I. C. A. NEW DELHI

LITERATURE CIRCULATED AT THE I.F.A.P. COOPERATIVE SEMINAR

1962

Contents

	Page No.
Recent Changes in Food Distribution Patters by J.C.Abbott	1
Effect of New Distribution methods on prices of Agricultural Products paid to the farmer and paid by the consumer and on the quantities consumed by K.F Svärdström	17
Use of contacts between agricultural marketing cooperatives and their members by P Grabö	29
Advertising by Agricultural Marketing Cooperatives and Conditions for its success by F.A.Rush	38
Measures to strengthen the position of agricultural marketing cooperatives in view of the increasingly centralised control of retail outlets	53
Questionnaire on the effect of vertical integration on agricultural production in different countries	68
Principles which should govern farmers' relations with integrating firms	111
Some implications of Vertical Integration for the Policy of Farmer Organisations	113
Some Implications of Vertical Integration for the Policy of Farmer Organisations	119
Position of Farmer Organisations and Possible Lines of Action	125

INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

1, RUE D'HAUTEVILLE
PARIS X, FRANCE
TEL.: TAITBOUT 40-35

1624 EYE ST., N. W.
WASHINGTON 6, D.C. U.S.A.
TEL.: STERLING 3-4086

VIA YSER 14
ROME. ITALY

TEL. 866.225

UU 1

Seminar on Agricultural Marketing Cooperatives and Food Distribution Patterns

Recent changes in food distribution patterns

by J.C. Abbott
Chief, Marketing Branch,
Economic Analysis Division, FAO.

1. During the last five or six years, food traders in many Western European countries have become convinced of the advantages of certain new distribution methods and are now adopting them rapidly. Among these are self-service retailing, offering a full range of the foods in normal consumption at one shop, presenting to consumers food wrapped in convenient sized units, and the use of canning and freezing to make continuously available perishable foods which would otherwise be limited in sales geographically or seasonally. Associated with the adoption of these methods are changes in marketing structure, both at the retail level, and in the form and scale of the wholesale supply system as it adapts to new functions. They also have important implications for the marketing of food products from farms.

Self-service retailing

2. Self-service retailing is based on the principle that the customer selects and assembles goods for purchase from shelves where they are on open display. There they may be examined at length with the price indicated clearly. Much time spent ascertaining what is wanted, finding and handing over produce, and discussing price, type and quality is shifted to the customer. Waiting time is reduced considerably. The retailer can sell more with less staff, but must do more price-marking and display work in advance of sale, and incurs increased risk of losses through theft.

/...

3. The balance of advantage in self-service retailing is greatest where the time of both customer and retail shop employee is highly valued. Over 95 percent of retail food sales in the USA are by self service. The first European countries to have several self-service shops were Sweden, Switzerland and the United Kingdom, those where relatively labour has been scarcer and more expensive. Table 1 indicates the growth in number of self-service food shops since 1948 in a number of West European countries.

TABLE 1 - GROWTH IN NUMBER OF SELF-SERVICE FOOD SHOPS

Country	1948	1956	1961
France	-	603	2,000
W. Germany	-	1,379	22,000
Netherlands	1	512	2,656
Sweden	22	3,005	5,426
Switzerland	5	900	1,800
United Kingdom	130	3,000	7,000

It has been especially rapid since 1956 and in most countries still continues. In Sweden perhaps, with one self-service shop per 1,560 inhabitants, the development in terms of numbers may be approaching a maximum.

4. The measure of growth with the most economic significance is the proportion that self-service sales constitute of total retail food sales; estimates for a few countries are shown in Table 2; others could be developed with the aid of the self-service associations, institutes and specialized periodicals which have sprung up in recent years.

TABLE 2 - SELF-SERVICE FOOD SALES AS PERCENTAGES OF TOTAL, BY RETAIL VALUE °)

Country	Year	Percent
W. Germany	1960	33
Netherlands	1959	25
Switzerland	1958	22
United Kingdom	1961	15.5

°) The data in Tables 2 and 3 are not strictly comparable between countries as regards inclusion of bakeries and retail butchers.

Probably one quarter to one third of total food sales are now made by self-service in countries such as Norway, Sweden, Germany, the Netherlands, and Switzerland. Usually the more active elements in the retail structure are further ahead. Ninety-five percent of the branches of the Migros cooperative in Switzerland are self-service operated. That the overall proportion of self-service shops is not already much higher in countries such as Switzerland is attributed to lack of opportunity rather than unwillingness to change. Many of the existing shops are too small to be converted, or conversion would cost more money than the owners can lay hands on. Others are likely to continue on rather uneconomic lines until the present operators retire and then will be amalgamated into larger units, or disappear. Professor Van Muiswinkel has forecasted that the present 24,000 grocery shops in the Netherlands will be replaced in the next few years by some 8,000 small and 1,500 larger self-service shops, and 500 supermarkets.

Sale of complete range of foods in one shop (supermarket)

5. Characteristic of food marketing in Europe has been a narrow specialization of retail outlets by type of food sold. Thus to buy bread, sugar, salt, eggs, meat, fish, fruit, vegetables and wine, a housewife might have to go to as many different shops. This splintering of retail functions might go even further, as for example in Italy with the establishment of separate shops for four different kinds of meat. In each the shopper must wait for service, pay a bill and often have a separate package made up. The concentration of specialised stalls at a public retail market or the grouping of services of retail food shops along a particular street went a certain distance to meet the convenience of the customer shopping for a full range of foods. The development of the supermarket goes a stage further in that it offers the whole range of foods on one set of premises, and permits payment for them at one time, at one check-out stand.

6. Definitions of what is a supermarket vary somewhat between countries. In most cases it is understood that a full range of foods including fresh vegetables, meat, dairy products and fish is carried, and that all are bought on a single account, though sometimes fresh meat is handled separately on a concession basis. The shop should also be of a certain size - 400 square metres is the minimum agreed upon by the International Self Service Institute which was established in 1960 with headquarters in Cologne. In America annual turnover is the size criterion - $ 1 million (Supermarket Institute) or $ 500,000 (Supermarket Merchandizing). It is also usual for supermarkets to stock cleaning materials and other non-food items in daily household use.

/...

7. On the store area basis there are now estimated to be 160 supermarkets in Italy, 100 in France, several hundred in Germany, 50 in the Netherlands, 35 to 40 in Switzerland. The 650 reported for the United Kingdom reflect a lower minimum size of about 200 square meters - but their average size is nearly 600 square meters. Supermarkets are also increasing rapidly in other Northern European countries. In Sweden the consumer cooperatives are reported to have closed down over 1000 small self-service shops during the last two years and concentrated their business in a small number of large supermarkets.

8. The pace of development has quickened markedly in the last two years. By 1965 it is expected that there will be 3,000 supermarkets in France. In Britain more than one new supermarket is opened every day. This accelerating rate reflects a complete swing from the former prevailing mood of cautious experimentation to one of competition for the best available sites. For the leading firms the opening of new supermarkets has become a standard process which can be repeated, with local variations, as fast as planning permission, building dates and capital will allow.

9. This rate of growth in supermarket numbers represents a much more than proportionate increase in their share of the total trade in food. While the 20 Migros markets in operation in Switzerland at the end of 1959 constituted 5 percent of the number of Migros food shops, they handled 19 percent of Migros business. The share of supermarkets in the total food trade in Britain is now about 4 percent, at the present rate of growth it will be 19 percent in four years time. The corresponding figure for the USA is now 72 percent which is unchanged from 1960.

10. How far has the shift to self-service and supermarket retailing affected the parts played by different kinds of enterprises in the food trade? Inevitably some shifts can be expected in reflection of varying initiative in adopting radically new methods and ability to obtain the necessary finance.

11. In 1959, 69 percent of the self-service retail food outlets in the Netherlands were owned by independent retailers, 26 percent by multiples and department stores, and 5 percent by consumer cooperatives. In Britain the consumer cooperatives, which have for a long time occupied an important position in the distribution of foodstuffs, were the first to take up self-service on a large scale. The corresponding percentages for 1959 were: consumer cooperatives 52 percent, multiple and department stores 36 percent, independent retailers 12 percent. This initiative on the part of the cooperatives has helped the movement to maintain its share of the retail food trade in Britain, which had been tending downwards some years

/...

ago. Some recent data on the number of retail food shops in different forms of ownership, and the proportion which employ self-service, are shown in Table 4.

TABLE 4 - OWNERSHIP OF RETAIL FOOD SHOPS AND PROPORTION SELF-SERVICE

		Multiple and department stores		Independents		Consumer Cooperatives	
ountry	Year	Total	% self-service	Total	% self-service	Total	% self-service
rance	1959	25,600	5	155,000	0,2	8,000	0.3
ermany	1960	7,200	47	150,000	11	9,650	22
etherlands	1960	1,280	40	22,000	7	900	14
witzerland	1960/61	1,241	5	17,140	6	4,180	28
nited Kingdom	1959	16,000	12	120,000	1	13,000	24

12. Unfortunately these figures do not indicate the size of shop, the volume of food handled, and the trend in the establishment of supermarkets proper. Were these taken into account, the part of enterprises like the Weston group which has one in five of all British supermarkets, and whose incursions into the German food market as Deutsche Supermarket GmbH led the three largest multiples to combine and take over an existing chain of supermarkets and self-service stores to compete, would stand out more clearly. As in the United States the initiative in Britain has come primarily from outside the grocery trade - from a Canadian millionaire, a large milk chain, and from a department store group. In Italy three quarters of the new supermarkets have been set up by retail chains like Rinascente-Upim and Standa, which were already experienced in the organisation of mass distribution, but not hitherto prominent in the food trade. The biggest supermarket firm in France is controlled by the Brussels department store l'Innovation.

13. The Government started off supermarket developments in Spain. The first 50 were set up there by a state agency from 1958 onwards, mainly to bring down retail food prices and stimulate efficiency in retail trading by strengthening competition. It is also intended that they should serve as models for private supermarket development, which is also being fostered by tax and other privileges.

/...

Pre-packaging

14. The trend towards enclosing food as far as possible in containers that simplify handling through wholesale and retail distribution and the final transaction with the consumer quickens markedly wherever self-service retailing is undertaken. It then acquires new and vital functions. Since the retailer leaves sales persuasion to the product as displayed on the shelf, the role of the package in self-selling presentation is all important. It must attract the consumer, convey information - a description, brand or suggestion that satisfies possible queries on quality, quantity, flavor as well as protect the contents and make them convenient to handle. In Canada it is thought that one third of all purchases in supermarkets are made on impulse, even more for jams, pickles and confectionery. The attractiveness of the package and skilful display advertising are considered to account for a high proportion of such purchases, which are not necessarily irrational or spontaneous actions since inside the store, where prices, quality and substitutes can be compared easily, is the logical place to make buying decisions.

15. Packaging of durable groceries such as sugar, tea, pulses and rice in consumer sized units has been common practice for some time. By 1956 pre-packed foods amounted to one half or two thirds of total food purchases in Austria, Germany, Netherlands and Norway, and to one quarter in Italy. More difficult is the pre-packaging of fresh foods, especially meat, fruit, vegetables and cheese. This has been helped by the improved transparent plastic wraps now available. However, these foods must be packaged only a short while before sale to the consumer if they are to retain quality and appearance. This can be done either in a special section of the retail shop or at a central distribution point in the case of chain grocers. It can also be done by the producer/supplier if distribution can be organised sufficiently rapidly; however, there have been a number of instances where enterprises moving hurriedly into this field have "burnt their fingers", particularly where faulty grading or slow sales have necessitated expensive hand re-sorting and re-packaging. With less easily divisible produce, such as some fruit and vegetables, ensuring that the package conforms to official weight regulations when sold to the consumer has also raised problems. Pre-packaging of fruit and vegetables has probably gone furthest in Britain where 6,000 tons of pre-packed potatoes were sold weekly by 1958.

16. Display of a wide range of canned meat, fruit, juices, vegetables and soups is a feature of self-service retailing. These have long been available in quantity by importation from the USA, Australia

/...

South Africa and South America. An increasing volume is now being canned in Europe. 622,000 tons of canned vegetables, notably peas and beans in tomato sauce, were sold in Britain in 1960, and 367,000 tons of canned fruit. In most European countries consumption of canned food has still a long way to go before it approaches per capita levels customary in America. (see Table 3).

TABLE 3 - PER CAPITA CONSUMPTION OF CANNED FOOD IN EUROPEAN COUNTRIES AS A PERCENTAGE OF THAT IN THE USA 1960

	Fruit	Vegetables	Milk	Fish	Meat	Fruit juice
Britain	76	75	33	40	94	15
Belgium	33	41	42	63	18	4
Denmark	6	17	-	27	35	5
France	22	47	29	50	18	3
Germany	30	32	88	50	41	13
Netherlands	21	26	127	30	55	n.a.

Perhaps the fastest growth in canning can be expected in Italy where large scale canning has been largely confined to peeled tomatoes and tomato paste. With more advanced can-making equipment in the country and the entry of firms from the US and from other parts of Europe, the canning of other vegetables, fruit and juices began to grow rapidly last year.

17. Judging again by developments in America, and by the commercial activity in the frozen food business in Northern Europe, a still much more rapid expansion of frozen food distribution can be anticipated. The current European output of 300,000 tons per year is expected to reach 1.7 million tons by 1970. As against a per capita consumption in the USA of 40 lbs per year the rate for Sweden, which has been the leader in this field, is 7 lbs. Britain comes next with 6 lbs; the West European average is only 2 lbs.

18. At present the degree of concentration in this industry is very high indeed. In Britain Unilever's Birds Eye brand has two thirds of the market and Associated Fisheries, Findus and the Ross Group about 10 percent each. The merger of Findus, which has set the pace in Scandinavia, with Nestle which already includes Crosse and Blackwell, extends this concentration onto a European scale.

19. The acquisition by the Ross fishing group of the Sterling poultry products is significant for its indication that suitability for distribution by a common technique can bring together strange bed-

/...

fellows, a combination unlikely to be foreseen, or replicated from the producer end. However, chicken, turkey and tuna fish are recognized in America as direct substitutes, and competitors in salads.

20. Competition in this field of large enterprises seems to center on advertising at the consumer level, and rebates to the retailer to secure, and maintain, a place in his freezer display cabinet. While it is estimated that 90,000 retailers are equipped to sell frozen food in Britain, and more than one fifth of the food retailers in Germany had freezer cabinets in 1960, the size of these units is inadequate to hold several competing brands in an expanding market. The result is high pressure selling at the wholesale level and extra allowance to retailers which brings their margins above the 20 percent considered usual.

21. The building up of an uninterrupted cold chain from processor to consumer is still going on. It is recognized that a number of frozen foods, fish, fruit and vegetables, concentrated juices, meat and poultry, sweets and prepared dishes, should be taken on together where feasible, since the amortization of the investment is a much lighter burden when the equipment is used for a large number of products. Because of the considerable investment involved, this has proceeded further in the higher income countries of Northern Europe whereas its practical usefulness is particularly marked in the countries of the south with very hot summers. However, the refrigeration equipment industry in Europe is now growing out of the experimental stage; with larger scale operation and increasing competition, purchase costs are tending downward.

22. A comparatively newly-developed sales outlet for frozen foods is the catering trade. In the past the prices of frozen foods have been thought too high for this market, but they are now being accepted as the labour and incidental costs of handling other foods rise. Experiments are also being made with gravity food-vending machines capable of maintaining an overall temperature of zero degrees. It is expected that these will have considerable appeal to housewives who need food to entertain unexpected guests, for example, at a time when shops are closed.

23. "Convenience" foods absorbed one fifth of household expenditure on food in Britain in 1959. Further stages in their provision - the sale of complete frozen dinners, for example, and of complete dehydrated meals, are being undertaken in the United Kingdom by Bachelor and Co. (Unilever). Sliced bread and cheese, prepared sweets, jellies, custards, etc. and instant puddings are becoming increasingly important retail sales items.

/...

Standardization and continuity of supplies

24. For successful self-service retailing easy access to large and regular supplies of produce of uniform type, quality and size units is essential. Ability to obtain such supplies to specification by telephoned or written order without personal examination and bargaining is still more important for the operators of large self-service chains, or supermarkets which may stock 6,000 different items. It is difficult to obtain those conveniently from a structure of small suppliers, or by purchases on a traditional style wholesale market. The Rinascente-Upim group found this a major obstacle in the development of supermarket retailing in Italy. Not even Cirio's with long experience in large-scale tomato canning could meet their requirements and the only dependable supply sources were in other countries. Marks and Spencer - which buys for 400 retail outlets in the United Kingdom - has been unable to take up a number of food lines because of difficulty in controlling quality standards, particularly of imported products. To obtain wholesale contracts for food to be sold under its brand name, suppliers have been induced to make heavy investments in inspection equipment and personnel.

25. An indication of the importance attached to this problem by the major food marketing enterprises in Europe has been the reception given to approaches for funds to finance the coordination of all the existing food standardization work through FAO and the Codex Alimentarius (Vienna). When contributions were sought to cover the cost of this work, the first firm contacted immediately offered to provide annually twice the amount ($ 75,000) needed from all sources together.

26. Ability to obtain supplies in the form desired is also influenced by import controls, tariffs and subsidies which protect domestic suppliers - both farmers and wholesalers - against outside competition and reduce willingness to adapt to new ways of marketing. Especially disturbing to retailers seeking to offer goods consistent in type and quality are protective quotas which may cut off entry of imported foods abruptly when the price of the home produced item falls below a certain level e.g. entry of meat, including processed and canned meats, into Germany and Italy, or when home produce comes onto the market in a certain volume, e.g. U.K., France and many other countries, for fruit and vegetables.

Advertising

27. Since the food retailer using self-service has abandoned the personal contact with the individual shopper, and the opportunity this offers to influence his decisions, advertising becomes all important. The big issue then becomes who advertises i.e. which

/...

identifying brand is put before the public, that of the wholesaling enterprise which makes available a line of foods to many different retail enterprises, or that of the retailer himself.

28. The first of these alternatives favors the expansion of wholesale suppliers of packaged and processed foods which are sold over wide areas on a standard basis. The advertising of proprietary brands is more rewarding the larger the scale of operation, especially where, as in Europe, the radio and television programs are national and regional in coverage rather than local. Brand promotion is especially strong with convenience foods - soups, beans, cooked meat, of which the quality is difficult for consumers to judge. These influences are increasingly apparent in Britain. Nearly $ 3 million was spent on the television promotion of wrapped and branded bread in 1960 and one firm, Associated British Food, now bakes one fifth of the total output. Unilevers spent $ 750,000 in the same way for Bird's Eye brand frozen food, which it distributes directly to retailers rather than through wholesale distributors as is the practice in the USA. Independent retailers and small chains are generally pleased to go along with this advertising system because it ensures that the goods they stock are well known to the public.

29. The large retail chain or a firm with a number of supermarkets has more to gain by putting forward its own brand; it buys and sells enough to justify the promotion cost and it is then able to say that it offers something which is not available in the stores of its rivals, and can set the price at whatever level it likes. Thus in North America the Safeway chain has seen little advantage in selling for example, Swifts' sausages which are available everywhere at a standard price which includes allowance for national advertising of Swifts' brand. It prefers to contract with smaller firms for supplies which will carry its own brand name. This is the same system as that used by Marks and Spencers in Britain with its St. Michael's brand of clothing. Already Victor Value with 30 to 40 supermarkets is sponsoring its own Dairyglen brand of butter, for example.

Wholesale purchasing and supply

30. The need to obtain supplies regularly and easily in large standardised lots, conveniently and economically packaged and with identification well known to the consumer, all points to increasing concentration in wholesale purchasing and supply. In meeting each of these requirements substantial economies are attainable with size.

31. In Britain, with a relatively small agricultural sector and dependence on imports for over half of its food supplies, food wholesaling has long been highly concentrated by European standards. The

/...

Cooperative Wholesale Society is one of the world's biggest food buyers. It assembles and distributes to affiliated retail cooperative outlets almost one quarter of all the food consumed. Further large blocks of retail food outlets are supplied by the central wholesale buying departments of large grocery chains. This contrasts sharply with the position in many other European countries where the bulk of the food comes from domestic agriculture which is highly fragmented.

32. In France, over four fifths of the food supply is handled by 285,000 retailers buying independently; 150,000 grocers are supplied by over 1,000 wholesalers; 40,000 butchers draw from 20,000 slaughterhouses. In Belgium, Germany and Italy also the bulk of the food trade has proceeded by small transactions. Either the retailer went personally to buy in central markets and from small local wholesale supply sources, or he was visited by a succession of travelling salesmen.

33. The formation of retail buying groups and voluntary chains has enabled independent retailers to take advantage of discounts on wholesale purchases in quantity. De Spar, Végé, Centre and V.I.V.O. were already in operation in the Netherlands before the second world war; subsequently they extended their activities to Britain, Germany and other countries. Now they work on a European scale and International Spar has 225 wholesale and 30,000 retail members. Seventy percent of the independent grocers in the Netherlands belong to such chains and buy three quarters of their stock through them. In Britain, shops affiliated with these groups amount to one third of all the independent grocers, and conduct half of their total trade. In Germany the EDEKA buying group had 42,000 associated retailers in 1960, and REWE 12,000. Voluntary food chains there included AFU, Spar, AO, Vivo, Fahring, Elgro, Végé, Tip and Centra with 22,000, 12,000 , 12,000 , 12,000 , 8,000 , 8,000 , 7,000 , 7,000 and 5,000 retail members respectively. Most have 50 to 100 associated wholesalers.

34. By these means the small retail grocer could obtain buying terms more comparable to those of the multiple stores. An additional advantage is that the voluntary chains can arrange for their members to make special price offers for a period of, for example, two weeks. Advertising material is supplied and press and television programs are arranged. The time spent in discussion with commercial travellers is cut drastically and their function can be reduced to merchandising or service calls. More time is left for selling and improving layout and presentation in the shops. At the same time independent retailers have been able to offer lower prices without losing their individuality and the personal contact with their customers.

/...

35. Much of the original impetus to this development came from the wholesalers' fear of being squeezed out as the multiples won business from their independent retailer customers. This is coming up again as a new phase of intensified competition with integrated supermarkets is entered. There is now considerable uncertainty as to whether the flexibility and independence of the looser groups can be maintained in face of new fixed investment and merchandizing requirements. In Germany it is thought that the expected heavy competition from new supermarket firms will result in the transformation of some parts of these firms into fully corporate chains. Spar envisages providing the capital to put retail members into properly equipped supermarkets in the hope that eventually they will be able to repay it and become full owners. It will also promote its own brand. This is in line with practice in Canada, for example, where the member retailers use a group name, a common sales policy and a common private brand. There, in 1960, 27 percent of food sales were supplied by 25 voluntary groups controlling 4,000 stores. A strong tendency toward concentration may be discerned here too, however, since three quarters of this business was done by the four largest groups IGA, Lucky Dollar, Red and White and Clover.

36. The establishment of "cash and carry" wholesale food warehouses is another way of meeting the supply requirements of small family grocers who cannot buy in bulk, at costs more nearly competitive with those of the chains and buying groups. Goods are stacked on shelves, priced and labelled; retailers serve themselves, pay cash and carry goods away in their own vehicles. This system has proved most helpful to the remaining small retailers in Canada, for example. It also offers considerable savings on traveller and delivery costs, an increasingly important item as city streets become more congested and access for unloading, etc. more difficult.

37. Wholesale supply warehouses operating on a press-button basis are also envisaged. Retailers would give their order at the loading point whence it is transmitted electronically to stock rooms; the goods required arrive by gravity chute or conveyor. Efficient stock organisation in such a warehouse may result in items being grouped by regularity of orders, for example, rather than by similarity of character.

<u>Buying arrangements with agriculture</u>

38. The ways by which a large wholesale processing or distributing unit can best obtain supplies from domestic agriculture with the type, form and regularity needed are well known. There is nothing new about the production and sales contract. Long before the second world war many European farmers were being supplied with

/...

suitable varieties of sugar beet and canning pea seed, advised on production and harvesting dates and methods, and instructed to deliver to processing plants specific quantities on specific days, to be paid for on a stated basis by a commercial enterprise to which they were linked by a contract concluded in advance of the planting season. The contracts by which Duttweiler of Migros obtained regular supplies of vegetables produced without the aid of artificial fertilizer for clients who wanted them are another long standing example. Here the price is agreed upon with a committee elected by the contracting producers. Once the trade is established both parties become dependent on the other. The only difference now is that recent changes in distributive patterns make it economically advantageous to extend this approach to many more agricultural products. Large regular consignments of standard quality meat animals, fruit or vegetables will be welcomed by buyers for the supermarkets, while irregular, misshapen and offgrade produce is likely to be sold at a greater discount than previously. Preference will almost certainly be given to suppliers who can contract to forward food cut to the preferred sizes and conveniently packaged. If farmers cannot provide this service, then they are likely to become increasingly dependent on the enterprises that do. Those who provide this service are also likely to be well rewarded relatively to those who do not.

39. Since small farmers may find it difficult to acquire the necessary equipment and obtain direct contracts, the scope for benefiting from cooperative action will be considerable. To take another example before the war, the small 3 hectare farmers established by the Land Settlement Association in Britain were able to obtain regular and favourable markets for tomatoes with Marks and Spencer branches because their daily output was assembled, graded, and delivered consistently by a central organisation.

40. The Danish bacon cooperatives have long set a good example of how to meet the multiple retailers' needs for large regular supplies of standard quality. To take the next step and supply bacon and other meat in more convenient cuts and packages should not be difficult; often it opens the way to a much more profitable distribution of cuts between markets with differing demands. Towers, which distributes one fifth of the New Zealand lamb sold in Britain, planned to pre-pack and freeze one million lambs in 1961. On a recent contract the legs were sold in Britain, the shoulders in Canada, the loins in the USA, the breasts in Ghana and the shanks in Honolulu. The formation of farm-owned enterprises to carry out such operations as, for example, the Fatstock Marketing Corporation in Britain which now that it has acquired Marsh and Baxters' supplies 20 percent of the whole meat market, is surely the right way for agriculture to go.

/...

14

41. If the producers are going to share in wholesale processing profits then it does not matter whether they try to produce exactly what the consumer wants, or as has been recommended by one authority for pigs, produce them most cheaply accept, a lower price and let the processor remove the fat.

42. Efforts on the part of agricultural suppliers to simplify purchasing arrangements for supermarket operators would be all the more welcome in that the problem of finding competent managers for supermarkets is acute. Following a trial and error approach some of the Italian supermarket firms have run though half a dozen men before finding one who could adapt to the new requirements. Weston is said to be bringing over 500 Canadians to start up the new supermarkets coming off his production line in Britain.

43. Local and central wholesale markets for fresh, unpackaged, ungraded produce will almost certainly become relatively less important, as a larger proportion of farmers' supplies go directly to pre-arranged outlets. This does not mean, however, that those farmers who find it convenient to use them for all or part of their output will no longer have an outlet. If American experience can be accepted as a guide, these channels may well continue to handle some perhaps 30 to 40 percent of the total trade from farms. There is a practical limit to how far supermarket buyers can commit themselves to specific supply sources and in face of weather, transport and other factors causing variations in harvest yields and market arrivals, still retain the purchasing flexibility needed to meet their consumers' requirements.

Marketing efficiency and relative shares of the consumer price

44. The retail phase of food marketing has always taken up a large part of the total margin between producer and consumer, e.g. for eggs 40 to 60 percent; for beef 50 to 80 percent. If new methods and organisation at this stage could bring about a significant saving it would be a major advance in overall marketing efficiency. The principal economy of the self-service supermarket is in labor costs. Price listing and adding can be mechanised, checkout operators trained as specialists and their employment related to the weekly pattern of demand. Processing of goods can be put on a production line basis and appreciable economies of scale achieved in price marking and replenishing shelves. One authority maintains that the average-sized supermarket can achieve savings in labor over counter service amounting to about 2½ percent of sales, a significant difference in a total margin of say 17 to 18 percent. Against this must be set increased costs of wrapping in the store of about 0.4 percent °). Extra investment in equipment is offset

°) W.C. McLelland, Economic Journal, London, March 1962: 154/170 by faster turnover of stock and now that supermarkets have become the vogue an insurance or other company with funds to invest can be found fairly easily to finance the capital cost of the building and lease it back to the operator.

45. How far the benefits of lower costs are passed on to consumers depends on the level of competition between supermarkets. During the early stages of a technological revolution this is usually considerable. The need for each new supermarket to attract a high volume of customers if it is to achieve low costs, constitutes a strong inducement to price-cutting. The advertisement of "special low prices" even for branded goods in Britain, Germany and other countries is evidence of willingness to do this. The general move against restrictive business practices and re-sale price maintenance by European governments has also helped. At the same time, however, margins on other items may be kept up to compensate for the cut on "loss leaders" intended to draw in new customers.

46. Further analysis of current food distribution margins is difficult in the absence of reliable up-to-date surveys. Studies in the USA, where much more data of this type are published, suggest that competitive reduction of margins in Europe may proceed for some time, as long in fact as the supermarkets are fighting to establish themselves against the competition of retail traders using traditional methods. Later when various supermarket groups have won a dominant share of the market and all are using the same sales techniques, competition is likely to move away from prices to advertising, and devices to retain customers' loyalty °).

47. Statements on the relative share of the price paid by consumers that goes to marketing agencies and to the original producer must be formulated with considerable care if they are to be meaning-

---

°) Food chains in the USA reduced their average margins from 22.5 to 18 percent of their sales during the two decades prior to 1957 "because of self-service innovations and the development of supermarkets where increased volume has made practical the introduction of time and cost saving machinery." National Association of Food Chains, Progress in Food Distribution, a statement by John A. Logan, President, National Association of Food Chains, to the Consumer Study Sub-committee of the Committee on Agriculture, House of Representatives, May 8, 1957, pp. 15, 24. W.B. England has now shown that the operating expenses of 27 food chains in the USA rose from 16.88 to 18.78 percent of sales, 1955-58; 57 percent of the increase was due mainly to the introduction of schemes whereby customers accumulate stamps to obtain gifts. Operating Results of Food Chains, 1958, Bureau of Economic Research, Harvard University, 1960.

ful. Perhaps most worthy of attention is not so much whether the share accruing to a particular phase of the production-marketing process is large or small as compared with some previous year, but whether it could be larger or smaller given some practicable changes in organisation or procedure. It is no loss to the farmer if the share of the processor/distributor increases because he offers services not available previously, for which the consumer is quite willing to pay.

48. Rising levels of living and incomes available for food purchases, and the steady increase in the number of women in employment and consequently unable to spend much time cooking and shopping and in the number of people living in small households who prefer to buy food in small standard portions, are changing the character of the average consumer. These influences are neither new nor transitory; they are likely to continue and further strengthen the demand for packaged, ready-to-cook food. In many of the Northern European countries they have been present since the early 1940's, but only during the last 3 or 4 years have the implications for food marketing been recognized there. Until then retailers struggled to recruit expensive labor for time-consuming procedures; while consumers tolerated slow service, restricted choice and inconvenient shop hours, and the need for further cleaning and other preparatory work in the kitchen, because they had not realised that the war and immediately post-war sellers' market was over. With the recent rise in incomes and movement of population from the country into new suburbs, an ever-increasing proportion of consumers in Italy is entering into the same category.

49. The foods on sale now at supermarkets include an increasing proportion of items bearing instructions such as "instant" "ready mix" "heat and serve". The prices paid for them must be considered in relation to their time, labor and part of fuel-saving qualities. They are that much more valuable to consumers and their cost is correspondingly attributable to these savings. It has been customary to retail the raw materials for meals. Increasingly now what is retailed is food plus domestic service.

50. Similarly the farmers' net income may be higher if he integrates with a wholesale processor who provides finance, seed and technical services which might normally be costs of production, and a sure market, even though his share of the price paid by the final consumer is lower. He is also likely to benefit where improvements in marketing structure result in increased consumption of the products for which the farmers' share of the consumer price is relatively high, namely fresh meat, fresh vegetables, eggs and poultry.

INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

1, RUE D'HAUTEVILLE
PARIS X, FRANCE
TEL.: TAITBOUT 40-35

1624 EYE ST., N. W.
WASHINGTON 6, D.C. U.S.A.
TEL.: STERLING 3-4086

VIA YSER 14
ROME. ITALY
TEL. 866.225

Seminar on Agricultural Marketing Cooperatives and Food Distribution Patterns

Effect of new distribution methods on prices of agricultural products paid to the farmer and paid by the consumer and on the quantities consumed.

by K.F. Svärdström
Professor of Agricultural Marketing,
University of Upsala, Sweden

- Middleman's margin.
- Price to the farmer.
- Influence of new distribution methods.
- Rationalization and profit.
  - Chances for the middleman.
  - Chances for the farmer.
- Organisation and profit.
  - Bargaining strength of farmers.
  - Rural trade.
  - Competition among middlemen.
  - Consumer as middleman.

1. Implicit in the title is the proposition that the new distribution methods have had an effect on producer and consumer prices as well as on quantities consumed. To prove this proposition it is necessary to show in what directions and how much. Now, this is indeed a very ambitious task with respect to the many factors at work in the market and to the many directions in which most factors can work. We will not be able to produce any definite proofs, especially about "how much". Even as regards "in what directions" we cannot reach farther than a vague probability. The changes in distribution methods, in prices and in quantities are many and obvious. However, to distinguish any meaningful correlations or causal connections is not easy.

/...

Middleman's margin

2. In mentioning prices of agricultural products paid to the farmer and paid by the consumer our interest is focused on the middleman's margin which fills up the gap between the two. In older times that margin was a narrow one, or even inexistent, when the products were sold more or less directly from producer to consumer. Then the gap began to widen as producer and consumer became more and more separated geographically and in time and as more and more processing, packing and advertising were undertaken by the middleman. The agricultural products that left the farmer were no longer comparable with the resultant foods that reached the consumer, nor could the respective prices be comparable.

3. Many investigations have been carried out to show the rise in the middleman's margin and the decrease in the farmer's share in the consumer's dollar (or whatever the currency may be). By definition the rise in the middleman's margin always starts from zero whereas the decrease in the share of the consumer's money-unit starts from 100 per cent. To get some idea about the present position we can quote the following figures:

	Middleman's margin in per cent of consumer price	
	Sweden 1955	U.S.A. 1952-56
All food	-	43
Milk	47	55
Butter	34	29
Beef	27	43
Pork	29	42
Eggs	30	31
Flour in bread	80	78

4. There certainly still exists direct trade between farmers and consumers but such trade is not characteristic of the new distribution methods. For that reason we shall leave it aside for the time being and concentrate on the other extreme i.e. conditions in which the middleman's margin is considerable.

5. The middleman's margin can be described simply as a price for the processing and services rendered by the middleman just as the payment to the farmer is the price for his produce. The two are inseparably joined together in the price to the consumer. Nevertheless, let us assume that they can be separated into two different prices for two different parts of the consumer goods in joint supply and joint demand at the same time. How then would price be determined in the two cases?

/...

6. An impression that one gets from what the middleman produces is that both supply and demand are unlimited, that is, in developed economies under dynamic growth. There might be a limit to transportation and storing, whether we regard them as belonging to the middleman's or to the farmer's product, but not to the other services, such as processing and packing. The volume of these latter products furthermore is flexible. For the consumer there are many substitutes, including very little service when buying at the farm gate, no processing when buying the primary product and no packing when the product is fetched in, for instance, bottles or barrels belonging to the consumer. The middleman on the other hand can vary his product from exquisite processing, packing and all that goes with it down to the unavoidable risktaking. In the short run the middleman might be bound by fixed installations of different kinds to carry on a specific processing, packing or servicing, in the same way as everybody else is bound by materialised previous planning. This limitation on his freeedom could be far-reaching, e.g. in the case of equipment for a mechanized super-market. Even here there is, however, a possibility to vary the service attached to a specific product by different exposition and so forth, including taking the product out of the traded assortment.

7. In brief, the conditions related to the middleman's product are such that an equilibrium between supply and demand at a level remunerative to the middleman can be reached rather easily and rapidly. An adjustment of the quantity of the middleman's product attached to goods of high and low price and to goods for which the price is rising or declining can be made in the light of the actual price and need not be planned only with respect to a future price. This is a prerequisite for a secure income as also, ceteris paribus, for a maximized net income.

Price to the farmer

8. The determination of the price to the farmer, and by this we mean the price for the primary product, follows quite another pattern. The possibility for the farmer to react with respect to price-incentives is very limited. There are many reasons for this. For instance the usually complex production process where any one initial change may have repercussions hard to assess in many directions, and the rigidity of production which makes essential changes only possible in certain stages. There are also many reasons why the farmer often does not want to react to price-incentives and should not be stimulated to do so. Price fluctuations often depend upon crop variations which are highly unreliable. Price incentives furthermore should not be sought for in the actual prices but in the prices that will be ruling in the future when new planning begins to take effect. With respect to the usually long production

/...

period in agriculture there are very seldom any precise price-incentives. These are arguments for price control and especially price-stabilization measures in order to develop the price-incentives out of the mist. That also carries with it a heavy responsibility and with that remark we leave this highly complicated and controversial subject.

9. The foregoing refers to the farmers' actions and reactions. As regards the consumers, either final or intermediate, the reactions can be instant and consequently also guided by the actual prices. However, the reactions are different in different directions. In our economy of plenty with high and, for the majority of employees, stable incomes, a decreasing share of the budget is reserved for food. The expression used indicates that the share is rather stable in money terms and therefore decreases in percentage. This points to saturation, other signs being very low price elasticity for food as a whole and for its more staple components. As an important consequence, food consumption is no longer increasing as income goes up. This we have experienced from about the middle of the 50's in many of the economically and socially developed countries with a relatively even distribution of income.

10. Now, if one share of the budget is reserved for food, others are reserved for housing, clothing and many other things, as also - by the prudent planner - for the unforeseen. Depending upon the nature of the budgeted costs the different shares are fixed to a different degree, the share for food not always being the one most definitely fixed. If the unforeseen happens and the reserves have been exhausted, readjustments have to be made in accordance with the mobility of the different cost-items and in this respect sometimes also as regards food, especially that part of it which we have described above as the middleman's product.

11. To evaluate somewhat more in detail the probable readjustments within the food budget we have to distinguish between periods of rising and periods of falling prices. When the price of one or more foods decreases there is no pressing reason for the consumer in an economy of plenty to change the composition of his total food consumption. He is already rather satisfied. On the other hand, when the price of one or more foods increases there is a need for change sooner or later. As there are available a large number of substitutes for the more expensive foods, balancing readjustments can be accomplished even within that part of the budget for which the housewife is regarded as having a specific responsibility. The food budget is a part of the total budget but in many cases no longer the primary part, in the sense that it has to be filled by quantities and qualities. It is filled with a certain amount of money and sometimes that amount is adjusted because quantities and qualities appear more important as regards other things than food.

Influence of new distribution methods

12. One of the features of the new distribution methods is the rapid growth of the middleman's product and consequently of the middleman's margin. The consumer is paying his price for the products of the farmer and the middleman at the same time. Hitherto, we have tried to characterize the process of price determination as if it consisted of two different parts, one for the farmer's product and one for the middleman's. From the consumer's point of view this is not correct. As has already been pointed out the two are inseparably connected. At the same time the profitability of the new distribution methods, which to the farmer and the middleman is more essential than their effect on price, cannot be measured without duly c.nsidering who it is that carries out what production. We will not be able here to reach any conclusion either from a discussion about price-determination in general or about probable costs of production. It therefore looks as though we might have to change the wording of our problem to read: What are the possibilities under present conditions for the farmers and the middlemen to rationalize their production and in that way to make prices more remunerative, and furthermore what are the possibilities for the farmers, the middlemen and the consumers by organized measures to influence the more final distribution of the gains to their advantage? Let us start with what has first been mentioned.

Rationalization and profit.

13. Rationalization of distribution methods is undertaken both from the farmers' and from the consumers' sides, in the process. The middleman can be the agent and spokesman for both or neither. Let us concentrate on farmers and middlemen when they are spokesmen for themselves.

Chances for the middleman.

14. For many reasons we must assume that there is a limit to the consumers' capacity to react. It can be developed, trained and educated but still there is a limit. That marginal satisfaction decreases as satisfaction increases absolutely is a theoretical expression for this generally acknowledged fact. This holds true not only in a comparison between different products but also for the total consumption.

15. Now let us consider the satisfaction for food in a final processed and packed condition. The package represents three different satisfactions, viz. convenience for the consumer and generally also for the dealer, advertising of the product, and advertising of the packer. The product furthermore represents two different satisfactions viz. of the primary product and of its processing. They all

/...

compete for the buyers' interest. It can be argued that at the same time they are all focusing quantity, quality and price of the product. That might be correct but with the comment that the product is losing contact more and more with the farmer. Arguments about freshness and natural healthfulness are still valid but complemented with knowledge about preservatives, storage, added vitamins, colour and spices and about processing methods in varying degress.

16. The effect of all this is that the farmer's primary product does not any longer come into the foreground of the consumer's interest. Conditions are multifarious and this may be an exageration, but nevertheless the middleman has also long since been interpreting the desires of the consumer by asking the primary producer not for exclusively high qualities but for one standard quality in a large and homogeneous quantity. That standard gets its high quality value from the middleman and under his trade mark. Mechanized processing is used where possible and the new standard advertizes the trade-mark and vice-versa. It seems proper to regard these conditions as giving a special chance to the middleman to rationalize, and also to take an initiative for rationalization of the preceding production. We have reached a point where our discussion turns into one about vertical integration, starting from the possibilities for the middleman to make additional profits and to organize the profit-making under his leadership.

17. Vertical integration is not limited to that link of the distribution chain which joins together the processing enterprise with the primary producer. It can go the whole way from the primary producer to the final consumer and it certainly has been practised in many of the different links starting from one side or the other. Agricultural cooperation is another example of such integration between primary production and processing but in this case organized by the farmers and thus primarily with the object of adapting processing to agricultural production and not agricultural production to processing. By agricultural cooperation different trade-marks for the farmers could be carried to the doorstep of the consumer. However, from experience hitherto, it looks as though that would be easier in a less developed market, whereas in an economy of plenty vertical integration in the other direction is easier and perhaps also more necessary in order to avoid surpluses and other disturbances. If that is so it has a bearing on the direction in which prices can most easily be influenced by the new distribution methods i.e. to the advantage of the producer or the consumer. Here we can mention the present efforts of many farm cooperatives to guide, direct and take over vertical integration between processing and primary production and in that direction.

/...

2

Chances for the farmer.

18. Let us once again return to the increasing and nowadays large middleman's margin, seen as a result of structural changes at large and new distribution methods in particular. In older times even a small middleman's margin was an incentive to direct trade and for the farmer to raise his returns by direct trading. For some time and for many reasons direct trading has been hampered. However, as the margin increases it once again becomes an incentive to direct trading and the new distribution methods offer new opportunities also in this respect.

19. When farm production becomes specialized the quantity of the respective product sold off the farm rises sharply. More attention must now also be given by the farmer to marketing the product. An alternative is created to the cooperative trade which is so necessary when many different products are marketed from the farm and when the quantities are small. Trade by farmers can be direct in the sense that it goes to a private enterprise competing with the cooperative one, that it goes direct to a retailer or chain of stores as is the case in modern vertical integration or that it goes direct to the consumers in the local market. It is the last mentioned type of direct trade that attracts our interest.

20. For many agricultural products there is not only a local market close at hand without much or any processing, but also processing and packing mathods which can be practiced with about as much efficiency on a small as on a large scale. The scale of production on a farm, furthermore, need not to be so small when the production is specialized and eventually industrialised. Under such conditions the products can be marketed under a trademark of the individual farm, as products of an exclusive quality and with the extra goodwill that comes of the farm being known to the buyers in the local market. The products can also be sold wholesale from the farm to retailers or a large retailer for final marketing under the producers' or the retailers' trademark as circumstances prove most profitable. In conclusion, new opportunities are at hand for more direct trading from specialized farms. If taken care of by individual farmers this opportunity could contribute to a rise in the price paid to such farmers. Even if the trade is generated from the retailer as vertical integration into production the effect could be in the same direction, at least for some time. Such merging, however, in itself proves that the initiator is rather confident that he will be able to earmark some of the profits for himself.

21. For the consumers it makes no difference if the producer or the distributor is able to catch the initial profits as long as the more final ones without too much delay are translated into reduc-

/...

24 tions in the price to the consumer. This is normally the case where there are many competitors in the same market, and thus normal as regards the trade in agricultural products. Price regulations and market organisation, e.g. in the form of farmers' marketing cooperatives, may delay the process. An aim of that kind has been implicit in the foregoing discussion about the possibilities for the farmers' cooperatives to take care of or to guide modern vertical integration. A much more important and general means for action in this field is, however, for them to serve the farmers so that they remain members of the cooperatives. The services include provision of credit and advice and such differentiation of the price to the farmer as is justified by the qualities and quantities delivered to the cooperative. Here influence on the price becomes a question of cooperative price policy both as regards the individual members and the consumers at large. To be able to promote any specific price policy, strength is needed in the marketing operations.

Organization and profit

22. We have tried to divide our discussion about the effects of the new distribution methods into two parts under the headings Rationalization and profit and Organization and profit. The two activities are to a large extent congruous. Improved organization means rationalization and other kinds of rationalization very often or always have an influence upon the organization. Nevertheless, in order to simplify, we have tried to discuss under rationalization influences with a bearing upon the individual and under organization influences stimulating - or discouraging - group activities.

Bargaining strength of farmers.

23. The most important of all factors influencing agricultural prices and/or the farmer's income in our times are the agricultural support measures. These are excluded from our present discussion, but some general remarks are nevertheless justified. To be brief, let us regard these measures as springing from economic and social motives and designed to help the farmers during a transitional period and to assist in moving agricultural production into a new era of specialization and other efficient methods. Transitional is perhaps a disputable word describing something that goes on for ever, in the form of both an economic and a social process. However, the change from an economy of scarcity to an economy of plenty in the western world reasonably can be called transitional even though it will be going on for a long time. In some countries the end of it is already being felt as underpopulation in certain rural areas and as a growing interest in a selective balance of the

/...

agricultural production. The final effect is less strength in the support measures and some additional pressure on the prices to the farmers.

24. The agricultural support measures in any extended form must by nature be governmental. In less extended form they remain market operations of business enterprises within the framework of the existing legislation. The creation of the farmers' cooperatives and their national integration was stimulated at an earlier stage by the possibilities in that respect and in certain countries even promoted by the government. Later on the responsibility for price stabilizing market operations was concentrated upon the governments. To some extent this has, together with many other factors, weakened the farmers' interest in their centralized co-operative organizations and thus probably also weakened their bargaining power in times to come. The situation certainly can be remedied in this respect but at the same time we must be aware that there is always uncertainty in the future.

25. Some of the uncertainty stems from the much-observed new methods of distribution. In older times the farm products were retailed to the consumers with little processing and in shops which, because of their smallness and the rigid regulations with regard to the then existing hygenic conditions, had to specialize in a narrow assortment of consumer goods. This meant that a large proportion of the goods was supplied by one wholesaler i.e. one cooperative branch organization. Where competition from other wholesalers was limited the retailer found himself dependent upon the wholesaler, who also had ample opportunities to integrate into the retailing. No doubt this also had an influence on the sharing of the profits. The farmers with the help of their cooperatives could to some extent control the middleman's margin either by reducing the price to the consumers in order to sell an increased quantity or by keeping the margin at the market level and distributing the profits to the farmer members.

26. Conditions nowadays are very different or rapidly becoming very different. The small shops have disappeared, especially in the urban areas, and have been replaced by self-service stores, supermarkets and shopping centers, all with a wide, not to say very wide, assortment of goods. Dependence on any one wholesaler has lessened. Instead, the retailers have been linked together in chains of different kinds, all having, in greater or lesser degree, centralized technical departments, advertising, financing and buying. The producers of consumer goods are now becoming more and more dependent on such chains. Selling power is always balanced by buying power and vice versa, but if previously there has been an unbalance to the advantage of the farmers' cooperatives, now the

/...

unbalance is to the advantage of the middlemen, including specialized consumers' cooperatives and their buying agency. The related problems centre on questions about who is going to develop the processing of the farmers' primary products, and in what directions and under whose trade-mark the final goods are to reach the consumers; it being understood that the one who holds the trade-mark can claim an extra payment for it, in addition to the price determined by supply and demand or out of that price. Conditions vary from country to country and it is certainly very difficult to distinguish the general trend. In order not to be too optimistic perhaps one could say that the prospects are not especially bright for the farmers to experience any special price-raising tendency out of the changes taking place as regards the urban trade in their products.

Rural trade.

27. As regards the rural trade this is in many areas decreasing because of the decreasing rural population. On the other hand in many areas it is also increasing because of the rise in living standards, the extension of centralized processing even to otherwise home-produced foods and the specialization of farm production. Organizing of the rural trade has its own problems. Many signs now point to the need for more attention to be paid, in the interests of economy, to the possibilities for coordinating transport to and from the farms or, more generally, to and from the rural districts. This places a special responsibility on the farmers' cooperatives. There are also some signs at least that in the future the farmers' cooperatives will become more markedly rural cooperatives and the urban cooperatives more markedly consumers' cooperatives as the specialization of both types of areas continues.

28. This is not the object of our discussion, except for its implications upon the price to the farmer for his products in relation to the price the farmer has to pay for what he buys. Obviously, no rural distribution system can be built up only for farmers. Sooner or later it must also include the non-farmers. This leads us to the conclusion that the price of the consumer goods must be in accordance with the market price and, accordingly, that the possible profits, if any, must be distributed to the farmer-members only.

29. As regards what the farmers buy to run their farms the price policy could be more elastic. Now, consumer goods for the farm family are also necessary to run the farm and in some cases are the same as the goods needed for farm production. As an exercise, let us assume that there are only farmers in a certain rural district. Under such conditions the aim of the price policy could change from one aiming at the highest possible price for the products delivered

/...

to one aiming at the lowest possible price for the goods bought. We certainly are aware that in practice the aim will have to be a compromise between the two and that this is all the more necessary the more farmers sell and buy different quantities of different goods. Nevertheless, the combination of trade in question opens up new perspectives as regards the difficulty of evaluating prices especially as cost-price calculation in a multipurpose organization to some extent always ends up in philosophic judgments.

Competition amongst middlemen.

30. In a previous section we have indicated that the new methods of distribution have placed the middlemen in a strategic position as regards price determination. That is true with due regard to governmental intervention but not in the sense that every middleman now has a good opportunity to make himself a fortune. A great deal of what we can call the middlemen are consumer cooperatives working actively to transfer the profits into the hands of the consumers. Consumer cooperatives, furthermore, are competing with other middlemen in the market and this is another way to transfer the gains into the hands of their members and into the hands of consumers in general without any visible profits. The impression one gets from the present food market is that competition is extremely keen and that accordingly the consumer is an easy winner. This is especially so as food in the very wide assortment of the present day often seems to be priced in order to attract the attention of the consumer to the establishment in question. Price reductions on food have become a remunerative form of advertising which is followed up in the establishment with an attractive display of food or of goods other than food. The result is, of course, that the consumer gets the food at a low price and has to pay a correspondingly high price for other less price-sensitive or less goodwill-creating goods. So far there is nothing to object to from the farmers' point of view. However, price wars when things go that far are always disturbing and part of the disturbance at least in this case is often reflected upon the farmer. The price to the farmer is open to question even when officially controlled and the argument behind the price policy can easily be turned upside down to mean that the price to the farmer is too high to assure the middleman a decent reward or any reward at all for his services. In conclusion we find that with the modern methods of distribution the middleman's margin for individual products is very flexible, with corresponding influence on the price not only to groups of consumers but also to groups of producers.

The consumer as middleman.

31. The new methods of distribution imply inter alia, for the

/...

consumer, buying of more processing and services, buying from larger stores and consequently buying more items that are not absolute necessities and also buying at longer distances. It also implies buying of more standardized goods. In other respects too the situation for the consumer has changed: he has a larger income, better transportation facilities and perhaps a car of his own, a better residence perhaps equipped with refrigerator and freezer. He and especially she has fewer servants or none at all and perhaps another job beside being a housekeeper.

32. Taken together,all that has been mentioned stimulates more planning of purchases, buying in larger quantities and more storing in the hold. In this latter respect we can speak of a return, even within the urban areas, to an economy of housekeeping practised on the farm since very long ago. In brief, the consumer has begun to take over some of the functions attributed to the middleman in order to economize both income and time.

33. Naturally, this has had an inflcunce on the price to the consumer, difficult to measure perhaps because of the multitude of different rebates for bulk buying, seasonal buying and buying more or less direct from the producer.

34. If it is difficult to measure the economies resulting from the consumers' new activities as middlemen it is still more difficult to ascertain in what direction future development will go. Both producer and consumer still seek to shorten distribution channels, as they always have done. So far the channels have become longer and longer and at some point this development could break. However, that is a subject to be discussed at some other time.

June 1962 COOP Seminar/62/3

INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

1, RUE D'HAUTEVILLE
PARIS X, FRANCE
TEL.: TAITBOUT 40-35

1624 EYE ST., N. W.
WASHINGTON 6, D.C. U.S.A.
TEL.: STERLING 3-4086

VIA YSER 14
ROME. ITALY

TEL. 866.225

Seminar on Agricultural Marketing Cooperatives and Food Distribution Patterns

Use of contracts between agricultural marketing cooperatives and their members

by P. Grabö
Deputy Director
Swedish National Farmers Union, Stockholm

1. A system of contracts between agricultural cooperatives and their members may be looked upon as a kind of vertical integration with the cooperative as integrator. Another kind of vertical integration between primary production and processing-distribution with a cooperative as integrator is present, where the cooperative engages in farm production on its own, utilizing its own productive resources. This paper, however, is limited to a discussion of vertical integration by means of contracts and with agricultural marketing cooperatives as integrators.

The background

2. There is every reason to believe that the forces behind the increasing use of contracts between farm cooperatives and their members are largely the same as the economic forces behind vertical integration in general. When agricultural cooperatives are signing production contracts with their members the products involved are usually those in which vertical integration with integrators other than farm cooperatives has had its greatest success.

3. One important part of the reasons for vertical integration with primary production in agriculture has already been dealt with during this conference under the heading "Recent changes in food distribution patterns". Consequently it may suffice with the

/...

observation that the economic environment, in which agricultural cooperatives find themselves, has changed radically in recent years. An increasing standard of living, linked with an increased demand for high quality foods, conveniently prepacked and ready to consume with a minimum of preparation in the kitchen, are important features of modern living with important implications on food production. The self-service system in food retailing, large-scale operations of the supermarket type, centralised control over a substantial part of the retail trade through organized groups or chain food stores, are other features in an advanced economy which have brought important changes to agricultural cooperatives. The concentration of population to cities and towns is another element of the background against which vertical integration in agriculture ought to be seen.

4. Agricultural production as such has undergone important changes under the influence of modern science. At the same time wages for farm workers and the income aspirations of farmers themselves have increased rapidly. Scientific progress has made big-scale production increasingly possible in agriculture and higher wages have been important forces in promoting specialized production on a bigger scale. Vertical integration fits in very well in this development, whether it takes place by means of contracts or by means of the integrator gaining direct control over productive resources through ownership.

Compulsory delivery in farm cooperatives

5. For many years it has been customary for farm cooperatives, particularly in Europe, to include in their by-laws the obligation on the member to trade exclusively with the cooperative as far as those commodities are concerned which the cooperative handles. At the same time the cooperative has agreed never to refuse to deal with its members. When such a provision is included in the by-laws an important element of a production contract is present. The member is usually paid according to the quality of products delivered. The price differences between different qualities are under these circumstances the most important factor for promoting production of sufficient quantities of products of the qualities most in demand.

6. Even when compulsory delivery and payment according to quality is enforced by provisions in the by-laws the individual member is substantially free to decide on the scale of production and the timing of his production program. The cooperative has the responsibility to accept any volume of products when the member finds it fit to deliver. It also has the obligation to accept the quality the member is offering.

/...

7. In such cases the cooperative obviously may have a strong interest, by other means than provision in the by-laws, to influence the volume as well as quality of products delivered, for instance through advice and propaganda. When such advice or propaganda is included as a systematic and continuous activity by the cooperative another important step is taken in the direction of contract farming. The liberty of the member to make his own decisions and to produce whatever he likes to produce in whatever quantity and quality he finds fit remains, however, much less limited than when he has signed a production contract.

8. From the cooperative's point of view compulsory delivery and payment according to quality are relatively incomplete and less dynamic tools in influencing farm production than a production contract. They constitute, however, a certain base for planning the investments by the cooperative and for improving the use of plant capacity. Obviously many cooperatives have found this method too incomplete and inadequate in their efforts to secure the right quantities and qualities of products in proper time to be able - in their turn - to engage in a delivery program, suitable for a centralized retail food trade of the self-service type.

9. It is not a purpose of this paper to analyse contracts by farm cooperatives in detail. Furthermore it has not been possible to quantify the relative importance of contract production in farm cooperatives, whether in North America or in Europe. A few examples of how farm cooperatives, primarily in North America, are using contracts with their members have been selected as a base for the discussion. Important questions are of course why farm cooperatives have undertaken to go into contract farming, either by necessity or by their own initiative. From the point of view of farm cooperation itself it seems to be equally important to discuss what implications contract farming at the initiative of agricultural cooperatives may have on cooperative developments in general, if certain traditional cooperative principles are taken into account.

/...

Some examples *)

a) This cooperative is primarily concerned with grain marketing, but has added a number of other services such as feed mixing, soil analysis, supply of petroleum, feeds, and fertilizers.

In 1959, the cooperative set up a pig marketing department and started contracting with hog producers. Contracts are signed for a period of two years, during which the producer undertakes to deliver all his hogs for marketing to the cooperative. A Swine Marketing Committee, consisting of five hog producers and two members of the board of the cooperative, is responsible for selling the hogs in the most favourable way. The hogs are all sent to a nearby packing plant with which the cooperative has a contract.

Hog producers who are not already members of the cooperative have to join in order to participate in this scheme, and thus are subject to the rules of the cooperative. The contract does not enforce use of the feedingstuffs manufactured by the cooperative, but in fact most producers under contract do use them. Only producers with a substantial hog enterprise (at least 200 hogs marketed annually) are accepted.

As an aid to farmers, the cooperative supplies high quality breeding stock (meat-type hogs) from its own ranch on a lend lease basis. These come in units of 10 sows and a boar, for which the farmer pays $3 service charge per animal. The animals remain the property of the ranch but the farmer keeps the litters (up to four) with the exception of one 80-lb. pig per litter which is due to the ranch. Veterinary expenses for the basis breeding unit are shared. The cooperative has on its staff a fieldman who gives the farmers advice on feeding and management, and helps them construct proper pens where necessary.

b) This cooperative is multipurpose, with a wide range of marketing and supply functions. In the area it serves, the cooperative markets 50% of all broilers, 25% of eggs, 50% of livestock, 75% of grain, and 50-60% of seed, and supplies 50% of feedingstuffs, 40% of seed, 20% of fertilizers, 40% of insecticides, and 70% of chicks. Its services are highly integrated.

In this cooperative members are free to choose between producing broilers independently or under contract. Members

/...

/...

*) Partly quoted from IFAP-document AC 3/61

signing a contract obtain chicks, feed, medication and supplies from the cooperative and the growing of broilers is supervised by fieldmen, employed by the cooperative. Credit is extended by the cooperative against an increase in the price of feed and chicks on and above the price to members paying cash.

Growers signing contracts must be approved by the cooperative and the cooperative is free to refuse to sign contracts with members if their equipment for broiler production is poor or incomplete in the judgement of the cooperative or if it is likely that they are not going to be efficient producers. In 1959 this cooperative guaranteed a minimum price to the grower signing contract according to the following provision.

"Regardless of whether the sale of the flock of broilers results in a profit or loss, Farmers Exchange, Inc. will pay the grower upon sale of this flock of broilers at the following rates based on the feed conversion which is the number of pounds of feed used to produce one pound of meat.

When feed conv. is:	Rate per pound will be:	When feed conv. is:	Rate per pound will be:
1.91 to 2.00	3.0¢	2.51 to 2.60	1.8¢
2.01 to 2.10	2.8¢	2.61 to 2.70	1.6¢
2.11 to 2.20	2.6¢	2.71 to 2.80	1.4¢
2.21 to 2.30	2.4¢	2.81 to 2.90	1.2¢
2.31 to 2.40	2.2¢	2.91 to 3.00	1.0¢
2.41 to 2.50	2.0¢	3.01 and over	0.0¢

When each flock of broilers is sold, in case they bring more money than the cost of feed, chicks, medicine, other supplies, and the incentive payments earned by the grower, then the grower will be paid the remainder."

This cooperative in 1959 also carried on an egg marketing program on a limited scale. Also in egg production members were free to choose between signing contracts or producing independently. Under the egg production contract the cooperative agrees to supply contract growers with chicks, feed, medication and supervision for raising laying flocks. It is estimated that the cooperative after about five months had invested slightly less than two dollars per laying hen. Contract growers agree to deliver all eggs produced to the cooperative and 85% of the proceeds from eggs delivered is deducted to make out for credit extended as long as any debts remain unpaid. By this arrangement it was estimated that the growers debts to the cooperative should be completely eliminated in

/...

about eight months of production or at an age of the laying flock of about 14 months. In these cases 6% interest was charged on remaining credit together with five dollars per ton of feed above the cash price.

c) Several North American cooperatives have engaged in egg marketing agreements by contracts with their members although contract growing in egg production is not as common as in the production of broilers. Contracts between cooperatives and their members in egg production seem to be fairly well standardized with several provisions clearly having the aim of improving the quality of the product and also to make it possible for the cooperative to estimate the size of production well in advance of delivery. One or two key provisions in an egg marketing agreement of a Californian cooperative may be quoted.

"Member hereby agrees to deliver to the Association, at such delivery point or points as the Association shall designate, <u>all eggs produced by him</u> other than eggs of Member which are used or sold for hatching purposes; in this reference Member shall fully report to the Association all Members production of hatching eggs on forms provided by the Association when requested to do so by the Association. The Association shall have the exclusive right to determine the frequency of Member's deliveries hereunder <u>and the minimum quantity of each delivery</u> which shall, in the Association's opinion, be economically feasible for handling and processing the eggs which are the subject of this Agreement".

"Inasmuch as it is now and ever will be impracticable and extremely difficult to determine the actual damage resulting to the Association, should Member fail to deliver to the Association all of the eggs herein agreed to be delivered, Member hereby agrees to pay to the Association five cents (5¢) for each dozen eggs sold, consigned, delivered, or marketed by or for him otherwise than to or through the Association,as liquidated damages for the breach of this contract in that regard, all parties agreeing that this contract is one of a series dependent for its true value upon the adherence of each and all of the contracting parties to each and all of the said contracts."

d) Several cooperatives in western USA sign contracts with growers of fruit and vegetables, primarily for canning purpose. Such contracts usually run for several years with the possibility for the member to withdraw from membership and contract

/...

at written notice during a specific time previous to the crop season. The same right is by contract also given reciprocally to the cooperative.

In these cases growers agree to deliver all the products produced to the cooperative and the grower undertakes the obligations to comply with the cooperative's rules and regulations for growing, picking and delivery. The growers also accept, by contract, the grading standards and classifications established by the cooperative. In some cases at least, the cooperative may reserve the right to refuse to accept delivery of products, which in the judgement of the cooperative do not conform to the standards established by it.

In these contracts there is usually the provision that the member agrees to pay a sum equal to 25% of the market value or not less than 10 dollars per ton of products should he fail to deliver all products produced to the cooperative.

e) The local societies belonging to the Swedish Purchasing and Marketing Association offer contracts to members for the growing of table potatoes. This particular kind of contract growing has been increasing rapidly during the fifties. According to a recently formulated program of the Association it is intended to extend contract growing of table potatoes considerably during the next few years.

Under the provisions of the standard contract the member undertakes to grow potatoes on a certain number of acres with seed potatoes supplied by the cooperative, or with his own seed potatoes after control and acceptance by the cooperative. The member also is responsible for growing potatoes only on soil suitable for the production of a high quality product. Fertilization and management are carried out under the supervision of the cooperative.

At harvest time the member has to estimate the approximate size of the crop and to report to the cooperative in advance of delivery and also at the request of the cooperative to deliver a sample for grading. The member agrees to deliver all the crop to the cooperative and not to sell to other buyers without specific permission.

The cooperative on the other hand undertakes to provide supervision and advice, to deliver seed potatoes in sufficient time before planting, to undertake the grading and quality control and to pay the member not later than 30 days after the week of delivery.

/...

Advantages with contract farming

10. A contract obviously can be an efficient tool in promoting the production of high quality products of specified standards. When the cooperative undertakes to supply the grower with breeding stock or seed and feed it has taken an important step in the direction of determining what kind of products the member shall produce. When the cooperative extends advice or supervision for handling and management of animals and crops one further step is taken in the same direction. By further deciding on the time for harvest or for the delivery of meat animals for slaughter the cooperative very efficiently can influence the type and standards of the product according to demand. The scope for the member to make decisions in these respects is limited accordingly.

11. Contract growing also opens up another important possibility for the cooperative. By distribution of contracts over time and by making out a planned delivery schedule the cooperative can improve the use of capacity in processing plants, grading stations and so on. At the same time the signing of production contracts with the members gives a secured supply of products of a reasonably well defined standard. This is of course an important provision for the cooperative when it in its turn is going to undertake the obligation of supplying the retail trade with a continuous flow of products.

12. It is easy to realize that such contract arrangements are especially useful in products suitable for mass production and mass retailing. As a matter of fact mass production and retailing might not be possible without vertical integration by means of contracts or otherwise. In such cases the choice for the cooperative might be extremely limited. Either it has to undertake to go into contract growing or it will have to lose business to other types of enterprise.

13. On the other hand the reasons for cooperatives to go into contract arrangements with members usually are less compelling where food distribution is not to any considerable extent dominated by supermarkets and chain food stores with centralized buying.

Certain problems in cooperative contract farming

14. Even if it seems clear in many cases that there are strong reasons for farm cooperatives to go in for contract arrangements with their members there may also be reasons for cooperatives to adopt a careful attitude to the same developments. Contract farming of the type referred to in the examples mentioned above may accelerate a development in the direction of industrialized farm production in bigger units. This could easily add to the adjustment problems for members not signing contracts. To the extent contract farming facili-

/...

tates big-scale production it may also lead to over-production of the commodities involved. One farm product is frequently competitive with another and contract growing of such a product may lead to competition with other groups of farmers who may also be members of the same cooperative organisation. This could lead to the creation of a conflict between different cooperative members.

15. From the examples quoted it is clear that farm cooperatives extending contracts do not always automatically accept all applicants. On the contrary it seems to be a rule that the cooperative has to limit the number of contracts in one way or another in order to adjust the supply of products under contract to what markets can take. In order to make the best possible use of its resources the cooperative may choose to limit its contracts to the most economic producers. It may prefer to sign contracts with the most efficient farmers producing certain minimum quantities and with convenient location. This will put the smaller farmer, the less efficient farmer and farmers in certain geographical areas at a disadvantage. Contract growing on a selective basis will obviously and in general be in conflict with the widely accepted cooperative principle of open membership. A departure from that principle is likely to bring a real conflict into the membership of the cooperative as a whole.

16. In order to avoid problems created by contract farming many cooperatives have been reluctant to undertake contract arrangements even if they have clearly realized their possibilities. As an alternative they have engaged in extending credit to members and in giving advice and service in production matters. By cooperating with the regular extension workers in the country farm cooperatives in this way have been able to help their members in achieving better efficiency without limiting the freedom of the member to decide for himself.

May 1962 COOP Seminar/62/4

INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

1, RUE D'HAUTEVILLE
PARIS X, FRANCE
TEL.: TAITBOUT 40-38

1624 EYE ST., N. W.
WASHINGTON 6, D.C. U.S.A.
TEL.: STERLING 3-4086

VIA YSER 14
ROME. ITALY
TEL. 866.228

Seminar on Agricultural Marketing Cooperatives and Food Distribution Patterns

Advertising by agricultural marketing cooperatives and conditions for its success

by F.A. Rush, Deputy Director of Danish Agricultural Producers' Information Service

1. As Danish Agricultural Producers' Information Service in London we are honoured to have been asked to give a paper on "Advertising by Agricultural Marketing Cooperatives and Conditions for its Success".

2. I say "we" because although I wrote it and I am delivering it, the paper was written in close collaboration with our Director, Mr. Robert Jorgensen, and it is the product of our joint experience in the field of publicity for Danish agricultural products in the British market.

3. You will probably discover the significance of my making this point when and if it comes to questions. This is a large and complex subject and I don't pretend to "know all the answers" in either the colloquial or the literal sense of the term. None of us does. That, surely, is why this seminar has been organised.

4. At the outset I think it would be wise to make clear to you that we are not "Advertising men" in the accepted sense of the term. We are not an advertising agency. We can, perhaps, be best defined as officials of the Danish farming organisations responsible for every aspect of advertising and promotion of their products in the United Kingdom. We employ on their behalf advertising agencies, studios, printers, exhibition contractors, and any other undertakings necessary to this work. We advise our export boards in Denmark on advertising and promotion in the British market and we see that the projects, schemes, and policies they adopt are carried out with the maximum of efficiency.

/...

5. D.A.P.I.S. was formed immediately after the war to serve all the Danish agricultural producers' organisations, and our activities were expanded in preparation for the day when the post-war food controls would be lifted.

6. The supply of marketing and economic information to Denmark became a very important part of our expanded work, and our work in this respect throughout the years from 1946 to the mid-fifties did much to equip us for the unusual position we occupy to-day.

7. We are in charge of every aspect of advertising, publicity, public relations, promotions, and market research in the U.K. for the agricultural export organisations of Denmark. We serve the farmers of Denmark as these organisations are based firmly on the fact that rather more than 90% of Danish farmers are members of co-operatives.

8. It is important that you should appreciate our position, not only because it explains the inadequacy of our title, Danish Agricultural Producers' Information Service, but because of our all-embracing function on behalf of Danish agricultural producers.

9. This is a highly significant point in its practical relationship to the problems of advertising by agricultural marketing co-operatives and has a considerable bearing on the conditions for its success, as I think you will appreciate later.

10. The reasons we were asked to give this paper are, I am sure:

Firstly, Danish agricultural cooperation in processing and in marketing dates back to the '80's of the last century and, although it had its early difficulties, it was, from the start, a success. There are still private dairies and bacon factories, but the cooperatives are dominant and the private firms now cooperate with the cooperatives on the export boards. These were originally established to deal with the problems of the bulk purchasing period from the end of the war to the mid-fifties. They continue as valuable coordinating points for export policy on a commodity basis.

Secondly, the United Kingdom market is the only open market for large supplies of foodstuffs in Europe and Denmark's agricultural development since the latter part of the nineteenth century started by setting out to supply Britain's rapidly growing industrial population with quality foodstuffs at a reasonable price.

Home production in those days could not possibly meet the ever rising demand - and in spite of technical advances in production, State aid and guaranteed prices, the United Kingdom still has to import about half its food requirements.

/...

Denmark is a major supplier and since the mid-fifties Denmark has become one of the major advertisers of agricultural products in the British market.

Thirdly, it is reasonable to assume that Denmark's experience must hold much of value in discussing this problem of advertising by agricultural marketing organisations because Denmark appears to have evolved a system and organisation that can cope effectively with the mid-20th Century pattern of things - the age of the branded pack and competitive consumer advertising, of working wives with little time for shopping who want convenient foods, of the trend to standardisation, the growth of self-service and the supermarket, of bigger units at every stage from production to the consumer.

11. Denmark was in a position to undertake large-scale advertising of agricultural products in keeping with these developments when the need arose because she passed through the early stages of agricultural cooperation in the last century and established large-scale cooperative marketing, quality standards and a brand mark for bacon and butter no less than half-a-century ago.

12. You will therefore forgive me if I speak mainly about Denmark and the U.K. market. This is not merely because we know them best, but because the evolution of Danish agricultural cooperative processing, marketing and advertising illustrates the practical points I have to make in a thoroughly factual way. We feel that this paper must be as factual as we can possibly make it,for the trouble with most discussion on the advertising of agricultural products is that it takes place with little or no relationship to all the hard facts that lie between the farmer and his ultimate customer - the consumer - except complaints about the behaviour of a host of middlemen. It is not as simple as that.

13. Why is it so complex?

14. Just as we understand Denmark's agricultural cooperation better if we understand its origins, we understand why agricultural advertising is such a difficult problem if we remember that farming is the world's oldest industry. In its self-conscious and self-important present farming is often very like an old perennial border cluttered up with its own roots. It is the product of its own past.

15. The origins of Denmark's agricultural cooperation lie largely in (i) the opening up of the grain-growing West and the coming of the steamship which caused Denmark to turn from being a corn-exporting country to an importer of cheap corn with which to produce

/...

milk and pigs; (2) in the Folk High School movement, with its strong community spirit, founded in the early 1840's, which educated still farther an already educated peasantry - they had had compulsory education since 1815 - so that they understood the need of this agricultural revolution and so (3) developed the producer cooperative movement, founded at Hjedding in 1882, which was inspired by the consumer cooperative movement which started at Toad Lane, Rochdale, in 1821.

16. It is because of this development on a national scale that Denmark almost unconsciously laid the right foundations for advertising at a very early stage. Cooperative processing brought production in quantity. Production in quantity brought the need for marketing in quantity which led to the formation of marketing associations. Because marketing presupposes the will to promote, including the necessity of studying consumer needs and of establishing quality control with a brand mark, Denmark was early in the field with a simple version of branded products under the Lurmark, specifically to meet the needs of its principle market - the U.K. Attention to the needs of consumers was built into the whole marketing attitude of the Danish cooperatives which naturally and inevitably became highly federated on a national basis.

17. It follows that Denmark has been well attuned to the developments of the 20th Century and the changing pattern of things as outlined earlier. It may well be that Danish farmers would much prefer the easy-going ways of the days before advertising and high pressure salesmanship became the order of the day; but we have to live in the world as it evolves and the point is that Denmark was in a position to go into agricultural product advertising when the need arose because the main prerequisite essentials to success were already there and its leaders were capable of thinking along the right lines.

18. This is not to say that Denmark "knows all the answers" and has solved all the problems. The changing structure of the food trade through the growth of wholesaler groups and retailer buying associations, large multiple units, and the rapidly increasing number of supermarkets and self-service shops means that private or cooperative processors and marketers of agricultural products alike must exert an influence in various ways right up to the retail shop counter.

19. This, I am sure, must be done universally and in most markets to ensure that press and television advertising directed at the consumer is properly supported by good service - no stale, old stock on the one hand and no shortage of supplies, on the other, to frustrate the housewife when she asks for an advertised product.

/...

There must be ample point of sale reminder material on display along with the product itself (or first-class dummies), that cans and packets are not battered and unattractive or damaged, that wholesaler or retailer complaints are investigated and faults remedied.

20. Means must be found to combat the sort of speculation that either influences prices to the detriment of the producer or harms the product by holding too long - sometimes, indeed, both at the same time. They must seek a remedy for the undue delay in passing on reduced prices resulting from normal reactions to supply and demand, which the producer must accept and which are necessary at retail level to bring prices back to the economic level again as quickly as possible.

21. Some kind of reorientation and adjustment to the new structure of the food trade with its concentration of buying points will undoubtedly be necessary in the near future, but what form this should take is by no means clear as yet. The fact that in the U.K. three-quarters of the grocery and provisions trade is represented to-day by little more than 1,600 centralised buying points while the other quarter has 60,000 has implications and effects that demand close study and appropriate action.

22. These and other related problems remain to be solved; but I think all will agree that, looked at objectively, Danish agricultural advertising is in a better position than most. Why?

23. I do not think anyone here is likely to disagree very strongly with my basic views on this. These are:-

1. The direct sale of farm products to the consumer is not practicable in a developed economy though it was the practice for centuries and somewhat more than vestiges remain in country markets all over Europe.

2. In the modern economy farmers are regarded as merely suppliers of raw material to be processed and marketed by others. A rapid increase in contract farming is now taking place in consequence. This cannot be in the farmers' interest unless they run the processing and marketing plants cooperatively.

3. The immediate products of the farmer (milk, pigs, beef cattle, chickens etc.) are clearly not advertisable as consumer commodities until processed in greater or lesser degree. Except for a diminutive minority of farmers who may happen to be producing some specialist, luxury commodity that they can market direct themselves the farmer is bound to be a raw material producer.

/...

4. As a unit he is not normally large enough to justify advertising in any event.

5. The cooperative principle is the only way to extract the farmer from this position. Until he has got control of the processing and first-hand marketing he stands, economically, on the bottom rung of the ladder and he will always get someone's heel in his face when the other fellows have to come down. Except for a farmer in a fairly big way of business with some specialist consumer product, bearing his name, the individual farmer has no grounds for consumer advertising and, in any event, could never be a large enough unit to afford advertising of sufficient impact.

24. I think it would be useful at this stage to examine the purpose of advertising by agricultural marketing cooperatives and the implications of advertising.

25. By the very nature of such organisations, the purposes must be:

(1) To get for the farmer the due reward for his labours.

(2) To increase the demand for a particular product or products.

26. There is much more to advertising, however, than putting advertisements in the Press or on commercial T.V. At a recent Management Convention on the European Common Market held by the British Institute of Management in London, Dr. R.H. Beck, the Deputy Advertising Manager of Shell International, said that the will to market presupposes the will to promote. You will remember I quoted that succinct phrase a little earlier. He went on to say that promotion embraces delivery of the goods, sales service, production design, and presentation which means packaging, display, and merchandising. It does not matter what one is selling, that puts the matter in a nutshell to-day.

27. Very well then, if an agricultural marketing organisation is going to advertise it must be able to ensure that the product is:

(a) of the quality advertised

(b) that it is packed in accordance with requirements of the modern housewife, who has little time for shopping and wants a branded and packaged product on which she can rely. This is encouraged by the complementary development of self-service

(c) that it can be clearly recognised in the shop and on the shelves

/...

(d) that distribution is widespread and reliable

(e) that advertising is supported by merchandising - that is to say, by promoting the product right into the retail shop, onto the counter and into the shop window.

28. Clearly, a great many things have to be done before we can have effective advertising. That is one of the most important conditions of success. Moreover, advertising, which is really the dominant specialised and very expensive form of promotion, must be supplemented by promotion in all its forms to make it completely effective.

29. Assuming that the appropriate prerequisites for successful advertising have been met we come to the actual conduct of advertising and promotion activities.

30. First and foremost one thinks of press advertising - or perhaps I should say to-day "television advertising" for no better reason, I sometimes think, than that it is the latest thing. Really, at the outset of planning a campaign one should think in terms of all advertising media - press, television, posters, cinemas, buses and trains - in relation to the product or products and a host of factors. You have to decide on the classes you particularly want to reach, the degree of urgency with which you want them to react, the theme you propose, and so on. Media make a vast field and this is not the place to discuss advertising techniques and the planning of campaigns.

31. Promotions are an entirely different proposition, but the field of activity is no less vast and complicated. Virtually any shop is a possible medium for a promotion and the form that a promotion may take is limited only by the extent of human ingenuity, ranging from the relatively simple demonstration stand in a single store through to window display competitions in areas or within groups, and on via housewives' competitions, Food Weeks or Food Fortnights, to the large-scale, door-to-door operation linked with television areas in which representatives call on housewives to put over the product.

32. Exhibitions are another department for promotion. Broadly this means the organising of exhibition stands for the product or products at national or local exhibitions and fairs. There is also the possibility of organising exhibitions of one's own, given a suitable occasion or opportunity. In a sense, we have a permanent exhibition at the Danish Centre in London, where we have our offices. The ground floor is the Danish Food Centre where sample quantities of Danish foods can be bought, Danish foods can be

/...

sampled in the form of Danish open sandwiches, there is a Danish decor with products of Danish arts and crafts for atmosphere, and there are demonstrations of Danish cookery.

33. Sales aids and merchandising are closely bound up with promotions and, on the publications side, with virtually all other activities. Sales aids, of course, range from price tickets to give-away recipe leaflets, show cards to window display units. Merchandizing is concerned with the organising or the use of the sales aids available and of seeing that the product or products are well presented in shops and stores.

34. Publications, for the most part, come within the field of information for the trade, the Press, or the public. These are booklets or brochures about the product or products, perhaps a teaching aid for domestic science colleges or recipe booklet in which the products are subtly introduced, perhaps instructions for the trade on how to handle cheeses (refrigerator temperature etc.) or a book about the agricultural background to a country's products.

35. Some provision for maintaining constant and adequate contact with the trade is very important for several reasons. For one thing, it is essential to know the feeling of the trade about one's advertising and promotional activities. It is also important to have a good channel for the communication of complaints and the assurance that they are investigated and faults remedied. It is no less important to know how the sales aids and other material supplied to the trade is actually being used and to discover if there are any particular needs which could be profitably followed up.

36. Press and Public Relations are a vital element in relation to advertising and this is a two-way traffic. It is not just a question of influencing Press and Public in favour of one's product or products, so far as this can be done. It is not a matter of finding the means to defend one's product or products if attacked. A careful attention to Press and Public Relations is a valuable source of information about public attitudes and the psychological climate of the consumer market in the widest, generalised sense. As with advertising itself, discussion of Press and Public Relations could easily take up the whole time of this lecture.

37. Finally, there is market research. I am as sceptical about statistics as anybody. One cannot measure quality by numbers - only quantity. Market research has its limitations but if one knows what they are and brings an informed intelligence to bear upon them they are a valuable guide to the conduct of sound advertising.

38. I do not claim to have given you a complete comprehensive account of the prerequirements to advertising and of advertising

/...

and its correlated activities. Each commodity or group of commodities has its own problems and requirements; but I think I have indicated broadly the basic essentials to advertising by an agricultural marketing cooperative - or any other undertaking.

39. That brings us to another condition of success. All the activities I have mentioned as prerequisites or as parts of the complex of advertising and promotion must be carefully timed and co-ordinated to complement one another. The precise degree of emphasis given to each of the items coming under advertising and promotional activities will, of course, vary from one organisation to another, according to the products to be promoted, the money available, and several other factors; but the bigger the undertaking the more important it is that each of these items plays its due co-ordinated part in the whole and however small the undertaking I am convinced that not one of them should be consistently or completely ignored.

40. For example, we should never forget that posters and exhibitions are important media and they, in certain circumstances, have a part to play in any large scale advertising campaign. As I am sure you will have deduced by now, I cannot see any successful advertising of agricultural products by agricultural marketing cooperatives except on a suitably large-scale to get an effective regional or national impact. That is certainly a very important condition of success.

41. With these points in mind, it will be worth looking briefly at the kind of advertising of agricultural products that is being done to-day. I speak, of course, of the United Kingdom. The only other advertising I see is when I am abroad on business or on holiday. That I have never seen any agricultural advertising of the kind we are talking about is not evidence for our purposes, but I strongly suspect that there is little or none.

42. It may be, however, that as in the United Kingdom there is pressure on farmers' official organisations to "do something". It comes from the farming press and from farmers more and more vigorously in the U.K. Advertising - in the simplest possible conception of having advertisements in the Press or on television - is widely represented as the answer to every problem of increasing demand and promoting prosperity. To advertise is to "do something" and the "advertising men" are naturally willing to do their best; but, as I hope I have made clear, a lot of other difficult things need to be done before advertising can pay its way as true advertising actually selling a commodity.

43. One feels that farmers' organisations sometimes fall for advertising simply to "do something". What that kind of advertising

/...

achieves is very difficult to assess and is, to my mind, of doubtful value. I am speaking, of course, of the highly generalized propaganda for home-produced products which appears from time to time.

44. There is, however, a considerable amount of specific product advertising by organisations. Some of it is for home-produced products - milk, farmhouse cheeses, pig products. Most of it,in terms of expenditure, is joint advertising to increase the consumption of a product irrespective of country of origin through the Butter Information Council or the Bacon Information Council.

45. The first two types are inter-related to a considerable extent, though not in the matter of the "drink more milk" advertising. As there are no complications with regard to imported supplies of this commodity, the home-producer theme is not used.

46. With farmhouse cheese and pig products, however, there is an inevitable element of propaganda for the home producer.

47. This is understandable and legitimate. If it works and makes people buy more of these particular products, it is a good advertising point, but to my mind it is more emotional than practical.

48. Eat the products of home farms or eat the products of Ruritania can have a certain background value if it is associated with such practical selling points as quality, hygiene, freshness, and so on. We do it ourselves for Danish products. Unless the advertiser takes into account, however, efficient and economic production at farm level, quality, reasonable prices, distribution and all the other prerequisites to true product advertising, it has many weaknesses. Moreover, it is totally unrealistic.

49. Housewives everywhere have to be practical. They buy on price, quality and convenience. They are not greatly interested in whether it was produced by a home farmer or a farmer at the other end of the earth unless they believe that the products of that particular country are better that the products of other countries. Given good sound facts, which are substantiated by her experience, advertising may persuade her of this, but I think that the purely emotional form of "buy British" or "Danish" or "Ruritanian" or anything else does not cut much ice.

50. Within the Common Market it would surely be most undesirable, not only because it is based on bad feeling towards other nationalities of producers, but because it is not really a selling point. It belongs to a highly nationalistic past and to-day the vast majority of people - and particularly the younger people - realise that we have to learn to live together or we shall most certainly be in the most uncomfortable position of dying together.

/...

51. The other form - advertising a commodity irrespective of country of origin - is an entirely different matter. It is based on the need of increasing the consumption where it is declining because of competition - margarine and butter - or because of a change in the eating habits as with bacon in the United Kingdom where the adoption of the lighter, uncooked breakfast and the competition of other foods such as cereals was having a considerable effect upon bacon consumption until the advertising of the Bacon Information Council and our own advertising and promotions of Danish bacon got down to combatting this in various ways. The annual consumption of bacon per head now stands at about 27 lb. compared with 24.7 lb. in 1957. Butter figures show a rise from just over 16 lb. per head in 1956 to 20 lb. per head in 1961.

52. The other forms of agricultural product advertising are by manufacturers of processed agricultural products such as canned meats, packeted and branded butters or special hams, to take a few examples, and the advertising of retailers, both of which are not concerned with the basic producer - the farmer - but only with selling the processed raw materials.

53. When we turn to advertising by agricultural marketing cooperatives the whole picture changes because they must, perforce, be directly concerned to improve the farmers' lot; but unless the individual cooperative is producing and marketing a branded product, such as canned meat, on a big enough scale it cannot advertise successfully. On the whole, individual producer cooperatives (processing milk for butter or cheese or producing bacon) operate simply as suppliers to first-hand importers or wholesalers. To undertake individual advertising of such staple products is unthinkable.

54. It follows that unless a cooperative is producing a product under a brand name of its own and in sufficient quantity to justify an advertising budget big enough to be effective, the advertising of cooperatives must in itself be cooperative. This may take the form of a number of cooperatives forming a marketing association to market and advertise, in the fullest sense of the word, their product under a single brand name and to a uniform quality. It may take the form of advertising on a regional or national basis for staple, quality controlled products, under a suitable brand name if packaged or an appropriate distinctive mark if in bulk.

55. Danish examples of the first form are the recent agreement between just over a score of cooperative meat canning factories, which, for a transitional period, continue to produce their own original brands - a difficult, but perhaps inevitable compromise - and the Danish Blue cheese producers association, which includes

/...

private as well as cooperative dairies and they cooperate for marketing and promotion in export markets.

56. The national form of cooperation has reached its highest European development, I think, with Danish butter and bacon. Both have been marketed nationally under the Lurmark of quality for over 50 years; the strip mark on the bacon was designed to make the bacon identifiable even in the rasher when advertising began; a packeted butter and a vacuum packed bacon have been successfully introduced to meet modern requirements under the brand names of LURPAK nd DANEPARK respectively.

57. You may say, rightly, that Denmark has the inherent advantages of a 90% cooperative industry, a long-standing national quality control which, to use one of our slogans, has made "Danish " another word for quality, and a production geared to a controllable channel for export markets with the home market a steady one, undisturbed by imports. Nevertheless, I cannot see why the principles to be adduced from their experience cannot be adapted to advertising in a home market or within a European Common Market.

58. In most European countries, agricultural marketing cooperatives are at present primarily concerned with supplying products in their own home markets. Advertising in the home market must be either to increase consumption of a particular brand in competition with others or to increase overall consumption in the interest of all producers.

59. No doubt nearly every country is thinking hopefully of selling agricultural products to other countries at better prices than at home. Even in the United Kingdom one hears talk of this. There is every reason to expect advertising in export markets to grow in the future; but I believe it will be on a very shaky foundation if it is conducted either on the basis of selling an erratic surplus in other countries or of thinking it possible to sell the best abroad and make the home market eat the rubbish.

60. The one is a prime disrupter of markets to nobody's real benefit in the economic long-run and the other is nonsense because there must be an all-out devotion to the production of quality if quality is to be produced in quantity for export purposes. There will still be a certain amount of sub-standard production. There is in all industries; but, in my opinion, agriculture is the only industry which tends to allow itself to be complacent about it.

/...

61. I have tried to cover the various aspects of this subject in as orderly a manner as possible and I hope that certain basic principles have emerged with the thinking that lies behind them. The fundamental conditions of success which seem to me to have emerged are:-

1. The unit must be of a size, in terms of total output, to provide an overall advertising budget that can employ all the necessary media and make the impact required in the market it seeks to exploit.

2. Advertising must be backed by sound marketing, having met the requirements for ensuring that the quality is as advertised, that the presentation meets modern requirements, and so on as outlined earlier in this paper.

3. Advertising must be supported by all the appropriate promotional activities so that the results of advertising meet the results of merchandising and every other activity along the chain at the retailer's counter.

4. There must be overall planning for all media.

5. Policy must not be bedevilled by either the selling of surplus attitude or complacency about quality production on the assumption that the home market can absorb the rubbish.

6. Last, but vitally important to the success of the whole, there must be specialized direction, coordination, and control, and

7. diligent attention to maintaining the understanding support of the rank and file members of the cooperatives.

62. This brings me to the closing section of this paper - and, in a sense, back to where we started because two of the conditions of success which I have listed demand a brief explanation. These are the vital importance of a specialist organisation for direction, coordination and control, and of maintaining the understanding support of the rank and file members of the cooperatives concerned.

63. It is largely because at least 90% of Danish farmers are directly concerned with the processing and marketing of their products through membership of their cooperative dairies, bacon factories etc. that they support the advertising and promotional activities necessary to-day. Their leaders in the export boards know a lot about large-scale marketing and its implications; the members of the committees running the numerous cooperative units know a

./...

good deal; and the average farmer, as a member of his cooperatives is by no means ignorant of the hard facts that lie between the farm and the housewife's kitchen both at home and abroad.

64. To keep this support, accompanied inevitably by a certain amount of criticism which can be very trying but keeps us on our toes, the members of cooperatives must be kept informed on essentials relating to advertising and promotional activities, the why and the wherefore, the importance of their own individual part in the ultimate success of the whole. This can only be done efficiently if there is a specialist organisation dealing with direction, coordination and control and able to assist the central cooperative body - in Denmark's case the export boards - in keeping the constituent units and their members suitably informed. This demands a skilful and knowledgeable interpretation of these activities which working farmers, far removed from the complexities of advertising, can understand and appreciate.

65. Once could produce a whole paper to establish the reasons for stressing the importance of an organisation for direction, coordination, and control.

66. Taking advertising alone, the simple facts are that advertising agencies have to be employed to place advertisements and to do the technical work of production - lay-outs, "copy", schedules, television films etc. - but, with every respect, though they appear to do admirable work in handling accounts like beer and cosmetics, shirts, motor-cars, furniture, packaged holidays abroad, and all manner of things, the handling of agricultural product accounts for agricultural marketing cooperatives is nothing like so straightforward.

67. An accounts executive or even a crack director rarely knows anything about agriculture. Moreover, he usually has several other accounts to look after of the kind I just mentioned. Accustomed to dealing with straight factory products or services, they do not understand the nature of agricultural production, the difficulties of supplies and marketing, the technicalities right away back to farm level that need to be understood to make good copy and to avoid harmful mistakes.

68. The politics of it all are a mystery to them, but because agriculture as a whole is a highly political matter in any country and the internal politics of agricultural cooperatives rightly and inevitably affect all they undertake, advertising cannot be conducted without a proper understanding of these things.

69. I have been associated almost continuously with agriculture ever since I was sixteen and with Danish agriculture and its products for nearly 20 years, yet I would do no more than claim that

/...

I can recognise a pitfall when I see it and if I do not know the answer, I do know how to find it. I am sure I do not need to tell you how often we have to draw on this kind of knowledge in all matters of advertising and promotion, and it is no disparagement of advertising agencies to say that it takes them years to get to the stage when they can find their way about.

70. For the same reasons the coordination and conduct of all the other activities associated with actual advertising demand this same specialist knowledge in the setting of the food trade (itself a complicated matter), exhibitions, promotions, public relations and the rest - and, not least, in the matter of keeping the co-operatives informed about the significance of these activities.

71. Briefly, agricultural marketing cooperatives who advertise need their own specialists who must be just as generally knowledge-able about agriculture and agricultural cooperatives as about advertising, the food trade, and the consumers in the country concerned.

72. There is, I think, every reason to expect a great development in the competitive - and cooperative - advertising of agricultural products in Europe. We believe that the more there is, the better for agricultural products as a whole; and if agricultural marketing cooperatives selling to the food trades are to counteract the increasing trends towards making farmers mere raw material suppliers, they will have to assert themselves somewhat on the lines discussed in this paper. I hope these thoughts, based on our experience, may be useful.

INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

1, RUE D'HAUTEVILLE
PARIS X, FRANCE
TEL.: TAITBOUT 40-36

1624 EYE ST., N. W.
WASHINGTON 6, D.C. U.S.A.
TEL.: STERLING 3-4044

VIA YSER 14
ROME. ITALY

TEL.: 866.226

Coop Seminar/62/5
June 1962
Original: English

Seminar on agricultural marketing co-operatives and food distribution patterns

Measures to strengthen the position of agricultural marketing co-operatives in view of the increasingly centralised control of retail outlets

by H.J. Frietema
general secretary of the National Co-operative Council
The Hague, Holland

1. Some time ago one of the professors at the Netherlands School of Economics was invited to assist the board of directors in appointing a general manager of a limited company running a dozen or more dairy factories. He asked me whether I could mention one or two names of possible candidates. Before replying I asked my colleague what type of man he was looking for. His answer was: I am, of course, looking for a capable man, who has commercial experience. I am neither looking for a man who knows how to make butter, cheese, and condensed milk, nor for somebody who knows all about agriculture. In a company like this the general manager should be a commercial man.

2. I remembered this discussion suddenly when I read the other day in the preface of a handbook on marketing problems the following statement "Competition nowadays is not only or even mainly to be found in the technical field and as a result of that in the organization of the production of goods. To sell an article is nowadays equally or even more important than to make it. To control the commercial process is of equal importance as to control the processing in the own factory of a company."

3. I fully agree with this. Considering marketing problems from the business angle - and that is what we, participating in this seminar, want to do - selling is more important than producing and processing. To support this statement I want to mention one more experience which struck me some 25 years ago. It has to do with the price of condensed milk on the world market. First quality condensed milk at that time was sold by Dutch factories at about 17/6s. a box on f.o.b. terms. The Dutch producers who made top-quality and the best-known brands in the world got 17/9s. and the lowest price was about 17/3s. However, our big competitor, a Swiss company, managed to sell at34s. This very big difference in price was not due to differences in quality; it reflected mainly a fundamental difference in sales organization and in goodwill. At that time every surgeon and, what is more, every children's and women's doctor all over the world and specially in the tropics was convinced that the only substitute for mother's milk was a babyfood make by Nestlé. This worldwide concern not only had spent millions in advertising, concentrat- on tropical surgeons, but disposed on top of that of a great number of inspectors, who visited every possible shop in the tropical countries to check every tin of Nestlé babyfood. If a tin proved to be stale it was replaced by a fresh one. The result of course was that Nestlé had no complaints about the quality.

The product was expensive but reliable and the latter was of course considered by the young mothers and their advisers more important than the former. This situation was perfectly known to the Netherlands producers of condensed milk but their sales organization was far cheaper. As a result of that they had to accept the fact that Nestlé, speaking in commercial terms, sold quite a different product. Of course the sales organization for the condensed milk production in our country has improved since that time considerably, but this is not important in the framework of our problem. I mention the strong commercial position of Nestlé only as a proof of my first statement that it is very important indeed to dispose of an efficient sales organization, and for this reason I had to mention the name of one of our biggest competitors.

4. You will understand that I had to overcome a psychological barrier to start my lecture in this way, and I want to assure you that I will not go on to praise our competitors and to criticize our co-operative leaders. Moreover I hope to make clear that in this respect too the French saying can be applied, viz. "tout comprendre c'est tout pardonner", which means the more you understand the more you are inclined to forgive.

5. <u>I started by stating that the value of an effective sales organization is easily underestimated. My second statement now is that such an underestimation is typical for agricultural producers and therefore for the agricultural co-operatives.</u>

6. To make this statement comprehensible I want to draw your attention to the fact that the managers of our agricultural co-operatives are mainly specialists in the agricultural field. This in itself is quite understandable and I do not want at all to give the impression that an agriculturist would not be able to run an agricultural co-operative. What I want to stress is only that it is difficult to imagine that the boards of a dairy co-operative, of a co-operative sugar factory and of marketing co-operatives for eggs, for butter and cheese, for vegetables and for seed potatoes would be inclined to entrust the management of their co-operatives to persons who never before have been in contact with agriculture and with co-operatives but who did manage successfully a machine factory, a brewery or a hotel. The boards take it more or less for granted that the manager of a beet sugar factory should be a specialist in the field of processing sugar beets or cane and that the manager of a co-operative dairy should know how to process milk. I feel convinced that you agree with me as to the tendency of my statement.

7. Farmers and, as a consequence, the boards of our agricultural co-operatives as a rule underestimate the possibilities which are offered by an efficient sales organization. They are far more convinced that producing and processing is a primary activity and that selling the product is of a secondary nature. As a rule farmers think more in a physiocratic than in a mercentilistic way, and seldom do they think primarily in an economic way. Often for instance they have difficulties with the term "economically worn out". Moreover, although farmers know the effect of advertising, in the bottom of their heart they do not like it. This is partly due to the circumstance that the only way in which they come into contact with advertising is as buyers and as such they have the feeling that the cost of distribution should be reduced. There is one more important psychological element in this problem: Farmers undoubtedly know that the officers who are appointed to sell their products and to buy their requisites should be strong personalities who combine a great amount of energy with mental souplesse and who are able to take decisions, but farmers are apt to underestimate the necessity to have

a general manager, capable of building up an organization and of appointing specialists whose tasks he has to co-ordinate but who would nevertheless have a great deal of independence. Talking about specialists I want to mention the wellknown fact that some kinds of specialists are accepted as such more or less automatically and some definitely not. To the first group belong specialists in the mechanical, the chemical and the physical field and to some extent also those who knew all about law. On the other hand every citizen, every farmer and every manager of a company considers himself able to discuss on equal terms with experts in the commercial and economic field. To prevent misunderstanding I state explicitily that I belong to those people who are convinced that the natural qualities of a person are more important in business than his theoretical education, but that is not the problem. My problem is to analyse why the importance of an effective sales organization is mainly underestimated by agricultural people and by leading men in the co-operative field.

8. Now I come to my third statement. It would not be correct to consider this underestimation as being the result of psychological circumstances only. I am of the opinion that there are moreover some non-psychological circumstances which count and that they are perhaps even more important. What is the position?

9. If somebody takes a decision to found an industrial company, he has convinced himself of the possibility of selling the produce which he is going to manufacture. In most cases he starts thinking on a commercial basis and this is specially the case when there is a technical possibility to produce new articles. Those who started to build factories for rayon, condensed milk, rubber boots, quick-cooking rice, wireless sets, maizena, television-sets, refrigerators and so on, often had a clear idea of the sales possibilities for those articles before they started manufacturing. In other words, they considered marketing as the primary problem. This is more or less contrary to the way of thinking of the boards of the various types of co-operatives. Their primary concern was to produce and to process and the marketing problem was definitely of a secondary nature. As an illustration I mention the Dutch beetsugar factories; in the beginning the boards and the managers were satisfied when they succeeded of processing sugarbeets into raw sugar at reasonable cost and originally the product of this type of co-operatives was partly sold by their competitors. A similar example is offered by our co-operative condensed milk factories. In the beginning they confined themselves to the production of skimmed milk with sugar, a cheap product which was sold mainly in Great Britain and which was used for bakery purposes and in the kitchen. It was not a substitute for liquid milk. Gradually these co-operatives started to produce full cream unsweetened condensed milk and still later the range of products was extended with babyfood and other special articles like icemix. It is easily to be understood that the sales organization could be extended only slowly. And to give one more illustration, you know that in this country farmers are running co-operative potatoflour factories. As a matter of fact their share in the total potato flour production is about 80%. The non-co-operative producers started soon to process potato flour into some special articles, which are used in the kitchen en which are prepacked and advertised to the public. It took a long time, however, before our co-operative producers tried to do the same. They maintained until the war their original production-scheme and concentrated until then on the processing of potatoes into potato flour, selling this potato flour in bulk.

10. I have the feeling that the underestimation of the marketing possibilities is not only due to psychological factors but also to a more fundamental difference between co-operative and non-co-operative enterprises. For agri-

tural co-operatives generally and for processing co-operatives specially the main problem is to process at the best possible terms the raw materials which they receive from their members. And this supply of raw materials is to a certain extent independent of the outlet possibilities for the products to be sold. Non-co-operative factories, however, are to a certain extent able to limit the quantity of raw material they buy to the quantities which they can sell and the same applies to private merchants. Of course we know that the non-co-operative businessman wants to have a regular supply and we know too that in some cases they too are bound to accept the total production of their suppliers. Nevertheless it seems to me that there are gradual differences in this respect and those differences are, as far as I can see, partly responsible for an underestimation in the co-operative section of the importance of what I would like to call an active sales policy.

11. There is in my opinion one more important aspect of the problem which we are dealing with at the moment. Confining myself again to my own country I state that our agricultural co-operatives have only recently begun to face the details of marketing problems and specially problems of outlet for prepacked and strongly advertised articles. I mention just a few important types of agricultural co-operatives in this respect.

12. Take our co-operative sugar-factories. They sold, as their competitors did, the sugar in bulk to wholesalers and to big ultimate buyers such as condensed milk and jam factories. Originally the shopkeepers too bought sugar in bulk and only in the last couple of years are housewives buying sugar prepacked. Nevertheless the sugar industry in our country, which consists of a very limited number of big factories, still does not advertise special brands of prepacked sugar. Quite apart from the influence of the agricultural policy as to sugar, adopted in this country, the reason for this situation is undoubtedly that advertising does not pay. Neither do our co-operatives for marketing butter and cheese feel inclined to spend a lot of money on advertising. Those products too are sold, not only by the co-operatives but also by the non-co-operative factories and merchants in bulk to wholesalers in this country and on the worldmarket. Until recently butter was not prepacked by the producer and the same still applies to the original Dutch cheese. Our co-operatives for marketing seedpotatoes were in the same position. There was no possibility, at least no reason, to create an extensive marketing organization and to advertise heavily. Neither do they want the assistance of marketing specialists. It should be taken into consideration that part of the Dutch seedpotatoes are bought by supply co-operatives abroad. Let us take finally the Dutch marketing co-operatives for eggs. The biggest has a supply of two million eggs daily. This enormous supply is only sold in bulk.

13. Looking for an explanation why, generally speaking, the sales policy of agricultural co-operatives is not quite up to the standard, which modern technique and science allow , we shall also take into account the diversity of markets which are an outlet for the products under concern. If a product is sold only to a certain group of buyers or if the sale is almost confined to one market only - e.g. the home market of a country - it is easier to apply successfully modern marketing methods and to sell advertised brands than when the bulk of the produce is sold on a great number of markets. The latter is a feature of Dutch agriculture, the great majority of the products of which are sold both in the home market and in various foreign markets.

14. Under these circumstances it is to be understood that boards of agricultural co-operatives, at least in our country, are inclined to shrug

everything possible should be done to alter those technical circumstances. In other words, if cheese proved hitherto to be a product not suitable for the prepacking process, but prospects for selling prepacked cheese under an advertised trademark are very attractive, a lot of systematic research should be devoted to making this system of modern sale possible for cheese. To give an additional example: hitherto practically all eggs are sold in bulk. I am convinced, however, that a higher price may be realized by selling strongly advertised packages containing half a dozen or a dozen eggs. Therefore everything should be done to find out why our big co-operatives for marketing eggs did as yet now sell their eggs in this modern way.

21. Last but not least I will devote some remarks in this respect to the development in the retailtrade as a consequence of which the fundamental changes take place in the way our products are sold by the retailer.
22. Originally the shopkeeper, before deciding to buy a quantity of beans or potatoes, took samples of those products and cooked them in order to judge their qualities. He bought all in bulk and when a housewife came into his shop he sold her part of the contents of a bale, a cask or a box. Gradually, however, some articles were prepacked by the factory and were advertised to influence the ultimate consumer. As a result of this the shopkeeper did not necessarily have to be an expert. Moreover not he but the housewife decided which products the shopkeeper had to have in stock. In other words, the influence of the shopkeeper himself is much smaller nowadays than it was before. His role is more or less passive now instead of active formerly, notwithstanding the fact that he did not like this at all.
23. This development is accelerated by the introduction of the supermarket which is going to be the characteristic type of retailing unit in foodstuffs.
24. In this respect some remarks.
25. The first is that a modern supermarket is too big to be run by the private shopkeeper. It requires too much capital for him. Most supermarkets therefore are a part of a big company and undoubtedly the chainstore companies will get in the very near future the bulk of the retailtrade. By the way, it seems to me that this development in the retailtrade makes it still less attractive for agricultural co-operatives to run shops themselves.
26. My second remark concerns the range of products which are sold in the supermarkets. On the one hand this range is far bigger than it used to be in the old type of shops. On the other hand, however, the supermarket wants to reduce the number of brands for the same product and I have the feeling that they confine themselves simply to the best known brands, although they are interested too in a variety of the same product which can be sold very cheaply.
27. My third remark concerns contract-farming. A big company, running hundreds of supermarkets, wants to have a supply of a uniform quality and is inclined to make arrangements with a number of producers. In other words, contract-farming is stimulated.
28 And my last remark has to do with the quick-freezing of food. The distribution of quick-frozen food requires a chain of coldstores. This method of distribution offers special difficulties for our co-operatives, which I do not want to analyse into details.
29 Taking those four elements into consideration, it should be quite clear to us that an advertised trademark not only offers the possibility to make higher prices but that a brand will be a decisive factor for the interest the modern retailer has for our product. Therefore agricultural co-operatives shoul pay now far more attention to the possibilities of an active- and expensive-marketing-policy than was justified in the past.

30. I will now try to summarize. I will do this in such a way that a discussion on the basis of my lecture will be stimulated.
31. In the first place I stated that an efficient and modern sales organization offers the possibility of making higher prices than the competitors. This higher price, however, can only be realized by spending more money in selling the produce.
32. Secondly I stressed that the possibilities which I analyzed are generally speaking underestimated by those who are responsible for running agricultural co-operatives. I explained this phenomenon not only by indicating psychological influences but also by drawing your attention to more or less fundamental differences between co-operative and non-co-operative enterprises and by mentioning some technical difficulties.
33. Moreover I tried to make clear that the need for our co-operatives to pay far more attention to modern marketing problems is the greater the more our produce will be sold in supermarkets and still the more those supermarkets are run by big retailcompanies.
34. And finally I applied the law of diminishing costs not only to production but also to distribution. This law partly explains why some products are advertised and some are not. The more money is spent on selling, the stronger is the need for our co-operatives to achieve far bigger marketing units than we have now.

35. I am, perhaps more than you, convinced that my lecture is of a very elementary nature as regards the complicated problem of modern marketing. In this field I am not at all a specialist. I confined myself to trying to build a bridge between modern marketing problems on one side and the rather conservative way of thinking and acting which we meet still too often in farmers co-operatives on the other side. There is a wide and deep gap between them. I do hope that you will agree with me that it is not sufficient to build a bridge, but that it is necessary to fill the gap.

November 1962 COOP Seminar/62/6

INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

1. RUE D'HAUTEVILLE
PARIS X, FRANCE
TEL.: TAITBOUT 40-35

ROOM 401, BARR BLDG.,
910 - 17th STREET, N. W.,
WASHINGTON 6, D. C., U. S. A.
TEL.: 296-4419

VIA YSER 14
ROME. ITALY
TEL. 866.225

60

Report on the Seminar on Agricultural Marketing Cooperatives and Food Distribution Patterns

Rotterdam, 2-5 July 1962

1. At the invitation of the Dutch member organisations and the Nationale Cooperatieve Raad, the seminar was held in Rotterdam on 2-4 July 1962. It was followed on 5 July by an excursion visiting the Westland horticultural district, the Aalsmeer cooperative flower auction and a new shopping centre at Amstelveen in the suburbs of Amsterdam.

2. A list of participants and the programme of the seminar are attached.

3. IFAP takes this opportunity of expressing (as did the participants) its appreciation of the careful preparations made by the Dutch organisations and of their hospitality during the seminar, paying special tribute to Dr. H.J. Frietema, Chairman of IFAP's Standing Committee on Agricultural Cooperation and Director of the Nationale Cooperatieve Raad, who personally supervised the arrangements for the seminar. Thanks are also expressed to the lecturers and the rapporteur.

4. The texts of the lectures were circulated at the time of the seminar. The Rapporteur's summing-up of the discussions, given orally at the end of the seminar, will be sent to member organisations as soon as the text is available and translated.

Seminar on Agricultural Marketing Cooperatives and Food Distribution Patterns

Rotterdam, 2-5 July 1962

PROGRAMME

2nd July

Opening of Seminar.
Lecture and discussion on Recent changes in food distribution patterns.

Lecturer: J.C. Abbott, Chief of the Marketing Branch, Economic Analysis Division, FAO.

Lecture and discussion on Effect of new distribution methods on prices of agricultural products paid to the farmer and paid by the consumer, and on quantities consumed.

Lecturer: K.F. Svärdström, Professor of Agricultural Marketing, University of Upsala, Sweden.

3rd July

Lecture and discussion on Use of contracts between agricultural marketing cooperatives and their members.

Lecturer: P. Grabö, Deputy Director, Swedish National Farmers Union, Stockholm.

Lecture and discussion on Advertising by agricultural marketing cooperatives and conditions for its success.

Lecturer: F.A. Rush, Deputy Director, Danish Agricultural Producers' Information Service, London.

/...

4th July

Lecture and discussion on Measure to strengthen the position of agricultural marketing cooperatives in view of the increasingly centralised control of retail outlets.

Lecturer: H.J. Frietema, Professor, Director of the National Cooperative Council, Netherlands.

Conclusions and summing-up.

Rapporteur: P. Crochet, Editor-in-Chief, Coopération Agricole, Paris.

5th July

Excursion by coach to "Westland" horticultural district, the Cooperative Flower Auction at Aalsmeer and a new Shopping Centre at Amstelveen (a suburb of Amsterdam).

Seminar on Agricultural Marketing Cooperatives and Food Distribution Patterns

Séminaire sur les Coopératives Agricoles de Transformation et de Vente et la Distribution Alimentaire

Rotterdam, 2-5 July 1962
Rotterdam, 2-5 juillet 1962

LIST OF PARTICIPANTS
LISTE DES PARTICIPANTS

Belgium Belgique	**A. Van Hulle**	Boerenbond Belge, 24, rue des Récollets, Louvain
	Van Rompuy	Boerenbond Belge, 24, rue des Récollets, Louvain
	R. Swinnen	Boerenbond Belge, 24, rue des Récollets, Louvain
Denmark Danemark	F.A. Rush	(lecturer), Deputy Director, Danish Agricultural Producers Information Service, Danish Centre, 2/3 Conduit St., London W.1
	H. Eriksen	Danish Agricultural Marketing Board, Vester Farimagsgade 6, Copenhagen-V
Finland Finlande	Iikka Haka	Valio Meijerien Keskusosuusliike, Kalevankatu 61, Helsinki
	Mauri Karvetti,	Tuottajain Lihakeskuskunta, Louanais-Suomen Osuusteurastamo, Turku
France France	P. Crochet	(rapporteur) Rédacteur en Chef, Centre National de la Coopération Agricole, 14, rue Armand, Moisant, Paris 15e

/...

<u>France</u> France (cont'd)	M. Breton	Coopérative Agricole d'Ancenis, Paris
	M. Harel	Coopérative Agricole d'Ancenis, Paris
	M. Jusserand	Centre National de la Coopération Agricole, 14, rue Armand Moisant, Paris 15e
	M. Mandoza	Société Union-Export, Paris
	M. Samuel	Coopérative Agricole Lauragaise, Castelnaudary (Aude)
	M. Sauvage	Syndicat National d'Etudes et de Recherches pour les Coopératives Agricoles et leurs Unions, Paris
<u>Italy</u> Italie	M. Arlini	Federazione Italiana dei Consorzi Agrari, Via Curtatone 3, Roma
	E. Fiorentini	Federazione Italiana dei Consorzi Agrari, Via Curtatone 3, Roma
<u>Netherlands</u> Pays-Bas	H.J. Frietema	(lecturer), Director, Nationale Coöperatieve Raad, Groenhovenstraat 3, Den Haag
	F. Bom	Nationale Coöperatieve Aan- en Verkoopvereniging voor de Landbouw "Centraal Bureau", Postbox 182, Rotterdam
	C.B.O. Brussee	Nationale Coöperatieve Raad, Groenhovenstraat 3, Den Haag
	P. Coenemans	Limburgse Land- en Tuinbouwbond, Wilhelminasingel 25, Roermond
	J.L.A.M. Coenen	Coöperatieve-Instituut van de Katholieke Boeren- en Tuindersbond, Nieuwe Parklaan 105, Den Haag
	J.A. de Boer	Centraal Bureau, Postbox 182, Rotterdam

/...

Netherlands Pays-Bas (cont'd)	J.A. de Groot	Centraal Bureau, Postbox 182, Rotterdam
	J.H. de Croot	CO-OP Nederland, Postbox 6008, Rotterdam
	R. Derksen	Centraal Bureau van de Tuindbouw-veilingen in Nederland, Javastraat 80, Den Haag
	J. Dijkgraaf	Landbouw Coöperatie Centrum voor Zuidwestelijk Nederland, Landbouwhuis, Goes
	G.G. Groenewegen	CO-OP Nederland, Postbox 6008, Rotterdam
	W.J. Hament	Coöperatieve Vleeschcentrale, Zw. Hondstraat 1, Rotterdam
	S.W. Meihuizen,	F N Z, van de Spiegelstraat 16, Den Haag
	G.H. Morsink	Centraal Bureau, Postbox 182, Rotterdam
	J.J. Schouten	Noordbrabantse Christelijke Boerenbond, Spoorlaan 50, Tilburg
	J. Sonneveld	Kononklijk Nederlands Landbouw-Comité, Oranjebuitensingel 17, Den Haag
	P. ter Hofstede,	Centraal Bureau van de Tuindbouw-veilingen in Nederland, Javastraat 80, Den Haag
	Miss F. Terlouw	Nationale Coöperatieve Raad, Groenhovenstraat 3, Den Haag
	J. van den Hil	Coöperatieve Suikerfabriek en Raffinaderij "Puttershoek", Puttershoek
	W. Vos	Coöperatieve Condensfabriek "Friesland", de Merodestraat 1, Leeuwarden

/...

Norway Norvège	O. Heir	Landbrukets Sentralforbund, Inkognitogt. 2, Oslo
	Chr. Kjørven	Norges Bondelag, Kronprinsensgt. 9, Oslo
	K. Lyngstad	Landbrukets Sentralforbund, Inkognitogt. 2, Oslo
	J. Nygaard	Norske Meieriers Salgssentral, Bredgt. 10, Oslo
	O.R. Sandberg Jr.	Selskapet for Norges Vel, Rosenkrantsgt. 8, Oslo
	S. Sollid	Gudbrandsdal Slakteri, Lillehammer
Sweden Suède	P. Grabö	(lecturer), Riksförbundet Landsbygdens Folk Drottninggatan 104, Stockholm
	K.F. Svärdström	(lecturer), Professor of Agricultural Marketing, University of Upsala
	A. Danielsson	Mjölkcentralen, Dalagatan 3, Stockholm
	J.H. Eliaeson	Svenska Mejeriernas Riksförening, Vasagatan 16, Stockholm
	N. Fernqvist	Sveriges Slakteriförbund, Johanneshov 1
	J. Larsson	Sveriges Lantbruksförbund, Klara Ostra Kyrkogata 12, Stockholm
Tunisia Tunisie	M. Bellagha	Union Nationale des Agriculteurs Tunisiens 6 Avenue Habib Thameur, Tunis
W. Germany Allemagne occ.		
	M. Fischer	Molkerei-Zentrale Westfalen-Lippe eGmbH, Hafenweg 6, Münster
	M. Schäfer	Westfälische Central-Genossenschaft eGmbH, Industrieweg 110, Münster

/...

W. Germany (cont'd)
Allemagne occ.

	W. Schiffgen	Deutscher Raiffeisenverband e.V., Koblenzer Strasse 127, Bonn
	M. Vencker-Metarp,	Molkerei-Zentral Westfalen-Lippe eGmbH, Hafenweg 6, Münster
	G. Wabnitz	Hauptgenossenschaft Hannover GmbH, Krausenstrasse 46/50, Hannover
FAO	J.C. Abbott	(lecturer), Chief, Marketing Branch, Economics Department, FAO, Viale delle Terme di Caracalla, Rome
	G. St. Siegens	Chief, Cooperatives, Credit and Rural Sociclogy Branch, Rural Institutions and Services Division, FAO, Viale delle Terme di Caracalla, Rome
OECD OCDE	Ch. Heynen,	Administrator, Division for Technical Action of the Directorate for Agriculture and Food, OECD, 2, rue André-Pascal, Paris 16e
ECA CEA	Miss F. Terlouw,	Nationale Coöperatieve Raad, Groenhovenstraat 3, Den Haag
ICA ACI	G.G. Groenewegen,	CO-OP Nederland, Postbox 6008, Rotterdam
IFAP FIPA	R. Savary	Secretary General , IFAP, 1, rue d'Hauteville, Paris X
	R. Hewlett	Cooperation Officer, IFAP, Via Yser 14, Rome

Interpreters
Interprètes

Mlle D. Seleskovitch, 16, rue Cuvier, Paris

C. Thierry, 24, rue des Grands-Augustins, Paris.

INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

1624 EYE ST., N. W.,
WASHINGTON 6, D. C., U. S. A.

TELEPHONE: STERLING 3-4086

CABLE ADDRESS IFAP WASHINGTON

68

TELEPHONE: TAITBOUT 40-35

1, RUE D'HAUTEVILLE
PARIS X, FRANCE

This appendix gives the replies received (from Ireland, the Netherlands, Norway, Sweden, United Kingdom, Western Germany, Yugoslavia) to the questionnaire on vertical integration (V.I. 1/62) sent to member organizations on 31st July 1962. Replies to questions 2, 5, 11, and 15 are reproduced in full, the others are summarized.

Question 1

Which branches of your country's agricultural production have been most affected by vertical integration in the past few years?

GERMANY, F.R.

Eggs, hatchery eggs, broilers, pigs, peas, tomatoes, seeds.

IRELAND

Broilers, pigs, fruit, vegetables.

NETHERLANDS

Pigs, broilers, eggs, calves, sugarbeet, grass seeds, peas, and some other vegetables.

NORWAY

Vegetables (peas, cucumbers, etc.), pigmeat, broilers, and eggs.

SWEDEN

Vegetables (especially peas), broilers, pigmeat, sugarbeet, potatoes, seeds.

UNITED KINGDOM

Broilers, eggs, pigmeat, potatoes, peas, sugarbeet.

YUGOSLAVIA

Industrial crops (sugarbeet, oilseeds, tobacco), pigmeat, milk, vegetables, cereals.

- o -

/...

Question 2

Measurement of trends - e.g. percentage of (broilers, eggs, pigs, etc.) produced under contract of fully integrated systems, with relevant figures for, say, 1956/57 and 1960/61; number of farms involved, their characteristics; information on recent developments that may throw light on trends.

GERMANY, F.R.

The share of integrated farms in total egg production is small; it cannot be ascertained exactly. The tendency has been strongly developed by co-operatives in 1962. Broiler production is more highly integrated, as being an entirely new branch of production it is carried on mainly with licensed hybrids and has no competitors in the traditional style of farming. Integration includes not only large farms but also smaller holdings. The co-operatives have in some cases set a lower limit for current deliveries and thus also for the size of the holding. Attempts are being made to establish egg and broiler production as a branch of agricultural business and to ensure the efficient use of part of a labour unit or at most one labour unit. The special statistics for 1961 give some indications of the concentration that is taking place in poultry keeping but not concerning its relation to integration.

In broiler production the following size relationships have been determined:

Size class head of broilers	Number of Farms	Total number of broilers
500 - 2,999	379	432,326
3,000 - 9,999	145	686,895
Over 10,000	46	681,271
Total	570	1,800,492

The size classes are based on the situation in December 1961.

For laying hens the following statistics are available (holdings with 250 head of poultry and upwards)

Size class	Number of Holdings	Total number of hens in 000's
250 - 499	12,569	4,179
500 - 999	5,906	3,952
1,000 - 2,999	2,850	4,315
over 3,000	549	3,028
Total	21,874	15,474

Of a total of 1,075,000 holdings with 37,700,000 hens over 6 months (laying hens), the holdings with 250 or more hens have various relationships with feed manufacturers, hatcheries or co-operatives, or other formal marketing arrangements. Specific links cannot, however, be determined from these statistics.

/...

The special statistics show the intensity per hectare for pig raising:

Farms with ... Pigs per ha. December 1961	Number of farms	Total number of pigs
5 - 10 per ha.	21,018	1,017,404
10 - 20 per ha	3,043	198,655
20 and more per ha.	482	85,798
Total	24,543	1,301,857

The farm statistics for 1960 show about 1,290,000 farms with pigs with 17,200,000 animals in December 1961. The concentration in pig raising is thus increasing but is still not high. Provision of fodder on the farm is more important for pig raising than utilization of labour productivity. The co-operatives have a very big share of integrated sales of fatstock.

IRELAND

No precise figures available, but total number involved is very small.

NETHERLANDS

We cannot indicate the trend in the development of contract farming (which is the main form of vertical integration in agriculture); this phenomenon is rather new and statistical material is not available; moreover, the extent of contract farming varies with market conditions; we can only give the following impressions:

Pigs. The extent of contract farming in this sector varies with the type of contract; some years ago private integrators operated very much with contracts, giving the farmer a fixed remuneration per animal; the pigs remained the property of the integrator and the latter delivered the feed; the significance of this type of contract farming has diminished; there are other types of contracts - credit agreements, price agreements - which are successfully applied by private integrators; moreover co-operatives started with contract farming (see question 11); the overall picture of contract farming for pigs is not quite clear; it is supposed that in some parts of the country contract farming increases - even with a tendency to more fully integrated (privately-owned) systems - and that elsewhere it diminishes.

Broilers. It is estimated that contract farming for broilers is very important, taking 2/3 of the total production; this development is due to the fact that it is a rather new branch of production.

Eggs. We cannot even give an estimate; we have, however, the impression that the significance of contract farming for this product grows in relation with the increasing demand of the retail trade for eggs of a uniform quality, to be sold as branded articles.

Calves. Contract farming in the fattening of calves some years ago was stimulated by private integrators by means of credit agreements; this type of contract almost disappeared; in the co-operative sector contract farming for calves has some importance (see question 11).

/...

Some vegetables as products of arable farming. Practically the only buyer of peas is the freezing and canning industry; delivery is only accepted on the basis of contracts; these contracts contain elements of vertical integration (30 to 40%); for other vegetables - such as spinach and beans - the contracts contain elements of vertical integration to a lesser degree.

As to the number of farms affected by contract farming or vertical integration we cannot give any figures; the development of contract farming for animal products is of special importance for the mixed farms which in this country make up by far the greater part of the small holdings (nurseries excluded); on the other hand contract farming will be attractive for those farmers who want to specialize, e.g. in the field of broiler and egg production.

NORWAY

For animal production it is very difficult to give exact figures indicating the trend of vertical integration. In all branches of animal production the integration started by private integrators has developed during last 7 - 8 years. Since 1958 two private slaughter and processing firms have started pigmeat production of their own on a rather large scale. (Fully integrated system). The production from these firms is, however, rather small in relation to total production of pigmeat. Total quantity of pigmeat produced on contracts or fully integrated system is at present less than 5% of total sales production. (Integration programs conducted by farmer co-operatives not included.)

For the poultry industry it is also difficult to give exact figures about the extent of vertical integration. For eggs and broilers no fully integrated syste is known. Production carried out on some sort of contract program is also of minor importance for eggs and broilers.

For vegetables the production on contract program is constantly increasing. In 1950 a total area of 4 - 500 ha was under contract program while the correspondin figures for 1961 were 9 - 10,000 ha. In 1961 total value of vegetables produced on contracts in terms of producers' price was 7 - 8 per cent of total value of farmers' income from commercial vegetable production. Consumption of canned, dried and frozen vegetables is increasing and will give a good basis for further expansion of this industry and the contract program for vegetables.

SWEDEN

Broilers. The official statistics give no information about the size of broiler production. During 1962 the broiler flock is estimated to number about 4 million birds. The corresponding estimates for the five preceding years are:

1961	3.1 million
1960	2.9 "
1959	.
1958	2.0 "
1957	2.0 "

It follows that Swedish broiler production has doubled between 1957-62. In 1962 at least 80 per cent of the broilers will be produced under contract or in fully integrated systems.

/...

Fatstock and pigs. We have not been able to state the number of fatstock and pigs delivered annually under contract to various processing and marketing enterprises. It has also not been possible to estimate the size of fatstock and pig production undertaken by such enterprises. Our sources are thus inadequate for giving a full report about private vertical integration in this branch. Our opinion is, however, that private integration is not of significance to either Swedish pig production or Swedish fatstock production. Our conclusion is based on the following facts.

A very high proportion of the farmers have joined the meat marketing co-operatives. These co-operatives, headed by the Swedish Farmers' Meat Marketing Association, at present handle 84 per cent of total marketings of fatstock and pigs (for pigs about 90 per cent), and the figures is still rising. This system is a kind of vertical integration. All the different stages from production to consumption are of interest to the meat marketing co-operatives and their apex organization. The integration is differently developed in different fields of activities. Compulsory delivery and compulsory acceptance are laid down in the by-laws of the co-operatives and are observed strictly by the co-operatives and their members.

The remaining 16 per cent of the marketed fatstock and pigs are slaughtered by consumer co-operatives and private enterprises. These bodies work partly as buyers partly as integrators. The scope of this integration is unknown to us. In a few cases piggeries are run by private slaughterhouses. The system of public slaughterhouses or abattoirs is nowadays less developed in Sweden (about 3 per cent of the total slaughter is carried out in such slaughterhouses), but it happens that processing enterprises are buying up animals, which are then slaughtered in the abattoir. The carcases are processed in their own meat factories.

There are also a few examples of mills and dairies keeping herds of pigs. In such cases offals are fed to the animals.

Large scale production of pigs (pig factories) exists to a certain extent. There has recently been an increase in such production, which is shown in the following table. The figures represent deliveries of more than 500 fattened pigs per producer and year.

Year	Deliveries as percentage of total deliveries
1958	12
1959	15
1960	19
1961	18

In order to avoid any misunderstanding we want to point out that large scale production need not necessarily be identical with integrated production. As will be shown under question 4 point (2) the number of integrators is small in Sweden. Their contribution to the total production of pigs is also of minor importance.

Vegetables. In 1958 the Swedish canning industry was supplied with the following vegetables produced and delivered under contract.

/...

	Supply under contract as percentage of total supply	Number of growers (app.)	Number of hectares (app.)
Peas	98	500	5,000
Cucumbers	88	2,000	1,000
Spinach	96	50	400
Beans	82	200	150
Carrots	65	200	400
Beetroots (red)	86	200	300
Other vegetables	37	100	100

The number of growers is going down, while the total acreage is increasing. The acreage of peas seems to go up, while the acreage of beans is going down. No change is expected for carrots and beetroots.

Potatoes. Exact figures indicating the area under contract for potatoes are difficult to obtain. This applies especially to table potatoes, whereas the statistics regarding the area under factory potatoes are obtainable, as such potatoes (used in the production of alcohol and starch) have been produced under contract since 1956.

Rough estimates indicate, however, that 4-5 per cent of the total area of table potatoes (including seed for such crops) is cultivated by farmers with delivery contracts. There has been a certain increase in this area between 1957-61. During that period the farmers' co-operatives more than doubled their area under contract for potatoes.

Sugar beet. Swedish sugar beet production has been under contract for a long time. The acreage has not changed much during recent years. In 1959 and 1960 it totaled 51,000 hectares.

Seed. Production and deliveries of seed (wheat, rye, barley, oats, rape, and other oil seeds, clover, timothy, etc.) under contract vary for different reasons from one year to another, and it has not been possible to give a full account of the cultivated areas of the crops in question. It should, however, be pointed out that the use of production contracts between farmers and seed firms is comprehensive in regard to most of the above mentioned seeds, and that in many sectors the areas under contract still increase both absolutely and relatively.

Fruit. Both integrators (Swedish Co-operative Union and Wholesale Society and ICA:s Frukt & Grönsaker AB) have packing stations, which are buying the fruit direct from the growers. There are no contracts. The fruit is graded and packed at the stations and sold in affiliated shops, for example by the local co-operative societies and by the ICA retailers. The latter are private shop owners, who co-operate at the wholesale stage. About 5 per cent of fruit sold in Sweden is marketed in this way. The remainder comes from private packing stations and packing stations owned by the growers.

UNITED KINGDOM

Peas, in the generic sense, have for many years been largely produced on contract but the pattern has changed very considerably. Originally the majority of peas were grown on contract for harvesting dry. The area devoted to this purpose reached a maximum of 180,000 acres in the years 1948 and 1949 and declined to 23,000 acres in 1962. During the same period "peas, green for market" declined from 55,000 acres to about 30,000 acres.

/...

In contrast, the area growing peas for canning and quick freezing increased from 24,000 acres in 1948 to 74,000 in 1960. During the past two years the acreage of peas for freezing has continued to grow and that for canning has tended to decline. At present 30 per cent of the total acreage under peas provides for quick freezing while another 30 per cent is for canning. During the past three years the production of canned, fresh peas has been: 1959 - 80,600 tons; 1960 - 98,100 tons; 1961 - 63,000 tons; 1959 and 1960 were years of heavy crops with a consequent carry-over of stocks. Production of quick freezing peas was 39,300 tons in 1960 and 50,800 tons in 1961.

Virtually all these peas for canning and quick freezing were produced on contracts between the grower and the canner or freezer, made in advance of planting. The canning or freezing firm provides the dressed seed to the grower and stipulates the dates of planting, the type of seed dressing to be used, the dates of harvesting, etc. In return, the grower knows in advance the prices he will be paid for peas of a given quality, produced in the manner specified in the contract. Thus, over 60 per cent of all peas grown in Britain are produced under the strict control of the canning and freezing companies. The number of individual holdings growing peas for the two years was as follows:

	June 1960	June 1961
Dried Peas	3,000	1,900
Other Peas	8,400	8,000

These figures are for England and Wales but they represent all but a small proportion of the United Kingdom.

Poultry meat production in the United Kingdom is estimated as follows:

June-May Year	Thousand Tons
1959/60	260
1960/61	300
1961/62	360 (provisional)

Of the 360,000 tons possibly three-quarters was broiler poultry. In terms of numbers of birds perhaps 80 per cent are broiler chickens or ducks. At the present time about 100 million broiler fowls are sold annually. All broiler poultry are produced on contract for the owners of poultry packing stations.

The number of agricultural holdings of over one acre in England and Wales producing broiler fowls in June 1960 was under 6,000 and about 1,000 of these holdings had 90-95 per cent of the fowls. These figures, however, do not include holdings of one acre or less, disused cotton mills, etc. from which a considerable proportion of broilers come.

While the figures are approximate and incomplete it is clear that a very large proportion of the poultry produced for sale in the United Kingdom is produced by a small number of large producers on contract to the owners of poultry packing stations. This is mainly a development of the last ten, and more particularly of the last five, years.

/...

Pig production on the contract system was first introduced in April 1960 and the proportion of pigs certified under the Fatstock Guarantee Scheme and sold in this way in Great Britain (England, Wales, and Scotland) at present amounts to about 20 per cent of all pigs certified. The actual figures being:

Fatstock year	Total pigs certified	Pigs purchased on long term contracts	Percentage
	thousands		
1960/61	7,845	1,359	17.3%
1961/62	8,808	1,694	19.2%

The percentage of grade and deadweight pigs (i.e. those bred specially for bacon production) which were sold on contract was 72.2 per cent in 1960/61; 82.9 per cent in 1961/62.

The Fatstock Marketing Corporation Ltd., a producer organization set up in 1954 by the three Farmers' Unions of the United Kingdom, is the largest wholesale meat company in the country. The Corporation was recently converted into a public company and has acquired a well-known firm (Messrs. Marsh & Baxter) owning 40 per cent of the curing capacity in Britain. The controlling interest in F.M.C. Ltd. remains in the hands of producers.

Long term contracts are entered into by producers, who supply a certain number of pigs each week (or in specified weeks) of a suitable quality for bacon production, with the Fatstock Marketing Corporation Ltd., or a particular curer. The Corporation, or curer, however, has no control over the production process and the pig remains the property of the producer until the time of sale.

Nine-tenths of the pigs in Great Britain are on holdings in England and Wales, one-tenth in Scotland. In England and Wales there are some 110,000 holdings having pigs, of which about 40,000 have less than ten pigs. About 9,000 producers in Great Britain sell pigs on long term contracts, some 8,000 of these having contracts with the Fatstock Marketing Corporation Ltd. Thus about one-Tenth of the pig producers in Great Britain sell on long term contracts.

The Northern Ireland Pigs Marketing Board (which has compulsory powers) purchases almost all the pigs produced in that country, but does not make advance contracts with producers.

YUGOSLAVIA

Entire production of sugarbeet, oil seeds, tobacco. All pigmeat and beef production in socialist sector. Integration increasing for fruit and vegetables. Percentage of marketed quantities produced under integration: wheat 70 per cent; beef 24 per cent; pigmeat 17 per cent.

- o -

/...

Question 3

Legislation affecting vertical integration - e.g. limitations on purchase of farms by non-agricultural interests, limitations on volume of individual production qualifying for deficiency payments, etc.

GERMANY, F.R.

Farmers have priority in purchase of land. Taxation hits production based mainly on bought feedingstuffs.

IRELAND

None.

NETHERLANDS

None.

NORWAY

Licence required for purchase of land and generally buyer must settle on the farm. Authorities have pre-emption right in some cases for purposes of rationalization. Price arrangements for grains and concentrates favour farmers producing own feedingstuffs.

SWEDEN

Land purchase generally reserved for bona fide farmers. Special permit required for sale to corporations, companies, foreigners. Authorities have pre-emption right in some cases. Restrictive Trade Practices Act 1953 may affect vertical integration.

UNITED KINGDOM

None (except restriction on deficiency payments for milk).

YUGOSLAVIA

Maximum individual land holding: farmers 10 ha., others 3 ha.

- o -

/...

77

Question 4

List private integrators - feedingstuff manufacturers, meat packers, super-market and chain food store operators, etc.

IRELAND

Hatcheries, one bacon factory and a co-operative of small grocers.

NETHERLANDS

Feedingstuff manufacturers and dealers, cattle dealers, meat packers, wholesalers of eggs, freezing, and canning enterprises.

NORWAY

Meat Packers, feedingstuff dealers, wholesalers, canneries.

SWEDEN

Vegetable, fruit, and meat canneries (Findus, Felix), meat packers, millers, dairies, supermarket chains (potatoes), seed firms.

UNITED KINGDOM

Large group of companies (Ross Group in broilers, potatoes etc.) wholesale butchers (broilers), wholesale grocers (broilers), feedingstuff company.

o
o o

Norway and Sweden also mention central consumer co-operative organization as integrator (ownership of farms, contracts with farmers for pigmeat, broilers, potatoes). Swedish Sugar Company contracts with farmers for sugar beet and ware potatoes. Irish Sugar Company (state) is main exponent of vertical integration in Ireland.

/...

Question 5

Methods used by private integrators

(a) amalgamation of existing enterprises engaged in successive phases of the supply-production-marketing process, or special agreements between them;

(b) acquisition of farms by processing or marketing interests;

(c) contracts with farmers - give particulars on provision of credit and technical guidance, obligations on farmer (purchase of feeding-stuffs, delivery dates, etc.), price and market guarantees.

GERMANY, F.R.

As regards the main branches in which integration takes place this question has already been partly answered under question 1.

(a) Amalgamation of existing enterprises already active in integration has not yet been noted at the present stage. None of the firms at present engaged in integration have formed larger units among themselves.

(b) The acquisition of farms by processing and marketing interests has not been observed. But some agricultural businesses have created a broader basis for their production especially by leasing land, above all in order to avoid turnover and industrial tax as an industrial processing enterprise. These businesses have built up their own sales organization. A large scale concern manufacturing feeding-stuffs has entered the production of American stock on licence by the purchase of farms, and engages in integration up to the sale of the finished product.

(c) Unfortunately no particulars can be given. Basically the system of credit provision and technical guidance is no different from that of the co-operative. However, some of the private integrators in this field are remarkably advanced, especially in advisory work.

Unfortunately this question cannot be answered in more detail as no reply has yet been received from a number of large private integrators.

IRELAND

The operation is carried out by contract in the case of pigs; some credit is given basically in the form of a sow to be paid for when the litter reaches maturity, the farmer being (in theory at least) compelled to deliver his pigs to the factory.

There is no price guaranteed.

In fruit and vegetables we are not aware of any credit given by the grocers' co-operative; some technical assistance is given, seed is supplied and a price guaranteed. This negotiation barely comes under the heading of Integration.

/...

In the broiler industry chicks, feed and credit both for feed and long term for buildings are offered, together with a guaranteed price.

Some individual wholesalers and compounders of grain are interested in pig and poultry production on their own premises.

NETHERLANDS

(a) Examples of amalgamation of existing enterprises with a view to making use of the possibilities of contract farming are not known to us - except for a single case of a fully integrated system - i.e. manufacture of feedingstuffs and meatpacker - but this enterprise (Unilever) is of an older date; so far vertical integration with relation to agriculture has been mainly applied in the shape of contract farming; this system requires the integrators interested to make special agreements for this purpose between themselves.

(b) The number of farm holdings run by integrators for other purposes than research is gradually increasing; moreover the question arises whether those farms which now are used only for demonstration and/or research will not be used more for production purposes by the integrators themselves.

(c) It is difficult to get hold of contracts which private integrators make with farmers; as far as we know they contain the following (partly alternative) terms:

1. A guaranteed income, i.e. the farmer gets a fixed remuneration for fattening animals which remain the property of the integrator and for which the latter delivers the feed and eventually all other things that may be necessary; in other words: the full risk for this contract is taken by the integrator, unless part of the risk is reserved for the farmer when the results of his production are below a certain level.

2. Contracts leaving in principle the risk to the farmer, may contain agreements as to prices of the following character:

   (i) a fixed price (broilers, pens);

   (ii) a variable price: this may be a price dependent on the market price at the moment of delivery from which basis the integrator can, however, deviate at liberty (pigs) or a price related to, for instance, the price of a leading co-operative (eggs);

   (iii) a guaranteed minimum price which leaves room for a higher price: peas (as a minimum remuneration per ha).

3. As to market guarantees, in some cases long term agreements are made with sub-contracts for a certain number of produce units; these long term contracts are often unilaterally favourable to the integrator as to the possibility to terminate the agreement between times.

4. In the type of contract mentioned in 2 and 3 above the farmer undertakes:

   (i) to buy the feedingstuffs from the integrator;

/...

(ii) to make use of the breeding stock indicated by the integrator and/or supplied by him;

(iii) to take care of the animals and of the crops in the way indicated by the integrator;

(iv) to supply in due course his products to the integrator according to the quality standards and to the delivery schedule agreed.

5. As far as credit is granted, it is not cheaper than the rate for other types of credit; it is, however, more easily obtained.

6. The technical guidance which is part of the contracts may only include extension and advice; in most cases, however, it will comprise instructions and supervision .

NORWAY

(a) Vertical integration in the form of amalgamation of existing enterprises engaged in successive phases of the supply - production - marketing process are found under (a) and (f) under question 4.

Under (a) the production and processing of pigmeat is linked together as the processing firms involved are supplying part of their requirements of pigmeat from production in large production units of their own.

Under (f) the processing and marketing is linked together as the apex organization of the consumer co-operatives (NKL) has integrated into processing of meat in plants of their own. The integration is, however, of minor importance. In one case the processing plant is operated in co-operation between the NKL and one of the farmers' meat marketing co-operatives.

(b) Acquisition of farms by private integrators is of minor importance in Norway partly due to the legislative restrictions mentioned under question 3.

(c) As indicated under question 4, contract integration is the most common type of integration in Norwegian agriculture. It is used by slaughterhouses, feed dealers, and wholesalers. The contract conditions vary. For the integrators mentioned under (b), (c) and (d) in question 4 it is common practice to give the following provisions to farmers signing contracts:

- credit;
- concentrates and sometimes feeder pigs;
- some sort of price and market guarantee.

The obligations for the farmers stated in the contracts are usually: delivery of the final products to integrator, buying concentrated feed from the integrator or certain firms co-operating with the integrator.

Below is given an example of the contract conditions used by a private meat packer making contracts for pigmeat.

There is reason to believe that these contract conditions may be considered fairly representative of integrators under (b), (c), and (d) in question 4.

/...

- Feeder pigs delivered on the farm by integrator at prices corresponding to quotation used by farmer co-operatives. The farmer pays only the insurance premium for the animals in cash.

- Concentrates delivered on the farm by integrator at prices a little below official quotation. It has to be added that due to probable differences in quality it is difficult to compare the prices.

- Pigs for slaughter are picked up on the farm by integrator.

- Integrator pays the pigmeat at prices linked to the quotation used by farmer co-operatives. It is, however, for several reasons difficult to compare the prices paid by co-operatives and private slaughterhouses. This is partly due to the bonus paid at the end of the year by most co-operatives.

- Payment for feeder pigs and concentrates is deducted from the final account to the farmer.

The type of integration under (e) (question 4) is in many ways quite exceptional, and is conducted by private wholesalers dealing with agricultural products, mostly vegetables and poultry products. The integrator (wholesaler) makes contracts with the farmers for the delivery of vegetables on the condition that farmers are obliged to deliver all their eggs to the wholesaler.

For integration under (g) (question 4) the conditions for the contracts are determined every year through negotiations between representatives from the two parties concerned, the canning and freezing industry and the farmers. The farmers producing vegetables on contract have organized themselves in a countrywide bargaining co-operative (Kontraktdyrkernes Landslag). This bargaining co-operative represents the farmers in negotiations with the canning and freezing industry over prices and contract conditions. The negotiations are held in advance of the production season and cover the following items:

- Price guarantees in the form of fixed prices.

- Conditions for production and delivery.

- In some cases the canning and freezing industry supplies the farmers with seed.

- For some products the canning and freezing industry takes care of harvesting and transport to the plant.

SWEDEN

(a) No such measures have been taken by private integrators in regard to any of the above mentioned products.

(b) We do not know of any acquisition by private integrators for this particular purpose. Findus' broiler production takes place on the company's research farm at Bjuv in specially erected poultry-houses.

/...

(c) As shown in the foregoing paragraphs vertical integration in Sweden is almost entierely based on contracts with farmers. Below particulars are given of the provisions in these contracts.

Broilers. Irrespective of integrator, the contracts only provide for the price. Quite naturally the contracting farmer must raise well-known breeds.

Fatstock and Pigs. The provisions in the pig contracts are unknown.

Vegetables. The contracts for these products contain provisions on price, technical guidance, and delivery dates. The integrators (Felix, Findus, and others) negotiate with the farmers about the prices for the forthcoming season. In these negotiations growers' interests are represented by the Horticultural Board of the Swedish Farmers' Union. The large pea-canning factories (Findus, Felix, etc.) provide the seed and harvest the pea crop themselves. Special campaigns are organized by the factories, which use their own combines and other harvesting machines, transport, etc. The peas must be harvested at a certain time during the maturing process, otherwise there is a risk of inferior quality. Canning factories (like Findus and Felix) give advice to the growers. Advisory service is also given by officers employed by the Agricultural Societies (Hushållningssällskapen)

Potatoes. The provisions in the potato contracts vary according to the type of potato to be produced. Besides the price clause, the contracts contain provisions on the management and harvest of the crop, which, particularly for seed potatoes, must comply with the regulations laid down by the Board of Agriculture and the State Central Seed Testing Station. The prices for table potatoes are based on quotations. The quality is taken much into consideration.

Sugar beet. The Swedish Sugar Company, which is the sole refiner of sugar in Sweden, signs contracts with the beet growers. The price is related to the sugar content. The company supplies the seed gratis. The grower buys back pulp and molasses at a reduced price. The final prices to the grower are settled after the compaign has ended. Delivery dates are fixed.

Seed. Swedish seed firms very often have contracts with growers. This is specially the case with tested varieties, which must be grown according to official regulations. The prices are usually settled as an additional payment over ruling market prices. The crops are checked and approved by officials from the State Central Seed Testing Station.

Fruit. Both integrators (Swedish Co-operative Union and Wholesale Society and ICA:s Frukt & Grönsaker AB) have packing stations, which are buying the fruit direct from the growers. There are no contracts. The fruit is graded and packed at the stations and sold in affiliated shops, for example by the local co-operative societies and by the ICA retailers. The latter are private shopowners, who co-operate at the wholesale stage. About 5 per cent of fruit sold in Sweden is marketed in this way. The remainder comes from private packing stations and packing stations owned by the growers.

/...

UNITED KINGDOM

(a) Amalgamations of existing enterprises are most commonly to be found in the broiler industry where processors, or others, have bought their way into the various stages of production. We know of no special agreements, although contractual arrangements are common between producers and processors.

(b) Processors in the broiler industry acquire sites, which are often parts of farms, on which to grow broilers. The acquisition of farms is, on the whole, confined to a limited purpose - the general cause of research. Examples of this are fertilizer firms, seedsmen, feedingstuff manufacturers, meat processors for breeding research, etc.

There are cases of frozen food packers and processors owning land for producing their own supplies, but this is not a general practice. In the case of horticultural produce retail interests prefer to obtain their supplies without becoming involved in another process, but a few of these interests have acquired market gardens or farms. In the past few years certain of the large cider manufacturers have acquired an increasing number of orchards.

(c) The Fatstock Marketing Corporation Ltd., through its Fatstock Finance Scheme is in a contractual relationship with a number of producers of pigs, cattle, and sheep. Producers accepting these loans, which help them to purchase or buy the necessary food, contract to sell the fattened animal to the Corporation. (In many cases the Corporation obtains an indirect benefit by the producer selling all his fatstock to the Corporation.)

The total value of advances made under the Scheme since its inception in March 1958 is £1.5 million. The total number of applications for loans has been about 5,000. The actual number of producers involved is less, because some of this number have obtained more than one such loan. Thus, only a small proportion of fatstock producers have so far taken advantage of the Scheme.

A scheme which involved much closer control of the production process by outside financial interests, was that run by the Livestock Group of Companies. Under this scheme members of the general public were invited to invest a sum of money in the purchase of a sow. In return the investor was promised a guaranteed income and a refund of the capital when the sow was eventually sold. The company itself purchased the sows. Farmers contracted with the company to feed the sows and fatten the progeny until they were ready for slaughter. The farmer himself never owned the sows or pigs. About 16,500 sows and boars were owned by the Livestock Group when it was operating. The Group recently went bankrupt. The idea initiated by the Livestock Group of Companies is being continued in a modified form by another firm, Anglian Pig Breeders.

The Pea Growing Research Organisation Ltd. is a body jointly financed by the pea growers and the processing companies and the benefits of this research are immediately available to the growers. The current levy is at a rate of 6d. per ton on the shelled clean weight of fresh peas sold under the contract, a similar contribution being made by the processors.

Technical advice may be obtained by all farmers free of charge through the National Agricultural Advisory Service which is government sponsored on a regional basis throughout the United Kingdom. Recently this Service has been made available to co-operative societies.

- o -

/...

Question 6

To what extent are the advantages sought by integrators actually achieved?

(a) regularity of supply;
(b) standardized qualities suitable for advertising;
(c) planning of supply with respect to quality and quantity;
(d) economies of scale;
(e) profits from two or more sources (e.g. on feedingstuffs sold to farmer and broilers sold to consumer).

GERMANY, F.R.

(a) Yes (but also achieved without integration).

(b) Yes, essential for integration.

(c) (Reply inconclusive.)

(d) Risk greater than benefit - large investments swallow up profit.

(e) See (d).

IRELAND

No judgment given.

NETHERLANDS

(a) Yes (processors).

(b) Yes "

(c) Yes "

(d) Yes (processors and feedingstuff manufacturers).

(e) Fully integrated systems are rare.

NORWAY

All advantages mentioned are obtained by one or other type of integrator. Similar advantages obtained by co-operatives without vertical integration programs. Where co-operatives have vertical integration programs these are merely one way of providing service to members.

SWEDEN

(a) Of some importance.

(b) For broilers, yes; perhaps also canning vegetables.

(c) Yes, for most products.

/...

(d) Yes, particularly for broilers and pigs.

(e) No factual information, insignificant.

UNITED KINGDOM

(a) Yes (broilers), partially (bacon pigs).

(b) Broiler poultry, canned and frozen fruit and vegetables.

(d) Yes (broilers, eggs).

(e) Yes (some firms in broilers, eggs).

YUGOSLAVIA

In addition to advantages quoted, the following should be mentioned:

- introduction of modern technology, thus achieving significant improvement in yields of wheat, maize, industrial crops and, to some extent, livestock;
- technical guidance is unified in co-operatives;
- besides loans from the public sector, industrial enterprises also grant loans for expansion of agricultural production;
- increased income provides resources for further expansion.

- o -

/...

Question 7

What conditions are considered necessary for the success of vertical integration by (a) private integrators, (b) farmer co-operatives?

GERMANY, F.R.

For private integrators and co-operatives

- Standardization - feedingstuffs, livestock, end product.
- Least possible seasonal fluctuction.
- Rationalization of supply.
- Optimum utilization of plant capacity.
- Market information.
- Storage and internal price policy.

IRELAND

No information available.

NETHERLANDS

For private integrators

- Effective production planning in relation to long term markets.
- Willingness of all parties to accept limitations on freedom.
- All parties should profit equally.
- Fair division of risk.
- Farmer should have professional capacity and positive attitude towards contract farming.

For co-operatives

Same - but some particular problems involved.

NORWAY

For private integrators

- Profits obtainable.
- Need among farmers for services provided (credit, price guarantee, technical guidance).

For co-operatives

Same.
Members must have fairly uniform economic needs.

SWEDEN

For private integrators

- Expanding market.
- Adequate supply of raw material.

/...

For co-operatives

Same - special problems: vertical integration and co-operative principles, impact on farmers' incomes.

UNITED KINGDOM

- Mass market necessitating uniform supplies.
- Economies of scale obtainable.
- Need for heavy investment.

(Reply does not distinguish between private integrators and co-operatives)

YUGOSLAVIA

- Economic interest of all partners in integration.
- Sound integrators' material and technical resources.
- Successful technical guidance.
- Policy of society should provide conditions for continuous expansion of production.
- Loans at low interest and otherwise favourable terms.
- Minimum guaranteed prices for the most important agricultural commodities, subsidized price for machinery, fertilizers, and pesticides.
- Premiums for selected commodities.

- o -

Question 8

What advantages are obtained by contracting farmers?

(a) access to credit and technical guidance;
(b) greater security in the short term as regards markets and price;
(c) decisions concerning marketing are taken by integrator, leaving farmer free to concentrate on efficient production.

GERMANY, F.R.

(a) Co-operatives give some initial credit.

(b) Co-operatives try to reduce price fluctuations.

(c) Yes, if it is an advantage.

IRELAND

The chief advantages are credit, technical information and an assured outlet for the produce.

NETHERLANDS

All three advantages may be obtained theoretically. In practice the result depends on the state of the market and the ability of the farmer.

(a) Credit more easily obtained but not cheaper.

(b) Longer term planning may be illusory if contract can be terminated arbitrarily by the integrator at any time; full price security only with contracts guaranteeing income; prices generally not very favourable to farmers.

(c) Especially for farmers not belonging to a co-operative.

(d) Specialization and economies of scale.

NORWAY

(a) Yes, credit is the most important advantage.

(b) Yes, for vegetables; otherwise market stable.

(c) Yes, for vegetables, otherwise no advantage vis-à-vis co-operative marketing.

SWEDEN

(a) No advantage as far as credit is concerned.

(b) Yes, most apparent for vegetables.

(c) Yes, but co-operatives give same advantage.

/...

UNITED KINGDOM

(a) Yes.

(b) Yes, most important

(c) Yes.

YUGOSLAVIA

(a) Contracting farmers are given: material and technical resources which they are not able to provide by themselves, so that modern cultivation and increased production for market can be organized.

(b) Contracting farmer has a direct interest since market prices of agricultural commodities are stabilized and production stimulated.

(c) Technical guidance is provided by the co-operatives.

- o -

/...

Question 9

Are co-operatives obtaining similar advantages for their members otherwise than through vertical integration?

GERMANY, F.R.

Yes, for those branches of production in which co-operatives are strong (e.g., milk, meat).

NETHERLANDS

- Yes, credit - except perhaps for some special needs.
- Technical guidance - private integrators tend to provide slightly better service.
- Market stability - yes.
- Price stability - in general, yes.
- Concentration on efficient production - yes.

NORWAY

Yes - short term credit provided by most supply and some marketing co-operatives, some fieldmen employed to give technical advice, co-operative market regulation gives stability, co-operatives accept all deliveries by members.

SWEDEN

Yes - short term security of markets and prices, research and advisory work increased (particularly meat marketing co-operatives), various forms of credit (feedingstuffs, beef production, etc.).

UNITED KINGDOM

Yes, for fatstock, eggs, and wool which are sold through producers' organizations.

YUGOSLAVIA

Only to a certain extent, as co-operatives are organizations for large scale production and should have large scale market outlets.

- o -

/...

Question 10

What disadvantages are suffered, and to what extent are they accepted, by contracting farmers?

(a) dependence on integrator, with consequent loss of bargaining power;
(b) restrictions on freedom of choice as an entrepreneur;
(c) danger of over-production in the sector concerned, affecting all farmers whether contracting or not;
(d) hardening in the terms offered by private integrators.

GERMANY, F.R.

Questions are purely theoretical at present.

IRELAND

Disadvantages have not yet become apparent.

NETHERLANDS

(a) Yes.

(b) Yes (but freely accepted).

(c) Yes, but as result of greater efficiency.

(d) Yes in principle, but experience too short for proper judgment.

Other disadvantages

(e) Difficulty of surveying market as a whole when there is a separate market for contract farming.

(f) Ease with which integrator can switch from one farmer to another.

(g) Integrator formulates contract.

(h) Farmers cannot always assess real value of terms offered.

Farmers often accept the condition that they should not show the contract to representative of farmers' organizations. Farmers' organizations try to influence contents of contracts but are handicaped by the fact that membership is not general.

NORWAY

For animal products, some danger of excessive indebtedness, followed perhaps by hardening of terms. Some danger of over-production but should not be over-estimated.

/...

SWEDEN

- Experience of vertical integration slight, no obvious disadvantages suffered yet.
- Danger of over-production from large scale enterprises.
- No signs of (d).

UNITED KINGDOM

(a) and (d)

YUGOSLAVIA

All integrators are public enterprises and the disadvantages mentioned do not arise. Apart from quantities under contract, farmers are free to sell whenever they close and often use the unorganized retail markets in and near large towns and industrial centres.

- o -

/...

93

Question 11

Is vertical integration undertaken by farmer co-operatives? To what extent? In what ways?

(a) contracts with members (state general terms);
(b) contracts with wholesalers or retailers;
(c) ownership of retail outlets.

GERMANY, F.R.

The question can be answered with an emphatic yes. Co-operative integration made great strides in 1962. The German Co-operatives have addressed themselves very positively to the question of vertical integration.

(a) Production and delivery contracts - especially for quality cereals, rape, cereal and fodder seeds, seed potatoes, ware and industrial potatoes, fruit and vegetables, eggs, poultry, fatstock (especially pigs) - have been concluded with members. Sometimes the local co-operatives were the contractors but more often the regional co-operative supply organization, sometimes together with the regional butter and egg marketing organization or the regional meat marketing organization.

The most important features of the contracts are:

- Compulsory delivery by the member, compulsory acceptance by the co-operative (either total production, a percentage or a fixed quantity).
- Provisions concerning delivery, acceptance, preparation, sorting.
- Provision concerning payment (price and date).
- Agreement on advisory work and supervision, at present on methods of production.
- Agreement on supply of basic material (young livestock, plants, seeds), production requisites (feedingstuffs, fertilizers, medicaments), equipment and implements
- In individual cases, penalties, arbitration procedure, etc.

Sometimes the producers in the branch concerned have formed associations with the task of giving technical advice.

In a limited number of cases a special processing installation was set up (company with nominal shares carrying right and obligation of delivery). The deliveries take place in the same way as with the contracts.

(b) Some delivery contracts exist - and efforts will be made to extend them with:

- Processing firms.
- Wholesalers, including the central purchasing organizations of private traders and consumer co-operatives, chain stores, etc.
- Retail traders (less, and mostly at local level).

The contracts contain, in all cases, provisions concerning quality, packaging, etc., quantities to be delivered, and in some cases specific provisions for settling prices.

(c) Farmer co-operatives do not own any retail outlets (except for milk sales).

/...

IRELAND

Contracts with members are most uncommon, having been held unenforceable as "conditions in restraint of trade" in a leading case in 1919.

NETHERLANDS

Animal Production

Co-operatives are applying - until now in a modest way only - contract farming for pigs, calves, and broilers; not yet for eggs.

Arable Farming

Co-operative sugar factories and potato flour factories for a long time already have been making use of a system which contains elements of contract farming; still more elements of vertical integration are present in the relation of growers of grass seeds with the co-operatives marketing the produce; as a consequence of the increase of contract farming for vegetables, there are moves to build up special unions of growers to negotiate with the integrators.

In what ways?

(a) Contracts with members (state general terms)

1. The main type of contract in our country is the credit agreement to meet the credit needs of the farmer who wants to extend his production of pigs and calves; the agricultural credit banks therefore grant these credits, for an agreed number of animals, especially for the supply of breeding stock and feedingstuffs and - sometimes - for other necessary investments. Partners in these contracts are, besides the co-operative banks, supply co-operatives, marketing co-operatives for cattle and sometimes also mutual insurance associations. These agreements contain the following conditions:

(i) the farmer undertakes to buy the feedingstuffs from the supply co-operative;

(ii) sometimes he has to buy the breeding stock from a marketing co-operative for cattle;

(iii) the farmer is obliged to insure the animals; sometimes the service of a mutual insurance society is compulsory;

(iv) in the case of pigs he has to deliver his products to a meat marketing co-operative; the sale of calves is free.

One or more of the co-operatives concerned guarantee the repayment of the credit to the bank.

The two groups of co-operative banks which exist in this country apply different conditions as to membership, demanding either membership in the local bank concerned only or membership in all the co-operatives concerned. Whilst one group of banks applies short-term contracts, the other makes use of long term contracts with sub-contracts.

/...

The credits granted are limited to a total amount with a maximum per animal; more credit may be given but only after an investigation with regard to the capability and financial position of the applicant.

The rate of interest, which is not lower than for similar types of credit, can be altered between times, as is usual in the Dutch agricultural credit system.

The contracts contain instructions for the method of production, and the farmer has to accept supervision.

In general these contracts do not contain any price agreements, the farmers paying or receiving the same prices as the remaining members, in other words: the farmer bears the risk.

For some time some marketing co-operatives for cattle have tried to guarantee the farmer a fixed remuneration per animal; for this purpose a fund was made from contributions of the farmers interested; the instability of the market and the great differences in the standard of production - which was not a subject of supervision - made it, however, impossible to continue this system.

2. The only co-operative slaughterhouse for poultry which exists in the Netherlands makes use of a <u>delivery agreement</u>; the producer, before starting production, undertakes to supply the slaughterhouse with a number of animals contracted on a certain date; the slaughterhouse accepts delivery beforehand; the producer is obliged - at least morally; there is no written agreement as to this point - to buy the feedingstuffs from the local supply co-operative; in general there is no price agreement by the poultry co-operative; by way of exception supply co-operatives interested are offering a fixed price for the product; the slaughterhouse gives extension but no instructions; it leaves the choice of the breeding stock to a certain extent to the producers.

The organization of the co-operative slaughterhouse referred to is exceptional, its members being two central organizations of supply co-operatives and some marketing co-operatives for eggs; the producers of broilers therefore are non-members; the business is not limited to members of member organizations;

3. Contracts with a fixed remuneration (wage) per animal are applied by some supply co-operatives in contracting in the field of pig production; in most cases this type of contract includes the possibility of some "profit" sharing.

It cannot yet be predicted whether this type of contract farming by co-operatives will become of great importance.

(b) <u>Contracts with wholesalers or retailers</u>

As far as we know, a further vertical integration by agreements with wholesalers or retailers has not yet taken place.

(c) <u>Other forms of vertical integration, in which co-operatives are a party</u>

1. A marketing co-operative for milk founded some factories of its own and is financially interested in various private factories for dairy products and for the standardization of milk.

/....

2. The co-operative slaughterhouse, mentioned in (a) 2., offers also an example of vertical integration as it was founded by supply co-operatives and marketing co-operatives for eggs; the central organizations of supply co-operatives mentioned, together with some other organizations, also take part in a Benelux co-operative for the development of a special breed of broilers, the use of which will be made in due time compulsory for deliveries to co-operative slaughterhouses; (a second co-operative slaughterhouse will soon be founded by two central organizations of supply co-operatives).

There are, of course, still various examples of vertical integration between co-operatives; these, however, are not of any importance for the new development in contract farming which is subject of this questionnaire.

NORWAY

The farmer co-operatives are to a certain extent conducting vertical integration both in the direction of the primary production and in the direction of the wholesale and retail distribution. Below is given a short description of the different types and extent of integration, conducted by farmer co-operatives.

(a) Contracts with members

Meat marketing co-operatives

Most of the regional co-operatives are conducting contract integration, particularly for pigmeat and to a smaller extent also for beef and veal. General terms in the contracts are:

1. The co-operative is supplying the farmers with feederpigs. In some cases the co-operative is also supplying concentrated feed.

2. The farmers have to keep insurance for the animals.

3. Only part of the cost of feederpigs and concentrated feed has to be paid in cash. The rest, with the addition of interest, is to be deducted in the final account when the products are delivered to the co-operative.

4. The farmers are obliged to deliver the products to the co-operative.

5. The products are paid at quoted prices in force.

Egg marketing co-operatives

One of the regional co-operatives has made contracts with the farmers for egg production. Credit is given for the purchase of chickens. Contract terms roughly the same as for the meat marketing co-operatives. Contract is not obtained unless a minimum of 100 chickens are started.

Fruit and vegetable co-operatives

Contracts are made for the production of potatoes for seed and human consumption. The production program is controlled by Governmental agencies.

/...

Purchasing co-operatives

Contracts are made for production of seed. The production program is controlled by Governmental agencies. The co-operatives are supplying the seed, the payment of which is deducted in the final account after delivery of the product in the fall. The farmer gets a price premium in addition to price quotation in force.

(a) Contract with wholesalers or retailers

Meat marketing co-operatives

Two of the regional co-operatives have contract arrangement with respectively retailers and wholesalers for delivery of meat products. One of the regional co-operatives have a contract arrangement with the Findus concern for the production of ready to eat food from meat and pork. The same co-operative has a contract arrangement with a cold chain for production of frozen food.

For co-operatives in the poultry and vegetable sector contract arrangements with wholesalers or retailers are of minor importance.

(c) Ownership of retail outlets

Meat marketing co-operatives

Most of the co-operatives have some retail outlets of their own. Sale of canned food, salted, smoked, and dried meat and other forms of processed food through these retail outlets in relation to total sale at retail level varies considerably between co-operatives but is probably about 10 per cent for the meat marketint co-operatives as a whole. The relative importance of sale through own retail outlets seems to be decreasing.

Dairy co-operatives

Most of the dairy co-operatives are doing part of their retail sale through outlets of their own. The retail outlets are in most cases connected to the dairy plant but in the larger cities they are separate and spread around in the city.

(d) Production of pigmeat conducted by farmer co-operatives

There are examples of this type of integration in the dairy industry where the main purpose is to get a more profitable utilization of byproducts like skimmed milk and whey from the dairy plant. The extent of this production has, however, decreased partly due to the price discount system for concentrated feed (see under question 3) which do not give this type of production any preference. It has also been an opinion among the farmers against this type of activity to be carried out by the co-operative dairies.

SWEDEN

(a) We have already stated that our co-operatives use contracts with their members only on a very limited scale. The only product of any quantitative importance which is grown under contract is potatoes. Integrators of table and seed potatoes are the Swedish Farmers' Selling and Purchasing Association and of factory potatoes the Swedish Distillers' and Starch Producers' Associations. The

/...

factory potatoes are grown under contract at one hundred per cent, while only a part of the table potatoes are under contract.

The selling and purchasing societies also receive table potatoes from other members than contracting ones. However, as we have said before, the contracting activities as regards table potatoes is not only a drive to achieve adequate quantities of quality potatoes but also to raise the standard of production. The farmers' co-operatives cover only about 20 per cent of the wholesale trade in table potatoes, while the percentage is higher for most other vegetable crops traded by them. The acreage under contract and the general terms of the contracts have been mentioned under question 4.

The distilleries and the starch factories in Sweden are run by farmers' co-operatives. In order to plan supply all potatoes used by distilleries and starch factories are produced under contracts. Production of factory potatoes is regional and the processing plants are located to certain districts.

(b) In order to understand our answer on this point, we have to point out the fact, that the Swedish Farmers' Co-operatives cover a very high proportion of the different agricultural products (milk 98 per cent, meat 84 per cent, grain 60 per cent, etc.). From this it is evident, that the co-operatives are large wholesalers. However, they only sell within their own areas and may neither sell nor buy outside these areas. Measures for regulating the whole national market are taken by the national Associations to which the co-operatives are affiliated (see the booklet Farmers' Co-operation in Sweden). The co-operatives have no special contracts with wholesalers or retailers. The trade is based on ordinary agreements.

(c) Ownership of retail outlets has existed since a long time ago. The scope of the activities has however been reduced. At one time the dairy co-operatives were large owners of specialized milk shops. According to the structural changes in the retail trade (super market etc.) the number of shops operated by farmers' co-operatives have decreased. Some dairy co-operatives are converting their shops into super markets. Also meat marketing societies own shops, many of them still of a butcher's type. One or two of the meat marketing societies have chains of super markets. No other agricultural marketing co-operatives retail food.

UNITED KINGDOM

During the past few years the wording of the 1956 Restrictive Trade Practices Act appeared to embrace agricultural co-operatives in the general definition of Trade Associations and therefore made many forms of contract virtually impossible. Through amending legislation this disability is now in process of being removed.

(a) Contracts between members and their societies are becoming more common, but since few of these rest on the ownership by the society of the crop/livestock, the contracts are for the most part fairly loose. Vertical integration cannot be regarded as present to any extent.

(b) With the exception of some machinery agencies, there are few, if any, exclusive contracts between societies and retailers.

(c) The proportion of marketing done through society-owned retail outlets is insignificant.

/...

YUGOSLAVIA

The quantity and quality of selected agricultural commodities for marketing or processing are contracted for among plants and co-operatives or socialist farms (former state farms) and exceptionally with farmers. Co-operatives make contracts to produce on their own farms, and to organize production on private farms. This is done through special contract for collaboration. The word adopted for such contract farming between co-operatives and farmers is "kooperacija". The forms of "kooperacija" - contract farming - are various. Most common are contracts for cereals, industrial crops, and meat production; machinery services (co-operative ploughs, mows, harvests, etc.), the price of each operation being fixed. At present the most widespread form of integration is credit provided by co-operatives to private farmers, who are given: best varieties of seeds, fertilizers, plant protection products, livestock, technical guidance, etc. The firmest form of integration is the contract with a private farmer to seed the acreage under contract with high-yielding wheat. The co-operative provides: deep ploughing, good seeds, fertilizers, and plant protection products. Further care for the crop is undertaken by the farmer under the technical guidance of the co-operative agronomist. In the contract the average yields of wheat are guaranteed. The harvesting and threshing of the crop are also done with co-operative machinery. On the basis of the proportion and value of operations carried out by the co-operative and by the farmer (the land rent is calculated in), the profits obtained by high yields are shared. On the same principle contracts are made both for crop and for livestock production.

In such contracts ("kooperacija"), the delivery of commodities is also fixed. Such methods are of very great importance for modernizing agricultural production on the individual farmers' plots, and for production of market surpluses of the desired quality, thus achieving increased market value.

Many co-operative organizations run small-scale processing plants or have packing stations for marketing commodities. In this way commodities are better marketed and profits obtained create a sound basis for a further expansion of agricultural production.

- o -

/...

Question 12

Is there concerted action by farmer co-operatives in different branches (e.g. grain growing and broiler raising), or between farmer and consumer co-operatives for the supply of specified quantities and qualities of farm products under contract?

GERMANY, F.R.

Yes, e.g. eggs, poultry, livestock - feedingstuffs from supply co-operative, collection of eggs by dairy co-operative's transport.

IRELAND

No.

NETHERLANDS

See question 11.

No concerted action between farmer and consumer co-operatives.

NORWAY

Sometimes regional meat marketing co-operatives with supply co-operatives for provision of feedingstuffs.

Joint operation of a meat packing plant by the consumer co-operative central organization (NKL) and a regional meat marketing co-operative.

SWEDEN

Not as far as is known.

UNITED KINGDOM

No - partly because most co-operatives are multipurpose.

YUGOSLAVIA

Co-operatives are multipurpose and there are no specialized consumer co-operatives.

- o -

/...

Question 13

Has the use of contracts by farmer co-operatives with their members presented any special problems?

(a) provision of credit, supervision;
(b) choice of members;
(c) achieving required quality standards;
(d) marketing arrangements;
(e) repercussions on members not accepted for contracts.

GERMANY, F.R.

(a) Provision of capital.

(b) No member can be excluded.

(c) By central grading.

(d) Contracts are not always fulfilled in times of shortage.

(e) No member can be excluded.

IRELAND

Not applicable

NETHERLANDS

(a) Collateral insufficient.

(b) Generally no selection; business with non-members increases in some cases.

(c) Stringent supervision necessary, payment by quality.

(d)

(e) See (b)

NORWAY

No great problems yet but use of contracts limited.

Two problems may arise:

- provision of enough capital by co-operatives to compete with private integrators;
- conflicting interests among members; accounts of vertical integration program must be kept separate.

/...

SWEDEN

(a) (c) (d) (e) - No or no answer.

(b) Difficulty in selecting farmers, need to do justice to all members.

UNITED KINGDOM

Problems have not arisen yet.

YUGOSLAVIA

Problems mentioned are met with. Co-operatives have staff to study, analyse, and find solutions for these problems.

- o -

/...

Question 14

Statutory Marketing Boards - do their regulatory and price-fixing powers make vertical integration less attractive to private integrators?

GERMANY, F.R.

No marketing boards (Einfuhr - und Vorratsstellen have more limited powers).

IRELAND

No.

NETHERLANDS

No.

NORWAY

No marketing boards except for grain, co-operatives to some extent fulfill functions of marketing boards.

SWEDEN

No marketing boards.

UNITED KINGDOM

Yes, probably, but with exceptions.

YUGOSLAVIA

Socialist marketing boards stimulate integration and take over all surpluses of agricultural commodities at guaranteed minimum prices.

- o -

/...

Question 15

What action has been taken recently, or is likely to be taken in the near future, by farmers and their organizations to adapt themselves to changing conditions?

GERMANY, F.R.

The importance of a closed market circuit including supply of feedingstuffs, production, and marketing is fully recognized and efforts are being made especially through the co-operatives to arrive at formal arrangements. Consideration is also being given to collaboration between co-operative and private integrators, and between integrators on the one hand and the large scale buyers (chain stores, consumer co-operatives) on the other.

IRELAND

Various plans for joint marketing are under discussion but tabulation of these would be premature.

NETHERLANDS

Contract farming (especially in animal production) is a new phenomenon, the development of which cannot yet be foreseen; being inherent to modern society it should be - and is in this country - accepted as a new form of enterprise which may also have its advantages for the farmer; the way in which it is used by private integrators has, however, several dangers for the agricultural producers; the farmers' unions are aware of this fact and they (will) try to assist farmers in strengthening their market position in contracting; a program for the approach of this problem has, however, not yet been made.

As to the co-operatives some have accepted contract farming, up till now, however, only with some reserve. This appears from the fact that they select members only by way of exception and that only rarely do they apply price differentiation between members who contract and members who do not. In general the co-operatives are reluctant to make price agreements, thus taking over the risk for contract farming. The agreements containing minimum price guarantees, applied by some marketing co-operatives for cattle and mentioned under Question 11 (a), were not continued. Such a minimum price system may be used in the future by the second co-operative slaughterhouse for poultry which is going to be founded by two central organizations of supply co-operatives. The supply of this co-operative will be based on contracts only. To realize the minimum prices guaranteed, a fund will be made from contributions both from the producers of broilers - who are not asked to be a member of a supply co-operative but who are obliged to buy their feedingstuff from it - and from the supply co-operatives concerned. This set up enables the co-operative to select its suppliers.

The farmer co-operatives in the Netherlands, like the farmers' unions, want to protect the Dutch farmer against the disadvantages of contract farming. There is, however, not yet a general opinion about the way in which agricultural co-operatives should realize this aim. Some are of the opinion that farmer co-operatives are by themselves an effective means to protect the farmers' interests. This group of co-operators hesitates to recommend that farmers' co-operatives should offer contracts to their members. A different group of co-operative leaders

/...

is convinced that co-operatives are bound to offer their members the same facilities as their competitors do. There is finally a small group of co-operators who ask themselves whether the co-operatives will not have to abandon the traditional way and adopt contract farming in order to integrate more fully the production and the supply of the members with the production process and/or outlets of the co-operative.

This diversity in opinion explains why there is no uniformity at all in the activities of co-operatives, some types having even taken no action at all.

Whatever the degree to which co-operators accept the principle of contract farming, all agree that contract farming creates some difficult problems for the co-operatives concerned. So the question arises whether co-operatives should make this method of business accessible for all members or whether a selection should be made amongst them. Another problem is whether, in creating two groups of members, - viz. those who contract and those who do not - the co-operative itself - which means all members - should assume the risks of the contract business or whether these risks should be left wholly or partly to the group of contracting members only. Whether there is a practical method for realizing the latter system in a logical and satisfactory way is a second question but also an important one.

For reasons of competition it may even be necessary for the co-operative, following private enterprises, to have the supply of its members adjusted to its outlet possibilities. In such a case it may even have to limit the number of its members, selecting only those whose production is up to the standard both as to quantity and quality and regulating the business with them on a contract basis only.

All these problems are basically the same, i.e. they are part of the main question, viz. whether and in what way contract farming can be brought into harmony with the aim and the character of co-operation or whether this new development will lead to a re-appraisal of the principles of co-operation.

The discussion in the Netherlands on this subject is not yet far advanced. That is why we confined ourselves to mentioning some of the problems without giving indications for the way in which they should be solved. We may add, however, one remark:

In accepting contract farming co-operatives may achieve several of the advantages, the system offers. When, however, only part of the members contract, the co-operative will still face the problem that there is no sufficient integration between the production and supply of the members and its own production process and its marketing possibilities for the remaining part of the produce members have to deliver on the basis of the by-laws (which in most cases will contain the obligation to deliver all produce to the co-operative). We wonder therefore whether co-operatives might regulate contract farming collectively, i.e. by making their rules contain general conditions as to the extent and the method of delivery, the quality, the basic material to be used etc, in other words: by regulating the relation with members in the by-laws in such a way that in fact contract farming results. Although this system has also some disadvantages - e.g. the impossibility of selection - it would be much more in harmony with the character and the aim of co-operation than contracting with members individually. Of course, the system of collective contract farming within a co-operative is only advisable when contract farming proves to be a permanent and rather general phenomenon. We add that some type of "collective" contract farming between co-operatives and their members is applied - already since their foundation ± 1900 - by some capital intensive processing co-operatives -

/...

beetsugar factories and potato flour factories - in the Netherlands. We think it worthwhile to study this alternative and we therefore invite IFAP to promote a discussion on this subject in the special session of IFAP on vertical integration.

The above mentioned alternative to the usual type of contract farming can only be used by processing and/or marketing co-operatives with agricultural producers as members. We have not yet a suggestion for the solution of the problem of contract farming by supply co-operatives (as integrators in animal production), by "secondary" co-operatives (having co-operatives as members) and by a group of co-operatives such as that which in this country collaborates in the case of credit contracts. We should state in general, however, that a concerted action is a condition for the success of contract farming in the co-operative field.

There are also some other co-operative activities, related to vertical integration and/or contract farming:

1. the development of a "co-operative" breed of broilers (see also question 11 (d));

2. the exploitation by a number of agricultural co-operatives of a special farm for breeding broilers;

3. the credit agreements of the co-operative banks oblige the farmers to insure the animals under contract; this has caused an extension of mutual insurance, partly by organizations - e.g. some farmers' unions - which were not active in this field before.

NORWAY

Faced with a growth in contract farming and commercial production of agricultural products outside agriculture, the farm organizations (The Federation of Farmer Co-operative Associations and the Farmers' Union) appointed in 1960 a committee to study these developments, especially any unfavourable repercussions on agriculture, and propose suitable countermeasures. The main features of the proposals of the committee are given below.

(a) In view of the structural changes taking place in the distribution of food the committee is of the opinion that the traditional operation of farmer co-operatives in many cases needs some adjustment. The development of mass distribution through chains and super-markets, and the use of mass distribution media like advertizing of branded products, require a better co-ordination of the marketing functions of farmer co-operatives. In order to promote this adaptation to changing conditions the committee proposes to establish a co-ordinating body responsible for the processing and marketing of branded products from the farmer co-operatives. One of the main tasks of this body will be to co-ordinate the different branded products marketed by farmer co-operatives (particularly meat marketing co-operatives) into one brand which will give the basis for extensive and efficient use of modern distribution media. A co-ordinating body as proposed will also help to give the farmer co-operatives a better bargaining position in relation to the increasing concentration emerging from the development of the chains, etc.

/...

(b) Technical guidance to the farmers. It is proposed by the committee that the farmer co-operatives should increase their activity in the field of technical guidance to the farmers. It is stressed that those advising farmers should not only take into consideration the efficiency of production but also contribute to a well balanced adaptation of production to demand with respect to both quantity and quality.

(c) Contract integration. It is not considered by the committee as a goal in itself for the co-operatives to enter contract integration, on account of the internal problems sometimes arising from the use of contracts by farmer co-operatives. Faced with increasing competition from private integrators it may, however, be necessary for the co-operatives to go into contract integration to a larger extent than hitherto.

(d) Differentiation of prices paid to producers on the basis of quantity delivered to or purchased from the co-operatives. It is a fact that a lot of the larger production units in agriculture do not join the co-operatives. This is considered to be a consequence of the traditional policy of farmer co-operatives of giving the same price to all producers irrespective of quantity delivered or purchased.

It is proposed by the committee that farmer co-operatives should pay attention to this problem by differentiating prices paid to producers on the basis of real marketing cost per unit. Such a price policy is expected to make the farmer co-operatives more attractive for the larger production units. In order to avoid discrimination against the smaller producers it is essential that the price differentiation be justified by the real differences in marketing cost per unit.

It has to be added that some of the regional farmer co-operatives in the meat and egg sectors have started some sort of price differentiation according to this principle. Some of the regional purchasing co-operatives give quantity discounts for the delivery of feedingstuffs and fertilizers.

(e) Co-operation between the different regional branch organizations. The Committee has proposed that a more extensive and formal co-operation between regional branch organizations should be established. The co-operation should cover such things as transport, contract integration, credit provision, technical guidance, etc. At present a system of co-operative transport on the regional level is in process of being developed in several districts.

Production co-operation (horizontal integration)

In recent years there has been considerable interest among farmers in expanding the co-operative movement on a more formal basis into the production of primary products. Co-operation in this field has taken different forms. The most extreme form is the operation of two or more farms as one unit on a co-operative basis, of which there are some few examples in Norway.

Farm machinery co-operation is also a common feature of Norwegian agriculture, sometimes in combination with co-operative operation of the farms involved.

Co-operative cowsheds have also been started during the post-war period, some of which have not, however, shown outstanding results. To a certain extent this may be due to the difficulties attached to all innovations. There has also

/...

been some interest among farmers for the production of pigmeat on a co-operative basis, but no practical results have emerged so far.

In order to promote the development of production co-operation in agriculture, the Royal Agricultural Society of Norway appointed a committee in early 1962 to study this form of co-operation. The Committee has given a description of the different forms of production co-operation in operation at present. Furthermore the committee has analyzed the necessary preconditions for successful production co-operation and made suggestions for further development.

SWEDEN

No action is likely to be taken in the near future.

UNITED KINGDOM

It may be worth listing the main changes in conditions that have been taking place in agriculture over recent years, which are resulting in changes in the structure of the farming industry. They are:

1. On the supply side of the industry there has been a growth, since the war, of large and powerful companies and a reduction in the number of small, independent local corn and agricultural merchants.

2. On the processing side, in certain commodities, e.g. peas, virtually the whole outlet is through processing. The farmer wishing to grow these commodities has, therefore, to obtain a contract from a processing company.

3. On the retail side, over the past few years, there has been an increasing concentration of trade into fewer hands. There has been a very large growth of self service stores and super markets, which has brought a corresponding drop in the number of small independent retailers. The main effects of this have been:

   (i) Number of buyers for agricultural produce reduced and average size of order increased.

   (ii) Retailers powerful enough to insist on well graded produce of high quality and to seek availability in large volume.

   (iii) Increasing tendency for retailers to by-pass traditional markets and seek requirements of standardized graded produce from sources prepared to guarantee continuity of supply of type and standard demanded.

   (iv) Increasing disparity of negotiating strength between individual producer and retail company. This leads to fear that if producer organizations cannot cope with requirements under (iii), then retail companies will move back into farming to organize supply for themselves.

/...

The result of this has been for the farming industry to realize that if greater interference from non farming interests is to be avoided, then more national and local producer-owned marketing organizations are necessary in order to meet the demands of the new looking retail trade. This feeling has manifested itself in a number of ways which are mentioned later. It should be emphasized, however, that the movement is still gaining momentum and marked changes in the marketing structure of the industry may still be seen over the next few years.

(a) Buying of Requisites by the Farming Industry. Traditionally the supply of requisites has been in the hands of the local private merchant and the agricultural co-operative trading society. The agricultural societies handle about one-ninth of the total.

The build-up of national supply companies and the need for the farmer to look at his costs of production have resulted in the British farmer, in recent years, examining closely his methods of buying. One outcome of this has been the development of a new form of co-operative buying, the buying group. The objectives of both buying groups and co-operatives are similar - to achieve the benefits of bulk buying, although the methods adopted are not the same.

The agricultural trading society receives a discount from manufacturers or suppliers because of its ability to order in bulk. This discount (or profit) is normally repaid to individual members of the society in the form of a dividend, usually at the end of a year, after deducting the costs of running the organization and of providing services and credit facilities for its members. Some societies are extremely large, having many thousands of members.

The buying group, on the other hand, tends to contain a small number of farmers or growers living in the same locality, who are prepared to place their orders for requisites jointly and in advance, and whose orders are settled by a single payment, either in cash with order or on delivery, and who wish to dispense with certain services which they regard as unnecessary and costly. Orders are placed direct with the manufacturer or supplier and the discount received is immediately passed on to members. Buying groups are continuing to spread and number several hundred at the present time.

One of the weaknesses of the buying situation has been that no central producer-owned buying organization has existed to co-ordinate the buying potential of the industry. For this purpose, a new organization called Agricultural Central Trading Ltd. was formed early this year. This has not yet become a power in this field and, indeed, is meeting difficulties in persuading both buying groups and co-operatives of the advantages of central buying.

In the supply field, the NFU, in conjunction with the trade, last year set up a seeds marketing company for the supply of herbage seeds to the farming industry. The purpose of the company was to encourage rationalization in the marketing of herbage seeds by selling a branded range of seeds mixtures which guarantee the product to the farmer.

(b) Marketing of Agricultural Products. For the commodities sold by the retail trade, i.e. meat, bacon, potatoes, eggs, and horticultural produce, it has been generally accepted that the individual producer is no longer the effective marketing unit as he is unable to meet orders of the size now being demanded by the large retailer. The need for co-operative marketing has been apparent and we

/...

have seen, over the last few years, an increase in the number of producer marketing organizations, both local and national in character.

These producer associations are highly commercial in outlook and tend to differ from the traditional type of co-operative. In the past many societies have failed because members sent in their produce when it suited them to do so but sold elsewhere when they could obtain a better price. The new type of units have learned this lesson and realize that success can only be achieved if customers can be guaranteed continuity of supply and quality. Thus it is essential that the groups themselves are guaranteed a regular supply of produce from their members and many groups are ensuring full support by putting members under contract.

The modern producer marketing organizations realize that it is not sufficient merely to market what their members produce, but that in future such bodies must produce what the market requires. For this reason, one of the main functions is to undertake the duty of passing back information to individuals on production methods and marketing requirements, so as to encourage production of the right type of produce and to bring closer integration of the marketing and production functions. In fact, if one were to try and define the purpose of a local marketing unit it would be that of integrating the production and marketing functions of its individual members so that, for all practical purposes, they operate as a single unit without, at the same time, interfering too much with the basic liberty or personal independence of the individual. These associations recognize that for maximum effectiveness discipline is necessary but believe that producers will accept this discipline if it is applied by their own organizations and not by outside interests.

This form of organization provides a mechanism for producing quality produce in sufficient volume to meet the present size of retail order: it can present produce to the best advantage and in the way in which the buyer wants it; it can improve the way in which the produce is distributed; it can, by collective strength, negotiate or compete fairly, but effectively, with the large industrial organizations with which it comes into contact: and additionally it forms a vital link between producer and consumer.

Developments of this local nature have become common in the marketing of horticultural produce and bacon and, to a lesser extent, in eggs, potatoes, and fatstock. In bacon and dessert apples we have seen a second stage of development with the formation of regional or national federations co-ordinating the activities of local groups, in one case by co-ordinated trading and in the other by central negotiation and application of common standards.

YUGOSLAVIA

Co-operatives Unions and Chambers of Economic Development have recently organized a number of advisory conferences with all enterprises concerned, farmer co-operatives and socialist farms, in order to stimulate further development of integration and to over-come other difficulties and obstacles.

INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

1624 EYE ST., N. W.,
WASHINGTON 6, D. C., U. S. A.

TELEPHONE : STERLING 3-4086

CABLE ADDRESS { IFAP WASHINGTON

111 TELEPHONE : TAITBOUT 40-85

1, RUE D'HAUTEVILLE
PARIS X, FRANCE

PRINCIPLES WHICH SHOULD GOVERN FARMERS' RELATIONS WITH INTEGRATING FIRMS

1. Whatever conclusions may later be reached by farmer organizations on the wider implications of vertical integration and on the action to be taken (discussed in V.I. 4/63 and 5/63), they have an immediate service to render to their members and to farmers in general. This is to ensure that farmers who enter into contracts with private integrators do so with their eyes open. They should know exactly what their commitments are under the contract and they should be appraised as objectively as possible of the eventual longer term consequences of their action.

2. In an ideal situation there would be no individual contracts at all. A farmers' organization - whether general or specialized, national or local makes little difference in this context - would negotiate with the integrating firm the terms of a standard contract. A bargaining match between a large concern on the one side and a single farmer on the other is hopelessly unequal. That private integrators are well aware of it, and wish to keep things that way, is demonstrated by the fact, reported from the Netherlands, that farmers are instructed on no account to show the contract to a farmers' union or co-operative. There is some grounds for assuming that the situation is similar in other countries, since the replies received from members do not give evidence of detailed acquaintance with the terms of the contracts offered by private integrators. In some branches of agricultural production and in some countries (for instance, vegetable growing in Norway and Sweden), negotiation by an organization on behalf of the farmers concerned is an established procedure that appears to work satisfactorily. It does not seem to have been applied yet in the broiler and pig sectors. To be successful it requires that a high proportion of the farmers concerned belong to the professional organization and refuse to negotiate individually with the integrator.

3. Meanwhile there are a number of steps that can be taken by farmers' organizations to strengthen the hand of their members and to save them from entering into unfavourable or misleading contracts. A basic condition, however, is that the services offered by the farmers' organizations are widely publicized, not only in bulletins and house organs that only reach the membership but also in general newspapers and by radio and television where these are accessible. By alerting non-member farmers to the pitfalls of contracting with private integrators the farmer unions are indirectly protecting their members and laying the foundations for a bargaining association that would represent all farmers in the area and in the branch of production concerned.

/...

4. Farmers' unions or co-operatives could first of all emphasize the danger of signing a contract without having it examined by a legal expert, and offer the services of their own legal departments in this connection. It would be especially effective to reproduce a contract as drawn up by a private integrating firm and to analyse its clauses one by one, pointing out any unfair or ambiguous provisions. In the absence of detailed references in the replies it is likely that the following points are among those deserving close scrutiny:

(a) Price and Remuneration. Some contracts are imprecise in defining the price to be paid to the producer, and allow the integrator some latitude in departing from even such a vague notion as "the going price". Some contracts specify a guaranteed remuneration to the farmer, but this must be examined carefully to see if it can be regarded as a fair average or merely a rock-bottom price. Attention must also be given to clauses providing for deductions from the specified remuneration for inefficient performance.

(b) Credit Terms. Most contracts extend credit in one form or other, and it is essential to know exactly how much it is costing - a calculation not always facilitated by the drafter of the contract. Feedingstuffs, for instance, may be supplied on credit but booked at a higher price than the normal one.

(c) Renewal and Termination. The Netherlands reply indicates that the provisions for termination of some long-term contracts are unilaterally favourable to the integrator. Special attention must also be paid to the possibility that the integrator may be able to introduce modifications into a contract that has been tacitly renewed for a further period. The farmer should not bind himself for more than one year at a time, and should note carefully what length of notice is required of intention to terminate the contract.

5. In addition to analysis of the contracts, farmer organizations should inform their members (and other farmers) in straightforward terms of the difficulties they may encounter in their relations with the integrating firm. Emphasis can be laid on the enormous disparity of economic strength, and consequently of bargaining power, between the individual farmer and the large-scale integrator; on the probability of a hardening of terms as soon as the farmer is securely tied to the integrator; on the essential difference between an anonymous profit-seeking firm having no responsibility towards producers and the farmers' own associations and co-operatives, run by them and answerable to them alone; on the range of economic and technical services provided by these co-operatives. It is not suggested here that every farmer who signs a contract with a private integrator faces certain ruin or even that doubtful methods will necessarily be used against him; but he runs a risk in associating so closely with an economic mammoth. Each farmer must decide for himself and there may be many who, given their age, state of health, ability, and temperament, will have strong reasons for signing up with the integrator (see para. 24 of V.I. 2/63). This should not in itself constitute grounds for exclusion from a farmers' union or association, if the farmer otherwise observes the rules. The situation is different for a marketing co-operative, which has no reason to retain in membership a farmer whose contract with a private firm precludes him from selling all his output of the product or products concerned through the co-operative. Where the principle of compulsory delivery is embodied in the by-laws expulsion would seem to be automatic; elsewhere the board of directors and the general assembly might wish to examine the circumstances of each case before coming to a decision.

Original: English 9th January 1963 V.I. 4/63

INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

1624 EYE ST., N. W.,
WASHINGTON 6, D. C., U. S. A.

TELEPHONE : STERLING 3-4086

CABLE ADDRESS { IFAP
WASHINGTON

IFAP

113 TELEPHONE : TAITBOUT 40-35

1, RUE D'HAUTEVILLE
PARIS X, FRANCE

SOME IMPLICATIONS OF VERTICAL INTEGRATION FOR THE POLICY OF FARMER ORGANIZATIONS

1. Vertical integration touches directly or indirectly on so many of the most fundamental choices facing farmers' organizations - and particularly the co-operatives with their economic function - that no systematic analysis could be kept within the bounds of a handy working paper. It is therefore necessary to be selective and, for the problems chosen, to be content with illustrating only one of perhaps several facets.

2. Even if, in the present context, vertical integration may be equated with contract farming - and this is already a substantial simplification - there remains the difficulty emphasised in V.I. 2/63 of assembling the body of factual evidence that would permit a sober appraisal of the merits and demerits of the system. The replies received to the questionnaire cannot be regarded as constituting such a body of evidence, not so much because only seven countries are covered as for the simple reason that contract farming in its newest forms has come to Europe so recently and been practised on so relatively small a scale that not much is known yet about its longer-term effects. But if it is too early to make any confident pronouncements, other than general ones, about the future of vertical integration in European agriculture, this does not dispense farmers and their leaders from attempting to draw preliminary conclusions, based on the facts as far as they are known and supported where necessary by intelligent hypothesis.

3. One obstacle in the way of forming an objective view has been the fact that, in Europe, contract farming has so far been practised mainly by private firms. Because of some abuses and the obvious dangers for farmers inherent in an arrangement dominated by commercial interests, there may have been a tendency to judge contract farming itself too negatively. If the question of control is left aside for a moment, there is much to recommend contract farming. It should, in theory, help to bring about the adjustment of agricultural production to demand that is one of the major problems still to be solved by many industrialized countries, and this as regards not only quantity but also quality and various specifications (lean meat, brown eggs, etc.). The use of contracts also accelerates the application of modern production techniques, with consequent savings (what happens to the savings is another matter); it makes available to farmers credit and investment capital that might not be forthcoming on other terms, and relieves them of decisions on marketing which presumably can be taken with greater competence and on the basis of fuller information by the specialists of the integrating concern.

/...

4. Objections can of course be raised against these claims. Supply may still get out of line with demand if the latter is incorrectly forecast by the integrators. Modern techniques may lead to an increase in production that cannot be readily absorbed, and easy credit for certain branches of production that at present offer most scope for contract farming may create permanent distortions at the expense of other branches. Finally, many would argue that the farmer is no longer an entrepreneur if decisions on marketing, with the consequent risk-bearing, are taken out of his hands.

5. In coming to some tentative conclusions it is significant that the methods in general use by some of the most advanced agricultural co-operative movements come close to the less extreme forms of contract farming. The system of compulsory delivery, for many years now embodied in the by-laws of marketing co-operatives in various countries (Sweden, Netherlands etc.), is a first long step towards vertical integration. The member surrenders his right to market his produce through whatever channels he wishes, and the co-operative accepts an obligation to handle the produce delivered by the member. This link (generally regarded by lawyers as having the force of a specific contract) is almost bound, especially in today's conditions, to lead to other measures. The co-operative, for instance - obliged to take whatever quantities and qualities its members supply, and at whatever season - has a clear interest in tailoring their production to fit the prospective market. It may set up advisory services to persuade the farmers to grow more of this crop, less of that; to switch to a higher-yielding, better-tasting or earlier variety; to market their pigs smaller and leaner; to feed or to fertilize in new ways; and many other things that will finally affect the volume, the delivery dates, the quality and/or other characteristics of the product that the co-operative has to market. It may go further than advice and provide the farmer with the appropriate stock or seeds, and carry out some services (e.g. spraying) with its own equipment and personnel. It is not a long step nor an illogical one from this to a fully-fledged contract system between co-operative and member. Many co-operatives already have the advisory activities mentioned, and some are now embarking cautiously on contract farming (see V.I. 2/63, Appendix).

6. As far as it goes, this broad and abstract analysis leads to mainly positive conclusions about the nature of contract farming, and reveals no conflict with the basic aims of farmer organizations. But a number of important questions arise as soon as an attempt is made to foresee the effects of contract farming as it is likely to be practised in a defined set of circumstances. This is the task that faces farmer organizations in general. Still further questions have to be answered by the farmer co-operatives which, as economic organizations, are directly and vitally affected.

7. IFAP's Eleventh General Conference, meeting in 1959, made the following statement (para. 20 of the report of the Standing Committee on Agricultural Cooperatio

> "Integration - of which contract farming is only one of many manifestations - is an inevitable process. What matters to farmers is that they should control and utilize it through their own organizations, and not leave it to be exploited only by extraneous interests. To ensure this, the efforts of co-operatives in the technical and organizational field must be supplemented with the provision of full and objective information to farmers, to the members and non-members, and to the community as a whole. Farmers will in any case have to accept a certain limitation of their freedom in management and marketing, but it is essential that the discipline should be freely applied within the farmers' own democratically run organizations and not imposed by profit-making concerns in which the farmers have no voice."

8. It is clear that one of the functions of farmer organizations must be to put farmers on their guard against the dangers inherent in tying themselves by contract to private integrating firms. This probleme is discussed more fully in V.I. 3/63. A more difficult question is to decide how far the farmers' organizations should take their opposition to contract farming by private interests. As mentioned in para. 24 of V.I. 2/63, there are probably categories of farmers who, for one reason or another, welcome contract arrangements provided the terms are not manifestly unfair. Contract farming may have an important function in easing the transition from full-time farming to part-time farming and part-time industrial employment, and may thus enable many occupiers of marginal-sized farms to gain a better livelihood. By freeing some agricultural labour for part-time use elsewhere it may actively encourage the implantation of industry in the more depressed rural areas. Farmers'unions should therefore appraise the situation carefully in each area before discouraging all forms of contract between farmers and private integrators. Perhaps the most important factor to take into account will be the extent to which co-operatives provide equivalent services, by contract or otherwise. It is only where farmers'needs are not adequately met by co-operatives that contracts with private integrators need to be considered. The decision is a difficult one for farmers'unions because the strengthening of links between farmers and large-scale private business is almost certain to mean a corresponding decline in the influence of the farmers'unions. This numerical decline may be due to take place in any case with current changes in farm structure.

9. Another eventuality that farmer unions should take into account is the outright purchase of farms by private integrators. This does not appear to be happening on any scale at the moment, and legislation in some countries would make it difficult or impossible. It is arguable however, that farmers who sign contracts will become so dependent on the integrator that they will finally have no alternative but to accept his conditions, which may include sale of the land. A more real and immediate threat, perhaps, is the acquisition by private concerns of non-agricultural land for broiler and pig raising.

10. The legislative restrictions in Norway and Sweden on the acquisition of agricultural land by companies and corporations existed long before the developments in contract farming that are the subject of the seminar. These developments might, however, lead to consideration of similar measures in other countries, if private integrators were to begin buying up farms on a large scale. Perhaps a more positive approach; if some form of legislative protection were to appear necessary, would be a provision for the formation of producer marketing boards for various commodities, with powers that would enable them to eliminate or control contract farming by private integrators. This is another longer-term issue that farmer unions may have to examine before long in the light of national conditions.

11. The problems referred to briefly so far involve, at the present stage, a good deal of speculation. Probably farmers'organizations - and in this case primarily the general unions - cannot yet define in detail their position on these wide issues for want of sufficient information about future trends. The agricultural marketing co-operatives, however, who are in competition both as buyers and sellers with the private integrators, find themselves obliged to take important decisions - in economic affairs a decision to do nothing can be fateful too - without waiting for more information. The remainder of this paper outlines some problems which are more specifically those of farmer co-operatives.

12. Although contract farming presents some undoubted advantages for marketing co-operatives (planning of processing capacity, bulk sales etc.), it is often felt in co-operative circles that it involves too big a transfer of the power of decision and

/...

consequent responsibility from the individual farmer to the co-operative. It is mainly because an increase in contract farming by private integrators represents a threat to the membership and competitive ability of co-operatives that these latter are now in some cases beginning to use the method.

13. Private integrators naturally choose carefully the farmers to whom they offer contracts. In general they avoid the very small, the inefficient and the inconveniently situated producers. By making such a selection it is clear that costs of production can be substantially reduced compared with those of a co-operative which excludes no bona fide farmer from membership, and consequently somewhat more attractive terms can be offered as an inducement to the selected farmers. Co-operative leaders are seriously concerned at the prospect of a drift of the more efficient farmers away from co-operatives and into contracts with integrators or private business in general. Co-operatives cannot hope to compete if integrators skim off the profitable producers and leave the co-operatives to look after the rest.

14. Even before the recent spread of contract farming there was some reason to fear such a development. The traditional co-operative practice of paying the same unit price whether the member delivers 100 litres or 1,000 litres of milk a day (or any other commodity) in fact penalizes the large supplier, since handling costs per unit are lower for the larger consignment. Similarly, the pooling of transport costs is a form of subsidy from the well-situated farm to the distant or inaccessible farm. The larger farmers are becoming increasingly aware of their economic bargaining power and the favoured terms which it can often secure for them from private tradesmen as well as the big integrators. Many marketing co-operatives now recognize, officially or unofficially, the need for some adjustment of prices to take into account the actual handling and transport costs of each consignment. But it is probable that these adjustments seldom reflect fully the economic differentials.

15. If these arguments give strong support to the idea that co-operatives should engage in contract farming, a quick glance at the implications of such action shows that the choice is extremely difficult. If a co-operative offers contracts to all its members and to any other farmers who wish to join, its competitive position is not substantially improved; if it gives contracts only to selected farmers it creates two categories of members. The administrative difficulties of this situation (need to keep entirely separate accounts, arbitrary allocation of overhead expenses, responsibility of membership as a whole for losses incurred on contract program, etc.) are merely the expression of a divergence of interests which, for an association of persons based on principles of solidarity and mutual aid, can be serious and even fatal. It is not hard to predict that the management will tend to devote itself mainly to the élite farmers on contract and to regard the others as a nuisance that pulls down the over-all performance of the co-operative.

16. At this point it is impossible to escape the question, whose interests should farmer co-operatives serve? In some European countries (France and Germany, for instance) it has been an article of faith that agricultural co-operatives are formed essentially to help the smaller and weaker farmers who, by uniting, are enabled to face industry and trade with some hope of avoiding exploitation. Large farmers have relatively less to gain from membership since they have some individual bargaining power. It is clear that any sizeable program of contract farming could drive a carriage and horses through this

/...

philosophy. Some marketing co-operatives in U.S.A. have taken the economic argument to its logical conclusion and reserve the right to refuse membership to any farmer who is thought not to meet the standards of efficiency set by the co-operative. But even if open membership is maintained formally, its reality could easily be lost by the creation of two categories of members of which one would tend to be neglected if not actually encouraged to leave.

17. This issue is still further complicated by the fact that no European organization that wants to have a future to look forward to can afford to cater exclusively to a small-farmer clientele. Small farmers are, and will no doubt continue to be, a declining proportion of the population almost everywhere in Europe and no organization can do more than delay this trend. What can and should be done by agricultural organizations is to remind public authorities constantly of their responsibility for seeing that this transfer of population from agriculture to industry and services takes place as smoothly as possible and with a minimum of individual suffering. This involves such things as the creation of sufficient new employment opportunities, better educational facilities in rural areas, technical training, housing in reception areas and so on. The attitude of farmer co-operatives to this fundamental and perplexing issue will no doubt be much influenced by the extent to which the transfer can be carried out fairly painlessly. If those who lease farming can be quickly absorbed into new jobs and if the necessary readaptation is facilitated both before and after transfer, the co-operatives can gradually pay more attention to purely economic considerations. But such a movement of an essentially immobile section of the population is in fact always accompanied by so many chaotic situations and personal tragedies that it is inconceivable that farmer co-operatives should at present slacken their efforts to obtain a reasonable livelihood for all those who decide to remain in farming.

18. The dilemma outlined above alone goes some way towards explaining the present uncommitted attitude of most farmer co-operative movements in Europe. In the remaining paragraphs some further policy considerations are touched on, of a more economic or technical nature, that are bound to affect any decision.

19. The integrator under typical contract farming arrangements takes all the major decisions from production through processing to wholesale or retail sale. In the case of a private concern there is no particular obligation towards the farmer beyond fulfilling the terms of the contract. A co-operative, however, must be convinced that it can obtain better results for the farmer than he can obtain for himself through the traditional member/co-operative relationship. While this should be, in principle, a reasonable assumption, it is not so obviously true that the co-operative can afford to be complacent about its own performance. Advisory and market forecasting services, in particular, need to be given close attention before a contract scheme is embarked on.

20. The evidence available seems to indicate that integration upstream presupposes integration downstream - and vice versa. In other words there will be relatively little inducement to launch a contract farming program unless the integrator either controls his retail outlets, or has contracts with a few wholesalers or retailers covering all or the bulk of his output. As most agricultural co-operatives in Europe are not in either of these positions, the pressures towards contract farming have not so far been very compelling. If sharpened competition in the future obliges the marketing co-operatives to

/...

integrate their activities increasingly with those of their farmer-members, they must at the same time (or sooner) examine the possibility of securing contracts for the supply of large quantities of standardized commodities to the big buyers - central buying organizations of consumer co-operatives and private trade, chain stores, and supermarkets.

21. Finally, a point that will be developed in V.I. 5/63. The logic of integration does not stop at the boundaries between the different kinds of agricultural co-operatives. Whether or not the practice of contract farming by co-operatives extends, it is safe to say that more active collaboration, and perhaps integration, between the various sectors of the co-operative movement will be a condition of survival in the competitive struggle. This can start most easily with the farmers' marketing, supply, credit, and insurance societies. But the perspective should include consumer co-operatives. Integration of agricultural production, processing, and distribution should be governed finally by the consumers' requirements, and these are expressed more authentically by consumer co-operatives than by business concerns that are answerable to neither consumers nor producers.

Original: English 9th January 1963 V.I. 4/63

INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

1624 EYE ST., N. W.,
WASHINGTON 6, D. C., U. S. A.

TELEPHONE : STERLING 3-4086

CABLE ADDRESS { IFAP WASHINGTON

TELEPHONE : TAITBOUT 40-35

1, RUE D'HAUTEVILLE
PARIS X, FRANCE

119

SOME IMPLICATIONS OF VERTICAL INTEGRATION FOR THE POLICY OF FARMER ORGANIZATIONS

1. Vertical integration touches directly or indirectly on so many of the most fundamental choices facing farmers' organizations - and particularly the co-operatives with their economic function - that no systematic analysis could be kept within the bounds of a handy working paper. It is therefore necessary to be selective and, for the problems chosen, to be content with illustrating only one of perhaps several facets.

2. Even if, in the present context, vertical integration may be equated with contract farming - and this is already a substantial simplification - there remains the difficulty emphasised in V.I. 2/63 of assembling the body of factual evidence that would permit a sober appraisal of the merits and demerits of the system. The replies received to the questionnaire cannot be regarded as constituting such a body of evidence, not so much because only seven countries are covered as for the simple reason that contract farming in its newest forms has come to Europe so recently and been practised on so relatively small a scale that not much is known yet about its longer-term effects. But if it is too early to make any confident pronouncements, other than general ones, about the future of vertical integration in European agriculture, this does not dispense farmers and their leaders from attempting to draw preliminary conclusions, based on the facts as far as they are known and supported where necessary by intelligent hypothesis.

3. One obstacle in the way of forming an objective view has been the fact that, in Europe, contract farming has so far been practised mainly by private firms. Because of some abuses and the obvious dangers for farmers inherent in an arrangement dominated by commercial interests, there may have been a tendency to judge contract farming itself too negatively. If the question of control is left aside for a moment, there is much to recommend contract farming. It should, in theory, help to bring about the adjustment of agricultural production to demand that is one of the major problems still to be solved by many industrialized countries, and this as regards not only quantity but also quality and various specifications (lean meat, brown eggs, etc.). The use of contracts also accelerates the application of modern production techniques, with consequent savings (what happens to the savings is another matter); it makes available to farmers credit and investment capital that might not be forthcoming on other terms, and relieves them of decisions on marketing which presumably can be taken with greater competence and on the basis of fuller information by the specialists of the integrating concern.

/...

4. Objections can of course be raised against these claims. Supply may still get out of line with demand if the latter is incorrectly forecast by the integrators. Modern techniques may lead to an increase in production that cannot be readily absorbed, and easy credit for certain branches of production that at present offer most scope for contract farming may create permanent distortions at the expense of other branches. Finally, many would argue that the farmer is no longer an entrepreneur if decisions on marketing, with the consequent risk-bearing, are taken out of his hands.

5. In coming to some tentative conclusions it is significant that the methods in general use by some of the most advanced agricultural co-operative movements come close to the less extreme forms of contract farming. The system of compulsory delivery, for many years now embodied in the by-laws of marketing co-operatives in various countries (Sweden, Netherlands etc.), is a first long step towards vertical integration. The member surrenders his right to market his produce through whatever channels he wishes, and the co-operative accepts an obligation to handle the produce delivered by the member. This link (generally regarded by lawyers as having the force of a specific contract) is almost bound, especially in today's conditions, to lead to other measures. The co-operative, for instance - obliged to take whatever quantities and qualities its members supply, and at whatever season - has a clear interest in tailoring their production to fit the prospective market. It may set up advisory services to persuade the farmers to grow more of this crop, less of that; to switch to a higher-yielding, better-tasting or earlier variety; to market their pigs smaller and leaner; to feed or to fertilize in new ways; and many other things that will finally affect the volume, the delivery dates, the quality and/or other characteristics of the product that the co-operative has to market. It may go further than advice and provide the farmer with the appropriate stock or seeds, and carry out some services (e.g. spraying) with its own equipment and personnel. It is not a long step nor an illogical one from this to a fully-fledged contract system between co-operative and member. Many co-operatives already have the advisory activities mentioned, and some are now embarking cautiously on contract farming (see V.I. 2/63, Appendix).

6. As far as it goes, this broad and abstract analysis leads to mainly positive conclusions about the nature of contract farming, and reveals no conflict with the basic aims of farmer organizations. But a number of important questions arise as soon as an attempt is made to foresee the effects of contract farming as it is likely to be practised in a defined set of circumstances. This is the task that faces farmer organizations in general. Still further questions have to be answered by the farmer co-operatives which, as economic organizations, are directly and vitally affected.

7. IFAP's Eleventh General Conference, meeting in 1959, made the following statement (para. 20 of the report of the Standing Committee on Agricultural Cooperati

> "Integration - of which contract farming is only one of many manifestations - is an inevitable process. What matters to farmers is that they should control and utilize it through their own organizations, and not leave it to be exploited only by extraneous interests. To ensure this, the efforts of co-operatives in the technical and organizational field must be supplemented with the provision of full and objective information to farmers, to the members and non-members, and to the community as a whole. Farmers will in any case have to accept a certain limitation of their freedom in management and marketing, but it is essential that the discipline should be freely applied within the farmers' own democratically run organizations and not imposed by profit-making concerns in which the farmers have no voice."

It is clear that one of the functions of farmer organizations must be to farmers on their guard against the dangers inherent in tying themselves by tract to private integrating firms. This probleme is discussed more fully V.I. 3/63. A more difficult question is to decide how far the farmers' organiions should take their opposition to contract farming by private interests. mentioned in para. 24 of V.I. 2/63, there are probably categories of farmers , for one reason or another, welcome contract arrangements provided the terms not manifestly unfair. Contract farming may have an important function in ing the transition from full-time farming to part-time farming and part-time lustrial employment, and may thus enable many occupiers of marginal-sized farms gain a better livelihood. By freeing some agricultural labour for part-time elsewhere it may actively encourage the implantation of industry in the more ressed rural areas. Farmers'unions should therefore appraise the situation efully in each area before discouraging all forms of contract between farmers l private integrators. Perhaps the most important factor to take into account .l be the extent to which co-operatives provide equivalent services, by contract otherwise. It is only where farmers'needs are not adequately met by co-ratives that contracts with private integrators need to be considered. The ision is a difficult one for farmers'unions because the strengthening of links ween farmers and large-scale private business is almost certain to mean a responding decline in the influence of the farmers'unions. This numerical line may be due to take place in any case with current changes in farm structure.

Another eventuality that farmer unions should take into account is the outright chase of farms by private integrators. This does not appear to be happening on scale at the moment, and legislation in some countries would make it difficult impossible. It is arguable however, that farmers who sign contracts will become dependent on the integrator that they will finally have no alternative but to cept his conditions, which may include sale of the land. A more real and nediate threat, perhaps, is the acquisition by private concerns of non-agricultural id for broiler and pig raising.

. The legislative restrictions in Norway and Sweden on the acquisition of ricultural land by companies and corporations existed long before the developments contract farming that are the subject of the seminar. These developments might, vever, lead to consideration of similar measures in other countries, if private egrators were to begin buying up farms on a large scale. Perhaps a more positive proach; if some form of legislative protection were to appear necessary, ıld be a provision for the formation of producer marketing boards for various nmodities, with powers that would enable them to eliminate or control contract rming by private integrators. This is another longer-term issue that farmer ions may have to examine before long in the light of national conditions.

. The problems referred to briefly so far involve, at the present stage, a good al of speculation. Probably farmers'organizations - and in this case primarily e general unions - cannot yet define in detail their position on these wide sues for want of sufficient information about future trends. The agricultural rketing co-operatives, however, who are in competition both as buyers and sellers th the private integrators, find themselves obliged to take important decisions - economic affairs a decision to do nothing can be fateful too - without waiting r more information. The remainder of this paper outlines some problems which e more specifically those of farmer co-operatives.

. Although contract farming presents some undoubted advantages for marketing co-eratives (planning of processing capacity, bulk sales etc.), it is often felt in co-erative circles that it involves too big a transfer of the power of decision and

/...

consequent responsibility from the individual farmer to the co-operative. It is mainly because an increase in contract farming by private integrators represents a threat to the membership and competitive ability of co-operatives that these latter are now in some cases beginning to use the method.

13. Private integrators naturally choose carefully the farmers to whom they offer contracts. In general they avoid the very small, the inefficient and the inconveniently situated producers. By making such a selection it is clear that costs of production can be substantially reduced compared with those of a co-operative which excludes no bona fide farmer from membership, and consequently somewhat more attractive terms can be offered as an inducement to the selected farmers. Co-operative leaders are seriously concerned at the prospect of a drift of the more efficient farmers away from co-operatives and into contracts with integrators or private business in general. Co-operatives cannot hope to compete if integrators skim off the profitable producers and leave the co-operatives to look after the rest.

14. Even before the recent spread of contract farming there was some reason to fear such a development. The traditional co-operative practice of paying the same unit price whether the member delivers 100 litres or 1,000 litres of milk a day (or any other commodity) in fact penalizes the large supplier, since handling costs per unit are lower for the larger consignment. Similarly, the pooling of transport costs is a form of subsidy from the well-situated farm to the distant or inaccessible farm. The larger farmers are becoming increasingly aware of their economic bargaining power and the favoured terms which it can often secure for them from private tradesmen as well as the big integrators. Many marketing co-operatives now recognize, officially or unofficially, the need for some adjustment of prices to take into account the actual handling and transport costs of each consignment. But it is probable that these adjustments seldom reflect fully the economic differentials.

15. If these arguments give strong support to the idea that co-operatives should engage in contract farming, a quick glance at the implications of such action shows that the choice is extremely difficult. If a co-operative offers contracts to all its members and to any other farmers who wish to join, its competitive position is not substantially improved; if it gives contracts only to selected farmers it creates two categories of members. The administrative difficulties of this situation (need to keep entirely separate accounts, arbitrary allocation of overhead expenses, responsibility of membership as a whole for losses incurred on contract program, etc.) are merely the expression of a divergence of interests which, for an association of persons based on principles of solidarity and mutual aid, can be serious and even fatal. It is not hard to predict that the management will tend to devote itself mainly to the élite farmers on contract and to regard the others as a nuisance that pulls down the over-all performance of the co-operative.

16. At this point it is impossible to escape the question, whose interests should farmer co-operatives serve? In some European countries (France and Germany, for instance) it has been an article of faith that agricultural co-operatives are formed essentially to help the smaller and weaker farmers who, by uniting, are enabled to face industry and trade with some hope of avoiding exploitation. Large farmers have relatively less to gain from membership since they have some individual bargaining power. It is clear that any sizeable program of contract farming could drive a carriage and horses through this

/...

philosophy. Some marketing co-operatives in U.S.A. have taken the economic argument to its logical conclusion and reserve the right to refuse membership to any farmer who is thought not to meet the standards of efficiency set by the co-operative. But even if open membership is maintained formally, its reality could easily be lost by the creation of two categories of members of which one would tend to be neglected if not actually encouraged to leave.

17. This issue is still further complicated by the fact that no European organization that wants to have a future to look forward to can afford to cater exclusively to a small-farmer clientele. Small farmers are, and will no doubt continue to be, a declining proportion of the population almost everywhere in Europe and no organization can do more than delay this trend. What can and should be done by agricultural organizations is to remind public authorities constantly of their responsibility for seeing that this transfer of population from agriculture to industry and services takes place as smoothly as possible and with a minimum of individual suffering. This involves such things as the creation of sufficient new employment opportunities, better educational facilities in rural areas, technical training, housing in reception areas and so on. The attitude of farmer co-operatives to this fundamental and perplexing issue will no doubt be much influenced by the extent to which the transfer can be carried out fairly painlessly. If those who lease farming can be quickly absorbed into new jobs and if the necessary readaptation is facilitated both before and after transfer, the co-operatives can gradually pay more attention to purely economic considerations. But such a movement of an essentially immobile section of the population is in fact always accompanied by so many chaotic situations and personal tragedies that it is inconceivable that farmer co-operatives should at present slacken their efforts to obtain a reasonable livelihood for all those who decide to remain in farming.

18. The dilemma outlined above alone goes some way towards explaining the present uncommitted attitude of most farmer co-operative movements in Europe. In the remaining paragraphs some further policy considerations are touched on, of a more economic or technical nature, that are bound to affect any decision.

19. The integrator under typical contract farming arrangements takes all the major decisions from production through processing to wholesale or retail sale. In the case of a private concern there is no particular obligation towards the farmer beyond fulfilling the terms of the contract. A co-operative, however, must be convinced that it can obtain better results for the farmer than he can obtain for himself through the traditional member/co-operative relationship. While this should be, in principle, a reasonable assumption, it is not so obviously true that the co-operative can afford to be complacent about its own performance. Advisory and market forecasting services, in particular, need to be given close attention before a contract scheme is embarked on.

20. The evidence available seems to indicate that integration upstream presupposes integration downstream - and vice versa. In other words there will be relatively little inducement to launch a contract farming program unless the integrator either controls his retail outlets, or has contracts with a few wholesalers or retailers covering all or the bulk of his output. As most agricultural co-operatives in Europe are not in either of these positions, the pressures towards contract farming have not so far been very compelling. If sharpened competition in the future obliges the marketing co-operatives to

/...

integrate their activities increasingly with those of their farmer-members, they must at the same time (or sooner) examine the possibility of securing contracts for the supply of large quantities of standardized commodities to the big buyers - central buying organizations of consumer co-operatives and private trade, chain stores, and supermarkets.

21. Finally, a point that will be developed in V.I. 5/63. The logic of integration does not stop at the boundaries between the different kinds of agricultural co-operatives. Whether or not the practice of contract farming by co-operatives extends, it is safe to say that more active collaboration, and perhaps integration, between the various sectors of the co-operative movement will be a condition of survival in the competitive struggle. This can start most easily with the farmers' marketing, supply, credit, and insurance societies. But the perspective should include consumer co-operatives. Integration of agricultural production, processing, and distribution should be governed finally by the consumers' requirements, and these are expressed more authentically by consumer co-operatives than by business concerns that are answerable to neither consumers nor producers.

Original: English 19th January 1963 V.I. 5/63

INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

1624 EYE ST., N. W.,
WASHINGTON 6, D. C., U. S. A.
TELEPHONE : STERLING 3-4086
CABLE ADDRESS { IFAP WASHINGTON

TELEPHONE : TAITBOUT 40-35
1, RUE D'HAUTEVILLE
PARIS X, FRANCE

125

POSITION OF FARMER ORGANIZATIONS AND POSSIBLE LINES OF ACTION

1. The appendix to V.I. 2/63 reproduces in full the answers received to the last question on the questionnaire, regarding current or planned action by farmer organizations in response to the situation created by an extension of vertical integration.

2. Generalizing from these replies, it can be said that European farmer organizations are finding it hard to appraise with any certainty the new developments in vertical integration by contract. Their view appears to be that the specific benefits claimed for this system, even when controlled by farmers themselves through their organizations, are not yet fully proved and that farmer co-operatives, in order to withstand successfully the increasingly sharp competition of large private firms and groupings, may be well advised to rely primarily on an alert and flexible application of well-established methods. Some of the general reasons for this attitude have been discussed in V.I. 4/63. To these may be added that the agricultural co-operative movement in countries like Norway and Sweden, and to a lesser extent the Netherlands and Western Germany, is so strongly entrenched (especially in some of the key sectors such as milk and meat) that recent trends in integration by private concerns do not as yet cause serious anxiety. On this reading, any major move of agricultural co-operatives towards integration by contract would in all likelihood be a defensive reaction in the face of setbacks suffered in the competition with private business, rather than a positive and spontaneous adoption of the thesis that the classical co-operative methods are obsolescent. Wider experience of integration by contract during the next few years could, of course, substantially modify this situation.

3. Among the countries replying to the questionnaire, Yugoslavia is a clear exception to the above generalization. Contracts between farmers and co-operatives are already widely used and are being further encouraged as a valuable means of improving techniques and productivity; co-operatives in turn enter into contracts for supplying processing plants with their raw material. But the problems involved in the context of a socialist economy are so different that they cannot usefully be discussed in parallel with those of capitalist countries. As for the IFAP European Member countries that did not reply to the questionnaire, it may be reasonable to assume that they belong mainly to the category of those that are suspending judgment until more information and a more detailed analysis of the situation are available.

/...

4. The replies make a number of valuable suggestions for action by agricultural co-operatives. It is in line with the general attitude noted above that only one of the suggestions bears directly on the basic problem of how co-operatives can harmonize the practice of contract farming with their fundamental purposes as associations of persons founded on equality and mutual aid. The other suggestions are directed rather towards improving the efficiency and competitiveness of co-operatives in ways other than by contract farming.

5. The grave drawbacks, to a co-operative, of creating two categories of members - those with contracts and those without - have been outlined in V.I. 4/63, para.15. A further disadvantage is that, as long as the non-contracting members represent a sizeable proportion of total output, the processing co-operative may still be seriously hampered by the relative unpredictability of these supplies compared with those delivered according to a contract. The Netherlands proposal (see appendix to V.I. 2/63, question 15) would meet these objections by embodying in the by-laws a number of provisions similar to those now contained in contracts - regarding, for instance, basic seed and stock to be used, management methods, advance notice of delivery and so on. This could be called contract farming without contracts. It has considerable appeal because it eliminates discrimination while at the same time securing, in many respects, the same centralized direction that is the essence of integration. It has, however, several shortcomings, as is pointed out in the Netherlands reply. The chief of these is the reverse side of its virtue, non-discrimination. Membership would still be completely open and it is hard to see how, in this one respect, a co-operative can compete on equal terms with a private integrator who chooses his farmers with care according to certain criteria. It could be argued that the inclusion of such far-reaching clauses in the by-laws might tend to discourage some farmers from joining. This is likely enough but whether it would discourage the bad ones more than the good is pure guesswork. Other minor drawbacks are the impossibility of including the more detailed contract provisions (date of delivery, prices, credit terms, etc.) in the by-laws, and the rather frequent amendments to the by-laws that are likely to prove necessary. Nevertheless it is hard to think of any other formula that comes nearer to securing many of the economic advantages of contract farming without throwing overboard co-operative aims and outlook.

6. Co-operatives wishing to experiment with integration by contract in a more indirect way may be interested in the type of arrangement reported from the Netherlands and Western Germany (see appendix to V.I. 2/63, question 11). In the Netherlands two central supply co-operatives and some egg marketing co-operatives jointly own a poultry slaughterhouse which contracts with farmers for the supply of birds; the farmers may or may not be members of the parent co-operatives but as far as the poultry slaughterhouse is concerned they are all non-members. In Western Germany a few cases are mentioned in which co-operatives have set up a processing plant in the form of a joint stock company whose shares carry an obligation to deliver to the plant; farmers who subscribe for shares presumably receive more favoured treatment, if only because the plant must accept their deliveries. Such methods neatly sidestep the problem of discrimination within the co-operative, but perhaps only in a formal sense; the practical result appears to be (no detailed information is available) the creation of a separate enterprise which is able to choose the farmers with whom it deals and which competes on its own terms with farmers using the ordinary co-operative channels.

7. The Norwegian reply raises at least one matter of theoretical interest as well as of undoubted practical importance. Noting a tendency for the larger farming units to remain outside the co-operative system, the reply suggests that

/...

this may be mainly due to a strict adherence by co-operatives to the equal price principle. This principle works to the disadvantage of the larger producer buying or selling in quantities for which the unit handling and servicing costs are lower than for the small consignments. Private tradesmen offer terms which take account of the lower unit charges involved in dealing with a big producer, and the difference can be sufficient in many cases to keep the big farmer out of co-operatives or to tempt him away if he is already a member.

8. The equal price principle is coming in for close scrutiny in many countries, as competition becomes more intense and the need to attract or retain in membership the larger farmers grows more pressing. The evidence available indicates that numbers of co-operatives have officially adopted price differentials based on the economic costs of each sale or purchase, and in many others the manager no doubt applies similar criteria without specific authorization of the board of directors. There is, however, always some pain caused by abandoning a long-standing practice, especially when it has been dignified with the name of "principle". Many co-operators oppose the change. But what can be justified in an essentially local co-operative with a small homogeneous membership may not be workable in a co-operative consisting of both large and small farmers and subjected to the economic pressures that govern European markets today. It seems reasonable to predict that new methods of this kind will be increasingly introduced. It is important that the economic and accounting calculations on which they are based should be impartial and, as far as possible, capable of being clearly explained to the rank-and-file members.

9. One of the advantages offered by many private integrators is an effective advisory service; one or two of the replies point out that private integrators are sometimes ahead of co-operatives in this respect. Yet even without a binding contractual relationship with the members, marketing co-operatives should be able to achieve a general improvement in the products delivered by members and some reduction in the cost of production. Advice may cover a wide field; in addition to the more technical indications concerning use of fertilizers, cultural methods etc., attempts should be made to influence members' output to conform as closely as possible with market requirements for quantity, quality, and seasonal distribution. This implies a strengthening of the co-operative services for market and consumer research.

10. The foregoing suggestions are within the scope of the specialized co-operative structure for each branch of production. The lesson that emerges most forcefully, however, from the present survey is that the problems of vertical integration cannot be successfully tackled at any level below that of the whole agricultural co-operative movement of a country.

11. It is interesting to note that the strict specialization that characterizes most of the more highly organized agricultural co-operative systems in Europe no longer seems so well adapted to circumstances as it was even ten or twenty years ago. Integration in other sectors of the economy has created problems of such scale as to challenge even a united farmers' movement; even for purely technical reasons collaboration between specialized branches of agricultural co-operation is often desirable and necessary. This is being increasingly recognized by efforts to lower some of the barriers between branches, to discourage too autonomous a way of thinking, and to strengthen the position of the national federations and unions of agricultural co-operatives. Joint action seems particularly appropriate in such matters as investment policy and finance, advertising and the use of co-operative brands, and for research and planning in general. A significant

/...

development in this sense has been the recent creation by the Federation of Swedish Farmers' Associations of a Planning Advisory Council on which all the major branches of the farm co-operative movement are represented. And at the same time as links between the various types of farmer co-operatives are drawn closer a search should be made for new ways of applying co-operative methods in the service of farmers. An example mentioned in the appendix to V.I. 2/63 is the study now being devoted in Norway to the potentialities of co-operation at the production stage (co-operative machinery pools and cowsheds, co-operative services, co-operative management, and ownership).

12. This redeployment within the co-operative organizations of the farming population is a vast program in itself and one that is never finally achieved. But it would be wrong to overlook the even wider implications of both economic integration and co-operative thinking which, for once, point in the same direction. Much more needs to be done to make a reality of the phrase "co-operative movement". The universal nature of co-operation does not require demonstration, yet producers' and consumers' co-operatives - to take perhaps the two main categories - in many countries remain indifferent and even hostile to one another. And these attitudes are beginning to look as economically unsound as some of the barriers that hinder concerted action by the agricultural co-operatives as a whole. For long it has been objected that a fundamental opposition over the price of farm products makes fruitful relations between consumer co-operatives and farmer co-operatives difficult or impossible. Many replies could be made to this statement - particularly that it shows a disheartening willingness to abdicate all claims for co-operative principles in the face of an ever-present economic fact. Leaving aside such reflections, it is sufficient to note that the producer's price no longer occupies such a central position in the relationship between farmers and consumers. This is partly because more widespread prosperity has switched the emphasis from low price to high quality, but even more so because the price the producer receives is a continuously dwindling proportion of the price the consumer pays. Handling, packing, wholesaling, and retailing charges, on the other hand, are constantly tending to rise - if not always individually, at least in total - and it is a clear interest of both producers and consumers to reduce them. Moreover both producer and consumer co-operatives are threatened by the same large-scale concentrations of power inside, and outside, the food industry. In these circumstances a refusal to examine sympathetically every possible occasion for close economic collaboration between what are, in many cases, two distinct co-operative movements could have fateful results for both.

13. Finally, it is evident that co-operatives - farmer and others - must intensify contracts with corresponding movements elsewhere in Europe, with a view to extending the rather limited economic and trading relationships that so far exist. For the co-operatives of the countries of the European Economic Community this is an urgent necessity; it may be almost equally urgent for the others too.