GROWING THE SIZE OF THE AGRICULTURAL CO-OPERATIVE SECTOR

Recommendations to the Mutual and Co-operative Sector Business Council from Bas Padberg, Arla Foods, and Rose Marley, Co-operatives UK

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CO-OPERATIVES UK

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INTRODUCTION

Collaboration and co-operation in the rural economy is commonplace. Buyers' groups and shared arrangements when it comes to marketing and selling all exist alongside formal co-operatives to support farmers and promote fairness.

Co-operatives UK has reported that farmer co-operatives are the second largest part of the co-operative sector, making a GVA contribution of just under £10bn each year.[i]

Despite this positive picture the opportunity for further growth is significant. As the data we set out below shows, the UK lags significantly behind other countries in terms of the proportion of the agrifood sector that involves co-operatives. Closing this gap would go a long way towards meeting the Government's manifesto pledge to double the size of the co-operative, mutual and employee-owned sector while also making a major contribution to the UK's food security.

This document briefly describes the benefits of agricultural co-operation before setting out a number of proposals aimed at promoting growth in the sector. We hope that it provides valuable input to the work of the Mutual and Co-operative Sector Business Council, and ultimately shapes policy in this important area.

THE CASE FOR GROWING THE AGRICULTURAL CO-OPERATIVE SECTOR

Current position

Collaboration and co-operation between farmers takes many forms. There are some very large formal co-operatives: Arla Foods processes and markets the milk of its 1,900 dairy farmer members in the UK, while Anglia Farmers (AF) helps its 2,800 shareholder members secure the best price for more than 100,000 products from 1,400 different suppliers. The NFU told us there are more than 10 sizeable co-operatives in the arable sector. Many other co-operatives are much smaller and very local. And in addition, there are producer organisations as well as buyer groups and other structures all aimed at supporting farmers.

Partly as a result of this diversity, data about the true extent of co-operation in the agricultural sector is incomplete and hard to come by. However, research undertaken by Co-operatives UK for this report, using figures reported annually to Financial Conduct Authority, reveals that there are 526 co-operatives with a total turnover of £9.13 billion. In 2024 the figures were similar: 482 co-operatives with a turnover of £9.7 billion and 235,933 memberships.[ii]

Co-operatives UK's figures suggest that farmer co-operation grew significantly after 2019, with a 25% increase in total turnover and an 11% increase in the number of memberships over the next five years.[iii] However, there is considerable space for further growth: according to the Government, the total Gross Value Added (GVA) for the whole of the agri-food sector in 2022 was £146.7 billion, or 6.5% of the national GVA. That means that even if major elements such as the Co-op Group's food business is added to the figures for agricultural co-ops less than a tenth of turnover in relevant sectors is associated with co-operatives, compared with 68% in the Netherlands, 55% in France, 45% in Spain and 17% in Germany.[iv]

Moreover, these headline figures hide differences across the UK. For example, SAOS told us that 35-40% of all agricultural activity in Scotland is carried out by co-operatives (£1.5bn out of a total of around £3.6bn). There would be merit in focusing attention on those parts of the country that have fallen behind.

There are also significant variations between sectors too. The figures are inexact, but an analysis of the Co-operatives UK figures involving the 50 largest co-operatives by turnover (comprising 97% of the total) suggests that more than half of dairy production involves co-operatives, compared to between 10 and 15 percent of arable farming, and what appears to be significantly less than a tenth of the total when it comes to livestock farming and horticulture. Increasing the involvement of co-operatives in these areas would have a big impact.

The benefits of co-operation

The potential of co-operative business is embedded in the Government's manifesto commitment to double the size of the co-operative sector.[v] This pledge recognises that to do so will improve fairness, build resilience of businesses and communities, aid the adoption of new technologies, and raise productivity and profitability levels – therefore significantly enhancing UK food security. This is just as true in farming as much as it is in other industries. [vi] [vii] [viii]

The most obvious benefits for farmers are financial. Farmers generally lack clout in negotiations because they comprise a large number of mainly small businesses, while their suppliers and customers, both processors and retailers, are fewer and larger. Working together increases the ability of farmers to negotiate on a more equal footing; co-operation brings greater fairness to the market.

To illustrate this point, it is worth noting that the dairy farmers who own Arla Foods, the largest agricultural co-operative, until recently were receiving around 51% of the retail price of a litre of semi-skimmed milk whereas those supplying the non-co-operatives secure 43%, and often much less. Farmers who are part of the AF co-operative typically save around 7% on their electricity bills; 8% on crop protection; 5% on fuels; and 7% on fertiliser. For building materials and veterinary medicines the savings can be even greater still, at around 30% compared to trade costs.

There are other ways in which co-operation can secure higher incomes or lower costs. Camgrain offers a range of services to its arable farmer members that help to raise the quality of their products, offer greater convenience and lower costs.

For example, Camgrain has very large and cost-effective grain driers that allow harvesting to take place in a wider range of circumstances. It is able to blend and store grains, meaning that customers benefit from more consistent quality and year-round supply, smoothing out the income paid to farmers and removing headaches in the milling process. And its colour sorters help to identify and remove ergot and improve the purity of grains at much lower cost: its prices for colour sorting a tonne of grain start from around £4 per tonne compared to an equivalent price of approximately £25 per tonne at one prominent commercial provider.

The UK Fruit and Vegetable Association (UKFVA) told us about another example of the success of collaboration and co-operation. In the horticulture sector, channelling the EU Fruit and Vegetables Aid Scheme through producer organisations (POs) has accelerated innovation, sustainability, and collaboration. With PO operational programme funding, growers have been able to invest collectively in protected cropping, table-top systems, advanced irrigation, robotics, and genetic research; these cutting-edge technologies would otherwise have been unaffordable to individual businesses.

These investments have underpinned a tenfold increase in production volumes over 27 years. They have driven yields of strawberries from 14 to 45 tonnes per hectare and increased Class 1 fruit output from 60% to almost 100%, while also extending the growing season, improving quality, and enhancing environmental performance. These are outcomes that would either not have been achieved, or would have taken significantly longer to achieve, without successful co-operation, supported by the proactive FVAS. This co-operative support structure delivers on productivity, allows smaller businesses to remain viable, and strengthens British food security.

These are not the only models of co-operation and collaboration in the agricultural sector. Other examples exist in very specialist areas, such as co-operatives that exist to help their members make applications under the various agricultural support schemes operated by government. In short, there is a huge array of ways in which working together benefits farmers.

Another element that should not be overlooked is the amount of time that can be saved as a result of being in a co-operative. AF told us about one if its members, a dairy farmer in Wales, who saves around a day a month in admin simply because being part of the co-operative means that he doesn't have to shop around for the best price for the inputs he needs. Another case study is Mee Farmers, which estimates that its membership of AF reduces the time taken to find the materials and fuels needed to grow its blueberries and other crops by 30 hours per month.[ix]

One final element is the psychological benefit and increased confidence many farmers say that they feel as a result of being part of a co-operative. This is obviously closely related to the financial stability of being part of the broader structure, and the time saved and reduced frustration associated with membership. But it is also linked to having a stake and a voice in the wider entity.

In short, the case for expanding the size and influence of the agricultural co-operative sector is ironclad. To do so would help farmers receive a better price for their products, pay fairer costs for their inputs, and save them time and effort, while also supporting innovation and the spread of best practice. The consequences are significant, whether in terms of paving the way for more sustainable farming or improving the resilience of UK farms, improving our national food security.

The question, therefore, is not whether we should aim to increase the number of agricultural co-operatives, but how we should do so.

PROPOSALS FOR GROWING THE SIZE OF THE AGRICULTURAL CO-OPERATIVES SECTOR

Better data

Although we have used the best information we could find in drawing up this report, it is widely accepted that the quality of data available about co-operatives including producer organisations, buyer groups and other collaborative structures in the farming sector is poor.

> We urge the Government to work with the industry and potentially with academics to develop a much clearer picture of the number, type and impact of co-operative organisations in agriculture.

Removing barriers to finance for growing co-operatives

The nature of co-operatives means that they do not have access to equity finance in the same way as investor-controlled businesses. This inability to access 'patient' external capital puts them at a disadvantage. Although this point affects all co-operatives, not just those in the agricultural sector, it is an important inhibitor of the growth of farming co-operatives operating in increasingly capital-intensive sectors.

One solution is likely to emerge from the current work of the Law Commission on a new legal framework for co-operatives[x] which should make it possible to issue 'non-voting shares' to external investors.

> It is important for all co-operatives, including those in farming and food, that this happens as quickly as possible.

Other options to help in this area could include instructing the British Business Bank to develop debt, guarantee and equity schemes that cater to growing co-operatives, crowding in private investment in the process. Also, there is the possibility of specialist financing intermediaries developing ways to for co-operatives access capital markets.

These are areas where encouragement from the government would have a significant impact; we hope that Ministers will take all possible steps to bring patient capital into co-operatives.

Financial support

As we have mentioned, there have been schemes in the UK explicitly intended to promote co-operation and collaboration, including the Fruit and Vegetables Aid Scheme (FVAS). The FVAS closes on 31 December 2025, and we are advised that around half of the currently registered producer organisations will not continue after that date.

We urge government to continue its support for producer organisations in the fruit and vegetables sector after the end of this year.

We would also welcome thinking from Defra about other ways in which farm support schemes such as the Sustainable Farming Incentive (SFI) and perhaps particularly Countryside Stewardship can be re-designed to promote further co-operation in areas such as raising productivity, adoption of innovative technologies, investment, managing volatility, emissions reductions and nature protection.

The Environmental Land Management Schemes (ELMS) already encourages collaboration between farmers in areas such as landscape recovery. We believe this approach should be expanded to include further support for formal co-operative structures to improve productivity, spur innovation and cut costs.

Similarly, funding for innovation from bodies such as Innovate UK could be aimed at co-operatives rather than individual farm businesses. This will allow a greater range of opportunities across a more diverse array of businesses to be explored via a single grant, ultimately leading to better outcomes.

The public sector is an important customer for the agricultural sector, for example in providing meals in schools, prisons, military bases, hospitals and other settings. If this spending power could be harnessed to promote co-operatives it could have a very significant impact on promoting such structures within farming; this may also contribute to other policy goals such as buying locally or sustainably.

We therefore back calls for a large procuring bodies to be required to set targets for buying products from co-operatives, just as has been proposed for SMEs and Voluntary, Community, and Social Enterprises (VCSE), and to report progress against them.

Education and encouragement

Another way to support the growth of co-operatives would be to further educate farmers about their benefits. This might include working with agricultural colleges to ensure that as part of their curriculum they teach students about the merits of co-operatives and how to form them. Organisations like NFU Mutual could also play a role by providing information about the benefits of co-operation to their members, helping to promote greater resilience and the adoption of innovative technologies that might bring benefits for them as an insurer.

We urge the whole farming community to commit to promoting co-operation at all levels to improve the financial resilience of farms.

In Scotland, SAOS is calling for an Agricultural Co-operation Advisory Service. This would "support the effective running of co-operative businesses to maximise their benefits and extend these across their wider membership"; specifically, it would be tasked with raising awareness; support the establishment of new co-ops; help with the resilience of established co-ops; and encourage the sharing best practice between co-operatives. The request SAOS has made is for a proportion of the existing Farm Advisory Service to be reallocated to this purpose.

We support calls for an Agricultural Co-operation Advisory Service in Scotland and believe that this concept should be expanded across the whole of the UK.

There may well be a part to play for Agriculture and Horticulture Development Board (AHDB) in this area. Its Framework Document requires it to promote efficiency and productivity, as well as greater resilience, in farming.[xi] To that end the AHDB website already provides information about co-operatives and other collaborative structures. But the organisation could be more active in encouraging and supporting the growth of co-operatives as a key means to achieve its objectives, perhaps taking on the role envisaged by SAOS.

We invite the AHDB to make a more explicit commitment to supporting agricultural co-operatives; potentially it could become the Agricultural Co-operation Advisory Service envisaged by SAOS.

Defra can also help by playing a coordinating role, encouraging the sharing of best practice between farmers and agricultural businesses. A simple step would see Ministers speaking more frequently about the benefits of co-operation and collaboration.

We look forward to Defra Ministers embracing their vital role in delivering the Government's manifesto commitment to expand the size of the co-operative sector.

There are a range of ‘softer’ measures that could be taken to promote agricultural co-operatives. For example, Ministers could work with retailers and the wider food industry on plans to promote the co-operative sector, for example by developing a standardised on-pack logo for co-operative-produced goods.

We call on Ministers urgently to convene a pan-industry summit to develop ways to back co-operative food and farming.

Fair Dealings Regulations

The Fair Dealing Obligations (Milk) Regulations 2024[xii] explicitly recognise the important role of democratic co-operatives in promoting fairness in the supply chain by exempting them from some requirements around pricing. This sends an important signal to the market about the importance of co-operation and should encourage the growth of producer organisations and co-operatives more generally.

However, the Fair Dealing Obligations (Pigs) Regulations 2025 omitted this recognition of co-operatives. This is a major missed opportunity.

Future versions of the Regulations aimed at other market segments should reinstate provisions related to co-operatives and, in our view, the Pigs Regulations should be amended to bring them into line. Even if this has a limited practical impact in the short-term it would be an important statement of intent from the Government.

In addition, the Agricultural Supply Chain Adjudicator should be given an explicit instruction to do all they can to promote co-operatives as a key mechanism to ensure that markets operate fairly.

Other legislative measures

There is anecdotal evidence that some farmers seeking to form co-operatives face actions from processors or middlemen aimed at undermining, discouraging or intimidating them. Reports of threats to 'break' farmers if they form a co-operative or producer organisation are not common but they are persistent.

It would send a powerful signal to the sector if the Government made clear that actions to block the formation of co-operatives are illegal, passing new legislation if required.

Conversely, there are suggestions that competition law is inhibiting farmers who wish to form a co-operative, specifically a requirement in Schedule 2 of the Agriculture Act 2020[xiii] that groups have to register as a producer organisation before securing the necessary exemptions from competition rules.

At best, this is messy and unclear; it would be helpful for government to clarify the Agriculture Act in a way that facilitates efforts to form new co-operative enterprises.

Section 3 of the Agriculture and Rural Communities (Scotland) Act 2024 requires Scottish Ministers to have regard to a range of matters in drawing up a rural support plan under the Act, including "the benefits of a diverse and resilient agricultural sector including... agricultural co-operative societies".[xiv]

In addition to looking forward to seeing what proposals from the Scottish Government brings forward under the Act, we would welcome a similar requirement in England and Wales, perhaps introduced by an amendment to the Agriculture Act 2020.

CONCLUSION

The benefits of co-operation in agriculture and horticulture are clear in terms of increasing productivity, driving innovation, improving financial resilience, and raising sustainability levels, and improving financial resilience. We therefore strongly urge the government and the industry to adopt the measures we have proposed to increase the size of the agricultural co-operative sector.

Finally, we are grateful for the opportunity to consult experts within Anglia Farmers Group (AF), Arla Foods, Camgrain, Co-op Group, Co-operatives UK, the National Farmers Union (NFU), NFU Mutual, Royal London, and the Scottish Agricultural Organisation Society (SAOS) in drawing up this report. However, the recommendations we have made are the sole responsibility of the authors.

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