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Challenges for the Global Agricultural Trade Regime after Doha

COOPERATIVES IN INTERNATIONAL TRADE OF AGRICULTURAL AND FOOD PRODUCTS

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Abstract: The cooperative sector is an indispensable and integral part of the global economy; includes cooperatives ranging from small-scale to multi-million dollar businesses in all sectors of the economy, count over 800 million members and provide 100 million jobs – which is 20 percent more than multinational company. According to ICA Global 300 list, the largest 300 cooperatives in the world generate revenue of 1,600 billion US dollars (2010), which is comparable to the GDP of the Russian Federation or Spain and occupies the ninth place among the world's largest economies. The paper analyze the contribution of cooperatives to the development of international trade in agricultural and food products, starting from agricultural cooperatives which organized small farmers and involve them in local, national and world trade, to the consumer cooperatives that have managed to survive in spite of strong competition and increasing prices of agricultural and food products and the global economic crisis, and which significantly contribute to the international trade fair. The paper consists of two parts. In the first part is given the analysis of the contribution of the largest cooperatives in the world according to the list by Global 300 list, with special emphasis on the importance of agricultural cooperatives in the local economy, both in terms of reducing unemployment, as well as in the production of agricultural and food products. In the second part of the paper is presented the genesis of the development of a major international cooperative trade event – ICA Expo-Coop, which is a cooperative international fair that was held eight times in the period since 2004 to 2012. Based on the development of this international manifestation, the number of cooperatives exhibitors and visitors, and other important information, it is possible to observe how cooperatives participate and promote the development of international trade of agricultural and food products. It was particularly emphasized that the cooperative sector and ICA Expo-Coop are not adequately recognized and represented in the activities of the WTO after the Doha round.

Keywords: cooperatives, trade, agricultural and food products, cooperative fair.

INTRODUCTION

In condition of globalization and increased competition in the international market, cooperatives are faced with the need to connect across the national borders, in order to achieve the objectives of its members' at the most adequate way. The role of co-operatives, particularly agricultural, is continually changing, and their contribution should be considered not only in terms of meeting the economic needs of members, but also by improving the local community. As the competition in the agribusiness become more firm, agricultural cooperatives have significant contribution in food production, especially for the local population. Cooperatives in the European Union (EU) in addition to this face the changes and the level of support that national governments provide to farmers, so there is a need to adjust the new common agricultural policy.

In the paper is uses the method of document analysis of the relevant international organizations that support the development of the cooperative sector. Due to the relatively weak cooperative statistics, which is recognized as one of the limiting factors in the promotion of cooperatives by the International Cooperative Alliance (ICA), it is extremely difficult to make assessments of the situation in the cooperative sector in individual countries, and in particular about the market share of cooperatives. In addition to the documents of ICA and other organizations that promote cooperative work (such as FAO, COPAC, CICOPA), one of the major sources of data was the final report recently completed (in March 2013) created as the result of the project implemented by the European Commission in support of agricultural cooperatives in the European Union.

To maximize the contribution achieved for their members, the agricultural cooperatives are forced to engage in international trade, but at the same time respecting the constraints imposed by their identity, which is expressed in the cooperative principles. In this sense, cooperatives participate in the international market under certain conditions, which are implemented in the so-called fair trade. The most effective way of achieving trade relations between cooperatives in the global market is under the auspices of international organizations that promote the development of cooperatives, such as Cooperative Fair organized by the International Cooperative Alliance.

1. ICA GLOBAL 300 LIST – THE BIGGEST COOPERATIVE ORGANIZATIONS IN THE WORLD

The Global 300 list is a document published by the International Cooperative Alliance since 2004 with the aim of identifying the 300 largest cooperatives, cooperative organizations and cooperative companies ranked by total revenues in the previous calendar year. This document is intended to inform the general

public about the possibilities of cooperatives and to promote the cooperative sector, pointing to the achievements of cooperative enterprises expressed primarily in economic indicators (capital turnover and asset value for the last two years), and other relevant data (year of establishment, activity, country of origin, a short information about the cooperative).

Last available ICA Global 300 list 2011 presents data on the cooperative business in 2010. According to this document, the biggest 300 cooperatives in the world reported revenue of 1,600 billion US dollars, which is comparable to the GDP of the world's ninth largest economy. According to the share in the total revenue, the highest share have agricultural and forestry cooperatives (29%), followed by credit unions and cooperative banks (26%), and then the consumer cooperatives (22%). Highly represented are the cooperatives for insurance (17%), while the share of other cooperative activities is relatively modest (health and handicraft cooperatives – both with 2%, and services cooperatives and other cooperative activities by 1%).

Regarding the territorial distribution of the 25 countries the most are represented cooperatives from France, which achieved 28% of the total revenue of 300 cooperatives. In fact, of the top ten, seven are from Europe (Germany 14%, Netherlands 7%, UK 4%, Switzerland 3.5%, Italy and Finland at 2.5%),[1] but among them the also United States (16 %), Japan (8%) and Korea (2%). It should be noted that in each country represented at the ICA Global 300 list at least one of the cooperatives are agricultural, which indicates that agricultural cooperatives can be extremely economically successful and meet the needs of a large number of members – farmers.

It is interesting to note that the cooperatives in transition countries, in particular from countries from the former Yugoslavia are not represented at all, and that cooperatives from developed countries, usually with a long cooperative tradition dominate.[2] These data could indicate that the external environment in which

[1] Among cooperatives from European countries, there are significant differences. Iliopoulos and Valentinov (2012) ranked the agricultural cooperatives by the turnover in 1997 (in million ECU/agricultural cooperative), and concluded that the strongest economic cooperatives were in Sweden (164.8 million ECU/agricultural cooperative) and the Netherlands (89.2), the middle group consisted of Denmark (18.8), France (14.5) and Spain (1.4), while Greece was at the bottom (0.1). Note: ECU (European Currency Unit) – the unit of account of the European Community that existed before the introduction of the Euro on 1 January, 1999.

[2] This, however, does not mean that cooperatives are not important in less developed countries. In Brazil, cooperatives accounted for 37.2% of agricultural GDP and 5.4% of overall GDP in the 2009. In Kenya, the savings and credit cooperatives have assets worth US$2.7 billion, accounting for 31% of gross national savings.
http://www.fao.org/news/story/en/item/93816/icode

cooperatives operate may affect their business success, as the most successful cooperatives are those from highly developed countries. Unfortunately, these data do not indicate their ability to sell their products on the market, or do not provide insight into which channels, how and in what markets cooperatives distribute their products.

In the literature has been argued that cooperatives can contribute to the improvement of trade in international markets, particularly of agricultural products. McNamara (2007) stated that the cooperatives used the advantages of international trade to achieve economic benefits for their members. One of the main advantages of cooperative involvement in international trade is reflected in the transmission of ideas and principles on which they rest on a higher level. Since the foundation of the first consumer cooperatives, they respect the principles of fair trade and on them build their businesses. Consequently, cooperatives apply the same rules in international trade. As an example of the successful application of these principles of business we can explain organization Equal Exchange, established in 1986.[3] Initially organized as worker cooperatives, today this organization expanded its activities and became involved in international trade mainly of coffee, chocolate and tea, operating with agricultural cooperatives from 14 countries, achieving annual sales worth U.S. $ 20 million. Equal Exchange not only respects the principles of fair business in international trade, but also in the internal governance. Although they allow outside investors to invest in the organization, maily to raise funds to help primary cooperatives of which purchased agricultural products, 400 foreign investors are represented with only three representatives on the board of nine members. At the present stage of development, this worker cooperative can afford the luxury of insisting on the application of the principle of cooperate with cooperatives, operating exclusively with cooperative organizations.

The available data on the co-operative sector does not provide enough information to be able to accurately determine the role of cooperatives in the international market. Database which contains data on agricultural production in different countries around the world, such as the FAO, and on foreign trade, such as the UN ComTrade, do not record product by sector of origin, while the ICA is still making efforts to introduce adequate and timely database the co-operative sector. In the absence of these and similar sources, the role of cooperatives in international trade can be inferred only indirectly. Therefore, we analyzed one of the events providing cooperatives the opportunity to display their products and create significant business alliances within and outside the cooperative sector, and to represent their products in the best way.

[3] More about this cooperative organization at http://equalexchange.coop/about

2. THE INTERNATIONAL COOPERATIVE FAIR

Every year on the first Saturday in July, ICA celebrates International Day of Cooperatives – event created to promote cooperative ways of organizing all around the world. Within this manifestation, various exhibitions, competitions and fairs are organized; in order to connect cooperatives from different countries and to introduce the wider public about the achievements of the cooperative movement and the products of primary cooperatives. Based on this idea, the ICA launched by the International Cooperative Trade Fair (ICA Expo-Coop) – specialized event at which products from the cooperative sector are displayed.

Although the International Cooperative Fair called ICA Expo-Coop is organized since 2008, the first event of this kind was held in 2004 in Sao Paulo (Brazil) entitled Fenacoop[4] organized by the National Cooperative Organization Fenacoop Brazil. While in the initial phase of this event it was organized at the national level, it soon reached international significance. According to Luiz Branco, President of the ICA Expo, the importance of this organization is increased from the time of the first fair held in 2004.[5] By obtaining international character and going under the wing of the ICA (Lisbon, 2008), the number of exhibitors and visitors at the cooperative fair has increased significantly. (Graph 1) Of the initial 5,000 visitors recorded at the first cooperative fair in 2004, less than a decade later in Manchester 2012 the cooperative fair was visited by 11,000 visitors who had the opportunity to see products of 160 exhibitors.

The contribution of the International Cooperative Fair is reflected in the presentation of the product from cooperative sector, but also in the promotion of cooperation among cooperatives – one of the seven basic cooperative principles adopted by the ICA in 1995 at the XXXI Congress in Manchester. This organization contributes to the unity of the international cooperative movement and creating of the strategic alliances between cooperatives in different countries and continents. Summing up the results of ICA Expo held in 2012, it was noted that 80% of business cooperation occurred after the event was within the cooperative sector, while 20% included representatives of other sectors. Obviously, such a large and important event contributed to connecting and strengthening not only the individual cooperatives, but also their mutual association.

Despite the importance for the cooperative sector, the fair has a promotional role, especially in familiarizing the general public with the potentials of all, and

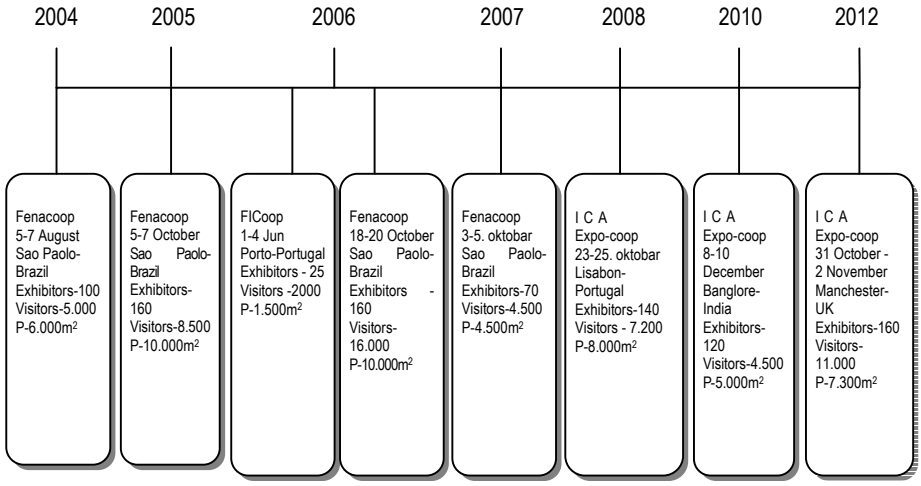
[4] Fenacoop – Feira Internacional de Cooperativas, or the International Cooperative Fair.
[5] http://www.icaexpo.coop

especially agricultural cooperatives, which is of great importance, particularly at a time when the contribution of cooperatives of improving the economic and social status of members is denied and undervalued. ICA Expo-coop is of great importance for agricultural cooperatives, since in the structure of the displayed product are dominate food and beverages, especially of higher quality products that are competitive in the international market. Ševarlić and Nikolić (2011) reported that exhibitors at the International Cooperative Fair may be:

- ICA members organizations;
- Primary cooperatives from around the world regardless the type (agricultural, producers, tourist, health, workers, energetic, financial, manufacture, …);
- Organizations supporting co-operatives;
- Government entities and ministries in charge of cooperatives; and
- Suppliers of goods and services to the cooperative sector.

In the period of the organizing international fair by Fenacoop, from 2004 to 2007, these manifestations were annual, but in 2006 two fairs were held, one in Sao Paulo and the other in Porto (Portugal). The aim of the fair in Portugal was to expand the market of Brazilian Cooperatives in Europe, while creating export and strategic partnerships.[6] This tendency received a new; important dimension two years later by organizing ICA Expo-coop.

Graph 1 Evolution of the International Cooperative Fair



Source: http://www.icaexpo.coop

[6] http://www.cooperativismo.org.br/cooperativismo/noticias/print.asp?id=2955

International Co-operative Trade Fair organized by the ICA, in line with initial plans, is held every second year, or from the time of the organization of the event called ICA Expo-coop there were organized three fair: in 2008 in Lisbon (Portugal), in 2010 in Bangalore (India) and within the celebration of the UN International Year of Cooperatives in 2012 in Manchester (UK).

The first ICA International Co-operative Trade Fair was held in 2008 in Lisbon, under the slogan "Co-operatives and companies interacting in order to do business, to increase and develop new customers and suppliers". Around 140 exhibitors from 25 countries from four continents presented their most quality products, which were manufactured in compliance with cooperative principles and presented in an event that promotes fair business. The great success of this event has been confirmed two years later, when in Bangalore were organized an international cooperative fair which was attended by over 120 organizations from more than 20 countries dominated by cooperatives in Asia. At this fair, some of the large and successful cooperatives, which were included on the ICA Global 300 list, such as IFFCO (*Indian Farmers Fertiliser Co-operative Limited*) from India, *Ja-Zechen* from Japan and *The Co-operative Group* from the UK exhibited their products. The largest ICA Expo-Coop was held in 2012 in Manchester (UK), with the participation of co-operatives from 36 countries from all continents except Oceania. The significance of this three-day event is reflected in the growing interest of non-cooperative companies that participated in the fair and expressed a desire and willingness to collaborate with co-operatives.

The genesis of the International Cooperative Fair points to the potential and interest in the products of the cooperative sector. Although the results of this event, observed by increasing number of exhibitors, visitors and representatives of non-cooperative sector are impressive, there is a need to support products with origin of the cooperative sector by the international community in order for them to be adequately presented to consumers. However, the WTO does not recognize the importance of cooperatives as participants in international trade. Actually, cooperatives should be presented by an international organization that would represent the entire cooperative sector, regardless of the activity, to take an active role in the formation of trade flows in the negotiations in the WTO. This way it would be possible to ensure the respect of the cooperative sector in the process of liberalization of international trade. (Benander and Livingston, 2007: 2)

At the same time, cooperatives need help to reach a certain level of development and sell their products in foreign markets. One of the successful examples of government intervention not directly in the cooperative sector, but in creating an adequate environment for their business, was recorded in Ethiopia in 2001, when

the government changed the legislation allowing the cooperatives of coffee producers to expand their business and directly export their products.[7] This put to an end the previous practice when coffee was sold through a national organization in which the products of different quality were mixed, resulting in a lower price for this product in the international market. Technical assistance and training to the cooperative sector provided the International Labour Organization, primarily to youth and women. In this way, coffee producers have received the necessary assistance not only in the production of coffee, but they were able to sell high-quality products in international markets and achieve significant economic benefits. In accordance with cooperative principles, members of primary cooperatives in many cooperatives have invested part of the surplus generated in a cooperative in local infrastructure, such as roads, health facilities and schools. In this way, these co-operatives have confirmed their social role.[8]

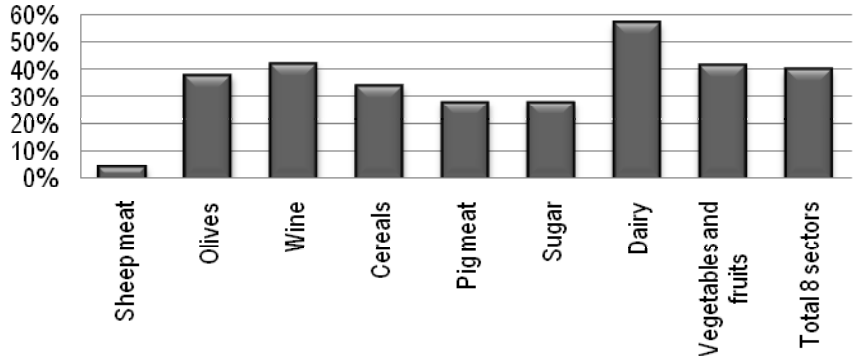
However, to achieve a certain degree of cooperative development required to produce and / or process sufficient quantities of products for marketing in foreign markets, it is necessary to overcome the local frame in which they usually business and increase their membership. In the EU, agricultural cooperatives significantly differ in size and placement of the final product. Agricultural cooperatives in countries in Northern Europe have reached in significantly greater extent the required level of development, often through various forms of merger of two or more cooperatives, than the ones in central Europe and the Mediterranean. Cooperatives in Southern Europe are usually smaller, which among other things can be attributed to a lower degree of confidence of the cooperative members and management in to merging processes, despite the trend of reducing the number of cooperatives and increase the scope of their business. (COGECA, 2010: 29)

According to the research presented in the final report of the European Commission's support to agricultural cooperatives in the EU, agricultural cooperatives play a marginal role in some countries (especially in a group that joined the EU in the last expansion), while in other countries (particularly in the countries of Northern Europe, which is consistent with the previous paragraphs) have a very significant share on the market for agricultural products. The Graph 2 shows the market share of agricultural cooperatives in eight sectors of agricultural production, as well as the average value for all sectors at the EU-27 level.

[7] The importance of cooperatives of coffee producers in this country can be explained by the fact that they account for 94% of the total coffee production.

[8] http://sustainabledevelopment.un.org/index.php?page=view&type=99&menu=1299&nr=31

Graph 2 Market shares of cooperatives in EU by sectors of agricultural production in 2010



Source: Bijman Jos et al. (2012): Support for Farmers' Cooperatives – Final Report. European Commission, page 11.

The largest market share is recorded in the dairy and vegetable and fruit sector, while significantly lower market share of agricultural cooperatives is in the production of meat, which can exist because cooperatives purchase live animals from farmers and sale them to slaughter industry that is not in the cooperative property. However, it should be noted that in some countries, agricultural cooperatives have a significant market share in these sectors, due to the high degree of vertical integration.

Market share of agricultural cooperatives in the EU is 40%, but if exclude some of the countries with low market share such as the United Kingdom, Romania, Bulgaria, Cyprus, Luxembourg, market share would increase to 45%. There are significant differences in the share of agricultural cooperatives in the markets in individual countries: in Finland is over 70%, in the Netherlands, Denmark and Sweden between 60-70%, while in Latvia and the United Kingdom is below 10%, and in Romania, Bulgaria, Cyprus and Luxembourg is negligible.

CONCLUSION

The contribution of agricultural and other cooperatives to local development in rural areas, the production of sufficient quantities of food and improving the economic status of members is indisputable, both in developed and in developing countries. The main obstacle, however, for recognizing the position of cooperatives in international trade flows is the lack of adequate data base, and therefore of the phenomenon can be inferred only indirectly. By its nature,

cooperatives represent organizations of small-scale producers, consumers or other groups of related individuals that through membership in the cooperative tend to meet specific needs. That is why cooperatives work primarily locally, or on smaller territory. To be able to expand its scope, it is necessary to reach a certain level of development, so that they can popularize membership and expand their production and be able to sell their products not only at the national but also in the international market.

One of the benefits of cooperative involvement in world trade is respect for the values and principles in accordance with which the cooperatives are established, which is manifested by a fair trade. In order for them to be able to counteract profit-oriented enterprises in such circumstances, cooperatives are primarily directed to each other and to respect the principle of cooperating with other cooperatives. Government help in promoting cooperatives at the international level should be mirrored in the elimination of barriers to entering foreign markets and providing institutional support. However, even in such circumstances, cooperatives will best display and sell their products if these activities take place under the auspices of international organizations sympathetic for the co-operative movement, and in particular the International Cooperative Alliance. Therefore, the organization of events such as the ICA Expo-coop (International Co-operative Trade Fair) is of great importance for the realization of business contacts among cooperatives, promote their products, introducing the general public with the quality and conditions of production and marketing of the final product, but also for connection of cooperatives with other organizations willing to cooperate.

Although the majority of cooperatives are focused locally, a number of cooperatives that reached a certain level of development can take part in international trade and place its products in foreign markets. Usually those are large cooperative systems that generate millions in revenue and a significant market share in the national markets. To refer to these examples of successful cooperative practices, ICA publishes Global 300 list of the most successful cooperative as a “weapon” in the hands of the cooperative sector, and is used to indicate to the public the contribution of cooperatives. In addition, some surveys, such as the recently completed project of the European Commission’s support to agricultural cooperatives in the EU, provide valuable information on market share of some types, in this case, agricultural cooperatives. In countries where the cooperative sector had a dramatic ups and downs in the past (most often in countries in transition), agricultural cooperatives have a negligible share of the market for agricultural products. However, in other EU countries, cooperatives have a very high market share, which may amount to more than 70%, as is the case in Finland.

These data indicate that the cooperatives have significant potential for participation in international trade, and that they achieve the best results in cooperation. There is a need for greater involvement of national governments and international organizations in support of cooperatives and the creation of adequate conditions for their participation in the international market and representation in negotiations with the World Trade Organization.

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