Support for Farmers’ Cooperatives: 
Development of Agricultural Cooperatives in the EU

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Outline of the Presentation

- Support for Farmers’ Cooperatives
- General facts about agricultural cooperatives
- Position in the food chain
- Market shares
- Support measures
- New Member States and rural development
- Transnational cooperatives
- Internal governance
Jos Bijman: background information

- Education: political science, economics, organisation theory
- Senior Researcher at Agricultural Economics Research Institute
- Professor at Wageningen University, since 2003
- Teaching courses on:
  - management, economic organisation theory, cooperatives and POs
- Research Topics:
  - restructuring of agricultural cooperatives, quality improvement, strategy and structure of producer organisations worldwide
- Current Projects:
  - Innovation, Quality Improvement and Value Chain Coordination
  - Factors determining Member Commitment
  - New Producer Groups and Innovation
  - Factors determining Effective Board of Directors
- Focus countries: The Netherlands, Brazil, Ethiopia
Support for Farmers’ Cooperatives (SFC)

- A project for the European Commission, DG Agriculture and Rural Development
- Project managers:
  - Krijn Poppe and Jos Bijman (Wageningen University and Research Centre)
- Budget: 1.45 million euro
- Consortium:
  - 11 partners + cooperative experts in all EU Member States
5 regional coordinators

- Leuven University. Coordinator: Caroline Gijselinckx
- Pellervo. Coordinator: Perttu Pyykkönen
- Humboldt University. Coordinator: Konrad Hagedorn
- Giessen University. Coordinator: Rainer Kuehl
- AGEPRI. Coordinator: Costas Iliopoulos
Purpose of the SFC project

- The overall purpose of the study is to 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.
Specific objectives

- To provide a comprehensive description of the current level of development of cooperatives and other forms of producer organisations in the 27 EU Member States. The study will examine in particular the following drivers and constraints for the development of cooperatives:
  - Economic and fiscal (dis)incentives and other public support measures;
  - Legal aspects;
  - Historical, cultural and sociologically relevant aspects;
  - Relations in the food chain.

- 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.
Research Phase 1

Theme 1: Typology
- Position in Food Chain
- Methodology Development
- Internal Governance
- Institutional Environment

Theme 2: Coop support measures with OECD countries
Theme 3: EU-27 Coop situation and support measures

Database containing literature review, and policy measures per member state

Theme 4: EU Level Synthesis
Theme 5: Sector Level Overview

Theme 6: Clustering

Cluster Case and Trans-national Cooperatives

Research Phase 2

Theme 7: Case Study
Theme 8: Trans-national Cooperatives

Synthesis and Conclusions on:
- Comprehensive description of the current level of development of cooperative
- Effective and efficient support measures
Core concepts in our approach

Institutional Environment

Policy Measures

Position in the Food Chain

Internal Governance

Performance of Cooperatives
<table>
<thead>
<tr>
<th>Topic</th>
<th>Experts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy measures</td>
<td>Krijn Poppe</td>
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<tr>
<td>Internal Governance</td>
<td>Markus Hanisch, Jos Bijman</td>
</tr>
<tr>
<td>Position in the food chain and strategic management</td>
<td>Rainer Kühl</td>
</tr>
<tr>
<td>Legal aspects</td>
<td>Ger van der Sangen</td>
</tr>
<tr>
<td>Social, cultural and historical issues</td>
<td>Caroline Gijselinckx</td>
</tr>
<tr>
<td>Research methodology</td>
<td>George Hendrikse and Tony Hak</td>
</tr>
<tr>
<td>Experiences in other OECD countries</td>
<td>Costas Iliopoulos, Mike Cook</td>
</tr>
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</table>
## Issues for data collection

<table>
<thead>
<tr>
<th>Building blocks</th>
<th>Variables in data collection</th>
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</thead>
<tbody>
<tr>
<td>Institutional Environment</td>
<td>Economic (dis)incentives</td>
</tr>
<tr>
<td></td>
<td>Legal/fiscal/competition aspects</td>
</tr>
<tr>
<td></td>
<td>Historic/cultural, sociological backgrounds</td>
</tr>
<tr>
<td></td>
<td>Public support measures (National, regional EU)</td>
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<tr>
<td>Position in the Food Chain</td>
<td>Relationships between actors in the food chain</td>
</tr>
<tr>
<td></td>
<td>Sector (or product) specificities</td>
</tr>
<tr>
<td></td>
<td>Strategy of the Cooperative(s)</td>
</tr>
<tr>
<td>Internal Governance</td>
<td>Capital structure</td>
</tr>
<tr>
<td></td>
<td>Relationship between cooperative and members</td>
</tr>
<tr>
<td></td>
<td>Ownership structure</td>
</tr>
<tr>
<td></td>
<td>Decision making structure</td>
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</table>
Deliverables of the SFC project

- 27 country reports
- 8 sector reports
  - cereals, dairy, F&V, pig meat, sheep meat, olives, wine and sugar
- 6 cross-cutting theme reports
  - Legal issues, policy measures, internal governance, internationalization, social and cultural aspects, food chain
- 34 case studies
  - 18 national/sectoral cases
  - 15 transnational cases
- 3 other reports
  - A report on development of cooperatives in other OECD countries
  - A cluster analysis
  - A typology
SFC Reports most relevant for Spain

- Spain Country Report
- All Sector Reports
  - Wine (70%), Olives & Olive Oil (70%), Fruit & Vegetables (50%), Dairy (40%), Cereals (35%), Sugar (28%), Pig meat (25%), Sheep meat (25%)
- Case studies:
  - Wine cooperatives in Italy (Veneto) and Spain (La Mancha)
  - Oil cooperatives in Greece (Crete) and Spain (Andalusia)
  - F&V cooperatives in Almería and Valencia
  - Sheep cooperatives in Extremadura and Scotland
  - ZON – UNICA partnership
  - Other case studies on F&V industry
Current context for marketing cooperatives

- Food products are distributed through tightly coordinated food chains, in highly concentrated (retail) markets

- Therefore, the main (new) functions of cooperative are:
  - Countervailing power
  - Reduction of transaction costs
  - Sharing of market risk
  - Support product innovation and quality improvement

- This leads to:
  - More marketing expertise in boards and management
  - Quality control systems, and technical support to members
  - Changes in structure and strategy
Structures and strategies in 21st century

- Internationalization
- Focus on quality
- More room for entrepreneurial managers
- Additional equity capital needed → changes in ownership structures
- Will federated cooperatives survive?
(1) General facts

- Farmers’ cooperatives are important in all Member States
- Most useful definition of cooperative: user-owned, user-controlled and user-benefitting
- Cooperatives do not always represent the optimal organisational form; the choice is not a ideological but a practical one
Cooperatives 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 cooperatives, per country, 2010
Market share cooperatives, EU per sector, 2010

- Sheep Meat
- Olives
- Wine
- Cereals
- Pig Meat
- Sugar
- Dairy
- F&V
- total8

Bar chart showing the market share of cooperatives in various sectors of the EU in 2010.
(2) Position in food chain

- Market power of individual cooperatives is limited

- A large market share for cooperatives in a region can increase the price level and reduce volatility (dairy)

- Regional niche cooperatives can add value by co-innovation with retail and food service companies
(2) Position in food chain

- Selling under consumer brand is common in dairy and wine sectors, but still rare in cereals, sugar, sheep and pig meat.

- Federated cooperatives are an efficient organisational solution under particular conditions, but the long-run trend is that they disappear, due to:
  - Reducing transaction costs (logistics, information, quality control)
  - Marketing quality products requires short supply chain

- Bargaining associations are mainly active in:
  - fruit & vegetable sector (e.g. for processing)
  - dairy
  - cattle and pigs (only in Germany)
(2) Position in food chain

Policy implications:

- Cooperatives and producer organisations experience legal uncertainty in competition law / rulings and high cost due to burden of prove.

- Some other OECD countries (e.g. USA) have more exemptions for cooperatives in competition law to rebalance market power.

- Definitions of producer organisations / support measures should not discriminate against large cooperatives.

- Further growth and international expansion is expected; but there is a risk of loss of members’ control.
(3) Market shares

- 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 (under contracts) to traders or slaughterhouses owned by IOFs
(4) Support measures

- More than 300 EU, national and regional policy measures were identified.

- 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.
(4) Support measures

- Cooperatives benefit from an enabling, flexible cooperative law, single taxation, and clear competition rules

- In F&V, agricultural policy of EU has supported cooperatives

- There is no overall conclusion on which support measures do have additional value
Low presence 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
Links between cooperatives and rural development:

- important employers and thus contributors to income
- contribute to public policy objectives such as the development of human capital, improvement of competitiveness, and environmental sustainability
- Marketing strategy on regional characteristics
The 46 transnational cooperatives can be found in a limited number of sectors (mainly dairy and fruit & vegetables) in Northwest Europe.

They often also have subsidiaries that source from non-members in other countries, like the other 45 international cooperatives.

Most cooperatives prefer to internationalize by acquiring foreign IOFs, and purchase from non-cooperative suppliers, not by merging with other cooperatives.
- To prevent dilution of ownership (income, control)

There are no legal barriers in merging across national borders.
## Transnational Cooperatives in EU

<table>
<thead>
<tr>
<th>Sector</th>
<th>Transnationals 1 (members in all supplying countries)</th>
<th>Transnationals 2 (members in some but not all supplying countries)</th>
<th>Internationals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals</td>
<td>4</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>F &amp; V</td>
<td>12</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Dairy</td>
<td>6</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Sugar</td>
<td>2</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Other sectors</td>
<td>8</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>14</strong></td>
<td><strong>45</strong></td>
</tr>
</tbody>
</table>
Transnationals: Mother countries’ in various sectors
Transnationals and hybrid ownership structures

- **Cooperative as holding company**
  - International acquisitions may lead to outside owners
  - International expansion may require additional equity capital
    - Institutional investors or listed at stock exchange

- **Non-cooperative, farmer-owned companies**
  - Owned by farmer-organisations or specialized producer groups (HK-Scan, Südzucker)

- **Main effect of hybrid ownership structures:**
  - No longer direct relationship between use of the cooperative and control over the cooperative
(7) 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.
(7) Internal governance

- Professional structures and policies regarding board composition and member incentives affect the performance of cooperatives

- The typical attributes of “professional” cooperatives:
  - proportional voting rights
  - professional management
  - a supervisory board, also with outsiders
  - selection of representatives based on expertise or product group as opposed to regional background
Conclusions

- Cooperatives are important in sectors and all countries / Market shares have increased over last 10 years
- Cooperatives play a key role in balancing food chain
- Growth and internationalisation bring challenges to member control
- Support policies only play a minor role in cooperative development
- Key conclusion: professionalization of board and managers is needed
Thank your for your attention

All reports can be found at:
or
http://ec.europa.eu/agriculture/external-studies/support-farmers-coop_en.htm

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