

Co-operative Companies

Cooperative Companies play a very important role in New Zealand's primary sector contributing a significant amount to New Zealand's GDP

There are a number of well-known cooperative companies in the primary sector include Silver Fern Farms, Fonterra, Alliance Group, Ravensdown, Farmlands and FMG. In addition to these well-known companies, there are large irrigation companies up and down the country (particularly in the South Island) which are either actual co-operatives or ordinary companies operating on a "cost recovery" cooperative basis.

What is a cooperative company?

There are a number of types of Co-operatives governed by various pieces of legislation, but the most common is a company registered under both the Companies Act 1993 and the Cooperative Companies Act 1996 (**Co-op Act**). Only a cooperative company registered under the Co-op Act can use the name "Cooperative" in the company name or "Co-op" for short.

Many companies with a cooperative philosophy are not cooperatives registered under the Cooperative Companies Act 1996 but instead are ordinary companies only registered under the Companies Act 1993, operating on cooperative principles such as cost recovery. The decision to register under the Co-op Act largely depends on the advantages of going to the next step and becoming a full cooperative.

Requirements of a cooperative company registered under the Cooperative Companies Act 1996?

To qualify as a co-operative company and be registered under the Co-op Act, the principal activity of the company must undertake a "cooperative activity". In short, this means an activity where the company is transacting with its shareholders either by supplying its

shareholders with goods and services, or purchasing goods and services from the shareholders. For example, an irrigation company is providing a service to shareholders through the supply and distribution of water, whereas a meat processing company is purchasing sheep from the farmers and then processing and selling that meat.

For a company to register as a cooperative, no less than 60% of the voting rights of the cooperative company must be held by "transacting shareholders" purchasing or supplying good and services to the Co-op. It is, therefore, possible for a Co-op to be a hybrid made up of transacting shareholders and non-transacting investment shareholders. This, however, is relatively uncommon and can create tension between those shareholders looking for cost-effective goods and services and those shareholders seeking a return on their investment.

The strength of a cooperative is its membership, the greater the number of shareholder members, the greater the number of customers or suppliers transacting the cooperative which increases its financial strength.

Registration of a company as a Co-op can occur on incorporation or an existing company can register as a Co-op. The process under the Co-op requires the adoption of a specialist constitution that complies with the requirements of the Co-op Act.

Key Features and Advantages

Cooperatives often have limited resources or capacity and so if a shareholder is not transacting with a cooperative, the cooperative has the power to require the surrender of that shareholder's shares to allow room for a new member who is wishing to transact. A non transacting shareholder is of limited value to a Co-op and the additional powers under the Co-op Act to regulate shareholder behavior area significant advantage.

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Another key feature of a cooperative is the ability to rebate profits. This is an advantage meaning that the cooperative does not pay tax, however, the rebate is taxable income in the shareholder's hands.

Cooperatives have different formulas for the calculation of rebates which can be calculated based on a through-put or volume basis, or in relation to share capital. The rebates are designed to incentivise the shareholders to transact with the Co-op.

A cooperative also has the power to issue shares at a nominal value as opposed to "fair value", which can be useful when a cooperative is looking to attract new members and issue shares at an attractive price, rather than fair value. It also makes the redemption of the shares affordable for the cooperative.

Want to know more?

If you have any questions, please contact [David Goodman](#).