supply through POs is particularly low.

POs”, “increase concentration of supply”, and “improve competitiveness”. In the Italian case the much wider collection of answers indicates a particularly high percentage of positive answers in the class of POs labeled as of medium dimension (between 20 and 100 Meuro of value of marketed production (VMP)), while the Spanish case is the one where the consensus is relatively weaker.

In all three countries the effectiveness for the pursuit of “producers’ income stabilisation” and “strengthening of producers’ negotiating capacity” was less strongly acknowledged by POs. In the Italian case, the lower percentage of POs considering ‘significant’ the effects of the 2007 CMO on both objectives derives from the negative answers of all the large POs (more than 100 Meuro of VMP). These as explained below, are also those with a larger use of stabilisation measures. Italian POs believe that the current tools of the F&V CMO have only partially responded in positive terms to the issue of increasing and/or stabilising producers’ income. This is related to the latest market crises, for which many factors influencing market dynamics and affecting its variability have increased pressures on farmers’ returns.

Along with these criticisms, the above results may suggest the hypothesis that negative answers from bigger POs could relate to their nature as very advanced entrepreneurial segments that, on their own account, satisfactorily achieve some of the objectives of the CMO.

The effectiveness of Operational Programs in reaching the objectives stated in the reformed CMO is widely recognized among Italian, Spanish and French POs. Most POs from all the three countries (85% and above) consider ‘significant’ or ‘very significant’ the effectiveness of actions aimed at planning of production, improving/maintaining product quality, improving marketing. Types of action connected with the environment also receive favourable judgements.

A lower percentage of positive opinions has been expressed for crisis prevention and management measures, particularly by the two French APOs. In Italy, only 47.5% of POs gave positive opinions. Finally, the judgments on actions related to research and experimental production, as well as training, are clearly negative. This holds for all three countries, with the partial exception of a Spanish APO ranking research at the top. In Italy the opinions of about 80% of POs interviewed consider these actions poor or not significant. Basically, very few POs consider investments in research and training as a component of long-run strategies better to cope with market change.

Looking in more detail at the analysis of the *performance of crisis prevention and management measures*, in all three contexts POs believe that current Cpm measures are not completely effective (too rigid in their implementation, therefore not quite adequate to cope with crisis) and have turned out to be too complex to manage. However in all three contexts the number of POs adopting them has been increasing between 2008 and 2010. Italian POs adopting Cpm measures have largely focused “on promotion and communication” (72% of them adopted such measures in 2010), followed by “market withdrawals” (31%) and “harvest insurance” (17%). The much wider collection of answers of Italian POs indicates that adoption of Cpm is more frequent with larger POs and among POs selling on foreign markets. In the Spanish sample “market withdrawals” prevails on “promotion and communication” and “green harvesting”. In France, for the two APOs interviewed, “harvest insurance” fared better than “promotion and communication”.

All in all, “Promotion and communication” are by far the most popular measures of risk and crisis management among Italian POs and they fared quite well also among Spanish and French POs. This is probably due to the fact that the measure is the easiest to implement. The issue of the complexity of these measures could also be an explanation why large and medium POs adopt them much more than smaller ones: POs better structured, as well as better endowed with

managerial skills find adoption less difficult. This is somehow a paradox, since smaller POs are supposed to be more vulnerable to the effects of market risks and crises.

3.2. Towards 2020

The widespread positive global opinion on the current CMO expressed by POs has obviously been translated into a favourable judgement for continuing the various instruments of support in the post-2013 CMO for F&V.

Almost all POs are in favour of continuing *operational programs* (93.4% in Italy, 100% for the Spanish and French POs interviewed), because these are considered an essential instrument for favoring growth processes in the sector, as well as “the sole effective instrument of aggregation able to guarantee the competitiveness of the F&V sector”. The vast majority of POs ask for an increase in the current support to POs in order to improve the concentration of F&V supply⁴. At the same time they deem it necessary to maintain or increase the current additional support to mergers of POs, APOs, also in those regions with a particularly low level of supply concentration. Actions that encourage quality improvement, production planning, environmental programs, marketing, and crisis prevention and management should be enhanced.

The percentage of POs asking to keep (and strengthen) *crisis prevention and management measures* is very high (80.3% in Italy, 100% for the Spanish and French POs interviewed), although the feeling of many POs on the effectiveness of risk and crisis measures implemented so far is rather sceptical. Revisions of the set of measures are suggested by the large majority of POs interviewed: introducing further and more powerful safety net mechanisms, including revenue or income stabilization programs (Italy and Spain); increase of withdrawal indemnities (Italy and Spain); the adoption of facilitating measures (all), elimination of green harvesting (Italy), increase of funds for the entire set of measures (all).

Interestingly enough, the prospect of carrying on the *single payment scheme* of support elicits a variety of opinions. Although answers are generally in favour of maintaining the scheme, the Italian case shows only 45.1% of POs in favour, while 17.6% suggest its reduction and 37.3% its removal. Also some Spanish POs proposed the elimination of the scheme. Summarizing the wide range of (not always clear) reasons stated by POs, a sense of scepticism emerges about the impact of this instrument. While the function of income support of the scheme is appreciated, concerns are raised about possible negative impacts on the adjustment of production and farm structures, discouraging, in particular, the pursuit of product quality.

Finally, a general orientation of POs from the three countries towards consider too lax the current EU *trade policy for F&V* should be underlined, as well as the expression of concern about the effects of further trade liberalization. In the Italian case, 70,5% of POs consider trade protection not effective for the purpose of stabilizing prices or income, 65,6% do not consider POs able to gain from trade liberalization and 83,6% feel that dismantling what is left of the trade barriers could imply import surges and domestic price instability. Among the reasons motivating these answers the major role is played by “unfair” competitive advantages of competitors exploiting differences in labour, sanitary, quality and environmental standards. Splitting the sample reveals that concerns of POs about trade liberalization are higher than the average in the case of small POs and, above all, in the case of POs not engaged in export practices, while large/medium POs and POs with important shares of foreign sales are more favourable than the average. Also a dif-

⁴ Some Italian POs also stressed the need for improving F&V chain organisation also through the specification of collective contracts.

ferentiation of POs by marketing channel provides a picture in which POs most engaged in the role of supplier to big retailers are also those most concerned about possible dismantling of trade protection, while POs with weak or inexistent links with modern distribution are less concerned than the average about further liberalization. Probably the latter, by selling almost all their produce to wholesale markets, small retail stores and processors, have a less strong perception of the presence of foreign competitors than those POs struggling to stay in the procurement list of big retail chains that have a global view on procurement.

Tab. 1 - Synthesis and comparison of the results

	Italy	Spain	France
1. Implementation of reformed F&V CMO: <i>objectives and measures</i>	A widespread positive opinion of the effectiveness of provisions, especially of those regarding the improvement of POs' attractiveness, F&V supply concentration and competitiveness in the F&V sector	Favourable evaluation of provisions for widening the product range and providing incentives to mergers. Effectiveness is also recognised for concentrating supply in regions where concentration is low.	Positive evaluation of the effectiveness of provisions for improving the attractiveness of POs and increasing the concentration of the F&V supply. Criticisms have been raised about the frequency of administrative controls, considered as overshooting the real needs.
2. Implementation of reformed F&V CMO: <i>operational programs</i>	Very positive judgement. Planning production, improving product quality, marketing, and environment are considered effective actions. Crisis management within operational programmes is also well considered, even if too rigid in its implementation.	Very positive opinion. Planning production, quality improvement, environment and marketing are considered effective actions. Crisis management within operational programmes is also well considered.	Very positive opinion. Planning production, quality improvement, and marketing are considered effective actions. Environmental actions positive, but less effective. Crisis management within operational programmes is also well considered, although still too weak in terms of effectiveness.
3. Implementation of reformed F&V CMO: <i>crisis prev. and management meas.</i>	Within crisis measures "promotion and communication" is the most adopted measure, followed by market withdrawal and to a lesser extent by harvest insurance.	Most of the firms surveyed consider that operational programs must continue including crisis prevention and management measures. Predominance of market withdrawals and wide use of the 0.5% of additional budget.	Most of the firms surveyed consider that operational programs must continue including crisis prevention and management measures. The measures most adopted are, "promotion and communication", followed by « crop insurance»
4. Implementation of reformed F&V CMO: <i>single payment scheme</i>	Spreading scepticism about SPS effects on farm structures and product quality.	Most POs are in favour of maintaining the system but some are sceptical about their effects on farm structures.	POs interviewed say they deal entirely with products for fresh consumption

	Italy	Spain	France
5. Towards 2020. <i>Role of POs: limitations and plausible improvements</i>	Strengthening support to POs and APOs. Reducing administrative burdens and simplifying operative commitments.	Administrative burden for crisis management measures should be simplified.	Administrative burden for crisis management measures should be simplified.
6. Towards 2020. <i>Policy mix for F&V CMO: suggested changes in relative weights of tools (single payment, operational funds and programmes, crisis prevention and management scheme, etc.).</i>	Operational programmes are considered as a key instrument. Crisis prevention and management should be kept. No priority is given to the single payment scheme, though the general opinion is not against it.	Operational programmes are considered as a key instrument. Crisis prevention and management should be kept. No priority is given to the single payment scheme, though the general opinion is not against it.	Operational programmes are considered as a key instrument. Crisis prevention and management should be kept. No priority is given to the single payment scheme, though the general opinion is not against it.
7. Towards 2020. <i>Suggested changes in crisis prevention and management schemes</i>	Simplification of crisis management procedures and introduction of further and more powerful instruments to create an effective safety net.	Simplification of crisis management procedures. Introduction of revenue and income stabilization tools.	Simplification of crisis management procedures.

4. Strategic issues for the F&V CMO in the post-2013 scenario

4.1. Development and role of Producer Organizations

EU experience in the F&V sector has demonstrated the key role played by POs in rebalancing bargaining power and stabilising prices and income through concentration and planning of F&V supply. Thanks to the last two reforms of the CMO⁵, the EU F&V sector underwent an extended process of growth and reorganization of the production system. Nonetheless, empirical evidence shows uneven dynamics and characteristics in the strengthening of F&V POs between different Member States. POs' development dynamics differ not only among Member States, but also among products.

Several factors, both internal to the CMO scheme (as distinct from MS decisions) and external (structural factors, historical and cultural factors) can explain the strong heterogeneity of rates of participation in Organisations among MS, especially between Northern and Southern countries, as well as between new and old MS. At the EU level the average rate of participation in producer organisations in F&V is about 34% (EU-25), very far from the objective of 60% established by the CMO, but with wide differences between MS and between productive areas within a single MS.

⁵ In response to the stronger position of the food retail sector in the market, the EU already, with the 1996 CMO reform for F&V, introduced by Regulation (EC) No. 2200, entrusted a key role to POs in rebalancing bargaining power and stabilising prices and income, through F&V supply concentration and planning. POs may set up operational programs, jointly financed by the Community (50%) and their members with a cap of 4.1% of the value of marketed production (VMP of the PO).

The 2007 reform of CMO for F&V (Regulation (EC) No. 1182) strengthened POs' role by introducing some elements with the purpose of favouring greater competitiveness and market orientation in the sector, as well as its better sustainability. In particular, it provided for a wide range of tools for crisis prevention and management to be carried out through POs, as well as more incentives for mergers of POs and associations of them, and for those regions with a particularly low level of participation rate, etc.

Notwithstanding several difficulties in the development of POs, the EU experience confirms the validity of the association model, as maintained by Copa-Cogeca (2010), in whose opinion “the intervention of F&V POs on the market does not only benefit their associated producers, but all producers in the sector”.

As a matter of fact, the organizational model emerging from the current state of agro-food markets, as well as the required competitive strategies, imply more stringent forms of chain integration where the retail stage coordinates the other actors. This makes the high contractual strength of large-scale retail an issue because of the persistent fragmentation of agricultural production, and imposes forms of producer associations as tools for rebalancing shares of value added along the F&V chains.

Producer organizations can therefore constitute a fundamental counterweight, restoring balance to market relationships, acting as a contractual tool for redistributing added value and contributing to reshaping forms of economic dominion into models of cooperative behaviour.

For this reason the EU Commission has always recognized the strategic role played by POs, focussing on the organization and concentration of agricultural supply. This is particularly true for the F&V CMO, where the concentration of production is defined as an “economic necessity” to consolidate the farmers’ position on the market and help them face future challenges which the CAP itself has counted on. On the other hand, the last CMO reform for fruit and vegetables has, compared to previous legislation, provided essential elements to reinforce regulation of supply by an organized component, effectively giving strategic functions to the POs to improve competitive capacity in the sector.

In this view and considering the prevailing opinion among the F&V operators, claiming that “the objectives of the aid scheme for the fruit and vegetable sector will remain valid in the post-2013 CAP” (Copa-Cogeca, 2010), the EU Commission has proposed to maintain in the new Single CMO regulation the existing support framework based upon POs and their relevant tool, operational programs⁶ (EU Commission, 2011). If on the one hand this proposal goes in the direction hoped for by the F&V operators, on the other hand, at the moment it does not agree with their requests for introducing adjustments in working rules that both logic and experience would suggest⁷. A new element introduced in the draft of the Single CMO for the F&V sector is that the Commission shall be empowered to adopt delegated acts establishing rules on the management of POs’ tools, in order to “ensure an efficient, targeted and sustainable support” to POs. In particular, referring to the Union’s financial assistance, the Commission shall establish the value of the marketed production of a PO, as the basis for the calculation of EU aid. Unlike the current situation, in which the recognition of POs is left to the choice of Member States, the proposal obliges Member States to recognize them as long as they comply with the Commission’s criteria.

On the other hand, the issue of strengthening the bargaining power of farmers in the food chain, through the formation of POs and their associations, is one of the new ones addressed

⁶ However, it seems that the Commission tends to wait for a report on the impact of the 2008 F&V reform, due to be published by the first half of 2013. This, in order to have an assessment of the effectiveness of existing market measures, before establishing new ones. In any case, there seems to be room for a strengthening of POs and their associations, and, in particular, the role of interbranch organizations.

⁷ With reference to the main requests coming from several institutional and economic subjects involved in the debate on the future of the F&V sector and its CMO, the attention has been focused on the following issues: (i) increasing the level of Community aid in order to encourage mergers of POs and setting up of APOs on a transnational level; (ii) developing competition rules better addressed to the organizational framework; (iii) improving/reviewing crisis prevention and management measures within POs’ operational programs; (iv) providing at a horizontal level additional and complementary tools aimed at managing more severe crises; (v) creating a European observatory to improve market transparency; (vi) making more effective the operation of the “entry price” mechanism.

in the Commission's proposal. In the new Single CMO the Commission suggested extending the product coverage for recognition by Member States of POs and their associations, as well as interbranch organizations, to all sectors covered by the regulation. However, the rules on these subjects seem rather generic: neither is there a clear definition of a PO, nor are incentive and support schemes suggested, except for specific cases. Instead, a great concern on their compatibility with EU competition rules seems to prevail.

4.2. Market risk and crisis management

These new measures were integrated into the operational programs by Reg. 1234/2007 (single CMO) with the objective of increasing attractiveness of POs to producers. In the case where a PO decides to implement them, Community aid may rise to 4.6 percent provided that the excess (0.5 percent) is used only for crisis prevention and management.

In principle, joining a PO may itself be deemed as an effective tool of crisis prevention that F&V producers may adopt. Effectiveness, however, requires the fulfillment of preliminary conditions on the organisation of the PO, in which both market sales and the planning of production activities at the farm level should be centrally managed. Therefore larger POs, with a better structured internal organisation and a stronger orientation of sales towards large retailing are potentially more successful in preventing market risks and crisis. As a consequence, easing conditions for the recognition of POs by requiring lower values of marketable production – a change introduced in the 2007 CMO – does not match the need to improve risk management capability in the EU F&V industry. Although the effort to increase the share of organized production, particularly in areas where it is not adequate, is of paramount importance to the development of the F&V sector, it is also necessary to shape incentives to POs in such a way as to make them effective.

Among the tools currently available in the 2007 CMO for risk and crisis management (market withdrawals; green harvesting or non-harvesting of fruit and vegetables; promotion and communication; training measures; harvest insurance; support for the administrative costs of setting up mutual funds) only some have been implemented by National Strategies and subsequently used by POs⁸. Green harvesting or non-harvesting, training measures and support to mutual funds have not been implemented, apparently because of uncertainties about their contents and accessibility, but also because they are deemed to be ineffective.

Based upon results of the survey, promotion and communication are probably the most widely adopted measures of risk and crisis management. However, clearer definition of its contents is necessary, as well as of the implementation of its modalities in the context of market crisis, and the relationship of this instrument with other similar measures that can be implemented within the operational program in a standard way.

Market withdrawals and harvest insurance have been used only to a very limited extent (Spain has not even introduced harvest insurance in its National Strategy). The scarce interest for market withdrawals seems related to the low compensation, while support to insurance seems unsuitable within the CMO because of the limited availability of resources within the operational funds of POs, as well as the possibility of financing it with other CAP measures (art. 68 from the Health Check).

Such a displacement might become even stronger in the wake of the new risk management

⁸ The National Strategy should define priorities, objectives and instruments of operational programs, as well as introduce indicators for their assessment. Moreover, each Member State should establish a National Strategy for sustainable operational programs in the F&V market, integrating a national framework drawing up the general conditions for environmental measures.

package envisaged in the draft new regulation on rural development (EU Commission, 2011). At a first glance, the new provisions replacing art. 68 would provide even wider and deeper options for risk management overlapping with the current F&V CMO, at least when harvest insurance and mutual funds are concerned⁹. This also based upon the awareness that no significant changes to the structure and funding for risk management measures are to be found in the draft regulation for the new single CMO (EU Commission, 2011). This last consideration also suggests that, by moving the bulk of risk management support from the first Pillar (art. 68) to the second Pillar of the CAP, the coordination between operational funds and financing RDP measures should be reconsidered.

Under the assumption – currently necessary, based on the new draft regulations – that provisions on risk management will be kept on both tracks, some further considerations may apply. Firstly, referring to the current F&V CMO, certainly the financial rigidity of the endowment for market crisis measures in the operational fund is a critical issue. The endowment being constant over time (as for the other measures) does not well suit the nature of its target: market crises and related income effects on producers are obviously uneven in different periods. Introducing arrangements allowing a wider intertemporal flexibility of the financial limits to the implementation of such measures, according to the real needs of intervention, and providing additional constraints aimed at avoiding a recurrent use of this type of measures, could be beneficial.

Moreover, considering that measures for the implementation of mutual funds did not receive very much attention by POs, the role of saving/credit in transferring risk over time would probably be shaped by the mutual funds envisaged in the new regulation on rural development, since in that framework support would not be restricted to administrative costs of setting up the mutual fund. Finally, both the preliminary evidence of the implementation of the 2007 CMO reform, previously discussed, and the new options proposed by the on-going CAP reform process might suggest narrowing the support to insurance only to covering PO risks related to the reduction of product marketed by their members.

Along with the existing and predictable risk and crisis management tools – and probably also in connection with some of the solutions under scrutiny proposed in the new risk package to be placed under the II Pillar of the CAP – the introduction of market intelligence can be considered as a further instrument for risk management and crisis intervention. The monitoring of F&V markets through the collection, elaboration and analysis of relevant data on prices, consumer preferences and behaviours, product supply and meteorological trends and spreading the information among POs may help in anticipating possible temporary or structural crisis that could be better managed and prevented with timely intervention.

The implementation of this type of activity is not easy and would require a certain degree of centralization in agencies capable of serving associations of POs or the totality of POs in a country. Moreover, this could be a very difficult exercise because of the complex process of price formation along the F&V chain, which depends on several factors embodied in the relational frameworks and structural inefficiencies existing inside the chain.

⁹ The toolkit proposed in the draft regulation on rural development (art. 37) is made up of three items:

- a financial contribution, paid directly to farmers, towards premiums for crop, animal and plant insurance against economic losses caused by adverse climatic events and animal or plant diseases or pest infestation;
- a financial contribution towards mutual funds to pay financial compensations to farmers, for economic losses caused by the outbreak of an animal or plant disease or an environmental incident;
- an income stabilization tool, in the form of financial contributions to mutual funds, providing compensation to farmers who experience a severe drop in their income.

4.3. Contractual arrangements

Contractual relationships have gradually become established over the last decades as a result of the process of concentration that has accompanied the substantial growth of large-scale retail, causing a strengthening of contractual power *vis a vis* upstream suppliers, especially when they are operating in sectors, such as F&V, where many areas and products are characterized by a low level of concentration. This development has led to an imbalance in power relations within the agro-food market, bringing about significant change in the relations that large-scale retail has with agricultural producers, as well as in the process of formation of added value along the agro-food supply chain, at the expense of the agricultural sector.

This situation poses two questions which are closely interrelated, and which take on particular relevance in the F&V supply chain: the first concerns the increased buying power of large-scale retail; the second concerns the contractual relationships that large-scale retail maintains with upstream subjects in the chain, namely agricultural producers and the food industry. On the other hand, “an increase in buying power of large-scale retail also necessarily translates into strong negotiating power in contractual clauses with suppliers” (Marette, Raynaud, 2003) as well as an increased share in overall profits within the vertical structure that large-scale retail can require (Allain, Chambolle, 2003).

However, agricultural contracts can lead to improvements in efficiency of supply chain organization, through a reduction in transaction cost, above all as a result of the remarkable transformation process that has involved agro-food chains. These changes, consisting in consolidation (increasing concentration in processing and retailing), new patterns of consumption (food quality and safety concerns), and technological changes, have also stimulated changes in organisational schemes towards greater degrees of vertical control by the downstream subjects (Vavra, 2009). The result of this process is an increased use in recent years of contracts in agriculture, characterized by a wide variety of arrangements that can differ strongly both among agricultural sectors and among single products within the same sector.

The contracting issues in agriculture raise a question about a possible role played by policy intervention in regulating this arrangement, for which a suggestion could be that of fixing common rules and a shared vocabulary for contracts which would allow the transaction costs of negotiating to be reduced (Schwartz, 2002; Wu, 2006; Vavra, 2009). Related, very sensitive issues, regard unequal market power and fairness of contracts. In order to prevent abuses of market power towards weaker subjects, as generally farmers are, and also rent seeking, public authorities could have an important role in overseeing the contractual relationships between upstream and downstream actors, ensuring that “the margin-sharing throughout the sector takes place under the most transparent and, where possible, most balanced conditions” (Chatellier, 2009).

Considering that “action is needed to eliminate unfair contractual practices between business actors all along the food supply chain” the EU Commission (2009a) 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.

In this view it is suitable take recourse to organisational solutions which would enable the re-constitution of better balanced exchange relationships. As a matter of fact, producer associations are a strategic lever that can “restore symmetry to the organization of the transaction between a multiplicity of scattered producers and a highly concentrated distribution sector” (Ménard, 2003).

The recent proposal on contractual relations in the milk and milk products sector, presented by the EU Commission in December 2010 (COM (2010) 728), within the so-called “Milk

Package” seems to move in this direction. In December 2011, on the Commission’s proposal, the EU Parliament and Council agreed on a compromise text, which provides for optional written contracts between farmers and dairy processors, to be drawn up in advance of delivery of the raw milk¹⁰.

Another interesting experience concerns a recent decision taken by the French Government about making contractualisation between producers and their buyers in the milk and F&V sectors compulsory¹¹.

Taking into account the above-mentioned experiences, for the F&V sector the possibility could be envisaged of developing, within a general framework outlined at EU level, a contractual model that provides for the settlement of minimum standard conditions, with a proper degree of flexibility accounting for specificities characterizing each F&V product and region. This could be entrusted to an interbranch organization which should draw up agreements on contractualisation stating guidelines and promoting best practices and market transparency in order to avoid unfair commercial practices.

In the draft regulation on the Single CMO (EU Commission, 2011) there is no article devoted to contractual issues, except, obviously, for the milk sector for which the measures set out in this regulation reflect the proposal already made in 2010. Only for this sector the Commission lays down some basic conditions for the use of written contracts, while in other cases it makes a mention of the contractual issue, specifically in a preamble of the draft where the Commission asserts that “*in the absence of Union legislation on formalised, written contracts, Member States may, within their own contract law systems, make the use of such contracts compulsory*”. This is on the condition that the Union law is respected, in particular as regards the good functioning of the internal market. The Commission justifies its resolution in consideration of the fact that, taking into account the wide variety of situations across the Union, “*in the interests of subsidiarity*”, Member States should take such a decision. With such decisions Member States can play an important role for the development of relationships in the agro-food sector, because the degree to which they make the contracts compulsory may have relevant consequences for their dynamics.

As far as the interbranch organisation is concerned, there is no European legal body that delineates its range of action, even if the Single CMO recognizes its legitimacy by Member States on the basis of their national laws. In particular, the new regulation devotes an article (Art. 108) to this tool: as to existing rules, it extends to all sectors the general principles regulating its recognition that Member States should grant and specifies in detail the several objectives which should be pursued by the interbranch organization.

The interbranch device (organization and agreements)¹² can lay down the necessary conditions for the market to function more efficiently (Bovet, Chappuis, 2001), with greater transparency and in accordance with a fairer division of risks and profitability from the production

¹⁰ The main features of this proposal are:

- key aspects such as price, timing and volume of deliveries, and duration of the contract are included;
- in order to rebalance bargaining power of milk producers, farmers can negotiate contract terms, including the price, collectively, via producer organizations;
- Member States can make these contracts compulsory;
- cooperatives are not required to subscribe to contracts on the condition that their statutes provide for rules addressing the same objectives.

¹¹ On the basis of the French law « *Loi de modernisation de l’agriculture et de la pêche* », two decrees had been issued at the end of 2010 regulating the signing of written contracts for the selling of produce in these two sectors.

¹² For an in-depth analysis on the role and definition of the interbranch organization see: Coronel and Liagre (2006); Giacomini, Arfini and de Roest (2010). In this regard, it is worth mentioning the interesting French experience of interbranch organisation and agreements, recognised as the most consolidated one at international level.

processes set up. It can strengthen coordination and collaboration between various stages of the supply chain, in order to counter and reduce opportunistic and encourage cooperative behaviour, as well as restore balance in power relations on the market.

At the same time, the interbranch device 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, using the *erga omnes* tool (Petriccione, 2008). However, the issue of the *extension of rules* raises the problem of political choice, given that it has to be applied in accordance with certain conditions and with the guarantee of its compatibility with Community competition rules.

4.4. The issue of competition rules

Encouraging sizeable POs, able to cope with large-scale retail and current market requirements, raises the issue of POs' consistency with competition rules. The agricultural sector is subject to the EU's competition rules under a special regime¹³. The need for a special treatment of agricultural products derives from the major complexity of the relations between actors along the supply chain, which fuels a wide debate at political and scientific level on the controversial relationship between competition rules and agricultural policy, with particular reference to the issues of the increasing bargaining power of large retailers and their contractual relations with the upstream actors (EU Commission, 2010a; VV.AA., 2003; Desai *et al.*, 2010).

Within the public debate on competition policy two issues seem to be particularly relevant: the increase in bargaining power of large retailers and their contractual relations with the upstream actors. There is no doubt that the retailers who detain a major bargaining power also hold a strong power to negotiate the contractual clauses with the upstream subjects. These relations raise the question of legitimacy of certain contractual practices and of regulation that could set a limit to certain abuses of the retailers towards a fragmented agricultural supply. In this context, 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 analysing the interface between agricultural and competition rules (Cesarini, 2009; EU Commission, 2010a; VV.AA., 2003).

Although competition law imposes restrictions to farmers' agreements, there is however the opportunity for POs to operate as cooperative organizations, recognized by European Courts as pro-competitive structures, which may collectively negotiate. EU competition rules view such agreements favourably if the farmers involved in these forms of cooperation do not collectively hold a level of market power such as to restrict competition in the market to the detriment of consumers. In this regard, the "Milk Package" has proposed a quantitative limit (market share)¹⁴ which would allow POs to negotiate ensuring at the same time market competition. The market share is evaluated on the "relevant market" although positions in the debate on the ways to define the relevant market are still controversial.

Current competition rules may still be considered unfavourable towards agricultural producers affected by weak bargaining power *vis a vis* a sole large retailer. Public and scientific debates

¹³ This particular regime envisages three exemptions referred to as:

a) agreements which are an integral part of internal market organisations;
b) agreements necessary for the attainment of the objectives of the CAP (Article 39 TFEU);
c) agreements between farmers, farmers' associations and associations of farmers' associations concerning the production or sale of agricultural products or the use of joint facilities for the storage, treatment or processing of agricultural products.

¹⁴ The proposal, confirmed by the draft regulation on Single CMO (EU Commission, 2011), regards the following thresholds: 3,5% of EU milk production and 33% of national milk production of the Member States involved.

show a certain consensus on that, particularly based on the comparison between the Single CMO regulation, which states concerns about the abuse of both “dominant positions” and common rules, and the legislation in other States (e.g., Switzerland) where the only concern is on avoiding dominant positions.

5. Conclusions

The current difficult situation of the EU F&V producers arises mainly from long-term changes in the structure of the global F&V supply chain: consumers are increasingly demanding 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, information technology, and transport, enabling fresh products to be transported from many origins.

These changes will continue to shape the future of the F&V economy in the EU and will deepen as the sector becomes more globalized and interconnected. 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. Moreover, forms of producer organization should continue to be encouraged as an effective way to increase collaboration between growers and other members of the supply chain and develop partnerships around shared interests in cost reduction, quality upgrading and risk management.

EU experience has shown the key role played by POs in rebalancing the bargaining power and stabilising prices and income, through the concentration and the planning of supply. The EU Commission itself considers POs “an economic necessity in order to strengthen the position of producers in the market”.

Notwithstanding several difficulties in the development path of POs, the organisational model emerging from the current set-up of agro-food markets, as well as the required competitive strategies, implies more stringent forms of both horizontal and chain integration where the retail stage coordinates the other actors. Producer Organizations can constitute a fundamental counterweight, restoring balance to market relationships, acting as a contractual tool for redistributing added value and contributing to cooperative behaviour along the chain.

The Commission’s proposals for the post-2013 CAP reform confirms the current policy framework based upon POs and their relevant tool, as operational programs. However, even if the draft regulation is not in line with the F&V operators’ requests for introducing suitable adjustments in working rules, there seems to be room for a strengthening of POs and their associations, and, in particular, the role of interbranch organizations. Great concern seems to prevail, instead, about the development of more advanced institutional solutions in the matter of relationships between competition law and POs.

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