

Scottish Parliament, Cross Party Group on Co-operatives

Tuesday 23 February 2016, Committee Room 6, 6pm.

CPG Meeting on Co-operation in Finland

1. Attendance

Convener: Willie Coffey MSP

Secretary: James Proctor, Co-operatives UK

Speakers: Kari Huhtala (Pellervo) & Martin Meteyard (Co-operative Business Consultants)

Attendance: 55 people were in attendance.

Apologies

MSP: James Kelly, John Scott and Jim Hume

2. Minutes of the previous meeting on 25 June 2015 were agreed.
3. News and Updates from Co-operative Sector
 - a. Economy, Energy and Tourism Committee – submissions had been made to the committee's short enquiry into alternative business models.
 - b. Legislation – The Community Empowerment Act has been passed and the Land Reform Bill is likely to be passed before the end of this parliament session. Both Acts have opportunities and implications for co-ops and community benefit societies.
 - c. Co-operatives Fortnight will take place from 18 June to 2 July & Co-op Congress will be held over the 17th and 18th June in Wakefield.
4. **Presentation – Co-operation in Finland**

Kari Huhtala, Director of Co-operation, Pellervo Society, Finland

Kari opened his presentation by stating he was brought up 500km north of Helsinki. His father was a member of four co-operatives but this wasn't something unusual, it was just how things were in that community. So co-operatives weren't viewed as an alternative business model they were simply a core part of how business and the community operated.

Finland has a population of 5.5 million, around the same as Scotland but it covers a far greater land area (over 338,000 km²) of which 10% is water and 69% forest. The capital, Helsinki, is home to around 630,000 people.

Finland has only been independent since 1917 and therefore has a complicated history. 89% of the population speak Finnish and 5% speak Swedish. GDP per capita is around \$41,000, higher than the UK and Scotland. Public services make up 28.5% of industrial activity. There are concerns over private companies cherry-picking the most profitable parts of public services.

Pellervo is a confederation of Finnish co-operatives. It was founded in 1899 and represents 265 members. It has a staff of 18.

Historically co-operation has been linked to the struggle for independence. Finland was an autonomous country within the Russian empire with its own language, laws, currency and administration but people saw that for Finland to be independent the people had to be united.

In 1900 90% of the population were bound to agriculture and poverty was extensive. Feudalism and serfdom didn't exist but tenant farmers were at a disadvantage to other landowners.

Hannes Gebhard, the 'father of Finnish co-operation' believed, "farmers' co-operation is the rock upon which the major social improvements, and perhaps future nationhood and independence, is possible to build on." Pellervo was established to promote free co-operation in different agricultural sectors and to spread the co-operative idea in general.

Since the 1980's there has been rapid economic and social change with a move to a more open market economy and increased globalisation. There was a deep economic depression in the 1990s and exports to the old Soviet union collapsed. Finland joined the EU in 1995 and the opening of agricultural markets were both an opportunity and a threat to the Finnish way of doing things.

The position of Finnish co-ops has been helped by clear and distinct Co-operatives Acts dating from early 1900s to the present day. The latest version was enacted in 2014. These have been crucial to creating secure foundations on which to develop co-operatives.

Kari took a moment here to outline that co-ops must retain a balance between being a firm and a society. In other words there must be equal emphasis on the business and the members' involvement. The Finnish Co-op Acts helped define this but the balance is the responsibility of the managers and the members of the co-op.

Finnish co-operation has always been pragmatic. In a sparsely populated country it's necessary for people to come together to provide the services they want. Co-ops are all about servicing that need and therefore co-ops are still a modern way to do business.

Government hasn't conferred special status on co-ops but they have supported them by ensuring that things like taxation and general business support don't put co-ops at a disadvantage.

Finland's population is still spread throughout all parts of the country and co-operatives are vital to allowing this thin spread of population whilst retaining the ability to live with modern services that people expect.

Kari went on to outline the size and scale of the Finnish co-operative sector. There are 4,626 co-ops [*Scotland has 567 identified co-ops*] of which 219 are co-operative banks. Many of the co-operatives in the agricultural sector have upwards of 40% market share. Individually 26% of the population are members of three or more co-ops and 84% of Finns are members of a least one co-op.

Kari focussed on three examples

- Metsa Group, a forestry co-op which has 120,000 members, turnover of 5Bn Euros and is one of Europe's largest produce co-operatives.
- Valio Group, a co-op of 8,000 milk producers with 8 regional dairy co-ops. Turnover is over 2Bn Euros, a third of which comes from outside Finland. It has subsidiaries in five countries.

- Meat co-ops – Atria Plc is listed in the stock exchange but controlled by three northern co-ops. It has a turnover of 1.4Bn Euros. HK Scan Plc is controlled by one southern co-op and has a turnover of 1.9Bn Euros. The meat market has internationalised and it can be hard to grow co-ops internationally.

Some of these co-ops use a hybrid model and list on the stock market. This has allowed them access to new capital to fund their expansion and become European players. The control however remains with the co-operative.

Co-operative banks and insurance are strong in Finland and have generally done well despite the international financial crisis since 2008. There are two competing co-op bank groups who have around 1.5 million accounts and 40% of the deposit market. S Bank Ltd, which is owned and operated by consumer co-ops has 2.8% of Finnish deposit accounts. Mutual insurance companies are also strong in Finland.

Consumer co-op S-Group is owned by 20 independent, regional co-operatives. Its market share in daily goods is 44% and has the biggest hotel and restaurant ownership in Finland.

Consumer co-ops have maintained their values and member ownership while consolidating their regional power. They have maintained their independence while using common branding and demonstrated that they are an efficient way to provide service.

Kari then went on to describe the 'New Wave' co-ops that were part of the response to economic depression in the 90's. Unemployment was in excess of 17% so Pellervo created a common project with the Ministry of Labour to increase co-operative entrepreneurship. The programme was a success with hundreds of new co-ops starting in sectors as diverse as energy, creative industries, travel and the service sector.

There has also been a focus on ensuring that students are aware of the co-operative model when thinking about their future career. This is used as a tool for training in entrepreneurship with students forming and running their own co-op. The model has been exported to several other colleges and universities throughout Europe.

Kari came to a close by explaining that the Pellervo Society represents the co-op sector by lobbying for co-ops, developing training programmes and producing publications to help increase the skills of those involved in co-ops and providing development support and advice for the co-op sector.

In summary, Kari then went through the lessons that they had learned in Finland.

- Some co-ops had found a competitive advantage and had thrived through difficult times whereas others had not adapted and went out of business.
- Failures happened for a number of reasons:
 - Some co-ops had no hunger to develop and failed to survive the economic downturn
 - Some were too 'top-driven' by management and pursued the wrong interests with no input from members to provide a balance.
 - Some had a weak financial position and weak governance meant this wasn't addressed.

- In the 1990's co-ops abandoned unnecessary interests and concentrated on being good co-ops.
- Finnish co-ops continue to grow and internationalise but are wary of adopting instruments of 'hard capitalism'.
- Domestic co-op ownership makes a difference – they want to invest in Finland and take decisions that multi-national companies may shy away from, ie investing in rural and low population areas of Finland.

Kari ended the presentation by saying that, "Co-ops provide the means for a new responsible entrepreneurship, new networks and sustainable public service solutions."

Martin Meteyard, Co-operative Business Consultants

Martin explained that he was there to give a short version of the Scottish story of co-operatives and to provide a comparison to the Finnish experience.

Scottish co-ops could trace their history back to the Fenwick Weavers in 1759 and their development mirrored that of the development of modern industrial Scotland. Prior to WWII there were up to 300 local retail co-ops and they were very engaged with members and their communities. By and large members provided the finance for these co-ops.

Post WWII society changed and retail co-ops didn't always respond. Gradually local co-ops merged, often due to financial distress, and local engagement declined. In 1973 the Scottish Co-op Wholesale Society merged with other similar organisations to create the Co-operative Group.

Recently the Co-op Group ran into financial problems and although it is now re-establishing itself there were difficult decisions taken that have seen the Pharmacy and Farm businesses sold off along with a reduced ownership stake in the Co-operative Bank.

Beyond retail there has been great Scottish success in the Credit Union movement, which are essentially financial co-operatives. Worker co-ops continue to provide strong employment and a successful business model. Co-ops in agriculture, football and housing continue to flourish and there is a growing interest from young people in starting co-op enterprises.

Additionally Glasgow and City of Edinburgh Councils have embraced the need for a more co-operative way of working and are part of the UK-wide Co-operative Council Innovation Network.

Martin finished on education noting that, despite the work of the Co-operative Education Trust Scotland, there were few students through secondary and further education who were exposed to co-operative ideas and models. This would inevitably work against the expansion of co-ops if it remains the same.

The Convener, Willie Coffey MSP, thanked Kari and Martin for their contributions and introduced Lesley Riddoch from Nordic Horizons to say a few words.

Lesley spoke of her time living in a housing co-operative and how it didn't seem unusual at the time but given how few housing co-ops exist was actually something special. Lesley then discussed her cycling trip round the Aland Islands in Finland and remarked on how everything seemed to be owned and operated by a co-op.

Finally Lesley discussed how a colleague had discussed forestry co-operatives and how they allowed control of land to be retained by individuals within what was now a global market.

With that the Convener invited a few questions and comments from the audience.

Discussion

Les Huckfield asked Kari whether Finnish co-operatives were still able to thrive given the perceived breakdown in the social democratic consensus in Finland.

Kari explained that the economy was a bigger issue for Finns and that he felt there was still support for co-operative enterprises as a response to global markets.

Lucinda Broadbent said she was heartened by the new wave co-operatives and wondered whether there was an optimum size for these.

Kari replied that these are a long-term project and they needed to be successful enterprises in order to be sustainable. There had been poor leadership in some co-ops during the 90s and this is why some had failed so lessons had to be learned. But it wasn't necessarily size that was the problem.

Martin Meteyard asked how S-Group had managed through the 90s and were still successful.

Kari viewed the success of S-Group was due to hiring a good CEO with a strong co-op vision for the business.

James Graham took the focus on to the agricultural sector and considered how the sector had changed to react to globalisation and fluctuations in global commodity prices in particular. This had created a tension between the global and the local markets. James asked how Finnish co-ops had dealt with this.

Kari agreed that there were similar market challenges in Finland and that it was difficult for some co-ops to internationalise. The growth in producer co-ops was helping this at the European level but co-ops needed to think about how to build a bridge with co-ops in other countries.

Iain Macdonald spoke of how impressed he is that Finnish co-ops contribute around 25% of the country's GNP. He agreed with Kari that co-operation was second nature in Finland and therefore the natural choice – they aren't viewed as an alternative business model, they are often the dominant one. In his view education was the key to this.

Kari suggested that this may be the case but that co-ops still don't get discussed much in Finnish education, although this was changing. Pellervo has worked with universities to correct this.

The Convener brought the discussion to a close and thanked everyone for their informed and valuable contributions.

5. **AOCB** – As this was the last meeting of the group thanks was given to all Co-conveners and the Secretary for their work over the last Parliament and it was hoped that the group will be re-convened after the upcoming election.

6. **Date of Next Meeting**

The next meeting will be held after the Scottish Parliamentary elections on 5 May assuming the group is re-convened.

The Convenor thanked everyone for their attendance and closed the meeting.