

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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Executive Summary

Co-op to Co-op Trade: Linking Producer Cooperatives in Developing Countries with Consumer Cooperatives in Developed Countries reviews the current state of this kind of 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.

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

The paper is organized as follows: the Introduction describes the purpose, methods, and key terms; Chapter One presents the results of 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 presents three major recommendations based on the information presented in the first two chapters.

The major findings of the report are summarized below:

1. There are an estimated 450 million smallholder farmers, each cultivating less than 2 hectares, in developing countries around the world. Less than 10% 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% of which is 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 Fairtrade-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 UK 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 at this time, 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; thus, co-op to co-op food trade is not currently a major issue in these countries.
7. Fair trade certification, as its name implies, has as a major objective 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. The total value of fair trade sales worldwide in 2011 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 cooperatives in developed countries. Their primary concern is with getting decent and stable prices and having trusted marketing channels.
9. There are a relatively small number of international cooperative development organizations and other intermediaries that fund and/or assist in the formation and operation of smallholder agricultural cooperatives in developing countries, and a relatively small subset of these organizations actively promote and assist international co-op to co-op trade.

As noted above, Chapter Two presents five case studies related to this kind of trade:

- The Cooperative Group’s “Beyond Fairtrade” program, which describes its role in helping to build the capacity and resilience of co-operatives and producer associations in its Fairtrade supply chain;
- Coop Trading, owned by consumer cooperatives in Denmark, Finland, and Norway, which 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 focused on growing non-GMO soybeans 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 One. *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 (for example, by 50%) 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 Two. *In order to facilitate the increase in co-op to co-op trade proposed in Recommendation One, 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 Three. *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**.*

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Introduction

1. Context and Purpose

There are an estimated 450 million small-scale farmers (defined as cultivating 2 hectares or less) in Africa, Asia, and Latin America, with average family incomes under \$600 per year. Fewer than 10% of these farmers have access to export markets for their products.⁸ A very small proportion of these farmers 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 cooperatives 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 this kind 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 can also 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 that is 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 with genetically modified seeds and other non-GMO products; and other products.

It is important to keep in mind that, in addition to the co-op seller and co-op buyer, there are many other actors that are involved in, or that 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 that is done in the name of cooperative development in developing countries is not oriented toward the export market. There are often good reasons to set goals for increased

household consumption, as in CLUSA's moringa project in Niger,¹⁰ which has rapidly increased the production of moringa trees and the use of moringa leaves as a nutritional supplement; and increased domestic consumption, as with many of Land O' Lakes International Division's dairy initiatives.¹¹

This white paper focuses on those products and economic conditions for which increasing exports by developing country co-ops is appropriate. 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.

It is important to note that a relatively small percentage of international sales by producer co-ops in developing countries is to consumer co-ops in developed countries. Thus, 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.

2. 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.

3. Organization of the Paper

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.

4. 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 that are in the top quartile of the United Nations Human Development Index.¹² “Developing countries” are those that are not in the top quartile. Admittedly, this is an imperfect way to divide up the countries of the world.

It should be noted that 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.

As noted above, the focus of the paper is on food trade between smallholder agricultural cooperatives in developing countries and consumer co-ops in developed countries. Clearly, this 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 cooperatives, including financial cooperatives and mutual insurance companies. These activities occur domestically as well as internationally.

This paper focuses on the sale of food products from smallholder agricultural co-ops in developing countries to consumer co-ops in developed countries 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 course of the research for this paper, 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 conducted for this paper 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. An Overview of Food Trade between Smallholder Agricultural Co-ops in Developing Countries and Consumer Co-ops in Developed Countries

The information presented in this chapter 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 in this chapter 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.

1. International Context

As noted in the introduction, 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 regional 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:

- To increase the business interactions and exchanges between/among Consumer Cooperatives, Cooperative Insurance & Banking, especially with the countries in the Middle east sub-regions;
- To promote ‘Cooperative trade’ strategically by the modes of ‘Fairtrade’ and ‘B to B trade platform’ 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, these organizations indirectly indicate support for 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 in the white paper, particularly in the recommendations section of Chapter Three.

2. 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 directly involved 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 UK 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.

a. 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% 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% of all fair trade sales in the UK, valued at £132 million [almost \$200 million] in 2012, about two thirds of which are under The Co-operative's own-brand. CG carries over 250 different Fairtrade products. About 75% of products certified by International Fairtrade 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 labelled Fairtrade, it will be, and we're on track to achieve 90% (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 Fairtrade products rather than by direct trading with producer co-ops.

CG has also pursued creative ways of integrating smallholder farmers and co-operatives into its Fairtrade supply chain, including through cooperative development assistance and financial investments to help form Fairtrade-eligible co-ops. *See Case Study One in Chapter Two for the example of CG's support for the development of tea cooperatives in Kenya.*

CG is also working with the International Co-operative Alliance on the implementation of the Global Development Co-operative, 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 Fairtrade products, and the creative ways in which it is "going beyond fair trade" provide valuable lessons to the broader cooperative community in how to conduct this kind of co-op to co-op trade successfully.

b. Italy

Coop Italia is a Federation of Italian consumer cooperatives. It is 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 Coop-owned 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 consist of 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).

c. The Nordic Countries

Consumer cooperatives in Denmark, Finland and Norway jointly own Coop Trading, which sources private-label food, personal care, and household products for them. *This unique co-op-owned trading organization is presented as Case Study Two in Chapter Two.* This case study is presented 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

3. 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 United States and Canada. However, only a small fraction of these and other food products from Mexico are imported from small-scale farmer co-ops. This section of the report focuses on the co-op to co-op import activities of consumer co-ops in the United States and Canada.

a. United States

There are about 330 grocery cooperatives in the United States 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 United States. We represent 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

As a point of comparison, Whole Foods, the largest natural foods retail chain in the United States, 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 United States purchase at least some food items from cooperatives of small producers in developing countries. However, composite statistics on the total value of these purchases are not available. Most of the food items that are purchased are fair trade-certified, of which about half are also 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 the US grocery co-ops’ total annual sales – probably well under 1%.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 United States.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, although it is 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 US 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 US food co-ops, which account for about 20% of Equal Exchange's sales.

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

There are several smaller organizations that import and process fair trade food products and market them to grocery co-ops in the United States, 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.

b. 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 ten smaller grocery cooperatives, similar to the natural food co-ops found in the United States. Altogether, these co-ops own almost 400 retail food stores and have about 1.5 million co-op 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 United States, 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. Along the way, CCA has participated in international trade-related activities. However, these efforts have not 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 a default on a loan that had to be absorbed by CCA. Thus, 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.

3. Asia

This section of the paper presents brief reviews of the purchasing of products from smallholder producer co-ops by consumer co-ops in Japan, Singapore, and South Korea.

a. 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 had 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 fair trade products in the future.

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

Also, similar to the situation in Europe, 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 their purchases when these products are available.³³

b. 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 had annual revenue of approximately \$2 billion (US) in 2011. A representative of the cooperative indicated that Fairprice is interested in importing products from smallholder co-ops in developing countries but has not yet acted extensively on this interest.

c. 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 that feature branded, eco-friendly products. iCOOP stores also feature fair trade coffee, cacao, and sugar.

Thus, 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.

4. 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 at this time.

5. 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 concern is with getting decent and stable prices and having trusted marketing channels.³⁴

There are a relatively small number of international cooperative development organizations and other entities that fund and/or assist in the formation and operation of smallholder agricultural cooperatives in developing countries, and only a small subset of these organizations actively promote and assist these cooperatives in international export activities.³⁵ One exception to this pattern is NCBA/CLUSA’s long-term development work in Indonesia and East Timor. *Case Study Five in Chapter Two provides information on this unique project.*

6. Co-Op to Co-Op Trade by Producer Co-Ops in Developed Countries

Although co-op purchasing by producer co-ops in developed countries is not the focus of this paper, 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 Three in the next chapter) 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.

7. Chapter Conclusion

This chapter has presented an overview of food food-related co-op to co-op trade activities taking place around the world. The next chapter presents five case studies illustrating various

aspects of consumer co-op purchases of smallholder co-op food products, related labeling issues, and co-op development examples.

Chapter Two. Case Study Examples Related to Consumer Co-ops, Smallholder Producer Co-Ops, and Product Labeling

Case Study One. The Co-operative Group's Involvement in the Development of Tea Co-ops in Kenya

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

Recently, The Co-operative Group launched a “beyond fair trade” campaign. According to Len Wardle, Chairman, The Co-operative Group is “supporting tens of thousands of Fairtrade 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

An example of going beyond fair trade is a project that The Co-operative Group has been supporting in Kenya. The co-op identified a large number of small tea growers that were not eligible for fair trade certification because they were not organized into cooperatives.

CG secured matching funds from the UK 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 Fairtrade-certified and now supply tea to CG's own brand blend. The Co-operative Group estimates that producer incomes have increased by about 30% as a result of the project, which is also assisting producers to diversify products and improve household nutrition.³⁷

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

Case Study Two. Coop Trading, an Example of a Cooperatively Owned Procurement Company

As described in Chapter One, 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 is not 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, but because of 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 is fruit and vegetables. Between 70 and 75% of the private-label products carried by the Nordic consumer co-ops are sourced through Coop Trading. CT does not 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% of the retail sales of consumer cooperatives across the Nordic countries. The other 80% are branded products and some private label products purchased by the consumer cooperatives from other sources.

Coop Trading sources only a small amount of fair trade products for its consumer co-op owners. For example, about 5% 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.

In summary, the Nordic consumer co-ops "call the tune" when it comes to the sourcing priorities of Coop Trading. The emphasis on environmentally responsible products is a good example of this. 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, but the key point is that Coop Trading is well positioned to take on such a task.

Case Study Three. The Development of Non-GMO Soybeans in Mozambique

In November and December 2012, the author conducted an evaluation of 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 had 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 is not conducive to soybean production. After some initial experimentation, a formal five-year project was developed to assist 5,000 small producers to grow soybeans.

The primary conclusion of the author's evaluation was that the project far exceeded its goals for the number of farmers involved, the number of hectares under production, the volume of soybeans produced, and the increased incomes of participating farmers. It has not, as yet, assisted these farmers to form effective marketing cooperatives.

Another thing that didn't happen was the exportation of non-GMO soybeans from Mozambique to Norway. The reason for this was that the 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 having received the soybeans they were looking for. In fact, Felleskjøpet and the Norwegian government decided to fund another five-year project in Mozambique intended 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 project, 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 Four. 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 of the results of this proliferation of labels is the creation of confusion among the very consumers that 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 perverse 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 the organization from much of the co-op community, including Equal Exchange and most US food co-ops. It is not yet clear what the long-term implications of this rift will be. One thing is clear, however: These dueling certification criteria have created uncertainty among consumers regarding what fair trade means and doesn't mean, and, thus, the value of fair trade certification has been diminished in the United States.



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

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 in how they define these criteria – for example, the definition of "local" might be items produced or processed "within 50 miles" in one store and "within 100 miles" in another store.

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

- Two out 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 – for example related to the environment or health – in the definition of a P6 product, although again, 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 creating a cohesive set of criteria that helps consumers select “good” products.

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

Case Study Five. The Development of Export-Oriented Producer Co-ops in Indonesia and East Timor

The longest lasting international cooperative development project in the world is occurring in Indonesia and East Timor. NCBA/CLUSA began working in Indonesia in 1977. Thirty-six years later, it is still there and in East Timor, which became independent from Indonesia in 2002, carrying 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 entity with about 30,000 members, and “the largest single-source supplier of certified organic coffee in the world.”⁴⁰

One of the things that has characterized CLUSA's success in developing export-oriented cooperatives in Indonesia and East Timor is its demand-driven strategy. 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 in country, 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 was originally 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 horizon of 3 to 5 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 co-ops of smallholder farmers 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

This chapter presents three recommendations based on the findings in Chapters One and Two.

Recommendation One. *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 (for example, by 50%) 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; and yet, 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 doubling the value of co-op to co-op food purchases as presented in Recommendation One:

- The management and boards of directors of retail cooperatives can establish measurable objectives and implementation strategies related to the purchasing of food and other products produced by smallholder agricultural co-ops.
- The cooperative community can develop and utilize a **COOP+COOP** 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 is important to recognize that most such 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 Two. In order to facilitate the increase in co-op to co-op trade proposed in Recommendation One, 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.

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 related to this recommendation 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 Three. 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 that 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-co-operative business initiative.

Conclusion

The primary conclusion of this paper is that 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 UK, 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 benefiting the bottom lines of the consumer co-ops that purchase their products.

Another important conclusion is that 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 The cover photo collage shows a non-GMO soybean field in Mozambique, an organic coffee plant with an insect trap in Angola, a photo from a fair trade event at Seward Co-op in the United States, and a display 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/>. He Note that 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

¹⁴ See endnotes 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))

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- 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 out 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](http://www.wholefoodsmarket.com/sites/default/files/media/Global/Company%20Info/PDFs/2012-WFM%20Annual%20Report.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 This comment was 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.