European Commission

Support for Farmers' Cooperatives

Study managed by LEI Wageningen UR

Directorate General for Agriculture and Rural Development

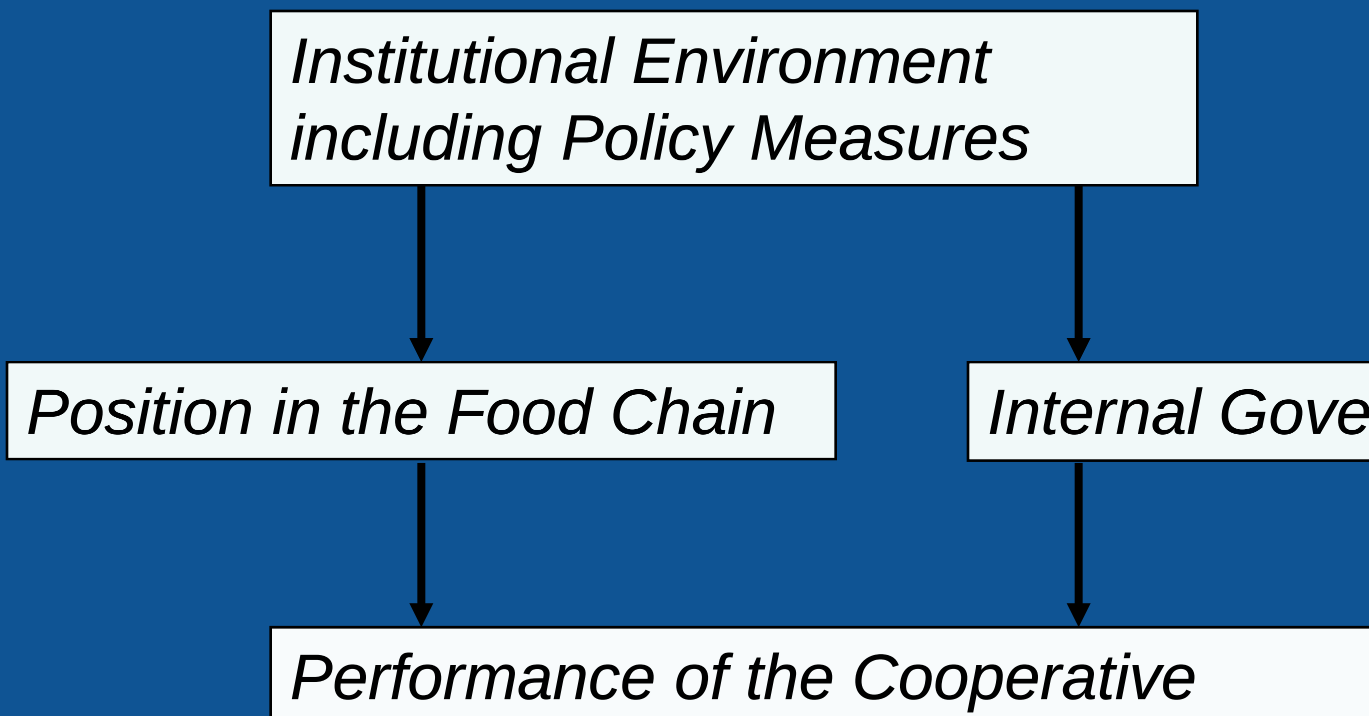
Background of the project

- Imbalances in bargaining power between the parties along the food supply chain
- European Commission searches policies that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income >>> background knowledge needed
- The specific objectives of this study:
    1. provide a comprehensive description of the current level of development of cooperatives in the EU
    2. identify laws and regulations that enable or constrain cooperative development
    3. identify specific support measures which have proved to be effective and efficient to promote cooperatives and producer organisations.

Organisation of the project

1. Typology and scientific literature
2. Fact finding in 27 member states (by national experts)
   - Data on 5 largest coops in 8 sectors >> n=500
   - Data on support measures
   - Interpreted in 27 country reports
3. Experiences in OECD countries outside EU
4. Data interpreted in 8 sector level reports (cereals, sugar, milk, pig meat, sheep, fruit & vegetables, wine, olive oil)
5. Analysis at EU level (including a clustering)
6. 33 Case studies (including transnational cooperatives)
7. Synthesis in final report

Core concepts in the approach



Traditional motives for economic cooperation

Motives	***Examples***
Countervailing power	Bargaining association
Economies of scale	Processing cooperative
Sharing of risk	Marketing coop with pool
Reduction of transaction costs	Cooperative auction
Access to resources	Credit cooperative
Access to markets	Marketing cooperative
Product innovation / quality control	Marketing cooperative

Current motives for marketing cooperatives

- Marketing cooperatives are nowadays operating in tightly coordinated food chains
- This implies that their main functions are:
  - Countervailing power
  - Economies of scale
  - Reduction of transaction costs
  - Sharing of market risk
  - More product innovation and marketing
    - Leads to more marketing expertise in boards
    - Quality control systems and support to members

Structures of cooperatives are changing

- Cooperatives go international
- Cooperatives obtain hybrid organisational structures
- Cooperatives give more room for managerial entrepreneurship
- Cooperatives (have) become more product-based and less region-based (in member-representation)
- In order to attract additional equity capital, cooperatives change their ownership structures
- Federated cooperatives are likely to disappear or become farmer-owned instead of user-owned

Main findings – 1: on cooperatives

- Farmers' coops are important in all Member States.
- Cooperatives create markets or give farmers a better access to them and improve efficiency.

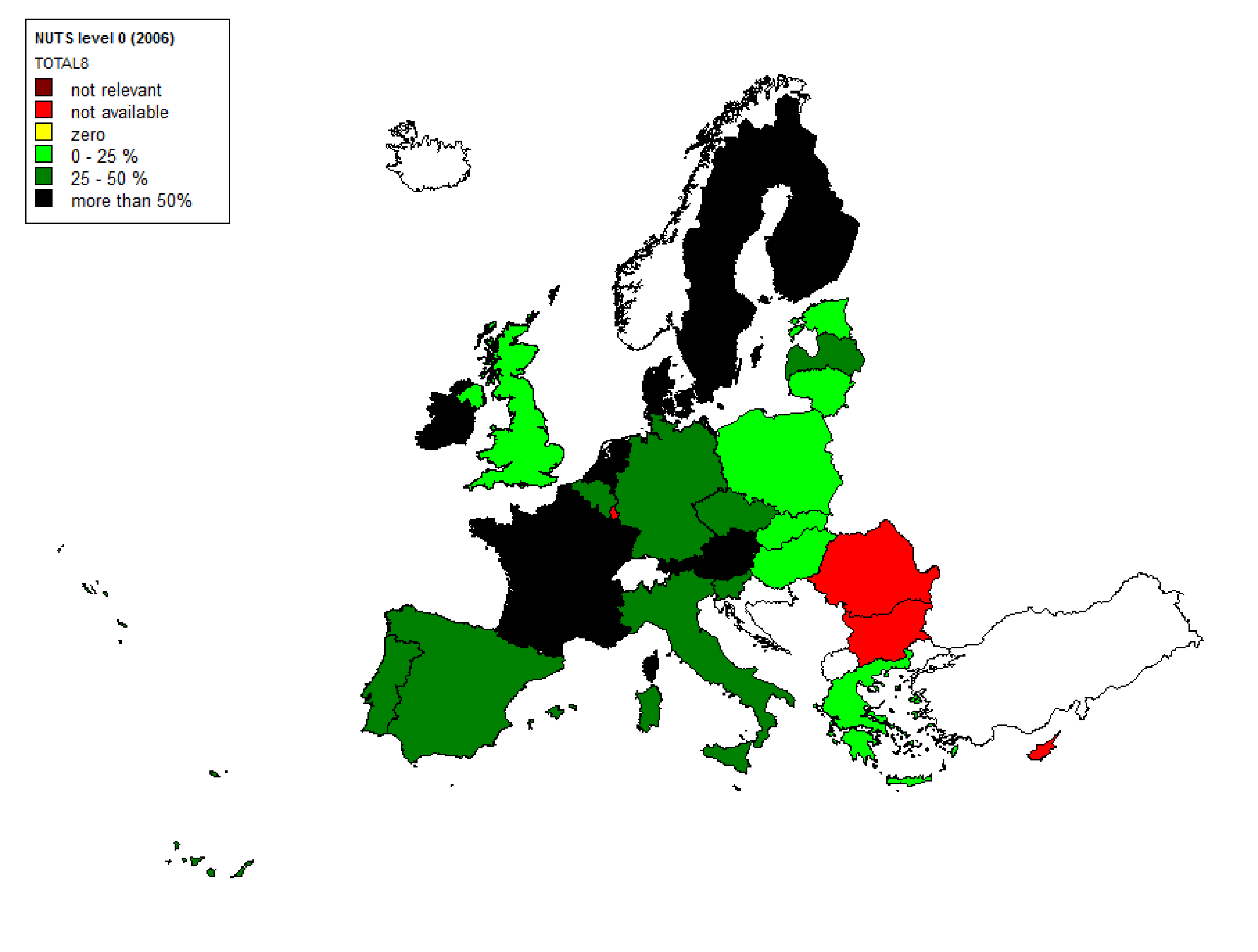
- Cooperatives have three key characteristics: user-owned, user-controlled and user-benefitting.
- Various hybrid business entities, look-alike of IOFs, often majority owned by farmers' organisations.

- Cooperatives do not always represent the optimal organisational form; the choice is not an ideological but a practical one.

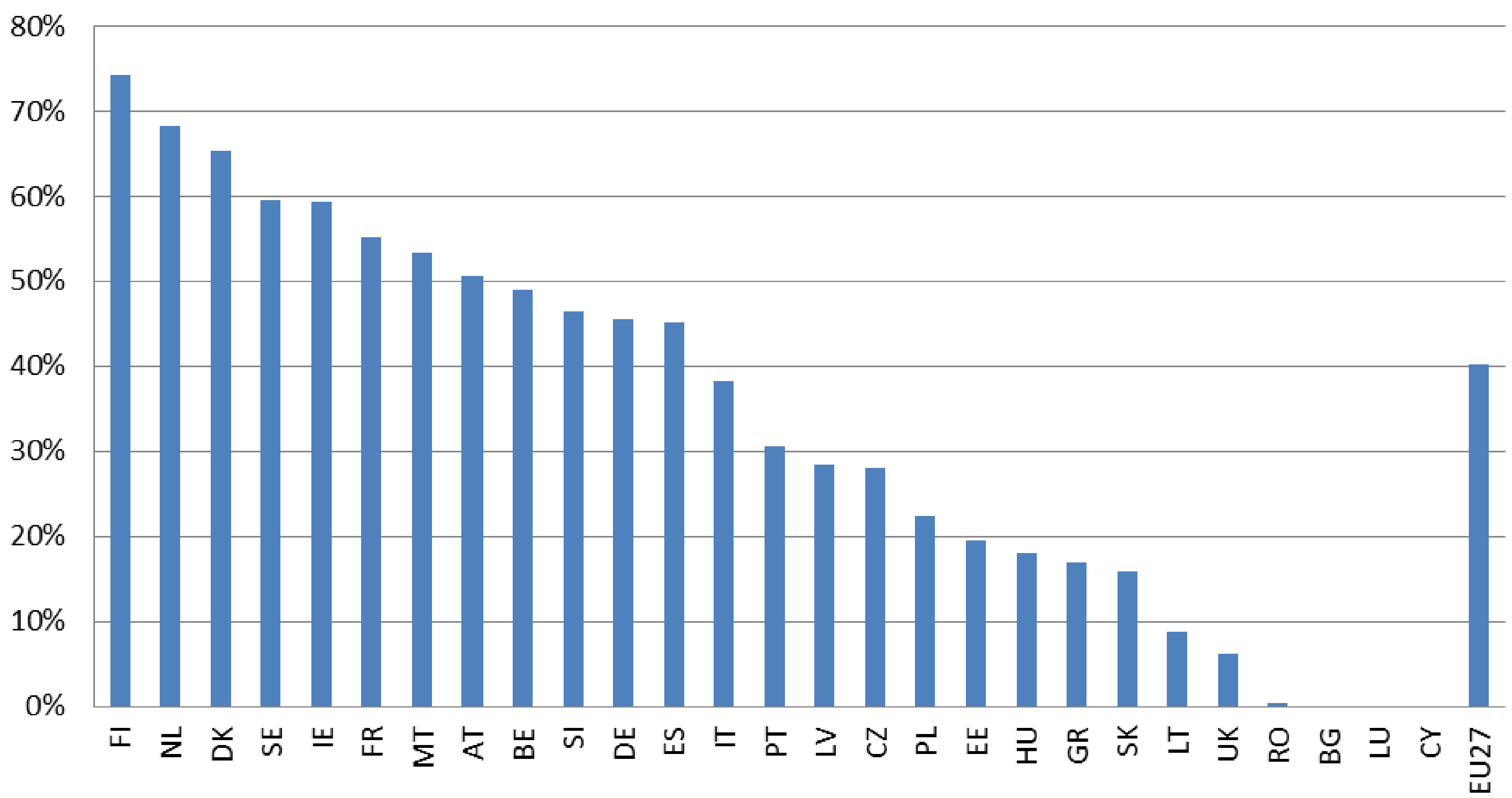
Main findings – 1: on cooperatives

- Cooperatives (excluding hybrids) have a market share of about 40% of the farm produce in the 8 sectors mentioned.
- There are large differences in market share between sectors, with dairy and fruit & vegetables showing the highest importance of cooperatives
- There are large differences between Member States in the market share of cooperatives

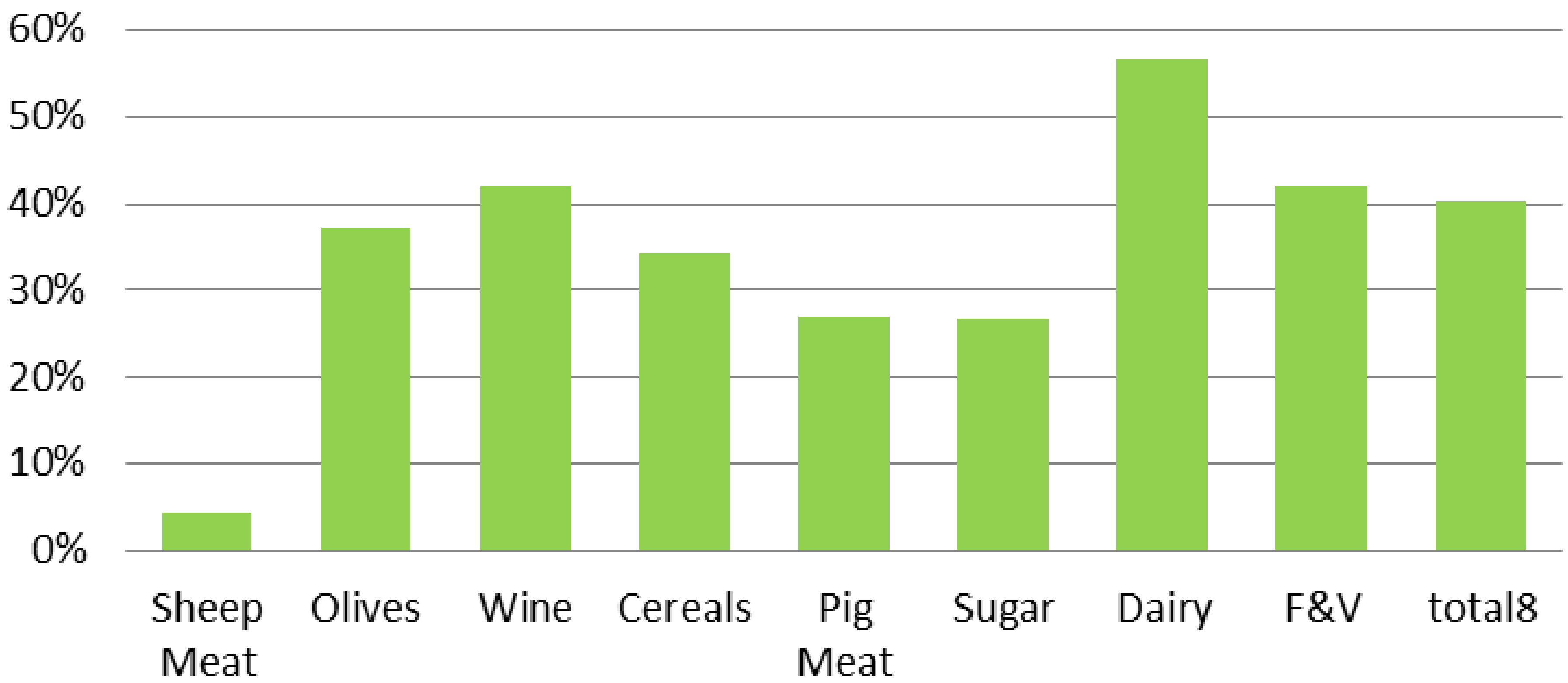
Market share



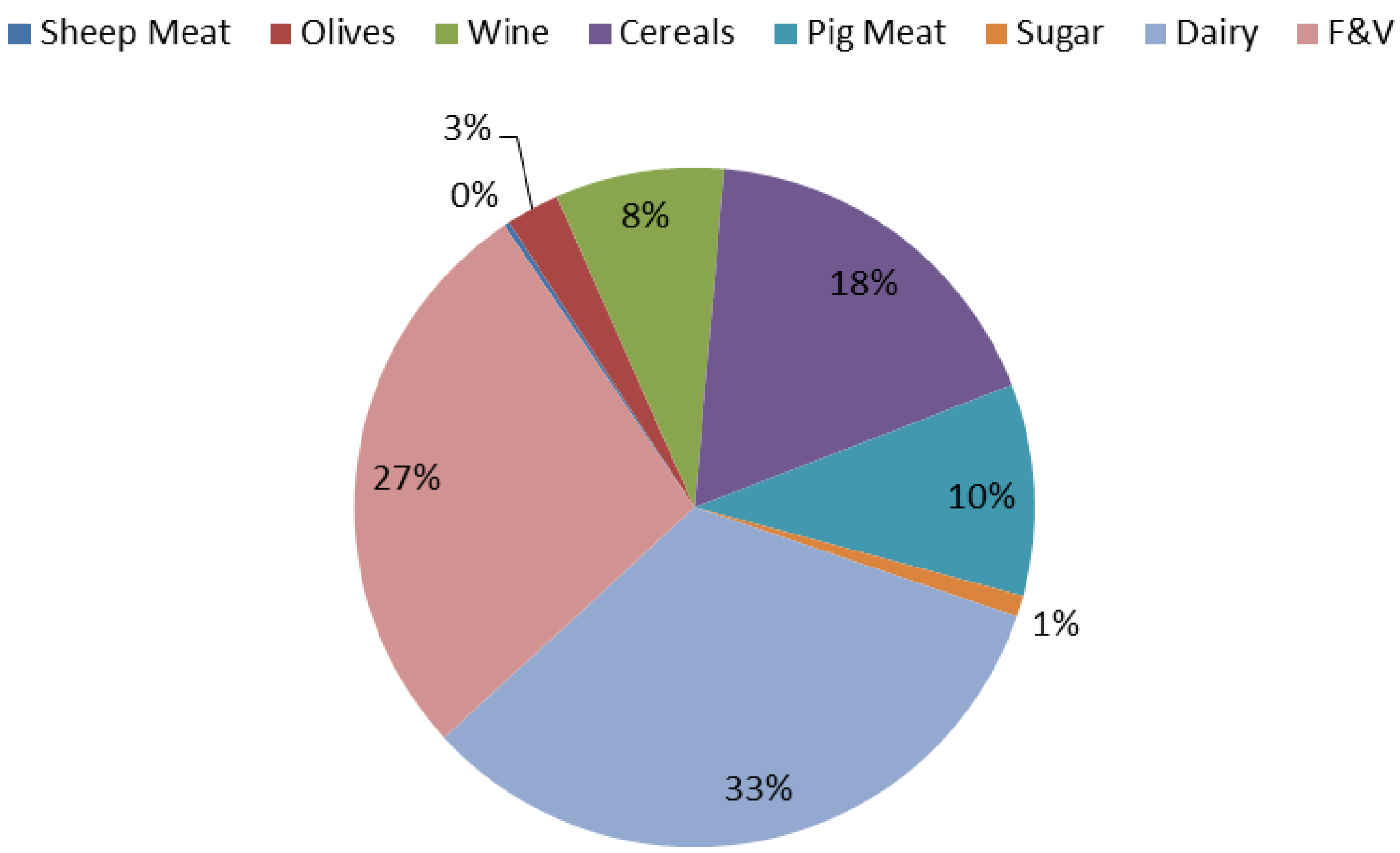
Market share cooperatives, per country, 2010



Market share cooperatives, EU per sector, 2010



Value of produce market by cooperatives, EU, 2010



Main findings – 2: on power in food chain

- In supply chains cooperatives play a role in maximizing their members' share of the value added.
- Countervailing power is limited: even the largest transnational cooperatives lack market power
- More international mergers are expected; may result in the loss of members' control (mimic IOF structures)
- A large market share for cooperatives in a region can increase the price level and reduce volatility (dairy)
- Local and 2nd tier coops realise coordination / efficiency
- Bargaining associations can promote farmers' interests
- Regional niche cooperatives add value by co-innovation with supermarkets / food service companies.

Main findings – 2: on power in food chain

- Cooperatives and producer organisations experience legal uncertainty in competition law / rulings and high cost due to burden of proof
- Some other OECD countries (e.g. USA) have more exemptions for cooperatives in competition law to rebalance market power.
- Anti-trust exemption can create more balance in the food chain (as a next best option to challenge market power of retail)
- Cooperatives with open access and members with different marginal cost, tend to realise prices at average cost and go for bulk and cost leadership.
- Definitions of producer organisations / support measures should not discriminate against large cooperatives

Main findings – 3: on internal governance

- Farmers have many options in organising their cooperative's internal governance optimally.
- In many cooperatives there is room for further professionalization (board of directors and management)
- Most national laws provide ample possibilities to choose an internal governance model that fits the strategy of the farmers' cooperative, although such flexibility may not provide much guidance.
- In some cases the checks and balances (e.g. by using supervisory boards) or options for professionalization of boards need attention from cooperatives as well as national legislators.

Main findings – 4: on support measures

- Cooperatives benefit from an enabling, flexible cooperative law, single taxation, and clear competition rules.
- In some sectors cooperatives benefit from the CAP and some of its reforms.
- There is no clear conclusion which support measures do have additional value
- Nevertheless, we argue that there is a need to support capacity building and technical (organisational) assistance, especially to support small and emerging cooperatives
  - recognizing that coops are a form of self-organisation
  - former socialist countries: lack of social and human capital
  - subsidies can support but also have negative effects.

Additional findings – 1: History matters

- All Member States have a cooperative tradition
- But origin and intensity differs:
  - in some countries the cooperatives are directly linked to large transitions / market failure at the end of the 19th century (Denmark, Netherlands), or a movement for independence (Finland), or state failure (some Mediterranean countries)
  - others have seen periods were cooperatives were not politically correct,
  - or where the cooperative was not based anymore on self-organisation principles but was a socialist planning tool (new Member States).
- It means that the label “cooperative” has different connotations in different regions.

Additional findings – 2: Market shares

- The limited role of cooperatives in the new Member States:
  - has an important social and political background
  - low level of self-organisation and networking is broader than in the cooperatives
  - social blockades may be overcome as they are not deeply culturally rooted.
- Some sectors have more cooperatives than others, mainly due to the characteristics of the product
  - Important market share in dairy and fruit & vegetables due to product perishability.
  - In sectors like cattle, pigs and sheep the animals are often sold by farmers (often under contracts) to traders or slaughterhouses

Additional findings – 3: Professionalisation

- Professional structures and policies regarding board composition and member incentives affect the performance of cooperatives.
- The typical attributes of “professionalizing cooperatives” like, for example,
  - proportional voting rights,
  - professional management,
  - supervisory board, with outsiders,
  - selection of directors based on expertise or product representation as opposed to regional origin,
- all have a positive effect on cooperative performance.

Additional findings – 4: Position food chain

- Branding activities are different between sectors (more in dairy and wine sectors, rare in the cereals, sugar, sheep and pig meat sectors)
- Federated cooperatives are an efficient organisational solution under particular conditions, but the long-run trend is that they disappear or change into hybrid structures with several producer organsitions as owner
- Bargaining associations are mainly active in:
  - fruit & vegetable sector
  - dairy, where their role in the post-2015 quota-free market is still unclear.
  - only in Germany also in cattle and pigs.

Additional findings – 5: Finance

- Cooperatives reduce uncertainty in payments for farmers
- Finance of cooperatives is a bottleneck in some regions were risk capital and other forms of equity are not available (and were knowledgeable banks do not exist).
- However it is not the only and main bottleneck for developing cooperatives
- Often the (lack of a profitable) business model is more the problem than financing it.

- In some cases (with high VAT) farmers find the grey / black economy an attractive alternative

Additional findings – 6: Transnationals

- The 46 transnational cooperatives can be found in a limited number of sectors (mainly dairy and fruit & vegetables) in northwest Europe.
- They often also own companies that source from non-members in other countries, like the other 45 international cooperatives.
- Most cooperatives prefer to internationalize by acquiring foreign IOFs, not by merging with other cooperatives.
  - To prevent dilution of ownership (income, control)
  - There are no legal barriers in merging across borders
- The SCE (European Cooperative Society) can be used to merge cross-border but is not used.

Additional findings – 7: Rural development

- Links between cooperatives and RD are manifold:
  - important employers and contributors to income.
  - contribute to public policy objectives such as the development of human capital, improvement of competitiveness, and environmental sustainability.
  - Some build a business strategy on regional characteristics.
- Cooperatives have a social function but they are not social enterprises. Also in the new Member States cooperatives have become business oriented, moving away from the paradigm adopted under socialist rule.
- Bulgaria is an exception: public functions are carried out by agricultural production cooperatives.

Additional findings – 8: Support measures

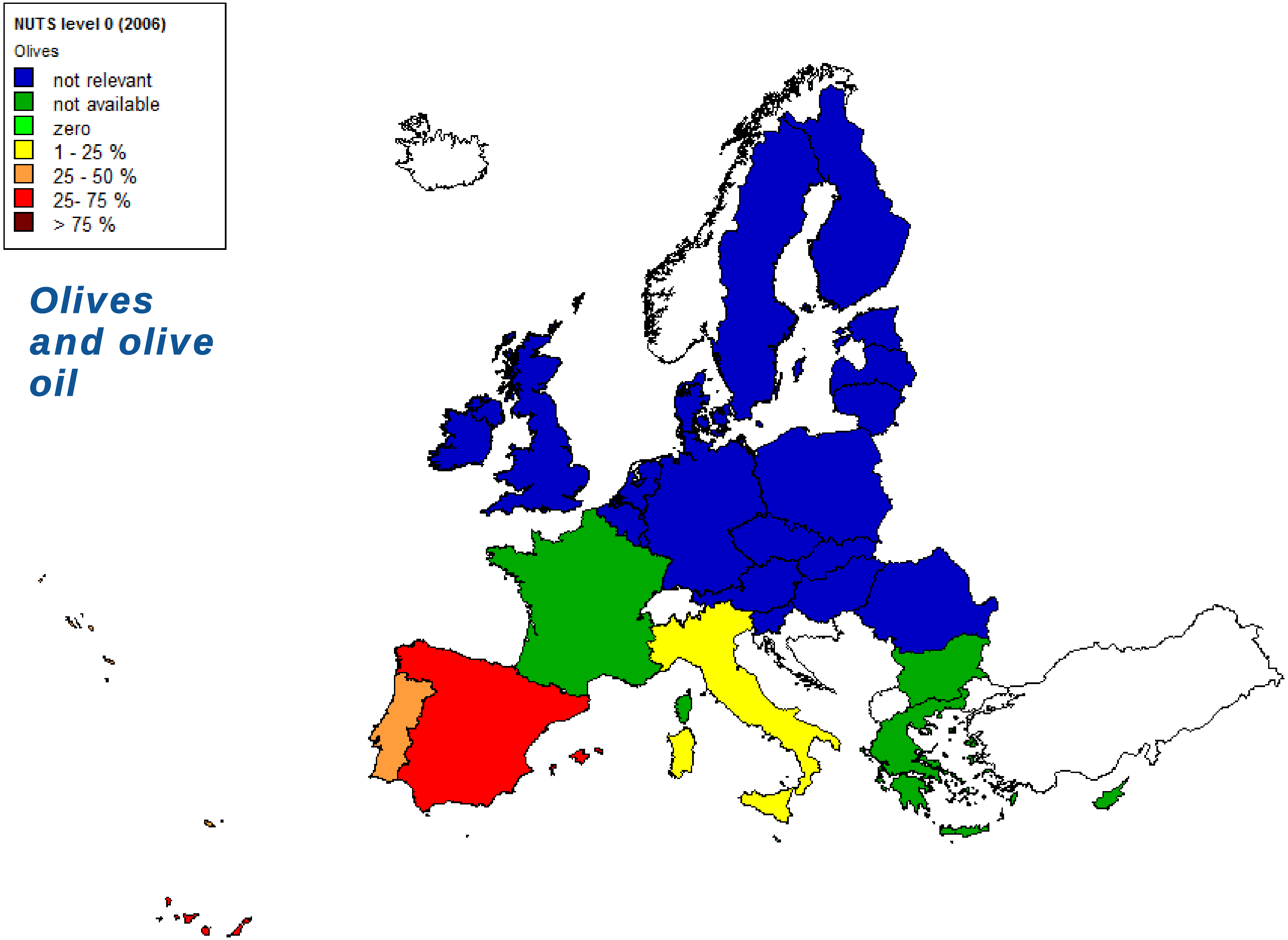
- More than 300 European, national and regional policy measures were identified.
- Cooperative legislation, competition rules, inducements (money transfers) and financial incentives were among those observed most often.
- Considerable differences between Member States, in terms of the policy measures adopted.
- There are no clear links between the (current) support measures for farmers' cooperatives and the market share of cooperatives.
- Also in other OECD countries there is a great diversity in policy measures and the absence of support policies can have positive as well as negative effects.

Thank you for your attention!

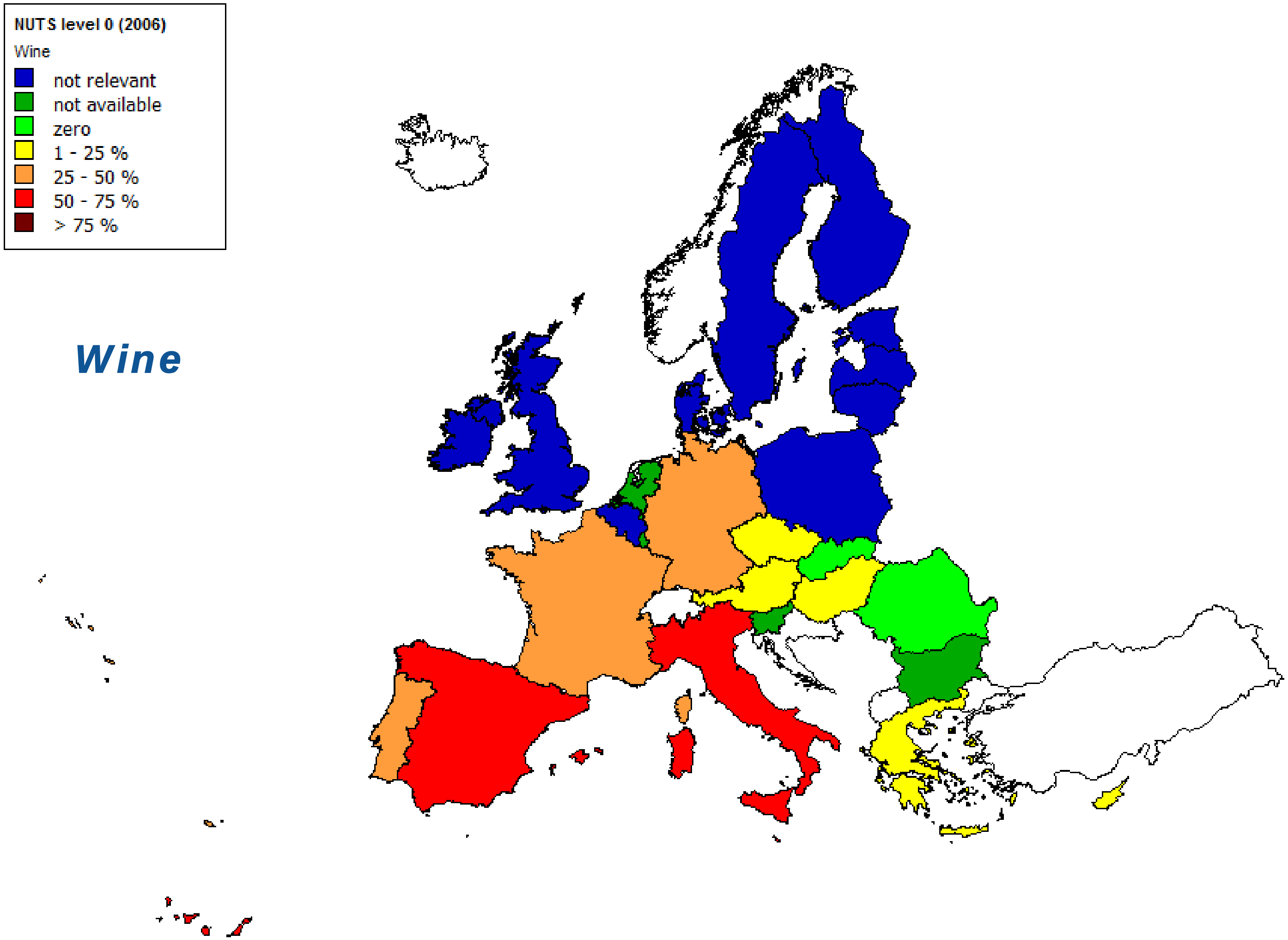
Some extra sheets,

in case the ppt is used for audiences from specific sectors, then a sheet can be added on the market share of cooperatives in this sector per country

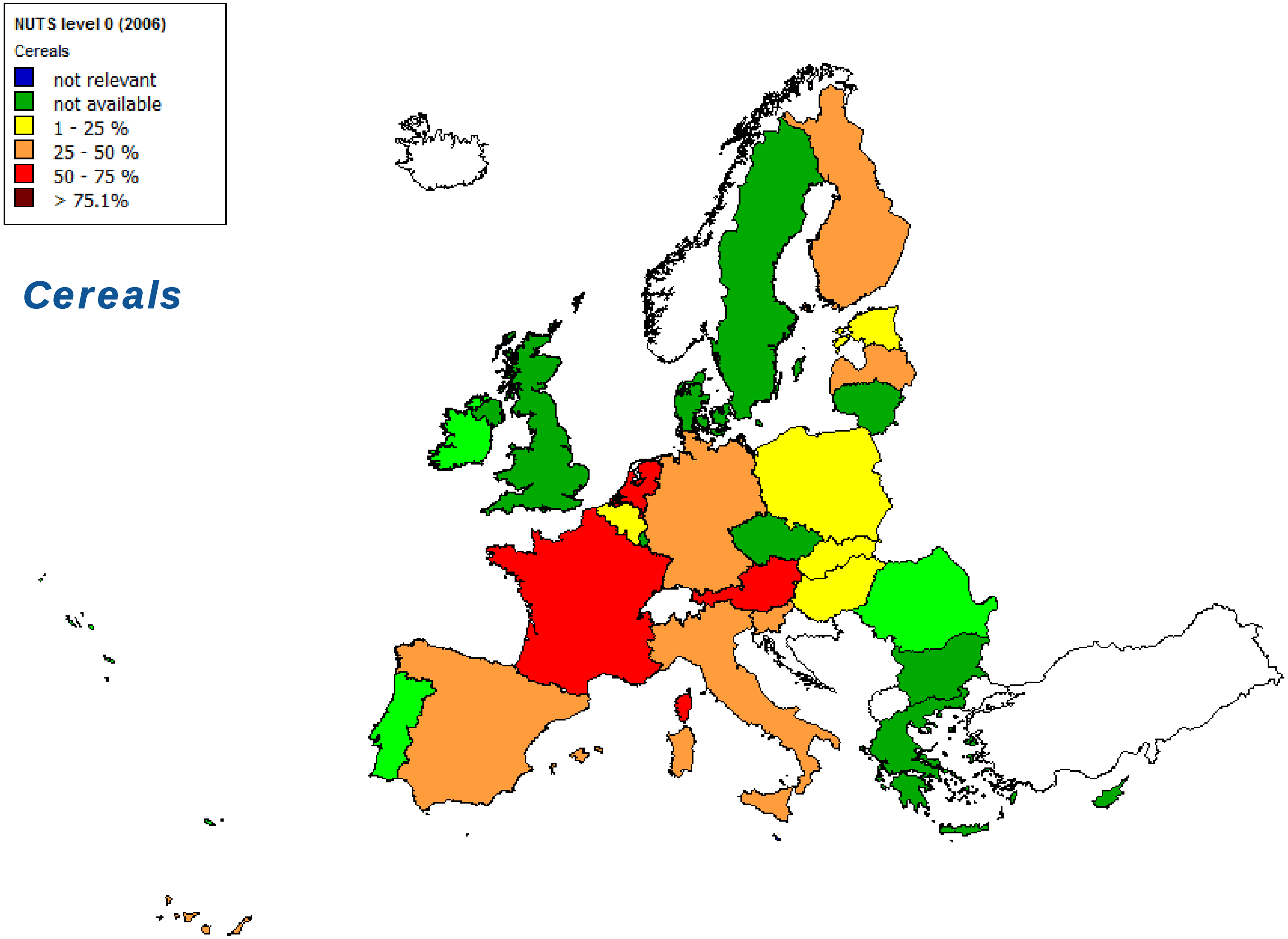
Olives and olive oil



Wine


NUTS level 0 (2006)
Wine
not relevant
not available
zero
1 - 25 %
25 - 50 %
50 - 75 %
> 75 %

Cereals


NUTS level 0 (2006)
Cereals
not relevant
not available
1 - 25 %
25 - 50 %
50 - 75 %
> 75.1%

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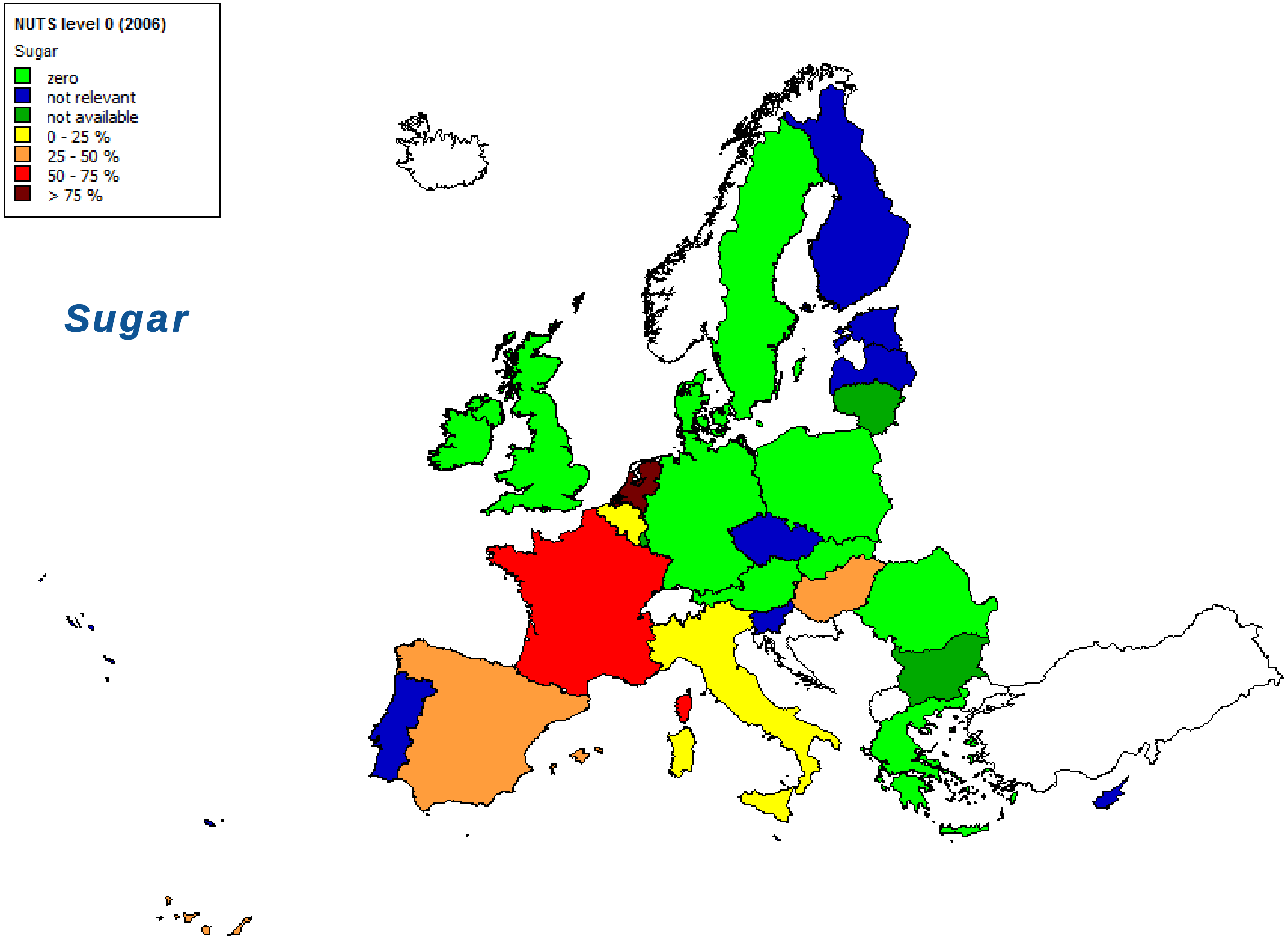
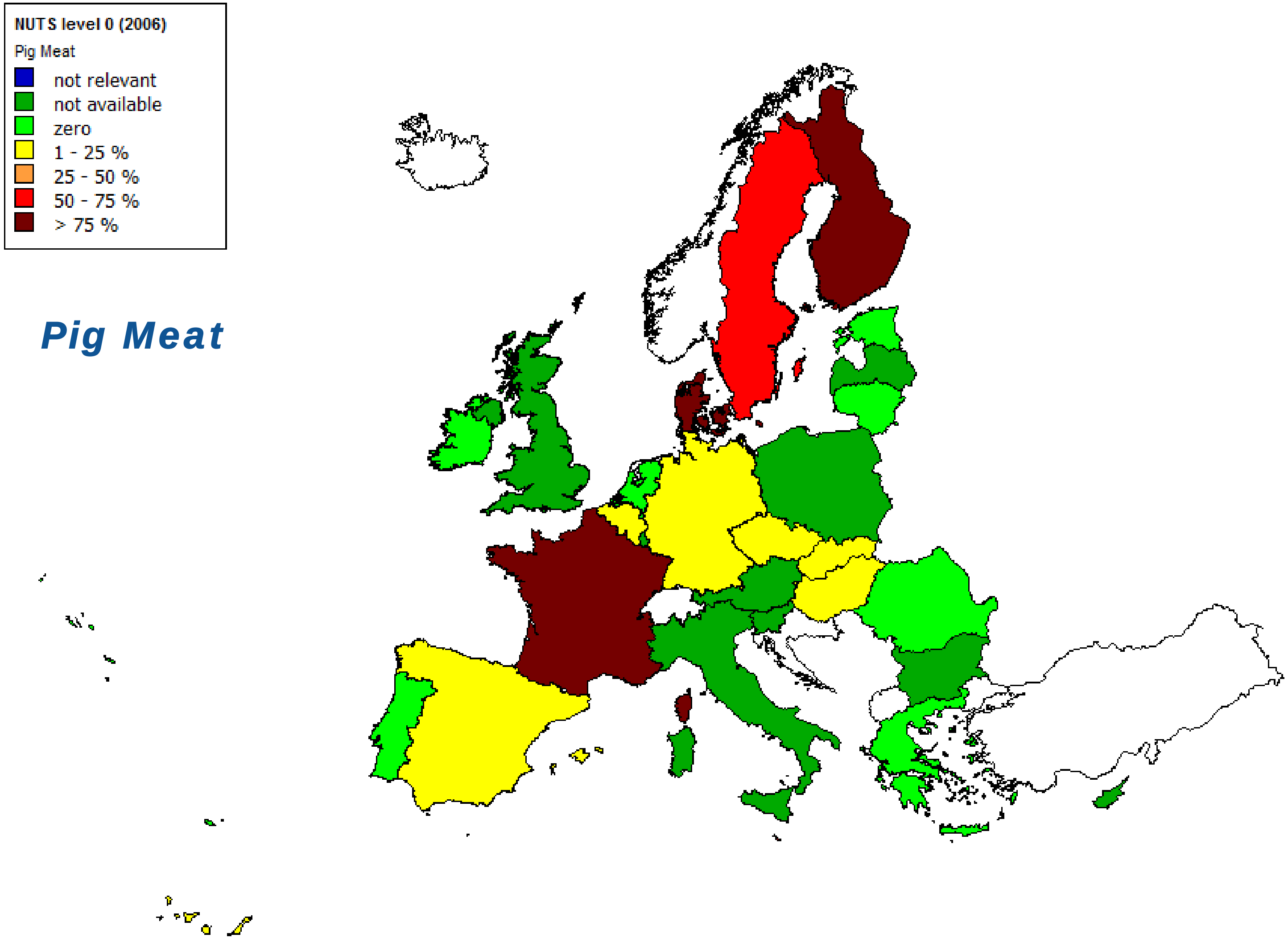
Sugar



Pig Meat


NUTS level 0 (2006)
Pig Meat
not relevant
not available
zero
1 - 25 %
25 - 50 %
50 - 75 %
> 75 %

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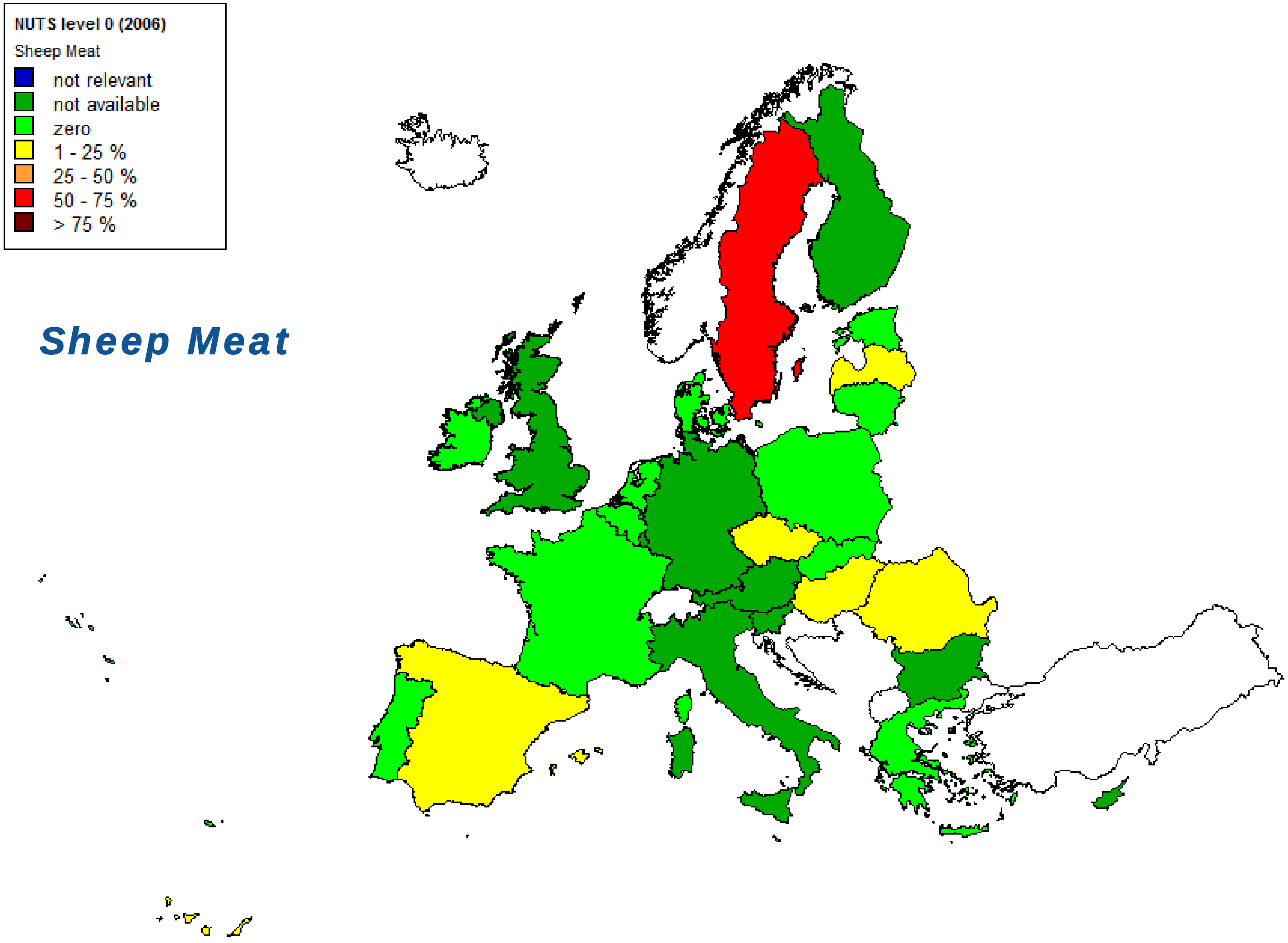
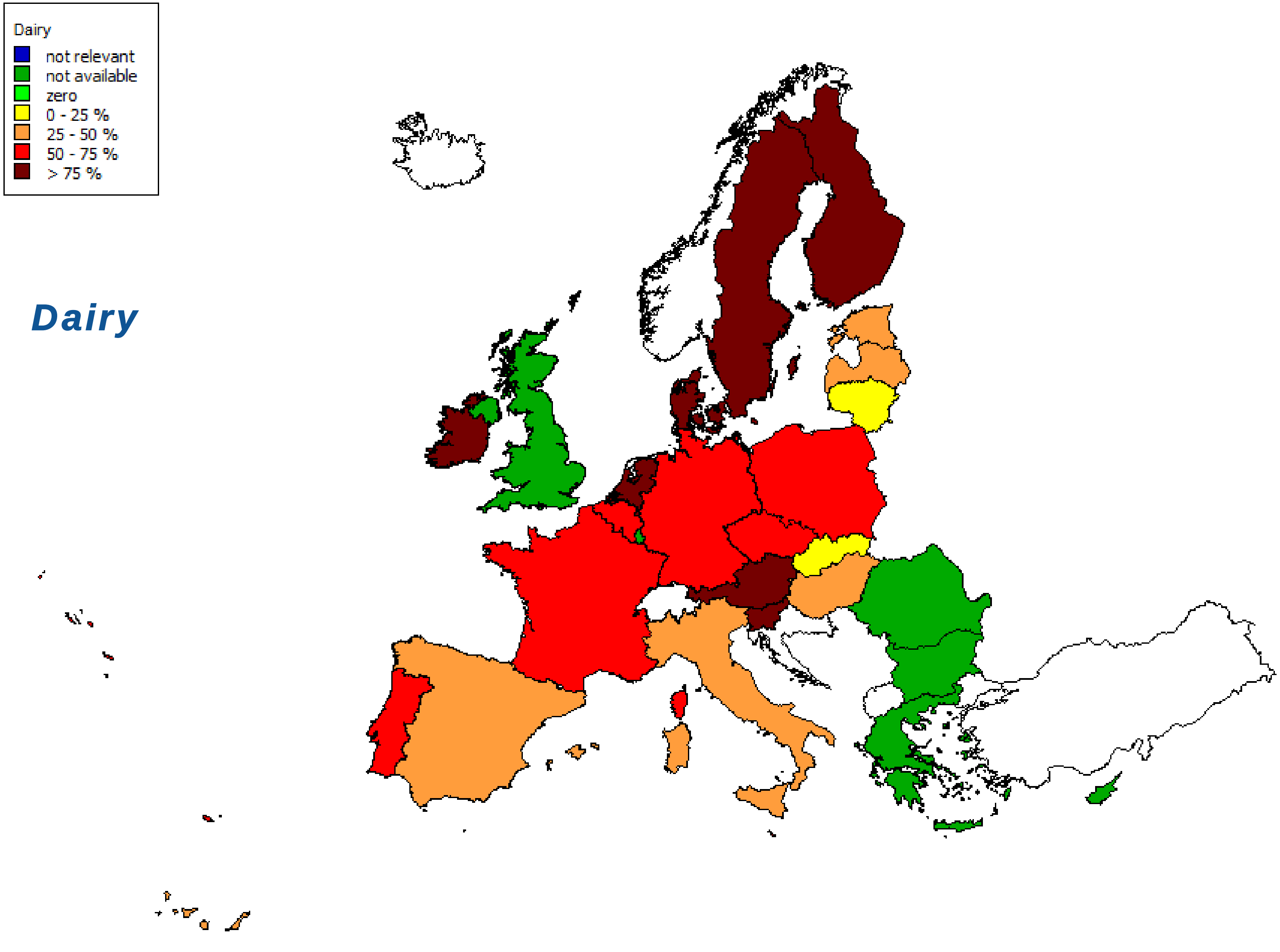
Sheep Meat



Dairy



Fruit and vegetables