

## Agricultural cooperatives: the reference in term of farmer economic organisation

In designating 2012 as the International Year of Cooperatives, the UN aims to promote these collective structures for their contribution to socio-economic development, food security and rural development. According to Coop de France, 75% of French farmers belong to at least one cooperative. This sector has undergone some profound changes over the years – growth, subsidiarisation, internationalisation and how they operate – ensuring its rapid expansion in the face of competitive pressures and the concentration of retail sector. Moreover, given the context of increasingly volatile agricultural prices, the economic organisation of producers has become a major issue.

The UN have declared 2012 as the International Year of Cooperatives in order to promote these “collective” structures for their contribution to socio-economic development, food security and rural development<sup>1</sup>. In France, the history of the cooperative movement has been marked by a number of distinct phases and influenced by various schools of thought. For example, there were the influence of “Utopian socialism”, with Charles Fourier (1772-1837) and his community ideal based around structures called “Phalansteries”, and that of Christian socialism, with its leading figure Charles Gide (1847-1932) and the ideal of the cooperative republic. The creation of these alternative structures was seen as a way of breaking free from the constraints of the economic system at the time.

Today, cooperatives account for 14% of all entities and jobs within the social and solidarity economy, alongside associations,

mutual organisations and foundations. They are particularly active in the credit market (Crédit Agricole, Caisse d'Épargne and Crédit Mutuel bank networks) and the retail sector (Association des Centres de Distributions Édouard Leclerc and Système U, for example)<sup>2</sup>.

In particular, the food-processing sector continues to expand based on the cooperative model. Agricultural cooperatives represent 50% of agricultural production worldwide<sup>3</sup>. In the United States, some 2,400 cooperatives are identified in the food-processing sector, with 2.2 million members<sup>4</sup>. In France, according to Coop de France, 75% of farmers belong to at least one cooperative<sup>5</sup>. In 2005, cooperatives accounted for 37% of the workforce, 33% of sales turnover and 21% of transformation turnover in the food-processing sector<sup>6</sup>. In addition, 66 of the 100 leading cooperatives are linked to agriculture or to food-processing<sup>7</sup>.

How did agricultural cooperatives become so important? Do they help rebalance market forces within food chains marked by the significant concentration of agribusiness and retail sectors and, to a

1. UN, February 2010, *Cooperatives in Social Development*, A/RES/64/136.

2. Le « tiers secteur, un acteur économique important », *Insee Première*, March 2010, No. 1342.

3. Report of the Secretary-General of the United Nations, 2009, *Cooperatives in Social Development*, A/64/132.

4. USDA, November 2010, *Cooperative statistics 2009, report 70*, 56 p.

5. Coop de France, *Poids économique et social 2010 de la coopération agricole et agroalimentaire française*, November 2010.

6. Filippi M., Triboulet P., « Les groupes coopératifs poursuivent leur développement », *Agreste Primeur*, No. 235, December 2009 Agreste, *Chiffres et données Agroalimentaire*, No. 153, January 2008, including subsidiaries.

7. GNC 2010, *Top 100 des entreprises coopératives et panorama sectoriel*, 51 p (companies with cooperative status or controlled by a body of cooperatives, ranking based on turnover, including subsidiaries).

lesser extent, processing activities? In a competitive context, to what extent has the way they have evolved resulted in criticisms and questioning regarding the erosion of their specific characteristics? To tackle these questions, this analysis retraces the broad lines of the agricultural cooperatives origins in France and their guidelines. The analysis will then examine the positioning of cooperatives within different sectors in France and Europe. And finally, the tensions that have marked the development of cooperatives related to the need to remain competitive whilst maintaining a specific identity will be presented.

## 1 - The foundation of the agricultural cooperatives principles

The history of agricultural cooperatives is closely linked to that of agricultural unionism. At the end of the 19<sup>th</sup> century, economic producer began to group together for bulk fertiliser purchases, driven by the unions<sup>8</sup>. Formed with a view to reducing input prices and discouraging fraudulent practices, these early groups were a response to the economic recession and the low prices of agricultural products during the period 1880-1900. The economic recession of 1929 and state intervention in the marketplace were to prove to be the next decisive phase in the development of cooperatives. In the cereals and wine production sectors, in particular, they were to become a national agricultural policy implementation tool, notably regarding supply management. Cereal cooperatives received state funding to reinforce their storage capacities when the *Office National Interprofessionnel du Blé* (French National Inter-professional Wheat Office) was set up in 1936.

State support for the development of cooperatives also made it possible to set out official legislation governing their operating principles which were defined by the International Cooperative Alliance in 1895. Different rules were gradually introduced in France: distribution of surpluses directly related to farmers' contributions; cooperative governance with the principle of "one man, one vote"; remuneration of shares on a fixed dividend basis with an upper limit; the non-shareable nature of reserves. The rules, imposed from 1935 on any structure seeking to obtain this status, allowed tax exemptions in return still in force today. The rules have been incorporated into various laws related to the cooperative status since, notably

in 1947. The rule of "exclusivism" was also imposed, preventing the cooperative from doing business with anybody other than its members<sup>9</sup>. Through the principle of *double commitment*, all members subscribe to a portion of the cooperative's capital and deliver all or part of their production, or use its services (for example Cooperatives for the Use of Agricultural Machinery). The definition of each cooperative on the basis of territorial area in which its members are located also led to the principal of *territorial anchorage*.

Challenging economic circumstances, the influence of professional organisations and political movements as well as state intervention via legal and financial incentives, have all had a major impact on the development of agricultural cooperatives in France, Europe and the United States<sup>10</sup>. Their creation tally with the pooling of agricultural capital, with the "combination of an enterprise and an association of people who form this joint enterprise for their own use, and who become the shareholders and users [...]"<sup>11</sup>. They were also formed to meet a number of objectives, notably restoring a certain balance in commercial relations, particularly with the agribusiness sector.

The double commitment principle leads to most of the profits generated by the activities of food-processing cooperatives. These gains are redistributed to members via prices, after interest on loans. Hence, given they have control over their marketing or transformation mechanism, they are able to keep a greater part of their products' added value and contribute to the construction of their outlets. Moreover, downstream integration in supply chains effectively prevent opportunistic practices designed to capture value. Ultimately this

secures their production factors, particularly in sectors requiring considerable and specific investments<sup>12</sup>.

## 2 - Diversity of agricultural cooperatives

### 2.1 - A variable presence depending on the specific sector

The development of cooperatives has varied according to the specific sector, with differences in terms of the number of producer involvement and vertical integration.

In figure 1, the influence of cooperatives in the collection and/or transformation of various agricultural products in France is represented, incorporating the non-cooperative status subsidiaries they control. It is useful to make a distinction between the activities of cooperatives, in the strict sense of the term, and those relating to what is referred to as the "cooperative perimeter", i.e. cooperatives and their subsidiaries. This is because "subsidiarisation" does not

8. See Nicolas P., 1988, « Émergence, développement et rôle des coopératives agricoles en France ». Aperçus sur une histoire séculaire », *Économie Rurale*, n° 184-186, pp 116-122.

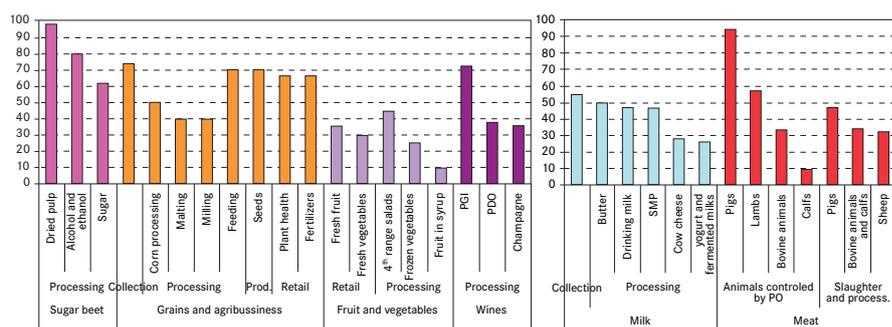
9. Nicolas P., 1994, *Règles et principes dans les sociétés coopératives agricoles françaises, évolution du droit et des pratiques de 1960 à 1962*, INRA, Paris, 31 p.

10. See Koulytchizky S., Mauget R., 2003, « Le développement des groupes coopératifs agricoles depuis un demi-siècle, À la recherche d'un nouveau paradigme », *Recma* No. 287, pp 14-40; Ortmann et King, 2007, "Agricultural Cooperatives I: History, Theory and Problems", *Agrekon*, vol 46, pp 40-68.

11. Definition suggested by P. Nicolas in particular.

12. See Staatz J., 1987, "Farmer's incentives to take collective action via cooperatives: a transaction cost approach", USDA, Agricultural cooperative service, *Service report 18, Cooperative theory: news approaches*, edited by Jeffrey S. Royer, pp 87-107.

Figure 1 - Cooperative market shares in various food chains



Data : Coop de France 2010, subsidiary company included, in term of volume or value.

carry the same weight for all products. In the milk sector, dairy groups particularly often resort to the subsidiarisation of their transformation activities<sup>13</sup>. Hence, if we consider the reduced perimeter, according to the results of the French Annual Dairy Survey for 2009, cooperatives were responsible for 47% of collection, but only 12% of transformation<sup>14</sup> activities and 10% of finished dairy product sales. Taking another example, the share of farm animal feed production accounted for by non-subsidiary cooperatives, in terms of turnover, was 16% in 2007, whilst the figure rises to 70% using the cooperative perimeter, according to Coop de France data for 2010. Conversely, within the wine-making sector, subsidiarisation remains of secondary importance since while the cooperative perimeter accounts for up to 72% of transformation activities, for some wine categories, it is estimated that cooperative structures in the strictest sense of the term account for 60% of activity in the wine-making sector<sup>15</sup>.

Beyond these considerations, a distinction can be made between plant production – for which cooperatives are generally much more present – and livestock production. The sugar beet sector, for example, has a highly structured cooperative organisation, led by two producers' groups, Tereos and Cristal Union, which transform 60% of the French sugar quota<sup>16</sup>. Numerous cooperative structures have also developed for the grain sectors. They are involved in collection and transformation activities – particularly for cereals – as well as input supplies. Cooperatives also operate in the animal feed production sector. The situation regarding the fruit and vegetable sectors is extremely diverse, with numerous producer organisations (POs) involved in product marketing<sup>17</sup>.

Where the meat sector is concerned, collective structures primarily concern the animal trade prior to slaughter. In the pork sector, for example, almost all animals are sold by POs in the form of a cooperative and cooperatives represent almost half of all slaughter-transformation activities. The dairy sector can be described as bipolar, with cooperatives responsible for half of all collection activities. Nevertheless, they tend not to play such a significant role in transformation, although this involvement varies depending on the products considered.

Government policies, differences in farming calendars and farmers' funding capa-

cities go some way towards explaining the variations in the influences of cooperatives between sectors. And questions may be raised regarding the impacts of these disparities in terms of the sharing of added value in meat sectors, in both France and the United States<sup>18</sup>.

## 2.2 - Consequences in terms of competitiveness and agricultural policy-making

Although France does have its own leading cooperatives, the six biggest cooperatives in Europe are Dutch (Vion, Friesland Campina), Danish (Arla Foods, Danish Crown) and German (Bay Wa, Sudzucker)<sup>19</sup>. The presence of cooperative leaders in the meat and milk sectors, with control over a major percentage of the transformation market, gives countries in Northern Europe certain competitive advantages. Greater market power for producers, systems for sharing added value, economies of scale, capacities in terms of research and development, growth, etc. The Netherlands and Denmark enjoy a number of competitive benefits. Livestock farmers there benefit from a *natural pooling*: the influence of products that generate less income being offset by value-added products.

The presence of cooperative on quasi-monopoly position at national level in the Netherlands and Denmark also goes some way towards explaining the offensive strategy adopted with respect to production growth as well as the abolition of milk quotas: the way they are organised is a significant asset for gaining market share, especially from structures that are less well organised. Similarly, the Fonterra cooperative in New Zealand (a quasi-monopoly) is an advantage for an export strategy.

Although the cooperative model in Europe is underpinned by a set of common principles, no harmonised European legal framework regarding cooperatives exists, and the status of “European cooperative society”, created in 2003, primarily concerns mergers between cooperatives from different Member States or the creation of a cooperative with members in more than one Member State. Moreover, whilst the European Commission has promoted the development of cooperatives, particularly for the benefits they provide in terms of employment, social integration and rural development, the exemptions cooperatives enjoy are the subject of considerable debate.

## 3 - Between competitive pressures and maintaining cooperative identity

### 3.1 - Changes in the agricultural cooperative sector: concentration, internationalisation and downstream development

Recent years have seen radical restructuring taking place within the cooperative sector, with the concentration of players, particularly through mergers and the creation of cooperative unions such as *In Vivo*. Cooperatives have also expanded as a result of joining forces with non-cooperative companies. Today, for example, Entremont has been incorporated into the Sodiaal cooperative following a takeover, but other types of partnerships also exist, particularly through the construction of joint subsidiaries. The increased presence of French cooperatives in the downstream activities of different sectors mainly occurred through the outsourcing of activities in non-cooperative companies through subsidiarisation, during the 1990s<sup>20</sup>. At the same time, several cooperatives, such as Limagrain, Tereos and Champagne Céréales, have developed their activities on the international stage. And some of Europe's leading cooperatives have proceeded similarly: Arla Foods, for example, operates production units throughout the world, including in China and Brazil.

Hence agricultural cooperatives have been a part of this global dynamic towards the concentration and internationalisation of economic players, driven by the demands of profitability to seek a critical size, conquer new markets and diversify supply sources. Today, the major agricultural cooperatives are underpinned by a highly complex legal, financial and decision-making organisational structure, just like

13. See Filippi M., Triboulet P., 2009.

14. SSP, from a method for converting milk products into whole milk equivalent.

15. See « Coopération Agricole », *Agreste Chiffres et Données Agroalimentaire*, No. 167, August 2009.

16. CGB, *La betterave en 2011*, 7 December 2010.

17. See in particular book V of the French rural and sea fishing code governing the legal connections between POs and cooperatives.

18. See Dedieu M.-S., « États-Unis, le gouvernement veut renforcer le pouvoir de marché des éleveurs », *Monitoring report* No. 39, CEP, November 2010.

19. ESSEC-Eurogroup Consulting, 13 January 2011 *Quelles stratégies d'alliances et quel développement international pour les groupes coopératifs ?*

20. See Filippi M., Triboulet P., 2009.

other economic operators<sup>21</sup>. Nevertheless, behind the global success of cooperatives in the French food-processing sector, it is worth mentioning the existence of certain difficulties, bankruptcies and takeovers by non-cooperative companies (the Union Laitière Normande and Socopa, to name but two). In addition, numerous small structures coexist alongside the major cooperative groups, whose positioning with respect to quality products or specific markets has shielded them from the major changes outlined above.

### 3.2 - Legal changes: the weakening of cooperatives' s peculiarities?

The evolutions that have taken place in the cooperative sector have been accompanied by changes in the legal framework. These changes are designed to facilitate the development of cooperatives, initially hampered by their limited capital<sup>22</sup>, and make it easier for them to join forces with non-cooperative companies. But they have raised questions regarding the maintenance of cooperative principles and the benefits enjoyed in return.

In 1967, it became possible, for some cooperatives – qualified as “commercial” – to do business with non-member companies, to implement weighted voting of members and to acquire a controlling interest in commercial companies. This enabled cooperatives to invest in downstream sectors without having access to all of the required capital. On the other hand, exemption from corporation tax was abolished for these cooperatives. Following strong criti-

cism across the profession, the law of 1972 replaced the above law, creating a single and autonomous status for an agricultural cooperative, *sui generis*, with some of the benefits introduced in 1967 (doing business with outside parties possible, but limited to 20% of turnover and subject to corporation tax; weighted voting; non-cooperative associates admitted, etc.). This law was to facilitate the creation of subsidiaries.

The laws of 1991-1992, often cited as pivotal in the history of the legal framework governing cooperatives, made it possible to quell certain conflicts between cooperatives and commercial companies. A series of measures was adopted aimed at bringing cooperatives and commercial companies closer together and reinforcing investment by cooperatives at a downstream stage in supply chains. Outside investors could buy shares in the registered capital of cooperatives, within a maximum ceiling (below 50%). They also had voting rights (maximum 20%). The possibility of “the redistribution of dividends” from subsidiaries to members was reinforced. However, the assessment report regarding these laws highlighted the limited use of the new financial tools introduced.

Further changes have occurred since. The 1999 *Loi d’Orientation Agricole* (French Agricultural Framework Law), for example, allows any cooperative in the European Union to become a “cooperative member” of a union of cooperatives. The law of 2006 broadened the use of some financial tools, but also reinforced requirements regarding information provided to members about the management of the cooperative. Modes of governance have become a central issue<sup>23</sup>. These legal changes have paved the way for an increase in the capital of cooperatives, which, though not affecting the cooperative status, represents a major overhaul in the economic organisation of agricultural sectors.

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The changes that have taken place in the French cooperative landscape provide important lessons. Their development trajectory is an example of constant tension regarding the maintenance of the specific characteristics of these structures within an environment of heightened competitive pressures. The operating principles have evolved and the use of the expression

“cooperative capitalism” partly reflects these changes. The gradual evolution in the legal framework within which cooperatives have to operate has underpinned their rapid expansion.

Whilst agricultural cooperative representatives are determined to pursue the quest for a “critical size” for these structures, the changes and restructuring process taking place in the French cooperative landscape appear far from complete. Common Agricultural Policy changes and increasing price volatility may be catalysts for these evolutions, as well as the economic organisation of farmers. The specific provisions of the Fruit and Vegetable Common Market, specifically designed to stimulate producer organisations, as well as the debates surrounding the gradual abandonment of milk quotas<sup>24</sup> illustrate this. These changes raise the issue of how the “union” component of agricultural professional representation can be more articulated with the “economic cooperation” component in the future. And they also raise the increasingly important issues of governance and the role of members of cooperatives that continue to expand in size and grow in organisational complexity.

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21. Filippi, M., Frey O., Mauget R., 2008, *Les enjeux des entreprises coopératives agricoles, la gouvernance des coopératives face à l'internationalisation et la mondialisation des marchés ?*, SFER symposium 28-29 February 2008: *Les coopératives agricoles, mutations et perspectives*.

22. Nicolas P., 1988, « Quelques aspects spécifiques du financement et de la structure financière des sociétés coopératives agricoles », *Économie Rurale*, n° 187, pp 10-16; and 1992, *La remise en cause de l'organisation coopérative : crise d'identité et législation nouvelle*, 41 p.

23. See in particular Perri Lewi, 2009, *Les défis du capitalisme coopératif, ce que les paysans nous apprennent de l'économie*, 212 p, on the issues facing cooperatives, including those relating to governance and effective cooperative management, Pearson.

24. See the report of the High Level Group on the milk sector of 15 June 2010 and the European Commission milk package proposals of 9 December 2010.

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Composition : SSP Beauvais  
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