Support for Farmers' Cooperatives

EU synthesis and comparative analysis report Transnational Cooperatives

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European Commission

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Support for Farmers' Cooperatives; *EU synthesis and comparative analysis report* **Transnational Cooperatives**

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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 EU synthesis and comparative analysis report – Transnational Cooperatives has been written.

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

In addition to this report, the SFC-project has delivered 27 country reports, a report on policies for cooperatives in non-EU OECD countries, 8 sector reports, 5 other EU synthesis and comparative analysis reports, 33 case studies, a report on cluster analysis, and a final report.

We like to acknowledge the valuable contribution of Vesa Silaskivi and Anu Monto on legal issues (section 5.5).

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1. Introduction

1.1 Objective of the report

This report has been written in the framework of the EU-funded research project “Support for Farmers’ Cooperatives”. This project was commissioned by the European Commission DG Agriculture and Rural Development, and carried out in 2011 and 2012 by a large consortium of researchers from various European universities and research institutes. The main objective of the EU wide research project is to 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 Commission in its effort to encourage the creation of agricultural producer organisations in the EU.

In the context of this research project, data has been collected in all of the 27 Member States of the European Union, on the evolution and development of agricultural cooperatives and producer organisations, but also on the policy measure and legal aspects that affect the performance of these organisations. This data has been one of the main sources of information for this report. In addition, other literature on the topic has been used to assess the situation in one or more EU member states or in particular sectors of the European agrifood industry.

This report provides an EU level synthesis of the presence and development of transnational and international cooperatives in different agricultural sectors.

1.2 Analytical framework

For this EU wide research project we have developed an analytical framework about the determinants of the success of cooperatives and producer organisations in current food chains. These determinants 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).

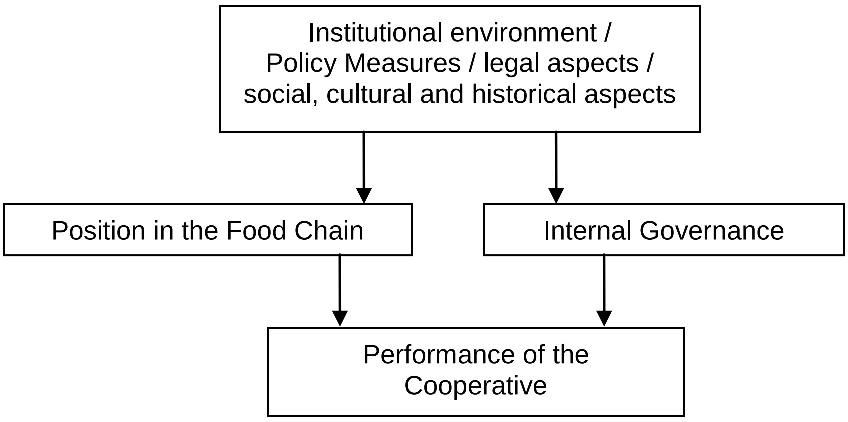

Figure 1. The core concepts of the study and their interrelatedness

1.3 Transnational cooperatives

We define transnational cooperatives as cooperatives with members in more than one Member State of the EU. When the cooperative is a primary cooperative, the members are farmers; when the cooperative is a secondary cooperative, the members are primary cooperatives. In addition to the "pure" transnational cooperatives, we also distinguish international cooperatives. These are cooperatives that source from foreign farmers, where these farmers are not member of the cooperative.

The picture of transnational and international cooperatives is rather complex. Many of the largest cooperatives in the EU have placed their economic activities in a separate legal entity. This cooperative-owned firm may function in its international operations just like an investor-owned firm. This raises the interesting questions whether the cooperative follows a different strategy in its home country compared to the host country, and whether it develops other supplier relationships in its home country (with member-suppliers) compared to its host country (with non-member suppliers). Finally, there are IOFs that are owned by (primary) cooperatives from different EU member states. This results in a rather complicated structure: farmers are member of a domestic cooperative; this cooperative has formed a higher-level cooperative together with other cooperatives from other member states; this higher-level cooperative is the holding for several IOFs; the IOFs source their products in different countries from different farmer-suppliers, some of which are members of the domestic cooperatives, some are not. In order to capture these interesting cases of cooperative development we use a broad definition of transnational cooperatives.

1.4 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).

1.5 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. For EU Member States that joined in 2004 and 2007 the focus is on the post-accession period.

1.6 Structure of the report

This report is structured as follows. In Section 2 we present a brief review of the literature on internationalization of agricultural cooperatives. Why do cooperatives internationalize? How do cooperatives internationalize? Section 3 briefly explains the methodology of data collection and analysis. Results are presented in section 4, providing both tables on the number of transnationa/international cooperatives and placing these cooperative in the map of the EU. Section 5 discusses the findings, and seeds to explain the internationalization trends among cooperatives in particular sectors and particular countries. Finally, section 6 draws some conclusions.

2. Literature review

There are very few scholarly publications on the internationalisation of agricultural cooperatives. Cooperatives seem to be more reluctant or restrained in going international than there non-cooperative competitors. Reasons may be found in limitations due to organisational structure, to cultural differences or to differences in legislation (see also Section 5). This brief overview of the internationalisation of cooperatives presents the information on the extent of and reasons for internationalization of agricultural cooperatives. We first present a more general discussion of the arguments used for (or against) internationalisation of food companies.

2.1 Why do food companies go international?

Internationalisation is a growth strategy: if there are few opportunities for growth inside the country because the market is saturated or because competition legislation prohibits takeovers, acompanycan expand abroad. This happens sooner for companies in a small country like the Netherlands and Denmark than for their counterparts in a large country.

Internationalisation can assume a variety of forms: export of products, issuing a licence for knowledge or a brand, and foreign investments in production. In the case of the latter, an enterprise can opt for a joint venture with another enterprise, for the takeover of an existing factory, or for setting up a completely new company (a greenfield investment). The choice of internationalisation strategy depends to a large extent on the nature of the company and the products. Small firms are more likely to opt for export because foreign investments entail substantial risks. Producers of voluminous and heavy products will be more likely to opt for production abroad because of the transport costs.

The nature of the economies of scale is also a factor in determining the internationalisation strategy. If there are economies of scale to be achieved at the level of the location, an enterprise will opt for concentration of production and then export the products. If there are economies of scale to be achieved at the level of the firm, for example in the case of intangible assets like knowledge, intellectual property and management expertise, afirm will find it simpler to spread its activities over domestic and foreign branches.As many firms in the food industry grew in size in the second half of the 20th century, they supplemented their export strategy with a strategy of foreign production. A minimal company size is required for investments in foreign factories, because these investments entail risks and because management has to be released to run the foreign subsidiary.

Beside the limited opportunities for growth in a small country, there are a number of other factors which lead food producers to operate on an increasingly international scale.A first reason for further increase in scale and internationalisation is the liberalisation of the European and world market for agricultural products. Within Europe the national rules and regulations on food products have been largely harmonised, and new ones are laid down from Brussels. With the international agreements on reducing protection in the agricultural markets, subsidised exports decrease and imports increase. The result is increased competition in both the domestic and the European market, which presses companies to find ways of bringing costs down.

A second reason is connected with the structural changes in the retail of food products. In particular, the concentration among food retailers has lead to an important change in competition dynamics. Firms like Ahold (NL), Aldi and Metro (Germany), Tesco (UK), Carrefour and Auchan (France) and Wal-Mart (USA) have become world players and benefit from their enormous purchasing power. Smaller supermarket chains have established European purchasing organisations that negotiate hard with the food industry on prices and terms of supply. Globalisation of the supermarket chains (and of fast food chains) forces the food industry to further internationalize because customers prefer the same supplier in every country.

A third reason for increase in scale and internationalisation is the consumer demand for more variation, more convenience and higher quality. Not only the quality of the final product matters, but also animal welfare and environmental impact of the production process. This obliges producers to make greater efforts in the field of product development, quality control and marketing. The required investments call for a larger, often international scale of operations.

The general trend towards globalisation and market integrationhas pushedcooperative and non-cooperatives companies in the food industry to operate internationally in order to achieve economies of scale (especially in R&D and marketing), to be able to service the large retail customers, and to be able to guarantee product quality and safety throughout the entire food chain from input material to final product.

The most challenging form of internationalization is Foreign Direct Investment (FDI). Challenging, because substantial investment are involved, and when the investing country is unfamiliar with the other country, FDI is also rather risky. Still, in many situations FDI is the most appropriate internationalization strategy. Dunning (1993) gives the following four categories of motives for FDI:

- Resource seeking: getting access to essential or additional resources, such as raw materials;
- Market seeking: opening new markets in foreign countries for existing products;
- Efficiency seeking: obtaining economies of scale and scope
- Strategic assets seeking: getting access to specialized knowledge and skills (for instance in R&D), to particular intangible property (such as patents), or particular brands.

These motives are also valid for cooperatives in the food industry that want to expand internationally. Cooperatives can follow the classical FDI strategies of acquiring a existing company or setting up a new company. But cooperative can also merge with a foreign cooperative or it can invite foreign farmers to become member.

2.2 How do cooperatives become transnational cooperatives?

Most of the publications on internationalisation give anecdotal evidence of cooperatives that have members in more than one country. For instance, Van Bekkum and Van Dijk (1997) mention a number of examples of transnational cooperatives in the Netherlands, Germany, Belgium and Luxemburg. Bijman and Van Tulder (1999) discuss we several Dutch cooperatives that internationalized in the 1990s by obtaining foreign members

Nilsson and Madsen (2007) list four different strategies that cooperative can follow to become transnational cooperatives: (1) when a national cooperative recruits members in a neighbouring country, (2) through foreign acquisitions and then inviting the supplier of the acquired company to become member; (3) via the establishment of a new cooperative, and (4) as cross-border mergers between national cooperatives.

An example of the first strategy – inviting foreign farmers to become member – has been followed by the Dutch starch potato cooperative Avebe when it invited German potato growers to become member. Because the production of starch potatoes in the Netherlands is restricted by EU legislation, Avebe could only pursue growth in potato starch production when it had access to starch potatoes from outside of the Netherlands. Due to the bilateral dependency between starch potato growers and the starch potato processor, membership of the processing cooperative is the favourable means to reduce transaction costs.

An example of becoming a transnational cooperative through foreign acquisitions is the strategy of Campina (before its 2009 merger with Friesland Foods into FrieslandCampina). Campina's internationalisation of production started after the 1989 merger between DMV Campina and Melkunie Holland,two regional dairy cooperatives in the Netherlands,into Campina Melkunie (later shortened into Campina). After this merger the management of the new cooperative concluded that there would be hardly any further opportunity for growth within the Netherlands, and that mergers and acquisition has to be sought abroad. In 1991, the Belgian dairy IOF Comelco was taken over. In 1994, the German IOF Südmilch (IOF) was acquired. Suppliers of both Comelco and Südmilch were invited to become member of Campina. In 1997, Campina entered into a joint venture with German cooperative Mölkerei Köln-Wuppertal (MKW). Soon after that, the members of MKW were invited to become member of Campina. Two years later, in 1999, the German dairy IOF Emzetts was acquired, and in 2004 Strothmann was bought. Suppliers of Emzetts and Strothmann were also invited to become members.

Nilsson and Madsen (2007) assumed that there are no cases of establishing a complete new cooperative by farmers from two or more countries.

Finally, the most common form of cooperatives becoming a transnational is through a cross-border merger. The prime example is Arla Foods, which is a result of a merger between the largest Danish dairy cooperative MD Foods and the largest Swedish one, Arla. After the merger, Arla Foods had 10600 members, equally distributed over the two countries.

Nilsson and Madsen (2007) discuss the challenges in cross-border mergers between two cooperatives. They emphasize that a cross-border merger between cooperatives actually involves two interdependent merger processes; one concerning the cooperative firm and the other concerning the cooperative societies. They argue that cross-border mergers are often initiated by the management, which may have weak connections to membership of the cooperative societies. While from a business perspective internationalization seems to be normal growth strategy, cooperative societies are still very much entrenched in local and national cultural and institutional settings. Accommodating the business and cooperative society interests requires exceptional skills of both the top managers and the members of the Board of Directors.

3. Data and methods

3.1 Data collection

This EU level synthesis report is mainly based on data collected in the Spring of 2011 in 27 EU Member States (by an expert on cooperatives in each of the Member States). In addition an inventory of policy measures at EU level was used. In collecting the data, 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.

3.2 Data analysis

From the full database of European farmers' cooperatives those cooperatives that have foreign members and foreign suppliers have been selected. On the basis of the limited database, the incidence of transnational and international cooperatives in the different sectors and the different countries has been established. This information is presented, in Section 4, in tables and maps. These results are discussed, in a more qualitative way, in Section 5.

4. Results

This Section provides the main results of our analysis. We first present an overview of all transnational cooperatives found in our database (section 4.1). We than present and discuss the transnational cooperatives in the cereal sector (section 4.2), the F&V sector (section 4.3), the dairy sector (section 4.4), and other sectors (4.5).

4.1. Overview of transnational cooperatives

There are not so many transnational cooperatives in EU. We found 46 transnational cooperatives of which some are federated(or secondary) cooperatives. Many of these transnational cooperatives act also as international cooperatives, i.e. they have farmer suppliers in countries where they do not have members. Furthermore, we found 45 international cooperatives, i.e. they have farmer suppliers in foreign countries. In addition to these, there are of course several cooperatives that have export activities but these cooperatives have not been analysed in this report.

Table 1 presents the number of transnational and international cooperatives in EU in the differentsectors. The main sectors with transnational cooperatives are cereals, F&V, and dairy. The other sectors where there are transnational cooperatives are meat (pork, cattle and poultry in one cooperative), egg, genetics, potatoes, and input supply.

Table 1. The transnational and international cooperatives by sectors

	Transnationals 1 (members in all supplying countries)	Transnationals 2 (members in some but not all supplying countries)	Internationals (members only in one country and suppliers in other countries)
Cereals (usually also input supply)	4	7	7
Fruits and vegetables	12	3	15
Dairy	6	3	8
Sugar	2	0	3
Other sectors	8	1	12
Total	32	14	45

There are also several countries in EU where there is not a single transnational cooperative. In Figure2 the transnational cooperatives have been located. Most of the transnational cooperatives (33 out of 46) are located in very few countries (the Netherlands, Belgium, Germany and Denmark). More than half of the transnational cooperatives are in the F&V and cereals/input supply sectors. Part of the reasoning behind this is probably the market integration. F&V and input supply markets are probably much more integrated than for example dairy or meat markets. Furthermore, the production structures in F&V sector are rather homogenous in the neighbouring countries (Belgium, the Netherlands and Germany) that make it easier to build a transnational cooperative. Furthermore, the short distances between countries and common languages help in building transnational governance. One reason linked to growth strategies of the cooperatives is the fact that cooperatives in small countries have fewer domestic growth opportunities, particularly when competition legislation is very strict.

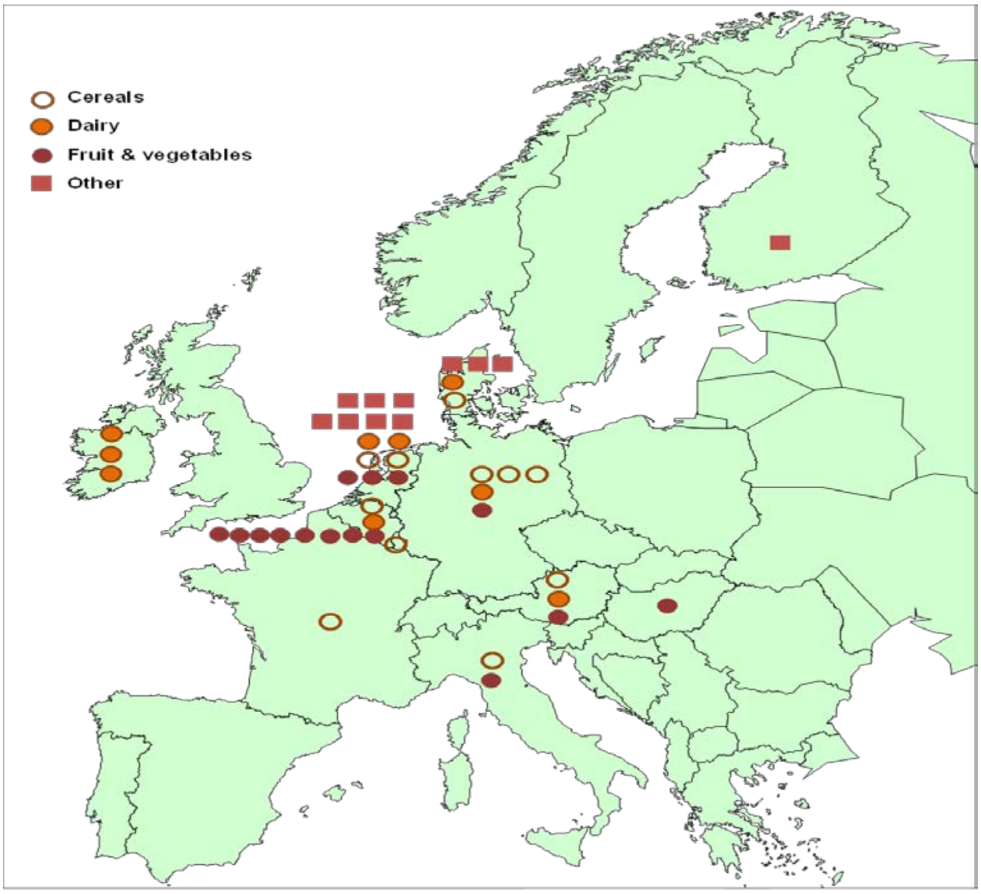

Figure 2. Transnational cooperatives in different sectors by their mother countries.

In the following subchapters we look at the transnational cooperatives more thoroughly by sectors that are in the core of our study.

4.2. Transnational cooperatives and their performance in the cereal sector

The cooperatives (especially the large ones) in the cereal sector are usually multi-purpose cooperatives. Many of the these cooperatives started as cereal marketing cooperatives but today the core business is very often in input supplying (fertilizers, feeding stuffs, machinery etc.). Some of them also have activities in other parts of food chain (egg, meat, F&V etc.) as well as in other branches (construction services, tele communication etc.)

There are also many very large cooperatives (or companies that have cooperative background) in this sector. Different kinds of "hybrid" organizations are also typical for cooperatives in this sector. There are federative (e.g. German BayWa AG), semi-federative (e.g. Danish DLA Group), subsidiary structures (e.g. German HaGe Kiel), very complicated group or concern structures (e.g. Danish DLA Group, international DLG, German BayWa) etc.

In the following table we have tried to separate the role of cereal business and the type of cooperative more thoroughly by cooperatives (Table 2).

Table 2. Transnational cooperatives in the cereal sector.

	Turnover million euro	Share of cereal business	Other sectors involved in addition to cereals and input supply	Type of cooperative
BayWa (Germany)	4781	<20%	F&V, construction	Limited liability company that has cooperative based institutional owners
Danish Agro, DLA Group, DLA Agro (Denmark)	1789	ca. 30%	egg, energy	Group, not an independent concern, DLA Agro transnational coop that have farmer members in Denmark, organizational members in foreign countries, majority of votes held by Danish Agro
ZG Raiffeisen (Germany)	914	<20%	energy, construction, retail	
Raiffeisen Ware Austria (Austria)	827			
Raiffeisen-Warenzentrale Kurhessen-Thüringen (Germany)	615			
CZAV (Netherlands)	304	<20%	Food retail; fuel retail; potatoes	
Progeo Società Cooperativa Agricola (Italy)	281			
Sociétés Coopératives Agricoles Réunies des régions herbagères (Belgium)	26			
Luxemburger Saatbaugenossenschaft (Luxemburg)	5			
ForFarmers (Netherlands)	4162			
Raiffeisen Warenzentrale (Austrian?)	N.A.			
Union Invivo (Progeo) (France)	N.A.			

In contrast to other sectors, the membership is much loser in cereal/input supply cooperatives. Only one of the transnational cooperatives in this sector requires member to supply all his/her production to the cooperative. Furthermore, there are usually other cooperatives or other traders to whom farmers can sell their products. Thus, the own cooperative is for many members only one option for business. The cooperatives in this sector usually do not make the difference between members and non-members. Thus, the business with cooperative does not differ from business with IOF, not from member's view, neither from non-member's view. The transnational cooperatives in the cereal sector are presented in the Figure 4.

The largest transnational cooperatives are German BayWa with turnover almost 5.000 mill.€ and Danish Agro/DLA with turnover almost 2.000 mill.€. However, the cereal marketing turnovers are only a part of the business and e.g. BayWa's cereal marketing turnover can be estimated to be less than 1.000 mill. €. Only in Germany and Denmark the transnational cooperatives have considerable market shares. Furthermore, the market shares outside the mother country are rather small. Compared to international cooperatives in the cereal sector only the largest one, BayWa would have a position in Top5 (Figure3).

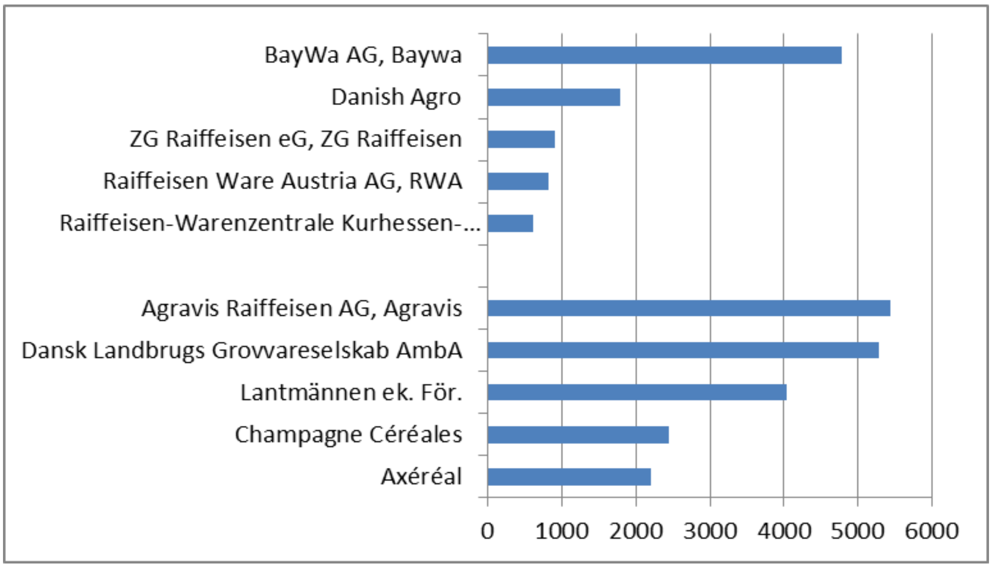

Figure 3. The five largest transnational (top 5) and international (bottom 5) cooperatives in the cereal sector (by turnover, million euro).

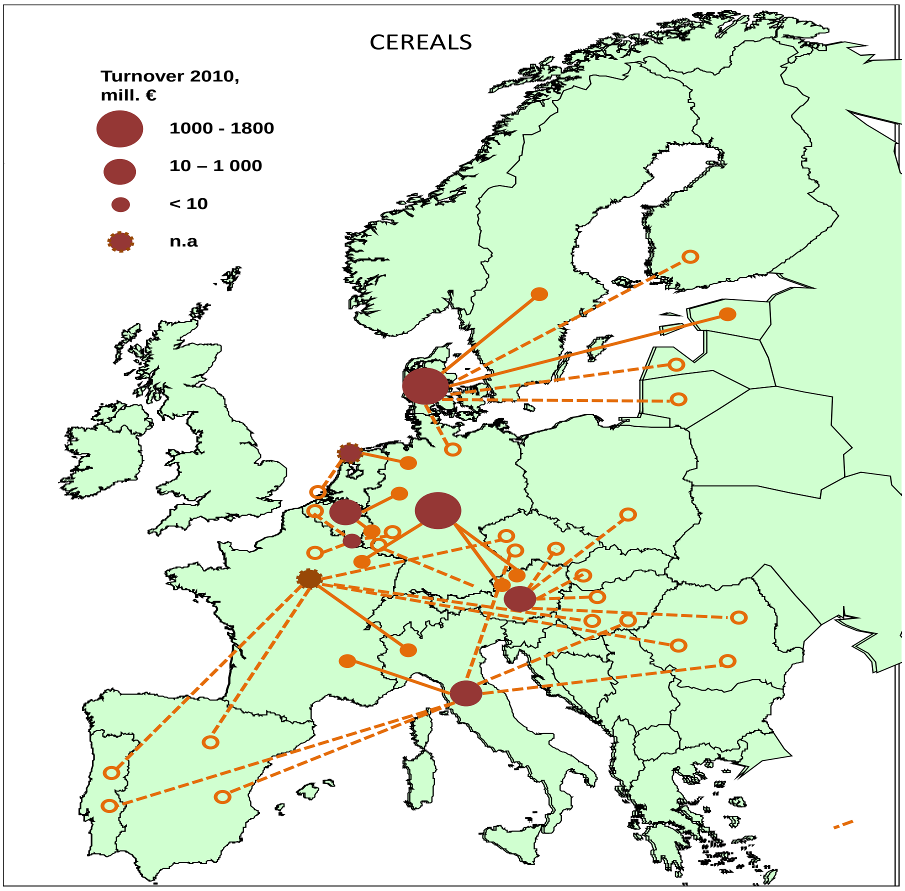

Figure 4. Transnational cooperatives in the cereal sector - mother countries and host countries (the solid line refer to the countries where there are member suppliers, the dotted line refers to countries where there are farmer suppliers but not members; the size of the "balls" represent the total turnover (in this sector) of the transnational in its mother country).

4.3. Transnational cooperatives and their performance in the F&V sector

Transnational cooperatives in the F&V sector exist only in the Netherlands, Belgium, Germany, Hungary, Italy and Austria (Figure 5). However, in the Netherlands the transnational cooperatives are in a dominant role. Their position is strong in Belgium as well. The five largest F&V cooperatives in Belgium and three largest in the Netherlands are all transnational cooperatives. Taking into account the size of the sector in these countries and especially in the Netherlands where the market share of cooperatives in this sector is 95% the role of transnational cooperatives is very important. The transnational cooperatives' market share in the Netherlands can be estimated to be more than 65%.

In Germany there are two transnational cooperatives active in this sector. Both are multi-purpose cooperatives (Landgard and BayWa) with considerable large turnovers. Landgard's F&V share of total turnover is about 40% whereas in BayWa the responsible share is much less than 5% of the agricultural division's turnover. In Hungary there is one very small cross-border cooperative (turnover less than 3 mill. €). The Italian transnational case is an Association of Producers Organisation (APO) FINAF (First International Association Fruit). It consists of nine POs of which two are French and seven are Italian.

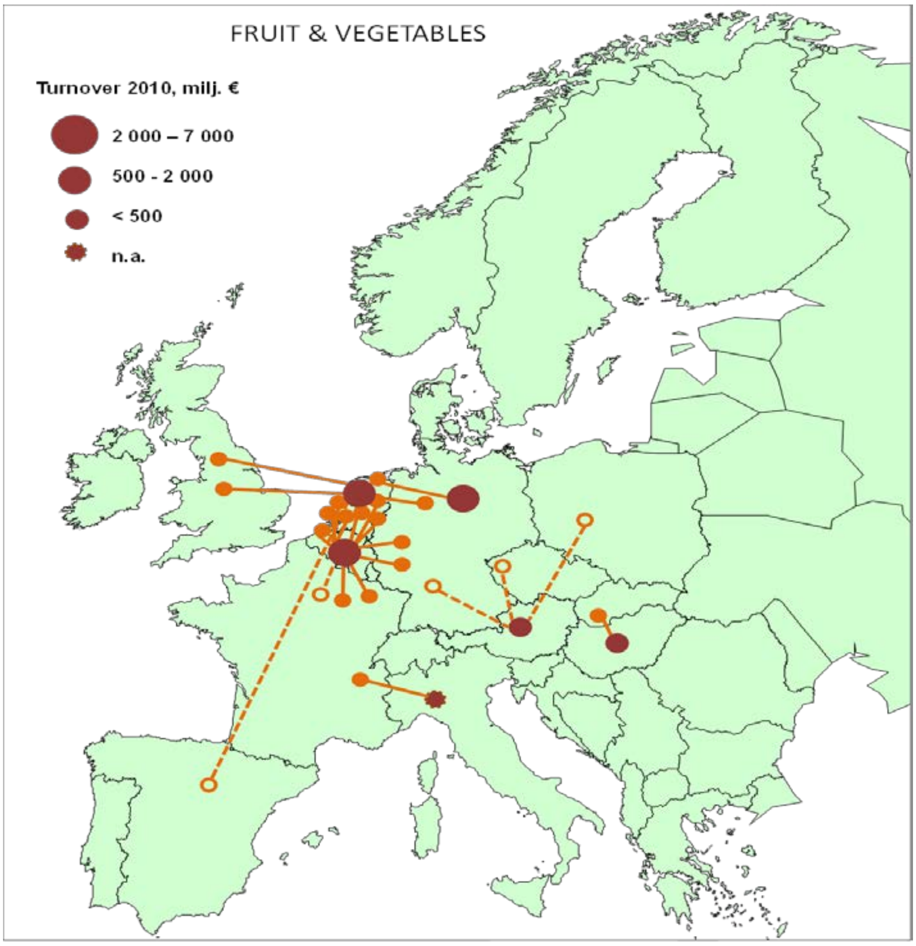

Figure 5. Transnational cooperatives in F&V sector - mother countries and host countries
(the solid line refer to the countries where there are member suppliers, the dotted line refers to countries where there are farmer suppliers but not members; the size of the "balls" represent the total turnover (in this sector) of the transnational in its mother country).

The large market shares of transnational cooperatives in the Netherlands and in Belgium indicate a high integration between these markets (see for instance Cuppens, 2007). It is easy to understand when we take into account the short distances between producers and the market places and the perishable nature of the products. Dutch growers are member of Belgian auctions because they favour the auction clock price determination method, which has been abolished in the Netherlands. The Dutch cooperatives have members in other countries either to be able to sell locally produced F&V to foreign retailers, or to make sure they have sufficient supply year-round. The largest cooperatives in the sector are presented in the Figure 6.

Some of the most recent transnational cooperatives in the F&V sector are actually transnational POs set up by national coops/POs. These transnational APOs, such as EFC (fresh fruit) and In-Co (vegetables for processing industry), have national POs from Belgium, the Netherlands and Germany as their members. This type of collaboration is, of course, largely supported by low cultural distance, short physical distances and common language (at least between Netherlands and Flanders). Most of these transnational POs and APOs have been established quite recently: EFC (2002), Vegras (2005), In-Co (2005).

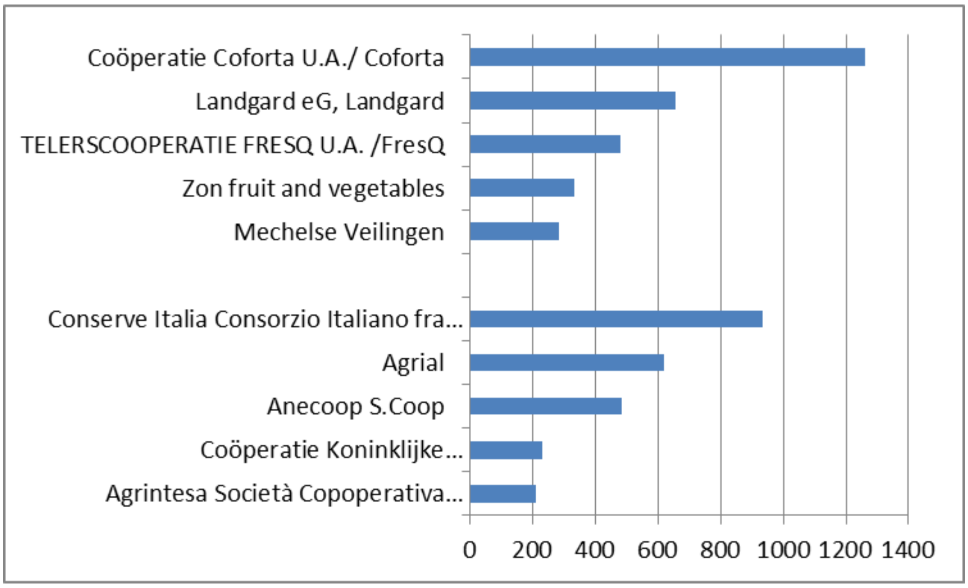

Figure 6. The five largest transnational (top 5) and international[1](bottom 5) cooperatives in the F&V sector(by turnover, million euro).

4.4. Transnational cooperatives and their performance in the dairy sector

In the dairy sector there are two very large transnational cooperatives, namely FrieslandCampina and Arla Foods. Both of them have been established by mergers of two large dairy cooperatives (which were already the result of many domestic mergers of dairy cooperatives). However, Arla Foods is the result of a cross-border merger between a Danish and a Swedish cooperative, whereas in FrieslandCampina case the merged cooperatives were both from the Netherlands. In addition to these two large cooperatives, there are several medium sized (turnover 400-800 million €) and some very small cross-border dairy cooperatives. The turnover is however a little bit complicated measure since some of these cooperatives are holding cooperatives with very small turnovers compared to the turnover of processing company that has been changed into a limited liability company (e.g. international Glanbia plc. of which 55% is owned by a cooperative). In the Netherlands, Denmark, Ireland and Sweden the transnational cooperatives clearly have a dominant position. The position is strong as well in Austria and Belgium where the transnational cooperatives are the largest ones in the sector (Figure 7).

[1]French international multipurpose cooperative Cecab should be included in the Figure 6 with total turnover of 1.147 bill. €. However, the share of F&V sector cannot be separated from the data available.

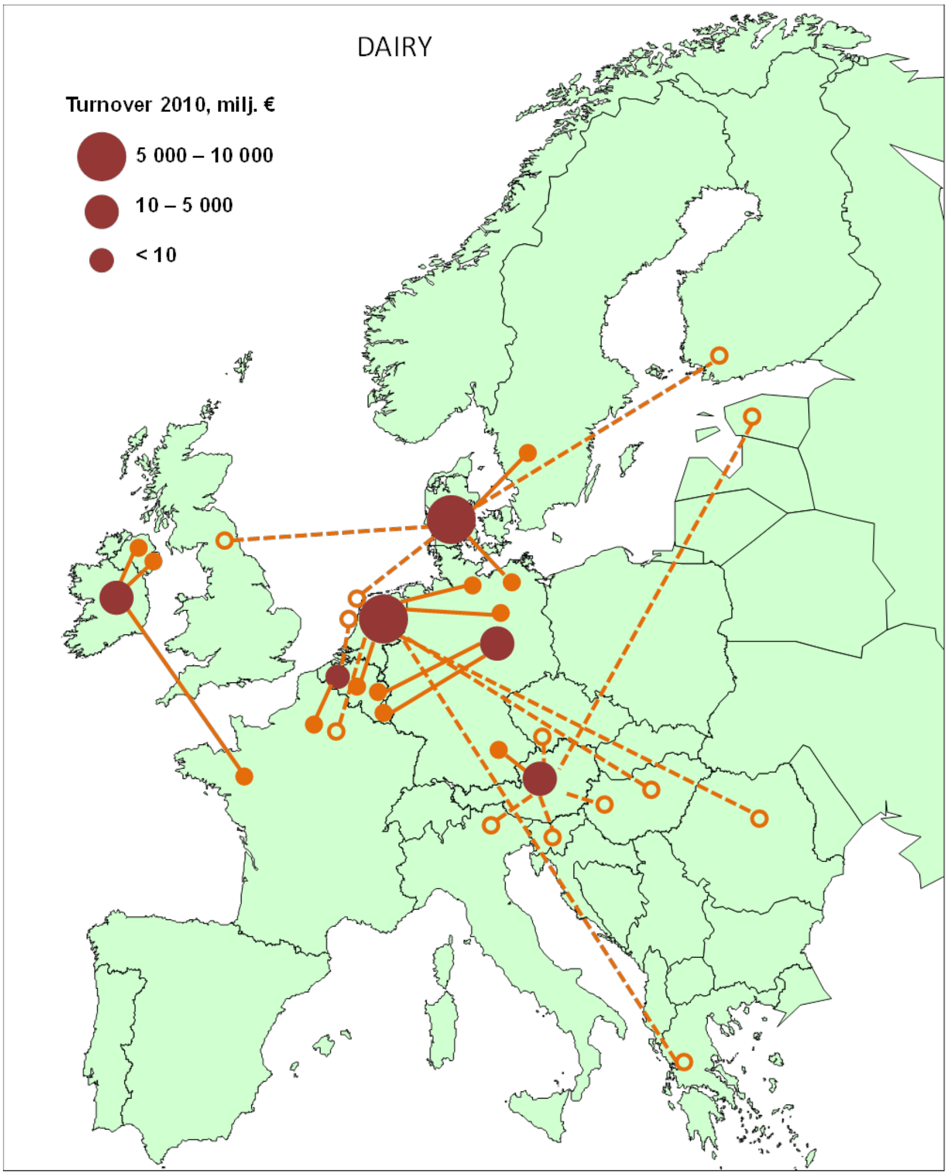

Figure 7. Transnational cooperatives in dairy sector - mother countries and host countries (the solid line refer to the countries where there are member suppliers, the dotted line refers to countries where there are farmer suppliers but not members; the size of the "balls" represent the total turnover (in this sector) of the transnational in its mother country).

Compared to the international cooperatives in the dairy sector the two largest transnational cooperatives are very large (Figure 8). The largest international cooperatives are French Sodiaal and Finnish Valio. The role of cooperatives in the dairy sector is in general very important, similarly to the F&V sector. Another similarity compared to F&V sector is the strong position of transnational cooperatives. In the cereal sector the products are not perishable and partly for that reasons the role of cooperatives is smaller.

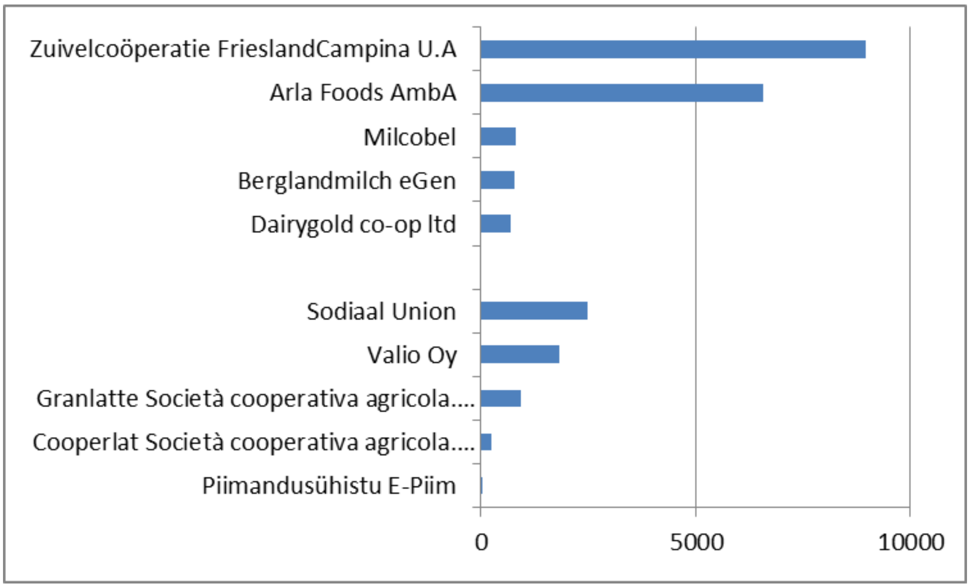

Figure 8. The five largest transnational (top 5) and international (bottom 5) cooperatives in the dairy sector (by turnover, million euro).

4.5. Transnational cooperatives and their performance in the other sectors

There are also transnational cooperatives that are active in other sectors than the eight that the core of our study (Table 3). Ofthose eight core sectors of the study in olive, wine, sugar and lamb sectors there exists no transnational cooperatives and in the pork sector only one. The mother countries of transnational cooperatives in this last group (other sectors) are the Netherlands, Denmark and Finland (Figure9).

Table 3. The sectors were these other transnational cooperatives are active.

	Number of transnational cooperatives	Mother countries
Input supply	5	Netherlands, Denmark
Meat	1	Finland
Eggs	1	Denmark
Potatoes	2	Netherlands
Total	9	

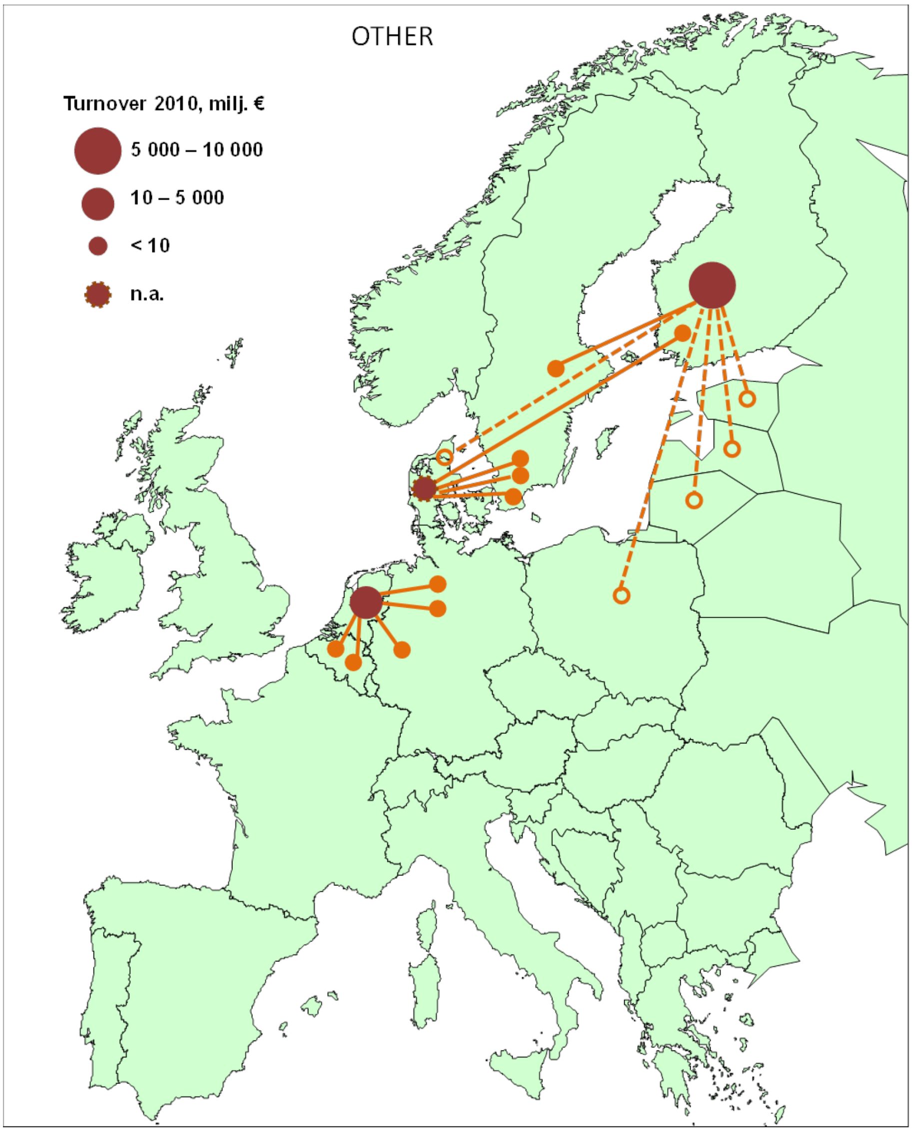

Figure 9. Transnational cooperatives in other sectors - mother countries and host countries
(the solid line refer to the countries where there are member suppliers, the dotted line refers to countries where there are farmer suppliers but not members; the size of the "balls" represent the total turnover (in this sector) of the transnational in its mother country).

The distinction between cereal sector cooperatives and input supply sectors is rather difficult since almost all of the input suppliers are multipurpose cooperatives. In this report we have included all the input supply cooperatives that have cereal trade under cereal cooperatives. The five input supply cooperatives mentioned hereare active in specialized input supply activities, such as genetics (Dutch/Belgian and Danish/Swedish/Finnish cattle breeding cooperatives), mushroom production input supply, potting soil and compost manufacturing, processing of slaughterhouse by-products). The genetics and the slaughterhouse by-product cooperatives are also federative (secondary) cooperatives.

Only four transnational cooperatives in this group (of nine) are active in the food chain. And only one of them (HKScan) has business in one of our eight core sectors (in pork). HKScan is a publicly listed company with two holding cooperatives as major owners. The Finnish LSO has 68% of the voting rights and the Swedish Svenska Djurbönder 12% of the voting rights. HKScan was established in 2008 when the Finnish HK Ruokatalo acquired Swedish Meats that has been in economic troubles for years (see Westerlund Lind 2011). Today HKScan (turnover more 2 bill.€) is one of the largest slaughterhouses in Europe. Only the international cooperative Danish

Crown and the Dutch farmer owned VION as well as a couple of privately owned companies are larger than HKScan.

The Danish Danaeg merged with Swedish Kronägg in 2004 (for Kronägg the merger was a way out of economic crisis) and the Swedish members became members of the Danish cooperative and the Swedish business was taken care of by new limited liability company Kronägg AB. In the Netherlands there are two potatoes cooperatives of which one is active in table and industrial potatoes (Nedato) and the other in starch potato production (Avebe). This starch is being used for both food and non-food purposes.

5. Discussion

5.1. Incentives and obstacles for transnational cooperatives

As noticed before,except for some small cross-border cooperatives most of the transnational cooperatives are rather large. The obvious incentive for cooperatives to become transnational is economies of scale. According to traditional economic thinking,scale economies (of size and scope) mean that a firm can decrease its unit costs and thus, increase firm profits. In farmer cooperatives the benefit of scale economies would possibly mean higher producer prices. Another reason behind firms' growth is toincrease firms' market power. By acquiring other firms or merging with them there would be less competition, which provides an opportunity to raise selling prices and thereby increase profits (or producer prices).

There are several reasons why transnationalcooperatives (with members in two or more supplying countries) and international cooperatives (with only suppliers in different countries) act differently in different countries. In the following subsections we try to analyse and categorize different issues of transnational cooperatives concerning their creation and existence compared to international cooperatives and IOFs. We start by looking at the following three factors affecting the behaviour of the cooperative:

1) Origin of the establishment
2) Extent of market integration
3) Member/supplier/(i.e. potential member) balance (in numbers, voting rights, capital shares, control)
4) Legal issues

The analysis based on the data we have collected may clarify the behaviour of transnational cooperatives as well as enlighten the question why the international cooperatives act like they act. The analysis may also help us to define the obstacles and incentives for transnational cooperatives.

5.2. Different types of origin for transnational cooperatives

As already mentioned in section 2, Nilsson and Madsen (2011) list four different ways that transnational cooperatives can be created: when a national cooperative invites members from another country (type 1); through acquisitions in foreign countries (type 2); via the establishment of a new cooperative (type 3) and by merging two national cooperatives (type 4).

In the food chain there seems to be only a few cooperatives that have been originally (type 3) established as transnational cooperatives(maybe some federated cooperatives like DAKA could be categorized in this group). There are (and has been) some small cross-border cooperatives that can be categorized to this type 3 (or type 1). Examples of these are two dairy cooperatives in Ireland that have members also in Northern Ireland. The Luxembourgian LSG and Hungarian BOTÉSZ (turnovers 5 million € and 2,5 million €) may as well be categorized into this group. When founded this way, the behavior of those cooperatives in different countries (i.e. e.g. the shares, rights and obligations) is exactly the same.

In the Fruit&Vegetable sector there are several auction cooperatives that have members from several countries. These can be categorized into type 1. Many of these cooperatives are pretty much similar to cross-border cooperatives as Irish dairy cooperatives mentioned above. In contrast to those, some of the F&V sector cooperatives are rather large having turnovers several hundred million euros. Examples about this kind of cooperatives can be found in Belgium and in the Netherlands (Mechelse Veilingen, Veiling Borgloon, Veiling Hoogstraten, Veiling

Haspengouw, Coforta/The Greenery, ZON Fruit & Vegetables). Reasons for Dutch growers to become members of Belgium cooperatives/POs are the use the auction clock (abolished in the Netherlands),lower membership cost and a better price they may get (Bijman et al., 2011). Most of the Belgian and Dutch transnational cooperatives in F&V sector have grown through mergers of national cooperatives.

The reason why no originally established transnational cooperatives exist in the food chain is probably very simple. Most of the cooperatives have been established as small local cooperatives quite a long time ago. The market was not integrated at that time, and there were no reason to establishtransnational cooperatives. Today when the integration has deepened opening possibilities and economic reasons for transnational cooperatives, there islittle room for "new" cooperatives. The consolidation processes are ongoing on the grounds of old structures and old cooperatives. Still, looking at the consolidation processes,the reasons for market integration (includingcommon language, etc.) may have fostered local cooperatives to join their forces mainly on a national basis. However, the consolidation process is ongoing. This is the reason why the largest transnational cooperatives have been created as part of the consolidation process through mergers and acquisitions (type 2 and 4).

Thelargest dairy cooperatives in Europe (FrieslandCampina and Arla Foods) represent theboth type 2 and type 4 origins. Both of these cooperatives' transnational nature is quite young. Danish MD Foods and Swedish Arla merged in 2000 and FrieslandCampina's transnational roots are from the year 1991 when Campina acquired German and Belgium dairy companies and invited suppliers to become member. Some of Campina's German expansions can be considered both as merger and acquisition: Campina acquired the business activities of MKW cooperative and merged the cooperative society into its own society by letting MKW members become new members of Campina. The merged/acquired cooperatives were from neighbouring countries whose markets were quite integrated (no large price differences, similar structures etc.). There were already substantial exports and imports between these countries. Thus, the markets were familiar to those cooperatives.

In addition to market and policy integration, the production structures in primary production as well as in processing industry were quite similar in the Netherlands, Belgium and Germany as well as in Denmark and Sweden. This certainly made the merger process easier. The large (or somehow equal) size is not prerequisite for a successful merger. In MD Foods and Arla merger both partners were quite large as well as in FrieslandCampina case. However, the transnational mergers in the case of Campina and the recent merger of Arla Foods and Hansa Milch in 2011 are examples about mergers between large and small cooperatives. The turnover of Hansa Milch was only 5% of Arla Foods' turnover. Moreover, during the last decade Arla Foods has merged with several small Danish and Swedish dairy cooperatives.

Furthermore, a merger is probably much easier if partners are in a quite equal financial position. If this is not so, the joining is much more probable to take place through acquisition where the one that is in a better position takes over the weaker partner. However, as well as the equal size is not a prerequisite for merger,neither is the equal financial position a prerequisite. There are exceptions such as the Danaeg/Kronägg case as well as the ongoing merger process between Arla Foods and Milko. Milko is in a very weak position, and actually it does not have any other choice than either to merge with Arla Foods or to go bankrupt.

There are also examples about transnational cooperatives that have been established as a result of acquisitions. A pure such case is Berglandmilch. Austrian Berglandmilch acquireda German dairy cooperative Rottal Milchquell eG in 1999. The members became members of the mother coop Berglandmilch. Another, perhaps a more complex case is HKScan. The acquired coop, Swedish Meats, had no other choice than to be sold . The buyer was the Finnish HKRuokatalo. The result was that the processing companies both in Sweden (Scan Ab) and in Finland (HK Ruokatalo Oy) became subsidiaries of the mother company now named HKScan whichnow has two national cooperatives as holding owners. However, the role and voting right of the Finnish coop, LSO is much larger than its Swedish co-owner Svenska Djurbönder. The LSO owns 68% of the voting rights whereas Svenska Djurbönder owns 12%. Thus, even though the Swedish market and the Swedish turnover are larger than those of its Finnish counterpart's, the role of the Swedish owner is much smaller. The demutualization of Swedish meats has been thoroughly studied by WesterlundLind (2011).

Although we talk above about one cooperative acquiring another cooperative, that is not so straightforward. A cooperative can only be acquired if the majority of the membership agrees with the acquisition. Usually, the members of the to be acquired cooperative want a guarantee that they can continue deliver products to the cooperative processing firm. Becoming member of the acquiring cooperative, even if that is foreign on, is the common way to obtain that guarantee of market. One may ask whether the members of the to be acquired cooperative will receive any compensation for their ownership share. In reality, a cooperative that is acquired by another cooperative is not usually not in a good financial position. Usually there is not much equity capital left that good be paid out to members.

When a cooperative acquires a foreign firm that is not a cooperative, the situation is more or less the same as when an IOF acquired another IOF. This case is simplerbecause there is no merging of cooperative societies (Nilsson and Madsen, 2007). In thiscases the members of the acquiring cooperative have not reason to invite the suppliers of the to be acquired firm to become member of the cooperative. The equity capital of the acquiring cooperative has been built up by members during several generations, and to just let suppliers of the to be acquired firm become member would be considered as free riding by the new members (in other words, they would benefit immediately, without having contributed to the building of the equity capital). A solution could be that the suppliers of the to be acquired firm pay a substantial entrance fee to become member of the acquiring cooperative. There are examples of this among transnational dairy cooperatives. However, farmers may often not have the resources to pay a substantial entrance fee.

This explains the behaviour of international cooperatives in countries where they buy privately-owned companies. Acquiring a company should benefit the own members, not the supplier of the to be acquired firm. This reasoning also explains why transnational cooperatives act like IOFs in countries where they do not have members (and where they do not want to have them, either).

In addition to these four types of transnational cooperatives, there are other transnational cooperatives that do not necessarily fit into any of those types. There are different kinds of federated (or semi-federative) structures that have been partly a result of acquisitions or cooperation with companies/cooperatives from different countries (e.g. Danish DLA, Austrian RWA, German BayWa). These cooperatives are often involved in the input supply business where the ties between members' supply and members' usage of own cooperative services are not strong.

5.3. Market integrations

A successful transnational structure requires that the market in the pre-merger situation is quite integrated (i.e. there are nolarge producer price differences between countries). Furthermore, the production structures and the roles of producer governance should be quite similar. Pricing systems, processing structures and capital structures should be quite similar as well. Typical areas where markets are integrated can be found in Belgium, the Netherlands and Germany, especially in the dairy and F&V markets. The integration in the dairy markets has created possibilities for Dutch/German and Danish/Swedish cooperation.

In addition to market integration also the policy measures affecting farmers and primary production in general should be quite similar. In the EU there is acommon agriculturalpolicy, but there are some national measures and national applications of CAP. If there were differences in policies between supplying members, it might increase doubts about the fair and equal treatment among them. This is similar to a situation where the producer prices paid to members would differ. This probably explains why the F&V auctions in Belgium have quite a number of foreign members. At the auction, prices are established by the auction clock. The auction does not distinguish between growers from different regions or countries. It is pure supply and demand determining the prices at the clock.

Even when market is well integrated, a cross-border merger can result in different treatment of members in one country compared to members in the other country. For instance, when looking at the development of Swedish and Danish milk prices one can easily notice that after the MD Foods and Arla merger the pricing system changed.The Swedes adopted the Danish pricing system where there were no seasonal adjustement. Another issue is the location of the main investments. It is not unlikely that after a cross-border merger most of the investments take place in one country and not in the other country. Such investments can be based on pure business strategy or business economic reasons, but can also be the result of an internal power competition between representatives from the two different countries.

5.4. Member/supplier balance

WesterlundLind (2011) points out that one of the reasons for the demutualization of Swedish Meats was the divergent interests between small and large producers(see also Nilsson and Ollila, 2009). The same logic can explain why for instance Danish Crown and HKScan (or LSO) have decided to act like IOF in Poland. Firstly, they have not acquired a cooperative but an IOF (Sokolow). However, even if the Polish suppliers were willing to become memberof Danish Crown or LSO, the primary cooperatives probably were not willing to take them as members. Compared to the Nordic countries, the production structure is totally different in Poland. There are much more small producers. If they were accepted as members they would have a majority of votes in the general assembly. The Danish and Finnish members would probably not allow this since they think that the equity capital of the cooperative is their capital, and their strategic decisions to take risk has enabled Danish Crown and HKScan to grow and obtain strong market positions. This same logic explains why cooperatives decide to remain international cooperatives without allowing foreign suppliers to become members.

Another issue related to HKScan owners is that in the pre-acquisition situation Swedish Meats had a larger market and had more members than the Finnish HK Ruokatalo (LSO). However, due to the economic differences between the buyer cooperative and the to be acquired cooperative,at the acquisition it was decided not to establish one single holding cooperative for all members. Instead, it was decided to have two holding cooperatives, one for the Swedish suppliers and one for the Finnish suppliers. The Swedes were given a much smaller share of capital and especially fewer voting rights. The strongest cooperative - HK Ruokatalo (LSO) – dictated the new structure as it wanted to maintain its control over the processing company.

5.5. Legal / competition issues

The legal framework concerning transnational cooperatives is quite complex and different legislations have different attitudes towards them.

The Regulation on European Cooperative Society (Council Regulation (EC) No 1435/2003) contributes to the development of the cross-border activities of cooperative societies. The

Regulation promotes the principle of non-discrimination according to which an European Cooperative Society shall be treated in every Member State as if it were a national cooperative.

<u>The Single CMO Regulation</u> (Council Regulation (EC) No 1234/2007) has a rather neutral approach to transnationals in general, as such organizations are accepted if they are formed on the initiative of the producers and they pursue aims, such as concentrating supply and marketing the product of the members, adapting production jointly to the requirements of the market and improving the product or promoting the rationalization and mechanization of production. Further, according to the Single CMO Regulation, producer organizations are exempted from application of Article 101 TFEU

(The treaty on the functioning of the European Union), if they are necessary for the attainment of the objectives set out in Article 39 TFEU. However, the so-called third exemption does not apply to transnational cooperatives, because they have members from several Member States. This limitation of agricultural exemption thus discriminates transnational cooperatives compared to national cooperatives.

<u>The Commission guidelines on the effect on trade</u>, is based on *in casu* –analysis. Matters such as the aggregate market share of the parties (should not exceed 5 % on any relevant market within the Community affected by the agreement) and the aggregate annual Community turnover of the undertakings concerned (should not exceed 40 million euro in the products covered by the agreement), the nature of the restrictions on competition and the effect on the pattern of trade between Member States may be taken into account in the assessment. Despite these rather high preconditions, the analysis must be based on the effect of each individual situation and therefore regional producer organizations may still have an effect on trade, for example if the agreement or practice relates to an intermediate product which is used in the supply of a final product, which is traded between Member States. Thus a transnational organization practically has effect on inter-state trade in which case competition rules may prohibit such actions at EU-level. At national level, on the other hand, there may be national exemptions for producer cooperatives.

Therefore, there is no clear coherence in legislation concerning the legal status of transnationals.

The principle of the effect on trade between Member States is applicable on agreements and practices between undertakings. However, where mergers are concerned, national merger legislations and the EC Merger Regulation (Council Regulation (EC) No 139/2004 on the control of concentrations between undertakings) are applied.

A concentration between undertakings must be notified to the European Commission, when it has a Union dimension. According to the EC Merger Regulation a concentration has a Union dimension when a) the combined aggregate worldwide turnover of all the undertakings concerned is more than EUR 5000 million; and b) the aggregate Union-wide turnover of each of at least two of the undertakings concerned is more than EUR 250 million, unless each of the undertakings concerned achieve more than two-thirds of its aggregate Union-wide turnover within one Member State.

If these thresholds are not exceeded, the concentration must be notified separately in each Member State the concentration has influence on. Each notification must be made in accordance with said Member State's national legislation.

This is only the principal rule and the separation of powers between the European Commission and the competent authorities of the Member States is more complex than mere analysis of turnover thresholds.

6. Conclusions

The number of transnational cooperatives has grown over the last decade. As cooperative firms pursue growth strategies, national borders become increasingly obsolete. Cooperatives from small countries experience domestic limits to their growth ambitions earlier than cooperatives from large countries. Also the on-going market integration in the EU has facilitated the internationalization processes of cooperatives.

Transnational cooperatives are found in a limited number of sectors and a limited number of countries. Mostly, they are found in dairy and Fruit & Vegetables, and in the following Member States: Belgium, Netherlands, Germany, Denmark, Sweden and Finland.

The same cooperative may be behave like a transnational cooperative (i.e., suppliers are members) in one country and like an international cooperative (suppliers are not members) in another country. There is no a-priori argument why cooperatives would behave like internationals in one country and transnationals in another country. Also in the countries listed above, a number of cooperatives function as internationalsand not as transnationals.

Cooperatives seeking foreign growth become transnationals when they invite foreign suppliers to become member (because they need to commit these suppliers) or when they merge with a foreign cooperative. Because cooperatives cannot easily be acquired (as all members have to agree), in practice an acquisition is also a merger. Only when there are clear economic and strategic reasons a cooperative seeking foreign expansion becomes a transnational and not a international cooperative. As Nilsson and Madsen (2007) have explained, cross-border mergers of cooperative are much more complicated expansion processes than acquisitions of foreign IOFs. Also the implications for the existing members are more far-reaching. Even inviting suppliers in another country to become member has already implications for decision-making and member-cooperative communications. This explains why most cooperatives do not actively pursue foreign membership.

The exceptions are the F&V cooperatives in the Belgium and The Netherlands. Within fresh F&V marketing cooperatives it is important to have sufficient diversity among suppliers, both in type of product and in season of supply. Also, these two countries are economically and culturally very similar, and in the F&V cooperative no major member investments are needed. Still, the number of foreign members remains very small within the total membership. In the F&V processing sector we do find some cooperatives (or bargaining associations) with substantial numbers of foreign members. Here the issue of countervailing power is the main explanation.

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