

## Analysis of the possibilities for establishing inter-branch organisations - Republic of North Macedonia case study

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### Abstract

The Inter-branch organisations (IBO) are the highest forms of organisations for agricultural producers, together with other actors involved in the chain of the product. At European Union (EU) level, there are strict regulations as regards IBO and the member states are in different stages of implementation. Also, there are non-member states of EU that wish to establish IBO according to EU rules, because they want to sell their products on EU market and the present regulations do not accept them. This is the case of the Republic of North Macedonia (RNM). The paper presents the analysis of the current state of the process for establishing of IBO for apples in RNM having in view the initiative of producers and the possible scenarios. Data were collected from the available literature, through field surveys and in-depth interviews with stakeholders, in cooperation with the Ministry of Agriculture, based on the EU funded project "Introduction and Implementation of CMO measures", EuropeAid/139105/DH/SER/MK.

The results show the main opportunities and constraints for the actors involved in this process, based on SWOT analysis and the directions that the producers and the authorities must follow to establish IBO, also the best scenario accessible for implementation.

**Key words:** Inter-branch organisations, Trade, Agricultural policy, Apples, Republic of North Macedonia.

### 1. Introduction

The Inter-branch organisations (IBO) are the highest forms of organisations for agricultural producers, together with other actors involved in the chain of the product. There are benefits for IBO, like: the key role in the economic structure of the agri-food chain, strong voice in negotiations and creation of national or regional policies/strategies, or the influence of the economic performance of the supply chain. At the European Union (EU) level, there are strict regulations as regards the IBO and the member states are in different stages of implementation or, a few of them have already established IBO for specific chains. Also, there are non-member states of the EU that wish to establish IBO according to the EU rules, because they understand the advantages of the organisations in the international trade. This is the

case of the Republic of North Macedonia (RNM) that wants to establish IBO for fruits, in a traditional region for apples production, because they are good producers of apples but cannot penetrate the EU market without this type of organization. The establishment of IBO for apples in RNM can be a good example for other countries which are not EU members but want to sell their products in EU. This is the reason why we chose to elaborate a scenario for IBO construction in RNM.

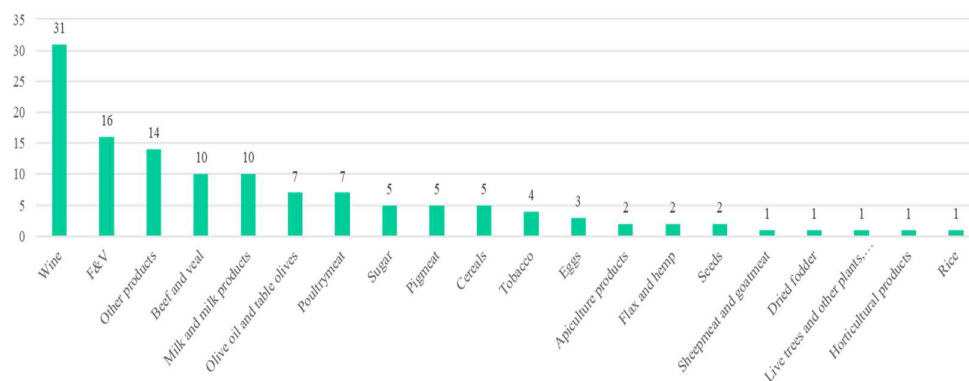
The Commission Communication to the Council on Organizations and agreements linking different branches of within the agricultural sector (Commission of the European Communities, SEC (90) 562, Brussels, 26 October 1990), defined IBO as “the relationships woven between the various occupational categories involved in the production, marketing and - where appropriate - processing of any given agricultural product or product group”. It was mentioned that developing inter-branch cooperation in agriculture can inter alia help “to improve the profitability of farming by strengthening marketing coordination and exploiting qualitative and/or regional characteristics”. The articles of the Communication describe the relations between the “actors” from the market as vertical rather than horizontal and distinguish them from the cooperation of the producer organisations (POs) and associations of producer organisations (APOs), an horizontal cooperation which aim at promoting the concentration of supply of agricultural products and its adaptation to market requirements. It is important to highlight that IBOs are specific groups of actors in comparison to other forms, in particular horizontal types of cooperation like POs, producers’ groups (PGs), or cooperatives. Since the first Common Agricultural Policy (CAP), EU has tried to balance the power within the agri-food chain, namely by strengthening farmers’ position on the market through different policy instruments, including the establishment of POs, PGs or cooperatives (horizontal cooperation), but also IBOs (vertical cooperation). All these created benefits for farmers by establishing a dialogue between agri-food chain actors.

The idea of IBO has a long history in the EU of about 100 years. The first forms appeared in 20’s and in 70’s similar forms as we know today, in France (1975). It was a result of the crisis from 1973. Since that moments, IBOs have continuously developed in different member states (MS) of the EU, and there are trials to establish this type of organisation in non-member states, as well.

The first IBO was established in France. Presently, there are 9 MS that have recognised IBOs: France (FR), Spain (ES), The Netherlands (NL), Greece (EL), Hungary (HU), Romania (RO), Portugal (PT), Italy (IT), Germany (D) (situation at 26.10.2018). The number of MS that have national rules for IBOs is 19 from 28. In the rest of the countries the governments still working for the adoption of EU regulations or did not consider this as urgent and important at this moment.

In total, there are 128 recognized and active IBOs in EU. The majority are in FR (65, which represent about 50% from the total number of EU IBOs) and ES (27, which represent about 22% from the total number of EU IBOs). Another MS that have recognised IBOs are NL (9), EL (7), HU (6), RO (5), PT (5), IT (3), D (1).

From the Common Market Organisation (CMO) list of agri-food chains, 20 have established IBOs. The majority are in wine branch (24.2%) and F&V (12.5%). The situation of the present IBOs in EU (2018, October) is presented in the figure 1.

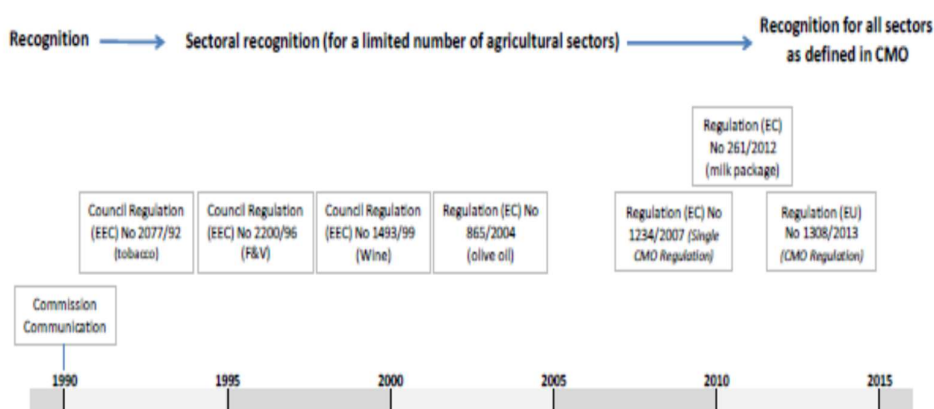


**Figure 1: IBOs evolution in EU**  
Source: Base on European Commission reports

As we observe, an important sector at EU level is F&V and this is another reason we chose the example of IBO for apples. The competition is at high level and the possibilities for producers from other countries (non-member states) to penetrate the single market seems impossible. But this should not discourage the establishment of IBOs in line with EU rules having in view the benefits the producers can have and the fact that, this is the only solution for development of their business.

## 2. Theoretical and legislative framework

Initially, the Commission introduced regulations for the inter-branch cooperation only in the case of olive oil, fruit and vegetables (F&V), and tobacco. Then, the regulations were extended. The evolution of the legislation in this field is presented below (Figure 2).



**Figure 2: The evolution of the legislation for IBOs**

Source: European Commission, 2016, *Study on agricultural interbranch organisations in the EU*, Brussels, Belgium (Study prepared by Arcadia International, LEI - Wageningen UR, Dr. Luc Bodiguel, and national experts)

A list of EU regulations and initiatives as regards the functioning of the agri-food chains is presented below:

- Commission of the European Communities, SEC (90) 562, Brussels, 26 October 1990;
- Council Regulation (EEC) No 2077/92 of 30 June 1992 concerning inter-branch organisations and agreements in the tobacco sector;
- Council Regulation (EC) No. 2200/96 on the common organization of the market in fruit and vegetables;
- Council Regulation (EC) No 1493/99 on the common organisation of the market in wine;
- Regulation (EC) No 865/2004 of 29 April 2004 on the common organisation of the market in olive oil and table olives and amending Regulation (EEC) No 827/68;
- Regulation (EC) No 1234/2007, Single Common Market Regulation;
- Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - A better functioning food supply chain in Europe COM (2009) 591 final;
- European Parliament Resolution of 7 September 2010 on fair revenues for farmers: A better functioning food supply chain in Europe OJ C 308 E;
- The Regulation (EU) no.1308/2013 of the Common Market Organisation;
- Commission Decision of 1 June 2015 establishing the High-Level Forum for a better functioning food supply chain, in OJ C 179;
- Regulation (EU) no.232/2016.

The Regulation (EU) no.1308/2013 of the CMO introduced the last important and comprehensive rules for IBOs on EU market, in the context of the present CAP, EU Competition Policy, also international competitiveness.

Other EU institutions have joined the initiatives that the European Commission has put in place. The Council, the European Parliament and the Economic and Social Committee which, thorough statements, decisions and reports, have consistently highlighted the severity and global extent of this problem while stressing the needs for MS to take action to address this social and economic problem.

For F&V, the list of the EU regulations after 2013 is presented below:

- Regulation (EU) no.891/2017-Completion of Reg (EU) no.1308/2013 as regards the processed and processed F&V sector;
- Regulation (EU) no.892/2017-Regulation laying down detailed rules for the application of Reg (EU) no.1308/2013 as regards the production and processing of F&V;
- Regulation (EU) no.1145/2018-Amending Reg (EU) no.891/2017 as regards producer organizations in the F&V sector;
- Regulation (EU) no.1146/2018-Amending Reg (EU) no.2017/892 laying down detailed rules for the application of Reg (EU) no.1308/2013 as regards the production and processing of F&V;
- Regulation (EU) no.428/2019-Amending Reg (EU) no.543/2011 as regards marketing standards in the F&V sector.

In the same time, among the studies elaborated in the field, important contributions about the state of IBOs at EU level has the report from 2016 prepared for the European Commission (Study on agricultural interbranch organisations in the EU, Arcadia International, LEI - Wageningen UR, Dr. Luc Bodiguel, and national experts, ISBN: 978-92-79-53902-2, Doi: 10.2762/901778, Brussels, Belgium), which evaluates the implementation of IBOs legislation in force, the main rules on the market in the new context, the benefits this type of organisation has and the perspectives created. It was followed by the study “Analysis of the best ways forward for producer organisations to be formed, carry out their activities and be supported” (European Commission, 2019, Arcadia International E.E.I.G., EY and independent experts, ISBN: 978-92-79-98775-5, Doi: 10.2762/034412, Brussels, Belgium). General studies about the forms of association for producers were elaborated by other research institutes or universities, based on the requests came from European Commission like “Study on producer organisations in the olive oil, beef and veal and arable crops sectors” (ECORYS, WUR, 2018, ISBN: 978-92-79-85903-8, Doi: 10.2763/720686, Brussels, Belgium), or contracts under JRC like “Factors Supporting the Development of Producer Organizations and their Impacts in the Light of Ongoing Changes in Food Supply Chains: A Literature Review” (Fałkowski, J. & Ciaian, P., 2016). Other useful analysis used in this paper, based on case studies were “The impact of producer organisations on farm performance: A case study of large farms in Slovakia” (Michalek, J., Ciaian, P., Pokrivcak, J., 2018, Food Policy 75 (2018) 80–92, Joint Research Centre, European Commission. Published by Elsevier Ltd.), “Fruit and vegetables producer organisations – some insights on their functioning based on data from Poland” (Fałkowski, J. & Chlebicka, A., 2018). Also, not negligible, are the recent reports of the European Commission on the application of the competition rules to the agricultural sector. Among them we mention COM (2018) 706 final, Brussels, 26.10.2018 and DG AGRI Brochure: Conference on “The contribution of producer organisations to an efficient food supply chain” (21.09.2018).

### 3. Methodology and data used

The data were gathered from the available literature for IBO and the previous research in the field, as we mentioned above. In addition, data were collected through field surveys and in-depth interviews with stakeholders from RNM, reports and analysis in cooperation with the Ministry of Agriculture, Forestry and Water Economy (MAFWE) based on the project “Introduction and implementation of Common market organization measures”, EuropeAid/139105/DH/SER/MK. The combined quantitative and qualitative analyses used in this study were completed with the text analysis of the legislation in force, at EU and RNM level. A SWOT analysis was elaborated to highlight the main strengths, weaknesses, opportunities and threats the producers make face, as well. Finally, based on the previous conclusions and results obtained, a few scenarios were taken into considerations for the establishment of IBO in RNM having in view the present context of the country. Among them, we chose the one which in our opinion is the easiest and faster, with minimal costs from the actors involved in this process.

## 4. Results

### 4.1. Arguments to establish IBOs

There are two main types of IBOs: “long” IBO and “short” IBO. Long IBO has actors from all stages of the chain: producers, processors, traders, retailers. Short IBO has actors from at least two stages of the chain. Obligatory, the producers must be present. Also, there are IBOs for single product and IBO for multi-product (F&V case). The last can have one group or several groups, like F&V branch.

The relations between the actors from the agri-food chain can be very divers. In the structure of the supply chain, there are often many forms of cooperation and different types of consultative bodies: Governments and public bodies (Partnership), Producer Organisations (POs can also be cooperatives), Producer associations and Branch organisations that are not officially recognised, Cooperatives, Companies (Processors, Traders, Retailers). The main reason that the forms of cooperation are divers and they are accepted is that the legislation gives the possibility to establish and develop the cooperation between actors having in view the characteristics of the countries. Also, the most important aspect is to have common rules for a common market organisation and equal conditions for all.

When establish IBOs, we must consider the benefits these organisations provide. Among benefits we want to highlight:

- Better integration, organisation and governance of the agri-food chain
- Collecting and sharing knowledge and communication
- Sharing responsibilities and risks

In the same time, there are challenges that we must make face. Among challenges we identified:

- Sources of money
- Links to the concerted management of interests
- The role and interaction with public authorities

If we put in balance, the advantages to create IBO are very attractive. During different surveys or analysis, very often there were met the following expectations, which are objectives of creation of IBO:

- Promoting consumption of, and/or furnishing information concerning, products on the internal market and external markets;
- Improving knowledge and transparency of production and market;
- Provide information and perform the necessary research to innovate, rationalise, improve and adjust production and, where applicable, processing and marketing;
- Developing methods and instruments for improving product quality;
- Developing initiatives to strengthen economic competitiveness and innovation.

Also, at the beginning of the development of IBOs, one of the main reasons why IBO was created is the possibility to have standard contracts.

With no doubt, the creation of IBO will have a direct impact on:

- marketing of agricultural products



- farmers' bargaining power
- farmers' investment
- product quality and innovation
- adoption of food standards
- small farms
- income and prices

In conclusion, it is assumed that, there are benefits for IBO, like:

- IBOs plays a role in the economic structure of the agri-food chain (integration role); they do not produce or trade products themselves;
- IBOs can influence the economic performance of the supply chain by e.g. publishing aggregated statistical data on prices, volumes and costs of production, helping to improve product quality or the way the products are placed on the market (see objectives of IBOs in the CMO). By means of collective research, production processes and product characteristics are improved, which influences the functioning of the market;
- Stronger voice in negotiations and creation of national or regional policies/strategies.

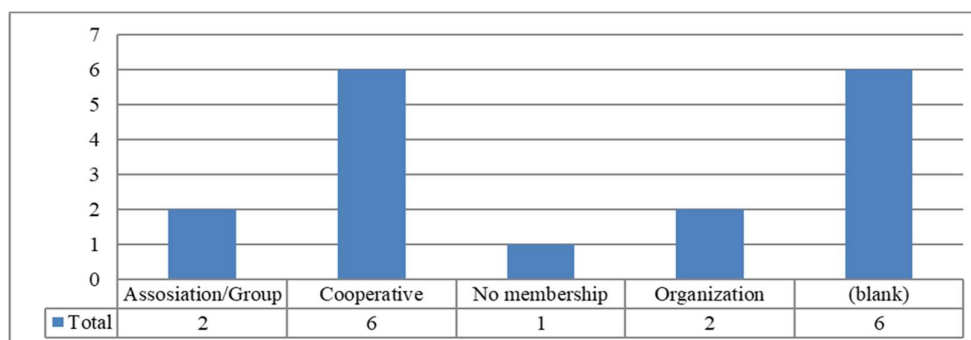
Also, there are benefits for producers organised in IBO:

- Power of negotiation (with other actors from the chain and with authorities);
- Access to market (domestic and exports);
- Better position on the market and better prices;
- Financial support;
- Protection in case of crisis and other unexpected events (there are derogations from the competition rules);
- Access to credit, knowledge, technology, etc;
- Exchange of information, experience, promotions, exhibitions, programs, projects.

We want to underline that, by IBO, the members do not lose their business independency (their rights). They will continue to have their own business with own incomes, but under the protection (“umbrella”) of IBO.

#### **4.2. Assessments of the interest of the stakeholders to establish IBOs in RNM**

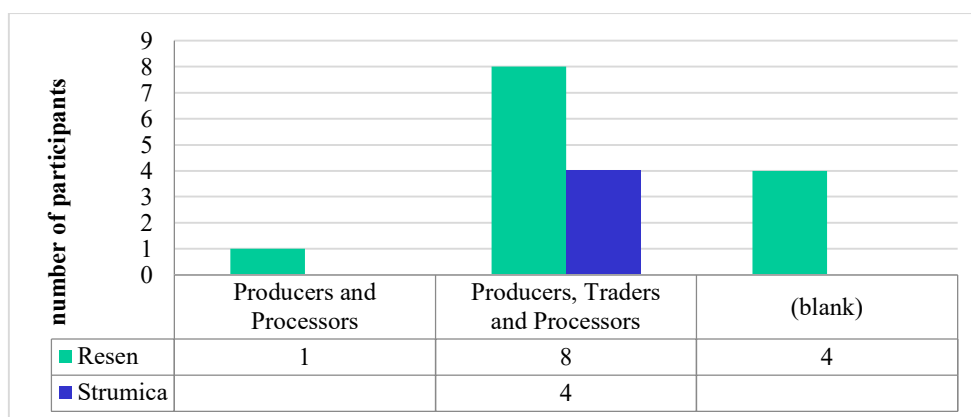
In the frame of the project “Introduction and implementation of Common market organization measures”, EuropeAid/139105/DH/SER/MK, in April 2019, there were meetings with the producers and traders from Resen and Strumica Regions, in South RNM, regions specialised in F&V production. Resen Region is specialised in apples production and Strumica Region in vegetables, especially tomato, pepper and cabbage production. During the meetings, the participants were asked and expressed their interest to establish IBO. Among the subjects discussed, the participants were asked about their expectations from IBO, why they want to establish IBO, their needs and the main difficulties they are confronted with. The structure of the participants at the meetings is mentioned in the next figure (3).



**Figure 3: Membership of the participant in certain organization**

*Source: Own processing*

During the meeting, the participants used the questionnaire provided and they gave answers having in view their own perception about IBO. The analysis about their interest to establish IBO is presented in Figure 4.



**Figure 4: Participants interest for IBO**

*Source: Own processing*

In majority, the participants expressed their interest of the IBO in the type of vertical integration Producers-Traders-Processors, a long type of IBO.

Among the questions, the subject linked to their expected aims for vertical integration in IBO had a central position. They were asked to give a score using a Likert scale, from 1 to 10, where 1 represents their expectations as “the lowest” and 10 “the highest”. From the questionnaires completed by the participants, some conclusions were drawn, and the results are mentioned in the Table 1.

The interpretation of the table shows that, the first preference for participants was for “Promotion of the products”, with about 31% from the responses indicating it as the most important (82% from the participants gave a score over 6). The next expectations were for “Concentration of supply and sales”, with about 31% from the responses indicating it as the most important (62% from the participants gave a score over 6), then for “Support for futures markets and agricultural insurance schemes”, with about 25% from the responses indicating it as the most important (64% from the participants gave a score over 6).



**Table 1: Descriptive statistics of the participants' expected aims of vertical integration in IBO**

No.	Aim of vertical integration in IBO	Average	Mode	Median
1	Planning production, in coordination with demand	5.75	5	5
2	Concentration of supply and sales	6.81	10	7.5
3	Research of sustainable production techniques, innovation and market development	6.6	8	7
4	Improving product quality	7.13	7	7
5	Environmentally friendly cultivation methods (technical assistance)	7.13	7	7
6	Managing by-products and waste and improving the biodiversity	5.8	5	5
7	Sustainable use of natural resources, moderation of climate change	6.06	5	5
8	Promotion of the products	7.87	10	8
9	Support for futures markets and agricultural insurance schemes	6.31	10	6.5

Source: Own processing

Not very important for them were: “Sustainable use of natural resources, moderation of climate change”, with 51% from the answers under 5, “Managing by-products and waste and improving the biodiversity”, with 50% from the answers under 5, “Planning production, in coordination with demand”, with 57% from the answers under 5.

After the investigation of the respondents' desires from production, there were conducted interviews with specialists from different institutions from national authorities. During May 2019, the discussions with different specialist from the MAFWE gave us a general picture of the present agri-food chain in RNM, the problems and needs the producers are confronted with and different other country's characteristics. Based on this information we realised a SWOT analysis which is presented below (Table 2).

**Table 2: SWOT analysis for the necessity to establish IBOs in F&V branch**

STRENGTHS	WEAKNESSES
Good natural conditions for agriculture	Small size of agricultural land & Small parcels
Concentration & Specialisation of production/ Regions	Seasonal production; Lack of varieties; Lack of Modern & Big storage centers
	Coolers/Storages
Focus on food safety	No focus on food quality
Exp.to Former Yugoslavia countries & Russia & CIS & BG & D increased	Farmers do not respect standards
	Lack of planification from Producers
	Non-linear application of standards by specialists (Lack of implementation; Lack of stuff)

	No trust between actors; No organization of producers (Coop. & Assoc. not functional) (How to motivate producers to work together?)
	Weak export on EU market
	Lack of money for farmers
	Not enough specialized stuff
	Not strong communication Actors & Authorities
OPPORTUNITIES	THREATS
Consumers prefer local products	Competition from Serbia, Albania (CEFTA), also EU/International competition
Improving effects/results from CEFTA	The way of implementation of EU regulations
Investments (National & EU & International)	New CAP 2020+
Action Plans/Programs with EU help	EU enlargement process
Knowledge from EU	
EU Food quality standards application & Monitoring	
Orientation to EU market	
Orientation to cooperation/IBOs	
Programs & Trainings & Workshops etc with Producers & Processors; Visits & Exchange of experience abroad organized by Ministry	

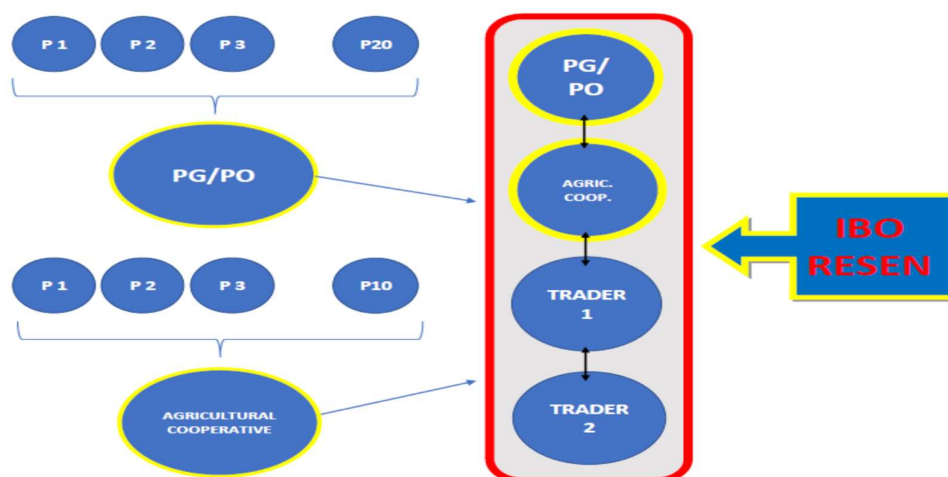
Source: Own processing

Finally, after discussions and analysis of the concrete market conditions, it was concluded that there are premises for the establishment of an IBO only in the Resen Region, the initiators of the Strumica Region having no sufficient representation, either regional or national, as required by EU regulations.

### 4.3. Scenario for IBO Resen

The initiators from Resen Region who can participate in the establishment of the IBO are two producer groups and two traders. The first group of producers has in its structure twenty farmers specialized in apples production and the second group of producers was established as an agricultural cooperative of ten members, producers of apples, according to the RNM legislation. The present RNM legislation mentions that IBO can be established only by forms of associations recognized by state like cooperatives. For the first group of producers, the MAFWE must recognize them as cooperative, or modify the legislation to include other forms of agricultural association in the legislative text about IBO establishment, like Producers groups, Producers Associations, Associations of producers organizations, Independent farmers, Family farms, etc. The traders who want to join the IBO structure are companies built as ltd firms.

The initiators from Resen region opted for a "short" IBO at this stage, based on vertical coordination between producers and traders, excluding processors. In view of all these premises, several set-up scenarios have been proposed, and of these the one was chosen which, in our opinion, is the easiest to implement. For implementation, both the initiators and the authorities have several stages, which last for a maximum of 12 months. Given the number of initiators "IBO Resen for Apples", we design the following structure presented in the Figure 5.



**Figure 5: IBO Resen for Apples**  
*Source: Own proposal*

At the end, we want to summarise our findings with the next arguments for the establishing of IBO Resen for Apples in RNM:

- There is initiative from producers and traders in Resen;
- There is specialisation of the region in fruits (apples);
- There are good natural conditions for good productions of apples;
- There is the wish to sell the products into EU;
- Also, there is the idea to register Protected geographical indication (PGI) product “Prespa Apple”, according to EU legislation, as well.

## 5. Conclusions

In conclusion, “What IBO Resen for Apples is doing?”:

- Although IBOs Resen do not produce or trade products themselves, they do play a role in the economic structure of the supply chain in RNM;
- IBOs Resen can influence the economic performance of the supply chain in RNM by e.g. publishing aggregated statistical data on prices, volumes and costs of production, helping to improve product quality or the way the products are placed on the market (see objectives of IBOs in the CMO). By means of collective research, production processes and product characteristics are improved, which influences the functioning of the market.

Practically, “How to create IBO Resen for Apples?”:

- Link the creation of IBO Resen to the provision of financial support at inception of the organisations, like:
  - National authorities can provide dedicated funding for a limited period to encourage the setting up of IBO Resen;
  - Can facilitate the fulfilment of the aims of the agri-food IBO Resen;
  - Link the idea that IBO Resen are going to be financially supported by the EU as for POs.
- Anyway, the initiative to create IBO Resen comes from primary production (fulfil the EU requirements) and the Ministry must support the initiative.

“What else is needed for faster IBO Resen establishment?”:

- Specialised stuff for IBO management;
- Permanent discussions and meetings between the entities, periodical trainings with the actors from the food chains, organized or not in IBO, also promotions with producers, PO and APO;
- Exchange of experience with producers from other countries, visits to similar institutions abroad, fair partners and collaborators.

Following the steps mentioned above, in our opinion, the necessary period for the establishment of IBO Resen for Apples is no longer than 12 months.

## 6. Acknowledgements



### ACKNOWLEDGMENTS

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