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WORKSHOP

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The Hague, The Netherlands

Croatian Vegetables Sector Project

CENTRAL EUROPEAN INITIATIVE & CEI WHOLESALE MARKET FOUNDATION

Workshop Bizovac, 14-17 Oct. 04

- "Market research as a strategic tool for the development of the Fruit and Vegetable Sector"
  - Presented by: Jan Robbrecht, Agriplan Consultants B.V. the Netherlands, team leader of the "Croatian Vegetable Sector Project"
  - Project financed by: Senter Internationaal, The Hague, The Netherlands

Croatian Vegetables Sector Project

Overview of the contents of this lecture

- Presentation of the project
- Experiences and results of the project up to now
- Links to the subjects of this conference
- Recommendations and conclusions

Presentation of the "Croatian vegetables sector project"

Note:

In the European Union, "producer organisations" were called "co-operatives" till 1996. Since this word "co-operative" has a different meaning in the countries in transition (where it refers to the planned market economy), the word co-operative has been replaced in the EU legislation by "producer organisation" .

“The Croatian Vegetable Sector Project”

- Couterpart: The Croatian Ministry of Agriculture and Forestry
- Beneficiary:
  - The “Croatian vegetable growers association, ZUHP
    - ZUHP is an association of 12 regional (County level) associations of commercial vegetable producers
  - Other identified “producer organisations” (co-operatives)
- Overall objective: Improvement of the marketing situation of the Croatian Vegetable sector
- Project objectives:
  - Improve the institutional and commerial capacity of the “Croatian association of vegetable producers”
  - Development of functional and commercially accepted quality standards for vegetables
  - Provide up to data marketing information on vegetable trade and production techniques

Croatian Vegetables Sector Project

Experiences and results of the project

The information in this seminar is based on:

- Primary market research with 75 in depth interviews of commercial vegetable growers in all major production areas (except Osijek). This research was executed by Mr. Jan Robbrecht assisted by Mrs. D. Bacic. On average about 2 hours were spend per interview.
- Intensive secondary market research was done on import-export balances and regulations, taxation, VAT rules, subsidies and production. The secondary market research was executed by Mrs. Dipl. Ing. Tatjana Borbas
- Direct market research on “Household production and purchasing of vegetables” with 522 telephone interviews. This research was executed by “Prizma Istrazivanja”, Zagreb
- Direct market research on “Purchasing channels of vegetables from the tourist catering sector” with 202 telephone interviews. This research was executed by “Prizma Istrazivanja”, Zagreb
- Meetings and workshops with stakeholders in the vegetable sector.

Key-data on the Croatian vegetable sector

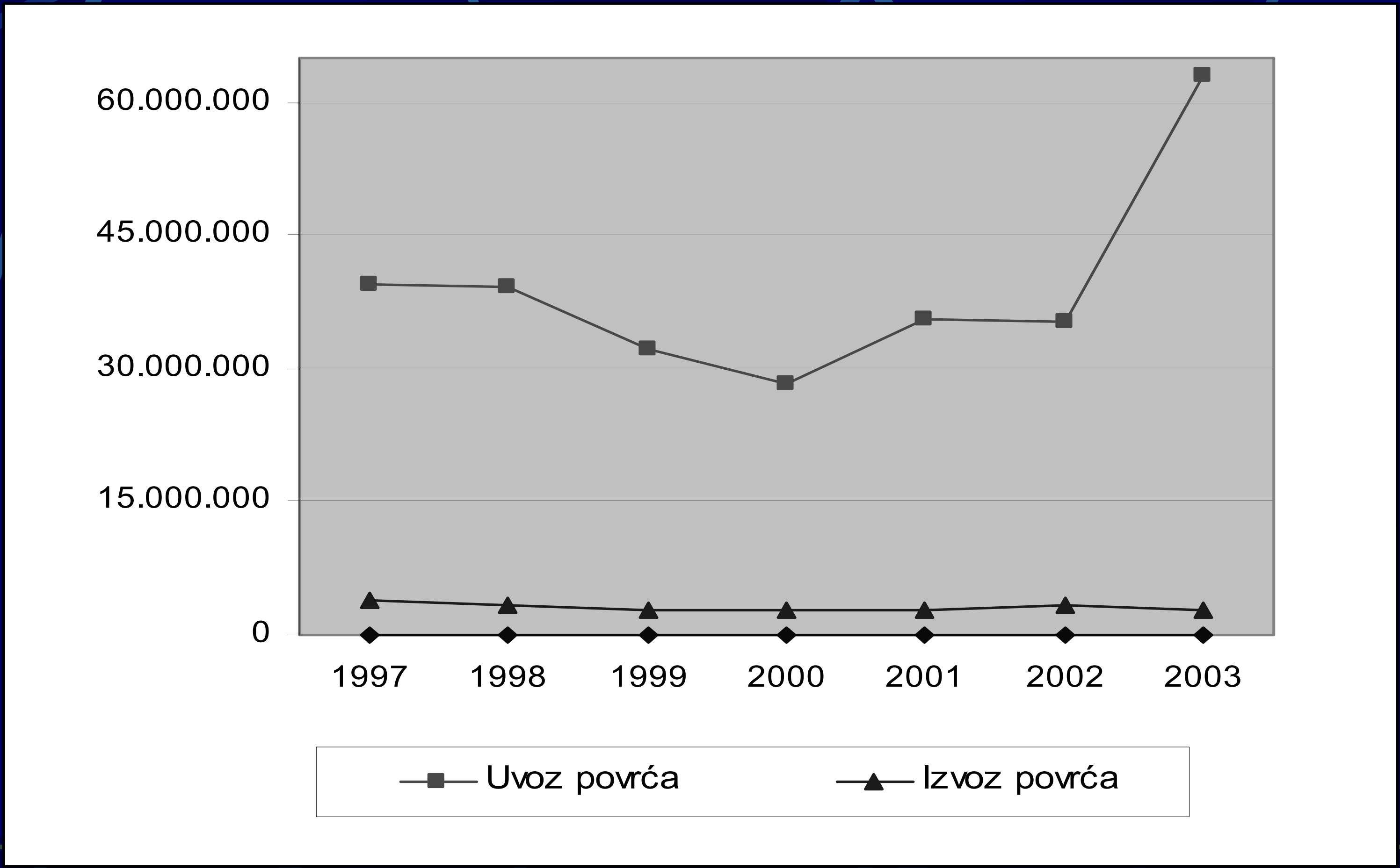
- Production figures average 1998-2002*

Potatoes:	65.407 ha	659,3 th Tons
(Potatoes are not in the scope of this project)		
Vegetables:	68.531 ha	
Tomatoes	6.500 ha	69,7 th Tons
Peppers	4.980 ha	35,9 th Tons
Cucumbers	4.300 ha	35,4 th Tons
Onions	6.980 ha	54,0 th Tons
Carrots	3.360 ha	28,5 th Tons
Cabbage & Kale	9.720 ha	125,0 th Tons
Beans, dry	6.400 ha	7,9 th Tons
Others	26.491 ha	

- *Source: Statistic department

Key-data on the Croatian vegetable sector

Import – Export evolution in USD (1997-2003)



Key-data on the Croatian vegetable sector

- Major areas of commercial vegetable production

Commercial vegetable production, major production areas

Organisation of the commercial vegetable producers

- It might be estimated that around 1.500 commercial vegetable producers produce for the fresh consumption market
- In the production area around Zagreb and in Zadar and Split, they are organised in Associations affiliated to the ZUHP
  - The Zuhp represents the large majority of the "commercial vegetable producers" in Croatia.
  - Where represented more then 80% of the commercial vegetable producers with more then 80% of the production volume are represented by the ZUHP
  - Producer organisations (co-operatives):
    - One in Lozan with modern infrastructure and equipment with about 15 members
    - One in Zagreb county, with less then 10 members and no common infrastructurt
- Neretva Valley
  - One small assocations with around 15 members has been identified. The rest of the producers are not organised
- Istria
  - The producers are organised in several associations (not around Pula)
  - One "producer organisation" (co-operative) in Pazin groups more then 70 agricultrual producers
- Osijek
  - No organisation of producers has been identified

Strong points of the commercial vegetable sector

- The Croatian vegetable sector is in full evolution and may be regarded as a very dynamic sector.
  - Nearly all producers we visited had plan to invest in order to increase their production
- The ZUHP – Croatian vegetable sector association" can function as a representative organisation for the sector
  - This is an advantageous point compared with other countries in transition, because it is possible to communicate and to deal with the sector in a "structured" way.
- The major first line selling system is the Zagreb Green (Truck) Wholesalemarket.
  - About 55 % of all products from the regions where the ZUHP is represented pass directly through the Zagreb Green Market.
  - On national level, an estimated 45-50% of the commercial vegetable production passes directly (delivered by producers) or indirectly (delivered by middlemen) through this market.
  - Due to this dominant position of the Zagreb Green Market, it is the "price reference market".

Clarification

- For those not familiar with the local situation, the Zagreb wholesale markets has tow parts:
  - One part with a large cooling facility, housing the major wholesalers and importers
  - A second part, consisting of an open air market were producers and smaller traders sell their products
- When we talk about the Zagreb Wholesale market we refer to the second part with sales in the open air.

The Zagreb Green Market

Strong points of the commercial vegetable sector

- The used technology can be considered as good and places the Croatian vegetable producers within the leading group of other countries in transition.
- Up to now, we have identified three “producer organisations”, this means co-operatives for sales of vegetables (see higher)

Weak points of the commercial vegetable sector

- One of the strong points of the sector, the “Zagreb Green market” is also one of the major weak points of the sector
  - The producers have hardly any impact on the management of this market
  - The market is too small and lacks appropriate infrastructure
  - Even if there is a physical concentration of offer and demand, there is no concentration of “times of sales”. The market is open around the clock what is leading to unstable prices in the course of the day.

Weak points of the commercial vegetable sector

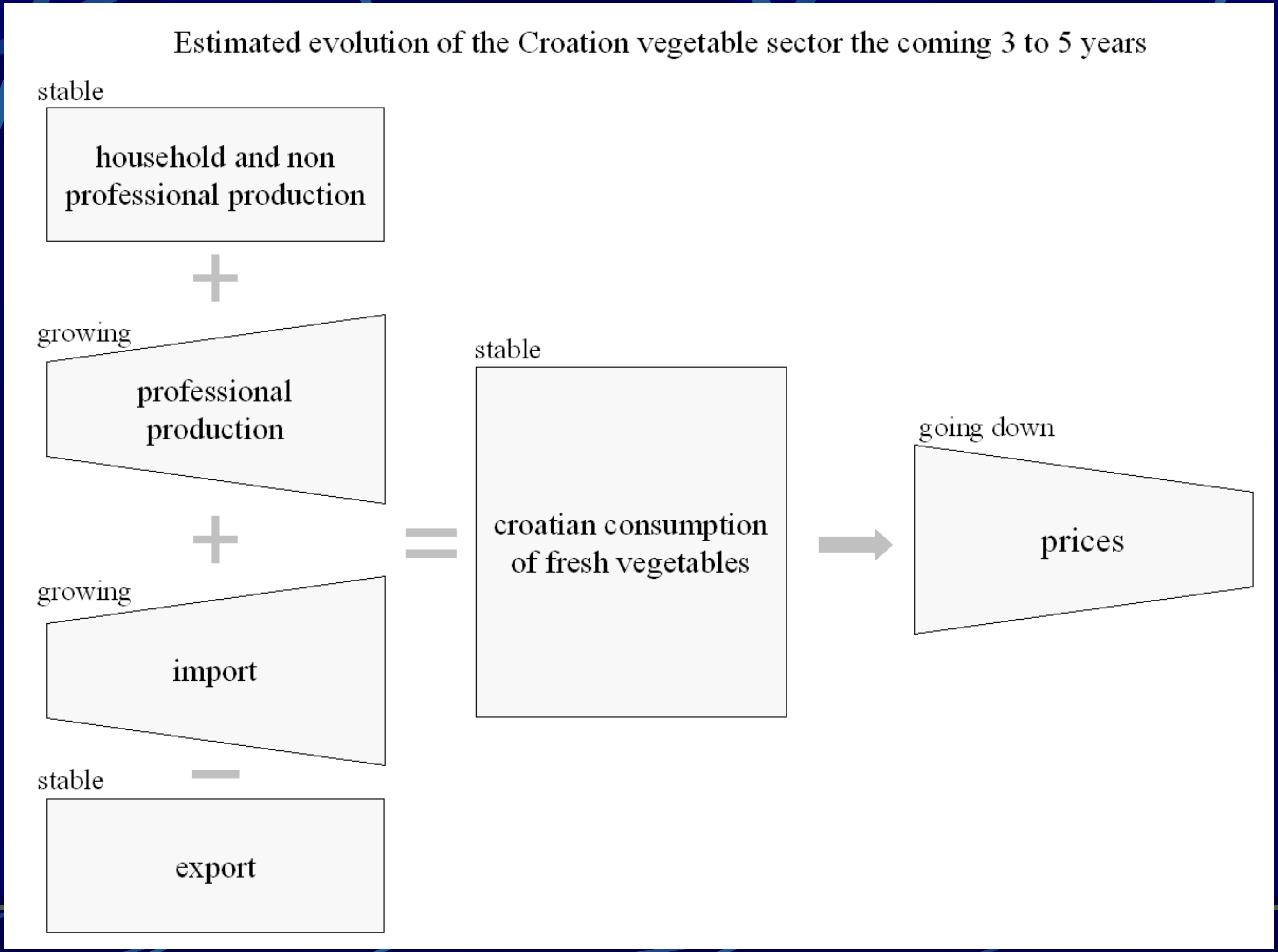
- The ZUHP has still to develop:
  - Horizontal development by increasing the number of member and their representativeness over the country.
  - Vertical development by increasing the services for their members.
- The Croatian producers produce “only” for the Croatian market.
  - The assortment is adapted to the “culinary” tradition of the Croatian cuisine.
  - The sector is hardly capable to fullfill the needs of the modern distribution: big and homogeneous quantities, continuity in supple, cooled products.
  - The sector as a whole pays no attention to export or the development of export possibilities.
  - Little technology is used to prolong the production period in order to be present on the market for a longer time or to reach new markets.
- The production units:
  - The production units are rather small and the land is devided in many parcels.
  - The unsettled land titling and the therewith connected unconsolidated land parcels may be seen as a long term threat for the competitive development of the vegetable sector (and for the whole agricultural sectors as well).
  - The production schemes are adapted to “individual sales” on the Croatian marketplaces (national and regional wholesale markets, city markets etc.)

Weak points of the commercial vegetable sector

- The high VAT rate of 22%
  - The VAT is a taxation on consumption and thus paid by the consumer.
  - For me, it is not clear why a country in transition like Croatia has to levy a high tax on the consumption of products of primary necessity (food products) while in the large majority of the West European countries the VAT rate for these products is around 6%.
  - The high VAT rate off 22% levied on reported sales is such an handicap compared with the "non reported" sales, that it will become a major obstacle for the creation of "producer organisations" (sales co-operatives).
- There is a lack of "Adaptive research stations" (demonstrative research) to
  - Test and promote state of the art production techniques with the aim to improve the efficiency of the production and to reduce production cost.
  - To serve as a breeding ground for all services involved in the education, training and development of the sector.

Major conclusion on the market research

- Estimated evolution of the vegetable sector in the coming 3 to 5 years



Major conclusion on the market research

- The reorganisation of the market and changing the marketing channels will not diminish the regularly incurring overproduction and low prices.

The producers of the “Fruit and vegetable co-operative Lozan” discuss the quality of the supply.

Well organised producers will also suffer from the burden of law prices but they will have preferential access to modern distribution systems (supermarkets, catering industry). They also will pave the way in the development of export markets.

Links to the subjects of this workshop

- The role of wholesale markets in developing farmers' cooperatives/associations and strengthening links between cooperatives and agricultural wholesale markets.

- The proactive role of wholesale markets in small farmer marketing support and development.

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The role of wholesale markets in developing farmers' cooperatives/associations and strengthening links between cooperatives and agricultural wholesale markets

First line selling systems of commercial vegetable production

- First line selling systems of vegetables: Refers to the way the producer or the producer organisation puts its products in the market. It is the first link or step in the marketing chain.
- We identified in Croatia three different zones or clusters of first line selling systems of putting vegetables in the market
  - The cluster of central Croatia, northern and middle Dalmatia (including Zadar and Split)
    - It may be considered as the most important zone
    - In this region the ZUHP can be regarded as the representative organisation
    - It comprises the Zagreb wholesale market and the regional wholesale markets of Zadar, Split and Benkovav.
  - The Neredva valley region.
    - the first line selling system is closely linked and well influenced by the activities in the first zone.
    - It comprises the regional wholesale market “Metkovic”
  - Istrian region
    - It operates more or less independently from the other zones
    - It comprises the regional wholesale market “Matulji”, Rijeka

Classification of channels of first line selling

- Dominant:
  - The market share of this channel is at least two times bigger than it closest concurrent. It is the market leader and the market prices are set in this channel.
  - As a rule of thumb (to be used with some caution and experience), I take that the market share is around or bigger than 50%.
- Important
  - Is an important channel in the market. If there is a dominant channel, the prices will be influenced by the dominant channel. If there is no dominant channel, the important channel(s) will form the reference market prices.
  - As a rule of thumb, I regard that around 20% market share justifies the name "important".
- Significant
  - Are a factor two smaller than the important ones. They play a significant role in the distribution but they have hardly any influence on the market prices.
  - As a rule of thumb, I consider that from 8% market share and more, we can talk about a significant channel.
- Small
  - Applies as a rule of thumb to the channels with a market share of less then 5%
  - Have to be considered in a strategy if it is expected that they will become "significant" in the near future.

First line selling channels in the Central Croatian cluster

Primary marketing channels of Central Croatia including Zadar and Split region	*Appreciation*	*Share**
Zagreb Green Wholesale Market	Dominant	55%
Wholesalers (direct delivery)	Important	20%
City markets	Significant	9%
Sales from the field (flying middlemen)	Small	5%
Supermarkets	Small	3%
Wild markets (roads, etc)	Small	3%
Other	Small	2%
Processing industry	Small	2%
Regional wholesale markets	Small	1%
Cooperatives	Small	1%
Export	Small	0%
Big consumers	Small	0%
* Is given only as an indication (direct interpolation); is based on information of 62 producers		

An interesting exercise

The "Agriculture co-operative centre", Pazin, Istria rent a sales box and a cooling box on the Matulji market where they sell the products of their members.

In the sales box next door, a wholesalers sells the products of the "Fruit and vegetable co-operative Lozan". The product has travelled about 350 km.

Question: What do you think is this exercise about?

Introduction of quality standards

- In close co-operation with the ZUHP and the "Producer organisations" (co-operatives), the project is working out new quality standards for Croatian vegetables.
- These quality standards will soon be proposed to the Ministry of Agriculture and Food for acceptance.
- These standards have to be adapted to the Croatian situation and in the same time prepare the road to the introduction of EU quality standards.

The "Agriculture co-operative centre", Pazin, Istria created a working group to introduce the introduction of adapted quality standards.

- Practical and legally accepted quality standards will help the "producer organisations" with the common sales of their products.

The European factor

- The European regulations 2200/96 and 1432/2003 on the "Common organisation of markets for fruit and vegetables" and the "conditions for recognition of producer organisations and preliminary recognition of producer groups", define the far-reaching role of the representative producer organisations (co-operatives for first line selling).
- Our project takes these regulations as a guiding principle in its project work.
- For this, its seems necessary that the ZUHP and the " Zagreb Green Wholesale market" look for the closest possible co-operation to prepare at the best for the EU pre-accession and accession schemes.
- It is of evidence that a similar phylosophy can be applied to the other "Fruit and vegetable wholesale markets".

The role of the wholesale markets

- Seen the EU regulations and seen the dominant position of the Zagreb Green Market it is necessary that the ZUHP and the “ Zagreb Green Wholesale market” look for the closest possible co-operation to prepare at the best for the EU pre-accession and accession schemes.
- A similar phylosophy can be applied to the other “Fruit and vegetable wholesale markets” and we recommend a better co-operation between the production communities and the wholesale markets.
- The producers are looking better adapted sales facilities; Personally, I regard covered selling places as a minimum requirement.

The regional wholesale market Split is a typical example, where a better communication between the producer community and the market can lead to an interesting co-operation.

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The proactive role of wholesale markets in small farmer marketing support and development.

The grey zone

- The commercial vegetable producers we have visited during our research have an average size of nearly 5 ha.
- On the other hand, we think it is realistic to estimate that there are about 1.500 commercial vegetable growers, which would rufly cover 7.500 ha.
- According to the statistics we recieved, the production is estimated at 68.531 ha.
- We have no idea where this differences are coming from but we consider anyway that an important group of producers from the "grey zone" is operating in the market. We consider that a part of them are small or very small
- At the same time, we need to take in consideration that an important part of the commercial growers may be seen as small producers too, certainly compared with the situation in the Western Europe.
- It is a delicate question to try to draw a line between the group we consider to belong to the "commercial growers" and the others.
- The discussion can also imply to draw decide where Agricultural policy ends and where the social policy begins.

The Rural Development Approach: A living country side

- With an agricultural policy alone, this problem cannot be solved. A broader outlook on "rural development" has to be kept in mind.
- Croatia is an attractive and beautifull country with, for the time being, a "living" countryside. The rural development policy directs itself at all aspects of the development of rural communities by stimulating a large range of economic and cultural activities, including modern agriculture and rural services.
- In the benefit of the Rural Development policy as well as to the development of the Agricultural sector, all producers, large or small should have access too:
  - Adaptive research stations, demonstration gardens and extension services linked to them
  - Agricultural schooling, vocational training and further training courses training
  - Rural credits
  - Markets
    - If wholesale markets can play a positive role in this respect, this would certainly fulfill an existing need

Recommendations and conclusions

Conclusions and recommandations

- In countries in transition, wholesale markets can play an important role as first line selling system for fruits and vegetable producers.
- In the short and middle term, the future of the fruit and vegetable sector will more and more depend on the creation of "producer organisations" with their own marketing approach and infrastructure.
- If a new wholesale market is created, it has to be taken into account that the producers have already found their "first line selling system" and that they can be very reluctant and sceptic to change the system if benefits are not directly clear.
- Upgrading existing markets has a higher chance of success than the creation of new markets. Trying the "change or redirect" the channels fails in most cases.
- It is important to stimulate the creation of associations and producer organisations. This can be done by stimulating the involvement of producers and their associations and organisations in the management of "their side of the market".

Addendum

- On 19 October 2004, the Assembly of the ZUHP, the Croatian vegetable growers association came together.
- They discussed the number of "Commercial vegetable growers".
  - Our sources estimated the number of commercial producers as to be 1.500 (see page 29)
  - In the meeting of the ZUHP, it was estimated that the number could be much higher, it could even be 3.000.
- Nevertheless, official sources do not have information on the number of producers, thus also not on the number of commercial producers, so we still have to rely on "some" estimations.