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# Support for Farmers' Cooperatives

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## *Country Report* France

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Maryline Filippi

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# Support for Farmers' Cooperatives; ***Country Report France***

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## Preface and acknowledgements

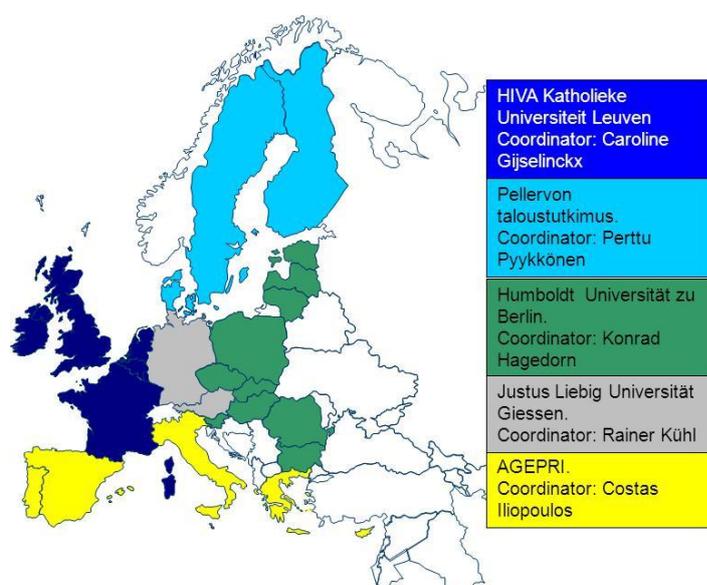
In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, "Support for Farmers' Cooperatives (SFC)", that will provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, and by the European Commission in its effort to encourage the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project this country report on the evolution of agricultural cooperatives in France has been written. Data collection for this report has been done in the summer of 2011.

In addition to this report, the project has delivered 26 other country reports, 8 sector reports, 33 case studies, 6 EU synthesis reports, a report on cluster analysis, a study on the development of agricultural cooperatives in other OECD countries, and a final report.

The author would like to thank Olivier Frey for participation and Coop de France and, in particular Chantal Chomel, head of the Legal Department, and Arnaud Camuset, in charge of Business Intelligence, as well as the various sectoral Federations which answered our many queries. Our particular thanks go to Christelle Joss of the Dairy Federation. We would also like to thank the agricultural cooperatives for providing us with missing data. Revision comments by LEI and by our Regional Coordinator, Caroline Gijssels, as well as those of DG AGRI all helped us to improve our report.

The Country Report France is one of the country reports that have been coordinated by Caroline Gijssels, HIVA University of Leuven, Belgium. The following figure shows the five regional coordinators of the SFC project.



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# 1 Introduction

## 1.1 Objective of the study

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, especially from policy makers. The European Commission is committed to facilitating the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large-scale study, “Support for Farmers’ Cooperatives”, that will provide the background knowledge needed to help farmers organise themselves into cooperatives as a tool to consolidate their market orientation and so generate a solid market income. Within the framework of this study, this report provides the relevant knowledge concerning France.

In this context, the specific objectives of the project, and this country report, are the following:

Firstly, to provide a comprehensive description of the current level of development of cooperatives and other forms of producer organisations in France: The description presented in this report pays special attention to the following drivers and constraints for the development of cooperatives:

- Economic and fiscal incentives or disincentives and other public support measures at regional and national;
- Legal aspects, including those related to competition law and tax law;
- Historical, cultural and sociologically relevant aspects;
- The relationship between cooperatives/POs and the actors of the food chain;
- Internal governance of the cooperatives/POs.

Secondly, to identify laws and regulations that enable or constrain cooperative development and thirdly, to identify specific support measures and initiatives which have proved to be effective and efficient in promoting cooperatives and other forms of producer organisations in the agricultural sector in France.

## 1.2 Analytical framework

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position and diversity of activities [see 3.2 below] in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to management (and the agency problems that go with the delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative operates, and which may have a supporting or constraining effect on the performance of the cooperative. These three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

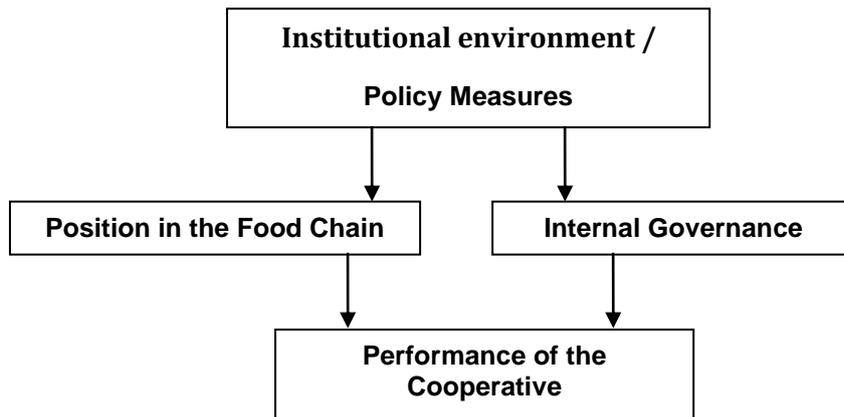


Figure 1. The core concepts of the study and their interrelatedness

### 1.3 Definition of the cooperative

In this study on cooperatives and policy measures we have used the following definition of cooperatives and Producer Organisations (POs). A cooperative/PO is an enterprise characterized by user-ownership, user-control and user-benefit:

- It is user-owned because the users of the services of the cooperative/PO also own the cooperative organisation; ownership means that the users are the main providers of the equity capital in the organisation;
- It is user-controlled because the users of the services of the cooperative/PO are also those who decide on the strategies and policies of the organisation;
- It is for user-benefit, because all the benefits of the cooperative are distributed to its users on the basis of their use; thus, individual benefit is in proportion to individual use.

This definition of cooperatives and POs (from now on shortened in the text as cooperatives) includes cooperatives of cooperatives and associations of producer organisation (often called federated or secondary cooperatives).

### 1.4 Method of data collection

Multiple sources of information have been used, such as databases, interviews, corporate documents, academic and trade journal articles. The databases used include those of Amadeus, FADN, Eurostat and a database from DG Agri on producer organisations in the fruit and vegetable sector. Data provided by Copa-Cogeca has also been used. In addition, information on individual cooperatives has been collected by studying annual reports, other corporate publications and websites. Interviews have been conducted with representatives of national associations of cooperatives, managers and board members of individual cooperatives, and with academic or professional experts on cooperatives.

### 1.5 Period under study

This report, which covers the period from 2000 to 2010, presents the most up-to-date information. This refers to both the factual data that has been collected and to the literature that has been reviewed.

## 2 Facts and figures on agriculture

### 2.1 Share of agriculture in the economy

A study of farmers’ cooperatives can best start at farm level, in agriculture. In 2009, agriculture represented 1.7% of France’s GDP (Figure 2). The share of agriculture in the economy has been steadily decreasing since the 1980s, from 5% to less than 2% in 2009.

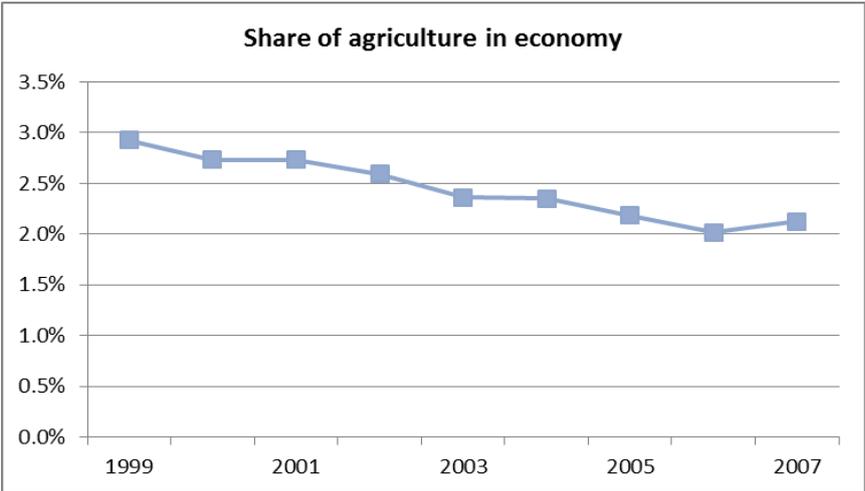


Figure 2 Share of agriculture in GDP. Source: Agriculture Economic Accounts, Eurostat<sup>1</sup>

### 2.2 Agricultural output per sector

Figure 3 provides information on the main agricultural sectors in France. In terms of value, the Top 5 are: cereals, wine, dairy, cattle and fruit and vegetables. They account for 65% of Agricultural Goods output in 2010. The production of sheep meat and olive oil, however, represents only a small portion of Agricultural Goods output.

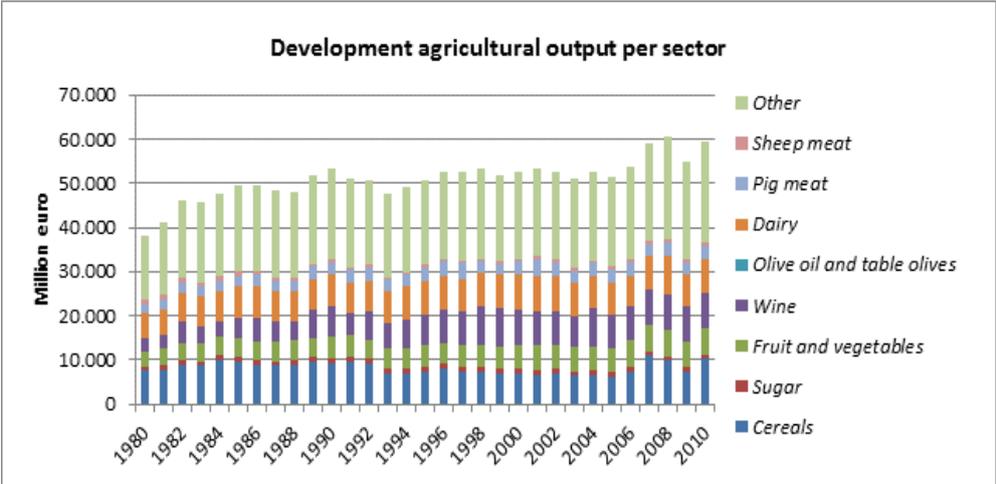


Figure 3 Development of the different sectors in agriculture, value of production at producer prices, in millions of Euros. Source: Agriculture Economic Accounts, Eurostat

<sup>1</sup> This Figure is taken from LEI, who does not want this to be corrected.

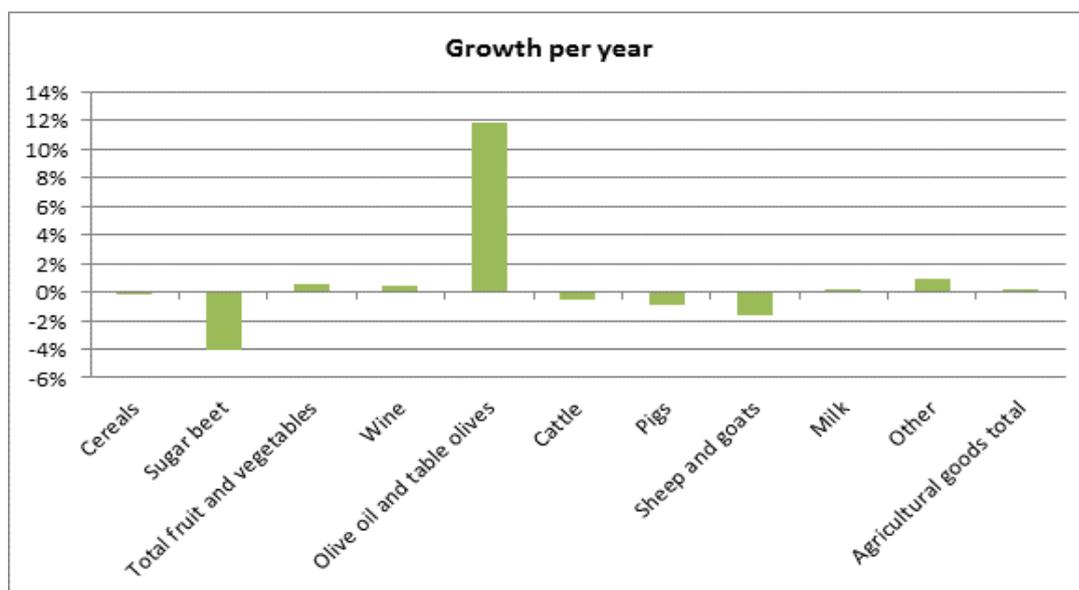


Figure 4 Trend in output per sector "2001" - "2009". Source: Economic Accounts of Agriculture, Eurostat.

Between 2001 and 2009, sugar beet production underwent a 4% decrease, mainly because of the new sugar regime, which entailed a reduction in quotas. Cattle, pig, and sheep and goat production also decreased, but in smaller proportions. Fruit and vegetables, as well as wine, showed a small increase over the same period. The only sector which saw a big increase was olive oil, but its production is still very small compared to that of the other sectors.

## 2.3 Development in the number of farms

The number of farms in France is given in Table 1 and Figure 5.

In France, cereals are the sector with the highest number of farms, with 89,230 farms. In second position, the wine sector represents 70,850 farms. The beef sector comes third, with 66,150 farms. Olive oil, on the contrary, concerns only a very small number of farms.

Table 1: Number of farms.

	2000	2007	% change per year
Cereals	#N/A	89,230	#N/A
Sugar	#N/A	35,210	#N/A
Pig meat	#N/A	11,060	#N/A
Sheep meat	#N/A	61,350	#N/A
Total fruit and vegetables	#N/A	26,490	#N/A
Horticulture	#N/A	13,150	
Fruit and citrus fruit	#N/A	13,340	
Olive oil and table olives	#N/A	2,590	#N/A
Wine	#N/A	70,850	#N/A
Dairy	#N/A	55,040	#N/A
Beef	#N/A	66,150	#N/A

Source: Eurostat, Farm Structure Survey.

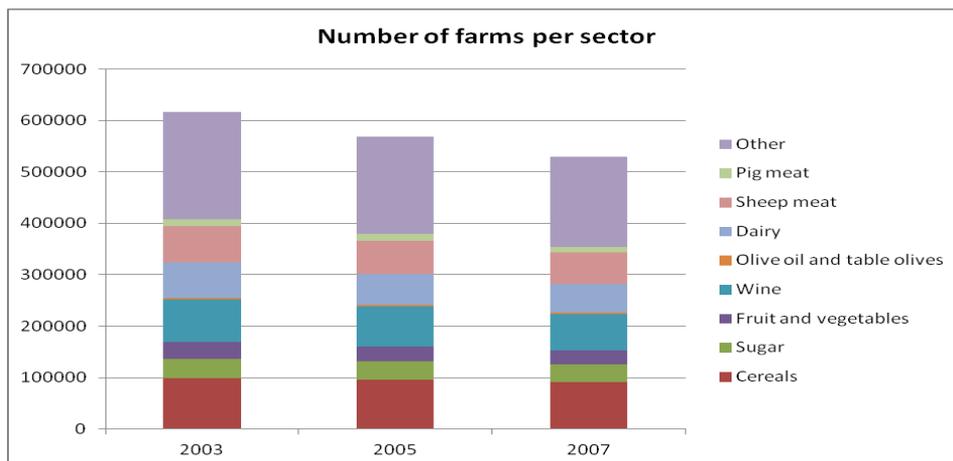


Figure 5 Number of farms 2003 – 2007, with data per specialist type of farming<sup>2</sup>. Source: Eurostat, Farm Structure Survey.

## 2.4 Size of farms

Farms come in different sizes, from small part-time farms to large exploitations. Figure 6 shows the distribution of farms per size class, measured in European Size Units (ESU).

In two specific sectors, most farms are really small: 84% of the olive oil farms, and 46% of the sheep meat farms are under 2 ESU. On the contrary, 33% of the farms in the pig meat sector, and 29% of the farms in the sugar sector, are more than 100 ESU. For milk, 57% of the farms are between 40 and 100 ESU.

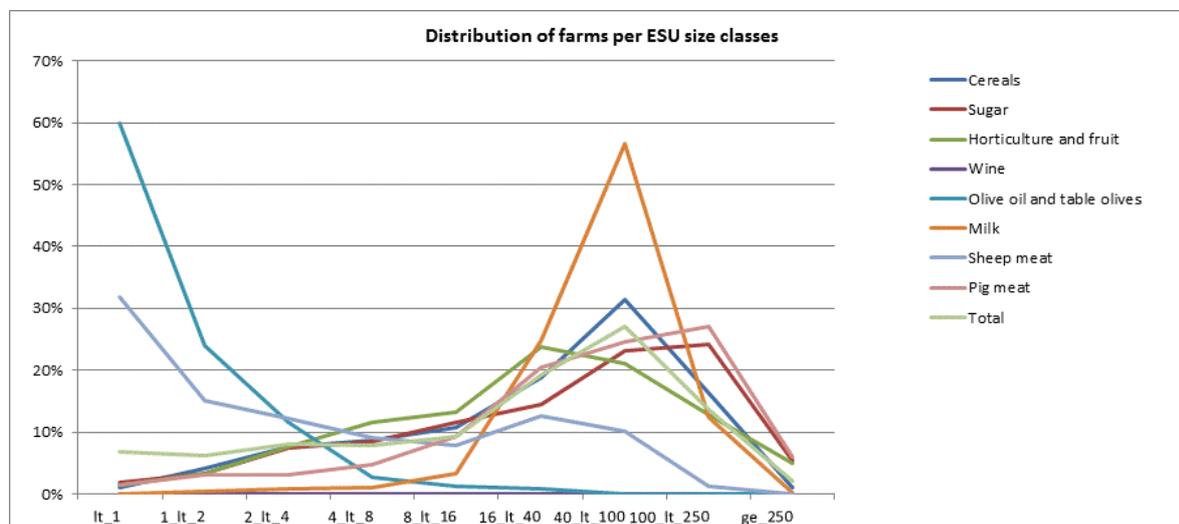


Figure 6 Number of farms per size class, measured in ESU, per specialist type of farming. Source: Eurostat, Farm Structure Survey.<sup>3</sup>

<sup>2</sup>Unfortunately, as no figures for 2000 were available for France, we used the most recent ones.

<sup>3</sup> The wine expert from DG Agri made several comments on this Figure but it was given to us by LEI and there were actually no data for the wine sector.

### 2.5 Age of farmers: distribution of farms in terms of age classes

The age of farmers differs. France is one of the European countries with a relatively high share of young farmers: 8.1% of farmers are less than 35 years old. But with 36.8% of farmers being more than 55 years old, many changes are expected; the challenge for French cooperatives will be to maintain a steady number of members. But the problem of cooperatives as regards the younger generations is that these tend to be more individualistic than their parents, and cooperatives need to create incentives to attract them.

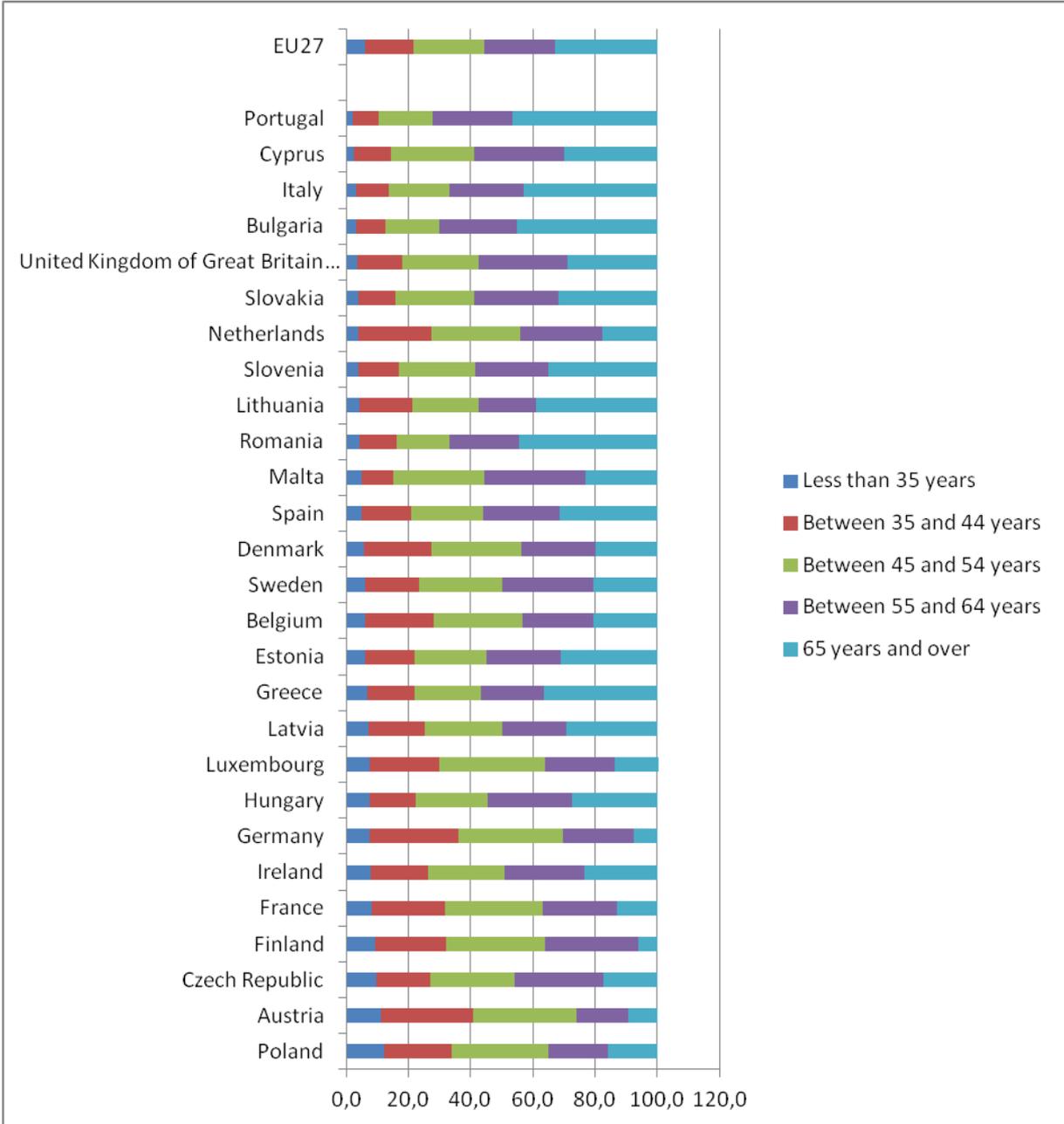


Figure 7 Percentage of farmers per age class, per Member State and EU27, 2007 (ranked with countries with the lowest percentage of young farmers shown on top). Source: Eurostat, Farm Structure Survey.

### 2.6 Specialisation of farm production

Cooperatives might not only have member-farmers with different farm sizes or different age. Farms also have a different composition of their production and, therefore, their input. This is even true for specialist farms, where e.g. some so-called specialist dairy farmers also have beef or sheep, or else sell hay. In addition a lot of mixed (non-specialized) farms exist. The heterogeneity of farming in terms of specialisation can be estimated by calculating the share that specialized farms represent the total production. This is what Figure 8 (split in 8A for plant production and 8B for animal production) shows.

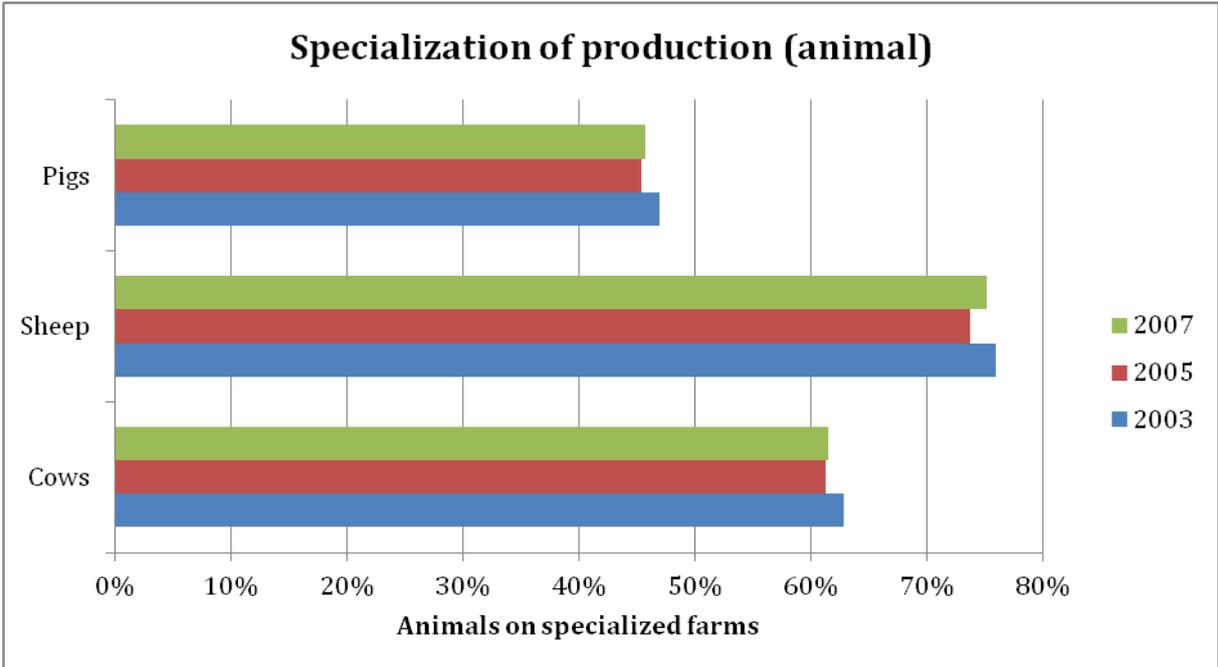
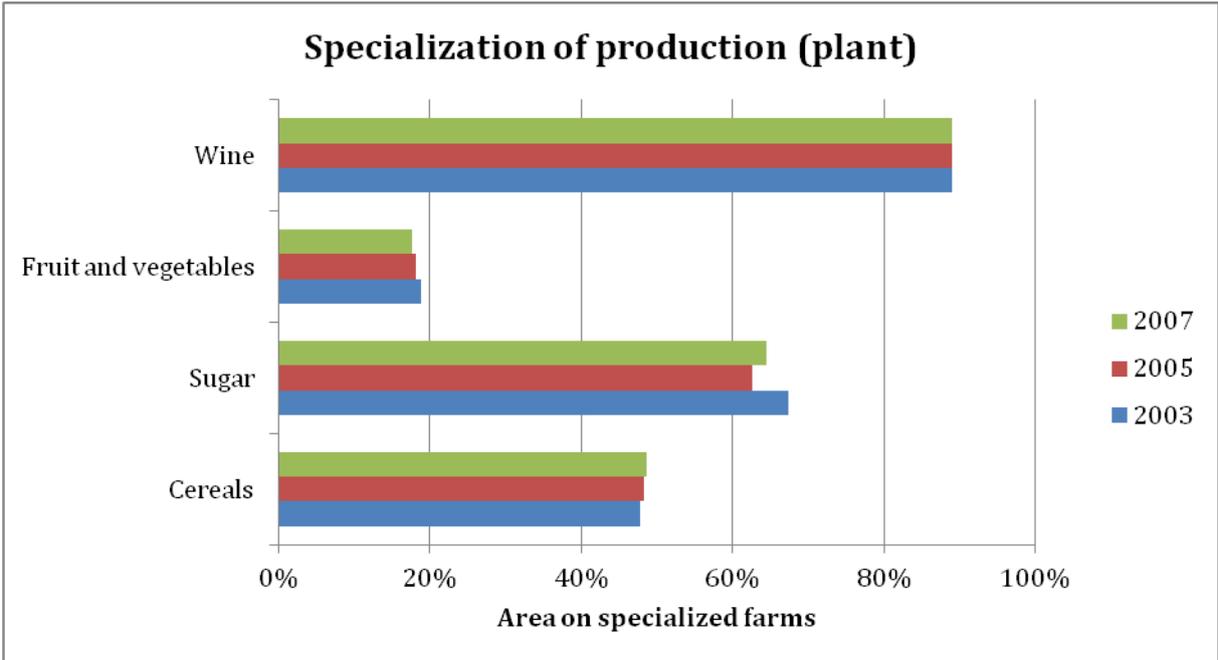


Figure 8 A & B Heterogeneity in farm production: the share of specialist farm types in total production.. Source: Economic Accounts of Agriculture, Eurostat.

## 2.7 Economic indicators of farms

This description of agriculture concludes with some economic indicators (Table 2). These indicators focus on the net value added and farming income for farmers, as well as on the level of their investment. Some of this investment might be in cooperative equity, but by far the most part will be in farm assets.

Table 2 Economic indicators for farms

Economic indicators average per farm (2006-2008)

	Cereals	Sugar	Fruit and vegetables	Olive oil and table olives	Dairy	Wine	Pig meat	Sheep meat
Economic size - ESU	73,17	113,83	94,90	-	64,67	101,37	104,97	41,77
Total labour input - AWU	1,37	2,19	4,46	-	1,73	2,51	1,85	1,59
Total Utilised Agricultural Area (ha)	108	102	17	-	74	21	26	85
Total output €	113 152	204 485	229 382	-	129 471	166 502	315 447	76 302
Farm Net Value Added €	55 084	92 365	96 820	-	44 290	86 560	46 562	25 234
Farm Net Income €	37 557	54 337	33 868	-	32 256	43 183	24 205	17 049
Total assets €	271 025	388 607	252 959	-	334 297	498 845	334 983	253 866
Net worth €	172 371	218 800	122 118	-	209 066	349 942	124 208	172 064
Gross Investment €	19 343	29 318	21 796	-	27 340	16 144	22 013	16 370
Net Investment €	-2 553	-2 535	-3 691	-	678	-3 284	-10 046	-2 548
Total subsidies - excl. on investm. €	38 919	38 837	7 787	-	26 398	3 474	10 099	27 504
Farms represented	69 583	23 237	7 916	117	53 070	51 277	7 480	18 927

note: less than 3 years available

Source: DG Agri, FADN.

## 3 Evolution, position and performance of cooperatives

### 3.1 Types of cooperative

According to CoopFR<sup>4</sup>, there are some 21,000 cooperatives in France, which represented a total turnover of around 274 billion Euros in 2009, and employed 1 million people.

There are 4 main types of cooperative in France:

- Users' cooperatives : when the members are users of the cooperative's goods and services
- Credit cooperatives : when the members are the customer savers and borrowers
- Enterprise cooperatives : when the members are business owners
- Worker cooperatives: when the members are the employees

Table 3 : The different types of cooperative in France

	Type of cooperative	Number of members	Number of cooperatives	Number of Employees	Turnover 2009 (billion euros)	National Federation
<b>Users cooperatives</b>	Consumer cooperatives	332 600	34	11 471	2,6	<a href="http://www.fncc.coop">www.fncc.coop</a>
	Social housing cooperatives	54 000	165	934	0,162	<a href="http://www.hlm.coop">www.hlm.coop</a>
	Cooperative condominiums	1 650	420	NC	0,13	<a href="http://www.ancc.fr">www.ancc.fr</a>
	Schools' cooperatives	4 560 000	50000	119	not significant	<a href="http://www.occe.coop">www.occe.coop</a>
<b>Enterprise cooperatives</b>	Agricultural cooperatives	500 000	2900	150000	82,4	<a href="http://www.coopdefrance.coop">www.coopdefrance.coop</a>
	Cooperatives of trades people	58 000	356	4700	1,2	<a href="http://www.ffcga.coop">www.ffcga.coop</a>
	Transport cooperatives	846	47	1738	0,147	<a href="http://www.unicooptrans.fr">www.unicooptrans.fr</a>
	Maritime cooperatives	16 800	140	1800	1,2	<a href="http://www.cooperationmaritime.com">www.cooperationmaritime.com</a>
	Cooperatives of retailers	29748	75	452762	118,5	<a href="http://www.commerce-associe.fr">www.commerce-associe.fr</a>
<b>Worker cooperatives</b>	SCOP's (French worker cooperatives)	22016	1925	40424	3,9	<a href="http://www.les-scop.coop">www.les-scop.coop</a>
<b>Credit cooperatives</b>	BPCE Group	7 700 000	8200 agencies	127000	21,2	<a href="http://www.bpce.fr">www.bpce.fr</a>
	Credit Agricole Group	6 500 000	2540 local banks	160000	31,3	<a href="http://www.credit-agricole.fr">www.credit-agricole.fr</a>
	CréditMutuel	7 400 000	NC	72465	13,6	<a href="http://www.credit-mutuel.com">www.credit-mutuel.com</a>

Source: CoopFR, 2010

<sup>4</sup> CoopFR is the national federation for all the cooperatives in France.

In agriculture, there are also some special cooperatives called Coopératives d'Utilisation du Matériel Agricole (CUMA) whose object is to centralize resources in order to buy farm equipment and share in its use. There were 13,400 CUMAs in France in 2009 and 50% of the farmers were members of a CUMA. The total turnover of CUMAs was 464 million euros in 2009, and they employed 5,500 people<sup>5</sup>.

### Market share of farmers' cooperatives in the food chain

Table 4: Market Share of Cooperatives and their subsidiaries

Sectors	Agricultural Cooperatives (N°)		Market Share (%)		Farmer Members ('000)		Turnover (billion€)		Salaried Workers ('000)	
	2003	2010	2003	2010	2003	2010	2003	2010	2003	2010
<b>Cereals</b>	350	195	74	74	300	300	11,2	11	25	25
<b>Sugar</b>	9	4	62	62	12,5	18	1,9	3,7	8,4	1,9
<b>Feedingstuffs</b>	91	41	60	70	N/A	72	3	3	9,3	6
<b>Milk &amp; Dairy products</b>	340	260	Collecting 47	Collecting 55 Milk 47 Butter 50	75	45	7	7,1	20,2	20
<b>Beef &amp; Cattle</b>	285	213	Pigs 91	Pigs 94 Beef 33	110	96,3	10,1	11,9	21,2	20,2
<b>Pig meat</b>			Beef 36							
<b>Eggs &amp; Poultry</b>	N/A	N/A	Poultry 55 Eggs 30	Poultry 60 Eggs 30	N/A	3,5	N/A	N/A	N/A	N/A
<b>Insemination</b>	80	56	95	N/A	200	235	0,20	N/A	3,50	N/A
<b>Olive Oil</b>	N/A	N/A	49	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Wine</b>	900	715	AOC Label Wine 38 Champagne 30	AOC Label Wine 38 IGP Label Wine 72 Champagne 36 Other Wines 40	120	84	4	4,8	8,70	8,3
<b>Tobacco</b>	10	7	100	100	5,7	2,456		0,063	0,25	0,21
<b>Fruit &amp; Vegetables</b>	350	300	Fruit 35 Vegetables 25	Fresh Fruit 35 Fresh Vegetables 30 Ready-to- eat vegetables 45 Canned vegetables 40	35,00	35	3,8	4,5	8	10
<b>Honey</b>	12	12	20	20	1,00	1	0,02	0,014	0,03	0,03
<b>Forestry</b>	39	27	20	23	70,00	87	0,20	0,22	0,90	0,86

Sources: Coop de France, 2004, 2010

<sup>5</sup>For more information on this type of cooperative please refer to [www.cuma.fr](http://www.cuma.fr)

Cooperatives lead in some important sectors like cereals, sugar, pig meat and feeding stuffs. In wine, cooperatives lead for IGP Label wines, but have smaller market shares in champagne and AOC wines. In the dairy sector, one half of the market belongs to cooperatives and the other half to investor-owned firms. In fruit and vegetables, and beef meat, investor-owned firms dominate.

### 3.2 List of the top 50 biggest farmers' cooperatives

To establish this top 50 list we decided to exclude all the commercial unions for cereals created between several cooperatives and the unions for supplies (except InVivo<sup>6</sup>) in order to avoid duplicate counting. We established the top 50 list on the basis of the 2009 turnover because we do not have all the data for the year 2010.

Table 5a: The 50 biggest farmers' cooperatives in the food chain of France

Position	Name of Cooperative	Sector/Activity	Turnover 2009 (million €)
1	INVIVO	Supplies	5085
2	TERRENA	Multipurpose	3484
3	TEREOS	Sugar	3409
4	AXEREAL	Cereals/Supplies	2800
5	CHAMPAGNE CEREALES	Cereals/Supplies	2512
6	SODIAAL	Dairy	2486
7	TRISKALIA	Multipurpose	2200
8	AGRIAL	Multipurpose	2171
9	COOPERL ARC ATLANTIQUE	Meat	1461
10	EVEN	Dairy	1360
11	LES MAITRES LAITIERS	Retailing, Dairy	1305
12	EURALIS UNION	Multipurpose	1294
13	LIMAGRAIN	Seeds	1233
14	CRISTAL UNION	Sugar	1213
15	CECAB	Multipurpose	1147
16	MAISADOUR	Multipurpose	1003
17	UNEAL	Cereals/Supplies	820
18	SCAEL	Cereals/Supplies	686
19	GLAC	Dairy	665
20	3A	Dairy	637
21	CAVAC	Multipurpose	612
22	EURIAL - POITOURAINE	Dairy	600
23	ARTERRIS	Cereals/Supplies	587
24	CAP SEINE	Cereals/Supplies	570
25	LE GOUESSANT	Cereals/Supplies	511
26	NORIAP	Cereals/Supplies	476
27	NOURICIA	Cereals/Supplies	461
28	DIJON CEREALES	Cereals/Supplies	438
29	TERRES DU SUD	Multipurpose	438
30	LUR BERRI	Multipurpose	434

<sup>6</sup> We kept InVivo because it is also involved in feeding stuffs, unlike commercial unions or unions for supplies.

31	EMC2	Cereals/Supplies	422
32	EOLYS	Multipurpose	413
33	SICAREV	Meat	410
34	L'ERMITAGE	Dairy	386
35	VIVADOUR	Cereals/Supplies	383
36	COHESIS	Cereals/Supplies	336
37	COMPTOIR AGRICOLE	Cereals/Supplies	335
38	LA DAUPHINOISE	Cereals/Supplies	314
39	LA PROSPERITE FERMIERE	Dairy	307
40	LORCA	Cereals/Supplies	289
41	CIALYN	Meat	288
42	PRESTOR	Meat	270
43	CENTRE OUEST CEREALES	Cereals/Supplies	270
44	CORALIS	Multipurpose	266
45	PIGALYS	Meat	259
46	CAP 50 PORCS	Meat	253
47	CAM 53	Multipurpose	242
48	CAL 54	Cereals/Supplies	241
49	CAFEL	Meat	237
50	VALFRANCE	Cereals/Supplies	220

\* Estimate including Entremont Alliance. Source: Frey, O., Mauget, R. (2010).

Table 5b : The 10 biggest farmers' cooperatives in the food chain of France in 2010

Position	Name of Cooperative	Sector/Activity	Turnover 2010 (million €)
1	INVIVO	Supplies	4,433
2	SODIAAL	Dairy	4,021*
3	TERRENA	Multipurpose	3,871
4	TEREOS	Sugar	3,615
5	CHAMPAGNE CEREALES	Cereals/Supplies	2,443
6	AGRIAL	Multipurpose	2,261
7	AXEREAL	Cereals/Supplies	2,205
8	TRISKALIA	Multipurpose	2,200
9	EVEN	Dairy	1,767
10	COOPERL ARC ATLANTIQUE	Meat	1,700

\* Estimate after the acquisition of Entremont Alliance. Source: Cooperatives' websites and annual reports, 2011

In 2010 InVivo is still the leading cooperative in France but its turnover has decreased because the price of agricultural commodities went down. The increase in Sodiaal's turnover is due to a change in the consolidation scope, with the acquisition of Entremont Alliance. Axereal's turnover decreased because of the drop in cereal prices.

### 3.3 List of top 5 biggest farmers' cooperatives per sector

Table 6: The biggest cooperatives in the sectors studied in this project

Sector	Position	Name of Cooperative	Turnover 2009 (million €)
Cereals <sup>7</sup>	1	AXEREAL	2,800
	2	CHAMPAGNE CEREALES	2,512
	3	UNEAL	820
	4	SCAEL	686
	5	ARTERRIS	587
Sugar <sup>8</sup>	1	TEREOS	3,409
	2	CRISTAL UNION	1,213
Fruits and	1	SICA ST POL	209
	2	UNION VERGERS BLUE WHALE	171
	3	FRANCE PRUNE	170
	4	SAVEOL	141
	5	UCPT	108
Wine	1	VAL D'ORBIEU	178
	2	CVC - NICOLAS FEUILLATE	174
	3	UNION CHAMPAGNE SAINT GALL	100
	4	UNION AUBOISE	100
	5	EVOC	94
Dairy	1	SODIAAL UNION	2,486
	2	EVEN	1,360
	3	GLAC	665
	4	3A	637
	5	EURIAL	600
Pig meat	1	COOPERL ARCATLANTIQUE	1,461
	2	AVELTIS	400*
	3	PRESTOR	270
	4	CAP 50 PORCS	253
	5	PORC ARMOR	189

\*Created in 2010, Estimate for 2009

### 3.4 Transnational cooperatives

Many cooperatives are active internationally. In most cases, the foreign activities of cooperatives are limited to marketing, trade and sales. Usually they do not buy agricultural products from farmers, or supply inputs to them. However, there are growing numbers of cooperatives that do business with farmers in other EU Member States. These cooperatives are called international cooperatives. They can be marketing cooperatives that buy from farmers in different countries, or they could be supply cooperatives that sell inputs to farmers in different countries. One particular group of international cooperatives includes the so-called transnational cooperative. These cooperatives do not just contract with farmers to buy their products or to sell them

<sup>7</sup> We did not include InVivo in the top 5 for cereals because it is a 2<sup>nd</sup> degree cooperative and it is more a supply cooperative than a cereals cooperative.

<sup>8</sup> There are only two cooperatives left in the sugar sector, since Cristal Union acquired La Sucrierie de Bourdon in early 2011.

inputs; they actually have a membership relationship with those supplying or purchasing farmers. In short, a transnational cooperative has members in more than one country.

Table 7 below presents the foreign transnational cooperatives and the international cooperatives active in France. These are cooperatives from other EU Member States that have come to France to trade directly with farmers, either as members or as contractual customers.

Table 7: The foreign transnational cooperatives and international cooperatives that are trading with farmers in France

<b>Name of the Cooperative</b>	<b>Mother country</b>	<b>Sector(s) involved in:</b>
<b>Transnationals</b>		
-		
<b>Internationals</b>		
Südzucker	GER	Sugar

Table 8: The transnational cooperatives and international cooperatives from France that are trading with farmers in other countries.

<b>Name of the Cooperative</b>	<b>Host countries</b>	<b>Sector(s) involved in:</b>
<b>Transnationals<sup>9</sup></b>		
<b>Internationals</b>		
Axereal	United Kingdom, Belgium, Ireland, Hungary, Romania	Cereals (malting)
Champagne Céréales	United Kingdom, Belgium, Netherlands, Austria, Sweden, Germany, Poland, Hungary, Romania, Greece, Italy, Spain, Portugal, Ukraine	Cereals (malting)
Maïsadour	Spain, Germany, Portugal, Italy, Belgium, Poland, Hungary, Romania,	Seeds, Meat
Agrial	United Kingdom, Spain, Portugal, Italy	Vegetables
Cecab	United Kingdom, Germany, Spain, Italy, Hungary, Poland	Vegetables
InVivo	Spain, Italy, Romania, Portugal, Hungary, Czech Republic	Feeding stuffs

<sup>9</sup> InVivo has confirmed by e-mail that it does not consider itself to be a transnational.

Euralis	Spain, Bulgaria	Meat, Foie gras
Tereos	Belgium, Spain, United Kingdom, Italy, Czech Republic	Sugar
Sodiaal	Italy, Spain, Portugal, Germany, United Kingdom, Ireland...	Dairy
Limagrain	United Kingdom, Italy, Spain, Germany, Poland, Belgium, Romania, Hungary...	Seeds

Table 8 above presents the transnational and international cooperatives that have their headquarters in France. They have gone international by taking on members in other countries and/or by doing business with non-member farmers in other countries.

For the moment, there are no data in the national databases about transnational cooperatives in France, and the experts we interviewed did not know whether there were transnational cooperatives in their sector. But there are a few cooperatives which are international: these cooperatives are international via their subsidiaries.

## 4 Description of the evolution and position of individual cooperatives

### 4.1 Data gathering per cooperative

Most of the data concerning the financial elements were taken from the different annual reports and from a database on French companies called DIANE<sup>10</sup>.

Table 10: Source of information available for the cooperatives

Name of Cooperative	Annual Report	Diane	Last year available in Diane
AXEREAL	Yes	Yes	2010
CHAMPAGNE CEREALES	Yes	Yes	2009
UNEAL	Yes	Yes	2007
SCAEL	Yes	Yes	2009
ARTERRIS	Yes	Yes	2009
TEREOS	Yes	Yes, but not consolidated	2009
CRISTAL UNION	Yes	Yes	2006
SICA ST POL	No	Yes	2010
UNION VERGERS BLUE WHALE	No	Yes	2009
FRANCE PRUNE	No	No	
SAVEOL	No	Yes	2009
UCPT	No	Yes	2006
VAL D'ORBIEU	No	Yes	2009
CVC - NICOLAS FEUILLATE	Yes	Yes	2009
UNION CHAMPAGNE SAINT GALL	No	Yes	2010
UAPVC	No	Yes	2008
EVOG	No	Yes	2009
SODIAAL UNION	Yes but 2009	Yes	2009
EVEN	No	No	
GLAC	No	Yes but not consolidated	2009
3A	No	No	
EURIAL	No	Yes but not consolidated	2008
COOPERL ARCATLANTIQUE	No	Yes	2008
AVELTIS	No	No	
PRESTOR	No	Yes	2008
PORC ARMOR	No	Yes	2009
CAP 50 PORCS	No	Yes	2009

Unfortunately, we could not obtain the annual reports for all the coops in the top 5 because only a certain number of big cooperatives produce such a document. This is because most of the cooperatives are not obliged to publish their accounts<sup>11</sup>. Moreover, the Diane database is not complete and, for some cooperatives, data were missing, or the latest year available was neither 2010 nor 2009.

<sup>10</sup> <https://dianeneo.bvdep.com/version-2011518/Home.serv?product=diane2006>

<sup>11</sup> All co-operatives with a minimum turnover exceeds € 534 000 and or ten employees or € 267 000 t of total assets (2 of 3 criteria) are legally obliged to publish their accounts (Art. R 524-22-1 rural Code).

In order to complete the data, we checked all the websites to gather information about governance or the different activities of the cooperative. We also used a press review covering the last 10 years, established by Arnaud Camuset, who is in charge of business intelligence at Coop de France. For the top 50, and the general facts part, we worked with Arnaud Camuset. For the internal governance elements, we worked with Chantal Chomel, who is head of the legal department at Coop de France.

We tried to contact some of the cooperatives by telephone, but they did not want to answer any of our questions.

For the olive oil cooperatives, we contacted the national federation, but they did not have any data that were useful for this particular project.

When we could not obtain any data or confirmation, we decided to put N/A in the cell.

We would like to point out the fact that we worked at group level, not cooperative level. For example, most of the processing for Champagne Cereales is done via subsidiaries, so it was important to work at group level.

## **4.2 Position in the food chain**

In France, agricultural cooperatives represent around 40% of agribusiness (Coop de France, 2010). Initially, cooperatives simply collected products from their farmer members but, over the years, they have increasingly invested in first and second processing. Nowadays, most of the processing is done via subsidiaries and the weight of subsidiaries has become bigger and bigger.

The development of subsidiarization accelerated subsequent to the laws of January 3<sup>rd</sup> 1991 on the agricultural cooperatives provisions and the law of July 13<sup>th</sup> 1992 on the modernisation of cooperative companies, and most of the processing activities of cooperatives have since been transferred to subsidiaries (see Table 11 below).

The rising power of mass-market retailing is one of the main reasons for which agribusiness companies, and agricultural cooperatives in particular, had to invest in brand policies in order to maintain a strong link with the consumer. This strategy induced a lot of investments, and the pressure for concentration grew further. The Law of 1991 had 5 main objectives: to boost the investment of cooperatives in processing activities, to enhance the means of financing of this investment, to maintain the status of agricultural cooperation, to allow employees to take part in the development of the cooperative and to correct the distortions of competition with investor-owned firms (Vial, 2007)<sup>12</sup>.

The law of Finance for 1991, the financial tax counterpart of the Law of January 3<sup>rd</sup> 1991, introduced severe taxation for the “closed SICAs”, which led to the transformation of most of those “closed SICAs” into non-cooperative subsidiaries.

As we can see in the Figures below, the majority of employees are now located in the subsidiaries (32% of total employees of agricultural cooperatives in 1995, but 46% in 2005).

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<sup>12</sup> The distortions in competition were due to a special type of agricultural cooperative called Société d'Intérêt Collectif Agricole (SICA). Before the law of 1991, a growing number of « closed SICAs » were created in order to handle the commodity trading business and the industrial development of cooperatives. The SICAs were « closed » because instead of involving non-cooperative and cooperative partners as envisaged by the Law of August 8<sup>th</sup>, 1962, they only involved cooperatives (this was not explicitly forbidden by the law of August 8<sup>th</sup>, 1962) and therefore benefited from the special tax regime of cooperatives and the specific subsidies accorded to them.

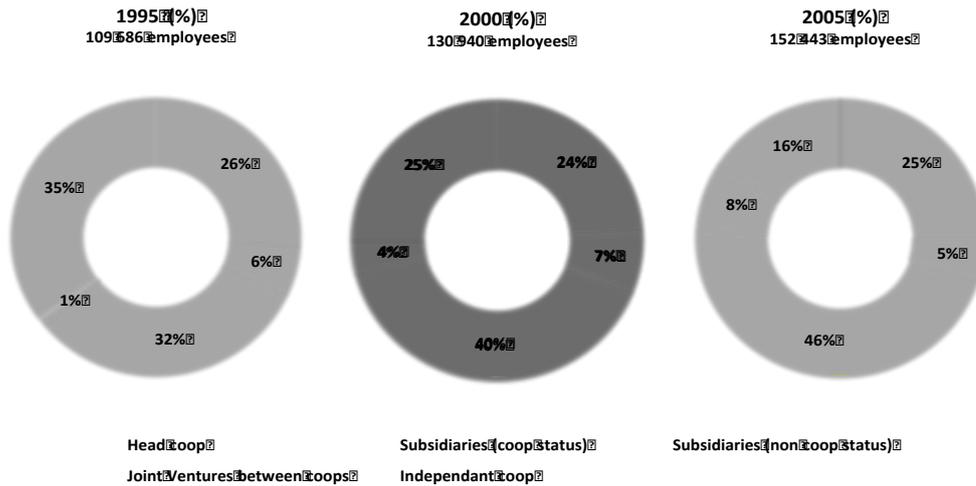


Figure 9: Evolution of the distribution of employees in the agricultural cooperatives in France. Sources : Insee-Sessi-Scees – Enquêtes Lifi et EAE 1995, 2000 et 2005

Cooperatives invested in processing not only to add more value to the production of their farmer members, but also in order to « save » some agricultural sectors. Investing in processing is sometimes more a matter of maintaining market share than it is of increasing market share: cooperatives control most of the upstream food chain (75% of French farmers are members of at least one coop) and have to sell off all the products of their farmer members upstream of the chain. Hence, they are in first line when certain agricultural sectors are in a state of crisis and, in the past, they bought some companies that were in a difficult position (in dairy, poultry, foie gras...) or because private investors decided to invest in more profitable sectors and sold their shares. For example, in 2001, Terrena bought some of the assets of Bourgoin, once a great success in poultry, but which later went bankrupt. In 2003, the Italian company Edison decided to sell its French sugar subsidiary, Béghin Say, and Tereos seized the opportunity to grow. In 2010, Sodiaal bought Entremont Alliance, a company specialized in cheese, which was indebted.

Each year, Coop de France evaluates the number of operations of mergers and acquisitions made by cooperatives and the value of those operations (in terms of turnover).

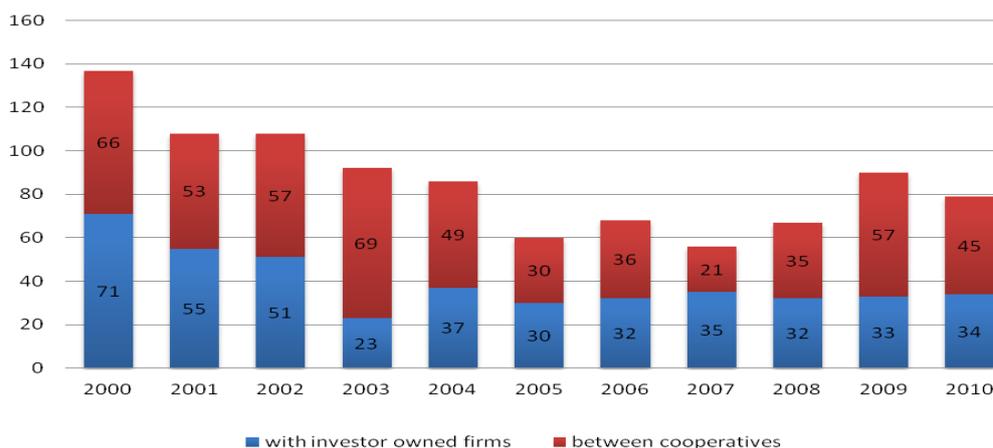
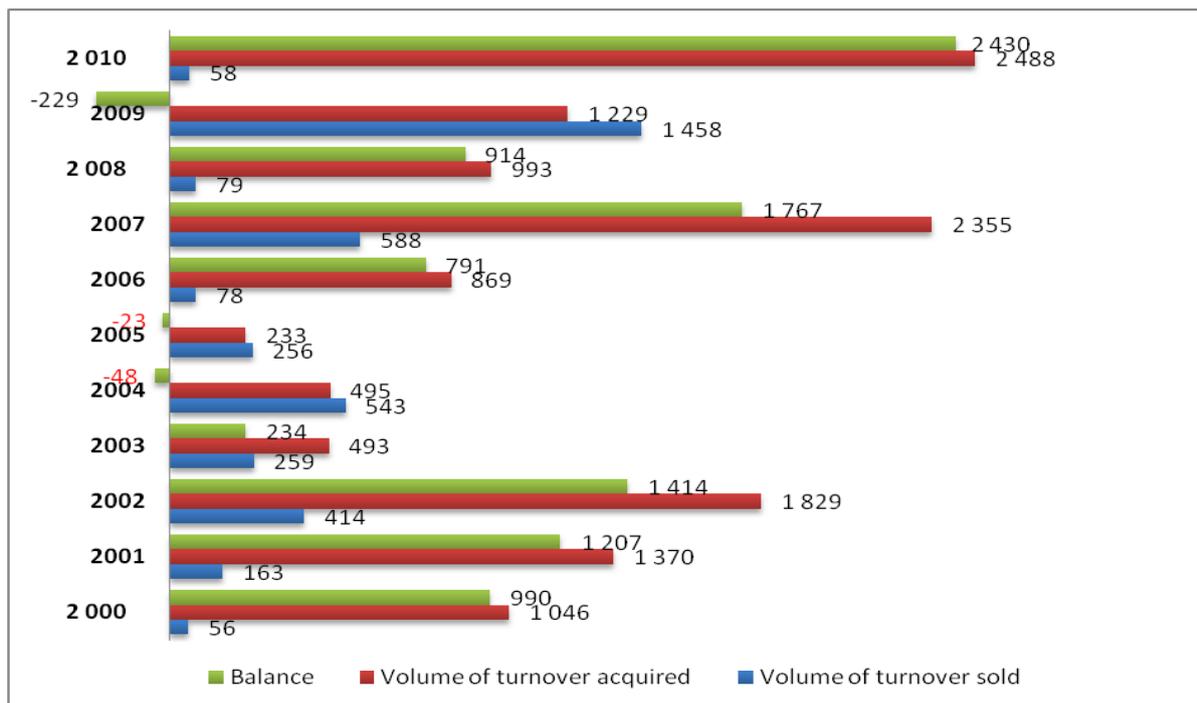


Figure 10: Number of mergers and acquisitions made by French agricultural cooperatives. Source: Coop de France, 2010

Between 2000 and 2010 there were 957 mergers and acquisitions involving cooperatives, and 45% of those operations were made with investor-owned firms.

Table 13: Volume of turnover exchanged through the mergers and acquisitions of French agricultural cooperatives



Source: Coop de France, 2010

As shown in Table 13, the value of the acquisitions made by French cooperatives was quite high in 2000, 2001 and 2002 because of a number of major operations like Béghin Say or Grands Moulins de Paris. Between 2003 and 2007, there were no major acquisitions, and the number of operations decreased. In 2007 and 2008, the number of operations and the value increased (InVivo bought Evialis). In 2009, the sale of Socopa to Bigard had a negative impact. Over the years 2000-2010, the balance was largely positive, with a total of around 9.4 billion euros of turnover being gained by cooperatives.

### 4.3 Institutional environment

Between 1880 and 1890, many Farmers' associations were created. On March 21<sup>st</sup> 1884, the law on unions was passed: this stipulates that one of the objects of unions can be the "defence of agricultural interests". Soon afterwards, many agricultural unions were created and often, the "defence of agricultural interests" was interpreted as permission to bundle the purchases of all the products necessary for the professional activity of the unionists. The law of March 12<sup>th</sup> 1920 made this interpretation official, specifying that unions are authorized to buy, in order to allocate such things between members, "farm machines, fertilizers, seeds, plants, animals and animal feedings"<sup>13</sup>. In 1920, there were 15,000 farmer unions, most of which later became cooperatives (Pedrotti, 1983).

The Law of December 29<sup>th</sup> 1906 introduced the possibility for processing and marketing cooperatives to obtain long-term advance payments, without interest, from the State via the agricultural credit cooperatives. The only condition for cooperatives asking for a long-term advance payment was that they had to write into their statutes a clause specifying that the surplus had to be allocated according to the contributions of members.

<sup>13</sup> In fact, this is still written in Article L. 411-18 of the French Labour Code.

After WWI, the French State decided that reconstruction in the devastated regions and the revitalization of the economy in the countryside would be done with the help of agricultural cooperatives. Therefore, more financial inducements were given to cooperatives.

The decree-Law of August 8<sup>th</sup> 1935 imposed certain conditions, such as the rule of one man-one vote, and indivisible reserves to companies who wanted to be called “agricultural cooperative societies”. For these companies, the advantages were really important: in addition to new loan facilities, the “officialised” cooperatives were exempted from the tax on industrial and commercial profits and the tax on turnover.

The Law of August 15<sup>th</sup> 1936 imposed the requirement that only stocking cooperatives were allowed to collect all the wheat available, which contributed to the multiplication of cereals’ cooperatives between 1936 and 1939. During this period, the number of cereal cooperatives rose from a few dozen to more than one thousand.

The equipment grants that appeared in 1939, given to cooperatives for 20% of their investments, explain the rise in market share of cooperatives in processing and marketing. Without those grants, many investments would not have been made.

In 1947, a specific law for all cooperatives, including agricultural one, was passed, and, to the present day, this is still the baseline law for agricultural cooperatives in France.

In fact, all the successive governments from 1880 to the end of the 50s paid a lot of attention to agricultural cooperatives (Nicolas, 1988). But, until, the 50s, expansion mainly concerned cereal cooperatives and wine cooperatives.

During the 60s, the State did not pay the same attention to agricultural cooperatives, as illustrated by two legislative enactments: the Ordinance of September 26<sup>th</sup> 1967 on legal status, and Title III of the law complementary to the Agricultural orientation Law (August 8<sup>th</sup> 1962) on producer organisations.

In the Law of August 8<sup>th</sup> 1962, agricultural cooperatives are only recognized as “producer organisations”, in the same terms as specialized professional unions and associations under the 1901 Law. Even if this did not exclude cooperatives, the neutral attitude of the legislator has promoted, through successive texts, a non-cooperative economic organisation (Nicolas, 1995). This neutrality also led to a certain trivialisation of cooperatives, which slowly became “companies like others”.

As Nicolas (1988) explains, “it is because of economical and technical needs and not thanks to the decisions of the legislature that agricultural cooperatives represented 75% of the producer organisations at the end of the 70s”.

In 1966, the Confédération Française de la Coopération Agricole (CFCA) was created, in order to represent all the agricultural cooperatives<sup>14</sup>.

The Ordinance of September 26<sup>th</sup> 1967 on agricultural cooperatives and their unions offered the possibility for agricultural cooperatives to be either civil or commercial. If they chose to be commercial, they were allowed to hold a controlling interest in a commercial company but, on the other hand, they lost the tax advantages offered by the cooperative status. This ordinance was criticised by the entire profession and was later replaced by the Law of 1972.

The Law of June 7<sup>th</sup> 1972 stated that agricultural cooperatives would keep their tax and financial advantages while given the opportunity, thanks to options, to benefit from a relaxation of the constraints (Nicolas, 1995). The law gave an autonomous status with options to the

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<sup>14</sup> This organization still exists but is now called Coop de France.

cooperatives, and had a positive impact on the development of cooperative groups (thanks, especially, to the exclusiveness exemption and the faculty of working with non-members).

For Pedrotti (1983), the development of agricultural cooperatives in the 70s was due to the evolution of the legislation in France and in Europe: the required conditions for the “recognized producer organisations” had reached the point where the farmers who wanted to benefit from of market support aids often had only one solution, that of becoming a member of a cooperative.

In 1991 and 1992, two new laws were passed; they induced greater subsidiarization and the development of cooperative groups (see Section 3.2 for details).

After the laws of 1991/92, the development of cooperative groups constituted a major evolution for the French agricultural cooperatives. Since then, most cooperative activities, especially processing activities, have been transferred to subsidiaries. The creation of subsidiaries allows cooperative to work with third parties and is a way to overcome the constraint of the limitation of the ceiling to 20% of the turnover made with outside parties.

In 2006, Ordinance N° 2006-1225 of October 5<sup>th</sup> introduced measures concerning the control of companies and the consolidation of agricultural cooperatives and their unions (Art. L 524-6 of the Rural Code extends articles L 233-16 to 27 of the Commercial Code). The creation of a « Haut Conseil de la Coopération Agricole » (L. 528) in order to manage the legal aspects concerning cooperatives has been proposed.

Alongside this legislation, there was also financial support from the State, such as grants, low interest rates, non-taxation...

The concentration of retailers has also put pressure on agricultural cooperatives, and in response, they have invested in processing, developed brands and have begun to concentrate.

The national federation for all the cooperatives in France is called CoopFR ([www.entreprises.coop](http://www.entreprises.coop)).

For agricultural cooperatives, the national federation is Coop de France ([www.coopdefrance.coop](http://www.coopdefrance.coop)), which has been in existence since 1966. It is structured around 5 areas of expertise:

- legal and fiscal affairs
- social affairs
- industry, distribution and consumption
- sustainable development
- external relations

Below Coop de France, there are also several national federations specialized by activity:

- CCVF : Confédération des Coopératives Vinicoles de France
- FCB : Fédération Nationale des Coopératives de Collecte et de Transformation de la Betterave
- FEDAPI : Fédération Nationale des Coopératives Apicoles Françaises
- FELCOOP : Fédération Française de la Coopération Fruitière, Légumière et Horticole
- FESTAL : Fédération Syndicale du Teillage Agricole du Lin

- FNCL : Fédération Nationale des Coopératives Laitières
- FNCUMA : Fédération Nationale des Coopératives d'Utilisation de Matériel Agricole
- FNDCV : Fédération Nationale des Distilleries Coopératives Vinicoles
- FNPAAM : Fédération Nationale des Plantes à Parfum, Aromatiques et Médicinales
- FNSICAE : Fédération Nationale des SICA d'Electricité
- France TABAC : Union des Coopératives Agricoles des Planteurs de Tabac de France
- UCFF : Union de la Coopération Forestière Française
- UNCEIA : Union Nationale des Coopératives Elevage et d'Insémination Animale

#### **4.4 Internal Governance**

In France, there are only two possible modes of administration: either a board of administrators composed of elected farmer members, with a chairman and a managing director, or a structure with two separate boards (management and supervisory board). But most French cooperatives have a governance system that consists of a board of administrators and a professional management team. Once a year, every member is invited to the general assembly in order to discuss strategic decisions and to participate in the decision process. Each member has only one vote. There are some exceptions, such as in the case of unions, where the vote can be proportional to the level of activity.

In fact, only a few cooperatives have a management and supervisory board approach (Tereos or Union Aubeoise, for example).

The president of the board of directors is an administrator who represents either a territorial zone or a producer organisation.

If the board of directors takes the final decision, the bureau of the board is also a very important structure. The “bureau” is composed of administrators who represent an activity and/or a territorial zone. The “bureau” is usually the main interlocutor of management. Hence, the choice of the members of the “bureau” is very strategic. The members of the bureau are more called upon than the other administrators and the “bureau” meets more often than the board of directors. If the “bureau” appears to be the core structure of the cooperative, this does not mean that there is a two-speed board of administrators, because the members of the “bureau” can be renewed more often than the administrators. There is a growing separation between the political functions, which are assumed by the “bureau”, and the operational functions, which are assumed by the management. The association between the “bureau” and the management becomes more and more similar to the association between a supervisory board and a managing board, because the division of tasks between the “bureau” and the management is increasingly pronounced.

It is usually the manager or the president who represents the cooperative at the board of directors of the subsidiaries.

The decision process associates administrators and the management more closely in cooperatives than in investor-owned firms. For some managers who come from investor-owned firms, this can be disturbing, because the decision process takes more time than in investor-owned firms.

## 4.5 Performance of the cooperatives

We see then that the performances of cooperatives vary according to the sector involved. These performances have been influenced by the CAP but also by other policies, whether those of the Common Market Organization or domestic policies, which are more focused on products.

In the cereals sector, there are two leading cooperatives (Axereal and Champagne Céréales). Those two cooperatives have the same strategy, which consists in investing abroad and diversifying their activities. However, some more modest cooperatives also play an important role in the collecting of cereals and have good financial results (Uneal, Scael, Arterris).

In the sugar sector, only two cooperatives remain but those two cooperatives are leaders in the sector. They both have a diversification policy: to depend less on sugar, Tereos chose first to diversify into the production of ethanol and then into the production of starch, whereas Cristal Union has focused mainly on ethanol.

In the fruit and vegetables sector, the cooperatives are not leaders, being only of average size in comparison. They have not, therefore, invested in second processing but have focused on fresh products. They have oriented their strategies on high value added products by developing brands (Saveol in tomatoes, and Blue Whale for apples) and product innovations. These cooperatives have also developed partnerships with certain major manufacturers.

In the wine sector, the activity is highly fragmented and cooperatives are medium-sized actors. But there is a distinction between cooperatives that produce red or white wines (Val d'Orbieu and EVOC) and those that produce Champagne (Nicolas Feuillatte, Union Aubeoise and Union Champagne Saint Gall) because grape prices and strategies are different.

In the dairy sector, cooperatives have been major actors of restructuring these last few years. Sodiaal, especially, has played a very important role because it has set up some major partnerships with some of the private leaders (Bongrain, Entremont) and cooperatives. With the purchase of Entremont in 2010, Sodiaal has now reached a critical size. Besides Sodiaal, there are a few medium-sized cooperatives (GLAC, Eurial, Even, 3A), and there are still a lot of small cooperatives. More concentration is expected.

In the pig sector, one cooperative (Cooperl) has emerged as a national leader. Some other cooperatives have merged during the last 3 years (Prestor, Aveltis) as a response to the crisis. In general, cooperatives have not greatly invested in second processing.

One consequence of all of this is that the performances of cooperatives are extremely diversified. The positioning of cooperatives in the food chain is, therefore, directly dependent on their performances, but also on their size and complexity. This, in turn, has had an effect on their particular form of governance. All of this is detailed sector by sector in the section below.

## 5 Sector analysis

### 5.1 Introduction

In this chapter we discuss the developments in the eight sectors that are central in this study. We report on trends in the markets, major changes in (agricultural) policy, and we try to link this to the strategies and performance of the investor-owned firms and cooperatives in the sector. The period of observation is 2000 – 2010.

### 5.2 Cereals

With 69.9 million tons (excluding rice), France is the leading European producer for cereals, with around 24% of the total production of the EU. Soft wheat represents half of the French production of cereals. The production of cereals in France occupies 49% of the arable land and employs some 520,000 people. Every year, around 47% of the production is exported, 37% is processed, and the rest goes to autoconsumption.

There are 600 companies involved in the 1<sup>st</sup> stage of processing and 35,000 companies involved in the 2<sup>nd</sup> stage of processing.

The cumulated turnover of the cereals sector in France is around 54 billion euros, with production representing 18%, collection and storage 30%, 1<sup>st</sup> processing 20% and 2<sup>nd</sup> processing 32%.

Most of the cereals are bought from producers via the companies authorized by FranceAgriMer<sup>15</sup>. Those companies are of two types: cooperatives on the one hand, and grain trading firms on the other.

#### **The most significant companies in the cereals sector in France in 2009 (by tons of cereals collected)**

<b>Company</b>	<b>Legal Form</b>	<b>Cereals collected in 2009 (millions of tons)</b>	<b>Turnover 2009 (million euros)</b>
Axéral	Cooperative	4.6	2,800
Groupe Soufflet	Investor-owned firm	4	3,018
Champagne Céréales	Cooperative	2.5	2,512
Terrena <sup>16</sup>	Cooperative	1.8	3,484
Capseine	Cooperative	1.5	570
Noriap	Cooperative	1.4	476
Unéal	Cooperative	1.3	819
Nouricia	Cooperative	1	460
Dijon Céréales	Cooperative	0.9	438

Sources: Annual reports, websites 2010

As shown in the table above, the cereals sector is dominated by cooperatives. Only one investor-owned firm is included in the top ten. The cereals sector is still fragmented, the first 10 companies representing less than 30% of total collecting.

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<sup>15</sup> FranceAgriMer is the French farm office

<sup>16</sup>We have not included Terrena in the top 5 of the cereals sector because it is a multipurpose cooperative.

## Policies

As cooperatives play an important role in the cereals sector and are also responsible for the distribution of crop protection products and a part of the marketing of their members' production, any cereals sector policy whatsoever will have an impact on them.

In the 30s, with its organisation of the wheat market, the State played a very important role in the development of the cereals cooperatives. In 1936, the « Office National Interprofessionnel du Blé » (ONIB) was created in order to control wheat trading. The Law of August 15<sup>th</sup> 1936 imposed that only storage agencies, and cooperatives in particular, were allowed to collect all the wheat available. Therefore, a direct user (miller, baker) could no longer buy cereals from a single producer, only the certified storage agencies were authorized to do so. This contributed to the multiplication of cereals cooperatives and to the construction of several storage silos between 1936 and 1939. During that period, the number of cereals cooperatives rose from a few dozen to more than one thousand. During the 50s and 60s, cereals cooperatives expanded their storage capacities and their exports (for example, in 1962, UNCAC became the leading French exporter of cereals).

Thanks to the CAP, the prices of cereals have long been protected and exports subsidised, but this has not induced any incentive for the restructuring of the sector. But the reform of the CAP in 1992 had a great impact on cereals cooperatives: within the space of ten years, 40% of the cereals cooperatives disappeared (most of them because of mergers) and the turnover of the remaining ones decreased by 25% during the same period, along with the decrease in cereals prices. Collecting turnover decreased by 40%. The supplying of crop protection products helped cooperatives cushion the shock. But the reform of 1992 also showed the capacity of cooperatives to adapt, because they managed to achieve productivity improvements and to reduce their costs.

Between July 1992 and March 2011, the price of intervention for cereals dropped from 163.49€ to 101.31€ (-38%) in constant euros. The measures adopted during the health check of the CAP in 2008 (further reduction in price supports, removal of the set-aside obligation, decoupling of nearly all direct payments...) will have an impact on the cereals cooperatives.

In 2008, the “plan Ecophyto 2018<sup>17</sup>” was created: its main objective is to “reduce the use of pesticides by 50% by 2018, if possible”. Such a reduction will certainly have an impact on most cereals cooperatives because it might decrease the margin on the resale of crop protection and/or lead to a decrease in the yields of cereals (especially if agricultural practices do not change). Experts believe that a 20% reduction is possible and that it will not affect the yields, but that the remaining 30% will be hard to obtain.

## Cooperatives

Between 1990 and 2010, the number of cooperatives in the cereals sector decreased from 420 to 195 (Coop de France Métiers du Grains, 2010). There was a wave of concentration at the beginning of the 90s, following the laws of 1991 and 1992. Since 2000, there has been a new wave of concentration (the creation of Terrena, Axereal, Siclae...)

Cooperatives specialized in cereals have gone beyond their initial function of collectors, and have increasingly invested in processing in order to give more value added to their members. As shown in the table below, the role of cooperatives in processing has been growing since the end of the 70s.

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<sup>17</sup> For more information, please refer to <http://agriculture.gouv.fr/ecophyto-en-bref>

## Market shares of cooperatives in the cereals sector

	1978	1988	1995	2010
<b>Collecting</b>	68%	71%	75%	74%
<b>Malting industry</b>	20%	35%	32%	40%
<b>Corn industry</b>	20%	20%	40%	50%
<b>Milling industry</b>	7%	18%	20%	40%

Sources : SCEES, CFCA, Coop de France

The investments in processing tools are a way for cooperatives to protect themselves against various market risks by controlling both supply and demand.

Since 2006, several cereals cooperatives have joined forces to create central purchasing organisations for supplies. The objective of these organisations is to group the purchase volumes of crop protection productions, fertilizers and seeds. In order to centralize the marketing of their cereals, especially in Northern Africa and Mediterranean countries, some cooperatives situated at some distance from major ports have also created unions for the common marketing of cereals.

### Main partnerships made by cooperatives in the cereals sector between 2000 and 2010

Year	Partners	Company
2005	Champagne Céréales, EMC2, Nouricia	Siclae

### Main mergers between cooperatives in the cereals sector between 2000 and 2010

Year	Cooperatives	Name of the new company
2001	SIGMA, UNCAA	InVivo
2002	Norepi, ABC	Cohesis
2008	Epis Centre, Agralys	Axéréal
2008	Usson du Poitou, Civray Capsud	Coréa Poitou-Charentes
2008	Cafa, Silos Mirandais	Gersycoop
2008	La Toulousaine, Audecoop, GCO	Arterris
2009	Syntéane, CAC 16	Charente Alliance
2009	Agrial, Union Set	Agrial
2010	Capafrance, Force 5, Oceal	Agora

### Main acquisitions made by cooperatives in the cereals sector between 2000 and 2010

Year	Cooperatives	Company bought
2001	Champagne Céréales	Grands Moulins de Paris
2004	Epis Centre	Boortmalt
2007	InVivo	Evalis
2007	Tereos	Tate & Lyle (5 starch factories)
2008	Champagne Céréales	ADM Malting
2010	Axéréal	Greencore Malt

## 5.3 Sugar

In France, sugar is mainly obtained from beet; France is the leading world producer of sugar beet, with 35.1 million tons in 2009/2010, and also the leading European sugar producer.

In 2010, there were 7 sugar companies with 25 sugar refineries, most of them being localized in North of France. By comparison, there were 34 sugar companies and 57 sugar refineries in France in 1980. This illustrates the major restructuring of the sugar sector during the last few decades. This restructuring accelerated after the reform of the sugar regime in 2006.

In France, the sugar sector is very concentrated, and the first four companies represented around 94% of sugar quotas in 2010.

### The leading companies in the sugar sector in France in 2009 (by turnover)

Company	Legal Form	Turnover 2009 (million euros)	Production 2009 (1000 tons)
Tereos	Cooperative	3,409	1 400
Cristal Union	Cooperative	1200	892
Saint Louis Sucre	Investor-owned Firm (by the German coop Südsucker)	708	N/A
Groupe Vermandoise	Investor-owned Firm	318	N/A

Sources :Annual reports, websites 2010

As shown in the table above, two cooperatives are leaders in the sugar sector.

### Policies

There are only three major sugar companies left in France, with two of them being cooperatives. Hence, any change in policy or regulation in the sugar sector has an impact on cooperatives.

The common market organization for sugar, which was created at the end of the 60s, introduced a quota system for each country, each region, each department and each farm. Until 2005, every farmer was allocated a quota of sugar beet production for each campaign. The corollary for the quota system was the fixation of an annual price for European sugar in and outside the quota (Kotbi and Sauvée, 2010).

In 2001, the Everything But Arms' agreement was signed between the European Union and 49 less developed countries in order to liberalize the international trade of sugar by totally suppressing custom duties starting from July 2009, after a transitional period of 3 years.

The European sugar regime had been criticized because it maintained an artificial European price that was far above the world market price (around 600€ a ton compared to 250-300€ a ton on the world market). Therefore, the EU decided to change the sugar regime, which led to the reform of 2006.

The reform of the EU sugar regime in 2006 and 2008 had a big impact on cooperatives : Tereos abandoned 13% of its quotas, and closed 3 sugar refineries, and Cristal Union closed 1 sugar refinery.

### Cooperatives

As in other European countries, the French sugar sector is concentrated mainly because of the reform of the EU's sugar regime. This reform induced a great deal of restructuring by EU producers and farmers.

After the Everything But Arms' agreement, Tereos decided to go international and invested in Brazil. Cristal Union decided to stay focused on France and Europe.

In 2011, Cristal Union bought La Vermandoise, and the two cooperatives now account for 75% of the French quotas and 80% of the production. With this acquisition, Cristal Union will have 4,000 more members.

#### **Main partnerships made by cooperatives in the sugar sector between 2000 and 2010**

<b>Year</b>	<b>Partners</b>	<b>Company</b>
2010	Tereos, Petrobras (Brazil)	Tereos Guarani
2010	Tereos, 8 French cereals cooperatives	Tereos Agro-Industrie

#### **Main mergers between cooperatives in the sugar sector between 2000 and 2010**

<b>Year</b>	<b>Cooperatives</b>	<b>Name of the new company</b>
2000	Arcis, Bazancourt, Corbeilles, Eclaron	Cristal Union
2006	Tereos, SDHF	Tereos
2007	Cristal Union, Sucrerie d'Erstein	Cristal Union

#### **Main acquisitions made by cooperatives in the sugar sector between 2000 and 2010**

<b>Year</b>	<b>Cooperatives</b>	<b>Companybought</b>
2001	Südzucker (GER)	Saint Louis Sucre
2002	Tereos	Béghin Say
2010	Tereos	Quartier Français
2011	Cristal Union	La Vermandoise

## **5.4 Fruit and vegetables<sup>18</sup>**

France is the third European producer of fresh fruit and vegetables (potatoes excluded) after Italy and Spain, with 2.8 million tons of fruit and 5.7 millions tons of vegetables in 2010 (potatoes excluded).

France cultivates 15 species of fruits and 50 species of vegetables. The 9 main vegetable species are tomatoes, carrots, salads, sweet corn, cauliflowers, onions, green beans, melons and green peas. The 6 main fruit species are apples, peaches, plums, pears, apricots and cherries. Apples represent half of French fruit production. The principal areas of production for vegetables are Provence, Languedoc-Roussillon, Val de Loire, Nord Pas de Calais and Aquitaine.

In 2009, the fruit and vegetable sector represented 5.8 billion euros (potatoes excluded). There were 75,741 farms which produced fruit and vegetables in 2009, 55,205 of which were professional farms..

Between 1997 and 2005, the domestic consumption of fresh fruits decreased by 12%, and the consumption of vegetables decreased by 14% (except for potatoes). Between 2006 and 2009,

<sup>18</sup>For more information, please refer to [http://www.franceagrimer.fr/Projet-02/08publications/08publi\\_pdf/08pub\\_pdf\\_FruiLeg/chiffres\\_cles\\_FL\\_2010\\_provisaires.pdf](http://www.franceagrimer.fr/Projet-02/08publications/08publi_pdf/08pub_pdf_FruiLeg/chiffres_cles_FL_2010_provisaires.pdf)

the domestic consumption of fruit increased by 2% and the consumption of vegetables increased by 3%.

The fruit and vegetable sector in France is a very fragmented one. There were 277 producer organisations, 12 associations of producer organisations, 11 producer groups and 22,349 farms that produced fruit and vegetables in 2009.

#### The leading companies in the fruit and vegetable sector in France in 2009 (by turnover)

Companies	Legal Form	Turnover 2009 (million euros)
Bonduelle	Investor-owned Firm	1,524
Cecab (D'Aucy) <sup>19</sup>	Cooperative	630*
Agrial (Florette + Primco) <sup>20</sup>	Cooperative	580*
Ardo	<i>Investor-owned Firm (Belgium)</i>	566
Andros	Investor-owned Firm	300-400**
Sica St Pol	Cooperative	209
Saint Mamet	Investor-owned Firm	205
Materne	Investor-owned Firm	175
Blue Whale	Cooperative	171
France Prune	Cooperative	170
Triskalia (Gelagri)	Cooperative	160
Saveol	Cooperative	141

\*Turnover for fruit and vegetables \*\* Estimate. Sources: Annual reports, websites 2010

France is one of the European leaders for processed vegetables: Bonduelle is the European leader for canned vegetables, and Agrial is the European leader for ready-to-eat vegetables. In France, Cecab (D'Aucy) is the leader for canned vegetables.

### Policies

In 1962, the law of agricultural orientation created producer groups.

Although the fruit and vegetables sector does not have a price support mechanism under the CAP, this sector is helped by the European Union under a Common Market Organisation, whose goal is to harmonize conditions for producing and marketing fruit and vegetables in Europe and to help producer organisations structure and organize themselves for a better economic performance. The CMO helps producer organisations, which are facing a very concentrated demand; retailers represent around 74% of fruit and vegetable turnover.

The objective of the 1996 reform of the CMO was to change public intervention by linking it with a major effort in economic organisation and in qualitative production improvement. In order to benefit from European subsidies, producers had to set up producer organisations which were in charge of gathering the offer, marketing it and encouraging environmentally-friendly practices. Each producer organisation had to choose from a list of eligible actions those they wanted to engage in, for a 3-5 year period, in an "operational program" that was contracted and subsidized by the EU.

<sup>19</sup>We have not included Cecab in the top 5 of the fruit and vegetable sector because it is a multipurpose cooperative.

<sup>20</sup>We have not included Agrial in the top 5 of the fruit and vegetable sector because it is a multipurpose cooperative.

The reform of the CMO in 2007 did not deeply modify the previous CMO for fresh products: it still relied on producer organisations and the operational programme was still the main tool. But some new measures were introduced: the definition of a national strategy, the creation of new tools for the prevention and management of crises, the abolition of withdrawals, the reinforcement of environmental actions and the attractiveness of producer organisations.

## Cooperatives

Cooperatives, their unions and SICAs represented 70% of producer organisations in France in 2010 (source: Felcoop). The number of producer organisations decreased by 23% between 2000 and 2010 because of the disappearance of union associations, but also because of the multiple mergers made by cooperatives. According to Felcoop, the producer organisations have become more efficient, and 27% of the producer organisations represent 68% of the value of the marketed production.

Since the middle of the 90s, the cooperatives that are specialized in fruit and vegetables have to cope with the weight that big retail chains have assumed in the distribution of fruit and vegetables. Big retail chains sell around 80% of the French production of fruit and vegetables.

The fruit and vegetable market in France is a mature market, so the companies will have to expand their activities at international level. Going international is also a way for those companies to respond to the needs of their customers, who want to have access to certain vegetables all year long (tomatoes, for example).

Recent developments in the fruit and vegetable sector have occurred in the frozen branch, with two main partnerships being concluded between cooperatives and investor-owned firms.

Some cooperatives have decided to expand at international level (Agrial, Cecab) and/or to invest in processing (Agrial, Cecab, Triskalia). For Blue Whale, exports now represent 73% of turnover.

### Main partnerships made by cooperatives in the fruit and vegetable sector between 2000 and 2010

Year	Partners	Company
2009	Bonduelle, Triskalia	Gelagri
2010	Cecab, PinguinLutosa (Belgium)	D'AucyFrozen Food

### Main acquisitions made by cooperatives in the fruit and vegetable sector between 2000 and 2010

Year	Cooperatives	Company bought
2001	Agrial	Vega Mayor (Spain)
2006	Cecab	Globus (Hungary)
2009	Agrial	Salads to Go (GB)

## 5.5 Olive oil and table olives

France is a very small producer of olive oil compared to countries like Greece or Italy. According to Afidol<sup>21</sup>, France produced 5,729 tons of olive oil in 2009/2010, which corresponds to 5% of the domestic consumption of olive oil (108,800 tons in 2009/2010). Even though the production is rather small, it has almost doubled in ten years (3,160 tons in 2000/2001).

<sup>21</sup> www.afidol.org

Olive oil is produced mainly in the south of France, especially in one region (Provence Alpes Cote d'Azur), which accounts for 2/3 of national production. In 2007, there were around 25,000 olive farms in France.

## 5.6 Wine

According to the International Organisation of Vine and Wine (OIV), French viticulture is the world leader in terms of value but French vineyards are now second behind Spain in terms of area, and second behind Italy in terms of volume.

Even if the global wine market has been increasing since 1995, this growth does not concern French wines. Nowadays, the French wine industry is in a state of crisis for two major reasons:

- The steady decline of domestic wine consumption, which fell from 45 million hectolitres in 1970 to 30 million hectolitres in 2009.
- The decline of French wine exports in terms of volume and the loss in market share at international level: according to OIV, France exported 12.5 million hectolitres in 2009 for a market share of around 15%, compared to a market share of around 29% at the end of the 80s. Competition from wines from the southern hemisphere (Argentina, Chili, Australia...), and from the USA can be seen as one explanation.

Even though the wine sector is in a state of crisis and underwent a sharp decrease in 2009 compared to previous years, it still remains one of the strongest contributing factors of France's trade surplus, with 5.5 billion euros for 12.5 million hectolitres exported in 2009 according to Ubifrance.

### The leading companies in the wine sector in France in 2009 (by turnover)

Companies	Legal Form	Turnover 2008/2009 (million euros)
Pernod Ricard	Investor-owned firm	7,203
Castel	Investor-owned firm	2,800 (wines : 989)
LVMH	Investor-owned firm	2,740 (wines and spirits branch)
Grand Chais de France	Investor-owned firm	730
Rémy Cointreau	Investor-owned firm	714
Lixir	Investor-owned firm	272
Vranken – Pommery	Investor-owned firm	251
JC Boisset	Investor-owned firm	269
Val d'Orbieu	Cooperative	178
CVC/Nicolas Feuillate	Cooperative	174
JeanJean	Investor-owned firm	170

Sources: Annual reports, websites 2010

The leading companies in the French wine industry are investor-owned firms. There are still too many wine cooperatives in France, and no leader has emerged so far. There is a great need for concentration, especially in the southern regions, where cooperatives are very numerous and too small.

### Policies

The State played an important role in the development of wine cooperatives, especially during the 20s. After several surplus harvests, combined with a slump in world prices, the wine industry faced another crisis at the end of the 20s. In order to deal with the slump in sales, the

Law of July 4th 1931 imposed the « Statut viticole » (Wine Charter): this allotted to the vineyard and not to the trade, the portion of the harvest, which exceeded 400 hectolitres. The law of July 30th 1935 reduced this limit to 185 hectolitres and imposed a rigorous spacing out of sales (Chevet, 2009). In consequence, these two laws prompted wine growers to group themselves into cooperatives (Chevet, 2009; Nicolas, 1988).

The State also gave wine cooperatives from the start some financial incentives: exemption from land tax on real estate; they did not have to pay the tax on fixtures and fittings, they were no longer subject to licensing or to tax on agricultural profits, nor to industrial taxes. Wine cooperatives also benefitted from certain financial advantages : the State provided 20% of the preliminary flotation funding regarding the creation of wine cooperatives and 10% of the development costs, the Crédit Agricole Mutuel granted loans of up to 30 years to cooperatives (with a 3% interest rate). Hence, a cooperative was funded 20% by the State, 60% by loans and 20% by the members (Chevet, 2009).

In 1962, the Common Organisation for Wine was created.

Because of important structural surpluses due to the freedom on plantings, combined with the virtually guaranteed sales, the Common Organisation for Wine was reformed in 1976 and became very interventionist with the ban on planting and the obligation to distil the surplus.

During the 80s, the consumption decreased and there was an increasing demand for quality wines. The financial incentives for abandonment of land were reinforced.

During the 90s, there was a systemic crisis in the wine sector in Europe and there is still an important production surplus. Various reforms are made but they did not restore the equilibrium between supply and demand. The reform of the CMO in 1999 was a failure.

## **Cooperatives**

The first wine cooperative was established in 1901 in the Languedoc-Roussillon region, and the development of wine cooperatives in France mainly concerned that region: out of 73 wine cooperatives created before WWI, 33 were in Languedoc-Roussillon (Chevet, 2009). Between 1920 and 1929, the number of wine cooperatives rose from 92 to 834 (Nicolas, 1988). Initially, although the winemaking was collective, the marketing of wine was done via traditional channels. The expansion of wine cooperatives remained strong until the end of the 60s. It was particularly strong in Languedoc-Roussillon, where each wine village built its own wine cooperative (more than 500 in 1960). The development of wine cooperatives in the 50s is also due to technical progress and to the new equipment available (new wine presses, new winemakers, new vinifications vats) with significant economies of scale for small producers, which also interested bigger wine growers and attracted them into cooperatives.

The number of cooperatives began to decrease in the 70s, mainly because of mergers. There were around 1200 wine cooperatives in 1970, 977 in 1995 and only 715 in 2010,

Most of the wine cooperatives are located in the South East (Languedoc-Roussillon, Provence...).

There are still many small wine cooperatives: according to Agreste (2007), there were 487 wine cooperatives with fewer than 10 employees in 2005 (there were 620 of them in 2000).

In order to resist competition at international level, there is a need to reach critical size. French wine companies are still rather small compared to Australian or Californian wine companies (and to the Chinese companies of tomorrow).

There is also a need to improve the potential of French wine at the international level by doing more marketing and by adapting wines to the taste of foreign consumers.

## Main acquisitions made by cooperatives in the wine sector between 2000 and 2010

Year	Cooperatives	Company bought
2001	Cave de Saumur, Cave des grands vins de Bourgueil, Cave de Vouvray, Vignerons des Terroirs de la Noél, Maîtres Vignerons Nantais	Rémy Pannier
2004	Agrial	CCLF

## 5.7 Dairy<sup>22</sup>

France is the 2<sup>nd</sup> producer of milk in the EU after Germany, with around 23 billion litres of milk collected for a general turnover of 25.6 billion euros (of which 8.7 billion euros for cheese and 7.6 billion euros for fresh products).

The number of dairy farms has been decreasing since the introduction of quotas. According to FranceAgriMer, there were around 427,000 dairy farms in 1983 and 78,362 in 2010. But the size of dairy farms continues to increase: average milk production was 179,718 litres per farm in 2000, and 290,842 litres per farm in 2010 (source: FranceAgriMer). About half of French production comes from the 3 western regions (Bretagne, Pays de la Loire and Basse-Normandie).

### The leading companies in the dairy sector in France in 2009 (by turnover)

Company	Legal Form	Turnover 2009 (million euros)	Collecting 2009 (million litres)
Danone	Investor-owned firm	8,555	1 000 (France)
Lactalis	Investor-owned firm	8 500	9 200 (World)
Sodiaal	Cooperative	4 000**	2 213 (France)
Bongrain	Investor-owned firm	3 279	3 000 (World)
Bel	Investor-owned firm	2 221	N/A
Laïta	Investor-owned firm (subsidiary of 3 cooperatives)	1 100***	1 200***(France)
Senoble	Investor-owned firm	1100	415 (France)
Novandie	Investor-owned firm	750	N/A
Groupe 3A	Cooperative	650	662 (France)
GLAC	Cooperative	650	1 050 (France)

\*\*Estimate with Entremont Alliance\*\*\* Estimate. Sources: Annual reports, websites 2010

The dairy sector is dominated by two big multinationals, Danone and Lactalis, which are twice the size of the third dairy company Sodiaal, a cooperative. The biggest dairy companies in France are investor-owned companies. There are only 3 cooperatives in the top 10 of the dairy sector: Sodiaal, groupe 3A and GLAC, and a subsidiary of 3 cooperatives, Laïta.

There are about 270 major dairy companies, but the first 10 account for nearly 75% of collecting.

<sup>22</sup> For more information, please refer to [http://www.FranceAgriMer.fr/Projet-02/08publications/elevage/lait\\_20103.pdf](http://www.FranceAgriMer.fr/Projet-02/08publications/elevage/lait_20103.pdf) and [http://www.FranceAgriMer.fr/Projet-02/08publications/08publi\\_pdf/08pub\\_pdf\\_lait/transformation\\_laitiere2010.pdf](http://www.FranceAgriMer.fr/Projet-02/08publications/08publi_pdf/08pub_pdf_lait/transformation_laitiere2010.pdf)

The dairy sector in France is specific: 55% of the collecting is done by cooperatives, and 45% is done by investor-owned firms.

## **Policies**

In 1968, the Common Organisation of the dairy market introduced the **guaranteed price**. The historical CAP relied on a strong protection at the borders, combined with guaranteed prices. At the same time, technical progress was fast and the protection of the CAP encouraged producers to produce large quantities of milk. This led to structural surpluses of milk products in Europe, which became more and more costly for the European budget.

Between 1968 and 1984, the majority of dairy cooperatives adopted volume strategies by specialising in butter production, UHT milk or milk powder.

In 1984, quotas were introduced, in order to reduce the imbalance between supply and demand on the milk and milk products market and the resulting structural surpluses, thereby achieving better market equilibrium. In France, besides the objective of production control, there was a political and professional will to opt for a strong system based on the conservation of the link with the territories. Hence, the Ministry of Agriculture and the different actors of the dairy sector defined rules for the management of quotas at the department level. The cooperatives that adopted volume strategies have been affected by the introduction of milk quotas. The big cooperatives adopted a strategy based on external growth and internationalisation. But the case of Union Laitière Normande shows that this strategy was not always successful.

The 2000 Agenda of the CAP introduced a gradual reduction in milk support prices, a decoupling of agricultural aid, and cross-compliance. The application of the decisions of the 2000 Agenda started in 2003 with several new measures: removal of market management tools and implementation of direct dairy aid. In France, the political and professional choice was to preserve the existing agricultural model and the State introduced the principle of Single Farm Payments (SFPs). These changes in European policy affected French dairies, and competition grew on the internal market.

In 2010, legislation on the modernisation of Agriculture introduced the possibility making sales contracts between producer and buyer (level 1) or between the economic organisation owner of the goods and the buyer (level 2) mandatory. But dairy cooperatives consider that they are already concerned with the written formalisation of their relations with their members. The FNCL argues that the nature of the cooperative engagement overpasses the merely commercial dimension between a breeder and a dairy. The object of a cooperative contract does not correspond to the sale of milk, but to the joint use by farmers of all necessary tools in order to develop their economic activity.

## **Cooperatives**

The first dairy cooperative was set up in Chaillé in 1888. In 1908, dairy unions were introduced.

In 1983, 20% of the dairy companies were cooperatives, which represented 35% of employees and 45% of total sales (Tozanli, 2001). The introduction of quotas in 1984 has reinforced the rivalry between investor-owned firms and cooperatives. Lactalis and Bongrain bought some activities of cooperatives: Bongrain took over the assets of former Union Laitière Normande and Lactalis bought some assets of Unicoollait.

Between 1984 and 1999, the dairy companies, and cooperatives in particular have essentially developed their offer on the internal market because their valorisation was better. The industrial products (butter, milk powder) were sold on the world markets.

Some middle-size cooperatives tried to bypass their financial weakness by uniting and creating subsidiaries. In this way, they managed to develop partnerships and strategic alliances (Laïta is a good example of this kind of partnership between cooperatives).

In 2010, cooperatives dominated the collecting of milk in 7 of the 9 milk regions. Only in Normandy did investor-owned firms dominate and, in the South-West, half of the collecting was made by cooperatives and the other half by investor-owned firms (FranceAgriMer, 2011).

Except for Sodiaal, 3A, GLAC and Laïta, dairy cooperatives are generally middle-size actors (fewer than 1000 employees, a turnover of less than 500 millions euros).

Over the last few years, cooperatives have been major actors in the restructuring of the dairy sectors, either through the creation of partnerships or via mergers and acquisitions.

Dairy cooperatives will have to expand at international level after 2015 in order to find new opportunities. The big private companies - Lactalis, Danone, or Bel - are already well established abroad and dairy cooperatives need to position themselves in order to avoid remaining secondary players condemned to focus on a mature French market.

After 2015, dairy cooperatives will have to decide which way they will handle and enhance the value of the additional volumes of milk that their farmer-members will produce. With the end of quotas, it will be necessary for each dairy cooperative to have an optimized management of total contribution<sup>23</sup>.

#### **Main partnerships made by cooperatives in the milk sector between 2000 and 2010**

<b>Year</b>	<b>Partners</b>	<b>Company</b>
2000	Sodiaal, PAI	Yoplait
2004	Sodiaal, Unicopa, Entremont	Beuralia
2007	Sodiaal, Bongrain	Compagnie des Fromages Richemont
2009	3A, Kaiku Corporacion (Spain)	
2010	Sodiaal, General Mills (USA)	Yoplait <sup>24</sup>

#### **Main mergers between cooperatives in the milk sector between 2000 and 2010**

<b>Year</b>	<b>Cooperatives</b>	<b>Name of the new company</b>
2008	ULPL, CAL 54	Fromageries de Blamont
2010	Even, Terrena, Triskalia	Laïta

#### **Main acquisitions made by cooperatives in the milk sector between 2000 and 2010**

<b>Year</b>	<b>Cooperatives</b>	<b>Company bought</b>
2006	Sodiaal	Orlait
2010	Sodiaal	Entremont Alliance

<sup>23</sup> Dairy cooperatives are obliged to accept all the milk from their farmer-members.

<sup>24</sup> General Mills bought 51% of the assets of Yoplait and 50% of the subsidiary which controls the Yoplait brand. The other part of Yoplait still belongs to Sodiaal.

## 5.8 Sheep meat<sup>25</sup>

In France, there were 60,000 farms specialized in sheep for a total of 7.8 million sheep in 2008. Out of those 7.8 million, 4.3 million were lactating ewes and 1.4 million are milk ewes. In the last 20 years, the number of lactating ewes has decreased by 35%. Most of the lactating ewes are to be found in 4 regions in the south of France.

In 2008, France was the third European producer of sheep meat, behind the United Kingdom and Spain, with 110,500 tons of equivalent carcass weight, and the second European consumer behind the United Kingdom, with 232,000 tons of equivalent carcass weight (which represents 4.2% of the total consumption of meat in France).

## 5.9 Pig meat<sup>26</sup>

France is the 3<sup>rd</sup> producer of pigs in the European Union, behind Germany and Spain, with 14.8 million pigs in 2009. Pig production in France relies on around 6,000 specialised breeders, with most of them being breeders/fatteners (Tregaro, 2010). In 2009, 24.9 million pigs were slaughtered in France.

The production of pigs has concentrated over time in three regions, Bretagne, Pays de la Loire and Basse-Normandie, which represented 75% of the slaughtering, compared to 68% in 1990 and 40% in 1970 (Tregaro, 2010). The pig producers are to be found in 60 producer organisations, which are mostly cooperatives, and collect and market around 89% of the pig production in France.

France is the 4<sup>th</sup> European consumer of pig meat, with 2,208,000 tons of equivalent carcass weight in 2009 (which represents 36.2% of the total consumption of meat).

Unlike other agricultural sectors, there is no intervention of guaranteed price or direct aids from the European Union in the pig sector.

In France, the pig sector has been in a state of crisis for several years now. In 2007, the crisis was due to an increase in the price of animal feed. In 2008, the crisis was even greater, because the pigs were sold at a very low price (and animal feed was still expensive). France suffers from its higher labour costs, compared for example to Germany (slaughtering a pig is 30% more expensive in France than in Germany). But the origin of the crisis seems to be due to the overproduction of pigs in Europe.

### The leading companies in the pig meat sector in France in 2009 (by number of pigs slaughtered)

Company	LegalForm	Number of pigs slaughtered (in millions)	Turnover 2010 (million euros)
CooperlArcatlantique	Cooperative	5.05	1 700
Bigard (Socopa)	Investor-owned firm	4.3	N/A
Gad/Europig	Cooperative	2.7	N/A
Kermene	Investor-owned firm	1.5	650

<sup>25</sup>For more information, please refer to <http://www.franceagrimer.fr/informations/publications/F-elevage/09-09-15/ovins-96B.pdf>

<sup>26</sup>For more information, please refer to [http://www.FranceAgriMer.fr/Projet-02/08publications/elevage/porcs\\_20103.pdf](http://www.FranceAgriMer.fr/Projet-02/08publications/elevage/porcs_20103.pdf)

Abattoir Bernard JF	Investor-owned firm	1.3	N/A
Abera	Investor-owned firm	1.07	151
Gatine Viandes	Investor-owned firm	0.92	N/A
Forez Porc	Cooperative	0.87	N/A
AIM	Investor-owned firm	0.80	N/A

Sources: Annual reports, websites 2010

Although slaughterhouses are mostly owned by private companies, one cooperative is a leader of slaughtering in the pig sector: CooperlArcAtlantique, which represents around 20% of slaughtering in France. The five biggest companies represented 60% of slaughtering in 2009.

## Policies

At the beginning of the 60s, when the Common Agricultural Market opened, there was a big difference between the pig sector in France and in Belgium or the Netherlands. In France, pig production was mainly carried out by small pig-farming businesses and the separation between birth and fattening was still significant.

In 1962, the regulatory foundations of the Common Market Organisation concerning pig production were established. They were fully applied in 1967, and did not change a lot during 30 years. At the end of the 60s, French pig production could only cover 80% of national needs. In 1970, the State launched a rationalisation plan for pig production in order to modernize the production facilities (Teffene *et al.*, 1998). The rationalisation plan consisted in several measures: aids for investment, genetic improvements ... This plan relied heavily on a new type of organisation, that of producer organisations: the aids were granted only to members of producer groups. This has been a major impulse for producer organisations in the pig sector.

This rationalisation plan had a huge impact on producer organisations and on cooperatives in particular: there were 6 producer groups in 1964 and until the end of the 60s, there were around 20 new producer groups created per year, most of them being specialized sections of multipurpose cooperatives or slaughtering and marketing SICAs. In 1974, the number of producer groups climbed to 274 (Teffene *et al.*, 1998).

The environmental regulations are very strict in France compared to other EU countries: all the livestock projects with more than 50 sow breeder fatteners must be authorized by the administration under the "classified installation" title, whereas the European directive states that this only applies to projects of more than 250 sow breeder fatteners. Therefore, many of the projects presented in France were not successful, which led to the stagnation of pig production in France.

## Cooperatives

During the 80s, many producer organisations, and the multipurpose cooperative they belonged to, were forced to buy slaughterhouses, or to buy the shares of investor-owned slaughterhouses, which were in a difficult financial situation, in order to ensure an outlet for their production (Tregaro, 2010). Some other producer organisations have decided to focus only on production, and have not made any partnerships with industrial plant in order to give a greater range of options to their breeders.

Cooperatives did not invest so much in processing tools or in slaughterhouses. The slaughtering activity is relatively unprofitable and the margins are too low to ensure any economic growth. Unlike Danish Crown in Denmark, or Vion in the Netherlands, the French slaughterhouses are still too numerous and cannot counter the power of the big retailers. For example, CooperlArcAtlantique only represents 20% of pigs slaughtered in France, whereas Danish Crown is close to 90%.

Confronted with the low prices paid to pig producers because of several periods of overproduction in the European Union (1998-1999, 2003-2004, 2008-2009), the producer organisations had to reduce their costs and burdens. For most producer organisations, the solution was to merge with other producer organisations.

Ever since 2008, there has been a wave of concentration in the pig sector in response to the stagnation of French pig production and slaughtering since the beginning of the 2000s. As we can see in the table below, there have been several big mergers between cooperatives since 2008.

#### **Main partnerships made by cooperatives in the pig sector between 2000 and 2010**

<b>Year</b>	<b>Partners</b>	<b>Company</b>
2008	Terrena, Unicopa	Union Pigalys

#### **Main mergers between cooperatives in the pig sector between 2000 and 2010**

<b>Year</b>	<b>Cooperatives</b>	<b>Name of the new company</b>
2002	PBO, Coop de Broons	Union Poraven
2008	Porc Ouest, L'Armorique	Porc Armor
2009	Cooperl, Arca	Cooperl Arc Atlantique
2009	MC Porc, Scapp	Cirhyo
2010	Forez Porc, Orléans Viandes	Tradival
2010	LT, PBO, Pigalys	Aveltis
2010	Prestor, Cecab (pig branch), Coop de Broons (pig branch)	Prestor-groupe Cecab

#### **Main acquisitions made by cooperatives in the cereals sector between 2000 and 2010**

<b>Year</b>	<b>Cooperatives</b>	<b>Companybought</b>
2001	Prestor	Louis Gad
2001	Cecab	Audrey-Cédro
2009	Cooperl	Brocéliande
2011	Cooperl	Défi Viandes

# 6 Overview of policy measures

## 6.1 Regulatory framework

The performance of cooperatives (including producer organisations) is influenced by the regulatory framework in a country. This framework is multi-level: EU regulations, national laws and – in some countries - even regional policies influence the way cooperatives can operate. In this chapter we look especially at the regulatory framework that influences the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector).

These competitive positions are not just influenced by the regulatory framework of the legislation that establishes the rules for running a cooperative (business organisation law). Other well-known examples include agricultural policy (e.g. the EU’s common market organisation that deals with producer organisations in the fruit and vegetables sector), fiscal policies (at the level of the cooperative and the way returns on investments in cooperatives are taxed at farm level) and competition policies. There are different types of policy measures to be found in the regulatory framework (McDonnell and Elmore (1987)).

POLICY MEASURE TYPE	DEFINITION
Mandates	Rules governing the actions of individuals and agencies
Inducements	The transfer of money to individuals in return for certain actions
Capacity Building	The spending of time and money for the purpose of investment in material, intellectual, or human resources (this includes research, speeches, extension, etc.)
System Changing	The transfer of official authority (rather than money) among individuals and agencies in order to alter the system by which public goods and services are delivered

The objective of this project / report is to identify support measures that have proved to be useful to support farmers’ cooperatives. In section 5.2 the relevant policy measures and their potential impact in France are identified. In section 5.3 a number of other legal issues are addressed.

## 6.2 Policy measures

The table below identifies the policy measures that influence the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector). Although the file incorporates all the policy measures concerned, we have, as requested, only indicated in this section the most significant French legislative measures.

Table 14. Policy Measures Description

Name of Policy Measure	Type of Policy Measure <sup>27</sup>	Objective of the Policy Measure <sup>28</sup>	Target of the Policy Measure <sup>29</sup>	Expert comment on effects on development of the cooperative <sup>30</sup>
<p>The 10th of September 1947 Law concerning cooperative legal status The main texts are in Title II Book V of the Rural Code (art. L.521-1 to L. 529-6 and R.521-1 to R.529-2 <i>Loi n° 47-1775 du 10 Septembre 1947 dite Loi portant statut de la coopération</i></p>	<p>Cooperative legislation/ incorporation law</p>	<p>Correction of market or regulatory failures and Attainment of equity or social goals</p>	<p>Applicable to business in general</p>	<p>This law distinguishes between cooperative and investor-owned firms. It sets their modes and terms of functioning Agricultural cooperatives</p>
<p><b>Agricultural Orientation</b> laws of 1960 and 8<sup>th</sup> August 1962 on the economic organisation of producers, modified by the law of 5<sup>th</sup> January 2006 : Organisation of Producers  <i>Lois d'orientation agricole de 1960 et du 8 Août 1962 sur l'organisation économique des Producteurs modifiées par la loi du 5 janvier 2006 Organisation de Producteurs</i></p>	<p>Market regulation and competition policies</p>	<p>Correction of market or regulatory failures and Attainment of equity or social goals</p>	<p>Applicable to business in general</p>	<p>Extends the classification « Group of Producers » (GP) to all non-profit making organizations and trade unions which adopt collective rules for production and distribution (art. 24) This becomes Organization of Producers (L.555-1 Agricultural orientation Law 2006).</p>

<sup>27</sup> **1. Mandate** e.g. 1.1. Cooperative legislation/ incorporation law e.g. 1.2 Market regulation and competition policies ; **2. Inducement** e.g. 2.1 Financial and other incentives ; **3. Capacity Building** e.g. 3.1 Technical assistance ; **4. System Changing** ; **5. Other**

<sup>28</sup> 1. Correction of market or regulatory failures or 2. Attainment of equity or social goals

<sup>29</sup> 1. Specific to cooperatives ; 2. Specific to an agricultural sub-sector; 3. Applicable to business in general

<sup>30</sup> Description on how the policy measure affects development of cooperatives, by reasoning through the building blocks: - Position in the food chain ; Internal Governance ; Institutional environment of the cooperative

<p>Codification of Rural Code Book V Title II legislative and regulatory (Law of 27 June 1972 concerning agricultural cooperative and their unions)</p> <p><i>Codification Code Rural Livre V titre II partie législative et réglementaire (Loi du 27 juin 1972 relative aux Sociétés Coopératives Agricoles et à leurs unions)</i></p>	<p>Cooperative legislation/ incorporation law</p> <p>Financial and other incentives</p>	<p>1. Correction of market or regulatory failures and Attainment of equity or social goals</p>	<p>Specific to cooperatives</p> <p>L.521-3</p>	<p>The Law has characterized agricultural cooperatives as enterprises between farmers in order to « use all means needed to facilitate or develop their economic activity or to increase or improve the results of this activity ». The Law specifies that agricultural cooperatives are variable equity capital companies which are neither civil or commercial. This statute comes with options reaffirming the fundamental principles of cooperation found in the Law of 1947. This enables operations with third parties up to 20 % of Sales Turnover (L522-5) and allows the admission of investor members without any activity commitment (art L522-3 et -4).</p>
<p>Law n° 91-5 of 3rd January 1991 dispositions concerning agricultural cooperative</p> <p><i>Loi n° 91-5 du 3 janvier 1991 dispositions relatives aux organismes coopératifs agricoles</i></p>	<p>Cooperative legislation/ incorporation law</p> <p>Financial and other incentives</p>		<p>Specific to cooperatives</p>	<p>Cooperatives provide financial resources to enable them to develop their activities particularly through the subsidiarisation. It establishes a new form of distribution of the annual surplus consists of dividends received from subsidiaries in addition to the specific results of the cooperative.</p>
<p>Law of 13th July 1992 : Law of the modernization of cooperative companies</p> <p><i>Loi du 13 juillet 1992 dite Loi de modernisation des entreprises Coopératives</i></p>	<p>Cooperative legislation/ incorporation law</p> <p>Financial and other incentives</p>		<p>Applicable to business in general</p>	<p>A new category of shares was created for agriculture cooperatives : Shares paired with special advantages (“ Parts à Avantages Particuliers”). This measure has only started to produce results recently.</p>

<p>Ordinance n° 2006-1225 of 5th October 2006</p> <p><i>Ordonnance n° 2006-1225 du 5 octobre 2006</i></p>	<p>Financial and other incentives</p>	<p>Attainment of equity or social goals</p>	<p>Specific to cooperatives</p>	<p>Art. L 524-6 of Rural Code extends articles L 233-16 to 27 of Commercial Code concerning the control of companies and the consolidation to agricultural cooperatives and their unions</p> <p>Creation of "High Council for Agricultural Cooperation" ("Haut Conseil de la Coopération Agricole») (L. 528).</p> <p>Shares Savings (" Parts Sociales d'Epargne") L. 524-21. There shall be shares of savings, resulting from the allocation under the e of Article L. 524-2-1, on the proposal of the Board and after approval of the general assembly, a portion of distributable income for the year. These shares are a specific class of share capital of the cooperative. Their terms of repayment and sale are subject to special conditions set by the bylaws.</p>
<p>Law of 5th August 1920 art. 1382-6° <b>General Tax Code (GTC)</b></p> <p><i>Loi du 5 août 1920 art. Code Général des Impots1382-6°</i></p>	<p>Financial and other incentives</p>	<p>Attainment of equity or social goals</p>	<p>Specific to cooperatives</p>	<p>Exoneration of <b>property tax</b> for properties with buildings permanently and exclusively dedicated to farming using by cooperative companies and their unions.</p>
<p>Decree of 9 th December 1948 GTC art 207-1-2° and 207-1-3°</p> <p><i>Décret du 9 décembre 1948 CDI art 207-1-2° et 207-1-3°</i></p>	<p>Financial and other incentives</p>	<p>2. Attainment of equity or social goals</p>	<p>Specific to cooperatives</p>	<p>Exoneration of corporate tax in favor of supply and service cooperatives and their unions for operations with members provided that those companies respect their legal obligations</p> <p>Exoneration of corporate tax in favor of agricultural production, collect, process and sale cooperatives, except for sales made in their retail shop separate from the</p>

				main establishment , for operations with non-members : processing operations concerning products or sub-products over than those designed for feeding men or animals or able to be used as raw materials in agriculture and industry.
Law of 29th July 1975 art. 1451 (GTC) completed by art 1468  <i>Loi du 29 juillet 1975 art. 1451 complété par art CGI 1468</i>				Exoneration of Corporate Property Tax Contribution (CFE) (« Cotisation Foncière des Entreprises ») in favor of agricultural cooperatives and their unions either when they have no more than 3 employees or when they are concerned by certain activities : electrification, rural development, use of agricultural material, artificial insemination, prevention and <b>combat concerning animal and vegetal diseases, vinification, fruit and vegetable packaging, organisation of auctions.</b>  Deduction of 50 % of tax levy base of the Corporate Property Tax Contribution (CFE) : agricultural cooperatives and their unions which are not entitled to the exoneration accorded by article 1451 of the GTC.  Contribution to VAT in accordance with EU law.
<b>International policies more specific</b>				
Common Organisation of agricultural Markets and on specific provisions for certain agricultural products (Single CMO Regulation)				Regulation (EC) No <a href="#">1234/2007</a> provides a single legal framework governing the domestic market, trade with third countries and rules regarding competition.  For example in the case of Sugar : The abandonment of 683 655.2 t. of sugar quota in France resulting in the abandonment of

			<p>symmetrical 4.5 million t. of beet rights. Before restructuring, three groups (TEREOS, SAINT LOUIS SUCRE, CRISTAL UNION) shared over 83% of the quota. The preparation of the restructuring has resulted in an acceleration of melting movements in 2007 with the absorption and ERSTEIN Aiserey by CRISTAL UNION and that of MARQUENTERRE by TEREOS.</p> <p>Consequences : factory closures, the development of new markets (ethanol), diversification into new industries to replace the plant surfaces beets, farm modernization, project support to business investment, plant location in Mozambique and Brazil.</p> <p>Even restructuring movement for Fruits and Vegetables with the tools needed to make industrial performance.</p>
<p>Council Regulation (EC) No 72/2009 of 19 January 2009 on <b>modifications to the Common Agricultural Policy</b> by amending Regulations (EC) No 247/2006, (EC) No 320/2006, (EC) No 1405/2006, (EC) No 1234/2007, (EC) No 3/2008 and (EC) No 479/2008 and repealing Regulations (EEC) No 1883/78, (EEC) No 1254/89, (EEC) No 2247/89, (EEC) No 2055/93, (EC) No 1868/94, (EC) No 2596/97, (EC) No 1182/2005 and (EC) No 315/2007</p>			<p>This reform has important impacts on farmers and consequently of their cooperatives. For the former, it acts on the system using the authorizations of quotas and therefore production levels. For cooperatives and producer organizations, it has strengthened their role in the organization of production and distribution by forcing them to join together to carry more weight (lean production). It covers all sectors and the entire French territory. Cooperatives have also developed a special attention to good practices (farm advisory),</p>

				participated in the development of innovative agricultural systems. The cooperatives have set up a Charter of agricultural Advisory from the perspective of sustainable development (2002 and certification of farm advisory system) and traceability standards (Agriconfiance). Over the past 10 years, they have developed management systems to improve their methods of governance.
Council Regulation (EC) No 73/2009 of 19 January 2009 establishing <b>common rules for direct support schemes for farmers under the common agricultural policy</b> and establishing certain support schemes for farmers, amending Regulations (EC) No 1290/2005, (EC) No 247/2006, (EC) No 378/2007 and repealing Regulation (EC) No 1782/2003				The effects of Council Regulation (EC) No 73/2009 are visible for all industries. They lead to the need to strengthen partnerships and merger of cooperatives that are impacted indirectly.
Council Regulation (EC) No 74/2009 of 19 January 2009 amending Regulation (EC) No 1698/2005 on <b>support for rural development</b> by the European Agricultural Fund for Rural Development (EAFRD)				Cooperatives are fundamental actors of territories. They organize production in order to support farmers and help young farmers to install. So the territorial roots of french cooperative confer them a decisive role in local economic development and environmental sustainability of rural areas.
the Regulation 1435/2003 on the Statute for European Cooperative Society completed in French law until June 2009 Law n° 2008-649 of 3 <sup>rd</sup> July contains various provisions adapting company law to community law  Decree n° 2009-767 of 22 June concerns the European				As French National report explains A new title III <i>bis</i> is inserted in the law of 10 September 1947, called the –European cooperative society. That title includes seven chapters and articles numbered 26-1 to 26-38. Article 26-1 constitutes the sole article of chapter I, devoted to the general

Cooperative society			<p>provisions. It defines the conditions under which the European cooperative acquires legal personality as well as the provisions applicable to its constitution and to its operation in France. Moreover, <b>making use of an option contained in the regulation</b>, it prohibits dissociation between the registered office under the articles of association and the actual head office, in the interest of consistency with the provisions applicable to the European company. (Article 6 regulation SCE) In articles 26-2 to 26-6, Chapter II establishes the procedures relative to constitution of the European cooperative registered in France. Clear lack of knowledge about the transnational tool and its concrete potential along with insufficient adoption by economic actors.</p>
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The French legal status and policy measures have been adopted by the State in order to support the agricultural sector. The different forms of legislative development, whether these include general or special laws dealing with cooperation or agricultural cooperatives and SICA, reflect the determination to integrate cooperatives into a market economy, whilst maintaining their specificities. The development of the cooperative legal status demonstrates the capacity and constant effort of cooperatives to adapt to their changing conditions of production and to the new ways of marketing agricultural products. Nicolas (1992, 1993) draws a parallel between the legislative framework dedicated to cooperatives and developments in the socio-economic agricultural world. This allows three key periods to emerge: the agricultural crisis of 1880-1910; that of 1950-1960, and that of the 1980s. These periods saw the elaboration of a legal framework which, by reducing statutory constraints and reinforcing financial funds, aimed at helping the economic and social development of cooperatives. The social and economic vocations of cooperatives have constantly followed more and more divergent paths. This has given rise to major changes, whether as regards relations between associates/members or the role played by cooperatives as organizational structures.

The main laws have been listed in the table at the beginning of Section 5, and in greater detail in the Policy Measures file. Here, we focus on the policy objectives and their impact for cooperatives.

The **10th September 1947 Law** concerning cooperative legal status combines, in a single text, all the rules common to different types of cooperative firms, and sets out their modes and terms of functioning. The Rural Code regulates agricultural cooperatives as a whole. The effects of the

**10th September 1947** Law are fundamental, and have been very helpful for the development of French cooperatives and their farmer-members.

In the **law of August 8<sup>th</sup> 1962**, agricultural cooperatives are only recognized as “producer organisations”, in the same terms as specialized professional unions and associations under the 1901 Law. Even if this did not exclude cooperatives, the neutral attitude of the legislator has promoted, through successive texts, a non-cooperative economic organisation (Nicolas, 1995). This neutrality has also led to a certain trivialisation of cooperatives, which have slowly become “companies like others” (see 6.2 *infra*).

The **27<sup>th</sup> June 1972 Law** concerning agricultural cooperatives and their unions allows clauses derogatory to cooperative principles: i.e. the possibility for cooperatives to conduct business operations with non-members, vote weighting, the reevaluation of their registered capital, the possibility for non-users (investors) to become members, and lastly, letting a management organ and a supervisory organ become responsible for the management of cooperatives. What is needed is to maintain a sufficient number of farms to ensure territorial development (Coulomb *et al.*, 1990). As this has kept many non-competitive farms afloat, the cooperatives have had to come to their rescue at the expense of their own competitiveness.

The **Laws of 3<sup>rd</sup> January 1991 and of 13<sup>th</sup> July 1992** constitute the key for understanding cooperative development in France. These laws are aimed at reinforcing equity capital via new financial tools and subsidiaries. The **1991 Law** institutes a new form of distribution for the annual surplus coming from cooperative and subsidiary activities. Both laws allow outsider investors (non-user members) to buy shares in the registered capital. They also allow cooperatives to withdraw from the cooperative legal status if their supervision authorities grant them permission to do so. The financial tools proposed by the 1991 Law were not very successful. But the opening introduced by these laws paved the way, in fact, for the greater development of subsidiaries. The redistribution of dividends introduced a logic of capital different from that of the product (de Charrin, 1992 ; Koulytchizky et Mauget, 2002 ; Soulage 2000 ; Hiez 2005).

The effects of these laws on cooperative organization cannot be denied. The weight of cooperative groups increased radically, and cooperative groups have now become the predominant economic form of French agricultural cooperatives, with more than one employee in a business firm controlled by a cooperative (Agreste, 2010). Both laws also contributed to cooperatives refocusing themselves on their organizing and collecting activities<sup>31</sup>. Transformation activities have generally been assigned to business-law subsidiaries either set up *ex nihilo* or on the basis of strategic alliances (Filippi et Triboulet, 2011). In that case, the business-law subsidiaries are subject to non-cooperative taxation.

These policy measures bear witness to the State’s determination to adapt the status of agricultural cooperatives to their constantly changing institutional and economic environment.

The objective of *Loi de Modernisation Agricole* (LMA, 2011) is to restore a better share value for producers by reinforcing the role played by producers and the inter-profession. So the public authority has created a Price and Margins Observatory to help the actors to improve their price knowledge. The Observatory’s objective is to clarify the different chain value exchanges and to restore added-value for the producers and POs. This measure is complementary to agricultural market regulation. The prerogative introduced by legal statute is designed to improve both quality policy and chain value differentiated management (industrial and POs) and territorial

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<sup>31</sup>Coop de France, 2006, *Eléments de réponse aux demandes de la commission sur le régime fiscal des coopératives agricoles, Document de travail*, 18 avril, p. 26.

development according to UE and French policies. In the case of the dairy sector, the contract has introduced differentiated prices.

Public Policies, it is quite clear, have had many significant effects on the development of cooperatives. For Chantal Chomel, head of the legal department of Coop de France, the development of cooperatives in France has come about within a legal framework consisting of numerous particular laws (cf. above), sometimes combined with specific taxation treatment.

### 6.3 Other legal issues

The specific status of the cooperatives grants them certain advantages in order to alleviate some of the significant constraints they have to bear. *As there have only been a very few derogatory measures concerned with protecting the status of cooperatives and reducing their constraints*, other different exonerations have characterized the specific tax regime of cooperatives (see *Policy Measures Table*). Agricultural cooperatives are exempt from business tax for the transactions they carry out with their members. Exoneration from **property tax, corporate tax and from Corporate Property Tax** contributions are the greatest financial advantages given to cooperatives (Charrin de, 1989; Senat, 2011). In terms of competitiveness, exonerations and financial incentives seek to offset the constraints imposed by the statutes (sharing, territoriality, total supply...). The reduction of 50 % of the **tax levy base** of the Corporate Property Tax Contribution has had a significant effect on the competitiveness of cooperatives since it reduces collective costs.

Cooperatives and cooperative unions remain exonerated from **Corporate Property Tax** whatever their purpose (collect or transformation), even if they have recourse to public funding. Transactions with non-members are permitted as long as they do not exceed 20% of the turnover, but in all other cases subsidiaries are submitted to the normal business tax regime like any other limited liability company. Cooperatives also lose this exoneration when they are using call public offering. This point, which is particularly controlled by the fiscal authorities, has been confirmed by the *Conseil d'Etat*.

The fiscal authorities also control whether the prices practised between a cooperative and its subsidiaries correspond to the market prices, and severely sanction any unjustified transfer of profits towards the exonerated cooperative structure. For non-cooperatives, Corporate Property Tax is reduced for the trading sector (Coop de France, 2006). The State and several different administrative authorities, such as the one dealing with taxation, ensure that cooperatives respect the rules of functioning specific to their legal status, and other administrations verify that they respect sector-related rules.

By according tax exemptions, the legislator recognizes the cooperative constraints that the commercial law firms do not have. It is, therefore, useful to revisit these constraints to fully understand how the regulatory framework influences the competitive position of cooperatives in the food chain, and vis-à-vis the investor-owned firms. Although cooperatives are in competition with business-law firms, those same cooperatives also exercise functions in favour of their owner-members, functions which go beyond purely economic activities (Coop de France, 2006). So let us mention then a few constraints attached to their particular legal status.

The **social purpose** of a cooperative is to help its owner-members valorize their production. The rule of exclusivism is also a limiting factor, since cooperatives can only carry out transactions with their members.

Cooperatives also need to obtain **official territorial authorization**: this accords them the right to operate, but only within the economic sector applied for, and only within the limits of a specific and restricted territory (Filippi, Frey, Torre, 2011). This legal constraint is specific to France: it does not apply to other European countries. Although French cooperatives have to organize the collection process with their members within their officially delimited territorial area, one possible exception is admitted. This concerns operations with non-members within the limit of 20% of the cooperative's annual turnover. Cooperatives may suffer from a lack of commodities (poor harvest, climatic perturbations). They cannot refuse to collect any commodity surplus, even if this implies increased collection costs or a diminished valorization of the products. This naturally handicaps the performances of cooperatives compared with those of non-cooperatives (see the case of milk and the consequences of quotas).

Within the framework of the **cooperative pact**, members must subscribe social capital in the proportions set out in the statutes, in accordance with their product or service cooperative activity (*engagement sur activité*). This contribution may be total when the cooperative is officially recognized as a Producer Organization. Cooperatives must continue to work with their members, suppliers and/or clients even when the initial engagement period is over.

**As regards access to funding**, the constitution of equity capital is made up of social capital together with the legal reserve which cannot be redistributed. The equity rule obliges cooperatives to handle all the contributions of their members and to apply an equal price for their production to all of them. In consequence, these measures constitute a brake for an outside investor who cannot realize any veritable capital gain on his investment.

In conclusion, as confirmed in September 2011 by the European Court of Justice, the specificities of cooperatives justify Member States' fiscal regimes. This decision acknowledges that cooperatives have specific functioning mechanisms which differentiate them from any other form of private business, thus confirming that specific fiscal regimes linked to cooperative activities do not represent State Aid. We see then that these specific fiscal and policy measures try to compensate for their constraints, and to recognize the social and territorial added-value produced by cooperatives and their groups.

## 7 Assessment of developments and role of policy measures

This final chapter assesses the (performance) developments of cooperatives and how they can be explained in terms of the building blocks (institutional environment, position in the food chain including sector specifics, and internal governance). Section 6.1 focusses on the explanation of the performance of cooperatives in terms of their internal governance, their position in the food chain (including sector specificities) and the institutional environment (including the regulatory framework). In Section 6.2 an assessment is given as to which policy measures in France seem to benefit cooperatives and which ones have a constraining influence.

### 7.1 Explaining the performance of cooperatives

The major developments of French cooperatives can be explained by the search for a better competitive position in the food chain in relation with UE and French legal supports. But these developments also depend on the initial agricultural conditions. It must never be forgotten that France is a country whose diversified agricultural productions are to be found within a number of specialized Regions (Agreste, 2011).

#### - *Powerful actors in the organization of value chains*

French agricultural cooperatives have become **powerful actors** in the organization of value chains: around 60% in wholesales and 40% for Agribusiness (Agreste, 2010). But this varies according to specific sector conditions. The reduction in the overall number of cooperatives does not allow the concentration of enterprises (see cereals, milk, meat ... in Section 4.) to be being. Organization changes in cooperatives have generally been accompanied by Policy Measures (see 1991 and 1992 Laws). The economic power of cooperatives is dependent on agricultural production conditions and on their links with their owner-members. What started as an extension to the farm gradually evolved into a support and service structure (*cf.* as in the case of Invivo). Cooperatives choose and define product conditions (such as pesticide uses, new varieties of seeds ...) and introduce innovations and advisory services for farmers according to the needs of competitive markets. All this involves integrating economic advice in order to acquire new comprehension of their initial social purpose. The creation of cooperative groups combining primary and secondary cooperatives with limited-liability companies is an important factor in the development of agricultural cooperation.

#### - *Cooperative perimeter networks as a strategic asset*

To better understand how cooperatives become competitive, it is also necessary to take into account strategic alliances and minority capital links which, together, constitute the **cooperative perimeter** (Filippi and Triboulet, 2011b). This perimeter helps develop strongly mutualised, specifically French networks of interdependencies, which differ in nature from the action of commercial firms. In the case of cereals, sugar or dairy production, cooperatives have added marketing stages in the chain value to their traditional activities of collecting and first transformations (*cf.* Section 4). The CAP, thanks to the market regulation it provides, also contributes to explaining the economic performances of cooperatives. They have become more organized and powerful vis-à-vis wholesalers. Their current pool-position in the biocarburant and green sector reflects their capability to control vegetal raw materials and thereby influence agronomic innovations. In the case of Fresh Fruit and Vegetables, or Wine (but not for Champagne), cooperatives and POs, despite the support of the UE, are still too small to pose any countervailing power vis-à-vis wholesalers. As we have seen in Section 4, the concentration of actors favours their capacity to position themselves on markets that have become relatively saturated and also to envisage internationalization.

- *New funding to develop new partnerships*

Group mergers in certain sectors (cereals) are set to last, which means the need to **acquire new financial funding** to seize new opportunities. Equally, **new partnerships** with financiers and industrialists (the case of biofuels, agreements with research laboratories and industry) are emerging, in order to support the deployment of international strategies and preserve market share (by including other firms in international alliances...). Whether these developments take the form of groups or partnerships, the cooperatives organize the competitiveness of industrial tools to be able to compete with multi-nationals in the agro-business sector and thus obtain a better position in the European market. But all these mutations need greater funds and more help than mutual banks (like the *Crédit Agricole*) or public actors can give. Attracting additional equity capital is not easy for French cooperatives, despite the fact that French laws propose new financial tools. Owner-members can now have social capital in subsidiaries or in listed subsidiaries (Teros in Brazil). These financial innovations give rise to new management methods and stimulate corporate governance evolution.

- *Territorial anchorage : the basis for the French cooperative business model*

Cooperatives are major actors of territories and rural development. They organize the production in order to support farmers and help young farmers to install<sup>32</sup>. In this case may be the European Agricultural Fund for Rural Development (EAFRD) helped them. The territorial restrictions imposed by the legislator, combined with their social object, oblige cooperatives to develop and collect production from their owner-members. Effects of policy measures concerning territorial constraints that impacted the cooperative organization: It is no so much the problem of competitiveness but more the possibility offered using subsidiaries to develop activity with non members. This explains the notable development of multipurpose cooperatives. As the cooperatives must render different services to their owner-members, they develop polyvalent activities (cf *Terrena*). The counterpart of all this is that investments are dispersed, which tends to explain the relative weakness of French cooperatives in the UE Top 10, compared to the northern cooperatives. They encourage mutual solidarity between members within the framework of efficient economic organizations linking local development and international market positioning. The **territorial anchorage** of French cooperatives confers on them a decisive role in local economic development and the environmental sustainability of rural areas.

Cooperatives play a **specific role** in the productivity gains of agricultural business, the adjustment of production to consumer requirements, both quantitatively and qualitatively, and in conditioning agricultural products to improve their market position. Over and beyond their economic logic, cooperatives and POs have a social and territorial mission that radically differentiates them from commercial companies.

## **7.2 Effects of policy measures on the competitive position of cooperatives**

Although cooperative development has significantly changed the organization of agriculture and the food industry, we need to situate the relevant French and EU policies within the context of the reorganization of markets and sectors. CAP developments and the volatility of raw material prices have certainly modified agricultural activities.

- *The need to structure agricultural production thanks to POs and cooperatives*

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<sup>32</sup> This corresponds to their social object in relation with the right of property of the social equity. We can suppose that the European Agricultural Fund for Rural Development (EAFRD) help them but we have not exact data.

Today, however, the market involvement of producer organizations is confronted with both national and EU competition laws. It is the case that French national policy has not always been uniformly favourable to cooperatives. The Legislator has at times made efforts to harmonize the legal framework for all types of enterprises. At other moments, there have been attempts to trivialize cooperatives by including them in POs (upstream) and to equate their operations with those of commercial law companies (downstream). The economic and institutional context of UE countries also explains the difference between path dependencies and the above-mentioned building blocks.

We feel the need to insist on this point in order to show how public policy measures, without derogating from Community Law, or infringing rules of competition, should take French specificities into account. The role played by Cooperatives and POs is structured by the UE<sup>33</sup> and the French legal framework from 1960 to 2010 and, this year, by the LMA (see Policy Measures Table)<sup>34</sup>. For the UE (*i.e.* Common Agricultural Policy integrated CMO Regulation), despite the recognition of POs (for tobacco, fruit and vegetables, wine, oil...), their competence in market management is also a constraint (see CE Regulation n° 1234/2007, October 22nd 2007 and EC 361/2008). This means that the POs have become market organization tools, but without the right to fix prices or set up cartels, which would be contrary to European Competition Law (Agreste, 2011).

Modifications to the Common Agricultural Policy (see Policy Measures Table) reform have important impacts on farmers and consequently on their cooperatives. These impacts act on the system using the authorizations of quotas, thereby affecting production levels. These modifications have strengthened cooperatives and POs in the organization of production and distribution by forcing them to join together to exercise more weight (lean production). It should be noted that these modifications cover all sectors and operate throughout the entire French territory. Cooperatives have also paid a special attention to good practices (farm advisory services) by participating in the development of innovative agricultural systems. The cooperatives have set up a Charter of agricultural Advisory Services from the perspective of sustainable development (2002 and certification of the farm advisory system) and traceability standards (*Agriconfiance*). Over the past 10 years, the cooperatives have developed management systems to improve their methods of governance.

- *The need to reestablish the balance of power within the food chains*

In France, since 1960, when the POs were first set up, the Legislator has aimed to encourage the participation of all the actors in the chain value regulation. Via a series of measures concerning the POs (1975 Law, LMA...), the French legislator has tended to support them more than cooperatives, by banalising the cooperative statute. After 1970, the distribution sector became the major actor. So the Public authorities sought to regulate this development (*The Galland Law* of July 1996; *The Chatel Law* of January 2008; *The Law of Modernisation of the Economy* of 4<sup>th</sup> August 2008). But, because of the separation between upstream and downstream, agribusiness increased the pressure on producers and on their organizations. Consequently it has become vital for producers to organize themselves to resist a reduction in both margins and product prices. This conflictual position between producers, the second transformation and retailers justifies public regulation in order to maintain the contact between them and to restore power relationships. The French inter-professions try to organize these chain value relationships. But the role of inter-professions in market management is not the same in relation to the degree of economic organization in the product chain value. For the Dairy sector, in countries such as

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<sup>33</sup> (art. 24): This becomes Organization of Producers (L.555-1 Agricultural orientation Law 2006).

<sup>34</sup> *Les organisations interprofessionnelles : un outil répandu de gestion des filières, 2011, Cahiers d'Analyse, Agreste, n°31, juin, p.4.*

Denmark or the Netherlands, the coordination of actors on quantity and price for *quasi-rent sharing* is not useful, because each of their product chain values is already managed by one unique cooperative.

But, in France, this is not the case because there are still numerous actors and stakeholders (producers, transformers and collectors). So the need for chain value governance is imperative (the case of CNIEL for the dairy interprofession).<sup>35</sup> In order to continue regulation of the chain value, France obliges producers to contract with other stakeholders.

As for dairy cooperatives, this is what they have already done, as confirmed by the agreement given by the *Haut Conseil de la Coopération Agricole*. The cooperative pact is a tool which includes price, quantity, quality, social capital... it is not a mere sales contract. With the prospect of seeing the end of quotas, cooperatives have opted for a total contribution. They are committed to collecting from all the milk producers but with different prices depending on the quality, and also to ensuring efficient collecting and processing.

- *UE and French legal framework for internationalization*

Another important topic for French cooperatives is the right to create a European cooperative with another cooperative from the EU. European Cooperative Society (ECS) is attached, first of all, to the French Law of 1947. This partitioning of the French cooperative legal framework, which is the result of history and has made substantial development of cooperatives possible in each economic sector, nevertheless reaches its technical limits when an economic project does not fall within the existing framework. In this way ECS may favour a new potential framework for inter- and transnational cooperatives. This could allow some of them to develop their internationalization strategies and to lower the costs of their investment and risks.

Competitive market pressure, European and French legislation, the problems of food safety and volatile product prices, together with sustainable territorial development, exercise a strong influence on cooperatives, both in terms of constraints and opportunities.

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<sup>35</sup> <http://www.cniel.com/site.asp?where=chiffres/chiffre.html>

## 8 Future research

As the elements detailed above have amply confirmed, the situation of France's agriculture and cooperatives is one of extreme complexity. This would certainly justify the need to carry out much more research, particularly in the domain of multipurpose cooperatives, corporate governance and financial tools to stabilize the market.

For France, **multipurpose cooperatives** present a number of interesting cases studies (See Section 2.2.5.). These cooperatives combine multiple activities and some of them are in the top 20. They sometimes operate at international level. As shown in Table 9, these cooperatives operate in different sectors (meat, vegetables, cereals...) and each sector does more than 10% of total turnover. We have different multipurpose cooperatives like Terrena, Agrial or Triskalia. Terrena, for instance, is a perfect example of the multipurpose cooperative: on the whole, it is quite a big cooperative group in France (it has been in the top 3 for some years now), but it is not a leader in any of the sectors it is involved in. Moreover, Terrena has not expanded outside France (the same holds true for Triskalia). Another interesting example is InVivo, the biggest cooperative in France, which is the union of 272 cooperatives for the supplies and cereals trade. InVivo holds a special place in the French cooperative movement because it unites a lot of cereal cooperatives and it is at the same time a company and a consultancy firm. Its goal is to bring specific services to its members that are not available elsewhere. Nowadays, InVivo is also the leading exporter of cereals in France.

This analysis of French agricultural cooperative developments needs to be complemented by referring to **corporate governance**. The particular way in which owner-members exercise their power raises the question of the difference between these enterprises and commercial law companies. Even though the role played by the owner-members in decision making, including investment choices, constitutes one of the particularities of cooperative government, managerial practices (recruitment, form of organization...), have come much closer to those of their non-cooperative competitors. What is specific to a cooperative is to be found in its **social purpose**. This is why there is ongoing reflection as to how to reduce potential tension between cooperative principles and the competitive positioning of groups.

To minimize the impact of the price volatility of raw materials that cooperatives are confronted with, they need to develop new insurance mechanisms with the help of the various public authorities concerned. In order to **finance their investments**, some cooperatives have developed new financial organisations, like Champagne Céréals and other cooperatives which created a financial holding called Siclae. Other cooperatives like Agrial or Axereal have chosen to allow farmer members to directly buy some shares of the financial holding.

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