



# Producer Organisations

## Facts & findings of a pilot project

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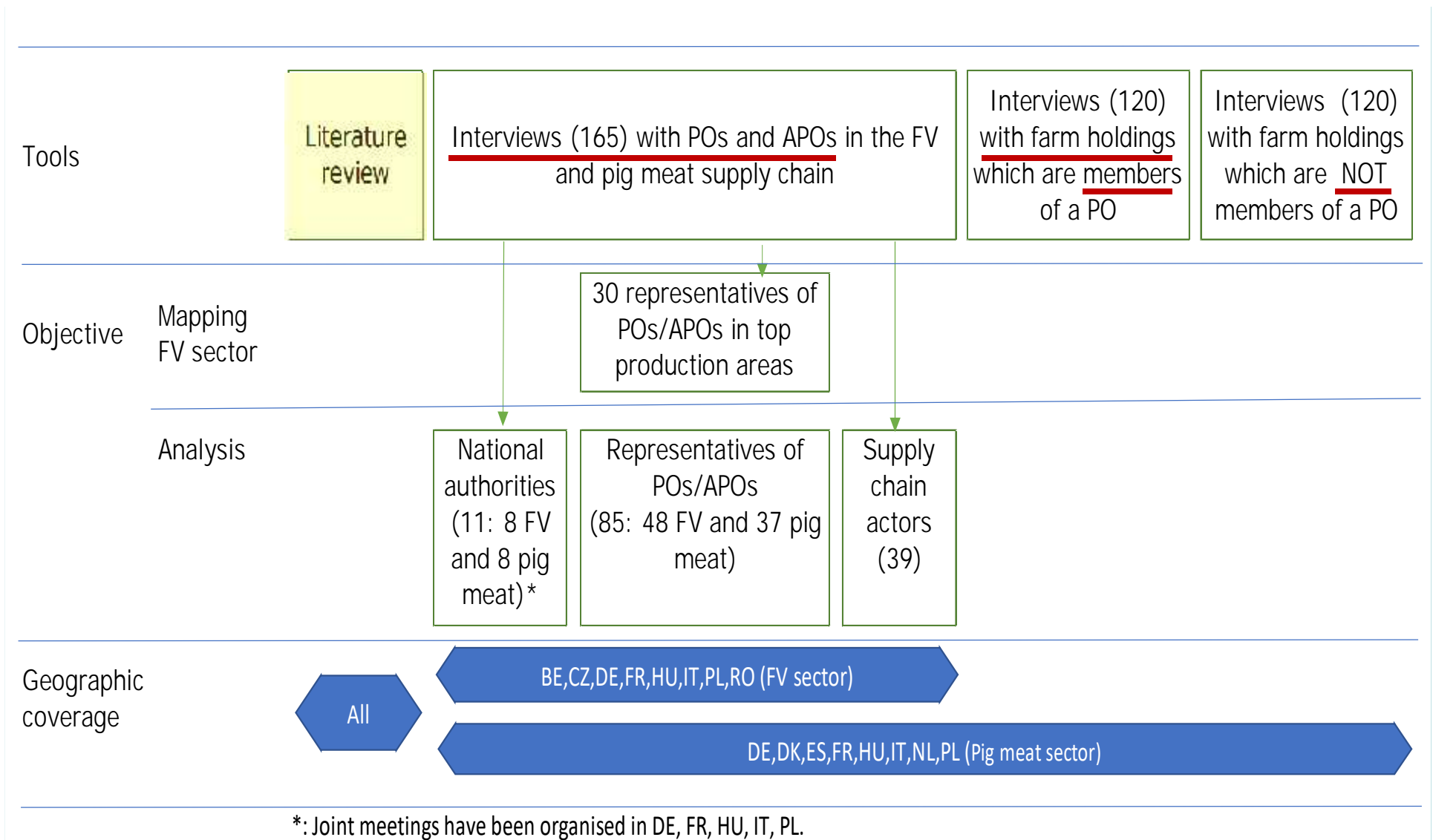
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# Study on the best ways for POs ...

... to be formed, carry out their activities and be supported:

- Topics:
  - Inventory of producer organisations (POs)
  - Incentives and disincentives of farmers to join POs
  - Economic efficiency and performance of POs
  - Benefits of POs for their members and other operators in the food supply chain
- Objective:
  - Better understand how POs can be set up to attract members and carry out their activities effectively
  - Better understand how POs can be supported

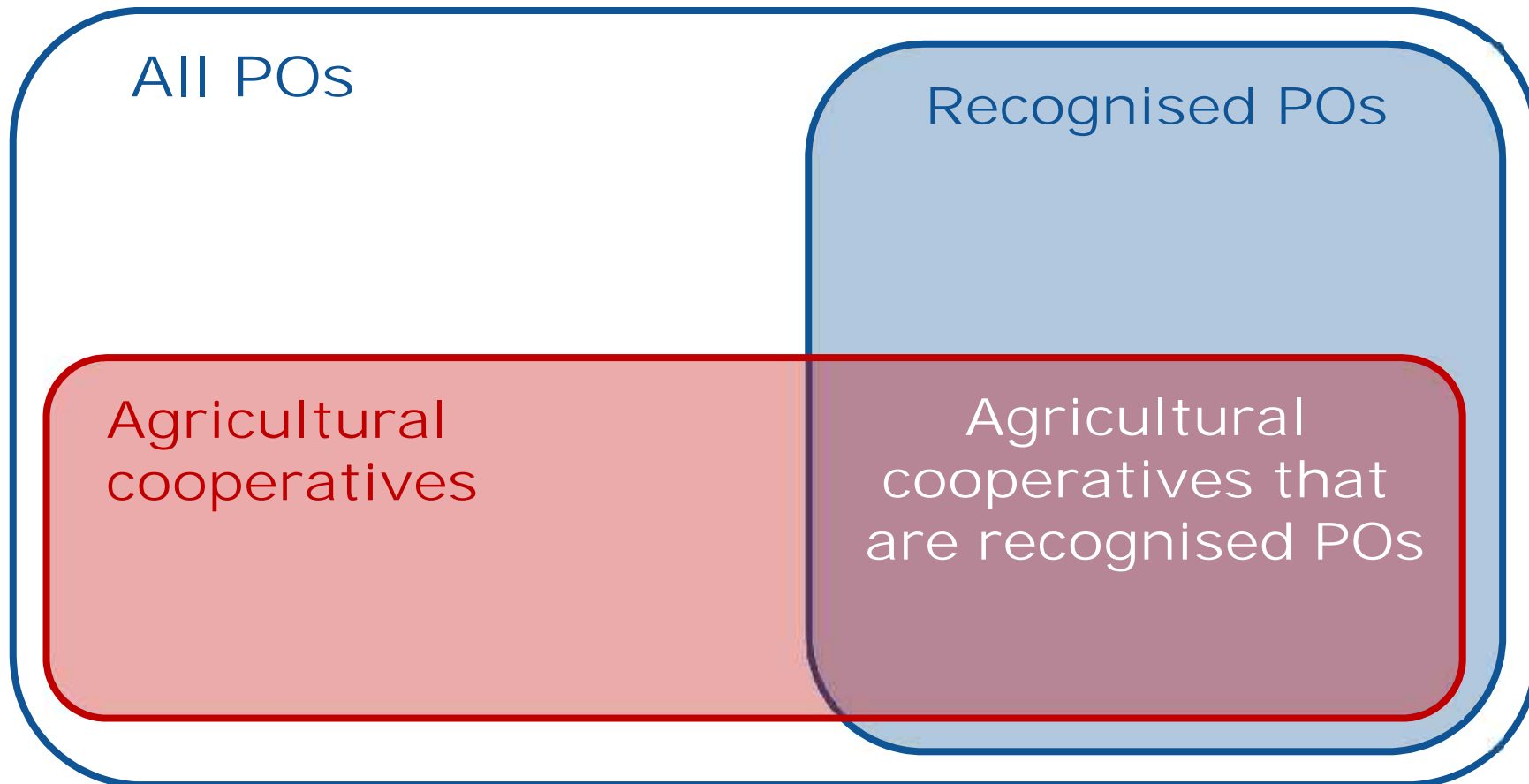
# Data collection & geographic coverage



# Definition of producer organisations

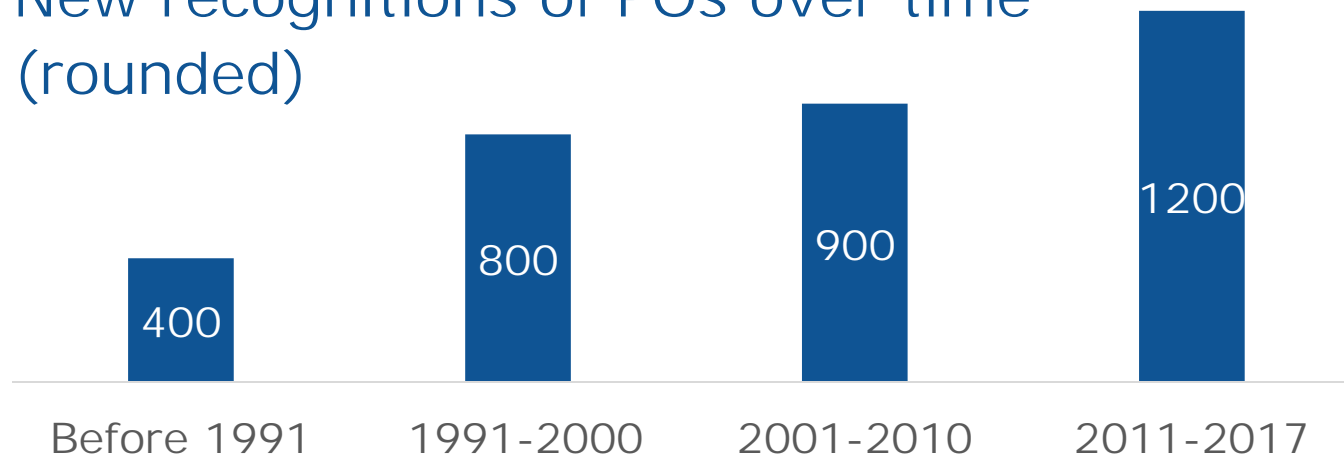
- POs can be defined as entities that
  - have been formed and are controlled by producers
  - in a specific sector (horizontal cooperation)
  - to pursue objectives of the CMO Regulation
- POs strengthen the position of producers in the food supply chain
- They can take various legal forms, incl. cooperatives
- Recognised POs benefit from certain derogations from EU competition rules
- Certain recognised POs (in F&V) can receive financial support through EU funds

# Overview of producer organisations



# Number of producer organisations

- There are estimated more than 42,000 POs in the EU (half are cooperatives, with differences across MSs)
- In 2017: >3,400 were recognised POs (2018: >3,700)
- Less than 10% of POs are recognised
- New recognitions of POs over time (rounded)

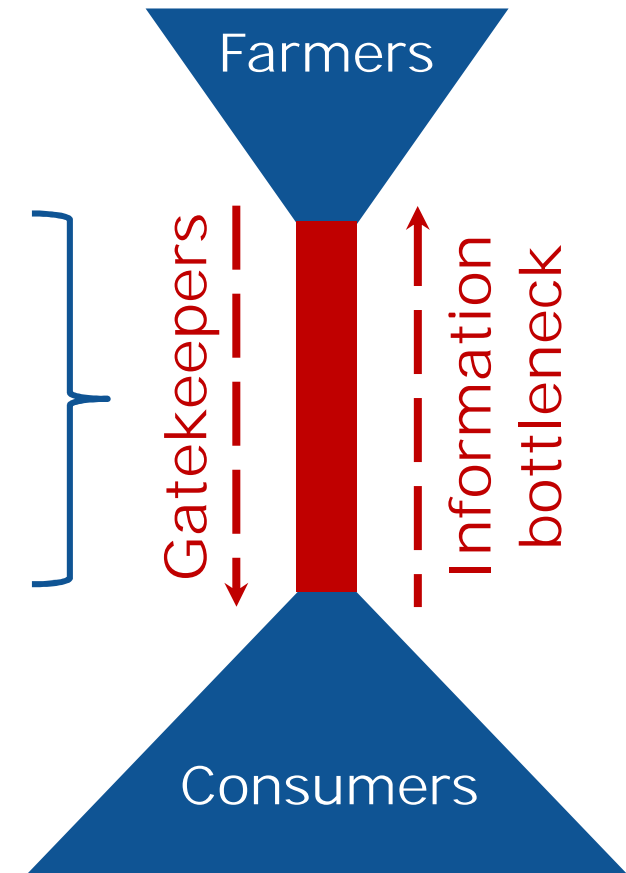


## Size of recognised POs

- PO numbers only tell part of the story: More farmers can be organised in fewer but bigger (stronger) POs
- Companies up to a turnover of € 50 million are SMEs, those up to € 2 million are micro enterprises
- In 2017 in F&V, only 6% of all recognised POs had a turnover over € 50 million, 7% were below € 500k
- About a third (38%) had fewer than 100 members, while most (90%) had fewer than 1,000
- Most recognised POs are not bigger than SMEs and many would not even qualify as small enterprises

# The EU food supply chain

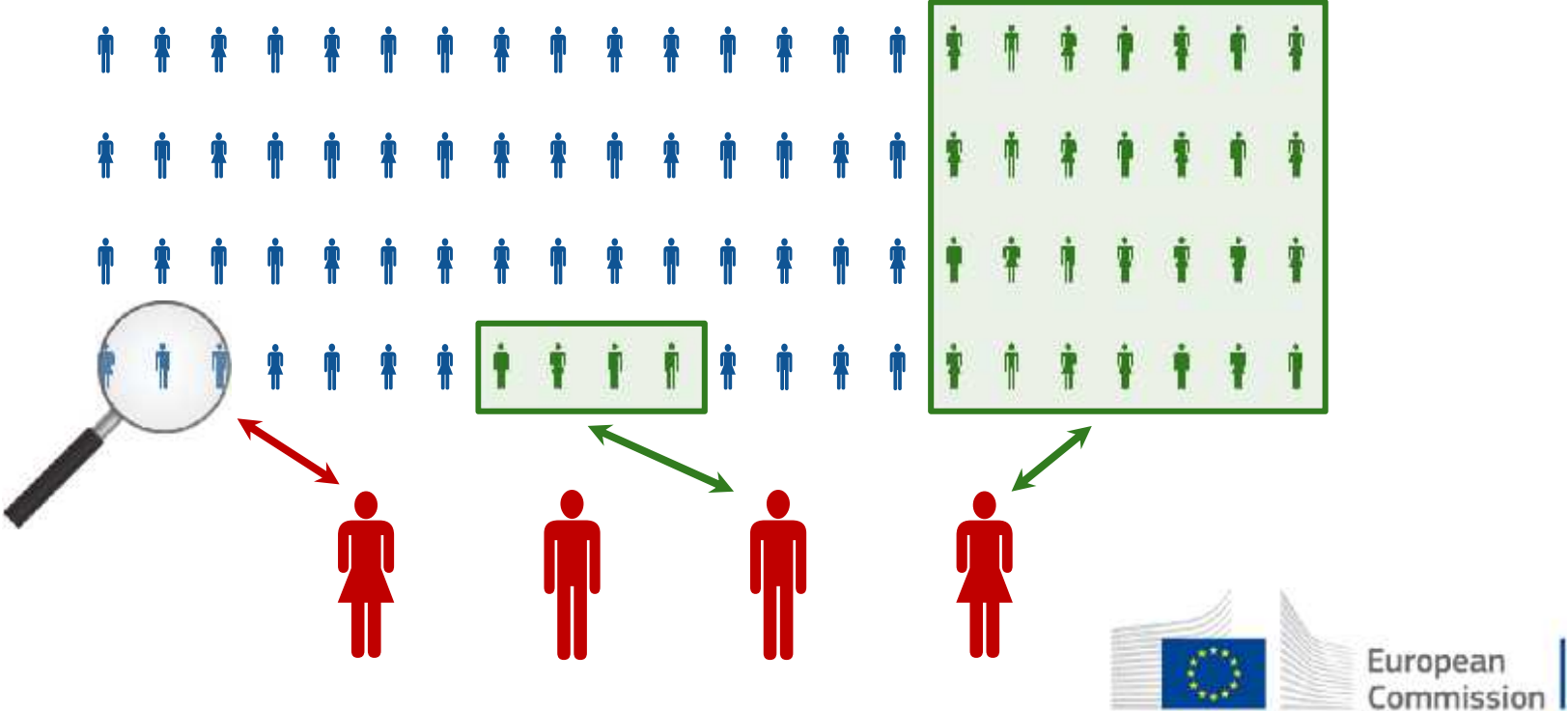
- 10 million small and fragmented agricultural holdings
- A few large **manufacturers** generate 90 percent of the turnover
- A few large food & drink **retailers** dominate the market
- 500 million individual consumers dispersed across 28 MSs





# Market power of farmers

- Farmers face few consolidated **downstream operators**
- **Horizontal cooperation** can help balance the asymmetry in access to consumers and information



# Efficiencies of producer organisations

- Prices paid by POs can be higher than those paid by private firms (and the more powerful POs are, the more they pay farmers), i.e. the relationship between PO membership and farm income can be positive
- POs in a market have a positive impact on its overall performance, and they often sell their products at lower prices than their competitors



# Greater concentration of supply

- More farmers in top production areas are members of recognised POs than elsewhere, e.g.:



- In France, 90% of tomato producers in Brittany are members of recognised POs, while nation-wide in the F&V sector only 50% of farmers are
- In Poland, 40% of apple producers in Sandomierz are members of recognised POs, while at the national level less than 15% are

# Prices paid by producer organisations

- In the apple sector in Poland, the price paid by POs to their members is on average 5 cents/kg above the market price
- In the pig meat sector in France, the price paid by major POs per live animal can be 180 EUR above the reference price from auctions
- Even if individual farmers get similar prices at auctions, there are costs of participating in auctions



# Reasons to join producer organisations

- Greater bargaining power through joint selling:
  - lower transaction costs through larger volumes, marketing of baskets of complementary products, leaving fewer alternative suppliers for buyers
  - better prices, long-term contracts, advance payments, etc.
- Greater market knowledge of POs (has time and expertise to study markets and new products)
- Access to more profitable sales channels and new markets through POs (e.g. requiring a minimum scale of production or quality certifications)
- Reputation of PO as reliable business partner

# Reasons to join producer organisations

- Lower ex ante and ex post transaction costs (e.g. for searching buyers or dealing with buyer opportunism and unfair trading practices)
- Less competitive pressure (given rules for the marketing of members' products by the PO)
- Production planning (to prevent 'overproduction')
- POs can invest in joint activities or facilities that add more value (e.g. storage or processing)



# Reasons to join producer organisations

- Risk sharing and risk management through POs (e.g. price pooling, insurance schemes, mutual funds)
- Crisis management (e.g. timing of sales, market withdrawals)
- Better access to bank loans and financial services
- Access to varieties protected by intellectual property for which a PO obtained the rights (e.g. Pink Lady)
- Technical support (for PO's standards & certification)
- Time saving (POs take care of non-production tasks)

# Reasons to join producer organisations



- Joint procurement of inputs and machinery (e.g. lower prices, better delivery services, better payment terms, more informed purchasing decisions)
- Sharing of knowledge and experiences between producers (on farming, markets, administration)
- More freedom compared to other forms of 'collaboration' (e.g. contract farming)
- Generation of social capital and trust between members and within local communities



# Reasons for not joining a PO

- Loss of entrepreneurial freedom, autonomy & control (esp. in bigger POs or in POs with exclusive sales rules)
- Lack of information on benefits and models of POs (farmers do not know good examples of POs)
- Orientation on perceived short-term benefits (e.g. higher prices on spot markets)
- Satisfaction with existing sales channels (efficient markets, trustworthy partners, proximity to consumers)
- Potential conflicts between members (especially in heterogeneous POs)

# Reasons for not joining a PO

- Access costs (e.g. fees, investment costs, PO standards)
- Lack of administrative support by national authorities
- Unfavourable tax systems for POs
- 'Failure' stories of POs (e.g. financial issues after audit)
- Efficiency concerns (POs as one more intermediary)
- Historic reasons (forced collectivism)
- Interest in keeping a low profile (vis-à-vis authorities)
- Subsidies reduce farmers' need to cooperate

# Impact on other operators

- POs can offer buyers a more stable, timely and traceable supply of agricultural products in required quantities and qualities from a single interlocutor
- Sourcing from fewer suppliers helps buyers stabilise the prices they pay and reduces transaction costs
- POs can better work with customers to adapt agricultural products to their requirements
- Buying from POs whose members are linked to a specific rural area can help downstream operators meet consumer demand for local products

# Reasons for seeking recognition as PO



- Access to EU funding (operational programmes in F&V, support to set up POs in 'new' MSs)
- Visibility and reputation vis-à-vis other operators and authorities
- Legal certainty and exemption from competition rules

# Success factors for POs

- Internal success factors:
  - Capital to invest in vertical integration (adding value)
  - Adequate size that allows realising economies of scale while keeping administrative costs in check
  - Governance structure that reflects members' needs
  - Homogeneous membership (age, farm structure, values...)
  - A strong and professional management
  - Resources to fund research & innovation projects
  - Future growth strategies (e.g. cost leadership, innovation)

# Success factors for POs

- External success factors:
  - national history of agricultural cooperation
  - collaborative partnerships with buyers
  - cooperation among POs
  - access to effective extension services
  - good social relationships (trust) in rural areas



# Conclusions

- Altogether, there are over 40,000 POs, about half of which are cooperatives
- While relatively low, the number of recognised POs is increasing each year
- More than half of all recognised POs are in F&V
- POs strengthen farmers' bargaining position, add value to their business, and provide intangible benefits
- Other operators and local stakeholders also benefit
- Several internal and external factors contribute to the success of POs



# Thank you!

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