# H2020 VALUMICS Project Policy Brief

## The Governance of European Food Value Chains

July 2021

## Overview

***This brief presents the findings of research exploring governance issues in European food value chains, and their implications for various stages and actors along the chains. The research covered eight case studies***

## Research Methods

***Used existing academic literature and documentary sources available in the public record, and generated new data through qualitative interviewing with key stakeholders in each of the value chains (see Box 2 on stakeholder views)***

## Key Outcomes

- Research into the governance of five food value chains identified a range of features and characteristics specific to each sector, and common themes across all chains, including that actors at key stages of each value chain may be in a better structural position than others, which can give them an advantage in the negotiations and bargaining over contracts; and that governance is changing due to increasing levels of corporate concentration at different stages of the chain.
- Along with these inter-firm relations, governance also involves private governance initiatives - such as technical standards - and public policy intervention, including the "EU Directive on unfair trading practices in business-to-business relationships in the agricultural and food supply chain"; support for producer organisations; and voluntary codes of practice.

**Box 1. Conceptualising Food Value Chain Governance**

Private governance of value chains covers the inter-relationships between businesses at different stages of the food chain - where different degrees of power and information are distributed between the buyers and the sellers. This can result in an unequal distribution of the value of the final product to the different actors along the chain. The differing types of interrelationships have been conceptualised by studies of Global Value Chains. These studies tend to focus on commodities grown in less-developed countries being turned into food and drink products sold primarily in more affluent developed country markets.

While the global value chain framework was taken as a starting point for analysis, the Valumics research project focused on the relationships within the more developed countries of the European market. Here, the societal, political and policy contexts and interventions that occur in, and impact upon, the European food value chains were brought into the analysis. The public-private policy interventions and governance dynamics, well as the relationships between actors and businesses along the value chains, were investigated. This linked back to earlier work on the project, where policy and governance was explained as an iterative process of negotiation and compromise entailing power relationships between actors, and across governments and public agencies, the private sector and civil society.

## Five food value chains; Eight national case studies

The eight national studies into the governance of five European food value chains were:

- Dairy cows to liquid milk in France, Britain and Germany
- Beef cattle to steak in Britain and Germany
- Farmed Salmon from Norway
- Wheat into bread in France
- Tomato to processed tomatoes in Northern Italy.

## Mapping of Governance

***Each study evaluated the governance of the particular value chain through the different stages of production, processing and retail, following the transformation from farmed/grown commodity to final food product***

## Governance issues explored

- ***Value chain structure and product flow***
- ***Industry structure and concentration***
- ***Contractual arrangements***
- ***Price negotiations***
- ***Trade consumption patterns***
- ***Different EU and state-led regulatory interventions***
- ***Governance initiatives originating from corporate and societal actors.***

### Dairy cows to liquid milk: France, Germany & UK

- On-going decline in number of farms as producers exit sector, alongside increasing herd size and productivity
- Greater concentration of firms along rest of liquid milk chain at processing and retailing stages
- Support available includes Producer Organisations and provision for mandatory contracts (under EU "milk package" of reforms)
- Legal change to framework for setting contracts has been introduced in France, and UK has experimented with voluntary code of best practice on contractual relationships between producers and processors
- POs beginning to negotiate over volume management as well as price in France and Germany
- Stakeholder concerns around setting of prices between the producers as sellers and the processor and or retailer as main buyer, and volumes of milk supply agreed upon
- Small degree of product segmentation and differentiation such as organic produced milk, or pasture-fed livestock

### Beef cattle to steak: Germany & UK

- Highly customized product requiring a great degree of coordination between producer, processor and retailer
- Fragmentation in scale and location of production, compared to levels of concentration in processing and retailing
- Economic margins only positive for top third of beef producers
- Information asymmetries and limited information sharing between all sections of chain, and tensions caused by mistrust
- Time lag between retailers' customer demands for product specifications and cattle breeding cycles
- Efforts to increase transparency along the value chain through technology-applied improvements in traceability, and video identification of quality features of prime cuts and their grading

### Tomato to processed tomatoes: Italy

- Main relationships are between growers, Producer Organisations, Cooperatives, processing companies and retailers
- Localised agri-food system, characterised by geographical proximity, long and consolidated relations between agricultural production and local industry, and a distinctive governance system influencing the economic performance at local level
- Cooperative culture: tomato producers are members of local and/or interregional POs or in cooperatives that produce and process tomatoes
- Union of POs, processing companies, local institutions, and local research centres was set up which subsequently evolved into the Inter-Branch Organization (IBO) (includes POs, processing companies, cooperatives, professional organizations and entrepreneurial associations)
- IBO moderates tensions over pricing outcomes

## FVC specific features and common themes

***Each food value chain, from beef, to bread, to processed tomato, has its own particular features and characteristics more specific to that sector: there are important structural features in each value chain that set boundaries within which the dynamics of governance take place. There are also common themes across all chains.***

### Wheat to bread: France

- Consumption of bread in traditional bakeries currently represents around 50% of national bread consumption in France (supported by legislation)
- Key actors are large millers, which are mostly large producer-owned cooperatives and control supply of flour mixes to traditional bakeries, putting bakeries in a relatively captive relationship
- Millers impose standards through flour mixes and so protect and add value to their flour, the process of valorisation
- Milling industry very concentrated and most milling wheat production collected by biggest cooperatives and then processed through their own mills
- Producers are captive suppliers towards cooperatives that control 70% of wheat market (vs wholesalers 30%)
- All value chain actors depend on international market due to: low trade barriers for imported wheat; changing markets with different requirements; saturated domestic market.

### Farmed Salmon: Norway

- Producer-driven global value chain with demand for the product greater than supply
- Large vertically-integrated aquaculture companies have greater power in chain and strong bargaining position against the supermarkets that are lead buyers
- Traditionally sold as commodity, but producers focusing on developing value-added products, through branding and differentiation
- Structural changes and consolidation of aquaculture companies have reduced number of farming companies and helped companies take advantage of economies of scale and strengthened their position on global markets
- Inter-firm relations of producers and their buyers characterized by free market exchanges where products are sold on spot market, but trend towards long-term contracts between large integrated companies and retail or large secondary processors

## Inter-firm relations as part of governance

***The studies confirmed that the nature of governance in value chains covers inter-firm relations but also includes private governance initiatives and public policy interventions***

# Cross-case study findings on value chain dynamics

The **actors at key stages of each value chain may be in a better structural position than others**, which can give them an advantage in the negotiations over contracts. In all of the value chains the nature of governance is changing due to the **increasing levels of corporate concentration** at different stages of the chain. The **concentration at the downstream stage of food retailing** means that large multiple supermarkets are key gatekeepers to the majority of consumers in the selected European markets. In the beef, dairy and wheat industries studied, the **processors are undergoing concentration though mergers and acquisitions**, reinforcing their advantages in the buyer-supplier relationship with the producers.

The Norwegian farmed salmon chain sees the **corporate concentration at the producer end** as salmon farms are integrated vertically into large corporations at all stages of the production cycle, and these corporations merge horizontally. This value chain stands out from the others as an example where **market demand for the product is greater than the supply**. However, further growth of production in Norway is compromised by the salmon farms because of biological and environmental challenges. These issues are increasingly subject to **environmental regulations which** threaten to restrict further production growth, reinforcing the social (or societal) conditionality upon production.

## Governance, initiatives and policy interventions

- ***Producer Organisations***
- ***Cooperatives***
- ***Interbranch Organisations***
- ***Voluntary code of conduct***
- ***Mandatory legislation***
- ***Private sustainability standards***
- ***Technical standards***
- ***National legislation***

### The role of policy

The EU and the national governments have sought to address some of the power imbalances that producers face. The" unfair trading practices" Directive[1], under the lead of DG Agri, is a case in point. In addition, the promotion of **producer organisations** (POs) has been extended into agricultural sectors beyond the "Mediterranean products", to sectors such as Dairy, under the EU's Milk package.

However, the impact of POs in strengthening the position of farmers in value chain bargaining and pricing decisions is not clear, as the studies from French milk and Italian processed tomato show. The findings point to the need for further research on the efficacy of producer organisations in balancing unequal power distribution in specific the value chains[2].

Cooperatives feature in the Italian tomato and the French and German milk sectors. The findings indicate examples where individual producers can feel **constrained by their membership of cooperatives** and lacking individual agency. In the German milk sector producers can find it hard and costly to move from one cooperative to another.

**Interbranch organisations** (IBOs) are another mechanism that exists to bring actors in the value chain together, usually producers and processors, to collaborate over the frameworks for contractual negotiations for the purchase of the raw product. In the processed tomato value chain, producers and processors have the opportunity to express dissatisfaction and settle conflicts within the Northern Italian IBO, thanks to the collaborative culture and setting that it provides.

The UK Government has encouraged **voluntary codes of practice** to try to improve and make more transparent the contract negotiations between processors and producers in the beef and milk sectors. There are concerns with these initiatives to date, as the beef forum lacks the participation of two of the largest processors, while the Government currently favours moving to **mandatory legislation** for the dairy code of practice.

In the case of salmon in Norway, environmental regulations are reinforced by **private standards around sustainability issues** that the industry has introduced, and which are increasingly important for market access through the retailers. The extension of **private standards** can also be seen in retailer-led development groups with their suppliers in the UK dairy-to-milk chain.

There are also **technical standards** that are common in an industry, such as the EuroGrid system for beef, or minimum protein content in harvested wheat grain, that impact upon the value of the food product such as beefsteak or milling wheat for bread flour. Producers voiced concerns regarding the **information asymmetries that exist around technical standards** and their conversion into pricing of the product, where lack of transparency is a cause for complaint, both with a homogenous commodity such as milk as well as a high-value product such as steak.

Of course, the large corporate players also have influence upon policy as with the example of the French millers in lobbying for **national legislation** to protect the traditional bakeries - their captive retail channel.

**Box2. Stakeholder perspectives on fairness in food value chains**

Fifty stakeholders were consulted across the five value chain case studies. Stakeholders' views on fairness focused on price-setting and the means by which pricing decisions are made. It was notable that the interviewees very rarely mentioned the types of unfair trading practices, as defined and laid out in the Directive on unfair trading practices in the agricultural and food supply chain. Rather, it was the subjective experience of price-setting (and related volume agreements, for example) in their particular value chain and sector where concerns around fairness and transparency were most explicitly articulated. There is subjectivity in the views of stakeholders over issues such as price negotiations that must be considered when assessing fairness in value chains

[1] Directive on unfair trading practices in business-to-business relationships in the agricultural and food supply chain (EU) 2019/633
[2] See also: Fałkowski, J. and Ciaian, P., 2016. Factors supporting the development of producer organizations and their impacts in the light of ongoing changes in food supply chains. *Joint Research Centre Technical Reports*.

# Policy Implications and Recommendations

Industry, and more particularly policy makers, need to find the most appropriate mechanisms and interventions to achieve fairer trading and working conditions in food value chains, that are suitable to each respective agricultural and horticultural sector, as well for the agri-food industry as a whole.

- At both the sector level, and across all food value chains, the important structural features and their impacts on intra-chain bargaining must be taken into account, and interventions to enhance transparency over decision-making and price setting.

  Subjectivity in the views of stakeholders over issues such as price negotiations means that interpreting fairness as an absolute state for a food value chain may not be achievable, not least because it can cover a range of dimensions.

## Key sources for further information

This brief presents results from the VALUMICS Deliverable 5.1 and was compiled Kelly Parsons and David Barling from the University of Hertfordshire. For further information on the research presented in this brief, please email: d.barling@herts.ac.uk

*Reference*:

David Barling and Jennifer Gresham (Eds.) (2019) **Governance in European Food Value Chains**. VALUMICS "Understanding Food Value Chains and Network Dynamics", funded by European Union's Horizon 2020 research and innovation programme GA No 727243. **Deliverable: D5.1**, University of Hertfordshire, UK, 237p. DOI 10.5281/zenodo.4956325

*The chapters in Deliverable 5.1 were contributed by following authors at different VALUMICS partners organisations*:

*Chapter 1 GOVERNANCE IN EUROPEAN FOOD VALUE CHAINS by David Barling & Jennifer Gresham, University of Hertfordshire (UH)*

*Chapter 2 GOVERNANCE OF UK DAIRY COW TO LIQUID MILK VALUE CHAIN by Jennifer Gresham & David Barling, University of Hertfordshire (UH)*

*Chapter 3 GOVERNANCE OF GERMAN DAIRY TO LIQUID MILK VALUE CHAIN by Ivan Duric, The Leibniz Institute of Agricultural Development in Transition Economies (IAMO) Contact: duric@iamo.de*

*Chapter 4 GOVERNANCE OF FRENCH DAIRY TO LIQUID MILK VALUE CHAIN by William Loveluck & Pierre-Marie Aubert, The Institute for Sustainable Development and International Relations (IDDRI) Contact: pierremarie.aubert@iddri.org*

*Chapter 5 GOVERNANCE OF UK CATTLE TO BEEF STEAK VALUE CHAIN by Jennifer Gresham & David Barling, University of Hertfordshire (UH)*

*Chapter 6 GOVERNANCE OF GERMAN CATTLE TO BEEF VALUE CHAIN by Tinoush Jamali Jaghdani, The Leibniz Institute of Agricultural Development in Transition Economies (IAMO) Contact: jaghdani@iamo.de*

*Chapter 7 GOVERNANCE OF THE FARMED SALMON VALUE CHAIN FROM NORWAY by Gudrun Olafsdottir, David Cook, Ingunn Yr Gudbrandsdottir & Sigurdur G. Bogason, University of Iceland (UoI); Shraddha Mehta, Roger Richardsen & Maitri Thakur, SINTEF Ocean; Alistair Lane, European Aquaculture Association (EAS) Contact: go@hi.is*

*Chapter 8 GOVERNANCE OF NORTHERN ITALIAN TOMATO TO PROCESSED TOMATO VALUE CHAIN by Antonella Samoggia, Bettina Riedel, Margherita Del Prete, Aldo Bertazzoli & Rino Ghelfi, University of Bologna (UNIBO); Gianandrea Esposito & Francesca Altomare, Attractiveness Research Territory (ART-ER) Contact: antonella.samoggia@unibo.it*

*Chapter 9 GOVERNANCE OF FRENCH WHEAT TO BREAD VALUE CHAIN by Pierre-Marie Aubert & William Loveluck, The Institute for Sustainable Development and International Relations (IDDRI) Contact: pierremarie.aubert@iddri.org*

## H2020 VALUMICS – Understanding Food Value Chains and Network Dynamics

University of Iceland, Dunhagi 5, Reykjavik, Iceland – https://www.valumics.eu

*"This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 727243"*

Rather, moves towards *greater* fairness and transparency may be more practical and measurable moving forward; that is, towards *fairer* value chain