OVERVIEW OF CO-OPERATIVES

Introduction

For many business people, co-operatives are relatively unfamiliar. However, a reasonable understanding of them is essential for two reasons:

- A fundamental decision for NZ dairy farmers in considering the Global Co package is to decide, what type of business organisation will best meet their needs over the next five to 10 years in a deregulated exporting environment?

- Given that the co-operative form has been an integral part of dairy farmers' lives for over 100 years, its history – and the values that underpin it – have a strong influence in shaping farmers' views of their options.

This papers distils and builds on key points from the range of academic papers referred to in the end-notes.

What is a 'co-operative'?

One academic of the co-operative movement has suggested that "…precise legal definitions [of co-operatives], with universal applicability, do not exist."[1]

Certainly, co-operatives take many forms. However, the co-operative movement tends to distinguish co-operatives from 'investor owned' or 'investor orientated' enterprises as follows:

- 'Investor orientated firms' are seen as "serving capital investors through dividends and to share value appreciation".

- By contrast, co-operatives are seen as "organisations that exist to serve and benefit their members".[2]

In the minds of co-operative proponents, the crucial difference between 'investor orientated' firms and co-operatives is a difference of social philosophy:

> The heart of a co-operative is the concept or *spirit* of co-operation[3], together with the 'social benefits co-operative action', which is *not* seen as the primary driver of 'investor owned' enterprises.

The 'social benefits of co-operative action' are viewed as including 'the efficient production of public goods', 'enhancing competition to counter monopolists (especially in agriculture)', 'business at cost', 'open membership' and 'preserving farming in the rural regions'. [4]

As leading co-operative academics have observed, attempts to explain the economics of why co-operatives are organised, as opposed to other methods of spreading risk and enhancing value, have been examined only relatively recently.[5]

Reasons for co-operatives

Co-operatives are part of a social movement[6], which evolved in the 1880's, mainly as response to:

- The separation of production and distribution;
- An absence of universal welfare and education;
- Lack of direct political access for the working classes;
- The movement of rural people into industrial jobs; and
- Fear of technology changes.[7]

In general, co-operatives were established to protect the interests of weaker (working) parties. The causes for which co-operatives were created vary between countries. In France, they were mainly worker co-operatives. In Germany and Ireland, the movement was driven by the rural poor. In the USA, they were set up as to counter-balance to the power of early industrialists.[8]

In Europe, the USA and NZ, co-operatives have tended to operate by State support, including special tax treatment, special access to cheap credit, free technical assistance and exemptions from anti-monopoly laws.[9]

A leading co-operative academic (van Dijk) has put forward 'five historical reasons' for agricultural co-operatives.

- Countervailing power against buyers with high market power, to increase prices to farmers and/or weaken "one-sided cut-throat competition", with a view to "stabilising price/quality competition" and "providing members with a more solid base for continuity"[10];

- Access to the market, particularly export markets for production-orientated and subsidised agricultural commodity products;

- Efficiency through economies of scale, which is seen as vital in bulk commodity businesses like agriculture where reducing the cost of production is the only control producers have over their margin (given that the price is set by large scale supply and demand).

- Risk management, which is also seen as vital in agricultural commodity markets with high levels of protection. Some large co-operatives have been formed with a view to trying to influence prices – in other words, with a view to forming a cartel. This form of risk management relies also on the Government providing price guarantees. Co-operatives in Europe have been able to profit under the highly regulated Common Agricultural Policy (CAP) in Europe, and in the highly price-regulated US agricultural markets.

- Preservation of employment and the raising of income for members and the region. This has been a particular focus in Europe and North America as prosperity of sparsely populated rural areas declines. New co-operative 'agro-combinations' are emerging as a response.

Some example of co-operative activities:

- Buying and retailing goods on behalf of members (Foodstuffs and Combined Rural Traders)[11];
- Purchasing, processing and selling members' outputs (the dairy co-operatives, Alliance Group and PPCS)[12];
- Providing goods for members (Ravensdown. Also Bay of Plenty Fertilisers – which is 40% owned by FERNZ, a listed public company);
- Providing services for members (PSIS, building societies, Rabobank, Co-op Bank of UK, traditional insurance mutuals such as AMP, Colonial, Tower – all of whom have now demutualised – reverting to a normal 'investor owned' structure); and
- Supplying labour (such as John Lewis Partnership in the UK). [13]

Traditional co-operative principles

Both 'investor owned' and co-operative enterprises are required to serve the interests of their members.

- However, members of an 'investor owned' enterprise are viewed as a "society of capital suppliers",[14] whose only interest is to maximise the returns on their capital.

- By contrast, the members of a co-operative are users of the co-operative's services (and in many cases also provide capital). In a co-operative, there is no separation between the interests of capital providers and the interests of users.

A co-operative firm therefore seeks to satisfy the needs of its members, who co-operate in the ownership and governance of the firm with which they trade[15].

In a paper for the Dairy Board in May 1995, Ernst & Young outlined three distinctive features that set co-operative enterprises apart from others:

- *Mutuality:* An association of people and capital where all buying and selling between members and the co-operative are mutual;

- *Democracy:* Member capital is non-tradable and at best earns a nominal return and where voting is on a membership basis;

- *Patronage:* Users receive a 'patronage' rebate in relation to their level of use in the co-operative[16].

In 1995, the International Co-operative Alliance (ICA) revised its key principles which define a co-operative. These are set out in the Annex to this Appendix.

Interestingly, the Kiwi Dairy Co-operative in New Zealand claims to be strongly guided by the ICA's seven principles. [17]

Non-traditional view

However, some co-operative academics claim "that those tradition co-operative principles do not have their roots in sound economic analysis of the present economic, social and political reality, and that [those principles] cannot be derived from general definitions of co-operation". Those academics also argue that the traditional (ICA) principles –

supported by Kiwi Dairy – are "the result of historical facts that have developed into ideological and cultural convictions".[18]

As noted by Nilsson (1997), the ICA principles are only likely to work if the co-operative is operating in the same (traditional) conditions that applied decades ago when it was formed. Clearly, this is not the case for Kiwi.

Co-operative academics have distilled three common characteristics that define a co-operative :

- "Co-operation is an economic activity,
- "...that is conducted for the common needs of members, and
- "...which is owned and controlled by these people for themselves".[19]

The United States Department of Agriculture, supported by various academics[20], has defined only three co-operative principles:

- *User ownership:* A co-operative is financed and owned by its users (suppliers).

- *User control:* Users of the co-operative control it.

- *Users' benefit:* Benefits are distributed to users in proportion to their use.

Role of co-operatives in New Zealand

In NZ, enterprises reflecting these principles may include co-operative companies, incorporated societies, mutual associations, trade unions, clubs, welfare and health insurance unions and credit unions.

In total, these enterprises account for more than $17 billion in annual turnover. Co-operatives in the NZ Co-operatives Association are estimated to have total assets of around $12 billion[21].

Main types of co-operative

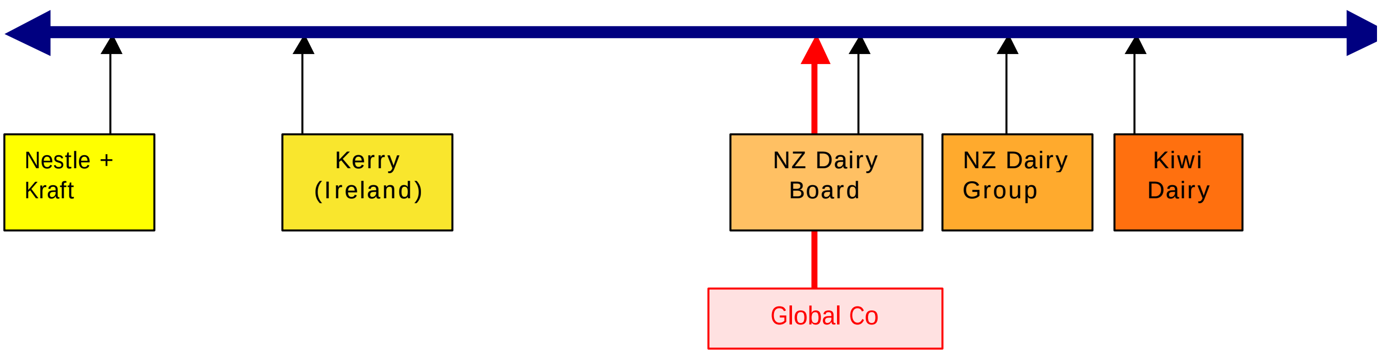
Recent academic literature within the co-operative movement seems to distinguish between five general types of co-operative:

- Traditional co-operatives;
- Second generation or 'open marketing' co-operatives;

- Third generation co-operatives;
- Hybrid or combinations; and
- Publicly listed co-operatives.

These five organisational forms seem to lie on a continuum, as described below.

	Investor owned firm	**Co-operative on stock exchange**	**3rd Generation Co-op**	**2nd Generation Co-op**	**Traditional supply Co-op**
Primary Purpose	Grow shareholder returns - Single goal	Grow shareholder returns – Single goal	Grow specialised business	Grow business + guaranteed buyer – Multiple goals	Guaranteed buyer of all production – Multiple goals
Exclusive supplier ownership	No	No	Yes	Yes	Yes
Focus	Demand driven	Demand driven	More demand driven	Production-driven	Production driven
Main product types	Diversified food business	Diversifying	Specialised/niche	Commodities + ingredients	Commodities
Outside share capital	Yes – For all areas	Yes- For all areas	Yes – For consumer business	None	None
Control	Directors + shareholders	Directors + shareholders	Directors + shareholders in consumer business	Management	Management (if large) Suppliers (if small)
Monitoring	Strong	Strong	Good for consumer business	Very weak if no benchmarks	Ok if not too large
Typical Govt support	None	None	Non-generic rules for governance	- Compulsory membership laws - Anti-monopoly waiver - Cheap interest rates	Non-generic rules for governance



The general characteristics of each are summarised below and in Annex [ ] to this Appendix. Note that 'life-style communes' appear just to the right of the traditional co-operative.[22]

Traditional co-operatives

The traditional supplier co-operative was (and still is) viewed as an 'umbrella organisation' covering many individual enterprises which co-operate in production or selling activities. Traditional co-operatives are seen as "an aggregate of economic units (members) and are not themselves acquisitive economic units – in other words, a co-operative is a pure agency with members as principals" .[23]

The co-operatives' objectives are supposed to be formulated within the member enterprises, and (as noted earlier) are seen to be broader than those of an 'investor owned enterprise'.

Traditional co-operatives tended to be formed as an extension of a farm business, for processing and selling agricultural commodities, where economies of scale are available and product price is largely independent of the volume produced by the co-operative.

The aim is to counterbalance buyers' purchasing power, ensure a guaranteed buyer for all production, reduce processing costs and, if possible, increase prices.

Traditional co-operative characteristics are[24]:

- Open, direct membership;
- Long term membership contracts;
- An obligation on farmers to sell, and on the co-op to buy, all production;
- $1 in $1 out;
- Low capital investment. To a puritan, a co-operative enterprise should not even possess capital of its own; [25]
- Low interest on capital;
- Unallocated capital;
- One person, one vote;
- Equal pricing across all members' product, irrespective of volume and distance;
- Cost averaging; and
- Principles of 'political and religious neutrality'.

In short, in a traditional co-operative, the 'patron' or supplier role is dominant over the 'investor' role. A traditional co-operative is likely to be *effective* when[26]:

- Homogeneous membership with similar business opinions;
- No significant problems associated with open membership.
- Homogeneous inputs and outputs;
- The co-operative works close to the members' enterprises;
- Investments are closely related to the members;
- High membership commitment;
- Management highly responsive to members' business expectations;
- Low cost of membership;
- Relatively small investments are needed, mostly in capacity.
- Free rider and horizon problems are insignificant;
- Low management complexity; and
- Withdrawal is relatively difficult (to ensure continued volume and low capital payouts).

Until quite recently, Kiwi and NZ Dairy Group have been traditional co-operatives

Within the 'traditional' school, co-operative theorists distinguish between 'cartel' and 'yard stick' co-operatives. Both seek to countervail or balance buyers' or competitors' market power.

'Cartel' co-operatives

If a co-operative can control a large enough proportion of supply (with a downward sloping demand curve), it can either control volume and therefore price in the market or allocate volume across markets in order to price differentiate.[27]

The cartel's aim is to "correct imbalances in grower treatment, and to achieve more orderly marketing" using large co-operatives (particularly to hold quality standards and avoid dumping) [28].

These types of co-operative often required State exemptions from anti-monopoly laws. The cartel was also intended to overall industry efficiency, which was viewed as a 'public good' in US co-operative legislation in the 1920s[29] .

The cartel co-operatives were very well suited to speciality crops grown in confined regions like the US Pacific Coast. By organising major market share and emphasising grading and pooling techniques, products were brought to market in a controlled fashion that avoided problems of dumping on the market after harvest. [30]

Key problems in voluntary co-operative include[31]:

- Members having incentives to cheat and become 'free riders';
- Benefits flowing to individuals *outside* the co-op;
- How to work out the profit maximising volumes to produce and sell;
- How to allocate production across members;
- How to prevent 'free riders';
- How to control production outside the co-op.

So, operating a cartel is extremely difficult to maintain without strong loyalty or legislation making membership compulsory and/or limited non-members' rights to sell.

The NZ dairy industry has been based on the concept of trying to operate a cartel. The 'single desk' regime is one of its anchors. The key error is that the NZ dairy industry has no pure market power[32].

'Yard stick' co-operatiives

Their aim is to create a local or regional co-operative, with a limited share of market activity in a particular region, to serve as a 'yard stick' against which members could measure the performance of the dominant 'investor owned' firm, with a view to forcing them to become more competitive. [33] There are few examples of successful co-operative entry of this kind. A co-operative may transfer some of the investor-owned firm's profits to its members, but the market tends to become less profitable.[34]

'Second generation' co-operatives

These a traditional co-operatives that have become large – more remote from ordinary farmer control – and managed by professional managers in a 'corporate' manner. Entry to the co-operative is probably not on a nominal basis. Vertical integration is greater. But in essence, their rules are still closer to the traditional co-operative model than an 'investor orientated firm'.

NZ Dairy Group and the Dairy Board claim to be a 2nd Generation co-ops[35]

Limitations of traditional + 2nd generation co-operatives

If a traditional co-operative (until recently, such as Kiwi Dairy) or a 2nd generation co-operative (such as NZ Dairy Group or the Dairy Board) tried to embark on an entrepreneurial (value-added) strategy, it would be hampered by several problems:

- lack of capital;
- non-optimal investments;
- use of unallocated capital (supplier reserves) to fund investment;
- distorted pricing;
- 'free-rider' problems as members try to get benefits without paying;
- investments that are not in the interests of all members;
- lack of control on members' quality and quantity of supply;
- cross-subsidisation; and
- problems over property rights. [36]

'Third generation' co-operatives

These are also called 'entrepreneurial' or 'new generation' co-operatives**.** Definitions of this category vary. In these co-ops, members are strongly interested in returns both as suppliers and investors.[37] Residual claims are tradeable and members get remuneration on their capital – they are likely to make considerable investments in the co-operative's value-added business.

Common characteristics of 3rd Generation co-ops include[38]:

- Seeking to growing 'valued-added', consumer-end activities;
- Promoting product differentiation, specialisation and consumer loyalty.
- Higher risk, higher margin products in niche areas;
- Highly demand (not production) driven;
- Shares are tradable, at least among the members;
- Membership is closed – new members are accepted only if they will enhance the wealth of the co-op;
- Activities do *not* require large economies of scale or large amounts of capital – rather they are focused on niche markets.

Tatua and Kapiti Cheese have some 3rd Generation co-op characteristics.
Annex [ ] sets out a diagram of a 3rd Generation co-op

Publicly listed co-operatives

As downstream production becomes more complex and needs more capital, the business also needs better defined property rights. In the co-operative world, 'entrepreneurial' co-operatives change to satisfy rules of 'investor owned' firms, which seeking to retain a co-operative dimension. In particular:

- Increasing return on shareholders' funds is the main objective;
- Shares are tradeable;
- All aspects of the business are customer-driven;
- Raw farm products (milk) are supplied under a separate supply contract;
- There is no obligation to buy all milk;
- Additional milk is purchased only if it will grow co-op wealth;
- Raw milk payments are separated from returns on capital;
- Capital requirements are high;
- Economies of scope and scale are important;
- Monitoring is more stringent.

Examples include listed co-operatives such as Kerry (Ireland). In 1986, the co-operative society held 83% of Kerry's shares. By 1997, this has fallen to 38%.

Examples of listed co-operatives include Kerry Group (Ireland). Kerry is trending toward Nestle and Kraft, as an investor-owned firm in the global food business. Annex [ ] sets out a diagram of a listed co-operative.

Combination co-operatives

Some co-operative academics also suggest a hybrid or combination structure, compromising:

- A traditional co-operative – primary processing;
- A second generation co-operative – selling commodities and basic ingredients;
- A third generation - 'value added' businesses, driven by consumer demand, needing some new capital; or
- An 'investor owned' firm for other, high risk/high value businesses, with suppliers free to invest if they wish.

However, there are few obvious examples of such a combination organisation. Golden Vale (dairy) in Ireland has some features of a 'combination' co-operative.

So what is Global Co?

Global Co is a contradiction. Its aims are to:

- On the one hand, grow its specialised ingredients and consumer-driven businesses and invest heavily in foreign dairy businesses;

- On the other hand, to *not* access non-farmer equity, to reduce domestic competition, and to remain close to the traditional co-operative principles.

The contradiction is that it now seems to be widely accepted among co-operative commentators that moving closer to the consumer *requires* a major shift toward '3rd Generation' co-operatives and 'investor-owned' firms.

Global Co designers are trying to pretend (at least to dairy farmers) that it is possible to have both – a diversified, higher value business *and* a co-operative with traditional principles. The literature would seem to squarely indicate that this is *not* possible.

Problems with co-operatives [39]

- *Multiple objectives:* As noted by three leading co-operative academics: "One of the vexing issues in the evolution of co-operative(s)….concerns the existence of multiple purposes and objectives…Some of these are embedded in different interpretations of the social and economic philosophies of co-operation." [40] "Inevitably, conflicts will occur…"[41]. Indeed, some dairy farmers have commented publicly that their co-operatives "are not just about economics – they are a lifestyle and it is a privilege to be allowed to sell your milk to a co-operative". While 'investor owned/orientated' firms have objectives such as supporting the community and being a good corporate citizen, these goals are normally secondary to the primary objective of maximising returns over time on shareholders' capital. These secondary objectives tend to be pursued only to extent that they help the company achieve these stronger returns for shareholders. In addition, the allocation of power and responsibility in an normal 'investor-owned' firm is clearer than in traditional co-operatives.

- *Decision-making processes:* Even leading co-operative academics acknowledge that in a co-operative, "[d]ecision-,making is a comparatively slow process, and the firm is less flexible…" It is therefore difficult for a co-operative to respond efficiently to constant and rapid changes in consumer demands. Prof van Dijk notes that "[t]he co-operative firm…is characterised by a polyarchic state". [42] In dealing with change, another co-operative academic emphasises: "It is crucial that *all* stakeholder groups have the opportunity to contribute to decisions..."[43]. Co-operative decision-making processes are viewed as requiring a "commitment to cooperative goals", which requires "the absence of opportunism" and "mutual dependence", which in turn requires real "trust and conflict resolution. [44]

- *Problems of control:* The problems in large co-operatives for suppliers in controlling and aligning managements' incentives are more complex and difficult than in 'investor owned' firms. [45]. As is the case in the NZ dairy co-operatives, "[t]he real power lies with the chief official (or chief executive officer)".[46] Few if any directors have the expertise or experience to provide effective business leadership over the senior managers.

- *Limited pool of director talent:* The pool of potential directors is often limited by co-operative rules requiring directors to be suppliers (Kiwi Dairies is an example)[47]. Supplier skills tend to be more focused and export on raw production. Few supplier directors have any background in large business management or marketing. Co-operatives directors are therefore often more concerned with product payments to members and selling production. Strangely however, the ICA's International Co-operative Information Centre still recommends that, "to be a loyal and active member should be the *only* formal qualification [to be elected to the board of directors]".[48]

- *Under-investment:* Some co-operatives under-invest. This is caused by nominal returns of equity, highly illiquid investments, limited returns on shareholders' funds, members preferring to invest in their own farm and a reliance on debt funds, given the normal limitations on the sources of equity.

- *Over-investment:* Many co-operatives are likely to over-invest due to poor management controls, a production-focus and supplier directors being impressed by large investment in plant and equipment.

- *Weak pressures to perform:* This is due to poor monitoring (few external analysts), lack of 'unbundling' (separating raw milk price from other returns), an absence of a cornerstone shareholder and compulsory membership under a 'single desk'.

- *Unbalanced portfolio:* It becomes extremely difficult for suppliers to diversify properly their investment portfolio (all eggs in one basket). The value of their shares tends to be capitalised into the farm.

- *Moral hazard:* Principles of risk sharing and mutual responsibility have been term the 'moral hazard' of co-operatives. This arises from the expectations of collective responsibility within the co-operative movement to support failing co-operatives (or suppliers) in the same market.

Comparative performance of co-operatives and investor-owned firms
The academic literature is relatively thin in comparing the performance of the various forms. The little available is either conflicting or inconclusive:

- *On one side*, the co-operative proponents argue there is no strong evidence of that co-operatives' performance is inferior to 'investor-owned' firms. This group also acknowledges, however, that there is no evidence of co-operatives performing better in general than 'investor-owned' firms. [49]

- *On the other side*, some academics argue that co-operatives are, in general, less efficient than 'investor owned' firms. This group argues that agricultural co-operatives in the USA have "survived in the US nurtured by government support" and this has promoted an inefficient form of organising production.[50]

In a report prepared for the Dairy Board in 1995, Ernst & Young reviewed a range of comparative performance analysis. Ernst & Young concluded that "the observed differences between co-operatives and 'investor-owned' firms may have more to do with management and market related factors than the nature of the commercial structure.

Future of the co-operative form
For the last 50 years (at least), agricultural co-operatives have developed in the USA, Europe and Australasia in an environment of heavy Government regulation and protection. There is very little empirical information by which to measure the comparative performance of co-operatives against 'investor-owned' firms in a *competitive* agricultural environment.

In Europe, even the head of the Netherlands Institute for Co-operative Entrepreneurship concedes that "...agricultural co-operatives have been able to profit for more than 30 years from a fine Common Agricultural Policy. To such an extent that many directors of co-operatives had to conclude...that their members would hardly or not at all profit from real entrepreneurialship......it was simply safer to just continue producing".[51]

Many co-operative academics are now focusing on how (and if) the co-operative form can adapt as Government protections are removed in Western agricultural markets:

- In the USA, it has been observed that "[t]he removal of price support programs is ushering in a period of adjustment......"[52].

- In Europe, co-operative academics lament the apparent gradual demise of co-operatives, conceding that the "..co-operative organisation[al] form is in retreat due to problems of control and transferring market signals. Instead, new organisational modes are sought to cope with capital needs, market-driven production and risk preferences of the diverse membership."

Those academics have been calling for new, Europe-wide legislation to rekindle active participation in co-operatives.[53]

Despite the fundamental axioms that have for so long defined a co-operative (as distinct from an 'investor-orientated' firm, outlined at the start of this Appendix), some co-operative academics are now trying to assert that traditional co-operative goals are *not incompatible* with corporate-orientated goals: "...the attainment of both can go hand-in-hand".[54] The manipulation is curious indeed.

Co-operative proponents consider that "[t]he continuity of co-operatives requires commitment to cooperative goals", which requires "the absence of opportunism" .[55] However, successful business and innovation is *about* opportunism.

Conclusion

In short, the co-operative form is struggling to survive against the 'investor orientated' firm in larger, more complex, more capital intensive, consumer-driven activities, particularly as traditional Government supports – such as beneficial tax treatment, access to cheaper credit, exemptions from anti-monopoly laws, price protection – are removed in Western economies.

The crucial conclusion of this review is that Global Co is trying to avoid an unavoidable choice. And it is an 'either-or' choice – there is no in-between. The NZ dairy industry must:

- **Either** adopt a structure that will implement the industry's 1999 strategy (growth and diversification);

- **Or** do *not* proceed with that strategy.

If the first option is preferred, the industry has **no choice** but to form a 'combination' co-operative or, like Kerry, a public company.

If the second option is preferred, those parts of the industry that wish to can stay close to traditional or 2nd Generation co-operative principles.

In the end, however, structure follows strategy.

The review set out in this Appendix indicates strongly that the Global Co is not well adapted to implement the current strategy.

Fairly obviously, the current decision-making process is driven by structure *ahead* of strategy.

Global Co is an attempt to 'straddle two worlds', trying to take bits of both. But it is not viable and out of touch with general trends.

Tony Baldwin
June 2001

ICA CO-OPERATIVE PRINCIPLES

According to the International Co-operative Alliance, a co-operative firm should implement seven 'universal and generally valid' co-operative principles[56] :

1. **Voluntary and open membership:** Co-operatives are voluntary organisations 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.

2. **Democratic member control:** Co-operatives are democratic organisations controlled by their members. In primary co-operatives members have equal voting rights – one member, one vote – and co-operatives at other levels are also organised in a democratic manner.

3. **Member economic participation:** Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members 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: (i) developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; (ii) benefiting members in proportion to their transactions with the co-operative; and (iii) supporting other activities approved by the membership.

4. **Autonomy and independence:** Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that *ensure democratic control by their members* and maintain their co-operative autonomy.

5. **Education, training and information:** Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

6. **Co-operation among co-operatives:** Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. **Concern for community:** Co-operatives work for the sustainable development of their communities through policies approved by their members.

ENDS

NOTES [To be checked]

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[1] A.M.Hind, "Co-operative Performance – Is There a Dilemma?", Journal of Cooperative, Vol 14, 1999 at 30

[2] Refer note (1) article at p.31

[3] "Agricultural Co-operatives in the European Union", Bekkum, van Dijk and Gorcum at p.3, Netherlands Institute for Co-operative Entrepreneurship. See also Report by Marise James (Nuffield Scholar), February 1999 at para 6.2.5

[4] "Die, Thou Old Form? Co-operative Entrepreneurship on the Threshold of the 21st Century", Prof G van Dijk on opening the Netherlands Institute for Co-operative Entrepreneurship, at p.18.

[5] Refer to note (6) at p.2 (Gray et al)

[6] Torgeson, Reynolds + Gray, "Evolution of Cooperative Thought, Theory and Purpose", Journal of Cooperatives, Vol 14, 1999 at p.2: "The development of (farmer co-operatives] can be characterised...as a social movement of independent farmer operators......"

[7] Co-operative Theory and Performance, Ernst & Young, May 1995 at 3.1

[8] See also article in note (6) at pp2-8.

[9] Refer to the note (3) article at p.3. Refer also to Sexton + Iskow, "What Do We Know About the Economic Efficiency of Co-operatives: An Evaluative Survey", Journal of Co-operatives, Vol 8, 1993 at para 1.

[10] Refer to note (4) at p.12 [van Dijk alone]

[11] In the USA, several retail co-operatives are continuing to expand, for example the REI chain and in Canada the Mountain Equipment Co-op.

[12] In the USA, well-known producer co-operatives include Sunkist (oranges).

[13] Refer to note (1) article at para 2.1. Also note that employee co-operatives have had a "hard time steering their managers – refer article in note (4) at p.11.

[14] Refer to the note (4) article at p.14

[15] But note the views of A.M.Hind, "Co-operative Performance – Is There a Dilemma?", Journal of Cooperative, Vol 14, 1999 at 30, who suggests "precise legal definitions[of co-operatives] with universal applicability do not exist."

[16] Refer note (1) article at para 2.1.

[17] Refer to Kiwi Dairies' Suppliers' Newsletters of late 1998.

[18] Refer to J Nilsson 1997, "Financing agricultural co-operatives under changing member attributes and market conditions".

[19] "Market co-operative principles", at pp 219-248, J Nilsson, 1994. See also Staatz (1987) and Barton (1989).

[20] Refer note (13) article at p.7

[21] Interestingly, co-operatives seem to have a renewed attraction in some communities – see Nelson Evening Mail, 25 May 2001 at p.15 on a new food retail co-operative proposed for Nelson, NZ, under the headline "Cooperatives Strengthen Communities"..

[22] Refer figure 1 in note (6) article.

[23] Refer to note (6) article at p.5

[24] Refer to note (3) article at p.4 (countervailing power model).

[25] Refer to the note (4) article at p.14. See also note (4) [Guannarsson] at para 3.1.1, p23

[26] Refer to note (3) article at top of p.4. Also to note (Gunnarsson) article at para 3.1, p.22

[27] Refer to note ( ) [Ernst & Young] at para 5.2, p.23

[28] This is called the 'Sapiro school' – initiated by Aaron Sapiro from California in the 1920s.

[29] The Capper-Volstead Act 1922.

[30] Refer to article in note (6) at bottom of p.2

[31] Refer to note ( ) article [Ernst & Young at para 5.2, p.23.

[32] Refer to Appendix [ ].

[33] This is called the 'Nourse school' – initiated by Prof E Nourse also in the 1920s, now known as the 'Yardstick school'.

[34] Refer note (1) article at para 3.3

[35] Kiwi Dairies' Supplier Newsletter, November 1998, referred to a paper by Boston Consulting Group

[36] Refer note (3) article at p.4

[37] P Gaunnarsson, "Organisational Models for Agricultural Co-operatives", Swedish University of Agricultural Sciences, May 1999 at p.21 and Nilsson at note (7). The supplier role is also referred to

as the ‘patron’ role, which is focused on doing business with the co-operative (selling commodities). Also refer to note (3) article at p.4

[38] J Nilsson, ICRC paper 1996, ‘New generation co-operatives: what, how , why?, ’ at pp 219-248

[39] Comment by the Federated Farmers representative from Wellington to the AGM of he Taranaki Section of Dairy Farmers of New Zealand, 10 April 2001.

[40] Refer note ( ) article [Gray] at p.8 (“Co-operative Purpose Dilemmas”)

[41] Refer note ( ) article [Hind] at p.42

[42] Refer note ( ) article [van Dijk] at top of p.20

[43] Refer note ( ) article [Hind] at p.42

[44] “Cooperative Restructuring in a Global Environment”, by Dr Harry Bremmers + Dr Peter Zuurbier at paras 2.2 and 5.

[45] Refer note ( ) article [Ernst & Young, 1995] at para 3.4

[46] ICA publication, November 1995, “Corporate Governance and management control systems in European Co-operatives” at bottom of p.5

[47] Refer note ( ) article [Gunerssen] at top of p.18.

[48] Refer note (43) article, recommendation 5 (p.9).

[49] Sexton + Iskow, Journal of Co-operatives, Vol 8, 1993 at p.24: “What Do We Know About the Economic Efficiency of Co-operatives”

[50] Ferrier, Porter + Scully in various articles: see The Journal of Law + Economics, Vol XXX, October 1987, pp.489-512 and the Journal of Agricultural Economics Vol 42, 1991 at pp. 161-173.

[51] Refer to note ( ) [van Dijk] at p.13

[52] Refer to note ( ) [Gray] at p.17

[53] Refer to note ( ) [Bekkum] at p.5. See also note ( ) [van Dijk] at p.21 where he outlines six possible new forms of co-operative to operate in a more competitive environment. The key options are set out in Annex [ ] to this Appendix

[54] Refer to note ( ) [Hind] at p.42

[55] “Cooperative Restructuring in a Global Environment”, by Dr Harry Bremmers + Dr Peter Zuurbier at paras 2.2 and 5.

[56] Revised and accepted by the International Cooperative Alliance in 1995. These originate from co-operative (social movement) schools like Raiffeisen and Rochdale. In NZ, Kiwi Dairies still advocate these principles in its Supplier Newsletters of late 1998.