

The British model



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The needs for cooperation



The main motivations for cooperation in the UK cereal farming are

- 1 the lack of sufficient on-farm drying and storage capacity, and
- 2 the farmers' endeavour to cut costs and increase income by joint actions.

The needs for cooperation 1.

Farmers typically do not have enough storage capacity to store all their crop. A lot of the farmers chose not to have their own storage because the costs are too high to accomplish such an investment. For the farmers there are three options:

- (1) to own space, or
- (2) rent space in a central storage, or
- (3) simply sell grain to a merchant or coop having a store.

There is a central dryer and storage capacity, the farmer can use it for a storage fee. Some of these central stores are owned by private grain merchants some by grain cooperatives. Central dryers are popular especially in wet regions such as Scotland where there is much need for drying.



East of Scotland Farmers (300 members) grain dryer and storage facility

The needs for cooperation 1.

The need for using the drying capacity depends on the year. This year drying requirement has been very low.

The need also varies according to the regions. In Southern England the drying requirement is usually lower than in Northern or Western regions.

Oil, gas and electricity are the main forms of energy sources used for drying. Some enterprises offer mobile drying.



Photo: Richard Humphrey

Old grain silo near Bainton level crossing



Photo source: <https://www.mearthagriculture.co.uk/mecmar/mecmar-range>

Central storage may even increase in the future, because a lot of the on-farm storage capacity is getting too old and the cost of putting up new capacity is too high. The proper storing of grain has become very important.

The needs for cooperation 2.

The motivation for establishing cereal cooperatives in the UK was either the fact that farmers had the feeling that they were cut out of the profits of grain trading or that they would not like to be price takers in the process. If they have to take the price, a cooperative makes it possible to share a part of the price back to the farmers.

The coops strengthen the role of farmers in the supply chain. Cereal farmers may want to get involved in selling pools or cooperatives. In the machinery rings they want to save on machinery costs.

The cooperatives can provide some advantages for selling the grain, however in the UK there tends to be low commitment and a low participation of farmers to sell the grain through them.

The smaller coops are going out of business. After Brexit there will be fewer small farms and more big farms. The big farms will manage their businesses on their own. So the need for small coops will decline in the medium run. On the other hand, the need for coops which provide grain storages will increase.

The needs for cooperation 2.

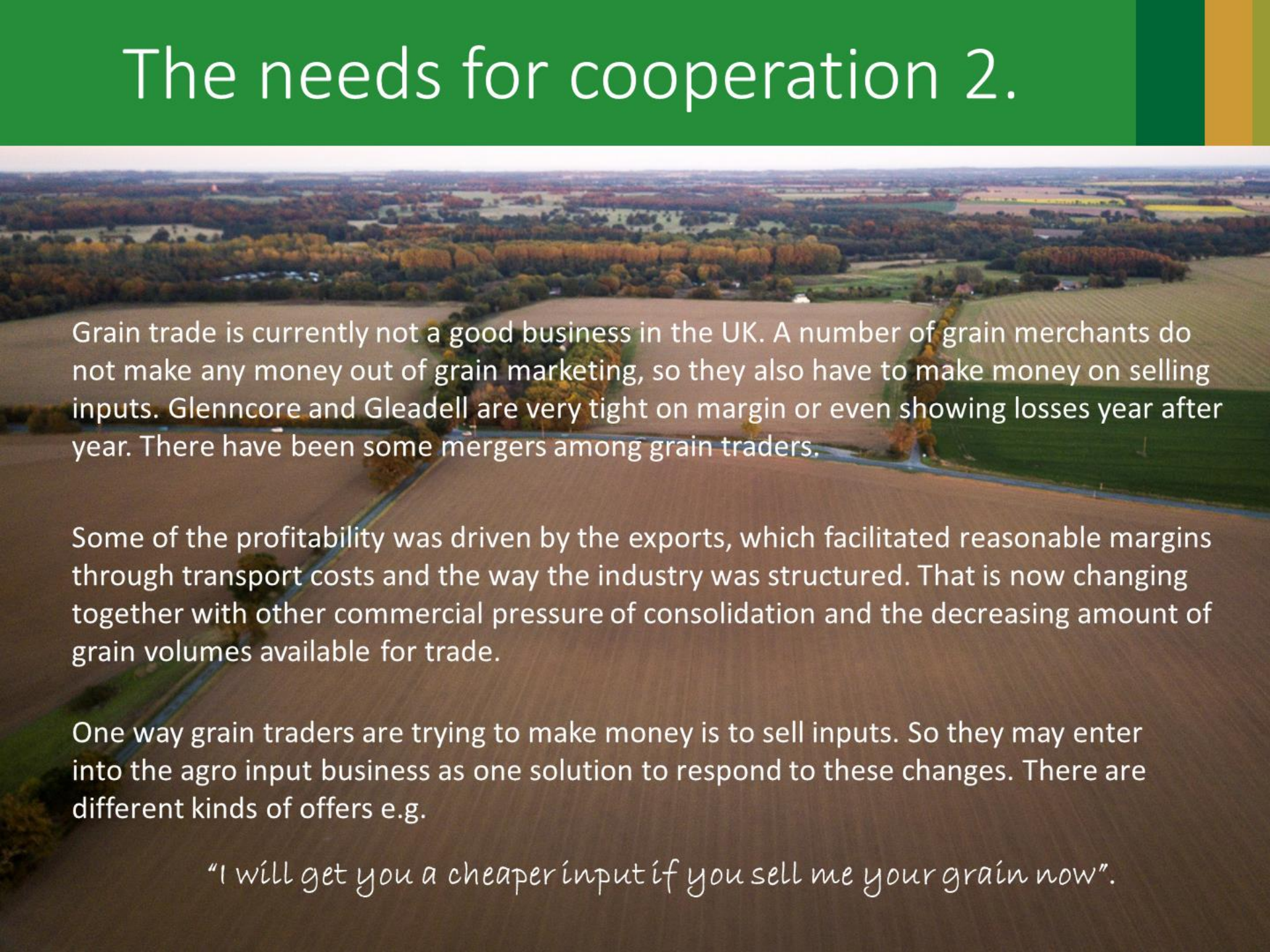
Agricultural input buying groups are more typical in the UK than grain selling groups. It is a big motivation that many farmers together can buy at a lower price than individual farmers or can buy on better credit terms. One of the biggest input supplier coop is Anglia farmers.



Photo source: <https://www.theafrgroup.co.uk/our-values>

The office of Anglia Farmers

The needs for cooperation 2.

An aerial photograph of a rural landscape. In the foreground, there are large, flat, brownish fields, likely plowed or harvested. A narrow road or path runs through the fields. In the middle ground, there are clusters of trees with autumn-colored foliage in shades of yellow, orange, and brown. Beyond the trees, there are more fields and some small buildings or houses. The background shows a hazy horizon under a pale sky.

Grain trade is currently not a good business in the UK. A number of grain merchants do not make any money out of grain marketing, so they also have to make money on selling inputs. Glencore and Gleadell are very tight on margin or even showing losses year after year. There have been some mergers among grain traders.

Some of the profitability was driven by the exports, which facilitated reasonable margins through transport costs and the way the industry was structured. That is now changing together with other commercial pressure of consolidation and the decreasing amount of grain volumes available for trade.

One way grain traders are trying to make money is to sell inputs. So they may enter into the agro input business as one solution to respond to these changes. There are different kinds of offers e.g.

"I will get you a cheaper input if you sell me your grain now".

History

EU funds gave the major impetus for investing into central storage facilities in the 1970s and 1980s.

When the UK joined the EU, the EU was giving substantial grants to farmers' cooperatives to market their grain better. In the 1970s and 1980s the grant aid was one third up to half of the investment costs. The grant aid facilitated very high quality storage at low cost. For farmers to have the same facilities on farm would have been paid 2-3 times of what it paid as a cooperative.

At the time of establishment the investment costs were financed by the grant aid (one-third) the farmers' capital contribution (one-third) and the bank loan for about seven years (one-third). This grain cooperative financial model was fairly standard in the UK in the early 1980s.



Agricultural and Horticultural Development Board

The history of the coops in the UK dates back to the post World War II era. The objective was to improve communication with farmers and to increase self-sufficiency.

By law a levy board was set up for each commodity - except for apple and poultry. The levy income was to facilitate research since 1965 and communication since 1975.

In the field of cereals there were six companies who eventually formed AHDB to cut the costs of operation. About 85% of the levy originated from farmers and 15% from processing companies such as mills and malt factories.

AHDB carries out a lot of activities that serves the short term need of the companies and actors of the cereal sector. However, the levy i.e. a guaranteed income can make it possible for AHDB to look at the further horizon and have a longer term view on the cereal sector.

AHDB turnover is 68,4 million EUR of which cereals is 14,2 million EUR.

Case study

An aerial photograph of a rural landscape. In the foreground, there's a large, flat, golden-brown field. To the right, a dark brown, tilled field curves along a road. The road is lined with young trees, and their shadows are cast onto the adjacent fields. Further back, there's a line of trees and a small cluster of houses under a clear blue sky.

 **Camgrain**

Locations

Camgrain is a farmer owned cooperative established in 1983.

Camgrain is located in a strategically important region, in the middle of UK's primary crop growing area.

The storage capacity is located in four different site and totals approximately 500.000 tons of combinable crops, i.e. cereals, oilseeds, and pulses.

The facilities are used exclusively by over 550 members of the cooperative, who all own a share of the company.



The entrance to Camgrain Advanced Processing Centre

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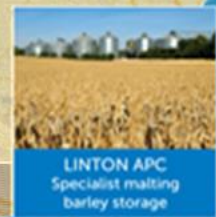
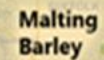
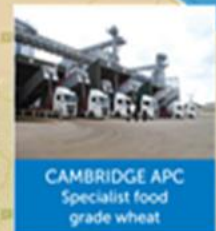
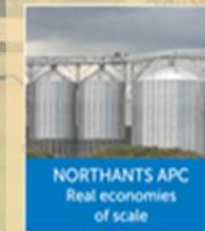
The entrance to Camgrain Advanced Processing Centre

Locations – Stratford on Avon



The Stratford facility was originally built in 1978. It merged with Camgrain in 2011/12. The silo capacity was refurbished in 2017.

The site has 50,000 tons of storage capacity.



Locations – Stratford on Avon



Construction of the new rapeseed crushing facility (£40m) at the Stratford Site in 2018. The capacity of the plant is 100,000 tons per annum.

These investments were made by third party, the advantage for Camgrain is the proximity of prospective buyer, so if the price is right delivery can be very easy.

Near to the Stratford site there is now a 2 megawatt woodchip power plant and an oilseed crushing plant and a refinery (rapeseed crush with non-hexane extraction).

Additionally, Camgrain has an access to green renewable energy.

Locations - Northants



The storage house at Northants Site holds 80,000 tons on a 48 acre area. The flat store has about 70,000 ton capacity and the silos behind about 10,000 t.



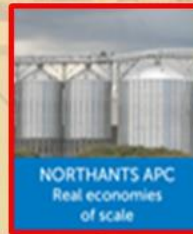
Locations - Northants



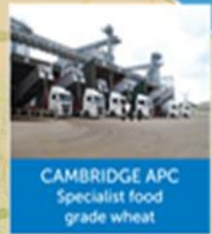
Two and a half thousand lorryloads (over 70,000 tons) of wheat go Northants after harvest.

Over a million tons of wheat is milled in the region of Northants annually.

Group 1 milling wheat is sorted in the site. Most of the Northants' wheat is used domestically and most of it ends up at the strategic partner Withworth Bros' mill.



NORTHANTS APC
Real economies of scale



CAMBRIDGE APC
Specialist food grade wheat



STRATFORD APC
Accredited organic crop processor



STRATFORD APC
Organics
OSR



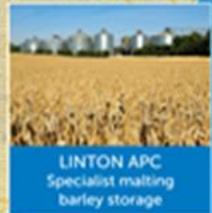
NORTHANTS APC
Milling
Wheat



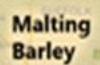
**Food Grade
Wheat**



LINTON APC



LINTON APC
Specialist malting barley storage



**Malting
Barley**



Oats



Pulses

Whitworth Bros. Ltd.

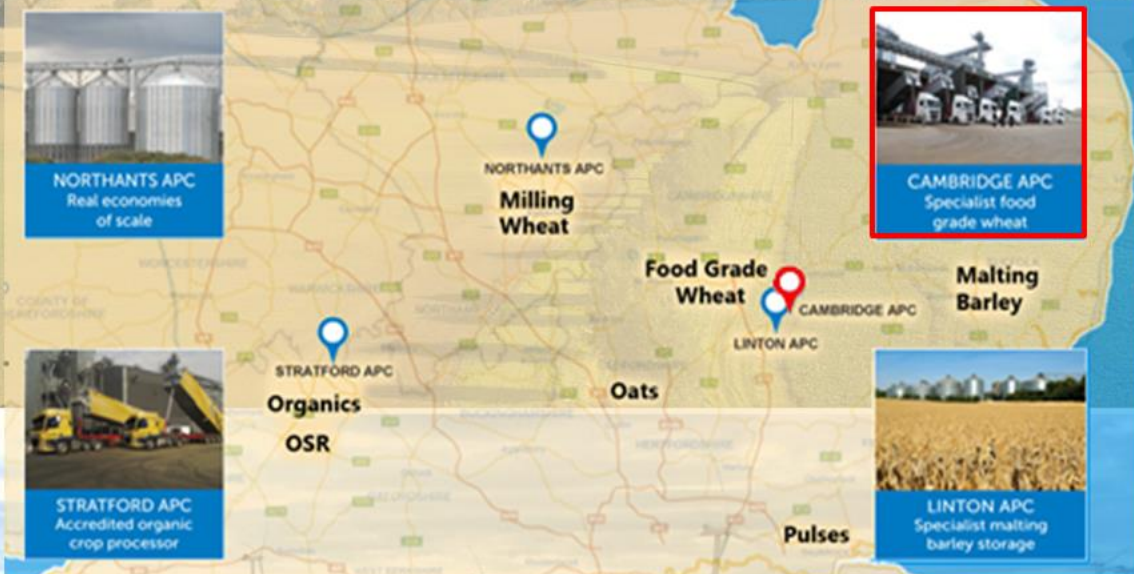
FLOUR MILLERS



Locations - Cambridge

The main site of Camgrain is located in Cambridge.

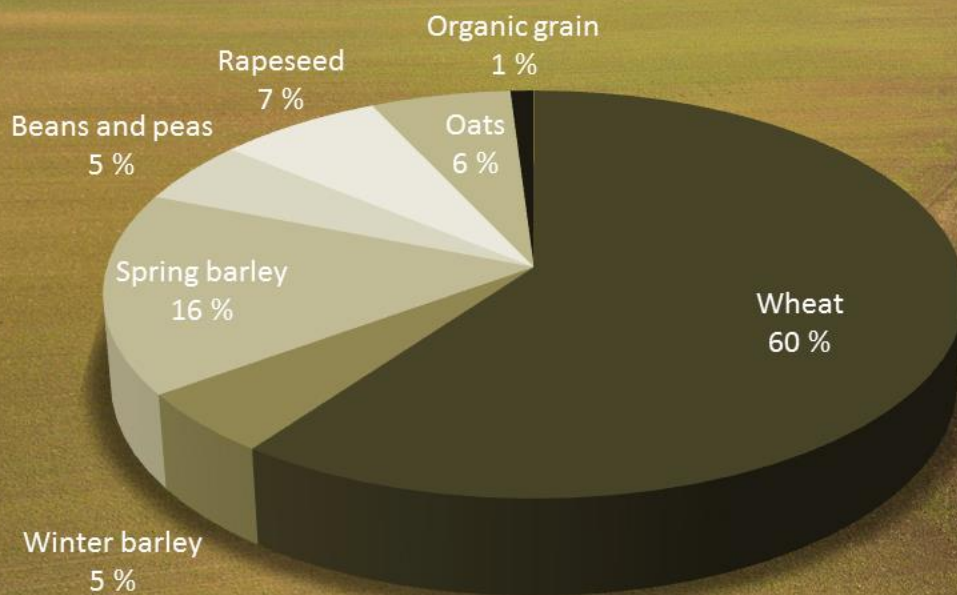
There are two 50,000 tons flat store in Cambridge and 90,000 tons of storage in silos. The infrastructure here wouldn't have been affordable without grant aid.



Storage by crop



Storage space at Camgrain by commodity in 2018



Farmers' investment



Members buy a share in the store for £110/t. The smallest portion of store ownership can be 50 tons and it can go up to 17,000 tons.

The founding members have obviously paid their investment shares a long time ago. The new members usually pay their contribution in a 7 to 10 year period.

If a farmer was to build a small or medium-scale grain store on-farm, it would probably cost about £200-250/t.

Obviously economies of scales result in a price difference between small and large investments. Buying into a large shed is always more affordable than building a smaller one entirely. So for a store 30-50.000 tons the investment cost would be about £3-5 million.

Farmers' operational costs



In addition to the investment costs, farmers pay for the running of the company each year. The £12,95/t handling fee would include everything from running the business to collecting and storing the grain.

In order to commit the farmers, all the members are charged a handling fee for their tonnage regardless whether they use it or not.

The contractual concept works, because even though the UK had a low yield in 2018, 98-99% of Camgrain's members have fulfilled their commitments based on their tonnage.

Camgrain can collect quicker than anybody else, during harvest this means usually about two days. Farm delivery is also accepted, but the fastest solution for the farmer would be Camgrain's transport service.

Camgrain has very good drying facilities. Farmers may pay over £4/t for drying on farm whereas at Camgrain it costs only £1,6/t due to the technology and economies of scales. Kerosine is used as an energy source for drying.

Camgrain as a company



Camgrain consists of three separate companies:

- **Camgrain stores**, the original cooperative with storage and drying capacity
- **Camgrain services**, a logistic business, that works for the crops, but because the business is seasonal the lorries are also used for transporting many other commodities and materials for third parties.
- **Camgrain ltd** is the marketing side of the company. The trading is deliberately separated from the storing activities. It is to minimize risk for the storage side.

The limited company holds the product and trades it through Frontier, a subsidiary of Cargill. Funds come back into the limited and then the limited distributes the funds back to the members. All the money that goes into the limited gets distributed back to the members.

Costs arise only for storage and logistics. Other cooperatives try to combine all three activities into the same business, but that solution tends to create risk, especially if the marketing part trades additional grain besides members' crops. Camgrain does not trade cereal of other origin than its own members.

Grain trade



There is a marketing committee within Camgrain, which gives guidance to the marketing director who works together with Frontier to sell certain percentage of the malt barley or other crops by a given time. But this can be conditional to a pre-set price level or geographical area or certain buyers. This way the strategy of marketing dynamics is set in advance.

Camgrain's model is very safe, every trading partner or buyer is a reputable company. All of the end users are fully credit insured. The main objective is to ensure that the members' will always be paid for their crops. Camgrain is accountable to the member farmers, they are the owners and the managers are employed by their cooperative. There is a board to which management reports.



DIAGEO

Whitworth Bros. Ltd.
FLOUR MILLERS

BOORTMALT
MASTERS OF MALT



Market shares



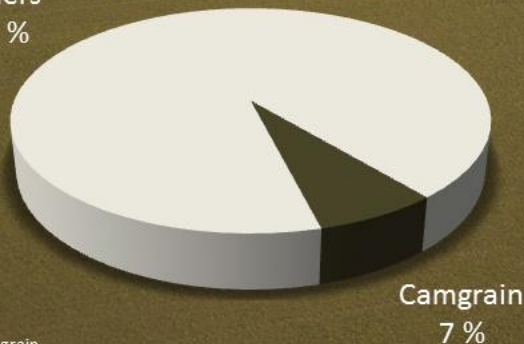
Grain storage

In terms of storage Camgrain has about half a million tons in a national total of about 7 million tons.

The largest players in terms of storage are Frontier and Openfield, some other merchants such as Cofco and Glencore and smaller regional grain cooperatives.

Market share in storage capacity

Others
93 %



Source: Camgrain

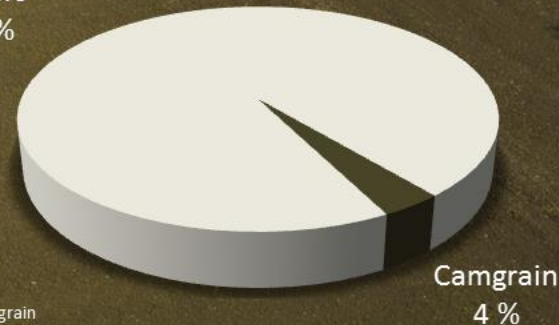
Grain trade

In terms of trade Camgrain's share is half a million tons in a total of about 14 million tons.

The biggest grain traders in the UK are Frontier, Openfield, Glencore.

Market share in traded grain

Others
96 %



Source: Camgrain

Payment policy



The bulk of the crop would come into Camgrain in the middle of July till the end of August.

Traditionally prices are the lowest at harvest time and they have traditionally gone up a pound/month as the product becomes scarcer towards the spring and summer. So if the grain is worth £150/t in August, it would generally go up to about £160/t by next June. Camgrain generally holds on to the crop as long as possible, sells it at a high quote at the end of the season.

What farmers want is liquidity, i.e. cash now. So Camgrain will pay them about 60-70% of the value of their crop on November 1. They will get the additional payment in August, when the pool is completed and the crop is entirely sold,. This final payment is based on the actual price of the crop that was achieved on the market.

The other way is taking non-standard advances throughout the year. Some members do not want the advance in November but in January or April.

What can we learn from the UK model?



1. Commitment is essential

The members own a proportion of the business. Members buy as much storage space as they want for the price of £110/t. Some have only 50 tons, other may have several thousand tons. Once they have paid for a proportion in a large central store, they will also be very committed in the future. This is the option for building a shed or corresponding storage capacity on farm.

2. Specialisation in activities

It's far better to have an expert in all area, farmers in farming, Camgrain in the middle with storage and logistic and Frontier in the marketing and sales of grain. Camgrains' model do not allow farmers involvement in the logistics, trade or marketing.

What can we learn from the UK model?



3. A balanced growth

Growth is a basic element of Camgrain's model, because the more is stored and traded the more economies of scales and the more the value is that can be transferred back to farmers. Size is also important towards the big-scale buyers.

There have been times when Camgrain has grown very quickly, maybe because of a new store in a new area. Right now in times of uncertainty farmers are not so willing to put £110/t into a cooperative.

The growth target of Camgrain is about 5-10.000 tons of committed tonnage per year. Storage capacity would be expanded in the same pace. So the past few years there have been many new members and at the moment there's hurry to catch up with the storage capacity, because it's been tight with the storage space. Even this year with lower yield the stores are full.

What can we learn from the UK model?



4. The competitive advantage of the proximity of buyers

Most of the grain is sold domestically, as a matter of fact to a reasonably short distance from the storage sites, which gives a big competitive advantage in terms of transportation costs.

5. Supply chain relationships

It is crucial to have good supply chain relationship, so there is trust along the whole supply chain. Long-term customer contacts are especially important.

6. Tax advantages

A clear advantage of the cooperative model compared to a merchant is that cooperatives do not have to pay a business rate (corporation tax) due to the fact that they are non-profit operations.

The effects of Brexit

- from the farmers' standpoint

Much of the political debate ahead of the referendum was about how much money the UK pays into the EU budget. From an agricultural point of view the UK also received a lot back.

Within the EU the CAP granted a certain amount of resources, but the national lobbying power of agriculture is doubtful. Regardless of what kind of agreement is achieved, from 2021 on the amount of money paid to English farmers will decline.

The lobbying power of agriculture may differ from the one in England across the UK. Agriculture policy is made in other parts by the Scottish government, Welsh assembly or by Northern Irish politicians etc.

Less support for agriculture may result in declining production and even lower self-sufficiency levels than before.

The effects of Brexit

- from the farmers' standpoint

Those who voted against the EU had self-determination and political control in mind. They see opportunities with countries such as US (trade deals).

Farmers have also taken different approach according to some areas:

- 1** In those regions where farmers have voted largely for remaining in the EU are now implementing changes in their businesses: they look into possibilities to reduce their risk and diversify their activities into tourism, energy production or processing etc. all in all looking very hard on their profitability.
- 2** Less change is observed in the farms in areas which voted more for leave.

As for the various sectors, there might be some opportunities e.g. for the potato and dairy sectors, but for cereals and the related products the UK has relied on foreign trade with the EU, so the sector may be affected heavily by Brexit.

The effects of Brexit

- from the consumers' standpoint

Less domestic food production would mean increasing imports of both raw materials and foodstuffs.

One hot topic frequently raised in public discussions is the cost of food. Since the decision of Brexit, the pound has been much weaker, hence food imports cost more.

The main concerns about Brexit are about the economy, holidays to EU countries and investments. Companies tend to move their headquarters to other European countries in order to take advantage of EU markets and internal trade.