Support for Farmers' Cooperatives

Country Report
Cyprus

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European Commission

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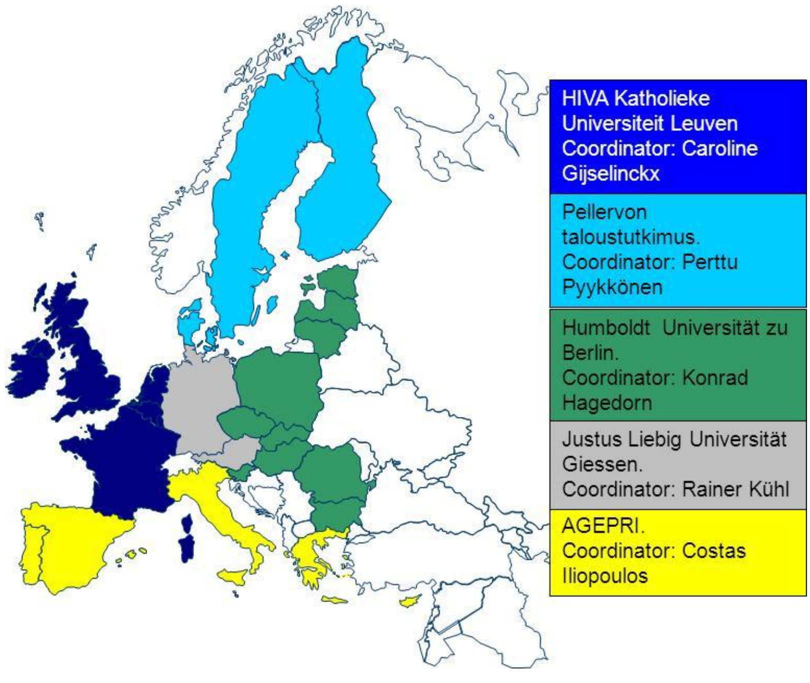
Preface and acknowledgements

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)", that will 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, and by the European Commission in its effort to encourage the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project this country report on the evolution of agricultural cooperatives in Cyprus has been written. Data collection for this report has been done in the summer of 2011.

In addition to this report, the project has delivered 26 other country reports, 8 sector reports, 33 case studies, 6 EU synthesis and comparative analysis reports, a report on cluster analysis, a study on the development of agricultural cooperatives in other OECD countries, and a final report.

The Country Report Cyprus is one of the country reports that have been coordinated by Costas Iliopoulos, AGEPRI. The following figure shows the five regional coordinators of the "Support for Farmers' Cooperatives" project.



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1 Introduction

The cooperative movement has a long and productive presence in Cyprus going back to the early 20th Century with the pioneering cooperatives that were established to support the farmers. The first successful cooperative bank was established in Lefkoniko[1] in 1909 and it is still active. In the financial sector the cooperative movement controls about 20% of the banking market. In the other sectors such as agricultural products production, manufacturing and sales its influence is extensive but not dominant.

1.1 Objective of the study

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, "Support for Farmers' Cooperatives", that will provide the background knowledge that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income**.** In the framework of this study, this report provides the relevant knowledge from Cyprus.

In this context, the specific objectives of the project, and this country report, are the following:

First, to provide a comprehensive description of the current level of development of cooperatives and other forms of producer organisations in Cyprus. The description presented in this report will pay special attention to the following drivers and constraints for the development of cooperatives:

- **E**conomic and fiscal incentives or disincentives and other public support measures at regional and the national levels ;
- Legal aspects, including those related to competition and tax laws;
- Historical, cultural and sociologically relevant aspects;
- The relationship between cooperatives/POs and the actors of the food chain;
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Second, to identify the laws and regulations that enable or constrain cooperative development and third, to identify specific support measures and initiatives which have proved to be effective and efficient for promoting cooperatives and other forms of producer organisations in the agricultural sector in Cyprus.

[1] A small rural town that is since the summer of 1974 occupied by Turkish troops.

1.2 Analytical framework

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to the management (and the agency problems that goes with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

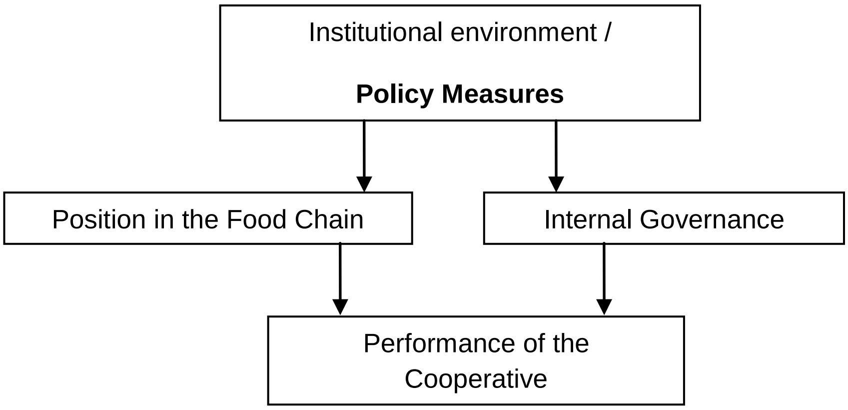


Figure 1. The core concepts of the study and their interrelatedness

1.3 Definition of the cooperative

In this study on cooperatives and policy measures we have used the following definition of cooperatives and Producer Organisations (POs). A cooperative/PO is an enterprise characterized by user-ownership, user-control and user-benefit:

It is user-owned because the users of the services of the cooperative/PO also own the cooperative organisation; ownership means that the users are the main providers of the equity capital in the organisation;

It is user-controlled because the users of the services of the cooperative/PO are also the ones that decide on the strategies and policies of the organisation;

It is for user-benefit, because all the benefits of the cooperative are distributed to its users on the basis of their use; thus, individual benefit is in proportion to individual use.

This definition of cooperatives and POs (from now on shortened in the text as cooperatives) includes cooperatives of cooperatives and associations of producer organisation (often called federated or secondary cooperatives).

1.4 Method of data collection

Multiple sources of information have been used, such as databases, official statistics, interviews, corporate documents, academic and trade journal articles. In addition, information on individual cooperatives has been collected by studying annual reports, other corporate publications and websites. Interviews have been conducted with representatives of national associations of cooperatives, managers and board members of individual cooperatives, and academic or professional experts on cooperatives.

Very little data was readily available and provided ahead of time to the writer of this report and most of the limited information provided by the EU sources could not be confirmed by national sources. Therefore the writer had to resort to locally produced and published data from official sources. People involved in cooperative and producers organisations were not very forthcoming with information. They all wanted higher or Board of Directors approval to release information. The issue of data availability is a widespread issue in local research. Statistical data collection started with the British administration is 1878 and the Republic continued this tradition of collecting pretty much the same data. With the accession to the EU the requirements and methods have changed and the Statistical Service had to adopt accordingly. In a number of projects this writer was faced with the issue that data required for European projects before 2004 is not considered as reliable and consistent.

1.5 Period under study

This report covers the period from 2000 to 2010 and presents the most up-to-date information that for the most part is up to 2009. This refers to both the factual data that has been collected and the literature that has been reviewed.

2 Facts and figures on agriculture

2.1. Share of agriculture in the economy

Traditionally Cyprus has been a rural society based on agriculture and the trade of agricultural products. Since the beginning of the 20th Century the economy has started to shift into the secondary sector and people started to move into the urban areas and in the rural areas around the big mines (mainly copper and asbestos) that sprang around the island in search for jobs. After independence in 1960 the shift from a rural society into an industrial, urban society was a declared state strategy. During the 1960's the contribution of Agriculture to GDP ran in the range between 16 – 20 % depending on the year (Department of Statistics, Agricultural Statistics, 2008). Of course this shift from the primary, to the secondary and finally the tertiary sector is familiar story in most developed countries.

During the last decade the share of agriculture as a percentage of the Gross Domestic Product (GDP) has fallen to between 3 – 4% and is decreasing , as compared to 18 -19 % for manufacturing and 77- 78 % for services (Department of Statistics, Statistical Abstract 2009). Based on estimations by the Eurostat in 1995 agriculture contributed 5% to GDP and by the year 2007 this has dropped to 2% of GDP (*Figure 2: Share of Agriculture in Economy*). In 1995 the GDP of Cyprus was estimated to 6.464 million Euros and the contribution of agriculture was estimated at 313 million which corresponds to 5%. In 2007 the Cyprus GDP amounted to 14,165 million. The agriculture contributed 280 million which corresponded on a share of 2% of the economy. It is clear that as the local economy and the population grow agriculture is decreasing both in real and relative terms. This decline in agriculture partly explains the problems faced by some agricultural cooperative societies in the past few years.

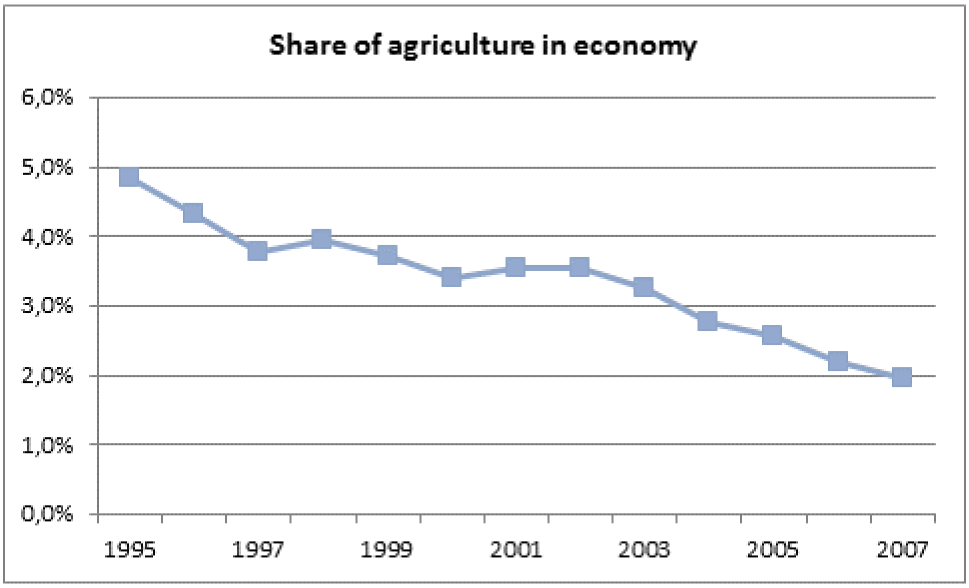


Figure 2: Share of Agriculture in Economy. Source: Eurostat Nat. Accounts

As expected, employment in the sector is dropping as well as the share of agriculture in the overall economic production decreases. Another contributing factor is that capital in the form of machines and technology substitute's human capital. *Figure 2: Employment for the production of GDP 1960 – 2009* demonstrates this trend. The people employed in the industry include self employed farmers and their families maybe with occasional assistance from seasonal, temporary workers from third countries, locals and mostly foreign workers from third countries working for bigger farms.

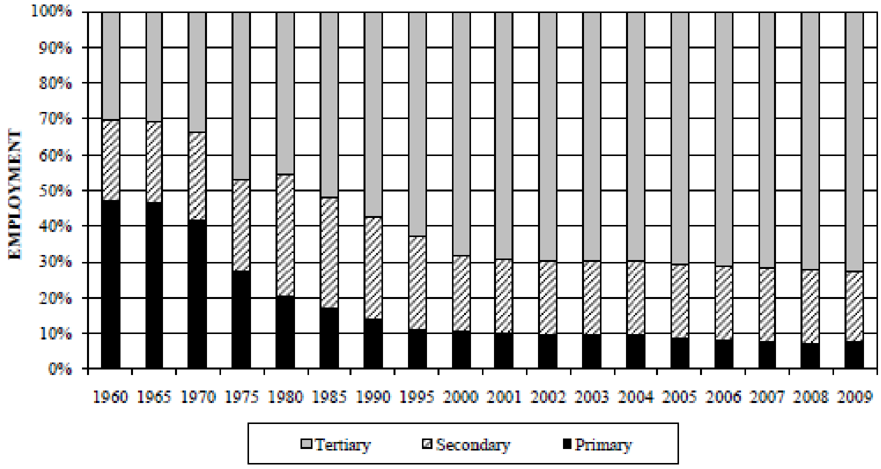


Figure 3: Employment for the production of GDP 1960 – 2009.

Actually the agricultural production varies from year to year based on the climate for each year. Cyprus being a Mediterranean island suffers from low rainfall and years of draught that affect agricultural production as well. Natural disasters such as hail storms in spring, frost in winter and tornadoes also negatively affect agricultural production. This change from year to year is illustrated *in Figure 4: Annual real growth of Output and Value Added 1995 – 2008* for the data available since 1995 (Department of Statistics, Agriculture Statistics, 2008).

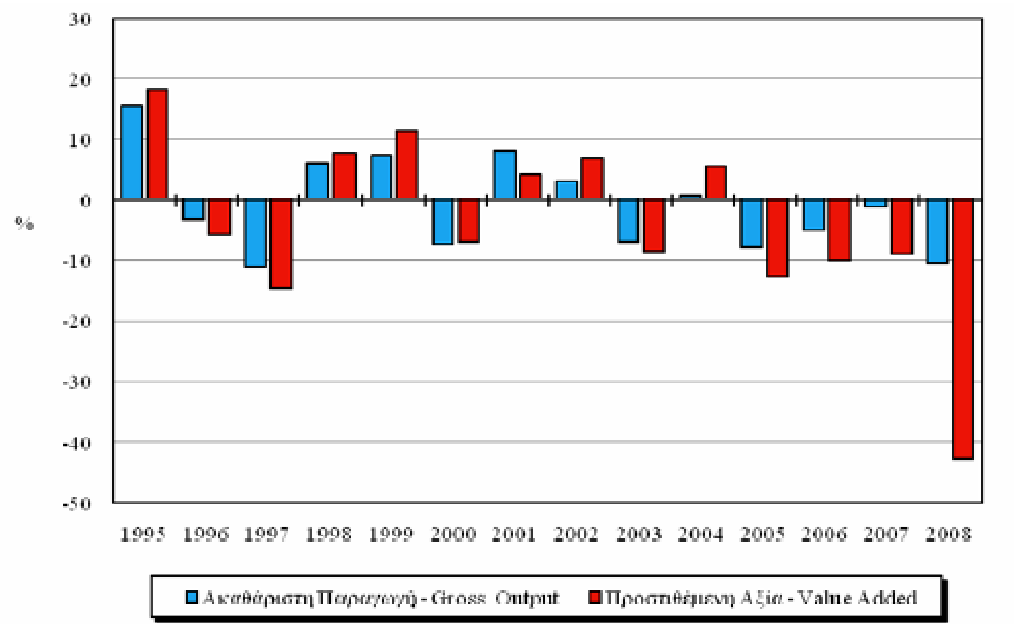


Figure 4: Annual real growth of Output and Value Added 1995 – 2008. Source: Department of Statistics, Agricultural Statistics, 2008.

The total gross output of the broad agricultural sector increased by 6.2% at current prices and reached € 682.1 million in 2008 compared to € 642.5 million in 2007. In real values, gross output decreased by 10.5% in 2008 continuing the decrease of 1% that occurred in 2007. In real terms, crop production decreased by 26.5%, forestry production by 8.6% and the hunting sub-sector by 12.8%, while livestock production and ancillary production recorded an increase of 0.8% and 6.9%, respectively.

The sector's value added at current market prices reached € 349.3 million while, in real terms, value added decreased by 42.8% in 2008 compared to a decrease of 9.5%, in 2007. Exports of agricultural products recorded a decrease of 3.5% in value terms reaching € 116.6 million in 2008 compared to € 120.9 million in 2007. This is attributed mainly to the decrease in the value of exports of potatoes, which decreased from € 56.3 million in 2007 to € 46.9 million in 2008. The earnings from citrus fruit exports remained at € 29.4 million in 2008 and earnings from grape exports increased from € 0.1 million in 2007 to € 0.4 million in 2008. The European Union countries absorbed 67.1% of agricultural exports in 2008, in comparison to 72.6% in 2007.

Employment in the agricultural sector recorded a decrease, falling to 25,290 persons in 2008 from to 26,319 in 2007. The share of employment in agriculture in relation to the total economically active population was 6.3% in 2008, compared to 6.6% in 2007, 7.2% in 2006, and 7.8% in 2005.

The total value of fixed capital investments of the sector increased to € 29.1 million in 2008 compared to € 18.7 million in 2007. This increase resulted mainly from the outlays on construction and land improvement works, which increased to € 23.8 million in 2008 from € 13.9 million in 2007. A significant increase was also recorded in the value of breeding stock (€ 1.3 million.) compared to 2007. A decrease was recorded in investments on transport equipment, which reached € 1.4 million.

In recent years there is steady increase of inexpensive imports of agricultural products from European Union and third countries, as far as China and South America that negatively affect and, in certain sectors such as fruit, endanger local production. The local production of vegetables and greens is sufficient to cover demand but small quantities are imported during the high tourist season or after a natural disaster.

For the most part agricultural production is carried out in inefficient, private small plots and a farmer may have several such plots spread over a large area around his village. This further reduces efficiencies of scale but protects the overall production from plant diseases and natural disasters. The Government has been running projects of consolidating plots into larger sizes for some decades now but these projects take time to mature and face resistance from farmers.

2.2. Agricultural output per sector

Cyprus has a fertile land and good weather and therefore most all of the sectors singled out for this study, with the exception of sugar, are contributing to the agricultural production. Figures 5 and 6 provide information on each of these sectors. The data presented from Eurostat refer to the period after the accession of Cyprus to the EU in 2004. However, it is representative of the previous years as well and it is comparable with the data available from the statistical authority of Cyprus (Cystat).

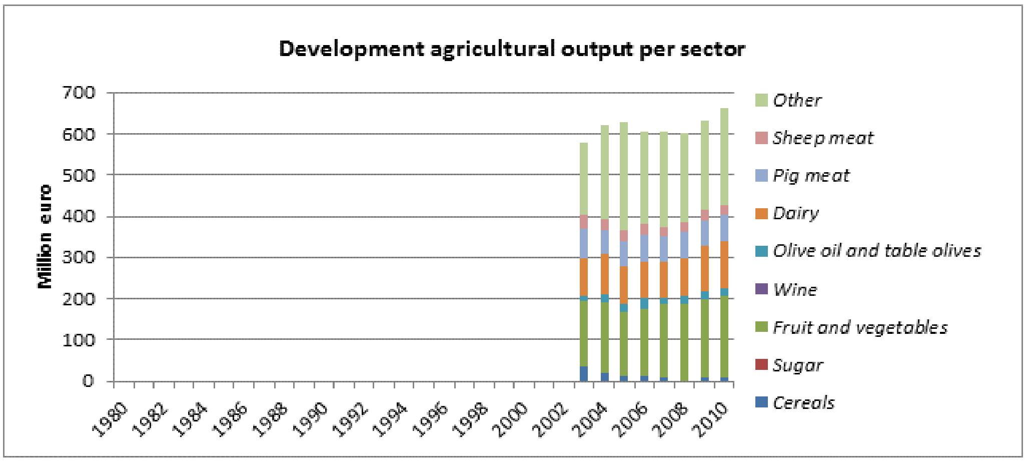


Figure 5: Development of the different sectors in agriculture. Source: Agriculture Economic Accounts, Eurostat.

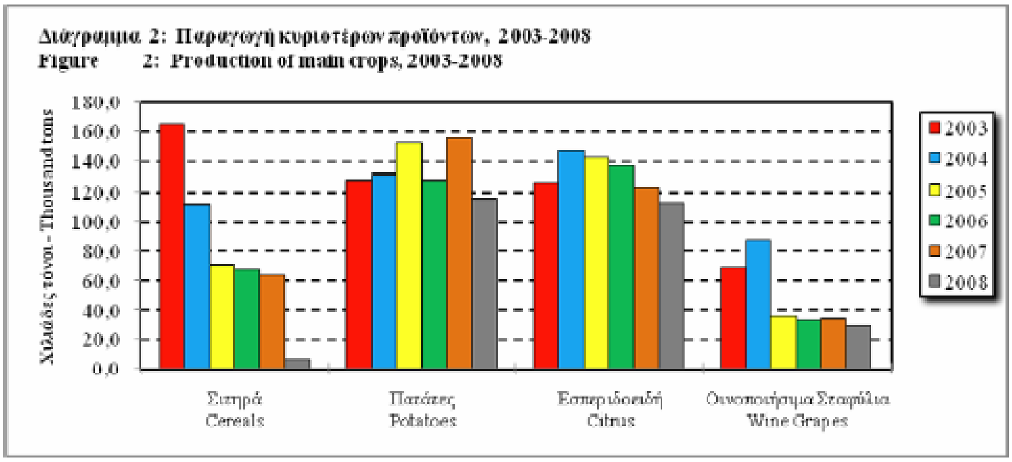


Figure 6: Production of main crops. Source: Department of Statistics, Agricultural Statistics, 2008.

The main products and exports of Cyprus are cereals, potatoes, citrus and wine grapes. Since 2003 the production of cereals has been decreasing steadily. The same applies to wine and table grapes. This is attributed to the unfavourable weather conditions, especially the water scarcity problem as both crops relay on rainwater for irrigation. In the case of the irrigated production of citrus and potatoes the overall water supply from water dams and reservoirs remains constant and therefore the lower production can be attributed to unfavourable weather and natural disasters.

The production of the livestock sub-sector exhibited an increase in the value by 13.6% reaching € 336.2 million Euros in 2008 as compared to €296.0 million in 2007. Meat production had an overall increase of 5.0% in 2008. Pork, which is the main type of meat consumed, recorded an increase of 7.6% reaching 59,173 tons. Sheep and goat meat increased by 1.5% reaching 7,211 tons in 2008. Beef meat production also increased by 8.4% and reached 4,248 and last, poultry production decreased by 0.3% reaching 28,727 tons in 2008.

Egg production increased by 15.2% in 2008 reaching 9,880 tons from 8m577 tons in 2007. Milk production recorded an increase of 6% and reached to 194,981 tons in 2008 as opposed to 183,480 tons in 2007. During 2008, cow milk, which constitutes 78.1% of the total milk production, recorded an increase of 5.7% and reached to 152,264 tons from 144,100 tons of the previous year. Sheep and goat milk production registered an increase of 8.5% reaching to 42,717 tons in 2008. Producers' prices of cow milk increased by 18.2%, sheep milk by 7.2% and goat milk price by 7.8%, compared to the prices of the previous year. Figure 7: Meat production by type 1993 – 2008 provides an overall view of live stock subsection over an extend period of time.

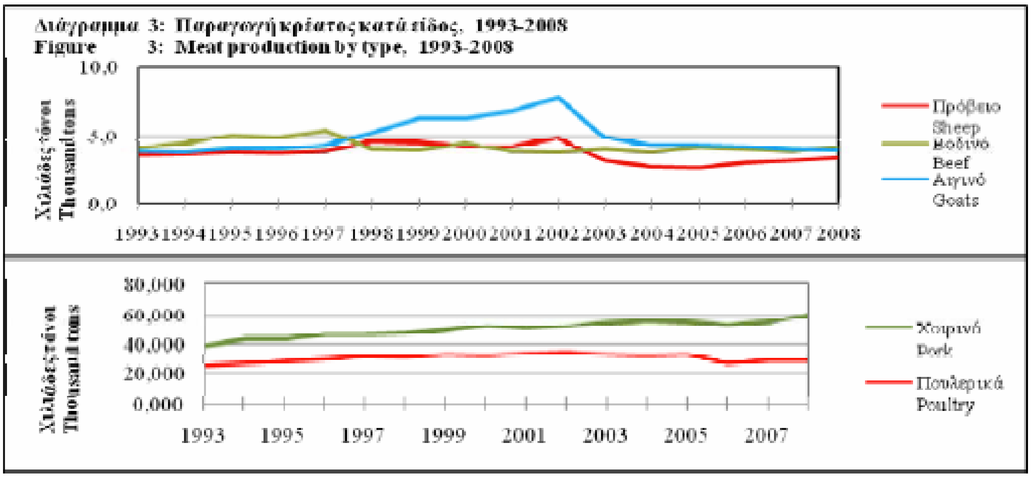


Figure 7: Meat production by type 1993 – 2008. Source: Department of Statistics, Agricultural Statistics, 2008.

2.3. Development in the number of farms

Regarding the number of farms in Cyprus, information is available only for the year 2007 from EU data and no corresponding data is available from national sources. The agricultural statistics account for the land used but not the farms. The most recent survey of businesses and establishments was carried out in 2004 -05 and agriculture was not included. From the a total of 925,100 hectares, approximately 589,880 hectares are under effective control of the Republic of Cyprus out of which 26% is agricultural land, 54% forests areas, 7% arid and non cultivated land, while the remaining 13% are urban areas. Annual crops represent 69.8% of the total agricultural land, pluriannual corps 26.4%, pasture lands the 0.3% and fallow land 3.5%. Four products cover 80.3% of the agricultural land and these are: cereals with 47.4%, plants for animal feed 15.5%, vineyards 8.2%, olives and carobs 9.2%. Generally the structure of agricultural holdings and the number of individual holdings shows that entrepreneurship is rather high in Cyprus (45,000 holdings out of which 99% are personal companies) (Rural Development Programme 2007-2013 for Cyprus).

2.4. Size of farms

For the most part agricultural production is carried out in inefficient, private small plots and a farmer may have several such plots spread over a large area around his village. This further reduces efficiencies of scale and negatively affects profits but protects the overall production from plant diseases and natural disasters. The Government has been running projects of consolidating plots into larger sizes for some decades now but these projects take time to mature and face resistance from farmers. The small size of holdings (3.5 Ha per holding) and parcelling (5 parcels per holding on average) are adversely affecting the equitable and efficient management of agricultural investments. Land consolidation needs are high in all sectors except in the fields of citrus and potatoes (Rural Development Programme 2007-2013 for Cyprus).

Consolidation of land along with the necessary infrastructure in terms of road networks, for easy access, and water irrigation network can contribute a lot in making agriculture more efficient and profitable. As it is now organised, agriculture is not profitable especially for fruit, cereals, and grapes production. It is marginally profitable for vegetable, potatoes, olive and olive oil and citrus production. The situation is somewhat more profitable for the dairy and meat sectors where competition is very intense due to over capacity and imports.

One of the most critical issues in the dairy sector is that of the production of haloumi cheese. Haloumi is a local protected cheese that legally can only be produced in Cyprus, like feta cheese for Greece. For years now milk producers are arguing among themselves about the percentage of cow milk that can be included in the production of the cheese. The traditional recipe calls for goat and or sheep milk to be used exclusively but the cow milk producers because of over capacity would like their milk to be included as well. From time to time there are incentives offered for producers to reduce their stock and become more efficient through consolidation and integration but these programs have little success.

Another critical issue is that there is a duopoly in the production of pasteurised milk where two companies, one with two brands, control the market. The Government and the Competition Commission found no way of breaking up this duopoly or introducing more producers in the market. The end result is that fresh pasteurised milk is more expensive in Cyprus from other EU countries.

2.5. Age of farmers: distribution of farms to age classes

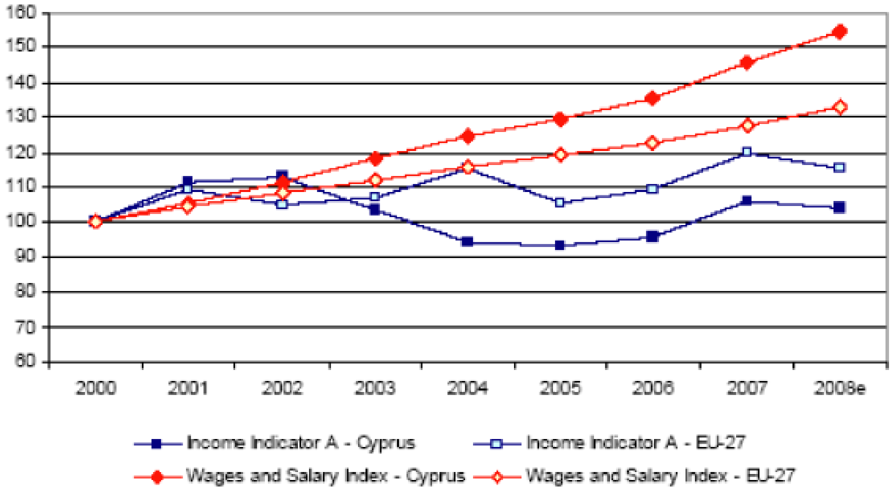
Farming in Cyprus is mostly a family affair for older males and occasionally their wives and other members of family. Based on the most recent national statistics from 2009 the employment in the agricultural sector recorded a decrease, falling to 25,290 persons in 2008 compared to 26,319 in 2007. The share of employment in agriculture in relation to the total economically active population was 6.3% in 2008, compared to 6.6% in 2007, 7.2% in 2006 and 7.8% in 2005. For the two latest years, that data is available, the year average was 16,199 (11,591 men and 4,609 women) for 2007 and 15,020 (9,746 men and 5,273 women) for 2008 (Labour Statistics, 2009).

Out of the 15,000, 1,400 (9.3%) are employers with employees, 6,400 (42.6%) are self employed, 4,300 (28.6%) are family members who work without any pay and finally 2,900 (20%) are employees. The custom is that farming is also carried out by people, including the author of this report, who are employed in other sectors of the economy. There are no national data available on employment in the sector and age.

Cyprus is one of the countries among the EU members with few young people working in the agriculture sector. The figures are worrying about the sustainability of agriculture since people employed in the agriculture sector are predominantly older people. In particular 29.8% of the farmers are in the age of 65 and older. This percentage is high but is below the EU average for the 27 members. Moreover a 29.1% of the Cypriot farmers are aged from 55 to 64 that are above the EU average for the 27 members.

A rate of about 22.4% is of age 45-54. This percentage is higher compared with the EU average for all 27 countries of Europe. Small percentages are reported for age groups of 35-44 and less than 35 years. Both rates are smaller that the EU average given for the 27 countries of European Union. This trend is worrisome because not enough people are engaged in agriculture and if the trend is not reversed or if other measures are not taken the sector is destined to decline even further. This should be an issue of concern for the State and the responsible Ministry of Agriculture, Natural Resources and the Environment.

Relevant to the discussion is a comparison between wages and salaries in Cyprus and the EU-27 with reference to people working in Agriculture (Indicator A). Figure 7: Agricultural Income (A) in Relation to Wages and Salaries in Cyprus and EU-27 provides a clear picture of the decrease in the income of agriculture between 2000 and 2008. Whereas wages and salaries are steadily increasing in Cyprus and EU at large over the period and Cyprus wages are higher than the EU-27 average, the agricultural income in Cyprus is decreasing and is lower than the EU-27 average. It is also important to note that in 2004, when Cyprus and nine other countries became members of the EU, agricultural income was at the lowest level and remained at that level for two years.



Source: Eurostat. Updated: June 2009.

Note: The Wages and Salary Index excludes public administration.

Figure 8: Agricultural Income (A) in Relation to Wages and Salaries in Cyprus and EU-27. Source: Eurostat, 2009.

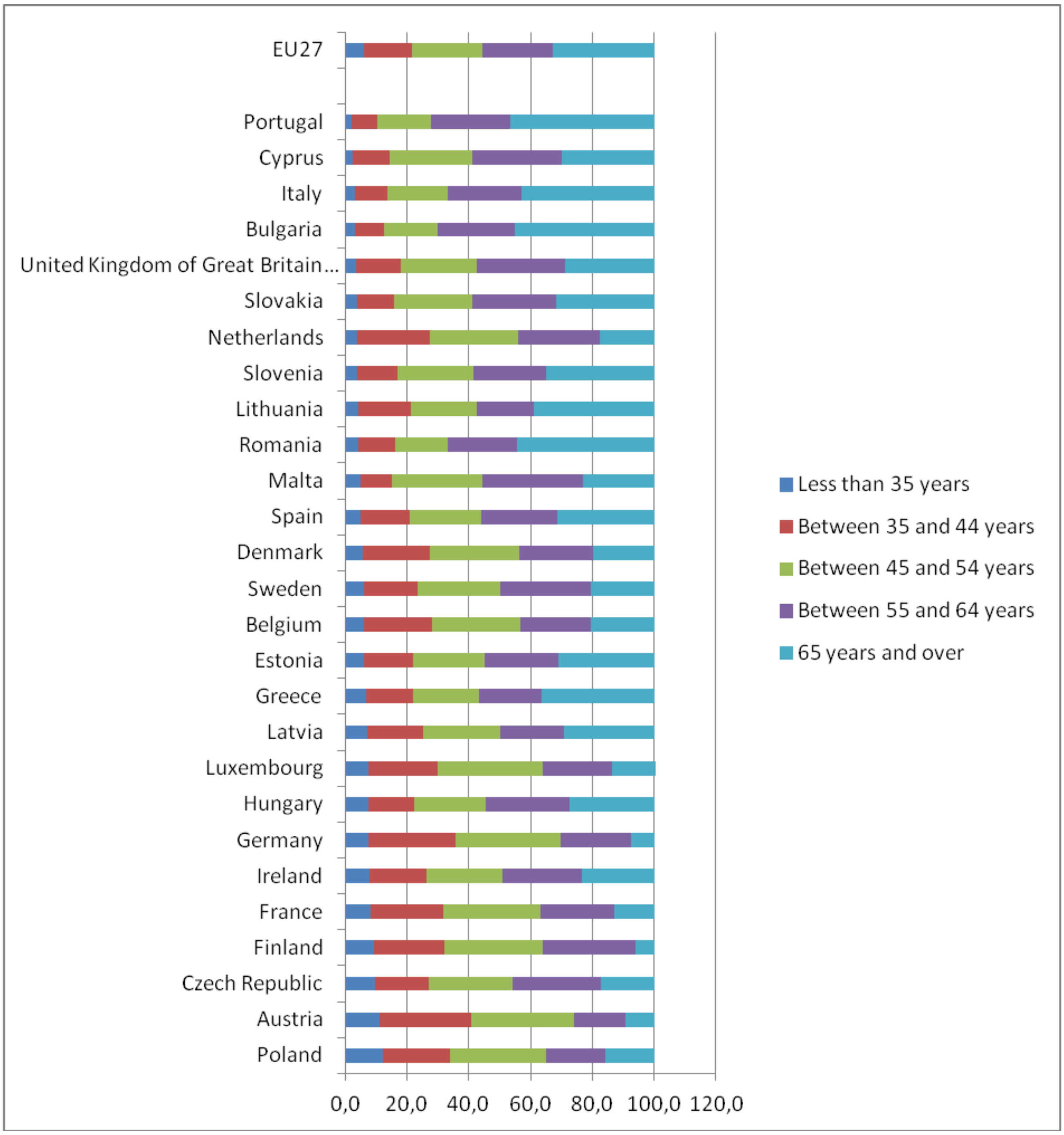


Figure 8: Percentage of farmers per age class, per Member State and EU27, 2007 (ranked with countries with the lowest percentage of young farmers on top). Source: Eurostat, Farm Structure Survey.

2.6. Specialisation of farm production

Cooperatives might not only have member-farmers with different farm sizes or different age. Farms also have a different composition of their production and therefore their input. This is even true for specialist farms, where, e.g., some so called specialist dairy farmers also have beef or sheep or sell hay. In addition to that a lot of mixed (non-specialized) farms exist.

Farmers being rational actors adapt their farming to the needs of the market the condition of the land, the weather and water availability. In this context there is specialization between sectors and within sectors. Cereals are cultivated in the low land, arid areas in Mesaoria and Pafos, citrus, potatoes and vegetables are cultivated in rich soil, low lands where water is available, in all districts, Olives, carobs, almonds and grapes in mid height elevation, arid lands and fruit in higher elevations where the weather is cool and there is water available. There are areas that focus on specific products such as potatoes in Kokinoxoria, and the Peristerona – Astromeritis area, tomatoes in Odou- Farmakas and cucumbers in Argaka Pafos.

Market conditions and to safeguard at least some income in the case of a natural disaster or disease forces producers to plant more than one crop and in more than one area. This is reinforced by the different cultivating periods for different fruit and vegetables. For these reasons even the few large commercial farms, that are professionally ran and considered more efficient, cultivate more than one crop, vegetables and fruit.

High specialization exists in the dairy and meat industries where producers concentrate on only one species of animals. Of course there are farmers who cultivate the land and have small farms with livestock as well. Actually this is a common practice among smaller family owned and operated farms. It goes back to previous times when a farmer's family especially in the poorer areas up in the mountains was expected to be self sufficient and grow and raise all of its food and sell the surplus for cash.

2.7. Economic indicators of farms

The description of agriculture is concluded with some economic indicators for Cyprus and a comparison with EU countries in Table 1. These indicators focus on the net value added and income from farming for farmers, as well as the level of their investment. Some of this investment might be in equity of the cooperatives, but far the most will be in farm assets.

The people employed in total in agriculture are also decreasing and given the demographics this is a sign of concern. Unfortunately the decrease in people employed is not compensated with additional capital employed. This would have been a welcomed opportunity to increase efficiency and productivity in the sector. On the contrary investment on fixed capital formation is decreasing over the 2004–2008 period, across the board in buildings, machinery and equipment, vehicles and carriages.

Despite its reduced contribution to GDP around 2% and its declining state (when compared with constant 1995 prices), agriculture contributes to the satisfaction of the local demand and to the national economy and exports. The main exported products include potatoes, citrus, grapes and vegetables. These exports add up to 116 million Euros for 2008 and contribute about 20% of all exports.

Table 1: Main Indicators of the Agriculture Sector 2004 – 2008

Δείκτης	2004	2005	2006	2007	2008	Indicator
ΑΚΑΘΑΡΙΣΤΗ ΠΑΡΑΓΩΓΗ ΚΑΙ ΠΡΟΣΤΙΘΕΜΕΝΗ ΑΞΙΑ						**GROSS OUTPUT AND VALUE ADDED**
Σε τρέχουσες τιμές:						*At current prices:*
Ακαθ. Παραγωγή (€ εκ.)	639,4	635,1	629,0	642,5	682,1	Gross Output (€ mn)
Προστιθέμενη Αξία (€ εκ.)	331,6	330,4	306,3	294,8	349,3	Value Added (€ mn)
Ποσοστό στο ΑΕΠ (%) *	2,6	2,4	2,1	1,9	2,0	Share of GDP (%)*
Σε σταθερές τιμές (του 1995):						*At constant (1995) prices:*
Ακαθ. Παραγωγή (€ εκ.)	564,4	524,2	501,0	490,4	438,8	Gross Output (€ mn)
Προστιθέμενη Αξία (€ εκ.)	329,8	289,8	262,7	234,9	134,5	Value Added (€ mn)
ΔΕΙΚΤΕΣ ΓΕΩΡΓΙΚΗΣ ΠΑΡΑΓΩΓΗΣ (1995=100)						**INDICES OF AGRICULTURAL PRODUCTION (1995=100)**
Παραγωγή:						*Output:*
Δείκτης ποσοτήτων	101,1	90,9	88,2	87,4	75,9	Quantity index
Δείκτης τιμών	112,0	121,2	123,3	128,8	156,7	Price index
Έξοδα:						*Inputs:*
Δείκτης ποσοτήτων	94,8	94,2	95,2	103,3	123,9	Quantity index
Δείκτης τιμών	131,2	130,0	135,5	136,1	109,4	Price index
ΠΑΓΙΕΣ ΚΕΦΑΛΑΙΟΥΧΙΚΕΣ ΕΠΕΝΔΥΣΕΙΣ						**FIXED CAPITAL FORMATION**
Σύνολο (€ εκ.)	58,8	38,4	43,0	18,7	29,1	Total (€ mn)
Υποστατικά, εγγειοβελτιωτικά έργα	36,8	26,3	27,5	13,9	23,8	Construction (and land improvement works)
Μηχανήματα και εξοπλισμός	13,2	13,1	8,7	3,8	3,2	Machinery and equipment
Οχήματα, καρρότσες	4,8	4,7	7,3	1,5	1,4	Vehicles and carriages
Ανάπτυξη νέων δενδρωδών φυτειών	2,6	2,8	1,4	0,7	0,4	New tree plantations development
Ζώα αναπαραγωγής	1,4	-8,5	-1,9	-1	0,3	Breeding stock
ΑΠΑΣΧΟΛΗΣΗ (1)						**EMPLOYMENT (1)**
Αριθμός ατόμων (σε ισοδύναμο πλήρως απασχολουμένων)	30.871	29.053	27.715	26.319	25.290	Number of persons (full-time equivalent)
% στο συνόλο του οικονομικά ενεργού πληθυσμού	8,4	7,8	7,2	6,6	6,3	% of total economically active population
ΕΞΑΓΩΓΕΣ						**EXPORTS**
Αξία εξαγωγών ακατέργαστων γεωργικών προϊόντων (€ εκ.)	98,7	110,7	96,0	120,9	116,6	Value of raw agricultural products exported (€ mn)
% στο σύνολο των εγχώριων εξαγωγών	24,0	25,9	21,2	23,8	21,3	% of total domestic exports
Κυριότερα προϊόντα:						*Main products (exported):*
Πατάτες (€ εκ.)	27,5	36,6	40,6	56,3	46,9	Potatoes (€ mn)
Εσπεριδοειδή (€ εκ.)	38,4	35,9	33,2	29,4	29,4	Citrus (€ mn)
Σταφύλια (€ εκ.)	1,4	0,7	0,4	0,1	0,4	Grapes (€ mn)
Λαχανικά (€ εκ.)	8,9	11,2	11,4	10,1	9,4	Vegetables (€ mn)

Source: Department of Statistics, Agricultural Statistics, 2008.

Compared with the other EU countries, Cyprus is competitive as compared to the EU average but not as competitive compared to its main competitors, other Mediterranean countries such as Greece, Italy, France, Spain, Portugal and Malta, for specific exported products such as potatoes, citrus, grapes and vegetables.

Table 2: Comparative Statistics on the Agriculture Sector between Cyprus and the EU Countries

Χώρα	Γεωργική Παραγωγή (% στο ΑΕΠ) Agricultural Production (% of GDP)		Δείκτης Τιμών Παραγωγού Producer's Price Index (2000=100)						Country
			Φυτικά προϊόντα Crop production		Κτηνοτροφικά προϊόντα Livestock production		Σύνολο προϊόντων All products		
	2007	2008	2007	2008	2007	2008	2007	2008	
ΕΕ - 27	1,8	1,8	133,1	136,1	111,9	122,2	122,6	129,3	EU - 27
ΕΕ - 25	1,8	1,7	127,7	130,1	108,6	118,1	118,2	124,3	EU - 25
ΕΕ - 15	1,7	1,6	125,9	129,3	108,1	117,9	117,1	123,7	EU - 15
Βέλγιο	0,9	0,7	123,7	108,5	105,7	109,4	112,6	109,1	Belgium
Βουλγαρία	6,2	7,3	148,3	153,3	110,5	125,9	125,4	136,7	Bulgaria
Τσεχία	2,5	2,5	131,6	147,2	96,0	100,9	113,6	123,6	Czech Republic
Δανία	1,2	1,2	120,7	134,1	93,5	105,8	101,0	113,6	Denmark
Γερμανία	0,9	0,9	132,0	129,3	109,3	116,5	118,2	121,6	Germany
Εσθονία	3,4	2,9	163,7	176,4	141,5	159,9	145,4	163,5	Estonia
Ιρλανδία	1,5	1,4	162,2	137,9	110,6	119,7	118,0	122,3	Ireland
Ελλάδα	3,8	3,7	151,8	156,1	120,4	125,8	142,6	147,2	Greece
Ισπανία	2,7	2,6	117,9	121,4	112,9	116,1	115,8	119,2	Spain
Γαλλία	2,2	2,0	123,2	128,3	102,9	112,8	113,9	121,2	France
Ιταλία	2,1	2,0	117,1	124,3	106,9	113,7	113,3	120,4	Italy
Κύπρος	2,2	2,1	146,5	171,0	121,9	142,0	134,7	157,0	Cyprus
Λετονία	3,6	3,0	197,6	199,2	161,7	178,3	175,3	186,2	Latvia
Λιθουανία	3,9	4,4	197,6	187,2	127,5	141,4	164,6	165,7	Lithuania
Λουξεμβούργο	0,4	0,3	139,3	142,9	108,1	116,6	113,9	121,5	Luxembourg
Ουγγαρία	4,0	4,3	161,4	137,3	122,0	138,6	142,1	137,9	Hungary
Μάλτα	2,5	1,8	115,0	111,3	99,1	106,7	103,4	108,0	Malta
Ολλανδία	2,1	1,8	128,4	118,7	106,7	113,5	118,0	116,2	Netherlands
Αυστρία	1,8	1,7	132,7	121,4	108,0	120,9	116,2	121,0	Austria
Πολωνία	4,3	3,7	141,9	131,1	113,4	117,2	127,7	124,2	Poland
Πορτογαλλία	2,5	2,3	125,2	126,6	109,4	115,2	118,3	121,6	Portugal
Ρουμανία	6,5	7,5	309,4	334,5	248,1	287,3	282,0	313,4	Romania
Σλοβενία	2,5	2,4	150,4	169,5	118,9	134,2	128,6	145,1	Slovenia
Σλοβακία	3,5	3,1	128,7	130,7	98,1	103,3	106,6	111,0	Slovakia
Φινλανδία	3,0	2,9	123,4	132,7	102,4	114,8	109,3	120,9	Finland
Σουηδία	1,7	1,8	139,9	136,3	100,6	102,1	115,1	114,7	Sweden
Ην. Βασίλειο	0,7	0,8	143,9	164,4	119,5	150,1	129,3	155,8	Un. Kingdom

Πηγή/Source: Eurostat. Economic Accounts for Agricultural database.
Ιστοσελίδα/Web site: http://epp.eurostat.ec.europa.eu

Source: Eurostat

In terms of contribution to the economy, agriculture contributes about the same in Cyprus, Italy and France 2.0 -2.2% as compared to 2.5. -2.6% for Spain, Portugal and Malta and 3.8 for Greece. This is above EU averages of 1.6–1.8 %.

In terms of producer prices, Cyprus is much more expensive than the rest of the Mediterranean countries. Table 2 on comparative Statistics on the Agriculture Sector between Cyprus and the EU Countries provides some useful insights. For example, in 2008 the producer price index was 157, up from 134.7 in 2007. The EU-27 had a producer price index 129.3 for 2008 as compared to 122.6 for

2007. Italy, France, Spain and Portugal for example had a producers price index of around 120 – 122, Malta at 108 and Greece at 147. If one takes into consideration the distance between Cyprus and the markets in continental Europe the cost differential against Cyprus is even higher. This price difference is a serious disadvantage for Cyprus and gradually will eliminate any competitive advantage for Cyprus stemming from quality or being able to go to the market earlier in the season. The same analysis applies to Greece as well.

The overall assessment is that agriculture in Cyprus is in decline and faced with structural problems. It is slowly contributing less to the national economy at 2% of GDP, and the Gross Output at constant value (1995) prices is decreasing. It employees about 6.3% of the economically active population yet young people chose to work in other sectors. There is little and decreasing investment in fixed capital formation and the final product, as measured by the Producers Price Index, is too expensive compared to other regional competitors.

3 Evolution, position and performance of cooperatives

The cooperative movement has a long and productive presence in Cyprus going back to the early 20th Century with the pioneering cooperatives that were established to support farmers. The first successful cooperative bank was established in Lefkoniko[2] in 1909 and it is still active. In the financial sector the cooperative movement controls about 20% of the banking market. In the other sectors such as agricultural products production, manufacturing and sales its influence is extensive but not dominant.

3.1. Types of cooperatives

British occupation authorities, in 1914 enacted a law called “Act 13” that established the "the Cooperative Credit Societies " and the department appointed responsible for the promotion and development of Cooperatives was the Agricultural Department (Theophanous, Tirkides, Tompazos, Evagorou and Pelagides 2003) Although Cooperatives in Cyprus were protected by Law, this did not help their development. The next years were hard for cooperatives since they were lacking the necessary capital as well as well educated people that could help the development of cooperative societies. By the year 1923, a new law was enacted to help the establishment of cooperative societies by allowing the creation of cooperatives with non-credit status. Also, the colonial authorities in order to help the whole concept provided a fund for loans of £ 20,000 to the cooperative companies.

After War World I a series of economic problems forced the British to establish a new bank called the Agricultural Bank to help the farmers by providing long term credit to farmers. The loans were granted through cooperatives, against a mortgage granted to the cooperative and then transferred to the Agricultural Bank.

Despite the fact that the Agricultural bank did not achieve its goals, this movement had a positive influence on the cooperative movement in Cyprus. The inclusion of cooperatives in the lending process advanced the establishment of cooperatives in the communities and aided the creation of new cooperative companies For example, in 1935 there were 273 cooperatives while 11 years before there were only 24. The Cooperative Central bank which was founded in 1937 helped the creation of funds that were used for the self-financing of cooperatives.

The Bank accepted deposits from the surpluses of prosperous cooperative societies and ceded funds to poorer cooperatives as soft loans. This capital was used to offer short- term credit to cooperative members in the form of short-term credit. Apart from the financial support that cooperatives provided the communities, the Cooperative Central Bank was also supplying farmers with various farm utilities, acting as an agent of the government to finance various development programs, agricultural, etc., work carried out so far.

The period of 1936-1974, was the golden era for the development of cooperatives. The reasons for the development of the Cooperative Movement were the rapid growth of the economy after the country's independence and the spread of cooperative solidarity across the Cyprus Society (Theophanous et al., 2003). However the invasion of Turkey in Cyprus in 1974 created an unexpected blow to the cooperative movement as well as in the Cyprus economy. The cooperative movement in order to help the Cyprus economy and the refugees proceeded with the creation of major new cooperative societies in industry and revive existing ones. This however resulted into an economic crisis and in the 1980’s lead in the shutting down of some of these companies. The cooperative movement in Cyprus survived and in today’s economy is considered to be one of the most compelling and well organised cooperative movements in the world.

[2] A small rural town that is since the summer of 1974 occupied by Turkish troops.

Cooperatives in Cyprus are functioning under the consolidated "Cooperative Societies Law (1985-2003) and associated regulations (1985-2001). The Commissioner for the Supervision and Development Authority is responsible for the normal function of cooperatives.

The main purpose of cooperatives in Cyprus is to improve the economic, social and cultural position of their members in accordance with the International Cooperative Principles of self-help, mutual aid, solidarity, equality and democracy as defined by the International Cooperative Alliance (ICA).

Cooperatives in Cyprus are registered as limited or unlimited companies under the Law on Cooperatives as it was amended thorough the years. If the company is unlimited then the members are jointly and separately liable for all obligations in the event of dissolution. On the other hand if the company is with limited liability then members are responsible for the nominal value of the paid share capital in case of dissolution, except in certain cases where the liability of members increases to double or triple under the cooperative's bylaws. Regardless of the nature of Cooperative the principle of "one-member, one-vote" always prevails. Most cooperatives are limited liability companies.

According to the Law there are three types of cooperatives:

1. **Primary Cooperative Society -** Cooperative Society whose members are only natural persons. The minimum people that participate are twelve.

2. **Secondary Cooperative Society** - Cooperative Society which has as members 12 individuals and a primary cooperative society or at least five primary cooperative societies.

3. **Higher Cooperative Society** - Cooperative Society of which at least one member is a secondary Cooperative Society.

Everyone can become a member of a cooperative provided they are at least eighteen years old, a resident of the area served by the cooperative serves and/or he/ she is a property owner . Moreover a cooperative is an autonomous organisation governed by a board which is elected by the General Assembly of members every three years. The members of the BOD receive no payment for their services**.**

The main sectors of cooperatives are

- The Credit Department - Cooperative Credit and Savings Banks
- The Consumer Sector – Cooperative Grocery: The cooperative movement runs two wholesale grocery companies (a) ESEL-SPOLP Ltd and (b) SPEAL Ltd that supply retail cooperative stores which and a wholesale company Gas Bottling Co Ltd (SYNERGKAZ Ltd) that distributes gas canisters to cooperative retailers and other supermarkets.
- The Department of Agricultural Marketing-Dealing with the gathering and marketing of agricultural products of their members at a local or regional or even all over Cyprus. Most of them own buildings and warehouses, cold stores and vehicles for transporting the products.
- The Manufacturing sector-Cooperatives whose main purpose is the processing and marketing of various products, agricultural and other kind of stuff of their members.
- The Services Sector provides various services to the membership of cooperatives, e.g., health funding etc.
- The Insurance Sector that offers insurance services to employees and members of the Cooperative companies.

3.2. Market share of farmers' cooperatives in the food chain

Since the inception of cooperatives in Cyprus they have been providing agricultural products to consumers. On the road to accession of Cyprus into The European Union, the concepts of Producer Organisations (PO) and Producer Groups were introduced have also been established and a total of 14 organisations were so registered with Department of Agriculture in 2004 at the time of the accession to the EU. Some of these POs are associated with cooperatives and some are not. In total there were eight PO's (four POs formed by citrus producers and four by fruit and vegetables producers) and six Groups of Producers (five Producer Groups of fruit and vegetables and one of organic fruits). This is a looser structure that represents an intermediate step towards establishing a PO. Groups of Producers are eligible for Community and national funding for five years. It is the assessment of this report that most of these organisations that are not associated with the cooperative movement are still in embryonic stage and very little information is available or forthcoming.

The concentration of supply through producer organisations is on a voluntary basis as a result of the free will of the producers to form POs. The usefulness of POs is demonstrated by the extent and effectiveness of services that they offer to their members.

Table 3 provides information on the more influential cooperatives their estimated market share and membership. Some companies are presented in both the tables 3 and 4. The same holds true of tables 6 and 7. After all Cyprus is a small island state with limited resources.

Table 3: Market Share of Cooperatives

	"2000"		"2010"		Comments
Sector	**Number of members**	**Market Share (%)**	**Number of members**	**Market Share (%)**	
Cereals	N/A	N/A	5 members	10%	SOPAZ (Cooperative Organisation for the Production of Feed) Ltd
	N/A	N/A	4458	30%	SPE Athienou (Cooperative Credit Company of Athienou) Ltd
	N/A	N/A	13766	15%	SPE ALLILEGGYIS (Solidarity Cooperative Credit Company) Ltd
	N/A	N/A	940	15%	Regional SPE (Regional Cooperative Credit Company) of Nicosia Ltd
Sugar	N/A	N/A	N/A	N/A	N/A
Pig meat	N/A	N/A	N/A	N/A	N/A
Sheep meat	N/A	N/A	N/A	N/A	N/A
Fruit and vegetables	N/A	N/A	230		SEDIGEP Sotiras (Cooperative Company of Agricultural Products Supply of Sotira)
	N/A	N/A	134		SEDIGEP Parekklisias (Cooperative Company of Agricultural Products Supply of Parekklisia),
	N/A	N/A	5384		SEDIGEP(Cooperative Company of Agricultural Products Supply) LTD Limassol
	N/A	N/A	N/A		SEDIGEP FARMAKA - ODOUS (Cooperative Company for the Supply of Agricultural Products of Farmakas- Odou) Ltd
	N/A	N/A	N/A		SEDIGEP Argakas (Cooperative Company for the Supply of Agricultural Products of Argaka) Ltd
	N/A	N/A	N/A		SEDIGEP Lysis (Cooperative Company of Agricultural Products Supply of Lysi) Ltd

Apart from the Cooperatives that operate in Cyprus, currently there also exist 27 recognised Producer Organisations (PO), according to the Ministry of Agriculture of Cyprus. Most of these Producers Organisations that are independent of the cooperative movement are currently inactive and those that are active are small organisations with limited influence on the market. Only one of them Vegetable

Producers Group Spring Public LTD had a turnover of 5 million Euros in 2010. Back in 2007 it was estimated that the PO were contributing 26% (€39,784 Million Euros) of the total market for fruit and vegetables (151,919 Million Euros) (Department of Agriculture, 2010). The managers of these PO's were not very forthcoming with information on their operation. Table 4 presents all the POs and the information that it is available.

Table 4: Registered Producer Organisations

Name	**Sector**	**Number of members**	**Market Share (%)**	**Comments Producers Organisation PO or Producers Group - PG**
Cyprofresh Citrus SEDIGEP[3] (PO) LTD	Fruit & Vegetable	N/A	N/A	Producers Organisation member of the cooperative movement Citrus
Fassouri Producers' Group "Lionheart" Ltd	Fruit & Vegetable	20 Natural Persons 11 Legal Persons	N/A	Producers Organisation Citrus Currently not operational
Citrus Producers Company "Genesis" LTD	Fruit & Vegetable	135 Natural Persons 4 Legal Persons	N/A	Producers Organisation Citrus
Golden Tree Producers Groups	Fruit & Vegetable	N/A	N/A	Producers Group Currently not operational
SEDIGEP	Fruit & Vegetable	N/A	N/A	Producers Organisation member of the cooperative movement
SEDIGEP Lysis	Fruit & Vegetable	N/A	N/A	Producers Organisation member of the cooperative movement
SEDIGEP Argakas	Fruit & Vegetable	95 Natural Persons		Producers Organisation member of the cooperative movement
SEDIGEP Sotiras	Fruit & Vegetable	230 Natural Persons		Producers Organisation member of the cooperative movement
Bananas Growers Cooperative Pafos	Fruit & Vegetable	N/A	N/A	Producers Group
Tobacco Growers Cooperative	Tobacco	N/A	N/A	Producers Group
SEKEP Olive and Olive Oil Products	Olives & Olive Oil	N/A	N/A	Producers Organisation.
SEDIGEP – Paralimniou	Fruit & Vegetable	N/A	N/A	Producers Organisation.
Vegetable Producers Group Spring Public LTD	Fruit & Vegetable	69 Natural Persons	N/A	Producers Organisation. Established in 1991, run by 5 member BOD and had a turnover of 5 million
Horizons Fruit & Veg. (Euro) Public LtD	Fruit & Vegetable	61 Natural Persons 1 Legal	N/A	Producers Group Currently not operational
Producers' Group of Vegetables and Fruit Odou Area "Royal	Fruit & Vegetable	43Natural Persons	N/A	Producers Group
Producers Group Horizon LTD	Fruit & Vegetable	35 Natural Persons	N/A	Producers' Group
SEDIGEP Polis Chrysochous LTD	Fruit & Vegetable	N/A	N/A	Producers' Group member of the cooperative movement

[3] The Term SEDIGEP is an abbreviation that stands for Cooperative Company Distribution Agricultural Products. All SEDIGEPs are members of the cooperative movement.

MOF Sotiras Public LTD	Fruit & Vegetable	N/A	N/A	Producers' Group member of the cooperative movement
SEDIGEP Amiandos – Pelendri	Fruit & Vegetable	N/A	N/A	Producers' Group member of the cooperative movement
SEDIGEP Pitsilias – Troodous	Fruit & Vegetable	N/A	N/A	Producers' Group member of the cooperative movement
Cooperative Company of Vine Cultivators (SEAP) LTD	Wine and Grapes	N/A	N/A	Producers' Group member of the cooperative movement organic fruit, grapes
POP (Pancyprian Group of Potato Growers) Cyprus	Fruit & Vegetable	N/A	N/A	Producers Organisation
Pancyprian Organisation of Cattle Producers	Cattle	N/A	N/A	Producers Organisation
Horizons Fruit and Vegetable (Euro) Public Company	Fruit & Vegetable	N/A	N/A	Producers Group
Group of Potato Growers Avgorou – Achnas Public	Fruit & Vegetable	N/A	N/A	Producers Group
Group of Potato Growers Xylofagou, Ormideia, Liopetri	Fruit & Vegetable	N/A	N/A	Producers Group
OPEXA LTD	Pork	N/A	N/A	Producers Group, Not active

Although collecting data on individual POs was not feasible, the existing aggregate data available for the years 2004 to 2008 can help in gaining insights into the success of this new institutional arrangement (Table 50). Although the data refer only to four or five years, still they are helpful in tracing the development of POs in a particular sector. Overall it appears that POs in the cow milk and meat, and potatoes sectors have served as important buyers of farm products; in terms of volume, POs cover 67.29% of the cow milk and meat, 40% of the potato markets. The assessment is that the formation of POs has overall helped the development of agriculture. At the same time it has enabled two state managed organisations, SEKEP in olive oil, and the Potato Marketing Board to smoothly convert into Producer Organisations[4].

It is still the early days for PO's in Cyprus. The Government has demonstrated its willingness to support farmers and their organisations to form a sustainable professional organisation that can survive in the long run. Survivability is a critical issue as the catalogue of PO's is changing constantly with organisations joining and others dropping out. The expectation is that the current situation is more or less stable.

The major issue that needs to be resolved is that some of these POs are small in terms of members and turnover. For example in a rather small area in the Ammoxostos District there are about five organisations within a 15 Km radius producing the same products (potatoes and vegetables) and competing for the same markets. Local rivalries, personal and family interests, politics and the desire to lead rather than to be led give rise to the phenomenon of small POs in a relatively small area. This development does not allow them to derive benefits resulting from economies of scale and the establishment of professional structures, even when funding for this is available.

[4] Ex post assessment of the Rural Development Programme 2004-2006 for Cyprus: Final Report, 2008.

Table 5: Available Aggregate Data on Producer Organisations

Sector	Date of Approval	Members on Approval	Members 2008	Production On Approval In Euro
Cow Milk & Meat	Mar 2005	173	176	46.394.123
Olive Oil	Nov 2004	1830	1003	2.098.095
Potatoes	Feb 2004	875	578	7.372.330
Potatoes	Oct 2005	62	87	2.070.284
Pork Meat	Feb 2006	10	11	5.037.008

Source: Ex post assessment of the Rural Development Programme 2004-2006 for Cyprus: Final Report, 2008.

3.3. List of top 50 largest farmers' cooperatives

Table 6 provides a comprehensive list of the 50 largest farmers' cooperatives. More or less, this list coincides with the list of the most active cooperatives in Cyprus, segmented by district.

Table 6: The 50 Largest Farmers' Cooperatives in the Food Chain of Cyprus

District	**Name of the Cooperative**	**Active/Non Active**	**Sector(s) involved in**
Nicosia	Regional Cooperative Company of Agricultural Products Supply of Marathasa Ltd	Active	Fruit and Vegetables
	Cooperative Company of Fruit-Producers of Moutoullas Ltd		Fruit and Vegetables
	Cooperative Company of Fruit-Producers of Kalopanayiotis Ltd		Fruit and Vegetables
	Regional Cooperative Company of Agricultural Products Supply of Palaichori Ltd		Fruit and Vegetables
	SEDIGEP Pharmaka – Odous (Cooperative Company of Agricultural Products Supply of Pharmaka - Odou) Ltd	Active	Fruit and Vegetables
	Cooperative Company of Aromatic and Medicinal Plants Supply (SEDAFF) Ltd		
	NEA SEVEGEP (New Cooperative Company for Industrial Processing of Agricultural Production Ltd	Active	Fruit and Vegetables
	SOPAZ (Cooperative Organisation for the Production of Feed) Ltd	Active	Cereals
Ammochostos/Famagusta	SODEA (Cooperative Organisation of Citrus Supply of Famagusta) Ltd	Non Active e	Fruit and Vegetables
	SEDIGEP Frenarou (Cooperative Company of Agricultural Products Supply of Frenaros) Ltd	Active	Fruit and Vegetables
	SEDIGEP Lysis (Cooperative Company of Agricultural Products Supply of Lysi) Ltd	Active	Fruit and Vegetables
	SEDIGEP Sotiras (Cooperative Company of Agricultural Products Supply of Sotira) Ltd	Active	Fruit and Vegetables
Larnaka	SEDIGEP Maroniou (Cooperative Company of Agricultural Products Supply of Maroni) Ltd	Active	Fruit and Vegetables

Limassol	SEDES (Cooperative Supply Company of Table Grapes) Ltd	Active	Wine
	Cooperative Winegrowers' of Pissouri Company Ltd	Active	Wine
	SEDIGEP (Cooperative Union of Agricultural products) Ltd.	Active	Fruit and Vegetables
	SEDIGEP Parekklisias (Cooperative Union of Agricultural products Supply of Parekklisia) Ltd.	Active	Fruit and Vegetables
	SEDIGEP Pitsilias- Troodous (Cooperative Union of Agricultural products Supply of Pitsilia - Troodos) Ltd.	Active	Fruit and Vegetables

List of top 5 largest farmers' cooperatives per sector

Table 7 provides a comprehensive list of the most influential cooperatives segmented by district.

Table 7: Most important cooperatives in the sectors studied in this project

Sector	Name of Cooperative
Cereals	Carobs Supply Cooperative Federation (SODH) Ltd
	SOPAZ (Cooperative Organisation for the Production of Feed) Ltd
	Regional SPE of Nicosia (Regional Cooperative Credit Company) Ltd
	SPE ALLILEGGYIS (Solidarity Cooperative Credit Company) Ltd
	SPE Athienou (Cooperative Credit Company of Athienou) Ltd
Sugar	**N/A**
Olive oil and table olives	**N/A**
Fruit and vegetables	SEDIGEP Sotiras (Cooperative Company of Agricultural Products Supply of Sotira) Ltd
	SEDIGEP Parekklisias (Cooperative Company of Agricultural Products Supply of Parekklisia) Ltd
	SEDIGEP(Cooperative Company of Agricultural Products Supply) LTD Limassol
	SEDIGEP Farmaka- Odous (Cooperative Company for the Supply of Agricultural Products of Farmaka-Odou) Ltd
	SEDIGEP Argakas (Cooperative Company for the Supply of Agricultural Products of Argaka) Ltd
	SEDIGEP Lysis (Cooperative Company for the Supply of Agricultural Products) Ltd
	SEDIGEP Paralimniou (Cooperative Company for the Supply of Agricultural Products of Paralimni) Ltd
	NEA SEVEGEP (New Cooperative Company for Industrial Processing of Agricultural Production) Ltd
Wine	SODAP (Cooperative Organisation of Wine Products Supply Ltd)
Dairy	**N/A**
Sheep meat	**N/A**
Pig meat	**N/A**

3.4. Transnational cooperatives

Many cooperatives are active internationally. In most cases the foreign activities of cooperatives are limited to marketing, trade and sales. Usually they do not buy agricultural products from farmers, or supply inputs to them. However, there is a growing group of cooperatives that do business with farmers in other EU Member States. These cooperatives are called international cooperatives. They can be marketing cooperatives that buy from farmers in different countries, or they could be supply cooperatives that sell inputs to farmers in different countries. One particular group of international cooperatives is the so-called transnational cooperatives. These cooperatives do not just contract with farmers to buy their products or to sell them inputs; they actually have a membership relationship with the farmers. In sum, a transnational cooperative has members in more than one country.

Currently there are no transnational cooperatives as such registered and active in Cyprus. Of course in supermarkets and other markets one can find products produced by cooperatives operating in other countries but are imported in Cyprus by private companies. The legal framework for establishing transnational cooperatives is in place but according to the National Report "On the implementation of study on the implementation of the Regulation 1435/2003 on the Statute for European Cooperative Society (SCE)" (394). The main reason for not establishing an SCE in Cyprus is the local character of cooperatives and the absence of a need for cross border activities. It should be noted that there is no presence of Cypriot cooperatives in foreign markets.

3.5. Farmers Trade Unions

In order to have a complete picture of the field one has to understand the influence that the farmers trade unions have on public policy in Cyprus. The two older ones were established back in the 1940's, a period of intense polarization of Cypriot Society along ideological lines. As a counteraction to the rise of the communist party, AKEL, and its effort to control the establishment of grass roots organisations, the nationalists, under the guidance of the Church which since the Ottoman occupation in 1570 has enjoyed a leadership role, established the Pancyprian Farmers Union (PEK) in 1942 and Cyprus Workers Confederation (SEK) in 1944. As a reaction the left established the Pancyprian Workers Federation in 1944 and the Union of Cypriot Farmers (EKA) in 1947. Since then the two farmers organisations enjoyed a strong influence among farmers and represented their interests initially before the British Colonial Government and after independence in 1960 before the Cyprus State.

After the Turkish invasion of 1974 and the establishment of the major parties that are still active two more organisations representing farmers were established. This was a reflection of the affiliation of PEK with the Democratic Party that left the biggest party on the centre-right The Democratic Rally without an organisation among the farmers. In 1989 the Panagrotikos was established. Along the same lines the socialist party EDEK established Agrotiki, a much smaller and less influential organisation.

4 Description of the evolution and position of individual cooperatives.

4.1 Data gathering per cooperative

As pointed out before very little data was readily available as very few cooperatives publish annual reports and these are mostly in the financial sector. The literature published by the cooperative movement and the pertinent government departments is not readily useful as for the most part is promotional in nature. There was no data for Cyprus on the Amadeus dataset. Most of the information was gathered from publications, websites and telephone interviews. The telephone interviews proved very illuminating as to the physical presence and organisational structure of some of these organisations especially the Producer Organisations that are not related to the cooperative movement.

Hard data was provided from data gathered by the Department of Statistics (CYSTAT) and data provided by the Authority for the Supervision and Development of Cooperative Societies. They were kind enough to go into storage and retrieve data for 2000 as well as provide data on the most influential cooperatives. Individual cooperatives were not very forthcoming with information.

4.2 Position in the food chain

Farmer's cooperatives remain an influential player in the agricultural food chain but its role has been diminishing as the overall influence of the local agriculture on the economy is decreasing. In recent years there is a steady increase on imports even on products that are produced locally, from low cost imports from the EU and other third countries. The structural problems of the economy addressed in this study including the small size of plots, the lack of a steady supply of water and the erratic weather all contribute to make agriculture less competitive. The erratic weather is a factor that cannot be controlled for. In the past few years it has destroyed production either due to high temperature in spring and summer or low temperature in the winter, or thorough storms especially hail storms in spring.

As mentioned above a significant factor that negatively affects the sector is the high competition from both local and international players. Agricultural products are by definition commodities that do not offer a real competitive advantage. There are areas in Cyprus that established producers of specific products have an advantage based mostly on reputation but overall there are lots of producers and the competition is high on the production side. In terms of trading the situation is somewhat different because large wholesalers can control the market and set retail prices. For example there is a company Gr.V North Fruit Ltd that process about 40% of all the fruit and vegetables produced in Cyprus and also imports large quantities from abroad. Along the same lines there are another 5 large family owned and operated companies that also exert control over the market.

These wholesalers have recently entered the retail market and established their own chains of fruit markets. The increase on the power of wholesalers along with the cheap imports from other Mediterranean countries both EU countries and third countries have decreased the power of farmers to exert real power over the market. The supermarkets run by the cooperative movement are not very competitive or and there few stores to support other members of the movement in the production side.

There are incentives given to producers to sell their products directly to consumers but this form of trading is not very common in Cyprus. Consumers prefer to rely to the grocers and supermarkets in their neighbourhoods.

Another issue that negatively affects the market is the long delay of settling invoices by the large retail fruit markets and supermarkets that affect the cash flow of the producers / farmers and the other people in the middle of the distribution process. There is evidence that the time lag between issuing an invoice and receiving payment maybe up to six months or more. Large supermarkets are the worst offenders.

On the bright side there are products and markets that Cyprus can compete in. These include exports of citrus, potatoes and fresh vegetables to northern Europe. Due to mild winters Cypriot farmers are able to export these products to Europe during winter and early spring before other Mediterranean EU members are ready to start shipping their own produce over land and short distances, compared to Cyprus. It is for these reasons that cooperative societies and producer organisations and groups that produce citrus, potatoes and fresh produce have a strong presence in Cyprus.

Cypriots are by nature cautious and conservative people. This is reflected in the cooperative societies as well in the cautious and conservative way that they are managed. BOD's need to reach a consensus and decision making takes time and bold decisions are rarely taken. This means that cooperative societies are not always able to take quick and swift decisions that a private company and or a business person may take.

BOD's have no executive powers and delegates decision authority to salaried employees. Smaller organisations hire a secretary to handle secretarial / accounting work while larger societies hire a secretary / manager to run the business. Usually this person is also a member of the cooperative. Cooperatives are gradually waking up to the realization that they have to bring in professional managers to run the business but usually they go first for an administrator, accountant when a marketing expert / sales manager would be more useful.

In older times the effort was to collect the product and process them thorough a network of wholesale traders who would do the distribution through their own distribution network to the retailers. So the main effort was to keep track of the products coming in terms of producers, quantity and quality and going, out once again, in terms of wholesale traders' quantity and quality. This was essential for making sure that farmers were paid according to their production and wholesalers paid based on what they have received.

These days professional managers, not necessarily associated with the membership or the local community, are taking over the management of the larger cooperative societies. The more established model is to have the old time secretary administrator (manager) of the BOD act as general manager in charge of production, an accountant in charge of the accounting function and a marketer / sales manager in charge of marketing and sales.

4.3 Institutional environment

The institutional environment of the cooperatives was discussed in the previous discussion on the historical and legal context. It is safe to point out that the cooperative movement remains a strong force for change at the level of the local communities. To some extend politics play a role in the local community level and in areas where specific parties are strong they indirectly influence the election of members of the BOD. In other areas the members of the BoD are drawn from all parties that have an influence at that level. Also during this period of consolidation among cooperatives from neighbouring areas there is a consistent effort to keep a geographical balance in selecting/ electing BOD members.

In rural areas the membership of the cooperatives comes from the whole spectrum of the population as most inhabitants are farmers and banks are available only in bigger villages and/or cities with population over 2000 thousand people. In the cities the membership is mostly among the working classes although there are cooperative credit companies that are set up to provide services to the professional classes and public servants. For the most part these are very strong financially and usually provide housing and other big item loans, as well as student loans.

In rural areas the Cooperative organisations offer both financial and agricultural production support either by supplying seeds, chemicals and fertilizers and marketing the final products. The norm is to have up to three cooperative societies. These cooperative societies collaborate among themselves and there are cases that the membership of their BOD is mixed. These are:

(a) A Cooperative Credit Company (SPE) that offers financial services, and agricultural production, support by supplying seeds, chemicals and fertilizers to farmers. These functions come directly under the supervision of the Central Cooperative Bank. These companies offer low interest loans and therefore accept deposits at a lower rate than retail banks.

(b) A Cooperative Company for the Distribution of Agricultural Products, (SEDIGEP), which is responsible to market the final products to local and international markets.

(c) A Cooperative Grocers / Supermarket Store (Synergatiko / ESSEL SPOLP) that runs as grocers store and or supermarket. These stores receive most of their supplies from two distributions centres in Limassol and Nicosia that buy in wholesale and are able to provide the cooperative stores with products in smaller quantities and competitive prices. This model has come under attack from large supermarkets both local and international which are gradually expanding in the rural areas as well. Nevertheless for smaller remote areas the cooperative store remains the only choice.

In urban areas only the cooperative credit company is viable and actually in places like Nicosia and Limassol these organisations are large enough to be in direct competition with the large retail banks and control about 20% of the banking sector.

4.4 Internal Governance

Cooperatives operate under the Law on Cooperatives as amended thorough the years. The structure is pretty much the same across the board. The legal status of the society is limited liability company with a non executive Board of Directors and an employed secretary / manager, almost always a man and sometimes a member of the society, with executive powers and no voting rights on the BOD who is responsible to execute the strategy devised by the BOD and carry out their decisions. The manager / secretary may have other people working under him and helping him carry out the work.

The members of the BOD are elected during the Annual General Meeting (AGM) and serve for a three year's renewable term without any benefits. The numbers of the people on the BOD range between 5 and 11 depending on size of the cooperative society, the number of members, different products and the geographical distribution of the membership. The BOD carries out the work of the cooperative society between AGM's

Members are expected to attend the AGM and make their views and opinions known. They exert control over the members of the BOD and of course vote for them. Most members have a direct contact with the society and are familiar with the issues and challenges that society faces and therefore have every interest to express their views.

The Authority for the Supervision and Development of Cooperative Societies is responsible to supervise the operation of the cooperatives and to offer advice and guidance. An independent public company of accountants and auditors, that is part of the cooperative movement, is charged to audit the books of all cooperative societies on an annual basis and prepare audited accounts that are expected to be made public.

4.5 Performance of the cooperatives

Overall cooperatives are faced with challenges that stem from the opening up of markets and the intense competition both from local and international competitors. Agriculture in Cyprus suffers from a number of issues including the small and inefficient plots, lack of adequate and cheap water supply, the erratic weather conditions, high labour costs and lack of properly trained workers (Department of Agriculture, 2010, Marcou and Stavri, 2005). For the most part Cypriots and especially of the younger generations are not very keen to work in agriculture (Papastavros and Georgiou, 2009).

All these issues make agriculture less efficient and allow imports to claim market share. The problems faced by individual sectors will be discussed in the next section but it is safe to point out that the share of agriculture in the national economy is steadily decreasing. In order to face these challenges cooperative societies are merging into regional groupings in order to (a) lower costs and attain efficiencies of scale and (b) afford to develop a professional management organisation. Beyond cooperatives since accession to the EU a number of privately owned producers organisations and groups were established in an effort to strengthen the collective power of producers in the market place and in enabling exports.

5 Sector analysis

5.1 Introduction

In this chapter the developments in the eight sectors that are central in this study are discussed. The trends in the markets, important changes in (agricultural) policy are reported on and are linked to the strategies and performance of the investor-owned firms and cooperatives in the sector. Very little data was readily available and provided ahead of time to the writer of this report and most of the limited information provided by the EU sources could not be confirmed by national sources. Therefore the writer had to resort to locally produced and published data from various official sources including the Department of Agriculture and the Statistical Service. Also, as reported before, very limited data was available from the cooperatives and Producer Organizations. As outlined in the previous section agricultural cooperatives have a long tradition of supporting farmers in Cyprus. With the accession to EU a number of Producers Organizations are being established taking advantage of the opportunities offered by the Single CMO for Fruit and Vegetable and the corresponding programs in the Rural Development Programme 2007-2013 for Cyprus. It is still too early to say if these organizations will contribute significantly to the local agriculture or if they will be able to survive when the funding from national and EU sources will be no longer available.

Some of the data presented here was also presented in section 2.1. Agriculture but it is repeated here to provide a complete picture. The period of observation is 2000–2010. The agricultural sector contributes 3.1% of GDP, 6.7% in employment and 21.2% in exports. The most important Cypriot agricultural products are the typical Mediterranean such as potatoes (especially rare ripe), vegetables, citrus, olives, wine products. The major livestock production is meat (beef, pork, poultry and sheep) and milk (cow, goat and sheep). More specifically, considering the production value, it seems that the most important agricultural products are barley, potatoes, grapes, citrus, vegetables and olives, and milk from the livestock products, pork meat and poultry, with sheep and goat meat following. Given their involvement in exporting, the most important agricultural products are citrus, potatoes and vegetables that constitute 18.7% of total exports. (Department of Agriculture, 2010). Figure 9 reproduced below provides an overview of the sector for the past five years.

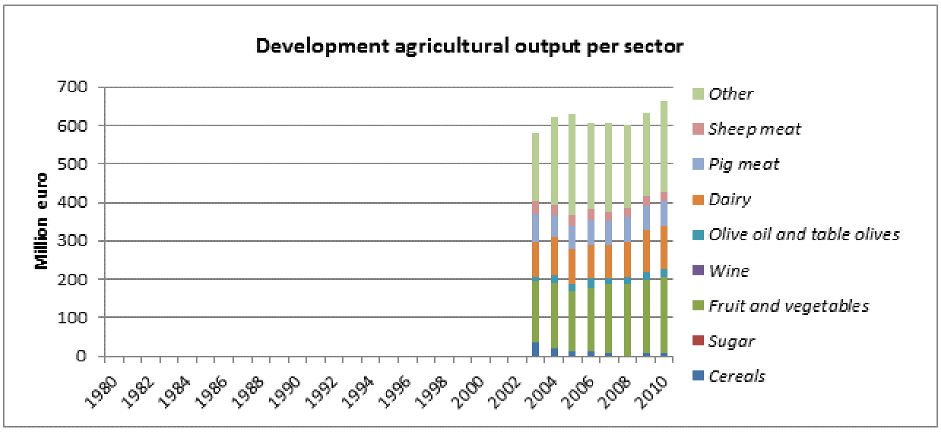


Figure 9: Development of the different sectors in agriculture. Source: Agriculture Economic Accounts, Eurostat.

According to the most recent statistics on agriculture available for 2008 crop production experienced a decrease both in volume and value terms. The volume of crop production in 2008 decreased by an overall 25.9%. The total value of crop production dropped to € 284.4 million in 2008 from € 295.4 million in 2007, recording a decrease of 3.7% (Department of Statistics, 2010). Figure 9 below provides an overview of the sector for the past five years.

A recent interesting development is the shift into organic farming which is very popular with younger more affluent, health conscious consumers. Currently about 1684.3 hectares constituting about 1.2%

of the total agricultural land is used for organic farming. The most important organic crops are olives (39%), arable crops, cereals, legumes, (34%) and vines (7%). Other organic crops are carob (3%), deciduous (2.5%), herbs (2%), vegetables (1%) etc. Organic products are competitive and have a great potential. The move towards this direction and the expansion of their cultivation are therefore desirable. To achieve this, there is a need for adequate investment in both at the production stage and the stage of processing and marketing (Department of Agriculture, 2010).

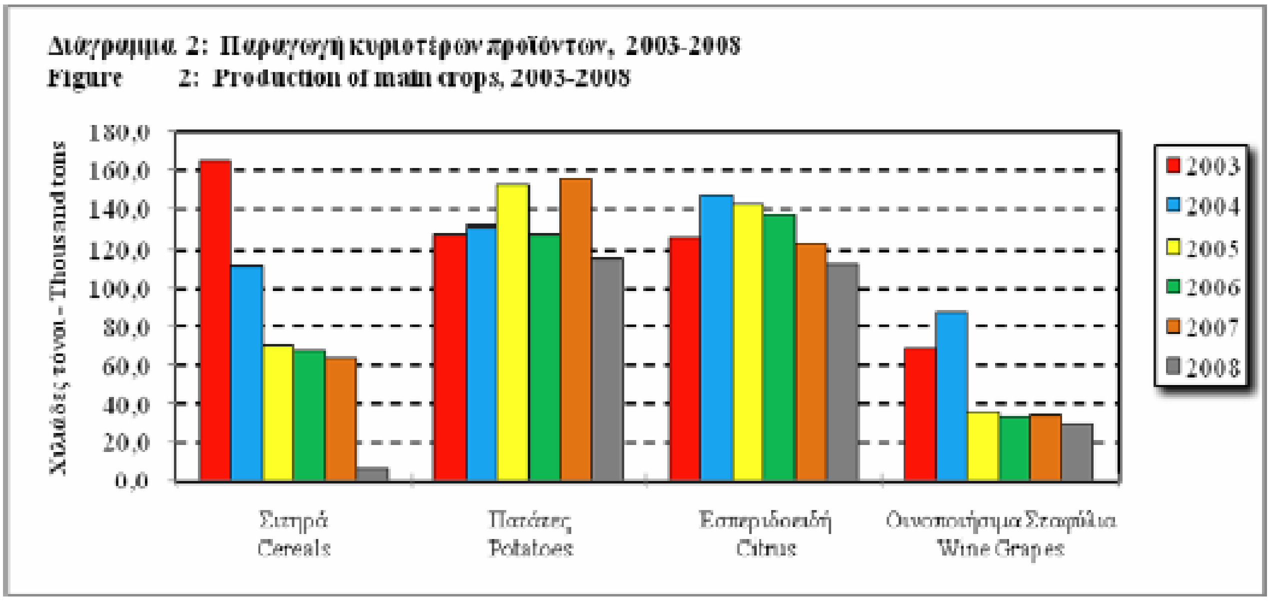


Figure 10: Production of main crops
Source: Department of Statistics, Agricultural Statistics, 2008.

5.2 Cereals

It is clear from Figure 9 that the production of cereals has been declining for years. The decline can be partly attributed to the drought that has been affecting Cyprus for most of the period under examination (Marcou and Stavri, 2005). Rain fed crops recorded a significant decrease in 2008 as a consequence of poor rainfall. Cereal production continued dropping and reached 6,341 tons in 2008 from 63,533 tons in 2007, recording a decrease of 90%. The main challenge facing the cereals sector, that represents 47.4% of the agricultural land, is the fragmentation and the small lot that does not allow for economies of scale. The planned reduction in subsidies is expected to reduce the number of farmers and it is expected that around 10,000 hectares will be released. Thus emerges the need for interventions in two directions; restructuring towards larger lots and finding alternative uses of land that will be released. The cereals produced in Cyprus are used to feed the livestock therefore a decrease in production will adversely affect the competitiveness of that sector as well.

5.3 Sugar

There is no sugar production in Cyprus.

5.4 Fruit and vegetables

The market for local fruit is steadily being eroded by cheap imports from EU member states and third countries as far as South America. These days a consumer in Cyprus, like all developed countries, can find most all types of fruit throughout the year. This trend has affected the local production that was based on seasonality of fruit and has led to the near demise of fruit production in the high rises of

Troodos where small plots in unfriendly environments cause inefficiencies of scale. For the past three years hail storms in spring have also affected negatively the production.

Most irrigated crops exhibited a decrease in production during 2008, with some crops in particular reaching unsatisfactory levels. Potato production for example decreased to 115,000 tons in 2008 as opposed to 155,500 tonnes in 2007, recording a decrease of 26%. Potato production income decreased from € 51.2 million in 2007 to € 42.2 million in 2008. Potatoes are a major export for Cyprus but in 2008 the value of exports for potatoes decreased from € 56.3 million in 2007 to € 46.9 million in 2008. Although there is no firm data on the production of potatoes by farmer-members of POs, it is estimated that they produce about 86,000 tonnes--about 69% of the local production[5]. According to recent comments to the press by the secretary of Panagrotikos, one of the major farmers' unions, the last three years have been very difficult for potato growers because of poor weather conditions, lack of enough water for irrigation and intense competition from other EU member states and third countries (Phileleftheros, 2011a).

In total, the volume of vegetable production recorded a decrease in 2008, while the producer prices increased by 21.5%. Most of the vegetables exhibited a decrease in the volume of production, except carrots, haricot beans dry and cabbages, whose production volume increased slightly. The production of citrus fruit decreased in 2008. The total citrus fruit production decreased by 9.1% in 2008 dropping to 111,783 tonnes from 122,911 tonnes in 2007. In particular, orange production decreased by 10.1% reaching 37,847 tonnes and mandarin production decreased by 21.9% reaching 31,195 tonnes. Lemon production recorded an increase of 7.5%, reaching 15,214 tonnes and grapefruits by 3.1% reaching 27,527 tonnes. Citrus fruit exports reached 51,086 tonnes in 2008, recording a decrease of 8.9% compared to the previous year. The prices secured by citrus producers were decreased by 15.4% in 2008. Other fresh fruit experienced a decrease of 12.7% in 2008 in relation to 2007 in terms of volume of production, while prices increased at an average of 21.1% in 2008. Considerably higher prices were recorded for pears, peaches and nectarines, apricots, bananas, loquats and avocadoes. A significant increase was recorded in carob production, increasing to 6,519 tonnes in 2008 compared to 3,839 tonnes in 2007, whereas the production of almonds exhibited a significant decrease of 35.3% and dropped to 432 tonnes in 2008 from 668 tonnes in 2007. According to press reports (Phileleftheros, 2011a) the prices on vegetables have collapsed compared to the prices one year ago. For example, retail prices for cucumbers in 2011 was between € 0,60 – € 1,00, as compared to € 1.50 in 2010; retail prices for tomatoes in 2011 was € 0,75 – € 1,00,as compared to € 3 in 2010. The major supermarkets prefer to import inexpensive fruit and vegetables from abroad or from the occupied part of Cyprus than to sell more expensive local produce.

In particular in the case of the citrus sector which is one of the major exporters in addition to the general problems faced by agriculture in Cyprus the sector it is also facing the problem of slurry staining in clementines and mandarins of Arakapas. Additionally, marketing problems are detected in the white flesh grapefruit and mantores (a fruit resembling orange and mandarin) due to reduced demand markets in the EU and in third countries. The citrus production today, like all agricultural products in Cyprus, has the need to adapt to a competitive environment so as to alleviate the problem of disposal and marketing. The production of quality products and the restructuring of cultivation for the production of value added products constitute the only way forth for the citrus market.

5.5 Olive oil and table olives

Olive production has been a traditional agricultural activity in Cyprus since ancient times. Olive trees are very sturdy and survive in most areas. The cultivation of olive trees carries also a symbolic and ecclesiastical role ingrained in the soul of Cypriots and the same applies to vine cultivation and wine making. Olive production in 2008 increased by 13.6% and reached 15,573 tons from 13,705 tons in 2007, of course olive production follows a cycle of high and low production.

[5] Ex post assessment of the Rural Development Programme 2004-2006 for Cyprus: Final Report, 2008.

The olive sector contributes both to support farm incomes and in the maintenance and upgrading of the rural landscape. Olive cultivation in the country is characterized by strong family character and small size of the plots, constituting trade of minor importance. Much of the handling of olive products takes place outside the official marketing channels. The problems and weaknesses of this sector, beyond those already mentioned concerning the entire agricultural sector, are also the generally strong phenomenon of varying production where a year of strong production is followed by a year of low production without any underlying reason. The problems are exacerbated by adverse soil conditions and the acute problem of the management of Olive Press' waste.

Specific needs of the industry are the modernization and implementation of new and improved cultivation techniques, improving harvesting, post-harvest treatment and storage of olives, the modernization of the mills to produce high quality product from the one, but also the reduction of environmental impacts from the other, better organisation marketing with emphasis on the diversification of the product (PDO, Organic products, enhancement of the distinguishing characteristics of olive oil and packaging), and enhancing the role of producer organisations in the sector.

New marketing opportunities have been presented in recent years due to global increasing consumption of olive oil and table olives, due both to product introduction in new markets, as well as to the highlight of the importance they have for a balanced diet and the prevention of major chronic diseases. These can be used, for example, through the projection of the superior quality of olive products, promotion of the distinguishing characteristics of olive oil and through the promotion of Product Designation Origin and biological/organic production.

Overall the formation of Producer Organisations has not delivered the desired results and there are still some legal issues with the old semi-public organisation SEKEP. The opening up of the market after 2004 had a negative effect on the membership of SEKEP as about 800 members left to take advantage of the new opportunities available. The competiveness of the sector is still lacking as a result of other factors as well and the exports have dropped from 1,572 tonnes in 2003 to 114 tonnes in 2006; correspondingly the imports have increased from 145 tonnes in 2004 to 293 tonnes in 2006[6].

5.6 Wine

The production of table grapes and wine grapes has been decreasing for many years. Currently there are imports from Greece and Italy of table grapes that mature earlier that the local varieties that further reduce the demand for local grapes. Production had a marginal decrease and dropped to 29,295 tons in 2008 compared to 29,433 tons in 2007. In a positive note earnings from grape exports increased from € 0.1 million in 2007 to € 0.4 million in 2008.

Among the most important, critical problems in the wine sector is the low competitiveness resulting from the small plots and too many producers that makes the sector very inefficient and does not allow for economies of scale. Additional issues include the difficulty in mechanization because of the small plots and the location of most vineyards, the aged population of wine-growing communities, the non-supply of good farming care and the under-investment in vineyards, mainly because of failing to ensure rewarding prices.

The wine making industry in Cyprus is undergoing a restructuring from top down and bottom up. The four traditional wine makers KEO, SODAP, LOEL and ETKO - Hadjipavlou have been in a steady decline for two decades since the opening of the wine market to the competition. Their products were for the most part mass produced wines and spirits with little attention to quality. In years past they used to absorb all the local production and produce wines and spirits for local consumption and export the excess to the former communist states of Eastern and Central Europe under barter agreements.

[6] Source: Ex post assessment of the Rural Development Programme 2004-2006 for Cyprus: Final Report, 2008.

Since the collapse of communism and the increase of competition from small local quality wineries and imports mainly from Western Europe, Australia, South Africa and Chile they had to face up to the challenge. They have planted their own vineyards with imported high quality types of vines such as merlot, shiraz, cabernet sauvignon and chardonnay and are now relocating their factories out of Limassol and closer to the vineyards. This move has the added advantage that the released land is now in the middle of the city and commands a high price but also releases the space to high quality land development.

Therefore the most critical problem for grape producers is that of the disposal of the production to wineries in good value because of oversupply and quality problems. A shift to quality bottled wine, particularly for wines of designated origin which will be produced based on local traditional varieties, could contribute to the normalization of trade problems in the sector. Significant contribution can also be any investment in rural tourism in conjunction with regional wineries. Consequently, the sector needs restructuring (eradication, changing varieties by programs implemented by the Vine Products Council) and support for improving both the cultivation and care of the vinification. The contribution of the sector is seen as very important, especially for environmental and social reasons.

5.7 Dairy

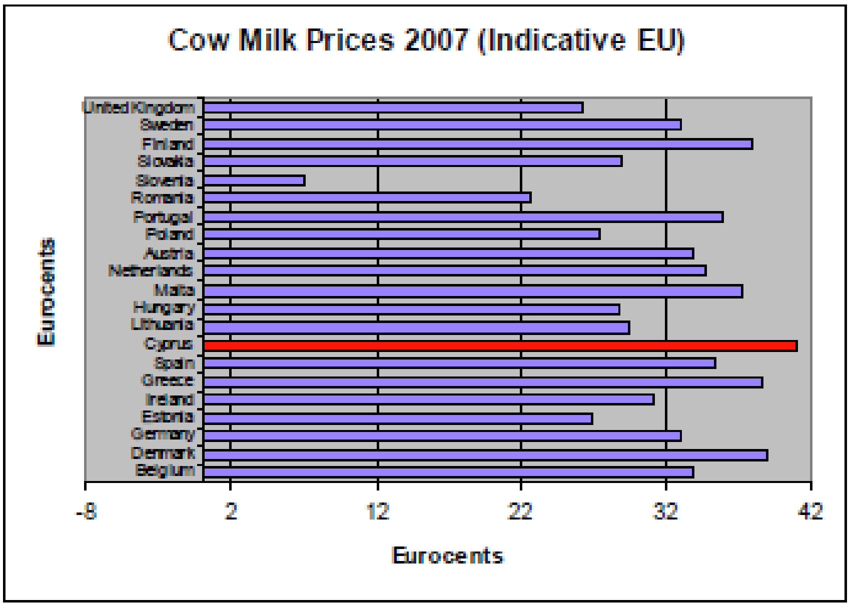
Milk production recorded an increase of 6.3% and reached 194,981 tons in 2008 as opposed to 183,480 tons in 2007. During 2008, cow milk, which constitutes 78.1% of the total milk production, recorded an increase of 5.7% and reached to 152,264 tons from 144,100 tons of the previous year. Sheep and goat milk production registered an increase of 8.5% reaching to 42,717 tons in 2008. Producers' prices of cow milk increased by 18.2%, sheep milk by 7.2% and goat milk price by 7.8%, compared to the prices of the previous year. The higher prices do not necessarily reflect more profits as the cost of production has been rising as well mainly because of the drought that has been affecting Cyprus for most of the period under examination.

Currently there is an oversupply of cow's milk that can't be absorbed by the local demand in fresh pasteurized milk. The two milk bottlers, producing milk under three trade names, control the market and the price of fresh pasteurized milk which is much more expensive from other EU members. The barriers to entry are high enough for new entrants and importing fresh milk is not an easy preposition; and therefore the established pasteurizers control the market determining prices both upstream and downstream.

Most of the traditional cheese and yogurt production in Cyprus is carried out with milk from sheep and goats. Cow milk is used rarely and in small quantities. As outlined before in this report one of the most critical issues in the dairy sector is that of the production of haloumi cheese and the percentage of cow milk that can be included in the production. The traditional recipe calls for goat and or sheep milk to be used exclusively but the cow milk producers because of over capacity would like their milk to be included as well. From time to time there are incentives offered for producers to reduce their stock and become more efficient through consolidation and integration but these programs have little success.

In the cow milk and meat sector the Producer's Organisation has been in operation long before the accession, is very strong and control's the market. The evolution into a Producer Organisation was smooth and strengthened its existing operation. As a result of the control they exert over the market they command a higher average ex farm price than the EU27 as Figure 11 demonstrates. In addition the dairy products made out of cow milk (mainly haloumi cheese) have increased in recent years from 4.000 tons in 2003 to 5.500 in 2006[7].

[7] (Ex post assessment of the Rural Development Programme 2004-2006 for Cyprus: Final Report, 2008)



Source: Eurostat

Figure 11: Cow Milk Prices 2007 (indicative EU)

5.8 Livestock Market (sheep and goat , pig, cattle and poultry)

The production of livestock sub-sector exhibited an increase in the value of livestock production by 13.6% reaching € 336.2 million in 2008 in comparison to € 296.0 million in 2007. Meat production had an overall increase of 5% in 2008. Pork, which is the main type of meat consumed, recorded an increase of 7.6% reaching 59,173 tons. Sheep and goat meat increased by 1.5% reaching 7,211 tons in 2008. Beef meat production also increased by 8.4% and reached 4,248 and last, poultry production decreased by 0.3% reaching 28,727 tons in 2008. Egg production increased by 15.2% in 2008 reaching 9,880 tons from 8,577 tons in 2007. Figure 12 provides an overall picture for the period 1993 to 2008.

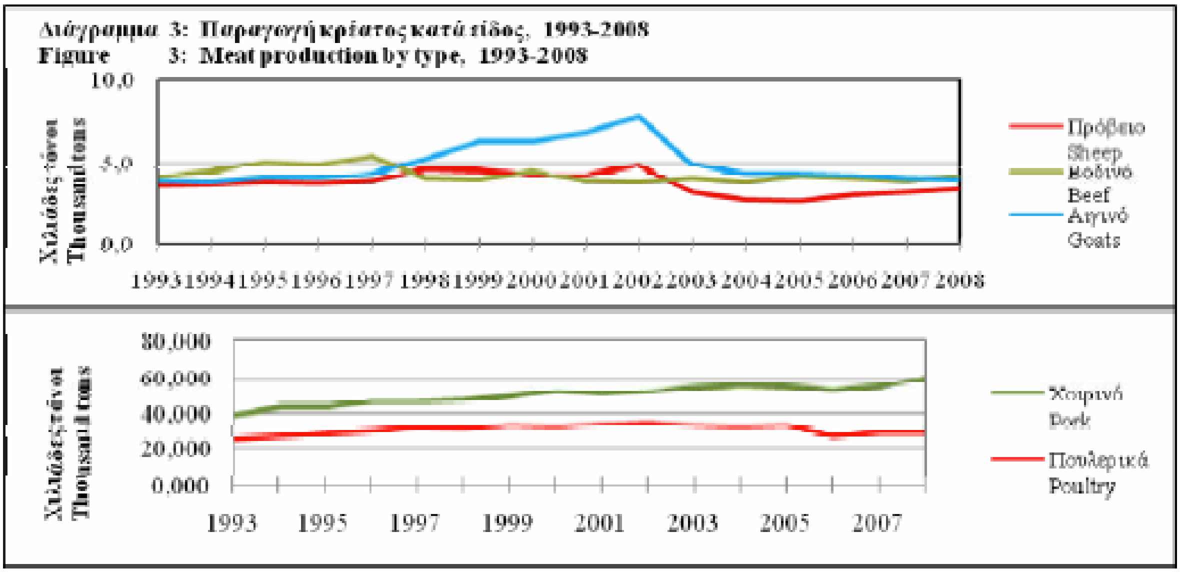


Figure 12: Meat production by type 1993 – 2008. Source: *(Department of Statistics, Agricultural Statistics, 2008)*

The sectors of pig-breeding, cattle-breeding and aviculture, despite the fact that they are already quite competitive, they face some special problems. One of them is the deficiency in domestic production of feed and thus the high dependence on the markets abroad. To this, the aforementioned problem of Cereals, of which the most important use is forage, is added. There is therefore a need for strengthening the feed production sector in order, by extension, for the competitiveness of the Cypriot farming to grow. Another problem associated indirectly with competitiveness is that of waste management. The problem is most acute in large units, particularly in pig and cow farms, which are required to use best available techniques for waste management which requires specialized investment and therefore additional costs, which, consequently affects the competitiveness.

More specifically regarding aviculture, the distance issue from the other European markets, besides of the known problems that it causes, it can be also seen as protection of local production and because of the strong preference of Cypriot consumers for fresh poultry products. Major problems in the Cypriot aviculture sector are caused also by the Euro-Mediterranean cooperation since some neighbour countries such as Israel have developed large and modernized poultry units with high productivity. In this context and with the various business facilities offered by the EU to them and because of our geographical proximity, easy access of large quantities of poultry products is expected in Cyprus.

In the pig sector, the geographical position of Cyprus offers relative protection to local production because the neighbour countries do not produce significant quantities of pork. At the same time though, the export perspectives are being limited despite the very good quality of Cyprus pork because the neighbouring countries in the Middle East and North Africa do not consume pork on religious grounds. More recent press reports (Phileleftheros, 2011b) point out that the sector is in a difficult situation and a number of units are about to close down as production costs are well above wholesale prices.

The PO active in the sector is still very young and weak to be able to provide substantial services to members. The members of this PO represent less than 10% of pork producers in Cyprus and the volume produced by the sector (ibid).

The major problem in the cattle meat sub-sector is the high cost of feed due to the dry and hot weather, the drought and the high cost of water. Additional problems include the small and not efficient number of cows per farm and the limited demand for cow meat among the local population. For the most part Cypriots consume poultry, pork and goat/sheep meat.

5.9 Concluding Remarks

These are challenging times for Cyprus; the global economic crisis has reached the island State. The lack of proper, timely measures and the recent explosion that killed 13 people, destroyed a naval basis and the major power plant on the island has exasperated the dire economic conditions. These developments have a direct effect on all economic sectors but more so the weakest one that is agriculture. Production costs have increased substantially; competition from inexpensive imports has affected the demand for local products and agricultural exports in traditional international markets are facing intense competition from other EU member states and third countries.

In order to address these challenges the State has introduced two long term programs The Rural Development Plan 2004 -2006 for Cyprus (Department of Agriculture, 2003) and The Rural Development Plan 2007 -2013 for Cyprus (Department of Agriculture, 2010a). Through these plans and taking advantage of the CAP, the state is trying to strengthen agriculture and ensure its sustainability. It is safe to point out that the new member states that came into the EU in 2004 and after are disadvantaged in terms of the benefits that can have from CAP as opposed to the older member states. Ensuring the sustainability of local agriculture is a long term challenge that will require a lot of effort, and substantial resources. Agriculture in Cyprus is faced with long term challenges and structural problems that extent beyond agriculture into socioeconomic conditions and norms.

In this effort, the role of cooperatives is crucial. These are the organisations that are called upon to help farmers to become more efficient in production and pull them together in marketing their products both locally and internationally. Unfortunately, large wholesalers and supermarkets exert a great influence on the market and distort prices. Their increased bargaining power is manifested in their delaying payments to producers and their organisations up to six months or more. In this way, they indirectly control producers by having a major impact on their liquidity and cash-flows.

The cooperative movement has offered a lot to Cyprus in decades past. Now it is called upon to rethink its strategy and focus once again its attention on how it can best serve the less privileged farmers and workers. The major strategy is twofold on the one hand consolidation into larger societies covering bigger areas and bringing together more members and at the same time take advantage of economies of scale to introduce professional structures and recruit experienced professionals can help with production, marketing, accounting finance and general management. These are still early days for producer groups and organisations having registered as such in 2004 and later. Survivability is a critical issue as the catalogue of PO's is changing constantly with organisations joining and others dropping out. The expectation is that the current situation is more or less stable. There is still a lot of room for development in strengthening of existing organisations, recruiting more members introducing professional structures and recruiting professional managers . Also there is a need to promote new POs in geographical areas and sectors where no such organisation has been formed. Cypriots are by nature conservative and self-reliant and therefore working in groups, beyond family members, does not come easy. Also local rivalries, personal and family interests, politics and the desire to lead rather than to be lead give rise to the phenomenon of small POs in a relative small area. This development does not permit the utilisation of scale economies and the establishment of professional structures, even when national and/or EU funds are available for such investments.

6 Overview of policy measures

6.1 Regulatory framework

The performance of cooperatives (including producer organisations) is influenced by the regulatory framework in a country. This framework is multi-level: EU regulations, national laws and –in some countries- even regional policies influence the way cooperatives can operate. In this chapter we look especially at the regulatory framework that influences the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector).

These competitive positions are influenced within the regulatory framework by much more than the law that establishes the rules for running a cooperative (business organisation law). Well known other examples include agricultural policy (e.g. the EU's common market organisation that deals with producer organisations in the fruit and vegetables sector), fiscal policies (at the level of the cooperative and the way returns on investments in cooperatives are taxed at farm level) and competition policies. There are different types of policy measures in the regulatory framework (McDonnell and Elmore (1987):

POLICY MEASURE TYPE	DEFINITION
Mandates	Rules governing the actions of individuals and agencies
Inducements	Transfer money to individuals in return for certain actions
Capacity Building	Spending of time and money for the purpose of investment in material, intellectual, or human resources (this includes research, speeches, extension, etc.)
System Changing	Transfer official authority (rather than money) among individuals and agencies in order to alter the system by which public goods and services are delivered

The objective of this project / report is to identify support measures that have proved to be useful to support farmers' cooperatives. In section 6.2 the relevant policy measures and their potential impact in Cyprus are identified. In section 6.3 a number of other legal issues are addressed.

6.2 Policy measures

There is a consensus in Cyprus from the literature and from feedback from interviews that the existing legal framework is satisfactory and enables the appropriate operation of the cooperative societies and POs/PGs. The major policy issue with reference to the financial and banking services offered by the cooperatives is that these do not come under the supervision of the Central Bank of Cyprus but rather under the Central Cooperative Bank. The Cooperative movement controls about 20 % of the banking sector in Cyprus. At some point a consensus should be reached about the need for the market to have single regulator and that the Central Bank of Cyprus should be the sole regulator. This issue is causing friction in the relation between the Governor of the Central Bank and the Director General of the Cooperative Central Bank.

Cyprus has enacted the necessary legislation governing the European Cooperative Societies. The SCE Regulation and the SCE Directive were transposed in Cyprus by way of Laws which, together with the Legislation applicable to Cypriot Cooperative Societies, form a satisfactory legal framework for the registration and operation of cooperative societies. By the accession of Cyprus to the EU, the Cooperative Societies Legislation has been fully harmonized with the EU Directives on Credit Institutions. A working group established by the ASDCS and the Cooperative Movement has an ongoing progress for the simplification, coding and modernization of the Cooperative Legislation.

The strategy adopted in the Rural Development Programme 2007 -2013 includes a number of positive measures on enabling Producer Organisations and Groups to be established and receive funding and also take advantage of other incentives and measures that will benefit collectively the members.

The table below identifies policy measures that influence the competitive position of the cooperative and Producer Groups and Organisations versus the investor-owned firm (IOF) or other players in the food chain (e.g. the retail sector).

Table 8. Policy Measure Description

Policy Measure Name	**Policy Measure Type**	**Regulatory Objective**	**Policy target**	**Expert comment on effects on development of the cooperative**
Cooperative Societies Law of 1985 to 2009,	1. Mandate Cooperative legislation/ incorporation law		1. Specific to cooperatives	Bridging gaps and other weaknesses that have been identified. The law has been amended several times.
Cooperative Societies Rules of 1985 to 2007.	1. Mandate Cooperative legislation/ incorporation law		1. Specific to cooperatives	Bridging gaps and other weaknesses that have been identified. The law has been amended several times. Rules provide more specific details of how policies stipulated in Law should be treated.
Cooperative Societies (Establishment and Operation of the Deposit Protection Scheme) Rules of 2000 to 2009 (as regards cooperative credit institutions).	1. Mandate Cooperative legislation/ incorporation law		1. Specific to cooperatives	See comments above
Regulatory Decision 196/2005	1. Mandate Cooperative legislation/	Harmonisation with relevant Acquis. It allows Cooperatives to provide credit to legal entities that are not members (by definition) under certain conditions.	Specific to cooperatives	It provides the flexibility to cooperatives to provide loans to legal entities that are not members under certain conditions. It is a positive step as cooperatives would like to assume a greater role in the market.
Law 159(I)/2006, implementing Council Regulation (EC) No 1435/2003 on the Statute for a European Cooperative Society, published in the Official Gazette of the Republic of Cyprus on 15/12/2006.	1. Mandate Cooperative legislation/ incorporation law	Harmonisation with relevant Acquis.	1. Specific to cooperatives	Incorporates all the measures and exercises those options (granted by the SCE Regulation) that are necessary in order to enable the formation of SCEs in Cyprus

Law 164(I)2002	1. Mandate law introducing PG's and PO's	Harmonizes the legal system in Cyprus with Regulation 2200/1996EC and 2201/1996 EC on the CMO on Fruit and Vegetables	Specific to POs/ PGs	This is a major piece of legislation that harmonises the local legislation with the acquis communautaire in the field of CMO on fruit and Vegetables and establishes the concept of Producer Organisations and Producer Groups.
		it updates the previous on the occasion of the accession of the ten new members states in 2004 and introduces changes since 2002		

6.3 Other legal issues

Business organisational law aspects

Farmers can organise themselves in two ways (1) form a regular limited liability company registered with the Registrar of Companies and (2) form a cooperative under the Law on Cooperatives. In the context of the Law on Cooperatives farmers can organise collectively by adopting one of two legal forms. They can form a regular firm and register with the Companies Registrar or form a company under the Cooperative Law (Cooperative Laws 1985 – through (No.1) 2010). This second registration is preferred by far. Cooperatives for the most part offer 4 services (a) run food stores (b) sell agricultural tools, fertilizers, chemical products for agricultural use and seeds (c) offer financial services and (d) process, store and trade agricultural products on behalf of members.

A Cooperative Company can be registered under the legislation (a) as company with limited liability and (b) company with unlimited liability. The members participating in a Cooperative Society with unlimited liability are jointly and separately liable for all obligations in case of dissolution. The liability of members of an Cooperative with limited liability limited to the nominal value of the paid share capital in case of dissolution, except in certain cases where the liability of members increased to double or triple under the Special Regulations of the company.

Moreover Cooperative Societies are separated in 3 different categories depending on the type of members that are participating in the Society: "Primary Cooperative Society"- Cooperative Society whose members are only natural persons (minimum 12 people).

"Secondary Cooperative Society"- Cooperative Society which has as members or 12 individuals and a primary A primary or at least 5 Primary Cooperatives.

"Higher Cooperative Society"- Cooperative Society of which at least one member is a secondary Cooperative Society.

The national law encourages the formation of Limited liability cooperative companies but also encourages the formation of Producers Groups (PG) and Producers Organisations (PO). These are legal entities that enable farmers to take advantage of funding and participate in collective actions. Initially interested farmers form a company and register as a Producers Group for 5 years and at the end of that time it can evolve into a Producers Organisation. Cooperative societies can also register as Producers Group and Producers Organisation and take advantage of the funding from national and EU Sources and the specific measures introduced to strengthen agriculture and collective actions.

The operation of cooperative societies is overseen by the Commissioner of the Cooperatives who has discretionary powers to guide and control the individual companies within the limits of the Law. To this extend there are restrictions on the geographical area that the company can operate in, the members it can register, and the types and size of investments it can make. The Commissioner and the Government exert influence over the firms. For the most part the capital of these firms is nominal and distributed widely among members. Growth comes from reinvesting profits rather than from issuing new capital or other financial instruments.

The Department of Agriculture of Ministry of Agriculture, National Resources and the Environment is overseeing the operations of the PG's and PO's. The existing legal framework in flexible enough to allow for the necessary adjustments in the local context in terms of size, membership, and turnover of PGs and POs. The regulatory framework is regularly updated to accommodate changes in the corresponding acquis communautaire. There are no gaps in the legislation and the feedback from the Department of Agriculture is that in time the concept of a 2nd level and cross-sectoral PGs and POs will be introduced as the idea matures. The costs of setting up and maintaining a cooperative society and or PG / PO are nominal and refer mainly to legal and audit costs.

Membership structures

The National law enforces the principle of 'one man, one vote' for members. Non-members do not have any voting rights. There is a small admittance fee as well a purchase of few / nominal shares. The main legal restrictions are that the member has to be over 18 years old, reside and or have property in the area that the cooperative operates in. The Commissioner has discretionary powers to settle disputes and or decide on gray areas. There are no restrictions based on nationality, religion, gender or other form of discrimination.

Internal governance

There are two mandatory bodies: (a) The Annual General Assembly of all members and (b) the executive Committee elected among members for a 3 year term, renewable. The Executive Committee has no executive powers as such and has to rely on professional management (manager / Secretary) and staff to carry out daily operations. The Corporate structure is flexible but decision making beyond the daily routine can take time because in some instances the Committee has to meet to take decisions and on occasion these decisions have to be *endorsed by the Commissioner.* Cooperatives are very stable and conservative bodies. Members especially in smaller cooperatives have a direct and immediate influence on decisions. Legally they can call General Assembly, vote to change the Committee. The legal requirements on the composition of the board of directors are flexible with no legal restrictions.

Financing

Equity is raised from among members and from retained earnings. The profits of the cooperative are distributed to the members based on their shareholding. In the case of PO the farmers also get paid fair prices for the products they sell to the PO. Rules are flexible within the limits imposed by the Law. The cooperatives are audited yearly and the audited accounts are available to the members.

Reorganisation

The national law provide effective tools for mergers and restructurings so as to make the companies more efficient and operate in bigger areas. Currently the strategy of the cooperative movement is to consolidate cooperatives into viable entities that can take advantage of economies of scale. The practice so far was to retain all employment positions.

Tax law aspects

There is no corporate income tax on services offered to members. There is income tax on services to non members but as one would expect all customers are members. There is 15% tax on dividends paid -out for strengthening the national defence. The companies are liable for other taxes including VAT.

Competition law aspects

Cooperatives/POs are not subject to competition law regulation on the same footing as investor-owned firms but there are no cooperatives/POs that have a dominant market share which has legal relevance for the application of EU or national competition law.

7 Assessment of developments and role of policy measures

This chapter provides a concluding assessment on the developments of cooperatives in Cyprus. In chapter 2 the basic statistics on agriculture and farmers' cooperatives were provided. In chapter 3 data on individual cooperatives were reported, especially concerning their internal governance, their position in the food chain and the institutional environment in which they operate. This lead to some first impressions in section 3.5 on the performance of cooperatives in Cyprus in relation to their internal governance, institutional environment and position in the food chain.

In chapter 4 the data gathering and analysis was broadened by looking at the differences between the sectors and the influence of sectoral issues on the performance of the cooperatives. Chapter 5 looked into much more detail on the how the regulatory framework influences the competitive position of the cooperatives in the food chain and vis-à-vis the investor-owned firms.

This final chapter assesses the (performance) developments of cooperatives and how they can be explained in terms of the building blocks (institutional environment, position in the food chain including sector specifics, and internal governance). Section 7.1 focuses on the explanation of the performance of cooperatives in terms of their internal governance, their position in the food chain (including sector specificities) and the institutional environment (including the regulatory framework). In section 7.2 an assessment is given on which policy measures in Cyprus seem to benefit cooperatives and which ones have a constraining influence.

7.1 Explaining the performance of cooperatives

Igual and Marti (2008) point out that in the last 12 countries admitted to EU membership there are currently nearly 11,000 agricultural cooperatives that have a large share of the market in many sectors and for example 30% in Cyprus and 65% in the Czech Republic. The authors believe that cooperatives are still relatively underdeveloped in comparison with their counterparts in other EU states. In the case of the member states from Eastern and Central Europe they believe that part of the problem is that cooperative societies were associated with the socialist past of these countries.

Of course this line of reasoning does not apply to Cyprus which has an open and competitive, mixed economy and a long tradition of an established cooperative movement. The truth of the matter is that the environment has changed in the past 20 years with the opening up of the economy and the competition that has become very intense. In the 1960's and 1970's Paris Andrew (1975; 1976a; 1976b) carried out his pioneering work on Cypriot cooperatives from a business point of view. According to this report, the environment facing cooperatives was paternalistic, consensual, and protected cooperatives, as an extension of the strong paternalistic influence of the first President of the Republic, Archbishop Makarios, who was also the head of the Orthodox Church (Theophanous, 1994). That environment was replaced gradually by a more dynamic and open one that calls for the implementation of new methods in agriculture and new sound business practices in running farms and cooperative societies in general (Theophanous et.al., 2003)

The challenges faced by the cooperatives in Cyprus are associated with issues pertaining to the (a) sustainability and competitiveness of agriculture and the economy at large, (Marcou and Stavri, 2005). (b) the demographic changes in Cyprus where the trend is for people to leave their mountainous, rural communities for the cities in search for a more comfortable lifestyle, (Papastavros and Georgiou, 2009) (c) the reluctance of young people to work in agriculture (Papastavros and Georgiou, 2009; Marcou and Stavri 2005) and (d) the change in the climate, especially the prolonged drought over the period of examination, that affects more directly the agriculture (Marcou and Satvri, 2005).

Overall agriculture and by extension cooperatives, PG's and PO's are faced with challenges that stem from the opening up of markets and the intense competition both from local and international competitors. Agriculture in Cyprus suffers from a number of issues including the small and inefficient plots, lack of adequate and cheap water supply, the erratic weather conditions, high labour costs and lack of properly trained workers (Department of Agriculture, 2010; Marcou and Stavri ,2005). For the most part Cypriots and especially of the younger generations are not very keen to work in agriculture (Papastavros and Georgiou, 2009).

The sector faces structural problems, which are attributed to:

The weaknesses in the marketing / sales of agricultural products. This is expected as farmers are usually less educated people that concentrate on the production of the agricultural products. The work on the farm takes a lot of time throughout the year and therefore other means and people must be found to promote and sell the products.

Efforts in the past to create semi-governmental organisations to take over the marketing and sales function were not very successful and these organisations were dismantled before the accession to the EU in 2004, as there are not allowed under EU Law. Large Cooperatives SEDIGEP were traditionally more successful in this function and this the way forth for all cooperatives PG's and PO's.

The relatively small and fragmented plots of land which consequently led to the inability to utilize modern technology to the highest possible extent. The issue of small and fragmented plots goes back in time as traditionally parents would divide their property among all their children.

Farming these days is quite mechanized and the effort to carry out tasks is much less than 20 and 30 years ago let alone 50 years. At the same time Cyprus lags behind other EU Member States in utilizing modern technology to the highest possible extent. This is not just an issue of utilizing technology but also an issue of changing other practices and processes on the farm that may take years to bring results. For example further mechanization may require replanting orchards and vineyards that can literally take years to come to fruition. It requires lifelong training for farmers and technical support and advice.

The Reduction of Agricultural Land and ageing of Farmers

Another issue of great concern is the abandonment of Agricultural land especially in the mountainous and semi-mountainous regions. Between 2002 and 2008 the total agricultural land was decreased from 1.959.000 Hectares to 1.459.000 a decrease of 25.5% (*Department of Agriculture, 2010a,* Statistical Service of Cyprus, 2010b*)*. Some of this land was used for the cultivation of vines a product faced with bigger supply than demand and issues of quality but it also affects other orchards such as almond, apples, pears apricots etc. In these markets the locally produce fruit is of higher quality and taste but more expensive.

This abandonment of the land is part of the larger trend for people living in rural areas to move closer to the urban centres. The number of persons full time equivalent employed in agriculture was 30.871 in 2004 and 25.290 in 2008 (Statistical Service of Cyprus ,2010b).

(a) The concentration of exports to a reduced number of products. The main agricultural products exported are citrus, potatoes and vegetables that constitute 18.7% of total exports. (Department of Agriculture, 2010). Overall Exports of agricultural products recorded a decrease of 3.5% in value terms reaching €116.6 million in 2008 compared to €120.9 million. In 2007.

    This is attributed mainly to the decrease in the value of exports of potatoes, which decreased from €56.3 million in 2007 to €46.9 million in 2008. The earnings from citrus fruit exports remained at €29.4 million in 2008 and earnings from grape exports increased from €0.1 million in 2007 to €0.4 million in 2008. The European Union countries absorbed 67.1% of agricultural exports in 2008 in comparison to 72.6% in 2007. (Statistical Service of Cyprus, 2010b).

(b) The concentration of production to varieties of agricultural products whose demand is decreasing. As explained above agricultural product exports are decreasing over time. Partly this maybe explained in terms of an overall decrease in demand. It is important for farmers to concentrate on products that have export potential.

Needless to say any discussion on the prospects of agriculture, cooperatives, PG's and PO's need to take into consideration the context of the Cypriot economy and the World economy at large. The expectations are that the global economy is moving into a second recession once again and that can have devastating consequences on the world economy that extends beyond Cyprus and agriculture. The outlook for the intermediate future is bleak and uncertain.

Taking into consideration the above analysis the key for the recovery of the agricultural sector and of crop production in particular, is traced to the restructuring of crop production and its shift towards higher quality crops, early crops as well as the technological upgrading of the production methods. A positive development is the gradual shift of producers to agricultural products for which demand conditions in the international markets are favourable, such as new crops of citrus fruit, flowers, and ornamental plants as well as organic products etc. The Government is contributing towards this direction by promoting various incentive schemes and motives. The Rural Development Plan- RDP 2004-2006 and the Rural Development Programme - RDP 2007 -2013 are the vehicles for restructuring the agricultural sector. All agricultural policy measures and Common Agricultural Policy provisions are encompassed in these two documents (Department of Agriculture, 2010, Marcou and Stavri, 2005).

All these issues make agriculture less efficient and competitive, allow imports to claim market share and as result the share of agriculture in the national economy is steadily decreasing. In order to face these challenges cooperative societies are merging into regional groupings in order to (a) lower costs and attain efficiencies of scale and (b) afford to develop a professional management organisation. Beyond cooperatives since accession to the EU a number of privately owned producers organisations and groups were established in an effort to strengthen the collective power of producers in the market place and in enabling exports.

As explained above on the road to accession and since accession to the EU in 2004 the cooperative movement in Cyprus has been faced by a number of challenges stemming from the opening up of the markets for agricultural products. and the intense competition both from local competitors and imports from abroad from EU member countries and third countries as far away as china, Australia, South Africa and South America.

On the home front it had to deal with intense competition in two other markets that used to be very strong: (a) banking and financial services (SPE) and (b) retail sales in supermarkets and department stores. (Synergatiko / ESSEL SPOLP). These lines of business have a direct influence on agricultural cooperatives since the banking and financial services cooperatives offer loans to farmers, take their deposits, and provide inputs to production such as seeds, chemicals and fertilizers.

Over the past few years the cooperative movement has developed a two prong approach (a) consolidation (b) professional organisation. The primary strategy was to consolidate cooperatives at the level of cities and more importantly villages into regional cooperative societies. These new cooperatives have a solid equity basis, can take advantage of economies of scale and more importantly in the long run can be organised as professional organisations. From discussions with sources within the cooperative movement it is clear that a new round of consolidation is about to begin.

The most pressing issue beyond survival is the need to establish a professional organisation. To do this there is a need to restructure the cooperatives and attract high quality professionals in general management, accounting and finance and of course marketing where the most critical problems lie. So far the typical manager / secretary of a cooperative were a member with somewhat higher education than the average member who took over as a manager. This is gradually changing as managers / secretaries are replaced, on retirement, by professionally qualified managers. In most instances these are promoted internally or if an internal line of succession is not available experienced professionals are hired from outside

7.2 Effects of policy measures on the competitive position of cooperatives

The cooperative movement has a long tradition of successful operation in Cyprus. The public perception of the movement is quite positive and most Cypriots in one way or another are associated with cooperatives mostly through banking/ financial services cooperatives (SPE). The State over time having recognised the vital role that cooperatives have in the development of the economy, has been very supportive in trying to empower cooperatives and Producer Groups and Organisations thorough a number of policy measures including legislative measures, that empower the cooperative movement to function in an open and competitive environment, and by putting in place Development Programmes / Action Plans that provide specific measures for farmers organisations. Currently there are 27 organisations listed as PG's or PO's. Out of these 14 are cooperative societies, (6 PO's and 8 PG's) and 13 are companies not associated with cooperatives (6 PO's and are 7 PG's).

In terms of legislative measures it has consolidated and updated the pertinent legislation with the following laws (a) Cooperative Societies Law of 1985 to 2009, (b) Cooperative Societies Rules of 1985 to 2007, (C) Cooperative Societies (Establishment and Operation of the Deposit Protection Scheme) Rules of 2000 to 2009 (as regards cooperative credit institutions).

It has also implemented the pertinent Acquis Communautaire in (a) Law 159(I)/2006, implementing Council Regulation (EC) No 1435/2003 on the Statute for a European Cooperative Society, published in the Official Gazette of the Republic of Cyprus on 15/12/2006 and (b) Law 160(I)/2006 adopting Directive 2003/72/EC supplementing the statute for a European Cooperative Society with regard to the involvement of employees, published in the Official Gazette of the Republic of Cyprus on 15/12/2006.

Through this work the team that has compiled this report was not able to identify any gaps in the legal framework that supports the work of cooperatives and PG's/ PO's.

Apart for the legislative measures it has also introduced two Action Plans for the periods 2004 -2006 and 2007 -12013 that provide specific measures for Producer Groups and Producer Organisations. As a result of these action plans 27 farmer groups since 2004 have been registered as either Producer Groups as an intermediate step or Producer Organisations. Through this registration the PG's and PO's are eligible to receive funding from national and EU funds to establish and run their organisations for five years and they are also entitled team that has compiled this report cannot confirm that all these PG's and PO's are still functioning properly but that is another issue.

The Rural Development Programme - RDP 2007 -2013 provides encouragement for the setting up of Producer Groups and Unions of Producer Groups via a flat-rate aid based on the turnover or the value of annual marketed production. This provides farmers with the needed funding to establish new collective bodies and strengthen older ones. It also provides a number of other measures in terms of receiving funding for collective actions such as training, marketing, improved infrastructures that are essential for the survival and long term sustainability of agriculture. The Action Plan provides an appropriate vehicle for the restructure of the agricultural sector.

In conclusion it is safe to point out that the consensus in Cyprus from the literature and from the feedback from interviews is that the existing legal framework is satisfactory and enables the appropriate operation of the cooperative societies and POs/PGs. As the concept grows and matures the necessary adjustments such as the formation of 2nd level and multi-sectoral POs / PGs will be introduced in the current regulatory framework.

8 Future research

One of the major challenges facing researchers working in Cyprus on local issues is the limited literature and data that is available. For the most part one has to rely on government data and reports and build their own data and develop their own literature. In this case the available data and literature is extremely limited. So any future work has to begin with the data collection and the basic research on the extent of agriculture and specific sectors in terms of size, markets, production, sales, prospects, the future. Comparative studies among members states with similar characteristics in terms of size, industry, environmental conditions and future outlook is crucial in understanding both the local case and the wider picture.

In connection with the above the Cooperative movement needs to form a better understanding of its own strengths and weakness and that of its member organisations. At the very least they need a more detailed annual consolidated report on activities that will provide factual information on how the movement and its member organisations are performing vis-à-vis the local and international competition. The latest report is not very detailed and covers the period 2003 -2009. The relevant studies are few and far apart.

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