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Role and importance of producer organisations in the fruit and vegetable sector of the EU

Marc DUPONCEL

*Olive Oil and Horticultural Products
DG for Agriculture and Rural Development
European Commission*



Outline of the presentation

1. Evolutions of the retail sector
2. The Common Market Organisation and the role of Producer Organisations (POs)
3. POs in the various Member States
4. An assessment of the impact of the CMO
5. Strategies of POs
6. Experiences in BE and NL and Southern EU Member States
7. Concluding comments



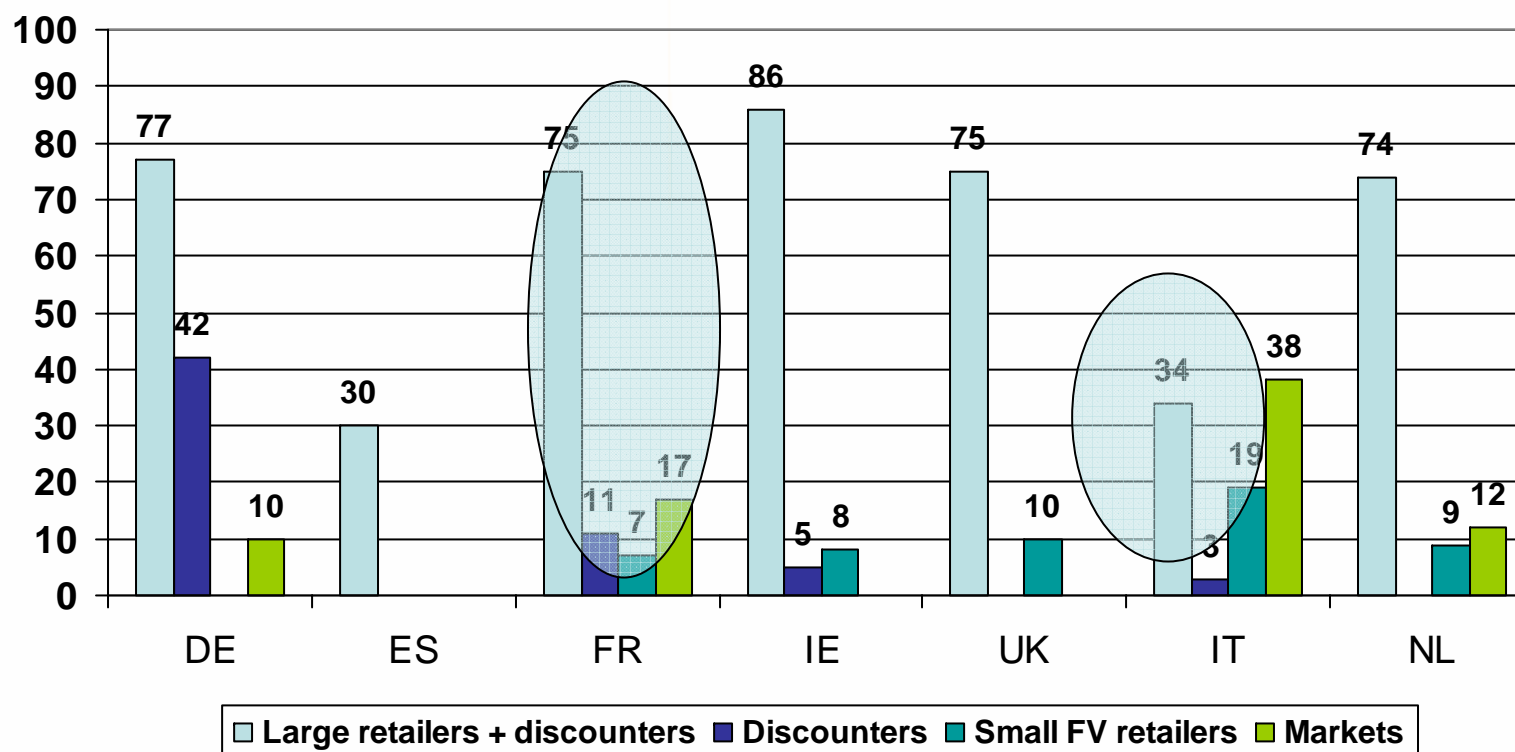
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Retail sector and renewal of marketing practices in the supply chain



Share of large retail chains in fruit and vegetable sales (%)





The share of large retailers in fruit and vegetable sales has increased since 1995

- From 18 to 34% in Italy
- Stable in Spain at around 30%
- From 60 to 75% in France
- From 50 to 75% in the United Kingdom
- Stable in Germany but discounters increased their share from 25 to 40%
- No figures for fruits and vegetables for Greece and Portugal however: large retail represented 58% of food sales in 2003 (33% in 1990) in Greece and 80% in 2002 in Portugal



... and concentration of retail is increasing

- **France:** eight major retailers account for 90% of food retail and procure via five purchase offices
- **Germany:** in 2000 the top five retailers accounted for 62% of national food sales
- **Netherlands:** the top three retailers account for 60% of food sales and the top five account for 75%
- **Sweden and Finland:** in both countries the top three importers / wholesalers account for 80% of food sales
- Concentration is also increasing in **Southern EU countries** (Greece, Italy, Spain, Portugal) although at a lower pace
- **New Member States:** Western European retail chains have invested since mid-1990s and already captured a large share of the food markets



Renewal of retail supply practices

- Centralisation of management of supply (five purchase offices in France)
- Development of direct relations between producers and retailers (contract trading)
- Lower role of wholesale markets which had developed in a context of small buying volumes, seasonality and perishability of products and needs for frequent deliveries and physical inspections to check quality
- Hard discounters still prefer wholesale markets (price more important than stability and assortment)
- Use by retailers of specialised wholesalers (by products) and **preferred suppliers** capable of providing a larger assortment of products year-round
- Implementation of private standards (EurepGap created in 1997, BRC in 1998 and IFS in 2001)



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Renewal of retail supply practices (cont.)

In about two decades marketing of fruits and vegetables has evolved ...

... from a commodity (undifferentiated) model based on a large number of operators and on simple transactions (daily, price, class and volume specifications) between shippers and buyers in wholesale markets (perfectly competitive markets with many independent transactions with observable spot market prices). Clients of producers were shippers and rarely the retailers.

...to a system involving a limited number of operators of larger economic size and complex transactions (including private standards, quality and packaging, marketing services, etc.) implemented within medium-term contracts. In this new context POs are often dealing directly with the retailers.



Major impacts for producers

- Worsening market balance power for producers (especially for basic products). Price competition between major retailers
- Necessity to increase economic size to work with the large retail sector because providing services required by retailers imply investments that increase fixed costs. The latter have to be recovered over larger volumes for investments to be profitable.
- Necessity to develop synergies with other entities (e.g. POs in other Member States)
- Vertical coordination:
 - Necessity to introduce quality management systems, certification and facilitate information flows
 - Product innovation
- Necessity to adopt strategies going beyond mere production for regional/national market



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The *Producer Organisation*: backbone of the Common Market Organisation (CMO)



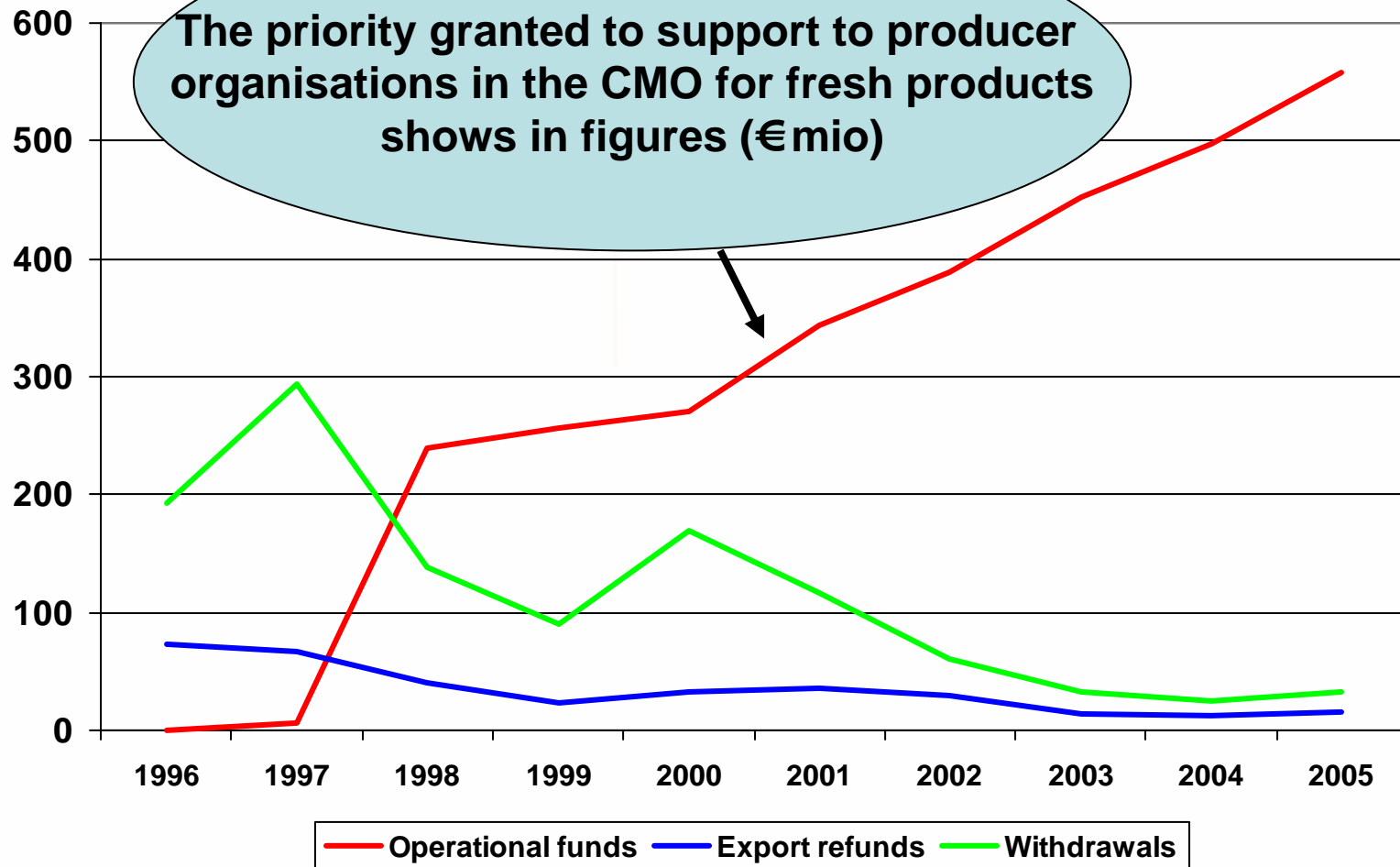
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The CMO of 1996 considers that given the increasing concentration of the retail sector, the grouping of supply is a necessity to reinforce the position of the producers on the market



Main measures of the CMO for fresh products

- Marketing standards
- ***Producer organisations***
 - ***Operational funds***
 - ***Operational programmes***
 - ***Withdrawals (intervention)***
- Imports: entry prices
- Exports: export refunds
- Specific scheme for nuts (included in the single payment scheme)





Support to POs

- Co-financed (50% / 50%) operational programme established to strengthen the competitiveness of the PO
- EU support limited to 4.1% of value of marketed production
- Supports investments / actions geared towards production, marketing, implementation of controls and standards, integrated production and other environmentally-friendly production methods

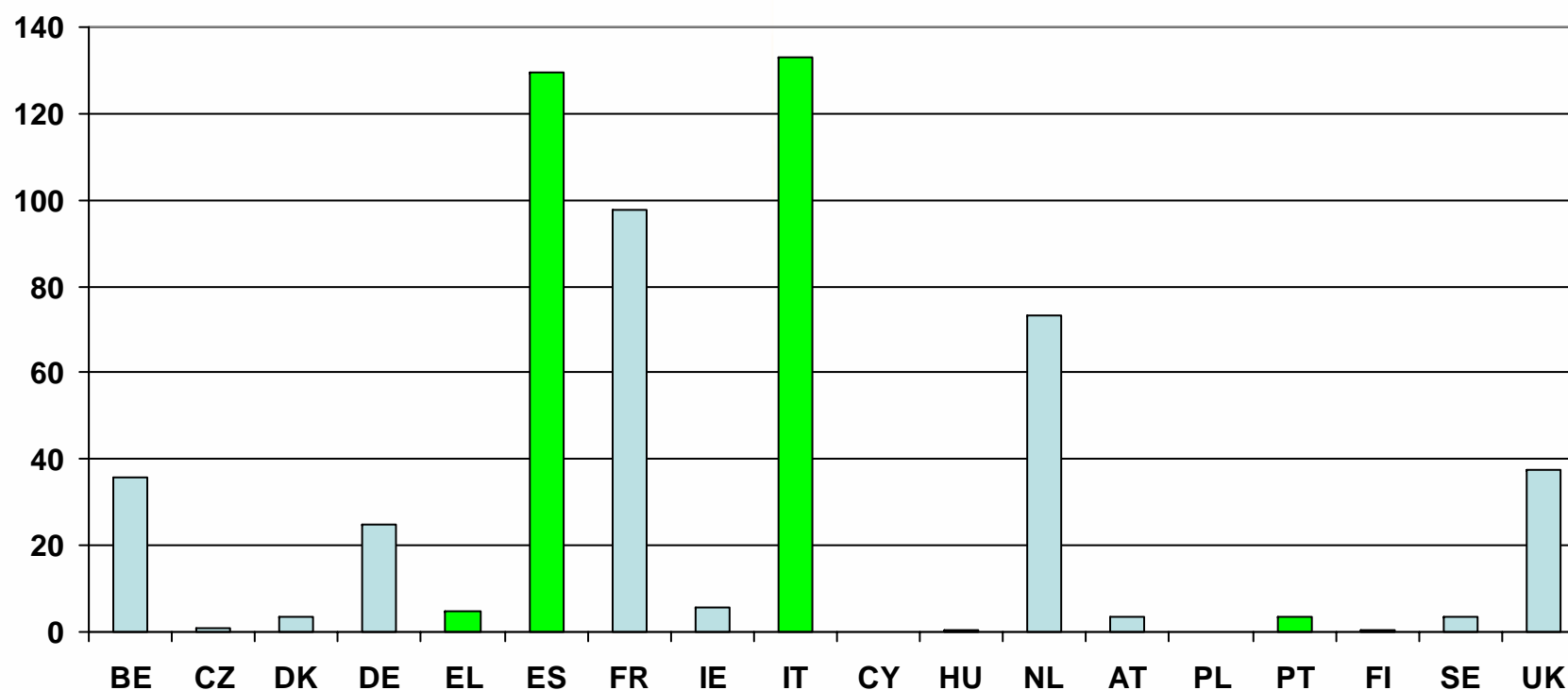


Typical content of an operational programme

- Purchase of sorting and packing equipment
- Employment of quality control staff and marketing staff
- Investments in irrigation facilities and greenhouses
- Subsidies to growers for replanting fruit trees
- Costs of natural pest and disease control approaches



Expenditures 2005 Operational Funds of the Producer Organisations (€mio)





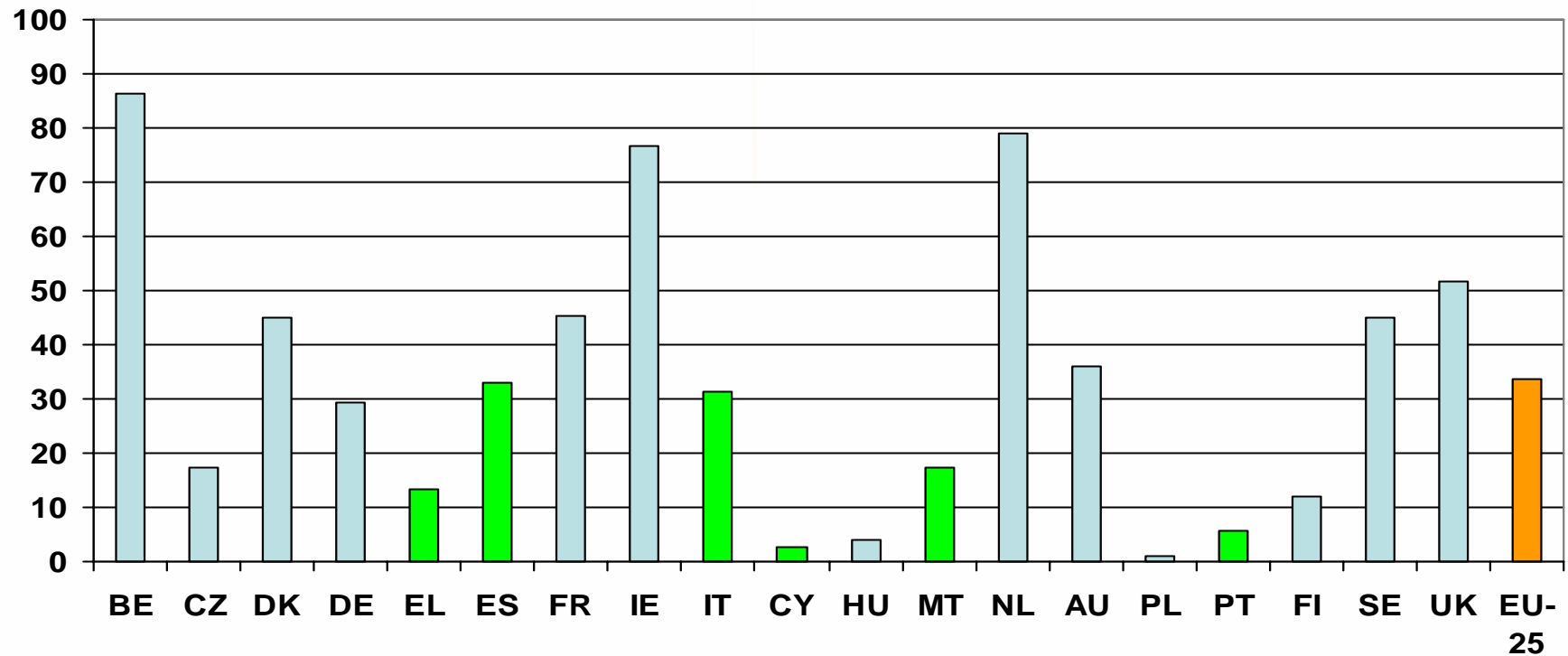
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Producer Organisations in the Member States

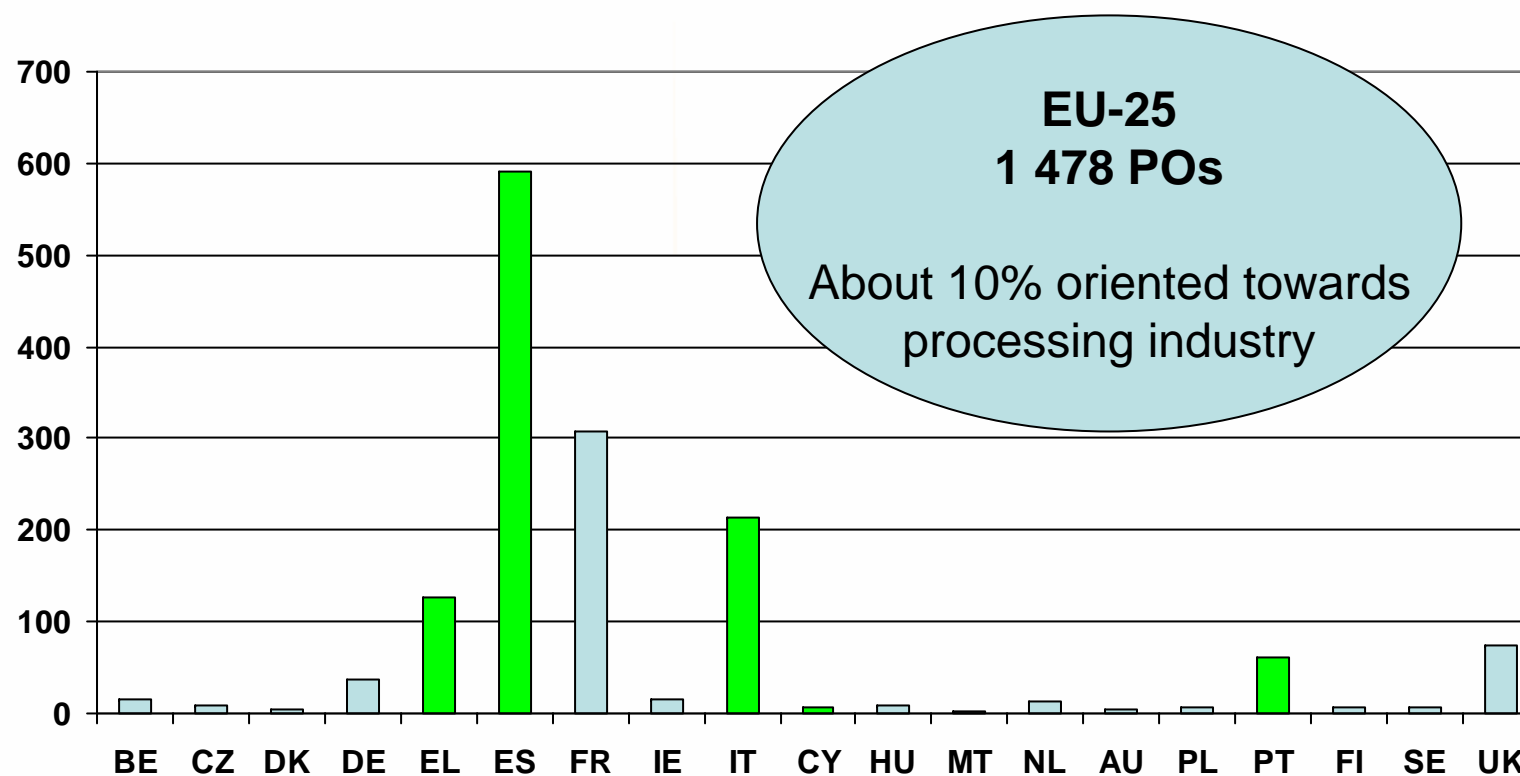


Organisation level varies strongly across the EU (share of POs in national production in 2004, %)



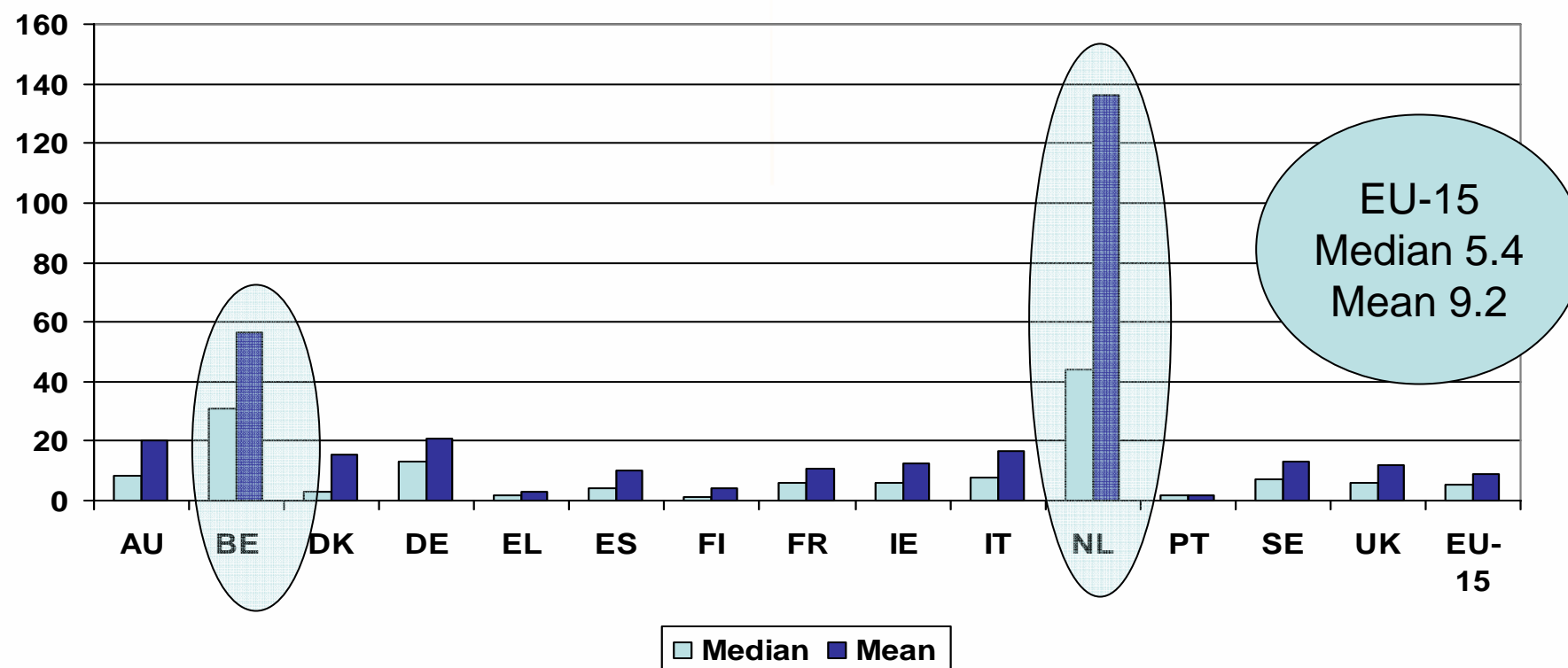


Number of Pos in 2004 (includes POs selling to processing industry)



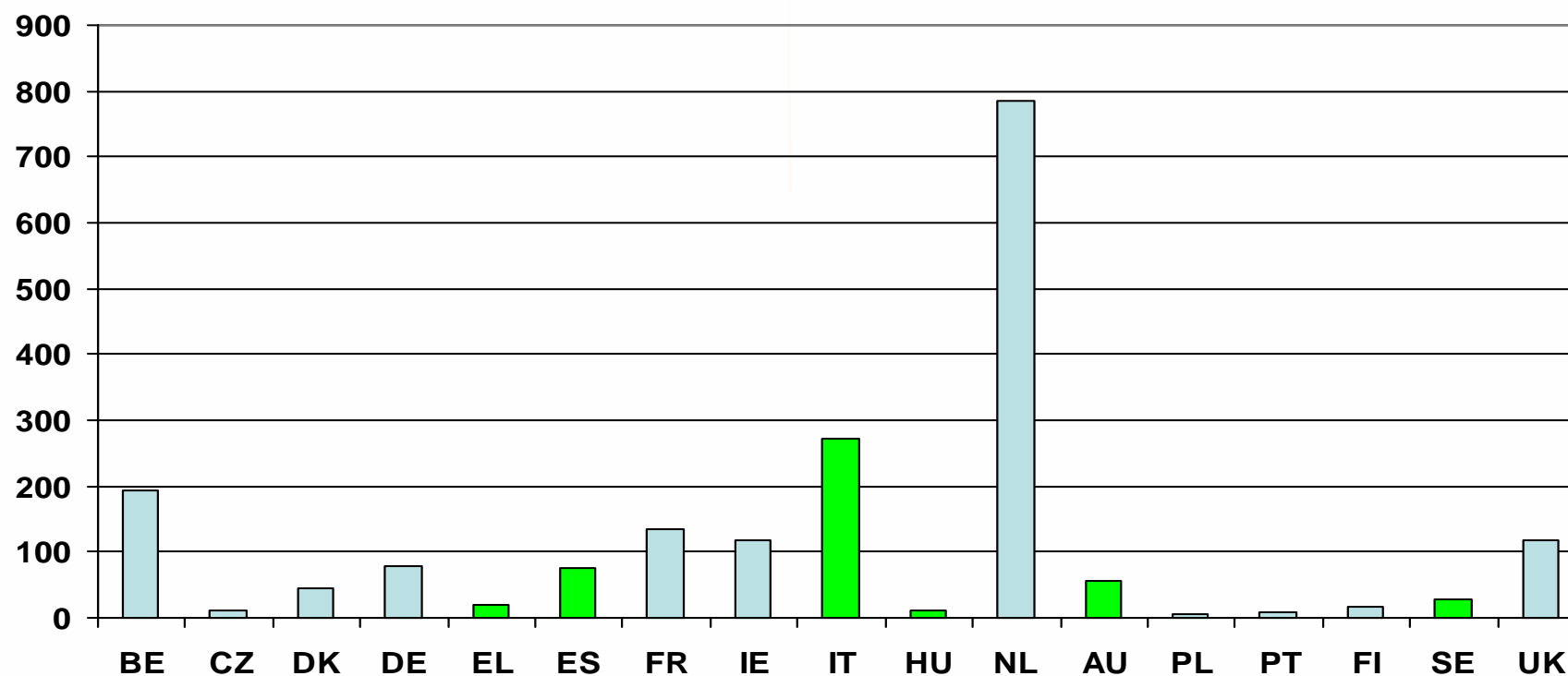


Average and median values of marketed production in EU-15 in 2003 (€mio)





Largest POs by MS in 2004 (turnover produced by their members, €mio)





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An assessment of the impact of the CMO



Mitigated success at the macro-level ...

- Rate of organisation well below 40% (34% in 2004), and does not seem to have increased, whereas objective of the CMO was 60%;
- Very large number of POs (1 478 at EU level). In most Member States, POs have a limited size (median €5 mio). This constrains their strength vis-à-vis retail sector;
- CMO framework better suited to Member States with cooperation tradition and where structures pre-existed (in ES in 2003 75% of POs had been created before 1996 and 25% were created under Reg. 2200/1996). The CMO has not really been able to foster creation of new structures. Very low rates in EL, PT and new Member States;
- Lack of flexibility of the framework, heavy bureaucracy for POs (preparation of operational programme, reporting, etc.) and legal uncertainty in some Member States.



Balance of market power

- **CMO has facilitated the creation of very large POs (in particular in Belgium, the Netherlands and Italy) and associations of POs that are better able to counterbalance the bargaining power of large retailers**
- **Part of the asymmetry of power cannot disappear (perishability of produce, price arbitrage at EU or international level) which makes producers price takers**
- **The higher the quality/speciality/innovation, the easier the PO will be able to improve margins (e.g. evolution of Dutch tomato production in the last ten years – segmentation)**



... Nevertheless the CMO has improved the overall competitiveness of the Pos

- Adoption of strategic approaches (versus mere grouping of produce and taking advantage of « generous » withdrawals)
- **Improved vertical coordination:**
 - Development of quality policies, private standards, conformity and other certifications (easier in POs than for individual producers)
 - Product innovation
 - The CMO has facilitated the adjustment of the sector to the new organisation and working of downstream sector



... Nevertheless the CMO has improved the overall competitiveness of the Pos (cont.)

- Adoption of more environment-friendly production techniques (integrated production, etc)
- Sharp reduction of withdrawals (from 2.3 mio tonnes in 1994/1995 to 300 000 tonnes or less since 2002/2003)



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Main strategies of Producer Organisations



1. In the sector of products for the processing industry, some POs were created specifically to access EU support
2. In the fresh sector, POs focusing on volume produced and cost-competitiveness, low innovation content
3. POs with strategy based on quality, but do not invest in activities beyond marketing of their products. The objective is to increase product value with differentiation and segmentation. The strategy allows to mitigate cost competitiveness disadvantages (e.g. strawberry sector in France)



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4. POs with a strategy focused on specific products with high innovative content. They invest other activities down the chain to optimise simultaneously the marketing of their products, the establishment of long-term relationships with clients and information return on consumer needs (e.g. POs producing ready-to-use salads and other fourth range products)



5. POs which develop as preferred supplier of large retail chains with an obligation to supply a large array of products all year round. This strategy implies to develop vertical integration with the absorption of additional activities along the chain (wholesale, logistics, international trade)

Most POs in the EU adopt strategy 2 or 3. Strategies 4 and 5 are not common but apply to large entities.



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The spectrum of experiences with POs: BE and NL / Southern Member States



Belgium and the Netherlands

- Large retail sector prominent: more than 70% of fruit and vegetable sales
- Fruit and vegetable specialised shops decreasing. Evolution of number of shops: from 1 563 in 1998 to 1 318 in 2004 in BE and from around 3 000 in 1994 to 1 600 in 2004 in NL
- Share of auctions (veilings) have strongly reduced in NL (90% of production in 1990, 10% now) but maintained a prominent share in BE (around 60%)
- Strong export-orientation of the sector. In NL 80% of production is exported (mainly to other MS)



POs in BE and NL

- Highest levels of organisation in the EU (80% or more)
- Largest POs in the EU: median turnover of members' production: €31 million in BE and €44 million in NL
- Historically strong organisation of sector through the system of auctions (veilings)



Strategies of POs in BE and NL

- POs oriented towards both national and EU markets
- To cater the large retail sector ...
 - Several large POs adopt vertical integration (wholesale, logistics, international trade) to become preferred supplier all year round. They cater for a limited number of large accounts
 - Others increase vertical coordination and joint actions between POs.
- Strong strategies of product differentiation, e.g. in Belgium quality label « Flandria » for top quality fruits and vegetables created by six veilings (out of 11 in the country) in 1995



Specificities of the Southern Member States

- Low levels of organisation of the sector (2004):
 - EL 13%, PT 6%
 - ES 33%, IT 31%
- Small holdings predominant in the four MS
- Large retail chains have not yet made large inroads in sales to consumers: ES and IT around 30%, EL and PT probably lower

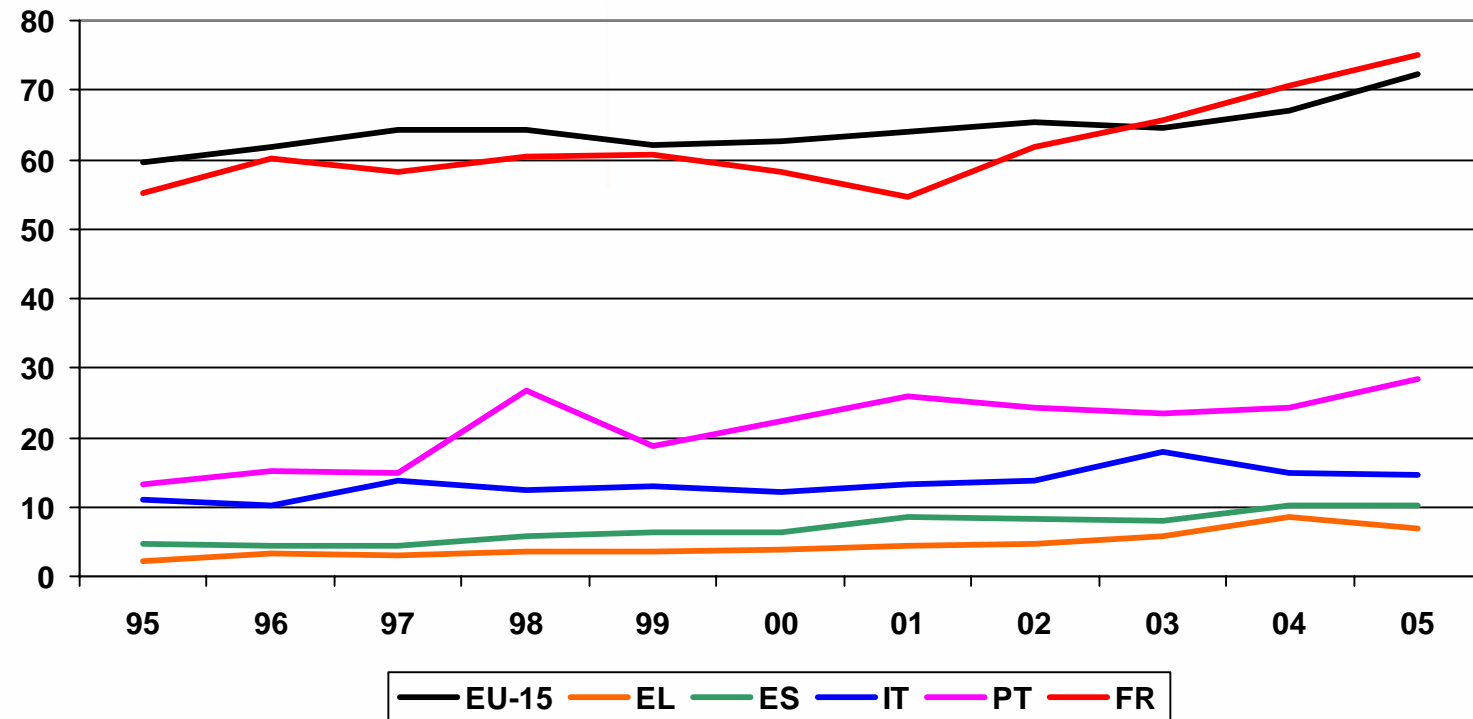


Reasons to low level of organisation?

- No history in cooperation, lower interest to join groups (Greece and Portugal)
- Existence of alternative support to investments through structural funds and rural development funds (whereas in Northern Europe these funds are much lower): lower incentive to group together
- Less pressure from the market: 1) proximity markets (specialised retailers often remain preferred supplier of consumers, markets), lower impact of large retail sector, traditional markets, etc.; 2) lower pressure from imports
- Complexity of the CMO

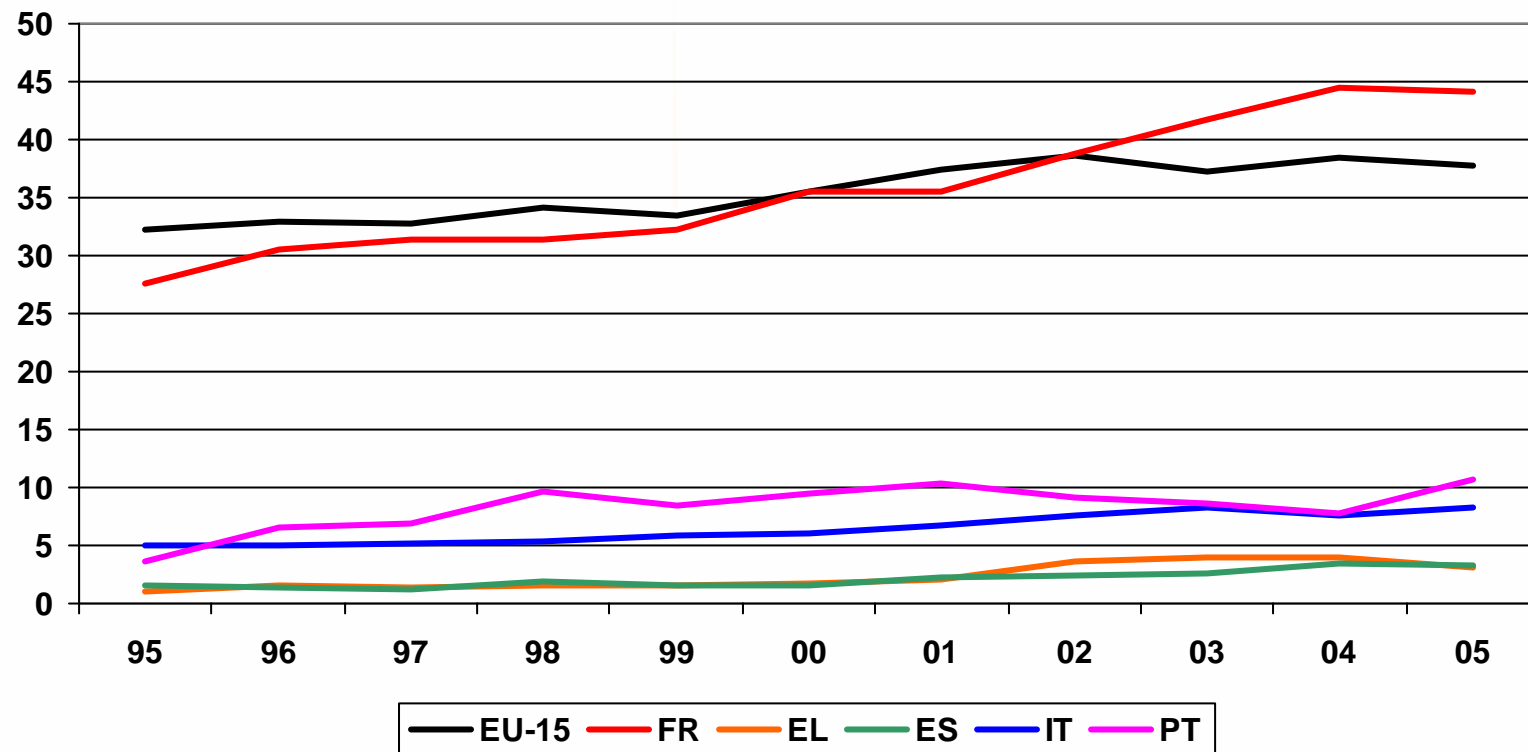


Lower importance of imports: temperate fruits (as % of fruit output)





Lower importance of imports: vegetables (as % of vegetable output)





- Spain organisation level of 33% but...
 - Citrus: 50% (other half: family trading companies dealing directly with individual producers)
 - Strawberry: 60-70% (Huelva)
 - Fruits in general: around 50-60% (30-35% cooperatives) because sector export-oriented
 - Processed tomatoes: 80-90%
 - Cherries: 70% cooperatives and ... 30-40% POs (mainly small cooperatives working for local market are not recognised as POs)
 - Vegetables: level of organisation low (working mainly for local market)
- Italy organisation level of 31% in 2004 but 80-85% for apples



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Concluding comments



- CMO more successful in Northern European MS and dynamic sub-sectors in Southern European MS
- Renewal of retail practices and working of the chain across the EU, although slower in the South
- Chances that other forms of retail (small shops, markets) will remain strong in Southern MS in the long term?
- Risk of polarisation of production in Southern MS: part of sector vertically integrated catering for large retail and exports. The other part catering for (possibly shrinking) local markets?