
Support for Farmers' Cooperatives

Synthetic Summary

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Background

Given the imbalances in bargaining power between contracting parties along the food supply chain, the European Commission (DG Agriculture and Rural Development) has launched a large study to gain better insights into the policies that could help farmers to organise themselves in cooperatives as a means of strengthening their market position and so generate a solid market income. The specific objectives of this study were 1) to provide a comprehensive description of the current level of development of cooperatives in the EU, 2) to identify laws and regulations that enable or constrain cooperative development, and 3) to identify specific support measures, which have proved to be effective and efficient in promoting cooperatives and, more generally, producer organisations.

This report provides the overall conclusions of the full study. It was carried out by a European research consortium during 2011 and 2012. Data gathered in all 27 Member States have been presented and analysed in separate country reports. The data collected were also used in preparing eight sector reports, focusing on the role of cooperatives in each of these sectors. At the EU level a number of analyses were performed, studying aspects such as the institutional environment, internal governance, and the position of cooperatives in food supply chains. In addition, 34 cases studies have been carried out, and the situation in selected non-EU, OECD countries has been investigated. These background reports on countries, sectors and cases, as well as the EU-wide analysis, provide farmers, cooperatives and policy makers with useful insights into the market orientation and organisation of cooperatives and producer organisations.

Main findings

Farmers' cooperatives play an important role in helping farmers to capture a higher share of the value added in the food supply chain in all Member States. The key functions of all marketing cooperatives are improving the bargaining power of their members and letting members benefit from economies of scale. In addition, cooperatives are reducing market risks, reducing transaction costs, providing access to resources, and strengthening their competitive position through product innovation and guaranteeing food quality and safety. A large number of cooperatives have expanded their activities in downstream stages of the food chain, thus strengthening their customer and consumer orientation.

As most chains are characterised by bargaining imbalances between farmers and their upstream and downstream partners, cooperatives play a key role in strengthening bargaining power. However, generally the countervailing power of cooperatives in relation to their retail customers is limited. The need for further strengthening bargaining power will most likely lead to more (international) mergers among cooperatives, while such mergers are also induced by the need to gain economies of scope in R&D and branding. To support farmers in this trend, legal definitions of producer organisations and support measures should not discriminate against large cooperatives. As this (international) growth process is often accompanied by changes in the internal governance, it holds the risk of a loss of member control over the cooperative firm.

We found that a large market share for cooperatives in a particular sector and country can increase the price level and reduce the price volatility, as is currently the case in the dairy sector. Also other farmers in this sector benefit from the large market share of the cooperatives. These non-member farmers may even benefit more, as IOF competitors generally pay higher prices.

These findings are in line with the competitive yardstick theory. Cooperatives also continue to be important for reducing market risks for farmers, notably the risk of receiving payment for the deliveries.

Bargaining associations promote farmers' interests and are also a valuable partner for food processors, wholesalers and retailers, as they coordinate the supply of large volumes of products of homogeneous quality. Unlike marketing cooperatives, bargaining associations do not own assets and, usually, do not assume ownership of their members' produce at any stage of production or marketing. These associations are mainly active in the dairy and fruit & vegetable sectors. In Germany, they are also active in selling cattle and pigs.

A number of cooperatives and producer organisations perceive legal uncertainty in competition law and report high legal costs. They see a lack of coherence between the agricultural policy that promotes bundling under the Common Market Organisation (CMO), and competition policy that seems to prohibit information sharing and other forms of collaboration. Some other OECD countries (e.g. USA) have more – albeit under strict conditions – exemptions for cooperatives in competition law to rebalance market power.

Farmers have multiple options to organise the internal governance of their cooperative. In many cooperatives, however, there is room for strengthening management and supervision capacities. Most national laws provide sufficient flexibility for cooperatives to choose an internal governance model that fits the strategy of the cooperative, although such flexibility may not always be accompanied with the much-needed guidance. In some countries there is a need to pay attention to the ability of farmer-members to effectively control both the board of directors and the professional management, e.g., by strengthening the capacities of the supervisory board and by also having outside experts participating in boards of directors and supervisory boards.

More than 300 European, national and regional policy measures were identified. Cooperative legislation, competition rules, and financial inducements were among those observed most often. There are considerable differences between Member States, in terms of policy measures adopted. There are no clearly established links between the (current) support measures for farmers' cooperatives and the market share of these organisations. Also in other OECD countries it is hard to find an unambiguous link between legislation and cooperative performance.

Many support measures could potentially benefit cooperatives. Cooperatives particularly benefit from a flexible cooperative law, single taxation, and clearly defined competition rules. In some sectors producer organisations and cooperatives have benefited from the CAP and some of its reforms (such as in the wine and F&V industries). We recommend that governments at the national and EU levels develop policies and measures to support capacity building and technical (organisational) assistance, especially for small and start-up cooperatives. This is particularly true for the New Member States, where self-organisation is hampered by a lack of social and human capital.

The links between cooperatives and rural development are manifold. Cooperatives are often important employers and contributors to the regional economy. They contribute to public policy objectives such as the development of human capital, the improvement of competitiveness, and environmental sustainability. Quite a number of cooperatives build their strategy on regional characteristics, like in developing and marketing regional specialties.

Additional findings

All Member States have a cooperative tradition, although its origin and intensity differs. In some countries, the cooperatives are directly linked to market failure in large agricultural transitions at the end of the 19th century (Denmark, the Netherlands), or a movement for independence

(Finland), others have seen periods where cooperatives were not politically correct (Portugal), or where the cooperative was not based anymore on self-organisation principles but was used as a socialist planning tool instead (New Member States). Consequently, the label “cooperative” has different connotations in different regions.

The marginal role played by cooperatives in some countries (and especially in the New Member States) has an important social background: the low level of self-organisation and networking is not only a barrier to cooperative development but represents a persisting societal characteristic with far broader implications.

Professional structures and policies regarding board composition and member participation affect the performance of cooperatives. Proportional voting rights, professional management, supervision by outsiders, and selection of directors based on expertise or product representation and not regional origin, all have a positive effect on cooperative performance.

Several cooperatives have evolved into hybrid forms. This hybridisation refers both to adopting organisational structures similar to those of investor-owned firms (IOFs) and to the development of non-user ownership structures. Cooperatives with hybrid ownership structures are still majority-owned by farmers, but not necessarily by farmers as users of the services of the cooperative but as members of a farmers’ organisation. In these cases, one or more farmer organisations are among the owners of the cooperative. In addition, cooperatives with hybrid ownership structure may have allocated ownership rights to investors from outside the agricultural sector.

In addition there are many producer organisations that follow cooperative principles in their structure and operations but are not cooperatives as defined by national cooperative legislation. Whether farmers choose the cooperative (legal) form to strengthen their market position and bargaining power is usually driven by practical and not by ideological arguments, and depends very much on the institutional context, including legal, social and cultural aspects.

We found 46 transnational cooperatives (i.e., cooperatives with members in more than one Member State). They can be found mainly in the dairy and fruit & vegetables sectors in northwest Europe. They often have foreign subsidiaries that source from non-member suppliers, like the 45 international cooperatives that we also found. Most cooperatives prefer to internationalise by acquiring or setting up foreign IOFs, and not by merging with other cooperatives or inviting foreign farmers to become members. Avoiding the dilution of ownership (income and control rights) is cited as the main reason for this development. There are no dissuasive legal barriers in merging across borders.

The situation in the New Member States is diverse and contrasting due to differences in historical backgrounds, pre-collectivisation land reforms, post-collectivisation transformation laws, cooperative traditions and collective memories, policy streams and social and cultural contexts. However, all cases have in common that the impact of the communist legacy persists, as low trust is an obstacle to cooperative development. Building trust and coping with free rider problems, often in poor regions with vulnerable rural communities, reflect pioneer activities that resemble early stages of the cooperative movement in Western Europe. This calls for trustworthy and skilful leaderships.

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Disclaimer:

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