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Fruit - Marketing

WYE COLLEGE

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Dept. of marketing

**The Selling of Fruit and
Vegetables: A Comparative
Study of Commission Trading**

by

P. G. ELLIS and J. H. KIRK

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The Selling of Fruit and Vegetables : A Comparative Study of Commission Trading

A study of the advantages and disadvantages of market sales by growers on commission and by firm sale respectively, in which these methods are compared with one another and with other methods, and the United Kingdom is compared with other Western European countries.

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P. G. ELLIS and J. H. KIRK

Copies of this Report may be obtained, price 7s. 6d. post free from the Secretary, Marketing Department, Wye College, near Ashford, Kent

October, 1968

FOREWORD

The main purpose of this Study is to answer the question whether growers of horticultural produce in this country would be benefited if the most usual manner in which they sell their produce, i.e. via a "market man" operating as selling broker and selling on commission to retailers, etc., at the best obtainable price, were to be replaced by sales at firm prices to a merchant, who would then re-sell. (The merchant would presumably be the same person carrying on his business in a different way.) In course of pursuing this Study the writers have made a number of visits and extensive enquiries into the corresponding trade practices in France, Italy, West Germany, the Netherlands, Switzerland and Denmark. In some of these countries the proportion of commission sales is much lower than in the U.K.; and although firm sales in private treaty markets are not the leading alternative there has from time to time been some current of feeling in the countries of the E.E.C., as well as in the U.K., that the latter system would be preferable.

The choice between commission sales and firm sales is naturally a matter of importance to those immediately concerned, especially the growers. It is for this reason no doubt that the Agricultural Market Development Executive Committee, who are concerned with the interests of farmers and growers, found the financing of this study within their terms of reference. A merchant who buys firm accepts a greater risk than someone who handles produce on commission, and indeed, he takes on himself a risk otherwise born by the grower. He could be expected to compensate himself by paying rather less or being more choosy in the quantities and qualities he handles. From the grower's point of view, therefore, the immediate point to decide is whether or not he is prepared to accept a lower return, for perhaps a rather smaller amount of produce, simply for the sake of greater certainty. But even if he is so prepared, he still has to decide whether he and his fellow growers are prepared to accept all the other consequences and implications of such a change in system.

Similarly, from the public point of view, our enquiries have shown that commission selling and firm sales are not mere alternatives of detail that may be superimposed on a pattern of marketing while leaving its fundamentals unchanged. The choice between them raises more serious questions of what is the most efficient

system for marketing produce which by its nature is perishable and subject to large and rapid fluctuations of supply and demand. The differences we have observed among different countries reflect real and enduring differences in the nature of their supply and trade. Thus, in elucidating some of the arguments for and against commission selling, we also hope to have analysed some of the more important structural and functional features of the trade in horticultural produce in several countries.

Wye College are most grateful to A.M.D.E.C. for the financial support which has made this study possible.

J.H.K.

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CHAPTER I

ASPECTS OF COMMISSION SELLING IN THE UNITED KINGDOM¹

(I) NOMENCLATURE

"Traders" in the wholesale markets in horticultural produce are customarily described as wholesalers or as salesmen, though the latter term is sometimes reserved for the wholesaler's assistants who conduct the business under the general surveillance of the wholesaler himself.

Both terms are misleading where sales are made on commission, if reference is being made to the relations between the grower and recipient of his produce. They are not seriously inappropriate if reference is being made to the relation between a retailer who is buying in the market and the person he looks to as his source of supply. But the so-called "wholesaler" has, in the given case of commission selling, effected no transaction with the grower; he is not the buyer, and he is not, as a "salesman", reselling. He is, in fact, an agent or broker. He receives the produce from the grower to sell it as the grower's produce (not his own) on the best terms he can, accounting to the grower for the proceeds and charging a fee for his services. Virtually the same arrangement applies to imported produce sold on markets.

In this Study it will be impossible altogether to avoid the words "wholesaler" and "salesmen", but we hope to avoid confusion. The use of the technically correct term "broker" is unfortunately not possible since it is hardly ever used (except in relation to buying brokers) and would not be sufficiently easily recognized.

This section relates only to the nomenclature of those market operators who receive produce direct from the growers or importers and who are often referred to as "primary wholesalers". In terms of number, though not of value, most wholesalers of horticultural produce are secondary wholesalers who buy from "primary wholesalers". As they do buy, and usually at a firm price, the term wholesaler in the case of these secondary operators is indisputably

¹ A good deal of the factual material in this Chapter has been derived from the Runciman Report (Report of the Committee on Horticultural Marketing), Cmnd. 61, 1957. It does not, however, attempt to give a complete account of the operations of wholesale markets, even in respect of commission selling, since it is assumed that most readers will already be familiar with them. More information is obtainable in the Runciman Report and in the publications by R. L. Smyth and Dr. L. G. Bennett, listed in the bibliography.

correct. But since throughout this Study we are concerned with the trading arrangements between growers and first recipients at markets, secondary wholesalers will only enter into it as a species of buyer, along with retailers and others.

For clarity and brevity we are obliged to refer to each of these classes of trader or market operator as if he were conducting only one type of business. At various points, however, it will be necessary to recognize, and indeed, it is well known in the trade, that there is a considerable amount of duality of function at many markets, and that the same merchant may be simultaneously trading with his supplying and buying customers in a variety of different ways.

(II) EXTENT OF COMMISSION SELLING IN THE U.K.

Some thirty per cent. of home-grown and imported fresh produce in the U.K. does not pass through markets and in the main this is outside the scope of this Study.¹ Our enquiries have revealed that very little home grown produce that does enter the markets is bought outright by the first or primary recipient,² though it is, of course, invariably bought outright by the second recipient (traveling wholesaler, secondary wholesaler from another market, retailer or caterer). Cases occur where some growers who have made an outstanding name for themselves as growers of a certain line of produce have such bargaining strength that they can insist on selling it at a firm price. It is also possible that a market man may buy on his own account while purporting to be operating on commission and some growers appear to believe that this is of common occurrence. Our own enquiries, however, have suggested that both classes of case, even taken together, are so infrequent as to be negligible. More common, though in some years more so than others, is the practice of some market men of tracking down supplies on the grower's holding when there is a shortage. This especially applies to fruit and may even lead to firm offers being made to growers for fruit still on the tree or at the foot of the tree.

In the case of imported produce the picture is a little different. Much of this is in the hands of importers, or representatives of overseas Boards, who are capable of switching substantial volumes of produce from commission sales to firm sales or back again at short

¹ The Distribution of Fresh Fruit & Vegetables from Markets to Shops by Ellis, Hunter & Kirk.

² Dr. L. G. Bennett (1957) had investigated this matter in four important growing areas and found that in these 68 per cent. of the produce was sold on commission, 29 per cent. at agreed prices and 3 per cent. in other ways. As most of the 29 per cent. was sold outside markets (i.e. to dealers, retailers and consumers), the proportion of market produce sold on commission must have been substantially greater than 68 per cent. "The Marketing of Horticultural Produce Grown in Bedfordshire, West Cornwall, Wisbech and the Lea Valley", Reading University Miscellaneous Studies, No. 12.

notice. At the time of writing, however, the only important commodity usually or wholly handled on a firm basis is bananas. However, only a smallish proportion of the whole banana trade goes through markets. Australian apples have in the past been sold outright, but it is understood that in future they are to be handled on an agency basis by a British firm which sells in markets on commission.

Brief as this summary must be, there is room to note three further cases:

(a) a fair amount of produce does not enter the market but is handled by a market man acting both as selling broker for the supplier (usually an importer of fruit or salad crops) and as buying broker for the customer, usually a chain store. This arrangement is probably closer to a commission sale than a firm sale, but is not clearly either. The market man discovers the price from his knowledge of the market situation, and as a kind of arbitrator suggests a figure which both customers usually accept.

(b) a primary wholesaler at one market may be a secondary wholesaler at another, and transfer produce from his first set of premises to his second, expecting to get a better sale there. In the second capacity he probably buys firm, but what has he done in his first capacity? If he records it as a commission sale effected by him as a primary wholesaler we would hesitate to say that this was incorrect, though perhaps the law may require it to be reported to the grower as "buying in on own account". On the other hand, we would not disagree with the view that as both the primary and secondary functions are carried out by the same business, the two transactions should be seen as one, and together treated as "firm".

(c) some produce is handled by firms whose place of business is in the market but whose main function is that of importing, and who may buy firm from abroad and sell firm to their customers in this country, by-passing the market premises. This class of trade is said by some to be firm sales through the market, but we distinguish it from (a) above, and do not think it should really be classified as market trade, since it does not appear that market connections or market expertise play much part.

Nothing in this section is intended to deny that the greater part of the produce *not* entering markets is sold firm.¹ We are concerned

¹ In relation to greenstuffs sold from Bedfordshire Dr. Bennett (op. cit.) describes an interesting feature of the produce sold by growers to dealers. These dealers, who carry out the functions of country merchants, though in a small way of business, sometimes return a price to the grower only after the produce has been sold by them to retailers, etc., and this practice has affinities to sales on commission. But in this case the dealer has the option of not taking the produce.

Presumably other examples of country merchanting on indefinite price terms can be found elsewhere, but to the best of our knowledge most country merchants buy firm.

with this produce to the extent that sales not through the market are a significant alternative for the grower, which exposes the market men to greater competition; but our main concern is with the terms of sale within the market.

(III) HISTORICAL DEVELOPMENT OF COMMISSION SELLING

The practice of selling on commission is bound up with the way in which the wholesale fruit and vegetable markets came into existence. Where conditions were favourable perishable foodstuffs were produced near towns into which the growers brought their produce for sale in the market places where they stood face to face with consumers. In the course of time as the towns grew, producers were pushed further out, and some of them could not spare the time to make frequent visits to the towns. Perhaps one member of the family undertook the task of going to market, selling the produce of the family farm. As time passed he also undertook this function for other growers who either could not or did not wish to give up time for selling in person. In such a manner the commission firms became established in the markets. At the same time the growth in the size of the towns made it difficult for all the consuming public to come to the markets for their produce, and so retailers began to grow in numbers and importance. Naturally they went to the market for their supplies, the market men thus becoming intermediaries between producers and retailers.

Thus the practice grew by which growers consigned their produce to salesmen in the markets, not knowing the price it would fetch, but trusting the market men to sell what had been sent to them at the best prices they could obtain. Trust is therefore the basis of the system and as this naturally grows with time, it is often found that the business between market firms and growers extends over two or even three generations on each side.

At the present time it is estimated that there are approximately 1,300 commission salesmen in some 20 primary markets, or in secondary markets doing some primary trade with growers. They receive supplies from perhaps 25-30,000 growers,¹ and importers. (The number of importers (or exporters' representatives) is small since most of the fruit trade is channelled through a small number of overseas Boards and their British representatives, or is in the hands of very large firms). The 1,300 commission salesmen are visited by over 20,000 retailers, by some 3,000 distributing (or travelling) wholesalers who buy for resale to retailers, by large or

¹ This figure relates to producers mainly of horticultural produce, most of whom send regularly to markets.

fairly large caterers, and by an unknown number of secondary wholesalers who buy (firm) for redistribution to other markets and resale there.¹

(IV) THE FUNCTIONS OF THE COMMISSION MAN

Whether or not the commission system is sound we require to know what it does. The following is a factual account of what the market man usually does in return for his commission (normally $7\frac{1}{2}$ –10 per cent., though shaded down for large lots).

(a) *Receipt and Procurement of Supplies*

Simple receipt from the grower (or importer) calls for a checking of the consignment and inspection for damage and missing lots. In point of fact many market men carry out one or other of four further functions at this stage:

(i) searching out supplies when produce of any kind is seasonally scarce, or where there is an active demand for some particular quality. Although it is an essential feature of the trade that the market man will accept any produce that is of marketable quality (and in practice he may have to accept some that is not), the more progressive market men are also active searchers of produce for their special lines of trade. Conversely, the market man may on occasion advise growers to restrict or postpone their deliveries when there is a surplus.

(ii) arrange for transport of produce from farm to market. Most growers prefer to arrange this themselves, but the market man is often prepared to do it, for a fee, and may prefer to do it for produce he has sought out.

(iii) the hiring out (and servicing and repair) of returnable containers for transport of produce from farm to market.

(iv) where the market man has a regular business with a large grower (or co-operative) which can guarantee uniformity of grade and condition, he may supply containers, container tops, or labels, bearing his own name, and in effect adopt this produce as virtually his own before it leaves the packhouse.

(b) *Assembly and Storage*

(i) supervise unloading at the market (although the produce is not really his responsibility until the grower has delivered it to him ex lorry) and move it in suitable sized lots to the selling premises.

¹ Ellis, Hunter & Kirk, op. cit.

(ii) warehousing of what cannot be sold that day but is worth keeping to sell the next day or later.

(c) *Selling*

Making and receiving offers, normally in person, to and from buyers in the markets. Although the 20-30,000 growers are not present, the 25-30,000 buyers make up a large army, all of whom require individual attention, and most of whom are buying in small lots. To the extent that this selling activity is automatic (and we would not wish to suggest that it is mainly so) the mechanics of it are, in the main, that the market man (or his salesman) first mentions a figure, whereupon the buyer is likely in the first instance to walk off, and visit some other salesman. If he comes back quickly, the price asked was perhaps too low; if after a reasonable interval, it was about right; if not at all, it was too high. But this process of bidding with one's feet is subject to modification in two important respects. First, an experienced market man who has the feel of the market will usually get the price very nearly right the first time. Secondly, many buyers, reluctant to do too much shopping around, will be reasonably content to buy from the first market man, if they know and trust him, and have no reason to think that they are getting a poor deal.

(d) *Recording and Accounting*

All senders to the market receive an invoice within a matter of a day or two, recording amounts received. Usually within a week this is followed by a cheque, calculated as the sales value of those amounts received, less commission.

All buyers similarly receive an invoice for amounts purchased, and a bill for the amounts due by them, which are expected to be settled at stated intervals.

Payment to grower usually precedes payment by the buyer. Technically the market man is making a loan to the grower in advance of the receipt of the purchase price.

The market man customarily bears bad debts caused by defaulting buyers, and not uncommonly losses on produce that turns out to be unsaleable at any price, if he accepted it in the first place.

(V) PARTICULARS GIVEN GROWERS, AND THE HORTICULTURAL
PRODUCE (SALES ON COMMISSION) ACT

The obvious particulars for a salesman to give a grower, in support of the amount stated on his cheque, are: quantities of each

kind of produce, price received, sales value of each, and in total; commission and other charges deducted; and net amount due to the grower. But Part IV of the Runciman Committee's Report (Cmd. 61) records a more tangled story.

Up to 1926, when Parliament passed the Horticultural Produce (Sales on Commission) Act, there were widespread complaints that

- (a) the amounts received for produce were dishonestly understated;
- (b) the amounts deducted for commissions and charges were concealed;
- (c) failure to itemize these charges made the price, even if honest, incapable of being checked;
- (d) average prices were substituted for true prices (as realized for that grower's own lot).

The Act attempted to put an end to (b) and (c) by making it obligatory for the sales return to indicate separately the prices received and charges made—provided that the grower had given the salesman advance notice in writing that produce was to be consigned to him. If this condition has been complied with, the grower is not merely entitled to receive an itemized account (or gross account): he is also entitled by giving up to ten days' notice from receipt of the account to send his accountant to inspect the salesman's books (which the Act obliges the latter to keep).

On the whole the Runciman Committee took a favourable view both of the working of the Act and the customary practices of salesmen. Nevertheless they made some recommendations for improvement, chiefly

- (a) the salesman to be required to render an itemized or gross return unless the grower in writing agrees to accept a "net return", and
- (b) the creation of an Institute of Salesmen, to uphold strict trading standards among themselves.

The Government did not in the event act on recommendation (a) and amended the 1926 Act only to the extent of extending to one month the ten days' period of notice already referred to. An Institute of Salesmen has been formed voluntarily by the leading traders, but the nature of the standards which membership of the Institute requires is not public knowledge.

Our own observations on this matter are to the effect that there is at the present time very little discontent among growers with the accuracy of the returns made to them. It would be more sensible for

all of them to require itemized returns, but a "net return" is not dishonest because it is net. We found no more evidence than did the Runciman Committee of growers demanding to inspect the salesmen's books. On the contrary we were impressed, perhaps even more strongly than the Committee were, with the extent to which growers register their satisfaction with salesmen by patronizing the same ones year after year.

If there is still some rumbling of dissatisfaction among growers there are two possible explanations.

First, the substitution of average for individual prices, where the latter are not known or are not easy to discover. A quick look around any market will show that much produce, especially cheap green-stuff and other cheap lines, is sold without the grower's name on it. Obviously the salesman knows to whom he is accountable for it, because he has it recorded among his produce receipts, but at the time of sale it has lost its label or is broken down into a smaller lot or merged with some other grower's offering. In that case the salesman has no option but to return an average price, and he can then be regarded as tempted to give himself the benefit of the doubt in deciding what the average was. There is no obvious remedy.

The second case which troubles us a little is that in which the salesman buys in produce on his own account for sale elsewhere. This does not happen often, and probably only where a primary wholesaler at one market is also a secondary wholesaler at another, and it may be perfectly reputable and good business for the grower, especially if the primary market happens to be weak. Growers, however, may suspect that where a wholesaler has bought in, he will give priority to the disposal of that produce over other produce he is handling on commission. The law requires that buying in should be reported to the consignor, but it does not provide a means of enforcing this requirement.

We shall return to these matters below. In the meantime, however, we can record our view that malpractices in the wholesale horticultural trades in the U.K. are rare and unimportant, and that the most impressive testimony to this is the fact we have already reported, which is the frequency with which growers return to the same salesman year after year.

CHAPTER II

THE CASE AGAINST COMMISSION SELLING

THE CRITICISMS

Complaints against the commission selling method seem, rightly or wrongly, to be focussed on the following points.

First, some growers complain that the system puts them at excessive risk. They do not know what price their produce will fetch until after the event, and are exposed to all the vagaries of fluctuations in supply and demand. By contrast the market man is said to avoid any risk except the minor one of having to accept less commission if the price should be low. That is to say, he accepts up to 10 per cent. of the risk of poor trade, and the grower has to accept the balance.

Matters are said to be aggravated in that under commission selling the grower has little or no idea of the price likely to be received until he has loaded his produce. If he knew before this stage he might perhaps decide not to load, on the ground that the price would not sufficiently cover his transport cost. This argument in turn leads on to the further one that in some circumstances the grower might decide not even to harvest his crop.

A similar point arises in respect of the grower's choice of market, from among a number of alternatives, and his choice of timing of sale. There is a published market price intelligence service which gives him some guidance, but even if this were an efficient and timely service, which it is not, it could be no substitute for a firm price known to the grower before he has to make his key decisions.

(It must, however, be noted that this last criticism implies not only that the grower is entitled to a firm price, but to a price to be known to him quite some time before the buyer could know either the volume or quality of the produce on offer.)

Allied to the above, there is the further argument that the efficiency of the marketing system would be improved if more wholesalers engaged actively in the procurement of produce, specifying to growers just what they wanted instead of taking what came along. Growers approached in this fashion might reasonably expect to know what prices they would get, before incurring the expense or taking the trouble to adjust their production or presentation.

The second main line of criticism concerns the market man's incentive to sell vigorously. It is alleged that if only his commission is at stake he is content to sell passively. He is prepared to accept a lower price than he really needs, and to allow too much time to elapse during which the produce, which is still at growers' risk, will be deteriorating. If on the other hand the market man had bought firm, then in self protection he would have to make every endeavour to resell at, at least, the price he had paid.

It is noted in this connection that many of the large suppliers to the market such as the Overseas Boards operate a panel system of "wholesalers". Most of their produce is offered exclusively to those wholesalers: failure to return adequate prices may lead to removal from the panel; and superior performance may be rewarded in one way or another. The ordinary grower may infer that if these large undertakings can discover and use these methods of ensuring superior service, this must prove that standards of service vary, and that the small individual sender is liable to be given the worst.

Growers also feel that they may be prejudiced, whenever their produce is being sold in competition with other produce that has been bought firm. The market man is under suspicion of giving priority to that which he is bound to resell if he is to avoid loss. The strength of this contention depends of course on the relative amount of produce bought firm, which is open to receive this alleged priority. It is commonly believed that much imported produce is bought and sold firm in the markets, and this in turn leads on to the further complaint that imported produce receives a priority over home-grown.

Finally, the commission selling system is considered to expose growers to the possibilities of slovenly and dishonest bookkeeping which have been noted in the previous Chapter.

We have not been able to discover in detail whether these and similar complaints are made by growers in other West European countries. The probability is that they are, but to have attempted a canvass of grower opinion abroad on such a matter would have been a major undertaking. Our enquiries have, however, disclosed a preference among merchants consigning produce long distances, especially to other countries by way of export, for firm sales, except perhaps for sales to the United Kingdom.

SOME IMPLICATIONS OF THE CRITICISMS

Some growers, when complaining about commission selling, give the impression of expecting that a firm sale system would retain for them all the benefits of commission selling plus a firm

price in addition. Naturally the leaders of opinion among growers are well aware that both systems have both advantages and disadvantages; that there is no possible combination of them which will produce all the advantages and none of the disadvantages; and that one can at best look only for the greatest net advantage.

The first point at which the grower has to face a disadvantage from firm sales is the probability of a lower price. In effect he is calling on the market man to accept a greater risk. The latter having bought firm, is at risk on the whole of the purchase price if he fails to make a resale, or at all events on part of it, if he has misjudged the market and has to make a poor sale. Only the most naive of growers could expect market men to add to their risks without requiring and obtaining compensation in some form.

Moreover, a merchant buying firm will be at risk on the quality of the article if he has not had the opportunity of seeing it before he makes the offer. Only in some lines of horticultural business can produce be bought by description with confidence even from the most reputable growers. Statutory grading is no complete answer since even where this applies, there can be intra-grade differences that are quite substantial in commercial terms. The merchant has also to protect himself in some manner against short weight and top dressing. It would seem to follow, therefore, that if the firm price is to be established before the produce leaves the farm, only those growers whose produce is reliable enough to be sought after could expect to avoid having to accept a lower net price, simply in respect of uncertainty as to description and quality. Alternatively, if the firm price is to be established at the market (assuming this to be practicable), the grower cannot know it soon enough to affect his harvesting and loading.

Wholesalers' Margins

Some statistical evidence on these was provided by the Runciman Committee, whose costings enquiries into wholesalers' margins, representing 103 firms, distinguished between 64 traders operating exclusively or mainly on commission and 39 operating exclusively or mainly by outright purchase. The average gross profit (i.e. profit before deducting operating expenses) was given as 7.90 per cent. of sales value in the first group, and 11.66 per cent. in the second. Unfortunately the Committee did not say whether the two groups of traders were found in the same markets, and if as we would suppose, traders at firm prices were operating mainly in the secondary markets, having bought from primary markets, and those on commission mainly in the primary markets, the comparison is to

some extent vitiated. Nevertheless, the relativity between 7.90 per cent. and 11.66 per cent. is roughly a difference of $3\frac{1}{2}$ per cent. on the sale price, with the grower getting that much less if he sold firm.

This last percentage, applied to an output of home produce of the order of £190 millions at farm gate, would represent rather more than £6 millions a year. Nevertheless, it is an average for horticultural produce of all kinds. There are no available statistics for different kinds, but it is fair to conjecture that the difference between sales prices between the two systems is likely to be least in the case of standardized and not highly perishable produce, e.g. several kinds of top fruit and root vegetables, and at its greatest for green-stuffs, soft fruit and salad crops.

Limitation of Purchases

A second respect in which a switch to firm sales would effect growers detrimentally concerns the strong probability that buyers would limit their purchases to those amounts which they would be virtually certain to re-sell. This would be in contrast to the present situation in which, where sales are made on commission, the market man is normally content to accept everything that is offered, if it is of marketable quality, because his only obligation is to get the best price he can.

We can but speculate as to how this limitation would be applied in practice. One possibility would be for the wholesaler (as he can now be correctly called) to buy on a first-come-first-served basis, up to a ceiling which he would decide at the beginning of each day's business. Other possibilities are that he would give priorities to large selling customers, the more reliable selling customers (including importers), and the higher grades of produce. He might also distinguish between the more standard and regular lines of produce and the others, cutting down on the second category rather than the first.

One must, however, be careful not to allow these speculations to travel too far. Although in principle the leading feature of the commission selling system is that the market man will accept everything that is offered and endeavour to sell it on that market on that day, in practice he can call to his aid the possibilities for holding over and storing produce of the less perishable kinds, or their reconsignment to a secondary market. These reliefs would still be available under a firm sale system and no doubt more use would be made of them. Again, while each merchant would have a reason not to buy more than he could resell, he would also have the

opposite incentive not to refuse produce which a competitor might then buy, and perhaps successfully re-sell on a market that turned out firmer than expected.

On balance, therefore, our belief is that a switch to firm sales would diminish the amount of produce passing through the markets, but that the diminution would vary between types of produce and suppliers. The effect on growers' receipts could only be a matter for speculation.

Up to this point we have refrained from suggesting where the balance of advantage seems to lie. The adverse implications we have examined in this Chapter are not in themselves conclusive. It is proposed to make the attempt to sum up later, after having considered first, relevant experience on the Continent, and second, some of the more basic features of the horticultural trade, which are a necessary part of the background against which any choice of selling system should be made.

CHAPTER III

RELEVANT EXPERIENCE ABROAD

In each of these country sections a number of aspects of the horticultural trade are discussed, which appear to have relevance to commission selling. Additional descriptive matter is given in Appendix I, some of it less closely related to the main argument of this study, but significant nonetheless. Appendix III cites various references.

1. FRANCE

So far as concerns the ordinary French grower, of fruit, salad crops or vegetables, his situation resembles that of the British grower in that the customary method of first sale is sale on commission to one or another market not too far from his locality. However, this must be qualified in two respects, because in France there are two alternative methods of marketing through markets which deserve attention. First, to a far greater extent than in England, French growers personally sell their own produce in grower sections of public markets. Secondly, there is an auction set-up in Brittany, which has special importance in green vegetable production.

Putting aside these special cases, and returning to the case of sales on commission, the next feature to observe is that it has developed for much the same reasons as in Great Britain. The wholesale markets developed mainly in centres of population encircled by production areas (which in earlier days included several of the present large consuming areas) and were first started by growers, looking for outlets for their own produce. In the course of time some of them moved personally into the markets to sell on behalf of their own families, relatives and neighbours, and then founded many of the present businesses.

The second main feature to notice is that in France six of the main markets are located in production areas. Since most grower sales in these markets are made outright, this is another point of difference from Britain; and indeed, the existence of several such markets not (except in Brittany) operating as auction markets, is a point of difference between France and all the other countries considered. That several of the main markets in France should be

located in production areas is natural in view of the large area in relation to population, and the great distances that much of the produce has to travel.

Population Density per Square Mile

Netherlands	974
Belgium	811
West Germany	600
United Kingdom	588
Italy	404
Denmark	281
France	231

The low population density is aggravated by the fact that the main consuming area (the Paris region) is at a great distance from two of the most important production areas, the Mediterranean coast departments, and Brittany—in the former case some 700 miles. These distances, combined with the high temperatures in Southern France over much of the year, accentuate the problems of moving the produce fast enough to avoid deterioration. They have created a special need for (production area) markets at which the produce can be assembled before it makes its long journey. There is also a good deal of direct routing to terminal markets (in or near consuming centres) especially from growers within a 100 mile radius of these, but in comparison with Britain more produce has to pass through two markets instead of one, or three instead of two.

The buyer in the production area market, expecting to resell in a terminal market, will usually be a wholesaler operating on a fairly large scale. Whereas our growers are mostly selling (through market men) to retailers, caterers and travelling wholesalers, who are numerous and requiring not very large quantities at any one time, the French grower is more likely to find himself confronted in the production area market with a few large, highly professional, buyers. It may be asked why growers sending to these markets do not as a rule make use of the services of a commission man to represent them, or in other words sell on commission as is the rule in terminal markets. The main answer seems to be that any wholesalers acting only as growers' representatives would have an insufficient function to perform.

It is clear, however, that growers selling firm to a small number of buying wholesalers at markets removed by some hundreds of miles from the consumption areas where prices are ultimately determined, face some risks of being exploited, or at all events of being offered prices out of line with the true state of supply and demand. It is no doubt for this reason that there is more emphasis

in France than in Britain on the need for growers to develop countervailing power and assemble their produce into large uniform lots before it reaches the market—in other words to form co-operatives. The various kinds of co-operatives are indeed more numerous than in Britain, though less so than in Holland, and they enjoy considerable support and patronage from the State.

To complete the story for France, commission selling is prevalent in the trade in imported produce, where the reasons for it previously given would seem not to apply so strongly; there is a fair amount of direct consignment over great distances from large scale grower organisations for first sale (on commission) in consumption area markets; and as in Britain, a substantial volume of trade not passing through markets at all is brought and sold outright.

The large scale organizations of growers, mainly growers of top fruit and organized as co-operatives or S.I.C.A.'s (see Appendix), seem to be the main source of feeling adverse to commission sales. They sell in that way when they have to sell in the consumption area markets, which applies to most of the top fruit for consumption in France, but except for peaches (the most perishable of their products) they prefer to sell firm. They can do this for export or through distributing wholesalers for internal consumption in those parts of France relatively less well provided with markets. The question whether these direct sales are preferred because they avoid commission selling, or because of other reasons, is a question which arises in Britain also, and we will return to it in Chapter IV.

2. WEST GERMANY

West Germany is generally taken to be the west European country most comparable to the United Kingdom in population, income, tastes and habits. But the Germans eat much more fruit (especially oranges and bananas) than we do. They therefore import much more and so far have exported very little.

Not only are imports substantial, but they have increased rapidly with the fast rising standard of living. Fruit imports for instance have trebled since 1954 and vegetable imports have doubled. The markets are, therefore, to a large extent, under the dominance of these imports, which account for about two-thirds of all fruit consumption and at least one-third of vegetables and salads.

A further point in the general description of the West German horticultural trade is the importance there of fruit and vegetable retailing through supermarkets and through shops organized either as branches of a large business, as associations of independent retailers for centralized buying, or in "voluntary chains" of retailers

organized by wholesalers. In Germany the specialist greengrocers and stall holders (who of course are competing with individual grocers as well as supermarket chains) have much less of the total trade in fresh fruit and vegetables than in the U.K., where it is over 70 per cent., or in France. As there are, even today, more stall holders in Germany than in the U.K., the relative importance of the individual greengrocer is even less there than the above comparison would suggest.

The main part of the very large import business that goes through markets is handled on commission, although the proportion is less than in the U.K. and France. Because of the greater relative importance of the supermarkets, the by-passing of markets is, however, more common than with us, and certainly much more common than in France. As will be noted in more detail in the section on Holland, the prevalence of direct purchases by German supermarkets has even been marked enough to affect market practices in other countries.

The leading publication on the method of selling fruit and vegetables in Europe is a report of the O.E.E.C.,¹ and this body stated, in relation to 1956, that "no home produce (in West Germany) is sold on commission". Our investigations have failed to confirm that this extreme statement was true then, and it is even less true today. In some West German markets commission selling of home grown produce can, indeed, be said to be virtually absent, but averaging all markets, we would put the proportion at about 25 per cent., that is to say 25 per cent. of what passes through wholesale markets.

Nevertheless, there is a marked contrast with Britain and France, where the corresponding percentage is at least 90. The main reason is the importance of the auction method of selling home grown produce in several parts of Germany. Produce obtained at an auction is, as we have already seen, necessarily bought firm. The auction method of selling prevails in the large consuming and market gardening area in the north west of the country, abutting on Holland, which has nine auction centres. Elsewhere in Germany there are 50 auctions in all, which is a lower density of this system, leaving more room for trading on commission. It appears that commission selling is the dominant form in Munich, and is of some importance also in Hanover, Brunswick, Bremen, Berlin, Hamburg and Lübeck. In some of these cities, e.g. Hamburg, commission selling and auctioning co-exist in the market.

Although the combination of auctioning, supermarket purchases outside markets, and growers selling in the wholesale market has

¹ "Marketing of Fruit & Vegetables in Europe", O.E.E.C. Paris, 1956.

kept commission selling for home-grown produce down to a much smaller amount than in Britain, France or Italy, there is, however, little outright sale by growers to merchants in the markets (except where these merchants buy firm at auctions in or near them).

3. THE NETHERLANDS

It is well known that most horticultural produce grown in the Netherlands passes through auctions in growing districts which are owned and controlled by producer organisations. Almost 100 per cent. of all Dutch horticultural produce passing through a market of any kind passes through these auctions. They are auctions for the supply both of the home market and the export trade. More than 50 per cent. of the produce passing through them is destined for export, and at some auctions, e.g. Delft and Rotterdam, the export percentage rises as high as 90 per cent.

The auction system has a long history and has come to dominate the Dutch system, although the legal compulsion on growers to sell their produce only through the auctions was withdrawn in 1966. The main reason for its great development has been the need to assemble for export the diverse offerings of many small growers, and to do this at an early point in the chain of distribution. Until recently there was no evidence of the system giving dissatisfaction to anyone, and indeed, it has been held up as a model for imitation in other countries. New developments have, however, altered the situation.

These centre primarily on the reduction in the number of buyers for export attending the markets and a consequent decline in competition. For instance, 80 per cent. of the trade with the United Kingdom has been concentrated into the hands of five firms. In turn this development has evolved in part from the growth of the supermarket retail trade in the U.K. and the special link between some of these and Dutch sources of supply. An even larger importer from the Netherlands is Germany, where there has been a similar growth of supermarket retailing and a good deal of organization of retailers into chains. A few of these organizations such as E.D.E.K.A., Spar, Kaufhof, etc., now occupy a dominating position, and this is reflected at the Dutch auctions by a marked thinning out of German buyers' representatives. From the Dutch point of view this reduction in the number of buyers is serious enough, but it has been made even more so by the proneness of large supermarket and chain store organizations to make unpredictable changes in buying policy. Changes in buying policy are, of course, perfectly in order, but when there were many buyers the various changes were nearly certain to cancel each other out.

In these circumstances serious consideration has been given to the abandonment of the auction system, and the setting up of a central co-operative selling organization, which would no doubt have points of similarity with the various overseas Boards supplying the U.K. with apples, oranges and other fruit, by means of commission sales on the markets.

Internal Marketing: Less attention seems to have been given, even in Holland, to the effects of the auction system on internal trade. If our remarks on this aspect should seem highly critical, they can be prefaced by an acknowledgement that the Dutch have had good reason to give priority to their export trade, for which the auction system has been well suited until recent years.

The auction system has obviously impeded the development of private treaty markets, and there are only two of them of any consequence, at Amsterdam and the Hague. These handle only 25 per cent. of the total internal trade, but as this includes imports the proportion of all home-grown produce that passes through these markets must be very low indeed.

The wholesalers operating in these markets do a normal sort of trade in imported fruit, etc., but their problems of procuring home-grown produce must be considerable. Little produce flows to them direct from the grower, as it does in, say, Covent Garden, but it has to be sought out at the auctions. As the auctions are to some degree specialized in the kinds of produce they handle, several auctions may have to be visited. By the time it reaches Amsterdam or the Hague the produce will be past its best.

The poor development of private treaty markets together with the smallness of the country encourages retailers to attend the auctions so far as they can, but this is not an attractive proposition for them either. They obtain about one-third of their requirements of home-grown produce at auctions, but two-thirds of it has to be bought from distributing and other secondary wholesalers, because of the difficulty of attendance at several auctions during the day and remaining at each during part of the morning's trade. In respect of this two-thirds, therefore, the Dutch retailer does not enjoy the possibility of personal attendance at markets for the purpose of making selections of produce, which is a feature of the U.K. system which many of our retailers prize. Matters are made all the worse for retailers (and for secondary wholesalers too) when they are buying both home-grown and imported produce. Unlike Covent Garden where one can see buyers' lorries laden with a mixture of homegrown and imported produce bought in the same place within an hour or two, in Holland there is rarely any one such place, and even if it is Amsterdam or the Hague, the home-grown produce will be a day older.

Even granted that the average Dutch grower is mainly concerned with the export trade, when he turns his attention to the home market the present system seems to give him the worst of two worlds. The wholesaler having taken the risk of buying firm at the auction, must compensate himself by bidding lower. But the grower does not get a firm price in exchange, and in fact it fluctuates just as much as does a commission sale price, or perhaps even more.

In all the circumstances the Dutch authorities are thinking, so far as exports are concerned, of developing alternative arrangements that would approximate to commission sales made in markets in England and Germany, and which would imply a substantial contraction of auctioning. For the home market the poor and limited development of private treaty markets in Holland would probably continue to preclude the development of commission selling as a predominant practice, but one would expect to see it develop gradually if the auctions (having lost most of their export business) were to go into a decline.

DENMARK

There is only one private treaty market of any consequence: this is at Copenhagen: it is one of the largest markets in Europe and serves a population of about $1\frac{1}{2}$ millions (Copenhagen and district). Much of the business done there is on commission, but of perhaps equal importance is the growers' section of the market. There are nearly one thousand growers in the district, which is proportionately a large number, and mostly they sell at the market to travelling wholesalers and retailers.

Also important in the Danish scene are some 20 auctions, located mainly in those parts of the country away from Copenhagen. The auction at Odense is large, and at Aarhus fairly large: the others are small. But taken together they provide substantial competition with the one big private treaty market (Copenhagen) and probably explain why there is no other such market of any size.

The contrast between the Copenhagen market and the auctions must not, however, be pursued too far, since there is also a complementary relationship. On the one hand produce that does not sell too well at the auctions, because of too small a number of buyers, is liable to be diverted to Copenhagen for sale on commission, and some growers so located that they could use the auctions, prefer Copenhagen instead. On the other hand a good many Copenhagen wholesalers are represented at Odense and buy there at the auctions. Presumably what they buy is put mainly into travelling wholesaler rounds and not resold in Copenhagen.

Thus the general picture is one in which the development of

private treaty markets and of commission selling at these has been limited by the existence of auctions and a strong grower section in the one market. But there is a fair amount of commission selling and it is increasing, even for home produce. Imports are mainly handled on commission, though in premises near the market rather than in the market itself.

SWITZERLAND

The main issue pursued in this Study—i.e. the choice between commission selling and outright purchase by market merchants, scarcely arises in Switzerland, because there are no markets worth the name. The nearest approach to markets in that country consists of the congregation of small numbers of buyers and sellers around some trucks in railway goods yards.

The reasons need no more than a brief summary here. Historically Switzerland did not in the 19th century have any cities large enough, or with large enough hinterlands, to sustain a wholesale market. During most of this century the horticultural trades have been dominated by the emergence of two very large retailing organizations, Migros and the Union of Consumer Co-operatives, which between them probably handle considerably more than half the retail trade, and which would have little need to buy in markets, even if markets were there.

ITALY

The horticultural markets in Italy make quite a different impression from those of Great Britain. There are fewer of them in relation to population and almost all are bigger. The Milan market is, for instance, the largest in Europe. Sales by local growers in the market direct to retailers and others are still of substantial importance even in such a centre as Milan. Although a part of the export trade (and Italy has the largest such trade of any European country, even though proportionately less than Holland) is done outside the markets, much of it is done in and around markets as well, and many market operators are internationally known. Finally, there is a substantial amount of trade from buyers not located in the market town, but from other towns up to 70 miles away, which have no market or only just a market street or so. This re-distribution business is given added importance by the amazingly large volume of vegetable and salad crops which moves from south to north Italy between November and May, arriving at the main markets for reconsignment throughout north Italy.

This diversity of market functions in Italy gives rise to differences

in selling practices. In the case of grower sales within markets, the question of commission sales versus outright sale and purchase does not arise. Where produce is sold through market men, and this represents the major part of all sales on the home market, for all classes of produce, some 90 per cent. is sold on commission, as in Britain or France. Imports (but Italy has only a small import trade) are also handled on commission.

Produce for export on the other hand is for the most part bought firm from the growers whether the importers are established in markets or are packhouse operators. In the case of fruit much of it is bought on the trees (or on the vines) shortly before the harvest. The reason for this is that to be in the export trade a merchant must be sure of his supplies, not only to keep his packhouse staff fully employed but also to provide continuity of loadings to his export markets. This means that in general he must assume the risks of the market, because producers from whom he obtains his supplies would be unwilling to consign to an exporter on commission unless they could specify the market on which it is to be sold and so obtain a check on the prices realized. Quite obviously an exporter would be reluctant to allow himself to be so constrained as his business depends on being able to choose his markets and the volume to be sent to each according to his judgement of the situation.

Another reason why firm purchase is the rule for the export trade is that many of the most active firms in the export business are specialist operators from packhouses not in the market. It is natural for them to buy firm and they have no means of operating on commission; and so they seem to have imposed a pattern of firm purchase on their market competitors.

A minor but interesting respect in which the Italian markets differ from ours is the relative strength of the market administrative authorities. Whereas with us, the administrative function seems chiefly concerned with avoiding muddle and frictions, Italian market authorities regard themselves as watchdogs for the growers (at Verona for instance they inspect commission men's books) and generally give the impression of being in firm control of everything that happens.

CHAPTER IV

COMMISSION SELLING IN RELATION TO MARKET EFFICIENCY

MARKET TRANSACTIONS

In this Chapter we will be concerned not so much with the advantages and disadvantages of commission selling, or firm sale, to grower and wholesaler, as with the impact of both systems on the efficiency of the marketing process as a whole. These two aspects cannot be kept completely separate, but at all events there is a retailer and consumer interest which goes beyond the interest of the parties immediately concerned. Let us approach these wider interests by reminding ourselves of the main functions of a primary market for fresh fruit and vegetables. They are:

- (i) To introduce the produce of a thousand or so growers to a like or larger number of buyers. (That the grower is normally represented by the market man is only a variation of detail);
- (ii) To provide the means by which produce is assembled at a point convenient to the buyers, broken down, displayed and presented for sale, and where necessary, stored;
- (iii) By means of (i) and (ii) to establish prices, for each of 40 or 50 kinds of produce, in a great variety of grades, qualities, sizes and counts, on more than 300 days in the year, so that for each kind and description of produce a price shall emerge which will leave buyers and sellers feeling that they could not have done better elsewhere, and that their competitors could not have undercut them;
- (iv) By extension of (iii), to signal back to growers what produce is wanted, where, and in what quantities and qualities; and to buyers, what is to be had and where;
- (v) So far as possible to clear each day all the produce on offer and meet buyers' and consumers' daily requirements for each kind, which is done primarily through the mechanism of the ever-varying price;
- (vi) In view of the perishability of most horticultural produce to operate with great speed and certainty;

- (vii) In the interests of keeping down marketing costs to carry out all the above with physical efficiency and economy.

Let us now see how commission selling and firm sale respectively meet these various criteria, or at all events those criteria which are relevant to the choice. Numbers (i) and (ii) are, so to speak, neutral. Numbers (iii), (iv) and (v), which are different aspects of the pricing function, are, however, heavily involved.

The first point to examine is whether the personnel of the wholesale traders, in their present numbers and present degree of professional and commercial competence, could handle the job of firm purchase on a substantial scale. There are two aspects of this. First, under firm purchase, the wholesaler would have to undertake two transactions (one purchase and one sale) in place of one (sale only). This would take time, add to strain and stress, and make for errors of judgment. To some extent it would add to the task of recording and accounting. But the extra strain on the time and skill of the wholesaler and his senior assistants would be the main burden.

Efficiency of the Pricing Process: Granted that they had the spare capacity to do a buying job as well, how well could they do it? We will assume for this purpose that they can negotiate buying prices that will over a period compensate for their own risk that they may have misjudged the market. This, however, still leaves us with the consequences of market misjudgements. Would they be more numerous and serious in a situation in which the wholesaler was having to find sales at prices which would cover the cost of purchases already made, in comparison with the present system, in which he is looking for the best price he can get, but not any particular price?

There are, however, several respects in which this contrast is more apparent than real. Under the present system it is not literally the case that everything sells for what it will fetch on that market that day, because some can be carried over or reconsigned. Nor is price making under commission selling by any means passive process, because the arts of salesmanship count for a great deal. Similarly, when we look at the alternative of firm purchase, it would be wrong to assume that the wholesaler would be wholly committed by the price he had already paid. In practice he would have to be guided hour by hour by the feel of the market, as he now is, in negotiating sales, and if his selling price on one transaction on one day failed to cover his cost, he would hope to do better next time, and be content with an overall average.

Nevertheless, it would seem to us probable that firm purchase would on the whole tend to impart an upward bias to subsequent sales offers. Not knowing precisely how strong the market was, wholesalers would give themselves the benefit of the doubt, and be

likely to quote too high. Thus the produce would sell more slowly than it should, and too much of it would deteriorate during the day. It also seems possible that under a firm purchase system, sale prices would be more erratic than they now are, at least at the beginning of the day's trading. Several hundred wholesalers would each have bought, independently of each other and at different prices, and they would keep this information to themselves. After a few hours trading re-sale prices should have become more or less equalized over the whole of the market, through the ordinary process of competition among sellers and buyers, but if the wholesalers have started from different bases (i.e. different buying prices) it seems probable that this state of affairs would only be reached after an initial period of tentative and unstable prices.

On balance the conclusion seems to be that under a firm purchase system a true equilibrium market price would be established, but by no means as smoothly and quickly as at present.

Restriction of Purchases: One of the criteria of an efficient wholesale horticultural market is, as we have seen, that it should clear all the more perishable produce offered each day. Under conditions of outright sale and purchase the word "offered" would have a different meaning from what it has under commission selling. The wholesalers would still manage to clear what they had bought. Whatever prices they had paid for it, it would still be good business to make a resale at almost any price. But, as we saw in Chapter II, many of them would doubtless prefer to restrict their purchases to what they were fairly confident of being able to resell at a satisfactory price.

This, however, runs contrary to the concept of an efficient market as hitherto understood. All other things equal, a market is efficient if it is so organized that it can accept the quantity produced as something given, and not have to impose on suppliers a pattern of what it is willing to take. A remark in such general terms is not of course applicable equally to all sectors of trade and industry; the justification for making it about fresh fruit and vegetables is that before marketing has really begun, the supplies of most of the produce have been largely determined by the weather. A horticultural market is therefore efficient if it can adapt itself fairly well to whatever quantities of produce the weather has produced, varying the prices it evolves from day to day in continuous adjustment to varying quantities. This is essentially the concept of the market as a sponge, and that is from the point of view of both growers and consumers one of its most valuable attributes. As against this, any restriction of purchases, so that wholesalers may minimize their risks, means that the sponge is not fully working or that it has

become an imperfect sponge, accommodating itself to some variations in supply (or demand) but not to the same extent as hitherto.

Mechanics of Price Determination in the Absence of Commission Selling: The next point to examine is the method by which buying prices would be established, and along with this, the timing. If buying prices were only to be negotiated immediately before or during market trading, it is difficult to see how the grower would be any better off. Several of the advantages to him of a firm price are advantages of knowing it before the produce moves from his farm. In one major respect the grower would be worse off. If he attempted to sell to a wholesaler when it could be seen that his produce was already in the market, his bargaining position would be weak. In theory he could strengthen it by visiting several wholesalers. But this means keeping the lorry waiting (and parked where?), and the grower would have to make the difficult choice between visiting the market himself and entrusting his selling to a driver.

There is little to be said, therefore, for firm purchase and sale on the day of the market. But what about the previous day, or a few days previously? What are the practical possibilities of this? So far as concerns some two thousand growers (mainly top fruit, field vegetables and salad crops) there should be no great difficulty. These are large growers, personally known to the wholesaler as reliable, regular senders, and on the telephone. There is nothing to rule out the negotiation of prices ahead of delivery, arranged mainly by telephone, and on the basis of the growers' description of the produce, though subject to adjustment if it varied from this. Even for growers in this group, the system would work best for the more standardized lines of fruit, vegetables and flowers, but it would have a fair chance of succeeding for nearly everything.

This would not, however, necessarily make it the best system even for large growers. Their bargaining position would not be too good in times of glut, and they would be confronting buyers with more up-to-date and more specialized knowledge than themselves.¹

These observations apply with even greater force to the smaller growers, and in addition the practical arrangements for establishing

¹ It can happen even under the commission selling system that a large supplier, whose connection the market man values, can be asked to hold back produce when there is a glut.

In the assumed conditions, in which large growers were selling firm (and could not, by hypothesis, sell on commission), we would expect one or other of the following developments to occur on the next round:

(a) an extension of the arrangements already existing in a small way in this country for semi-partnerships between growers and wholesalers, so that they regularly did business together on terms not requiring frequent adjustment; or

(b) as to some extent in France and Italy, the wholesalers would arrange to be permanently represented in the main growing areas so that the large growers could be visited regularly.

prices would in this case be much more difficult. There are some 20,000 small full-time growers, selling in small lots, not very regularly, usually not known to the merchant, and often not accessible by telephone. In the end, and on average, they might get fair prices, and should be prepared to switch wholesalers to make sure that they do. But it would be difficult to regard prices negotiated in advance in these circumstances as having a great deal of meaning. In all probability the wholesalers would quote to the small grower prices based on purchases already made from the larger growers and do so on a take it or leave it basis. With all the good will in the world, true negotiations with thousands of individual growers who were not available on the spot would be just too difficult.

Speed and Efficiency: One of the most important features of a wholesale market is speed of operation. Many of the factors relating to firm purchase and sale that have been reviewed in this Chapter will reduce speed but none will increase it. We have particularly noted as adverse factors the doubling of the number of transactions to be effected each day, and the probably upward bias that would be imparted to asking prices. Matters would be made even worse if many growers were to start visiting markets, looking to make firm sales after trading had already begun.

Much the same observations would apply to the efficiency and economy of the market process. Once again, the doubling of the number of transactions would increase the cost, in terms of time and labour. Telephone bills (to growers) would become a formidable item. It also seems likely that the firm sale basis would result in a much larger number of disputes and subsequent correspondence to settle these. Under the present system disputes are much fewer, because the sender has no right to any particular price, and the buyer would not take the produce away with him (as he usually does) unless he were satisfied on all counts. Under the firm sale system, both grower and merchant would be very much in each other's hands, and frictions would inevitably develop. This situation could hardly be described as efficient.

Physical Conditions in the Markets: In describing in this Chapter how a market ought to function, how it functions under commission selling, and what difficulties would be added by firm sale, we must, of course, be careful to avoid idealizing the present state of affairs. Not even the best friends of the present system of horticultural wholesale markets would claim that most of them are adequate for the amount and type of business they do. Physically many of them are a hundred years old or more: too small; ill-located; relics of horse and cart days. In various ways the costs of handling produce in those old reconstructed markets (up to the present only about six

have been rebuilt) are higher than they need be; handling takes place too slowly; produce deteriorates because of delays and excessive exposure to weather; and there is much opportunity for pilfering. Growers, amongst others, feel that they receive an inadequate service from these markets, despite the best endeavours of the market wholesalers; and when they personally visit them they cannot but take home impressions of confusion, congestion and even squalor.

Growers can thus be forgiven for attaching to the commission selling system some of the blame that really belongs to the inadequacy of the premises and their lay-out. It requires some detailed acquaintance with the markets to sort out which features of the observed trading patterns follow inevitably from physical conditions, and which of them are reflections of the particular selling system used. Comparisons of this sort are, of course, assisted by visits to both old and new markets in quick succession, so that the physical differences can be easily noted.

Our own impression from such comparisons is that new and suitably designed market premises are capable of bringing about substantial improvements in performance under almost any selling system. They assist commission selling and would similarly assist selling under any other method. Conversely, while the unreconstructed markets can only just manage to carry out commission selling with reasonable effectiveness, they would be less than fully adequate for any other system too. Indeed, we would argue that, granted that many of the old markets will be with us for years yet, their existence is yet another argument, though only a transient one, in favour of commission selling. This is because, in the various respect we have noted, firm sale is a more demanding and less automatic system than commission selling, and thus the more likely of the two to be handicapped by out-of-date and congested premises.

NON-MARKET TRANSACTIONS

At this stage we should turn to non-market, or direct, transactions between growers and buyers, to see what inferences the experience of this sector of trade may suggest.¹ In the U.K. it accounts for roughly 30 per cent. of first sales of home-grown fresh produce and nearly all is on firm terms. The chief variations in this sector depend on whether home-grown produce goes direct to buyer, or through a co-operative or country merchant, and on whether the terms are firm for a day, a week, a season or a year. The buyers are mostly multiple retailers or travelling wholesalers, but there are also

¹ This section relates to trade not passing through markets at any point. It does not relate to grocers' and other retailers' purchases from travelling wholesalers, to the extent that the latter have previously bought on markets.

direct sales from growers to caterers and individual greengrocers.

Price Establishment: This non-market trade is sufficiently large, and has shown so many signs of growth, that the methods of price establishment have become a matter of some importance. Unfortunately there is little firm evidence on it: the transactions are private and as a rule the parties wish them to remain so. So far as can be discovered direct sales to individual greengrocers' or fruiterers' shops (which are rare in the case of imported produce and mostly confined, in the case of home-grown to produce grown near small towns and the outer suburbs of large ones) are made at prices which are firm for each transaction, but which may fairly frequently vary according to the parties' impressions of prices on the public markets, as the closest alternative for each of them. In the case of caterers and other institutional buyers the periods covered by the arrangements for purchase and sale are longer—anything up to a year—but prices are fairly flexible. A common arrangement is that the parties agree to be bound by market prices reported in the Trade Press, plus or minus a percentage (depending on quality, point of pick up, etc.).

The most important cases, however, are those of purchases made outside the markets by the operators of supermarkets, food shop chains, and departmental stores, which account for most of the growth in this section. Most of this produce is bought, and often produced and packed, to the buyers' specification: this and the other terms are embodied in contracts which normally run for at least a season (3-6 months) and may run for a year.

Some buyers in this group say that they establish the contract prices by considering what prices they can obtain from their customers, over the average of the contract period, and after deducting their own costs and profits, offer the balance to the grower (or his co-operative or the country merchant). The grower may or may not find this price attractive and better than he could get in the market, but as he also obtains the assurance of an outlet for all produce up to specification, at that price, he is often prepared to sign. Other large buyers do not specifically say that their retail price is the starting point for determining the growers' price, but the end result seems to be the same: the prices are attractive enough to the buyers, when taken in conjunction with good quality uniform produce, to draw in customers on an increasing scale; and attractive enough to growers, when taken in conjunction with certainty of outlet, to make more and more of them interested in this type of trade. It will be noted that these prices, being determined for a longish period, are substantially independent of the daily and weekly fluctuations of price in the public markets. In some cases, e.g. carrots, they may even over-ride the normal seasonal variations

in price, and result in fairly level prices to the final customers whether supplies are seasonally scarce or plentiful. Some of these buyers do, it is true, approach the growers to vary the contract prices if and when they become seriously out of line with prices in the public market. Presumably the grower acquiesces if he is asked to carry only a share of the difference, where it is to his detriment, and if he has the right to adjustments in his favour if the market goes higher.

The mechanics of these arrangements are not difficult. Price fixing—whether accurate or not—is quite easy to organize if the produce is fairly standardized (and on the whole the supermarkets, etc., do not carry the less standardized lines), if the periods are long, so that re-negotiation of terms is infrequent, and if the growers are large, businesslike in habit, and easily accessible by telephone. Most of these conditions are in practice fulfilled. The buyers in question do not have much to do with minor crops, short period contracts, and small, isolated growers. The main reasons they give for shunning these growers are that they could not obtain from them assurances of receiving good quality uniform produce in acceptable amounts: but the effect is that they do not even seek to buy from those growers, or the growers of that produce, with whom it would be difficult to do their kind of business.

General Discussion: But although firm purchase and sale has seemed to be successful over a wide range of produce not entering markets, we still have to ask whether it is primarily the attraction of being able to buy on firm terms that has encouraged the development of this trade, or some other reason or reasons. Undoubtedly firm terms have been a factor. The large chain store type of buyer does not like daily haggling, and the nature of his business is such that a quick bargain on buying prices is of relatively little interest to him. He has much more at stake in continuity of quantities, qualities and even price. Nevertheless, it would be going too far to claim that the way in which the markets do their business has been the main deterrent to their use by the chain store buyer. The main reason why they are shunned is that they are not a natural and convenient source of supply for buyers who want large quantities of very uniform and rather good quality produce, and in practice most kinds of produce capable of conforming to those specifications can be bought more conveniently from grower organizations or be imported direct.

Support for the view that the chain buyers shun the markets for procurement reasons rather than because of price uncertainty, comes from the growing practice of several of them of employing buying brokers located at the markets. The produce, which does not physically pass through the markets, has been selected by the buyer

from some particular source, and in some cases both quantity and grade (though not price) will have been specified in a contract. But the negotiation of the price is in the hands of a buying broker, who is also the selling broker for the importer or grower, and it is his function to propose a price which is fair and acceptable to both parties. This will normally be the ruling market price, and it moves up and down as other market prices do. In this way the market does its job, on a commission sale basis, even for produce that never sees the market.

This development is to be commended for several reasons, and not the least of these is the fact that it does something towards maintaining the validity of the market price as a source of reference by exposing this non-market produce to the impact of supplies and demand on the markets, and in a sense, even adding to those supplies. Admirable as contract terms may be in many respects, contracts which embody a price fixed for a period ahead have the effect of segregating the produce to which they relate from the functioning of the market price mechanism. This does not matter so much when the segregated produce accounts for a smallish part of the total supply—up to say one-quarter. If there is a valid market price for at least three-quarters, both parties to the contract can refer to it, either before the contract is signed or during its currency, as a check on the contract prices. As we have seen, they customarily do so. But if the proportions were reversed, it would be difficult to see how the contract prices could be anything more than a series of horse deals, depending wholly on the bargaining strength and skill of the parties, and contributing little to achieving equilibrium between supply and demand.

CHAPTER V

SUMMARY AND CONCLUSIONS

Our review of market systems in Western Europe as a whole has made it clear that disposal by growers on commission is the dominant form of sale through markets. The main alternatives are not firm sales by growers to market wholesalers but direct selling by growers themselves in the markets, and, especially in Holland and Germany, sales at auctions in production areas. Commission selling is not merely the dominant form for disposing of home-grown produce, but comes close to being the only form for imports.

As has been seen, the historical origin of the commission selling system has been that of an outgrowth of personal selling at markets by growers, with the commission man representing and acting as broker for the grower. Italy, Germany and to a lesser extent France, where personal attendance is still common, can be thought of as lying in an earlier and less sophisticated stage of development than the U.K. Although direct grower selling in markets can be highly efficient, particularly for that class of grower whose acreage is insufficient for full time growing, and who can add to his income by retailing to the public in a market or elsewhere, we feel that that system can only be a transitional stage. A grower who can offer the quantities that would interest a wholesaler or retailer would, as a rule, be better engaged on his holding, devoting his time to perfecting the production process.

In view of the honourable history of auction markets, and their prevalence in Holland and Germany (though not France and Italy) it may seem rather hard to describe auctions, too, as relatively unsophisticated. Indeed, economists have been known to hold them up as models for admiration on the ground that they are uniquely fitted to bring supply and demand into equilibrium through the mechanism of the price. Even on those grounds, however, we doubt if auctions are the answer. Auction sales for horticultural produce are almost invariably held in production areas, where the ultimate consumer is not present. In a situation in which, broadly speaking, the supply is fixed, harvest being completed and the opportunities for storage being limited, price must be determined mainly by demand. The nearer the market lies to the consumer, the greater the likelihood that the price will be a true one. Auction markets in production areas can also be criticized on four other grounds. First,

as becomes increasingly true even in Holland, there are not enough buyers, and there is insufficient opportunity for the misjudgements, preferences or inequalities of bargaining strength of individual buyers to cancel each other out. Second, only an auction on a very large scale can draw in enough growers and enough produce to provide a full and complete range. Third, an auction held in a production area cannot provide for the intermingling of home produced and imported produce and the establishment of the correct price relativities between them. Fourth, as we have seen in the case of Holland, and to a lesser extent Germany, the existence of auction markets on a large scale inhibits the development of private treaty markets, while by no means managing to carry out the functions of the latter.

In the particular context of this Report it may seem at first sight as if grower sales by auction were a variant form of grower sales on commission. There certainly are similarities. The produce effectively leaves the grower's hands before he knows the price, and he pays a commission (to the auctioneer or auction market authority) on whatever the price turns out to be. But these points leave out the main functions of a private treaty commission selling market, as found in Britain, France and Italy. These are first, that the grower entrusts his selling to an expert, who has an interest in arranging his procurement of produce to a pattern and even more so, in building up a type of buying clientele; and who is, moreover, a professional bargainer. Second, most of the markets in question are in consuming areas, and are patronized by very many buyers, and thus they escape the other criticisms made of auctions. Finally, the commonly held view that auctions are a speedy and thus a cheap form of selling, is not one that anyone who has examined both the auction and commission selling methods would be prepared to endorse. A well run commission market gets through its selling business within three hours and an auction will do no better.

The previous Chapters have also established that firm sales by growers to merchants operating in the markets are uncommon in all the countries reviewed. The main examples of these are growers' sales in French production area markets, and sales for export in Italy to the extent that the markets handle these.

The latter of these cases has virtually no relevance for the United Kingdom. The former does in that we have one or two private treaty markets in production areas, e.g. at Pershore. But most of our home-grown produce is dispatched, and rightly so, to much larger markets located in or near major consuming areas, which creates the possibility of commission selling, as disposal through producer markets cannot.

From the point of view of the community as a whole commission selling is better than firm sales because it is quicker, cheaper, and very well fitted to establish the true equilibrium prices precisely and smoothly, for a great variety of different kinds and grades of produce. It does this while accepting almost all the produce on offer, so that the public enjoys the benefits of abundant supplies as well as suffering shortages.

The growers are part of the public, and the public advantages of commission selling are growers' advantages too. Indirectly they obtain the benefits of whatever is the most efficient form of marketing. There are, however, specific grower advantages in commission selling as well.

The first of these is one which they share with the public, but which is of particular benefit to themselves, and that is, the advantage of normally being able to dispose of whatever they may wish to send. As we have seen, if market men were forced to act as buyers, they would be bound in some way or other to restrict their purchases to what they would feel confident of reselling at, at least, the price paid. It can, of course, be argued that what the merchants would in these circumstances reject would be the most inferior produce, which is a burden on the market and not really wanted by consumers. But if inferior produce is to be withheld from sale on those grounds, the right method is to apply some uniform grading system operated by a public authority, not a grading scheme imposed on growers by merchants, whose standards would vary among themselves and from day to day. In any case the present system is of great advantage to growers in allowing them full choice of how much to send, when and where, so long as it is produce of whatever is the minimum acceptable grade for its kind.

Commission selling is also of advantage to the majority of growers (at least in terms of number) in the sense of being a system which, if operated honestly, affords them prices as good as their competitors could get, with negligible trouble to themselves. Firm selling by a grower necessarily implies striking a bargain with a buyer before market trading begins. As we have seen, having to do this would be no great burden to large growers, or the wholesalers buying from them, but it could be extremely troublesome to most small growers. They would either have to attend markets personally with great frequency, or run the risk of being quoted a price which would be rather arbitrary and very difficult to check against other quotations.

We can accept as a growers' argument against commission selling and for firm sale that the latter eliminates his risk on the price he obtains, in the sense that he knows what it is before the produce

leaves his hands. But to transfer this risk to the wholesaler is something he would have to pay for in the form of taking a lower price. How much it is worth to pay depends on the range of choices still open to him if he dislikes the best firm price he has been offered. If the produce is still in the ground at the time, or at all events not packaged, and it will keep, or if he has market connections and means of transport which make it possible for him to switch easily between markets, then some choice is open. But most growers, and small growers particularly, do not have much choice. Under firm sale they could be in the position of having to take rather lower prices for virtually the same pattern of deliveries to virtually the same markets as heretofore.

We are only able to attach minor significance to those advantages of firm sale which have to do with the commercial honesty of wholesalers and suchlike matters. The superiority of firm sale in these respects is so small that it can be ignored.

This Report has also reviewed the system by which supermarkets, chain stores, etc. procure their produce. Mostly they do so by bypassing the markets. But this reaction against the markets, right or wrong, is a reaction against the market system as a whole, and not against commission selling as such. More relevant is the preference of another class of large scale organization, the overseas marketing boards, who feel that they can get the best terms for the growers who are their members, by selling in Britain almost exclusively on commission terms.

Although, to conclude, we cannot claim that commission selling as practised in this country is free from all imperfections, from the point of view of growers or anyone else, we are left with no doubt that there is a very strong balance of argument in its favour.

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APPENDIX I

REVIEW OF THE MARKET STRUCTURE IN CERTAIN EUROPEAN COUNTRIES

I. FRANCE

In round figures the value of home production of fruit and vegetables is roughly $2\frac{1}{2}$ times as great as that of the United Kingdom, although the population and standard of living are much the same. The value of imports is also rather greater, while exports, which for fresh produce are insignificant in the case of the United Kingdom, are of substantial importance for France, although they run at a much lower level than imports, roughly in the proportion of 1 to 3. Exports have been rising more quickly than imports in recent years as a result of the large plantations of apples, peaches and pears which have been established partly by repatriated settlers from Algeria in the south and west of the country.

Apart from the sheer volume of the produce with which it has to deal, in France the fruit and vegetable trade is greatly concerned with the problem of transportation. The country is large and the population widely scattered, with one large concentration around Paris and a relatively small number of large cities. Moreover, the production areas which lie mainly towards the western and southern extremities (e.g. Brittany and Roussillon) are situated at considerable distances from the populated areas.

Partly because of the distances the produce has to travel from the production areas, and also because of the hot weather during the summer, perishability is a greater factor to be reckoned with than in the United Kingdom. There is thus a greater need for the assembly of supplies in the areas of production than in a country where production lies close to consumption.

In France, however, this has not led as in Holland to the establishment of a system which forces produce through markets in the production areas, except for the marketing of cauliflowers and artichokes in Brittany. Several markets, including the auction at St. Pol de Leon in Brittany, have been set up in the production areas, but these are few in number when compared with the number of fruit and vegetable auctions in Holland. Except in Brittany the business in these markets is conducted by private treaty, sales by auction having proved unpopular among French merchants and producers.

Thus, when the French government decided in 1952 to modernize the fruit and vegetable markets, it did not limit the plan to producer markets. The aim was 25 new markets, and of the money to be spent the greater part was to be devoted to markets in the consumption centres, although in each of these there was to be provision for a considerable area for sales by producers. So far 15 of the new markets have been completed, and among the remainder the largest at Paris-Rungis is due to be ready at the end of 1968.

Apart from Brittany there are no restrictions on the methods of sale, and in the wholesale markets in the consumption centres the main bulk of the produce is handled on commission by the market men, acting on behalf of growers, growers' organizations, country packers and collectors. Imports, which are largely from the former French territories, are also handled largely on commission.

In a recent report by C.T.I.F.L.¹ it was pointed out that wholesale fruit and vegetable markets originally grew up mainly in those centres of population which were encircled by production areas. In other words they developed out of the needs of growers to find an outlet for their production. As already described on page 4 they were started by growers, the trade gradually passing into the hands of firms who devoted themselves entirely to selling on commission, either for their own families or for growers well-known to them.

The system of commission selling can, therefore, be seen as an entirely natural development based on the trust which exists between people who are well-known to each other and which is carried on from one generation to the other. Thus it would be difficult for an entirely new firm to establish itself in a market and build up a commission selling business. If it were to go into a new market it would most likely have to do so as a buyer because growers are not easily weaned away from firms they have dealt with for a considerable time. Moreover a new firm might be disinclined to seek business on commission, because this makes it rely too much on growers' goodwill, thereby taking away its independence. Old firms which have grown up with this system have entirely adjusted themselves to it over the course of time and do not, therefore, feel under any constraint.

New firms are not often established in the fruit and vegetable markets, although sometimes old firms are able to open up branches in other markets, because their growers are tied to them by custom and usage.

¹ "Les marchés de gros de consommation en France" (Wholesale Consumption Markets in France), January 1968. Centre Technique Interprofessionnel des Fruits et Légumes (Technical Centre for the Fruit and Vegetable Trades), 22 Rue Bergère, Paris 9.

Selling on commission is, therefore, a custom rooted in the past and which cannot easily be implanted in a new place because it depends on bonds created by time and custom. Recognition of this makes it easier to understand why some of the more recent developments in marketing are based on firm sales between the grower and the merchant.

The C.T.I.F.L. report also drew attention to the fact that a large part of France comprising the north-east and centre of the country to the south of Paris, was almost empty of markets. In this large area (about a quarter of the whole country), there was very little production and the consumption of fruit and vegetables was well below the average for the whole of France. The report points out that in recent years two large firms of distributing (or delivering) wholesalers have built up a big business in this area of under-consumption and under-equipment in markets. That is to say, they have made produce available to retailers who did not have access to it previously and in this way have brought about an increase in consumption in this part of France.

These firms are comparatively new and it is interesting to know that they are not established in markets but work from distribution depots outside markets. It is no surprise, therefore, to find that their business is based on outright purchase and little if nothing is handled by them on commission. They go straight to the production areas, working usually through their own branches or sometimes through agents who buy on their behalf.

Perhaps it is not altogether a coincidence that side by side with a growth of the distributing wholesalers and the extension of their distribution circuits, there has been a considerable development of assembly organizations in the production areas. To a large extent these are the outcome of the newly-established fruit plantations, large growers having banded themselves together either in the ordinary form of agricultural co-operative societies or more usually in the form of association known as SICA (*Société d'Intérêt Collectif Agricole*).

It is noticeable that these comparatively recent organizations have a marked preference for outright sales and are very reluctant to send produce to the markets for sale on commission, although they are often obliged to do this for the more perishable products, as for example, peaches. They are, therefore, the main source of supply for the distributing wholesaler and for the multiple retailers and similar large retail firms. The SICA's are also active in the export trade mainly because much of the new production in France, especially apples and peaches, has to seek outlets abroad. For this also the SICA's look for firm sales, and many are equipped with teleprinters which facilitate this class of business.

When dealing with United Kingdom, however, the exporters in France are usually obliged to consign their produce for sale on commission as the importers in the United Kingdom are unwilling to be outright purchasers. Apples and pears are exceptions because owing to the quota system of import restrictions it is usually advantageous for those importers holding quotas, to make firm purchases abroad.

Brittany. The situation in Brittany calls for special mention. Up to half of the cauliflowers and artichokes grown in France are produced in Brittany, mainly in the department Nord-Finistère. Early potatoes are also important. Many of the farmers rely largely on these crops, but for outlets they are dependent mainly on the Paris market (350 miles distant) and to a smaller extent the export market.

Cauliflowers and artichokes are notoriously subject to violent market fluctuations, especially the former, supplies of which are so susceptible to changes in the weather. When these natural hazards are allied to difficulties attendant on distance from the main market, involving heavy transport costs, it is not surprising that unmarketable surpluses tend to occur from time to time. These occasions have caused bouts of discontent among the producers.

Only a minority of producers consigned their produce directly to the Paris market for sale on commission. The reason for this is not entirely clear, but the long distance was no doubt unfavourable to the development of a close relationship between senders and commission salesmen, while the small size of most of the producers is another factor. In these circumstances the produce was sold almost entirely in the production area. About 80 per cent was bought by merchants who bought it outright either from growers who brought the produce to their depots, or at one of the eight markets in the area. The balance was bought by seventeen co-operative societies. In 1960 there were about 75 merchants ("expéditeurs") operating from 230 depots.

There was a steady increase in the production of both cauliflowers and artichokes in Brittany during the 1950's, and during this period on a number of occasions gluts occurred, particularly in 1957. The brunt of the criticism fell on the merchants, and to cut a long story short the situation caused the growers to decide on a new market organization under the direction of a Société d'Intérêt Collectif Agricole (SICA). This organization (the SICA du Nord-Finistère) which comes under the law affecting the establishment of "Groupements de Producteurs" has the power to impose its rules on all the growers who are its members. The most important rule is in this case that the growers must sell all their produce at the auction at St. Pol de Leon or at one of the eight subsidiary markets.

The SICA was formed by 4,000 producers and 65 country merchants ("expediteurs") controlling 60-65 per cent. of the production. Outside the SICA are the ordinary producer co-operatives which are now merged in the Union des Co-opératives de Bretagne. This organization is associated with the SICA through its membership of the Comité Economique Breton and is recognized as a "Groupement de Producteurs". The co-operatives bring another 20 per cent. of the production under the marketing arrangements of the SICA.¹

The remaining 15-20 per cent. of the production is in the "outside sector", composed of 1,200 producers mainly in the coastal region who do not belong to the SICA. They sell to 15 independent merchants who buy either in the old type of market or at their depots. At the time of writing a public enquiry is in progress to consider whether the "outside sector" should be compelled to come under the umbrella of the SICA.

Since the SICA was established in 1961, there has, therefore, been no bargaining over prices so far as 80 per cent. of the produce is concerned. The merchants having collected the produce can either (a) sell the produce in bulk as collected or (b) sell it after it has been graded and packed. In the first case the produce must be taken to the auction for sale and removed after purchase to the packhouse of the merchant to be graded and packed. In the second case the produce need not be taken physically to the auction, but can be sold at the auction by grade description. It is said that in spite of grading according to national (now E.E.C.) standards, each packhouse has its reputation and prices are determined accordingly.

The SICA of St. Pol de Leon (Marché de Vent aux Enchères du Nord-Finistère) is merely an auction. It is, therefore, exactly comparable to the auctions in the Netherlands and does no trading itself. Like the latter it also has a system by which produce can be withdrawn from sale, when prices fall below a certain level. A fund has been established by means of a levy on sales, which is used to pay compensation for the produce so withdrawn. This has now been brought into line with the E.E.C. system for market intervention for which funds are now available from the European Agricultural Guidance and Guarantee Fund.

Apart from the scheme for withdrawing produce from the market and the fact that the prices are now made in the open at the nine auctions instead of by private treaty at the two hundred or so depots of the merchants and of the co-operatives, the new system is

¹ Le Chou-fleur (The Cauliflower). Dossier Economique C.T.I.F.L. 1968, pages 32-38.

the same in basic essentials as the old one. That is to say the produce is sold in the production area, and whoever buys there has to undertake all the subsequent risks of marketing. Thus a merchant who buys at the auction on, say, Tuesday, does not know within limits the price he is likely to sell it for on the Wednesday or Thursday. Nor can he be sure of the condition of the produce when it arrives at the terminal market. The same applies whether the merchant is, say, a Paris wholesaler buying from, say, a packer in Brittany (in which case the latter offers at the auction a price in line with his offer from Paris), or whether he is a Brittany merchant buying at the auction produce which he then sends to Paris for sale on commission. The point is that the offers made at the auction at St. Pol are at price levels influenced by the risks that have to be undertaken by the buyers. Moreover, the latter are not only concerned with prices but also with quantities, and they are not likely to buy greater amounts than they are likely to be able to sell at the prices they expect.

Whatever the merits may be of establishing a price in the open, the auction has done nothing in the vital matter of reducing the time taken between harvesting the produce and dispatching it to the markets. If anything the process has been slowed down and calls for additional handling and bookkeeping, because all the loose ungraded produce must be brought physically to the auction by the merchants and by the co-operatives. As any extra time necessarily involves some loss of freshness and condition, this inevitably leads to a lowering of the value of the produce and hence its market price. Perhaps it was because they recognized this, that as many as 20 per cent. of the producers decided not to join the SICA.

It is indeed difficult to see how the present scheme has achieved anything to improve the position of the growers in the marketing process. The fact is that an improvement in the growers' position can only be achieved by a system which avoids selling in the production area. This could have been accomplished if for example the co-operatives in Brittany had organised the collection of produce (and if necessary the grading) and sent it for sale on commission to Paris and other markets, in a similar fashion to the marketing of tomatoes by the Guernsey Tomato Marketing Board. It would have been probably too much to expect the merchants in Brittany to act as commission sellers because there was probably little tradition of selling on commission in Brittany. Outright sales to local buyers had been the custom and it is very difficult to bring about a fundamental change in the methods of selling. Nevertheless as described on page 19 the Dutch authorities are now considering just such a change.

It is interesting to note that the auction system in Brittany has done nothing to prevent gluts arising and one of the largest surpluses arose early in May 1968 when 7,000 tons of cauliflowers were withdrawn from the auction of St. Pol in accordance with the E.E.C. Transitional Scheme for Market Intervention.

II. WEST GERMANY

The main factor affecting the structure and functions of the fresh fruits and vegetable trade in Western Germany has been the growth of imports, which are considerably larger in volume and proportion to home production than in any other country. Moreover, the volume has increased enormously since 1954—fruit imports which represent three-quarters of the total, have increased three-fold, while vegetables have doubled. By 1965 imports of temperate fruits represented 38 per cent. of the volume of such fruits consumed, while citrus and tropical fruits were as large again as the imports of temperate fruits. Imports of vegetables accounted for one-third of the total consumption. It can be appreciated from these figures that the wholesale trade, which did not come into existence until about 1880 after the unification of the country, has been largely founded on imports and to a much greater extent than elsewhere. As in the United Kingdom and France, the importing business is carried on mainly on a commission basis, to the extent of some 80 per cent. or more. On the other hand the proportion of home-grown produce entering the wholesale markets and sold by the market men on commission, is not only much smaller than the figure for imports handled in this manner, but is also much smaller than in the United Kingdom, France and Italy where commission selling is the rule.

For the main wholesale markets taken together, however, sales of home produce on commission are by no means negligible in the Federal Republic, and the statement on page 115 of an O.E.E.C. report published in 1956 that "no home produce is sold on commission",¹ is certainly incorrect. Nevertheless a visit to one or two of the main wholesale markets might certainly give this impression.

In this respect the large fruit and vegetable markets in the consumption centres of Western Germany contrast with those in the three other large countries of Western Europe (United Kingdom, France and Italy), where the market men are mainly commission salesmen. To the extent that they do not trade on this basis, the

¹ "Marketing of Fruit and Vegetables in Europe". Project No. 249C. Published in 1956 by The European Productivity Agency of The Organisation for European Economic Co-operation.

markets of Western Germany stand between those of the United Kingdom, France and Italy on the one hand and those of the smaller countries such as Holland, Belgium and Switzerland on the other.

On visiting the German markets, the reason for differences between them in trade practices and between some of them and those of the United Kingdom, etc., may not at first be apparent. It soon comes to light, however, that those markets in which for home produce the market men are purely merchants, i.e. buyers and sellers and not commission men (i.e. merely sellers), are those in which growers' auction markets have been set up either in the markets themselves or in the nearby production areas.

Thus the important intensive market gardening area stretching from south of Bonn almost to the Dutch frontier, is dominated by nine growers' auction markets between Strahlen and Mecklenheim. Their effect on operations in the wholesale markets can be seen to best advantage in the case of Cologne, where the wholesale market contains within its precincts the growers' auction market. This market operates in the afternoon and is used by about 500 local growers. Only wholesalers are permitted to buy at the auction and those of them who have premises in the market, sell there from 6 a.m. onwards the produce they have bought on the previous afternoon.

Just as in Holland the circumstances in the Rhineland compel the market traders to become buyers, except to the extent that they receive produce from some distance outside the immediate production area, they could handle such produce on commission. It is unlikely in practice that they in fact do so, because it seems that most produce is consigned to them on the understanding that the senders receive the same prices as were ruling at the auction on the day of arrival.

There can be no doubt that the dominance of the auctions in this part of Germany has effectively restrained the growth of commission selling in the main wholesale markets such as Cologne, Düsseldorf, Bonn, etc. The importers in these markets are, however, just as much commission men as are their counterparts in Covent Garden, Paris or Milan.

Elsewhere in the Federal Republic the system is less strong. Out of a total of 188 fruit and vegetable co-operative marketing societies in 1961, handling 30 per cent. of the commercial production of vegetables and 20 per cent. of the fruit, some 60 held auctions. Outside the Rhineland area (which has the largest auction at Roisdorf, near Bonn) the largest is at Hamburg.

There may be a connection between the number of producers and the establishment of growers' auctions, because there does seem

a definite tendency for auctions to become established in areas with large numbers of small growers. Figures published by the Federal Ministry of Agriculture,¹ show that there were in 1961, no less than 207,000 horticultural holdings in Western Germany, but of these only 41,000 (1/5th) were full-time enterprises. Of the latter three out of four were exclusively devoted to horticulture.

Part time farmers, many of whom have well paid jobs in industry and commerce, are one of the main features of German farming, and their large numbers produce problems of assembly which are less acute in other countries. For example, the large auction at Roisdorf near Bonn belongs to a co-operative with 350 members. It is used, however, by some 2,800 growers, only 800 of whom are full-time growers.

Throughout the whole country there is considerable direct selling by the producers themselves. This occurs especially on the wholesale markets, most of which have a considerable space (covered at some markets) devoted to growers' stands. At these places retailers can also buy. Thus at Stuttgart there are places for 600 growers who come from within a radius of 40 miles. There is also an auction here which handles about one-third of the produce sold on this market by producers.

The large markets at Hanover, Bremen and Munich are also provided with ample spaces for growers. At these markets commission selling also takes place, and both for imports and home produce is the general rule at Munich. One large and growing firm has developed an expanding business in home produce on commission in recent years at Hanover, Brunswick, Bremen, Berlin, Hamburg and Lübeck.

There are no reliable statistics to show the relative importance of the different methods of selling in West Germany, although a study at present being carried out by Dr. R. Fackler of the Institute for Horticultural Management and Market Research at Hanover, will probably throw much light on this subject. As a rough approximation the proportion of fruit and vegetables grown in the country and sold on commission might be put at no more than 15 per cent., bearing in mind that apart from the substantial amount of produce sold at the producers' auctions, there is a great deal of direct selling by producers not only from their stands in the wholesale markets, but also to chains and supermarkets, although much of this might be handled by the co-operatives. Thus the practice of selling on commission by growers is much less important than it is in the U.K. where it is as high as 70 per cent. of all sales or in France where it is about 60 per cent. and probably not less than the latter figure in Italy.

¹ Horticulture in the Federal Republic of Germany, Bonn, 1966.

As already stated one reason for the low proportion of commission sales, is the prevalence of the auction system in some parts of the country. It is difficult to explain why this became so popular, but no doubt Dutch practice had a great deal of influence and once an institution becomes established it acquires a momentum which carries it on, largely because people become accustomed to it. It may be significant, however, that in one part of Germany at least, the auction system has declined. This is in Baden-Württemberg where the strongly organized co-operatives of the WÜRTTEMBERGISCHE LANDWIRTSCHAFTLICHE ZENTRALGENOSSENSCHAFT abandoned their auctions four years ago, and have turned over to a system of direct selling combined with consigning to the large markets for selling on commission.

Another factor which has tended to keep the proportion of commission sales on the low side in West Germany, is the rapid growth of the retail chains and supermarkets in recent years. There are no available statistics on their combined fresh fruit and vegetable business, but it is almost certainly larger than in the U.K. These firms have tended to avoid the wholesale markets and gone in for direct procurement, either by buying at the auctions or more frequently by arranging with growers for supplies on contract. When it is borne in mind that in the U.K. the specialist retailers together with those distributing wholesalers who supply some of them are the main-stay of the private treaty markets, the significance of these German developments in relation to market practices can be appreciated. Nevertheless, the position of the specialist retailers may not be as black as it appears. While their proportion of total sales may have fallen substantially, in actual volume they have not suffered such a large fall, because it is the enormous *increase* in fruit consumption and to a lesser extent of vegetables, that has come from purchases made in the chains and supermarkets.

For this reason, although some observers have concluded that the wholesale markets have had their day, the statistics of their turnover (in physical quantities) show that they have held their own and even increased their business in some cases. Moreover the large retail concerns have not made an unqualified success in the realm of direct purchases. Some have even experienced considerable losses in buying produce outside Germany at firm prices, having not unnaturally misjudged the market. These experiences have tended to drive them back into the markets for their purchases, as can be seen from the fact that their names appear more and more above premises in these markets.

To sum up, selling on commission has developed less in Western Germany than in other large industrial countries, due largely to

historical reasons, which have led growers to concentrate on local sales, either directly by themselves in nearby wholesale markets, or at organized markets in the production areas, with selling mainly by auction. While there is little to be said against direct selling by growers in the wholesale markets—apart from the time it takes up—the practice of selling at auctions both in the wholesale markets and in nearby production areas has introduced a rigidity into the marketing system—especially when retailers are excluded from buying at these auctions.

III. ITALY

Fruit and vegetables accounted for 27 per cent. of the total value of the output of farming in Italy in 1964, giving these products a position in the agricultural economy which in Europe is only exceeded in Spain. Moreover, their relative importance has increased substantially since 1952. While the percentage of the total value of fruit and vegetable production represented by exports (20 per cent.) is much less than in Holland (57 per cent.), in total Italian exports are about double the value of the Dutch. They are also much more varied in character. Imports—mainly bananas and other tropical fruit—are of relatively slight importance.

Although exports are important, the fruit and vegetable business as a whole is dominated by the home trade which is very large indeed. Most of the chief cities of Italy have considerable areas of production in their immediate localities, but because of the length of the country, the difference in climate between the north and the south—especially during the winter, gives rise to a large seasonal movement as supplies diminish in some parts and increase in others.

Wholesale markets exist in all the larger cities throughout the country, and in recent years some of those in the north have been rebuilt on newer, larger and more convenient sites. The latest of these is that at Milan which was opened in 1965 and which is at present the largest in Europe in superficial area. It will, however, be much smaller than the new Paris market at Rungis when this starts to operate at the end of 1968.

As in France, Germany and Denmark the Italian wholesale markets still provide for a great deal of direct selling by local producers who are usually provided for in a considerable section of the market. Thus for example at Milan most of the 500 or so growers around the city have stands in the market from which they sell not only to retailers but also to travelling wholesalers. There are one or two exceptions. For example, at Verona there is no provision for growers in the wholesale market and they are obliged to either bring or consign their produce to the market men for sale on commission.

Such divergences from a general pattern are not uncommon in Italy and it is not easy to discover even from the Italian authorities themselves the reasons for these differences. The explanation seems to be that the markets are subject to regulations which are embodied in old laws which originated in the separate States existing before the unification of the country was accomplished in the 19th century. Another example is in Rome where only retailers are permitted to buy in the wholesale market.

In the south of Italy the producers are smaller and much more numerous than in the north, so that even if there is room for them in the markets, only a proportion of them can go there. Therefore we find that in the markets at Rome, Naples and Bari the market men are handling produce on commission from many local growers and this is the main business of the smaller firms. The bigger firms in these markets like those in the north are also handling produce on commission—but usually from further afield, and because there are few large growers in Italy, they tend to deal with collecting merchants and to a lesser extent with grower co-operatives in the various production areas.

The collecting wholesaler is found in those countries in which the production areas tend to be remote from the main markets. He is particularly active in Italy because, unlike France, there are virtually no markets in the production areas. Moreover, there are so many very small producers that often there are small collectors between them and the large collecting firms.

Generally speaking the collecting firms send to the market men on a commission basis. In their own buying from growers, they buy either at an agreed (firm) price or at a price which is settled after the produce has been sold in the wholesale market. Even with the first type of sale the price is sometimes subject to correction if the final sale does not come up to expectations. Another method—not confined to Italy—is practised in Apulia and Sicily and consists in the merchant buying the fruit on the trees before harvest at an agreed price and according to an estimation of the crop.

The export trade in Italy is specialized according to the products of the region. Thus, apples are the main commodity of the export firms of south Tyrol, table grapes from Apulia, oranges and lemons from Sicily. There are also a few very large firms operating in several regions and covering a range of products.

While the bulk of the exports are handled by the importers in the receiving countries on commission, and this is almost exclusively the case with exports to the United Kingdom, many of them strive to make firm sales whenever this is possible. In recent years, this has been made easier by the use of Telex which gives indisputable

evidence of the terms of the transaction, whereas use of the telephone can give rise to disputes as to what was actually agreed.

So far co-operative organizations have made little progress outside the south Tyrol and some other parts of the north. It is, however, the policy of the government to stimulate the growth of co-operatives especially in southern Italy. Some of those already established there are more like the companies of large growers which have been established in France in the form of SICA's. Much less success seems to have been achieved among small growers.

APPENDIX II

E.E.C. BUSINESS CODE FOR THE FRUIT AND VEGETABLE TRADE

Some years ago there were moves to get the E.E.C. authorities to prohibit the selling of fruit and vegetables on commission. These attempts were not successful, as it was agreed that such a prohibition would be an interference with accepted trade practice.

Nevertheless it was thought fit that there ought to be a body of rules issued by a responsible authority which would serve as a guide for the conduct of the trade. The task was undertaken by the Union of the Wholesale Trade in Fruit and Vegetables of the E.E.C. together with the committee of the agricultural professional organizations, the agricultural co-operative committee and the groups representing the processing industry. These rules were embodied in a "Code d'Usages"¹ which was published in December 1966.

The code covers a wide range of matters such as contracts, marking of packages, weights, advice of loading, methods of payments, etc. The section dealing with sales on commission is contained in Article 20 which reads as follows:

SALES ON COMMISSION

1. Sales on commissions shall take place when the transaction is carried out on the orders of the principal, on his own account and at his own risk and peril. The commissioned agent shall be fully accredited.

2. Even where a minimum price is agreed upon, the rules regarding sales upon commission shall be applicable.

3. Likewise the provisions of the present code of practice shall also be applicable to sales on commission with, however, the following special conditions:

(a) The Commission agent must act as a good *paterfamilias* and must, in particular, take account of the fact that he is dealing in perishable foodstuffs.

(b) Where there is no agreement to the contrary, a commission agent must supply an exact account of sales as quickly as possible.

This account must contain the result of the sale. On request by the principal, the result is to be set out per day, and/or in terms of prices realized.

(c) Right of control may only be exercised by an independent accountant.

¹ Code d'Usages pour les fruits, légumes et primeurs frais et comestibles (C.E.E.) (Business Code for Fruits, Vegetables, etc., E.E.C.). Published by E. Appelhans and Co., Salzgitter-Bad, W. Germany.

APPENDIX III

METHODS OF THE STUDY

The main method of this Study has consisted of interviews of leading operators in various branches of the trades concerned. There is little previously assembled knowledge that could have been referred to, and the subject was unsuited to the circulation of set questionnaires. Thus the main source of information has consisted of records of interviews which were made on the spot, in which the grower, wholesaler, exporter, etc. was first taken through a general discussion of his own business, of the business of the market or area in which he was operating, and then by stages drawn into a discussion of the particular role of commission trading.

How far these discussions proceeded depended in each case on the individual's own involvement in commission trading, the degree of his understanding of the wider aspects of his trade, and the ability with which we were able to break down the language barrier. In virtually no case was there any reluctance to talk candidly, and apparently with complete accuracy within the individual's range of knowledge.

It will be appreciated that the writers have been engaged for some years on a range of horticultural marketing studies, and that it was unnecessary for this one to have collected as much original data as would have been the case if it had stood alone. On the contrary this Study has incorporated a considerable amount of information and inferences drawn from previous studies over many years. So far as we can tell, we have also taken account of all previous relevant studies, statistics, etc.

In addition to the United Kingdom the following countries were visited for the purpose of studying trading practices and discussing these with growers, growers' organizations (including co-operatives), market traders and market authorities.

France	Belgium
Italy	Switzerland
Germany	Denmark
The Netherlands	

As the study was concerned with the methods of trading in the large wholesale fruit and vegetable markets, these were the chief places visited. In addition visits were made to production areas to obtain information from growers, growers' organizations and country

merchants (including "expéditeurs") sending to the main markets. In these areas also the opportunity was taken to visit producers' markets, where these existed, and especially those using the auction system of selling.

On visiting a wholesale market contact was usually made with the market director who made arrangements for discussions with one or two leading wholesalers and growers. In some cases these were the presidents of the local trade associations. These visits together with those to growers and markets in the production areas were arranged by a variety of organizations—official, semi-official and private, whichever seemed most appropriate to the country concerned. These organizations usually provided officials who accompanied the writers and acted as interpreters. At auctions the selling was observed together with preparation of the produce for sale, grading and cataloguing, also the means by which produce arrived at the auctions.

The following is a list of the markets and other places visited in the various countries:

France:

Wholesale Markets—Paris (Les Halles), Lyons, Nantes, Bordeaux, Toulouse, Nîmes, Montpellier, Avignon.

Producers' Markets—St. Pol de Leon (Brittany), Chateaufort, Perpignan, Agen, Angers.

Growers, Growers' Co-operatives, SICA's, etc.—Landerneau (Brittany), Garonne (Dordogne), Orange, St. Andiol, Bouleternère (Roussillon), Auriac (Nîmes), St. Peray, Perpignan.

Italy:

Wholesale Markets—Milan, Verona, Florence, Rome, Naples, Bari.

Growers, Growers' Co-operatives, Exporters—Ferrara, Bolzano, Etschtal-Vilpian (South Tyrol), S. Bartolomeo, Rutigliano (Puglia), Margherita di Savoia (Puglia), Trinitapoli (Puglia), Borgo Mezzanore (Foggia), Torre Annunziata.

Germany:

Wholesale Markets—Hamburg, Bremen, Hannover, Cologne, Stuttgart, Munich, Brunswick.

Producers' Markets—Roisdorf (auction market), Heilbronn.

Growers, Growers' Co-operatives, etc.—Bonn, Hürth/Kalscheuren, Kressbron, Landwerthren (Hannover), Ravensburg, Bad Godesberg.

Netherlands:

Wholesale Markets—The Hague, Amsterdam.
Auction Markets—Westerlee, Delft.

Belgium:

Auction Markets—Wavre St. Catherine (Malines), Zellik (Brussels).

Switzerland:

Growers' Organizations—Zürich, Zug, Basle.

Denmark:

Wholesale Market at Copenhagen.
Producers' Markets (Auctions)—Odense and Køge.
Growers—Alburtsburg, Stradveg, Färevejle, Slagtille-Siso, Hefölge.

United Kingdom:

Wholesale Markets—Wigan, Preston, Blackburn, Covent Garden, Brentford, Spitalfields, Cardiff, Bristol, Leeds, Manchester, Coventry.

Growers' Markets—Persore, Evesham.

Growers' Co-operatives, country merchants, etc.—Kent, Essex, Sussex, Bedfordshire, Cambridgeshire, Devon Cornwall, Lincolnshire.

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