

Co-op to Co-op Trade

Linking Smallholder Producer Co-ops in Developing Countries with Consumer Co-ops in Developed Countries



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Prepared for
Overseas Cooperative Development Council

With the support of
International Co-operative Alliance

October 2013

Executive Summary



This paper reviews the current state of co-op to co-op trade, particularly as it relates to food products purchased from cooperatives of small-scale producers; draws lessons from the present situation; and makes recommendations for increasing this type of trade in the future.

It is intended to help the International Co-operative Alliance (ICA) and its member organizations develop co-op to co-op trade priorities and strategies as part of the implementation of *A Blueprint for the Cooperative Decade*, especially those components that address Principle Six: Cooperation among Cooperatives.

The Introduction describes the purpose, methods and key terms; Chapter One recaps information gathered from interviews with approximately 40 people knowledgeable about international cooperative trade and from documentary and Internet research; Chapter Two presents five international trade case studies; Chapter Three makes three major recommendations based on the information in the first two chapters.

Here's a summary of the major findings:

1. In developing countries around the world, an estimated 450 million smallholder farmers each cultivate less than two hectares. Fewer than 10 percent of these farmers are linked into export value chains. Their average annual household income is less than \$600.³
2. Over 80 million individuals and families in developed countries are members of retail food cooperatives. These co-ops have annual sales in the range of \$150 billion, a fraction of 1 percent of which comes from products imported from small farmer co-ops in developing countries.⁴
3. In Europe, The Co-operative Group in the United Kingdom is very involved in this kind of co-op to co-op food trade, especially the purchase of fair trade-certified products.⁵ Coop Italia also has a long commitment to fair-trade purchases under its Solidal Coop brand.⁶
4. The National Cooperative Grocers Association, most of its 134 member cooperatives and some of the approximately 200 non-member food co-ops in the United States are carrying out this kind of co-op to co-op trade, also with a fair-trade emphasis, but not with the level of involvement of The Co-operative Group. The same is true for the consumer co-ops in Canada.
5. Most consumer cooperatives in Europe (other than the U.K. and Italy), Japan, Singapore and South Korea appear to have a limited involvement in importing food products from

smallholder agricultural cooperatives in developing countries. Despite the low level of this kind of food importation, there appears to be significant interest by consumer co-op leaders and members in exploring co-op to co-op trade in the future, especially of fair trade-certified products.

6. Australia and New Zealand have only a small number of food cooperatives, so co-op to co-op food trade currently is not a significant issue in these countries.
7. Fair-trade certification has a major objective of providing a “fair” return on the purchase of products from small farmers and other producers in developing countries and the communities in which they reside. In 2011, the total value of fair-trade sales worldwide approached \$7 billion.⁷ However, there is some controversy within the fair-trade movement — and criticism from outside the movement — regarding certification standards, which may be reducing the effectiveness of “fair trade” as a trusted and meaningful label.
8. Producer cooperatives in developing countries are generally unaware of whether their products are marketed through consumer co-ops in developed countries. Their primary concerns are decent and stable prices and trusted marketing channels.
9. A relatively small number of international cooperative development organizations and other intermediaries fund and/or assist in the formation and operation of smallholder agricultural cooperatives in developing countries. A relatively small subset of these organizations actively promotes and assists international co-op to co-op trade.

The five case studies presented in Chapter Two are:

- The Cooperative Group’s “Beyond Fair Trade” program, which describes its role in helping to build the capacity and resilience of co-operatives and producer associations in its fair-trade supply chain;
- Coop Trading, owned by consumer cooperatives in Denmark, Finland and Norway, sources food and other products, including environmentally friendly products and a small number of fair-trade products for Nordic consumer co-ops;
- A smallholder project growing soybeans not produced from genetically modified seeds in Mozambique, initiated by a Norwegian agricultural co-op and the Norwegian government;
- A review of the “tower of labels,” which creates challenges to getting succinct and trustworthy messages across to consumer co-op members and other shoppers in the United States and other countries; and
- NCBA/CLUSA’s long-term development work in Indonesia and East Timor that has assisted producer co-ops and other small businesses to export a variety of products.

The three major recommendations presented in Chapter Three are:

Recommendation #1. As part of the implementation of the *Blueprint for a Co-operative Decade*, the International Co-operative Alliance should launch a campaign from 2014 through 2020 to significantly increase (for example, by 50 percent) the value of food products sold by consumer co-ops in developed countries that are sourced from smallholder producer co-ops in developing countries.

Recommendation #2. In order to facilitate the increase in co-op to co-op trade proposed in Recommendation #1, ICA, the Overseas Cooperative Development Council and other organizations involved in cooperative development should establish a cooperative development clearinghouse to coordinate and increase the availability of technical and financial assistance for the formation and ongoing support of smallholder agricultural co-ops in developing countries.

Recommendation #3. ICA should establish strategies and measurable objectives to implement a wide range of co-op to co-op trade and other co-op business relationships in the *Blueprint for a Co-operative Decade*.

Acknowledgments

The author would like to thank the following people who provided valuable information for this report. Any factual errors or misinterpretations that may have crept into the report are the responsibility of the author.

- Bill Allmart, Amy Coughenour, Sam Filiaci, Stanley Kuehn and Emily Varga, NCBA/CLUSA, U.S.
- Haruyoshi Amano, Japan Consumer Cooperative Federation, Tokyo, Japan
- Brad Buck, Land O'Lakes International Division, Washington, D.C., U.S.
- Thomas Carter, U.S. Agency for International Development
- Bob Clark, Cooperative Business International, U.S.
- Joe Coffey, Frontier Cooperative, U.S.
- Sean Doyle, Seward Cooperative, Minneapolis, Minn., U.S.
- Kevin Edberg, Cooperative Development Services, St. Paul, Minn., U.S.
- Jo-Anne Ferguson, Canadian Co-operative Association, Canada
- Becky Forecast, Hannah Newcomb, Chris Shearlock and Duncan Bowdler, The Co-operative, U.K.
- Nicola Francesconi, International Food Policy Research Institute, Dakar, Senegal
- Charles Gould, International Co-operative Alliance, Geneva, Switzerland; Rodrigo Gouveia, Euro Coop and Consumer Co-operatives Worldwide, Brussels, Belgium
- Hiroyuki "Hardy" Kawasaki, ZEN-NOW (National Federation of Agricultural Co-operative Associations), Japan
- Paul Hazen, Overseas Cooperative Development Council, U.S.
- Dawn Matlak and Stephanie Ricketts, Willy Street Co-op, Madison, Wis., U.S.
- Stefania Marconi, Legacoop, Italy
- Ben Nauman, National Cooperative Grocers Association, U.S.
- Charlotte Nillson Norby, Coop Trading, Copenhagen, Denmark
- Dan Nordley, Triangle Park Creative, Minneapolis, Minn., U.S.
- Rodney North, Equal Exchange, U.S.
- Seah Kian Peng, NTUC Fair Price, Singapore
- Anneli Rogeman, We Effect (formerly the Swedish Cooperative Centre), Sweden
- Florence Rolle, Food and Agricultural Organization, Rome, Italy
- Anne Santamäki, S Group, Finland
- Susan G. Schram, ACDI/VOCA, U.S.
- Jennifer Williams, La Siembra, Ottawa, Ontario, Canada
- Kim Youn-Soo, National Agricultural Cooperative Federation, South Korea

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Introduction

Context and purpose

There are an estimated 450 million small-scale farmers (defined as cultivating two hectares or less) in Africa, Asia and Latin America, with average family incomes under \$600 per year. Fewer than 10 percent of these farmers have access to export markets for their products.⁸ A very small proportion of them are members of agricultural cooperatives.

Over 80 million individuals and families are members of consumer cooperatives in Western Europe, Japan, the United States, Canada and other developed countries.⁹ Some of these consumer co-ops purchase food and other items produced by agricultural cooperatives in developing countries. Overall, however, this trade is nowhere near as large or as well coordinated as it could be.

The purpose of this white paper is to review the current status of international co-op to co-op trade, derive lessons learned from it and make recommendations for realizing future trade opportunities. The paper is intended to be presented and discussed at the Biennial Conference of the international Co-operative Alliance (ICA) in Cape Town, South Africa, in November 2013. This event offers a unique opportunity to focus the global cooperative movement on international co-op to co-op trade.

Developing a strategy for international co-op to co-op food trade also can become an important initiative to implement ICA's *Blueprint for a Co-operative Decade* and an excellent means to put into practice Cooperative Principle Six: Cooperation among Cooperatives.

The international co-op to co-op trade already taking place includes fair-trade products, especially coffee, cocoa, tropical fruits and spices; a range of organic foods, which are often fair trade-certified, as well); soybeans not produced from genetically modified seeds and other non-GMO products; and other products.

In addition to the co-op seller and co-op buyer, there are many other actors involved in, or who could be involved in, co-op to co-op trade, including ICA, ICA sectoral and regional organizations, cooperative development organizations (CDOs), fair-trade and organic certifiers and intermediaries, public and private donors, developing country governments and others.



Much of cooperative development in developing countries is not oriented toward the export market. There often are good reasons to set goals for increased household consumption, such as CLUSA's moringa project in Niger,¹⁰ which rapidly increased the production of moringa trees and the use of their leaves as a nutritional supplement. Goals also have been set for increased domestic consumption, such as in many of Land O' Lakes International Division's dairy initiatives.¹¹

This white paper focuses on those products and economic conditions appropriate for increasing exports by developing country co-ops. A key emphasis of the research and strategic recommendations is on products for which there is current or projected demand by consumer co-ops in developed countries. This demand-driven approach will be a key to significantly increasing co-op to co-op trade.

A relatively small percentage of international sales by producer co-ops in developing countries are to consumer co-ops in developed countries. There are many other ways to increase the value of international sales by these producer co-ops that should be pursued, in addition to the co-op to co-op trade options presented in this paper. However, increasing the purchasing of agricultural co-op products by consumer co-ops in developed countries presents a unique opportunity that can be promoted exclusively within the co-op community.

Research methods and organization

The research for the paper consisted of interviews with approximately 40 people knowledgeable about international cooperative trade, and documentary and Internet research on co-op trade activities and relationships.

Organization

In addition to this introduction, the paper is organized into three chapters:

- A review of the current status of trade between smallholder agricultural cooperatives in developing countries and consumer cooperatives in developed countries;
- Five brief case studies illustrating various approaches to this kind of trade; and
- Recommendations for increasing co-op to co-op trade.

Key definitions

Before presenting research results and recommendations, it is important to have a clear understanding of the definitions and distinctions used in this paper.



The focus of the paper is on *food products grown by members of smallholder agricultural cooperatives in developing countries that are purchased by consumer co-ops in developed countries.*

There are many definitions for developed and developing countries, as well as controversy over the use of these terms. For the purposes of this paper, “developed countries” are those in the top quartile of the United Nations Human Development Index.¹² “Developing countries” are those not in the top quartile. Admittedly, this is an imperfect way to divide up the countries of the world.

This paper does not purport to be a comprehensive analysis of international co-op to co-op trade. There are many countries with large cooperative movements that are not included in this paper or are only mentioned in passing, such as the BRICS countries — Brazil, Russia, India, China and South Africa.

Clearly, food trade between smallholder agricultural cooperatives in developing countries and consumer co-ops in developed countries is only a small subset of all co-op to co-op trade. Many kinds of trade and other business activities take place among all kinds of co-ops, including financial cooperatives and mutual insurance companies. These activities occur domestically, as well as internationally.

This paper focuses on the sale of food products primarily because this kind of co-op to co-op trade is most visible to consumer co-ops in developed countries and to their members, has a strong ethical component and appears to have excellent potential for growth in the future.

During the research phase, it became clear that the large majority of the food products originating from smallholder agricultural co-ops in developing countries and carried by consumer co-ops in developed countries are certified by a fair-trade organization. A dictionary definition of “fair trade” is “trade in which fair prices are paid to producers in developing countries.”¹³ (Case Study 3 in chapter 2, *The Tower of Labels*, explores different definitions of fair trade and other certification programs as they relate to co-op to co-op trade.)

The phrase “co-op to co-op trade” can be misleading. Research indicated that food and other products traded between producer co-ops and consumer co-ops almost always involve a number of intermediaries. The key criterion for using the phrase “co-op to co-op” in this paper

is the existence of a traceable relationship between a producer co-op and a consumer co-op, not that the trade takes place directly between the two co-ops.

Keeping these definitions and explanations in mind, the next chapter provides an overview and some examples of the current state of the purchase of food products from smallholder producer co-ops in developing countries by consumer co-ops in developed countries.

Chapter One

Overview of food trade between smallholder agricultural co-ops in developing countries and consumer co-ops in developed countries

The information presented here focuses on the current state of food trade between co-ops of small farmers in developing countries and consumer co-ops in developed countries, including the barriers to, and opportunities for, the expansion of this trade in the future. The consumer cooperatives reviewed are located in Western Europe, the United States, Canada, Japan, South Korea and Singapore. The producer co-ops discussed are in Africa, Asia and Latin America.

International context

There are an estimated 450 million small-scale farmers in developing countries and over 80 million individuals and families who are members of consumer cooperatives in developed countries. A major purpose of this paper is to identify ways in which these two groups can become more closely linked through the international cooperative community.¹⁴



The International Co-operative Alliance (ICA) “unites, represents and serves cooperatives worldwide. . . . Its member organizations in some 100 countries represent more than 800 million individuals worldwide.”¹⁵



ICA has four regional offices in Europe, the Americas, Asia and the Pacific and Africa. These offices play an important role in co-op to co-op trade. For example, the Asia-Pacific office in Malaysia lists as two of its major functions:

- Increasing the business interactions and exchanges between/among consumer cooperatives, cooperative insurance and banking, especially with the countries in the Middle East sub-regions
- Promoting “cooperative trade” strategically with fair trade and business-to-business trade platforms through the Internet in the region.¹⁶

ICA also has eight sectoral organizations, which include Consumer Co-operatives Worldwide (CCW) and the International Co-operative Agricultural Organization (ICAO). CCW represents associations of consumer cooperatives in 18 European countries, five Asian countries,

Argentina, Brazil, Canada and the United States, with a total of about 100 million consumer members. ICAO has 27 member organizations — four from Africa, four from the Americas, eight from Asia and the Pacific and 11 from Europe.¹⁷

ICA, CCW and ICAO do not explicitly refer to the promotion of co-op to co-op trade as part of their missions and objectives. However, they indirectly support such trade, most notably in their commitment to “cooperation among cooperatives,” which is one of ICA’s core principles.¹⁸

Potential future roles of ICA, its regional offices and its sectoral organizations in co-op to co-op trade are discussed later, particularly in the recommendations section.

European consumer cooperatives

Euro Coop is a federation of consumer cooperative associations in 18 European and one non-European country. Created in 1957, Euro Coop today represents over 4,500 local and regional



co-operatives, the members of which total more than 30 million consumers across Europe. Mainly acting in food retail, these consumer-owned enterprises account for €74 billion (\$96 billion) in

annual turnover and 450,000 employees.¹⁹

Euro Coop is affiliated with ICA and CCW. The secretary general of Euro Coop is also the secretary general of CCW.

Euro Coop is not involved directly in the trade-related activities, including co-op to co-op trade, of its member organizations. Despite the arm’s-length relationship with its members’ trade activities, Euro Coop advocates for its members to increase trade with producer co-ops in developing countries, as well as with agricultural co-ops in Europe and in each member’s own country. In its approach to co-op to co-op trade, the organization would like to go beyond a fair-trade emphasis and broaden the goal of inter-cooperative trade to include all kinds of consumer products and services.

Currently, The Co-operative Group in the U.K. and some Italian consumer cooperatives are the most active Euro Coop members in promoting co-op to co-op trade. In the Italian case, much of this trade is focused domestically.

Representing almost \$100 billion in annual sales, the members of Euro Coop have tremendous potential to dramatically increase trade with smallholder producer co-ops in developing countries.

United Kingdom

The Co-operative Group (also referred to as CG and The Co-operative) in the United Kingdom is by far the leading consumer cooperative in the world when it comes to purchasing food products from co-ops of small-scale producers in developing countries. CG has 7.2 million members and had annual revenue of £7.4 billion (\$11.2 billion) in 2011. Almost 60 percent of this revenue is generated by The Co-operative Food (one of CG's businesses), which has 2,800 stores, one in every postal district in the country. CG places a major emphasis on food imports certified by Fairtrade International. CG accounts for over 17 percent of all fair-trade sales in the U.K., valued at £132 million (almost \$200 million) in 2012, about two thirds of which are under The Co-operative's own brand. CG carries more than 250 different fair-trade products. About 75 percent of products certified by Fairtrade International are produced by smallholder agricultural cooperatives in developing countries.

"We're (The Co-operative is) working to ensure that if a primary commodity from the developing world can be labeled fair trade, it will be, and we're on track to achieve 90 percent (by sales value) of these conversions by the end of 2013."²⁰

CG produces an annual sustainability report that measures how well the co-op is doing in achieving a number of social, environmental and economic goals. Purchasing fair-trade products, especially from co-ops of small farmers, is a high priority for CG. Fair trade is included under the category of "tackling global poverty" in its sustainability plan.²¹

The Co-operative has achieved this level of success through collaboration and engagement with established, long-term suppliers of its fair-trade products, rather than by direct trading with producer co-ops.

CG also has pursued creative ways of integrating smallholder farmers and cooperatives into its fair-trade supply chain, including cooperative development assistance and financial investments to help form fair trade-eligible co-ops. *(See case study one in chapter two for the description of CG's support for development of tea cooperatives in Kenya.*

CG also is working with the ICA on implementation of the Global Development Cooperative, which is intended to provide fair-priced loans for capital and infrastructure projects to co-ops in developing countries, beginning in 2013.²²

The Co-operative's long experience with purchasing products from developing-country co-ops, particularly fair-trade products, and the creative ways in which it is going beyond fair-trade, provide valuable lessons to the broader cooperative community on how to conduct this kind of co-op to co-op trade successfully.

Italy

Coop Italia is a Federation of Italian consumer cooperatives. It's the largest supermarket chain in Italy, with 115 member cooperatives that operate over 1,400 shops. In total, Coop Italia has almost 7.5 million members, and in 2010 had an annual revenue of €12.9 billion (\$17 billion).²³



According to Stefania Marconi of Legacoop, Coop Italia allocated about € 2.5 million (\$3.3 million) for solidarity activities and cooperative development projects in 2010. She also reported that Solidal Coop is the co-op's brand for products that meet fair-trade principles and certification criteria. The Solidal Coop brand comprises both food and non-food products. Most of its non-food items are textiles, especially cotton T-shirts. Coop Italia was the first large retailer in Italy to sell fair-trade products, beginning in 1995. Solidal Coop was launched in 2002. In 2011, Solidal Coop products included 53 items from 40 cooperatives and producer groups in many different countries with a combined sales value of about €24 million (\$32 million).

The Nordic countries



Consumer cooperatives in Denmark, Finland and Norway jointly own Coop Trading, which sources private-label food, personal care and household products. This unique co-op-owned trading organization is presented as Case Study #2 in Chapter Two. This example is featured, not because of Coop Trading's current role in accessing food products from smallholder co-ops in developing countries, but because of the potential role that it and similar co-op-owned entities could play in this kind of trade in the future.

Separately from Coop Trading, consumer co-ops in the Nordic countries engage in limited purchasing of fair-trade food products, especially coffee.²⁴

North America

Consumer cooperatives in both the United States and Canada import food products from small producer co-ops in developing countries, especially fair trade-certified products. Mexico is the largest exporter of fresh produce to the U.S. and Canada. However, only a small fraction of these and other food products are imported from small-scale farmer co-ops.

United States

There are about 330 grocery cooperatives in the U.S., with approximately \$2 billion dollars in annual sales. Many of these co-ops, including almost all of the larger ones, are members of the National Cooperative Grocers Association (NCGA).



NCGA is a business-services cooperative for retail food co-ops



located throughout the U.S. It represents 134 food co-ops operating more than 170 stores in 36 states, with combined annual sales of over \$1.5 billion and over 1.3 million consumer-owners.

NCGA's mission is to provide the vision, leadership and systems to catapult a virtual chain of food co-ops to a position of prominence in the natural-foods industry.²⁵

In comparison, Whole Foods, the largest natural-foods retail chain in the country, had net sales of almost \$11 billion in 2012.²⁶

Interviews and documentary data indicate that virtually all of NCGA's member co-ops and many non-member grocery co-ops in the U.S. purchase at least some food items from cooperatives of small producers in developing countries. However, composite statistics on the total value of these purchases aren't available. Most of the food items purchased are fair trade-certified, about half of these also are certified organic.

Coffee is by far the largest food product imported from small producer co-ops by these consumer co-ops in terms of both volume and value. Other co-op-produced items include cocoa and chocolate, tea, bananas and other tropical fruits, and spices. These co-op to co-op products account for a very small percent of U.S. grocery co-ops' total annual sales — estimated at well under 1 percent.²⁷



These co-ops rely on relationships with a variety of wholesalers and distributors to access both their domestic and international products. United Natural Foods (UNFI) is the largest distributor of natural and organic foods in the U.S.²⁸ Individual consumer co-ops, and even NCGA, have very limited power to influence the products carried by UNFI, let alone the sourcing of these products from producer co-ops in developing countries. However, it's conceivable that a concerted campaign by a large enough group of these co-ops could make international cooperative products more available.



As mentioned above, the large majority of international co-op to co-op food products carried by U.S. grocery co-ops are certified fair-trade products. Equal Exchange, which is organized as a worker cooperative, is the major supplier of fair trade-certified coffee, cocoa, bananas and other products to U.S. food co-ops, which account for about 20 percent of Equal Exchange’s sales.

Frontier is another cooperative that imports and processes fair-trade food to the U.S., primarily natural and organic spices, herbs, teas and seasonings. Frontier’s owners are, for the most part, its retail customers, including many U.S. grocery co-ops.

There are several smaller organizations that import and process fair-trade food products and market them to U.S. grocery co-ops, including Pacha Mama (primarily coffee), Theo (chocolate), and Alter Eco (a variety of products). Many grocery co-ops prefer to purchase coffee from locally based roasters. Some of this coffee is fair-trade certified.

Canada

There are two large consumer cooperatives in Canada — Co-op Atlantic, based in the Maritime Provinces, and Federated Co-operative, headquartered in Saskatchewan — and about



10 smaller grocery cooperatives, similar to the natural food co-ops found in the U.S. Altogether, these co-ops own almost 400 retail food stores and have about 1.5 million members.²⁹

The small natural-foods co-ops are more likely to carry fair-trade food products from small farmer co-ops in developing countries than Co-op Atlantic or Federated. However, these large co-ops also carry some of these products.³⁰

As in the U.S., there are several intermediaries in Canada that carry fair-trade products, including those produced by smallholder farmers. One of these businesses is La Siembra, a worker cooperative, which features chocolate, sugar and coffee, and stresses its partnerships with producer co-operatives that foster sustainable livelihoods and community development.³¹

Just Us!, also a worker cooperative, primarily focuses on coffee roasting, but also carries tea, sugar and chocolate products, all of which are fair trade and organic.³²



The Canadian Cooperative Association has been involved in international co-op development since

the early 1960s, in addition to its ongoing work of promoting, developing and uniting Canadian cooperatives. CCA has participated in international trade-related activities, however, these efforts haven't been very successful. CCA launched BCI as a co-op trade entity in the early 1990s. This initiative was abandoned a few years later, mainly because Canadian co-ops involved in importation already had their own supply channels developed and didn't see the need for a co-op-specific import organization.

CCA also played a small role in underwriting loans to co-ops in developing countries. This effort, too, was abandoned after default on a loan that had to be absorbed by CCA. CCA plans to continue its successful role as an international co-op and credit union developer, but keep away from a direct role in international co-op to co-op trade and lending.

Asia

Japan

The Japanese Consumer Co-operative Union (JCCU) is a federation of about 600 consumer co-ops, approximately 460 of which are retail co-ops. JCCU has about 27 million members and annual retail sales of about \$38 billion in 2011.



JCCU recently introduced its first fair-trade product — a JCCU-branded coffee — and plans to introduce additional products in the future.

As in many European countries, some consumer co-ops in Japan carry fair-trade products, many of which are from small-producer co-ops in developing countries. However, the sourcing, marketing and branding of these products are not being coordinated by JCCU.

Many co-op consumers in Japan are reported to be interested in buying fair trade and co-op to co-op products and have demonstrated this interest by purchasing them when they're available.³³

Singapore

NTUC Fairprice Co-operative Ltd is Singapore's largest retailer, with a network of more than 270 stores, including some with an "eco-friendly" theme. The co-op has about 650,000 members and annual revenue of approximately \$2.2 billion in 2012. A representative of the cooperative indicated that Fairprice is interested in importing products from co-ops in other countries — including fair-trade products — but has not yet acted extensively on this interest.

South Korea

The 2012 annual report of iCOOP KOREA, the umbrella organization for 75 consumer cooperatives in South Korea, reported combined sales of KRW 300 billion (\$260 million) for 2011 and a composite household membership of about 156,000. iCOOP has Natural Dream stores in every major city of the country, which feature branded, eco-friendly products. iCOOP stores also carry fair-trade coffee, cacao and sugar.

With its Natural Dream stores and brand and the fact that it already features fair-trade products, iCOOP is well-positioned to increase its purchasing of products from smallholder producer co-ops in developing countries in the future.

Australia and New Zealand

Australia and New Zealand have only a small number of food cooperatives, so co-op to co-op food trade is not a major issue in these countries.

Developing regions

Producer cooperatives in developing countries are generally unaware of whether or not their products are marketed through consumer cooperatives in developed countries. Their primary concerns are decent and stable prices and trusted marketing channels.³⁴



A relatively small number of international cooperative development organizations and other entities fund and/or assist in the formation and operation of smallholder agricultural cooperatives in developing countries. Only a small subset of these organizations actively promote and help these co-ops with international export activities.³⁵ One exception is NCBA/CLUSA's long-term development work in Indonesia and East Timor. Case Study #5 in chapter two provides information on this unique project.

Co-op to co-op trade by producer co-ops in developed countries

Although this paper doesn't focus on co-op purchasing by producer co-ops in developed countries, this kind of trade can have a major, indirect bearing on purchasing by consumer co-ops. For example, ZEN-NOH in Japan, the National Agricultural Cooperative Federation in South Korea and Felleskjøpet in Norway, which is discussed in Case Study #3, are major agricultural cooperatives that import large quantities of grains, beans and other agricultural commodities, some of which are produced by agricultural cooperatives in developing countries and purchased by consumer cooperatives.

Chapter Two

Case studies related to consumer co-ops, smallholder producer co-ops, & product labeling

Case Study #1

The Co-operative Group's involvement in the development of tea co-ops in Kenya

The Co-operative Group (CG) has been an international pioneer in importing fair trade products to its 2,800 retail food stores in the U.K. Many of its own major, brand categories are 100 percent fair trade-certified including tea, coffee, bananas, chocolate bars and sugar.

Recently, CG launched a “beyond fair trade” campaign. According to Len Wardle, chair, CG is “supporting tens of thousands of fair-trade producers in a variety of ways, be it helping them to strengthen democracy, boost productivity, diversify into other products, improve environmental practices, have a stronger voice in trading negotiations or improve community-wide access to basic necessities like clean water, sanitation and green energy.”³⁶

One example of going beyond fair trade is a project CG has been supporting in Kenya. The co-op identified a large number of small tea growers who were not eligible for fair-trade certification because they weren't organized into cooperatives.



CG secured matching funds from the U.K. Department for International Development (DFID) and assisted over 15,000 tea smallholders, half of whom are women, to form five co-ops and a cooperative union. These co-ops became fair trade-certified and now supply tea to CG's own brand blend. CG estimates that producer incomes have increased by about 30 percent as a result of the project, which also is helping producers to diversify products and improve household nutrition.³⁷

This example shows how a consumer cooperative can help to fund producer cooperative development. CG is driving the market for tea produced by farmer-cooperative members by purchasing large quantities of their tea, while helping to create and sustain the co-ops that produce and supply the tea.

Case Study #2

Coop Trading, an example of a cooperatively owned procurement company

Coop Trading (CT) is an inter-Nordic procurement company jointly owned by consumer cooperatives in Denmark, Norway and Finland. CT secures branded food products, personal care products and household items at competitive prices and develops and maintains a varied assortment of cooperative private-label brands.

Coop Trading isn't presented as a case study because of its current role in procuring food products from smallholder cooperatives in developing countries for its consumer co-op owners. Instead, it demonstrates the potential that CT and similar co-op owned entities could play in co-op to co-op trading in the future.



CT's annual purchases total \$1.3 billion, about \$130 million of which are fruit and vegetables. Between 70 and 75 percent of the private-label products carried by the Nordic consumer co-ops are sourced through Coop Trading. CT doesn't currently take into account whether a product is sourced from a co-op or another kind of business.

The private-label products sourced by Coop Trading represent about 20 percent of the retail sales of consumer cooperatives in the Nordic countries. The other 80 percent are branded products and some private-label products purchased by the consumer co-ops from other sources.

Coop Trading sources only a small amount of fair-trade products for its consumer co-op owners. For example, about 5 percent of the coffee it sources is fair-trade certified. The percentages of fair trade chocolate, fruits and vegetables are less than that.

Based on the priorities of the consumer co-ops it serves, Coop Trading places a great deal of emphasis on the purchase of environmentally responsible products, which it divides into three categories: organic food, environmentally friendly household products and personal care products.

The Nordic consumer co-ops "call the tune" when it comes to the sourcing priorities of Coop Trading, illustrated by their emphasis on environmentally responsible products. If CT is to increase the amount of fair trade and other purchases from smallholder co-ops in developing

countries, the decision to do so will need to come from the consumer co-ops in the four Nordic countries and not from Coop Trading itself. However, Coop Trading is well positioned to take on such a task.

Case Study #3

The development of non-GMO soybean production in Mozambique

In November and December 2012, the author evaluated a non-GMO soybean project in Mozambique. The five-year project was funded by the Norwegian government and Felleskjøpet, a large Norwegian agricultural cooperative. The co-op development work was carried out by CLUSA.

Felleskjøpet set the stage for the project in the early 2000s when it began to explore the potential for importing non-GMO soybeans from Mozambique to Norway, where the climate isn't conducive to soybean production. After some initial experimentation, the formal five-year project was developed to help 5,000 small producers grow soybeans.



The primary conclusion of the evaluation was that the project far exceeded its goals for the number of farmers involved, number of hectares under production, volume of soybeans produced and increased incomes of participating farmers. However, it has not yet helped these farmers form effective marketing cooperatives.

Also, non-GMO soybeans weren't exported from Mozambique to Norway. The reason behind this change in the project's objectives was that demand for soybeans as an animal feed — especially for poultry — in Mozambique increased rapidly during the course of the project. As a result, producers were able to sell all of their soybeans domestically at a price significantly above the international price.

The Norwegian co-op is quite proud of the success of this project, despite not receiving the soybeans they had planned on. Consequently, Felleskjøpet and the Norwegian government decided to fund another five-year project in Mozambique to increase the commercial production of 30,000 farm families — six times the number in the initial project. This expanded project, which began in December 2012, has a somewhat broader focus than the original one, emphasizing the growing of soybeans in rotation with other crops.

A footnote to this story is that Felleskjøpet is meeting its non-GMO soybean import needs primarily through purchases from Brazil, which is the second-largest soybean exporter in the world after the United States and has a number of large agricultural co-ops involved in soy production and marketing.

Case Study #4 *A tower of labels*

There is a long list of product labels, brands and sub-brands — some of them clearly defined and measured, others ambiguous and even misleading — related to food products carried in consumer co-ops. One result of this proliferation of labels is the creation of confusion among the very consumers the label developers are attempting to convince to buy these products. If consumers don't understand the meaning of a label or don't trust it, it can have the effect of turning them off. Two examples of this are presented below.

In 2011, Fair Trade USA severed its relationship with Fairtrade International, which is the umbrella organization for most fair-trade organizations in the world. Since the break, Fair Trade USA has increased its certification of products produced on plantations and by contract farmers and has lowered the fair-trade labeling requirements for ingredients on chocolate bars and other products.³⁸

This dilution of certification requirements has endeared Fair Trade USA to some large food corporations, but has alienated it from much of the co-op community, including Equal Exchange and most U.S. food co-ops. It's not yet clear what the long-term implications of this rift will be. However, one thing is clear: these dueling certification criteria have created uncertainty among consumers regarding what fair trade does and doesn't mean, which has diminished the value of fair-trade certification in the United States.

The fair-trade standards controversy is not the only labeling problem affecting U.S. consumer co-ops. In 2011, Equal Exchange and six consumer co-ops launched the "P6" initiative to feature products more effectively by creating a unified "sub-brand" for them. (P6 refers to Cooperative Principle Six: Cooperation among Cooperatives.)





Principle Six
co-operative trade movement

This sub-brand is used to identify products that meet two of the following three criteria: produced by small farmers, produced by a co-op, and locally produced or processed. Participating stores have some flexibility how they define these criteria. For example, the definition of “local” might refer to items produced or processed “within 50 miles” in one store and “within 100 miles” in another.

There appear to be several problems with the P6 sub-brand.

- Two of the three criteria don’t refer to cooperatives.
- There is no explicit reference to fair-trade certification in the program guidelines, although a separate fair-trade certification label could appear on a product.
- There are no sustainability criteria, such as environment or health, in the definition of a P6 product, although these traits could be identified elsewhere on the product.

In attempting to create an inclusive, but simple, marketing approach that combines “small producer,” “cooperative” and “local,” the P6 sub-brand appears to have muddied the water rather than develop a cohesive set of criteria that helps consumers select “good” products.

In defense of the P6 label, it should be noted that Seward Co-op reports good results with it, both in terms of members understanding it and wanting more P6 products carried by the store.

The lesson from these examples is that consumer co-ops need to be vigilant in making sure their labeling approach is simple and effective in conveying product characteristics to members.

Case Study #5

The development of export-oriented producer co-ops in Indonesia & East Timor

The longest-lasting international cooperative development project in the world is taking place in Indonesia and East Timor. NCBA/CLUSA began working in Indonesia in 1977. Thirty-six years later, it’s still there, and in East Timor, which became independent from Indonesia in 2002.



NCBA/CLUSA continues to carry out a range of co-op development projects involving shrimp, fish, vanilla beans, furniture, mushrooms, cocoa, organic and specialty coffee, cinnamon and other spices, baby corn and other items.³⁹

In East Timor, CLUSA played a major role in organizing, and continues to provide support services to, Cooperativa Café Timor, which is the country’s largest farmer cooperative — about

30,000 members — and the largest single-source supplier of certified organic coffee in the world.⁴⁰

A demand-driven strategy is a key aspect characterizing CLUSA's success in developing export-oriented cooperatives in these countries. It doesn't just produce products and then look for markets — it produces products for identified markets. In addition, the project has emphasized adding value to commodity products, primarily via joint ventures, in which co-ops partner with other businesses to secure capital, expertise and international trade connections. These business partners include Cooperative Business International (CBI), which originally was organized by NCBA in 1994 and then reorganized as a privately owned company in the late 1990s, with NCBA as a minority owner.

This example illustrates that the time frame of three to five years used in many cooperative-development projects often grossly underestimates the time required to launch a successful cooperative and the long-term assistance needs of producer co-ops in developing countries. The example also emphasizes the importance of market-driven cooperative development and the successful use of joint ventures to add value to products.

The project also provides an example of smallholder-farmer cooperatives that are producing for the international market, but are not primarily oriented toward co-op to co-op marketing. For these producer co-ops, price, value-added processing and stable relations are the primary goals. Sales to consumer cooperatives are a side issue.

Chapter Three

Recommendations and conclusions

The findings presented in the preceding chapters, led to the formation of these three recommendations:

Recommendation #1. As part of the implementation of the *Blueprint for a Co-operative Decade*, the International Cooperative Alliance should launch a campaign from 2014 through 2020 to significantly increase (by 50 percent, for example) the value of food products sold by consumer co-ops in developed countries that are sourced from smallholder producer co-ops in developing countries.

Perhaps the most important finding of this study is that many consumer co-ops and their members in developed countries are interested in purchasing food and other agricultural products that benefit smallholder producers in developing countries. However, most retail food co-ops in the developed world do not have clearly articulated goals and strategies for increasing their purchases of these products.



There are two main approaches that can be used by retail co-ops to meet the goal of increasing the value of co-op to co-op food purchases:

- The management and boards of directors of retail cooperatives can establish measurable objectives and implementation strategies for purchasing food and other products produced by smallholder agricultural co-ops.
- The cooperative community can develop and use a designated label on products to indicate to co-op consumers that products with this label were produced by a co-op.

These organizational-level and consumer-oriented strategies should be seen as complementary, rather than mutually exclusive. ICA could serve as the “certifying entity” for either or both approaches.

In implementing a strategy to increase the sale of food and other products produced by smallholder co-ops in developing countries and sold by consumer co-ops, it’s important to recognize that most of these products currently have fair-trade certification. However, only about three quarters of products certified by Fairtrade International, and an even lower percentage of products certified by Fair Trade USA, are from smallholder producer co-ops.

Retail co-ops in developed countries can create a higher standard for their fair-trade products by sourcing as many products as possible that are not only fair trade, but also produced by smallholder co-ops.

Recommendation #2. In order to facilitate the increase in co-op to co-op trade, ICA, the Overseas Cooperative Development Council and other organizations involved in cooperative development should establish a cooperative development clearinghouse. This clearinghouse



would coordinate and increase the availability of technical and financial assistance for the formation and ongoing support of smallholder agricultural co-ops in developing countries. One person interviewed for the report suggested that the option of creating an “import-export co-op” be explored as a means to carry out some of these activities.

The key to the success of this recommendation is the targeting of groups of small-scale producers who are producing, or are interested in producing, products for which there is adequate demand by consumer co-ops in developed countries. An ICA-led cooperative development initiative could bring together co-op development organizations, donors and retail food co-ops to carry out demand-driven, co-op-development projects benefiting smallholder farmers in developing countries.

One idea to consider is the creation of a fund in conjunction with the Global Development Co-operative that would provide cooperative development assistance, along with loans to smallholder producer groups.

Recommendation #3. ICA should establish strategies and measurable objectives to implement a wide range of co-op to co-op trade and other co-op business relationships in conjunction with the *Blueprint for a Co-operative Decade*.

The focus of this paper has been on food products produced by agricultural co-ops in developing countries and purchased by consumer co-ops in developed countries. However, in the course of the research, it became clear there is tremendous potential for increasing many kinds of trade and other business relationships among many kinds of co-ops, credit unions and mutual insurance companies. Co-op to co-op trade between producer co-ops in developing countries and consumer co-ops in developed countries should be seen as only one part of a much broader, inter-cooperative business initiative.

Conclusion

Consumer co-ops in developed countries have excellent potential to double the value of purchases they make from smallholder producer co-ops in developing countries between 2014 and 2020. Several consumer co-ops, in particular, The Co-operative in the U.K., have demonstrated that this kind of co-op to co-op trade can be very successful, not only benefiting smallholder producer co-ops, but also the bottom lines of the consumer co-ops that purchase their products.

Also, the international cooperative movement has good potential to increase a wide range of co-op to co-op trade and other business relationships. This potential can be enhanced by developing measurable objectives and strategies to achieve them as part of the implementation of the *Blueprint for a Co-operative Decade*.

End Notes

¹ Cover photo collage: non-GMO soybean field in Mozambique, organic coffee plant with an insect trap in Angola, fair-trade event at Seward Co-op in the United States, photo from The Co-operative Group's *Going Beyond Fairtrade* booklet.

² The author is a sociologist who has over 35 years of experience researching, teaching and writing about, and developing cooperatives.

³ Dalberg Global Development Advisors, *Catalyzing Smallholder Agricultural Finance*, September 2012.

⁴ Calculated by the author from the memberships of Euro Coop, JCCU, NCGA and the Canadian consumer co-ops.

⁵ The Co-operative Group's products are certified under Fairtrade International's certification criteria: <http://www.fairtrade.net/>

⁶ Information provided in a written communication from Stefania Marconi of Legacoop.

⁷ This estimate is based on a combination of Fairtrade International's and Fair Trade USA's sales figures: <http://fairtradeusa.org/>. Non-food items are included in this number, as well as products that are not from small farmer cooperatives.

⁸ Dalberg, op. cit.

⁹ Author's calculation, op. cit.

¹⁰ *The Story of CLUSA's Moringa Project in Niger*, January 2012.

¹¹ For example, Land O Lakes projects in Uganda, Kenya, Sri Lanka, Zambia and Zimbabwe.

¹² United Nations Human Development Index, <http://hdr.undp.org/en/reports/>

¹³ Google definition, http://www.google.com/search?q=fair+trade+definition&rls=com.microsoft:en-us&ie=UTF-8&oe=UTF-8&startIndex=&startPage=1&rlz=117ASUT_en

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- ¹⁴ See end notes 3 and 4 above.
- ¹⁵ ICA website: <http://ica.coop/>
- ¹⁶ <http://www.ica-ap.coop/AboutUs/ica-asia-pacific>
- ¹⁷ Ibid.
- ¹⁸ ICA website: <http://ica.coop/en/what-co-op/co-operative-identity-values-principles>
- ¹⁹ Euro Coop website: <http://eurocoop.coop/en/>
- ²⁰ The Co-operative Group's Sustainability Report: <http://www.co-operative.coop/corporate/sustainability-report-2011/downloads/sr2011-social-responsibility.pdf>
- ²¹ The Co-operative Group, *Our Ethical Plan, 2013 – 2015*.
- ²² <http://ica.coop/en/global-development-cooperative>
- ²³ [http://en.wikipedia.org/wiki/Coop_\(Italy\)](http://en.wikipedia.org/wiki/Coop_(Italy))
- ²⁴ For example, We Effect (formerly the Swedish Cooperative Center) is coordinating a fair-trade coffee project in Nicaragua with a partner organization called Prodecoop. Coffee from the project is carried by Swedish consumer cooperatives.
- ²⁵ NCGA website: <https://www.ncga.coop/about>
- ²⁶ Whole Foods Annual Report 2012: NCGA website: http://www.wholefoodsmarket.com/sites/default/files/media/Global/Company%20Info/PDFs/2012-WFM_Annual_Report.pdf
- ²⁷ Author's estimate based on interviews.
- ²⁸ UNFI website: <https://www.unfi.com/Company/Pages/AboutUs.aspx>
- ²⁹ Author's calculation based on the combined number of stores of Co-op Atlantic and Federated, plus an estimate of 10 additional grocery co-ops.
- ³⁰ Based on interview data.
- ³¹ La Siembra website: <http://www.lasiembra.com/camino/>
- ³² Just Us! website: <http://www.justuscoffee.com/>
- ³³ Based on interview data.
- ³⁴ Comment made by a number of interviewees.
- ³⁵ Based on the author's own international cooperative development experience and comments by interviewees.
- ³⁶ Quoted from The Co-operative's *Going Beyond Fairtrade* booklet.
- ³⁷ Ibid.
- ³⁸ Neuman, William, "A Question of Fairness," *New York Times*, November 23, 2011.
- ³⁹ Case study material provided by CLUSA.
- ⁴⁰ Ibid.