

Farmers' service cooperatives in the EU: Policies, strategies, and organization

(part of this presentation is from result report of SFC project, see Bijman et al. 2013)

Markus Hanisch



Presentation to be held at the
SEMINAR ON COOPERATIVES IN POST-SOVIET COUNTRIES
Eurasian Economic Commission
September 25, 2015 - Moscow



Food and Agriculture Organization
of the United Nations



Economics of Agricultural Cooperatives | Prof. Dr. Markus Hanisch

1

I. EU-Definition of a Producer Organisation



EU legislation: any group of producers that has been recognized as PO, by meeting a number of requirements:

- **Membership be voluntary,**
- contribute to the general aims of the CMO regime,
- prove its utility by the scope and efficiency of the services offered to members.
- Legal requirements basically in term of functions and objectives, not in terms of structure.
- **28 Member States have freedom in deciding minimum number of members and legal form.**
- **Most MC leave room for different legal forms of PO.**

Economics of Agricultural Cooperatives | Prof. Dr. Markus Hanisch

2

I. Pragmatic Definition of a Cooperative



- Cooperative is an economic organisation (a firm)
- Cooperative is a legal form (legal person)
- Cooperative applies democratic decision-making and open membership (but not dogmatically)
- Cooperative is a user-owned, user-controlled and user-benefitting organisation (Dunn 1988)

A cooperative is a **form of an EU-producer organization**

I. Why did cooperatives emerge in EU agriculture ?



<i>Motives: "smallness" causes access/market failure problems</i>	<i>Examples</i>
Countervailing power	Bargaining association
Economies of scale	Processing cooperative
Sharing of risk	Marketing coop with pool
Reduction of transaction costs	Cooperative auction
Access to finance &resources	Credit cooperative
Access to markets	Marketing cooperative
Product innovation / quality control	Marketing cooperative

I. Why are they still there ?



EU's Coops` aquire new value chain functions

- **Counter monopoly:** Rebalance markets? Yardsticking
- Shift from collecting market information to collecting customer information
- Pool production, marketing and quality management coalitions (Kontore)
- Infuse more marketing expertise into the management
- Provide members with technical assistance in order for them to be able to comply with high quality standards/**contracting**
- Innovation
- Introduce and enforce a quality control system

I. How organised are EU-farmers i.t.o. coop-membership ?



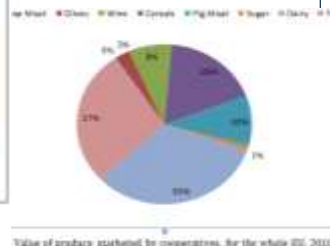
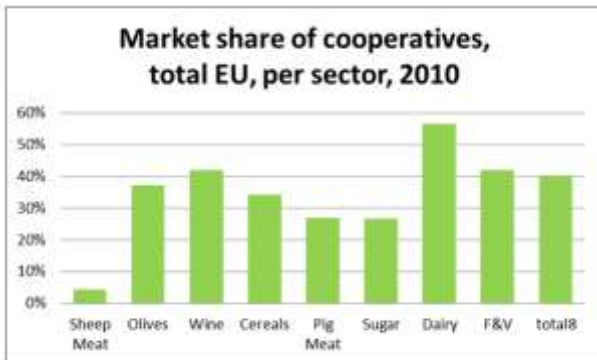
% of farms being member in at least one rural coop

Membership intensity
1: < 10%
2: ≥ 10% < 20%
3: ≥ 20% < 30%
4: ≥ 30% < 40%
5: ≥ 40%



SFC 2013

I. What's their sectoral importance ?



SFC 2013

I. Dairy as an example



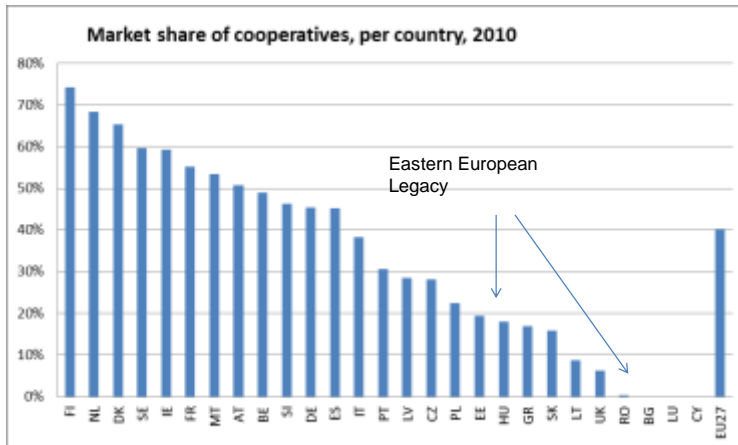
In 2014 there were

- one million European dairy farmers ...
- representing 13,5 per cent of the European's food and beverages industry's turnover and 10 per cent of its workforce
- who produce 148 million tons of milk
- with a value of 51 billion Euros ...

(Source: Euromilk)

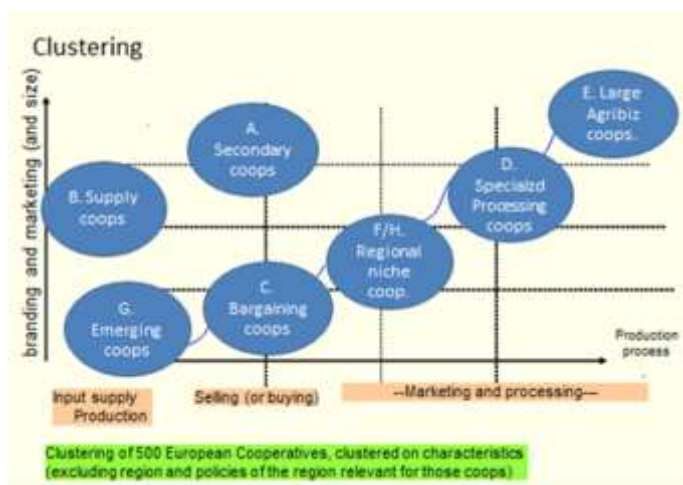


I. What's their regional all sectors importance ?



SFC 2013

2. Top 500 Coops : Structure-Strategy Issues



2. Newer trends in the top 500 EU's-cooperatives



- Cooperatives go international
- Cooperative obtain hybrid organisational structures
- Cooperatives give more room for managerial entrepreneurship
- Cooperatives (have) become more product-based and less region-based
- In order to attract additional equity capital, cooperatives change their ownership structures
- Federated cooperatives are likely to disappear or become farmer-owned instead of user-owned (Dairy, Pork, Sugar).

3. Policy Studies



2010 inventory of EU-Member State coop policy measures found:

- Cooperatives are regulated as associations in some member states, as companies with share capital in others, albeit with variable share capital, and – occasionally – as contracts or not as a specific legal business form
- Flexibility of the law maker is an asset of EU system
- Coop policies usually target:
 - Business organisational law,
 - Tax law and
 - Competition law

3a. Business organisational law



Business organisational law

- In 24/27 members states, in business law **no policy measures were reported that actively promoted** the use of cooperatives.
- But in 17/27 the cooperative legal business form is the **natural legal environment** for agricultural producers to organise their joint business activities.
- Mainly in New Member States (RO, BG, SLO, etc) producers organise in limited and other corporate associations.

3a. Business law – formation/maintenance



- Most members states do not require a minimum capital to be paid in, others set certain standards like minimum reserves
- **In Austria and Germany, cooperatives are obliged to become a member of the Cooperative Audit Federation incurring additional costs.**
- Differences in flexibility towards openness, exit, audit exist.
- **Also in internal governance, employee participation and board structure design flexibility characterises the “European Way” with some exemptions.**

3b. Tax law, double taxation



Most countries accept that coops cannot be double taxed

- Greece, Latvia, Malta and Portugal exempt cooperatives from corporate income tax
- Austria, Belgium, Cyprus, Denmark, France, Germany, Hungary, Luxembourg, The Netherlands, Sweden and the United Kingdom allow for some deduction of patronage dividends from the taxable profits in the corporate income tax
- Bulgaria, the Czech Republic, Estonia, Finland, Ireland, Lithuania, Poland, Slovenia, Italy, Romania, Slovakia and Spain do not have special tax facilities for cooperatives

3c. Competition law priorities



In case a producer organisation does not affect trade between member states, national competition laws apply.

National competition laws may not dilute uniform and effective application of CAP.

In case of conflict between CAP provisions and national competition legislation, the provisions concerning CAP shall prevail according to the principle of primacy of EU law

3c. EU-competition law example



Coop exemptions from competition law

- Competition Law: Milk package
- For size of business restrictions apply for >3,5% EU, < 30 % national level market share
- Not for dairy coops

Conclusion: Support for farmers' cooperatives



- More than 300 European, national and regional policy measures can be found in the 28 member states of the EU.
- Cooperative legislation, competition rules, inducements (money transfers) and financial incentives were among those observed most often.
- Considerable differences between Member States, in terms of the policy measures adopted.
- There are no clear links between the (current) support measures for farmers' cooperatives and the market share of cooperatives. More support or regulation is not necessarily better!
- Also in other OECD countries there is a great diversity in policy measures and we found: the absence of support policies can have positive as well as negative effects.

Supporting cooperatives: General wisdom



- Cooperatives seem to benefit from an enabling, flexible cooperative law, single taxation, and clear competition rules.
- For balancing markets allow cooperatives to grow at the rate their retailers grow
- In some sectors cooperatives clearly benefit from the CAP and some of its reforms like other agricultural service providers
- There is no clear conclusion which support measures do have additional value
- There is a constant need to support capacity building and technical (organisational) assistance, especially to support small and emerging cooperatives, apart from level playing fields in business
 - recognizing that coops are a form of self-organisation
 - former socialist countries: lack of social and human capital
 - subsidies can support but also have had negative effects.

Supporting cooperatives: General wisdom



- Certification and quality management: governments can help
- Networking and platforms between private /public sector chain actors and coops
- Accept single taxation
- Let cooperators adapt to context. By laws, boards, investors
- Help trainers and educators: Capacity building
- Make new approaches towards cooperatives credible with campaign
- Civil society, honorary posts, link to community but not community enterprises
- Don't mix with non profit sector definitions, empowerment agendas, social protection agendas, subsidy handout programs! A coop is a business.

Discussion



- Thank you!



Food and Agriculture Organization
of the United Nations



EEC