
Support for Farmers' Cooperatives

Case Study Report Structure and Strategy of Wine Cooperatives: Southern France

Maryline Filippi

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Support for Farmers' Cooperatives
Case Study Report
***Structure and Strategy of Wine
Cooperatives: Southern 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)”, in order to 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, by the European Commission, and by national and regional authorities in their effort to encourage and support the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project, this case study report on the structure and strategy of wine cooperatives in Southern France. Data collection for this report has been done in the spring of 2012.

In addition to this report, the SFC project has delivered 33 other case study reports, 27 country reports, 8 sector reports, 6 EU synthesis and comparative analysis reports, a report on cluster analysis, a report on the development of agricultural cooperatives in other OECD countries, and a final report.

The author would like to thank the following organisations and persons for their willingness to collaborate in this project and share information on their cooperative: VAL d’ORBIEU: Mr Bertrand Girad, CEO of Val d’Orbieu, Mr Joel Castany, Chairman of “SCV Les Vignerons de Leucate, de Quintillan et de Roquefort”, also known as “Cave de Leucate”, Vice-Chairman of Val d’Orbieu and M. Marie-Angèle Ndeby, quality manager and sustainable development of Val d’Orbieu.

We had several contacts with the CEO and were able to obtain a certain amount of information, which was complemented by interviews with Jacques Hubert, HCCA¹.

The author would also like to thank for their valuable input and assistance:
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¹ We also enjoyed discussions during the General Assembly of Union National de Services des Cooperatives Vitivicoles, concerning the increasing competition faced by the French wine sector (February 2th 2012). That was followed by a seminar with Fabio Chaddad in May 29th 2012, organized by UMR MOISA. Afterwards, there was a follow-up visit of Val d’Orbieu (bottling site of Narbonne and Cave de Leucate).

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1. Introduction

1.1 Objective and research questions

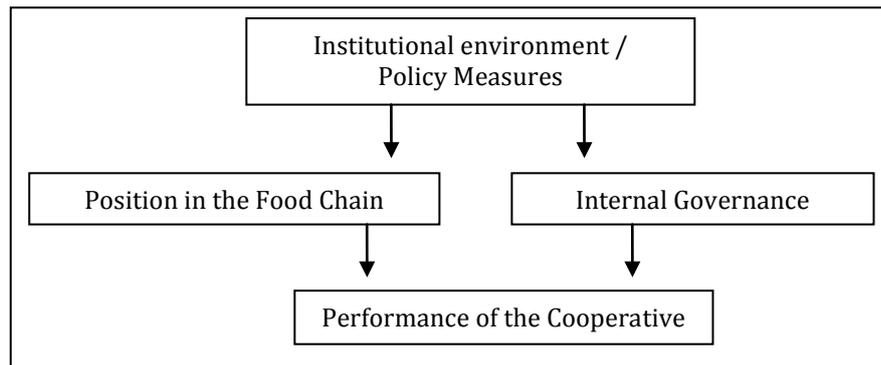
The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, “Support for Farmers' Cooperatives”, that will provide the background knowledge that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income. In the framework of this study, this report focuses on the interaction between cooperative structure and the strategies adopted by wine cooperatives in Southern France. This region produces more wine than any region in France. The choice of wine cooperative is based on its structural, ownership, and governance characteristics, as well as its diverse marketing strategies, which enable us to address the above-mentioned issues. The wine cooperatives of Southern France have adopted a wide range of strategies to have access to the benefits of collective action. The reported similarities in size, together with different marketing strategies provide us with an opportunity to improve our knowledge of the links between structures and strategies by contrasting similar yet very different groups of collective entrepreneurship organisations.

The central issue addressed is whether structure (e.g., first versus second tier cooperatives, collaboration between cooperatives or between cooperatives and IOFs in the sector, etc.) has had a significant impact on the strategy adopted by the case cooperatives and, consequently, their success/failure and the coordination of the wine supply chain. In particular, research for this case study has been guided by the following research questions. First, how does farmer-led forward integration affect a cooperative's ability to provide its members with significant benefits? Second, does the achievement of social objectives constrain a cooperative's ability to excel in terms of economic performance and thus survive in the long run? Third, how successful are federated structures in achieving the goals of their members? Fourth, should public policies treat different types of cooperatives differently, based on their ability to increase/stabilise farmers' income? Fifth, should public policies help cooperatives achieve a balance between economic and social goals and, if so, how exactly? Sixth, which public support measures (local, regional, national and/or European) have an impact on the development and success/failure of the case cooperatives?

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 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 the management (and the agency problems that goes with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those 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



The dominant theoretical paradigm concerning firms is that, to understand corporate strategy, there is a need to study and analyze the industry, as well as the institutional and competitive environment in which a company operates (Porter, 1982). The strengths and weaknesses of the company and those of the competition have, then, to be assessed, and a particular strategy chosen so that a competitive advantage can be built, either by offering a premium product/price or by pursuing low costs. In the particular case of an organization faced with unfavourable conditions (i.e. overproduction, the aftermath of an economic crisis, etc.) the choice of strategy is vital. That means innovating and thereby contributing to the restructuring of the industry and the competitive environment. It is the organization's leadership decision-making process which enables it to create appropriate governance structures to allow a firm to produce sustainable economic performance. So far, however, we have proceeded on the basis that the dominant theoretical paradigm can be extended to cooperatives. Is that the case?

1.3 Method of data collection

The case study is based on multiple data sources. First of all, secondary data was used such as academic literature, country report of the Support for Farmers' Cooperatives project, popular press and electronic media, various archives and other sources of information.

Additional information has been collected through personal interviews with various cooperative stakeholders. For this particular study, board members and managers of selected wine cooperatives from Southern France have been interviewed, as well as other key stakeholders. Standard techniques and approaches used in case study research were used in order to maximise reliability and avoid biases.

1.4 Structure of the report

Part 2 of this report is aimed at providing a full picture of Southern France wine sector, as well as offering a description of the cooperative under study. The region and that cooperative will then be compared to other French cases in Part 3. Part 4 provides a reflection on the results of this case study, while Part 5 concludes the report.

2. Wine Cooperatives in Southern France

2.1 Introduction

The main objective of this study is to identify the specific wine cooperative strategies and the effects of Policy measures for Languedoc-Roussillon (France). We indicate the determinants of each strategy, together with its impacts.

The choice of Languedoc-Roussillon (LR) is particularly interesting, because it is the biggest wine production region in France, covering 236,500 hectares (30 % of French vineyards) and producing 70% of PGI wines. But the choice is also relevant because it illustrates the most important transformations in the wine sector. First, it is an old cooperative vineyard region. One of the oldest cooperatives, the Maraussin Cooperative, was set up at the beginning of the 20th century in order to help growers first to develop their production and then to ensure its commercialisation (Draperi and Touzard, 2003). Second, the region was devastated by a number of outbreaks of phylloxera during the 19th century, especially in 1868, which were to destroy most of the production and many indigenous grape varieties. In the aftermath of that catastrophe, however, major restructuring took place that was to alter the profile of the region. Third, more recent post-war interventions induced restructuring that was aimed at improving wine quality. Those restructuring efforts were accompanied by technical and organisational innovations such as improved production and commercialisation, the use of Protected Geographical Indications (PGI), but also a number of mergers and acquisitions among the region's wine-making enterprises. So, Languedoc-Roussillon epitomises rather well the various developments in French viticulture and the impacts of a variety of policy measures.

To collect the information required for this case study, we used data obtained from Cooperfic², the LR Vineyard Observatory. That Observatory was set up by the *Fédération Régionale des Caves Coopératives* de LR, under Antoine-Louis Saisset, to assemble all the accounting and financial data coming from 90 cooperatives (including 55 wine cooperatives), together with economic, commercial, social, and environmental indicators. The objective is to allow cooperatives to analyze their competitive positioning (benchmarking) and to anticipate future restructurations (Saisset, 2011).

Regional and national statistics and information from academic sources, popular press articles, and sectoral reports were also used in this report. We completed our work by focusing on a cooperative which is representative of wine cooperatives in Southern France. There were two main reasons which led us to select the Val d'Orbieu cooperative: its organisational changes and its preponderant influence regarding its capacity to innovate. In 2009, in fact, it was the leading French wine cooperative group in terms of sales turnover (excluding Champaign cooperatives).

Thanks to professional organisations, such as the *Fédération des Coopératives Agricoles* de LR, UNSCV, and to the help of other scientists from INRA, we achieved a better understanding of the specific underlying strategic choices made by that cooperative and by other cooperatives in the region in their specific institutional context.

² Cooperfic, « Cooperatives Performance Informations et Connaissance », is a data base developed since 2007 by the FRCA, which provides a decision-aid tool for wine cooperatives. www.cooperfic.fr

2.2 The Wine Sector and Cooperatives: Facts and Figures

Some 85,000 farms in France cultivate 780,000 hectares of vine for wine production. The wine sector is very specialized. Most French wines are based on geographical indications (Agreste Primeur, 2011).

- *General wine sector framework*

In 2011, according to the data obtained by the French Ministry of Agriculture (FranceAgrimer, 2009), and subsequently confirmed by Coop de France (2012), one bottle of French wine out of two came from a cooperative. That same year, in the French agribusiness sector, there were 2,900 French agricultural cooperative firms, including some 764 wine cooperatives, representing 40% of the national food industry. Those wine cooperatives produce 50% of the national volume, and generate a total wine sales turnover of 5.9 billion Euros (Agreste Conjoncture, 2011; Coop de France, 2011).

The cooperatives' market share represents 40% of AOC wine, 70% PGI and for others (such as "Vin de Pays") 49%. Wine cooperatives represent 84,000 farmer-members, 17,625 employees (7,953 ETP), 331,855 hectares and 18,540,837 HL (Coop de France, 2011).

Wine is one of the most famous ingredients of France's "Gastronomic Food culture". Although Languedoc-Roussillon is not the most prestigious production area compared with Bordeaux or Burgundy, it is certainly the most important in terms of quantity. For many years Languedoc-Roussillon suffered from its image as a poor-quality wine producer. Consequently, it benefited from EU measures and financial support to help it improve the quality of its production (FranceAgrimer, 2012).

At the same time, however, the French viticultural sector underwent various crises and changes, both in terms of production and consumption. Various national-level studies have tried to analyse the determinants of those crises (Pomel, 2006; Berthomeau, 2008) and various policy reports have proposed measures in order to help producers (Roumegoux, 2008). All, however, stress the strong concentration of vineyards, the ensuing decline in their numbers, and the increasing professionalization of wine-growers (Traversac *et al*, 2007).

- *Transformations of wine cooperative production: heterogeneity but concentration*

The number of wine growers has declined, which can be attributed to a reduction in the number of wine cooperatives due, in part, to various mergers and acquisitions³. For France, the number of wine cooperatives was 977 in 1995, and 880 in 2005 (Agreste Primeur, 2009). That decline however, was not uniform: there are several differences between the various French regions. There was a decline of wine cooperatives in Languedoc-Roussillon of around 18.7% during 1995-2005, but of only 7.4% in Rhone-Alpes. The same is true for wine-growers (close to 50% in Aude or Bouches du Rhône) (Agreste, 2002; Schirmer, 2007).

We should also note that, in what concerns wine cooperatives, the ensuing variations in terms of economic weight also mask the significant heterogeneity (size, organisation, governance) between different types of companies.

Even if agricultural cooperative groups have developed significantly, viticulture still remains a highly atomized sector⁴ (Filippi *et al.*, 2006). For the wine sector, the same trend is confirmed.

³ Since 1995, French agricultural cooperatives have lost 210 cooperatives and 6,000 employees (Agreste Primeur, 2009).

⁴ In 2005, for example, those groups represented 84% of all French agricultural cooperative employees, with their subsidiaries constituting more than 54% of total agricultural employment. (Agreste Primeur, 2009).

Upstream wine companies refer to grape producers, downstream companies are wine traders (Couderc and Remaud, 2004, 196-198). Analysis of the evolution of viticultural structures seems to indicate the domination of two organizational models: one, that of “vertical downstream integration” (*i.e.* processing and commercialization of wine bottles), the other concerning the “sale of grapes” (*i.e.* those selling grapes to the wine traders).

The *Crédit Agricole* Study (Couderc, 2012) highlights the phenomenon of mergers concerning 1st-tier cooperatives and the positioning of certain downstream cooperatives looking for added-value (bottling, commercialization). The members are, at one and same time, the firm’s owners and its suppliers of agricultural raw materials. As cooperatives try to maintain their members’ income, they find themselves unable to invest, since their results are too weak (investments in material for 1st-tier cooperatives and investments in sales people and in innovations for cooperative unions). The members “consequently most often wish to immediately obtain prices higher than the market price for their productions, to the detriment of the cooperative’s long term investments, which are potentially financed by the cooperative reserves, themselves built from its accumulated residual profits” (Saisset *et al.*, 2011, 5).

This problem is bound up with the question of the cooperative dilemma (Cook and Chaddad, 2004).

Table N°1: Concentration of wine growing cooperatives in the South of France

| 2009 | | Number of cooperatives | % Number of cooperatives / % Total Number of entreprises | Cooperative Turnover / Total turnover |
|----------------------------|-----------------------------|------------------------|--|---------------------------------------|
| Still Wines | Alsace | 11 | 33% | 19% |
| | Bordeaux | 23 | 14% | 5% |
| | Bourgogne | 22 | 22% | 18% |
| | Languedoc-Roussillon | 114 | 65% | 39% |
| | Loire | 7 | 12% | 8% |
| | Provence | 36 | 58% | 51% |
| | Rhône | 60 | 63% | 51% |
| | Sud-ouest | 15 | 47% | 68% |
| | Autres | 14 | 8% | 7% |
| Total : Still wines | | 302 | 38% | 21% |

Source: Couderc, 2012

For OIV and FranceAgrimer (FranceAgrimer, 2012), EU vineyard production has undergone a continuous decline. This was not only due to the grubbing-up programme⁵ but also to the fact that there was a structural imbalance in the market, a surplus. Equally, it should be remembered that production did not match demand, either qualitatively or quantitatively. It should also be recalled that over the last 6 years, more than 300,000 ha of vineyards have been grubbed-up or abandoned in most EU producing countries (with only approximately 160,000 ha benefitting from a premium). For France, 22,638 ha., benefited from grubbing-up subsidies. 15,882 hectares were uprooted in Languedoc-Roussillon, which represents 70% of total French grubbing-up for

⁵ Council Regulation (EC) No 479/2008 of 29 April 2008 on the common organisation of the market in wine, amending Regulations (EC) No 1493/1999, (EC) No 1782/2003, (EC) No 1290/2005, (EC) No 3/2008 and repealing Regulations (EEC) No 2392/86 and (EC) No 1493/1999.

the 2008-2011 period (FranceAgrimer, 2012). In consequence, Languedoc-Roussillon wine cooperatives were the most seriously affected by those measures.

At the same time, world wine consumption has carried on increasing, as have exportations from more recent producer regions, such as China, as well as from the more traditional “new producers”, like South Africa, Chile and Australia, which have become competitors (Touzard *et al.*, 2008).

Adopted by the European Council of Ministers in April 2008, [Regulation \(EC\) 479/2008](#) has thoroughly reorganised the way the EU wine market is managed, in order to:

- ensure that EU wine production matches demand;
- eliminate wasteful public intervention in EU wine markets;
- redirect spending to make European wine more competitive.

- *A dual institutional organization framework for French wine-growing*

The organization of French wine regions is based on production areas or Wine-Growing Basins, called “*Bassins de Production*”⁶ (Decree N° 2008-1359, 2008). Those Wine-Growing Basins, which are defined in terms of terroir and grape-variety criteria, concern all wine-growing stakeholders, including the Public Authority representative, the *Prefect*, and all stakeholders in the wine value chain (Pomel, 2006). The main idea is to organize the value chain on a local basis. Within each basin, major concentrations are implemented, in order to attain critical size and have maximum power in negotiating with the downstream actors (Martin 2007).

For the period (2000-2010), we observe two major but very different crises: one in 2004, and a second one in 2007/2008 (Agreste Données, 2011). The first, which concerned quality problems, was so severe that it destroyed a significant part of vineyard production. The second crisis is more bound up with the level of demand resulting from additional grubbing-up campaigns and from the decline in consumption.

At the present time, all of the geographical areas are organised in order to mobilize all of the actors in the chain value. This means that the governance of the chain value is decided on and negotiated by a specific type of institutional organisation, the “Defense and Management Organisation” (DMO, formerly the Wine Syndicate) for “*Organisation of Defense et de Gestion*” (ODG). Those DMOs, one per basin, are in charge of all requests for control, management and certification related to Geographical Indications. Any grower who wishes to benefit from PDO (Protected Designation of Origin) undertakes to observe the joint operational rules laid down by the Defense and Management Organization (DMO) and drawn up in accordance with the legal texts.

Ever since 2008, in the interests of optimal quality, growers and wine traders have only been authorized to bottle their wine under a given PDO if they comply strictly with the specifications drawn up by the DMO for the PDO in question. Most of those rules came from [Regulation \(EC\) 479/2008](#). “CAP Reform: Final stage of EU wine reform” on 1st August 2008. The rest of those rules (mainly wine-making practices and labelling) was applied from 1 August 2009. The implementing rules for those parts were published in 2009 (Commission Regulations (EC) [436/2009](#), [606/2009](#) and [607/2009](#)).

- *Wine cooperatives in Languedoc-Roussillon (LR)*

⁶ The sources of the statistics specifically devoted to vitiviniculture come essentially from the INSEE, ONIVINS (<http://www.onivins.fr/EspacePro/Economie/Index.asp>) and Customs, in what concerns France and, for the international domain, from the OIV (<http://www.oiv.org/>).

Grape growing used to be one of the main sources of agricultural income in the various basins; this was particularly the case in what concerns LR (Gressad, 2003; Laye and Couderc, 2006). In 2010, the wine cooperatives in Languedoc-Roussillon (LR) represented a total of 210 firms (Saisset and Saba, 2010, Coperfic, 2009). As explained by various authors, the vineyard cooperatives of Languedoc-Roussillon underwent three different developmental stages: emergence (1901-1925), expansion (1925-1950), and maturity (1950-1988). But several waves of major restructuring have since modified the organization of production. Between 2000 and 2009, **the wine cooperative perimeter**⁷ decreased by 27% (Saisset *et al.*, 2011). Between 2004-2010, 25% of vineyards and 40% of wine cooperatives disappeared. The transformations of LR viticulture which followed the massive replanting of vineyards and the positioning of marketing strategies on quality or quantity, all reinforce the need to study governance.

Table N°2 Key data on the wine L-R cooperatives (2010)

1st world wine regional production. Production 2010: 12 M hl 36 AOP and 63 GPI
 Vineyard = 50% of agricultural L-R region production, 50% of L-R farmers, 1/3 of agricultural land area.
 In 2010, 30 % French wine 230,486 ha (145,082 ha in PGI, 75,785 ha in PDO and 9,619 ha without Geographical Indications).
 13% of French wine turnover (such as 2 Mds €)
 25,000 employees in L-R.
 210 wine cooperatives and 3,757 private enterprises
 2nd French export region after Bordeaux (in volume)
Sources : Agreste Primeur, 2011 ; Agreste Données, 2011 ; Press communiqués of Region Languedoc-Roussillon (2011) and COOPERFIC®

Policy makers and Professional Organizations actively encourage the process of developing mergers and acquisitions, which are driven by economies of scale or economies of scope in both cases. The goal is to reach critical size or obtain sufficient power in order to rationalize the production tools and make them more competitive. Those processes can also be developed prior to mergers (sharing commercialization capabilities, developing international brands).

The current economic situation, with its increased internationalisation, the development of new producer countries and new competition (brands, grape varieties and PGI products), has forced cooperatives to change their strategies. An analysis of the main economic and financial indicators gives us a good idea of the strategic and structural transformations that occurred during the period for LR wine cooperatives.

All of the above-mentioned points are confirmed by the financial and economic indicators for 2010 (Cooperfic, Agreste Données, 2011). If such concentrations continue in the coming years, the risk of an even more radical reorganization of wine cooperatives remains high.

⁷ The definition that we have elaborated for this perimeter is based on financial links (percentage of social capital shares held). This perimeter, which includes all the cooperative statute enterprises as well as the commercial law subsidiaries that they control, either on their own or with other cooperatives, is characterized by dependency relations between enterprises as regards ownership and control. In the case of the wine sector, we take into account all of the enterprises that are officially registered as having a wine growing activity. See for more information: <http://agreste.agriculture.gouv.fr/>

2.3 Strategy and Structure of Val d'Orbieu

Val d'Orbieu is the N°1 French Wine cooperative group (excluding Champagne) although, in what concerns the organization of its cooperatives, the group is a-typical. It is an innovative group as regards its market positioning: product diversity, technical innovations, exportation. Its recent reorganization around a member-oriented mode of governance provides an interesting example of how an international group, with a certain number of non-cooperative partners, organizes itself so that its owner-members can exercise their proprietary rights.

- Val d'Orbieu: N°1 French wine cooperative group (excluding champaign)

Although Val d'Orbieu has a cooperative legal status, it functions as a 2nd tier cooperative. Val d'Orbieu, which is owned by 11 1st tier cooperatives, with 1,591 members and 55 wineries (*estates and chateaux*), produces a total of 550,000 hl per year. It manages two bottling plants (Les Vignerons de la Méditerranée and Trilles). Its geographical perimeter (legal french circonscription) is made up of various appellations (*terroirs*) such as Corbières, Minervois, Saint Chinian, Fitou, Quatourze, Faugères, Côteaux du Languedoc and Côte Catalane.

Val d'Orbieu is the largest of French cooperative groups to have adopted the vertical organizational model to control its wine-making and marketing activities in accordance with EU orientations (Roger, 2011).

Figure 2. Map of Val D'Orbieu



Source : Val d'Orbieu website (<http://www.valorbieu.com/>)

Val d'Orbieu employs 274 persons involved in the production, bottling, trading and marketing of its production. In 2011, the group had a turnover of 190 M€, with 170 million bottles being sold in France, and in the World (30% of sales turnover).

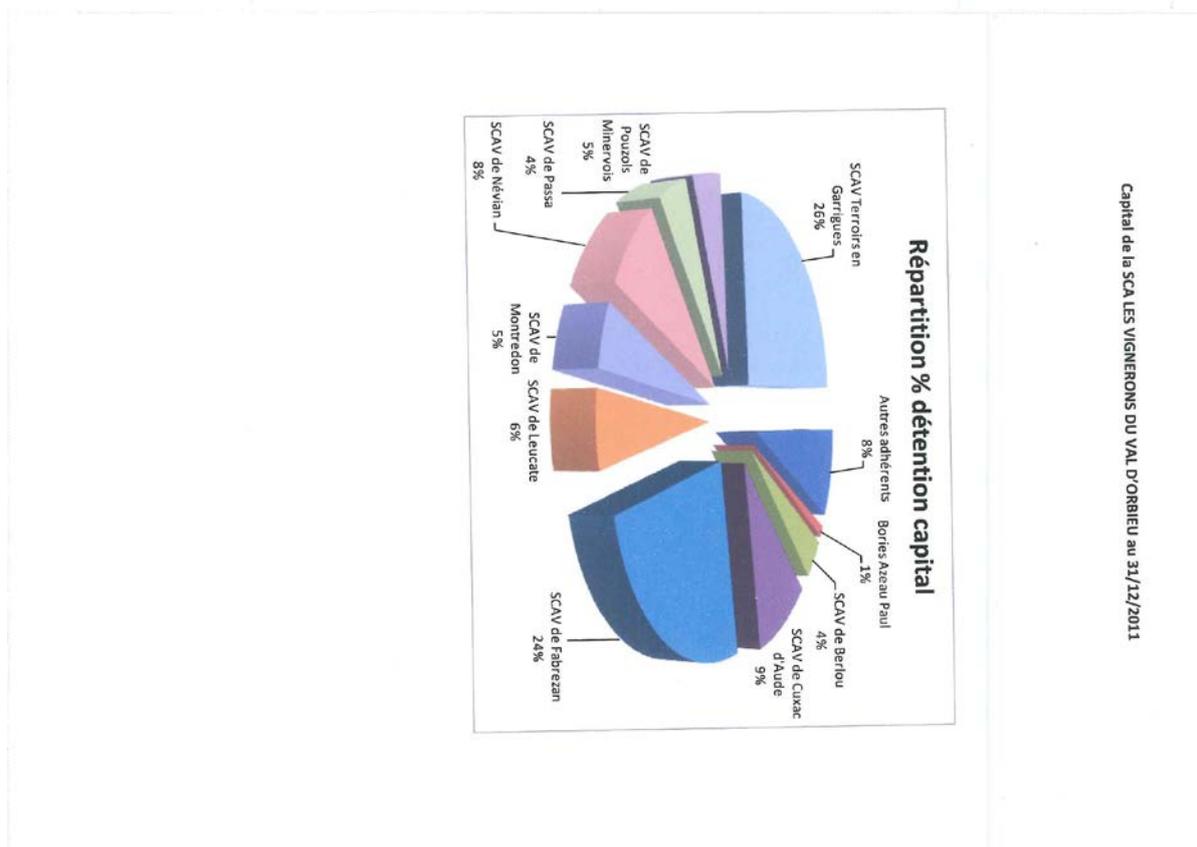
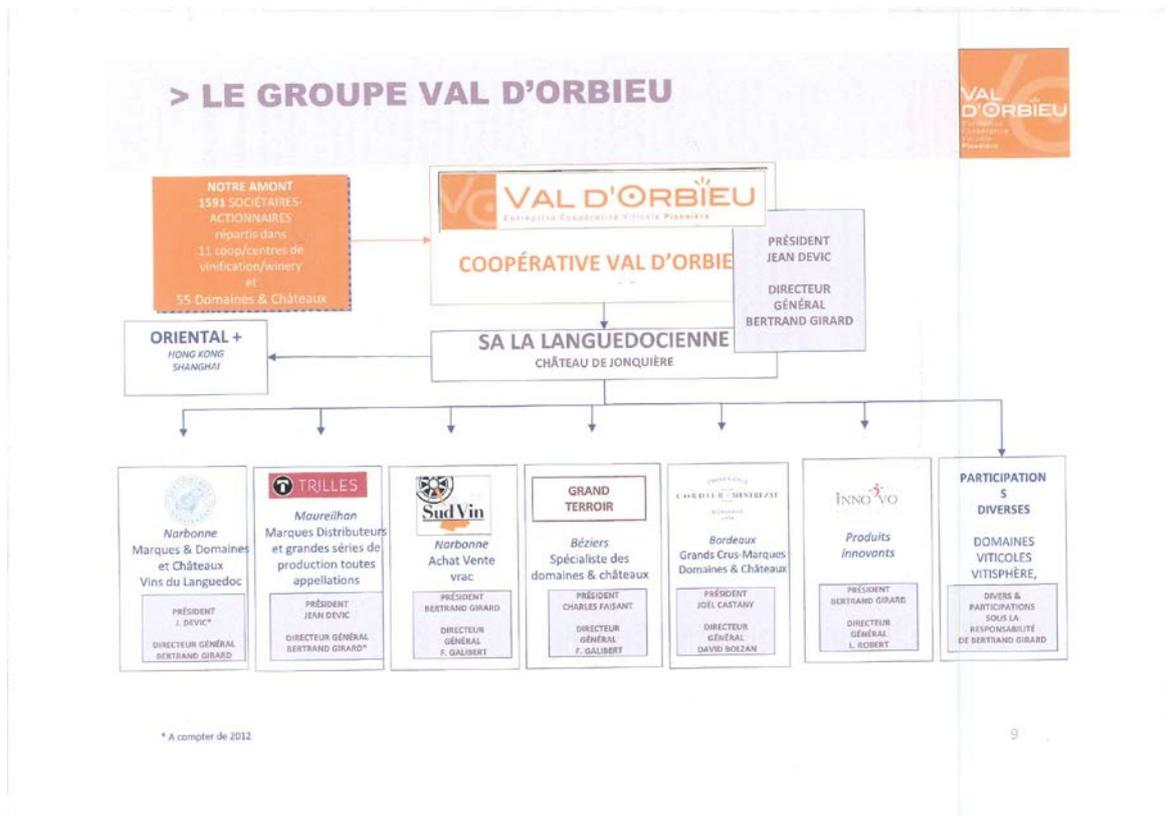


Table N°3: Main Data of Val d'Orbieu

| Val d'Orbieu: main data | |
|--------------------------------|--|
| 1967 | Establishment of SICA « VIGNERONS DU VAL D'ORBIEU » by 7 wine-growers from Les Corbières |
| 1974 | “ VIGNERONS DU VAL D'ORBIEU » became a PO |
| 1979 | Acquisition of a majority stake in TRILLES |
| 1983 | Establishment of SICA « VIGNERONS DE LA MEDITERRANEE » at Narbonne |
| 1986 | Acquisition of the wine Cellars of « COOPERATIVES DU LANGUEDOC » at Narbonne. This became S.N.C.L. (Société Nouvelle des Chais du Languedoc). Acquisition of the Domaine de Jonquières |
| 1992 | Certification ISO 9001 of Les vigneron de la Méditerranée Ltd (First wine sector entreprise to obtain that certification) |
| 1998 | Equity capital in « Etablissement Désiré Cordier » (Bordeaux) |
| 2004 | Election of Jean Devic as Chairman of the group |
| 2010 | Arrival of Bertrand Girard as CEO of the group |

Val d'Orbieu's history is characterized by the merger of cooperative-status enterprises (SICA and Cooperatives), and by its subsidiarization in business law companies in order to obtain critical size. That strategy of market positioning was realized by investing in bottling plants, by seeking quality certifications, and by developing product innovations and exportation.

- *Business model based on diversification, innovation and export*

As the business strategy of Val d'Orbieu is aimed at combining product diversification, innovations, and a quality approach, that means having a minimum volume of wine, and constantly adapting that wine to the tastes of consumers. Val d'Orbieu, with its 10,334 hectares, combines its different grape varieties and wines in order to elaborate wines specifically for its individual customers or large retail sector.

The group has invested in cutting-edge plants: “Treilles” at Maureilhan, and “Vignerons de la Méditerranée” at Narbonne (170 million bottles and 6.5 million Bag in Box).

The group owns many famous brands such as « *La Cuvée mythique* », and a large range of products such as « *Mythique* », which is the first Languedoc wine to have obtained more than 90 in Robert Parker's wine rating classification.

Val d'Orbieu has obtained several certifications for its plants: British Retail Consortium and International Food Standard since 2004, as well as ISO 14001 environmental norms since 2000, BIO Tetra since 2008, and BIO (organic farming conditioning) since 2009. For Marie Noelle NDedy, those certifications, together with customers' specifications, are essential to gain entry in the French and International markets. Several technical innovations concern the elaboration process: micro oxygenation, heating and refrigeration management. Obtaining greater client satisfaction has led to modifications concerning wine-growing practices (varietal and parcellar selection).

All of those transformations have enabled Val d'Orbieu to gain access to international markets (Japan, Switzerland, Denmark and China).

In 2011, Val d'Orbieu increased its sales turnover by more than 10 % en 2011. Its consolidated turnover should be more than 188 million euros, i.e. including an increase of 5 % in France and more than 12 % internationally.

- *Specificities of Val d'Orbieu Governance: relations between 1st tier and 2nd tier cooperative*

Val d'Orbieu has the legal status of a cooperative. Nonetheless, it is owned by wine cooperatives and wine cellars which, as farm producers, are allowed to own cooperative social capital.

Accordingly, Val d'Orbieu can be considered as a 2nd tier cooperative. (see group organigramme in annexe).

Its particular mode of governance is based on the separation between management and economic policies. On the one hand, the management of its owner-members is left to 1st tier cooperatives and individual wine cellars. On the other hand, its sales policy, including commercialization, quality and sustainable development, are managed by the Val d'Orbieu cooperative. The coherence of those two policies inside the group is based on power delegation and economic efficiency.

1st tier cooperative: the example of the « SCV Les Vignerons de Leucate, de Quintillan et de Roquefort », aka « Cave de Leucate »

It should be stressed that 1st tier cooperatives are responsible for ensuring proximity relations with both owner-member and product suppliers, as well as advisory services and members' commitment to group strategy. As 1st tier cooperatives are directly concerned with local constraints, they organize themselves in order to take members' specific needs into account.

The « *Cave de Leucate* », which is owned by 200 wine-growers who produce 40 000 hl made up of 5 PDO and 70 products (PDO Corbières, Fitou, Muscat de Rivesaltes, Rivesaltes, Languedoc and Vins de Pays), has just invested in opening new cellars. It focuses on quality and terroir differentiation: « *Respect Hommes & Nature* » certification, hand-picking and a partly organic wine cellar, open to the public for wine tasting and festive events.

Created in 1920, the « *Cave de Leucate* » has undergone several different periods of prosperity and difficulty⁸. Its longevity is due to its good equilibrium between production and commercialization thanks to the way it has mobilized various competences. In particular, its development of direct sales has allowed « *Cave de Leucate* » to make profits and to minimize the impact of grubbing-up policies.

The Board is entirely composed of voluntary members, 8 of whom assume operational roles concerning management control, quality management, etc. There is no managing director. Decisions are taken collectively after voting by secret ballot at the AGM. The plan is to install a supervisory board and an executive board in order to clarify the cooperative's governance by setting up a real countervailing power.

As it is part of a network of cooperatives, the « *Cave de Leucate* » benefits from the group's technical and commercial advisory services.

Producer remuneration operates on the same basis as that applied to cereal cooperatives. Each member's account is credited but without the transfer of owner rights. The wine grower announces his planned production to the 1st tier cooperative which then indicates that to Val d'Orbieu. Val d'Orbieu makes the necessary adjustments and advises about downstream contracts and market conditions. It also ensures bottling for the 1st tier cooperatives and the necessary certification (HACCP, for example).

⁸ Until the 50s, this village cooperative prospered despite having the lowest wine yields in France (5t/hl). In the 60s, under the combined effects of land pressures and agricultural reform, its sweet wines no longer corresponded to market demand. From 1978 to 1984, the cooperative took the form of a SICA, coming from the grouping of 3 cooperatives and 2 independent wine growers. Although it was the N°1 exporter in Denmark, its lack of management competency led to the bankruptcy of the cooperative (a loss of 2.5 million for a sales turnover figure of 2 million euros). A recovery plan was implemented, which led to improved commercialization and to its adhesion in 1992 to Val d'Orbieu. (Interview of Joel Castany, Chairman of "SCV Les Vignerons de Leucate, de Quintillan et de Roquefort", aka "Cave de Leucate", Vice-Chairman of Val d'Orbieu, May 29th, 2012).

The « Cave de Leucate », which managed to make a comeback, is now considered as a very successful model.

2nd tier cooperative: mode of governance and its evolution in the group

The Board is composed of 28 members. According to Joel Castany, the governance of both the « Cave de Leucate » and of Val d’Orbieu is driven by the balance of powers and by the deontological code, *i.e.*, improves the income and life quality of member-owners and ensures the sustainability of the group as a whole.

Equity participation of the « SCA Les Vignerons de Val d’Orbieu » in 2012

| Business Name | % held | City | Level inside the group |
|-----------------------------------|--------|------------|------------------------|
| SCA Les Vignerons du Val d’Orbieu | | NARBONNE | 0 |
| SA La Languedocienne | 100 | NARBONNE | -1 |
| Trilles S.A. | 100 | MAUREILHAN | -2 |
| Les Vignerons de la Méditerranée | 100 | NARBONNE | -2 |
| Cordier Mestrezat Grands Crus | 22.7 | BORDEAUX | -2 |

Source: www.société.com consulted June 2012 and confirmed by interviews.

See annexe for all equity participations of the Group including “Sud Vins” (51%), “Innovo” (16%) and “Grand Terroir” (51%).

The recent reorganization of Val d’Orbieu’s governance is aimed at reinforcing the power of cooperative owner-members⁹. Three main points were modified:

- The CEO of the Cooperative has become the CEO of the Group
- The redistribution of membership shares has allowed the cooperative to increase its social share equity to 95% in the Languedocienne holding
- The Board of the cooperative is also that of the Holding.

Such changes have led to adopting a classical organization configuration: Cooperative / holding / subsidiaries.

They have also favoured the contingency reserves of Trielles in the social equity of the Cooperative, to set up future partnerships at holding level without losing decision power and to obtain the objective of ensuring better remuneration for members.

2.4 Relevant Support Measures

As described by Montaigne (1997), thanks to the relevant support measures of the EU, major changes embracing wine in terms of both quantity and quality, were implemented in the region.

In 2008, a reform of the European Common Market Organisation (CMO) for wine was introduced in order to restructure the vineyards (Itçaina *et al.*, 2011). That reform consisted in encouraging uncompetitive producers to withdraw from the wine market, and in offering competitive producers the possibility to increase their vineyards and to develop large-scale production units (Roger, 2011). That restructuration was based on financial incentives. The CMO reform had important impacts on wine cooperatives’ strategies. Cooperatives are in charge of wine-making activities and sell their output either to wine traders or to large-scale distribution chains (*ibid*). Large-size cooperative groups with significant marketing capacities have been set up. But there are also smaller cooperatives which produce their own wine independently, and whose

⁹ Phone interview with Jacques Hubert, HCCA, June 5, 2012.

members' incomes have decreased significantly over the last few years. For Roger, the smaller cooperatives have no possibility of negotiating with distribution chains, and are either absorbed by the bigger cooperatives or else, confronted with great financial difficulties, barely manage to keep their activity afloat. The EU wine policy provided tools for the small and medium size enterprises (SMEs). One example of such a tool is the investment measure of the national support programme for wine which was reserved to SMEs, while the promotion on third country market measures accorded a preference to SMEs and to collective brand names (Regulation (EC) No 555/2008). The latter refers to the possibility given to collective organisations, such as cooperatives, producer or interbranch organisations, to promote and market the products of their members under a common brand name. However, as some wine-growers were not able to defend themselves efficiently via professional organizations, they tended to resort to sporadic acts of violence. We see then that EU policy exerts both positive and negative impacts on the small and large wine cooperatives.

Since 2000, wine cooperatives have developed many technological innovations and invested in new tools, in accordance with certifications such as ISO 9002, Agriconfiance, etc. Those processes are generally considered as a "catching up" phenomenon that has been encouraged by EU policy measures.

2.5 Hypothesis Testing and Relevant Policy Issues

This section verifies whether the hypotheses stated at the beginning of this report are accepted or not, and discusses relevant policy issues informed by the case study.

Agricultural Cooperatives and Vertical Integration

H1: *A higher degree of vertical integration of cooperatives in a sector is positively associated with higher producer income.*

H1 is accepted for Val d'Orbieu. But vertical integration does not always mean better income for producers. In today's worldwide wine sector, demand exceeds supply. For the CEO of Val d'Orbieu, the main reason for that is due to the EU's grubbing-up policy and to the reduced number of wine-growing basins (climatic changes, etc). However, for the EU, the 3-year grubbing-up premium was not an isolated measure, but part of a set of measures taken during the 2008 wine reform which was aimed at re-establishing balance on the wine market. Previously there had been a production surplus while, since the implementation of more structural measures, the market now seems to be seeking an equilibrium. Nonetheless, cooperatives which integrate the wine-making process, conditioning and market processing are better able to deal with market fluctuations. As the wine industry is a segmented worldwide market, it is essential to be positioned in terms of segmentation.

H2: *The cooperative as an integrated processor develops better products and promotes them so effectively as to increase market demand.*

This hypothesis is accepted. The cooperative, as an integrated processor, certainly promotes its products better, which leads to increased market demand. Val d'Orbieu is positioned on all market segments because it accepts everything its members produce. Val d'Orbieu promotes total supply in order to have the greatest possible quantity of wine "Total product supply is an essential condition for efficiency (650,000 hectares). If you don't practice total product supply, you cannot control the quality, and you perform worse." (Girard, CEO Val d'Orbieu). That way, Val d'Orbieu is able to sell a wide range of different quality wines in large quantities.

H3: *Agricultural cooperatives that are successfully involved in selling final, consumer products, have a higher chance of adopting innovative ownership, governance, and capital acquisition methods.*

H3 is considered as perfectly valid for Val d'Orbieu, which has known how to successfully adopt innovative ownership, governance, and capital acquisition methods. Val d'Orbieu, which is not a cooperative union but a cooperative of cooperatives, associates 11 cooperatives, representing 1,500 members and 55 *chateaux*, in its innovative holding. "The bigger you are, the easier it is to obtain added value corresponding to the demand specificities of wine segments. You need to think, not in terms of production, but in terms of the market. It is only that way that the necessary changes in governance can be made. In the French wine sector, there is no dominant cooperative." Val d'Orbieu has modified its social equity in order to increase that social capital to 95% and to give back the control of the group to its owner-cooperatives. This return to a capitalistic mode of ownership is motivated by the aim of ensuring that decision making power is better controlled by members. That should soon allow other alliances to be set up. Equally, Val d'Orbieu is constantly exploring new capital acquisition methods.

H4: *Agricultural cooperatives which collaborate with other cooperatives or IOFs do better in terms of economic performance and services provided to their members.*

Yes, it would seem that the hypothesis could be accepted. Val d'Orbieu is associated with IOFs, but in accordance with cooperative principles. In 2011 Val d'Orbieu reduced its social capital share in its Cordier Mestrezat subsidiary in order to reinforce its strategy in Southern France (41% to 22, 78% March 15th 2012).

Economic vs. Social Goals

H5: *Agricultural cooperatives which focus primarily on achieving social goals do worse, in terms of economic performance, than cooperatives which focus primarily on achieving economic goals.*

For Val d'Orbieu, that hypothesis cannot be accepted since there is simply not enough evidence either to accept or reject it. Economic goals serve social goals. The social goal of cooperatives is to serve their owner-members by: ensuring the best possible remuneration, creating added-value, developing advisory services so that members can be more efficient on their own farms, as well as introducing their products on markets. Val d'Orbieu's economic performance, and that of its subsidiaries, creates more income for its members. Even in the case of small cooperatives, economic performance ensures sustainability.

Second-tier cooperatives

H6: *The federated cooperative structure (more than one tier) is less efficient than the centralized one (one-tier structure; farmers are directly members of the cooperative).*

There is not enough evidence to support this hypothesis. Even though Val d'Orbieu has the statute of a cooperative and not that of a union of cooperatives, it is owned by 11 cooperatives and 55 individual wine cellars. Val d'Orbieu functions as a second-tier cooperative whose farmers are owner-members of the 11 cooperatives. However, it should be noted that the governance of Val d'Orbieu is piloted by a Board of Directors, with the Chairperson of each of the 11 cooperatives and the other Directors of the 55 Chateaux.

At the present time, Val d'Orbieu has managed to improve its financial situation. In 2011, Val d'Orbieu increased its turnover by more than 10%. The coherence of its decision making is based on several factors: the duplication of the cooperative board in the holding board, the fact

that the Cooperative CEO is also the group CEO, and the detention of 95 % of the social capital by cooperative members. This allows decision making to be unified.

Policy Issues

- Should public policies treat different types of cooperatives differently based on their ability to increase/stabilise farmers' income?

Public policies should not treat French wine cooperatives differently based in that case. The HCCA validates the creation of cooperatives, and guarantees the respect of French cooperative law (see Appendix C table of public policies).

But various cooperatives have certainly been able to develop different strategies in order to stabilise farmers' income. Val d'Orbieu has become the N°1 wine actor in Languedoc-Roussillon, having emerged from a long process of concentration, integrating many members, and associating other IOFs so that it could better manage to increase the income of its members. It combined a number of policy measures to help farmers and one-tier cooperatives. *As previously explained*, for Roger (2011), the smaller cooperatives have no possibility of negotiating with distribution chains, are absorbed by the bigger cooperatives, or else maintain their activities only under great financial pressure. So EU policy already shows a difference in its impact on both small and large wine cooperatives.

- Should public policies facilitate cooperatives in achieving a balance between economic and social goals and, if so, how?

Yes, by maintaining tax exonerations, especially in the case of small cooperatives. French legislation proposes fiscal measures in order to facilitate a better balance between economic and social goals. The history of Val d'Orbieu shows that its vertical organizational model to control its wine-making and marketing activities in extensive vineyards corresponds to EU orientations. With its grubbing-up policies, the EU sought to favour the efficient restructuring of vineyards. The cooperative members of Val d'Orbieu benefitted from various subsidies and were able to rationalize production organization. By providing an efficient technical advisory service for the 1st tier cooperatives, and by adopting a policy based on product quality (certification, clients' specifications and signs of quality), Val d'Orbieu was able to modify its methods of vinification. It also introduced the use of highly effective industrial tools (bottling) and applied new advanced technologies.

- Which public support measures (local, regional, national and/or European) have an impact on the development and success/failure of this cooperative?

The public policy with the greatest impact has certainly been that of grubbing-up, which has affected both wines and vineyards. The grubbing-up was carried out without considering either the quality of the specific soil or grape varieties. Grubbing-up in France concerned 22,638 hectares and, in priority, those farmers who uprooted the whole of their vineyard or who stopped their activity (age of the farmers). LR, with 6% of its regional vineyards being grubbed up during a period of 3 years (2007, 2008, 2009), was the most impacted region in France (FranceAgrimer, 2012). Seven red grapes varieties, such as Carignan, Grenache, Syrah, etc, corresponding to 24% of the PDOs, were the most concerned. European legislation on PGI has had a particular impact on those cooperatives since it allows better product value-enhancement, with good differentiation.

Another impact has been the encouragement of merger processes and vertical integration. So such concentrations and reorganizations will continue. As Roger indicates, the situation has been marked by a rupture with the old system. As for small wine producers, they see the EU

norms as a source of difficulties. While numerous local actors recognize the interest of those policy measures which have allowed a certain restructuring of the vineyards, they stress the overall cost that is involved. In France, there is clearly an industry-wide consensus that the European support of subsidies for marketing campaigns is useful, because producers simply have to increase their wine exports (Itçaina *et al.*, 2011).

3.6 Conclusions

Val d'Orbieu is a successful, vertically integrated, as a second-tier cooperative. It proposes a continuum of all food chain interdependent stages. It is able to control production and to help members' wine production thanks to technological innovations. The main reason for that is due to its ability to think in terms of market competitiveness and to adapt its products to customer demands, even at international level. So it is an actor which produces a wide range of wines covering the whole span of quality segmentation, in accordance with customer specifications. The different organizational and product innovations in production as well as in marketing, drive all the one-tier cooperatives and wineries of the Val d'Orbieu group.

All of the cooperatives in the Val d'Orbieu group ensure total product supply. Val d'Orbieu is committed to both quantity and quality (differentiating remuneration in return for quality). Val d'Orbieu has 3 classes of quality products and more than 22 years experience in developing agronomic performance, so that it can adapt to consumer evolution. As all of the various food chain steps are interdependent, it is essential to associate producers as well as employees, in order to attain the best possible form of governance.

The cooperative system, thanks to its particular legal statute, is not subject to takeovers, and cannot therefore be delocalized, (unlike wine trading). This ensures that the cooperative is far more able to master the whole production system. Consequently, cooperatives are long-term institutions, intimately associated with local development. Nonetheless, it is possible for them to set up contracts with different IOFs since, as is the case for cooperative members, the contract consolidates commitments over the long term, and also obliges the IOFs to respect whatever has been stipulated.

For Val d'Orbieu, 1st tier cooperatives' capitalistic property allows sustainability and stability to function as an essential competitive advantage. Consequently, total product supply is essential for Val d'Orbieu's competitiveness. The coherence of its decision making is based on several factors: the duplication of the cooperative board in the holding board, the fact that the Cooperative CEO is also the group CEO, and the detention of 95 % of the social capital by cooperative members. This allows decision making to be unified. Territorial base is a major success factor, which Val d'Orbieu uses in order to reinforce commitment with its owner-members. Collaboration with IOFs strengthens its business organisation and its dominant position in the various production wine-growing basins in France.

3. Elements of comparison with other French cooperatives or wine regions

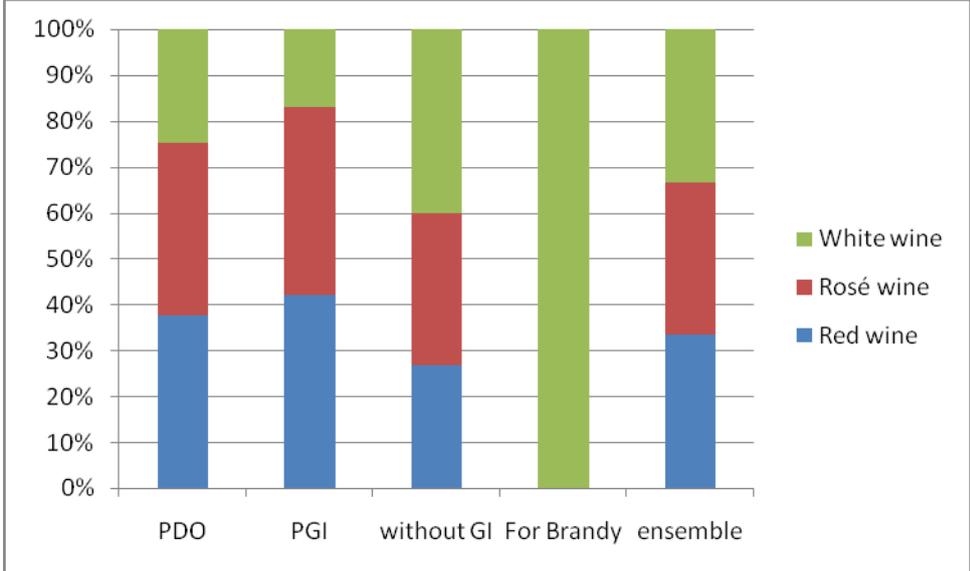
In our analysis of this case, we concentrate on the following aspects that we consider are relevant for the overall assessment of the cooperative strategy and governance in the wine sector. Today, the triple challenge of quality, global markets and rural development has led to a strong convergence around the strategy / enterprise model (Hannin *et al.*, 2010).

3.1 Specificities of the wine product and the market concerned

- *Overview of the French wine sector*

Of all the vineyard farm types, 68,500 vineyards (98%) are “specialized wine-producing farms” producing either wine or wine for brandy production. Two thirds of those farms are specialized in the production of PDO wines and cover 62% of the wine growing area. Certain basins, such as Champagne, Alsace-East, Aquitaine or Burgundy-Beaujolais-Savoy-Jura, produce almost exclusively PDO wines. On the other hand, 59% of the farms of the Languedoc-Roussillon basin are specialized in PGI wines, and account for more than three quarters of the French farms specialized in PGI. (Agreste Primeur, N271, 2011, p2).

Figure: PDO and PGI wines add value to France's production



Scope: Specialized wine producing farms
 Note : Volume of types of wines produced
 Source : SSP - Agreste, Agricultural census 2010 - provisional results

- *Different ways of making and selling wine*

In 2010, specialized farms¹⁰ produced 45% of red wine, 43% of white wine and 12% of rosé wine. A significant volume of white wine is intended for the production of brandy. There are

¹⁰ In the case of wine, the Standard Gross Output of farms is calculated according to the areas that are dedicated to PDO or PGI. Those coefficients are a result of the average values calculated over a period between 2005 and 2009. The SGO classifies farms according to their economic size: “middle and large farms” when that size is superior or equal to 25,000 euros, and “large farms” when the size is superior or equal to 100,000 euros. The contribution of each area to total SGO enables a classification of farms

many different ways of making wine and one and the same farm may choose to send its harvest to a cooperative winery, to an individual winery or else may sell its freshly picked grapes. In 2010, 53% of specialized farms sent all or part of their harvest to a cooperative winery (39% take all their production there).

Cooperatives still play an important role in wine making as they handle 37% of the harvest. In the Languedoc-Roussillon basin, this is a historical fact. 45% of specialized farms make their wine in their individual wineries. In volume, however, this represents 55% of all wine production, which has been on the increase since 2000 (51%). At the same time, 21% of farms sell grapes, juice or grape must. For example, the Champagne houses buy freshly picked grapes from vine growers to make them into wine.

The sale of wine (not including fresh harvests, which represent 8% of transactions) often goes through cooperatives (37 % of the volume) and through wine merchants (35%). Of the 13,200 specialized farms that sold wine in bulk or bottles for the year 2009-2010, 85% sold to wine merchant companies, to a producer group or to a wholesaler. One quarter sold direct to consumers, including exports. A farm can have recourse to several modes of commercialization. The marketers' role in the industry remains essential. In terms of volume, selling through wine merchants and cooperatives is the main way of selling. Although only a small number of farms sell direct to the consumer, the volumes involved are on the increase. (Agreste Primeur, N271, 2011, p4).

Table "Large farms » are more specialized in PDO

| Economic size | % of specialized farms detailed by farm type | | | | |
|-----------------|--|-----------|-------------------|------------------------------|--------|
| | PDO wines | PGI wines | PDO and PGI wines | Other than PDO and PGI wines | Total |
| Small Farms | 27 | 49 | 18 | 47 | 33 |
| Middle Farms | 29 | 35 | 42 | 16 | 29 |
| Large farms | 44 | 16 | 40 | 37 | 38 |
| Number of farms | 46,600 | 12,100 | 3,100 | 6,700 | 68,500 |

Source : SSP- Agreste, Census 2010-provisional results (Agreste, 2011)
 Scope :Specialized wine producing farms

The globalization of the wine market reinforces the need for wine differentiation in a highly competitive environment. As indicated by Porter (1982), companies have two types of strategies to create value: either one based on product differentiation, or one based on cost reduction. Whether one or other of those strategies is adopted, or even when those two strategies are combined, the companies still have to ensure that their product is recognized by the consumer (*i.e.* to trigger the act of purchase). This sanction by the market helps explain the reasons for a number of different strategic developments.

according to specialization (FADN farm type). A farm is said to be specialized if at least two thirds of its SGO comes from a given production. (Agreste Primeur, N271, 2011p. 4).

- *Reinforcement of product segmentation*

The wine market is an ever more segmented world market. Together with PGI and PDO, which have long served as major differentiation signs for viticultural products, other market segments have started to develop:

- banalization of the consumption of Champagne,
- development of *Rosés*¹¹.
- development of Bag-in-box for practical reasons, transport costs, conservation and mastery of consumption
- organic wines which, although they still only remain at a weak level of production in Franc, are nonetheless in constant progression with 30% of them being produced in LR.

This product segmentation has been accompanied by various process and product innovations. The development of such practices has generated major changes in cooperatives' strategies:

- introducing wood chips for their aging effect,
- using GMOs such as alcoholic fermentation by means of yeasts,
- practicing various irrigation techniques and taking into account climatic changes,
- reducing the use of pesticides and developing good agricultural practices for the environment,

All the above factors have induced key changes both as regards farms and collective organizations, in what concerns production and commercialization. Each different wine cluster is conditioned by its own specific historical and socio-political background.

3.2. Relationship between cooperative success and internal governance

The *Crédit Agricole* study (Couderc, 2012)¹² on wine market traders shows that wine cooperatives enjoy better remuneration from cooperatives than they do from wine traders. Since that is done to the detriment of contingency reserves, the cooperatives' financial performances and their investment perspectives are seriously reduced.

The specific characteristics of the wine product, combined with worldwide segmentation reinforce the need to ensure perfect coherence between strategy / governance and the market target. This means that cooperatives must be analyzed in terms of their positioning in the value chain: upstream and downstream.

- *Upstream performance: the case of Aquitaine*

In Aquitaine, 3,560 vineyards covering 33,500 hectares, ensured the vinification of their wine exclusively in wine cooperatives in 2010. In addition to those "exclusive" cooperative members, some 500 vineyards, covering 8,000 hectares, carried out their vinification in both individual and cooperative wineries. Since 2000, Aquitaine cooperatives have undergone a vast process of restructuration, with many small and medium size farms being absorbed by large farms. The wine cooperatives of Aquitaine provide interesting insights as regards what is needed to make a winning cooperative model (Agreste, 2012).

- Increase in average size in order to attain critical size and to obtain economy of scale: In 2010, 45% of farms (against 20% in 2000), represented 80% of potential production (66% in 2000) with specialization of producers and adaptation of structures. In 2010,

¹¹ *Rosés* are estimated as representing 8 % of world production and 9% of world consumption (OIV 2010 and FranceAgrimer, 2012).

¹² Study realized for the period 2006-2009 for 1,032 downstream wineries, wine traders and cooperatives (81% of the total population) each with a sales turnover of more than 2 million euros.

more than half of the vineyard area belonging to the “exclusive” cooperative members had corporate structures.

- Increase in productivity: 5 hectares under vine represent a Full Time Position (against 70 hectares in cereals). Costs, especially those concerning labour, constitute a key variable for productivity and competitiveness. (Agreste Primeur, 2011).
- Decrease in average age: 45 years in cooperatives against 55 years for individual wine cellars. This highlights the process of renewal at work in Aquitaine wine cooperatives. In 2010, 1 cooperative member out of 5 was under 40 (Agreste 2011).

The introduction of contracts between producers and their cooperative seems to represent a duplication of their voluntary commitment.

- *High Degree of Vertical Integration*

Val d’Orbieu is characterised by a high degree of vertical integration that extends to both distribution and marketing. *Seventy percent of its production is destined for packaged wine, while the remaining 30% is sold in bulk.* In addition to its agricultural and processing activity, Val d’Orbieu offers its members supply services, administration, advisory services and technical assistance in order to achieve wine added-value. The cooperative also processes, markets, and exports under various brand names. This includes the value-enhancement of local wine appellations, N°1 PDO producer, with 15% of PGI from LR. As far as the “Val d’Orbieu” cooperative is concerned, its farmer-members produce about 550,000 hl per year, while it manages two bottling plants. It also employs 274 persons dedicated to the production, bottling, trade and marketing of their production. As Roger, (2011) mentioned, Val d’Orbieu has adopted vertical organizational models to control their wine-making and marketing activities in vast vineyards corresponding to EU orientations.

It should be noted however that in the particular case of the wine sector, the causality between vertical integration and higher producer income is not always confirmed (Courret, 2011; Couderc, 2007). Other LR wine cooperatives have different business models based on bulk sales and direct selling (for example, in the bulk segment, a LR new entity was created in April 2012 in order to be prepared for international markets ¹³). Those cooperatives can survive, provided their size corresponds to their market segment.

- *Organization and governance of the wine supply chain*

Wine cooperatives in France are very present in the wine supply chain, as they produce 50% of the total wine supply in France, and contribute significantly to the Gross National Product (GNP). Cooperative enterprises have a dominant position in the wine supply chain as they hold significant market shares in several quality categories. There are also many small investor-oriented wineries and a few large ones, which operate under a relative high degree of industry concentration.

Additionally, during the past 15 years, the French wine industry has undergone vast restructuring, mainly in the form of wine cooperative mergers and the development of large cooperative groups. Nonetheless, there is still great diversity, with cooperatives ranging from the very small ones to large international groups.

Although cooperatives, unlike wine traders, are less efficient in terms of traditional economic and financial performance criteria (Couderc, 2012), their resistance in time of crisis (cf. 2007)

¹³ Holding between « La cave Terroirs de la voie Domitienne » (Hérault), SCA « Vignerons de Souvignargues » (Gard) and "l'Union des investisseurs viticoles" in association with Marc Escassut (Vignobles du Soleil à Cuxac-d'Aude).

has proved to be superior. Although still able to produce considerable volumes of wine, nowadays they tend to position themselves on quality segments.

The wine supply chain in France is organized around regional governance structures that assume a decision-making role, the “wine-growing Basins”. Those regional inter-professional organisations embrace all actors in the wine supply chain and stimulate mergers and collaboration among cooperatives in order to attain critical size and negotiating power.

A French Report in 2010 also recommends ensuring the establishment of one single inter-professional organization for French wines without Geographical Indication, as well as the reinforcement of the 10 wine-growing basins (Despey, 2010).

3.3. Effects of policy measures on the cooperative wine sector

Effects of policy measures on the wine sector impacts producers as well organisations¹⁴.

- Different trends in wine production

The massive sector restructuring that took place in LR during the period 2004-2010, resulted in a 25% reduction of the vine-cultivated area and a 40% reduction in the number of the wine cooperatives. Viticulture in the region was transformed mainly through new plantations and the shift towards quality wines.

We used the Cooperfic tools, which mobilized more than “45 wine cooperatives that represent 2,550,000 hl of wine production and a total turnover situated between 220 and 240 M Euros (16% of all firms and 25% of both global production and turnover in Languedoc-Roussillon” (Saisset, *et al.*, 2011, p. 10). According to Saisset, there is great heterogeneity but, by using the various indicators and by mobilizing a specific indicator for farmers’ remuneration, the author identifies three main groups: G1 maintains a good equilibrium between distribution and investment, G2 develops bad financial performance with problems for farmers, and G3 represents cooperatives in danger (Saisset, 2011).

- Financing individual producers, without neglecting collective organizations

Since 2006, wine cooperatives in the LR region have been facing severe cash flow problems due, in part, to falls in bulk sales, and the aggravation of international competition. An additional reason may also be the decreasing trend of the wine consumption in the EU, particularly in the wine producing countries. In 2008, the financial situation for many wine cooperatives in the region became critical.

The economic crisis in the wine sector exacerbates the practical question of how to balance short and long-term economic indicators, such as grower remuneration of more than 4,000 Euros per hectare, with a minimum of 5% cash flow on sales in the LR wine cooperatives. Cooperfic tool shows that growers’ remuneration is linked to higher prices obtained for their sale of bulk or bottled wine, much more than to a reduction of fixed costs which, in the long term, would condemn more value creation for cooperative managers (Saisset *et al.*, 2011).

For the CEO of Val d’Orbieu, the cooperative structure has either not benefitted from public funding, or only to a limited extent. Individual owner-members, farms and 1st tier cooperatives have, however, had access to various forms of aid. According to the CEO and the Vice-Chairman

¹⁴ See in particular Council Regulation (EC) No 479/2008 of 29 April 2008 on the common organisation of the market in wine, amending Regulations (EC) No 1493/1999, (EC) No 1782/2003, (EC) No 1290/2005, (EC) No 3/2008 and repealing Regulations (EEC) No 2392/86 and (EC) No 1493/1999.

of Val d'Orbieu, the processing stage represents the weakest link in the chain (its Achilles' heel¹⁵, for Joel Castany). In order to resolve the problem, the "Cave de Leucate" recently invested in a new installation and Val d'Orbieu also set up a new subsidiary in Shanghai in 2012 in order to secure its Asian market.

The objectives of the agricultural policies described in the booklet fall into three categories: the level and variability of farmers' income; qualitative and quantitative food security at the best price for the consumer; protection of the environment and landscape and the viability of rural areas. The first of these goals – "farm income" – and the third – "environmental and regional externalities" – are, unlike the second, extensively developed and used as a basis for the two key concepts for which the OECD argues: decoupling and targeting (Agreste Analyse, 2010).

Prior to the 1992 reform, the main form of intervention was the provision of income support to farmers through action upon prices based on mechanisms involving storage, customs duties and export subsidies. This meant that EU prices were higher than those prevailing in international trade, but were more stable for consumers, who were ultimately funding the support provided to producers. With the reforms of 1992 and 2003, the CAP adopted direct support regimes increasingly decoupled from production

From the 1980s on, the increasing importance of environmental and regional considerations was reflected in a recognition of the functions fulfilled by agriculture in addition to the production of foodstuffs and fibres. The shaping of the landscape, contributions to regional activity and the upkeep of certain biotopes are all "positive externalities" or "joint-product" to certain types of agricultural production that are usually gathered together under the umbrella notion of agricultural "multifunctionality".

¹⁵ The problem was formulated in more theoretical terms by Chaddad, who considers that the Achilles' heel for cooperatives is to strike a balance between two sorts of risk. The first of those concerns the manager (acquisition capital risk); the second concerns members and their Board (decision-making risk).

4. Discussion

As French wine cooperatives have had to deal with numerous problems, they have been forced to adapt their traditional cooperative practices and principles. This has led to significant differentiation in the traditional cooperative model (see the typology proposed by Cook 1997).

In the LR region, wine cooperatives have attempted to adjust to their changing industry by seeking to establish strategic alliances, pursuing mergers with other cooperatives, rationalizing assets, and implementing innovative capital acquisition methods. Forming strategic alliances with IOFs, diversifying its portfolio by offering other products and easing-up the requirements stemming from the legislation on mandatory cooperatives for investor-owned wineries, are all part of the cooperative's refinement strategy. However, it should not be forgotten that there are several factors that limit the effectiveness of a strategy (Cook and Chaddad, 2004).

The case of Val d'Orbieu offers an example of how a strategy, based on a deterministic assessment of the wine industry, is finally adopted. It has generally been considered that achieving economies of scale could prove to be a panacea strategy for the region's wine cooperatives. Cooperatives could, by becoming much bigger, leverage their competitive positioning and achieve better economic results.

In order to understand why that approach seemed necessary, we have to see exactly what changes were involved. For the most part, those changes brought about significant transformations in the structure of the wine supply chain in many regions, particularly in the Languedoc-Roussillon region, where they have affected the cooperative landscape in the area since 2004. The significant decline in producer prices during the 2003/2004 period, was to trigger a series of alliances and mergers, leading to a sharp drop (27% between 2000 and 2009) in the number of wine cooperatives in the region. However, it seems that the wave of consolidations has not produced the expected economies of scale. This is because of the very nature of the cooperative, a user-owned, user-controlled organization. Decision-makers and managers of the wine cooperatives in LR, have tried to balance short-term grape grower compensation with long-term value creation for the cooperative with little success (Saisset *et al.*, 2011). Research indicates that most of the wine cooperatives in the area have used their previously accumulated capital reserves to counterbalance the effects of low prices on their supplier-members' income. That practice has dealt a severe blow to the cooperatives' cash-flow availability and has threatened their survival in the long run. Public and professional bodies have invested a lot of resources to convince many Languedoc-Roussillon cooperatives to merge or associate. However, cooperative governance schemes and the tangible and intangible investments of cooperatives should first be taken into account before the implementation of such policies.

The need for substantial investments to take up the challenge of increasing international competition has led cooperatives, in reaction to the maximization of shareholder value (i.e. financialization of the IOFs) to develop subsidiaries (Coelho and Rastoin, 2005; Filippi *et al.* 2006). That in turn has provided incentives for member-owners to develop their 1st and 2nd tier cooperatives, a process resulting from the need for market access and value-added creation. However, unlike the wineries or IOFs, the wine cooperative groups maintain their members' regional powers.

As agrifood value chains are characterized by very high levels of concentration in the processing and distribution sectors, this means that those downstream in the chain have greater bargaining power than those upstream. Now that direct payments have replaced market price support, the

effects of the distortions produced by this market failure are apparent to all, but the provisions needed to correct this structural problem have received little consideration. (Agrete Analyse, 2010, 4p.)

5. Overall conclusions

Wine cooperatives in Europe are currently facing a new situation created by the Common Market Organization (Wine CMO) and the Common Agricultural Policy (CAP) reforms, the increasing globalisation of trade, the growing importance of the new producing countries and changing patterns of consumption (Hanin et al., 2010).

The interest of cooperatives and POs is to produce added value in a chain value dominated by the downstream and international wineries. Added-value, however, is not sufficient. It is essential to ensure economic efficiency by limiting collection costs, investing in new processing tools, increasing bargaining power, maintaining regional employment, preserving the countryside. All of those aspects of economic efficiency are implemented by cooperative enterprises which, thanks to their specific status and capitalistic property, manage to combine both social and economic goals (Vercamer, 2010). Unfortunately, however, that specificity has a price: delegated decision-making, increased distance between members and the decision-making centre, and lack of confidence between members and their cooperatives.

Does the cooperative operate as a user-owned, user-controlled, and user-benefitted business organization?

This case study, dedicated to the analysis of strategy / structure in the wine sector of Southern France, offers several themes of reflection for policy makers. Some of the main ones have been indicated below:

- The need to ensure that cooperatives maintain their members' regional economic and decisional powers.
- The need to ensure the separation between 1st and 2nd tier cooperatives since their constraints are different, in order to be as close as possible to members / markets.
- The need to ensure the clarification of group governance in order to allow members to exercise their powers by minimizing the problem of power delegation.
- The need to ensure that vertical or horizontal integration can lead to increased financial means and additional competencies to create more added-value, thereby offsetting downstream market power.
- The need to ensure that public policies effectively help individual producers as well as collective organizations to increase their competitive capabilities.

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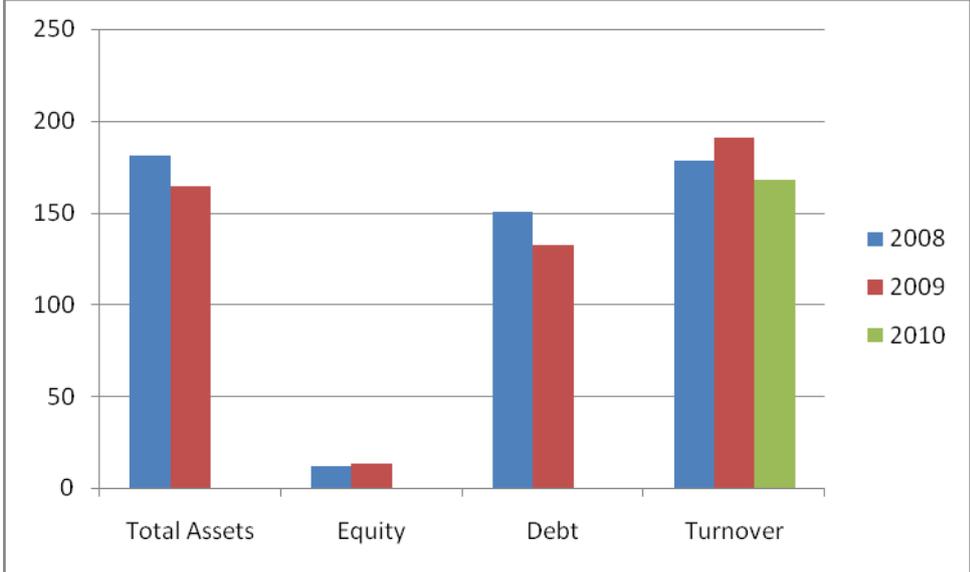
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Appendix A - Facts and figures of Val d'Orbieu

Table A - Facts and figures of "Val d'Orbieu"

| | |
|---|---|
| Cooperative | Val d'Orbieu |
| Year founded | 1967 |
| Tier | 2nd tier |
| Structure | Holding |
| Turnover 2010(Mill) | 168 |
| N of members | 11 cooperatives, (1.591 farmer-members), 55 <i>domaines and Chateaux</i> |
| Area (ha) | 10,334 hectares |
| Production (t) | 550,000 |
| Bulk | 20% |
| Packaged | 80% |
| Market share | Leadership in LR: 15% AOP market share of LR, N°1 in Japan |
| Market share of packaged | |
| Activities | <ul style="list-style-type: none"> - Production - Packaging - Marketing and distribution: whole sale and retail - Supplies, exportation |
| Member services | <ul style="list-style-type: none"> - Counselling (economic and strategic) - Technical assistance and advisory |
| Brands | <ul style="list-style-type: none"> • « Domaine de la Font d'Amour » • Domaine Serres Mazard • Domaine de Bellevue - l'Inattendue • Château Ribaute- Cuvée Grande Tradition • Domaine Serres Mazard - Cuvée Henri-Serres • Château Jaussan • Château Louis Degrave • Château Fédane • Château Tour de Montredon • Château Tour de Montredon • Château de Fabrezan • Domaine la Combe Grande • Domaine de Blanquières • Domaine Calvel • Domaine Beauséjour • Domaine Franck Canet <input type="checkbox"/> Minervois <input type="checkbox"/> Les Côteaux du Languedoc <input type="checkbox"/> Les Côtes du Roussillon <input type="checkbox"/> Saint Chinian <input type="checkbox"/> Fitou <input type="checkbox"/> Faugères <input type="checkbox"/> Muscat de Saint-jean-de-Minervois <input type="checkbox"/> Rivesaltes <input type="checkbox"/> La Gamme Mythique <input type="checkbox"/> The Wine Code <input type="checkbox"/> Givré de Rosé <input type="checkbox"/> Libellule |
| Producer income | n./a. |
| Focus on social goals | Best income for producers, Projet 3D for sustainability of Val d'Orbieu Sustain « <i>Respect Hommes & Nature</i> », with make manual grape harvests and organic make-processing cooperative, |
| Collaborations | Collaborations with IOFs : various until 1967 (partnership in marketing and packaging Trilles company (1979), Domaine de la Jonquières (1986), Cordier Company (1998) |
| Successfully selling final, consumer products | 70 % packaged wine and export = 30% of turnover |

Figure B - Facts from the balance sheet of Val d'Orbieu cooperative



Source: Val d'Orbieu (2010)

Appendix B- Summary of Hypothesis testing and policy issues

The following table summarizes the findings of hypothesis testing in the case of Languedoc-Roussillon wine cooperatives.

Table 1. Comparison of Hypothesis Testing Results

| H₁: A higher degree of vertical integration of cooperatives in a sector is positively associated with higher producer income | | |
|--|-----------|---|
| Languedoc-Roussillon | Accepted | Val d'Orbieu seems to be able to guarantee and enhance the income of its members. The cooperatives which integrate the wine-making process are better able to deal with market fluctuations. |
| H₂: The cooperative as an integrated processor develops better products and promotes them so effectively as to increase market demand | | |
| Languedoc-Roussillon | Accepted | Val d'Orbieu accepts total supply from members in order to have critical size and be able to position itself on the different market segments. |
| H₃: Agricultural cooperatives that are successfully involved in selling final, consumer products, have a higher chance of adopting innovative ownership, governance, and capital acquisition methods | | |
| Languedoc-Roussillon | Accepted | "Val d'Orbieu has modified its ownership to allow the 1st tier cooperative to exercise its decision-making power on the group. |
| H₄: Agricultural cooperatives which collaborate with other cooperatives or IOFs do better, in terms of economic performance and services provided to their members | | |
| Languedoc-Roussillon | Accepted | Val d'Orbieu has successfully associated with IOFs. |
| H₅: Agricultural cooperatives which focus primarily on achieving social goals do worse, in terms of economic performance, than cooperatives which focus primarily on achieving economic goals | | |
| Languedoc-Roussillon | Rejected | For Val d'Orbieu, this hypothesis is not accepted. Members' income guides its strategy. The social goal is indissociable from the economic one |
| H₆: The federated cooperative structure (more than one tier) is less efficient than the centralized one (one tier structure; farmers are directly members to the cooperative). | | |
| Languedoc-Roussillon | Not clear | For Val d'Orbieu, this hypothesis is not accepted. But it is a cooperative owned by 1 st tier cooperatives. |

Table 2. Policy Issues

| PI 1: Should public policies treat different types of cooperatives differently based on their ability to increase/stabilise farmers' income? | | |
|--|-----------|--|
| Languedoc-Roussillon | Not clear | Public policies should not treat French wine cooperatives differently based in that case since France respects the principle of free membership. |
| PI 2: Should public policies facilitate cooperatives in achieving a balance between economic and social goals and, if so, how? | | |
| Languedoc-Roussillon | Yes | Yes, by maintaining tax exonerations, especially in the case of small cooperatives. French legislation proposes fiscal measures in order to facilitate a better balance between economic and social goals. |
| PI 3: Which public support measures (local, regional, national and/or European) have an impact on the development and success/failure of the case cooperatives? | | |

| | | |
|-----------------------------|-----|---|
| Languedoc-Roussillon | yes | The public policy with the greatest impact has certainly been that of grubbing-up, which has affected both wines and vineyards. The grubbing-up was carried out without considering either the quality of the specific soil or grape varieties. Another impact has been the encouragement of merger processes and vertical integration |
|-----------------------------|-----|---|

Appendix C-Table Policy Measures Description

| Name of Policy Measure | Type of Policy Measure ¹⁶ | Objective of the Policy Measure ¹⁷ | Target of the Policy Measure ¹⁸ | Expert comment on effects on development of the cooperative ¹⁹ |
|--|--|---|--|---|
| 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> | Cooperative legislation/ incorporation law | Correction of market or regulatory failures and Attainment of equity or social goals | Applicable to business in general | This law distinguishes between cooperative and investor-owned firms. It sets their modes and terms of functioning Agricultural cooperatives |
| Agricultural Orientation laws of 1960 and 8 th August 1962 on the economic organisation of producers, modified by the law of 5 th 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> | Market regulation and competition policies | Correction of market or regulatory failures and Attainment of equity or social goals | Applicable to business in general | 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). |
| Codification of Rural Code Book V Title II legislative and regulatory (Law of 27 June 1972 concerning agricultural cooperative and their unions) <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> | Cooperative legislation/ incorporation law Financial and other incentives | 1. Correction of market or regulatory failures and Attainment of equity or social goals | Specific to cooperatives L.521-3 | 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 |

¹⁶ **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**

¹⁷ 1. Correction of market or regulatory failures or 2. Attainment of equity or social goals

¹⁸ 1. Specific to cooperatives ; 2. Specific to an agricultural sub-sector; 3. Applicable to business in general

¹⁹ 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

| | | | | |
|--|--|--------------------------------------|-----------------------------------|--|
| | | | | 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). |
| Law n° 91-5 of 3rd January 1991 dispositions concerning agricultural cooperative <i>Loi n° 91-5 du 3 janvier 1991 dispositions relatives aux organismes coopératifs agricoles</i> | Cooperative legislation/ incorporation law Financial and other incentives | | Specific to cooperatives | 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. |
| Law of 13th July 1992 : Law of the modernization of cooperative companies <i>Loi du 13 juillet 1992 dite Loi de modernisation des entreprises Coopératives</i> | Cooperative legislation/ incorporation law Financial and other incentives | | Applicable to business in general | 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. |
| Ordinance n° 2006-1225 of 5th October 2006 <i>Ordonnance n° 2006-1225 du 5 octobre 2006</i> | Financial and other incentives | Attainment of equity or social goals | Specific to cooperatives | 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 Creation of "High Council for Agricultural Cooperation" ("Haut Conseil de la Coopération Agricole ») (L. 528). Shares Savings ("Parts Sociales d'Épargne") 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. |
| Law of 5th August 1920 art. 1382-6° General Tax Code (GTC) Loi du 5 août 1920 art. Code Général des Impôts 1382-6° | Financial and other incentives | Attainment of equity or social goals | Specific to cooperatives | Exoneration of property tax for properties with buildings permanently and exclusively dedicated to farming using by cooperative companies and their unions. |
| Decree of 9 th December 1948 GTC art 207-1-2° and 207-1-3° <i>Décret du 9 décembre 1948 CDI art 207-1-2° et 207-1-3°</i> | Financial and other incentives | 2. Attainment of equity or social goals | Specific to cooperatives | 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 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 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 |

| | | | | |
|--|--|--|--|--|
| | | | | <p>activities : electrification, rural development, use of agricultural material, artificial insemination, prevention and combat concerning animal and vegetal diseases, vinification, fruit and vegetable packaging, organisation of auctions.</p> <p>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.</p> <p>Contribution to VAT in accordance with EU law.</p> |
| International policies more specific | | | | |
| Common Organisation of agricultural Markets and on specific provisions for certain agricultural products (Single CMO Regulation) | | | | <p>Regulation (EC) No 1234/2007 provides a single legal framework governing the domestic market, trade with third countries and rules regarding competition.</p> <p>Even restructuring movement for Fruits and Vegetables with the tools needed to make industrial performance.</p> |
| Council Regulation (EC) No 72/2009 of 19 January 2009 on modifications to the Common Agricultural Policy 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>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</p> |

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| | | | | sectors and the entire French territory. Cooperatives have also developed a special attention to good practices (farm advisory), 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 common rules for direct support schemes for farmers under the common agricultural policy 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 support for rural development 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 | | | | As French National report explains A new title III <i>bis</i> is inserted in the law of 10 September 1947, called the |

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| <p>Law n° 2008-649 of 3rd July contains various provisions adapting company law to community law</p> <p>Decree n° 2009-767 of 22 June concerns the European Cooperative society</p> | | | <p>–European cooperative society. That title includes seven chapters and articles numbered 26-1 to 26-38.</p> <p>Article 26-1 constitutes the sole article of chapter I, devoted to the general 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.</p> <p>Moreover, making use of an option contained in the regulation, 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.</p> <p>(Article 6 regulation SCE)</p> <p>In articles 26-2 to 26-6, Chapter II establishes the procedures relative to constitution of the European cooperative registered in France.</p> <p>Clear lack of knowledge about the transnational tool and its concrete potential along with insufficient adoption by economic actors.</p> |
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