

THE OPERATION OF THE PRODUCER ORGANIZATIONS IN THE FRUIT AND VEGETABLE SECTOR IN THE EUROPEAN UNION

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Abstract. In The European Union the viable Producer Organizations (POs) are the key instruments of the regulation of the fruit and vegetable sector. In spite of the same EU standards the operation of the POs shows diversity in the Member States. These concern mainly the number of membership, turnover and company form. In the EU-15 the progress of the POs has started more decades ago therefore the new Member States included Hungary has handicap. At present the regulation of the sector is under revision and the new standards will be in force from 2008. As a result of the amending the European Union expects the increase of the number of the POs in order to boost the bargain position of the farmers against retailers as well as the use of environmental friendly cultivation technologies. In this paper I present the main goals of the regulation and its reform, furthermore I examine the features of the POs in the European Union and in Hungary. Besides I examine how we could strengthen the role and the bargain position of the POs. One of the solutions could be the forming of the secondary collaborations.

Key words: Fruit and vegetable sector, Producer Organizations (POs), European Union, Hungary, secondary collaboration

INTRODUCTION

The European Union's average fruit and vegetable production exceeds 8% of the world production. It consists of 70 million tonnes vegetable and 40 million tonnes fruit production. 1.4 million agricultural holdings produce fruit and vegetables of the 9.7 million agricultural holdings in the European Union's 25 Members States. The sector farms 3% of the cultivated area and produces 17% of the value of the European Union's

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agricultural production. The Union's Fruit & Vegetable (F&V) sector is heterogeneous and diverse in its produce, modes of production, type and size of holdings, and marketing channels. Fruit and vegetables are highly perishable products and production is very labour intensive. Fluctuation in climate and temperature, as well as disease or pest infections can cause hardships in production and selling, too. At the same time the sector faces pressure from highly concentrated retail and discount chains playing an increasing role in setting market prices. Currently around 80% of fresh produces are sold by 20–25 retailers in Europe. Growers also face increased competition from third country products.

The CMO for fruit and vegetables was established in 1962 to govern the sector's production and trade in the EU and to achieve the CAP's objectives. Starting with the 1996 CMO reform, Producer Organizations (POs) became the pillar of support for F&V sector. POs are the key instrument for grouping supply of farmers in order to offset retailers' increasing concentration. In 2004, less than 40% of total production was marketed via POs. These days the regulation of the sector is being revised. Prospectively the new regulation will be introduced from 2008. The new CMO's aim is to increase significantly percentage of total production via POs and boost producer's bargaining power and economies of scale [European Commission 2007a].

During the preparation of this paper I have used Hungarian and international literatures; nevertheless I have taken into account my own practical experiences as chairman of a Hungarian PO (ZÖLD-TERMÉK Co-operative). I have received information from Hungarian Ministry of Agriculture and Rural Department as well as from Fruitveb (board of fruit and vegetable participants in Hungary).

THE FEATURES OF THE PRODUCER ORGANIZATIONS

According to the regulation (Council Regulation (EC) No 2200/96) of the European Union the fresh vegetables and fruits, the processing stocks belong to the group of less regulated products. The main reason lies in the unique structure of production. The market regulation policy does not put up barriers, only demands strict qualitative requirements. The market regulation is directing towards the fact that the goods turnover should be increased by better selling quality. As a result of this, only those products can be placed on the market, which are classified and suit the obligatory standards. The market regulation and supporting system of the EU is based on the POs, therefore these organizations within this branch are highly important.

The European Union grants financial support to POs that conduct an operational programme. These programmes are financed, on a 50/50 basis, by the PO and the Union. EU support to a PO is limited to 4.1% of the value of the PO's marketed production. Measures financed within operational programmes include improving quality, marketing promotional campaigns, developing organic or integrated production, and other environmentally friendly measures [European Commission 2007a].

In Western Europe the common activity is not mainly directed to the agricultural production. Instead the focus is on the common organization of technical background, procurement and marketing. The ambition of the members is to decrease the expenses

with the help of common activity, and to produce profit as high as possible in their own farm. In the Western European model the activities of the farmers (owners of the PO) and the management of the PO is sharply separated. The farmer's duty is the production of the fruits and vegetables, while the PO is responsible for the processing and marketing. The PO intends to work up long term marketing relations in order to increase the security of production, as well as to realise the highest possible return from sales [Patyi, Takácsné 1999].

The aims of the POs:

- Concentrating the supply of different kinds of fruits and vegetables.
- Directing the production according to the quality and quantity demands.
- Stabilizing the product prices.
- Decreasing the expenses of input materials (controlled seed and seedlings, fertilisers, plant protection materials etc.) by common procurement.
- Providing the infrastructure of storing, cooling, cleaning, processing and transport.
- Using environment friendly cultivation technologies and waste handling procedures.

THE OPERATION OF THE PRODUCER ORGANIZATIONS IN THE EUROPEAN UNION

In the European Union the operation of the POs shows great variety. The basic aims and tasks are being realized variously in the different member countries. The first PO was established by Dutch farmers more than 100 years ago. The sizes and turnovers of the POs are very different. The annual goods turnover could extend from 5–10 thousand tonnes to several 100 thousand tonnes as well as the number of the members from 5–10 persons to several thousands. The most frequent company form is the co-operative, but it could be limited-liability company or joint-stock company, too. Generally these organizations are established according to geographical areas and product type. In the latter years the merger of the small organizations is becoming more and more frequent. After the EU expansion in the EU-25 the number of POs increased (more than 1400), but the average production via POs decreased to 34%.

In Belgium the farmers are found in 17 POs, nevertheless these companies dispose more than 80% of all the fruits and vegetables. 90% of the tomato, cucumber, paprika and cauliflower, 60% of pear and 50% of apple are sold by the POs. The sorting, processing, packing of the yield are made by own facilities of the farmers. The task of the PO is to organize the common selling. The mode of sale is the auction that method derives from the Netherlands.

In Germany the POs' aim is to co-ordinate the farming of their members and to organize the best possibilities of the sale. The market research is the part of their tasks, too. The setting-up and operation of the quality insurance systems play significant importance from the farming through the product processing to the selling. The demand of the consumers for the ecological production and the controlled, safe commodities play more and more important role in the German market. In Germany the third part of the fruit and vegetable production are sold by the Producer Organizations.

In France the farmers co-operate unwillingly, despite they had to create their POs in order to step into the regulated market. In France more than 310 POs are operating

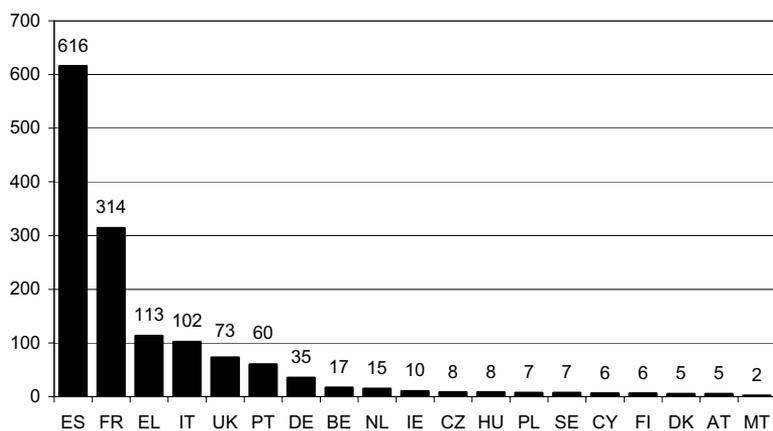


Fig. 1. Number of the POs in the EU-25 (2004)

Rys. 1. Liczba organizacji producenckich w UE-25 (2004)

Source: European Commission 2007b.

Źródło: European Commission 2007b.

recently and almost the half of the fruit and vegetable production are sold by them. Third of these are classical organizations according to the EU decree, and the remaining part created only very loose co-operations in order to gain administrative benefits. Major part of the farmers possess the required facilities of storing, processing, packaging therefore they can sell their products independently. They can solve on their own the tasks of a PO. This is the reason why the major of French farmers do not like to co-operate.

In Spain the first fruit and vegetable selling organization was established in 1974. In 1986 at the period of EU joining more than 180 POs had already operated. The majority of these organizations suited the requirements of the EU rules. Currently approximately 600 POs are operating and selling 33% of fruit and vegetables. The POs provide for their members safety and long-term prices, nevertheless the members feel themselves independent.

In Portugal the increase of the POs was stimulated by the department stores. In 1990 only 1 PO operated and the level of selling and marketing was in initial phase. In spite of the EU subsidies the number of the POs had started to grow significantly only from 1993. Recently 60 POs are operating and only the 6% of the fruit and vegetable yield are sold by them. The average annually goods turnover of 1 PO hardly exceeds 5 thousand tonnes, contrary in the other member states where this average quantity changes between 10 and 30 thousand tonnes.

In Italy the POs try to decrease the expenses of farming in order to become competitive against the Spanish, South-African and South-American products. The members of the POs get the input materials (seed and seedling, fertilisers, plant protection materials, etc.) of the farming at lower prices against the farmers outside the PO, because the mutual procuring in huge quantity provides advantages. The number of the POs is over 100 and these POs are co-ordinating the 31% of the production. These POs can receive considerable subsidies from the EU for the tasks of the operation and investments. The proportion of retailer chains is continuously increasing in the area of marketing and selling.

In Austria only 5 POs are operating. The members of the organizations sell their yields through the POs to the traders. The traders dispose over the required background facilities (cold-storage), in addition they can use EU sources for the development and enlargement of these background. In Austria instead of the farmers the traders finance the large volume and expensive investments [Erdész, Padisák 2003].

In the Netherlands there are only 15 POs nevertheless these organizations cover 79% of goods turnover of the branch. The biggest PO of the EU is operating in this country, its name is The Greenery. The Greenery provides balanced supply in all year in order to become the reliable supplier of the retailer chains. The greenhouse technology expands the production period of the Dutch farmers, furthermore in the winter period import means the solution. The Greenery delivers products in domestic and world markets too.

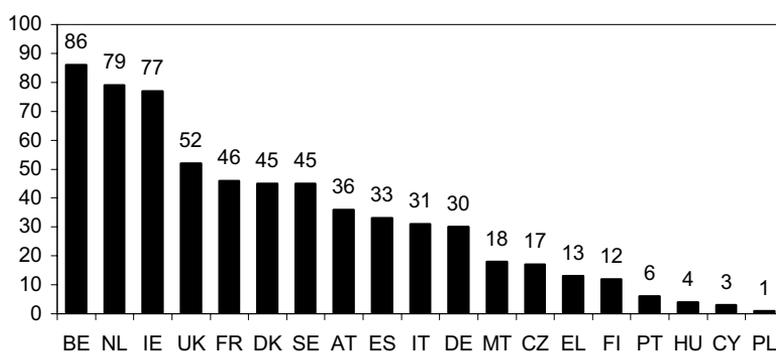


Fig. 2. Production (%) via POs in the EU-25 (2004)

Rys. 2. Udział produkcji organizacji producenckich w UE-25 (2004)

Source: European Commission 2007b.

Źródło: European Commission 2007b.

PRODUCER ORGANIZATIONS IN HUNGARY

In Hungary the foundation of POs has started after 1999. The process was very slow because only 11 POs were operating at the end of 2001. In the next year the number of POs increased to 24. In this period the farmers were afraid of the co-operation and the common activity because of the wrong memory of the socialism, nevertheless the encouragement of the state was also weak. After the initial hardships the Hungarian Agricultural Ministry by the help of significant subsidies encouraged the farmers to establish their POs. As a result of this in 2003 with 44 increased the number of POs and reached 68. This direction till the end of 2004 continued and the number of POs approximated 100.

It is important to emphasise in Hungary similarly the joining Member States exist preliminary recognized POs by the national authorities. This solution means that the PO takes on in 3–5 years program to accomplish the conditions of the ultimate recognition. First of all these conditions are the required background infrastructure (warehouse, cold-storage, processing and packaging machineries) and the long term market relationships.

After the progress of 2003 and 2004 the POs had got to face new challenges. Due to the EU expansion new market situation appeared. The customs were abolished and huge

quantity of import fruit and vegetables entered the Hungarian market. The POs have to compete for the domestic markets and have to build up new relationships in foreign countries. For the competitive size the Hungarian authorities prescribe minimum turnover for the POs. The minimum turnover of member fruit and vegetable of preliminary recognized POs is 0.5 million Euro, in case of ultimate POs the threshold is 1 million Euro. Some POs could not fulfil the minimum threshold therefore they had to join another PO, which fulfil the minimum demands. After the joining and mergers the number of POs significantly decreased. At the end of 2006 – 9 ultimate recognized POs and 54 preliminary recognized POs operated. The majority of the successor POs fulfil the requirements of the ultimate recognition in spite of this the decreasing tendency is continuing. The market competition demands strong organizations that possess diverse fruit and vegetable goods and well-trained membership. In Hungary the most frequent company form of the POs is the co-operative. In the co-operative form every member has one vote in the general assembly.

On the basis of inform of the Hungarian Agricultural Ministry in Hungary the preliminary and ultimate POs jointly provide 15% of the Hungarian fruit and vegetable turnover. The share of the POs is about 95 million Euros. The 5 biggest POs' average annual turnover is about 7 million Euros. There are 20–25 POs between 1.5 and 3 million Euro average turnover. The smaller POs' annual average turnover is under 1 million Euros. The POs of the last group is in direct danger. Probably they will join bigger POs next years.

As the chairman of the ZÖLD-TERMÉK Producer Organization I introduce one of the Hungarian POs. Our co-operative was established in 2003. In the last 4 years the co-operative is developing continuously. The number of membership increased from 61 to 90 and co-ordinated cultivated area increased from 138 hectares to 189 hectares. The annual turnover is two-times bigger than in the beginning. Recently it approximates the 2 million Euros. The most important products are the paprika, cabbage, tomato and potato. The 75% of the turnover comes from the greenhouse technology that extends the production period from March to December. As a result of common projects we have built up the basic facilities of the effective operation (1000 m² warehouse, 800 m² cold-storage, 400 m² packaging house with packaging machines, offices, social rooms etc.). The co-operative has agreements with its commercial partners. These contracts provide homogeneous goods and their placing both in the domestic and European markets. The co-operative keeps records of membership. These registers contain data about cultivated lands, production forms, technological level, quantity and quality of products. The schedule of supplying, processing and sale are based on these data. Our consultants provide continuous consultation for the farmers about cultivation technology. In the winter period the farmers acquire new knowledge by trainings. Some farmers carry on experimental production in order to know the new brands and their natural and technological demands. The consumers and the markets are able to know these products. The farmer of every product is identifiable. The traceability of the product is solved. The using of fertilizers and plant protecting materials are being decreased by consultation. The co-operative promotes the environment friendly and integrated production technologies. In 2003 the co-operative has been recognized as a preliminary PO by the Hungarian Agricultural Ministry. Hopefully from 2008 we will receive the ultimate recognition. In

behalf of the successful operation the ZÖLD-TERMÉK Co-operative has participated in the first Hungarian secondary collaboration of POs.

The next phase of the common activity between POs is the secondary collaboration. There is one operating model of this in Hungary. 19 POs of the Southern Great Plain Region have established the DATÉSZ joint-stock company in 2004. The aim of the common company is to build up new selling relationships, to decrease the expenses of input materials by common procuring and to operate quality insurance system. The members of the DATÉSZ produce 100 thousand tonnes fruit and vegetables and annual income of the members together exceeds 32 million Euros.

THE REFORM OF THE FRUIT AND VEGETABLE SECTOR

POs have been the European Union's key instruments for reforming the F&V sector since 1997. The farmers receive major part of the subsidies via POs. On the one hand POs are very successful in some Member States for instance in Netherlands, Belgium, UK and Spain, on the other hand in the joining countries the progress is very slow, therefore some work is needed to improve the performance. The new CMO simplifies rules of POs and brings sector rules and strategies into line with the reformed CAP.

There are more than 1400 POs in the EU-25 and these organizations provide averagely 34% of the fruit and vegetable production. This is below the Commission's 60% target for 2013. The reform emphasize the need to make POs more attractive to growers, not only to concentrate supply and prevent crisis but also to improve production quality, protect the environment, and promote fruit and vegetable consumption. Rebalancing retailer price pressure and competition from imports, thereby stabilising incomes, remains a priority.

The new CMO will:

- Increase Member States' flexibility in recognising a PO.
- Allow multi-membership of different POs.
- Give extra support to areas with low levels of organization and to new Member States.
- Promote mergers of POs, formation of transnational of POs, and associations of Producer Organizations (APOs).
- Give supplementary support to organic production.
- Support crisis management programmes.
- Add new produce, such as culinary herbs, into CMO (allowing new POs to form).
- Emphasis environmental protection, earmarking a 20% minimum of operational programme funds for environmental activities and investments.
- Eliminate export subsidies.
- Decrease compensation of withdrawals.

Besides the POs the CMO reform changes other parts of the regulation. Fruit and vegetables become part of the Single Payment Scheme (decoupling). The new system is no longer linked to what a farmer produces (it is decoupled). The introduction of the SPS encourages the farmers to become more market oriented, to release their entrepreneurial potential, to produce what the consumers want and to make decision independently from the level of subsidy [European Commission 2007a].

CONCLUSIONS

In order to accomplish the demands of the market the farmers of the F&V sector has to produce homogenous, excellent quality products in huge quantity. The farmers have to take into account the changeable habits of the consumers and the meteorological circumstances. The possible solution is the PO. The EU according to the reform will encourage more and more the operation of POs. The POs provide several advantages for their members (safety of selling, stable prices, low input prices etc.). The next step of the common activity is the secondary collaboration of the viable POs. The accomplishment of the secondary collaboration is voluntary and it is beneficial for the founder members. In the established new company (that could be co-operative, Ltd. or joint-stock co.) the founders remain independent. They can make decision according to their shares. The new company due to its bigger size can operate expenditure effective and have strong bargain power. As a result of the collaboration the input material prices (seed and seedlings, fertilizers, plant protection materials) and the materials of selling (boxes, crates, packaging materials) are decreasing. The new company can build up new selling possibilities by the help of organized marketing and large volume goods in domestic market and export market, too. The information flow between the members promotes the establishment of the equivalent quality insurance systems. The common product appearance (branding), the use of marketing devices and counselling for the farmers are prominently important, too. In case of ZÖLD-TERMÉK PO the secondary company (DATÉSZ) has provided packaging materials lower price compared to the ZÖLD-TERMÉK PO's procurements, furthermore DATÉSZ could deliver for multinational retailer chains (e.g. LIDL). The EUREPGAP quality insurance system was set up by the help of DATÉSZ and we were able to participate in international exhibitions on joint stands (e.g. Fruit Logistica).

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FUNKCJONOWANIE ORGANIZACJI PRODUCENCKICH W SEKTORZE OWOCÓW I WARZYW W UNII EUROPEJSKIEJ

Streszczenie. W Unii Europejskiej rentowne organizacje producenckie stanowią kluczowy instrument regulacji sektora owoców i warzyw. Pomimo jednakowych standardów europejskich, funkcjonowanie organizacji producenckich przedstawia pewne zróżnicowanie w krajach członkowskich UE. Dotyczy to głównie liczby członków, obrotu i formy prawnej organizacji. W UE-15 rozwój organizacji producenckich rozpoczął się wiele dekad wcześniej, dlatego nowe kraje członkowskie, w tym Węgry, otrzymują pewne wsparcie w tym zakresie. Obecnie zasady regulacji tego sektora są dyskutowane i nowe standardy zostaną wprowadzone od 2008 r. W rezultacie rekompensaty UE przewiduje wzrost liczby organizacji producenckich w celu poprawienia pozycji przetargowej rolników w stosunku do detalistów, jak również spowodowania użycia przyjaznych środowisku technologii uprawy. W artykule przedstawiono główne cele regulacji oraz reformy. Ponadto, zbadano cechy organizacji producenckich w Unii Europejskiej, w tym na Węgrzech. Zbadano również sposoby umacniania roli i pozycji organizacji producenckich, m.in. poprzez tworzenie dodatkowych powiązań.

Słowa kluczowe: sektor owoców i warzyw, organizacje producenckie, Unia Europejska, Węgry, dodatkowe powiązania

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