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# Support for Farmers' Cooperatives

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## *Case Study Report* **Hybrid structures in Belgium and The Netherlands**

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*Case Study Report*

# **Hybrid structures in Belgium and The Netherlands**

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## **Preface and acknowledgements**

In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, “Support for Farmers’ Cooperatives (SFC)”, 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 the hybrid organizations of Boerenbond/AVEVE in Belgium and of ZLTO/NCB/VION and of Royal Cosun/Suiker Unie in The Netherlands 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 authors would like to thank Mr C.J.M. (Kees) van Bohemen, Specialist on Organic Farming and Specialist Market and Agro-chain development of ZLTO, for his willingness to share information on history, structure and strategy of ZLTO/NCB/VION.

# Table of contents

## Summary

### **1. Introduction**

- 1.1 Objective, research questions, hypotheses
- 1.2 Content of the report

### **2. AVEVE**

- 2.1 Introduction
- 2.2 History
- 2.3 Flemish farmers' association (Boerenbond)
- 2.4 AVEVE
- 2.5 Other companies of the 'Boerenbond'
- 2.6 Conclusions

### **3. Vion Food Group**

- 3.1 Introduction
- 3.2 History
- 3.3 Farmers organization
- 3.4 Vion Food
- 3.5 Other companies of NCB
- 3.6 Conclusions

### **4. Royal Cosun**

- 4.1 Introduction
- 4.2 History
- 4.3 Actual situation
- 4.4 Companies under the umbrella of Cosun
- 4.5 Royal Cosun
- 4.6 Conclusions

### **5. Conclusions, analysis by comparison**

### **6. Discussion**

## References



## Summary

This paper introduces three specific companies in the agriculture sector: AVEVE, Vion Food and Royal Cosun. They all have characteristics of a cooperative, but in fact only the third one (Royal Cosun) is ‘an official cooperative’<sup>1</sup>. One of characteristics of these three ‘cooperative companies’ is that the ownership, direct or indirect, is completely in the hands of farmers. The relations between these companies and the farmers are built up over a long period, of even more than or nearly a century. The organization, the size of the three ‘cooperative companies’ as well as the relations with the farmers have been changed during that long period. In the cases of AVEVE and Vion, the role of the farmers’ unions in Belgium (Flanders) and the Netherlands is of special interest; these unions are in fact the ‘mother organizations’ of the companies. The three ‘cooperatives’ developed and became important economic entities with an essential role for ‘their’ farmers as well as for the continuity of a large group of farms in Belgium and in the Netherlands.

An important specific characteristic of these three companies is that they all have activities on different product markets: AVEVE mainly in animal feeds as well as a lot of other inputs for farmers etc., Vion is active in the markets of meat (pork as well as beef) and special ingredients and Cosun has activities in the markets of sugar and processed potatoes a.o. arable products.

For the reasons explained above, the first two companies (AVEVE and Vion) are mentioned organizations/ cooperatives with a ‘hybrid structure’, but the third one (Royal Cosun) has also a specific structure with activities in different companies. The three organizations are different in size (turnover etc.) related to the (main) products and the size of the markets in which they operate. AVEVE has a focus of activities in Belgium (Flanders) with some activities in neighbouring countries (Germany, France, the Netherlands), Cosun is mainly active in the Netherlands with in addition some activities in other European countries, but Vion, still having its main activities in the Netherlands, has for a larger part activities in other European countries as well as in some countries outside the EU.

This report describes the history and the main elements of the three companies. Essential is the question what is or might be the role of farmers’ unions and ‘umbrella cooperatives’ (mentioned ‘mother organizations’ in table S1) in developing new opportunities for farmers. The description of the cases is for a large part based on desk research (literature, websites).

Apart from these descriptions the report deals in the concluding sections with some related questions as the reasons for development of these specific hybrid organizations in Belgium in the Netherlands, the perspectives of these organizations and the role or influence of the Common Agriculture Policy.

The three hybrid organizations show that they act in the interest of ‘their’ farmers and the farm sector in their region/ country on the long run. In this they have a somewhat different

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<sup>1</sup> See the ‘country reports’ on cooperatives for Belgium (Gijssels and Bussels, 2011) and for The Netherlands (Bijman et al., 2011).

objective than the (normal) cooperatives which are more oriented on shorter run interests of their members as a higher price for the delivered products in order to increase the income of the farmer.

The hybrid organizations have an interest in creating and using new opportunities in the markets. They are in the position to invest in this given the actual profit in the organization (e.g. Rendac in the construction of ZLTO/NCB/VION, Aviko in Royal Cosun) or by the reserves created in the past, for a part by selling cooperative activities (on farmers' banks by the Boerenbond in Belgium and on insurance by NCB).

**Table S1**                      **Characteristics of hybrid organizations**

Mother-organization	Economic organization	Main products	Annual return (bln. Euro in 2010)	Employees (in 2010)
Boerenbond	AVEVE	Animal feed, other inputs for farmers	1	1,600
ZLTO/ NCB	VION Food Group	Meat (pork, beef), ingredients	9	26,500
Royal Cosun	Suiker Unie	Sugar	1.7 1)	4,200 1)

1) Data of the cooperative Royal Cosun as a whole

The report shows the differences between the three hybrid organizations. Some of these differences are:

- The size of operation; the turnover of VION is much larger than of Royal Cosun and of AVEVE;
- The sectors: VION is mainly in the pork sector and in ingredients based on animal products, with the activities of Rendac (destruction), while AVEVE is mainly active in the sector of farm inputs (feed a.o.) and Cosun on arable products;
- Development: the history of VION shows that it is more based on incidents in the world of the cooperatives in the cattle and meat sector, compared with a more steady development of AVEVE in Flanders and a rather normal growth of the activities of Royal Cosun in the processing of ;
- International orientation: VION is a larger player on the international market than AVEVE and Royal Cosun.



# 1 Introduction

## 1.1 Objective, research questions, hypotheses

The main objective of this report is to provide information, on the base of some specific cases, on the specific way of organization (internal governance a.o.) of ‘hybrid structures’. The main question (or hypotheses) is: Hybrid organization can give good opportunities to develop companies in the agribusiness in the interest of farmers.

Questions related to this are:

- What are the main reasons for the specific way of organization? Given the history of the organization, the relation with the farmers and financial issues.
- In which way the organization has developed, in economic terms (turn over, employees, kind of activities, products and markets).
- Do these hybrid structures create any problems (for instance in internal governance) or are they optimal for the farmers’ interest in these specific cases.

The hybrid organisation is not really a cooperative, but a company with cooperative characteristics. AVEVE in Belgium as well as VION in the Netherlands are some examples of such hybrid structures. In both cases the farmers’ unions have still a strong influence. But besides these hybrid organizations, the (real cooperative) Royal Cosun has some characteristics (activities on several markets of farm products with different companies) which make it of interest to compare the development of this organization with AVEVE and VION.

## 1.2 Content of the report

In this report the three cases (AVEVE, Vion Food Group and Royal Cosun) are described in the next sections. The history, the actual situation and the way of organization are important elements in these three sections (2, 3 and 4). These analyses per organization are followed by some conclusions and analysis by comparison, in section 5. The final section of the report is on discussion and deals with some specific items as the perspectives of hybrid organizations, their strategies, the production in the production chain and the role and influence of the CAP.

## 2 AVEVE

### 2.1 Introduction

In this chapter we describe the main elements of the hybrid cooperation in Belgium (Flanders) between the farmers' union 'Boerenbond' and the company AVEVE. Starting with the history and some major aspects of the organization of farmers, the chapter is mainly concentrated on the way AVEVE is organized as well as what is the role of 'Boerenbond' in this as well as in relation to other companies working with and in the interest of the Flemish farmers.

### 2.2 History

During the 1880s the agriculture sector in Belgium was in a deep economic crisis. At local level, the first initiatives to organize farmers were taken in that period (around 1887). The Flemish farmers' association ('Belgische Boerenbond', nowadays simple named as 'Boerenbond') was founded in the year 1890, with in total some 1.000 farmers as members. The new organisation confronted the government with plans to modernise agriculture and to protect the sector against the international competition. Other activities of this new organization were initiatives for schooling and extension services for their members. In the 'Boerenbond', the local unions started immediately activities to help their farmers-members. This was done on the base of the cooperative principles of Wilhelm Raiffeisen: mutual solidarity and self-help. The local unions of the 'Boerenbond' organised trade activities as the collective acquisition of oil seed cakes (animal feeding stuffs) and fertilizers. The 'Boerenbond' however is and was first of all a social organization to represent the interests of its members in the society and with this objective farmers were member of the organization. For this reason the organization was criticized by private firms which were already active in that period in this field of agro-economic and trade activities on farm inputs. As a reaction on this criticism in 1901, AVV (Aan- en Verkoopvennootschap van de Belgische Boerenbond) was founded by some representatives of the 'Boerenbond'. The founding of AVV as a specific economic organization, apart from the farmers' union 'Boerenbond', gave opportunities to enlarge the activities as well to combine and centralize (some of the) activities of local departments. AVV was renamed as 'AVEVE' in 1984.

### 2.3 Flemish farmers' association (Boerenbond)

The 'Boerenbond' is a (Roman Catholic) association of farmers and their families in Flanders as well as in the 'Ostkantons', the German speaking regions in Belgium. It is the largest organization of farmers in Flanders. 'Boerenbond' has links with other social economic lobby-organizations and with political parties. The number of individual members (farmers and other members) of 'Boerenbond' is much larger than the number of farms represented by the organization. Around the year 2000, the association had around

70.000 members and represented 20.000 farms. In 2010 'Boerenbond' has still 70.000 members, but the number of active farmers and growers represented decreased to less than 17.000. 'Boerenbond' has more than 900 local unions, more than 9.000 functions as members of boards etc. and about 230 salaried employees.

From the start, the organization of the 'Boerenbond' has a strongly centralised structure, with the executive Board in Leuven. The central Board supervised and controlled the local departments. In the period 1960-1970 the organization was reformed. The representation of the economic interests for the farmers is still centralised in Leuven, but the social activities of the organization are mainly developed at local level.

## **2.4 AVEVE**

### **Organization**

Officially, in a juridical sense, AVEVE is not a cooperative of farmers. AVEVE has no member-owners, but AVEVE is an IOF ('naamloze vennootschap', a limited company). However AVEVE has a by cooperative principles inspired structure through the local circles of clients (local departments); in fact farmers are the (most important) clients of AVEVE.

AVEVE has three cooperative characteristics to distinguish from private companies: (1) a lasting ownership structure, (2) a participative model of governance and (3) attendance value (Soete, 2010). Soete gives the following explanation for these aspects:

(1) *Ownership structure*: MRBB (the financial holding company of the Boerenbond) is 100% owner of AVEVE. This construction guarantees continuity of the organisation. The own capital is formed by reserves. This capital cannot be used to overcome difficult (short term) periods or for investments else. The reserves are to re-invest in activities for agriculture. Given the large size of own capital AVEVE can survive in difficult periods;

(2) *Governance*: The governance model of AVEVE respects the rules of good governance: mission, vision, core values; external members of the board; interaction between management, members of the board, representatives of the owners; control and risk management. Power, despite no shareholder ship, guarantees a vision on the long term; thinking for more generations. Representatives of farmers, elected in a democratic way, defending interests, presenting proposals, participate in know-how.

(3) *Attendance value*: AVEVE has a 'disciplinary' impact on competing companies. AVEVE has a focus on a lasting relation with the clients and not on a short term. It has also a focus on availability of the products and advice, quality and reliability. The organization has a strong, local, engaged network. If necessary AVEVE provides price guarantee contracts with clients, but no forward integration contracts with the farmers.

AVEVE acts as a 'stock exchange company', is client oriented, with cooperative principles and thinking in the interest of farmers (Soete, 2010).

AVEVE has 21 circles, with 66 local departments and it has in total more than 750 members (farmers) of the boards. Each province in Flanders has a board and the five presidents of these provincial boards, which are farmers, are members of the central board of AVEVE.

AVEVE, with its headquarters in Leuven, has still direct links with the 'Boerenbond'. Two members of the central board of AVEVE are member of the central board ('Bondsraad') van de 'Boerenbond'.

At local level each year general meetings are organized for all 'members' (clients). Besides that at local or regional level, meetings are organized to advise farmers on cattle, pigs, poultry, new technologies and innovations in the sector etc.

At local level the relation with the clients and the provision of extension is accentuated by AVEVE. At provincial level consultation between the members of the 5 provincial boards is emphasized. At national level Board of AVEVE, with 5 clients/ farmers representatives of the provinces, is discussing policy and strategy.

### **Economic performance**

AVEVE is one of the 100 largest companies in Belgium. Total turnover of AVEVE ('Group AVEVE') is more than 1 billion Euro per year. AVEVE has 1.600 employees at 45 local/ regional establishments. The group has more than 40 companies. For a relatively small part the activities are in other (European) countries than Belgium: in Germany (Mishfuetterwerke Mannheim, GmbH), France (le Bon Grain, flour), and the Netherlands (Safatel, flour and Huntjes, plant protection).

AVEVE is market leader in Flanders in the provision of products to the agri- and horticulture. Main products are animal feeds, seeds and seed potatoes, fertilizers, plant protection and machinery. AVEVE Animal nutrition has an annual output of 800,000 tons and a market share of 15% in Belgium. AVEVE is also the largest in Belgium concerning trade in cereals, mainly wheat and barley. Besides that AVEVE has the largest Belgian retail chain, with some 300 stores, in products for gardens, animals etc. Cobelal, a specific division of 'Group AVEVE', is active in cereals in producing flour.

AVEVE NV as a division of 'Group AVEVE' has subdivisions for 'Animal feeds', for 'Agri- and horticulture' (fertilizers, plant protection, horticulture), 'Machinery' and 'Retail'. AVEVE also invested in sustainable energy (bio-ethanol, electricity). Wal.Agri, with a turnover of 250 mln. Euro, is the holding company of the AVEVE Group for agricultural activities in Wallonia (the southern part of Belgium).

Under the umbrella of Group AVEVE, the local or regional establishments work close together on the base of the exchange of know-how and information, the bundling of research and development, the collective purchase of products and services. The benefits of AVEVE are invested in infrastructure, innovation and research and development.

## **Objectives for the future**

Group AVEVE wants to strengthen, in a profitable way, its market leadership in supplying agri- and horticulture in Belgium as well as in the regions around Belgium ('bordering regions' in South Netherlands and northern France).

In supporting their activities in supplying agri- and horticulture (as its core business) AVEVE wants, as far it is necessary, to be active in marketing farm products. AVEVE markets some products of farmers: cereals as well as pigs, broilers and eggs. AVEVE therefore works together with slaughterhouses.

AVEVE wants to invest its know-how in consumer markets (retail markets) and in international niche markets. AVEVE is active in 'garden, animal and home baking'. AVEVE has 300 sales outlets, 250 are operated by independent franchise holders. For home bakers a variety of four mixes is available. In international niche markets, mainly for the animal feed market, AVEVE Biochem is active with for example enzyme premixes and antimicrobial oils.

## **2.5 Other companies of the 'Boerenbond'**

The farmers' union 'Boerenbond' has already during a long time an important role in organizing and stimulating the economic world around the farms, in the interest of its members: the farmers. 'Boerenbond' was the initiator of many farmers' cooperatives in different sectors, see the overview later in this paragraph. Besides AVEVE (still) some other economic entities and companies are part of the Flemish farmers' association group:

### **Agri Investment Fund**

Agri Investment Fund (AIF), formed in 2007, is the investment entity of MRBB ('Maatschappij Roerend goed van de Boerenbond'), the financial holding company of the Boerenbond (the Flemish farmers' association). AIF invests in companies that help to improve the competitiveness of the agriculture and horticulture sector within the region where the Boerenbond is active. AIF is, together with the Boerenbond, based in Leuven, Belgium.

MRBB and AIF are participating in the organization of the Boerenbond and supports AVEVE, Acerta and SBB. AIF has as an objective to invest ('venture capital') to support innovations and to develop new technologies. AIF seeks to invest in the agri- and horticulture sector.

Recently (in October 2011) AIF invested in Penguin Lutosa, a Belgian company specialized in the development, production and marketing of deep frozen products (vegetables, potatoes, meals etc.). This company with a return of 500 mln. Euro is the third in its market sector in the EU ranking. Penguin acquired during the period 2001-2011 several companies in France, the UK and Austria, mainly in the sector of vegetable processing. AIF has a 10% participation in this private company, Penguin Lutosa. In February 2012 Penguin Lutosa was supported by AIF to buy Scana Noliko, an

internationally active food products company: harvest-fresh vegetables and related to this the preparation of ready-to-eat food products, such as soups, sauces, dips and pasta dishes. With a turnover of 184 million euro (in 2010), Scana Noliko is one of the top 5 companies in Europe in this segment.

AIF participated also in the beet sugar sector (Iscal Sugar) in the period of the EU sugar policy reform (2008). AIF decided in this to continue the sugar beet production in Belgium in a period that other investors wished to sell their participation. This might be a risk for the continuation of the sugar beet processing in Belgium.

AIF invested already in Covalis, the largest Belgian company in slaughtering and processing pigs and cattle. COVALIS is a subsidiary of COVAVEE cvba, a cooperative of 600 pig farmers, AIF and Group VIANGROS NV, active in production, trade and distribution of fresh meat and meals for retail and foodservice. Covalis has about 300 employees with a turnover of 275 mln. Euro. Some 50% of this is realized outside Belgium.

In 2008, AIF invested in manure processing (50% participation in Fertikal); for a large part manure of pigs (70%) and the rest of poultry to support the intensive livestock farmers. Another area of investments of AIF is in the fruit sector (in Better3fruit), breeding new varieties.

AIF participated (in 2009 for 50%, 30 mln. Euro) in Gimv-Agri+investment fund to support innovative firms in the agri-sector in the Benelux.

The philosophy of AIF is to strengthen the position of the agriculture in Flanders, not only by cooperating horizontally (in the traditional cooperatives), but also vertically in marketing (van Themse, chairman of the BB and Soete, chairman of AIF, October 2011). Farmers may have a viable enterprise if the marketing of their products is well organized. Farmers and agro-industries have –in the opinion of the Boerenbond- the same interest.

## **MRBB**

MRBB is the financial holding company of the Boerenbond. In 2009 the Boerenbond decided in 2009 to invest 3 mln. Euro per year (via MRBB) in research centre for agri- and horticulture as well as in the support of research projects for the animal sector and to participate as Boerenbond in (own) applied research project.

The organisation decided to do this because it believes in the necessity of research in a period of economic crisis. “Investment in research, innovation and development is the best guarantee for the future”, as Mr Van Themse, the president of the Boerenbond declared.

## **Acerta**

Acerta is active as Human resource service organization, giving advice on ICT, administration etc. Acerta is founded in 2001 by the Boerenbond and the Christian

Employers Organization (VKW). Acerta has some 30 offices in Flanders and a return of 145 mln. Euro.

## **SBB**

SBB is active on accountancy (business administration) and advice on (amongst others) environmental regulations and other legislation. SBB as has also some 30 offices in Flanders and some 18.000 clients, of which more than 10.000 farmers and growers. SBB was founded by the Boerenbond in 1971.

### ***Companies started by 'Boerenbond'***

Besides the companies mentioned above, in the past other companies (cooperatives) were founded and closely linked to the Flemish farmers' association 'Boerenbond':

- ABB assurances and CERA farm credits, combined in 1998 with 'Kredietbank' in KBC (now a large bank in Belgium);
- ABIS, development in information systems, became independent in 1986;
- STABO, technical engineering, founded by the 'Boerenbond' in 1971, became a part of Arte-STABO, architects in 1995 and later on, in 2002, an independent organisation as a result of a management buying-out.

## **2.6 Conclusions**

The specific (hybrid) construction of this combination of a (strong) farmers' association as Boerenbond and economic activities organised by specific companies (as AVEVE and others) which are in fact not part of the organization, seems to be sound and in the interest of farmers. Farmers, as member of the association, are not direct members of AVEVE or other companies linked to 'Boerenbond', but by these links they are stimulated to work with them. The links with the 'Boerenbond' provides the companies opportunities to invest in new markets and products. The scale of working in this case is still relatively small. But recent developments as the start of the Agri Investment Fund (AIF), in 2007 and new investments as in the vegetables and potato sector (Pinguin) underline the ambitions for growth and development in the future.

## 3 VION FOOD GROUP

### 3.1 Introduction

In this chapter we describe the main elements of the hybrid cooperation in the southern part of the Netherlands (Noord-Brabant) between the farmers' union ZLTO<sup>2</sup> and the company VION Food Group. Starting with the history and some major aspects of the organization of farmers, the chapter is mainly concentrated on the way VION is organized as well as what is the role of ZLTO in this as well as in relation to other companies working with and in the interest of the farmers in the southern part of the Netherlands.

### 3.2 History

In the southern provinces of the Netherlands (in the provinces Noord-Brabant as well as Limburg) the evolution of farmers' unions and their cooperatives in the last decades of the 19th and the beginning of the 20th century is more or less equal to that in the northern part of Belgium (Flanders), as is described in chapter 2. In that period, most farmers in Noord-Brabant became member of the 'Noordbrabantse Christelijke Boerenbond' (NCB), a (Roman Catholic) farmers' union with also members in the neighbour provinces Gelderland and Zeeland. The NCB was founded in 1896 as a union of, at that time, some 30 local associations of farmers; NCB was a (Christian oriented) alternative on an already existing, more general farmers organization (Noord-Brabantse Maatschappij van Landbouw). The founding father of NCB was Father van den Elsen (1853-1925), a Roman Catholic priest. Starting with 30 local associations, the organization in a rather short period increased and developed a network of nearly 300 local associations; in fact (nearly) each village in the province of Noord-Brabant had its own association. NCB represented their members/ farmers on a variety of levels (social and political) and provided services to its members (schooling, extension etc.). NCB, with at that time its headquarters in Tilburg, coordinated a part of the activities of the local associations, but in fact these local unions could handle independent in a large number of activities, including economic activities.

### Cooperatives

In the first decades of NCB, farmers at local level, in most cases being members of this organisation, started to develop cooperatives in their own interest. Local cooperatives were founded for different activities for the farmers/ members of the NCB associations. For instance to buy fertilizers and animal feeding stuffs, to process milk (mainly in this province to produce butter), to provide insurance (for instance on the loss of animal by diseases), to provide credits (farmer's banks: Boerenleenbank, later merged with the Raiffeisenbank in Rabobank), for the marketing of eggs as well as fruits and vegetables (cooperative auctions). Most of these local cooperative activities were, at least in the first

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<sup>2</sup> ZLTO= Dutch Southern Farmers and Market Gardeners Union.



period, for a large part organized by local managers ('zaakvoerder'). These salaried persons were mandated for these activities by the local board of NCB, with farmers as the main members.

In line with this development, around the year 1920, the first local cooperative activities were started in collecting, transport and marketing of cattle and pigs. Fattened pigs and cattle for slaughtering were for instance sold in Rotterdam and Amsterdam. On the base of these activities, NCB started slaughtering cattle and pigs in some cities in the province Noord-Brabant. In fact at that time cattle and pigs were slaughtered in communal abattoirs (a.o. in Breda, Eindhoven, Nijmegen, Tilburg etc.). Given these public facilities, NCB was in first instance not obliged to invest in slaughtering houses.

Later on, starting around 1930, some of the originally local activities were centralized by the NCB in its (specialized) cooperatives in the province Noord-Brabant. For instance the processing of compound feed was centralized, mainly in Veghel (by the cooperative CHV, Cooperatieve Handelsvereniging van de NCB, later CeHaVe). A large part of activities on slaughtering, at least of pigs, was at that time organised at a central location in Boxtel (NCB Vee-en Vleescentrale or Encebe BV); slaughtering of cattle was still mainly done in communal abattoirs. However a number of export slaughterhouses existed, often owned by Jewish families. These were in the war seized by the Nazi's, and this created a gap in the market after the war. The livestock industry was also very much promoted after the war first in the Dutch agricultural policy and then through the CAP, based on relative cheap imported feed, to solve the low income problem of small farms.

The investment in Boxtel was financed by NCB on the base of deductions of payments for the cattle and pigs delivered by the farmers. At that time the farmers were direct members of this 'cattle and meat cooperative' and liable for the financial risks. Encebe later merged with CeHaVe to integrate the chain and cross financing the slaughterhouses out of profits of the feed business.

### **3.3 Farmers organization**

Near the end of the 20th century (in 1995) a new farmers organization (ZLTO) was settled (ZLTO= Dutch Southern Farmers and Market Gardeners Union). ZLTO combines in one organization for that region the three original farmers' organizations: the (Roman Catholic) NCB, the (general) ZLM (Zuidelijke Landbouw Maatschappij) and the (Protestant Christian) Christelijke Boeren- en Tuindersbond. In the same period (1995) at national level in the Netherlands a new organization (LTO-Nederland) was formed. LTO Nederland is a combination of the three original national farmers' organizations (KNBTB, KNLC and NCBTB).

ZLTO, in fact the successor of NCB, is at this moment the (only) farmers' union in this part of the Netherlands (mainly Brabant and Zeeland) and has about 18.000 members (the number of farms in that region is about 15.000 in 2010).

ZLTO has three main objectives and activities: (1) the representation of the economic interests of the farmers/members in the society, (2) the provision of services to its members and (3) investing in companies in and around the farms to strengthen the position of farmers and growers in the market (by NCB). For this see section 3.5.

### **3.4 Vion Food**

VION N.V., with its headquarters in Eindhoven, is now an internationally operating food company with two core activities: Food and Ingredients. VION N.V. is not a listed company; the (only) shareholder of VION is the farmers' union NCB/ZLTO.

#### **History in recent period**

In 1995 Dumeco (Dutch United Meat Company) was formed, as a combination of the activities of two cooperatives in the cattle and meat sector (Coveco and Cehave-Encebe) with a private company: Gupa BV, a family business of two brothers, Guus and Paul Helmer. The Helmer brothers were the heads of Dumeco in its first years of operation, till 2001.

Dumeco at that time became one of the largest companies in the fresh meat sector in the EU, with a turnover of 2.3 bln. Dutch guilders (around 1 bln. Euro). Dumeco then had some 1.800 employees. Main shareholders in Dumeco were cooperative Cehave-Encebe with 41.5%, NCB (farmers' organization) with 18%, cooperative Coveco with 15%, cooperative Cebeco-Handelsraad with 14.5% and Gupa with 11%. Dumeco at that time became leading in the Netherlands with a market share of 30-35% in slaughtering activities at 10 locations in the Netherlands.

Coveco was (till 1995) another Dutch cooperation active in cattle and slaughtering. Coveco was founded in 1928 and was active in the regions outside the province of Noord-Brabant. Coveco at that time, the years before 1995, had serious financial problems and was able to continue its activities. Until that time it was supported by Cebeco-Handelsraad, a hybrid cooperative at that time with activities in animal feed etc. But Cebeco-Handelsraad was not strong enough to guarantee the continuity of Coveco. The combination of the 2 cooperatives (Coveco and Cehave-Encebe) and Gupa was necessary given the problems in the pig sector in the Netherlands at that time. Slaughterhouses had an overcapacity and a large part of pigs was exported live, to be slaughtered in Germany. Given the different shareholders in Dumeco (with the participation of private capital of the family Helmer), this new company became not a cooperative.

Another more specific problem in forming a cooperative would be that on the one hand a group of farmers was delivering animals for slaughtering (members of the original cooperatives Coveco and Encebe), while another group of farmers was member of Cehave, mainly as user of animal feed of this cooperative. These groups of farmers overlapped only partly. In the new construction (Dumeco), it was not possible to arrange a good situation of (equal) membership for these different groups of farmers. After some years, the activities of Cehave ('the feed cooperative') decoupled from the other activities

of Dumeco. Cehave then (in 2000), merged with the cooperative Landbouwbelang, active in the neighbour province Limburg. Later on, Cehave-Landbouwbelang (2010) merged with Agrifirm, a cooperative also mainly active in animal feeding stuffs in the northern provinces of Netherlands (Agrifirm, 2012).

In its first years Dumeco the company was rather successful; in spite of the serious problems with pig fever in the years 1997 and 1998 in the Netherlands it achieved profits. But in 2002, for the first time Dumeco reported a loss. The company lost markets due to the foot and mouth disease in the Netherlands in 2001. Dumeco suffered from an overcapacity in their plants (slaughterhouses).

In 2001 Dumeco launched a growth effort in order to develop itself on a fully European scale. In 2001 Dumeco made its first acquisition, the pork slaughtering business of Sturkomeat and the beef slaughtering specialist Kroot.

Of interest in that period (2002/2003) is that ZLTO (and Sobel<sup>3</sup>) decided to develop the food company. ZLTO and Sobel then established a new company: Best Agrifund, as the holding company for both Sobel and the Bestmeat Company. In December 2002, ZLTO bought the German leading meat company Moxsel and in July 2003, ZLTO took over Dumeco to form a new organization called 'Bestmeat Company'. At that time Bestmeat Company had a turnover of more than 4 bln. Euro. The acquisition of Moxsel doubled the company's total sales. At the end of the year 2003 Bestmeat completed another major acquisition: NFZ Nord Deutsche Fleischzentrale. In 2004 the name Best Agrifund was dropped and the parent company of Sobel and Bestmeat became Sovion NV.

In 2006 Sovion changes its name in VION Food Group. ZLTO (NCB) became the only shareholder. ZLTO had to take its responsibilities for their members. The other shareholders had left Dumeco and its succeeding organizations, in the period since 1995. ZLTO was in the position to invest given its strong financial position built up in the period before (Dagblad Trouw, 1995), among others by selling the insurance business Interpolis, owned by the Roman Catholic farmers' organizations in the Netherlands, to Rabobank.

'Vion Fresh Meat' became the new name of the meat division, previously named 'Bestmeat', included later on the Dutch company Hendrix meat (2004) bought from Nutreco as well as the German Nordfleisch. In recent years, VION acquired Weyl Beef Products, a Dutch slaughtering house in the cattle sector (in 2010) and (in 2008) Grampian Country Food Group Ltd, founded in Scotland with activities in lamb and poultry.

## **Organization**

VION Food Group has a professional Executive Board of five persons, some of them with a specific responsibility, for instance for VION Food UK. In the Supervisory Board, with eight persons, some of them are (now or in earlier period) member of the Board of ZLTO and one of the members of the Supervisory Board is active in the German farmers' unions.

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<sup>3</sup> Sobel was a company under the umbrella of NCB; its successor is named Rendac.

The members of the Supervisory Board are appointed by the General Shareholders Meeting of VION Holding N.V., which means indirectly by ZLTO.

### **Economic performance and some backgrounds**

VION Food Group has a turnover (in 2010) of nearly 9 billion Euro and a value added of more than 3 billion Euro with about 26.500 employees. Total turnover of VION Food as a whole increased from around 7 billion Euro in 2007 (with about 18.000 employees) to 9 billion Euro in 2010.

The group has several locations in most of the countries in Europe as well as in some countries outside the EU, for instance in Russia and Ukraine. VION Food Group regards besides the Netherlands also Germany and the UK as its home markets. VION UK is a specific division. The international orientation of VION Group has a direct relation with the high volume of exports from the Netherlands of pigs and pig meat; the country has a degree of self-sufficiency rate for pigs and pig meat of around 250%.

VION is based in the southern part of the Netherlands. This region has a high density of pig production as well as of other branches of animal production (dairy farming, poultry). A large part, some 60% of Dutch pig production, is located in that region (mainly provinces Noord-Brabant and Limburg). Exports of animals and animal products (in this case mainly pigs and pig meat) from this region developed strongly after World War II. In that period many farmers, original having mixed farms, specialized in their production. A relative large number of farmers made a choice towards the development of a (specialized) pig farm. This decision was supported by the fact that many farmers had a lack of land (the area of the farm often was only some hectares) and the development of private and cooperative compound feed industries. These industries process for a large part products (cereals and other products) from overseas. The infrastructure of the port of (mainly) Rotterdam and the rivers and canals in the Netherlands is also important for this development.

VION Food Netherlands has two business units: pig meat and cattle meat (beef) at nine production locations. VION Food delivers to retail, industrial and food service clients in the Netherlands and in Europe as well as in other parts of the world. Main products are fresh pig meat, beef, lamb, poultry meat and derived convenience products as well as frozen vegetables, fruits and potato products.

The second core activity (ingredients) produces, on the base of the by-products of the meat processing, high value products like proteins, fats, haemoglobins, gelatines etc. Rendac is active in this field.

VION Ingredients is world market leader in gelatine. The company is investing in bio-fuels. Ecoson (also part of VION in Son) produces bio-diesel on the base of animal fats and Sonac (part of VION with several plants in the Netherlands) is producing products to be used in animal feeds. Rendac, Ecoson and Sonac are part of Sobel, the Ingredient division of VION Food Group.

## **Rendac**

Rendac is the processing plant for dead animals (carcasses) and animal by-products of slaughtering houses and meat processing is located in the town of Son (originally the company was called Sobel, later on named Rendac). NCB established its own carcass disposal and destruction operation, called 'NV destructor NCB' or 'Chemische bedrijven van de NCB' in 1934. A crucial reason for this initiative was the risk of epidemics and diseases when carcasses were not processed. Destruction became obliged with the Animal Law of 1922 that forbid farmers to bury their animals. 'The destructor of NCB' grew quickly into the leading and only disposal business in the Netherlands and later in Belgium.

In the 1990s Sobel acquired a companies in the US (Banner gelatine products which is merged with Pharmacaps) and in 2002 SKW Gelatin in France.

Rendac nowadays is active in this field for the Netherlands as a whole and Belgium. Besides that Rendac is active in Germany, Poland and Czech Republic. In the Netherlands and Belgium, Rendac is the only company with permission to collect and process these animal (by-) products. The processing plant in Son, near Eindhoven, has some 200 employees.

## **Objectives for the future**

In 2010, VION presented a new strategic vision for the period 2010-2015: Balancing the Future. Finding a new balance nowadays follows after the company's expansion strategy in the years before. After years of increasing scale and national and international acquisitions, VION has entered a period in which quality and innovation are leading.

VION has built healthy positions in its markets. Those markets are now asking for added value in the form of tasty, safe and healthy products that have been produced sustainably and with an eye to animal welfare. Products and markets are developed by VION in collaboration with our customers, and partnerships with those customers (retailers, foodservice, and industry) are crucial to VION. Product leadership, operational excellence, and sustainability support this strategy of customer intimacy.

## **3.5 Other companies of NCB**

NCB (earlier the name of the farmers' association) is now the name of the investment company of the farmers union ZLTO. Besides VION, NCB has (in 2010) 12 other financial participations in companies and cooperatives in the agri-sector. NCB has invested for example in BMC (processing electricity on the base of poultry manure), Amalthea (dairy products of goats), VNK (processing and marketing of herbs and spices), Rubia (produces natural colours for carpets etc.), Streekselecties (to promote regional products) and TOM to develop horticulture (glass houses) in the province of Brabant.

NCB had a (positive) financial result of more than 50 mln. Euro in 2010. The volume of own capital of NCB is (at the end of the year 2010) about 850 mln. Euro. The strong

financial position of NCB was for a part built on the base of the funds received at the time that the cooperative Rabobank bought the insurance cooperative Interpolis from the catholic farmers' unions in the Netherlands (in 1990), but for a larger part it has been formed by reservations of the companies with direct links to NCB.

The strategy of NCB is to assist with its own resources, farmers' initiatives in markets with (new) perspectives and with at least in the beginning period some risks. The support of NCB provides in countervailing power in several markets. NCB has a focus with its investments in Vion in the animal sector. Given the very difficult situation in the cattle and meat situation in the 1990s and in later periods, this was necessary in the interest of farmers, members of NCB/ZLTO ('there was no alternative', Mr Van Bohemen, March 2012).

NCB considered in that period (around 2002) also to invest (more) on the arable sector, for instance in potatoes, in Aviko. But given the initiatives of the sugar cooperative Cosun/ Suiker Unie to acquire all shares of Aviko (until then 70% was in the hands of another cooperative Cebeco), NCB did not go that way.

### **3.6 Conclusions**

The way of operation of ZLTO/ NCB in supporting farmers' cooperatives and initiatives in the market is for a large part comparable with that of 'Boerenbond' in Belgium. In fact, these organizations, both based on Roman Catholic initiatives, have many informal contacts over the long period they are active in the farm sector in their own region. Both cases show, in recent years, new initiatives on new markets. Both farmers' unions are taking risks to support innovating developments in favour of their farmers.

Some differences between the situation in Belgium and the Netherlands are on:

- The size of operation; the turnover of VION is larger than of AVEVE;
- The sectors: VION is mainly in the pork sector and in ingredients, with the activities of Rendac (destruction), while AVEVE is mainly active in the sector of inputs (feed a.o.);
- Development: more based on incidents in the Netherlands as the history of VION shows, compared with a more steady development in Flanders;
- International orientation: VION is a larger player on the international market than AVEVE.

## 4 Royal COSUN

### 4.1 Introduction

Royal Cosun is a cooperative with approximately 11,000 members (farmers, sugar beet growers). The cooperative consists of nearly 8.000 direct members (category A). Over 3,500 beet growers are members (category B) of (original) two regional cooperatives, merged in CSV COVAS (2009). These regional cooperatives are members (category C) themselves of Royal Cosun. Royal Cosun is one of the largest (at place 4) on the list of the largest cooperatives in the Netherlands (Bijman et al., 2011).

The farmers, members of Cosun, grow sugar beet as well as other crops and some members have also animals, e.g. dairy cows or pigs. The sugar beets are processed in the sugar production plants of Suiker Unie. Crystal sugar is extracted from the beet. Suiker Unie (in the Netherlands) produces some 0.8 - 1 mln tonnes of sugar per year. Suiker Unie is one of the (main) activities of Cosun (see profile)

The members of Cosun supply their beet on the basis of the number of shares they own in the cooperative. These shares cannot be freely traded for example at the stock exchange; trade is restricted to the farmers/members, growers of sugar beet.

The members have direct influence on the policy and strategy of the cooperative through elected representatives who are the members of the Members' Council. The Council elects the members of the Board and the Supervisory Board.

### 4.2 History

Royal Cosun is arisen from Suiker Unie in 1996; in 1999 it was renamed in Royal Cosun as name of the cooperative; the addition 'Royal' is given because of the history of one century in that year. The name 'Suiker Unie' is now used for the activities of the division responsible for the production of sugar.

The history of the cooperative sugar beet processing in the Netherlands started at the end of the 19th century (1899). In that period at regional level several cooperative sugar beet processing units were founded, mainly in the south western part of the Netherlands (in Dinteloord, Roosendaal, Zevenbergen, Puttershoek, Sas van Gent, Bergen op Zoom). The first cooperative started in 1899, in Sas van Gent. In the northern part of the Netherlands a cooperative plant was founded in Groningen (Hoogkerk, 1914). Some of these cooperatives organized their processing activities in existing, original private companies. The cooperatives were an alternative for the (small) private companies which were not able to pay an acceptable price for the sugar beets (Terlouw, 1969). In 1916, besides seven sugar cooperatives, the Netherlands had still a (large) number of small, local, private

processing units. Most of them disappeared and some of them were integrated in CSM (Centrale Suiker Maatschappij).

In the South-west region of the Netherlands, three cooperatives (Dinteloord, Roosendaal and Zevenbergen) merged in 'Verenigde Cooperatieve Suikerfabrieken (VCS)', in 1947. In 1966, in the period of the start of the European Common Agriculture Policy (CAP), VCS merged with Puttershoek and in the following years with Sas van Gent and Groningen. In that period under the new name 'Suiker Unie' all cooperative sugar processors were united. Later on some factories were closed: Zevenbergen (1987), Sas van Gent (1990), Roosendaal (1996) and Puttershoek (2004).

In the period of the start of the European integration, in the mid 1960's, the (at that moment) four cooperatives in the sugar sector (VCS, Puttershoek, De Friesch-Groningsche and Sas van Gent) discussed with the private company CSM to improve efficiency of collecting sugar beet and processing (Terlouw, 1969). These parties however did not come to a real consultation, but it was spectacular that the four cooperatives tried to take over CSM in 1965. This offer of the cooperatives was however not accepted by the Board of CSM. The reasons why the offer was not accepted by CSM were not clear (Terlouw, 1969). In reaction on this reaction, the four cooperatives started discussions to arrange a closer cooperation. These discussions were successful and resulted in the establishment of the cooperative Suiker Unie. In 1967 the new cooperative Suiker Unie had about 22.000 members/ growers of sugar beet in the Netherlands. About 50% of them were (indirect) members, because they were direct member of one of the regional beet producers associations. Given the EU sugar quota system introduced in the 1960's, Suiker Unie had about 62.5% of these production rights for the Netherlands and CSM the other about 37.5%. Members of Suiker Unie had to deliver 20 tons of sugar beets per share as a minimum and the right to deliver to a maximum of 35 tons. In the first years the four original cooperatives were maintained, Suiker Unie was a 'top cooperative'.

Suiker Unie is nowadays, through the integration in 2007 of 'CSM Suiker BV', the only sugar beet processing company in the Netherlands. Suiker Unie has concentrated its processing of sugar beets now two factories, in Dinteloord and Groningen. The 'CSM Suiker BV' processed some 35% of sugar beet produced in the Netherlands. Discussions to integrate the activities of 'CSM' in 'Suiker Unie' have taken a long period. At least around the year 1990 discussions were intensive and serious.

CSM (Centrale Suiker Maatschappij), a Dutch private processor of sugar beet, started in 1919 as a combination of some private companies with 17 factories. During its history, especially in 1970s, CSM broadened its activities, sugar became less important. At the moment (2010) CSM has a turnover of some 2.5 bln. Euro and 8,500 employees with activities all over the world.

One of the factors that made the combination Suiker Unie/ CSM successful in 2007 was the restructuration of the European sugar policy in that period. By this, at least in first instance, the volume of sugar production in each country had to be decreased. This in combination with price guarantees at a lower level made that the perspectives for 'private'



sugar processors - as CSM - became less favourable. CSM, with in 2006 two factories (Groningen and Breda), produced 350-380.000 tons of sugar per year with a turnover of about 250 mln. Euro and some 300 employees.

The position of the farmers, growers of sugar beets for CSM was rather uncertain until the moment that Cosun made a clear offer to acquire CSM's sugar division. In that period the CSM beet growers' federation, chaired by Mr. A. Maarsingh (also chairman of the arable farmers of LTO) planned to buy this division. The CSM beet growers' federation at that time represented some 5.700 beet growers (Trouw, March 2006). Later on, in 2007, Maarsingh and the secretary of Cosun called the CSM growers to become member of Cosun. Per share (of 20 tons sugar beets), they had to pay 250 euro; this was taken into account in the price after delivering sugar beets (Boerderij, April 2007).

The CEO of CSM, Mr Hoetmer, was of the opinion that the combination of CSM and Suiker Unie would strengthen the production chain and guarantee the position of the Dutch sugar production sector on the fast changing European market on the long run (CSM, July 2006). CSM specialized more on other food products, as bakery products and ingredients as well as derives of dairy products.

#### **4.3 Actual situation**

The integration of CSM as a part of Royal Cosun was in fact completed in 2009. The Board of Cosun then decided to terminate in 2011 the difference between the old shares (older than 2007, before the integration of CSM) and the new shares. On old shares the price paid for the sugar beets was higher; so from 2011 onwards the original 'CSM beet growers' will receive the same price on their shares as the original Suiker Unie farmers get.

Besides the integration in the Netherlands of CSM, Suiker Unie integrated Danisco Sugar GmbH in Anklam (in the north-east part of Germany) in 2008 (is now Suiker Unie GmbH). The merger of Danisco and NordZucker led to the EC-obligation to sell this plant which produces 235.000 tons of sugar, to a 'third' party, in this case Cosun. The sugar beet growers in the region of Anklam are not members of Cosun. As a result of this integration, Suiker Unie is one of the five largest sugar beet producers in Europe (see De Bont, Smit and Prins, 2011).

#### **4.4 Companies under the umbrella of Cosun**

Cosun/ Suiker Unie already for a quite long time own other companies. These are described in a nutshell in this section.

##### **Aviko**

Aviko was started in 1962 as a local cooperative by potato growing farmers, to invest in the processing of potatoes. Main products of Aviko are fried frites (pommes frites) as well as frozen and fresh potato products. Aviko from the start was taking up the American trend of industrial produced French fries, and became partly owned by Cebeco-

Handelsraad (Cebeco) at the end of the 1960s when Aviko needed capital to grow and stay competitive with IOFs like McCain and others. Suiker Unie became involved later, when Cebeco and Suiker Unie swapped some interests in vegetable and potato based activities to prevent competition.

Royal Cosun became 100% owner of Aviko in 2002. Cosun took over the 70% part of Cebeco, another cooperative organisation in the Netherlands. Cebeco was during a long time, more than a century, very important (central) cooperative organisation in the Netherlands, active in the markets of feed, cereals, fertilizers, machinery etc. Financial and organizational problems caused that this concern had to finalise its activities. Different regional cooperatives (Agrifirm, ForFarmers etc.) are continuing these activities of Cebeco; these cooperatives are organised per region in the Netherlands.

Aviko has some 1,600 employees and processes some 1.7 mln. tons of potatoes per annum at several locations in The Netherlands. Aviko has also production facilities in some other countries (Belgium, Germany, France, and Poland) and marketing offices in a.o. United States, Spain and Latin America. Aviko has some 20 daughter companies. In 2011 Aviko acquired the activities on processed potatoes of Agrico, a Dutch farmers' cooperative specialized on ware and seed potatoes in the Flevopolders.

## **SVZ**

SVZ produces and markets liquid fruit and vegetable ingredients for the global food industry. The portfolio of SVZ comprises juice and juice concentrates, puree and concentrated puree and compounds as well as product development opportunities for applications in baby food, dairy & ice cream, jam & preparations, beverages & liquor, bakery, confectionery and ready meals. In April 2012, SVZ announced to acquire Mondi Foods and to close its production location in Etten-Leur, in the southern part of the Netherlands, but SVZ's headquarters will remain in Etten-Leur. Mondi Foods has a location in Rijkevorsel (Belgium) in which products (mainly fruits) of Dutch growers can be processed in the coming years. SVZ has a total workforce 765 of which about 135 are located in the Netherlands.

## **Sensus**

The first activities to develop Sensus were started around 1990. Suiker Unie and the Belgian IOF Warcoing then invested in a new factory in Roosendaal, Benuline Nederland B.V., to process chicory roots. From the year 1992 about 3,000-4,000 hectares of chicory per year was planted in the Netherlands. From September 1995 on Benuline was a 100% daughter of Suiker Unie. In 1996, when the name of the cooperative Suiker Unie was changed in Cosun and the activities on sugar were continued under the name Suiker Unie, the name Benuline was changed in Sensus Operations C.V.

Sensus is processing chicory and by this it provides an alternative for a part of the beet growers in the situation that the area of sugar beets decreased under the quota system and increasing yields of sugar per hectare. Sensus has its processing activities in Roosendaal in an old sugar factory of the cooperative. Sensus produces inulin and oligofructose.

Because both the food industry and consumers are increasingly concerned with healthy eating, these two products are in growing demand worldwide.

## **Nedalco**

Nedalco has a long history, starting around the year 1900 with processing by-products of the alcohol factories. Nedalco, a company producing bio-ethanol and alcohol on the base of farm products (for a part molasses, a by-product of sugar beet processing, and in recent years more on the base of cereals), was sold by Cosun to Cargill in 2011. Nedalco became a 100% daughter of Cosun in 2004. Until then Nedalco was for a part owned by CSM. In 2009 Cosun had a return of 117 mln. Euro (6.7% of total return) on the base of the products of Nedalco (alcohol en bio-ethanol). A reason to sell Nedalco was that Nedalco did not use molasses since 2010 as a raw material for the production of alcohol (Cosun, Annual report, 2010).

## **4.5 Royal Cosun**

### **Profile**

Cosun produces and sells natural ingredients and foodstuffs for the international food industry, foodservice channel (restaurants, caterers and wholesalers) and retail outlets. The group also processes organic residues into products for non-food applications.

The activities of Cosun are organised in specific groups (see some e more information in section 4.4):

- Basic ingredients, sugar (Suiker Unie) and inulin (Sensus). Sensus produces inulin and oligofructose for use in specific foodstuffs.
- Potato products, including chilled, frozen and dried potato products and a wide range of other prepared potato specialities (Aviko).
- Compound ingredients, including fruit & vegetable applications (SVZ).
- Duynie (a daughter company of Aviko): everything revolves around getting value out of organic by-products from the food industry, originally for animal feed, now also in bio-based chemistry. Duynie is active with some 130 employees in the Netherlands, Belgium, the UK and Russia.
- Cosun Biobased Products: is a start-up business that markets special ingredients for non-food applications.
- Cosun Food Technology Centre: is the group's knowledge and expertise hub that combines and further develops knowledge about process technology and product development

As a specialist in the taste, functionality and health of ingredients, Cosun develops products concepts and applications that meet its customers' specific wishes. Cosun's

marketing and research expertise is at the service of today's and tomorrow's food market. This expertise has been concentrated around specific customer groups and applications. For research and quality control, Cosun has its own research and development organisation, Cosun Food Technology Centre (CFTC).

### **Economic performance**

The Royal Cosun group as a whole achieves a turnover of EUR 1.7 billion (in 2010 as well as 2011) and has an average workforce of 4,200 FTEs. The turnover per annum was rather stable over the years 2007- 2011; in 2007 the turnover increased with some 250 mln. Euro as a result of the integration of CSM. The level of the prices paid by Cosun for the sugar beet delivered to fill the EU production quota is much higher (50-55 euro per ton in recent years) than the European minimum price level for these beets (some 26 euro per ton). For a part, this is the result of the efficient production and marketing of sugar (and its by-products: pulp (used as animal feed), molasses a.o.) by Suiker Unie itself, but for a part it is also the consequence of positive financial results of the other production groups of Cosun; mainly Aviko.

### **Business model**

The business model of Cosun focuses on the production of sugar from sugar beets for the owners of the cooperative. The top priority is that members/sugar beet growers involved benefit from the value added (Smit, 2012). Profits from other subsidiaries result into a (hopefully) higher price of sugar beets delivered than possible from the sugar production sec, giving additional added value to the members. The growers of crops for the other business units have a purely rational contract with the respective units. This business model keeps the system of attribution of the value added through sugar production versus other activities simple.

### **Philosophy**

The philosophy of Cosun is that food is a high quality application of agricultural produce. Virtually all Cosun's businesses also supply ingredients or residual flows for use in animal feed or non-food applications. These flows include natural food fibres, natural aromas, colourings and flavourings, recoverable minerals and fertilisers. Once all the usable substances have been recovered, the residues are increasingly being fermented to generate green energy.

Cosun works in the first links of the food chain through the collection and large-scale processing of farm products into high quality ingredients and foods. Together with Cosun's customers, suppliers and members, it develops products that meet the needs of the food market both now and in the future.

### **Strategy**

Royal Cosun has a long tradition and a lot of know-how on large scale processing agricultural raw material, in bio refining. Cosun has the ambition to improve these

procedures with two objectives: 1) to save in the use of inputs (to improve the environment) and 2) to increase the return on capital. Cosun Food technology Centre has an important coordinating role in this.

The financial result of the cooperative is for a larger part depending on the use of the total raw material, the commodity, in combination with the lowest cost possible in using energy, water etc. Traditionally the focus is on food and food products. But Cosun sees opportunities in bio-energy as well as in bio-chemical products. Until now the size of the 'bio based economy' of Cosun is rather modest, but it will be developed in the coming years (Cosun, report 2010).

### **Portfolio**

In 2011 Royal Cosun sold two activities: Nedalco (producing alcohol and ethanol) is sold to Cargill and Unifine Food & Bake Ingredients is sold to the American company Dawn Foods. With these sales, Cosun underlines its ambition to concentrate its activities on processing vegetable raw material and to grow in that kind of activities.

In the past (1970-1995) Cosun was 100%-owner of Van der Have, a seed breeding company in the Netherlands; specialised on seeds for arable crops. In the 1990's Van der Have was integrated by Advanta. In 2005 Advanta sold the activities on sugar beets seeds to the Florimond Desprez-group in France (SES VanderHave, 2012).

### **Corporate governance and the cooperative principles of Cosun**

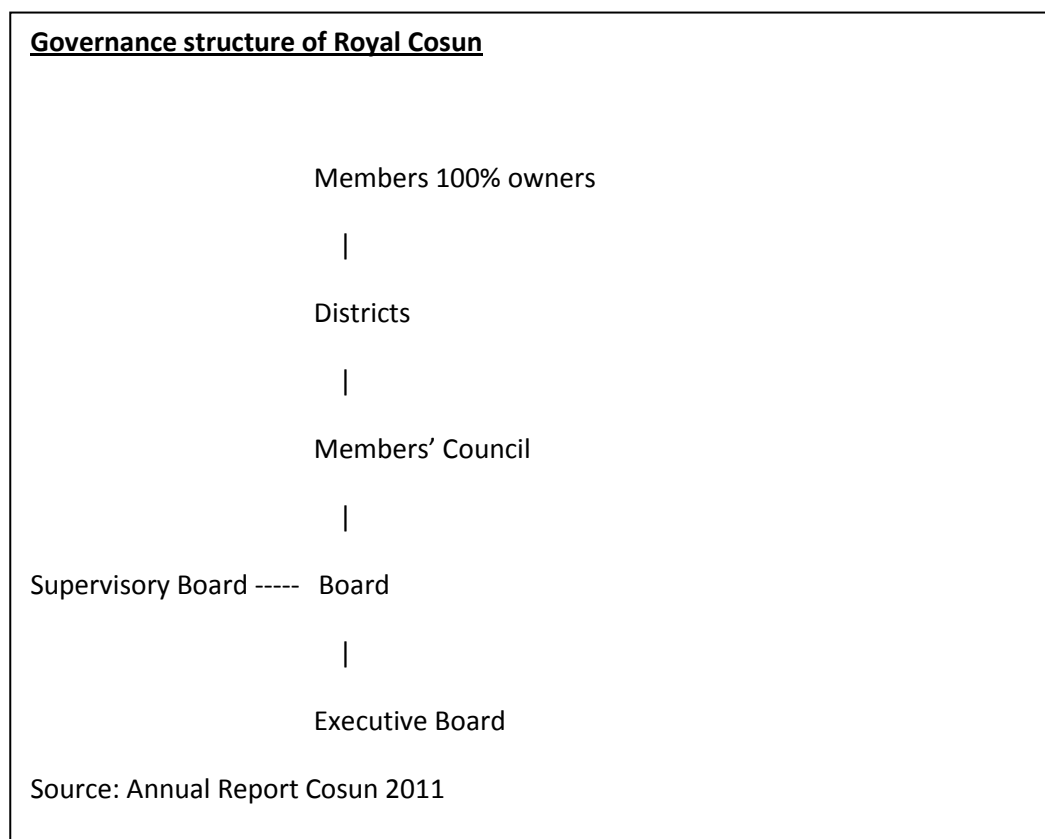
Corporate governance at Royal Cosun is about the relationships between the members of the Cooperative, the Board, the Supervisory Board, the Executive Board and the staff. The main elements of Royal Cosun's corporate governance policy are: sound business principles, integrity, respect, supervision, transparent reporting and accountability.

Essential elements in the organization of Royal Cosun are: The Board, The Supervisory Board, Members' Council, Executive Board, Central Works Council and External Auditors. They work on the base of a Code of Conduct and General Terms and conditions of purchase.

Inside the cooperative organisation of Royal Cosun every member has one vote, regardless the number of shares or the volume of delivered sugar beets. The members (8.000 direct and 1.800 indirect via CSV COVAS) are organised in 8 regional circles; most regional circles have local departments. Every circle has its own board with representatives of the local departments. All circles together are represented in the members' council.

Each year Royal Cosun organises meetings for the circles/ local departments. In these meetings the Board and the Executive Board explain the policy, strategy and financial results. In these meetings members elect the bard of the circle. Every farmer having rights (quota) to produce sugar beets has the opportunity to be member of Royal Cosun. It is requested to have a reference of 76.800 kg pol sugar; this is 16 shares of 20 tons of sugar

beets per farm. Shareholders of Royal Cosun have two obligations: 1) to deliver sugar beets and 2) in financial commitments. The rights of the membership are: a higher price (additional payment, exclusive for members), the right to vote and to participate in joint decision making. Besides that the members of Royal Cosun get information and extension on growing sugar beets by the agro service of Suiker Unie.



**Figure 4.1 Governance structure of Royal Cosun**

## **4.6 Conclusions**

The history of the cooperatives in the sugar sector in the Netherlands shows a successful development. An essential period in this development is the last decade in which it has taken the responsibility for the total sugar sector in the Netherlands. The cooperative Royal Cosun has shown that it is not only able to organize the whole of activities of processing sugar beet and sugar production in the country, but also to organize and finance several other processing activities in the interest of the arable farmers in the Netherlands. The positive consequence for the beet sugar growers in the Netherlands which are member of Cosun is that they receive a relative high price for the delivered sugar beets, not only as a result of the efficient processing of the beets but also of the profits of the companies organized under the umbrella of Royal Cosun. The way of organisation of Cosun makes clear that there is a sound balance between the rights and the obligations of farmers.

The way of organisation of Cosun is quite specific. The sugar beet growers are the members-owners of this cooperative and these farmers also play a role in the decisions related to other activities than on sugar beet processing in the framework of Cosun, among others in Aviko and Duynie. In this way Cosun/ Suiker Unie is a hybrid organization, comparable with Boerenbond/ AVEVE and ZLTO/NCB/VION Food.

## 5 Conclusions, analysis by comparison

The way of operation of the Dutch organization ZLTO/ NCB in supporting farmers' cooperatives and initiatives in the market is for a large part comparable with that of 'Boerenbond' in Belgium. Royal Cosun, as cooperative, in fact has a comparable role in the interest of (arable) farmers the Netherlands. All three cases show in recent years, the support of new initiatives by the hybrid organizations on new markets. The hybrid organizations take risks to support innovating developments in favour of their farmers.

Table 5.1 Characteristics of hybrid organizations

Mother-organization	Economic organization	Main products	Annual return (bln. Euro in 2010)	Employees (in 2010)
Boerenbond	AVEVE	Animal feed, other inputs for farmers	1	1,600
ZLTO/ NCB	VION Food Group	Meat (pork, beef), ingredients	9	26,500
Royal Cosun	Suiker Unie	Sugar	1.7 1)	4,200 1)

2) Data of the cooperative Royal Cosun as a whole

Some differences between the three organizations:

- The size of operation; the turnover of VION is much larger than of Royal Cosun and of AVEVE;
- The sectors: VION is mainly in the pork sector and in ingredients based on animal products, with the activities of Rendac (destruction), while AVEVE is mainly active in the sector of farm inputs (feed a.o.) and Cosun on arable products;
- Development: the history of VION shows that it is more based on incidents in the world of the cooperatives in the cattle and meat sector, compared with a more steady development of AVEVE in Flanders and a rather normal growth of the activities of Royal Cosun in the processing of ;
- International orientation: VION is a larger player on the international market than AVEVE and Royal Cosun.

### Some remarks

The cases make clear there are differences related to cooperatives between Belgium and the Netherlands in at least two agro-sectors: pigs and sugar. It is of interest to see what the reasons for these differences are.

#### *Pigs*

The pig sector does not seem to be a very attractive agricultural sector for cooperative entrepreneurship (Gijssels and Bussels, 2011). They say: According to one of our respondents, this is a result of the fact that pig farmers are insensitive to market evolutions



due to long-term contracts they conclude with actors elsewhere in the production chain. Environmental concerns (manure is a sensitive issue in Belgium, as well as in the Netherlands) further adds to the deflection of cooperatives in this field. The main cooperative for the pig sector in Belgium is Covavee, being responsible for a quarter of the total of pigs supplied to the market. This cooperative however is the second on the list of the 50 largest farmers' cooperatives in the food chain of Belgium (Gijssels and Bussels, 2011).

In the Netherlands around 50% of pigs are slaughtered in the Netherlands by Vion<sup>4</sup>, not a real cooperative, but a company with essential 'cooperative characteristics' (see section 3). In the past the two Dutch cooperatives for pig farmers (*ENCEBE* and *Coveco*) came in severe financial difficulties (see description of Vion).

The absence of cooperatives in the pig meat sector in the Netherlands may be surprising. Pig meat is an important sector in Dutch agriculture (more than 10% of the total production value of agri- and horticulture<sup>5</sup>). Also, the Netherlands has a long tradition of cooperative slaughterhouses. However, this tradition is not a success story. Cooperatives have always had a hard time to survive in the very competitive and volatile pork market. During many decades, pig slaughtering was linked to feed supply, either within the same cooperative or through agreements between cooperative feed suppliers and cooperative slaughter houses. These so-called integration arrangements were meant to create efficient supply chains and build strong competitive positions. However, one of the key problems among cooperative slaughter houses was the free riding behaviour among their members. As pig production is located relatively close to Belgium and Germany, farmers (via private traders and transport companies) could easily sell their pigs abroad when prices were slightly higher on the other side of the border, leaving the domestic cooperatives with idle capacity. Not only foreign processors, also domestic IOF slaughter houses often paid (or still pay) just a little more for the animals, giving farmers an incentive to deliver their pigs to the IOF instead of to their own cooperative.

### ***Sugar***

The entire Belgian sugar beet processing industry is managed by two private organisations, which have steadily grown by the years: *Tiense Suikerraffinaderij* (Sugar Refinery Tienen) and Iscal Sugar (Gijssels and Bussels, 2011). Cooperatives have been notoriously absent in the (Belgian) sugar sector. In 1989 however, the Belgian sugar market was invaded by Südzucker AG, a Germany-based cooperative assimilating the sugar refinery in Tienen. This didn't alter anything with regard to the presence of cooperatives in Belgium however, as the company does not uphold cooperative principles in their international dealings but transforms into an IOF at the border, excluding Belgian sugar beet producers from membership.

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<sup>4</sup> Besides the pigs slaughtered in the Netherlands, the Dutch sector exports a large number of piglets and fattened pigs to other EU countries.

<sup>5</sup> In Belgium however pig production is responsible for about 20% of production value of the agri-and horticulture sector (FOD economie, 2010); in Flanders it is even about 25% (Raes et al., 2012).

In the Netherlands, the whole sugar beet processing industry came some years ago (2007) in the hands of one cooperative of farmers (Cosun, Suiker Unie, see description in section 4). This cooperative had before a market share of more than 60%.

In the Dutch sugar sector during many decades, two companies processed sugar beets into sugar and sugar products: CSM, a stock market listed IOF, and Cosun/ Suiker Unie, the sugar beet growers' cooperative (Bijman et al., 2011). After earlier (even hostile) merger and acquisition processes in the 1960s and later in the 1990s, Cosun acquired all of the sugar business of CSM in 2007. The suppliers of CSM became members of Cosun (under the requirement of paying an entry fee). The main reason for CSM, an international food industry concern, to withdraw from the sugar industry was the lack of growth potential in the sugar industry, under the influence of the changes of the CAP.

In addition to Cosun the cooperative CSV Covas exists. This cooperative (a 20009 merger of the original cooperatives CSV and Covas) has no processing capacity but it organises the harvest and the transport of the sugar beets of some 2000 growers (12.000 ha, some 15% of production area in the Netherlands) in the south east of the country and sells the beets to Cosun. The cooperative CSV Covas is also active in collecting potatoes (selling to Aviko, a daughter of Royal Cosun), malting barley, ginseng and chicory (for processing by another daughter of Cosun: Sensus). CSV was the organization of the beet growers of NCB, the farmers' union in Noord-Brabant and Covas in the neighbour province Limburg.

## 6 Discussion

### *Perspectives of hybrid organizations*

Are hybrid organizations a new trend? Each of the three cases (Boerenbond/ AVEVE, ZLTO/NCB/VION and Royal Cosun/ Suiker Unie) shows the opportunities to maintain at least the existing activities and to develop on new markets, with new products and technologies. In each of the cases the ‘mother organization’ (Boerenbond as well as ZLTO/NCB and Cosun) has been able to take major decisions in investing capital, direct or indirect financed by their members. This is only possible in a situation that the ‘mother organization’ enjoys the confidence of the members. This position of sufficient confidence has been built up over the years and is supported by the communication from the organization with the members. The model of governance in each of the three cases provides sufficient opportunities to have regular contacts with the members.

In recent years, at least in the case of Cosun, its confidence is supported by relatively high prices paid per ton of sugar beets. This has increased the involvement of members/ shareholders, also from the ‘new’ members which supplied until 2007 their sugar beet to the private factory (CSM). For VION however it seems difficult to maintain its position on the market of pigs and to enlarge its confidence of the farmers, suppliers of cattle and pigs; the share of pigs slaughtered in the Netherlands has fallen gradually over the last years. Despite this, VION realises a positive financial result, for a part given the strong position of the ingredients division, Rendac etc. ZLTO/NCB as such has a strong financial position. It seems that the position of Boerenbond in Belgium is solid; the members have confidence in their organization. Boerenbond and its Agri Investment Fund (AIF) show in recent years that new initiatives are taken to broaden the opportunities of the members on new markets, e.g. vegetables.

### *Strategies*

The hybrid form of organization at least shows opportunities to enlarge the scope of activities, in the home country (Belgium or the Netherlands) as well as in other countries. On the one hand Boerenbond/ AVEVE and Cosun/ Suiker Unie are rather careful in their international investments. The case of ZLTO/NCB/VION shows a more offensive attitude on the markets of meat products and ingredients.

The three cases show that the hybrid organizations make consistent choices in the orientation of their investments. They have defined their core business clearly; at least Cosun (processing arable products) and VION (meat and ingredients) have a clear strategy in these directions. AVEVE has by nature, as a company mainly supplying different inputs to farmers and growers, a broader scope of activities.

Regarding the development in this field (the supply of inputs as animal feeds, fertilizers etc.), the situation in Flanders with the strong position of AVEVE is more stable than in the Netherlands. During the last twenty years the number of Dutch 'feed cooperatives' declined very fast (Bijman et al., 2011). In this period the 'previous feed cooperative of NCB' (CHV) merged with its colleagues, the original cooperatives on feed, fertilizers, cereals, machinery etc. in the other provinces: Landbouwbelaang (in the neighbour province Limburg) and Agrifirm with locations spread over the country (Agrifirm, 2012).

The case study on ZLTO/NCB/VION clarifies that why a complete integration of the chain (feed supply, farmer/ member, slaughtering and meat processing) did not work and collapsed in the 1990's in the region concerned. Despite the strong position of the farmers' union NCB, such integration was not feasible.

### ***Position in the production chain***

The relationship between the hybrid organizations and other actors in the food chain is somewhat different. AVEVE is mainly interested in developing a strong position as supplier of farmers and in connection to this it is willing to invest in developing new opportunities for the farmers. The ambition of Cosun is mainly to process raw material in the interest of its members, suppliers of arable products. VION has a strategy to improve the market position of its products (meat and ingredients) directly to the consumer based on positive aspects as quality, health, taste and animal welfare. So it is defensible to say that VION has the closest position on the end of the chain towards the consumers, however without having direct activities on selling its products to consumers.

### ***Role of CAP***

The significance of the Common Agriculture Policy (CAP) is different for the three hybrid organizations. For Cosun it is clear that the volume of production (of sugar) in the Netherlands is depending of the quota system. The reform of the sugar policy in 2006 has stimulated the integration of the second processor (CSM) in the cooperative. The next reform of the EU sugar policy, as proposed by the EU Commission in October 2011, including the abolishment of the existing production quota (in combination with reduction of the tariffs on imports), may have as a consequence an increase of the production volume of sugar in the Netherlands (Smit and De Bont, 2011).

For VION the integrated EU market is very important given the export position of the Dutch pig sector, but the management instruments of the EU on this market are rather weak and have less influence on the allocation of production in the EU than in the case of sugar. In the past the fast development of the intensive livestock production was for a part a consequence of the EU policy on cereals (price protection at the EU border). For the growth of the Dutch compound feed sector and the animal production this was a favourable situation. They could use imported, relatively cheap, alternatives for cereals.

For AVEVE in fact the situation was the same as for the Dutch intensive livestock complex, given the availability of the ports (Antwerp a.o.) and connected infrastructure in Flanders to transport and distribute the feeding stuffs.

#### *Concluding remarks*

The three hybrid organizations show that they act in the interest of ‘their’ farmers and the farm sector in their region/ country on the long run. In this they have a somewhat different objective than the (normal) cooperatives which are more oriented on shorter run interests of their members as a higher price for the delivered products in order to increase the income of the farmer.

The hybrid organizations have an interest in creating and using new opportunities in the markets. They are in the position to invest in this given the actual profit in the organization (e.g. Rendac in the construction of ZLTO/NCB/VION, Aviko in Royal Cosun) or by the reserves created in the past, for a part by selling cooperative activities (on farmers’ banks by the Boerenbond in Belgium and on insurance by NCB).

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