

Document downloaded from:

<http://hdl.handle.net/10251/78275>

This paper must be cited as:

Moragues Faus, AM.; Ortiz Miranda, D. (2012). Governing cooperative quality schemes: some lessons from olive oil initiatives in the Region of Valencia (Spain). *Outlook On Agriculture*. 41(1):27-33. doi:10.5367/oa.2012.0072.



The final publication is available at

<http://dx.doi.org/10.5367/oa.2012.0072>

Copyright SAGE Publications (UK and US)

Additional Information

Title: Governing cooperative quality schemes: some lessons from olive oil initiatives in the Region of Valencia (Spain)

Authors:

Ana M. MORAGUES-FAUS* and Dionisio ORTIZ-MIRANDA

Department of Economics and Social Sciences

Universitat Politècnica de València

Camino de Vera s/n 46022 Valencia (SPAIN)

*Corresponding author: Tel: +34 963877000 (Ext. 74708); Fax +34 963879803.

E-mail address: anmofau@doctor.upv.es

Ana M. MORAGUES-FAUS is Agricultural Engineer and PhD candidate.

Dionisio ORTIZ-MIRANDA is Associate Professor of Agricultural Economics.

Title: Governing cooperative quality schemes: some lessons from olive oil initiatives in the Region of Valencia (Spain)

Abstract

This paper unfolds the development, functioning and governance of olive oil quality schemes in the domain of three cooperative organisations. Two questions are addressed: (i) how the construction of new quality schemes by cooperatives can lead to the fragmentation of the membership base and thus the need for new institutional arrangements, and (ii) how the development of these quality schemes alters the interdependence between parties (the cooperative organization and its members), and how this is governed. The comparative analysis shows the relevance of the social and cultural context in shaping the mechanisms of governance, as well as making some contributions to the EU policy debate around new food quality schemes

Keywords: food quality schemes, EU agricultural policy, smallholder farming, olive oil, agricultural cooperatives, institutional economics.

Introduction

Recent changes in food markets are generally associated to the 'turn to quality' of consumers and producers. As Goodman (2003) describes it "... a movement from the 'industrial world', with its heavily standardized quality conventions and logic of mass commodity production, to the 'domestic world', where quality conventions embedded in trust, tradition and place support more differentiated, localized and 'ecological' products and forms of economic organization". The changes

in consumers and producers concerns about 'quality' imply new practices in food production and commercialization schemes.

In addition, the reinforcement of quality schemes has become recently a mainstay of EU policy to support semi-subsistence farming. Furthermore, it is acknowledged the vital role of these schemes in several European regions in providing diverse environmental and other non-trade benefits (Davidova et al., 2010). In this sense, in a recent conferenceⁱ, the European Commissioner of Agriculture announced the proposal of new quality schemes directly oriented towards this type of agriculture ('mountain agricultural product' and 'produced on my farm' quality labels), as well as other suggestions to support local and regional marketing initiatives for their food products.

However, the assessment of several quality schemes (e.g. geographical indications, traditional specialties) point out the failure to adapt to very small-scale producers, since they are burdensome in terms of application, necessitate costly controls, and require adherence to a specification (European Commission, 2010c). Regarding organic production, a recent EU study (European Commission, 2010b) also found out that organic farms were larger than conventional, which suggests that large holdings have advantages to adopt this scheme. According to the European Commission (EC), this situation holds an important contradiction, since "small-scale producers are often associated with artisanal product, traditional methods and local marketing" (European Commission, 2010a).

Consequently, the EC suggests that further study and analysis is needed in order to assess the "problems faced by small-scale producers in participating in Union quality schemes" (European Commission, 2010a), specially when new schemes (which could include a label for high-nature value areas (European Commission 2008) are under discussion. In this sense, it is widely acknowledged the potential role that producer organizations (e.g. cooperatives) may perform in facilitating the participation of small-holder farmers.

The very concept of quality is the outcome of a process of institutionalisation. Quality is not inherent to the product, “is indeed a social construction and thus dependent on the socio-cultural, political and economic contexts within which production–consumption relations exist” (Ilbery and Kneafsey, 2000). Quality is negotiated as well, therefore is not only context-specific but also reflects different modes of governance and thus different distributions of power in the particular food chain (Sonnino and Marsden, 2006). Additionally, food quality is in many instances linked to a concrete territorial context, i.e. there are territorial elements (identity, traditional practices, environmental conditions, etc.) that are incorporated to the product as credence attributes. In this process, actors play a key role in setting up the way those territorial attributes are valorised.

In short, the construction and development of quality are inherently linked to the design of institutional arrangements, which have to deal with the need of governing the growing interdependence among participants, and which will be subjected to power relations and contending interests.

This is precisely the focus of this paper, which aims to unfold the development, functioning and governance of olive oil quality schemes in the domain of cooperative organisations. In this regard, two questions are addressed: (i) how the construction of new quality schemes by cooperatives can lead to the fragmentation of the membership base, so that new institutional arrangements are needed to accommodate a growing diversity of interests, and (ii) how the development of these quality schemes alters the interdependence between parties (the cooperative organization and its members), and how this is governed.

For those purposes, we will utilise the conceptual tools provided by the New Institutional Economics (from now on NIE), which has demonstrated its utility for undertaking the functioning of several types of institutional arrangements in the agri-food domain, not only at the sectoral level (e.g. Ménard 1996), but also for the analysis of farmers’ alternative food chains linked to the development of quality schemes (e.g. Verhaegen and Van Huylenbroeck, 2001). In this regard, institutional

arrangements do not emerge in a social vacuum; rather our results will show how distinct territorial contexts also condition and constraint the mechanisms of governance.

Furthermore, olive oil constitutes a good example for the purpose of the paper for three main reasons: (i) production is dominated in Spain by cooperative organizations (70% of production), which in addition play an outstanding role on rural development (Fardiño et al., 2006); (ii) the sector is involved in a generalized effort to qualify oil productions (see Sanz Cañada and Macías Vázquez, 2005), supported by the recognition of the nutritional properties of the so-called “Mediterranean diet”, within which olive oil constitutes the main source of fats (Martínez-Carrasco et al., 2004), and (iii) because olive groves are a very frequent crop in many Mediterranean mountain and semi-mountain rural areas, where despite its marginal feature (low yields, too small and fragmented holdings, terrace landscape, part-time or retirement farming) continues playing an outstanding role in shaping traditional landscapes, as well as providing several environmental services (see Cooper et al., 2009: 49-51).

Precisely, the county selected for this work (Alto Palancia, in the Region of Valencia, see Figure 1) illustrates this combination of characteristics. The county, where the three case studies are from, is made up of 27 municipalities, having 25.367 dwellers with a population density of 26 inhabitants / km², though internal differences among municipalities exist depending on their distance to the recently constructed highway which has become a driver of a certain process of demographic revival.

Within this area, three cases –corresponding to the three biggest cooperatives of the area, as well as to some of the most dynamic ones- have been selected: (1) the “Cooperativa Oleícola Alto Palancia” from Altura (cited as Altura from now on), (2) the “Cooperativa de Viver” (Viver from now on), and (3) the “Cooperativa Agraria de Vall de Almonacid” (Vall d’Almonacid from now on).

As it will be shown, these schemes are about incipient initiatives: recently created, in relatively small cooperatives and with few (by the time being) farmers involved. Nevertheless, they constitute a relevant issue, since these small cooperatives play an outstanding role in sustaining this marginal

agriculture, and the understanding of the initial functioning of these initiatives can shed light on their future development.

The research has been carried out through recorded and transcribed semi-structured interviews to tackle the several approaches of the analysed topic. Interviewees were: (i) members of the board of directors of the cooperatives, (ii) technical staff, and (iii) members of the cooperative (who were selected in order to cover the distinct situations presented in section 3). Interviews (15 altogether) were conducted between October and December 2009.

The document is structured as follows. Next section introduces useful theoretical elements from NIE for the understanding of these quality schemes. Later, the empirical analysis is divided in two parts: first, the three cooperatives' initiatives are presented, paying special attention to the way the new quality schemes alter the internal structure of cooperatives; second, it is analysed how quality schemes differently affect the relations of interdependence between farmers and the cooperative, and how this is governed in each case. The paper finishes with some concluding remarks.

Food quality, interdependence and cooperatives

Quality, interdependence, and governance

The collective construction of quality is a process that increases interdependence among participants (producers, organisations, consumers, administrations). This is especially relevant on the supply side, i.e. among producers, processors, and sellers, namely because their involvement in such a collective goal leads to a process of asset specification (that can take diverse forms) which creates new needs of coordination and monitoring among transacting parties. NIE classifies asset specification as (Joskow, 2005; Verhaegen and Van Huylenbroeck, 2002):

- Site specificity, that means that there are requirements that make necessary (or at least favourable) for the parties to be in close proximity or to be located in the same region.
- Physical asset specificity, when one or more parties make investments (e.g. machinery, equipment) that involve certain characteristics that are specific for a given transaction, so that their use in alternative purposes results in lower productivity.
- Human asset specificity, the transaction requires a high level of on-the-job learning (or learning-by-doing), so that resorting to the labour market can result in a drop of productivity.
- Dedicated assets, i.e. general investments made by a party for the prospect of maintaining a transaction with another specific party, so that if the transaction does not take place, it can result in an excess of production capacity for the former.
- Intangible assets, as can be the investments made to advertise a quality label of a processed product, which requires access to specific raw materials (e.g. obtained under certain conditions) produced by others.

Other authors include an additional type: *temporal specificity*ⁱⁱ, which means that transactions must be carried out within a limited period of time in order to avoid a loss of value.

As Ménard and Valceschini (2005) indicate, the selection of a certain mode of governance will depend on the Transaction Costs (TC) associated to the possible alternatives, and TC will depend upon the frequency of transactions, the uncertainty surrounding them, and the level of specificity of the assets that are transacted. Thus, assuming the frequency of transactions to be constant (yearly in the case of many agricultural products), as higher the uncertainty and assets' specificity, stronger the incentives to increase coordination among parties, who will select along the market – hierarchy continuum. In this sense, several hybrid modes of governance emerge as possible (Ménard, 2004). However, it is also necessary to retain that the selection of the mode of governance does not

neutralise necessarily the frictions, since “*competition persists among partners to hybrid arrangements*” (Ménard and Valceschini, 2005: 242).

This standard approach from NIE treats specificity as an ‘input’ or explicative variable of the selection of the governance structure. Nevertheless, other authors suggest an inverse interpretation. Hence, coordination could be also understood as the process that –aiming for instance to construct quality differentiation- generates specificity, which becomes in this way the ‘output’ of the governance structure (see Colletis-Wahl and Pecqueur, 2001). Our view is that this alternative reading is valid in ‘chronological’ terms, but maybe not in casual-effect terms. Coordinating parties pursuing to construct quality differentiation know that asset specification will arise as an unavoidable consequence, so that they design the coordination mechanism needed to govern the new interdependence that specificity will create among them.

In short, NIE provides a useful toolkit for this research, as it allows identifying the factors -and their attributes- leading to a growing interdependence among parties. However, it is necessary to avoid an excessively deterministic interpretation, i.e. a certain combination of factors necessarily will always lead to a certain mode of governance. Rather, our comparative analysis will focus on how resulting institutional arrangements are local specific, as they are ‘rooted’ in a certain social and cultural environment, which can shape the socially acceptable alternatives.

Agricultural cooperatives as hybrid forms of governance

Tensions and interests collide at the heart of agricultural cooperatives. Cooperatives are one of the hybrid forms of governance that can respond to the TC saving necessity (Ménard, 2004). In this regard, cooperatives also allow several organisational alternatives, where different degrees of coordination and integration are possible. The point is that different levels of coordination are not only possible *among* cooperatives, but also *within* a unique cooperative. Indeed, cooperatives can

embrace different governance modes, e.g. different sub-groups of farmers producing different products subjected to different arrangements within the same cooperative. Then, a cooperative of 'variable geometry' emerges, so that frictions, that will need to be also governed, can arise among the different and partially overlapping 'geometries'.

Cooperative organisations, and namely agricultural cooperatives, have also received attention in the domain of institutional economics, and not only to explain through a transaction cost saving analysis which are the advantages of the cooperative form. Other institutional approaches (property rights theory and agency theory) have identified some (at least in theory) problems for their performance. Borgen (2004) classifies incentive problems in cooperatives as: (i) investment-related incentive problems, which would affect negatively the investment capacity of the cooperative, and (ii) decision-related incentive problems, which deal with both asymmetric information between associates and hired managerial staff, and potentially diverging interests not only between associates and staff, but even among different sub-groups of associates.

However, it has been also argued that, in the case of agricultural cooperatives, several factors concur to lessen these problems. First, theorisation about investment-related problems forget that members of agricultural cooperatives "*are –de facto- users rather than investors*" (Borgen, 2004: 389), so no comparison can be made with strictly Investor Oriented Firms. Second, decision-related problems obviate the role of identification-based trust –i.e. when "*the trustor fully internalize the preferences of the other party, and identify with him on that ground*" (Borgen, 2001: 215)- in mitigating the risks of asymmetric information. Moreover, the literature depicts other factors that contribute to reduce the incidence of those theoretical problems: the homogeneity of the member body, the contingency between members' and cooperative's goal, the degree of members' involvement with their cooperative, and the sense of belonging to the cooperative (Borgen, 2004); the fact that producers are directly involved in the governance of these producer-oriented organisations (Sykuta and Cook, 2001), and cooperative internal social capital (Valentinov, 2004).

Nevertheless, this literature also alerts about factors that can activate those problems, like the growth of the cooperative body -that can erosion the sense of belonging and trust and complicate the processes of collective decision making (Borgen, 2001; Valentinov, 2004), or the diversification of cooperative's strategies with the introduction of new activities (rural tourism, energy generation) where farmers (and not necessarily all the farmers) are not users, but mere investors, and increases member heterogeneity (Ortiz-Miranda et al., 2010).

Finally, other authors claim against a simplistic and uni-dimensional theorisation of cooperation. In this regard, Mooney (2004) puts forward the need of a new theorisation of agricultural cooperation, which considers not only its economic function, but also its social roots. Furthermore, Mooney suggests focusing directly the tensions existing within cooperatives and to tackling them as "*a positive force in their development, an advantage rather than a liability*" (2004: 79).

New tensions stemming from changes in cooperatives (new products, processes, strategies) challenge the capacity of these organisations to adapt, to create new and flexible institutional arrangements to mediate those frictions. And this capacity will be conditioned precisely by the social roots of cooperatives.

Constructing olive oil quality in Alto Palancia

Development and differentiation of quality schemes

The characteristics of both the study area –with a tradition as second home and day-trip tourism destination area- and the farmers –many of them pluri-active commuters that maintain several personal networks in the urban areas where they work- have been traditionally favourable for the existence of several forms of direct selling, which has served to sustain olive production in the area.

The three cooperatives have recently embarked upon the creation and development of new quality schemes in order to relaunch oil marketing through new channels, as well as a way to overcome the decline of farming in the area. Nevertheless, the nature of these schemes and the internal mechanisms through which are governed present several differences.

Altura is the only consortium of cooperatives in Alto Palancia, drawing together several cooperatives some of which are even from outside of the county. Therefore, this cooperative is the larger one in terms of number of associates (1,500) and milling capacity (4 million kg where milled in 2008). Besides conventionalⁱⁱⁱ oil, which constitutes the main production and labelled from 2009 as Protected Designation of Origin “*Aceite de oliva de la Comunitat Valenciana*”, the cooperative is also producing **organic oil** (around 20,000 litres, organic and PDO labelled). Organic conversion was initially promoted by the cooperative among its members. In parallel, a new specific processing line differentiated from the conventional one was opened into the cooperative - a necessary requisite to be awarded the official organic certification. In spite of being granted a financial aid from the Local Action Group, the new line meant an important financial effort for the cooperative, as well as additional operational costs. In this regards, the staff of the cooperative of Altura acknowledges a certain informational gap between the cooperative and most associates regarding the real cost the cooperative bears for producing organic oil (specially the transaction costs associated to the official certification of the organic oil and the amortization of the investment). Then, asymmetrical information is managed here as a way to lessen potential tensions with non-organic farmers.

However, the campaign to convince farmers to become organic did not achieve many participants, being the low profitability the main constraint. At present, according to the staff, the cooperative is interested on organic oil production mainly because it grants a ‘quality label’ to the *own cooperative* (to produce organic), rather than because of the profitability of oil (as the amount produced is very little and it is mostly withdrawn by the own producers for direct selling). Nevertheless, the cooperative keeps interested in increasing the number of organic olive growers.

Viver is a first grade cooperative smaller than the previous one (450 associates, 965,000 kg in 2008). Although the cooperative is also using the PDO label, it tries to differentiate its products even within the county. This is why it launched a new quality scheme (named '**oil-from-tears**') based on attributes at both farming practices and processing levels: olive must be Serrana variety, the cooperative monitors crop treatments, the olives enter in the mill before any others, and they are milled without heating and filtering of oil. The oil produced under this scheme (where at present there are only 10-15 farmers producing 2,000 litres) is differently labelled from the rest of the oil produced in Viver.

On the one hand, in the case of Viver's oil-from-tears, the participation in that scheme involves some advantages for farmers: a practical one (their olives enter the first in the cooperative which reduces climatic risks), and a social one (a sort of reputation effect).

Participation is open to all the members of the cooperative, who will be subjected to additional supervision by the technical staff so as to certify they are meeting new farming requisites. However, in practice farmers are invited by the staff, which selects participants on the basis of trust on both their "cooperative sense of belonging" and their reputation as "good farmers". Then, cooperative's decision-makers are shaping a different 'geometry' within the organization, which could potentially give rise to frictions with non-participants (those how are not invited, or who will have problems to fulfil the more demanding requirement).

The last case, **Vall de Almonacid**, is also a first grade cooperative, situated in a small village -inside the *Sierra de Espadán* Natural Park- where there are associates from all the households, which reinforces the social integration of the organisation. It is the smaller of the three cases, only 140 associates and maximum milling capacity of 800,000 kg of olives reached in 2008. Unlike the two previous examples, this cooperative opted for creating a unique product: extra virgin olive oil extracted from the **local variety Serrana de Espadán**, and coming only from farms located inside the boundaries of the **Natural Park**. That means that all the farmers are obliged –by the articles of

association- to fulfil these requirements, as well as to leave almost all their production for cooperative's retailing (farmers are allowed to withdraw oil only for self-consumption). In addition, since 2009 the cooperative is using the PDO label.

Quality schemes, interdependence and mechanisms of governance

As indicated in Section 2, the creation of quality schemes (and the consequent asset's specification) is the outcome of a process of coordination. This section deals with the elements that conflate to induce alternative mechanisms of governance, and how are they tackled by cooperatives in the study area.

Specificity is inherent for many agricultural raw materials. Farmers are affected by *temporal specificity*. Olive is a perishable product that must be processed into a relatively short period of time in order to avoid deterioration and value reduction. Contrariwise, there is no *site specificity* for growers not involved in quality schemes, since the own county provides farmers several alternatives to take their production –cooperatives mill farmers olives without requiring membership^{iv}.

However, quality schemes do induce other types of specificity^v (see Table 1).

- Altura's **organic** farmers have no other nearby cooperative having a specific processing line for their production, so –as there are certain unrecoverable costs during the process of conversion- they are subjected to *physical specificity*. On the cooperative's side, there is no physical specificity, since the processing line can perfectly be used for conventional oil production. However, there is *dedicated asset specificity*, since the line was explicitly opened for organic oil, so, without organic olives the cooperative's capacity of processing would become oversized. Consequently there is a high mutual interdependence between parties.

- There is also *physical specificity* for Viver's **oil-from-tears** producers, since they must introduce changes in farming practices that result in lower yields that are expected to be compensated by a price premium or other management advantages (see above). In addition, the fact that monovariety olive production reaches a higher value when labelled as monovariety adds physical specificity to farmers' assets (olive plantations). Contrariwise to Altura, in Viver there is not *dedicated asset specificity* on the cooperative's side (no additional investments were made in the processing line to increase its production capacity). Nevertheless, *intangible specificity* exists in this case, since the cooperative cannot realize the highest returns of the effort to spread the label without maintaining a sufficient number of farmers producing under certain norms. Hence, the mutual interdependence between both parties is lower than that of Altura: farmers are not obliged to bear the opportunity costs of the two-year-period of organic conversion (so for them there are not sunk costs from one year to the next since it is relatively easy to revert to previous farming), and the cooperative can resort to other farmers to increase participation in the case of failure of those currently participating.
- Vall d'Almonocid's **oil from the Natural Park** holds some similarities with the previous case. On farmers' side *physical specificity* of monovariety plantations combine with *site specificity* (since farmers are being settled more when transacting with the local cooperative that is labelling the oil as belonging to the Natural Park). *Site specificity* also affects cooperative's position (it requires olives from within the perimeter of the Park), that in addition with *intangible specificity* (regarding the effort invested on building a recognisable reputation of the oil), stresses its dependence upon its associates. As in the first case, there is a high mutual interdependence, though it is even more intense on the side of the cooperative, which can not resort to other farmers outside the park.

Besides these (sometimes) unequal balances of interdependence, cooperatives have to deal with a situation of asymmetrical information regarding whether farming practices fit the requirements of the different quality schemes. Thus, unlike the traditional approach of agency theory to cooperative organisations -where the farmer (principal) has to supervise the cooperative staff (agent), in this situation it is the cooperative which must introduce institutional arrangements and incur in additional costs to supervise farming practices carried out by its members. In this regard, the selection of the mechanisms of governance is expected to be affected by the level of TC, but it can be only explained when integrating the role of social and cultural factors.

The cooperative of **Altura** does not incur in additional costs to monitor organic farming practices (though farmers have to pay a fee to be certified by the regional organic agency). On the one hand, organic farmers are externally supervised by the organic certification agency, so the cooperative does not need to do this directly. On the other hand, there is no other near cooperative to process organic oil, so farmers' potential opportunistic behaviour is discouraged because, if found out and not accepted anymore, the rise of transportation costs to other cooperative would be prohibitive.

In the other two cases the circumstances are different since the schemes they are launching are not official (both oil-from-tears and monovariety olive oil from the Natural Park are not public regulated labels). Thus, for the development of the oil-from-tears, **Viver** is resorting to an informal and trust-based governance (farmers are invited, not obliged to participate), and liabilities and rights are informally agreed. The knowledge the cooperative has about associates, jointly with the fact that production is assured by trust mechanisms (which attenuates the risk of opportunism), makes possible resorting to informal agreements, and reduces the cost of monitoring practices. The point is whether this trust will be eroded as the number of participants will rise.

Finally, in the case of **Vall d'Almonacid** governance is more demanding and complete. The control of the 'uniqueness' of the oil (from a unique variety) is exercised technically by the cooperative (by proofing the variety before milling it), and socially by the mutual monitoring of associates (who care

about what type of varieties are being planted, what type of trees new associates have and where are located their holdings), reducing notably in this way TC borne by the cooperative. This reduction of costs allows the cooperative to pay more to farmers. In short, the deep social embeddedness of the cooperative, as well as the dwellers' perception about this exclusivity that differences them from the rest of the county (i.e. the cohesive role of a shared identity) put these mechanisms of governance within the cooperative's reach. This fact is also supported by the lack of fragmentation of the membership base, which attenuates frictions among diverging interests.

Concluding remarks

The development of new quality schemes by agricultural cooperatives requires the shaping of new institutional arrangements to govern the potential sources of internal tensions stemmed from a growing differentiation within the membership body (those farmers who participate and those who do not). In addition, new arrangements are needed to face the new interdependence between the cooperative and the farmers who are involved in such schemes.

Quality schemes are more challenging when they are not based on a public certificate, since they are expected to imply higher TC; there are not third certificating parties assuming monitoring costs, and because norms and standards must be designed and negotiated internally. This is precisely the case of two of the schemes analysed in this paper (Viver and Vall D'Almonacid), which have shown how social linkages facilitate the design and functioning of governance mechanisms. Indeed, the TC of coordination and monitoring are lower in a context of mutual knowledge and trust, as demonstrated by the development of the oil-from-tears scheme, where the cooperative of Viver relies upon the compromise of selected participants (selection facilitated by the previous knowledge). In addition, the sense of belonging to the collective organization has meant the cession of power to the cooperative (as well as of the pre-existing personal selling networks which increases their dependence) in order to support the initiative of Vall d'Almonacid. Also in this case, the capacity for

mutual monitoring among associates and the social control exerted by associates to fulfil the 'norms' has made possible the successful management of this scheme.

It is not to say that these processes are safe from internal tensions and conflicts that need a continuous institutional adaptation of cooperative organisations. However, Mooney (2004) maintains that tensions can constitute a very source of "*strength, innovation, and flexibility*" (page 81). Cooperatives are looking for creative solutions to maintain an otherwise declining agriculture that can result in the fragmentation of their social base. These new activities demand culturally and socially acceptable mechanisms not only to consolidate these new ventures, but also to reinforce social bonds, trust and sense of belonging which allow reduce TC and to contribute to the reproduction, consolidation and cohesion of cooperatives in their territorial fabric as a key rural development actor.

Finally, the comparative analysis carried out allows to extract some conclusions regarding quality policy and its use to support smallholder farming. Altura's organic scheme, in spite of being official, is being less successful than the other two (Viver and Vall d'Almonacid) that opted to local and informal schemes (where TC are expected to be higher). Actually, staff of Altura's cooperative asserts that the scheme's direct costs (membership fees, third-party inspection and certification) explain a part of farmers' reluctance to adopt organic production, rather than the cost of the period of conversion¹. This situation raises doubts about the performance of new EU's additional and generic quality schemes (e.g. mountain or high-value area labels), since, at least in this research, the most successful ones by the time being are those that are non-official and that are performing under the basis of trust and social integration. In these two cases, the success also relies on their integration in local and regional marketing channels. Therefore, we could conclude that, in order to contribute to the maintenance of this sort of marginal agriculture, policy interventions should consider the support of

¹ Actually, some farmers who had adopted initially the organic scheme decided later to give up not to face the TC of the scheme's functioning.

these type of marketing strategies (short food supply chains), rather than in the creation of additional (and perhaps costly) food quality schemes.

In any case, new quality schemes should be as flexible as possible to allow territorial adaptation, as well as to promote innovation (as shown by the two innovative informal schemes tacked in this paper). On the contrary, external regulatory and non-locally adaptable schemes could result in a discouragement of territorial innovation and local actors' involvement.

References

Borgen, S.O. (2001) 'Identification as a Trust-Generating Mechanism in Cooperatives', *Annals of Public and Cooperative Economics*, Vol 72, pp 209-228.

Borgen, S.O. (2004) 'Rethinking incentive problems in cooperative organizations', *Journal of Socio-Economics*, Vol 33, pp 383-393.

Colletis-Wahl, K. and Pecqueur, B. (2001) 'Territories, Development and Specific Resources: What Analytical Framework?', *Regional Studies*, Vol 35, pp 449-459.

Cooper, T., Hart, K. and Baldock, D. (2009) *The Provision of Public Goods Through Agriculture in the European Union, Report Prepared for DG Agriculture and Rural Development*, Institute for European Environmental Policy, London.

Davidova, S., Gorton, M. and Fredriksson, L. (2010) Semi-subsistence farming in Europe: Concepts and key issues. Background paper prepared for the seminar "Semi-subsistence farming in the EU: Current situation and future prospects", Sibiu, Romania, 21–23 April 2010, European Network for Rural Development.

European Commission (2008) Green Paper on agricultural product quality: product standards, farming requirements and quality schemes, COM(2008) 641 final, Brussels.

European Commission (2010a) Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No 1234/2007 as regards marketing standards, COM(2010) 738 final, Brussels.

European Commission (2010b) An analysis of the EU organic sector, Directorate-General for Agriculture and Rural Development, Brussels.

European Commission (2010c) Proposal for a Regulation of the European Parliament and of the Council on agricultural product quality schemes, COM(2010) 733 final, Brussels.

Ilbery, B. and Kneafsey, M. (2000) 'Producer constructions of quality in regional speciality food production: a case study from south west England', *Journal of Rural Studies*, Vol 16, pp 217-230.

Fardiño, M., Alvarez, C.J., Ramos, R. and Marey, M.F. (2006) 'Agricultural cooperatives as transforming agents in rural development. The case of Galicia', *Outlook on Agriculture*, Vol 35, Num3, pp 191-197.

Joskow, P.L. (2005) 'Vertical integration', in Ménard, C. and Shirley, M.M. (Eds.) *Handbook of New Institutional Economics*, Springer, Dordrecht, The Netherlands, pp 319-348.

Martínez-Carrasco, L., Brugarolas, M. and Martínez-Poveda, A. (2004) 'Análisis de las tendencias actuales en la alimentación de los españoles: posibilidades de difusión de la dieta mediterránea', *Revista Española de Estudios Agrosociales y Pesqueros*, Vol 201, pp 151-164.

Ménard, C. (1996) 'On Clusters, Hybrids and other Strange Forms. The Case of the French Poultry Industry', *Journal of Institutional and Theoretical Economics*, Vol 152, pp 154-183.

Ménard, C. (2004) 'The Economics of Hybrid Organizations' *Journal of Institutional and Theoretical Economics*, Vol 160, pp 345-376.

Ménard, C. and Valceschini, E. (2005) 'New institutions for governing the agri-food industry', *European Review of Agricultural Economics*, Vol 32, pp 421-440.

Mooney, P.H. (2004) 'Democratizing Rural Economy: Institutional Friction, Sustainable Struggle and the Cooperative Movement', *Rural Sociology*, Vol 69, pp 76-98.

Ortiz-Miranda, D., Moreno-Pérez, O.M. and Moragues-Faus, A.M. (2010) 'Innovative strategies of agricultural cooperatives in the framework of the new rural development paradigms: the case of the Region of Valencia (Spain)', *Environment and Planning A*, Vol 42, pp 661-677.

Sanz Cañada, J. and Macías Vázquez, A. (2005) 'Quality certification, institutions and innovation in local agro-food systems: Protected designations of origin of olive oil in Spain', *Journal of Rural Studies*, Vol 21, pp 475-486.

Sonnino, R. and Marsden, T. (2006) 'Beyond the divide: rethinking relationships between alternative and conventional food networks in Europe', *Journal of Economic Geography*, Vol 6, pp 181-199.

Sykuta, M.E. and Cook, M.L. (2001) 'Cooperative and Membership Commitment: A New Institutional Economics Approach to Contracts and Cooperatives', *American Journal of Agricultural Economics*, Vol 83, pp 1273-1279.

Valentinov, V. (2004) 'Toward a social capital theory of cooperative organisation', *Journal of Cooperative Studies*, Vol 37, pp 5-20.

Verhaegen, I. and Van Huylenbroeck, G. (2001) 'Costs and benefits for farmers participating in innovative marketing channels for quality food products', *Journal of Rural Studies*, Vol 17, pp 443-456.

Figure 1: Localisation of the three selected municipalities of the Alto Palancia County.

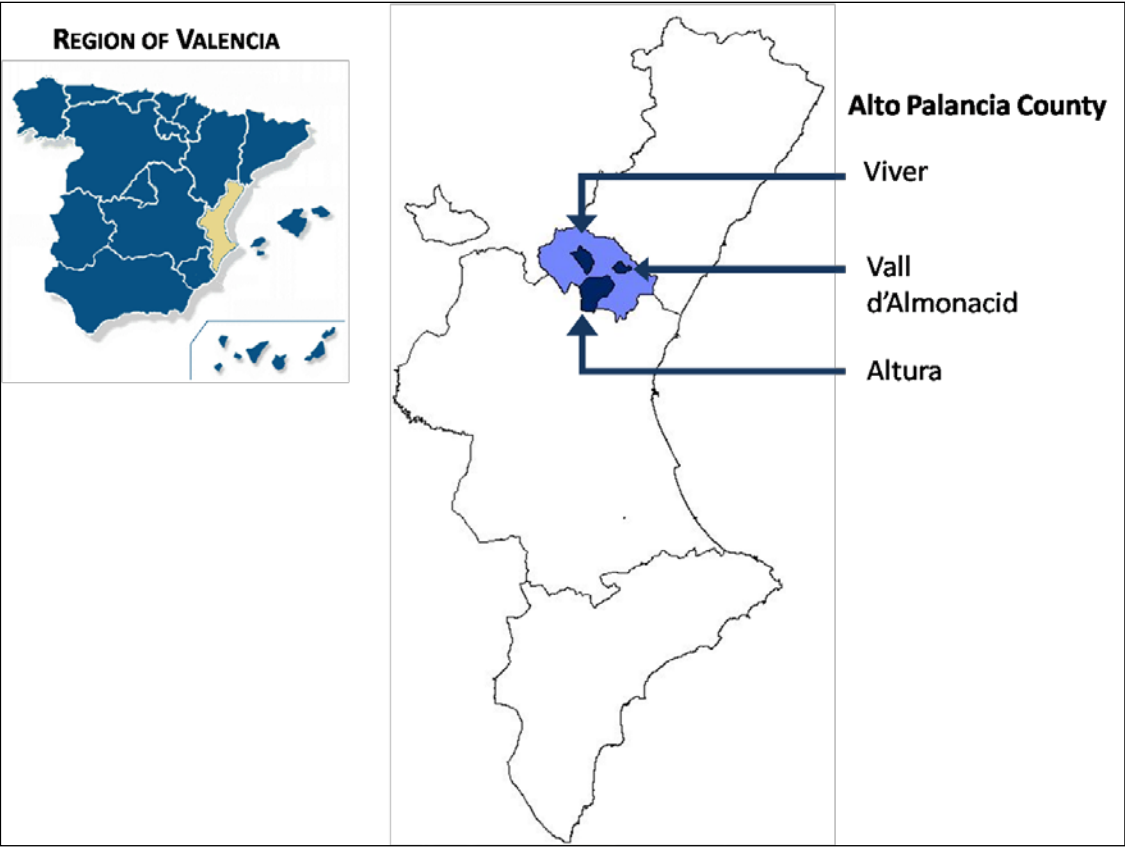


Table 1: Interdependence attributes of quality schemes

Quality scheme (cooperative)	Asset specificity on the side of cooperatives	Asset specificity on the side of farmers
Organic (Altura)	Dedicated specificity (new line investment)	Physical specificity (organic olives)
Oil from 'tears' (Viver)	Intangible specificity (new label)	Physical specificity (variety and farming practices)
'Serrana' variety oil from the Natural Park (Vall d'Almonacid)	Intangible specificity (new label) Site specificity (park)	Physical specificity (variety) and site (park) specificity

Source: Authors' elaboration.

i Conference of the European Commissioner on Agriculture on 'Semi-subsistence farming in the EU: current situation and future prospects' (14th October 2010 at Sibiu, Romania) (Available at http://ec.europa.eu/commission_2010-2014/ciolos/headlines/speeches/2010/10/20101014_en.htm, February 2011).

ii Though other authors (e.g. the own Joskow, 2005) argue that this is merely another form of site specificity.

iii All the oil referred in this paper as 'conventional' is extra virgin olive oil.

iv There are 15 olive mills in the county that accept olives without requiring membership, though obviously non-members must pay an extra cost.

v The PDO "Aceite de la Comunidad Valenciana" cannot be considered at this level, as creating asset specification. The regional government decided to boost a unique label for the whole region, so that its development is not increasing mutual interdependence among parties. For instance, the investment made in Altura and Vall d'Almonacid to include the PDO reference on oil labels does not increase the dependency to certain farmers. In addition, production norms at both field and processing levels fit what farmers and cooperatives are already doing in this area so no changes have been required to fulfil the new regulation.