
Support for Farmers' Cooperatives

Case Study Report **Coforta**

George W.J. Hendrikse

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

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

The SFC 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:

Hendrikse, G.W.J. (2012). Support for Farmers’ Cooperatives; Case Study Report Coforta. 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

Case Study Report

Coforta

George W.J. Hendrikse

Rotterdam School of Management Erasmus University,

The Netherlands

November 2012

Corresponding author:

George Hendrikse
Rotterdam School of Management Erasmus University
PO Box 1738, Office T8-56
3000 DR Rotterdam
The Netherlands
E-mail: ghendrikse@rsm.nl

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)”, in order to 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, by the European Commission, and by national and regional authorities in their effort to encourage and support the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project, this case study report on Coforta has been written. Data collection for this report has been done in the spring of 2012.

In addition to this report, the SFC project has delivered 32 other case study reports, 27 country reports, 8 sector reports, 6 EU synthesis and comparative analysis reports, a report on cluster analysis, a report on the development of agricultural cooperatives in other OECD countries, and a final report.

The author likes to thank the chairman of the board of Coforta and two directors of Coforta for their willingness to share extensive information on cooperative Coforta, and the director of DPA (Dutch Producer Organization) for insights regarding the impact of various policies on the fruit and vegetables sector.

Table of contents

1	Introduction	7
1.1	Objective and research questions	7
1.2	Analytical framework	7
1.3	Method of data collection	8
1.4	Structure of the report	8
2	Coforta	9
2.1	Emergence and evolution	9
2.2	Current status	9
3	Countervailing power, access, and pooling	10
4	Policies	13
4.1	European policy on the Common Market Organisation for F&V	13
	<i>4.1.1 Contents of the Common Market Organisation policy</i>	
	<i>4.1.2 Effect of the Common Market Organisation policy on Coforta</i>	
	<i>Stability of cooperatives</i>	
	<i>Associated Producer Organizations</i>	
	<i>Intensity of price competition</i>	
	<i>Production incentives</i>	
	<i>Implementation costs</i>	
	<i>4.1.3 Evaluation of the Common Market Organisation</i>	
4.2	Competition policy in the Netherlands	16
	<i>4.2.1 Aims of the Dutch competition policy</i>	
	<i>4.2.2 Effect of the Dutch competition policy on Coforta</i>	
	<i>Conflicting policy goals</i>	
	<i>Legal uncertainty</i>	
	<i>Sustainability</i>	
	<i>4.2.3 Evaluation of the Dutch competition policy</i>	
4.3	Incorporation law	19
5	Overall conclusions	20
	References	21

1. Introduction

1.1 Objective and research questions

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, “Support for Farmers’ Cooperatives”, that will provide the background knowledge that will help farmers organize 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 information on Bargaining Associations in Food & Vegetables, especially F&V cooperative Coforta.

In this case study, the following research questions have been guiding the research. First, what have been the main reasons for the emergence of F&V cooperative Coforta. Second, what explains the governance structure changes at Coforta? Third, what policies at the national or EU level have been effecting, positively or negatively, the development of Coforta and its governance structure changes?

1.2 Analytical framework

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

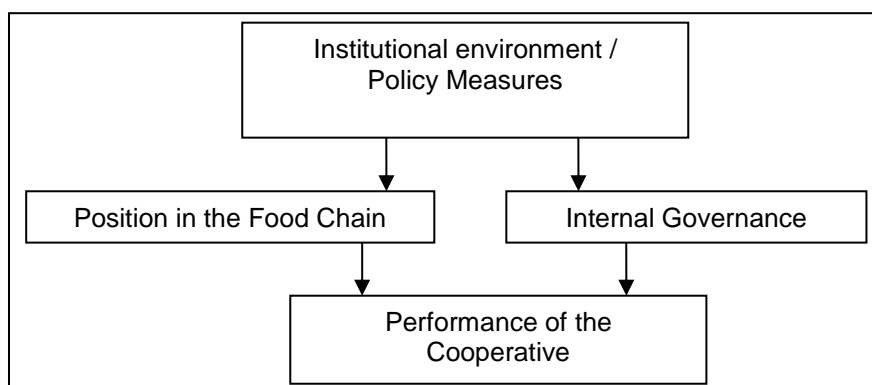


Figure 1. The core concepts of the study and their interrelatedness

1.3 Method of data collection

The case study is based on multiple data sources. First of all, secondary data was used such as academic literature, country reports of the Support for Farmers' Cooperatives project, popular press and electronic media, and other sources of information.

Additional information has been collected through personal interviews with various co-operative stakeholders. For this particular study, the chairman of the board of Coforta and two directors of Coforta have been interviewed. The director of DPA (Dutch Producer Organization) has also been interviewed.

1.4 Structure of the report

Chapter 2 describes the emergence, evolution and current status of Coforta. Chapter 3 formulates an explanation for the governance structure changes at cooperative Coforta. Chapter 4 addresses the impact of the European policy on the Common Market Organisation for F&V, the impact of the Dutch competition policy on the stability of cooperative Coforta, and the incorporation law regarding cooperatives. Finally, in chapter 5 conclusions are drawn on the effect of the European and national policy measures on the development and operation of cooperative Coforta.

2. Coforta

This chapter first provides an overview of the emergence and evolution of Coforta. It then continues with a description of the current status of Coforta.

2.1 Emergence and evolution

Coforta is one of the leading companies in Europe in the fruit and vegetable sector. Its main activity is to provide a complete range of fruits and vegetables to supermarket chains in Europe, North America and the Far East throughout the year. Other major target groups are wholesale businesses, catering companies and industrial processing companies.

Coforta has gone through various governance structure changes. It started as a merger between nine regional fruit and vegetable auction cooperatives in December 1996. Coforta integrated forward by acquiring the fresh produce wholesalers Dutch Van Dijk Delft Group and the Fresh Produce Division of Perkins Food plc, a UK based wholesaler in 1998 (Bijman 2002, p101). Various large growers left Coforta to start product-specific bargaining associations during the next few years. Finally, a very interesting and important development is that various bargaining associations merged again with Coforta after the introduction of member benefit programs.

2.2 Current status

Cooperative Coforta is owned by 885 members. They represent 700 companies with a total turnover of €550 million. Average turnover is €50,000 (ranging from €780,000 to €15 million). The turnover composition in 2012 is

- Hard fruits: 10%
- Soft fruits: 11%
- Mushrooms: 6%
- Full ground vegetables: 20%
- Fruit vegetables: 53%

The cooperative employs 4FTE.

The members of Coforta market all their products via The Greenery. The Greenery has a turnover of €1.6 billion, 1570 FTE, 300/600 seasonal FTE, 8 locations in the Netherlands, 4 locations abroad, and logistic provider Dijco (200 trucks).

3. Countervailing power, access, and pooling

This chapter provides an explanation for the various governance structure changes at Coforta, like horizontal merger, forward integration, and the emergence of grower associations. A simplified setting is presented in order to analyse the various forces driving these governance structure changes. Consider three parties: high quality growers, low quality growers, and a processor. Five governance structures regarding the allocation of asset ownership over these three parties are distinguished in figure 1. A high quality grower creates a value of A and is presented by the box on the top left in a governance structure. A low quality grower creates a value of $B(<A)$ and is presented by the box on the top right. The processor is presented at the bottom. A cross in a box indicates that this party has power / authority to decide regarding its assets. Governance structure I represents market exchange, i.e. the growers and the wholesaler are independent. The association of all growers is represented by governance structure II. A producer cooperative is an association of many independent growers (horizontal relationship) who jointly own a downstream processor / retailer (vertical relationship). An association is the same as a producer co-operative, except for the vertical relationship. Figure 1 distinguishes producer three cooperatives (III, IV, and V), depending on the number and type of growers owning the downstream party.

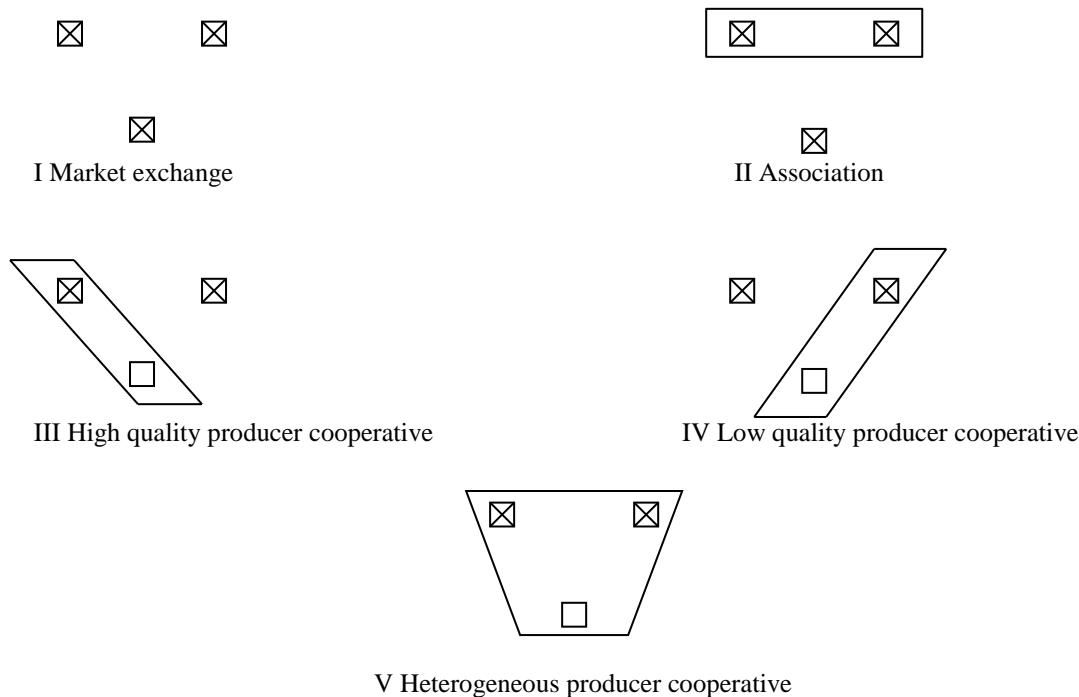


Figure 1: Five governance structures

Coforta is the outcome of a merger between nine regional fruit and vegetable auction cooperatives. The timing is informative regarding the driving force behind this governance structure change. The Netherlands did not have a competition authority to enforce anti-trust laws before 1997. The Dutch parliament decided that it had to be erected. In 1997 preparations were made to start its activities in January 1998. In December 1996 the merger of the nine auctions was concluded to prevent the possibility that it might be rejected by the new competition authority as a too powerful player in the market. In terms of the above model, the merger is a shift from governance structure I to governance structure II. The Greenery establishes countervailing power for the fragmented growers in a market where the wholesale / retail stage of production has been consolidating. It entails a redistribution of payoffs from the processor to the growers. The growers receive half of the quasi-surplus in governance structure II, while it is less in governance I. If A is close to B, then both growers benefit from a switch from governance structure I to governance structure II.

The trend that consumers ask more variety and higher quality has induced some growers to innovate, therefore increasing member heterogeneity. This is reflected on the one hand in a higher level of A due to the willingness of consumers to pay more for higher quality, and on the other hand in a higher level of investment by the high quality growers due to the increased efforts / costs of innovation. Increasing heterogeneity creates problems in a heterogeneous association. Pooling limits the payoff received by innovative growers for their innovative efforts. One way to increase the reward for all growers in a heterogeneous association is to increase their market power even more. This was done by forward integration. The Greenery established forward integration by acquiring the fresh produce wholesalers Dutch Van Dijk Delft Group and the Fresh Produce Division of Perkins Food plc, a UK based wholesaler (Bijman 2002, p101), in order to start direct trade with major food retailers. It constitutes a switch from

governance structure II to governance structure V.

However, heterogeneous cooperatives have difficulties in keeping highly innovative growers. Some large growers left due to ‘... cross-subsidization of small growers’ (Bijman and Hendrikse 2003, p102). Innovative growers started product-specific bargaining associations. There were also some innovative growers leaving the cooperative in order to form bargaining associations and marketing cooperatives to advance their specific interests. They felt that marketing efforts could be improved to highlight their products. It is reflected in our model by a higher level of A. The self-selection of innovative growers into grower associations represents the shift from governance structure V to governance structure IV.¹ The disadvantage of governance structure IV for the innovative growers is that they don’t control the infrastructure at the downstream stage anymore, and therefore have to pay a price for this loss of control. However, they are willing to pay this price because they escape the pooling aspect of the cooperative.

Nowadays, many cooperatives try to counter this process of adverse selection by spending considerable effort in developing member benefit programs. Different classes of members are distinguished based on meeting certain transaction requirements, like transaction volume, quality of produce, and delivery time. Differentiation occurs regarding cash payments as well as capital titles. Cooperatives with strong incentive structures are characterized by ‘individualized’ rather than collective capital structures (Nilsson 1998). The introduction of member benefit programs increases the number and extent of quality attributes covered by specific clauses in incentive contracts. The effect is that accounting for the heterogeneity of members in payment schemes reduces the heterogeneity between the members in the quality attributes / dimensions which are left unspecified by formal contracts. The introduction of member benefit programs entails from an incomplete contracting perspective that a smaller difference between A and B has to be governed. In terms of governance structures, a member benefit program reduces the negative impact of the equality principle for the high quality growers in the governance structures II and V. Innovative growers do not leave The Greenery anymore, or even come back to The Greenery. Innovative growers coming back to The Greenery is an example of a switch from governance structure IV back to governance structure V.

The trend towards differentiation and innovation has resulted in changes in the governance structure of marketing channels. Economic and organizational factors determine the efficient governance structure (Hansen and Wernerfelt 1989), but these factors differ in attractiveness for the various players. The forces of pooling, access, and countervailing power have been highlighted regarding Coforta. Growers like countervailing power and priority access, while the high quality grower and the wholesaler like self-selection. Increasing member heterogeneity induces forward integration and subsequently the emergence of dual distribution governance structures, while the introduction of member benefit programs reverses this development to a certain extent.

¹ This process is not unique to The Greenery. During a few years 75 grower associations have emerged (Bijman 2002).

4. Policies

This chapter addresses three public policies affecting cooperatives: European policy on the Common Market Organisation for Fruit and Vegetables (4.1), Dutch competition policy (4.2), and incorporation policy in the Netherlands (4.3).

4.1 European policy on the Common Market Organisation for F&V

This section addresses the motivation and contents of the Common Market Organisation (4.1.1), its effects on Coforta (4.1.2), and an evaluation (4.1.3).

4.1.1 Contents of the Common Market Organisation policy

In the past the European Union had a policy of minimum prices for agricultural products. This subsidy policy provided strong incentives for quantity rather than quality. If a surplus occurred in a certain agricultural market, then the European Union intervened in the market by buying up the surplus and destroying it. This outcome of the policy was viewed as undesirable.

In 1996 the European Union introduced the Common Market Organisation (CMO) for F&V. The goals of the CMO are

- to establish a better coordination between demand and supply (in order to prevent that fruits and vegetables are destroyed);
- concentration of the supply of fruits and vegetable growers;
- to regulate product prices and to reduce the costs of production;
- to promote environmental friendly production.

The size of the subsidy is 4.1% of the annual turnover when the costs of investment are in line with the above goals. CMO subsidies can be obtained only by grower associations or cooperatives. In order to be successful, certain requirements have to be met:

- the grower association has to be established by growers;
- the number of members has to be above a certain level;
- the turnover of the grower association / cooperative has to be above a certain level.

In the Netherlands, the implementation of the tasks of the CMO for F&V is delegated to the interbranch organization Productschap Tuinbouw. It evaluates CMO subsidy applications, pays the subsidies, and control whether the projects that are subsidized comply with requirements. CMO subsidies can be used for improvement of the quality of products, increasing the value added of products, promoting agricultural products to consumers, development of the biological chain of production, promoting environmental friendly production methods, and limiting the number of agricultural products being taken out of the market.

4.1.2 Effect of the CMO policy on Coforta

The CMO has an impact on the direction of innovation activities as well as on the concentration of the supply of fruits and vegetable growers. Various innovations in

trading company The Greenery have been triggered by the CMO subsidies, like investments in storage, renewable energy, transportation and transportation technologies, sales programs, and production prediction techniques. The costs of these investments are Euro 80 million annually, where 50% of these costs are covered by the CMO subsidies.

The CMO policy has various effects on fruits and vegetables cooperatives. Various effects are addressed

- stability of cooperatives;
- Associated Producer Organizations;
- intensity of price competition;
- production incentives;
- implementation costs.

Stability of cooperatives

In the Netherlands, the CMO policy has increased the organization of growers in producer organizations, but it has not concentrated the supply side of the fruit and vegetables market. The CMO policy seems to increase the mobility of growers, and therefore undermines the stability of cooperatives. Grower association split off from cooperatives to form independent organizations in order to collect the CMO subsidies. An example is the setting up of separate, profitable, packing stations. There are at least two reasons for this. First, the minimal size of cooperative required for receiving a CMO subsidy is small. Second, the Greenery dedicate a substantial part of the subsidies to the collective capital of the cooperative in order to finance investments benefitting the entire membership, which goes at the expense of the amount of subsidy received by an individual member. So, the translation of the CMO subsidy in a transfer pricing scheme with a collective and individual component may result in certain members leaving the cooperative.

There seem to be substantial national differences in the implementation of the CMO. This undermines also the stability of cooperatives because growers go for the most attractive national implementation of the CMO. It turns out that they are willing to leave their cooperative to take advantage of these differences. It undermines the stability of existing cooperatives.

Associated Producer Organizations

The CMO for fruits and vegetables promotes the cooperation between several cooperatives regarding specific fruits and vegetables. The cooperation between cooperatives has to be organized in a separate enterprise. This new enterprise is called an Associated Producer Organization (APO), and it can be a cooperative. The creation of an APO turns out to be cumbersome for Coforta due to a number of reasons. First, Coforta has to give up some control and autonomy when an APO is created because other parties will participate in the decision making. This creates problems when interests are not completely aligned. Second, Coforta is a (very) large party, which discourages other parties to participate. Third, Coforta consists of an association of growers and a trading company (The Greenery). The Greenery positions itself towards retailers as an integrated fresh produce company. An important consideration is to rebalance the supply chain. However, the creation of APOs undermines this positioning because it reduces the portfolio of fruits and vegetables which can be offered

to retailers. Another concern is that too much control and autonomy has to be sacrificed to meet the requirements of the competition authorities.

Intensity of price competition

The formation of additional grower organizations and cooperatives increases the price competition intensity between growers and cooperatives, which weakens their position in the food chain. The unintended effect is therefore that the CMO seems to benefit the retailers because the concentration at the retailers side of the market is much higher. Retailers have been successful in driving prices of F&V down to such a low level that many grower associations and cooperatives would make a loss without the CMO subsidies.

Production incentives

Another unintended effect of the CMO seems to be that it reinforces production incentives for activities which are not demanded by the market. There may be too much environmental friendly production due to subsidies for these activities.

Implementation costs

The CMO policy is experienced as demanding in terms of reporting requirements and controls. Cooperatives have to report extensively and detailed about how the CMO policy is implemented. Controls regarding the implementation of the CMO policy are experienced as becoming more stringent and more frequent. Negative evaluations result in fines. Productschap Tuinbouw is experienced as very strict and rigid in executing its tasks.

4.1.3 Evaluation of the Common Market Organisation

The goals of the CMO are viewed positively by the fruits and vegetable sector. However, a number of unintended effects of the CMO undermine the goals of a better coordination between demand and supply (in order to prevent that fruits and vegetables are destroyed), and especially the concentration of the supply of fruits and vegetable growers. Groups of farmers split off from existing cooperatives, and form new grower associations or cooperatives, in order to collect CMO subsidies (by setting up additional packing stations). This argues for tying these subsidies to producer organizations or cooperatives having a certain size. Substantial national policy implementation differences seem to undermine also the stability of cooperatives because growers go for the most attractive national implementation of the CMO. Large, multi-product cooperatives face difficulties in establishing Associated Producer Organizations. The CMO seems to provide too strong production incentives for certain products. It is not always clear which activities qualify as CMO activities. Successful efforts of grower groups to have certain activities recognized as CMO activities may result in too much production of the activities. More generic educational subsidies regarding the benefits of healthy food may be considered. Reducing the implementation costs seems to be desirable.

4.2 Competition policy in the Netherlands

This section addresses the intention of competition policy (4.2.1), the effect of competition policy on Coforta (4.2.2), and an evaluation is formulated (4.3.3).

4.2.1 Aims of the Dutch competition policy

Competition policies in Europe are organized at the national level. The Dutch Competition Authority started its activities in 1998. Competition policies aim to improve the functioning of markets in terms of innovation and price setting. The functioning of markets can be hampered by horizontal or vertical arrangements, contracts, agreements, and / or practices. A vertical relationship concerns transactions between a buyer(s) and a seller(s), i.e. interactions between two stages in a production column. An example is when a supplier of one product requires the consumer to buy also other products. A horizontal relationship concerns agreements and / or practices between the parties at one stage of the production column. An example of a horizontal relationship in a production chain is an agreement about the price between sellers. The competition authorities have the power to forbid them when they are viewed as anti-competitive, and they have the power to impose high fees when anti-competitive practices are proven.

Studies have shown that the organization of vertical relationships in production chains is often efficient. The review by Lafontaine and Slade (2007, p680) states regarding the findings of empirical studies that ‘... under most circumstances, profit-maximizing vertical-integration decisions are efficient, not just from the firms’ but also from the consumers’ point of view’. However, horizontal relationships are viewed with suspicion by the competition authorities. They entail often a higher price for consumers. A cartel is therefore usually not allowed as the resulting higher price results in lower consumer welfare (by lower sales). An example is the recent case about sweet pepper growers in the Netherlands. They were fined Euro 23 million for fixing the price of paprika for many years.

Competition Authorities like to see competition in markets in order to create producer and consumer surplus. An important concept in competition law is the notion of the relevant market. Competition law considerations have to apply to the relevant market, which does not necessarily coincide with a national market. If a relevant covers four countries, and there is one supplier in each national market, then the supplier in each market should not be treated as a monopolist in each country by the national competition authority because there will be competition between the four suppliers.

4.2.2 Effect of the Dutch competition policy on Coforta

The Dutch competition policy is in general clear to Coforta, e.g. cartels are not allowed, but various problems are experienced from the interaction between the CMO policy and the Competition policy. Three effects are addressed

- conflicting policy goals;
- legal uncertainty;
- sustainability.

Conflicting policy goals

The goals of the CMO policy and the Competition policy seem to be partly conflicting in at least one aspect. On the one hand the CMO policy encourages the bundling of activities of farmers in cooperatives in order to concentrate the supply of fruits and vegetable

growers. On the other hand the Competition policy views these activities with suspicion due their potentially anti-competitive consequences. It is often not clear to producer organizations and cooperatives how to align the policy goals of CMO and Competition when setting up new activities and organizations.

Legal uncertainty

Crucial for the development of business activities is that there is clarity about what is legally allowed. The conflicting goals between the CMO policy and the Competition policy create uncertainty about which new initiatives are allowed. However, it is possible to ask the Dutch Competition Authority for an 'Informeel advies', i.e. a preliminary assessment/judgement, about how the Competition authority will evaluate a new initiative inspired by the CMO policy. It turns out that frequently there is no reply by Dutch Competition Authority. The uncertainty is therefore not resolved.

Sustainability

Many growers of Coforta face the threat of substantial fines by the Dutch Competition Authority when they contact each other about the formation of prices regarding fruits or vegetables. The potential punishments are severe. Growers and their organizations have abandoned some of their traditional practices regarding the formation of prices in order to prevent these punishments. They have adopted protocols regarding the formation of prices in order to abide by the competition law. It seems to favour retailers rather than farmers. The result seems to be intense price competition between farmers and /or cooperatives. This may be desirable from the perspective of the Competition Authorities, but it undermines the sustainability of the growers in the long run. If growers do not earn a sufficient return, then their activities will be reduced, or disappear in the course of time, and will be developed elsewhere.

4.2.3 Evaluation of the Dutch competition policy

One of the classic reasons for the formation of cooperatives is countervailing power. Many small parties join forces in order to deal with one or a few large trading partner(s) in order to obtain balance in the formation of prices in the production chain. If the small parties do not join forces, their large trading partners will be successful in driving down prices, even below costs. Fruit and vegetable growers may survive such a situation during a limited period of time, but they will quit the business when it prevails for a substantial time. Many parties on one side of the market, while there are only a few on the other side of the market, results in unbalanced price formation. The effect may be that certain products are not supplied anymore, or at too low levels, due to enterprises leaving the market, or that after a while a monopolist emerges due to bankruptcy of the competitors. So, competition policy may be ineffective, or even harmful, when only one side of the market, or one part of a supply chain, is affected. Additionally, legal uncertainty about which organizational arrangements are allowed is not helpful in the development of economic activities.

Fruit and vegetables sectors face substantial price variation. Additionally, there are many more grower organizations and cooperatives than buying parties. Interviewees indicated that there are 50 suppliers, while there are only 3 buyers in the Netherlands. (There are 100,000 growers and about 50 large retailers and buying desks in Europe.) Growers have traditionally responded to this situation by having contacts with each

other to talk about prices, and by collaboration. The current competition law in the Netherlands does often not allow for this. The Dutch competition policy is viewed by many grower organizations and cooperatives as problematic for the formation of balanced prices in the fruit and vegetable sector, and for the development and formation of larger cooperatives. These reasons are recognized in the United States of America and have resulted in the exemption of agricultural sectors from competition law. Aligning the (partly conflicting) goals of the competition policy with the goals of the CMO policy seems desirable.

4.3 Incorporation law in the Netherlands

A cooperative is a distinct enterprise in the law in the Netherlands. The law highlights that the focus of the enterprise is to serve member interests. The law is not detailed about how to organize the cooperative enterprise. This allows the enterprise to tailor its internal organization to the specifics of the markets it is in. The interviews with Coforta did not indicate aspects of the law regarding cooperatives which are harmful for the development and performance of Coforta. Setting up / developing producer organizations is quite easy, which may undermine farmers gaining a stronger position in the food chain. The interviews indicated also that the European law regarding cooperatives is not relevant for Coforta, despite its international activities. Hardly any cooperative seems to consider adopting the European cooperative enterprise due to its bylaws.

5. Overall conclusions

The effect of two policies on the development and performance on F&V cooperative Coforta has been investigated. The effect of the European policy on the CMO for F&V is mixed. The goals of the Common Market Policy are approved by the sector, but the implementation of the policy has resulted in some unintended effects. First, the CMO has evolved in such a way that it entails sometimes only production incentives in agriculture. It results in a focus on a lean & mean production orientation by small new cooperatives, which undermines the funds being available in large cooperatives for R&D and marketing activities. In Coforta about 75% of the CMO subsidies are directly dedicated to investments in the collective cooperative enterprise, rather than to individual member farms. Small cooperatives dedicate the entire CMO subsidy directly to individual members. A solution may be to make subsidies available for making consumers aware of the benefits of healthy food may be a solution. Second, the CMO seems to increase the mobility of growers. Growers leave existing producer organizations or cooperatives in order to form smaller producer organizations or cooperatives in order to collect the CMO subsidies. Existing producer organizations or cooperatives seem not to be able to accommodate these concerns in their transfer pricing schemes. One solution may be to tie CMO subsidies to larger sized. Third, national CMO policy implementation differences increase the mobility of growers. Some members leave the cooperative in order to move across a border in order to benefit from these differences.

The effect of the Dutch competition policy seems to be problematic for setting up / developing producer organizations. Farmers are afraid to set up and develop producer organizations due to the threat of severe financial punishments when attempts to discuss prices are discovered by the Dutch competition authorities. It weakens the position of farmers in the food chain even further. Retailers are able to take advantage of this situation because they are much more concentrated than the F&V growers. Many F&V growers receive prices which are at costs or below costs. They survive due to the subsidies from the CMO for F&V. The Netherlands and / or the European Union may look at some other countries where the competition authorities treat agricultural markets different than other sectors. For example, the United States of America exempt agricultural markets from competition laws by giving them a special status, while Norway uses Marketing Boards to establish fair prices for farmers in the food chain.

The law regarding cooperatives in the Netherlands highlights that the focus of the cooperative enterprise is to serve member interests. The law is not detailed about how to organize the cooperative enterprise. This allows the cooperative enterprise to tailor its internal organization to the specifics of the markets it is in. No problems regarding this law are encountered by Coforta which are harmful for the development and performance of Coforta. Setting up / developing producer organizations is quite easy, which may undermine farmers gaining a stronger position in the food chain. The European law regarding cooperatives seems not to be relevant for Coforta, despite its international activities.

References

- Bijman, W.J.J. 2002. *Essays on Agricultural Co-operatives; Governance Structure in Fruit and Vegetable Markets*. PhD Thesis, Rotterdam School of Management, Erasmus University Rotterdam.
- Bijman, W.J.J., G.W.J. Hendrikse. 2003. Co-operatives in chains: institutional restructuring in the Dutch fruit and vegetable industry, *Journal of Chain and Network Science* 3(2) 95-107.
- Cook, M.L. 1995. The future of U.S. agricultural cooperatives: a neo-institutional approach. *American Journal of Agricultural Economics* 77 1153-1159.
- Cook, M.L., C. Iliopoulos. 1999. Beginning to inform the theory of the cooperative firm: emergence of the new generation cooperative, *The Finnish Journal of Business Economics* 4 525-535.
- Galbraith, J.K. 1952. *American Capitalism: The Concept of Countervailing Power*. Houghton-Mifflin, Boston.
- Grossman, S.J., O.D. Hart. 1986. The costs and benefits of ownership: a theory of vertical and lateral integration. *Journal of Political Economy* 94(4) 691-719.
- Hansmann, H. 1996. *The ownership of enterprise*. The Belknap Press of Harvard University Press, Cambridge, Mass.
- Hansmann, H., All Firms are Cooperatives – and So are Governments, paper presented at 'Promoting the Understanding of Cooperatives for a Better World, Venice, 2012.
- Hendrikse, G.W.J. 2007. On the coexistence of spot and contract markets: a delivery requirement explanation. *European Review of Agricultural Economics* 34(2) 137-162.
- Hendrikse, G.W.J., Pooling, Access, and Countervailing Power in Channel Governance, *Management Science*, 2011, 57(9), 1692-1702.
- Hendrikse G.W.J., C.P. Veerman. 2001. Marketing co-operatives: an incomplete contracting perspective. *Journal of Agricultural Economics* 52(1) 53-64.
- Holmström, B.R., P. Milgrom. 1994. The firm as an incentive system. *American Economic Review* 84(4) 972-991.
- Lafontaine, F. and M. Slade, Vertical integration and firm boundaries: the evidence, *Journal of Economic Literature*, 2007, 45 (3), 629-685.
- Nilsson, J. 1998. The emergence of new organizational models for agricultural cooperatives. *Swedish Journal of Agricultural Sciences* 28 39-47.
- Nourse, E.G. 1922. The economic philosophy of co-operation. *American Economic Review* 12(4) 577-597.
- Perry, M.K. 1989. *Vertical integration: determinants and effects*. R. Schmalensee, R.D. Willig, eds. Handbook of industrial organization, North Holland, Amsterdam.
- Reardon, T., C.P. Timmer, J. Berdegue. 2004. The rapid rise of supermarkets in developing countries: Induced organizational, institutional, and technological change in agrifood systems. *Electronic Journal of Agricultural and Development Economics* 1(2) 168-183.
- Williamson, O.E. 1985. *The Economic Institutions of Capitalism*. Free Press, New York.