

# Unbalanced value chain in perishable agricultural products

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## 1 Background and introduction

Value chain in agriculture is a current issue affecting from farmers to consumers. It questions important issues as profitability, and even though continuity of certain sectors.

Although there has been an evolution along time in the structure and concentration of intermediate and final levels of the value chain between distribution and retail sector, a similar evolution seems not to arrive at the initial level of the chain, the production sector. This produces large imbalances in power and leverage between levels of the value chain that could imply several problems for rural actors.

Relatively little attention has been paid to possible market distortions caused by the high level of concentration distribution side of the agrifood system.

As the Agriculture and Natural Resources Team of the UK Department for International Development (2004) echoed, there is declining residual value to be shared with rural actors in the chain. Such concern was already expressed in the report of the FAO Panel of Eminent Experts on Ethics in Food and Agriculture (2000) which noted that 'there are serious power imbalances arising from the concentration of economic power in the hands of a few'.

Given the few studies about this issue we propose finding empirical evidence of this imbalance. In order to do so, we take data from three different levels at the agricultural products value chain: producer, intermediary and consumer. We analyse Spanish data comprising perishable products, as one of the major exporters of fruits and vegetables, also considered the global leader in fresh fruit exports (Diop, 2005).

We have chosen perishable products (fruits and vegetables) with the aim of making clearer this unbalanced situation. If we limit our research to the comercialization of perishable fruits and vegetables without taking into account products without either processing or great stocking costs, the added value with respect to the producer price constitutes a clearer indicator of negotiation power along the value chain.

## 2 Research questions

We provide empirical evidence of the imbalances in the agricultural value added distribution between producers, intermediaries and final retailers, having a quantitative measure and contrasting the different levels of price formation.

## 3 Methods

The methodology to find this evidence is panel data analysis of selected agricultural products. The analysis takes into account four relevant dimensions of the data: time, products, position along the value chain and grade of perishability of the products.

In order to do so, we take observations from perishable products (fruits and vegetables) excluding processing and storing costs. We use data from the major European exporter of this type of agricultural products, Spain.

We analyse margins between levels of the value chain and regress those data in order to find significant causalities.

## **4 Expected results**

The expected result is unravelling some empirical evidence on value chain imbalances in the Spanish agricultural market.

## **5 Discussion**

In principle, the importance of the studied market could lead to think of a value chain corresponding to a competitive market. However, if we analyse this market in a deeper way and decompose price formation we can see great differences along the value chain. Producers englobe a great number of small producers, atomised and with low or null market and negotiation power. Distribution is generally strong (intermediaries) as well as retailers. They enjoy greater market negotiation power and the grade of concentration is much larger than that of farmers (DFID, 2004).

Final consumer acquires those perishable products from retailers (traditional retailers or big distribution areas). This picture makes a significantly unbalanced value chain, especially between producers and buying desks and retailers.

## **6 Conclusion**

Large imbalances affect perishable agricultural products along the value chain. The inequality of value added distributed among farmers, intermediaries and retailers makes the first group weaker. This lack of market power negotiation implies a difficult way-out for farmers who have to accept in numerous situations conditions imposed by upper grades of the value chain. The implications of this expand to several areas: economic policy, new agrifood distribution channels, etc.

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