



New industry targets – farmer co-ops a route to confidence and growth

An ambitious new industry growth target was announced in September by Scotland Food & Drink and, according to SAOS, Scotland's farmer co-ops and producer groups will be key contributors towards achieving the new target. The industry turnover target for 2017 is £16.5 billion, the original target of £12.5 billion having been passed in 2011 according to statistics for that year.

This new industry growth target, which includes agriculture's turnover, will be considered challenging by many farmers following several years of volatile input and output prices, more extreme weather events, the credit squeeze, and impending CAP reform. A pertinent question is how to return farming to growth to produce the raw materials required by Scotland's food and drink manufacturers as they expand and secure new UK and export customers. SAOS Chief Executive, James Graham, is one of a senior industry group that is addressing this question within Scotland Food & Drink.

James comments: "We're well aware that confidence is the critical factor in determining whether any farming business is willing to invest more and take on more risk to increase output, and confidence to expand has taken a knock in recent years. First and foremost that there must be clear evidence of strong market opportunities to provide a rationale for growth. That requires information and insight about market developments to be available to farmers, and channels through which farmers can participate in the market, trusting that they will receive a fair return. Once there is confidence, the commercial nuts and bolts of supplying have to be answered; what is the market specification required and how will it be efficiently produced, what investment is required both on farm and along the supply chain and where will the finance come from, how do farmers get a fair price and manage both volatility and unforeseen events?"

Pointing to co-ops as a solution, James adds: "The fact is that our successful co-ops already address all these needs. Farmers are engaged in the market in their co-ops, and are collectively market-responsive through them. In their co-ops, farmers create the scale and supply programmes required to satisfy and supply retailers and food and drink manufacturers efficiently, they act exclusively for their farmer members with no external shareholders. In addition, they can pool investment across large groups of farmers and secure additional finance and thereby build systems that enhance the resilience of their members' farms and their rural communities. Whilst co-operation clearly cannot defy market gravity, it does provide farmers with an effective strategy to manage both the opportunities and risks in today's commercial environment."

James concludes: "We are discussing the opportunities for co-ops and producer groups with our members and others in the context of the new industry targets and the requirement for growth in farming. It's a topic we intend to address fully at our conference in January 2014. The development and expansion of co-operation is assisted by programmes and services available through SAOS' expert team, and supported by Scotland Food & Drink, the Scottish Government and others."



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Survey highlights “game-changing moment” for food and drink industry

A third of the food and drink businesses responding to a recent Bank of Scotland survey predicted double digit growth on the back of new export markets and new product investments. The survey of more than 100 companies conducted over the summer and published in early September, reinforces results indicating that the industry is exceeding growth targets. Two-thirds of the companies surveyed expect to increase their workforce in the next five years, adding about 1,000 new jobs which, if replicated across the food and drink industry, could mean more than 5,600 new jobs being created.

According to Alasdair Gardner of Bank of Scotland: “There appears to be an upbeat mood in the sector, with most firms planning ahead for growth and job creation and almost half looking to break into new export markets. It is pleasing to see that fewer firms would consider moving production overseas and also encouraging that more could quickly ramp up production if opportunities arose.”

Reflecting on the survey findings, James Withers of Scotland Food & Drink commented: “In many respects we are at a game-changing moment for Scottish food and drink. Signs that confidence is starting to return to the domestic economy are encouraging but it is the potential for the industry to build on progress to date in overseas markets that holds the most potential. Food and drink exports have already risen by 50% since 2007, increased global awareness of Scottish produce and a growing appetite for high quality food and drink means the potential market is continuing to expand significantly.”

The survey found that the biggest area of concern was the cost and volatility of raw materials, cited by almost two-thirds of respondents amid greater competition for resources and the threat of poor harvests caused by extreme weather. Given continuing anxieties over a number of Eurozone economies and fears of a slowdown in some emerging markets, the health of the global economy was also a key issue.

IPS legal update and governance news

For co-ops registered under Industrial and Provident Societies Acts, it’s quite a challenge to keep up with the various changes that have taken place and are in the pipeline. Here is a quick summary. Please contact SAOS if you want to discuss any of these points in more detail:

- SAOS and Co-operatives UK have new registered Model Rules available for agricultural co-ops that act as agents. These provide for changes to date in co-op law, incorporate some updates in governance practices, provide for electronic communications and meetings, and are written in ‘plain English’. They are available now, but may require further update next year as more changes in law are anticipated.
- The Financial Services Authority no longer exists and the IPS registry function has transferred permanently to the new Financial Conduct Authority. <http://www.fca.org.uk/firms/firm-types/mutual-societies/industrial>
- UK Government is currently preparing a new Co-operatives and Community Benefit Societies Consolidation Bill which it intends to introduce to Parliament “late in 2013”.

Simultaneously, Government is preparing a “commencement order” for the 2010 Co-operative and Community Benefit Societies and Credit Unions Act 2010, which has not yet come into force. A consultation, to which SAOS responded, was published in July 2013 on implementing several aspects of this Act including:

- Withdrawable shares – increasing the maximum individual holding from the current £20k limit. We have proposed £100k

with each co-op determining the individual maximum (up to this limit) in its Rules

- Provisions for co-ops in distress to enter administration, and adaptation of provisions in the Insolvency Act, Insolvency Rules, Insolvency (Scotland) Rules and the Companies Act for this purpose
- Powers for the Registrar to carry out investigations in to the conduct of co-ops through adaptation of certain Companies Act provisions
- Limiting the rights of members to inspect duplicate copies of the membership register where there is cause to believe it is for an improper purpose
- Provisions for submitting documents to the Registry electronically rather than hard copies.

We are producing a new and comprehensive Governance Code for Agricultural Co-ops in partnership with Co-operatives UK. This will be available later in the year. Our objective is to maximise adoption of the code amongst agricultural co-ops and we will be offering a compliance check to provide external reassurance to co-op members. We will hold a promotional launch and there will be guidance available to assist any co-ops who wish to implement the code.

We are reviewing our director development services and the training methods and materials we provide. Jim Booth is visiting the USA in October, as guest of the University of Missouri, for this purpose. The university is a renowned centre for co-op development, Jim will spend time with key staff there and visit several co-ops.

Co-op economy continues to grow

In its annual report on the state of the co-operative sector, Co-operatives UK reports continuing growth amongst co-ops despite the recent travails of The Co-operative Group. Since 2008, the number of co-ops in the UK has increased by 28% from 4,820 to 6,169, and co-op turnover increased over the same period by 23% from £29.8bn to £36.7bn. The number of co-op members increased by 36% from 11.3 million to 15.4 million.

Ed Mayo, CEO of Co-operatives UK, points out: “Co-operative enterprises across the UK represent a home-grown economy, one which is providing enduring solutions to the economic and social challenges of today’s society. The people behind these member-owned businesses are sowing the seeds for long-term strength and resilience.”

James Graham, SAOS, commented: “It’s no surprise to see that the entire co-op business sector is expanding in the current environment, and not just agricultural co-ops as we reported in June. Everyone in business is looking for opportunity, security, transparency, resilience and fairness. These are all enshrined in co-ops.” Agricultural co-ops accounted for 14.6% of turnover in the UK’s co-operative economy, second only to consumer co-ops by sector, and they account for 8% of UK co-op memberships. The throughput of SAOS’ top 20 members increased in 2012 by 10% to £3.01bn. www.uk.coop

Landmark Dairy Review recommends collaboration to become global leader

Scotland's dairy industry has the potential to be a "global leader" and to grow up to 50% by 2025. To achieve this will require a strategy of collaboration amongst key players. That is the vision and ambition presented by the recently published report of the Dairy Review to which SAOS contributed research and recommendations from across the supply chain.

Commenting on the prospects for the sector, James Withers, who led the Review and was author of the final report, said: "I was optimistic about the prospects of Scotland's dairy sector before I started this review, but I am even more so now. I believe by 2025 we will see a transformed industry in this country. It is one which can significantly grow its output - by up to 50 per cent - as a direct result of creating new, added-value markets. Import substitution is an important priority, but the real 'game-changer' will be the development of new export markets. Scotland does not lack the quality of raw materials to achieve this growth; our people, our environment and our raw materials are the envy of most countries".

"A combination of factors presents the dairy industry in Scotland with the opportunity of a generation. The critical players in and around the industry must now come together in partnership to grasp it."

James Withers, author of the Dairy Review report.

Richard Lochhead, Rural Affairs Secretary, said: "It is now important that we look at this report and formulate a plan to help support further growth of Scotland's dairy sector, and I plan to do this in the next few weeks. There is huge potential for Scotland's dairy industry to become a global leader and we should look to explore any avenue and opportunity that is open to us."

James Graham, SAOS Chief Executive, participated fully in the Review. He commented: "The market prospects for dairy are very positive and market development is our only route to growth and value. It's clear that, to achieve "Ambition 2025", we need collaboration in planning, investment and activity, and establishing this must be top priority."

Why collaboration is key – learning lessons from whisky and salmon

The report reflects that two of Scotland's strongest food and drink export sectors – Scotch whisky and salmon – have significant international ownership. However, in both cases a strong brand – built around premium, quality and provenance – has attracted strong support from parent companies willing to invest in commercial opportunities in Scotland. This model of ownership offers equivalent opportunities for Scotland's dairy sector if industry and government move collectively as partners to grasp them.

Scotland's dairy sector now requires a single, unifying growth ambition and new, collective and collaborative, cross-industry leadership. The report recommends that a Scottish Dairy Growth Board should be established to enable a collaborative ambition and plan to be developed. The Board will oversee the development of "Ambition 2025" and its associated action plan. Central to that plan will be the marketing strategy.

The report recommends that Scotland's growing reputation overseas as a 'Land of Food & Drink' must be harnessed and marketing expertise engaged to brand the dairy story and offering from Scotland, in line with the wider 'Scotland, Land of Food & Drink' branding. This marketing plan should also develop the case for joint investment across major dairy companies in a future 'umbrella' brand for Scottish dairy in export markets.

Collaboration amongst farmers

The opportunities provided by new, EU Dairy PO provisions were fully considered in the course of Review, and the current arrangements between farmers and their first customer. The report suggests that a wholesale, single-step move towards developing one or more dairy POs in Scotland is unrealistic and "the jury is out" on the likely effectiveness of such a move. However, developing greater collaborative structures, amongst farmers, amongst processors and between those two links in the chain is essential. The benefit of greater farmer collaboration

will be felt as much by milk processors as by farmers themselves. And, at farm level, the benefits will be less to do with milk price negotiation, but much more to do with transparency, understanding of pressures through the chain, performance improvements and joint business planning.

The report recommends that all farmer producer supplier groups be formalised, with an agreed constitution and structure, over the next three years. It adds that funding should be made available for an 'honest broker' organisation to deliver a programme of engagement with all dairy companies and their producers to highlight the broad, multi-chain benefits of properly constituted producer groups and to co-ordinate their development. Some producer groups may view this as a stepping stone towards the establishment of a formal, legal PO.



Building Resilience - workshops to challenge farm resilience thinking

Risk and uncertainty have always been part of farming however, for various reasons, we have entered a new era of increased volatility, change and risk. Unexpected events and shocks are more common and predicted to increase – we now need to ‘expect the unexpected’! When everything goes to plan we can operate efficiently, but when nature, or market changes, injury, or major breakdowns, throw us a shock, how do we cope?

We often hear farmers say “I can’t continue to operate this way - it’s unsustainable. I need to change, but how?” The logical response is for farmers to look at building resilience as a deliberate strategy.

Having secured funding from Scottish Government, QMS and Scottish Enterprise, SAOS is to deliver 30 farmer workshops on Building Resilience. We are now looking for co-ops to participate in these thought-provoking, stimulating workshops.

Jim Booth, the project leader, commented: “It’s clear that farmers can’t rely on Government to bail them out when things go wrong - we need to take responsibility and think seriously about how we build more resilient farm businesses. Of course one of the best ways is through co-operation.”

“A co-op’s role is to provide benefit for its members and this is a great opportunity to deliver a really challenging workshop for members, making them think about themselves and how they cope with uncertainty and change. Traditionally, individuals see uncertainty, volatility and change as threatening and they scale back operations. We need to challenge this and turn it on its head, encouraging farmers within their co-ops to seek change, respond to it and exploit it as an opportunity.

If you would like further information on our Building Resilience member workshops, please contact Jim Booth: jim.booth@saos.coop or 07738 387306

Woodland news - Ireland fact finding trip

To further their knowledge of the opportunities for woodland owners in Scotland, Fergus Younger and Stephen Young of SAOS took part in an Argyll Farm Woodland Collaboration Project visit to Ireland in August, to investigate how farmers there use collaboration to maximise the financial benefit from their woodland. The project works with a group of farmers in Kintyre who are making use of their farm woodlands and is funded by Forestry Commission Scotland and the Argyll and Isles Leader Programme.

One of the key factors in the growth in forest owners groups in Ireland has been the development of government-funded, Teagasc Forestry Development officers. Their role is to develop and support forest owner groups through technical support advice on things such as grant applications, as well as acting as facilitators to the 26 groups throughout the country. In the past, large grants have been available for planting woodland (435-515Euro/ha for 20 years) however with many of these payments coming to an end, the focus is clearly on commercial returns from the woodland.

The main focus of the trip was the Inishowen Forest Group and the Donegal Woodland Owners Society, but they also visited Glenveagh National Park and a hardwood enthusiast who demonstrated the full potential of hardwood growing on good quality land. As a newly-formed group, the first thing Inishowen has done is prepare an inventory of what woodland there is and what stage it’s at. This process will allow the group to keep costs under control and give accurate forward estimates of the volume of timber available for the group to market.

Stephen commented: “It’s heartening to know that this mirrors the work that SAOS has undertaken with the Kintyre Group and Machinery Rings throughout Scotland to measure the potential of farm woodlands before moving into implementation of woodland management and marketing of timber. The group was investigating the possibility of buying specialist felling machinery together to ensure they have control of the harvesting and can gain maximum value.”

The more-established Donegal Woodland Owners Society sells firewood and logs to a number of buyers however they recently entered into an ESCo (Energy supply Company) supplying heat to a chain of ten retirement homes across the area. To do this, the group had to invest heavily in biomass boilers and undertake to keep these running throughout the year. This gives them control of the supply chain and could drive extra revenue from their woodlands. It will also allow them to compete with larger companies with greater economies of scale in harvesting their timber. The groups also provides new training and valuable employment opportunities in a struggling economy.

The trip highlighted that Ireland and Scotland are very different landscapes when it comes to forestry, with higher levels of government support despite a lower percentage of total area being owned privately. It was plain to see that, through co-operation, woodland owners were able to compete on a level playing field with many bigger organisations. Although these groups are a few steps ahead in terms of development from their counterparts in Scotland, the model can be used to ensure that forestry can become a valuable addition to many farming businesses in Scotland.



Woodland survey and events

Earlier this year, with the help of SAOS, Ringlink Scotland undertook a survey of 300 farmer members, which identified marketable timber with a roadside value of £1.2million. This could provide an income stream for the farmers involved and provide £800,000 of contracting work for the ring of felling and extraction.

Many farmers have never thought of woodland as an asset, and have a limited understanding of the financial potential of harvesting timber,” said Stephen. “We estimate that almost 75% of farm woodlands are unmanaged because of lack of time to carry out woodland management and the bureaucracy involved in securing planting grants and felling licences.”

The latest woodland event in Scotland was at Bamff Estate near Alyth on 18 September 2013. There was an excellent turn out for the day which focussed on the economic benefits of managing small-scale woodland. The day was run by Rural Services and SAOS in conjunction with Perth and Kinross and Angus Councils, Scottish Land and Estates and The Forestry Commission.

Co-op 'Back to Basics' 2 - principles and values

This is the second in our series to remind co-op members, directors, managers, staff about some of the basics that distinguish co-ops from other businesses and address some frequently asked questions on co-operation.

Co-operative business structures are usually the preferred choice of farmers when they wish to work together, because they wish to adopt the following distinct characteristics or principles based on fairness and equitability that are embodied in co-operatives:

1. The primary purpose of a co-operative is to benefit its members through their use of its facilities and services. Return on capital invested in the co-op, although important, is not the main purpose and is not the primary success measure for members. Members measure the effectiveness of their co-op by the profitability of their own businesses, achieved by participation in their co-op.
2. The basis of control in a co-op is not one vote per share purchased. Voting is either one vote per member business, or a variation on this that incorporates some degree of scaled voting related to use of the co-op. The principle governing control is equitability.
3. Investment and benefit in proportion to use is the usual basis of a co-op structure. Those making more use of the co-op contribute more towards the capital requirements. The principle for capital commitment and surplus distribution is equitability.

Co-operative values encompass economic, social and environment concerns. By co-operating, farmers can preserve their independence and grow by securing gains that are not

available if acting independently of each other. Farmer co-operation contributes to community strength and resilience, with benefits for others in rural communities. Efficiencies in farm systems and resource consumption that result from co-operating help to address environmental needs.

International Co-operative Principles

The International Co-operative Alliance (ICA) is the guardian of co-operative principles. It has developed, with its membership, seven co-operative principles that are acknowledged internationally. Find the ICA principles at <http://ica.coop/en/what-co-op/co-operative-identity-values-principles>

What are the key success factors for co-operation?

With their distinct 'primary purpose' of capturing and returning value to members, all members of a co-op share responsibility for creating success. Individual members must recognise they too have responsibilities, there can be no 'free loaders'. In Scotland we have many successful farmer co-ops, some of their common success factors include:

- Commercial success in delivering value and service for members
- High standards of governance, and professional management
- Strategic ambitious leadership with a concern for the future
- Active participation in democracy and accountability resulting in shared goals and united commitment
- Evaluation and communication of the member value proposition.



First projects funded and well underway

The Think Local project was launched last year as a boost to local food, with £2.5 million being made available over three years to support initiatives that put a spotlight on Scotland's outstanding natural produce by:

- Supporting and developing food trails and networks
- Establishing local food and drink events, including farmers' markets, that celebrate and promote food and drink throughout the year.

The Community Food Fund is one area of the project and will see £1.5 million of funding being available to a wide range of projects. The first tranche of funding, totalling over £100k, has been awarded to 18 projects, out of a total of 35 applications in the first batch.

SAOS' role in the project is to deliver a number of strategic outputs with respect to sector development. Douglas Watson, Development Manager, said: "The

Think Local Project and the Community Food Fund offer great opportunities for local and regional food groups across Scotland to enhance the reputation of their area in terms of food and drink. There has already been wide ranging interest in the project from almost every part of Scotland, which clearly reflects the growing importance of local and regional food to both local people and visitors."

Applications for the next tranche of funding must be submitted by 3 Oct 2013.

For more info go to: http://www.sruc.ac.uk/info/120472/community_food_fund

Have you signed up for SAOS ENEWS?

We're currently working on a new SAOS ENEWS email newsletter, which we hope to issue in the next few weeks. This will be a short and concise email which will keep members and interested parties up to date with SAOS and co-op news and information of interest.

Where appropriate, there will be links to longer articles on our website, but what we hope to do wherever possible is give you the story in a nutshell. Some content may overlap with our printed Update but we plan to keep the content fresh and relevant.

We recently sent an email to the co-op members we have addresses for, asking them to opt in to the email list. We've had a truly fabulous response – it's heartening to know that you want to hear from us! However there are many directors of co-ops that we do not have email addresses for, as well as interested parties outwith our co-op members, so if you haven't already heard from us, and you would like to receive our ENEWS newsletter, please let us know by emailing jennifer.grant@saos.coop

Please also follow us on Twitter - @scottish_coops

“Farmers should work together to influence their own destiny”

Sir Jim Paice has been named the new chairman of First Milk. The former England and Wales farm minister will take over from chairman Bill Mustoe at the co-op's AGM on 31 October.

“I feel privileged to be invited to lead the largest dairy business owned by British farmers,” said Sir Jim (pictured right). “Having worked for a farmer-owned business before I became an MP, and from being minister, I have always believed that farmers should work together to influence their own destiny. The dairy sector has gone through difficult times recently but I have long believed there is a good future for British dairy farmers and I look forward to helping to achieve it.”

Current chairman, Bill Mustoe, said Sir Jim brought considerable knowledge and experience of both the domestic and international dairy markets to the job, commenting: “We are delighted to have recruited Jim and I am convinced that he will bring valuable skills to First Milk. “From our meetings with him, he has demonstrated a detailed understanding of the dairy sector, very strong communication skills and a considerable network of contacts. Equally importantly for our farmer members, Jim has a deep understanding and empathy for farming.

“He has been a champion for farmers at Westminster for more than 25 years and we now look forward to him being a champion for First Milk farmers,” he added.

In March this year, Sir Jim announced he would be stepping down as Conservative MP for South East Cambridgeshire in 2015, after 28 years in the role. During his time in office as farm minister, he was instrumental in the development of the dairy voluntary code of practice and famously said he would “bang heads together” to find a solution to the SOS Dairy campaign last year.

Joining Sir Jim on the farmer board are three new farmer directors: Jim Baird, Willie Campbell and Wendy Radley. They will replace Tom Campbell, Mark James, Hugh Parker and Simon Weaver as farmer directors. First Milk is reducing the number of farmer directors on the board from six to five.



Scotland heads table for pride in local food

Scotland is not only the region proudest of its local produce, but is also the region most respected by others in the UK, according to new research conducted for Co-operatives Fortnight in the summer.

The research, sponsored by East of England Co-operative Society, asked a sample of over 2,000 people to name the region of the UK they believe produces the finest quality, speciality food. Every region of the UK voted for its own producers as being the country's finest, showing the considerable passion for local specialties.

However, Scotland was the nation where the highest percentage of the population felt they were number one. It was also the first choice for the rest of the UK, once their own region's results were excluded.

Spearheading the reputation of Scottish food is haggis, with just under a quarter of Scots (24%) naming this as their favourite regional speciality. This was followed by Scottish Salmon (13%) and Aberdeen Angus Beef (8%).

Co-operatives UK commissioned the research to highlight the nation's appetite for local food. Co-operatives UK represents over 6,169 organisations, many in the food sector and believes more should be done to help bring local specialties to a wider audience.

James Graham of SAOS commented: “There is enormous passion and pride amongst Scotland's food and drink producers, which is most evident when it comes to local and artisan products. Distinctive taste and quality, combined with integrity and assurance are the values they strive for. The survey results prove that this is popular with consumers and is paying off for producers as Scotland's food and drink exports have soared in recent years. Co-ops play a key role in the food and drink industry and its supply chains – I am sure co-op values that begin at the farm are an important factor.”



EoSf open for business

The new facilities at East of Scotland Farmers were officially opened by Cabinet Secretary for Finance, Employment and Sustainable Growth, John Swinney MSP, at the start of August.

EoSf Chairman, George McLaren, welcomed a large crowd to the event, this included representatives from Scottish Government, Perth & Kinross Council and Royal Bank of Scotland, who jointly provided the majority of the funding for the £3.5m development, as well as members and customers of the co-op.

The project received a 30% contribution to costs from the Food Processing Marketing and Co-operation Grant fund. This scheme is part of the Scottish Rural Development Programme which is co-financed by both European and domestic funds. In his speech, John Swinney remarked: “the East of Scotland Farmers’

project is a perfect example of private organisations bringing together public money with funding from different areas to help advance their business.” He also noted that local contractors had been involved wherever possible within the development and that the whole project had a “strong economic footprint locally”.

Those attending the event were provided with a delicious hog roast lunch and tours of the new facilities – some of which were conducted by the contractors who built the facilities.

The new facilities will allow the co-op to develop in three main ways: to allow business growth; to improve service for both members and customers; and also to improve efficiency. As George McLaren commented: “This investment takes East of Scotland Farmers Ltd forward and ensures that we can continue to meet the needs of our farmer members and our grain customers for decades to come.”

General Manager, Robin Barron, added his thanks to all those involved at various stages in the project, as well as their customers new and old, many of whom were represented in the audience. However he reserved particular thanks for “our membership base of local farmers - many of you are here today to see the investment that has been made in your business. We – the Board and management of your co-op - thank you for continued commitment, something that is hugely appreciated but never taken for granted.”