

# Agricultural co-operatives: perspectives for the 21<sup>st</sup> Century

## *Zemědělská družstva: perspektivy pro 21. století*

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**Abstract:** Agricultural co-operatives play an important role in the European Union, as can be proved by their numbers in the individual EU countries. However, they have diversified during the last decades and developed from the “classical” co-operative of the Rochdale type into several forms, which do not always fully observe all the recognised co-operative principles. These are namely the share co-operatives, daughter co-operatives, “New Generation Co-operatives” and limited liability co-operatives. Among the individual EU countries, there are also considerable differences with regard to the co-operative legal frame. For the future, co-operatives can play important role both in the economic field and in the social field.

**Key words :** co-operative business, co-operative principles, legal frame, future roles of co-operatives, the EU

**Abstrakt:** Zemědělská družstva hrají v Evropské unii velmi významnou roli, jak lze doložit jejich počty v jednotlivých členských zemích. V posledních letech však došlo v jejich výrazné diversifikaci a družstva se posunula od „klasických“ družstev rochdalekého typu do řady forem, které ne vždy plně respektují uznávané družstevní principy. Jsou to zejména akciová družstva, dceřinná družstva, družstva „Nové generace“ a družstva s ručením omezeným. Mezi jednotlivými členskými zeměmi EU jsou také výrazné rozdíly v právní úpravě družstevnictví a družstev. Je však zřejmé, že i v budoucnu mohou družstva hrát významnou roli jak na poli ekonomickém, tak i sociálním.

**Klíčová slova:** družstevnictví, družstevní principy, právní rámec, perspektivní úloha družstev, EU

## INTRODUCTION

Agricultural co-operatives are finding themselves in a greatly changed position during the last ten years. From the shop-window of the socialist agriculture and the prevailing form of ownership in agriculture, they got gradually down to the position of only one of the possible business forms in agriculture. Can they compete with business corporations? The co-operative system of democratic decision-making seems to be singularly unsuitable in the time of transformation of the economy, when the changing market situation calls for flexible and quick decisions.

In many cases, they still seem to be burdened by surplus labour and the remembrances of the “glorious” past, including the relationship of their members to the co-operative property and the social and cultural services they used to supply for their members.

The ownership relations have changed: there are farmers as members of the co-operative, but also the entitled owners, who still wait for settling their property claims. The attempts to introduce new amendments to the Transformation Act were not successful up to now and are still postponed. Will co-operatives at last solve their entangled property affairs?

And perhaps the most basic question: Is there really still place in the market for organisations which seem to be the relics of the socialist agriculture? Or, if we remem-

ber the fact, that the co-operative movement is much older than the second half of the 20<sup>th</sup> century and that there were functioning co-operatives of different types and levels as early as in 1880, the question might be posed in a different way: Is not co-operative movement in itself already obsolete with its ancient values and principles?

Since the CR streams to enter the European Union in the next three to five years, part of the answer might be to look at the position of co-operatives in the EU.

## THE POSITION OF CO-OPERATIVES IN THE EU

If we look at the reports of the International Co-operative Alliance (ICA), which roofs the co-operative movement both on the world and the regional levels, as well as at the EU and national statistics and reports, it is obvious, that co-operative organisations still keep a very important position both in the market and in the European society. In total, there are at present more than 132 thousand co-operatives operating in the EU with more than 83 million members.

And inside those numbers, there are 46 thousand agricultural co-operatives with more than 10 million members.

In the individual EU countries, there numbers and shares vary in a wide scope, as can be seen from the Table 1.

- There are however, some very important specifics:
- Different types have evolved from the classical co-operative, which differ from the point of open membership, member shares, level of liability, possibility to invite external investors, decision making and division of yields.
  - Individual EU countries have different legal frame regarding co-operatives, in some cases no specific legal frame at all.

### New types of co-operatives

During the last decade, there have evolved, besides the “classical” co-operative of the traditional Rochdale principles, four generated types: *Share co-operatives*, *Daughter co-operatives*, *Tradable shares co-operative* (“*New generation co-operative*”) and *Limited liability co-operative (PLC)*.

Those types differ basically by employing the basic co-operative values and namely principles.

Table 1. Number of co-operatives and their members in the EU, 1996–1999

Country	Co-operatives in total	In that: agricultural co-operatives	Percentage of agricultural co-operatives	Number of cooperative members in total	Number of agricultural cooperative members	Percentage of the agricultural cooperative members
Belgium	1,553	1,264	81.4	3,597,862	398,000	11.1
Denmark	1,445	65	4.5	1,392,244	113,000	8.1
Finland	1,664	64	3.9	2,337,374	134,800	5.8
France	23,573	16,800	71.3	17,485,573	1,300,000	7.4
Italy	39,625	8,327	21	7,620,430	1,177,703	15.5
Ireland	723	133	18.4	2,213,576	186,097	8.4
Luxembourg	63	25	39.7	.	17,627	.
Germany	10,320	4,434	43	22,322,050	3,100,000	13.9
Netherlands	735	223	30.3	856,446	270,664	31.6
Portugal	2,966	952	32.1	2,134,670	1,002,170	47
Austria	2,074	1,670	80.5	3,828,816	444,139	11.6
Greece	6,970	6,800	97.6	1,043,381	782,000	75
Spain	23,481	4,350	18.5	4,336,502	950,000	21.9
Sweden	15,106	84	0.5	4,900,240	200,000	40.8
G. Britain	2,191	553	25.2	9,547,707	271,000	2.8
<b>EU total</b>	<b>132,489</b>	<b>45,744</b>	<b>34.5</b>	<b>83,664,498</b>	<b>10,329,573</b>	<b>12.4</b>

Source: Higher Council for Co-operation 2000: Co-operative Movements in the European Union, Ministère de l’emploi et de la solidarité, Secrétariat d’état à l’économie solidaire, Paris, 2001

Table 2. Co-operative organisational models in the EU

	Traditional co-operative	Share co-operative	Daughter co-operative	Tradable shares co-operative (NGC)	Limited liability co-operative (PLC)
Membership	free	free	changing	limited	changing
Personal liability	no	for investors	for investors	yes	yes
Voting scheme	equal right	members: yield investors: shares	members: yield investors: shares	based on yields/ investments	based on shares
Decisive control	members	members	members through co-operative	members	investors
External shares(participation)	no	yes	yes	limited	yes
Membership share	equal	equal	equal	based on yield	shares
Returns	based on yields	members: yield investors: shares	members: yield investors: shares	members: yield investors: shares	based on shares
Professional manager	no	not always	yes	yes	yes

Source :Agricultural Co-operatives in the EU. Trend and Issues on the Eve of the 21<sup>st</sup> Century. Eds.: Onno-Frank van Bekkum and Gert van Dijk 1997

If we take the co-operative principles as defined by the ICA, i.e. as follows:

*Principle 1:* voluntary and open membership

*Principle 2:* democratic member control

*Principle 3:* member economic participation

*Principle 4:* autonomy and independence

*Principle 5:* education, training, information

*Principle 6:* inter-co-operative co-operation

*Principle 7:* concern for the society,

then they applied to a different extent in the new co-operative types, as can be seen from the comparative Table 2.

It is obvious, that even if the traditional type of co-operative still persists, the co-operative organisation is developing and new models are evolving.

It can be said, that if we go in the table from left to right, the organisations are still more declining from the original co-operative principles and the last one, the limited liability co-operative, does not seem to be a co-operative any more according to our understanding, since it is owned entirely by the so-called shareholders, which are, however, rather share-owners. The role of members is there played by the so-called patrons, i.e. customers of the co-operative.

Another important difference is that in most of them, there are not only members, but also investors, and in some types also external ones, so that the revenues are distributed not only with regard to the work or production participation, but also according to the investment shares.

The share and daughter co-operatives are called the external-investor ones, because investors are not co-operative members. The tradable shares co-operatives (NGC) and limited liability co-operatives are the so-called member-investor co-operatives, because investors are exclusively, or mainly, the members.

## “New Generation Co-operatives” – the model of proportional tradable shares

The model originated in the North Dakota and Minnesota during the 90ies, at present there are about 20 000 co-operatives of the type and they are singularly successful. Their main characteristics are:

- The member shares (the rights to deliver products to the co-operative) are tradable at market prices. Membership is usually limited.
- Voting rights are usually equal, but in some cases also according to the investment shares.
- The decisive role is played by members, even if external investors are accepted, but usually in a limited way.
- Members dividends are distributed with regard to their production contribution and investment shares.
- Co-operative has a highly qualified management.

NGCs are a new form of agricultural co-operative oriented at vertical integration, giving farmers opportunity to sell slightly processed instead of raw products, i.e. of carrying out value adding processing.

This developing type of co-operative is supposed to be one of the forms of the “21st century co-operative”.

## LEGAL FRAME OF THE CO-OPERATIVE BUSINESS IN THE EU

Differences in the legal frame of the co-operative functioning in the EU can be explained by different approaches to co-operatives as such. The countries which do not define co-operatives by any specific legal act are mainly those with very open legislation, which includes co-operative principles into the common business law. This is the example of Denmark and Luxembourg.

Table 3. Legal frame of co-operatives in the EU countries

Country	Is legislation according to co-operative principles?	One member-one vote principle	Remuneration of shares	Non-member investments	Division of reserves
Belgium	yes	yes	yes	no	no
Denmark	no, given by the individual rules	yes	yes	yes	no
Finland	yes	yes	yes	yes	yes
France	yes	relatively	yes	yes	yes
Italy	yes (Civil Code)	relatively	yes	yes	yes
Ireland	yes	yes	yes	no	no
Luxembourg	yes	yes	yes	no	no
Germany	yes	yes	acc. to rules	no	no
Netherlands	yes	yes	yes	no	no
Portugal	yes, Co-operative Code	yes	yes	yes	yes
Austria	yes	yes	acc. to rules	yes	no
Greece	yes	yes	yes, acc. to rules	no	no
Great Britain	yes	yes	yes	yes	yes
Spain	yes	yes	yes	yes	yes

Source: Higher council for co-operation 2000: Co-operative movements in the European Union, Ministère de l'emploi et de la solidarité, Secrétariat d'état à l'économie solidaire, Paris, 2001

Then there are countries with specific legal rules for co-operatives but without a special co-operative legal form, such as France and Belgium. Other countries have a strong co-operative identity and their co-operatives are object to special legislation, co-operative principles are even included in the constitution, like in Portugal, Spain and Italy.

Even if the national legal systems differ, they can be divided roughly into two categories. The countries of the first group leave a certain “manipulation space”, but have a specific regulation of forming reserves (Finland, Sweden, Portugal, Greece). The second category has a more rigid regulation and in some cases a strict reserve forming rules (Germany, Austria, Denmark, Luxembourg). A strict reserve forming rules are applied in France, Italy, Spain, and Portugal.

The one member-one vote principle is applied in almost all the EU countries (Table 3).

The important point for the future is, however, that the EU prepares a common base of the co-operative legal frame, which would be valid for all the member countries. This should remove the ambiguity of understanding co-operative business and help establishing of the over-the-border operating co-operatives.

The development of this common legal frame will be one of the important points regarding the future of Czech co-operatives in the EU.

### **The role of co-operatives in the future**

Considerations about the future position and role of co-operatives in general, and agricultural co-operatives in specific have been the object of many studies, workshops and conferences on the European level during the last decade.

Among other, we can mention authors like Munkner, Nilsson, Spear, Hakelius, Haggdorn, Fregidou-Malama and others. Some of them underline the economic role of co-operatives and their competitive advantage, others, namely Swedish economists, stress their role as a part of social economy.

These two distinctive ways can be defined as follows:

#### *Economic roles of co-operatives*

- Establishing new markets

Agricultural co-operatives could establish niche markets, namely with the growing concern of consumers about the quality of food. That is connected both with food products of known origin, preference for local or regional products, environmental issues and the “fair trade” idea. While individual farmers production volume might be in some cases too small to fill the niches, production co-operatives, and still more trade and processing ones, can have the advantage of scale here.

- Vertical integration

Adding value to the agricultural primary products is – and even historically was – obviously one of the most prosperous ways of the co-operative business. Practical-

ly, it was already described as the form of the “New Generation Co-operative”.

- Preventing monopolies in the Agri-Food industry

One of the reasons of the income disparity in agriculture are the price scissors, issuing from the input sectors monopoly and processing industry monopsonic character. Forming of secondary co-operatives in the sphere of stocking and sale is one of the ways of breaking this vicious circle.

- Providing credit for investments in farming activities

Credit co-operatives have a very important role and strong position in some countries, namely Ireland. It is, however, connected with specific advantages of their functioning. The attempts of their revival at the Czech scene were not successful and at present there seems to be neither enough market space nor enough credit in the public opinion for them.

- Globalisation of agriculture – e-commerce

With globalising economy, also co-operatives seem to grow more global, notwithstanding the fact that agriculture is regarded as a rather globalisation-resistant sector because of its specifics. The idea is to combine the social dimension of co-operative business with international co-operation and e-commerce. As an outstanding example, we can mention the British internet co-operative Poptel or establishing of the domain coop.

#### *Social roles of co-operatives*

- Production co-operatives as a stabilising factor in labour market

Since part of the co-operative principles is welfare of its members, there develops still more a special group of co-operatives as a part of the so-called social economy. The concept embraces activities aimed either at providing social services on the non-governmental level, or – in the case of production co-operatives – establishing them as organisations creating new job opportunities on the regional level, based on people, not on capital and profit. It thus forms a third sector between the private business and public sector, in which the co-operative principles can find their natural form. The social economy organisations are earning still more ground in connection with the EU structural funds, namely in Sweden.

- Co-operatives as trainers

Since co-operatives are still usually employing a higher proportion of educated specialists, they might fill in the niche of training and education, which was in past supplied by the state – of course under the condition that there is such a demand.

- Influencing governmental policy

Since agricultural co-operatives represent the group of the biggest agricultural enterprises, part of their role should be also the representation and lobbying towards

the government. The weak point is that there might be (and often is) a deep rooted feeling of rivalry among individual ownership groups of farmers which might prevent the advantage of scale.

## CONCLUSIONS

The expected EU accession opens a new field also for the co-operative organisations in agriculture, since this business form is accepted as the one having future perspectives in the EU. Much of their future development might depend on the fact, whether they are able to compete in the common market and capable of higher flexibility of form, namely if there is formed a common co-operative legal frame, as supposed. The future co-operatives will also probably shift from the primary production ones to the level of secondary and combined co-operatives. A rather new (or perhaps old-new) idea on the Czech scene is the existence of co-operatives as a part of the so-called social economy.

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Arrived on 4<sup>th</sup> January 2002

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