

AGRICULTURAL AND FOOD-PROCESSING COOPERATIVES FACED WITH THE CHALLENGES OF GLOBALIZATION: IS INTERNATIONALIZATION A SOLUTION?*

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Faced with globalizing markets, what strategies are agricultural and food-processing cooperatives adopting? After presenting the conceptual framework and background of globalization, the author examines surveys conducted since 1969 on the internationalization of cooperatives and data concerning the internationalization of French agricultural and food-processing enterprises from 1996 to 2003. During the latter period, cooperatives were less actively involved in internationalization than capitalist firms—20% and 50% respectively of strategic operations were outside France—and most of these operations took place within Europe. Dating from the late 1960s, this trend of growing internationalization has primarily been through the development of franchises and subsidiaries and has mainly concerned eleven cooperative groups. The article provides a qualitative analysis of the approach of these groups as well as an analysis by business sector. Between user value and shareholder value, the decisions are often complex. Public policy should also consider the fact that cooperatives play a key role in local development as demonstrated by their expansion in France.

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Faced with the globalization of markets and the internationalization of capitalist firms, cooperative groups have been looking for strategies that can ensure the survival of their businesses and best promote their products in their regions. Should they follow the path of international capitalist firms, just to copy them or because it is in their interest, or should they stay in their region? In our surveys, we have identified nearly 450 instances of internationalization over the thirty-five year period of 1969-2004. Of the approximately 3500 cooperatives today (excluding CUMAs), only about fifty of them have been involved with internationalization (excluding exports).

Background

The globalization of markets with the lowering of trade barriers has been happening and will probably accelerate following future WTO-CAP trade agreements.⁽¹⁾ We also observe a growing internationalization of capitalist

(1) WTO: World Trade Organization; CAP: Common Agricultural Policy.

(2) ESSEC-IMIA study, 1996-2003.

firms in the food industry (foreign direct investment) taking place at the same time.

In the past few years, more than 50% of the partnerships, mergers and takeovers initiated by capitalist French firms have concerned foreign companies. This strategy is clearly less significant for cooperatives (20%).⁽²⁾ Do cooperatives behave differently than capitalist firms in this area? In this new and still poorly regulated environment, what are the roles, strategies and results for agricultural and food-processing cooperatives faced with these challenges? A decrease in the cooperatives' scale faced with this globalization of markets and internationalization of capitalist competitors could have been feared, but during the period of 1997-2003 the scale of agricultural and food-processing cooperative groups increased (2-3%) in France. This phenomenon can be explained by, in particular, divestment in the food-processing industry, especially from pension funds, capital which was acquired by cooperatives. This strategy of cooperative groups has to do with local sustainable development (income and employment). However, if market globalization increases, the ability of cooperatives to compensate will be insufficient in many industries (dairy products, poultry, fresh produce, canned food, etc.) for dealing with this phenomenon. European intervention is therefore indispensable if we wish to avoid bankruptcies that will have disastrous consequences for local communities.

Research hypotheses

- Cooperatives will benefit less from the advantages of internationalization or relocating (objective centered on increasing product value) than capitalist firms (objective centered on increasing return on capital).
- Increase in shareholder value often does not compensate for the apparent decrease in user value with the internationalization of cooperatives.
- Cooperatives will be more involved with protecting local production than capitalist firms.

Analytical framework

We will first introduce the different models used in our research:

- models for defining the difference between the cooperative firm and the capitalist firm;
- user and shareholder value in the cooperative firm.

Principal-agent theory revisited and distinguishing types of firms (Deshayes, 1988)

In every firm there are risk-bearing and contracted factors. Thus, economic organizations engage in two kinds of contracts:

- non-fixed price (involving risk) with residual claimants;
- fixed price with other economic agents.

The residual claimants bear the risk of the organization's economic activity by making a contract with the agent at an uncertain price. According to this approach, two conclusions can be drawn:

- Cooperatives are comparable to capitalist firms in their construction (the risk-bearing factor has power over the surplus).
 - Agricultural cooperatives are fundamentally different. The risk-bearing factor is not the same, which produces differences in the criteria of efficiency and in the relevance of any particular strategic move:
 - in the cooperative, the risk-bearing factor is production;
 - in the capitalist firm, the risk-bearing factor is capital.
- The strategic and financial implications of these conclusions are crucial, particularly in internationalization strategies and even more in the case of relocating agricultural and industrial production.

Value added by the cooperative for the user

We will use the example of a cooperative that collects and processes agricultural products.

Short-term income advantage

The cooperative can influence income in three ways:

- price advantages (cooperative price/market price);
- quantity advantages (“right to produce,” productivity effects on farm);
- advantages by controlling farming costs.

Income = $(Q \times PP - Q_i \times P_i)^{(3)}$

(3) Q is quantity, PP is product prices, Q_i is quantity of bought input (fertilizer, pesticide, services).

Payment security

In cases of bankruptcy or financial difficulties, it is very rare that a cooperative does not fulfill its obligations to purchase products. Usually the cooperative is bought out by another cooperative that fulfills these obligations. This is not always the case in non-cooperative firm bankruptcies.

Long-term cooperative advantage

Cooperatives exhibit a long-term advantage by the lower risk of relocating production and thus the farmer’s income. Actually, the decision-making criteria are different from the non-cooperative enterprise (NCE). For a multiregional or multinational NCE, rational thinking is as follows: can the return on capital be increased over the long-term by relocating the business? Risk is also involved. In the case of the cooperative firm, relocating business operations, which happens infrequently, only occurs after the economic solutions in the original region have been exhausted (the advantage for the user in terms of income takes priority over the return on capital that would result from a possible relocation). Nevertheless, some complex decisions may lead a cooperative group to expand their business outside their region, but this is rarely the first choice.

Value added by the cooperative group for the shareholder

We will first define this concept for the capitalist firm. We will then see if the same approach can be used for complex cooperative groups. The

(4) EVA is economic value added, RIC is return on invested capital as a percentage (operating net income after tax), CTC is cost of tied up capital as a percentage, and IC is invested capital, i.e. net fixed assets plus working capital requirements.

value created by a capitalist firm corresponds to the difference between the return on invested capital and the cost of tied up capital.

$$EVA = (\% RIC - \% CTC) \times IC^{(4)}$$

Using this concept in a cooperative group is more complicated.

The case of a subsidiary which processes products that do not come from members of the cooperative (e.g., a foreign subsidiary)

In this particular case, the reasoning mentioned above can apply if this investment does not have a negative effect on user value in the cooperative group in France.

The case of a subsidiary which processes products that come from cooperative members in France

In this case, the way in which the market price of the agricultural product was determined needs to be considered. If it was properly estimated given market conditions, the previous reasoning can still apply.

Value for the cooperative or value for the member?

In the long term, the member expects to maintain and increase the “right to produce” and income. In the short term, the farmer in the traditional cooperative hopes to achieve higher prices and higher income derived from the cooperative compared with the farmer working with a non-cooperative enterprise (in reality this is not always the case). A complex group with subsidiaries should therefore enable paying the member cooperator an amount at least equal to the amount that would be paid in the traditional cooperative. However, this will be paid in a different form: market price plus dividends with tax credit proportional to the member’s shareholding in the cooperative (which has been possible in France since the law of 3 January 1991). The cooperative set-up allows mixing the ways of remunerating the user-farmer and shareholder. Thus, the value of the cooperative group for the “cooperator-shareholder” in the short term is limited to the percentage of dividends paid in relation to the shareholding, this amount being added to the price that will have been paid earlier. To this can be added the remuneration of the member’s share, which can be set at the level of the return on risk-free bonds, as in the traditional cooperative, so that this variable can be neutral in the comparison. Let us recall that the member cooperator does not, in theory, have claim on the reserves.⁽⁵⁾

(5) However, it is possible for the value of the share to be raised (in France) based on the schedule of life annuities (1972 law).

The farmer can, however, get capital gains by investing directly in the foreign subsidiary. Consequently, analyzing the cooperative advantage for the user and/or for the shareholder in a cooperative group is very complex. This is how complicated the choice of internationalization is, and the optimal strategy varies according to whether one looks at value created at the level of the cooperative group or at the level of members.

The internationalization or relocation of cooperative groups

How relevant is this?

In practice, a strategy could be developed for relocating or expanding the business outside of its region (this is already the case for certain products) to increase profits through lower input and wage costs, with the profits distributed to members in proportion to their shares. Shareholder value would have a higher priority, but this would be in comparison with a possible decrease in the “right to produce” for members in their region or place of origin and thus a loss for the user.

In the context of market globalization and the internationalization of competitors, this type of reasoning becomes relevant for the farmer-shareholder and user. Should we invest in China to produce malt? Should we make foie gras in Bulgaria for re-importing it into the EU? Should we invest in chicken production in Brazil for markets in the Middle East or elsewhere, etc? This type of reasoning is possible, but is it always relevant in relation to objectives? Consideration of cooperative values would also be relevant, but we will not deal with that aspect in this article.⁽⁶⁾

(6) See *Recma*, no. 278-279, “De la coopérative au groupe coopératif agroalimentaire,” by R. Mauget and M. Forestier, which deals with this subject.

The globalization of markets and the internationalization of enterprises are accelerating

We have identified three components to the internationalization of enterprises:

- exports;
- internationalization by investing in industrial and marketing capacity to serve the local market;
- moving industrial operations to import products back into France or Europe.

There are also three criteria for the globalization of markets and enterprises that can be analyzed.

Evolution of world exports

For the past twenty-five years, world exports have, on average, grown twice as fast as world GDP. World exports increased by 12% in the year 2000, fell in 2001, but rose again in 2003. Exports by OECD countries have been declining over the long run, while exports by Asian countries (excluding Japan) have been rising. In terms of agricultural and food-processing products, French exports rose sharply between 1975 and 1997. For the past few years, exports have stagnated, and the country’s trade balance has been deteriorating after reaching a peak in 1997. In this economic climate, agricultural cooperatives are and will be directly affected because exporting for them is an outlet for staple products, which will be hardest hit (wine, chicken, butter, powdered milk, etc.). We will also see that the strategy of relocating operations is rarely consistent with the cooperative’s objectives.

Foreign direct investment (FDI)

Total World (all sectors)				
Year	1995	2000	2001	2003
Billions of dollars	300	1 300	760	?

Foreign direct investment has also risen, sometimes sharply (2000). This second criterion is interesting for measuring the internationalization and relocation of firms. In the past few years, China has received the greatest share of FDI. We will see in a later section that the agricultural and food-processing sector has followed this trend, but cooperatives have only played a small role in this process.

WTO membership and agricultural support

This criterion is also important because membership in the WTO means lower trade barriers (customs duties, tariffs, export subsidies, etc.) and thus promotes trade growth and a relative specialization of countries. China’s membership in the past few years, and soon that of Russia, will further accelerate this globalization. In this alliance of market globalization and competitor internationalization, we will see that cooperatives act as a stabilizing force for regional production, but the ability to defend against emerging economies will be limited if all customs duties, tariffs and other direct aids come to disappear (*see table 1*). There are various forms of support:

- entry barriers (tariffs);
- aid for exports (export subsidies);
- overpayments for consumption due to quotas (milk, sugar);
- aid by hectare or product; etc.

Export subsidies will disappear because of pressure from the WTO, but maintaining tariffs or subsidies in certain sectors (by hectare or product) remains indispensable to avoid massive relocations of large-scale businesses. The New Zealand model is certainly an interesting example of what has happened since subsidies were ended in 1984, but the economic fundamentals are different from those in the EU. The Brazilian model, today a main competitor of European producers (sugar, poultry, pork, etc.), will be even more formidable over the next ten years. In this context, the issue is not only the risks. The emerging economies, which represent over 50% of the world’s population, can be export outlets for certain agricultural and food-processing products.

The international strategies of French cooperatives

We will examine the role and behavior of French cooperative groups in this

Table 1
Farm Support in 2000
 Estimated support to farmers by country as % of the value of gross agricultural revenue

	Year 2000
European Union	34
Czech Republic	17
Hungary	22
Poland	15
Slovak Republic	25
Iceland	64
Norway	68
Switzerland	72
Turkey	21
Canada	19
United-States	22
Mexico	24
Japan	60
Australia	5
New Zealand	1
OCDE	32

Source: D m ter, 2004, pub. Armand Colin.

context in relation to their objectives. This section is based on several sources of information:

- A database on the strategic operations of French firms in the agricultural and food-processing sector with firms (cooperative and capitalist) in other countries during the period of 1996-2003 allows us to make some comparisons between the two types of firms.⁽⁷⁾ The database covers more than a thousand operations of internationalization, and 50% of those operations involving capitalist firms, while only 20% of those involving cooperatives, concern internationalization.
- In addition to this database, we have conducted comprehensive surveys on the internationalization of cooperatives in the period 1969-2004, which include cooperatives involved in grain collection, agricultural supplies and seeds, in addition to food-processing cooperatives. This second database incorporates nearly 450 operations over the thirty-five years. Prior to 1970, there were practically no international operations by cooperatives (excluding exports).

(7) By "operations" we mean all international operations excluding direct exports but including commercial subsidiaries.

Cooperatives and globalization (agricultural and food-processing industries, 1996-2004)

Cooperatives participate in globalization in six main ways:

- exports (this aspect will be mentioned but not studied);
- foreign marketing subsidiaries or part subsidiaries;
- foreign industrial and marketing subsidiaries or part subsidiaries;
- technology transfers and research;
- franchises;
- others, misc.

Capitalist firms are more internationalized than cooperatives and with different forms. To make this comparison, we will use the ESSEC-IMIA database on the period 1996-2003 (43 operations by cooperative firms and 400 operations by capitalist firms).⁽⁸⁾

(8) This database only concerns agricultural and food-processing groups. It does not include agricultural supplies or seeds.

Share of internationalization of strategic operations

%	1996	1997	1998	1999	2000	2001	2002	2003
French cooperative groups	20	23	17	40	18	32	6	8
French capitalist firms	44	36	39	52	66	62	55	35

In this period we observe that 20% of cooperatives' strategic operations were international, while over 50% of capitalist firms' strategic operations occurred outside France. This important difference stems from the difference in primary objectives. For cooperatives, the main objective is to increase the value of products for members. For capitalist firms, the aim is to increase the return on capital and, in the current economic climate, internationalization is often a key variable of medium-term and sometimes short-term growth and profitability. The difficulties cooperatives have in raising capital is also a second reason.

Geographical areas of international operations

%	Western Europe	CEE, Russia	Asia, Pacific	Latin America	North Africa, Arab countries	Africa	North America
Cooperatives	63	16	7	5	5	5	0
Capitalist firms	39	15	13	11	5	5	12

Most of the operations by cooperative firms occur in Europe (80%, including Central and Eastern Europe). None of the operations by cooperatives were in North America during this period. There were some franchises set up by Yoplait with General Mills in the United States and Agropur in Canada, but they are older. In contrast, the internationalization of

capitalist groups is greater since Europe, including Central and Eastern European countries and Russia, only represents 54% of the operations. There were also a lot more operations in Asia and North America.

The nature of the operations is also different

%	Takeover & Controlling Interest	Joint Venture	Other form + trade agreement + tech transfer-franchise
Cooperatives	40	23	37
Capitalist firms	56	12	32

Cooperatives initiate fewer takeovers and have fewer controlling interests in other companies due to their greater difficulties in raising capital and their objectives. On the other hand, the sample shows cooperatives are more active in setting up franchises and commercial subsidiaries. This is a consistent strategy for cooperatives. Commercial subsidiaries are consistent with cooperatives' objectives because, in particular, they provide French farmers with export outlets for their products. As for franchises, they do not require large amounts of investment and are therefore compatible with the difficulties in raising capital. For example, the international expansion of Sodiaal (Yoplait) was essentially done through franchising. We will however see that cooperatives have made more capital intensive strategic moves, particularly in the sugar and malt sectors.

Conclusion from this comparison

The intensity, forms and incentives of internationalization do not have the same characteristics or scale for cooperative groups and capitalist groups. The main explanation lies in the difference of the risk-bearing factor for the parent company—affecting the product for one and capital for the other.

Wider analysis (1969-2004; see table 2)

In this second part of our study, we will use our surveys over thirty-five years. The scope of these surveys was extended to include the agricultural supplies sector and particularly the seed cooperatives, which were active in internationalization. Overall, 444 operations were recorded in the period 1969-2004. In this same period, we recorded 64 operations of asset transfers or cessations of trading, i.e., 15%, sometimes due to bankruptcies. For example, ULN was taken over by the capitalist group Bongrain in the early 1990s, and France Champignon was taken over by an investment company in 2004. The internationalization of French cooperative groups is limited and recent (late 1960s). It essentially concerned Sodiaal, called Sodima back then, the franchise of the Yoplait brand (first franchise in Switzerland in 1969).

Table 2
Share of each sector in total international operations
(444 operations involving 35 cooperative groups)

	%	Number of cooperatives
Seed	41.2	4
Dairy products	30.4	7
Grain	9.2	3
Mixed farming	5.6	4
Fruit and vegetables	5.2	6
Wine	3.8	7
Sugar	3.2	2
Meat	1.4	2
Total	444	35

The seed companies were the next to follow in the trend towards internationalization, in particular Limagrain, then the sugar producers in the 1990s following in the footsteps of SDA (today Tereos), and then mainly the malt producers (Malteurop, subsidiary of the grain cooperatives group Champagne Céréales).

In 2004, over 80% of strategic operations abroad were carried out by 11 cooperative groups out of the 3500 cooperatives counted in France. Two groups, Sodiaal and Limagrain, were responsible for a third of these foreign moves. It is worth pointing out that the international cooperative groups are often formed around cooperative federations, for example In Vivo (several hundred member cooperatives), Sodiaal (several dozen), and ULN (no longer in existence). Champagne Céréales, a key shareholder of other companies, is linked to dozens of cooperatives through Malteurop and Nutriox.

Analysis by business sector (table 2)

Two sectors dominate.

- The seed sector is ranked number one, with over 41% of the operations and four groups in the top 11 (see table 3 below).
- The dairy products sector represents over 30% of the operations with seven enterprises; among them, two groups (ULN and Bressor) were taken over by the Bongrain group, and 3A sold three Spanish subsidiaries to Lactalis in 2004.

The other sectors have joined the trend towards internationalization more recently.

- Wine: seven cooperative groups, including Val d'Orbieu.
- The grain industry, mainly the Malteurop and Nutriox subsidiaries.

- Fruit and vegetables, where six cooperatives are involved, including the Avril group, which was taken over in the 1990s. The Cecab and Agrial groups, with their respective brands, D'Aucy and Florette, hoping to expand their European base as far as Russia in the case of Cecab. The Cerno cooperative, a small cooperative in the Périgord, partially relocated in Poland.
- Mixed agricultural cooperatives mainly located in the western part of France have not been extremely active in this trend; they are more oriented towards growth in their region (four groups involved, mainly commercial subsidiaries).
- Sugar cooperatives (Tereos and Cristal Union, which own most of Béghin-Say) are more actively involved in internationalization, particularly in Central and Eastern Europe and, in the case of Tereos, also Brazil, in an effort to capture markets that will be lost after the reform of the CAP in the coming years.
- Lastly, in the meat sector, the firms Socopa and Cooperl have not had a very aggressive strategy of internationalization up until now.

In summary, it can be seen that a few enterprises in each sector have developed a deliberate strategy of internationalization, particularly in the following sectors: dairy products, seed, sugar, milling (malt, flour) and, more recently, vegetables. Faced with the current difficulties in the wine industry, some enterprises have been looking for solutions through international agreements, for example the Val d'Orbieu group with Caviro in Italy, and the Limoux cooperative with the American company Gallo in 2004. Commercial subsidiaries and franchises represent a large proportion of operations abroad.

Qualitative analysis of the top 11 cooperative groups (table 3)

We recall that 80% of the internationalization operations were by the top 11 cooperative groups. These 11 cooperative groups most actively involved in internationalization as measured by the number of operations rank among the top twenty cooperative groups in France.

Sodiaal (Yoplait-Candia), €2.474 billion (2002)

The group began to internationalize in the late 1960s with the Yoplait brand. Today the group has a presence in around forty countries and is ranked second worldwide in dairy products after Danone with a strategy mainly oriented towards franchises (over two-thirds of the operations). The group has also attempted a strategy of foreign industrial investment, but this has had some setbacks with factories closed down or sold off, particularly in Spain and Poland (the group currently has some plants in Europe). At the beginning of the twenty-first century, profits from franchises roughly equaled the losses recorded on industrial plants. With the Candia brand in the milk industry, the group has also undertaken some international operations by franchising and investing in industrial plants on a smaller scale. In the cheese business, the group also has some subsidiaries in Europe.

ULN (Union laitière normande)

In the late 1970s, this group was ranked number one among French cooperatives. In the 1980s, it launched into a strategy of industrial and marketing takeovers in the United States, Spain, Russia and Belgium at a time when real interest rates were high. Internationalization was probably not the only reasons for the collapse of the group, which was bought out by Bongrain, but this strategy, which was much riskier than Sodiaal's strategy of setting up franchises, undoubtedly played a part in the group's downfall. Today, the former member cooperatives of ULN have a minority stake in the subsidiary (CLE) of the Bongrain group.

Eurial and 3A

Eurial and 3A are dairy product groups and former members of the Sodiaal group that decided to become independent when Sodiaal restructured the group into subsidiaries by sector. These two groups are active internationally.

- 3A: €1.027 billion (2002); based in Toulouse, its industrial and marketing strategy of internationalization mainly concerns Spain. As a result of financial difficulties, the group sold most of its industrial subsidiaries to Lactalis, the leading French dairy products company, in 2004.
- Eurial-Poitouraine: €0.484 billion (2002). This group has some industrial plants in Poland and Spain and some commercial partners.

Coopagri Bretagne

Mixed agricultural and food-processing group in Brittany, this group appears in the top 11 thanks in particular to the subsidiary Laita in partnership with Even and Terrena, the dairy product marketing subsidiary.

Groupe Champagne Céréales and associated cooperatives (€0.989 billion for Champagne Céréales in 2002-2003)

This group has a majority shareholding in two internationalized subsidiaries:

- Malteurop (malt);
- Nutrixo (flour).

Malteurop's internationalization strategy has been to follow the brewers to avoid being marginalized.

The sites are located in:

Europe: Spain, Germany, Portugal, Belgium, Ukraine.

Asia: China.

Latin America: Argentina.

Nutrixo's sites are practically in the same countries.

Tereos (sugar) €1.6 billion (2002-2003)

This sugar group, which is the largest in France and second largest in the world, bought with a few other sugar cooperatives most of the plants owned by the leading French sugar producer Béghin-Say. This group has a

Table 3
The 11 most internationalized groups

Sodiaal	78	21.3%	17.6%
Limagrain	64	17.4%	14.4%
In Vivo	61	16.6%	13.7%
Maïsadour	42	11.4%	9.5%
Champagne Céréales*	32	8.7%	7.2%
ULN	23	6.3%	5.2%
Coopagri-Bretagne**	17	4.6%	3.8%
Euralis	16	4.4%	3.6%
Tereos	12	3.3%	2.7%
Eurial	11	3.0%	2.5%
Cecab	11	3.0%	2.5%
Total	367	100.0%	82.7%

*Internationalization in particular through Malteurop and Nutrioxo.

**Internationalization through Laïta, subsidiary with Terena and the cooperative Ploudaniel.

presence in Switzerland, the Czech Republic, Hungary, Spain and especially Brazil. The internationalization strategy of the group consists of capturing international markets, particularly with the Brazilian subsidiaries, to meet the challenges of the changes in the CAP in the coming years.

Seed companies

- In Vivo: €2.727 billion.
- Limagrain: €0.933 billion.
- Euralis: €0.868 billion.
- Maïsadour: €0.566 billion.

These groups from the top 11 have internationalization strategies mainly focused on the seed sector even if the groups themselves are more diversified (e.g., Maïsadour, Euralis and In Vivo). These four groups together had one hundred operations. The most internationalized of the four is Limagrain which, while not the world leader in the seed sector, has a high ranking. Cecab (D'Aucy brand) has stepped up its internationalization to hold onto its place in Europe, particularly due to competition from Bonduelle.

Some conclusions about the internationalization of cooperatives

Internationalization, relocation and importing products from foreign competitors are rarely first-choice decisions for a cooperative. These different strategies actually often seem irrelevant to the cooperative's main objective, which is centered on increasing the value of the product. Several indicators reflect this objective:

- the price of the product;
- income for the member or optimization of “right to produce”.

The large number of strategic operations involving investing in foreign commercial subsidiaries is consistent and easily explainable to the member. They are only an extension of the traditional business of exporting. In the examples that have been cited, some strategies are consistent with the purpose of the cooperative, e.g., moving part of the processing abroad to keep the business competitive (the case of walnuts). They can even be the condition for the product chain’s survival and thus the objective of the cooperative. This relocated function can be carried out by a subsidiary of the cooperative.

The strategy of franchising is also easy to explain if it concerns products that are hard to export in good conditions. The financial advantages for the member often seem small, but as the initial outlay is not great, the decision is not too hard to take (e.g., Yoplait). In the case of Malteurop, consistency with the cooperative’s objectives can be shown, but demonstrating it is more complex and not always convincing for the member. If the subsidiary makes a profit, the prospect of a bigger dividend can make it easier for the farmer to take the decision, but the overall effect of the operation on the economic level is always difficult to assess as user value can decrease and shareholder value can increase. In this case, the point of the strategy was to follow its customer breweries. If the foreign subsidiary is losing money, it is even harder to make the case for franchising. In this particular case, the strategy of internationalization is often seen as a lesser evil and is generally presented by managers in this manner to save what exists, i.e. maintaining or the least possible decrease in members’ production. This type of foreign investment is usually financed by the cooperative group’s equity or loans and rarely through issuing new shares to members targeted for this strategy.

Our study conducted by ESSEC-IMIA on an eight-year period (1996-2003) in the agricultural and food-processing sector in France shows a significant increase in the number of internationalization operations in companies where the risk-bearing factor is capital (capitalist firms). This is consistent with market globalization. In contrast, the companies where the risk-bearing factor is the product (cooperatives) represent a small proportion of the total number of internationalization operations. All else being equal, this observation is the consequence of the difference on the risk-bearing factors. Some other variables may have an impact, but in a secondary way (in particular, financing).

What will the objectives be in the future?

From user value to shareholder value

In a complex internationalized cooperative group, the way a member is remunerated is changing, particularly in the case where there are capitalist partners (banks or private industry). The value of the cooperative for the user is no longer the only criterion. There is now the value of the cooperative group for the shareholder (see the definitions of the concepts).

It is conceivable, and this is already the case today for some cooperative groups, that user value stagnates or decreases while shareholder value increases, particularly through internationalization strategies (e.g., Limagrain, Tereos, etc.). This shareholder value can take various forms: dividends based on shares held in the parent company or even investments that the member may make in the subsidiaries directly which, according to French law, entitles the investor in this second case also to have capital gains. Instead of defining the objective based on income from the product, the member can consider the overall income: income from the product (user value) plus income from capital (shareholder value).

The best internationalization strategy will be that which maximizes this dual value in the medium term. This entails a complex calculation because in the case of internationalization, these two values can be partly in conflict (for example, increasing shareholder value by prioritizing relocation over local production (user value)). Given the difficulty in consolidating the benefits from internationalization with the possible costs of negative consequences for the user, the cooperative group will often limit its analysis to the profitability of the project and the possible gains in the form of dividends for the parent company and/or members. The group makes an analysis of the effect on user value in terms of a trend, which is hard to measure, and presents the results in terms of a lesser evil. In the context of increasingly globalized markets and internationalized competitors, the choices for cooperatives in terms of internationalization will often be hard to make. However, this is an important issue for cooperatives at the start of the twenty-first century. These strategies and ways of redistributing surpluses obviously present a challenge to cooperative principles.

Cooperatives are an asset for sustainable development in the face of globalization

In this section, we will limit ourselves to one important aspect of sustainable development: community ties. The other aspects will not be treated. In this context of globalization, a loss of market share by cooperatives could have been expected. However, their market share has been growing since 1997. Today, cooperatives have gained an increase of about 2-3% in their market share over capitalist food groups in France. With globalization, the profit opportunities have changed by sector and region. Capitalist firms adapt to these changes by diversifying their portfolio of businesses. Cooperatives take over the assets that have been abandoned to maintain their regional businesses. Here are a few examples.

- Béghin-Say: profits should fall beginning in 2006 with the reform of sugar regulations. Pension funds with controlling interests are withdrawing their investments from the sector, and the sugar cooperatives have bought out this group.
- GMP (Grands Moulins de Paris), which was partly owned by the insurance company AXA. Same strategy of divestiture: the grain cooperatives and GMP's employees bought out the company.

- Foie gras: here again, the banking sector did not see the expected returns and divested. Today, three cooperative groups have bought most of the assets.

These few examples illustrate the compensation strategy of cooperatives for maintaining production and jobs in France which, without these takeovers, could have been relocated. We also thus see the decisive role cooperatives play in regions. In this way, cooperatives are involved in sustainable development. There are also specific existing laws that enable avoiding being taken over. These have not, however, totally prevented capitalist groups from taking over cooperatives that were in financial trouble (ULN, Arcadie, etc.) and more recently Cabanon, taken over by a Chinese group involved in canned tomatoes. Local ties are nonetheless a specific feature of cooperatives well suited to a long-term perspective.

We believe that cooperatives are more needed than before for agriculture. Previously, from 1960 to 2000, they were less indispensable because of a protectionist CAP. Today, and in the future, they will have a decisive role to play in face of the risk of relocation, a consequence of globalization.

Conclusion

In conclusion, in this unsettled world, we need to keep thinking about the way cooperatives are going and how to make them more meaningful. As we end this study, we can assert that the large majority of cooperatives are indispensable for preserving businesses and jobs in a sustainable manner. Faced with the deregulation in progress, cooperatives are relevant organizations adapted to the twenty-first century, but it is useful to be vigilant so that the governance of cooperatives, particularly the complex groups, stays on course in the long term. The internationalization of cooperatives is sometimes necessary, but it is useful to reposition it in relation to the cooperative's objectives, which can also change. The close ties with the region will however remain decisive for farmers, even if they can also relocate. Nevertheless, by its objectives (first of all, increasing the value of the product) and its organization (asset transfer principle), the cooperative represents a type of enterprise that promotes sustainable development. This is not however a guarantee against all risks, and the cooperative organization will not be able to prevent every relocation of production. The cited examples of relocation in vegetables and poultry confirm this risk. The proper organization of world trade and appropriate European policies⁽⁹⁾ are needed given the differences in product costs around the world. ●

(9) Particularly keeping certain tariffs and types of subsidies (see supports in table 1).

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