Food Policy 49 (2014) 347–360

Contents lists available at ScienceDirect

Food Policy

journal homepage: www.elsevier.com/locate/foodpol

Change of competition regime and regional innovative capacities: Evidence from dairy restructuring in France

Marie Dervillé [a,*], Gilles Allaire [b]

[a] ENFA, Dynamiques Rurales, Toulouse, France
[b] INRA, ODR, Toulouse, France

ARTICLE INFO

Article history:
Received 11 June 2013
Received in revised form 7 August 2014
Accepted 4 September 2014
Available online 22 October 2014

Keywords:
Competition regime
Common-pool resources
Collective action
Market access
French dairy industry
Geographical indication

ABSTRACT

The aim of this article is to analyze how market actors, and farmers in particular, mobilize collective coordination capacities to face global changes – market price or sectorial policies – within different regional contexts. A multi-scale conceptual framework is proposed to analyze market functioning and transformation over time and space. We extend Commons and Fligstein's work on market institutions to define the notion of competition regime as a combination of four market institutions that legitimizes competition strategies. We also mobilize Ostrom's work on common property rights regimes to show that a competition regime relies on the creation and management of two systems of common-pool resources, namely innovation capacity and reputation-building. This paper then shows the relevance of this framework through the case study of the current restructuring of dairy supply chains in mountainous areas in France. It shows that market liberalization strongly destabilizes the regional competition regimes that were based on the appropriation of social rights inherent to the national public policies. In the hybrid and specific competition regimes, existing territorial coordination devices are not directly threatened and can support the development of new cooperative strategies. In all cases, with the development of a contractual economy, farmers are incited to develop or to strengthen coordination devices to become effective market participants. Through the development of large territorial producers' organizations capable of managing milk supply in volume and quality, they would be able to take part in the management of the supply chains. To do so, the present paper suggests that farmers' organizations need material and immaterial investments and assistance from regional public players to build new local collective capacities. The competition regime framework is an asset for the design of such public supports in accordance with the principle of subsidiarity, taking the regional specificity of the markets' institutions and collective capacities into account.

Introduction

French and European dairy markets have been organized by a specific Common Market Organization (CMO) regulation since 1968. CMO regulations concern public interventions in markets, quotas and aid schemes, marketing and production standards, and trade with countries outside the European Union (EU). Due to the quota system implemented in 1984, the dairy industry was less and later affected by the liberalization of the agricultural policies initiated in 1992 within the framework of the WTO negotiations. We consider 2008 as the year of change for the dairy sector since many major coordination instruments were destabilized that year. First, limited tariffs were unable to prevent the impact of the instability of international prices on industrial butter, cheese and milk powder. Along with input price increases and together with the economic crisis and stagnant European internal market consumption, this led to a major crisis in the dairy sector. Second, the quota constraint was gradually removed until its abolition (planned for 2015), which constitutes a major change in dairy market regulations (Bouamra-Mechemache et al., 2008; Chatellier and Guyomard, 2009), and is expected to reduce farmers' collective bargaining power (Jongeneel et al., 2010). Third, the strengthening of the European competition law since 2000 has restrained the collective sectorial capacity to stabilize markets.

Despite the scale of the 2009 crisis, the European Parliament did not preserve the quota system to restore market stability, but instead adopted a "Milk Package" in 2012 that encourages the development of new stabilization strategies in a contractual economy. It, in fact, provides a new framework for the establishment of written contracts between farmers' groups and processors, encourages the formation of farmers' groups with large territorial bases (up to 33% of the national milk collection) and legitimizes interbranch

* Corresponding author at: École Nationale de Formation Agronomique (ENFA), 2 Route de Narbonne, 31326 Castanet Tolosan, France. Tel.: +33 6 35 90 14 72.
E-mail address: marie.derville@educagri.fr (M. Dervillé).

http://dx.doi.org/10.1016/j.foodpol.2014.09.002
0306-9192/© 2014 The Authors. Published by Elsevier Ltd.

organizations. Yet, it has been shown that contractual relationships may transfer the risk to the weaker link of the chain, namely the farmers, especially when they are not collectively organized (Hueth and Marcoul, 2003; Henson and Reardon, 2005; Jongeneel et al., 2010).

We propose the term 'change of competition regime' to analyze this evolution. It results from market policy market and policy as well as from structural changes, namely the internationalization of dairy firms as a result of merging and the development of quality standards.

The French dairy industry is strongly affected by this change of competition regime. First, vertical coordination and distribution of added value are complex in France since dairy firms are numerous and diverse and cooperatives process only 46% of the milk (CNIEL, 2012). As a result, the French Dairy Interbranch Organization (CNIEL)[1] plays a key role in balancing the power relationships along the supply chains, notably through the provision of a framework for setting milk prices. However, this interbranch agreement was prohibited by the competition law in 2008, which complicated the crisis exit. Second, the choices made in France regarding quota system management were very limiting and structuring. The governance of the quota instrument took place at the departmental[2] level by the administration and farmers' main union. Milk quota exchanges were blocked at this level. Thus, the quota policy was a coordination framework for the collective management of the structuring of milk production. It played a significant role for 30 years by limiting the concentration of milk production in the western part of France (Institut de l'Elevage, 2009; Dervillé, 2012). In the new context, farmers' access to markets and stable prices are no longer granted to historical quota holders. Competition is expected to increase among producers and areas, and production is expected to concentrate in areas with comparative advantages for price competition (Chatellier and Guyomard, 2009; Institut de l'Elevage, 2009). The future of mountain dairy farming in France (22% of the producers and 15% of the production in 2009) therefore seems compromised.

Nevertheless, in the new competition regime, contractual regulations substitute government regulations within the agri-food economy (Henson and Reardon, 2005; Giovannucci and Ponte, 2005; Ponte and Gibbon, 2005; Ménard and Valceschini, 2005). In the dairy industry, voluntary standards contribute to market segmentation and may ensure the sustainability of specific production systems. Labels legitimized by state or third party certification enable consumers to differentiate products according to their production mode (Hatanaka et al., 2005; Allaire, 2010; Deaton et al., 2010).

Mountain dairy supply chains that count numerous specific quality products (Protected Geographical Indication[3] cheeses) are particularly concerned. The firms and the governance structures that manage collective labels develop different strategies to escape price competition. They promote merging strategies as well as diversification strategies. For example, Lactalis, the leading French dairy firm, takes part in the governance of 26 of the 36 French dairy Products of Designation of Origin (PDO), owns over 40 private brands and is engaged in an intensive international growth strategy.

In the present study, we are interested in the way the shift in dairy market regulation (from state administration through the quota system, to diverse contractual stabilization strategies) has an impact on dairy farmers' conditions to access markets. We consider that in the new context, farmers' competitiveness and survival are related not only to their ability to produce at low cost but also to individually and collectively adjust to quality standards and contractual regulations. Our first hypothesis is that this ability is related to collective innovative capacities that can vary spatially, leading to different local adaptation capacities. Our second hypothesis is that these capacities vary over time in response to the global pressures for change, as well as in a proactive manner. Finally, we develop an institutional framework of market functioning that is a complement to the literature on the governance of value chains (Gereffi et al., 2005; Busch, 2011) by integrating the role of local and national structures and institutions. By developing such a framework, we aim at characterizing the processes through which value is created and shared in various supply chains in contrasting regional contexts, and the way it evolves over time.

In the next section, the concept of competition regime is developed as the keystone of the analysis, building on the concept of intangible property (Commons, 1925), on Fligstein's and Allaire's work on market institutions (Fligstein, 1996; Allaire, 2010), and on the common property rights regime framework (Schlager and Ostrom, 1992). We define it as the institutional arrangement of coordination instruments at the origin of market stability. A competition regime is a set of institutions that determines the boundaries of cooperation and competition domains and that frames the capacity of economic players in terms of exchange. It includes immaterial common resource systems and a property rights regime.

This institutional framework is tested in the third section 'Analyzing the diversity of adaptation strategies to change in mountainous areas in France' based on an analysis of the restructuring of the French dairy supply chains in mountainous areas. Using this exploratory approach, the ways that coordination instruments are collectively managed, contain competition and condition adaptation strategies are analyzed. The empirical analysis consists of a characterization of individual and collective actors' strategies at various scales, based on an articulation of a comparative analysis of three case studies and of a descriptive statistical analysis. Contingent on the nature of collective coordination instruments mobilized by the economic players, we show the spatial differentiation of a competition regime. Three regional competition regimes are identified in mountainous areas: generic, hybrid and specific.

The relevance of the common property rights regime framework to analyze changes in farmers' conditions to access markets over time is then shown using an analysis of the quality turn undertaken in the hybrid competition regime between 2006 and 2011.

Conceptual framework

An institutional framework to analyze complex markets

When adopting an institutional framework, we consider: (i) that competition is restrained by cooperation and relies on institutions that define the realm of competitive strategies in different

[1] The French Dairy Interbranch Organization (CNIEL), bringing together representatives from private industries, cooperatives and farmers, has played a key role in balancing the power relationships along the supply chain. From its creation in 1969 until 2008, it developed the framework for the price setting modalities between dairy firms and farmers (quality payment grid, price baseline and quality premium).

[2] The department is an administrative division below the district level; there are 96 departments in France.

[3] Protected Geographical Status (PGS) is a legal framework defined by European Union law to protect the names of regional foods. Protected Designation of Origin (PDO), Protected Geographical Indication (PGI) and Traditional Speciality Guaranteed (TSG) are distinct regimes of geographical indications (GI) within the framework. PDO is the stricter regime: it covers agricultural products and foodstuffs which are produced, processed and prepared in a given geographical area using recognized know-how. PGI covers agricultural products and foodstuffs closely linked to the geographical area (at least one of the stages of production, processing or preparation takes place in the area). TGS is not a geographical indication stricto sensu.: it highlights traditional character, either in the composition or means of production. PDO, PGI and TSG are differentiated products that can satisfy a specific and remunerative demand. The reputation and the potential of value addition are collective goods. The PGS is based on a specific history and knowledge that is embodied in publicly-acknowledged terms of reference. In France, it is managed at the national level by the National Institute for Origin and Quality (INAO) under the supervision of the Ministry of Agriculture. It has been granted by third party certification since 2008.