

Wine Cooperatives in Germany

Subjects: Agricultural Economics & Policy

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According to the German cooperative law, cooperatives are defined as “associations of a non-closed number of members whose purpose is to promote their members’ income and business or their social or cultural interests through joint business operations” (GenG §1). In Germany, the following actors can become members of a cooperative: physical persons, commercial partnerships (in German: Personengesellschaften des Handelsrechts), legal entities under private and public law. Cooperatives represent a horizontal cooperation among producers.

Keywords: cooperative values ; sustainability ; wine cooperatives ; Germany

1. Character and Basic Principles of Cooperatives

According to the German cooperative law, cooperatives are defined as “associations of a non-closed number of members whose purpose is to promote their members’ income and business or their social or cultural interests through joint business operations” (GenG §1) ^[1]. In Germany, the following actors can become members of a cooperative: physical persons, commercial partnerships (in German: Personengesellschaften des Handelsrechts), legal entities under private and public law. Cooperatives represent a horizontal cooperation among producers.

The International Co-operative Alliance (ICA) describes a cooperative as an “autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise.” ^[2]. Moreover, it is specified that “[c]ooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.” ^[2]. Based on principles such as fairness, equality and social justice, cooperatives allow people to work together in voluntarily formed collaborations to create sustainable enterprises that create long-lasting jobs and welfare ^[3]. The ICA also highlights what the cooperative model means in the context of the seventeen Sustainable Development Goals (SDGs) as part of the *2030 Agenda for Sustainable Development* in 2015, which was approved by world leaders during the United Nations General Assembly. One example is “Combating climate change: Co-operative enterprises have a unique member-owned model that allows them to make long-term commitments to fighting against climate change and its impacts. Co-operatives put people at the heart of their action, which fosters the buy-in for the personal sacrifices that climate change will require. This results in sustainable natural resource management and active engagement in sustainable energy options.” ^[4]. This shows that cooperatives are also associated with the value sustainability.

Moreover, Ringle ^[5] (p. 28) explains sustainability as “value of cooperatives” and defines sustainability in cooperatives with the following characteristics:

- (1) Association for the long term (long-term form of cooperation; long-term survival of many cooperatives; integration in a vertical network).
- (2) Permanence in the internal structure (dual nature: association of persons and joint enterprise; democratic character; permanently available equity capital shares).
- (3) Long-term membership (cooperative cannot be constituted without membership; embodiment of a stable partnership between member and cooperative).
- (4) Permanent task to promote the members’ businesses (legally manifested business goal; time-independent corporate purpose and collective promotion mandate).
- (5) Stable value framework (largely consistent value system based on the general cooperative basic idea; essential principles as “cultural core” and at the same time “organisational regulations”).

Cooperative enterprises face cooperative-specific challenges. One of them is the double principal–agent problem, which arises from the internal structure of the cooperative. There is a double distribution of roles: Cooperative members and members of the boards are principals and agents at the same time ^{[6][7][8]}. This is also important when it comes to distribution rights. Five cooperative specific problems identified by Cook ^[9] are: (1) the free-rider problem (based on

information asymmetries); (2) the horizon problem (this means that cooperative members often have a high interest in rather short-term objectives ^[9]. This is especially true for older members who feel that they will no longer benefit from the planned investment because the return on investment takes so long and will only occur in a few years when they may no longer be alive ^[9]. Age differences among members strongly contribute to this problem ^{[10][11]}); (3) the portfolio problem; (4) the control problem (adverse selection, opportunistic behaviour, high agency costs); and (5) the influence cost problem (due to different members interests). Ringle ^[12] identified two further problems: (6) the transaction cost problems and (7) the identification problem. Members and the management often have manifold interests and follow different approaches to realise cooperatives' goals. This may lead to conflicts ^[13]. Member heterogeneity even increases all above-mentioned problems ^[14].

2. Overview on Wine Cooperatives in Germany

Wine cooperatives have a rich tradition. In Germany, the very first one was founded in 1868 in the Ahr wine region, and in the following years, further cooperatives were formed in various wine-growing regions ^[15]. Originally, this form of enterprise was a way for the small and smallest grape producers to join their forces in order to process grapes and market wine together. This is still valid today. Cooperatives are highly important for most small-scale grape producers, as wine production and marketing would not be possible without pooling resources and sharing costs ^[16]. Cooperatives play an important role in rural areas with regard to social aspects and contribute to agricultural (rural) value creation. They are not only an opportunity to secure income for small producers, but also provide employment for people from the surrounding area. Small producers are the ones most affected by structural change ^[17]. Thus, cooperatives are still important for the small and smallest producers in order to be able to survive in this competitive market.

In recent decades, there has been a decline in the total number of wine cooperatives, cooperative members and the area under vines cultivated by cooperatives. For example, the number of cooperatives in Germany has fallen from about 264 in 2000 to 160 cooperatives in 2018 ^{[18][19]}. Mergers occur frequently as cooperatives try to improve their economic situation by creating synergies and reducing costs. In 2018, the German cooperative sector was divided into 71 dry and 89 wet cooperatives, including two 'central', secondary cooperatives (so-called 'dry' cooperatives do not possess their own vinification facilities, whereas others ('wet') own vinification facilities and are able to process their own grapes to produce wine) ^[19]. Nowadays, there are approximately 36,900 grape growers which are cooperative members ^[20]. The area under vines cultivated decreased from more than one third of the German vineyard area (about 37,000 hectares in 1990/1991) to approximately a quarter (25,200 hectares in 2018) ^{[18][19][20][21]}. Despite the decline and overall decreasing tendency, wine cooperatives are still an important player in the German wine industry. Most cooperatives are located in Baden, Württemberg and Palatinate ^[18].

Wine cooperatives are, according to their statutes, self-help organisations for grape producers. As stated in the German cooperative law (GenG §1) ^[1], the main objective is to contribute to the improvement of the economic situation of the cooperative member businesses. The profitability and sustainability of the members should be enhanced by providing them with maximum high payouts ^{[13][14]}.

The principles of (wine) cooperatives, as well as the internal structure and resulting problems, often lead to a strong member orientation ^[22]. Furthermore, cooperative members are of different sizes, some are full-time, others are part-time grape growers; moreover, the business aim of the members can differ widely ^[11]. Furthermore, in regard to their planning horizons and risk preferences, members often differ from each other ^[16]. The organisational form and member heterogeneity contribute to a slow decision-making process, as it can be challenging to combine the different members' preferences ^[16]. However, the main objective of all grape growers is to market their grapes successfully ^[11].

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