

Food Value Chain in the EU – How to improve it and strengthen the bargaining power of farmers?

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Structure of the Presentation

- 1. Scope of the analysis**
- 2. EU Food Supply Chain (FSC): an overview**
- 3. Re-balancing Bargaining Power**
- 4. CAP and Competition policy**
- 5. Policy Options and Recommendations**

1. Scope of the analysis

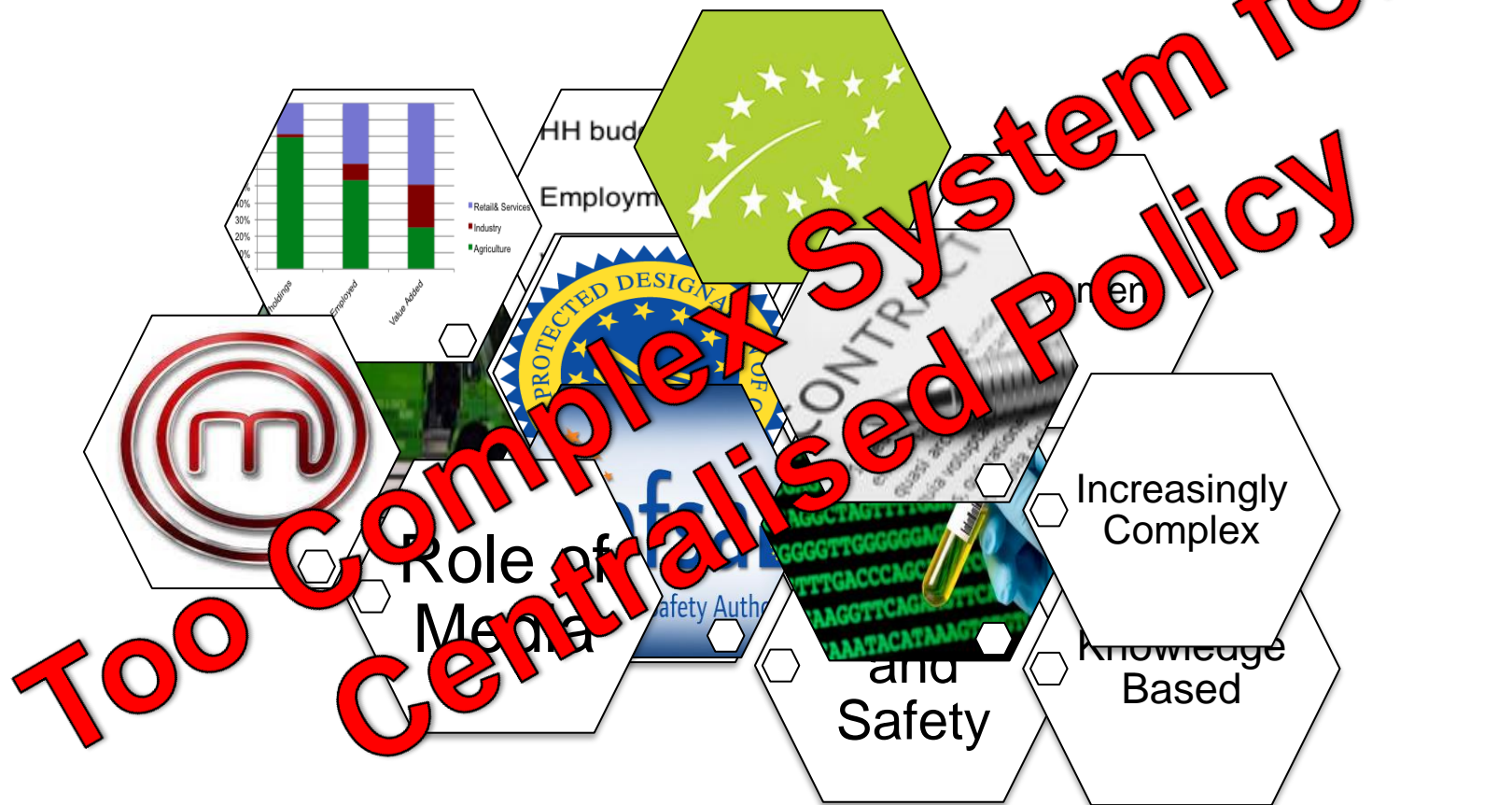
Moving toward a new policy paradigm for agricultural market organisation, changing:

- its nature: from an **expenditure** to a **regulatory** policy
- its process: from a **top-down** to a **bottom-up** approach
- Its actors: from **public** bodies to **private** agents

.... with the following implications:

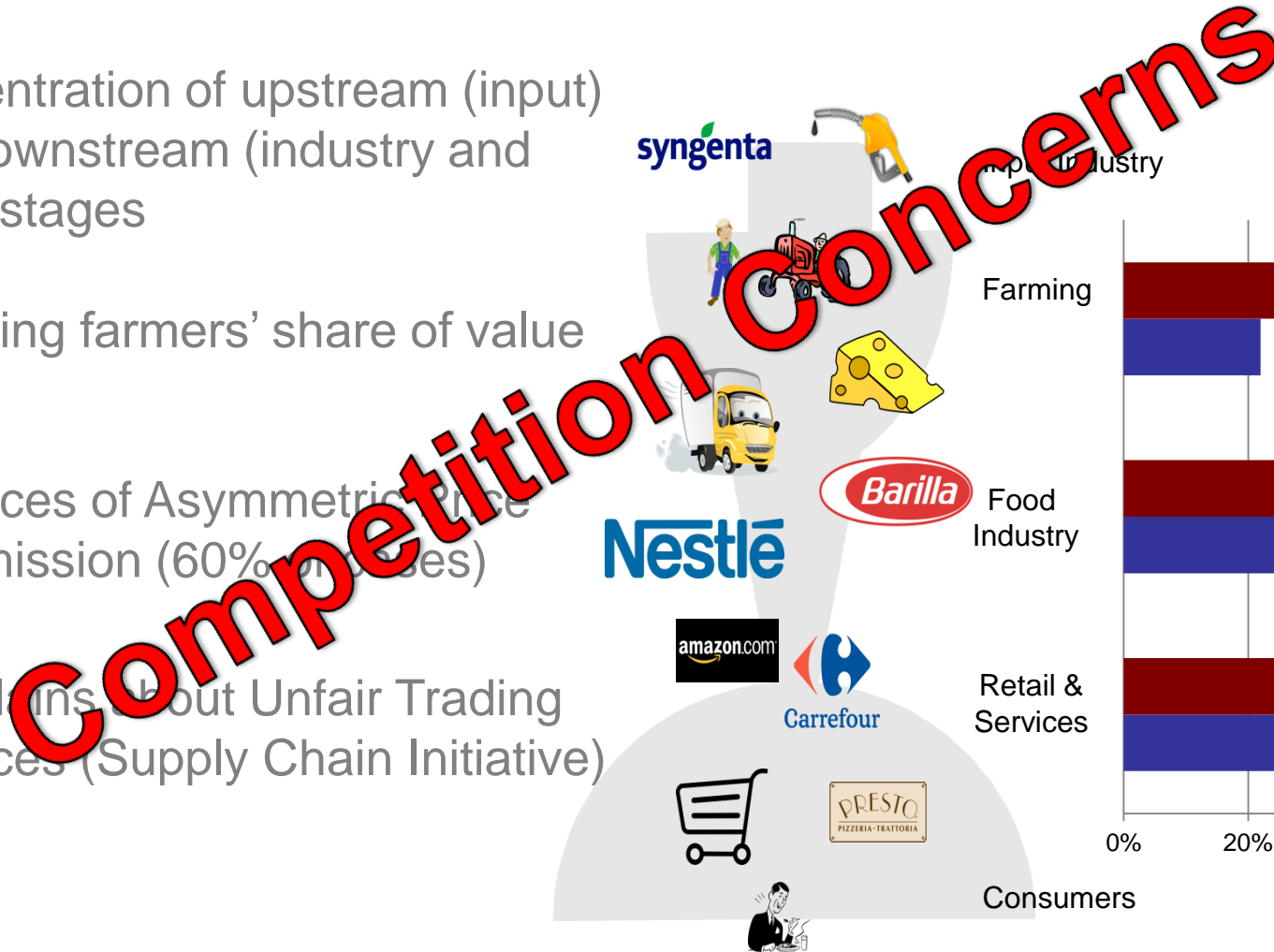
- a strategic role for **organisations** (POs, APOs and IBOs)
- needs a **structural adjustment** of the Food Supply Chain
- **competition concerns** in agricultural markets
- needs cooperation between **CAP and Competition policy**

2. Overview: The EU Food Supply Chain

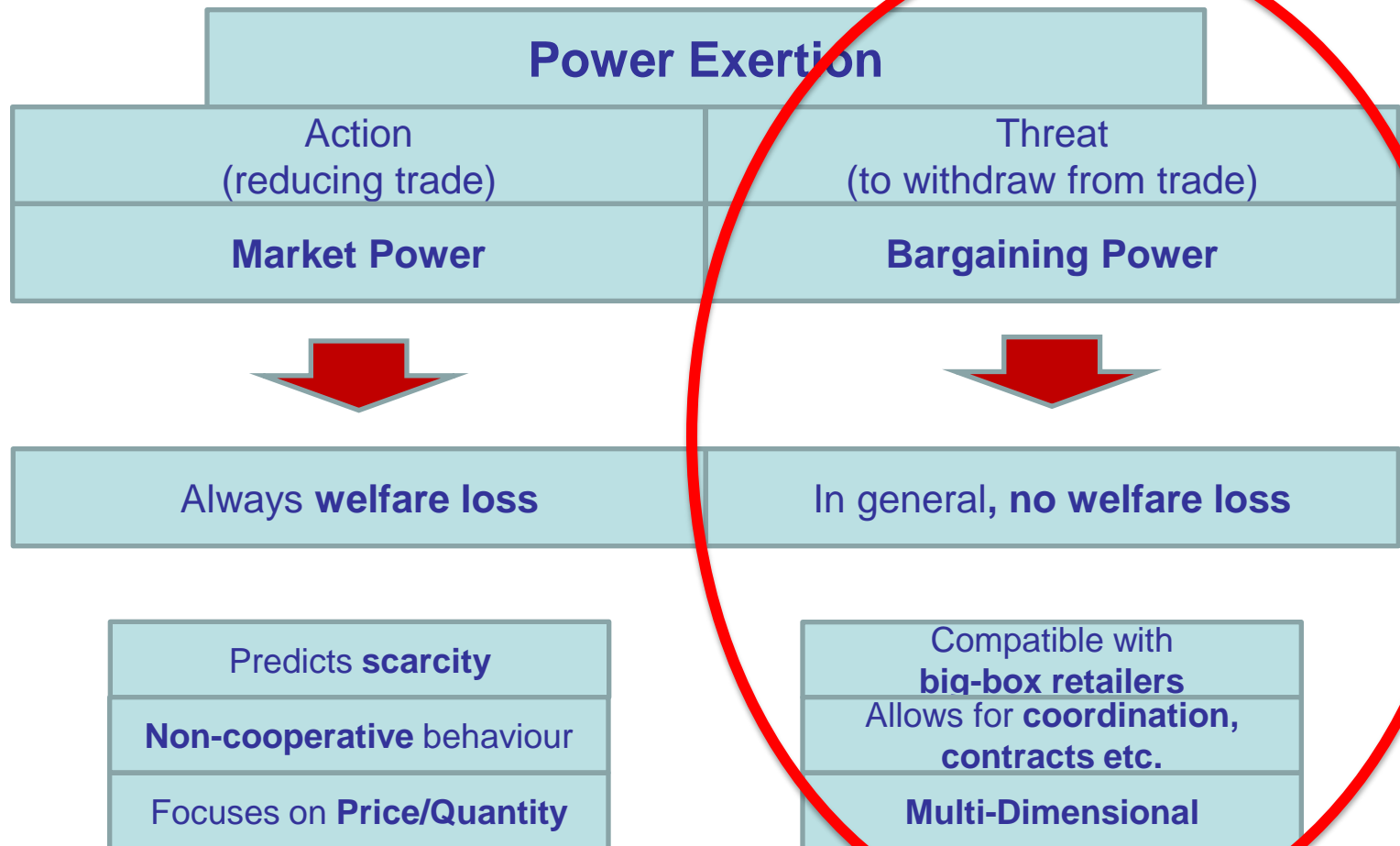


2. Overview: Competition Issues

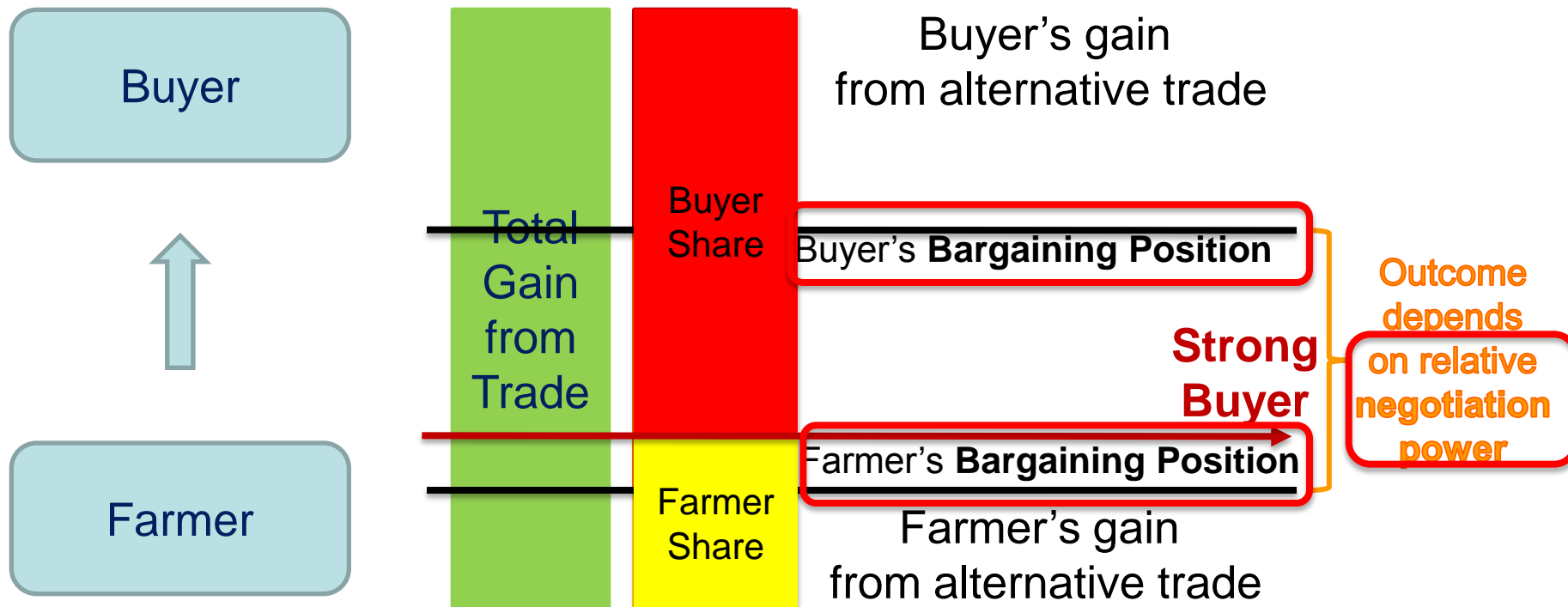
- Concentration of upstream (input) and downstream (industry and retail) stages
- Declining farmers' share of value added
- Evidences of Asymmetric Price Transmission (60% increases)
- Complaints about Unfair Trading Practices (Supply Chain Initiative)



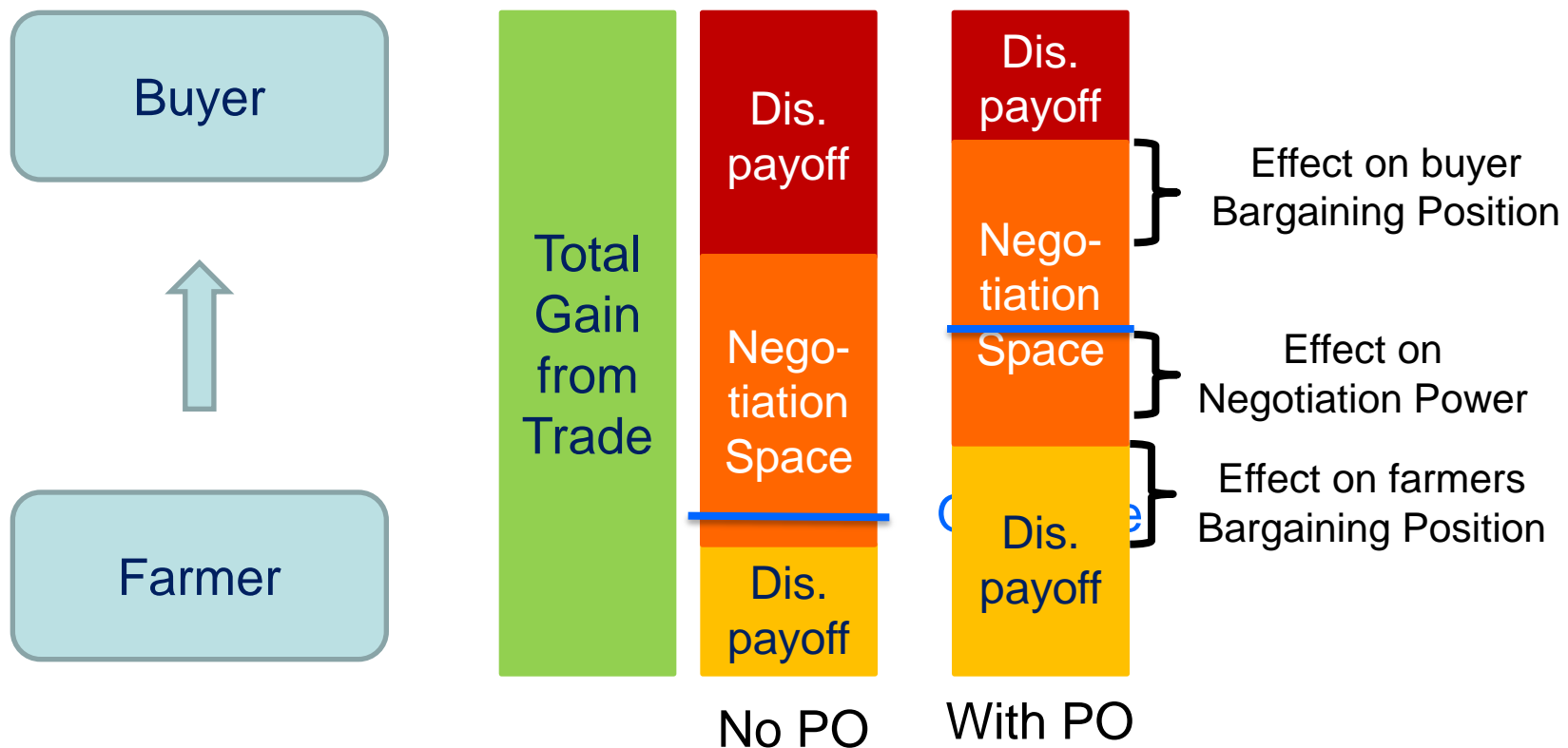
3. Rebalancing Bargaining Power: Definitions



3. Rebalancing Bargaining Power: Mechanisms



3. Rebalancing Bargaining Power: The Role of Producer Organisations



4. CAP and Competition policy

Horizontal and vertical agreements between private agents require exemptions to general competition rules

Current provisions provide general derogations and specific derogations on a case by case approach

Problems:

- **Interpretation ambiguities** under the new policy paradigm
 - legal **uncertainty** under self assessment
- **Disparities** of treatment across different sectors
 - incentives **distortions** vs. market orientation

5. Policy Options

		Options	Pros	Cons
		Baseline: Status Quo	<ul style="list-style-type: none">· No additional regulation· Guidelines partially in place	<ul style="list-style-type: none">· Legal Uncertainty· Incentive distortions
Harmonization	Scenario 1: less restrictive exemptions (Extending Milk or F&V rules)	<ul style="list-style-type: none">· Clear, tested regulation· Homogeneous rules· Potential rebalancing of farmers' bargaining power	<ul style="list-style-type: none">· Competition concerns· Accompanying measures· Additional regulation burdens	
	Scenario 2: more restrictive exemptions (Extending Art. 169-171)	<ul style="list-style-type: none">· Homogeneous rules· Guidelines already in place· Reduced competition concerns	<ul style="list-style-type: none">· Untested regulation· Adaptation burden (F&V, dairy)· Political feasibility· Uncertain effects on bargaining power	
	Scenario 3: Intermediate scenario (Rewriting rules)	<ul style="list-style-type: none">· Reduce legal uncertainty· Homogeneous rules· Lower transaction costs	<ul style="list-style-type: none">· New-regulation burden· Accompanying measures	

5. Policy Recommendations for Intermediate Scenario

Intervention Axes

Simplification and Harmonization

Convergence
(general framework with sector exceptions)

Reducing Legal Uncertainty

Reducing Distortion in Resource Allocation

Strength. Farmers' Bargaining Power

Joint Selling and Prod. Planning (art. 152 CMO reg.)

Minimum Size
(Based on Market Structure)

Multi-Sector POs, APOs

Targeting RD measures

Competition and Efficiency

Rules for PO Governance

Cap on Market Share
(Based on Market Structure)

Thank you for your attention

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3. Findings from the Theoretical Model

About PO efficiency

- Joint selling: not necessarily loss in efficiency.
- PO-member interaction: implications for competition and efficiency

About PO effectiveness

- Rebalancing power is greatly affected by the negotiation rules, the type of food chain and the structure of the industry.
- PO joint selling is expected to affect positively farmers' bargaining position and negatively the buyer's one. The magnitude of the effect depends on the structure of the downstream (upstream) market

About PO design

- A 'too small' PO might be ineffective in improving farmers' bargaining power.
- The structure of downstream (and upstream market) is a critical determinant of the optimal size. The more the buyers (or input suppliers) are consolidated the larger is the optimal size.

Efficiency Gains

- Efficiency gains are a necessary condition for win-win agreement in the supply chain.
- Farmers can retain the value of the efficiency gain if investments are NON specific and/or bargaining power is not negligible.

Strategy

- PO objective should consider not only strengthening bargaining power, but also improving bargaining flexibility.

3. Rebalancing Bargaining Power: The Role of Producer Organisations

