The contractual relationships in the vegetable supply chain in Romania

Dr. Cornelia Alboiu
Scientific Researcher
Institute of Agricultural Economics
coraalboiu@yahoo.com

Introduction

- a matrix of different strategic options of vertical co-ordination and relationship-specific characteristics (e.g., independence, exclusivity), (Gorton 1999).
- Williamson’s governance structures:
- Non-formal relationship:
  - Spot or ‘open’ markets (immediate transaction at actual prices),
  - Repeated market transactions with the same buyer/supplier with non-formal, non-written contracts.
- Formal relationship:
  - Formal (written) bilateral contracts (contract terms and obligations are legally enforceable).
  - Financial participation arrangements (both parties are legally independent entities).

Introduction

- difficulties generally result from idiosyncratic market failures characterizing the vegetable production and the informational, financial and educational constraints of producers (Swinnen and Vandeplas, 2007).

Problem description

- Veg. supply chain experienced a dramatic evolution following the destruction of the former fruit and veg commercialization companies which led to the year-round domestic vegetable supply failure and production fragmentation.

- stricter quality requirements imposed by supermarkets are hardly met by small scale farmer but even though when these requirements are met by larger farmers the contractual terms are not respected, or even worse the supermarkets avoid concluding the contract.

Objective

- to study the contractual relationships type in Romania and to assess the main vegetable commercialization channels including an analysis of the processing sector.

Data collection and methodology

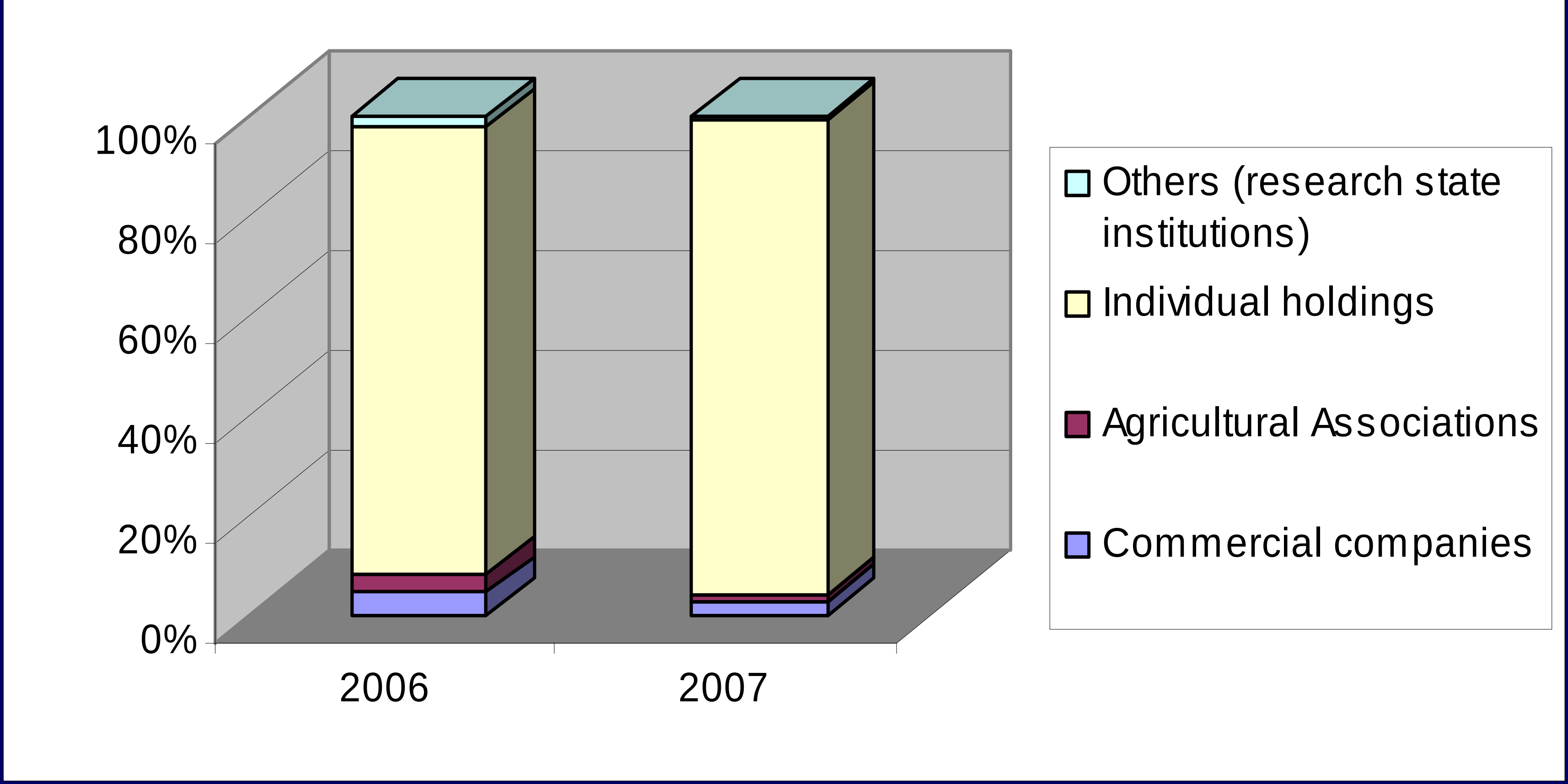
- data provided by 30 farmers and 8 processors located in the S-E region of Romania following a survey conducted in this region in 2007

- In total, 30 structured questionnaires were applied to farmers and 8 questionnaires to processors.

Some facts:2007

- the vegetable production accounted for 24% of the total crop production value
- the land area under vegetables accounted for 3.3% of total cultivated area
- the main cultivated vegetables were: tomatoes 18%, cabbage 17.7%, and dry onion 14%.

Share of cultivated areas by types of holdings



3. Empirical findings: formal relationship

	Farmer–buyer (wholesaler)	Farmer- processor	Processor- retailer
Formal relationship %	1/30 3%	2/30 6%	1/8 12.5%

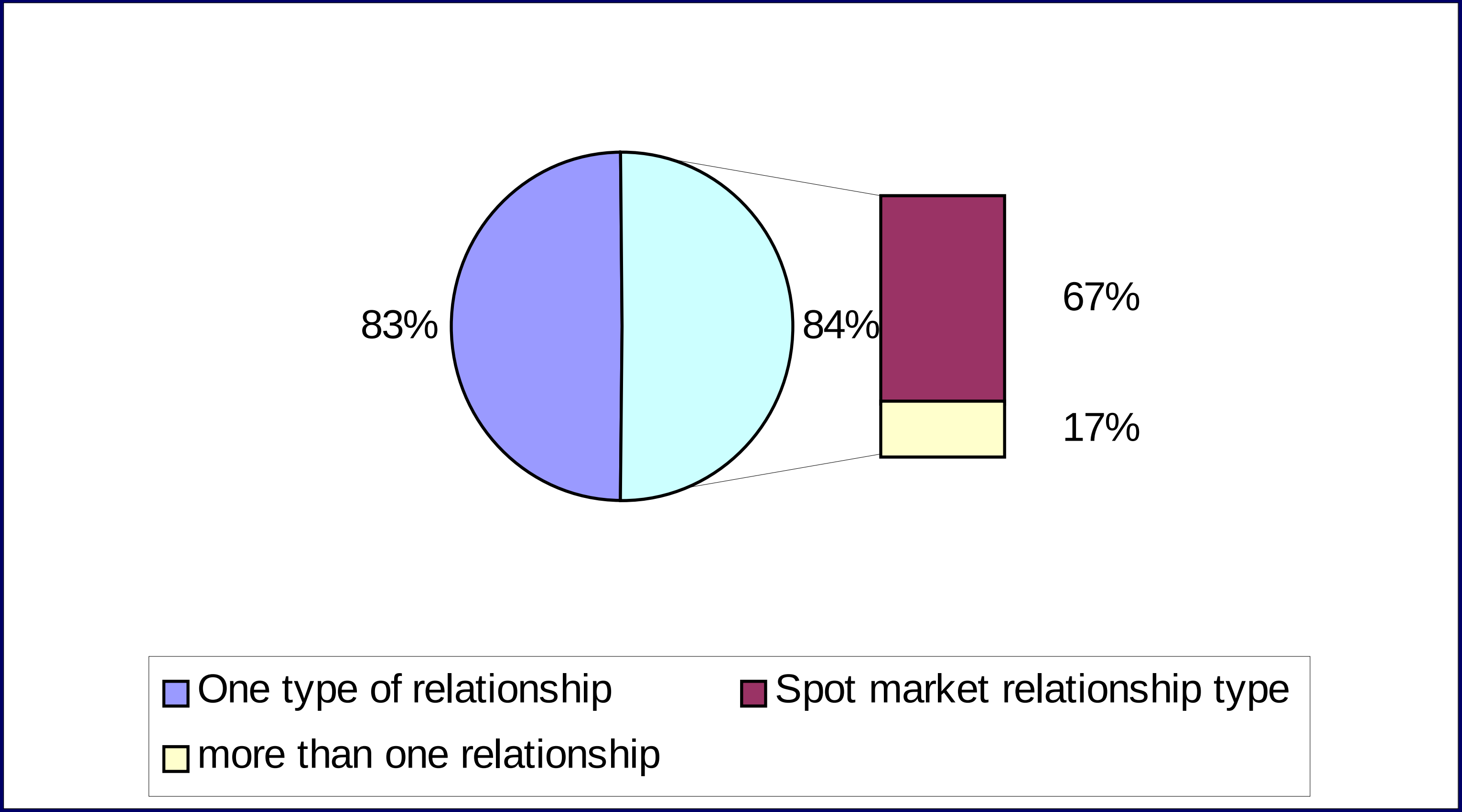
Farmer-buyer relationship and contractual aspects

	Very good	Good	Poor	Extremely poor
The history relationship with the buyer is	7%	13%	33%	50%
The respect of contractual terms is	0%	13%	43%	43%
The trust in our partner is	3%	13%	33%	50%
The enforcement of this contract is	0%	10%	37%	53%

Processor-retailer relationship and contractual aspects

	Very good	Good	Poor	Extremely poor
The history relationship with the buyer is	0%	23%	60%	17%
The respect of contractual terms is	0%	23%	57%	20%
The trust in our partner is	0%	20%	60%	20%
The enforcement of this contract is	0%	13%	60%	27%

Farmers relationship types



Determinants of the choice of relationship type

Variables	Parameters estimated
Quality	-0.27
Trust	0.18**
Institutional framework	0.18*

**Statistically significant at 1%
*Statistically significant at 5%

Contractual relationships

- “The lack of firm contracts and the production sale through wholesalers are the main problems we have to face”;
- The enforcement of the contracts is at stake;
- Usually no formal contracts are concluded with stores and supermarkets (e.g.Mega Image).

Distribution and sales

- distribution of fresh veg. implies:
  - storages,
  - a great no. of private traders (wholesalers),
  - the distribution activities of the private processors,
  - supermarkets, to which unfortunately 98% of producers declared that they have no access.

Distribution and sales analysis

- all the interviewed farmers said that the former vegetables and fruit enterprises were very important, but these are spaces to rent at present;
- only a few storage units: not sufficient to cover the needs;
- 99% of the interviewed farmers do not have own storage facilities.

Distribution and sales

- no specific markets to sale vegetables have been established;
- farmers who produce low quantities of veg. are obliged to lower the prices: a disadvantage for those whose main activity is vegetable farming;
- the production is sold directly on the market or at the farm gate through wholesalers

Distribution and sales

- 99% of farmers feel threatened by the hypermarkets as well as by the massive imports;

- The main chains refuse to buy the products at a correct price; on the other hand the imports represent an unfair competition

Distribution and sales

- no accurate measurement can be made of the volume of vegetables that are operated through different channels;

- it is appreciated that more than half of the traded quantity is sold to a great number of wholesalers at the farm gate or road

Distribution and sales

- absence of a reliable production-marketing channel;
- several wholesale markets were initially built up in order to support the small farmers to sell their products and to distribute them at the production price

Distribution and sales

- The largest is located in Bucharest-Berceni, of 16 ha,
  - other 6 centers, of 3 ha each, located in different counties

- its purpose was to take over the production by categories from different products

Distribution and sales

- At present, the Wholesale Market is under AVAS administration, all the products are imported products, and the rent is extremely high for the farmers: about “2000 euro/month/stall”

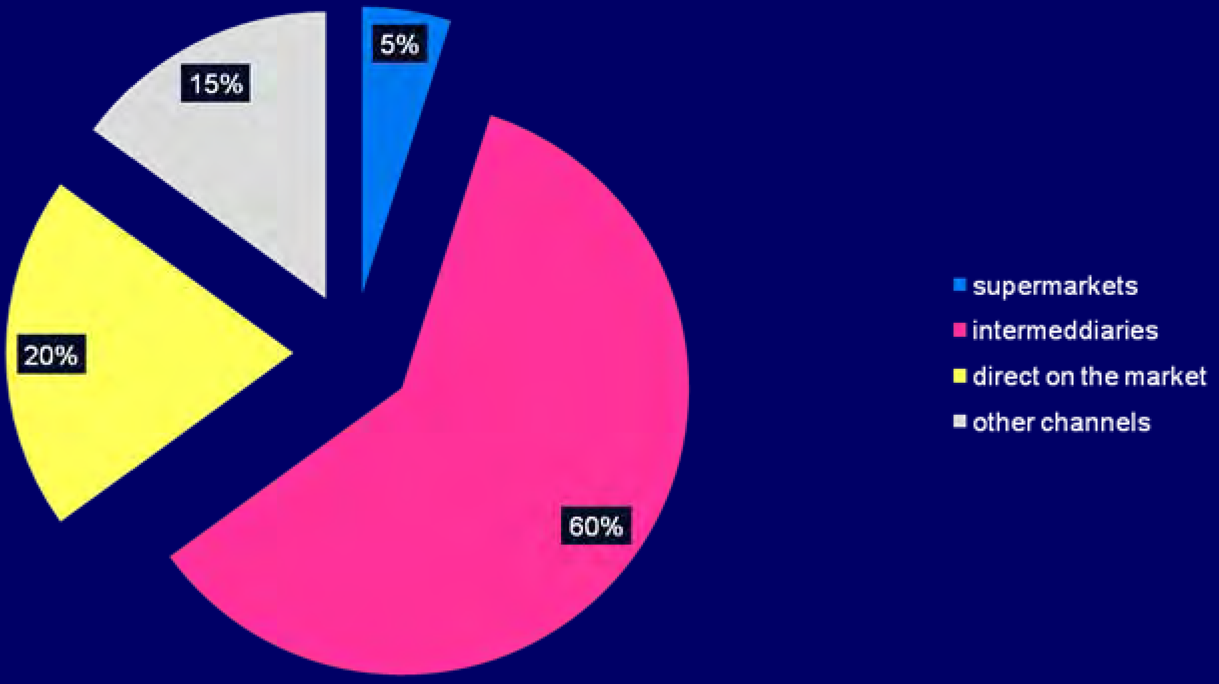
Distribution and sales

- Another sale channel is direct sale to stores and supermarkets. It is based upon the daily demand from the retail stores.

Distribution and sales

- It is estimated that < 5% of the traded veg. at national level are sold in this way;
- hypermarkets require large quantities of high quality;
- Even when farmers comply, the hypermarkets refuse to make contracts.

Sale channels



ANALYSIS OF THE PROCESSING SECTOR

- in 2000, about 450 companies were in the fruit and vegetables industry (NIS, 2001);
- among the processing firms, 27 are recognized as prime-processors;
- Despite domestic and foreign private capital investments, the processed volume is very low;

ANALYSIS OF THE PROCESSING SECTOR

- 60 mil. euro has been invested so far in processing plants; the main problems faced are: lack of supply of raw materials in due time and under safe conditions;
- raw materials supplied in summer time: 60% and 15% in winter time;
- certain processing plants prefer to buy tomato paste from China, which is not sufficiently controlled for its quality.

CONCLUSIONS

- The sector lacked a coherent strategy in the period 2000-2007, being characterized by the diminution of the capacity to face the market competition;

- EU competitors and not only, test and enter on the Romanian market;

CONCLUSIONS

- in case the Romanian sector is not able to get reorganized (in terms of infrastructure and institutional/legal framework and benefit from the established intervention measures, it will not be able to survive on the Single Market and not only.

THANK YOU

for your attention!