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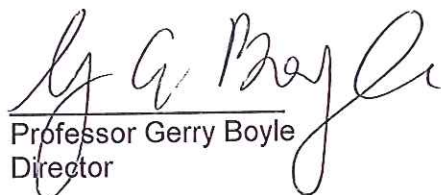
24 October 2014

A Chara,

Please find attached the Teagasc submission on the Potential of Producer Organisations (POs) in the Irish Beef Sector.

I trust the document will be of assistance and advise that Teagasc is available to discuss any of our recommendations further with you.

Yours sincerely



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Teagasc Submission to the Department of Agriculture Food and the Marine on:

The Potential of Producer Organisations (POs) in the Irish Beef Sector

- From international experience the main functions of POs are to allow for increased scale and reduced costs, specialisation, co-operation, intermediation and empowerment. The main objective of a PO is explicitly to strengthen the "power" of farmers (producers) in the supply chain relative to economic agents upstream and downstream from the farm gate.
- Unlike in the horticulture fruit and vegetable sectors where PO's are typically constituted of a relatively small number of large producers with high numbers of employees who undertake coordinated work, the establishment of POs in the Irish beef sector would involve mobilising high numbers of relatively small-scale, independent producers. This would necessitate considerable coordination if POs are to be a success.
- Where POs are being considered in the Irish Beef Sector existing institutions within the Irish beef industry including marts, processors and marketing bodies should be considered. Leveraging existing capacities in coordinating, processing, packaging and distribution is likely to be critical for the success of any Irish beef POs.
- POs offer the potential of horizontal cooperation between farmer members of POs and also vertical cooperation between POs, marts and processors. The horizontal cooperation could potentially be harnessed through the existing BTAP discussion group infrastructure as a preliminary conduit.
- While the PO structure can reduce transaction costs, new costs can also arise depending on the operational structure/strategy of the PO. The leveraging of the existing marts infrastructure may be a route to reduce the transaction costs by utilising the existing function of marts as central delivery, collection and administration points in the supply/value chain. Also, cooperatives may be a particularly appropriate business model for POs considering the governance mechanisms associated with cooperatives.

While there are a number of potential benefits to Irish beef producers from the formation of beef POs, Teagasc would also have a number of concerns surrounding their formation and possible impact that should be considered.

- Where POs are focused on the downstream relationship (i.e. between meat processors and farmers) the objective for the POs and their members is the acquisition of a greater share of the profits that exist along the beef supply chain. If the POs can create a product that consumers value more highly (and are willing to pay a higher price for) then additional value added is created by PO activities. If, however, PO groups succeed

in garnering for their members a bigger slice of the profit between the farm gate and the consumer plate without producing something that consumer value more highly there will be an extra cost that will have to be met by others along the supply chain. Gains to PO members may at least in part be met by extra costs for Irish consumers or other Irish producers of beef who (for whatever reason) are not in a PO. The possibility that gains to PO members might primarily be made up of transfers from non-member beef producers, is an important concern.

- The organisation and running of POs (and Associations of POs) will have a non-zero cost. Given the nature of Irish beef production (heterogeneity between farms and between finishing and suckling systems) the coordination costs of POs may be quite significant, particularly if *coordinated* production differs significantly from uncoordinated production. This will likely place a large cost on running these groups and make it difficult for some groups to survive over time since the costs of organisation and coordination reduce the magnitude of the rent that ultimately accrues to the PO members.
- When the output price environment is challenging farmers may be more willing to cooperate in terms of the marketing of their produce through a PO, but when prices are good and getting better POs may find it difficult to prevent members from selling cattle through non-PO channels.

Teagasc is ideally positioned to support the formation and operation of POs through its involvement in BTAP and its extensive beef advisory network. However, supplementary resources will be required to deal adequately with the significant coordination and administrative support that groups will need to function effectively.