Agricultural Cooperatives in Europe: Key challenges and opportunities

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Euroopa Maaelu Arengu Põllumajandusfond: Euroopa investeeringud maapiirkondadesse

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100years 1918 — 2018

Dr. Jos Bijman

- Associate Professor of Cooperative Organisations, at Wageningen University & Research, The Netherlands

- Research Topics:
  - Efficient organisation of the Food Value Chain
  - The future of agricultural cooperatives

- Current Projects:
  - The role of cooperatives and contract farming in value chains, quality improvement, innovation
  - Ethiopia, China, Kenya, Indonesia, Uruguay, Europe

Structure of the presentation

1. “Support for Farmers’ Cooperatives” project
2. Theory on cooperatives
3. Opportunities and challenges for agrifood coops
4. Hybrid cooperatives
5. Strategic and organisational choices

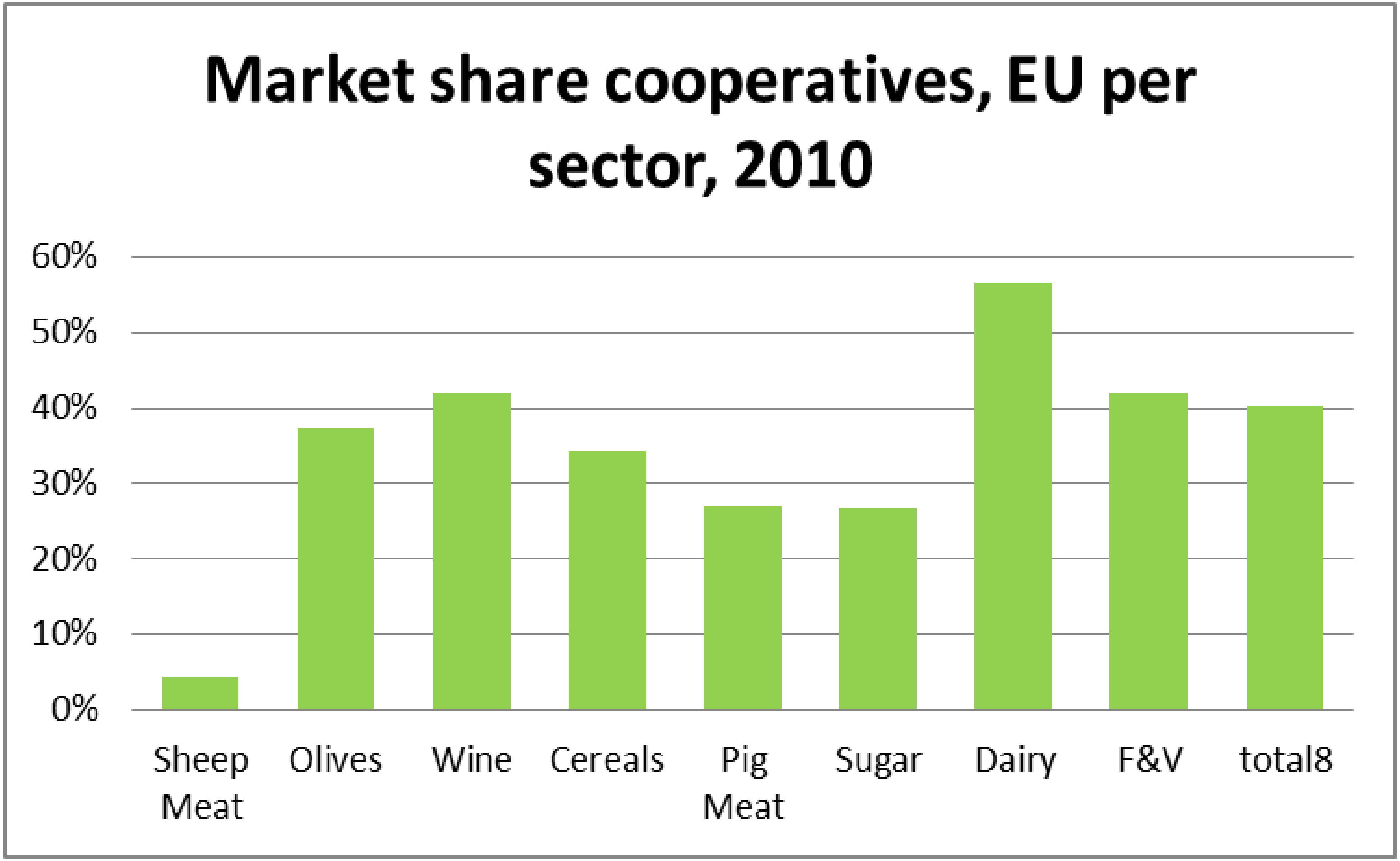
2012 Support for Farmers' Cooperatives (SFC)

- About current status of agricultural cooperatives in the EU, and the role of public policies in supporting the development of cooperatives
  - Project for the European Commission
  - Consortium: 11 university partners + 27 cooperative experts (Estonia: Andro Roos, University of Tartu)
  - Budget: 1.5 million Euro

Deliverables of the SFC project

- 27 country reports
- 8 sector reports
  - cereals, dairy, F&V, pig meat, sheep meat, olives, wine and sugar
- 6 cross-cutting theme reports
  - Legal issues, policy measures, internal governance, internationalization, social and cultural aspects, food chain
- 34 case studies
  - 18 national/sectoral cases
  - 15 transnational cases
- 3 other reports


European Union
Membership intensity
2: ≥ 10%, < 30%
3: ≥ 30%, < 50%
4: ≥ 50%, > 80%
5: ≥ 80%
Iceland
Norway
Sweden
Finland
Estonia
Latvia
Lithuania
Denmark
Ireland
United Kingdom
Netherlands
Belgium
Luxembourg
Germany
Poland
Belarus
Ukraine
Czech Republic
Slovak Republic
France
Switzerland
Liechtenstein
Austria
Hungary
Moldova
Romania
Slovenia
Croatia
Bosnia and Herzegovina
Serbia
Bulgaria
Portugal
Spain
Italy
Macedonia
Montenegro
Turkey
Greece
Albania
Malta
Cyprus



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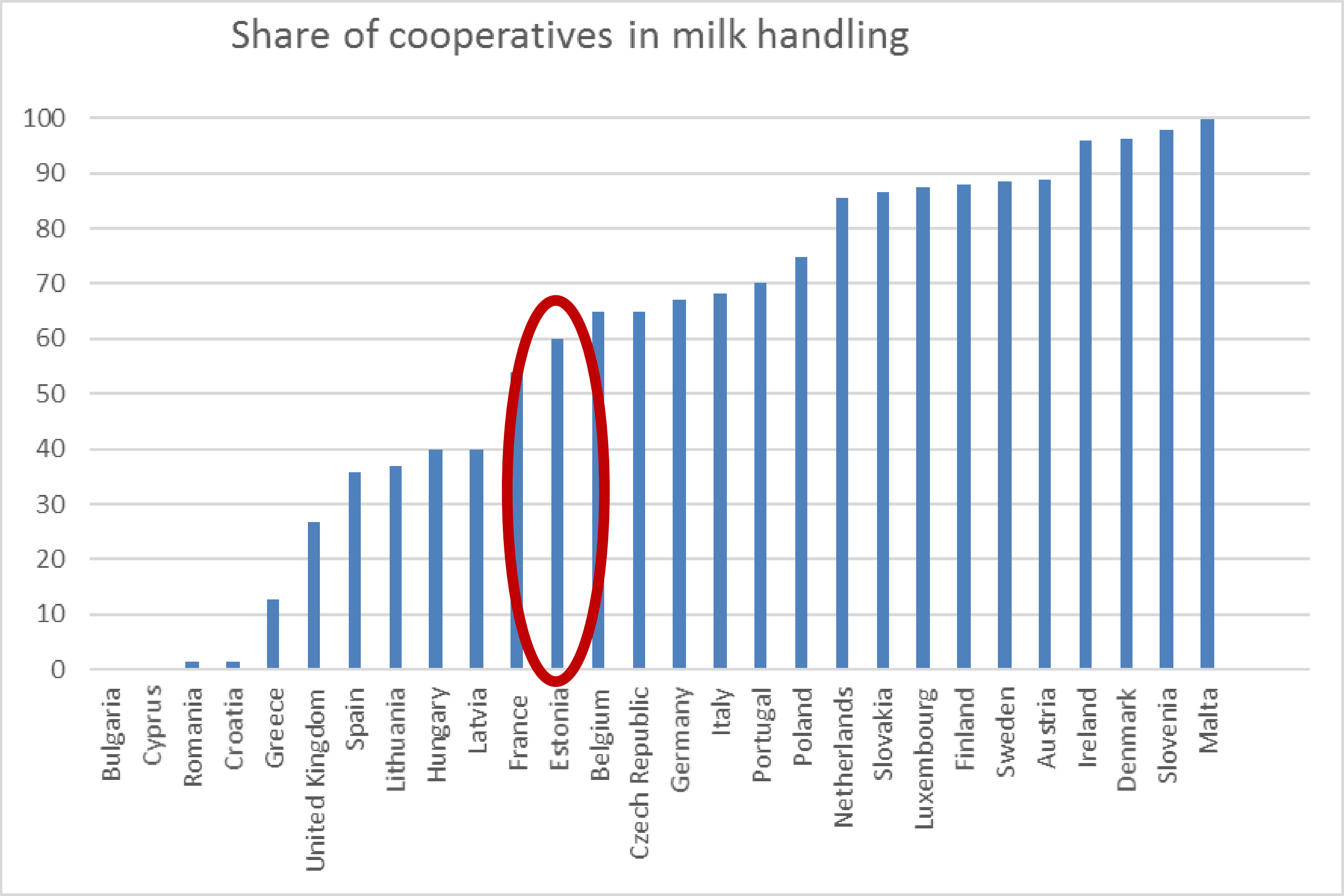
Share of dairy cooperatives EU, 2016



Rank	Company name	Country	Legal form	Turnover dairy products (in billion €)*	Milk intake (in billion kg)**	Added value (in euro/kg milk intake)
1	Nestlé	CH	private	21.4	13.7	1.56
3	Lactalis	FR	private	17.7	19.6	0.90
2	Danone	FR	private	12.3	8.6	1.43
4	Dairy Farmers of America	USA	cooperative	13.0	29.2	0.45
5	Fonterra	NZ	cooperative	12.1	23.7	0.51
6	FrieslandCampina	NL	cooperative	12.0	13.6	0.88
7	Arla Foods	DK/SE	cooperative	10.3	13.9	0.74
8	Saputo	Canada	private	9.6	9.8	0.98
9	Yili	China	private	8.8	7.2	1.22
10	Mengniu	China	private	7.8	6.4	1.22
11	Dean Foods	USA	private	6.7	9.4	0.71
12	Unilever	NL	private	6.2	n.a.	n.a.
13	DMK	DE	cooperative	5.8	8.1	0.72
14	Kraft Heinz	USA	private	5.5	n.a.	n.a.
15	Meiji	Japan	private	5.1	n.a.	n.a.
16	Sodiaal	FR	cooperative	5.1	4.9	1.04
17	Savencia	FR	private	4.9	4.1	1.20
18	Müller	DE	private	4.5	4.6	0.98
19	Agropur	Canada	cooperative	4.5	6.3	0.71
20	Schreiber Foods	USA	private	4.4	4.5	0.98
* Source: Rabobank Global Dairy Top 20, 2018						
**source: IFCN Top 20 Milk Processors List 2018						

Two definitions of a cooperative

- A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise

(ICA / ILO)

- A cooperative is an economic organisation characterized by:
    - Transactional relationshiop (benefit)
    - Decision-making relationship (control)
    - Financial relationship (ownership)

(Dunn, 1988)

Main theories explaining the rise and durability of cooperatives

- Economies of scale
- Bargaining power / countervailing power
    - Competitive Yardstick theory
- Transaction Cost Economics

- Collective Action Theory
- Institutionalization Theory

- Co-evolution / dynamic adaptation

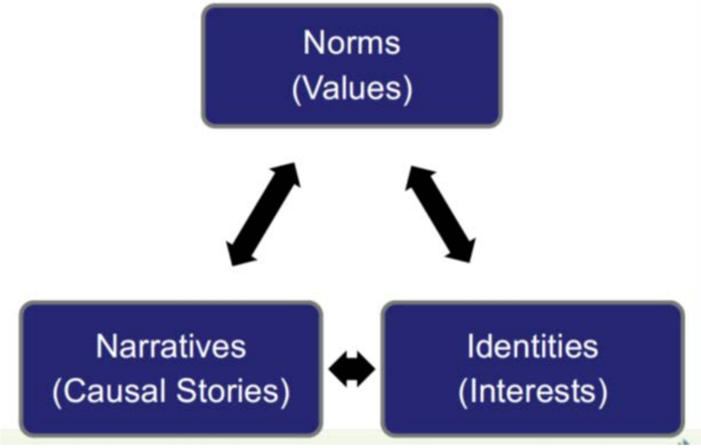
Objectives of cooperatives

- Main objective: help farmers improve their income

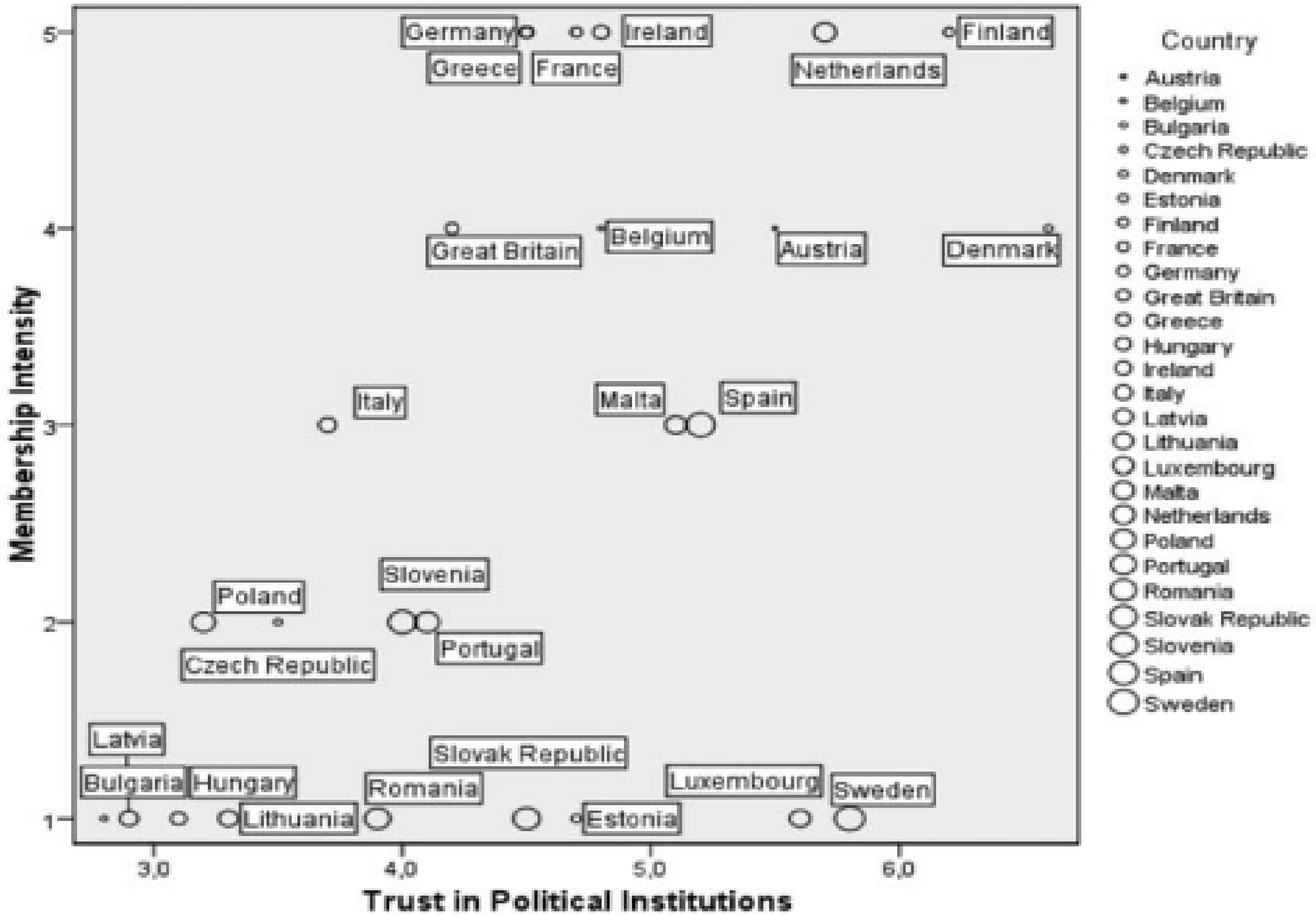
- Main pathways of generating benefits:
  1. Benefit from economies of scale
  2. Increase bargaining power
  3. Share risk
  4. Reduce transaction costs
  5. Improve supply chain efficiency
  6. Co-innovation

Factors supporting farmer cooperation

- Previous experience with cooperation
- High trust in society (*structural trust or general trust*)
- Homogeneous interests
- High farmer education
- Enabling legislation / supporting policies
- Clear advantages of cooperation (*selective incentives*)



Cooperatives and Trust



Opportunities for agrifood cooperatives: policy environment

- Support from national and EU policies
  - PO legislation at EU
  - Ecosystem services
  - Rural development

EU support for Producer Organisations

- Support for POs in Fruit & Vegetables since 1996
  - Subidies for sustainability and marketing programs
- Promoting POs in dairy since 2013
  - No subsidies
  - Allowing bargaining for better delivery conditions
- Promoting POs in all agricultural sectors since 2018
  - EU is now considering subsidies for POs
- Farmer collaboration is supported in rural development policies

➔ impact on existing cooperatives ????

Opportunities for agrifood cooperatives: market environment

- Market trends
  - Consumers value short supply chains and local production
  - Cooperative is a legitimate business model
  - Increasing attention for sustainability issues
  - Technology: Social media can support cooperative dialogue

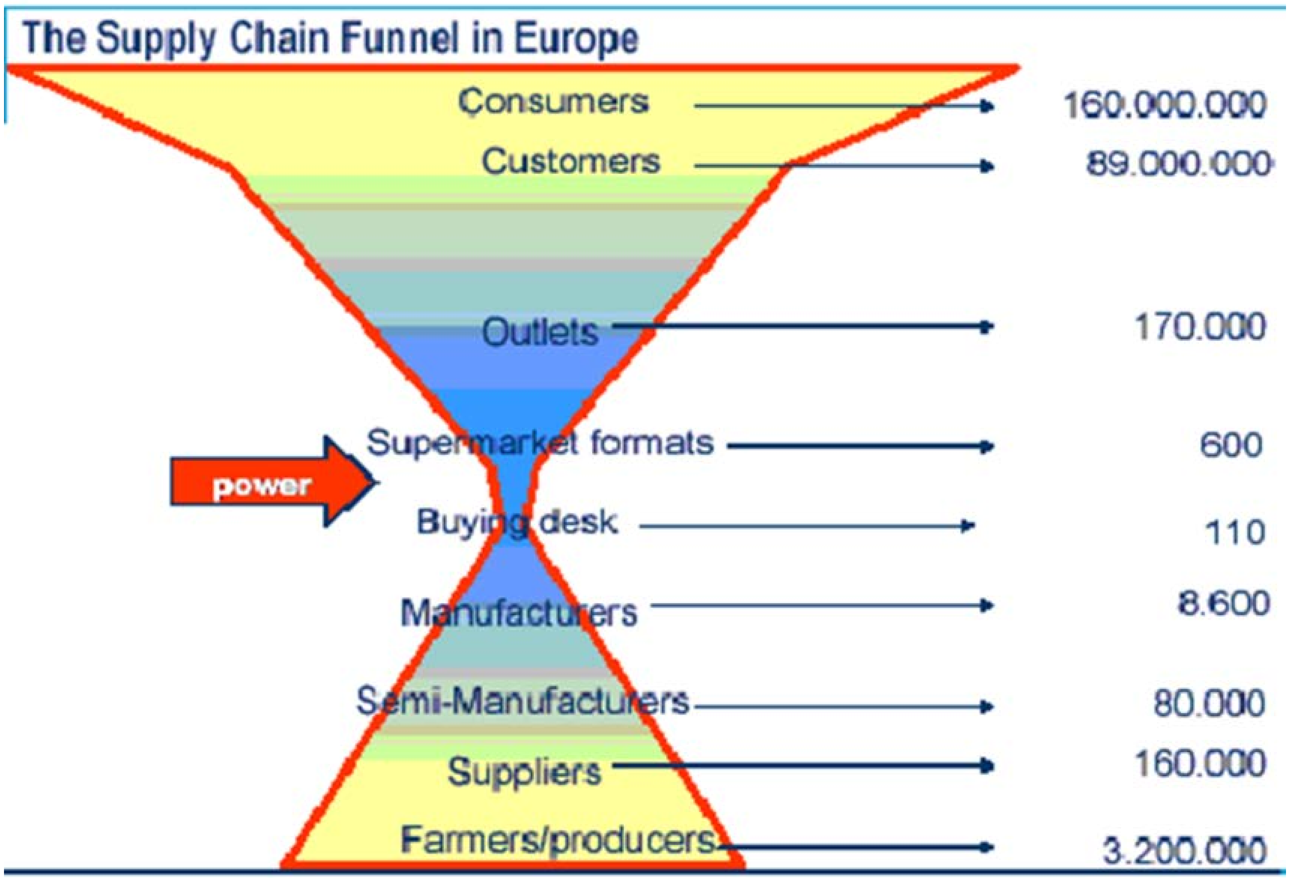
Example: CONO Cheesemakers (Netherlands)

- Specialzed cheese cooperative; 400 members
- Main brand: Beemster Cheese
- Main supplier of Ben & Jerry’s Icecream
- Frontrunner in sustainability program:
  - Caring Dairy

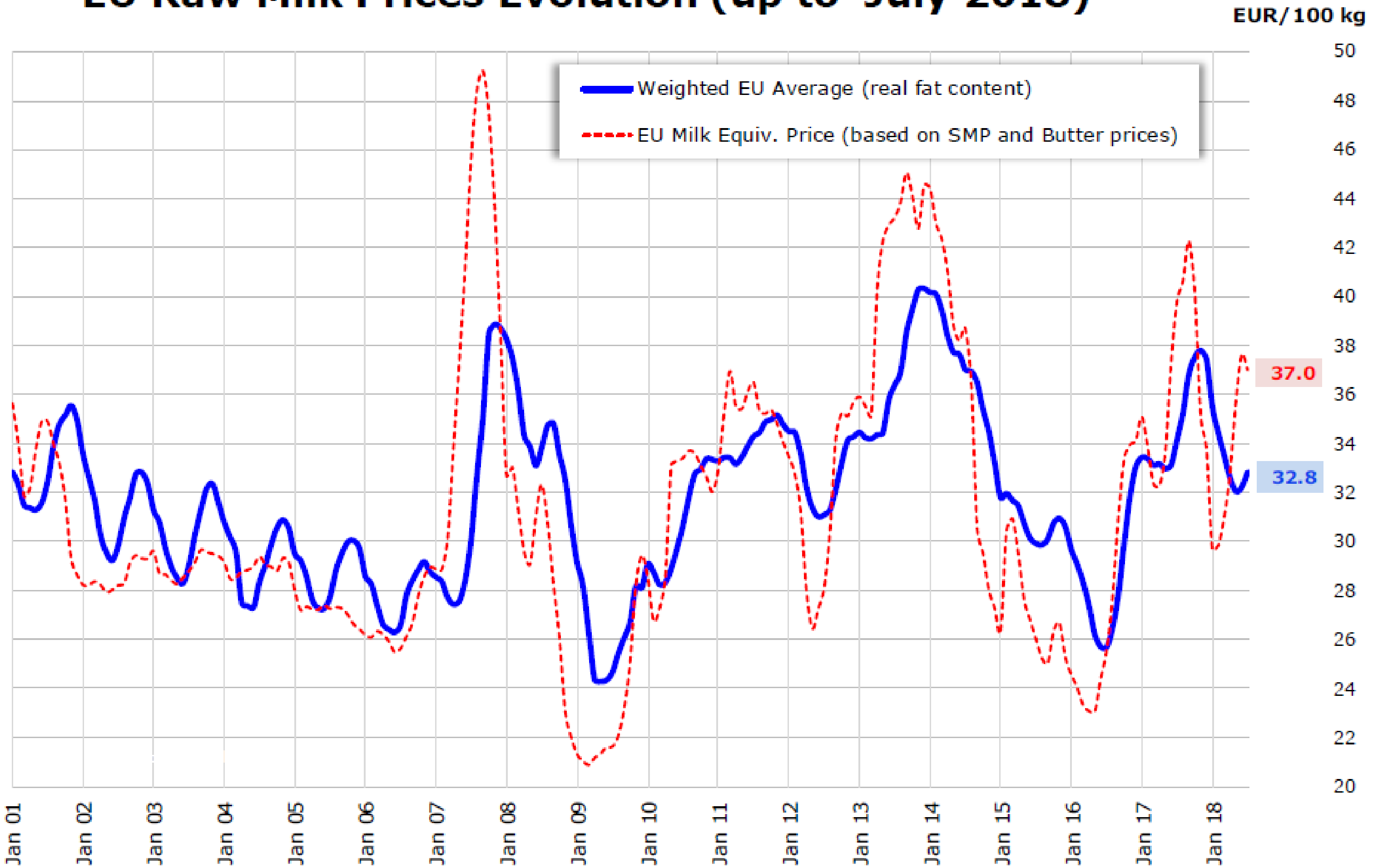
External challenges for agrifood cooperatives

- Concentrated retail sector
  - → Need to strengthen bargaining power
- High price volatility
  - See slide on milk price volatility
- Food safety and quality
  - → Need to enhance supply chain coordination
- Sustainability
  - → Need to improve collaboration
- Competition policies
  - → Need to restructure member relations

Cooperatives can strengthen market position of farmers



EU Raw Milk Prices Evolution (up to July 2018)



Source : MS' communications under Reg. (EU) No 2017/1185 Article 12(a) - Annex II.4(a)

Internal challenges for agrifood cooperatives

- Keeping members committed
  - → Intensifying member dialogue
- Attracting good managers
  - → Need to change in internal governance?
- Finding additional equity capital
  - → Need to change ownership structure?
- Large cooperatives are becoming hybrid cooperatives
  - → How to manage hybrid organisations?

	Traditional Cooperative	Hybrid Cooperative
Transaction	Only member transactions	Cooperative is diversified
	Member can deliver all products	Member has delivery agreement
	Service at cost	Pursuing profit
Ownership	Only members provide equity capital	Also non-members provide equity capital
	Unallocated equity	Individual equity shares
	Open membership	Closed membership
	Persons as members	Firms as members
Control	One legal entity	Two legal entities
	Only members in board	Outside experts in board
	One member one vote	Proportional voting
	Homogeneous membership	Heterogeneous / Multistakeholder membership

How to deal with complexity in organisations?

- Three solutions have been proposed in the literature:

  1. Integration
  2. Differentiation
  3. Combination of integration and differentiation

Integration

- Reducing heterogeneity
- Increasing uniformity
- Strengthening commonality of interests
- Building joint identity

➔ Integration implies centralisation

Differentiation

- Maintaining variation in practice and culture
- Accepting multiple objectives and approaches
- Acknowledging multiple identities

→ Differentiation implies decentralisation

Integration and differentiation in cooperatives?

- Managers prefer integration
  - Uniform products → scale economies
  - Reduced information processing
  - Easier decision-making

- Members prefer differentiation
  - Members are autonomous entrepreneurs
  - Member differ in their resources and capabilities
  - Members differ in their interests and aspirations

Leveraging Complexity versus Suppressing Complexity

	Leveraging Complexity	Suppressing Complexity
Managing Perspectives	Staff with capacity for multiple perspectives	Staff focusses on uniformity
Managing Interaction	Promoting interactions among members	Control over interactions
Managing Standards	Establishing high standards and norms of acceptable practice	Strong uniformity of standards
Managing Commitment	Develop member commitment through value-based language	Impose member commitment through rational language

Strategic choices of cooperatives

- Product portfolio
  - Specialized or diversified
  - Bulk or specialties
- Size
  - Regional, national or international
- Main objectives
  - To focus on bargaining power or product development

Governance choices

- Control of management
  - Strengthening supervision of management
  - External directors?
- Member relations
  - Strengthening member commitment (dialogue)
  - Matter of all employees of cooperative business
- Voting
  - One-member-one-vote
  - Proportional voting

The future of agrifood cooperatives

- *Helping producers to sustainably and efficiently meet consumer demand for sufficient and healthy food*

Thank you for your attention

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Cooperatives in The Netherlands (2014)

Sector	Number of cooperatives	Turnover (billion euro)	Employement (# fte)	Members (x 1000)
Finance	100	61	95,000	23,700
Agriculture	200	32	40,000	140
Purchasing	100	15	4,000	1000
- Energy - Health care - Retail - Others	2100	3	14,000	660
Total	**2500**	**111**	**153,000**	**25,500**

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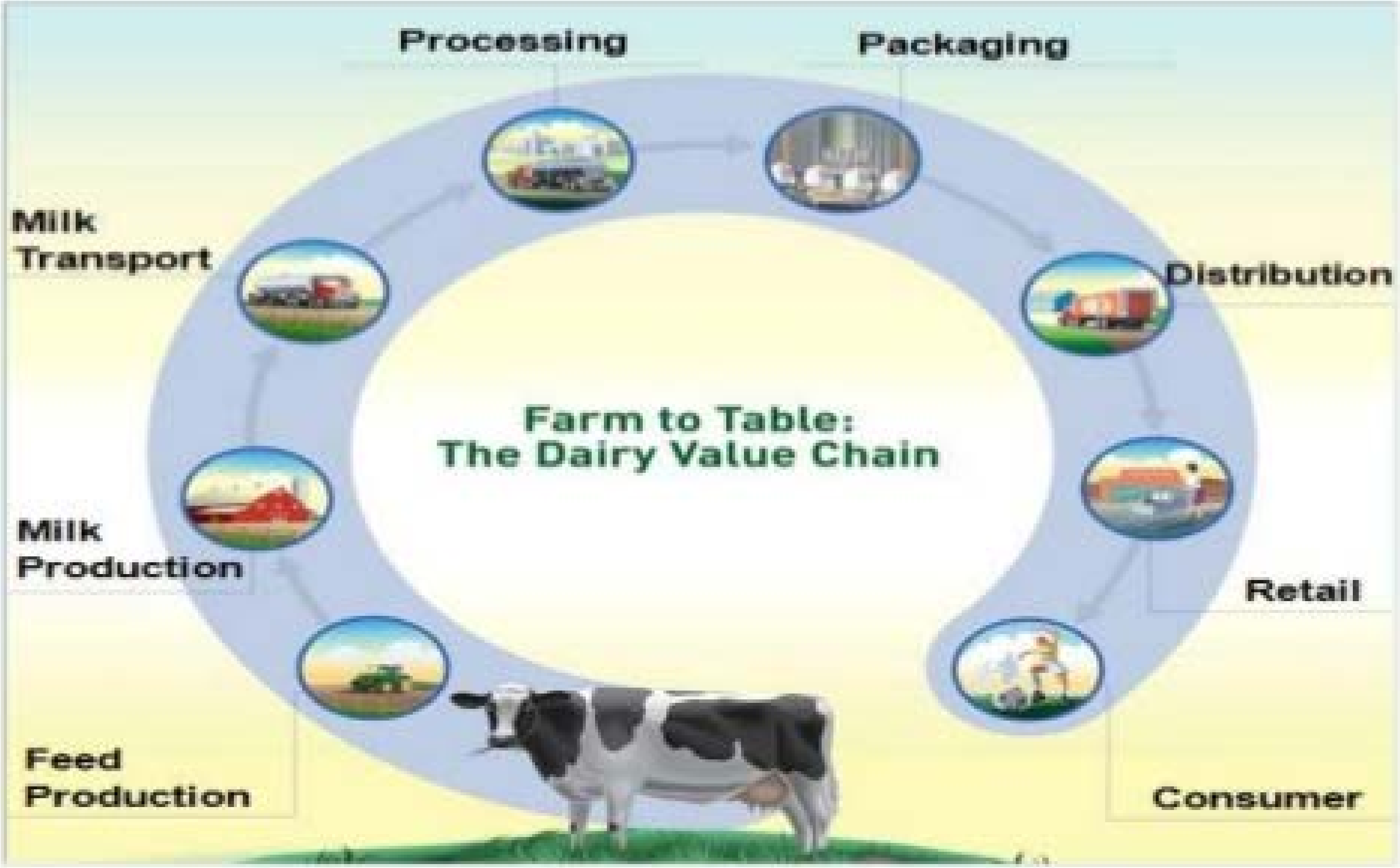
Key figures on main agricultural cooperatives in The Netherlands (2015)

	Number of Cooperatives	**Market Share** (%; 2010)	**Members** (only in NL)	**Employees** (fte)
Sugar	2	100	11000	2200
Dairy (milk processing)	5	86	16000	21500
Fruit & Vegetables	15	95	2500	2600
Potato starch	1	100	2500	1300
Seed and Ware Potatoes	6	n.a.	1500	200
Mushrooms	2	>80	210	230
Flowers	2	95	4800	2900
Pig breeding	1	85	1750	500
Cattle breeding	1	85	25500	1300
Animal feed	13	55	30000	6200

DAIRY – VALUE CHAIN



SOURCE- USDA

History of dairy cooperatives in The Netherlands

- 1872 – 1886: informal cooperatives
- 1886: first official dairy cooperative
- 1886 – 1916: rapid growth (1 → 750)
- 1916 – 1950: consolidation, crisis and war
- 1950 – 1984: rationalization
- 1984 – 2014: consumer orientation

Dairy cooperatives in the Netherlands, 2016

Dairy Cooperatives in The Netherlands, 2016			
	turnover (million euro)	Employees (fte)	Members
FrieslandCampina	11,001	21,927	13,300
CONO Kaasmakers	209	176	443
DeltaMilk	209	65	165
DOC Kaas	174	230	900
Rouveen Kaasspecialiteiten	147	160	250