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COOPERATIVE TRADE STUDY OF CHINA, JAPAN & KOREA

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I. PROLOGUE

This paper discusses the research supported by ICA Regional Office for Asia and the Pacific which planned to carry special study on current situation and prospects of international cooperative trade in Far East Asia, Korea, Japan and China.

Comparative study on three countries is more feasible and more efficient when cooperatives are identical or similar in terms of their type of business than when they are not.

In this regard, this study was made on agricultural cooperatives of three countries, the All China Federation of Supply and Marketing Cooperatives (ACFSMC), the National Federation of Agricultural Cooperative Associations (Zen-noh), and the National Agricultural Cooperative Federation (NACF). The three cooperatives are the most prosperous in business, the most well-organized, and faithful to member farmers benefits among agricultural cooperatives in the three countries.

In chapter 2 of this paper, we will glance over three cooperative profiles. And we will look at the business sectors of which the three cooperatives have in common, and what kinds of transactions are possible through cooperative trade. We expect to find possible fields in which the cooperatives of the three countries can develop trade.

Then, in chapter 3, we will look at subsidiaries of each cooperative to find what business fields and products the three agricultural cooperatives are trading already.

In chapter 4, we will look at the environment surrounding cooperatives and ways towards sustainable development of the cooperatives in the global economy, mainly focusing on trends in digital information and networking. Furthermore, we will discuss how trade among cooperatives should be oriented in global economy.

II. GENERAL BUSINESS OF THREE COOPERATIVES

The cooperative trade can get most of the benefit by practicing the basic principle of “cooperation among cooperatives” in a financial environment where competition with private business sectors is ever increasing. This chapter will give a brief introduction on agricultural cooperatives and their businesses, in China, Japan and Korea. We will focus on business fields in which mutual trade is being undertaken or possible in the future. The extension services and banking and insurance businesses of the NACF, and other businesses performed by the ACFSMC, which are irrelevant to trade, were excluded.

1. National Agricultural Cooperative Federation (NACF) , Korea

The National Agricultural Cooperative Federation (NACF) is the apex organization for 1,366 multipurpose agricultural cooperatives comprised of 2.4 million members in Korea. Established in 1961, the federation aims to raise the living standards of farmers by enhancing their economic, social and cultural status and to ensure the balanced development of the national economy by increasing the competitiveness of Korean agriculture.

Agricultural marketing and banking businesses are the two backbones of the NACF and its member cooperatives' activities. The NACF and its member cooperatives are major players in the marketing of farm products as well as consumer goods both in rural and urban areas today. The NACF and agricultural cooperatives together have the widest on-line banking network, covering all corners of the country and providing services to half the population.

1.1. Agricultural Marketing

Food marketing is one of the major activities of the NACF and its member cooperatives as it is one of the best ways to increase member farmers' incomes. It is also a vital bridge between farmers and consumers.

● Marketing in Urban Areas

To improve the price competitiveness of farm products, the NACF has been actively engaged in developing and promoting various marketing outlets in cities across the nation. As of 2002, the federation was operating 8 Agricultural Marketing Complexes (AMCs) engaged in both wholesale and retail marketing, 13 Agricultural Wholesale Marketing Centers (AWMCs), 33 Hanaro Clubs (large-scale discount stores), and 600 Sintoburi Corners (mini stores in NACF bank branches).

NACF's Marketing Facilities in Urban Areas

Agricultural Marketing Complex	8	wholesale and retail marketing facility
Agricultural Wholesale Marketing Center	13	wholesale marketing facility
Hanaro Club	33	large-scale discount stores
Sintoburi Corner	600	mini store in NACF bank branches

● Digital Agricultural Marketing

The NACF operates the Internet Hanaro Club, the largest cybershopping mall for agricultural products in the country, where consumers can buy 5,000 different agricultural products. The number of members jumped to

240,000 in 2002, from 87,000 in 2001. It recorded USD 59 million in sales, up 63.5% from that of the previous year. NACF's Internet Hanaro Club has become the most competitive and profitable retail channel for farm products in Korea.

● **Marketing Business Turnover**

Sales of agricultural products by the NACF totaled USD 9.6 billion, which is roughly equal to that of the previous year. Specifically, food grain composed 38% of the total. Vegetables ranked second with 28%. Sales of specialty products & others such as ginseng, flowers, and processed goods went up 24% compared to last year.

Business Turnover		
December 31, 2002 (U.S. Dollars in millions)		
Agricultural Marketing	Food grains	3,628
	Fruits	1,678
	Vegetables	2,662
	Livestock	826
	Others	815
Total		9,609

1.2. Food Processing

The NACF and its member cooperatives continue to increase their competitiveness in the processed food sector in both overseas and domestic markets. Throughout Korea 120 processing plants are currently in operation. They produce kimchi, ginseng, meat products, tea, red pepper powder, processed grains, cooking oil, beverages, etc. The major export markets are Japan, the United States, China, the EU, Russia and Indonesia. The exports are mainly kimchi, ginseng, apples, pears, chestnuts and vegetables

- **Nonghyup(NACF) Kimchi**

Nonghyup Kimchi reflects local tastes, as it is produced at local kimchi factories and is made of local vegetables. Today it is appreciated world round. It acquired the ISO 9002 certificate and was chosen as one of the official products in the 1996 Atlanta Olympics, 1998 France World Cup, and 2000 Sydney Olympics, and is served on Air France's in-flight meals.

- **Moguchon - choice brand of processed meats**

NACF' Moguchon produces a variety of pork and its products like ham, sausage, bacon, chicken and its products. Moguchon aims to produce fresh, sanitary and safe food. Three disciplines - no preservatives, no starch, one hundred percent domestic pork - are strictly kept, and the result is high quality products. A continuous succession through production, marketing, and retailing is systemized enough to secure stable consumer demand. Moguchon is recognized to the leader in the clean and fresh livestock food industry in Korea

- **Hansamin – ginseng brand**

Hansamin is NACF's ginseng brand. It is a result of a NACF's comprehensive ginseng project that has built a production basis, supported producers, and transferred technology for organic cultivation. Various Hansamin's products are made of selective and choice Ginseng materials produced by member farmers. Hansamin's medical efficacy is popular both domestically and abroad.

1.3. Farm Input Supply

The NACF's farm input supply business includes fertilizer, feedstuff, pesticides, farm machinery, gasoline, etc. In spite of continued decline in the supply market for agribusiness, total sales volume edged up 2.0% from the previous year and totaled USD 1,434 million in 2002. The volume of fertilizer amounted to USD 634 million, and accounted for approximately

44% of the total sales volume in the NACF's supply business. The sales volume of agricultural chemicals reached USD 228 million last year, accounting for 17.6% of its supply business. The NACF supplied about 2.5 million tonnes of fertilizer and 7,276 tonnes of pesticides annually.

The NACF remains a leader in Korean feed production. It operates eight feed mills and its member livestock cooperatives have run thirteen feed mills. All feed mills have acquired ISO 9002 certification, meeting high quality standards. To enhance feed quality, the NACF operates the Feed Research Institute and the Feed Analysis Center, both of which have expert researchers dedicated to improving quality and developing innovative products. In 2002, the NACF and its member cooperatives produced a total of 4.3 million tonnes, which accounted for a 27.4% share of the Korean feed industry.

Business Turnover

December 31, 2002 (U.S. Dollars in millions)

Farm Input	Fertilizer	634
	Agro-Chemicals	228
	Machinery	102
	Gasoline	70
	Feedstuff	137
	Cars	123
	Agri-Film/Seed/ Others	140
	Total	1,434

1.4. Consumer Goods

The NACF and all member cooperatives operate convenient stores called Hanaro Mart. As of the end of 2002, the number of Hanaro Marts totaled 2,396 with products ranging from fresh produces and food grains to processed foodstuffs, stationery, sanitary goods and so forth, which are essential for everyday life in the local community. The total amount of

commodities supplied by the NACF distribution centers to member cooperatives' marts totaled USD 1,366 million in 2002.

Business Turnover
December 31, 2002 (U.S. Dollars in millions)

Consumer Goods	Food	944
	Clothing	21
	Kitchen utensils	11
	Sanitary goods	251
	Appliances	76
	Others	63
Total		1,366

The NACF is expanding and renovating Hanaro Marts and is focusing on highly computerized system of the Hanaro Mart business, specifically the development of a Supply Chain Management (SCM) system.

2. Zen-noh, Japan

The Zen-noh (National Federation of Agricultural Co-operative Associations) is Japan's federation of agricultural co-operatives, one of the largest in the world. Most of the 4.5 million farm households in Japan belong to one of the Zen-noh's 1,141 primary-level cooperatives.

In cooperation with prefectural federations and primary level cooperatives, the Zen-noh serves its member farmers by purchasing and distributing the materials and equipment for agricultural production and the necessities of daily farm life. It is equally involved in the collection, distribution, and marketing of agricultural products, which it handles through its own channels. The Zen-noh is working vigorously to further develop Japanese agriculture, to improve farm life, and to secure reliable supplies of food for the nation.

2.1. Agricultural Marketing

The Zen-noh and farmers contract farming, which allows farmers to focus more production, rather than marketing. It is developing brands of the member farmers' products for sales promotion.

To provide even safer, more sanitary products for consumers, the Zen-noh was strict regulations throughout the farming process, and tries to promote the production and consumption of environmentally-friendly produce. To ensure stable sales, the Zen-noh is focusing on direct sales of produce to marts, department stores, and the restaurant industry.

The Zen-noh is trying to maintain a sustainable supply, and maximize the consumption of community-unique produce, like domestic soybean, starch, mushrooms, fruit juice, and cocoons. It is also enthusiastic in developing processed foods made from domestic vegetables and fruits.

2.2. Farm Input Supply

The Zen-noh's supply business consists of fertilizers, pesticide, farm machinery, and production facilities. The Zen-noh supplies inputs to farm households on timely basis. The Zen-noh supplies agricultural film products required in seedling and planting as well as for packing materials for produce shipment. The Zen-noh is also making efforts to develop low cost corrugated board and other environmentally-friendly inputs.

The Zen-noh is developing and expanding its supply of low cost farm machinery, and operates parts centers covering the country. The Zen-noh is manufactures equipment as well. For example, it constructs country-elevators, and manufacture equipment for selecting, packing, etc.

In the livestock business, the Zen-noh works to promote the business by developing local livestock business promotion policies or livestock-related

environment policies, which are jointly practiced by the agricultural cooperatives and the government. Concerning feedstuff of which 90% of domestic demand is dependent on imports, the Zen-noh is attempting to secure a stable quantity of feedstuff by using accurate and timely information and by the prompt purchase from overseas affiliated companies.

Livestock marketing is developing high-quality products suited to consumer needs. Marketing promotes local products focusing on locality, side dishes, and processed goods. As for the dairy business, the Zen-noh is focusing its efforts on balancing the supply of raw milk produced by farm households with consumer demand.

2.3. Consumer Goods

The Zen-noh also sells cars, gasoline, and other consumer goods to support life in the rural area. The Zen-noh supplies gasoline and kerosene at gas stations nation-wide, and the propane import-supply system is run independently.

The core of the consumer goods business is the convenient stores called A-Coop. A-Coop handles food and other basic necessities. To cope with increasing competition, the Zen-noh is trying to improve efficiencies by enlarging the A-Coop stores. Also, the Zen-noh is focusing on wholly-owned rather than leased meat stores in the metropolitan area. Furthermore, it is developing new brands for A-Coop items, and 'eco' labeled goods which are environmentally- friendly products.

2.4. Business Turnover

In fiscal year 2001, the Zen-nohs business turnover totaled USD 46 billion. Among the Zen-noh's businesses, the food grain and livestock business had 22% of the total business volume. Horticulture and the farm supply

business followed with 18% and 17% of the total, respectively.

Consumer Goods Dept.	3,132	
Vehicles & Fuel Dept.	4,678	
Farm Input Dept.	6,997	
Livestock Div.	9,211	
Farm produce Dept.	861	
Horticulture Dept.	7,388	
Rice & Wheat Div.	9,268	
Total	41,533	

3. All China Federation of Supply and Marketing Cooperatives (ACFSMC), China

The All China Federation of Supply and Marketing Cooperatives (ACFSMC) is the apex organization of the Chinese Supply and Marketing Cooperatives (SMCs) for the whole country. It consists of 31 provincial, 318 prefecture and 2,100 county federations, and 28,000 primary societies with a membership of 180 million farm households, 4.3 million employees and 500 thousands business outlets.

Its functions and tasks are to do research and planning on strategies for the development of SMCs in China and guide their development and reform; to organize, coordinate and manage the major means of agricultural production, farm produce and non-agricultural goods with the authorization of the government; to safeguard the legitimate rights and interests of the SMCs at all levels; to coordinate the relations between the cooperatives and other concerned authorities; to guide the business activities of the SMCs and promote the flow of goods between the cities and countryside; to publicize and carry out the principles and policies on rural economy

formulated by the Party Central Committee and the State Council and to participate in various activities of the International Cooperative Alliance on behalf of cooperatives in China.

The ACSFMC has 10 subsidiaries, 8 science and research institutes, 7 institutions and 13 national-level specialized associations. It has 54,000 different enterprises, a network of over 500,000 operating establishments spread throughout the cities and the countryside, and over 300 enterprises with the ability to engage in importing and exporting. In 2002, its sales volume for merchandise reached USD 40 billion and its total volume of imports and exports amounted to USD 3 billion.

3.1. Agricultural Marketing

The ACFSMC has established marketing facilities and farm product collection centers in major agricultural production. Now, there are tens of thousands of its member cooperatives with purchasing outlets and 2,500 agricultural marketing centers. The total value of farm products purchased by the SMC in 1998 reached USD 8 billion.

3.2. Processing and Manufacturing

The processing business of farm produce and manufacturing business of the ACFSMC have grown rapidly in recent years. It now has more than 6,100 independent factories. Among them are 341 large-scale factories of which 87 have exported more than USD 1 million per year. In 1998, the total output of the processing and manufacturing activities was USD 11.5 billion.

The major items produced in these factories include food, clothing, textiles, furniture, electronics, home appliances, major vehicles, chemicals, etc. The processing of fruits, cotton, tea and vegetables is also important in China.

3.3. Farm Input Supply

In order to better meet farmers' needs, the ACFSMC has set up a complete supply and service network of farm inputs, covering purchase, stock, delivery, supply, soil analysis, and precision application of fertilizer and pesticides.

In the last several years, the ACFSMC supplied around 90 million tonnes of chemical fertilizer annually (accounting for 60% of the total consumption in the country), 430,000 tonnes of pesticides and 260,000 tonnes of agricultural films.

It has also set up 230,000 crop clinics, consulting centers and comprehensive village service outlets, etc. In recent years, according to the needs of the market and rural economic developments, the Federation expanded the range of their supply business to increase the assortment of goods, to include petroleum, steel, nonferrous metals and motor vehicles.

3.4. Consumer Goods

Wholesale and retail sales of consumer goods have always been regarded as one of the most important ACFSMC business activities. Based on the primary societies and large and medium-sized shopping facilities, the ACFSMC has established a purchasing and marketing network for consumer goods, to purchase jointly, market individually and conduct its business through its chain stores.

At present, it has over 10,000 stores, of which more than 3,000 are large and medium-sized shopping facilities with more than 3,000 square meters of business floor space. In 1998, the total sales of consumer goods reached USD 13.4 billion, taking up a considerable portion of the domestic market.

III. TRADE BUSINESS AND ACTIVITIES

In chapter 2, we review several business sectors of the three agricultural cooperatives in Korea, Japan, and China. In particular, we focused on the business sectors in which we can expect a large amount of bilateral or trilateral trade.

Chapter three looks over trading companies affiliated with the three agricultural cooperatives and their business activities. Each cooperative differs a little in its trading organizations and activities. In some cases a specialized trading company trades products of their parent cooperative. Other subsidiaries produce their own products, and operate their own trading business. The NACF and the ACFSMC have both of types of trading companies, but all Zen-noh's trading business focus on one trading company.

1. NACF

The NACF's trading business is operated by various subsidiaries. The Korea Agricultural Cooperative Trading Co.(KACT) is in charge of the export and import of agricultural products. The Namhae Chemical Corporation, a fertilizer production company, independently operates its business, importing raw material and exporting manufactured products. The Nonghyup Feed Inc., a feedstuff manufacturer, imports forage grains.

Recently, the Namhae Chemical Corporation and Nonghyup Feed Inc. began to consign their imports and exports to the KACT, and plan to expand consignments. This could be outsourcing because the main purpose of the policy is to maximize competitiveness by using a specialized trading company, in order that they can strengthen purchasing power and concentrate on production.

1. 1. Korea Agricultural Cooperative Trading Co. (KACT)

The Korea Agricultural Cooperative Trading Co., Ltd. (KACT) was established in 1990 as a subsidiary company of the NACF in order to cope with globalization and the opening of global markets. It exports quality agricultural products, and imports agricultural materials which are not available in Korea.

The KACT exported USD 34 million of agricultural products including apples, pears, kimchi, ginseng, and chestnuts in 2002. Its main imports are beef and forage, and total imports were USD 88 million.

(In 2002)

Exports	Imports
apples, pears, Korean citruses, persimmons, paprika, cucumbers, cherry tomatoes, kimchi, ginseng, chestnuts, cut flowers	beef, forage, farm machinery
USD 34 million	USD 88 million

1.2. Namhae Chemical Corporation

The Namhae Chemical Corporation is Korea's biggest fertilizer company. The company has 26 plants and produces about 2 million tonnes of fertilizer and 2.9 million tonnes of chemicals annually. It produces approximately 50% of the total domestic fertilizer and provides chemicals as raw materials to more than 1,000 domestic chemical companies.

It produces 10 kinds of chemicals and 40 kinds of fertilizer such as urea fertilizer, compound fertilizer, fertilizer for garden fruit trees, BB fertilizer and others. The Namhae Chemical Co. is supplying about 66% of the domestic fertilizer demand and exporting about 600,000 tonnes of fertilizers each year.

The company exports fertilizers to approximately 10 countries including Taiwan, Vietnam, China, and Myanmar. The total fertilizer exports in 2002 were USD 72 million. Since supplying a stable quantity at a suitable time is essential for the stable operations of the plant, the company purchases most materials through long-term supply contracts. The major imports include phosphate ore, potassium chloride, and sulfur.

Exports and imports of the Namhae Chemical Co. are processed at a port used exclusively by the Yeosu plant. The port can receive several 100,000 tonnes classification ships simultaneously, and over 3 million tonnes of products are imported and exported annually.

Raw Materials Imports		
Classification	Import From	Imports (mt/year)
Phosphate	Morocco, China	1,000
Potassium chloride	Canada, Jordan, Russia	200,000
Sulfur	Japan	150,000
Ammonia	U.S.A., Indonesia	400,000
Potassium sulfate magnesia	U.S.A.	10,000

1.3. Nonghyup Feed Inc.

Nonghyup Feed Inc. is the dominant market player in the domestic feed industry. It holds 50% of the market share in Korea. It has 8 feed production factories in the major regional hubs across the nation.

Nonghyup Feed is capable of producing 8,000 tonnes of feed a day and about 2.2 million tonnes of feed per year. It produces a total of 140 types of

products, with 16 brands for 10 types of livestock. Nonghyup Feed produces quality feed for all major livestock. For cattle it offers three major varieties. Other products include specially designed feed for dairy cows and hogs. In addition, it supplies a variety of feed for raising dogs, deer, ducks, rabbits, horses, goats and sheep. It imports 90% of the raw materials from the United States, Canada, and Australia.

Nonghyup Feed is proud of its scientific and systematic system t, as clearly shown in its Livestock Research Institute, Livestock Improvement Office, Milking Cow Improvement Office, Pig Breeding Office, Anseong Ranch, Central Data Analysis Center, etc.

2. Zen-noh (UNICOOPJAPAN)

The trade business of the Zen-noh is unified under the UNICOOPAJAPAN, the subsidiary company of Zen-Noh. All trading channels flow to the UNICOOPJAPAN to improve efficiencies in trading and to stabilize imports of raw materials.

The UNICOOPJAPAN is a unique trading company, which was formed in 1961 by Japan's agricultural, forestry and fishery cooperatives for exporting their products and importing the necessary raw materials and production resources.

The company has traded with other cooperatives of the world on the basis of mutual benefit and trust. It actively conducts trade with governmental agencies as well as private corporations that show understanding to the principles and ideals of cooperatives.

For food grain, the UNICOOPJAPAN trades directly with cooperatives in the mid-western part of the USA and Australia. As for pesticides, it imports raw materials from the USA and exports mainly to cooperatives in Thailand.

2.1. Grains and Feedstuff

The UNICOOPJAPAN, in close collaboration with Zen-noh, imports a significant amount of the raw materials mainly from cooperatives in the United States, Canada, Australia, Latin America, Thailand, China, and Europe.

As a special feature of its business activities, it has been importing a substantial quantity of corn, grain sorghum and soybeans from Zen-noh Grain Corporation since 1982, when it commenced full-scale operations on the banks of the Mississippi River in the State of Louisiana, U.S.A. It contributes to a stable supply of wheat, barley and rice through tenders with the Japanese Food Agency. It expedites the development and importation of additives to improve feed through biochemical methods.

● Imports

Corn, Grain Sorghum, Soybeans, Soybean Meal, Wheat, Barley, Rice, Oats, Fish Meal, Skim Milk Powder, Wheat Bran, Beet Pulp Pellets, Alfalfa Pellets, Hay Cubes, Molasses, Baled Hay, Canola

2.2. Fertilizer and Agricultural Chemicals

The UNICOOPJAPAN assures a stable supply of raw materials for fertilizer. As Japan depends entirely on imported potassium fertilizer and phosphate rocks, the UNCOOPJAPAN is attempting to secure a stable supply from Russia, Germany and China on a long-term basis, while making contracts with new suppliers. For organic fertilizers such as bone meal and rapeseed oil cake, the UNICOOPJAPAN imports these commodities from China, Thailand and Australia on a stable basis, while continuing to develop new sources.

The company is mainly involved in finding suppliers overseas of

agricultural chemicals necessary for Zen-noh. It imports fumigants from the United States. Also, in collaboration with manufactures, it exports agrochemicals to China and other countries.

2.3. Farm Supplies and Fuel

UNICOOPJAPAN is now engaging in the supply of inputs for agricultural production and daily necessities for farm households. The main items are work-shoes, raincoats, flexible trans-bags imported from China in cooperation with the Zen-noh and its associated manufacturers. They operate joint-ventures or on a consignment basis with Chinese corporations. UNICOOPJAPAN imports products such as lumber for construction, wrapping materials for agricultural products, cooking utensils, jewelry, and sundries

In cooperation with Zen-noh, UNICOOPJAPAN is involved with the energy business. It imports LPG, marine diesel oil and anthracite coal for Zen-noh. It sells and develops markets for petroleum coke in the agricultural industry and supplies bunker fuel for ships operated by Zen-noh. Studies of alternative energy sources are also under way.

2.4. Food

The UNICOOPJAPAN exports Japanese fresh fruits and vegetables such as mandarin oranges, pears and mushrooms, and other agricultural and marine products.

The UNICOOPJAPAN imports beef from Australia and U.S.A., and special-category meat from European countries for hotels and restaurants. To contribute to the development of Japan's livestock industry, it plays a significant role in importing premium dairy cattle for breeding, and livestock production inputs.

- **Imports**

Honey, Royal Jelly, Edible Oils, Fruits Juices, Edible Wild Plants, Canned Products, Fresh and Frozen Fruits and Vegetables, Vegetable Seeds, Beef, Dairy cattle

- **Exports**

Fresh Fruits and Vegetables, Agricultural Processed Products, Canned Products, Marine Products

2.5. Business Turnover

The business performance of the UNICOOPJAPAN in 2001 was USD 1,518 million. Food grains made up 43% or USD 650 million of the total. Sales of oilseeds and fuel were USD 261 million, and 238 million respectively. These commodities together made up 73% of the total business volume of UNICOOPJAPAN.

Business Turnover by Commodity-2001

		USD in millions
Food Grains	650	42.8%
Oilseeds	261	17.2%
Fertilizer & Pesticides	91	6.0%
Food	60	3.9%
Fuel	238	15.7%
Beef & Cattle	107	7.0%
Farm Supplies	48	3.1%
Others	63	4.3%
Total	1,518	100.0%

The trade volume of UNICOOPJAPAN in 2001 was USD 1,352 million, of which imports and exports were USD 1,342 million, and 10 million

respectively. Of the total imports, 58% or, USD 783 million came from the USA. The main destinations for exports are Thailand and Australia, at USD 2.5 million and 1.6 million respectively.

Business Turnover by Country-2001

USD in millions

Export		Import	
U.S.A.	783	Thailand	2.5
Saudi Arabia	138	Australia	1.6
Australia	114	Colombia	1.2
Arab Emirates	68	China	1.1
China	54	Taiwan	0.7
Canada	38	Others	2.9
Netherlands	35		
Korea	20		
Others	92		
Total	1,342	Total	10

3. ACFSMC

Several subsidiaries of the ACFSMC are engaged in trading, including the China National Agricultural Means of Production Group Corporation.

3.1. China National Agricultural Means of Production Group Corporation (CNAMPGC)

The China National Agricultural Means of Production Group Corporation (CNAMPGC), the only national mega-corporation, is specializing in fertilizer, pesticides, plastic sheeting and other farm inputs. The total sales

volume of fertilizer, pesticides and plastic sheeting is 210 million tonnes, 1 million tonnes and 0.45 million tonnes respectively.

The corporation has 2,500 employees, 7 fully-funded subsidiaries, 29 corporations, 18 compound fertilizer joint enterprises, 7 large warehouses, 5 special railroads and 2 piers, each of which has a capacity of 10,000 tonnes. The CNAMPGC has the right to import and export agricultural inputs. It has been one of two agents authorized by the government to import fertilizer since 1998.

● **Business Activities**

- Marketing agricultural inputs
- Marketing domestic fertilizer, pesticides and plastic sheeting
- Importing fertilizer and transacting pesticides on one's own and on commission
- Importing raw materials of plastic sheeting, and processing and selling plastic sheeting
- Central reserve of fertilizers and pesticides
- Central regulation and control of foreign fertilizer
- Exporting fertilizer, pesticides and plastic sheeting
- Agricultural science and technology development
- Providing agricultural information counseling

3.2. China National Cotton Corporation (CNCC)

The China National Cotton Corporation (CNCC) has provided great social and economic benefits by importing cotton and maintaining reserves on behalf of the government, marketing, managing the cotton supply and demand in the domestic market, and undertaking various businesses.

The CNCC subsidiaries, branches and representative offices in Tianjin, Qingdao, Dalian, Nantong, Shanghai, Guangzhou Taiyuan, Zhengzhou,

Shijiazhuang, Ulumuqi, and Langfang, are mainly responsible for coordinating cotton transportation, storage and sales. It has always paid great attention to developing the international cotton market and keeping close contacts with the international cotton industry. In 2000, the CNCC achieved sales of USD 1.5 billion.

3.3. China Janong Enterprises Group Corporation

The China Janong Enterprises Group Corporation is large-scale national corporation. It is the core enterprise of the China Janong Enterprises Group. Its business scope consists mainly of farming inputs, grain, cotton, oil, livestock products, building materials, coal, farm machinery, hardware, light industries goods, car and spare parts, textiles, silk, clothes, timber, raw and processed chemicals, medical equipment and medicine, non-staple food, articles for daily use, etc.

It is also involved in agricultural production technology and information, research and development for renewable resources, commercial machinery, wild plants, tea, fruit products, cotton and linen, mushrooms, etc. With the approval of the Ministry of Foreign Trade, the China Janong Enterprises Group Corporation is authorized to do import and export business, to conduct transit and compensation trade and to process imported goods. Up to now, it has provided services for a diversified range of customers in more than ten countries and regions.

3.4. China Supply and Marketing Cooperative Foreign Trade Corporation

Since it was established in 1987, the China Supply and Marketing Cooperative Foreign Trade Corporation has cooperated with enterprises from other countries in the areas of trade, economics and technology.

The corporation possesses 4 affiliate companies, 2 joint ventures, 6 jointly operated enterprises, 3 overseas enterprises, and has bases for research and development, production and processing of eiderdown products, carpets, labor safety devices, cashmere products, liquor and soft drinks, paper products, breeding, hybrid rice, vegetables and fruits, etc.

The corporation has established long-term cooperative relationships with customers in the United States, Canada, Japan, France, Egypt, South Africa and other countries and regions in the world. The corporation's import and export volume reaches tens of millions of US dollars per year.

- **Business Activities**

- Importing and exporting, or acting as an agent for import and export of cereals, oils, foodstuffs, textiles, light industrial goods, household necessities, electrical appliances, raw and processed chemicals, building materials, and other commodities
- Technological consultation and services for the above mentioned businesses
- Processing imported materials, assembling of supplied parts, and compensation trade
- Contracting construction projects abroad and undertaking domestic projects supported by foreign capital
- Exporting materials and equipment needed by contracted projects
- Dispatching workers to foreign countries for construction projects, or to work in areas of production or services.

IV. CHALLENGES AND OPPORTUNITIES

1. Changes and Challenges

The most important changes surrounding cooperatives are globalization and growing competition. The economy of most countries depends on trade with foreign countries, escalating competition between companies or countries. Without exception, every economic sector is affected by the tremendous changes involving globalization. Globalization has been accelerated by development of the Information Technology (IT) industry and expansion of the Internet. The world is now experiencing tremendous changes sparked by the Internet. Industries are rapidly adapting by developing E-commerce and E-business.

Globalization and digitalization is creating broad changes in other areas such as production type, marketing structures, consumer behaviors and government role. Cooperatives should also look to change under this new environment and look for new opportunities. The cooperatives should create a model to attain sustainable growth by restructuring their organizations and management, and to become more efficient.

The following are the systems enterprises have adopted through the development of the IT industry and expansion of the Internet, which our cooperatives should not ignore, but need to adopt.

1.1. Enterprise Resources Planning (ERP)

In the fast-paced IT industry, enterprises are adopting best-business practices, and using the Enterprise Resources Planning (ERP) to cut costs and improve efficiencies. The ERP is a system which enables a problem in

management to be checked and controlled in real time. The ERP is a highly integrated system which links all departments including accounting, sales, purchasing, production, personnel, fund management in the company under a single program.

This system is a pre-stage to integrating inter-enterprise cooperation. Building an inter-enterprise cooperation system makes a stable and effective supply chain possible, and focuses on point-to-point linking. With wide-spread Internet use inter-enterprise cooperation system in a virtual community can be realized. Inter-enterprise cooperation can cut costs in financing and stock holding, and cut production costs by using effective supply chain management.

1.2. Supply Chain Management (SCM)

Supply Chain Management (SCM) integrates and manages purchasing, production, marketing. SCM is an extended enterprise linking suppliers, manufacturing facilities, wholesalers, retailers, and customers. With present technology and the Internet, it is possible to build the SCM inside the enterprise, and the Extranet can enlarge or link the SCM processes. The expected results of using SCM is to deliver goods at the proper time and place with minimum cost, minimize stock levels, and provide customers with satisfactory service.

1.3. Extranet

The Extranet is a private network system which links separate Intranets of more than two enterprises using the Internet. With shortened terminology of the extended intranet, it uses the capabilities of the Intranet and enhances cooperation between enterprises. Furthermore, the Extranet connects companies' intranet with suppliers, customers, and others involved in the transaction.

1.4. Electronic Data Interchange (EDI)

The Electronic Data Interchange (EDI) is an electronic system used to exchange standardized bills or invoices through computerized communication between enterprises. Recently, the Internet EDI was introduced, and it replaces the expensive VAN.

Benefits from adopting EDI include lower transaction costs, improved cash flow, lower stock levels, more useful information about the quality of products. Side benefits of using EDI include strengthening partnerships by improving the chances of sharing information with business partners, and increasing the competitiveness of any company by improving the accessibility to new markets.

1.5. Electronic Commerce (EC)

Electronic Commerce (EC) means the conducting of business communication and transactions over networks and through computers. As most restrictively defined, EC is the buying and selling of goods and services, and the transfer of funds, through digital communications. However, EC also includes all inter-company and intra-company functions such as marketing, finance, manufacturing, selling, and negotiation. Electronic commerce also includes buying and selling over the Internet and all other ways of doing business over digital networks.

In a digital economy, it is very likely that the price of products will drop as competition between on-line business entities or between on-line vs. off-line business entities increases. This leads to a great economic benefit for consumers, which we could call Consumer Surplus in a Business to Business (B2B) transaction. However, there is saying that when we refer to the digital economy, the economic benefit made by E-commerce between companies, say a B2B transaction, is much more than consumer surplus. For example, as consumers can find out the best, cheapest goods through

the Internet, so too can companies find out how to cut manufacturing costs by finding the most competitive materials or suppliers of parts for their products. In addition, companies can cut stock-related costs significantly by more efficient stock management. Internet transactions between companies can simplify marketing processes, and cut costs involved in the process between producers and consumers. Especially when there are still inefficiencies, B2B transaction can shorten unnecessary marketing or distribution processes between the producers and consumers, and it is highly expected that the marketing costs will be cut significantly.

2. Opportunities for Cooperative Trade

Cooperatives should also look to change under this new environment and look for new opportunities for promoting cooperatives trade. Current trading done by cooperatives in the three countries is mainly performed in association with enterprises, rather than among cooperatives. Differences in trade practices, products, trade terms, and other constraints hinder trade among cooperatives. With these constraints, the three countries cooperatives cannot take full advantage of the benefits or merits which come from trade among cooperatives.

Now, we are looking for how cooperatives can overcome these challenges and activate trade among them. These are five ideas.

2.1. Further Cooperation With Cooperatives

The cooperative trade is safer and more sustainable when it begins with inter-cooperative transactions rather than when it begins with enterprises. Trading done by cooperatives in the three countries is mainly performed in association with the enterprises, rather than among cooperatives.

Differences in trade practices, products, trade terms, and other constraints hinder trade among cooperatives. With these constraints, the three countries cooperatives cannot take full advantage of the benefits or merits which come from cooperative trade.

To overcome these challenges and activate trade among cooperative, it is necessary to build institutional tools among cooperatives. One of solution is for cooperatives to hold regular meetings or joint research teams to discuss business linkage. And discover mutual interests. Alliances among cooperatives are another solution that goes one step further. Based on the alliances cooperative trade can be improved.

A Good example of this cooperation among cooperatives is the Fertilizer/Pesticide Business Exchange Committee, which was established jointly by the NACF of Korea and Zen-Noh of Japan in 2002 to strengthen mutual cooperation and contribute to the development of the fertilizer/pesticide business of the two countries.

FERTILIZER/PESTICIDE BUSINESS EXCHANGE COMMITTEE NACF & ZEN-NOH	
Purpose	To pursue mutual development of the fertilizer/pesticide business between Korean NACF & Japanese Zen-Noh
Established	February 2002
Functions	Exchange of information on fertilizer/pesticide business and research & review on farm supply business
Member of Committee	Executive Vice Presidents, General Managers, Officers of two cooperatives
Meeting	Semiannually (Two countries taking turns, since 2002 three meetings have been hold)

Cooperative trade can be initiated among cooperatives with horizontal relationships, such as the same business type. Trade can also occur among cooperatives with a vertical relationship, such as between different but

associated business types. For example, the horizontal trading scheme is a relationship in which cooperatives in agricultural business sectors have mutual trading businesses to make business connection. The vertical trading scheme is a relationship in which cooperatives of a housing construction business trade with cooperatives selling housing construction supplies.

2.2. Strengthen Business Relations With Parent Cooperatives

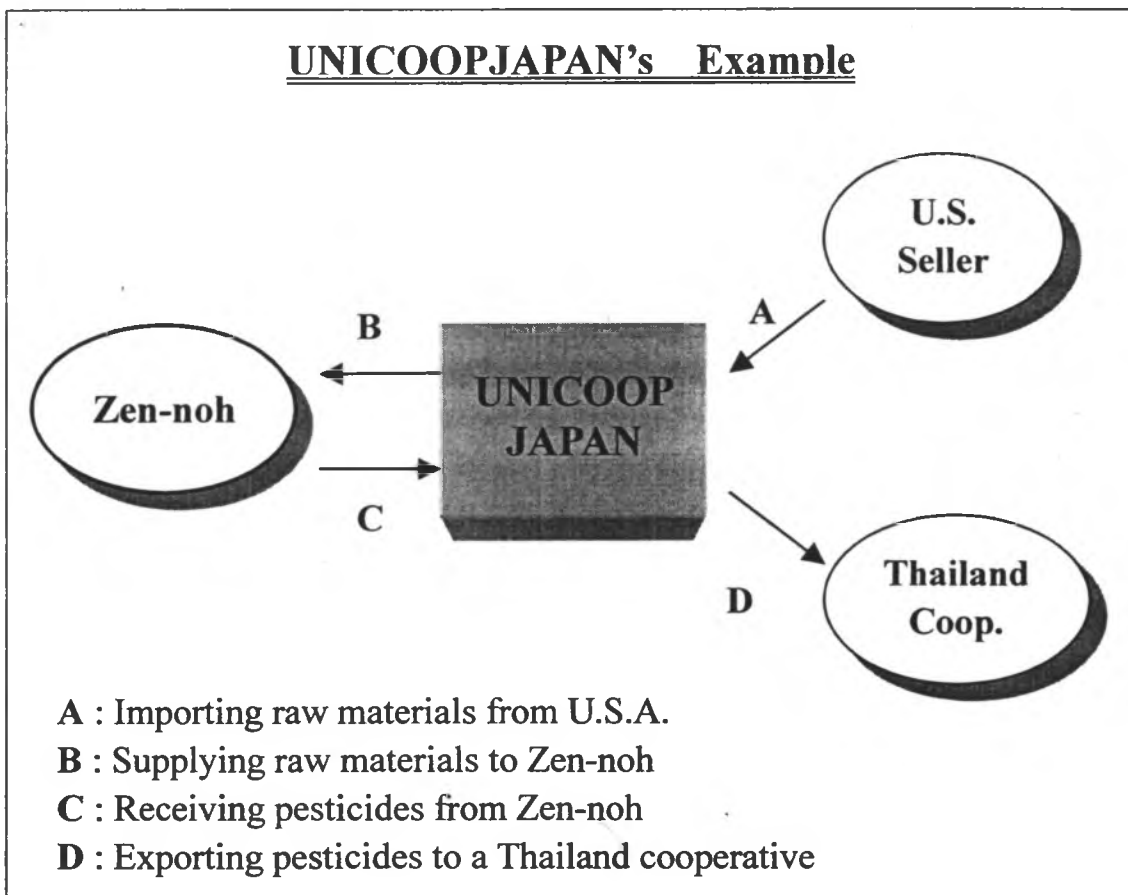
The trading companies under the three countries cooperatives are engaged in trading associated with the businesses of their parent cooperatives. To enhance the trading businesses among cooperatives, it is necessary to intensify the connections between the businesses of the trading companies and their parent cooperatives. Currently trading companies are constrained in the number of products traded and the number of business partners. They should increase the number of products they handle in the businesses of parent cooperatives, and they should be interested in the business of overseas cooperatives with which the parent cooperatives have had partnerships. With these efforts, trading opportunities with foreign cooperatives can be broadened. Based on the exchange and cooperation with the foreign cooperatives, we can diversify and develop relations with reliable overseas business partners, the cooperatives.

Every trading company should focus on the challenges of developing markets, For example, trading companies should hold business talks, focusing on competitive business strategies to expand export markets.

Furthermore, the list of products which are currently imported from overseas companies should be reviewed to see if they can be imported directly from foreign cooperatives. Trading is safer with cooperatives, which are generally conservative act for the public good, than with private companies.

A network among cooperative trading companies is essential as well. It is

important to build a system in which necessary information, such as which cooperatives want to sell what goods or what products other cooperatives want to buy, can be shared. For example, when a parent cooperative produces agricultural inputs, like fertilizer or pesticides, it is necessary for the subsidiary trading company to try to find an imports from foreign cooperatives which is a stable supplier and can provide the raw materials at low cost. The company must also find what other foreign cooperatives need manufactured goods.



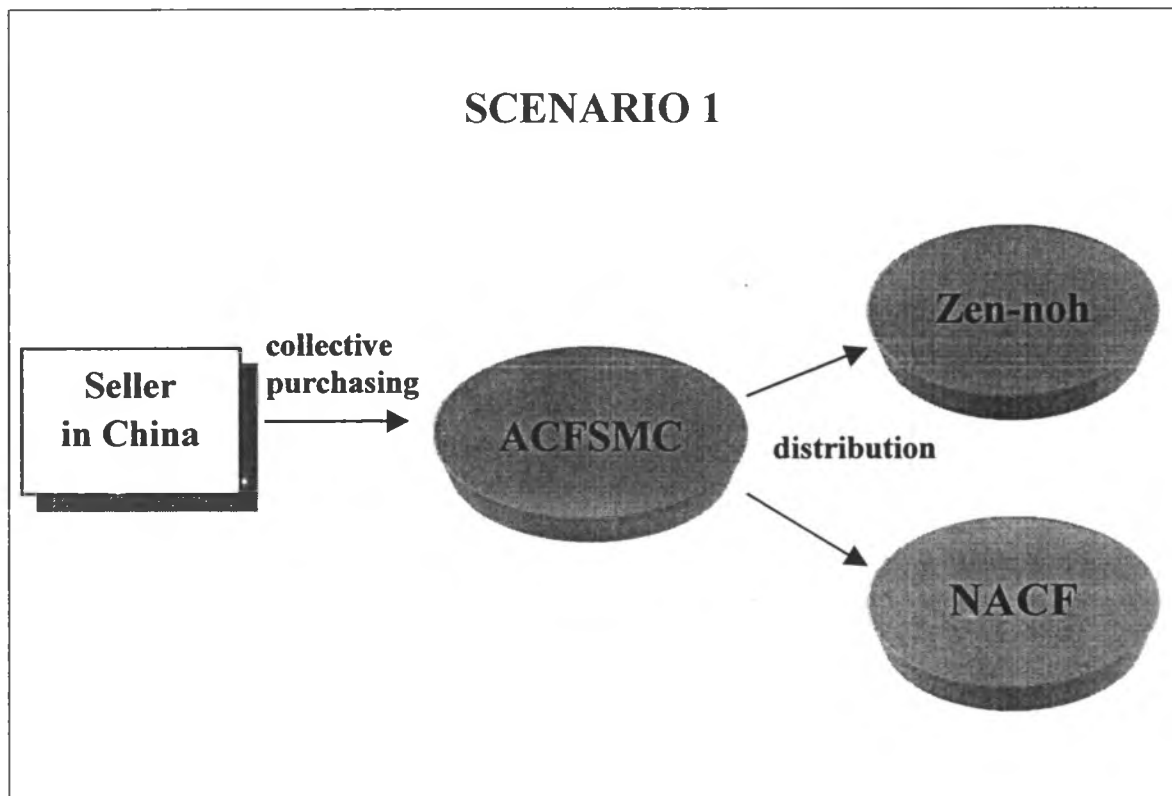
In the above diagram, we can see a good case of strengthening the connections between the business of the trading company, UNICOOPJAPAN and its parent cooperative, Zen-noh. It also represents cooperation among cooperatives. The UNICOOPJAPAN imports raw materials of pesticides from a supplier in the United States and then supply them to the Zen-noh which produces pesticides. The UNICOOPJAPAN receives pesticides from the Zen-noh and exports products to a cooperative in Thailand.

2.3. Collective Purchasing

Different cooperatives which have to import identical raw materials need to consider collective purchasing which more than two cooperatives jointly participate in the purchase. We can take advantage of bulk purchases to strengthen bargaining power, to lower the purchase price, and to make the terms of purchase more favorable.

We can imagine two scenarios about collective purchasing. Scenario one is for a cooperative to collectively purchase products for other cooperatives as well as itself, and then distributes the product to the other cooperatives. This method is suitable for a cooperative that makes bulk purchases in a region or country where raw materials are produced.

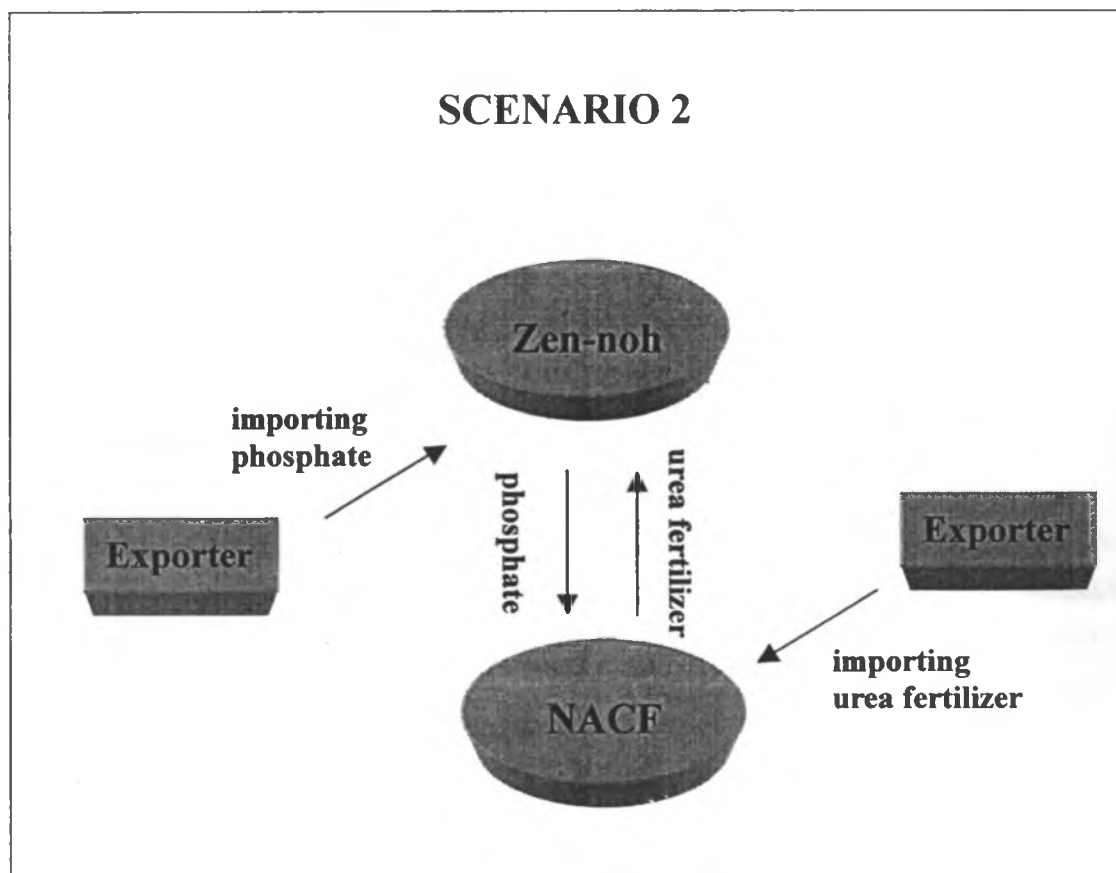
The other scenario is for a cooperative which demand of a product is higher than that of others, to purchase the product in a lump and distribute it to the other cooperatives.



We can think of a scenario 1 as in the above diagram. Korea and Japan, importing raw material for fertilizer from China, can consign the purchase to cooperatives in China. The ACFSMC makes a bulk purchase for all three cooperatives, and then distributes them to the NACF and Zen-noh.

Among the three countries cooperatives, there has yet to be a case of collective purchasing. Recently, however the NACF and the Zen-noh tried the collective purchasing for certain kinds of fertilizer.

The diagram below shows scenario 2 as in the case between cooperatives of Japan and Korea. It is being considered that the NACF would import urea fertilizer and supply it to the Zen-noh. For phosphate, the Zen-noh is expected to import and then supply it to the NACF. For urea fertilizer, the demand in Korea is higher than that in Japan, and for phosphate, the demand in Japan is higher than that in Korea.



2.4 Joint Sales, Joint Brand

Sales differ from purchasing, for a specific reason. Due to the WTO negotiations, market share of domestic products is waning for importing country. Looking at the three countries, Japan and Korea are significantly affected by foreign agricultural imports. Member farmers are suffering due to increase of agricultural imports, and thus it is not fundamentally right to import and sell the foreign products. For this reason, it is not easy for the three countries agricultural cooperatives to be actively and extensively involved in agricultural trade.

However, it may be possible to import and sell some products of which import is inevitable such as products unique to a certain country and popular in other countries, or manufactured products. Korean kimchi and ginseng are popular in Japan and China. These products are manufactured and produced by the NACF. It is possible that agricultural cooperatives in Japan and China could import and sell them through their own marketing channels.

Developing joint brands which involve cooperatives of many countries can upgrade cooperative trade. Developing multi-national brands will make it easy to explore foreign markets, and avoid the negativity surrounding foreign products. It is worth considering developing joint ventures that include production facilities, sourcing materials, and marketing for value-added products.

2.5. E-Commerce Among Cooperatives

E-commerce is now part of a new paradigm in business which is overcoming constraints of time and space. E-commerce, which improves the competitiveness and efficiency of enterprises will continue to gain in popularity. B2B is e-commerce between businesses and the global B2B market is expected to reach USD 1.3 trillion by the end of 2003; which is

10 times larger than the market volume of business-to-consumer transactions.

In the 21st Century and the digital economy, cooperatives, as economic entities, should develop an e-commerce system and new businesses. In the market economy, it is necessary to organize cooperatives which hope to be involved in e-commerce to gain competitiveness.

The ICA needs to take the leadership in creating a cooperatives e-commerce system which involves its member cooperatives in a kind of consortium. In establishing a cooperative-to-cooperative e-commerce system it is embodying the principle of cooperation between cooperatives in a cyber community, which goes beyond time or space constraints.

Internet B2B marketplace as international consortium style

MARKETPLACE	SECTOR	PARTICIPANTS
NewCo	Automobile parts	Big 3 in USA, Toyota, Nissan, Renault
GlobalnetXchange	Retail marketing	Sears Roebuck, Carrefour
Rooster.com	Food grain	Cargill, Dupont, etc.