Support for Farmers' Cooperatives

Country Report The United Kingdom

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European Commission

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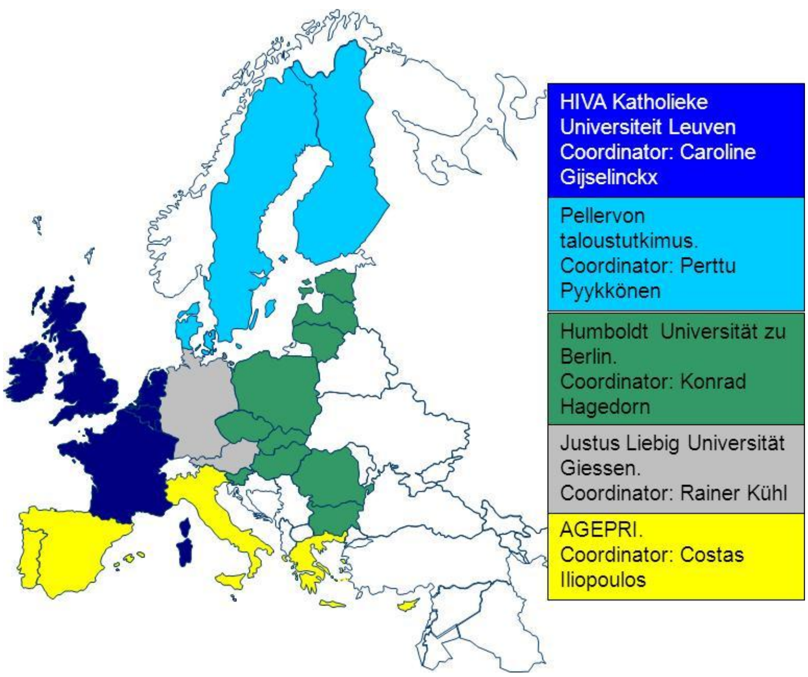
Preface and acknowledgements

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.

This country report on the evolution of agricultural cooperatives in The United Kingdom was written within the framework of the SFC project. Data collection for this report was 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: The United Kingdom* is one of the country reports that have been coordinated by Caroline Gijselinckx, HIVA University of Leuven, Belgium. The following figure shows the five regional coordinators of the "Support for Farmers' Cooperatives" project.



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1 Introduction

The objective of this first chapter is to give an introduction to the project and the country report.

1.1 Objective of the study

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention from farmers, their organisations, as policy makers. The European Commission is committed to facilitating 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' Co-operatives", that will provide the background knowledge to help farmers organise themselves in co-operatives as a way 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 the UK.

In this context, there are 3 specific objectives of the project, and this country report. First, to provide a comprehensive description of the current level of development of co-operatives and other forms of producer organisations in the UK. The description presented in this report will pay special attention to the following drivers and constraints for the development of co-operatives:

- Economic and fiscal incentives or disincentives and other public support measures at regional and national levels;
- Legal aspects, including those related to competition law and tax law;
- Historical, cultural and sociologically relevant aspects;
- The relationship between co-operatives/producer organisations (POs) and other actors in the food chain;
- Internal governance of the co-operatives/POs.

Second, to identify laws and regulations that enable or constrain co-operative development; and third, to identify specific support measures and initiatives which have proved to be effective and efficient for promoting co-operatives and other forms of producer organisations in the agricultural sector in the UK.

1.2 Analytical framework

There are at least three main factors that determine the success of co-operatives 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 co-operative in the food supply chain refers to the competitiveness of the co-operative vis-à-vis its customers, such as processors, wholesalers and retailers. 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 go with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the co-operative is operating, and which may have a supporting or constraining effect on the performance of the co-operative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

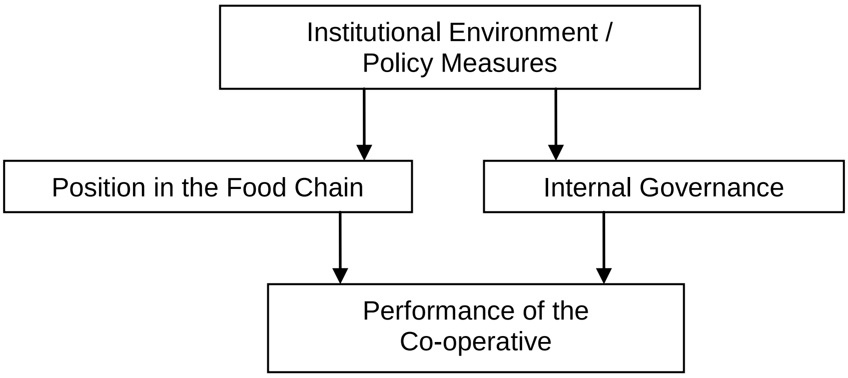


Figure 1. The core concepts of the study and their interrelations

1.3 Definition of the co-operative

In this study on co-operatives and policy measures we have used the following definition of co-operatives and producer organisations (POs). A co-operative/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 co-operative/PO also own the co-operative 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 co-operative/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 co-operative are distributed to its users on the basis of their use; thus, individual benefit is in proportion to individual use.

This definition of co-operatives and POs (from now on shortened in the text to co-operatives) also includes co-operatives of co-operatives and associations of producer organisations (often called federated or secondary co-operatives).

In identifying co-operatives and producer organisations relevant for our study, we also assume that membership is voluntary. Voluntary membership is generally considered a basic principle of co-operatives (e.g. according to International Co-operative Alliance (ICA) principles). However, there may be examples of co-operatives/POs where membership is somehow mandatory, in the sense that whoever produces a particular crop in the particular geographic region is obliged to sell through a particular co-operative/PO. These co-operatives/POs are still included in this report as long as they comply with the three basic characteristics listed above.

1.4 Method of data collection

Multiple sources of information have been used, such as databases, interviews, corporate documents, academic and trade journal articles. The databases used were Amadeus, FADN, Eurostat and a database from DG Agri on the producer organisations in the fruit and vegetable sector. Also, data provided by Copa-Cogeca has been used. In addition, information on individual co-operatives has been collected by studying annual reports, other corporate publications and websites. Interviews have been also conducted with representatives of national associations of co-operatives, managers and board members of individual co-operatives, and academic or professional experts on co-operatives.

1.5 Period under study

This report covers the period from 2000 to 2010 and presents the most up-to-date information, which includes the factual data collected and the literature reviewed.

2 Facts and figures on agriculture

The objective of this chapter is to provide an introduction to agriculture in the UK (section 2.1) and to the evolution and position of co-operatives in the UK (section 2.2), before we go into the analysis of individual co-operatives in chapter 3.

2.1 Share of agriculture in the economy

A study of farmers co-operatives can best start by looking at farmers and agriculture more generally. In 2005, agriculture accounted for 0.91% of GDP (Figure 2) Down from 1.??% in 1995, therefore halving over the 10 year period as a percentage of GDP.

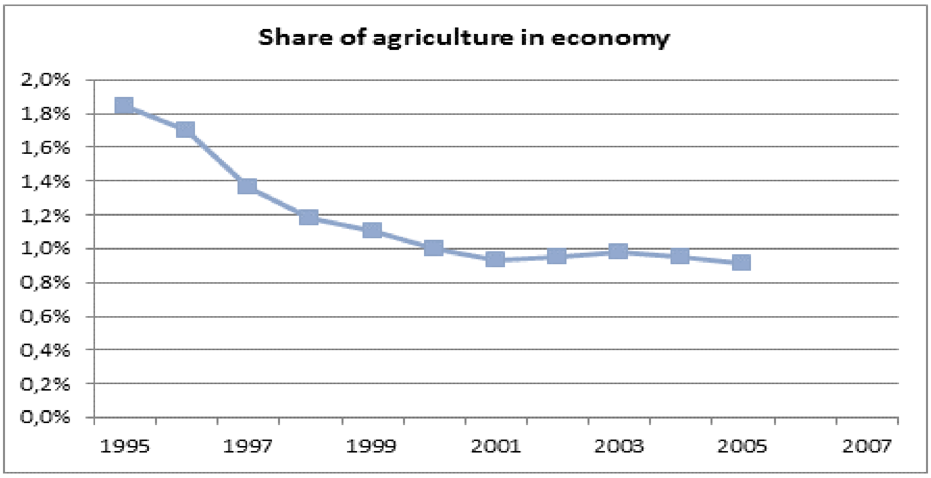


Figure 2 Share of agriculture in GDP. Source: Eurostat Nat. Accounts

Agricultural output overall has however remained fairly stable, but has not kept pace with the growth of the wider economy, which has doubled in size during the 10 years of the period represented (1995-2005).

2.2 Agricultural output per sector

Within agriculture there are several sectors. Figure 3 provides information on the main sectors in the UK.

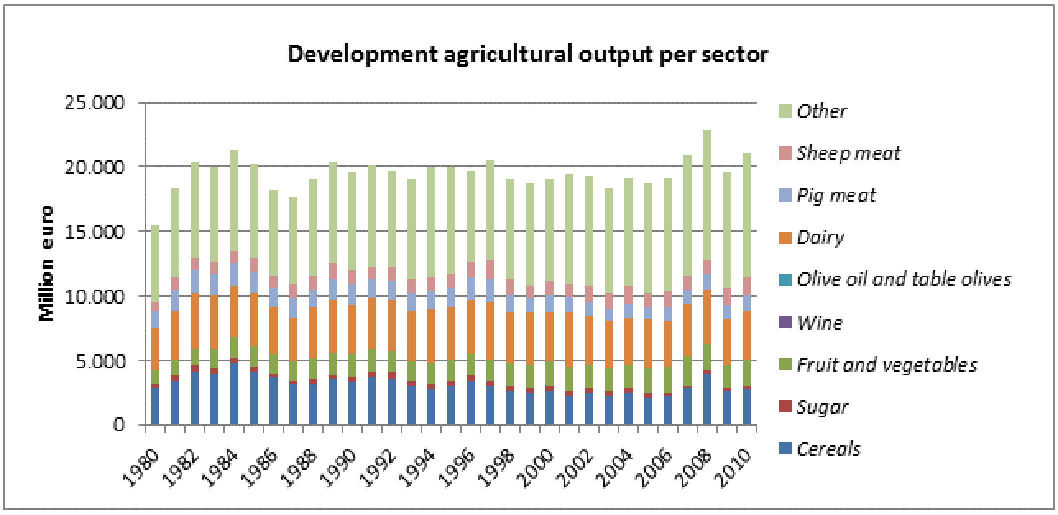


Figure 3 Development of the different sectors in agriculture, value of production at producer prices, in millions of Euro (source: Agriculture Economic Accounts, Eurostat)

In Figure 3 we highlight the 8 sectors that the European Commission has asked us to study in detail. Note that in the UK there is no production of olive oil, and little production of wine. The largest sectors of production are dairy, and then cereals, followed by vegetable production. The 'other' category represents a significant proportion of agricultural output in the UK.

In Figure 4 we show the change in output for the period 2001-2009, calculated between the 3 year averages around 2001 and around 2009 (i.e. 2008, 2009, 2010).

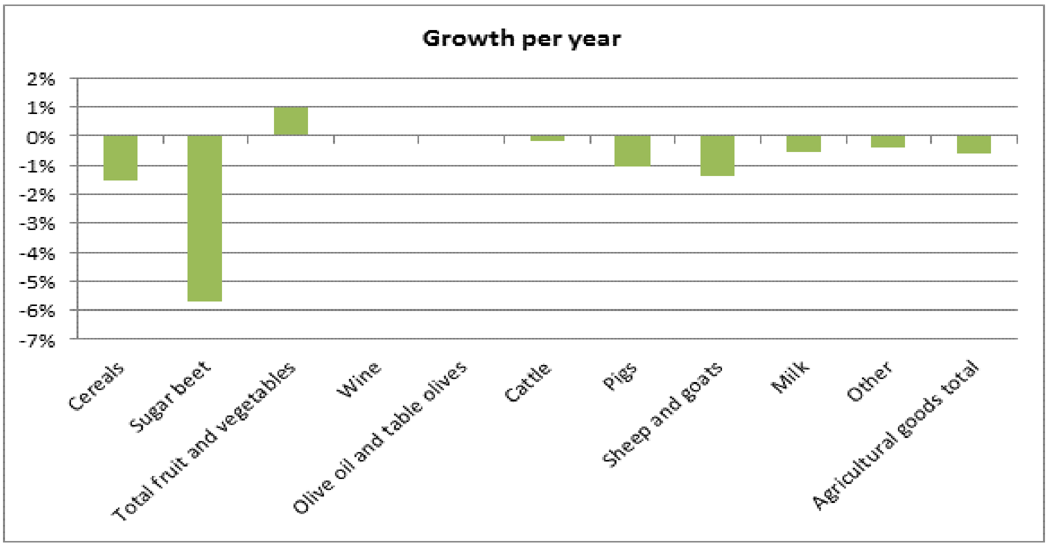


Figure 4 Trend in output per sector "2001" - "2009". Source: Economic Accounts of Agriculture, Eurostat.

Note that sugar beet production declined drastically in 2006, since when it has been fairly stable, but it forms a relatively small part of overall production. Overall, agricultural production has in fact increased over the last three years.

2.3 Development of the number of farms

The number of farms in the UK is given in Table 1 and Figure 5. Table 1 gives the number of farms in total for the main agricultural types for 2000 and 2007, as well as showing the percentage change over time. Figure 5 provides the same data in graphical format.

Table 1. Number of farms in 2000 and 2007.

	2000	2007	% change per year
Cereals	29,680	29,370	-0.15
Sugar	12,850	10,170	-3.29
Pig meat	6,780	11,180	7.41
Sheep meat	88,650	80,740	-1.33
Total fruits and vegetables	7,210	7,260	0.10
Horticulture	4,830	4,530	
fruit and citrus fruit	2,380	2,730	
Olive oil and table olives	0	0	
Wine	120	120	0.00
Dairy	25,130	17,830	-4.78
Beef	33,760	35,710	0.81

Source: Eurostat, Farm Structure Survey.

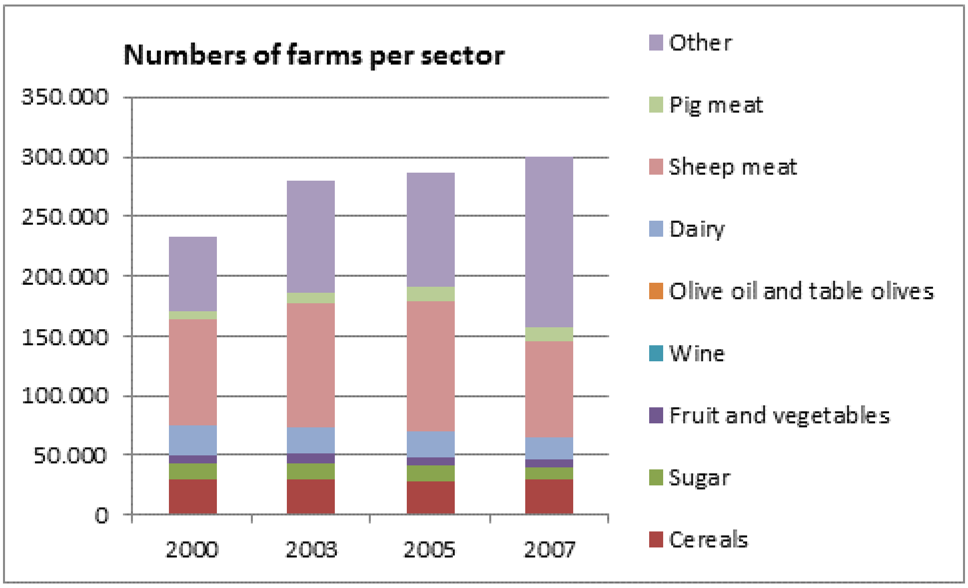


Figure 5 Number of farms 2000 - 2007 with data per specialist type of farming. Source: Eurostat, Farm Structure Survey.

Note that the number of farms in 'fruit and vegetables' has remained fairly stable, but most other sectors have seen a decline , except for a small increase in 'beef' and large increases in 'pigmeat'; and a large increase in "other" types of farm – including beef, eggs/poultry – all quite substantial in the UK, as well as various smaller segments such as equines and goats.

2.4 Size of farms

Farms come in different sizes from small part-time farms to large businesses. Figure 6 shows the distribution of farms per size class, measured in European Size Units (ESU)[1].

[1] European size unit, abbreviated as ESU, is a standard gross margin (level of profit) of EUR 1 200 that is used to express the economic size of an agricultural holding or farm.

For each activity (or 'enterprise') on a farm (for example wheat production, dairy cows or the output from a vineyard), the standard gross margin (SGM) is estimated based on the area used for the particular activity (or the number of heads of livestock) and a regional coefficient. The sum of all such margins derived from activities on a particular farm is its economic size, which is then expressed in European size units (by dividing the total SGM in euro by 1200, thus converting it to ESU). Ref. Eurostat.

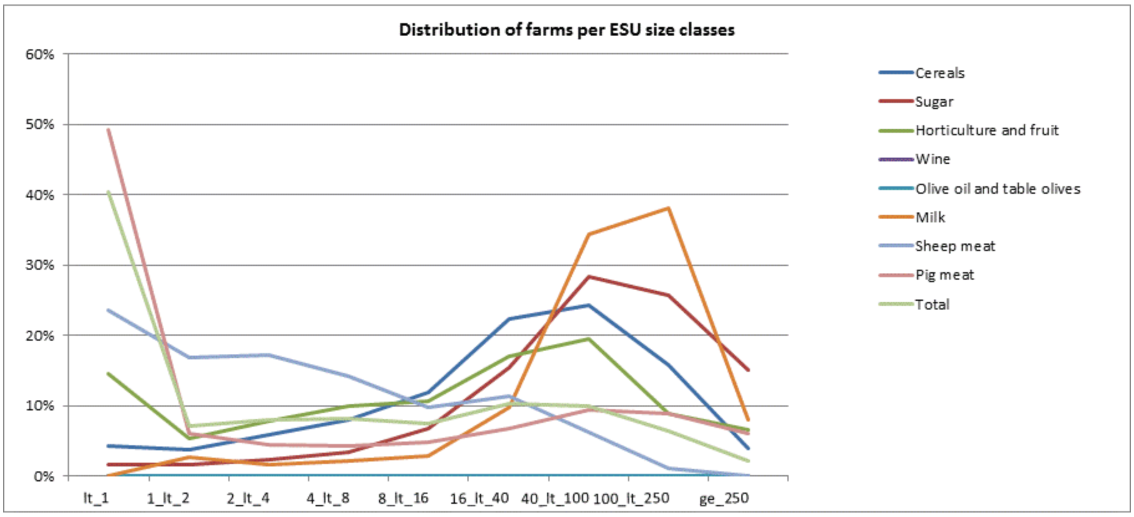


Figure 6 Number of farms per size class, measured in ESU per specialist type of farming. Source: Eurostat, Farm Structure Survey.

The horizontal scale shows the ESU i.e. the sizes of holdings which are typically defined in the UK as shown in Table 2.

Table 2. Farm size categories

Size of holding	Standard Gross Margin (euro)	European Size Units
Very small	less than 9,600	less than 8
Small	9,600 < 48,000	8 < 40
Medium	48,000 < 120,000	40 < 100
Large	120,000 < 240,000	100 < 200
Very large	240,000 +	200 +

Table 2 shows that pig producers are typically small farms, whilst dairy has a large proportion of very large farms; sugar and cereals also tend to be larger or very large farms. Fruit and vegetables has a good proportion of both very small and large farms; while sheep meat production shows a consistent pattern over the scale of proportion inversely related to size of farm. Since fruit and vegetable growers have large as well as small farms, this heterogeneity might be problematic for decision making in co-operatives. Note that in 2007, Nothern Ireland had an ESU threshold half that for the rest of the UK.

2.5 Age of farmers: distribution of farms to age classes

According to Figure 7, which gives the number of farms per age class in the UK, the UK has relatively few young farmers in the industry, or younger middle aged (35-44yrs). It is unclear that this presents a future problem, since other factors such as farm size might be more relevant, nonetheless it is clearly an issue for the future of the farming population.

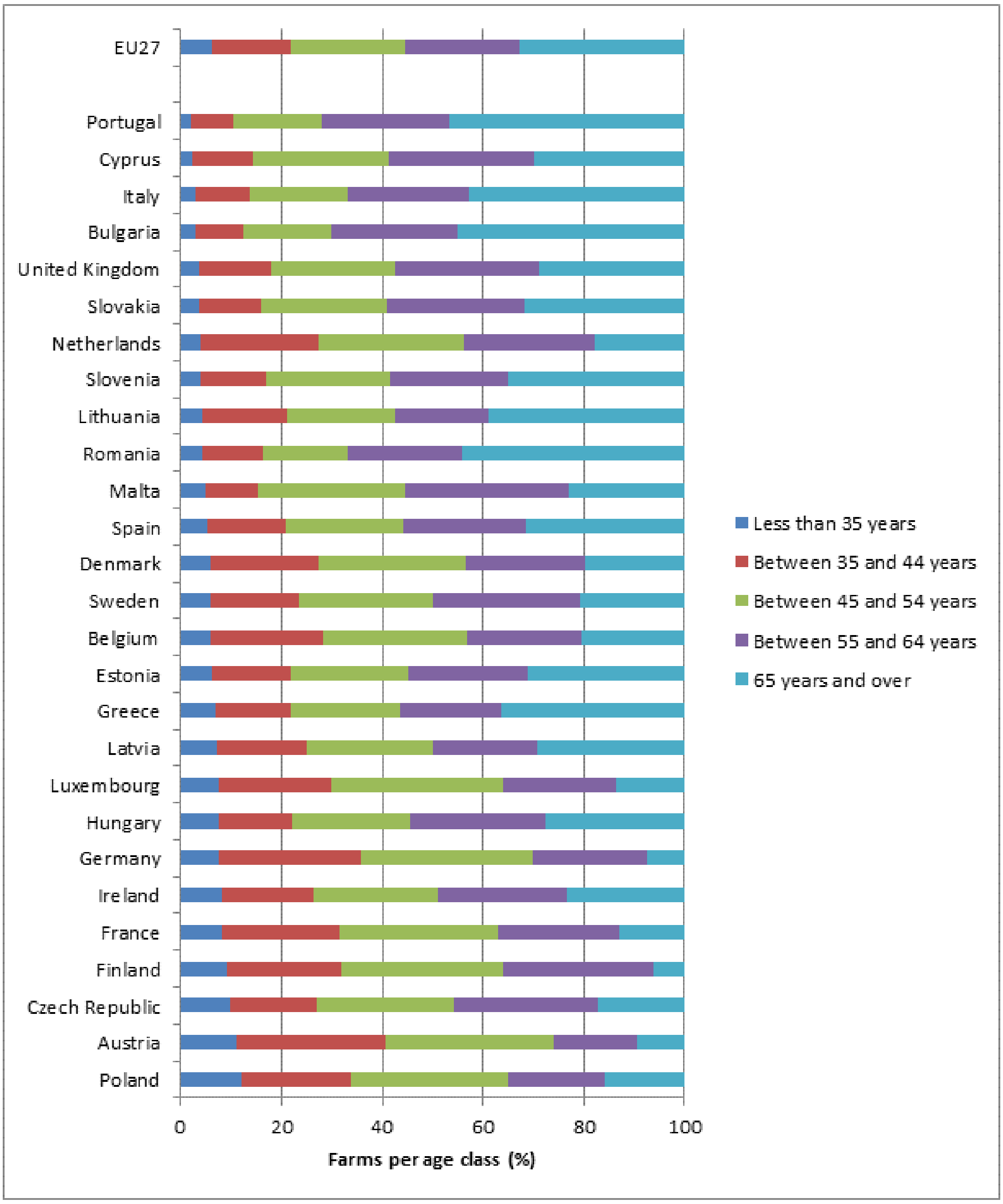
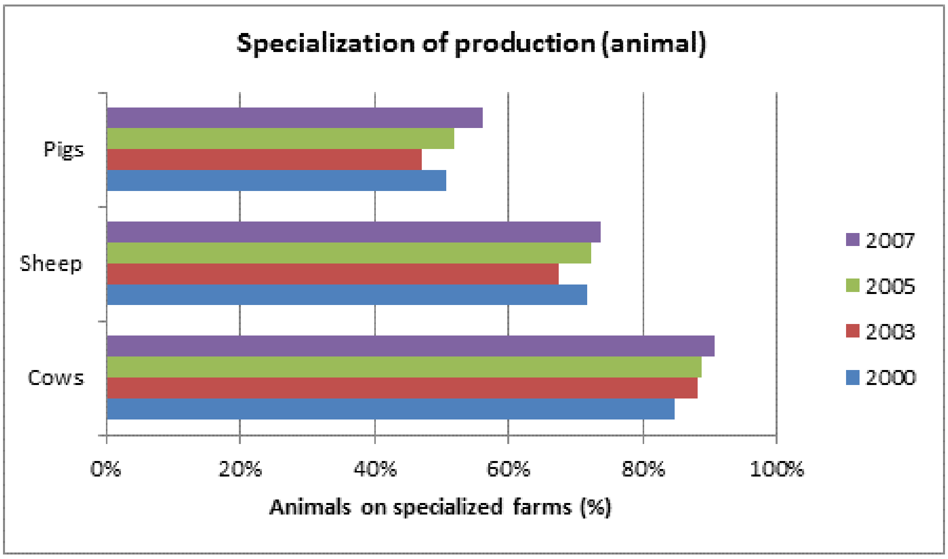


Figure 7 Percentage of farmers per age class, per Member State and for the EU27 2007 (ranked with countries with the lowest percentage of young farmers at the top). Source: Eurostat, Farm Structure Survey.

2.6 Specialisation of farm production

Co-operatives might not only have member-farmers with different farm sizes or different ages. Farms might also have a different composition of production and therefore input to the co-operative. This is even true for specialist farms, where, for example, some so-called specialist dairy farmers also have cows, or sheep, or sell hay. In addition, manymixed (non-specialized) farms exist. The heterogeneity specialisation in farming can be estimated by calculating the share that specialized farms have in the total production. This is shown in Figure 8 (split into 8A for plant production and 8B for animal production) .



Figures 8 A & B Heterogeneity in farm production: the share of specialist farm types in total production. Source: Economic Accounts of Agriculture, Eurostat.

In Figures 8 A & B we have highlighted the sectors linked to the Types of Farming as given above and to the specialist crops and animals in Table 3.

Table 3. Farm Types

Sector	**Specialist crop/animal**
Cereals	Cereals [d01-d08]
Sugar	Sugarbeet [d11]
Pig meat	Pigs [j13]
Sheep meat	Sheep [j09]
Fruit and vegetables	Outdoor vegetables [d14] + under glass [d15] + fruit and berry plantations [g01] + citrus plantations [g2]
Dairy	Dairy Cows [j07]
Wine	Vineyards [g04]

2.7 Economic indicators of farms

This description of the agriculture sector concludes with some economic indicators (Table 4) which 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 co-operatives, but by far the most will be in farm assets.

Table 4 Economic indicators for farms for a three year average 2007-2009.

Economic indicators average per farm (2006 - 2008)	Cereals	Sugar	Fruit and vegetables	Dairy	Pig meat	Sheep meat
Economic size-ESU	95.77	196.23	194.77	130.60	176.87	43.13
Total labour input-AWU	1.67	2.88	7.11	2.52	3.81	1.66
Total utilised agricultural. area-ha	166.52	199.30	28.36	103.52	25.58	271.42
Total output €	184,543	375,222	421,450.60	312,640	629,555	82,879
Farm net value added €	88,027	174,596	159,901.83	107,031	156,111	41,175
Family farm income €	54,092	95,882	19,225.17	67,910	68,478	24,228
Total assets €	1,650,165	1,845,020	887,629.33	1,264,306	827,900	918,997
Net worth €	1,518,968	1,611,141	720,900.00	1,073,200	558,439	845,940
Gross investment €	38,563	73,060	30,553.67	49,098	56,338	18,115
Net investment €	10,981	29,719	6,782.50	20,154	25,037	2,435
Total subsidies-excl. investment €	55,663	60,167	6,028.00	36,837	7,326	53,899
Farms represented	19,473	7,890	1,443.33	16,023	3,077	17,553

Note: - less than 3 years available. Source: DG Agri from Farm Accountancy Data Network (FADN)

Horticulture is clearly dominated by small producers (and is poorly organised from a co-operative perspective). Dairy is rather polarised with both large and small producers. In terms of output, pigs are most important, followed by dairy, then horticulture, and then sugar. However, sugar has the highest farm net value added, and family farm income.

3 Evolution, position and performance of cooperatives

In chapter 3, we build up knowledge of co-operatives in a number of steps. We begin with a section on the types of co-operatives that exist in the UK economy (3.1), not necessarily only in the food chain. Section 3.2 turns to farmers co-operatives in the food chain, and provides data on their market sharein the main sectors we are interested in. In section 3.3 we draw up a list of the 50 largest co-operatives in the food chain. This is followed by identifying the co-operatives we will work with in chapter 4: the 5 biggest co-operatives (in terms of turnover and/or number of members) in 6 of the sectors this project is especially interested in (wine and olive oil not being relevant to UK and are therefore excluded).

The chapter concludes with two sections on special topics. In section 3.5 we list transnational co-operatives active in the UK. In the last section we list co-operatives that seem to be particularly interesting for the purpose of this project.

The co-operative sector is the largest membership movement in the UK, covering a vast range of industries, from everyday general stores to highly specialised services. The sector is valued at approximately 40.3 billion euro and has almost 13 million members (Co-operatives UK, 2011a). Of these, the largest member is The Co-operative Group which operates across retail, finance, funeral care, travel, insurance and legal services. The Group accounts for a significant proportion of the sector, employing over 110,000 people and a turnover of 15.6 billion euro (The Co-operative Group, 2011).

The national body that works to promote and coordinate this sector is Co-operatives UK (hereafter CUK), which holds the membership for almost 5000 co-operatives and works as the sector's trade association. Throughout this chapter , the importance of the co-operative sector in the UK is described and illustrated using CUK national data.

3.1 Types of co-operatives

Co-operative enterprise has grown over its 200 year history in the UK. Some of its oldest organisations still trade today. Originally led by worker co-ops in the retail sector, "co-operative movement" was born to protect the rights of producers, and later consumers, through mutual ownership (Sawtell, 2009). Since then, the sector has experienced flux in the UK, with the past decade demonstrating increased political, academic and business interest in the co-operative model (Burnage, Teasdale, Lyons, & Somerville, 2011).

With growing importance on uniting and monitoring the sector, CUK manages a database of membership and financial information on their affiliated organisations, dating back to 2002. Using this database, a sector overview is provided below to describe UK co-operative structures, regional variation and industry (sub-sector) classification.

Structures

The UK co-operative sector is predominantly comprised of consumer co-operatives, worker co-operatives, community co-operatives, agricultural and fishing co-operatives, co-operative consortia, co-operative federations (secondary co-operatives) and housing co-operatives. While reliable data on composition of the sector does not yet exist; ICA categorisation has enabled the UK's agricultural and fishing co-operatives to be recognised as 'one of the great success stories of co-operation in the UK, with 'over 500 co-operatives turning over £4.5 billion [5.1 billion euro] in the last year alone' (Co-operatives UK, 2011b).

As members of CUK, the majority of these co-operatives are incorporated as Industrial and Provident Societies (IPS), since this legal route offers statutory assurance of the ICA's seven co-operative principles and scrutiny by the Financial Services Authority (FSA). UK law also provides the option to register as a private company limited by guarantee, which is arguably the most well-known and accessible legal form, but does not offer protection of the co-operative principles. Additionally, the newest route for incorporation is as a Community Interest Company (CIC), which promotes business for community benefit through features such as asset locks (Co-operatives UK, 2008) and limited profit distribution. However, since there is currently no single legal structure in the UK which specifically underpins the co-operative model, there is also an array of unincorporated organisations that have chosen to adopt a written constitution that adheres to co-operative principles, but not to register under a legal form.

Regions

In terms of regional co-operative activity, CUK offers a breakdown to illustrate the diversity of activity across the UK, by regional turnover and employment. The most up-to-date figures are published on their website (Co-operatives UK, 2011c), and are displayed in Table 5 with additional information calculated on regional averages. The following observations (with London excluded as the dominating region for most fields) are of notable interest:

- Co-operatives in the North West of England employ more people than any other region in the UK - although they constitute the 6th highest in terms of regional turnover.
- Scotland and South East England generate the 2nd and 3rd largest regional turnovers in the UK. However, co-operatives in the East Midlands and East of England demonstrate the 2nd and 3rd highest average organisational turnovers.
- Scotland is home to the most co-operatives in the UK, more than Wales and Northern Ireland combined. However, turnover in Northern Ireland is higher per employee than in any other region in the UK.

Table 5 The Breakdown of Co-operative Sector by Region

Region	**Regional Turnover in EUR billions**	**No. of Employees**	**No. of Orgs**	**Average Org. Turnover in EUR millions**	**Average no. of Employees per org.**	**Average turnover per employee in EUR**
East of England	2.5	15,500	200	12.4	78	160387
London	10.2	75,200	563	18.1	134	135240
North East	1.5	4,700	202	7.2	23	312553
North West	2.5	20,350	416	6.0	49	122162
South East	3.7	13,000	328	11.4	40	286846
South West	2.6	13,500	356	7.3	38	192518
East Midlands	2.7	11,400	205	13.2	56	237894
West Midlands	1.6	11,630	219	7.2	53	136027
Yorkshire	2.1	14,580	227	9.5	64	147257
Scotland	3.8	15,000	451	8.5	33	256134
Northern Ireland	0.8	2,340	228	3.5	10	258934
Wales	1.0	5,400	199	5.1	27	188334

Adapted from source: Co-operatives UK, 2011c

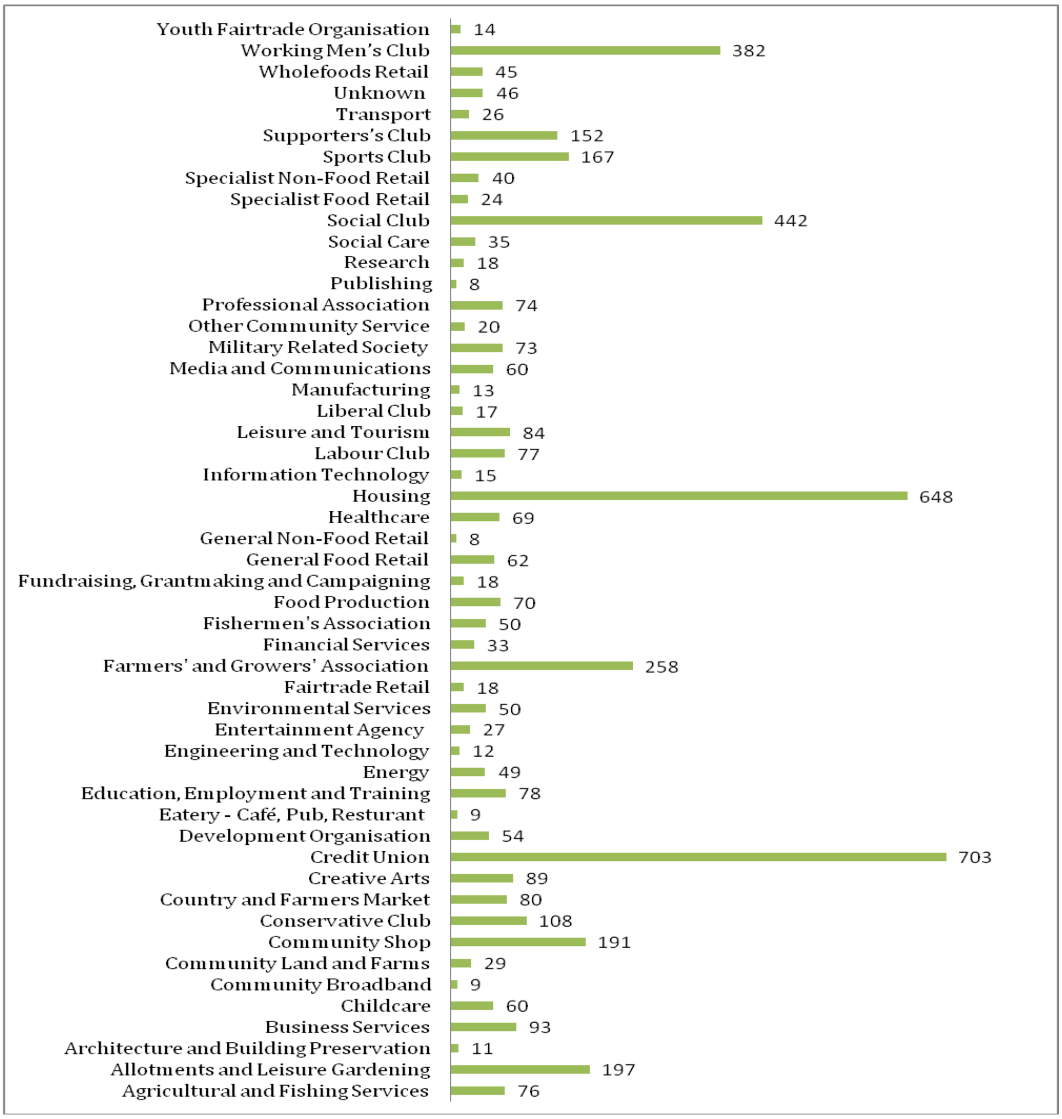
Industries

Based on sector analysis conducted in partnership with CUK; there is evidence of co-operatives operating across a wide range of industries across the UK Standard Industry Classification Index (SIC UK 07). However, the huge diversity in product and service delivery in the sector is reflected in unequal weighting between industries. Within some industries, co-operatives appear throughout the product/service chain (most notably in retail, including food), while in others, organisations are fairly unique within an otherwise highly privatised field (transport and energy in particular).

These differences are reflected in the tables below. Table 6 displays a count of co-operatives within a standardised categorisation system (developed by the Third Sector Research Centre (TSRC), 2010). Table 7 illustrates aggregate industry data as percentages of the overall co-operative sector. It also shows the nature of the UK co-operative industry, with, for example, community organisations outnumbering retailers more than threefold, and with retail holding 76% of the market.

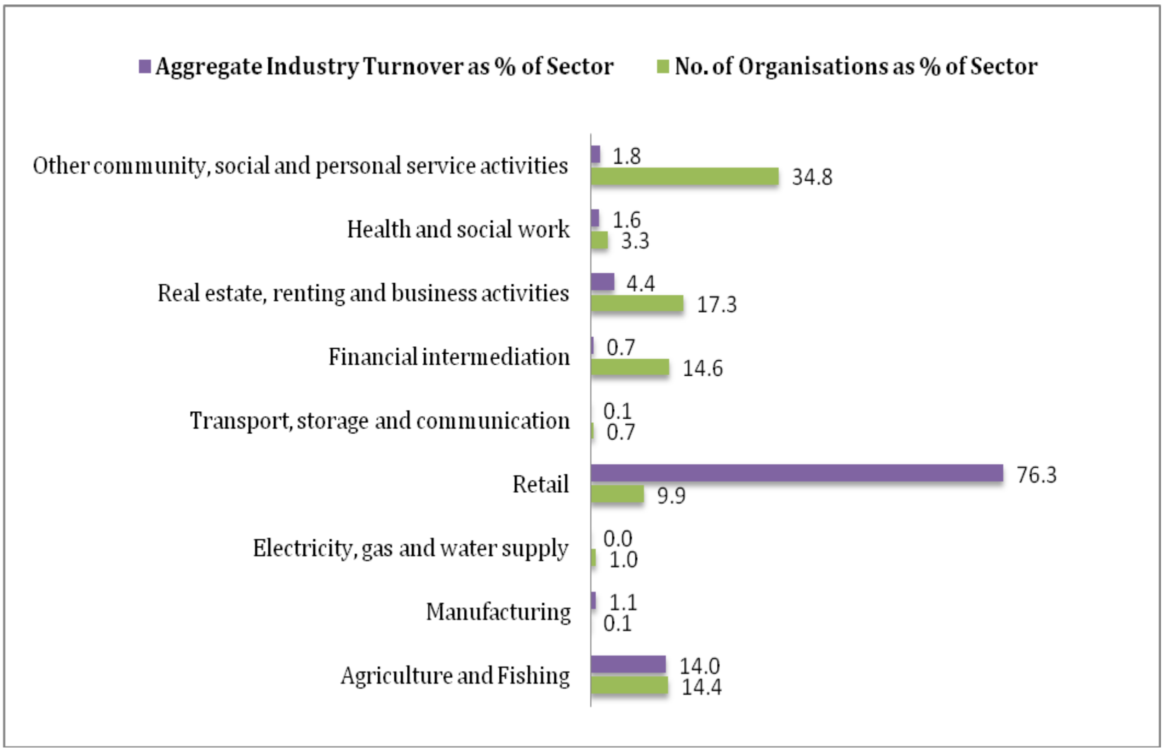
Note that the retail data isskewed upwards by large worker co-operatives such as John Lewis, and secondary co-operatives such as The Co-operative Group.

Table 6 Number of co-operatives by TSRC Category



Source: Burnage et al., 2010

Table 7 Co-operative industry breakdown by SIC category



Source: Burnage et al., 2010

3.2 Market share of farmers' co-operatives in the food chain

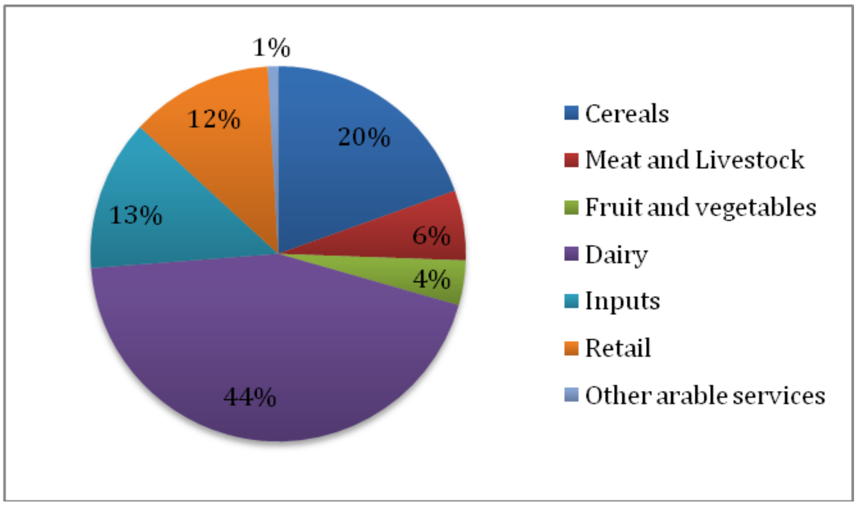
Reliable data on the share of farmers' co-operatives in the food chain as a whole is not yet available in the UK. The most up-to-date figures approximateco-operative turnover by industry (but only including co-operatives with a 2010 turnover of more than 11,300 euro) Market share estimates, based on a total co-operative sector turnover of 37.9 billion euro, show a national turnover of 3.5 trillion euro - figures sourced from CUK (Co-operatives UK, 2011b) and ONS (Office for National Statistics, 2011) respectively. Unfortunately accurate estimates of the UK agricultural sector as a whole is extremely difficult to gauge due to inconsistent industry classification (for example CUK includes all members registered as Agricultural ICAs, including marketing and retail, whereas ONS only includes on-farm activity). These differences have resulted in an ONS estimate of 5.4 billion euro turnover forthe whole agricultural sector in 2009, compared with the CUK estimate of 4.8 billion euro in the co-operative agricultural sector alone. These figures make calculations of the size of the sector unreliable. As such, the most accurate representation of agricultural co-operatives' market share is based on UK national turnover as a whole (see Table 8 below).

Table 8 Market Share of Agricultural Co-operatives in 2009.

	Turnover in £million (approx.)	Market Share of Whole Co-operative Sector (%)	Market Share of All UK Sectors (%)	Comments
Cereals	915	2.4%	0.03%	Cereal co-operatives along the food chain
Meat and Livestock	283	0.7%	0.01%	Meat and livestock co-operatives along the food chain, with the majority dealing in more than one kind of animal
Fruit and vegetables	181	0.5%	0.01%	Fruit and/or vegetable co-operatives along the food chain
Dairy	2079	5.5%	0.06%	Dairy co-operatives along the food chain
Inputs	610	1.6%	0.02%	Producers, marketers and purchasers of all types of input, included feed, fertiliser and seed
Retail	576	1.5%	0.02%	Country stores and farming supplies retail covering farm, small-hold, equestrian and domestic sales
Other arable services	42	0.1%	0.001%	Providers of arable services including farm building, labour and machine provision, animal hair marketing, pest control, animal/crop health advice, etc.
Total Co-operative Sector Turnover	**4686***	**12.4%**	**0.14%**	*** Only includes co-operatives with a turnover of more than 11,300 euro**

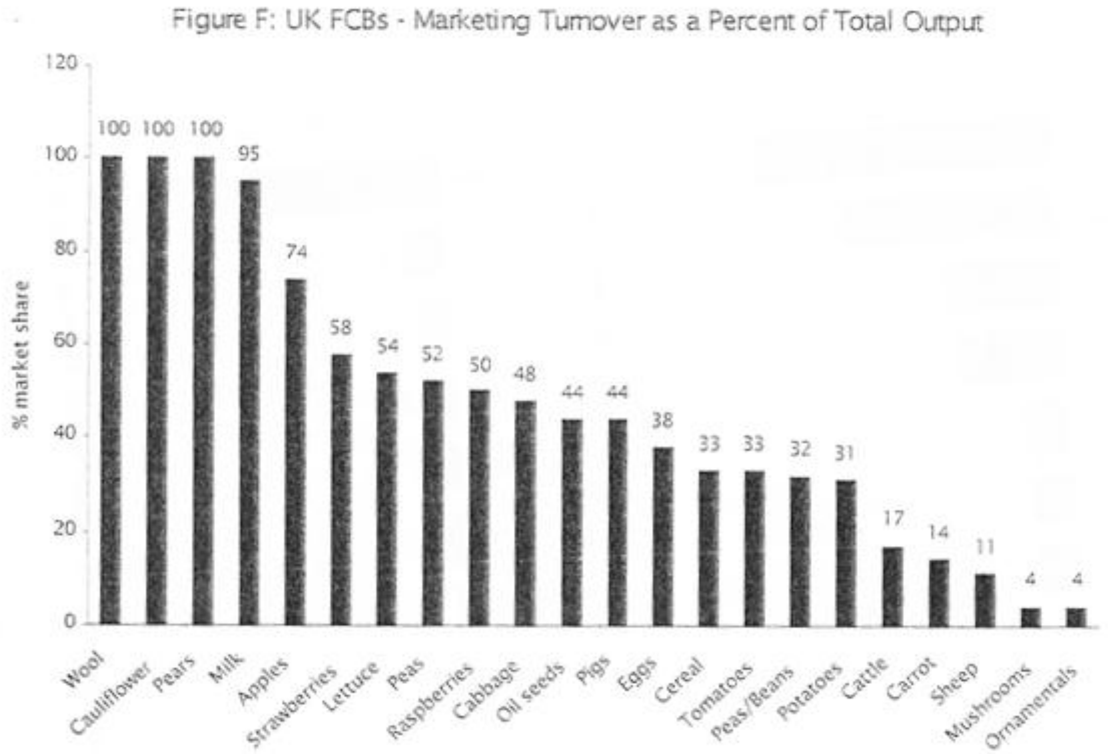
Sourced from CUK database (2011d); NB This is based on the co-operatives turnover, as a proportion of total agricultural turnover; co-operatives share of throughput is much higher – upto 100% in some sectors - see Section 3.5 for details.

Figure 9 Turnover of Agricultural Co-operative Sector by Industry - Sourced from CUK database (2011)



In[2] addition to the market share of cooperatives in the food chain, there is also the share of cooperatives in selling farmers' produce. Figure 10 uses 2001 data, the latest available.

Figure 10. Co-operative Market share in different sectors



Soure: Plunkett Foundation, 2001. Directory and Statistics of Agricultural Co-operatives and Farmer-controlled Businesses in the UK.

Figure 10 indicates the relative dominance of co-operatives in certain sectors, but much weaker performance in others. Part of the reason for good performance in some sectors (such as milk) is due to the demise of the parastatal marketing boards, and their conversion to a numher of co-operatives.

3.3 List of top 50 largest farmers' co-operatives

Using the most up to date national data (Co-operatives UK, 2011d), the list below demonstrates the 50 largest farmers' co-operatives in the food chain by 2010 turnover. The list includes operations throughout the food chain, and has included small-hold and domestic retail, as well as country stores, due to their financial significance in the industry as a whole (see Figure 9 above). Input production, processing and purchasing is also included, as are co-operatives that offer arable services such as farm building, animal health and pest control. Where the organisation deals in a single product, this has been stated in Table 9 – otherwise a broader industry classification has been selected.

[2] This part of the text has been rearranged by Krijn Poppe to make this section more comparable to the reports of other countries

Table 9 The 50 largest farmers' co-operatives in the food chain of the UK (Extracted from source Co-operatives UK, 2011d)

Rank	Name of the Co-operative	Sector(s) involved in:
1	Milk Link Ltd	Dairy Processing
2	First Milk Ltd	Dairy Processing
3	Openfield Group Ltd	Grain Marketing, Arable Services
4	United Dairy Farmers Limited	Milk Production, Dairy Processing, Arable Services, Feeds Production
5	Mole Valley Farmers Limited	Input Production, Farming Supplies Retail, Farm Building
6	Fane Valley Co-operative Society	Dairy Processing, Red Meat Processing, Cereals Production, Feeds Production, Farming Supplies Retail
7	ANM Group Limited	Livestock Marketing, Meat Processing
8	Anglia Farmers Limited	Input Purchasing
9	Atlasfram Group Limited	Input Purchasing, Grain Marketing
10	Agricultural Central Trading Limited	Farming Supplies Retail
11	Cornwall Farmers Limited	Farming Supplies Retail
12	Woldmarsh Producers Limited	Input Purchasing
13	United Oilseeds Marketing Limited	Oilseed Marketing
14	Brandsby Agricultural Trading	Farming Supplies Retail, Country Stores
15	Ballyrashane Co-operative Agricultural and Dairy Society (1990) Limited	Milk Production, Dairy Processing
16	United Farmers Limited	Farming Supplies Retail
17	Long Clawson Dairy Limited	Cheese Production
18	Scottish Pig Producers Limited	Pig Marketing
19	Speciality Produce Limited	Fruit and Vegetable Production
20	Yorkshire Farmers Livestock Marketing Limited	Livestock Marketing
21	South Caernarvon Creameries Limited	Cheese Production, Dairy Distribution
22	Farmway Limited	Country Stores
23	Tarff Valley Limited	Farming Supplies Retail
24	Clynderwen and Cardiganshire Farmers Limited	Farming Supplies Retail
25	CWG Limited	Farming Supplies Retail
26	Ringlink (Scotland) Limited	Machine Sharing and Labour
27	Society of Growers of Topfruit Limited	Fruit Production, Fruit Marketing
28	Bedfordshire Growers Limited	Vegetable Production, Vegetable Marketing, Country Stores
29	Carmarthen and Pumpsaint Farmers Limited	Country Stores

30	South Armagh Farming Enterprises Limited	Livestock Marketing
31	Humber Grain Limited	Grain Marketing
32	Hay and Brecon Farmers Limited	Farming Supplies Retail
33	The Green Pea Company Limited	Grain Production
34	East of Scotland Farmers Limited	Grain Storage, Input Supplies Retail
35	Aspatria Farmers Limited	Input Purchasing
36	Fivemiletown Creamery	Milk Production, Cheese Processing
37	Premier Vegetables Limited	Vegetable Storage
38	South West Lancashire Farmers Limited	Input Supplies Retail
39	Weald Granary Limited	Grain Storage, Grain Marketing, Grain Haulage
40	Hampshire Grain Limited	Grain Storage, Grain Marketing, Grain Haulage
41	WFS Border Limited	Input Supplies Retail
42	Kent Wool Growers Limited	Farming Supplies Retail
43	Furness and South Cumberland Supply Association Limited	Farming Supplies Retail
44	Torridge Vale Limited	Dairy Processing
45	Coastal Grains Marketing Limited	Grain Storage, Grain Marketing
46	East of Scotland Growers Limited	Vegetable Production
47	Dungannon and District Co-operative Enterprises Limited	Meat Processing, Farming Supplies Retail
48	Berry Garden Growers Limited	Fruit Production
49	North East Grains Limited	Grain Processing, Grain Storage, Grain Marketing
50	Augher Co-operative Agriculture and Dairy Society Limited	Dairy Processing, Dairy Distribution

3.4 List of top 5 largest farmers' co-operatives per sector

In the UK, the majority of the 5 largest farmers' co-operatives per sector appear in the top 50 list for cereals, fruit and vegetables, dairy, pig meat and sheep meat. Notably, three co-operatives appear in both the pig and sheep industry since they are specialist at their point in the livestock food chain, as opposed to being specialist in one type of meat. There is evidence that only one co-operative in the UK used to produce sugar beet (Fleggmart Ltd), but enquiries have so far failed to produce any organisation contact details or further information. Theabsence of co-operatives dealing in sugar is potentially due to British Sugar farms (a private sector company) having an apparent monopoly of beet production and processing for the UK's EU quotas (NFU, 2010). As such, although Fleggmart Ltd has been included in the table below, it is excluded from the analysis that follows.

Table 10 Most important co-operatives in the sectors studied in this project (Extracted from source Co-operatives UK, 2011d)

Sector	Rank	Name of Co-operative
Cereals	1	Openfield Group Ltd
	2	Fane Valley Co-operative Society
	3	Atlasfram Group Limited
	4	United Oilseeds Marketing Limited
	5	Humber Grain Limited
Fruit and vegetables	1	Speciality Produce Limited
	2	Society of Growers of Topfruit Limited
	3	Bedfordshire Growers Limited
	4	(Premier Vegetables Limited?) East of Scotland Growers Limited
	5	Berry Garden Growers Limited
Dairy	1	Milk Link Ltd
	2	First Milk Ltd
	3	United Dairy Farmers Limited
	4	Fane Valley Co-operative Society
	5	Ballyrashane Co-operative Agricultural and Dairy Society (1990)
Sheep meat	1	ANM Group Limited
	2	Yorkshire Farmers Livestock Marketing Limited
	3	Dungannon and District Co-operative Enterprises Limited
	4	Pembrokeshire Quality Livestock Limited
	5	Caithness Livestock Breeders Limited
Pig meat	1	ANM Group Limited
	2	Scottish Pig Producers Limited
	3	Yorkshire Farmers Livestock Marketing Limited
	4	Anglia Quality Meat Association Limited
	5	Progressive Lean Pigs Limited
(Sugar	*1*	*Fleggmart Limited)*

3.5 Transnational co-operatives

Many co-operatives are active internationally. In most cases the foreign activities of co-operatives 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 co-operatives that do business with farmers in other EU Member States. These co-operatives are called international co-operatives. They can be marketing co-operatives that buy from farmers in different countries, or they could be supply co-operatives that sell inputs to farmers in different countries.

Table 11 presents the international co-operatives that have their base in the UK. They have gone international by taking up business with non-member farmers in other countries. In the UK, this activity is evident in the fruit and vegetable sector, where a demand for year round supply has replaced a reliance on seasonal produce, and has resulted in sourcing from farmers internationally. However, none of the organisations listed below have membership from their foreign suppliers.

Table 11 The international co-operatives from the UK that are trading with farmers in other countries

Name of the Co-operative	**Host countries**	**Sector(s) involved in:**	**Comments:**
Berry Gardens	Belgium, Germany, Netherlands, Spain, Egypt	Fruit and Vegetables	Berry Gardens is a UK based co-operatives that markets berries grown by members in the UK and across Europe for year round supply. It also has partners who grow in USA and Australia.
Premier Vegetables Ltd	Spain, Holland	Fruit and Vegetables	Premier Vegetables Ltd do not have members in other EU but do sources produce from non-member growers in other countries to meet demands for year round supply.
Bedfordshire Growers Ltd	Spain, New Zealand, Chile	Fruit and Vegetables	Bedfordshire Growers Ltd do not have members in other EU countries but sources produce from other countries to meet demands for year round supply.

Table 12 International & transnational co-operatives from overseas trading in the UK

Name of Co-operative	Origin Country	UK Members	Sectors	Comments
Arla Foods AmbA	Denmark	N but AFMP	Dairy	Major dairy business in UK. Operates through Arla Foods Milk Partnership (AFMP), with membership structure for producer groups and milk co-operatives. First entry into UK market through dairy products exports more than 100yrs ago, then via acquisitions from 1990s. Major growth in 2003, via merger with Express Dairies plc.
Town of Monaghan agricultural and dairy society ltd	Ireland	Y	Dairy	Dairy products. Northern Ireland farmers are members supplying across the land border into the processing facility in both Northern Ireland and the Republic of Ireland
Lakelands dairies	Ireland	Y	Dairy	Members and processing facilities in Northern Ireland.
Coöperatie Coforta U.A./ Coforta	Netherlands	Y	Fruit & Veg.	Suppliers of fruit and vegetables to supermarkets and wholesalers, through their subsidiary The Greenery UK. Membership is open to select international growers.
TELERSCOOPERATIE FRESQ U.A. /FresQ	Netherlands	Y	Fruit & Veg.	Its subsidiary FresQ Kent markets tomatoes, peppers and cucumbers for UK members.
Danish Crown AmbA	Denmark	N	Meat	The Danish Crown Group's processing activities in the UK is handled by Tulip Ltd (T/O E1.3bn. It carries out slaughterhouse and meat processing activities and operates in product groups: Bacon, luncheon meat, canned goods and poultry products.
Axéréal	France	N	Cereal	Its subsidiary Boortmalt has 2 malt houses in England and 2 in Scotland
Champagne Céréales	France	N	Cereal	Operates in 25 countries; One of its companies, Ineos, owns an English biodiesel company.
Tereos	France	N	Sugar	Owns a sugar refinery in Selby, Yorks.
Limagrain	France	N	Seeds	Operates through its subsidiary Limagrain UK
Agrial	France	N	Fruit & Veg.	Operates 2 sites in UK through its subsidiary: Florette Group
Cecab	France	N	Fruit & Veg.	Cecab Group exports to more than 50 countries
Sodiaal Union	France	N	Dairy	Exports branded dairy products such as: Candia, Entremont, Le Rustique, Cœur de Lion, RichesMonts, Régilait, Yoplait.
Carbery Milk Products	Ireland	N	Dairy	Now known as Carbery Group, Euro 200m food business; Part owned by 4 Irish dairy co-ops.
Glanbia co-op society ltd	Ireland	N	Dairy	Part owner of Glanbia plc, a major food business.
Kerry co-operat society ltd	Ireland	N	Dairy	Part owner of Kerry Foods, a Global Euro5m. Food business.

Based on the Table 12, it appears that globalisation of co-operative business is largely for processing and distribution, but not generally accompanied by globalisation of membership.

4 Description of the evolution and position of individual cooperatives

In this section, we explore the position of the top five organisations across five sectors, listed in Table 10 in Chapter 3. As three organisations are duplicated in both the pig and sheep industries, the final questionnaire was completed with a cohort of 22 cases. The data collection process, and observations inferred from the data, are described below.

4.1 Data gathering per co-operative

The primary data collection methods used for early analysis were reviewing organisations' annual reports and websites, referencing the CUK database, and telephone interviews. The first process was to identify each organisation with an active and current website, and extract as much information as possible from that source. This information was then corroborated and supplemented using the CUK database where possible, and translated into the standard questionnaire format. The remaining fields were addressed through telephone interviews with relevant members of the organisations, primarily with managing directors, accountancy staff, and office managers. These interviews were in most cases based on successful cold calling, but occasionally pre-arranged through email correspondence or colleague referral.

It is important to note at this point that there is a number of organisations who were not directly contactable during the interview phase, and do not have a website or published report. As such, these organisations only contain skeleton data from the CUK database.

4.2 Position in the food chain

As shown in Figure 9, agricultural co-operatives in the UK food chain display a variety of functions. In the top 5 per sector, there is a significantly greater emphasis on marketing in livestock and cereal co-operatives, than in both fruit and vegetables and dairy, where there is more activity in co-operative production and processing. While there is a range of organisations that operate in retail and wholesale in the top 50, they are outside the sectors of interest for this study. Therefore, retail and wholesale in the food chain play only a peripheral role for the cohort of individual co-operatives, most of which do not engage in retail at all. Historically, this was not the case, with early co-operatives formed primarily to maximise direct retail opportunities for farmers in the UK. The necessity for the processing and marketing intermediaries operating today has developed because of the increasing scope and complexity of global agricultural markets.

However, in terms of organisational evolution over time, there is little evidence of individual co-operatives altering their position in the food chain over the last decade. The need to adapt parts of co-operative operations seems to be apparent, primarily to meet the needs of certain clients or to adhere to more stringent regulatory criteria. However, the status of the majority of these organisations as successful specialists in their field, with longstanding membership and clientele, may indicate why diversification from primary functions is rare.

4.3 Institutional environment

The main developments in recent years have been associated with the demise of parastatal marketing bodies, and in some cases their conversion to marketing co-operatives. Each of the countries in the British Isles set up its own federal body to collect and distribute information, develop new societies and support members.

The first agricultural co-operative in Britain was established in 1867 to supply seeds and fertilizers to its members. The Federation of Agricultural Co-operatives in Great Britain and

Ireland (FAC) was founded in 1949 as a central body with the task of co-ordinating the already established federal agricultural organisations in the UK and Ireland. The FAC comprised the Agricultural Central Co-operative Association (ACCA), the Welsh Agricultural Organisation Society (WAOS), the Scottish Agricultural Organisation Society (SAOS), the Ulster Agricultural Organisation Society (UAOS), and the Irish Agricultural Organisation Society (IAOS).

In addition its members included the Agricultural Co-operative Managers Association (ACMA), which links managers of societies in all the regions, and the Plunkett Foundation for Co-operative Studies which conducted research into the principles and practice of agricultural co-operation, administrative services for co-operative organisations, the provision of information and library facilities for those interested in agricultural co-operation, and conducted training courses for co-operative staff.

The IAOS, the first federation, was established in 1894. The SOAS was set up in 1905 and the WAOS and UAOS were formed in 1922. The Agricultural Co-operative Association for England was formed in 1945 and in 1956 merged with the Farmers' Central Organisation to form ACCA.

The main job of FAC was to address the interests of all of its members including relevant legislation, education and training, managing relations between co-operatives and the parastatal marketing boards, research (collecting statistics), trade between co-operatives and promoting international relations amongst co-operatives. In 1970 the organisation became the Federation of Agricultural Co-operatives (UK). The FAC ceased to exist in 2001, but the Plunkett Foundation continued to support programmes for rural co-operative and social enterprises. Agricultural co-operatives, however, form a much more limited part of their work now. The last set of agricultural statistics produced by them was in 2001.

More detailed discussion of the policy context of the sector is addressed in chapter 5.

4.4 Internal Governance

Since most co-operatives in the UK, particularly in the agricultural sector, are registered under the Industrial and Provident Society legal form, it is common for their constitutions to be based upon the "one member, one vote" system (HMRC, 2011). When this form is adopted for co-operatives, this voting right is protected under UK law (I&P Act 1965) and reinforced through FSA mandate. On this basis, proportional voting is rare for the co-operatives under study here. Similarly, in this cohort, it is also rare for organisations to operate as secondary or federated co-operatives; in most cases they are primary co-operatives with producers and growers as their members.

In terms of membership rules for these organisations, entrance fees usually take the form of £1 shares, with I&P law restricting co-operative share-holding to no more than £10,000 per member (ibid). Membership policy is primarily based on the ability to deliver good quality product, with the majority classifying their membership access as easy to medium (approx. 80%). Generally, farmers who stop producing can maintain their membership for stated period of time, and then are required to give up their shares. At this point, they also lose their vote. Election rules for the board of directors generally mirror the co-operative's membership entrance policy, in terms of having fairly open criteria, based on ability or expertise alone. However, in larger organisations, regional or product representation is sometimes apparent. In cases where the board of directors comprises members and professional non-members, these non-members are primarily the executives that are responsible for the operational management of the co-operative. In all cases, although board members must stand for re-election (usually every 2 to 3 years), UK agricultural co-operatives do not place a limit on how many years can be served.

4.5 Performance of the co-operatives

Information on the market share of cooperatives was given in chapter 3. Data showed high market shares in sectors like dairy and some fruit and vegetables. In cereals the market share seems to be roughly one third. In terms of other measures of performance (Coops UK 2011 report), the members and employment in the co-ops was as follows:

- Total number of members: 153747
- Total number of full-time equivalent employees: 7754

And the breakdown by sector was as follows: (only including organisations with a 2010 turnover exceeding 11,300 euro)

Table 13 Employment in co-operatives per sector

Sector	Number of Members	Number of full-time equivalent employees
Cereals	10390	310
Meat and Livestock	36382	693.5
Fruit and vegetables	924	229
Dairy	10410	4264
Inputs	4035	1181
Retail	55689	917.5
Other arable services	20191	124.5
Total	**138021**	**7719.5**

Ref: Coops UK 2011 report

5 Sector analysis

5.1 Introduction

In this chapter we discuss the developments in the eight sectors that are central to this study. We report on trends in the markets, important changes in (agricultural) policy and try to link this to the strategies and performance of the investor-owned firms and co-operatives in the sector. The period of observation is 2000 – 2010.

It is first useful to place this discussion in the wider global context. There is a general price volatility linked to the diverse and demanding markets for wheat (ethanol energy market, direct human foodstuff, and animal feedstock). Similarly climatic variations have exacerbated production uncertainties across several sectors.

There are also other environmental issues. Both dairy and sheep are faced with addressing the carbon footprint of their animals, or to examine the role of environmental management. There are targets, for example, to achieve 80% reductions in greenhouse gas emissions in all sectors of the economy, and farmers of livestock with various gaseous emissions face important challenges.

5.2 Cereals

In grain there is one large cooperative (Openfield) as well as several smaller regional cooperatives. Cooperatives either store or market grain or do both; they may also supply inputs such as fertiliser – including in some cases crop protection products. Cooperatives probably account for over 25% of this market.

United Grain Producers is an informal grouping of many of the cooperatives and doesn't employ any staff. Then there are those organisations like Fengrain or Cam Grain (which is probably the biggest storage co-operative). Network Grain is an association of cooperatives for information sharing about best practice, how to get grants oraccess resources, etc.

One of the major current trends is massive volatility (which has not been present in the previous 20/30 years), in the input prices of fertiliser, and output prices for grains. This situation has major implications for cash flow, and strategies for managing potential cash shortages; as well as creating sophisticated strategies in the futures market to hedge the risks. But despite huge price changes in 2007 and 2010, there have been few failures; although there have been some mergers, including that of Openfield which was formed out of the merger of two cooperatives -- Grainfarmers and Centaur in 2008. Openfield is nearly as large as some PLCs such as Cargill (but not as large as multi-nationals such as Glencore). Openfield has offices in all the major grain producing areas of the UK and has a distinctive business model based on Pool Marketing, where farmers make an early season commitment to a specific quantity and quality of grain for the market. In this way they can develop medium term relationships thereby strengthening their position in the markets. They are owners and get a dividend on the business returns.

The future policy issues affecting co-operatives are now largely to do with the CAP proposals in November 2011.

5.3 Sugar

Sugar is dominated by British Sugar (a subsidiary of Associated British Foods), which has a monopoly on processing sugar beet. The NFU negotiates prices and contracts on behalf farmers.

5.4 Fruit and vegetables

Overall margins in this sector are low and have been declining. High capital spending requirements, together with current barriers to investment, limits the prospects for the sector; although good returns from glasshouse farms indicate good potential. Producer organisations (such as cooperatives) are particularly important in this sector which is very fragmented; there are large numbers of growers who are geographically dispersed. Only 35% of produce in the UK goes through producer organisations. Nonetheless there have been some important achievements such as KG growers (a producer organisation in the soft fruit sector) which has increased in turnover from £18 million in 1995 to £117 million in 2008. Such collaborative activity should also improve supply chain efficiency and reduce waste.

Self sufficiency in indigenous fruit production has gradually increased over the last 10 years to around 38% (2008), while that of vegetables has declined (73% to 60%). Policies regarding fruit and vegetable production are closely linked to nutrition. Public procurement policies could also in the future have a role to play in improving environmental and sustainable sourcing of produce.

An important issue is access to seasonal labour for fruit and vegetables, including that of migrant workers. The current economic crisis has improved supply. Current arrangements with Romania and Bulgaria are due to terminate at the end of 2011, but this is likely to be renewed. Changes to labour mobility with other states may impact on the overall supply of labour.

Another important issue is access to sustainable water sources and storage systems, given recent climatic variability - and policies supporting the installation of water storage reservoirs on farms are being promoted.

5.5 Olive oil and table olives

not in UK

5.6 Wine

not in UK

5.7 Dairy

This sub-sector has seen growing international competition since the conversion of the Milk Marketing Board to co-operative structures. A major competitor is the Danish/Swedish co-operative Arla Foods. After its merger with Express Dairies it became the UK's leading supplier of dairy products.

Deregulation and privatisation have been constant themes since the early 90s when the parastatal organisation, the Milk Marketing Board of England and Wales, was closed. From its ashes, Milk Marque (a farmers' producer cooperative) was formed with well over 50% of the market. It was required to split into 3 regional co-operatives, on competition grounds, in 2000.

There are two major cooperatives (Milk Link and First Milk) which account for about 36% of the UK market. They each have 2000 - 3000 producers supplying them. They add value through cheeses, branded dairy products such as flavoured milks, and dairy ingredients, and broker milk to the larger PLCs.

The major policy initiative coming up is the EC dairy package. This proposes changes in contractual relations between dairy farmers and dairy processors. There are some uncertainties about how this policy will operate, but there could be some advantages for cooperatives in comparison to PLCs in their relationship with farmers. The new proposals also offer the possibilities that producer organisations could control up to 40% of the market (compared to the current situation where competition authorities would get involved if the share of the market rose above 15%). This would allow existing co-operatives to grow and /or merge to a greater extent that would be acceptable now.

Global commodity prices have been highly volatile, and managing this is a major issue. They are now increasing again, and are likely to continue to trend higher in the medium term. The UK has a strong fresh liquid market; and process manufacturers (such as cheese) are having to offer higher prices for milk supplies. This puts cooperatives, which cover the liquid market and added value processing, in a better position relative to the private companies/PLCs sector. Consequently more farmers are moving to cooperatives because of better milk prices and the dividend.

There are also increasing commodity markets (for skimmed milk, whey, butter) particularly in rapidly developing economies such as Southeast Asia. Co-operatives are growing their milk pools through their better prices, and are beginning to tap into these commodity markets. However, other factors may play a role in co-operatives abilities to exploit these growing markets, including regulatory issues, farm and co-operative size, processing capabilities, and ability to manage volatility.

5.8 Sheep meat

The UK has one of the largest sheep flocks in Europe (about 20% in 2008), producing about 34% of sheep meat in the EU. This industry has gradually recovered from a foot and mouth outbreak in 2007. There was a review of how the crisis was handled, with resultant demands for greater transparency in the food chain (including through electronic identification systems), as well as other improvements to food security, including more testing and emergency responses.

Competitiveness not only within the EU but also with New Zealand is also important. Higher current prices may reduce the number of farmers leaving the industry.

This sub-sector does not have a great number of cooperatives , but there are new organic meat coops and informal agreements with abattoirs.

5.9 Pig meat

There is not a great number of cooperatives amongst producers, or in marketing or abattoir ownership - due to a historical lack of cooperatives in these areas. Instead there is a growing business model of large pig producers renting space for pigs on smaller farms. This has come about because small farmers face trading difficulties and/or succession issues, selling their own pigs and sweating and building assets (a practice termed contract finishing), possibly as part of an exit strategy.

Over the last five or six years there have been many trading difficulties (boom/bust); mostly due to input price volatility because of high barriers through the price of grain feedstuffs. This has led to entrepreneurial activity within the production phase, such as creating value-added activity on pig products and by-products. Smaller farmers are also engaging in direct retailing to the public through farm shops or the Internet; or moving into high-value markets (organic and free range). More animals are therefore bred (40%) and reared outside; and energy comes from channelling slurry into anaerobic digesters, or using government tax breaks to go into solar farming using PV cells.

Another major driver for this entrepreneurial activity is a lack of competitiveness, since pig production prices in the UK are higher than most of the competition, largely due to pig welfare legislation in the UK introduced in 1999 when sow stalls were banned. However this means the UK offers a high quality product. Nonetheless the UK is currently only about 40% self-sufficient in pig production.

A further consequence of trading volatility has been consolidation in the sector, with a decline in the number of farmers, and an increase in size of production -- with 10 farms controlling 35 to 50% of breeding.

The most important forthcoming policy change is in January 2013, when the rest of the EU will have to upgrade its welfare standards, particularly for pregnant sows, thus requiring greater investment in farm equipment and building design. Given current difficulties in raising finance there are also projections of drastic declines in pig production in Europe.

6 Overview of policy measures

The objective of this chapter is to identify support measures that have proved to be useful to support farmers co-operatives. In section 6.2 the relevant policy measures and their potential impact in the UK are identified. In section 6.3 a number of other legal issues are addressed.

6.1 Regulatory framework

The performance of co-operatives (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, regional policies can also influence the way co-operatives operate. In this chapter we look especially at the regulatory framework that influences the competitive position of the co-operative versus the investor-owned firm (IOF) or the competitive position of the co-operative 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 co-operative (business organisation law). Well known other examples include agricultural policy (e.g. the EU's policy towards producer organisations in the fruit and vegetables sector), fiscal policies (at the level of the co-operative and the way returns on investments in co-operatives 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

6.2 Policy measures 2000-2010

See Appendix 1 for tables on policy measures.

It is useful in assessing the overall policy between 2000 and 2010, to first look at the historical institutional and policy support.

Historically, between 1967 and 1983, the institutional role of the Central Council for Agricultural and Horticultural Co-operation was important. It was absorbed into Food from Britain, effectively becoming its Agricultural Development Division from 1983 – 1988 when funding was amalgamated; covering the home market, overseas markets and central services. Development work continued in Food from Britain till 1993; with both bodies fully funded by government. The Central Council was also the recommending body to the Ministry for Agriculature, Fishing and Food (MAFF) for agricultural co-operatives grants from the UK and EU. During this time they were responsible for the development of agricultural co-operatives within the UK and funded directly for this purpose by MAFF and later the Department for Environment, Food and Rural Affairs. They were the main driving force for the creation of agricultural cooperatives during this period and were responsible for both grants and development work. There was then a gap in national development support for England from 1993-2002.

The main underpinning for much policy in the UK, and particularly England, towards food and agriculture from 2002 to the end of the Labour Government in 2010 was The Curry Commission, set up in 2001. Its final report on the *Future of Farming and Food* had the remit to: "advise the Government on how we can create a sustainable, competitive and diverse farming and food sector which contributes to a thriving and sustainable rural economy …".

Within that report, final recommendations related to 'collaboration' rather than directly to co-operation (although the benefits of co-operative activity were highlighted within the main report):
http://archive.defra.gov.uk/foodfarm/policy/sustainfarmfood/documents/workingtogether-annexa.pdf:
These related recommendations included:

- Awareness by the competition authorities of the appropriateness of collaborative ventures within farming;
- An English collaborative board to be set up (which became English Farming and Food Partnerships (EFFP));
- A focus on local collaborative food initiatives.

The Government responded to the Curry Commission's report (*Response to the Report of the Policy Commission on the Future of Farming and Food* by HM Government, CM 5709, 2002) and identified policies for England within: *The Strategy for Sustainable Farming and Food: Facing the Future.* http://archive.defra.gov.uk/foodfarm/policy/sustainfarmfood/strategy.htm

This strategy was drawn up with different stakeholders and sector bodies including individual farmers, and with regional consultation. The then government committed £500m of new public money to be spent on support schemes, improving environmental practice, and reforming regulatory compliance.

In Scotland the SAOS, set out in Section 4.3, continues to exist and be funded by the Scottish government. In Wales,the WAOS has little funding and about two staff) while in Ulster, the UAOS was funded by the Central Council but no longer exists.

The EFFP's initial remit was very much to work with agricultural cooperatives. However, it was subject to a management buyout in Oct 2010, and although it still works very much in this area, albeit looking at collaboration more broadly, it not funded by the UK government, although receives funding for cooperatives from the Scottish government.

With the change of government in May 2010, the priorities of Defra altered, although there is continued commitment to EU schemes and programmes whose time frames span the change in government.

The overall priorities set out within the Defra business plan include:

- Source British food by government;
- Increase domestic food production and labelling but with voluntary approaches encouraged;
- Publish a joint government/industry skills action plan to support growth.

There is nothing directly here about promoting collaboration or co-operation.

The UK, like other EU countries, has signed up to, and delivers a variety of EU programmes such as the Fruit and Vegetables Scheme. For example, the Rural Development Programme, which is relevant to the promotion of co-operation and collaboration in farming, is dealt with differently across the nations. Additionally, the main responsibility until 2010 was with the Regional Development Agencies but since the announcement of their ending, this responsibility has passed to Defra.

It is difficult to tell exactly what the current Coalition's views on collaboration and co-operation will be in food, since current priorities for agricultural co-operatives are focused on cost-saving. Commentators for this research have reported warm support for agricultural and producer co-operation in government-industry meetings. However, so far this interest has not been turned into specific actions and money.

With regards to legal vehicles, co-operatives are free in the UK to take on many different legal forms and the choice of vehicle depends on their activity, sector, and particularly whether or not they wish to access different forms of external finance.

The development and issues surrounding choice of legal form and the developments of the IPS model over the period 2000-2010 are dealt with in more detail in the next section on Legal Issues. In summary, agricultural co-operatives benefited directly and indirectly from strong lobbying by the co-operatives sector in the UK to modernise IPS legislation. One of the most relevant reasons was to reduce the costs of using this form and ensure that it did not make those who chose to use it uncompetitive relative to other kinds of business structure.

There has also been sporadic interest specifically in the situation of agricultural co-operatives, most notably:

- through clarification by the competition authorities over the situation of co-operation and collaboration by farmers and within the agricultural supply chain (as recognised in the recommendations of the Curry Commission);

- ongoing attention and sporadic government interest in the difficulties of mostly marketing and processing agricultural co-operatives in accessing appropriate finance for growth, whether external finance (through, for example, banks, quasi-equity or non-user equity providers) or from member investment (due to limitations primarily on levels of withdrawable and non-withdrawable shares);

And, following the collapse of Dairy Farmers of Britain, a concern to develop strong and appropriate Codes of Governance for the sector (as part of a wider attention to governance by co-operatives in general).The devolution of powers and authority in different degrees to Wales, Northern Ireland and Scotland, as well as delivery of much economic policy via the Regional Development Agencies within England, created differences in support for co-operative activity within farming. This might be seen to have fragmented approaches to promoting or supporting co-operation of different forms within agriculture. Because of these differences, the policy approaches and partners relevant to this study need to be looked at across the nations of the UK separately.

England

The Strategy which followed the Curry Report included several recommendations which could be seen to directly impact on the promotion of co-operation and collaboration within the food chain and farming including:

- creation of a **Food Chain Centre** – to encourage more information sharing;
- **collaborative ventures** – the Department for Environment, Food and Rural Affairs (Defra) announced that projects to strengthen collaborative activities would be one of the priorities of the **Agricultural Development Scheme** (providing 50% of costs for supporting marketing initiatives and which ran until 2008/9);

- creation of a new body to promote collaboration – which would be partly funded by the Government – **English Farming and Food Partnerships (EFFP)**;
- a commitment for the Office of Fair Trading to post answers to frequently-asked questions regarding the relationship of **competition law** to agricultural co-operation.

It is important to note that whilst the original Curry Report specifically promoted agricultural co-operatives, the resulting recommendations and policies were much wider in their support for, and promotion of, collaborative activities between producers and within the supply chain.

Food Chain Centre http://www.foodchaincentre.com/

IGD is a grocery retail charity that aims to improve the workings of the industry. In 2001, it bid to set up and host the Food Chain Centre with seedcorn funding from HM Treasury and then with funding from the Agriculture Development Scheme and the then Department for Trade and Industry (DTI). Between 2000 and the end of its funding in 2008, the FCC addressed benchmarking, consumer insight and whole supply chains. There was a bias towards large retail but they also worked with smaller suppliers and local initiatives.

The Strategy recognised that co-operative projects had been aided by previous Government grants such as the **Rural Enterprise Scheme** and via the **Processing and Marketing Grants** from the EU. They said that new funds would be made available for this purpose from the **Agricultural Development Scheme**.

English Farming and Food Partnerships (EFFP) http://www.effp.com

The most direct policy in support of agricultural co-operatives within more widely 'farmer-owned and farmer controlled businesses' was the setting up of the EFFP in 2003. It is now no longer funded by Government and has transformed into a consultancy. The original focus was primarily to promote and support co-operatives, and collaboration between farmers. Right from the start there was pressure to include collaborative groupings within agriculture. In subsequent years, the focus of activities broadened out to wider horizontal and vertical collaborative relationships. There was, however, always a strong emphasis on 'farmer-controlled or owned businesses' to ensure that farmers are able to realise their own benefits through group power, whatever legal form or governance is deemed appropriate. Their overall mission is still to empower farmers and food businesses to increase their benefits.

This move to a focus on vertical collaboration was partly in response to the perceived weakness of UK farming in relation to foreign competition, and the need to increase the effectiveness and collaboration within supply chains for different kinds of product. This focus can be seen as a shift throughout the nations of the UK in response to trends and challenges in the food and farming sectors.

For most of the period 2000-2010, the 9 Regional Development Agencies were responsible for economic strategies within England. The new Coalition Government, that came into power in 2010, announced that in most cases the RDAs would end although their work has been ongoing for the period of this report. In response to the Curry Report and to the Government's Strategy for England, each region had to produce its own regional food strategy, often as part of their wider agri-food strategies, and linked to **Food From Britain** (which ran from 1983 to 2008, funded by government to support exports of British food overseas).

An example of a regional strategy is the *Regional Delivery Plan for Sustainable Farming and Food* produced in 2003 in the East Midlands http://www.go-em.gov.uk/rural/docs/rdp/leaflet.pdf

The English Rural Development Programme from 2000-2006, was delivered primarily through the regions, including a Processing and Marketing Scheme which provided support for capital investment in "projects aimed at improving the processing and marketing of agricultural products in order to increase their competitiveness in the market place and their added value". A new programme from 2007-2013, the Rural Development Programme for England, set out measures under for Axes with "Promotion of co-operation for the development of new products, processes and technologies" under Axis 1 (improving the competitiveness of the agricultural and forestry sector), and also under Axis II (improving the environment and the countryside). Whilst this was initially delivered through the regions as part of their food strategies, responsibility for Axis 1 is moving centrally to Defra.

There was also an announcement by Defra of a strategy for the **development of the organic sector** in England to illustrate how collaborative working can pay dividends and which encouraged retailers to work with producers. An Action Plan was produced in 2002 http://archive.defra.gov.uk/foodfarm/growing/organic/policy/actionplan/

Scotland

Scotland has a variety of particular schemes that could benefit co-operative businesses. For example under the Scottish Regional Development Programme (2007-2013):

Technical assistance for Scottish Producers Scheme (TASPs) supports producers' participation in events, the production of publications about producers and their products, education and training, or rent and applications relating to production. It is particularly focused on producer groups or associations, as well as individual producers.

http://www.scotland.gov.uk/Topics/Business-Industry/Food-Industry/granttimetable/TechnicalAssistance

Food Processing, Marketing and Co-operation Grant Scheme is specifically focussed on Food Co-operation Support to provide assistance to develop co-operation and collaboration within the supply chain. http://www.scotland.gov.uk/Topics/Business-Industry/Food-Industry/granttimetable This scheme seems to be supporting smaller businesses.

Marketing Development Scheme – aims to improve the efficiency of the food and drink marketing chain by helping farmers, grower and processors improve their marketing and commercial expertise, including support for producer groups with feasibility studies or costs of implementation with 50% grants. http://www.scotland.gov.uk/Topics/Business-Industry/Food-Industry/granttimetable/mds

In 2006, the Scottish Executive produced *A Forward Strategy for Scottish Agriculture: Next Steps* which again focuses on collaborative supply chains and encourages local processing and marketing although there is no mention of co-operatives or producer organisations. http://scotland.gov.uk/Publications/2006/03/01142456/0

A Scottish Government grant funds the SAOS – the Scottish Agricultural Organisation Society http://www.saos.co.uk/ whose aim is that of "developing co-operation in farming, food and rural Scotland". It is a development organisation run by its members and aims "to strengthen the profitability, competitiveness and sustainability of Scotland's farming, food and drink, and related rural industries and communities through the development of co-operation and joint venture."

The core grant funds activities such as promoting farmer co-operatives, providing specialist advice and support, innovating in co-operation, supporting co-operative governance and farmers markets. They also lobby, providing a collective voice for co-operative directors and member businesses, promote co-operative structures in agriculture, and direct grants from the EU and the Scottish Government to further support these activities and structures within Scotland.

The strength of this body and its interactions with government seem to have created a more supportive atmosphere for agricultural and farmers co-operatives within Scotland than elsewhere in the UK. (This may also have happened because farming is a much higher proportion of the economy in Scotland than in say England.)

SAOS argue that all the small schemes available to support co-operation and collaboration should only be seen as tools, since they need to be mixed together. It is ultimately promotion and evidence of the approach that is the most important in encouraging take-up. However, they argue that capital grants are important to get over the limitations on capital imposed by IPS structures.

Wales

In Wales, the delivery of relevant policy is funded through a combination of money from the Welsh Assembly Government and the Rural Development Programme in Wales.

An *Ex Post Evaluation of the Rural Development Plan, 2000-2006, Final report for the Welsh Assembly Government*, 2008 showed that under Priority 2, which promoted collaboration between producers, and between producers and processors, most of the support went to large organisations or to producers and not to primary processors. This tendency seems to be similar across the different regions of the UK with respect to related strategies and schemes which were part of the RDPs. http://wales.gov.uk/docs/drah/publications/090204pmcfinalreporten.pdf

Relative to previous support, there seems to be more direct promotion of co-operation within the 2009 *Farming, Food & Countryside: Building a secure future: A new strategy for farming* http://wales.gov.uk/docs/drah/publications/090507ffcmaindocen.pdf which includes an action plan and directly talks about “co-operation where farmers work together with other farmers typical of group marketing initiatives” as well as linked collaborative activity to integrate supply chains.

This strategy builds on the results of an independent report *Sustainable Farming & Environment: Action towards 2020* which said: “To achieve the industry objectives the report emphasises the need for effective collaboration, local empowerment and promoting innovation” in an independent report.” The strategy identified a lack of strong farmer co-operatives and the need for farmers and food processors to work together. As a result, part of their stated outcomes for this plan are for the “number of collaborative initiatives established and sustained.”

In order to promote this approach there is a belief that there needs to be work on persuading and providing skills and the encouragement for collaborative marketing. There was also support for developing direct sales through farmers markets, box schemes etc and for consumer co-operatives through the Community Food Co-operative Initiative in order to source through short more local supply chains.

The Annual Report in June 2010 for this programme found that the Processing and Marketing Grant Scheme for example had given direct and practical financial support to SMEs in the rural economy and that the Rural Development Plan Supply Chain Efficiencies Scheme is fully committed but yet to be evaluated. A more detailed analysis would be necessary to see how much these schemes, mostly under RDP 2007-2013, support producer organisations. http://wales.gov.uk/publications/accessinfo/drnewhomepage/environmentdrs2/2010/TFFCSAR10/;jsessionid=FTlTMh0pMFtM1jbkNBNZbgx62thmX2K7jbLsnhdg12LzK2qHQqfJ!-42672990?lang=en

There was also financial support during 2000-2010 for WAOS, a body promoting agricultural co-operation within Wales, but this is no longer available from the Welsh Government. WAOS felt that in Wales there was available project funding for farmer-controlled businesses but no direct promotion of the co-operative model. (The EU programme on fruit and vegetables is not used so much in Wales since this is less of a product here.)

Northern Ireland

There are several available initiatives under the Northern Ireland Rural Development Programme (2007-2013), an Agricultural and Forestry, and an Agri-Food Processing and Marketing Grant Scheme (but these have apparently gone predominantly to larger producers) and under Axis 3, through the Quality of Life in Rural Areas and the Diversification of the Rural Economy with a focus on "groups of producers who market their produce collaboratively".

Funded under 2007-2013 Axis 1 of the Northern Ireland Rural Development Programme, the Supply Chain Development Programme specifically also aims to "improve co-operation and collaboration in the agri-food and forestry sectors leading to more effective and sustainable supply chains." "Support will facilitate co-operation and collaboration in supply chains between producers, processors and others." http://www.dardni.gov.uk/index/rural-development/rdp-campaign/rdp-campaign-development-funding-schemes-and-programmes/rdp-campaign-development-farming/rdp_campaign-supply_chain_development.htm

There is a commitment that groups must "consist of farmers/growers but may also include processors and/or other suppliers of the produce of agriculture, horticulture or forestry." The support covers: facilitation and mentoring, training, use of business tools and funding for co-operation support and it is delivered by the Countryside Agri-Rural Partnership.

Previous to this scheme, support for co-operative activities would have been available under the Producer Marketing Grant but the uptake of this apparently (as in Wales) went mostly to larger-scale organisations.

A commentator from Northern Ireland said that co-operation (despite the existence of several large agricultural co-operatives) is not widespread because of geography and the isolation of farmers and producers. However, they are seeing innovations and responses within newer sectors such as renewables.

There was an Ulster Agricultural Organisation Society (UAOS) but this no longer exists. In a 2004 response to a paper on *Developing a successful social economy* in Northern Ireland, UAOS argued for more support for agri-rural co-operatives which they felt had been severely underfunded relative to the contribution of agriculture to Northern Ireland's economy.

Sector issues

We can also look more closely at particular sectors. Within poultry, the Coalition has stated a commitment to look at joint trade initiatives, but there is as yet no clarity over what this means. Within fruit and vegetables there is a continuation of policy linked to the EU commitments (and therefore continuing the Fruit and Vegetables Scheme) which cuts across all the nations of the UK.

***Driving Change in the Fresh Produce Sector,* by EFFP April 2010**
http://archive.defra.gov.uk/foodfarm/food/policy/partnership/fvtf/documents/effp-report.pdf

This evaluation of the UK implementation of the EU Fruit and Vegetables Scheme showed that there had been low uptake by Producer Organisations in the UK. The authors believed that the main reason was because of the impact of recent EC rulings and the de-recognition of examples from the scheme. As a result, some organisations found that their structure and operational practices did not adhere to the criteria that the scheme envisaged.

EFFP noted that there had been a trend over recent years towards more integrated supply chain relationships in response to pressures over food prices and food security. This, they believed, had encouraged growers and others to work together. However, the implication is that the rules of the PO scheme have not taken on board these developments. The lack of clear advice from those running the scheme has apparently led to a lack of confidence and people are loathe to approach the scheme. The authors argue for clear guidance and pump-priming support to enable more take-up.

One of the reasons for UK POs not being able to adhere to the rules is that they cannot always retain control of their packing and marketing. Up until 2005 this was not always a problem but since then, as a result of audits, the number applying or being relevant to the Scheme has decreased.

In the UK, reliance on intermediary businesses within the food chain means that there is some loss of control by farmers and producers. Restrictions by retailers can restrict their autonomy.

6.3 Legal Issues

Legal forms available in the UK for farmers to organize themselves into producer organisations or agricultural co-operatives.

In the UK, there is no mandatory legal form for co-operatives or for collaborative groupings. Producer organisations can use whatever structure they wish to fit with their needs or circumstances. As such, producer organisations in agriculture are able to use different legal forms, which can create both opportunities and constraints on their actions. Producer organisations that do not wish to adopt all the ICA principles may adopt different legal forms and rules.

The overall approach of UK business organisational law is to provide default rules and maximise the freedom of those using legal forms to develop their own rules.

The possible legal forms that can be used by farmers to form co-operatives or producer organisations are as follows:

- Bona fide co-operative – statutory protection of co-operative principles, democratic involvement. There are fewer administrative and statutory requirements than for a company, with more trust put in the directors to act in good faith. The basic legislative requirements relate to members electing directors, provisions for changing rules, and for winding up the society. Bona fide co-operatives are registered by the Financial Services Authority (FSA) and incorporated under Industrial and Provident Society legislation (1965-2003). (For more details see: http://www.fsa.gov.uk/pages/doing/small_firms/msr/societies/index.shtml)
- Community Benefit Societies (BenComs) are also incorporated under Industrial and Provident Society legislation (1965-2003). They are set up to have primarily social, not economic, objectives and all surpluses have to be reinvested in the organisation or the community.
- Company limited by shares or guarantee. If an organisation wishes to use the word 'co-operative' in their title, then Companies House, which registers all companies, has to be satisfied that they are a co-operative with reference to International Co-operative Alliance (ICA) principles. There is, generally however, no protection under this form for co-operative principles. However, within the requirements for a constitution (including a memorandum and articles of association) there can be provisions for complying with co-operative principles.
- Limited Liability Partnerships (Limited Liability Partnerships Act 2000) are fairly new legal forms and have not been widely used. They are seen, rightly or wrongly, as predominantly for professional groups, although some worker co-operatives have taken this form on. They do not allow shares and do not seem to have been used in agriculture using available datasets. However, it is possible that they have been used in more local food initiatives.

- Partnership (Partnership Act 1890). There is no cost to set a partnership up but there is no limited liability and does not seem to have been used by farmer co-operativers or producer organisations.
- Community Interest Company (CIC) limited by shares or by guarantee. Most farmer co-operatives or producer organisations that are processing or marketing-oriented are designed as vehicles to distribute profits and do not like, or cannot fulfil, the limitations that the CIC imposes. Restrictions on behaviour include the duty to report on and demonstrate that they serve predominantly a Community of Interest, have an asset lock, as well as restrictions on share returns where these are allowed. In the UK, there is some use of this form by local food initiatives such as farmers' markets.
- Trust (like John Lewis) – are not used although theoretically they could be.
- Public Limited Companies – have been used for some larger co-operative models, particularly those requiring large amounts of capital.
- Unincorporated association – does not technically exist in law and there is no limited liability. There is one example in publicly available data but it is likely that there are others as well as informal groupings of producers sharing say services or machinery.
- European Co-operative Society – this has not been used at all in the UK. However, its existence has altered UK Industrial and Provident Society (co-operative) law in the UK. Problems cited within the UK are the minimum capital requirement, the costs of setting up, and that it has no favourable tax regime.

Overall, according to data from Co-operatives UK, the bona fide co-operative model is most frequently used by those that see themselves as agricultural co-operatives. It is unclear what the relative use of business forms is for all forms of producer organisations. When more local multi-stakeholder or producer initiatives are considered, then the variety of legal forms may be different.

It is difficult to get full data on the use of these different legal forms. This is because, for example, data on agricultural co-operatives from Co-operatives UK will limit itself to those organisations that see themselves as co-operatives. Other producer organisations, that are more groupings of independent farmers for mutual benefit, may be underrepresented in this data. However, recognising the limitations of available data, most agricultural 'co-operatives' use the bona fide co-operative legal form (hereafter referred to as IPS), others are companies limited by guarantee or by shares, a few are Societies for the Benefit of the Community and one is unincorporated. It is likely that this data underestimates CLGs or CLSs and does not cover those that are creating collaborative food system models at local level who might, as noted above, take on a whole range of different forms, particularly when they are community-oriented and are seeking funding or require an asset lock. Conversations in Wales pointed to several plc structures that are used by farmer-controlled or owned businesses which again questions the coverage of available datasets.

There are also likely to be examples where group structures are used which mix legal forms either horizontally or vertically. Examples include using companies as a subsidiary structure by IPSs or joint ventures between IPS and investor-owned models.

Further research is needed to explore whether or not the mix of legal forms uses varies across the regions and nations of the UK, or the extent to which, and how, group structures mixing legal forms are used in different circumstances.

Northern Ireland has its own legislation, which is the responsibility of the devolved Northern Ireland Assembly. The Department of Enterprise, Trade and Investment (DETI) is also the Registry for Industrial and Provident Societies and Credit Unions. Much of the legislation enacted at UK level, and as such affecting organisations in Scotland, England and Wales, has been copied into different legal instruments within Northern Ireland. Industrial and Provident

Societies are therefore effectively subject to the same legislation, albeit at a later stage because of the time taken to incorporate these changes into Northern Irish law. The main legislation relating to the registration and regulation of Industrial and Provident Societies is the Industrial and Provident Societies Act (Northern Ireland) 1969; the Deregulation (Northern Ireland) Order 1997 which relieves societies of administrative burdens, for example, on audit; subordinate legislation on Payment for Copies of Rules (1974); increase in shareholding limits (1991); a Fees Amendment (1994); and the Industrial and Provident Societies (Northern Ireland) Order 2006.

Whilst there is freedom of choice by co-operatives or producer organisations to adopt different legal forms, there have been a variety of changes in the regulation of IPSs that affect all co-operatives that adopt this model, and which have been brought in predominantly to narrow any perceived competitive disadvantage that the IPS has vis-à-vis investor-owned businesses. Legislators are aware though that there is a need to ensure level playing fields. IPS legislation, particularly following pressure from the co-operative movement, has been amended to bring it into line with that of companies over the last 10 years. Overall, there has been a move to liberalise the rules which govern the capital of registered co-operative societies given perceived restrictions on required equity. There have also been efforts to remove the differences in treatment between co-operatives registered under Industrial and Provident legislation and companies, which might impose costs – for example, accounting and audit exemptions for smaller organisations, rules regarding the execution of documents, or rules around director disqualification. The Co-operative and Community Benefit Act 2010 aimed at reinforcing the co-operative indentity through renaming all relevant legislation and clearly making registration as one of two forms – either a bona fide co-operative or as a community benefit society.

At the same time, with the collapse of Dairy Farmers of Britain, questions have been raised in the UK parliament and elsewhere about addressing further perceived weaknesses of the IPS model in relation to appropriate capitalisation, changes to the taxation of 'notional' reserves and looking at protection of members and insolvency regulation. It is likely that Codes of Governance will be introduced which will begin to address the perceived challenges and weaknesses of governance within IPSs, particularly within agriculture.

Since 2000, there have been the following changes to the regulation of co-operatives or producer organisations that have adopted the IPS structure:

- Industrial and Provident Societies Act 2002 – empowered the Government to update IPS legislation to bring it in line with company law after any changes in the latter. This can happen as long as those parts of the original Industrial and Provident Societies Acts of 1965, which define a co-operative, are not changed.
- Co-operative and Community Benefit Societies Act 2003 developed an 'asset lock' for community benefit societies (in use since 6th April 2006) but not for bona fide co-operatives. This legislation also allowed any IPS and its agents to execute formal documents similarly to companies to level the playing field for the co-operative sector and reduce their costs. (The asset lock enables an organisation to lock in the value of assets and resources such that any community benefit society – except a Registered Social Landlord (RSL) or a Charity – may prevent payment to members, excepting the nominal value of any withdrawable shares plus interest. Any surplus has to go to another similar society, a Community Interest Company, a Registered Social Landlord, or a charity.)
- In 2006, and following the Statute for a European Co-operative Society (SCE), FSA policy towards Industrial and Provident Societies was liberalised to allow investor shares for non-user investor members, subject to restrictions to protect the interests of user members through restricted voting rights for non-users, compliance with Financial

Services and Markets Act 2000 regulations, and an overriding requirement that the society remains, in the FSA's view, a bona fide co-operative.

- In March 2010, the Co-operative and Community Benefit Societies Act 2010 became law, although, at the time of writing in summer 2011, it has not yet come into force. This Act applies the director disqualification provisions that are applicable to companies (i.e. so that people who have been disqualified from being company directors cannot then serve on the boards of societies); clarifies the registration of the two kinds of co-operative structures – community benefit societies and co-operatives; allows powers for company investigation and also for the dissolution and restoration of organisations to be applied by government order. Existing Industrial and Provident Acts will also be renamed as Co-operative and Community Benefit Societies and Credit Unions Acts.
- A Legislative Reform Order proposed in April 2008, and put out to consultation, had not, at the time of writing in summer 2011, yet been passed. http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/media/0/D/consult_lro230708.pdf (An LRO can be used to remove or reduce burdens resulting directly or indirectly from legislation.) It proposes to abolish the minimum age for society membership, and would reduce the minimum age for becoming an officer or member of the committee/board of the society to 16. It would also remove the limit of £20,000 for non-withdrawable transferable shares and would retain the limit on withdrawable shares at £20,000; increases the amount a society may charge a non-member for a copy of its rules, allows societies (like companies) to choose their financial year end; removes the requirement that societies (but not companies) have their interim accounts audited; and allows dormant but solvent societies to use an easier dissolution procedure.

With respect to responses to the perceived weaknesses of governance, Codes of Practice are also being prepared by the FSA in conjunction with Co-operative UK on the information to be provided to people who hold shares in co-operatives, so that they are aware of their financial liability in case of loss. The development of a non-binding Code on the governance of agricultural co-operatives has also been discussed but seems, at the time of writing, to be currently on hold.

The collapse of Dairy Farmers of Britain, whilst instigating governance debates and reviews, was also the subject of a parliamentary inquiry in 2010 which also suggested ways of strengthening agricultural co-operatives including changes to the tax system on treatment of notionally allocated reserves, insolvency regulation and a task force to explore constraints on capitalisation.
www.parliament.uk/parliamentary_committees/environment_food_and_rural_affairs/efra_dairy_farmers_of_britain.cfm

The costs and decisions about setting up and running producer organisations and agricultural co-operatives over time

Since in the UK, you are free to choose your form, any restrictions of different legal forms depend on what you want to do initially, or in the future, and what legal form you choose. The main issue which exercises producers in agriculture and determines their choice of vehicle (or changes to it over time) (and particularly those that market or process their produce) is that of raising appropriate and adequate levels of equity or loans either from members or from non-members. This has been raised as an issue for agricultural co-operatives for many years if they choose to adopt the IPS structure. Some of the legislative changes mentioned above (whether implemented or planned) address these issues while there are still outstanding discussions and differences of opinion on how to go further.

The main restrictions that have been subject to continuous debate and review are those relating to limits on withdrawable and non-withdrawable share capital. At present the limit on both is £20,000. Proposed changes to legislation (as set out in 1.5) are being considered which would remove the limit on non-withdrawable share capital. There is also some discussion about looking at raising the limit on withdrawable, at least in line with inflation.

On the other hand, as has been argued above, it could be said that the legislation does not protect members enough. For example, when Dairy Farmers of Britain collapsed there was a recognised need to develop Codes of Practice on governance to protect members.

In the UK, there is very little impact in decision-making over the choice of legal vehicle and the number of members required initially. If an organisation registers under Industrial and Provident Society legislation, they can register with three members. However, if the members are also Industrial and Provident Societies, then only two are required. If you set up as a company, you can now register with only a single member (which might be useful for those organisations that are subsidiaries of say an IPS).

However, there are some substantial differences when we look at the costs of registering an organisation under different regimes. For example if you set up an IPS, the costs of registering depend on whether or not you adopt model rules (which have already been agreed with the FSA and have official sponsoring bodies) which reduce the time necessary for the FSA to ascertain whether or not you meet co-operative principles and can be registered either as a bona fide co-operative or as a Society for the Benefit of the Community.

Costs at the time of writing in summer 2011 are: £40 for using model rules without amendment; £120 for model rules and 1 to 6 amendments; £350 for 7 to 10 amendments of model rules; and £950 for more amendments or rules created from scratch.
http://www.fsa.gov.uk/pages/doing/small_firms/msr/societies/index.shtml

If you register a company (limited by shares or guarantee) on the other hand, the costs of doing so with Companies House is £14 if done on-line; £40 for same day incorporation; and £40 if done by paper. http://www.companieshouse.gov.uk/toolsToHelp/ourPrices.shtml#Company

If you look at the costs of maintaining an IPS over time, the differences are considerable. An annual fee is payable to the FSA which is dependent on five fee categories determined by the value of assets calculated from the previous financial year, the nature of activity and costs to the FSA. Examples of levies for some organisations in one category was £689 and in another £28,960. This calculation is complex and details can be found at:

http://www.fsa.gov.uk/pubs/policy/ps10_07.pdf

In comparison, with regards to Companies House, the stated fees for the processing of annual documents for companies limited by shares or guarantee is £14 online/software and £40 if submitted on paper.

Membership and governance

In the UK, the principle of 'one member, one vote', enshrined in ICA principles, can be more or less enacted depending on the needs and predilections of those collaborating together under different legal forms. With regards to bona fide co-operatives or Societies for the Benefit of the Community, the main focus of the legislation is not to be prescriptive but to ensure that the overall rules created by an organisation fit with ICA principles: "In general, the principle of 'one member, one vote' should apply." The legislation does not prescribe the content of the society's constitution in respect of members' voting rights. As such, there are examples where, whilst 'one member, one vote' is the norm, in agriculture there may be huge discrepancies in use. This 'general' principle is then altered by agreement between all parties and agreed by the FSA. An example could be voting in relation to levels of transactions but not according to the amount of capital provided.

IPS law also does not enable non-members to have voting rights but there is no restriction about accepting members who may come from other member states.

There are no legal restrictions on the admission of members. However, the requirements for admission to membership will be enshrined in the Rules of the society, agreed by the members, and endorsed by the FSA. These rules may well vary according to the sector and place in the food chain. For example, there might be restrictions as to minimum investment.

Looking at internal governance, no particular mechanisms are mandatory. However, as noted above, those groups that adopt IPS structures have to do so in the spirit of co-operative principles. At a minimum, they usually have a board plus an annual meeting of all members.

Those that adopt company structures have been more encouraged to adopt best practice in governance through various Codes that have developed over the last 10 years. These arose because of concerns about the relative lack of effective oversight by shareholders of management, and to some extent about the tendency for a culture of excessive short-termism. http://www.frc.org.uk/corporate/ukcgcode.cfm

As the result of recent concerns about governance in co-operative IPS structures, Codes of Governance are being considered and best practice created.

In some ways we can say that the corporate governance structure of IPSs is flexible but the existence of model rules and the cultural pressures for conformity may or may not be useful when creating appropriate governance models for 'nonstandard' examples. It also appears that this is an area where there is concern that members do not have adequate protection and that oversight of the board is inadequate. Overall then the legal structure and some rules (but not all) that support the supervision of the board of directors are not as effective as they could be which is why some co-operatives and producer organisations have adopted Codes of Governance developed for PLCs.

Members cannot influence decision-making through legal means, but rather through the purposes enshrined in the Rules of the society. For those co-operatives that adopt company legal structures for investor or profit-led companies there are extra legal requirements through, for example, ordinary resolutions by which you can replace a director. In a plc you can also remove directors. In some respects, therefore, you have more member rights for influence when you are a member of a PLC or of a company.

The composition of the board is also not specified by legal requirements rather through the flexibility of specific Rules but again this might be seen as potentially reducing as well as supporting the effectiveness and propriety of board operations. Many boards in agricultural co-operatives have non-member professional managers. These people sit on boards and vote but cannot be members if the legal form is an IPS. There are no rules for the appointment and dismissal of the board but there is democratic control exercised through the election of directors.

Raising equity

If we focus primarily again on the IPS model there are currently limits of £20,000 per member for withdrawable and non-withdrawable shares. The possibility for non-member equity has been made possible but has not it appears been taken up in this form. Rather, it seems that some producer organisations or agricultural co-operatives may convert to a PLC or investor-owned company in order to acquire more equity or go into a variety of joint ventures or complex legal structures (for example using subsidiaries for certain ventures).

Many of the people we spoke to in the research felt that for certain agricultural co-operatives this model could lead to relative undercapitalisation relative to PLCs and to companies limited by shares. This issue appears to have been one of the main points of discussion and development over the last 10 years.

IPS legislation does not prescribe the content of the society's constitution or rules in respect of share capital. The only specification is that: "Where part of the business capital is the common property of the co-operative, members should receive only limited compensation (if any) on any share or loan capital which they subscribe. Interest on share and loan capital must not be more than a rate necessary to obtain and retain enough capital to run the business."

Following the introduction of the Statute for a European Co-operative Society (SCE) at EU level there was concern that co-operatives which chose to adopt the IPS model might be at a disadvantage relative to other co-operatives or in relation to other business models. A decision was made that non-user investment should be allowed but be subject to limitations. The Government and FSA decided against adopting the SCE model directly for investor membership, preferring instead a 'principles' based approach where co-operatives are free to determine the share proposition, rewards and governance rights. The FSA therefore ruled in a *Policy Note on Investor Membership of Co-operatives Registered under the Industrial & Provident Societies Act, 1965* that it was possible to have non-user investors.

It was deemed that there would need to be protections in the Rules of the IPS to ensure that having non-user investors would not prejudice their standing as bona fide co-operatives. These protections could include rights and conditions on shares, and restrictions on voting on resolutions to convert to a company. Such shares would attract restricted voting, may be withdrawable or transferable, and only issued as risk capital. Apparently this opportunity was particularly welcomed by agricultural co-operatives.

In response to concerns over the current limitations on withdrawable and non-withdrawable shares, the proposed Legislative Reform Order, mentioned above, proposes no limit on non-withdrawable shares. And there are ongoing discussions about the limits for withdrawable shares.

If you adopt other models, there are also restrictions. For example, if you are a company limited by shares you cannot offer public shares. This is seen as a restriction of this model as opposed to a PLC. Some producer organisations may be a CLS or a PLC and in fact some have converted in order to realise adequate equity for growth. Clearly, those that adopt other legal models that do not allow shareholdings cannot do so but are primarily set up for non-profit reasons although they may make use of various kinds of 'social investments'. It is also possible to offer 'community shares' through co-operatives, subject to the Financial Services and Markets Act.

Because of this deficit for some agricultural co-operatives in equity funding, loans are used predominantly to overcome the lack of available finance. However, such loans create liabilities and result in inappropriate gearing which can affect the ability to raise bank finance.

With regards to surplus distribution, the rules may or may not enable profits to be distributed but if so "they must be distributed amongst the members in line with those rules. Each member should receive an amount that reflects the extent to which they have traded with the society or taken part in its business…"

There are no formal restrictions but FSA oversight ensures that the primary objective of any co-operative under IPS legislation is not to make profits mainly for the payment of dividend or bonuses.

Leaving a co-operative organisation

National IPS law does not allow specific restriction on the exit of members but restrictions can be specified in the Rules as long as they are consistent with being a bona fide co-operative. The overall principles is that membership should be voluntary and open. If you have to remain a member for too long, that could be seen as too restrictive and also become a problem for competition law if they are too onerously specified. However, it is a flexible solution since the restrictions can be dependent on the circumstances of the producer organisation.

It is unclear whether such restrictions deter people from joining and this situation would need to be looked at on a case-by-case basis.

Reorganisation of co-operative Organisations

The Industrial and Provident Societies Act 2002 enables conversion of an IPS into a company requiring 75% majority of those voting with a turnout of at least 50% of those eligible to vote. Transfer of engagements from an IPS is easier than with a company since you do not need to involve the courts. There is no impact of rules on employee involvement and no differences with respect to tax law that for mainstream business models. However, there might be an impact if an IPS was originally eligible for Mutual Tax Status (see below) and lost this as a result of reorganisation.

The Impacts of Tax Law

All legal business forms that can be used by co-operatives and collaborative structures are subject to corporate tax law.

If you are a bona fide co-operative you deduct payment of interest and dividends before you calculate taxable income, in other words, it is seen as an expense. If you are a company limited by shares or guarantee and adopt co-operative principles, you can apply to Defra (Department for Environment, Food and Rural Affairs) to be dealt with similarly and to become a Company for Co-operative Status with a formal certificate.

If an organisation is a bona fide co-operative under Industrial and Provident Society legislation it may also be granted Mutual Tax Status by HM Revenue and Customs. This means that they are exempt from taxation on any surplus which is derived from trading with members. Mutuality presumes a common fund which is not owned by the organisation but held on the behalf of members. Therefore any surplus after expenses is not regarded as a taxable profit. Tax would however need to be paid on other income, such as interest from investments. This approach enables reserves to be accumulated without liability for corporation tax. However, such reserves have to be reasonable and if considered excessive the organisation can be required to declare a distribution to members which is then taxable. (This status is not available to a Society for the Benefit of the Community.)

The Mutual Tax Status and the treatment of dividends and interest payments as expenses, mean that co-operative structures might be preferable for certain kinds of agricultural co-operative. However, there is also an issue about the tax treatment of 'notionally' allocated surpluses which is not seen as being useful for the competitive position of agricultural co-operatives that take on an IPS model. If money is allocated not to building up reserves but 'notionally' to named members, it becomes a tax liability at the point of allocation, even if the time period for repayment is at the discretion of the board. There have been calls to change this situation to one where the tax liability happens at the point of actual distribution in order to increase the incentive to invest.

If the IPS legal model is set up in the UK, there is no impact of members from other member states on the relative tax situation or treatment.

The Impact of Competition Law

All co-operatives or producer organisations that adopt IPS legislation are subject to competition law on the same basis as other businesses. The overall principles of the Competition Act 1998 apply but the particular circumstances of co-operation between farm businesses has been recognised. A note was produced by the Office of Fair Trading entitled: *Frequently asked* *questions: how does co-operation between farm businesses fit in with competition law* in July 2004 in order to clarify the situation in this particular sector.

http://www.oft.gov.uk/shared_oft/business_leaflets/competition_law/oft740.pdf

Forms of agricultural collaboration can also be excluded from the Competition Act where there are agreements between farmers or farmers' associations which:

- concern the production or sale of agricultural products, or;
- the use of joint facilities for the storage, treatment and processing of agricultural products.

These exclusions are permissible as long as the agreements are only between farmers, or associations of farmers, and there is no obligation on the farmers to charge identical prices for their products. However these exclusions could be withdrawn by the OFT if it deems "that the co-operation is likely or intended substantially and unjustifiably to prevent, restrict or distort competition".

There is also an exemption for certain forms of agricultural undertaking in a vertical (supplier/buyer) relationships provided that the agreement must not involve 'hard-core restrictions' (including price-fixing) and the parties must not have market shares exceeding 30% of the relevant market. This may cover some or all parts of an agreement.

In the UK at the moment, there are not areas that currently are seen as having a dominant market share but the main area where this might come under review is that of dairy. There is concern from people involved in agricultural co-operation that the OFT might look at the national market to assess market dominance rather than say at the European level. It is unclear if this would be the case. This lack of clarity suggests that hypothetical examples could and should be worked through before a situation arises that creates problems.

And as noted above, it is unclear whether restrictions on withdrawal of membership from an IPS could contravene competition law but it might be possible that excessive notice periods for membership termination and withdrawal could constitute a restrictive practice.

7 Assessment of developments and role of policy measures

This chapter provides a concluding assessment of the developments of agricultural co-operation in the UK. In chapter 2 the basic statistics on agriculture and farmers' co-operatives were provided. In chapter 3 data on individual co-operatives were reported, especially concerning their internal governance, their position in the food chain and the institutional environment in which they operate.

This information led to some first impressions in section 3.5 on the performance of co-operatives in the UK 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 co-operatives. Chapter 5 looked into much more detail on the how the regulatory framework influences the competitive position of the co-operatives in the food chain especially vis-à-vis investor-owned firms.

This chapter assesses the performanceof co-operatives and how these 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 internal governance, their position in the food chain (including sector specificities) and the institutional environment (including the regulatory framework). Section 6.2 assesses is given on which policy measures in the UK seem to benefit co-operatives, and which have a constraining influence.

Building blocks	***Aspects for data collection***
Institutional Environment	*Economic (dis)incentives*
	Legal/fiscal/competition aspects
	Historic/cultural, sociological backgrounds
	Public support measures (National, regional EU)
Position in the Food Chain	*Relationships between actors in the food chain*
	Sector (or product) specificities
	Strategy of the Co-operative(s)
Internal Governance	*Capital structure*
	Relationship between co-op and members
	Ownership structure
	Decision making structure
	History, culture, and sociological aspects / social capital

7.1 Explaining the performance of co-operatives

The UK has a highly concentrated retail market dominated by a few supermarkets; it also has a very open economy with a highly active financial services sector with, for example, venture capital funds available for buyouts.

On the one hand, growing globalisation and demands for capital to fund value-added processes has led to increasing pressure on the co-operative form – and in some cases to failure or demutualisation; on the other hand well-run efficient and innovative co-operatives have managed to thrive by placing the interests of their members first.

7.2 Effects of policy measures on the competitive position of co-operatives

If we look overall at the policy measures focused on agriculture that were introduced over the period 2000-2010 we can see that, whilst there was some promotion of co-operative and collaborative groupings of farmers across different sectors to varying degrees, the overall focus of the UK government and nations (although to some extent less so in Scotland) was on increased collaboration within supply chains in order to rectify perceived weaknesses in competitiveness overall and with a focus on the end-consumer. In that sense policy measures were indirectly supportive of producer co-operatives in order to rectify power imbalances and ensure better returns and coordination of supply but did not prioritise them in relation to other collaborative groupings of producers. The overall impact on the competitive position of such co-operatives as a result of targeted EU grants, promotion, and support is difficult to ascertain unless there is a meta-evaluation of all the fragmented approaches.

It was pointed out by one commentator that one of the problems of the fragmented support by nations and regions was that it was difficult to create synergy between schemes which could have resulted in a more complete promotion and development of co-operative practices amongst producers. In some ways, the situation in Scotland appears to be different since there seems to be more concerted synergy between policies which is likely to result in an overall bigger impact as well as a more focused commitment to farmer-controlled and agricultural co-operative practices that approximate ICA principles.

Additionally, the variation in policy and promotion across regions and nations, partly as a result of levels of different historical development, and the presence or otherwise of effective examples of agricultural co-operatives or of umbrella bodies, affected the extent to which there was specific promotion of agricultural co-operation or co-operation more broadly, rather than more looser collaborative groupings. There is also wide variation in agricultural sectors across parts of the UK, some of which seem to be more or less inclined to co-operate. (See for example a 2004 research report, published by EFFP, *Farming & Food: collaborating for Profit*). http://www.uk.co-op/system/files/sites/default/files/Collaborating%20for%20profit.pdf

Most commentators wanted to put these developments into a bigger picture stretching back before 2000. Decades previously, the policy approach within the UK was more focused on national level marketing boards, for example, which arguably reduced the incentives for co-operation within the UK. Some commentators for this research, however, pointed to increasing competitive threats, issues of biodiversity, the increasing costs of food, as well as food security as being positive drivers for increased collaboration and co-operation within supply chains and between farmers. There were quite a few comments that many farmers though have had to be convinced of the benefits of co-operation generally but that, increasingly, harsher economic realities are forcing people to reconsider going it alone.

It was also pointed out that the focus of policy for much of the 2000-2010 period was on farming and the environment, which seemed, for example, to take-up most of Defra's research budget and policies. In fact, some expert commentators suggested that, together with a focus on rural communities (of which food was a part), these were more dominant policy priorities throughout the UK to the detriment of the competitiveness of mainstream agricultural sectors.

There also appears to be a split between those that want to promote agricultural co-operation as a way of competing with large retail concerns and within mainstream markets with those who adopt a more local food system approach – and this may be a general trend. Proponents of the former see the latter as being about socio-economic concerns and focused on grant aid. Proponents of the latter recognise the current grant focus of much of the need to explore and promote food system initiatives, whether box schemes, consumer-supported agriculture (CSAs) or niche groupings of local suppliers, processors or retailers. They argue that contrary to being purely or different socio-economic or environmental concerns, these overlap with the needs of farmers and consumers, which suggest future co-operative structures at a more local level, or amongst more niche producers as being viable choices for some farmers.

It would seem to be useful for the supporters of co-operation in both spheres to consider more joint working or understanding since, from the point of view of the farmer or producer, strategies for viability and benefit may be many and varied depending on their locality, market or sector. It was also suggested by one commentator that there is more likelihood of co-operation within some of the 'newer' sectors such as renewables than with the more traditional sectors (possibly because of the more historical focus on independence in certain areas and sectors).

Making Local Food Work is a 5-year programme funded by the Big Lottery and delivered by 7 organisations which "helps people to take ownership of their food and where it comes from by providing advice and support to community food enterprises across England". Their work will be evaluated and includes support for the development of farmers markets, community-supported agriculture, country markets, food co-operatives and buying groups, local food hubs and community-owned shops. At the time of writing they say that they have supported the creation of about 1000 enterprises.

The Plunkett Foundation, one of the partners, says that they are now looking at local food systems where people coordinate and create viable food systems, potentially in collaboration with the public sector. The overall argument is for trade resilience and bringing producers together. Since grants are less available, newer forms of start-up finance are being innovated to develop such initiatives which could be seen as forms of community mutual support which is fundamentally about aligning interests. They say that they are also trying to break down walls between farmers and retailers at the local area where there is a common interest. http://www.makinglocalfoodwork.co.uk/

With regards to regulatory policy, agriculture seems to have benefited from many recent changes to IPS legislation which would put producer organisations that adopt such structures on a more equal footing to those who adopt other structures. However, as was pointed out, co-operators in the UK will take a variety of legal forms depending primarily in this sector on access to appropriate capital and retaining control and benefit from different forms of collaboration. It appears though that it is necessary to future-proof developments in this sector particularly in relation to how co-operative groups might wish to work in future, both in relation to access to appropriate capital, appropriate governance structures to protect members, as well as challenges to competition law. Commentators for this research were split on future strategies which either revolved around increasing the potential capitalisation of IPS bodies through changing legislation to enable more withdrawable share capital or realising capital growth or those who saw other strategies such as adopting a PLC structure or complex group structures for certain kinds of capital intensive activities with overall governance being designed to protect the rights and benefits for producer members.

In January 2011, Co-operatives UK drew attention to the potential threat to the co-operative dividend as a result of a proposed international accounting standard likely to come into force in the second quarter of 2011. They argue that the co-operative dividend could be regarded as a refund for a member and as such be reclassified as a reduction in turnover. This affects accounts and reporting. There was concern that this could reduce the competitive position of the co-operative sector relative to PLCs. This may be a general issue across Europe. Co-operatives UK is also arguing for a consolidation bill to bring legislative requirements on IPSs into one bill to reduce costs, decrease waiting time, and promote clarity, further work on ensuring that these models are not at a competitive disadvantage vis-à-vis investor-owned companies, encourage government to promote diversity of corporate forms across markets. http://www.uk.co-op/system/files/Briefing%20note%20on%20international%20accounting%20standard%20threat.pdf and http://www.uk.co-op/minutes/board-directors-update-key-decisions-may-2011

Expert opinion on the overall effectiveness of policies aimed at promoting and supporting co-operation between producers or more broadly within the supply chain points to the importance of facilitation of such groupings, particularly where there is hostility between partners or a lack of knowledge of the best way of working. It seems that money that was available for this kind of work, through for example, the single pots of either Defra or the RDAs is no longer available. With moves to cut spending by the current government, this kind of support, as well as that for promotion, is likely to be unavailable and yet its impact seems to be high. In other words, this is direct facilitation of capacity-building.

The Coalition government, whilst cutting direct delivery, is still committed to delivering EU programmes and commitments although its impact is primarily to be felt in agriculture within Wales and England.

With regards to supporting relative competitiveness of co-operatives within the UK context, the emphasis on localism by the Coalition may open up further opportunities for more local collaboration between farmers, most likely with other stakeholders and sectors. There is also a commitment by the Coalition to look at sectors which may enable a better development of appropriate infrastructure focused directly on the best strategies to ensure competitiveness.

It is unlikely that there will be an ideological commitment to co-operatives without evidence of their potential superiority for producers in terms of benefits under this regime.

One commentator noted however, that the increased centralisation of agricultural policy (despite the focus on devolving decision-making locally) has led arguably to more responsibility being placed on direct actors to act and hence opens up potentially more opportunities to promote co-operation and collaboration.

The **Welsh Agricultural Organisation Society** have developed a way of lowering the risk profiles for farmers in response to recent government announcements focusing on the need for assurance and increased quality amongst producers. This approach could be seen as a form of system-changing since WAOS have taken responsibility for creating a co-operative (to which members pay) which enables voluntary and joint assurance and quality marketing. The policy push has been to promote increased responsibility through more 'earned recognition', a driver which WAOS has seized upon in this initiative. They also see this approach as promoting self-governance and greater power for producers such that they are not forced to be part of restrictive supply chain agreements dictated by larger retailers. They currently have 7,500 farmer members who receive quality assurance and do annual audits.

The Coalition also seems to be interested in local food systems. For example, the Cabinet Office and Defra have funded some research in the South West into local food. Defra are likely to remain the main lead on this agenda and with the focus on localism by the current government, this area may well have more support at least in terms of supportive regulation, rather than direct financial support (since austerity cuts have reduced grant support in general).

8 Future research

The category of 'other' for co-operatives within agricultural sectors that were not chosen to be part of the 6 chosen sectors in this study represent a substantial amount of the activity in the UK. Future research could investigate exactly what this 'category' covers and how it is or is not different to the subsectors explored here.

It would be useful to investigate the relative percentage that co-operatives that follow ICA principles are of agricultural collaborative structures, farmer-controlled businesses and the increasing phenomena of vertical collaborations within the supply chain.

The data supplied by Co-operatives UK on agricultural co-operatives was questioned by some of the commentators on the research. In Wales, for example, there are apparently PLCs which could be seen as co-operatives and yet there are no PLCs mentioned in the Co-operatives UK database. Organisations or businesses of this form would merit investigation as well as conversations with some of the members of representative bodies across the UK nations who have a good sense of the kind of legal structures adopted by co-operative producer organisations in their area.

Much of the commentary and examples of organisations that departed from 'one member, one vote' was anecdotal. A more rigorous investigation of internal governance models would be useful to see how organisations adapt the different contexts they operate within. This would also be useful to explore in more detail since there is ongoing work to investigate appropriate Codes of Governance for agricultural co-operatives that adopt IPS legislation with concerns raised by some of the commentators to this research that oversight of the board was currently inadequate.

It would be useful to explore the trajectories of growing co-operatives and producer organisations over time in order to see what current approaches are currently used and how these might be better facilitated through regulatory change.

There is concern that much investigation by the competition authorities is reactive. In other words, it happens once a potentially 'restrictive' practice has happened. Research that explores developing collaborative groupings and co-operative practices that could challenge competition law in future could usefully be done so as to provide more certainty and clarity for people wishing to work in this way and to engage competition authorities at an earlier stage so as to work through the implications and what could or could not be allowed.

Co-operatives within local food systems seem to be looked at and conceived very differently from larger-scale co-operatives within specific supply chains. Their motivations and rationales are very different and their proponents tend to see these two groups as separate. However, from the point of view of the farmer, involvement in either producer organisations, local food co-operative and collaborative structures, or looser arrangements are decisions that might change over time or be all part of a viability or growth strategy. It would be wise to research at the farmer level exactly what choices and strategies are available to them and on what criteria would they choose?

Most evaluations of Government programmes do not explore the organisational structures of who is supported and hence secondary analysis of data will be necessary in order to begin to tease out the relative impacts on forms of agricultural co-operative relative to other groupings or individual businesses. The schemes would also benefit from more analysis with the target audiences to find out about levels of take-up by different actors (as was done for the Fruit and Vegetables Scheme in the UK).

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Appendix 1. Description and Assessment of Policy Measures

Our study provides a detailed description of the various policy measures that affect the development of agricultural cooperatives. This effect can be positive, thus stimulating the development and performance of cooperatives, or the effect can be negative, hindering the development of cooperatives. All the policy measures that influence 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) should be identified. 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.

In addition to a description we provide an assessment of the impact of the policy measures on the development and performance of cooperatives – Table A.2.

Table A.1. Description of Policy Measures

Name of Policy Measure	**Type of Policy Measure**	**Objective of the Policy Measure**	**Target of the Policy Measure**	**Expert comment on effects on development of the cooperative**
Official name of the policy measures (In English)	**1. Mandate** e.g. 1.1. Cooperative legislation/ incorporation law e.g. 1.2 Market regulation and competition policies **2. Inducement** e.g. 2.1 Financial and other incentives **3. Capacity Building** e.g. 3.1 Technical assistance **4. System Changing** **5. Other**	1. Correction of market or regulatory failures 2. Attainment of equity or social goals	1. Specific to cooperatives 2. Specific to an agricultural sub-sector 3. Applicable to business in general	Description on how the policy measure affects development of cooperatives, by reasoning through the building blocks: - Position in the food chain - Internal Governance - Institutional environment of the cooperative
2004 Note by the Office of Fair Trading entitled: *Frequently asked questions: how does co-operation between farm businesses fit in with competition law* http://www.oft.gov.uk/shared_oft/b	1. Mandate clarification	1. Regulatory failure or at least increasing the clarity over regulation and specific instances of its application	Applicable to all cooperatives and collaborative activities within agricultural and food supply chains.	This Note responded to the request for clarification recommended in the Curry Commission by setting out where and how competition law in respect of the particular

usiness_leaflets/competition_law/oft740.pdf				circumstances of cooperation and collaboration within the agricultural and farming sectors. This Note was a statement of the situation and by itself may have had a limited effect in clarifying the position of activities, making them more likely to take place. However, the extent of this impact is not known. Several commentators to this research pointed out that the need for and innovation in collaboration and cooperation within supply chains and between producers is increasing and extending into areas that were not foreseen at t the time even of the Curry Commission. For this reason, it will be important to continue to review the forms of innovation that are possible and likely in order to ensure that people are not put off experimenting and joining together by fear of being caught under competition law. There have been some indications that this could happen, particularly arising from the suspicion that the Competition

				Authorities do not always look at the appropriate market in which to for example assess appropriate or inappropriate market share.
Industrial and Provident Societies Act 2002 – empowered the Government to update IPS legislation to bring it in line with company law after any changes in the latter. This can happen as long as those parts of the original Industrial and Provident Societies Acts of 1965, which define a cooperative, are not changed.	1. Mandate	1. Regulatory Failure	Applicable to all cooperatives taking on an IPS legal form.	It is unclear exactly how this affected particular IPSs but on balance it was a necessary measure to level the playing field for IPSs vis-à-vis companies.
Co-operative and Community Benefit Societies Act 2003 developed an 'asset lock' for community benefit societies (in use since 6th April 2006) but not for bona fide cooperatives. This legislation also allowed any IPS and its agents to execute formal documents similarly to companies to level the playing field for the cooperative sector and reduce their costs. (The asset lock enables an organisation to lock in the value of assets and resources such that any community benefit society – except a	1. Mandate	1. Regulatory failure 2. Attainment of social goals	Applicable to any cooperative taking on the IPS legal form but within that applying the asset lock only to those organisations registered as Societies for the Benefit of the Community.	The main impact of this legislative change was on the potential for Societies for the Benefit of the Community to better hold their mission and social goals by removing any temptation for members to in effect asset strip the organisation or move the assets to other less social ends. Some agricultural cooperatives are set up in this way, particularly those operating in local food markets. Bona fide cooperatives are also affected by this legislation, but not to the same extent by virtue of the lowering of costs that these

Registered Social Landlord (RSL) or a Charity – may prevent payment to members, excepting the nominal value of any withdrawable shares plus interest. Any surplus has to go to another similar society, a Community Interest Company, a Registered Social Landlord, or a charity.)				changes enable in order to create more of a level playing field with organisations registered as companies.
FSA policy towards Industrial and Provident Societies was liberalised in 2006, following the Statute for a European Cooperative Society (SCE), to allow investor shares for non-user investor members, subject to restrictions to protect the interests of user members through restricted voting rights for non-users, compliance with Financial Services and Markets Act 2000 regulations, and an overriding requirement that the society remains, in the FSA's view, a bona fide co-operative.	1. Mandate	1. Development of regulatory to respond to need	Applicable to agricultural cooperatives that adopt IPS legislation.	The research has found no examples of this policy actually being used by agricultural cooperatives. It seems that organisations are split between those who would prefer to maintain farmer control and ownership within this model, those who convert to PLCs or to companies limited by share in order to attract outside investment, or those who set up joint ventures for specific activities, or subsidiaries for specific purposes. One of the main reasons mooted for the non-use of this policy was the difficulty of aligning interests in one organisation when the farmers wished to increase benefit to themselves and the external or non-user shareholders primarily

				interested in profit. The latter might also be dissuaded by the Rules unless their motivations were similar to the farmers' group since it would alter the risk-return profile.
Cooperative and Community Benefit Societies Act 2010 is law but is not yet in force. This Act applies the director disqualification provisions that are applicable to companies (i.e. so that people who have been disqualified from being company directors cannot then serve on the boards of societies); clarifies the registration of the two kinds of cooperative structures – community benefit societies and cooperatives; allows powers for company investigation and also for the dissolution and restoration of organisations to be applied by government order. Existing Industrial and Provident Acts will also be renamed as Co-operative and Community Benefit Societies and Credit Unions Acts.	1. Mandate	1. Regulatory change to respond to governance issues and to increase the identity for cooperatives	Applicable to all cooperatives adopting IPS legal forms.	This is not yet in force so cannot be assessed for its impacts but theoretically there is benefit to members from the increased probity and scrutiny of boards and board members.
A Legislative Reform Order proposed in April 2008, and put out	1. Mandate	1. Regulatory change to respond to needs and to reduce some	Applicable to all agricultural cooperatives who take on an IPS	If all of the LRO is implemented this could have a substantial effect

to consultation, has not yet been passed. http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/media/0/D/consult_lro230708.pdf (An LRO can be used to remove or reduce burdens resulting directly or indirectly from legislation.) It proposes to abolish the minimum age for society membership, and would reduce the minimum age for becoming an officer or member of the committee /board of the society to 16. It would also remove the limit of £20,000 for non-withdrawable transferable shares and would retain the limit on withdrawable shares at £20,000; increases the amount a society may charge a non-member for a copy of its rules, allows societies (like companies) to choose their financial year end; removes the requirement that societies (but not companies) have their interim accounts audited; and allows dormant but solvent societies to use an easier dissolution procedure.		disadvantages relative to companies	form.	since it removes the limit on non-withdrawable share capital which has been one of the asks of those wishing to change the IPS regulation as a result of lobbying from the particular situation of agriculture and farming.

Food Chain Centre (2001 to 2008)	3. Capacity Building on supply chains	1. Correction of market failure	3. Applicable to businesses in general within agricultural supply chains	There was a bias towards retail based supply chain issues but there was also work linking smaller suppliers and retailers. There was no bias or promotion of formal cooperative structures but they would have benefited indirectly but it is unclear to what extent this happened.
English Food and Farming Partnerships (funded from 2003 to about 2009 and now independent consultancy)	3. Capacity Building for initially farmer cooperatives and collaboration and then widening into broader horizontal and vertical collaboration within supply chains In some respects this was system changing in that the body responsible for promoting partnerships was government-funded but not government-led or controlled.	1. Correction of market failure	1. Initially focused on farmer-controlled businesses (including cooperatives) across the sectors and expanded to include ventures with other businesses within collaborative groupings in the supply chain.	Initially there was a focus on promoting effective internal governance and the creation of farmer controlled and farmer owned organisations. The current focus is to maintain farmer control and benefits within different forms of supply chain collaboration. Comments were made during the research that it took some time for this organisation to get going and that it was relatively underfunded for the goals it was set. Those lobbying exclusively for agricultural cooperatives felt that its remit was watered down whereas others would argue that the focus on supply chains and farmer control within that responds to how trends and

				developments are going.
Rural Development Programme initiatives to 2006 and then 2007-2013 as part of national and regional food and farming strategies	Capacity building and incentives – various instruments from promotion, to information giving, facilitation, technical assistance, and finance. Varied over nations and regions. This was partly system-changing in the UK since decisions over the focus and delivery of the programmes was devolved in England to the Regional Development Agencies which were quangos and led by boards including different stakeholders.	1. Correction of market failure	Applicable both to individual organisations as well as groups of producers, whether or not they were formally constituted as cooperatives.	It appears that the first round of initiatives funded partly by the EC RDP tended to focus on larger scale entities even if the promotion was to smaller organisations or groups of producers. It appears that particularly in Scotland, Wales and Northern Ireland this issue was identified and was attempted to be rectified in the set of programmes set up after 2007. (See text for details of schemes). The positive impact or otherwise of these later programmes cannot yet be known although several delivery bodies pointed to a difference in who was applying and that there had been more of a focus on smaller groups of producers.
Fruit and Vegetable Scheme (EC)	Capacity building and incentives	1. Correction of market failure	Applicable to producer organisations within the fruit and vegetable sectors across the UK, as long as they met the restrictions of the programme.	An evaluation of this scheme in the UK showed that there had been low uptake mostly because many UK organisations found that their structure and operational practices did not adhere to the criteria that the scheme envisaged. With trends towards more supply chain development,

				many Pos are unable to retain control of their packing and marketing and there has been a lack of clear advice and so confidence in using this scheme
Funding for the Scottish Agricultural Organisation Society in Scotland. They lobby, steer people towards appropriate policies and programmes, promote and support cooperation.	Capacity building System changing – since funding to an outside body that is representative of the sector and whose goal itself is system change.	Correction of market failure	Primarily focused on cooperative IPS structures for producer organisations within farming.	Within Scotland, this promotion, lobbying and coordinating role seems to have been effective since it created one place where there has been primary responsibility for farmer-controlled and owned businesses, together with what seems to be a very productive partnership with government. However, it is interesting that the latest strategy for food and farming in Scotland does not include the word 'co-operation' rather collaboration which seems to be the trend throughout the UK. WAOS was an equivalent organisation in Wales which had some funding from the Welsh Government although does not seem to have the same level of close relationship or influence as in Scotland. It appears that in Wales, the focus is more on employee-owned businesses.

Explanation of Policy Measure Type:

McDonnell and Elmore (1987) have defined the policy measures typology in the following way:

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

These four policy types can be further specified into individual policy measures. To direct the enquiry towards policy measures that influence the cooperatives, we introduce a more specific categorization of cooperative related policies and regulations, based on the Sexton and Iskow (1992): (i) cooperative legislation/incorporation law, (ii) market regulation and competition policies, (iii) financial and other incentives (e.g., tax exemption, access to favourable credit, etc.), (iv) technical assistance, and (v) other.

Explanation Regulatory Objective

Policies may have one or more regulatory goals such as correction of market or regulatory failures, and attainment of equity and social goods (OECD, 2008). Market failures refer to an inefficient allocation of resources under market conditions; equity and social goals refer to the improvement of the position of particular groups; and regulatory (or State) failures imply a regulatory capture or failure of the existing regulatory system.

Explanation Policy Target

A policy may target agricultural cooperatives in general or a particular type of agricultural cooperatives (e.g., agricultural supply cooperatives). A policy measure could also be directed at an agricultural sector (i.e. one or more of the 8 sectors which are part of the current study), affecting the cooperatives operating in that sector. Lastly, policies may target other types of businesses but, as a side effect, has a significant impact on agricultural cooperatives.

Explanatory Comment on effects on performance of the cooperative

Assessment of Policy Measure Influence

We developed a qualitative method for impact assessment that limits itself to providing a basis for making a claim that a policy measure has *influence* on the development of the cooperative in a general sense, i.e. at the level of cooperatives in general in a particular Member State. The claim is made through utilizing expert judgment to determine whether a given policy measure influences the development of cooperatives. Judgment is applied to weighing and comparing the effect of a policy measure to the development of the cooperative *vis-à-vis* the effect the same policy measure has on other chain actors and non-cooperative companies. Additionally, the expert judges the degree of influence of the policy measure, by indicating whether the policy measure’s degree of influence is high or low.

Table A.2. Assessment of Policy Measure Influence

The influence of each policy measure on the development of cooperatives, is indicated on a scale from -4 to +4, where -4 is extra negative, 0 is neutral, and 4 is extra positive; colour the proper figure yellow (or delete the others).

Policy measure	Assessment score
2004 clarification Note by the Office of Fair Trading	1
Industrial and Provident Societies Act 2002	1
Co-operative and Community Benefit Societies Act 2003	0 (bona fide cooperatives) 2 (bencoms)
2006 FSA liberalisation of equity holding to include non-user members	0 so far
Cooperative and Community Benefit Societies Act 2010	1
Legislative Reform Order 2008 (but not yet in place)	3 (if it happens as suggested)
Food Chain Centre	0
English Farming and Food Partnerships (EFFP)	1
Rural Development Programme	1
Fruit and Vegetable Scheme (EC)	0 -1
Scottish Agricultural Organisation Society funding	3