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# Support for Farmers' Cooperatives

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## *Country Report* Lithuania

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# Support for Farmers' Cooperatives

## ***Country Report Lithuania***

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## Preface and acknowledgements

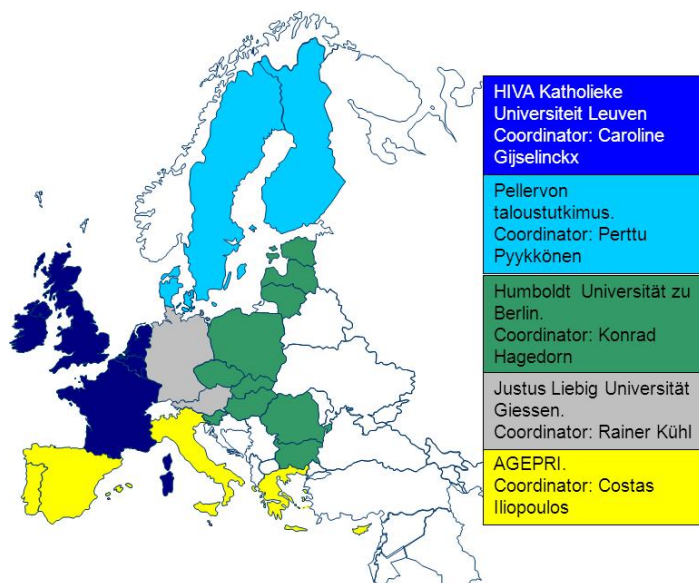
In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, “Support for Farmers’ Cooperatives (SFC)”, that will provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, and by the European Commission in its effort to encourage the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project this country report on the evolution of agricultural cooperatives in Lithuania has been written.

Data collection for this report has been done in the summer of 2011.

In addition to this report, the project has delivered 26 other country reports, 8 sector reports, 33 case studies, 6 EU synthesis reports, a report on cluster analysis, a study on the development of agricultural cooperatives in other OECD countries, and a final report.

The Country Report Lithuania is one of the country reports that have been coordinated by Konrad Hagedorn and Renate Judis, Humboldt Universität zu Berlin. The following figure shows the five regional coordinators of the “Support for Farmers’ Cooperatives” project.



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# 1 Introduction

## 1.1 Objective of the study

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, “Support for Farmers' Cooperatives”, that will provide the background knowledge that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income. In the framework of this study, this report provides the relevant knowledge from Lithuania.

In this context, the specific objectives of the project, and this country report, are the following:

First, to provide a comprehensive description of the current level of development of cooperatives and other forms of producer organisations in Lithuania. The description presented in this report will pay special attention to the following drivers and constraints for the development of cooperatives:

- Economic and fiscal incentives or disincentives and other public support measures at regional and national;
- Legal aspects, including those related to competition law and tax law;
- Historical, cultural and sociologically relevant aspects;
- The relationship between cooperatives/POs and the actors of the food chain;
- Internal governance of the cooperatives/POs.

Second, identify laws and regulations that enable or constrain cooperative development and third, to identify specific support measures and initiatives which have proved to be effective and efficient for promoting cooperatives and other forms of producer organisations in the agricultural sector in Lithuania.

## 1.2 Analytical framework

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to the management (and the agency problems that goes with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

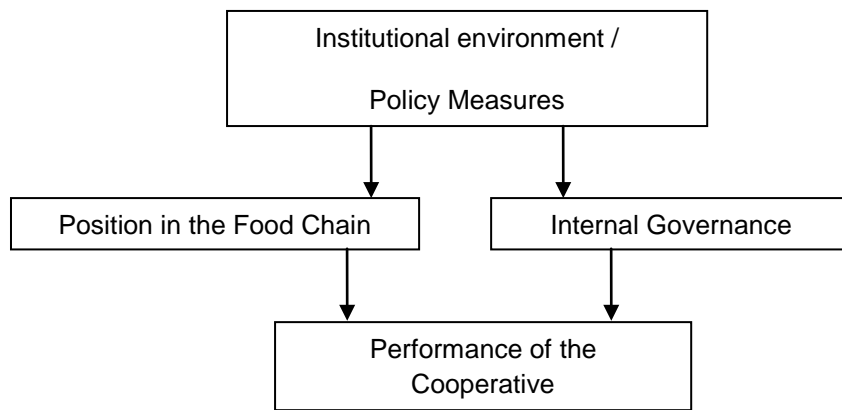


Figure 1. The core concepts of the study and their interrelatedness

### 1.3 Definition of the cooperative

In this study on cooperatives and policy measures we have used the following definition of cooperatives and Producer Organisations (POs). A cooperative/PO is an enterprise characterized by user-ownership, user-control and user-benefit:

- It is user-owned because the users of the services of the cooperative/PO also own the cooperative organisation; ownership means that the users are the main providers of the equity capital in the organisation;
- It is user-controlled because the users of the services of the cooperative/PO are also the ones that decide on the strategies and policies of the organisation;
- It is for user-benefit, because all the benefits of the cooperative are distributed to its users on the basis of their use; thus, individual benefit is in proportion to individual use.

This definition of cooperatives and POs (from now on shortened in the text as cooperatives) includes cooperatives of cooperatives and associations of producer organisation (often called federated or secondary cooperatives).

### 1.4 Method of data collection

Multiple sources of information have been used, such as databases, interviews, corporate documents, academic and trade journal articles. The databases used are Amadeus, FADN, Eurostat and a database from DG Agri on the producer organisations in the fruit and vegetable sector. Also data provided by Copa-Cogeca has been used. In addition, information on individual cooperatives has been collected by studying annual reports, other corporate publications and websites. Interviews have been conducted with representatives of national associations of cooperatives, managers and board members of individual cooperatives, and academic or professional experts on cooperatives.

### 1.5 Period under study

This report covers the period from 2000 to 2010 and presents the most up-to-date information. This refers to both the factual data that has been collected and the literature that has been reviewed.



## 2 Facts and figures on agriculture

### 2.1 Share of agriculture in the economy

A study of farmers’ cooperatives can best start at the farmers’ side, in agriculture. The share of agriculture in the Lithuanian economy continuously decreased over the last decade. It started to decrease from 1997 and in 2007 it had only 4 % of the GDP (see Figure2). In 1996 this indicator was 12 %.

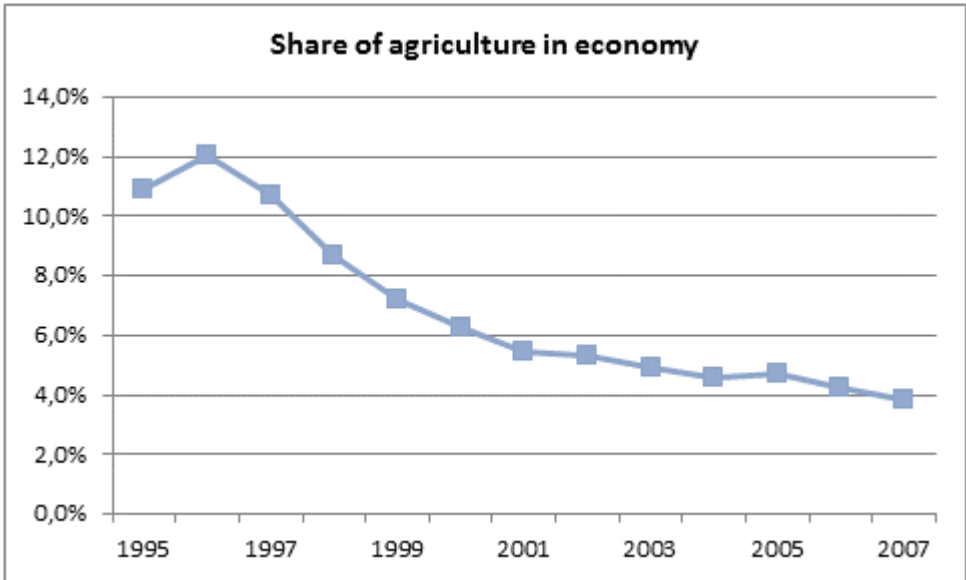


Figure2. Share of agriculture in GDP in Lithuania, percent (1995–2007). Source: Eurostat Nat. Accounts.

### 2.2 Agricultural output per sector

Within agriculture several sectors exist. The main sectors in Lithuania are cereals, dairy and pig meat. This tendency has remained unchanged from 2000 to 2011 except the cereal sector in 2007 and 2008. Figure3 provides information on output produced by the main sectors in Lithuania.

Olive oil and wine sector does not exist in Lithuania.

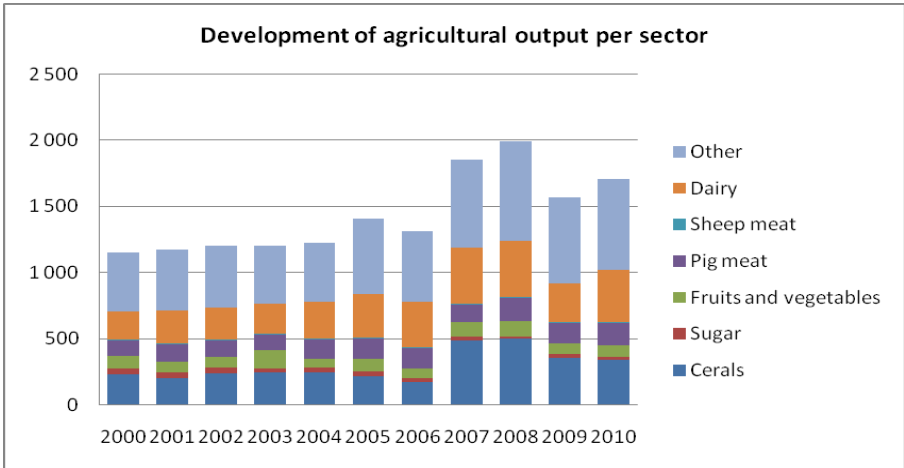


Figure3. Development of the different sectors in agriculture, value of production at producer prices, in millions of Euro. Source: Agriculture Economic Accounts, Eurostat.

In Figure4, the development in output valued at basic price is provided for the period 2001-2009, calculated on a 3-year average around 2001 and around 2009 (so 2008, 2009, 2010).

The highest growth per year was observed in the cereal sector. Other sectors (cattle, sheep and goats, milk, fruits and vegetables) also experienced positive growth. Only the sugar beet sector suffered from a decline.

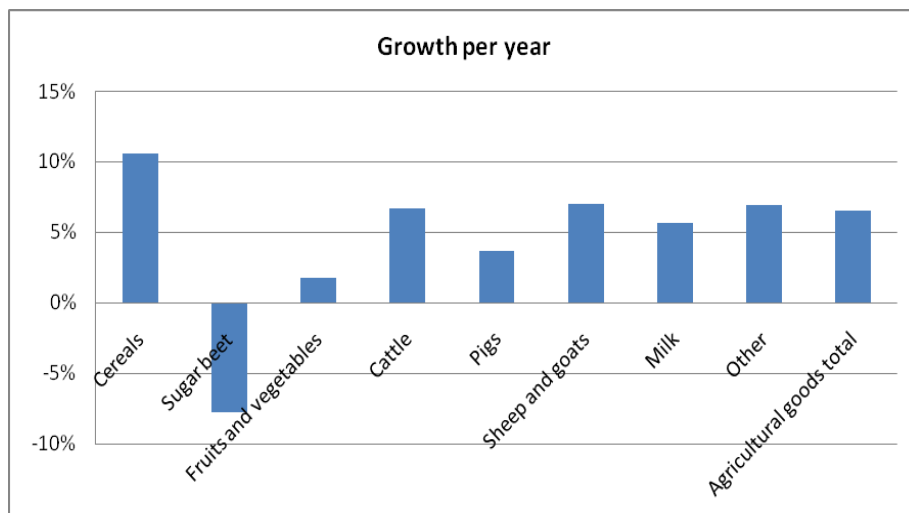


Figure4. Trend in output per sector, 2001–2009. Source: Economic Accounts of Agriculture, Eurostat.

## 2.3 Development in the number of farms

There were significant changes in the number of farms from 2003 to 2007 in Lithuania. In the sectors of sheep, goat, fruits and vegetables, cereals and dairy production, the number of farms increased in this period by 75, 48, 41 and 15 percent, respectively. The number of farms in other sectors (sugar and pig meat) decreased during the observation period by 69 and 25 percent, respectively. The number of farms in Lithuania is given in Table 1.

Olive oil and wine sector does not exist in Lithuania.

Table 1. Number of farms in Lithuania in 2003 and 2007.

| Number of farms       | 2003   | 2007   | % change in 2007-2003 |
|-----------------------|--------|--------|-----------------------|
| Cereals               | 9.990  | 17.040 | 41                    |
| Sugar                 | 44.020 | 26.080 | -69                   |
| Pig meat              | 750    | 600    | -25                   |
| Sheep meat            | 2.440  | 9.830  | 75                    |
| Fruits and vegetables | 2.480  | 4.810  | 48                    |
| Dairy                 | 27.360 | 32.330 | 15                    |

Source: Eurostat, Farm Structure Survey.

Figure 5 provides the number of farms specialised per sector for 2003, 2005 and 2007 as well as the development trends.

The largest group of Lithuanian farms belongs to the category of “others” and this situation remained almost unchanged from 2003 to 2007. Farms of that category include combined production (mixed cropping combined with mixed livestock) and production in other not mentioned sectors. In 2003 farms producing sugar were the most common from among the ones mentioned in the graph, but till 2007 the number decreased and the number of farms producing dairy products became bigger than sugar producing farms.

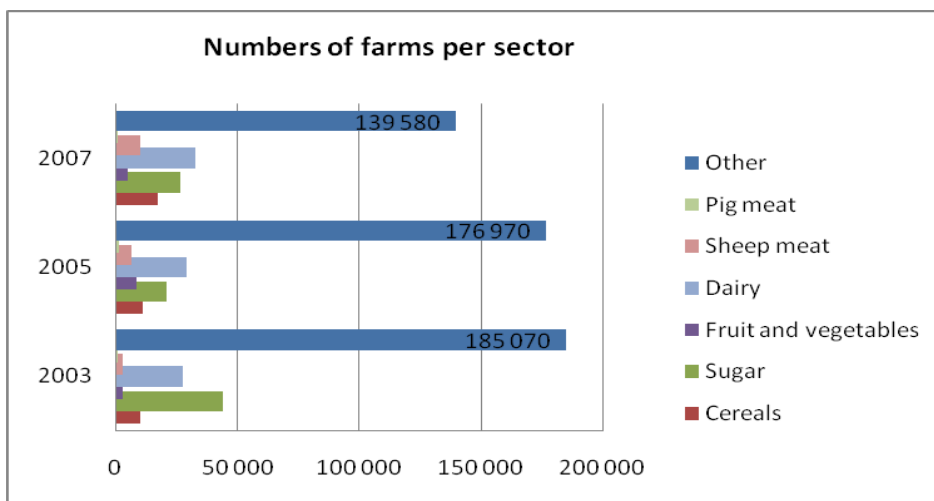


Figure 5. Number of farms 2000 - 2007 with data per specialist type of farming. Source: Eurostat, Farm Structure Survey.

## 2.4 Size of farms

Farms come in different sizes from small part-time farms to large enterprises.

Very small farms (0-1 ESU) are predominant in Lithuania. Farms of 1 ESU size are common in the sheep meat, sugar, pig meat, horticulture and fruit sectors (more than 60 percent in each case). The number of farms in the size class more than 100 ESU is biggest in pig meat sector (8.3%). The size of the farms in cereal sector varied significantly between ESU size classes (1-2 ESU – 42.4 %, 2-4 ESU – 14.2 %, 4-8 ESU – 13 %, 8-16 ESU – 10.2 %, 16-40 ESU – 8%, 40-100 ESU – 7.3 %). In the milk sector, most farms belong to size classes between 1 to 8 ESU.

Figure 6 shows the distribution of farms per size class, measured in European Size Units (ESU).

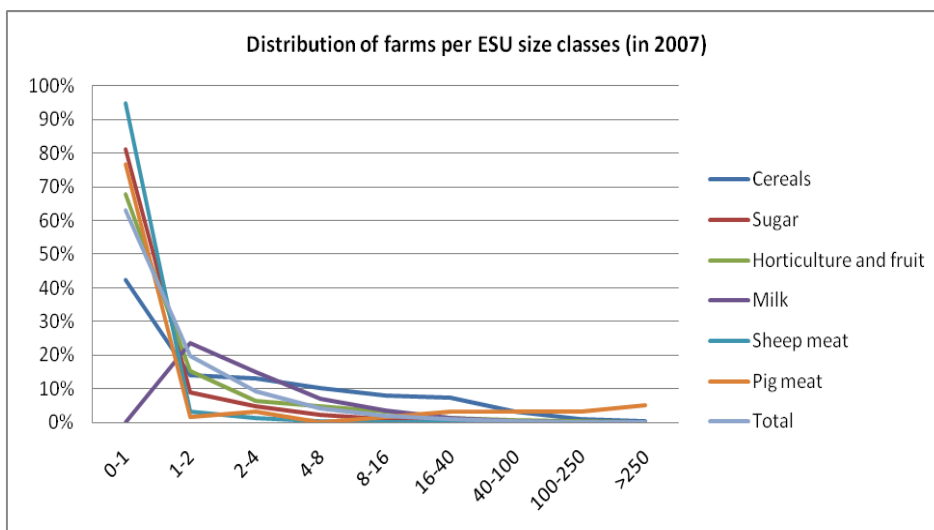


Figure 6. Number of farms per size class, measured in ESU, per specialist type of farming. Source: Eurostat, Farm Structure Survey.

### 2.5 Age of farmers: distribution of farmers to age classes

In 2007, in Lithuania nearly 40 % of the farmers were aged 65 years and elder. As shown in Figure 7, there are only 4 % of farmers that are less than 35 years old. The share of farmers at the age group between 35 and 44 years was 17 percent (Figure 7).

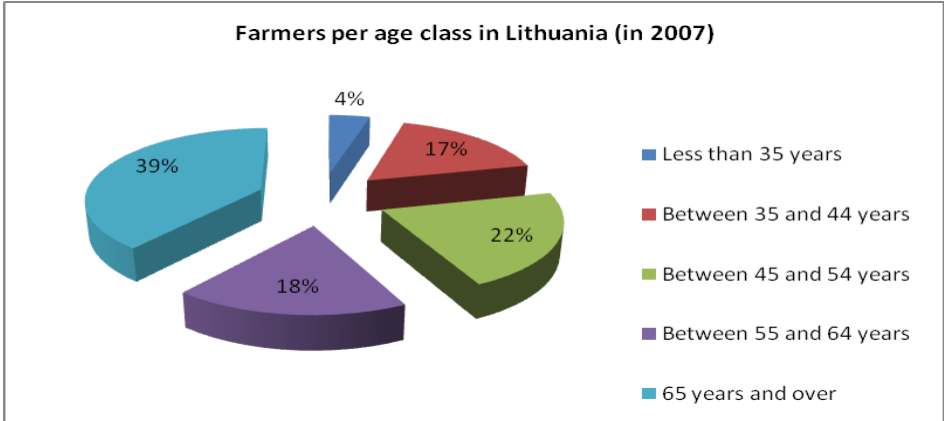


Figure 7. Percentage of farmers per age class in Lithuania in 2007. Source: Eurostat, Farm Structure Survey.

Figure 8 shows the percentage of farmers per age classes per Member State and EU-27 in 2007.

Compared with other EU member states we can see that the situation in Lithuania is very similar with most of the countries. Lithuania matches the average of the EU-27.

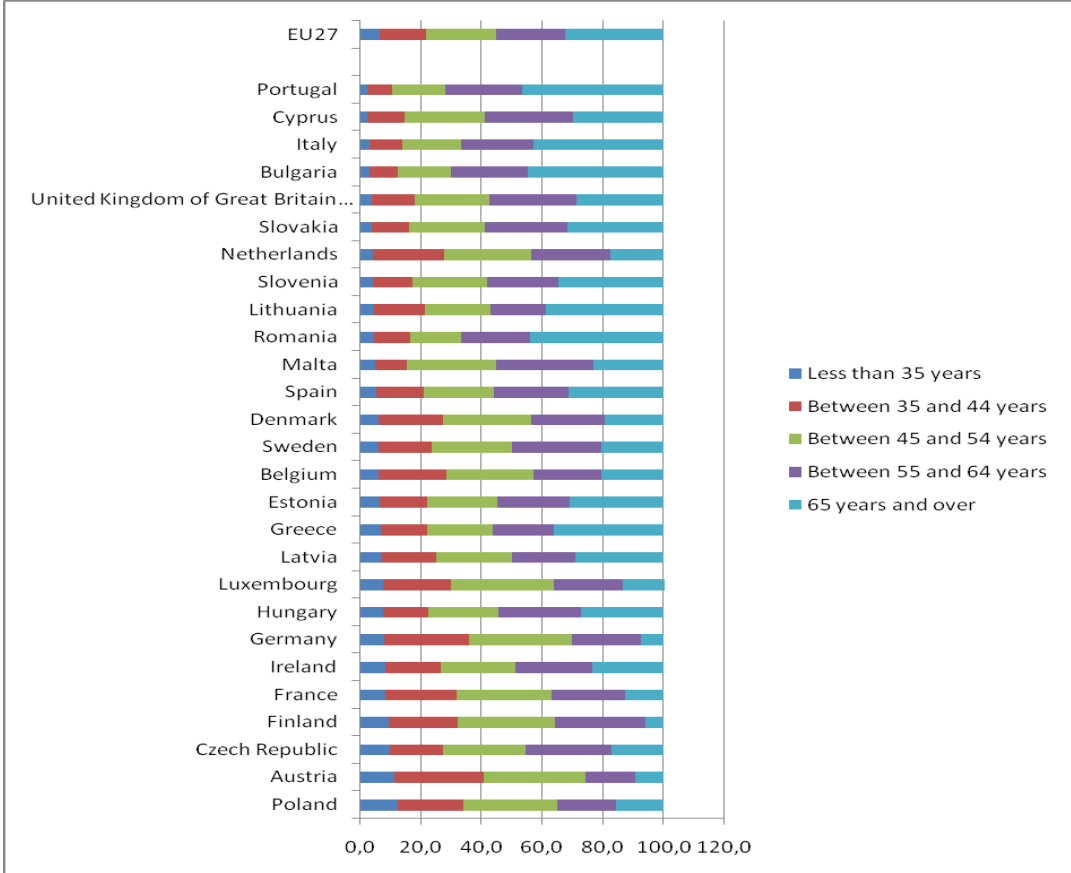


Figure 8. Percentage of farmers per age class, per Member State and EU-27 in 2007 (ranked with countries with the lowest percentage of young farmers on top). Source: Eurostat, Farm Structure Survey.

## 2.6 Specialisation of farm production

Farms have a different composition of their production and therefore of their input. This is even true for specialist farms, where e.g. some so-called specialist dairy farmers also have beef or sheep or sell hay. In addition to that, a lot of mixed (non-specialized) farms exist. The heterogeneity of farming in terms of specialisation can be estimated by calculating the share that specialized farms have in the total production. This is what Figure 9 (split in 9A for plant production and 9B for animal production) shows.

The highest specialization in crop production in Lithuania is observed in the sugar sector. This sector faced decreases in specialist farms from 71 to 50 percent in the period 2003-2007.

The number of specialist farms in the cereal sector significantly increased from 32 to 52 percent in the period 2003-2007.

Specialization in the fruit and vegetables sector in Lithuania is low (around 11 percent in the period 2003–2007). The majority of farms in Lithuania combine growing fruits and vegetables with other activities.

Figure 9A shows the heterogeneity in farm production: the share of specialist farm types in total production in 2003–2007.

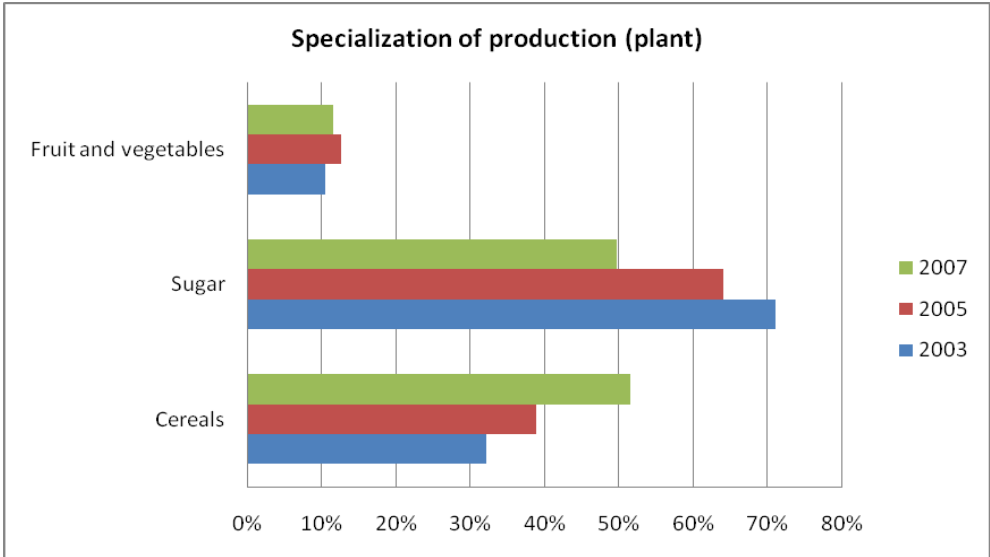


Figure 9A. Heterogeneity in farm production: the share of specialist farm types in total production. Source: Economic Accounts of Agriculture, Eurostat.

Specialization in animal production increased in all analysed sectors (pigs, sheep and cows) in the period 2003–2007.

Specialist farms in the pig sector significantly increased from 34 to 59 percent in the period 2003–2007. The sheep sector also faced significant increases in specialisation from 12 to 36 percent in this period. The share of specialised dairy farms was increasing constantly by 8 percent in each of the 2-year subperiods (from 20 to 38 percent in the overall period of 2003–2007).

Figure 9B shows heterogeneity in farm production: the share of specialist farm types in total production in 2003–2007.

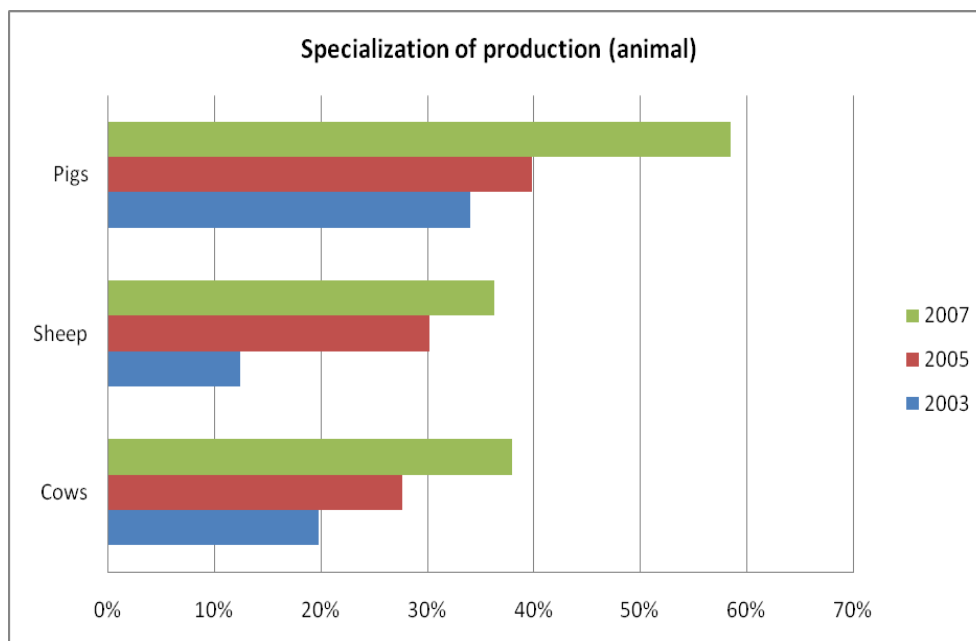


Figure 9B. Heterogeneity in farm production: the share of specialist farm types in total production. Source: Economic Accounts of Agriculture, Eurostat.

## 2.7 Economic indicators of farms

The description of agriculture is concluded with some economic indicators (see Table 2). These indicators focus on the net value added and income from farming for farmers as well as the level of their investment. Some of this investment might be in equity of the cooperatives, but for the most will be in farm assets.

Table 2. Economic indicators average per farm (2006-2008)

Economic indicators average per farm (2006-2008)

|                                       | Cereals | Sugar   | Fruit and vegetables | Dairy  | Pig meat | Sheep meat |
|---------------------------------------|---------|---------|----------------------|--------|----------|------------|
| Economic size - ESU                   | 19.60   | 15.83   | 12.01                | 6.40   | 71.90    | -          |
| Total labour input - AWU              | 1.83    | 1.94    | 2.78                 | 1.86   | 8.04     | -          |
| Total Utilised Agricultural Area (ha) | 101.2   | 62.10   | 19.6                 | 35.6   | 83.5     | -          |
| Total output €                        | 48,702  | 41,932  | 36,993               | 25,037 | 316,172  | -          |
| Farm Net Value Added €                | 29,808  | 22,793  | 24,132               | 13,658 | 80,306   | -          |
| Farm Net Income €                     | 30,725  | 20,729  | 19,922               | 14,914 | 56,453   | -          |
| Total assets €                        | 145,361 | 118,702 | 96,516               | 84,635 | 431,137  | -          |
| Net worth €                           | 109,751 | 100,102 | 86,010               | 73,211 | 267,393  | -          |
| Gross Investment €                    | 26,221  | 13,853  | 10,454               | 10,403 | 74,324   | -          |
| Net Investment €                      | 19,873  | 8,557   | 5,885                | 7,308  | 53,466   | -          |
| Total subsidies - excl. on investm. € | 16,862  | 9,934   | 4,117                | 5,817  | 13,851   | -          |
| Farms represented                     | 7,380   | 2,560   | 853                  | 8,737  | 197      | 427        |

Source: DG Agri, FADN.

The highest Economic size of average farm is in cereal sector (19.6 ESU), the lowest – in dairy sector (6.4 ESU). The average labour input per farm in Lithuania is rather small with approximately 2 AWU in the farm. Only in the pig meat sector the size of farms and labour input is higher (about 8 AWU). Farm size per utilized agricultural area varies significantly by the

sector. The cereal, sugar and pig meat sectors average the highest areas with 100 ha, 62 ha and 83.5 ha, respectively. The total output per farm differs significantly in all sectors of crop production. The total output in the dairy sector per farm is 49 % lower as compared with the total output in the cereal sector. There are only very insignificant differences in the total Net Value Added per farm in all sectors of crop production. In the period 2006–2008, the Net Value Added per farm in the crop sector was approximately 24,000 €. The highest Family Farm Income in the observation period was in the pig meat sector (56,000€). The value of total assets, net worth, gross and net investments as well as subsidies per farm have been highest in the small pig sector, followed by the cereal sector, the sugar sector ranked third best followed by the fruit and vegetables sector and in the last place by the dairy sector.

## 3 Evolution, position and performance of cooperatives

### 3.1 Types of cooperatives

Recently in Lithuania, more and more discussions arise about the benefit of cooperation, particularly significance and benefit of cooperation for small farmers. The extent of cooperation is still insufficient in Lithuania and remains an important issue for decision makers to find solutions that could help to increase the movement of farmers' cooperatives in Lithuania.

The Lithuanian Institute of Agrarian Economics in 2008 conducted a research with the aim to analyze farmers' attitudes towards cooperation and their motivation to cooperate. The results showed that farmers do not tend to change individual work style and contribute toward common activities. Lack of information, consultation and learning were found to be the most important reasons for non-cooperation in Lithuania. Another reason has been lack of initiative actions. Members and non-members of cooperatives very rarely participate in meetings organized for them by the Ministry of Agriculture and Chamber of Agriculture to discuss their performance and necessary solutions. Moreover, residents in rural areas working in agriculture tend to cooperate in non-official ways by offering their help to the neighbors when is needed. This type of support covered a broad spectrum including help in field work, providing machinery services, cooperation for realization of products, and other activities.

The **main sectors** in which the cooperatives operate are the following (in 2008):

1. Dairy (41 percent);
2. Cereals (27 percent);
3. Fruits and vegetables (22 percent);
4. Meat (3 percent) – (Pig meat, Sheep meat and Beef);
5. Other (7 percent) – (herbs, honey and other).

(Source: Chamber of Agriculture of the Republic of Lithuania).

The **main functions** of the cooperatives are the following (in 2008):

- Providing farm inputs (supply cooperatives) – 45 percent;
- Joint production (production cooperative) – 24 percent;
- Providing farm machinery services (machinery cooperatives) – 22 percent;
- Processing farm products (processing cooperative) – 3 percent;
- Other types – 6 percent.

(Source: Chamber of Agriculture of the Republic of Lithuania).

**Diversity of functions and products** is very insignificant in the cooperatives in Lithuania. Economic activities of cooperatives are focused to single product activities and very rarely to multiple product activities. Joint production cooperatives, cooperatives providing farm inputs (supply cooperatives) and cooperatives processing farm products (processing cooperatives), however, also provide farm machinery services to their members. In addition to economic functions, cooperatives in Lithuania do not have social and political functions.

Results of the questionnaire showed that very important activities by many cooperatives are:

- collection of farm products (including transport and storage),
- providing a market (e.g. auction),
- collective bargaining.

There are also some cooperatives that are interested in primary and secondary processing, marketing commodities (bulk products and private label products), retailing and wholesaling, integration of supplying inputs and processing.



Members in cooperatives in Lithuania are farmers. Membership in the cooperatives is based on local (municipal) level.

Financial/ownership structure of cooperatives is based on traditional principles. New tools in order to attract additional equity capital have not been introduced so far.

The legal form of cooperatives in Lithuania according to the national legislation is cooperative society.

In the following sections, a brief overview is given on cooperatives in Lithuania.

**Number of cooperatives.** Centre of Registers is responsible for registering cooperatives in Lithuania and changes in their status. The total number of registered cooperatives in Lithuania in 2007 was 540. From among them 74 % (402 cooperatives) were farmer cooperatives, 7 % consumer cooperatives and 19 % other types of cooperatives.

Figure 10 shows the changes in registered farmer cooperatives from 2000 to 2007.



Figure 10. Number of registered cooperatives, 2000–2007. Source: Centre of Registers of the Republic of Lithuania.

Only 50 percent of these registered cooperatives had been active. This tendency remained unchanged from 2004 to 2007 (see Figure 11).

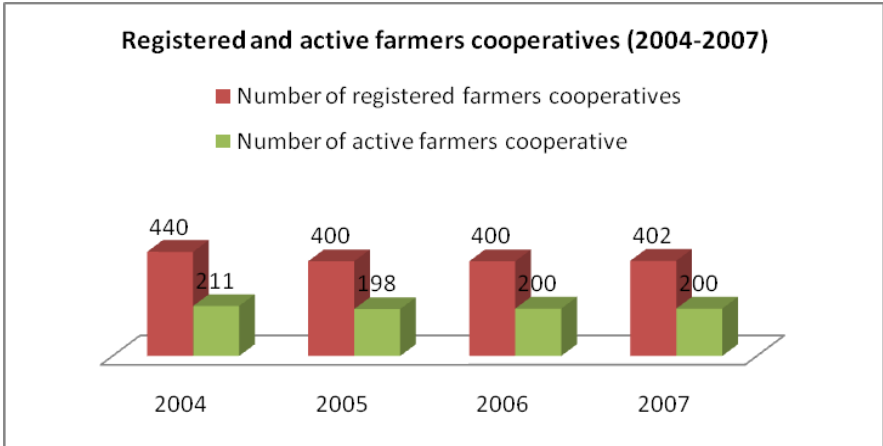


Figure 11. Number of farmer cooperatives by legal status and their activity, 2004–2007. Source: Chamber of Agriculture of the Republic of Lithuania and Centre of Registers of the Republic of Lithuania.

Number of members in farmer cooperatives increased from 2004 to 2007. In 2007 cooperatives had 12,900 members (see Table 3).

Table 3. Number of members in farmers’ cooperatives, 2004-2007

|                                            | 2004 | 2005 | 2006 | 2007 |
|--------------------------------------------|------|------|------|------|
| Number of members in farmers’ cooperatives | 8.6  | 8.8  | 10.9 | 12.9 |

Source: Chamber of Agriculture of the Republic of Lithuania.

All farmer cooperatives were divided into 5 groups for analyzing size of cooperatives: first group – 5 members, second group – 6–20 members, third group – 21–100 members, fourth group – 101–500 members and fifth group – more than 500 members. Small-size farmer cooperatives are dominating in Lithuania. In 2007, 44 percent of the farmer cooperatives had only 5 members, while only 7 cooperatives had more than 500 members. This tendency remained unchanged from 2004 to 2007 (see Figure 12).

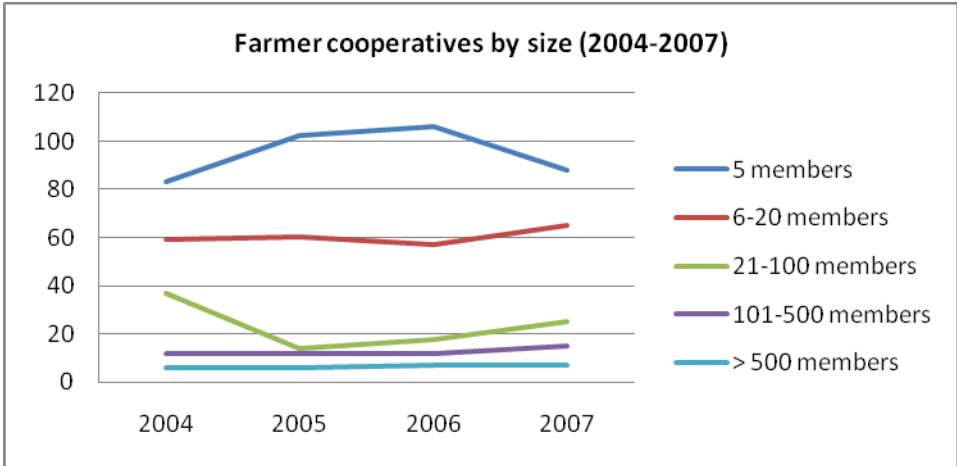


Figure 12. Farmer cooperatives by number of members, 2004–2007. Source: Chamber of Agriculture of the Republic of Lithuania.

### 3.2 Market share of farmers’ cooperatives in the food chain

In Lithuania, the cooperation is mostly developed in dairy sector with more than 30 active and successful cooperatives operating in this sector. In 2008 they collected about 15–17 % of all raw milk produced in Lithuania. In 2008 the new large cooperative “Pienas LT” in the dairy sector was established. The number of members in this cooperative and turnover has been increasing every month. The cooperative “Pienas LT” significantly increased the role of cooperatives in the food chain. Currently, the market share of the cooperatives in dairy sector is about 25 %.

Cooperation in other sectors is very weak and the role of cooperatives in the food chain is very insignificant. The most unexploited potential to develop cooperation has the fruit and vegetables sector.

### 3.3 List of top 50 largest farmers’ cooperatives

Four databases were analyzing for creation a list of top 50 largest farmers’ cooperatives:

- Amadeus data;
- Cogeca data;
- Database of Centre of Registers of the Republic of Lithuania;

- State Enterprise Agricultural Information and Rural Business Centre.

Amadeus database included many of non-cooperatives in their list. Experts selected farmer cooperatives for further analysis (total 150 cooperatives).

Cogeca database is very small for Lithuania. Only 12 cooperatives are included in their database. Only 4 of these cooperatives were found in Amadeus database and Centre of Registers database.

Database of Centre of Registers provided data for 209 cooperatives for the year 2007. This number differs from the total number of registered cooperatives in Lithuania because only these cooperatives provided necessary financial documents to the Centre of Registers. 141 cooperatives in this number are farmer cooperatives.

State Enterprise Agricultural Information and Rural Business Centre provided data for farmer cooperatives that are having formal status as “Agricultural cooperatives” by the procedure approved by the Government for the year 2008-2010.

The list of cooperatives differs significantly between these databases. One part of cooperatives was found in three databases (databases of Amadeus, Centre of Registers and State Enterprise Agricultural Information and Rural Business Centre). 4 cooperatives from Cogeca database were found in Amadeus or Centre of Registers database.

Top 50 largest farmers’ cooperatives were selected from all databases in terms of their sales. Cooperatives in agricultural banking, insurance, flowers, energy, machine services were excluded.

Farmer cooperatives that did not provide financial data to the Centre of Registers were not analyzed. Also farmer cooperatives with no financial data in Amadeus database were not analyzed. Cooperatives in Lithuania that are very small or working not efficiently usually do not provide financial and statistical data to the Centre of Registers. For this reason we presume that none of the important cooperatives for this research was missing.

The list of top 50 largest farmers’ cooperatives in terms of revenues was created by the following steps:

1. The list of Top 50 largest cooperatives and producer organizations was created by using Amadeus database. Data (revenues) of 2009 were used, or in some cases where those were not available, data of 2008, 2007, 2006 or 2005.
2. The list of Top 50 largest farmer cooperatives was created by using Centre of Registers database. Data (revenues) of 2007 was used.
3. The list of Top 50 largest farmer cooperatives was created by using State Enterprise Agricultural Information and Rural Business Centre data for 2008–2010. These farmer cooperatives are having formal status as “Agricultural cooperatives” by the procedure approved by the Government. The State Enterprise Agricultural Information and Rural Business Centre are responsible for providing this status to cooperatives.
4. Finally, the top 50 list was created. All 3 Top 50 lists were analyzed. First, farmer cooperatives were selected found both in Amadeus Top 50 list and in other 2 Top 50 list according to their revenue size. Using this procedure, 25 cooperatives were selected. The remaining part of cooperatives was selected from three databases according to their size of revenues (25 cooperatives were selected with the highest revenues from these databases).

The list of top 50 largest farmers’ cooperatives is provided in Table 4.

Table 4. List of top 50 largerst farmers' cooperatives.

| Nr. | Name of the Cooperative                           | Sectors(s) involved in:                                            |
|-----|---------------------------------------------------|--------------------------------------------------------------------|
| 1   | Žemės ūkio kooperatinė bendrovė "Krekenavos mėsa" | Processing and preserving of meat                                  |
| 2   | Žemės ūkio kooperatyvas „Mikoliškio paukštynas“   | Processing and preserving of meat                                  |
| 3   | Žemės ūkio kooperatinė bendrovė "Pieno gėlė"      | Wholesale of grain, unmanufactured tobacco, seeds and animal feeds |
| 4   | Kooperatinė bendrovė „Dzūkijos pienas“            | Operation of dairies                                               |
| 5   | Kooperatinė bendrovė "Vaisių sultys"              | Manufacture of cider and other fruit wines                         |
| 6   | Žemės ūkio kooperatyvas „Pakražantis“             | Operation of dairies                                               |
| 7   | Žemės ūkio kooperatyvas „Rešketėnai“              | Operation of dairies                                               |
| 8   | Kooperatyvas "Pieno puta“                         | Operation of dairies                                               |
| 9   | Žemės ūkio kooperatyvas „Joniškio aruodas“        | Support activities for crop production                             |
| 10  | Žemės ūkio kooperatyvas „Pienas LT“               | Operation of dairies and cheese making                             |
| 11  | Žemės ūkio kooperatyvas "Mūsų ūkis"               | Growing of cereals (except rice), leguminous crops and oil seeds   |
| 12  | Žemės ūkio kooperatyvas "Ēriškių pienas"          | Wholesale of grain, unmanufactured tobacco, seeds and animal feeds |
| 13  | Žemės ūkio kooperatyvas "Piktupėnų javas"         | Mixed farming                                                      |
| 14  | Žemės ūkio kooperatinė bendrovė „Pamario pienas“  | Operation of dairies                                               |
| 15  | Žemės ūkio kooperatyvas "Žiuriai"                 | Growing of cereals (except rice), leguminous crops and oil seeds   |
| 16  | Žemės ūkio kooperatyvas "Linkuvos kraštas"        | Growing of cereals (except rice), leguminous crops and oil seeds   |
| 17  | Žemės ūkio kooperatyvas "Jaros rapsas"            | Manufacture of oils and fats                                       |
| 18  | Kooperatyvas "Lietuviški grūdai"                  | Growing of cereals (except rice), leguminous crops and oil seeds   |
| 19  | Žemės ūkio kooperatyvas "Kulvos žemė"             | Growing of cereals (except rice), leguminous crops and oil seeds   |
| 20  | Žemės ūkio kooperatyvas "Skanaus"                 | Growing of cereals (except rice), leguminous crops and oil seeds   |
| 21  | Žemės ūkio kooperatinė bendrovė "Grosela"         | Growing of cereals (except rice), leguminous crops and oil seeds   |
| 22  | Ūkininkų kooperatinė bendrovė „Linų agroservisas“ | Growing of fibre crops                                             |
| 23  | Kooperatinė bendrovė „Žemaitijos pašarai"         | Manufacture of prepared food for farm animals                      |
| 24  | Žemės ūkio kooperatinė bendrovė "Raupaičių ūkis"  | Growing of cereals (except rice), leguminous crops and oil seeds   |
| 25  | Žemės ūkio kooperatinė bendrovė "Litbera"         | Other processing and preserving of fruit and vegetables            |
| 26  | Žemės ūkio kooperatyvas "Kirienos Krantas"        | Growing of cereals (except rice), leguminous crops and oil seeds   |

|    |                                                      |                                                                  |
|----|------------------------------------------------------|------------------------------------------------------------------|
| 27 | Žemės ūkio kooperatinė bendrovė "Anulėnų paukštynas" | Processing and preserving of meat                                |
| 28 | Kooperatinė bendrovė "Daržovių centras"              | Vegetables                                                       |
| 29 | Žemės ūkio kooperatyvas "Juodoji uoga"               | Fruit                                                            |
| 30 | Kooperatinė bendrovė "Mažeikių grūdai"               | Growing of cereals (except rice), leguminous crops and oil seeds |
| 31 | Kooperatinė bendrovė "Lietuviškas pienelis"          | Operation of dairies                                             |
| 32 | Burbiškio agroserviso kooperatyvas                   | Mixed farming                                                    |
| 33 | Kooperatyvas "EkoŽemaitija"                          | Operation of dairies                                             |
| 34 | Kooperatinė bendrovė "Savas derlius"                 | Growing of cereals (except rice), leguminous crops and oil seeds |
| 35 | Žemės ūkio kooperatyvas "Verdenis"                   | Growing of cereals (except rice), leguminous crops and oil seeds |
| 36 | Kooperatinė bendrovė "Panemunys"                     | Operation of dairies                                             |
| 37 | Kooperatyvas "Vilniaus grikliai"                     | Growing of cereals (except rice), leguminous crops and oil seeds |
| 38 | Kooperatinė bendrovė "Baltoji plunksnelė"            | Processing and preserving of meat                                |
| 39 | Žemės ūkio kooperatyvas "Sosdvaris"                  | Mixed farming                                                    |
| 40 | Kooperatyvas "Ekotikslas"                            | Mixed farming                                                    |
| 41 | Kooperatyvas "Mūšos aruodai"                         | Growing of cereals (except rice), leguminous crops and oil seeds |
| 42 | Kooperatinė bendrovė "Raseinių pienas"               | Operation of dairies                                             |
| 43 | Kooperatinė bendrovė "Agrobanga"                     | Operation of dairies                                             |
| 44 | Kooperatyvas "Krakių grūdai"                         | Growing of cereals (except rice), leguminous crops and oil seeds |
| 45 | Žemės ūkio kooperatinė bendrovė "Pamario pienas"     | Operation of dairies                                             |
| 46 | Žemės ūkio kooperatyvas "Suvalkijos pienas"          | Operation of dairies                                             |
| 47 | Kooperatinė bendrovė "Bulvių namai"                  | Vegetables                                                       |
| 48 | Kooperatyvas "Pienininkai"                           | Operation of dairies                                             |
| 49 | Kooperatyvas "Agro paslaugos"                        | Mixed farming                                                    |
| 50 | Žemės ūkio kooperatyvas "Didžiupis"                  | Growing of cereals (except rice), leguminous crops and oil seeds |

### 3.4 List of top 5 largest farmers' cooperatives per sector

In this study we focused on 5 sectors out of the 8 sectors proposed in the overall EU27 survey. We have farmers' cooperatives in the cereals, sugar, fruit and vegetables, dairy and pig meat sectors. In most cases, 5 largest cooperatives per food sector were selected. If there were less than 5 cooperatives in a sector available, all cooperatives existing in this sector were included.

The lists of top 5 largest farmer cooperatives per sector were selected from the Top 50 largest farmers' cooperatives list. In some sectors the cooperatives are rather small and are not in the

list of Top 50. If any cooperative or only a couple of cooperatives were found in the Top 50 list then databases of Cogeca, Centre of Registers and State Enterprise Agricultural Information and Rural Business Centre were analyzed for selection of remaining cooperatives in these sectors.

Sector of wine, olive oil and table oils does not exist in Lithuania.

There are no cooperatives in sheep meat sector in Lithuania.

#### **Pig meat:**

|    |                                                   |
|----|---------------------------------------------------|
| 1. | Žemės ūkio kooperatinė bendrovė "Krekenavos mėsa" |
| 2. | Žemės ūkio kooperatyvas "Lietuviška mėsa"         |
| 3. | Žemės ūkio kooperatyvas "Lietuviško ūkio kokybė"  |
| 4. | -                                                 |
| 5. | -                                                 |

#### **Dairy:**

|    |                                        |
|----|----------------------------------------|
| 1. | Kooperatinė bendrovė „Dzūkijos pienas“ |
| 2. | Žemės ūkio kooperatyvas „Pakražantis“  |
| 3. | Žemės ūkio kooperatyvas „Rešketėnai“   |
| 4. | Kooperatyvas "Pieno puta“              |
| 5. | Žemės ūkio kooperatyvas „Pienas LT“    |

#### **Cereals:**

|    |                                              |
|----|----------------------------------------------|
| 1. | Žemės ūkio kooperatinė bendrovė "Pieno gėlė" |
| 2. | Žemės ūkio kooperatyvas „Joniškio aruodas“   |
| 3. | Žemės ūkio kooperatyvas "Mūsų ūkis"          |
| 4. | Žemės ūkio kooperatyvas "Ēriškių pienas"     |
| 5. | Žemės ūkio kooperatyvas "Žiuriai"            |

#### **Fruit and vegetables:**

|    |                                           |
|----|-------------------------------------------|
| 1. | Žemės ūkio kooperatyvas "Piktupėnų javas" |
| 2. | Žemės ūkio kooperatyvas "Juodoji uoga"    |
| 3. | Kooperatinė bendrovė "Bulvių namai"       |
| 4. | Žemės ūkio kooperatinė bendrovė "Litbera" |
| 5. |                                           |

#### **Sugar:**

|    |                                                               |
|----|---------------------------------------------------------------|
| 1. | Žemės ūkio kooperatyvas „Kėdainių krašto cukriniai runkeliai“ |
| 2. | Žemės ūkio kooperatyvas „Aukštaitijos cukriniai runkeliai“    |
| 3. | Marijampolės regiono cukriniai runkeliai                      |
| 4. | Kooperatyvas „Pavenčių cukriniai runkeliai“                   |
| 5. | -                                                             |

### **3.5 Transnational cooperatives**

There are no transnational cooperatives in Lithuania.

## 4 Description of the evolution and position of individual cooperatives

### 4.1 Data gathering per cooperative

Data per cooperative was gathered by using the questionnaire. Each selected cooperative from the list provided in the section 2.2.4 was contacted by telephone and asked to fill the questionnaire. Totally 22 cooperatives were contacted from 5 sectors – cereals (5 respondents), sugar (4 respondents), fruit and vegetables (5 respondents), dairy (5 respondents) and pig meat (3 respondents) sectors. 59 % of respondents completed the questionnaire. Those respondents who did not fill the questionnaire to the given deadline were contacted for the second time. The remaining part refused to fill the questionnaire. The respondents that completed the questionnaire filled the questionnaire by themselves or by giving the answers via telephone to the interviewer.

General facts were gathered from websites of cooperatives, the Amadeus dataset and information provided in the filled questionnaires.

Financial data were gathered from the Amadeus dataset, data from the Centre of Registers, State Enterprise Agricultural Information and Rural Business Centre data and information provided in the filled questionnaires.

### 4.2 Position in the food chain

Role and scope of the cooperatives in the economy of Lithuania is very small except for the dairy sector. Currently the market share of the cooperatives in dairy sector is about 25 %. Cooperation in other sectors is very weak and their role in food chain is very insignificant.

For this reason none of the cooperatives included in the survey did gather data on its position in the food chain.

### 4.3 Institutional environment

Local/primary cooperatives are dominating in Lithuania. Results of research showed that 84 % of members are farmers. Another 8 % of respondents are secondary level cooperatives having local (primary cooperatives) as their members and the remaining 8 % of cooperatives have mixed membership structure consisting from farmers and local cooperatives.

The distribution of members of cooperatives is provided in Figure 13.

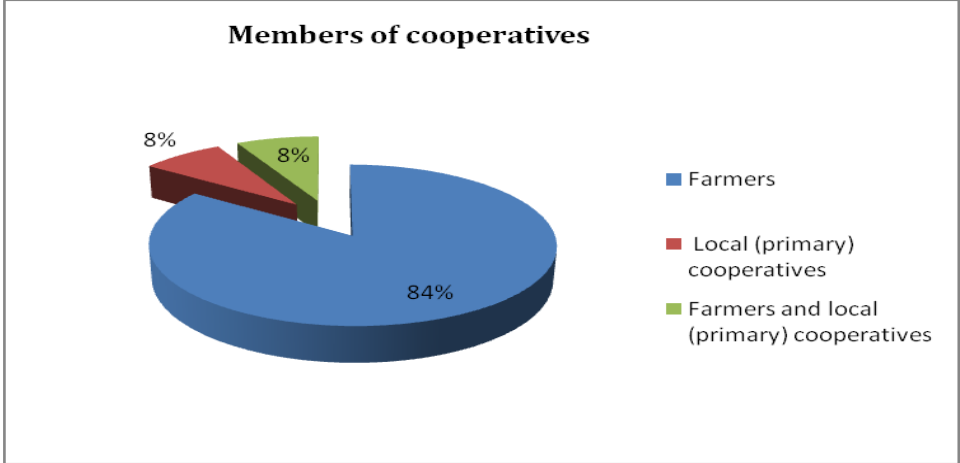


Figure 13. Members of cooperatives, in percent. Source: Own survey.



A total of 77 % of respondents are multipurpose cooperatives with 2 (up to 5) main functions of the cooperative. These cooperatives are offering to the members marketing (processing) services, supply of farm inputs, production (on-farm) and farm machinery. Any respondent is offering plant or animal breeding services, water supply (irrigation) or soil and nature conservation.

Only 23 % of respondents are providing non-economic services to members (health, social security and infrastructure services).

Half of respondents have all equity capital as individual shares, the remaining part of cooperatives have all equity as unallocated equity.

Providers of equity capital are only members – this was stated by 92 % of the respondents in Lithuania. Only 8 % of cooperatives have non-member investors investing directly in the cooperative.

Members of cooperatives have no liability for the losses of the cooperative.

Most of the analysed cooperatives are oriented to only one type of farm products (dairy, cereals, sugar, pig meat or fruit and vegetables).

77 % of respondents have few requirements for farmers to become member (they are quite “open”). The remaining part of cooperatives applies more requirements to which potential members have to comply (they are rather “closed”). 8 % of analysed cooperatives do not accept new members at all.

The results of membership policy are provided in Figure14.

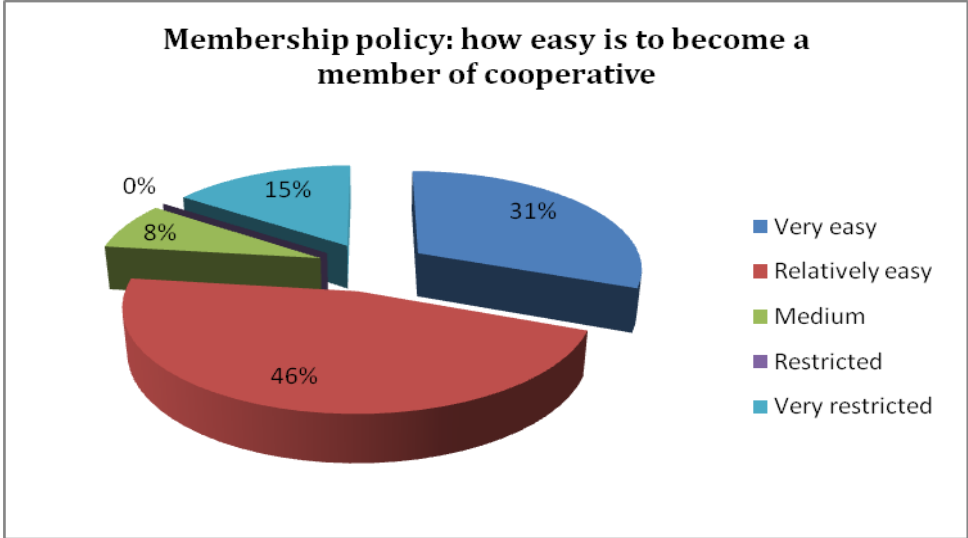


Figure 14. Membership policy (how easy is to become a member of cooperative), in percent. Source: Own survey.

Two types of membership policy on capital contribution are used by respondents: 54 % of cooperatives were using only entrance fee, 46 % of cooperatives were using substantial contribution to equity capital other than retained surplus.

All analysed cooperatives in Lithuania do not have members in other EU member states. Also there are no transnational cooperatives in Lithuania.

A rate of 8 % of cooperatives involves foreign farmers who are not members. They purchase some product from farmers in other EU member states (in neighbour countries Latvia, Estonia and Poland), but these farmers are not members.

## 4.4 Internal Governance

The legal structure of cooperatives in Lithuania is cooperative society. Every analysed cooperative is one legal organization.

The main decision-making body of the cooperative is the Board of Directors (BoD). Members are elected by the General Assembly of Members. The composition of board of directors (BoD) varies in cooperatives in Lithuania. Only members of the cooperative can be elected to the Board of Directors in 92 % of analysed cooperatives in Lithuania. In 8 % of the cooperatives the BoD also includes non-member professionals. In most of the analysed cooperatives the number of people in the BoD is approximately 5 members.

By the legal requirements cooperatives in Lithuania have a one-tier board structure.

According to 85 % of respondents, the Members of BoD are elected by personal expertise, while 15 % of the cooperatives stated that regional representation was a major criterion for the election of members of BoD.

54 % of respondents have a maximum number of years for BoD membership varying from 1 to 4 years. 46 % of cooperatives do not have a maximum number of years of BoD membership.

The BoD is in charge of operational management of the cooperative in 54 % of analysed cooperatives. In 46 % of cooperatives, professional managers are in charge of operational management of the cooperative.

Supervisory Committees are effective in 85 % of the cooperatives.

According to 54 % of respondents, the Supervisory Committee is composed of members from the cooperative only. The remaining part of cooperatives (46 %) invites outsiders to the Supervisory Committee.

23 % of cooperatives have established a separate body of members allocating to them some of the rights of the General Assembly. The remaining cooperatives (77 %) do not have a member council in addition to the General Assembly.

Distribution of votes among members used by all cooperatives is by the principle "one member - one vote".

8 % of respondents have subsidiaries in which members can financially participate directly.

46 % of cooperatives trade with domestic non-member farmers.

Members from 38 % of the cooperatives have the legal obligation to deliver all their products to the cooperative, while 62 % of the cooperatives do not impose this legal obligation to its members.

Most of the analysed cooperatives are low specialization cooperatives (69 %). Medium and high specialization cooperatives make about one sixth each of the total number of cooperatives (see Figure 15).

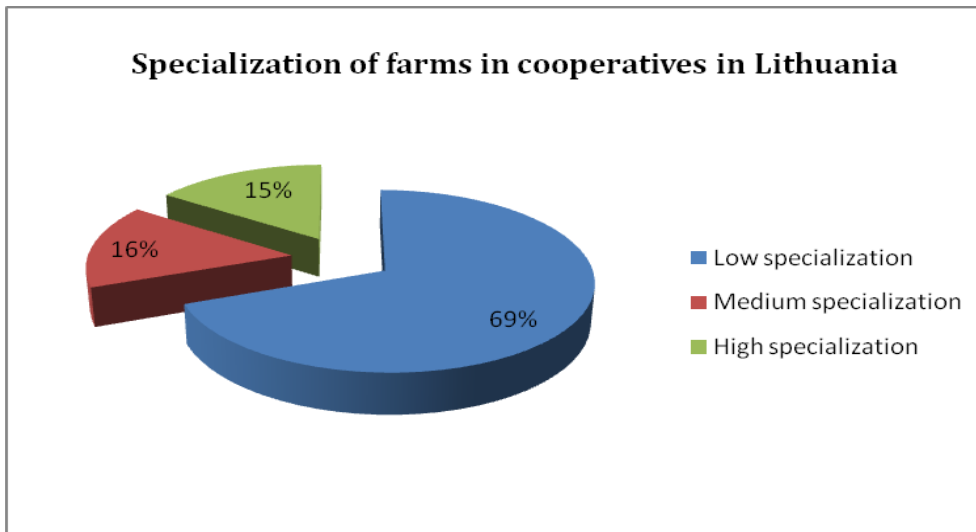


Figure 15. Specialization of farms in cooperatives in Lithuania. Source: Own survey.

38 % of respondents use different product marketing tools. 39 % of cooperatives have some formal groupings of member per product and region. 15 % have formal grouping per product and 23 % have formal grouping per region.

In some cooperatives, members with large volumes of trade with the cooperative get a premium. From among the analysed cooperatives, 38 % were giving premium to the members with large volumes of trade with the cooperative.

Differentiated cost policy was used by many respondents, i.e. by 62 % of analysed cooperatives. Differentiated cost depends on the quality and quantity of products that members provide to the cooperative.

A total of 31 % of cooperatives have non-active members that do no longer patronage the cooperative but still have a share in the cooperative. The influence of non-active members on decision making is provided in Figure 16.

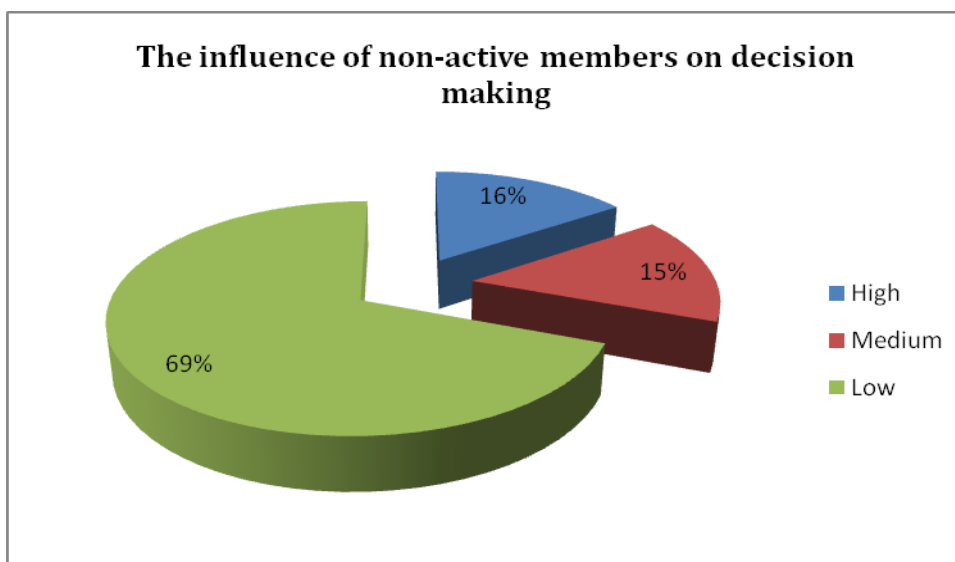


Figure 16. The influence of non-active members on decision making. Source: Own survey.

### 4.5 Performance of the cooperatives

None of the respondents did gather data on the position of the cooperative in the food chain neither in 2000 nor in 2010.

Activities of the cooperatives that provided data for 2000 and 2010 remained unchanged for this period. The main activities they are oriented to are collection of farm products (including transport and storage), providing a market (e.g. auction) and collective bargaining.

More data on activities in the cooperative is provided for the year 2010. Most of the cooperatives were engaged in 3 activities, some were having 5 - 6 activities. Besides the major activities of collecting farm products (including transport and storage), providing a market (e.g. auction) and collective bargaining, some cooperatives were interested in primary and secondary processing, marketing commodities (bulk products and private label products), retailing and wholesaling, integration of supplying inputs and processing.

Figure 17 shows the most important activities in the cooperatives in 2010.

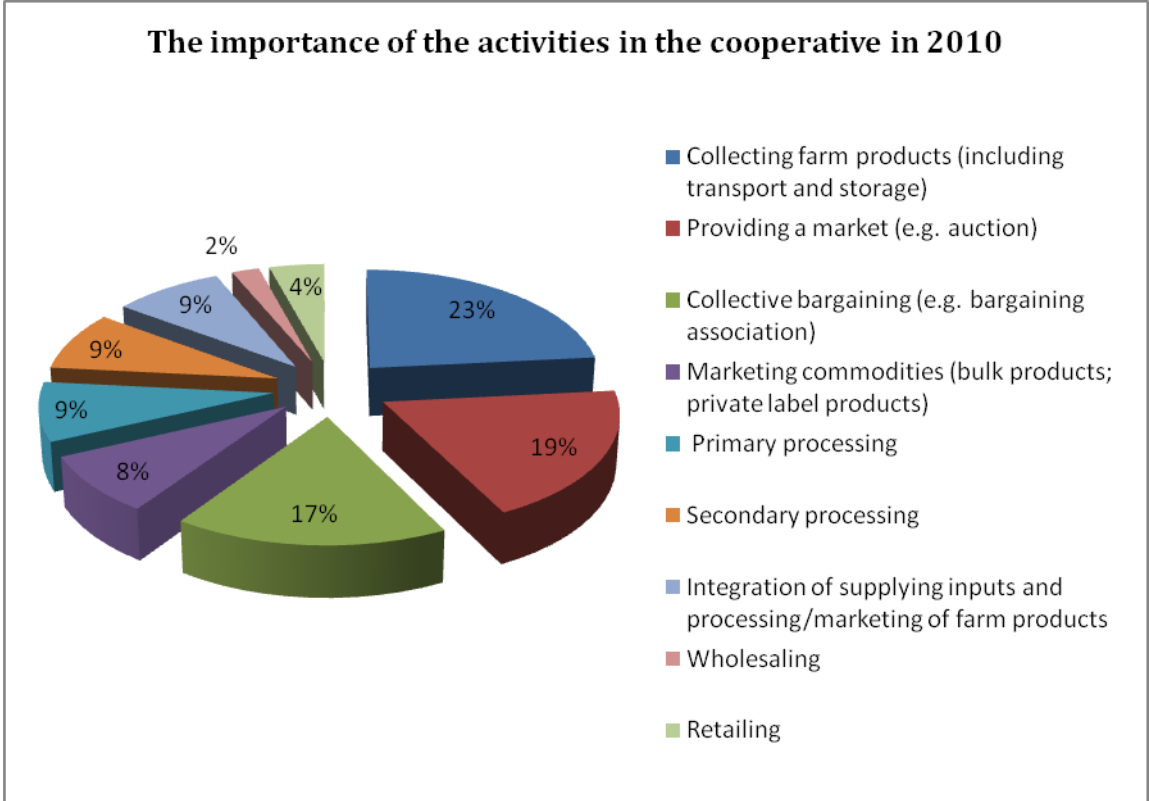


Figure 17. The importance of the activities in the cooperative in 2010. Source: Own survey.

A total of 54 % of respondents was using a marketing strategy. From among them, 57 % of cooperatives focused on a single strategy: either on cost (emphasis on low cost), differentiation (emphasis on high value) or focus (emphasis on a niche market). 29 % of cooperatives use a combination of two strategies in their marketing strategy by having one part of products/services oriented to the low cost principle and other part oriented to the high value production. 14 % of the cooperatives combine their marketing strategy for all three principles of cost leadership, differentiation and focus (Figure 18).

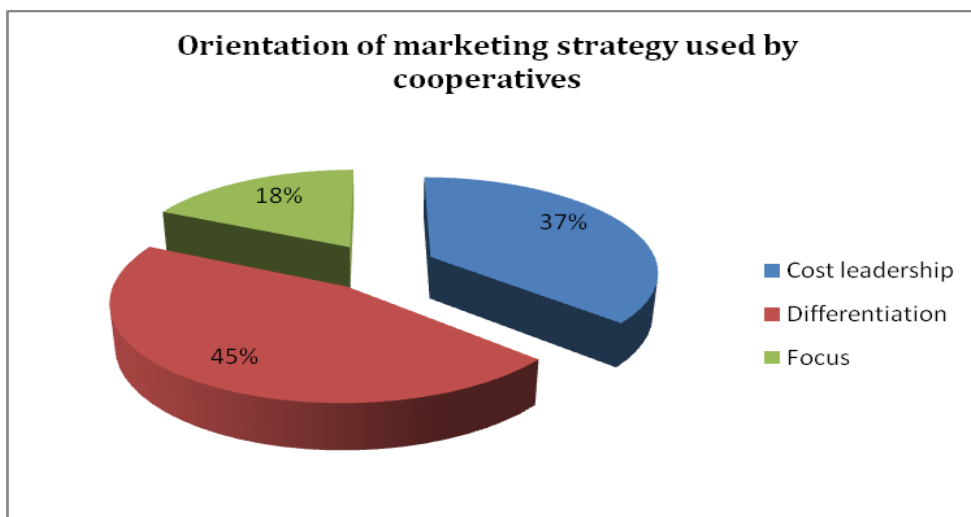


Figure 18. Orientation of marketing strategy used by cooperatives. Source: Own survey.

For 77 % of the respondents, the assortment of products is limited. Only 23 % of cooperatives sell a range of different products.

From among the analysed cooperatives, 85 % sell branded consumer products. 15 % of cooperatives do not have branded consumer products on offer.

A total of 23 % of the respondents generate more than 40 % of its turnover from branded consumer products, whereas the turnover from branded consumer products is less than 40 % in 62 % of the cooperatives (Figure 19).

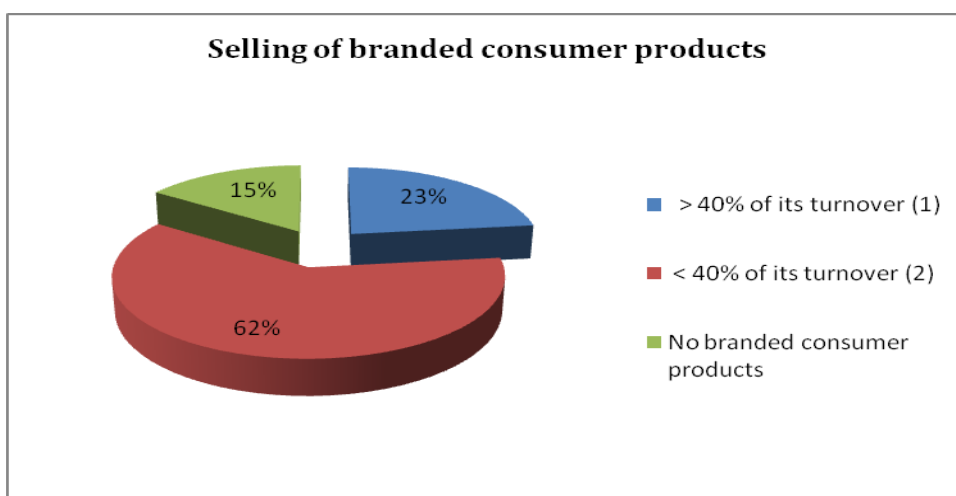


Figure 19. Distribution of cooperative turnover by selling branded consumer products. Source: Own survey.

Most of the respondents report only very weak innovation activities. Only 15 % of the cooperatives make expenditures on R&D. The amount of these R&D expenditures varied from 5 to 10 % of the turnover of the cooperatives.

Most of the respondents (77 %) use an autonomous growth strategy by increasing turnover without mergers and acquisitions (M&As). 31 % of respondents implement their growth strategy by horizontal M&As. None of the respondents plan to have vertical or international M&As.

The majority of respondents (53 %) allow farmers to sell their products to other cooperatives.

## 5 Sector analysis

### 5.1 Introduction

In this chapter we discuss the developments in the sectors of Lithuanian agriculture that are central in this study. We report on trends in the markets, important changes in (agricultural) policy and we try to link this to the strategies and performance of the investor-owned firms and cooperatives in the sector. The period of observation is 2000 – 2010.

### 5.2 Cereals

Traditionally cereals have been one of Lithuania's most important agricultural sectors, with cereals being grown for domestic feed and food needs. Lithuania enjoys rather favourable conditions for developing grain crops with prevailing average yielding soils, which by natural yielding capacity are close to the soils of some other countries in the region. Natural conditions provide a relative advantage in comparison with the neighbouring countries located further North.

Cereals cover approximately 60 % of the total crop area and are grown on almost every farm. Lack of grain in 2006–2007 on the global and the EU grain markets encouraged Lithuanian farmers to increase grain production. However the area under feeding and industrial crops is decreasing. Largest areas of grain crops in 2010 were under wheat and barley.

Grain harvest in the period of observation was sufficient to satisfy national needs. About half of grain produced on Lithuanian farms is used for feedstuffs in livestock breeding.

Large specialised farms of cereals applying new technologies in cultivating and harvesting cereals are continuously increasing the efficiency of grain production; however, more than half of all Lithuanian cereal farms have less than 5 ha of land. These small farms have insufficient resources for investments to modernise and lack grain stores; therefore they are forced to sell grain at harvest when prices are at their lowest. The low prices in turn prevent the build-up of capital and thus perpetuate the poverty cycle. Due to large quantities of cereals being marketed at harvest, the prices fall sharply to the disadvantage of those farmers who are unable to store their grain. Merchants, who buy at harvest then clean, dry and store the grain before selling it into intervention, gain the major share of the profits from grains.

The situation on the markets of grain and grain products is significantly influenced by export and import. Most of Lithuanian wheat during the previous year was exported to Latvia, Algeria, Morocco, Oman, and Turkey. Most of rye was exported to Finland, Poland, and Germany, and barley – to Latvia, Poland, Syria, and Denmark.

After the accession to the EU similar grain market regulation measures are applied for Lithuania as for other EU member states: intervention purchase, direct payments, and import and export regulation measures. Through the implementation of the EU CAP, where the dissociation of support from production outputs is among the key goals of the programme, principles of the disbursement of direct payments for crops were changed as of 2007. The amount of support for applicants involved in farming and in the production of agricultural products from 2007 consisted of three parts: basic payments, disbursed from the EU budget, and additional national direct payments coupled and decoupled with production.

In cereal sector operate about 25 percent of all Lithuanian cooperatives. Most of these cooperatives are primary cooperatives. Only in 2007 first secondary cooperative "Lietuviski grudai" was established. The main functions of cereal cooperatives are to provide farm inputs and farm machinery services. In recent years establishment of large scale cooperatives started in cereal sector.

### **5.3 Sugar beet and Sugar**

Production of sugar is from both sugar beet domestically grown and sugar cane imported. Self-sufficiency for sugar in Lithuania has always exceeded 100%, Lithuania only imports small quantities of high quality white sugar – all other sugar consumption in the country is satisfied by local producers.

The area planted to sugar beet was over 15,400 ha in 2010. Since the year 2000 the sugar beet area has decreased about 44 %. However average sugar beet yields during the period of 2000 to 2010 increased from 31.9 tones/ha to 47.3 tones/ha. This was due mainly to favorable climatic conditions for growing sugar beet as occurred in Western Europe. The sugar beet growing period in Lithuania lasts for about 136 days, while in Western Europe it lasts for 160 to 220 days, hence Lithuanian yields are considerably lower than in Denmark, Germany or France.

About 40 % of the sugar beet area is on farms with more than 50 ha of sugar beet, about 40 % of the area is on farms with 10 to 50 ha of beet and about 20 % - on small farms with less than 10 ha of beet. Only 3 % of the farms growing beet are large farms with more than 50 ha of sugar beet.

At the present sugar beet price beet growing is profitable compared with growing alternative agricultural products. However Lithuania at present is less competitive than Denmark, France, Germany, Belgium, Netherlands and other EU countries in sugar production.

In Lithuania, the sugar manufacturing sector is small, consisting of three enterprises, employing about one thousand workers (or roughly 2 % of all hired workers employed in the sector of manufacturing food products and beverages).

In sugar beet and sugar sector operate only 4 cooperatives. However they are large scale cooperatives comparing with most Lithuanian cooperatives. Practically all sugar beet producers are members of one of those cooperatives. All of these cooperatives are primary cooperatives. The main functions of sugar beet and sugar cooperatives are to provide farm inputs, collecting farm products and collective bargaining.

### **5.4 Fruit and vegetables**

The fruit and vegetable sector became of strategic importance for Lithuanian agriculture as the consumption of fruit and vegetables is recognised by nutritionists of Lithuania as a way of improving public health. The fruit and vegetable sector currently represents close to 6 % of the total value of agricultural produce in Lithuania and involves approximately 7500 farms specialising in the cultivation of fruits, vegetables and berries. The sector contributes to environmental conservation and economic growth, and generates numerous jobs in agriculture and food processing and in many other sectors of the Lithuanian economy.

In the last few years, about 15 % of fruit and vegetable processing enterprises have received support for modernisation and upgraded the processing facilities. However, they process only about 5–7 % of the fruits and vegetables produced in the country and the rest is being imported. This is one example of the obvious need to strengthen the primary production in order to utilise the available potential for the fruits and vegetable growers, which not only have to increase the quality of produce but also to co-operate in order to supply the processing industry with the required amounts of produce. Moreover, the remaining part of the fruit and vegetable processors, still lack investments in order to meet the quality, environmental and hygiene requirements since most of them still use outdated technologies.

Other reasons for the low competitiveness of the vegetable producers are unproductive technologies, outdated storage capacities, undeveloped vegetable preparation, packaging and marketing systems. The same problems mentioned also apply to the processing of the fruits and berries.

In fruit and vegetable sector operate about 20 percent of all Lithuanian cooperatives. Most of these cooperatives are small scale and primary cooperatives. The main functions of fruit and vegetables cooperatives are collection of farm products, collective bargaining and providing farm inputs. There is no producer organisation or potentially recognised group of producers in Lithuania, though this situation makes the preconditions for the development of grower's co-operation.

Small growers dominate in fruit and vegetable sector in Lithuania; they cannot withstand the pressure of market. Cooperation is poor in this sector so the performance of cooperatives cannot significantly influence the market.

## 5.5 Dairy

Dairy production is one of the basic agricultural sectors in Lithuania – it constituted 23 % of total output of Lithuanian agriculture in 2009. The number of milking cows was 395 thousand and 1,791 thousand tons of cows' milk was produced in 2009.

Small dairy farms (3.6 cows herd in average) take a dominant position in Lithuania's dairy sector. Only 6 % of Lithuanian milk producers have herds of more than 10 cows. This is a main reason of low average cow productivity in Lithuania. Small and not specialised farms use outdated cow feeding and housing technologies. Subprime genetic potential of dairy herds and poor fodder cause low productivity of cows as well. Besides, in small-scale farms cows are being milked even up to 12 years of age. The enlargement of farms allows feeding of cows in a more rational way and improving the selective work leading to the continuous increase in the average cow productivity in Lithuania.

In Lithuania, as in the EU, common market organisational measures on milk and dairy products and milk quota system are applied. Export refund compensations were most widely used measures from the package of measures on common market regulation organisation in 2004–2007. Great use was also made of other common market organisational measures on milk and dairy products, such as support for private storing of long-term maturation cheese.

About 3/4 of the milk production is delivered to dairies for processing. The rest of the milk production is retained on farms for family consumption, direct sales and livestock.

The milk processing industry is one of the most concentrated and modern sectors of the food industry in Lithuania. Four groups of milk processing enterprises (AB „Rokiškio suris“, AB „Pieno žvaigždės“, AB „Žemaitijos pienas“, AB „Vilkyškiu pieninė“) dominate in the country's dairy processing sector. They process over 90 % of the total milk purchased in Lithuania and are the major exporters of dairy products. Other milk processing enterprises and their groups are much smaller, but some of them also export a large part of their output. Such oligopoly in the dairy industry is a negative phenomenon that leads to dictation of prices to milk producers. Since milk processors themselves collect milk from farmers, the competition factor is minifying even more. It is supposed that for this reason the purchase prices of raw milk in Lithuania are the lowest among the EU member states.

Low raw milk prices prompted some small farms to create cooperatives and cooperate more intensively not only for increasing of raw milk prices, but also for the milk collection and storage problems. 69 cooperatives in dairy sector were operating in 2010 in Lithuania.

Beyond the processing sector, the distribution of processed milk and dairy products involves private specialised shops, private wholesalers and distribution networks of retail chains. The latter is highly concentrated in Lithuania.

The major line of specialization in the dairy industry in Lithuania is the production of cheese. These products prevail in the structure of export, too. After the accession to the EU, most of the Lithuanian dairy products (about 60 % of the total export) were exported to the EU countries,



mainly to Italy, Germany and Latvia. As a result of support measures for the export of dairy products to Russia, these exports increased from 19 % in 2004 up to 35 % in 2006. Later, when in 2007 export subsidies were discontinued, the share of export to Russia remained high due to the established trading relations. Moreover, Lithuanian cheese is sold in Russia under its own trade mark for a higher price than selling it in the EU countries as industrial cheese. Export of dairy products to Russia is accounted for 1/3 of the total export of dairy products.

The cooperation is most developed in the dairy sector. In dairy sector operate about 40 percent of all Lithuanian cooperatives. Most of these cooperatives are primary cooperatives. The main functions of dairy cooperatives are collection of farm products, collective bargaining and providing farm inputs. In 2008, dairy cooperatives collected about 15–17 % of all raw milk produced in Lithuania. Currently the market share of the cooperatives in dairy sector is about 25 %.

In 2008, the big dairy cooperative “Pienas LT” was established with more than 200 members and the ambitious aim to have an own dairy processing enterprise able to process more than half of the daily raw milk production in Lithuania. The cooperative is planning to start building the enterprise in 2013. Number of members in this cooperative and turnover is increasing every month. Cooperative “Pienas LT” increased the role of cooperatives in the food chain significantly. Cooperative “Pienas LT” is the first case of vertical integration of primary and secondary processing in dairy sector.

The development of cooperation in dairy sector stops the negative pressure from dairy processors. In certain cases dairy processors are offering higher raw milk prices for large farms – members of cooperatives with the aim to stop farmer’s membership in the cooperative. These processes are stimulated by the lack of cooperation between cooperatives and dairy processors.

## **5.6 Sheep meat**

The demand for sheep meat in Lithuania is low because this kind of meat is not popular in the national cuisine. The per capita consumption of sheep meat in the EU amounts to 2.8 kg, on the average, and in Lithuania by 14 times less.

At the end of 2009, there were 53,000 sheep and lambs on 4100 farms. Only 60 farms have herds with more than 100 sheep each. The price of mutton is twice as high as other kinds of meat. The export possibilities are limited by small production amounts and the low quality of the meat. There is no sheep slaughter enterprise in the country, which is another reason for the slow development of mutton production.

Sheep farming is not profitable in Lithuania. Financial support to farms for acquiring new sheep breeds is insufficient, while the larger part of sheep is kept in small farms. The direct payments for ewes are insufficient to encourage the development of sheep breeding.

There are no cooperatives in sheep meat sector in Lithuania.

## **5.7 Pig meat**

Pig meat is the most popular meat in the national cuisine, so the sector has long tradition and is one of the basic agrifood sectors in Lithuania. Pig meat production is one of two most important branches of meat farming in Lithuania. Pig meat accounted 1/3 of all meat output in 2010. However the share of domestic production in total meat consumption was only 42 % in 2009. Import of pork in 2010 amounted to 95.6 thousand tons. The principal source of imports over the last years has been Poland, Germany and Estonia.

The concentration level of large market-oriented farms in this sector is rather high, because large pig breeding complexes managed by kolkhozes and sovkhoses were saved during the

privatisation process. Structural changes are still in progress in the pig meat sector, with production concentrating further to the largest farms. Some farms (24 in 2010) have a breeding herd of over 5000 pigs, accounting for about 70 % of total national pig herd. In contrast, only 100 out of 151,000 commercial pig-breeding farms have herds of more than 400 sows.

This sector did not get any support from the state. However according to the large pig farms reports, the activities of these farms since 2004 were profitable, but profitability was not higher than 10 percent. The main factor influencing the economic results of the sector is the grain price because 2/3 of production cost is cost of feed, and for this reason the price of grain, particularly from 2007 to 2010, had a decisive influence on the results of pig farms.

Large pig farms are modernized – most of them renewed their manure storage and spreading management to meet the EU requirements, improved the environment of farms, overhauled stables with respect to the EU animal welfare requirements, etc. On these farms, manure is handled in accordance with environmental requirements for manure and slurry management, continuous monitoring of groundwater conducted. However, small farms are using inefficient farming technology.

Development of the pig-breeding industry is influenced by the changing wishes of the consumers. Whereas in past years the most important characteristic of pork was a high proportion of lean meat, in more recent years European pork producers have paid more and more attention to other quality features: colour, taste, juiciness and softness. In general the quality of pork has improved by Lithuanian producers during the last decade; the amounts of processed products and the trade in pork among the Member States, as well as exports to third countries have increased. Higher prices have been achieved for pork of better quality. Lithuanian producers of pork are able to provide products conforming to the taste of consumers. The quality of pig carcass is annually improving. In 2009, as compared with 2005, the comparative weight of the quality of class S and E carcass muscularity increased by 22 percent points and reached 88 per cent of total pig carcass. According to the quality of purchased carcass, Lithuania can compete with the other EU member states.

There are no cooperatives of farmers producing pig meat in Lithuania. The main reason of non-cooperation in this sector is domination of large modern pig farms. Three cooperatives in pig meat sector are concentrating their activity on food processing with minimal number of cooperative members. Their role in pig meat market share is insignificant.

# 6 Overview of policy measures

## 6.1 Regulatory framework

The performance of cooperatives (including producer organisations) is influenced by the regulatory framework in a country. This framework is multi-level: EU regulations, national laws and –in some countries– even regional policies influence the way cooperatives can operate. In this chapter we look especially at the regulatory framework that influences the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector).

These competitive positions are influenced within the regulatory framework by much more than the law that establishes the rules for running a cooperative (business organisation law). Well known other examples include agricultural policy (e.g. the EU’s common market organisation that deals with producer organisations in the fruit and vegetables sector), fiscal policies (at the level of the cooperative and the way returns on investments in cooperatives are taxed at farm level) and competition policies. There are different types of policy measures in the regulatory framework (McDonnell and Elmore (1987):

| POLICY MEASURE TYPE | DEFINITION                                                                                                                                                   |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mandates            | Rules governing the actions of individuals and agencies                                                                                                      |
| Inducements         | Transfer money to individuals in return for certain actions                                                                                                  |
| Capacity Building   | Spending of time and money for the purpose of investment in material, intellectual, or human resources (this includes research, speeches, extension, etc.)   |
| System Changing     | Transfer official authority (rather than money) among individuals and agencies in order to alter the system by which public goods and services are delivered |

The objective of this project / report is to identify support measures that have proved to be useful to support farmers’ cooperatives. In section 5.2 the relevant policy measures and their potential impact in Lithuania are identified. In section 5.3 a number of other legal issues are addressed.

## 6.2 Policy measures

The table below identifies the policy measures that influence the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector).

Table 6. Policy Measure Description

| <b>Policy Measure Name</b>                                                                                               | <b>Policy Measure Type</b>                                 | <b>Regulatory Objective</b>                    | <b>Policy target</b>                                                               | <b>Expert comment on effects on development of the cooperative</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The Law on Cooperative Societies                                                                                         | <b>1 Mandate</b><br>1.1. Cooperative legislation           | Legal aspects                                  | 1. Specific to cooperatives                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| The Law on Real Estate Tax of the Republic of Lithuania                                                                  | <b>2. Inducement</b><br>2.1 Financial and other incentives | 1. Correction of market or regulatory failures | 3. Applicable to business in general.<br>Art. 7. par. 11 specific to cooperatives. | The real estate of cooperative companies (cooperatives) is not taxed under The law on real estate tax of The Republic of Lithuania. (Art. 7, par. 11).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| The Law on Profit tax                                                                                                    | <b>2. Inducement</b><br>2.1 Financial and other incentives | 1. Correction of market or regulatory failures | 3. Applicable to business in general.<br>Art. 5. par. 6 specific to cooperatives.  | Taxed profit (or its part) of cooperative companies (cooperatives) proportionally falling to shareholders according the value of their share contribution last day of taxing period is taxed applying 5 percentage rate of profits tax, if:<br>1) during taxing period more than 50 percent of incomes of cooperative company (cooperative) is incomes from agricultural activity, or<br>2) during taxing period more than 85 percent of incomes of cooperative company (cooperative) is incomes from agricultural activity and (or) incomes for sold, purchased from its members, produced these members agricultural products and (or) sold fuel, fertilizers, seeds, foddors, aids from pests and weeds to its members and tangible property, dedicated for use only in agricultural activity of its members. (Law on Profit tax art. 5. par. 6) |
| Order of the Minister of Agriculture of the Republic of Lithuania "Concerning Rules for State Support for Development of | <b>3. Capacity Building</b><br>3.1 Technical assistance    | 1. Correction of market or regulatory failures | 1. Specific to cooperatives                                                        | Cooperatives can get financial support for the first-fifth year. Maximum support in 5 years 400.000 Eur.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

|                                                                                                   |                                                                                                                       |                                                                                               |                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Manufacturers Cooperation”                                                                        |                                                                                                                       |                                                                                               |                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Credit guarantees and credit fund for farmer cooperatives provided by Rural Credit Guarantee Fund | <b>2. Inducement</b><br>2.1 Financial and other incentives<br><b>3. Capacity Building</b><br>3.1 Technical assistance | 1. Correction of market or regulatory failures                                                | 2. Specific to an agricultural sub-sector | Farmers, small and medium rural entrepreneurs starting or developing their business usually do not have adequate own funds, and credit is not available for the frequent lack of security. Solution to this problem is provided by the Rural Credit Guarantee Fund. Rural Credit Guarantee Fund issues guarantees to credit institutions for credits granted to farmers and agricultural entities, small and medium businesses, located in rural areas (economic entities engaged into activities alternative to agriculture). |
| Rural Development Programme for Lithuania 2007-2013                                               | <b>2. Inducement</b><br>2.1 Financial and other incentives<br><b>3. Capacity Building</b><br>3.1 Technical assistance | 1. Correction of market or regulatory failures<br><br>2. Attainment of equity or social goals | 2. Specific to an agricultural sub-sector | Priority criteria can be applied for investment projects of farmer cooperatives under 4 measures of Axis I of Lithuanian Rural Development Programme 2007-2013.<br>The following measures under Axis I: Improving the competitiveness of the agricultural and forestry sector:<br>5 measure. Semi-subsistence farming.<br>6 measure. Modernisation of agricultural holdings.<br>7 measure. Improvement of the economic value of forests.<br>9 measure. Processing of agricultural products and increasing of added value.      |

## 6.3 Other legal issues

### 6.3.1 Business organizational law aspects

#### General

The main legal business forms available for Lithuanian farmers to organize themselves in producer organisations (POs) are cooperative societies and associations. The most frequently used legal business form is the cooperative society (cooperative). The national law does force producers to use cooperatives as main legal business form because the Law of Associations restricts distribution of profit to the members in any form. The national law stimulates the use of a specific legal business form – agricultural cooperative society. The Governmental programs mainly support the cooperatives with formal status “Agricultural cooperative society” (status is given according the rules of the Government). This status is for two years and next year each

cooperative need to apply again for this status. The cooperative get the status “Agricultural cooperative society” if at least 70 percent of its members receive the main income (at least 50 percent of income) from agriculture and horticulture and their share in the cooperative is at least 70 percent.

The Law on Cooperative Societies entered into force in 1993. New version of this Law entered into force in 1<sup>st</sup> January 2003. The SCE Regulation 1435/2003 in Lithuanian legislation has been implemented through a special Law on European Cooperative Societies Nr. X-696. SCE Regulation has been implemented by the Law on European Cooperative societies on June 15, year 2006, entered into force in August 18.

### **Formation / establishment**

The Law on Cooperative Societies determines the requirements on the amount of incorporators/members upon establishment:

- The incorporators of a cooperative society should be at least 5 natural and (or) legal persons (Art. 4, par. 1).
- Each incorporator of a cooperative society should become its member (Art. 4, par. 2).
- The incorporators of a cooperative society form a founding agreement (memorandum of association) of the cooperative society, prepare the project of the cooperative society's statutes (articles of association), convene the general meeting. Founding agreement is a public document (Art. 4, par. 3). The cooperative society has to be registered at the Register of Legal Entities. From the moment of registration cooperative society incurs legal capacity (Art. 6, par. 1).

There is no minimum capital requirement for the establishment of a cooperative. The capital of cooperatives is variable. It is obligatory to employ director (administration manager) and accountant. Their salary is the minimum cost of maintaining a cooperative.

### **Membership structures**

Only members have voting rights by the national law. Voting rights in the cooperative society in Lithuania is based on the general rule – one member, one vote concerning (Art. 11, par. 2, Law on Cooperative societies). However the Law allow following exceptions (art 11):

In the statutes of cooperative society with more than a half of the members being cooperative societies, may be determined that a number of votes is assigned to the member according to its participation in an activity of cooperative society (turnover), but not including its capital investments (share contributions). Under above stated circumstances the member is permitted to have up to 5 votes, though not more than 30 percent of all votes.

The provision of voting according to participation in an activity of society is not applied and each member of the cooperative society has one vote despite his share, if the number of members decreases to half of all members.

The member of cooperative company has a right to assign his right to vote to other member of cooperative society or to a representative or to a third party or to assigned person, who may represent him at members' meeting. In the statutes of cooperative society the maximum number of members that could be represented by one representative should be determined. (Art.11, 2008-11-11 amendment).

Admission of members is subject to approval according to the statutes (Art. 8, The Law on cooperative society). The new member has the obligation to pay an entrance fee and share contribution. The share contribution shall be not less than minimum share. The minimal and maximal share, order to pay additional share are determined in the statute of cooperative society.

There are no legal restrictions with regard to the possibility to introduce or accept members from other EU member states.

## **Internal Governance**

Mandatory cooperative management bodies are the General meeting (The General Assembly of Members), the Board of Directors and administration manager (Art. 15, par. 1, The Law of cooperatives).

In a cooperative society with the membership exceeding 100, the General meeting may be substituted by the meeting of representatives. The meeting of representatives has the competence of the general meeting of the members. Each representative has one vote at the meeting of representatives. The order and circumstances of electing and recalling representatives shall be determined in the statutes of cooperative company. Auditing is obligatory for a cooperative society which statutes intend to replace the general meeting by meeting of the representatives (Art. 15, par. 2, The Law of cooperatives).

In the statutes of cooperative society with less than 50 members, it could be determined that the board is not elected and its functions are performed by the manager. (Art. 15, par. 3, The Law of cooperative society).

Economic and financial activities of a cooperative society are supervised by an auditing committee (inspector). The members of the auditing committee and its chairman (inspector) are elected at the general meeting of the cooperative society for a cadence not longer than 4 years. In the statutes of the cooperative society may be assigned that its economic financial activities are controlled by the audit company confirmed by members meeting (Art. 18, par. 1, The Law of cooperative society).

The overall corporate governance structure is rather flexible. Members of cooperatives have different choices for choosing governance structure under certain circumstances:

1. In a cooperative society with the membership exceeding 100, the General Meeting may be substituted by the meeting of representatives. The meeting of representatives has the competence of the General Meeting of the members. Each representative has one vote at the meeting of representatives. The order and circumstances of electing and recalling representatives shall be determined in the statutes of cooperative company. Auditing is obligatory for a cooperative society which statutes intend to replace the general meeting by meeting of the representatives (Art. 15, par. 2, The Law of cooperatives).
2. In the statutes of cooperative society with less than 50 members, it could be determined that the board is not elected and its functions are performed by the manager (Art. 15, par. 3, The Law of cooperatives).
3. The member of board, the chairman or the entire board may be recalled or can resign according to the order assigned in the statutes prior to the expiration of their term of office (Art. 17, par. 2, The Law of cooperatives).
4. The members of auditing committee and its chairman (inspector) are elected at the General Meeting of the cooperative society for a term of not longer than 4 years. In the statutes of a cooperative society may be assigned that its economic financial activities are controlled by the audit company confirmed by members meeting (Art. 18, par. 1, The Law of cooperatives).

The members of a cooperative are directly involved in the decision-making process by participating in the General Meeting. The effectiveness of the decision-making process mainly depends on the members' entrepreneurship and knowledge.

The legal requirements on the composition of the Board of Directors are flexible. The Board is a collegial managing body of the cooperative society. The chairman manages the activity of the

Board. The number of Board members shall be determined in the statutes, though it cannot be less than 3 (Art. 17, par. 1, The Law of cooperatives).

Members of the Board and the chairman are elected by the General Meeting for the period not longer than 4 years. The members of Board, the chairman or the entire Board may be recalled or can resign according to the order assigned in the statutes prior to the expiration of their term of office. (Art. 17, par. 2, The Law of cooperatives).

The legal requirements on the composition of the supervisory board are flexible. The members of the Auditing Committee and its chairman (inspector) are elected at the General Meeting of the cooperative society for a term not longer than 4 years. In the statutes of cooperative society may be assigned that its economic financial activities are controlled by the audit company confirmed by general meeting (Art. 18, par. 1, The Law of cooperatives).

The law stipulates rules on the appointment and dismissal of the board of directors and the supervisory board. Members of the board and the chairman are elected by the general meeting for the period not longer than 4 years. The member of board, the chairman or the entire board may be recalled or can resign according to the order assigned in the statutes prior to the expiration of their term of office (Art. 17, par. 2, The Law of cooperatives).

The General Meeting of the cooperative society, the Board (if it is not constituted, then the manager of administration), Auditing Committee (inspector) may invite the experts for inspections.

The Law of cooperatives defines clear rules on the supervision of the board of directors concerning financial aspects of the cooperative (Art. 18, par. 1, The Law of cooperatives). The supervision on strategic decision mainly depends on the members' entrepreneurship and knowledge.

The national law allows a composition of the supervisory board partially or wholly by non-member experts if external audit company is chosen for controlling functions. In the statutes of a cooperative society it may be assigned that its economic financial activities are controlled by the audit company confirmed by members meeting (Art. 18, par. 1, The Law of cooperatives).

The General Meeting of the cooperative society, the Board (if it is not constituted, then the manager of administration), Auditing Committee (inspector) may invite the experts for inspections (Art. 18, par. 4, The Law of cooperatives).

The members of Auditing Committee and its chairman (inspector) are elected at general meeting of cooperative society for a cadence not longer than 4 years. (Art. 18, par. 1, The Law of cooperatives).

The national law allows the use of subsidiaries, dividing the membership organization from the actual company (Art. 7, par. 8, The Law of cooperatives).

## **Financing**

Cooperatives are allowed to raise equity by entrance fee and share contribution (cash or equity investment), incomes generated by activities and other ways not forbidden by the national law. Rules and procedures are set at the statutes of the cooperative.

The cooperative companies' own capital is divided into core and reserve capital. Core capital is used for economic activity and purchasing property for the cooperative company. Reserve capital by decision of members' meeting is used for unexpected expenditure and refunds; and the part of reserve capital which exceeds 1/10 of own capital, according the decision of the members meeting, may be used for other purposes. The payoffs to reserve capital are obligatory for a cooperative company, while reserve capital doesn't amount to 1/10 of own capital. Obligatory payoffs to reserve capital must amount to no less than 5 percent of net profit.



Net profit shall be distributed in the following manner: 1) deductions to capital reserve fund; 2) a part of the profit proportionate to the volume of the turnover with the cooperative society (patronage refunds) paid out to its members; 3) dividends paid to the members of the cooperative society in proportion to their member shares.

Up to 10 percent from net profit could be dedicated for paid dividends. Maximum amount of dividend is defined by the laws of the cooperative company. The maximum amount of dividend shall be established in the statutes of the cooperative society (Art. 14, The Law of Cooperatives)

The distribution of the after-tax net profit earned by a cooperative society during a business year must be approved not later than within 4 months of the end of the business year.

The national law does not directly forbid non-member participation in the equity capital of the cooperative. However non-members do not have any economic interest to participate in the equity capital because only 10 percent of net profit can be distributed in the form of dividends. This rule on distribution of profits restricts cooperatives/PO in their efforts to attract equity from non-members.

Some cooperatives would like to modify their organisational form for to be able generate additional capital in more flexible way. The main suggestions for changes in traditional model of cooperation reflect the need to distribute benefits according to member investment.

### **Exit provisions**

Any specific restrictions on exit of members are stipulated in the national law. A member of a cooperative can exit the cooperative and receive contribution for the ownership shares, payment for the asset assigned to this member, turnover and dividends benefit (Art. 11, par. 12, The Law of Cooperatives).

### **Reorganisation**

A cooperative can be reorganised by the Law on Cooperative Societies and by Civil Code. After reorganisation all rights and duties of the reorganised cooperative are transferred to the reorganised legal entity (Art. 20, par. 1, The Law of Cooperatives).

In the Law on Cooperative Societies and Lithuanian Civil Code there are no obstacles for a cooperative to be reorganised into a different legal form of enterprise.

The resolution on the approval of reorganisation of cooperative society shall be approved by at least 2/3 of votes of cooperative society members, registered in the list of participants (Art. 20, par. 2, The Law of Cooperatives). Procedures of cooperatives reorganization are described by the Law on Cooperative Societies (Art 19, The Law of Cooperatives). The procedures are harmonised with the Law on business entities reorganisation.

The resolution on the approval of reorganisation of cooperative society shall be approved by at least 2/3 of votes of cooperative society members, registered in the list of participants (Art. 20, par. 2, The Law of Cooperatives).

After reorganisation all rights and duties of reorganised cooperative are transferred to the reorganised legal entity (Art. 20, par. 1, The Law of Cooperatives).

### **6.3.2 Tax law aspects**

The standard tax law regime applies to the cooperative with some exceptions for cooperatives.

There are some provisions in tax law fostering or promoting cooperatives:

1. The Law on Real Estate Tax. The real estate of cooperative companies (cooperatives) is not taxed under the law on real estate tax of The Republic of Lithuania.

2. The Law on Profit tax. Taxed profit (or its part) of cooperative companies (cooperatives) proportionally falling to shareholders according the value of their share contribution last day of taxing period is taxed applying 5 percentage rate of profits tax, if:

1) during the taxing period more than 50 percent of incomes of the cooperative company (cooperative) is income from agricultural activity, or

2) during the taxing period more than 85 percent of incomes of the cooperative company (cooperative) is income from agricultural activity and (or) income from agricultural products sold, purchased from its members or produced by these members and (or) sold fuel, fertilizers, seeds, fodders, aids from pests and weeds to its members and tangible property, dedicated for use only in agricultural activity of its members.

Tax law in Lithuania fosters and promotes cooperatives because the extent of cooperation is still insufficient in Lithuania. In 2009, an agricultural cooperative society was taxed 5 percent from its profit (the general rate for investor-owned firms and other natural or legal persons is 15 percent). So the overall burden of the taxation of the cooperative in our opinion is reasonable and fair in comparison to the taxation of other organizations.

However the promotion of cooperatives remains an important issue for decision makers to find solutions not only by taxation that could help to increase the movement of farmers' cooperatives in Lithuania.

## **7 Assessment of developments and role of policy measures**

This chapter provides a concluding assessment on the developments of cooperatives in Lithuania. In chapter 2 the basic statistics on agriculture and farmers' cooperatives were provided. In chapter 3 data on individual cooperatives were reported, especially concerning their internal governance, their position in the food chain and the institutional environment in which they operate.

This leads to some first impressions in section 3.5 on the performance of cooperatives in Lithuania in relation to their internal governance, institutional environment and position in the food chain.

In chapter 4 the data gathering and analysis was broadened by looking at the differences between the sectors and the influence of sectoral issues on the performance of the cooperatives. Chapter 5 studied in much more detail how the regulatory framework influences the competitive position of the cooperatives in the food chain and vis-à-vis the investor-owned firms.

This final chapter assesses the (performance) developments of cooperatives and how they can be explained in terms of the building blocks (institutional environment, position in the food chain including sector specifics, and internal governance). Section 6.1 focuses on the explanation of the performance of cooperatives in terms of their internal governance, their position in the food chain (including sector specificities) and the institutional environment (including the regulatory framework). In section 6.2 an assessment is given on which policy measures in Lithuania seem to benefit cooperatives and which ones have a constraining influence.

### **7.1 Explaining the performance of cooperatives**

Cooperation has long traditions in Lithuania. The first Lithuanian cooperative was established in 1869 in Vilnius. Lietukis, the union of cooperatives played a major role in the development of cooperation in Lithuania. It operated from 1923 till the occupation of Lithuania in 1940.

Unfortunately, throughout the socialist years, much damage was inflicted on the cooperation movement. The independence of cooperatives was restricted, a certain part of profits was removed, and cooperation was forced out of big cities. Credit, agricultural and other cooperatives disappeared. Only Union of Lithuanian Consumers' Cooperatives (Lietkoopsajunga) established on the basis of Lietukis helped to provide people with products and strengthen their material facilities by buying agricultural products from their small individual farms. Kolkhozes were presented as main form of cooperation in agricultural sector.

After Lithuania regained independence situation concerning democratic cooperative movement in Lithuania has been marked by aspiration of consumer cooperatives to find their path from Soviet to free market economy in the privatization process. Influenced by active lobbying of consumer cooperatives the Seimas of the Republic of Lithuania ratified the Law on Cooperative Societies in 1993.

According the Law on Cooperative Societies founders and members of cooperative society are natural or legal persons. The traditional model of cooperation is used:

- Minimum number of founders – 5 legal or natural persons.
- One member has one vote.
- “Open doors” principle – anybody agreeing to the statutes of the cooperative can become its member.
- No specific restrictions on exit of members are applied. A member of a cooperative can exit the cooperative and receive contribution for the ownership shares, payment for the asset assigned to this member, turnover and dividends benefit.

The Law on Cooperative Societies stimulated the development of cooperation in the agricultural sector. After the privatization and land reform at the end of the 90ties, small farmers dominated the Lithuanian agricultural sector and started to show interest in cooperation. Currently agricultural cooperatives dominate; their part in total number of registered cooperatives in Lithuania is about 75 percent, consumer cooperatives – 7 percent and other type of cooperatives – 18 percent.

The number of registered farmer cooperatives from 2000 to 2008 is provided in Figure 20.

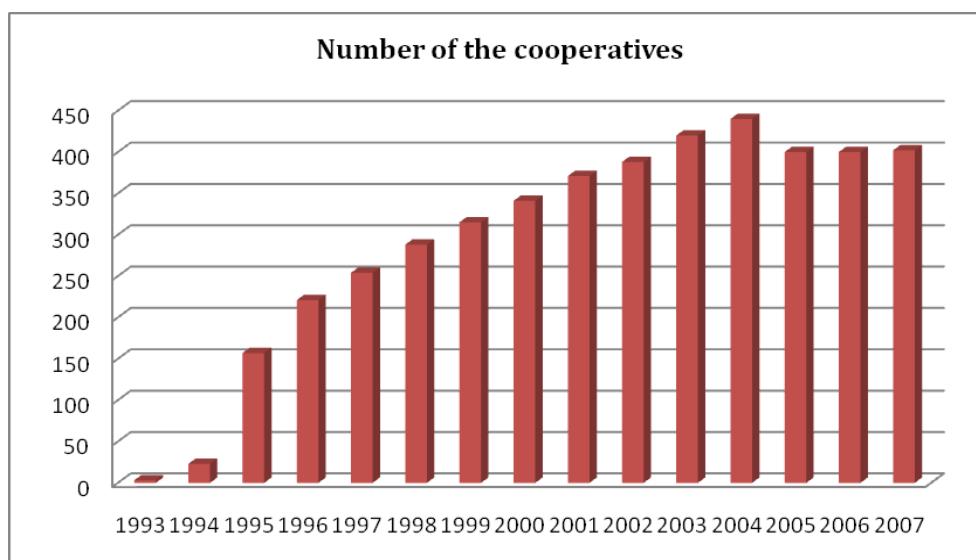


Figure 20. Number of the cooperatives, 1993-2007. Source: Centre of Registers of the Republic of Lithuania.

The number of cooperatives started to decrease from 2004 but it became bigger again. The number of members in farmer cooperatives increased from 2004 to 2007 by 1.5 times and comprised a total of 12.9 thousand members.

Small-size farmer cooperatives are predominant in Lithuania. About half of cooperatives have only minimum number of members necessary to register the cooperative as legal entity according Law on Cooperative Society (5 members). Only some cooperatives have more than 500 members (7 cooperatives in 2007).

However from 2007 the process of establishing new large-scale cooperatives started. The first secondary cooperative „Lietuviski grudai“ in the cereal sector was established in 2007 consisting of primary cooperatives operating in different regions of Lithuania. The new large primary cooperative “Joniskio aruodas” was established in the cereal sector joining more than 50 large farms. In 2008, the big dairy cooperative “Pienas LT” was established with more than 200 members and the ambitious aim to have an own dairy processing enterprise able to process more than half of the daily raw milk production in Lithuania.

The main functions of the cooperatives in Lithuania are the following:

- Providing farm inputs (supply cooperatives) – about 50 percent;
- Joint production (production cooperative) – about 25 percent;
- Providing farm machinery services (machinery cooperatives) – about 20 percent;
- Processing farm products (processing cooperative) – about 5 percent;

Currently the main sectors in which the agricultural cooperatives operate are the following:

- Dairy (about 40 percent);
- Cereals (about 25 percent);

- Fruits and vegetables (about 20 percent);
- Pig meat, sheep meat and beef (about 5 percent);
- Herbs, honey and other (about 10 percent).

The extent of cooperation is still insufficient in Lithuania. Only 50 percent of registered cooperatives are active.

The cooperation is most developed in the dairy sector. More than 30 active and successful cooperatives in this sector are operating in Lithuania. In 2008, they collected about 15–17 % of all raw milk produced in Lithuania. In 2008 new large cooperative “Pienas LT” in dairy sector was established. Number of members in this cooperative and turnover is increasing every month. Cooperative “Pienas LT” increased the role of cooperatives in the food chain significantly. Currently the market share of the cooperatives in dairy sector is about 25 %.

The development of cooperation in dairy sector stops the negative pressure from dairy processors. In certain cases dairy processors are offering higher raw milk prices for large farms – members of cooperatives with the aim to stop farmer’s membership in the cooperative. These processes are stimulated by the lack of cooperation between cooperatives and dairy processors. Cooperative “Pienas LT” is the first case of vertical integration of primary and secondary processing in dairy sector.

Cooperation in other sectors is very weak and their role in food chain is very insignificant. The most unexploited possibilities to develop cooperation are in the vegetables and fruit sector.

## **7.2 Effects of policy measures on the competitive position of cooperatives**

Newly founded Lithuanian agricultural cooperatives have received substantial methodological, legal and financial support from State and other European countries.

There are some provisions in tax law fostering or promoting cooperatives as outlines in chapter 5.3.2.

The Lithuanian Ministry of Agriculture is the main institution responsible for the development of support programs for cooperatives. The Lithuanian Ministry of Agriculture in 2005 initiated the creation of Council for the Coordination of Cooperative Movement with the aim to increase the development of cooperation in Lithuania. In 2006 division of cooperation was formed at the Lithuanian Ministry of Agriculture. In the same year, the Chamber of Agriculture of the Republic of Lithuania established the Centre for Coordination of Cooperation Movement.

The main support measures for the agricultural cooperatives from 2000 are the following:

- Financial support for newly established cooperatives for the partial reimbursement of establishment and administrative cost during five years.
- Investment support for cooperatives of Lithuania by the Rural Development Programmes for 2004–2006 and 2007–2013 with the aim to promote long-term expansion of their activities.

The Lithuanian Ministry of Agriculture aimed at creating favorable conditions for cooperatives to participate in both programmes by giving a priority score for them. Cooperatives with more than 50 members had a priority by implementing three measures of the Rural Development Programme for 2004–2006. The Rural Development Programme for 2007–2013 supports the cooperatives with formal status “Agricultural cooperative society” (status is given according the rules of the Government, see also chapter 5.3.1).

The participation of cooperatives in the Rural Development Programme for 2004–2006 was rather weak. Only 21 cooperative applied for the support. 62 % of applications were approved for financial support of 4.5 million EUR.

In the future development of cooperation remains important issue for decision makers to find solutions that could help to increase the movement of farmers' cooperatives in Lithuania. One of the main reasons why there is only little progress in cooperation in the agricultural sector is the still dominating opinion in the society that agricultural cooperatives are organizations similar to a kolkhoz as well as the lack of understanding how cooperation could give synergistic effects. According to the results of research conducted by Lithuanian Institute of Agrarian Economics in 2008, information on legal issues of cooperative society, consultation and learning in management and economics were indicated as the most important reasons for non-cooperation in Lithuania.

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