IMPLEMENTATION OF CMO-REGULATIONS IN THE NETHERLANDS

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Abstract

The paper considers the mission of producer organizations under conditions of the increasing competition at the European market. The benefits of group actions' coordination are described. The regulating role of the European Union for the support of producer cooperatives is also in the focus of the study.

Key words: market, competition, producer organizations, cooperative.

Introduction

In order to more effectively compete at the market, vegetable-growers and fruit-growers must unite in cooperative stores, and last – to aim to get status of organization (groups) of producers.

In 1996, the Common Market Organization for Fruit and Vegetables (CMO) was radically amended. Dutch producers of fruit, vegetables and mushrooms reacted actively to these changes. The article below explores the changes in the CMO, its organisation by the government co-operation, the growers' approach and finally the lessons that can be learnt by growers in Lithuania.

Common Market Organisation for Fruit and Vegetables

In 1996 the CMO was radically revised. The purpose was to convert the regulation from a product and production oriented form into a regulation with more market orientation.

Before 1996, the heart of the CMO was the intervention mechanism. This meant that minimum prices applied for certain produce. If the market price of produce dropped below the minimum price, the produce was removed from trade channels and growers were compensated. Unsold produce was used as cattle feed, fermented or rendered unsuitable for human consumption in some other way.

This system attracted huge social opposition. Destroying perfectly good food using community money while in other parts of the world people were starving was no longer socially acceptable. The nature of the system also caused environmental problems (leaching of minerals) and odour nuisance (fruit and vegetables were spread over open fields and fermented). Lastly, this approach was not in line with the more market-oriented approach during these years.

Changes 1996

With the amendment of the regulations in 1996, the recognized Producer Organisations (PO) became central. The producer organization is a cooperative formed by a number of growers of fruit, vegetables and/or mushrooms, who jointly market their produce. The objective was to give growers and producers more influence on how their produce was sold, to shorten the supply chain, lower costs in the chain, improve the quality of produce and to obtain more bargaining power compared to the supermarkets. If a PO organizes activities that comply with the aims of the CMO regulations, subsidies can be obtained – normally of 50%, while for international projects this figure is 60%.

The maximum subsidy is linked to the turnover of the PO 2 indexed to 2 years previously: the subsidy is maximum 4.1% of this turnover.

Organization in the Netherlands

The foundation of the CMO-regulation is a European market regulation: Council Regulation 2200/96. At a later stage, this was joined by two other regulations: Council Regulation 1433/200303 (action funds, programmes and granting financial support) and Council Regulation 1432/2003 (concerning recognition of producer organisations).

National governments are responsible for implementing CMO regulations in their own countries. In the Netherlands, this task lies with the Product Board for Horticulture. This board is an alliance between all parties in the chain with public authority. The Ministry retains the final responsibility and monitors to ensure the regulations are correctly implemented.

In the initial years following its introduction, there was a degree of uncertainty surrounding the actual terms of the regulations. For example, it was unclear exactly what type of actions could be considered for subsidies. The European Commission tried to create more clarity by publishing interpretative memoranda. These were later abolished and responsibility was passed over to national governments.

In view of the confusing situation, the regulations were interpreted very strictly in the early stages. The government didn't want to risk being reprimanded by Brussels. When the regulations started to become clearer after a while, the strict implementation was also relaxed. Regional consultation also took place between governments, which lead to common interpretation of the terms.

Merger of auctions

The Dutch auctions for fruits and vegetables reacted adequately to the new regulations. In 1996, 9 separate auctions decided to merge to create a new marketing organization: The Greenery. This created a large marketing organization with a turnover of around € 2 billion. The aim of The Greenery was to offer a comprehensive, year-round assortment of fruit, vegetables and mushrooms. In the first instance, attempts were made to turn the auctions into market oriented sales organizations that supplied direct to the supermarkets. This resulted in a struggle with a number of wholesalers and exporters who have previously traditionally occupied this role.

In 1998, The Greenery had to react and took over 2 major exporters and an important importer. This served two aims: it opened up a direct route to retailers and provided the means to offer the complete range all year round. Over the years these trading companies have been fully integrated into The Greenery organization.

A new phenomenon in horticulture was the separation of the cooperative and the company. Growers were organized in a cooperative association. This cooperative is 100% owner of the company The Greenery. This move fully separated the daily operational activities and determining the long-term strategy.

Running the company effectively on a day-to-day basis requires an operational and professional management. Growers, who are in fact the owners of the company, decide the long-term strategy. This signalled a move away from the past: via the board the growers were also responsible for the organizational activities within the company. They had now been placed in a more remote position.

However, retaining a close relationship between growers and marketing is also very important when it comes to the relationship between production and the market. For this reason new consultative bodies were formed: a commission was created per product to enable consultation to take place between operational management and the growers. Market developments are also discussed and the way in which growers could react to changing market dynamics.

New POs

Not all the growers agreed with the merger, and a number decided not to join the new organization or cancelled their membership after some years. These growers also decided to set up a number of new producer organizations or associations.

In the beginning, the merger reduced the number of recognized producer organizations to 12, however as new producer organizations were established this number rose again to reach 21. In the future a number of producer organizations may decide to cooperate and merge again. 90% of Dutch growers are members of a recognized PO.

The 21 Dutch producer organizations have different features:

- *size:* some are European players, while others concentrate on regional activities;
- *specialization:* some are specialized in one type of produce, others offer the entire range;
- *assortment:* some only market produce grown by their own members, others offer the entire assortment year round;
- *market orientation*: some have more or less retained the character of a traditional auction, others concentrate more on direct sales to retail, either independently or in combination with an exporter.

These differences lead to the conclusion that there are more possibilities concerning the set up and structure of a PO. However, whichever form is chosen - strong market orientation is essential. In this sense, the changes made in 1996 have had the necessary effect. In all cases the growers themselves decide the policy and the direction in which the cooperative proceeds and develops.

CMO projects

Each producer organization drafts its own Operational Programme. The foundation is a strategic plan for the next 3 or 5 years. This plan outlines the targets the PO is aiming for in the coming years. This strategic plan describes the aims in general, and does not usually contain definite goals.

Each year the producer organization converts elements from the strategic plan into a year plan. This document describes in detail the PO's plans for the coming year. In all cases the plans must comply with one or more of the objectives stated in the CMO regulations.

Considerable differences exist between producer organizations regarding the nature of the planned projects. Some producer organizations carry out projects themselves and collectively to benefit all members, some organize the projects on a more decentralized basis at grower level, others operate somewhere between the two extremes.

One producer organization (fruit cooperative Fruitmasters) has also started working with a Belgian and a German sales organization. Their head office is in Belgium. As a result plans drawn up by Fruitmasters must comply with Belgian guidelines. Monitoring is carried out by a Dutch audit body (Product Board Horticulture), however under Belgian responsibility.

Co-operation

The increase in the number of producer organizations has also caused increased competition in the market. On the other hand, the producer organisations have also recognized the importance of cooperation when it comes to representing and promoting common interests. Forming a solid and united front is vital to defend the collective interests of all the producer organizations. To this end, the DPA (Dutch Produce Association) was founded to represent the organizations in dealings with the Dutch government and to lobby in Brussels at the European Union (European Commission and European Parliament). To facilitate efficient working methods in Brussels, the DPA has offices in the Netherlands and in Brussels. The DPA has 10 members and represents 85% of Dutch growers of fruit, vegetables and mushrooms.

Up-scaling

Over the past decade a massive up-scaling has taken place in the Netherlands. This is particularly evident in greenhouse horticulture, but also in other sectors. Whereas 10 years ago the average greenhouse company was 1 to 1.5 hectares, this figure today is 3 hectares. In the tomato growing sector the average is currently 5 hectares, with this trend expected to continue in the coming years. Companies covering 10 to 20 hectares are a frequent occurrence and a company covering some 90 hectares is currently under construction. The figures below show the patterns concerning the development of tomato cultivation in the Netherlands.

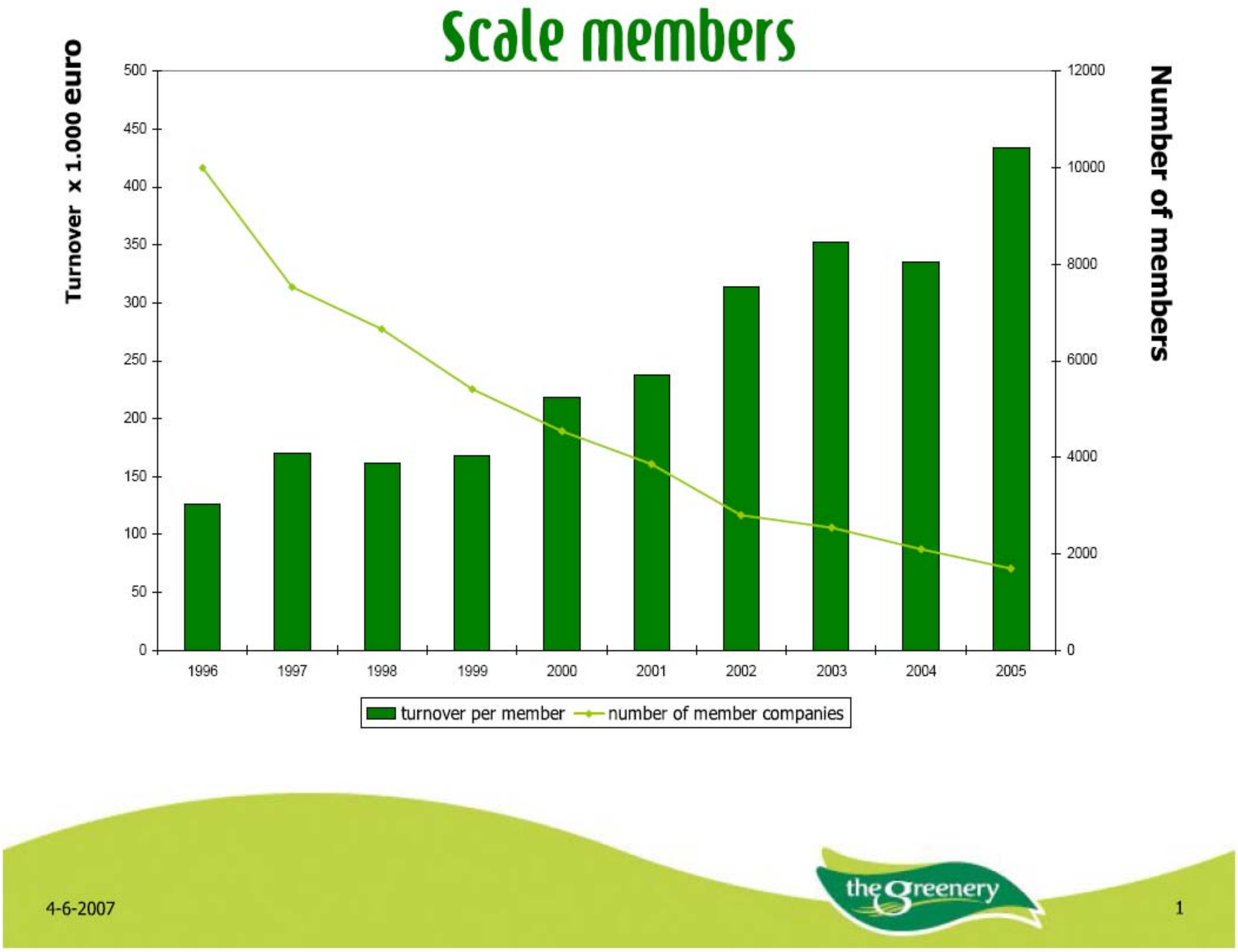
Table 1

Development of tomato cultivation in the Netherlands

	Year						
	2000	2001	2002	2003	2004	2005	2006
Area, ha	1.133	1.170	1.227	1.257	1.352	1.396	1.481
Number of companies	636	600	567	515	479	489	460

Source: own research.

These developments have had enormous consequences for producer organizations: the number of members has fallen, but the actual size of the companies has increased. This development at The Greenery is shown below. From 1996 to 2006, the number of members fell from 11,000 to 1,600. However, the average turnover per member has increased from € 120,000 annually to € 550,000 annually.



Source: Greenery.

These developments have not only been motivated by the European CMO-regulations. More important factors include increasing globalization, heavy competition and pressure from the supermarkets. We can state, however, that the EU predicted these trends more than 10 years ago and foresaw the importance of growers organizing their activities in marketing organizations. This approach would secure a greater chance of survival in the market.

What does this mean for the situation in Lithuania?

The developments taking place in the Netherlands (strong market orientation, innovation, export oriented, up-scaling) will continue in coming years. This tendency is also apparent in other European member states, although the Netherlands is seen as the trendsetter. The time when the government organized everything belongs to the past, growers must seize the initiative themselves. The EU supports growers who use a joint approach to the market. The CMO-regulation is an instrument to achieve this aim and financial means are available to facilitate this process.

In my opinion it is also crucial that growers in Lithuania start cooperating to equip themselves to face the challenges of the market. We are talking about a European market and that implies that colleagues from other countries are also competing for a market share.

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Аннотация

Статья посвящена миссии организаций товаропроизводителей в условиях возрастающей конкуренции на европейском рынке. Раскрыты преимущества от координации групповых действий товаропроизводителей. Показана регулирующая роль европейского сообщества в поддержке кооперации сельских товаропроизводителей.

Ключевые слова: рынок, конкуренция, организации товаропроизводителей, кооператив.