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Organisational Arrangements in Value Chains for Developing Legumes : focus on the Product Contract Governance

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H2020 PROJECTS ON LEGUMES
Webinar 22th April 2021



Organisational Arrangements in Value Chains for Developing Legumes : focus on the Product Contract Governance.

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- Legumes in Europe suffer from a **technological lock-in** that results in a competitive gap compared to major crops that benefited from more investment (path dependency)

Magrini et al., 2018

High-Level Conference 2018, Vienna

→ **Securing long term investment on legumes is crucial**

- **Production contract Governance** in value chains is advanced as a **solution**, particularly in less intensive technological sector such as agrifood

Cholez et al., 2019;

TEGRAT
VERTIC





- Legumes in Europe suffer from a **technological lock-in** that results in a competitive gap compared to major crops that benefited from more investment (path dependency)

Magrini et al., 2018

High-Level Conference 2018, Vienna

→ **Securing long term investment on legumes is crucial**

- **Production contract Governance** in value chains is advanced as a **solution**, particularly in less intensive technological sector such as agrifood

*Production Contract Governance =
an agreement between (at least) a buyer and a supplier on the
production AND transactions conditions of a good that is exchanged*

*Cholez et al., 2019;
Ménard, 2012*



- How those contracts are used by legume value chains ?
- Do they secure investment (both tangible and intangible such as technical knowledge) and foster legume development ?





10 VALUE CHAIN STUDIED



LEGVUE

	Chickpea France	Chickpea Portugal	FABABEAN France	Soya France	Soya Switzerland	Soya Netherlands	Soya Italy	Pea France	Pea Latvia	Pea United- King
Outlet	Food	Food	Feed	Feed	Food	Food	Feed/Food	Food	Food	Food
Production Mode	Conv.	Conv.	Conv.	Conv.	Organic	Conv.	Conv.	Conv.	Organic	Conv.
Processor	Ciacam	Sumol+ Compal	Valorex	Extrusel	Emmi corporate	Alpro	<i>Secret.</i>	Roquette	Aloja- Strakelsen	Princes group
Collect/Trade	Arterris	AICF	Cereos	Bourgogne du Sud	Muhle Rytze	Agrifirm	Terremerse	Noriap	<i>None</i>	Adm UK
Starting year for PCG*	2008	2015	2014	2016	2015	2016	2010	2007	2018	Before 1990



*PCG : Production Contract Governance



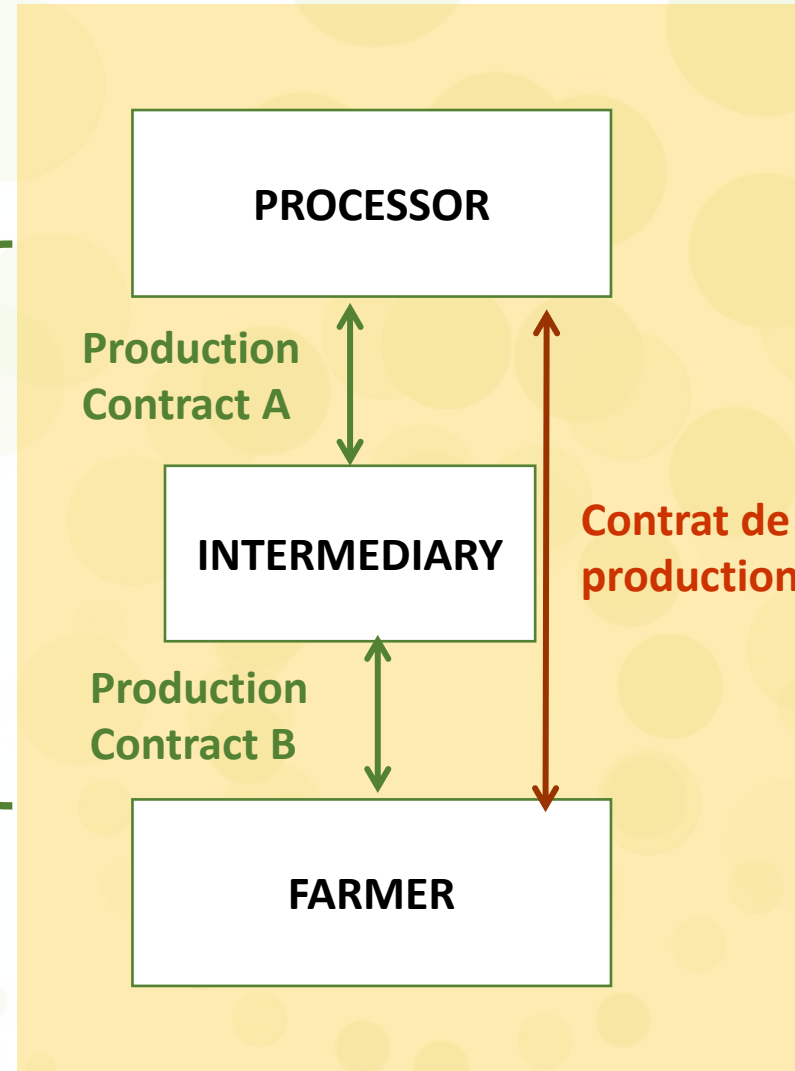
First Insight: a chain of contracts is the most frequent

LEGVALUE

Production Contract :

an agreement between a buyer and a supplier on the production and transactions conditions of a crop. Those contracts are defined before sowing.

**MOST OFTEN
« CHAIN OF PRODUCTION CONTRACTS »**



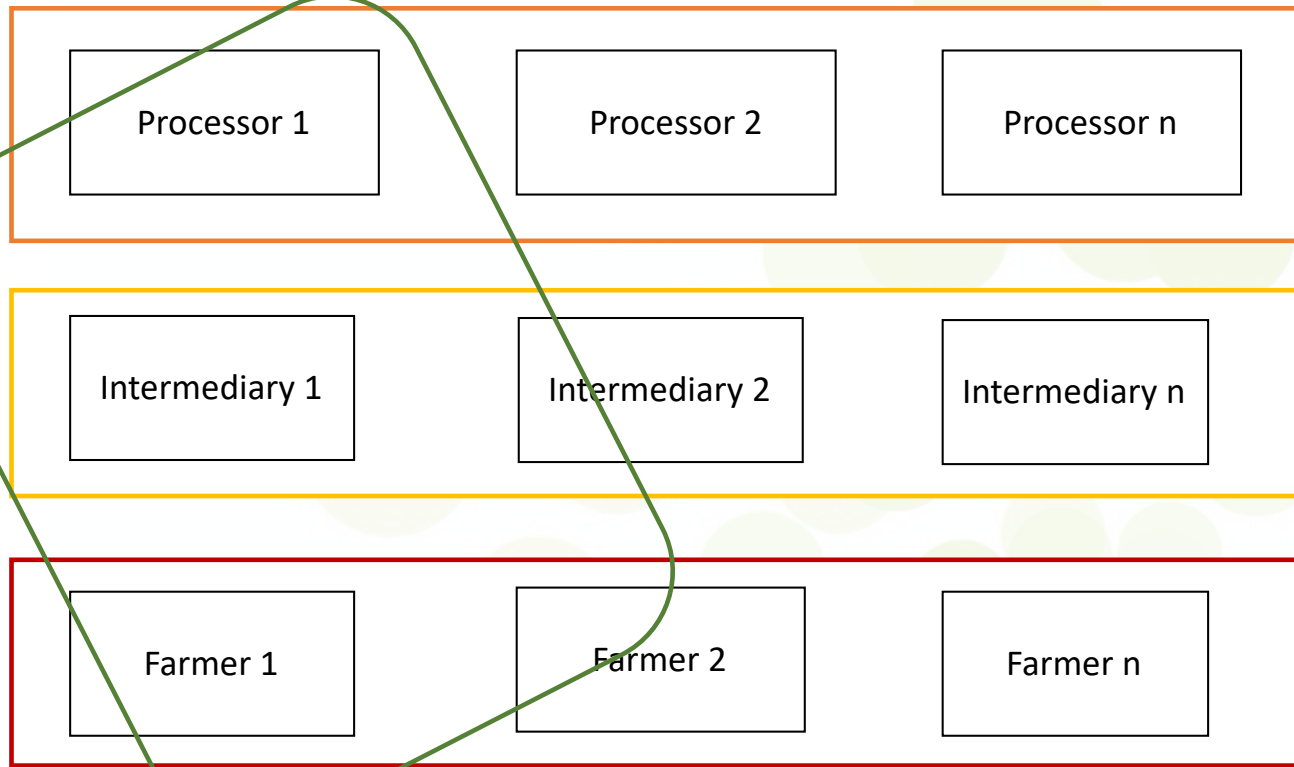
Pea in Latvia
for 100% processor supply

**2 value chains with
direct production
contracts**

Fabaean in France
for 10% of a
processor supply



2nd insight : multipartite organisations increase the social interactions in the value chain



Ex:  **CERSUL**
AGRUPAMENTO DE PRODUTORES DE CEREAIS DO SUL, S.A.
 Chickpea in Portugal

MULTIPARTITE Organisational Arrangement



Ex: Soya in France

Ex: Fababean in France

Association
 Graines Tradition Ouest





3rd insight : incentive prices for farmers and specific qualities



LEGVALUE

are defined in PCG

	Chickpea France	Chickpea Portugal	FABABEAN France	Soya France	Soya Switzerland	Soya Netherlands	Soya Italy	Pea France	Pea Latvia	Pea United-King
Time length	1	3	1	1	1	1	1	1	3	1
Price setting	Guaranteed Mini. Price with a quality grid	Price guaranteed with +/- 5% variation	Guaranteed Mini. + % market	Market index + protein payment	Guaranteed Mini. Price	Depend on markets	Guaranteed Mini. Price	Guaranteed Mini. Price + market index	Guaranteed Mini. Price + % market	Guaranteed Mini. Price
Specific clauses (illustrations)	Varieties, Color, size	Varieties, sowing density	Varieties	French soya Charte	Organic production	variety	variety	Technical production rules	Gluten-free, varieties	variety
Tacit agreements	-	-	3-year involvement	-	-	-	-	Seed variety choice	-	-



*PCG : Production Contract Governance

MATERIAL INVESTMENTS within legume value chains

- For most processors :
 - those investments could be **reusable for other crops with some adaptations**
 - **important to develop crop supply near the factories**
 - **to secure part of the supply**
- For most intermediate organisations **material investment** as optical storage device or new storage capacities **are not specific ones**
- For most farmers, no specific tangible investment required

But PCG secures first stage investment with the take-off the value chain



*PCG : Production Contract Governance



than tangible investments

→ No so strong specificity on material investment as regards the reason why production contracts are used in agrifood sector for this case of legumes...
contrary to major insights of the organisational theories on other sectors

BUT KNOWLEDGE INVESTMENT appears more specific than material investment

At the take-off of the value chain, strong knowledge gap recognized, filled by:

- **specific investment fostering knowledge sharing** such as advising, technical knowledge diffusion, training ...

→ **PCG*** secures all those investments with the take-off the value chain and particularly the learning steps required to increase the competitiveness of the value chain





Face to face interactions are increased

- Contractual bargaining steps : up to 5 meets by year
- Special events : « on the field », factory visits for the farmers under contracts : on average, 2 meets by year

Technical advise reinforcement:

- Distribution of technical bulletin
- Human advisory services

**PRODUCTION
CONTRACT
GOVERNANCE**

Technical data building :

- Data collect and analysis on farming practices
- Feedbacks, experiments, on individual and collective practices



- ✓ **Highly coordination of value chains**, from agrifood/feed firms up to farmers, can speed the agrifood transition with more legumes cultivated in Europe
- ✓ **production contracts governance creates more group commitments** with specific investments in breeding, in advice for farmers, and so forth....generating **long-term learning effects** required to un-lock
- ✓ **Contractual markets could generate a “leverage effect” on crop subsidies compared to spot markets**





THANK YOU FOR YOUR ATTENTION

To go further:

Cholez, C., Magrini, M.-B. (2020). Production contracts as a networking lever for system building. Some evidence from a comparative analysis of agrifood value-chains in Europe. 11th International Sustainability Transition Conference IST2020, Online hosted from Vienna (18-08-2020–21-08-2020).

<https://www.researchgate.net/publication/350313059> Production contracts as a networking lever for system building Some evidence from a comparative analysis of agrifood value-chains in Europe

Cholez, C., Magrini, M.-B., Galliano, D. (2020). Exploring inter-firm knowledge through contractual governance: a case study of production contracts for faba-bean procurement in France. *Journal of Rural Studies*, 73, 135–146.

<https://hal.inrae.fr/hal-02875100>

Cholez, C., Magrini, M.-B., Galliano, D. (2017). Les contrats de production en grandes cultures: coordination et incitations par les coopératives. *Economie Rurale*, 60, 65-83.

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