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# Support for Farmers' Cooperatives

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## *Case Study Report* **Bargaining associations and the vegetables processing industry in Belgium**

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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 reports on Flemish vegetable cooperatives producing for the vegetable processing industry. 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 cooperation of the three considered Flemish cooperatives; BND Internationale Telersvereniging, Ingro, and COÖBRA.

## Table of contents

1. Introduction.....	5
1.1 Objective and research methods .....	5
1.2 Analytical framework.....	5
1.3 Method of data collection .....	6
1.4 Structure of the report.....	6
2. Literature overview and background information .....	7
2.1 Vegetable processing industry in Flanders .....	7
2.2 Flemish cooperatives within the European context.....	7
2.3 Agricultural Bargaining Cooperatives in the US .....	8
3. Case study Flemish vegetable cooperatives.....	11
3.1 BND Internationale Telersvereniging .....	11
3.1.1 Introduction.....	11
3.1.2 Creation and current cooperative design.....	11
3.1.3 BND's activities.....	11
3.1.4 Impact of the cooperative .....	13
3.1.5 Cooperation with other cooperatives .....	13
3.1.6 BND's experience with EU and national policy .....	13
3.2 Ingro .....	14
3.2.1 Introduction.....	14
3.2.2 Creation and current cooperative design.....	15
3.2.3 Ingro's activities.....	15
3.2.4 Impact of the cooperative .....	15
3.2.5 Cooperation with other cooperatives .....	16
3.2.6 Ingro's experience with EU and national policy .....	16
3.3 COÖBRA .....	17
3.3.1 Introduction.....	17
3.3.2 Creation and current cooperative design.....	17
3.3.3 COÖBRA's activities.....	18
3.3.4 Impact of the cooperative .....	18
3.3.5 Cooperation with other cooperatives .....	19
4. Comparative analysis.....	22
4.1 Establishment.....	22
4.2 Board of directors and shareholding.....	23
4.2.1 Rate of independency .....	23
4.2.2 Expected trend.....	23
4.3 Customer relationships .....	23
4.4 The cooperative's activities .....	24

5. Discussion.....	25
5.1 Independent versus dependent cooperatives.....	25
5.2 Different treatment for different types of cooperatives .....	25
5.3 Translation of EU policy and legislation.....	25
5.4 Risk management .....	25
References.....	26

## List of abbreviations

BND	BND Internationale Telersvereniging
CMO	Common Market Organisation
EU	European Union
EC	European Commission
LAVA	Logistieke en Administratieve Veiling Associatie
PO	Producer Organisation
REO	Roeselare en Omstreken Veiling

# 1. Introduction

## 1.1 Objective and research methods

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, “Support for Farmers' Cooperatives”, that will provide the background knowledge that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income. In the framework of this study, this report provides an in-depth analysis of the specific situation of Belgian cooperatives producing for the vegetable processing industry. Most of this production is concentrated in the Flemish region of Belgium. The Flemish vegetable processing industry (producing both canned and frozen vegetables) is of considerable importance. The frozen vegetable sector even accounts for 46% of the European frozen vegetable market (Vanhaverbeke et al. 2008). Noteworthy is that seventeen of the eighteen Belgian frozen-vegetable producers are located in or around Roeselare, a mid-sized town in the centre of Belgian province West-Flanders (Vanhaverbeke et al. 2008).

This analysis will mainly be based on a case study of three Flemish vegetable cooperatives; Ingro, COÖBRA, and *BND Internationale Telersvereniging* (hereafter referred to as BND). The case study must reveal to what extent cooperatives influence the integration of the supply chain in the processed vegetables sectors and strength of the vegetable growers' competitive position. In Flanders, contract farming traditionally regulates the relation between vegetable growers and processors. Hence, bargaining cooperatives must mainly focus on the negotiation skills and power of the vegetable growers to influence their position in the supply chain. Considerable variety exists among the interviewed cooperatives. Ingro is entirely producer-driven and independent from the processing sector. It sells its vegetables to different processors. BND on the other hand delivers over 90% of its vegetables one vegetable processor: *Scana Noliko*. This company also holds part of BND's shares and consequently is involved in the management of the cooperative. COÖBRA is incorporated in this case study because it is one of Flanders' most important cooperatives in the vegetable sector. COÖBRA mainly produces for the fresh vegetable sector and faces a different price setting mechanism (auction clocks and price mediation).

## 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).

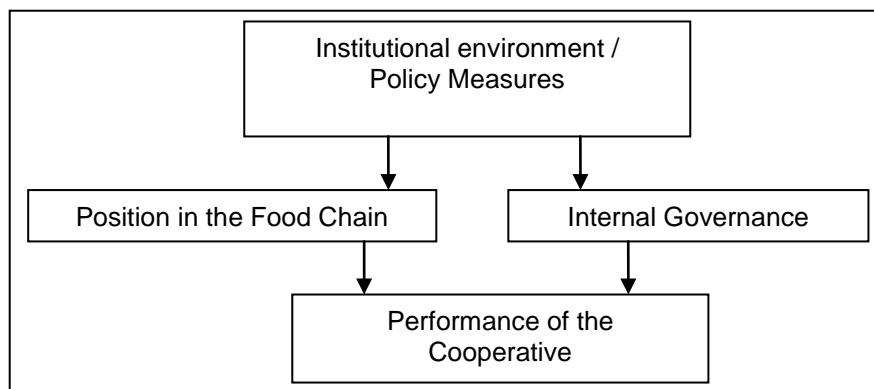


Figure 1. The core concepts of the study and their interrelatedness

### 1.3 Method of data collection

This case study is based on multiple data sources. First of all, secondary data was used such as academic literature, European legislation and EU summaries of legislation targeted at agricultural cooperatives, popular press and electronic media, various archives and other sources of information.

Additional primary information has been collected through personal interviews with managers and/or board members of Ingro, COÖBRA and BND. All information presented in Chapter 3 and 4 originates from the interviews and secondary information provided by the cooperatives themselves (e.g. through their website).

### 1.4 Structure of the report

Chapter 2 will start with a summary of literature and background information on the situation of Flemish vegetable cooperatives producing for the processing industry. Second, the literature overview will also elaborate on the EU policy targeted at cooperatives. The last part of the literature overview will focus on the textbook example of bargaining cooperatives; the agricultural bargaining cooperatives in California (US).

Chapter 3 will provide a thorough and individual description of all three investigated cooperatives. Chapter 4 will compare the three cooperatives with each other and with the textbook example of the Californian model. This chapter will focus on differences in establishment, management and ownership. Due to the differences in ownership (Ingro is independent from the processing industry while BND is partially controlled by a vegetable processor) it can be expected that the cooperatives adhere different strategies as well. For analytical reason the situation of these two cooperatives will also be compared with COÖBRA's situation since COÖBRA is one of Flanders' leading cooperatives and faces a different price-setting mechanism. Chapter 5 will eventually present some discussion points that emerged out of all previous analysis.



## **2. Literature overview and background information**

This chapter first provides an overview of the situation of Flemish cooperatives producing for the processing vegetable industry. Since these cooperatives operate in the European context, the consequences of EU legislation for Flemish cooperatives will also be discussed. Last, the Californian model will be presented as a textbook example of bargaining cooperatives.

### **2.1 Vegetable processing industry in Flanders**

A number of strategic factors contributed to the concentration of vegetable processors in West-Flanders. Vanhaverbeke et al. used Porter's diamond model to assess these factors for the frozen vegetable sector. One of the crucial elements in the model is the production factors. Flanders has of several production factors and circumstances that favour raw vegetable production for the frozen vegetable sector. First, it benefits from a natural environment (mild climate and good soil composition) which is favourable for vegetable production. Second, farms traditionally have small acreage which is ideal for intense vegetable cultivation. This is especially the case in West-Flanders. Third, Flanders is located in the very centre of Europe and has an excellent (road) infrastructure. This shortens transport time. Also the proximity of vegetable processing companies to the frozen vegetable producers reduces transport (and transaction) costs.

The costs of the frozen vegetable producers are also considerably determined by the raw vegetables' purchasing price. They represent 40 % of the operational costs (Vanhaverbeke et al., 2008). In West-Flanders, the price is traditionally negotiated jointly by the frozen vegetable processors. Hence, all vegetable growers face the same farm gate price. In combination with stable supply of vegetables this results in advantageous purchasing prices for the frozen vegetable sector (Vanhaverbeke et al., 2008). Next to this, Vanhaverbeke et al. also stress the importance of the relationship between the frozen vegetable producer and its suppliers: exchange of information and cooperation between vegetable growers and processors has led to new technologies that made the sector more competitive. How the cooperatives influence this relationship will be further investigated in this research. The research of Vanhaverbeke only focuses on the West-Flemish situation for frozen vegetables however. First, vegetables growers do not produce exclusively for the frozen vegetable sector. The vegetable processing sector encompasses both the frozen and canned vegetable industries. Ingro for example, although located in West-Flanders, also delivers vegetables for the canning industry. Second, vegetables produced for the processing industry are not only being grown in West-Flanders. To ensure the geographic spread of this research, the two other examined cooperatives are situated in two different provinces. BND is located in Limburg, COÖBRA in Flemish Brabant.

### **2.2 Flemish cooperatives within the European context**

Since October 2007, Council Regulation (EC) No 1234/2007 established a common organisation of agricultural markets. This implies common rules for managing agricultural markets, standards for agricultural products and for importing/exporting them to/from the EU (EC, 2012a). The regulation also sets rules in the recognition and operation of producer and inter-branch organisations. In particular, producer organisations (POs) must develop a joint operational programme and be able to adapt to demand. The EU believes that in the face of ever greater concentration of demand, grouping supply in this way strengthens producers' position in the market (EC, 2012b). When producer organisations meet a number of requirements, they can receive financial support from the EU. In practise, the EU accounts for half of the costs of the investments under the operational plan, up to a maximum amount of 4,1% of the cooperative's total turnover. In order to access the EU's financial resources POs in the vegetable sector must have two or more of the following objective:

1. Ensuring that production is planned and adjusted to demand, particularly in terms of quality and quantity
2. Concentration of supply and the placing on the market of the products produced by its members
3. Optimising production costs and stabilising producer prices
4. Planning of production
5. Improvement of product quality
6. Boosting the commercial value of products
7. Promotion of the products, whether in a fresh or processed form
8. Environmental measures and methods of production respecting the environment, including organic farming
9. Crisis prevention and management

Thus, when Flemish (and other European) cooperatives want to benefit from financial support, they must comply to EU guidelines. As such, the subsidies are an efficient tool to steer direction of the cooperatives' investments.

In Flanders, cooperatives achieve a number of these objectives by employing 'cultivation mentors'. These mentors assist vegetable growers in planning and organising their cultivation processes. This for example includes the presentation of soil analyses and advice on sow planning. For farmers, this technical assistance is one of the most tangible consequences of cooperative-membership.

This research considers two types of cooperatives in Flanders. First, two cooperatives that produce for the processing industry are discussed. The relationship between vegetable growers and vegetable processors is traditionally determined by the system of contract farming. Hence, prices are determined prior to delivery or planting of the crops. Whether the contract also mentions a negotiated quantity or area that is allowed to be cultivated depends upon the circumstances. These two cooperatives are compared to a Flemish cooperative which operates on the fresh vegetable market. Price setting on this market is organised by auction clock. Hence the different types of cooperatives face different price setting mechanisms. Finally, these cooperatives will also be compared to the California Model of bargaining cooperatives in the USA.

### **2.3 Agricultural Bargaining Cooperatives in the US**

Agricultural bargaining cooperatives (ABCs) are farmer-owned, -controlled, and -benefited associations that negotiate terms of trade with processors-buyers of their raw product. ABCs usually do not become involved with the handling of raw product and thus differ from marketing cooperatives (Hansmann, 1996). They are active primarily in fruit and vegetable commodities as well as in raw milk markets, and are predominantly located in West Coast states of the U.S.A. (USDA, 2001).

ABCs are of two types (Marcus and Frederick, 1994). The first establishes minimum prices and terms of sale for their members' produce. These must be incorporated in the contracts the members themselves execute for the sale of their produce. Examples of this type of ABCs include the now liquidated California Tomato Growers Association, the Potato Growers of Idaho, the Olive Growers Council, etc. The second type, in addition to establishing price and terms of trade of sale, also act as exclusive sales agents for their members and contract for the sale of members' produce. This group of ABCs includes, among others, the California Pear Growers Association, the California Canning Peach Association, and the Apricot Producers of California.

Given that ABCs do not make any profits, they usually cover their operating expenses by retaining funds from their members. A percentage of the sales proceeds are paid by the processor directly to the cooperative, which in turn is authorized to retain these funds. ABCs do not pay interest on these retained funds. Some ABCs have convinced processors to pay a service charge based on a certain sum per ton over and above what the processor pays as the purchase price for the members' produce (Marcus and Frederick, *ibid*).

The governance of ABCs is exercised democratically; by adopting either the one member-one vote principle or proportional voting with an upper limit on the number of votes per member. The latter voting system is implemented primarily in cases where large volume producers would not join the ABC unless they were given a larger voice in its affairs.

ABCs were organized during the early decades of the 20th century but many ceased operations from the late 1930s to the mid-1950s. Agricultural bargaining became more formally established when state governments passed laws in the 1960's to sanction these collective action organizations. In addition, the Agricultural Fair Practices Act (AFPA) of 1967 provided explicit support for the formation of bargaining associations by preventing food processors from boycotting or otherwise coercing farmers for their participation in collective bargaining (Banje, 1980). Subsequent State bargaining legislation further facilitated the smooth coordination of supply and demand and protected producers and processors from unfair trade practices. For example, the 1967 California Agricultural Fair Practices Act was amended in 1984 to require, among other things, that ABCs and processors bargain in good faith.

Other States that have enacted bargaining legislation include Michigan, Maine, and Washington. The Michigan Agricultural Marketing and Bargaining Act includes provisions for mediation and binding arbitration in the event of an impasse in negotiations. Arbitration is conducted by an arbitrator designated by the Michigan Agricultural Bargaining Board while binding final offer arbitration is employed (Marcus and Frederick, *ibid*). Similar provisions are included in the bargaining legislation of other States.

Aided by the legislative support of the Agricultural Fair Practices Act of 1967 and subsequent State legislation, agricultural bargaining cooperatives have expanded in many fruit and vegetable industries but also in dairy, catfish, poultry, and hogs. In 2007, over 50 bargaining associations were active in various States<sup>1</sup>. Currently, twenty ABCs are active in the U.S. (USDA, 2009). Recently bargaining has attracted again the interest of both scholars and policy makers because it is viewed as a potential substitute for direct governmental intervention (e.g., Hueth and Marcoul, 2003). Given the significant capital requirements for investment in vertically integrated marketing cooperatives, ABCs provide farmers with a low risk-capital alternative coordination and fair pricing device (Iskow and Sexton, 1988).

In most industries with effective ABCs, one or more processing cooperatives are also active. In some cases the processing cooperative evolved separate from the ABC. In other instances, the bargaining association played a key role in the formation and organization of the processing cooperative. It is not uncommon to find cases where the local IOF monopsony processor went out of business and the members of the ABC, or some of them, decided to buy the processing plant and operate it as a processing cooperative.

Since the mid-1960s a number of theories have provided alternative rationales for the formation of ABCs. Arguably, the most cited contributions view ABCs as a means to: countervail the market power of intermediaries and sustaining long-term price gains (Ladd, 1964; Helmberger and Hoos, 1965); deter post contractual opportunistic behaviour by producers and processors operating under forward contracts (Knoeber, 1983; Knoeber and Baumer, 1986); enable price

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<sup>1</sup> National Cooperative Bargaining Council membership list, [www.ncfc.org](http://www.ncfc.org)

discovery in markets where there is uncertainty about supply and demand conditions (Hueth and Marcoul, 2006); and ameliorate moral hazard and adverse selection problems when grading is not entirely precise (Bogetoft and Olesen, 2003).

Irrespective of which of these theoretical approaches is the most insightful, all view the free rider problem as the single most important condition that diminishes ABCs' opportunities for sustainable price gains (Helmberger and Hoos, 1965, Hansmann, 1996). Temporary or permanent failures of ABCs are mainly associated with the free rider problem (e.g., Reynolds, 2008). The free rider problem refers to the situation where a non-member receives benefits associated with the provision of public goods by the cooperative (e.g., higher commodity prices), but avoids becoming a member—and thus eschews contributing to the costs associated with this provision, which are incurred by members alone. A similar problem occurs when a member of a bargaining association stops patronizing the association temporarily when she finds it to her best interest. Ameliorating the free rider constraint in ABCs is a cumbersome task. Over the course of the last sixty years solutions to the free rider problem have evolved from simplistic to complex. As cooperative leaders realize that individual solutions are necessarily incomplete and that each member is motivated to participate in an ABC by a different solution to the free rider problem, they turn into implementing combinations of complex mechanisms. Such mechanisms result in the provision of combinations of incentives, particularly necessary for addressing the free rider issue in ABCs characterized by highly heterogeneous member interests (Iliopoulos, 2009).

### 3. Case study Flemish vegetable cooperatives

In this chapter, the individual situation of the three mentioned Flemish cooperatives will be discussed. No comparison between their situations will be made at this point. Chapter 4 will address this kind of analysis.

#### 3.1 BND Internationale Telersvereniging

##### 3.1.1 Introduction

B.N.D. Internationale Telersvereniging (hereafter referred to as BND) is a cooperative which delivers vegetables to the processing industry. Scana Noliko is its main customer as it accounts for over 90 % of BND's sales. BND's members produce a wide variety of vegetables. Its main summer vegetables are peas and carrots, yellow and green beans, and leafy vegetables (including spinach). Its main winter vegetables are salsify, celeriac, red cabbage, carrots, sprouts, and leek. Currently, a group of 300 vegetable growers in Belgium, the Netherlands and Germany<sup>2</sup> is providing Scana Noliko through BND. Those vegetable growers are cultivating 4500 ha of land. All production sites are located within a radius of 100 km of their main customer Scana Noliko, near Bree in Belgium.

Scana Noliko is an international food products company which processes harvest-fresh vegetables and produces ready-to-eat food products. BND's headquarters are located near Bree (a city in the North-East of Belgium), at the production facility of Scana Noliko. With an annual turnover of € 184 million Scana Noliko is one of Europe's top five companies in this segment.

##### 3.1.2 Creation and current cooperative design

Scana Noliko together with its suppliers created BND in 1996-1997. The shares of the cooperative are equally divided over 4 different groups of shareholders. The first three groups of shareholders are Scana Noliko's Belgian, German, and Dutch vegetable growers. Finally, also Scana Noliko itself owns a part of BND's shares. Each group of shareholders is also represented in the board of directors. Table 1 provides an overview of the division of the shares and seats in the board of directors.

Table 1: Division of shares and seats in board of directors in BND

Group of shareholders	Percentage of shares	Number or representatives in the board of directors	Chairman of the board of directors
Scana Noliko	25 %	3	/
Belgian vegetable growers	25 %	2	1
Dutch vegetable growers	25 %	2	/
German vegetable growers	25 %	2	/

##### 3.1.3 BND's activities

While assessing the activities of a cooperative, two types of activities can be distinguished. The first type of activities supports cooperative-members in their farming activities. The second type

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<sup>2</sup> 'BND' stands for **B**elgië (=Belgium), **N**ederland (=the Netherlands), and **D**uistland (=Germany).

of activities focuses on the marketing of the members' products (on prices, quantity,...). BND focuses especially on the supporting activities. Due to the structure of its board of directors and the distribution of its shares, BND is more focussed on harmonizing the relationship between vegetable growers and their main customer (Scana Noliko) instead of empowering the farmers to occupy stronger position vis-à-vis their customer. The prices are always of considerable importance however. Price increases and price decreases have to be motivated by either the producers or the customer. On top of this, price setting must occur in accordance with the market situations.

BND operates in such a way that it meets all-but-one of the 9 European objectives for supporting POs. Partially through the employment of 3 cultivation mentors BND supports its members on most technical issues. BND's technical assistance focuses on cost-efficient production with better respect for environment (e.g. through better spraying practises), planning of production, and improving product quality (ensuring minimum residue levels, traceability, etc.). By improving the vegetable's quality in a sustainable way, also the commercial value of the vegetables is improved. The mentors also ensure personal contact between BND and its members. This close contact and good mutual understanding also enables BND to steer production (choice of crops and quantity to plant) of its members and adjust it to market (in this case; Scana Noliko's) demand. In order to steer production, BND receives information out of Scana Noliko's market analyses and forecasts. This information is an important tool for decision making on planting schemes. Besides the cultivation mentors, BND also invests in the mechanisation of the supply chain (both at farmer level as at subsequent stages) and in the coordination of information flows along the supply chain. BND for example started mapping the plots of its members to assess its members' productivity and efficiency. This enables farmers to take information-based decisions. These activities are also observed in other vegetables cooperatives.

BND also set up a risk management system. Crisis prevention and management is the 9th of the EU's objectives. Risk management is important for farmers as their income depends partially upon uncontrollable factors. Due to weather conditions and other calamities, farmers might face crop failures (but also overproduction). In the case of underproduction due to uncontrollable factors, solidarity within the cooperative ensures a decent income for vegetable growers. In the case of overproduction they might not be able to sell all their produce or the full acreage. This will impact a farmer's income. To decrease its members' risk, BND set up a system which is based upon solidarity. The 3rd EU objective concerns producer price stabilisation. Although BND has no formal system to stabilise prices in place, the cooperative is convinced that it has a stabilising effect on producer prices. The vegetable processing industry traditionally makes use of the system of contract farming<sup>3</sup>. Because Scana Noliko and vegetable growers are gathered within 1 cooperative, a platform has been created to negotiate and discuss these prices and terms of reference of the contracts. This platform is believed to make negotiations more efficient. First, this platform facilitates the negotiation process because it allows Scana Noliko to indicate what crops it desires and against what costs (based upon sales prognoses). Hence, demand for vegetables is defined. Next to this, the platform also allows the suppliers to stipulate their desires. It is in this setting that both parties must agree, conform the general market situation. In the end, BND contracts one common price with all its suppliers. It then further discusses quantities or areas with their suppliers. Second, the risk management system in which BND and Scana Noliko commit themselves to buying all produce of contracted areas also has a stabilising factor on producer prices. Since vegetable growers are already privileged because of the certainty that they can market their produce, they can take a more moderate position in contract negotiations.

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<sup>3</sup> In this system, the price traditionally depends upon the cereal price since this is the easiest alternative for the farmer to obtain a guaranteed income. Cereal prices are set on the world market.

BND is not committed to the promotion of its members' produce. All members are mainly producing for Scana Noliko (and some other vegetable processors). Therefore, there is no need for promotional actions. It is the vegetable processor's responsibility to promote these products.

### **3.1.4 Impact of the cooperative**

According to BND, most of its investments have proven their use for its members and at the same time generated an economic benefit. Hence those investments were justified, just like the European support for the investments. Nevertheless it can be doubted whether all these investment projects would have been realised without the cooperative. Rik Ceyssens, member of the board of directors for Scana Noliko, declared that Scana Noliko probably would have invested in comparable projects but not at this fast pace. The creation of the cooperative speeded up the investment process.

Besides the tangible investments, one of BND's most important impacts is the stabilising effect on producer prices. Last decade, vegetable prices on the international market were very volatile. In 2006 there was a considerable decrease, followed by a price-explosion in 2007. Afterwards, the prices kept on fluctuating without noticeable trend. The wholesale distribution (Tesco, AH, Carrefour,...) forces Scana Noliko to offer prices in accordance with these market evolutions. Nevertheless BND aims to offer less extreme prices. Because BND creates a platform for producer and processor to discuss prices, less aggressive price negotiations occur within the cooperative. Consequently, BND's prices did not evolve towards the extreme prices (both high and low) paid at international markets.

### **3.1.5 Cooperation with other cooperatives**

BND does not formally cooperate much with other cooperatives. Because the cooperative mainly supplies to one processor, and its members are only supposed to deliver vegetables that will be processed to BND, it has become a stand-alone organisation. This stand-alone statute is reinforced by the geographic location of BND. Due to its remote location, BND is also geographically disconnected from the other main stakeholders in the vegetable processing industry.

### **3.1.6 BND's experience with EU and national policy**

#### **3.1.6.1 Risk management**

BND's major critique concerns the EU's risk management policy. The EU favours insurances against risks that cause underproduction or crop failure. In this case loss of income should be compensated. Solidarity is a possible means to compensate this loss of income. The EU does not agree with the BND's practises to deal with overproduction however. Consequently, BND does not benefit EU support for their risk management system.

As mentioned earlier, BND commits itself to buying all produced vegetables on contracted acreages. Subsequently, BND sells the vegetables mainly to Scana Noliko. BND even faces this purchasing obligation in a situation of overproduction. Overproduction can only occur when BND's clients cannot process the yield of the contracted acreage. In this situation, BND commits itself to buying all grown vegetables. BND is able to deal with local overproduction (e.g. due to extreme weather conditions). If the overproduction is a regional problem (also overproduction in north of France, Germany,...) BND has fewer possibilities to process and market the vegetables. In these rare cases, the vegetables will be used as raw material for biomass installations of, in the worst-case scenario, destruction of the product.

This must prevent that BND's members market their vegetables at lower prices through other marketing channels. This could negatively affect the market prices and consequently decrease several other farmers' income. This combination of contracting acreages, using fixed prices per kg, and the purchasing obligation result in the stable prices.

According to the EU however, this could even stimulate overproduction because farmers are ensured that they will be able to sell all yielded vegetables. The EU argues that this does not improve alignment between supply and demand. Consequently, the EU considers this action as unjustified market interventions. BND on the other hand believes that overproduction will have considerable negative impact on farmers' income when surplus vegetables are sold on a free market.

### **3.1.6.2 Subsidies**

Just like other cooperatives, BND receives subsidies from the EU. In order to gain access to this financial support, a cooperative must meet some preconditions however. As such, BND's investment and expenditure choices have considerably been influenced by the EU guidelines for producer organisations. Because (at least) half of the investments are financed by the POs themselves, this can be considered as a cheap and effective way to steer trends in the vegetable processing industry.

### **3.1.6.3 Expected trends in EU policy**

BND faced some remarks by the Belgian authorities because of the direct link with Scana Noliko. First of all, Scana Noliko is a shareholder of BND. Second, Scana Noliko is represented in the board of directors. This could endanger the independency of the cooperative and confirm (or strengthen) the strong position of the processing company. It is feared that the vegetable growers' position is too much weakened and that they become too dependent. Instead, in the EU's view, cooperatives must empower farmers and enable them to better negotiate prices and terms of reference. In future, BND expects the European (and consequently Belgian) policy to move further in the direction of independent cooperatives.

As a response to these remarks BND changed its decision making procedures during the last years. All decisions that concern the CMO are now exclusively taken by the farmers' representatives. Scana Noliko's board members can only provide an advice, but they are not entitled to vote. Until the first quarter of 2012, Scana Noliko also delivered BND's chairman. Recently they renounced this privilege. Currently, BND's chairman is a Belgian farmer.

## **3.2 Ingro**

### **3.2.1 Introduction**

Vegetable grower cooperative Ingro produces directly for the processing industry. Just a marginal fraction of its vegetables appear on the fresh vegetable market. Ingro is located in Roeselare, the very heart of frozen vegetable production in Flanders and an important cluster for frozen vegetable production in Europe. The cooperative is completely independent from any of its customers and it supplies several vegetable processors. Ingro also makes use of contract farming to organise the relationship between vegetable grower and processor. But when a contract is finished, the vegetable grower can negotiate a next contract with a different customer. Consequently, exclusive and long-lasting relationships between vegetable growers and processors are not automatically installed due to the design of the cooperative. Ingro is the only Flemish cooperative which produces for the vegetable processing industry which is completely independent from all vegetable processors. Consequently, its main goal is strengthening the vegetable growers' position.



### **3.2.2 Creation and current cooperative design**

All shares of Ingro are owned by its vegetable growers. As mentioned, no vegetable processors possess any of Ingro's shares. Ingro's board has 18 members; 12 A-associates and 6 B-associates. A-associates are active vegetable growers. B-associates represent the 3 organisations that were involved in the creation of Ingro; Boerenbond, Algemeen BoerenSyndicaat, and REO Veiling. The chairman of the board of directors is elected out of the A-associates. The A-associates and B-associates also deliver one vice-chairman each. Because Ingro wants to be a member-driven organisation, the B-associates do not have voting rights. This is for example the case when the board must decide on Ingro's investment programme.

Since 2005, there have been three attempts to create an independent cooperative by Boerenbond, Algemeen BoerenSyndicaat and REO Veiling. Only in 2007, they became successful and Ingro obtained recognition as a PO under the EU legislation on the CMO for Fruit and Vegetables.

### **3.2.3 Ingro's activities**

Just like other cooperatives, Ingro must meet the EU's requirements in order to access financial support from the EU. Hence, Ingro's basic activities are comparable to the activities of any other POs that receive EU financial support (including BND). Ingro also provides technical assistance, helps in quality controls, and provides data for information-based decisions. Furthermore, farmers are assisted in meeting all ecological/environmental requirements and how to deal with all EU legislation. Thus, also Ingro supports the farmers in their agricultural activities. Next to this, Ingro wants to help farmers in managing their costs (e.g. by organising common purchase of inputs) and alleviate their administrative burden (e.g. by assisting them in their subsidy dossier).

Ingro is different from other cooperatives in the vegetable processing industry because of its activities that aim for the empowerment of its members and the strengthening of the vegetable growers' position in the supply chain. This is a consequence of its independent position. Cooperatives linked to a processor keep in mind that they are defending the interests of both the growers and the processors. Because Ingro is independent it must only defend its growers' interests and it can take a more aggressive position towards vegetable processors. Obviously, Ingro also puts more time and effort in the support of vegetable growers during contract negotiations for example. The impact of Ingro's independent position is described in the following section.

### **3.2.4 Impact of the cooperative**

Although Ingro focuses more on the empowerment of its members, it does not directly impact price setting for its members' vegetables. The reason is twofold. First, Ingro cannot directly interfere in the price-setting itself. This is still negotiated between the vegetable grower and processors and is mainly determined by the general market prices paid for vegetables that are destined for the processing industry. Second, Ingro is related to REO Veiling. This is a cooperative for producers in the fresh vegetable market and it was involved in Ingro's establishment. REO Veiling uses auction clocks to determine prices for its fresh vegetables. The use of auction clocks on the fresh vegetable market makes the evolution of prices more volatile than on the market of vegetables for the processing industry. According to Ingro, the relatedness of Ingro to REO Veiling also increases volatility of prices paid for Ingro's vegetables. Ingro's prices tend to follow the prices paid at the fresh vegetable market more than prices paid for

other vegetable grower cooperatives that produce for the processing industry. Hence Ingro has no stabilising influence on producer prices at all, although this is one of the EU's objectives.

Ingro does have an impact on other aspects of the contracts however. This impact manifests itself both prior to and after the signing of the contract. During the process of contract negotiation, Ingro's impact is the most important as the legal framework is designed at this stage. In the past, each vegetable grower had to negotiate its contract individually with the vegetable processors. Currently, all vegetable growers are professionally assisted in the process of contract-negotiation by Ingro's experts however. Hence, Ingro can ensure that its members' customers account for all additional costs that emerge from additional market demands. Recently, quality controls became obligatory for example. Costs of these controls must be correctly reimbursed. Ingro also knows how to safeguard its member legal rights during contract negotiation.

After contract-negotiation, Ingro continues to monitor the execution of the contract. In the past, there was little control on the processors. Processors often took advantage of this situation by not respecting the contract. Vegetable growers had very little means and knowledge to complain however. Now that Ingro has entered the supply chain as an additional player, the processors' procedures and operations are being monitored more closely. Incorrect execution of the contract is no longer tolerated. The impact of Ingro's surveillance activities can already be noted in practice. Earlier, vegetable growers traditionally had to wait a long time for the payment of their delivered vegetables. At present, these payments occur considerably faster.

### **3.2.5 Cooperation with other cooperatives**

As mentioned, Ingro is closely connected to the fruit and vegetables auction market REO veiling. REO Veiling got involved in Ingro's project because of its thorough knowledge and experience in organising a cooperative within the framework of the EU's common organisation of markets. Just like Ingro, REO Veiling is an independent, member-driven cooperative but REO veiling exclusively deals with fresh vegetables. The supply chains of Ingro and REO veiling are organised completely separate. But REO veiling and Ingro do collaborate on operational matters. This cooperation is very diverse; their administrations collaborate, the same online yield registration system is used, but they also collaborate for product controls for example.

Ingro and Vegebe meet three times per year to discuss mutual concerns. Vegebe is the union of the Belgian fruit and vegetables processing sector. Mutual concerns are for example Integrated Pest Management legislation or combined research projects. According to Ingro, discussions with Vegebe do not fully exploit their potential. Vegebe represents 28 processing companies. These companies are very diverse and sometimes have opposing interests. Hence it is difficult for the association to find consensus among its members. Consequently, the representatives of Vegebe are often not authorized to take decisions or speak on behalf of the entire organisation. This constrains the dynamics in the discussions between Ingro and Vegebe.

### **3.2.6 Ingro's experience with EU and national policy**

#### **3.2.6.1 Translation of EU policy to national policy**

For Ingro, one of the main problems for cooperatives in the agricultural sector is the uncertainty concerning legislation. EU policies and legislation is supposed to install one common institutional framework for each cooperative in all 27 EU-countries. This ambition is not realised however. Each national government must translate the EU policies in national approaches. First of all, this may lead to different interpretations of the EU policy in the different countries. Consequently, the institutional environment can differ from country to country. Second, the

Belgian and Flemish governments continuously adjust legislation and lack long-term vision. The lack of a stable legislation undermines the long-term management of farms and cooperatives.

### **3.2.6.2 Subsidies**

The positive impact of governmental financial support cannot be neglected. First of all, Ingro benefits from the financial support within the framework of the common market organisation. Half of its expenses are financed by the EU. Without this financial support, Ingro obviously would have to look for other financial resources. Since Ingro cannot rely on financial means of a vegetable processor, these other sources of financial means are limited however. Without the European support, Ingro most probably would have invested its resources differently as well. In this way, the EU manages to steer Ingro's activities.

Second, Ingro also has access to Flemish financial support through VLIF. VLIF is the Flemish Agricultural Investment Fund and spends part of its funds specifically on the support of cooperatives and partnerships. For Ingro it is difficult to access the available financial support due to lack of experience and practical knowledge.

## **3.3 COÖBRA**

### **3.3.1 Introduction**

COÖBRA is mainly active on the fresh vegetable market. Only a negligible share of its sales are related to the vegetable processing industry. It is COÖBRA's mission to help its members to produce against the lowest possible costs and sell against the highest possible price. Price setting is very transparent. COÖBRA works with auction clocks and price mediation. This transparent price setting mechanism even attracts foreign vegetable growers. COÖBRA's main products are chicory (31%) and tomatoes (26%). Next to this they offer a wide range of vegetables

### **3.3.2 Creation and current cooperative design**

In 2011, COÖBRA emerged from the merger of two cooperatives; Greenpartners and Brava. The driver behind the merger was the growing immobility within Brava – which was the oldest cooperative in Belgium. Brava's board of directors often had an opposing view from Brava's management. This hindered Brava's management to quickly respond to market changes or design coherent long-term plans. By merging with Greenpartners, Brava's management was able to redesign the old cooperative's structure. COÖBRA had to become a lean and dynamic organisation that could be managed more easily.

Besides the internal drivers behind the merger, there is also a general trend towards the concentration of fresh vegetable production in Belgium (especially Flanders). In the past, there were too many cooperatives. This enabled the cooperatives' customers to 'shop' between the different cooperatives. Each time they could move to the cooperative which offered the best conditions. When supply of fresh-vegetables is concentrated in a limited number of cooperatives, bilateral contacts between the cooperatives will emerge. Consequently, the cooperatives are enabled to coordinate their strategies and policies. Hence, the cooperatives create a stronger position for themselves on the domestic market. The trend towards concentration is expected to continue in future. COÖBRA and Mechelse Veilingen (one of the other Flemish fresh vegetable cooperatives) are currently in advanced stages of new merger plans. COÖBRA and Mechelse Veilingen hope to finalise this merger before the end of 2012. If this merger succeeds, all supply of fresh vegetables will be concentrated in three cooperatives.

COÖBRA also hopes that this will bring more peace among the vegetable producers as well as their situation becomes less complicated as well.

Concentration of supply is also a prerequisite to supply foreign markets. In the case of COÖBRA, the most obvious foreign markets are the Dutch, German, and French markets. In order to supply these markets, cooperatives must first of all have a strong domestic position. Subsequently, the cooperative must also be able to deliver large quantities of vegetables. The lots sold in Flanders are much smaller than the demanded volumes in Germany or France. Consequently, concentration of the supply is essential to maintain and improve international competitiveness. According to COÖBRA, this competitiveness is especially threatened by the largest foreign vegetable growers and cooperatives.

### **3.3.3 COÖBRA's activities**

Just like other cooperatives, COÖBRA supports its members in their daily agricultural activities, for instance with a system of yield insurance. Concerning the yield insurance, COÖBRA adheres the EU's vision on risk management in vegetable production. Hence it uses an insurance mechanism instead of the solidarity mechanism.

COÖBRA especially assists its growers in delivering high-quality vegetables. High quality vegetables are needed, because COÖBRA wants to promote its vegetables through the use of a number of quality labels and certificates. GLOBALGAP and the Flandria label are the best known. If the labels are used for promotion of the vegetables, COÖBRA must assist its farmers in obtaining the labels and certificates. Besides the use of labels, COÖBRA also has other promotional activities (e.g. design of websites) or facilitate marketing of vegetables. When a vegetable grower is not able to deliver the required quantities, COÖBRA will purchase vegetables from other growers in order to make the supplied quantity meet the demanded quantity. This method is especially used for organic vegetables.

Price setting is a second of COÖBRA's important responsibilities. As mentioned, COÖBRA uses both auction clock and price mediation. When the transparent price setting mechanism of the auction clocks is used, COÖBRA has little power to interfere in price setting itself, besides organising the process of the price setting. Because of the transparency of the auction clock, it is a well appreciated system. Sometimes, vegetable growers and their customers use contract farming to come to an agreement however. In the latter case, COÖBRA plays a mediating role.

### **3.3.4 Impact of the cooperative**

According to COÖBRA, one of the most tangible impacts of the cooperative is yield insurance. Next, COÖBRA managed to make supply better meet demand. In the past, the cooperative's customers had to buy what the cooperative was offering. At present, COÖBRA is able to meet specific demands (e.g. demand for organic products, demand for rare vegetable varieties). Moreover, there is currently a considerable market for vegetables that meet individual needs. Hence, COÖBRA managed to create some niche markets for some of its members. The costs of the creation of these niche markets (product development, research, promotion) can be covered by subsidies under the Common Market Organisation programme.

Before the common market organisation, the cooperatives had no real use anymore. But due to EU policy in favour of (independent) cooperative initiatives, a number of farmer cooperatives kept on existing. As a consequence the cooperatives prevented a dispersion of the vegetable producers in individual entities. This would damage the strength of their position in the supply chain and give power to their customers.

### **3.3.5 Cooperation with other cooperatives**

#### **3.3.5.1 Cooperation with Belgian cooperatives**

COÖBRA seeks rapprochement with other market players out of strategic reasons. By concentrating the vegetable supply, it hopes to strengthen its market position. But COÖBRA also seeks contact with Belgian cooperatives with whom it does not necessarily want to merge. COÖBRA does not consider these cooperatives as competitors but as fellow thinkers. COÖBRA and the other cooperatives for example consult each other when they have to decide on what crops to plant. This enables COÖBRA to better communicate to its members what crops are needed on the future market and to try to coordinate production of the different crops. When limited demand for tomatoes is expected, cooperatives would damage each other if they all planted tomatoes. As such, they ensure that also their combined supply of vegetables matches the demand. Next to this, cooperatives in Belgium collaborate on all issues related to the common market organisation, but also on cost management and communication towards governmental administration. To formalise the contacts between the different cooperatives, umbrella organisation LAVA has been created. LAVA promotes co-operation among the 6 most important fruit and vegetable auctions in Belgium (LAVA, 2012).

#### **3.3.5.2 Cooperation with foreign (international) cooperatives**

Contact with foreign cooperatives is less obvious for COÖBRA. There are contacts, but no structural cooperation. COÖBRA considers foreign cooperatives as competitors. Threats are coming from all surrounding countries: The Netherlands, France, and Germany. According to COÖBRA, one of the reasons why cooperation with foreign cooperatives is less obvious is the different forms of cooperatives.

In the Netherlands, there has been a trend towards big, comprehensive cooperatives. In the vegetable sector, The Greenery is the best example. Besides responsibilities that typically belong to cooperatives, The Greenery also executes activities that (in Belgium) traditionally belonged to businesses. The Greenery profiled itself more as a commercial business instead as a cooperative. COÖBRA does not adhere to this strategy out of fear that it might lose connection with its vegetable growers. In the case of The Greenery, members dropped out of the cooperative out of discontent and started to market their vegetables individually. This occasionally led to a decrease of prices which even damaged COÖBRA's position. Consequently, COÖBRA wants to avoid this situation in Flanders and deliberately positions itself as a pure cooperative.

For COÖBRA, there are two disadvantages to this strategy however. First, COÖBRA is not able to attract a structural pool of foreign producers. Too much attention is spent on the relation with domestic vegetable growers. COÖBRA does have a number of Dutch, French, and German vegetable producers that come from the border regions. But in contrast to cooperatives like The Greenery, they cannot rely upon a strategic pool of suppliers that enables the cooperative to supply all types of crops all year long.

Second, Dutch cooperative The Greenery is much stronger in providing organic vegetables. Because it operates as a commercial business it must ensure that it can provide good quality organic products. It invests heavily in this by preventing organic produced vegetables of inferior quality to be sold through the cooperative. COÖBRA – as a pure cooperative – must try to sell all vegetables produced by its members (even organic vegetables of lower quality). In terms of COÖBRA's customer relationship management, this is a less favourable strategy.

COÖBRA's position on the French and German market is different. Especially in France COÖBRA faces difficulties in marketing its vegetables. According to COÖBRA, French customers prefer French vegetables. Consequently it becomes difficult for foreign suppliers to sell their products. Collaboration with French market players is not being sought to tackle this problem. In Germany

on the other hand, demand for foreign vegetables does exist but the German market demands large shipments of vegetables. COÖBRA is not able to deliver the demanded quantities of vegetables solely. As a consequence, COÖBRA must look for partners to provide the German markets. These partners must deliver part of the required quantities.

### **3.3.6 COÖBRA's experience with EU and national policy**

COÖBRA stresses that prior to the PO policy within the framework of the common market organisation; it had lost its right of existence. There was no national policy in favour of cooperatives and they struggled to survive. Thanks to the EU policy in favour of the POs, the cooperative managed to survive and even grow again. Moreover, thanks to the subsidy policy COÖBRA managed to finance half of its investments.

#### **3.3.6.1 Translation of EU policy to national policy**

COÖBRA does experience some flaws in the governmental policies however. Most of COÖBRA's concerns relate to its position on the international market. First of all, the EU's recognition criteria for cooperatives are not strict enough. According to COÖBRA, this has led to a widespread of cooperatives that are able to benefit from the EU's financial resources. One important recognition criteria is the number of members. At present, the required number of members is too low. This enabled some cooperatives (especially in Southern Europe) with a limited number of members to benefit from the EU's support. In Belgium, this situation did not occur because vegetable producers were already organised in cooperatives.

Second, COÖBRA recognises its weaker position on the organic market. COÖBRA complains that it faces difficulties in promoting organic production within the common market organisation. COÖBRA acknowledges that organic pesticide, soil analysis etc. can all be subsidised by the EU just like for conventional vegetables. This is a policy in favour of organic production. But it is the transition period that producers face when they switch from conventional to organic vegetable production that is more worrying. Since production of organic vegetables is currently sufficient to meet demand, there are few vegetable growers that will consider the additional investments required for organic production. Consequently, the number of organic vegetable growers will not increase. In order to increase the number of organic vegetable growers, clusters of vegetable growers must be formed. Since rotation of crops is important in organic production, it is an advantage if the rotation of crops can be organised over plots of several producers. Isolated producers will face more difficulties to rotate the crop types they plant. There is no European policy that supports the creation of clusters for organic production however.

Third, COÖBRA complains about the lack of coordination among the EU member states. This has two main negative consequences. First, different policies and practises created different market situation and institutional environments in different member states. This results in unfair competition. As mentioned, COÖBRA faces a situation in which French customers prefer to buy French vegetables. This is a matter of preference, so COÖBRA cannot complain on this matter. Due to this situation, French vegetable growers are ensured that they can sell their vegetables against any price (within reasonable boundaries). French producers receive large margins on their sales to French customers. Their surplus production must however be sold at foreign markets. According to COÖBRA, French vegetables are often sold against dumping prices on the Belgian market. This disturbs the functioning of (and price-setting on) the Belgian market and should not be allowed by France or the EU. Price-setting at the different European markets is another example of the lack of coordination among the member states. While price-setting in Belgium is very transparent (thanks to the auction clocks), there is considerable lack of transparency on the Belgian's neighbour countries markets. Although Europe demands that countries communicate on price setting mechanisms, COÖBRA is unaware of price-setting in France however. When COÖBRA is the only supplier on the international market with

transparent price-setting mechanism it makes itself vulnerable. Foreign suppliers know exactly what price they must pick in order to go below COÖBRA's price. There is also a problem on the communication of produced quantities by official organisations. The Dutch cooperatives and administration for example communicates better on price-setting but does not communicate on the overall production. This is also essential in order to guarantee transparency. Because of the lack of communication on price-setting mechanisms in other countries, COÖBRA is not able to predict future evolution of the price or take information-based decisions. Each Belgian cooperative must for example communicate to its members what crops should be planted on what areas of land. Due to the lack of information it is difficult to predict demand.

COÖBRA demands international coordination for the communication on real-time market information which is required for a better alignment of production and demand and for safeguarding the functioning of the free market. This free market is a requisite for the future of vegetable production in Europe. Also costs of vegetable production are increasing. At present, these higher costs are not fully compensated by the market however. Consumers are only willing to pay more for organic products. When subsidies end, this situation is not sustainable anymore, and market functioning must correct this situation.

Lack of uniformity in the application of EU's policy also has other unexpected consequences. In Belgium, vegetable growers only benefit from EU support when they make use of the services and infrastructure offered by the cooperatives. Consequently, they share these benefits with the other members of the cooperative. They cannot access the support individually. Dutch individual vegetable growers are able to access (a part of) the EU's support however. A farmer can get financial support for an investment made on his farm (e.g. a sorting machine). As such the farmer acquires ownership of the investment, although (part of) the investment was paid from subsidies received by the cooperative. In the case where a farmer can use part of the EU subsidies for individual investments, farmers often have to sign an agreement which binds them to the cooperative for a longer period. If they do leave the cooperative, part of the received support must be repaid. COÖBRA does not favour this method as it believes that this does not stimulate the cooperative mind-set among its members.

For COÖBRA, the fragmentation of the application of EU policy is one of the most considerable weaknesses of the European policy. This is ironic, since one of the reasons to form cooperatives is to avoid fragmentation among producers.

#### **3.3.6.2 Expected trends in EU policy**

COÖBRA expects that in future the EU will maintain their current levels of financial support (half of a POs investment up to 4,1% of the cooperatives turnover) to cooperatives. COÖBRA expects that it will be more difficult to access these financial means however. In Western Europe, the EU's policy already manifested its impact. Hence, COÖBRA believes that EU policy will try to focus more on the situation of the Central and Eastern European countries. Consequently, the EU might be forced to adjust its policy to the specific situation of agriculture in Central and Eastern Europe as well. This might make the EU agricultural policy less suitable for the agricultural sector in Western Europe. As a consequence, COÖBRA might not be able to recover all costs it is recovering at present.

## 4. Comparative analysis

This chapter will compare the three Flemish cooperatives with each other and with the described Californian model. The chapter will address the following topics: establishment of the cooperative, management and ownership structure, customer relations, and the cooperatives' activities.

### 4.1 Establishment

COÖBRA emerged out of former cooperative Brava which already existed prior to the EU's common market organisation. BND and Ingro emerged within the framework of the EU's new agricultural policy however. Hence, the incentive for BND's and Ingro's establishment was the same. The underlying interpretation of this incentive for establishment was completely different however.

BND is created upon initiative of vegetable processor Scana Noliko. Through to changing legislation Scana Noliko feared that it would be obliged to buy vegetables through auctions. This would considerably increase Scana Noliko's costs. Through BND, Scana Noliko wanted to safeguard its close relation with its suppliers. In the mid-nineties, new EU legislation and policy in the agricultural sector was breaking the traditional strong ties between the vegetable growers and processors. Since the EU favoured the idea of cooperatives, Scana Noliko feared the emergence of an independent bargaining association. The cooperative would create an additional stage in the supply chain and interfere in Scana Noliko's relation with its growers. Consequently, Scana Noliko wanted to initiate the process of cooperative-establishment itself. This allowed Scana Noliko to be represented in the board of directors, and acquire considerable influence in the cooperative. At the same time, Scana Noliko's suppliers were facing a number of uncertain factors. The new policies created confusion concerning future legislation (e.g. quota, common market organisation). Consequently, vegetable growers were in favour of a stabilising factor in their environment. Since BND formalised the growers' relation with Scana Noliko and offered them more certainty on sales possibilities, the growers agreed with the establishment of BND with participation of Scana Noliko. As such BND represents a more positive relationship between vegetable growers and processors.

Ingro on the other hand is deliberately established independently from any processor. Its main objective is the stimulation of prices, which is also a main goal of the CMO. Within the vegetable processing industry, this independence makes Ingro a unique cooperative. While BND tries to improve the relationship between growers and processors, Ingro takes a more opposing position vis-à-vis the processors. Since Ingro did not receive any support from any vegetable processor, it had to rely on help from other organisations for its establishment. Those organisations were active as a cooperative in the fresh vegetable sector (REO Veiling) or are NGO's that defend farmers' interests in general.

While Ingro is unique in the vegetable processing industry, independent cooperatives are the standard in the Flemish fresh vegetable sector. Most of them emerged from the idea that by concentrating supply, better prices can be obtained. As such, COÖBRA's history goes back to 1905 (COÖBRA, 2012). Hence, COÖBRA did not emerge thanks to governmental policies. The policies did enable the cooperative to assure its existence.

Also in the Californian case, bargaining cooperatives emerged within the framework of a change in governmental policies. Since the 1960's, legislation is in place to defend bargaining cooperatives from a boycott by processors. Californian cooperatives are not financially supported however. In California (and some other states) the bargaining cooperatives are also



established independently from vegetable processors, although in some case the cooperatives took over part of the responsibilities of the vegetable processor.

## **4.2 Board of directors and shareholding**

### **4.2.1 Rate of independency**

Of all studied cooperatives in Flanders, COÖBRA is the most member-driven organisation. It has close to 1000 shareholders and producers out of which the board of directors is elected. Nevertheless, a lean daily management is installed in order to ensure efficient operation of the organisation. Also all of Ingro's shares are owned by its members. This also ensures Ingro's independent character. In its board of directors however, the 3 external organisations that were involved in Ingro's establishment are represented as well. Their influence is limited however as they are not entitled to vote.

Although also independent, Californian bargaining cooperatives decision making is organised somewhat differently. These bargaining cooperatives adhere the one member-one vote principle or proportional voting with an upper limit on the number of votes per member. Whatever voting system used, it are always the members that decide however.

In this report, BND appears to be the exception due to the representation of a vegetable processor in the board of directors and the processor's ownership of cooperative shares. In the Flemish vegetable processing industry this is the standard however. Scana Noliko gained this position because it was involved in BND's establishment. In comparison to the individual groups of vegetable growers, Scana Noliko is better represented in the board of directors as it has 3 instead of 2 directors. The three groups (one per supplying country) outnumber Scana Noliko when they join their forces however.

### **4.2.2 Expected trend**

Recently, Scana Noliko agreed that it would not deliver BND's chairman. This privilege now belongs to BND's farmers. The evolution is part of the trend towards more independent cooperatives, which is supported by the CMO. Scana Noliko does not necessarily oppose the evolution towards more independent cooperatives. Vegetable processors cannot be involved in all decision-making of the cooperatives anymore.

Nevertheless, BND believes that for good functioning of the supply chain, it is essential that vegetable processors and growers align supply and demand. Hence a good relationship between both parties is essential. A cooperative like BND is a good tool to improve this relationship. For processors it is much harder to work with completely independent cooperatives as in this case, parties lack a common interest. When all producers are supplying different companies, it would moreover also be more difficult to find common agreement among the vegetable growers as well. Scana Noliko would not be interested in financially contributing to more than 25% of BND's investments if it had no influence in decision-making in the cooperative. Processors themselves must be interested in being involved in cooperatives as well however. In the province of West-Flanders, this interest is less outspoken. Consequently, West-Flemish farmers had to take the initiative to form their own independent cooperative.

## **4.3 Customer relationships**

The different shareholder structures and compositions of the board of directors have consequences for the cooperatives' relations with vegetable processors. Due to its

independence, one of Ingro's and COÖBRA's main goals is to strengthen the position of its members in the supply chain. Hence, Ingro and COÖBRA might have conflicting interests with their customers. This is similar to the Californian situation. For BND however, one of the cooperative's main goals is to ensure good relationship between the vegetable growers and processors. Harmonization of the vegetable growers and processors interests is more important, conflicts are avoided.

#### **4.4 The cooperative's activities**

Most cooperatives invest resources in comparable projects and activities. This is a consequence of the EU's financial support. This obliges them to meet a standardised set of requirements. As a result, all Flemish cooperatives offer their vegetable growers technical assistance, risk management systems etc.

Some EU-objectives are not part of cooperatives' objectives however. While independent COÖBRA and Ingro must spend significant time and effort in promoting their vegetables, this is not part one of BND's activities. While BND only supplies the processing industry (with Scana Noliko as the main purchaser), there is no need for promotional activities. Instead, it is Scana Noliko and the other processors responsibility to promote the processed food products. This can however make vegetable growers more vulnerable as they have only one sales channel and rely on the commercial success of Scana Noliko's products. Ingro and COÖBRA supply several customers however. Moreover they (and especially COÖBRA) face competition from other vegetable suppliers. Hence, the promotion of their produce is essentials for their survival.

Other EU-objectives will be achieved differently by the Flemish cooperatives. Both BND and Ingro try to align supply and demand for vegetables in the processing industry for example. It can be expected that this alignment is achieved more easily by BND. In this cooperative, all growers supply to one common processor. Hence, it is easier to determine demand in advance. When more customers are involved, this is a more complex exercise, with more factors of uncertainty. Once demand is forecasted, the cooperative must try to efficiently organise planting schemes in order to meet demand.

## **5. Discussion**

### **5.1 Independent versus dependent cooperatives**

EU and Flemish policy is evolving in favour of more independent cooperatives. From a farmers' point of view this is understandable. It makes vegetable growers more independent as well, and better ensures that their rights are respected. Cooperatives in which also vegetable processors (or the cooperative's customer) are also represented have other benefits however. They focus more on harmonization of the relation between vegetable growers and their customers. Conflicts are avoided. In this setting it might be easier to align demand to supply.

### **5.2 Different treatment for different types of cooperatives**

Some cooperatives will focus more on support for farmers in the negotiation process on prices and terms of sales. For COÖBRA and Ingro this is one of their essential activities. Hence they try to help vegetable growers in achieving better prices and ensuring that additional costs that arise from additional market demands (e.g. quality controls) are also compensated by the market. Other cooperatives spend less time on the negotiation process however. Price setting obviously is important, but it is not the cooperatives' main goal to achieve the highest producer price. BND is one these cooperatives, but in the Flemish vegetable processing sector more of this type of cooperatives can be found. Should cooperatives that have different objectives for price setting (and the position of vegetable growers) be treated differently by EU policy as well?

### **5.3 Translation of EU policy and legislation**

All interviewed Flemish cooperatives complained on the diversified implementation of the EU legislation among the EU's member states. Due to the different institutional environments, cooperatives in different countries also have different tools to compete with each other. Unfair situations might occur. This is especially a problem for the fresh vegetable market, as this is an international sector. The vegetable processing industry is a smaller, geographically more concentrated sector. Nevertheless also BND and Ingro complained on the lack of uniformity in the implementation of the European policy. According to the Flemish cooperatives, the lack of uniformity and control hinders the functioning of the free market and especially weakens the smaller cooperative's position.

### **5.4 Risk management**

The EU encourages cooperatives to establish risk management systems. Two different types of risk management systems have been distinguished. The first is applied by BND and is based upon solidarity. The second is used by COÖBRA and is basically an insurance system. Both methods guarantee income support in the case of crop failure. BND however also uses the solidarity funds to buy surplus production. This must prevent a drop of prices. The EU on the other hand argues that this might stimulate overproduction. This would complicate alignment of supply and demand. Therefore, the EU enabled cooperatives to also apply for financial support for insurance premiums.

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