Support of Farmers' Cooperatives

- a project for DG Agriculture and Rural Development

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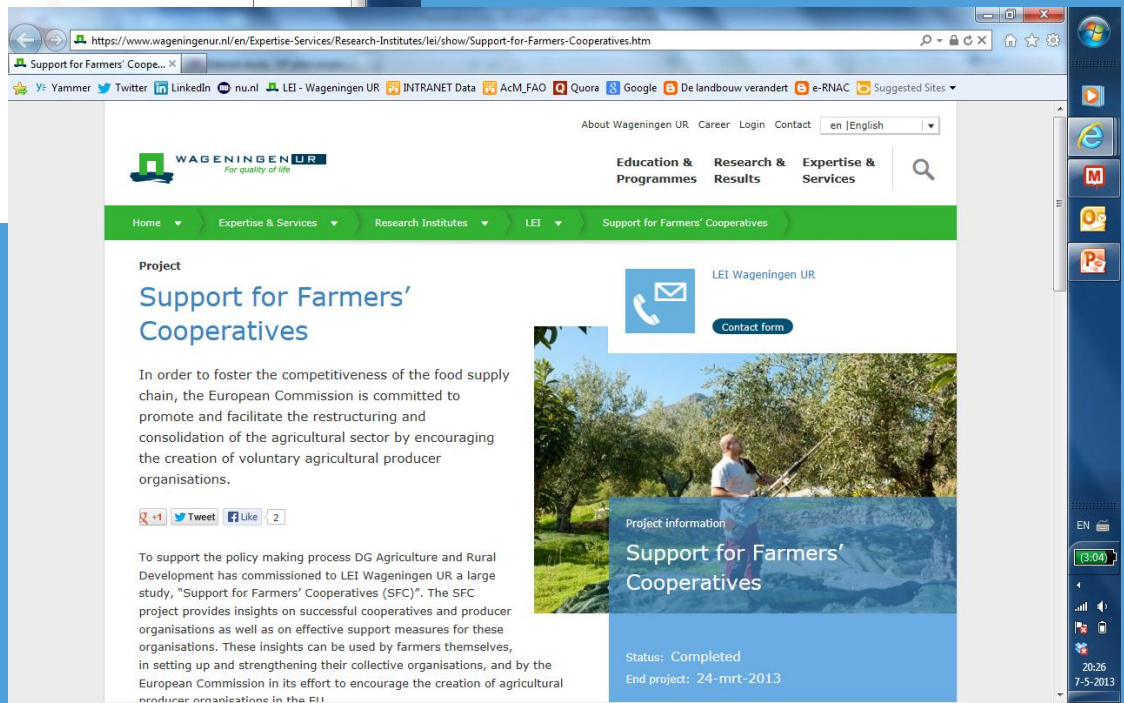
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Background of project

- 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.

Results availabe from DG Agri and WUR





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Cooperatives add value in different ways:

- Realise efficiency of scale (if owners don't want to merge): joint machines, cheese factory
- Create a market / realise access to the market that is at a distance
- Increase market efficiency by competition with traders with a high mark-up
- Reduce transaction costs for the food industry by standardising contracts, organising farmers and their quality control.
- Manage risk for farmers (pooling)
- Organise innovation e.g. in niche products

Structures of cooperatives are changing

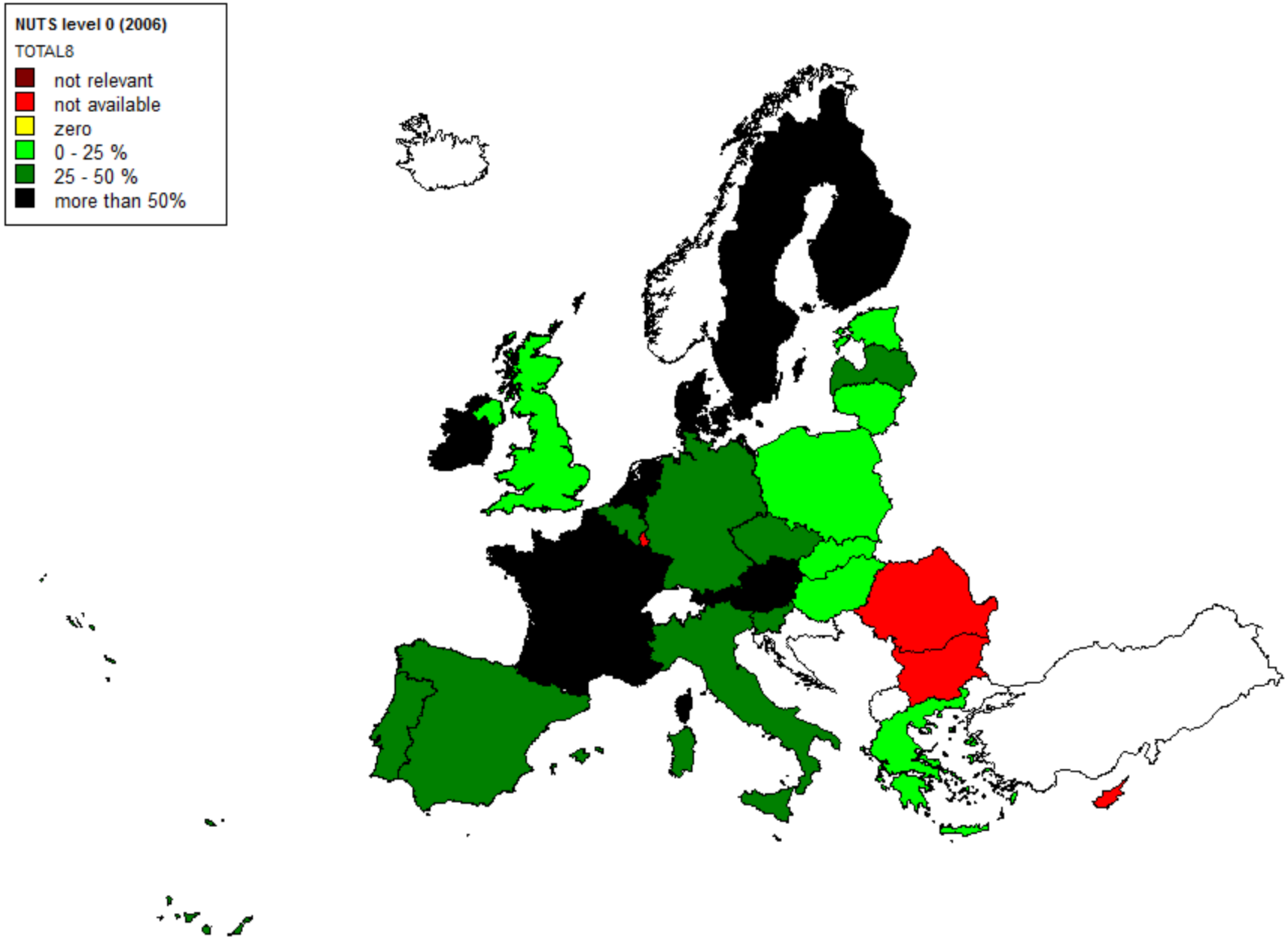
- Cooperatives go international
- Cooperatives obtain hybrid organisational structures
- Cooperatives give more room for managerial entrepreneurship
- Cooperatives (have) become more product-based and less region-based (in member-representation)
- In order to attract additional equity capital, cooperatives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

Main findings – 1: on cooperatives

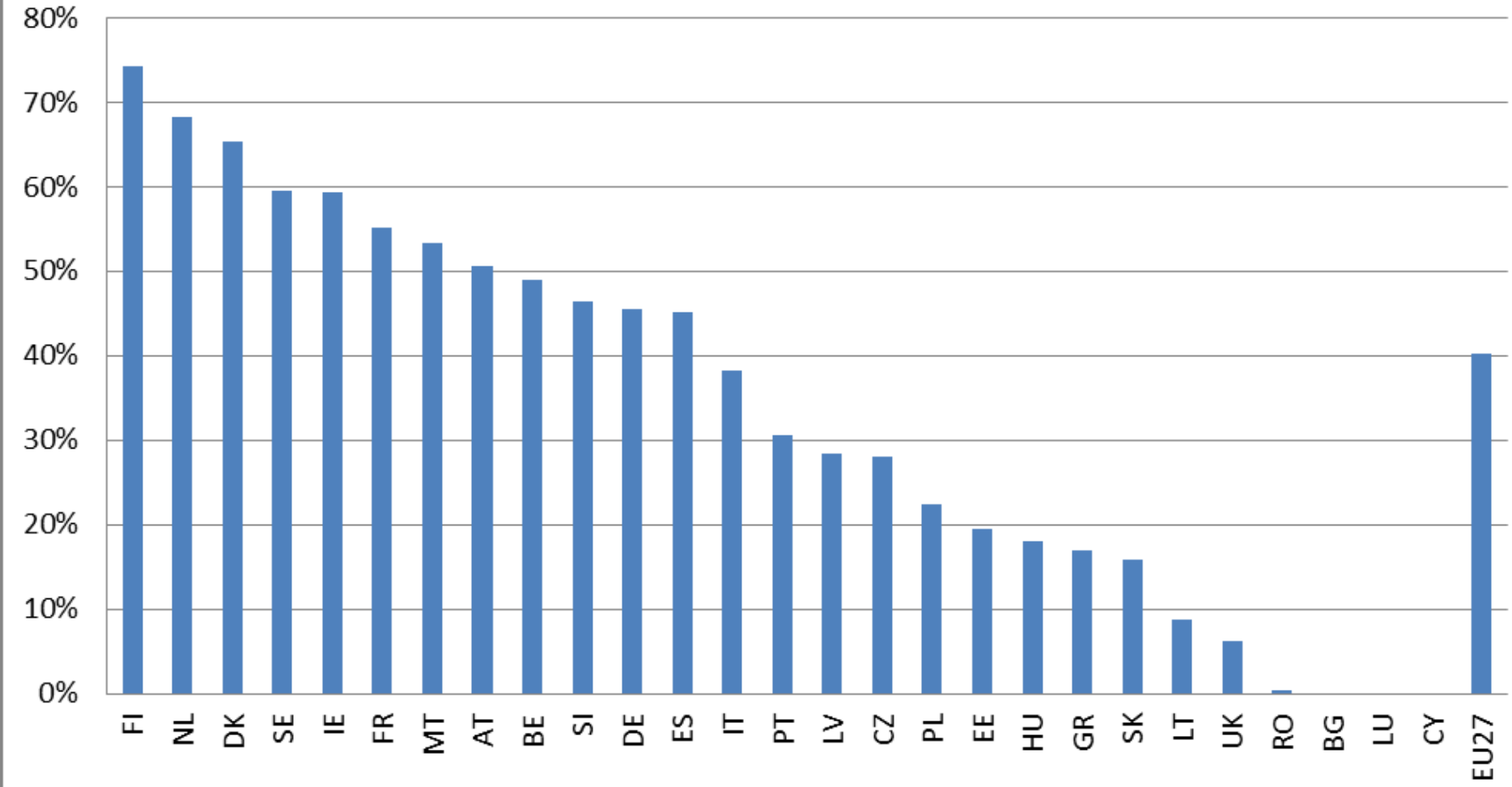
- Farmers' coops are important in all Member States.
- Cooperatives create markets or give farmers a better access to them and improve efficiency.

- 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.

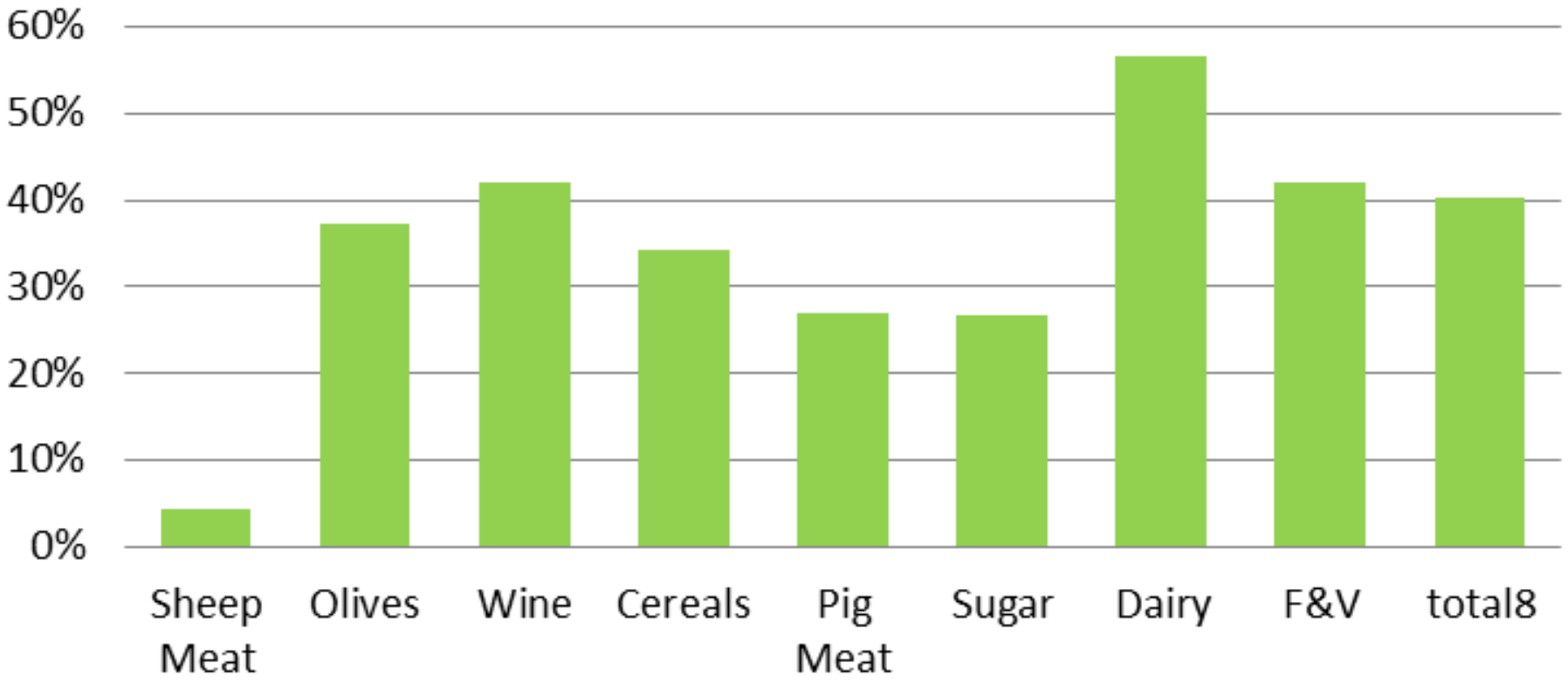
- Cooperatives do not always represent the optimal organisational form; the choice is not an ideological but a practical one.


NUTS level 0 (2006)
TOTAL8
not relevant
not available
zero
0 - 25 %
25 - 50 %
more than 50%

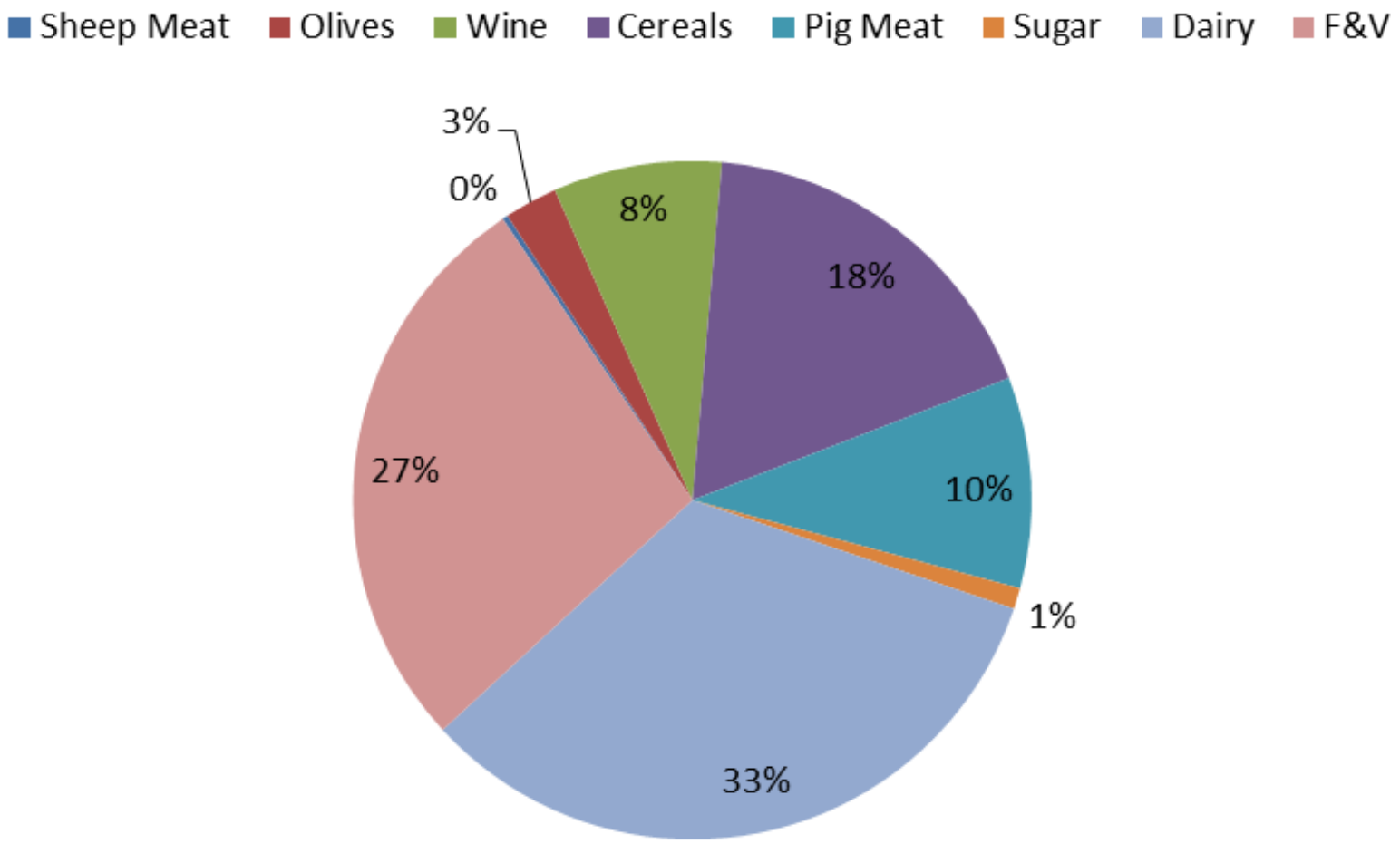
Market share cooperatives, per country, 2010



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.

- A large market share for cooperatives in a region can increase the price level and reduce volatility (dairy)
  - In countries where cooperateve market share is 20-50%, the milk price is 4,5 to 6 euro per kg higher compared to < 20% (2008-2010 data).
  - Market share > 50%: 2,5 – 4,5 euro/100 kg.
  - IoF pay even 10% more (for their specialities)
- Cooperative yard stick theory

Main findings – 2: on power in food chain

- 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)

- 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 – 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.

Thank you for your attention

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