Choosing the right strategies for increasing farmers’ market power

Instruments put to the test

Alex Danau
Julie Flament
Daniel Van Der Steen

Collectif Stratègies Alimentaires asbl
Brussels
2011

Produced with co-financing from the European Commission and Belgian DGD
Choosing the right strategies for increasing farmers’ market power

Instruments put to the test

Alex Danau
Julie Flament
Daniel Van Der Steen
Collectif Stratègies Alimentaires asbl
Brussels
2011
Choosing the right strategies for increasing farmers’ market power

Preamble
The second EuropAfrica programme
Collectif Stratégies Alimentaires (CSA)
The production of this publication
Aims of the publication

I. Introduction
Farmers’ weak market power
Definition
Causes
Consequences
The Strategies for increasing farmers’ market power
Structure of the publication

II. Strategies for increasing farmers’ market power
A. Supply management
Definition and aims of supply management
Supply management instruments
Conditions of implementation
Instruments associated with supply management
Advantages of supply management
Criticism and limits of supply management
History of supply management
Supply management within Europe’s CAP
The milk quota system in Belgium (walloon region)
The milk quota scheme in Italy
Onion supply management in Senegal
B. Collective marketing by the farmers
Definition and aims of collective marketing
Conditions of implementation
Collective marketing instruments
Additional instruments
Advantages of collective marketing
Disadvantages and difficulties of collective marketing
Collective marketing of fruit and vegetables in the European Union
The European Commission’s proposals regarding collective marketing in the milk sector
The collective marketing scheme for milk in Canada
Milk collective marketing initiative in Kenya: the Muki cooperative
Groundnut collective marketing initiative in Senegal
Cereals collective marketing initiative in Mali
Collective marketing initiative in Belgium: the Faircoop cooperative
C. Contract farming
Definition and aims of contract farming
Contract farming Instruments
Advantages of contract farming
Risks associated with contract farming
History of contract farming
Instruments put to the test

Contract farming as proposed within de CAP ........................................... 56
Contract farming in Belgium: the potato sector ........................................... 57
Example of contract farming in Brazil: poultry ........................................... 61
Example of contract farming in Kenya: certified seeds ................................. 62
Example of contract farming in Uganda: potatoes ........................................ 63
Example of contract farming in Senegal: the groundnut ............................... 65

D. Product differentiation (labels) ................................................................. 67
Definition and aims of product differentiation .............................................. 67
Product differentiation instruments ............................................................... 67
Advantages and limits of product differentiation .......................................... 68
The European Union's certification scheme .................................................. 68
Labels in Belgium: examples of organic and fair trade products ..................... 73

E. Shortening the supply chain (direct marketing and short supply chains) .... 78
Definition and aims of shortening the supply chain ...................................... 78
Incentives for setting up short supply chains and direct marketing schemes .... 78
Instruments for shortening the supply chain ............................................... 79
Advantages of shortening the supply chain .................................................. 80
Implementing conditions and constraints ..................................................... 81
Examples of short supply chains in Belgium ............................................... 81
Short supply chain initiatives in the United Kingdom ................................... 83
Short supply chain initiatives in Italy ............................................................ 85
Short supply chain initiatives in Hungary ...................................................... 86

III. Changing strategies with changing political contexts .............................. 87
Developments in the European Union .......................................................... 87
Developments in Africa ................................................................................. 90

IV. Elements of a conclusion ................................................................. 93
Comparative analysis of the strategies .......................................................... 93
  Strategies with limited scope that affect competitive relations between producers 93
  Collective strategies that change the negotiating relationship with buyers ............ 93
  Complementarity between collective and individual strategies ...................... 93
Farmers and public authorities' involvement .................................................. 94
  Producers' organisation ............................................................................. 96
Government action ....................................................................................... 96

Bibliography .............................................................. 98
Articles and Books ................................................................. 98
Case studies by europafrica partners ............................................................... 101
  Report of the europafrica seminar 'Increasing the market power of agricultural producers. Instruments and constraints' ......................................................... 102
  EuropAfrica Publication (year 1) ............................................................... 102

The EuropAfrica Programme ................................................................. 103

Glossary ................................................................................................. 104
Preamble

The second EuropAfrica programme

This publication is the fruit of the work carried out under the EuropAfrica Consortium’s second programme (2008-2010). EuropAfrica is a consortium of sub-regional platforms of African producers’ organisations and European NGOs built around a campaign of information, awareness raising, and advocacy.

The Consortium’s second programme (2008-2010), which involves the three major sub-regional networks of African FOs, is entitled ‘Agrifood policies and regional integration: putting solidarity between Europe and Africa into practice’ (Politiques agro-alimentaires et intégration régionale: pour une pratique de solidarité entre l’Europe et l’Afrique) and has the following aims:

— reinforcing producers’ organisations’ roles in orienting agricultural and agrifood policies;
— helping farmers in the North and South to develop areas of alliance with each other and the civil society organisations; and
— raising the awareness of the public at large and decision makers in order to promote the adoption of sustainable policies that contribute to regional integration in Africa and Europe with inter-regional solidarity.

The publication – co-ordinated by Terra Nuova and Crocevia – that came out of the first year of this programme focused on agricultural policies and regional integration for family farming in Africa and Europe. The present publication, which was co-ordinated by Collectif Stratégies Alimentaires, is one of the outcomes of the programme’s second year of operation, which was co-financed by the European Commission and the Belgian overseas development agency DGD.

More information about the EuropAfrica programme and its partners can be found at the end of this volume and on the programme’s website: http://www.europafrica.info

Collectif Stratégies Alimentaires (CSA)

Collectif Stratégies Alimentaires (Collective for Food Strategies), which today is a non-profit association, was founded by six Belgian development NGOs (CNCD, Iteco, Oxfam solidarité, Entraide et Fraternité, Frères des Hommes, and Solidarité Socialiste) in 1984. Its aim is to promote sustainable agriculture and food security by strengthening producers’ organisations and promoting food sovereignty in the various parts of the world. It thus works to reorient agricultural and trade policies to achieve such goals and to bolster smallholder farmers’ associations as drivers of the sustainable agriculture that results from viable family farming. Finally, CSA banks on the establishment of ties of solidarity amongst all the parties involved in agriculture and food, and especially between family farmers in the North and South.

2) ‘Co-financing with European development NGOs – Actions to raise public awareness of development issues’ Programme – EuropeAid/124803/C/ACT/RUE.
3) For more information, see http://www.csa-be.org/spip.php?rubrique6
CSA has been a member of Agricord, a network of agri agencies in charge of the global programme Farmers Against Poverty, since 2010.

The production of this publication

This publication was drafted by Collectif Stratégies Alimentaires and reflects its views first and foremost, but also includes direct contributions from the other partners of the EuropAfrica programme.

The gist of the contents of the working documents (national and regional case studies) provided by the consortium partners in order to produce this publication was included in this publication. References to the complete documents are given in the text and these documents are available on CSA’s website 4.

In addition, the Consortium’s various partners came together for a seminar organised by CSA in Brussels on 2 October 2009 under the title ‘Increasing farmers’ market power: instruments and constraints’ 5. This seminar gave the producers’ organisations of Africa, Europe and other parts of the world a chance to exchange information about their experiences in implementing instruments to increase their market power. The information gleaned during this seminar went into this publication as well.

Aims of the publication

The aim of this publication is to give farmers theoretical and practical foundations for setting up and wielding strategies to increase their market power.

The theoretical considerations will improve their understanding of the various instruments by explaining the type of mechanism, aims, implementation, and advantages and disadvantages of each instrument. Concrete examples will give farmers a fuller understanding of how the various instruments were and can be implemented, especially of the conditions under which they have been implemented, the outcomes of their use and the benefits and problems that have resulted for the farmers themselves.

Let us add that the publication is a timely answer to a particularly topical need, given today’s context of low agricultural commodity prices and the crisis in which these prices are enmeshed, a situation that is the source of great instability that affects family farms in particular.

I. Introduction

Farmers’ weak market power

Definition

Market power can be defined strictly as the ability of an enterprise or any producer to set their products’ sales prices. Seen from a broader perspective, market power refers to the power to behave independently, to an appreciable extent, from one’s competitors, customers and, finally, consumers.

Being able to set sales prices above their production costs so as to reap a profit is essential for farmers’ subsistence and development. Yet farmers have little market power because of their unfavourable positions on their specific markets. The agrifood markets’ structures are the main cause of their weakness, but price volatility and market deregulation are also factors that undermine farmers’ market power.

Causes

In the face of agrifood enterprises’ concentration, farmers remain ‘fragmented’ and are the only ones to be subject to true competition

In an international context that is characterised by economic, technical and financial concentration leading to the existence of increasingly large and powerful firms, farmers are an exception. Most of them are effectively isolated and small compared with other sectors’ operators and especially compared with the agrifood concerns (processors, distributors and retailers) that are their major buyers.

This situation leads farmers to sell their harvests without any real bargaining power and, as a result, without any ability to influence price levels. Their market power is thus very weak and totally disproportionate compared with the huge power of the firms with which they have commercial relations.

This unfavourable position on the market is compounded by other difficulties for farmers when it comes to setting prices so as to make a profit. The first problem is agricultural commodity price volatility.

Volatility, which is an intrinsic characteristic of agricultural commodity markets, is accentuated in a context of widespread liberalisation

Agricultural commodity markets are very singular markets characterised by great volatility, rather inelastic demand (because these commodities are staples6) and short-term inelasticity of supply.

Their volatility is linked to the very nature of agriculture and, more particularly, to farmers’ expectations. So, when prices are high, farmers tend to produce more and thus to create conditions of overproduction for the following year, that is, the condition for price decreases (according to King’s law, a slight surplus in supply leads to a sharp drop in prices); and vice versa. What is more, the supply is likely to be affected by accidental variations in production (climatic variations in particular).

6) Of course, the elasticity of demand varies with income level and the proportion of income that is spent on food, with inelasticity being the greatest for the highest incomes.
Instruments put to the test

This volatility is harmful for producers and the survival of agricultural production. Price stability is effectively an indispensable condition if producers are to be able to invest and thus to continue producing in the long run. Stability is what makes it possible to incorporate technical progress and productivity gains in agriculture, which developments generate, in return, falling price trends that benefit consumers. That is why farm policies have always sought to protect agriculture from its commodities’ intrinsic price volatility.

Volatility is also harmful for consumers, since we see today that agricultural price increases are usually passed on to consumers, whereas price decreases are passed on to them less systematically. So, this price volatility can be likened to a ‘system of consumer price inflation’ (Kroll, 2010).

The challenge is thus to stabilise agricultural commodity prices at remunerative levels for producers and food prices at reasonable levels for consumers. However, we have witnessed, on the contrary, a recent increase in agricultural commodity price volatility. Whilst this increased volatility is due to many causes that are the subject of great debate, it is obvious that liberalisation policies have increased agricultural markets’ volatility.

Besides its effect on price volatility, the deregulation of agricultural markets hobbles farmers’ market power in other ways.

International price pressure on unregulated markets

Indeed, a consequence of the agricultural markets’ deregulation is that agricultural commodity prices are dragged down by global market prices. More specifically, the prices of the commodities that are traded on them, which account for only a very small share of global production (about 5-7%, depending on the sector), influence prices in every part of the world. Now, this commodity trade is the work of a minority of a small number of very large producers that benefit from particularly advantageous production conditions (vast tracts of land, large landholding structures, extremely low levels of pay and worker protection, weak environmental requirements, and so on). In the absence of regulation, these windfall prices bring pressure to bear on the world markets and serve as reference prices on the domestic markets.

Bargaining power for farmers in dealing with buyers, agricultural price stability, and agricultural market regulation are thus three factors determining farmers’ abilities to set prices above their costs so as to earn a profit and be able to produce according to sustainable models.

Consequences

Who benefits from farmers’ limited market power? International traders, processors, and mass distribution chains, since they have the ability to capture the bulk of the added value that the end users (consumers) pay. These operators also benefit from the agricultural markets’ deregulation, which allows them to procure commodities in the places with the lowest prices.

We might expect the falling price trend to be profitable for consumers, but this is only very partially true, given that the low agricultural commodity prices are only partly reflected in the food prices that consumers pay. And, as we have already pointed out,

7) Kroll J.C., 2010. Talk at the conference ‘CAP 2013 – Reshaping the CAP to respond to the European and international challenges of our times’ held in Brussels on 27 October 2010 by the European Coordination of Via campesina (ECVC).
Choosing the right strategies for increasing farmers’ market power

today’s price volatility is reinforcing this phenomenon, since we see that whilst agricultural price increases are generally passed on to consumers, the same cannot be said for decreases, which are passed on to consumers less systematically.

The majority of agricultural producers, for their part, have suffered from this low agricultural commodity price situation for decades. This is the case in particular of those, such as smallholder farmers in developing countries, who do not get any state aid, but it also holds true for the most marginal family farms in industrialised countries. The result is structural under-investment by small family farms and peasant farmers, which hobbles their ability to expand in response to growing demand, including on their own markets. The ultimate result is food insecurity and poverty in large swathes of the rural population in various parts of the world.

The Strategies for increasing farmers’ market power

In this context, farmers can use several strategies to increase their market power.

These strategies can be collective or individual. The collective strategies are based on instruments such as market discipline (aimed at managing the supply), pooling production (in order to negotiate its sale collectively), cooperative integration of the commodity value chain (i.e., getting involved in processing and distribution so as to have better control over the whole chain), etc. The more individual strategies entail searching for market niches and having direct access to consumers.

These strategies can moreover be classified according to their level of intervention, as shown in Table 1, which distinguishes:

— strategies that can be conducted on the market level, such as supply management and border protection, which are exclusively collective strategies that involve all of the farmers as a group;
— strategies that farmers can adopt to deal with firms and merchants, such as pooling production to negotiate its sale collectively (collective marketing), contractual sales when the terms are negotiated collectively, or even the farmers’ integration of the commodity chain through involvement in processing and distribution. These strategies can be individual or collective, depending on the situation and the instruments used; and
— strategies that farmers can adopt on the level of the individual farm, such as farming according to specific quality standards or practices or selling their products through short circuits. These are individual or collective strategies that involve only a portion of the farmers, who take up a specific position vis-à-vis other farmers.

Table 1. Strategies to INCREASE farmers’ market power

<table>
<thead>
<tr>
<th>Strategies to increase farmers’ market power</th>
<th>On the market level</th>
<th>In dealing with firms</th>
<th>On the farm level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collective strategies</td>
<td>Supply management</td>
<td>Collective marketing</td>
<td>Product differentiation</td>
</tr>
<tr>
<td></td>
<td>Commodity chain integration</td>
<td></td>
<td>Getting closer to consumers</td>
</tr>
<tr>
<td>Individual strategies</td>
<td>Contract farming</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Structure of the publication

The second part of this publication covers five of these strategies, to wit:

1. supply management,
2. collective marketing,
3. contract farming,
4. product differentiation, and
5. getting closer to consumers.

One chapter is devoted to each of these strategies in order to describe the aims, instruments and ways that they are implemented and then illustrate the strategies with real-life examples.

Based on these theoretical and practical considerations and the fact that there is no ‘miracle cure’, no one solution that can be applied to all contexts, the third part analyses the strategies’ variations according to the political context, whilst the final part (Part 4) analyses the strategies and instruments’ respective advantages and disadvantages and looks at the possibility, even the need to combine them.

Although the strategies described in this report have their own objectives, different ways of being implemented and a variety of implications, they nevertheless have one thing in common: They can all be implemented by farmers, provided that various degrees of support from the public authorities, depending on the case, is provided. That is why the last part of this publication emphasises the roles that farmers and public authorities must play to ensure that the described instruments work properly.

9) Note that the strategy of integrating the commodity value chain, for example by means of co-operatives, has not been covered in a separate chapter but is a strand that runs through the entire publication.
II. Strategies for increasing farmers’ market power

A. Supply management

Definition and aims of supply management

In agriculture, supply management consists in deliberately matching annual domestic output, agricultural commodity by agricultural commodity, to demand so as to get an appropriate market price as set by negotiations within the relevant bodies (inter-trade bodies, ministries, agencies responsible for managing supplies, etc.). As a rule, an appropriate price can be defined as a price that is remunerative for producers but reasonable for consumers.

Supply can be adjusted to match demand by means of a series of instruments designed to offset the farmers’ inability to produce quantities that match the demand individually and thus to avoid the spontaneous tendency to overproduce. The variable targeted by supply management is thus the production volume of a specific crop in relation to the given geographic area’s market and aggregate output.

To avoid all confusion, it should be pointed out that certain authors propose a broader definition of supply management (‘all mechanisms aimed at controlling or manipulating the quantities supplied on a market’) that is actually closer to market regulation than to supply management. Similarly, when there is a shortfall in production, supply management can also be understood as the set of measures to stimulate production, which could be confusing, all the more as the instruments are different. It would be better to define such measures as ‘production support measures’.

Supply management instruments

Supply management can be done by the State, farmers or even private bodies. It is done by setting up planting or production quotas. One can also differentiate set-aside schemes (the obligation for farmers to take part of their arable land out of production, i.e., setting it aside) from production quotas (quantitative limits on each farm’s output).

Conditions of implementation

A supply management scheme addresses each producer by limiting each farmer’s specific output so that the aggregate supply matches demand. Such arrangements are required to the extent that it is not possible to get a voluntary aggregate adjustment when one is dealing with thousands of independent production units. Such a scheme entails production discipline. It must apply to all producers, both those that are in favour of setting up the scheme and those that do not want it, which requires the establishment of penalties in the case of non-participation. The scheme can be set up by the public authorities, as was the case in the EU, and use the intervention of companies and co-operatives, or even agricultural trade organisations. It must be stressed here that it is easier to set up a monitoring system when the supply management scheme concerns


12) In the last case, it is essential to ensure that the private supply management is effectively collective in order to avoid a monopoly situation.
Instruments put to the test

a commodity that necessarily goes through a step involving industry (for packaging or processing) or producers’ organisations under collective marketing (when this is allowed; see the chapter on collective marketing).

What is more, if one wants to achieve supply management’s aim of getting an appropriate market price by getting supply to match demand, regulating import flows by means of border protection mechanisms is vital.

Instruments associated with supply management

Supply management can be combined with a price support system, as has been done in the EU. In this case, storage mechanisms can be combined with supply management in order to cope with cyclical fluctuations in production, building up reserves when output exceeds demand and releasing the reserves when the commodity is scarce. In a price support scheme, export subsidy mechanisms are sometimes likewise combined with supply management in order to sell off the surplus supply on international markets (see, for example, the application of supply management in the EU).

Advantages of supply management

Supply management has two obvious advantages, those of adjusting internal market prices to the desired level and stabilising these prices. This enables farmers to make certain that prices are high enough to cover their production costs and gives them the guarantee of a certain amount of stability. In addition, supply management is characterised by the fact that it concerns all of the farmers in a geographic area (province, country, region, etc.) and can therefore be beneficial for the entire group.

Another advantage of supply management and the instruments that are combined with it is its flexibility.

— Whilst the first aim of supply management is to limit the quantities produced, some of the ways it is conducted also make it possible to increase to a certain extent the quantities that are released on the market by raising the quota levels, releasing fallow land for production, or changing the levels of stocks. The possibility of adjusting the available quantities makes supply management a genuine food security tool. This also makes it possible to adjust production according to the many other destinations that exist for a commodity, e.g., export, storage, and the granting of food aid, as well as being sold on the domestic market. This control over the quantities that are stored, exported, and/or given out as food aid makes it possible to avoid all overruns that would generate large costs, be they direct financial costs or political ones.

— In addition, the many ways in which supply management can be implemented makes it possible to meet a variety of objectives. As illustrated by the example of the milk quotas’ implementation in the EU, production quotas can effectively be a multipurpose instrument that makes it possible to add to the aim of market equilibrium a range of territorial and social objectives through the use of distribution and transfer rules that govern the quotas’ mobility.

13) To know more about storage, see in particular the summary of the international agricultural seminar held by CSA, IATP and Oxfam-Solidarité in Brussels on 1-2 June 2011 (See Flament, J., 2010).

14) See the paragraph ‘The structures’ rigidity and quotas’ mobility’.
Choosing the right strategies for increasing farmers’ market power

Finally, as illustrated by the example of the sugar quotas’ implementation in the EU, supply management has the advantage of being able to be self-financed by the producers and consequently costing the public authorities nearly nothing. In the context of a system of guaranteed prices, it goes without saying that supply management makes it possible to avoid the large costs that are linked to surpluses.

Criticisms and limits of supply management

Farm efficiency

Supply management is criticised by some for thwarting competition and thus farms’ efficiency.

The example of the milk quotas’ implementation in the EU shows, however, that the existence of quotas did not prevent a rise in European dairy farms’ productivity. It turns out, moreover, that efficiency (volume of output per unit of input) is better and grows faster when prices are stable and valid than in situations of instability with great pressure on prices. What is more, with set quotas, the main way for a producer to increase his income is to lower his production costs. Finally, with liberal quota transfer possibilities, the quotas are bought preferentially by the producers who generate the largest profit margins.

Gains for producers and costs for consumers

Artificially high prices

Some general criticisms of supply management are actually criticisms of price setting, which is deemed harmful in that, by making prices artificially high, it creates gains for producers who do not need them and additional costs for consumers.

We must first underline that supply management does not involve price setting or guaranteed prices directly, although, as we have seen, it can be combined with instruments, such as storage, that aim to keep prices at set levels.

The aim of controlling production is indeed, however, to get a more favourable price for the producer, and it turns out that the loss of the mechanism of constant price adjustments by the market dispels the feeling of neutrality in setting prices to the detriment of consumers. This feeling of neutrality is based on the free market’s role, which lies in the ability of prices to orient production so that supply and demand balance out. This becomes less relevant in a supply management context, since this balance is achieved by setting appropriate quotas. Indeed, that is the quota’s primary role.

What is more, it is possible to adjust prices by setting quotas. In this connection, Boussard notes that if the quota system is backed up by a free market for the ‘rights to produce’, it then becomes possible to measure the magnitude of the support and ‘benefits’ associated with this way of managing markets. To do this, you need only observe the prices that form on the quota market. These supports can thus be modulated so as to be certain at all times that the consumer will have access to the ‘production volume under quota’ – the bare minimum for food security – without such support’s reaching an excessively high level, which would be signalled by high prices for the rights to produce.

16) See the paragraph ‘The structures’ rigidity and quotas’ mobility’.
Finally, the reason for being of a supply management scheme, namely, to correct the chronic tendency to overproduce and the intrinsic instability of agricultural markets, must also be questioned. Now, both the pressure on income that is exerted by overproduction and price instability are extremely harmful for producers and, accordingly, their ability to supply the market. They thus concern food security issues. It then becomes necessary to determine whether the costs and constraints of a scheme are tolerable and acceptable to society.

**A gain for the producer and cost for the consumer**

One effect of instituting a quota scheme is to give the farmer an income gain, namely, a 'quota rent'. This gain is equal to the difference between the price obtained under the quota scheme and the *virtual price* that would have been obtained for the same produce on the same date and which would correspond to the marginal cost of production.

The existence of this 'quota rent' gives the opponents of quotas the opportunity to bring up various problems.

The first one concerns its supposed inefficacy in terms of the economics of well-being, to the extent that the total advantage it procures farmers is allegedly smaller than the total loss borne by consumers.

In actual fact, consumers also benefit from the institution of such a scheme, because it protects them from the price hikes that would follow the farmers' disappearance as prices plummeted because of overproduction; next, because quotas ensure that the supply will meet consumers' needs; and, finally, because productivity gains are greater in a stabilised system, something that ultimately tilts largely in consumers' favour.

The second problem, which is linked to the first one, is political. The existence of a 'quota rent' weakens the political measures that generate it, for this benefit is decried for reasons of fairness, even of morality. The opponents of quotas claim that society should not tolerate the persistence of such an injustice by allowing consumers to be 'taxed' in this way. They claim, as well, that the quota rent is not distributed equitably amongst the farmers. Both arguments have been widely used by various NGOs in their campaigns to denounce the misdeeds of the rich countries' agricultural policies. Revealing a gain in the form of a 'quota rent' is one of the psychologically decisive arguments. The archetype is allegedly the gain procured by the sugar beet quotas used in the European Union's common organisation of the market for sugar.

That is somewhat absurd, for it is difficult to go beyond the presence of a rent, in the historic sense of the word, in agriculture, as Ricardo shows in his analysis of the land rent.\(^{18}\) The land rent attached to a given piece of land is based on the difference between the land's yield and the yield of the worst farmland being cultivated, but the crops of which are still necessary to feed the population.

It thus is not possible to supply consumers without at the same time procuring a gain for the best-endowed farmers. This phenomenon can thus be seen from a completely different angle. *A contrario*, the quota system and its quota rent must be compared with systems that do not generate such benefits. Farmers who are unable to live on the prices paid in a totally liberalised market understand quite easily what this means: In reality, getting rid of the quota rent means eliminating the very many farms that cannot align themselves with the 'most competitive' farms by forcing them into such poverty that they pack up and join the rural exodus.

---

Choosing the right strategies for increasing farmers’ market power

The third problem raised by the existence of a quota rent concerns the rights to produce themselves. The presence of this quota rent – which, let us reiterate, consists of nothing more than a good price – is effectively what gives quotas their value, a value for which farmers pay to acquire these rights.

The gains procured by the supply management system and the value of which is passed on to the quotas are justified as follows by Cochrane:

“The value of operating in a stabilized agriculture where product prices and returns were relatively certain and relatively good and where long-range production plans could be formulated with reasonable assurance of materializing would, of course, be capitalized into these marketing certificates. The price of these certificates would become the cost of doing business in a stabilized agriculture”19.

This American economist also set guidelines for assessing the supply management system:

“True this supply program does not solve all the world’s ills; it does not deal with the problem of low-production farms; it does not resolve the color barrier; and it does not make the world safe for democracy. It does, however, cope with the problem for which it was designed – the protection of gross farm income through the stabilization of the farm price level at a fair level”20.

To conclude, the presence of an income gain arising out of the supply management system is not considered to be a vice, but rather proof of the system’s value, and for more than one reason. That is all the more true in that it is not possible to conceive of supplying consumers without at the same time generating income gains for some of the farmers.

So, supply management can be criticised when it is measured by the yardstick of possible alternatives rather than that of an income gain for farmers.

The structures’ rigidity and quotas’ mobility

When it comes to the quota instrument in particular, criticism can be levelled at the creation of structural rigidity due to the quotas’ linkage to the land.

Tying quotas to the land effectively determines the quotas’ mobility and thus the structural development of production. Low quota mobility due to a strong tie to the land (when quotas are transferred practically in parallel with the land) tends to freeze existing situations and structures. This rigidity may be desired in order to ensure the social distribution of production by limiting the concentration of production in a small number of farms21.

However, the rigidity that results from low quota mobility can also be considered a hobble on dairy farms’ development.

What is more, the ways that the quotas are exchanged can also have a major impact on the farms’ structures. If we look at European and Canadian practices, the following types of transfer can be identified:

— **Transfer according to administrative rules**: The quotas are transferred by an administrative management arrangement according to certain criteria linked to rural, social or economic development objectives. These criteria can thus benefit certain types of farm rather than other types. For example, priority can be given to redistributing the

---

20) Ibid., p. 710.
21) However, the milk quota scheme in the EU did not prevent the farms’ concentration (see ‘Analysis of the milk quota scheme in the EU’ in the section covering the milk quotas’ implementation in the EU).
Instruments put to the test

quotas to young farmers and small and medium-sized farms. What is more, the quotas’ prices can be set at the desired level (they can even be free, if necessary). It can be difficult to get non-priority producers who wish to expand to accept such a transfer system.

— **Transfer by mutual agreement:** The quotas are exchanged between farmers, who negotiate their prices with or without a broker as an intermediary. With such a system, the quotas’ mobility is ensured in theory. However, in actual fact, this mobility is often restricted to the local level, because personal contacts between farmers tend to be of prime importance. What is more, another constraint comes from the difficulty of the circulation of information and price variability from one situation to the next.

— **Transfer by auction at a public official market:** The quotas are sold at a regional or national auction to the highest bidders. The quotas’ mobility is improved compared with a transfer by mutual agreement. However, the transaction costs can be high (if the buyers must be physically present at the auction). What is more, the prices can vary from one region to the next and there is a risk of an entente amongst buyers or sellers to influence the prices.

— **Transfer by means of a quota exchange:** Quota supply and demand are centralised in a single official market. An equilibrium price is determined at each sale, based on the quantities and prices offered and requested. This centralised system gives optimal quota mobility, reduced transaction costs, the circulation of information, and a single equilibrium price governed by supply and demand.

The last three transfer schemes in this list, and which differ from the first one by their free-market character, are based on the principle that a system of freely traded quotas will result in the economically optimal distribution of rights to produce, since the most efficient farmers, who generate the highest margins, will be the best placed financially to get the available quotas. This market approach to or commoditisation of quotas generally entails cutting the tie to the land.

As pointed out above, these various transfer schemes can also be backed up by administrative rules aimed at orienting the sector’s structural development. For example, the quota exchange market can be national or restricted to a specific geographical area. Another possibility is to create a quota reserve for producers who are considered to have priority and to stock this reserve by skimming off percentages systematically from all transfers, recovering quotas that are no longer assigned to any one individual when a dairy farm disappears, or increasing the overall supply to meet a rise in the demand.

So, quotas do not necessarily require rigid structures that may be limited or circumvented. Moreover, such rigidity may be desired.

**Quotas and production costs**

The quota system is often criticised for imposing costs on producers. The quotas’ commoditisation is indeed often accompanied by gradual rises in their prices. This is due to a demand for quotas that outstrips the supply. This imbalance can be explained by several factors, such as little growth in demand combined with an increase in the farms’ production capacity (due to higher herd yields and increased labour productivity).

So, in quota-based supply management, the race for market share is expressed via quota exchanges and their prices when they have a market value. The costs that are generated are capital that could be invested elsewhere to modernise the farms, purchase equipment, etc. It is thus necessary to make up for this money leaving the production sector by means of the profits that are generated by managing the supply. Here it must be remembered that, in the absence of supply management, the struggle to increase production
Choosing the right strategies for increasing farmers’ market power

Strategies for increasing farmers’ market power

A remunerative price generates surpluses and prices that do not cover production costs. Remunerative prices are thus a sizeable advantage that must offset the quotas’ purchase prices.

However, if the quota’s price is too high, such profits can in part be cancelled out. Excessively high prices are also a major disincentive for young farmers wishing to get into the business. That is why provisions aimed at taming the quota market and slowing down the prices’ rise can be implemented.

These include:

— creating reserves and quota allocation programmes for young farmers;
— skimming off a percentage from quota transactions and redistributing the result to all of the farmers at a low price or for free;
— establishing production exit plans designed to indemnify farmers who get out of milk production in order to increase the supply of quotas;
— limiting the quantities that a farm may acquire over a given period or penalising companies that buy more than a certain quantity; and
— setting up a quota rental system between producers so as to reduce the demand for quotas by ‘eliminating’ the buyers who want to cover temporary overproduction.

Beyond these measures, some critics challenge the quotas’ commoditisation and call for collective planned management of quota transfers, whether partial or total.

History of supply management

Several developed countries have implemented supply management schemes since the 1930s in order to solve the recurrent problem of overproduction, a problem resulting from increases in productivity and the implementation of various farm support schemes. In the United States, supply management was a key element of the agricultural chapter of Franklin Roosevelt’s New Deal and is still in use in the dairy sector, even though it is not the norm there. In Canada, supply management (combined with a collective marketing scheme) is in effect for milk and poultry. In the EU, supply management mechanisms exist for sugar, protein and oil seed crops, wine and milk. However, the milk and sugar quota schemes will be phased out by 2015.

On the international level, the context is not much in favour of supply management. The WTO’s Agreement on Agriculture, which aims to institute rules on the use of various agricultural policy tools (regarding market access, export subsidies and domestic support), greatly limits the possibilities that a country has to regulate its domestic markets. All measures that are considered export subsidies or domestic support creating ‘market distortion’ can be challenged under WTO rules. Yet supply management, like all government farm policies, is essentially designed to have an effect on the supply and consequently on the markets. Supply management, like all agricultural market regulation measures, must thus be implemented in accordance with the WTO’s rules. This is the case in particular for border protection measures, although, as we have seen, they are indispensable if supply management is to work properly.


Supply management within Europe’s CAP

This example describes the main supply management instruments used by the EU (production quotas and set-aside), the context in which they were instituted and their changes over time. Particular attention is paid to the milk quota scheme (and its associated price support measures), with a description of the Member States’ adjustment possibilities, notably as regards the key issue of their mobility. The national examples that follow give contrasting real-life illustrations of national implementation of the quota scheme.

Two main production management instruments are used under the European Union’s Common Agricultural Policy, namely, production quotas and set-aside (or mandatory fallow land).

Supply management was introduced into the CAP in 1968 with the organisation of the sugar market to guarantee fair incomes for the Community’s farmers and a self-supplied Community market, notably with the help of sugar quotas. Milk quotas were instituted in 1984, along with the first reforms aimed at capping agricultural expenditures, in a context of overproduction. Set-aside came on the scene with the 1992 CAP reform.

The rest of this section will describe these two instruments, with special attention given to the production quota scheme, which is the only production management instrument still used today.

Set-aside (fallow land) scheme

Context of its institution and operating principle

The European Community instituted its compulsory set-aside scheme (compulsory fallows) in 1993 via the 1992 CAP reform (the Mc Sharry reform). Just as a reminder, the general aims of this reform were (i) to keep European agriculture competitive on the global market and to enable it to ‘reconquer the Internal Market’ by narrowing the gap between domestic and global prices; and (ii) to control production and the excessive growth of the EU’s budget expenditures.

To this end, production support prices were reduced and hectare-based ‘compensatory aid’ was introduced in order to support farmers’ incomes. This is the context in which the compulsory set-aside scheme for the major arable crops (cereals, oil seeds and protein crops) was instituted. The introduction of these set-aside measures took place in the context of the first major CAP reform, which occurred just before the end of the Uruguay Round. In fact, the Blair House agreement between the United States and European Union on animal feed imports was what made it possible to wrap up the Uruguay Round negotiations. However, the EU’s strategy also consisted in overhauling the way it supported its farmers by going from a price support system to a direct payments system. In so doing, the EU adopted a scheme that was already in effect in the US and was more easily defended.

24) In reality, older measures had already been taken in the late 1970s to limit milk production and the production of other surplus commodities, such as cereals. For milk we can mention the subsidised slaughter of supernumerary dairy cows and the co-responsibility tax, which was established in 1977 on the basis of a percentage of the target price for milk. The principle behind the co-responsibility tax was as follows: If output surpassed a certain quantity on the Community market, the Member State responsible for this overshoot was taxed and could create incentives for its dairy farmers to reduce their output by paying the tax to pay on to them. However, the milk quotas were instituted because of these measures’ insufficient success.

Choosing the right strategies for increasing farmers’ market power

by two powers than by one alone. At the same time, the EU also adopted the set-aside scheme, which was also used in the United States, in order to reduce supply. It was used at certain times for environmental reasons as well.

Concretely, the land set-aside scheme that was set up in the EU consisted of the obligation for farms that exceeded a certain production threshold to leave a portion of their land idle (fallow) in order to be eligible for a compensatory payment per hectare. The fallows were rotated and the compulsory fallow rate was set for the entire EU each year in line with production and market developments. An environmental objective had been added to that of limiting production and was to be achieved by technical requirements for the land set aside in order to protect the environment. These requirements were set nationally by each Member State.

The sugar quota scheme

Context of its institution and operating principle

Sugar quotas were introduced into the CAP in 1968 with the organisation of the sugar market to guarantee fair incomes for the Community’s farmers and a self-supplied Community market. In parallel with the quotas that were set in line with Internal Market demand, producer-financed schemes of import and export duties on the surpluses were also set up.26

The scheme adopted in 1968 created a ‘basic quota’ (today’s A quota) for Community-wide consumption that was distributed to all the Member States according to their past production figures. The principle was that each Member State would allocate the quotas to its domestic sugar manufacturers, and then each mill would convert its quotas into delivery rights for each beet farmer.

In addition to this basic quota, each sugar refinery could produce an additional quantity set at between 30 and 45 percent of the basic quota, depending on possible market outlets. The basic quota and its variable supplement thus formed the maximum quota for each refinery. The additional fraction was subsequently turned into today’s B quota.

Originally, the A quota guaranteed each Member State a share in the Community market, whereas the B quota gave this by nature rigid scheme a certain degree of flexibility and ability to adapt to better production and market conditions. So, in the beginning the B quota created the margin that allowed firms to meet their A quotas without the risk of being penalised for overshoots due to the fluctuations inherent in any agricultural crop. To this end, B sugar could and continues to be eligible for carryover.27

Evolution of the sugar quota regime

In theory, the B quota corresponded to the part of the Community’s output that could be exported with export refunds. It thus gave undertakings, especially those that had the capacity, that is to say, the most competitive ones, the possibility of expanding by producing additional quantities of A sugar under less favourable conditions: The costs of exporting the excess quantities so produced had to be borne by the undertakings them-


27) Carryover consists in the sugar mill that produced sugar in excess of its quota’s having to store the surplus for at least one year. At the end of this period, the sugar is considered to be the mill’s first A sugar output for the production year under way. It may then be marketed on the Community market and the beets used to produce it are eligible for guaranteed prices. In a way, this amounts to deferring output by one year. The choice between carrying over or exporting the surplus sugar is made by the farmers and sugar mills. Overall, one-third of the quota overshoots is carried over and two-thirds is exported. See: European Commission, 2004.
Instruments put to the test

selves through levies on B sugar production. According to this thinking, the price fetched by the B sugar, minus the levy, was expected to be close to the conditions of a sale on the global market.

In reality, for various reasons that were definitely linked to price movements and the levies’ distribution, these conditions were never achieved and, on the contrary, B sugar production spread little by little. The initial purpose of the B quotas was subsequently forgotten when they were frozen in the mid-1980s at the level of prior output. The role initially given to the B quota was then taken over by C sugar, which is non-quota sugar that is not carried over and must be exported without export refunds. Its value depends on the price of sugar on the world market and the prices paid for the beets that are used to produce it, called ‘C beets’, are variable and not guaranteed.28

The Commission’s memorandum of July 1973 provided for lowering the A quota to 8.4 MT (million metric tonnes), limiting the B quota to 15% of the A quota and prohibiting all C sugar production. The A quota objective corresponded to consumption (9.8 MT) minus foreseeable imports from the ACP countries. Now, this very same period was that of an unprecedented global production crisis and high prices. Finally, the new regime set an A quota of more than 9 MT, a B quota of 45% and no limits on C sugar. During the same period, the institutional prices were raised 30%.

Table 2. Names of the types of sugar and sugar beet produced in the sugar quota scheme

<table>
<thead>
<tr>
<th>Type of Sugar or Sugar Beet</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A sugar or A isoglucose</strong></td>
<td>Any quantity of sugar or isoglucose production attributed to a specific marketing year under the A quota limit of the undertaking concerned.</td>
</tr>
<tr>
<td><strong>B sugar or B isoglucose</strong></td>
<td>Any quantity of sugar or isoglucose production attributed to a specific marketing year in excess of the A quota but within the sum of the A and B quotas of the undertaking concerned.</td>
</tr>
<tr>
<td><strong>C sugar or C isoglucose</strong></td>
<td>Any quantity of sugar or isoglucose production attributed to a specific marketing year either over and above the sum of</td>
</tr>
<tr>
<td><strong>A beet</strong></td>
<td>All sugar beets processed into A sugar.</td>
</tr>
<tr>
<td><strong>B beet</strong></td>
<td>All sugar beets processed into B sugar.</td>
</tr>
</tbody>
</table>


Financing of the scheme by the farmers

The system was designed to be self-financing through the farmers’ production levies covering the entire A + B output. These levies were set at 2% of the basic price for the sugar beets and a second levy (B levy) that was applied, if necessary to the B quota. An additional levy could be collected if the first two levies failed to cover the system’s costs. Storage and storage costs, which also weighed heavily on the market’s organisation, were the undertakings’ responsibility and distributed amongst them on the basis of their shares in the revenues generated by the production levies paid in the marketing year in question.

Sugar protocol

A preferential imports protocol has existed for sugar since 1975. It concerns the ACP countries listed as beneficiaries of the sugar protocol annexed to the Lomé Convention and taken up by the Cotonou Convention. India benefits from the same conditions.

28 The prices of C beets are freely negotiated between farmers and manufacturers. Some trade agreements stipulate that the sugar beet’s price is derived from the price obtained for C sugar by using the same distribution as institutional prices, namely, 58% for the agricultural part and 42% for the industrial part.
The preferential imports, for which an annual delivery quota of 1.3 million tonnes was set in 1975, are exempted from customs duties and above all are covered by the system of a guaranteed price equal to the intervention price for EU sugar. It is basically raw sugar to supply four Member States with sugar refineries, namely, the United Kingdom, France, Portugal and Finland.

**End of the sugar quota scheme**

Following the sugar CMO reform, measures were taken to phase in changes to the scheme between October 2009 and October 2015. Over this period, three major changes are gradually being made, to wit:

- Lowering the guaranteed prices until they are eventually phased out.
- Raising the quotas.
- Tripling the number of countries eligible for preferential relations with the EU.

**Analysis of the sugar quota scheme in the EU**

Given its singularities, the sugar CMO, which revolves around a supply management scheme, is particularly interesting to examine.

Indeed, the various players in the value chain are involved in the CMO, i.e., the EU and its Member States, beet farmers and sugar manufacturers (in an inter-trade arrangement) and a sample of countries from the South, albeit indirectly (via the sugar protocol). Working as an inter-trade group ensures that better account is taken of the interests and responsibilities of each link in the commodity value chain.

What is more, the farmers are made directly responsible for financing the sugar CMO. This makes it possible to bypass the budgetary constraints that are such a big problem for other CMOs.

Finally, limiting the guaranteed prices on the Internal Market (A quota) cancels out the negative effect that guaranteed prices can have as incentives to overproduce on other CMOs, even though a gradual increase in the quantities of sugar exported has been seen.

**The milk quota scheme**

**Context of institution and operating principle**

The EU instituted its milk quota scheme in 1984, at a time of surplus milk production that had resulted from a price support policy without limits on the quantities produced. The aim was to control production and to adapt the supply to the demand.

A Community-wide quota was apportioned to the individual Member States according to the quantities produced the previous years (historical reference) and the national quota for each Member State consisted of (i) a reference quantity for delivery (by dairy or by farm) and (ii) a reference quantity for direct sales.

Each Member State was free to assign its national quota to either the dairies or the dairy farmers based on their past production. The national quota was assigned for a 12 month period, and at the end of this period a financial penalty (an additional levy or ‘super-levy’) was charged each Member State for any quantities of milk collected above the assigned quantities for deliveries and direct sales. This levy had to be passed on (via the State or...
Instruments put to the test

the dairies) to the producers who overshot their quotas in order to regulate production by making the producers responsible for their actions.

**Milk quotas and price support mechanisms**

It is important to underline that the milk supply management system instituted in the EU was coupled with a price support scheme. Other instruments that do not belong directly to supply management were thus combined with the milk quota scheme so as to keep the price of milk on the Internal Market at a set level (target price). Care must be taken not to amalgamate these instruments with supply management per se. So, the price support that was instituted in parallel with the production ceilings was achieved by various mechanisms, to wit, (i) storage, (ii) border protection (import management), and (iii) export subsidies.

**Storage**, a direct market intervention mechanism, was combined with the quota scheme in order to regulate the quantities of milk products put on the market and thus to keep the Internal Market prices at a set level (target price). Due to the perishable nature of fresh milk, the storage scheme involved its two main components, namely, lipids (butter) and proteins (skimmed milk powder). Here, it is necessary to make a distinction between public and private storage.

- **Public storage**: The stocks belong to the European intervention agency and the main aim is to keep producer milk prices from going below a certain set threshold (the intervention threshold price). The commodities were stockpiled through purchases of butter and milk powder at their intervention prices when the milk price fell below the intervention threshold. To avoid excessive warehousing expenditures, it was decided as of 1987 to limit the purchases of dairy products at the intervention price to a certain quantity. Above this cut-off, purchases could then be made by the awarding of contracts at lower prices, with or without a set minimum price. It should be pointed out that the warehoused volumes and intervention prices were reduced as time went by in the wake of the successive CAP reforms aimed at deregulating the sector.

- **Private storage**: The stocks remain the producer’s property and the aim is to smooth out seasonal variations in production (due, typically, to the existence of a spring milk production peak) in order to stabilise the market. The European Commission provided a storage subsidy to cover overhead, warehousing costs and financial costs.

The milk quota system was combined with a **border protection mechanism** in order to keep the price of milk on the Internal Market at a set level. When the global market price was lower than the threshold price (close to the target price), duties were levied on imports in order to raise the imported products’ prices to the levels of the Community prices (variable customs duties). In this way, a minimum import price existed. This instrument was maintained until the 1999 CAP reform when, in the wake of the Marrakech Trade Agreement of 1994, the threshold price was dropped and set customs duties (or tariff equivalents, i.e., a set percentage of each import’s value) that decreased as time went by were instituted.

**Export support mechanisms**. Surplus commodities governed by a common market organisation (CMO) that were neither warehoused nor sent out in the form of food aid were sold off on the global market very early in the working of the EU’s CAP. As the EU bought these surpluses at intervention prices, the system that was set up consisted in financing the sales of these surpluses on the global market by paying the exporters refunds to cover the difference between the internal intervention price and the price obtained on the

---

Choosing the right strategies for increasing farmers’ market power

Strategies for increasing farmers’ market power

The export refunds, which came in for much criticism, were the targets of trade negotiations. This export support mechanism was consequently modified after the Marrakech Agreement (1994). Exports can nevertheless complement a supply management scheme, provided that they are subject to quotas, are made on the basis of agreements between co-operating States or groups of States and do not harm the development of the sector in the importing country.

The quotas’ territorial distribution and mobility

When the quota system was set up, it was accompanied by distribution and transfer rules. The milk quotas were thus conceived of as multifunctional instruments combining the aims of market equilibrium and territorial and social development.

The distribution rule, whereby reference quantities were distributed amongst the Member States, was established in order to prevent production relocating to certain Member States to the detriment of others. This rule was upheld as time went by.

The transfer rule, which attached the quotas to farmland area, was established in parallel in order to maintain the quotas’ territorial distributions inside each country. What is more, the link with the land can be seconded by linkage with a geographic area, which ensures production’s territorial distribution, since the quotas that are assigned within a specific region cannot be transferred to farms located in another region (rule of spatially limited transfers).

Starting in 1993, each Member State was free to decide how to enforce the quota transfer rule. This rule was thus interpreted in various ways depending on the situation of the country’s dairy sector (number, size and productivity of dairy farms; importing or exporting country; etc.) and the national objectives linked to the country’s economic interests, legal structures and social and cultural objectives. The link between the quotas and land was thus either upheld or abandoned, depending on the State. What is more, different quota exchange schemes were established, ranging from administrative control over the transfers to a quasi-free-market approach. The market approach to or commoditisation of quotas generally entails severing the link with the land. However, administrative rules can be established to maintain this link to a certain extent.

The transfer possibilities are thus diverse and the measures that the Member States have implemented reflect this diversity. The example of the milk quota system’s application in Belgium that is presented later on in this document illustrates one of the possible combinations of quota transfer arrangements.

Analysis of the milk quota system in the EU

As we have seen, milk quotas were used as multifunctional instruments to achieve the combined targets of market equilibrium and territorial and social objectives. These various elements must thus be taken into account when we go on to assess the instrument.

When it comes to market equilibrium, the milk quotas achieved their objectives:

- The objective of controlling production was achieved, as production has plateaued at the set level. The imposed production level was, however, long higher than the level of domestic demand. So, the structural surpluses have dropped greatly compared with their level in the 1980s, but they have not disappeared. When it comes to production, after a decade of strong and steady growth at an annual rate that exceeded 3% between 1974 and 1984, production rose by only about 0.5% a year over the decade

that followed the quota system’s implementation (1984-94). This drop in production was achieved by a reduction in the number of dairy cows (down 2.2% each year), whereas the milk yield per cow continued to grow (a mean annual increase of 1.8%) 32.

- The EU’s budget expenditures in the dairy sector dropped markedly in the EU overall after the milk quotas’ introduction (see Figure 1 below) 33.
- The aim of price stability has also been achieved, since the milk quota scheme has kept the producers’ nominal prices at a relatively high and stable level (although this has not prevented the erosion of the farmers’ prices if one allows for inflation). Raw milk prices effectively varied little between 1984 and 2007 compared with the pre-quota period 34.

**Figure 1. EU milk expenditures (1981-2007)** Budget expenditures (in millions of euros)

When it comes to the milk quotas’ impact on farm structure, we see a considerable restructuring process during the period in which the milk quota system has been in force, with a large drop in the number of farms and a concurrent increase in their sizes (phenomenon of concentration). However, Barthélémy & Boison 35 note that for France, Germany and the United Kingdom – three countries that implemented the quotas in contrasting ways – the introduction of milk quotas slowed the rate of concentration compared with the pre-quota period. What is more, we cannot elude the question of knowing what might have happened if the quota system had not been introduced and what other policy might


33) It should be stressed that starting in 2003, due to the decoupling of support from production, the expenditures reflect only the budget that is linked to market support, to which the expenditures linked to direct payments to farmers must be added. As a result, the total cost of the dairy sector for 2007 can be put at 64% (or €4500 million) more than the figure shown in the 2005 budget. European Court of Auditors, 2009. Special Report No 14/2009, Have the management instruments applied to the market of milk and dairy products achieved their main objectives? Luxemburg.


have been adopted to cope with the sector’s problems of overproduction. It should also be pointed out that the changes in farm size varied according to the country, depending on the initial situation and how the system was implemented. The quotas’ territorial distributions within each country were likewise very different, in line with the diversity of quota management practices. Just as an example, the way the quotas were managed in France made it possible to maintain dairy production’s spatial distribution, whereas in the United Kingdom, the specialisation of farms, accompanied by the migration of milk production in certain regions, was very strong.

So, since its institution in 1984 the milk quota system has helped to regulate the sector’s output whilst allowing production to remain possible in all the regions of the EU, albeit with differences according to the country and its management practices. This positive assessment does not apply to Italy, where the quota system, which was poorly attuned to national production and, to make matters worse, badly managed, hobbled production and upset the country’s dairy farmers. The Italian case has thus been included in the series of examples of national implementation that follows.

The milk quota system in Belgium (walloon region)

The quota transfer scheme put into practice in Belgium (the Walloon Region) illustrates one of the many possible combinations of management mechanisms that are available depending on the country’s objectives. The ‘quota fund’ in particular is a mechanism to reduce the cost and mobility of quotas in a quota commoditisation system so as to guarantee the sector’s profitability and to let young farmers into it.

Distribution of national quotas and superlevy arrangements

Belgium chose to distribute its national quotas amongst its farmers rather than amongst the dairies. The delivery and direct sales quotas were awarded on the basis of the sales in 1983 and 1981, respectively. If the national quota was overshot, the authorities decided to distribute the super-levy that Belgium would owe amongst the farmers who contributed to this overrun. The buyers (dairies and processing industry) are the ones that collect the super-levy due on deliveries from the said farmers. The super-levy on direct sales overruns, for its part, is paid directly by the farmers concerned.

Link with the land and transfer arrangements

In choosing how to transfer quotas in the country, Belgium gave preference to the link with the land, although it simultaneously organised a certain mobility of the quotas. The transfer system chosen in Belgium effectively was that of transfers by mutual agreement, tempered by a limit on the volume per hectare after the transfer in the case of the cumulation of quotas (quantities taken over merged with quantities already held). This volume per hectare was increased over the years. To prevent the exodus from and concentration of quotas in certain regions, a ‘thirty kilometre rule’ was applied to transfers entailing cumulation, that is to say that the quotas had to be traded within a 30 km radius. In order to ensure some minimal quota mobility, it was decided to skim off a percentage of the quantities involved in cumulative quota transfers (rising percentage with rising quota volume) for a national reserve, which was then redistributed to special producer categories.

36) Ibid.
The quota fund was created in 1996/97 for the purpose of limiting the commoditisation of quotas in order to guarantee the sector’s profitability and let young farmers have access to the quotas at acceptable prices. The quota fund’s operating principle is as follows: The fund centralises the liberated quotas (without land) and redistributes them to the producers who apply for them. This makes it possible to keep a lid on the quota’s price on the market, since it is set by the administration for each milk production year. Young dairy farmers, who are defined by their age and a production limit, are given preference in the quotas’ redistribution, with two-thirds of the quotas being distributed to farmers under 35 and one-third for all the others. Although it is possible to sell quotas to the fund without a tie to the land (or with a partial tie), a tie to the land is required to purchase quotas (a minimum of 1 ha of forage crops for a 20,000 litre quota after the purchase).

The leasing (or temporary transfer) of quotas, for its part, was allowed as of 1987/88 and has been maintained over the years. This measure allows a farmer who is unable (or does not want) to produce his entire reference quantity to transfer part of it to another farmer for the rest of the production year. The latter can thus increase his quota over the short term whilst cutting in part the link between his quota and the land for a production year (a minimum forage land area nevertheless has to be met by instalment of the total quota in the farmer’s possession, including the leased quotas).

This quota transfer scheme, which is still in effect, seems to have enabled Belgium to lose fewer dairy farms than in the Member States that set up systems with fewer constraints on quota mobility (DGA 2007).

The milk quota scheme in Italy

This example illustrates the problems linked to poor adjustment of the dairy quota scheme to national production and the mistakes made by the Italian government in organizing the system, which resulted in great discontent amongst the dairy farmers who were supposed to have benefited from it. It also underlines the importance of managing the quotas’ implementation well so that they are effective and chronic overruns are avoided. This example documents in particular the need for a production control system based on the farmer’s individual responsibility.

The milk quota scheme’s difficult implementation in Italy

The milk delivery and direct sales quotas in Italy were assigned on the basis of the reference year of 1983. However, unlike the other Member States, they were not calculated from a direct milk production count for 1983 because no such census had been conducted. The national quotas were thus assigned on the basis of estimates made by the national statistics Institute (ISTAT) and founded on an evaluation of the total production of and workforce on the farms. That is why Italy was given a transitional period to be able to take such a census. What is more, the lack of reliable data prevented the government distributing the national quota amongst the farmers from the outset. As a result, Italy managed to get the EEC to consider it a single production area without individual quotas’ being assigned and the government was tasked with overseeing compliance with the national quota. Consequently, the penalties that were incurred for exceeding the national quota were borne by the State, without any production limit being imposed on Italy’s dairy farmers.

37) DGA 2007.
Once the farm census was finally completed, Italy chose, in 1987, to distribute the national quota amongst producers’ associations (thanks to a derogation granted by the EU). The upshot was that 95% of the quotas were assigned to the majority producers’ association and the remaining 5% were distributed amongst the country’s independent dairy farmers. However, the majority association in charge of distributing the quotas amongst its members was unable to set clear house rules, so that the farmers still were not responsible for paying a super-levy if they ran over their quotas; and this situation existed through 1991.

In 1992, after ascertaining the ineffectualness of a production control system in which the producer had no individual responsibility, the State instituted a scheme of quotas per producer with a pyramidal support mechanism going from the Farm Ministry to the producers’ associations for checking the quota awards and collecting the levies in the case of overshoots. What is more, the A quotas (set quotas) and B quotas (quotas that could be cut in the event of a national overrun) were set. Nevertheless, the national quota was exceeded once again. This new failure is explained in particular by the fact that the national agency in charge of agricultural operations (AIMA), which normally should have published the bulletin assigning the individual reference quantities (IRQs) to each dairy farmer by 31 January of each year, did a shoddy job, publishing unreliable data well after this deadline. The uncertainty created by AIMA’s poor performance and the non-enforcement of EU legislation for eight years led to the assignment of individual quotas that, when added up, surpassed the total national quota: Individual quotas were assigned for a total of 12 million metric tonnes of milk whereas Italy had been assigned a total quota of 9.9 million and produced 10.9 million tonnes.

What is more, another difficulty plagued the country: If penalties were exacted for exceeding their quotas, the farmers at fault often turned to the relevant court with, as an immediate effect, suspension of the penalty’s enforcement.

When the problem of the discrepancy between the IRQ and GTQ (guaranteed total quantity) accounts in Italy was finally settled (in 1996), there still remained the problem, which would worsen even further, of the conflict between the assigned quotas and the distribution of actual production, for the quota assignment bulletin had been published too late, when the production season was already over and it was no longer possible to adjust production. So, for the 1995/96 production year, the country had exceeded its quota by about 1.4 million tonnes, although some 900,000 tonnes of unused quotas still remained in certain parts of the country.

The new government that was set up in 1996 had to deal with the fact that Italy had to pay a fine of 421 billion Italian lire (€217,428,354) – of which more than 40% was due for Lombardy alone – and proposed to set up countervailing support measures in order to help the farmers pay the State their shares of the tax resulting from their IRQ overruns.

A Milk Quota Investigating Commission that was set up to conduct an inquest into the quota management irregularities and to propose ways to check actual production in the contested production years revealed three things: the illegitimate assignment of quotas, the production figures’ lack of credibility, and the contradictions in inappropriate national legislation.

---

39) UNALAT, which was officially recognised a second-level producers’ association in 1986, was the National Union of Dairy Farmers’ Associations. About 90% of Italy’s dairy farms belonged to its eighty member associations.

40) Via AZOOLAT, the only association that did not belong to UNALAT.
Thereafter, a string of legislative texts was churned out over the next few years, starting in December 1997, to solve the scheme’s main problems: revision of the quotas, revocation of unused quotas, verification of actual production figures, more severe enforcement of the penalties linked to milk quota overruns, procedures for managing the farmers’ appeals, and making the inter-producer quota exchange system more flexible.

These measures were not implemented without difficulty and, paradoxically, Italy finally began to enforce the quota scheme more strictly just as the scheme was starting to be deregulated as part of the CAP reform process. Whilst the Fischler reform of 2003 extended the quota system until 2015, it also provided for an increase in the production quotas, which enabled Italy to get a 600,000 tonne increase in its quota and thereby cover its surplus production.

The milk quota scheme’s impact in Italy

The problems linked to the milk quota scheme’s poor management (assigned IRQs exceeding the country’s TGQs and discrepancy between the assigned quotas and actual production) made the structural problems specific to Italy’s dairy sector (regional inequalities and concentration of production) worse. Indeed, following the much faster modernisation of stock farming in the North – especially in the Po grasslands – than in the Centre and South and given the years of non-enforcement of the quota scheme, the northern Italian regions exceeded their assigned quotas whereas the quotas in the other regions were not fully reached. Consequently, Italy was characterised by milk production that was highly concentrated geographically and socio-economically: 65% of its dairy cows were concentrated in just four (of the twenty existing) regions in 2007 and just under 17% of its dairy farms accounted for 67.1% of the herds, with 3.7% of the cows on a scant 0.1% of the farms (these were farms with more than 500 head of cattle), whereas 32.8% of the farms (the country’s smallest dairy farmers) accounted for only 3.2% of the dairy cows.

As a paragraph in the Assessment of the milk quota system in the EU explains, the milk quota system’s implementation did not prevent the rapid change of Europe’s production structures, even though it is difficult to know what might have happened if the quota scheme had not been introduced and what other policy might have been adopted to cope with the sector’s overproduction problems. In Italy, the sector underwent more extensive restructuring than in the other Member States, with the number of dairy farmers falling by close to 66% between 1993/94 and 2006/07. This situation is similar to what happened in the EU’s new Member States, where the milk quota scheme was implemented after their accession. These reinforced processes are explained in particular by the fact that all of these countries, Italy included, were characterised initially by a larger number of dairy farmers than elsewhere in the EU.

---

41) A Belgian magazine specialising in agriculture reported that the most striking event of the 2009/10 production year was that Italy had managed to comply with its ‘direct sales’ quota for the first time since the system’s creation in 1984 (le Sillon belge, 12 November 2010).


43) Lombardy, Piedmont, Venetia, and Emilia Romagna.


45) Although when it comes to the dairy farms’ sizes and yields per milk cow, Italy’s strong growth has nevertheless remained below the EU average. See Calza Bini, 2010b. Op. cit., p. 17.

46) The decline in the number of farms was 20% in just two years, from 2004/05 to 2006/07. See Calza Bini E. & Boccaleoni S., 2010b. Op. cit., p. 17.

Choosing the right strategies for increasing farmers’ market power

Strategies for increasing farmers’ market power

Onion supply management in Senegal

In Senegal, onions are grown primarily in two agricultural areas: Niayes and the Senegal River valley. The Senegalese are major onion eaters: Each household eats onions at least twice a day, and the country’s annual consumption is close to 140,000 metric tonnes. In addition, onions are a profitable cash crop, with high yields of up to 30 tonnes per hectare, and are included in the country’s agricultural diversification strategies.

However, local onions face competition from imported onions, to the tune of 70,000 tonnes a year, the bulk of which come from three countries: the Netherlands, France, and Belgium. To cope with this problem, and given that Senegal had a large workforce at its disposal and a strong agricultural sector that enabled it to increase local production and limit its food dependence on imports, the government and onion growers decided in 2004 to set up a supply management system.

This system’s implementation was the result of a long process of consultation and negotiations that began in 1987, informally at first, on the local level, within the growers’ associations and with the local authorities, and then more formally with the creation of a regional growers’ association, APOV (Association des producteurs d'oignon de la Vallée du fleuve or River Valley Onion Growers’ Association). This process culminated in the creation of a national consultation and monitoring committee composed of representatives of various players (producers’ organisations, merchants, middlemen, importers, the relevant ministries, etc.) by the country’s Market Regulation Agency (ARM in French) in 2003. This committee developed the onion supply management system, with negotiations concerning the local production periods and import restriction dates, quantities, quality criteria, and prices.

The supply management system that was set up was designed to keep the domestic market intact and is based on three pillars: import controls, production volume controls and production price controls. Of course, only the production volume controls belong to supply management per se.

Production is controlled by assessing the production, actual demand, stocks, expected imports and traditional exports of onions. Based on these statistics, the committee sets a total production quota to adjust production to actual demand. This total quota is split up amongst the regions on the basis of historical data and each region is in charge of managing its own quota and distributing it by zone.

The production controls are combined with a price that is remunerative and an incentive for growers but reasonable for consumers. This price is set by grade of onion and comes out of collective bargaining based on production costs. All buyers thus pay the same price for a given grade of onion. What is more, to have the growers finance the supply management system themselves, the administrative, transport and other costs are deducted from the unit price.

48) This example comes from the case study done by ROPPA under the second EuropAfrica programme (see Ndao B., 2009).
The import control campaign was instituted during the local onion-selling season, when Senegal can go without imports. To establish these import restrictions, Senegal used the special safeguard clause in the WTO’s Agreement on Agriculture (Article 5), given the harm caused by imports. So, onion imports were reduced to 4% of the country’s total imports between May and August, 2004; and in 2007 the committee decided to spread the controls over nine months.

This supply management system has various advantages. The import controls made it possible to increase onion prices on Senegal’s markets during the import restriction period (as a result, it was necessary to set a price ceiling so as not to penalise consumers) and Senegal’s total onion production has grown steadily since its institution. Price setting enables all the growers to get the same remunerative price and to pay the same transport costs (evening-out mechanism). The food industry can bank on a guaranteed supply and lower transaction costs with growers. When it comes to territorial and environmental concerns, this system has kept farmers on the land in the areas concerned and rationalised transport. Finally, domestic onions have replaced imports. It must be stressed that for this system to work, it must rely on all three pillars simultaneously.

This system’s limitations included prices that have been jacked up by certain clandestine growers, the existence of massive imports before imports were halted and the diversion of imports (the problem of sensitive products that is the subject of negotiation under the EPAs).
B. Collective marketing by the farmers

Definition and aims of collective marketing

Collective marketing consists in **pooling one or more types of produce and organizing their sale collectively.**

The aim of collective marketing is to increase the farmers’ market power in negotiating the terms of sale of agricultural products, given that their power, when they act individually, is disproportionately small compared with that of the traders.

Collective marketing organised by farmers must be differentiated from State-organised collective marketing, as was the case of the various marketing boards in Africa. The former usually concern just a part of the farmers (those who are keen to develop this strategy), whereas the latter embrace all farmers (usually without the possibility of remaining outside the system). Producer-organised collective marketing can nevertheless be institutionalised and then concern all producers, as is the case in Canada (see the example of this system’s implementation below).

The degree to which collective marketing increases their market power depends on the number of farmers concerned and is maximal when everyone is on board. However, as the paragraph ‘The experience of State-managed collective marketing’ below shows, having the State organise collective marketing does not necessarily guarantee an increase in the farmers’ market power, even if all of them are involved, since this depends in reality on the interests that the State’s intervention targets. In this regard, a collective marketing system that is organised by producers but institutionalised by the State is a better guarantee of enhanced market power for the farmers.

Conditions of implementation

When collective marketing is organised by the producers themselves, the latter’s **ability to organise** becomes an indispensable condition for implementing this instrument. Their organisation may take a variety of forms, but must in all cases heed the **legislation in force**. In the EU, competition rules can limit farmers’ freedom to market their produce collectively, especially when it comes to the possibilities of collective bargaining. In this context, the collective marketing of produce must take account of competition rules, unless a specific derogation is granted, and entails the creation of economic organisations (agricultural companies such as cooperatives) by the farmers. In Africa, the less formal marketing framework creates less of a competition-rule straightjacket for collective marketing. One paragraph in this section is devoted to competition rules.

Collective marketing instruments

Several activities can contribute to collective marketing directly. They range from pooling the supply to selling on the market **per se.**

When it comes to **pooling the supply**, harvesting and collection may or may not be collectivised.

When it comes to **marketing**, we can differentiate between technical and marketing actions.

— Pooling the supply facilitates **technical actions** (i.e., weighing, quality control and packaging) greatly, thereby making it possible to improve the farmers’ bargaining positions in dealing with potential buyers.
Instruments put to the test

The collectivised marketing activities include forecasting tonnage, prospecting for buyers, collecting information about market conditions and the market’s situation, negotiating terms of sale (defining the quality demanded for the produce, setting the terms of payment, etc.), monitoring transactions and compliance with commitments, keeping financial accounts, redistributing earnings and so on.

Additional instruments

When farmers band together, the collective organisation can of course be expanded to include activities other than those linked directly to collective marketing. These activities can range from production (collective purchases of inputs, pooling of equipment) to post-harvest activities (storage and processing by means of common facilities).

In the case of post-harvest activities, collective marketing may be combined with a warehouse receipt system (WRS), also known as warrantage, a third party holding or an inventory credit scheme. The warehouse receipt system enables farmers to deposit their harvested produce in a reliable warehouse and keep their harvests there until prices increase and all the while have access to cash immediately through a lender, thanks to the collateral provided by the stocks held by an organisation that this lender recognises.

What is more, as we shall see hereunder, the effectiveness of collective marketing can be enhanced if it is combined with other instruments that increase farmers’ market power, such as supply management and contract farming.

Finally, collective marketing can also be combined with a group of farmers’ searching for a market segment or niche in which they can protect themselves from general competition from other operators either by getting and instituting special labels or by organizing a special distribution system that minimises the number of middlemen between farmers and consumers (short chains). Including collective marketing under a label and/or short chain distribution scheme is a way to ensure sufficient quantities or a sufficiently broad range of products at the points of sale (see the sections devoted to these two instruments, i.e., labels and short supply chains).

Advantages of collective marketing

Generally speaking, collective marketing makes it possible to bolster the position of farmers as a group on the market in the face of ever more concentrated demand. Pooling the farmers’ outputs and marketing their produce collectively effectively have the advantages of:

— enabling them to get a better sales price thanks to collective bargaining of the terms of sale, which reduces the imbalance between the seller’s and buyer’s respective weights in the trade negotiations;
— increasing the farmers’ margins by reducing the number of intermediaries (reduced transaction costs) and/or by improving the quality and added value of their produce through various collective actions that are facilitated by combining their output (harmonisation of quality through sorting; increased cleaning, drying and packaging possibilities; etc.); and
— improving the farmers’ market access thanks to the higher quantities sold (access to markets for large quantities that were previously inaccessible to them, for example), and/or the improved quality and added value of their produce.

Buyers also stand to gain from this system. It gives them access to large volumes of produce without intermediaries and a certain guarantee of supply and facilitates product uniformity and quality control procedures.
Choosing the right strategies for increasing farmers’ market power

Disadvantages and difficulties of collective marketing

Collective marketing and competition rules

Competition rules can greatly curtail the possibilities of collective marketing. Collective marketing is effectively dependent on the existence of laws allowing agreements amongst farmers to market their products and, in particular, to negotiate prices collectively. As the principle underpinning competition rules is to protect free competition between undertakings for the good of consumers (antitrust laws), all forms of entente or agreement on prices between competing firms are strictly prohibited (unless specified to the contrary), as are all operations likely to influence the market, such as pooling output, since in theory such a practice gives the firms that use it an advantage over their competitors.

In the EU, Community competition law applies to agriculture, as stipulated in Regulation (EC) No 1184/2006 of the European Council. Put simply, practices that are not specifically covered by derogations to this regulation are punishable if they are deemed, in the case of a dispute, to hamper freedom of movement. Generally speaking, European case law shows that practices that are considered beneficial for consumers, such as those that improve the efficiency and competitiveness of firms, are not condemned, unlike those that are considered harmful for consumers.

Exceptions exist, and this regulation does not apply in particular to the agreements, decisions, and practices of farmers, farmers’ associations, and associations of such associations from a single Member State to the extent that they concern the production or sale of agricultural produce or the use of shared storage, treatment, or processing facilities for agricultural produce, without comprising the obligation to practice a set price, unless the Commission finds that competition is excluded or attainment of the objectives of Article 33 of the Treaty is jeopardised. Nor do these rules apply to the agreements, decisions and practices that are integral parts of national market organisations or are necessary to achieve the CAP’s objectives.

Under these exceptions, for the sectors in which derogations are specifically allowed (hops, olive oil, table oils, silkworms, wine and fruit and vegetables), farmers who are nationals of a single Member State may band together in farmers’ organisations and, through such organisations, conclude agreements on marketing their agricultural produce. Aside from the specified sectors, a modification of the CMO (common market organisation) is necessary to enable the sector’s producers’ organisations to act as a common sales structure. The legislation governing producers’ organisations in the fruit and vegetables sector and their functions are taken up in the example of regional implementation of collective marketing in the EU for the fruit and vegetables sector.


50) Moreover, certain common market organisations, such as the ‘fruit and vegetables’ and ‘wine’ CMOs, contain special clauses on inter-branch organisations, which are excluded from the scope of Article 81 under certain conditions.

51) The term ‘producers’ organisation’ or ‘farmers’ organisation’ used here is the one defined by the EU: They are legal persons recognised by the Member States, provided that certain criteria are met (these concern the number of members and turnover in particular), and created at the producers’ initiative. These producers’ organisations must facilitate the produce’s production and marketing, enable the producers to sell their produce more profitably, and encourage the enforcement of agri-environmental measures. The member producers must abide by the rules that the organisations adopt, sell all of their output, with a few exceptions, through the organisations, and participate financially in an operating fund. The producers’ organisations may have various legal forms.
On another front, in December 2010 the European Commission made some proposals on the possibilities of collective sales and negotiations in the milk and dairy products sector. The implications of these proposals on collective marketing in general and the possibilities of involving all of the sector’s producers in particular are taken up here after in the presentation of the proposals of the European Commission for collective marketing in the milk sector.

Be that as it may, the legislation currently in effect severely curtails farmers’ ability to engage in collective marketing, in the name of free competition. Several authors have challenged this principle for the agricultural sector to the extent that the sector is made up of isolated smallholders and increasingly concentrated agrifood firms up- and downstream from them.

So, Ronald Coase’s article on the nature of the firm explains why the model of perfect competition does not truly apply in a modern economy where firms try to escape market transaction costs and to organise or plan their environments with the help of house rules (affecting several thousand employees) and contracts.

In this connection, the Governor of the National Bank of Belgium, Guy Quaden, noted the following in 1973 in talking about the resistance that most sectors were putting up to submitting to competition: ‘It is not different for farmers, who, being unable to control the market by their own means, turned to the State to benefit from various price and delivery guarantees. Whereas huge industrial oligopolies have removed themselves from the constraints of the laws of supply and demand, it will be difficult to get farmers to accept that they must be the last producers to submit to them’.

Lancaster and Lipsey’s ‘second best’ theory, for its part, is a model that shows that an undistorted economy does not exist and when a major distortion such as a monopoly or oligopoly exists, one does not always get a better result by prohibiting those who deal with the monopoly from organizing in order to negotiate with the monopoly more effectively. To get a final outcome of negotiations that is as close as possible to that of a perfect competition situation, allowing the parties that must interact with the monopoly to band together for the purpose of negotiating is sometimes more effective.

A direct application of this theory is John Kenneth Galbraith’s view that competition rules must be enforced in a differentiated manner that takes account of the planning system represented by the bulk of the economy, with its large firms, and the market system represented by the small operators, such as small producers, who continue to operate in a situation of total competition. Galbraith underlines the fact that to correct the imbalance in market power, government must deliberately take action to strengthen the market power of those who are in the market system. A few excerpts from Galbraith’s book, Economic Purpose, are given in the box below.

---


53) British economist and 1991 Nobel Prize winner in economics.


57) Ibid.
“The planning system has power over the prices at which it sells to the market system and over the prices at which it buys from the market system.”

“Any fundamental correction begins with the equalization of power between the two parts of the economy. This is no academic matter. It involves intensely practical questions of how prices, wages and incomes are established in the two systems.”

“To remedy the weakness of the market system, strongly affirmative support must be accorded to its efforts to develop market power. There would be a general presumption not against but in favour of collective action by those who are numerous, small and weak. In specific terms this means the following:

1. General exemption for small businessmen from all prohibitions in the antitrust laws, against combination to stabilize prices and output.
2. Direct government regulation of prices and production in the market system.
3. Strong and effective encouragement to trade union organization in the market system.
4. An extension and major increase in the minimum wage.
5. A revised view of international commodity organization and a cautiously revised view of tariff protection in the market system.
6. A strong presumption in favour of government support to the educational, capital and technological needs of the market system.”

Other constraints on collective marketing

Aside from the limitations linked to competition rules, collective marketing by the producers themselves is not problem-free. Some of them are general problems linked to the market:

— A major difficulty is created by **low-priced imports** that compete with local products and threaten the producers’ attempts at collective marketing (just as all marketing attempts are threatened by these cheap imports).
— An **overabundant supply** compared with demand weakens the producers’ positions vis-à-vis buyers, a situation that even collective marketing will not be able to avoid. This situation is worsened in the case of an overly narrow market, when there are too few buyers.
— In the same way as for contract farming, **insufficient access to market-related information** (prices, supply, buyer demand, consumer demand, etc.) and the lack of ability to analyse such data hamper attempts to strengthen producers’ bargaining power, even in the case of collective marketing.

These constraints show up the need for supply management and border protection if collective marketing is to be effective.

---

So, collective marketing is sometimes combined with supply management. Indeed, in State- or producer-organised collective marketing, it is worthwhile for these players to try to regulate the markets on which they are operating as best they can by using supply management instruments to try to avoid too much tension in the areas of quantities and prices. Inversely, when producers in a country band together to control the national supply, marketing the supply collectively becomes an easy possibility.

Other constraints are linked specifically to the risks and problems that cooperatives encounter when they organise collective marketing for their members, to wit:

— When they market their members’ output, cooperatives grapple with sometimes contradictory objectives: the best possible prices for their members versus the best possible competitiveness. Cooperatives must thus strike a balance between their members’ social expectations and the economic expectations that should ensure the undertaking’s viability, which requires more of a medium-term approach. This balance does not come about as a matter of course and in practice antagonism is often seen between cooperatives’ economic and social purposes.

— What is more, the members themselves may have variable expectations, depending on their socio-economic and farming conditions. It thus is not always possible to make all members equally happy and arbitration, via transparent governance, is necessary. These problems increase with the undertaking’s size, just as the administrative burden does. A small size limits these constraints, but also limits the producers’ market power.

— When a cooperative buys its members’ output, which is sometimes necessary to be able to negotiate its price collectively with a buyer (‘transfer of ownership’ requirement), the cooperative bears all the marketing risks. This raises the question of the ‘fair price’. If the cooperative pays the producers when it collects their produce, the cooperative must assess the price at which it will be able to sell the produce and determine the price it pays to its producers, which must be remunerative and higher than the price that they would have been able to get individually, on this basis. The risk of setting too high a price and having problems thereafter finding outlets to cover this price plus the costs linked to collective marketing (for example, the time spent looking for buyers and warehousing costs) is thus great. Paying the producers after their commodities are sold reduces these risks, but limits the advantages for the producers, who are looking for quick cash. Another way to limit these risks is to rely on pre-harvest contracts with the buyers.

— Access to financing is an important limitation. An operating fund is often necessary to cover the cash advances that collective marketing activities entail (activities preceding the produce’s actual sale and possible advances to producers in the form of inputs or cash). When the members’ own contributions do not suffice, borrowing is a must. Access to credit can be facilitated by the producers’ banding together in a cooperative, but being able to make use of such credit requires sufficient managerial skill.

— When an alternative marketing system to those existing previously is set up, a cooperative may have to cope with resistance from parties that are not included in and/or disadvantaged by this system. Such operators may try to destabilise the cooperative, for example by paying producers higher prices temporarily.

— The opportunistic behaviour of certain producers can endanger the cooperative by preventing it fulfilling its commitments to a buyer or bank. Such behaviour can also restrict the cooperative’s bargaining power.

— It is not always easy to forecast the quantities that will be marketed, especially in regions where rainfall is erratic. Yet such forecasting is a vital element of the search for buyers.

— Finally, collective marketing through a cooperative restricts the producers’ individual freedom, notably to take actions unilaterally or to adopt practices that differ from their neighbours’. This can generate frustration. That is why the collective marketing scheme’s advantages for the producers must be clear.
Choosing the right strategies for increasing farmers’ market power

The experience of State-managed collective marketing

Collective marketing was implemented in Africa in the past by the State and not by producers. It was done via marketing boards set up by the colonial authorities first; and then by the African States themselves after they gained their independence. These government offices were responsible for marketing all the domestic output and bought the produce from the peasants at a price set by the State whilst organizing a system of supervision that concerned the supply of inputs, provided technical guidance, and imposed technical processes (based on research conducted on selected products).

Supply management instruments (controlling imports and encouraging the domestic supply) were combined with this collective marketing system. The commodities concerned by these offices were basically products that interested the States (be they the colonial States or the African States that were set up after independence), that is to say, products for export and sometimes for local industry. They were seldom subsistence crops intended to feed the local population. The States’ interest in these commodities explains why the production of such commodities was boosted by research, infrastructure, and other forms of guidance and supervision.

These marketing and agricultural guidance systems had the advantage of ensuring the producers that both the marketing of their output and the supervision and supply of inputs would be taken in hand, but under conditions over which they had absolutely no control. This is because even though farmers were organised in cooperatives at this time, these co-operatives were usually controlled or organised by the State. As a result, the farmers’ independence and bargaining powers were actually very weak. This explains, moreover, why many producers in many African countries often did not look kindly on the cooperative movement thereafter.

The structural adjustment programmes (SAPs) of the 1980s led the States to disengage from agriculture, as the World Bank, International Monetary Fund, and other financial institutions were of the opinion that privatising production would increase its efficiency. The argument was not unfounded, given the State companies’ many abuses and mismanagement.

The collective marketing set up by farmers through their organisations and by means of development projects took place only long after the marketing boards were dismantled (a few offices, however, did survive). Consequently, the farmers were bereft of economic organisations for many long years. Examples of collective marketing organised by the producers themselves are given further on.

Today, collective marketing by State-managed marketing boards has got the smallest share and the negotiations under way in the current Doha round are aimed at cutting back State enterprises’ possibilities severely. An FAO report, however, lists the positive roles that State collective marketing entities could have, whilst underlining that the public offices of the South have a minimal impact on international markets. These roles are:

- helping to take charge of the social objectives sought by many States, such as food security and rural development, i.e., objectives that the market could not take up;
- increasing farmers’ bargaining power and offsetting the monopoly situations of certain private operators; and
- reducing the many gaps in the supply of agricultural inputs, credit, and marketing services.

Let us add here that an increase in the farmers’ bargaining power is indeed possible provided that the state marketing boards involve the farmers in the price-setting mechanism directly.

**Collective marketing of fruit and vegetables in the European Union**

**The Common Organisation of the Market (CMO) in fruit and vegetables and producers’ organisations**

Given its importance in the EU, the fruit and vegetables sector was one of the first to be regulated. This occurred in 1962 with the establishment of a common market organisation (CMO) for the purpose of stabilizing the market in fruit and vegetables, maintaining European output, and giving producers a fair income. This CMO was reinforced in 1972 and then underwent several modifications, with the most important reforms being those of 1996 and 2007.

As early as 1972, the common market organisation recognised producers’ organisations as Community policy instruments, since these farmers’ organisations were given the job of implementing the price and intervention schemes that the EC had developed to manage the cyclical crises (withdrawal mechanism).

These producers’ organisations were defined as ‘any organisation of fruit and vegetable producers which is established on the producers’ own initiative for the purpose, in particular:

- of promoting the concentration of supply and the regularisation of prices at the production stage…
- of making suitable technical means available to producer members for presenting and marketing the relevant products’ 60.

The producers were under the obligation, unless the organisation waived this requirement, to sell their total output through the producers’ organisation to which they belonged and to apply the production and marketing rules that the producers’ organisation had adopted ‘with a view to improving product quality and adapting the volume of supply to market requirements’ 61.

So, the producers’ (in our case farmers’) organisation was defined as a collective marketing instrument as of 1972. However, these organisations were essentially subtended by the idea of managing products’ withdrawal from the market. A major reform of this CMO was undertaken in 1996. It was justified by, amongst other things, the ‘need to encourage the grouping of the supply, in particular by strengthening the producers’ organisations’ role opposite a better structured and more concentrated demand from distributors and processors’ 62. The market power imbalance between producers and their buyers was thus recognised, as was the importance of collective marketing to counter this imbalance. What is more, the aim of adjusting the supply to the demand, in terms of both quantity and quality, by means of producers’ organisations was clearly stated. From this reform on, the creation/restructuring of farmers’ organisations was based on commercial and competitiveness reasoning.

---

60) Regulation (EC) No 1035/72, Article 13.
61) Ibid.
For the full document in French, see: http://ec.europa.eu/agriculture/eval/reports/producer/index_fr.htm
Community rules for recognising Farmers’ organisations (enforced by the Member States) were set in 1996. The criteria concerned in particular a minimum size, a guarantee concerning the performance and effectiveness of the producers’ organisation’s action (set in an ‘operational programme’ co-financed by the EU and producers’ organisation63) and the actual provision of technical means for storing, packaging and marketing the products and for appropriate trade accounting and budget management. The producers’ organisation’s goals had to include those set forth in Regulation (EC) No 2200/96, Art. 11: (1) ‘ensuring that production is planned and adjusted to demand, particularly in terms of quality and quantity; (2) ‘promoting concentration of supply and the placing on the market of the products produced by its members; (3) ‘reducing production costs and stabilising producer prices’; and (4) ‘promoting the use of cultivation practices, production techniques, and environmentally sound waste-management practices’. To achieve its goals, the POs could choose a certain number of actions from a list of eligible actions64.

A new reform of the common market organisation was implemented in 200765. Its aim was to harmonise the CMO with the 2003 CAP reform by including fruit and vegetables in the single payment regime and the Single CMO Regulation (Regulation (EC) No 1234/2007). The aim of this new regulation was to encourage producers to join producers’ organisations by making them more attractive and softening, to this end, the rules governing producers’ organisations. The main aims of the new CMO are to improve competitiveness, to reduce variations in producers’ revenues because of market crises, to increase the consumption of fruit and vegetables in the EU and to protect the environment. Community support for farmers’ organisations is no longer justified by an excessive concentration of demand but rather by the farmers’ organisations’ actions in favour of society. When it comes to the objectives that farmers’ organisations must set themselves, the use of environmentally sound practices has become a priority and compulsory. What is more, farmers’ organisations must pursue one or more of the three objectives enshrined in the 1996 scheme, namely: (1) planning production and adjusting it to demand; (2) concentrating the supply and marketing their members’ output and (3) optimising costs and stabilising production prices. Other objectives – creating organic product lines, preventing and managing crises, and conducting actions to promote their products – have been added to the list.

Characteristics of the farmers’ organisations in the fruit and vegetables CMO

In 2006, the EU-25 had 1549 farmers’ organisations and twenty associations of farmers’ organisations. The sector’s rate of organisation under the CMO, that is to say, the ratio of the supply value marketed by farmers’ organisations in the fruit and vegetables CMO over the value of the fruit and vegetables produced in the Member State, varies greatly from one Member State to the next. The EU-25 mean was 34% in 2006, with the national rates ranging from more than 80% (the Netherlands, Belgium and Ireland) to 15% or less (Finland, Greece and Portugal)66. These figures do not include the structures grouping supply that were not recognised by the CMO.

The farmers’ organisations’ characteristics likewise differ greatly from one Member State to the next. Very schematically, we can break them down into the northern Member

63) Each PO chooses the actions from a list of eligible actions to which it wants to commit for three to five years under an ‘operational programme’ that is the subject of a contract with and subsidies from the EU. This funding is limited to 4.1% of the value of the PO’s sales and contingent on the payment by the PO’s members of an amount at least equal to that of the EU aid.


Instruments put to the test

States, which have large, but few farmers’ organisations (the Netherlands and Belgium, for example) and the southern Member States, which have more farmers’ organisations but of smaller size (Spain and Portugal, for example).

In terms of their legal status, the majority of the farmers’ organisations in the EU are cooperatives, followed by companies and finally associations.

**Functions of the farmers’ organisations in the fruit and vegetables CMO**

The farmers’ organisations make take on a variety of functions in addition to their primary function of marketing their members’ products, for example, sorting, grading, storing, and packaging the products.

The actions that are co-financed by the EU via the operational programmes (see above) concern the following, in order of importance:

- marketing: purchase of premises, storage, wrapping, transport, R&D, promotion, production planning, marketing, market studies, and so on;
- production: technical and phytosanitary measures, irrigation, machines, greenhouses, plants, R&D, training services, and so on;
- inspection: quality and phytosanitary aspects (equipment, staff, analyses, etc.); and
- other actions: administrative costs, etc.

The development of operational programmes seems to be conducive to the integration of new functions in farmers’ organisations thanks to the funding for the necessary facilities and staff. What is more, the integration of functions seems to be more common in the large than in the small farmers’ organisations. The same can be said for the farmers’ organisations’ feeling of having strengthened their positions vis-à-vis major distributors and retailers, which may indicate that a critical mass is necessary for farmers’ organisations to be able to pay their member producers better.

The marketing arrangements, for their part, depend on how flexibly the means and technical support criteria have been defined by each Member State. Here, too, we can distinguish between two approaches. The first one is characterised by strict conditions with a ban on outsourcing certain functions, such as marketing. The second one gives the farmers’ organisations the possibility of outsourcing many of their activities: The products may be marketed by the farmers’ organisation’s members (if they are companies) or the farmers’ organisations may set up sales companies. In France, farmers’ organisations may be recognised even if their members do not transfer ownership of their output to the farmers’ organisation, given that the farmers’ organisation may outsource its commercial function if agreements to that effect are concluded.

The situation is similar for sorting, packaging, and other facilities, which must be the farmers’ organisation’s property in the first case and may be the farmers’ organisation’s property or be rented or even remain the members’ property in the second case, provided that operating agreements are drawn up and all the producers have access to them. This choice was made in order to avoid favouring one status over another (cooperative versus a joint-stock company, for example).

According to an (in part qualitative) assessment of the situation in the EU-27, farmers’ organisations have practically no power to influence product prices in mass distribution and the price advantages that the producers glean seem to depend on the level of

---

67) Ibid.
68) Ibid.
organisation of the region where the farmers’ organisation is located: In highly organised regions, producers seem to derive an economic advantage from joining a farmers’ organisation. However, the main reasons put forward by the producers to justify their joining a farmers’ organisation are the reliability of payment and guaranteed purchase of their output rather than price levels and support services, which seem to be secondary. A limited proportion of farmers’ organisations establish contracts and the negotiations in which they engage do not concern prices.

The European Commission’s proposals regarding collective marketing in the milk sector

In reaction to the 2008/09 milk crisis and producers’ clearly weak position in the dairy supply chain, the European Commission took several initiatives to redress the situation, prodded in part by pressure from several Member States.

First of all, in October 2009 it set up a High Level Experts’ Group (HLG) in the milk sector69, which handed in its report on the sector on 15 June 2010. The HLG’s proposals including the following:

— reinforcing contractualisation by encouraging the use of written contracts between producers and industry;
— adopting a provision that would allow producers’ organisations to engage in collective bargaining over the contracts’ clauses, including prices.

Next, in December 2010 the Commission adopted a legislative proposal regarding contractual relations in the milk and dairy products sector70 to be approved by the Council and Parliament. This proposal, which we also consider in the section on contract farming, concerned contractual relations with the explicit aim of increasing producers’ market power. The stated objective was to protect producers better through contracts with their buyers, whether or not the Member States made such contracts compulsory, and provided for the possibility of collective bargaining over the contract’s clauses via the producers’ organisations.

The proposal’s limits in terms of market power

Here, the limitations linked to competition rules predominate and considerably hobble attempts to increase producers’ market power because of the constraints on collective price bargaining and those created by the limits on imposed percentages, which prevent producers’ organisations engaging in collective marketing for all producers as a whole.

The important question of the possibility of collective price bargaining on the inter-branch level remains uncertain. In 2009, France’s Senate Committee on Economic Affairs asked the French Competition Authority for its opinion in order to clarify what, exactly, French and European competition law prohibited when it came to setting milk prices. It also asked for the authority’s opinion about the way the sector worked and guidelines to follow to improve its functioning. The conclusions of the opinion that the Authority provided contains elements that are fairly similar to those provided by the French

---

69) This is the report of the High Level Experts’ Group on Milk that was published on 15 June 2010. This report was preceded in particular by a study of the end of the milk quota system (Institut d’économie industrielle, 2008).

Competition Council regarding the organisation of the fruit and vegetables market\textsuperscript{71}. The French Competition Authority effectively was of the opinion that the issuance of inter-branch recommendations regarding national, or even regional, prices ran a true legal risk of infringing competition rules. And it uttered this opinion whilst remaining fairly dubious as to their effectiveness as a way to correct the sector’s structural problems. On the other hand, it presented what it considered to be more relevant solutions, such as using contracts, restructuring the sector, giving producers’ organisations’ associations more leeway to intervene in the CMO, and setting up futures markets. To promote contractualisation, the Authority felt that the inter-branch organisations should play a major role in promoting contractualisation, albeit whilst abiding by competition rules, by ensuring in particular that ‘independent economic units set their market strategies on their own’\textsuperscript{72}.

Another question raised is that of the volume of milk over which a farmers’ organisation may bargain. A limitation is effectively foreseen, as the European Commission’s proposal stipulates, ‘Contracts for the delivery of raw milk by a farmer…may be negotiated by a producer organisation…provided that the total volume of raw milk covered by such negotiations by a particular producer organisation does not exceed: (i) 3.5% of the total Union production and (ii) 33% of the total national production of any particular Member State covered by such negotiations by that producer organisation…’\textsuperscript{73}. These provisions, which were motivated by the will to heed the competition rules that the Commission imposes on its producers, are likely to thwart the objective, which the Commission states elsewhere in this same proposal, of correcting the ‘imbalance in bargaining power’ that results from the much lower concentration of supply than concentration on the processing level.

Indeed, whilst the text allows farmers to negotiate the clauses of contracts, in particular those regarding prices, collectively by means of producers’ organisations, the limits in terms of imposed percentages prevent producers’ organisations engaging in collective marketing on behalf of all producers (of a Member State, for example), as is the case in the scheme adopted by Canadian dairy farmers. They are also likely to prevent producers acquiring sufficient bargaining strength to hold their own against the enormous market power that buyers wield.

A few figures illustrate the unequal distribution of added value amongst the players in the supply chain, i.e., dairy farmers, milk processing companies, milk product industries, and retailers, due to the imbalance in the producers’ and buyers’ respective market power.

— As the Commission ascertained during the milk crisis in 2009, price drops are barely passed on to consumers. So, the sharp drops in milk and dairy product prices that have occurred since late 2007 (a 31% drop in the mean price of milk between the end of 2007 and end of 2009), led to a very slight drop (of about 2%) in the retail prices for milk products. This great asymmetry when it comes to reductions in milk products’ consumer prices is due to the concentration of the industry downstream from the farms, which gives the industrial operators ever more market power and thus enables them to set prices and siphon off the added value produced in the supply chain\textsuperscript{74}.

\textsuperscript{71) See in the preceding pages ‘Collective marketing of fruit and vegetables in the EU’.}


\textsuperscript{73) A Parliamentary amendment would lower this figure from 33% to a mere 20%.}

— In Italy, the fresh milk market is dominated by an oligopoly of two operators, *Parmalat* and *Granarolo*, that together have some 90% of the market.\(^{75}\) An in-depth study of *Parmalat*\(^{76}\) done in 2008 showed that this operator absorbed the bulk of the added value. With a mean retail price for fresh milk of 1.33 euro/kg in 2004, 25% (0.33 euro/kg) went to producers, 52% to processors and storage facilities, and 23% to distributors. What is more, whilst the mean term of payment for fresh milk deliveries is two weeks in Europe, it was found to be 180-250 days for *Parmalat* in Italy.

— A European Milk Board (EMB)\(^{77}\) study shows that the European ceiling of 3.5% set by the Commission is much too low, given that, ‘on the processing side, dairies such as Arla Foods and Friesland Campina, with 8.7 and 11.7 billion kg of milk, respectively, already have about 6.5 and 8.8% of the European market’. And this does not even take account of the fact that the dairies could continue to grow and conquer market share without restrictions (as Arla Foods’s recent purchase of Mecklenberg-Holstein shows yet again\(^{78}\)), whereas producers’ organisations’ possibilities to grow and increase their market shares are frozen.

— The same study also gives the example of Ireland, where three dairies dominate the milk market; Denmark, where ‘the processor Arla Foods has already taken over 95% of the market’ and is already ‘three times larger than a producer organisation could ever be’ according to the Commission’s proposals; and even Germany, with the German organisation *MEG Milch Board*. The latter ‘is not yet able to negotiate on behalf of its members’, even though its members produce one-third of Germany’s total milk output. Yet this producers’ organisation is already too big if we look at the proposed European ceiling, for *MEG Milch Board*’s members produce some 7 million tonnes of milk, whereas the 3.5% ceiling would correspond to 4.7 million tonnes of milk. The study concludes that the European Commission’s proposed ceiling ‘does not allow for the market’s circumstances and actually improves things little and even restricts even more severely the possibilities that producers currently have in certain EU Member States’. When pitted against powerful buyers, it goes on to say

— the small, forsaken producer organisations will have too little bargaining power, and

— many small producers’ organisations will be forced to compete with each other, as a result of which they will not be able to negotiate a sufficient price.

If the European Council and Parliament adopt the Commission’s proposals, collective marketing by producers will be allowed, but their market power will be limited, given the volume restrictions imposed on them and the high degree of concentration in the agro-industrial sector and retailing. These limitations will also prevent their getting closer to a marketing situation organised by and for all producers, even though this makes for effective supply management in Canada (see the example below).

---

\(^{75}\) Ibid.


\(^{78}\) The Commission authorised the purchase on 1 April 2011. Source: Europe Information Agriculture, No 307, 8 April 2011, p. 11.
The collective marketing scheme for milk in Canada

In Canada, the Agricultural, Food and Fisheries Product Collective Marketing Act of 1956 allows agricultural producers to band together through the adoption of a collective tool (joint plans) to market their produce and negotiate prices. This example illustrates the collective marketing scheme set up for milk.

In Canada one finds some 13,000 milk producers, whereas just three processors (Saputo, Parmalat, and Agropur) buy 70% of the milk. Quebec Province alone has 6,000 milk producers, and the same three processors buy 82% of the province’s milk. In addition, one must bear in mind that four major distributors control the retail market.

It is in considering this unequal balance of power between dairy farmers and milk processors that Canada’s milk producers set up, with government support, a collective bargaining system for the sale of their output.

In the 1950s, a survey commission tasked with studying the conditions under which agricultural products were marketed effectively concluded that the balance of power between producers and buyers was skewed and agriculture became a profitable business only after the products no longer belonged to the producers. It thus recommended that the government adopt legislation to ensure a better balance of power and fair and orderly marketing of agricultural produce. This was the foundation upon which an advanced collective marketing system governed by appropriate legislation was set up for Canada’s milk sector.

So, since 1956, the Agricultural Products Marketing Act allows several thousand farms, which produce independently, to be united (under a ‘joint plan’) as a single undertaking to market their milk in a derogation from the country’s antitrust laws. Under this act, a joint plan could be set up but would not go into effect until a referendum in which at least half of the agricultural producers voted and a two-thirds majority in favour of the plan was reached (according to the principle of ‘one member, one vote’).

As these conditions were met, the producers thus came together to offer their products for sale and negotiate the terms of sale. Since then, they market their milk collectively and democratically by means of a milk producers’ federation (through working committees, annual general meetings, and so on). This sole marketing agent, the Fédération des producteurs laitiers du Québec, negotiates the marketing conditions, supplying of processing plants, milk quality, milk grades and prices, terms of payment, and so on, for all the dairy farmers. These negotiations take place in marketing boards that also include the private companies in charge of processing and/or distributing milk (Conseil des industriels laitiers du Québec). These offices establish the prices and allocation of milk for the milk plants. The prices must cover production costs, but to ensure that they are not too high compared with international prices, the government oversees the negotiations conducted within these offices through the Canadian Milk Commission. The milk’s transport is likewise managed collectively in order to minimise costs and everyone pays the same price (‘mutualisation’ of transport costs).

— This collective marketing system was complemented, starting in 1971, by a supply management system made possible by an agreement between the federal and

80) The foregoing figures were provided by Vigneault J., 2011 (in his presentation at the international agricultural seminar ‘The PAC towards 2020: Market regulation and farm structures policy’ held by CSA in Brussels on 31 March-1 April 2011).
provincial levels to adjust supply to demand through a quota scheme (see the section devoted to supply management). The positive effects of the joint implementation of these two instruments, as presented by the Quebec Milk Producers’ Federation, are as follows:

— The **producers** get a farm-gate price for their milk that covers their production costs, is fair, the same for everyone, stable and predictable.\(^{81}\)

— The **processors** have the advantage of dealing with just one bargaining partner, equitable terms of purchase, prices that are stable and predictable, a guaranteed supply of good-quality milk, and milk to develop new niches.

— The **governments** have the following advantages: no subsidies to pay to keep farm income up, a healthy agricultural sector that contributes to the economy, and sustainable agriculture on a human scale.

— The advantages for the **people** are: a stable supply of a diversified range of high-quality dairy products that are amongst the cheapest in the world; stable, remunerative jobs; and a modern agricultural model that is on a human scale and environmentally friendly.

The level and stability of the Canadian farm-gate price compared with the prices in the US and EU-25 are shown in the following graphs and table.

**Figure 2. Monthly milk price index in Canada, the USA, and EU-25 from 2007 to 2011**

![Figure 2](image_url)


**Figure 3. FARM-GATE PRICE TRENDS IN CANADA AND THE US, 1990-2006**

![Figure 3](image_url)


---

81) See Figures 2 and 3 and Table 3 for an international comparison.

82) Director of communications and of syndical life at the Federation of milk producers from Quebec, Canada.
### Table 3. International comparison of prices paid to producers, 1999-2005

<table>
<thead>
<tr>
<th>Country</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>46.56</td>
<td>42.43</td>
<td>46.97</td>
<td>45.89</td>
<td>46.53</td>
<td>46.64</td>
<td>42.98</td>
</tr>
<tr>
<td>Australia</td>
<td>24.40</td>
<td>25.98</td>
<td>26.47</td>
<td>23.17</td>
<td>25.45</td>
<td>30.24</td>
<td>30.56</td>
</tr>
<tr>
<td>Austria</td>
<td>47.79</td>
<td>40.97</td>
<td>47.69</td>
<td>48.28</td>
<td>48.47</td>
<td>49.22</td>
<td>45.86</td>
</tr>
<tr>
<td>Belgium</td>
<td>43.62</td>
<td>40.73</td>
<td>43.02</td>
<td>42.11</td>
<td>45.44</td>
<td>46.42</td>
<td>41.11</td>
</tr>
<tr>
<td>Canada</td>
<td>53.55</td>
<td>55.39</td>
<td>57.15</td>
<td>58.01</td>
<td>61.54</td>
<td>62.00</td>
<td>66.29</td>
</tr>
<tr>
<td>Denmark</td>
<td>50.36</td>
<td>43.82</td>
<td>46.48</td>
<td>50.05</td>
<td>52.32</td>
<td>50.46</td>
<td>45.35</td>
</tr>
<tr>
<td>Spain</td>
<td>42.79</td>
<td>38.75</td>
<td>43.91</td>
<td>44.73</td>
<td>49.31</td>
<td>53.30</td>
<td>47.81</td>
</tr>
<tr>
<td>United States</td>
<td>48.61</td>
<td>41.89</td>
<td>52.97</td>
<td>43.51</td>
<td>40.02</td>
<td>47.76</td>
<td>41.76</td>
</tr>
<tr>
<td>Finland</td>
<td>49.16</td>
<td>43.13</td>
<td>46.51</td>
<td>48.98</td>
<td>53.08</td>
<td>51.23</td>
<td>47.81</td>
</tr>
<tr>
<td>France</td>
<td>46.02</td>
<td>40.87</td>
<td>43.22</td>
<td>44.73</td>
<td>46.87</td>
<td>46.42</td>
<td>40.96</td>
</tr>
<tr>
<td>Greece</td>
<td>55.26</td>
<td>48.01</td>
<td>49.80</td>
<td>n.d.</td>
<td>n.d.</td>
<td>n.d.</td>
<td>n.d.</td>
</tr>
<tr>
<td>Ireland</td>
<td>45.17</td>
<td>40.22</td>
<td>42.36</td>
<td>41.79</td>
<td>43.77</td>
<td>44.87</td>
<td>40.96</td>
</tr>
<tr>
<td>Italy</td>
<td>55.91</td>
<td>48.21</td>
<td>49.39</td>
<td>50.21</td>
<td>53.73</td>
<td>53.40</td>
<td>49.83</td>
</tr>
<tr>
<td>Japan</td>
<td>111.08</td>
<td>115.90</td>
<td>108.20</td>
<td>106.50</td>
<td>103.79</td>
<td>102.71</td>
<td>93.04</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>47.83</td>
<td>42.07</td>
<td>n.d.</td>
<td>n.d.</td>
<td>n.d.</td>
<td>n.d.</td>
<td>n.d.</td>
</tr>
<tr>
<td>New Zealand</td>
<td>25.23</td>
<td>27.86</td>
<td>28.70</td>
<td>22.57</td>
<td>29.40</td>
<td>34.76</td>
<td>30.85</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>47.75</td>
<td>42.40</td>
<td>46.63</td>
<td>51.55</td>
<td>52.26</td>
<td>51.73</td>
<td>48.28</td>
</tr>
<tr>
<td>Portugal</td>
<td>48.02</td>
<td>42.26</td>
<td>46.04</td>
<td>49.39</td>
<td>52.72</td>
<td>54.56</td>
<td>50.07</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>42.57</td>
<td>38.17</td>
<td>43.03</td>
<td>40.42</td>
<td>41.35</td>
<td>44.11</td>
<td>40.83</td>
</tr>
<tr>
<td>Sweden</td>
<td>52.91</td>
<td>47.77</td>
<td>43.34</td>
<td>47.79</td>
<td>51.39</td>
<td>49.01</td>
<td>43.68</td>
</tr>
<tr>
<td>Switzerland</td>
<td>80.41</td>
<td>71.84</td>
<td>75.79</td>
<td>81.86</td>
<td>81.22</td>
<td>80.66</td>
<td>72.83</td>
</tr>
<tr>
<td>European Union</td>
<td>45.50</td>
<td>44.55</td>
<td>45.08</td>
<td>44.37</td>
<td>46.66</td>
<td>47.67</td>
<td>42.98</td>
</tr>
</tbody>
</table>


---

**Milk collective marketing initiative in Kenya: the Muki cooperative**

*This example shows how producers increased their market power by marketing their output collectively. It also illustrates the integration of several functions (marketing and processing) and services (saving and lending) in the same cooperative.*

Kenya has an estimated 3.3 million dairy cattle with an annual production capacity of about 2.5 billion litres. Slightly more than half (55%) of this milk is marketed, whilst the remainder is consumed directly on the farm for subsistence or fed to the animals. The 1.4 billion litres of marketed milk is sold by five channels: direct sales from farm to consumer (this is the main channel); mobile traders; milk bars, small shops and kiosks (usually raw milk); milk processors; and dairy cooperatives (which can in turn sell the milk that they collect to the processors). The following diagram summarises the various channels for marketing milk in Kenya and their magnitudes.

---

83) This example comes from the case study done by EAFF as part of the EuropAfrica project. See: Mugoya M. & Rwakakamba M.T., 2009.
Choosing the right strategies for increasing farmers’ market power

The Muki Savings and Cooperative Society Ltd was founded in 1989 by a group of about ten farmers whose initial purpose was to lend money to each other. As all the members produced milk, the cooperative subsequently began selling milk to processors. Today, the cooperative, which is located north of the city of Kinangop, has become a group of societies that brings together some 6,800 milk producers, 4,800 of whom are ‘active’, meaning that they deliver milk regularly. The group consists of four institutions, each with its own role:

— Muki Savings and Cooperative Society (SACCO) provides financial services to its members.
— Muki Investment Cooperative Society is the group’s business arm and is responsible for all the investment-related activities undertaken by the group.
— Muki Farmers Cooperative Society is the group’s marketing arm. It collects the members’ milk, tests its quality, pays the farmers, sells the milk to the group’s processing plant, and provides other services (such as purchasing inputs).
— Kinangop Dairy Limited: A processing plant with facilities for pasteurising, cooling, storing, and packing milk prior to wholesaling the milk to a major processor in the region.

The four arms’ day-to-day operations are headed by professional managers hired by the Joint Board, whilst a Management Committee consisting of member farmers is appointed annually to monitor the arms’ activities. The Management Committee meets once a month to deliberate on various issues ranging from the milk prices paid to the farmers to the cooperatives’ overall operations, progress being made on the cooling and storage facilities, etc. The price paid to the cooperatives’ farmers amounts to between 90 and 95% of the price paid by the processors and is higher than the market price (about 20% higher).

Muki Group is currently investing in processing equipment in order to be able to process and package the milk directly under the cooperative's brand name and no longer depend on an outside processor. This investment should enable it to increase the milk price paid to its farmers. What is more, the added value that is generated should make it possible to reduce price drops in high-production periods, such as the rainy season.

**Groundnut collective marketing initiative in Senegal**

This example illustrates the creation of producers’ groups vested with various functions and their organisation as a national peasants’ association that provides its members with technical management, financial, and political support.

Groundnuts are an important crop in Senegal, with more than 350,000 family farms involved in growing groundnuts. The groundnut farming area covers two-thirds of the country’s territory and the inhabitants of Kaolack Region get the bulk of their income from groundnut production. The groundnut sector was developed during the colonial period (as a cash crop that provided a raw material for industry) and was a major driver of Senegal’s rural economy, given the crop’s three functions as a subsistence crop, cash crop, and forage crop.

With the advent of structural adjustment policies, the State pulled out of the sector and put an end to the state entities that were in charge of maintaining seed stocks, the agricultural credit system, and extension services. The market policy waged thereafter was to import vegetable oil for domestic consumption and to export groundnut oil. More recently (2001), changes made in the collection system’s organisation have made marketing the crop difficult. Given the official circuit’s lack of competitiveness, private merchants began offering the farmers low prices accompanied by ever more demanding quality criteria.

The CCPA (Cadre de Concertation des Producteurs d’Arachides or Groundnut Growers’ Consultation Framework), which is a member of the CNCR, was created in 2001 to unite the groundnut supply chain’s producers and their organisations, to bolster groundnut output and to promote organic groundnut farming, to defend the material and moral interests of its members, to help set up a national groundnut observatory, to promote small processing units, and to contribute to training and capacity building for groundnut farmers, both men and women. The CCPA’s specific targets are:

- to limit the number of middlemen between the farmers and buyers (especially the oil mills, which are the main buyers of groundnuts);
- to facilitate the marketing of products processed by its members;
- to participate in reconstituting the sector’s seed stocks; and
- to reduce the gap between groundnut farmers’ strategies and government policies.

To this end, the CCPA supported the creation of the Inter-village Groundnut Farmers’ Group (GIPA) for the purpose of marketing output, producing seed stock, and processing groundnuts. The producers’ organisations of the regions of Kaolack, Fatick, Kaffrine,

---

85) This example comes from the ROPPA case study conducted under the EuropAfrica project. See Ndao B., 2009. Op. cit.


87) The CNCR or Conseil National de Concertation des Ruraux (National Council for Rural Consultation) was set up in 1993 and brings together Senegal’s main rural and producers’ federation. It organises consultations of and co-operation amongst them. The CNCR is a member of ROPPA.

Tambacounda, and Kedougou thus belong to the CCPA. Each GIPA is composed of 150 family farms on average and there are about sixty active GIPAs in Senegal for a total of more than 35,000 individual members.

The CCPA’s strategy is to federate the growers within the GIPAs, to establish a common collection point, and to market their crops collectively. The GIPAs also provide other collective services: lending money, purchasing fertiliser, providing seeds, providing transport, and so on. This makes it possible to reduce the number of intermediaries between the producers and buyers and to provide the producers with vital services that used to be borne by the State.

The CCPA helps the GIPAs’ management committees to market their groundnuts, puts them in touch with potential partners (oil producers, transporters, vendors of bags and rope, etc.), and does studies to determine groundnut production costs (per kg of oil groundnuts). This cost was assessed as being much higher than the price set by the National Inter-Branch Groundnut Committee (CNIA - Comité national inter-branche pour l’arachide), to which a State subsidy is added (192 FCFA versus 164 FCFA for the 2009/2010 agricultural year). This structure, which the State set up in 1992, has several purposes, including that of determining the price at which groundnuts are to be sold. The CCPA and CNCR denounce in particular the problem of the CNIA’s representativeness, given that groundnut farmers have far too little weight on this committee.

The prices that the oil mills pay the growers thus remain below their production costs. That is why the CCPA is turning towards processing activities. Currently, the CCPA is setting up two pilot processing plants, run by women, to produce groundnut butter and has signed a protocol with the Food Technology Institute, ITA, to produce artisanal oil and other groundnut by-products. At the same time, the CCPA is advocating for better financing of the development of local products in small and medium-sized processing companies.

**Cereals collective marketing initiative in Mali**

In a context characterised by agricultural market liberalisation, the virtual impossibility of getting access to credit, and the emergence of new types of intermediary in the marketing chain, as a result of which farmers’ incomes plummeted, a score of groups for a total of some 500 individual members decided to join forces in 1996 and found *Faso Jigi* in Ségou, Mali.

*Faso Jigi* is a cereals collective marketing cooperative that centralises the entire output of its members (basically farmers of rice and rain-fed cereals such as millet, sorghum and maize) so as to be able to sell the crops only when prices are good.

Each member commits to delivering a certain amount of grain to *Faso Jigi* in exchange for an advance that depends on the quantity delivered. This advance is made possible by the network of mutual funds (credit obtained from financial institutions) set up by the cooperative. These advance payments are topped up if the market price is higher when the grain is actually sold. *Faso Jigi* alone is responsible for selling the harvests and does so when it deems that the price has reached the most remunerative level.

89) The tasks entrusted to this State-owned institute include technical support for the processing industry.
90) This example comes from the ROPPA case study conducted under the EuropAfrica project. See Ndao B., 2009. Op. cit.
The advances are made in the form of loans. Such credit is made possible by the financial institutions’ trust in the cooperative, which manages to pay back the loans granted to its members.

These advance payments to the producers are a risk for the cooperative. To limit this risk, the cooperative has set up a hedge fund to cover losses stemming from accidents, poor cost analyses, storage losses, overestimation of the purchase price from producers compared with the market price at the time of sale, and so on.

After more than ten years of operation, the *Faso Jigi* initiative has achieved very positive results: The prices paid to producers have risen, the cooperative’s membership has risen (to 4,000 members today), and the total volume of cereals marketed has risen from less than 1,000 tonnes at the start to close to 8,000 tonnes today.

**Collective marketing initiative in Belgium: the Faircoop cooperative**

*This example illustrates the use of a combination of instruments: (i) collective marketing, (ii) contractualisation with a collective contract negotiated by the cooperative for all of its producers, and (iii) product differentiation. It also shows some constraints linked to a collective marketing scheme that covers only part of the sector’s producers.*

The FAIRCOOP initiative was launched during the EU ‘milk crisis’, which began in 2008, when prices fell after a strong surge in food prices worldwide. At the time, dairy farmers had to cope with prices that did not even cover their production costs. Milk at the time was selling for less than 20 eurocents/litre (18 eurocents, to be precise), whereas everyone agreed that the cost of producing a litre was at least of the order of 30 eurocents. The farmers were all the more irate because at the same time consumer prices did not drop accordingly. In addition, Europe was in the particular context of phasing out (by 2015) its milk quota system. The far-reaching crisis in the sector at a time when the prospects of an improvement in the European situation were poor led some farmers to carry out spectacular actions, such as pouring hectolitres of milk into the gutter, to make the public aware of their plight.

The initiative to create the FAIRCOOP cooperative\(^{91}\) was born in this context of crisis and consumer awareness-raising. The aim was to get advantages for its members through milk production, processing, and marketing activities. The cooperative gave rise to a ‘fair milk’ label named ‘FAIREBEL’ that emphasised the milk’s Belgian provenance and the fairness of the commodity, which was justified in particular by the fact that 10 eurocents from the sale of each litre of milk went into a cooperative fund that was then redistributed equitably amongst the cooperative’s members. The idea was to appeal to consumers’ spirit of solidarity and get them to pay a price that covered the commodity’s production costs. The project was a brainchild of the MIG, *i.e.*, the European Milk Board’s Belgian representative.

The initiative nevertheless had to cope with the problem of finding a Belgian dairy that would agree to process the milk that the cooperative’s members supplied in line with the conditions that the cooperative demanded. One can thus read on the cooperative’s website that ‘the bitter negotiations between the FAIRCOOP cooperative and national dairies did not pan out. The Belgian processors often referred to the problem of overloading their production lines, but they showed no true willingness to collaborate with the FAIRCOOP cooperative’ \(^{92}\). On the other hand, a milk packaging contract was signed with

---

\(^{91}\) Agricultural processing and marketing co-operative created by eight people in October 2009.

\(^{92}\) FAIREBEL site of the FAIRCOOP co-operative. See: [http://www.fairebel.be/-Accueil-html](http://www.fairebel.be/-Accueil-html).
Luxlait, a dairy company situated in the Grand Duchy of Luxembourg. Consequently, the milk supplied by the cooperative came from Luxembourg’s dairy farmers, at least in the beginning. Even though the cooperative announced that the entire volume of milk sold under the FAIREBEL label would eventually be collected in Belgium, it still remains that this means reaching an agreement with a Belgian dairy that accepts the cooperative’s conditions. In the interim, the cooperative gets a contribution of 10 euro cents per litre sold (which is supposed to be shared out amongst the cooperative’s members).

93) This change in the initial programme created major problems for the cooperative, which the Belgian consumers’ association CRIOC quickly criticised for misleading advertising touting the Belgian origin of its milk products. The presence on the packages of a cow sporting the national colours of red, yellow, and black gave the impression that the milk was of Belgian origin, whereas, for the reasons outlined above, the milk actually came from Luxembourg. After a discussion between CRIOC and FAIRCOOP, a joint press release clarified things by explaining that the fact that the milk came from Luxembourg was due to the ‘Belgian dairies’ refusal to work with FAIREBEL’, as a result of which ‘FAIREBEL had been forced to turn to the Luxembourg dairy concern’.
C. Contract farming

**Definition and aims of contract farming**

Contract farming refers to a specific category of contracts between an agricultural producer and an agro-industrial firm that processes and/or markets agricultural products. The main objective of such contracts is to cover the risks inherent in the two parties' activities, mainly by guaranteeing the buyer a supply that meets his demand and by giving the producer the certainty of an outlet for his production under contract. In some cases, the contracts enable farmers to know, more or less accurately, the prices at which their crops will be sold under contract.

The contracts cover the production and supply of agricultural commodities. They are based on reciprocal commitments and thus set obligations for the two contracting parties. These commitments and obligations are defined by clauses concerning the market and, if necessary, the resources and technical processes of farming practices\(^{94}\). The contracts vary according to the importance and complexity of the provisions in each of these areas:

- **Market clauses**: These clauses set the production terms (type, amount, etc.) and commitment for the future sale (period, place, and price). Typically, the buyer commits to buying a certain amount of a farmer's crop or output on a specific date, and sometimes at a predetermined price.

- **Resource clauses**: Such clauses may stipulate input supply terms (for example, required use of specific varieties or even the obligation to use fertiliser provided by the buyer) jointly with the market terms.

- **Technical clauses**: The buyer can stipulate the cropping practices that must be followed. The farmer undertakes to comply with the agreed quality standards, which may concern inputs, in particular, a fact that also motivates the company to provide inputs (such as specific crop varieties, specially formulated fertiliser, and so on).

Contractualisation is a form of vertical co-ordination situated between the free market and full vertical integration. The least integrated forms of contract are *marketing contracts*, in which the market terms only are set, so that the farmer retains total control over (and thus bears all the risks of) the production process. The most integrated forms of contract are *production contracts* (or *employee or entrepreneur contracts*), in which terms relating to resources and management are set. In this case, the buyers have control over (and thus bear the risks of) the commodities' production and marketing and supply a smaller or greater share of the production factors\(^{95}\). Generally speaking, an increase in vertical integration occasions a loss of the producer's control over decisions concerning production and assets, whilst the market price gradually loses its role as the main determinant of the transaction\(^{96}\).

---


Choosing the right strategies for increasing farmers’ market power

Contract farming Instruments

There are several models of contractualisation. According to the FAO’s proposed typology, five major models of contract farming can be distinguished. The choice of model to follow depends, amongst other things, on market demand, production, and even the viability of plantation or crop.

— The centralised model. This is a vertically coordinated model in which the harvests are bought directly from a host of producers and processing and marketing are centralised. The farmers are granted production quotas and quality is strictly monitored. This model is used when processing standards are strict, frequent farm technology changes are necessary, or the buyer firm provides the farms with support.

— The parent plantation model. This is a variation on the centralised model in which the buyer has a plantation that gives him a minimal harvest (sometimes necessary to keep the processing facilities in the black) and/or experimental plots to be able to familiarise farmers with new technologies and techniques. This model is used for crops of which the farmers have little experience (for example, export crops) and requires a hefty long-term investment. The main constraints on this model are the need for the right land and the political possibility of setting up plantations.

— The multipartite model. This form of contract farming gets other parties – new bond holders – involved, in addition to a farmer and an agro-industrial firm. State organisations, private organisations, lenders, production managers, processors, wholesalers, retailers, extension offices, and so on may be party to the contract. For example, the contract may include a public institution to do the extension work, a production cooperative to facilitate certain transactions between the buyer and farmers, and/or an independent body to inspect the farming practices and/or harvests.

— The informal model. This model applies primarily to short-term seasonal crops that require a minimum of inputs and minimal processing. It is based on simple, informal – often unwritten – agreements between the individual farmers and small firms. It is the most ephemeral model and the riskiest for both parties.

— The middleman model. This model inserts a middleman into the vertical relationship between the buyer and farmer. It thus entails a certain degree of subcontracting between the firm and an intermediary through a chain of contracts. For example, harvesting may be subcontracted to a third party, who will then sell the harvest to the buyer.

The contracts themselves also vary with the country, culture, crop, company, etc. Variations are possible around three major axes:

— the legal framework: All contracts must comply with the minimum legal requirements in force in the country concerned.

— the formula: This means the setting of responsibilities, the price structures, and all of the technical specifications governing the crop.

— the specifications: The contracts can set certain specifications in addition to those in the formula. These specifications may concern the term of the contract, quality standards, production quotas, cropping practices, terms of delivery, terms of payment, insurance, technical support, inputs, and so on. The specifications also contain pricing agreements.


98) See the paragraph 'The producers’ bargaining and market powers' below.
Advantages of contract farming

Contract farming offers farmers various potential benefits, but, generally speaking, it is a way to reduce the risks linked to the selling of their crops by ensuring markets for all or part of their output.

Medium- and long-term contracts can help to stabilise the farmers’ incomes, provided that they include clauses on prices, and thus improve planning, especially when it comes to investment planning. Contracts are thus more useful in a context of fluctuating commodity prices; inversely, they are less necessary for farmers if the prices of their commodities are stable.

Contract farming has other advantages as well. When the contract stipulates that the firm will provide specific inputs and services (seed, soil preparation, mechanised harvesting, etc.), possibly at a reduced cost thanks to the firm’s economies of scale, this can also be highly advantageous as a way to make inputs and services that are not necessarily outside the contractual requirements accessible to the farmer. The firm may provide technical assistance, which can then enable the farmers under contract with the firm to venture into areas of production in which they initially have less technical mastery. Access (and the conditions of access) to credit may be improved thanks to the contract, which can serve as collateral for a bank or other lending institution 99.

When it comes to the buyers, i.e., the firms, their turning to contract farming is justified in theory by the savings in transaction costs 100 (including the costs of searching for information, negotiating over the terms of trade, monitoring and reinforcing the terms of the transaction, etc.) that it procures. These contracts are considered to be ways to improve the efficiency of their dealings 101.

More specifically, the potential advantages that contract farming offers firms over free-market arrangements are regularity of supply and compliance with quality and/or health standards. The potential advantages over complete vertical integration are as follows: access to land (which is reduced in the case of restrictive laws, for example), access to official subsidies and loans, reduced payroll costs (thanks in particular to the transfer of administrative responsibilities to the farmers), flexibility to change the quantities produced in order to benefit from market opportunities (by increasing or reducing the volumes under contract), and sometimes better productivity (in the case of certain high-value and labour-intensive commodities) 102.

Risks associated with contract farming

The farmers’ bargaining and market power

Although contract farming can reduce certain risks, the contracts themselves are a source of risk for the farmers, basically because of their weak bargaining position vis-à-vis their buyers (firms). The latter are effectively in a position of strength, and sometimes even have no competition, when it comes to setting the terms of the contract 103. The farmers thus run the risk that the firms will impose highly unfavourable conditions, such as low

100) Ibid.
103) This situation of monopsomy can result from a small number of firms in the sector or area concerned or the compartmentalisation of the firms’ sources of supply due to high transport costs.
Choosing the right strategies for increasing farmers’ market power

Strategies for increasing farmers' market power

prices, on them or even that they will renege on or modify the contract unilaterally if market conditions change (a depressed market in the case of a supply glut, for example) from the forecasts made when the contract was drawn up.

The prices paid to the farmers are obviously a crucial element of the contract. Various methods for computing the prices can be used: The prices may be set (often linked to a grading scheme), flexible (according to a formula linked to market trends), cash (or ‘spot’) prices (based directly on the market), consignment prices (prices calculated once the commodities have been marketed and sold), or fractionated (the agreed basic price is paid upon delivery and the final price is calculated after the commodity is sold and depends on the market price)\(^{104}\). A price that has been set in advance transfers the producer’s marketing risk to the buyer and thus gives the farmers a certain amount of security, whereas a variable price maintains the risk and uncertainty for the farmers.

However, whether the prices are set or variable, the **prices’ levels are decisive for the farmers and depend on their abilities to bargain.**

The farmer’s bargaining power varies with the situation. It is reinforced by access to market information, the ability to understand the terms of a contract, and the existence of not-too-narrow a free market. These are all decisive for reinforcing negotiating abilities. Indeed, the buyer firms usually have access to more complete market information than the farmers (information asymmetry, lack of price transparency) and can moreover deliberately avoid transparent price-setting mechanisms in the contract (by using complex formulae or quality or quantity measurement units that the farmers are unfamiliar with or cannot measure, such as bacteria counts). Extremely tight spot or cash markets (for example, when the bulk of production is governed by contracts) and opaque prices are considered to be factors that reduce producers’ market power, for they enable large buyers to push spot prices and thus contractually set prices down\(^{105}\).

The public authorities can act upon these elements in order to enhance producers’ bargaining power and thus make the contracting parties’ positions more equitable. Such intervention can take various forms: supporting training to enable producers to understand contractual language, supporting the implementation of price information systems, providing producers with legal aid, and so on. The government can provide these services directly or indirectly, via farmers’ organisations and/or NGOs benefiting from government support. In a situation of very tight spot markets, government intervention can be envisaged to force the firms to report the prices that they pay to producers, as is done in the United States, so that it is possible to inform everyone of national and regional price trends (see the law adopted by the US Congress in 1999 on the mandatory publication of livestock prices)\(^{106}\). Systematic data collection regarding the contracts is vital to analyse the consequences of contract farming as well as the costs and advantages of policies governing relations between the links in the supply chain. Various authors feel that access to such information is indispensable for enlightened debate and the setting of lines of action\(^{107}\).

Producers’ bargaining strength can also be reinforced by national oversight over the contracts and their wording. The State can ensure the contracts’ legality and act as a mediator to foster encounters amongst the players in the commodity value chain in order...
to establish a common vocabulary and behavioural guidelines for drawing up contracts, and even to establish a standard contract for all the producers as a group.

Banding together in organisations to engage in collective bargaining over contracts is an important way for farmers to counterbalance the imbalance in the two parties’ bargaining strengths. However, the laws in effect must allow collective bargaining in this sector (see the part devoted to collective marketing).

On the individual level, the farmer’s dependence on a buyer limits her/his bargaining power and can increase other risks. True competition amongst several contracting firms and the possibility for farmers to have access to these different firms or to other outlets for their products, such as the open market, are other conditions that make it possible to increase the farmers’ market power.

Contract farming’s role in improving farmers’ market power thus has various strings attached and remains limited. The examples of implementation given in this part illustrate various contract farming schemes and different levels of market power for farmers. In some cases, contract farming is the only instrument possible and thus ‘has the advantage of existing’. However, this should not make us lose sight of the importance of other potentially very effective instruments for improving farmers’ market power, such as collective marketing and supply management, or the importance of combining several of these instruments.

Other risks for producers

Besides the risks that stem from this imbalance in bargaining power, contract farming can create other problems for producers. These include limitations on the flexibility of production choices (in the case of the farmers’ specialisation in a given crop), problems linked to monocropping and the intensification of production, the potential severing of ties with former partners in their transactions (suppliers of inputs, etc.), which are sometimes difficult to restore, the abandoning of traditional production and cropping methods to the detriment of optimal available resource utilisation, damage to existing socio-cultural structures, the risk of indebtedness (given the easier access to credit and/or the buyers’ urgings), dependence on the contracting firms for things outside the production sphere (social services in the case of deficient public services), and the reinforcement of rural inequalities.

History of contract farming

Contract farming spread through North America and Western Europe in the 1930s and 1940s, via the vegetable canning industry. Its use became more widespread in developing countries after World War II and decolonisation as it replaced the plantation economies of the colonial period. During the structural adjustments of the 1980s some donor agencies promoted contract farming as a promising way to revitalise the agricultural sector.

So, contract farming is not new. However, it has grown in recent years because of the major transformations that the various agri-food industries have undergone: concentration of processors and distributors, increased vertical coordination of the agri-food commodity chains, increases in the shares of processed products in agricultural exports, stricter health and quality standards, reduction in transport costs, information technology develop-

---


Choosing the right strategies for increasing farmers’ market power

Strategies for increasing farmers’ market power in the context of market developments, reduced public sector role in farm support and services, etc.\textsuperscript{110}. These transformations encourage changes in the commodity chains’ organisation towards more vertical coordination, with contract farming being one of the possible forms this can take.

In the United States, contract farming concerned 36\% of total agricultural output in 2004 compared with 12\% in 1969. Contract farming covered 75\% of poultry farming in Brazil and up to 90\% of rice and fresh milk production in Vietnam. It has also been expanding in other countries such as India, China, and a number of Latin American and African countries\textsuperscript{111}.

In the EU, sixteen Member States proposed contract farming to the EU Farm Council in 2009 in the wake of the milk crisis that hit farmers that same year. Following the work of the High Level Experts’ Group on Milk (HLG), the European Commission adopted a proposal in December 2010 on contractual relations in the dairy sector\textsuperscript{112} that provided for the establishment of written contracts between dairy farmers and dairies prior to deliveries. These contracts are to stipulate prices, deadlines, and delivery volumes as well as the terms of the contract. The proposal provides for the optional use of contracts, but gives Member States the possibility of making them mandatory on their territories\textsuperscript{113}.

**Contract farming as proposed within the CAP**

We have seen that sixteen EU Member States proposed contract farming to the Farm Council following the 2009 milk crisis in order to strengthen the sector’s regulation and to improve the prices paid to dairy farmers. Following the work of the High Level Experts’ Group on Milk, the European Commission made proposals in December 2010 to increase dairy farmers’ market power and to allow them to organise in order to draw up and negotiate contracts, whilst attaching certain strings to these possibilities.

The proposal for a Regulation amending Council Regulation (EC) No 1234/2007 that the Commission submitted to the European Parliament and Council stipulates, in particular, ‘Contracts for the delivery of raw milk by a farmer to a processor of raw milk, or to a collector may be negotiated by a producer organisation in the milk and milk products sector which is recognised under Article 122, on behalf of its farmer members for part or all of their joint production’ (article 126a)\textsuperscript{114}.

The conditions that are attached concern recognition of the producer organisation, mandatory notification and acceptance by the Commission, and the quantities of milk produced by the member farmers that the contracts concern (3.5\% of total EU production and 33\% of the Member State’s total national production\textsuperscript{115}). These quantitative limits were set ‘in order not to destabilise the situation in reverse’ and do not concern cooperatives\textsuperscript{116}.


\textsuperscript{113} This proposal is to be discussed in the Council of Farm Ministers and European Parliament. If the two institutions adopt it, the Regulation is expected to go into effect in 2012.


\textsuperscript{115} An amendment submitted to the EP would reduce this figure to only 20\%.

\textsuperscript{116} See the explanatory memorandum for the proposal, from which this passage is taken (p. 3).
Whilst a new article to be inserted in Regulation (EC) No 1234/2007 encourages farmers to draw up contracts with the dairies, the Commission’s proposal leaves it to the Member States to decide whether or not to make contracts mandatory. A few rules concerning the content are spelled out. Thus, the contracts must ‘be concluded in advance of the delivery’, ‘be made in writing’, and include, in particular, ‘the price payable for the delivery’.

Another provision in the proposed Regulation is aimed at exempting cooperatives from such contractual requirements by stipulating, ‘… a contract shall not be required where raw milk is delivered by a farmer to a processor of raw milk where the processor is a co-operative of which the farmer is a member if its statutes contain provisions having similar effects’ as those set out in the paragraph on contractualised deliveries.

The reasoning behind this exemption is as follows: ‘In order to take into account the specific nature of cooperatives and not to interfere unnecessarily in current structures, cooperatives would not be required to have contracts on condition that their statutes provide for rules with the same objective’.

**Limits of the contractualisation proposed by the European Commission**

The European Commission’s proposal on contractual relations shows certain limits when it comes to improving producers’ market power.

The possibility that producer organisations have to be able to intervene in setting and negotiating contracts is of course a favourable element for improving farmers’ market power, but the conditions attached to it limit its scope greatly. This is particularly the case for the limits regarding the proportions of EU and national total production that these organisations’ members produce. In the same vein, the regulation strongly limits recognised inter-branch organisations’ possibilities to engage in contractual arrangements on the grounds of excluding ‘hard-core restraints’ on competition (including price fixing and market partitioning). These limitations seem excessive, given the degree of concentration that exists among milk buyers.

When it comes to the contracts that farmers sign individually, they will do nothing to change the farmer’s situation if they are signed by partners of unequal power. The farmer remains in a position of weakness when it comes to negotiating prices, amongst other things. It is thus highly unlikely that the contracts will improve the prices that the farmers are paid, given that it is unlikely that the European States will require the contracts between dairies and dairy farmers to take account of the farmers’ production costs.

**Contract farming in Belgium: the potato sector**

**Context - The framework for contract farming in Belgium**

Contract farming affects several sectors in Belgium, including vegetables (the bulk of production), poultry (more than 90% of production), pork (more than 50% of production), potatoes, quality wheat, brewer’s barley, seeds, and so on.

Given the rising number of contractual relations in the farm sector and the imbalances of power between players, the Belgian government decided in 2005 to launch a dialogue between farmers’ representatives (agricultural professional organisations) and the trade organisations.

---

117) Ibid., p. 3.
118) Case study done by CSA with the support of FWA.
organisations concerned. This dialogue culminated in the signing, in December 2005, of the first ‘Agreement on contract farming’, which set a code of good commercial practices for written contracts between a producer and a buyer company.

In parallel, a ‘Contract Farming Commission’ was set up in March 2006 to oversee the enforcement of a code of conduct regarding good commercial practices and to have it approved by the signatories. This Commission consists of equal numbers of representatives of agricultural professional organisations (APOs) and of companies that buy and process agricultural products and distribute them. Its secretariat is provided by the Belgian State and any producer, buyer, or processor wishing to take anything up with the Commission may do so via its trade organisation.

At the agricultural professional organisations’ request, this commission set up a working party for the potato sector and composed of the farmers’ organisations and a potato traders and processors’ trade organisation. In addition, the Walloon potato federation gave this working party technical support. The farmers’ difficulties stemmed from the fact that the contracts came in a wide variety of forms, from very complex contracts to other, very skimpy, contracts with often vague wording.

This working party issued some guidelines, in the form of recommendations, for drawing up a contract at the end of 2006. These guidelines stipulated the important elements that the two parties must heed via recommendations on a contract’s minimal content (based on the first ‘Agreement on Contracting Farming’ mentioned above). For example, they recommended that all contracts should state clearly the terms of payment or should stipulate a reflection period of several days after the contract’s signing. The guidelines also included a list of useful definitions to clarify a certain number of terms, such as cases of ‘force majeure’ or ‘acts of God’, where the contracting party is absolved of all liability for failing to fulfil its obligations.

Contract farming in the potato sector in Belgium

A little more than 50% of Belgium’s potato crop is covered by contracts, with at least a third of the production of the bintje variety and about 75% of the production of protected varieties being under contract (figures for the 2009/10 season).

The contracts are negotiated individually by each potato farmer, based on a proposal put to him by the buyer, which is either the processing industry or the trader/broker who serves as an intermediary to supply the processing industry. Each contract may concern a set amount of potatoes (‘tonnes’ contract), a specific acreage (‘hectares’ contract), or part of the crop (in tonnes/ha) of a specific surface area (‘tonnes/ha’ contract).

120) Fédération Wallonne de l’Agriculture (FWA), Boerenbond (BB), Algemeen Boerensyndicaat (BS), Confédération des Betteraviers Belges (CBB).
121) Flax industry (ABV), trade in and processing of potatoes and vegetables (Belgapom & Vegebe), inulin manufacturers (Cefi), sugar refineries (Subel), grain trade (Synagra), seed companies (Intersemza), and livestock trade (FNCBPV).
122) Belgapom.
123) FIWAP is an inter-branch not-for-profit association created in 1993 that ensures representation of the entire potato supply chain on its Board of Directors. Its aims are to coordinate the sector’s activities; to provide the sector’s professionals with technical, economic, social, and environmental guidance and assistance; to spread technical, statistical, and economic information; and to work to improve the quality of the sector’s products. FIWAP is funded mainly by the Walloon Region.
The contracts are usually annual or three-year contracts. In the latter case, the prices may be set for three years or open to renegotiation each year. The prices are either set or variable according to market prices. In both cases, the prices are subject to a bonus/malus adjustment scheme (bonuses on or reductions from the baseline price according to quality criteria). Certain price grids can also differentiate the price according to the delivery period (for example, lower price at the start than at the end of the season so as to stimulate long-term storage).

The clauses concerning quality mainly refer to the tubers’ processing qualities (variable depending on the type of use) and phytosanitary rules established by the Federal Agency for the Safety of the Food Chain or FASFC (AFSCA in French, FAVV in Dutch, and FASNK in German), and which entail a certain number of technical constraints. Quality weighs heavily on the price that each farmer is paid, which means that assessing the crop’s quality is an important step that requires transparency. That is why the above-mentioned guidelines recommend that all contracts should stipulate clearly the place of the quality appraisal, the bonus/malus scheme in effect, and sampling methods used and allow the seller to be present during the appraisal. What is more, reference documents aimed at standardising the quality assessment procedures, integrating health safety standards, and harmonising dispute settlement rules have been drawn up these past few years on the European and national levels. All contracts may refer to and incorporate these documents.

Contracts spread through the potato sector in the 1970s-1980s. The potato farmers’ interest in these contracts is definitely linked to the great price volatility that has prevailed in this sector for many years, since the potato has never been covered by a CMO. As the graph below shows, contract farming makes it possible to limit this volatility, whether favourably or unfavourably for the farmer, depending on the season. It should be noted that most of Belgium’s potato farmers combine contract and non-contract farming, which enables them to spread their risks and to profit from the open market when market prices are high. The industries’ interest in the contracts is definitely bolstered by the stiff competition amongst processors for supplies, given the rising volumes of potatoes being processed in most of the countries of Western Europe over the past few years. It is in the interest of the Belgian processors, who must currently import potatoes to cover their expansion, to keep Belgian batches being bought up by processing plants in neighbouring countries.

125) Walloon Agriculture Federation (FWA), studies department, personal communication.
126) This also allows them, in the case of “tonne contracts”, to complete the batches sold under contract if the yield falls short of what was forecast.
Choosing the right strategies for increasing farmers’ market power

The overall tendency over the past few years has been an increase in contract farming, linked notably to two developments in production, to wit,

— the rise in potato farming on large farms (steady rise in acres planted in potatoes), where the volumes produced and thus the economic risks are high. Contract farming makes it possible to limit these risks;

— the spread of protected varieties compared with the bintje (an unprotected variety that accounts for a little more than half of the Belgian potato crop). These varieties are sold almost exclusively under contract, since the seed potatoes’ availability is often contingent on this. These varieties’ spread is due in particular to pressure from pests (nematodes) and better yields (in theory) and/or better quality, despite the planting materials’ higher prices.

The proportion of bintjes under contract over the past ten years varied with the open market’s performance, with a smaller proportion of contracts when the market paid high prices and a larger proportion when open market prices were low. The prices under contract tend to follow the market, with prices that rise when the open market prices are high.

The Belgian case of contract farming in the potato sector is an illustration of a moderately integrated contract. The clauses of these contracts effectively include market and management-related clauses, but few clauses regarding resources, aside from contracts concerning protected varieties, which include a clause on supplying the planting material, which the firms provide at set prices.

Figure 5. Mean sales price of bintje potatoes from 1996 to 2010

The mean price (€/100 kg) weighted by volume and sales period:

- **open market**
- **contracts**


131) See paragraph entitled ‘Contract farming instruments’.
Even though the contracts are negotiated individually, the national framework for contract farming and the existence of an inter-branch structure, FIWAP, contribute greatly to the farmers’ bargaining power. The farmers can effectively refer to guidelines (negotiated collectively by their organisations) for drawing up their contracts and have access to information about open-market prices and the prices offered by the various firms. The stiff competition between firms also plays a significant role in the farmers’ negotiating power, since it is easy for the farmers to change buyers when their contracts lapse if they are dissatisfied. Finally, the existence of a relatively large open (cash) market for the bintje plays a major role in rebalancing the relations between farmers and firms by serving as a reference for setting the contractual prices.

However, difficulties subsist for the farmers. Since the State’s supervisory framework is not coercive, the contracts and their ‘fairness’ vary with the buyer. Some problems persist, in particular as concerns enforcement of the force majeure clause (see above) or the transparency of the sampling and quality analysis procedures. In practice, the potato farmers seldom turn to the Contract Farming Commission if they have problems, and the guidelines have not changed to reflect changing reality in the sector.

Example of contract farming in Brazil: poultry

The Brazilian poultry processing sector is highly concentrated: The four largest firms control 38% of the country’s production, whilst the eight largest firms together control more than 50% of the country’s production.

The poultry sector has boomed since the early 1990s, and this boom applies to production, domestic consumption, and exports. According to the FAO, this growth is linked to the fact that 75% of the country’s poultry is produced under contract, mostly by small and medium-sized farms.

The case of the company Pif-Paf Alimentos illustrates the system well. Pif-Paf Alimentos produces broilers through contracts with about 600 chicken farmers. The contracts link the payments to the farmer’s production performance. In practice, the system works as follows: Pif-Paf supplies the farmers with one-day-old chicks, feed, veterinary inputs (in the form of credits in kind), and technical assistance. The farmers invest their own funds in the facilities necessary for raising chickens and bear the costs of such items as labour and energy consumption, i.e. important production costs. The company deposits a percentage of each producer’s income in an account – a sinking fund – to be used for the facilities’ maintenance and upkeep.

Pif-Paf buys the chickens according to a special price structure that is stipulated in the contract. A base price is set each year and then modulated by a score that depends on production performance (mortality, feed conversion rate, daily weight gain, loading time during broiler delivery, management quality, and percentage of injuries). The base prices and “punctuation tables” that establish the scores according to the above parameters are negotiated by Pif-Paf and a farmers’ association, with the latter playing the part of a conflict mediator. Each year the company excludes from the system farmers whom it considers to have poor results.

This example is an illustration of a highly integrated contract, in which the producers lose their independence whilst the buyer takes on most of the production risks.

132) Source for the paragraph: personal communication from FIWAP and FWA, December 2010.
134) See the paragraph ‘Contract farming instruments’.
The advantages\textsuperscript{135} of this system for the farmers are the certainty of selling all the chickens that they raise, access to suitable inputs, and collective price bargaining. This last advantage is nevertheless relative, since it depends on the farmers’ access to market information and the possibilities that they have to sell the same products on the open market or to other companies. Unfortunately, such information is not available for the example in question.

A general analysis of the situation of farmers who raise pigs and poultry under contract in Brazil\textsuperscript{136} points to several risks for the farmers that seem to be pertinent to bring up here, even though they were not specifically mentioned in the example described above. These risks are:

— the risk of increased indebtedness due to encouragement by the firms to expand and invest;
— risk of depending on the firms due to the latter’s tendency to encourage specialising in a single type of activity in the supply chain, for example, breeding young stock only, raising young stock only, or fattening stock for market;
— risk of illegality and of problems with the environmental protection agency due to the need to take charge of disposing of waste appropriately; and
— the risk that the prices paid will not cover production costs if one considers the overhead that is linked to investment and depreciation\textsuperscript{137}.

\textbf{Example of contract farming in Kenya: certified seeds\textsuperscript{138}}

\textit{Context – certified seed market}

Prior to the liberalization of the seed industry in 1996, a state-owned company was the sole company engaged in the production and sale of certified seeds in Kenya. Today, this company has been partly privatised and, although dominant, shares the market with some fifty other private companies.

Maize is predominant on this certified seed market, with 27,500 metric tonnes of certified maize seed sold annually in Kenya. Most of the maize seed sold is of the hybrid variety for ‘commercial’ farmers, compared with the open pollinated variety seeds that are produced locally for subsistence farmers. The quality of the hybrid seeds that are produced is inspected and certified by the government agency, KEPHIS (Kenya Plant Health Inspectorate), which also grants import and export licences\textsuperscript{139}.

\textbf{Example of contract farming in the certified seed sector}

Freshco Kenya Limited, or Freshco Seeds, is a private seed company engaged in the production, processing, and sale of certified hybrid maize seed. The seeds that come out of research are multiplied by farmers in the region under contract.

\textsuperscript{135} As the advantages and risks for the farmers were not detailed in the initial case study, this is a theoretical, non-exhaustive list given by the report’s authors.

\textsuperscript{136} Report of the FETRAF-Sul seminar on the integration of family farmers, Erechim, 24 March 2010.

\textsuperscript{137} Study conducted by the Brazilian government research centre \textit{Embrapa suinos e aves} and presented at the FETRAF-Sul seminar on the integration of family farmers, Erechim, 24 March 2010.

\textsuperscript{138} This example comes from the EAFF case study done as part of the EuropAfrica project (see Mugoya M. & Rwakakamba M.T., 2009. Op. cit.).

\textsuperscript{139} Remark: ASARECA (Association for Strengthening Agricultural Research in Eastern and Central Africa) is in the process of harmonising the laws and regulations on seeds in East Africa in order to reduce the costs that companies face when they sell their seeds due to the different regulations in effect in each country. This harmonisation is being conducted in five areas, namely, the evaluation, dissemination, and registration of varieties; certification; phytosanitary measures; variety protection; and import/export documents.
Each year, the company signs agreements with some ten to fifteen small farmers who are chosen on the basis of their trustworthiness and ability to understand and carry out instructions. They are identified through farmers’ groups in each region, and the same farmers tend to be chosen year after year.

The prices are determined through individual negotiations with each farmer at the start of each season. The farmers must produce seeds exclusively for Freshco Seeds and comply with strict production methods so that the seeds meet the quality standards required for certification. The company explains these methods to, and thus trains, the farmers. To enable the farmers to buy the inputs and set up the infrastructure (basically irrigation) necessary to use the expected production methods, Freshco Seeds gives them cash advances. The farms are also monitored by KEPHIS, which registers the plots under cultivation, ensures that a minimum isolation distance is observed, and inspects the plants for genetic and physical contamination in the various stages of growth.

According to Freshco Seeds, the main challenges that it faces in dealing with the contract farmers are the failure to understand planting and field instructions, misuse of the advance payments for things other than buying inputs, and defaulting on contracts when market prices are higher.

In this example, the advantages for the farmers are guaranteed income and learning certain production methods. The risks are of several types: dependence on a single firm due to the obligation to produce exclusively for Freshco Seeds, weak price-bargaining position, and financial risks due to the investments needed to meet the required production standards (basically for irrigation). Due to the small number of contracted farmers, conflicts and/or exacerbation of rural inequality is also possible.

**Example of contract farming in Uganda: potatoes**

**Context – potato farming in Uganda**

The farming of potatoes, which were introduced in East Africa in the late 19th century, is increasing steadily in the tropics and subtropics. Uganda is one of the ten leading potato-producing countries in Africa. Potatoes are grown mainly in Uganda’s highlands, and the south-western highland district of Kabale alone produced more than 60% of the potatoes consumed in Uganda in 2000.

As a rule, the farmers do not harvest their potatoes (other than those for direct consumption or sale in local markets) until they identify a buyer. This buyer is usually an intermediary (a travelling trader or broker) who himself buys from the farmers only if he has a request from a buyer from one of the main markets in Kampala and the country’s other main towns. The farmers usually harvest their potatoes themselves and the intermediaries take charge of packing and transporting them (and sometimes subcontract these operations out to specialised firms). The price is negotiated between the main buyer and each farmer via the intermediary.

**Contract farming in the potato sector**

The demand for potatoes in Uganda has risen these past few years due in particular to a steadily growing urban population and an increase in the consumption of fast foods.
Choosing the right strategies for increasing farmers’ market power

In this context, a farmers group specialised in growing potatoes, Nyabyumba United Farmers (NUF), entered into a contract with a multinational fast-food restaurant chain in Kampala called Nandos.

As a result, NUF has been delivering 7.5 metric tonnes of potatoes to Nandos fortnightly under a contract that covers the price, variety, volume, quality, frequency of deliveries, and terms of payment. The potatoes that NUF supplies are used to make chips and crisps (‘French fries’ and ‘potato chips’ in US parlance) requiring specific grades.

The initiative was taken by NUF, which had done a market study with the help of an NGO prior to investigating contract farming possibilities in order to identify market opportunities for the potato. Thereafter, contacts with Nandos enabled it to do a cost/benefit analysis and to assess the viability of direct sales by NUF to Nandos. These analyses also enabled the potato farmers to gauge the changes that would be necessary to adapt to this market opportunity.

These changes were of various types, to wit:

— financial: opening a bank account to receive payments in the form of cheques and borrowing the initial investment from the community;
— organisational: establishment within the group of a management committee, the members of which were given basic training in keeping ledgers and accounting;
— communications-related: purchase of a mobile phone to keep in touch with Nandos and the shipping companies;
— production-related: To be able to ensure the regular delivery of 10 metric tonnes a month the farmers had to adopt new varieties, stagger their planting, plant in wetlands, build storehouses, and buy potatoes from other farmers when their stocks were low;
— quality-related: The producers learned how to sort and grade their potatoes quickly, for potatoes that did not meet Nandos’s requirements were rejected and sold on the wholesale market, where they fetched much lower prices.

The farmers also adopted various innovations in their production methods, namely,

— micro-irrigation in upland areas to improve the yields of off-season tubers;
— synchronisation of production by adopting strict planting schedules specifying planting times, amounts to plant, availability of planting materials, harvest dates, and the expected yields for each harvest;
— changes in planting density to produce larger potatoes;
— the practice of cutting off the above-ground parts of the plants a few days before harvesting so as to reduce the tuber’s moisture content and thus extend its storage life; and
— creation of a system to supply quality seed potatoes.

These innovations were supervised by experts from the National Agricultural Research Organisation (NARO).

---

142) This is a group of farmers based in Kabale, the members of which are specialised in growing potatoes along with other crops. This highly organised farmers group is legally registered as a Community-based Organisation (CBO) and is an active member of Kabale District Farmers Association (KAFDA), which is a member of the Uganda National Farmers Federation (UNFFE), which is itself a member of the Eastern African Farmers Federation (EAFF).
The number of farmers in the scheme rose, between 2005 and 2008, to 120, of which 80 were women, and the amounts supplied to Nandos have been rising, too. The group is constantly on the look-out for ways to diversify its products and the buyers with whom it deals and analyses its profits and the market at regular intervals.

Before engaging in this contract farming initiative, this group was already highly organised and specialised in supplying seedlings, land management organisation, agricultural financing, and contract negotiation. Its experience with Nandos enabled it, however, to improve or acquire certain abilities and led it to develop close links with research.

This is an unusual example, because in this case the initiative to engage in contract farming was taken and carried forward by a farmers’ group. What is more, the contract farming is combined with collective marketing.

The various advantages for the farmers are as follows:

— collective bargaining through an organised, experienced farmers’ group puts the parties on more equal footing, raising the farmers’ power to negotiate the terms of the contract;
— the contract farming itself ensures the farmers that (part of) their harvests will be sold; and
— the combination of collective marketing and contract farming gives the farmers a higher share of the product’s added value, since it is sold without a middleman (and the product itself is of better quality).

Note that the farmers’ group’s high degree of organisation and its access to market information were critical to the success of this contract farming experience.

**Example of contract farming in Senegal: the groundnut**

**Context – ASPRODEB and groundnut farming in Senegal.**

ASPRODEB (Senegalese Association for Promoting Development at the Grass Roots) is a farmers’ organisation created in 1995 to provide its members with technical and organisational capacity-building, financial management, and advisory and support services. Since 2007 ASPRODEB has been supporting groundnut farmers by helping them to form seed producers’ cooperatives (production of certified seeds) and providing them with assistance to draw up quality groundnut production contracts between the farmers’ organisations on the one hand and industrial concerns, processors, and distributors in Senegal.

The marketing step is a major hobble on this commodity chain’s development and the aim of contract farming in the groundnut sector is to give the farmers a stable market. What is more, a quality groundnut supply enables the processing industry to produce competitive groundnut oil for the domestic market.

**Contract farming in the groundnut sector**

So, ASPRODEB draw up a contract on the quality and price of groundnuts to supply and negotiated its terms with CAIT (Touba Agro-industrial Complex). A contract was also signed by ASPRODEB and the partner FOs whereby the parties agreed on the purchasing, transport, delivery, and payment procedures. So, this was an FO-ASPRODEB-CAIT partner-

---

143 This example comes from the ROPPA case study done as part of the EuropAfrica project. See Ndao B., 2009. Op. cit.
ship in which ASPRODEB served as the intermediary. ASPRODEB also obtained a loan in order to be able to set up a scheme to monitor the farmers’ deliveries to the cooperatives (quality analysis, weighing, and payment) and cover the project’s transport and labour costs.

In 2009/10 the contracts covered the sale of 4,000 metric tonnes of groundnuts and involved thirteen farmers’ organisations (umbrella farmers’ organisations and farmers’ cooperatives). The scheme produced satisfactory results for the farmers, who were able to sell their harvests in time and for 3% above the official price, as well as for the industrial complex, which was able to bank on quality groundnuts. In addition, the project generated a positive net profit margin that was ploughed back into the cooperatives to enable them to build up their delivery monitoring capacity, amongst other things.
D. Product differentiation (labels)

Definition and aims of product differentiation

The purpose of product differentiation and the organisation of specific circuits is to **isolate oneself as much as possible on a market segment** (a niche) in order to protect oneself from generation competition of all the other players. The aim is to **get a higher price** and to be able to count on a specific clientele.

The necessary condition is to be able to display a difference between two products that at first sight might seem equivalent. As a rule, a designation or label attests to the product’s difference. A label is a collective brand that takes the form of distinctive signs (a name, a logo, etc.) and may be used by the various brands that meet the label’s terms of reference. It is aimed at ensuring and facilitating recognition of certain characteristics of the product. The label can be ‘private’ and managed autonomously by producers’ associations or be governed by a government agency.\(^{144}\)

As the EU is a region where labels are particularly numerous and certification’s legislative framework is fairly advanced, the European example will be particularly prominent in the rest of this section. We must moreover specify here that product differentiation is a strategy used more in industrialised countries than in developing regions in general and in Africa in particular. That is because product differentiation is based on the assumption that enough consumers are ready to pay more to acquire differentiated products. That is more characteristic of industrialised regions and much less characteristic of the poorest regions around the globe. However, first of all, this situation is changing and, second of all, whilst label schemes are rarer in developing countries in general and in Africa in particular, they are not absent for all that. One example is the ‘Galmi Violet’ label, which concerns a particular onion variety grown in Nigeria.

Product differentiation instruments

The instruments used to organise differentiated food supply chains are basically **names** (designations or labels) and the **protection of these names**.

Designations or labels usually result from private initiatives, whether those of farmers (trade organisation or the farmers themselves), processors (craft processors, but very often industrial processors as well), or distributors (usually the big retail outlets).

Labels created by private groups are not necessarily guarantees of differentiated quality and can be simple sales strategies aimed at promoting products that in no way differ from the other (unlabelled) products on the market. The intervention of (national or regional) public authorities makes it possible to have official labels that are subject to external independent monitoring (protection of labels). If a label remains private, it is not necessarily subject to such oversight, even though the latter is a key element of consumer trust. Consequently, labels that are created and checked by the parties in the chain themselves do not always offer sufficient guarantees, unless these entities themselves have taken the initiative to subject their label to outside, independent verification.

The public powers can also intervene in situations in which an abundance of labels has been created by a large number of private entities, each of which is striving to increase its own product’s value. In such case, the intervention is aimed not at creating new labels, but at organising and rationalising the existing labels, with the intention of clarifying the situation so as to avoid the use of unclear or misleading designations.

---

Choosing the right strategies for increasing farmers’ market power

Strategies for increasing farmers’ market power

So, consumer information is vital for product differentiation. Consumers must be duly informed not only about the various designations, but also about the issues that concern traceability up and down the chains, the monitoring that is done, and certification. Whilst a product with specific characteristics linked to its quality or geographic origin can exist, it is still necessary for consumers to be informed correctly of all this and without the possibility of being misled. This concern is one of the foundations for setting up certification procedures to guarantee certain designations, such as organic and fair trade products.

Advantages and limits of product differentiation

The main advantage of product differentiation for farmers is to get higher prices on the market than similar undifferentiated products.

We should point out that these higher prices are justified by the farmers’ complying with strict specifications, of course, but also by the costs that certification and managing the specific circuit engender.

When it comes to market power, several limits must be considered.

— Being limited to some producers only. The higher price level effectively means a limit on demand. In addition, the labels apply much more often to processed products than to raw materials, even though certain special types of label can apply to raw materials and processed foods alike (this is the case, for example, of the ‘organic’, ‘planned agriculture’, and ‘fair trade’ labels). That means that the labels are not equally accessible to all farmers, depending on what they produce and their processing abilities. This consideration applies as well to the farmers’ geographical locations, which will or will not allow them to sell their produce under labels linked to the region of production. Labels can thus increase the market power of the farmers in the chain that enjoys the label, but do nothing at all to help the rest of the farmers in the sector. Indeed, the latter’s positions may even be worsened by the existence of a label from which their own crops are excluded.

— The share of the added value that goes to the farmers varies with the farmers’ degree of involvement in managing the label. It is not rare for labels to be the result of processors and/or distributors’ initiatives rather than an initiative of the farmers themselves. In this case, the farmers provide raw materials to these industries, which then take care of processing and/or marketing the produce, and there is no guarantee that the farmers will actually get any real benefits from the label’s existence. The farmers’ processing capacities and the existence of differentiated sales circuits can thus favour management of the differentiated chain by the farmers and give them a greater percentage of the added value that accrues to the labels. However, in conventional distribution circuits, farmers’ collective marketing and negotiating capacities appear once again to be key factors in improving the farmers’ market power.

The European Union’s certification scheme

General overview of designations in the EU

The European Union has adopted regulations aimed at promoting, protecting, and certifying products with specific qualities. They are used on the markets along with a rising number of official and private certification schemes. The following graph shows the breakdown of these systems by type of agricultural product and foodstuff.
The regulatory measures taken by the EU include several types of designation that may be used to differentiate agricultural products and foodstuffs. The three main types are:

— designations referring to the geographical location: protected designation of origin (PDO) and protected geographical indication (PGI);
— designations referring to the product’s qualities only: traditional speciality guaranteed (TSG);
— designations referring to the product’s production/marketing process or to other characteristics.

As of 15 February 2011, there were 505 DPOs, 465 PGIs, and 30 TSGs in the European Union, for a total of 1,000 designations. To be entitled to one of these designations within the EU, an agricultural product or foodstuff must be registered and produced in accordance with a set of specifications. The latter must comprise various elements, including the name of the designation or indication, description of the product and its properties, the geographical area concerned, if relevant, proof that the product actually comes from this area, elements justifying the link between the product and geographical area, descriptions of the methods for obtaining and packaging the product, and the authorities or bodies in charge of monitoring compliance with the specifications’ clauses.

The existing legal framework for protecting geographical indications comes under intellectual property law and is based on the WTO’s international trade-related aspects of intellectual property rights (TRIPS) agreement and the European Union’s Regulation No 2081 of 1992 on protected geographical indications (PGIs), backed up by other legal texts, notably Council Regulation (EC) No 509/2006 of 20 March 2006 concerning the TSGs (traditional specialities guaranteed) of agricultural products and foodstuffs.

145) Aggregation based on 343 schemes from a total theoretical maximum of 352. The schemes can concern several products.
Choosing the right strategies for increasing farmers' market power

When it comes to the PDOs and PGIs, the 1992 regulatory framework aims to protect ‘...the name of a region, a specific place or, in exceptional cases, a country, used to describe an agricultural product or a foodstuff originating in that region, specific place or country, and which possesses a specific quality, reputation or other characteristics attributable to that geographical origin and the production and/or processing and/or preparation of which take place in the defined geographical area’.¹⁴⁶

Besides the EU’s designations, we find national or even local designations that usually preceded the European designation. That is the case of the registered designation of origin or AOC, which is an official label of a protected geographical indication that guarantees the origins of French and Swiss traditional foodstuffs. The AOC is recognised today as belonging to Europe’s designations of protected origin.

It should also be noted that a legislative change is in the works this year (2011), under the co-decision-making process between the Council and European Parliament, for the purpose, amongst other things, of strengthening protection and simplifying procedures for these labels. Whilst maintaining the basic designations (PDO, PGI, and TSG), the new rules should make it possible to clarify labelling for consumers but also bolster the roles of producers, processors, and producer-processors by allowing them to take measures to protect their products’ names, to improve the system’s efficacy, and to promote their products’ authenticity and reputations.

Designations referring to a geographical area

Two official designations in the EU, i.e., designations of protected origin and protected geographical indications, refer to the production area, even though these labels also concern the methods for producing and/or processing the product in question. The link between the place and the method of production is linked to the fact that production and/or processing methods for the product benefit from traditional know-how specific to this place, be it a zone, a region, or, more rarely, a country.

The PDO designates a product that is produced, processed, and prepared in a given geographic area with recognised and proven know-how. In this case, the link with the territory is rather strong. Two of more than a thousand examples¹⁴⁷ that could be cited are France’s brie de Meaux and Italy’s mozzarella di bufala Campana. In these examples, brie refers to the product and Meaux to the French town where this speciality is produced; mozzarella di bufala refers to the product and Campana to the region in Italy where this speciality is produced. If comparable products are made elsewhere, they may not adopt the designation in its entirety.

The PGI designates a product for which the link with the territory is weaker but exists in at least one of the stages of production, transformation, or preparation. Two examples of PGIs are the Spanish nougat turron de Alicant and the Belgian ham jambon d’Ardenne. When it comes to the last example and to illustrate the fact that just one of the stages in the production chain must be geographically restricted, it should be noted that Ardenne hams are often made from the meat of pigs that were raised in Flanders.


¹⁴⁷ For the complete list, see: http://ec.europa.eu/agriculture/quality/door/list.html
Designations referring to the product’s qualities only

‘Traditional specialities guaranteed’ of agricultural produce and foodstuffs

Traditional specialities guaranteed (TSGs) have been recognised since 2006\(^\text{148}\), with the regulation stating that their purpose is to ‘meet consumer demand for traditional products exhibiting specific characteristics’. Even when a place is included in the designation to recall its historical origin, TSGs set no conditions as to the product’s geographical origin (even though these products were originally made in a single place), but are linked solely to the traditional nature of a speciality (presence of ingredients entering into its composition or a specific production method).

An agricultural product or foodstuff must thus comply with product specifications to be recognised as a traditional speciality guaranteed. These specifications must include the agricultural product or foodstuff’s name; its description; a description of its main physical, chemical, microbiological, and organoleptic characteristics; a description of the production method that producers must follow, including, where appropriate, the nature and characteristics of the raw materials or ingredients used and the method of preparation of the agricultural product or foodstuff; the key elements that define the product’s specific characteristics; and the key elements that prove the product’s traditional character.

Although the ‘traditional speciality guaranteed’ label is intended to protect and to highlight the traditional composition or method of production of an agricultural product or foodstuff in the EU without for all that referring to its current place of production, a whole slew of these designations still refer to the places where the specialities supposedly first came to light in the past. A few examples are faro, a beer brewed in the Brussels’ area from the lambic type that was well known by the city’s inhabitants, the boerenkaas (first produced in the Netherlands), the traditionally farmed Gloucestershire old spots pork (first produced in the United Kingdom), jambon serrano (first produced in Spain), bacalhau de cura tradicional portuguesa, and pizza napoletana.

Other designations based on products’ characteristics and production methods

The protection of a foodstuff’s designation based solely on its qualities or on the production method used, regardless of the place of production, does not concern traditional specialities guaranteed (TSGs) only. There are other products in the EU with particular quality characteristics that their producers want to have recognised through the adoption of common ‘specifications’, whether they are formal or informal, subject to monitoring or not. One example is biodynamic agricultural production. Another important case is that of foodstuffs derived from organic agriculture.

European labelling of organic agriculture

The EU has set specifications and created a protected logo for organic products. The basic rules are a ban on using chemical fertilisers and synthesised pesticides and herbicides. What is more, the use of genetically modified organisms (GMOs) is also banned. All produce wishing to claim the name ‘organic’ must be monitored according to EU stipulations, and these inspections must be carried out by approved and supervised agencies and bodies.

The Council adopted the first European Regulation on organic agriculture, which was based on the various specifications that already existed in several European countries, in 1991, after several years of drafting and consultation 149. The idea was to clarify the notion of organic farming and to achieve recognition of organic agriculture through regulatory measures in the Member States 150. This first regulation, which was incomplete, was followed in August 1999 by production, labelling, and inspection rules for livestock 151.

The EU reviewed its regulation on labelling the products of organic agriculture in 2007 152, when the European Council of Farm Ministers adopted a new Regulation on organic production and the labelling of organic products 153. This regulation specifies in particular the aims, principles, and general rules applicable to organic production. For example, it states that the term ‘organic’ is reserved for foods of which at least 95% of the ingredients come from organic agriculture; it also stipulates that the producers of packaged organic foods must use the Community logo ‘bio’ from 1 July 2010 on 154. The Commission adopted two additional regulations on organic production and importing, distribution, and labelling of organic products in 2008. The first one 155 spells out the rules for producing, labelling, and inspecting organic products whilst the second one 156 regulates in detail the importing of organic products from outside the EU.

The European Regulations are directly applicable in all the Member States, although the latter may set some additional enforcement rules. Since 2009, however, the Member States may no longer establish national standards that are stricter than the European ones 157.

Designations referring to the production process/marketing procedures or other characteristics of the product

Regardless of the product’s intrinsic qualities, which might not even differ from those of ‘ordinary’ products, the designation may concern only production processes or marketing procedures. Livestock operations that comply with certain higher animal welfare criteria (for example, eggs from free-ranging or non-battery hens) or slaughtering methods (for example, halal or kosher meat) can thus use designations referring to the production process. Fair trade products are examples of products that meet certain marketing requirements.

152) Regulation (EEC) No 2092/91 was thus abrogated and replaced.
154) Not compulsory for organic foods from non-EU countries, but if the logo is used, these producers must also indicate where the organic ingredients were produced.
The labelling of fair trade products in the European Union

The notion of fair trade products comes from the fair trade networks instigated by certain development NGOs, which import products from producers in developing countries with the aim of paying peasant farmers fair prices and thus ensuring them a living wage. A fair trade product is defined as a product ‘that must be produced and marketed on the basis of principles that include transparency as to the product’s origin and payment of a fair price for the work done’.

European legislation on fairness or fair trade is far from as advanced as EU legislation on products’ other qualities. The European Parliament adopted a resolution on fair trade in 1998 and the European Commission issued a communication on fair trade in 2007. The communication concerned fair trade’s role and its contribution to sustainable development. It recognised in particular the surge in fair trade and the importance of the European market in this sector (of the order of 2.9 billion Euros in 2008). However, none of the certification systems is guaranteed by the public authorities and to date fair trade certification remains a private initiative. So, many private labels refer to fairness. The first such label to be created is the Max Havelaar label (1988). Other similar associations proposing other fair trade labels were then created in Europe and America. They have since banded together under the Fairtrade Labelling Organisations (FLO) banner.

Labels in Belgium: examples of organic and fair trade products

Organic production in Belgium

Organic production certification

In Belgium, as in the other EU Member States, products must be certified compliant by an approved certifying body, based on EU standards, to be sold under the products of organic farming label. What is more, farmers who commit to organic farming must go through a conversion period that generally lasts two years before their produce is allowed to be certified and sold under this label.

Certification consists of two separate steps, namely, inspection and certification. The inspections, which consist of unannounced annual visits, sampling, and analyses, are conducted to check that the farmer’s practices comply with the regulations. Based on information provided by the inspectors, a dedicated certification team issues a certificate authorising the farmer to market her/his products under the ‘product of organic agriculture’ label and to bear the name or code number of the inspection agency (each inspection agency has a European code). The presence of this code is proof of official certification.

If we look at the history of the development, the first associations specifically devoted to organic farming in Belgium were formed in the 1970s and there were some thirty ‘organic’ farmers in Wallonia by the early 1980s. The 1980s were a decade in which new associations arose, along with the development of the first specifications and private labels in Belgium by these very same associations and trade federations. The idea was to ensure their members’ recognition as organic farmers. Towards the early 1990s, as the markets for organic produce expanded, organic farming was overseen by the public authorities, in step with the European Regulation’s entry into force in Belgium on 1 January 1993. One consequence of this official oversight was state recognition of organic farming, which as a result was less marginalised.

160) Ibid.
161) Ibid.
**Organic plant and animal products in Belgium**

Organic farming has gathered steam over the years in Belgium, as the graph below shows.

**Figure 7. Acreage (HA) devoted to organic farming in Belgium between 1987 and 2009**

Both the total land area and number of farms involved in certified organic production are larger in Wallonia than in Flanders. In 2008, the acreage under certified organic production in Wallonia effectively reached about 32,000 hectares, or 4.3% of the region’s useful agricultural area (UAA), compared with 0.6% in Flanders. This is depicted in the figure below.
The distribution of acreage subject to inspection by crop has varied little with time, however, since Wallonia’s ‘organic landscape’ remains greatly dominated by forage crops (pastures and meadows) that accounted for 85% of the UAA being farmed organically in 2008. In Flanders, forage crops account for 2/3 of the acreage monitored for compliance and the other plant crops thus reach much higher proportions than in the Walloon Region. The most marked difference in relative terms concerns market garden and fruit crops, which together account for 14% of the declared acreage being monitored in Flanders compared with less than 2% in Wallonia.

It should be pointed out that, regardless of the region or production mode considered, areas under forage crops (including meadows) account for about 55% of the total UAA. Organic farming is thus more oriented towards forage crops than conventional farming is in both regions, but the trend is even stronger in Wallonia. This very probably reflects the fact that it is easier to manage forage land – and meadows in particular – using organic methods than is the case for other crops. Moreover, such crops are grown less intensively to start off with in Wallonia than in Flanders. As a result, it is also easier for farmers to adapt their forage crops to the organic specifications in Wallonia.

The breakdown of the number of animals monitored for compliance in Belgium in 2006 was as follows (figures in large animal units or LAUs): 78% for cattle, 12% for poultry, 5% for swine, 4% for sheep and goats, and 1% for other herbivores. However, when it comes to the Walloon Region’s total livestock population, all production patterns combined, the largest percentages of organically raised animals are found in the sheep/goats and poultry operations, with 13.5 and 16.4%, respectively, of the total, compared with 2.3% for cattle and 2.5% for swine. The most spectacular increase since 2000 was seen in the poultry sector, where the number of birds reported on organic farms in 2006 was close to twenty times the number reported in 2000.
Milk production is one of the main sectors of organic farming in Walloon Region, the other one being beef cattle. Organic milk production in Wallonia – mainly in Liège and Luxembourg provinces – was put at some 32.3 million litres in 2003 (i.e., 2.5% of Wallonia’s total milk production) and was the work of 157 farmers.

**Organic produce market**

Sales of certified organic foodstuffs allegedly tipped the scales at close to 245 million euros in 2006, which was 22% more than in 2005. Together, supermarkets (60.6%) and specialised retailers (30.6%) accounted for more than 90% of this turnover. However, the sales of organic foodstuffs account for about 1.7% of total sales of foodstuffs in Belgium.\(^{162}\)

The most popular organic foodstuffs are vegetables, spices, and condiments, followed by eggs and dairy production, with bread coming a distant third. It should be noted that the national supply of organic bread is well below demand, for just slightly more than one of four loaves of bread sold under the organic label are imported.

Up until the mid-1990s organic products were distributed for the most part through short marketing channels (direct sales and short supply chains). Other marketing networks developed thereafter. This is the case of the distribution of organic products in supermarkets, which took off in the late 1990s and create new demands, especially as concerns quality, regularity, and planning.\(^{163}\) Such a development has led to more standardised and more uniform products.

The major retail chains can set up their own networks and issue their own specifications, going from farm production to marketing, and their powerful purchasing offices weight heavily in the price-forming balance.

Consumers also tend to rely heavily on supermarkets when they go shopping: Close to 50% of organic products bought in Belgium are bought in conventional supermarkets, whilst the remaining 50% are bought through local distribution channels such as specialised shops (30%), on the farm or at markets (7.9%), or in small neighbourhood supermarkets (10.1%).\(^{165}\)

When it comes to milk production, which is one of the main sectors of organic agriculture in the Walloon Region, 94.6% of the country’s milk output was delivered to dairies in 2004.\(^{166}\) The dairy farmers’ dependence on the processing industry in a narrow market where four main dairies collect most of the milk greatly hampers the farmers’ ability to increase their market power, even though their organic milk fetches higher prices than conventional milk. The Walloon commodity board representing organic farming estimated that the added value for organic quality was 5 eurocents per litre of milk sold to the dairies in 2004. An OMIARD study found an average price difference between organic and conventional milk of 18% in the EU in 2001.\(^ {167}\) However, this same board noted a drop in the added value that the dairies paid to Wallonia’s dairy farmers in 2004.

---


164) These commodity chains obviously must develop in compliance with the EU regulations in force in this area.


Still according to the estimates issued by the Walloon commodity board representing organic farming in 2004, the major retail chains’ profit margins on organic milk are allegedly very high (of the order of 70%) and is considered to hobble a rise in consumption.  

**Fair trade produce in Belgium**

Another example of a product sold at higher value as a fair trade product comes from the Belgian cooperative FAIRCOOP. This cooperative sells its milk under the FAIREBEL label, which emphasises the higher prices paid to the farmers in the context of the 2008-2010 milk crisis. The problems and weaknesses of this experience conducted by Belgian farmers were highlighted in the section on collective marketing.

Another Belgian example (from the Walloon Region) is that of a label associated with a fair trade milk brand created by the public authorities (in this case the Walloon Agency for the Promotion of Quality Milk – APAQ-W) instead of farmers. The milk is sold under the Bande des félait label, which guarantees that the farmers are paid 0.35 eurocent a litre for their milk. The milk sold under this label comes exclusively from the Belgian Ardennes (Luxembourg, Namur, and Liège Provinces). The name la Bande des félait became a fair trade label for the milk distributed by the company SOLAREC in February 2007. (The name existed prior to 2007). SOLAREC belongs to two cooperatives, the Chéoux cooperative (Rendeux) and LAC+ (Ciney), which collect milk from 2,600 Belgian dairy farmers.

The la Bande des félait brand has been registered for the Benelux and France. Besides guaranteeing a certain price, it also requires the farmers to comply with the QFL (Milk Chain Quality) specifications, which include references to good agricultural practices on the dairy farm, animal welfare, the environment, the purity and safety of the end product, and monitoring of the farm’s inputs. The end result is quality milk for the consumer.

We can cite yet another fair trade milk marketing initiative, this time one taken by a distributor, that should soon embrace the entire Belgian market. It concerns organic milk and comes from the organic product distribution company Biosano. The company proposes to set a price that takes account of its suppliers’ production costs. It buys its milk from a dairy farmers’ cooperative in Flanders, Biomelk Vlaanderen. This is a cooperative of organic dairy cow breeders that sells its products throughout Belgium. The cooperative collects its members’ milk and then negotiates to obtain a competitive sales price. Fifty farms producing a total of some twelve million litres of organic milk belong to the cooperative. This figure covers almost the entire Flemish organic milk market and about a third of the entire country’s organic milk market.

---

168) Ibid.  
169) Note that SOLAREC distributes many other dairy products, for la Bande des félait concerns 2 million litres a year, or only 0.3% of the total volume of milk distributed by the company.  
170) This means that the labelling strategy is two-pronged in this case, concerning both the product’s characteristics (organic label) and the farmers’ income (fair trade label).  
171) See http://www.biole.be
E. Shortening the supply chain (direct marketing and short supply chains)

Definition and aims of shortening the supply chain

Shortening the supply chain consists in developing one’s own marketing network through a special approach. The aim for producers is to develop distribution systems that reduce the number of intermediaries between producers and consumers, i.e., buyers, processing industries, wholesalers, distributors, and so on, so that a larger share of the price that consumers pay is returned to the producers. Direct marketing makes it possible to avoid all middlemen, whereas short supply chains can involve a small number of intermediaries.

Selling produce directly or via a short supply chain requires the farmer to take on a certain amount of packaging and very often some processing as well, depending on the situation and product. What is more, shortening the supply chain depends on the farmers’ determination and abilities to sell directly or through short chains and on consumer demand for such alternative distribution schemes. Moreover, certain initiatives are carried out increasingly by groups of consumers or even other agents, usually in cooperation with farmers.

It should be noted that this section presents more particularly short supply chains in industrial countries. As a result, the problems outlined below may be only partially transposed to countries in the South.

Incentives for setting up short supply chains and direct marketing schemes

Short supply chains and direct marketing, which still accounted for the majority of distribution in Europe in the 19th century, albeit with very different features from today’s schemes, but faced extinction thereafter in the 20th century, are currently the foci of renewed interest, with numerous initiatives being implemented across Europe. These initiatives, which are supposed to enable farmers to capture a larger share of the added value by shortening the supply chain, are linked in particular to developments in the agri-food sector (the concentration of the distribution system and development of supermarket chains, the internationalisation of food markets, larger cities and increases in their distance from production areas, and so on) and their consequences, especially the distance that has developed between producers and consumers.

A challenging of the industrialisation and sophistication of foodstuffs that was reinforced by the emergence of the idea of sustainability and various food crises (mad cow disease in the 1990s, for example) has led consumers to search for simplicity and authenticity in their foods by ‘buying local’172. Such nearness creates confidence in the produce by giving consumers more control over their diets, independently of certification schemes (although certification can also be combined with local sourcing), and guarantees that certain criteria of sustainability, such as eating produce in season and cutting greenhouse gas emissions due to transport, are met. Other considerations can also get consumers to turn to short supply chains and buying directly from producers. They include strengthening solidarity and social ties between producers and consumers, the desire to oppose foodstuffs’ standardisation, and so on.

A study by the Belgian consumers’ association CRIOC strove to produce a typology of the profiles of consumers interested in short supply chains and direct sales. Another Belgian study, one conducted by the Institute for Sustainable Development and focusing on group purchasing from producers (see below), revealed a common profile for the consumers involved in such initiatives.

A majority of these consumers take an ideological stand on society and its values in imagining how they can build another society and another consumption pattern. For a large number of them, such changes necessarily involve the local level (choosing local products and supporting local farmers), and concern for the environment and solidarity. These atypical consumers are also willing to invest more time, even more money, in order to get quality produce and also to develop quality relations.

When it comes to the supply, the factors that encourage farmers to turn toward shorter supply chains include challenging the dominant marketing/consumption scheme, searching for more flexibility in meeting health standards, wanting to make use of (and derive value from) know-how, needing to diversify income, and capturing a larger share of the added value of production.

**Instruments for shortening the supply chain**

The instruments for shortening the supply chain are basically the ones that farmers use to sell their produce to consumers themselves or to ensure that such sales take place without the usual processing/distribution middlemen. Instruments linked to packaging, and sometimes to processing, are also necessary.

**Direct marketing** can be done on the farm, at a public market, and through rounds of the consumer network (home deliveries) by the farmer her/himself or by a member of her/his family. The products can be sold raw or processed, according to the situation and type of product.

**Selling via a short supply chain** can be done by supplying a retailer or tradesman (baker, butcher, or restaurant owner, for example) directly or by selling one’s produce through a collective structure. This means relying on a marketing structure (a cooperative, for example). A short supply chain is assumed to involve a minimum number of market intermediaries between the producer and consumer. For some people and entities (such as the French Ministry of Agriculture), one may speak of a short supply chain only if a single intermediary is involved, but other sources place the cut-off at a maximum of two intermediaries.

The ways that produce is sold by direct marketing and through short supply chains can be extremely diverse. The Walloon Food Consumption Observatory established a typology of alternative ways of marketing farm produce (i.e., short supply chains) in the Walloon Region based on a series of criteria, namely, number of intermediaries between the

---


farmer and consumer, proximity, individual or collective management, initiative, commitment, and monitoring of the terms of trade. This typology is as follows:

— **direct marketing**
  - selling on the farm: farm shop, harvesting/picking on the farm, farm restaurant, events organised on the farm’s premises, farm product vending machines, and a market on the farm;
  - selling off the farm: markets, road-side stands, rounds, delivery of advance orders, demo sales in the consumer’s home, mail-order and Internet sales, trade fairs and exhibitions, collective sales outlets, boxes of farm produce, and farm product vending machines;
— **other short supply chains**: selling through another farmer, shops, private catering, collective catering, representation, works councils and purchasing unions, and networks to promote local produce.

Some forms of direct marketing, sometimes totally new ones, are advancing strongly, whereas other forms (such as door-to-door vending) are losing ground. In the former group, we find farm produce boxes and collective purchasing groups, especially in Belgium, France, and Switzerland. The boxes (or ‘baskets’ in France and Belgium) are systems that also involve—and are sometimes set up by—consumers and in which the products are delivered by a producer or producers’ group to a group of consumers, either directly or via an intermediary. They can be boxes that are filled to order or standard assortments of seasonal products. The boxes are usually picked up at regular intervals, sometimes on the farm or else at a more central location. Collective purchasing groups are groups of consumers who try to buy agricultural commodities, whether raw or processed, from farmers together. It should also be pointed out that the Internet is playing an increasingly important role in the development of these various schemes.

**Advantages of shortening the supply chain**

Aside from the increased share of added value that producers capture by cutting out middlemen (and by processing the produce themselves in some cases), shorter chains and direct marketing have a number of societal advantages, as follows:

— contributing to local job creation
— keeping the population in rural areas
— diversifying and increasing supply
— making use of local production and know-how
— changing public opinion in favour of local farmers
— increasing the rural sector’s market shares in the food supply chain and services
— boosting rural tourism
— reducing transport-related costs and pollution
— decreasing the farmers’ isolation
— and so on.

177) Note that in some cases, farmers are the only vendors allowed at farmers’ markets.
178) Currently rising thanks to the Internet.
179) The term dépôt-vente or ‘depot scheme’ is sometimes used as well in French-speaking countries. The boxes of produce must be picked up at a drop-off point (for example, at another farm, in a shop, or even in light railway (RER) stations in France).
180) They also include associations for the maintenance of smallholder agriculture, or AMAPs (Association pour le maintien d’une agriculture paysanne), in France.
181) These include groupes d’achat communs (GAC), sometimes also called groupes d’achat solidaires (GAS) or solidarity purchasing groups.
183) See in particular Aubry C., Kebir L. and Pasquier C., 2008.
Implementing conditions and constraints

One important condition and constraint on direct marketing or short supply chains is the availability of a workforce to conduct or be involved in the selling. When the sales are done on the farm, that means frequent interruptions in the farmwork per se. Direct sales at people’s homes or through markets impose the constraints of set journeys and timetables (little flexibility).

What is more, production, processing, and marketing are very different activities and a farmer’s mastery of all three ‘businesses’ cannot be taken for granted. When it comes to selling, farmers lack time and the necessary skills for showing their produce to best advantage, promoting their produce, and marketing. What is more, managing stocks of fresh produce is complex.

Investments are also required to package the produce, if needed, to process the produce, and to transport it to the point of sale (and to maintain the cold chain for certain perishables). When the produce is sold on the farm, a sales outlet or point of sale must also be set up. In addition, the facilities must meet the health standards in force, which are increasingly strict in the EU, and complying with the standards calls for investments that are often too costly for those who produce small volumes only.

Another vital condition for implementing direct marketing or short supply chains is the existence of enough of a demand for the farm products. As a rule, if demand is high and the supply is relatively low, individual initiatives can persist. If, on the other hand, demand is tight and the supply is abundant, the limits of individual initiatives will soon become apparent: Large amounts of time are invested for meagre sales and only some of the harvest can be sold through direct marketing and short supply chains. Selling directly or through short supply chains thus requires a sufficiently large number of consumers who want farm products and are ready to go to the points of sale. Competition with other distribution channels, especially with the major retail outlets and their diversified product ranges, is stiff, all the more so as the latter propose local products or specialities that compete directly with farm products.

In this connection, diversifying the supply around structured points of sale can offer good prospects for selling through short supply chains. This entails the farmers’ forming an association in order to pool their supply (a form of collective marketing). Such an association can also help to reduce the labour and investment requirements that selling through a short supply chain ordinarily entails.

Examples of short supply chains in Belgium

The Agrisain and Coprosain cooperatives in Hainaut Province (Walloon Region)

The founding aim of the Agrisain cooperative, to which some forty farmers in Wallonia currently belong, is to enable small farms to exist in the region and to create jobs in rural areas. This grouping of farmers, which arose in the mid-1970s, is now an integral part of a second market cooperative, Coprosain, which was created subsequently. Coprosain is in charge of marketing the products that Agrisain’s member farmers produce.

Agrisain’s member supply the cooperative with the following products: meat, coldcuts, broilers, guinea hens, duck, young pigeons, turkeys (and roast turkey), rabbits, dairy products (milk, buttermilk, butter, quark, and yoghurt), cheese (Gouda, Camembert, blue,
Choosing the right strategies for increasing farmers’ market power

Strategies for increasing farmers’ market power

Comté, goat’s milk cheese, etc.), fruit and vegetables, and bread (yeast dough, sourdough, wheat-flour, rye, spelt, and so on). Some of the members channel up to 90% of their output through the cooperative.

The products, after being packaged and possibly processed by Agrisain’s member farmers, are then marketed by Coprosain, which also has a meat cutting room, two delicatessen rooms, a cooking and catering room, and various refrigerators and cold rooms for fresh products. The members’ products are sold in three shops (in 3 cities: Ath, Braine-l’Alleud, and Mons), as well as at various local markets in Brussels and the Walloon Region.

Some of the products (amongst the milk products and cheeses, fruit and vegetables, and baked goods) are produced under the organic label whilst another part of the fruit and vegetables come from farm that practice ‘integrated pest management’ (IPM). Generally speaking, the cooperative wants all of its products to come from ‘sustainable’ cropping schemes that guarantee ‘health and flavour’, ‘combined animal husbandry and cropping’, ‘and have chosen to prefer artisanal know-how to intensive and industrial production techniques’.

The Agrisain and Coprosain cooperatives explain their choice to defend ‘sustainable, family, peasant farms’ by the fact that it is a production model in which ‘plant crops and animal husbandry are necessarily closely linked’ in order to ‘ensure artisanal natural production’. They also justify their opposition to ‘production shops of 2,000 pigs fed by livestock feed companies’ by the fact that, in some cases, ‘the producer controls nothing and follows orders over which he has no say’ 186.

This positioning explains why Agrisain’s member farmers want to control the marketing of their products through direct sales in the cooperative’s shops and at markets via a marketing cooperative over which they have sufficient control. Processing their products on the farm ties in well with this strategy, as well as with that of job creation, especially the creation of jobs on the family farms. They would like, moreover, to establish direct, privileged relations between producers and consumers.

Farmers’ markets and the example of Han’s farmers’ market

In theory, farmers’ markets are open only to agricultural producers (farmers) to retail their raw commodities or farm-processed products. They are usually open as well to agricultural commodity processors who are rooted in the region that they serve. In the Walloon Region, only a small proportion of consumers patronise such markets, even though the markets’ potential to expand is great. Some markets are seasonal, linked to the holiday periods in places where tourists abound; some are even one-off and linked to certain festive events (local festivals, for example) or agricultural fairs (the fair at Libramont is doubtless the most widely known of this type in Wallonia).

The weekly farmers’ market held on Fridays in the village of Han 187 (municipality of Tintigny, Walloon Region) is an example of such markets. It brings together some thirty farmers from Gaume and the Belgian Ardenne, with many partners from the region and development projects involved as well.

---

Buyers’ groups and farm product boxes

Many initiatives have grown up around the idea of farm product boxes prepared by one or several farmers. They may be filled to order or available as set assortments of the season’s products. The box system can be initiated and organised by a producer or by consumers who have banded together to form buying or purchasing groups. The consumers pick up the boxes (whether standard or filled to order) at regular intervals, either at the farm or in an agreed place (usually one that is more centrally located than the farm) at moments in the week when the consumers have enough time to swing by.

Such initiatives have recently spread in Belgium. Just as an example, the panier malin (smart box) initiative was launched by a group of fourteen producers in a 35-km radius around the town of Jodoigne (Walloon Brabant province) in 2010. The group provides the area’s consumers with a range of some 200 local products. The consumers order their boxes over the Internet using an on-line catalogue and pick up their boxes once a week, at set times on set dates.

Short supply chain initiatives in the United Kingdom

Growing Communities

Growing Communities is a community-led organisation based in Hackney (London). Its motto is ‘taking back our food system’. This independent initiative believes, ‘...if we are to create the sustainable resilient food systems that will see us through the challenges ahead, we need to work together to take our food system back from the supermarkets and agribusiness and put the power back where it should be: with communities and farmers’.

Over the more than ten years that this project has existed, it has set up a fruit and vegetables box scheme, a farmers’ market, urban market gardens, training for apprentice growers and volunteers, and a ‘patchwork farm’ composed of micro-sites in and around Hackney. The most successful components of the scheme to date have been the food boxes, farmers’ markets, and urban market gardens.

— The farmers’ market is manned by local growers and gives them an outlet for their produce, provided that they adhere to Growing Communities’ strict rules. The market also enables local growers to interact with each other and to share their ideas and cropping experiences. There is nevertheless a physical limit to the number of stalls available in the marketplace and thus the number of growers who may sell their produce there.
— The box scheme now supplies fruit and vegetables to more than 520 households in Hackney, and Growing Communities estimates that the box scheme and market combined provide sustainably produced food to more than 3,000 people each week. The project has broader impacts in terms of social integration, since 33% of the people participating in the food box scheme rank themselves as low-income. What is more, discounts are given to old-age pensioners. It should also be pointed out that the Stoke Newington Farmers’ Market was the first farmers’ market in London to accept Healthy Start vouchers (a government scheme of food vouchers distributed to families with pre-schoolers and pregnant women).
— The urban market gardens project aimed at supplying the urban markets with vegetables has been a great success. The main crop is lettuce, which then goes into the box scheme. This project has twenty part-time workers, relies on 120 volunteers, and

188) This project was supported by European Agricultural Fund for Rural Development’s Leader+ programme.
189) Source: Case study done by UK Food Group as part of the EuropAfrica project (see UK Food Group, 2010).
190) See: www.growingcommunities.org
has had more than 1,000 visitors to its sites each year. In 2009, the sale of products grown on a total surface area of 0.2 ha in Hackney generated some 10,000 pounds sterling.

**Eat Somerset**

The Eat Somerset project, which was coordinated by the Sustain network of some 100 national public interest organisations interested in food or farming issues from 2006 to 2009, worked to step up exchanges between producers’ groups in Somerset and independent food retailers in the country, as well as to create new markets in Bristol and Bath. The Eat Somerset project was based on the principle that improving local outlets for Somerset’s produce would contribute to sustainable development in a number of ways, namely,

— by reducing food miles and associated environmental damage;
— by increasing local producers’ incomes;
— by improving sales and marketing opportunities for retailers who provide retail services to communities close to where they live; and
— by improving consumers’ access to fresher, high quality food.

Eat Somerset supported retailers by, amongst other things, putting together a local food directory to enable them to source local products easily. What is more, distribution issues were tackled through a workshop on the subject and a pilot distribution coordination project.

To boost the production of fruit and vegetables for public sector food catering services in the south-west of England (e.g., for schools, nursing homes, and hospitals), markets were set up (‘Meet the Buyers’ markets) to foster contacts between buyers and suppliers.

**North Aston Dairy’s grass-fed herd (micro-dairies)**

North Aston Dairy produces organic milk from fifteen traditional Ayrshire cows on about 16 ha (40 acres) of clover-rich pasture that accounts for the bulk of their diet eight months of the year. In winter their feed is mostly haylage and rolled oats, supplemented with protein and minerals. The farm assures one full-time job and by paring down costs to a minimum – mainly through the use of second-hand equipment – and selling direct to customers, the farmer manages to make a reasonable living.

Most of the milk is simply pasteurised, put in one-litre glass bottles, and sold directly to local customers. Some of the customers have purchased shares in the farm (or an individual cow), which entitles them to a certain amount of milk. The milk is delivered twice a week to homes located for the most part a couple of miles (3-5 km) from the farm. Part of the milk is also sold on the local farmers’ markets, on the condition that the buyer promises to buy veal from the bull calves born to the herd.

The system that North Aston Dairy developed is driven by several considerations linked to keeping herds on natural pastures, *i.e.*, the production of high quality milk and the range-fed dairy herd’s better health compared with the high-yielding Holsteins that make up the bulk of the nation’s dairy herd. Dairy farmers are finding that they can make a living from just a few cows, provided that they sell locally and directly to consumers.

---

191 See: [www.sustainweb.org/eatsomerset](http://www.sustainweb.org/eatsomerset)

192 See: [www.grassrootsfood.co.uk/realmilk.html](http://www.grassrootsfood.co.uk/realmilk.html)
Instruments put to the test

 Whilst conventional dairy farms are continuing to go for ever larger and larger herds, North Aston Dairy is one of a handful of ‘micro-dairies’ now springing up all over Britain. They are finding a keen demand for locally-produced high-quality milk and their creation is stimulated by, amongst other things, the conditions that are throttling large-scale milk producers, i.e., crippling capital costs and the low prices that supermarkets are paying. In addition, such pasture-based systems give newcomers a change to get started in milk production.

Community supported agriculture 193

The Soil Association’s ‘Community Supported Agriculture’ project is a partnership between farmers and the local community that helps local farms by encouraging the community to give them financial support. The people who provide support for a farm become members of a community. They make a commitment to give financial support for a growing season via weekly, monthly, or yearly payments. In exchange, they get a share of the supported farm’s output. The risks, benefits, and rewards of farming are thus shared by the farmer and community members.

The Soil Association’s website provides information on its CSA pages to help new initiatives get started. This information includes a CSA action manual, case studies, and a large number of very specific examples. Regional employees give groups that wish to start up new initiatives advice and assistance and help them find land and interested farmers or growers. To be able to provide constant support, they establish training and information exchanges with other initiatives.

Stroud Community Agriculture is one such CSA. After six years, this Soil Association-supported initiative is renting 50 acres (or 20.2345 hectares) of land and employs two full-time farmers/growers. It provides vegetables and meat to 189 households and is now making enough profit to pay a bonus to its farmers/growers.

Short supply chain initiatives in Italy 194

In Rome, the first short supply chain experiences came out of the desire to have a place where small farmers, craftsmen, and critical consumers from the urban area could exchange information, ideas, and experiences. It also came out of the conviction that those who worked the land and produced food had to be able to have their say in the food supply chain and do so in conjunction with consumers.

These experiences led these players to organise and to develop alternative market and economic models. An example is given below, that of the farmers’ markets set up in Rome. It should be noted that the special configuration of the country’s agricultural sector was conducive to the development of ‘solidarity’ (or ethical) purchasing groups (groupements d’achat solidaires), in which Italy has pioneered over the past twenty years (Rome’s first ‘solidarity purchasing group’ celebrated its twentieth birthday in 2009).

Farmers’ markets in Rome: The self-certified organic market in La Torre and the Terra/Terra farmers’ market

Farmers’ markets in Italy are regulated by a public decree published in issue 301 of the Official Journal on 29 December 2007.

The organic self-certified farmers’ market La Torre was set up to rediscover farm flavours through direct encounters between producers and consumers. Its stalls offer fruit, vegetables, honey, bottled and tinned produce, artisanal products, salt meats, bread, cheese, wine, and so on. All of the products are self-certified and the prices paid to the producers (source prices) are shown, along with the possibility of knowing immediately who produced the food.

Terra/Terra is a farmers’ market comprising twelve stands. Most of its vendors are organic producers. They come from all over Latium and sell fruit and vegetables, cheese, soap, bulk detergents, wine, oil, and honey. The organisers always have an educational stand on responsible consumption and laboratories on specific subjects on hand.

The 0 km law

The Regional Council of Venice has issued draft legislation (pdl 225) stemming from a proposal made by Coldiretti Venetia and backed by 25,000 consumers that has been dubbed the ‘0 km law’. It is the first regional rule on the Italian peninsula to require that preference be given to regional products in institutional cafeterias, restaurants, and big retail chains’ procurement policies (2008).

The advocates of ‘0 km foods’ are also calling for more space for local produce in shopping centres and public markets, as this would cut down on the amount of fuel used for transport, simplify procedures, and provide unique guarantees of freshness, given that the produce would be spared the long travel times to which imported products are subjected.

Short supply chain initiatives in Hungary

The Wine Cellar Tour is an example of direct marketing in Hungary that was set up by the Chamber of Agriculture of Bács-Kiskun County. The project’s aim is to increase rural and farm tourism by boosting direct sales by local producers.

A website enables producers to sell their produce directly, provided that they comply with the site’s terms of sale. It gives these producers (who produce vegetables, fruit, organic produce, milk, dairy products, honey, pork, poultry, rabbits, eggs, fish, pickled vegetables, wild products, mushrooms, and so on) to expand their markets.

The website helps consumers to find farmers selling the products they want. Parts of the site are devoted to presentations of the farms, including their locations and activities. However, the products cannot be bought over the Internet. The website presents a total of 95 farmers and 129 products.

This programme also includes joint sales promotion and communication campaigns to boost the participating producers’ business. Training courses are also held to familiarise the producers with food quality guarantees and rules of hygiene.

III. Changing strategies with changing political contexts

Developments in the European Union

The instruments that increased farmers’ market power in the golden fifties and sixties

After World War II, European agriculture, which had been decimated by the years of fighting on the European continent, benefited less from technical innovations than the other economic sectors did, and the industrial sector in particular. The situation of Europe’s agricultural sector could also be contrasted with that of the United States, where agriculture was strongly stimulated during the war years. Although European agricultural production systems continued to occupy a large part of the working-age population, albeit with marked differences between countries, they were characterised by lower productivity. As a result, agriculture was less and less able to meet the growing demand for agricultural commodities that was stimulated by various post-war trends: the demographic boom, higher incomes, and rising demand from the agri-food industry, which was in full swing in Europe. In contrast, U.S. agriculture was reaping the benefits of decades of major technical innovations and was also supported by farm policies that stimulated agricultural productivity and thus increased the quantities produced. This gap explains the gradual rise in exports of North American commodities towards Europe in the post-war period. This phenomenon was stimulated in addition by the Marshall Plan set up to support Europe’s reconstruction.

In this context, which was also marked by the trauma of hunger that had deeply affected Europeans during the war and by the wish to bolster national food sovereignty—which was considered to be strategic—, and under the still very present influence of Keynesian theories, the founding members of the European Union set up a common agricultural policy. This policy was drawn up in line with the spirit of the time, which expected governments to play a major role in supporting economic growth, in this case applied to agriculture and the sectors upstream (inputs and machinery) and downstream (processing and selling of agricultural products) from it. Moreover, this vision of the government’s role in economic development was shared by a large number of countries in Europe and on other continents.

Maurice Doyon 196 effectively points out that a series of countries adopted legislation allowing joint agricultural commodity marketing plans starting in the 1920s. It includes New Zealand (1921), Australia (1926), England (1931), Canada (1927-34), the United States, and the Netherlands (1950). According to Doyon, this development took place in a context in which ‘farmers unions had ascertained some limits on the cooperative movements’ abilities to organise the release of agricultural commodities on the market (impact limited to the cooperative’s members and legislative limits on their bargaining power and obligation to negotiate) and thus wanted a legislative framework that would enable them to take the organised market release of agricultural commodities further’ 197.

Although the governments of the industrialised countries had started to promote more liberalisation under the General Agreement on Tariffs and Trade (GATT), this movement did...
not target agriculture in particular. However, this did not obviate the need to negotiate and grant ‘compensation’ for the implementation of a protectionist European agricultural policy. This applied in particular to the United States, with compensation taking the form of zero-rate import duties on animal feeds.

The instruments that the EU’s founding fathers set up were above all market regulation instruments, designed to ensure prices that would cover European production costs. Agricultural productivity was strongly stimulated by both the guaranteed prices (which did not depend on production volumes) and the structural reforms that were instated. The schemes that were then set up were characterised by their effectiveness (variable duties, guaranteed prices, intervention mechanisms, etc.); they were the embodiment of a strong vision of regulation.

As agricultural production rose in the EU, going well beyond the European population’s needs for certain commodities, supply management schemes that were entirely managed by the public authorities were added in the surplus-producing sectors. These schemes consisted of production quotas (for milk and sugar), set-aside plans, restrictions on the herd size per hectare, and so on.

In such a situation of guaranteed prices, whether it was during the period in which the prices were guaranteed regardless of the quantities produced or during the period in which certain crops were limited by producer and by country, the producers’ need to organise supply management or collective market release themselves, or even to turn to contract farming, was very limited. These practices were even made difficult or impossible in this context. And this remained true even though the guaranteed prices (which were declining over the period as a whole) were sometimes deemed insufficient by the farmers, especially by those who did not have the means to invest in increasing the scale or productivity of their operations.

On the other hand, some farmers who did not have the necessary funds to invest or did not want to take this risk sometimes used other instruments to increase their market power. This included organising direct marketing and taking part in short supply chains.

**Instruments to increase farmers’ market power in a context of liberalisation**

After the energy and economic crises of the 1970s, the advocates of liberalisation gained ground and the agricultural policies that the European Union had conducted since its inception came up against new restrictions (with the EU participating fully in their implementation) that targeted agriculture in particular with the Agreement on Agriculture that came out of the GATT Uruguay Round (1986-92).

The first reform of the EU’s CAP effectively took place in 1992. It marked the start of a cycle of reforms – those of 1999 (Agenda 2000), 2003, 2008 (CAP health check), and 2013 – that led to the almost complete destructuring of the EU’s market regulation and supply management instruments. At the end of the day, these various reforms, along with the advent of EPAs in the Cotonou agreements, were justified by the need to eliminate inconsistencies between EU policies and WTO rules.

Agricultural commodity prices declined over this period, but this decline was offset, at least in part, by income support measures for farmers (which comply with WTO rules).

---

198) The resulting problem of surpluses was exacerbated by the consequences of the 1966 U.S.-EU agreement within the GATT that imposed zero-rate duties on animal feeds imported by the EU.

199) This harmonisation was at first denied, especially during the 1992 reform.
When it comes to supply management, decisions were taken in the new outlook for the EU’s CAP that disrupted the various market regulation schemes, especially the quota schemes.

The sugar quotas were the first to be targeted. Even though the quotas will not be dismantled in the immediate future\textsuperscript{200}, the new rules that the Commission set in 2006 impose a reform of the scheme (including the sugar protocol\textsuperscript{201}) that does away with many of its merits. We are in a situation in which the price of sugar is being reduced drastically (down 36\% in 2009/2010 compared with the average price for 2006-2008) until it is phased out, but accompanied by sharp drops in the production levels linked to increases in import quotas and a threefold increase in the number of countries eligible for preferential trade relations with the EU. One of the aims is effectively to limit sugar production to levels below the EU’s internal market demand so as to allow sugar to be imported under the ‘everything but arms’\textsuperscript{202} commitment and to reduce subsidised sugar exports.

The negative consequences of these developments on producers in the ACP (and a few other) countries are not negligible, given that the prices they got for their sugar exports to the EU under these quotas corresponded to the higher price levels paid to the EU’s producers.

When it comes to the milk sector, the quotas are scheduled to be phased out by 2014.

The deregulation of the various agricultural sectors in Europe and the end of effective quota management schemes, even though this is partially offset by income support, will create new problems. First of all, the past few years have been marked by an increase in agricultural price volatility induced notably by the general trend toward liberalising the agricultural sector and the rise in speculative trading in agricultural commodities. Next, the growing concentration of buyers of agricultural goods in the agri-food area is reducing farmers’ market power. The latter find themselves isolated and weak in the face of the considerable market power exerted by a small number of dominant operators. It thus seems that agricultural market regulation is being dismantled at the very moment that it is most indispensable to stabilise the markets and to help increase farmers’ market power.

As these reforms dig deeper, some sectors are going to be plunged in a profound crisis, as shown by the first case of the milk sector in 2008 and 2009 in particular. Although milk quotas are scheduled to be phased out in 2014, the levels of the quotas were raised in 2009 already, at a time when proper management of the scheme would have called for reducing their levels.

More generally, many researchers, NGOs, agricultural professional organisations, and other organisations of civil society have been warning European decision-makers for years about the dangers of continuing a policy of deregulation that has punched the agricultural sector in the solar plexus. They argue that regulatory instruments must be maintained to ensure that the agricultural sector is able to continue playing the various roles expected of it by decision-makers and ordinary citizens, namely, to provide foodstuffs, to contribute to food security, to manage rural areas and natural resources, to do their bit to counter climate change (adaptation and mitigation), and so on. Until now little attention has been paid to these warnings, but since the food price crisis of 2008, followed by other crises (energy, climate, financial, economic, etc.), they have become a little more audible.

\textsuperscript{200} The European Commission is expected to present its proposal to phase out sugar quotas by 2016 in 2011.
\textsuperscript{201} See ‘The sugar quota scheme’ in the examples of ‘Supply management within Europe’s CAP’ above.
\textsuperscript{202} With ‘everything but arms’, the EU has decided not to raise customs duties on imports from the LDCs, with the exception of weapons.
Does the context that has developed since the (food and other) crises of 2008 and subsequent years make it possible to use other instruments to increase farmers’ market power?

The global food crisis of 2008 and European milk crisis of 2008/09 triggered a much broader debate within the European Council on the need to regulate the European agricultural sector and the need to bolster farmers’ market power in a context of crisis and at a time when the CAP reforms were expected to move a notch forward. However, even though a fairly large majority (more than twenty Member States) was in favour of regulation, views on what regulation meant were very diverse, with a majority of Member States backing a ‘light’ version. The Commission nevertheless put forward proposals in 2010 and 2011 to help the milk sector cope with its difficulties based on the findings of a high level experts group’s study. The proposals sought in particular to facilitate collective marketing through the establishment of exceptions to European competition rules. The Commission also presented proposals to promote contract farming arrangements for the sale of various agricultural products.

This is the context in which some dairy farmers also turned to selling under labels such as *Fairebel* and *Bande des félait* in Belgium.

Developments in Africa

The State at the hub of development, resurrection of the slave economy, and the importance of models from the North

At the time of their decolonisation, the new African States inherited the economic structures that the colonial powers had set up in pursuing their own agendas. At the heart of these agendas, we find first and foremost supplying the colonial powers back home with raw materials (mineral resources, oil, etc.) and agricultural commodities (crops, timber, animal products, etc.). This applies to most of the countries that gained independence, regardless of the countries’ singularities and the various colonial management models implemented in the economic sector.

In many cases, the leaders who came to power in these countries combined the continuation of the economic strategies initiated by the colonial powers with the establishment of new orientations that were supposed to contribute to their countries’ development. These new orientations were drawn up in particular to give each specific country economic structures that revolved around the production of goods required to ensure the population’s well-being on the one hand and the country’s general economic development (that of industry, agriculture, mining, etc.), which was indispensable for the country’s modernisation. The concepts that were popular at the time include the strategy of *import substitution* as the foundation of industrialisation and *self-centred development*.

203) See: ‘The European Commission’s proposals regarding collective marketing in the milk sector’ in the part on collective marketing. It shows in particular the important roles of State governance and producers’ organisations.

204) See: ‘Contract farming in various parts of the world’ in the chapter on contract farming.

205) See: ‘A collective marketing initiative in Belgium: the Faircoop cooperative’ in the part on collective marketing, along with ‘Labels in Belgium, Examples of organic production and fair trade products’ in the chapter on product differentiation.

206) See above, ‘Labels in Belgium’.
However, it is just as clear that the role of driving this development process fell upon the State, and this was true as much for regimes that advocated economic liberalism (in which case the authorities confined themselves to attracting appropriate investors) as for those that relied on planned economy models (in which centralised planning was the rule).

In this context, the State was usually heavily involved in the agricultural sector, especially by supervising the peasants (supplying inputs, marketing harvests, providing extension services, etc.), who, without this direction, would have turned more readily towards subsistence crops rather than export crops.

In this context, market regulation schemes flourished, especially collective marketing schemes. The farmers, for their part, usually had no possibility to organise on their own and were ‘enrolled’ in the cooperative scheme that was set up by the State, whilst specifically peasant organisations were not recognised. Since these systems were managed according to State interests, they gave producers little or no additional market power. On the other hand, the producers had guaranteed markets, to a certain extent, for their products, even if they were to be bought at terms set by State agencies, which were criticised in particular for giving priority to industrial development to the detriment of the agricultural sector.

The explosion of state debt and the era of economic adjustments

In the economies inspired by development models in which the State played a major guiding role, success was not necessarily on the cards, even though various factors other than the model itself, e.g., corruption, poor management, embezzlement, budgetary imbalances, etc., often contributed to their failure. However, regardless of their success or failure, the emergence of structural factors and the world leaders’ new policy directions led the reference development models’ to be called into question. The State’s structural economic imbalances and the increasing government debt levels that generally followed were primary factors in this development. Under pressure from donors, the Bretton Woods institutions imposed austerity policies, as part of structural adjustment programmes, on the leaders of these States in exchange for debt repayment facilities (extending the repayment periods and, more rarely, debt cancellation). These adjustments played a key role in the disappearance of the development models that that dominated until then. The States were effectively urged to cut government spending drastically, to turn their economies toward exporting, and to reduce their roles in the working of their economies.

This is the context, which came to be known as State disengagement, in which new possibilities for producers to organise developed, especially to take over the functions that the State abandoned. The leaders of the industrialised countries and the EU’s insistence on ‘good governance’ also contributed, in some cases, to a climate of greater political openness that facilitated the formation of producers’ organisations.

Where the States had given up organising certain aspects of the markets, producers’ organisations took over, mainly in the area of collective marketing by the members of a producers’ cooperative or federation. Similarly, contract farming experiences developed under these same conditions.

Whilst the notion of short supply chains is less relevant in Africa, labels began popping up. It is important to note that most of them were created to underscore the ethics of a chain, and more recently to highlight sustainability, and until now have basically been NGO initiatives. We can add that, to date, the proportion of agricultural production concerned by these labels remains extremely small.

207) With exceptions, such as for the ‘Galmi violet’ onion.
Does a new context make the use of other instruments possible?

The 2008 food price crisis triggered new awareness of various issues, including amongst the leaders of the Southern countries, who in particular became conscious of how fragile their power was.

Awareness was triggered as to:

— the risks associated with abandoning agriculture;
— the risks of scarcities (all the more so in that new findings came to light: the risks associated with climate change, increased demand for biofuels, the spread of the industrialised countries’ food consumption patterns, large-scale encroachment of the land, the rising global population, and so on);
— dependence on global market conditions (over which leaders in the South have no or little control), which is especially dramatic for countries that are largely dependent on food imports;
— the link between price levels and instability on the one hand and food security on the other;
— the increased volatility of food prices;
— the importance of a balance between food prices and farmers’ incomes;
— the need to increase production in the future, but also to reinforce food security; and
— the way this increase should be achieved in order to reinforce food security, that is, by allowing smallholders (family farms and peasant farmers) to contribute to this increase.

Consequently, voices were heard challenging the policies that caused food security to rely basically on access to the global market and the abandonment of the agricultural sector in countries that were steadily becoming more and more dependent on imports.

The new context that has followed the 2008 price crisis, increased agricultural commodity price volatility, and a certain challenging of development models that do not include the most marginalised food producers (amongst whom we find the bulk of the people with precarious food supplies) gives hope of a new age of agricultural development policies and a new legitimisation of market regulation instruments.
IV. Elements of a conclusion

Comparative analysis of the strategies

Several things must be considered when it comes to comparing the strategies presented in this publication in order to envision their complementarity. First, these strategies appear to focus on either the competitive relations between producers or producers’ negotiating positions vis-à-vis the operators who buy their products. Next, one must consider the strategies’ scopes. Some strategies basically concern individuals or a small group of producers, whereas others are collective and can involve the entire set of producers. Consequently, the strategies taken up in this publication can be split into two large groups: one group of strategies with limited scope and aimed at changing today’s competitive relations between producers, and another group of strategies concerning the entire set of producers and aimed at changing their positions in negotiating with their buyers.

Strategies with limited scope that affect competitive relations between producers

Product differentiation and the shortening of the supply chain, which are strategies based on market segmentation, are aimed at positioning producers differently with regard to competition from other producers rather than restoring the balance of power in dealing with buyers. In the case of direct marketing, however, the producer in principle finds her/himself face to face with the end user (the final consumer), which can help rebalance the parties’ respective negotiating abilities and even tilt the balance in the producer’s favour.

Moreover, these two strategies have limited scope in that they cannot help to improve the market power of producers as a group. The reasons are that, on the one hand, they concern only certain categories of product and, on the other hand, they depend on a demand that remains limited to the consumers who are ready to pay more for their products and/or to change their buying and consumption habits. Whilst this demand is rising in Europe, one cannot reasonably assume that it will spread to all consumers in the medium term, and even less so in poor countries, nor will it be embraced by all producers.

Collective strategies that change the negotiating relationship with buyers

Here, in contrast, the strategies aimed at improving producers’ market power vis-à-vis their buyers’ strong positions are essentially collective strategies. The idea is to manage the supply and market their produce collectively. Special attention should be paid to these strategies, since they are likely to concern all producers as a group on the hand but reinforce the effectiveness of individual strategies on the other hand.

Complementarity between collective and individual strategies

Collective and individual strategies can thus be complementary. Indeed, if one considers collective marketing, several examples reveal how important it is in waging individual strategies:

— When produce is marketed in ‘conventional’ networks (as opposed to short supply chains), the share of added value captured by farmers through product differentiation depends on the producers’ negotiating strength, which is improved by collective marketing.
— The pooling of production enables farmers engaged in short supply chains to increase their supply.
— Contract farming increases the farmer’s market power only if collective bargaining over the terms of the contracts is possible.

It should also be recalled that pressure on prices due to a surplus supply and/or imports is a basic constraint that undermines farmers’ market power. For this reason, supply management, necessarily combined with safeguards against imports, remains a must.

A combination of collective and individual strategies is thus possible and beneficial for farmers. However, care must be taken to avoid having the individual path overshadow the collective path and prevent analysis of the market’s own shortcomings.

**Farmers and public authorities’ involvement**

Improving farmers’ market power also depends on the farmers and public authorities’ involvement in the various strategies implementation. Indeed, even though the strategies taken up in this publication have distinct aims and a variety of implementation patterns and implications, they have one thing in common, namely, the fact that they can be implemented by the farmers, provided that they are supported by the public authorities to various degrees, depending on the case. That is why it is important to recall the roles that farmers and the public authorities must play to ensure the above-mentioned instruments’ smooth functioning. These roles are summarised in Table 4. Two things are primordial in this respect, namely, the farmers’ ability to organise and government action.

---

208) Regardless of the merits of collective strategies, one must nevertheless take account of the feasibility of implementing the diverse strategies, which is determined by the place and historical period in which the farmers are situated, amongst other things.
Table 4. Implementing strategies: implications for producers and public authorities

<table>
<thead>
<tr>
<th>Principle</th>
<th>Farmers’ advantage(s)</th>
<th>Implications for farmers</th>
<th>Implications for the public authorities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply management</strong></td>
<td>Matching supply to demand</td>
<td>• Production discipline</td>
<td>• Border protection mechanisms</td>
</tr>
<tr>
<td></td>
<td>• Domestic market prices adjusted to a desired level</td>
<td>• Organisation of producers</td>
<td>• Legislation/regulations permitting production discipline to be imposed</td>
</tr>
<tr>
<td></td>
<td>• Price stabilisation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Collective marketing</strong></td>
<td>Collective organisation of sales</td>
<td>• Organisation of producers</td>
<td>• Legislation permitting collective bargaining</td>
</tr>
<tr>
<td></td>
<td>• Better sales price (improved bargaining power and possibly profit margin)</td>
<td>• Access to credit</td>
<td>• Mechanisms to avoid pressure on prices due to a supply glut and/or low-priced imports</td>
</tr>
<tr>
<td></td>
<td>• Improved market access</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Contract farming</strong></td>
<td>Formal purchasing and sales promises</td>
<td>• Collective negotiation of contracts</td>
<td>• State supervision of contracts’ drafting</td>
</tr>
<tr>
<td></td>
<td>• Reduced sales risks (improved predictability)</td>
<td>• Clause on prices</td>
<td>• Price transparency (observatory)</td>
</tr>
<tr>
<td></td>
<td>• Income stabilisation in the case of medium- and long-term contracts</td>
<td>• Farmers’ abilities to understand the terms</td>
<td></td>
</tr>
<tr>
<td><strong>Product differentiation</strong></td>
<td>Creation of a niche</td>
<td>• Collective bargaining if sold through a long supply chain</td>
<td>• Protection of names</td>
</tr>
<tr>
<td></td>
<td>• Higher prices paid for labelled products</td>
<td>• Control over processing and sales if sold through a short supply chain</td>
<td>• Promotion of labels to boost the supply</td>
</tr>
<tr>
<td></td>
<td>• Income diversification</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Shortening the supply chain</strong></td>
<td>Selling to consumers via fewer intermediaries</td>
<td>• Producer organisation</td>
<td>• Adjustment of health standards</td>
</tr>
<tr>
<td></td>
<td>• A larger share of the value added captured</td>
<td>• Investment of time and money in marketing</td>
<td>• Promotion of local products to boost the supply</td>
</tr>
<tr>
<td></td>
<td>• Diversification of income</td>
<td></td>
<td>• Infrastructure facilitating sales via fewer intermediaries</td>
</tr>
</tbody>
</table>
Producers’ organisation

Whatever the strategy considered, collective action is decisive in improving producers’ market power, as Table 4 shows. Robust, independent organisations of producers are thus vital for implementing collective instruments such as collective marketing and supply management (through real involvement on both the operational level and in policy and business negotiations) and make it possible to ensure that whatever instrument is used actually does allow one to serve the producers’ interests. What is more, organising can facilitate the implementation of individual instruments and provide a certain number of economic or supervisory services that reinforce the producers’ abilities and, thus more indirectly, their market power. Examples of this are supervision and training or involvement in credit schemes. Finally, producers’ organisations have an important role to play in setting agricultural policies. Producers’ organisations have asserted achieved recognition as social partners in a number of countries and represent producers in various negotiations. They also have a major role to play when it comes to inter-branch agreements involving producers, processors, and distributors.

Farmers’ organisations are still relatively weak in developing countries, but their roles and degree of organisation are tending to rise. State disengagement as a result of structural adjustment policies left a large vacuum that these organisations have partially filled, as best they can. They do not claim to be rooted in a non-existent past, for many countries set up cooperative schemes as soon as they became independent, whilst more autonomous organisations, many of which, moreover, were often supported by non-governmental organisations, also got on board. The problems that these organisations must tackle are many and vast: structuring the organisations and reinforcing their capacities, internal oversight over the organisations by their members, relations with government authorities regarding agricultural policies, services and economic activities in favour of farmers, and so on.

Government action

As Table 4 shows, government action also plays a decisive part in the implementation and effectiveness of the above-mentioned strategies. Indeed, even if it is little involved in the operational organisation of production, the State is omnipresent in economic activities and makes use of its own prerogatives therein. So, the State is involved in measures at its borders, competition rules, various incentives such as subsidy rates, the laws governing lending institutions, market supervision, transparency rules, the building of infrastructure, consumer protection, and so on. Very few matters are not concerned by regulations and economic policies.

When it comes to supply management, government involvement is usually indispensable, even when supply management has been initiated and put in place by producers, in order to ensure market protection at the country’s borders, which is vital if the system is to function well. Other aspects of supply management can also involve the public authorities so as to ensure the system’s long-term viability. That is the case, for example, when supply management is made mandatory for all producers, thereby avoiding opportunistic behaviour.

When it comes to collective marketing, we have seen that an important restriction on negotiating and collective marketing comes from the enforcement of competition rules decreed in the name of the principle of free competition. And yet, the presence of oligopolies, even of monopolies, opposite isolated farmers with market power leads one to question the relevance of such competition rules when they apply to farmers.
State intervention can also be important on other levels. That is the case for **contract farming** (providing guidance and ensuring price transparency); for **labels** (protecting designations, promoting labels to boost the supply of local products, organising various labelling schemes in order to clarify things for consumers, and adapting health standards to the specific situations of farm products); and for **short supply chains** (creating infrastructure to serve local vending).

To wrap up, let us not forget that the markets themselves require broad state intervention, whereas the current trend is one of withdrawal. The rise in agricultural price volatility, skyrocketing speculation, the virtualisation of transactions, and, more fundamentally, agricultural markets’ intrinsic inability to regulate themselves call for renewed State intervention. Entire swathes of agriculture and entire regions can be ruined by uncontrolled markets’ convulsive movements. That is where extensive work must be done to get people to accept that agricultural commodity markets in particular are public assets and require an active policy with a full set of teeth.
Choosing the right strategies for increasing farmers’ market power

Bibliography

Articles and Books


European Court of Auditors, 2009. Have the management instruments applied to the market in milk and milk products achieved their main objectives? Special Report No 14/2009, Luxembourg.


Kroll J.C., 2010. Talk at the conference ‘CAP 2013 – Reshaping the CAP to respond to the European and international challenges of our times’ held in Brussels on 27 October 2010 by the European Coordination of Via campesina (ECVC).


**Case studies by EuropAfrica partners**

**CROCEVIA**


**UK Food Group**


**ROPPA**

EAFF


Report of the europafrique seminar ‘Increasing the market power of agricultural producers. Instruments and constraints’


EuropAfrica Publication (year 1)

The EuropAfrica Programme

The EuropAfrica Consortium, which was launched in 2005, brings together a series of subregional platforms of African farmers’ organisations and European NGOs around an information, awareness-raising, and advocacy campaign.

The Consortium’s first programme (2005-2007), which involved the West African platform of farmers’ organisations and agricultural producers, ROPPA, was aimed at making European civil society aware of agri-food and trade policies’ impacts on food security and the development of agriculture in Africa and Europe, at informing decision-makers of these aspects, and at promoting a partnership based on the principles of sustainability between West African farmers’ organisations and European civil society organisations.

This publication came out of the consortium’s second programme. EuropAfrica’s second programme was conducted from 2008 to 2010 and involved the following partners:

- five European NGOs and networks:
  - Terra Nuova, Italy
  - Collectif Stratégies Alimentaires, Belgium
  - Centro Internazionale Crocevia, Italy
  - Gruppo di Appoggio italiano al movimento contadino in Africa Occidentale (Italian Support Group for the West African peasant movement), Italy
  - UK Food Group, United Kingdom
  - GAIA Foundation, Hungary
- three sub-regional platforms of African farmers’ organisations:
  - ROPPA in West Africa
  - EAFF in East Africa
  - PROPAC in Central Africa.

For its second campaign, EuropAfrica set its sights on:

- raising European civil society’s awareness of agri-food and trade policies’ impacts on food security and agricultural development in Europe as well as in Africa;
- ensuring that politicians and local authorities have better knowledge of and pay great attention to food security and sovereignty;
- reinforcing farmers’ organisations roles in guiding agricultural and agri-food policies; and
- helping farmers in the North and South to forge alliances with each other and with the organisations of civil society.

The main theme of this campaign was regional integration of the main regions of Africa and Europe with a view to food sovereignty. This theme was subdivided into three strands, namely,

1) the roles of agricultural and agri-food policies in regional integration;
2) the promotion of domestic markets: increasing farmers’ market power and organising agricultural markets; and
3) sustainable rural development of the land: the local population’s access to and control over resources; production models.

This publication is the fruit of the think-tanks, debates, and research conducted around the second strand, which Collectif Stratégies Alimentaires coordinated.
Choosing the right strategies for increasing farmers’ market power

Glossary

AAA European Commission’s Advancing African Agriculture Programme
ACP Africa Caribbean Pacific
AgriCord Network of agri-agencies linked to the OECD countries’ farmers’ organisations
AIA Italian Breeders’ Association
AIMA Azienda di stato per gli interventi nel mondo agricolo (State Agricultural Intervention Agency), Italy
AMAP Association de maintien de l’agriculture paysanne (Association for the maintenance of smallholder agriculture)
APO Agricultural professional organisation
ASBL French abbreviation for ‘not-for-profit association’
ASPRODEB Association sénégalaise pour la promotion des petits projets de développement à la base (Senegalese association for the promotion of small grass-roots development projects)
AZOOLAT Associazione zootecnica produttori di latte (Italian dairy farmers’ animal husbandry association)
CAADP Comprehensive African Agricultural Development Program
CAIT Complexe agroindustriel de Touba (Touba Agro-industrial Complex), Senegal
CAP Common Agricultural Policy (of the EU)
CCPA Cadre de Concertation des Producteurs d’Arachide (Groundnut Farmers’ Consultation Framework), Senegal
CEDEAO Communauté économique des Etats de l’Afrique occidentale (see ECOWAS)
CEJA European Council of Young Farmers
CFA Comprehensive Framework for Action (initiated by the United Nations’ HLTF)
CFS Committee on World Food Security
CMO Common market organization
COM Common organisation of the market – now ‘CMO’
CNCR Conseil National de Coopération et de Concertation des Ruraux (National Co-operation and Consultation Council for the Rural Population)
CNIA Comité national interprofessionnel de l’arachide (Inter-trade National Committee for Groundnuts), Senegal
CONCORD European NGO confederation for relief and development
COPA Committee of Professional Agricultural Organisations in the European Union
CRIOC Centre de recherche et d’information des organisations de consommateurs (Consumers’ Organisations’ Information and Research Centre), Brussels
CSA Collectif Stratégies Alimentaires (Food Strategies Collective)
CTA Technical Centre for Agricultural and Rural Co-operation (ACP-EU)
DC Developing country
DGD Directorate-General for Overseas Development (Belgium)
EAFF East African Farmers Federation
EC European Commission
ECOWAS Economic Community of West African States
EEC European Economic Community
EFSG CONCORD’s European Food Security Group
EPA Economic Partnership Agreement (between European Union and ACP countries)
Instruments put to the test

EU European Union
FAO Food and Agriculture Organisation (of the UN)
FCFA CFA (Communauté financière africaine) franc
FIWAP Fédération wallonne de la pomme de terre (Walloon Potato Federation)
FJA Fédération des Jeunes Agriculteurs de Wallonie (Wallonia’s Young Farmers’ Federation)
F0 Farmers’ organisation
FUGEA Fédération Unie des groupements d’éleveurs et d’agriculteurs (United Federation of Stock Farmers and Farmers’ Groups)
FUPRO Fédération des Unions de producteurs (Federation of Farmers’ Unions), Benin
FWA Fédération Wallonne de l’Agriculture (Walloon Agriculture Federation)
GAC Groupement d’achat commun (collective purchasing/buying group)
GAFSP The World Bank’s Global Agricultural Food Security Programme
GAS Groupement d’achat solidaire (FR), Gruppo di Aquisito Solidale (IT): Ethical purchasing group; see SPG
GHG Greenhouse gas
GIPA Groupement Inter-villageois de producteurs d’arachide (Inter-village Groundnut Growers’ Group), Senegal
GTQs Guaranteed total quantities
HLG High-level group
HLPE High Level Panel of Experts on food security
HLTF High Level Task Force on the global food security crisis (initiated by the UN)
IFAD International Fund for Agricultural Development
IFAP International Federation of Agricultural Producers
IPC International Planning Committee for Food Sovereignty (network of CSOs engaged in dialogue with the FAO and UN)
IRQs Individual reference quantities
ISTAT Italian National Statistics Institute
KEPHIS Kenya Plant Health Inspectorate
LDC Least developed country
NEPAD New Partnership for Africa’s Development
NGO Non-governmental organisation
NGO-D Non-governmental development organisation
PAEPARD Platform for African-European Partnership on Agricultural Research for Development
PDO Protected designation of origin
PFSA Plate-forme pour la souveraineté alimentaire (Platform for Food Sovereignty), Belgium
PGI Protected geographical indication
PO Producers’ organisation, Producer organisation (EU terminology)
PROPAC Sub-regional Platform of Producers’ Organizations in Central Africa
PSAOP Agricultural Services and Rural Producer Organisations Programme
R&D Research and development
ROPPA  Réseau des organisations paysannes et de producteurs d’Afrique de l’Ouest (Network of Farmers and Agricultural Producers’ Organisations of West Africa)

RWAD  Réseau wallon pour une alimentation durable (Walloon network for sustainable food)

CSOs  Civil society organisations

SPG  Solidarity purchasing group, a.k.a. ‘Ethical purchasing group’

TSG  Traditional speciality guaranteed

UAA  Useable agricultural area

UAW  Union des agricultrices wallonnes (Walloon women farmers’ union)

UEMOA  See ‘WAEMU’

UN  United Nations Organisation

WAEMU  West African Economic and Monetary Union (also goes by its French acronym ‘UEMOA’)

WFD  World Food Day

WRS  Warehouse Receipt System

WTO  World Trade Organization
The publication and its framework

This document was published by Collectif Stratégies Alimentaires - CSA with the financial support of the European Commission and the Belgian Cooperation office (Direction Générale du Développement - DGD). Alex Danau, Julie Flament, and Daniel Van Der Steen oversaw its completion, with contributions from the project’s participants. Gabrielle Leyden translated the original French text into English and the layout was done by Jean-Pierre Marsily.

The contents of the document are of the sole/only responsibility of the Collectif Stratégies Alimentaires and can in no way be considered as reflecting the positions of the European Commission or the DGD.

This document was published in the framework of the Development Education Project ‘Agrifood policies and regional integration: putting European-African solidarity into practice’ (EuropeAid/124803/C/ACT/RUE).

The project was achieved in consortium by different European NGOs (from Italy, Belgium and United Kingdom) and in partnership with GAIA (Hungary), the Italian Support Group to the West African Farmers’ Organisations and the ROPPA (West Africa).

The members of the Consortium

Terra Nuova - Centro per il volontariato (leader of the Consortium)
18, Viale Liegi 10, 00196 Roma, Italy
Phone: +39 06 807 0847 - Fax: +39 06 806 62557
E mail: info@terranuova.org; demeo@terranuova.org
Website of the project: www.europafrica.info

Centro Internazionale Crocevia (CIC)
1111, Via Tuscolana, 00173 Roma, Italy
Phone: +39 067 290 22 63 - Fax: +39 067 290 78 46
E mail: crocevia@croceviaterra.it

Intermediate Technology Development Group Ltd (Practical Action)/UK Food Group
The Schumacher Centre for Technology and Development,
Bourton on Dusnmore, Rugby, Warwickshire, CV23 9QZ, UK
Phone: +44 1926 634400 - Fax: +44 1926 634401
E mail: practicalaction@practicalaction.org.uk

Collectif Stratégies Alimentaires ASBL
Boulevard Léopold II, 184 0, 1080 Brussels, Belgium
Phone: +32 2 412 06 60 - Fax: +32 2 412 06 66
E mail: secretariat@csa-be.org; daniel.vandersteen@csa-be.org
Web: www.csa-be.org

The Consortium’s partners in the project

GAIA
H – 2193 Galgahévíz, Fő út 83, Hungary
Phone: +36 70 453 64 70 - Fax: +36 28 591 611
E mail: gaia@zpok.hu

ROPPA
09 BP 884 Ouagadougou 09, Burkina Faso
Phone: (226) 50 36 08 25 - Fax: (226) 50 36 26 13
E mail: roppa@roppa-ao.org

The NGOs members of the Italian Support Group to the West African Farmers’ Organisations: CISV, AUCS, COSPE, CIPSI, COLDIRETTI, ARI, AIAB.