

## Commodity associations: a widespread tool for marketing chain management

In the agrifood sector, commodity associations group together different stakeholders within a marketing chain. Their goal is to act for the common interest of all their different members. This type of organisation, often seen as a French particularity, is nonetheless widespread in both industrialised and developing countries. This analysis paper reviews the different functions, often very similar, attributed to such commodity associations across the world. It also describes their organisation mode and their distinctive features. These commodity associations can be seen as market governance structures necessary to compensate for the limits of coordination by sole market forces. However, they must also confront certain constraints coming from free-market and competition regulations or from their own composition, which limit their scope of action. It is in the end rather ironic that a rigorist implementation of free-market regulations should limit the effectiveness of these market governance structures. Indeed, real market forces tend to push agro-enterprises to search for a greater security of their productive investments through ever more concentration and integration of the marketing chain, whether by farmers or by downstream actors.

In France, the original idea behind the concept of agrifood commodity associations is generally attributed to interprofessional organisations in the wine and spirits industry at the end of the 19th century in order to protect product denominations from usurpation and to build a common industry strategy against the phylloxera epidemic and crisis. Similar interprofessions appeared at the same time in the French sugar industry. Inter-branch cross-industry coordination later appeared both to secure supplies to agro-processors in a context of agro-industrial development and to address the specific needs of agrifood production emanating from distinct *terroirs*<sup>1</sup>. At the beginning of the 1960s the creation of interprofessions was meant to encourage stakeholder organisation in order to participate in food marketing chain regulation<sup>2</sup>. The French law dated 10 July 1975 fixed the framework for interprofessional organisations, which was later complemented by further regulations on the modernisation of agriculture. Today French interprofessions have become institutions that enable the different stakeholders of a marketing chain, producers, processors but also in some cases retailers, to organise themselves to tackle common issues.

Although this type of governance structure is often seen as a French specificity, similar institutions have appeared elsewhere to achieve similar objectives. In developing countries, commodity associations have been able to support the development of agrifood marketing chains, although in a somewhat dispersed manner<sup>3</sup>. First set up by French colonial administrations, these institutional arrangements stayed on after independence, before being dismantled by structural adjustment policies in the 1980s. As renewed investment into the agricultural sector is now topical again and because better marketing links are recognised as a key to agricultural development, support to commodity associations in developing countries is once again being encouraged.

Commodity associations therefore constitute a form of vertical coordination within agrifood marketing chains; their existence demonstrates the inadequacy of coordination modes that are solely based on market price signals. Debate is raging again nowadays on the functioning of agrifood marketing chains. In the current context of strong evolution of the European Common Agricultural Policy, this analysis paper reviews the roles and modes of organisation of commodity associations. It also

deals with the interactions between these organisations and the State. Finally, the paper discusses their assets and limits in regard to the new issues they have to tackle.

### 1 - Functions of commodity associations: an international overview

Commodity associations are generally seen to play five different roles.

**Advocacy of industry interests in policy making circles.** Commodity associations often play an advocacy role to defend the

1. FAO defines *terroir* as “a delimited geographic area where a human community has developed, over the course of history, a collective production method and know-how. A *terroir* is based on a system of interactions between physical and biological milieu and a set of human factors involved to convey an originality, confer tipicity and engender a reputation for a product”. Vandecastelaere E. et al, 2009, *Linking people, places and products. A guide for promoting quality linked to geographical origin and sustainable Geographical Indications*, FAO, Rome, p.12.

Coronel C., Liagre L., 2006, *Les interprofessions agro-alimentaires en France* (in French).

2. Valceschini E., 2002, *Les transformations d'un modèle contractuel centralisé. L'interprofession des légumes transformés en France*, Université d'été de l'innovation rurale de Marciac (in French).

3. Shepherd A., Cadilhon J.-J. et Gálvez E., 2010, “Commodity associations: a tool for supply chain development?” *Agricultural Management, Marketing and Finance Occasional Paper* no. 24, FAO, Rome.

interests of the industry in policy debates. In the USA, this is the main reason of existence of the different *Commodity Councils* and their main argument in recruiting new members. For example, the US Apple Association<sup>4</sup> has an active Government Affairs Section responsible for lobbying members of Government, federal agencies and Congress in favour of policies that will support a viable apple industry.

**Collective promotion of products.** Commodity associations are generally active in promoting their products to consumers: national advertisement campaigns, export facilitation, etc. For example, *Passion Céréales*<sup>5</sup> is the communication tool used by the French cereals interprofession in order to promote the benefits of consuming cereal products to the general population. Likewise, the Vietnam Fruit Association was created principally with the task of developing the awareness of international markets on the Vietnamese origin of its members' produce<sup>6</sup>.

**Concerted setup of quality standards.** Commodity associations can also play a role in the participatory elaboration of quality standards and codes of practice in order to ensure the homogeneity of all products coming from the industry. In France, several interprofessional organisations have created technical centres in order to improve product norms, denominations, special indications and quality references. The French pig industry interprofession<sup>7</sup> has thus played a leading role since the 1950s in setting quality standards and homogeneous definitions for pork-based delicatessen meats in order to reassure distributors and retailers. In South Africa, the Red Meat Industry Forum has created the South African Meat Industry Company to enforce quality controls throughout the country's red meat marketing chains<sup>8</sup>. Also in South Africa, the national consumer union participates in all the discussions relative to quality and food safety standards within all the commodity forums<sup>9</sup>.

### Commodity associations in the transformation of South Africa's economy

Since the first democratic elections in 1994 public policies such as the *Transformation Charter for Agriculture* have had the explicit objective of facilitating broad-based «black» economic empowerment in the agricultural sector by helping the integration of all populations in the activities of the various agro-industrial marketing chains. It is a pragmatic development strategy for the country fully to realise its economic potential. In particular, the Charter imposes that 20% of the funds held by South African commodity forums be used on agribusiness development projects favouring the populations that used to be segregated against by the former Apartheid regime.

Generally speaking, the setup of a commodity association involving all actors has been a success factor for a durable production and marketing system of products in both Europe and in developing countries, when product quality could be linked to its geographical origin (geographical indications)<sup>10</sup>.

**Research and development.** Some commodity associations are also involved in research to improve production techniques or to develop new monitoring and management tools adapted to their commodity industry. One can mention the French technical centres Arvalis<sup>11</sup> for arable crops, CTIFL<sup>12</sup> for fresh produce, CETIOM<sup>13</sup> for oilseeds, all set up to implement targeted R&D by their respective interprofessional organisations.

### A limited role in market regulation?

In order to assess better the economic context, commodity associations often supply statistics on market information. Arbitration of business conflicts between members is another potentially important role of commodity associations, especially in developing countries where courts do not necessarily exist. For example, the Ghana Rice Interprofessional Body resolves disputes related to rice prices for its members.

Beyond these aspects, regulation of markets and contractual relationships have been key factors in the creation of interprofessional organisations in France. Indeed, the existence of specific assets in agriculture combined with strong uncertainties on commodity prices limits the effectiveness of purely price-based market coordination mechanisms. Complementary coordination mechanisms have therefore appeared necessary. Setting up a commodity association can be seen as an effective coordination modus so as to limit transaction costs of market actors (particularly through the centralisation of negotiations), but also to define collectively the modalities for sharing what neo-institutional economists call the *quasi-rent* generated by market transactions<sup>14</sup>.

Even if supporting the adaptation of supply to demand and contributing to market regulation are goals that can lead an interprofessional organisation to be given statutory right by French authorities<sup>15</sup>, the direct implication of agrifood interprofessions in market regulation is thwarted today by national and European free-competition regulations<sup>16</sup>. For example, the French Government's Competition Consumption and Fraud Repression General Directorate (DGCCRF) gave an official negative opinion on a recommendation to set trends for milk prices issued by the dairy interprofession in April 2008; one should note though that the general trend at the time was notably inflationary. All in all, Article L 420-1 in French commercial law prohibits all concerted actions and tacit agreements that would

tend to limit the functioning of free competition in market access, price setting and quantities delivered on the market. Recent notices from the independent French Competition Authority show a trend of increasingly restrictive interpretations of this free-market regulation<sup>17</sup>.

At the European level, despite having recognised some inter-branch organisations (for tobacco, fruit and vegetables, the wine sector, olive oil, etc.), their involvement in market management is also restrained by Article 101 of the European Union Treaty (the article from French commercial law quoted previously is a direct transposition of the European text). However, some inter-professions can play a role in regulating market supply; for example, the French *Comté* cheese interprofession sets yearly objectives for production volumes so as to guaranty the quality of its products<sup>18</sup>. The importance of market planification for some products under geographical indications has been highlighted by the industry's reactions to propositions by the Commission on a new European food quality policy<sup>19</sup>.

Nevertheless, the implication of commodity associations in market regulation becomes a different issue when also considering the degree of vertical integration of the marketing chain. In countries where large cooperatives hold a quasi monopoly on production like in the Dutch, Danish and New Zealand dairy industries, the coordination

4. <http://www.usapple.org/government>

5. <http://www.passioncereales.fr/> (in French)

6. <http://www.vinafruit.com/vinafruit/index.php?lang=1>

7. [www.leporc.com](http://www.leporc.com) (in French)

8. <http://www.redmeatsa.co.za/industry-structure/samic>

9. <http://www.sancu.co.za/?Task=system&CategoryID=31203&HeadingText=Consumer+Food+Rights>

10. Vandecandelaere *et al.*, 2009, op. cit.

11. <http://www.arvalisinstitutduvegetal.fr/en/>

12. [http://www.ctifl.fr/DocPdf/Ctifl\\_anglais.pdf](http://www.ctifl.fr/DocPdf/Ctifl_anglais.pdf)

13. <http://www.cetiom.fr/index.php?id=1973>

14. Valceschini E., 2002, op. cit.

15. French Rural Code, article L 632-1.

16. CGAAER, Travers J.-M. (coord.), 2009, *Droit de la concurrence et économie agricole* (in French); Marette S., Raynaud E., 2003, « Applications du droit de la concurrence au secteur agroalimentaire », *Économie Rurale*, p 277-278 (in French).

17. See for example Notice no. 09-A-48 dated 2 October 2009 on the functioning of the dairy sector.

18. Mérel P., 2009, "Measuring market power in the French *Comté* cheese market", *European Review of Agricultural Economics*, 36(1), p 31-51.

19. « Résolution du Parlement européen du 25 mars 2010 sur la politique de qualité des produits agricoles : quelle stratégie adopter ? », *AgraPresse*, 14/12/2010 (in French). « Indications géographiques : la France et l'Italie veulent pouvoir planifier la production », *La France Agricole*, 14/12/2010 (in French). Quality Package 2010 of the European Commission ([http://ec.europa.eu/agriculture/quality/policy/quality-package-2010/index\\_en.htm](http://ec.europa.eu/agriculture/quality/policy/quality-package-2010/index_en.htm)). Giraud-Héraud E. *et al.*, 2003, « Quelle légitimité à des mécanismes de régulation de l'offre dans les appellations d'origine protégée ? », *Économie Rurale*, p 277-278 (in French).

on volumes and prices between market actors, so determinant for the equitable sharing of the *quasi-rent*, is no longer necessary as this market agreement is done within one farmers' cooperative that has operated a complete integration of the whole marketing chain. Likewise, governance structures resembling commodity associations are not as sorely needed when some kind of public intervention establishes the sharing of the value added between market actors, as explicitly specified by the US dairy policy. This could explain

the stronger emphasis of US commodity forums on research and advocacy rather than market coordination.

Therefore, the second part of Egizio Valceschini's definition of an interprofessional organisation, "*a conventional arrangement, the goal of which is to create value thanks to cooperative behaviour between agricultural producers and industrial firms, and to share the quasi-rent thus created*"<sup>20</sup>, can be subject to discussion given the constraints imposed by free-competition regulations.

## 2 - Different modes of governance

Although commodity associations around the world share similar objectives, they can be distinguished by the way they function and their relation with the State. The table below presents different governance modalities of some typical commodity associations.

## 3 - Constraints and issues for commodity associations

The 74 French interprofessional organisations cover very different geographical

20. Valceschini E., 2002, op. cit.

### Simplified comparison of different types of commodity associations

	France <i>Organisation interprofessionnelle</i>	USA Commodity council	South Africa Commodity forum	Canada Value chain roundtable
<b>Legal status</b>	Not-for-profit association	Not-for-profit association	Not-for-profit organisation	None
<b>Statutory recognition criteria fixed by Government</b>	Yes	No	Yes	Yes
<b>Possibility of extending the decisions of the association to the whole industry</b>	Yes	No	Yes	Yes
<b>Members</b>	Representative associations or unions from the stages of the commodity marketing chain	Representative associations or unions, individual businesses	Individuals representing the different industry actors, including labourers and consumers	Individuals representing industry branches and concerned institutions
<b>Representativeness in decision making of all the activity sectors that are member</b>	Compulsory to become statutory	No	Necessary for extension of decisions	Decided by the members according to the issue to be handled
<b>Activity sectors of members</b>	Defined by the founding act of the organisation	No limitation	Defined by the founding act of the organisation	Decided by the members according to the issue to be handled
<b>Parity between activity sectors in decision making</b>	Compulsory to become statutory	No	No	No
<b>Mode of decision making</b>	Unanimity for extension of decisions	Majority vote	2/3 majority vote of members and of total production	Consensus
<b>Funding of the organisation</b>	Compulsory levies on the sales of the whole industry, registration fees of members, voluntary levies from members	Registration fees, compulsory levies	Registration fees, compulsory levies, voluntary levies	No own funds

As shown in this table, commodity associations can be differentiated mainly by their *composition*. In France, to become statutory or officially recognised by the Government, an interprofessional organisation must federate all the organisations considered to be *the most representative* of a given commodity's farmers, and, depending on the case, of processors, distributors and retailers in that same industry. Stakeholders nevertheless can decide to choose which branches of the industry they wish to integrate within the interprofession. For example, the meat industry's interprofession Interbev federates 13 national industry organisations, including the retail sector, whereas the dairy interprofession CNIEL only groups three organisations (one producers' association, one cooperatives' association and a dairy processing organisation). In the USA and in South Africa, the composition of commodity associations is more flexible as they can also take individuals and single firms as members. On the contrary, the Canadian Government determines the composition of its value chain roundtables.

Commodity associations also differ by the way their *decision making* is done. In the French collegial system, each branch of the industry represented inside the interprofession holds only one voice at par with the other industry branches represented. Conversely, US commodity councils take decisions by a majority vote of all their members. In South Africa, a minimum requirement for all decisions is a double majority: at least two-thirds of the members who must also represent at least two-thirds of the total tonnage produced by the industry. Therefore, the criteria used to define members' representativeness and decision making processes complement member composition to explain the operative success of a commodity association.

*Funding* needed to operate commodity associations is problematic in several cases. Funding needs are high whereas member registration fees often only cover basic operating costs (administration, market information system). In theory, only the stakeholders who benefit directly from interprofessional activities should contribute to fund these activities. Initially, US *Checkoff programs* implemented by commodity councils enabled each individual member to choose the activities in which he or she wished to participate and contribute funding to, by checking a box on the annual registration form. Reality is often more complex. Commodity associations use various regulations that enable them to receive monetary contributions from all the industry actors, even those who have not registered with either of the branch associations that are member of the interprofession.

Such is the case in France where a "compulsory voluntary subscription" is levied on all the industry stakeholders through an official procedure called *extension*, and still hotly debated within the agrifood industry. Likewise, US Checkoff programs have also become generalised and funded by a compulsory levy fixed by governmental decree. In South Africa, the activities of commodity associations which have gained strong endorsement from the double two-thirds majority needed in the commodity forums are submitted to the Government in order to become "*statutory*" measures. This statutory procedure subsequently allows the commodity forum to levy a tax on all the industry stakeholders. However, the strong industry representativeness of these commodity forums generally leads to an easy implementation of this levy system. Canadian value chain roundtables are not as much concerned by funding problems as they inherently benefit from public financial support.

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scales, from small production areas to the national territory. Is there a link between the performance of an interprofession and its large territorial coverage?

Commodity associations are first and foremost a reflection of a marketing chain. When a limited number of market actors cooperate in order to retain the value added of a specific quality product, small commodity associations like the French interprofession built around the *Comté* cheese have proved relevant. Conversely, for commodities produced on a national scale, a national commodity association seems more appropriate, even if sub-committees of the association for the various production areas also exist. Nevertheless, commodity associations have to make difficult structural decisions choosing between an organisational setup that can best tackle the issues of a product's specificity at a small territorial level or one that can help reduce transaction costs of marketing on a much larger scale. Such tensions between regional and national scale have cristalised in the worried declarations of French wine producers when it was proposed to restructure the numerous interprofessions of the sector<sup>21</sup>. In Europe furthermore, the geographical scale of a commodity association wanting to take a role in market management is also constrained by free-competition regulations which have defined the notion of *relevant market* to establish whether or not there are any *dominant market positions*.

In the heated debate on the equitable sharing of the value added within marketing chains, producers' positioning within commodity associations can also be called into question. The role of a commodity association as a tool to *share the quasi-rent* within the marketing chain has already been touched upon. However, the association can only reflect existing power relationships between its members. The strengthening of producers' market power within commodity associations will depend in particular on the level of their horizontal organisation. As an example, the Swiss dairy interprofession was created as a response to the end of milk quotas. The original objective of the producers was to create a unique pool of organised producers. However, the interprofession did not function well as milk producers did not form a uniform group: some producers stayed closely tied to the dairy processors within so-called "producers-users' organisations". In developing countries, the creation of strong producers' organisations has been hampered by the difficulty of uniting dispersed and very heterogenous members, and by the lack of funding<sup>22</sup>.

In a context of diminishing public sector spending, two issues can be distinguished. On the one hand, some issues have a prominent general interest component which

justify state intervention. On the other hand, some issues are of common interest to one commodity industry; these can be left to the responsibility of the latter, for example, activities in applied research or market information. The so-called extension procedure, which enables the organisations that are member of a French interprofession to request that actions agreed upon unanimously become mandatory to all industry actors, is a fundamental lever to support interprofessional initiatives in France. This practice also exists in Switzerland with the use of "*obligatory force*", as in South Africa and Canada. In France, an interprofessional decision can be extended to the whole industry only if the interprofessional organisation in question has been recognised as statutory by the French Government in view of its representativeness of the industry stakeholders, governance mode and its goals<sup>23</sup>. The privilege enjoyed by interprofessions to have their agreements become mandatory to all the actors in their industry leads to question whether and how the impacts of their activities could be evaluated. If several roles can be conferred to a commodity association, its actions are nonetheless constrained by the different interests of its constituent members. As long as the association's activities contribute to increase, directly or indirectly, everybody's profits, all members can see the adoption of a cooperative strategy as the best option. However, as soon as a strategy no longer benefits all members, a commodity association can only revert to being a forum for voicing disagreements. Indeed, there is a natural competition between industry branches, the sales of one contributing to the supply costs of another. These competitive tensions can also be observed within one stage of the marketing chain. Therefore the intrinsic characteristics of commodity associations can limit the scope of their activities.

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21. Despey J., 2010, Rapport sur le regroupement et l'organisation des interprofessions viticoles. FranceAgriMer, Paris (in French).

22. World Bank, 2008, "Chapter 5: Bringing agriculture to the market", "Chapter 6: Supporting smallholders competitiveness through institutional innovations", *World Development Report 2008*, Washington D.C.

23. French Rural Code, Article L 632-1.

Commodity associations are governance structures for marketing chains which go well beyond the French interprofessional model. Even with names and functions that may differ, all these organisations contribute to the concerted management of a marketing chain, thus contributing to decreasing some transaction costs to the benefit of all their members and to responding to certain new societal demands. In developing countries, this type of vertical coordination structure of marketing chains is seen as a useful development tool for agricultural product marketing and in supporting an evolution towards sustainable agro-industries.

Commodity associations will nevertheless not be able to tackle all agrifood chain issues. Indeed, the weight of farmers in the decisions of the association will be limited if producers remain unstructured and atomised. In a context of increasing agricultural price volatility, commodity associations can become a locus for voicing disagreements. Therefore, their effectiveness will depend on stakeholders' capacity to define a large area of convergence for the actions of the association, which should benefit all industry members. Yet, the structure of the agrifood industry is very far from satisfying the assumptions of a pure and perfect competitive market. Past experience shows that in the absence of effective hybrid governance structures, whether public or private, downstream as well as upstream agrifood marketing chain stakeholders will opt to form integrated vertical organisations in order to diminish their transaction costs, thus completely annihilating the free market.

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