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# Are the collective actions in the Romanian fruits and vegetable sector a mean to access the retail chains?

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**Abstract:** *The agricultural sector – in particular, the fruits and vegetable sector – finds itself in a relatively weak negotiation position due to the low level of concentration from which farmers approach the market. This is a weakness that can only be overcome by resorting to collective actions, i.e. the creation of producer organizations (POs) and producers groups (PGs). The concentration of supply of POs is quite different in the member countries, Romania having about 1% of production concentrated by producers groups and producers organizations. In this paper it is analysed the production (area, yield, number and size of fruits and vegetable farms) and the supply chain of fruit and vegetable sector in Romania. In addition the paper concentrates on the historical development of the POs and the role of the POs of the fruit and vegetable sector. It is important to clarify the impact of changes of the regulatory framework and the impact of the minimum requirements of the POs (minimum number of members, minimum value of marketed production) and the performance of producers and organizations groups.*

**Keywords:** *collective actions, performance of producers and organization groups, retail chains*

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According to data provided by the Integrated Administration Control System (IACS) in Agriculture in Romania, the vegetable farms less than 3 hectares are prevalent, 85 per cent of which are managed by individuals. High degree of market fragmentation and dispersion of cultivated land following land restitution as a result of the Land Law no. 18/1991 and the followings create significant limitations regarding the adoption of new technologies (agricultural works, processing and marketing structure, updating farmers' skills) and contributes to increases in production costs and transaction costs. Also, due to lack of experience in the use of insurance schemes and lack of confidence in the system and the transaction costs involved, any adverse climatic event, disease or pest attack creates direct losses to vegetable producers. At the same time, the existence of a large number of farmers who produce for their own consumption but sell a part of the production either at the farm gate directly or through intermediaries, does not allow a clear distinction between commercial and subsistence farms, and consequently hinder the adoption of appropriate fiscal and consistent policies. All these factors have a direct impact on POs and PGs operations, the price fluctuations, market orientation of the sector and its productivity.

Growing vegetables in Romania is an activity with a long tradition. Taking into account the cultivated area, with an area of 258 thousand hectares Romania ranks the 5th among countries producing vegetables from the European Union, and 6th in terms of the area occupied by orchards.

## Review of literature

Several studies were carried out in this field, part of them being described by Alboiu (2013). For instance, in addition to the historical problem of low prices and profits faced by farmers, agrifood systems are undergoing profound changes, requiring institutional adaptation (Hobbs 2004). One of the core ideas of New Institutional Economics (NIE) is that institutions matter, and therefore, they are important to lower transaction costs (North 1995, Williamson 2000). North (2000) emphasizes that informal institutions influence the development of formal ones and highlights the role of innovation to support the development of informal and formal institutions. An example of an informal institution may be the resistance of farmers to work interdependently given their traditional beliefs of independence (Boehije 1996). North (1995) points out that while formal institutions may be changed relatively rapidly, informal institutions may take longer to evolve. Collective actions can exist in different forms such as informal networks, cooperatives, producer groups, organisations and strategic alliances. In this research, special attention is given to collective arrangements especially to the producer groups that might facilitate the participation of small farmers in the supply chains. Regarding collective action, Bardhan (1989) emphasizes the high propensity of opportunism and free-riding problems in collective actions that may limit the development

of institutions to bring common benefits. The author mentions the problems of unbalanced power among agents that NIE seems to ignore in the development of institutions. It is expected that collective actions in the form of institutional and organizational arrangements, help reduce transaction costs. Collective actions can contribute to increasing bargaining power of farmers to negotiate with their clients through the pooling of produce. Similarly, by bringing together resources farmers can access key assets that cannot be acquired on an individual basis.

While competition at the retail stage stimulate changes in formats of retailing and outlets, the tendency to concentration and consolidation also in upstream stages of supply chains creates a bias against small farms and supports forms of association at farm level stage (Dell'Aquila et al. 2011). In the recent years, emerging causes of instability (market price volatility, overproduction, increasing costs of production, stagnating consumptions, growing fruit and vegetable imports as effect of bilateral/multilateral accords) add to structural weaknesses (sector fragmentation, and its weak bargaining power, versus retail concentration and agro-food industry competition), exacerbating the tense relationship in the fruit and vegetable supply chain (Dell'Aquila et al. 2011). Also, the requirements coming from retail chains have steadily increased. All these requirements may mean further investments that small farms find difficult to realize on an individual basis. In many cases farmers simply do not have the knowledge or the money to make investments in equipment and logistics support to meet these requirements. Ongoing developments of supply chains imply a significant bias towards large farms. This makes collective actions among individual farmers a further step to improve their situation. The problem is not only to concentrate supply and give producers a prerequisite necessary to start interacting within modern supply chains, but also to undertake contractual arrangements in order to successfully coordinate with packers, wholesalers and large retailers, with the purpose of optimizing operations, so that production will comply with demand, in particular with regard to product quality attributes (Fischer et al. 2007, Camanzi et al. 2009).

It is important to note also the role of commodity branch association in organizing the supply chains, but in Romania a country where production is very fragmented and the supply is atomized, and price volatility is extremely high due to weather variation, Romconserv, the only one commodity inter-professional association in this sector it is far from providing all support required by farmers and other actors in the sector. Commodity associations will not be able to tackle all agrifood chain issues. Indeed, the weight of farmers in the decisions of the association will be limited in a context of increasing agricultural price volatility, commodity associations can become a locus for voicing disagreements. Therefore, their effectiveness will depend on stakeholders' capacity to define a large area of convergence for the actions of the association, which should benefit all industry members (Cadilhon and Dedieu 2011). The fruit and vegetable sector shows a rate of organization that on average is at a relatively low level and very far from the objective of 60 per cent established

by the Common Market Organization: in 2006 it was 34 per cent in the EU-25 and 35 per cent in the EU-15 (Agrosynergie 2008). After the EU enlargement of 2007 to Bulgaria and Romania, there seems to be an overall decrease, due to an organization rate below 1 per cent in these two countries (Jacquin 2010). The rate of organization is very heterogeneous among the Member States: it has risen to over 80 per cent only in the Netherlands, Belgium and Ireland. At the same time, the rate of organization shows a great difference between new and old Member States not only as percentage level, but also in terms of variation: the former (EU-10) varies from 6 per cent in 2004 to 9 per cent in 2007; the latter (EU-15) varies from 32 per cent in 2004 to 39 per cent in 2007 (Jacquin 2010). For instance, the low negotiation power of Romanian producers and high transaction costs also contribute to the need to establish producer groups to participate in collective actions.

## Methodology

This paper analyses the most typical characteristics of POs and PGs in Romania. It gives a brief overview of the basic features of the Romanian vegetable sector. The paper present statistical data on production, harvested area, total harvested production, value of gross production at current prices and constant prices. The time frame for this analysis was the period 2003–2012. Data was collected from the National Institute of Statistics in Romania, abbreviated as NIS. Also, the paper presents the structure of supply chain in Romania highlighting its main characteristics, including the development of producer organisations in the EU and in Romania. The analysis is based on data available from the European Commission, and Ministry of Agriculture and Rural Development of Romania. The examined period was 2006–2014 and takes into consideration the main changes during this period. Also the research gives a qualitative analysis based on interviews with representatives of retail chains and producer organisations and groups in both countries.

## Results and discussions

### *Characteristics of the fruit and vegetable production in Romania*

The evolution of vegetables production during in the period 2003–2012 is presented in Table 2. The total vegetable harvested production recorded a volatile trend during the period 2003–2013 due to weather variation which is also reflected in prices and in the total value of gross production (Table 2).

This features strong variability due to variations in weather conditions, seasonality and high perishability, zonality and marketing problems In addition to these, the use of agricultural inputs which does not respect the standards both in terms of quantity and quality, their application outside the optimal period, or the use of equipment which does not keep the pace with technological development. The harvested area has slightly increased in the period 2003–2006,

but it steadily decreased beginning with 2008, following Romania's integration into the EU, when the market was completely free for EU products but also a tendency of reduction of cultivated area in open field and an increase of the area in protected spaces such as plastic tunnels.

**Table 1. Production of vegetables and fruits in Romania, 2003-2012**

Denomination	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012**
<b>Vegetable</b>										
Harvested area (thousand hectares)	241.9	308.2	266.7	280.1	253.4	268.6	267.1	262.7	263.4	258.9
Total harvested production (thousand tonnes)	3,358.3	4,773.9	3,624.6	4,138.9	3,116.8	3,819.9	3,901.9	3,863.6	4,176.3	3,535.3
Value of gross production at producers prices (EUR million)	1,159.3	1,711.3	1,086.5	2,161.4	2,015.1	2,489.2	1,732.8	2,516.2	2,146.6	2,095.8
Value of gross production at constant prices (EUR million) <sup>a)</sup>	1,065.9	1,141.9	1,541.8	2,144.6	1,696.2	2,280.4	2,135.4	2,099.5	2,485.5	1,792.5
<b>Fruits</b>										
Total fruits tree numbers (million pieces)	109.9	107.2	104.4	92.8	96.4	90.0	87.6	96.7	85.7	82.4
Total harvested production (thousand tonnes)	2,088.5	1,744.4	1,647.0	1,486.4	1,085.8	1,179.2	1,323.0	1,419.6	1,479.9	1,128.6
Value of gross production at producers prices (EUR million)	874.7	855.8	964.9	1 024.5	931.3	1 037.4	913.7	995.7	1 202.1	990.6
Value of gross production at constant prices (EUR million) <sup>a)</sup>	934.3	745	737.2	981.4	839.9	896.4	991.6	921.5	1 076.4	906.8

a) At previous year's prices.

\* revised data; \*\* temporary data

Source: NIS.

On average in 2010–2012 the main cultivated vegetables are tomatoes (50.4 thousand hectares) followed by white cabbage (47.7 thousand hectares), dry onion (33.3 thousand hectares) and water melon (31.3 thousand hectares). Regarding the harvested production, the white cabbage comes first (998.1 thousand tonnes), followed by tomatoes (787.6 thousand tonnes) and water melon (621.0 thousand tonnes). The main cultivated fruits in Romania by cultivated area are plums and apples. The harvested production is almost similar between apples and plums (545.4 and 540.8 thousand tonnes) on average in 2010–2012.

### *The structure of the fruit and vegetable supply chain in Romania*

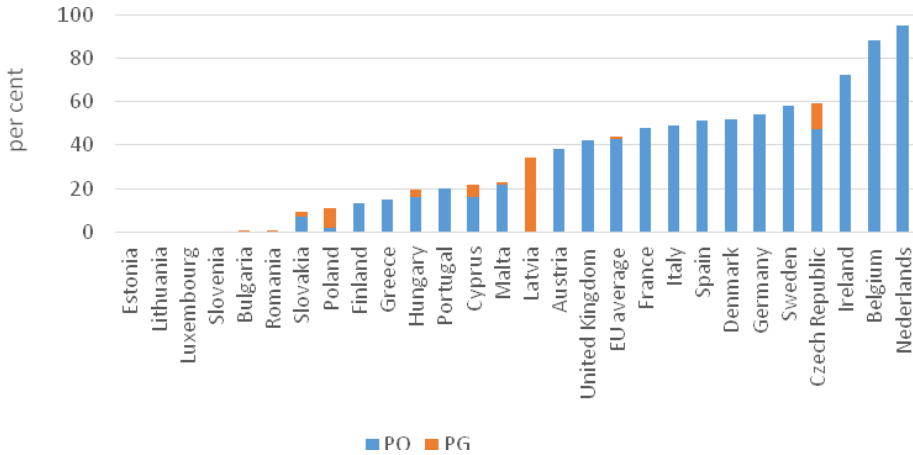
Romania's production of vegetables is fragmented, mostly coming from the individual households (90 per cent) and only 10 per cent from the legal farms. The Romanian vegetable chain is characterized by uncertainty in terms of what vegetable to produce and where to sell, and it negatively impacts the farmers' revenues and investment decision. At present, in Romania 42 per cent of grocery sales are made through modern retail chains out of which 25 per cent is represented by hypermarkets, 9 per cent supermarkets and 8 per cent discount stores. At the same time, in the recent years an increase of consumers' appetite for doing shopping in modern retailers has been noticed, i.e. 70 per cent of consumers in the urban areas. In this context it is important to know whether collective actions are important for farmers to face the new challen-

ges of modern retailers to fulfil their requirements in terms of quantity, quality and frequency of deliveries. Following the EU integration, the vegetable supply chain seems the most negatively affected sector, due to the high share of imports and the farmers' impossibility or incapacity to maintain stable contractual relationship within the chain. In addition, many of them are not able to enter or form producer groups or participate in other type of collective actions either because of lack of trust or willingness to cooperate. Also, the National Rural Development Program reveals an extremely low absorption of funds for the measure aimed at setting up producers group as well as an extremely small number of applicants.

The representatives of the Romanian organizations and producer groups indicated several constraints for delivering to modern retailers. First, procurement mechanisms vary between retailers. Some modern retailers are found to usually pay three weeks or one month after the delivery of the products, which can be problematic for small farmers belonging to PGs that do not have a financial buffer to overcome this period. Second, in order to be allowed to deliver to some large retailers, POs and PGs have to pay an entrance fee, so called "shelf fee", which is often too high for small farmers. For example, the representative of the producer group indicated that the "shelf fee" can vary between 10–15 per cent of the price that the farmer will receive from the modern retailer for his products. Beginning with 2008, in Romania the employer organizations and trade unions indicated that it is very difficult for farmers to deliver to modern retailers because they cannot supply sufficient quantities. They also indicate that the "shelf fees" that modern retailers charge are substantially higher for local producers that are only able to offer small quantities to the modern retailer compared to those delivering large quantities which makes it virtually impossible for small producers to deliver to a modern retailer. The producers and their representatives also mention that increasing quality standards (requirement of several certificates on chemical use) and the poor packaging and sorting infrastructure are important constraints for to deliver to supermarkets (Swinnen and Van Herck 2010).

The Romanian representatives of producer organisations and producers groups also mention that increasing quality standards (requirement of several certificates on chemical use) and the poor packaging and sorting infrastructure are important constraints for small farmers to deliver to supermarkets.

A significant percentage of these farmers, compared to farmers who sell using traditional channels, pays membership to their organizations, and gets several services from their producer group (packing, sorting, and marketing). Practically, Romania ranks among the last countries considering the number of PO and PGs at the level of EU (Figure 1)..



**Figure 1. The share of total value of EU fruit and vegetable production marketed by POs and PGs in 2010**

Source: European Commission (2014).

### *The evolution of POs and PGs in Romania*

Before the EU accession of Romania 44 PGs had been preliminary recognised by the Ministry of Agriculture and Rural Development of Romania (MARD). After the EU accession vast majority of them were not able to reinforce their recognitions as a result of this their licenses were withdrawn. Only 4 PGs and 1 PO existed that were able to comply with the requirements of EU regulation in 2008. In the next years the number of PGs increased from 4 to 35 by 2011, the number of POs did not changed. In 2013 3 POs were recognised out of PGs, hence the number of POs reached 4. In the meantime the PGs recorded a sudden decrease to 24 in 2013 (Figure 4). At the moment 21 out of 24 PGs are organised as limited liability companies, 2 cooperatives and 1 stock company. 3 out of 4 POs are organised as limited liability company and 1 agricultural association.

The main reason for this fluctuation was the incapacity of PGs to realize their proposed value of marketed production, and this is the reason why PGs did not receive the preliminary recognition. Most of the farmers were unable to establish PGs or to participate in other types of collective actions due to the lack of confidence, bad memories related to communist cooperatives, or lack of willingness to cooperate. At the same time, the National Rural Development Program had a very low absorption of funds for the measure targeting the establishment of PGs in the period 2008 and 2013 (Measure 142: Setting up producer groups) and also the number of applicants was low. Also, the promotion and the explanation of the Measure 142 were not sufficiently done especially in the context of a certain reluctance of farmers to get to work collectively.



In Romania, producer groups are legal entities (limited liability companies, joint stock companies, agricultural associations constituted as per Law 36/1991, agricultural cooperatives, associations formed according to GO 26/2000) formed by producers who cultivate products that are covered by the Conditions sector and who wish to reach the status of a producer organization. Transition period to achieve this status is 5 years. To qualify they must submit a plan of national recognition. If this is accepted, then it is considered that the group is preliminary recognized and is accepted when the transition begins. The groups must have minimum 5 members and the members sell minimum 75 per cent of the obtained production through the group. The recognition must be asked by products and the value of marketed production for each product must be at least EUR 10000. It means that not more than one product is sufficient for the recognition. During the transition period, the authorities may grant support for groups, such as:

- Encourage training and administrative costs
- Cover part of the investment needed to achieve recognition (as it was specified in their recognition plan). This support is partly reimbursed by the EU and ceases when the producer group was recognized as a producer.

In general, there is a certain reluctance regarding the formation of these groups as well as difficulties in their work.

The producer group as a legal entity had also access to the National Program for Rural Development (2007-2013), and could access specific measures of this Program including: Measure 121. Modernization of agricultural holdings, Measure 123. Adding value to agricultural products or Measure 214. Agri-environment payments

### *Performance of POs and PGs in Romania, 2007–2013*

There were only 4 POs and 24 PGs operating in Romania in 2013 that had 220 members who produced fruit and vegetables on more than 5 thousand hectares (Table 2).

The total value of marketed production has significantly increased since 2007 from about EUR 4 million to EUR 36 million. At the same time the number of hectares operated by groups and producers organizations increased about 5 times in seven years. Nevertheless, the total value of marketed production reported at the gross production of the sector remains extremely low, i.e. 1 per cent (table 4). Also the membership value of marketed production reported at the gross production value of the sector is insignificant.

**Table 2. Main characteristics of POs and PGs in Romania, 2007-2013**

Denomination	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012**
<b>Vegetable</b>										
Harvested area (thousand hectares)	241.9	308.2	266.7	280.1	253.4	268.6	267.1	262.7	263.4	258.9
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- a) The total value of marketed production shall be calculated on the basis of the production of the PO or PG itself and its producer members and non-members, and shall only include the production of those fruits and vegetables for which the PO or PG is recognised.
- b) The value of marketed production shall be calculated on the basis of the production of the PO or PG itself and its producer members, and shall only include the production of those fruits and vegetables for which the PO or PG is recognised.

Source: Ministry of Agriculture and Rural Development of Romania (MARD).

### Support for POs and PGs

POs in the F&V sector may set up an operational fund, which must be used only to finance operational programmes approved by the Member States. The fund is financed by the financial contribution of the PO's members or the PO itself and EU financial assistance. The EU assistance is capped at 4.1 per cent of the value of the marketed production of the PO, that percentage may be increased to 4.6 per cent if the amount in excess of 4.1 per cent is used solely for crisis prevention and management measures. EU financial support to POs is equal to the financial contributions of the members of the producer organization paid effectively but not exceeding 50 per cent of the actual expenditure incurred by the producer organization under the operational program approved.

Member States may pay national financial assistance (NFA) to POs operating in regions where the degree of organisation of producers in the F&V sector is particularly low<sup>1</sup>. In 2008–2010, only six Member States including Romania used this instrument. Although other Member States have regions that could comply with the NFA requirements (low degree of organisation), they have chosen not to make use of it. This may partly be because Member States need to finance all or part of the aid granted (European Commission, 2014).

<sup>1</sup> This is only possible in regions where POs market less than 15 per cent of the value of F&V production and whose F&V production represents at least 15 per cent of their total agricultural output.

Member States may support PGs which have been formed in view of being recognised as a PO. There are two types of supports. One of them encourages the formation and administrative operation of PGs (operational support), and the other one supports the investments required to attain recognition of PO (support of infrastructural investments).

The operational support shall be determined for each PG on the basis of its marketed production and shall amount, for the first, second, third, fourth and fifth years, to: 10-10-8-6-4 per cent respectively of the value of marketed production from 2008 in the Member States which acceded to the European Union on 1 May 2004 or thereafter; and 5-5-4-3-2 per cent, respectively of the value of marketed production in the outermost regions of the Community and the Member States which acceded to the European Union before 1 May 2004. These percentage rates may be reduced in relation to the value of marketed production which exceeds a threshold. A ceiling may be applied to the aid payable in any given year to a PG. In case of support of infrastructural investments the maximal rate is 75 per cent from which 50 per cent is provided by EU and the MS has to provide at least 5 per cent but maximum 25 per cent (Council Regulation (EC) No 1234/2007.).

Romania has not ensured the maximal possible operational support for PGs. The operational support represents a percentage of the products marketed through producer group as 5 per cent in the first and second year, and 4 per cent, 3 per cent and 2 per cent in the next three years, for a sold production less than EUR 1 million. For the sold production over EUR 1 million the aid represents 2.5 per cent in the first and second year and 2.0 per cent, 1.5 per cent and 1.5 per cent in the next three years. The irredeemable support (grant) received is maximum of EUR 390000 per five years and it cannot exceed EUR 100000 in the first and second year and EUR 80000 in the third year, EUR 60000 in the fourth year and EUR 50000 in the fifth year. At the same time PGs can receive financial support to cover part of the investments required to attain recognition as a producer organization, provided that such investments are specified in the recognition plan in a percent of 75 in total while the beneficiary must contribute 25 per cent.

Organizations may also receive national support under Council Regulation nr.361/2008 of creating a common market organization. This support comes 60 per cent from EU funds and 40 per cent from the national budget.

## Conclusions

The paper concludes that there is an extremely reduced rate of Romanian farmers participating in POs and PGs. Marketing, collection and distribution center support offered by organizations have the specific objective to insert small farmers into the retail chain. However, many farmers are motivated to sell to middlemen at the farm gate, because the buyer provides transportation

and because while organized, selling through retail chains, means for farmers additional fees and fiscal burden (the VAT for PGs and POs is 24 per cent).

In Romania the main results may signal out that there is an extremely reduced rate of farmers participating in POs and PGs. There were only 4 POs and 24 PGs operating in Romania in 2013 that had 220 members who produced fruit and vegetables in more than 5 thousand hectares. Marketing, collection and distribution center support offered by organizations have the specific objective to insert small farmers into the retail chain. However, many farmers are motivated to sell to middlemen at the farm gate, because the buyer provides transportation and because while legally organised in PGs, selling through modern retail chains, means for farmers additional fees and fiscal burden (the VAT for PGs and POs is 24 per cent). At the same time, the qualitative results suggest that organization itself is not enough to facilitate the participation in the retail chains and many free riding problems occur, in the sense that farmers belonging to POs and PGs have the tendency to sell outside the group when prices increase, thus making impossible a good functioning of POs and PGs and the annual check of their marketed production does not allow a continuation of their organization's preliminary recognition.

Different factors may limit the development of POs in Member States that were collected by the European Commission (2014). They include the lack of mutual trust, systematic suspicion and the temptation of taking advantage of the efforts done by others without paying the price (free rider behaviour). Grey economy may be also a further key reason for not joining POs. Non organised farmers obtain higher profit (under grey economy) than the ones belonging to POs which are obliged to respect the legal framework. In addition, many producers sell exclusively in local or regional markets or through direct sales and therefore are less concerned by the benefits that the POs could bring them. Another possible obstacle to the development of POs is represented by the complexity of the procedures for obtaining recognition as a PO, for having an operational programme approved, and subsequently, for having access to the public financial aids. This complexity can discourage small producers who do not have the necessary competences or consider that the advantages of adhering to the regime are lower than the administrative costs associated. A further factor that reduces the attractiveness of POs may be the perception by producers that there are very high risks of losing the public financial aids, which can put the survival of a PO at jeopardy. Thus, respect of recognition criteria, especially minimum number of members, democratic control, placing of products on the market is critical for a PO to maintain its recognition.

Further strengthening the coordination and collaboration actions between various actors of the supply chain can come from the collective actions thanks to which opportunistic behaviour may be countered and reduced, while encouraging collective behaviour. Collective actions may constitute a valid and useful counterweight by taking up a strategic role in restoring balance to market relationships, acting as a contractual power and for redistributing added value, and contributing towards models of cooperative behaviour (Dell'Aquila et al., 2011).

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