
Support for Farmers' Cooperatives

Case Study Report **Sheep cooperatives in Scotland, UK, and Extremadura, Spain**

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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)", in order 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, by the European Commission, and by national and regional authorities in their effort to encourage and support the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project, this case study report has been written on two cooperatives operating in regions with difficult natural circumstances for agriculture. ANM Group in Scotland, UK, and OVISO in Extremadura, Spain, are trading in sheep and sheep meat. Of special interest for this case study is how they see their role concerning the regional rural development.

Data collection for this report has been done in the spring of 2012.

In addition to this report, the SFC project has delivered 32 other case study reports, 27 country reports, 8 sector reports, 6 EU synthesis and comparative analysis reports, a report on cluster analysis, a report on the development of agricultural cooperatives in other OECD countries, and a final report.

The authors would like to thank the directors and managers of ANM Group and OVISO for their willingness to collaborate in this project and to share information on structure and strategy of their cooperatives.

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List of abbreviations

ANM Group	Aberdeen & Northern Marts Group Ltd
OVISO	Ovino del Suroeste Sociedad Cooperativa Limitada
IOF	Investors oriented firm
SAOS	Scottish Agricultural Organisation Society Ltd
SRDP	Scottish Regional Development Programme
Corderex	Cordero de Extremadura

1. Introduction

1.1 Objective and research questions

The EU has asked Wageningen UR in the Netherlands to coordinate a study on the role of cooperatives in the local market situation, considering the historical, cultural and sociological background. The question in the background is: could the cooperatives play a role in some goals of the EU policy, in particular regarding rural developments. The case studies provide an analysis of the specific situation of cooperatives in a number of agricultural sectors across EU Member States.

One of the sectors looked at is the sheep sector. Two cooperatives were asked to collaborate in this study: the ANM Group in Scotland (United Kingdom) and OVISO in Extremadura (Spain). The case study will identify by desk research and some in-depth-interviews the degree of success of these two cooperatives in respect to their members, their contribution to regional development and the influence of the institutional environment.

For each region interviews took place with:

1. The general manager of the cooperative;
2. A sheep farmer who has a chair in the Board;
3. An expert on regional developments, in relation to agriculture and the role of cooperatives.

The study aims to verify some hypotheses which are stated during the research process:

1. State interference into cooperatives' affairs tends to result in lower economic performance of agricultural cooperatives.
2. Governmental policies that support cooperatives (e.g., technical assistance, advisory services, and capacity building) have a positive impact on the number and efficiency of agricultural co-operatives
3. The number of cooperative memberships increases during times of economic crises.

1.2 Method of data collection

The case study is based on multiple data sources. First of all, secondary data was used such as academic literature, country reports of the Support for Farmers' Cooperatives project, popular press and electronic media, various archives and other sources of information.

Additional information has been collected through personal interviews with various cooperative stakeholders. For this particular study, board members and managers of both AMN and OVISO have been interviewed, as well as other stakeholders such as policy advisors on cooperative affairs and rural development experts. Standard techniques and approaches used in case study research were used in order to maximise reliability and avoid biases.

1.3 Structure of the report

Chapter 2 and 3 of this report are aimed to provide a full picture of respectively the Scottish and the Spanish sector, as well as a description of the two cooperatives under study. The sectors and cooperatives will then be compared to each other in chapter 4. Finally, in chapter 5 conclusions are drawn.

2. Sheep cooperative in the UK: ANM Group in Scotland

2.1 Introduction

In this chapter an analysis is made of the ANM Group, the largest cooperative with activities in sheep in Scotland. In section 2.2 attention is paid to historical, cultural, sociological aspects and activities of the cooperative. Strategy and structure of the ANM Group in section 2.3 and relevant support measures affecting structure and strategies are mentioned in 2.4.

2.2 Historical, cultural, sociologically aspect and activities of the cooperative

The UK has one of the largest sheep flocks in Europe (about 25%), producing about 34% of sheep meat in the EU (figure 1). This industry has gradually recovered from a foot and mouth outbreak in 2007, and there has been a review of how the crisis was handled. This includes demands for greater transparency in the food chain (including through electronic identification systems), as well as other improvements to food security, including testing and emergency responses are more.

Competitiveness not only within the EU but also with New Zealand is also an important issue. Higher current prices may reduce the number of farmers leaving the industry (Spear et al., 2011).

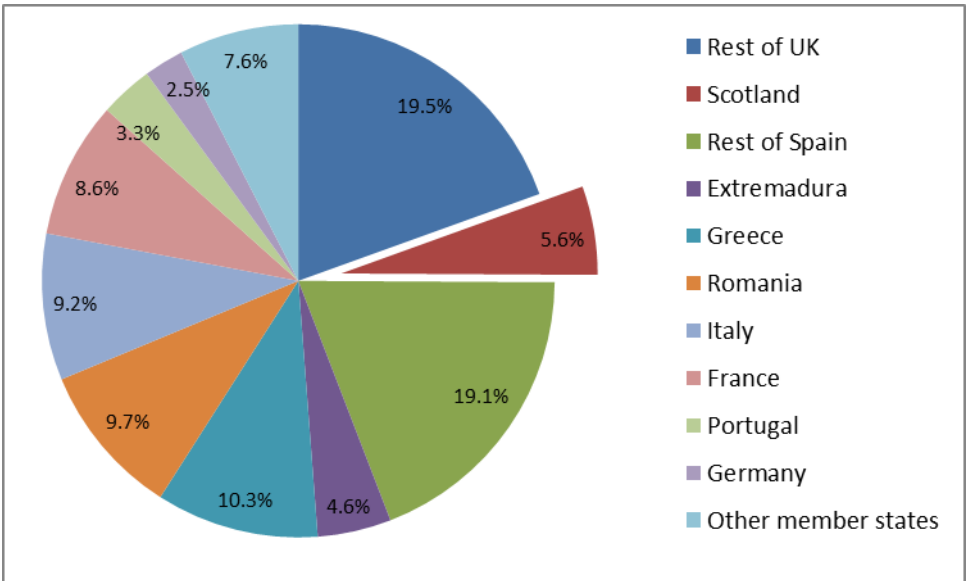


Figure 1. Number of sheep in the most important sheep producing EU-member states and share of Scotland (source: Eurostat, 2005-2011)

Since its formation in 1872, ANM Group has grown to become one of the UK's largest and most diverse farmer-owned agri-businesses, playing a major role in northern half of Scotland's agricultural economy. The Group is owned by 7,500 farmer shareholders and is totally committed to its core business of livestock marketing and meat processing. The Group has also diversified into land marketing and development, non-agricultural auctions and event management along with catering and hospitality. The annual sales of £150 million, an asset base of around £30 million and shareholder funds in excess of £17 million.

The Group has its headquarters at Thainstone, near Inverurie in Berdeenshire and employs 550 people at sites across Britain, stretching from Caithness in the North to South Yorkshire (www.anmgroup.co.uk).

The ANM Group counts 3 divisions:

1. **The Meat Division:**
 - a. Scotch Premier Meat: superior beef, lamb, pork and wild venison butcher trade
 - b. Yorkshire Premier Meat: processing beef, lamb, pork and poultry to customer specifications in the ready meal market
 - c. Charcuterie: cooked meat products
2. **Livestock Division:**
 - a. Aberdeen and Northern Marts: livestock auction at Thainstone Centre of beef and sheep.
 - b. Highland Cuisine: catering and events service business
 - c. Thainstone Centre
3. **Special Auction Division:**
 - a. Aberdeen and Northern Estates
 - b. Thainstone Specialist Auctions

Thainstone Centre is widely considered to be one of the most modern livestock auction complexes of its kind and is recognised to be the biggest in Europe.

Scotland has a huge variation of land quality and a stratified structure of specialized sheep farming. Sheep are held on different farms in the hills (and very remote islands), the uplands and the lower grounds. The price information set by the auction is the linkage between these different geographic areas and farms. The auction system is also the means of gathering the store and breeding animals from the hills, to present them to the upland farms which buy the breeding stock for crossing, and the low ground farms who buy the stores for finishing. For the sheep sector this is really important, especially as a proportion of the sheep producers in the hills and islands are “crofters” i.e. smallholders with a specific legal status and with small stock numbers. This situation is unique for Scotland, more than in England, and a different model compared with many other European countries where breeding, finishing and fattening sheep occurs on the farms where they are born. This is one of the main reasons why the auctions mechanism is so important in Scotland and the UK for sheep farming.

The history of cooperatives in the UK is different from Europe and lots of them have a short history. After World War II in the UK the government set up marketing boards (state-controlled or state-sanctioned entities legally granted control over the purchase or sale of agricultural commodities). At the same time in Europe governments promoted cooperative firms. Marketing boards were set up for different products, for example: milk, potato, wool, etc.. Part of their duty was price setting. Marketing boards flourished in the 20th century. Since the mid-1980s (prime minister Margaret Thatcher) they have declined in number under pressure from domestic liberalization and from international trade rules that increasingly cover agriculture. As a result of that in Scotland a cooperative called Farmstock was established. This is a lamb marketing group which sells directly to the process industry. (see booklet: Farmer co-ops in Scotland – 2012 – SAOS). The ANM Group is an exception to the described general developments. This cooperation had already been founded in 1872.

2.3 Strategy and structure of the cooperative

What does cooperation mean to the ANM Group? *‘Being able to offer members and customers a unique whole of market approach from farm to fork, and guarantee the provenance of the product’ (SAOS, 2012).* The mission of the ANM Group is: *‘The ANM Group is totally committed to our core business of livestock marketing and meat processing. We are a highly diversified business with*

interests in land market, non-agricultural auctions, events and the catering/ hospitality industry, in addition to our core agricultural business' (www.anmgroup.co.uk).

The activities for the members are services driven, rather than profit maximization. The primary benefit for the members is the continued guarantee of a certain level of independence of supermarkets. Auction mechanism drives prices up in favour of the farmers. Faced with declining livestock production, the key challenge for the ANM Group was adapting as the industry changed, to continue delivering value for its 7.500 members. Lobbying for members' interests was an important role for the ANM Group. Mutuality plays a vital role in maintaining the livestock marketing infrastructure on which the northeast Scotland farmers depend.

Strategy

The ANM Group is active in different primary activities (see also section 2.2 the 3 divisions of the group):

- Marketing (processing) and auctioning: Scotch Premier Meat, reinforced the group's marketing strength and made an important financial contribution, by providing a competitive outlet for top quality stock, and by selling meat at premium values bearing the Scotch Premier brand.
- In some supply of farm inputs of hay and straw in the role as auctioneer.
- Providing credit: financed livestock of the farms.

Concerning auctioning:

The geographic structure of the ANM Group has changed. Rationalisation has occurred in the number of livestock marts from about 30 in the 1970s, to the present day 2. Investment on the scale that had been undertaken at Thainstone was only justifiable because the business is a mutual co-operative, and did not need to generate competitive returns for external investors. The mission of ANM's Aberdeen and Northern Marts subsidiary was to maintain an auction mart system of price discovery in the interests of members.

The main purposes and benefits of the livestock auction set up by the members for sheep are:

- Transparency of prices. Meeting point of different buyers and sellers. The auction system delivers a fair prices for member product.
- Shift animals from the mountains to the low lands for the meat market. It brings the store sheep down the hills to the lower areas for finishing.
- Breeding structure mountain sheep are crossed with other sheep to create new crossbreeds.
- Competition with private firms/supermarkets. ANM Group has been a price leader in the premium market.
- Impact on the market price in the area. Strategy to deliver to top butchers in the UK. Therefore higher price than might have been paid by other abattoirs focused on supermarkets.
- Ultimate protection for smaller farmers. Supermarkets are not interested in small herds.
- The same value to every customer. Everyone treated equally and fairly. Same commission rate for great and small farmers.
- Clearance – due to the scale of the auction it attracts all kinds of buyers so all types of stock will find a market. This is critical for the “end of life” and poor quality stock e.g. old cows and ewes, very small lambs, for which there is little local market demand. It helps avoid welfare problems.
- The cash flow is good. When members sell, they are paid the same day.
- Creates a focal point. Being a centre of agricultural activities in North East Scotland. Companies clustering and sharing information. Department of agriculture built a new centre here. Also agriculture machinery companies have their headquarters at Thainstone Centre. You can do a lot of business in one place.

In the ANM Group, cattle is most important in the slaughtering and auction. After cattle, sheep are secondary in the auction business (table 2.1). The sheep sector is too small to specialize on

sheep within the ANM Group. Reasons are less profitability and big overhead (offices). Most revenue comes from cattle commissions (80%) and only 20% of sheep commissions. Most farmers have cattle and sheep. There are no tensions between sheep and cattle division within the group. It is not a matter of choice, the cooperative copes with both. The majority of sheep production is from August to January/February. In the northern part of the UK, the lambing season is later than in the south of the UK. The strategy of the ANM Group is specialization in producing sheep meat as part of expensive market at Easter.

Table 2.1 Number of different sheep transferred by Aberdeen & Northern Marts at Thainstone Centre in 2011

Sheep class	Number
Store sheep	120.010
Breeding Sheep	39.598
Store/Cull Ewes	62.584
Prime Sheep	127.534

Source: ANM Group

The role of the cooperative for its members is strengthened by the auction mechanism. It makes this an attractive place for buyers, due to concentration. When the auction system is lost and a cartel of 3 or 4 players starts to set the price then prices will drop down for farmers. The Auction centre has some non-agriculture activities. Thainstone Centre is the auction centre for everything in Northern Scotland. By diversifying their activities the ANM Group protects the core business. Through diversification of other auction activities the commission rates could stay low. These activities pay for the overhead of the centre and support the core business. There is also a big cultural benefit of the centre. This place is an important venue and is a place to hold farmers meeting with good facilities.

Concerning providing credit:

- The ANM Group financed livestock of the farms finishing sheep. So it becomes easier for the farmers to buy sheep. When providing credit, the ANM Group is part owner of the movement documents. The sheep farmer cannot trade the cattle anyone else. Conditions are that the sheep must be sold through the ANM Group. A way to tie in volume. So there is a mutual benefit thing for farmers and the company. At this moment an amount of 8 mln. pounds is financed in livestock. The position is steady.
- The ANM Group can often negotiate better finance from the banks. They also use capital from retired farmers to invest their money in the cooperatives and that money can be used for other farmers. There is no cooperative bank in Scotland.
- Providing credit is very important for young people to buy cattle. The bank is not prepared to finance livestock.

In the past there have been tensions between the big scope of activities. Some areas of activity were not core farming. For example they went into trading of oil equipment – a development of their auction expertise, especially the electronic auction system which could open up the auction to people anywhere in the world. The ANM Group dispose this activity because it wasn't the core. Similarly they operate a catering company which grew out of their need to run a café and restaurant on the site – may have over-extended themselves in this area in the past. The meat processing company which is a part of the group is a core activity, but may have over-extended into sandwich and charcuterie businesses. Agriculture and auctioneering and making the best use of the venue are their core activities.

Most cooperatives tend to be specialized. The strategy of the ANM Group is diversification. Reason for this is that the auction system has low profit margins. They have to use other profit streams to maintain the auction system.

Membership

In the ANM Group different types of membership exist. From the 7.500 members, 3.000 to 3.500 are trading on the livestock auction. Approximately 1.500-2.000 of them could be sheep producers. Many sheep farmers have mixed farming with cattle and arable farming. There is a large number of members who don't trade: so called 'weak members'. There are also many non-members who trade on the auction in Thainstone: so called 'shadow members'. The ANM Group operates as a large auction company and is not always recognized as a cooperative.

Competitors

The Competition Law, introduced in 1982/1984 makes it difficult for cooperatives to grow, because they became subject to competition rules. Firms have to grow organically rather than by acquisition. (The ANM Group noted in the interviews that European cooperatives active in the UK with subsidiaries, like Arla and VION can grow very large cross border, before having problems with the Competition Law).

The ANM Group does not deal with supermarkets for finished livestock. Probably 25% of the members sell both direct to the abattoir or supermarket and doing business with ANM group. Competitors for the ANM Group are the private abattoirs linked to supermarkets. In the last 10 years the influence of supermarkets increased in the UK. There are 5 large supermarkets competing each other with their own supply chain. There is plenty competition for finished stock. Sixty per cent of the Scottish red meat slaughtering capacity is located in this Aberdeenshire area. Abattoirs usually buy directly from farms with larger herds, for reasons of uniformity. In addition to this they buy on the auction in case they need to – when they can't get enough stock directly. So, the auction provides a service for them as well. UK supermarket domination is more advanced than in Europe. In Europe much more butcher activities and local markets exist.

If this firm would not be a cooperative but an IOF, this firm would have less other service orientated activities and auction activities. For example, in a period of low number of sheep an IOF wouldn't organize an auction. The cooperative is much more service driven for its members, although it of course is set up to be profitable. At this moment the meat company is going through a tough time. In a recession selling meat into a premium market is difficult. The cooperative is financed by stakeholders' money. They want to stay in this business, because of solidarity reasons. An IOF would consider selling this business and put the capital somewhere else, out of the region. The shareholders are dependent on the meat company so they want them to stay. The capital structure leads to flexibility. Moreover, if the cooperative makes profit the whole region will have an advantage, thanks to more investments.

2.4 Relevant support measures affecting structure and strategies

Decoupling of the EU-payments was for many farmers the trigger to leave sheep farming, but a lot of structural things were happening anyway. There was a big drop in the number of sheep but less so in the sheep meat production. Sheep raising in the hills was not very profitable, so geographically the sheep flock has declined in North West Scotland, the Western Isles and on the Shetland islands with minus 40% in some sub-regions (www.sac.ac.uk). In the region of Aberdeen and the Scottish lowlands and borders the decline was less. Lowland sheep are seen as potentially viable without subsidies, but hill sheep have always been heavily subsidy reliant. Decoupling, an ageing workforce and the lack of part-timers and casual workers to assist with the major peaks of hill sheep work, combine to undermine the viability of hill sheep throughout the Highlands. Decoupling gives farmers the opportunity to still collect the CAP subsidy payment

with far less sheep, or indeed none at all. There are also structural problems in the West. In the hills it can take 2 to 3 days gathering the sheep. Therefore you need people with skills and interest, but they are not available in the region, because people choose the better paying jobs in the towns and cities.

One of the biggest issues in sheep sector is EU regulation. The number of sheep farmers is partly declining because of the complicated and rigid regulations. This is experienced as a risk for raising sheep. For example: 'you get a serious penalty on your whole single farm payments when during an audit the sheep flock is missing 1 or 2 ear tags in the high hills were sheep will not move to another farm anyhow'. The risk and the effects are larger for small sheep herd, so especially the small sheep farmers quit raising sheep.

The consequence of the declining sheep stock is a decrease of economic activity in the region which causes unemployment, depopulation and disturbance of the cultural structure, in other words: the decoupling and the rigid EU-regulations lead to serious problems in rural development. Another environmental effect is that the hills are not pastured anymore. A change in policy rural development program is needed for the region. At this moment there is not enough flexibility in the program to get livestock on the hills. Within the current CAP the possibilities are too limited. In the view of the AVM group, the new CAP should recouple or stimulate grazing in some areas, not so much for production reasons but primarily for rural development and environmental effects.

The devolution of powers and authority in different degrees to Wales, Northern Ireland and Scotland, as well as delivery of much economic policy via the Regional Development Agencies within England created differences in support for co-operative activity within farming and might be seen to have fragmented approaches to promoting or supporting cooperation of different forms within agriculture. Scotland has a variety of particular schemes that could benefit co-operative businesses. For example under the Scottish Regional Development Programme (SRDP)(2007-2013) (Spear et al., 2011):

- **Technical assistance for Scottish Producers Scheme (TASPs)** supports producers' participation in events, the production of publications about producers and their products, education and training, or rent and applications relating to production. It is particularly focused on producer groups or associations, as well as individual producers. (<http://www.scotland.gov.uk/Topics/Business-Industry/FoodIndustry/granttimetable/TechnicalAssistance>)
- **Food Processing, Marketing and Co-operation Grant Scheme** is specifically focussed on Food Co-operation Support to provide assistance to develop co-operation and collaboration within the supply chain. (<http://www.scotland.gov.uk/Topics/Business-Industry/Food-Industry/granttimetable>). This scheme seems to be supporting smaller businesses.
- **Marketing Development Scheme** – aims to improve the efficiency of the food and drink marketing chain by helping farmers, grower and processors improve their marketing and commercial expertise, including support for producer groups with feasibility studies or costs of implementation with 50% grants. (<http://www.scotland.gov.uk/Topics/Business-Industry/Food-Industry/granttimetable/mds>)

According to the interviewees the SRDP has been effective and efficient, but the programme is not very specific for sheep farmers and producers.

A Scottish Government grant funds the **SAOS** – the Scottish Agricultural Organisation Society (<http://www.saos.co.uk/>) whose aim is that of “developing cooperation in farming, food and

rural Scotland". It is a development organisation run by its members and aims "to strengthen the profitability, competitiveness and sustainability of Scotland's farming, food and drink, and related rural industries and communities through the development of co-operation and joint venture." SAOS provides information, advice and specialist consultancy services to farmers and food chain companies, and to rural businesses and communities that decide to work co-operatively or in joint venture to achieve their aims and objectives. SAOS also provides consultancy services to, and in conjunction with, a range of other businesses, industry organisations and Government agencies in projects and initiatives where our interests are complementary.

They also lobby, providing a collective voice for cooperative directors and member businesses, promote co-operative structures in agriculture, and direct grants from the EU and the Scottish Government to further support these activities and structures within Scotland.

The strength of this body and its interactions with government seem to have created a more supportive atmosphere for agricultural and farmers cooperatives within Scotland than elsewhere in the UK.

SAOS argues that all the small schemes available to support cooperation and collaboration should only be seen as tools, since they need to be mixed together. It is ultimately promotion and evidence of the approach that is the most important in encouraging take-up.

This cooperative operates as a commercial organization that competes with private firms. The primary business of the ANM group is the auction business and the meat processing. First the firm has to earn money before taking services of rural development. The ANM Group is one of the largest cooperatives in the UK. They achieve rural development goals indirectly by providing the linkages between the regions through the auction system. They are involved in auction activities on the Islands – Shetland example. Achieving rural development goals may be easier for smaller cooperatives (100 members) with less activities and overhead because they may be focusing on a very local need, perhaps a local "market failure".

Social and sustainability goals of a cooperative can only be under the condition of good economic results. If a cooperative wants to provide public goods, it should be set up as a social enterprise. These activities should not be mixed up in a cooperative that has to compete with firms on the commercial market. If necessary a sister organization could be set up for public goods.

There is no state interference into cooperative business in the UK. Cooperatives operate as an independent firm. Public policies should facilitate cooperatives in achieving a balance between economic and social goals; Education and economic participation of their members for example in credit systems. Balance between them is important.

3. Sheep cooperative in Spain: OVISO in Extremadura

3.1 Introduction

This chapter contains an analysis of the second tier cooperative OVISO, one of the larger sheep cooperatives. In section 3.2 attention is paid to historical, cultural, sociologically aspect and activities of the cooperative. Strategy and structure of OVISO are discussed in section 3.3 and relevant support measures affecting structure and strategies are mentioned in 3.4

3.2 Historical, cultural, sociological aspect and activities of the cooperative

History and position

Spain has the second largest sheep flocks in Europe (about 24%, figure 2). Extremadura is an important Spanish region where sheep are raised. The total sheep flock in Spain counts about 15 million ewes, of which about 3 million are raised in Extremadura.

The cooperatives play an important role in the marketing. Over one million ewes are kept by farmers who are member of one of the 17 individual cooperatives. At the moment 13 of those cooperatives are associated to OVISO. In total the farmers of OVISO have 805.000 ewes.

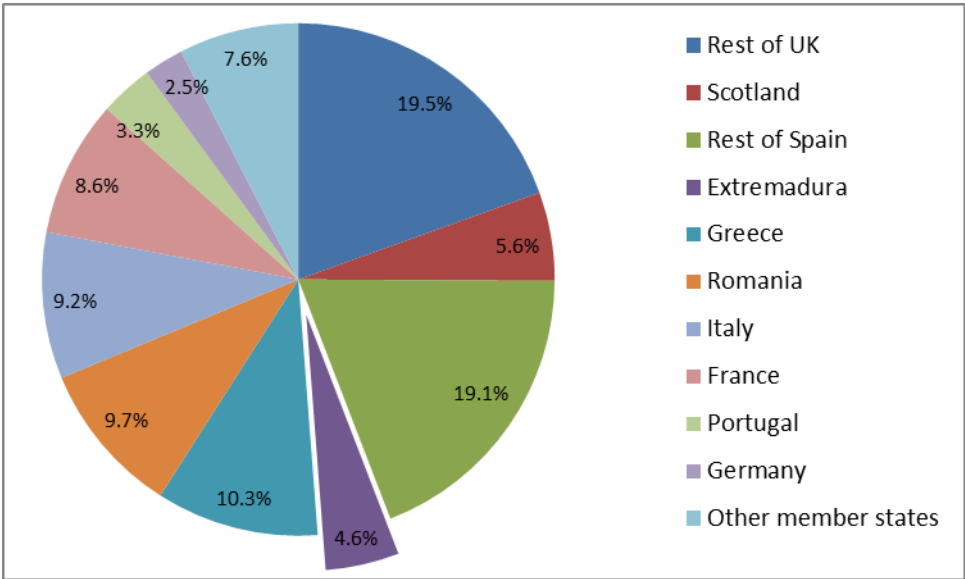


Figure 2. Number of sheep in the most important sheep producing EU-member states and share of Extremadura (source: Eurostat, 2005-2011)

The history of cooperatives in Spain is closely tied to its legal and political history. A Co-operative Law was brought into force in 1931 and lasted throughout the Second Republic until 1939 when the Spanish Republic was defeated by the Franco’s forces. In 1942 a Co-operatives Act was enacted in order to fulfil the purposes of Franco’s regime to monitor and control co-operatives, giving the supervisory body the right to veto members’ elected management. However, many “co-operatives” (as so defined under the laws of that time) were set up during the dictatorship and in 1969 7,500 co-operatives were recorded. A 1974 Cooperative Act was enacted where a more business-like, economic approach was introduced for cooperatives. After Franco’s death in 1975 the 1978 Regulations solidified such an approach, encouraging second

tier co-operatives to form (Juliá and Vidal, 2002). With democracy as a background, during the 1980s most autonomous communities, passed their own acts and in 1987 the national Co-operatives General Act was passed. After Franco's death in 1975 the intended successor of Franco, King Juan Carlos turned out to be a strong supporter of democracy. A transition government was formed and after a few years the socialists came into power in the parliament. In 1982 the socialist Felipe Gonzalez became president and many social reforms were carried out. In 1986 Spain joined the EU.

In the late seventies and early eighties many more cooperatives were founded, made possible and stimulated by the return to democracy. These cooperatives were initially founded due to a lack of a good working system of commercialisation of the agricultural products. The cooperatives were very small-scale, organized on product base and on a local level. After a while the cooperatives came to the perception that they would be better off taking over the following part of the food chain. In this way they started processing food products.

In Extremadura the sheep farmers started cooperative slaughterhouses in order to gain an added value to their sheep and lamb production. However, running a factory needs a certain scale for efficiency reasons. Moreover, to really have power in the market a larger scale was needed as well. That was the reason that the different cooperatives decided to work together. In this way the small cooperatives were able to respond to the challenges they faced. However, due to several reasons (generally money) the cooperatives did not merge, but they founded a second tier cooperative. In the Extremadura case in the sheep sector this was OVISO. In the late nineties three cooperatives took the initiative and founded OVISO. In the course of the next years other cooperatives joined OVISO because of its success.

OVISO is planning to extend their success broader by bringing more cooperatives under its umbrella (four more sheep cooperatives in Extremadura, working together with Portuguese sheep cooperatives and/or other animal production cooperatives in Extremadura). No further extending of activities is foreseen.

Table 3.1 Development of OVISO

	Year	Cooperatives	Farmers	Sheep
Start of OVISO	1999	3	420	330,000
After 10 years	2008	4	500	390,000
Last available data	2011	13	1350	805,500
Foresight	2014	17	2,000	1,300,000

Source: interview

Activities

The cooperative has a lot of activities to be able to meet its mission to produce high quality sheep meat. The main activities are:

- **Production (on-farm)** The cooperative monitors the farm situation and is in special circumstances even authorized to withdraw the membership of the farmer to the cooperative. After the weaning of the lambs the lambs are brought to special feedlots, in which they are fattened and made ready for slaughter. These feedlots are owned by the cooperative.
- **Marketing (processing)**, all lambs are traded by the cooperative. About 40% of the lambs are slaughtered in the slaughterhouses of the cooperative, the others are slaughtered in the north of Spain or exported alive. The trade of the wool and skins is done by the cooperative as well. OVISO is also active in producing cheese of sheep milk,
- **Supply of farm inputs**, the cooperative provides forage, medicines and other farm requirements,
- **The cooperative gives advices** about a broad scope of the farm aspects, from veterinarian items to financing and from nutrition to breeding,

- Insurance and risk sharing, there is an extensive insurance system. They will pay in case of all kinds of big and small disasters, even drought. The main condition is that the farmer has followed the advice of the cooperatives' advisor,
- Animal breeding, the cooperative has breeding programmes. The cooperative selects suitable rams from its members and offers them to other members. The rams of these programmes are available for the members,
- Soil and nature conservation, the mayor part of Extremadura is labelled as nature conservation area. The cooperative has to deal with this fact and will be part of the advises given by the cooperative,
- Contribution to regional culture/identity, indirectly by contributing to the main historical economic activity: agriculture and by contributing to the employment of the region. Thanks to OVISO the sheep holding is profitable. In this way the cooperation contributes to and preserves the regional culture,
- Advising farmers how to deal with EU-regulations, among which the regulations concerning nature conservation.

OVISO disposes of several facilities in order to realize an added value for its members. These facilities are owned by OVISO or the individual cooperatives. In some cases EU-subsidies were used to finance the realization. The production centres are:

- 2 slaughter houses,
- 7 classification centres for lambs,
- 1 classification centre for older sheep for slaughter.
- 1 classification centre for wool,
- 2 feed factories,
- 2 cheese factories (for handmade cheese with high added value).

In order to provide all the activities OVISO has 125 employees:

- 52 for farm advice and service. Of them are 24 people with a university degree: e.g. veterinarians, agronomists, economic advisors. Nine employees have an administrative function; 19 employees do not have a title
- 41 for commercialisation. Of them are 4 people with a university degree: e.g. veterinarians, agronomists. Four employees have an administrative function; 33 employees do not have a title.
- 32 employees for the internal management within the base cooperatives.

3.3 Strategy and structure of the cooperative

The mission of the OVISO group is stated on their website: *"OVISO aims to have a presence in the market for fresh meat through a system directly from the producer to the final point of sale, with all the animal health guarantees, homogeneity, continuity of the product throughout the year, of known quality and proven for long in national and international markets, as is the Lamb of Extremadura"* (Translated by Google Translate).

OVISO is convinced that this mission is the best way to achieve the ultimate objective: how to serve the members of the cooperative. All activities of OVISO are set up in order to realize this goal with the mission as a guideline.

Structure

At this moment the OVISO group consists of 13 cooperatives (table 3.2). The underlying cooperatives can have other activities besides sheep, but OVISO is only working with sheep farmers. A complicated structure was established in order to manage the second tier cooperative OVISO. To have the right to vote a first cooperative has to have a minimum number of farmers and sheep. That's why only five cooperatives have voting rights. The others are simply too small.

Table 3.2 Cooperatives associated to OVISO, number of members, animals, founding year and year in which the cooperative became member of OVISO

Cooperative	Members	Animals	Founding year	Association year
Fregenal Ganadera de la Sierra, SCL	48		1989	2001
Ganadera Sierra de San Pedro	150	50000	2001	2012
COOPERATIVA GANADERA DE CASTUERA	100	71000	1981	
ALANSER, S.COOP. LTDA	280	140000	1983	
FOVEX SAT	140	115000	1986	
COEX	300		1984	
Copreca				
Cooperativa Castillo de Herrera	100	43000	1980	2009
Ganadera Esparragosa de Lares	29	16000		
Central Ganadera de Talarrubias	85	30000	1992	2007
Cooperativa Agrícola Puebla de Alcocer	56	18500	1995	2007
Sociedad Cooperativa Ganadera Sancti - Spiritus	20	5000	1996	2010
Asociación Agricultores y Ganaderos	70	15000	1978	
APA Sociedad Cooperativa La Benéfica	2000	10000	1902	

Source: [websites](#) of OVISO and individual cooperatives

Strategy

The strategy of OVISO can be summarized as follows:

- The high production costs of lamb meat in this dry and natural poor area can only be compensated by a high price.
- This is possible by realizing a high added value to the meat.
- The strategy is to produce high quality lambs meat.
- The quality is realized by rigid on farm production guidelines. This includes a veterinarian program, a breeding program, an advisory system and central final fattening of the lambs.
- A way to achieve a high added value is the slaughtering of the lambs for nearby markets. (the lambs for foreign destination are exported alive)
- The whole concept is supported by trademarks and guarantee labels.

In practise this strategy has a lot of consequences for the whole sheep production system, which is tailored to the natural circumstances in Extremadura. Normally the adult sheep are pastured. They hardly get additional feeding and have to survive on a poor ration. The pasturing is very extensive: normally only two sheep per ha.

During the last part of the gestation and during the lactation period the ewes need a ration containing more energy. In this period they get additional feeding, mainly corn and wheat from the arable land in other Spanish regions. On a live weight of 20 kg the lambs are weaned. They are brought to another location in which they are collectively fattened in feedlots until they are ready for slaughtering.

The production is year round. The common race is the originally Spanish Merino sheep. It is a sheep that is well adapted to the local rough circumstances. The Merino sheep is not very fertile, but the in-heat period is very long and indifferent to the season. That makes it possible to produce lambs year round. The advantages are obvious: on farm level the need of labour during the year is very flat, thanks to lack of a birth peak. On the level of processing the number of sheep for slaughtering is very constant. This contributes to an efficient production in the slaughtering houses. And finally there is an advantage in marketing. In all times of the year a constant flow of lamb meat can be offered to the customers.

The marketing strategy is summarized in table 3.3. The Spanish market asks for lambs with a weight of 12-14 kg. They are mostly slaughtered by the cooperative. The French market wants a bit heavier lamb. These lambs are slaughtered in the North of Spain or exported alive. For the markets at a distance (Italy, Germany) all the lambs are exported alive. The reason for this is a quality matter. OVISO's primary strategy is to produce high quality sheep products. In this vision the meat must be very fresh and not be frozen, so the only solution to provide markets on distance is to export the lambs alive.

Table 3.3 Marketing structure dependent of trading area

Market	Percentage of sheep	Slaughtered by OVISO	Slaughtered in North Spain	Exported alive	Slaughtered weight in kg
Spain	40%	x			12-14 kg
France			X	X	14-18 kg
Italy	60%			X	10-13 kg
Germany				X	16-20 kg

The whole concept of OVISO guarantees a reliable and constant flow of high-quality lambs and lamb meat.

The marketing channel is under the umbrella of several labels, one with the Protected Geographical Indication "Cordero de Extremadura" (Corderex):

1. Cordehesa: Obtained from lambs from farms registered and monitored by the Protected Geographical Indication Lamb of Extremadura (CORDEREX).
2. Corserena: for channels produced and controlled directly by the cooperative under the voluntary labelling statement of quality beef and lamb.
3. Copreca: registered as a commercial entity, but trademark. Channel identifier for the retail market.

A tracking and tracing system is included.

Sales of CORDEHESA carcasses in the domestic market is mainly aimed at various market segments such as hypermarkets, supermarkets, beverage, in Extremadura and central Spain. Copreca for sales in the retail market in Madrid.

For exporting OVISO and Grupo Pastores (another second tier cooperative in the North-Spanish province Aragon) created in 2011 the limited partnership Ovie-SPAIN pooling the export of lambs.

Membership

OVISO has a strong membership. That means that on one side only members are entitled to sell their lambs and sheep to the OVISO group; on the other side the members are compelled to deliver all their sheep to OVISO. They are not allowed to sell sheep to other purchasers. A person or farm can only be a member if he actually raises sheep.

It is relatively easy to become member of one of the OVISO cooperatives. You need a minimal amount of sheep and pay an admission to enter the cooperative. The potential member can be refused for not having the farm system or veterinarian situation on the required level.

The yearly contribution depends on the size of the herd.

The financing of the services to the farmers is paid by this yearly contribution of the members of OVISO and by the margins of the trading activities of the cooperation. E.g. this includes the veterinarian services. Once a farmer paid the contribution he does not have to pay for the separate services, whether he lets the veterinarian come only once a year or a hundred times a year. The same for the insurance: if a farmer has problems (death of animals or drought) OVISO takes care for a solution, of course under the condition that the farmer has followed the advice of OVISO.

The members of the cooperation benefit from:

- A secure organisation giving an added value to the lamb,
- A good and honest prize for the lamb,
- Part of a well-structured organisation, that is able to organize a good working chain on primary level. That includes the system of (1) pasturing the sheep, (2) bringing the sheep to the feedlot during the last part of the gestation and the lactating ewes, (3) fattening the weaned lambs in feedlots.
- All the farm support activities of OVISO (veterinary services, farm advisors, insurance, breeding)

Competitors

OVISO is not worried by competitors, because they strongly believe in their own system. This optimistic view is well-founded by the fact that OVISO is growing, while the total Spanish number of sheep is shrinking. According to the General Manager of OVISO the prices of the main products went up because of the OVISO strategy: lambs +15%, wool +100% and sheep milk +50%.

What worries OVISO is the market development for sheep meat. The market is losing the interest of the customer. The hope is that the market for high quality sheep meat products will survive. The main problem is that sheep meat is mainly eaten on special occasions (at Christmas in Spain, Easter in Italy), or by limited customer groups (e.g. Muslims, which are by the way not numerous in Spain). A possible alternative market is North Africa. At a relatively short distance this market is more interesting than exporting to Italy or Germany. However, the general director states that regulations make export to non-member states difficult. The authorisation is still missing.

3.4 Relevant support measures affecting structure and strategies

In former days the EU-support for sheep was paid per adult ewe, like in all EU member states. After 2003 the decoupling system was introduced. The support did not depend anymore on the actual number of sheep, but was fixed on farm level, independent whether the farmer raises sheep or not. The consequence was that the economic gross margin per sheep raising decreased significantly. Actually having sheep was no longer necessary to receive the support. This is one of the explanations why the Spanish sheep herd has been shrinking fast the past decade. Since 2002 the reduction of the number of sheep is about 25%.

The general manager of OVISO agrees that the decoupling had indeed a large influence on the Spanish sheep stock, but surprisingly he indicates this as a positive development. He states that in the past a lot of sheep were only kept because of the subsidy. That caused that old, unproductive sheep stayed on the farm until the counting date had come. Thanks to the decoupling the professionalism of sheep keeping in the region improved a lot. This made the technical and the economic results rise.

A side effect was the improvement of the quality of the produced lambs. Indirectly the decoupling created an atmosphere in which professionalism came on a higher level and this had its impacts on the improvement of sheep holding in general.

A third effect was the better balance on the sheep market. In the past, due to the subsidy the production of sheep meat exceeded the demand. Now production and demand are better in balance compared to some years ago.

According to the general manager the decoupling measure did not have an influence on the regional economy and if there was any influence, it was a positive one. The competitiveness of the Extremadurian sheep raising has grown. On balance the total employment was hardly influenced by the decoupling measures. Of course the production now is more efficient, which caused a decrease of employment. On the other hand more is done to improve the added value per head which was a change for the better.

OVISO has responded to the decoupling by encouraging and supporting the development to professionalism. This is reflected by the large scale of farm support activities. OVISO continued and extended their strategy towards quality production.

4. Analysis

This chapter aims to answer several research questions. First of all, it will provide a comparative analysis of the two examples of cooperatives that are treated in the former two chapters. The analysis will lead up to an answer in how the two cooperatives deal with their backgrounds and local circumstances to serve the members.

4.1 Rural development goals and effectiveness in the market

At a first sight you could think that rural development and market effectiveness are two goals that are more or less conflicting. But the two cases show that these two themes could both be integrated in the strategy of cooperatives, and more than that: they could even reinforce each other. How does a more social goal and an optimal financial profit go hand in hand?

Cooperatives are founded on a local base, they have their roots in the rural area. In particular the local or regional organized cooperatives still feel a strong responsibility for the direct social environment. This is not only because of charity and community spirit, but also because of self-interest. The direct environment is the place where the members of the cooperation live and work. The regions where the two cooperative are settled are both vulnerable. They are both very dependent of agriculture and far-away markets. In Extremadura the regional economic and employment are directly or indirectly for more than 90% connected with the agricultural activities. In the Scottish hills this is the case as well. Because of the fragile ecologic system (drought, infertility, slope) the one sided production and the varying, unsure and generally low profitability of agriculture the pillar under the economy is fragile, in Extremadura as well as in Scotland. The cooperatives in these regions are very well aware of these facts. They do everything they can to improve the profitability and the security of their cooperative in favour of their members. This has a direct positive effect for the members and the indirectly for the whole community.

Until now we discussed the positive effect of a strong cooperative for the community, but conversely a strong community can also have a positive effect on the cooperative. This is another reason why some cooperatives are working for improved rural circumstances. In both cases, the ANM group and OVISO, the mechanism is however economic: the cooperative operates in the market viz-a-viz IOFs (and other cooperatives). It is and cannot be a social organisation that deals with rural development in another way than via the market.

Another issue is the question if the cooperatives can (or even should) have a task in the rural development in their region in addition to doing a very good job for its members. An example could be another second tier cooperative "Grupo Pastores"¹.

Grupo Pastores is active in another part of Spain: Aragon in the north. The density of population in the countryside of Aragon is very low. Aragon is covering an area of almost 48.000 square km and has about 1.3 million inhabitants. There are no cities, except the big city Zaragoza. More than half of the Aragon people are living in Zaragoza. The density of habitation of the rural area of Aragon is only about 13 inhabitants per square km. The lack of bigger cities has an enormous influence on the rural area, in particular the liveability. Consequently, rural depopulation is a large risk.

Both Extremadura and Aragon are just about completely dependent on agriculture regarding employment, regional economy etcetera. An important difference is that Extremadurian country dwellers can reach one of the scattered cities within a reasonable distance and time. In a large part of Aragon this is not possible. That's why the Aragon people are more dependent on the

¹ This example came up in discussions with Mr. Montero, the policy advisor for cooperative affairs of the Spanish Ministry of Agriculture.

social coherence in their own neighbourhood. The regions are also in other aspects not fully comparable, as cooperative laws and rural development implementations differ (and more funds could be available as Aragon is richer).

According to Mr. Montero, Grupo Pastores has been able to parry the depopulation risk by spending all efforts on improving the liveability. This is done by making the whole environment attractive to live in by stimulating schooling, health care, employment, participation of women, youngsters, seniors and so on. This suggests that cooperatives sometimes have a choice how they blend more social and business objectives into their business model or the way they spend their income.

The structure of the cooperatives provides benefits for the members. So this suggests that a cooperative is well suited to providing missing services to rural areas more efficiently than IOFs. Important in this is the place of the location. Cooperatives are located where such services are needed. Small cooperatives with less overhead and less activities could provide missing services to rural development most efficiently because they are there, in the region itself! Profit driven organizations are more aimed at financial profitability, rather than the social and rural environment. Within the cooperative however the social component is highly valued and therefore they are more suitable to interfere with the environment. The conclusion that cooperatives are effective in providing services to rural development activities refers not only to the Grupo Pastores cooperative, but also to OVISO and the ANM Group. In all three cases agriculture in general and sheep raising in particular is important to keep the rural communities vital and alive. Cooperatives play an active role in the struggle against depopulation.

4.2 Relationship between cooperatives' strategy and perception of CAP-measures

In the interviews with the general managers of OVISO and the ANM Group a remarkable difference of view came up regarding the influence of the decoupling of the EU support. In the northern half of Scotland, the home ground of the ANM Group decoupling of the EU-payments was the trigger to go out the sheep farming. The manager of the ANM Group stressed the effect it had on the number of sheep, the fact that some farmers totally quit sheep raising, the impacts for the cooperation due to the shrinking supply of sheep and lambs and the undesirable effect on the quality on the natural environment, in particular the hills. This view is quite in line with the strategy of ANM: getting the best price for all the sheep, from the high quality lambs to the low valued cull ewes. Otherwise, decoupling of the EU support makes the sheep industry more efficient.

On the other side the OVISO manager was quite positive. He pointed at the underpinning of the CAP measures to the strategy for professionalism, quality production and the increasing in scale of the primary production. It is true that the number of sheep in the region shrank, but this did not affect the cooperative in a negative way. Thanks to the decoupling ewes are no longer kept until the sheep counting date for support, but they are removed on the best time for slaughtering. The decoupling made smaller farms quit sheep raising, but the production was taken over by other farms. This supported the increase of scale of the sheep production in the region. It also contributed to professionalism on farm level; to gain an income from the sheep pressed the farmers to a transition from bulk production to quality production. Looked at the cooperation's side the decoupling lead to a welcome improvement of the quality of the lamb supply. Besides that the growing professionalism of the farmers had a mutual effect on the cooperative itself. More professional members demand on their turn a more professional cooperative.

The conclusion of analysis of these two cases is that policy measures can have very different impacts for regions that are at first sight comparable. The strategy of the local cooperative (or broader the regional, traditional way of sheep raising) is a decisive factor for the success of implementation of general policy measures on local scale.

4.3 Effects of state interference into cooperative's affairs

We presented the interviewees some hypotheses about different ways the state (or EU) could interfere with the cooperatives. At the moment there is no direct state interference into cooperative's affairs. Unanimously the hypothesis is agreed on that state interference would result in lower economic performance of agricultural cooperatives. The ANM Group was very clear about this issue. The cooperative would never allow state interference, nor in the ANM Group, nor in general in any cooperative. The main argument is that the state does not know how to deal with risks.

Cooperatives are far more positive about the idea that governmental policies that support cooperatives (e.g. technical assistance, advisory services and capacity building) have a positive impact on the number and efficiency of agricultural cooperatives. In this the SOAS-activities in Scotland are mentioned, which have a very positive effect for the ANM Group. OVISO is very content about the EU subsidy for the building of a new slaughtering house.

The initiative for supporting cooperatives should not be from the government, but it should come from the farmers. According to Mr Montero a principal mistake of the EU is that individual farmers are supported, not associations or farmer groups. He bases the view on an unsuccessful example of regional EU support. This example concerns the stimulation of the production of 'Torta de la Serena' on farm level in Aragon. Many small scaled farmers were encouraged to produce this cheese in order to give them an added value on their farm. This however turned out to a disappointment. The production costs were high: the procedure to make this cheese was time consuming and the small farm-scaled installations were too small to use efficiently. Moreover, there was no promotion of the product. The result was that the product could not be commercialized.

4.4 Effects of the economic situation on the success of a cooperative

A third hypothesis for the interviewees was: "The number of cooperative memberships increases during times of economic crises". This statement is agreed. The cooperatives observe a significant increase of loyalty in times of declining economy. This is explained by the need for confidence and certainty during hard times. In good times farmers can allow themselves more independency.

Although the current recession contributed to success of both cooperatives (in particular the market share of OVISO is growing fast), this cannot only be explained by the longing for certainty. The effective activities, the strong strategy and the obvious contribution to the rural and social development certainly were the more decisive factor towards the success.

5. Overall conclusions

The core business of cooperatives in agriculture is giving an added value to agricultural products in favour of the members. The cooperative theory is that cooperation is generally a more expensive form of organizing the marketing of products. Only in case of failure of the common market setting up a cooperative can be a better alternative.

This basic idea is clearly both applicable to the ANM Group and OVISO. In both cases the core business (adding value to sheep to benefit the members) is clearly visible in their whole strategy and activities. The background of the cooperatives is in line with the theory: in both regions the usual market did not function because of the long distance to the market.

Both cooperatives are strongly rooted in the region. In both cases the location of the cooperative is also the region where the members of the cooperative live and have their social life. This means that development of the rural and social environment has mutual positive effects for the cooperation as a company as for the members as a private person. It is obvious that this unique combination makes it possible that a cooperation will be more interested in rural development issues and therefore more successful in implementation resulting measures in the strategy.

Another conclusion is that EU and state support indeed can be helpful for cooperatives to improve the rural circumstances. The lead in the support and in the actual form of the support however should be within the cooperative, of course under strict regulation and supervision of the subsidizer. The cooperative is more capable in choosing the right and appropriate measures for their particular region than the state or the EU.

Social goals of a cooperative can only be met sustainably if the economic result is sufficient. A cooperative that wants to provide public goods rather than act as a commercial organisation for the benefit of its members should be set up as a social enterprise. These activities should not be mixed up in the cooperative that has to compete with firms on the commercial market. A possible solution for this dilemma could be to set up a sister organization for public goods.

Cooperatives are above all commercial organisations, which the interests of their members as their first and most important goal. However, from the examples in this report we learn that this interest can have a positive (side) effect on rural development.

So, cooperatives are definitely not social enterprise organisations; rural development is not their primary concern although cooperatives have sometimes a choice to blend more social aspects into their business model or the way they spend their surplus.

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Interviewees

Mr. Juan Carlos POZO (General manager OVISO)

Mr. Francisco ARAGÓN (Sheep farmer and President OVISO)

Mr. Fermin LOPEZ (Junta de Extremadura)

Mr. Andrés MONTERO (Ministerio de Agricultura)

Mr. John Gregor (General manager Livestock Auction ANM Group)

Mr. Bob Yuill (Deputy chief executive SAOS)

Mr. John Gordon (Sheep farmer and member of the board of the ANM Group)

Mr. Peter Cook (Agricultural economist, sheep farmer and member of the ANM Group)

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