

March 21, 1973

BACKGROUND NOTE/AGRICULTURE/01/1973

IMPROVEMENTS IN SIGHT FOR FARM-PRODUCT

MARKETING STRUCTURES

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IMPROVEMENTS IN SIGHT FOR FARM-PRODUCT MARKETING STRUCTURES (1)

In spite of the considerable efforts made by farmers with the support of their associations and the authorities there continues to exist a situation of inequality of strength and influence as between buyers and sellers in the market where farm-goods are exchanged. Concentration and rationalising of trade channels on the buyer's side have made much greater progress than they have on the other side where farm-goods are supplied from. There are some Member States where today as much as 80% of the demand from the food retail trade passes through the hands of buying chains and big stores, etc... In comparison collective supply by the farming community has so far made relatively little progress. In such a state of affairs the producers find themselves in a greater situation of dependency, the downward pressure on prices is greater and the farmer has a smaller share of the added-value of the final product at every stage of turnover. It is to be expected that the unequal distribution of risk on the farm-goods market will get wider, especially if modernisation of farms leads to their increasingly specialising on a small number of products. This automatically increases the risks to be faced by farm-managements. Here the explanation for the need for faster developments in farm-goods marketing structures.

1. Guidelines for agricultural producer-groups and associations of producer-groups

A Commission proposal for guidelines for agricultural producer-groups and associations of producer-groups has been before the Council since as long ago as 1968. The proposal's main aims are the adjustment of supply from the farms to the requirements of the market in the matter of quantity and quality and the achieving of greater price-stability and better conditions for selling through the suppliers' reaching a position of greater strength in the market, with a view to positions of equal strength thereby again appearing in the market and marketing costs being brought down. This paper will largely treat only of such important passages of this Commission proposal (which has not yet been passed by the Council) as could turn out to be of special interest in connection with the part to be played by the associations.

Definitions and principles underlying recognition of producer-groups and associations of producer-groups

According to the text of the guidelines proposal, producer-groups may be made up of producers of goods shown in a list. They may be either private persons or corporate bodies. The text of the regulation does not take the definition of a producer

(1) Based on a talk given on 21 September by C. HAEBLER, a deputy head of section in the General Directorate for Agriculture, at a CEPFAR (Centre Europeen de Promotion et de Formation Agricole et Rurale) international information conference at Kollé-Kollé, Denmark.

any further than this but there is provision for a management-committee procedure opening up the possibility of this definition of a farm-goods producer being expanded and completed. When this was being discussed in the Council it was not possible to reach a conclusion, some Member States wishing to extend the definition of membership of producer-groups to non-members, principally traders. The Commission up to now has not seen any cause to amend its proposal, being of the opinion that any broadening of the membership of a producer-group to take in people not in farming whom the farmers were trading with would limit the producer-group's freedom of action since circumstances might lead to business being done only with these members of the group.

What was to figure in the list of goods to be the basis of the setting-up of producer-groups and associations of these groups is another thing on which the Council has not yet been able to come to any agreed opinion. Essentially the Commission proposal covers all farm-goods sold in the condition in which they arise, together with a number of products of the first stage of processing, e.g. butter, cheese, meat, wine, etc... Some of the governments represented on the Council want to see this list extended to cover all the products listed in Annex II of the Treaty of Rome and beyond this to a number of others, e.g. cotton and wool. There are others however who would prefer to see the list limited to products as they arise on the farm. On this point also the Commission up to now has not felt it had to amend its proposals; it is in the main for motives connected with competition that it has remained faithful to its list.

The producer-groups are to deal with the adaptation of production on the farms to what the market calls for. This is to be effected principally by common rules, set out in the regulation and binding on the members, on production and offering for sale, collectivisation of offers, preparation for sale and offers to the wholesale trade.

Producer-groups and associations of these are held to writing into their statutes an obligation for members' whole production to be marketed under identical terms, it being reserved for decision by agreement in the producer-group whether the quantity supplied shall be wholly or only partly handled through the group. Provided all the members reach agreement on it, they may continue to comply with supply contracts entered into before they took up membership of the group.

A group's statute must also lay down that a member may not resign before the end of three years at the earliest; that the group must show proof of an adequate volume of commercial activity, in which connection the management committee has to lay down minimum criteria related to turnover and area, and that the statute may not contain any discriminating stipulations, particularly in respect of members' nationalities.

The obligation of complying with the common rules on production and marketing is one of the regulation's essential points. What is behind this, among other things, is the bad experience of member discipline which more than other bodies cooperatives have had. It is to be noted that the Commission does not think there should be any idea of bringing all producers established in a given area under these production and marketing rules, not even when the producer-groups in the area already are responsible for a quite considerable share of the marketing being done.

There is a special section dealing with what associations of producer-groups are called upon to do. In the Commission's proposal such an association represents a second-stage producer-group, having the same rights and duties as a group. An association consequently is also under an obligation to pursue commercial activity and for that matter has the same obligations as the individual producer-groups. It may be asked why the Commission has not, as is being done nowadays in the individual Member States, provided for a limitation of the scope of duties of these associations, restricting them, for instance, to coordinating the activities of the producer-groups they cover.

It is the Commission's view that the activity of a producer-group must be of such dimensions as match technical progress on the one hand and the level of commercial activity on the other. In other words, the premise of a proper return on capital invested and the premise of feasibility of checks and controls (these not being made too difficult by, among other things, too great distances being involved) have to be met. As a consequence, producer-group capacity in the majority of cases will be bigger than that of a cooperative of today but still too small to meet customers' requirements of large deliveries at the same quality-level; this being so there would still be no solution of the problem of unequal influence in the market and for this reason associations of producer-groups must also be put in a position to engage in commercial activity. These considerations must lead us to expect that the minimum sizes still to be laid down in the management committee for producer-groups and associations of groups will surely lead to relatively small dimensions for groups and big dimensions for associations. It is clear that an association's activity cannot of course be limited to the marketing of its associated producers' production and that it may also take on the problem of division of labour and management and deal with the working-out of common policies on investment and personnel.

The Commission draft regulation provides for various subsidies for the producer-groups.

In the first three years of a group's activity a starting-up subsidy is granted, amounting to 3 or 1 per cent of the members' volume of turnover before the group's

recognition as such, with a maximum however of 60 or 40 or 20 per cent of actual management costs. There has appeared meantime an interesting amendment of the text of the regulation as originally published in the Journal Officiel in June 1971, to the effect that only such producer-groups are not to benefit by this starting-up subsidy as have been in existence for more than three years before their founding as such.

In connection with a group's capital investment an interest-rate rebate of at most 5 per cent for a maximum period of 20 years for real property and 10 years for other capital investment may be granted in addition to guarantees.

In the matter of subsidies for producer-group associations there is provision for a non-repayable grant of 50,000 units of account, against proof of actual disbursement, which may be approved inside five years from the date of recognition of the association.

The EAGGF meets 25 per cent of costs incurred in Member States. Quite apart from these steps being taken under Community auspices Member States are at liberty to undertake measures inside their own boundaries on the basis of their own funds and with different rules and procedures and rates of subsidy, provided what they are undertaking is in conformity with the rules on subsidies in the Treaty.

In Member States where such measures have been introduced at national level experience has shown that the starting point and the impulse needed for progress to be made are to be found in the cooperatives. In the Federal Republic of Germany in fact, in the case of the roughly 200 producer-groups existing today, it is to be found that about 80 per cent of them originated in cooperatives.

2. Other steps for the improvement of the market's structure

The resolution passed by the Council of Ministers of the Communities on 26-4-72 insisted on linking approval for the regulation on producer-groups and associations of these groups with approval for further measures for the improvement of the structure of the market. In the terms of the resolution the Council was to reach a decision before 1.10.1972 on this package-deal. Over and above the fact, so far as the regulation on producer-groups is concerned, that the Council has not yet been able to thrash out the points here being brought out, compliance with the proposed date was not possible because the Commission's proposals for other Community steps in the matter of market structure have not yet got beyond the stage of internal discussions. These are steps which involve complexes of questions some of which are most difficult and fields of action which require careful preparation and careful study and the weighing of all the pros and cons. For this reason only a number of general indications can be given.

In the terms of the Council resolution of 24 March 1972, the Commission is to submit proposals for three lines of Community action, as follows :

- 1) on the making of long-term contracts in the farming sphere;
- 2) on the improvement of the overseeability of the market;
- 3) on the development and reorganization of trading and processing activities in the farm-goods sphere.

Ad. 1) Making of long-term contracts.

What is being considered here has its origin in the realisation that contracts between farmers and their customers are nowadays the usual thing especially in connection with products involving high production and marketing risks (e.g. animal products and fruit and vegetables) but that this goes on under conditions which intensify the degree of inequality of influence as between sellers and buyers and increase the degree of dependency which the suppliers suffer from. Concern for equality of conditions of competition for all sectors makes it impossible to give official help for any significant speed-up of producers' extending their activities into processing and marketing. Needless to say account has to be taken of farmers' particular interests. With this in mind the Commission considers that steps taken under Community auspices must give an idea of the basic elements that should form part of long-term contracts to be entered into; that in particular the making of contracts between traders and processors on the one hand and combinations of producers of any category on the other probably should be promoted by means of financial assistance, but that there can be no thought of bringing in any general obligation of contract-making.

Ad. 2) Overseeability of the market

The situation here is that in the Community the possibilities of getting a clear view of the market are still very slender; in the Member States the conditions surrounding the origination and dissemination of information on what is going on in the market are of extremely varied nature, while at Community level above all there is practically nothing beyond bare statements on, in the main, what prices are fixed by the Community. This is the reason why the necessity is seen of Community measures for improved overseeability of the market, to be brought into being and kept up, as the Commission sees it, by the professional organizations (of producers, traders and industry) involved in the activities of the market. As has already been brought out in the memorandum on the reform of agriculture in the EEC; this is work which should be put into the hands of European bodies; steps should be taken to set up such bodies to bring into being, and keep going, a Community information service on prices, quantities, capacities and development trends in the markets and under the obligation of publishing the essential data coming in.

Ad. 3) On the development and reorganization of trading and industrial concerns.

The problems in this sphere arise first and foremost from changes in consumer habits and marketing practices and also from firms' greater mobility when it comes to choosing localities - largely a question of availability of capital - in comparison with firms producing on the land. The situation today is consequently one of overcapacity on small unprofitable farms in many lines of production and regions hampering any rational remodelling of market operations, while in other lines of production and regions there is insufficient trading and processing capacity, which hinders the development of farm production in the direction which a market-economy would wish to see it taking. The Commission, after its consideration of the Community measures cited in the Council's resolution, wants to see development and

reorganization programmes set up on regional levels for individual sectors of production, and this mainly through very close collaboration between professional associations and the authorities. The programmes are to indicate precisely what are the starting-points and what are the aims in view and projects largely calling for capital investment by trading and industrial firms are to be pushed on with official funds providing they offer a contribution to the achievement of the purpose in view.

In conclusion, it is clear that in the foreseeable future the Community will be called upon to find a solution for a further number of weighty problems. The measures proposed in this paper will not clear the decks of all the difficulties facing us. There are a number of parallel steps to be introduced in connection first and foremost with questions of the law on cooperatives and taxation and with farm credit.

CORRECTIONS TO BACKGROUND NOTE NO. 29/AGRICULTURE/02

of

December 14, 1972

SUGAR:

1. Delete : (105 % of the amount used for human consumption in the Community)

The first paragraph is to read as follows :

" In this case the price-guarantee for the producer is valid only in respect of a previously fixed production quota. The quantity guaranteed is to correspond to expected human consumption in the Community in the sugar crop-year and must not be inferior to the total of the national basic quantities decided on by the Community ".

2. In the footnote the following is to be added :

" ... and Council Regulation nr. 1060/71 of 25-5-71 - (Journal officiel no L 115/16 of 27-5-71)".