

THE COOPERATIVE SYSTEM FROM SWEDEN AGRICULTURE: MAIN FEATURES AND EVOLUTION

Radu-Adrian MORARU¹

e-mail: ramoraru@yahoo.com

Abstract

The agricultural cooperative system from the countries with a market economy displayed from the very beginning a large diversity, according to the specificity of agriculture, level of economic development, local traditions and market development. As a result of a deep economic need, the Swedish agricultural cooperative system appeared at the end of the XIX-th century, borrowing a great part of the Danish model. The first cooperatives set up in the Swedish agriculture were those from the animal breeding sector, as a consequence of the development of the export of agri-food products to England: dairies, cooperatives for eggs trading, slaughter houses-cooperatives. Afterwards appeared new sectors of activity in the sphere of agricultural cooperative system, therefore cooperatives in the plants, forestry and agricultural credit sectors have been set up. The majority of the Swedish agricultural cooperatives were focused on a unique activity, fact that determined the farmers to take part to 4-5 cooperatives from different agricultural sub-sectors. In time took place a process of cooperative merging and concentration, fact that determined the severe reduction of their number, in the same time with the turnover increase. The most part of the agricultural production is harvested, processed and traded by cooperatives, in the case of milk processing and trading, the market share being higher than 95%. Like in the majority of Western states, the structure of the Swedish cooperative system took a pyramidal shape, being organized on 3 levels. The Swedish agricultural cooperatives take benefit from a specific law, and the minimum number of members necessary to set up a cooperative is 3. In the decision making process, the principle "one person – one vote" as well as "the proportional vote" are applied. The unique 100% Swedish cooperative that is with significant international presence is *Lantmännen* supply cooperative. The majority of farmers who breed dairy cows are members of the largest dairy-cooperative in Scandinavia – Arla Food, formed in the year 2000 by the merging of the Swedish dairy cooperative *Arla* with the Danish *MD Food* cooperative with the same profile.

Key words: agricultural cooperation, cooperatives, market share, cooperative members

The cooperative movement was one of the factors contributing to Sweden's evolution from an agrarian nation into a highly industrialized and prosperous country. Industry, agriculture, retailing, residential construction and housing administration are among the sectors in which cooperatives have played a major part and continue to do so.

A cooperative is an enterprise characterized by: *user-ownership*, because the users of the services of the cooperative also own the cooperative organisation; ownership means that the users are the main providers of the equity capital in the organisation; *user-control*, because the users of the services of the cooperative are also the ones that decide on the strategies and policies of the organisation; *user-benefit*, because all the benefits of the cooperative are distributed to its users on the basis of their use; thus, the individual benefit is in proportion to the individual use (Van Bekkum O.F., Van Dijk G., 1997).

As in the other UE states, the emergence, development and strengthening of the cooperative movement in the Swedish agriculture had permanently as objective the creation of favorable conditions for the agricultural producers, aimed to carry on profitable activities. This fact was possible only by following the common principles that derives from the general principles of the cooperative system (liberty of association, democratic leadership, equal rights among the associates etc.).

The Swedish agricultural cooperative system is based on the private-family linked exploitations, the farmers maintaining their ownership right on the exploitation capital, regardless of the cooperation forms they joined. In the case of Swedish agriculture, the cooperative's members take benefit of a series of advantages derived from the rights received by the farmers who joined the concerned cooperative: direct participation to the joint democratic management of cooperative; equal or proportional decision making power according to the capital contribution and the

¹ "Ton Ionescu de la Brad" University of Agricultural Sciences and Veterinary Medicine, Iasi

activities delivered within the cooperative; sales security (the cooperative is obliged to buy the entire production of its members); profit distribution to the associated members etc. (Moraru R.-A., 2008).

MATERIAL AND METHOD

The purpose of this paper was to present the development of cooperatives from Swedish agriculture, highlighting the main characteristics of the cooperative system in this country. On this line have been studied and analyzed data and information obtained from published national and international literature, such as specialized books, PhD thesis, academic journal articles, scientific papers. Also data provided by Copa-Cogeca has been used. The literature review process is also focused on aspects of internal governance, their position in the food chain, regulatory framework, organizational structure, cooperatives typology etc. The size and trends of the following indicators were analyzed: the number of cooperatives, the number of their members, turnover and market shares.

RESULTS AND DISCUSSIONS

The agricultural cooperative system from Sweden borrowed a great part of the Danish model of agricultural cooperative system, that was modified during time, according to the existing traditions and the conditions specific for the Swedish economy.

Evolution and types of agricultural cooperatives. The first agricultural cooperative was a wholesale purchasing society established by farmers. In 1852, "Food Associations" were formed, preceding the consumer retail societies. The Freedom of Commerce Law (1864) and specific co-operative legislation in 1895 reinforced the position of cooperatives. The cooperatives

from the animal breeding sector were the ones that the fastest developed, as they should sustain the export of agri-food products to England (Aschhoff G. *et al*, 1963). In 1880 was set up the first *dairy* organised on cooperative principles, and the economic advantages obtained and the technical progress in the field had quickly convinced the Swedish farmers to develop these cooperatives, their number increasing to 726 dairies in 1940 (Aschhoff G. *et al*, 1963; Kuschka C., 1994; Leonte J., 2000; Lantbrukarnas Riksförbund and Swedish Co-operative Centre, 1980). The farmers from the dairy and milk products sector organised themselves in two ways: one part of the regional cooperatives merged into a single economic entity, and the other dairies maintained their individual economic identity, setting up unions with regional or national character. Starting with the year 1932, the dairies are represented by a national body – "Swedish Dairy Association". The milk collection cooperatives built their own butter factories, merging afterwards into economically larger cooperatives, able to carry on an efficient export activity (Aschhoff G. *et al*, 1963; Kuschka C., 1994). As a result, the dairy number decreased after the year 1940, reaching 375 units of milk collection and processing in the year 1950 and only 233 dairies in the year 1960 (*table 1*).

In the year 1880 was set up also the first cooperative society for eggs trading, but only since the year 1900 the activities carried on by them started to be consistent (Leonte J., 2000). In the year 1960, 19 such cooperatives including 55 thousand farmers were operational (*table 1*). In the same time with the development of the bacon export to Great Britain, as well as of the pig breeding sector, appeared the necessity to set up cooperatives also in the field of pig meat processing and trading.

Table 1

Evolution of Swedish agricultural cooperation (1940-1978)

Sector		1940	1950	1960	1970	1978
Milk	Cooperative number	726	375	233	46	24
	Membership (thousands)	197	260	198	84	46
Meat	Cooperative number	37	25	24	19	10
	Membership (thousands)	240	280	256	182	117
Eggs	Cooperative number	23	22	19	15	4
	Membership (thousands)	41	71	55	24	4
Silviculture	Cooperative number	30	29	23	12	9
	Membership (thousands)	32	112	128	131	130
Plant products	Local cooperative number	795	619	347	144	101
	Regional cooperative number	20	23	22	19	19
	Membership (thousands)	54	137	145	125	112
Credit	Local banks number	754	631	572	477	428
	Număr bănci regionale	10	10	12	12	12
	Membership (thousands)	109	142	171	205	331
Total agricultural cooperatives	Membership (thousands)	721	1092	1094	751	740
Unions	National union number	15	27	27		
	Local union number	1481	2365	2356		

Source: Van Bekkum O.F., Van Dijk G., 1997

By using the example of the Danish cooperative slaughterhouses, already set up since 1887, at the end of 1889 appeared the first *cooperative slaughterhouse* in Sweden (Aschhoff G. *et al*, 1963; Leonte J., 2000; Van Bekkum O.F., Van Dijk G., 1997). In the year 1960, Sweden had 24 de cooperative slaughterhouses joint within the “Swedish Farmers Meat Marketing Association”, including 256 thousand members (*table 1*). As in the other sectors, the further development of the cooperative system in the field of pig meat was affected by the limited access to the financial resources. This problem was solved by the introduction in the year 1915 of the credit system inspired by the German model of *Raiffeisen type of cooperative-banks* (Aschhoff G. *et al*, 1963). At the end of the year 1950 there were 631 local banks and 10 regional banks offering credits to a number of 142 thousand cooperative members. In the next 10 years, the number of local credit cooperatives decreased, while the number of those who asked for credits for the agricultural production grew up to 171 thousand farmers.

Sweden had not participated to The Second World War, fact that allowed the development of the cooperatives on national level. In the period 1940-1950 was recorded a significant increase of the number of cooperative members; beside the credit cooperatives and those existing in the field of milk, meat and eggs processing and trading, the plant cooperative companies have been organized too. In the year 1940 have been set up the first *forestry cooperatives*, and later appeared the artificial insemination societies that determined the improving of animal breeds and the increasing of the animal husbandry production (Aschhoff G. *et al*, 1963; Kuschka C., 1994; Van Bekkum O.F., Van Dijk G., 1997). The forestry cooperatives played an important role in the Swedish forestry industry, because about half of the Swedish forest area is privately owned, most often by farmers (Nilsson, J. *et al*, 2012).

The emergence of new activity sectors in the agricultural cooperative system and the orientation of some farmers towards these sectors determined the reduction of the number of members in the cooperatives for meat, milk and eggs processing and trading. Up to the year 1960, about 1.1 million farmers organized themselves within agricultural cooperatives, their number being with 50% higher than in the year 1940, and these cooperatives belonged to 2356 local unions and 27 national unions (*table 1*).

The strengthening process of the Swedish agricultural cooperatives, started after The Second World War, was accomplished in the middle of the 1970s, when Sweden had in agriculture a very

good developed cooperative network, including cooperatives from the most various agricultural fields with the most various agri-food activities (Kuschka C., 1994; Leonte J., 2000; Van Bekkum O.F., Van Dijk G., 1997): dairy-cooperatives, eggs marketing cooperatives, buying and selling cooperatives, slaughterhouse cooperatives, cooperatives for labor animal husbandry, for fur animal husbandry, for the cultivation of potatoes for human consumption, for the production of alcoholic beverages, forestry cooperatives, cooperatives for starch production, beet producers cooperatives, cooperatives of the producers of seed material and oil plants, cooperatives for the production of edible green peas etc. To the same category of Swedish agricultural cooperatives belong also the cooperative and mortgage banks.

Excepting the buying and sales cooperatives, that are specifically defined in Sweden as multi-purpose cooperatives, the other types of agricultural cooperatives are focused on a single activity. In this way, the Swedish farmers had to be members in 4-5 cooperatives from diverse agricultural sub-sectors, in order to ensure all the facilities, they needed to carry on the activity of agricultural production (Kuyljernsterna G., 1977; Van Bekkum O.F., Van Dijk G., 1997).

After the year 1960, the three-tier organisation process of the Swedish cooperative system continued, and at the beginning of the VIIIth decade, this process was almost everywhere accomplished (*figure 1*).

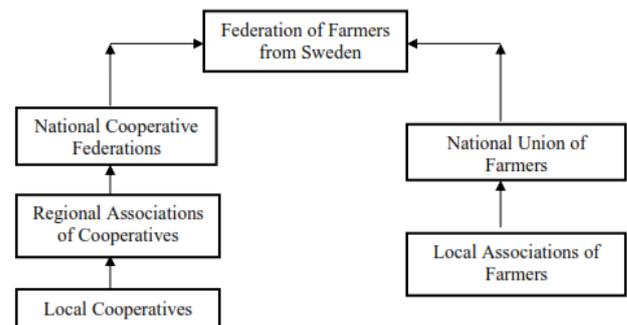


Figure 1: **Organizational structure of the Swedish Farmers' Federation (COPA-COGECA, 2000)**

In the 1980s, the Swedish agriculture had 15 national cooperative federations formed according to the agricultural sectors, that included the regional unions of cooperatives formed by the association of all cooperatives from the primary level (Moraru R.-A., 2008). Characteristic are the business relations almost exclusively in all alliances's levels, fact that explains the high degree of vertical integration in the agricultural cooperative system. All the agricultural cooperative federations are members of “Landbrunkarnas Riksförbund”, meaning the

Swedish Farmers Federation, that represents the both the cooperative and the peasants associations, being formed by an union's branch, representing the farmers' interests related to the State, and a cooperative branch, representing only the cooperative organisations (*figure 1*). This interaction is very rare in Europe and it is noticed also in some non-agricultural sectors (for example, education) (Kuschka C., 1994; Van Bekkum O.F., Van Dijk G., 1997).

After the year 1980, in the Swedish cooperative system occurred also an intensive setting up of cooperative with limited liability. The best example of this type is "*Arla*", that was the largest dairy in Sweden in that period of time, that have restructured all the economic activities in five regional societies with limited liabilities (Böök S., Johansson T., 1988).

Analysing the evolution of the Swedish rural cooperatives during the period 1975-1986, it can be noticed a small reduction of the cooperatives' numbers, and an increase with more than 50% of their incomes, despite the less obvious financial progress in the last years (*table 2*).

Table 2
Evolution of agricultural cooperatives in Sweden (1975-1986)

Specification	1975	1983	1986
Cooperatives' number	700	630	630
Members (thousands)	936	936	1050
Members of the cooperatives	1337	1486	1667
Turnover (millions SEK)	27982	52600	60400

Source: Böök S., Johansson T., 1988

In the year 1986, the Swedish agricultural sector had 630 cooperatives with a number of 1.050.000 members and an average number of 1667 members per cooperative. The number of members of the Swedish rural cooperatives increased with about 12% during the mentioned interval, but, analyzing the evolution of the agricultural cooperatives by activity sectors, it can be noticed that this increase must be related to the members' number of the credit cooperatives – that, as mentioned before, are included within the agricultural cooperative system – because in the other typical agricultural sectors, the number of members decreased (*table 1*). The merging and concentration process from the Swedish agricultural cooperative system in the 1960s and 1970s covered all types of cooperatives, determining a severe reduction of their number, a stronger process in the case of dairies and cooperatives for eggs trade and with a smaller reduction in the case of cooperative banks.

The decrease of the cooperatives' number was stronger in the decade before the Sweden's accession to EU. Thus, the cooperatives' number decreased with more than 12 times in the period 1986-1995. After becoming an EU Member State, this process continued in Sweden, but with a less intensive rhythm (*figure 2*).

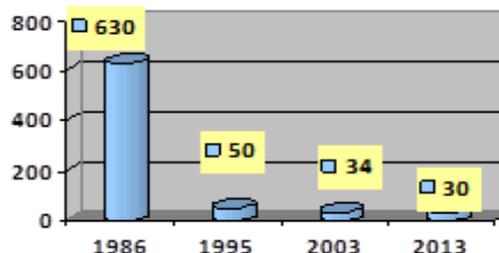


Figure 2: Dynamics of the cooperative's number in the Swedish agriculture (1986-2013) (Moraru R.-A., 2008; COGCEA, 2014)

The cooperatives' merging process determined the increase of the members' number per cooperative, but, after the year 2003, a decrease has been noticed, indicating that many farmers gave up the agricultural activity (*figure 3*).

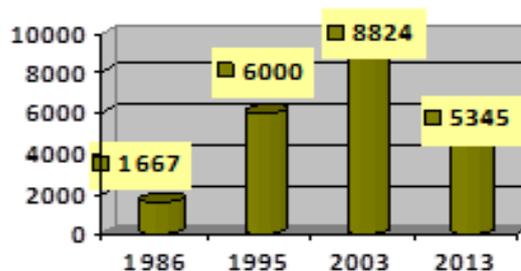


Figure 3: Dynamics of the members' number by agricultural cooperative (1986-2013) (Moraru R.-A., 2008; COGCEA, 2014)

International and Transnational Cooperatives. The international cooperatives develop businesses with farmers in other EU Member States. 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 make contracts with farmers to buy their products or to sell them inputs. They actually have a membership relation with those supplying or purchasing farmers. Therefore, a transnational cooperative has members in more than one country (Nilsson J. *et al*, 2012).

In *table 4* are presented the cooperatives from other EU Member States that have come to Sweden to directly trade with farmers, either as members or as contractual customers.

Table 4
Foreign transnational and international cooperatives
that are trading with farmers in Sweden

Name of the Cooperative	Mother country	Sector(s) involved in
Transnationals		
Arla Foods	DK	Dairy
HK Scan	FI	Meat
DLA Agro	DK	Input supply
Danæg	DK	Egg
VikingGenetics	DK	Breeding
Internationals		
DanishCrown	DK	Meat
Atria	FI	Meat

Source: Nilsson J. *et al*, 2012

The most important “foreign” transnational cooperative active in Sweden is *Arla Foods* that was established in 2001, when Danish *MDFoods* and Swedish *Arla* merged. *Arla Foods* is the largest producer of dairy products in Scandinavia and the second dairy cooperative in EU after *FrieslandCampina* (NL). The only international cooperative that has its seat in Sweden is the input supplier *Lantmännen*, one of the biggest cooperatives in the EU (COGECA, 2014).

Internal Governance. The internal cooperative governance varies among cooperatives according to the size and the role of the cooperative in the food chain. There are allowed both the “one man – one vote” or the proportional representation principles. In the larger cooperatives, governance structure consists of a Member Council that has been given basically all the tasks of the General Assembly. The members are elected in regional meetings. In the smaller cooperatives, they have a very basic structure with General Assembly that elects the Board of Directors. Usually, especially in the larger cooperatives, the Managing Director is a member of the Board of Directors, and, as a mandatory rule, the salaried personnel are allowed to have members in the Board of Directors if the number of employed persons exceeds 25 (Nilsson J. *et al*, 2012).

The external financing does not give voting or board representation rights. The supervision is executed by members through the AGM, which appoints the Board, which in turn appoints CEO. There is no Supervisory Board (COGECA, 2014). Annual report is required, as well as independent auditing. Except for smaller cooperatives, also external auditing is required.

Taxation. The national taxation system is not adapted to the specificities of agricultural cooperatives. Cooperatives applying the “one man – one vote” principle can deduct from tax the

profits distributed to members. There is not a general tax rate applicable to cooperatives. No different tax rates for transactions with members and for non-member transactions (COGECA, 2014).

Legal framework. In Sweden there is a specific cooperative law, but not a national sectoral law on agri-cooperatives. The minimum number of members in a cooperative is 3. It is mandatory to appoint a board and to adopt statutes registered by the valid authority, and thus is acquired the status as legal entity. In general, all cooperatives in Sweden are economic associations (ekonomiska förening) even though other legal forms would be possible.

Market shares and performance. In the 1980s, a great part of the agricultural production was harvested, processed and traded by cooperatives. Expressed in figures, their share in the total production of the food industry represented more than 46% (Böök S., Johansson T., 1988; Kuschka C., 1994). In the year 1982, the market shares of the Swedish cooperatives reached almost 100% for milk processing and marketing and 80% in the sector of beef slaughtering and cereals trade, while in the supply sector with production factors, the market shares reached 70% at feeding-stuff, 80% at chemical fertilizers and 35% at agricultural machinery. In the same time, the cooperatives were deeply involved in the milling and bakery industry, controlling more than 40% of it (Kuschka C., 1994). In the year 2013, the Swedish agricultural cooperatives owned the following market shares: 95% - milk; 50% - fruits and vegetables; 50% - livestock extension services/breeding; 75% - arable crops/supplies; 45% - forestry; 51-55% - meat (COGECA, 2014).

The role of cooperatives is still strong in the Swedish food chain, but the Swedish food market has been affected by the international market in the last 20 years. The dairy and meat sectors are almost totally in the hands of Danish and Finnish cooperatives, but in the cereal, input supply and vegetable market, the Swedish cooperatives have maintained their market shares better compared to especially the meat sector.

After the EU accession, the performances of the Swedish agricultural cooperatives diminished. The cooperatives’ turnover significantly decreased, as per total and per average in the case of a cooperative (*figure 4*).

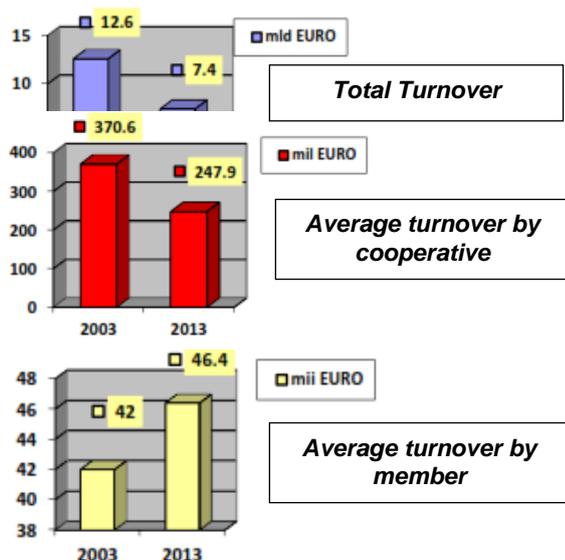


Figure 4: Turnover realised by the Swedish agricultural cooperatives (2003-2013) (Moraru R.-A., 2008; COGECA, 2014)

The relatively weak performance of Swedish cooperatives is a result of two major factors. Firstly, the Government decision to leave domestic agriculture without almost any national support in 1995 when Sweden joined EU determined the weakened position of Swedish domestic production in the food chain. Secondly, the increased competition within the EU increased the economic problems and, as a consequence, the Swedish cooperatives were taken over by their neighboring countries' cooperatives which were in stronger positions or at least had been better prepared related to the changed environment.

During the pre-accession to EU period, the agricultural cooperatives performed quite well because of the low competition in the market. The Swedish cooperatives continued during many years after the accession to the European Community to be ruled by the cooperative ideology, which implied extra costs, rather than by an economic rationale (Nilsson J. *et al*, 2012).

CONCLUSIONS

The cooperative movement in the Swedish agriculture appeared at the end of the XIX-th century, inspired by the Danish model. The agricultural cooperatives expanded rapidly after The Second World War, this development being accompanied by the creation of local and regional associations and national federations. The structure of the Swedish cooperative system took a pyramidal shape, being organized on 3 levels. The

typology of the Swedish cooperatives is very diversified, these carrying on activities in multiple and different agricultural sub-sectors. Less usual are the forestry cooperatives, considered as part of the agricultural cooperatives group. In time took place a process of cooperative merging and concentration. The Swedish agricultural cooperatives are focused on a unique activity, fact that determined multiple membership. The exception is made by the supply and marketing cooperatives, that are specifically defined in Sweden as multiple-purpose cooperatives. In Sweden, the role of agricultural cooperatives is still important even though the role of domestic cooperatives has decreased due to international consolidation processes. Both the "one man"- "one vote" or the proportional representation principles are allowed. The meat sector is highly connected to the foreign international cooperatives.

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