

---

# Support for Farmers' Cooperatives

---

## *Country Report* Finland

---

Perttu Pyykkönen  
Stefan Bäckman  
Heli Kauriinoja  
Petri Ollila

---

The 2011-2012 project „Support for Farmers’ Cooperatives“ is commissioned and funded by the European Commission, DG Agriculture and Rural Development.

Contract Number: 30-CE-0395921/00-42.

The project is managed by Wageningen UR’s Agricultural Economics Research Institute LEI and Wageningen University. Project managers: Krijn J. Poppe and Jos Bijman.

Other members of the consortium are:

- Pellervo Economic Research PTT, Finland: Perttu Pyykkönen
- University of Helsinki, Finland: Petri Ollila
- Agricultural Economics Research Institute, Greece: Constantine Iliopoulos
- Justus Liebig University Giessen, Germany: Rainer Kühl
- Humboldt University Berlin, Germany: Konrad Hagedorn, Markus Hanisch and Renate Judis
- HIVA Katholieke Universiteit Leuven, Belgium: Caroline Gijssels
- Rotterdam School of Management, Erasmus University, The Netherlands: George Hendrikse and Tony Hak

How to cite this report:

Pyykkönen, P., S. Bäckman, H. Kauriinoja, and P. Ollila (2012). Support for Farmers’ Cooperatives; Country Report Finland. Wageningen: Wageningen UR.

Disclaimer:

*This study, financed by the European Commission, was carried out by a consortium under the management of LEI Wageningen UR. The conclusions and recommendations presented in this report are the sole responsibility of the research consortium and do not necessarily reflect the opinion of the Commission or anticipate its future policies.*

# Support for Farmers' Cooperatives

## ***Country Report Finland***

Perttu Pyykkönen

*Pellervo Economic Research PTT, Finland*

Stefan Bäckman

*Pellervo Economic Research PTT, Finland*

Heli Kauriinoja

*Pellervo Economic Research PTT, Finland*

Petri Ollila

*University of Helsinki, Finland*

November 2012

Corresponding author:

Perttu Pyykkönen

Pellervo Economic Research PTT

Eerikinkatu 2800180 Helsinki

Finland

Email: [perttu.pyykkonen@ptt.fi](mailto:perttu.pyykkonen@ptt.fi)

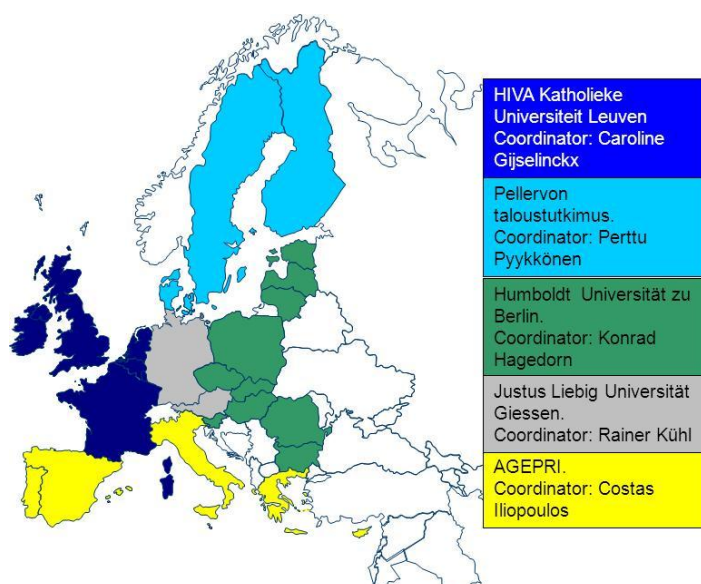
## Preface and acknowledgements

In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, “Support for Farmers’ Cooperatives (SFC)”, that will provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, and by the European Commission in its effort to encourage the creation of agricultural producer organisations in the EU.

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

In addition to this report, the project has delivered 26 other country reports, 8 sector reports, 33 case studies, 6 EU synthesis 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 Finland is one of the country reports that have been coordinated by Perttu Pyykkönen, Pellervo Economic Research PTT. The following figure shows the five regional coordinators of the “Support for Farmers’ Cooperatives” project.



## Table of contents

|  |    |
|--|----|
| 1 Introduction .....   | 6  |
| 1.1 Objective of the study .....   | 6  |
| 1.2 Analytical framework .....   | 6  |
| 1.3 Definition of the cooperative .....  | 7  |
| 1.4 Method of data collection .....  | 7  |
| 1.5 Period under study .....   | 7  |
| 2 Facts and figures on agriculture .....   | 8  |
| 2.1 Share of agriculture in the economy .....                                    | 8  |
| 2.2 Agricultural output per sector .....   | 8  |
| 2.3 Development in the number of farms .....                                     | 10 |
| 2.4 Size of farms .....  | 10 |
| 2.5 Age of farmers: distribution of farms into age classes .....                 | 11 |
| 2.6 Specialization in farm production .....                                      | 13 |
| 2.7 Farms' economic indicators .....   | 14 |
| 3 Evolution, position and performance of cooperatives .....                      | 15 |
| 3.1 Types of cooperatives .....  | 15 |
| 3.2 Market share of farmers' cooperatives in the food chain .....                | 16 |
| 3.3 List of top 50 largest farmers' cooperatives .....                           | 17 |
| 3.4 List of top 5 largest farmers' cooperatives per sector .....                 | 19 |
| 3.5 Transnational cooperatives .....   | 19 |
| 4 Description of the evolution and position of individual cooperatives .....     | 22 |
| 4.1 Data gathering per cooperative .....   | 22 |
| 4.2 Position in the food chain .....   | 22 |
| 4.3 Institutional environment .....  | 23 |
| 4.4 Internal Governance .....  | 24 |
| 4.5 Performance of the cooperatives .....  | 25 |
| 5 Sector analysis .....  | 26 |
| 5.1 Introduction .....   | 26 |
| 5.2 Cereals .....  | 26 |
| 5.3 Fruits and vegetables .....  | 27 |
| 5.4 Dairy .....  | 27 |
| 5.5 Sheep meat .....   | 28 |
| 5.6 Pig meat .....   | 29 |
| 6 Overview of policy measures .....  | 31 |
| 6.1 Regulatory framework .....   | 31 |
| 6.2 Policy measures .....  | 31 |
| 6.3 Other legal issues .....   | 34 |
| 7 Assessment of developments and role of policy measures .....                   | 36 |
| 7.1 Explaining the performance of cooperatives .....                             | 36 |
| 7.2 Effects of policy measures on the competitive position of cooperatives ..... | 37 |
| REFERENCES .....   | 38 |



# **1 Introduction**

## **1.1 Objective of the study**

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

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

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

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

Second, to identify laws and regulations that enable or constrain cooperative development and third, to identify specific support measures and initiatives which have proved to be effective and efficient for promoting cooperatives and other forms of producer organisations in the agricultural sector in Finland.

## **1.2 Analytical framework**

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

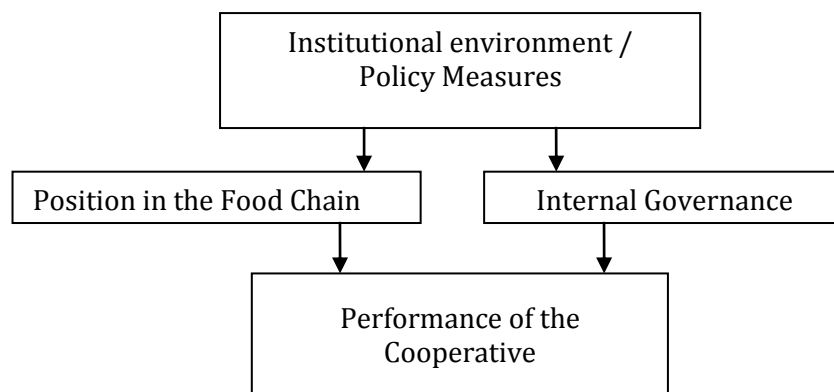


Figure 1. The core concepts of the study and their interrelatedness

### 1.3 Definition of the cooperative

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

- It is user-owned because the users of the services of the cooperative/PO also own the cooperative organisation; ownership means that the users are the main providers of the equity capital in the organisation;
- It is user-controlled because the users of the services of the cooperative/PO are also the ones that decide on the strategies and policies of the organisation;
- It is for user-benefit, because all the cooperative benefits of are distributed back to its users on the basis of their use of services; thus, individual benefit is proportional according to individual use.

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

### 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 are 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 cooperatives has been collected by studying annual reports, other corporate publications and websites. Interviews have been conducted with representatives of national associations of cooperatives, managers and board members of individual cooperatives, and academic or professional experts on cooperatives.

### 1.5 Period under study

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



## 2 Facts and figures on agriculture

### 2.1 Share of agriculture in the economy

It is best to start the study on farmers' cooperatives from farmers' side, from agriculture. In 2007 agriculture is only 1% of GDP (Figure 2). In Finland the role of forest sector is very important. Thus, in Figure 2 the share of "pure" agriculture has been separated from the overall figure where agriculture and forestry have been counted together. The share of forestry is respectively about 2% of GDP. Furthermore, forestry has used to be very closely connected to agriculture. The connection is loosening but farmers still own about 30% of forest land.

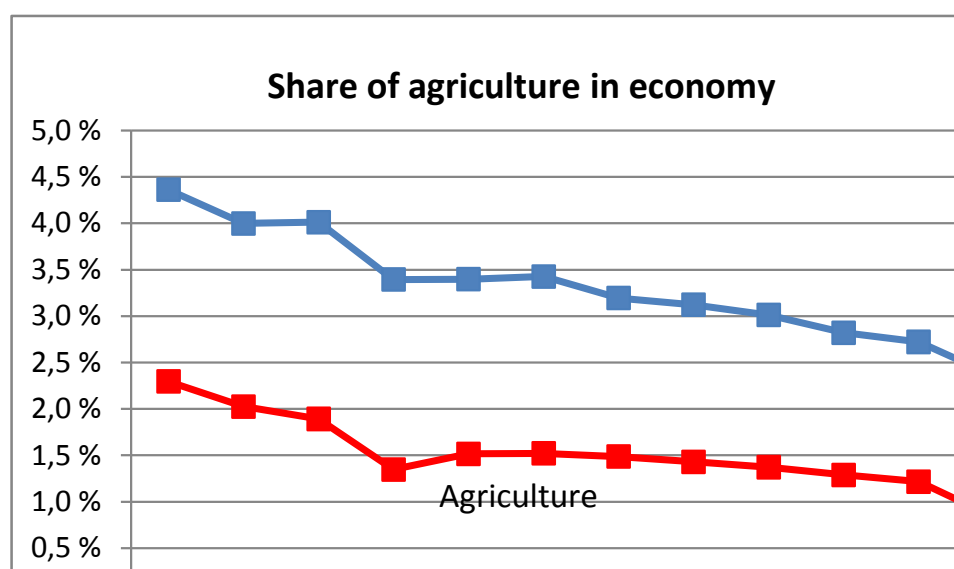


Figure 2 Share of agriculture in GDP. Source: Eurostat Nat. Accounts

Even though the share of agriculture has been declining it still has a very important role in the Finnish economy. The total production has not changed very much. Especially in the most remote areas the role of agriculture is important as both from production and especially employment points of view. In Finland as large country by land area the regional differences in production are large.

### 2.2 Agricultural output per sector

There are several sectors within agriculture. Graph 2 provides information about the main sectors in Finland. Due to climate conditions the olive and wine sectors do not exist in Finland. Furthermore, the sheep meat and sugar sectors are fairly small. The most important sector in Finland is the milk sector. Other important sectors worth mentioning are cereals, fruits and vegetables, pork, beef, poultry and egg sectors. The natural conditions restrict production. Especially in the northernmost regions the role of combined milk and beef production is dominant.

The shares of different sectors have been rather stable. The price changes do affect the shares of different sectors. Especially the effect of 2007 price peak is very clear in the cereal sector. The milk production is regulated by quotas and thus, it does not fluctuate much. The poultry production has increased steadily almost during the entire period. Poultry is totally

contracted production and the production has increased along with the consumption. The pork production has as well increased almost during the entire period. The market situation (high input prices and tight EU market) have caused the decrease of production during the two last years of the period. The biggest change in Finland during this period occurred in the sugar sector. Due to the change in EU sugar regime the sugar production decreased more than 50 per cent in 2006/2007.

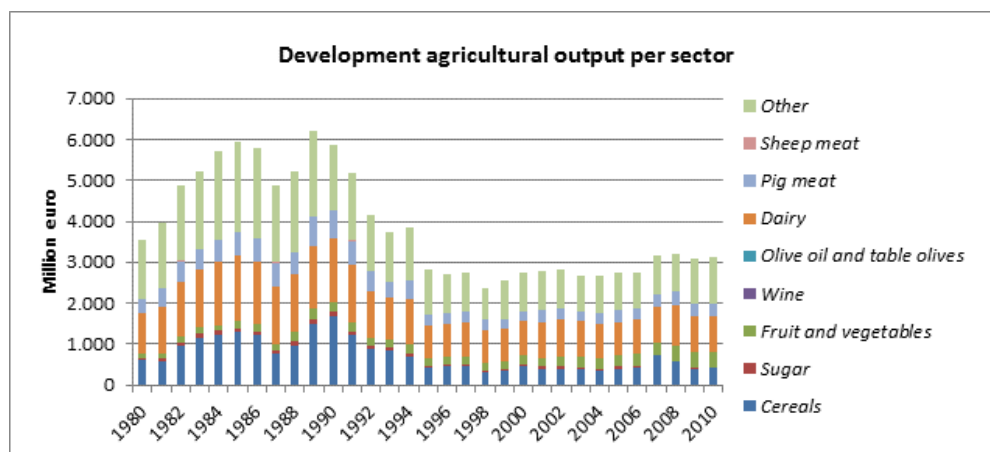
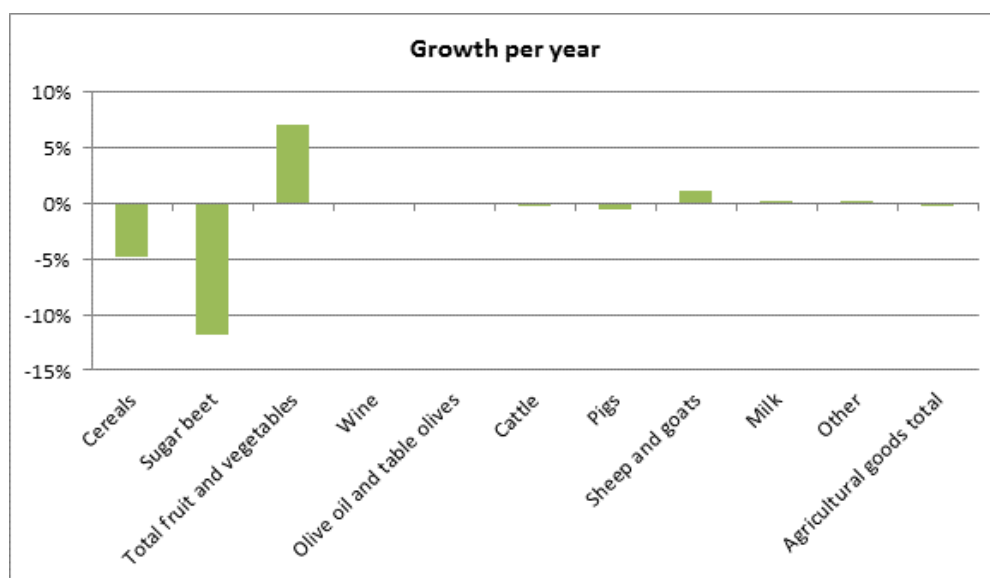


Figure 3 Development of the different sectors in agriculture, value of production at producer prices, in millions of Euro. Source: Economic Accounts of Agriculture, Eurostat



Graph 3 Trend in output per sector "2001" - "2009". Source: Economic Accounts of Agriculture, Eurostat.

The change in cereal sector is mainly based on the fact that in EAA statistics the handling of CAP support has changed during the period. In 2001 the CAP support was included in the production figures (at basic prices) while in 2009 it was excluded. Thus, the actual change e.g. in the production area does not "tell the same story". The fruit and vegetables sector has been growing since the consumption has increased, and especially the production in winter time (by means of heating and lighting) has increased.

## 2.3 Development of the number of farms

In Table 1 and Figure 5 the number of farms in Finland is given. The total number of farms has declined from 79,000 in 2000 to 67,000 in 2007. In 2010 the number of farms was 62,300 (for structural change in Finnish agriculture as well some other European countries see e.g. Pyykkönen et al. 2010). The number of livestock farms seems to have decreased into half every ten years. The number of cereal and other cropping farms does not decline at the same rate since some of the (former) livestock farms continue cropping.

In the table 1 we have used term mixed cropping instead of sugar since the actual number of sugar farms was in 2007 only 1460. The number of pig farms is also a bit misleading. It is typical in Finland that the livestock densities are quite small. Therefore, e.g. the number of specialized pig meat farms seems to be quite small since most of the pig farms have quite considerable crop farming and thus, they have been classified as other farms.

Table 1 Number of farms. Source: Eurostat, Farm Structure Survey.

| Number of farms             | 2000   | 2007   | % change per |
|-----------------------------|--------|--------|--------------|
| Cereals                     | 28 170 | 25 360 | -1.49        |
| Mixed crops                 | 10 280 | 15 540 | 6.08         |
| Pig meat                    | 2 320  | 910    | -12.51       |
| Sheep meat                  | 3 370  | 1 560  | -10.42       |
| Total fruits and vegetables | 3 920  | 2 980  | -3.84        |
| horticulture                | 3 570  | 2 550  |              |
| fruit and citrus fruit      | 350    | 430    |              |
| Olive oil and table olives  | 0      | 0      |              |
| Wine                        | 0      | 0      |              |
| Dairy                       | 21 480 | 12 250 | -7.71        |
| Beef                        | 3 310  | 1 670  | -9.31        |

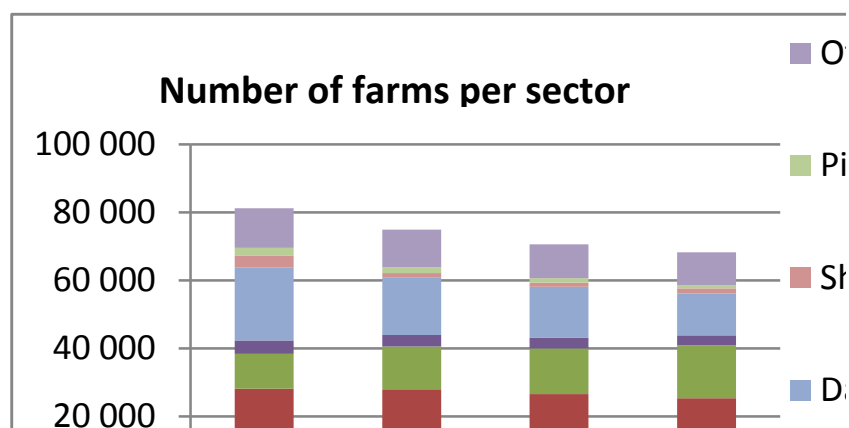


Figure 5 Number of farms 2000 - 2007 with data per specialist type of farming. Source: Eurostat, Farm Structure Survey.

## 2.4 Size of farms

Farms come in different sizes from small part-time farms to large exploitations. Graph 5 shows the distribution of farms into size classes in European Size Units (ESU). The livestock farms, especially pig farms are considerably larger than cereal and mixed crop farms. Thus,

even though the number of livestock farms is small their economic importance is big in Finnish agriculture.

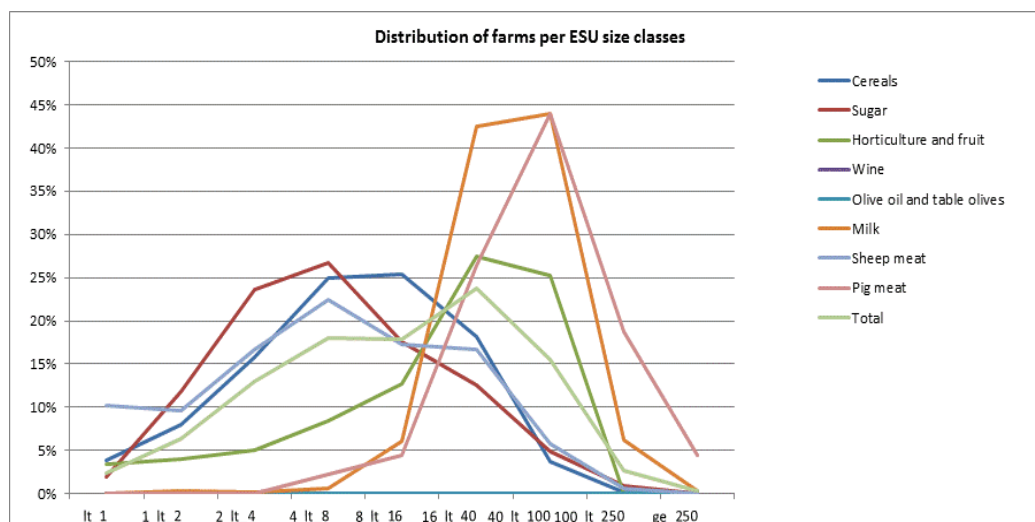


Figure 6 Number of farms per size class, measured in ESU, per specialist type of farming. Source: Eurostat, Farm Structure Survey.

The size of livestock farms is also increasing at a faster rate than the size of crop farms. For example, a typical size in the Finnish dairy farm is today about 50-60 cows and in the near future the growth of the average size will continue (see Pyykkönen et al. 2011). Compared to the present average size of 27 dairy cows per farm these figures are considerably greater.

## 2.5 Age of farmers: distribution of farms into age classes

The age of farmers varies. In Finland the share of farmers aged 65 and more is among the lowest in the EU. There are at least two reasons for that. Firstly, the national support schemes are restricted to farmers younger than 68 years old. Due to the great importance of this support this restriction works as an incentive to retire (i.e. by generation transfer or selling/renting out the land). Secondly, the farmers have a special pension insurance system (includes also early retirement scheme) that makes it possible for farmers to retire at the same age as in other sectors.

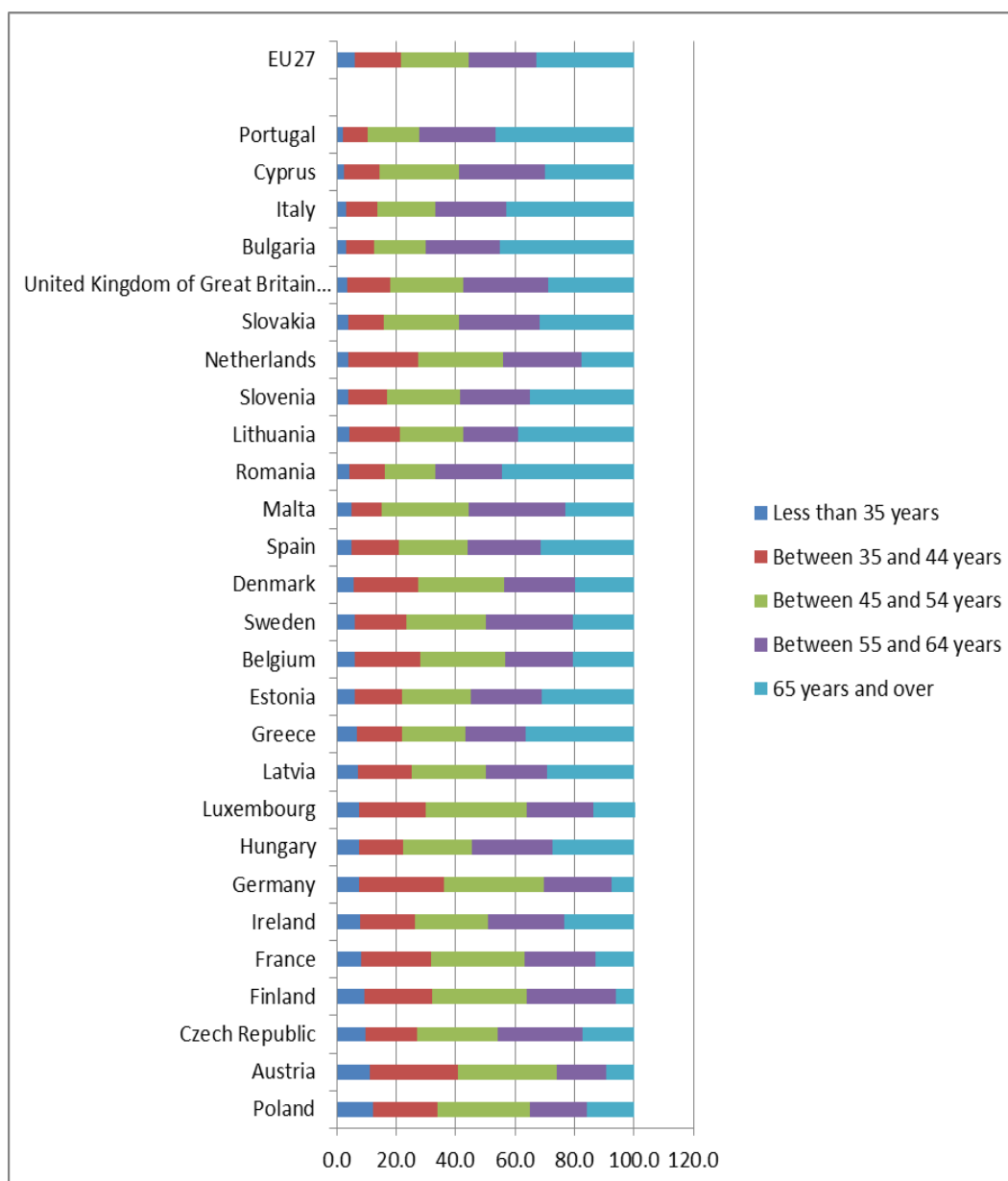


Figure 7 Percentage of farmers per age class, per Member State and EU27, 2007 (ranked with countries with the lowest percentage of young farmers on top). Source: Eurostat, Farm Structure Survey.

However, even though the share of the youngest farmers is in Finland among the largest in the EU there is a concern of diminishing recruitment of young farmers in the sector. Behind this concern lies the fact that the share of 55-64 years old farmers (the so called big age classes born just after the World War II) is large. If younger generations do not continue farming on these farms there is a threat that the agricultural production vanishes in the most remote areas.

## 2.6 Specialization in farm production

Cooperatives may not have only member-farmers with different farm sizes or different age. Farms also have different compositions of production and therefore their input varies, too. This is even true on specialized farms, where e.g. some specialised dairy farmers also have beef or sheep or they sell hay. In addition to highly specialized farms, many mixed (non-specialized) farms exist. The heterogeneity of farming in terms of specialisation can be estimated by calculating the share that specialized farms have in the total production. This is what Figure 8 (split in 8A for plant production and 8B for animal production) shows.

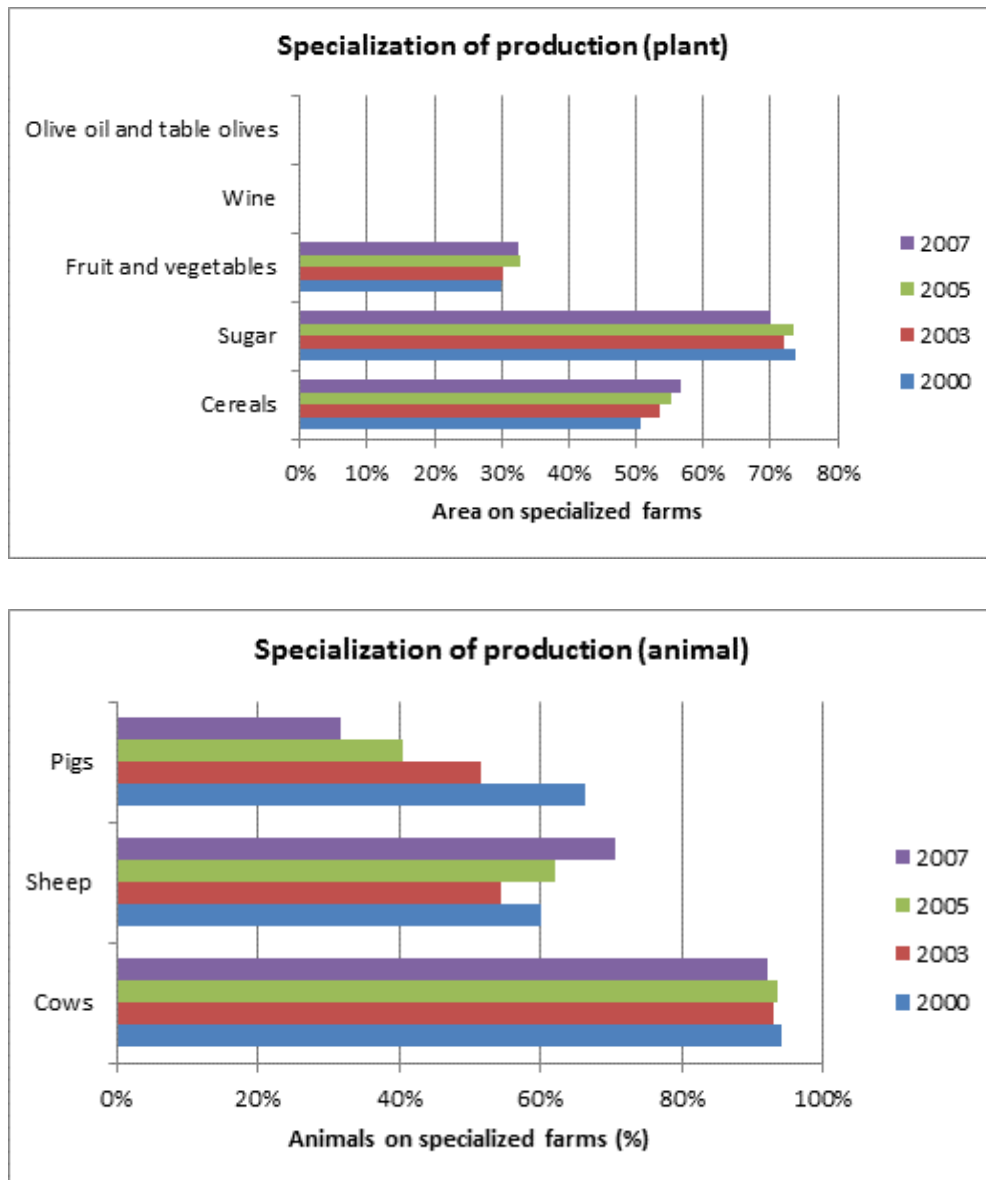


Figure 8 A & B Heterogeneity in farm production: specialized farm types' share of total production. Source: Economic Accounts of Agriculture, Eurostat.

Livestock farms are much more specialized than cereal farms. The share of specialized dairy farms is more than 90% in Finland. The situation is very much the same in pork production as well as in especially poultry and egg production (the statistics is a bit misleading due to the livestock density reasons explained in chapter 2.1.3). Compared to several other EU countries

the quite low livestock density also explains the low share of cereal production on specialized grain farms. Especially pork and poultry farms as well as mixed cropping farms have cereal production.

## 2.7 Farms' economic indicators

The description of agriculture is concluded by using some economic indicators (Table 2). These indicators focus on the net value-added and income from farming for farmers as well as the level of their investments. Some of those investments may be in equity in their cooperatives, but farmmost in farm assets.

Table 2 Economic indicators for farms

Economic indicators average per farm (2006-2008)

|                                       | Cereals | Sugar   | Fruit and<br>vegetables | Dairy   | Pig meat |
|---------------------------------------|---------|---------|-------------------------|---------|----------|
| Economic size - ESU                   | 21,30   | 28,53   | 82,30                   | 51,83   | 93,67    |
| Total labour input - AWU              | 0,67    | 0,85    | 4,41                    | 2,05    | 2,00     |
| Total Utilised Agricultural Area (ha) | 62      | 53      | 4                       | 47      | 53       |
| Total output €                        | 38 510  | 45 297  | 268 553                 | 96 635  | 270 890  |
| Farm Net Value Added €                | 20 651  | 22 867  | 95 335                  | 44 157  | 56 258   |
| Farm Net Income €                     | 13 759  | 14 426  | 29 304                  | 35 406  | 33 112   |
| Total assets €                        | 317 222 | 276 641 | 351 164                 | 387 353 | 700 138  |
| Net worth €                           | 254 600 | 208 007 | 141 249                 | 277 552 | 452 083  |
| Gross Investment €                    | 18 468  | 15 223  | 35 924                  | 42 441  | 62 531   |
| Net Investment €                      | 1 715   | -1 464  | 7 442                   | 15 449  | 10 125   |
| Total subsidies - excl. on investm. € | 36 476  | 37 242  | 35 969                  | 50 769  | 66 053   |
| Farms represented                     | 12 020  | 5 743   | 2 053                   | 11 993  | 930      |

note: less than 3 years available

Source: DG Agri, FADN.

Figures in table 2 clarify the fact that the role of livestock farms in Finnish agriculture is very important. The output per farm is greater than on cereal and other crop farms. The net value added as well as especially the net investments are remarkably larger on these farms. However, due to the stabilizing support schemes the differences in Family Farm Income calculated per AWU do not vary that much. The livestock farms are more often full-time farms and usually need the entire labour input of the farm family. The crop farms are usually part-time farms where at least another spouse of the farm family couple has a job (often full-time) outside the farm.

However, as the size of livestock farms increases, a new kind of co-operation between livestock and cropping farms is needed. The labour input on livestock farms restricts the possibilities in field cultivation. Thus, those farms tend to outsource at least some of their field operations to neighbouring farms.

### 3 Evolution, position and performance of cooperatives

#### 3.1 Types of cooperatives

The total number of cooperatives in Finland was 4100 with 4 million memberships in 2008. Thus, with these figures Finland is the most cooperative country in the world and with respect to total turnover of cooperatives in relation to GNP or total number of members in relation to population. Of the Finnish adult population 84 % are members in at least one cooperative (average 2,1 memberships per person according to a survey in 2007). At least 75 % of the Finnish households are members in a consumer cooperative. The memberships in different sectors are described in Figure 9 below.

#### TOTAL NUMBER OF MEMBERS IN PRIMARY CO-OPS in 1902–2006 in Finland

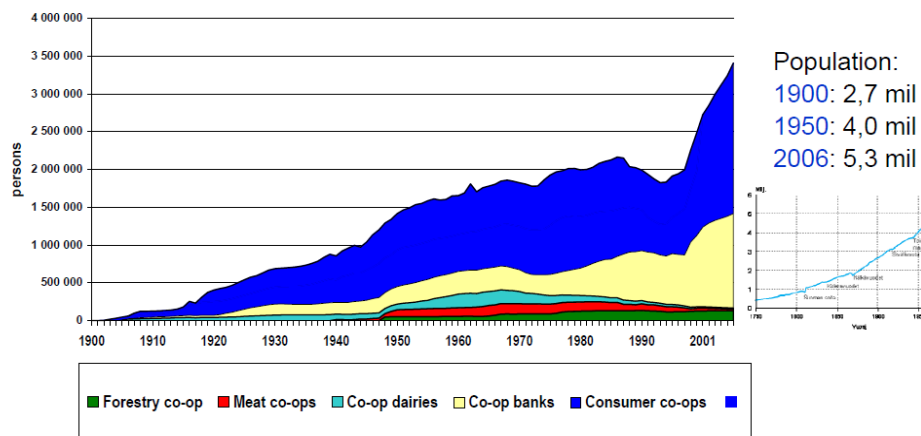


Figure 9 Memberships in cooperatives. Source: Pellervo Confederation.

The Cooperative movement came to Finland at the turn of the 20th century. The first dairy cooperative was established in 1897 and Pellervo, Confederation of Finnish Cooperatives, was established in 1899. The first cooperative law, "Cooperative Societies Act" came into force already in 1901. The first slaughterhouse cooperative was established in 1908. After the foundation of Pellervo, cooperation spread rapidly over the country. Ten years later there was a consumer coop, a cooperative bank and a cooperative dairy in almost every community (Kuisma et al. 1999).

In the beginning the cooperatives were very small local cooperatives. The economies of scale and the development in the society have, however, meant a strong consolidation development especially in the cooperatives active in the food chain.

A new phenomenon in the Finnish cooperation is the so called new cooperatives (mainly labour cooperatives) that exist especially in the service sector. Cooperatives also seem to work as an important entrepreneurial form for expert networks. The number of these new, usually very small coops was almost 3000 in 2008.











Another increasing sector where cooperatives have a very big role in the Finnish society is the water services in the rural countryside. Basically, the local government takes care of the water services (both clean and sewage water). However, outside the detailed built area there lives about 15% of the people outside the villages. The usual form for people in these areas is



to establish a cooperative to take care of these services. This is also increasing, due to tightening rules for sewage water leakages. Today there are more than 1000 water cooperatives in Finland, the biggest ones having a turnover of 6 mill.€.

In Finland market shares of cooperatives are high. The market shares of consumer cooperatives are 44% in daily goods and 35% in deposits. In the insurance sector the market shares are somewhat lower whereas in the food chain they are considerable high (see Table 3 below).

Table 3 Market shares of cooperatives in Finland in different sectors in 2008. Source: Pellervo Confederation, OT-lehden vuosikirja.

| <b>Cooperatives and insurance associations in Finland 2008</b><br><b>Facts and Figures</b> |  | Number of cooperatives | Members in cooperatives | Personnel in group | Turnover in group Mill € | Market share %   |
|--|--|------------------------|-------------------------|--------------------|--------------------------|------------------|
|  | Meat cooperatives         | 5                      | 13 300                  | 13 900             | 3 750                    | <sup>1)</sup> 83 |
|  | Cooperative dairies       | 26                     | 11 500                  | 4 900              | 3 100                    | <sup>2)</sup> 97 |
|  | Egg cooperatives          | 2                      | 350                     | 140                | 55                       | <sup>3)</sup> 47 |
|  | Vegetable cooperatives    | 4                      | 500                     | 60                 | 50                       | 15 - 40          |
|  | Forestry cooperatives     | 1                      | 129 000                 | 17 500             | 6 450                    | <sup>4)</sup> 36 |
|  | Animal Breeding           | 4                      | 28 000                  | 470                | 30                       | 100              |
|  | Hankkija-Agriculture Ltd  | -                      | -                       | (1 400)            | (1 060)                  | 42               |
|  | Consumer cooperatives     | 34                     | 2 155 000               | 41 000             | 12 600                   | 44               |
|  | Cooperative banks       | 270                    | 1 350 500               | 13 500             | 6 500                    | 37 <sup>5)</sup> |
|  | Insurance associations  | 84                     | 535 000                 | 1 000              | 300                      | 9 <sup>7)</sup>  |
|  | <b>TOTAL **</b>  | <b>430</b>             | <b>4 223 150</b>        | <b>92 470</b>      | <b>32 835</b>            |                  |
|  | Small new cooperatives   | 2 790                  |                         |                    |                          |                  |

\* Agricultural supply limited company, a subsidiary to largest consumer cooperative SOK  
 \*\* Total number of cooperatives in Finland according to Trade Register was 4 100 at the end of 2008.

- <sup>1)</sup> Meat from producers
- <sup>2)</sup> Milk from producers
- <sup>3)</sup> Eggs from producers
- <sup>4)</sup> Share from market logging from private forests
- <sup>5)</sup> Consumer cooperatives sales
- <sup>6)</sup> Deposits
- <sup>7)</sup> Premium income

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

The cooperatives have a very significant role in the food chain in Finland. Especially in dairy and meat sectors the market shares are high (see Table 4). The calculation of food processing cooperatives' market shares base on raw material purchases whereas the market share of the input supply is based on turnover.

Table 4 Market Share of Cooperatives

| Sector               | "2000"            |                  | "2009"            |                  | Comments  |
|----------------------|-------------------|------------------|-------------------|------------------|---|
|                      | Number of members | Market Share (%) | Number of members | Market Share (%) |   |
| Meat                 | 35657             | 71               | 11780             | 81               | The number of members in 2000 includes non-active members whereas 2010 figure not   |
| Fruit and vegetables | NA                | NA               | 460               |                  | The market share differs but in tomato it may be 25%  |
| Dairy                | 21407             | 96               | 10890             | 97               | If Arla Food's subsidiary is counted in, the market share is more that 99%  |
| Egg                  | 768               | 60               | 367               | 45               |   |
| Input supply         | -                 | 40               | -                 | 49               | Cereal trade share cannot be calculated exactly, Hankkija-Maatalous (input supplier) is a big player in the cereal market   |
| Genetics             | 33200             | 100              | 20009             | 100              | Members are in FABA, in market share of 2010 also Finnpig (50/50 owned by HKScan and Atria) is included, in 2010 the share is somewhat lower since FABA sold out its pig breeding to a private slaughterhouse |

Sources: Own approximations and OT-lehti Osuustoiminnan vuosikirja

The genetics cooperative FABA used to have the market share of 100%. However, in 2008 the slaughterhouses HKScan and Atria have established a new pig breeding company, Finnpig. Furthermore, in 2010 FABA made a decision to concentrate only on cattle breeding and sold out the pig breeding to a family-owned slaughterhouse Snellman.

### 3.3 List of top 50 largest farmers' cooperatives

The list on top Finnish 50 cooperatives includes 23 dairy cooperatives. The list also describes the role of milk production in Finnish agriculture. The list tells very clearly about a high consolidation development in the Finnish cooperative food chain. The largest cooperatives are very large, whereas the smallest ones on the list are very tiny. There are only 23 cooperatives whose turnover is more than 10 million € and respectively 15 cooperatives whose turnover is more less than 10 million € but more than 1 mill.€. The rest 12 cooperatives on the list have turnover less than 1 million €. The two limited liability companies, which have organised themselves as producer organizations are also included on the list.

Table 5 The 50 largest farmers' cooperatives in the food chain of Finland

|   | Name of the Cooperative         | Sector(s) involved in: | Turnover, mill.€ |
|---|---------------------------------|------------------------|------------------|
| 1 | HKScan                          | Meat                   | 2295             |
| 2 | Valio                           | Dairy                  | 1844             |
| 3 | Atria                           | meat                   | 1357             |
| 4 | Hankkija-Maatalous (Agrimarket) | farm supply            | 1056             |
| 5 | Osk. Pohjolan Maito             | Dairy                  | 224              |
| 6 | Osk. Maitosuomi                 | Dairy                  | 160              |

|    |  |                        |       |
|----|--|------------------------|-------|
| 7  | Osk ItäMaito   | Dairy                  | 258   |
| 8  | Osk. Tuottajain Maito                                    | Dairy                  | 157   |
| 9  | Osk. Länsi-Maito   | Dairy                  | 99    |
| 10 | Järvi-Suomen Portti                                      | Meat                   | 81    |
| 11 | Hämeenlinnan Osm.  | Dairy                  | 61    |
| 12 | Munakunta  | Eggs                   | 51    |
| 13 | Osk. Maitomaa  | Dairy                  | 40    |
| 14 | Närpes Grönsaker, PO                                     | Vegetables             | 38    |
| 15 | Osk. Maitokolmio   | Dairy                  | 35    |
| 16 | Mejeriandelslaget Milka                                  | Dairy                  | 33    |
| 17 | Osk. Satamaito   | Dairy                  | 31    |
| 18 | FABA Palvelu Osk.  | Breeding               | 21    |
| 19 | Kuusamon Osm.  | Dairy                  | 14    |
| 20 | Ålands Centralandelslag                                  | Dairy                  | 14    |
| 21 | Österbottens kött  | holding (meat)         | 12.3  |
| 22 | Vihannes Laitila oy, PO                                  | Vegetables             | 12.1  |
| 23 | Laaksojen Maitokunta                                     | Dairy                  | 9.2   |
| 24 | Kaustisen Osuusmeijeri                                   | Dairy                  | 7.1   |
| 25 | Porlammin Osuusmeijeri                                   | Dairy                  | 6.4   |
| 26 | Evijärven osuusmeijeri                                   | Dairy                  | 6.2   |
| 27 | Ilmajoen Osuusmeijeri                                    | Dairy                  | 6.1   |
| 28 | Hirvijärven Osuusmeijeri                                 | Dairy                  | 5.8   |
| 29 | Ålands Trädgårdshall, PO                                 | Vegetables             | 5.7   |
| 30 | Härmän seudun osuusmeijeri                               | Dairy                  | 5.1   |
| 31 | Itikka   | holding (meat)         | 4.5   |
| 32 | Limingan Osuusmeijeri                                    | Dairy                  | 4.1   |
| 33 | Andelslaget Oskus Potatisland/Osuuskunta Oskun Perunamaa | Potatoes               | 2.1   |
| 34 | Andelslaget A-spannmål                                   | Cereals                | 1.8   |
| 35 | Leppävirran Marjaosuuskunta, PO                          | Berries                | 1.7   |
| 36 | Lihakunta  | holding (meat)         | 1.6   |
| 37 | Paavolan Osuusmeijeri *                                  | Dairy                  | 1.3   |
| 38 | Osuuskunta Rymättylän Varhane                            | Potatoes               | 0.66  |
| 39 | LSO  | holding (meat)         | 0.60  |
| 40 | Osuuskunta Merimaskun Peruna                             | Potatoes               | 0.46  |
| 41 | Tuore-Tawastia oy, PO                                    | Vegetables             | 0.032 |
| 42 | Osuuskunta Makure  | Cereals, feeding stuff | 0.26  |
| 43 | Osuuskunta Perhon Kahu                                   | Cereals, feeding stuff | 0.24  |
| 44 | Luomubotnia Osuuskunta                                   | Ecological products    | 0.133 |
| 45 | Ilomantsin Marjaosuuskunta                               | Berries                | 0.11  |
| 46 | Pohjois-Pirkanmaan tattariosuuskunta                     | Cereals                | 0.050 |
| 47 | Osuuskunta Ärmätti                                       | Vegetables             | 0.033 |
| 48 | Osuuskunta Tarvike-Kappa                                 | Cereals, feeding stuff | 0.03  |
| 49 | Loimaan Laatulammas osuuskunta                           | Lamb                   | 0.027 |
| 50 | Pohjanmaan lammasosuuskunta                              | Lamb                   | 0.009 |

### 3.4 List of top 5 largest farmers' cooperatives per sector

The Table 6 below presents the 5 largest cooperatives in the sectors that are in focus of this study. The wine and olive sectors as well sugar sectors are excluded since there is no wine or olive production in Finland, and no sugar cooperatives, either.

Table 6 Most important cooperatives in the sectors studied in this project

| Sector               |    | Name of Cooperative            |
|----------------------|----|--------------------------------|
| Cereals              | 1  | Agri-Market                    |
|                      | 2  | A-spannmål                     |
|                      | 3  | Makure                         |
|                      | 4  | Perhon Kahu                    |
|                      | 5  | Tarvike-Kappa                  |
| Fruit and vegetables | 1  | Närpes Grönsaker               |
|                      | 2  | Vihannes Laitila (oy)          |
|                      | 3  | Ålands Trädgårdhall            |
|                      | 4  | Leppävirran marjaosuuskunta    |
|                      | 5  | Tuore-Tawastia (oy)            |
| Dairy                | 1. | Valio                          |
|                      | 2  | Osk. Pohjolan Maito            |
|                      | 3  | Osk. Maitosuomi                |
|                      | 4  | Osk. ItäMaito                  |
|                      | 5  | Osk. Tuottajain Maito          |
| Sheep meat           | 1  | Pohjanmaan lammasosuuskunta    |
|                      | 2  | Atria                          |
|                      | 3  | Loimaan Laatulammas osuuskunta |
| Pig meat             | 1  | HKScan                         |
|                      | 2  | Atria                          |
|                      | 3  | Österbottens Kött              |
|                      | 4  | Itikka                         |
|                      | 5  | Lihakunta                      |

### 3.5 Transnational cooperatives

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

Table 7 presents the foreign transnational cooperatives and the international cooperatives active in Finland. These are cooperatives from other EU Member States and have come to Finland to trade directly with farmers, either farmers being members or contractual clients.

Table 7 The foreign transnational cooperatives and international cooperatives that are trading with farmers in Finland.

| Name of the Cooperative | Mother country | Sector(s) involved in: |
|-------------------------|----------------|------------------------|
| <b>Transnationals</b>   |                |                        |
| Arla Foods              | DK             | Dairy                  |
| VikingGenetics          | DK             | Breeding               |
| DLA Agro                | DK             | Cereals                |

The only foreign cooperative that has business directly with Finnish farmers is Danish/Swedish dairy cooperative Arla Foods. It has a subsidiary ArlaIngman (acquired in 2008 entirely, first 30% in 2006) and in addition to that, it has business relations with some dairy cooperatives. However, Arla Foods does not have members in Finland. In principle, ArlaIngman acts like IOF in Finland. However, ArlaIngman cooperative suppliers have organised themselves into a “producer council” that has a meeting three times a year where the producers discuss with Arla Foods Board members on milk production, pricing and other contractual relationships.

There are several other cooperatives that are active in the Finnish food market but they only import food and not operate directly with farmers. The VikingGenetics is transnational in the sense that it is owned by breeding cooperatives from three Nordic countries (Denmark, Sweden and Finland). VikingGenetics operates with these domestic cooperatives, not directly with farmers.

Table 8 below presents the transnational and international cooperatives that have their seat in Finland. They have gone international by taking up members in other countries and/or doing business with non-member farmers in other countries.

Table 8 Finnish transnational cooperatives and international cooperatives that are trading with farmers in other countries

| Name of the Cooperative | Host countries     | Sector(s) involved in: |
|-------------------------|--------------------|------------------------|
| <b>Transnationals</b>   |                    |                        |
| HKScan                  | SE, DK, PL, EE, LV | Meat                   |
| <b>Internationals</b>   |                    |                        |
| Atria                   | SE, RU, EE,        | Meat                   |
| Valio                   | EE                 | Dairy                  |
| Munakunta               | EE                 | Egg                    |
| Agrimarket              | LV                 | Feed                   |

The only transnational cooperative is HKScan. It has owner-members both in Finland (LSO) and in Sweden (Sveriges Djurbönder ek. för.). HKScan also cooperates with Danish slaughterhouse cooperative Danish Crown with which it owns Polish Sokolow (50/50).

HKScan was established in 2007 when Finnish meat processor HKRuokatalo (owned mainly by LSO) acquired Swedish Scan (owned by Swedish Meats). As part of the process Sveriges djurbönder (ek. för.) was established on the side by LSO to become a second biggest owner of HKScan. HKRuokatalo started internationalisation in 1998 by acquiring slaughterhouse in Estonia. In 2002 HKRuokatalo started the process, which led to the takeover of Sokolow from Poland together with Danish Crown in 2006. In 2010 HKScan acquired Danish Rose Poultry. Thus, in a decade HKScan has grown to become one of the largest slaughterhouses in Europe.

Another large Finnish slaughterhouse Atria was also interested in acquiring Scan but HKRuokatalo “won the race”. However, Atria has also been very active in the Swedish meat market and acquired several Swedish meat and food processors. Atria has also been very active in Russia and in Baltic countries. The Russian market has been really difficult and thus, Russian operations have not so far been very successful for Atria.

## **4 Description of the evolution and position of individual cooperatives**

### **4.1 Data gathering per cooperative**

The annual reports and cooperatives' websites compound the main data sources. Major part of the data was available for year 2010. Some data for instance on cooperatives' turnover or the balancesheet were available in Amadeus dataset. However, majority of the data had to be collected from cooperatives' annual reports (years 2010 and 2000). Data and annual reports for the largest cooperatives are usually quite easily available at cooperatives' own websites. Smaller cooperatives' information instead was gathered partly from other public sources, mainly Internet. Various kinds of business databases are fortunately available.

In order to get the missing information we also contacted cooperatives directly either by e-mail or telephone. Missing information concerned issues like market position, membership and governance issues. In order to draw a whole picture about the situation in Finland we also used our own and some other national expertise (at Pellervo Confederation) in the assessment of some questions.

### **4.2 Position in the food chain**

A typical phenomenon in the Finnish food market is a quite high consolidation in all parts of the chain. Two largest retailers' joint market share is more than 80%.

Cooperatives have a very significant role in the Finnish food chain the. Especially in the dairy and meat sectors the market shares are high. Both sectors have also consolidated greatly during the last 20-30 years and this trend seems to be continuing. Another important feature is the globalization of business, especially in those mentioned sectors. Both slaughterhouses have been very active in acquiring processing plants in foreign countries. In the cereals sector the role of cooperatives is remarkably smaller.

Market shares of cooperatives have remained quite stable over the years. In dairy the share is almost 100 per cent; it used to be about 96% and still the share of Finnish cooperatives is around 96% (which it has been almost a hundred years already). The most significant rival for the Finnish cooperatives is Arla Foods who acquired a dairy company Ingman in 2008. Today the company is Arla Foods' subsidiary ArlaIngman. Thus, the total market share of cooperatives is almost 100 per cent.

The consolidation process has of course affected the market shares of various dairy cooperatives. Valio's market share of the processed raw milk in Finland is 87per cent. The five Valios' largest owner cooperatives purchase more than 80 per cent of the milk produced in Finland. Each one of these five is a result of mergers of smaller cooperatives that in the beginning operated at municipal level. Nowadays, these largest cooperatives are interregional and those five largest cover almost entire Finland. Thus, the milk chain from farm to wholesalers and retailer is very much in milk producers' own hands.

In the meat sector the market share of cooperatives has increased a little during the last ten years. The market share is more than 80 per cent. There are two large private family companies that have been quite successful during the last decade and they have won market share from cooperatives. In the meat sector we do not separate beef, pork and poultry companies since every one of the four large companies process all these meat sorts. The lamb

sector is very small in Finland (domestic production only 0.7 mill. kg). HKScan has its roots in Southern Finland and Atria in the Northern and Eastern parts of Finland. However, today these two large slaughterhouses are competing very hard with each other, not only at the consumer level but also in the raw material purchases. Thus, the purchase areas are overlapping in many areas. The owner cooperatives are interregional. LSO, the main owner of HKScan has members almost everywhere in Finland and can, thus, be described as almost national cooperative.

The market share in the cereal sector is very difficult to calculate. Furthermore, the biggest cooperative is actually not a producer cooperative. The fruit sector is very small in Finland, some berry cooperatives however exists. In the vegetable sector there are several cooperatives. Three of the cooperatives as well as two limited liability companies have also organized themselves as producer organisations. The production is concentrated in certain areas in Finland especially in the Southern Ostrobothnia. Thus, even though the market shares are quite high, the cooperatives are still regional cooperatives. The market shares, however, vary a lot product by product. The largest volumes are in tomato and cucumber where the market share has varied between 40-60 per cent. In the summertime when the competition coming from the imports is low, the market share is almost 100 per cent. In the wintertime on the contrary, when the high production cost make domestic production much more expensive compared to import production (e.g. Pakarinen 2011).

In the egg sector the role of cooperatives has traditionally been quite strong. There are two cooperatives Munakunta, which collects, processes and trades eggs. Österbottens Äggcentralandelslag cooperates with Munakunta and acts actually as collecting cooperative of Munakunta. The share of the egg cooperative Munakunta has varied during recent years between 45—50 per cent. The newcomers into the market are also producer-owned firms but they have been organized as limited liability companies.

### **4.3 Institutional environment**

In the beginning of the 20th century Finland was a predominantly agrarian country. Four-fifths of its population of three million lived and worked in the fields and forests. Emerging industry, particularly the forest industry, depended on rural resources and labour. The distress of the landless masses was one of the most serious social problems of the age. The rise of the cooperative movement can be seen as an attempt to solve this problem. These social problems affected other aspects of Finnish life, such as the labour movement, industrialization, urbanisation and the country's position as an autonomous grand duchy within the Russian Empire. It was the countryside that proved decisive in determining the nation's destiny, particularly in respect to the struggle against the increasingly repressive actions of the Russian authorities at the turn of the century. Rural contradictions and the strong farmer element in General Mannerheim's White army were the determining elements in the Civil War 1917–18, which led to Finland's freedom from Russia, independence and the preservation of a bourgeois social system. The same factors continued to influence the heated political struggles of the 1930s.

The cooperative movement was successful and the Finnish people adopted the idea of cooperation rapidly in several sectors. Cooperation has played an important role in the vitalisation of the rural economy. The total number of cooperatives reached its peak, 6000 in the 1930s. At that time there was a dairy coop, a coop bank, and a retailing consumer coop in almost every municipality in Finland (the number of municipalities ca. 600). In addition,



there were slaughterhouse coops, insurance coops, electricity, telephone, and water coops as well as forestry coops and several other cooperatives.

Pellervo had also an active role in establishing the Farmers' Union and thus, the producer cooperation has had an active role in Finnish society. The consumer cooperation was divided in the 1920's to left and right wing cooperation. They did not find each other again until 1990's when the separation ended. The producer cooperatives and the right wing consumer cooperatives were all together under the name of Pellervo up to the beginning of the 21<sup>st</sup> century. Even though the separation of producer and consumer cooperation has taken place at some degree they still have many common interests and a joint committee "Cooperative Delegation".

The role of cooperatives has been very economy oriented. Cooperatives have been in the core position in order to help the poor people's possibilities for a better life. This strong economy and business orientation of cooperatives has remained though the the nation has become wealthier. This is emphasized by the fact that today there is very little politics in cooperatives. The "Law on cooperatives" (2001) says very clearly and briefly that the purpose of the cooperative is to practice business operations whose purpose is to improve its members' economy by offering services (cooperative itself or its subsidiary) the member can take advantage of. (Main source in this chapter: Kuisma et al. 1999).

#### **4.4 Internal Governance**

The internal governance varies among cooperatives. The size of the cooperative or the role of the cooperative in the food chain may affect the internal governance choices. The big dairy cooperatives (milk purchasers) usually have a Member council that has been given all the power of the members. The members in the Member council are elected either in postal elections or in regional member meetings. There is no members' General Assembly, instead the Member Council acts as a General Assembly. Even though the cooperatives are large they have only a one-tier board structure. The board of directors usually consists mainly of producer members. In some cases the managing director also acts as a member of the BoD. Valio Oy has a two-tier board structure where there are milk producers and the managing director in the BoD and milk producers and some representatives of the salaried personnel of Valio in the Supervisory Board. The smaller milk cooperatives (on the Top 50 list) usually have the members' General Assembly and no Member Council or Supervisory committees. The General Assembly elects directly the BoD.

In the meat sector the listed corporations act according to corporate legislation. The holding cooperatives usually have an elected Member Council (instead of members' General Assembly), Supervisory Board and the BoD. In LSO the Member Council is elected for five years, in Itikka and Lihakunta for four years. The members in the Member Council as well as in other governance organs have been elected such that all of the regions and all of the different production lines (pork, beef, poultry) are represented.

In smaller cooperatives it is typical that there is the General Assembly that elects the BoD. In the smallest ones it is also typical that some of the producer members acts also as a managing director and the amount of salaried workers is very small. This is the case in most of the fruit and vegetables, cereals and lamb cooperatives. The exceptions from this are Agrimarket and Närpes Grönsaker.

## 4.5 Performance of the cooperatives

Basically, the Finnish food market is very small and can easily be affected by international market. Thus, the producer prices or the development of their changes cannot depart very much from international prices. This means also that the cooperative price cannot depart from other prices. Thus, the market is very competitive even though the market shares are relatively high in certain sectors.

The cooperatives have managed quite well in the Finnish food chain, and they have a very strong position. The dairy sector is almost totally in the hands of the cooperatives. The dairy sector is also otherwise very “cooperative” since the producer price is exactly the same for all members. The price depends only on quality of milk, not on the amount produced, not on the distance or the collection costs, either. Since Valio also pays exactly the same price for all purchasing cooperatives the producer price differences between regions and producers are relatively small. Due to the strong position of Valio, the market arrivals usually follow very closely the Valio prices. Milk producers have been much more satisfied with Valio than meat producers with their own cooperatives. Of course, the market situation in the meat sector is different compared to dairy.

In the meat sector the market share of two large cooperative-based corporations is also very high. Both of those companies have also expanded especially in the Baltic Sea Region. This has also meant that investment costs have been quite high. There has been a challenging task to restructure these acquisitions. Partially for these reasons as well as for the market situation the profitability of these companies has not been the best possible. There are also two relatively large private companies in the domestic markets and, thus, the competition is sometimes almost “bloody”.

Harsh competition has also meant that the producers have not always been very satisfied with the producer price they received. The various differences in pricing e.g. based on the type of the contract, amount produced, distance from the processing plant and other collecting costs have caused some debate among cooperatives’ meat producer-members.

In the fruit and vegetables sectors there are several competing companies, although the market share of cooperatives (of the domestic production) in certain products (tomato, cucumber, lettuce) are quite high. Seasonal variation in producer prices as well as in consumer prices is very large. In the wintertime the production costs in Finland are high and the producer prices also much higher than in the summertime. The price levels are highly dependent on import prices and, according to Pakarinen (2011), the price margins vary with the season and the origin of product. Thus, perhaps the greatest competition for domestic products comes from abroad. However, consumption of vegetables has increased. This has also given room for domestic production increases. This has been possible due to productivity improvements even though the price level has remained pretty much unchanged the last decade.

In the cereal market, the role of cooperatives is quite small (with exception of Agrimarket, which is actually not a producer cooperative). The grain production for feed in Finland exceeds its consumption in normal years. This means that Finland exports feed grain and the price level is defined from EU market. However, the price level is in Finland somewhat lower than the EU average due to transportation costs.

## 5 Sector analysis

### 5.1 Introduction

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

### 5.2 Cereals

The last decade has been a very peculiar in the cereal sector. During the years 2000-2006 the producer prices in Finland remained relatively stable. Compared to the EU average the prices have been somewhat lower. During this period the prices of barley and oats were usually below the intervention price whereas the prices of bread grains were 25-30€/ton higher than intervention price level. Then we have experienced two price spikes. The first spike was in 2007-2008, which was followed by a record low price level in 2009, and again a spike in 2010. The farmers have had difficulties in adapting to the changing market, which has caused problems and suspicions towards the efficiency of the market as a whole.

The barley and oats production usually exceeds the consumption in Finland, whereas the wheat market is more or less in balance. Rye must be imported to Finland. There is not a single cereal processing cooperative that produces food in Finland. Thus, we have taken into account Agrimarket<sup>1</sup>, which is one of the largest cereal traders in Finland. Agrimarket also acquired a feeding company Suomen Rehu during the study period (in 2007) in order to strengthen its position in the input supply and cereal market.

The market share of Agrimarket is 49% in input supplying. Unfortunately, the market share in the cereal trade is not available. Agrimarket competes with several IOF's in the sector. The cereal trade (especially the export trade) is mainly bulk trade where the economies of scale determine the performance of the companies.

The other cooperatives we have included into our Top 5 list are very small cooperatives. Their role in the market is very small. The reason for their establishment is partly the dissatisfaction with the low cereal prices and with the high feeding stuff prices on the other hand. Thus, some farmers have tried to take the trade into their own hands in order to decrease the trade margin and having a little bit more for them selves. These kinds of attempts are probably to be more common in the future and obviously the role of cooperatives may be important. One of the peculiarities in the recent market changes has been the traders' possibility to make a profit by selling grain to the intervention as was the case in 2009 since they have bought the grain from farmers at remarkably lower price than the intervention price level.

---

<sup>1</sup> Agrimarket (Hankkija-Maatalous) is a subsidiary of a consumer cooperative SOK. In September 2012 SOK sold 60% of the shares of Hankkija-Maatalous to Danish DLA Group.

### 5.3 Fruits and vegetables

Fruit and vegetable sector is relatively small in Finland but regionally very concentrated. The main products are tomato and cucumber. The five cooperatives on the Top 5 list include four vegetable cooperatives and one mainly strawberry cooperative.

The Finnish vegetable market is very competitive. Even though the market share of the largest cooperative Närpes grönsaker is quite high (in tomato ca. 25%, more than 40% of the domestic production) there is a hard import as well as domestic competition in the sector. Finnish consumers have, however, wanted the domestic choice the whole year, which has given room for production increase at wintertime. Thus, the very intensive production in the glasshouses in winter time – even though it requires a lot of energy for warming and enlightening – has increased. In the beginning of the study period there was almost no production in Finland during the 4-5 winter months. The winter production has also enabled quite large market shares for domestic production, more than 60% in tomatoes and more than 70% for other vegetables.

The price level also varies a lot during the year. The seasonal variation of the domestic producer price is also very big. The tomato price may be more than tripled in winter time compared to the summer price. The seasonal variation of the price of imported vegetables is much smaller. However, the average price level has remained more or less unchanged during the study period (Pakarinen 2011).

The role of cooperatives is rather strong in the sector. There are five registered POs in the sector. Of these three are traditional cooperatives and two are limited liability companies. These cooperatives compete with import products and with other domestic producers. The competitive situation, however, varies seasonally. In winter season the hardest competition comes from abroad, in summer time the domestic competition is harder due to the increased role of small producers.

### 5.4 Dairy

The dairy sector is certainly the most important sector in Finnish agriculture. The share of dairy from sales income of agriculture is about 38% that is the largest share in EU. Moreover, dairy production is much more evenly distributed in the country than most of the other sectors. Thus, the importance of the dairy production for rural vitality especially in the northernmost and the easternmost regions in Finland is essential.

The dairy sector is also the most cooperative sector in Finland. The market share of cooperatives is 97%. This is largely based on the historical reasons. Finland was and still is very sparsely populated country and the dairies were not usually located very close to each other. The cooperatives were fostered in the beginning of the 20<sup>th</sup> century and they got a dominant market position already then. The cooperation of cooperatives also started more than 100 years ago by establishing Valio as export cooperative of the local dairy cooperatives. Due to these reasons the local dairies did not use to compete very hard with each other in purchase of milk and this has also given a good basis for mergers of small cooperatives.

Today, there is one big processor in Finland, namely Valio. The second largest processor in the Finnish dairy market is Arla Foods (via ArlaIngman acquisition in 2008) even though its market share is only one twentieth part of Valio. ArlaIngman is the only IOF that have a considerable market share. ArlaIngman cooperates with several Finnish dairy cooperatives of

which Hämeenlinnan Osuusmeijeri is the largest. Furthermore, there are three regionally important processor cooperatives namely Satamaito, Maitokolmio and Maitomaa.

The biggest change in the dairy market has happened in the restructuring of the milk purchase cooperatives. Ten years ago there were 34 dairy cooperatives in Finland and now there is no more than 23 left. Valio has five big owners whose market share of the milk purchases is more than 80 per cent.

Even though Valio has a high market share, the import competition is hard. Especially in cheese and yoghurt markets the competition has been strong. Almost 50 per cent of cheese consumed in Finland is imported and the same time Valio exports almost as much cheese as it sells in the domestic market. The liquid milk market is much larger in Finland than in any other EU country. As these products usually have very short shelf times there is not much import competition in this market. However, Arla Foods started to challenge Valio's position in 2009 and those regionally strong cooperatives also compete with Valio.

Nevertheless, the Finnish producer price has been among the highest in EU. This is probably due to several reasons. Firstly, the consumption structure is different from other countries. That gives some natural border protection for Finnish production. Secondly, the dairy processors' product assortment is "better" (i.e. with more value added: the share of cheese is larger, which produces better payment ability). Thirdly, the processors are relatively efficient. Fourthly, the processors have been able to produce value-added, often functional products that also have been quite profitable. And fifthly, the export market where Russia has a big role, has been quite good in the recent decade. Valio's reputation in the Russian markets has been very good.

The cooperatives have maintained their strong position in the milk sector partly due to the mentioned historical reasons. However, the Finnish dairy sector has also put much effort on R&D and development of the primary production. (A good example of strong tradition in the R&D is that Nobel Prize winner A.I. Virtanen worked at Valio). The quality of milk delivered is very high in Finland. Furthermore, the efforts put into processing and product development have also been fruitful. Valio's turnover per processed liter of milk is one of the highest in Europe and in addition to the traditional dairy products the sales of production licenses are important for Valio. The good performance has also been part of the possibility to pay the same price for all producers despite of their size and location. Vice versa, the strong solidarity among dairy producers has maintained the strong position of cooperatives in the sector.

The agricultural policy concerning milk has utmost importance for Finnish agriculture. The importance of national support is extremely great in milk production. Without support the production would be remarkably lower. The national support for milk is based on produced amounts on the contrary to almost all other support measures. Thus, the agricultural policy has maintained the level of milk production. The production support is allowed if the total production does not exceed the restrictions that have been agreed between Finland and EU. Thus, the production cannot increase in Finland. This also means that the dairy cooperatives (especially Valio) have to seek growth from abroad since there are not many possibilities in Finland to increase production.

## **5.5 Sheep meat**

The sheep meat sector is a very tiny sector in Finland. The total production is 700,000 kg. The total consumption of sheep meat in Finland is less than 1 kg per capita. Thus, it is quite obvious that the large slaughterhouses are actually not very much interested in slaughtering

sheeps. Usually the sheep meat producers have their sheeps slaughtered by some small slaughterhouses of which some have specialisation in sheep slaughtering. The meat is then very often sold directly from the farm as sortiment that includes different parts of the lamb.

The lamb sector has also tried to encourage the production and find solutions to processing the small-scale production. Also a few cooperatives have been established. We originally listed four but only two of them are active in business. However, even though there are almost 2000 (!) farms that have sheeps, the farms are very small. More than half of the farms have less than 10 ewes. Furthermore, the number of members in those cooperatives is really small. The functions of these mainly regional cooperatives have thus mainly concentrated on breeding issues and organising e.g. lamb purchases and trade of living animals between farms. The turnovers vary from only 9,000€ to 27,000€.

One of the reasons for the size of the sector is the very low profitability of production. The producer prices do not cover the production costs and the production is totally dependent on support. However, there is some public interest towards the sector and it may be growing in the future.

## **5.6 Pig meat**

The pig meat sector is the most important meat sector in Finland. The production increased continuously and reached its top in 2008 when the production was at 26 per cent higher level than in 2000. During the last couple of years the production has decreased about 5 per cent. This has also meant that Finland is today quite a big net exporter of pork. However, there are still also some imports into Finland due to the consumption structure (Finnish people eat more fillet than is produced and less the cheaper carcass parts).

There are several reasons behind the growth of production. The productivity has increased due to increased number of piglets per sow (still the number is much lower than e.g. in Denmark). This is in connection to structural change especially in the piglet production. Both of the cooperative slaughterhouses (HKScan and Atria) have been encouraging producers to invest. In some cases they have also offered financial support, and thirdly, they have established a joint pig breeding company Finnpig. Also the profitability of pork production used to be among the best in Finnish agriculture. Furthermore, the feeding costs were relatively small in 2000-2006.

During the last couple of years the production of pork has decreased. The most important reason is the changed market situation. The producer price of pork has not increased whereas the feeding cost, energy and fertilizer cost have been at a much higher level than before. The competition in the domestic market is also very hard. In addition to the two cooperative slaughterhouses there are 2-3 private slaughterhouses that can compete at national level. In this situation the retailers are able to put hard pressure on meat suppliers.

Another reason for production changes is the changed national support policy. In Finland national support was paid to pig produces based on the amount of slaughtered pigs and livestock units. This support was decoupled in 2009 and the support is thereafter paid according to reference production at farm in 2007 on condition that a farm remains as livestock farm. Another policy change was to offer a so-called structural change payment for those pig farmers who stop the production. These changes have on one hand curbed the investments and on the other hand accelerated giving up the production.

In contrast to the milk sector's even price the pricing policy of meat is totally different. In addition to the quality pricing, the premium payments according to the amount produced, easiness and speed of the collection, transportation distance etc. are usually applied. This has caused some discussion about the fair and equal treatment of producers, especially in this market situation where the market price is also otherwise low and the costs are high. The changes in pricing policy obviously increase the cooperative challenge to serve their suppliers fairly and equally.

The role of cooperatives (Atria and HKScan) is strong. Their joint market share in the Finnish meat sector is 81%. This is partly due to the long tradition similar to dairy sector development. However, in the meat sector there has always been more competition at all levels, both between cooperatives and between IOF's. There also used to be two kinds of cooperatives in the sector: both producer cooperatives as well as consumer cooperatives owned by wholesalers. Today these consumer cooperatives do not exist but instead, there are a couple of rather large IOFs as well as a large number of small firms. Especially these small firms try to look for different kinds of niche markets.

Both two cooperatives are publicly listed companies. Their major owners are cooperatives and these holding cooperatives have majority of the voting rights in both of the companies. This changed role has probably caused some challenges for loyalty of the holding cooperative members. Plc's has obligations and goals that are not necessarily on top of the supplier priority list. This is also a challenge for a cooperative. However, Atria and HKScan have been very active in their growth attempts and thus far they have maintained their strong position in the domestic market where their owners are located.

## 6 Overview of policy measures

### 6.1 Regulatory framework

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

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

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

The objective of this project / report is to identify support measures that have proved to be useful to support farmers' cooperatives. In section 5.2 the relevant policy measures and their potential impact in Finland are identified. In section 5.3 a number of other legal issues are addressed.

### 6.2 Policy measures

The table below identifies 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 retailing sector).



Table 9 Policy Measure Description

| 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)             | <b>1. Mandate</b><br>e.g. 1.1. Cooperative legislation/in corporation law<br>e.g. 1.2 Market regulation and competition policies<br><b>2. Inducement</b><br>e.g. 2.1 Financial and other incentives<br><b>3. Capacity Building</b><br>e.g. 3.1 Technical assistance<br><b>4. System Changing</b><br><b>5. Other</b> | 1. Correction of market or regulatory failures<br>2. Attainment of equity or social goals | 1. Specific to cooperatives<br>2. Specific to an agricultural sub-sector<br>3. Applicable to business in general | Description on how the policy measure affects development of cooperatives, by reasoning through the building blocks:<br>- Position in the food chain<br>- Internal Governance<br>- Institutional environment of the cooperative   |
| Cooperative Act   | 1.1   | 2   | 1  | The Act defines the purpose of the cooperatives: <i>"The purpose of a co-operative shall be to promote the economic and business interests of its members by way of the pursuit of economic activity where the members make use of the services provided by the co-operative or services that the co-operative arranges through a subsidiary or otherwise."</i> The Act also defines the Internal Governance structures but allow some flexibility in the governance organs. Act does not restrict any business areas, neither does it in general allow any advantage to other entrepreneurial forms. The only exception is the amount of establishment capital that is much smaller for co-operatives than for IOFs. |
| COUNCIL REGULATION (EC) No 2200/96 on the common organization | 1.1   | 1   | 2  | Allows fruit and vegetable producers to organize themselves in producer organisations in order to strengthen their market power.  |

|   |     |   |   |  |
|---|-----|---|---|--|
| of the market in fruit and vegetables   |     |   |   |  |
| Tax regulation  | 2.1 | 2 | 1 | The taxation of interest paid to members of cooperatives differs from taxation of dividends paid to IOF owners. The tax free interest is much smaller for cooperative owners than for IOF owners (1500€ vs. 90,000€)   |
| Competition law   | 1.2 | 1 | 3 | According to the Act on Competition Restrictions Section 2 Paragraph 2 the Act does not apply to agreements, decisions or other comparable acts regarding primary production of agricultural products made by agricultural producers or agricultural producer organisations, when such acts promote increase of productivity, functioning of markets, availability of food supplies and achievement of reasonable consumer prices as well as lower the level of costs. According to Paragraph 3, however, the Act does apply to acts specified in paragraph 2 if they significantly restrain healthy and functioning competition in agricultural product markets or lead to abuse of a dominant market position. |
| Council Regulation 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development | 2   | 1 | 2 | By definition this Fund aims at improving the competitive position of the agricultural sector through financial inducement with respect to the environment and local development. This is done through 4 axes, to which a multiplicity of measures can be coupled (as will be made evident when discussing the measures at the regional levels). At this general level, the EAFRD impacts on all three building blocks.  |
| National support to agriculture according to articles 141 and 142 in the Finnish EU membership agreement              | 2   | 1 | 2 | These support schemes maintain agricultural production in Finland where it otherwise would decrease due to natural conditions. The domestic production is very important for the performance of producer cooperatives.   |

The list of policy measures is quite short in Finland. This has roots in the tradition that basically cooperatives have to compete with other entrepreneurial business forms on same conditions. The cooperatives are meant to operate in the competitive business. That is also implied very clearly in the Act on Cooperatives. This has been the tradition from the very

beginning and this definition of the purpose of the cooperative has remained almost unchanged.

Almost the only exceptions from other business forms are: 1. establishment of a cooperative with much smaller start-up capital and 2. different taxation of the interest paid on invested capital.

However in practice, the lack of minimum capital does not give any considerable advantage to cooperatives. In order to be able to start the business a firm in any case needs some capital.

CMO at F&V sector gives the opportunity to establish producer organizations. There are five such ones in the sector. According to stakeholder interviews the most important contribution of this regulation has been the possibility to create an action plan that has enabled the investments that have improved e.g. the quality control and affected the pricing systems of the cooperatives.

In addition to maintaining the agricultural production in Finland there is one specific measure in the national support (142) that has an effect on dairy and meat cooperatives namely transportation support. That is paid for dairy and meat purchasers in the most remote parts of the country in order to equalize the transportation costs. Especially in the dairy sector this has helped keeping with the traditional pricing system to pay an equal price to all producers.

### **6.3 Other legal issues**

In Finland there is a specific law on cooperatives. However, in general it does not give any specific advantage to cooperatives compared with investor owned firms. The exceptions in minimum capital and taxation are quite small even though the importance of the tax regulation is probably increasing.

Moreover, there are not any specific restrictions that would hinder the establishment of cooperatives. The rules are also quite flexible allowing e.g. non-member equity raising possibilities. However, this possibility is actually not used in traditional cooperatives. The rules concerning the distribution of profit are difficult for investors to understand and to accept. Thus instead of trying to have non-member investments in a cooperative, a typical way to solve this problem has been to establish a limited liability company (case Valio) or a publicly listed company (cases HK Scan and Atria). The original cooperatives have moved most of the actual business operations to these companies and remained as holding cooperatives.

The law also allows departing from “one man, one vote” principle with certain restrictions (no more than ten times). However, this possibility is seldomly used. In general the law allows quite much flexibility in internal governance. Only the General Assembly (can be replaced by Members’ Council) and Board of Directors are mandatory. There are differences in BoD memberships. In some of the large cooperatives there are only members whereas in the others there are also professionals. In many cooperatives also the Managing director is an official member of the BoD.

The cooperative’s statute may restrict member’s exit such that before exiting you have to have been even three years a member. However, in practice this restriction has not much importance.

The taxation of interests compared to taxation of dividends is harder for cooperatives. Small interests (below 1500€) from cooperatives are tax free. From an unlisted IOF an owner can

have up to 90,000€ tax free dividends (in the future this amount is probably decreasing). However, most of the farmers receive such a small interests that they are mainly tax free. Thus, the importance of this difference in tax regulation is not very big so far. Of course, the structural change in agriculture and the growth of farms (and due to this also the growth of invested capital in coops) increases the interests received. This also increases the unfairness of the taxation of interests compared to taxation of dividends.

From the competition policy perspective the biggest question in Finland is the definition of relevant market. The competition authority usually interpretes the relevant market consisting only of Finland. Thus, the producer cooperatives sometimes see the interpretation a bit restricting.

To conclude: cooperatives are in legal aspects very much in the same position as other legal business forms. Taking into account the problems in taxation and competition policy one may even argue that the position is a bit worse than IOFs'.

## **7 Assessment of developments and role of policy measures**

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

In chapter 3.5 this led to some first impressions about the performance of Finnish cooperatives in relation to their internal governance, institutional environment and position in the food chain.

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

This final chapter assesses the (performance) development of cooperatives and how they can be explained in terms of the building blocks (institutional environment, position in the food chain including sector specifics, and internal governance). Section 6.1 focuses on the explanation of the performance of cooperatives in terms of their internal governance, their position in the food chain (including sector specificities) and the institutional environment (including the regulatory framework). In section 6.2 an assessment about policy measures that seem to benefit cooperatives and which ones have a constraining influence is given.

### **7.1 Explaining the performance of cooperatives**

The cooperatives have managed quite well in the Finnish food chain. In meat and dairy sectors they have a dominant role. The dairy and especially meat cooperatives have also been able to enlarge their operations abroad. One important reason for this is the fact that cooperatives have been able to maintain their strong position in the domestic market. This has been possible since the production has been maintained in Finland by supporting it with national measures in addition to the Common Agricultural Policy measures. Thus, the institutional environment and policy choices made in Finland have (in)directly supported also farmer owned cooperatives' performance. However, otherwise there is no institutional regulation that would either support or hinder the cooperatives' performance.

In addition, the internal governance structures have been developed such that they have enabled e.g. the capital investments by non-members. In the meat sector the two largest cooperatives are today publicly listed companies and the cooperatives' role is to act as holding cooperatives. However, majority of the votes is still in the hands of cooperatives. The dairy company Valio is actually no more a cooperative but Limited Liability Company. All shares are owned by cooperatives that act as holding cooperatives as well as take care of the milk collecting. Thus, the connection to the farmer members is very tight.

Thus, one can conclude that even though there was a big change in the institutional environment due to the Finnish EU membership in 1995 the Finnish cooperatives have been able to adapt to the increased competition in the domestic market as well as to enlarge their operations abroad.

## **7.2 Effects of policy measures on the competitive position of cooperatives**

As earlier described in Chapter 5 the list of policy measures is quite short in Finland. There are no specific rules that would give any advantage to the cooperatives. On the contrary, there are some tax and competition regulations that at least to some extent are disadvantageous for cooperatives. Partly for that reason but mainly for looking for non-member investors the large meat cooperatives changed their legal form first to limited liability companies and furthermore to publicly listed companies.

This development has certainly something to do with the history and internal governance structures of cooperatives. The roots of the cooperatives are in improving the poor people's position and furthermore, the food business has not been a growth business compared to many other sectors like electronics. Thus, the cooperative model as such was not able to tempt non-member investors. In order to be able to adapt to the changes in the market and competitive environment the cooperatives chose to move towards IOF type legal forms. Thus far, they have at least to some degree been successful in this even though the profitability goals of the meat companies are not yet achieved.

The most important policy measure enabling the strong position of the cooperatives in the Finnish food chain is the maintenance of the domestic agricultural production. The national support measures supplement the measures available according to Common Agricultural Policy. This reasoning has already been described in the previous chapter 6.1. Thus, even though there are no specific policy measures that support cooperatives they have managed quite well in Finland.

## REFERENCES

- Kuisma, M., Henttinen, A., Karhu, S. & Pohls, M. 1999. The Pellervo Story  
A Century of Finnish cooperation, 1899-1999. Helsinki. 168 p.
- McDonnell, L. M., and R. F. Elmore (1987). "Getting the Job Done: Alternative Policy Instruments"  
Educational Evaluation and Policy Analysis, 9(2): 133-152.
- Pakarinen, S. 2011. Vertical price transmission in the Finnish vegetable markets. Forthcoming.
- Pyykkönen, P., Lehtonen, H. & Koivisto, A. 2010. Structural change and investments in Finnish  
agriculture 2010-2020. PTT Working Papers 125, Pellervo Economic Research. 24 p.

Statistical sources:

Eurostat. Economic Accounts of Agriculture,  
Eurostat, Farm Structure Survey.  
Eurostat. National Accounts.  
FADN. European Commission. DG Agri,  
Pellervo Confederation.  
OT-lehden vuosikirja 2008 and 2010. Pellervo Confederation.