

Doctoral Thesis 2013

Agricultural Cooperatives: An analysis of legislative, policy and organisational change

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legislative, policy and organisational change

TESIS DOCTORAL

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2013

Agricultural Cooperatives: An analysis of legislative, policy and organisational change

Memoria presentada por Doña Cynthia Lynn Giagnocavo para optar al grado de doctor con mención internacional.

Almería, 2013

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To Lucien, Sam and Antonio

If co-operatives, co-operators and their movements are to accomplish anything distinctive and permanent, they must ultimately be concerned with ideas not just groceries and interest rates though they too are important.

Plenary Presentation for IASCE Conference
Manchester, England
June, 2002

Prof. Ian McPherson

Acknowledgements

This list is only a partial list of the so many people I have to thank:

My advisor Prof. Luis Fernández-Revuelta Pérez for his absolute support, encouragement and unfailing good humour. It has been a great adventure.

Prof. Carlo Borzaga, Dr. Giulia Galera and the many wonderful people at The European Research Institute on Cooperative and Social Enterprises (EURICSE) in Trento, Italy, who changed the way I thought about enterprise.

Prof. Ian McPherson of Victoria, British Columbia, who took the time to nudge me in the right direction.

Prof. Carlos Vargas Vasserot and Prof. Marina Aguilar whose generosity of academic spirit has been greatly appreciated.

Prof. Hagen Henry with whom I have spent enjoyable times thinking like a lawyer, without having to apologize for it.

My many colleagues in the Faculty of Economics and Business at the University of Almería who have been so helpful over the years and Prof. Carmen Caba, in particular, who kept an eye out. Thanks as well to María del Mar Galvez and Silvia Gerez.

To the many people at Coexphal who have been my open class on cooperatives, especially Juan Colomina, José López y Francisco Rubio.

To Prof. Juan José Gimenez Martínez who inadvertently set this all in motion.

To Prof. Antonio Cazorla who tells a good (hi)story.

To my sister Susan whose love of ideas has guided me over these so many years.

Financial support by the University of Almería and Cajamar Caja Rural through the Plan Propio and by the Cátedra Cajamar is gratefully acknowledged

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List of abbreviations

APO	Association of Producer Organisations
CAP	Common Agricultural Policy
CEC	Cooperativas de Explotación Comunitaria (Community exploitation of common lands co-operatives)
CMO	Common Market Organisation
CUMA	Cooperativas de utilización de maquinaria (Co-operatives with common use of machinery)
F&V	Fruit and Vegetable
FAECA	Federación Andaluza de Empresas Cooperativas Agrarias (Andalusia Federation of Agricultural Cooperative Companies)
FEAGA	Fondos Europeos Agrícolas de Garantía (European Agricultural Guarantee Fund)
FEGA	Fondo Español de Garantía Agraria (Spanish Agricultural Guarantee Fund)
FEOGA	Fondo Europeo de Orientación y Garantía Agrícola (European Agricultural Orientation and Guarantee Fund)
FEPEX	Federación Española de Asociaciones de Productores Exportadores de Frutas, Hortalizas, Flores y Plantas Vivas (Spanish Federation of Export Producers Associations for Fruit, Vegetables, Flowers and Live Plants)
ICA	International Cooperative Alliance
ILO	International Labour Office
IFO	Investor Owned Firm
MARM	Ministerio de Agricultura, Alimentación y Medio Ambiente (Ministry of Agriculture, Food and Environment)
NIE	New Institutional Economics
NGC	New Generation Cooperative
OP	Operational Programme
OSCAE	Observatorio Socioeconómico del Cooperativismo Agrario Español (Socio-economic Observatory for Spanish Agricultural Cooperativism)
PO	Producer Organisation (recognized)
PRT	Property Rights Theory
SA	Sociedad Anónima (Anonymous Company)
SAT	Sociedad Agraria de Transformación (Agricultural Company of Transformation)
SCA	Sociedad Cooperativa Andaluza (Andalusia Cooperative Company)
SL	Sociedad Limitada (Limited Company)
SME	Small and Medium Enterprise
TCE	Transaction Costs Economics
UTECO	Unión Territorial de Cooperativas Agrarias (Territorial Union of Agricultural Cooperatives)
EU	European Union

Chapter 1. Introduction and Importance of Topic and Description of Structure of Thesis

1.1 Resumen

1.1.1 Tema de la Tesis

Las cooperativas agrarias han sido el objeto de cambios políticos, legislativos y organizacionales frecuentes que han buscado tanto hacerlas más competitivas como, simplemente, garantizar su supervivencia. Detrás de muchos de estos cambios ha estado a menudo la lógica de esquemas organizativos y teorías económicas más propias de compañías de inversores privados (Investor Owned Firms o IOF), con características propias de las del contrato y de los derechos de propiedad, que ignoran otras formas empresariales y sus particularidades. El reajuste de los derechos de propiedad, relaciones contractuales y derechos de control relacionados (gobernanza), propuestos como “remedios” a “debilidades” identificadas, han sido examinados desde la perspectiva de las teorías de la agencia, de los derechos de propiedad, del contrato incompleto, y la de los costos económicos de las transacciones (variantes de las New Institutional Economics o NIE) y criticadas usando la teoría institucional, de contratos relacionales, estudios críticos legales y, finalmente, contribuciones provenientes de la teoría cooperativa. La teoría institucional guía esta investigación mientras explica la doble cuestión de por qué y cómo ciertas caracterizaciones del contrato y de la propiedad, y sus correspondientes teorías económicas institucionales, acabaron atrincherándose en los análisis de las cooperativas de tal modo que éstas han acabado siendo evaluadas desde los parámetros de los IOF. Para suplementar la teoría institucional y la cooperativa, en esta tesis se han utilizado las muy valiosas reflexiones del trabajo de Elinor Ostrom (2005) sobre la diversidad de las formas organizativas, instituciones de acción colectiva (1990), la gobernanza de la propiedad común y los “campos de acción”.

Aunque el campo teórico sobre las cooperativas es muy amplio, los análisis de las implicaciones sobre la “teoría cooperativa de la compañía” están a menudo lastrados por su énfasis en las cooperativas agrarias. La literatura económica usual no suele tener en cuenta la forma cooperativa de negocios que depende de una atribución de derechos de propiedad que no encaja con la visión dual de “mercados (derechos de propiedad autónomos y diferenciados poseídos por las partes intervinientes en un intercambio comercial) y “compañías” (con derechos de propiedad definidos en una estructura legal) (Ménard, 2007). Como resultado, el legislador y el administrador públicos todavía tienen dificultades para crear marcos que recojan o respondan a las características del cooperativismo: tratan a las cooperativas como algo “especial” (no comercial y por lo tanto

débil, y socialmente orientadas), aberrante (cuando no anacrónico) o, a veces, como si fuesen una compañía normal. Una tendencia relacionada con esto es tratar a las cooperativas como una compañía normal pero luego exigir su orientación social y su comportamiento sostenible.

Teniendo en cuenta las características de la empresa cooperativa, como forma “híbrida” de negocio, exploramos el caso específico de las cooperativas agrarias como un ejemplo del reajuste de los derechos de propiedad y de control. En el trabajo de Williamson (1994) y de Ménard (2012, 2007) la observación de los híbridos ofrece un paso adelante hacia un marco teórico para el estudio de las formas cooperativas, del “mutualismo” y del modelo de asociación en ciertas cooperativas italianas. Se contemplan aquí dos formas distintas de interpretación de los híbridos en relación a las cooperativas: primero, la tendencia de la cooperativa tradicional a adoptar las características propias de la compañía propiedad del inversor y, segundo, la de las fórmulas varias que no caben dentro de las relaciones de mercado puras ni con los límites de la empresa (este es el caso de las cooperativas). Ostrom (1990, 2005) demostró la variedad de estructuras empresariales que surgieron durante el manejo de los bienes comunales (esto es, “instituciones de acción colectiva”) y la diversidad de formas que puede adoptar un proyecto económico. Su análisis de los derechos de propiedad y de la naturaleza de las relaciones contractuales es de utilidad para el estudio de las cooperativas agrícolas (a pesar de que su análisis institucional y su esquema de desarrollo es extremadamente complejo y no será aplicado aquí completamente).

Con respecto a la definición legal y la preocupación por la integridad del ADN de la cooperativa, el trabajo de Henry (2012) es usado para establecer las características esenciales de la “ley cooperativa”, y el de Zamagni y Zamagni (2010) es utilizado para la defensa del modelo de negocio cooperativo.

Reconociendo que el derecho es solo una, entre muchas instituciones interrelacionadas, esta tesis se centra en las estructuras organizativas y de gobernanza, circunstancias culturales e históricas y contextos institucionales generales, que permitiendo u obstruyendo, tienen un impacto en las cooperativas agrícolas. Se identifican los factores relevantes endógenos y exógenos que influyen en el éxito del cooperativismo agrario. Para ello se usa una aproximación multidisciplinar que se basa en teorías y perspectivas provenientes de áreas como el derecho, la sociología, la economía y los estudios empresariales. También se usa un análisis institucional a varios niveles (tal y como se describe en la sección de Metodología del Capítulo 4).

Con el fin de centrar y aplicar la parte teórica de esta tesis, las cooperativas agrarias en España son examinadas a través de ocho subsectores, para lo que se usa una metodología mixta (cualitativa, cuantitativa, encuesta y estudio de casos) a fin de establecer su posición en el mercado, identificar los factores que contribuyen a su éxito o fracaso, los retos a que se enfrentan y los marcos legislativos, políticos y organizativos que han sido o están siendo impuestos. Se hace un análisis a varios niveles: estatal (legislación y política), sector (las cooperativas agrarias españolas), subsector (ocho subsectores), a nivel de la empresa agraria cooperativa (encuesta de cooperativas), y de comunidad (el grupo o *cluster* de cooperativas de Almería; véase la referencia al caso estudiado más abajo).

Un reto central para el sector de las cooperativas agrarias es el de los desequilibrios en la cadena alimentaria. Esta cuestión ofrece un área en la que estudiar las cooperativas agrarias, la identificación de sus éxitos y fracasos, y la legislación y políticas que se han implementado para “arreglar” el problema, y que a menudo se basan en asumir los principios de teorías económicas basadas en IOF. El análisis comienza con los siguientes factores relacionados con las cooperativas: i) posición en la cadena alimentaria, ii) gobernanza interna, y iii) contexto institucional. De esto se hace un análisis más detallado en el Capítulo 5, donde se identifican y evalúan la legislación y las políticas que afectan a las cooperativas agrarias españolas. Es ahí donde el contraste entre la situación de las cooperativas agrarias de España, incluyendo sus necesidades, y las “soluciones” legislativas y políticas se hacen más evidentes.

También se consideran los intereses encontrados que se aprecian en la legislación y políticas de cooperativas (por ejemplo, la adopción de medidas tipo “inversor propietario” y un énfasis en el crecimiento contra objetivos sociales y la identidad cooperativista) y la disonancia estructural entre el propósito, objetivos y fuerzas. Además, se examinan la “sabiduría aparente” de los remedios legislativos y organizativos para la “debilidad” del cooperativismo para ver hasta qué punto aquélla ha sido necesaria, desde una perspectiva empírica, en España.

Yendo de lo general a lo específico, el estudio en profundidad de un caso pondera el desarrollo de las cooperativas de frutas y hortalizas de Almería utilizando el trabajo de Cook y Burrell (2009) sobre la estructura del ciclo cooperativo donde las cooperativas no son tratadas como algo estático o un “nexo de contratos”, que produce conflictos y cuestiones de tipo legal y de propiedad, sino como un proceso dinámico en el que quienes toman las decisiones en la cooperativa tienen una posición única para seleccionar “soluciones regeneradoras”. Esta estructura conecta con las teorías de Ostrom sobre la

acción colectiva y la diversidad de las formas de empresa dentro de un “campo de acción” antes mencionadas, ilustrando que las cooperativas agrícolas pueden vencer muchos de los problemas de la forma de negocio cooperativo identificadas por las teorías NIE cuando se apoyan de manera decidida en las instituciones y valores cooperativos, en vez de adoptar estrategias IOF.

Mientras que la estructura del ciclo vital de Cook y Burrell es aplicable a cooperativas específicas, aquí es usado para examinar el *cluster* de cooperativas de frutas y hortalizas de Almería. Como resultado, esta tesis señala la validez de comprender la legislación y las iniciativas políticas hechas a medida de las necesidades de los diferentes tipos de cooperativas agrarias basándose en su estado particular de crecimiento (Justificación Económica; Diseño Organizativo; Crecimiento-Gloria-Heterogeneidad; Reconocimiento e Introspección; y Decisión). Además, la estrategia (por ejemplo, cooperativas locales, de sector, nacionales e internacionales) se considera relevante para una efectiva toma de decisiones políticas.

Las conclusiones se basan en una síntesis de los resultados obtenidos del análisis cuantitativo y cualitativo de las cooperativas españolas y del caso de Almería.

Esta tesis ofrece una visión global de las cooperativas agrarias españolas y de la influencia de los contextos institucionales. También contribuye a la todavía escasa literatura multidisciplinar sobre la relación de la teoría legal y las teorías económicas (derechos contractuales y de propiedad que fundamentan nuevas economías institucionales y conceptos económicos y estructuras) y sus influencias en las iniciativas legislativas y políticas en relación con la organización de las cooperativas agrarias.

1.1.2 Estructura de la Tesis

El Capítulo 1 introduce la importancia y justificación del tema de la tesis, refiriéndose no solo a la importancia económica de las cooperativas en general y de las cooperativas agrarias en particular sino también al impacto potencial para los temas de la economía general, la sociedad y el medio ambiente en la Unión Europea.

El Capítulo 2 presenta y revisa la literatura multidisciplinar y las bases teóricas de las que parte esta tesis. La revisión de la literatura incluye los temas de las cooperativas y las entidades empresariales sociales, las teorías económicas y organizativas de la empresa (teoría de la agencia; teoría de los derechos de propiedad/del contrato incompleto; costos económicos de las transacciones y la teoría de la nueva economía institucional), teoría institucional y la teoría del contrato y de la crítica legal (teoría del contrato; estudios de

critica legal; teoría del contrato relacional). Se incluyen las teorías híbridas de la compañía y se presentan las iniciativas legislativas que resultan en entidades híbridas.

El Capítulo 3 desarrolla la hipótesis que será discutida a partir de ahora y los objetivos generales y específicos relacionados. El Capítulo 4 describe y justifica las metodologías escogidas. La que resulta más apropiada al tema es la de “varios niveles” y la “Mixta” que incluyo datos empíricos, encuestas, estudios de casos, entrevistas con expertos y actores sectoriales, y su triangulación. Tanto los métodos cuantitativos como los cualitativos son empleados aquí.

El Capítulo 5 ofrece una visión general de las cooperativas agrarias en España. El análisis de ocho sub-categorías de cooperativas agrarias forma el corazón de la investigación en esta tesis, donde se combinan análisis cuantitativos con los cualitativos. Se incluyen aquí los resultados de una encuesta de las cinco principales cooperativas (por volumen de negocio) de cada sector, en total 32 cooperativas (algunos sub-sectores no tienen esas 5 principales cooperativas, y otras están presentes en más de un sub-sector). Además, este capítulo contiene una revisión extensa comentada de la legislación y políticas que afectan a las cooperativas agrarias.

El Capítulo 6 se basa en el trabajo del capítulo previo y presenta el estudio del caso del sector cooperativo almeriense de frutas y hortalizas, incluyendo, como tema central, su relación con el cooperativismo crediticio. El tema es importante ya que la teoría económica tradicional ha mantenido durante mucho tiempo que uno de los problemas inherentes de las cooperativas es la falta de capital y de acceso al crédito. La reciente ley andaluza de cooperativas es analizada desde la perspectiva de su relevancia e idoneidad para los retos a los que se enfrentan estas cooperativas.

El capítulo 7, que es una síntesis del trabajo, analiza y combina las observaciones teóricas del Capítulo 2 con los resultados de los Capítulos 5 y 6, que son discutidos en el contexto de las hipótesis. El Capítulo 8 presenta las conclusiones de la tesis, mientras que el Capítulo 9 identifica futuras áreas de investigación

1.2 Summary

1.2.1 Theme of Thesis

Agricultural cooperatives have been subject to frequent policy, legislative and organizational change in order to address competition and survival. As a rationale for many of these changes, organizational and economic theories based on investor owned firms (IOF) and related characterizations of contract and property rights have often been

utilized, ignoring other enterprise forms and their distinct characteristics. The readjustment of property rights, contractual relations and related control rights (governance) put forth as “remedies” to identified “weaknesses” are examined in agency theory, property rights theory, incomplete contract theory and transaction cost economics (variants of New Institutional Economics “NIE”) and critiqued using institutional theory, relational contract theory, critical legal studies and contributions from cooperative theory. Institutional theory guides the research into why and how certain characterizations of contract and property, and their corresponding institutional economic theories, came to be entrenched such that cooperatives are evaluated within an IOF framework. Insights from Elinor Ostrom’s work on the diversity of organizational form (2005), institutions for collective action (1990), the governance of common property and “action arenas” are used to supplement institutional and cooperative theory.

While the range of theories is wide, they are anchored in the analysis of their implications for the “cooperative theory of the firm” with emphasis on agricultural cooperatives. The standard economic literature does not take into account the cooperative business form which depends on an allocation of property rights that do not fit well within the traditional dualistic view of “markets” (autonomous and distinctive property rights held by parties who enter into market exchanges) and “firms” (with property rights unified within a legally defined structure) (Ménard, 2007). As a result, legislative and policy makers still have difficulty in creating frameworks which acknowledge cooperative characteristics: they treat cooperatives as “special” (non-market and thus soft and socially oriented), aberrant (including anachronistic) or as if they were the same as any other “regular” fully integrated firm. A related tendency is to treat the cooperative as a “regular” firm but then demand of it socially oriented and sustainable behavior.

Taking into account the characteristics of the cooperative enterprise, the cooperative as a “hybrid” form of business organization is explored as an example of the readjustment of property and control rights in agricultural cooperatives. Williamson’s later work (1994) and Ménard’s (2012, 2007) observations on hybrids provide a step towards a theoretical framework of cooperative organizational forms, as does the consideration of the role of “mutualism” and the multistakeholder model of certain Italian cooperatives. Two different interpretations of hybrids in relation to cooperative form are considered: first, the tendency of traditional cooperatives to adopt investor owned company characteristics and second, that of various arrangements which fall neither under pure market relationships nor within firm boundaries (cooperatives being such an arrangement). Ostrom (1990, 2005) demonstrated the various enterprise structures that arose whilst managing

common economic goods (that is, “institutions for collective action”) and the diversity of forms of economic enterprise. Her analysis of property rights and the nature of contractual relations are useful for the study of agricultural cooperatives (although her extremely complex Institutional Analysis and Development framework will not be fully applied herein).

With respect to legal definition and the concern for the integrity of the cooperative “DNA”, the work of Henry (2012) is used to set out the core characteristics of “cooperative law” and that of Zamagni and Zamagni (2010), amongst others, utilized as a defense of the cooperative business form.

Recognising that law is only but one of many inter-related institutions, this thesis will also focus on organizational and governance structures, cultural and historical circumstances and general institutional environments, both enabling and hindering, that have an impact on agricultural cooperatives. Relevant endogenous and exogenous factors will be identified that influence agricultural cooperative success. A multidisciplinary approach is used, relying on theories and perspectives from the areas of law, sociology, economics and business studies. A multi-level institutional analysis is used (described further in Methodology-Chapter 4).

To focus and apply the theoretical part of this thesis, agricultural cooperatives in Spain are extensively examined in eight sub-sectors, using a mixed methodology (qualitative, quantitative, survey and case study), in order to establish their position in the market, ascertain the factors which contribute to success or failure, the challenges they face and the legislative, policy and organisational “fixes” that have been or are being proposed. A multilevel analysis is performed at the state level (legislation and policy), sector level (Spanish agricultural cooperatives), sub-sector level (eight main sub-sectors), cooperative enterprise (farm) level (survey of cooperatives), and the community level (Almería cooperative cluster—see reference to the case study below).

A central challenge for agricultural cooperatives is the lack of balance in the food supply chain. This theme provides an arena in which to explore agricultural cooperatives, the identification of their success and failures and the legislation and policy that has been brought into force and that is proposed to “fix” the problem, often resorting to economic theories reliant on IOF assumptions. The analysis begins with those factors which relate to cooperatives’ (i) position in the food supply chain, (ii) internal governance, and (iii) the institutional environment. A more detailed analysis is then found within Chapter 5, identifying and evaluating legislation and policy which affects Spanish agricultural

cooperatives. It is here that the contrast between the state of Spain's agricultural cooperatives, including their necessities, and the legislative and policy "solutions" will be evident.

Competing interests of agricultural cooperative legislation and policy (e.g. adoption of "investor owned" measures and an emphasis on growth vs. social goals and cooperative identity) and the structural dissonance between agricultural purpose, objectives and strengths are considered. The "perceived wisdom" of legislative and organizational remedies for cooperative "weaknesses" is examined to ascertain whether there has been empirical support for the necessity of such measures in Spain.

Moving from the general to the specific, an in-depth case study considers the development of the fruit and vegetable (F&V) cooperatives of Almería utilizing the work of Cook and Burress (2009) with respect to the cooperative life cycle framework wherein cooperatives are treated not as a static "nexus of contracts" which produce property or contract issues or conflicts, but rather as a dynamic process throughout which cooperative decision makers are uniquely able to select "regenerative solutions". This framework dovetails into Ostrom's theories on collective action and the study of the diversity of enterprise forms within an "action arena", illustrating that agricultural cooperatives can overcome many of the problems with the cooperative business form identified by NIE theories by relying more heavily on cooperative institutions and values, rather than adopting IOF strategies.

While Cook and Burress' lifecycle framework is applicable to individual cooperatives, here it is extended to examine the Almería F&V cluster. As a result, this thesis also notes the usefulness of understanding legislative and policy initiatives tailored to meet the needs of different types of agricultural cooperatives based on their particular stage of growth (Economic Justification; Organizational Design; Growth-Glory-Heterogeneity; Recognition and Introspection; and Choice). In addition, strategy (i.e. local cooperatives, niche cooperatives, national cooperatives and international cooperatives) is considered relevant for effective policy making.

Conclusions are based on a synthesis of findings from the quantitative and qualitative analysis of Spanish cooperatives and the Almería case study.

This thesis provides a comprehensive view of Spanish agricultural cooperatives and the influence of institutional environments. It also contributes to the scant multidisciplinary literature on the relationship between theoretical legal and economic theories (contractual and property rights underpinnings of new institutional economics and

economic concepts and frameworks) and their influence on legislative and policy initiatives in relation to agricultural cooperative organization.

1.2.2 Structure of Thesis

Chapter 1 introduces the importance and justification of the thesis topic, referring to not only the economic importance of cooperatives and agricultural cooperatives but also the potential impact on general economic, social and environmental issues for the European Union.

Chapter 2 sets out the multidisciplinary literature review and theoretical base from which this thesis takes as its starting point. The literature review includes the subject matters of cooperatives and social economy entities, economic and organizational theories of the firm (agency theory, property rights theory/incomplete contract, transaction cost economics and new institutional economic theory), institutional theory and contract and critical legal theory (contract theory, critical legal studies and relational contract theory). Hybrid theories of the firm are introduced and legislative initiatives which result in hybrid entities are set out.

Chapter 3 develops the hypothesis which will be discussed herein and the general and specific objectives with which they are related. Chapter 4 describes and justifies the methodologies chosen. The methodology most suited to the subject matter is a “multilevel” and “mixed methodology” which includes empirical data, surveys, case studies, interviews with experts and sector actors and the triangulation of the same. Both quantitative and qualitative methods are employed.

Chapter 5 provides an overview of agricultural cooperatives in Spain. As well, an eight sub-sector analysis of agricultural cooperatives forms the research core of the thesis, combining both qualitative and quantitative analysis. Included in the study are the results of a survey of the top five cooperatives per sector (by turnover) resulting in 32 agricultural cooperatives in Spain (certain sub-sectors not having a top five, and others being represented in more than one sub-sector). In addition, Chapter 5 contains an extensive review and commentary on legislative and policy measures which affect agricultural cooperatives.

Chapter 6 builds on the work of Chapter 5 and presents a case study of the Almeria fruit and vegetable (F&V) cooperative sector, including its relationship with cooperative finance as a central institutional theme. This aspect is important, as traditional economic theory has long held that one of the main inherent problems in the cooperative form was

the lack of available capital and access to finance. The recent Andalusian cooperative law will be analysed from the perspective of its relevance and appropriateness for the challenges faced by such cooperatives.

Chapter 7, serving as a synthesis, will analyse and combine the theoretical observations of Chapter 2 and the results from Chapters 5 and 6 and discuss such results in the context of the hypotheses. Chapter 8 will set out the thesis conclusions while Chapter 9 will identify future areas of research.

1.3 Introduction of topic

The last 20 years (since 1992) have brought about a series of agricultural sector policy and legislative reforms by various European governments and institutions. While the Common Agricultural Policy (CAP) and proposed changes thereto, often dominate the conversation, it is accompanied by other relevant legislative and policy initiatives as the agenda in support of a sector that provides employment to more than 13.4 million farmers and 310,000 enterprises (Cogeca, 2010) is under continual adjustment. Agriculture of course does not just concern employment or food production, for it is an activity that occupies over 45% of the European Community's area, thus profoundly affecting general economic, social and environmental conditions in the European Union.

In light of this, wrapped up in any discussion of the "survival" of agricultural cooperatives and applicable agricultural legislation and policy will be a concern for social issues (e.g. rural development), efficient land use and increased production, environmental issues and a softer environmental "footprint", consumer demands and necessities, concerns about food security and safety and attempts to maintain a balanced agricultural food chain. The latter point is of particular importance as the downward trend on agricultural product prices, in large part caused by imbalances in the supply chain, has posed a severe threat to the stability and viability of the European agricultural sector (Baamonde, 2011; Euricse, 2010; Copa-Cogeca, 2010; DG Agri, 2009). In addition, like any other sector, agriculture is subject to the pressures of global competition and the need to consolidate and innovate, all the while being required to find adequate financing and credit to support its business activities. The quite extraordinary demands on this sector, as enumerated above, require solutions that need to address a broad range of socio-economic and environmental issues.

In Spain cooperatives are within the definition of "social economy" enterprises (Social Economy Law 5/2011, 29 March). Their dual role as economic enterprises and as autonomous self-help organizations, play a meaningful role in improving the socio-

economic conditions of their members and their local communities. Zamagni and Zamagni have referred to the cooperative as a “genuine, dual faced Janus” with two distinct if not conflicting dimensions. First the “economic dimension of the enterprise operates within the market and accepts its logic”, and as well, the second, social dimension pursues “meta-economic aims and produces positive externalities for other agents and for the entire community” (Zamagni and Zamagni, 2010:1). Levi (Levi, 2005) refers to them as the *enfants terribles* of organizations,

...cooperatives can be seen as symptoms of a wider phenomenon, namely the hegemony of the economic neo-classical paradigm which makes it so difficult to conceive an organizational model that blends the economic enterprise and the social concern...

In spite of the fact that the cooperative business form has progressively “disappeared” from economic and business textbooks (Kalmi, 2006) it is a business form that has been shown to be useful for many sectors, particularly agriculture (Hansmann, 1996, 1999; Hendrikse, 2004; Iliopoulos and Cook, 2005). The 2001 United Nations Guidelines sets out the creation of a supportive environment for cooperatives, as does the International Labour Organisation Promotion of Cooperatives Recommendation 2002 (ILO, 2002).

The year 2012 was declared by the United Nations as the International Year of Cooperatives (IYC) and the IYC materials noted that the cooperative business model is utilised by multinational, national and local enterprises, providing effective and competitive business solutions in a wide array of sectors (United Nations, 2011). Over the years, cooperatives enterprises have successfully operated member-owned people-centered businesses while also serving as catalysts for social and technical innovation and providing social organization and cohesion (Birchall, 2010).

Under the umbrella of the International Cooperative Alliance (ICA), it is estimated that one billion people are members of cooperatives. The 300 top cooperatives alone are responsible for an aggregate turnover of 2 trillion USD making them the size of the 10th economy of the world (ICA, 2012 based on 2010 figures¹). Cooperatives represent a model of economic enterprise, which when effectively implemented, promotes democratic and human values as well as respect for the environment. They represent another model of economic enterprise, amongst the diversity of available business forms, that promotes community self reliance and benefits society in general. Cooperatives create, improve and protect income as well as generate employment opportunities. As of 2007, cooperatives were responsible for more than 100 million jobs worldwide (ICA, 2012). The cooperative

¹ Information from ICA's webpage: <http://ica.coop/>

sector contributes to the achievement of the Millennium Development Goals by 2015 and represents an alternative to the bipolar model of market and state institutions, providing risk management, investment in new technologies, infrastructure to meet the increasing and diversifying demand for general services, all of which would not be possible for resource/capital poor communities. In both developing and developed countries, where state resources are particularly scarce due to the impact of the global financial crisis and other factors, cooperatives have the potential to meet needs and spur innovation and growth in a cost effective manner. In meeting the most basic of needs (in any society) such as food (agricultural production and distribution), water, energy and financial credit, cooperatives have a long history of success (Birchall, 2010).

However, as Henry (2012:1) points out, such recognition was a breakthrough, as for decades

many national government, regional and international, governmental and non-governmental organisations were reluctant to recognize cooperatives as a viable business model worthy of being promoted on an equal footing with what continues to be portrayed as the most efficient type of enterprise, namely stock companies.

Thus, another important point to consider in the economic and business analysis of any sector is the diversity of business forms present. Although cooperatives have been seen as being idealistic and anachronistic they have been recently gaining ground, not only in agriculture and finance, but also in other areas such as social and health services and other public services sectors such as electricity (Birchall, 2010). However, while diversity has been seen as a strength in other disciplines, “an open discussion on diversity in economics (meaning both diversity of enterprise types and diversity in the possible combinations of public and private sector roles in different economic systems) has long been taboo” (Borzaga, Ferri and Sabatini, 2011).

Since 2007 and the ongoing global financial crisis, the cooperative and similar socio-economic enterprises, have performed consistently well and have demonstrated a resilience often lacking in the for-profit maximisation, shareholder model, the latter economic model having disappointed far before the financial crisis, where

[g]lobalization and liberalization ignited intense growth in several emerging countries but many other nations were left behind. Deep inequality in income and wealth distribution grew almost everywhere. In the rich countries, the middle and low classes were able to temporarily preserve their living standards only by resorting to a remarkable accumulation of private debt. In most countries public debt was not curbed at all. Privatizations resulted neither in more efficiency nor in improved customer satisfaction. (Borzaga, Ferri and Sabatini, 2011; See also Stiglitz, 2012)

With respect to agriculture, the European Union Center for Research in Cooperatives and Social Enterprise in its submission to the EU Commission (EURICSE, 2010) noted that cooperative agriculture represents an “exceptional tool” which is able to both be an expression of the expectations of the community it belongs to and facilitate the aggregation, integration and concentration of agricultural production. In doing so, it gives more strength to small producers and at least partially restores a balance in the bargaining power of the various components of the supply chain. Since their main objective is the growth of their members and an increase in their remuneration (i.e. the cooperative principle of equality in the distribution of the wealth created by its activity), cooperatives aid the transfer of income to smaller producers, thereby preserving the vitality of rural areas both by providing meaningful employment and by protecting the social and ecological value of the farming communities.

Having established above the importance of cooperatives as a business form and also as a “tool” for agricultural production, it is time to focus in on how this “dual faced Janus” or “*enfant terrible*” is dealt with with respect to organizational form and the legislative and policy framework of agricultural cooperatives, keeping in mind the socio-economic and environmental demands which are put on the sector. Changes in organizational form are of particular interest, given a concern for the “watering down” of cooperative values, where isomorphic tendencies towards the investor owned firm (IOF) are often held responsible.

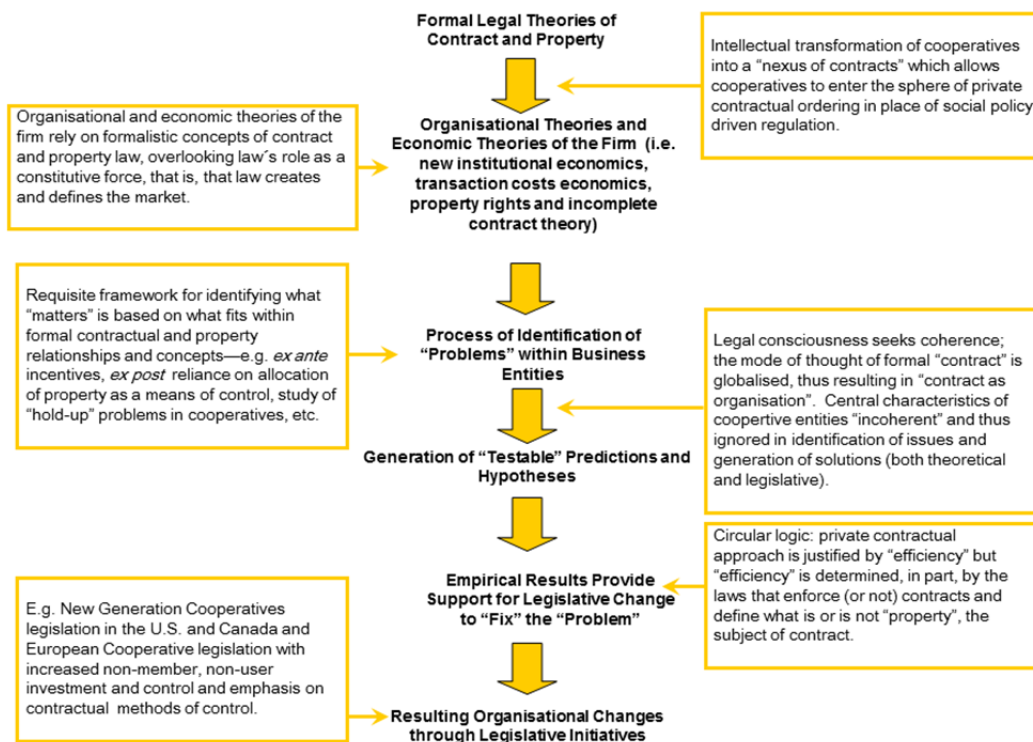
In order to do so, this thesis will consider the extent to which the “remedy” of adopted cooperative legislation and related policy is informed by economic organizational theories, based on certain characterisations of contract and property that are more appropriate for the IOF than a cooperative. It is argued herein that a “modern” contractual approach to procedural regulation and a formalistic approach to law often results in a “private law” ordering of social and economic interests as opposed to regulation based on achieving social and economic objectives. As well, the very concept of “efficiency” so often used as a core assumption to evaluate the allocation of property and contractual functions is itself legally constructed and affected by policy measures which may be heavily influenced by political matters (e.g. CAP). The “rules of the game” (the creation of a market) is a result of legal constructs.

Accepting certain theories of contract and property, organizational and economic theories of the firm have been constructed which effectively have transformed the regulation and governance of the cooperative into a “nexus of contracts”. When these theories of the firm

are used to study and evaluate cooperatives, it places them in the sphere of private contractual ordering. This results in the marginalization of the characteristics of the cooperative business form and social or policy driven regulation and the use of the “unit of contract” as a cornerstone of theory.

But the analysis does not stop there: for it is precisely such theories which are used in the identification of “problems” within business entities, generating “testable” predictions and hypothesis and the gathering of empirical results to provide support for legislative change to “fix” the problem. While it is doubtful that these theories are adequate for an IOF, whether they are relevant to the cooperative enterprise structure, given their unique formulation of contract and property rights, is of even more concern. Below, Figure 1.1 sets out the process:

Figure 1.1 Identification of problems and generation of testable predictions



Observations on Institutional Process

- Institutional approach addresses how legal institutions, whether by legislation or legal concepts and methods, influence organisation form.
- Law, as an institutional force, attempts to reconcile two seemingly contradictory concepts at work: the maintenance of the concept of cooperatives and emphasis on the social economy and the second, a trend towards embracing investor-owner organisational design.

- As a result, the “public” goals of the cooperative, represented by traditional cooperatives for example, are “privatised” through changes to property structures and the introduction of property rights.
- The legal form of shareholder-owned, widely-held corporation is seen as the “legitimate” form, one that is “exported” to analyse other jurisdictions and other business forms.
- The preference for “markets” is seen to provide a “solution” for a loss of confidence in institutional structures. A “legalisation” of public discourse and goals occurs, which denies the implicit influence of legal structures on social policy making.
- However, when contract and property are seen as historical narratives or contextual concepts, depending on use and characterisations, the organisational theories and economic theories of the firm which rely on them and the resulting “problems” and subsequent “remedies” become questionable.
- Necessity of recognising law's role in the creation of markets, thus collapsing the distinction between markets and hierarchies.
- Need to rework organisational theories and economic theories of the firm (which are questionable in relation to investor-owned corporations in any event) and the legal concepts which underlie them to reconstruct an innovative cooperative organisational and legal theory.

Agricultural cooperatives have played an important historical role in improving farmers' incomes and allowing them to capture a larger portion of “value added” in the supply chain. They can improve bargaining power, creating economies of scale. They play a role in reducing market risk, reducing transaction costs, provide access to resources, strengthen competitive position through product innovation and significantly contribute to “food security” through quality and safety protocols (Valentinov, 2007; Bijman, 2006). Given their importance and contribution to society, is the institutional environment which governs them addressing the challenges agricultural cooperatives face?

While reference will be made to legislative proposals and organizational form in other European countries, as well as the United States and Canada, in order to ground the theoretical observations herein, the thesis will focus on Spanish agricultural cooperatives (eight sub-sectors), identifying their characteristics, position, challenges and needs. Relevant Spanish legislative and policy initiatives in relation to the Spanish agricultural cooperative sector (and with reference to important EU policies), with a particular focus on Almería in the context of Andalusian legislation and policy, will be reviewed.

Chapter 2. Theoretical Bases and Selected Literature Review

Theories cumulate. They are refined and reformulated, corrected and expanded. Thus, we are not living in the world of Popper—[theories are not] shot down with a falsification bullet. (Newell, 1990:4)

2.1 Introduction

Agricultural cooperatives have experienced significant changes in organizational form “induced” by legislative reform in an effort to deal with competition and survival. An important theme is the redesign of property structures and an emphasis on contractual ordering and contractual relations (Hendrikse, 2004; Cook, 2004; Cook and Chaddad, 2004; Iliopoulos and Cook, 2005; Cook and Iliopoulos, 1995). Underlying any number of articles about agricultural cooperatives is the question as to whether the cooperative business model, an important and historic figure in the social economy, can compete and survive in a changing and “globalised” environment (Baamonde, 2011; Copa Cogeca, 2010; DG Agriculture COM, 2009; Chaddad and Cook, 2003; USDA, 2002a, 2002b).²

In light of this, we are left with the question “what can be done to guarantee the continuation or promotion of agricultural cooperatives?” In such literature, while there is an acknowledgement of the utility of the cooperative form, there is also a recognition that agricultural cooperatives need to be more “competitive” in a changing, global economy.

Related to the consideration of contract and property rights, is the concern for consolidation in the sector. Spanish agricultural co-operatives are small in size compared to European standards in spite of the fact that the average turnover went from 2.7 million Euros in 2000 to 4.4 million Euros in 2007. Only 39% have more than 1,000 members and only 1.7% of these cooperatives have a turnover above 30 million Euros, 77% have less than 5 million Euros and 39% less than a million. In contrast, the European average farm turnover is above 10 million (Cooperativas Agro-alimentarias, 2010a; OSCAE, 2009).

This situation creates difficulties for Spanish agricultural cooperatives in relation to the concentration of offer, investment needs for new projects, achieving economies of scale and wielding market power. Many studies have pointed to excessive “atomization” of cooperatives (Campos i Climent, 2011; Vargas, 2007; Juliá and Meliá, 2003; Meliá, 2004; Montero and Montero, 2005; Juliá and Server, 1999; Caballer, 1995). Cooperatives

² With respect to analyzing trends for survival of enterprise forms, Hansmann (2001) used an “institutional” and/or historical analysis in dispensing a verdict as to the competitiveness of the cooperative form claiming that there is a logical progression to a particular form of business organization (the limited, shareholder owned corporation) due to its “inherent superiority”. This position holds some irony a decade later, but the underpinnings of the shareholder owned firm has not been seriously questioned as a business form; instead any deficiencies being the subject matter for “governance” or “corporate social responsibility”.

Agroalimentarias (the national confederation) in their strategic plan for Spanish agricultural cooperatives called for addressing this issue in order to achieve a competitive dimension (OSCAE, 2010, 2007) and continue to do so. As a general rule in all sectors of the Spanish market there has been pressure to consolidate and agricultural cooperatives have experienced the same pressures, with the resulting mergers and acquisitions, group formation, integration of cooperatives into second tier cooperatives, etc. (Meliá and Martínez, 2011).

It is well documented that over the last few decades the large multinational distributors (both European and global), supermarkets and processors have gained an immense economic power in the food chain (Clarke, 2002; Dobson, et al 2001; DG Agriculture, 2009, DG Agriculture COM, 2009). This issue also figures into the discussion of post 2013 CAP. Recently in Spain the Competition Board (Comisión Nacional de Competencia, 2011) has recognized this imbalance of power. Given that agricultural in Europe is for the most part highly fragmented, indeed in Spain, "atomised", this imbalance in the food supply chain results in constant downward pressure on prices and a call for changes to meet these challenges at the farm organizational level.

As a result of the discussions in the High Level Group on Competitiveness in the Agro-Food Industry, the European Commission issued a Communication (DG Agriculture COM, 2009) on "A better functioning food supply chain in Europe". This communication stressed that the "significant imbalances in bargaining power between contracting parties are a common occurrence" in the food supply chain. The study noted that such imbalances could lead to "unfair trading practices, as larger and more powerful actors seek to impose contractual arrangements to their advantage, either through better prices or through improved terms and conditions". It was also noted that abusive practices could occur at every link of the chain through diverse practices.

Consequently, the EU Commission committed itself to "promote and facilitate the restructuring and consolidation of the agricultural sector both in the context of the Rural Development policy, notably by encouraging the creation of voluntary agricultural producer organisations, and in the broader context of post 2013 Common Agricultural Policy." Although producer organisations may take any allowed corporate form, in Spain they are predominantly cooperatives or entities with similar characteristics (characteristics of POs are set out in Chapter 5.1.3).

Depending on country and legislative regimes, as well as historical and cultural conditions, changes that have occurred in agricultural cooperatives have been distinct in form and

nature.³ This chapter identifies some general “remedies”, some of which have been adopted or proposed in cooperative organization, legislation and policy (Chapter 5 will provide more detail in relation to Spanish agricultural cooperatives) and explore how these changes have been informed and/or justified by economic organisational theories, an important part of which concern particular characterizations of contract and property. Herein, various theories concerning property and contract rights, new institutional economics/transaction cost economics, institutional theory (sociology) and legal theory (critical legal studies, relational contract and law and economics) are set out.

As mentioned above, the theory of “hybrids” in institutional organisational forms is introduced relying on the work of Ménard (2007, 2012a and 2012b), Chaddad and Cook (2004), Iliopoulos and Cook (2005) and Spear (2012) along with the later work of Oliver Williamson. While “hybrids” in cooperative theory have at times referred to the adoption of “investor owned firm” (IOF) characteristics and a fear for the degradation of the cooperative form, the work of Borzaga and Defourney (2001) and Galera (2004) presents another characterization of hybrids and the cooperative form by way of “social enterprises” and the introduction of a new form of cooperative enterprise which decoupled the necessary linkage of property rights and membership (mutuality), creating a multi-stakeholder model. Particularly important in this latter model of hybrid and the work of Elinor Ostrom (2010, 2005, 1990) is the rethinking of traditionally held notions of property rights, which incidentally provide the foundation for much economic thought, theories of the firm and contract and institutional theory. Questioning whether these traditional theories are adequate for the study of cooperative organization, policy and legislation, this chapter then sets out the “diversity of institutional forms” and governance of common property ideas of Ostrom in order to provide new theoretical avenues for the explanation for and study of cooperative organisations and the potential new role of cooperatives in advanced economies.

The encouragement of hybrid forms and arguments for increased cooperative integration are practical policy initiatives which may be informed by both traditional and “reworked”

³ For some examples see: Karlson, D. (2005); Nilsson, J., (1999); United States Department of Agriculture, (2002); Fernández Guadaño, J., (2006); Sousa, J. and Herman, R. Eds., (2007); G.W.J. Hendrikse, Ed. (2004); Baarda, J. R. (2003).

However, it is worth pointing out that according to a report from the U.S. Department of Agriculture, for the approximate 10 year period between 1992 and 2002 less than 5% of cooperatives converted into non-cooperative enterprises and the frequency with which cooperatives acquired non-cooperatives was three times more frequent than non-cooperatives acquiring cooperatives. The most dominant form of restructuring occurred within the cooperative sector. See United States Department of Agriculture (2002) *Cooperative Conversion and Restructuring in Theory and Practice* USDA Rural Business Cooperative Service RBS Research Report 185.

theories and the importance of such measures will be seen in Chapters 5 and 6 in the analysis of agricultural cooperatives in Spain and thereafter in the Almería case study.

2.2 Definitions of “traditional” cooperatives

Before beginning an analysis of theories and remedies it is important to understand the general characteristics of the cooperative business form. While cooperatives vary in structure across the world, many rely on the seven general principles of the International Cooperative Alliance (ICA):

Definition:

A cooperative is an **autonomous association** of persons united voluntarily to meet their **common economic, social, and cultural needs** and aspirations through a **jointly-owned** and **democratically controlled enterprise**.

Values:

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles:

The **cooperative principles are guidelines** by which cooperatives put their values into practice.

1st Principle: Voluntary and Open Membership

Cooperatives are voluntary organizations, **open to all persons** able to use their services and **willing to accept the responsibilities of membership**, without gender, social, racial, political, or religious discrimination.

2nd Principle: Democratic member Control

Cooperatives are **democratic organizations controlled by their members**, who **actively participate in setting their policies and making decisions**. Men and women serving as elected representatives are accountable to the membership. In **primary cooperatives** members have equal voting rights (**one member, one vote**) and cooperatives at **other levels** are organized in a **democratic manner**.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least **part of that capital** is usually the **common property of the cooperative**. They usually receive **limited compensation, if any, on capital subscribed as a condition of membership**. Members **allocate surpluses** for any or all of the **following purposes**: developing the cooperative, possibly by setting up **reserves, part of which at least would be indivisible**; **benefiting members in proportion to their transactions** with the cooperative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Cooperatives are **autonomous, self-help organizations controlled by their members**. If they **enter into agreements** with other organizations, including governments, or **raise capital from external sources**, they do so on terms that **ensure democratic control by their members and maintain their cooperative autonomy**.

5th Principle: Education, Training and Information

Cooperatives provide **education and training for their members**, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They **inform the general public** - particularly young people and opinion leaders - about the **nature and benefits of cooperation**.

6th Principle: Cooperation among Cooperatives

Cooperatives serve their members most effectively and **strengthen the cooperative movement by working together through local, national, regional, and international structures**.

7th Principle: Concern for Community

While focusing on member needs, cooperatives work for the **sustainable development of their communities through policies accepted by their members**.

Source: International Cooperative Alliance Statement on the Cooperative Identity, adopted in Manchester (U.K.) 23 September, 1995. (Emphasis added by author)

Spanish cooperative law, to be discussed in Chapter 5 in more detail, generally follows the ICA model, although there have been changes which reflect a more IOF stance. In the case of the recent Andalusian cooperative law, both IOF characteristics (proportional voting, outside investors) and more cooperative characteristics, such as ICA Principles 6 and 7 and gender equality, have been adopted at the same time. In contrast, a more simplified concept of cooperatives adopted by institutions in other jurisdiction, is more pragmatic, focusing on the three pillars of “user owned, user controlled and user benefits” (Dunn, 1998), such as in the case of the United States Department of Agriculture.

The ILO R.193 definitions which Henry (2012:30) points to as the nucleus of the public international cooperative law states “the term cooperative means an autonomous association of person united voluntarily to meet common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise” (Paragraph 2, Paragraph 3 of R. 193 adds further to such definition).

What is important to highlight at this stage, in understanding the theoretical constructs of property and contract, is the fact that in traditional cooperative organisations the “owners” are the users, they “govern” and are, at the same time, the beneficiaries. Or to state the case even more explicitly, as Hansmann (1988) does, ownership and control are not separated (at least theoretically, although control may be ceded to managers). In the traditional agricultural cooperative, the ownership structure is straightforward: farmer-

members own the enterprise. They provide the equity capital and have both income rights and control rights.

An important feature of cooperatives is the characterization of “profit”. The neo-classical economic idea of “profit” links accumulation of profits to the distribution of the same. Distribution is linked to ownership. In the cooperative model “surplus”, which is the income from transactions with cooperative members, and “profits”, which is income from transactions with *non*-members, are distributed to the cooperative members. The cooperative takes only what is needed for operating expenses before such distribution.

As well, cooperatives do not have the “normal” property and ownership relations of IOFs, upon which most economic and legal theories of the “firm” are based. In the neo-classical view, clearly defined property rights are allocated and thus they can then be the subject of contractual dealings. Alternatively, the property can simply be “state” property and thus out of the realm of private ordering. However, cooperatives inhabit another paradigm that is neither “clearly defined” (individualized) nor state, nor do they fall “in-between” private and public. Cooperative property is held at the collective member level.⁴

As an example of legislative change in the agricultural cooperative area, we can see that at the core of the theoretical justifications for legislative change were particular notions of contract and property rights theories. Individual states in the U.S. enacted special legislation to facilitate the “new generation cooperatives” (NGC, which will be dealt with in more detail below). The allocation of property rights and the focus on contractual relations were seen to create conditions for fostering equity investment as a key element in the attempt to ensure the survival of cooperatives, something that the traditional jointly held property was seen to inhibit (Cook and Iliopoulos, 2000; Cook and Chaddad 2003, 2004; Cook, 2005). On the European level, the Statute for European Cooperatives (Council Regulation No. 1435/2003 brought into force in August 2006) is meant to encourage cross border activities amongst cooperatives in EU states. In an effort to “readjust” and “correct” contract and property rights allocations, external non-member/non user investment is permitted, albeit with limits on voting rights. Returns on investment may be made on paid-up capital and “quasi-equity” interests.

It is important to note that legislative change does not necessarily signify an open change in the legal status of “cooperative” but rather can allow for the possibility of “hybrid” types of organizations (described below), based on changes in ownership structures, within the

⁴ It is of the utmost importance though to understand that collective ownership used here has nothing to do with state ownership or socialist cooperative models.

same legal identity, i.e. in the USA at least, a NGC is still a “cooperative” and an LLC can still refer to itself as a “cooperative”.

Henry (2012) provides a useful list of the distinctions between IOFs and cooperatives, comparing them in terms of their capital structure, management and control. In addition to the points mentioned above on collectively held property, profits and ownership, we can add the following (adapted from Henry):

- cooperatives are people centered and based on member use and on transactional relationships/IOF are capital centered and investor driven and based on investment relationships
- the content of relationships is different where membership in cooperatives is a structural element of the enterprise/in IOF, who owns the share is accidental and incidental
- cooperative shares do not represent a share in an asset nor are they investments
- cooperatives seek to serve members (in agricultural cooperatives this includes obtaining good prices for product) and to meet their economic-social and cultural needs/IOFs must strive to produce the highest return on capital for their shareholders, cutting the cost of product to minimize costs
- positive results are divided between profits on transactions with third parties and surplus on transactions with members. Cooperatives do not distribute profit and divide surplus proportionately/IOFs distribute profits
- management of cooperative capital is meant to serve members (present and future) and thus capital is preserved over time/IOF management is geared toward capital investments and growth (usually short term)
- cooperatives usually operate on one vote-one member and have democratic control/IOF votes are related to invested capital

Henry goes on to mention other characteristics that go beyond capital structure, management and control:

- in IOFs capital hires labour/cooperatives reverse this relationship
- cooperative growth is through consolidation/IOFs through M&A
- methods of evaluating success differ: IOFs are usually evaluated on quarterly profits
- cooperatives and IOFs (often) play a different role in their communities and society at large

Given the significant differences in structure and purpose and contractual and property relationships, there is good reason to question theoretical work based on IOF characteristics applied to the cooperative business form.

2.3 Concern for Loss of Cooperative Principles

As mentioned above, given these legislative and/or organizational changes, concerns exist as to whether “cooperative principles” are being respected (Henry 2012; Fici 2013; Spear 2010; Fernández Guandaño 2006; Monzón Campos et al, 1996). There is also concern (Hendrikse, ed. 2004) that cooperatives may react to increasing competition and change by converting into “normal” investor-owned corporations or limited liability companies, thus putting at risk the cooperative as a viable and competitive business organizational model and with it, the end of the “social” goals said to be implicit therein. Demutualization in the USA, Ireland and elsewhere provides a basis for this concern.

Henry (2012:4) refers to a “crossroads” in cooperative legislation:

The decision on which direction to take--further adaptation to perceived pressures by the financial market, return to cooperative principles or new paths—has to be made in a moment of intellectual crises as far as economies are concerned. *In a reciprocal process, cooperative legislation has contributed to the occurrence of this crisis.* (emphasis author)

The question of whether or not such cooperative principles *should be* respected and to what extent is not answered in this Chapter 2. Instead, this Chapter explores the theoretical underpinnings for the justification of certain “remedies” and “cures” for cooperatives based on particular characterizations of property and contract.

Equally important is the role law plays, as an institutional force, in reconciling two seemingly contradictory concepts at work, referred to earlier in Chapter 1 as the “Janus” nature of cooperatives (Zamagni and Zamagni 2010) or the *enfant terrible* (Levi, 2005): the first is the maintenance of the concept of the cooperative and emphasis on the importance of the social economy and the second, a trend towards embracing investor-owned organizational design, allowing increasing non-member/non-user investment. Whether such changes represent an innovation (a creative response in a new direction), an evolution (a progressive response to a changing environment) or imitation (of the investor owned firm) depends on which theoretical assumptions are made about the nature of business entities, but more importantly about the characterization of the legal concepts of property and contract.

2.4 Contract and Property Rights Theory as Basis for Economic Organizational Theories and Organisational/Legislative Change

Given that legal concepts inform and motivate particular organizational theories which in turn generate testable predictions or hypotheses and which have then justified legislative and policy strategies in the agricultural cooperative sector,⁵ it is useful to analyse the accepted notions of contract and property law which are the basis of such economic organizational theories. The theories referred to are: agency theory, incomplete contract theory or property rights theory and transaction cost economics /new institutional economics.

Relational contract theory is used to investigate and counterpoint the implicit characterisations of contract and by extension, property (as the subject of contract), in such economic theories. Thereafter, in attempting to understand how these theories became accepted by legal structures, institutional theory as well as legal theories such as the critical legal studies movement are referred to. Cooperative theory provides a critique of the shortcomings of the above economic theories when applied to the cooperative enterprise form.

Various approaches to “hybrid” cooperative forms are also described wherein property and control rights have been modified from the “traditional” agricultural cooperative.

Finally, Ostrom’s reworking of property and contract and governance, along with the insights of social enterprise, provide an alternative method of thinking about agricultural cooperatives and their institutional environment. Cooperatives are in essence, a method by which to hold collective property, according to certain defined rules that such community/cooperative defines.

2.5 Economic theories of the Firm: inherent contract and property rights assumptions

To position the reader in the economic theoretical landscape, below is a description of the above mentioned economic/organisational theories with respect to contract and property rights. For those familiar with such theories, what is of interest are the implications for the cooperative business form.

⁵ Most notable is the influential work of Michael Cook at the University of Missouri and various people who have worked with him such as Sykuta, Chaddad and Iliopoulos, as well as the work of George Hendrikse. See Cook and Iliopoulos (1999, 2000); Cook, et al (2004); Hendrikse, ed. (2004). Current work of Cook and Burrell seems to adopt more of a “collective entrepreneurship” focus, building upon prior new institutional theories. Earlier work on this topic can be found in Porter and Scully (1987).

2.5.1 Property Rights/ Incomplete Contract

Property Rights/Incomplete Contract Theories (PRT) of the firm were developed by Oliver Hart, John Moore (Hart, 1995; Hart and Moore 1990, 1988) and Sanford Grossman (Grossman and Hart, 1986). PRT posits that it is impossible for the parties to a contract to set out all the possible contingencies that actually could occur and need to be controlled.

In response then, a substitute for the unachievable perfect contract needs to be found to determine and aid decision making. The allocation of property rights which are not “ill defined” supposedly ensures that decision making is guided through the simple procedure of people rationally deciding their best interests based on such ownership. The theory in essence holds that the future will take care of itself once the assets are properly distributed: people will perform their contracts in an efficient manner because they will have the incentive to do so, based on their desire to deal with their property in a self interested manner.

Property rights theory relies on the notion that a private enterprise or “contractual self ordering” cannot function unless property rights are created in resources. Chaos disappears because people must enter into contractual relations to use the property, and so, theoretically, does government disappear except to the extent that a legal system to define property rights and to arbitrate disputes is necessary (Coase, 1959:12). Once property rights are defined, government steps aside and resources are allocated to their highest value through the market. Decision-making is mechanical—prompted by the single fact of ownership (Williamson 2000:599).

Setting out the PRT of the firm, Hart and Moore (1998) state:

This theory takes the view that, first, *a firm is defined by its non-human assets*, and second, in the absence of comprehensive contracts, decisions need to be taken over how these assets are used. The theory argues that the authority to make such decisions ultimately rests with the owner(s) of the firm. More precisely, the owners have residual rights of control—that is the right to make all decisions except those that have been specified contractually. (emphasis author)

In addition to the curious depiction of the firm being defined by its non-human assets, it is important to note the concept of contract that is implicit in the above quote, and the justification that follows. Contract is seen as a written document that could “ideally” specify all the terms and conditions which would then be enforceable, if it were not for the “imperfect” or “unpredictable” nature of the future.

In an ideal world, in which the indefinite future can be anticipated and planned for, all decisions could be specified in an initial, enforceable contract written by the

interested parties when the firm is first set up. The question as to who has authority is then irrelevant since there is nothing left to decide. In reality transaction costs prevent the writing of comprehensive contracts and so actual contracts are incomplete. Under these conditions, the allocation of authority matter, since those in authority make decisions with respect to which the initial contract is silent. (Hart 1998:1820)

The logic here is that well defined property rights owners are necessary because contracts are incomplete. It is a straw-man argument to lament the unattainability of the “complete” contract—akin to the straw-man of the unattainable “perfect market” which is used to justify the idea of “market failure”. A few questions may be posed (which will be dealt with later in this chapter): if we had a different notion of contract to begin with, one that was not ideally determinate how would this change the justification for ownership as a way of allocating decision-making power? In addition, what is it about the notion of “ownership” that would automatically facilitate efficient decision-making? What would constitute “proof” of the relationship between ownership and decision-making?⁶ For example, in the world of structured finance, actual ownership has long ago ceased to matter. Do people really make such decisions based on a particular notion of property rights? Does contracting really achieve what PRT theorists claim? From a practical point of view, does “ill defined” cooperative property matter?

2.5.2 Agency Theory and Contract-justification for new form of cooperative

The overriding intellectual template of contract and agency theory, based on the work of Eisenhardt (1989) and expanded on greatly by the work of Jensen and Meckling (Jensen, 1998, 2000; Jensen and Meckling 1994,1976) amongst others (Alchian and Demsetz 1972; Eisenhardt 1985, 1989), is that of a business enterprise as a “nexus” of contracts. Contract and agency theory look at the relationship of the contracting economic actors (principal and agent) within such organisation. The historical intellectual “birth” of agency theory appears to have been on the occasion of the “advent of the modern corporation [which] created a separation between ownership and control of wealth” (Davis, Schoorman and Donaldson, 1997: 22). The second stage of the “modern corporation” may be seen to be non-concentrated (widely held) shareholdings (which, in agency theory is seen to be positive as it addresses the “portfolio” issue of diversifying risk).

⁶ As an aside, the mass privatization teams (Goldmans/Merrill Lynch), assigned to Russia in the 90s relied directly and heavily on the work of Hart. Despite what is generally noted as a failure in the Russian economy the World Bank in 2002 (*World Development Report 2002: Building Institutions for Markets*), reflecting the views of NIE, emphasized the importance of institutions that insure property rights for without it “poor people” would be unable to use valuable assets for investment and income growth. They also referred to the “strong judicial institutions that enforce contracts” so that entrepreneurs would be able to manage risk.

In economic theory the principal-agent problem concerns the difficulties that arise under conditions of incomplete and asymmetric information when a principal hires an agent. Two main problems occur in agency relationships: (a) conflicting goals of principal and agent and costs of monitoring behavior; and (b) different perspectives on assumption of risk or risk sharing, given particular self-interested preferences. Various mechanisms may be used to try to align the interests of the agent with those of the principal, such as profit sharing.

Agency theory by now is a well known, if not tired and over-worked theory, but what is important for the purposes of this thesis is how it characterizes property and contract relations and thus the nature of firms (and by extension in its application to cooperatives) and its consequent analysis of institutional structure.

Various approaches have been taken to study issues faced by agricultural cooperatives resulting in proposals that have been made to increase their access to capital, competitiveness and to improve organisational structure. The application of agency theory to justify such changes is a popular approach, both within Spain and abroad⁷ (see an analysis of research approaches to agricultural cooperatives and the continuance of agency theory related topics in Hendrikse and Feng, 2012 and Cook, Chaddad and Iliopoulos, 2004).

Agency costs arise in trying to exert control or guarantee compliance, often by way of “goal alignment”. As Sykuta and Chaddad (1999:72) point out, most applications of agency theory focus on the incentive vs. risk sharing trade-off of contracts aimed at aligning the interests of the agent with those of the principal. Goal alignment, in agency theory at least, usually translates into some contractual arrangement such as executive compensation schemes or governance structures. In governance schemes, boards are to control or “keep in line” the agents by virtue of contractual controls, a mixture of “carrots and sticks”. Directors are ideally independent of management and ensure compliance by monitoring and controlling managers to make sure that shareholders’ interests are well served. Executive compensation schemes consist in rewarding managers for successfully maximising shareholder value.

Like PRT, agency theory assumes that “complete” or ideal contracts are difficult to construct due to the fact that there is incomplete information or “asymmetrical”

⁷ In relation to Spain see for example, (Minquez-Vera, A, Martin-Ugedo, J.F. and Arcas-Lario, N. (2010); Marti, E. and Aranda-Ogayar, M. (2001); Álvarez Pérez et al. 2000).

information. In addition, of particular interest for our purposes is the reductionist unit of analysis underlying the theory, that of the contract between the principal and the agent.

Below is a scheme from Eisenhardt's (1989) characterisation of agency theory.

Table 2.1 Agency Theory Overview.

Agency Theory Overview	
Key idea	Principal-agent relationships should reflect efficient organization of information and risk-bearing costs
Unit of analysis	Contract between principal and agent
Human assumptions	Self interest
	Bounded rationality
	Risk aversion
Organizational assumptions	Partial goal conflict among participants
	Efficiency as the effectiveness criterion
	Information asymmetry between principal and agent
Information Assumption	Information as a purchasable commodity
Contracting problem	Agency (moral hazard and adverse selection)
	Risk sharing
Problem domain	Relationships in which the principal and agent have partly differing goals and risk preferences (e.g. compensation, regulation, leadership, impression management, whistle blowing, vertical integration, transfer pricing)

Source: Eisenhardt, M, K. (1989)

Agency theory sets its task as finding the right "fit" between property rights ownership and capital structures so as to lower agency costs (Fama, 1980, 1983). It is worth noting the particular cornerstone concept of the person in agency theory as a basically individualistic and rational, self-interested freely contracting actor, ready to maximise on their own wealth.

Although cooperatives in their “pure” or “hybrid” form are different than traditional firms, where management and ownership are separate, agency theory is seen to be as applicable to cooperatives as it is to investor owned enterprises by virtue of the intellectual transformation of the cooperative into a “nexus” of contracts. This transformation allows the cooperative to enter the institutional “sphere” of contractual ordering, complete with the requisite framework for identifying what “matters”.

In Table 2.2 (further below) the “problems” of traditional cooperatives from an agency theory/property rights perspective are briefly detailed. Although the focus on property rights is only one of several possible emphases in the development of agency theory, it is a particularly useful starting point for the study of cooperatives, for it is the feature which most differentiates it from investor-owned firms. The theory holds that designation of property rights has a key impact on the incentives for member participation and investment, access to capital and success of the cooperative.

Academics working on new generational cooperatives (NGC) have justified this reworking of contract and property rights as a response to solving the “problems” identified by PRT and agency theory.⁸ Since the early to mid-1990s in North America and Canada there has been an emphasis on the restructuring of traditional cooperatives and the creation of NGCs (Cook and Iliopoulos, 2004, 2000, 1999; Cook and Chaddad, 2004), led by cooperative researchers at the Universities of Missouri and Wisconsin as well as the US Department of Agriculture (USDA, 2002a, 2002b). In Canada, agricultural cooperative researchers at the universities of Saskatchewan (Sousa and Herman 2007; Fulton 2001) and Manitoba (Agrifood Research, 2000) are influential participants in seeking the reordering of cooperative law contract and property rights. These changes which seek to incorporate “incentives” and “corrections” prescribed by a “new institutional economics” approach, owe their intellectual base to agency theory, transaction cost analysis, ill-defined property rights and incomplete contracting theory. (Cook, 2005, 2004, 2000). These models propose essentially a re-orientation or re-working of one of the central tenants of cooperative theory: contract and property rights.⁹

Relying on the conceptual work of Fama and Jensen (1983) and further developed by cooperative theorists like Michael Cook (focusing on contracting and property rights) we can describe the “problems” of agency theory as grouped into two categories of contracts:

⁸ However, some note that the “New Generation Cooperatives” were initially a factual phenomenon which took place as part of a “boom” in a particular region in the U.S. The change began in the cooperative business community and later, academics and theorists applied agency theory in an effort to explain this phenomenon and propose organisational solutions (Cook and Iliopoulos 1999).

⁹ See Cook, M. and Iliopoulos, C. (2004, 2000, 1999); Prior to this was Porter, P. and G. Scully (1987).

contracts that regulate the residual rights; and secondly, contracts by which decision processes are designed.

Contracts that regulate the residual rights are concerned with obligations, rights and risks of the residual claimants (duties and liabilities that are inherent in the role of investor). Within this category three investment-related incentive problems are seen to be relevant for cooperative business entities: common property problems (including “free rider” problems); horizon problems; and portfolio problems. Contracts by which decision processes are designed ultimately concern decision related incentives. Agency theory in relation to cooperatives may suggest the following problems: control problems and influence cost problems.

Every law student learns that one does not own “property” *per se* but that they own “rights” to interests in property. These rights (a “bundle” of rights is the common metaphor in Anglo-Saxon property law) include the exclusive rights of possession (and the right to control), the rights to benefits generated by its use and the right to transfer or “alienate” all or part of such rights to others. They may be subject to limitation by law and, in addition, may be modified by lawful contract.¹⁰ As noted, these assumptions regarding property law are the cornerstone of much legal, economic and organisational theory.

Cooperative structures break some of the most basic assumptions about the common law principals of private property, for cooperative capital is unallocated, not easily alienated or transferable and the rights to the benefits generated by its use are not rationally connected to the actual property. As a result, if contracts are found to be “incomplete” and lacking in anticipating and setting out all possible contingencies, the allocation of property rights is not available to “solve” the problems of alignment of interests, as incomplete contract theory would suggest.

Thus, in the absence of compelling reasons otherwise, according to agency theory, cooperative members may be expected to become unmotivated and apathetic and less inclined to invest in the cooperative, which may inhibit the efficiency of the cooperative¹¹.

¹⁰ In English law jurisdictions (including the U.S., Canada, Australia, New Zealand, etc.), such property rights are also subject to the principles of equity (equity trumping law). Although clearly outside the scope of this thesis, it is interesting to note that equity often limited property rights relying on notions of “fairness” and of the common good and reigned in on many occasion the idea that the right to property was absolute and individual. I mention it here because much of neo-classical economics and to a certain extent theorists such as R. Posner within New Institutional Economics still rely on a rather U.S. based political right-wing and “fundamentalist” notion of what property rights actually mean. Equity also ruled “the commons” before property rights, based on the right to exclude, began to be set by precedent.

¹¹ However, this is not necessarily the case. See Bel Duran and Fernandez Guadaño (2002:110) where they refer the obligatory reserve fund as being a merely symbolic figure which does not necessarily have the consequence of the “descapitalizacion” of the cooperative, but merely suggests that firms must find

A problem which is related to this is the “free rider” problem and the fairness in the treatment of its members. The free rider problem exists both in relation to member/non member (hybrid cooperatives) and new member/existing member (“pure” and hybrid cooperatives). Basically, gains from cooperative action are enjoyed by individuals that did not fully invest in developing the gains, whether they are members or non-members. As the number of members that share the common assets of the cooperative increase, the return on the assets proportionately declines. The larger the group, the smaller the reward for any one individual. When new members join, they benefit from the existing assets of the cooperative (rights to residual cash flows based on patronage and rights to participate in organisational decisions) and thus act as “free riders”. The membership fee, if there is one, rarely approximates the value of the existing assets.¹²

From an agency theory perspective the horizon problem exists in cooperatives because the residual claims do not extend as far as the economic life of the underlying asset. Thus, members are concerned with short term perspectives on their membership, behaving “myopically”. Residual claims for cooperatives are contingent rights to cash flows, which rights expire when a member ceases to belong to the cooperative.

These short term preferences may dominate the long term strategic investment strategy of the cooperative. There is a perceived disincentive for cooperative members to invest in long-term projects and to contribute to growth opportunities. This horizon problem could supposedly be solved in an IOF by the shareholder choosing to sell their tradable owner shares. However, in a traditional cooperative, such residual rights (individual rights to a fair proportion of the cooperative residual) are not tradable. Income streams are contractually tied not to the capital that members have contributed but to the volume of transactions. The benefits from investments can only be captured over the time of the membership and not over the productive life of the assets.

The portfolio problem is somewhat similar to the horizon problem, but instead of focusing on time horizons, it focuses on the member’s available choice of risk/reward profiles. In cooperatives, the portfolio problem arises because of the “tied” nature of equity in the cooperative. The cooperative investment portfolio may not reflect the interests or risk attitudes of any given investor/member but they are unable to reallocate their investments. When members of a cooperative have different time horizons this leads to different perceptions of the risk/reward profile of the cooperative. According to agency

alternative sources of social capital. Whether this is in fact an adequate alternative is explored in Chapter 6 in the case of the Almería cooperative model.

¹² In contrast, see Ole Borgen (2003:6) “Rethinking incentive problems in cooperative organisations” where he argues that there is a “rational” for existing members to allow other members to join for “free”.

theory, all investors should have a portfolio which reflects their particular preferred “trade-off” between risk and reward. Without a trading system this is seen to be unattainable in a traditional cooperative system and the members become risk adverse towards investments, there is less diversification and suboptimal investments are made.

The control problem in cooperatives is similar in nature to shareholder manager problems in investor owned firms, but it is said to be compounded by the lack of external competitive market pressure (i.e. equity markets and markets for capital control) that, in theory, help “discipline” managers.

In the world of property rights an owner, subject to certain limitations, has the right to decide on its use. However, in business organisations there is usually a separation of ownership from decision making. Shareholders receive profits from their property yet the use of the property is controlled by professional managers. Management performance is often measured by stock performance, the market being seen as a control mechanism. In cooperatives ownership and decision control is linked and thus there is not the same separation of residual risk bearing nor is there “market” control since shares are not tradable. Membership involvement in decision control are necessary and thus cooperative boards are often restricted to members only. Agency theory would suggest that although redemption of residual claims, competitive pricing and the decision to dissolve the cooperative can exercise a control function, this is only an approximation of the market. In addition cooperatives cannot use share ownership or options to reward successful management and thus decision management and decision control may be result in underperformance (Kyriakopoulos, 2000).

Where there are different groups of owners of the cooperative with opposing interests, each entitled to share in the distribution of benefits they may engage in lobbying activities to promote their own interests (the “influence cost problem”). Certain members may want to pursue particular activities which are of a benefit to them, but not efficient for the cooperative as a whole.

The above analysis of cooperatives and agency theory identifies what agency theory defines as the limitations in traditional cooperatives, focusing on the treatment of property rights or, more specifically, focusing on the problems that stem from vaguely or ill-defined property rights. For agency theory, the effectiveness of contractual relations is dependent upon the underlying traditional property rights. Accordingly, it is argued by agency theory proponents that a redefinition of property rights will provide a solution.

How might each of these problems be overcome or corrected? Jensen and Meckling argue that specification of individual rights determines how costs and rewards will be allocated among the participants in any organisation. Cook and Iliopoulos (1999) point out,

[h]ence, the free rider problem and the horizon problems require a solution that aligns members' investments with their level of patronage. These investments must also reflect changes in the value of the cooperative's current and future cash flows. An answer to the portfolio problems on the other hand, must align members' investment with their preferred level of risk and reward. To correct the control problem, a vehicle must be designed that reduces the agency problem and permits the board of directors to oversee management's performance without costly monitoring and enforcement measures. According to Agency theory, solutions to these problems necessitate a clearer specification of each member's property rights.

Following from this Cook and Iliopoulos (1999) hypothesise that contracting property rights in a cooperative as follows, should avoid the agency problems:

1. Transferable equity shares
2. Appreciable equity shares
3. Defined membership
4. Legally binding delivery contract or a uniform grower agreement
5. Minimum up-front equity investment requirements.

They propose these features as the basis for a new type of agricultural cooperative. The characteristics set out below are a generalisation of what one will find in the NGCs in these states and provinces. However, it will vary from region to region, depending in some part on legislation. What is important to keep in mind is that, in theory, the NGC characteristics address the "problems" identified above.

The main distinguishing characteristics of the NGCs are the following:

1. delivery rights that are tied to the level of equity investment
2. closed or controlled memberships
3. higher level of initial equity investment
4. transferability and the opportunity for appreciation or depreciation in the value of delivery rights

1. Delivery Rights

Equity shares in a NGC assign membership to producers and they also allocate delivery rights and obligations. Producers purchase equity shares that obligate them to deliver a certain amount of product to the cooperatives each year. Delivery rights ensure that members provide up-front equity capital to the NGC that is proportional to their level of use of the cooperative. Any patronage refunds are distributed to members according to the level of product that is delivered to the NGC. The total quantity of delivery rights shares that the cooperative sells to producers depends on the processing capacity of the cooperative's operations. The price of the delivery share is typically determined by dividing the total amount of equity capital that the cooperative requires to finance the business, by the processing capacity of the cooperatives facilities.

Shares that allocate delivery rights are separate from membership shares. Each individual holds only one membership share, but can hold more than one delivery rights share. Voting rights are attached to membership shares (one vote per person) and the price is typically nominal.

2. Closed Membership

Membership is restricted once the targeted amount of delivery shares is sold. New members are only allowed if an existing member wishes to sell some of his delivery rights shares. Sales of delivery shares typically require prior approval by the board.

3. Higher Level of Initial Equity Investment

Because of delivery rights, the initial equity investment required from producers is higher in NGCs than in traditional cooperatives (typically between 30 and 50 percent of total capital requirements.) A minimum required amount of delivery rights that must be purchased is usually set by a NGC in order to be eligible for membership.

As the NGC receives a higher level of upfront financing it is in a position to refund a big portion of patronage funds to its members in cash at the end of the year, not having to retain such funds in the business as additional equity financing. If the NGC expands capacity then it issues more delivery rights shares.

4. Transferability and the Opportunity for Appreciation or Depreciation in the Value of Delivery Rights

Members are allowed to transfer their delivery shares to other members or other producers. The prices of the delivery shares are negotiated between the selling member

and the buying producer. The price of the delivery shares fluctuate according to the performance and earning potential of the cooperatives.¹³

Below a chart illustrates the main differences of traditional vs. NGC in respect to agency theory and property rights problems.

Table 2.2 Comparison of Traditional Cooperatives and NGC in relation to Agency Theory/Property Rights Problems.

<u>Agency Theory Problem</u>	<u>Property Rights Problem</u>	<u>Traditional Coop Result</u>	<u>NGC Response</u>
Common property	Collectively owned, unallocated property-profits based on volume not investment	Suboptimal risk adverse investment/lack of access to capital-“free rider” of new members regarding existing assets	Upfront access to capital-delivery shares and member shares separate, investment and member rights determined in advance-defined membership
Horizon	Residual claims on net income of asset shorter than productive life of asset	Lack of liquidity-no secondary market	Delivery rights can be traded at MV-entry and exit
Portfolio	Lack of transferability and appreciation of asset-prevents adjustment of risk	Investment decisions tied to members—risk aversion	Risk is aligned with ownership/level of investment-sale or transfer of asset align risk
Control	No market discipline to exercise control-ownership and decision control linked	Lack of discipline and incentives-no external pressure	Less complex structures-property rights aligned through member voting
Influence Cost	Members influence coop activities according to own business interests	Influence result of centralisation of authority and homogeneity of members	NGC usually centralised and limited to single purpose

Adapted from Katz and Boland (1999) and Hackman (2001)

In a 1996-1997 survey of all rural or agricultural-related cooperative formations in the upper Midwest of the United States between 1988 and 1996, Cook and Tong (1997) observed that more than 80 percent of the cooperative formations had adopted such non-traditional cooperative characteristics and that, in their opinion, such “agency related problems” had largely been addressed. Cooperatives in North Dakota and Minnesota have been key figures in the pioneering of new forms of cooperatives. In addition, states such as Missouri and Wisconsin have also had a “boom” in NGCs. Across the border in Canada,

¹³ This synopsis of NGC characteristics is taken from “New Generation Cooperatives on the Northern Plains” (2000) Agri-Food Research and Development Initiative and the Univ. of Manitoba. It is also reconfirmed by Merrett, et al (2007)

Manitoba and Saskatchewan and to a lesser degree Alberta, have also been very active in NGC formation.

In a later study, “Directory of Closed-Membership Producer Cooperatives: New Generation Cooperatives and Limited Liability Companies in the United States and Canada” by the Illinois Institute for Rural Affairs (Merrett, et al, 2007) the number of agricultural producer ventures were tracked.

The study pointed out that in 2003, it was recognized that the number of cooperatives in the United States had been in a steady decline for over 3 decades (USDA 1998). In 1986, 5,369 cooperatives representing 4.6 million members (USDA 1996) existed yet by 1995; the number had declined to 4,006, representing only 3.8 million members. Although the reduction could be due to several factors, such as the declining number of farmers joining cooperatives, an important factor identified by the authors was the “economic restructuring” in the agricultural sector. Some had gone bankrupt or merged with the rational of competing internationally (Cenex Harvest States 2003; Palmer 2003). But there was also a steep increase in the number of NGCs and closed-membership cooperative enterprises such as Limited Liability Companies (LLCs). Instead of exporting commodities unprocessed out of their communities, farmers invested in NGCs and LLCs to locally process commodities (Patrie, 1998) thus increasing on-farm incomes while creating local nonfarm jobs (Leistriz and Sell 2001; Merrett and Walzer 2003). The study notes that a measure of the success and popularity of NGCs/LLCs¹⁴ was their increase from fewer than a dozen NGCs in the early 1980s to an estimated 457 operational NGCs or LLCs in 2006.

A few observations may be made here. “Agency problems” are the result of an interpretive exercise. Whether these problems have been addressed simply by virtue of a change in cooperative characteristics is not self evident, but rather circular logic. Secondly, after adopting non-traditional characteristics as a remedy, cooperatives and membership declined. Whether this was due to abandoning traditional cooperative characteristics due to the “contractualisation” of the member-cooperative relationship is an outstanding question.

2.5.3 Transaction Costs Economics

A transaction cost is a cost that is incurred when engaging in or carrying out an economic exchange. Different kinds of transaction costs noted by transaction cost economics (TCE) may include information costs, bargaining costs (negotiating and drafting a contract), monitoring, compliance and enforcement costs (including but not limited legal costs).

¹⁴ An LLC is similar to an NGC, but allows for nonproducer investments (Brown and Merrett 2000).

Critics of TCE note that many important social and environmental costs are not included, such exclusions thus not taking into account the positive characteristics of the cooperative business form. This will be expanded on in Chapter 2.7.

In *The Nature of the Firm* (1937) Ronald Coase introduced the notion that transaction costs led to the existence of what he saw as inaccurate focus on pricing systems as a coordinating mechanism and the “invisible hand” guiding the market. The paper was actually written while he was in the USA in 1931 and 1932 studying vertical and lateral integration, in the middle of the great depression where coordination of industrial production was increasingly done by governmental planning. His advisor at the LSE had warned him against such government planning (Coase, 1994).

With this observation came the idea that to have an efficient economic system it was necessary not only to have markets but also areas of planning within organisations of the appropriate size. What this mix should be we would find as a result of competition. The emphasis was shifted to looking internally at organisations (although arguably the influence of Coase’s work wasn’t picked up by the mainstream until the 1970s).

In *The Problem of Social Cost* (1994) he noted that in a regime of zero transaction costs, an assumption of standard economics theory, negotiations between the parties would lead to those arrangements being made which would maximise wealth irrespective of the initial assignment of rights (“Coase Theorem”). He rectified this by saying that the world does indeed have positive transaction costs and thus this recognition was the stepping stone to study the world with positive transaction costs, that is, whether government action/regulation etc. was necessary needed to be studied. To study the world of positive transaction costs, study of the legal system (characterised only from a “cost” point of view, however) was crucial and important. Coase’s proposed study of the “legal system” though more sophisticated than the study of contract as a series of spot transactions still proved lacking for it was assumed that the legal system provided a mechanical “umpire”-like method for the resolution of contractual issues. Thus, the better and more detailed the contract, the lower the cost of enforcement. But the attempt to build the perfect contract failed and transaction cost analysis required some fine tuning. Coase, having rejected the general equilibrium model of the economy, recognised the study of particular markets as specific social institutions.

It makes little sense for economist to discuss the process of exchange without specifying the institutional setting within which the trading takes place since this affects the incentives to produce and the costs of transacting (1994:11).

Coase understood the central point of modern markets: that what is traded is not physical entities but rights to perform certain actions and those such rights are established by a legal system. “The legal system will have a profound effect on the working of the economic system and may in certain respects be said to control it”. He went further by criticising economists, who when speaking of market structures, spoke of the number of firms, product differentiation, sectors, etc. completely ignoring the influence of the social institutions which facilitate exchange (1994;7-8).

Using Coase’s work as a base, TCE is best represented by the work of Oliver Williamson (1996, 1987, 1981, 1979, 1975). TCE follows on in the same vein: the exercise consists of determining the “costs” of contracting and attempting to lower transaction cost by focusing on the design of contracts which are supplemented by allocations of property rights.

What the theories of agency, PRT and TCE have in common is the idea that contracts are incomplete and thus contractual control of property rights must be used to align interest and create efficient structures. To the extent that agency theory deals with moral hazard or opportunism, TCE and PRT deals with the “hold up” problem—that is, that a contracting party will do something within the contractual relation to cause economic harm to the other party unless some sort of concession is granted.

While the two latter theories are “economic” they have a distinct focus from agency theory. Agency theory seeks to manipulate compensation through contractual ordering to affect certain outcomes. On the other hand, TCE and PRT are more focused on contractual decision-making procedures and the extent to which organisations or institutions can be designed in light of the nexus of contracts model (i.e. how to design the nexus).

Ménard (2012) points out that agency theory

assumes actors benefiting from an extended rationality so that its core prediction with respect to the variety and selection of organizational arrangements (essentially contracts) refers to information asymmetry and/or risk aversion of agents, shaping the trade-off between incentives and insurance. In the a context of asymmetric information, it is the degree of risk aversion and the opportunity costs involved in participating in a contract that provides the rationales guiding the choice of a “well-defined and unique” optimal contract (ex ante).

Conversely, he points out that

transaction cost economics differ in that it does not require assumptions about rationality or attitude towards risk. The alignment hypothesis proposed by Williamson (1996, chap.4) relies on the objective adequacy (or inadequacy)

between the attributes of transaction at stake and organizational choices available.
(emphasis by author)

In sum, agency theory is about the attempt to *contract ideal behavior*; TCE is about the attempt to *contract an ideal organizational form*.

While PRTs are seen as useful to TCE in that they recognize a central role for property rights, TCE noted that such theories failed to acknowledge that the definition and enforcement of such property rights is not “costless” (representing a transaction cost in the words of Coase) and thus one must go beyond the rules of the game (who owns what property and how it is maintained) to include the play of the game (contract). Property rights also require enforcement (through legal institutions) which is a cost, thus, much of contract dispute and settlement is done by private ordering. As a result, in Williamson’s scheme of NIEs the *governance* of the contract relations becomes the focus. The transaction is the basic unit of analysis and governance is an effort to craft order, mitigate conflict and realise mutual gain. His analysis attempts to align governance structures with the transactions which occur in relation to any given entity (firm or cooperative) (Williamson, 1996).

According to Williamson, the focus on the governance of contractual relations began in the 1970s (Williamson, 1979). This step of course gets us more involved in an institutional analysis for it means that we must pay attention to the workings and function of a legal system through which contracts are defined, interpreted and enforced. While certain “contractarians” may not acknowledge it, not only is the notion of cost free contractual ordering a fiction, the notion that it is somehow “private” ordering is also a fiction, for such ordering exists within the law of contract *as an institution*: the governance of contractual relations becomes the focus of analysis. But “governance” is as far as Williamson takes the institutional analysis of contract.

2.6 Legal Characterisation of Contract and Property Rights

2.6.1 Introduction

Empirical and theoretical studies on organizations, including agricultural cooperatives, using agency theory, incomplete contracts and transaction cost economics, have proliferated (see Hendrikse and Feng, 2012, Cook, Chaddad and Iliopoulos, 2004 for a study of topics over the last few decades). However, little investigation has been done in organizational studies on the appropriateness of such theories and the assumptions about contract and property rights with respect to cooperatives and how the acceptance of these

ideas have affected legislative and policy change initiatives in relation to cooperative entities.

Less still has law's role, as an institution with its own logic and aims, been considered. Simply put, the critical legal (or socio-legal) scholarship on contract and property rights has not been merged to any degree with contemporary organizational firm theory. Nor has the unique organizational structure of cooperative ownership, not to mention cooperative social structure, been taken sufficiently into account. Much empirical research in TCE applied to agricultural cooperatives has focused on contract as a method to control the risk of *ex post* opportunism or "hold up" problems (e.g. Bijman, 2006). As set out above, where contractual methods prove "incomplete" or "imperfect", the allocation of property rights is seen as the remedy to exert control and maximize efficiencies. Where property rights don't solve control and/or efficiency issues, then an emphasis on governance is seen to be the solution, Williamson having been an important influence in this field.

Increasingly empirical studies focus on organizations as a collection of contracts (Smith and King, 2007). The Contracting and Organizations Research Institute (CORI) at the University of Missouri and the Center for Research on Contracts and the Structure of Enterprise at the University of Pittsburg were created to study actual contracts in order to lead to a new contract theory and a more accurate organizational theory. But what characterizations of contract are used? Setting aside the deficiencies of this positivistic approach in relation to interpretive issues, what is important is how contractual relations are viewed, not the "black letter" interpretation of a discreet contract. What is the quality and nature of these relationships and what is the result of such interactions? How do the relationships affect the organization? Ostrom (2005:3) observes, "to understand institutions, one needs to know what they are, how and why they are crafted and sustained, and *what consequences they generate in diverse settings*" (emphasis author).

Given a different characterization of such legal concepts is it possible that we may come to understand organizations (and organizational theory) in a different manner and consequently, proposed legislative changes may address different concerns? Concretely, a new body of cooperative theory may need to be "rebuilt" from the ground up, rejecting particular "truths" in theory and legislation based on the characteristics of widely-held shareholder owned business entities. Important as well is the recognition of the role of law in actually creating markets themselves, and thus the questioning of "efficiency" as an

external “market” factor. What is the law of contract and the law of property if not a legal construct?¹⁵ As Ostrom (1990:22) notes,

an assertion that the imposition of private property rights is necessary tells us nothing about how that bundle of rights is to be defined, how the various attributes of the goods involved will be measured....how conflicts will be adjudicated...or how the residual interests of the right-holders in the resource system itself will be organised.

With good reason she goes on to observe that “[a]n important lesson that one learns by carefully studying the growing number of systematic studies associated with “the new institutionalism” is that these “institutional details” are important (2010:22).

This chapter does not “catalogue” all the various specific cooperative legislative reforms. Specific legislative and policy reforms in relation to Spanish cooperatives and agricultural cooperatives are the subject of later Chapters 5 and 6. Instead law is considered here as part of an institutional framework, not merely an external method of control or a “transaction cost”. Law is, amongst other things, an intellectual framework with a historical foundation, a text with authors, an “action arena” with participants, a cultural form and a form of communication and ordering. This characterisation of law, both public and private (contract and property rights), is counter to the idea of a business organization as simply a nexus of contracts operating in a societal, historical or economic vacuum.

2.6.2 Institutional Nature of Law

It is useful to begin with a general definition of “institutionalism”: “the activities and mechanisms by which structures, models, rules and problem-solving routines become established as a taken-for-granted part of everyday social reality.” (Schneiberg and Clemens, 2006:196). DiMaggio, describing actors as socially constructed, sees action as being shaped by what is available, “the taken for granted...organizational forms and practices” (DiMaggio, 1988:4).

Ostrom (2010:4) defines institutions as,

[t]he prescriptions that humans use to organize all forms of repetitive and structured interactions including those within families, neighborhoods, markets, firms... private associations, and governments at all scales...*Individuals interacting*

¹⁵ Ostrom (2010:651) after relying on studies of property rights around the world, conceptualizes property rights systems as containing *bundles* of rights rather than a single right and identifies five property rights that individuals using a common-pool resource might cumulatively have: (i) access (ii) withdrawal—the right to harvest specific products from a resource, (iii) management—the right to transform the resource and regulate internal use patterns, (iv) exclusion—the right to decide who will have access, withdrawal, or management rights, and (v) alienation—the right to lease or sell any of the other four rights.

within rule-structured situations face choices regarding the actions and strategies they take, leading to consequences for themselves and for others.(emphasis author)

Ostrom's definition adds a new wrinkle: when analysing "actors" whether individuals or enterprises one does not merely look at characteristics or motives of the person or entity but as well, the context and the *ability for choice of action*. What happens at the level of the cooperative is shaped by the organisation of industries, historical, cultural and sociological events and state policies *and* what happens within the cooperative shapes the cooperative over time. These things in turn, are reactions to larger world context rather than just national level factors, whether economic, technological or political. This point will be picked up again in Chapter 6 when dealing with Cook and Burress' approach to "dynamic" or "regenerative" cooperative change and evolution.

At first glance when we look at the changes that are occurring in agricultural cooperative legislation and cooperative organisation, institutional theory appears to be a good "fit" (e.g. the various works of Cook, Ménard, 2007, Bager, 1994). In a globalised market, the common shareholder-owned, widely-held corporation is the "legitimate" norm and it is not a difficult leap to seeing the cooperative sector seeking such legitimacy. Indeed, DiMaggio and Powell's well known article on isomorphism set out to explain precisely why this type of phenomena occurred and to answer the question as to why there was such a high level of homogeneity of organisational form and practice (DiMaggio and Powell, 1983). In an attempt to understand by which mechanisms such homogeneity was achieved, they identified three main types of institutional isomorphism: coercive, mimetic and normative. While acknowledging the simplicity of DiMaggio and Powell's article, it is a useful place to start.

Let us note upfront though, that DiMaggio and Powell made a distinction between institutional isomorphism and the kinds of changes that took place due to competition in the marketplace:

Today, however, structural change in organizations seems less and less driven by competition or by the need for efficiency. Instead, we will contend, bureaucratization and other forms of organisational change occur as the result of processes that make organizations more similar without necessarily making them more efficient. (DiMaggio, 1983, 147)

Competitive isomorphism assumes "a system rationality that emphasizes market competition, niche changes and fitness measures" (DiMaggio, 1983:145-150). In a Darwinian contest, competitive pressures select optimal entities and the non-optimal perish. Those organizations which remain are seen to be isomorphic both with each other

and to the economic demands of their environment. This theoretical approach should not necessarily be discounted in studying agricultural cooperatives, but it misses the mark on law's role in this process, for the very markets and niches are created and defined, at least in part, by legal structures. When studying theories of the firm, the underlying concepts of contract and property law which inform them and the resulting legislative changes which are influenced by such theories, it seems that institutional isomorphism is more relevant as it applies to the study of organizations competing for "political power and institutional legitimacy" as well as for "social and economic fitness".

If we look to law and legislation, we can see that we easily fall within all three categories of isomorphism in considering cooperative organisation and legislative reform.

Corporate form is legally created and constituted, as is contract and property. The modern shareholder-owned, widely-held corporation is a powerful cultural icon and to the extent that the cooperative does not conform to such model, other organisations, whether financial or governmental, are prone to exert coercive force. Shareholder-owned corporations are increasingly present within the agricultural sector and with the renewed interest in genetically modified crops, alternative energy sources and bio-fuel, this may be a trend in the future.

Similarly, in terms of mimetic isomorphism, the investor owned firm is seen to be more "efficient" and more profitable in general. When cultural norms demand that economic activity be judged on a particular circumscribed notion of "efficiency" then entities which have other goals must either defend their difference or mimic the norm.

Normative isomorphism is evident in many professional areas, from business schools, law schools and agricultural economics departments to financial advisors, bankers and accountants. Politicians and legislators often have a legal background and thus, when presented with an "economic problem" respond with legalistic solutions. If we look to education we can see how professional education affects our view of the "viability" of cooperatives. In "The Disappearance of Co-operatives from Economics Textbooks" (Kalmi, 2006, see also Hill, 2000) we discover that a study of standard economic textbooks in 2000 yielded absolutely no mention of the cooperative business form.¹⁶ However, standard economic textbooks in the beginning and mid 20th C. had indeed included

¹⁶ The author notes that in her legal education, curriculum and exam requirements for the common law jurisdictions of Ontario, Canada, New York State and England and Wales did not include any mention of the cooperative business form, although sole proprietorships, partnerships, various forms of unlimited and limited companies and trusts were studied. While it may seem odd that trusts were included, they are a key figure in many structured finance transactions and to avoid taxes on transfer of wealth.

cooperatives as a business form to be studied, but mention of them “disappeared” to the point where they are not mentioned presently in any major economics textbooks.

While the absence of the cooperative business form is evident in professional formation, the positive “evangelising” of the shareholder corporation as the “true” legitimate business form is very much present. Hansmann and Kraakman (2001) argued that there is consensus on a shareholder oriented model of the corporation and that alternative models of corporate organization have failed (referring to both labour-oriented and state-oriented models). They go on to conclude that “[s]ince the dominant corporate ideology of shareholder primacy is unlikely to be undone, its success represents the “end of history” for corporate law.”

Convergence in the fine structure of corporate law proceeds more slowly than convergence in governance practices. Legal change requires legislative action. Nevertheless, we expect shareholder pressure (*and the power of shareholder-oriented ideology*) to force gradual legal changes, largely but not entirely in the direction of Anglo-American corporate and securities laws (Hansmann and Kraakman, 2001:441). (emphasis author)

To organisational scholars, this notion of convergence or evolving to a singular common norm is not new (although the explanation may vary). As mentioned above, at the centre of DiMaggio’s observation on institutionalism and mimetic isomorphism was the question of why so many institutions in a particular sector ended up mimicking each other. Nor is it new to legal scholars, particularly common law lawyers, where the common law is historically seen to be a progression towards a more efficient and just law, the body of law itself is assumed to have an internal logic, which is to be “discovered” and reconciled. However, unlike institutional theory’s quest to find out “why?” and “how?” Hansmann and Kraakmann resort to prescriptive, normative claims (falling into one of the most common philosophical fallacies: the “Is/Ought” assumption, that is, “corporations *are* dominant, thus corporations *ought* to be dominant”).

One could conclude (but it is not a necessary conclusion), that cooperatives are not studied because they are not “persuasive” or “relevant”. Fair enough. None of this would seem out of place but for one thing: Cooperatives do exist and make up a significant part of the economic sector worldwide as mentioned above in Chapter 1.2. Their “absence” is perhaps due to their “incoherency” with the cultural narrative of the superiority of IOFs and shareholder supremacy, which have at their core formal approaches to contract and property rights¹⁷.

¹⁷ As an aside—an observation which makes this situation seem even odder is the popular emphasis in business schools on Corporate Social Responsibility (CSR) in relation to the widely-held investor-owned firm.

In contrast then, returning to theories of the firm, if we attempt to understand change within the cooperative sector from a “new institutionalism” within the economic sciences literature (rational choice theory), then culture and cognition (or “interpretational structures”) are left by the wayside and instead strategic or utility maximising models of action become the focus of investigation. This approach is somewhat, grudgingly, modified in TCE by what Schneiberg notes as “the recognition that formal laws, shared understandings, and sunken investments may constrain, channel, or lock-in that action”(2006:196).

However, the distinction between sociological and economic institutionalism may be collapsed, when “utility-maximising rationality is understood as a cultural construction” (Espeland, 1998:46) thus making it difficult to distinguish between “institutions as constraints on action” and “institutions as culturally constitutive of actors”. This point becomes more apparent below, as we see the contribution of contract and property law theories to the “cultural consciousness”, with their assumption of “utility maximising rationality”. This notion of “efficiency” is relevant both in terms of individuals evaluating “rationally” their self-interest (agency theory) or whether it is the evaluation of “efficient” governance structures (TCE, Williamson and like minded NIE scholars).

To ground ourselves a bit in the vast literature, fields and sub-fields of institutional theory (whether “new”, sociological or economic) and law and regulation, it is useful to narrow what is being addressed in this chapter. When speaking of cooperative law and legislative change (and the private law concepts which form a base thereto) we are referring to the “higher level” institutions and institutional events and cooperative entities are what we may call the “field level”. While the legal system (or systems) is an institution, it is one which is informed by many events, just as it has an effect on other organisations, events and “lower level” entities. Law itself is not some inherently “coherent” entity or institution which is applied in a formulaic fashion. It has both the coercive power of the state behind it and/or the informal power of culture as well as a constitutive aspect—by its very nature it “creates” and regulates other institutions such as property, corporations, contracts, cooperatives and shares, *and markets*, to name just a few examples. Add to this description that it is, as well, a “contested” movement (see Chapter 4-Methodology), and we begin to see the complex role of law in organisational change, particularly cooperative organisations which contain, by their very nature, “non-contractual” social goals and a

CSR indeed is addressed and taught both in standard business courses but also in business ethics courses. A main theme is the conflict between duties to shareholders and duties to the societal good, something which is often inherently balanced in a cooperative structure precisely because of its organisational form and social goals.

form of property held in a manner very distinct from other contractual/property rights found in the “modern corporation”.

The study of law, policy and legislative change in relation to cooperative organisations, in this case agricultural cooperatives, beyond being considered a “transaction cost”, is key to understanding organisational changes and tendencies in the agricultural cooperative sector. Like other business entities, agricultural cooperatives do not escape the pressures or challenges of globalisation, trans-national markets and various trade agreements nor the influence of market liberalisation. Laws governing business entities, including cooperatives, are called upon to deal with and respond to these local and global pressures. What is (in a precise moment of time) a discrete system of law in a particular jurisdiction, finds itself responding to or dealing with other systems of law and social ordering that have distinct histories, cultures, market systems, policy frameworks and philosophical or analytic traditions. Legal systems, traditions and the very nature of legal concepts themselves may find themselves in strange waters. If not directly dealing with or responding to legal systems, enterprises often need to interact with other global players that are informed by such divergent legal and social ordering systems and traditions. What results from this may be convergence, conflict, adaptation, evolution, etc.

In a “modern” system of governance, where the state does not directly control or manage social and economic activity it provides the regulatory framework in which such activity is governed. Procedural regulation, private law regimes and sector or “self” regulation is favoured as a sort of “private-law” ordering of social and economic interests. The law of business entities is a type of procedural regulation, and in our case, the law of cooperatives is increasingly so, in spite of, or perhaps because of, the original social mandate (i.e.the social mandate, if taken seriously, would require substantial system change, thus, procedural regulation is preferred to avoid conflict). This type of approach fits within a formalistic approach as opposed to an approach based on achieving particular social objectives.

Here then, lies the tension between corporate vs. cooperative entities, for the corporation is concerned with the governance or regulation of formal rights of contract and the property which is subject to such contract, and the cooperative must address both economic and social objectives, the latter being an alien concept in the world of business law (it must justify itself according to classical economic valuation—i.e. efficiency and profits, calculated on largely non-social systems of value, which leaves no room for the valuation of the social). Cooperatives are multidimensional, contain multiple values and

objectives (including “contradictory” ones if placed in the “market”) and merge out of historically specific circumstances. Within the formal rights scheme, its social objectives are “extra-contractual”.

2.6.3 Legal Theories

When we talk about the “institution” of law, specifically laws that stipulate organisational form, we often speak about the “law” as if it were something that was “evident” and without a history of its own. Legal movements and intellectual histories should also be linked to organisational and institutional analysis. When contract and property are seen as “historical” narratives, where concepts are fluid depending on their use and characterisation, the organisational theories which rely on them also become “destabilized” or “fractured”.

As a general comment, business/economic scholars tend to view law from an *a priori* perspective: as an existing condition, a parameter, a limitation, a variable, perhaps a “cost”. As well, they use a formalistic and mechanistic interpretive point of view: laws are passed and enacted, contracts are negotiated with express terms and a written record is agreed and signed. Laws are seen to permit or prohibit. To the extent that there is a dispute as to what the law or a legal document says, the legal system will employ an “expert” to make a correct interpretation. Business scholars are no strangers to theory and, in particular, organisations are studied utilising a wide range of complex theories, but the legal framework is often sidelined as a set of rules (e.g. as in game theory) or not taken into account at all. While it is true that Coase, for example, recognised legal adjudication it was as an acknowledgement that law could present “transaction” costs or “externalities”.

On the other hand, legal scholars, and particularly practising lawyers, are taught to think of business entities in terms of their legal “personalities” and “capacity”: they are legal entities, creatures of statute and not “organisations”. Jurisdiction and scope of powers are used to determine what business entities may or may not do. Coherency is paramount and predictability is desired. In terms of contract, this formalist approach “privileges a functionalist, purportedly technical and autonomous design and execution of contractual agreements over the view of “regulated” contracts” (Zumbansen, 2007:2). The result of this approach is a sort of “liberation of contractual relations from the regulatory, policy driven arms of government” (Zumbansen, 2007:2-3).

To the extent that lawyers and legal scholars go beyond the formalist view of law, they often find themselves in the realm of historical, political/economic, sociology or institutional analysis. Law and Economics is a predominant related school of thought for

organizational economic theorists and The Critical Legal Studies (hereinafter “CLS”) movement, although currently wielding less influence, was its fierce critic. The critique was not only based on “left” or “right” politics, but instead held the view that law was a constructed institution and interpretive exercise and not merely descriptive and “carved in stone”. Much of the CLS movement concerns itself with destabilizing the established legal order, emphasizing “incoherence”, “legal consciousness” and the exercise of power disguised as rationality. It was also a movement that believed that laws that served a just and social purpose could be “rebuilt” or constructed. In many ways it was the reclaiming of law as a moral, as opposed to liberal, institution.

The Law and Economics movement, putting into action the mandate of Coase, albeit in a mechanistic manner and arguably misguided by what even Coase had recognized about markets, empirically investigated the consequences of particular laws and as well attempted to prove that the system of laws itself is somehow economically efficient as if guided by the invisible hand of the market (although the market is, ironically, the creation of legal rules and norms). Law and Economics fits snugly within the parameters of TCE.

From a different perspective, relational contract theory purports to set legal contracts within the context and relationships in which they were made and operate (see MacCaulay, 1963; MacNeil, 2003, 1985). Williamson, in his later work, fleshed out his NIE by relying on relational contract (Williamson, 1987) and has inspired work done in the cooperative sector in relation to networks and chains (e.g. Karantininis and Nilsson (Eds.), 2007).

2.6.4. History of Contract Theory

However, before we move further into a critique of NIE theories of contract and property, it is important to set out a bit of historical information about contract and property law to set the groundwork for what we might call the “modern law” of contract and thus implicitly, the law of property as well. The common law base is used here, admittedly leaving out a wealth of perspective and information on civil law jurisdictions. However, as much organizational theory (predominantly IOF based) is “imported” from common law based countries, the influence in economic and business theory is evident.

The erudite and classic “Introduction to the Law of Contract” (Atiyah, 1995) outlines the historical foundations for the modern law of contract. A few observations are useful for our purposes: by the 19th Century the philosophy of *laissez-faire* took root, meaning that the law should interfere with people as little as possible and that the function of law was

to ensure that people could be left alone to realise their own will “unhampered” by governmental influence (Atiyah, 1995:8). The law of contract in essence was and is designed to provide for the enforcement of the private arrangements that contracting parties had agreed upon. Natural law theories espoused the inalienable right to own property and therefore to make arrangements to buy or sell or otherwise deal with such property and to enter into contracts concerning the same (Atiyah, 1995:8). Society at large was seen to benefit because the will of individuals, expressed in private contract, could be counted on to be enforced. Two pillars of the freedom of contract include first, the agreement between contracting parties and second, that such agreement be based on freedom of choice. Equal bargaining power was assumed and each transaction was seen to be discrete, expressly attested to by the written, signed formal document. With economic growth and complexity, contracts became more elaborate and a greater volume of contract followed. This led to a move towards standardization with a lessening emphasis on intention. In general the law of contract was then “scientised”. Contract was seen to have its own internal logic and its own internal efficiency.

It is commonly held as well that a decline in the Freedom of Contract ideology occurred in 1870 to 1980 during which there was an emphasis on more socialist, collectivist political values (at least in England and in part, the U.S.) in addition to the increased sophistication in the economic understandings of limitations of the freedom of contract. In the law and economics field there was recognition of “externalities” (Atiyah, 1995; 19). A rise in regulation resulted in the intention of the parties declining as the *raison d'être* of contract. Since then there has been renewed interest in the relationship between legal rules and their economic effect (see Posner, 2005, Posner, 2003). This is seen as a major contributory factor in the current resurgence of the freedom of contract. “Put shortly, it is once again being said that freedom of contract is a major instrument for economic efficiency” (Atiyah, 1995:29). What is implicit is the reverse of this: the assumption that legislative interference with the freedom of contract leads to economic inefficiency. (What is not acknowledged is that efficiency itself is defined by legal parameters.)

This brief (micro) history is set out to illustrate that contract “ideology” is not a static formulation. The way that we think about contract and property is varied, at all institutional levels. This in and of itself implies that the way we think of the institution of law and its role, purpose and effects also has profound variance. However, although intellectually we know that a discrete, formal contract has little to do with real commercial transactions, economic and organizational theory continue to use it as an intellectual

template, particularly in applying the notion of contract to economic theories and the theories of the firm.

To be fair, relational contract had expanded on the notion of the “discrete” contract. As mentioned, this trend was picked up by Williamson (Williamson, 1987, 2000). However, what occurred was basically just a widening of the net and not an attempt to understand how the “consciousness” of contract has dominated our very characterization of organization as a formalistic exercise in contract relations, the designation of property rights being the subject of such contracts.¹⁸

If we look to the legal theory roots in social analysis, and hence the roots of the demise of formalistic classical legal theory, we begin with the Legal Realists which included, on the American side, the likes of Jerome Frank, Oliver Wendall Holmes, Jr. (considered the precursor), Karl Llewellyn, Benjamin Cardozo and Roscoe Pound and on the Scandinavian side, Axel Hagerstrom. They rejected the concept of natural law and held that legal concepts should be based on empirical observation and study (providing the basis for both law and economics and law and sociology). Interested in sociological factors and anthropological studies, they held that legal interpretation, including that of contract, was an interdisciplinary and indeterminate exercise that was instrumentalist. In their view, the law and its interpretation should be utilised to achieve social goals and balance interests.¹⁹ Oliver Wendall Holmes, Jr., held that the only source of law was facts—that judges decided on what the facts were and then wrote the opinion within such rationale. The true basis of opinion is “the inarticulate major premise” outside the law (Holmes, 1881).²⁰ While many people may informally hold this opinion, it is germane to note that he was the Chief Justice of the United States Supreme Court.

For an articulate view of contract from a legal realist, we can turn to Karl Llewellyn who was perhaps the most concerned with theories of contract and property. In “What Price Contract?—An Essay in Perspective” (1930) he attempted to outline a theory of private contractual ordering. Utilising both legal sociology scholarship and commercial case law

¹⁸ Upon reading Williamson’s social analysis framework, which does indeed leave room for a more sophisticated view of law, contract and regulation, it is somewhat of a mystery that his work still adopts a rather formalistic basic notion of contract, sidestepping the obvious point that “economics” are indeed created by legal intervention and thus, as well, our very concept of “effectiveness” and “efficiency”.

¹⁹ European Legal Realism was more akin to analytic philosophy or logical positivism of the Vienna School. The U.S. side was dominated by judges who actually dealt with adjudication and legislation on an ongoing basis. Interestingly, Jerome Frank taught at the Univ. of Chicago, later the home to law and economics (and Richard Posner and Richard Epstein), served on the Securities and Exchange Commission, and was general counsel to the Agricultural Adjustment Agency during the “New Deal” of Roosevelt, prior to serving on the US Court of Appeals.

²⁰ Holmes, who wrote this in 1881 was the Chief Justice of the U.S. Supreme Court. The attitudes of both Frank and Holmes stand in stark contrast to the formalistic views or the “strict construction” of legal interpretation which came to dominate law after the 1980s.

he delved into the tensions between formal contract rules and societal practice and the legal and non-legal obligations in understanding contractual relations in a market society. As one commentator noted, he “recognised contract law’s challenge in mastering the development of rules adequate to the regulation of a fast developing commercial world, bringing the varied interests, starting points and power relations into sharp relief” (Zumbansen 2007:5). In other words, he asked “what is the role of contract in a volatile and evolving economy and society?”

Seen in this more subtle manner, an analysis of contract takes us beyond a legal critique based simply on considerations of bargaining power and incentives. Contract’s role can be appreciated as a method of organising business relations (legitimising at the same time the standardisation of contractual arrangements in a business environment but also reinforcing the idea of the “freedom to contract” between private persons). Thus the concept of “legal contract” finds its major utility in providing

a framework for well-nigh every type of group organisation and for well-nigh every type of passing or permanent relation between individuals and groups, up to and including states. (Llewellyn, 1930)

But here an important point should be made: Llewellyn did not fall into the trap of using contract as a reductionist metaphor for all economic or organisational behaviour; rather he saw contract as being something that was “adjustable”, the terms of which served as a rough guide to underlying agreement.²¹ It is an institutional rather than formalistic view of contract and one that recognises at the same time the “indeterminacy” of language and the “unspoken premise” of law and its capacity to shape or constitute relationships or organisations. (This insight is useful to keep in mind in reference to the work of Ostrom regarding the quality and kind of relationships within institutions.)

Legal Realism’s work stopped short of analysing “informal contracts”, or in old-fashioned language, the notion of contract as “promise” or mere “expectation” or “reliance”. The study of contract as promise²² has filled volumes of law journals and aisles of law libraries, most of the work being done from a moral philosophy point of view—i.e. “under what circumstances is it justified to enforce a promise?”. Technical issues of adequate remedies, whether the parties intended to create a contract, whether unilateral or bilateral, mistake, etc. are endless and it is certainly not the intention to deal with any of this in this thesis. However, the issue of informal contract becomes relevant when dealing with business

²¹ This interpretation is supported by Zumbansen (2007:8) where he sets out the Llewellyn’s theory as a starting point for the foundation of “reflexive” law of contract, i.e. a “multi-rational” scheme stepping away from the distinction of market v. hierarchy.

²² See Fried, Charles (1981) *Contract as Promise: A Theory of Contract as Obligation*. Fried notes Hume’s premise of contract as obligation as the basis of a civilised society.

organisations and the recognition by relational contract theorist Stewart MacCaulay that there are many “informal” or “non-contract” contracts made within the business environment. MacCaulay and his colleagues later became known as forming the “Wisconsin School of Contract”.

2.6.5 Relational Contract

Stewart MacCaulay, a contracts teacher at the University of Wisconsin Law School used the classic Lon Fuller *Basic Contract Law* (1947) for teaching purposes.²³ His father-in-law, a business man, was not impressed with the characterisation of contract law and took his son-in-law to meetings with corporate executives to learn about the “real” world of contracts (Smith and King, 2007). Out of that experience came “Non-Contractual Relations in Business: A Preliminary Study” (MacCaulay 1963). Rather than being a paper on contract it deals with the “non-contractual” or perhaps more accurately, the “extra-contractual” in business relations between negotiating parties. Among other things the paper outlines the regulation of business relationships without resort to written contracts (the organisational literature on “trust” and “reputation” drawing from this observation with an emphasis on the social context of the contracting relationship over time). Although this observation was not particularly intellectually earth shattering the paper ended up being one of the most cited law articles ever (Shapiro 1996). As pointed out above, the idea that the interpretation of law or contract had a context outside the “four corners of the contract paper” was certainly well know to the Legal Realists. Perhaps the perceived novelty of the article’s premises speaks to the effectiveness of a legal education based on formalism.

Ian MacNeil, a relational contracts scholar, followed suit after MacCaulay, having met him at a NYU summer workshop for young contract teachers in 1962 (MacCaulay’s 1963 “Non-Contractual” already having been written). MacNeil was in the midst of developing his relational contract theory in relation to work he had been doing in Africa (on a Ford Foundation and Fulbright scholarship). At that time there was an emphasis on law and development that prescribed legal reform as the catalyst for economic development (Smith and Braydon 2007:8).²⁴

²³ This is another classic contract textbook used for teaching contract in addition to Atiyah’s, noted above. Both Atiyah’s and Fuller’s books were updated for decades, and continue to be so.

²⁴ It is interesting to note empirical work that has been done on whether the connections between formal legal institutions and contractual enforcement and economic growth are supported. In an extensive 2006 study by Trebilcock and Leng (2006) “The Role of Formal Contract Law and Enforcement in Economic Development” the relation was not supported.

MacNeil focused on the relationships, rather than on the contracts. He stated that contracts are “relations among people who have exchanged, are exchanging, or expect to be exchanging in the future” (MacNeil 1987). To business people, this is hardly surprising and nor to practising lawyers, but to legal academics and economic theorists it appeared to have been a revelation. Oliver Williamson fleshed out his new institutional economics with references to the relational contract theory, focusing on the relationship aspect of contract. Just as relational contract theory had attempted to break away for classical contract theory, Williamson attempted to break away from classical economic theory (for example, Williamson, 1996).

In MacNeil’s later work “Reflections on Relational Contract Theory After a Neo-classical Seminar” (2003) he makes his argument that relational contract theory, which he by this time had renamed “essential contract theory”, is a politically and ideologically “neutral” approach to contracts. He sets out the four core propositions that inform any relational approach to contracts:

1. Every transaction is embedded in complex relations. Thus transactions may be treated as-if-discrete, but never in fact are discrete; (...)
2. Understanding any transaction requires understanding all elements of its enveloping relations that might affect the transaction significantly; (...)
3. Effective analysis of any transaction requires recognition and consideration of all significant relational elements.; (...) and
4. Combined contextual analysis of relations and transactions is more efficient and produces a more complete and sure final analytical product than does commencing with one-on-one contextual analysis of transactions. This is the most controversial proposition of the relational approach to contract. (2003: 208)

He goes on to note that under the relational approach, express terms in contracts are no more than an extremely important part of a dense web or network of relations (2003:209). This insight, if accepted, has quite a destabilising impact on the use of contract (and corresponding property rights) as the “unit of analysis” in agency theory, incomplete contract theory and TCE.

MacNeil’s relational contract theory is a response to both the classical contract law and to a particular economic analysis of law.

Classical contract law—the law of the discrete contract, the law of 100 per cent on/off consent—is a complete and closed intellectual structure. *So too is its counterpart in economic analysis, rational choice theory.* Such closed structures provide no exit to other worlds.In light of this, the *express terms are, from both practical and intellectual perspectives, a singularly inappropriate starting place for analysis when dealing with most contract cases and issues.* (MacNeil 2003: 210-211, emphasis added)

While the above observations of relational contract theory are not incorrect, relational contract's focus however retains its emphasis on the "lower level" of analysis. Instead of looking to the four corners of one contract, we look to the business relationships and the contractual relationships, both formal and informal, over time. Much work is being done in the agricultural cooperative sector utilising this expanded notion of contract in relation to "network theory" and "chains" (see for example, Karantininus and Nilsson 2007).

Having initiated the analysis of contract law (and implicitly the subject of contract, property) as a multi-level institutional framework, (in the sense that they included political and social analysis in addition to legal forms) we set the stage for the Critical Legal Studies (CLS).

2.6.6 Legal Concepts and Globalisation: Critical Legal Studies Movement

Legal scholarship in general, particularly that which evolved from the linguistic tradition, during the 1980s and 1990s eagerly picked up on the "indeterminacy" argument, throwing itself in with the French Critical Theorists like Derrida. But more often than not they missed something key that was a cornerstone of Legal Realism and that certain of the CLS scholars like Duncan Kennedy and Roberto Unger picked up as central. When Holmes spoke of the "inarticulate major premise" he was not referring to some kind of unchecked subjectivity but rather the social, cultural or institutional environment.

Critical Legal Studies (CLS) was also popular in the "linguistic turn" academic legal world in the 1980s and 1990s but lost some momentum as a movement, criticized for not being able to offer an alternative complete and coherent legal theory. CLS's aim was rather to provide a view of society and its institutions that informed the practice of politics. Its insights endure, perhaps having been ahead of the ability of main stream, liberal legal reform to fully digest its message. While other legal movements chose to study "the market", CLS tried to demonstrate how the market was a social and legal construct, capable of being re-constructed.

Duncan Kennedy, the well known contract scholar at Harvard University, with his prior education in economics, was one of CLS's leading voice, developing an investigation into

contract, law and legislation at odds with a formalistic approach and with a methodological commitment to institutional sociology, historical analysis and philosophical consideration. His work on the globalisation of law and his multi-level analysis focusing on the law of contract both on the “lower” and “higher” level as an institutional and constituting force is perhaps, in hindsight, one of the most useful contribution of CLS.

When Kennedy, uses the term “framework” or “legal context” it is worth clarifying in which sense these terms are used. As he states:

But framework and context are misleading terms for describing the relationship between legal and economic activities. This is because economic activity can't be understood as something autonomous in relation to a set of passive institutional and legal conceptual constraints, as the terms framework and context suggest. Legal institutions and ideas have a dynamic, or dialectical or constitutive relationship to economic activity. (Kennedy, 2006:21)

For Kennedy, law is not merely a reduction to politics, nor a variable or restriction to be studied in relation to economic activity. In “Three Globalisations of Law and Legal Thought: 1850-2000” (Kennedy, 2006) he sets out the three overlapping periods of legal institutional and conceptual change in the West, tracking the rise of classical legal thought (1850- 1914) and the socially oriented legal thought between 1900 and 1968 (roughly agreeing with the time frames of Atiyah cited above, although ending 10 years earlier, as Kennedy's work related to the U.S.). In the third globalisation he points to the trend of thinking about “legal techniques...as the pragmatic balancing of conflicting considerations in administering the system created by the [preceding] social jurists” (Kennedy, 2006:22). One of the mechanisms of this globalisation, among others, is the “new legal consciousness through participation in the new world markets on the conditions set by the multinational companies and international regulatory institutions” (Kennedy, 2006:22).

A key insight in the work of Kennedy, and one that is useful in analyzing theories of the firm and evaluating the changes in cooperative legislation and policy, is the understanding of what we are not speaking. The “thing” that is globalised is not a particular type or form of law or a particular political ideology. Kennedy points out that classical legal thought (formalism in contract) could be either conservative or progressive, that “social” laws could be socialist, Christian democrat or fascist, and that the modern legal consciousness is used by both right and left wing theorists and policy analysts.

In addition, it is not a particular philosophy of law for there is always some heterogeneity of philosophical approaches whether positivism, natural law, pragmatism, etc. Neither is it

a “transplanting” of a set and complete body of rules, for an infinite variety of positive laws were produced for particular situations and environments (“customised” as it were, for particular cultures, periods of history, etc.).

Instead Kennedy is talking about a “mode of thought” or “consciousness” which provided a “conceptual vocabulary, organizational schemes, modes of reasoning and characteristic arguments.” It is a “reconceptualising” (Kennedy, 2006:22). We can say that the mode of thought of “contract” has been globalised: contract as organisation.

In contrast to Atiyah, Kennedy steps outside the “article of faith of liberal historiography” which holds conservative members of the legal profession, entrepreneurs and politicians against the working class, the farmers and the “public interest”(Kennedy, 1980:7). He considered that relying on an analysis of political power or economic interest was a hindrance to understanding modern legal and political theory and suggested that “legal consciousness” be recognised as “an entity with a measure of autonomy”. Such autonomy was to be viewed as a premise that was qualified as being “relative”, for not only were the particular concepts and operations characteristic of any given period, but also the entity that was constituted was “intelligible only in terms of the larger structures of social thought and action” (Kennedy, 1980:5).

To Kennedy classical legal thought was a way of understanding the whole of the legal system at a time when the historical context consisted of rapid industrialisation, concentration of industry and finance, competition, struggles between farmers, railways, unions, employees and the relation of state to federal governments in the regulatory process (Kennedy,1980:7). While Kennedy and Atiyah may be seen to agree on the historical narrative, Kennedy’s focus is different in that classical legal thought was not only manifested in interpretive action and political influence, it was a method of “high level” ordering.

One of the functions of systems of legal thought-*one of the reasons for their existence-is the reconciliation of what appear to be conflicts between institutions and contradictions among ideas.* In other words, system is necessary not just to permit us to deal in a cognitively effective way with the chaotic mass of rules, it is also necessary because the theorist wishes to show that where many perceive confusion, danger, insecurity, rivalry and aggressive action, there exists a latent order that has a legitimate claim to our respect (Kennedy,1980:9). (emphasis added)

Hence, classical legal thought permitted the resolution of basic institutional conflicts, one of which was the conflict between populist legislatures and private business, as well as conflict over legitimacy and jurisdiction between legislatures and courts and different

levels of government. Equally important, at the “level of ideas” it “mediated between natural rights theories and logical positivism and between democratic theory of legislative supremacy and the classical economic prescriptions” about the role of the state in the economy (Kennedy, 1980:9).

How did it achieve this? According to Kennedy, by relying on the basic premise of the classical legal system, that is, that the legal system is composed of a set of institutions, each with absolute power within such sphere and completely void of power without. Thus, within the realm of contract as organisation (economic ordering) private ordering reigns (governance by contract) as it does in the domain of Williamson and NIE (contracting ideal organizational structure). Agency theory is a pure example of this reconceptualisation (contracting ideal behavior). In the legislative and regulatory spheres, contract is governed accordingly (governance of contract). Cooperatives are increasingly regulated as if they were IOF firms, composed of contracting parties. Any conflict is effectively reconciled. This may be the reason why it is so difficult for cooperatives to be conceived as anything but a “defective” form of IOF. Any social or moral consideration is left to the preamble of cooperative laws, which notes the social contribution, yet provides little in the way of legislative tools to carry out such social agenda.

Another contract scholar, Hugh Collins, follows roughly the same historical path as Atiyah and Kennedy in *Regulating Contracts* (Collins, 1999) where he writes of the “contractualisation of social life” going back to the 19th C. His contribution is his emphasis on how markets are in reality legally constituted, thus breaking down the distinction of markets vs. hierarchies.

Collins goes on to note that the dominance of contractual relations in social life declined somewhat as it had to co-exist with bureaucratic relations both within large firms and government institutions. However he points to the “contemporary resurgence of faith in contracts, or rather the advocacy of a particular conception of contracts derived from the study of markets in economics” (Collins, 1999:18). A reason justifying this resurgence is the supposed success of markets in efficiently satisfying consumer demand and thus the implicit claim that any interference with contractual ordering leads to impeding such efficiency. Another attraction of markets is “their seductive claim that they avoid any governmental choice with respect to the pattern of distribution of wealth in society” (Collins, 1999:19). The belief in the invisible hand continues and it has the convenient benefit of not requiring any “political justification for its outcomes”.

However the justifications for the resurgence of contract leave out the central insight that contract is not only about “discrete” or “network” relations but that it also a constitutive or institutional force. And one of the most important things that it constitutes is the market itself:

...the legal constitution and regulation of markets does entail decisions regarding issues of distributive justice. The legal system only supplies selective enforcement of transactions, so that insofar as legal regulation has the capacity to steer contractual relations, it influences distributive outcomes. (Collins, 1999:19)

We find ourselves in a circular logic then: *contract is justified by efficiency but efficiency is determined by laws that enforce (or not) contracts and define what is or is not property, the subject of contract.* We should carefully examine then the use of economic organisational theory to study the legislative remedies “needed” to guarantee success by cooperatives.

Collins adds to this observation, noting that,

[p]erhaps the deepest attraction of markets and contracts as institutions for organizing and co-ordinating social life is that they provide a solution to a problem of loss of confidence in institutionalised structures giving direction to person’s lives. *The preference for markets is symptomatic of a skepticism with respect to any claim to know best how social relations should be organised.[...]* By permitting contractual relations to flourish, the state effectively delegates to individuals as many choices as to the nature of social relations.(Collins, 1995:20)(emphasis author)

Such skepticism about the institutionalised direction of social standards provides the “impetus for the extension of contractual relations”. It is the “legalization” of the public discourse.

This observation, combined with Kennedy’s theory of the compartmentalising of legal institutional spheres (i.e. that within a given sphere the appropriate legal institution has absolute power, but is void of power outside such sphere) means that the legal institution of private contract has overtaken public discourse (of values, norms and ethics) and thus claims its absolute power to define the sphere in its own framework. The “public” goals of the social economy, represented by traditional cooperatives for example, are “privatised” through changes to property structures and the introduction of contract rights.

Paddy Ireland, another contemporary CSL scholar, focuses on property rights. In his article “Property and Contract in Contemporary Corporate Theory” he addresses Easterbrook and Fishel’s seminal work, “The Economic Structure of Corporate Law” (Easterbrook, 1991) which “played a leading role in putting legal flesh on the rather skeletal, market-

based, neo-classical economic accounts of the corporation developed by Alchian, Demsetz and Jensen and Meckling.” (Ireland, 2003:455)

Ireland notes that the internal weaknesses of the original contract model have been recognized, that being the problem of “so-called” contractual incompleteness which has led to the “growing focus on the importance of the allocation of residual control rights” and to a greater emphasis on property. According to Ireland, despite academic interest in comparative corporate governance and ownership structures around the world, the prevailing model of the corporation remains rooted in contractualism and dominated by an overwhelming concern with maximising shareholder wealth.

Ireland holds that attempts to view the corporation through the “prism of contract” are misguided and that there should be a shift to a property based perspective. This shift would necessarily focus on law’s role “in the constitution and maintenance of intangible financial property forms” (i.e. shareholding) (Ireland, 2003:456). However, it is crucial to distinguish this position from the position of “incomplete contract” theorists like Hart, above. Ireland is suggesting that our starting position should centre on property which would then necessarily implicate the role of law and other state institutions in their constitutive role. This is distinct from Hart’s interpretation of property. Ireland is not ceding the role of regulation to contract or allowing property to be a “back-up” or a response to incomplete contract. Ireland’s position requires policy-based regulation, in contrast to Hart’s position which relies on “private ordering” through contract.

Ireland’s critique of Easterbrook and Fisher is detailed and logically devastating in its portrayal of the “myth” of the contractual firm, particularly in his depiction of the externalisation of the shareholder in the modern corporation. However, for the purposes of this thesis it is sufficient to confine ourselves to the observation above. The “share” then is best portrayed as a new form of intangible property rather than a stake in a company. Or as Ireland succinctly characterises it the “no-obligation, no-responsibility, personality-poor share”, in reality a “de-contractualisation” that needs to maintain its ideologies of contract in order to support deregulation and private contractual ordering.

Accepting this theory would have significant implications for contract and property based theories of the firm, particularly those based on *ex ante* incentives or *ex post* reliance on property due to “incomplete contracts”.

Pausing here, let us consider what this means in relation to cooperatives. Unlike IOFs, cooperative ownership, tied as it is to use or activity, is not a “no-obligation, no

responsibility, personality poor share". *It is precisely an example of an "embodied" ownership, built on implication, obligation and requiring interaction.* As Ireland points out, contract theory is a myth, propped up as an ideology for IOFs. Why then, we may ask, do cooperative scholars wish to apply it to the cooperative enterprise?

2.7 Critique of Economic and Legal Contract and Property Rights Theory underpinning Cooperative Law

Everyone is a genius. But if you judge a fish on its ability to climb a tree, it will live its whole life believing it is stupid. –attributed to Alfred Einstein.

From a legal theory point of view, using the term of CLS, we have begun to "destabilise" contract and property theory. Many of the building blocks of these theories are questionable: i.e. the nature of contract, the nature of property rights, the extent to which property allocation is a motivating force and the very idea of the individual and that individual's rationality. The neutral concept of "efficiency" has also been questioned.

Even if we agree that an actor must be "motivated" or "goal aligned" with the interests of the principle, for example, what exactly it is that motivates such an actor according to NIE is extremely simplistic and limited.²⁵ Critics of agency theory, or for that matter anyone even minimally familiar with human psychology, may indeed point out that "motivation" can come in many different forms and be dependent upon many factors. One of the "blind spots" of agency theory is that it is so focused on motivation of the agents to achieve the goals of their principles (goal alignment) that it ignores the multitude of other reasons why agents may fail to deliver less than ideal results. Such failures may include low abilities, poor information, lack of sufficient expertise and knowledge, poor organisational skills, lack of strategic thinking and action, failure to recognise competitive environments, etc.²⁶ Indeed even Jensen and Meckling acknowledged that such a view of man was too rigid and unrealistic (1994).²⁷ Without this narrow "contractualisation" of the individual as an economic actor, the whole theoretical house of cards falls.

But the insistence on contract, property rights and the quest for "efficiency", motivated and measured by material incentives, ignores many other firm behaviours. If only material incentives "count" when comparing various types of enterprise, then "it goes without saying that the cooperative stands convicted—on the charges of inefficiency—before the hearing even begins" (Zamagni and Zamagni, 2010:73).

²⁵ Given that agency theory is more or less tied into the U.S. corporate culture, it is ironic that such a culture champions the value of hard work and not "shirking" when in fact its organisation theory, so closely tied to its economic theory, has such a low opinion of "economic man".

²⁶ Davis, et al (1997, p. 23).

²⁷ See Jensen, M. C. and Meckling, W.H. (1994).

Returning for a moment to Hansmann's theory (1999) as to why cooperatives exist and why they are "transitory" and doomed to disappear or converge with IOFs: he claims that different stakeholders have differing abilities to minimize contractual "costs" (asymmetric information costs, contracting costs, etc.) and as well different costs in "exercising ownership rights" (controlling managers, risk, collective decision-making). What then, is at the core of deciding whether a firm "should be" an IOF or a cooperative? According to Hansmann, the ability of various stakeholders to be "efficient" in their contracting costs.

But as Zamagni and Zamagni (2010:76) point out, the notion of "efficiency" is not value neutral":

As a term of discourse, it is not descriptive, but prescriptive, not positive but normative. For it derives from the principle of utilitarianism, which is certainly not an economic but an ethical principle...it is still the assumption of utilitarian philosophy that must be adopted. How... can it be maintained that comparing two types of enterprises in terms of efficiency is objective, value neutral?

The work of Borzaga, Depedri and Tortia (Borzaga, Depedri and Tortia, 2009; Tortia, 2008; Borzaga and Tortia, 2006; Borzaga and Depedri, 2005) question such characterizations of the individual and their relationships within cooperatives, citing advances in behavioural economics and evolutionary economics. They note that while people's willingness to cooperative in interpersonal interaction can derive from economic convenience of imposition, it may, as well, derive from social norms or from a real community of interest. With respect to cooperatives they observe,

[m]embers and 'stakeholders' behaviours are not only dictated by financial and other monetary variables, but instead reflect primarily their social and moral norms, and intrinsic interests, which need to be correctly coordinated with extrinsic incentives and self interested preferences (2009:10).

Social preferences which are crucial drivers of behaviours and which are not self interested can include interest for the wellbeing of others and a general inclination to reciprocity (Fehr and Gächter, 2000), justice and equity (Fehr and Schmidt, 2001), reciprocity (Zamagni, 2005) and altruism (Rose-Ackerman, 1996). Empirical evidence as to intrinsic motivations in non IOF firms has shown preferences for democratic rules, fairness and autonomy (Becchetti et al, 2009; Preston, 1989; Borzaga and Depedri, 2005); Borzaga and Tortia, 2006).

With respect to evolutionary economics (understanding the emergence, development and change of enterprises) cooperatives may be seen to be an organizational form that has emerged due to innovation. Cooperatives do not focus on profit maximization nor on cost minimization. The latter is the cornerstone of transaction cost economics but incoherent

in agricultural cooperatives—the cooperative firm can't survive if it cuts the cost of the product, as its sole reason for existence is to obtain good prices for its members. Instead cooperatives focus on the production of surplus which is used to satisfy economic and social needs of cooperative members. With respect to the human agency of cooperatives, altruism and pro-social attitudes were found to be useful in increasing the “reproductive success” of organisations by virtue of the ability to inculcate sympathy, trust and sense of community (Borzaga, Depedri and Tortia, 2009:11, referring to studies by Hodgson 1993; Bowles, 1998, 2004).

2.8 Governing the Commons—Cooperative Structures

The classic assumptions about rational individuals facing a dichotomy of organizational forms and of goods hide the potentially productive efforts of individuals and groups to organize and solve social dilemmas (Ostrom, 1990).

Ostrom (2010:661) in considering what leads to successful collective enterprise and governance, noted that simply saying that “context makes a difference” in destroying or building up trust and reciprocity was not a sufficient answer to why collective endeavors failed or succeeded. She noted that problem solving required “(i) a micro context related to the specific attributes of an action situation in which individuals are directly interacting and (ii) the broader context of the social-ecological system in which groups of individuals make decisions”. She set out the following indicators:

(i) Communication is feasible with the full set of participants. When face-to-face communication is possible, participants use facial expressions, physical actions, and the way that words are expressed to judge the trustworthiness of the others involved.

(ii) Reputations of participants are known. Knowing the past history of other participants, who may not be personally known prior to interaction, increases the likelihood of cooperation.

(iii) High marginal per capita return (MPCR). When MPCR is high, each participant can know that their own contributions make a bigger difference than with low MPCR, and that others are more likely to recognize this relationship

(iv) Entry or exit capabilities. If participants can exit a situation at low cost, this gives them an opportunity not to be a sucker, and others can recognize that cooperators may leave (and enter other situations) if their cooperation is not reciprocated.

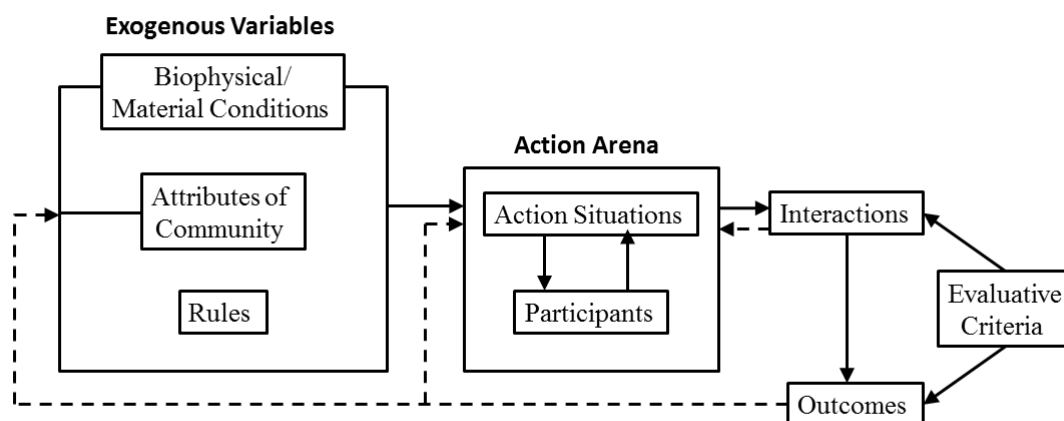
(v) Longer time horizon. Participants can anticipate that more could be earned through cooperation over a long time period versus a short time.

(vi) Agreed-upon sanctioning capabilities. While external sanctions or imposed sanctioning systems may reduce cooperation, when participants themselves agree to a sanctioning system they frequently do not need to use sanctions at a high volume, and net benefits can be improved substantially.

Looking at the list above, we can observe that both the individual and the situation is far more complex than that required of a “rational” actor in a “contract” situation. Rationality still plays a part, as does contractual relations—but they are of a fundamentally different nature, and not weighed simply by easily calculated material incentives.

In the Figure 2.1 below, illustrating Ostrom’s action arena, the individuals are participants in the situation, not only being affected by the situation, but also having a corresponding affect on the action situation. Outcomes have a feedback not only on the action arena, but also on the exogenous variables—and so the process continues in an interactive loop over time.

Figure 2.1 Action Arena



Source: Ostrom (2005)

Looking back at Olson (1965:2) and Harding (1971, 1968) Ostrom notes that

The tragedy of the commons, the prisoner’s dilemma and the logic of collective action are closely related concepts in the models that have defined the accepted way of viewing many problems that individuals face when attempting to achieve collective benefits. At the heart of each of these models is the free rider problem.

[the “logic of collective action” in Olson’s view is that “rational, self-interested individuals will *not* act to achieve their common or group interests”]

These three concepts consider that when one cannot exclude others from benefits that may flow from others’ actions, then each is motivated not to contribute, but to “free ride”. Clearly if everyone “free rides” then there is no collective benefit. We have seen above in

Chapter 2 how various theories have prescribed the remedy of clear allocation of property rights to avoid such free riding. An obsession with avoiding free riding then informs decision making processes and governance structures and as Ostrom points out “all will end up where no one wanted to be” (2010:6).

She notes the power of these models of human behaviour, as they seem to address issues that appear almost universal. However, Ostrom also notes the danger of these models when they are used metaphorically as the foundation for policy: *“the constraints that are assumed to be fixed for the purpose of analysis are taken on faith as being fixed in empirical settings, unless external authorities change them”* (emphasis author).

In whatever philosophy, law or economics class any one of us may have endured studying the prisoners’ dilemma, the option of allowing the prisoner to simply leave jail was not on offer. Yet not all participants in social-economic situations are incapable of changing their constraints (and I wish to underline this idea when considering the case study of Almería in Chapter 6 and cooperative initiatives in general). In what is called a “retrogressive step” in analyzing the human condition, Ostrom points out classic economic models view those who are involved in social dilemmas “as always trapped in the situation without capabilities to change the structure themselves” ignoring the fact that whether or not individuals have capacities to transform the external variables affecting their own situation varies dramatically from situation to the next. It is not a universal condition that “prisoners are separated so they cannot communicate” (1990). Ostrom claims,

I would rather address the question of how to enhance the capabilities of those involved to change the constraining rules of the game to lead to outcomes other than remorseless tragedies. (2010:6)

As well Zamagni and Zamagni (2010:2) point out that in light of the cooperative business model having spread all over Europe, the USA, Canada and Asia and Africa, despite widely varying legislative and tax provisions,

[i]t will be necessary for economics to admit—with the proper dose of humility—that the rationality of individuals pursuing their own personal self-interest is not necessarily the sole economic rationality; and therefore that the economic action of enterprises like cooperatives, driven by a different set of motivations, also represents a form of rationality, albeit different from the merely instrumental rationality of the capitalist enterprise.

Even if economics does admit the above, humbly or otherwise, the more difficult question then becomes how to describe and evaluate this cooperative economic activity and how to regulate it. How do law, policy and organizational structures begin to embody the

“cooperative difference” when engaging and competing in a market populated by IOF actors, as in the case of agricultural cooperatives?

Henry (2012) provides a starting point in describing adequate cooperative (and tax) legislation which:

- takes into account the difference between profit and surplus
- understands the rationale of patronage refund payments to members and the setting up of indivisible reserve funds
- applies cooperative specific accounting standards

Added to this list should also be an understanding by competition law of how cooperative integration functions differently than IOF mergers, for example. (See above, wherein Henry sets out Cooperative/IOF differences).

If we look at the ILO R.193 s. 7(2) (ILO, 2002) it states that:

Cooperatives should be treated in accordance with national law and practice and on *terms no less favourable* than those accorded to other forms of enterprise and social organization. (emphasis author)

While it is true that the phrase above in italics opens a debate on various issues on the regulation of cooperatives, i.e. whether cooperatives are unfairly treated due to laws imposing a “one size fits all” regulation on IOFs and cooperatives alike (evidence of which will be seen in Chapter 5) perhaps the more difficult question is if various cooperative laws are transforming cooperatives into a type of enterprise that makes it difficult to ascertain just what a cooperative is.

2.8.1 Hybrids and Cooperatives

“Firms have invented far more ways to work together than organizational economics has so far expressed (not to mention evaluated).” (Baker et al., 2008)

Elinor Ostrom referred to the “diversity of institutional forms” and Coase (1992) wrote of the many forms economic activity can take in the “the institutional structure of production”. Ménard (2011) outlined those various arrangements which fell neither under pure market relationships nor within ‘firm boundaries’ as “hybrids”, pointing out that such arrangements had various names, such as networks (sociology) or alliances (management), depending on the discipline (Ménard 2011, 4). The notion of a network, based in the sociological discipline is also often used in agricultural cooperatives, to

describe systems “of interdependent, reciprocal exchange relationships” (Achrol, 1997: 68), shaped by “density, multiplexity, and reciprocity of ties and a shared value system defining *membership* roles and social responsibilities” (Achrol 1997, 59). This latter definition is particularly germane to agricultural cooperatives based on the essential role of members.

The changing terminology reflects the richness of relationships among businesses resorting to means of coordination other than the price mechanism or direct integration. It also reflects the lack of a unified and satisfying theoretical explanation (Ménard, 2011:4)

Baker *et al.* (2002: 71) pointed out that where what little attention has been paid to such arrangements, “the focus has typically been on asset ownership and other formal aspects of organizational structure”. Williamson considered hybrids transitory phenomena but later revised his view (Williamson 1975, 1991; Ménard 2009: 6). Ménard, in mapping out an example, describes a case of flour millers in France who decide to set up a special entity to produce and sell high quality bread. It is a case of both competition and cooperation, where the millers give up certain control rights to others and yet are responsible for their own resources and business strategies. He sets out various situations where “firms hand over decision rights and even property rights across boundaries, so that some rights are no longer controlled by a single party “illustrating the variety of solutions implemented by several different institutional structures dealing with shared control” (Ménard 2011: 8). Cooperatives occupy a central role in discussing hybrids:

Cooperatives define another important category, almost a class of its own. The variety of their forms makes their characterization difficult, since they are spread over a wide spectrum, from quasi integrated firms to market-like arrangements.

However, numerous cooperatives share characteristics of hybrids with respect to the joint allocation of rights and their mode of governance, dominated by the “one person, one vote” principle (see Hansmann, 1988; Ménard, 2007b). Ménard examines “the forces which lead to go hybrid [i.e. neither relying only on market transactions nor full integration], in the hope of outperforming markets as well as hierarchies” and is not content to merely focus on contractual relationships. Noting the well known “continuum in organisations” set out by Cheung (1983), where contracts were the focus of attention, Ménard points out that this approach is “misleading” (Ménard, 2011:4).

Ménard goes on to set out the various kinds of hybrid structures (Ménard, 2011:10), such as strategic alliances, supply chain systems, joint ventures, partnerships (also dealing with common pool resources), consortia, etc. and notes that they all differ from an “integrated solution”, the firm and the market.

Understanding why firms invest in projects that require loss of control over key rights raises important questions about why firms accept this loss of control and what pushes parties to go hybrid, rather than relying on pure market relationships or fully integrating.

He concludes that “[h]ybrids provide alternative solutions, possibly optimal ones, when there are significant non-contractibilities” (2011:19) and that “[t]here is an increasing sense that the network of relationships in which particular exchanges are embedded have properties that are greater than the sum of its parts and outcomes that cannot be explained by studying its parts alone” (Achrol, 1997: 63). Cooperatives, one of many hybrid structures, are “institutional structures of production” with their own characteristics and they create specific organizational and governance methods to deal with their unique properties:

- (1) property rights that ultimately remain distinct, although significant assets are pooled;
- (2) decision rights that keep partners independent, although shared rights restrict their autonomy; and
- (3) the need to design adequate incentives in a context in which frontiers among residual claimants are blurred. (Ménard, 2011:53)

Ménard concludes that “[h]ybrids proliferate because advantages of coordination and cooperation overcome gains associated with market competition, while remaining autonomous provides more flexibility and better incentives than an integrated structure can offer.” He refers to the following empirical studies:

- Hybrids act as an instrument to deal with uncertainty. In developing joint strategies, sharing knowledge and risks, implementing common standards, and adopting adequate governance, hybrids might provide solutions not available to alternative arrangements (Robinson & Stuart, 2007; Baker *et al.*, 2008).
- This could explain preferences for socially embedded relationships rather than arms’ length relationships when uncertainty is high (Khanna, 1998; Gulati, 1998) or when high adaptability is required (Uzzi, 1997; Podolny & Page 1998)
- When it is difficult to differentiate between poor performance and bad luck hybrid structures are chosen (Park, 1996: 803).

Spear (2010) refers to “hybrids” as well (although in the sense of cooperatives assuming IOF characteristics) and notes that in Europe during the 1990s there was a wave of revisions to legislation in the 1990s in order to address financial and competitiveness

problems that cooperatives appeared to be confronting: A useful scheme is set out in Table 2.3 of the various adaptations and the manner in how they were carried out:

Table 2.3 European Cooperative Legislation Revisions and Adaptations.

Membership Adaptations	<ul style="list-style-type: none"> • Changes in voting rights: • Transactions with non-members • restrictions on the openness of membership • Extent of capital investment by members
Financial adaptations	<ul style="list-style-type: none"> • Openness to Financial members • Partial adoption of stock company models
Financial instruments:	<ul style="list-style-type: none"> • Issuing of shares/bonds on the market • Differentiating shares (and voting rights):
Managerial control	<ul style="list-style-type: none"> • Decline in member participation • Separation of membership and business structures and issues. • Governance deficiencies • Control by staff and managers • Mission and process drift

Based on Spear (2010)

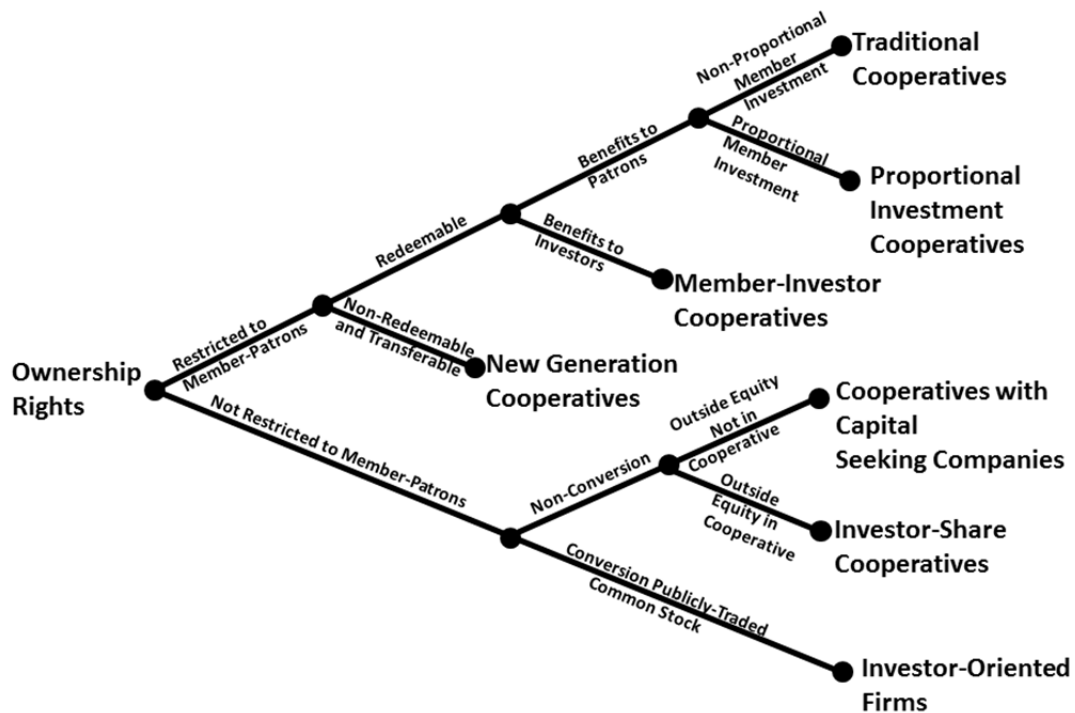
But Spear also notes that all adaptations did not follow one route and that there were different changes such as broadening membership to a multi-stakeholder model or adopting an asset lock and capitalisation of collective reserves. As well, changes moved beyond the unitary organization and brought about holdings and consortiums at the multi organisational level.

Strategies included:

- Adaptations to accommodate heterogeneity of membership
- Adaptations to expand the market or to manage uncertainty in demand or to capture benefits for the few (members/managers).
- Adaptation to raise capital and motivate members financially
- Adaptations to raise finance (or improve manager rewards)
- Adaptation to increase management control
- Adaptations to [widen the scope of cooperative activity]
- Mutualist adaptations to access finance
- Adaptations for growth, diversification, and sustainability (Spear, 2010)

If we return once again to the work of Chaddad and Cook (2004) we can see how they have mapped out such hybrids according to ownership rights.

Figure 2.2 Alternative cooperative models: an ownership rights perspective.



Source: Chaddad and Cook

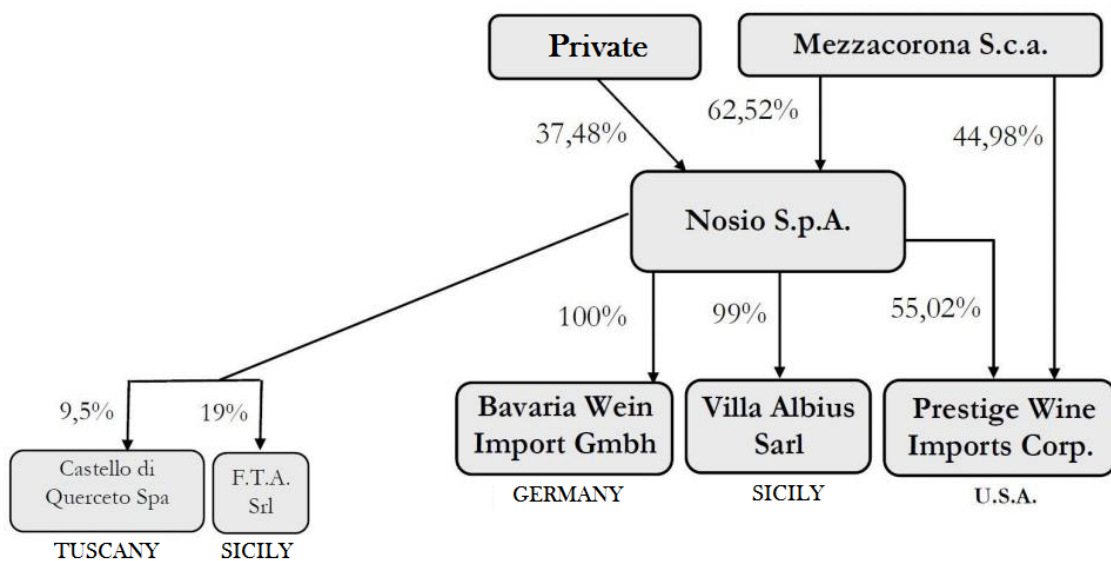
Galera (2004) refers to various models of cooperatives:

- fundamentally mutualistic (Germanic countries and the USA)
- fundamentally sociological (Latin America in some instances)
- in-between model (mainly mutualistic, in which Spain, Italy, France, Belgium, Portugal fall)
- the quasi-public (socialist/communist roots)

She points out that the loss of strict mutuality is not always a path to an IOF, as we can see in the case of Italy (Galera, 2004), particularly with respect to social cooperatives (Law N. 381/1991). In such case the mutualistic restraint gives way to a multi-stakeholder or community interest model. The question then, is whether a “mainly mutual” model, leaning towards investors, instead of the community can function as a cooperative. This is the challenge of hybrids (in Spear’s sense of the work, not Ménard’s).

In light of the above observations on cooperatives and the hybrid form (whether we view a cooperative as a natural hybrid, or a cooperative form that is drifting towards IOF characteristics and thus is a “hybrid”) an interesting case concerning an Italian agricultural cooperative, Mezzacorona, is set out below to illustrate how both cooperative interests and “competitive” necessities may be met. Venturing farther, it may be that this sort of hybrid structure implemented by Mezzacorona actually protects the cooperative identity and business form, not to mention the livelihood of many small family farmers, but it does so with the actual traditional cooperative entity more or less intact.

Figure 2.3 Example of Adaptive Cooperative Group-Mezzacorona (source: Mezzacorona).



Mezzacorona S.c.a. is a cooperative company, founded in 1904, and now the parent company of Gruppo Mezzacorona. The cooperative is located in the region of Trentino, a highly cooperative culture, with a cooperative consortium, to which Mezzacorona belongs, including credit, agricultural, social and consumer cooperatives. Historically it was also an extremely poor area, with a mountainous and difficult farming landscape, isolated, lacking infrastructure and a place from which many of its inhabitants had to emigrate to survive. (The area has striking similarities with Almería, which is subject to the case study in Chapter 6). It’s members hold 2,600 hectares of vineyards in Trentino and Alto Adige, with an annual production of 300,000 quintals of quality grapes which produce 320,000 hectoliters of wine. The modern wineries have a storage capacity of 470,000 liters. Mezzacorona owns all trademarks and is the majority shareholder of all companies involved in the sale and promotion of the group's wines.

Nosio S.p.A. is an IOF company founded by Mezzacorona in 1994 in which the cooperative has a 62.5% controlling interest. At such time there was growing heterogeneity of members: some had small “hobby” plots, some farmers were older with no children to take over and not willing to invest more in the cooperative, while other members were amassing larger vineyards and eyeing foreign markets and improvements in quality and price. The solution was to form an IOF. It was initially formed to sell and promote a premium sparkling wine, the product of those members who were willing to invest in farming techniques to produce high quality grapes (and hence lower yields and kilos). Today the IOF company also oversees the bottling, distribution and promotion of the Mezzacorona’s brands in Italy and 50 other countries worldwide. In addition, the American and German markets are overseen by their own importers, Prestige Wine Imports and Bavaria Wein Import, respectively. Nosio also owns two estates in Sicily. Combined, these estates have approximately 1,000 hectares of land, of which 650 hectares are planted with quality vines. It has small minority interests in two other estates in Tuscany and Sicily. Nosio as the subholding of Gruppo Mezzacorona controls all capital activities and strategic shareholdings of the Cooperative. Nosio S.p.A. stockholders' equity is held by over 400 shareholders, some shareholders being member farmers of Mezzacorona, some being local cooperative credit banks in addition to private investors.²⁸

So where does that leave the cooperative and its members? First, it should be noted that the cooperative is still the controlling shareholder in all entities. Secondly, the success of Nosio is beneficial for the cooperative members. The more Nosio markets successfully, the better for the cooperative members. Thirdly, members may choose to be investors in Nosio as private investors (note, *not* as “cooperative investor members”). Whether or not a member invests in the IOF has no bearing on the cooperative members relationships within the cooperative Mezzacorona. If members with extra capital wish to make an investment, they can do so in Nosio (instead of investing, for example in outside funds or investments), but there is no requirement to do so. Their investments in Nosio benefit Mezzacorona members, but there is not “free riding” since they (as private investors) also receive a return (or not) on their investment. To the extent private investors are not members, they have no interest in the cooperative, but only in the IOF. Their presence does not influence the cooperative.

²⁸ This information was gathered on several site visits to MezzaCorona in meetings with management. The corporate chart is available on the website www.gruppomezacorona.it.

This is just one example of how agricultural cooperatives can change from an organizational or legal perspective (i.e. the cooperative needs to be able to invest in IOF companies), but in a manner that does not change the property rights of the cooperative or its members.

2.9 Applications of theory to legislation

Given the characteristics of the cooperative business form, do the legislative changes proposed by economic organisational theories of the firm result in adequate and coherent regulation? Or, on the contrary, are these legislative changes, based as they are on redefining property and contract rights, part of the process of “reconceptualising” the cooperative so that it fits within the coherent framework of globalised legal concepts?

In Chapter 5 the state of and challenges for Spanish agricultural cooperatives will be set out in eight sub-sectors. Thereafter a review of applicable legislation is set out, with main characteristics of the laws and policy summarized. The effects of these laws and policies on agricultural cooperatives will be examined. This will help us to answer the above question, ascertaining whether legislative “fixes” are actually related to solving agricultural cooperatives’ concerns. The case study in Chapter 6 will provide a “lower level” example of a cluster of agricultural cooperatives to better understand their functioning, necessities and adaptations over time.

Chapter 3 Hypotheses and Objectives

3.1 Hypotheses

In Chapter 2 the principal economic organizational theories (agency, property rights, incomplete contracts and transaction cost economics) underlying the study of the firm have been set out. In addition, the nature of contract and property rights which underpin such theories have been described. Inadequacies of these theories of the firm and formulation of legal concepts as applied to cooperatives have been outlined as well, relying on cooperative theorists and collective action institutional theory. Organizational and legal change which has occurred in cooperatives has taken the form of “hybrids” in many cases, some of which take on IOF characteristics. However, certain developments, such as the trend towards multi-stakeholders and widening the object of cooperatives, safety provisions such as asset locks, or certain forms of hybrids which include non-traditional organizational structures, cannot be said to necessarily be an “isomorphic” tendency towards IOF models.

A closer examination of cooperative law in the agriculture sector will provide an “action arena” in which to gauge the adequacy of changes in cooperative law, policy and organizational form in relation to the cooperative business form. In Chapter 5, the analysis of the state of Spanish agricultural cooperatives, the challenges they face and their resulting legislative and policy needs provides the background against which to examine the organizational, legislative and policy response. Chapter 5 is at the national sector level, the sub-sector level, and the firm level (survey of top 5 of each sub-sector). Chapter 6 is at the local sub-sector level and includes observations at the firm (cooperative) and cluster level. The hypotheses will be applied to the data collected and observations made in such chapters, relying on the theoretical background of Chapter 2.

As noted in Chapter 2, cooperative law and policy, as an institutional force, attempts to reconcile two seemingly contradictory concepts at work: the maintenance of the concept of cooperatives and the emphasis on social economy and second, enterprises which are becoming more “market-oriented” and leaning towards embracing investor-owner organizational design. The “reconceptualisation” of cooperative law and the adoption of the different spheres of jurisdiction, as set out by CLS and described in Chapter 2, facilitates this coherence.

Contract and property law (and thus the economic theories built on them) are historical narratives and contextual concepts. Recognising law and policy’s role in the creation of

markets collapses the distinction between markets and hierarchies, which has been the main distinguishing feature of organisational economics, and thus cooperative theory.

If the institution of law is looked at from the perspective of imposing “coherence” and dividing institutional spheres, legislative change in the cooperative sector can be seen to be “reconceptualising” the cooperative form, such that the public goals or goods of the social economy and in this case, agricultural cooperatives, are “privatized” through changes to property structures and the introduction of “well-defined” property rights. In order to avoid confusion, we are not referring to “private law” or “public law”; rather we are concerned about the transformation and/or characterizations of social-economic interests as being the subject matter of a “private order discourse” (Kennedy, 2006). Henry (2102:57 footnote 155)) makes this point as well in speaking of cooperative law:

The legal categorizing of cooperatives as belonging to the private sector must not be construed as disregarding the socio-political and economic characterisations, whereby cooperatives might be classified as part of the social economy or a third sector in some countries.

Thus, general hypothesis 1 and specific hypothesis H1A:

1. A “modern” contractual approach to procedural regulation, defined property rights allocation and a formalistic approach to cooperative law, often result in a “private law” ordering of social and economic interests as opposed to regulation based on achieving social and economic objectives. The result of this is the marginalization of social or policy driven regulation.

H1A Spanish Cooperative Legislative and Policy Reform has been based on institutional mimicking of investor based firms, without regard to the characteristics of cooperative enterprise structures and inherent social objectives.

Standard economic literature and economic theories of the firm (with some exceptions noted in Chapter 2) have not taken into account the characteristics of cooperatives, particularly agricultural cooperatives, and do not understand their “natural” hybrid nature where certain decision rights and property rights are pooled, while at the same time distinct ownership is kept over key assets. The reason why this occurs and under what circumstances has not been properly investigated nor understood and is subsequently, not well reflected in policy, but rather continues to reflect dual and conflicting goals due to the IOF framework by which the agricultural cooperative is evaluated.

Thus, general hypothesis 2, and specific hypotheses, H2A and H2B,

2. Legislation and policy regarding cooperatives has often failed to allow adequate measures consistent with cooperative characteristics and organizational reality with which to coordinate joint activities and carry out their activities in keeping with the hybrid nature of cooperatives and their activities as “network enterprises” and their existence within a wider diversity of forms of enterprise.

H2A IOF prejudices result in policy and legislative emphasis on reallocation of property and control rights, as well as firm growth and a “one size fits all” approach, rather than networks and other forms of consolidation and concentration of offer.

H2B Cooperative legislative and policy change which mimics investor owned firm characteristics weakens the agricultural cooperative’s ability to survive because it does not acknowledge or support the strengths of the cooperative business form.

As pointed out by various scholars, the agricultural cooperative form has proven to be an efficient and effective way to manage resources (Euricse, 2010; Valeninov, 2007; Bijman 2006; Hendrikse, 2004). Viewing the cooperative as a special type of hybrid, Ménard (2007, 2011, 2012) also supports this view. Agricultural cooperatives can overcome many of the problems with the cooperative business form identified by NIE theories by relying more heavily on cooperative institutions and values, rather than adopting IOF strategies.

Thus, hypothesis 3 and specific hypotheses H3A and H3B

3. The success or failure of Spanish agricultural cooperatives does not depend on this “modern” contractual approach to law and policy but in fact, lies in the strengthening and expansion of cooperative principles, business and governance practices.

H3A Both endogenous and exogenous factors are responsible for agricultural cooperative success, particularly adequate financing and complementary cooperative institutions, professional cooperative management, capacity building, as well as historical, cultural and local economic factors.

H3B Adherence to cooperative characteristics and strategies which are consistent with the cooperative business form and values contributes to agricultural cooperative success.

3.2 Objectives

The objectives of this thesis are:

1. To provide a comprehensive description of the current level of development of agricultural cooperatives and related forms of producer organisations in Spain and to identify the challenges they face. This includes understanding,

- the interrelation between institutional context and policy measures, the position of the cooperative in the supply chain and internal governance structures.
- strategic paths and growth strategies in response to global competition and constant price pressure due to their position in the supply chain.
- historical, cultural and sociologically relevant aspects related to agricultural cooperatives and the changes they are undergoing

2. To analyse cooperative law and policy, as well as certain EU measures, which affect agricultural cooperatives and to ascertain whether such measures are adequate for the cooperative enterprise and the challenges they face. This objective will include consideration of

- traditional contract and property rights theories which have informed suggested strategies for cooperative legislative and organisational change
- cooperative, tax, competition laws and accounting rules, access to financing, as well as certain EU measures

3. From a theoretical perspective, the thesis,

- contributes to the theory of collective enterprise and the cooperative form, creating linkages between legal theory, NIE, legislative change and implications for the cooperative enterprise
- contributes to a regulatory and organizational approach to agricultural cooperatives that is more coherent with the social and economic objectives of the cooperative form, taking into account agricultural cooperative characteristics and values in the theory of the firm
- adds to research on a variety of enterprise forms instead of focusing on IOFs

Chapter 4 Description and Justification of Methodologies

4.1 Explanation and Justification for Mixed Method Research

The thesis will use a mixed methodology (Tashakorri and Teddlie, 2003) or multi-strategy research (Bryman 2001). This implies working with different *types of data and also different methods of investigation*. The application of different research strategies is justified when dealing with a complex range of research questions. Mixed methods research is also appropriate when the research subject calls for an interdisciplinary approach, thus deflecting attention away from an unduly predominant theoretical perspective that is often too specific to particular disciplines and thus limiting to gaining knowledge. Quantitative methods often fall within the positivistic tradition and qualitative methods fall with the “interpretivist” tradition. Thus it may encourage thinking ‘outside the box’ (Brennan, 2005). By using mixed methodology, different kinds of knowledge can be generated.

As well, developing a mixed method strategy fits with the importance of ‘practical enquiry’ that speaks to policy and policymakers and that informs practice (Hammersley, 2000).

The framing of research questions in the case of agricultural cooperative is underpinned by *both* philosophical and pragmatic issues, not to mention policy and politics. Mixed method research allows appropriate consideration of both pragmatic *and* philosophical considerations and permits the study of policy and political considerations.

Sammons et al (2005) justifies using mixed methods in situations where ‘complex and pluralistic social contexts demand analysis that is informed by multiple and diverse perspectives’ (Sammons, et al. 2005, p. 221).

Mixed methods research utilises (Johnson and Onwuegbuzie, 2004; Teddlie and Tashakkori, 2003):

(1) Triangulation which looks for convergence or corroboration of results from different methods and designs, studying the same phenomenon—in this case agricultural cooperatives.

(2) Elaboration or expansion of research by amplifying the breadth of inquiry that using different methods allows. As well, qualitative data analysis may exemplify how patterns based on quantitative data analysis apply in particular cases. The use of one type of data analysis adds to the understanding being gained by another.

(3) Initiation: the use of a first method sparks new hypotheses, paradoxes, contradictions or research questions that can be pursued using a different method.

(4) Complementarity – qualitative and quantitative results are often treated as different categories, yet each type of data analysis may enhance, illustrate or clarify the other. Together the data analyses from the two methods are juxtaposed and generate complementary insights that together create a bigger picture.

(5) Contradictions - Where qualitative data and quantitative findings conflict, exploring contradictions between different types of data assumed to reflect the same phenomenon may lead to an interrogation of the methods and to discounting of one method in favour of another (in terms of assessments of validity or reliability) (Bryman, 2001).

4.2 Institutional Analysis

As set out in Chapter 2, agricultural cooperatives in Spain are studied within their institutional context. In this thesis the social, economic, cultural and historical structures are considered when understanding the established environments in which they operate. The legal and organizational institutions are particularly highlighted. The processes by which the structures and rules and norms become “authoritative guidelines” (Scott 2004) for action in the agricultural cooperative sector aid in understanding both legal and organizational change in the sector.

Particularly important when considering the NIE theories of the “firm”, the use of new institutionalism in the study of organizations illustrates a rejection of rational-actor models (Powell and DiMaggio (1991:8) upon which much economic theories of the firm are based.

As the study of agricultural cooperatives deals with multiple levels, any theoretical approach must consider the methodological challenges that require research to link several levels of analysis (Schneiberg, 2006:195). Institutional analysis goes somewhat farther than just reconciliation.

The research challenges are as follows:

1. capturing the influence of higher-order factors on lower-level entities;
2. identifying specific institutional mechanisms;
3. assessing rather than assuming coherence (Schneiberg, 2006:196); and

4. avoiding approaches which counter institutional models against economic or technological determinants (noting in our case that the economic concept of the market is in large part created by legal institutions).

Schneiberg and Clemens (2006, 195) refer to

a more direct investigation of how alternatives are culturally constituted, how choices among alternatives are contested or justified, and the processes by which the range of “thinkable” alternatives expands and contracts over time and across settings.

By doing so, we do not settle for following a linear, straight ahead idea of institutional analysis as adoption and diffusion but rather a “dynamic and contested [process] of institutionalisation and de-institutionalisation” (Schneiberg, 2006:196).

Fleshing out this approach a bit more in “Institutionalism as a Contested Multilevel Process” Schneiberg and Soule (2005) sought to “reconceptualise” institutionalisation as the product of struggle and conflict over the fundamental character of social, political and industrial order. In doing so, they linked politics and movements with organisational theory and institutional analysis.

Ostrom echoes this approach when she refers to the linking of action arenas and how institutional analysis faces a major challenge in identifying the appropriate level of analysis relevant to addressing a particular problem and being able to understand not only that level, but one or two levels above and below (2005:12).

In light of the multilevel approach, agricultural cooperatives are studied from a state (Spain and the EU) and regional government (autonomous communities) perspective (legislation and policy) as well as a community level (Almería).

However behind all of these levels, is the theoretical plain of what informs organizational and legal change: that of concepts of contract, property rights and the idea of the individual. In order to do so, the institutional theorist must “dig below and learn how rules create the set being analysed” (Ostrom, 2005:18). This approach is different than much business and economic theorists’ research who, much like game theorists, do not concern themselves with the rules of the game, so long as such rules are known.

4.3 Qualitative and Quantitative Analysis of Spanish Agricultural Cooperatives

Multiple sources of information were used, such as databases, interviews, site visits, corporate documents and academic and trade journal articles. The databases used were Amadeus, FADN, INE, MARM and Eurostat, Ministry of Employment, Ministry of Foreign

Trade, Spanish Tax Agency, Instituto de Estadística y Cartografía de Andalucía and data from Alimarket, CEPES and other social economy databases. Also data provided by Copa-Cogeca and Cooperativas Agroalimentarias was used. Information on individual cooperatives, in addition to the survey carried out in May to July, 2011, which forms the basis of Chapter 5.4, has been collected by studying annual reports, other corporate publications and websites as well as SABI (sistema de análisis de balances ibérico). Interviews have been conducted with representatives of national associations of cooperatives, managers and board members of individual cooperatives, and academic or professional experts on cooperatives.

The “top 5” cooperatives which were part of the survey were chosen, for the most part based on turnover. (This was calculated with the help of Cooperativas Agroalimentarias to distinguish turnovers which had to do with agricultural activity from other types of activity. Because of this, rankings of turnover may differ from sources such as Alimarket.) While choosing only large cooperatives is not particularly representative, there was still quite a range of diversity, e.g. a top 5 pork producer is much larger than a top 5 sheep meat producer.

The “top 5” cooperative turnover selection had the following advantages:

- it covered a larger percentage of the sector and of members
- to the extent that one of the issues in Spanish agriculture is characterized by being “atomised” and lacking participation down the supply chain, larger cooperative would most likely be vertically integrated to some extent
- larger cooperatives may be most affected by agricultural policies at multiple levels: regional, national and European
- more complete data collection is possible

Market share was estimated and calculated as the cooperative share in relation to the total market share.

The data gathered in the study of Spanish cooperatives gives a detailed description of the diverse elements that are associated with legislative and organisational change and the functioning of the cooperatives.

The detailed analysis of cooperative legislation and policy in Spain and the EU, together with the compilation of economic data from the agricultural cooperative sector in Spain allows us to observe the influence and efficacy of such policies and legislation.

4.4 Survey of Cooperatives

Eight main agricultural sub-sectors are examined in Spain using 10 years of statistical and research data, with a survey of the top 5 agricultural cooperatives in each of 8 agricultural sub-sectors. The Questionnaire, attached as an Appendix, is divided into sections which deal with general information, financial data, internal governance and membership issues, position in the food chain and strategy.

The Questionnaire was emailed to the cooperative contact person with an explanation thereof. Follow-up phone calls and emails were made during the course of 3 months during May, June and July of 2011, and at times, information was taken over the telephone. Where information was not forthcoming from the cooperatives, alternative sources were used. Where no reliable information was possible, “not available” was indicated. In some cases cooperatives gave financial information that was not credible (e.g. 1000X leverage ratios) and in such case the information was either indicated as being “unavailable” or obtained from official or reliable industry sources (e.g. Alimarket).

4.5 Case Study methodology

A case study approach (Yin, 2009) was used to gain knowledge at another level, allowing a contrast of both macro and micro analysis (Kelle 2001). Cook and Burrell’ (2009) framework of the dynamic lifecycle of cooperatives was used to complement existing descriptions of the phases of Almería’s F&V cooperative growth (Molina Herrera, 2005). Ostrom’s notion of “Action Arenas as Focal Unit of Analysis” is appropriate where the phenomena can be studied from different levels.

The case study of the development of the F&V cooperatives of Almería identifies the existing challenges and problems and evaluates the existing legislative and policy response and inherent characterization of the cooperative business form, within the thesis’ theoretical framework.

Legislative examples are used to demonstrate the competing interests of agricultural cooperative legislation (e.g. adoption of “investor-owner” measures and an emphasis on growth vs. social and traditional cooperative values) and the structural dissonance between agricultural cooperative purpose, objectives and strengths.

Chapter 5 Analysis of Agricultural Cooperatives in Spain and their Institutional Environment²⁹

5.1 Introduction

5.1.1 Objectives

This Chapter 5 provides a comprehensive description of the current level of development of cooperatives (and similar forms of “collective enterprise” producer organisations in Spain) and the challenges they face. In order to evaluate the adequacy of legislation or policy, it is necessary to ascertain what challenges exist and what problems have been identified in need of remedying. The description presented pays special attention to the following drivers and constraints for the development of cooperatives:

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

Second, laws and regulations that enable or constrain cooperative development are identified; and

Third, specific support measures and initiatives which have proved to be effective and efficient for promoting cooperatives in the agricultural sector in Spain are identified.

5.1.2 Analytical framework

As mentioned in Chapter 4-Methodology, the study of any cooperative system implies a multi-level approach. In order to begin the analysis of agricultural cooperatives in Spain this Chapter begins with three main factors that may determine the success of cooperatives: (a) the position in the food supply chain, (b) internal governance and

²⁹ The European Commission in relation to its stated commitment to facilitate the restructuring of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations launched a study through DG Agriculture and Rural Development, “Support for Farmers' Cooperatives”, that was intended to provide background knowledge for farmers to organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income. This Chapter 5, although substantially revised, is based on portions of the Spain Country Report carried out by the author for such project. The table (5.30) on legislation, although substantially revised herein, was supervised in the original report by Prof. Carlos Vargas Vasserot, the second author of such report who carried out a numeric legal evaluation and a descriptive legal report (both not included herein).

organizational structure, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative in relation to other participants, such as processors, wholesalers and retailers. The internal governance and organizational structures refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to members or in some cases, professional management as well as the organizational structure of the cooperative enterprise (holdings, subsidiaries, etc.). The institutional environment refers to the legal, social, historical, cultural and political 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 focal points of the analytical framework applied in this Chapter 5. Within this framework, legislative and policy initiatives occupy a central role.

5.1.3 Definition of the cooperative

The following definition of cooperatives and producer organisations (POs) is used. A cooperative/PO as an enterprise characterized by user-ownership, user-control and user-benefit (Dunn, 1988):

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

This definition of cooperatives and POs (hereafter shortened in the text as cooperatives) includes cooperatives of cooperatives and associations of producer organisations (often called federated, secondary or second tier cooperatives).

The use of this wider definition is necessary given the wide variety of cooperative entities found in Spain and the different legislation to which they are subject.

There are diverse types of collective enterprise producer organisations and cooperatives in Spain, the most common being first and second tier cooperatives, the majority of which

are set up under regional cooperative but not national cooperative legislation. As a result of different autonomous community legislative frameworks, they have significant differences, with distinct social, political, and legislative histories and characteristics.

As well there exist community exploitation of common lands cooperatives - "CEC" - where land is held in common and there are rules governing the ceding of the land to the entity. Cooperatives with common use of machinery - "CUMA"- exist in the Basque Country, Navarra and Galicia. SATs ("sociedades agrarias de transformación") are perhaps the most popular form of collective entrepreneurship in agriculture after cooperatives. SATs are somewhat like general partnerships and capitalistic companies at the same time. Their membership is limited to farmers, farm workers or those with farm related purposes, but their statutes and bylaws allow voting in proportion to share capital when decisions that need to be taken are financial in nature. This chapter 5 focuses primarily on agricultural marketing cooperatives.

5.1.4 Method of data collection

Multiple sources of information have been used, such as databases, interviews, corporate documents and academic and trade journal articles. The databases used were Amadeus, FADN, INE, MARM and Eurostat, Ministry of Employment, Ministry of Foreign Trade, Spanish Tax Agency, Instituto de Estadística y Cartografía de Andalucía and data from Alimarket, CEPES, Cooperativas Agroalimentarias and other social economy databases. Also data provided by Copa-Cogeca has been used. In addition, information on individual cooperatives in addition to the survey which was carried out in May to July, 2011, which forms the basis of Chapter 5.5, has been collected by studying annual reports, other corporate publications and websites as well as SABI (sistema de análisis de balances ibérico). Interviews have been conducted with representatives of national associations of cooperatives, managers and board members of individual cooperatives, and academic or professional experts on cooperatives.

The "top 5" cooperatives which were part of the survey were chosen for the most part based on turnover. While only choosing large cooperatives is not particularly representative, there was still quite a range of diversity, e.g. a top five pork producer is much larger than a top 5 sheep meat producer. Top 5 turnover had the advantages as set out in Chapter 4.3 -Methodology.

5.1.5 Period under study

This Chapter in general, covers the decade from 2000 to 2010. In certain cases, where indicated, more recent data has been included from 2011 and 2012. The literature that has been reviewed is predominantly from such period, but with exceptions for important prior studies or more recent cooperative literature.

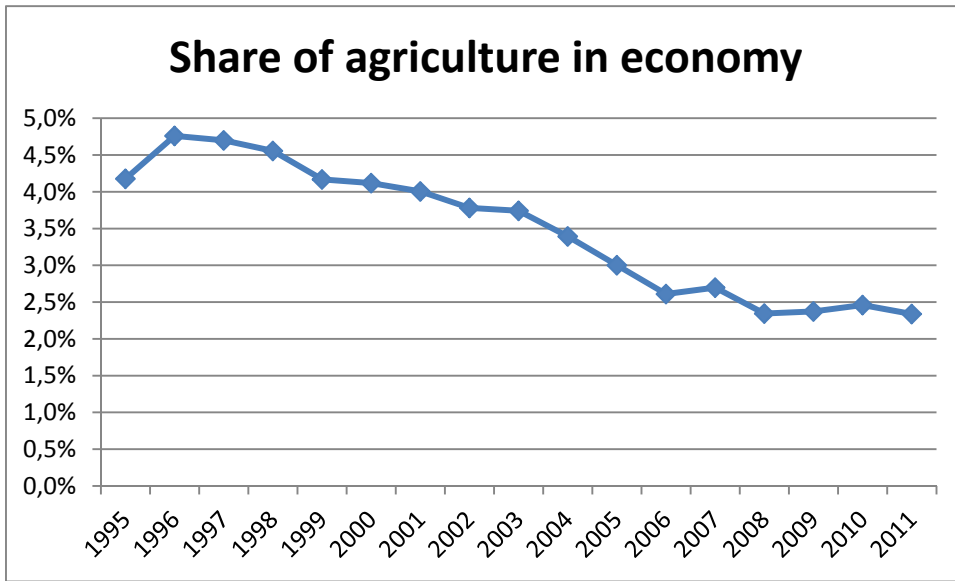
5.2 Facts and figures on agriculture

5.2.1 Share of agriculture in the economy (not limited to cooperatives)

Based on Eurostat data, in 2011 agriculture was 2.34% of GDP (Figure 5.1).

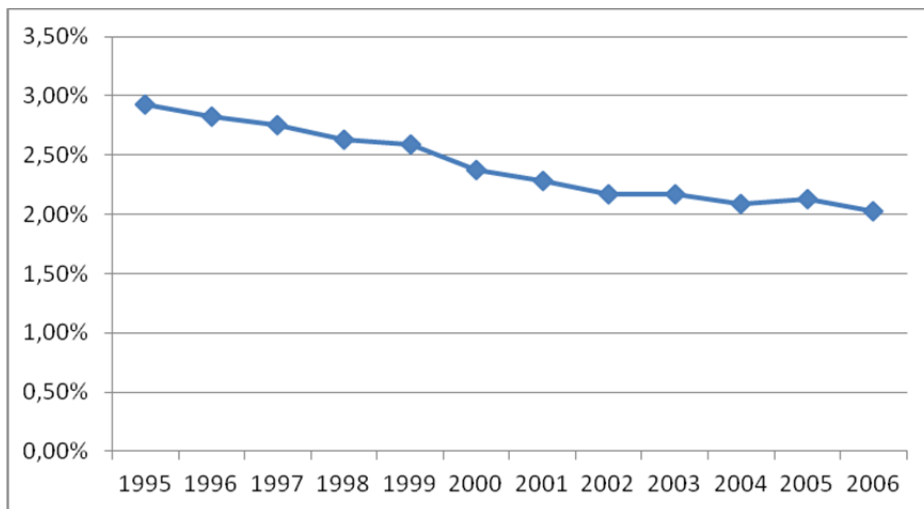
Spain has followed in the last 20 years the same tendencies as European agriculture, with agriculture becoming less important in terms of the overall economy. However, these changes have not affected equally all regions, resulting in regional and functional specializations. This has allowed the sector to become more competitive, notwithstanding its reduced size. In addition, the last few years have been a difficult for the Spanish economy in general with lower prices affecting farmers. However, many farmers have focused on exports, reaching a record of 22,029 million Euros in 2010, representing 8.12% more than 2009 (Cooperativas Agroalimentarias, 2010a). As well, in spite of its reduction and the overall loss of employment derived there from (though in 2010, employment in agriculture started to recover), agriculture continues to be a key element of rural development and of many regional economies (Ministry of Agriculture and Fishing, 2011; Molinero, 2006).

Figure 5.1 Share of agriculture in GDP

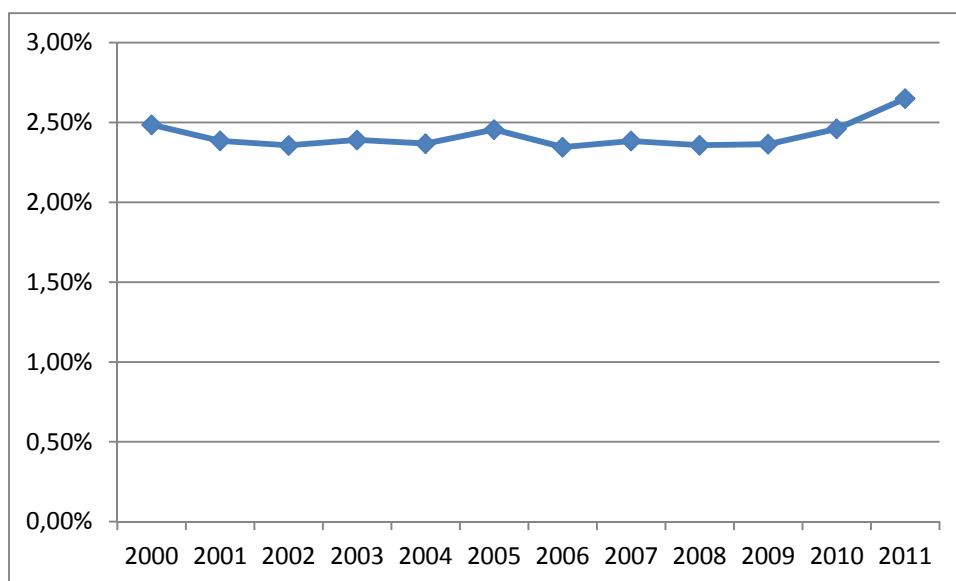


Data source: Eurostat Nat. Accounts and INE (2008-2011)

Figure 5.2 Share of manufacture of food products and beverages 1995-2006



Data source: Eurostat Nat. Accounts by 60 branches

Figure 5.3 Share of manufacture of food products and beverages 2000-2011.

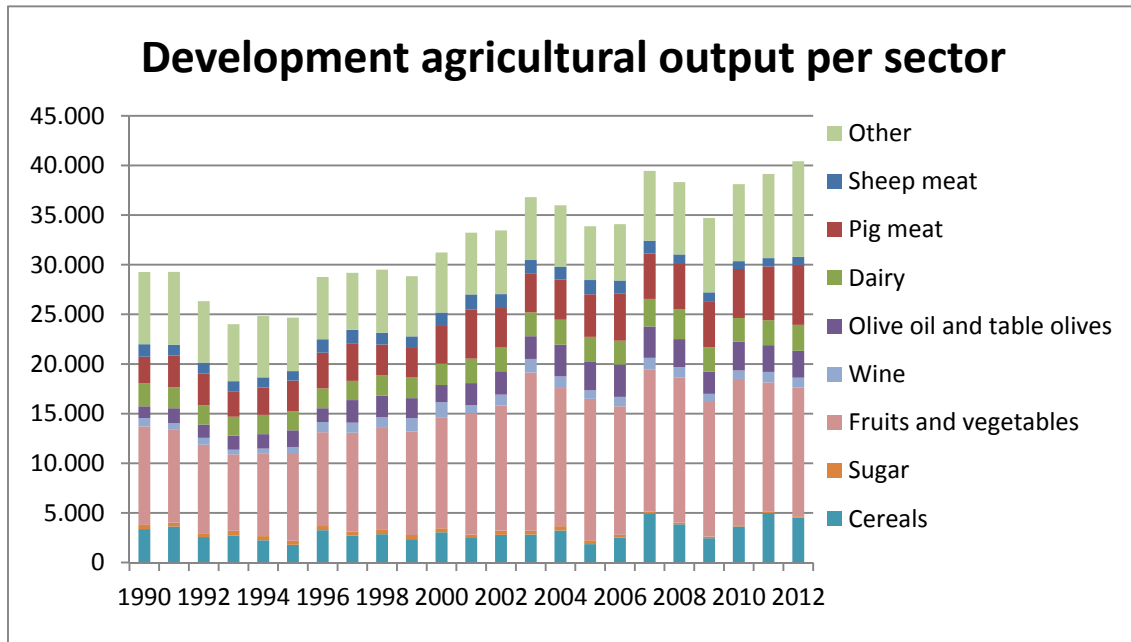
Data source: Eurostat Nat. Accounts by 64 branches³⁰

5.2.1 Agricultural output per sector

Within agriculture, several main sub-sectors exist and in reference to the study of eight such sub-sectors, Spain is present in all. The most important is the fruit and vegetable sector, followed by pig meat. Olive oil and table olives have experienced an important increase, as has wine. Dairy remains constant and the cereals sector remains important although fluctuating. Sheep meat has experienced a decline. Sugar outputs are relatively minimal (but have been included due to the presence of a large sugar cooperative). In Chapter 5.6 each of these sectors is dealt with in greater detail, both from a general perspective and from the cooperative perspective. Figure 5.4 provides information on the main sectors in Spain.

³⁰ Figures 5.2 and 5.3 vary due to changes in how Eurostat calculated the GDP. Eurostat provides information on national GDP divided into 60 or 64 industries. Information for Spain in 2011 was provided only in the category of 64 industries, skewing the results somewhat.

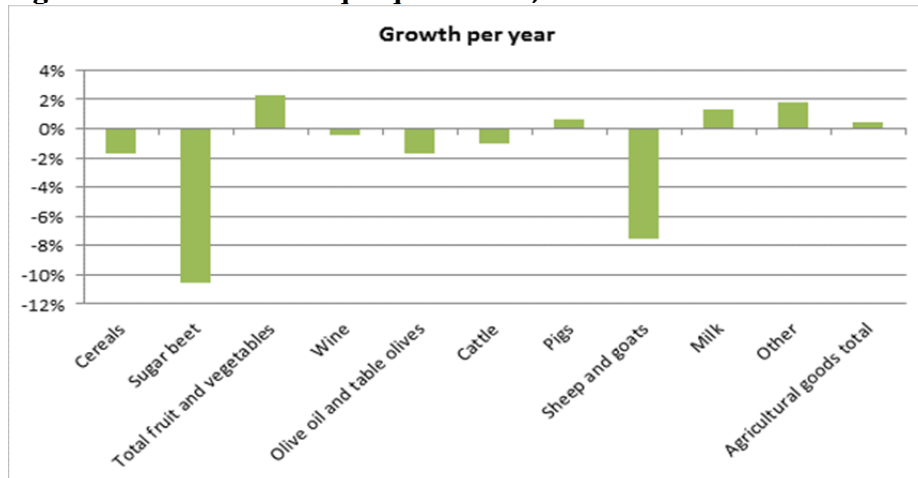
Figure 5.4 Development of the different sectors in agriculture, value of production at producer prices, in millions of Euro.



Source: Agriculture Economic Accounts, Eurostat

Figure 5.5 shows the development in output for the period 2001 -2009, calculated on a 3-year average around 2001 and around 2009 (thus, 2008, 2009, 2010). Fruits and vegetables exhibit the highest growth at over 2% followed by dairy. Sugar beet is clearly in decline as is the sheep and goat sectors. (See individual sectors in Chapter 5.5 for a more detailed description of the characteristics and trends in each sector.) Overall growth in outputs, although positive, is approximately 3%.

Figure 5. 5 Trends in Output per Sector, 2001-2009.



Source: Economic Accounts of Agriculture, Eurostat.

5.2.2 Development in the number of farms

The number of farms in Spain is given in Table 5.1 (2000-2007) and Table 5.2 (2007-2010) and Figure 5.6. Sugar and dairy show the highest decline in number of farms, with cereals, pig meat and fruits and vegetables decreasing as well. Wine and olives hover at a decrease of about 1%. Although there is evidence of some consolidation and/or abandonment of activity the decrease in the number of farms was well below that of the figure for the EU (8.3% from 2003 to 2008³¹) and is evidence of the “atomization” of farms in Spain. The high number of farms attests to the endurance of the “Mediterranean” model of agriculture and is seen as a persistent “problem” for those who argue for an increase in size as a method to gain competitiveness. Cooperatives in Spain traditionally have tended to opt for growth through the creation of second level cooperatives, with the exception of some areas, Almería being a case in point. Below in section 5.4 there is further discussion of consolidation and mergers in the agricultural cooperative sector.

Table 5.1 shows both the number of farms in total and in relation to which main types for 2000 and 2007, as well as the development. Table 5.2 shows such data for 2007-2010 (the basis for calculation having changed somewhat between the two timeframes).

Table 5.1 Number of farms 2000-2007.

	2000	2007	% change per year
Cereals	143,540	114,290	-3.20
Sugar	55,480	38,150	-5.21
Pig meat	25,480	21,700	-2.27
Sheep meat	80,540	81,540	0.18
Total fruits and vegetables	272,980	225,080	-2.72
horticulture	55,980	42,080	
fruit and citrus fruit	217,000	183,000	
Olive oil and table olives	231,650	214,800	-1.07
Wine	86,460	80,630	-0.99
Dairy	46,910	26,640	-7.77
Beef	54,270	42,510	-3.43

Source: Eurostat, Farm Structure Survey Historical Data

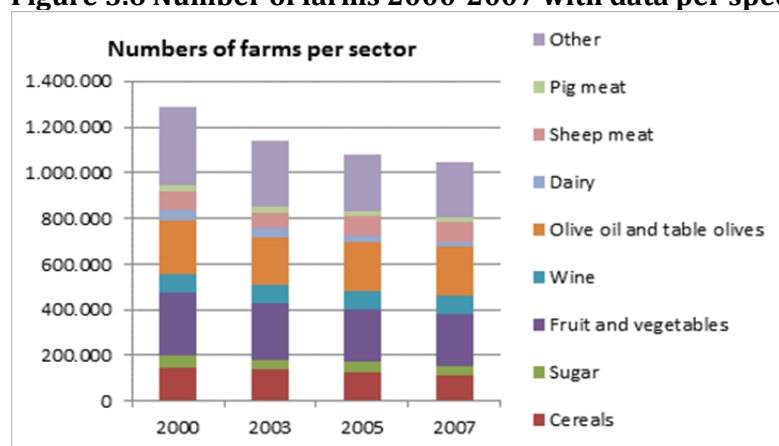
³¹ Data from Alimarket.

Table 5.2 Number of farms 2007-2010

	2007	2010	% change
Cereals	109,320	128,800	17.8%
Sugar	11,760	7,830	-33.4%
Pig meat	16,380	16,190	-1.2%
Sheep meat	57,470	50,760	-11.7%
Total fruits and vegetables	226,760	199,730	
horticulture	43,110	38,780	-10.0%
fruit and citrus fruit	183,650	160,950	-12.4%
Olive oil and table olives	208,430	213,120	2.3%
Wine	80,820	67,330	-16.7%
Dairy	27,740	23,120	-16.7%
Beef	48,720	55,420	13.8%

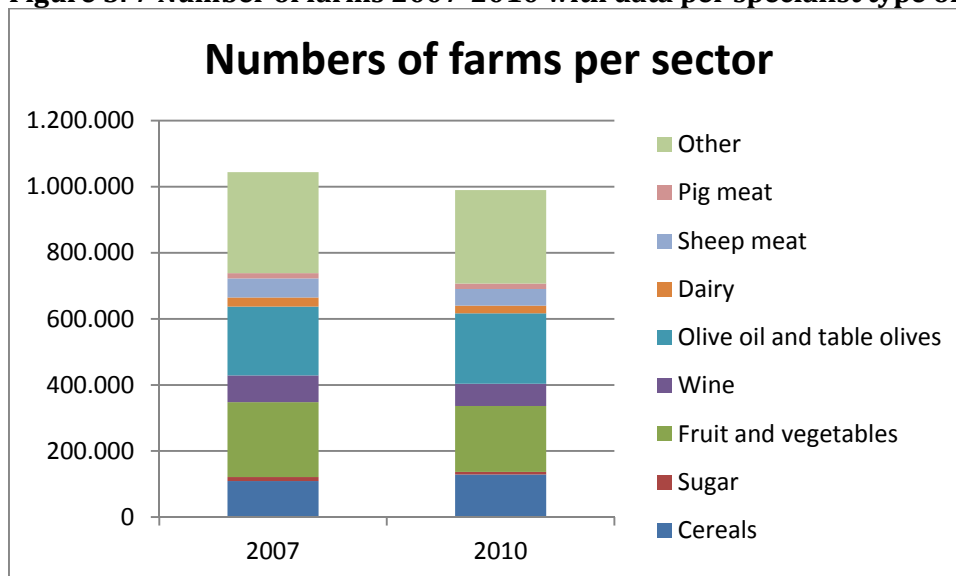
Source: Eurostat, Farm Structure Survey 2010³²

Figures 5.6 and 5.7 below, provides the data in graphical format.

Figure 5.6 Number of farms 2000-2007 with data per specialist type of farming.

Source: Eurostat, Farm Structure Survey Historical data

³² The most recent available data correspond to the Farm Structure Survey in 2010 which includes a comparison with 2007. However, there are certain differences between the data provided by Eurostat in the survey between 2007 and 2010, which can be seen in Table 5.1 and 5.2 for 2007, and thus consolidation was not feasible.

Figure 5. 7 Number of farms 2007-2010 with data per specialist type of farming.

Source: Farm Structure Survey 2010³³

5.2.3 Size of farms

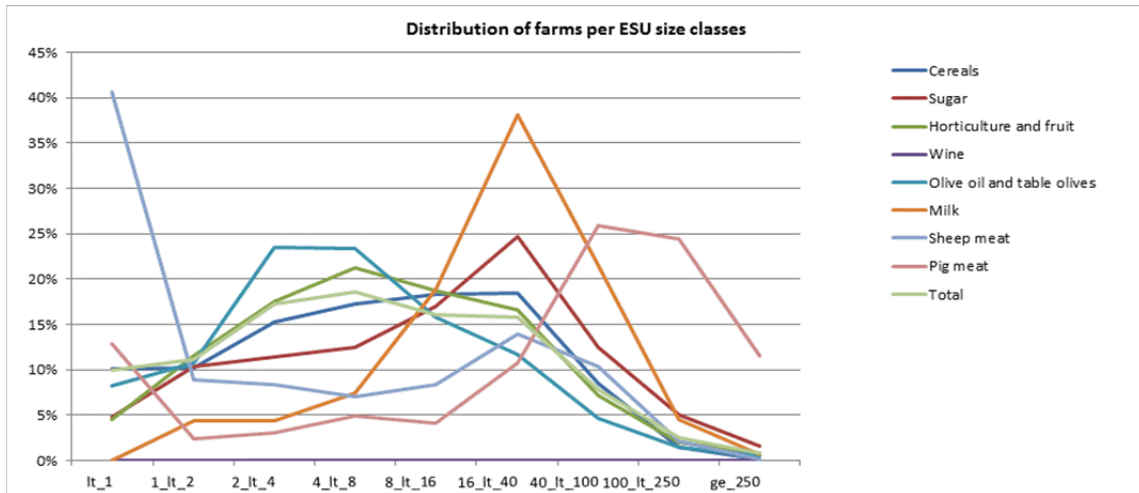
Farms vary in size from small part-time farms to large exploitations. Figure 5.8 shows the distribution of farms per size class, measured in European Size Units (ESU) for 2007 and thereafter Figure 5.9 in Standard Output (SO) for 2010. Along with the sheer number of farms, the small to medium size of farms in Spain is also indicative of the “atomization” of the whole of the agricultural sector. Dairy and pig meat farms are the exception for Spain, demonstrating farms of larger size but they are still of relatively small size compared to the European standard. The sugar sector has larger farms as well, but as the sugar market is small and decreasing this fact is less significant. The average total farm size for Spain, in terms of area, according to the 2009 (last year available) Spanish Office for National Statistics, Agricultural Census was 30.9 ha (“usable land”, 24 ha).

Sheep farming is predictably notable for its large number of tiny traditional operations (although farm size does not capture the fact that in Spain there is a tradition of sheep grazing on common and other privately owned lands not belonging to the farmer. EU policy ignores this to the detriment of such farmers regarding subsidies). Fruits and vegetables display little deviation from the small to medium size. The size of Spanish farms is in line with the small size of businesses in the Spanish agri-food industry. Out of 31,824 such companies, only 3.44% have more than 50 workers and 96.54% are small to medium enterprises. Consequently there is a substantial disparity between the size of

³³ The most recent available data correspond to the Farm Structure Survey in 2010 which includes a comparison with 2007. However, there are certain differences between the data provided by Eurostat in the survey between 2007 and 2010, which can be seen in Tables 5.6 and 5.7 for 2007.

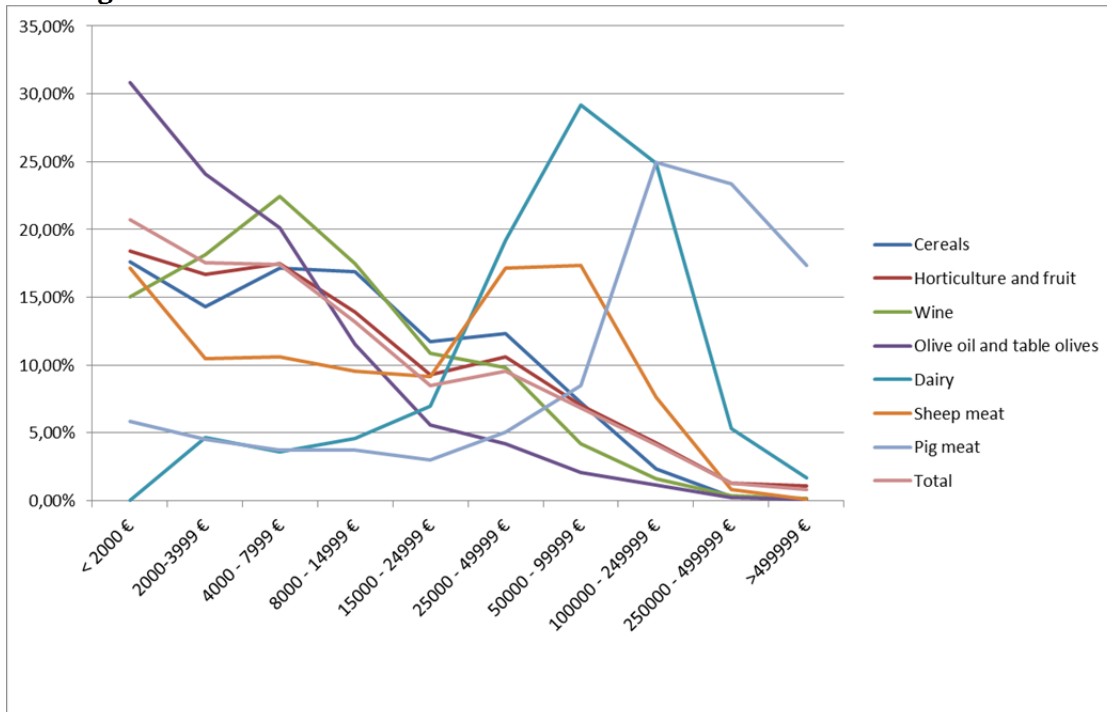
producers and clients, which translates into a clear advantage for the large supermarkets which are five to six times larger than the very largest agro alimentary company in Spain (Baamonde, 2009).

Figure 5.8 Number of farms per size class, measured in ESU, per specialist type of farming in 2007.



Source: Eurostat, Farm Structure Survey Historical Data.

Figure 5.9 Number of farms per size class measured in SO, per specialist type of farming in 2010.



Source: Eurostat, Farm Structure Survey 2010³⁴

³⁴ The size of farms according to the 2010 survey and thereafter is measured in SO (Standard Output) instead of ESU (European Size Unit), 1 ESU being equivalent to 1200 €.

5.2.4 Age of farmers: distribution of farms to age classes

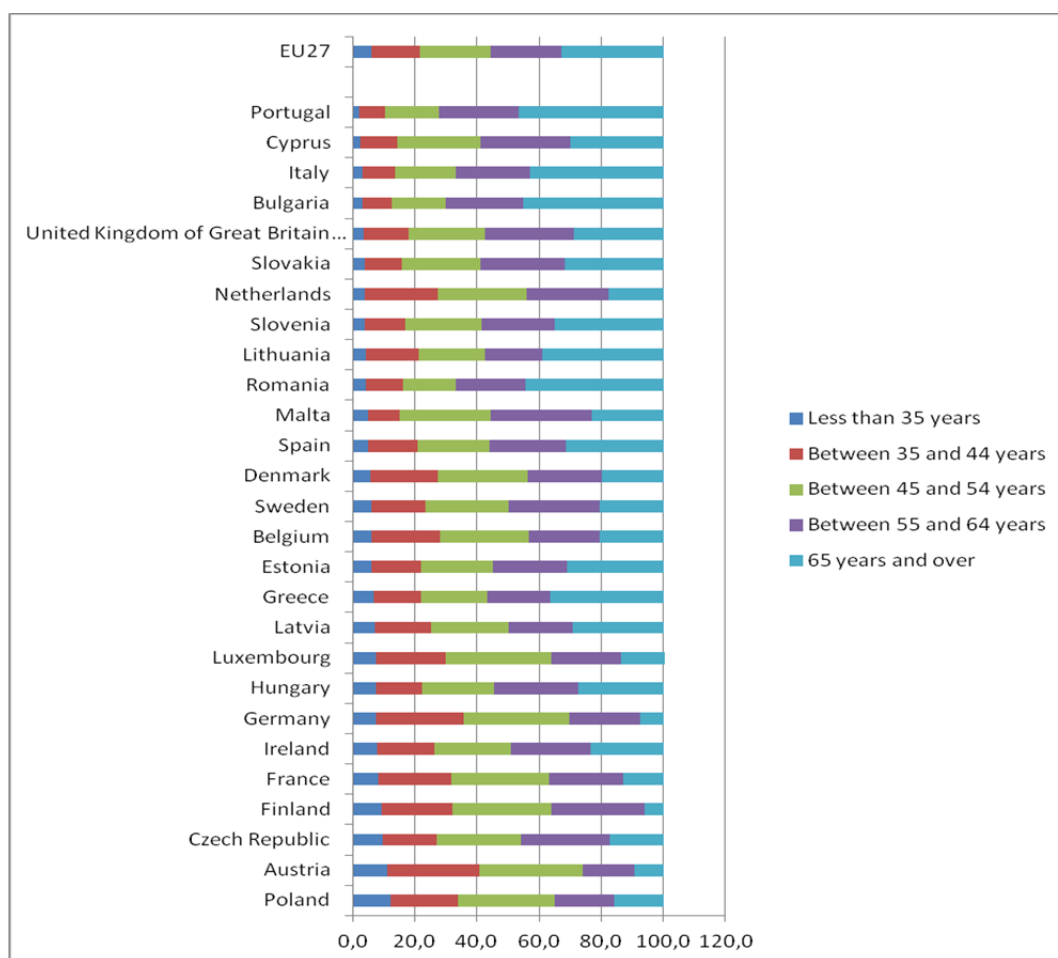
The age of farmers differs across Europe. In Spain, with about a third of the farmers over 65, there is a great difficulty in attracting younger farmers. This is caused by several factors: parents encouraging their children to enter other professions and not continue with the family farm, as farming is seen as a difficult and not very profitable occupation; young people viewing farming as an unstable and insecure future as well as not having a socially valuable reputation and young women in particular having few role models and/or little encouragement to enter farming. As well, young immigrants who, until the recent crisis, made up an important labour group on farms, find themselves with little access to capital to take up farming, even if there is an interest and technical experience.

This state of affairs may have an effect on decision making, as older farmers have a shorter term view on the necessity for investment, growth, upgrades, cooperative organisational change, mergers and “upheaval” in general. Farms are at times viewed by older farmers as potential land investments (pre-housing bust, where agricultural lands were re-zoned for urbanisation) which would provide an inheritance for a younger generation.

Infrastructure funds were used, at times, to purchase supplies and to cover farm costs rather than invest in necessary technology, farm structure upgrades and cooperative organisational change and investment. As an example, in some areas of southern Spain approximately 30% of greenhouses have obsolete designs, as older farmers were reluctant to invest in upgrades thinking that the land would be used more lucratively for construction. This assumption proved to be false when the housing bubble burst and currently there is a significant level of low producing greenhouses.

The average older age of farmers has had an effect on the vision for the cooperatives in general, whether through resistance to mergers, investment in cooperative infrastructure or to less local and more national/international focus. Older farmers in Spain also by definition signify a lesser degree of professionalization and management/business expertise, particularly in areas which concern skills beyond production.

Figure 5.10 Percentage of farmers per age class, per Member State and EU27, 2007 (ranked with countries with the lowest percentage of young farmers on top).



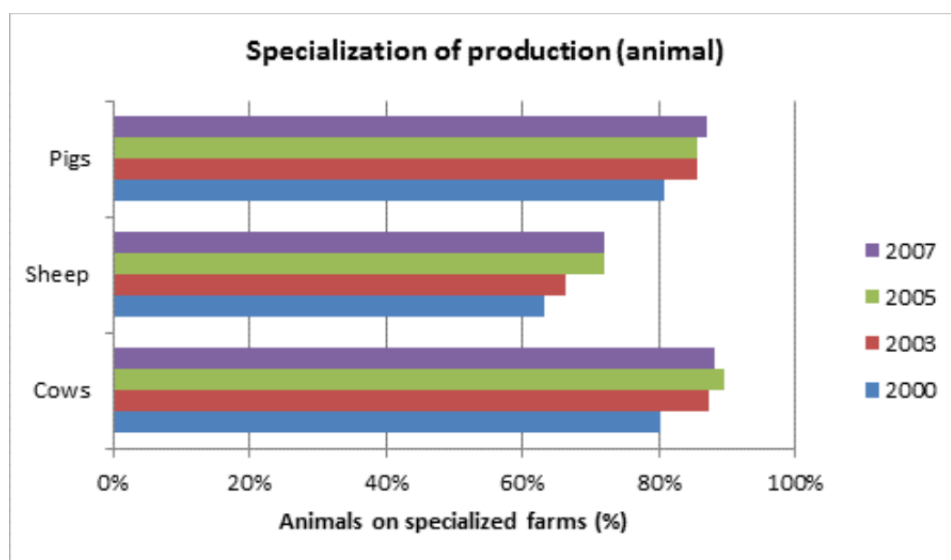
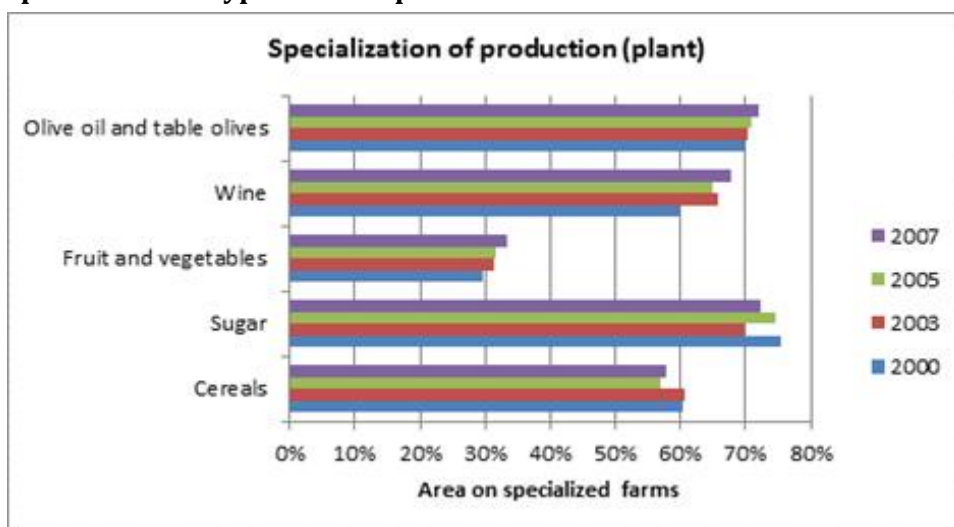
Source: Eurostat, Farm Structure Survey.

5.2.5 Specialisation of farm production

In addition to farm size and farmer age variance, farms also have a different composition of their production portfolios and therefore their input. This is even true for specialist farms, where, for example, some so called specialist dairy farmers also have beef or sheep or sell hay. In addition, a lot of mixed (non-specialized) farms exist. The heterogeneity of farming in terms of specialisation can be estimated by calculating the share that specialized farms have in the total production. This is shown in Figure 5.11 (split into 5.11A for plant production and 5.11B for animal production).

There has been a gradual slight trend in specialisation in most sectors, the highest being in the sheep, cow and wine sector and of a slight de-specialisation with respect to cereals and sugar. With respect to fruits and vegetables, the heterogeneity is quite regionally varied, as in the south farmers using intensive production techniques are very specialised while in the north and centre of Spain farms are more highly diversified in product.

Figure 5. 11 A & B Heterogeneity in farm production: the share of specialist farm types in total production.



Source: Economic Accounts of Agriculture, Eurostat

5.2.6 Economic indicators of farms

The description of Spanish agriculture in general concludes with some economic indicators (Table 5.3). These indicators focus on the net value added and income from farming for farmers, as well as the level of their investment. While some of this investment is in the equity of the cooperatives, by far the most is in farm assets. Net value added is lowest in the wine and olive oil sectors and highest in dairy, pork and to a lesser extent sheep meat, with fruit and vegetable, cereals and sugar occupying a middle position, the income and investment in relation to each sector, reflecting such range as well.

Of particular note is the low utilization of agricultural area for fruits and vegetables due to intensive agriculture whilst pig meat is notable for the economic size of its farms.

Table 5.3 Economic indicators for farms.

Economic indicators average per farm (2006-2008)

	Cereals	Sugar	Fruit and vegetables	Olive oil and table olives	Dairy	Wine	Pig meat	Sheep meat
Economic size - ESU	22.50	40.43	26.45	21.07	39.67	22.00	179.90	34.30
Total labour input - AWU	0.97	1.29	1.53	1.36	1.63	1.33	1.73	1.38
Total Utilised Agricultural Area (ha)	75.0	45.6	8.3	13.3	22.1	19.6	22.0	61.7
Total output €	39,589	54,917	40,145	20,911	112,636	28,755	201,430	66,282
Farm Net Value Added €	30,729	37,235	26,595	17,177	56,950	19,783	67,414	40,571
Farm Net Income €	26,098	29,953	19,872	12,640	53,982	15,353	56,129	35,655
Total assets €	331,782	377,304	262,008	247,420	502,906	194,205	482,766	343,178
Net worth €	325,718	370,193	254,955	245,888	487,705	189,716	445,917	330,234
Gross Investment €	1,300	-1,277	1,428	506	5,157	1,926	9,334	3,093
Net Investment €	-1,659	-4,699	-875	-1,055	-212	-963	-734	-619
Total subsidies - excl. on investm. €	14,065	14,609	1,437	3,832	10,720	1,347	4,938	13,608
Farms represented	83,183	25,890	144,397	149,587	23,773	53,783	15,867	33,717

note: less than 3 years available

Source: DG Agri, FADN.

5.3 Evolution, position and performance of cooperatives

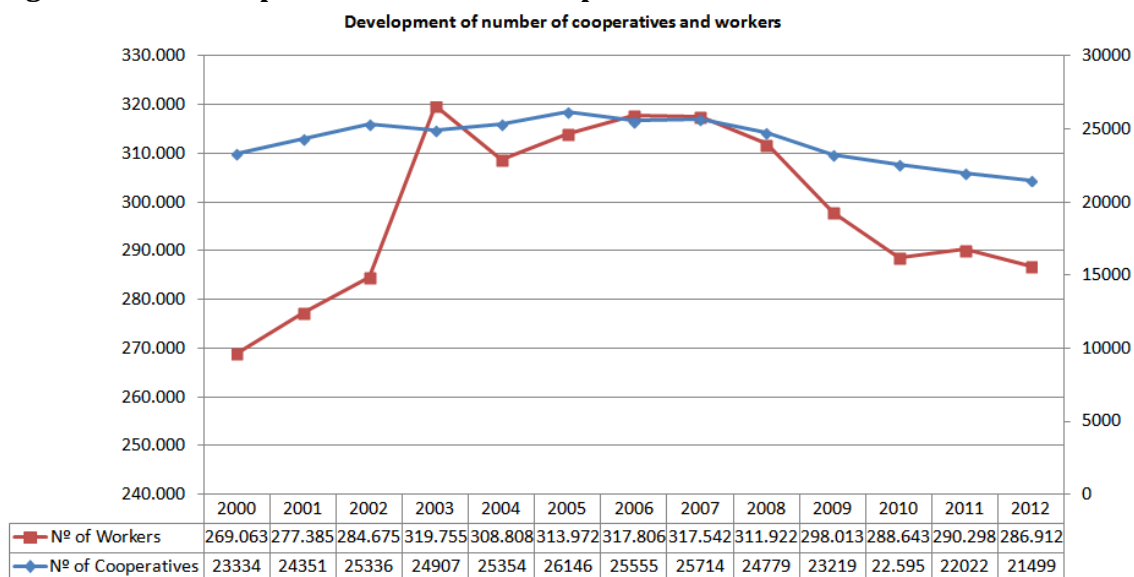
5.3.1 Types of cooperatives--Cooperatives in general

Institutional background to cooperatives in Spain

In Spain cooperatives are seen, at least theoretically, to be firmly within the area of the “social economy” as are the entities described above in section 5.1.3. Whether this categorization is accepted on a cultural level varies according to region. The recent Spanish Social Economy Law places them within a framework which does not privilege the economic over the social but rather envisions them as tied together. This in some ways is a slight reorientation from the direction that cooperative law and policy has taken which has emphasized the economic (see below on historical evolution of cooperative laws). This is not to say however, that the view of the Social Economy Law will have any impact on how cooperatives perceive themselves.

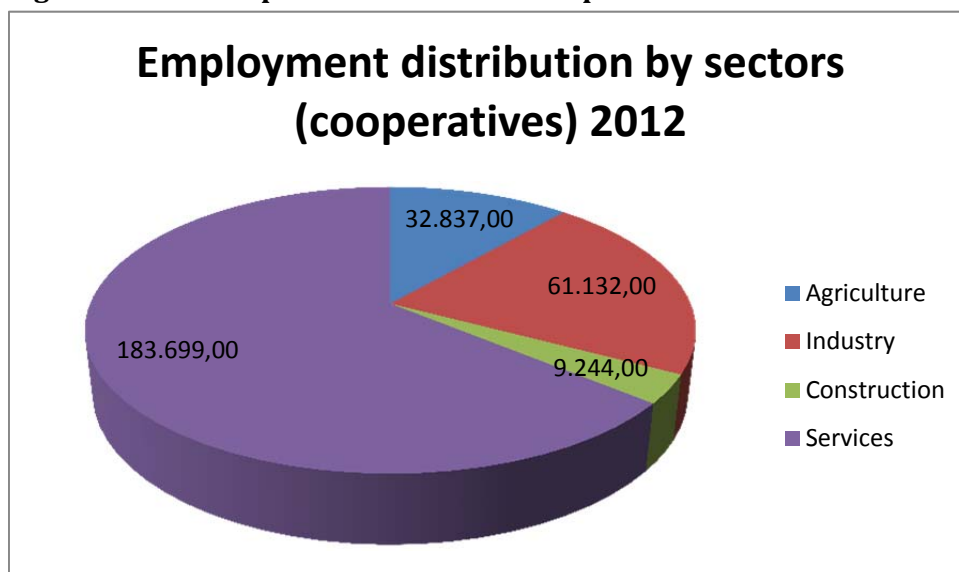
Figure 5.12 below shows the evolution of the number of cooperatives and employees whilst Figure 5.13 demonstrates the workers per cooperative sector. The decline in the number of cooperatives, whilst the number of members remains relatively stable is noteworthy. A common theme in the discussion of Spanish cooperatives is their size and whether or not mergers are the way forward. Recently Spanish cooperatives have experienced such concentration, as discussed below.

Figure 5. 12 Development of number of cooperatives and workers.



Data source: Ministry of Employment and Immigration (2012)

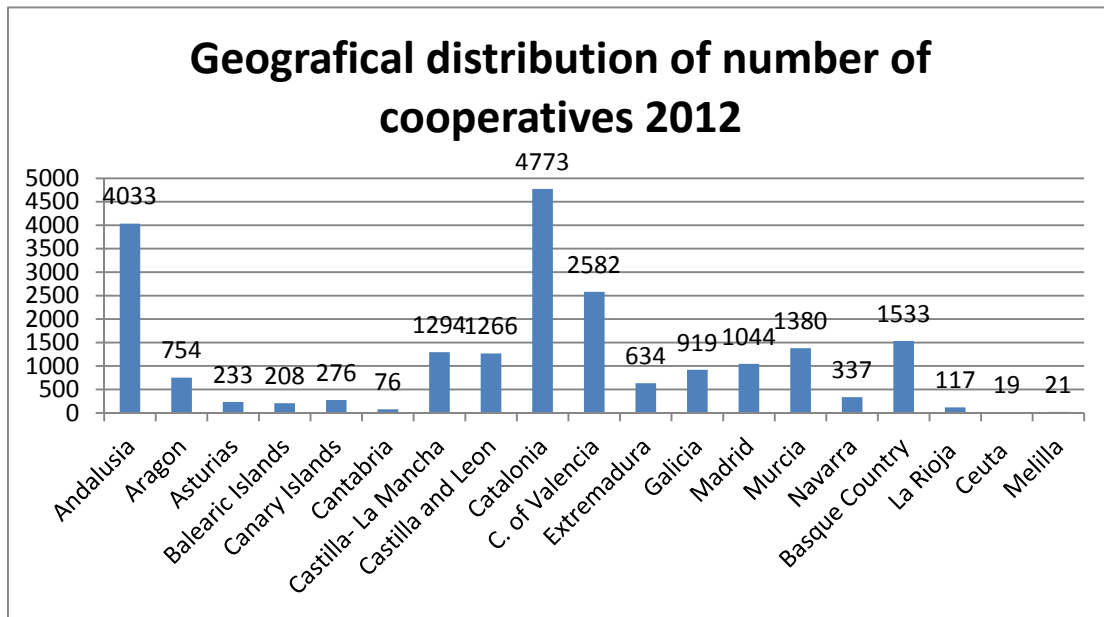
Figure 5.13 Development of number of cooperatives and workers.



Data source: Ministry of Employment and Immigration (2012)

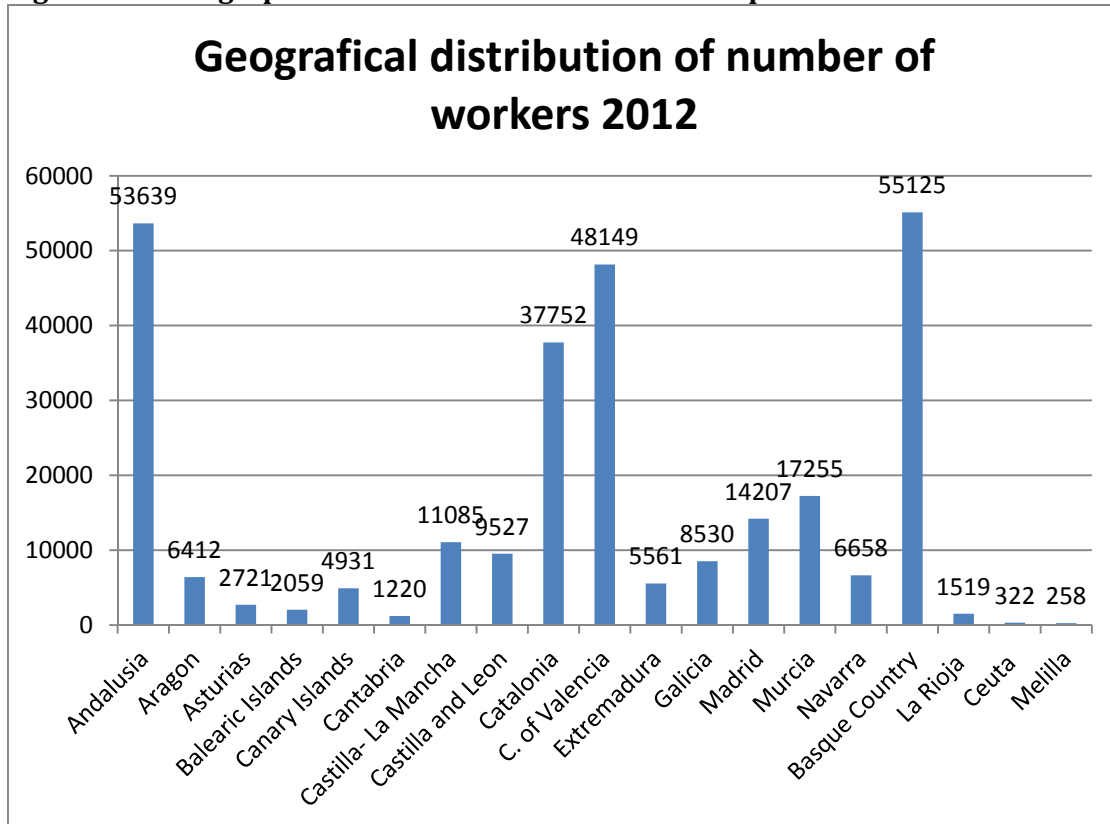
The two regions with the most cooperatives are Catalonia and Andalusia, with 4,773 and 4,033 respectively. This is followed by Valencia (2,582) and the Basque Country (1,533) and trailed by Murcia (1,380) and Castilla La Mancha (1,294). In terms of employees however, the Basque Country leads with 55,125 cooperative workers followed by the Andalusia with 53,639 cooperative workers.

Figure 5. 14 Geographical distribution of number of cooperatives 2012.



Data source: Ministry of Employment and Immigration (2012)

Figure 5.15 Geographical distribution of number of cooperative workers 2012.



Data source: Ministry of Employment and Immigration (2012)

5.3.2 Origins of the Cooperative Movement and Cooperative Laws

The origins of cooperatives in Spain can be located in the late 1800s and early 1900s where cooperation was initially encouraged by the Catholic union movement in its effort to counterbalance the socialist worker movements. At such time the social wing of the Catholic Church set out to protect the rights of small farm owners, lest they be “swept away” by socialism in response to the high debt levels and ruin that was facing farmers due to unscrupulous lenders. In 1902 the first credit cooperatives were created (Gómez López, 2008/2009).

The Associations Act was brought into force in 1887 followed by the Farm Unions Act in 1906, providing a consolidation of the movement and also a framework in which farm “unions” or cooperatives could begin formal development. This was evidenced by the fact that the number of such farm unions rose from six in 1906 to 1,772 a mere six years later in 1912 (Juliá y Segura, 1987). It should be noted that these cooperatives were fundamentally of an economic ordering nature (such as in-house credit sections, services and commercialisation), rather than of a blatantly political nature. For example, the cooperative laws did nothing to merge the interests of farm workers and farm owners (Gómez López, 2008/2009).

Parallel to this development was that of the more politically motivated cooperatives and unions that were formed to collectively farm land held in common (CEC). During the second Spanish Republic these cooperatives found more support and there were some incidences of expropriation and collectivisation of farmlands. Some cooperatives of this form still exist today and although in small numbers their numbers have curiously increased recently (OSCAE, 2010).

A Cooperative Law was brought into force in 1931 and lasted throughout the Second Republic until 1939. In 1942 a Cooperatives Act was enacted in order to fulfill the purposes of Franco’s regime to monitor and control cooperatives, giving the supervisory body the right to veto members’ elected management. However, many cooperatives (as so defined under the laws of that time) were set up during the dictatorship and in 1969 7,500 cooperatives were recorded. With the 1974 Act a business approach to cooperatives was introduced and after Franco’s death the 1978 Regulations solidified such an approach, encouraging second tier cooperatives to form (Juliá and Marí, 2002).

In 1978, article 129.2 of the Constitution provided that public powers must allow for the formation of cooperatives societies through adequate legislation. As well the prologue or the “explanation of motives” for the law refers to cooperativism as a formula that

facilitates economic and labour market integration, making perfectly compatible the requirements for profit and competitiveness with cooperative values. Rather poetically it also purports that the elements of an enterprise of persons, e.g. a cooperative, can live in “harmony” with the demands of the market, for “if not, the cooperative world would be in a situation divorced from reality and from law.”

During the 1980s most autonomous communities passed their own acts and in 1987 the Cooperatives General Act was passed. The resulting regulatory framework consisted of a “weak” national law, which provided a basic regulatory scheme applicable to those cooperatives which chose not to set up under autonomous community laws, and many substantively different autonomous community laws. Autonomous communities have jurisdiction over cooperative legislation, although not over commercial legislation, and they have assumed an important role in the promotion of cooperatives. This is in contrast to IOFs which have a centralized and homogeneous legislative structure. The great majority of Spanish agricultural cooperatives are governed by autonomous community laws, for which the provisions of the particular autonomous community laws are especially relevant. This multitude of cooperative laws is found nowhere else in the rest of Europe.

The 1987 law brought about a significant change which was the recognition of cooperatives as a business and not as a not-for-profit, that is, that surpluses could be distributed on the basis of member activity but not in proportion to capital invested. References to mutualism were left out (Juliá, 1994).

The following Spanish national law, the Law of Cooperatives 1999 (Ley 27/1999, de 16 de julio, de Cooperativas) which is still in force, stipulates:

La cooperativa es una sociedad constituida por personas que se asocian, en régimen de libre adhesión y baja voluntaria, para la realización de actividades empresariales, encaminadas a satisfacer sus necesidades y aspiraciones económicas y sociales, con estructura y funcionamiento democrático, conforme a los principios formulados por la alianza cooperativa internacional, en los términos resultantes de la presente Ley.

The cooperative is an enterprise made up of people who voluntarily and freely associate, in order to carry out business activities, with the aim of satisfying economic and social needs and aspirations in conformance with the principles formulated by the international cooperative alliance, on the terms resulting from the present Law.
[translation by author]

However, agricultural cooperatives, as a generalisation, comprised of small and medium farmer-members who are grouped around economic projects, are often characterized as

not being particularly guided by traditional cooperative principles of solidarity (Gómez López, 2009).

In actual fact, cooperatives in Spain have played a very important role in the development of rural economies. In most cases agricultural, credit and other cooperatives are located in areas where, at least originally, no investor owned firm would have chosen to operate (Julia and Marí, 2002). The link between cooperatives and rural economic development suggests that the “social” component and value of cooperatives, although not necessarily established by legislative fiat, has persisted and flourished due to the cooperative form put into practice.

The recently passed Spanish Social Economy Law includes cooperatives as one of the important forms within the social economy in Spain. While cooperatives continue to be subject to the statutes under which they are created, the new law attempts to give them a more pronounced social profile. Whether this will result in achieving more in relation to the development of cooperatives than the privileged position given to cooperatives under the Spanish Constitution remains to be seen. Worker cooperatives (education and social services) increased during the 1980s and are an important cooperative sector in Spain. During the opening up of European Community markets, agricultural cooperatives went through significant changes. Credit cooperatives (which have their own cooperative credit sector law), most notably the rural cooperative banks, were crucial in the development of agricultural cooperatives (Giagnocavo, et al, 2012) as were cooperative credit sections in areas such as Valencia. Their role went far beyond the traditional provision of credit—they invested in new technologies, created advisory and risk management services and transformed individual farmer risk into shared cooperative risk, thus fuelling innovation and advances in infrastructure, in research and development and also community building in rural areas that had been left socially shattered and institutionally barren by the long dictatorship. Farmers had been unaccustomed to free markets and international trade, had little political experience and undeveloped entrepreneurial orientation. The Cajamar Group, based in Almería in the autonomous community of Andalusia in southern Spain, is the largest cooperative bank in Spain and is intertwined with the fruit and vegetable cooperatives of the province of Almería, which represent one of the most important agricultural cooperative sectors in Spain, along with Valencia, home to ANECOOP.

Mention must be made of Mondragon, in the Basque Country in the north of Spain. Mondragon, created in 1956, is an important national and worldwide reference for its industrial cooperative production and retail which is also tied to its financial cooperative

sector. The Basque Country has a decidedly cooperative culture and its cooperative movement is intertwined with its sense of identity as a people (much like Québec), making it unique and not an easily reproducible phenomena. However, its cooperative laws introduced changes well before other autonomous areas, with other autonomous community laws playing “catch up”.

National and regional associations

The Spanish Confederation for Social Economy enterprises (CEPES) plays a key role in advocating for cooperatives in general. Cooperatives participate in the social dialogue between trade unions and employers’ organisations through the CEPES therefore CEPES is able to promote and communicate the interests of Spanish cooperatives. It also has one representative at the European Economic and Social Council (EESC). CEPES has a broad range of members throughout Spain including Mondragon, confederation of cooperatives in Catalonia, Euskadi and Valencia, confederations of social economy enterprises, workers cooperatives, housing cooperatives, associations for the blind, etc.³⁵

Cooperative organisations active in sectors such as consumer goods supply, agriculture and transport express the interests of their members through sectoral forums or councils, as privileged actors; these cooperative organisations communicate cooperatives’ expectations on significant issues through the regular sectoral bodies which defend the interests of the sector and not specifically those of cooperatives within such sector. In Andalusia, CEPES Andalusia has signed an agreement with public authorities and trade unions on the Andalusian Pact for social economy which allows participation of cooperatives in consultations.

The Spanish Confederation of workers’ cooperatives (COCECTA) participates actively in the consultation process by interacting with the Ministry of Labour, political parties and parliamentary representatives (CEPES, 2010).

The national confederation “Cooperativas Agro-alimentarias”³⁶ represents and defends the economic and social interests of the agricultural cooperative movement, with approximately 70% of the total sector of agricultural cooperatives being its members.

Cooperatives Agro-alimentarias is made up of 16 Federations, Territorial Unions of Agricultural Cooperatives (FUTs) y Sergacan, a second tier cooperative in Cantabria. The services offered by the Federations of cooperatives are usually advisory in nature in areas

³⁵ See the CEPES’ website at www.cep.es.

³⁶ Previously named, Confederation of Agricultural Cooperatives of Spain (Confederación de Cooperativas Agrarias de España-CCA).

such as economics, accounting, agriculture, labour, tax, legal and commercial. They also inform the cooperative members of new developments in their sectors. Further, they interact with official bodies for the management of aid and subsidies (Montegut et al, 2007). They also have a Spanish Agricultural Cooperative Social-Economic Observatory (OSCAE).

Table 5.4 Agricultural federations of cooperatives.

Agricultural federations	Community
<i>Asociación Gallega de cooperativas agrarias (AGACA)</i>	<i>Galicia</i>
<i>Cooperativas Agro-alimentarias Castilla-La Mancha</i>	<i>Castilla-La Mancha</i>
<i>Cooperativas Agro-alimentarias de Aragón</i>	<i>Aragon</i>
<i>Cooperativas Agro-alimentarias de Navarra</i>	<i>Navarra</i>
<i>Cooperativas Agro-alimentarias del Principado de Asturias</i>	<i>Asturias</i>
<i>Cooperativas Agro-alimentarias Extremadura</i>	<i>Extremadura</i>
<i>Cooperativas Agro-alimentarias Comunitat Valenciana</i>	<i>C. of Valencia</i>
<i>Cooperativas Agro-alimentarias Illes Balears</i>	<i>Balearic Islands</i>
<i>Federación Andaluza de Empresas Cooperativas Agrarias (FAECA)</i>	<i>Andalusia</i>
<i>Federación de Cooperativas Agrarias de Cataluña (FCAC)</i>	<i>Catalonia</i>
<i>Federación de Cooperativas Agrarias de Euskadi (FCAE)</i>	<i>Basque Country</i>
<i>Federación de Cooperativas Agrarias de la Rioja (FECOAR)</i>	<i>Rioja</i>
<i>Federación de Cooperativas Agrarias de Murcia (FECOAM)</i>	<i>R. of Murcia</i>
<i>Unión de Cooperativas Agrarias de Madrid (UCAM)</i>	<i>Madrid</i>
<i>Unión Regional de Cooperativas Agrarias de Castilla y León (URCACYL)</i>	<i>Castilla and Leon</i>

Three horizontal professional organisations represent producers at the national level: the Union for Small Farmers and Livestock keepers (La Unión de Pequeños Agricultores y Ganaderos-UPA), the Agricultural Association for Young Farmers (Asociación Agraria Jovenes Agricultores-ASAJA) and the Coordinator for Organisations of Farmers and Livestock Keepers (Coordinadora de Organizaciones de Agricultores y Ganaderos-COAG)

There are various interprofessional organisations as well as the General Council of Agro-alimentary Interprofessional Organisations in relation to fruits and vegetables, eggs, bread, milk and dairy products, lemon and grapefruit, table olives, grape juices, oranges and small citrus, sheep and goat, pear and apple, dried figs, fodder, olive oil, etc.

5.4 Agricultural Cooperatives in Spain

The following classifications are used to describe agricultural cooperatives in Spain: sector, main functions, diversity of functions and products, position and function in the

food chain, type of members, geographical scope, financial/ownership structure and legal form. In addition, a general overview is given and recent trends in mergers are discussed.

General overview

In 2011 there were 3,415 agricultural cooperatives, which employed 64,108 workers, according to the Ministry of Employment (2011).

In the last few years there has been a decline in the number of cooperatives, which was 3,659 in 2005 and 4,118 in 2000. In contrast, the number of employees has grown from 48,437 in 2000³⁷. 425 cooperatives of community exploitation of land (CEC, as defined in section 5.1.3) also exist (OSCAE, 2010).³⁸

Turnover in 2011 rose to 17,405 million Euros, with 1,160,337 members and 93,733 employees. This demonstrates a 6.6% increase from 2005, in which year turnover was 16,323 million Euros. Membership in 2005 was 1,160,337 and 107,377 employees in 2005 (OSCAE 2005)³⁹.

Table 5.5 Number of Spanish farmers, cooperatives, cooperative employees and turnover.

Year	2000	2003	2008
Numbers of farmers	1,157,100	1,058,100	1,160,300
Numbers of cooperatives	3,902	4,175	3,989
Numbers of employees	48,440	78,440	94,156
Turnover (million €)	10,820	14,190	18,889

Source: Cogeca (2010)

Table 5. 6 Number of agricultural cooperatives by region (2011).

Region	Cooperatives	%
Andalusia	736	21.55%
Aragon	202	5.92%
Asturias	24	0.70%
Balearic Islands	35	1.02%
Canary Islands	78	2.28%
Cantabria	8	0,23%
Castilla - La Mancha	419	12.27%
Castilla and Leon	379	11,10%
Catalonia	326	9.55%
C. of Valencia	370	10.83%
Extremadura	288	8.43%
Galicia	193	5.65%

³⁷ Ministry of Employment and Immigration (2011)

³⁸ Ministry figures vary slightly, as set out in Table 5.6.

³⁹ Certain differences exist between the statistics supplied by Cooperativas Agro-Alimentarias to the COGECA report and those statistics provided by the Ministry of Labour and Immigration, given that the first figure is an estimation and the latter is the number of companies officially registered.

Madrid	19	0.56%
R. of Murcia	140	4.10%
Navarra	95	2.78%
Basque Country	62	1.82%
Rioja	41	1.20%
Ceuta and Melilla	0	0.00%
Spain	3,415	100.00%

Data source: Ministry of Employment and Immigration (2011).

Table 5. 7 Number of agricultural cooperatives by number of employees (selected years).

Number of workers	2011		2005		2000	
0 – 5	1,924	56.33%	2,113	57.75%	2,442	59.30%
6 – 10	594	17.39%	621	16.97%	979	23.77%
11 -25	527	15.43%	509	13.91%	415	10.08%
26 – 50	163	4.77%	190	5.19%	130	3.16%
51 – 100	88	2.57%	94	2.57%	76	1.85%
101 – 250	68	1.99%	76	2.08%	60	1.46%
> 250	51	1.59%	56	1.53%	16	0.39%
Total	3,415	100.00%	3,659	100.00%	4,118	100.00%

Data source: Ministry of Employment and Immigration, (2012)

Table 5. 8 Number of agricultural cooperatives by year of foundation (2011).

Year of foundation	Cooperatives
Before1960	206
1960-1969	216
1970-1979	202
1980-1989	910
1990-1999	923
2000-2009	842
2011 and after	116
Total	3,415

Data source: Ministry of Employment and Immigration (2012)

There is a great diversity of models and size: from local cooperatives which focus on supplying services to their members to others whose major goal is to channel supply for commercialisation to industry or intermediates, to very large cooperatives that process the products of their members and market them directly to retail distributors. Sixteen percent of Spanish cooperatives represent 75% of total turnover by cooperatives. The top-10 first tier cooperatives have a total turnover of 1,381 million Euros and employ 1,379 people and the top-10 second tier cooperatives have a turnover of 2,427 million Euros and have 4,378 permanent workers. (Baamonde, 2010; OSCAE, 2009)

In any case, Spanish agricultural cooperatives are small in size compared with European standards in spite of the fact that the average turnover went from 2.7 million Euros in

2000 to 4.4 million Euros in 2007. Only 39% have more than 1,000 members and only 1.7% of these cooperatives have a turnover above 30 million Euros, 77% have less than 5 million Euros and 39% less than a million (Table 5.9). In contrast, the European average turnover is above 10 million (Cooperativas Agro-alimentarias 2010; OSCAE 2007; 2009).

Table 5.9 Percentage distribution of agricultural cooperatives according to number of members (2009).

Number of members	% Cooperatives
< 100	3.7
100 to 199	7.7
200 to 299	8.8
300 to 399	7.5
400 to 599	14
600 to 1,000	19.3
> 1,000	39

Source: OSCAE (2009).

Table 5.10 Percentage distribution of number of agricultural cooperatives according to turnover (2009).

Turnover	% Cooperatives
< 1 M Euro	39
1 – 2 M Euro	17
2 – 5 M Euro	21
5 – 10 M Euro	13
10 – 30 M Euro	8
30 – 60 M Euro	1
> 60 M Euro	1

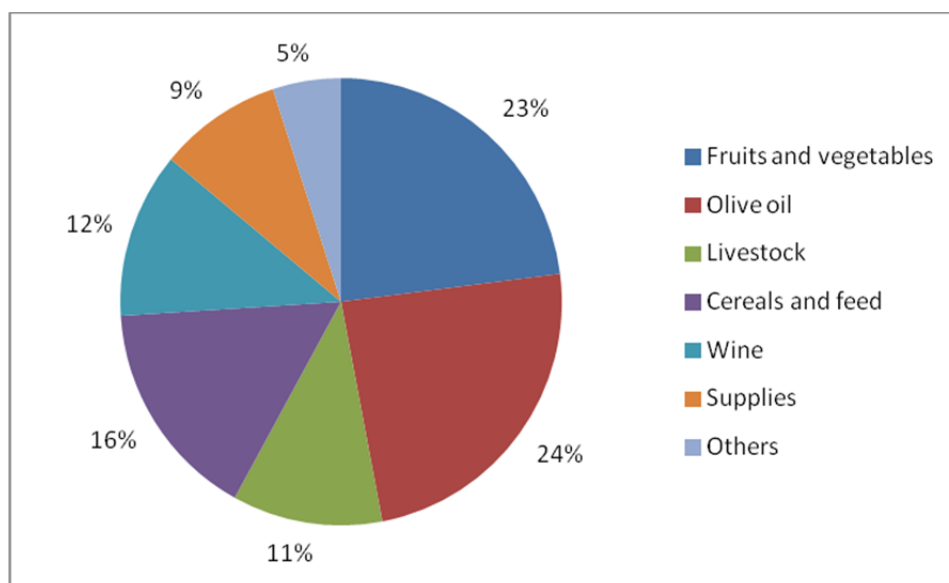
Source: OSCAE (2009)

It is argued that this situation creates difficulties for Spanish agricultural cooperatives in relation to the concentration of offer, investment needs for new projects, achieving economies of scale and wielding market power. Many studies have pointed to excessive “atomization” of cooperatives (Caballer, 1995; Campos i Climent, 2011; Juliá and Server, 1999; Juliá and Meliá, 2003; Meliá, 2004; Montero and Montero, 2005; Vargas, 2007). Cooperativas Agroalimentarias (the national confederation) in their strategic plan for Spanish agricultural cooperatives called for addressing this issue in order to achieve a competitive dimension (OSCAE, 2009, 2007) and continues to do so. As a general rule in all sectors of the Spanish market there has been pressure to consolidate and agricultural cooperatives have experienced the same pressures, with the resulting mergers and acquisitions, group formation, integration of cooperatives into second tier cooperatives, etc. (Meliá and Martínez, 2011).

During the period 1995-2005 a total of 147 mergers have taken place in which 374 cooperatives have participated. Sixty six percent of such processes have occurred in the

autonomous communities of Valencia, Andalusia, Catalonia and Castilla La Mancha (in descending order.) It should be noted that empirical evidence as to whether these mergers have actually achieved their objectives (i.e. improvement of economic-financial situation, reduction of costs, increase in cooperative and member profits, etc.) is scarce in Spain. As a result, currently it is difficult to empirically back up the assumptions that mergers will be the “cure” for the problems of Spanish agricultural cooperatives (Meliá and Martínez, 2011) although many in the sector argue that it is a structural necessity.

Figure 5.16 Distribution of mergers according to agricultural cooperative sector (1995-2005).

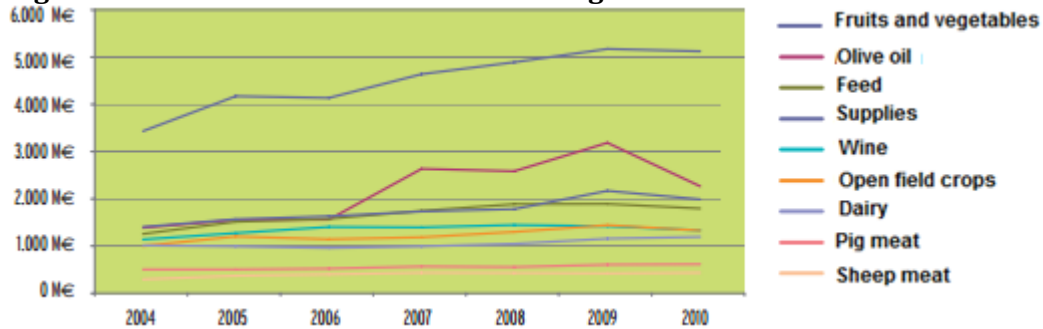


Source: Meliá and Martínez, (2011)

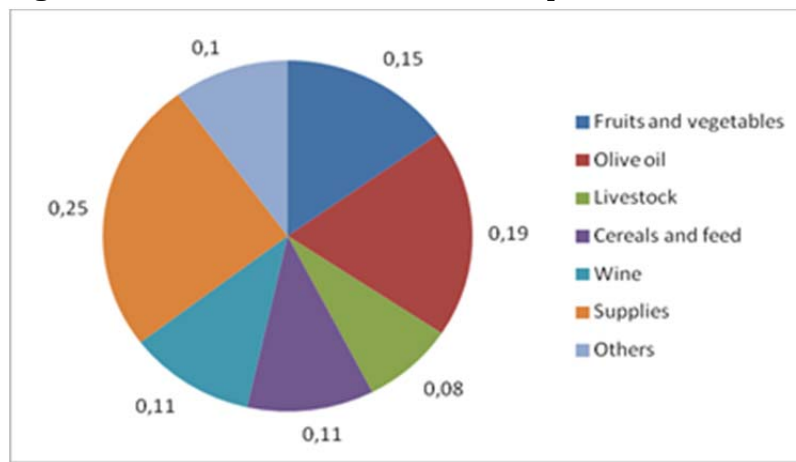
In terms of percentage, there are several autonomous communities which are notable: Andalusia (30.2%); Catalonia (10.4%); Castilla and Leon (9.5%); Valencia (9.6%), Extremadura (6.8%) and Galicia (6.7%). In terms of employment Andalusia represents 31.2% and the community of Valencia 26.6% (OSCAE, 2010).

Sector

The volume of business has been significantly different in the various sub sectors. Fruits and vegetables, which represent about 20% of total turnover for Spanish cooperatives, have experienced an impressive growth going from 2,400 million Euros to 3,300 million, representing an annual growth of about 9% during the four-year period of 2004 to 2009. The olive oil sector as well has increased its volume of turnover, due to a strategy of focusing on value added products such as bottled extra virgin oils of higher quality. Other sectors have maintained modest growth (see individual sector analysis in Chapter 5.6 for a more in-depth description).

Figure 5.17 Evolution of turnover of main agricultural sectors.

Source: OSCAE 2011

Figure 5. 18 Sectoral Distribution of Cooperatives.

Source: Meliá et al. 2011

Main functions

The Common Market Organisation (CMO) for fruit and vegetables sets out the key function of the POs. According to Article 3 of the Commission Regulation (EC) No. 1182/2007, POs must have one of the following objectives: (i) ensuring that production is planned and adjusted to demand, particularly in terms of quality and quantity; (ii) concentration of supply and the marketing of members' products; (iii) optimizing production costs and stabilising producer prices.

With respect to their main function, most Spanish cooperative POs fall within (ii) above. The stabilisation of producer prices is also an objective, as is the optimisation of production costs. Coordination of production, so that it adjusts to demand in terms of quality and quantity, varies across sectors. In sectors with highly perishable farm products which cannot be stored, planning production is more difficult.

Processing of products is important for certain cooperatives as is procurement of supplies. There is some ancillary activity in nursery, farm machinery, credit, insurance and animal breeding. Cooperative in-house credit services (referred to as "credit sections") continue

to be popular in some autonomous communities, although this function in many areas has been taken over by cooperative credit entities, most notably in Andalusia. Credit sections arose out of the absorption of rural banks by local agricultural cooperatives or on the initiative of the cooperative which decided to internalise their financial activity.

The strong decline in financial activity within cooperatives is due to the great pressure put on these entities by public authorities. They are being substituted for rural banks that have better operating capacity, more favourable credit terms and conditions, and offer more services to members. However, the loss of in-house credit sections could result in agricultural cooperatives having a more difficult time in accessing credit during a lending crisis.

Diversity of function and products

In 2009, 61% of first tier agricultural cooperatives offered supplies to their members, 46% distributed fuel, and 57% owned retail stores. By engaging in such activities, first tier cooperatives have been able to diversify their business to complement the income of their members and also have stimulated the local economy. As well they offer specialty services such as technical assistance, specialized machinery services, treatment with fertilizers and pest control, replanting, harvesting, etc. Social services to the members have also been provided, a key feature in attracting the next generation. Lobbying is done on the level of interprofessional groups (e.g., Hortyfruta is a large interprofessional group for the fruit and vegetable sector in Andalusia).

Position and function in the food chain

The food supply chain in Spain is equally divided between traditional and modern marketing systems. For example, with respect to vegetables, traditional retail (i.e., SME and/or family owned businesses located near residential areas) accounts for 42% of the sales of vegetables, followed by large distribution chains (40%). A similar pattern is observed in the fresh fruit sector, in which small retailers market 45% of the total product value, and large distribution chains 42%. Besides farmers and retailers, the sector includes a very wide range of economic agents (about 10,000) who perform various operations along the supply chain, related to product sorting, conditioning, processing, transport, etc (Camanzi, et al., 2009).

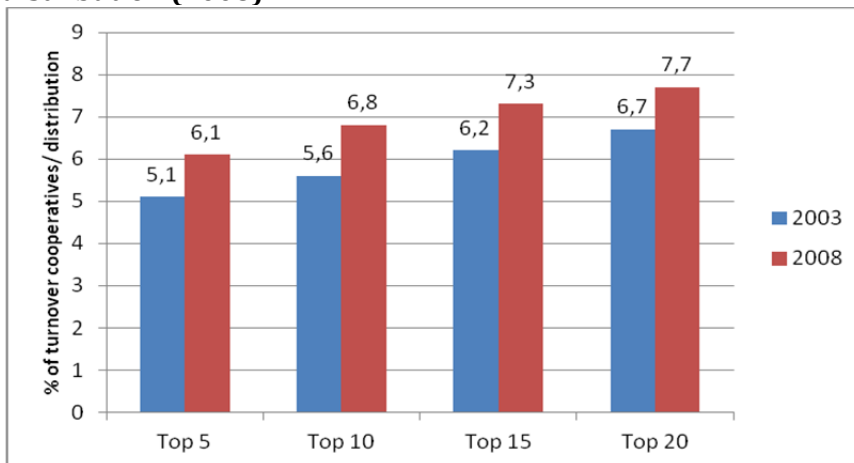
Sectors vary as set out in Chapter 5.5 herein, but Spanish fruit and vegetable POs are highly specialized in tomatoes (both primary and processed product and providing 96% of

total value of marketed product), onions, shallots, garlic, leeks (two main products account for 87% of total value of marketed product), nuts (85%), cucumbers (76%), apples and pears (70%). Seventy-three percent of products from POs is marketed as fresh product; wholesale represents 35%, and supermarkets another 23%. In terms of processing, they sell 16% of products to the processing industry and self process 11% (Camanzi, et al, 2009). See descriptions of various sectors in Chapter 5.6.

Negotiating Power

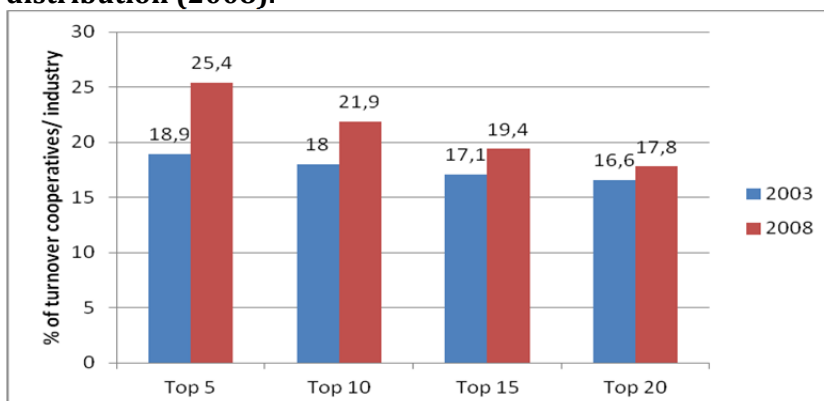
With respect to market power, according to Arcas Lario et al (2011) the percentage of cooperative turnover to both distribution (Figure 5.19) and industry (5.20) is low.

Figure 5.19 Negotiation power of agricultural cooperatives compared to distribution (2008).



Source: Arcas Lario, et al, (2011)

Figure 5.20 Negotiation power of agricultural cooperatives compared to distribution (2008).

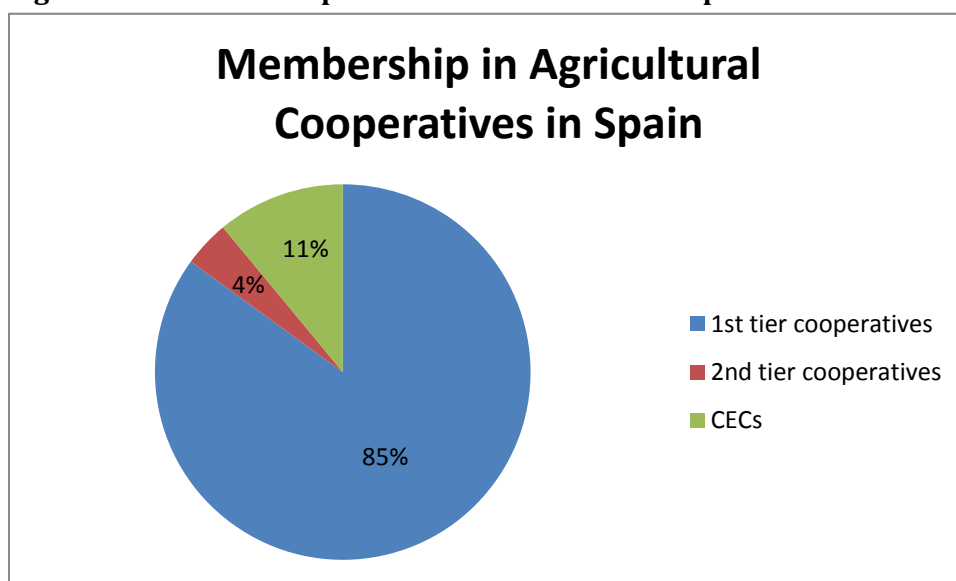


Source: Arcas Lario, et al (2011)

Type of members

In 2005, 64.7% of first tier cooperatives were members of a second tier cooperative, in contrast to 61% in 2009. In 2005, 22.4% of second tier cooperatives were also members of another second tier cooperative, as opposed to 13.33% in 2009 (OSCAE, 2010). Figure 5.21 below shows the levels of membership in Spanish first and second tier agricultural cooperatives.

Figure 5.21 Membership in first and second tier cooperatives.



Source: OSCAE (2010)⁴⁰

Geographical scope

Given the cooperative legislative regime in Spain, where cooperative laws are on an autonomous community basis coupled by a weak national law, membership tends to be local (provincial or autonomous) and supra-regional cooperatives are rare. Below is an indication of the commercial activity of cooperatives, on a provincial, regional, national, and international basis.

Table 5. 11 Scope of commercialisation in Spanish cooperatives.

Scope of commercialization (%)	2005	2009
Local	34.2	39
Provincial	48.8	43
Regional	59	47
National	66.8	61
EU	36.3	35
Outside EU	7.4	15

Source: OSCAE, (2009)

⁴⁰ CECs refer to Cooperativas de Explotación Comunitaria (Cooperatives of Common Exploitation)

Table 5. 12 Principle indicators of the level of internationalization of Spanish cooperatives.

	2005		2009	
	1st grade	2nd grade	1st grade	2nd grade
Average exportation of cooperative exporters (Million €)	6.06	13.3	4.73	12.47
Theoretical global export tendency (% exportation/turnover)	23	25.1	16.67	15.81
Percentage of exterior presence	6	10.34	3.67	7.41

Source: OSCAE (2009)

Financial/ownership structure and Legal Form

Cooperatives in Spain are mainly traditional cooperatives, with some being SATs, CECs and CUMAs as described in section 5.1.3.

5.4.1 Market share of farmers' cooperatives in the food chain

Cooperatives play an important role in the food chain in Spain and represent a significant market share in many sectors. The term “market share” refers to the percentage of total turnover related to such companies in such sector. Using information from Cooperativas Agroalimentaria, the national confederation, we set out below the market share relating to the 8 sectors under study. These figures are best estimates, with 2008 being the most recent year available. In the case of wine and olive oil, the market share is 70% and 75% respectively. In the most important agricultural sector in Spain, fruits and vegetables, the market share reaches almost 50% (as the scope of fruits and vegetables is so wide and varies within the sector, the value given by Cooperativas Agroalimentarias was 25-45% percent, although vegetables would be closer to 50%). The lowest figure is 25% in the pork sector. According to the statistics given, there has been little change in market share in the period between 2000 and 2008.

For a more in-depth discussion of the various sectors, see Chapter 5.5.

Table 5. 13 Market share of cooperatives in selected sectors.

Sector	Agricultural cooperatives (number)		Market share (%)		Farmer members ('000)		Turnover (billion €)		
	2003	2008	2003	2008	2003	2008	2003	2008	Var %
	Cereals	520	484	35	35	67.2	58.6	0.588	0.975
Sugar	1	1	28	28	n/a	n/a	n/a	0.134	n/a
Pig meat	101	n/a	25	25	25.25	25	0.674	0.756	12%
Sheep meat	n/a	n/a	n/a	25	n/a	n/a	n/a	n/a	n/a
Fruit and vegetables	945	945	15-45	15-45	153	160.5	2.066	3.7	79%
Olive oil and table olives	915	772	75	70	274.5	276.5	1.208	1.42	18%
Dairy	242	396	40	40	43.5	27.8	0.713	0.88	23%
Wine	715	625	70	70	167	172	0.653	1.4	114%

Data sources: Cooperativas Agroalimentarias (2010), Cogeca (2010)

5.4.2 List of top 50 largest farmers' cooperatives

Table 5. 14 The 50 largest farmers' cooperatives in the food chain of Spain and Turnover (millions of Euros).

	Name of the Cooperative	Sector(s) involved in:	Turnover (1)	Turnover (2)
1	Coren, S.C.G.	Livestock	966.00	942.00
2	An, S.Coop	Fruit and vegetables, feed,	420.40	554.00
3	Anecoop S.Coop.	Fruit and vegetables	439.21	467.00
4	Hojiblanca S.C.A	Olive oil	276.00	340.00
5	S.C.A Ganadera del Valle de los Pedroches COVAP	Livestock, dairy	266.95	272.28
6	Acorex, S.C.L	Fruit and vegetables, livestock, cereals	245.68	212.00
7	Del Camp d'Ivars d'Urgell i Secció de Crèdit; SCCL	Feed	188.95	188.95
8	Casi, S.C.A	Fruits and vegetables	175.49	169.17
9	Cobadu, S.Coop.	Livestock, feed	123.26	167.35
10	Copaga, SCCL	Livestock	130.58	130.59
11	Arento, S. Coop	Cereals, feed, supplies	144.89	121.70
12	Agropal S. Coop	Livestock, cereals, feed, supplies	139.63	120.00
13	Copiso Soria S.Coop	Livestock, feed	78.86	119.26
14	Alimer, S.Coop	Livestock, Fruits and vegetables	113.98	118.67
15	Actel, SCCL	Fruits and vegetables, supplies	119.64	118.67
16	SAT Arco Iris	Livestock	120.00	111.89
17	Feiraco, S.C.G.	Dairy	73.22	108.62
18	SAT Central lechera Asturiana	Dairy	125.37	108.04
19	Unica Group, S.C.A.	Vegetables	101.22	101.22
20	Acor, S. Coop	Sugar	140.00	99.38
21	Avigase, S. Coop	Livestock	86,18	90.23
22	Agropecuaria d'-artesa de Segre, SCCL	Livestock, feed, wine, cereals, supplies, other services, gasoil, retail	88.51	88.52
23	S.C.A. Santa María de la Rábida	Fruits and vegetables	77.65	86.89
24	Vicasol, S.C.A.	Fruits and vegetables	92.38	81.22
25	Coarval Coop.V.	Supplies	93.15	80.22
26	Suca, S.C.A.	Supplies	78.13	79.69
27	Carchuna La Palma, S.C.A.	Fruits and vegetables	79.92	78.42
28	Acopaex S. Coop	Fruits and vegetables, flowers, oil, cereals, supplies, services, gasoil	72.58	72.58
29	Murgiverde, S.C.A.	Fruits and vegetables	108.01	70.20
30	S.C.A. Cuna de Platero	Fruits and vegetables	55.07	67.65
31	S. Coop. Avícola y ganadera de Burgos	Pig meat, dairy, feed	62.56	67.55
32	Cotecnica, SCCL	Livestock, feed	59.21	65.68
33	Jaencoop, S.C.A.	Olive oil	66.14	61.20
34	Camp y secció de Crèdit Sant Isidre de Ballcaire	Livestock/credit	65.74	60.90

	d'Urgell, SCCL			
35	Agrària Plana de Vic i secció de Crèdit, SCCL	Livestock	59.84	59.85
36	Kaiku, S. Coop	Dairy	-	58.95
37	Oleoestepa S.C.A.	Olive oil	54.74	53.80
38	Agro Sevilla Aceitunas	Table olives	52.55	52.64
39	Icos, S.C.G.	Dairy	46.61	50.27
40	Casat	Fruits and vegetables, cereals	49.78	49.79
41	Uteco, S. Coop	Supplies, gasoil	66.33	49.19
42	El Grupo, S.C.A	Fruits and vegetables	47.45	48.41
43	Agro-Olivera San Cosme y San Damián, S.C.A.	Olive oil	33.84	46.66
44	Agrupación Coop. Valle del Jerte	Fruits	45.42	44.50
45	Agropecuaria Catalana, SCCL	Livestock, feed, cereals, other services	44.23	44.23
46	Copal S.C.J	Poultry	39.53	43.50
47	S.C.A Oleicola el Tejar N.S. Araceli	Olive oil	-	43.27
48	Garlan S. Coop.	Cereals/supplies, fruits and vegetables	48.00	42.75
49	Gregal S.Coop.	Fruits and vegetables	52.34	41.94
50	Olivar de Segura, S.C.A.	Olive oil	47.47	41.45

Top 50 chosen on information provided by Cooperativas Agroalimentarias in 2011 taking into account the estimation of the actual subsector activity (as opposed to other activity) of the cooperative.

Turnover (1): Source CEPES 2010

Turnover (2): Source Cooperativas Agroalimentarias 2010

5.4.3 List of top 5 largest farmers' cooperatives per sector

Table 5. 15 The most important cooperatives in the sectors studied in this project (millions of Euros).

Sector	Name of Cooperative	Turnover (1)	Turnover (2)
Cereals	An, S.Coop	420.40	554.00
	Acorex, S.C.L.	245.68	212.00
	Arento S. Coop	144.89	121.70
	Agropal S. Coop	139.89	120.00
	Actel	119.64	118.67
Sugar	Acor S. Coop	140.00	99.38
Fruit and vegetables	Anecoop S. Coop	439.21	467.00
	CASI, S.C.A	175.49	169.17
	Unica Group S.C.A	101.22	101.22
	Acorex, S.C.L.	245.68	212.00
	Murgiverde, S.C.A.	108.01	70.20
Olive oil and table olives	Hojiblanca, S.C.A.	276.00	340.00
	Agro Sevilla Aceitunas, S.C.A.	52.55	52.64
	Jaencoop S.C.A.	66.14	61.20
	Oleoestepa, S.C.A.	54.79	53.80
	Olivar del Segura, S.C.A	47.15	41.45
Wine	Baco Bodegas Asociadas Cooperativas, S.C.L.	*29.80	-
	Coop Virgen de las Viñas	44.00	26.35

	Viñedos de Aldeanueva, S. Coop	*21.56	-
	Bodegas San Valero	*18.31	-
	S.C. Cristo de la Vega	30.08	-
Dairy	Covap, S.C.A	266.95	272.28
	SAT Central Lechera Asturiana	125.37	108.04
	Feiraco, S.C.G.	73.22	108.62
	Kaiku, S. Coop	-	58.95
	Cadi SCCL	47.28	-
Sheep meat	Carnes Oviaragón S.C.L	-	26.74
	Oviso, S.Coop	38.01	38.01
	Dehesas Cordobesas, S:C.A	-	-
Pig meat	Coren, S.C.G.	966.00	942.00
	S.A.T. Fribin	-	198.00
	S.A.T. Grupo Arco Iris	120.00	115.00
	Grupo Avigase	86.18	79.00
	Covap, S.C.A	266.95	272.28

Top 5 of each sector selected on information provided by Cooperativas Agroalimentarias taking into account the estimation of the actual subsector activity (as opposed to other activity) of the cooperative

*Turnover data from SABI, last available year

Turnover (1): Source CEPES 2010

Turnover (2): Source Cooperativas Agroalimentarias 2010

5.4.4 Transnational cooperatives

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

There are no transnational cooperatives in Spain (according to Cooperativas Agroalimentarias, the Confederation which keeps national cooperative data).

According to available general data (see “Geographical Scope” above) internationalisation of Spanish cooperatives is scarce: only 7.41% of second tier cooperatives are established outside of Spain and barely half of the first tier ones have any exposure at all. Such lack of interest for internationalisation may be due to the risks and difficulties involved and the

involvement needed in terms of management resources (Boccherini, 2010). Spanish cooperatives use foreign intermediaries (57%) or Spanish companies (between 45 and 49%). Twenty-six percent sell directly to foreign distribution chains and only 3.5% distribute through their own agents or companies in the exterior (Fuentes, Sánchez and Santos, 2011)

The international cooperatives from Spain that are trading with farmers in other countries, according to the Questionnaires (Chapter 5.5), are the following:

Table 5.16 International cooperatives from Spain that are trading with farmers in other countries.

Name of the Cooperative	Host countries	Sector(s) involved in:
Anecoop	Not specified	Multi product (FV, Citrics, etc.)
Unica Group	Holland	Fruits and vegetables
Fribin	EU (not specified)	Pig meat/beef

5.5 Description of individual cooperatives

5.5.1 Data gathering per cooperative

The data gathered for the Chapter 5.5 Questionnaire was based on the answers given by cooperatives. Very few cooperatives have such relevant information available on websites or through other publications, so such information had to be solicited directly. Where cooperatives did not supply information, if a reliable, published source was available, such information was used.

Where necessary, SABI (the system for Iberic accounts-Sistema de análisis de balances ibérico) was also used for the accounting part of the survey, the year founded, location, whether it was a holding company, whether a cooperative or SAT (legal form) and the structure of the group.

People at the cooperatives were interviewed by telephone, following up repeatedly during the course of two to three months by telephone and email correspondence. Federations, associations and farmers, were contacted as well in order to extract as much information as possible. Numerous sector publications and news items, internet sites, trade magazines, power point and other presentations by associations, confederations, particular cooperatives, etc. were used. Particularly useful were those materials that contained points of view on strategy or interviews with the various heads of organisations or associations related to sectors.

The Confederation (Cooperativas Agroalimentarias), which is the only national cooperative data collection entity, was reluctant to provide information, due to concerns about the privacy of their members (their members represent about 70% of the cooperative sector). Federations also expressed this concern, but were helpful with certain questions to the best of their knowledge

5.5.2 Position in the food chain, general data and strategy

See Chapter 5.4 for a more detailed analysis of Spanish agricultural cooperatives and their position in the food chain (marketing, first and second processing, wholesale and retail) and related data, charts and figures, including internationalisation, negotiating power, etc. See also Chapter 5.6 for such an analysis in relation to each of the 8 sectors studied herein.

With respect to the cooperatives which were the subject of this study, most are second tier cooperatives. However, most of the wine and dairy cooperatives are first tier cooperatives. Figures 5.23, 5.24, 5.25 and 5.26 set out the number of members in first and second tier cooperatives by cooperative and by sector.

Figure 5.22 Members of Cooperatives.

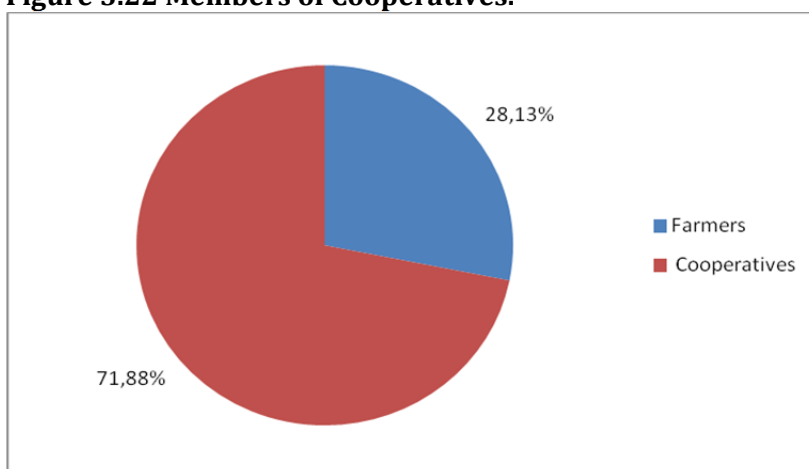


Figure 5.23 Number of members of first tier cooperatives.

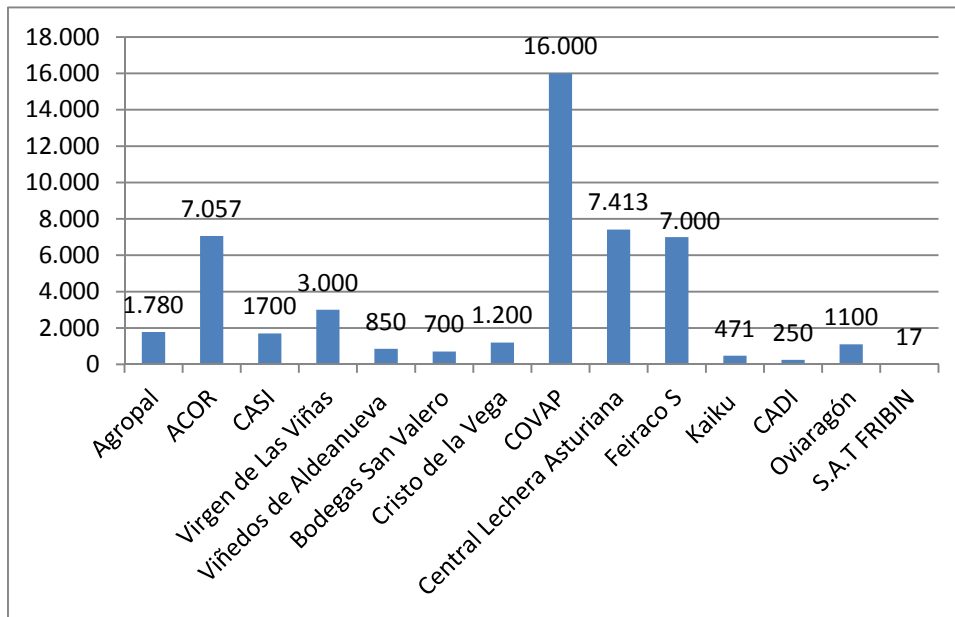
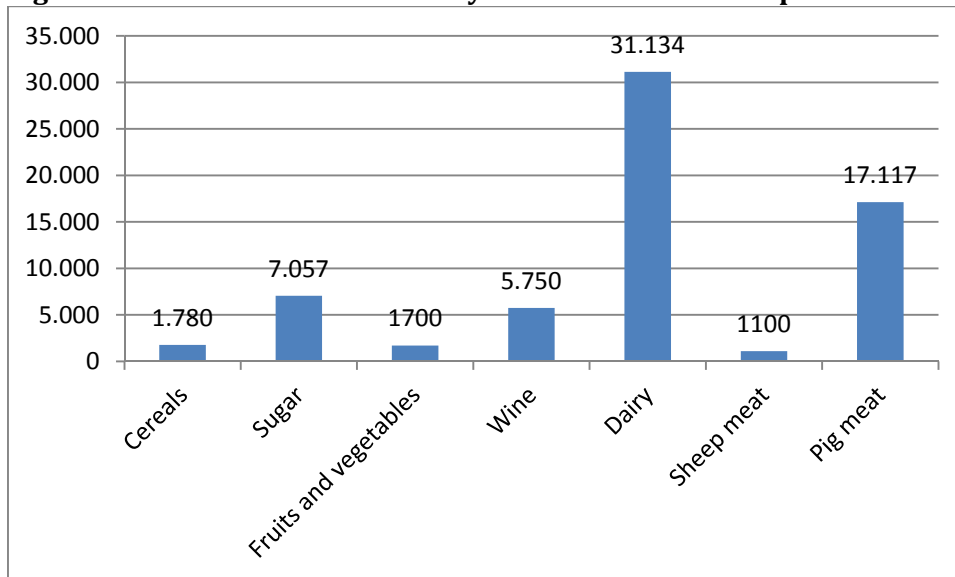


Figure 5.24 Number of members by sector in first tier cooperatives.⁴¹



⁴¹ COVAP, with 16,000 members, is included in both Dairy and Pig meat.

Figure 5.25 Number of members in second tier cooperatives.

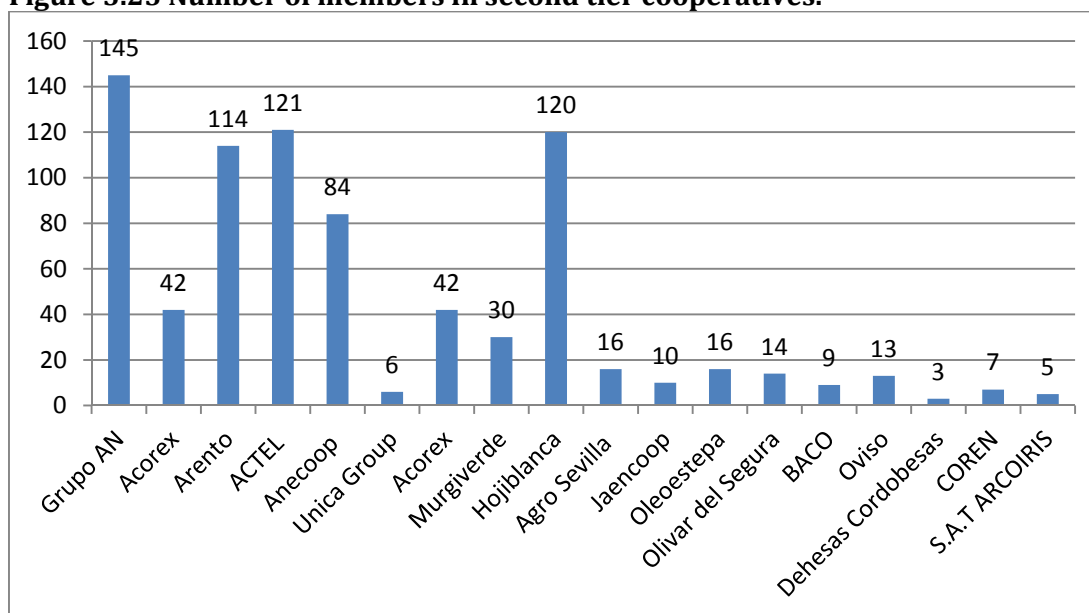


Figure 5.26 Number of members by sector in second tier cooperatives.

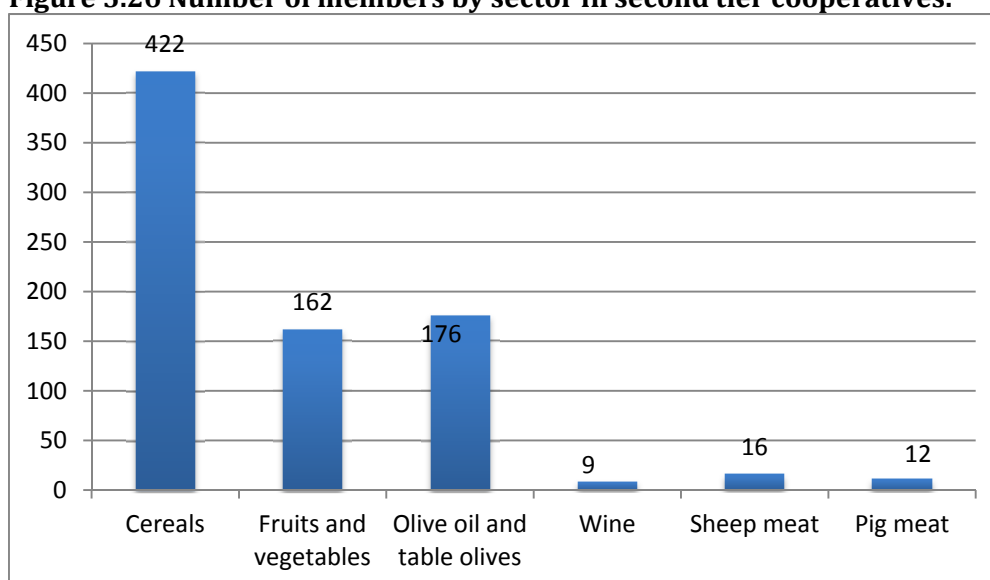


Table 5. 17 Cooperatives by year of foundation.

Year of foundation	Cooperatives
Before1960	7
1960-1969	4
1970-1979	5
1980-1989	8
1990-1999	5
2000-2009	3
Total	32

The 1980s was a period in which many cooperatives were founded, due in part to legislation which encouraged the formation of new cooperatives. What is of note overall though, is that the most successful Spanish agricultural cooperatives are relatively young, with only seven having been founded before 1960.

The cooperatives focused upon in this study are mainly devoted to the functions of collecting and forwarding member products to the next vertical stage of the food supply chain, marketing, and procurement of supplies, as shown in Figures 5.27 and 5.28, in keeping with what we have observed in Chapter 5.3. However, as can be expected amongst the largest cooperatives there is more emphasis on processing and marketing branded products than amongst smaller cooperatives. Although cooperatives considered certain functions and activities to be relevant in the Questionnaire, such as marketing branded products and integration, there is a significant gap between theory and practice. In general, high product specialisation is observed (Figure 5.29).

Figure 5.27 Position in the Food Chain-Functions.

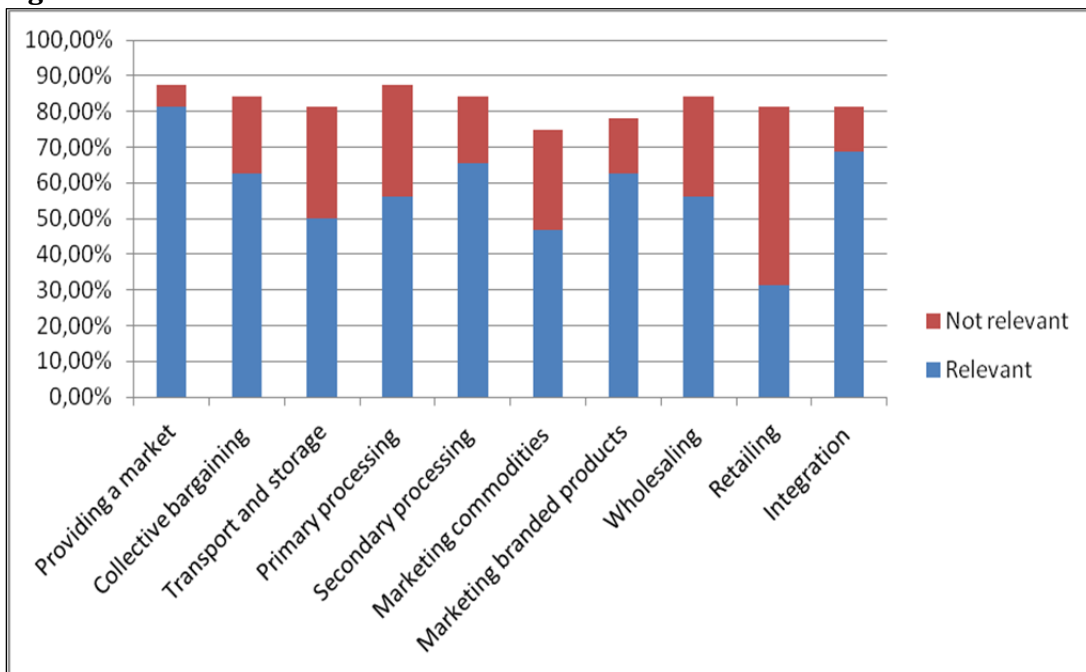


Figure 5.28 Number of cooperatives by main functions.

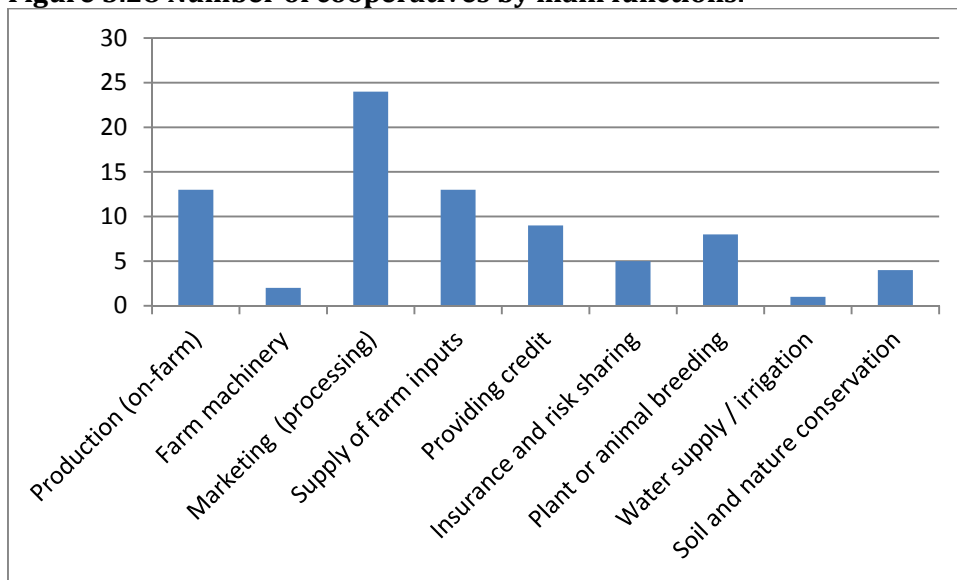
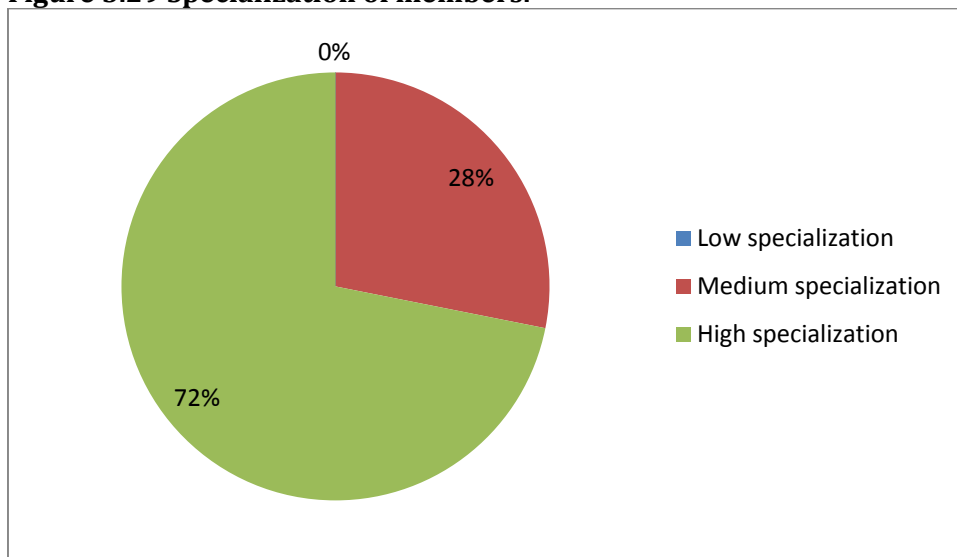
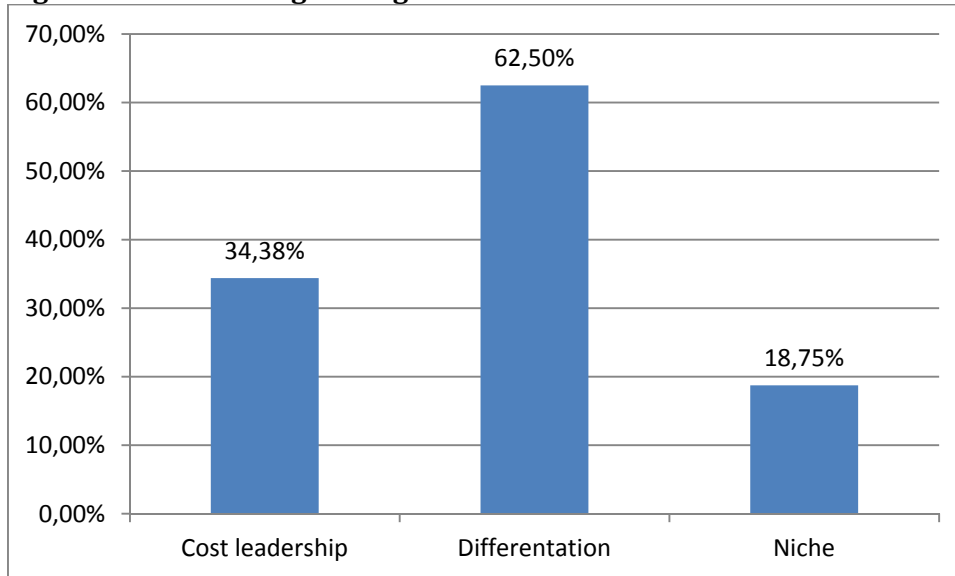


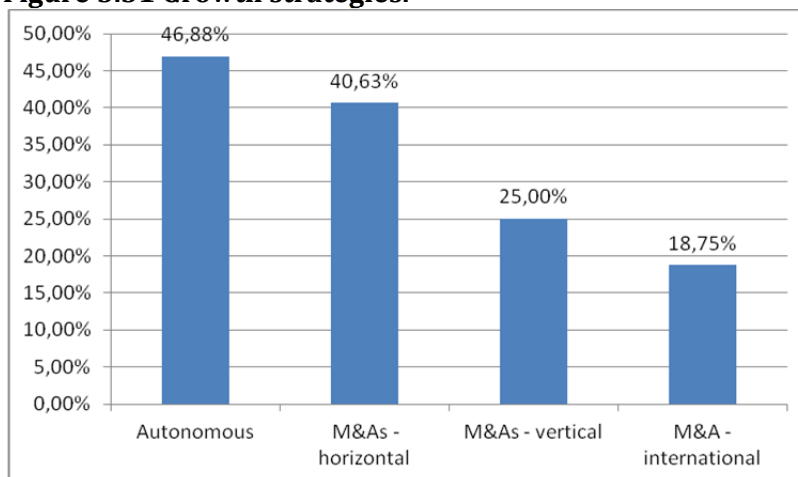
Figure 5.29 Specialization of members.



With respect to marketing strategies, it is notable that 62.5% of cooperatives consider differentiation to be a key marketing strategy for success as opposed to 34.38% who highlighted cost leadership. Focus on a niche market was least popular at 18.75%.

Figure 5.30 Marketing strategies.

Growth strategies rely to a high degree (46.88%) on “organic” or autonomous growth (selling more, obtaining more members and thus more activity). Horizontal mergers and acquisitions account for 40.63% and vertical mergers and acquisitions account for 25%. Not surprisingly, international mergers and acquisitions comprise only 18.75% of such growth strategies, although given the historically low rates of internationalisation, even this is somewhat encouraging for the Spanish market in general.

Figure 5.31 Growth strategies.

5.5.3 Institutional environment

Chapter 5.3 set out the institutional environment of cooperatives, making reference to the history of cooperatives, both agricultural and otherwise, political, sociological and institutional support and their importance in the Spanish economy in general (see section 5.3.1 in particular). Chapter 5.7 sets out in detail relevant laws and policies and comments

on their effectiveness, particularly in light of legal barriers, tax and competition issues. In sum, although cooperatives benefit to a certain degree from a “privileged” tax treatment, the restrictions on their activities, not to mention financial constraints, arguably outweigh any such privilege. In section 5.7.3 we provide a summary of these restrictions.

In general, we can observe that within Spain there is a reasonably high institutional support for cooperatives, at least formally. Provisions related to cooperatives are included in the Spanish constitution and more recently in the new Social Economy Law. The problem, as set out in other chapters referred to above, is that the actual legal and cooperative organisational structures limit the effectiveness of such support. As well, by virtue of the sheer volume of cooperative laws and policies at the autonomous community level, there is no united policy orchestration which would be ideal in confronting an increasingly competitive and globalised marketplace. Most cooperatives are incorporated at the autonomous community regional level to take advantage of regional policies. Resulting inconsistencies between regions complicates inter-regional cooperation, thus ultimately inhibiting growth strategies and at times internationalisation. Financial constraints are common in cooperatives, and even more so when such cooperatives are “confined” within regions. Policy direction is incoherent and contradictory. More and more emphasis is put on encouraging cooperatives to increase size in order to gain market power, concentrate offer, etc. However, once they reach a “large” size and outgrow their small-to-medium enterprise status they lose the chance to benefit from a multitude of subsidies and funds that are available to SMEs. While this may be an important issue for European cooperatives in general, in the case of Spain it is even more so, given the smaller cooperative size and the imperative task of gaining size and market weight. A restrictive interpretation which does not recognise the specificity of cooperatives is counterproductive.

On the national scale, there seems to be some “disconnect” between the importance of agricultural cooperatives and the political acknowledgement of such agricultural cooperatives concerns. Whether this is a rural/urban issue or simply a predisposition for investor-owned firms as a default is difficult to judge. A telling example was that in a national government “crisis” round table of 30 business leaders in Spain under the former government, only one cooperative was invited (Mondragon) and no agricultural representatives (or credit cooperatives) even though agricultural cooperatives are currently generating employment and credit cooperatives are among the few financial institutions that haven’t abruptly stopped lending to small and medium businesses.

5.5.4 Internal Governance

In Spanish cooperatives the three obligatory corporate bodies are: The General Assembly, the Management Board and the “Intervenors” (the latter, under certain autonomous legislation is optional). The General Assembly is the body composed of all the members of the cooperative and the Management Board is the administrative body.

The Intervenors (also known as “Intervention” or “Account Intervenors”) is a social body that has a long tradition in Spanish cooperativism and is obligatory in the national cooperative legislation and the majority of the autonomous laws. However, its utility is limited, above all in small cooperatives, and it cannot be considered to perform a true supervisory function. The powers vested in such a body to control and supervise the cooperative are limited to access to cooperative documentation and the review of annual accounts. This said, the cooperative statutes may, in theory, grant greater powers to this body. In some autonomous laws the Intervenors body is not obligatory (Valencia and recently, Andalusia) and in others only when the cooperative has more than a stated number of members (Basque Country and Catalonia).

With respect to the SAT, the obligatory bodies are: the General Assembly and the Management Board (art. 10.1, Royal Decree re: SAT).

The Spanish legal framework is quite inflexible as it allows little margin to freely modify or amend company statutes. For example, the administrative body is always the Management Board (“Consejo Rector”), which has a very predetermined composition and only allows as an alternative the existence of a sole administrator in cooperatives with few members. With respect to SATs that have less than ten members the General Assembly can assume the functions which pertain to the Management Board, both constituted in a single body. With respect to such body, it is worth noting that instead of providing for the possibility of a sole administrator, as occurs in the national cooperative legislation, it dispenses with the Management Board, leaving the General Assembly to function as the sole body. This resulting odd situation raises the possibility of legal and administrative/operational uncertainties. If for any reason, the General Assembly is unable to reach decisions or to resolve a dispute or cooperative problem, a decision making void results.

The national legislation establishes the possibility that the cooperative statutes allow for the naming of Management Board members that are not members of the cooperative. The number of non-member managers cannot be more than one third of the total members of the Management Board and must be people that are qualified and experts in their fields. In addition, such non-members are prohibited from serving as Chairperson or Vice-

Chairperson. All of the cooperatives in this study had boards (“consejo rector”) composed of cooperative members, and such members were often professionals in charge of the operational management of the cooperative. On this point, there are differences between the various Spanish cooperative laws. The majority, like the national law, fixes the percentage of the non-member managers to one third. In turn, SATs, establish that all members of the management board be members of the SAT and chosen by the General Assembly (art. 10.4 RDSAT).

With respect to the departure from the principle of “one person, one vote” and the possibility of a “plural” or “multiple votes” in the General Assembly, there are notable differences in the contents of the distinct autonomous community cooperative laws. However, in all cases the additional votes must be assigned in proportion to member patronage. Also, there is a limit to such votes, depending on the particular law.

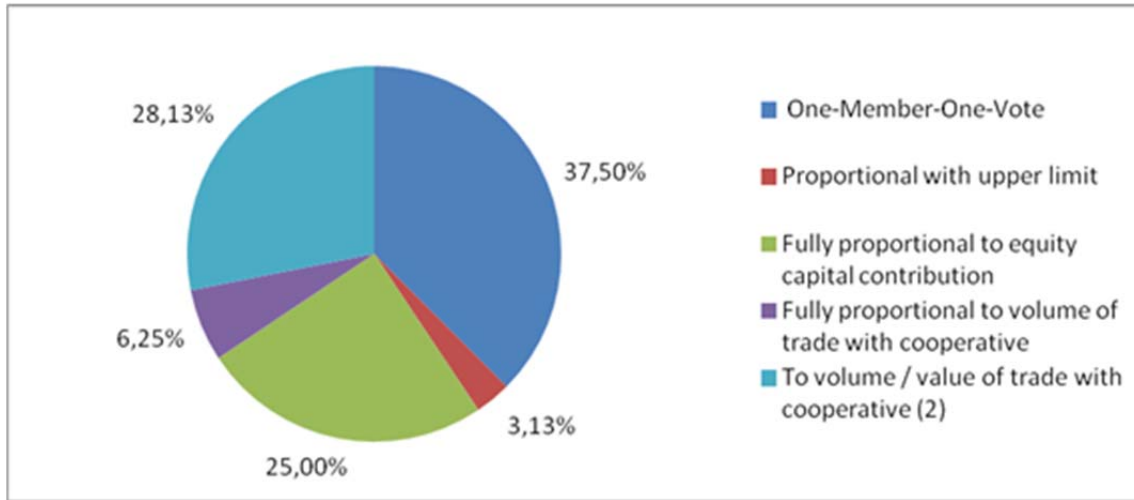
The national law allows regional statutes to choose whether multiple member votes are permitted or not. The term “members” refers to members that are cooperatives, entities controlled by cooperatives, or public entities, and includes as well members who are physical persons in certain types of first tier cooperatives. In relation to agricultural cooperatives the *national* law provides that multiple votes cannot exceed five votes and that a member cannot hold more than one third of the total votes of the cooperative. Autonomous community laws vary in this regard. In Figure 5.32 we can observe that the single most popular arrangement is still one member-one vote (37.5%). Voting that is fully proportional to equity capital contribution represents 25%, with the rest following various arrangements based on volume, value or proportional with an upper limit.

However, all cooperative laws in Spain permit proportional voting at the second tier cooperative level if permitted by a cooperative’s bylaws. Additional votes must be proportional to the level of a member’s (cooperatives or SATs) patronage and/or the number of its active members. Limits are usually established so that a member cannot have the majority of the votes.

With respect to SATs, the relevant regulation makes reference to the possibility of a vote per person or votes in proportion to capital contribution. In the latter case, additional voting rights can only be exercised if the decision under discussion would carry economic obligations. In this way, a plural vote is allowed in relation to economic matters. However, this differs from the manner in which agricultural cooperatives allow for multiple votes in proportion to patronage and with a limit of votes per member. In the case of SATs such

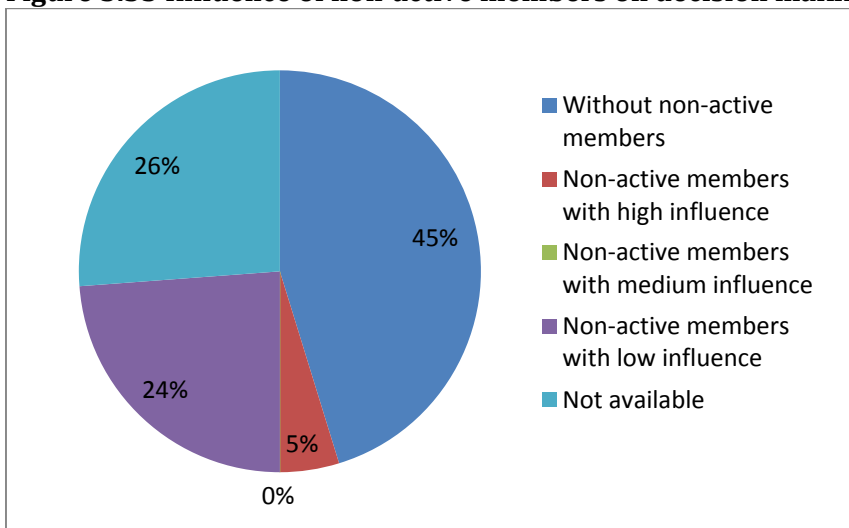
plural votes are a function of the equity capital that each member has put up and are without limit.

Figure 5.32 Percentage of cooperatives that permit one vote or proportional voting.



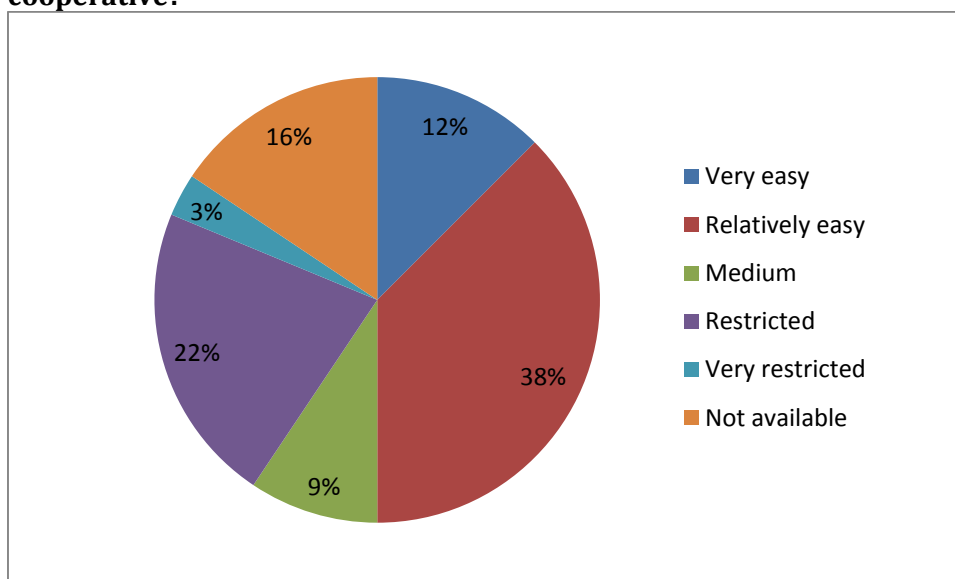
The majority of cooperatives in this study do not have non-active members and if they do, their power is minimal. In some cases, such members are waiting to leave the cooperative. The only cases in which non-active members were represented were found in two SATs, Central Lechera Austuriana and Fribin, which function in compliance with the SAT legislation. In general non-active members have low influence, although 26% of the cooperatives did not provide information in this regard. In 5% of the cases cooperatives had non-active members with high influence, suggesting that the role of outside investor has been restrained.

Figure 5.33 Influence of non-active members on decision making.



Overall, cooperative membership is easy to attain in line with the cooperative principles of open membership, and only in a small percentage is it restricted, as set out in Figure 5.34.

Figure 5.34 Membership policy: How easy is it to become a member of the cooperative?



With respect to capital contributions, in 31% there was a substantial contribution required, whereas in 41% only an entrance fee was required. However, the information on the other 28% was unavailable. The providers of equity capital in 72% of the cases are members, as set out in Figure 5.36 In 12% of the cases, non members also provided equity capital, although with respect to 16% of the cooperatives this information was not provided.

Figure 5.35 Membership policy on capital contribution.

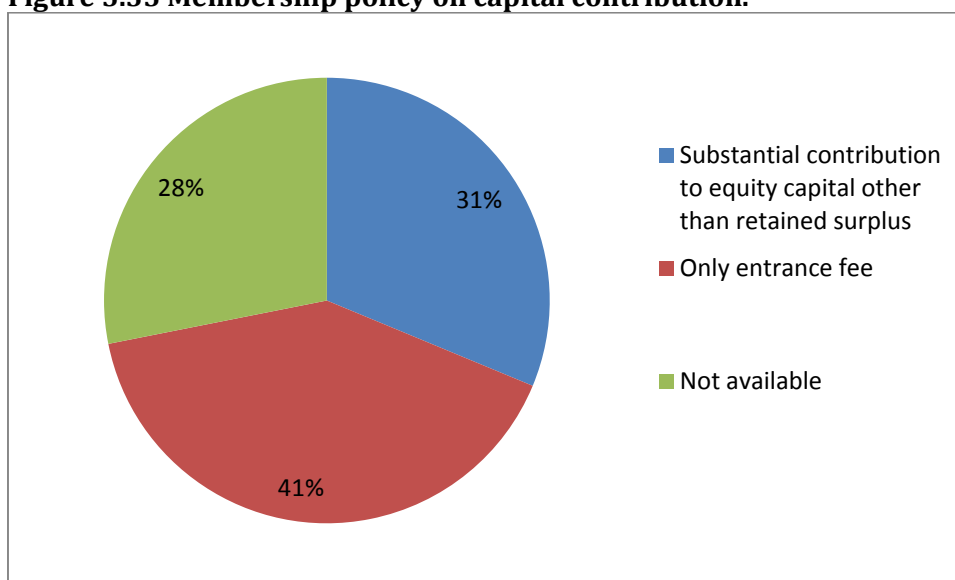
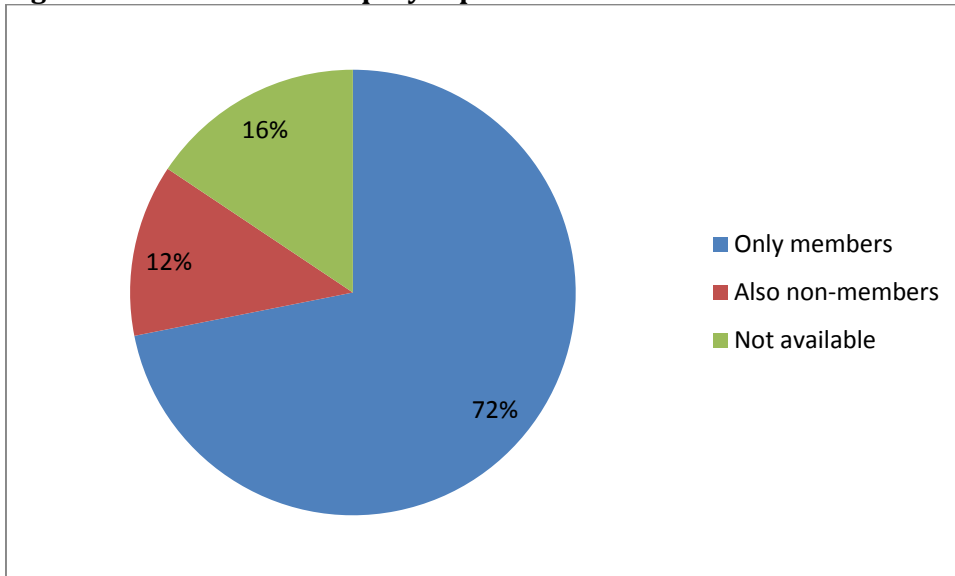
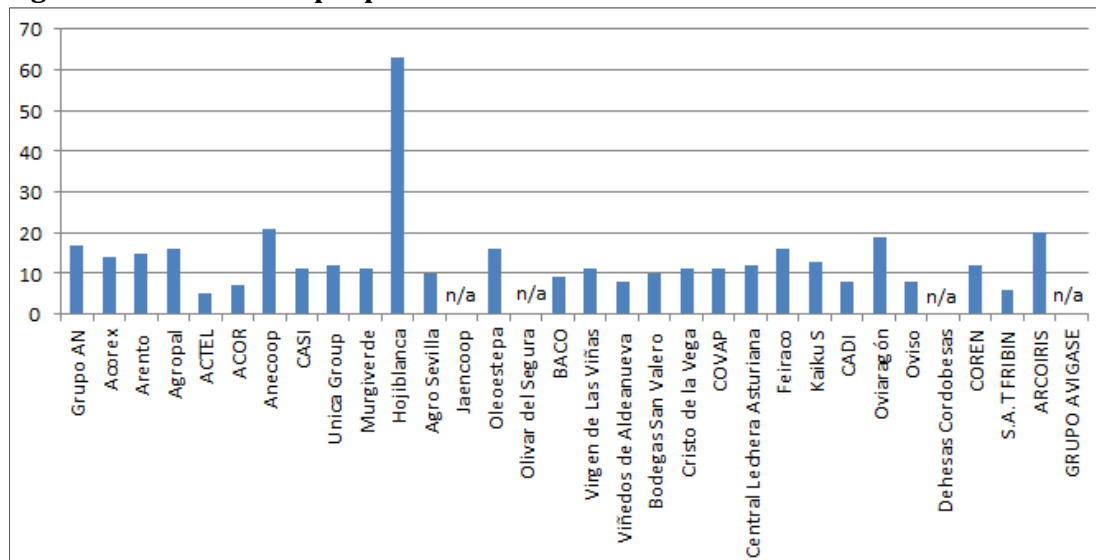


Figure 5.36 Providers of equity capital.



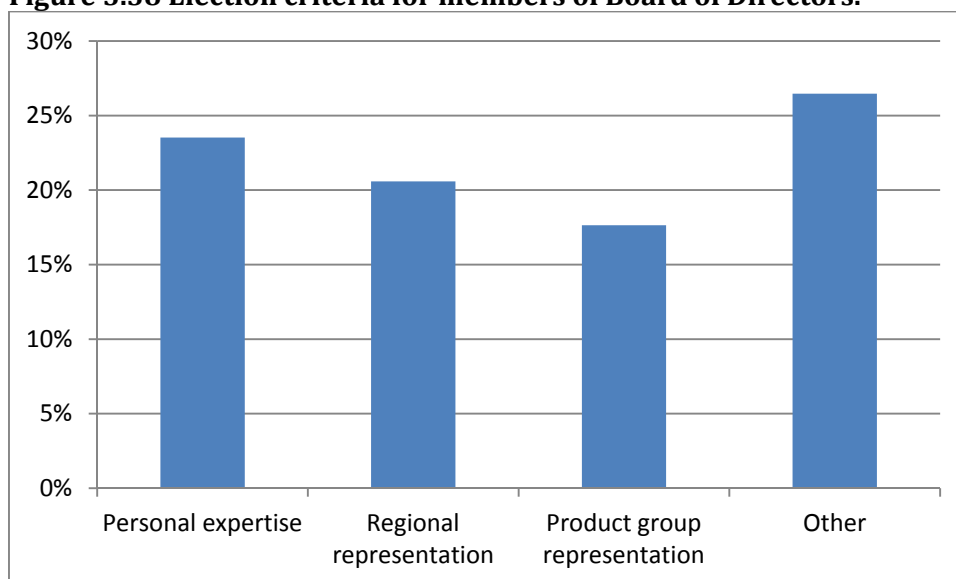
With respect to the composition of the Board, Hojiblanca stands out as having a high number of members, where the first level cooperatives have representation on the board. As well Anecoop, Arcoiris and Oviaragon have a significant size board, particularly the latter in proportion to size of the cooperative.

Figure 5.37 Number of people in the Board of Directors.



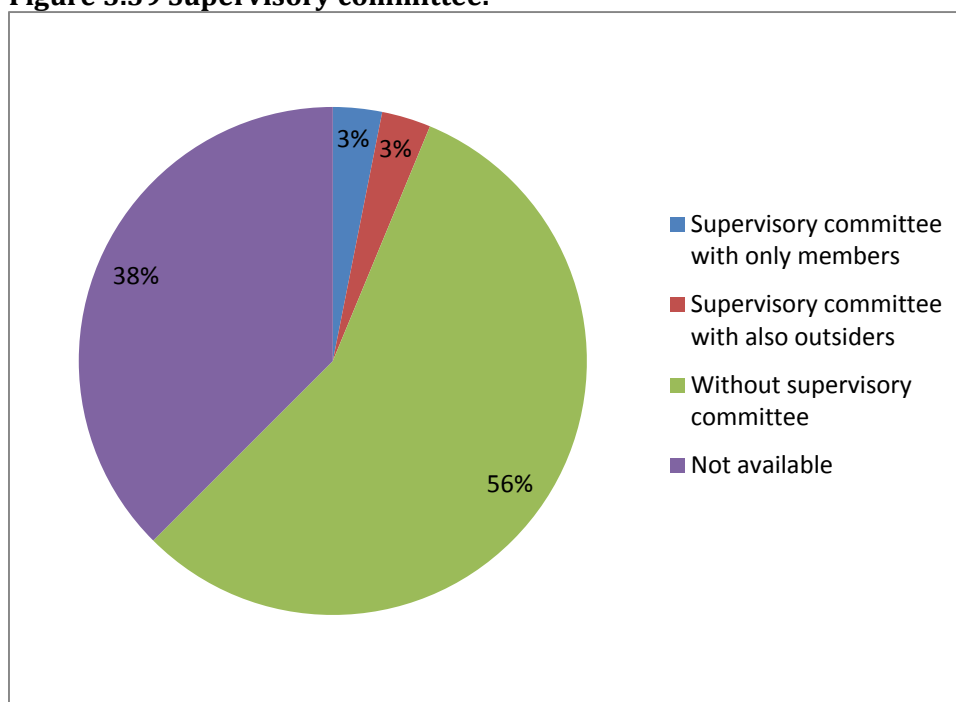
Election criteria are diverse, and no particular reason is dominant, as can be seen in Figure 5.38.

Figure 5.38 Election criteria for members of Board of Directors.



In keeping with the trend of Spanish cooperatives in general, very few cooperatives in the survey had supervisory committees, and only 3 % with outsiders.

Figure 5.39 Supervisory committee.



In some instances cooperatives trade with non-member farmers as seen in Figure 5.40 and as well, perhaps surprisingly for other cooperative jurisdictions, only 62% of cooperatives indicated a legal obligation to trade exclusively with the cooperative, as can be seen in Figure 5.41, although these figures are skewed by the presence of SATs and also the fact that a large portion did not answer.

Figure 5.40 Trade with domestic non-member farmers.

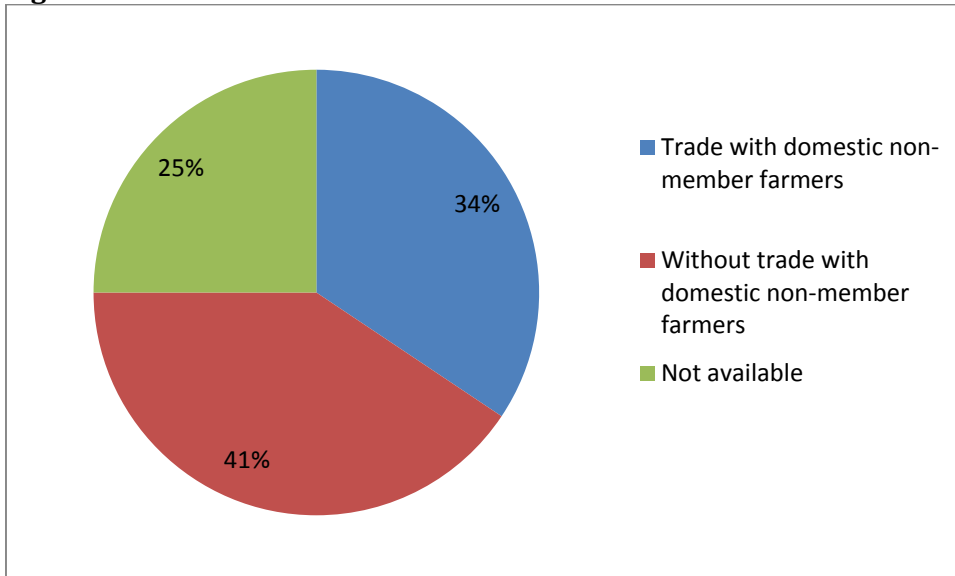
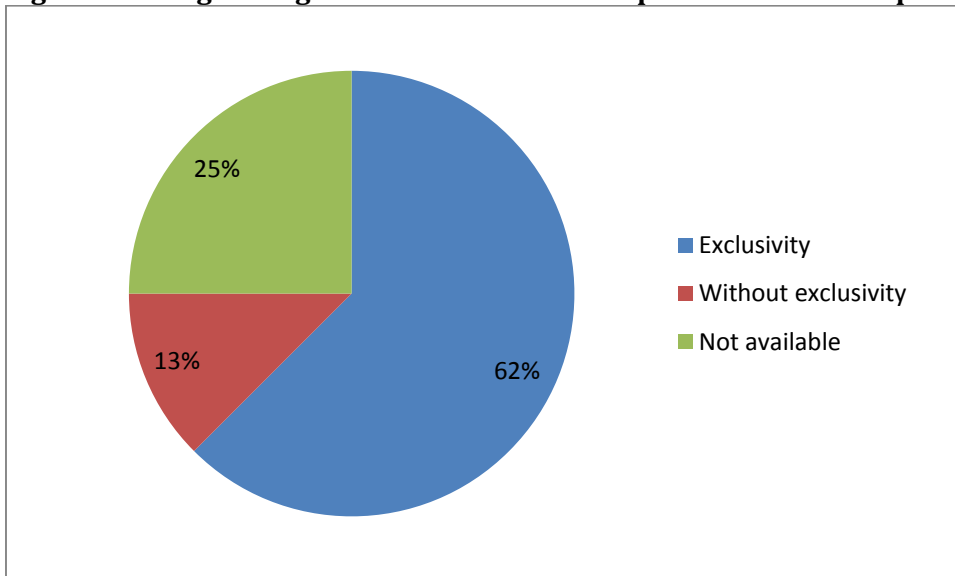
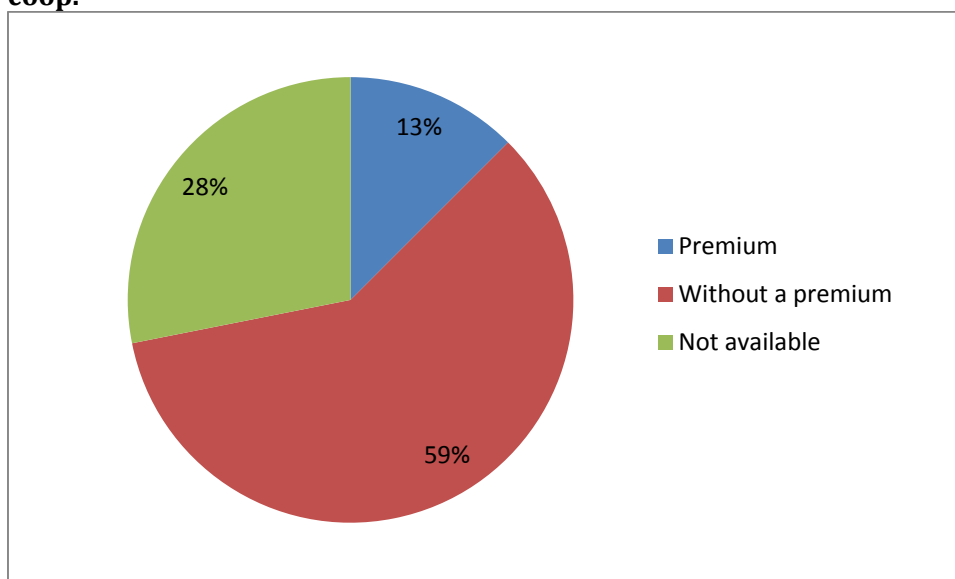


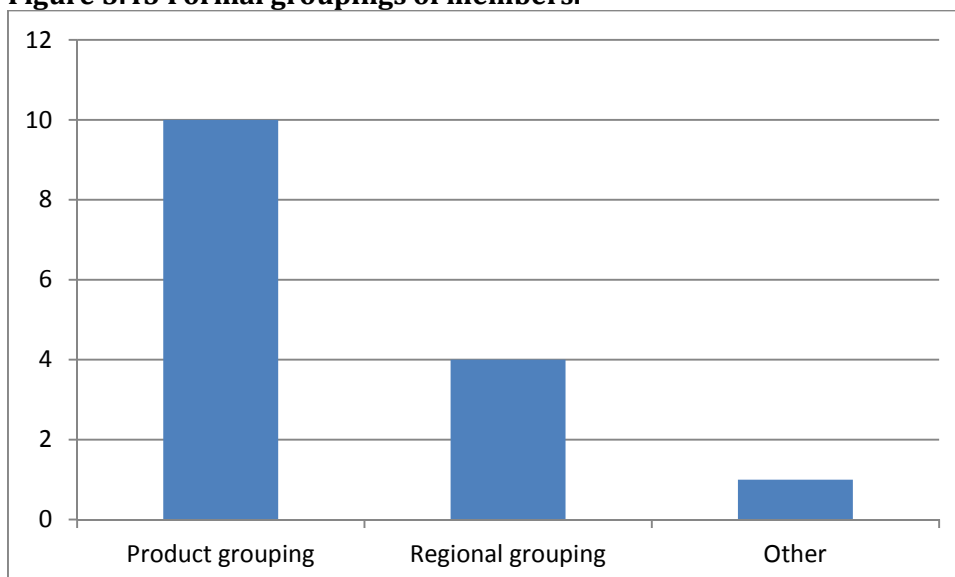
Figure 5.41 Legal obligation to deliver all their products to the cooperative.



Only 13% of the cooperatives gave a premium for members who trade large volumes (Figure 5.42). Although this figure is not completely compelling, given that in 28% of the cases this information was unavailable, it does suggest that in Spain such premiums are not widely used, even in the largest cooperatives, as an incentive measure.

Figure 5. 42 Premium obtained by members with large volumes of trade with the coop.

Members are predominantly grouped along product lines and not in regional groups, which is interesting given the traditional view of cooperatives as based on territory and community ties. However, product lines often overlap with regional grouping (e.g. F&V areas or dairy).

Figure 5.43 Formal groupings of members.

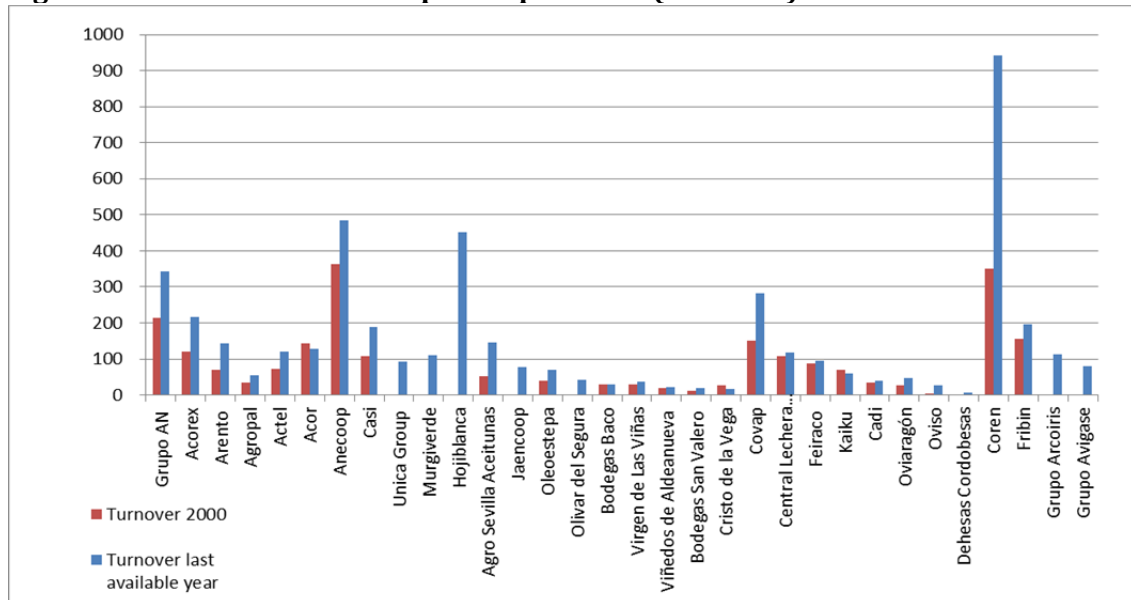
5.5.5 Performance of the cooperatives

The market shares of cooperatives in the eight sectors studied are discussed in Chapter 5.4, Section 5.4.1. Further, performance of agricultural cooperatives is analyzed in Chapter 5.6, with reference to the evolution of the sector, prices, production, exports, relative performance with IOFs and challenges for the future, as well as policy concerns.

As a sketch of the performance of the cooperatives' under study, turnover of each cooperative from 2000 (where available) and 2010 is compared in Figure 5.44 below and by sector in Figure 5.45.

Data is incomplete as there are several cooperatives which do not have figures for 2000, having merged the activities of several entities since such time. SABI does not contain 2005 figures for many of the cooperatives and thus a mid-decade comparison is not included. The data in this section 5.5.5 should be considered as orientative and should be coupled with the fact that to a certain extent turnover suggests at least some measure of success. We can see below that most impressive is Coren's performance in terms of turnover.

Figure 5.44 Turnover of the Top 5 Cooperatives (million €).⁴²



With respect to sectors, the growth in the fruits and vegetables and pig meat sectors is noticeable, with cereals experiencing growth as well.

⁴² In some cases, there are less than 5 cooperatives per sector represented: the sugar sector has one cooperative and sheep meat, three.

Figure 5.45 Turn-over of Top 5 in Each Sector. ⁴³

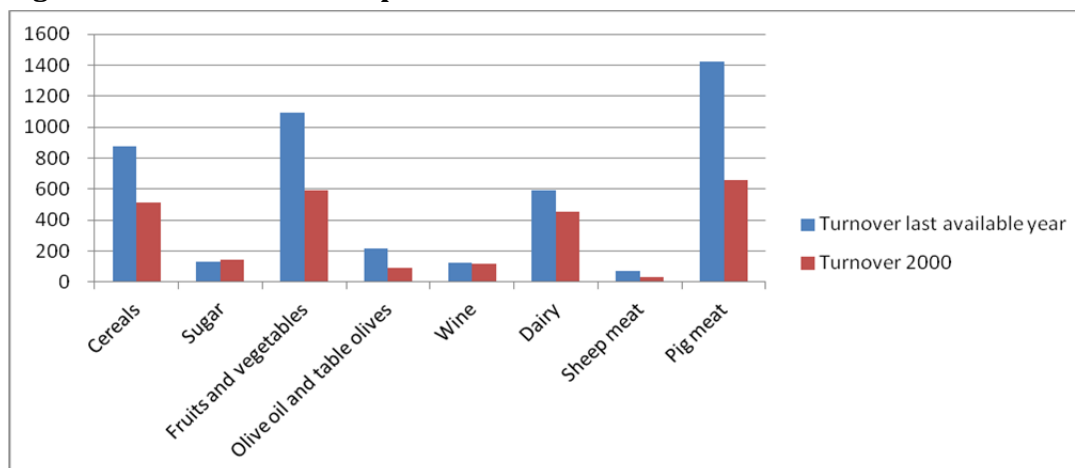
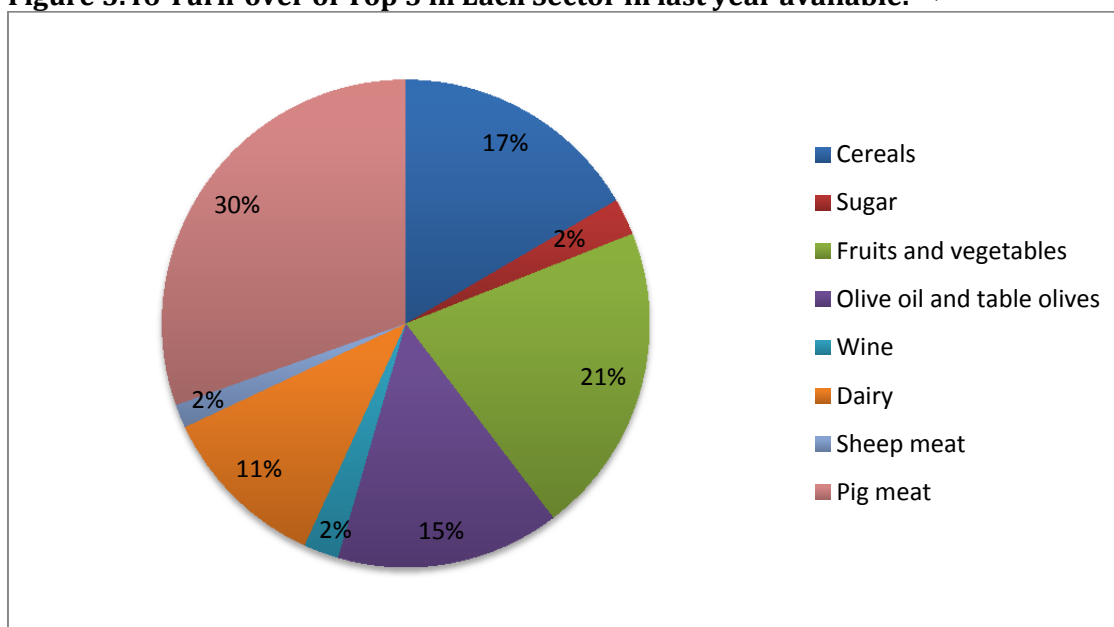


Figure 5.46 Turn-over of Top 5 in Each Sector in last year available. ^{44,45}



As Figure 5.46 illustrates, the most important sectors amongst the principle Spanish cooperatives are those in pig meat, with 30% of total turnover total, followed by F&V (21%) cereals (17%) and olive oil and table olives (15%). The elevated importance of the pig meat sector is due to the presence of COREN, whose 2010 turnover reached more than 942 million €.

⁴³ In some cases, there are less than 5 cooperatives per sector: the sugar sector has one cooperative and sheep meat, three.

⁴⁴ In some cases, there are less than 5 cooperatives per sector: the sugar sector has one cooperative and sheep meat, three.

⁴⁵ Acorex is included in the sector of cereals and F&V. COVAP is included in dairy and pig meat.

Figure 5.47 Total assets of the Top 5 Cooperatives (million €).⁴⁶

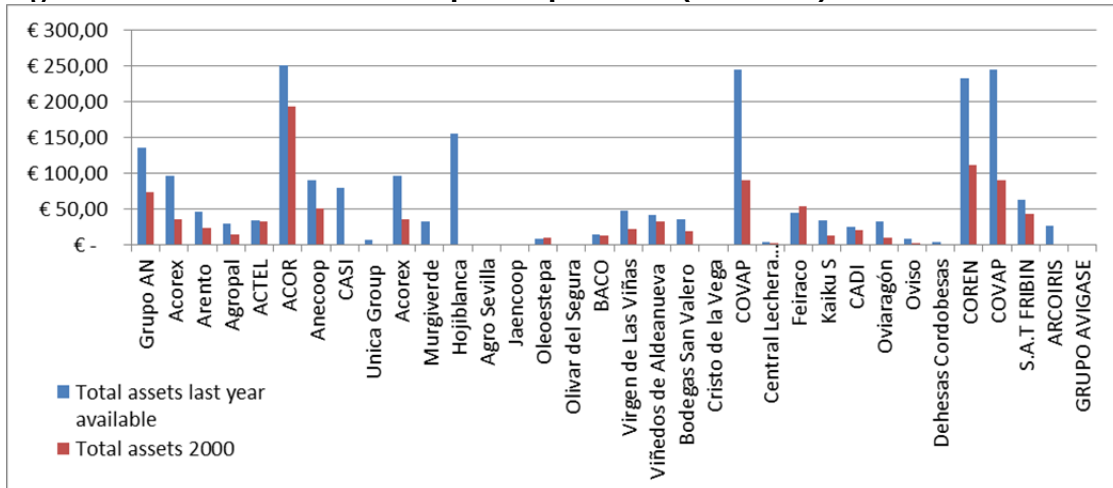
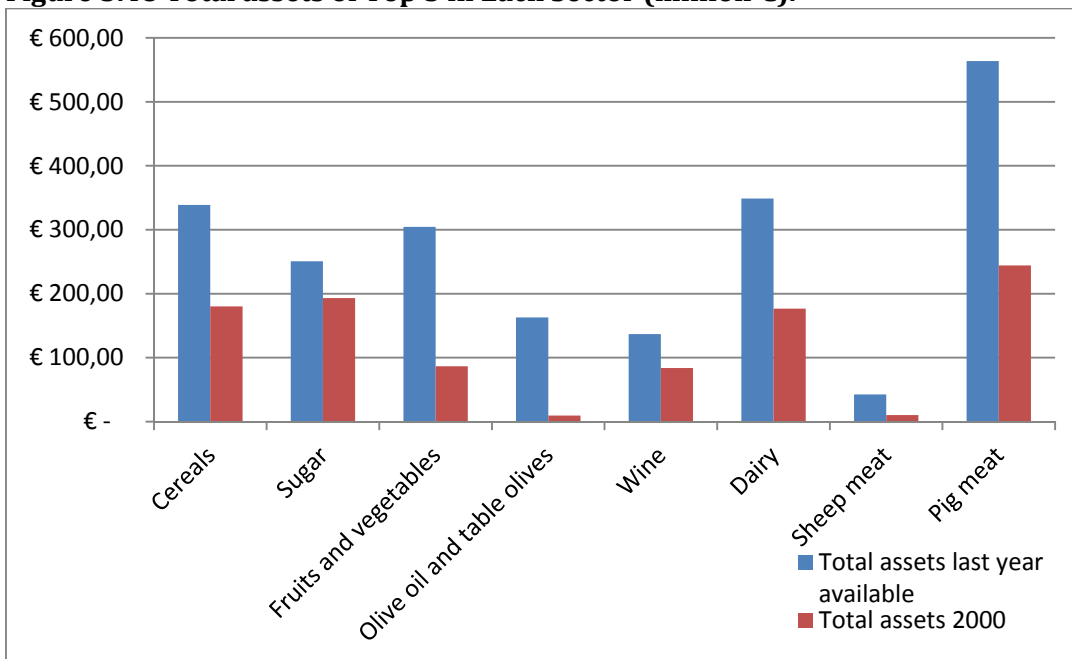


Figure 5.47 illustrates total assets of the analysed cooperatives from 2000 and 2010. Figure 5.48 sets out the total assets by sector. This information is not available for some of the cooperatives. However, we can observe in general that the majority of the cooperatives have experienced significant growth in total assets, especially COVAP, COREN, Grupo AN and Acorex.

Figure 5.48 Total assets of Top 5 in Each Sector (million €).⁴⁷



Equal to what has occurred with respect to turnover, the most significant growth in total assets has occurred in the F&V sector and pig meat, as well as cereals.⁴⁸

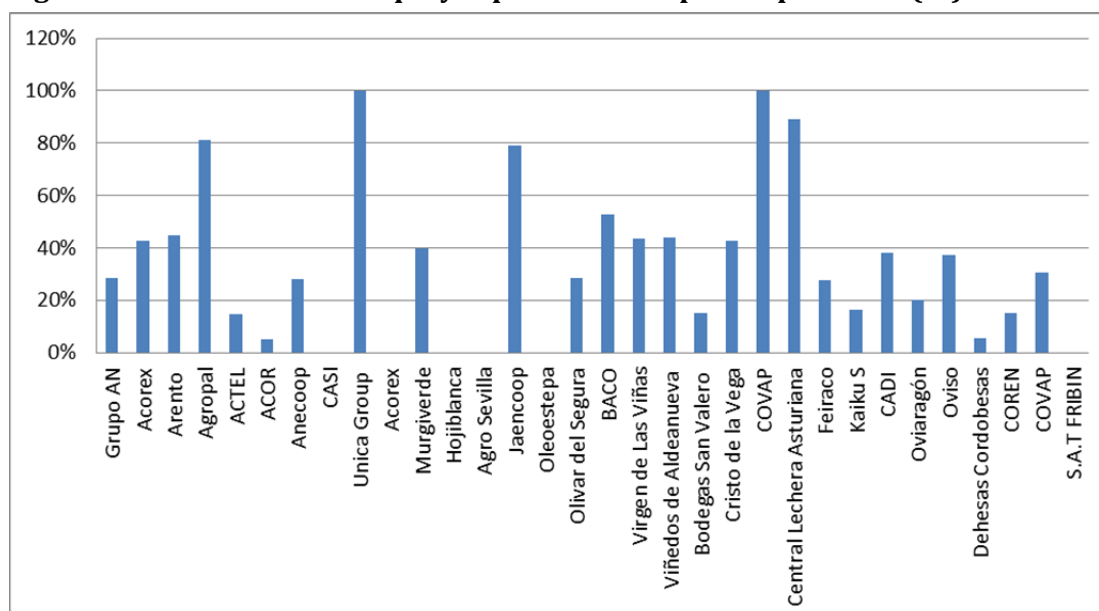
⁴⁶ In COREN, Grupo Avisage and SAT Arcoires (Pig meat); Bodegas San Valerio (Wine) and Grupo AN (Cereals) last year available is 2009.

⁴⁷ Acorex is included in the sector of cereals and F&V. COVAP is included in dairy and pig meat.

Figure 5.49 illustrates individualized equity capital of the Top 5 and Figure 5.50 sets out the individualized equity capital per sector. Individualized equity capital can be defined as the percentage of individual capital of total equity capital. Unica Group, COVAP and Central Lechera Asturiana have the highest ratios of individual capital. In contrary, the individual capital of ACTEL, ACOR or Dehesas Cordobesas, falls below 20%. The social capital of these cooperatives represents a reduced share of total equity, due to the importance of the indivisible reserves.

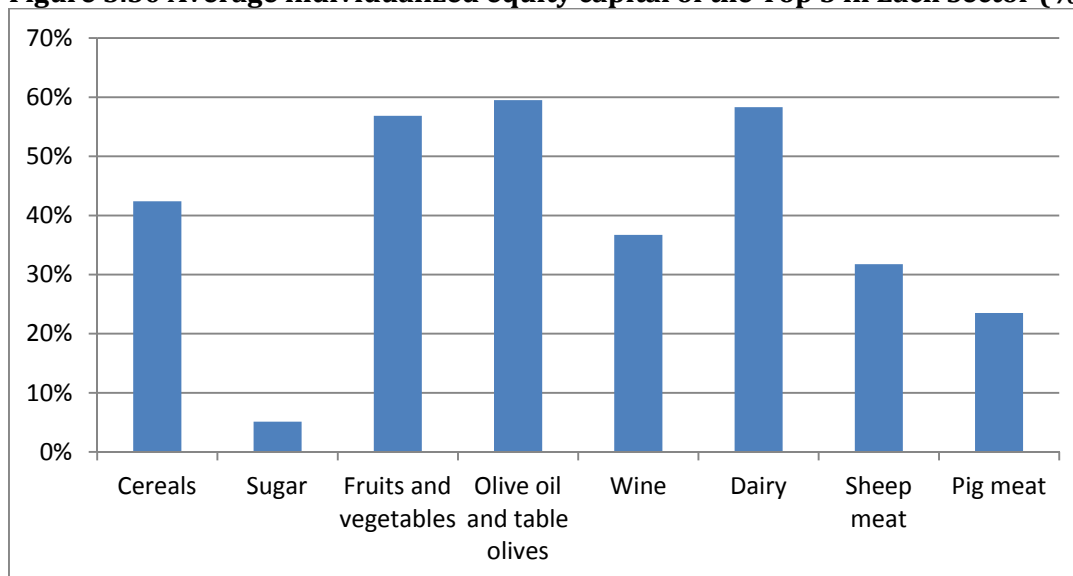
When the ratio is low it means cooperatives have other sources of equity capital. Also if legal reserves can 't be distributed if a member leaves the company, if most of the equity is non individual equity capital, even if members leave equity will not be as affected.

Figure 5.49 Individualized equity capital of the Top 5 Cooperatives (%).



Per sector, the highest ratios for individualized capital are in F&V, olive oil and dairy, having values of approximately 60%. On the contrary, the sugar sector reaches only and approximate value of only 5%.

⁴⁸ The elevated growth in the sector for olive oil is due to the lack of complete and reliable information for some of the olive oil cooperatives in the year 2000.

Figure 5.50 Average individualized equity capital of the Top 5 in Each Sector (%).

5.6 Sector analysis

5.6.1 Introduction

In this chapter developments in the eight sectors that are central in this study are discussed. Trends in the markets, important changes in (agricultural) policy are reported on and linked to the strategies and performance of the investor-owned firms and cooperatives in the sector. The period of observation is 2000 – 2010, updated in some cases to 2011, although certain information was not available for all years in the aforementioned period. Challenges of, and issues related to, each sector are identified and linked to the overriding concerns of agricultural cooperatives in Spain; that is, the small size and “atomization”, decreasing and volatile prices, over-emphasis on production related activities (i.e. at the “bottom” of the food supply chain), lack of commercialisation, weak bargaining power vis-à-vis the other actors in the food supply chain, regionalism and lack of internationalisation, ageing farmers, “extra” demands on cooperatives in relation to rural development and environmental demands, etc.

5.6.2 Cereals

Cereals are an important sector in Spanish agriculture both as a primary input to the processed foods industry as well as animal food. Given the interrelationship between this sector and the rest of the agri-food system, changes in the cereals sector, whether in terms of price, supply, etc., have an impact on other sectors (Cooperativas Agroalimentarias, 2004). The use of cereals in the production of bio-fuel has risen from 1.9 million tons in 2007 to 7.7 million tons in 2009 (Grupo AN, 2010).

Production. In 2010 the cultivated area of cereals in Spain was 6,040,000 hectares, reaching a production of 19,880,000 tons. Although surface area under cultivation has decreased, production continues to rise. Yields have increased with improved production methods. Cooperatives have 35 % of the market share. The principle cereals cultivated in Spain are wheat, barley, oats and corn.

Table 5. 18 Production, value and area of cereals, 2000-2010.

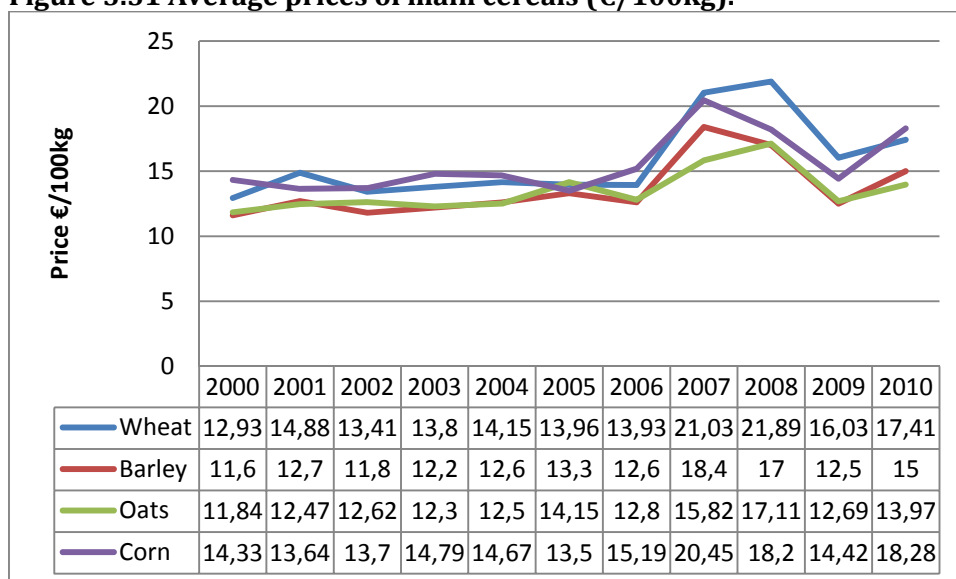
Year	Production (th tons)	Value (th €)	Area (th ha)
2000	24,567	3,184,137	6,807
2001	18,055	2,575,447	6,428
2002	21,683	2,894,872	6,729
2003	21,17	2,924,833	6,627
2004	24,849	3,412,054	6,603
2005	14,241	2,359,344	6,596
2006	19,091.8	2,629,835	6,305
2007	24,0543.7	4,777,990	6,244
2008	24,179.8	4,625,040	6,74
2009	24,274.8	3,491,240.2	6,076
2010	19,88	3,268,396	6,04

Data source: MARM (2011d)

Distribution by region. The cereals sector is principally in Castilla and Leon (36.96%), Castilla - La Mancha (15.2%), Aragon (14.49%) and Andalusia (8.88%). The fact that processing companies are usually not close to production (e.g. in Catalonia, Valencia, Andalusia, Murcia, and Galicia) results in high transportation/commercialisation costs (Cooperativas Agroalimentarias, 2004).

External trade. Spain has a deficit in the production of cereals to meet consumption and is a net importer. From 2000 onwards imports have risen and exports decreased. Exports mainly are destined for EU countries such as Portugal, France, Italy and the UK.

Prices. The cereals mentioned above have followed approximately the same price trend. Between 2000 and 2006 prices remained relatively stable, rising significantly in 2007 to 2009. In 2009 the prices dropped to 2006 levels. The disappearance of price protection and the globalization of markets have resulted in high price volatility and the use of cereals as a speculative commodity. Lack of price stability is a key characteristic of the sector which affects the income of the farmer and the sale price. As well it makes the establishment of long term contracts between producers and the processing industry difficult due to the complexity of estimating future prices.

Figure 5.51 Average prices of main cereals (€/100kg).

Data source: MARM (2011d)

Cooperatives in the Cereals Sector and Necessary Action. The cereal supply to the processing industry is in the hands of three types of entities: cooperatives, wholesalers and large multinational companies with capacity for warehousing (Catón Vázquez, 2004). The dispersed offer of cereals in Spain represents an obstacle in dealing with the highly concentrated agro-food industries. In general, it is made up of small and medium enterprises with the consequent high structural costs (Cooperativas Agroalimentarias, 2004).

The majority of cooperative cereal production is commercialized through second tier cooperatives, although there are some first tier cooperatives with a significant commercial capacity. Many of the first tier cooperatives that are not members of a second tier cooperative are basically local storehouses of various products and supplies; generally they do not engage in direct sales and they often work through wholesalers of a certain size. A weakness of the sector is its lack of adequate commercialisation strategy to adapt to demand and also to allow supply to the market throughout the whole of the year. Commercial cooperatives, with the appropriate infrastructure for storage, can plan price strategies and have the capacity to provide a steady and homogeneous supply throughout the year. Where cooperatives do not have such capacity they are forced to sell to third parties at less than optimal prices (Grupo AN, 2010).

Another weakness is the lack of stability and trust in the contractual relationships between cooperatives and the processing industry due to a mutual lack of confidence and above all, speculation brought about by price volatility. In certain cases, agreements have

been entered into between the principle cereal cooperatives and the processing industry with certain clients in order to ensure supply independently of volatile market conditions.

In addition to attempts to deal with volatility and inadequate commercialisation measures, potential strategies may be the differentiation of product through quality measures and classification of product for final use (e.g. specific flours).

5.6.3 Sugar

Production. In 2010, 43,400 hectares were dedicated to the production of sugar beet resulting in 3,535,000 tons of sugar beet. The cultivation of sugar cane in Spain has practically disappeared, decreasing to a mere five hectares and 220 tons in 2010 from 1,068 hectares and 106,000 tons in 2000 (MARM 2011d).

Sugar production has decreased by half over the decade, going from 1,260,000 tons in 2000 to 636,000 tons in 2010. The Spanish sugar sector has been reduced to only 2 producer companies: Azucarera Ebro, an investor owned firm with 72% of the market and ACOR, a cooperative, which commands 28% of the market.

Territorial Production. Sugar production is very concentrated, mainly in Castilla and Leon (73.51% of area and 78.94% of production), followed by Andalusia (19.22% area and 12.74% production). ACOR (the cooperative) is situated exclusively in Castilla and Leon, while Azucarera Ebro is more dispersed throughout Spain.

External Trade. In keeping with the reduction in production, imports of sugar have increased in a significant manner while exports, mainly to France and Portugal, have suffered strong fluctuations, with a general negative tendency.

Prices. Prices have fallen, as a consequence of the lowering of minimum prices.

Table 5.19 Average sugar beet price received by farmer €/100kg (not including subsidy).

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Price (€/100kg)	5.05	5.12	5.15	5.88	6.08	5.5	4.37	3.51	3.71	3.71	3.58

Data source: MARM (2011d)

Policies. The Common Market Organisation resulted in the loss of sugar production, not only in Spain, but also in the entire EU. Under such regulation the sugar production quota was reduced and the minimum prices for sugar decreased. The companies received restructuring funds in exchange for reducing production. Community and state aid exists for producers in this sector.

The impact for Spain has been very significant, with the closure of a number of factories under the restructuring plan. As a response to the restructuring, ACOR (the cooperative) substantially reduced its production and closed one of its installations. In 2009 it established an alliance with a French cooperative group, TEREOS for the production and commercialisation of sugar in Spain, through the acquisition of 40% of its social capital. As a result since 2010, the TEREOS group carries out the commercialisation of the production of both of the Spanish companies.

As well, ACOR has diversified its activity into renewable energy through the construction of a biodiesel plant, a photovoltaic solar park and an agreement with the Cooperative Group Arento for the manufacture of flour, diversifying its production which had been limited to sugar (Alimarket, 2011e).

Necessary Action. The current CMO and the scenario after 2014 when a new market situation will leave sugar even more unprotected are pressing issues. If the situation does not improve, the costs of production and the decrease of prices will make the disappearance of the cultivation of sugar beet inevitable. Diversification as outlined above in relation to ACOR is a survival option.

5.6.4 Fruits and vegetables

The Spanish F&V sector (production, transformation and commercialization) is the second largest in Europe behind that of Italy and the first in worldwide exports. In 2012 it represented 30.82% of final agricultural production and more than 50% of final vegetable production (MARM, 2012). The role of cooperatives is extremely important, representing approximately 50% of the market share.⁴⁹ It is also one of the sectors that is notable for the creation of employment, particularly in rural zones, whether directly in agricultural activity or in complementary activities (Cooperativas Agroalimentarias, 2011c; Fundación Cajamar, 2002).

Production⁵⁰. The surface area dedicated to fruits and vegetables has experienced a slight decline in recent years while the area dedicated to citrus has increased in the last decade. Within the fruit sector, dried fruits and nuts represent the largest area, in excess of 60% of the total. The production of vegetables has been increasing progressively until 2005, after which it declined, picking up again in 2009. Production levels of fruits of all kinds continue

⁴⁹ Cooperativas Agroalimentarias, as a source for the market share.

⁵⁰ Note that in Spain there are no fruit and vegetable sector specific statistics—official statistics are by product (e.g. tomato, cucumber, oranges, etc.) Data on Vegetables, Citrus and Fruits have been consolidated and as well some of the most important products as indicative of trends have been chosen.

to increase. These increases are due to the increased important of intensive agriculture and clear orientation to exportation, with ever improving technical sophistication in the farms and higher crop yields.

Table 5.20 Area (ha) and production (tons) of vegetables, citrus and fruits.

Year	Vegetables		Citrus		Fruits	
	Production	Area	Production	Area	Production	Area
2000	12,802,044	408,848	5,382,511	294,629	4,005,979	982,894
2001	12,885,810	400,109	5,738,660	303,826	4,073,381	968,010
2002	13,206,141	402,861	6,096,715	305,496	4,082,042	957,831
2003	13,194,103	396,866	6,295,890	306,676	4,343,111	958,370
2004	13,751,458	404,787	6,097,991	305,407	3,490,730	928,734
2005	13,896,107	406,688	5,342,452	311,004	4,073,673	925,306
2006	13,511,668	394,718	6,862,635	311,627	3,969,740	873,225
2007	13,500,620	379,564	5,303,490	315,580	3,783,100	854,407
2008	13,006,461	360,539	6,383,882	318,385	3,774,545	845,822
2009	13,925,553	379,497	5,291,819	316,623	4,049,928	865,298
2010	12,649,000	341,000	6,092,435	319,163	4,186,264	855,360

Data source: MARM (2011d)

External trade. A substantial part of Spain's fruit and vegetable production is destined for export. The principle exports are to the EU due to the close proximity, the perishable character of the product and the high acquisition power of its consumers. Exports have increased in the last 10 years with growth opportunities in Eastern Europe.

Distribution of farms in national territory. The fruit and vegetable area is very centralized in the Mediterranean zone as well as in autonomous communities such as Extremadura and Castilla-La Mancha. Specifically, the areas dedicated to vegetables are concentrated in Andalusia, Murcia and Castilla-La Mancha, while citrus are concentrated in Murcia, Valencia and Andalusia.

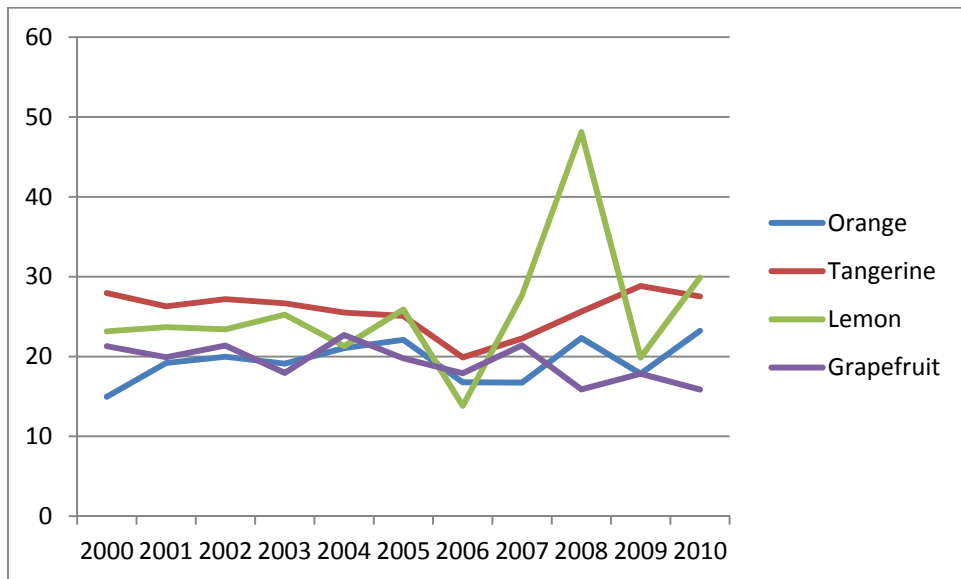
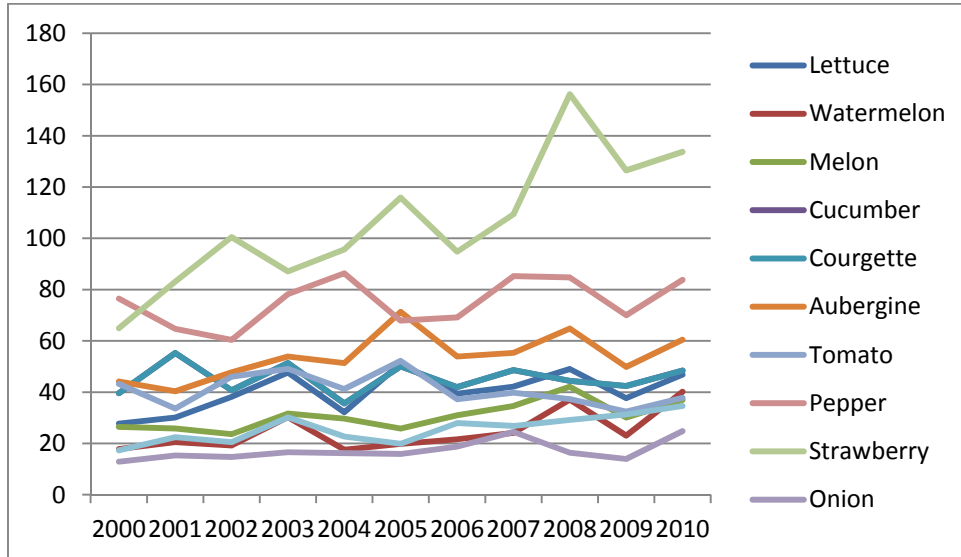
Consumption. The consumption of fruits and vegetables in 2010 reached 11,009 million Euros, the per capita consumption evolving positively in the period from 2000 to present, with an average growth of 1% (Fundación Cajamar, 2010b). New social trends give more importance to the processing of the product, making it necessary for producers to offer more products in the 4th or 5th range.

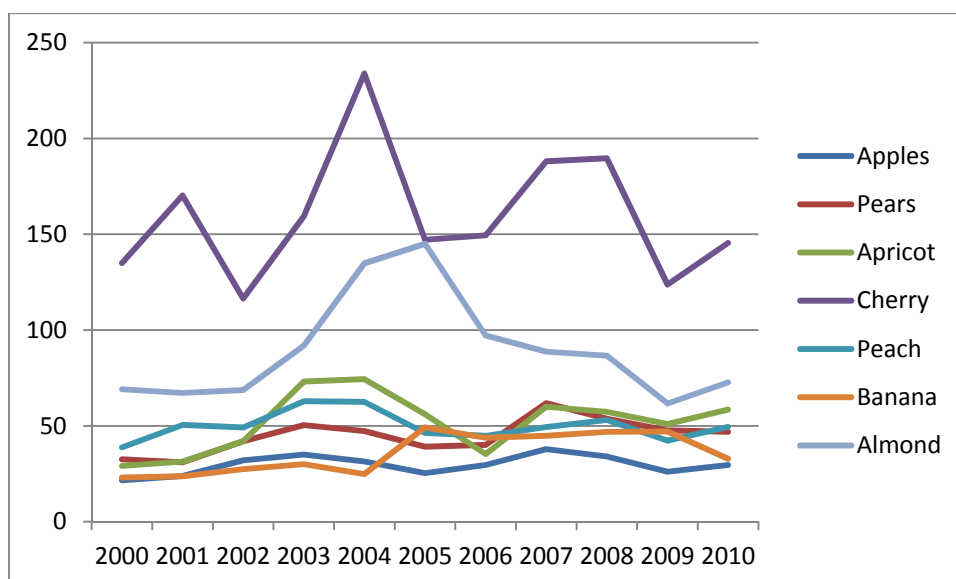
Prices⁵¹. Prices of fruit and vegetable products are determined by the conditions of offer. Given that production is not very flexible and the product is perishable as well, prices are adjusted to ensure the sale of the product. The resulting lack of stability in pricing is further acerbated by market characteristics where distribution channels exert great

⁵¹ It should be noted that there are no national statistics on the F&V sector prices. Prices are difficult to track as national statistics are only kept in relation to particular F&V. In figures 5.52 A, B and C some of the most relevant statistics are set out.

pressure on prices and there is huge difference between prices paid to the farmer and that paid by the consumer.

Figure 5.52 A, B & C Average prices (Euros/100 k) received by farmers in vegetables and fruits.





Data source: MARM (2011d)

Policies. The production of fruits and vegetables is strongly regulated in terms of marketing or quality standards, as a consequence of the CAP. The sector has undergone a high degree of market liberalisation and there are limited means to correct prices. The sector depends very little on subsidies and EU community aid represents a reduced part of the product value. This situation is in contrast to other agricultural sectors in which the profitability of the farmers is dependent on the amount of aid received (Fundación Cajamar, 2002).

With respect to POs, two laws are particularly relevant, the first being Royal Decree 1972/2008 28 of November, which recognizes POs of fruits and vegetable and establishes the basic norms of their organisations and associations. The second law is the Royal Decree 1302/2009 regarding funds and operating programs of fruit and vegetable POs, which established the basic norms in relation to the agricultural common market organisation (CMO) Council Regulation (EC) n. 1234/2007. This was further developed by Royal Decree 1337/2011, which was passed October 3, 2011, regulating funds and operating programs for fruit and vegetable producers. Cooperativas Agroalimentarias indicate that there are, citing their 2011 information, 697 OPs, of which 307 are cooperatives. The renewal of the agricultural protocol between Morocco and the EU, brought into force March 1, 2000, is a point of contention for many Spanish producers. FAECA (the federation in Andalucía) has acknowledged that although the renewal may be positive overall for the EU as a whole, in their opinion it is and will be very prejudicial for the Spanish fruit and vegetable cooperative sector. They claim that producers of cucumber, tomatoes, zucchini, strawberries and citrics will be disadvantaged and call for preference to be given to EU producers, arguing that it is not fair that the conditions of

production in Morocco would not be permitted in Europe. As of the writing of this thesis the issue is yet to be resolved, with progress having been made on talks, with following announcements of non-compliance.

With respect to other policy issues, general observations and selected insights from the perspective of those managing associations of producer organizations have been elicited, structured around the 3 pillars of investigation mentioned in the description of the project (institutional environment, position in food chain and internal governance):

i) Institutional Environment

Funding structure: A concern from association managers' point of view is the perceived inefficiency in the administering of operating funds meant to encourage and support OPFVs and associations of POs and to facilitate concentration and beneficial activities in the cooperative sector. For example, whilst the APO manages expenses and investments, the funds in question are first given to the cooperatives, which then must in turn give such funds to APO. This results in a lack of efficiency and agility when considering useful actions that the APO could take on behalf of the cooperatives. *The concentration of offer must be viewed not only as a commercial concentration, but also a concentration from an organizational point of view.*

Incompatibility between Structural Funds and Operating Funds: While this is a well known issue, and one that perhaps doesn't need more elaboration here, it is useful to point out that it has real detrimental effects. For example, meaningful research and development activities (which have economic and environmental implications, such as wise use of natural resources and energy and reduction of pesticide and contamination, etc.) require significant funds, yet FEADER funds are not available if one has used operating program funds. Those that are within an OPFV are in a worse position than those that are not in relation to such structural funds.

Perceived Rigidity in OCM for FV: While it is acknowledged that the OCM for fruit and vegetables sector is perhaps the most superior, there is still some frustration with how such funds can be used to support actions to be taken for the benefit of the cooperatives. While co-financing is a good control method in that it weeds out less than effective activities, the restrictions presented by an enumerated list of

permissible actions limits effective decision making on the part of the Associations of POs.

The general opinion seems to be that associations are in the best position to determine the needs of their cooperatives and should be given more freedom to use funds accordingly. In sum, simplification, more flexibility and more confidence in the OPFV and associations of POs to do what is best for their members.

ii) Position in Food Chain

From the perspective of important producer associations there is no longer any negotiation with, but rather an imposition from, the supermarket chains. Competition between chains does not result in sufficient prices for the farmers. Fruit and vegetables represent a small part of the supermarket sales, but they are products which need to be bought often and thus bring people into the stores on a regular basis (who then go on to buy other products). Fruit and vegetables are the “bait” so to speak and thus the battle for low prices in fruit and vegetables is fierce.

This weakness in bargaining position needs to be taken into account as a starting point and look for ways to go beyond product as a simple commodity. Strategic alliances are one option (e.g. with seed companies for exclusive use during a determined period of time, etc.). Niche and prepared products are also important.

While it is an “accepted truth” that atomization of Spanish cooperatives must be addressed in order to gain more market power, the development of processes of concentration of cooperatives (whether by merger, 2nd level, etc.) and OPFVs need more attention. *The concentration of capital is easier than the concentration of people and thus cooperative concentration processes need to take into account the cooperative business form, culture and environment.* Another key area is looking at abuses in distribution practices. In terms of policy it is useful to study whether certain subsidies or policies favor or disfavor certain actors. Several examples come to mind: the subsidies of plastic cases and related systems (as opposed to bio-degradable carton) and adoption of certain private quality norms, in some cases carried out by specific laboratories, for example. In addition, there is a disparity of required quality norms: certain supermarkets ask for different, less demanding norms, for discount stores. This put cooperatives in a difficult position when demanding quality standards from their members.

Two themes which could be included in the debate to improve the position in the food chain:

-Reinforce dialogue with the distributors, requiring retail chains to sit down with Interprofessional Organisations to discuss market conditions/affairs. Currently Interprofessional Organisations do not have real negotiator/representative presence (with a few exceptions) as commercial representatives. The true negotiation should be with those who really decide the conditions and this is not the commercial wholesaler, nor the importers, nor the industry: the “deciders” are the large retail distributors.

-Reinforce the obligation of traceability extending it until the final consumer. Currently the regulations are demanding with the producer and the buyers/traders of first instance, but the obligations become more diluted as it reaches the retailer. There are very severe examples in E.Coli matters, that in addition to permitting fraud in the final destination as to the origin of the product, as well leaves those involved in the primary links of the chain vulnerable as to their liability/responsibility.

iii) Internal Governance

Professionalisation of fruit and vegetable cooperative management in cooperative business practices and models is a key task, otherwise cooperatives will not be competitive. The internal workings of the cooperative business form needs to be understood and leveraged to take advantage of its inherent strengths. Management models based on capitalistic training is inadequate to understand the dynamics involved in the much needed organizational modernization of the agricultural cooperative sector. Internally, democratic decision making needs to be balanced with efficiency and agility.

Networking amongst European cooperative management on issues such as best practices, change management, concentration processes, etc. is important in bringing about change in Spanish agricultural cooperatives. The agricultural cooperative movement needs its own equivalent to the “Harvard case study” methodology and case study data base and field experiences.

As a final comment, policies related to Crisis Prevention and Management need to be reformed, including new available actions. In order to prevent crisis one must:

know/understand; be informed; communicate; and educate. To manage crisis there is a lack of protocols with precisely these factors.

Structure of the Sector. The sector is made up of predominantly small farms, although in the last few years there has been a decrease in the number of farms and an increase in farm size, principally due to mergers and concentration. Such mergers are both an attempt to gain market power and to join forces and share risk in the face of the necessity to make major investments in technology. The “atomization” of the sector contrasts with the growing power of distribution entities which exert constant pressure on obtaining normalized production in terms of quality, ripeness and precision in the supply.

Another characteristic of the sector is that traditionally such products have not been marketed under a producer brand, but instead have been considered homogeneous goods without the possibility of differentiation. This has led to a large part of production being sold under the brand of the distributor. At the moment there is an attempt on the part of the producers to differentiate themselves, creating different brands targeted to various destinations or to niche markets.

Supply Chain and Cooperatives. Traditionally the fruit and vegetable sector supply chain had been based on wholesalers and in the sale of product through an exchange (a centre in which the farmer sells their product by an auction system). Such exchanges also offer services including the integration of logistic activities and commercialization. However, market conditions have pushed for a more modern model based on associations of producers, distribution entities and logistics operators, in which the cooperative plays a key role, resulting in horizontal and vertical integration which permits farmers to concentrate their product and control directly sale of such product.

Cooperatives and SATs principally market the products of the members, whether in their natural state or after being processed (Fundación Cajamar, 2010). Increasingly cooperatives are carrying out warehousing, transformation and marketing tasks as well as selling product. Cooperatives in this sector have been the principal instrument of adding value to the farmer’s product in commercialization channels (Montegut and Cristóbal, 2005). Advisory, consulting and crop planning services are offered to farmers so that all products comply with client demands in terms of quality, quantity, characteristics and delivery times.

Principal weaknesses in this sector are related to the high atomization of production and the existence of obsolete infrastructures⁵². However, there has been an increase of concentrations in this sector (e.g. Unica, Murgiverde, Vicasol, Anecoop, Alimer, etc.) and major investments have been made in new technologies, practices and processes to increase production. As well, advances in laboratory testing, certification systems, health and safety issues, integrated agricultural practices, bio-control instead of pesticides, traceability, etc. have increased production and added product value.

Since 2005/2006 the province of Almería in southern Spain, which is the most important producer of vegetables, has gone through a “green” revolution based on biological control systems. The products to which biological control is applied vary: In 2010/2011, 90% of the farming area dedicated to peppers was controlled biologically, while 26% of the area of tomatoes was so controlled. Research in bio control is ongoing as it is a method of adding value and also protecting the environment at the same time. Associations of cooperatives were instrumental in rolling out the adoption of bio-control and integrated practices.

Necessary Action. In general, the fruit and vegetable sector considers that concentration of offer and improving the supply chain position, market power and thus some control over prices as crucial.⁵³ There has been some issues which have made the effective operation of, and integration into, POs difficult and this needs to be addressed in the future. A focus on quality product, food safety and security and traceability as well as the development of added value products is also recommended. Improved logistics and infrastructure are also key to reaching other European and international markets. Efforts to give the Interprofessional groups more than just an observer/advisor status have been initiated, with the goal of obtaining a legal framework in which they can exercise more influence and enact certain measures. It should be noted that this position is not wholeheartedly supported by the confederation, Cooperativas Agroalimentarias, who are of the view that although interprofessional groups are important in terms of quality norms, promotion and marketing and R+D+i, their role does not serve to incentivise much needed concentration in the sector. The position of Cooperativas Agroalimentarias in relation to policy which concerns the imbalances in the supply chain, atomization of producers and their weak position as against distributors is set out in more detail in the

⁵² Instead of investing in upgrading structures, some farmers had hopes of selling land at high prices for construction purposes and did not make the necessary investments in new technologies and new greenhouse structures, the latter being the most important determining factor in production levels. In some areas almost 30% of the sector is composed of obsolete greenhouses.

⁵³ A new law project report, at a national level, on encouraging cooperative integration was released on October 16, 2012 (“Informe sobre el Anteproyecto de Ley de Fomento de Integración Cooperativa”).

discussion of policies in Chapter 5.7. Plummeting prices continue to be a main concern and the sector is actively seeking, with limited success, to remedy the situation. See “Policies” above for other specific actions.

5.6.5 Olive oil and table olives

Spain is the largest producer and exporter of olive oil and table olives in the world (38.6 % of world total), with the largest area destined for olive cultivation. Olive oil and table olives are one of the principle sectors in the Spanish agro food system, not only in economic, but also in social terms. Cooperatives generate 70% of the Spanish production of olive oil. Approximately 360,000 farmers are growers and they bring their olives to 1,738 olive presses, of which 1000 are cooperatives. The size of such presses varies, although many are small or medium enterprises and the involvement of international capital is still small. The largest olive presses are responsible for the majority of total production. The number of packagers/bottlers has risen to 1,520 of which 90% are associated with olive presses (Mercasa, 2010).

The activities of the cooperatives in this sector differ depending on whether they are first or second tier: the first tier focus on pressing olives whilst the second tier cooperatives carry out packaging, commercialization, management of bulk oil and olives, extraction of non-edible oil and exportation; basic processing activities and commercialization (Montegunt, et. al, 2007).

This table shows the percentage of cooperatives per community in Spain both in terms of olive presses and production, in 2009/2010.

Table 5.21 Number of presses and olive oil production by region (2010).

Autonomous Community	Number of Olive Presses			Production (tons)		
	Total	Cooperatives	%	Total	Cooperatives	%
Andalusia	820	428	52.20%	1,168,170.9	822,856.4	70.44%
Castilla-La Mancha	243	126	51.85%	85,455.5	52,662.9	61.63%
Extremadura	115	57	49.57%	59,831.3	33,728.5	56.37%
Catalonia	202	113	55.94%	32,716.1	22,437.6	68.58%
C. of Valencia	130	107	82.31%	18,296.6	15,168.5	82.90%
Aragon	101	52	51.49%	12,891.9	6,757.9	52.42%
Navarra	16	9	56.25%	3,941.7	2,322.2	58.91%
Madrid	19	12	63.16%	284.9	2,158.3	75.76%
R. of Murcia	38	9	23.68%	8,588.7	2,139.7	24.91%
Castilla and Leon	15	10	66.67%	1,711.1	1,017.3	59.45%
La Rioja	22	13	59.09%	1,317.6	718.3	54.52%

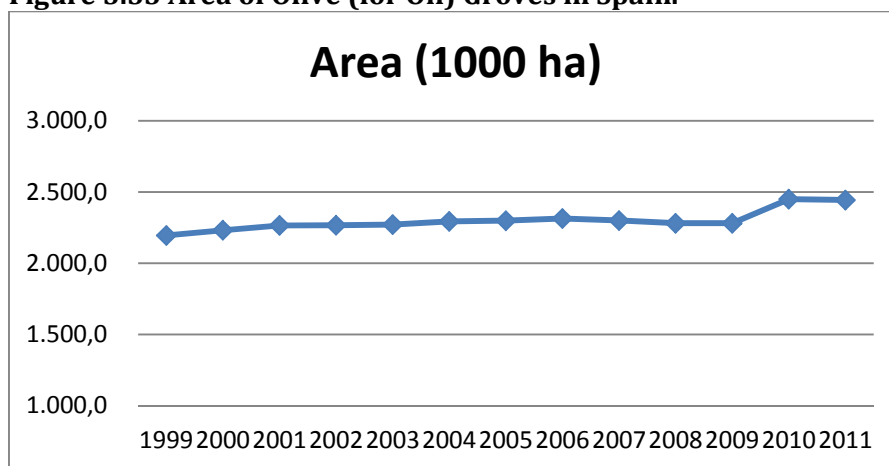
Balearic Islands	12	5	41.67%	370.3	222.4	60.06%
Basque Country	4	2	50.00%	114.5	44.6	38.95%
Galicia	1	0	0.00%	1.2	0	0.00%
Spain	1738	943	54.26%	1,396,256.4	962234,6	68.92%

Source: Estimation of Harvest of Olive Oil in Spain. Cooperativas Agroalimentarias 2010

Area and production. Spain has 2.48 million hectares of olive groves of which 82 % is not irrigated, hence “traditional” as opposed to “intensive”, “super-intensive” or in “bush/hedge” form. Since 2000 the area of olive groves has increased by 211,000 ha as set out in Figure 5.54. Traditional olive plantings took advantage of poor soils and/or inclined lands which were good for little else and the low need for water and the relative less work involved than other crops (except for the intensive harvest period in which temporary workers are often used) New techniques introduced in the 1990s helped to increase productivity (Lanzas Molina, et al. 2009). In the last 10 years Spanish producers of both table olives and olive oil have planted new intensive groves based on modern designs and structures and with sophisticated irrigation techniques meant to substantially increase production. New plantings have been encouraged by the global consumption of olives and as well aid programs by the EU. Many of the new plantings are of high density (superior to that of 1,500 trees/ ha.) irrigated (thus not particularly sustainable in water-challenged southern Spain) and harvested mechanically.

Andalusia is the autonomous community with the largest area of olive groves representing 61.75% of the national total in 2010. Castilla-La Mancha with 14% and Extremadura with 10.6% are also important producers. In terms of production (2009/2010 harvest) Andalusia produced 82.12% of the Spanish total, followed by Castilla-La Mancha, 6.12% and Extremadura 5%. Although olive groves have spread to other zones in Spain including in the north (Galicia) the sector continues to be very concentrated geographically.

Figure 5.53 Area of Olive (for Oil) Groves in Spain.



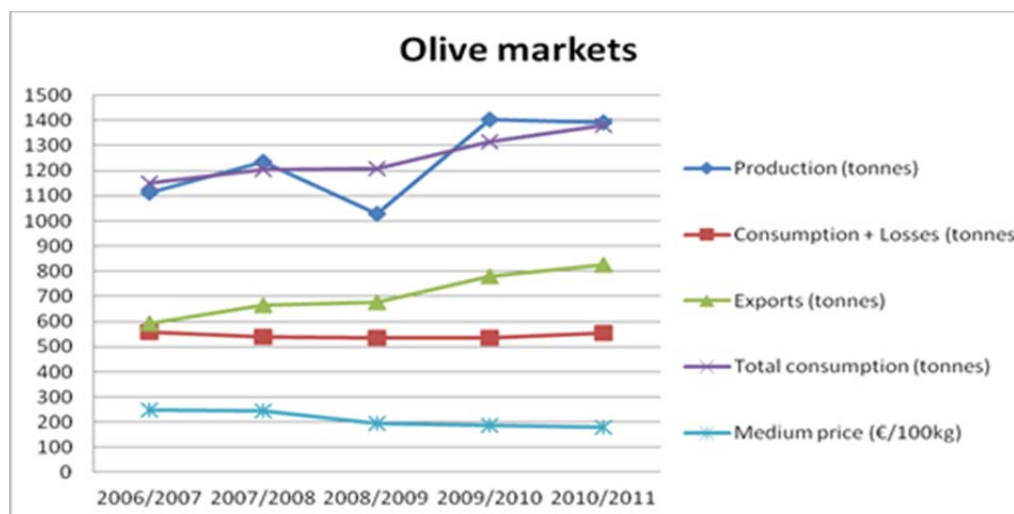
Data source: MARM (2011d)

Table 5.22 Area of Olive(for Oil) Groves in Spain (1000 ha).

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Area	2,195	2,232	2,266	2,266	2,271	2,293	2,298	2,314	2,299	2,281	2,280	2,450	2,443

Data source: MARM (2011d)

Prices. The majority of olive farmers experience losses. Superior quality oils do not receive the price premium that would be expected. Further, variations in product availability result in price swings. In recent years producers and representative organisations argued that the price in origin has not reflected the offer and demand situation, and has pushed for methods to address low prices. The EU has allowed (in 2009 by Reg (EC) 542/2009) private systems of storage to be put in place to address this problem, with the goal of allowing prices to recuperate and thus break such negative tendencies. This program commenced in July 2009 (Oleoestepa, 2010). Alimarket (2012), noted that private warehousing was proving to be insufficient and other corrective measures were necessary, although it has been argued that such measures came too late and only applied to virgin oils (Cooperativas Agroalimentarias, 2010a). It was also noted that low prices had not resulted in increased consumption, which has stabilised at approximately 332 Ml. (see below, discussion in “Policies”). Figure 5.54 shows the Spanish production, consumption, exports and the average price of olive oil.

Figure 5.54 Spanish Production, Consumption, Exports and Prices of Olive Oil.

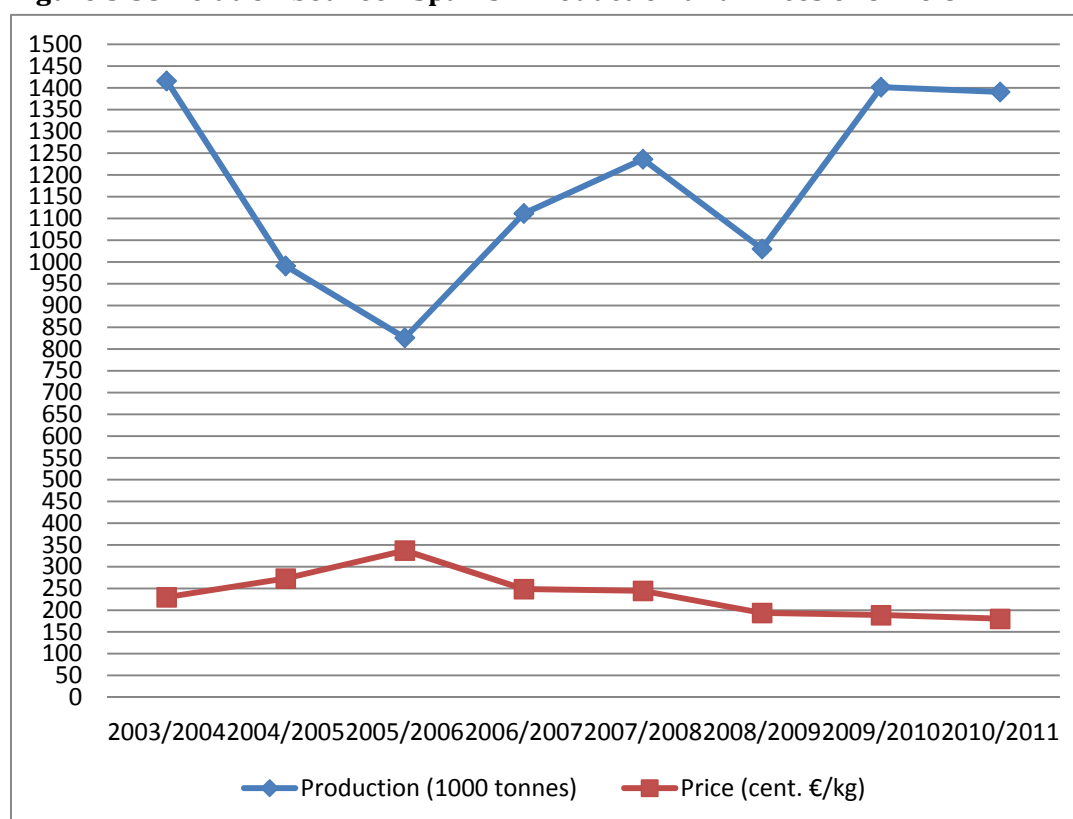
Data source: Cooperativas agroalimentarias (2011d)

Table 5.23 Spanish Production, Consumption, Exports and Prices of Olive Oil.

Year	2006/07	2007/08	2008/09	2009/10	2010/11
Production (tonnes)	1,111.4	1,236.1	1,030	1,041.5	1,390.5
Consumption + Losses (tonnes)	560	537.5	533.6	533.4	553.4
Exports (tonnes)	591.4	666.1	675.3	780.1	827.7
Total consumption (tonnes)	1,151.4	1,203.6	1,208.9	1,313.5	1,381.1
Medium price (€/100kg)	248.439	244.413	193.684	188.61	180.361

Source: Cooperativas agroalimentarias (2011d)

Figure 5.55 sets out a longer view of the relationship between production and price⁵⁴. As can be observed, price fluctuations are more volatile than production fluctuations.

Figure 5.55 Relation between Spanish Production and Prices of Olive Oil.

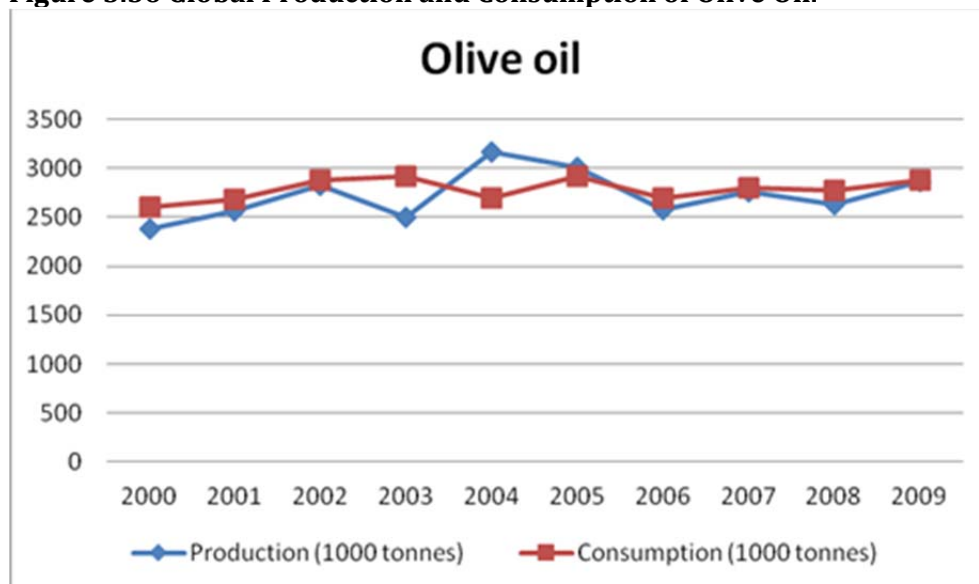
Data source: Cooperativas Agroalimentarias (2010a, 2011d)

External Markets. Although there has been an increase in Spanish olive oil production and Spanish domestic consumption is unlikely to increase significantly, world markets are capable of absorbing production. In Figure 5.56, the data according to Cooperativas Agroalimentarias supports this point. This “equilibrium” between production and global demand is noted by recent studies in the olive sector where global production has increased approximately 30% as has demand (Velasco Gámez, et al. 2011). Exports maintain a high level in spite of increased foreign competition (COAG, 2010). More than 70% of exports are destined for the EU in 2012, mainly to Italy (41%), Portugal (11%) and

⁵⁴ Data from 2003/04 to 2005/06 is sourced from Cooperativas Agroalimentarias (2010a) and data from 2006/07 to 2010/11 from Cooperativas Agroalimentarias (2011d).

France (9%). Outside the EU, the US is an important market (9%). Exports of table olives are less important and 80% are destined to the EU (Portugal (48.7%) and Italy (15.6%))⁵⁵. Imports are even less significant, although it is worth noting that the majority is from Italy, which buys Spanish oil in bulk and then bottles it to be exported as product “made in Italy”.

Figure 5.56 Global Production and Consumption of Olive Oil.



Data source: Cooperativas Agroalimentarias (2010a).

Exports are a key strategy to avoid the excess of production on the national markets and to counteract falling prices. This will require a more concerted effort on the part of olive oil cooperatives to obtain a bigger presence in international markets. Successful examples of this strategy may be found in Hojiblanca, Interóleo and Tierras Altas (all in Andalucía).

Exports already represent 60% of sales according to the Olive Agency (Agencia del Olivar-AAO) and Alimarket (2011b) and continue to rise. Spain is now ahead of Italy as the principal world exporter and it is increasingly consolidating its leading market position in many countries. According to Cooperativas Agroalimentarias (2010a) publicity campaigns by Interprofessional groups have helped the sector grow, in spite of the crises.

Policies. Given the high percentage of cooperatives in the olive oil and table olive sector, any olive sector policy has a huge impact for the cooperatives therein. The decoupling of subsidies from the olive groves (and instead forming part of the single payment) had a significant impact on small growers in traditional zones (with low yields due to sparse planting and no irrigation), not to mention the environment and the rural economy. Where policy favours high volume, highly mechanized and highly irrigated olive groves, olive

⁵⁵ Agencia Tributaria, Base de Datos de Comercio Exterior, 2012.

cooperatives with a high percentage of non-irrigated traditional small holdings, are greatly affected. As well CAP has not prohibited the mixing of olive oil with other cheaper seed oils. According to the union COAG (2010) the elimination of an intervention price provokes low prices and thus results in the buy-out of producers at lower prices. As a result they argue that the income of the producers depends even more on the large buyers (COAG, 2010).

The activation of private warehousing measures is a key concern in relation to prices as mentioned above. There are varying opinions in the cooperative sector on the utility of private storage schemes. FAECA, (Andalusian Federation of Agricultural Cooperatives) which is an important voice in this debate given the importance of Andalusian production (60% of Spain, 30% of EU) is in favour of using such available measures as a method of stabilising prices . This is not to say that FAECA would suggest that it is, or should be, the only tool to do so. As well, Cooperativas Agro-alimentarias of Castilla La Mancha (another important autonomous community in terms of olive oil) also positively evaluates such measures, as did the National Confederation, Cooperativas Agro-alimentarias. Over 50,000 signatures were gathered on petition supporting the activation of private storage.

In the past Spain has had to appeal to the Commission to activate the storage mechanism with such appeals being originally denied due to the fact that prices were still considered to be above the official minimum. Spain argued that in reality prices were lower than that reported and therefore below such minimum and in any event, such minimum amount had been set 12 years ago. Eventually, the European Commission approved such activation proposal.

This incident aside, it may be useful to look a bit closer at the situation in Spain, and see where price problems arise. Spain produces high quality oil, and lots of it. Worldwide markets absorb production. As mentioned, cooperatives produce 70% of the national total. There are a few very large cooperatives such as Hojiblanca but there are many, many small ones. (See Table 5.21 for figures).

We can observe in general:

- little presence in retail
- lack of unity amongst smaller coops, multiple brands thus weak brands, leading to virtually no brand recognition and subjection to supermarket brands
- high bulk sales but lack of adequate commercialization, repackaging by others

- inability to leverage quality and differentiate product.
- in reality there are only 5 major buyers, thus little market power for cooperatives in spite of 70% of production—producers are too atomized.

If we accept the above and as well that the way forward for Spain's olive oil sector is efficiency, commercialization, marketing, increased added value in packaging etc., brand recognition, internationalization, concentration of offer, etc. then one has to look at what storage has the possibility of achieving.

Critics of private storage schemes have pointed out that:

- storage systems still don't have the ability to counteract the fact that buyers have hugely disproportionate market power
- storage means that oils are devalued—lack of differentiation lowers quality and traceability of product is inhibited
- doesn't solve bulk issue (in fact it contributes to it)
- may allow some slight price control but doesn't address the fact that most farmers experience losses—short term answer for structural problem.

In conclusion, while private storage schemes have had some utility and may be seen as a tool, however blunt, in the short term, it is not the method to address price issues caused by structural sector problems. However, as a transitory tool the olive oil sector views it as necessary to at least alleviate brutal price plunges.

While it may seem odd that cooperatives which represent 70% of the market sector still have a difficult time imposing control on the market, it is important to remember the hugely disproportionate size of the buyers even as against a large cooperative such as Hojiblanca. In the last several years, Hojiblanca has entered into agreements with Cargill and has entered into various corporate arrangements with IOFs (including doing a share exchange related to its brand name). The company has had international success in the past, and is changing structure at a dizzying pace. Whether this strategy will continue to serve it well and its farmer-members, is too early to ascertain. From a different perspective, Andalusia has very recently introduced a new Olive Farm law which attempts to balance the commercial needs of the industry and also sustainability issues. More time is needed to gauge whether such measures will be effective, especially for traditional olive farmers.

Olive Oil Cooperatives. The cooperative olive oil companies have little presence in retail establishments as the large agro food distribution companies control this market niche. Five buyers purchase over half the market. The small size of the sector (in relation to the size of the distribution companies) and the small and medium companies which make up the sector result in big disadvantages when competing and negotiating with large firms. The market share of distribution brands (“DB”) averages 65% and in some categories reaches 83% (Cooperativas Agroalimentarias, 2010 “Estimation of harvest”).

Cooperatives also suffer from localisation (all local villages have the “best oil”) and personality considerations (king of small cooperative vs. member of large cooperative) which inhibit effective alliances in the olive cooperative sector.

Two alternatives exist to commercialize the product for olive cooperatives: bulk or packaged. To sell oil in one manner or another depends on the quantities obtained in each harvest. If there is an excess of production and a lack of adequate commercialization the cooperatives are obliged to sell in bulk. The price obtained by the farmers is low as the added value comes from the higher margins on packaged product (Montegunt et. al, 2007). In 2007, 55% of exports were still bulk sales although in recent years the cooperative oil presses are increasing the sale of bottled oil.

While cooperatives have made great efforts to position their product on the market with their own brands in an attempt to compete with supermarket brands, two problems have arisen: The lack of unity amongst smaller cooperatives has resulted in the creation of multiple brands which have strong competition from the larger brands. In addition, there is a passive commercial behaviour which is not particularly market oriented. Secondly, in addition to the challenges of the opening up of, and the competition within, markets, is the phenomena of new plantings of olive groves, not only in Spain, but in other countries where Spanish techniques are used. The majority of these new intensive or super-intensive olive groves are using new systems of production (using a system of “espaldera” and irrigation) to which many Spanish cooperative producers do not have access due to lack of capital investment, training, resources or simply the adequacy of the landscape. Although increased production per hectare is clearly a worthwhile commercial goal, it has put many traditional cooperative producers in a position where they cannot hope to compete on productivity. One can expect in the coming years that the olive oil production on a worldwide level will increase. The low profitability of traditional olive groves often associated with cooperatives is a challenge for future viability as their costs are often below market price (and “environmental externalities” are not figured into the “market”).

Amongst the several possible scenarios that could be suggested to address the crisis in olive oil price would be: increase price through promotion and increasing demand (exports); reduce costs using modern methods; or, reconvert groves to be intensive and mechanised. For those groves that are traditional it is not possible to change the system of cultivation nor increase mechanization, nor would it be beneficial from an environmentally sustainable point of view. The only “way out” is to differentiate due to quality/unique characteristics (including ecological) and increase value added (with the requisite adequate commercialisation) and leverage aid available due to its environmental, rural or landscape/tourism value.

Necessary actions according to the Cooperative Sector. In order to meet these challenges, the sector must focus on quality and develop Spanish producer brands, develop a packaging project and a promotion, marketing, export and market/consumer orientation. Increased exports are a necessity. The recommendations ten years ago (Moyano and Fidlalgo, 2001) calling for internationalisation, growth, mergers, acquisitions, alliances and associations as well as investments in R&D, and innovation as crucial strategies are echoed in the recent Cooperativas Agroalimentarias (2011g) annual report. Agreements with distributors are also a constant theme. The sector advocates for the market intervention of inter-professional groups in crisis and the definition of a contractual and regulatory framework at the EU level to prohibit abusive practices.

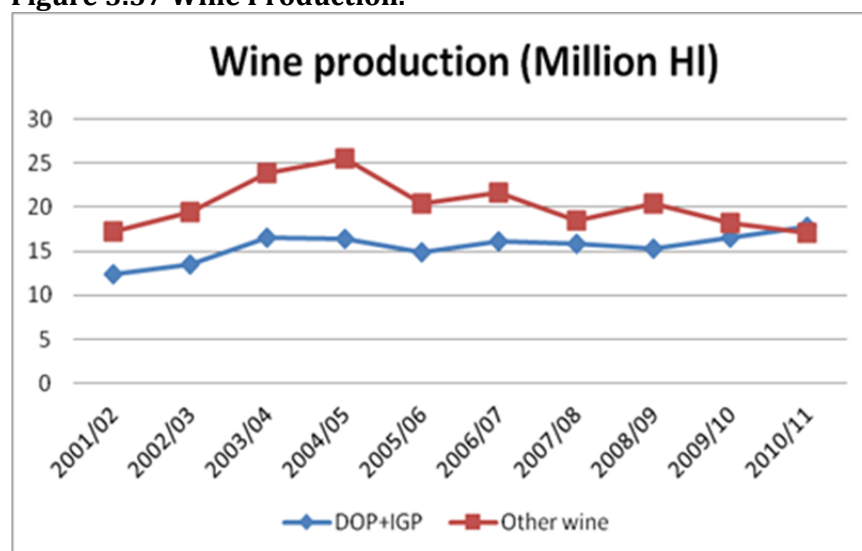
5.6.6 Wine

Production. Spain is the first in the world in terms of area planted with vineyards with 1,045,620 hectares, representing 30% of EU vineyards (MARM, 2010a). It produces 5,535.33 tons of grapes, out of which 95.45% is destined for wine (the rest for juice and raisins) and 35.5 million hectoliters (09/10) of wine production places it third in the world after France and Italy. There are 580,000 vineyards (medium of 1.9 ha) with slightly more than 40% of the wine having a geographic indication. Cooperative market share is overall 70%. There are 700 cooperatives which represent 70% of the production without such geographic indication (in addition to some cooperative production with geographic indication). The area and production has declined since 2000, reducing in area by 12% in the last decade and production by 20%. The trend shows that production is increasingly geared towards wines with geographic denomination, as set out in Figure 5.57 “Wine Production”.

Table 5.24 Area of vineyards.

Year	Area (th ha)
2000	1,194.59
2001	1,201.73
2002	1,185.84
2003	1,165.08
2004	1,166.65
2005	1,159.96
2006	1,134.61
2007	1,130.68
2008	1,108.25
2009	1,045.62
2010	1,037.35

Data source: MARM (2011d)

Figure 5.57 Wine Production.

Data source: Consejería de Agricultura Castilla - La Mancha (2011)

Table 5. 25 Wine Production with Denomination and IGP (indicación geográfica protegida) (Mhl).

Year	DOP+IGP	Other wine	Grape juice	Total
2001/02	12.34	17.23	2.98	32.55
2002/03	13.45	19.47	5.76	38.68
2003/04	16.52	23.83	6.29	46.64
2004/05	16.35	25.57	6.75	48.67
2005/06	14.86	20.38	4.3	39.54
2006/07	16.1	21.66	5.12	42.55
2007/08	15.78	18.54	5.49	39.81
2008/09	15.34	20.4	5.55	41.29
2009/10	16.52	18.24	3.57	38.33
2010/11	17.73	17.04	5.09	39.86

Data source: Consejería de Agricultura Castilla-La Mancha (2011)

Table 5.26 sets out the turnover of cooperatives in each region, as well as the number of cooperatives and members. Rioja is the best known wine region of Spain with the highest

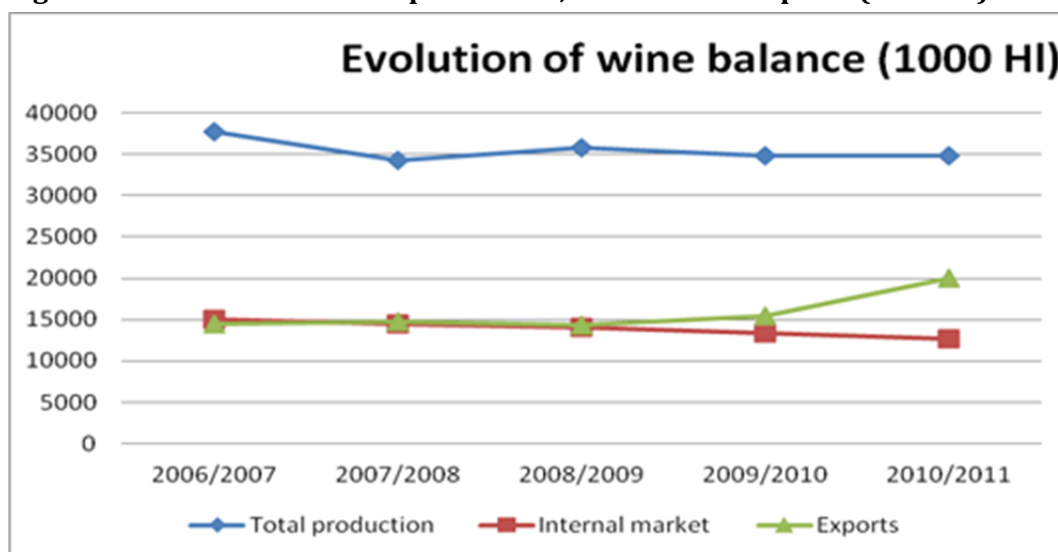
turnover per cooperative whilst Castilla-La Mancha has the most cooperatives and members. See “Wine Cooperatives” below for further analysis on cooperatives.

Table 5.26 Wine Cooperatives in Spain.

Autonomous Community	Wine coops	Members	Turnover €	Members/Coop	Turnover €/coop	2nd grade coops
Galicia	10	2,507	25,580,518	251	2,558,052	
Basque Country	7	544	11,836,346	78	1,690,907	
Navarra	29	4,697	44,549,798	162	1,536,200	2
Rioja	34	6,949	103,597,532	204	3,046,986	
Aragon	36	11,672	77,783,849	324	2,160,662	
Catalonia	75	21,502	97,940,298	287	1,305,871	2
Balear Islands	3	12	103,219	4	34,406	
C. of Valencia	69	32,124	77,952,238	466	1,129,743	3
Castilla and Leon	36	8,719	67,736,483	424	1,881,569	1
Castilla-La Mancha	254	92,554	574,753,738	364	2,262,810	8
Madrid	13	3,904	4,250,102	300	326,931	
Extremadura	23	9,675	48,317,234	421	2,100,749	1
R. of Murcia	3	2,328	98,64,721	776	3,288,240	
Andalusia	36	13,585	67,751,632	377	1,881,990	2
Canary Islands	-	-	-	-	-	-
Spain	628	210,772	1,212,017,708	4,256	25,205,116	19

Source: Cooperativas agroalimentarias (2011e)

External Trade. Spain is a net exporter of wine with growing exports, although due to the crisis in the last few years there has been a decline. According to the Confederation (Cooperativas Agroalimentarias, 2011e) at the end of 2010 there has been an increase in exports (+15.6% relative to 2009) due to a 5% downward price adjustment. As well, global volume decreased and new markets such as Russia and China are opening up. Since 2004/5 exports have exceeded internal consumption. The principle export destinations, in volume, are France, Germany, UK and Portugal in the EU and the US, Switzerland and China outside the EU (COAG, 2010).

Figure 5.58 Evolution of wine production, markets and exports (1000 HI).

Data source: Cooperativas Agroalimentarias 2011e

Table 5.27 Evolution of wine production, markets and exports (1000 HI).

Year	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Total production	37,757	34,314	35,736	34,766	34,846
Internal market	15,026	14,438	14,123	13,307	12,634
Exports	14,511	14,791	14,302	15,383	20,001

Source: Cooperativas agroalimentarias 2011e

Prices. Since 1999 the prices of bulk table wine has fallen more than 40% due to a general crisis in the sector. In 2009 the prices in origin were at the same level as 1989. In contrast, in the same period, the consumer price index has increased 80%. In many cases receipts are less than the cost of production for growers. COAG (2010) has noted that over the years a majority of growers have made big investment in the process of restructuring their vineyards and thus run high financial risks. Prices received by farmers for wine grapes are set out below:

Table 5.28 Average price received by farmers for wine grapes (2000-2010).

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Average Price (€/100kg)	43.71	45.47	43.31	42.84	41.41	50.49	50.32	54.84	53.84	56.74	62.5

Data source: MARM (2011d)

Consumption. Consumption continues to decline due to changing consumer habits. The financial crisis has greatly affected consumption levels during 2009 both in restaurants and homes. Domestic consumption has fallen 41% between 2001 and 2010 according to the Panel of Alimentary Consumption (MARM). Given such decline in consumption and an

increase in production, there is a disequilibrium in offer and demand which suggests a structural rather than just a temporal problem of circumstance.

Policies. The evolution of the EU wine industry during the last several years has been influenced by a combination of factors: the restructuring of vineyards, the reform of the specific Common Organisation of Markets for wine (Council Regulation EC No.479/2008 of 29 de April of 2008) and the wine crisis induced by the strong European and worldwide production. With an emphasis on competitiveness, a Program of National Support was approved in October 2008 with financing for the period 2009-2013 resulting in Royal Decree 244/2009, of February 27.

While this is not specific to cooperatives, given the high level of market share that wine cooperatives have in Spain, coupled with the fact that traditionally cooperative wines tended to be in the bulk or lower range offerings, these changes have profoundly affected wine cooperatives. According to Cooperativas Agroalimentarias, while there have been problems with the application of Commission Regulation 555/2008 due to technical and legal issues, restructuring of the vineyards and promotion efforts have been welcomed by farmers (Cooperativas Agroalimentarias, 2011e). However, given the loss of traditional instruments of control, particularly in alcohol sales, distillations, juice and export restitutions, prices have been affected as has all links of the production chain. Direct payments for wine grapes only partially compensate farmers who must lower their costs and adapt their vineyards to market demand in order to benefit from restructuring and reconversion.

The wineries (“bodegas”) have experienced a loss of revenues given lower prices and the lack of remuneration for some of their by-products. Cooperatives have been especially affected by the lack of demand for wine to use in the elaboration of drinkable alcohol due to the elimination of aid, as well as the disappearance of crisis distillation. These losses however are compensated by other types of aid to encourage promotion and investment.

In the last few years aid for improving the competitiveness of the sector and encouraging exportation to foreign markets has increased. Under the “Measures for Promotion to third countries”, 464 programs in more than 30 countries have been approved with an investment of 160 million Euros. According to OEMV in 2010-2011, 485 programs were carried out with a total investment of 60 million for Spain, which implied CMO aid of 30 million Euros. For 2011-2012, with an initial budget of 80 million Euros, 932 programs were approved with a final investment of 106.7 million Euros (OEMV)).

In 2010/2011:

- activities related to public relations and promotion represented 59% (35 million) of that invested
- activities related to congresses and expositions represented 15% (8.8 million)
- the cost of information about the European system of quality indicators was 13% (7.3 million) of the total
- investment in market information was limited to 7% of the total (4 million)
- investment in evaluation of measures reached 7% (4.2 million) (OEMV, 2012)

One interesting point on the form in which Spain is applying its promotional methods is that the beneficiaries tend to be private or producer organisations and in countries like Italy and France public entities and inter-professional groups benefit more so from such funds (OEMV, 2010).

Three main difficulties have been found in the implementation of CMO by the Spanish Ministry, the Autonomous Communities and FEGA (the entity which makes payments) which limits the efficiency of the methods: 1) renunciation of solicited programs at the moment of adjudication, often because of problems obtaining guarantees; 2) lack of execution of a part of the presented program; and 3) problems with justifying executed costs.

As well Cooperativas Agroalimentarias has pointed out issues in implementation:

- limitations of the regulation in investment matters
- the necessity to establish restrictions to ensure the efficient use of funds within the appropriate time period
- the obligation to avoid overlapping with other aid that can have the same end
- the postponement of the application of measures

The subsidised pulling up of vines resulted in more than 85,000 ha in 3 years, representing 6.1% of the area planted at such time at the commencement of the CMO in August 2008. Castilla-La Mancha is the autonomous community in which the highest quantity of vines have been taken out (OEMV, 2010).

Wine Cooperatives. The business structure of the wine subsector in general is characterised by a high level of vertical integration. A dual structure coexists wherein a small group of large dynamic companies that have managed to deal with market changes is in contrast to many companies that have not yet adapted to new and competitive markets. These small companies are dedicated only to agriculture, leaving commercialisation tasks to other companies which control this process.

Within cooperatives a similar structure exists as in the rest of the wine sector; that is, a predominance of small and medium cooperatives and a few IOFs. The structure is very fragmented and in addition there are various levels of development. As a rule, small unprofessional cooperatives are dedicated to production and do not participate in later stages of production and supply chain. They have limited negotiating power. Another group of cooperatives commercialise bottled wine although their principle activity continues to be the sale of bulk wine. Finally there is a small group of cooperatives that commercialise the product of their member with a clear professional market approach.

In light of this, the commercialization of product from cooperative wineries continues to be quite insignificant compared to the industry in general and represents one of the main problems of cooperative wineries (Navarro and Millán, 2007). As well, commercialization through second tier cooperatives is also insignificant and they generally are active in the sale of bulk wine. The creation of commercial companies and the externalization of services are some of the alternatives being employed by the sector. The sector has recognized the need to group production to achieve competitiveness both in external and domestic markets through Organisations of Wine Producer Businesses to reorder the sector, reducing the number of businesses and increasing their size (Cooperativas Agroalimentarias, 2011). As a complement to this strategy is a push for higher quality wines produced by niche producers.

With respect to distribution, the methods most employed are the use of non exclusive distributors and the sale to large distributors, thus reducing direct sales made by the cooperative. Intermediary importers are used for external markets.

Necessary Action. The necessity to highlight cooperative brands that can be recognized by the consumer as well as the need to strengthen market knowledge and commercial strategies and improve distribution networks, which are poorly developed due to the prevalence of bulk sales, is clear. The cooperative sector advocates the increase of production and visibility in order to obtain negotiating power with the large distribution chains. In addition, more effort needs to be put towards promotion both domestically and

internationally, investigating alternatives to distillation, ensuring quality and differentiation, and devising appropriate financing and insurance to allow export. Cooperative branding and strengthening market knowledge of “cooperative advantage” is also relevant.

The lack of communication between autonomous communities and the Administration is a real concern that has directly affected the efficacy of policy measures, such as not utilising available budgeted aid and a lack of a coherent strategy across the various wine regions of Spain. Although this has been recognised by the sector, progress needs to be made.

As for appropriate strategies to follow for the future, both the Ministry of Agriculture and Cooperativas Agroalimentarias have been of the opinion that the future of the sector requires a reduction in the number of farms and an increase in size thus deducting that this will translate into competitiveness and more market opportunities. Cooperativas Agroalimentarias has also indicated their belief that aid to wine farmers and businesses should be conditioned on their grouping in order to “balance” the supply chain (Cooperativas Agroalimentarias, 2011e, 2011f; Garrido, 2011).

If we look at bit more closely into the issues which atomisation in wine cooperatives raise in the sector we can see that:

- small wine cooperatives are not usually market oriented and their members and management may be more traditional (clearly, there are exceptions)
- the small dimensions of cooperatives make it difficult to have adequate commercial networks, both in and out of Spain
- in addition, taking on innovative projects may be difficult for small cooperatives
- there are a great number of small wine bottlers that function during few days per year. This is inefficient given the large number of installations and the relatively small amount of wine that is bottled per annum

While grouping together of cooperatives may alleviate these problems there is no reason that they will necessarily do so: 10 small cooperatives grouped together without vision, management skills or interest in customer focused products will only be 10 times as ineffective as one small ineffective cooperative. There are also ways in which “soft” cooperation and networks can serve to alleviate the above mentioned problems without mandating groupings. Commonly held bottling facilities, experimental farms financed by

cooperative funds, cooperative management advisors (perhaps as part of a credit cooperative involvement), distribution and marketing coordination, etc. are also feasible alternatives, particularly in product that is so closely related to territory.

As in other sectors such as fruits and vegetables, one of the largest hindrances in the cooperative wine sector is the lack of coordination further down the supply chain. Where cooperatives could be poised to take advantage of such vertical arrangements—indeed between the grower members and the cooperatives they have proven this ability—they have not yet taken advantage of it.

Given the huge range of wines and their markets, each cooperative must determine whether their future depends on groupings (which would be beneficial for those producing basic product) or whether there are some particular wine cooperatives, however small, that have the quality of grapes, the marketing savvy and a cooperative support network in terms of promotion, marketing, logistics and distribution to succeed.

Aside from the wine cooperatives listed in the “top 5”, the Cooperative Adegas e Viñedos Paco & Lola has garnered a lot of press attention due to its successful marketing and internationalisation strategies (Alimarket 2007, 2010b, 2010c, 2011c, 2011d). It produces the “albariños” (a much appreciated white wine, locally and internationally) “Paco & Lola” and “Rosalia de Castro”. In 2010 its turnover increased by 10%, reaching 3.8 million Euros. With 430 members, it is the cooperative most important in the Denomination of Origin Rías Baixas.

In the last few years it has consolidated its distribution at the national and international level, increasing its sales of its own labels by 50% and reducing bulk sales and bottling for third parties by 23% and 50% respectively. In 2010 the cooperative exported 70% of its production, reaching 20 countries. The cooperative also received various awards due to both product innovation and also product presentation.

5.6.7 Dairy

In 2010 the dairy sector represented 15.71% of final livestock production and 6% of final agricultural production, the principal product being cow milk (MARM, 2012). The cooperative market share is 40%.

Spain occupies the seventh place in terms of volume of milk production behind Germany, France, the U.K., Holland, Italy and Poland. Spanish milk production represents 4.2% of the total volume of milk produced in the EU. The number of cows for milk production in 2010 was 23.6 million in the EU-27 and in Spain 828.000 (Eurostat).

Production. In 2011 86% of dairy production was cow milk, while sheep and goat milk each represented 7% for a total of 14%. Equal to the rest of the EU, cowherd suitable for milk production has decreased significantly in favour of those suitable for meat. Currently, 30% of herds older than 2 years are dedicated to milk production as opposed to 58% in 1990 (MARM, 2011d). In contrast, sheep and goat milk has evolved positively in the last decade. The production of sheep milk by cooperatives has reached 24% of total production while the production of the principle goat cooperatives constitutes 15% (Cooperativas Agroalimentarias, 2010c).⁵⁶

The principle autonomous communities which produce milk are Galicia (34%), Castilla and Leon (16.87%), Andalusia (9.05%), Catalonia (8.72%) and Asturias (7.4%). The production of sheep milk is focused in Castilla and Leon and Castilla-La Mancha, whilst goat milk is important in Andalusia (43.39%), the Canary Islands (18.77%) and Castilla-La Mancha (11.44%).

The sector is based principally on the elaboration of liquid milk (60%) while the rest is for milk products. This structure is very different than that of other large EU markets, which are based more on cheese, butter and powdered milk. The majority of packaged milk is sold to grand distributors and the distributors brand represents 52% of internal consumption (MARM, 2009b).

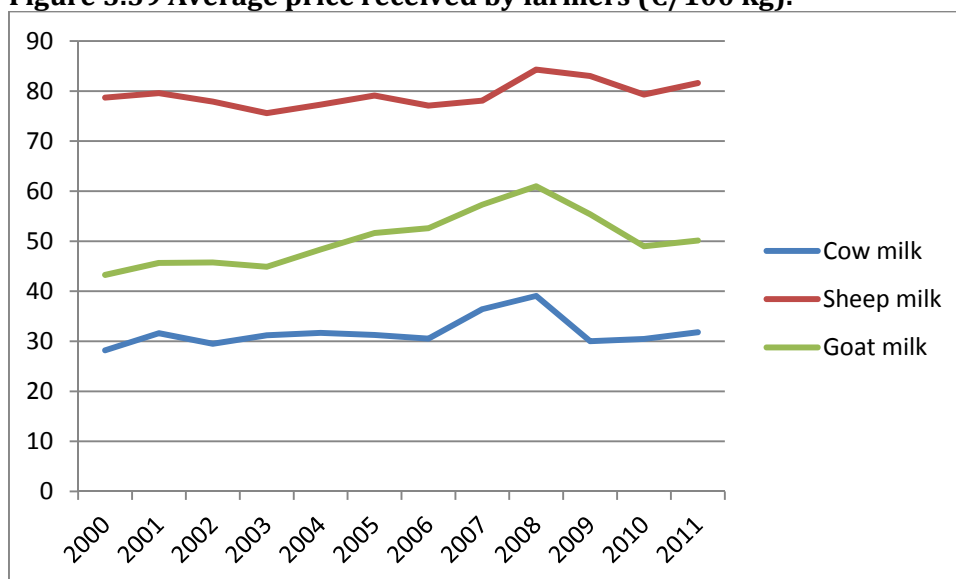
Table 5.29 Milk production (million litres).

Year	Cow milk	Sheep milk	Goat milk	Total
2000	6,107	392	439	6,937
2001	6,330	394	489	7,213
2002	6,418	406	513	7,337
2003	6,443	411	487	7,340
2004	6,384	410	479	7,274
2005	6,370	408	472	7,250
2006	6,192	424	492	7,108
2007	6,143	414	489	7,046
2008	6,157	427	491	7,075
2009	6,069	490	515	7,074
2010	6,172	566	507	7,245
2011	6,299	504	467	7,270

Data source: MARM (2011d)

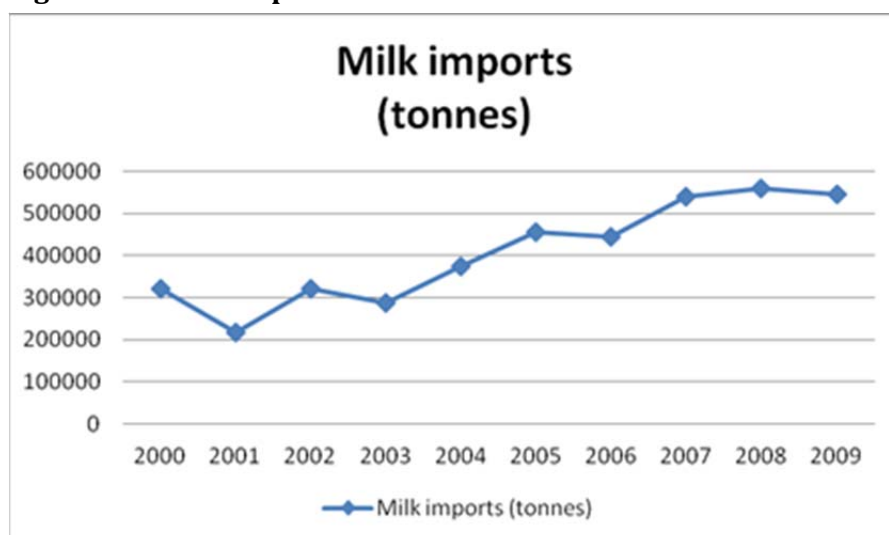
Prices. The medium price received by farmers in the sector has risen gradually until 2009. However, the price still was below the cost of production. Falling prices, lack of profitability and rising costs of production create a complex situation.

⁵⁶ It should be noted that these figures refer to only those cooperatives which are members of the national confederation, Cooperativas Agroalimentaria. The actual percentage of cooperatives may be higher.

Figure 5.59 Average price received by farmers (€/100 kg).

Data source: MARM (2011d)

Exports and Imports. Spanish exports of milk and milk derivatives increased until 2005, at which point they began to decrease especially in 2008. The principle destinations for exports are France, Italy and Portugal. Imports have increased significantly, as can be seen in Figure 5.60 below, such imports corresponding to a fall in prices of milk as seen in Figure 5.59 above:

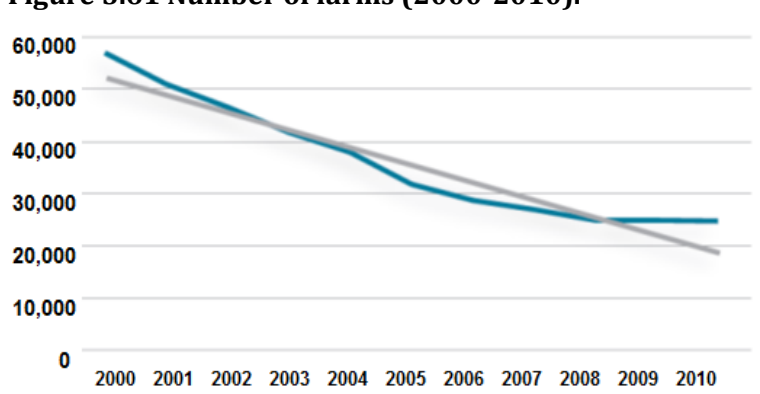
Figure 5.60 Milk Imports.

Source: FAOSTAT

Distribution of Farms. The sector is characterized by significant atomization in contrast to the concentration of organized distribution. Such atomization is especially significant in production, given that 63.32% of farms hold 22% of the quota, while the remaining 78% of the quotas are in the hands of 32.83% of the farms. Since the 1990s production has been abandoned by many farms, leading to an increase in their size. The objective of such

increase in size had been to improve competitiveness in the sector, but it has ended up provoking a contrary effect, producing an important increase in costs (COAG, 2010). Costs have increased due to the fact that an increase in growth has been accompanied by a greater intensity of production, thus resulting in higher costs.

Figure 5.61 Number of farms (2000-2010).



Source: Informe Coag (2010)

Policies. Dairy, being a quota system has traditionally limited Spanish production. The plans to do away with the quota system in 2015 poses a series of uncertainties for the sector and probably represents the most important influential factor in the future configuration of milk prices in Spain. The quota system not only has repercussions for the level of production but also for costs and the margin for producers given that the quota affects the amortizations and investments in capital and personal, amongst other factors (MARM, 2009b)

Another factor that has traditionally influenced the results of the sector has been the commercial relation between suppliers (individual producers and cooperatives) and processors that have existed under various contractual arrangements. Since 2008 standard contracts have been used, such that the contractual relations now exist within a given framework and with greater stability. (By Order ARM/2394/2008, 18 of July, the homologation of a dairy contract template being done through various ministry orders, ARM/2581/2009 and ARM/2834/2010.) Such contractual arrangements have been viewed positively by the milk sector and the Confederation. Fixed contracts for 12 months are the most common.⁵⁷

Dairy Cooperatives. During the last several years, cooperatives have concentrated and amplified the service offered to their member farmers. In doing so cooperatives have been

⁵⁷ See <http://www.agro-alimentarias.coop/ficheros/doc/03322.pdf> wherein the contracts have been described as a success.

able to assure the collection of milk, have offered more financial help to give liquidity, etc. As a strategy to ensure competitiveness of the dairy cooperatives, integration is seen within the sector as a method to improve the negotiation capacity with the rest of the food chain (Cooperativas Agroalimentarias, 2011b), however concerns exist, as mentioned above, in relation to increased costs. As well, the production of sheep and goat milk is in the middle of an important change in terms production methods, such that *intensive production* is more and more common as compared to traditional methods. 24% of the total production of sheep milk is now through cooperatives, which is leading to ambitious processes of collaboration both in terms of processes and also in the concentration of offer.

Necessary Action. The sector has identified the following strategies: concentration of offer, transformation and adding value to products, commercialisation, control of production to manage offer and demand and aid for “doing” not “being”.

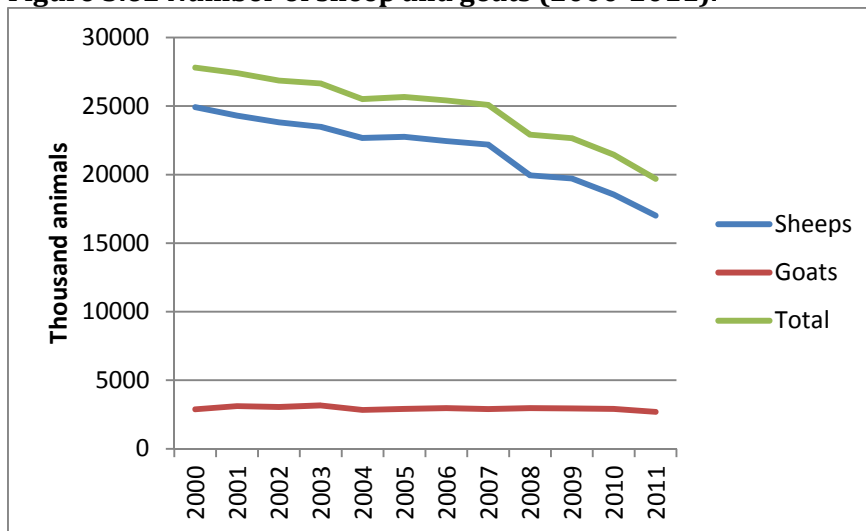
5.6.8 Sheep meat

The sheep and goat live stock sector has a great territorial importance, not only for its economic contribution but also from the point of view of social cohesion and the sustainable use of lands in which they operate, contributing to the maintenance of the environment and the continued human presence and economic viability in disfavoured rural zones (MARM, 2009a). The importance of the sector within agriculture has decreased in the last decade. In 2000 it represented 13.71% of livestock production and 4.67% in final agricultural production. In 2012 sheep and goat meat made up 1.87% of final agricultural production and represented 4.95% of final animal stock production. The production of sheep meat in Spain represents 17.25% of the EU total and is superseded only by the U.K.: (36.19%) (Eurostat). Cooperatives make up 25% of such sector (source-Cooperativas Agroalimentarias).

Production. From 1992 to 2000 the number of sheep in Spain was practically stable and thereafter has fallen considerable due in part to the CAP reforms which affected subsidies received by the sector. The new CAP approved in 2006 and completed in 2010 resulted as well in a decline, given the decoupling of production with sector aid, tied now to the historic rights in function of stock number held in 2008. As a result, many stock keepers have abandoned their herds or reduced their numbers (Alimarket, 2010a). The price of feed has also affected production as well as the variability in the price of goat milk. However, at the moment these reductions are less than that those of other EU producers. Production fell 19.4% between 2007 and 2009.

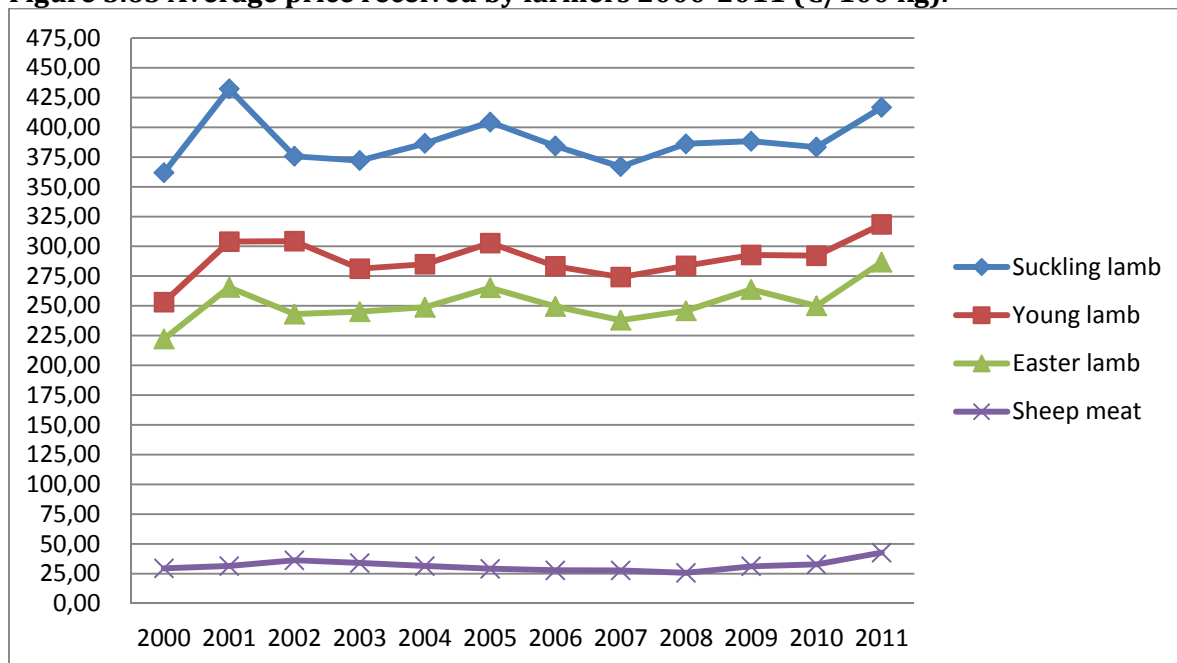
Spanish sheep production is concentrated in 5 communities: Extremadura (20.65%), Castilla and Leon (19.28%), Castilla - La Mancha (15.64%), Andalusia (13.01%) and Aragon (11.79%). These 5 communities represent 80.37% of the total. The production of goat in Spain is concentrated in 4 communities: Andalusia (35.70%), Castilla - La Mancha (15.41%), Canary Islands (10.94%) and Extremadura (10.23%). These four communities represent 73.29% of the total. The 3 principle cooperatives in the sector are found in Aragon (Cooperative Oviaragon), Extremadura (Oviso) and Andalusia (Dehesas Cordobesas).

Figure 5.62 Number of sheep and goats (2000-2011).



Data source: MARM (2011d)

Prices. As seen below, prices have remained relatively stable, although there is a great fluctuation throughout the year. It should also be noted that the price of the skin, which varies greatly during the year as well as between different communities in Spain, has a notable impact on the final price of sheep product as does the price of wool to a lesser degree. Goat and sheep meat is also very seasonal (more popular during Christmas and Easter season) but as well, is seasonal in terms of breeding (more difficult to breed in spring). This results often in a situation where higher product price also signifies higher breeding costs. Strategy is dependent on which market is sought.

Figure 5.63 Average price received by farmers 2000-2011 (€/100 kg).

Data source: MARM (2011d)

External Trade. Spain is a net exporter of sheep and goat meat (although goat meat is quite insignificant) principally to EU member states with 97% of the total, concretely France (41.78%), Italy (17.13%), UK (11.36) and Portugal (7.18%). The Arab countries represent an important new strategic export market, although export to non-member countries presents difficulties.

Structure of the Sector. Production is very dispersed, from many small operations to cooperatives with thousands of heads of stock. The complexity and number of actors in the commercialisation in origin depends on the avenues of commercialization and whether the direct purchases are possible in the slaughterhouses. The wholesalers which carry out commercialisation in origin cover the management of the animal from the purchase from the farmer until its final transformation. The fundamental differences between the agents at the sales points lie in their size, volume and variety of product.

Aside from the basic value chain, there is a difference between the traditional and modern model: in the former the butcher buys from the slaughterhouse directly and is then responsible for breaking it down and preparing it. The modern model is characterized by the presence of large distributors at the sale point who require product which is more specialized and exacting in specifications (MARM, 2009a). In addition, the zones of consumption and production are mismatched; that is, there is important production but low consumption in the south and high consumption and low production in the north. This

fact has an impact on the commercialisation and business strategy of the various cooperatives who produce goat and sheep meat, dependent on where they are situated.

Policies. See “Production” above for consequences of the CAP reform and also “Cooperatives” below for the reference to Royal Decree 104/2008 and grouping of producers. Royal Decree 1615/2007 of the 7 of December (BOE 20 Dec.) established the bases upon which to grant subsidies to encourage the production of quality agro food animal products and has resulted in many cooperatives increasing the number of members due to the fact that the concentration of offer has resulted in more price stability and a stronger presence in the market. The restructuring of the sector has decreased the number of operations but increased the size of those that continue in production (Alimarket, 2011f).

One concern pointed out by the Spanish Society for Sheep and Goat Production in relation to the new CAP draft (2014-2020) and its assessment of producers based on farm size, is that it does not take into account those farmers that rely on agricultural plant residues and common grazing areas where the farmer does not hold title. The productive use of plant residues and the control of excess vegetation in public areas can contribute to the public good and yet are detrimental to those farmers that rely on such practices, instead of being large land owners. As well, those operations which are not also dedicated to sheep or goat milk require less land and thus are more intensive. This distinction is not taken into account.

A policy that the Spanish Society for Sheep and Goat Production claims to be effective is that of the “Protected Geographical Indication” identifying a quality area. In sheep meat (lamb) there are six such PGI. Oviaragon is tied to the PGI of “Ternasco de Aragon” and the cooperative Oviso is closely related to “Cordero de Extramadura”. The use of such indications is seen to be an important strategy to integrate further down the supply chain and as well this strategy has proven to be less expensive and time consuming than the establishment of trademarks of guarantee or collective trademarks, which must be registered under patent and trademark laws. As well this strategy serves to protect traditional breeds and production practices.

Sheep Cooperatives. The cooperatives in this sector are a key element in avoiding the disappearance of this type of livestock operations in many zones of Spain and compensate the loss of profitability of the farmers. However the many small operations are a problem for the adequate development in the sector. As a result the sector is going through a profound process of cooperative integration with the creation of second level cooperatives

and other cases of cooperative mergers. This process was done under the impetus of Royal Decree 104/2008 that established aid for groupings of producers. The region of Castilla La Mancha has introduced a new law for the granting of subsidies to form producer groups in the sheep and goat sector (Orden AYG/893/2012, 17 of October). This type of incentive already exists for areas such as Castilla Leon, as set out in Chapter 5.6.

The cooperatives which produce lamb have changed drastically their path and have improved production, consumer orientation and increased the processes of collaboration between cooperatives to access markets. In addition much R&D in adapting to consumer demands has been carried out.

Given that one of the principle problems of the sector is the decline in consumption, measures must be taken to increase demand. This could be achieved by extending both production and demand to cover more seasons so as to minimize profound price fluctuations.

The strengths of the sector lie in flexibility (animals can graze in many places) with a need for little infrastructure, the high quality of meat and the high number of autochthonous breeds (MARM, 2009a).

Challenges for the cooperatives are the lack of structures and channels of commercialisation, decrease in demand, high prices of animal feed, aging farmers and difficulty in finding workers, competition with other EU member states with more sector subsidies and third countries with lower costs, lack of promotion of the sector (Union of AgCoop, Castilla-La Mancha, 2008).

Necessary Action According to the Sector. The sector proposed that operations must be larger and more specialized. More producer groups are needed that develop vertically and that increase efficiencies and there should be a favouring of long term agreements between distributors and producer cooperatives. The product should be identified with Spain, with a protected geographical indication, and with traditional foods. As well there should be the development of aid linked to agro-environmental issues and pastures and publicity to increase consumption and exportation, and the reduction of seasonality. On the human resources side, there should be an emphasis on incorporating youth and also the proper training of qualified butchers and in the preparation of prepared product to meet consumer demand. Support for developing consumption in the restaurant and hotel sector is also important. New export markets should be developed.

5.6.9 Pig meat

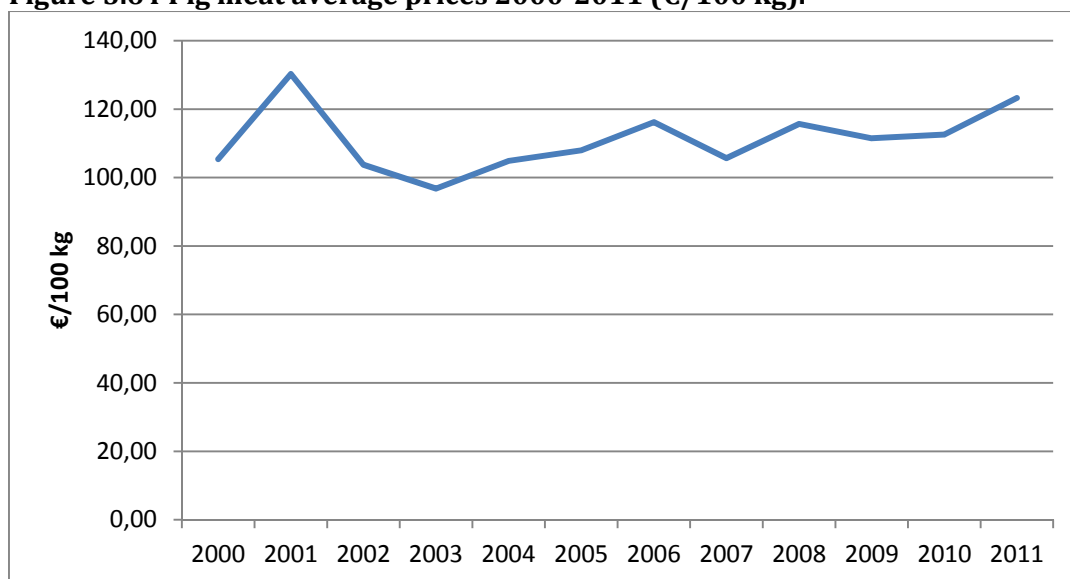
The pork sector in Spain represents 37.05% of the total animal stock production and 14.05% of final agricultural production (MARM, 2012). Spain is the second country in the EU in number of pigs (Germany being the first) with 17.24 % of the European stocks in 2011, and the fourth in the world in pork production. Cooperatives represent about 25% of market share (Cogeca, 2010). Of the cooperatives which form part of Cooperativas Agroalimentarias (national confederation) 51 cooperatives, 13 produce Iberic products.

Production. Stock numbers increased up to 2007, after which there has been a decline. Rising animal feed prices and falling prices due to the excess of production were responsible such that a market adjustment was necessary. This trend was similar to that experience in Europe although the growth phase in Spain was steeper (MARM, 2011a).

Pork production is mainly in Catalonia (27.27%), Aragon (21.35%), Castilla and Leon (14.06%) and Andalusia (8.86%). As cooperatives are governed predominantly by community laws, the cooperative laws of such regions would be most relevant in this sector. The top 5 pork cooperatives in this study are located in Galicia, Andalusia, Aragon and Castilla and Leon.

Prices. In the pork sector, there is no direct aid nor the application of reference prices for the sector such that the market price is strictly that of supply and demand, depending on the level of production (Dir.Gen of MR, 2011). In the last several years, in spite of the fall in demand and the excess of offer, prices have still risen.

Figure 5.64 Pig meat average prices 2000-2011 (€/100 kg).



Data source: MARM (2011d)

External Trade. Exports have grown significantly in the last 10 years as the Spanish market cannot absorb all of its production (COAG, 2010). As a result, the sector depends on exportation to stabilize the sector and as well must adapt costs and prices to guarantee competitiveness on an international level (Escribano, 2006). The principle destination for Spanish pork exports are EU member states representing 85.6% of total exports, concretely France (26%), Portugal (10.14%), Italy (12.08%) and Germany (6.74%). 15% is destined for other countries outside the EU.

Structure of the Sector. Given the difficult market conditions, the pork sector has experienced a decrease in the number of farming operations and above all in “free” farms which were not included in the various vertically integrated businesses in the sector (COAG, 2010)

In other cases, pork operations have opted for different modes of association. The sector has pushed for concentration to meet heightened market competition, reduced margins, distribution pressures and the high cost of animal feed (Alimarket, 2011a).

In 2010, the number of pork farms was 94,252, of which 46% were of small or medium size. In 2007, the number of small and medium operations represented 60% of the total (MARM, 2011a).

Traditionally, the pork operations have functioned through diverse forms:

- as a residual activity alongside other agricultural or stock animal activities
- via contracts with large companies through “integration”
- association with cooperatives, where the farmer, maintaining independence could benefit from a series of services and representation, as well as the social benefits of the cooperative (Cooperativos Agroalimentarias, 2004)

Policies. Royal Decree 324/2000 of the 3rd of March establishes regulations for pork production with the object of guiding and managing growth in the sector and also of providing the sector with a comprehensive and unified regulatory landscape. This legislation has been considered to be a key element in the success of the sector, notwithstanding increased costs and the modification of the productive map (Escribano, 2006).

Pig Meat Cooperatives. Cooperative pork production is made up of two types of cooperatives: the first are pork producer cooperatives, which as a service to the members

provide food for the animals. The second are those marketing cooperatives that carry out the sale of the live animals and the products obtained after their sacrifice.

Analysing the marketing cooperatives one can observe that the majority are dedicated to selling live animals. Of those cooperatives that market products obtained after the sacrifice, the sale is done predominantly through channels. As there exist more restrictions and health and sanitary problems in relation to live animals than with meat and products derived from pork, for this reason, cooperatives should centre not only in the sale of animals but also in the production of transformed/processed/value added products. In addition, this would facilitate sales and exportation.

Some cooperatives of the first level have united, amongst pork producing cooperatives, and also with cooperatives that are not dedicated to the production of pork in second level cooperatives. Currently, eight second level cooperatives are dedicated exclusively to the production of pork.

Pork cooperatives are developing projects concentrating the offer, with the object of accessing new markets both within and outside of the EU. In addition, pork cooperatives have seen that their members are suffering from the complex and costly processes of adapting to the new EU norm, which increases demands for hygiene, environmental conditions and animal welfare.

Amongst the proposed strategies to develop the cooperative pork sector were the following proposals:

- differentiation, promoting the sale of cooperative product not as a low cost product but one which also has social value, environmentally friendly, with sound production practices and which promotes the rural economy
- new markets which permit the marketing of member production-for this a certain distribution volume is necessary which can only be met by the grouping of cooperatives
- grouping in order to control costs that exporting would imply and to reach a competitive volume of product and optimize investments
- promotion of cooperative product with the creation of a unique cooperative label that permits the consumer to link the product with cooperative activity (Cooperativas Agroalimentarias, 2004)

5.7 Overview of policy measures

5.7.1 Regulatory framework

The performance of cooperatives, including producer organisations, is influenced by the regulatory framework in a country. This framework is multi-level: EU regulations, national laws and particularly in Spain, regional policies influence the way cooperatives can operate. In this chapter the regulatory framework that influences the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector) is set out.

These competitive positions are influenced within the regulatory framework by much more than the law that establishes the rules for running a cooperative (business organisation law). Well known other examples include agricultural policy (e.g., the EU's CMO that deals with POs in the F&V sector), fiscal policies (at the level of the cooperative and the way returns on investments in cooperatives are taxed at farm level) and competition policies. There are different types of policy measures in the regulatory framework (McDonnell and Elmore, 1987):

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

The objective of this section is to identify support measures that have proved to be useful to support farmers' cooperatives. In Chapter 5.7.2 the relevant policy measures are identified. In Chapter 5.7.3 a summary highlights main measures and trends (recommended for those readers who wish a general overview instead of the detail in Tables 5.30 to 5.34). Chapter 5.7.4 deals with competition law and Chapter 5.7.5 highlights tax issues.

5.7.2 Policy measures

The Table 5.30 below⁵⁸ identifies the policy measures that influence the competitive position of the cooperative. (Please note that the CAP will be discussed in a general manner in Chapter 5.8 as it affects Spanish cooperatives, in addition to its having been referred to in Chapter 5.6 in relation to certain sectors.) In the list below, *all* the norms concerning policies and incentives at the state level and above all, at the level of the autonomous communities, have not been enumerated due to the sheer multitude of legislatives sources which are found in Spain. In light of this, certain Autonomous Communities and other norms have been chosen as representative examples.

Below the laws and policies have been ordered in the following manner:

- specific to cooperatives (Table 5.30)
- specific to agricultural business (Table 5.31)
- applicable to agricultural subsectors (Table 5.32)
- applicable to business in general, but with an important impact on agricultural cooperatives (Table 5.33)

Within such subcategories, they are ordered first by national and then regional (including “foral”) regulation. Finally, selected EU policies have been included in Table 5.34.

Table 5.30 Policy Measure Description–Specific to cooperatives.

Policy Measure Name	Policy Measure Type	Description of agricultural cooperative relevance
Spanish Constitution, 1978 (art. 129.2)	1. Mandate. Cooperative legislation	-National-mandate on public powers to provide adequate legislation for the creation and promotion of cooperative enterprises
Social Economy Law 5/2011, 29 March	5. Other. Promoting social economy	-National-provision of framework that recognises and gives better visibility of the social economy. -Recognition, as a general interest matter, of the promotion, stimulus and development of social economy entities and their representative organisations -Cooperatives and SATs (sociedades agrarias de transformación) are mentioned as being social economy entities.
Cooperative Law 27/1999, 16 July	1. Mandate. Cooperative legislation	-National law applicable to cooperatives that carry out their cooperative activities in various autonomous communities. -Not applicable where the cooperative carries out the majority of their activity in one autonomous community. (As a practical reality, most agricultural cooperatives are formed under the

⁵⁸ This table was compiled under the supervision of Professor Carlos Vargas Vasserot, University of Almería, Faculty of Law.

		<p>laws of an autonomous community.)</p> <p>-This 1999 law, in contrast to the 1989 law, made more flexible the economic and administrative regime of the cooperatives and included a series of changes in material regarding the financing of the cooperative.</p> <p>-Art. 93 is dedicated to agricultural cooperatives and arts. 94 and 97 to cooperatives of common exploitation of farm lands (CEC). With respect to the former, it defines agricultural cooperatives and enumerates the permitted activities and provides for certain particular situations such as the establishment of a limit on transactions/dealings with third parties. With respect to the latter, the law provides a concept of such term and sets out who can be members, the ceasing of use and the enjoyment of benefits and its economic regime.</p>
Royal Decree 1776/1981, 3 August, approval of the Statute that regulates the Agrarian Societies of Transformation (SATs)	1. Mandate. Cooperative legislation	National -This regulation provides for the Statute of the Agrarian Societies of Transformation (SATs) , defining their character and their functioning, the regulation of the rights of members and the participation of the same in the agrarian common company. This norm sets out basic characteristics which must be fulfilled, the rules applicable to members, necessary documentation, organisational bodies, dissolution, liquidation and cancellation of the SAT.
Order of 14 September, 1982 which develops Royal Decree 1776/1981, of the 3 of August, approving the Statute which regulates the Agrarian Societies of Transformation (SATs)	1. Mandate. Cooperative legislation	-Establishment of the requirements for the constitution and registry inscription of SATs .
Royal Decree 136/2002, 1 February, -approval of Regulations of Cooperatives Registry.	1. Mandate. Cooperative legislation	National -The regulation organises/systemizes registry material concerning cooperatives regulated by Law 27/1999 (above) as a method of giving legal security and formality , the effect of which is to guarantee the publication and the legality of the founding of cooperative enterprises.
Andalusian Cooperatives Law 2/1999, 31 March * Repealed and replaced with Law 14/2011, of December 23, Andalusian Cooperative Societies	1. Mandate. Cooperative legislation	-Arts. 152 and 153 are dedicated to agricultural cooperatives and Arts. 154 and 157 to cooperatives for the common exploitation of farm lands - Notable in respect to agricultural cooperatives is the potential for inter-cooperative relations pursuant to very flexible provisions, which could be considered to be transactions/dealings with third parties. -During the writing of this thesis, a new Andalusian Cooperative Societies Law was introduced which stated object was to reinforce competitive capacity and address the needs of this sector in such autonomous community.

		<p>-the stated objective of this new law is to allow for greater competitiveness for cooperatives and to provide legal and economic-financing instruments which will be at the disposition of the cooperatives that are compatible with the nature of the cooperative movement.</p> <p>- Elimination of numerous bureaucratic hurdles</p> <p>-The law allows more freedom for the cooperatives to craft their own bylaws</p> <p>- There is a new figure of capitalist member or member-investor.</p> <p>-novel introduction of “trial” investor</p> <p>- Voluntary establishment of plural votes.</p> <p>- Free assignment of capital contributions to third persons.</p> <p>- Greater liberty in the distribution of benefits.</p> <p>- Reduction of the limitations of dealings with third parties and the strengthening of mergers through the simplification of procedures. This new law is further described in Chapter 6.</p>
Decree 267/2001, of 11 December, Regulation of the Development of the Law of Andalusian Cooperatives	1. Mandate. Cooperative legislation	-This decree regulates the functioning of the Registry of Andalusian Cooperatives
Aragon Cooperatives Law 9/1998, 22 December,	1. Mandate. Cooperative legislation	-Art. 80 is dedicated to agricultural cooperatives and art. 81 to cooperatives of common exploitation of farm lands
Decree 15/2011, 25 January of the Government of Aragon, approving the Regulation of the Agrarian Societies of Transformation (SATs)	1. Mandate. Cooperative legislation	-Regulation applicable to SATs that have their place of business in Aragon and that are inscribed in the SAT Registry of Aragon as a consequence of having been constituted and having carried out their activities in such autonomous community. -This Decree intends to correlate, to the extent possible, the figure of the SAT to the cooperative prototype, with the objective that the SATs will be, in the near future, a tool for local development, an advanced alternative for family agriculture and an instrument for the diversification of the agrarian economy with a collective and entrepreneurial character. This is the first autonomous community norm which regulates the legal regime of the SATs and it is being constitutionally challenged for lack of legislative jurisdiction/competence.
Cooperative Law of the Principality of Asturias 4/2010 29 de June	1. Mandate. Cooperative legislation	-Art. 161 to 163 are dedicated to agricultural cooperatives and arts. 164 to 171 to cooperatives for the common exploitation of farm lands -Notable in respect to agricultural cooperatives is the provision which allows cooperative statutes and bylaws to require a minimum or exclusive participation and a minimum term for cooperative members.
Cooperative Law of	1. Mandate. Cooperative	-Art. 130 is dedicated to agricultural cooperatives and arts. 131 to 134 to cooperatives for the

<p>Castilla-La Mancha, 11/2010, 4 November. (Cooperative Registry--Decree 178/2005, 25 de October)</p>	<p>legislation</p>	<p>common exploitation of farm lands -With respect to agricultural cooperatives, certain modifications have been introduced in contrast to the prior revoked law (more precision in definitions, minimum time requirement for members and required obligations, dealings with third parties, etc.) most notable the possibility to, in conjunction with the social object of such cooperatives, carry out other economic activities and services related to development, sustainability, promotion and transformation of the rural environment, rural tourism, environmental activities, cultural activities, new technologies, assistance services, consumer services, advising services and whatever other activity of like or similar nature.</p>
<p>Community of Castilla and Leon Cooperative Law 4/2002, 11 April (Cooperative Registry Decree 125/2004, 30 December)</p>	<p>1. Mandate. Cooperative legislation</p>	<p>-Arts. 113 and 114 are dedicated to agricultural cooperatives and arts. 108 to 111 to cooperatives for the common exploitation of farm lands</p>
<p>Cooperatives of Catalonia Law 18/2002, 5 July. (Cooperative Registry- Decree 203/2003, 1 August)</p>	<p>1. Mandate. Cooperative legislation</p>	<p>-Arts. 93 to 95 are dedicated to agricultural cooperatives,</p>
<p>Cooperative Societies of Extremadura Law 2/1998, 26 March</p>	<p>1. Mandate. Cooperative legislation</p>	<p>-Arts. 125 to 128 are dedicated to agricultural cooperatives and arts. 129 to 133 to cooperatives for the common exploitation of farm lands</p>
<p>Special Cooperative Societies of Extremadura Law 8/2006, 23 December,</p>	<p>1. Mandate. Cooperative legislation</p>	<p>-Applicable to smaller cooperatives (from 2-20 members) that carry out their principle cooperative activity in the Community of Extremadura.</p>
<p>Cooperatives Law of Galicia 5/1998, 18 December</p>	<p>1. Mandate. Cooperative legislation</p>	<p>-Art. 111 is dedicated to agricultural cooperatives and arts. 112 and 113 to cooperatives for the common exploitation of farm lands, -Notable in such law, amongst other peculiarities, is the possibility to incorporate as a member Galician Family businesses, an institution under Galician civil law.</p>
<p>Cooperatives Law of the Balearic Islands 1/2003, 20 March (Cooperative Registry-Decree 65/2006, 14 July)</p>	<p>1. Mandate. Cooperative legislation</p>	<p>-Arts. 120 to 122 are dedicated to agricultural cooperatives and arts. 123 to 127 to cooperatives for the common exploitation of farm lands -The law regulates and provides for the particularities that characterize agricultural cooperatives and allows for the promotion and motivation of agricultural modernization with structures that incorporate new techniques of exploitation and commercialization, in such manner providing for the business/entrepreneurship nature of agricultural</p>

		cooperatives.
Cooperatives of La Rioja Law 4/2001, 2 July (Cooperative Registry Decree 18/2003, 7 May)	1. Mandate. Cooperative legislation	-Art. 113 is dedicated to agricultural cooperatives and arts. 114 and 117 to the cooperatives for the common exploitation of farm lands
Cooperatives of the Community of Madrid Law 4/1999, 30 March (Cooperative Registry Decree 177/2003, 17 of July)	1. Mandate. Cooperative legislation	-Art. 109 is dedicated to agricultural cooperatives and art- 110 to the cooperatives for the common exploitation of farm lands
Cooperative Societies of the Region of Murcia Law 8/2006, 16 November	1. Mandate. Cooperative legislation	-Art. 116 is dedicated to agricultural cooperatives and arts-117 to 120 to the cooperatives for the common exploitation of farm lands - The law regulates and provides for the particularities that characterise agricultural cooperatives, attempting to motivate modernisation as well as business/entrepreneurship in such entities.
Cooperatives of Navarra Law "Foral" 14/2006, 11 December	1. Mandate. Cooperative legislation	-Art. 66 is dedicated to agricultural cooperatives, providing for the establishment of a system of rotating capital and as well contemplates the obligation to reflect in its accounting specified patrimonial funds.
Cooperatives of the Basque Country Law 4/1993, 24 June	1. Mandate. Cooperative legislation	-Applicable to cooperative societies with their place of business in the territory of the autonomous community of the Basque Country that carries out its principle cooperative activity in such territory. - Arts. 109 and 110 are dedicated to agricultural cooperatives and arts. 111 and 113 to the cooperatives for the common exploitation of farm lands
Small Cooperatives of the Basque Country Law 6/2008, 25 June	1. Mandate. Cooperative legislation	- This law arose out of the necessity to provide for the creation of a dynamic that favoured the entrepreneurship of small cooperatives in their capacity of agents that created employment, high quality employment and with the ability to distinguish themselves in their business environment, all under a scheme of self-management. In light of this, processes for their constitution and inscription were simplified, the number of necessary members reduced, etc.
Decree 58/2005, 29 March, Regulation of the Cooperatives of the Basque Country (Registry of Cooperatives- Decree 59/2005, 29 March)	1. Mandate. Cooperative legislation	- Regulation of the development of the Cooperative Law of the Basque Country, which amongst other aspects, provided for the legal statute of distinct classes of members, the development of an economic regime in matters of own funds and the clarification of applicability of certain legal concepts.
Community of Valencia	1. Mandate. Cooperative	-Art. 87 is dedicated to agricultural cooperatives and art. 88 to cooperatives for the exploitation of

Cooperatives Law 8/2003, 24 March	legislation	common lands
European Cooperative Society domiciled in Spain Law 3/2011, 4 March	1. Mandate. Cooperative legislation and incorporation law	-Adaptation and transposition of Spanish law to Community Regulation 1.435/2003 which regulates the European Cooperative Society domiciled in Spain.
Cooperative Tax Law 20/1990, 19 December	2. Inducement. Financial incentives	National-Measure allows for the “ favourable ” tax treatment of cooperatives such that certain taxes do not apply such as for example, tax on capital transfers and notarized legal acts, Corporation Tax, etc. and to a greater degree of specially protected cooperatives, in which agricultural cooperatives are included.
Royal Decree 1345/1992, 6 November, re: norms for the adaptation of the dispositions which regulate the taxation of the consolidated benefit of cooperative societies	1. Mandate. Cooperative legislation	-This normative disposition regulates the tax regime in relation to consolidated benefits of groups of cooperative societies , in which commenced the concept of a group of cooperative societies (art. 1.2) and implanted a system of consolidation suitable for the characteristics of such cooperatives (a system of consolidation of tax liabilities (cuotas tributarias) in place of a system of consolidation of taxable base (bases imponibles).
Cooperatives of Navarra Tax Law Foral 9/1994, 31 June	2. Inducement. Financial and other incentives	-In order to receive the tax treatment provided for under this law, the cooperative must be established under the law of the community of Navarra . With respect to Corporate Tax law, such tax is applied to all such constituted and inscribed cooperatives. The tax rate is, in those protected cooperatives, 20% for the cooperative results and the general rate for extra-cooperative results , and with respect to the rest, the general rate of tax.
Cooperative Societies of Alava Tax Regime Norm “Foral” 16/1997, 9 June	2. Inducement. Financial and other incentives	-Establishes the tax regime for Cooperative Societies of Alava (province of the Basque Country).
Cooperatives of Guipuzcoa Tax Regime Norm “Foral” 2/1997, 22 May	2. Inducement. Financial and other incentives	-Establishes the tax regime for Cooperative Societies for Guipuzcoa (province of the Basque Country)
Cooperative Societies of Vizcaya Tax Regime Norm “Foral” 9/1997, 14 October	2. Inducement. Financial and other incentives	-Establishes the tax regime of the Cooperative Societies of Vizcaya (province of the Basque Country)
Order ECO (Minster of Economy) 3614/2003, 16 December, approval of norms respecting the accounts of	1. Mandate. Cooperative legislation	-This order had as its objective the adaptation of the valuation norms and the elaboration of annual accounts to the peculiarities of cooperative societies , being of obligatory application, independent of where the principal activity was carried out and the autonomous norm to which such cooperative was subject.

Cooperative Societies (was in vigour until January 1, 2011)		
Order EHA (Minister of Economy and Tax) /3360/2010, 21 December, approval of norms respecting the accounts of cooperative societies	1. Mandate. Cooperative legislation and incorporation law	-This Order was approved so that cooperative societies could have at their disposition accounting norms that allowed such cooperative to continue supplying financial information in the framework of the General Accounting Plan and the General Accounting Plan for SMEs, in keeping as well with the International Accounting Standards for financial information adopted by the European Union but without abandoning an important part of the special regulation approved in 2003, in certain cases simply including mere formal revisions. -Some of such standards prevent a specific accounting treatment, as for example, in the cases in which a member acts as a supplier of goods, as is the case of agricultural and other cooperatives, that perform the role of commercialization of the members' products or the provision or supplier of services, as is the case of Worker Association cooperatives (Standards 8 and 9)
Royal Decree 1278/2000, 30 June, which adapts specified dispositions/provisions of Social Security for its application to Cooperatives	2. Inducement. Economic incentives 3. Capacity Building	- This norm applies to all cooperative societies. The principal novelty of such regulation is the application of provisions of Social Security providing for the inclusion of part time workers to the member workers of such worker associated cooperative societies in which their activity is carried out part time.
Royal Decree 1300/2009, 31 July, of urgent measures of employment for autonomous workers and cooperatives and labour societies (measures applicable until 31 December 2010)	3. Capacity Building 2. Inducement. Economic incentives	-Measure to encourage employment for autonomous workers, cooperatives and worker societies , improving certain conditions of access and payment of unemployment benefits with a single payment during the period in which the Royal Decree is in vigour. The 24 month time limit of the prior norm applicable to salaried workers was allowed to be exceeded so that such measure would foster employment.
Resolution of 19 April, 2011, of the Secretary of State of Rural and Water Environments providing for the publication for 2011 the convocation of aid destined to promote the integration of cooperatives at the state level	2. Inducement. Economic incentives	-Establishes the convocation of competitions for subsidies for 2011 in relation to the promotion of cooperative integration at the state level , provided for in Order APA/180/2008. Amongst the evaluation criteria for awarding the subsidy: the fusion of two or more entities , having as a principle objective innovation in production processes , have as a principle objective innovation in commercialization processes, fostering the participation of women , being a cooperative society of worker association with agrarian activity , being a second level cooperative , etc.
Financing Program	2. Inducement.	- Beneficiaries of this financing can include

<p>for Social Economy businesses (ENISA-National Innovation Company)</p>	<p>Financial and other incentives</p>	<p>cooperatives and labour societies which are SMEs according to EU definitions. The financing assumes a participative loan (period of amortizations of 9 years, interest rate in function of the results of the beneficiary with a minimum and maximum, without guarantees, etc.)</p>
<p>Order of 9 June 2009, for the establishment of the regulatory bases for the concession of aid for the primary integration of agrarian associative entities into Andalusian agricultural cooperatives of a higher level</p>	<p>3. Capacity Building 2. Inducement. Financial and other incentives</p>	<p>-This Order establishes the regulatory bases to concede aid for the primary integration of agricultural associative entities in already consolidated superior level Andalusian agricultural cooperative societies: Provided that commercialization of the products which are subject to such integration are amongst its activities. The legal forms of potential beneficiaries are: a) Andalusian agricultural cooperative society b) SATs with its legal place of businesses in Andalusia (which meet certain conditions). -The expenses of the agricultural associative entity for the participation in the social capital of the existing second or higher level cooperative may be subsidized. The maximum quantity of such aid is limited to 100,000 Euros per beneficiary entity.</p>
<p>Order 12 June, 2009, establishing the regulatory bases for the concession of aid for the fusion of agricultural cooperatives and the constitution of second level (or higher) agricultural cooperatives</p>	<p>2. Inducement. Financial and other incentives 3. Capacity Building</p>	<p>-This Order establishes the regulatory bases to concede aid in the creation of entities which are a result of merger projects of agrarian cooperatives and the constitution of second level or higher agrarian cooperatives. The legal form of the possible beneficiaries must be: a) Andalusian agrarian cooperative society, b) second level Andalusian agrarian cooperative society, c) SATs with its legal place of business in Andalusia (which meet certain conditions), d) cooperative societies and SATs with industrial establishments inscribed (registered) in Andalusia. -The following may be subsidized: pre-merger expenses assumed by the entities that merged; pre-constitution expenses of a second level cooperative assumed by the entities that participated in its constitution; etc. -The maximum quantity of such aid is 20,000 Euros divided between the number of businesses that participated in each merger process or constitution.</p>
<p>Order 29, June 2009, for the establishment of the regulatory bases for a program of support for innovation and the development of the social economy, and the provisions for related convocations for 2009 until 2013</p>	<p>3. Capacity Building 2. Inducement. Financial and other incentives</p>	<p>-Provision of measures directed at encouraging the development of an innovative, competitive, entrepreneurial social economy in the framework of the Andalusian productive social/cultural fabric and in its own economic and social principles and values. -The following entities which comply with the relevant conditions may be beneficiaries: Confederations of the Social Economy and Federation of the Social Economy, Foundations, Cooperative Societies and Worker Societies. The possible lines are: diffusion, promotion and innovation in the social economy, professional development and development of associationism.</p>

<p>(Andalusia)</p> <p>Order 20 April 2010, establishing the regulatory bases for the concession of aid to support the increase of size and dimension of agro industrial cooperatives, to promote business cooperation, integration, mergers and strategic alliances and fostering the constitution of second and higher level associative entities</p> <p>(Andalusia)</p>	<p>3. Capacity Building</p> <p>2. Inducement.</p> <p>Economic incentives</p>	<p>-The object of this aid is the promotion of integration activities of cooperatives of the agro industrial sector, especially directed at promoting concentration projects through the constitution and consolidation of second or higher level cooperatives.</p>
<p>Order EMP/34/2008, of 13 March, convocation of 2008 for subsidies destined to promote the social economy in Cantabria</p>	<p>2. Inducement.</p> <p>Financial and other incentives</p> <p>3. Capacity Building</p>	<p>-Regulation of subsidies destined for the promotion of employment, improving competitiveness, consolidation of cooperatives and labour societies, promotion of training activities, promotion and diffusion of social economy and the support for internal organizational costs and functioning of associations of worker cooperatives, autonomous workers and other entities representative of the social economy in Cantabria.</p>
<p>Order of 30/12/2009, of the local Ministry of Agriculture and Rural Development, which modifies the Order of 11/12/2008 of the local Ministry of Agriculture and Rural Development, approving the regulatory bases of aid for the improvement of the de associative agrarian structures en Castilla-La Mancha (FOCOOP)</p>	<p>2. Inducement.</p> <p>Financial and other incentives</p>	<p>-This Order is financed 100% by the local Ministry of Castilla la Mancha, without European or national financing, is for the promotion of cooperation. Beneficiaries are agrarian cooperatives and second level or higher level cooperatives integrated by agrarian cooperatives. The lines of aid, all especially to promote the concentration and integration of cooperatives, are the following: contracting of technical personnel; technical assistance in the improvement of commercialization; financial expenses derived from integration processes in second level cooperatives or en businesses participated in by cooperatives; investment destined to improve the provision of common services in primary production.</p>
<p>Resolution EMO/1195/2011, 5 May, approving the convocation for 2011 for the concession of public subsidies for the financing of specific</p>	<p>2. Inducement.</p> <p>Financial and other incentives</p> <p>3. Capacity Building</p>	<p>-Objective is to open the concession of subsidies directed at the financing of training programs directed at employed workers promoted by the Consortium of Continuing Education and Training of Catalonia.</p>

<p>intersectoral training plans for the social economy, and sectoral training directed at occupied workers that promote the Consortium of Continuing Education in Catalonia.</p>		
<p>Order of 26 February, 2003, of the local ministry of Justice, Employment and Social Security (Basque Country) providing subsidies contained in Decree 283/2000, 26 of December, which regulates support measures for employment in cooperative societies.</p>	<p>3. Capacity Building</p>	<p>-This Order establishes the framework of aid which the Basque Government through the Department of Justice, Labour (now "Employment") and Social Security, have put in practice to subsidise the substitution of workers in cooperative societies by unemployed people, striving for a double objective: on one hand, guaranteeing an income equivalent to 90% of the retirement pension to which such retiring cooperative members would have had the right, upon reaching the regulatory retirement age and on the other, the intention to encourage labour insertion in specified unemployed collectives as a consequence of the vacancy caused by early retirement of such cooperative member according to the conditions of such Decree.</p>
<p>Order of 3 of June of 2011, of the local Ministry of Employment and Social Affairs, establishing subsidies for training in Social Economy, Basque Country</p>	<p>3. Capacity Building</p>	<p>-Regulation of subsidies for training activities, research and dissemination in relation to specific aspects of the Social Economy, that are carried out in the autonomous region of the Basque Country. -Cooperatives and labour societies and other public or private entities with their place of business in the autonomous community of the Basque Country.</p>
<p>Order 3 June 2011, of the Ministry of Employment and Social Affairs, regulating subsidies for the incorporation of members into social economy businesses. Basque Country</p>	<p>3. Capacity Building 2. Inducement. Financial and other incentives</p>	<p>-Objective is to facilitate the collection of capital required when a person becomes a member worker in a social economy business. -Beneficiaries may be people who become worker members or fulltime worker and who belong to the following groups: unemployed, owners of a farm, livestock or forest areas that become cooperative members, and employees of a social economy company that converts into a worker member in such company.</p>
<p>Order 3 June, 2011, of the Ministry of Employment and Social Affairs, establishing subsidies for the consolidation of associative structures for</p>	<p>2. Inducement. Financial and other incentives 3. Capacity Building</p>	<p>-The Regulation of subsidies for the consolidation of associative structures for social economy entities in the autonomous community of the Basque Country. The subsidies are directed at the financing of costs related to the maintenance and consolidation of associative entities.</p>

<p>social economy businesses and entities in the autonomous community of the Basque Country</p>		
<p>Order 3 June 2011, of the local Ministry of Employment and Social Affairs, for the articulation of subsidies for entrepreneurship in the Social Economy in the Basque Country.</p>	<p>2. Inducement. Financial and other incentives 3. Capacity Building</p>	<p>-Regulation of subsidies for: 1.- the promotion and constitution of social economy businesses and the diffusion of the entrepreneurship culture. 2.- The accompanying technical and economic-financial study necessary to develop inter-entrepreneurship projects. 3.- The carrying out of activities necessary for the planned territorial promotion of social economy businesses. Amongst possible beneficiaries are cooperative and labour societies.</p>
<p>Order 3 June 2011, of local the Ministry of Employment and Social Affairs, for the articulation of subsidies for the realisation of investments in Cooperative and Labour Societies of the autonomous community of the Basque Country.</p>	<p>2. Inducement. Financial and other incentives</p>	<p>-Regulation of subsidies for the financing of interest payment on loans made for the purpose of investing in the amplification or consolidation of cooperative or worker societies in the Basque Country. Cooperative and worker societies of a small size can access such financing, following the criteria established in the Order.</p>
<p>Order 14, April, 2009, of the local ministry of Agriculture, Fishing and Alimentation, approving the Regulatory bases for aid for Valencia agricultural cooperatives</p>	<p>3. Capacity Building 2. Inducement. Financial and other incentives</p>	<p>-The object of this Order is to approve the basis upon which the concession of aid to agrarian cooperation is regulated and the convocation for 2009 for the same. Beneficiaries may be: a) agrarian cooperatives and businesses of other types in which cooperatives have a majority interest, always subject to the condition that the activity maintained is in connected to rural development related to the agrarian and alimentary sector; b) the representative organisations of agrarian cooperation. In addition, the beneficiaries must have their business domicile in the autonomous community of Valencia. -Auxiliary activities are those which fall within the following measures: a) modernisation of business management, b) constitution of new cooperatives and diversification of activities in existing cooperatives c) cooperative integration and d) business growth and capitalisation.</p>

Table 5.31 Policy Measure Description–Specific to cooperatives.

Policy Measure Name	Policy Measure Type	Description of agricultural cooperative relevance
Sustainable Development of the Rural Environment Law 45/2007, 13 December	2. Inducements Economic incentives 3. Capacity Building	-This law sets out actions to promote agriculture which is compatible with sustainable rural development, giving preferential treatment to agricultural professionals and priority to titleholders of farm lands. In addition, it promotes the adoption of measures by Public Administrations focused on economic diversification, support for the creation of businesses, self employment and cooperative employment. -Prioritises activities carried out by associative entities.
Law 38/1994, 30 December, regulating Agricultural Interprofessional Organisations	1. Mandate. Incorporation law	-Applicable to the agricultural inter-professional organisations at the national level or a level superior to that of an autonomous community. The object of the law is to regulate the recognition of such entities and bestow a private legal identity and the powers that is inherent in such status, such as the agreements into which they enter.
Royal Decree 705/1997, 16 May, approving Regulation of Law 38/1994 of 30 December, regulating Agro Alimentary Interprofessional Organisations, as modified by Law 13/1996, 30 December, of tax, administrative and social order measures.	1. Mandate. Legislation	-This Regulation advances significantly Law 28/1994 of 30 December, regulating Interprofessional Organisations.
Law 2/2000, de 7 January, regulating contract types of the agro alimentary products.	5. Other	-Object is to regularize the homologation of agro alimentary contracts whose ambit of application extends beyond on autonomous community, such contract capable of being adapted if voluntarily agreed. Establishes the procedures for homologation, stating the necessity to verify that it meets the stated goals of the law and does not breach the objects provided for therein.
Resolution 27 March, 2009, of the General Directorate of Industry and Alimentary Markets, establishing measures to promote innovation in agrarian and agro alimentary businesses.	3. Capacity Building	-The agreement establishes measures to promote innovation in agrarian and agro alimentary businesses through interest incentives of the credit lines of the National Institute of Official Credit known as “ICO” such as ICO-PYME 2009-for small and medium enterprises, ICO-Crecimiento Empresarial 2009-for business growth, ICO-Emprendedores 2009-for entrepreneurs and ICO-Internacionalización 2009 del Instituto de Crédito Oficial-for internationalization, ICO-Liquidez (Liquidity) 2011, and others.
Resolution of 27	3. Capacity	-Object to hold convocations for subsidies for the carrying

January 2010, of the Secretary of State for Rural and Water Affairs, allowing for convocations in relation to subsidies for programs of information and promotion of agricultural products in third countries.	Building 2. Inducement. Financial and other incentives	out of information and promotion programs for agricultural produces in third countries. -Professional and interprofessional organizations representing the agro alimentary sector in Spain are beneficiaries of such programs as they carry out such activities.
Royal Decree 457/2010, of 16 of April, regulating the concession of subsidies for the renewal of the national industrial area of agricultural machinery.	2. Inducement. Financial and other incentives 3. Capacity Building	-Objective to promote the renewal of a national industrial area of tractors and agricultural machines to improve work conditions, achieve better energy efficiency and have a lower environmental impact. Amongst other who can be beneficiaries: agricultural cooperatives, CUMAs, agricultural worker cooperatives and SATs
Order ARM/1428/2011, 25 May, establishing the bases for and convocations for aid to livestock farm owners to facilitate Access to financing. (Recurring convocations)	2. Inducement. Financial and other incentives	-Establishes the regulatory bases and the convocations for the concession of aid destined for bearing the cost of necessary guarantees for the obtaining of loans for owners of livestock farms to improve and modernise the production structures of agriculture businesses.
Order of 30 January 2008, regulating the measures of support for the realisation of preliminary studies for integration of and cooperation between agro alimentary businesses with the goal of concentration of offer, within the framework of the Rural Development Plan of Andalusia 2007 to 2013,	3. Capacity Building 2. Inducement. Financial and other incentives	-This program is available for the realisation of preliminary viability studies for the creation and development of commercial structures that integrate existing companies through mergers or cooperation in relation to investment projects for the modernisation, amplification, transfer, equipping and/or reforming of existing commercial establishment to accommodate the new commercial structure. -Micro-businesses and agro alimentary SMEs of Andalusia which demonstrate their intention to constitute a commercial structure of cooperation or integration amongst themselves to achieve the same end may be eligible applicants under the program.
Order 9 December 2008, establishing	3. Capacity Building	-Promotion of innovation and business development, in particular in the creation of businesses and their

the regulatory bases for a Program of Incentives for the Promotion of Innovation and Business Development in Andalusia and the holding of a convocation for the same for the years 2008-2013	2. Inducement. Economic incentives	modernisation, the competitiveness of cooperatives, research and development and business innovation.
Order 31 July 2009, establishing the regulatory basis for the concession of subsidies for the modernization of agrarian exploitations in the framework of the Program for Rural Development of Andalusia 2007-2013.	3. Capacity Building 2. Inducement. Economic incentives	-The object of this aid is to establish non-refundable incentives for the modernization of agricultural exploitations which are owned, amongst others, by cooperatives or by SATs.
Order 26 July 2010, establishing the regulatory bases for the concession of subsidies for the transformation and commercialization of agricultural products in the framework of the Program for Rural Development of Andalusia 2007-2012	3. Capacity Building 2. Inducement. Economic incentives	-Agricultural companies dedicated to the transformation and commercialisation of agricultural products for investments directed at increasing added value of products and acquiring innovative and environmentally friendly technologies.
Resolution 9 August 2010, of the local Ministry of Rural Areas and Fishing, providing subsidies for the modernisation of agricultural farms and the first placement of Young farmers in the Principe of Asturias	3. Capacity Building	-Convocation of subsidies for the modernisation of agricultural farms and the placement of young farmers.
Order of 21	3. Capacity	-Concession of subsidies, pursuant to competitions, of

December 2007, of the local Ministry of Agriculture, establishing regulatory basis for the concession of subsidies to promote the production and commercialisation of agro alimentary products of differentiated quality	Building 2. Inducement. Financial and other incentives	subsidies for the promotion of production and commercialisation of agro alimentary products of differentiated quality . -Beneficiaries can be owners of agricultural farms or the agro alimentary industry located in the territory of the autonomous community of Castilla La Mancha .
Order of 23/07/2009, of the local Ministry of Agriculture and Rural Development, which establishes the regulatory bases for the increase of added value of agricultural product and the promotion of agro alimentary quality (FOCAL) (Community of Castilla-La Mancha)	2. Inducement. Financial and other incentives 3. Capacity Building	-Concession of aid to agro alimentary businesses that attempt to increase their added value through investments that are related to the transformation and/or commercialisation of specified products . -This aid is available to both physical and legal persons that transform and/or commercialise agricultural products in establishments within Castilla-La Mancha . The point system upon which aid is granted is an objective system according to a competitive process. However, within such 15 point system, 5 of such points are related to projects proposed by cooperatives or inter-cooperative agreements and one of the criteria of the point system is the prioritisation of the olive oil and wine sectors .
Order AYG/691/2009, of 24 of March, approving the regulatory bases for the subsidies for the transformation and commercialisation of agricultural, wild and alimentary products, in Castilla y Leon .	3. Capacity Building 2. Inducement. Financial and other incentives	-Subsidies for the promotion of productive investments and the improvement of competitiveness in the area of transformation and commercialization of agricultural, wild and alimentary products in Castilla and Leon. -Beneficiaries can be physical persons or legal persons, including SATs that are involved in processes of industrialisation and/or commercialisation of products obtained and/or made in the territory of Castilla and Leon.
Order AYG/695/2011, 6 of May, for the convocation of subsidies, co-financed by the European Agricultural and Rural Development	3. Capacity Building	-Subsidies included in this Order are: a) Modernisation of agricultural farms (investments in farms through plans for improvement and investments for the efficient use of irrigation water. b) Placement of young farmers .

<p>Fund (FEADER), in the improvement of production structures and the modernisation of farms, in the application of Council Regulation (EC) 1698/2005 and subsidies financed by the autonomous community of, for the carrying out of other investment in agricultural farms in Castilla and Leon.</p>		
<p>Order "Foral" 8E/2011,10 of June of the local Ministry of Rural Development and Environment, for the establishment of subsidy rules and regulations for the creation of agro food micro-businesses, in the framework of the Program for Rural Development of the territory of Navarra 2007-2013, and the approval of the convocation for 2011-Autonomous Community of Navarra.</p>	<p>2. Inducement. Financial and other incentives 3. Capacity Building</p>	<p>-Measure directed at the creation and development of agricultural micro-businesses through the subsidy of investments and/or expenses of setting up a new project that is based on the utilisation of primary agricultural materials and/or in the provision of agricultural services or which has as a final goal a product or service which supports agricultural or agro alimentary activity in general in the territory of Navarra.</p>
<p>Order 26 July 2010, establishing the regulatory bases for the concession of subsidies for the transformation and commercialization of agricultural products in the</p>	<p>3. Capacity Building 2. Inducement. Economic incentives</p>	<p>-Agricultural companies dedicated to the transformation and commercialisation of agricultural products for investments directed at increasing added value of products and acquiring innovative and environmentally friendly technologies.</p>

framework of the Program for Rural Development of Andalusia 2007-2012 and the convocation of the same for 2010		
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Table 5.32 Policy Measure Description–Specific to an agricultural subsector.

Policy Measure Name	Policy Measure Type	Description of agricultural cooperative relevance
Royal Decree 104/2008, 1 of February, which established the regulatory bases for the concession of subsidies to groupings of producers in the sheep and goat sector	2. Inducement. Financial incentives	-Establishment of the regulatory bases for the concession of subsidies, subject to a competition , to promote the reform and adaptation of the sheep and goat sector during the 2008-2012 period, through the grouping of producers . The adoption of such measures in this sector is advisable in order to avoid the decline in the farming activities. Groupings of livestock keepers are an ideal method of reform and adaptation as it is the most efficient form to organize the offer.
Royal Decree 1972/2008, 28 November, re: recognition of organisations of producers of fruits and vegetables	1. Mandate. Incorporation law	-Establishes the basic rules for the recognition of organisations of fruit and vegetable producers and associations of organisations of producers . -To guarantee the correct execution of the activities of such organisations in terms of duration and efficiency of concentration of offer , the decree establishes categories of products among which the organisations must choose in order to be recognized . It also regulates: assignment of votes, terms upon which its members, subsidiaries or external services can provide the necessary measures to carry out their functions, concretize the procedure and the conditions which are necessary for such recognitions, the activities which can be carried out by such associations, etc. -An organisation of producers must be, in any case, an associative entity constituted on the initiative of the producers.
Royal Decree 244/2009, 27 February, for the application of measures of the program of support for the Spanish viticulture sector	1. Mandate. Incorporation law, and market regulation and competition policies 2. Inducement. Financial and other incentives 3. Capacity Building	-Development of program of support for the Spanish viticulture sector for the application of the new normative framework with the object to contribute to competitiveness . The Royal Decree regulates aspects related to the promotion in third country markets, restructuring, reconversion of vineyards, distillation of sub-products, distillation for consumption and also for specified circumstances.
Resolution 27 March, 2009, of the General Directorate of	3. Capacity Building	-The agreement establishes measures to promote innovation in agrarian and agro alimentary businesses through interest incentives of the credit lines of the National Institute of Official Credit known

Industry and Alimentary Markets, establishing measures to promote innovation in agrarian and agro alimentary businesses.		as "ICO" such as ICO-PYME 2009-for small and medium enterprises, ICO-Crecimiento Empresarial 2009-for business growth, ICO-Emprendedores 2009-for entrepreneurs and ICO-Internacionalización 2009 del Instituto de Crédito Oficial-for internationalization, ICO-Liquidez (Liquidity) 2011, and others.
Royal Decree 1302/2009, 31 July, re: funds and operating programmes of F&V producer organisations.	2. Inducement. Financial incentives	-Establishes the basic norm in relation to the funds and operative programs in development of Council Regulation (EC) n. 1234/2007 -Agricultural Common Market Organisation (CMO) and it establishes specific dispositions for certain agricultural products (Single CMO Regulation) and the Regulation (EC) no. 1580/2007 of the Commission in which they establish the disposition of the application of Council Regulations (EC) n. 2200/1996, (EC) 2201/1996 and (CE) no. 1182/2007, in the sector of fruits and vegetables.
Resolution of 8 April 2011, of the General Management of Agricultural Productions, providing for convocations of subsidies for the groupings of producers in the sheep and goat sector of Castilla-La Mancha in 2011	2. Inducement. Financial and other incentives	-The object of this resolution is the carrying out of a convocation for 2011, in a competitive process, of subsidies for the promotion of the reform and integral suitability of the sheep and goat sectors through the grouping of producers , in the framework of the base regulations of these subsidies approved by Royal Decree 104/2008 of the 1 of February (which established the regulatory basis for the concession of subsidies for such action) and by the local Ministry of Agriculture for Castilla La Mancha by Order of 20/05/2008 for the such activity. -The subsidised investments must follow one of the following priority objectives: the reduction of production costs, the improvement of the reorientation of production; the improvement of quality; the preservation and improvement of the natural environment; or the improvement of the conditions of animal health and well being. -Beneficiaries may be: groupings of producers in the sheep and goat sector located in the autonomous community of Castilla La Mancha , which meet the relevant requirements of the Resolution.
Order 9/2011, 3 of March of the local Ministry of Industry, Commerce and Innovation, regulating subsidies in the areas of internationalisation and promotion in 2011, Community of Valencia.	3. Capacity Building 2. Inducement. Financial and other incentives	-Objective of this Order is the establishment of system for the concession of subsidies with the purpose of supporting the internationalization of businesses and the promotion of products from the Community of Valencia. As well, it contributes to promotional activities that aid growth and the consolidation of presence in international markets. -Beneficiaries may be business associations, and Regulatory boards related to certification of origin, both related to the Community of Valencia and consortiums, promotion groups and SMEs with legal personality located in the Community of Valencia.

Royal Decree 1337/2011, of October 3 regulating funds and operating programs for OPFH	2. Inducement. Economic incentives	Establishes the Spanish norm in relation to funds and operating programs for POs re: Commission (EC) Reg.1234/2007 of Oct.22 creating an OCM , and establishing provisions for specific agricultural products ; and also executing Commission Regulation (EU) 543/2011 of June 7 establishing the application of Council Regulation (EC) 1234/2007 in the transformation of products in the fruit and vegetable sector. <i>*Note- of particular importance to agricultural cooperatives</i>
Olive Farm Law - Andalucía 5/2011 approved 28,29 of September, 2011	1. Mandate. Legislation 3. Capacity Building	Recent Andalusian law establishing framework to improve olive cultivation and to facilitate sustainable development as well as to improve quality and promotion of product.

Table 5.33 Policy Measure Description–Applicable to business in general.

Policy Measure Name	Policy Measure Type	Description of agricultural cooperative relevance
Royal Decree395/2007, 23 March, regulating subsystems for professional training for employment.	3. Capacity Building	-Objective is to regulate the distinct training initiatives that make up professional employment training , its system of operating and financing as well as organisational structure and participating institutions.
Plan of Initiation for Foreign Marketing (PIPE)	2. Inducement. Financial and other incentives 3. Capacity Building	-The Plan for the Initiation of Foreign Marketing (PIPE) is the first program on a national level aimed especially at Spanish SMEs that seek commercial development through exports.
ICEX-ICO Agreement- Financial Support for exporters through the (official state line of credit) ICO-LIQUIDEZ 2011	2. Inducement. Financial and other incentives 3. Capacity Building	-ICEX has entered into a collaboration agreement with ICO, the official state credit institute , creating a section of Financial Support for the Exporting sector through the line of credit "ICO-LIQUIDEZ 2011".
Payment Insurance in the framework of the Initiation Plan for Foreign Promotion (PIPE)(see above)	2. Inducement. Financial and other incentives	- Insurance policy for export credit designed especially for SMEs belonging to the PIPE club that are attempting to consolidate their activities in the exterior.
Order 9 December 2008, establishing the regulatory bases for a Program of Incentives for the Promotion of Innovation and	3. Capacity Building 2. Inducement. Economic incentives	- Promotion of innovation and business development , in particular in the creation of businesses and their modernisation, the competitiveness of cooperatives, research and development and business innovation.

Business Development in Andalusia and the holding of a convocation for the same for the years 2008-2013		
Decree 335/2009, 22 September, regulating the Ordering of Professional Training for Employment in Andalusia.	3. Capacity Building	-Objective is the regulation of Professional Training for Employment in Andalusia and its functioning and financing.
Program of the Andalusian Agency for Foreign Promotion (EXTENDA – Regional Government of Andalusia)	3. Capacity Building	-EXTENDA offers an wide range of programs and services with the objective of increasing the number of Andalusian companies in the process of internationalisation , improving the international position of Andalusian companies that are already active in such process and increasing the foreign Andalusian investment
Resolution of 28 April, 2011, of the Institute for Economic Development of the Principe of Asturias, approving aid for the concession of subsidies within the program of Support for SMEs (InnoEmpresa)	3. Capacity Building	-Objective to concede subsidies through a competitive process to regional projects en the Principe of Asturias , within the program of support for innovation in small and medium businesses . The subsidies are for innovation and advanced management, technical innovation and quality and collaborative innovation . Cooperatives may be amongst the beneficiaries.
Programme of commercial strategy with multilateral organisations- Foundation ADEuropa and Castilla and Leon.	3. Capacity Building 2. Inducement. Financial and other incentives	-Program of Subsidies for the Support of Plans for Growth in the Exterior , offering support to businesses in the region of Castilla and Leon and their process of foreign establishment. -beneficiaries of this support can be those companies which have a more advanced level of internationalisation
Order 9/2011, 3 of March of the local Ministry of Industry, Commerce and Innovation, regulating subsidies in the areas of internationalisation and promotion in 2011, Community of Valencia.	3. Capacity Building 2. Inducement. Financial and other incentives	-Objective of this Order is the establishment of system for the concession of subsidies with the purpose of supporting the internationalization of businesses and the promotion of products from the Community of Valencia . As well, it contributes to promotional activities that aid growth and the consolidation of presence in international markets. -Beneficiaries may be business associations, and Regulatory boards related to certification of origin, both related to the Community of Valencia and consortiums, promotion groups and SMEs with legal personality located in the Community of Valencia.

*Note should also be taken of a current draft **Law on Measures to Improve the Functioning of the Alimentary Supply Chain** (“Proyecto de Ley de medidas para la mejora del funcionamiento de la cadena alimentaria”) presented on July 5, 2011 by the Ministry of Environment and Rural Development. Its objective is to improve the **balance of the food supply chain for the benefit of consumers and operators**. It is aimed towards strengthening the agro food producer sector through **interprofessional organisations and the use of contracts** to reinforce the agro food industry by improving its competitiveness, promoting its role in the supply chain and attempting to achieve a better equilibrium in commercial relations. Whether this law will prove effective is a matter of opinion: **agricultural cooperatives point out that it will be difficult indeed to lodge a complaint against one’s client.**

Table 5.34 Selected EU Policy Measures.

Selected European Policy measures
Council Regulation (EC) no. 1234/2007 22 October 2007 creating CMO for agriculture
Regulation (EEC) no. 1360/78 ,19 June 1978, regarding producer groups and their associations.
Council Regulation (EC) no. 952/97, May 20 regarding producer groups and their unification,
Council Regulation (EC) no. 1257/99 May 17, 1999 re: local development –European Funds for Orientation and Agricultural Guarantees (Fondo Europeo de Orientación y de Garantía Agrícola (FEOGA))
Council Regulation (EC) no. 1698/2005 September 20 2005 regarding rural development through FEADER
Regulation (EC) no. 1974/2006, December 15, 2006 providing for the application of Regulation (EC) no. 1698/2005 regarding FEADER
Council Regulation (EEC) no. 355/77, February 15, 1977, regarding improving conditions for the transformation and commercialisation of agricultural products.
Council Regulation (EEC) no. 866/90 March 29,1990 regarding improving conditions for the transformation and commercialisation of agricultural products.
Council Regulation (EC) no. 951/97, May 20, 1997 regarding improving conditions for the transformation and commercialisation of agricultural products.
Council Regulation (EC) no. 1290/2005 June 21,2005, regarding financing of PAC
Council Regulation (EC) no. 1435/2003 July 22, 2003 regarding European Cooperative Society Statute.
Council Directive 2003/72/EC July 22 , 2003 regarding implication of workers in European Cooperative Societies.

5.7.3 Summary of legislative and regulatory initiatives

Cooperative Legislation Mandates

Spain has a Constitutional mandate for cooperatives (as does Italy, Portugal and Hungary) (Fici, 2013). Mandates include the cooperative laws, at the national level and at the level of most of the autonomous communities (regional). If an agricultural cooperative carries out

the majority of their activity in one autonomous community then they are governed under the regional cooperative legislation, not the national legislation. Most cooperatives are formed under regional laws.

Mandates also include cooperative registries, which are important for tracking the activity and weighing the importance of agricultural cooperatives.

As evident in the chart above, regional cooperative laws have been passed at various times, as well as the requirements for registries. There is a trend towards “modernizing” laws, thus allowing for third party investors, proportional voting rights and provisions for distinct classes of members, member-investors and as well provisions which allow for financing alternatives (bonds, preference shares). The recent Andalusian cooperative law will be dealt with in Chapter 6 in more detail, as an example of such “modernizing” changes.

As well, there are some interesting developments in the recognition that a “one size fits all” law is not appropriate and special laws for small cooperatives can be found in Extramadura and the Basque Country. Galicia has a special provision for family businesses allowed as members. Castilla La Mancha not only recognizes the social object of cooperatives, but has provided for the ability of agricultural cooperatives to carry out a wide range of activities such as rural tourism, environmental activities, sustainability projects, cultural activities, restructuring of rural communities, etc.

Mandates also include the SAT law at the national level and as can be seen in Aragon, SAT legislation at the regional level has been introduced.

The European Union law for Cooperative Societies has not been utilized as of yet by the agricultural sector.

Cooperative Legislation Inducements

Inducements include tax laws on both the national and the regional level, resulting in different tax regimes for each area. Of note is the fact that the national tax law recognized the concept of group cooperatives in 1992 through consolidated tax liabilities and a consolidated tax base.

Subsidies are available in many autonomous communities for modernization and innovation. Financial aid for cooperative integration and consolidation are important initiatives, on the state level in 2011 and on various autonomous community levels.

Cooperative Legislation Capacity Building

In general capacity building includes training and labour insertion initiatives. Export initiatives can be seen in various regions. In particular the Basque Country is strong on capacity building with early retirement/replacement with young farmer schemes, research and dissemination on cooperative funds, assistance with funding capital requirements by new members and access to financing for interest payments, as well as export assistance.

Agricultural Business Legislation (which affect agricultural cooperatives) Mandates, Inducements and Capacity Building

As an attempt to rise above regionalism, mandates on the national level include agricultural inter-professional organisations on a level superior to that of an autonomous community. As well, in order to bridge autonomous communities, mandates include a homologation of contracts entered into by enterprises in different jurisdictions.

Inducements provided include: ICO credit lines for innovation, internationalisation, entrepreneurship, promotion in third countries, provision of guarantees, funds for viability studies for integration and mergers, environmentally friendly technologies, processing (thus adding value downstream) and farm equipment industry parks. Navarra provides financing for agro “micro businesses”.

Capacity building involves modernisation of farms and the encouragement of young farmers.

Agricultural Subsector Legislation (which affect agricultural cooperatives) Mandates, Inducements and Capacity Building

Various subsectors enjoy specific programs that meet sub-sector needs. These are generally inducements or capacity building measures which have to do with restructuring and innovation and promotion.

The special regime for F&V is of interest, as it is considered for the most part to be a successful policy. It should be emphasised that it is based on the grouping of producers. While not all producer organisations are cooperatives, the majority of them are. If they are not cooperatives, many of them are SATs which share some PO features of agricultural cooperatives.

The recent Olive Farm Law attempts to balance the interests of traditional farms, which tend to be more sustainable and contribute to rural sustainability and modern farms which are more productive.

Business Laws in General (which affect agricultural cooperatives)

General business laws have to do with professional training, SME and exports, export credits, innovation and internationalisation. While not for cooperatives specifically, they have been very useful. The challenge for cooperatives is to take more advantage of these measures.

5.7.4 Competition Law and Agricultural Cooperatives⁵⁹

The essential Spanish competition law is the Defense of Competition, 3 of July 2007, which prohibits collusionary practices, the abuse of dominant position and disloyal acts of competition which affects the public interest and controls with distinct mechanisms the processes of concentration and public aid.

In principle, these provisions are applicable to all economic sectors and activities, including the agricultural sector and those agreements which can be entered into amongst the economic actors therein (e.g. cooperatives and/or producer organizations).

There is no doubt that the agricultural sector falls within the competence of the national competition law, as the prior 1989 Law in Defense of Competition eliminated all references to the inapplicability of competition law to the agro alimentation sector which had been in the 1963 Law. However, there has never been a process of cooperative/PO legislative adaptation in order to adequately adapt the competition legislation in Spain.

A distinct question and one of interest for the agro alimentation sector, concerns future modifications of the EU community norms, in particular Regulation 1234/2007 of the OCM Single Payment, in relation to the reach of these norms to cooperatives/POs with respect to the representation of their members and the collective negotiation of their products.

Law 15/2007 of the Defense of Competition does not contain any specific provision in relation to the agricultural sector in general or to cooperatives in general. The old Treaty of the European Community and now, the new Treaty on the Functioning of the European Union, (Chapter 1 of Title VII, arts. 101 to 109) did not establish any safeguards or refer to any economic sectors in particular. The Treaty for the Functioning of the European Union establishes in art. 42.1 (old art. 36 of the European Community Treaty) that the Council

⁵⁹ Special thanks to Cooperativas Agroalimentaria legal department for explanation of competition law and agricultural cooperatives.

and the European Parliament can establish waivers to community competition laws with respect to the production and commercialization of agricultural products through the establishment of regulations, taking into account the objective of art. 39 of the present legislation (art. 33 of the old), relative to the Common Agricultural Policy (CAP).

In accordance with this provision, there are two community regulations that establish the relation between the community competition and those of the agricultural sector: (Regulation 1234/2007, Council, Oct. 22, 2007, which creates a common organization for agricultural markets and which establishes specific dispositions for determined agricultural products (Regulation of the Organised Common Market "OCM" Single payment) and Regulation 1184/2006, relative to the application of determined norms concerning competition of the production and commercialisation of agricultural products. Each of these Regulations are applied in relation to determined agricultural products listed in Annex 1 of the Treaty for the Functioning of the European Union. However, the dispositions provided for in each of these norms in relation to the application of competition rules are essentially the same.

Thus, in analyzing these regulations, art. 102 of the Treaty for the Functioning of the European Union relative to the abuse of dominant position is clearly applicable to the agricultural sector. To establish the non applicability of article 101 in relation to agreements between operators, one has to take note of certain conditions about which the EU and the Court of Justice has interpreted repeatedly in an absolutely restrictive sense.

Subject to competition laws, both national and EU, the Spanish National Competition Commission, supports the creation of cooperativism through agreements amongst producers. This is understood to mean that there are diverse forms in which agricultural producers can increase their negotiating power through associative agreement: for example, agreements in relation to joint production, joint warehousing or commercialization. These agreements will be in accordance with the competition regulations when they comply with a series of requirements, in general related to the creation of economic efficiencies. On the contrary, such actions will be considered to be anti-competitive when they result in limitations to production, sharing out of markets and price fixing. The problem for cooperatives is that their unique characteristics of functioning like a "network" and not a fully integrated firm puts them at a disadvantage and the competition authorities may see for example "price fixing" in the slightest move.

In all cases, transactions of concentration are provided for in Law 15/2007 Defense of Competition (art. 7-10 and 55-60 LDC) and apply to both agricultural cooperatives and

SATs. According to this law, economic concentrations are subject to obligatory and prior notification and National Competition Commission, and subject to the obligation of suspension (non-execution) until authorisation has been obtained, if the threshold provisions of art. 8.1 of such law have been reached. That is, when as a consequence of a transaction: an amount equal or superior to 30% of the national market has been acquired or increased; or within the national market, relative to a product or service such percentage has been reached; or the volume of global business in Spain together with the participants in the transaction, exceeds in the last accounting period the amount of 240 million Euros, and the volume of individual business in Spain of at least 2 of the participants exceeds 60 million.

5.7.5 Cooperative Tax Laws⁶⁰

A special tax regime applies to cooperatives wherein they receive a specific protective treatment- Law 20/1990, 20 of December-Tax Regime for Cooperatives (TRC), the basis of which is found in the Spanish Constitution. The cooperative tax regulations in Spain are both technical regulations and incentive regulations. The technical regulations “adjust” the inherent peculiarities of the cooperative form and function. The incentive regulations provide for specific tax benefits meant to benefit the cooperative entity.

The taxes for which a special treatment for cooperatives is contemplated are:

1. Corporations Tax
2. Tax on capital transfers and documented legal transactions
3. Two taxes with a local application—the Trade Tax and Immovable Property Tax.

The autonomous communities of the Basque Country and the Community of Navarra have a tax system and regulate particular tax benefits for cooperatives in their territory, but there are not substantial differences with respect to the tax treatment between such territorial laws and the national law.

The cooperatives have a special tax regulation that allows them to enjoy certain tax benefits. These tax benefits depend on whether the cooperative complies with a series of financial, economic and social requirements.

There are 3 categories of taxation for cooperatives:

⁶⁰ Chapter 5.7.5 relies on Aguilar (2010a, 2010b) and Vargas and Aguilar (2006) and updates from M. Aguilar in correspondence. A special thanks for providing clarity on cooperative tax issues.

1. Non protected cooperatives: which do not obtain any tax advantage simply by virtue of being a cooperative.

2. Protected cooperatives: cooperatives which fit within the requirements of the national cooperative law or one of the autonomous community cooperative law and which do not fall within any of the excluded causes enumerated in such autonomous or national law. In such protected cooperatives the benefits are as follows:

Corporation Tax: tax reduced to 20% base rate for cooperative results and in general 30% for the extra-cooperative results; ability to choose method of amortization with respect to fixed assets acquired within the first 3 years.

Waiver of the Tax on capital transfers and documented legal transactions: for the constitution of the cooperative, amplification of capital, mergers or splits/divisions; for the acts of constitution and cancelation of loans; for the acquisition of property and rights that are included in the pursuit of the objectives of the Education and Promotion Fund ; trade Tax and Immovable Property Tax which applies to rustic property of the agricultural cooperatives and of the common exploitation of the land: a 95% rebate of the amount and charges (with the possibility of a provincial rebate for the Trade Tax).

3. Especially Protected Cooperatives: have a more favourable tax treatment than those simply protected and requires that the cooperative must meet a series of conditions. Agricultural cooperatives (and community exploitation of land entities) are included in such category when they comply for example with limiting transactions with third parties or when physical persons who own agricultural land group together (e.g. Art. 9 and 10). They have the same benefits as protected cooperatives and in addition:

- Tax on capital transfers and documented legal transactions: waiver in acquisitions of property and rights directly related with carrying out their social goals

-Corporation Tax: tax waiver of 50% of the amount, and waiver of 80% of the amount for priority associative exploitation which are specially protected agricultural cooperatives.

To obtain tax benefits cooperatives need to be classified as protected or specially protected. The constitution of a cooperative anticipates that its tax consideration, in principle, is protected. However, in the carrying out of its activities, a variety of situations may result in the loss of such status:

1. Non compliance with the regulation and the principles of the obligatory funds.

2. Non compliance with the regulations governing economic activities
3. Non compliance with the requirements derived from the principle of mutuality
4. The winding up of the cooperative

As well there are restrictions derived from indirect tax pressures from which cooperatives suffer, for example, the requirement to separate the accounting results of the operations with members and with non-members. The administrative cost that this implies and the added complexity of cooperative management is a special handicap for small and medium cooperatives.

The European Cooperative Society domiciled in Spain is regulated by Law 3/2011 of 4 of March. In the absence of a specific tax provision, such regulation assumes the application of the Corporation Tax law, according to which such cooperatives would be subject to such tax when they have their residence in Spanish territory. As such, they would be responsible for the total income that they obtain, independently of the place in which it was produced and the residence of the payor.

Chapter VIII of the Corporate Tax law regulates a special optional regime applicable to transactions which change the social domicile of a European Cooperative Society from one member state to another member state, with respect to property and rights situated in Spanish territory which are later affected by a permanent establishment in such territory.

The legal and economic structure of cooperatives result in a series of limitations that in large part derive from the cooperative principles and restrictive concepts about cooperatives and cooperativism. There are various reasons to think that the cooperative tax system in Spain is obsolete and does not establish sufficient tax benefits which compensate the limitations which are a result of cooperative organizational structure, functional and operational limitation and financial limitations (Vargas and Aguilar, 2006).

Certain “para-fiscal” charges, such as separate accounting for cooperative and extra cooperative results or the limitation on transactions with third parties, do not compensate for the fiscal treatment. In fact, some of the prescribed benefits in the cooperative tax regime, such as the waivers with respect to the constitution of the entity, the amplification of capital, mergers and splits/divisions and with respect to the cancelation of loans, are not exclusive to cooperatives but also can be utilized by other economic entities.

The general rate of tax under the Corporation Tax law has been reduced in recent years, which has resulted, in comparative terms, in a prejudice against cooperatives, given that

the general reduce tax rate of 20% has remained unchanged. As well, not all companies pay the general tax rate, as there are other reduced rates as well for various types of companies.

Questions about the continuity and/or the reform of the Spanish cooperative tax regime include:

First, there has been an accounting reform whose provisions concerning cooperatives have come into force in December 2010 (Order EHA/3360/2010) in which cooperative society accounting norms have been approved) which, together with various elements of the economic structure of cooperatives, could carry consequences in the tax treatment of the same.

Secondly, there is a pending procedure in the European Commission that commenced in 2000, base on an action brought by 2 service station business associations (Madrid and Catalonia) against certain measures introduced by Royal Decree-Law10/2000 of 6 October—in particular, the elimination of the prohibition to distribute a type of diesel fuel (for agricultural and machine use) to non member third parties by agricultural cooperatives. The European Commission appeared to have focused on the question of the tax regime of the cooperatives from the perspective of the compatibility with prohibited state aid under article 107 of the Treaty on the Functioning of the European Union (ex. art. 87 Treaty of the European Community). After a rather prolonged consideration, the Decision 2010/473/UE, of December 15, 2009, affirmed the selective nature of the tax regime of Spanish cooperatives. The decision was appealed to the General Tribunal on April 4, 2010 and an action, T-156/10, has been opened.

Thirdly, certain cooperative sectors have expressed their discontent with the current regulation, considering that various elements of the tax regime are obsolete, a poor fit and a penalty on the growth of cooperatives.

Fourthly, there is a problem related to the possible application of the regime of transactions related to cooperatives (in the version operated through the Law of Measures for Prevention of Tax Fraud) which would result in huge complexities, as there are various types of transactions susceptible to be considered so “related”—e.g. those of cooperatives with partners in the carrying out of social ends, those that interact amongst themselves without attention to social goals; those carried out by cooperatives of the same group—and for the necessity to separate income streams for tax reasons of cooperative and extra-cooperative transactions.

All of this led the Confederation of Spanish Social Economy Enterprises to order the drafting of a proposal for the reform of the tax regime, such proposal being finished in 2008. However, the Cooperative Tax Law has undergone very few modifications, none of any great importance, since its being brought into force more than 20 years ago, whilst the general taxation has undergone important changes pursuant to the General Tax Law in 2003 and a huge reform pursuant to the Personal Taxation law in 2006, amongst other relevant modifications.

5.8 Assessment of developments and role of policy measures

This Chapter provides a concluding assessment on the developments of cooperatives in Spain. In Chapters 5.4 the basic statistics on agriculture and farmers' cooperatives were provided. In Chapter 5.5 data on individual cooperatives were reported, especially concerning their internal governance, their position in the food chain and the institutional environment in which they operate. This led to some first impressions in section 5.5. on the performance of cooperatives in Spain in relation to their internal governance, institutional environment and position in the food chain.

In Chapter 5.6 the data gathering and analysis was broadened by looking at the differences between the sectors and the influence of sectoral issues on the performance of the cooperatives. Chapter 5.7 looked into more detail on how the regulatory framework influences the competitive position of the cooperatives in the food chain and vis-à-vis the investor-owned firms. This Chapter 5.8 assesses the (performance) developments of cooperatives and how they can be explained in terms of the building blocks (institutional environment, position in the food chain including sector specifics, and internal governance). Section 5.8.1 focuses on the explanation of the performance of cooperatives in terms of their internal governance, their position in the food chain (including sector specificities) and the institutional environment (including the regulatory framework). In section 5.8.2 an assessment is given on which policy measures in Spain seem to benefit cooperatives and which ones have a constraining influence.

5.8.1 Explaining the performance of cooperatives

In general, Spanish agri-food companies, including cooperatives, are quite competitive; Spain is one of the principle agricultural producers in Europe. The agri-food sector is one of the principle exporting sectors in Spain. Spain occupies the 5th position for food sales in the EU-27 (CIAA 2009) and is the third agricultural producer (Eurostat). However, as a whole there are some structural difficulties that must be addressed in order to remain competitive in the future. As has been noted repeatedly in this report, there are a large

number of cooperatives in Spain, the size of which range from micro-cooperatives to large cooperatives like COREN or ANECOOP. Predominantly, Spanish cooperatives fall within the small to medium company size. Hence, the results of the survey of the “top 5” speak mainly of the characteristics of the largest type of cooperatives, which are not particularly representative of Spanish cooperatives. In Chapter 5.6 data is presented from the Cooperative Questionnaires on such top-5 cooperatives. Below the performance of Spanish agricultural cooperatives is commented on, taking into account not only the observations on the small group of cooperatives surveyed in Chapter 5.5, and the information gathered on agricultural cooperatives throughout the course of this study.

Internal Governance

Spanish agricultural cooperatives tend to be excessively “presidentialist”, that is, the president wields disproportionate power. This tendency is fostered by national and regional cooperative laws. The same person is the president of the cooperative, a member of the Management Board and of the General Assembly. Such role carries important representative functions, with the risk of too much power ever-present. The President on many occasions turns into a de facto “sole representative” of the agricultural cooperative (Vargas-Vasserot, 2009; Canalejo, 2000).

Taking into account this observation and the fact that Spanish agricultural cooperatives are many and small in size, the conclusion that the scarcity of mergers and alliances and the propensity to shy away from competitive strategies or internationalisation have more to do with “human nature” (i.e. big fish in a small pond) than financial or economic reasoning is an understandable, if not necessarily “scientific”, conclusion. As well, strategic decision-making, or lack thereof, must also be considered against such background. In contrast these observations could be countered by the view that strong visionary leadership, closely connected to local communities, may also be the result of such governance structure, particularly in small cooperatives.

Internal Governance has been reviewed in Chapter 5.5 (section 5.5.4) and Chapter 5.7. Suffice to say that the legal structure and rules on the supervision by the Intervenors of the Management Board (“Consejo Rector”) barely function as a supervisory system, due to the election of its members, composition (low professionalisation) and limited powers of control over the managers. Although at first glance it appears as if the Management Board, the General Assembly and the “Intervenors, described in detail in section 5.5.4” mimic somewhat the dualistic model of German company law, the Spanish cooperative

governance model continues to be “monistic”. The Intervenors do not in reality serve as an effective control as their powers are basically limited to reviewing accounts.

Historically, cooperative governance has been strongly influenced by capitalistic models. However, since the last national cooperative law was brought into force in 1999, the law with respect to IOFs has been amended due to the influence of the corporate governance movement. These recent corporate governance amendments, particularly with respect to the incorporation of external and independent advisors, have not yet been adopted by cooperatives. To the extent that good internal governance is seen to legitimize a business entity, attract new members and foster loyalty and confidence, Spanish cooperatives are often lagging behind their IOF counterparts. As an example, cooperative legislation has not advanced on the glaring issue of gender parity in cooperative management and boards.

An amendment to the national cooperative law which represents a significant improvement to prior legislation was the provision allowing the naming of professional non-cooperative member board members. This amendment has contributed to more professional cooperative management and strategy. Remuneration of board cooperative members is still a contentious issue as the post is often unpaid and thus inhibits a more serious, focused and professional approach on the part of the cooperative.

As mentioned in Chapter 5.5, board functions in the large cooperatives subject to this study were members who were often also professionals. Outside professional non-members can be appointed within appropriate limits. However, given the sheer number and size range of Spanish cooperatives and the differences in the legislation which governs them, this cannot necessarily be taken as a given or norm and used to explain success or failure. In medium sized cooperatives a general manager (“gerente”) is often hired as professional staff to provide support to a board composed of cooperative members.

Position in Food Chain (various sectors)

The food chain in Spain is equally divided between traditional and modern marketing systems, varying within sectors. In general POs are focused on production and marketing farmers’ products, although this varies somewhat across sectors. Cooperative market share is generally high, as set out in more detail in Table 5.13. Where there is less atomization there tends to be stronger presence at all levels in the food chain and the market share of the largest entities tends to increase over time. In Chapter 5.6, we comment on sector particularities (for a more detailed discussion see Chapter 5.6 for the relevant sector). See 5.5.2 for a discussion of the individual cooperatives under study.

Through the process of mergers, promoted by the government through a system of incentives (see below in section 7.2) there is an attempt for producers to have more bargaining power vis-à-vis large distributors. Second tier cooperatives are the traditional method in which Spain has managed to concentrate production and supply. As set out in Chapter 5.5, Figure 5.31, organic growth is the preferred strategy of Spanish cooperatives (subject to this study) followed by horizontal merger, then vertical merger and lastly by international mergers. Differentiation is considered to be the preferred market strategy by the “top 5” cooperatives in each sector. Although this study was limited to a relatively very small sample, these results may be seen as representative at least of Spanish cooperatives successful in their sector.

With respect to vegetables, traditional retail accounts for 42% of the sales of vegetables, followed by large distribution chains (40%). A similar pattern is observed in the fresh fruit sector, in which small retailers market 45% of the total value of product, and modern distribution 42%. Besides farmers and retailers, the sector includes a very wide range of economic agents (about 10,000) who perform various operations along the supply chain, related to product sorting, conditioning, processing, transport, etc. (Camanzi, 2009). Large cooperatives have their own primary processing and packaging plants. Most products are sold through second tier cooperatives and there is little presence in the retail market. Significant mergers have taken place in this area in the last decade along with an emphasis on professionalisation and technological advancement, particularly in increasing production, advanced product analysis and safety, certification and integrated biological farming methods, all in an attempt to gain greater positional strength in the food supply chain.

The cereal supply to the processing industry is in the hands of three types of entities: cooperatives, wholesalers and large multinational companies with capacity for warehousing (Caton-Vázquez, 2004). The dispersed offer of cereals in Spain poses a problem in dealing with the highly concentrated agro-food industries. In general, it is made up of small and medium enterprises with the consequent high structural costs.

The majority of cooperative cereal production is commercialized through second tier cooperatives, although there are some first tier cooperatives with a significant commercial capacity. Many of the first tier cooperatives that are not members of a second tier cooperative are basically local storehouses of various products and supplies; generally they do not engage in direct sales and they often work through wholesalers of a certain size. A weakness of the sector is its lack of adequate commercialisation strategy to adapt to

demand and also to allow supply to the market throughout the whole of the year. Commercial cooperatives, with the appropriate infrastructure for storage, can plan price strategies and have the capacity to provide a steady and homogeneous supply throughout the year. Where cooperatives do not have such capacity they are forced to sell to third parties at less than optimal prices (Group AN, 2010).

The cooperative olive oil companies have little presence in retail establishments as the large agro food distribution companies control this market niche. Five buyers purchase over half the market. The small size of the sector (in relation to the size of the distribution companies) and the small and medium companies which make up the sector result in big disadvantages when competing and negotiating with large firms. In 2007, 55% of exports were still bulk sales although in recent years the cooperative oil presses are increasing the sale of bottled oil. The market share of distribution brands ("DB") averages 65% and in some categories reaches 83% (Cooperativas Agroalimentarias, 2010a).

The wine sector in general is characterised by a high level of vertical integration. A dual structure coexists wherein a small group of large dynamic companies that have managed to deal with market changes are in contrast to many companies that have not yet adapted to new and competitive markets. These small companies are dedicated only to agriculture, leaving commercialisation tasks to other companies which control this process. With respect to wine cooperatives a similar structure exists as in the general wine sector, that is, a predominance of small and medium cooperatives and a reduced number of large companies.

The structure is very fragmented and in addition there are various levels of development. Small unprofessional cooperatives are dedicated to production and do not participate in later stages of production and supply chain. They have limited negotiating power. Another group of cooperatives commercialise bottled wine although their principle activity continues to be the sale of bulk wine. Finally there is a small group of cooperatives that commercialise the product of their member with a clear professional market approach.

In light of this, the commercialization of product from cooperative wineries continues to be quite insignificant compared to the industry in general and represents one of the main problems of cooperative wineries (Melián and Millán, 2007). As well, commercialization through second tier cooperatives is also insignificant and they generally are active in the sale of bulk wine. The creation of commercial companies and the externalization of services are some of the alternatives being employed by the sector.

With respect to dairy cooperatives distribution, the most common methods are the use of non exclusive distributors and the sale to large distributors, thus reducing direct sales made by the cooperative. Intermediary importers are used for external markets. The sector is based principally on the elaboration of liquid milk (60%) while the rest is for milk products. This structure is very different than that of other large EU markets, which are based more on cheese, butter and powdered milk. The majority of packaged milk is sold to grand distributors and the distributors' brand represents 52% of internal consumption (MARM, 2009b).

The sector is characterized by significant atomization in contrast to the concentration of organized distribution. Such atomization is especially significant in production, given that 63.32% of farms hold 22% of the quota, while the remaining 78% of the quotas are in the hands of 32.83% of the farms. Since the 90s, production has been abandoned by many farms, leading to an increase in their size. The objective of such increase in size had been to improve competitiveness in the sector, but it has ended up provoking a contrary effect, producing an important increase in costs (COAG, 2010). Costs have increased due to the fact that an increase in growth has been accompanied by a greater intensity of production, thus resulting in higher costs.

There is only one sugar cooperative, ACOR, in Spain and due to the restructuring of the sugar sector, sugar production is in decline. In 2009 it established an alliance with a French cooperative group, TEREOS for the production and commercialisation of sugar in Spain, through the acquisition of 40% of its social capital. As a result from 2010, the TEREOS group carries out the commercialization of the production of both Spanish companies (the other being an IOF).

Sheep meat production is very dispersed, from many small operations to cooperatives with thousands of heads of stock. The complexity and number of actors in the commercialization in origin depends on the avenues of commercialization and whether the direct purchases are possible in the slaughterhouses. The wholesalers which carry out commercialisation in origin cover the management of the animal from the purchase from the farmer until its final transformation. The fundamental differences between the agents at the sales points lie in their size, volume and variety of product. Aside from the basic value chain, there is a difference between the traditional and modern model: in the former the butcher buys from the slaughterhouse directly and is then responsible for breaking it down and preparing it. The modern model is characterized by the presence of large

distributors at the sale point who require product which is more specialized and exacting in specifications (MARM, 2009c).

Cooperative pig production is made up of two types of cooperatives: the first are pork producer cooperatives which, as a service to the members, provide food for the animals. The second are marketing cooperatives that carry out the sale of the live animals and the products obtained after their sacrifice. The majority of marketing cooperatives are dedicated to selling live animals. Of those cooperatives that market products obtained after the sacrifice, the sale is done predominantly through channels. As there exist more restrictions and health and sanitary problems in relation to live animals than with meat and products derived from pork, cooperatives focus not only in the sale of animals but also in the production of transformed/processed/value added products. In addition, this facilitates sales and exportation. Some first tier cooperatives have united with other pork producing cooperatives, and as well with second tier cooperatives that are not dedicated to the production of pork. Currently, eight second tier cooperatives are dedicated exclusively to the production of pork.

Institutional Environment (including Regulatory Framework)

As set out in Chapter 5.7 the legal and economic regulation of cooperatives present a series of limitations with respect to other types of companies, such limitations stemming for the most part, from cooperative principles and restrictive perceptions of the concept of cooperatives and cooperation. They include: (i) limitations derived from their legal-organisational structure; (ii) functional and operative limits; and (iii) financial limitations. See in particular Chapter 5.7.3, for a full explanation of these limitations.

A central obstacle in Spain is the regulatory framework. As mentioned in section 5.3, cooperatives fall within the jurisdiction of the autonomous communities, each having their own cooperative legislation. A national law on cooperatives exists, as does a national tax law in relation to cooperatives⁶¹. Policies that influence cooperatives are enacted by both national and autonomous community governments, with autonomous governments, in most cases, channelling the various funds to cooperative organisations. For example, a cooperative wine producer in the autonomous community of Catalonia is subject to different cooperative laws than one in Castilla La Mancha and has the benefit (or not) of policies enacted at its own autonomous community level. All of this results in a lack of coordination and coherent strategy when dealing with agricultural cooperatives, particularly in regard to European agricultural initiatives. Serious improvement is needed

⁶¹ However, Basque provinces have their own tax laws.

to ensure communication and coordination between various levels of government so that European Union funds are properly used to achieve maximum efficiency and do not remain underutilised. Given the various sources of legislation, it is also very difficult to track the reasons for success or failure of cooperatives based on subsector.

In Chapter 5.3 we make reference to the institutional background and support for cooperatives contained in the Spanish Constitution and “reactivated” in the recent Social Economy Law. We describe support for cooperatives in general and therefore we will not reproduce it here (see Chapter 5.3, sections 5.3.2 and Chapter 5.4).

Historically, Spanish cooperatives possessed various characteristics which were in many ways related to the socio-economic background of agriculture in Spain:

- Atomization, the majority of which are SMEs and small cooperatives.
- Lack of market orientation, still focusing on production paradigms and finding a place to sell crops rather than contemplating a customer to which to sell a unique quality product. Implicit in this is the development of commercialisation strategies, logistics, product development, etc.
- Lack of agricultural business education and training, particularly at the production level (although technical training is increasing). This is particularly relevant when contrasted with the level of education and training at the “higher end” of the food distribution chain. High level management training is particularly lacking. Human resources and entrepreneurial training must be taken more seriously in agricultural cooperatives. In other activities of equal economic weight, much more importance is given to these issues. While the transition from peasant to business farmer, even perhaps manager, has been achieved, there is still some way to go towards developing a culture of entrepreneurial innovators.
- Tied into the above point is the difficulty in attracting both new farmers and new agricultural management as the sector is not seen as an attractive option.
- Little interest in internationalization, in spite of its tradition of exportation. There is an excessive reliance on brokers and intermediaries and Spanish companies are reluctant to make the investment necessary to locate in another country, thus limiting the ability to consolidate an international presence and add value. The top 200 agro alimentary companies in Spain in 2006 were responsible for 53% of the industry turnover

(Alimarket). The low incidence of internationalisation has much to do with these prior observations. (Boccherini 2010).

- Autonomous community competencies and regulation which has stunted inter-regional cooperation and has resulted in layers of administration and lack of policy coordination, affecting sectors which have activity in many sectors.
- Other social/cultural/historical characteristics are risk aversion, little investment in R&D and innovation, and lack of financial capitalization (Meliá y Martínez, 2011).

It is important to stress that the identification of these characteristics is not intended to negatively define agricultural cooperatives in Spain. The reality, as detailed in Chapters 5.5 and 5.6, is that many agricultural cooperative sectors have experienced impressive success, and various cooperatives and second tier cooperatives have been able to modernise and expand in a very short period of time. All of this has been achieved *in spite of* the many regulatory, political, geographic and institutional barriers.

What the list above is intended to demonstrate is the necessity for policies that help overcome these historical characteristics to the extent that they affect cooperative performance. In 5.8.2 below we touch on policy measures that have been able to address these shortcomings or on the contrary, to leverage these characteristics into a competitive advantage (e.g. localism also can contribute to a cooperative culture which is the bases for successful cooperative performance).

5.8.2 Effects of policy measures on the competitive position of cooperatives

Elsewhere in this report, particularly in Chapter 5.6 where we have dealt with individual sectors, we have touched on the effects of the EU's Common Agricultural Policy (CAP). In general such policy, which has favoured the economic liberalisation approach to agriculture, has not been positive for Spanish cooperatives in general (Baamonde, 2009). While farmers have been compensated for the decrease in market prices, cooperatives have not been compensated for the decrease in available production to be traded (sugar an exception). Lower member production implies a higher fixed cost for the cooperative. The Producer Organisations model for F&V has been, however, a relatively positive development.

Two pressing problems for agricultural cooperatives in Spain are volatility of prices and the lack of negotiating power. Farmers have a difficult time maintaining a sustainable level of income due to the lack of instruments to control markets and the severe imbalances in bargaining power in the supply chain. Recent reforms of the CAP have not effectively dealt

with these issues. Instead, the effective dismantling of almost all methods to manage markets (e.g. interventions, private warehousing) has fanned price volatilities and resulted in lower incomes for farmers. While mechanisms may still exist, the safety net has been pitched much lower. Decoupled, direct payments are of little use because such payments are discounted immediately in the market; that is, they are factored into the price as a discount (Baamonde, 2009).

In spite of a trend in integration and concentration agriculture in Spain continues to be “atomized”. The sheer size and power of the few and large distributors, results in unequal bargaining strengths that are difficult to counterbalance. Prices are set by distributors and thus Spanish cooperative members, focused as they are on the production and commercialization of primary or secondary products receive low prices at the “bottom” of the chain. This in turn leads to the social-economic view that farming is “not worth it” and few younger people take up farming as a profession. Cooperative members are older and cooperative membership is declining. Without strong cooperatives, rural areas suffer and their local development and economies are at risk.

It is clear that the CAP does have measures to deal with some of the latter issues and competitiveness in agriculture at the local level under its “second pillar” of Local Development. However, given the Spanish cooperative legislative/political structure, such measures are weakened. In practice the autonomous communities administer such programs and there is a lack of a unified national approach. As a result, projects and alliances which would entail more than one autonomous community and which are urgently necessary to “scale up “ and meet the demands of global competition are left without sufficient support measures.

As well, cooperatives which exceed size limits for small and medium enterprises (“SMEs”) lose 50% of financial support available under such measures. This position is illogical for agricultural cooperative POs, irrespective of the size of such cooperatives, given that their members are small business and family farmers (Baamonde, 2009; EURICSE, 2010). In addition, it is incoherent with policies that promote mergers and growth.

The EU recognised the promotion of groups and associations through Regulations 1360/78; 746/93; 952/97. The support of producer groups was withdrawn through the Regulation 1257/99 and reintroduced through the Regulation 1698/2005 for the new Member States. With respect to the CMO the Spanish national cooperative confederation has underlined the fundamental role of POs in the concentration of offer, the improvement of producer participation in sharing in the added value along the food supply chain and in

the adaptation of production to the market. As an example, the significant growth in the fruit and vegetable sector reflects the success of such policy.

However, there are many points of disagreement and in certain important sub sectors such as fruits and vegetables, there is much dissatisfaction. Whilst certain important points have been reflected in the conditions of the Operative Programs as to the eligibility of activities related to product transformation by cooperatives, calculations as to the value of commercialized product or the eligibility of investments in farms and installations of members and their cooperatives, other important weaknesses persist in relation to the Management and Prevention of Crisis and also the reform of System of Entry Prices. Cirilo Arnandis, president of the Fruit and Vegetable sector board of Cooperativas Agroalimentarias has noted the “lack of coherence between the political declarations of Community institutions, which are clearly favourable to the concentration of offer, downstream integration by producers, a more key role played by POs, and the provision of mechanisms to manage crisis versus the vacillation, incoherence if not intolerance, that is detected in the regulations passed by the Commission” (Agrocope, 2011). The evaluation of all EU measures in relation to agriculture is beyond the scope of this report. However, the comment of Arnandis is emblematic of the difficulty in reconciling policy theory and actual policies enacted in relation to a multitude of interests.

Turning our focus to laws and policies in Spain in the scope of this report we focus on evaluating the influence of policy measures listed in Tables 5.30, 5.31, 5.32, and 5.33 on the competitive position of agricultural cooperatives. Such measures have been broken down into various policy themes, as set out below. The list of policies and laws in Spain which could influence the competitive position of cooperatives in Spain is extremely long (and the list contained herein does not contain all such measures) and thus it is necessary to generalise

Overview of Spanish Cooperative Legislation. As is evident throughout this report and as detailed in Chapter 5.7 Spain does not suffer from a lack of cooperative laws, due to the “double layer” of national cooperative laws and policies and those of the autonomous communities. Several communities have another law specifically for small cooperatives. Laws vary on substantial issues and do not facilitate coordination between cooperatives. Some experts have argued for a national law on agricultural cooperatives (Juliá et al., 2010), a scenario which would be both legally and politically difficult as it would require negotiations with all autonomous communities. There have been a range of suggestions

from the fiscal perspective⁶² and as well arguments for a more flexible approach to cooperative laws that maintain cooperative goals (Vargas-Vasserot and Aguilar, 2006). Overall, the autonomous community cooperative laws which are seen to be most effective and advanced are those of the Basque Country. However, as noted in Chapter 5.4, the Basque Country does not have a great amount of agricultural cooperative activity compared to other autonomous communities in Spain, such as Andalusia, Catalonia, Valencia, etc. Andalusia has just overhauled its own cooperative law taking on board some of the provisions which had already existed in other jurisdictions. (See Tables 5.30 in Chapter 5.7 where notable/distinctive sections of the various cooperative laws are shown in bold lettering.)

Given the “atomisation” of cooperative law in Spain, it follows that agricultural cooperatives themselves tend to organise around their governing regulation, thus resulting in a general cooperative atomisation. The introduction of the European Cooperative Society has had very little impact in Spain as of yet. This is not surprising in light of the fact that very few cooperatives are set up under the national cooperative legislation.

Fiscal policy provides few substantive incentives to agricultural policies, such advantages often being outweighed by the lack of flexibility and the resulting difficulty in accessing finance. However, given that Cooperative Tax Law is a national law, there is the possibility that a careful reform of cooperative tax policy could contribute to the unification of cooperative laws in certain aspects (Vargas and Aguilar, 2006).

Limitations which result, in general, from cooperative taxation legislation have been set out in Chapter 5.7.5, but other issues exist as well based on legal and economic regulation stemming for the most part from cooperative principles and restrictive perceptions of the concept of cooperatives and cooperation. To make matters clear, this is not to suggest that the cooperative form is thus a “flawed” type of company. In order to outline correctly the legal-financial situation of these entities and evaluate the necessary reform of their legal regulation and their own terms, existing issues must be identified. Whether cooperatives are financially viable and represent a form of enterprise that is successful in the market is not primarily dependent on whether cooperatives receive more or less subsidies or pay more or less taxes. Rather, such success is also due to the cooperative’s ability to leverage the cooperative form as a successful business model and attract and retain committed members.

⁶² See Volume 69 of CIRIEC-España (2010); a special issue on cooperative legislation and tax issues.

First, there are limitations derived from their legal-organisational structure:

A significant risk that cooperatives must face is that members leave the cooperative without having to justify a cause. The cooperative must then process the early liquidation of such member share. Added to this limitation are the restrictive cooperative legal provisions on the assignment or sale of such participations and the inexistence of a secondary market in which to trade them (although this has been dealt with in some cooperative laws). This limits to a large degree the generational changeover of members and the entrance of third parties through the acquisition of the leaving members' contributions. In addition, cooperatives are usually prohibited from acquiring such contributions to their own equity capital. This restriction inhibits the buying-back and management of its own treasury as well as other instruments which would enable the cooperative to manage the correct exit and subscription of its members.

As well, the political discontent of the most economically active members is a significant issue in cases where there are differences between members in terms of level of participation in the cooperative activity and the ownership of equity capital. As we have seen NIE attempts to deal with this through "well defined property rights" and NGC characteristics. However, as in the case of Mezzacorona, other methods are available to deal with heterogeneity of membership.

Finally, the complication of having "capitalist" members is a notable difficulty. In order to keep control of the cooperative in hands of ordinary members, quantitative limits are established in relation to the percentage of votes that special types of members may have in relation to the total votes, thus limiting their economic rights. One must add to this the limits on participation of certain legal persons (i.e. not physical persons but, for example, a company) as members of the cooperative which, if such participations are assigned or sold, provokes a loss of tax benefits.

Second, there are functional and operative limits:

One of the principal differences between cooperatives and other types of companies is that the economic activity is essentially carried out by its members (mutuality principle). The principle of mutuality has been traditionally interpreted in Spanish cooperative regulations as the necessity to limit operations with third parties. This position has little justification in Spanish cooperative law where financial results are accounted for in a separate manner, that is, separate accounts for activities which are "cooperative" and

activities, which are “extra-cooperative”. Those revenues that are extra-cooperative are taxed at the general rate for company tax and destined to collective funds.

Cooperatives are also subject to limitations when they constitute subsidiary, affiliated, or associated companies or participate in commercial companies. The revenues generated by these investments will not directly revert back to the parent cooperative members but are destined to be allocated to the obligatory reserve fund. The participation of the cooperative in a quantity superior to 10% of the equity capital in non-cooperative entities is cause for the loss by the cooperative of the protected tax treatment (the percentage is increased to 40% when one is dealing with entities that carry out activities that are preparatory, complementary or subordinated to that of the cooperative).

Last but not least are financial limitations:

The economic-financial regulation of cooperatives is characterized by an excessive rigidity and by the existence of determined fiscal and “para-fiscal” burdens that do not compensate the theoretical “privileged” tax position that cooperatives enjoy. Cooperatives may pay less taxes but the level of surpluses is less as well. Within the financial limitations, the most important are those which derive from the variability of equity capital which is, without a doubt one of the characteristic features of the cooperative business form and is the technical-legal element used by the legislature to put into practice the principle of “open doors”. The possibility of the flux of members entering and leaving the cooperative is found in the original origins of the cooperative movement. Financially speaking, the open door policy means that its equity capital is susceptible to increases due to the admission of new members and decline due to the return or refund of contributions due to the abandonment by members.

This variable nature of cooperative equity capital usually is perceived as a sign of the financial weakness of cooperatives due to the possibility that the cooperative equity will be notably reduced by the exit of members. To avoid this, cooperative laws have at their disposal a series of measures that convert the equity capital into partially variable capital, that is, a part is always fixed. As well, it allows cooperatives, through their statutes and bylaws, to construct sufficient financial guarantees (put limits on variable capital). However, at times these legal measures are excessive in comparison to the requirements of investor owned companies.

In addition, such restrictive measures are often not practical or useful. The contributions to obligatory funds in order to guarantee the solvency of the cooperative depends on (i)

where the cooperative carries out its principal activity, which determines the applicable cooperative law and in particular the regulation of allocation of funds and, (ii) the accounting and financial policy which is adopted by the cooperative. If, as a matter of course, there are no surpluses because the cooperative operates with the goal of zero profits, the legal imposition to allocate funds in a manner proportionately significant serves little purpose.

SAT Legislation. The minimum regulatory requirements of SATs, dating from 1981, result in few limitations and conflicts for such enterprise form (Vargas, 2010). When SAT regulation is compared to that of agricultural cooperatives, the advantages are evident: there are none of the traditional legal limitations of cooperatives (difficulty to transfer the position of member, obligation to allocate funds to collective funds, limits on dealings with third parties, limitations to invest in commercial entities, limits in the distribution of surpluses, etc.)

The linking of the social object of agrarian, livestock or forest activity, which constitutes the basic element of SATs, is not a unique feature which justifies the existence of this enterprise form, with all the advantages it enjoys as compared to agricultural cooperatives. The same object can be carried out by agricultural cooperatives, civil societies or commercial capitalistic companies. If the concept of SAT is compared to the legal definition of agricultural cooperatives (art. 93 Spanish Cooperative Law) a few differences are evident. Whether this company type should be maintained or whether its legal framework should be substantially reformed is a relevant issue for the Spanish agricultural cooperative sector.

Recently, SAT legislation has been brought into force in the autonomous community of Aragon. The law has been challenged on jurisdictional grounds but it sets a worrisome precedent for agricultural cooperatives. If this precedent is followed elsewhere, SATs could begin to invade at the autonomous community level and enjoy the same autonomous community benefits available to agricultural cooperatives while at the same time undermining cooperative principles.

Social Economy Initiatives including Promotion of Cooperatives and SMEs. There are quite a few initiatives directed at the promotion and formation of social enterprise entities, which include cooperatives. However, as these initiatives are new, it is not possible to judge their influence or effects on agricultural cooperatives. What is notable is that these initiatives are carried out at the autonomous community level. While this

strategy may be positive for local development it may not contribute to a unified strategic approach for cooperative entities.

Such initiatives may foster a more profound cooperative culture as opposed to just a cooperative legal form, and thus may positively affect business efficiencies. Perhaps a focus on agricultural cooperatives as part of the social economy will encourage the participation of more women in cooperative businesses and help break down barriers which persist in cooperative culture.

Integration and Restructuring. In order to remedy the “ills” of atomisation, much discussion and policy work has been focused on the need for mergers, for larger size, for market concentration, etc. Indeed, a report was delivered before the Commission of Agriculture and Rural Development in the European Parliament (Report regarding Alimentary Prices, 24 February, 2009) emphasizing the role of cooperatives in the concentration of offer and the request for measures to facilitate the merger of POs in order to increase their size and thus market presence.

It is evident that other agricultural cooperatives in countries such as Denmark, Holland or Ireland have relied on creating large cooperatives to improve their capacity for negotiation, develop products and increase competitiveness (Meliá and Martinez, 2011).

As pointed out in Chapter 5.4, Table 5.9 “Percentage distribution of agricultural cooperatives according to number of members (2009)” and Table 5.10 “Percentage distribution of number of agricultural cooperatives according to turnover (2009)” Spain’s cooperatives continue to be mostly of reduced size thus affecting their ability to concentrate production, invest in new initiatives, create economies of scale and attain negotiating power in dealings with distributors.

As evident in Table 5.30 there have been various initiatives by national and autonomous community governments to promote mergers, integration and concentration at various levels and in various sectors in Spain.

The push for integration and the creation of second tier cooperatives is to respond to global markets, with the idea that it allows better efficiencies, diversification of products, opening of new markets, concentration of demand factors, discovery of new industrial processes, improvement in accounting management and higher professionalisation (Montegut, Cristóbal and Marimom, 2007).

While studies of integration processes have been carried out⁶³ the empirical work on how mergers affect financial performance in agricultural cooperatives has been relatively scarce. It is worth noting that recent Spanish studies have found that mergers are not always particularly successful, although such strategy and results would have to be studied further on a sector by sector basis (Meliá, Juliá and Martínez, 2010; and Barrio and Parras, 2003). The most far reaching and recent Spanish work published (Meliá and Martínez, 2011) contributes with interesting insights as to whether such policy has been effective or not in the competitive position of agricultural cooperatives. It found that mergers on average did not lead to a statistical improvement in relation to the financial indicators studies. While it is too soon to come to any solid conclusions in this regard, it is interesting to note that governments are advocating mergers as the way forward, often based on the experiences of other countries. Which method of integration is the most adequate for Spain remains to be seen.

However, size isn't just about market power in relation to price. The size of a cooperative also dictates whether it is even a "player" at all. Increasingly producer cooperatives deal directly with the large distributors without intermediaries. Absent a minimum size such distributors will not even bother to deal with small producers and there is a high risk that intermediaries will jump in to fill the void. Medium size intermediaries are also decreasing, leaving small cooperatives with nowhere to go, unless there is cooperation with another cooperative or entity. It is a structural change in the market and not one that only has to do with price.

Efforts to promote second tier cooperatives have been a success across sector and region (Martin, 2006; Fernández, et. al, 2008). The government of Andalusia has announced that it will severely cut back support to the olive oil sector in terms of upgrading and modernizing installations in favour of integration activities and the setting up of commercial platforms⁶⁴. The results of the cooperative Questionnaire found that the favoured strategy by cooperatives was organic growth.

Interprofessional Associations. National and autonomous community measures that have supported Inter-professional entities are considered to have been a success and very relevant in organising sectors not only from a business perspective but also in terms of mounting an effective lobby. Given the atomisation of both regulatory measures and the sector itself, this alternative method of institution building is particularly important for

⁶³ Many of these studies were published in the period 1995-2002 and are too numerous to cite here. See Jimenez, et al. (2006) for an overview of such studies.

⁶⁴ Announcement of Clara Aguilera, former Minister of Agriculture and Fishing of the Regional Government of Andalusia, on 28 April 2011.

Spain. However, more “teeth” needs to be given to these entities so that they have more impact and influence. This may include giving them a legal framework in which they may influence such power, a position supported by significant actors within the sector (See discussion under Chapter 5.6.4- Fruits and Vegetables-Policies.)

With respect to both "Integration and Restructuring" and "Interprofessional Associations" above, it is worth noting the position of Cooperativas Agroalimentarias, which is the national confederation of agricultural cooperatives. Their position differs in some respects from other opinions expressed by other producers, associations and entities.

Problems of supply chain imbalances, atomisation of producers and a weak bargaining position (and the issues of intermediaries, lack of transparency and speculation which accompany such ills) have been referenced. In the opinion of Cooperativas Agroalimentarias, there are two methods of addressing such problems. The first is to argue for a type of negotiation between the actors in the supply chain, where prices would be negotiated between producers and the large distributors. Producer representatives, such as the interprofessional associations, would act as interlocutors with the capacity to negotiate minimum prices in the name of the producers. For this to occur, exceptions to competition law would need to be ensured as well as the special status of these organisations and the obligation to enter into written contracts, amongst other measures. Such collective negotiation measures are not seen as a viable option by Cooperativas Agroalimentarias.

In support of this stance, they point to the fact that there are 697 OPs in the F&V alone, which represents only one third of the market. As an alternative, they advocate for policies which push such OPs to merge or commercially align themselves so that the number of operators is reduced considerably, eliminating along the way entities which do not add value and which serve to engage in speculation. A suggested measure is that of requiring stricter minimum requirements in terms of number of producers and production (seen to be currently very low and ineffective).

In supporting this second option, Cooperativas Agroalimentarias holds that interprofessional associations are not by nature commercial but rather representative entities. In addition to these practices creating possible issues for competition authorities, such organisations are seen to lack business responsibility and control over the production about which they are negotiating, leading potentially to lack of efficiency and transparency.

In the event such negotiation arrangement would be permitted, Cooperativas Agroalimentarias observes that the representative entities lack enforcement measures to ensure that agreed terms are carried out and that they lack the capacity to exercise control over the producers (who must legally be party to the contracts).

In addition, they argue that as price negotiation is just one of many factors such as logistics, delivery conditions, quality, etc. and not the root cause of the weak bargaining position nor the commercial structure of the sector, the remedy should be seen to be through the long term, selected structural policies which incentivise the concentration of production and commercialisation.

This said, Cooperativas Agroalimentarias do see Interprofessional associations fulfilling an important role in prompting dialogue about regulations, quality, marketing, R+D+i and other issues which affect the sector.

Marketing, Promotion, Exportation, and Internationalisation. Programs to improve and support marketing, exportation and internationalization have also been very successful. Andalusia's EXTENDA is one such example. As federations have pointed out, a higher level of effectiveness characterises the use of subsidies and other financial incentives for which cooperatives have to compete. COVAP in Andalucía is a good example of cooperative internationalisation. Its products can be found in 23 different countries with a turnover of approximately 300 million Euros in 2009 (Fuentes García, et. al., 2011). The EU has given financial support for the improvement of the transformation and commercialization of agricultural products over a number of years (Rgts 355/77; 866/90; 951/97; 1257/99 and 1698/2005) and cooperatives have in some cases benefited from a priority treatment.

Financing and Encouraging Investment. Adequate financing, whether for large or small agricultural cooperatives is of crucial importance and measures that provide financing taking into account cooperative and agricultural needs are effective. ICO (National Credit Institute) financing under the various lines in Table 5.32 are also an important source of funds. However, some programs limit financing to SMEs which is counterproductive for POs. Some initiatives promote investment in social economy entities, specifically cooperatives. The role of cooperative credit banks have been crucial in the development of agricultural cooperatives in Spain and support measures for cooperative credit, although not detailed in this report is also a fact has influenced the success of cooperative agricultural regions (Giagnocavo, et. al, 2012).

The recent adoption by the New Spanish Accounting Norms of the international accounting standards (IAS) is problematic for cooperatives as the social capital (equity) is not considered to meet the standards to be considered equity capital and thus is considered as debt.

Innovation and Modernisation. These types of policies are likely dependent on the sector and also on other complementary initiatives. In and of themselves, absent a coherent commercialisation or integration strategy they have not been particularly effective.

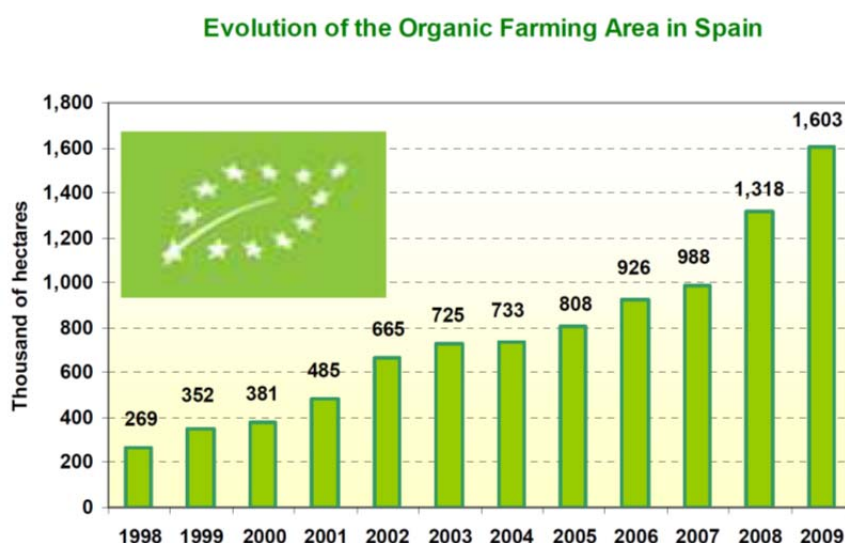
Education and Training. Quite a few policies are related to subsidising education and training directly or to the designation of resources to create programs and provide such training opportunities. The programs usually refer to increasing competitiveness as a goal. Often they are geared towards unemployed people, labour insertion or ordinary workers. Few are dedicated to higher level professional cooperative management training where arguably the need is the greatest. On-line training is one of the most popular methods of training in spite of doubtful results.

After speaking with human resources managers of various cooperatives and associations of producer organisations a general conclusion was expressed: cooperatives in general are not convinced of the utility of such programs, as they currently exist. They engage in education and training because of administrative obligations or because of quality programs which require such training for certification purposes. The cooperatives generally do not create the education and training programs and they try to adapt their needs to fit within the training themes designed by the administration. From the point of view of the cooperatives, the administration in general does not understand the cooperative labour situation and should count on sectors and cooperatives to help design programs. Cooperatives as well share part of the blame as they are reluctant to engage in continuing education and training.

Sustainable and Rural Development. Investment in quality and environmental initiatives has been shown to improve competitiveness in the fruit and vegetable sector (Galdeano, 2002), although “integrated” as opposed to “ecological” production has proven to be more successful for farmers. Ecological product is not highly valued in Spain’s domestic market and most of it is for export. However, Spain has the largest organic farming area in the EU 27 with 18.6 % of it area dedicated to organic farming. Programs for encouraging organic production are useful to help farms, many of which are

cooperatives as well as initiatives to export and market their product. This type of farming activity is a key element in sustainable and rural development.

Figure 5.65 Evolution of the Organic Farming Area in Spain.



Source: Ministry of Agriculture and Fishing, Secretary General of Rural Areas and Ecological Production, 2010

Cooperatives have also been shown to be the impetus for creation of employment in rural areas (Bel Durán, Fernández and Miranda, 2005). Environmental issues related to agriculture and the sustainability of rural areas are intricately related to Spanish agricultural cooperatives, particularly to the vast majority of small and medium cooperatives. As part of a comprehensive strategy, these initiatives are important, although short term indicators of performance are difficult to measure. When rural environments are included as part of the “brand” of agricultural products, agricultural cooperatives have a particular interest in these initiatives.

Spain presented its National Strategic Plan, based on FEADER regulations on April 2, 2007 and decided to carry out a program based on the Autonomous Community jurisdictions. There are 17 regional programs, one for each Autonomous Community.

In addition, as contemplated by article 15.3 of the regulation, the prior Ministry of Agriculture, Fishing and Food, in collaboration with the Ministry of Environment consulted all such Autonomous Communities as well as economic and social entities and produced a National Framework for Rural Development 2007-2013. All regional programs contain such basic measures, but they may add supplementary or more restrictive conditions as they see fit. That is, one cannot count on uniformity in a sector. A cooperative olive oil producer in Andalusia is subject to not only different cooperative

laws, but also to a different program of rural development than a cooperative olive oil producer in Catalunya.

In reference to 2010 the execution of FEADER has reached 24% of the total with more than 90 million Euros distributed amongst the autonomous communities. Protocols are to be put in place to attempt to remedy the lack of coordination between regions and the national government (Cooperativas Agroalimentarias, 2011c).

According to Salazar Ordóñez (2011) the initial evaluations of FEADER by the agricultural sector in Spain has been positive in several aspects. The interest in social issues in rural territories has been one way of to legitimate rural activity that has lost relevance in past decades (Moyano, 2006). Gallardo (2005) maintains that FEADER funds have complemented the sectoral and territorial focus and have consolidated the LEADER approach, thus providing a more adequate response to the new social demands of rural areas.

However, the integration of the different aspects of FEADER with agrarian interests has not been particularly smooth. Moyano (2006) has maintained that farmers and their organisations view FEADER as a method of moving funds from the first to the second pillar, which negatively affects actions designed to improve and modernize farm operations. Important resources which should have been focused on agricultural activities have been used for certain environmental programs which in the opinion of farmers, should never have been included in such FEADER program. Consequently there is a real concern that there are not sufficient funds to carry out all of the objectives and that such diverse objectives themselves complicate strategic activities and a coherent plan.

González Regidor (2005) from a different perspective, expresses concern that local development has been so closely associated with agriculture, as until 2006 rural development measures were fundamentally about cohesion and after 2007 they are integrated into CAP.

On a positive note, Moyano (2006) and Salazar Ordóñez (2011) acknowledge the fact that much flexibility and decision making capacity has been left in the hands of the Member States, allowing them to reinforce rural policies connected to the EU.

Focusing more closely on agricultural cooperatives, such entities have been acknowledged as drivers of local development in Spain (Bel Durán, 2004; Juliá Igual, 2002, amongst others). The cooperative legislation of the various Autonomous Communities, as well as

the Spanish National cooperative legislation, recognize in one form or another, the role of cooperatives in improving the rural environment.

Agricultural cooperatives are considered local development agents (and thus are given some priorities) and act as an intermediary with public administrations and as members of the “local action groups” set up by the various LEADER programs (Gallego Sevilla, 2007). Agricultural cooperatives receive funds from the various Spanish Autonomous Communities to carry out local development measures.

In the current National Strategic Plan cooperatives are considered as intermediaries in their capacity of economic and social agents implicated in rural development. The alimentary industry is considered a priority given its key function in adding value to agricultural products and also as a way to rejuvenate rural economies by increasing agricultural product value.

Olive and wine sectors have particularly benefited, depending on the particular Autonomous Community Plan, from aid meant to fund, amongst other things, increase in competitiveness, restructuring initiatives and the encouragement and financing of innovation (see sector analysis in Chapter 4). Funds aimed at improving environmental quality and diversification of economic activity have also been utilised by both sectors. The fact that much of these funds have been limited to SMEs is problematic.

In the discussion above, it should be kept in mind that the success of any particular policy is often dependent on complementary policies. There is no one “magic” policy. For this reason the co-ordination (including, but not necessarily, the homogenization) of laws and policy, although an extremely complex task, is one that is necessary, particularly in a country such as Spain. The role of POs, interprofessional groups and other entities capable of having a “larger picture” and of building networks and alliances beyond autonomous communities are crucial in such challenge given the lack of a uniform regulatory framework. As well, in addressing the success of policies in terms of competitiveness, the range of indicators that are available to do so are varied. This part of the thesis has relied on traditional economic indicators (e.g. turnover), whereas cooperative performance is also intrinsically tied to the value that it creates within a larger environment, a “cooperative district” so to speak.

Chapter 6. Focused Case Study: Almería F&V Cooperatives

6.1. Introduction

6.1.1 Objective and research questions

This case study, focusing on the fruit and vegetable producing area of Almería, in southeast Spain, has the following objectives:

- To understand the “lifecycle” of Almería’s cooperatives and the various strategies they have undertaken to meet challenges.
- To analyse which support measures have been effective and efficient for the promotion and development of the F&V co-operatives in such region.
- To provide a comprehensive view on the competitive position of Almería F&V cooperatives.
- To draw qualitative inferences on the interaction between institutional environment, structure and strategy, and cooperative success.

In carrying out this case study the following aspects have been considered:

- Economic incentives and public policies.
- Legal aspects.
- Historical, cultural and sociologically relevant aspects.
- The relationship between cooperatives and other food chain actors (cluster).
- The relationship between various cooperative institutions (cooperative fabric).

The following questions will be addressed in this case study:

1. What strategies of the F&V co-operatives in Almería have been central to overcoming potential traditional shortcoming identified earlier in Chapters 2 and 5?
2. Which public support measures (local, regional, national and/or European) have an impact on the development and success/failure of the Almería co-operatives?
3. How has the historical development/lifecycle of F&V co-operatives in Almería affected the strategies and organisational structures of co-operatives?

6.1.2 Data Collection

The case study will be based primarily on currently available secondary data and data available from the Ministry of Agriculture, Food and Environment, SABI, the regional government of Andalusia, the agricultural census and other sources noted herein. Academic literature, popular press and electronic media, various archives and other sources of information will be fully utilised. Triangulation of sources and methods will be applied. Additional information was collected through interviews with various experts and co-operative stakeholders.

6.1.3 Brief review of the literature on Spanish Agricultural Co-operatives

In Chapter 5 general characteristics and challenges in relation to Spanish agricultural cooperatives were described as well as the effect of certain policy measures on co-operative success. One of the main concerns noted in Spain's agricultural co-operatives was their small size. Consequently this characteristic has often been blamed for the lack of success and the inability of co-operatives to obtain more value for their members. It is argued that atomization creates difficulties for Spanish agricultural co-operatives in relation to the concentration of offer, investment needs for new projects, achieving economies of scale and wielding market power. Many studies have pointed to excessive "atomization" of co-operatives (Caballer, 1995; Juliá and Server, 1999; Juliá and Meliá, 2003; Meliá, 2004; Montero and Montero, 2005; Vargas, 2007).

Spain's agricultural co-operatives are generally small and numerous relative to the European average co-operative size and number (i.e. the persistence of the "Mediterranean model") (COGECA, 2005). In spite of the fact that the average turnover increased from 2.7 million Euros in 2000 to 4.4 million Euros in 2007, they are still behind the European average turnover of above 10 million. Only 39% have more than 1,000 members and only 1.7% of these co-operatives have a turnover above 30 million Euros (Cooperativas Agro-alimentarias, 2010; COGECA, 2005; OSCAE 2007; 2009). 77% have less than 5 million Euros and 39% less than a million (OSCAE, 2009). Although the number of co-operatives is declining, in 2011 there were still 3,918 agricultural co-operatives (3,659 in 2005 and 4,118 in 2000). In 2011 total turnover increased to 17,405 million Euros, with 1,160,337 members and 93,733 employees. This demonstrates a 6.63% increase from 2005, in which year turnover was 16,323 million Euros (OSCAE, 2011).

However, it is important to keep in mind that within this generalization of “atomised” Spanish co-operatives, there is a diversity of models and size. As mentioned in Chapter 5.4, Spanish agricultural co-operatives have significant differences, with distinct social, political and legislative histories and characteristics as well as strategies. The majority are constituted under regional and not national legislation.

In light of the above, it is a complex task to study the factors which are responsible for the successes or failures of Spanish agricultural co-operative sectors. The “common wisdom”, reflected in both academia and government policies in Spain tends to be that “bigger” will mean more successful co-operatives, perhaps following the conventional paths of IOF. As a general rule in all sectors of the Spanish market there has been pressure to consolidate and agricultural co-operatives have experienced the same pressures, with the resulting mergers and acquisitions, group formation, integration of co-operatives into second tier co-operatives (or integrated groups in the event that some of the members are SATs or non-co-operative), etc. (Meliá and Martínez, 2011).

Discussion of agricultural co-operatives in Spain continues to be often locked into a paradigm of economies of scale and concentration. While size may be an important consideration, above all for structural reasons, without taking into consideration other factors, the picture will be incomplete. Two observations made in Chapter 5 on the F&V sector are noted:

- *The concentration of capital is easier than the concentration of people and thus co-operative concentration processes need to take into account the co-operative business form, culture and environment.*
- *The concentration of offer must be viewed not only as a commercial concentration, but also a concentration from an organizational point of view.*

The study of regional agricultural co-operative models is useful so that legislative, institutional, governance, and other factors may be more coherently considered and linked. From a theoretical perspective, path dependency is one method by which to analysis the strategy and structure of F&V co-operatives. In general agro alimentary systems, exhibit an important inertia or path dependency on old forms or organizational logic. That is, they persist even when underlying conditions which dictated the function, have disappeared (Gallego and Lamanthe, 2011). Path dependency can also make difficult certain necessary adaptations to changing market conditions. However, it may also be a source of relationships, capacities and activities which can be reactivated and

regenerated” creatively given existing diversity (i.e. not all entities have progressed in the same manner and in the same way) and allow creative solutions in times of crises (Grabher, 1993; Martin and Sunley, 2006; Gallego, et al, 2008).

Path dependency also fits within “neo-endogenous” thinking which draws on institutional theory. In such case we look to local institutional capacity that is able to both mobilize internal resources and to cope with the external forces acting on a region. “This perspective emphasizes not only that economic or business development needs to be embedded in the region, but that the means of achieving this objective is through the participation of local actors in internal and external development processes” (Galdeano Gomez, et al, 2011).

In this case study Almería is examined as an important cooperative F&V region and one that offers a good “laboratory” or “action arena” in which to examine policy measures, cooperative development and institutional adaptation and a relatively recent lifecycle of the cooperative movement. The time frame is approximately 50 years, depending on when one starts the clock. Cooperatives were not only useful in the past at “solving” economic problems of the area, but they are, and continue to be, a viable, contemporary business model which exists amongst a diversity of business forms. In addition, the cooperative model is useful from a strategic business point of view in creating sustainable entrepreneurial and innovative technologically advanced economies where significant value is maintained at a local level.

Almería is also of interest in that it may be included as an example of an “industrial district” or “cluster”, albeit an agricultural one. Becattini (1990:38) described the term industrial district as a “social-territorial entity...characterized by the active presence of both a community of people and population of firms in one naturally and historically bounded area”. Ferraro García and Aznar Sánchez (2008) illustrated that Almería fit within such characterization. In the past, “industrial districts” or “clusters” have often run into difficulty due to their structural deficits. They tend to be heavily dependent on small enterprises, with a sectoral specialization weighted towards mature products and thus particularly exposed to low wage competition (Bellandi and Caloffi, 2006:466). Often they are slow to adopt new technologies, lack financial management, and resources for basic research, thus making them unable to innovate (Brusco, 1992:196). Agricultural clusters based on small farmers are especially vulnerable. In keeping with this notion of “decline” one also notes in the agricultural cooperative literature concern for “exit”, degeneration

and change in cooperative goals over time (Hind, 1999; Valentinov 2007; Murray 1983; Fulton 1995).

This case study illustrates that these traditional failings were avoided in large part due to the strategic and active participation of the cooperatives, thus avoiding the tendency of mature industries (which intensive agricultural later became) to maintain the status quo rather than “retooling to capture emergent opportunities elsewhere” (Whitford and Potter, 2007: 6). This case study illustrates a pattern of organizational change that turned even more towards cooperative structures and institutions to face competition, expanding markets and globalization.

It should be noted that within Spain, Valencia is the historical agricultural cooperative leader with an established tradition of agricultural cooperatives and internationalization, given its fertile lands, entrenched commercialization (left relatively unhindered even during the Franco dictatorship), extensive infrastructure and relative wealth in Spain. It is home to Anecoop, the benchmark second-tier F&V cooperative in Spain.

In contrast, the poorer province of Almería began its F&V production at a much later stage, in a drought ridden and isolated corner of south-east Spain. Although it had in the late 1800s - mid 1900s a successful table grape trade in the interior, the coastal region where the greenhouses now stand was a relative “blank slate” of infertile land. Currently both are important cooperative F&V intensive producers. Valencia is dominated by a second-tier structure and Almería largely by medium to small size first-tier co-operatives.



6.2. Description of the F&V co-operatives Almería

6.2.1 Facts and figures on sector and co-operatives

The Almería cooperative model, in the province of Almería (South-east Spain) located in the autonomous community of Andalusia, is a particularly unique case within the Spanish cooperative landscape. It is an example of an agricultural “industrial district” or cluster for successful sustainable, agricultural development due to the expansion of intensive agriculture (Ferraro García and Aznar Sánchez, 2008). Almería is the top fruit and vegetable-growing province in Spain, representing over 50% of the national total (Galdeano-Gomez, et al 2011) and the largest cooperative vegetable growing area in Europe. As a percentage of total value added in 2008, agriculture represented 10.7% in contrast to 2.8% for Spain and 1.8% for Europe (Aznar Sanchez, 2011). It is also home to the largest credit cooperative in Spain, Cajamar, which is the 15th largest bank in the country.

In spite of such subsector dimensions, the average landholding is 1.5 hectares, most held by small scale or family farmers (13,500 in number) who are members of agricultural co-operatives. The sector provides direct employment to more than 40,000 workers annually. In 2012, agricultural production increased to 2.97 million tons with a turnover of 1,413 million Euros. Over 69.5% of the produce is exported, resulting in trade surpluses. All of this is produced in an area of 29,991 hectares. More than 250 complementary or auxiliary businesses, both cooperative and investor owned have been created with a turnover of more than 1,000 million Euros (Aznar Sánchez, 2010). Equally important is the equitable distribution of wealth generated in the region (Downward and Taylor, 2007).

What is unusual about the Almería model is its growth into a specialized agricultural based sector (i.e. a primary sector), which is heavily invested in technological advances all the while maintaining its “atomized” small growers and its cooperative business form. Much of the sector’s research and development, which is crucial for such specialization, is based on sustainable technologies and practices and is financed by cooperative sources. For example, it is Europe’s leader in “biological”, as opposed to chemical, crop control. In observing the cluster we can see that the cooperative sector also has important institutional relationships with IOFs, regional governments, the university and other research centers which have resulted in important innovations. For example, the patents related to the Almería cluster account for 31% of all Andalusian agrarian industry patents (Fundación Tecnova, 2009).

With respect to financing the cluster, the Almería agricultural cooperatives and the credit cooperative are intricately intertwined. This in and of itself is not particularly unique, as many agricultural cooperatives areas have a close relationship with a local credit cooperative. However, the growth strategies of the local cooperative bank have resulted in it having a wide national presence, outgrowing its local geographical scope in order to feed the capital needs not only of its agricultural cooperatives but also of the growing auxiliary businesses. The cooperatives are interlinked with many SMEs and larger companies as well, resulting in diversity of business forms, but with the cooperative agricultural and credit sector as the main economic and social driver.

Regarding commercialization, the association of producer organizations, Coexphal was created in 1977 in order to directly market products. Until such time, product from Almería was purchased by other areas in Spain, for example companies in Valencia and Murcia would buy Almería product and then market it as their own. Almería farmers were unable to obtain fair prices for their product and had little market power until Coexphal gave them a unified presence.

6.2.2 The Economic Landscape in Spain-Background to the Almeria Cooperative Movement

Almería's "true" cooperative movement (as opposed to cooperatives set up and controlled by the Franco Regime)⁶⁵ began to be organized "under the radar" in the 1960s. While the Franco years may be known as an era of harsh political repression, what is less well documented is the economic 'terror' or suffering caused by failed policies which resulted in mass starvation and dire poverty. In the post-war years 1939 to 1945, 200,000 Spaniards died of starvation. From 1935 to 1945 real incomes had dropped by 66 per cent (Cazorla Sánchez, 2010: 12). In 1950 Spanish disposable income was 40 per cent lower than Italy, which had yet to experience its own 'economic miracle'. Economic reforms in 1952 and the \$487.8 million of US economic assistance (conditional on permitting a US military base) did little to ease the economic disaster (Cazorla Sánchez, 2010: 12). Within this already desperately poor country, the province of Almería was the poorest, with a level of income 50% lower than the national average (Sánchez Picón, 2005: 76). The province of Almeria, in the south-eastern corner of Andalucía, was a rural, formerly

⁶⁵ It should be acknowledged that a "top down" co-operative model from 1910 to 1920 did not function in attempts in relation to the table grape business. During the second Republic there was an attempt to resuscitate the traditions but this was swiftly cut off. State sponsored "co-operatives" operated during the Franco years, but functioned more as workplace associations, their purpose being to monitor and control. In 1942 through its Law of Cooperatives, the Regime recognized the importance of having "a" cooperative movement which was structured to be consistent with the Regime.

republican stronghold, isolated in terms of infrastructure and abandoned by even its own residents.

After twenty years of economic failure, Franco relented and allowed Opus Dei technocrats (against the protests of the Fascist party Falange) to implement the 1959 Stabilisation Plan which essentially meant opening up the market to capitalist practices but leaving the dictatorship untouched (Cazorla Sánchez, 2010: 12). Spain's economy as a whole began to improve for several reasons: the country had reduced its economic isolation, foreign investment began to flow in and 2.6 million Spaniards also emigrated to work in other European countries, sending their money back home and injecting much needed capital into a still weak economy. In addition, 6 million people relocated within Spain, leaving the rural areas sparsely populated (Cazorla Sánchez, 2010: 12-13).

During this period of relative economic improvement, however, income disparity increased: in 1974, the year before Franco's death, half of the population received 20% of disposable national income while the other half enjoyed 80%. Within the latter group, 10% took 40% of such income (Cazorla Sánchez, 2010: 14). Geographically, the benefits of economic and social development were also unevenly distributed and at the end of the line were the rural areas of Andalucía (which includes Almería), Extremadura and La Mancha where "abject poverty and illiteracy were rampant and social services scarce" (Cazorla Sánchez, 2010: 14). In contrast, the industrial areas of the Basque region, along with Catalonia and Asturias, ranked first among the wealthier regions.

As Spain's economy grew and became more industrialised and urbanised, Franco's policies played an important role, especially in terms of ensuring that affordable labour was abundant. As Cazorla Sánchez observed (2010: 15):

Francoism created an affordable, disciplined workforce which was achieved by the killing of union leaders, by the destruction of genuine, representative organisations and by instilling fear and pessimism in the general population. The combination of these factors made possible the optimum exploitation of employees by both the state and capital interests. The state guaranteed employers a 'business friendly' environment with a docile and cheap workforce.

In 1965, public expenditure was 15% of GDP (the OECD average was 31%). In 1970 it was barely 20.1% of GDP, compared with France, 51%; Italy, 43.3%; UK, 53.2%; and Germany, 36.8% (Carreras and Tafunell, 2005: 877).

This state of affairs, both with regard to the absence of labour leaders and desperate but docile workers and the lack of public expenditure and investment, are important in understanding the influential role that the cooperatives of Almería would later play in

building the economy and filling the institutional vacuum that was the result of the years of the dictatorship and its economic and social policies.

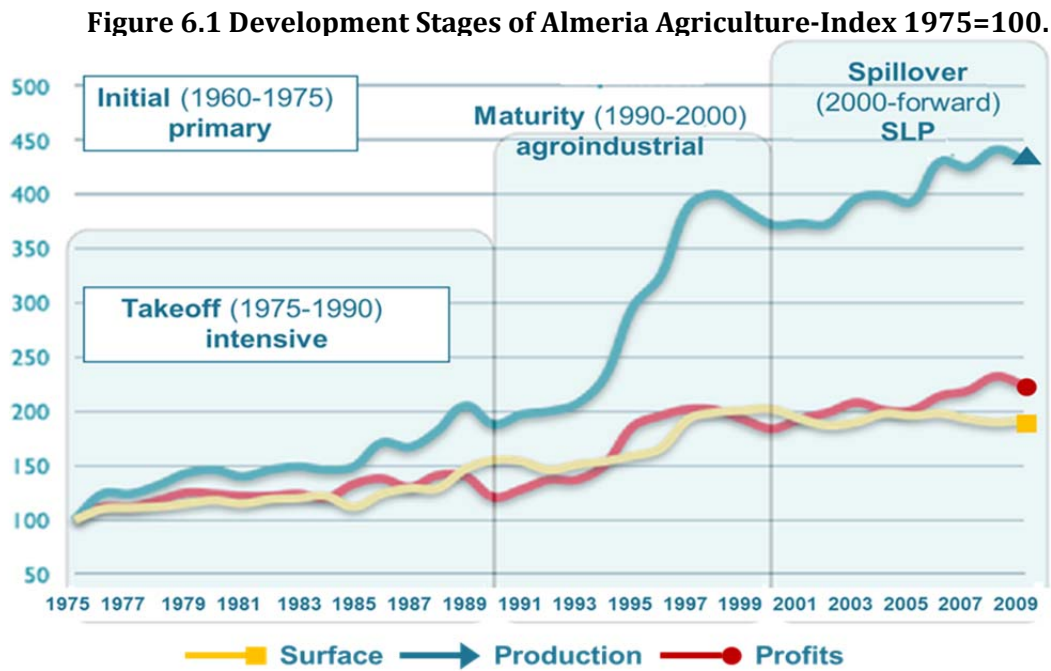
6.2.3 Mapping the Evolution of the Cooperative Sector

Almería has experienced a huge transformation in the last 40 to 50 years. Between 1970 and 2000, the rate of population increase of the province was 90% more than that of Spain as a whole, 84% more in production and 130% greater in employment than the rest of the country. During this period it also saw an increase of 20% in its GDP. While it was not the only province to develop economically, it was unique in that it grew both in terms of population and in wealth (Molina Herrera, 2005: 15). In 2010, 11% of such production and 20% of employment is in the agricultural sector (in contrast to 1.6% in the EU-17 and less than 2.5% in Spain as a whole in GDP)⁶⁶. A majority of the agricultural sector is comprised of cooperatives, family farms and SMEs. In this section the history of the agricultural cooperatives and other related entities, including the cooperative bank,⁶⁷ are set out.

The co-operative F&V agricultural sector activity of Almería had been divided by local economists into four stages as set out in Figure 6.1: Initial activity (1960-1975); The “Take-off” period (1975-1990); Maturity (1990-2000); and Spillover (2000—onwards)(Molina Herrera, 2005). Here the stages are outlined to demonstrate the transformation of mainly marketing cooperatives (and their members and communities) from “peasant” farmers and organizations to complex businesses, their activities and roles changing over time and the role of policy and regulation. Figure 6.1 below provides a thumbnail sketch of agricultural surface, production and profits during such time.

⁶⁶ INE, Eurostat.

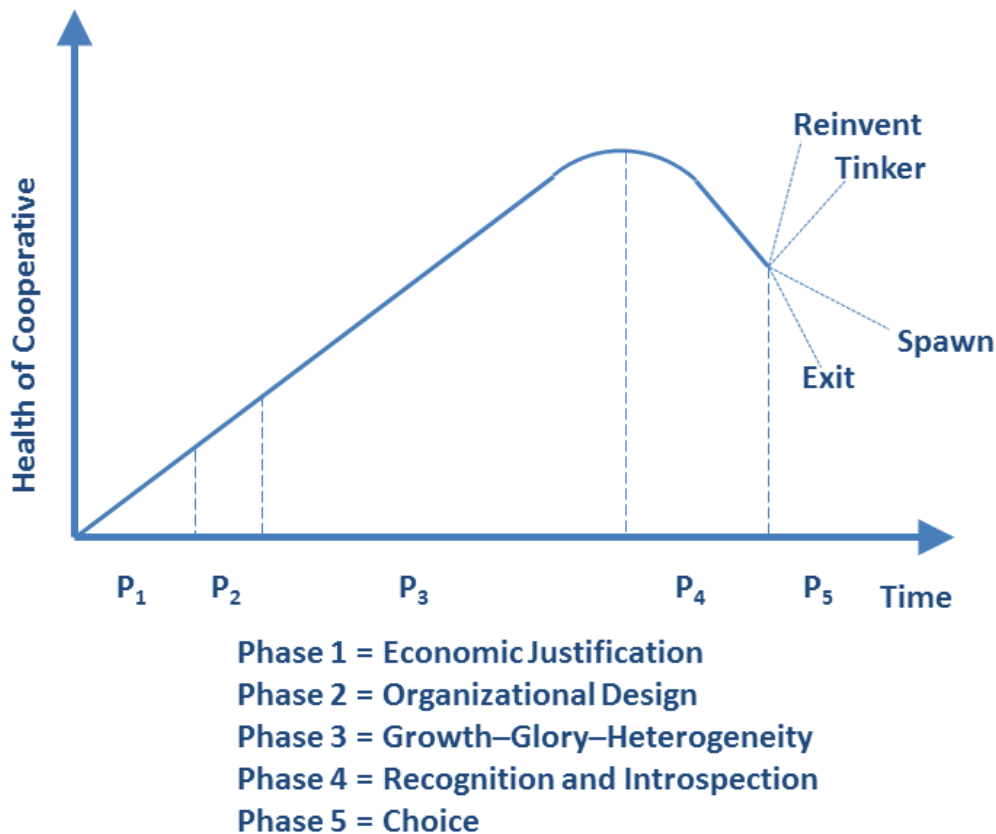
⁶⁷ See Giagnocavo et al (2012) for an in-depth study of the role of cooperative credit in the agricultural development of Almería.



Source: Cajamar Foundation.

To expand on Molina-Herrera's timeframes, a useful framework can be found in Cook and Burress' (2009:1) reference to the agricultural cooperative lifecycles wherein they set out 5 cycles, instead of 4 (although the final cycle is not linear, but rather a juncture):

1. Economic justification
2. Organizational design
3. Growth, glory and heterogeneity
4. Recognition and introspection; and
5. Choice

Figure 6. 2 Basic Life Cycle of a Cooperative.

Source: Cook and Burress, 2009.

In constructing a framework which provides more explanatory value, Cook and Burress argue for a “dynamic framework” to consider the “cooperative degeneration” hypothesis (or the demise and corruption of the cooperative form, as explored in Chapter 2) wherein cooperative leaders may act as the protagonists to avoid such process:

We propose cooperative decision-makers possessing an intimate understanding of the dynamics of cooperative growth are in a unique position to evade ownership costs by selecting among regenerative solutions when faced with organizational decline.

While Cook and Burress’ model applies to a cooperative, it is also useful to consider it in relation to a cluster containing agricultural cooperatives and it echoes Ostrom’s observations (1990, 2005, 2010) about the proactive capacity of actors in shaping their own institutions and economic relations.

“Economic justification” is quite straightforward in the emergence of traditional agricultural cooperatives. Producers collaborate to improve their social and economic positions in situation where they lack access to markets. As seen in Chapter 2, Valentinov (2007) sets out the transaction cost arguments to justify such cooperative form of

organization. Authors such as Hansmann (1996) and Sexton and Iskow (1988) set out other market contracting cost justifications.

Perhaps it is at this stage in the lifecycle that the “social” and the “economic” aspects of the cooperative business form are most inextricable, where members have similar, if not identical interests. They are also interests born out of necessity, such necessity breeding not only solidarity but creating a shared community.

Organisational design” entails the institutional embedding of the cooperative form. In Cook and Burress’ framework this applies to the constating documents of the cooperative. When applied to the cooperative sector, it would refer to the cooperative institutions and the relationship between them, decision-making processes and risk bearing arrangements. Member input is noted as being an important ingredient in this stage.

The third phase of “Growth, Glory and Heterogeneity”, refers to successful cooperatives experiencing a divergence of interests, which may threaten the viability of the cooperative organization. Preferences and interests may be “unaligned” and thus in the terms of Hansmann (1996) may lead to an increase in “collective decision making costs”. Burress and Cook (2009:5) refer to these “costs” which may arise as “the six basic problems”: free-rider, horizon, portfolio, free cash flow, influence and control” which are of course the cornerstones of agency theory set out in Chapter 2, found in Jensen and Meckling (1986) and referred to in Cook and Iliopoulos (1995). It is at this stage that the “remedies” of contract and property rights are seen to be the most relevant by property rights, TCE and NIE theories. In the case of Almería, we can see that these issues were overcome, not by resort to juggling property rights or contract relationships, but by a concerted strategy on the part of the cooperatives to “act cooperatively” and to strengthen existing cooperative institutions and create others.

This third phase is given the most attention in the above framework, being a critical phase where member interests may diverge due to heterogeneity. Investment behavior and member commitment, according to agency theory and TCE, are often the casualties due to “lack of alignment”. However, Burress and Cook make clear that they do not assume a direct correlation “between heterogeneity in member preferences and heterogeneity in member circumstances”, nor between “the existence of heterogeneity and organizational outcomes” (2009:6). In fact, they state “[d]iversity in member circumstances may, in fact, stimulate the development of creative problem-solving and unique proposals”. As a result, their concern is for those situations where there is “divergent stances among members on decisions related to the allocation of residual claimant and residual control rights”. This,

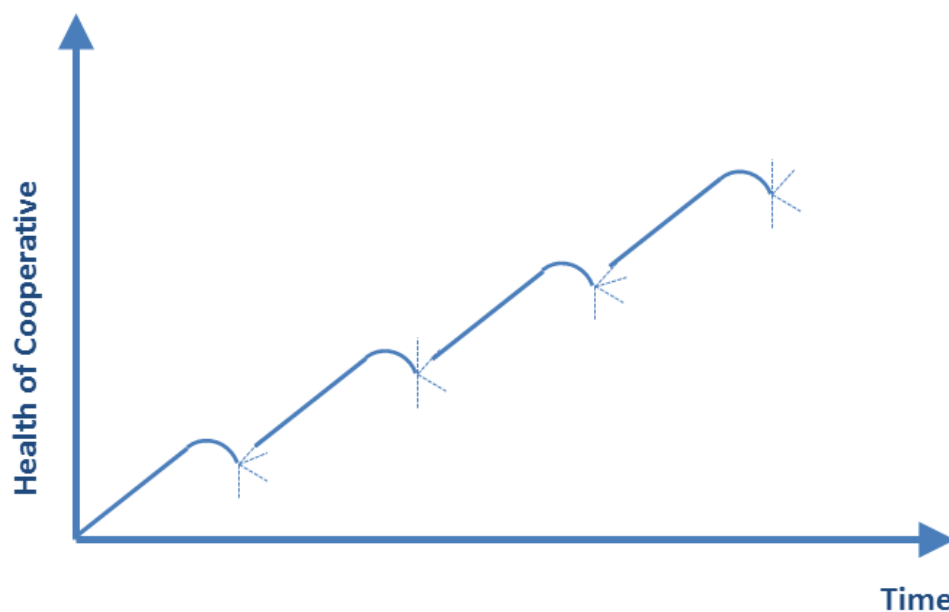
coupled with “vaguely defined property rights” (Cook 1995), the cornerstone of TCE and NIE, is seen as a potentially “debilitating” situation for cooperative organisations. Yet, the authors are careful to stress that heterogeneity in terms of preference be given a neutral interpretation.

The fourth phase is that of “Recognition and Introspection” where members are observed to fall into one of the following categories: “apathetic, targets for aggressive rivals, vacillators and the loyalist”. (2009:13). In this phase heterogeneity inspires “fragmented coalitions” wherein “the cooperative purpose and direction becomes less focused and ill defined thus accelerating a self-reinforcing degenerative spiral”. There are inherent conflicts and tendencies of denial which prompts slow and formal discussion of the issues facing cooperatives (characterizes as collective decision making costs in TCE and NIE terms). The task for this phase is for cooperative leaders or members to demand “explicit action to remedy perceived and real challenges”.

This leads us to the final “Choice” phase where several options may be taken by cooperative members: Reinvent, Tinker, Spawn and Exit.

“Tinkering” is a redesign of “constitutional or operational mechanisms to align preferences and incentives of the membership”. This does not entail any significant change in ownership rights. “Reinvention” does involve a change in ownership rights, for example allowing redeemability of shares or allowing various classes of “investors”. “Spawning” is a process, based on the observations of Gompers, Lerner and Scharfstein (2005) wherein members of a parent cooperative form a separate enterprise. As Burress and Cook observe, these enterprises are often complementary and use joint investor networks (Burress and Cook, 2009). “Exit” signifies a conversion to an IOF.

Given that “choice” is a juncture and not necessarily a final phase in the linear analysis, the graph may be redrawn as in Figure 6.3:

Figure 6.3 Iterative Life Cycle Hypothesis.

Source: Cook and Burress 2009.

In the case study of Almería there were junctures requiring strategic choices to be made by the cooperatives. The defensive or strategic choices taken by the cooperatives at each juncture relied on the cooperative network of institutions and strengthened the sector as time progressed. Instead of a reworking of property rights or contractual relationships, cooperative collective action served to address challenges.

However, it should be noted that recently the new Andalusian cooperative law response on the autonomous community level does provide for a “tinkering”, “reinvention” and spawning, whilst other public policy measures continue to avoid dealing with the severe exogenous challenges facing the F&V cooperative sector. Legislation provides incentives for consolidation and integration. The sector itself notes the downward pressure on prices from the large distributors and concerns about unauthorized imports from Morocco and other areas which have lower labour costs and less strict compliance.

The role of cooperatives in Almería’s economy goes far beyond that of traditional cooperative marketing activity (i.e. producer cooperatives where farmer/producers bring their product to the cooperatives in order to create economies of scale in the marketing stage). In order to illustrate their institutional influence and the “virtuous circle” they create, the cooperative role is looked at throughout the life cycle of the community and cooperative business stages.

6.2.4 Lifecycle of Agricultural Cooperatives

6.2.4 (i) Phase 1-Economic Justification-1960-1975-the setting up of co-operatives and associations of producers

Geographically isolated, with arid land, lack of infrastructure and a high percentage of its population having emigrated due to lack of opportunities, the province of Almería in the 1960s was not the best candidate for agricultural development. In the late 1940s and 1950s, Franco's development plan had declared some 30,000 hectares in the province of Almería, as a zone of national interest in an attempt to increase agricultural production. A government programme was implemented to provide wells and pumps thus supplying a few hundred hectares with water by virtue of small gasoline pumps, scarce electricity precluding much more (Sánchez Picón, 2005: 82). In 1956 crops were planted with abysmal results (Cazorla Sánchez, 1999: 229) as the subterranean waters were quite saline and not particularly suited for cultivation. Newly settled farmers in an attempt to survive in this unlikely agricultural area and in response to the dry soil, saline water and vicious winds created a "technological innovation" which consisted of putting down a layer of fertilizer, then covering this with a layer of sand, in order to keep the roots moist and filter the salt. With the arrival of plastic, a clear plastic sheet was put overhead. These structures served as the first rudimentary greenhouses. As uneventful as it may seem now, this simple "innovation" radically transformed the region.

In 1961 the government introduced an electrification plan, allowing more efficient water pumps, and thus a model of unsustainable development based on using subterranean waters was put into motion. Families were allowed to buy up to 3.5 hectares of land although it was impossible to support a family on such small pieces of land. The Colonisation Programme was not intended to improve the lives of such farmers, but rather to exploit existing resources (cheap labour and underground water), fully expecting that the new settlers would be part-time farmers for themselves and cheap labour for others.⁶⁸ With increased production underway by use of irrigation and basic greenhouses, families needed to sell their production. However, there were few organized marketing efforts and farmers would attempt to sell their goods, often completely unaware of what others were selling for. Local Almería firms were denied permits to market their products by the

⁶⁸ It should be noted that there is a difference of opinion regarding the role of the "Instituto Nacional de Colonización" (INC). In Flores Jiménez, et al (2005) the authors state that the "INC always paid much attention to the living conditions of the settlers [farmers]", and yet they also point out that the farmers had to reimburse the INC for its expenditures on the public interest works and that in order to pay for seed, tools and fertilizers, they had to hand over 60% of production. After (or if) the farming activity was deemed to be profitable the farmers then had to pay back this debt over the space of 25 to 40 years.

Franco government and commercialisation was thus controlled by larger companies from Murcia, Alicante and Valencia, who would buy Almería product and re-export it under their own labels (Cazorla Sánchez, 1999). Roads and railway lines were also underdeveloped. What little financial intermediation existed was largely through private auction houses on the initiative of entrepreneurial middlemen, and some even implemented a type of 'financing' in that they would cover the costs of seeds and supplies up front and subtract this from revenues after the harvest. However, the lack of transparency in prices and price fixing between large auction houses left the farmers in dire circumstances and many lost their land to the auction houses. Auction houses would then resell or rent the land to young farmers with an exclusive contract to sell their goods, allowing the auction house to fill up their warehouses with produce and combat the efforts of farmer co-operatives (Cazorla Sánchez, 1999: 234). A co-operative auction house (founded in the 1940s) did exist, but it lacked sufficient capital until funded by the co-operative bank.

In 1963 the credit co-operative "Caja Rural Provincial de Almería" (now Cajamar) activity commenced on the initiative of a few local people and was the impetus for farmers to organize. It encouraged the farmers to set up their own local cooperatives or associations and provided financing for the same. Breaking the rules of traditional finance, unsecured loans were given, based solely on the promise of labour. As a result, the cooperative bank assumed a different position than that of a traditional provider of credit or capital: it had a far higher stake in making sure that whatever activity the farmers engaged in was worth financing. This simple, though paradigm-changing, observation has informed the strategy of the cooperative bank since that time.

As the cooperative bank was not officially set up to perform financial transactions, the founders withdrew the funds every morning, circulating amongst the farmers to do their banking. At the close of business they would deposit the money in a conventional bank. In the meantime, a network of customers was created.⁶⁹ This continued until the Caja was officially constituted in 1966. The first formal official loan by the Caja on its own account was made in 1967. In 1970, it proceeded to rapidly open 'branches' (modest buildings amongst the greenhouses) in all of the small towns and villages of the province and in 1972, it opened its own office in Almería city. When it gained official status, it could only give credit or make loans to agricultural co-operatives. To this end, it followed a strategy of creating cooperatives in many small towns and villages, dedicating resources and people to the task. Deposits from the interior towns were used to finance the emerging

⁶⁹ Interview with D. Juan del Águila by C.Giagnocavo, 19 March 2010, Almería.

needs of the 'new' irrigated farming on the coast. There was a double objective: to find new clients and to create an agricultural co-operative network throughout the province.

In the space of 12 to 13 years, the cooperative bank helped to develop an agricultural cooperative movement and established innovations in both information and agricultural technologies. Its actual 'financial' activity was quite straightforward: simple credits and loans in keeping with traditional banking. Its growth was extraordinarily rapid. In 1970 agricultural loans equaled 200 million pesetas. Three years later this amount was 1,268 million pesetas. (In contrast, the well established savings bank of Almería had a volume of only 862 million pesetas in agricultural loans.) By 1975, the Caja's deposits had reached 2,490 million.

While these results are impressive under any circumstances, what is curious is how such a cooperative movement and cooperative credit bank managed to achieve this during a dictatorship where capital and social structures were tightly controlled by the Regime and where there had not been a pre-existing cohesive community embedded in a particular territory. It operated 'under the radar' and when the Regime noticed, it was already well entrenched as an institution in the province. Given the absence of union leaders and political organisers, coupled with a distrust of institutions and authority, the cooperative bank served as the impetus for farmers to organise. Even though "cooperatives" were still cooperatives under a dictatorship, the fact that they were small enterprises with the support of independent financing was the start of a new paradigm in the region.

Economists describing this period (e.g. Molina Herrera, 2005; Cortés García, 2003/2004) offer the following observations about Almería: that in general, financing needs were low and there was very little linkage between financial and agricultural sectors. Production depended on natural factors (availability of some water, cheap land and a sunny climate), abundance of cheap labour, and low capital requirements given the basic level of technology and the absence of a marketing structure. The agricultural activity is described as being squarely within the primary sector and value added was based on sheer labour effort. What little financial intermediation existed was noted to be largely through the auction house.

What this analysis does not tell us is that farmers had a critical need for micro-financing that was not being met. They also needed capital and an organisation to create a system of commercialisation which did not exploit them. While technology was basic, it was still significantly more expensive than non-irrigated farming. Without access to cooperative capital, further development would have been difficult if not impossible for these farmers.

At best, they would have been able to farm part-time in addition to working as cheap wage labour for the local urban class.

The development model as set up by the Franco Regime was unsustainable, relying on the over-exploitive use of water, under-investment in further technology, infrastructure and commercial avenues and no investment in the people actually working the land. Farmers endured atrocious living conditions, without proper housing or sanitation. Children had to work alongside parents, often missing school entirely (Cazorla Sánchez, 2010: 107). It is likely that they would have remained peasants until the last of the fresh water had been squeezed out of the aquifers.

The **cooperative response to Phase 1** consisted in the:

- opportunity for farmers to transform labour into capital and to organise
- setting up of financial and marketing infrastructure
- rapid expansion of a network based on tiny cooperative field offices which allowed the monitoring of both financial and agricultural activities, resulting in the dissemination of know-how and the beginnings of social cohesion
- full alignment of cooperative finance with cooperative economic activities, i.e. the finance provider had an interest in making sure activities were successful and worth financing.

6.2.4 (ii) Phase 2-Organizational Design-1975-1990-technical and political/economic challenges and setting up the cooperative institutions

Spain began the transition to democracy in 1975. Unemployment was high, there was little culture of investing, Spain was isolated and there was a muddled vision of the way forward with the loss of the paternalistic state and little sense of external international competitiveness. In this sense, Almería was at a clear disadvantage to regions such as commercially savvy Valencia, which had not only agriculture but a textile and wood industry. The growing agricultural model began to show signs of stress as land prices soared and overexploitation of underground water led to the intrusion of seawater. Mineralization of the soil increased, pesticides started to accumulate, erosion was a problem as was waste disposal. Production started to decrease and energy prices started to rise. Supply overtook demand as other areas of Spain (Murcia, Valencia, etc.) also had increased production. Countries which had a favoured status within the European Common Market and countries which had agreements which gave them preference (Holland, Morocco, Israel) were serious competitors. In turn this weakening position gave more market power to large agro-food companies (Cazorla Sánchez, 1999). When CAP

payments became available, it should be noted that Almería received only 1% of subsidies destined for Andalusia.

The challenges for the cooperative farmers in this stage of development not only were the adjustments to be made in the transition to a market economy and to a democracy, but there was also a need for innovation, on a social, economic, strategic and institutional level. In 1975/76 three experimental farms were initiated and fully financed by the cooperative bank with the goal of increasing the technical level of the agricultural cooperatives by testing, developing and sharing results with the agricultural cooperatives. Its purpose was to transfer in part, experimental and crop risk (and thus, financial risk) from the farmer to the cooperative system. In the same year a technical agricultural service, fully financed by the credit cooperative was created, where the viability of new technologies was tested in order to provide information on establishing the adequate finance mechanisms that needed to be put in place for each new technology (basically, a system of risk assessment and cost/benefit analysis). While certain technologies were innovative, whether they would be profitable was a different matter.

Many cooperatives, some of which exist to this day, were set up in the late 1970s. In 1982 the Regional government of Andalusia brought into force cooperative legislation which encouraged the setting up of cooperatives (three years later, the Regional government of Valencia would bring in their own legislation). The SAT (Sociedad Agraria de Transformación) form, which was a hybrid type enterprise which mixed characteristics of cooperatives with a company form, was also brought into being (described below) and the first one founded in Almería in 1982. In the early 1980s second-tier cooperatives attempted to enter (UTECA from the north of Spain) Almería with little success. Large shareholder companies were founded as well in areas of auctions, re-sellers and producer-marketing in the style of the cooperatives. However, companies that had to pay salaried workers found it difficult to compete, at that time, with cheaper family labour. In 1987 FEPEX (exporter association) and FAECA (agricultural federation) were founded.

With the foundations of both finance and technological investigation put in place by the cooperative sector, the process of growth began in the new agricultural sector ("new" meaning for the most part drip irrigated greenhouses). Technology became more important, where farmers could no longer just rely on hard work. New markets opened, particularly that of the European Union, requiring a new strategy. The association of producer organizations, Coexphal was created in 1977 in order to access sales quotas (in Madrid) and to distribute them to cooperatives so they could market products.

Innovations not only significantly increased production but also allowed Almería's product to enter the market two months earlier, something that was key when faced with competition from other countries.

With all of this came the need for increased financing and increased coordination.

The role of cooperatives in this stage in both production and marketing had a dynamic character, providing for the incorporation of new technology and above all the incorporation of market information in the production process (dates, varieties, ripeness, etc.). In addition, because cooperative social funds and benefits were poured back into research and investigation, the cooperatives were in the position to interpret how much funding was necessary for any particular activity.

Innovations not only significantly increased production but also allowed Almería's product to enter the market two months earlier, something that was key when faced with competition from other countries. The assumption of research expense and experimental risk by cooperative entities, not only spared farmers such uncertainties, but it also created a sense of community through a shared knowledge base. In addition, research dealt with the pressing environmental issues that were necessary from a sustainability point of view, but something that the family farmers would not have been able to undertake, financially or technically.

The cooperative movement also contributed to changing the mentality of the farmers in that they were now participants in the commercialization process, with a deeper understanding of workings of the market and consumer demand. The tools of pressure that they could now use to begin to influence as both producer-exporters on the level of the Administration (which was dominated by other producer areas of Spain) became stronger as the sector grew and they found themselves with a political voice and power not experienced before.

The **cooperative response** to the **Phase 2** consisted of:

- shifting individual farmer risk to cooperative system risk
- research into new technologies and innovation and cost/benefit analysis of their introduction/implementation
- changing the mentality of "peasant" to farmer who understood markets and consumer demand
- strengthening cooperative institutions
- tracking market and economic information

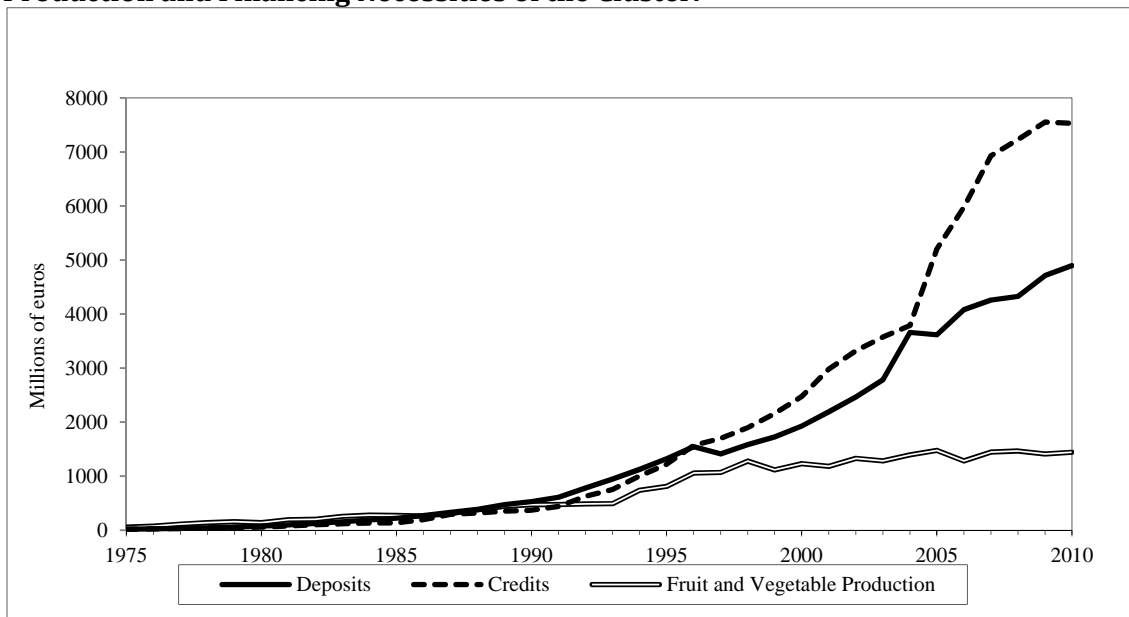
- providing a political voice and political and economic representation through influence on European policies

6.2.4 (iii) Phase 3-Growth, Glory and Heterogeneity-1990-2000

Entrance into the EU, coupled with the impending globalization after the Marrakech Agreement of 1995 (replacing GATT and liberalizing world trade) brought again new challenges to the Almería agricultural sector. Such conditions required larger infusions of capital than had ever been the case to meet increased demand and to enable the farmers to compete internationally. Until the early 1990s Almería's F&V sector and cooperative bank created a self sustaining financial system so to speak, as demonstrated in Figure 6.2. Beyond such time the Almería economy required credit beyond the deposit amount that F&V production alone could generate in order to finance research and development and other auxiliary and cluster activity such as construction and infrastructure investment. The cooperative bank met these challenges in several ways: it pursued an expansion strategy in a neighboring province with an intensive agricultural sector, prompted by the failure of such province's credit co-operative. It also continued to invest in research and technology.

An important issue in the development of intensive F&V agricultural cooperatives was the availability of finance. While the credit section of Valencia cooperatives were also instrumental in their growth, the particular role of Cajamar made Almería agricultural cooperative credit sections, for the most part, redundant.

Figure 6.4 Banking Resources of Co-operative Credit and Co-operative Agriculture Production and Financing Necessities of the Cluster.



Source: Cajamar Foundation, based on data from Bank of Spain and Cabrera et al. (2010).

During this period there was a widespread incorporation of production technology, business management applied to farms, and the conversion of the “peasant” into an “agricultural entrepreneur”. The cooperative sector provided management training courses for the agricultural cooperative boards, technical sessions for field technicians, specialist agricultural courses and assistance with grant applications. The association of producer organisations created information systems to communicate with cooperative member farms, allowing for immediate dissemination and implementation of crucial information and practices. An important function of the cooperative bank and the association of producer organisations was to calculate the economic implications of the adoption of such technologies, a task which would have been beyond the family farm’s capabilities, other than through trial and error. The assumption of experimental risk and information and organizational tasks by the cooperative sector became an even greater contribution.

Throughout the 1990s there was a merging of cooperatives into larger first-tier entities in order to create efficiencies (Flores Jiménez, F., 2005). Cooperative institutions contributed to the creation of new lines of businesses in the cooperatives, supporting business associations related to agriculture not only financially but also utilizing its network of institutional contacts for the development of their projects. Services and infrastructure become similar to that of industrial districts. The infrastructure for cooperative direct commercialization was put in place.

Cooperative institutions contributed to the creation of new lines of businesses in the cooperatives, supporting business associations related to agriculture not only financially but also utilizing its network of institutional contacts for the development of their projects. Services and infrastructure become similar to that of industrial districts. The infrastructure for cooperative direct commercialization was put in place.

The **cooperative response to Phase 3** consisted of:

- focusing on technology and further innovative research (and adaptation and implementation)
- securing adequate financial resources for the cooperative sector
- providing training and education so that “farmers” became “entrepreneurs”
- shifting of agricultural product as “commodity” to client focused added value and participation in more links in the supply chain
- developing more sophisticated business and information services, thus allowing both small and large businesses equal footing
- creating more advanced cooperative institutional infrastructure and networks

6.2.4 (iv) Phase 4 Recognition and Introspection-2000 onwards

Since 2000, the development and maturity of the agricultural support and services industry gave way to sector diversification and the creation of a Local Production System or “cluster”. Agricultural production has increased, optimizing costs and the implementation of quality control systems have taken on a more significant protagonism. As well there is a consolidation in the commercialization phase, particularly in exports. In Figure 6.5 (below in 6.5 “Economic data”) we can see the rise of cooperatives in commercialization market share.

Almería’s first-tier cooperatives dominate the market (e.g. CASI, MurgiVerde, Vicasol) and are increasing in size and influence. Collaborations, increased efforts in terms of exports and internationalization and mergers amongst first-tier co-operatives and SATs have characterized the response of Almería’s cooperative sector to increasing competition. For example, in 2003 Vicasol merged with Almerisol, which permitted the increase of capacity by 40%⁷⁰. In 2010, Ramafрут SAT and Frucamp merged⁷¹. In 2011 Agroiris SAT and Mayba SAT merged (Ruiz, 2011).

⁷⁰Information from Vicasol’s webpage: <http://vicasolproduce.com/>

⁷¹ BOJA nº236, December 2, 2010. Retrieved from: <http://www.juntadeandalucia.es/boja/boletines/2010/236/d/updf/d101.pdf>

Differentiation in terms of “biological” or “integrated” and ecological product is being vigorously pursued. To reduce the use of agricultural chemicals in the production process, the cooperative sector has led the implementation of biological control and integrated production to fight against pests and plant disease as an alternative to pesticides, thus creating a more sustainable agriculture. This effort, built on the cooperative network, resulted in the “green revolution” in 2007 in Almería’s production whereby 70% to 100% (of area, depending on product) utilize such methods. Diversification into alternative energy activities (e.g. biomass) or related businesses is also common in larger cooperatives. Almería also has the largest concentration of ecological F&V product in Europe and is increasing the area dedicated to ecological product.

Food safety and plant health are constant concerns for farmers and a standard demand for clients. As a response, the Almeria association of producer organisations (predominantly cooperative), created its own laboratory for analysis in 1988 which permits farmers and cooperatives to test and control food quality, as well as soil, water, plants, fertilizer, seeds and farm installations. Consequently it promoted the elaboration of F&V quality production standards and certification within the ISO. These standards are more rigorous than those required by Spanish and European law and are now homologated and recognized as the highest standards in the market. 100% of the area cultivated by the association’s cooperatives has this certification.

See Chapter 6.2.6 for more information on mergers, collaborations and strategy. As well, it appears that efforts in the IV and V range (of processed, ready to eat foods) are gaining ground.

Cooperative representative entities have coordinated agricultural cooperatives to qualify as European Union designated Producer Organisations of F&V under the Common Market Organisation (CMO) regulations and helped the cooperatives to devise their operating programs under the EU regulations.

The Cooperative Response to Phase 4:

- To meet the increasingly demands of a global food economy, cooperatives have intensified their networks through both collaboration and consolidation. Since intensive agriculture is very dependent on R+D+i, research and institutional partnerships are necessary and have included support from other types of businesses and institutions.

- Cooperative institutions have facilitated the setting up of F&V POs under the CMO and the setting up of operating programs and compliance therewith.
- Both from the association of cooperatives and from the credit cooperative there has been a concerted effort to promote horizontal and vertical integration, so as to create economies of scale at the marketing level and also shorten the supply chain.
- The creation and dissemination of economic information to aid farmers and cooperatives to act strategically
- The provision of organizational, human resources and member services by cooperative entities contributes to the “virtuous” cycle of cooperative reproduction. Departments exist to help with subsidies; risk prevention; HR and immigration; production techniques and control of pests and disease; quality control, laboratory analysis and investigation, administration, training, marketing and foreign promotion, research and statistics, communication, insurance and travel.
- While larger cooperatives may have their own administrative, commercialization, marketing, technology, warehousing, training, quality and HR departments, the fact that smaller cooperatives have access to the same expertise and sophisticated services through the association allows flexibility, autonomy and equality in the business sector. It also encourages “new players” to enter the market. By virtue of being a cooperative member, most farmers have access to a sophisticated and wide array of business, human resource, research, financial, communications and technological resources that would be impossible on a non-associated small farmer scale.

6.2.4 (vi) Phase 5-Choice

Above at the end of each Phase, the “cooperative response” has been set out, representing the choice that has been made by the sector. Thus far, the sector has chosen to “re-invent” itself within the cooperative framework, with some necessary “tinkering” on the side. Certain cooperatives have set up joint ventures, platforms and the occasional IOF has been set up to carry out specific tasks. The model is predominantly within the cooperative and to a lesser extent, the SAT model, although there is a diversity of enterprise forms. However, from an institutional perspective, cooperatives continue to dominate.

Going forward, following the financial crisis and the implosion of the construction sector, there has been a renewed focus on agro-food business. In addition, Almería and other regions such as Valencia and Murcia will have to deal with ever increasing opening of

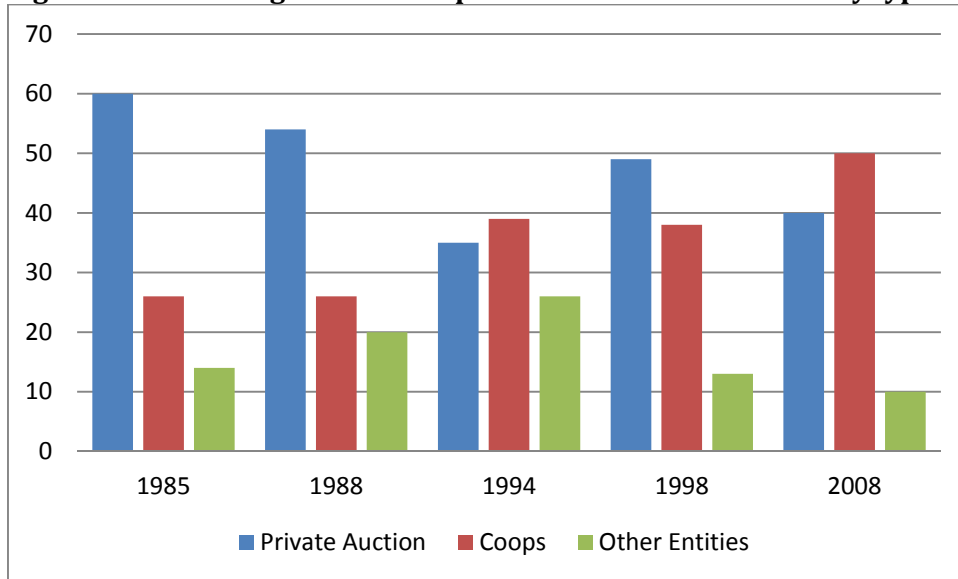
markets and competition from countries where labour is cheaper such as Morocco and Egypt (“social dumping”). Neither fair labour nor environmental standards, much less the equality benefits of a cooperative business model, are a priority for such competition.

Recognizing the importance of the abovementioned CMO, the current challenge is to integrate the representative associations of F&V producer organisations on a European level to guarantee survival and competitiveness of farmers and their cooperatives. Producer organisations and their associations tend to operate on a regional or national level, which weakens their position. Cooperatives have traditionally led the associated producer movements and must continue to defend farmer interests. The ability to mount an effective lobby at regional, national and EU levels cannot be understated

The constant downward pressure on pricing and the sheer weight and market power of the supermarkets and distributors are important and difficult challenges and hence, horizontal integration of Almería cooperatives is seen to be an outstanding task. Movement has begun in such direction and any reticence to do so appears to have more to do with “the concentration of people” rather than worries about the concentration of capital. For this, a re-commitment to “collective enterprise” and the cooperative community is necessary.

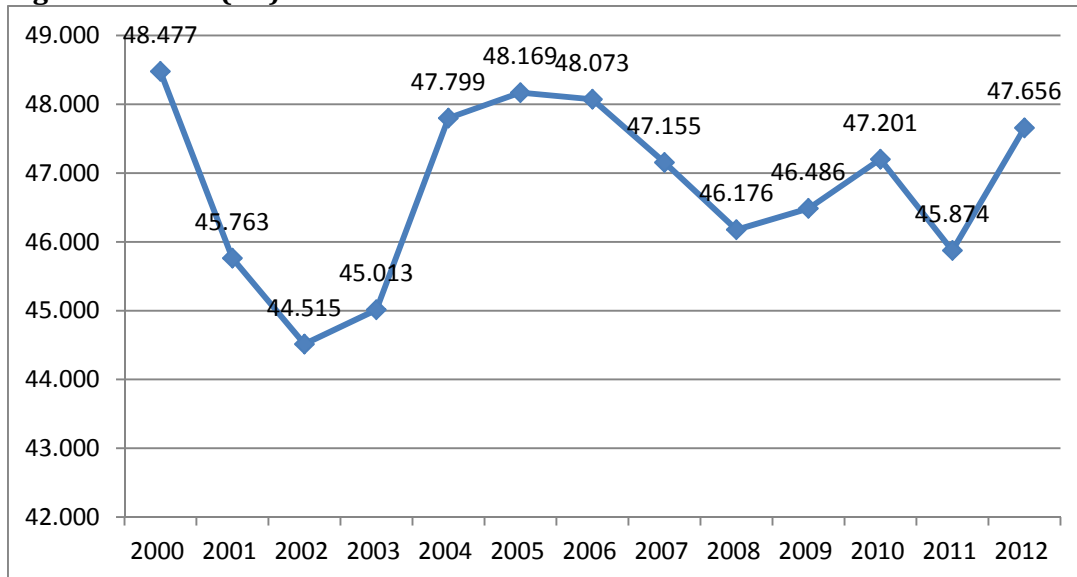
6.2.5 Economic data

In 2011 the Almería F&V sector represented 31.84% of Spanish agrarian production and 56% in Andalusia (MARM, 2011e). In Almería in 2012, F&V production represented 95% of agricultural production (not including livestock, which would be 90%) (CAP, 2012) Co-operatives are responsible for 50% of commercialised production, a growing percentage as set out in Figure 6.3

Figure 6.5 Percentage of Almería production commercialized by type of company.

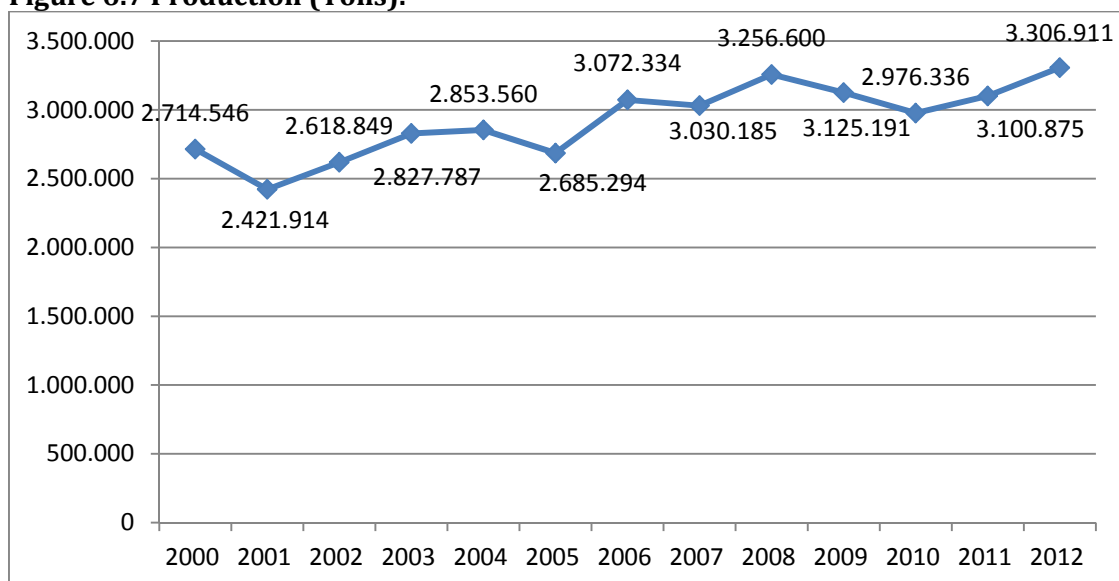
Source: Coexphal

Cultivated area in 2011 decreased to 46,000 ha, the decline being due to production moving to other countries such as Kenya and Morocco which have cheaper labour costs. However, in terms of ecological production, in 2010 area increased to 1,592.34 ha in vegetables, 1,133.34 ha in citrus and 520.27 ha in fruit (CAP, 2010).

Figure 6.6 Area (Ha) Under Cultivation in Almería.

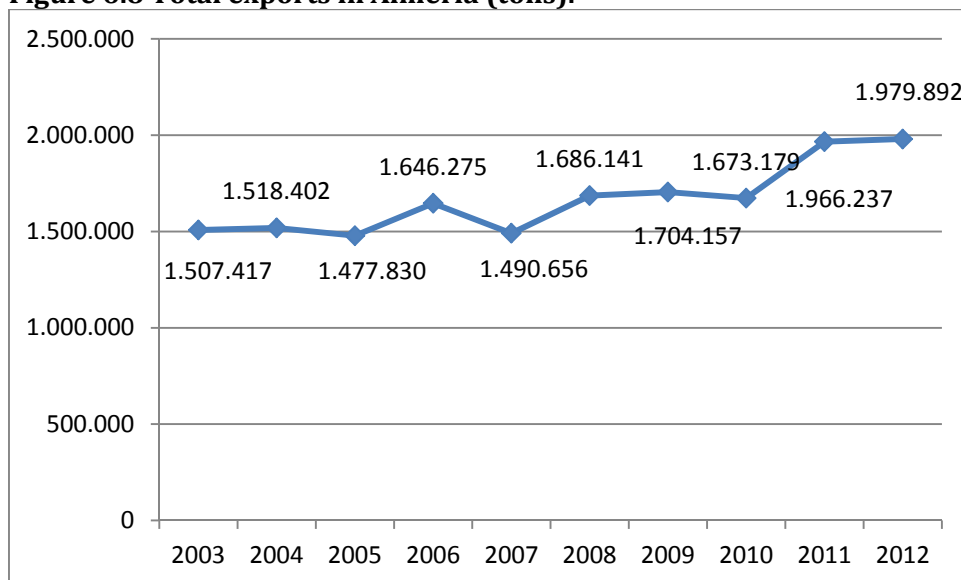
Data source: CAP (2012)

Even though area has decreased, production has increased over the last decade. In 2012 it reached 3,306,911 tons, of which 93.45% corresponded to vegetables, 6.23% to citrus and 0.32% fruit. This production represented 43% of the total production of Andalucía. The main Almería products include tomato (28%), pepper (15%), cucumber (12%), courgette (11%), watermelon (11%), aubergine (5%), lettuce (5%) and melon (4%) (CAP, 2012).

Figure 6.7 Production (Tons).

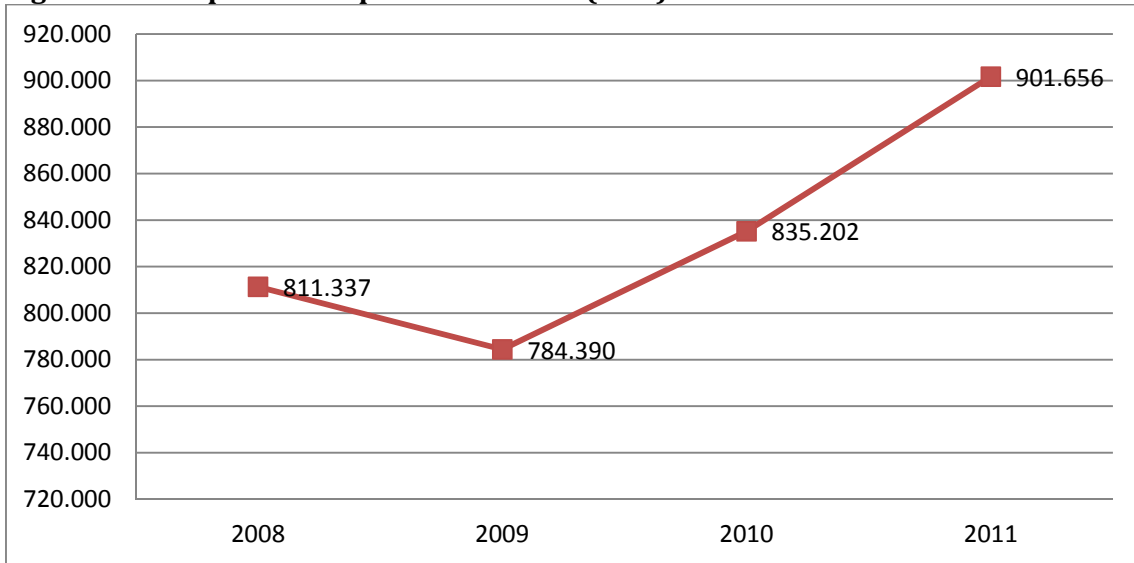
Data source: CAP (2012)

Currently 69.5% of Almería vegetable production is destined for export, which represents Euro 1.741 million in 2012. Of this total, a large part of exports are carried out by co-operatives (see Figure 6.8). Export destinations are Germany (30%), France (16%), The Netherlands (12%) and the United Kingdom (10%). Major exports are tomato (25%), cucumber (18%) and pepper (18%).

Figure 6.8 Total exports in Almería (tons).

Data source: ICEX (2003-2011) and Cajamar (2012)

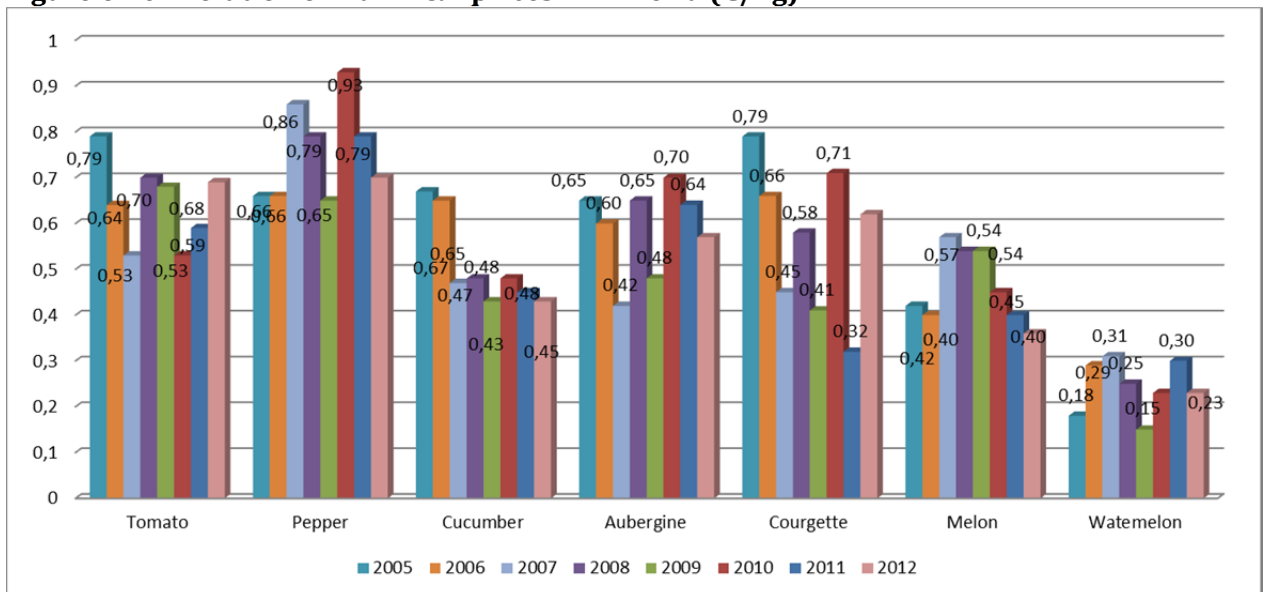
Figure 6.9 Co-operative exports in Almería (tons).



Data source: Coexphal

Prices of principle products have fluctuated in recent years with a general tendency downwards, due to increased production, lack of negotiating power and the necessity to compete in markets dictated by wholesalers and distributors.

Figure 6.10 Evolution of Main F&V prices in Almería (€/kg).



Data source: Instituto de Estadística y Cartografía de Andalucía

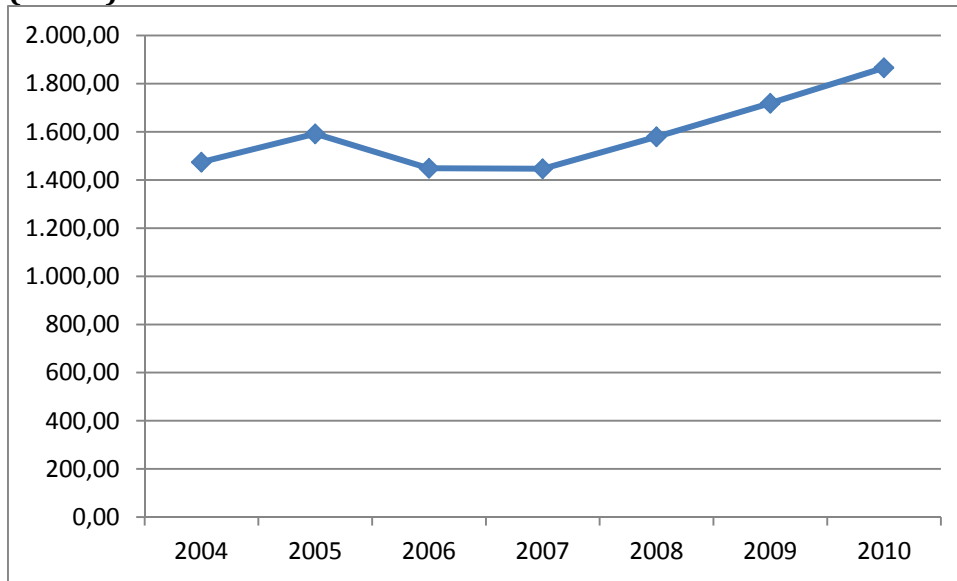
Table 6.1 gives an idea of the size of Almería's cooperatives. In contrast, the turnover for Anecoop, the largest second-tier cooperative in Valencia, was 482,000,000 Euros for 2011.

Table 6.1 Economic turnover of selected Almería agriculture co-operatives (S.C.A.), S.A.T.S and non-co-operatives (S.L. and S.A.) (mill €) (2011).

COMPANY	TURNOVER	COMPANY	TURNOVER
Casi S.C.A	196,700,000	Agrupapulpí S.A.T.	51,000,000
Alhóndiga la Unión S.A.	195,000,000	E.H. Femago S.A.T.	49,700,000
Agrupaejido S.A.	120,000,000	Primaflor S.A.T.	41,600,000
Unica Group	120,000,000	Nature Choice S.A.T.	41,000,000
Cabasc S.C.A.	20,900,000	Indasol S.A.T.	40,000,000
Casur S.C.A.	30,500,000	Hortamar S.C.A.	36,300,000
Ferva S.A.T	31,600,000	Acrena S.A.T.	36,000,000
El Grupo S.C.A.	50,000,000	Ejidomar S.C.A.	30,500,000
Agrieco S.A.T.	13,000,000	Frutas Escobi S.L.	29,300,000
+Cohorsan S.C.A.		Cualin Quality S.L.	20,900,000
Murgiverde S.C.A.	113,000,000	Ejidoluz S.C.A.	29,059,000
Vicasol S.C.A.	100,000,000	Uniagro S.A.	16,000,000
Bonnysa S.A.T.	108,319,000	Cítricos del Andarax S.A.T.	9,526,000
Agroiris S.A.T.	100,000,000	Agrícola Navarro de Haro S.L.	14,400,000
Hortofrutícola Costa de Almería S.L.	95,000,000	Agromullor S.L.	10,400,000
Agroponente Natural Produce S.L.	82,000,000	Fruejido S.L.	5,500,000
Agroponente S.A	67,000,000	Explotaciones Agrícolas Frulape S.A.	2,260,000
Agrupalmería S.A.T	55,300,000	Horfrasol S.A.T	1,240,000
Canalex S.A.T	55,000,000		

Note: Anecoop in has 5 Almería co-operatives which are not included in this Table (see under Table 6.4). Data source: Coexphal

Figure 6.11 Turnover of Almería Agricultural Cooperatives (Coexphal members) (Mill €).⁷²



Data source: Coexphal

6.2.6 Strategy and structure of main cooperatives

6.2.6 (i) Position in the Food Chain

In order to obtain a better understanding of which support measures have been and could be effective to support F&V cooperatives, it is important to analyze their position in the food chain. The cooperatives of Almería commercialise the agricultural production of their members and are predominantly in the initial or occasionally intermediate phases of the supply chain. Thereafter, they are involved in packaging, warehousing, transport, logistics, and distribution to wholesalers and also some retailers. Diversification into alternative energy activities or related businesses is also noted in larger co-operatives.

The majority of F&V cooperatives are joint commercialization cooperatives (usually they don't transform the product) which have large suppliers and customers. This limits their bargaining power to control prices, as the suppliers and customers both have the market power to fix prices. These market structures indicate the support measures that should be taken into account given such market structure. The preferential trade agreement entered into by Morocco and the EU demonstrates an important threat for their F&V producers. This agreement treats Moroccan production in the same way as European production, despite the fact that Moroccan production is not produced under equal conditions (i.e. control in the use of pesticides, different labour market regulations), resulting in a "social dumping".

⁷² The years 2006, 2007 and 2008 do not include Primaflor SAT or Caparrós, two entities whose combined turnover is approximately 125 million € and who left and then rejoined the APO.

Although there have been efforts through work groups to deal with these issues on an EU-Moroccan level, non compliance remains the norm.

6.2.6 (ii) Research and institutional partnerships

Intensive agriculture is very dependent on R+D+I. In order to carry out their activities the co-operatives require support from other types of businesses and institutions. The experimental farm Las Palmerillas of the cooperative bank was an important player as is the laboratory of the association of POs. The University of Almería (a campus of excellence for agricultural research), both from a business administration and scientific and point of view, as well as IFAPA (Agricultural and Fisheries Research/Instituto de Investigación y Formación Agraria y Pesquera) are important partners in research.

6.2.6 (iii) Institutional/governance structure and legal form

Agricultural producers in Anadalusia are based on different legal structures and tax regimes and thus different internal governance requirements and practices. Amongst them the most common are:

- Sociedad Cooperativa Agraria/Agricultural Cooperative Company (S.C.A).
- Sociedad agraria de transformación/Agricultural Company of Transformation (S.A.T).
- Sociedad Anónima/Anonymous Company (S.A).
- Sociedad Limitada/Limited Company (S.L).

Aside from cooperatives, in Almería SATs are the most popular form of collective entrepreneurship in agriculture. SATs are somewhat like general partnerships and capitalistic companies at the same time. Their membership is limited to farmers, farm workers or those with farm related purposes, but their statutes and bylaws allow voting in proportion to share capital when decisions that need to be taken are financial in nature.

The producer entities most important in the province of Almería are included below in Table 6.2, with an indication of their legal form. The high presence of S.A.T.s is notable; however the largest entities continue to be cooperatives. Groups are set out in Table 6.3.

Table 6.2 Almería Agricultural Entities according to Legal Form.

S.C.A	S.A.T	S.L	S.A
Cabasc*	Acrena	Ferva*	Agrícola Navarro de
Camposol*	Agrieco*	Hortasol	Haro
Campovicar	Agroiris	Hortofrutícola	Agromullor
Casi	Almerifresh	Mabe	Agroponiente
Casur*	Biosabor	Indasol	Natural Produce*
Cohorsan*	Bonnysa	Inver	Cualin Quality
Coprohñjar*	Canalex	Las	Francisco Oliva
Ejidoluz*	Cirera	Hortichuelas	Fruejido
Ejidomar	Cítricos del	Las Marinas	Frotas Escobi
Geosur	Andarax	Nature Choice	Horfrasol
Hortamar*	Costa de Níjar	Níjar Sol	Hortalizas Indasur
Murgiverde	Costadulce	Nuestra Señora	Hortofrutícola Costa
Parque Natural	Costa Ejido	de Gádor	de Almería
San Isidro	Dunamar	Parafruits	
Labrador	Duniagro	Primaflor	
Unica Group*	E.H. Femago*	Ramafrut	
Vicasol	Eurosol	Romelina	
		Tomasol	
16	32	11	8

*Included in second-tier group

Very few cooperatives or SATs are part of a second-tier cooperative. Below we can see that Anecoop, the second-tier cooperative from Valencia has 5 Almería cooperatives. Unica Group has both cooperatives and SAT members and Grupo Agroponiente is an IOF with all IOF members. Finally, Uniagro is a mix of IOF and a SAT.

Table 6.3 Almería Cooperatives/groups of second level.

CO-OPERATIVES/GROUPS of SECOND LEVEL	
Anecoop S.C.A. (Valencian cooperative with Almería members)	Camposol SCA Coprohñjar SCA Hortamar SCA Ejidoluz SCA Albentillas SCA
Unica Group	Cabasc SCA Casur SCA Cohorsan SCA Ferva SAT El Grupo SCA Agrieco SAT
Grupo Agroponiente S.L.	Agroponiente SA Agroponiente Natural Produce SL Vega Cañada SA

Uniagro S.A.	Agrupalmería SA Agrocastell SA E.H. Femago SAT
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6.2.6 (v) *Most important Almería Cooperatives*

CASI is a first-tier cooperative founded in 1944 (originally in livestock and F&V) which has 1700 members, who are owners of 2,450 ha of cultivated land, and 350 employees. Production in 2010 reached 213,556 tons, which resulted in turnover of 190 million Euros⁷³. Originally this production was destined for the local market of Almería, but currently it markets around the world, principally to the U.K. and Germany⁷⁴. CASI participates in the container company Poniente Plast, S.A. (13.28%) and in Andalucía Cargo, S.A. (30%), the operator of land transport for its members. It controls 36% of Hortofrutícola Ciudad Luminosa, S.L. and as well participate in Níjar Natura, S.L., which manages agricultural waste material.

MurgiVerde is a first tier cooperative created in 2005 as a result of the merger of two large cooperatives Agromurgi and Ejidoverde. Its latest incorporations have been the cooperatives Geosur and Campovícar in 2009, which has allowed it to increase production. With a total of 1000 ha of greenhouses, its annual production has reached 125,000 tons. The turnover of this cooperative was 120 million Euros in 2011 and it has about 700 workers⁷⁵. Murgiverde markets part of its production in Germany, the U.K., Scandinavia, Eastern European countries, the U.S.A. and Canada. It participates in the Almería company Ecovida, S.L. (fruit stores), in the commercial exporter Consofrut, S.L. with a 20% interest and in Alcoex Mediterráneo, S.L, with 12.41%⁷⁶.

Vicasol is a first-tier cooperative created in 1979. It has more than 400 members who farm about 1000 ha. In 2011 its production reached 120,000 tons, with a turnover of 115 million Euros, of which 90 million corresponded to exports. It is integrated into the central buyer for agricultural supplies, Coop Suca. It controls 100% of Vicasol Produce Ltd., dedicated to the sale of F&V to the U.K. It participates with 16.66% in Plattform Spanien, S.A., which commercialises the production of its members in Switzerland. It has a 12.41% interest in the 5th range (prepared and ready to eat) food products producer Alcoex Mediterráneo, S.L. and along with other Almería entities in the network of fruit stores, Ecovida, S.L.

⁷³ Data from Alimarket.

⁷⁴ Information from CASI's webpage: <http://www.casi.es/>

⁷⁵ Data from Alimarket.

⁷⁶ Information from Agromurgi's webpage: <http://www.agromurgi.com/>

UNICA Group is a second-level integrated group created in 2009 by cooperatives and SATs Agrieco, Cabasc, Casur, Cohorsan and Ferva. In 2011 the El Grupo from Granada joined. UNICA Group exceeds 160,000 tons of commercialised production with a turnover in 2010 of 110 million Euros. It has 1,400 farmers⁷⁷. At the operating level, each of the members is specialised in one or a number of products, and there is a substantial ecological production. UNICA Group has important commercial agreements such as that with ZON, the Dutch co-operative, the commercial agreement with the North American multinational General Mills, for the commercialisation of their product under the brand “Gigante Verde” (Green Giant) and with the Valencian citrus marketing company Cofrumark Quality Distribution Fruits. With respect to the 5th range products it has an agreement with the company Alimentaria Andarax and participates through its member cooperatives in Alcoex (Durán, 2010). Of the total volume marketed by Unica Group, only 10% is distributed in the national market, with exports reaching 93 million Euros in 2010.⁷⁸ They sell to Germany, France, the U.K., The Netherlands, Italy and Scandinavian countries.

Unica Group has entered into certain contractual “lock up” agreements with its members such that their commitment to the second-tier cooperative is rather stronger than that provided under the relevant cooperative legislation.

6.2.7 Relevant support measures affecting structure and strategy.

6.2.7 (i) Legislation and Policy

The Spanish national laws on cooperatives (law 20/1990 and law 19/1995), equally applicable to Almería cooperatives, includes tax benefits mainly related to corporate tax, that is, if a cooperative has positive results it can take advantage of a tax benefit. However, given the majority of cooperatives have levels of profitability near zero such measures are not particularly useful.

As noted in Chapter 5, SATs, dating from 1981, are subject to few limitations and conflicts compared to that of agricultural cooperatives: there are none of the traditional legal limitations of cooperatives and it is argued that competitive advantage in the agricultural sector is enjoyed. However, the most successful enterprises of Almería are cooperatives, thus indicating that the “cooperative” advantage outweighs such benefits. The recent Andalusia Cooperative Law (Law 14/2011, 23 December, Ley de Sociedades Cooperativas Andaluzas) has introduced changes which give cooperatives more leeway (see Section 2.3

⁷⁷ Information from Unica Group’s webpage: <http://www.unicagroup.es/>

⁷⁸ Data from Alimarket.

for further explanation). It should be noted that the change has been to give more “flexibility” to the cooperatives, rather than consider whether the benefits enjoyed by SATs should be discontinued.

It is too soon to gauge the potential success or failure of the new cooperative law. The new law aims to improve competitiveness: the social object of agricultural cooperatives is widened; percentage of contributions to the obligatory fund are reduced; in the case of a member leaving, the former obligation to reimburse the social capital by the co-operative can be substituted by the member receiving the value of his/her contributions through the transfer to third parties who gain the condition of member. New rules apply to non-member investors. As well, post-liquidation amounts returned to the Administration have been reduced from 100% to 30%. A unique concept, in Spain at least, is the notion of a “trial period” for new members(See Chapter 6.2.8, below).

Multiple votes in proportion to member cooperative activity, allowing qualified non members to be named as directors (*consejeros*) in an amount that does not exceed 1/3 of the total is permitted and the law establishes that the general assembly has the power to determine the new contributions in function of the assets or reasonable value of the company. Finally limitations with third parties have been lifted and the process for mergers has been simplified. (It should be noted that Valencia’s cooperative law was “modernized” in much the same manner in 2003.)

With respect to POs, two laws are particularly relevant, the first being Royal Decree 1972/2008 28 of November, which recognizes POs of fruits and vegetable and establishes the basic norms of their organisations and associations. The second law is the Royal Decree 1302/2009 regarding funds and operating programs of fruit and vegetable POs, which establishes the basic norms in relation to the agricultural common market organisation (CMO) Council Regulation (EC) n. 1234/2007. This was further developed by Royal Decree 1337/2011, which was passed October 3, 2011, regulating funds and operating programs for fruit and vegetable producers. A recent study found that there was an increase of POF&V in Almería by 21% from 2000 to 2009 (Parra Gómez and Cabrera Sánchez, 2011).

Chapter 5 analyses CAP in general and such analysis will not be repeated here in full. However, there are areas of disagreement and dissatisfaction. Whilst certain important points have been reflected in the conditions of the OPs as to the eligibility of activities related to product transformation by cooperatives, calculations as to the value of commercialized product or the eligibility of investments in farms and installations of

members and their cooperatives, other important weaknesses persist in relation to the Management and Prevention of Crisis and also the reform of System of Entry Prices. Associations and Inter-professional groups have been given little power to affect any significant change or take important decisions.

6.2.7 (ii) Relevance of different sources of income, including public grants and subsidies (Andalusia and EU level)

Currently 9,000 Almería farmers are integrated in a POF&V and received aid from OPs in the amount of 31 million Euros for the year 2010 and 34 million in 2011. This represents 60% of such funds destined for Andalusia. Farmers are able to invest in various activities for the benefit of the sector. In the period from 2004-2008 they carried out actions worth almost 260 million Euros. With respect to the total amount in relation to agriculture that Andalusia receives from the EU, Almería receives less than 3%.

For 2012 the amounts in Andalusia are⁷⁹:

Table 6.4 Support received for the F&V sector in Andalusia.

YEAR 2011	AMOUNT
Value of Marketed Production	1,700,298,868.75 €,
Operating Funds	136,242,238.96 €
Member contribution	69,847,255.77 €
Contribution of FEAGA	66,394,983.19 €

Data source: Junta de Andalucía

Table 6.5 Destination of Support Received by the F&V Sector in Andalusia.

ACTIONS	AMOUNT
1.Production planning	53,764,265.96 €
2.Product quality improvement	32,079,916.42 €
3.Marketing improvement	31,454,388.79 €
4.Research and experimental production	252,277.55 €
5.Training and advice services	1,172,121.6 €
6.Prevention and management of risk	2,107,106.48 €
7.Environmental objectives	22,205,615.48 €
8.other actions, activities, investments, etc.	10,930,913.07 €

Data source: Junta de Andalucía

In 2011, support received by FEAGA by the F&V sector in Almería (€) was:

⁷⁹ Information from Junta de Andalucía's webpage: www.juntadeandalucia.es/agriculturaypesca/

Table 6.6 Support received by FEAGA by the F&V sector in Almería (€).

Type of Support	AMOUNT
Support per area for stone fruit	5,781,916.25
Operating Funds for POs	33,929,978.04
Exceptional measures for aid to Spanish Vegetables	26,892,825.80
Transitory payment-other fruits and vegetables	435,709.08
Plan for fruit consumption in schools	12,460.93
Total	66,617,181.02

Data source: FEAGA

The regional government of Andalucía also offers aid and subsidies, although for the most part not specific to cooperatives, which include:

- Aid for improvement of quality systems for ecological production
- Subsidies for carrying out cooperative activities with other parties
- Aid for management groups of agricultural farms
- Aid to contract agricultural insurance
- Subsidies for improving irrigation systems
- Exceptional aid for supporting the F+V sector
- Subsidies to improve and modernise production structures for farms
- Subsidies for the modernization of greenhouses

According to sector experts the three most important areas of support in the past for the consolidation of the Almería model and its success were:

1. Support for improving infrastructure.

- support for modernizing the use of water resources and infrastructures
- as well as infrastructure support for road transport, centers of investigation, training of farmers, and other types of support that has been related to the productive capacity.

2. Support for improving structures

- insertion of young people
- support for modernizing farms installations (given competitive nature of the farming activity, investment in new technologies and structures is important)
- although the CAP structural support is of limited importance therein, it has been one of the fundamental measures used with the highest impact on productivity (in between 1986 and 2003 this line of support was more than 219 million (valued at

2004 rates), such support coming at a time when the sector reached an important economic magnitude.

3. Support for association and processing and commercialisation

- subsidies to develop association efforts, since 1986, has counteracted the traditional reticence of farmers to create associative structures. However, it was noted that at times it has been too easy and too supportive, encouraging the division of existing cooperatives.
- support for commercialization since 1993 has improved the technology of commercialisation cooperatives and has contributed to the competitiveness of Almería F&V cooperatives. (García Torrente, 2005)

6.2.8 Analysis of the Law of Andalusian Cooperatives 2011.

The modification of the Andalusian Cooperative law (La modificación de la Ley Andaluza de Sociedades Cooperativas) which had been in force since 1999 was lobbied for by the cooperative association leaders. It was seen as a method by which to “modernise”, adapt to global market changes, and the actual situation of cooperatives (CEPES Andalucía, 2011a). The 1999 law was seen to be less “flexible” and less “innovative” than more flexible laws of other north and east European countries which have strong cooperative sectors. As well, the new legislation was received in the context of an Andalusian agricultural cooperative context in which farms were small and there was scarce R+D+i investment. (FAECA, 2011a). The law was well received by the spokespeople of the sector (Observatorio de la Economía Social, 2011) who lauded its objectives of “reinforcing competitiveness” and eliminating development obstacles (FAECTA, 2011a). The amendments contained in the new law were an attempt to give cooperatives legal and economic-financial instruments which are available to IOFs, yet “compatible” with the cooperative movement (Méndez, 2011). It was unanimously supported by all political groups in the Andalusian parliament, without any amendments suggested (FAECTA, 2011b). In addition to cooperative principles, new principles having to do with business and environment sustainability, gender equality, the creation of stable employment and the social commitment to the community (CEPES Andalucía, 2011b) have been added. Consensus was reached through the participation of the principle representatives of the Social Economy sector, such as FAECA (federation of Andalusian agricultural cooperatives), AMECOOP (Association of Cooperative Women Entrepreneurs of Andalusia), CEPES (Confederation of social economy entities), FAECTA (Federation of Andalusian worker cooperatives) and EMCOFEANTRAN (Federation of Andalusian transport cooperatives), as well as the main

Andalusian unions UGT y CCOO, and other stakeholders such as COAG y CEA (farm worker organisations) (FAECTA, 2011c). In particular AMECOOP was positive as to future applications and development (AMECOOP, 2011).

FAECA underlined the importance of the new law to allow members to add value and organize their sales and respond to market challenges. CEPES, which represents social economy entities in Andalusia noted the law's sensitivity to "the aspirations" of the cooperative movement (CEPES Andalucía, 2011a).

However, there has been criticism that the new law has tilted towards a more functional and economic IOF legislative concept, centered on the promotion of economic interests of the members (Paniagua, 2012).

Important Changes to the Law:

- Added to prior ability to transfer participations between members, is the voluntary possibility upon the exit of a member, to freely transfer participations to third parties that acquire the condition of members in capital participation, in place of the reimbursement of social capital. This is subject to prior agreement of the Board and only if pre-determined requisites are met. This change is intended to avoid the decapitalisation of the cooperative and as well allow the member to obtain surpluses. It is considered an "added value for those entrepreneurs who wish to commence business activity under a cooperative form" (Méndez, 2011).
- Administrative processes are made more simple, permitting the cooperative's constitution without the need for a public deed (an extra notarial cost and fee), reducing the time to set up the cooperative and the number of documents required, as well as the minimum social capital requirement.
- The concept of a Cooperative Business Group, which allows the growth of such enterprises within the cooperative model, instead of obligating such businesses to adopt non-cooperative forms once they reach a certain size and level of change, allows intercooperation and encourages groupings. Such groups can be led by a holding group or as equal companies, in which case the majority must be cooperatives. As well, mergers are encouraged through a simplified procedure and a new regulation for integrated cooperatives is introduced, that is, those constituted by a merger with a commercial entity, so that they may obtain the same tax benefits that would normally apply to normal second-tier cooperatives. In addition, transactions between cooperatives are now

considered to be member transactions instead of transactions with third parties and thus serious tax consequences are avoided.

- Reduction in the percentage that must be given to the obligatory funds, getting rid of the obligation to give 15% of benefits to the reserve fund when it would represent half of the social capital, reduction to 25% the proportion of extra cooperative benefits for the reserve fund, as against the current average of 90%. As well, there is the possibility of the General Assembly to decide to use part of such reserve for production investments, for cooperation or internationalisation.
- The cooperative has greater leeway with its bylaws and may establish its own rules in a greater number of aspects, depending on particular necessities thus offering cooperatives the freedom to make modifications thereto in a more agile manner (Méndez, 2011).
- A plural vote in proportion to cooperative activity is allowed, on a voluntary and limited basis. Each cooperative member may have up to a maximum of 7 votes in function to productive contributions; not, however in relation to paid-up capital. With this modification, the relationship between “economic interests and the business decision capacity is more closely aligned” (FAECTA, 2011a).
- Greater flexibility in the contracting of salaried workers in worker cooperatives in the case that employees decline to be members.
- New technologies are permitted to allow greater flexibility and avoid physical obstacles in assembly and board meetings.
- To facilitate the incorporation of new members, the figure of “trial member” is introduced, permitting a trial period which permits both the cooperative and the member a greater mutual knowledge before establishing a bond. In addition, the new member is allowed the possibility to pay partial or delayed contributions by common agreement.
- The term “Associate” is now an “investor” and new conditions are established for the same. The new law allows an investor to hold up to 49% of the social capital instead of 30% and up to 25% in the assembly, instead of 20% as provided for in the former law of 1999. Investors can be both physical and juridical persons, public or private, but they cannot become investors if they have the same interests or carry out similar activities, except with the express authorization of the cooperative administration. Investors may not hold the position of president or vice president.
- The supervisory body of the “Intervenors” is voluntary and not obligatory.

- The Social object of agricultural cooperatives has been widened to allow for improvements for the rural population and rural development, as well as the attention to other activities or services directly related to agriculture, forestry or livestock keeping.
- Updating of cooperative principles to include the development of stable and quality employment, gender equality and business and environmental sustainability.

6.3 Research Questions

Below the research questions are answered based on the information gathered and analysed above:

1. What strategies of the F&V cooperatives in Almería have been central to overcoming potential traditional shortcomings identified earlier in Chapters 2 and 5?

In Almería, most cooperatives are first- tier and are involved in marketing product of small farmers and thus they are not traditionally highly vertically integrated. Farmers that continue to compete solely on price and increased production, experience difficulties. Clearly exports are crucial to their survival and this goes hand in hand with the ability to produce high quality, differentiated product. Integrated production, biological controls, strict testing and monitoring, compliance with international standards, geographically identified products, fair labour and health and safety standards are all processes that result in “quality” product. Cooperative institutions have been able to facilitate these processes which otherwise would have been difficult for small farmers on 1.5 ha. to carry out.

Local characteristics which had deterred internationalisation and collaborations outside of the region and outside of Spain, in the past have begun to change. The majority of the largest cooperatives are first tier cooperatives which have proven efficient (Murgiverde, CASI, Vicasol, etc.) and governance problems are less pronounced. Second tier cooperative such as UNICA have “lock up” measures to avoid common second-tier weaknesses. Larger cooperatives generally hire a professional manager (*gerente*).

Almería F&V cooperatives have a close relationship with the local credit cooperative and the agricultural and technical research services and thus generally have not had problems with access to credit. The agricultural cluster (mainly cooperatives, SMEs, IOFs) has served to create synergies and strengthen the cooperative sector. Cooperative institution building in tandem with the economic and commercial

necessities of the farmers has allowed them to be flexible and adapt to the market, without, it should be noted, any adaptation of the cooperative form to an IOF model. Various collaborations and strategic alliances with diverse forms of enterprise have allowed them to be agile and to enter into new activities rapidly. Given the increasingly larger size of first-tier cooperatives there has been more emphasis on professionalization of management, which cooperative institutions have helped to inculcate through training and education programs.

2. Which public support measures (local, regional, national and/or European) have an impact on the development and success/failure of the Almería cooperatives?

The greenhouse cooperatives of Almería are relative newcomers and do not have the same commercialization history as other regions. This is an historical fact, and has little to do with policy. However, the encouragement to form cooperatives and PO groups has had a positive effect on Almería and has allowed it to rapidly develop such that the total F&V turnover competes with the likes of Anecoop. From a production point of view Almería has progressed exponentially although it still has not reached a sufficient level in terms of internationalization/commercialization and organizational capacity.

Infrastructure and capacity building measures were instrumental in building up the cooperatives and allowing them to strengthen cooperative institutions.

The agreement with Morocco; lack of investment in transport and other infrastructure; CAP and the lack of measures to control falling prices; and competition law restrictions are exogenous factors. The failure to sufficiently support alternative energy initiatives by regional governments has also had a negative impact.

Cooperatives should not be “penalised” as a result of their structure being different than IOFs and suffer restrictions. As set out in Chapter 5.7 this is not always the case. However, given the inequalities in the distribution chain, they should be allowed to use necessary tools to maintain fair prices and thus achieve their main social function, which is to obtain value for their members. If cooperatives do not economically thrive they cannot fulfil their social function.

3. How has the historical development of F&V cooperatives in Almería affected the strategies and structures of the cooperatives?

The parallel development between the agricultural and credit cooperatives in Almería has been crucial to the success of these cooperatives, whereby the credit cooperative financed

R+D+i, assumed financial and experimental risk and acted as a catalyst for development and change management. The agricultural district or “cluster” model of Almería created a “virtuous” cycle of productivity and allowed reinvestment, organic growth and collective innovation. Almería’s F&V sector commenced later than other regions, such as Valencia, and initially it lacked the more sophisticated commercialisation strategies. In the last decade there has been accelerated activity on exports, concentration, internationalisation and collaborations. First-tier cooperatives dominate and are seen to be more efficient, though mergers are seen to be more complex. Where second-tier cooperatives have been set up such as UNICA Group, they are structured contractually to mimic certain first-tier characteristics (e.g. asset lock-ups).

6.4 Conclusions to Case Study

6.4.1 Challenges

In this case study we have examined a successful intensive F&V cooperative area in Spain dominated by small to medium first-tier cooperatives, most of which were set up in the late 1970s or 1980s in a poor, isolated and small geographic area with infertile land. Over the space of a few decades Almería’s F&V cooperative sector has almost reached the dimensions (in turnover) of Valencia and has begun to internationalise, enter into collaborations and strategic agreements, etc. The sector has currently a very high technical level and a strong R+D+i capability. The supporting cooperative institutional structures and fabric is high. Market share of cooperatives is also high.

The sector is not without serious challenges. These problems are at both a local and international level and are rooted in institutional, political and economic factors.

From a legal institutional perspective, there are inefficiencies and a lack of harmonization caused by the different levels of legislation. The different levels of legal jurisdiction do not cause significant conflict of laws. Rather, it is a problem due to jurisdiction (whether the cooperative is constituted at a regional level under regional laws or under national law), whereby regional governments prefer to maintain control over and take credit for agricultural law and policy and aid. This situation reinforces regionalism in cooperatives and discourages a national cooperative business perspective.

Major challenges include the grossly unequal bargaining position of the distribution entities, global competition and the lack of adequate measures (CAP) at their disposal to influence prices, or for that matter inputs. This has been exacerbated by the agreement between the EU and Morocco while at the same time further liberalization is being

suggested. With respect to CAP, prices of F&V products are not guaranteed by the European Agricultural Guarantee Fund in the same way as continental agricultural products. For example, the use of withdrawal prices provided in CMO is limited because they are lower than in the continental case with regard to the production cost. New agreements between Morocco and Mercosur result in decreasing F&V prices, becoming an important threat. The use of product withdrawals and amounts raises several issues when marketing of other agricultural products is permitted and yet not subject to the same requirements for food safety, traceability and labour and environmental guarantees. The lower prices of such products are not due to the use of better technology or a higher level of productivity. This results in products of higher quality and safety (in terms of traceability and food safety) being withdrawn, thus promoting inefficiencies and resulting in inequitable treatment for European producers.

While the sector has mastered the production of quality product, food safety and security, traceability and the development of added value products, the ability to capture this value down the supply chain is an outstanding matter. In Almería this is even more so given that it does not have the logistics and investment in infrastructure to reach other European and international markets to the same extent as other areas.

A pending task is the further professionalization of the cooperative sector and the more extended use of advanced technology. Managers who actually understand the “cooperative difference” and business form are a rare commodity. Cooperative representative institutions such as the association of producer organizations, federations and inter-professional groups must also function on a more consolidated and professional level and they should be given the corresponding power to actually have some affect. The solution to these issues may indeed be a more serious and professional re-commitment to the cooperative business form. The “modernization” of cooperative laws may, or may not, be a piece of the puzzle; in Almería it is too early to tell, but caution should prevail when relying on legislative fiat as a driver of change. Often cooperative laws serve to reflect the demands of larger economic actors in the sector. But what is clear is that the new law approximates more closely certain characteristics of the IOF firm, and significantly relaxes the asset lock. Investor members within the cooperative changes the nature of the cooperative and this threshold has been increased to 49%. On the other hand, transactions between cooperatives are not taxed as heavily before, recognizing the “network” nature of cooperatives. Restrictions/penalties have been removed on growth of cooperatives and certain group arrangements, with IOFs or other cooperatives.

However, if we step back we can see that apart from a few “niceities” (expansion of principles) the changes have been to give the cooperative more “flexibility” to behave as a quasi-IOF. The main reason for this of course is so that cooperatives can attract “investors”. However, as the case study of Almería has shown, involved cooperative finance cancels out the usual “problems” of lack of capital, investors and investment. So too, does member commitment. Are these changes necessary? Do they have anything to do with the needs of the agricultural cooperatives in facing global competition? In the case study of Almería, success was due to the cluster of cooperative institutions, which had the ability to meet the various needs, both finance and otherwise, of the constantly evolving sector. As can be seen, as the sector grew and the competitive environment became more complicated, the cooperative market share actually grew.

If cooperatives have capitalist investors and “investor-members”, can they fulfill the same role? Can the cooperative member be reduced to a “mere financier” (Zamagni and Zamagnin, 2010) and if so, how do we expect such member to behave when it becomes the time for “choice”. Do we end up then with a separate contract, that of an “exchange contract” rather than a relationship or mutualistic exchange? What is the point of having a fiction of an investor member if the membership is not based on the practice and exchange of benefits that prompt one to be a member of a cooperative in the first place.

While the legal fiction of the additional contract may serve to resolve certain specific problems...where it is intended as a fund-raising mechanism for cooperatives it results in failure and frustration (Zamagni and Zamagni, 2010).

In the changes that have been outlined in the new Andalusian cooperative law, we can see evidence of the theoretical observations set out in Chapter 2: that the social goals of the cooperative have been made “private”. At the same time that the new law proclaims in its “principles” gender equality, sustainability, and employment, the actual provisions which have any teeth are moving away from these very “public” goals towards a “firm level” mentality and reconceptualising the member-cooperative relationship as a contractual one. The new law provided that cooperatives are meant to deal with lack of access to credit, for example, by resorting to “member-investors”. In Chapter 2 it was noted that instead of a member owning a “no-obligation, no responsibility, personality poor share” (Ireland, 2003), the cooperative was an example of embodied ownership, built on obligation and interaction. In order to attract and retain members, they must be “incentivized” with more control rights (votes). A shadow “market” has been invented to mimic the “market” of IOFs.

The question is, “what kind of members will these new “incentivized” members be?”

It is an ironic situation in which we find ourselves: cooperative laws are twisting cooperative enterprise into quasi-IOFs so as to supposedly attract financing and investors, while at the same time Basle II and proposals under Basle III are making it more and more difficult for credit cooperatives to survive (which is another thesis in and of itself) in spite of the fact that they have provided SMEs, cooperative and social enterprise financing when all other forms of liquidity had been shut off (Birchall, 2010).

Summing up, in our case study we have found that the Almería F&V cooperative sector may be seen from a “neo-endogenous” approach, (a mix of exogenous and endogenous factors wherein local level characteristics and actors must interact with external or global forces). If the role of cooperatives is to harness, guide and leverage the strengths and capacity of local economies in its interaction with other environments, whether in the form of markets or political institutions, then the role of cooperative policy and regulation should serve to support cooperatives in building the tools by which to do so.

In Almería the agro cluster system mediates between external and internal factors and the cooperative role therein. Certain factors such as collaboration between cooperatives and their institutions, between cooperatives and IOFs (which is *not* the same as transforming the cooperative itself into a quasi-IOF), internationalization, investment in R+D+i, and having management in place such that cooperatives can leverage the strengths and capacity of their members and local economies in meeting external challenges is more important than policy dictating cooperative structure.

However, one still finds the same conversation that has been carried out by the Spanish agricultural confederation and politicians for the past 20 years. Public policy makers and politicians of all stripes in Spain have constantly recommended that the sector needs to innovate and be “flexible”, to increase in size to have more weight in the supply chain, invest more in research and marketing, and above all, have a “business” vision. The minister of agriculture, Miguel Arias Cañete has promised a new plan for cooperative integration, which will attempt to enlist the autonomous communities, to push for the creation and development of marketing structures of a relevant size that are innovative. Along with this is a promise to revise the national cooperative law and the cooperative tax law (Cooperativas Agroalimentarias, 2012).

But what is often absent from this conversation from the management, legal and organizational perspective is the very basic, indeed fundamental, fact of the cooperative:

the strength of its unique characteristics. For example, gaining sufficient market power to compete with the huge five or six global distributors and supermarkets would be difficult even with an emphasis on concentration. Attributes other than mere large size are necessary. As we have seen in Chapter 5, IOF assumptions found in a variety of laws actually discriminate against the cooperative form and yet cooperatives maintain and in certain instances increase market share. Cooperative principals are expanded in various laws to include more social goals and yet legal systems and economic measures provide no method by which the cooperative can actually be measured or valued in its fulfillment of such principles. In spite of this, agricultural cooperatives have survived. The logical conclusion is that they have done so based on non IOF strengths.

In 2011 the Spanish National Competition Commission in its report on the relationship between producers and distributors in the food sector recognized the inherent inequality of bargaining power, and its long term detrimental effects on the sector (Comisión Nacional de la Competencia, 2011). In response, the president of the F&V sector of Cooperativas Agroalimentarias (Spanish Confederation), Cirilo Arnandis⁸⁰ observed:

[The co-operatives] already cannot continue in this situation, because there aren't any resources left. We are providing a great employment value chain, wealth and activity, but who is giving the farmer a fair price for their product [?]. We don't want subsidies, we want a new legislation that impedes abuses. At the end, because of a few cents per kilo we are going to lose a source of wealth from which so many have filled their mouths and now is not defended as it should be (translation from Spanish-Giagnocavo).

Perhaps cooperative legislation should be more concerned about defending cooperative values and creating cooperative capacity than mimicking creating a weak IOF structure based on a questionable view of the "incentivized" individual.

6.4.2 The role of cooperatives in the lifecycle of Almería

The cooperatives of Almería have been fundamental in the development of the region, as pointed out in the various development stages above, and there is a strong case to be made that without the cooperative form, such development would never have been sustainable or competitive. As the sector has evolved the focus has moved beyond the national sphere and the services that are offered to members such that they can increase production, export and compete in European and international markets has been crucial.

⁸⁰ Ribera Express (2012): "La federación de Cooperativas Agrícolas reclama medidas para evitar que los agricultores abandonen su actividad". Ribera Express. Retrieved April 2, 2012, from: <http://www.riberaexpress.es/?p=30856>

This case study illustrates the evolution of the role and activities of cooperative entities in the development of a community, moving from a primary agricultural system to a local production system. As a pro-active agent of technological, economic and social innovation, cooperatives fulfilled a central institutional role in the contribution to a civil society in a population left vulnerable not only by an economically and politically repressive regime but also as a result of harsh climatic and geographically conditions. In keeping with Cook and Burress' framework, the cooperative sector has been able to respond to each "choice" stage, leveraging the cooperative fabric to adapt to new demands.

Cooperatives have done so by carrying out the following strategies:

- committing themselves financially and socially to a vulnerable community;
- encouraging the establishment of a cooperative economic "fabric";
- building on but going far beyond traditional agricultural marketing (and credit) cooperatives through pro-active production and dissemination of organizational, technical, economic and social knowledge and playing an active role in the incorporation of the same;
- shifting and transforming individual economic risk (including technological and experimental risk) to community risk, thus involving not only the cooperatives, but the community in shared success;
- recognizing the many stages of the transformation from "peasant" to "agricultural entrepreneur" and providing management and financial training as well as support to other institutional players;
- assuming the role of intermediating international and political changes and policy for community members;
- pursuing organic growth strategies in order to sustain innovation and sector growth and as well, diversifying activities beyond local specialization (both sector and territorial);
- facilitating concentration in the sector and supporting the organizational changes that such horizontal integration implies; and
- taking seriously the environmentally responsible farming imperative as an inherent strategy

The success of such model, particularly since it was not tied to an already pre-existing group defined by territory and cultural ties based on proximity, illustrates that the cooperative business model is a current, viable form in which to encourage sustainable

economic development and that it is not an outdated business form tied to a specific historical or cultural tradition.

As well, unlike other areas of Spain and Europe, there has been a notable lack of regional policy concerning economic development (Galdeano, et al, 2011), a gap which was filled by cooperative institutions, including credit and commercialization cooperatives. There is a significant “cooperative fabric” which was built from the ground up in the space of a decade or two and continues to survive and evolve. In contrast to many initiatives related to rural development, which tend to diminish the role of agriculture and focus instead on rural “multi-functionalism” or diversity of activities, the Almería model provides evidence of a specialized cooperative agro-food sector as being a viable model (Galdeano-Gómez, et al, 2011).

The Cooperative model also co-exists in a complementary manner with investor owned firms, thus creating synergistic “networks”. The cooperative sector was responsible for the growth of an important auxiliary sector.

The agricultural cooperative sector in Almería has received very few subsidies: As a percentage of agricultural subsidies over agricultural income, for 2005: Almería 1.4% as compared to Andalucía, 16.2 %; Spain, 18.2%; and the EU 17.1%. Under such conditions, its cooperative model may be viewed and evaluated based strictly on business efficiencies and its suitability as an enterprise form.

In spite of its success, the Almería model is not without its problems. It is currently at a crossroads with the sector experiencing a crisis of prices and lack of market power against the main distributors. Readjustments are needed for a renewed reordering, recommitment and reconsolidation of the cooperative model. It is precisely in such renewed commitment that the solution to many of the threats facing the sector may be found.

Chapter 7. Synthesis of Results and Analysis of Hypotheses

The economic and social sciences have significantly moved ahead over the past five decades since scholars posited two optimal organizational forms, two types of goods, and one model of the individual. (Ostrom, 2010:663)

Whether Ostrom's above optimism is intended to include policy makers and legislators is unclear, although she did make mention, in her Nobel address that the most "important lesson for public policy analysis" gained from her work on institutions for collective action and intellectual progression on the same, was that "humans have a more complex motivational structure and more capability to solve social dilemmas than posited in earlier rational-choice theory" (Ostrom, 2010:664).

The dilemma of course is how to translate such observations into cooperative law and policy and cooperative organisations. (Or, alternatively, does the the traditional cooperative enterprise already translate an adequate vision of the cooperative person and economic activity and thus it is only a matter of recuperation? Does it need to transformation?)

This thesis started out analyzing some basic legal concepts of contract and property law as the structures underlying and informing organizational economic theories of the firm. Those economic theories in turn had an influence on the legislative change in the cooperative sector, with an emphasis on the re-allocation or the more "precise" allocation of property rights, the "private" contractualisation of firm relationships and the transformation of the person into a rent-seeking, free riding, rational contracting individual. (No matter that individuals who joined cooperatives in the first place most likely had a different vision of the relationship between members and that they were aware that cooperatives were not geared towards maximizing returns on investments.)

Remedies were seen to be necessary to deal with the whole host of problems created by incomplete contract and ill defined property rights and the selfish, free riding individual who managed to cause endless governance issues and management problems (see in general all the NIE citations in Chapter 2, too numerous to name here). Relational contract theory (MacNeil, 1985, 1987, 1995 and MacCaulay, 1963) was used to critique the formalistic, truncated, discrete transaction based description and function of contract. Incomplete contract was shown to be a fictional construct whose only purpose seems to be to prop up a theory of "well defined" property rights—that is, property rights based on the ability to exclude and differentiate. CLS theorists have pointed out the fallacy of this as the "no-obligation, no-responsibility, personality poor share", used to support private

contractual ordering and deregulation (Ireland, 2003). Property rights theories, critiquing “ill defined” property rights, advocate for a defined allocation so as to substitute for the governance void left by incomplete contract (the impossibility to contract all behaviour). An influential movement of a “new” cooperative form (the NGC being an emblematic example), with adjustments in property and control rights, was based on such theories and has spread to various jurisdictions, prompting legislative change.

The “modernization” of cooperative law has been seen to involve adaptations with respect to membership, financial structure, financial instruments and managerial control (Spear 2010, 2012). However certain adaptations such as asset locks (particularly in Italian legislation), limits on voting by non-members, and limits on investor owners have tried to contain IOF tendencies and maintain the cooperative form.

Critiques of NIE theories of the firm were described, pointing out that the characterization of the individual is one-dimensional and incorrect. Cooperative theorists have pointed to the wide array of incentives that can motivate individuals and members of a cooperative enterprise (Borzaga et al, 2009, 2006 and Borzaga and Depedri, 2006). Ostrom (1990) finds fault with the trilogy of free rider theories and as well questions the theory of the individual put forth by NIE (1990, 2005, 2010). Above all, her theory characterizes the individual or member as having the ability to influence or effect change in the action situation (2005, 2010).

The fact that a cooperative firm varies in its economic, organisational and financial structure, and yet that such characteristics are not taken into account is also the basis for much criticism of NIE theories of the firm and resulting legislative and policy fixes (amongst others, Zamagni and Zamagni, 2010; Ostrom, 1990, 2005, 2010; Borzaga et al 2009, Borzaga et al, 2012, Euricse, 2010, Vargas, 2006).

Hybrids were then considered. One manner of looking at legislative and organizational change, is to start with the “traditional” cooperative and see how those traditional ideals, captured within a legal framework and relationships and expressed in ICA principles, have been morphed into new laws and something that in some respects, looks more like an IOF (Fici, 2012). Undeniably, this has occurred in some cases.

However, it is also true, as Ménard (2007, 2011), Ostrom (2005, 2010), Cook (2005), Cook and Iliopoulos (1999, 2004), Burrell and Cook, (2009), Chaddad, et al (2004), Valentinov (2007) and others, working on the diversity of institutional structures have pointed out, the cooperative form is one of many “institutional structures dealing with shared control”

and undefined or “collective” property. Various examples were given, both schematic (Chaddad et al, 2004), legislative and from an actual cooperative, of attempts to “modernize” the cooperative structure.

Chapter 5 provided a comprehensive description of the current level of development of cooperatives (and similar forms of producer organisations in Spain), focusing on their position in the value chain, their institutional environment, and the challenges they face. In order to evaluate the adequacy of legislation or policy, it was necessary to discover what problems have been identified that are in need of remedying and what legislation and policy measures were seen as beneficial. An institutional approach was taken looking at economic and fiscal incentives/disincentives and other regional and support measures; legal aspects; historical, cultural and sociologically relevant aspect, the relationship between cooperatives and other actors in the food chain and internal governance. Laws and regulation that enabled or constrained cooperative development were identified and those policy measures or initiatives that have been effective were discussed. This extensive task was broken down into legislation and policy which affected: i) cooperatives, ii) agricultural enterprise iii) agricultural subsectors and business in general, all of which had a significant impact on agricultural cooperatives. Important features of the legislation were highlighted. An eight sub-sector analysis was performed, contrasting cooperatives with IOFs (market share). Challenges and problems that existed for each subsector were identified and the adequacy of measures in dealing with such challenges was evaluated.

In Chapter 5.5.1 the results of the data gathering per cooperative was set out. General data, the position in the food chain, internal governance and strategy, and the performance of the cooperative was evaluated, as well as institutional environment. While the data is detailed and cannot be restated here, some important observations are as follows (results in Chapter 5.5.1 must be consulted as in certain questions information was not available on cooperatives and the “not available” percentage is high in certain questions):

- Position in the food chain Most cooperatives in the survey were second tier cooperatives. They are specialized (75% highly specialized) and are mainly dedicated to the functions of collecting and forwarding member products to the next vertical stage of the supply chain, marketing and the procurement of supplies.
- Age Seven of the top cooperatives existed before 1960, with the overwhelming majority having been created post Constitution.

- The preferred method of growth was organic growth rather than horizontal, vertical or international mergers (in descending order of importance).
- Preferred market strategy is differentiation rather than cost leadership or niche.
- One member- one vote is applicable in 37.5%; only 3% are fully proportional to equity capital contribution. (It should be remembered that SATs are included and thus may skew the results relating to cooperatives). Other options are proportional to volume and/or value of trade in varying degrees.
- Entrance to Membership is relatively easy in 38% of cases, with only 3% very restricted.
- Capital contribution 31% require a substantial capital contribution, 41% only the entrance fee.
- Equity Capital is provided by only members in 72% of the cooperatives.
- Composition of the board in 72% of cases only members, with diverse criteria for their election with expertise being less than 25%. The supervisory committee is only members in 56% of cases and in 3% there is no supervisory board at all.
- Obligation to deliver all product Delivery obligation in 62% of cases.
- Premiums 59% without product premiums.
- Member grouping is more influenced by product than regionality.
- Performance of the cooperatives positive trends in both turnover and total assets, mixed results on individualized equity capital.
- Institutional environment Formally, there is a high institutional support for cooperatives in Spain. Actual legal and cooperative organizational structures limit the effectiveness of the support (regional laws, inconsistencies, lack of coordination between various levels of administration). Policy direction is incoherent (rural development/SME initiatives at cross purposes with growth and integration mandates).

Chapter 5.5 contains the results of the sub-sector analysis in which production, exports, prices, distribution, policies, and other relevant indicators and factors are discussed. Within such analysis is the role of the cooperatives within such sub-sector and “Necessary Action” for the cooperatives of that sector.

Major issues which were relevant to many subsector cooperatives are the following:

- upstream in the supply chain and thus not taking advantage of enough value downstream; too much bulk sales (particularly olive oil and wine)
- relatively small size
- PAC policies can be detrimental, exception being F&V PO
- F&V PO, which is based on collective groupings is considered a qualified policy success
- Uncertainty regarding EU policy change (especially sugar, milk and sheep)
- EU standards are at times costly to adopt and are more protectionist than necessary
- aid required for “doing” not “being”
- downward price pressure from major distributors and price volatility yet there are competition law issues for cooperatives who wish to set minimum prices
- social dumping from countries who have lower environmental/labour standards
- struggle to balance social and environmental benefits of rural role of cooperatives and demands of competition and growth (especially in olives and sheep meat—decoupling of payments; to lesser extent, wine)
- exports have positive effect in those sub-sectors than can take advantage of it and are growing
- need to focus on quality, I+D+i, development of brands, taking advantage of downstream value
- need to professionalise managers and educate boards to control managers, internal governance issues and lack of supervision
- niche producers need support of larger cooperative network (i.e. wine)

- very few cooperatives considered that a change in legal form was necessary; rather, more emphasis on coordinating cooperative potential was seen as the way to compete in the future—competing internationally but from a strong local base
- cooperatives want a “fair playing field” and so called fiscal “advantages” do not compensate limitations

Because of differences in size and structure of the sub-sectors, there is a heterogeneity in relation to the size and types of cooperatives: for example a large dairy cooperative or cereals cooperative in contrast to a sheep meat cooperative or a wine cooperative. In light of this, we can see in the sub-sector analysis that depending in which stage the cooperative finds themselves, they require different legislative and policy measures. For newer, smaller cooperatives, creating a market and reaching optimum efficiencies was important. For cooperatives which have a strong relationship with their “tierra”, exploiting local attributes and territorial qualifications was important. Export channels, although not necessarily only a cooperative measure, are important, since niche cooperatives are usually local and isolated. For large cooperatives we can see that the large distribution creates challenges regarding brands, volume, price pressure, and in general, market power. Integration measures are important for all cooperatives with the exception perhaps of niche cooperatives due to the changing structure of the market (i.e. direct interaction with the large distributors and the disappearance of medium size intermediaries). However, niche cooperatives can also benefit from logistics and market infrastructure of larger cooperatives.

In Chapter 5.8 the following measures and topics were discussed in relation to the economic analysis of the cooperatives, their success or failure and the identified challenges and necessities. (As it is a summary in itself of a great deal of information, it will not be repeated again here):

- Spanish and regional cooperative legislation: limitations due to cooperative legal form (legal-organisation, legal-functional and operative, and economic-financial regulation); “too much law” with a multitude of regional and national measures that leads to a lack of coordination and stunts initiatives
- SAT Legislation
- Social Economy Initiatives including the promotion of Cooperatives
- Integration and Restructuring

- Interprofessional Association and other cooperative institutions
- Marketing, Promotion, Export and Internationalisation
- Innovation and Modernisation
- Education and Training
- Sustainability and Rural Development

Chapter 6 sets out a case study of Almería and the dynamic lifecycle of the agricultural F&V cooperatives and the strategies they adopted. Strategies did not adopt IOF characteristics, but instead strengthened the cooperative fabric. Cooperatives are the most important business form of enterprise and their share in marketing product has increased. Cooperative strategies included:

- commitment to financially and socially vulnerable community;
- encouraging the establishment of a cooperative economic “fabric”;
- building on but going far beyond traditional agricultural marketing and credit cooperatives through pro-active production and dissemination of organizational, technical, economic and social knowledge and playing an active role in the incorporation of the same;
- shifting and transforming individual economic risk (including technological and experimental risk) to community risk, thus involving not only the cooperatives, but the community in shared success;
- recognizing the many stages of the transformation from “peasant” to “agricultural entrepreneur” and providing management and financial training as well as support to other institutional players;
- assuming the role of intermediating international and political changes and policy for community members;
- pursuing organic growth strategies in order to sustain innovation and sector growth and as well, diversifying activities beyond local specialization (both sector and territorial);
- facilitating concentration in the sector and supporting the organizational changes that such horizontal integration implies;
- taking seriously the environmentally responsible farming imperative as an inherent strategy; and
- investment in I+D on a level that farmers would not be able to finance, but such research fed back into a virtual cycle.

An analysis of the new Andalusian cooperative law was set out, wherein many changes have been made to “equalize” the lack of restrictions of SATs with the traditional cooperative limitations of cooperatives. Certain IOF characteristics may be seen, most notably the increasing presence of the investor-member and the relaxing of the asset lock. The legislation is in keeping with many other recent cooperative laws set out above in Table 5.30. Overall, the changes amount to an attempt to create a “quasi-IOF”. These changes support the discussion in Chapter 2 of the “privatisation” of public goals and the mimicking of IOF characteristics.

Almería is an example of how the agricultural cooperative cluster system mediates between external and internal factors and the cooperative role therein. Certain factors such as collaboration between cooperatives and between cooperatives and IOFs, internationalization, investment in R+D+I, and above all, having a management in place such that cooperatives can leverage the strengths and capacity of their members and local economies in meeting external challenges appears to be more important than policy dictating cooperative structure.

Set out above is a distillation of the multi-levels of analysis and data collection that have been carried out in this thesis. In this context, the hypotheses may be discussed.

1. A “modern” contractual approach to procedural regulation, defined property rights allocation and a formalistic approach to cooperative law, often result in a “private law” ordering of social and economic interests as opposed to regulation based on achieving social and economic objectives. The result of this is the marginalization of social or policy driven regulation.

H1A Spanish Legislative Cooperative Reform has been based on institutional mimicking of investor based firms, without regard to the characteristics of cooperative enterprise structures and inherent social objectives.

Chapter 2 set out differences between IOF and cooperative enterprise in terms of contract and property and other characteristics. It was shown that legislative reform based on NIE justifications and rational did not sufficiently taked into account the cooperative enterprise structure and social objectives. Evidence was found to support legislative and organizational trends identified in Table 5.30, illustrating that there has been a trend in the following:

Membership Adaptations:

- changes in voting rights (more multiple voting rights)
- transactions with non-members (not a novelty)
- evidence of more restriction on memberships (in a few cases)
- more capital investment required of members (in some cases)

Financial Adaptations

- investor members (in many cases and with % increased)
- creation of quasi-markets for participations (in many cases)

Financial Instruments

- partial adoption of some financing instruments such as various classes of shares (with different voting rights) and debt (bonds) financing

Managerial Control

- increasing professional management but not corresponding internal governance supervision (risk of less member participation, separation of membership with business structures, move to voluntary “intervenors” and thus a concern of board willingness to control managers).

Deviation from traditional “one member-one vote” voting rights represents a serious change in the dynamic of the cooperative (for example, 37.5% of the top cooperatives surveyed maintain one member-one vote). However, when plural voting rights are based on volume (use), as opposed to capital investment, the deviation may be considered to a lesser extent IOF influenced, and an attempt to deal with heterogeneity of membership. For example, in the case of the recent law of Andalusia, plural voting related to volume but not capital is allowed, with limits. Transactions with non-members are not particularly an issue, as this can be separately accounted for. Changes which call for exclusivity or minimum delivery, while perhaps not traditional is non -the -less not particularly IOF influenced.

Adaptations to accommodate heterogeneity of membership may be a necessary step to ensure the continuation of the cooperative enterprise. Adaptations which motivate members financially, encourage growth and access to finance are not necessarily a rejection of traditional cooperatives. There are ways in which cooperatives can provide opportunities for such members without changing their traditional structure.

The role of the member as investor is, however, a radical, although not new, change in the character of the cooperative and can be seen to be an influence of IOF and the rejection of the characteristics of cooperative enterprise structures and inherent and corresponding social objectives. The fact that such investor members have limited rights does not take away from the incongruity/incoherence of such role within a cooperative, although it may lead to the failure of such scheme. In Andalusia, the ceiling has been raised to 49% instead of 30%, allowing a potential dilution of the identification of membership based on mutualistic exchange.

This trend as well, allows the “contractualisation” of the cooperative: there is an exchange contract which occupies a different “sphere”, a private sphere as it were, than the mutualistic exchange relationship that a member has with other cooperative members, commonly with the cooperative. It is also an attempt to deal with “ill defined property rights” and other agency problems identified in Chapter 2. The social relationship is, with each rise in the permitted limit, being marginalized and at the same “reconceptualised”: if the cooperative is no longer an enterprise built on mutualistic exchange but on capitalistic contract, then this changes its relationship with the mutualistic members as well. The cooperative member becomes reconceived as a “mere financier” of the cooperative (Zamagni and Zamagni, 2010).

However, within Spain’s cooperative legislative landscape, at the same time there is evidence of recognition of the needs of small cooperatives, family owned firms wishing to participate in cooperatives, and a widening of agricultural cooperative activity and purpose.

As well, in addition to the cooperative laws, the Constitution provides for cooperatives as does the Law on Social Economy, including the cooperative within such category. However, the latter is still in a very nascent form, with a declaratory status at the moment. Whether this law will have any effect on agricultural cooperatives is doubtful.

Of some concern in Spain, is the presence of the SAT, which is a legislated hybrid form from 1981 on the national level (and which was brought into force on the regional level in Aragon in 2011). As mentioned in Chapter 5, it enjoys many benefits that the cooperative has with none of the limitations. The existence of the SAT is based on its agricultural activity, rather than its cooperative identity. This may be seen to be the Trojan horse of the IOF form for agricultural cooperatives, particularly now that it is entering at the regional level.

This hypothesis H1A is supported in part, in that changes to voting rights, relaxation of asset locks and the permitting of “investor members” and the attempt to create a sort of “market” for member participations, point towards IOF isomorphism. It appears that the Spanish cooperative legislation still exists within the “Janus” or “*enfant terrible*” realm of conflict: there is still no serious attempt to deal with the “social” objectives of the cooperative, yet we see attempts to facilitate the cooperative to better function within the IOF market. Given the fact that it is not particularly attractive to invest in cooperatives for third parties, given the legal limits on both political rights (limitations on voting percentage and limitations on accessing the administrative body) and economic rights of such investors. It is extremely unclear if it will be successful, given the experience in Italy (Zamagni and Zamagin, 2010).

2. Standard economic literature and economic theory of the firm (with some exception noted in Chapter 2) have not taken into account the characteristics of cooperatives, particularly agricultural cooperatives, and do not understand their “natural” hybrid nature where certain decision rights and property rights are pooled, while at the same time distinct ownership is kept over key assets. The reason why this occurs and under what circumstances has not been properly investigated nor understood (Ménard, 2012) and is subsequently, not well reflected in policy, but rather continues to reflect dual and conflicting goals due to the IOF framework by which the agricultural cooperative is evaluated.

Legislation and policy regarding cooperatives has often failed to allow adequate measures consistent with cooperative characteristics and organizational reality with which to coordinate joint activities and carry out their activities in keeping with the social and hybrid nature of cooperatives, their activities as “network enterprises” and their existence within a wider diversity of forms of enterprise.

H2A IOF prejudices result in policy and legislative emphasis on reallocation of property and control rights, as well as firm growth and a “one size fits all” approach in relation to cooperatives, rather other forms of consolidation and concentration of offer.

H2B Cooperative legislative and policy change which mimics investor owned firm characteristics weakens the agricultural cooperative's ability to survive because it does not acknowledge or support the strengths of the cooperative business form.

Recent trends in Spanish cooperatives law have favoured IOF models with provisions for increased investor-members, relaxation of asset locks and non-traditional voting rights. However, supervisory requirements have also been relaxed, contrary to IOF trends. Cooperative strengths have not been emphasized to any great degree, with a few exceptions related to taxation of transactions between cooperatives.

The reconceptualisation of the member in contractual terms may weaken the cooperative based on experience in other jurisdictions. Legislative initiatives which have to do with capacity building and strengthening of cooperative institutions have been positive for cooperatives.

As set out in Chapter 5.8 and Table 5.30, Spain indeed has many cooperative laws and policies, particularly those that affect agricultural cooperatives. However, other important laws that affect the organization of agricultural cooperatives, such as competition law, tax law and accounting law fail to recognise the characteristics of the cooperative form or if they do, they have not paid any significant attention to the progression and growth of agricultural cooperatives in the last several decades. As noted, there has never been a process of cooperative legislative adaptation in order to adequately adapt the competition legislation in Spain. With respect to tax laws, the Cooperative Tax Law has undergone very few modifications, none of any great importance, since its being brought into force more than 20 years ago, whilst the general taxation has undergone important changes pursuant to the General Tax Law in 2003 and a huge reform pursuant to the Personal Taxation law in 2006, amongst other relevant modifications.

In addition, the general rate of tax under the Corporation Tax law has been reduced in recent years, which has resulted, in comparative terms, in a prejudice against cooperatives, given that the general reduce tax rate of 20% has remained unchanged. As well, not all companies pay the general tax rate, as there are other reduced rates as well for various types of companies. The adoption by the New Spanish Accounting Norms of the international accounting standards (IAS) has resulted in a mischaracterisation of cooperative debt and equity (social capital (equity) is not considered to meet the standards to be considered equity capital and thus is considered as debt).

That said, the regional cooperative laws, including those providing for small cooperatives, cannot be said to attempt a “one size fits all” approach. But, by virtue of so many regional laws, agricultural cooperatives suffer, due to the structural problem of a “double layer” of national cooperative laws and policies and those of the autonomous communities. Laws vary on substantial issues and do not facilitate coordination between cooperatives. The argument for a national law on agricultural cooperatives is a scenario which would be both legally and politically difficult as it would require negotiations with all autonomous communities. There have been a range of suggestions from the fiscal perspective and as well arguments for a more flexible approach to cooperative laws that maintain cooperative goals (Vargas-Vasserot and Aguilar, 2006). Overall, the autonomous community cooperative laws which are seen to be most effective and advanced are those of the Basque Country. However, as noted, the Basque Country does not have a great amount of agricultural cooperative activity compared to other autonomous communities in Spain, such as Andalusia, Catalonia, Valencia, etc. Andalusia has just overhauled its own cooperative law taking on board some of the provisions which had already existed in other jurisdictions.

Given the “atomisation” of cooperative law in Spain, it follows that agricultural cooperatives themselves tend to organise around their governing regulation, thus resulting in a general cooperative atomisation. The introduction of the European Cooperative Society has had very little impact in Spain as of yet. This is not surprising in light of the fact that very few cooperatives are even set up under the national cooperative legislation.

Hence the “IOF prejudice” is not only a matter of failing to understand the structure of cooperatives. It is also a failure to understand the importance of cooperatives and their equal need for updated legislation, in keeping with efforts that have been done in relation to IOFs. Agricultural cooperatives in Spain are at a critical point in organizational change, particularly with respect to their dimension. While there have been recently efforts made through laws encouraging integration, little has been done to seriously address the non-cooperative law legislative/policy and organisational needs of agricultural cooperatives.

It is a case of omission and at once a reconceptualising of the social aspect of cooperatives as being a jurisdictional matter for “tinkering” within regional cooperative legislation over investor owners and other financing schemes that are doubtful as to success.

3. As pointed out by various scholars, the agricultural cooperative form has proven to be an efficient and effective way to manage resources (Euricse, 2010, Hendrikse, 2004). Viewing the cooperative as a special type of hybrid, Ménard also supports this view. Agricultural cooperatives can overcome many of the problems with the cooperative business form identified by NIE theories by relying more heavily on cooperative institutions and values, rather than adopting IOF strategies. The success or failure of Spanish agricultural cooperatives does not depend on this “modern” contractual approach to law and policy but in fact, lies in the strengthening and expansion of cooperative principles, business and governance practices.

H3A Both endogenous and exogenous factors are responsible for agricultural cooperative success, particularly adequate financing and complementary cooperative institutions, professional cooperative management, capacity building measures, as well as historical, cultural and local economic factors.

H3B Adherence to cooperative characteristics and strategies which are consistent with the cooperative business form and values contributes to agricultural cooperative success.

Chapter 5 and Chapter 6 form the base from which to answer this hypothesis. Chapter 5 in the sector analysis and also in the analysis of the “Top 5” has provided details of the factors which influence the success of agricultural cooperatives in Spain. Specifically Chapter 5.8.2 summarises the measures which have been helpful or harmful to agricultural cooperatives. Chapter 6, in the case study of Almería has set out an historical analysis or a lifecycle in which the cooperative actors engaged in a dynamic process to adapt and confront challenges facing agricultural cooperatives. There are two general observations: that the traditional cooperative legal form overall has not been raised as an impediment. The second is that more engaged cooperative activity has actually benefited the cooperatives. The latter has much to do with institution building and creating institutional strength. The former, was a less obvious observation and the cause may be that those farmers that are members of cooperatives generally choose the cooperative business model as a preference in the first place. As well, Spanish cooperatives have been able to deal with heterogeneity sufficiently using organizational and governance tools to meet varied interests and expectations.

Cooperative horizontal integration, while not the preferred choice for example of the Top 5, is most likely inevitable given the structural changes to the supply chain, as discussed herein. It is of note that the restructuring which has occurred has been within the cooperative framework, i.e. unlike other countries such as the USA or Canada where there was a move to IOFs. Along with advances in combating the atomization of Spanish cooperatives, it is evident that other cooperative institutions have played a key role in providing support and services, including that of lobby: the many Federations, the Confederation, the Interprofessional Association and the various associations of producers.

The measures that were found to be the most useful were predominantly of a capacity building nature and with the range of activities in which cooperative institutions are heavily implicated: I+D+i, education, training and professionalization, exports and internationalization, platforms and consortia, marketing and financing. This latter point was of particular relevance in the case of Almería where the finance role was not simply as a supplier of credit, but rather as a financial partner, completely implicated in the success or failure of the sector. The cooperative finance entity created risk sharing mechanisms, funded innovation and research, negotiated political and international market changes, etc. It was also instrumental in the education and training of farmer members, assisting the transformation of peasant farmer to agricultural entrepreneur. As well the presence of a reliable cooperative credit reduced any need for the financial “tinkering” of contract and property rights (voting and investor members, etc.).

The Almería case also serves to illustrate that while agricultural cooperatives are often entrenched in their local culture and economies, thus being somewhat path dependent, cooperative institutions are also capable of creating economically viable agricultural communities starting almost from “zero”. It is a laboratory for the cooperative potential. Due to its strategic choices along the way, as illustrated in the case study within the framework of Cook and Burrell (2009), further reliance on the cooperative model has brought more success. Agricultural cooperatives are still the most successful agricultural business form in Almería, in spite of the presence of SATs and their market share has increased in the marketing cooperatives. On the national level across sectors, cooperatives have maintained or slightly increased their market share.

These hypotheses are thus supported by the multi-level analysis carried out herein.

Chapter 8. Conclusions.

Agricultural cooperatives are an example of “institutions for collective action” with certain common property rights that can be found almost all over the world where agricultural activity takes place. It is a particularly important institution for it not only involves our food supply, it also is closely connected with economic and rural development, distribution of wealth and environmental stewardship. In Europe agricultural cooperatives are particularly popular, where the sector and certain subsectors are heavily dominated by cooperatives. This thesis has noted the market share of Spain as having up to 70% in olives and wine, 40% in dairy, approximately 45% in F&V and at least 25% in the other subsectors studied herein. They are an important part of the Spanish economy and an even more important participant in agriculture.

Much is expected of the cooperative enterprise form if one is to take seriously the preambles to not only the various autonomous community cooperative laws, but also the Spanish Constitution and the new Social Economy law. They are to be socially oriented, provide dignified work, be environmentally sustainable and contribute to rural and cultural development. And of course, they must do this all the while competing in the same highly competitive market as IOFs, who do not carry such weighty social expectations.

This thesis has argued that the *cooperative enterprise form has had to compete not only in the non-cooperative agro-alimentary market, but also in the IOF-skewed market place of ideas and institutions which make up and govern the market*. A comparison of the cooperative and IOF form was set out to illustrate the profound differences between the very nature of the cooperative enterprise and the IOF.

The analysis began with the “theory of the firm”, the “firm” by default characterized as an IOF enterprise, and the implicit role and characterization of contract and property rights. Relying on a contractual unit of analysis and rational-choice participants who are rent seeking, free riding and selfish, an IOF theory of the firm has been constructed. This framework has been influential not only in educational processes, through the teaching of agency theory, incomplete contract, property rights theories and NIE/TCE, it has also been influential in crafting a vision of how regulation and policy should apply to enterprise and upon what measures enterprise should be evaluated.

The above theories have been shown to have crept into the analysis of the cooperative “firm”. Although some progress has been made to take into consideration certain characteristics of the cooperative enterprise form, the underlying assumptions of contract and property rights theory, as well as the unchallenged measure of “efficiency” (which is

not value neutral, yet treated as objective) have remained unquestioned, and thus such progress has fallen short of crafting a theory adequate for analysing the cooperative enterprise.

How the cooperative enterprise is understood through the lens of such economic organizational theories has been set out, explaining *the process by which cooperative relationships are reduced to “contract as organization” and how contracting and property rights “problems” specific to cooperatives are identified*. Corresponding “solutions” in order to address “ill defined” property rights, “free riding”, etc. whether by governance or by legislation were detailed herein.

Critical and alternative theories of contract and property were then introduced. In order to “dig below and learn how rules create the set being analyzed” (Ostrom, 1990:18), to understand how the structure is itself produced and how these ideas take on an established “taken for granted” social reality, institutional analysis was used to examine concepts of contract and property rights, which are institutions in their own right.

First, setting out a micro-history of contractual ideas, this thesis demonstrated that conceptions of contract and property rights are historically and culturally contingent. In the terminology of CLS, in doing so, they are “destabilized” and “fractured”. How the idea of contract came to be viewed through the perspective of legal formalism and thus “scientised” as a unit of analysis was also explored. Thereafter, how relational contract theory sought to put contract back into the realm of contextual and personalized relationships was described.

While the historical and contextual analysis of contract shed some light on the limitations of a particular formalistic view of contract and property (which is the subject of contract), CLS illustrated how these views have come to be “globablised” by the high level “reconceptualising” of *contract as organization. Contractual ordering based on the study of markets and economics, and judged according to “efficiency” resulted in the contractualisation of social relations and the “legalization” of public discourse. Cooperatives are transformed into a “nexus of contracts” and measured according to market “efficiency”*.

The “inconvenience” posed by the way in which property is held by cooperatives is of course a thorn in the side of NIE theories, as is the fact that *member-cooperative relations are fundamentally different than shareholder-IOF relations, as are the economic and social objectives*.

In light of this, cooperative theorists' critiques and Ostrom's collective action/institutional diversity insights led to the conclusion that there are both *serious theoretical and empirical doubts about the IOF theory of the firm, particularly applied to the cooperative enterprise*. While social science and certain economic theory may have become more sophisticated in its approach to enterprise, the underlying assumptions of two optimal organizational forms (markets and hierarchies), two types of goods (public and private), and one model of the individual (selfish, rent seeking, free riding and un-cooperative—in effect, anti-social), particularly as applied to the theory of the firm and the institutions which govern it, have survived and still wield influence in justifications for legislative action.

While cooperatives are themselves proof of Ostrom's and others' theories about the capacity and potential of people to organize and to create a wide array of diverse forms of collective enterprise, this has yet to be effectively transformed into the laws which fully recognize such collective enterprises and the full range of value they contribute (perhaps the Italian social enterprise law being the exception). *Instead of cooperative law becoming more aware and coherent with its own characteristics and strengths, it has in large part trended towards IOF provisions*. Economic analysis of agricultural cooperatives has often confined itself to how they compete with IOFs. The standard economic literature [and legal theory] does not take into account the cooperative business form which depends on an allocation of property rights that do not fit well within the traditional dualistic view of "markets" (autonomous and distinctive property rights held by parties who enter into market exchanges) and "firms" (with property rights unified within a legally defined structure) (Ménard, 2007).

As Ostrom and Borzaga, et al. have shown, *when the concept of the person, who is, after all, the substance of the firm (notwithstanding Hart's proclamation that the firm is a collection of assets), is not confined to the caricature of the rational choice individual, the theory of the firm according to agency theory, property rights, incomplete contract and TCE, is severely undermined*.

While the theoretical analysis of the economic organisational theory of the firm related to cooperatives has been multi-disciplinary, the thesis has used a mixed methodology (qualitative, quantitative, survey and case study) and multi-level perspective to study agricultural cooperatives: the Spanish agricultural sector: the Spanish cooperative agricultural sector; cooperatives within eight distinct agricultural subsectors; at the firm level through the top 5 cooperatives of such eight subsectors; and at the regional level by examining a cluster of cooperatives in the case study. Organizational and governance

structures, cultural and historical circumstances and general institutional environments, both enabling and hindering, that have an impact on agricultural cooperatives were tied into these various levels of analysis, identifying relevant endogenous and exogenous factors that influenced agricultural cooperative success.

An extensive examination of the various laws and policy that affect Spanish agricultural cooperatives was carried out, as evidenced by Tables 5.30 to 5.34. Other laws such as competition and tax laws as well as accounting standards were also referred to. *Evidence was found in most cooperative laws of adaptations in membership, financial provisions, financial instruments, and managerial control.* While some adaptations are not necessarily related to IOF influence, others such as “investor members” directly go against the fundamental nature of the cooperative. IOF adaptations which attempt to create a “market” for participations or for debt instruments (which must have limited rights attached) end up with a Frankenstein enterprise, incoherent and at odds with itself.

The trend of “member as financier” of the cooperative, as noted in Chapter 7, allows the “contractualisation” of the cooperative and an exchange contract which occupies a different “sphere”, a private sphere as it were, than the mutualistic exchange relationship that a member has with other cooperative members, in common, with the cooperative. It is an attempt to deal with “ill defined property rights” and other agency problems identified in Chapter 2. The social relationship is, with each rise in the permitted limit of “investor members”, marginalized and at the same “reconceptualised”: if the cooperative is no longer an enterprise built on mutualistic exchange but on capitalistic contract, then this changes its relationship with the mutualistic members as well.

With respect to other laws and policy affecting agricultural cooperatives, apart from cooperative statutes, *effective measures consistent with cooperative enterprise were found in incentives, capacity building measures (education and training, professionalisation), I+D+i, targeted financing, restructuring of the sector, export and internationalization support and cooperative institutions building.* Specific measures for small cooperatives in some autonomous communities allow for flexibility in size and economic development opportunities while at the same time dealing with potential risks of heterogeneity. *EU policies that have been most successful, such as the PO (producer organization) measures for F&V, are based on groupings of farmers and have democratic characteristics.* While not specifically cooperatives, in fact, many POs in Spain are cooperatives.

Important laws such as *competition and tax law fail to accommodate the cooperative to the same extent as the IOF.* There has never been a process of cooperative legislative

adaptation in order to adequately adapt the competition legislation in Spain. With respect to tax laws, the Cooperative Tax Law has undergone very few modifications, none of any great importance, since its being brought into force more than 20 years ago, whilst the general taxation has undergone important changes and reforms. The adoption by the new Spanish Accounting Norms of the *international accounting standards (IAS)* has resulted in a *mischaracterization of cooperative debt and equity* (social capital (equity) is not considered to meet the standards to be considered equity capital and thus is considered as debt).

The SAT legislation, which imposes far less limitations and yet receives many of the same benefits that cooperatives have, can be seen to be an IOF type company enjoying the benefits, but not the limitations of the cooperative form.

Instead of bestowing IOF characteristics on cooperatives, inventive cooperative organizational and governance structures can be created which can deal with “problems” usually identified with “free riding”, “horizon problems”, “portfolio”, “control” and “ill defined property”, and at the same time, leverage the strengths of the cooperative enterprise form. Various forms of hybrids (as mentioned by Ménard) or “spawns” (Cook and Burress) are viable options. The example given of the Trentino cooperative Mezzacorona demonstrated how a simple governance structure found a solution for these issues, yet maintained cooperative coherency. The agricultural cooperative cluster of Almería in Chapter 6 offers another example, where instead of adopting IOF measures, or for that matter, even many hybrid structures, the agricultural cooperatives have maintained a very simple organizational model: mostly first tier cooperatives supported by strong cooperative institutions, including credit (fundamental) and I+D+i, coupled with progressive concentration in the sector (which will likely escalate in the near future) to meet the structural needs of the market. The role of cooperatives was to harness, guide and leverage the strengths and capacity of the local economy in its interaction with other environments, whether in the form of markets or political institutions. Of particular interest is the fact that the Almería agricultural cooperative model was not based on a pre-existing culture or historical connection with the land. It has a lifecycle of relatively short duration.

The conclusions in relation to the hypotheses herein and discussed in Chapter 7 are:

1. A “modern” contractual approach to procedural regulation, defined property rights allocation and a formalistic approach to cooperative law, often result in a “private law” ordering of social and economic interests as opposed to regulation based on

achieving social and economic objectives. The result of this is the marginalization of social or policy driven regulation.

H1A Spanish Legislative Cooperative Reform has been based on institutional mimicking of investor based firms, without regard to the characteristics of cooperative enterprise structures and inherent social objectives.

This hypothesis is *supported in part*, in that certain changes to voting rights and the increasing of “investor members”, relaxation of asset locks and the attempt to create a sort of “market” for member participations, point towards IOF isomorphism. However, other measures are consistent with the cooperative enterprise form. It appears that the Spanish cooperative legislation still inhabits the “Janus” or “*enfant terrible*” conflict: there has not been any comprehensive attempt to deal with the social characteristics of the cooperative enterprise, yet efforts are made to provide “flexibility” and to facilitate the cooperative to better function within the IOF market, creating a structural dissonance between agricultural purpose, objectives and strengths.

2. Standard economic literature and economic theory of the firm (with some exception noted in Chapter 2) have not taken into account the characteristics of cooperatives, particularly agricultural cooperatives, and do not understand their “natural” hybrid nature where certain decision rights and property rights are pooled, while at the same time distinct ownership is kept over key assets. The reason why this occurs and under what circumstances has not been properly investigated nor understood (Ménard, 2012) and is subsequently, not well reflected in policy, but rather continues to reflect dual and conflicting goals due to the IOF framework by which the agricultural cooperative is evaluated.

Legislation and policy regarding cooperatives has often failed to allow adequate measures consistent with cooperative characteristics and organizational reality with which to coordinate joint activities and carry out their activities in keeping with the social and hybrid nature of cooperatives, their activities as “network enterprises” and their existence within a wider diversity of forms of enterprise.

H2A IOF prejudices result in policy and legislative emphasis on reallocation of property and control rights, as well as firm growth and a “one size fits all” approach

in relation to cooperatives, rather other forms of consolidation and concentration of offer.

H2B Cooperative legislative and policy change which mimics investor owned firm characteristics weakens the agricultural cooperative's ability to survive because it does not acknowledge or support the strengths of the cooperative business form.

The "IOF prejudice" is not only a matter of failing to understand the structure of cooperatives, which has been demonstrated herein, both theoretically in Chapter 2 and by example in Chapter 5. It is also a failure to understand the importance of cooperatives and their equal need for updated legislation, in keeping with efforts that have been done in relation to IOFs. Agricultural cooperatives in Spain are at a critical point in organizational change, particularly with respect to their dimension. While there have been recently efforts made through laws encouraging integration, little has been done to seriously address the non-cooperative law legislative/policy and organisational needs of agricultural cooperatives.

3. As pointed out by various scholars, the agricultural cooperative form has proven to be an efficient and effective way to manage resources (Euricse, 2010, Hendrikse, 2004). Viewing the cooperative as a special type of hybrid, Ménard also supports this view. Agricultural cooperatives can overcome many of the problems with the cooperative business form identified by NIE theories by relying more heavily on cooperative institutions and values, rather than adopting IOF strategies. The success or failure of Spanish agricultural cooperatives does not depend on this "modern" contractual approach to law and policy but in fact, lies in the strengthening and expansion of cooperative principles, business and governance practices.

H3A Both endogenous and exogenous factors are responsible for agricultural cooperative success, particularly adequate financing and complementary cooperative institutions, professional cooperative management, capacity building measures, as well as historical, cultural and local economic factors.

H3B Adherence to cooperative characteristics and strategies which are consistent with the cooperative business form and values contributes to agricultural cooperative success.

These hypotheses are thus supported by the multi-level analysis carried out herein. The experience of Spanish agricultural cooperatives in general, on a sub-sector level and in a local cluster case study, have demonstrated these hypotheses.

As noted at the start of this thesis, a central challenge for agricultural cooperatives in Spain and elsewhere in Europe is the increasing competition on a global scale and the lack of balance in the food supply chain. This theme provided an “action arena” in which to explore agricultural cooperatives, the identification of their success and failures and the legislation and policy that has been brought into force and that is proposed to “fix” their “problems”, often resorting to economic theories reliant on IOF assumptions (as developed in Chapter 2). The analysis included their (i) position in the food supply chain, (ii) internal governance, and (iii) the institutional environment. The detailed analysis found within Chapter 5, identifying and evaluating legislation and policy which affects Spanish agricultural cooperatives served to contrast the state of Spain’s agricultural cooperatives and their necessities, and the legislative and policy “solutions” on offer.

Competing interests of agricultural cooperative legislation and policy (e.g. adoption of “investor owned” measures and an emphasis on growth vs. social goals and cooperative identity) and the structural dissonance between agricultural purpose, objectives and strengths were considered. The final conclusion is that the solution to challenges faced by cooperatives lies not in listing towards IOF structures, but instead intensifying and consolidating within the cooperative enterprise model. Agricultural cooperatives should leverage their ability to be flexible, to create strong networks and to enjoy member commitment, so as to improve the lives of their farmers in their work of producing high quality and safe food that meets the demands of their clients and in the process leaves as light an environmental footprint as possible. In the end, it is indeed about much more than groceries and interest rates.

Chapter 9. Future Research.

Below are topics for future research related to the research goals of this thesis:

1. Empirical research on the effect of cooperative organizational and legislative adaptations to non-traditional cooperative forms including organisational and governance innovations that are compatible with cooperative values

As evidenced in the thesis, substantial “tinkering” with the cooperative form has been done across the autonomous communities. Whether these changes have had a positive or negative effect, not just in a limited economic sense, would aid in crafting better cooperative legislation, rather than relying on ideology or results based on IOFs.

2. Research on building a more appropriate cooperative theory of the firm

A cooperative theory of the firm (not based on IOF assumptions of contract, property rights and a model of the individual that is not consistent with cooperative experience, structure or activity) is needed in order to properly study the cooperative enterprise. As Ostrom has said, “economic and social sciences have significantly moved ahead over the past five decades since scholars posited two optimal organizational forms, two types of goods, and one model of the individual. (Ostrom, 2010:663). The cooperative and “hybrid” form need further study so that adequate regulatory and institutional environments which govern it may be constructed. Work has already begun on issues such as trust, member commitment and motivation, cooperative efficiencies and knowledge sharing, but it is in a nascent stage.

3. Measuring the economic social contribution of agricultural cooperatives What are the economic roles, in the “triple bottom line” sense, that Spanish agricultural cooperative play in the Spanish economy? What measures could be developed so that this economic, yet uncounted contribution which makes up the “social” role of the cooperative form be recognized, and thus accounted for, in future policy and legislation? How can agricultural cooperatives fulfill rural development objectives with stronger economic performance?

4. Strategies to offset Spain’s complex and atomised cooperative legislative framework-strengthening alternative institutions.

Spain’s cooperative law framework is complex and hinders effective coordination, internationalisation and growth. However, a change in the division of powers is unlikely given that it would represent a Constitutional change and require the relinquishment of powers by the autonomous communities. Instead, perhaps a focus on regional coordination and the role that complementary cooperative laws and policies can play in

the unification of goals and strategies would be fruitful. As well, national laws that affect all cooperatives may prove ground for reform, for example tax code reform. As well the further strengthening of cooperative interprofessional and inter-regional associations, institutions and entities is needed.

5. Spanish strategies for integration, concentration and coordination

While it is true that Spain has a large number of small and medium size cooperatives, integration strategies that have been successful in other countries cannot automatically be applied to Spain. The most appropriate methods must be researched so as to understand what functions in a complex legal, historical, social and cultural context.

6. Research into the weaknesses of cooperatives, producer organisations and operating programs and strategies to attract more farmer participation.

There has not been enough movement on producer organisations (Cooperativas Agroalimentarias, 2011:18) and thus potential funds are not being utilised. While in other countries most farmers are integrated into POs in Spain there are still high percentages of farmers who are not integrated. The reasons for this should be determined and remedied.

7. Strategies for cooperatives to take advantage downstream in the value chain.

Spanish cooperatives are predominantly upstream in the supply or value chain and need to build strategies to create more value and to engage with the large distributors based on differentiation of product.

8. Effective cooperative strategic management, human resource development and agricultural entrepreneurship training.

This issue is at the core of agricultural cooperatives in Spain. While in IOFs it would be highly unusual not to take advantage of highly trained and skilled individuals in management, in agricultural cooperatives there is still a reticence. This reluctance is in part based on “localism” and also may be due to the fact that most management and business programs are based on IOF logic and theories. The cooperative sector must take it upon itself to offer serious and rigorous cooperative management training that understand the characteristics of cooperatives. These differences have implications for financial management, human resource management, marketing, governance, etc. As well, good management affects strategies for adding value through processing, commercialisation, the development of innovative products, moving up value chain, differentiation, internationalisation, and coordination between cooperatives in different regions. It also includes developing adequate management accounting and evaluation techniques unique to cooperatives.

9. Gender and cooperative decision making.

Cooperative institutions and their representatives are overwhelmingly male. In Spain, traditionally, men are members of the cooperative, even though women are often equal owners and workers in the farm business. When initiatives are voted on by the membership, the lack of voting representation by women may affect decision-making. Gender studies/member decision making and cooperative investment is an important field to investigate alongside efforts to incorporate more women as members and as managers in cooperatives. This also ties into cooperative governance issues as IOF have actually advanced more on this issue than cooperatives.

10. Opening up the agricultural cooperative doors to full participation of young farmers, women and immigrants.

The lack of involvement and/or inclusion of broad segments of Spanish society within cooperatives is evident. Women and immigrants are currently crucial to the functioning and performance of agricultural cooperatives in Spain and yet they are almost invisible in the agricultural cooperative institutions and higher levels of management. Young people, the future of agricultural cooperatives seem to be an afterthought while disadvantaged collectives are invisible. Research into how inclusion of diverse groups can benefit the performance of agricultural cooperatives is necessary. Similar research has been done in other non cooperative, cooperative and social enterprise sectors but is lacking in the agricultural sector.

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Appendix

DATOS GENERALES

1) ¿Con cuántos socios cuenta la empresa? Los socios, ¿son agricultores individuales o cooperativas?

2) ¿Cuáles son las funciones principales de la organización? Indicar si existe más de una:

Producción agrícola.

Maquinaria agrícola.

Procesamiento y marketing del producto.

Aprovechamiento de suministros agrícolas.

Acceso a financiación.

Seguros y reparto de riesgos.

Reproducción de plantas y animales.

Provisión de agua o sistemas de riego.

Conservación del suelo y el medio ambiente.

3) ¿Qué otros servicios no económicos proporciona la organización a sus socios?

Educación general.

Sanidad.

Seguros.

Infraestructura.

Agua.

Otros. ¿Cuáles?

4) Principales productos/sectores en los que participa la organización. <input type="checkbox"/> Cereales. <input type="checkbox"/> Azúcar. <input type="checkbox"/> Ganadería porcina. <input type="checkbox"/> Ganadería ovina y caprina. <input type="checkbox"/> Frutas y hortalizas. <input type="checkbox"/> Aceite de oliva y aceitunas de mesa. <input type="checkbox"/> Leche y derivados lácteos. <input type="checkbox"/> Vino. <input type="checkbox"/> Otros. ¿Cuáles?
5) Ingresos por ventas en 2010 o último año disponible (indicar el año si es anterior a esta fecha).
6) Ingresos por ventas en 2000.
7) Balance total en 2010 o último año disponible (indicar el año si es anterior a esta fecha).
8) Balance total 2000.
9) Ratio de endeudamiento en 2010 o último año disponible, medido como deuda total / fondos propios (indicar el año si es anterior a esta fecha).

10) Ratio de endeudamiento en 2000, medido como deuda total / fondos propios.

11) Proporción de las aportaciones de los socios dentro del capital social, medido como capital aportado / fondos propios totales.

12) ¿Cuál es la responsabilidad de los socios ante las pérdidas de la empresa?

Total.

Parcial.

Excluida.

13) Dentro del capital social de la empresa o en sus subsidiarias, ¿existen inversores que no sean socios agricultores?

14) A la hora de entrar a formar parte de la organización como socio, ¿existen restricciones por localización geográfica, calidad, volumen mínimo de producción u otras?

15) ¿Cómo definiría la facilidad para entrar a formar parte de la organización?

Muy fácil.

Relativamente fácil.

Acceso restringido.

Acceso muy restringido.

16) Respecto a la contribución de los socios al capital social. ¿Contribuye el socio al capital social con algo más que su aportación inicial y los beneficios retenidos?

El socio aporta sólo su capital inicial.

El socio además de su capital inicial y el beneficio retenido lleva a cabo contribuciones significativas al capital social.

17) ¿Tiene la organización socios agricultores en otros estados miembros de la UE? En caso afirmativo, ¿qué proporción representan dentro del total de miembros? ¿En qué países se encuentran?
18) ¿Compra la organización a agricultores extranjeros que no sean socios de la cooperativa? ¿A qué países pertenecen?
19) ¿Y a agricultores nacionales que no sean socios de la cooperativa? ¿Qué porcentaje representan estas operaciones con respecto a las operaciones totales de la entidad?
ELEMENTOS DE GESTIÓN INTERNA
1) ¿Cuál es la estructura legal de la empresa? <input type="checkbox"/> La empresa es una única organización. <input type="checkbox"/> La empresa forma un holding, es decir, posee una o varias compañías participadas con diferentes formas legales.
2) ¿Cuál es la composición del consejo rector? <input type="checkbox"/> Sólo socios de la organización. <input type="checkbox"/> También miembros que no son socios, que pueden ser: profesionales, académicos, políticos, etc.
3) ¿Cuántos miembros tiene el consejo rector?
4) ¿Cómo se estructura el consejo rector? ¿Incluye dentro del mismo a los supervisores o se encuentran estos formando un grupo separado dentro de los órganos de dirección de la empresa? Si los supervisores forma un órgano separado, ¿está formado sólo por socios de la organización?

5) ¿Qué elementos son tomados en cuenta a la hora de seleccionar a los miembros que forman parte del consejo rector?

Experiencia personal.

Representación regional.

Representación por tipo de producto.

Otros. ¿Cuáles?

6) ¿Existe un límite en el número de años que una persona puede formar parte del consejo rector? Si existe, ¿cuál es este límite?

7) ¿Quién se hace cargo de la gestión operacional de la organización?

Consejo rector.

Directivos profesionales

8) ¿Dispone la cooperativa de una asamblea de delegados además del consejo rector?

9) ¿Cómo es la distribución de los votos entre los socios?

Un socio un voto.

Distribución proporcional. ¿En qué se basa dicha proporción?

Capital aportado.

Volumen de operaciones efectuadas.

Distribución proporcional, pero con un límite superior. ¿Con qué límite?

10) En el caso de que la empresa tenga subsidiarias, ¿participan los socios dentro del capital social de las mismas de forma directa?

11) ¿Tienen los socios la obligación legal de entregar toda su producción a la empresa?
12) ¿Son los socios agricultores/ganaderos especializados? Es decir, ¿se dedican a la producción de múltiples cultivos/ganaderías o se centran en sólo uno o dos? ___ Baja especialización. ___ Especialización media. ___ Especialización alta.
13) ¿Usa la organización distintas herramientas de marketing?
14) ¿Agrupa la cooperativa a sus socios de manera formal por producto y/o región u otras?
15) ¿Tienen los socios con grandes volúmenes de producción un trato preferente en precio?
16) ¿Aplica la organización una política de costes diferenciados?
17) ¿Tiene la organización miembros no activos, es decir, socios que en la actualidad no sean productores pero sigan formando parte de la cooperativa? ¿Qué porcentaje representan?
18) ¿Cuál es la influencia de estos socios no activos en el proceso de toma de decisiones de la cooperativa? ___ Alta. ___ Media. ___ Baja.

POSICIÓN DENTRO DE LA CADENA AGROALIMENTARIA Y ESTRATEGIA

1) ¿Cuál era la posición de la organización en la cadena agroalimentaria en 2000? Para cada una de las siguientes afirmaciones, indicar si para la empresa es no relevante, relevante o especialmente relevante.

Proporcionar acceso al mercado. Especialmente relevante

Poder de negociación colectiva. Especialmente relevante

Almacenamiento y distribución. Relevante

Transformación primaria del producto (productos intermedios para la industria alimenticia).

Transformación secundaria del producto (productos finales para el consumidor).

Venta de la producción a granel o sin marca propia. Relevante

Venta de la producción con marca propia. Especialmente relevante

Venta al por mayor, como mayorista.

Venta al por menor.

Integración de producción, transformación y marketing.

2) ¿Cuál es la posición de la cooperativa en la cadena agroalimentaria en 2010?

Proporcionar acceso al mercado. Especialmente relevante

Poder de negociación colectiva. Especialmente relevante

Almacenamiento y distribución. Especialmente relevante

Transformación primaria del producto (productos intermedios para la industria alimenticia).

Transformación secundaria del producto (productos finales para el consumidor).

Venta de la producción a granel o sin marca propia. No relevante

<p><input type="checkbox"/> Venta de la producción con marca propia. Especialmente relevante</p> <p><input type="checkbox"/> Venta al por mayor, como mayorista.</p> <p><input type="checkbox"/> Venta al por menor.</p> <p><input type="checkbox"/> Integración de producción, transformación y marketing. Relevante</p>
<p>3) ¿Cómo definiría la estrategia de marketing seguida por la organización?</p> <p><input type="checkbox"/> Liderazgo en costes: el énfasis se sitúa en obtener bajos costes.</p> <p><input type="checkbox"/> Diferenciación: el énfasis está en aportar un elevado valor añadido.</p> <p><input type="checkbox"/> Focalizada: la cooperativa se centra en un nicho de mercado.</p>
<p>4) ¿Cuántos productos diferentes comercializa la empresa? (Surtido amplio o reducido)</p>
<p>5) ¿Vende la cooperativa productos con marca diferenciada? ¿Qué porcentaje aproximado de los ingresos representan los mismos?</p>
<p>6) ¿Cuál es el gasto en investigación y desarrollo como porcentaje de la cifra de ingresos?</p>
<p>7) ¿Cuál es la principal estrategia de crecimiento seguida por la organización?</p> <p><input type="checkbox"/> Incremento de las ventas sin llevar a cabo fusiones o adquisiciones.</p> <p><input type="checkbox"/> Fusiones y adquisiciones dentro del mismo nivel de la cadena agroalimentaria.</p> <p><input type="checkbox"/> Fusiones y adquisiciones en el nivel anterior o posterior de la cadena agroalimentaria.</p> <p><input type="checkbox"/> Fusiones y adquisiciones con cooperativas o empresas extranjeras.</p>
<p>8) ¿Tiene los agricultores cooperativas alternativas a las que vender?</p>

ERRATA

Page	Location in page	It says	It should say
51	Footnote 18 Line 4	or	our
88	Line 1	This Chapter covers the period from 2000 to 2011. This refers to both the factual data that has been collected. In certain cases, where indicated and where possible, more recent data has been included from 2012.	This Chapter in general, covers the decade from 2000 to 2010. In certain cases, where indicated, more recent data has been included from 2011 and 2012.
89	Figure 5.1	Source	Data source
89	Figure 5.2	Source	Data source
90	Figure 5.3	Source	Data source
94	Last paragraph Line 4	thedetrimate	the detrimate
99	Section 5.3.1 Line 2	5.2.3	5.1.3
100	Figure 5.12	Source	Data source
100	Figure 5.13	Source	Data source
101	Figure 5.15	Source	Data source
107	Table 5.6	Source	Data source
108	Table 5.7	Source	Data source
108	Table 5.8	Source	Data source
114	Table 5.11	Scope of commercialization	Scope of commercialization (%)
115	Table 5.12	Average exportation of cooperative exporters	Average exportation of cooperative exporters (Million €)
115	First paragraph Line 2	5.2.3.	5.1.3
115	Table 5.13	Sources	Data sources
135	Line 2	Figure 5.45 below.	Figure 5.44 below and by sector in Figure 5.45.
140	Table 5.18	Source	Data source
141	Figure 5.51	Source	Data source
142	Table 5.19	Source	Data source
144	Table 5.20	Source	Data source
145	Figure 5.52	Source	Data source
153	Figure 5.53	Source	Data source
154	Table 5.22	Source	Data source
154	Figure 5.54	Source	Data source
155	Figure 5.55	Source	Data source
156	Figure 5.56	Source	Data source
161	Table 5.24	Source	Data source
161	Figure 5.57	Source	Data source
163	Figure 5.58	Source	Data source
163	Table 5.28	Source	Data source
168	Paragraph 4 Line 2	Paco & Lola have garnered	Paco & Lola has garnered
168	Paragraph 4 Line 7	Rías Baixas	Rías Baixas
170	Figure 5.59	Source	Data source
173	Figure 5.62	Source	Data source
174	Figure 5.63	Source	Data source
177	Figure 5.64	Source	Data source
180	Last paragraph Line 2	section 5.7.2	Chapter 5.7.2
180	Last paragraph Line 4	generl	general
180	Last paragraph Line 4-5	Table 5.30	Tables 5.30 to 5.34
181	Paragraph 1 Line 4	Chapter 5.5	Chapter 5.6
181	Last paragraph Line 2	at the end	in Table 5.34
239	Line 8	co-operative	cooperative

ERRATA

Page	Location in page	It says	It should say
254	Figure 6.4	Based	based
259	Figure 6.5	Source	Data source
259	Figure 6.6	Source	Data source
261	Paragraph 2 Line 1	co-operative	cooperative
261	Paragraph 2 Line 2	co-operative	cooperative
262	Table 6.1	Note: Anecoop in has 5 Almeria co-operatives which are not included in this Table (see under Table 6.4).	Note: Anecoop in has 5 Almeria co-operatives which are not included in this Table (see under Table 6.4). Data source: Coexphal
263	Figure 6.11	Data Source	Data source
263	Line 3	co-operatives	cooperatives
263	Paragraph 2 Line 1	co-operatives	cooperatives
264	Line 15	Co-operative	Cooperative
265	Line 1	co-operative	cooperative
265	Line 2	co-operative	cooperative
266	Line 1	Co-operatives	Cooperatives
266	Paragraph 2 Line 1	co-operative	cooperative
266	Paragraph 2 Line 2	co-operative	cooperative
266	Paragraph 2 Line 5	co-operative	cooperative
266	Paragraph 3 Line 1	co-operative	cooperative
267	Line 1	co-operatives	cooperatives
267	Paragraph 2 Line 2	co-operative	cooperative
267	Paragraph 2 Line 3	co-operative	cooperative
267	Paragraph 3 Line 2	co-operatives	cooperatives
267	Paragraph 3 Line 3	co-operative	cooperative
267	Paragraph 4 Line 2	co-operatives	cooperatives
268	Paragraph 2 Line 1	co-operative	cooperative
268	Paragraph 2 Line 2	co-operative	cooperative
268	Paragraph 3 Line 1	co-operative	cooperative
268	Paragraph 3 Line 6	co-operative	cooperative
268	Last paragraph Line 4	co-operatives	cooperatives
269	Line 1	co-operatives	cooperatives
269	Table 6.4	Source	Data source
269	Table 6.5	Source	Data source
270	Table 6.6	Source	Data source
270	Line 2	co-operatives	cooperatives
271	Line 10	co-operatives	cooperatives
274	Line 23	co-operatives	cooperatives
274	Line 25	co-operative	cooperative
274	Line 26	co-operatives	cooperatives
275	Line 27	co-operatives	cooperatives
277	Paragraph 3 Line 7-8	co-operative	cooperative
279	Line 3	into strange quasi-IOFs	into quasi-IOFs
279	Line 4	Basle III is	Basle II and proposals under Basle III are
280	Line 5	yet they	yet cooperatives
281	Line 25	growth s and as well,	growth and as well,
282	Line 6	co-operative	cooperative
282	Paragraph 4 Line 1	co-operative	cooperative
290	Paragraph 2 Line 5	co-operatives	cooperatives
290	Last paragraph Line 5	Table 30	Table 5.30

Agricultural Cooperatives: An analysis of legislative, policy and organisational change

Insert between end of page 70 and beginning of page 71 (dropped text from printer's version): Italy reformed its cooperative law in 2003 (brought into force in 2004) and defines a cooperative as a company with "variable capital and mutual purpose". It contains a distinction between "mainly mutual" and "other" cooperatives. The mainly mutual cooperatives have two core characteristics: they are obligated to operate predominantly with their members (in the case of agricultural cooperatives this translates into 50% of total quantity or value of product) and there is a capital remuneration restraint (Fici, 2013). "Other" cooperatives do not have such restraint and may freely operate with non-members and remunerate capital. However, they cannot take advantage of special tax benefits.

The by-laws of the predominantly or mainly mutual cooperatives must contain the requirements of the "Basevi Law" (Zamagni and Zamagni, 2010; Fici, 2013): dividends cannot be more than the top rate of postal savings bonds plus 2.5 percentage points; the remuneration of financial instruments subscribed by members cannot exceed the ceiling on dividends by more than two points; indivisible reserves cannot be distributed to members; upon dissolution (liquidation or conversion to an IOF) all assets minus paid-up capital must be turned over to a fund for the development and promotion of cooperatives; and withdrawing members cannot leave with more than their paid-up capital. Multiple votes are however allowed in primary cooperatives, based on volume of use and capped at 10%. In secondary cooperatives multiple votes are allowed based on capital and capped at 5 votes.

What is of note here is that the new law chose to make a distinction between those cooperatives which generally follow traditional cooperative values and those which are more "market oriented", rather than dilute or "modernize" a general cooperative law. What is of even more interest is that 90% of Italian cooperatives are "mainly mutual" cooperatives, choosing to assume the restrictive obligations and limits (Zamagni and Zamagni, 2010). While the predominant argument underlying much cooperative law reform suggests that "modernization" of cooperative laws is necessary to compete, spur investment and capture funds and that a hybrid IOF model must replace a mainly mutualistic model, the Italian experience seems to suggest otherwise. Reasons for this may include the tendency of Italian cooperatives to promote a political and economic network amongst cooperatives and the cultural consciousness of the social utility of the cooperative business form (Fici, 2013). Perhaps another reason is that cooperative success has little to do with adopting IOF characteristics.

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