Cooperation of Dutch farmers in food supply chains

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▪ Background and goal

▪ Theory

▪ Characterisation of Dutch food markets

▪ Opinion of Dutch farmers on
  • Cooperation with other farmers
  • Cooperation with other chain participants

▪ Discussion and conclusion
Background and goal

**Background**

- EU and NL government think position farmers is weak
- More cooperation is an important solution to strengthen this position
- Huge differences expected among sectors because some groups work together in producer organisation for decades (milk, vegetables and fruits) and other sectors (pigs and poultry) don’t work together at all.
- Legal options for cooperation of farmers EU and NL

**Goal of this paper:**
- overview of the present cooperation;
- their opinion about cooperation;
- their opinion about unfair trading practices.
Method

▪ Literature review

▪ Questionnaire filled in by 626 producers with 451 specialised producers

▪ Workshop with 20 producers from different sectors.
Completed questionnaires per sector

- Dairy farmers: 78
- Pig producers: 58
- Broiler producers: 41
- Egg producers: 41
- Arable farmers: 105
- Vegetable producers, open air: 36
- Vegetable greenhouse: 50
- Fruit producers: 42
Theory (1)

- In efficient markets prices reflect supply and demand.
- Four reasons for markets to fail (prices are not reflecting supply and demand):
  - Market power: monopoly (monopsony) or oligopoly (oligopsony);
  - Asymmetric information (hold-up / lock-in)
  - Positive or negative externalities (spill-overs of innovation)
  - Public goods (not so relevant in a BtoB context; not taken into account).
### Theory (2): strategies to increase market power

<table>
<thead>
<tr>
<th></th>
<th>At market level</th>
<th>Related to buyers of products</th>
<th>At farm level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collective strategies</td>
<td>Production alignment</td>
<td>Collective marketing of products</td>
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<td>Individual strategies</td>
<td>Contracts</td>
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<td>Product differentiation</td>
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<td>Short value chain</td>
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</tbody>
</table>

Source: Danau et al. (2011)
Characterisation of Dutch food markets

- Prices are at EU level or sometimes even World level
- Seasonal patterns e.g. no supply of domestic product
- Differences in market power e.g. C4 per stage of the chain
- However no impact on price formation because of the EU markets.
- 10 to 40% of the consumer euro goes to the primary producer
- Type of price formation (spot market, contracts, pools) strongly depends on products
- Decreasing transaction costs is a main reason for cooperation in milk and glasshouse vegetables
- Structure of product chain and markets is dynamic.
Cooperation: huge differences between sectors

- **Buying inputs**: Dairy farmers & arable farmers: about 50%
  Poultry: 17 to 20%

- **Selling products**: Dairy farmers; Vegetables, Fruit: 55-76%
  Intensive livestock: 12-22%

- **Study Club**: all between 40 and 60%

- **No cooperation**: pig producers and poultry: 28 to 46%
  Dairy (14%), Arable (13%), vegetables (8%)
# Trading practices experienced (opinion farmers)

<table>
<thead>
<tr>
<th>Trading practice</th>
<th>Score 1: not experienced</th>
<th>Score 5: experienced extremely</th>
</tr>
</thead>
<tbody>
<tr>
<td>High demand regarding sustainability but not willing to pay more</td>
<td></td>
<td>3.16</td>
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<tr>
<td>Pressure to lower the selling price</td>
<td></td>
<td>2.81</td>
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<tr>
<td>Unexplainable disapproval of products</td>
<td></td>
<td>2.08</td>
</tr>
<tr>
<td>Others e.g. delayed payments</td>
<td></td>
<td>2.01-1.69</td>
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<tr>
<td>Refusal by buyers/customer to sign a written contract</td>
<td></td>
<td>1.54</td>
</tr>
<tr>
<td>Forced return unsold products</td>
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<td>1.48</td>
</tr>
</tbody>
</table>
Discussion and conclusions (1)

- **Price formation**
  - Relevant market is the EU;
  - Supply and demand determine the prices
  - Unfair trading practices seem to be an exception

- **Legal options are new and farmers are unaware of the possibilities**
Discussion and conclusions (2)

- Cooperation
  - Is widespread
  - Reasons to cooperate differ per sector
  - Doesn’t mean that prices for primary producers will increase
  - More impact expected from lower transaction costs, knowledge exchange and innovation
  - Trust and common interest are the important aspects for cooperation

- Cooperation can improve position of primary producers if
  - Farmers have same vision
  - Farmers are aware that part of the decision making will be delegated
Thanks for listening