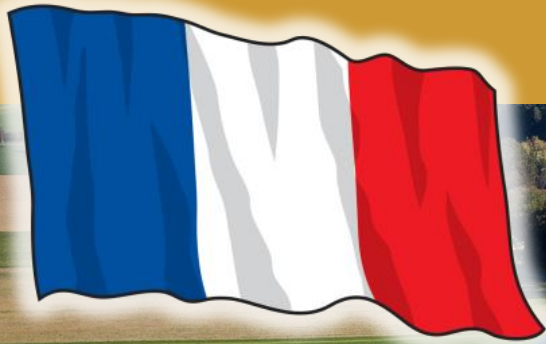


The French model



Csaba Jansik

Farmers' unions

Cooperatives and farmer's unions have developed simultaneously since the beginning of 1900s in France.

There is a galaxy of farmers' unions called FNSEA which incorporates the majority about two-thirds of farmers, historically created at the same time as the coops. Additionally there are a number of minority farmers' unions, which are more recent organisations.

FNSEA is different from other countries' respective unions because it is based on two feet. (1) First, it is a federation of local farmers' unions. (2) It is also a federation of sectorial farmer's unions. The governance of FNSEA is built upon these two.

Farmers' unions

There are altogether about 20 sectorial unions. AGPB is a sectorial farmers' union representing the cereal producers, so it participates in the governance of FNSEA. Legally speaking AGPB is still a separate entity. The same principle applies to the roughly 80 local unions, they're separate entities with a voting and decision making right within FNSEA.

The reason that the sectorial branch is so strong within FNSEA is that the major developments have been accomplished by the sectorial unions not the local ones. The objective of the sectorial unions was since the beginning to protect or ensure their markets.

Since the 1920s the farmers unions have had a dual purpose (1) to represent farmers' interest broadly in the society e.g. towards the government or to other sectors of the economy (2) to try to generate and develop the markets for their produce, and this was the sectorial idea.

Cooperatives



The cooperatives were created by the same people who established the unions. Depending on the regions most cooperatives have developed to a specialised sectorial direction, one reason was that French regions were already quite specialised to certain products – grain, meat and milk – in the early 20th century.

Within the specialised coops there were two major groups, cereal and livestock cooperatives. There were of course also some diversified cooperatives.

Like in the case of farmers' unions, a dual structure also evolved in the federation of the cooperatives. The umbrella organisation is called Coop de France. They also have local and sectorial units. In this sense the structure is very similar to FNSEA. The most significant part of their organisation is the sectorial federations which fact is also reflected in their governance.

Cooperatives

Coop de France - Métiers du grain is the sectoral federation for cereal cooperatives. They have one for the meat, dairy, cereals, feed production etc. They used to be independent organisations and they merged about 15 years ago.

So since the early 1900s there have been strong links between AGPB (created before FNSEA) and Métiers du grain (created before Coop de France). This indicates the importance of the sectoral relations. 50% of the elected administrators of AGPB are from the local unions and about 50% are presidents of grain coops. The same proportions can be found in other sectoral farmers' unions such as the dairy one.

AGPB deals mostly with farm politics, Coop de France is also involved in lobbying and advocating but more on the level of dissemination. The grain coops in France have three important characteristics: they are (1) specialised (2) consolidating, (3) their economic wellbeing is based on input supply.

Intercereales

Intercereales – established in the early 1990s – is the interbranch organisation of cereals including AGPB, Coop de France - Métiers du grain as well as the first stage cereal processing companies such as mills, malters, starch, feed companies, rice processors, pasta and semolina processors.

Currently there are similar organisations for all other major sectors, but Intercereales is the oldest of them.

Its main job is to organise the professional funding system, it is at the same time the representatives of farmers and the industry, it decides the level of the professional levy to finance the common R&D and common promotion with.

Intercereales finance three major fields: banking, R&D and promotion. The bank is called Unigrains and the R&D institute is Arvalis. The common promotion is carried out by two smaller organisations France Export Cereales for export promotion and Passion Cereales for domestic promotion.

Intercereales - income

Intercereales impose a EUR 0,63/t levy, it is going to be increased because the government finally decided to reduce the state levy to EUR 0,28/t. Another levy is imposed for farm safe seed EUR 0,7/t collected for seed research on all tonnages that originate from farm based seed.

For a long time it was very easy to convince the farmers about the need of the levies. However, it's been getting more difficult recently.

Recent development projects across the entire grain sector:

Increasing the storage capacity with 5 million tons.

Shifting the transportation from trucks to train and waterways.

Cooperatives

The total number of coops is 2600. There are also 12260 farm machinery cooperatives. These are very small most of the times incorporating only 5-20 farms, who create their coop for a combine or machinery.

The cooperatives play a significant role in the French agricultural sectors such as grain and dairy. The coops and their food processing subsidiaries sales revenues amount to EUR 85,9 billion. As a comparison, the sales revenues of the entire French food industry was EUR 179 billion in 2017. One third of the food brands in France have a cooperative based manufacture.

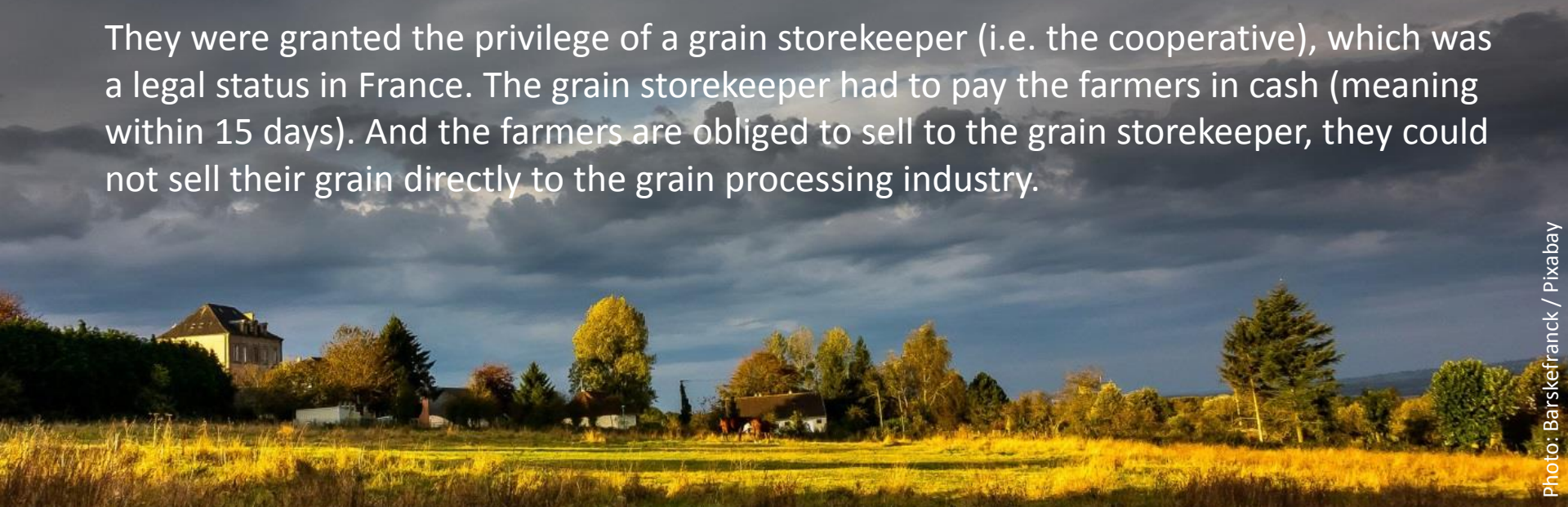
Some of the coops are only at county level, some at department level or parts of the country.

Grain cooperatives - history

Most of the grain coops were founded in 1936, because there was a large crisis in France. The farmers weren't paid for the grain, because a lot of grain traders went bankrupt. The prices were very low. There was an oversupply of grain and there was not enough storage capacity in the country. A lot of grain was spoiled /lost or wasted.

Food was very strategic at this time. So the state decided to organise the grain activities in France. Subsidies were granted to farmers for the building of grain storages but only to those farmers who were organised into cooperatives.

They were granted the privilege of a grain storekeeper (i.e. the cooperative), which was a legal status in France. The grain storekeeper had to pay the farmers in cash (meaning within 15 days). And the farmers are obliged to sell to the grain storekeeper, they could not sell their grain directly to the grain processing industry.



The legal structure of grain collection

By law farmers are obliged to sell their products only to officially recognised collectors, i.e. storekeepers.

(1) It means there is a barrier of entry to this business.

(2) There is also a strong opportunity for the state and the unions to intervene or make measures concerning the majority of grain production in France, because 100% of the collected grain goes through a few collection points. So those tons of grain are easy to tax, there are official levies of the government and there are professional levies, which are also collected at this stage. This is the key financial background for the fact the French cereal producers were managed to establish and run strong organisations that support the sector.

(3) The advantage of this system is to facilitate the collection of good statistics.

(4) The fourth consequence of the system is that although farmers can use their own grain as feed for their livestock, direct trade among grain and livestock farms is forbidden.

Grain cooperatives

Many of the French grain cooperatives are more than 100 years old. They have to make sure that they develop and invest into their activities, they have a long term strategy.

Grain cooperatives account for 70% of grain production and 40% of grain processing. The most important processing branches would be milling, feed, starch and malt industries. Two of the three big malteries are cooperatives: Malteurop and Axéreal. In the seed breeding business Limagrain is the 4th, they're very active in R&D.

The grain coops in France have three important characteristics, they are

- (1) specialised
- (2) consolidating,
- (3) their economic wellbeing is based on input supply.

The cereal coops in France collect the grain and they make no margin at all on grain trade, but they also sell farm inputs and most of their margin is made on the input trade. For this reason most of them are involved in both farm inputs and grain trade. If they did only grain trade, they could not survive.

Cooperative principles applied

The normal principle is “one member one vote” is applied.

One important principle is equity, the cooperatives cannot pay different prices to the farmers according to their size. It is important but it's very difficult to arrange. Mostly equity means transparency.

The farmers have two or three roles in the coop: they are the shareholders, and they are also the customers or suppliers or both.

Grain cooperatives - regulations

The legal statute of cooperatives includes certain rules:

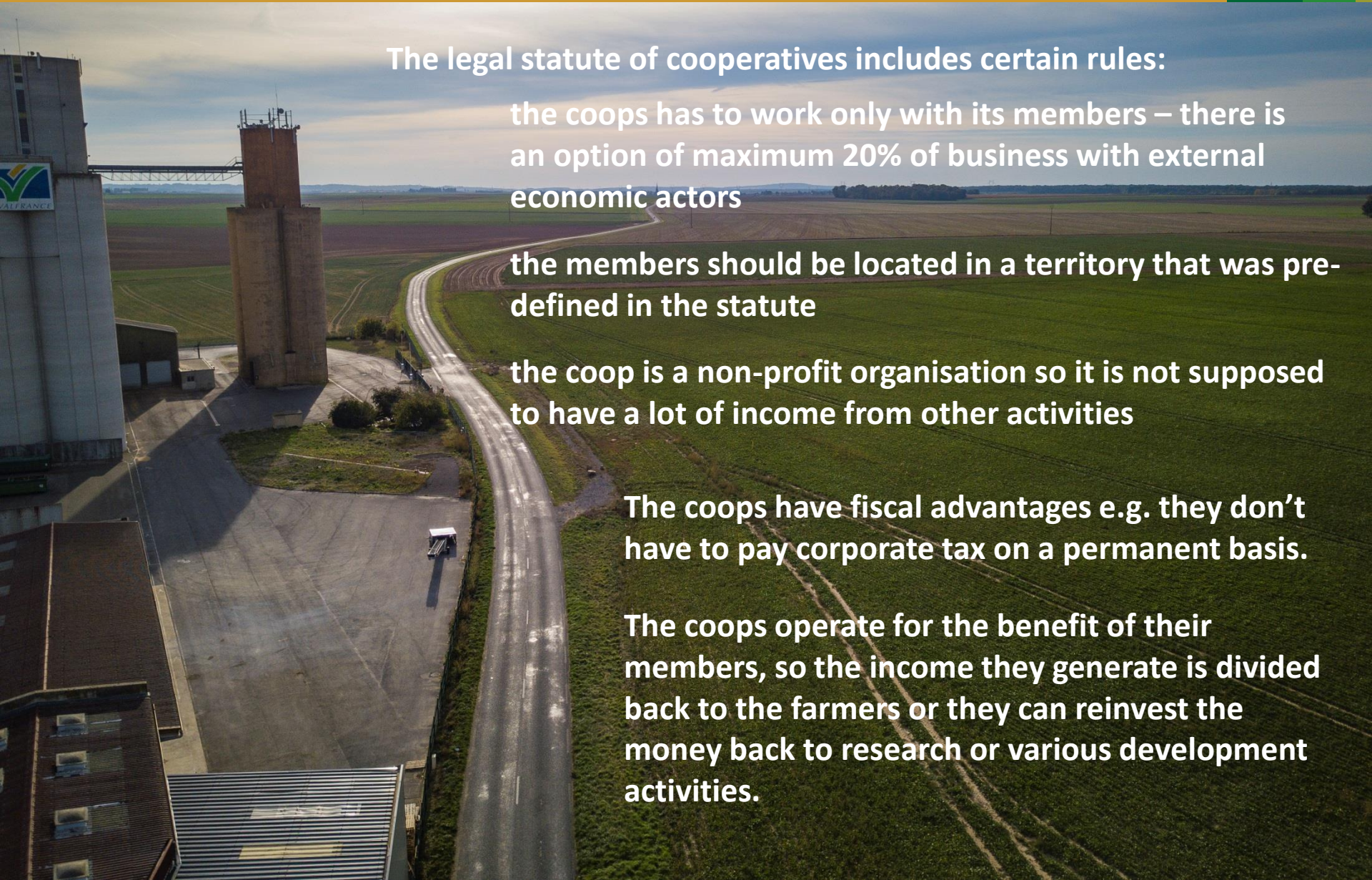
the coops has to work only with its members – there is an option of maximum 20% of business with external economic actors

the members should be located in a territory that was pre-defined in the statute

the coop is a non-profit organisation so it is not supposed to have a lot of income from other activities

The coops have fiscal advantages e.g. they don't have to pay corporate tax on a permanent basis.

The coops operate for the benefit of their members, so the income they generate is divided back to the farmers or they can reinvest the money back to research or various development activities.



Grain cooperatives - regulations

Members farms have their capital in the cooperative and they are supposed to do business with the it in proportion of their capital contribution. It also works conversely, if they do a lot of business with the coop they have to adjust or raise their capital share to the corresponding level.

In the beginning of the cooperative movement the grain intake commitment was 100%, but nowadays it has been gone down to 60-80% decided by the cooperatives themselves in their statutes.

It makes no difference in the cooperative if there is a farmer who has ten times more capital than another member. The only impact is that he has to sell ten times more grain and purchase ten times more fertilisers, volumes in proportion to his capital. At the end of the year the profit is shared back to the members and that is also done in proportion with the capital share.



Cooperatives - investments

The initial investments have been paid back by the founding generations already. If there is a new investment, it is usually done with the common money of the cooperative. New capital contributions is not needed from the members.

The cooperative would take the loan and pay it back from the operation margins. Every year part of the profit is divided among the members and the other part is put aside as reserve. The reserves are accumulated over the years as the own capital of the cooperative. It is a basis for new investments and can serve as a guarantee for the next bank loan.

In France the cooperatives mitigate the risk and mitigate the financial contribution for new investments for the members. In the beginning the aim of the cooperatives was to improve the bargaining power of their members.

Cooperatives – short term loans

Generally the goal of the cooperative is to get a better loan than the market terms and pass the advantage to the farmer. In France there is a high need for short term credit on behalf of the cooperatives, because they pay the farmers on delivery but they deliver to the customers and get paid throughout the year.

Usually the state (France Agrimer) gives guarantee for the short term loans the grain stores have to take to finance their operation. So in terms of insolvency France Agrimer is responsible to pay the loan. This is inherited from the early years (1936). The stock of the grain is the actual collateral. The banks like this system because the state guarantee is safe. So grain storage needs a lot of short term credit. This system is very well organised but only for the cereals.

So when the farmers decides to store the grain on farm, he does not have money immediately. So farmers sell to the coops if they need money quickly.

Cooperatives – consolidation

The unions are just collaborating platforms for the coops to work together for a specific purpose (storage, export, logistic etc) to join their forces to achieve bigger volumes and lower unit costs. The union has its management, and office like a proper company.

It is like a shareholding company because the cooperatives have different decision making power in the board of directors according to their weight. The costs and profit is shared by the participating cooperatives, but ultimately, the coops remain independent. The unions can also include private companies.

Cooperatives – consolidation

Even big cooperatives join to unions, especially if they want to export the grain. Quality, volumes and logistic management have great emphasis in grain exports. Grain coops have to be large enough either for exporting within Europe or towards third countries.

CapSeine e.g. decided to join the union called Sillage. Cerevia, located in Bourgogne, consists of four cooperatives, the aim of the union is to commercialise grain i.e. to sell the grain of the four cooperatives. They manage big storages and facilities near the river.

Invivo's original objective was to export grain to third countries such as North Africa. The union created storage capacity in the port. Senalia in Rouen is a union for storage and export. The members are coops and other companies, in this sense it is like a shareholding company.

Case studies



ValFrance

A cooperative specialising in grains on the east side of Paris.

Storage capacity is 451,000 tons in 31 terminalis.

Amount of collect grain 700.000 tons per annum.

Two pricing models:
(1) Averega prices (2) market prices.

Specialised in quality bread wheat(480.000 t), additionally certified seed production and storage of organic grains

Joined the coop union Ceremis (5 coops) two years ago, grain marketing and sales 100% through Ceremisin.

Export 60,000 tons, about 8% of the collected volumes.

Train and barge transportation.



CapSeine



A diverse cooperative with a focus on grains.

Two million tons of grain collected annually.

Export rate is 60%.

Sales is EUR 800 million.

Grain transportation is carried out by trucks.

The cooperative has emerged as a result of a merger of two coops, currently 5000 members.

Other activities:

- Beef and lamb,
- Potato production and processing,
- Vegetable production and processing,
- Flax production.



What can we learn from the French model?

Grain cooperatives have a high role in France, about 70% of the grain is collected by them.

The strict regulations associated with the French cooperatives is the outcome of a national evolution. It has both advantages and drawback, but it is impossible to emulate in any countries as such.

French coops are involved in input purchases, joint storage and equipment and sales and marketing. Grain sales margins are very thin due to fierce competition, profit is made on input mediation.

There has recently been a heavy consolidation in the French grain cooperatives both by mergers and the emergence of unions.

Two strategic options for the grain cooperatives: specialisation into grains and diversification.

What can we learn from the French model?

The investments have already been paid back a long time ago, new investments do not need a contribution from the members.

The old traditional mechanisms are challenged by the younger farming generations, there is a constant need for development.

Consolidation also imposes challenges : on the other hand growth is needed in order to manage in the global markets on the other hand the coop decision making gets further from the members

Storage and logistics in general is well developed and cost efficient due to scales of economics

