JOURNAL OF RURAL COOPERATION

Centre international de recherches sur les communautés coopératives rurales
International Research Centre on Rural Cooperative Communities
המרכז הבין-לאומי לחקר קהילות כפריות שיתופיות

CIRCOM

VOLUME 25 No. 2 1997

CIRCOM, International Research Centre on Rural Cooperative Communities was established in September 1965 in Paris.
The purpose of the Centre is to provide a framework for investigations and research on problems concerning rural cooperative communities and publication of the results, to coordinate the exchange of information on current research projects and published works, and to encourage the organization of symposia on the problems of cooperative rural communities, as well as the exchange of experts between different countries.

CIRCOM

Information for Subscribers: The *Journal of Rural Cooperation* is a semi-annual periodical, aimed at the pursuit of research in the field of rural cooperation. Editorial enquiries and other correspondence should be addressed to CIRCOM, Yad Tabenkin, Ramat Efal 52960, Israel (Fax: +972-3-5346376). Subscription rate: $25 per annum (plus $2.00 sea mail; $6.00 airmail).

ISSN 0377-7480

JOURNAL OF RURAL COOPERATION

Vol. 25 No. 2 1997

CONTENTS

1. Selected articles from Working Group 7, the XVII Congress of the European Society for Rural Sociology on *Local Responses to Global Integration: Towards a New Era of Rural Reconstruction*, Chania (Greece) August 1997.

Reactions to Globalization and Integration in the Czech Agro-Food Complex

by
Helena Hudečková and Michal Lošt'ák
Czech University of Agriculture, Prague, Czech Republic

Abstract

The paper addressees the issues of integration and globalization in the Czech agro-food chain. It describes the situation before 1989 when partial processes of integration took place under strong influence of the state. The relatively closed communist system disabled the globalization as understood by Western sociologists. The paper also examines how the different types of agro-food chain formed under the communist state encounter the integration and globalization known in a market economy after 1989. The character of this connection, and latent conflicts concerning the struggle to influence and to control agro-food chain are documented. Newly emerging types of relations between farmers and food processors with indications as to some factors influencing the action of both groups (especially the role of cultural and social capital), are discussed. The conclusions consider the role of the state, the market and the civil sector (where an important role is played by the grass-root cooperatives) in balancing the relations between local and global levels.

Introduction and methodological approach

The transformation of the Czech agriculture is a very complicated process that also reformulates the relations of the actors in the agro-food chain. The issue discussed concerns the participation of farmers in shaping and influencing the vertical integration of production. Will farmers' words be considered seriously or will the farmers be viewed as "necessary makeweight" which the processors, suppliers or the markets need only as the producer of inputs or as the customers of their outputs without any significant influence over the politics of these large firms (often transnational companies)? The solution to this question will decide who will be the winners and losers in the transformation of the structures of agro-food chain and of the countryside.

This paper attempts to address the questions about integrating the Czech agriculture with the food-processing industry, including the global dimension of this process. The empirical data are based mostly on sociological surveys from 1993-1997 conducted in various types of farms operating in 15 villages. The other

 ISSN 0377-7480 ©

source is the analysis of various documents related to the field of study. The team of researchers from the Department of Humanities of the Czech University of Agriculture in Prague visited 7 transformed agricultural cooperatives, 5 other farms of legal entities (mostly farming companies Ltd. and farming joint-stock companies) and 9 family farms.[1]

The non-standardized interviews were used to tap the representatives' of these farms views and thoughts concerning the position of the farms in the agro-food chain. These people outlined the circumstances and events they considered as the reasons and results, the pro-and-cons of this position. They also related to the ways this position could be changed. The expressions of the interviewed people are based on their own experience.

As for the justified objection that the representatives of the food industry were not interviewed, the authors refer to the grants dealing mostly with the issues of transformation of agriculture and to the fact that the aim of the paper is not to confront the views of the farmers and the processors. The authors attempted to outline the views of the farmers on these problems. The reason is that these problems essentially concern the farmers not only because of their future but also with regard to the economic, social, political and cultural perspectives of the society they live in.

The authors wrote this paper with the understanding that this is the first sociological contribution dealing with the issues of globalization and integration of agriculture and food industry in Czechia under the new political and economic system. They consider the conclusions rather hypothetical with the hope to open deeper discussion about these topics.

The theoretical framework of the paper

First, the issue of globalization of agriculture and food has not been and still is not the main field of interest in the Czech rural sociology. The theoretical background reflecting the conditions which might be useful for the analysis of the processes of globalization of agriculture and food industry in Czechia has not yet been elaborated. This is the reason why the authors have to use approaches reflecting this process in the foreign literature (Bonanno *et al.*, 1994; Giddens, 1989).

The term globalization usually means the activity, process or behavior through which something becomes world-wide in scope or application. The recent popularity

[1]A large part of this survey was implemented under two research projects: "Transition to family farming in post-socialist Central Europe" (funded by the British Economic and Social Research Council as part of its East-West Programme, research grant number Y309253037) and "Rural employment and rural regeneration in post-socialist Central Europe" (funded by the European Commission under its COST programme, contract number CIPA-CT93-3022). The remaining part was carried out with the help of a research grant funded by the Czech University of Agriculture in Prague, and partly in collaboration with the Faculty of Social Sciences, Charles University in Prague through the participation in their grant funded by the Czech Grant Agency.

of this concept has a lot to do with the neoconservative discourse defining government programs in many parts of the world since the 1970s (Koc, 1994).

As for food and agriculture, globalization means the forming and working of a world-wide market and world-wide production of food and agricultural products. Giddens (1989) associates the process of globalization with the term agribusiness as global and integrated agricultural and food production. Other authors (Heffernan and Constance, 1994) describe the transition of agriculture and food-processing from the subsistence-localized to the commercially-globalized form through focusing on various forms of integration:

- horizontal integration
- conglomerate integration
- vertical integration
- global integration

Both approaches suggest that to understand globalization in the agro-food chain, it is useful to start from dealing with the integration in this system. The transnational companies emerge as the result of integration aiming to simplify the relations among particular elements in the chain of production, especially to minimize the transactional costs (Mlčoch, 1996). However, this economic explanation needs to be accompanied by the sociological reasoning because the integration also determines the position of its actors in contemporary society. Important questions are what kinds of relations exist among the actors of the integration and globalization process, how are the relations formed, and how they influence the position of the actors in society. The answers concerning the farmers and food processors will be outlined in following section.

Integration and globalization in the Czech agriculture up to 1989

Until the beginning of collectivization in the 1950s, competition existed between the food processing industry controlled (integrated through Western type cooperatives) and non-controlled by farmers. Collectivization abolished this competition at once. Agriculture and the food industry started to co-exist separately without the possibility for one sector to dominate the other and with both sectors subordinated to the omnipotent influence of the state. This cooperation coordinated by the state is illustrated, for example, by the agricultural cooperatives. In 1989 they farmed almost 2/3 of land in Czechia. The form of cooperatives was almost the reverse of cooperative structures in Western countries. The cooperative form of agricultural primary production is almost unknown in Western countries (with the exception of the kibbutz), while processing and marketing cooperatives (that part of the agro-food chain controlled by the farmers) typical of the majority of Western European countries were absent from the Czechoslovak scene (Stryjan, 1993). This fact shows that the processing of agricultural products and their marketing were mostly beyond whatever influence farmers had. However, the processors did not have the means to control and influence the farmers either. All influence was in the hands of the state.

Until the 1980s farmers and processors acted mostly separately without evident attempts to gain influence over the other part. Agricultural products were the bridge between them. At this time, however, the first more evident attempts of farmers to establish their vertically integrated system emerged, although it was also under the influence and control of the state. It is difficult to speak about any significant vertical, conglomerate or horizontal integration in the agro-food chain controlled by the farmers in the 1980s. A few farms (mostly agricultural cooperatives) were involved, they worked at the local level, produced only particular types of foods and did not aim to concentrate all production in their hands with the intention to dominate nationally. The benefit of such limited local integration in the agro-food chain concerned particular localities where it was established (*e.g.* in the improvement of the supply of particular foods in retail shops, localized and personalized production of new jobs for local people, etc.).

The food processing industry underwent significant changes at that time as well. The state built up large and modern food processing firms with new equipment (mostly slaughter-houses and dairies). Their capacity was aimed at increasing the possibilities of both marketing food products and supplying inputs from farmers. When large-scale food processing firms were separated from farmers, they felt that their possibilities and activities were limited. They pressed the state to set up another part of the agro-food chain consisting of joining their firms to large-scale specialized farms (the so-called joined agricultural enterprises established for the purpose of factory type production involved in a single kind of agricultural product). This newly emerging agro-food chain differed both from the local agro-food chain controlled by "agricultural processors" (mostly agricultural cooperatives) and from the agro-food chain of separately co-existing farmers and processors (which was created after the communists took power). The difference consisted in the evidence of a stronger and rather national horizontal, and vertical integration with the influence of the processors. Nevertheless, they were all the time also under the supervision of the state.

The above facts suggest that the state was the crucial agent controlling the whole agro-food complex. If, in the countries of mature capitalism, the state becomes more and more economically irrelevant *i.e.*, its role in influencing economic processes declines (Bonanno *et al.*, 1994), its role in socialist countries was just the contrary. The state was the main actor of integration. However, the integration had never significantly occurred on a global scale because Czechoslovak agriculture was enclosed within relatively closed socialist system. Moreover, Czechoslovakia was among those socialist countries that were less in favor of opening themselves to the market economy.

The application of the concept of globalization as understood by Western authors is very difficult in the conditions of the socialist system. Distinguishing some tendencies of integration, we can speak in this case of "reduced globalization" taking place in the former socialist world. This is because the integration mostly did not exceed the national boundaries and large transnational companies did not operate to any significant degree here. Nevertheless, the tendencies toward political control and unified ideology as attempts to create a new culture integrating communist countries used to destroy national borders and consequently affected economic, social and cultural structures of the national state. Both political control and unified ideology worked towards strengthening the institutions and the power of the state. The state which was formed in such a way influenced the integration processes in the economy. It differed from the Western world where, on the contrary, such processes, which are not primary defined by political decisions, lead to the limitation of national political institutions. Under such a situation the state continually loses the ability to perform its functions which have to be implemented at an international level (Bonanno, 1991).

The tendencies of integration and globalization after 1989

The transformation of the Czech society after 1989 significantly affected the development of agriculture and the food industry. The role of the formerly omnipotent and omnipresent state was minimized. Agriculture, which for various reasons had benefitted from preferences in the past (with consequent inappropriate dimension and low efficiency), suddenly experienced the change in the role of the state and had to cope with the strong pressures to adapt to the new economic conditions and marketing possibilities with regard to structure, size and efficiency (Základní principy, 1994). The development of agriculture and the food processing industry was formed under the influence of the ideas of neoliberalism (neoconservatism).

The transformation of the Czech agriculture atomized the formerly concentrated agricultural production in an interesting way. In 1989 there were 4,403 farms, while in 1995 their number was 89,489. However, about 2/3 out of them farmed less than 3 ha of land (or even did not farm at all and were only registered as farms). The share of population working in agriculture in total national employment decreased from 9.4 percent in 1989 to 4.6 percent in 1995. Also the share of agriculture in GDP decreased (from 7.4 percent in 1989 to 3.1 percent in 1995) and the share of agriculture in investments in the national economy decreased as well (from 12.6 percent in 1989 to 5.6 percent in 1995, although compared with 1994 there was a slow increase). At first view, this would suggest that agriculture after 1989 is in the position of loser rather than winner in the transformation of the Czech society.

One of the factors influencing the newly sprouting structure of the Czech agriculture is its relation with food processing industry. The changes in this sector were not as dramatic as in the case of agriculture. If agriculture in total recorded economic losses until 1996, the food processing industry did not record any. In 1992 there were 258 food processing firms, up to 353 in 1995 with 100 employees and more. In 1995 there were in total 10,368 registered entrepreneurial units involved in the food industry. However, out of these more than 3/4 businesses were small-scale entrepreneurs without any employees. On the other hand the companies with more than 100 employees, although covering only 3.4 percent out of the total number of all registered entities in the food industry, produced about 90 percent of food industry outputs in 1995. Including also small-scale food processing firms (with less than 25 employees), it is necessary to emphasize the extreme atomization of the food production compared with its structure in 1989. However, as for future development of the agro-food chain, the changes in the numbers and structure of larger food firms with more than 25 employees will be very important (see Table 1).

Table 1. Changes in the structure and numbers of large food firms

No. of employees	**No. of firms (1992)**	**No. of firms (1993)**	**No. of firms (1994)**	**No. of firms (1995)**	**Change 1992-1995/1994/ (1992=100 %)**
25-99	99	186	275	N/A	+177
100-299	157	194	249	261	+66
300 + more	101	101	95	92	-9

Source: Zpráva o stavu českého zemědělstvi (1994, 1995, 1996); Statistical Yearbook of the Czech Republic (1996).

The largest food processing firms (with more than 300 employees) were divided within the process of privatization into smaller units. In fact, these units operated before 1989 under the umbrella of one company as its subsidiaries and were situated in different locations. The privatization ended with "umbrella" company and the subsidiaries became independent. These companies were the former socialist large-scale food firms in the agro-food chain under the influence of the processors. The fastest growing group (firms with 25-99 employees) consists either of the newly founded food processing firms in large cities (such as bakeries) or the divided subsidiaries of the former larger food companies. Although Table 1 shows the particular atomization of larger food companies, it does not reflect the structure of owners which could be important from the point of view of integration.

The share of the workers in the food processing industry as a proportion of employment in Czechia has not changed too much (it decreased from 2.4 percent in

1991 to 2.1 percent in 1995). The share of the food processing industry in the GDP stagnates or slightly grows (it moves from about 7 percent to 8 percent). The same concerns the share of investments into the food processing industry in the national economy (from 3.4 percent in 1989 to 4.5 percent in 1994). The interest of foreign capital in direct unregulated investments in the food industry has to be mentioned. Foreign capital entered into some companies, mostly with specialized production (candies and chocolate; tobacco and cigarettes; instant food production, soups; baby and children food; production of some beverages). Foreign capital usually holds the majority of equities in the food firms acquired in Czechia. Direct foreign investments in the food industry on December 31, 1995 totalled US$ 424.5 million, 7.3 percent of total foreign investments in the Czech Republic.

A new form of relations between farmers and food processors in the agro-food chain emerged, compared with the situation before 1989. Table 2 shows the existing types of relations between food processing firms (considered from the point of view of their concentration, area of operation, time of origin, and the role the farmers played in their creation) with the types of farms as we found them in our research.[2]

Our survey shows the following hypothetical findings. For large-scale farms (transformed agricultural cooperatives, farming companies created through the privatization of the state farms or detached from the agricultural cooperatives, and large-scale farms of natural persons) the most important relations are concentrated (large-scale) food processing firms, in their majority established before 1989. This relation is of two kinds:

- the relations in which the large-scale farms do not have any influence and possibility to control the food processors and the farms can be considered as only the suppliers of the agricultural products;

- the relation in which the large-scale farms influence and have the possibility of at least partial control of the food processors and the farmers are not merely suppliers of agricultural product but have their representatives even in managerial bodies of food processing firms.

The first group consists mostly of newly created farms (such as joint stock farming companies, farming companies Ltd., or non-family farms of natural persons). There are also agricultural cooperatives that underwent radical transformations. This resulted in unclear strategies of development and worse economic results. These cooperatives are characterized by a management of lower quality today. Our research indicated that such cooperatives have great problems in

[2]The authors are aware that the correlations indicated in the table are hypothetical. The table shows only the most general trends without distinguishing particular types of the commodities that could be different from these trends.

Table 2. Relations of various types of food-processing firms with various types of farms

Type of food processing firm according to		Type of farm		
Production concentration	Firm characteristics[a]	Family farms	Non-family private farms	Agricultural cooperative farms
Small-scale (less than 25 employees)	before and after 1989: food processing firms founded by farmers, mostly at local area of operation	0	X	X
	after 1989: privately founded food processing firms of non-farmers, mostly at local area of operation	XXX	XX	0
Large-scale (more than 25 employees)	before 1989: food processing firms founded separately from farming, mostly at regional area of operation	XX	XXX	XX
	before 1989: food processing firms founded joined with recently (the 70s-80s) created large-scale farms of "factory type" at national area of operation	X	XX	XXX

Legend:
0: relations (interactions) between the type of the food processing firm and the farm almost do not exist or are unimportant;
X: low level of relations (interactions) between the food processing firm and the farm; these relations are not very important from the point of view of their existence and function; they are not the base for supply-consumer relations;
XX: middle level of relations (interactions) between the food producing firm and the farm; the relations become important from the point of view of their existence and function; they influence the supply-consumer relations;
XXX: high level of relations (interactions) between the food processing firm and the farm; the relations are crucial for their existence and function; they form the vital core of supply-consumer relations.

[a] The basic characteristics are:

- the year of foundation of the processing firm (before or after 1989),
- the role and position of the farmers with regard to the firm (either founded the firm or did not participate at all, or partly participated in the work of the firm),
- area of operation (as for purchasing the inputs for the food firm and marketing its outputs – local, regional or national area).

supplier-customer relations because they are not stable enough to negotiate with the processors as equal partners and are often grateful for whatever a secure market even for short period.

The farms in this group are generally more vulnerable. In the future there is the possibility that they will be the center of instability in the Czech countryside and agriculture because they are completely dependent on the food processors. The latter are separated spatially from the farmers, have long-term structures and should not be very interested in the problems of farmers, were they to cancel the market relations with a particular farm. Our research shows that the management of these possibly threatened farms (especially the agricultural cooperatives) is not aware of this danger and does not care too much about future alternatives, because it "has to survive now regardless of the future". We can ask what is the reason for such an approach in the management of some agricultural cooperatives? One of the reasons is that the cooperatives still benefit from existing competition among the processors who were originally partly atomized after 1989 as documented in Table 1. Because of this competition, the food processors are interested in having supplies from whatever farm. However, this competition enabled by original atomization in the food processing industry after 1989 is now slowly replaced by the starting concentration and integration. For instance, the newspaper *Právo* (Feb. 26, 1996) reported about the press conference of Minister of Agriculture, Mr. Lux, who said that the number of flour mills will decrease from today's 200 to 10-15 within the next ten years. The farmers without their own capacities to care for the grain after the harvest and without the stores for the cereals or not having their representatives in these concentrated firms will have probably to adjust to the action of markets and processors resulting from their monopolistic position in given areas. As we found in our research, in some regions the integration of *Zemědělské zásobování a nákup* (one of the largest markets with grains and suppliers of the farmers' inputs) of two neighboring districts is taking place. Such a process of concentration and integration could bring about many consequences for concerned farmers and the most obvious is their weak position in bargaining the prices for grain.

Farms in this group should probably use a short time they still have to attempt to gain any influence in the food processing industry. They could use the shares of some food firms that were committed from the National Property Fund into the hands of the Agrarian Chamber to enable farmers to influence the food processing industry. This way seems to be more feasible for non-cooperative types of large-scale farms. Their problem is not their economic situation (economic capital) but rather the elements connected with the social and cultural capital, *i.e.* the issues of knowledge and orientation in supplier-customer relations. In the cases of economic difficulties, mostly faced by some agricultural cooperatives because of their bad way of transformation, it cannot be assumed that the farms will have enough money to purchase the shares of the food processors. And even if they get them, we found indications that they sell the shares on the stock market to improve their economic situation.

The second group, *i.e.* with relations typified by influence and partial control over the food processors, consists mostly of those agricultural cooperatives that had no problems in coping with the transformation from former collective farms. There were no major economic problems, nor complaints of deterioration of their cultural or social capital. The existence of a general agreement on the future development of the cooperatives enabled them to use contacts, knowledge and managerial experience for the benefit of the farm. The management was aware of the importance of equal and fair relations with the food processors. This fact was supported by supplier-customer relations and by personal contacts.[3] Non-cooperative farms (mostly privatized former state farms) in this group show a similar good quality management as regards social and cultural capital. It was often indicated that these kinds of capital can be more important than economic capital itself.

Some large-scale farms try to continue to operate or attempt to set up their own food processing units. These attempts are not always successful. The reasons are found mostly in limited possibilities to counter the competition of established large-scale food processors. These farms complain that the food processors either modernized their production before 1989 using state money or got the money through the unfavorable price policy for the farmers after 1989 (low purchasing prices and high prices for consumers). According to farmers, food producers strengthen their position in agro-food chain to the detriment of farmers. If the large-scale farms think about the possibility of setting up their own food processing units, there emerges the idea of the collaboration of several such farms (eventually even with foreign partners) with the aim of higher concentration of such food processors. However, this idea is confronted with problems of collaboration of many subjects, for instance, the issue of mutual agreement or the priorities of each partner, the parity of investments, reliability of all partners, mutual trust, etc.

Family farmers mostly have to rely on the mercy of large-scale processors who compete now among themselves for the supplies from the farmers. Family farmers do not create their cooperatives in the field of farm inputs and outputs. The non-existence of these cooperatives of Western type makes their relations with food processors more difficult. Among the reasons why they do not form such

[3]These words can be documented by one surveyed agricultural cooperative. At the time of its transformation there dominated the general agreement of the management that it will work for the benefit of all cooperative farms. There were 6 persons in the top management all with university education (one even with Ph.D. degree in agricultural economics; another one was elected to the last federal Parliament of Czechoslovakia in 1992). Under such first-rate management the cooperative entered into several firms in the agro-food chain. The chairman of the cooperative is on the board of directors of a sugar refinery where he represents the producers of sugar beet. The director of the cooperative is on the board of directors of the company purchasing and selling cereals where he represents the farmers' investment fund that was set up together with several other representatives of surrounding large-scale farms. Through this fund the cooperative owns shares in both mentioned companies. The cooperative has its shares also in the firm involved in services for farming. With regard to the position of the cooperative in the agro-food chain, the management did not encounter great problems in supplier-customer relations and the general economic situation of the cooperative is very good.

cooperatives are the strong individualistic tendencies that manifested themselves after 1989 as a reaction to the former "overcollectivized life". Although private farmers think about the possibilities of cooperation, they often consider various associations or cooperatives as contradictory to personal freedom because of their previous experience and therefore they do not want to share their time and abilities with other people (Lošťák, 1994). If family farmers cooperate, it is mostly characterized by help based on neighboring relations.

Nevertheless, small-scale family farmers try to collaborate with new small-scale local food processing enterprises (mostly involved in meat processing, they almost do not exist in other commodities). Family farmers also try to react to the demands of the local market in some agricultural products (for instance potatoes, vegetables, milk or suckling pigs). Since cooperatives of the family farmers do not exist, these farmers should probably concentrate on collaboration with local small-scale food processors and flexibly react to the demands of the consumers. This local orientation does not claim to exceed the borders of the region and could guarantee the future of small-scale family farmers. It could positively influence the successful development of the region through creating and consuming the profit in a given locality with the ensuing consequences for social development (for instance local education, health services, local culture). This local orientation could, under appropriate support, balance the negative impacts of integration and globalization in the agro-food chain.

Discussion and conclusions

The contemporary structure of the Czech agriculture is more heterogeneous than it was before 1989. It influences the relations with the food processing industry. There exist three kinds of relations: on the local level, the national level and the emerging global level.

The family farms and the small-scale food processing firms created after 1989 or set up by farmers as their own food processing units, occupy an important place on the local level. The benefits at the local level are the localized and personalized production of food and the possibility for consumers to purchase agricultural products directly from farmers without any middlemen. Local food production is supported both by the people living in the vicinity of the operation of local farms or local food firms and by the emerging groups of people whose lifestyle differs from the conventional one. These people like to know the origin of the food they are eating, they want to buy goods produced as close as possible to the place of consumer's residence because they are the freshest and the best controlled ones, and, moreover, such goods include a particular "idea of locality" (Librová, 1994). The local level can open the room for the existence of Western type local cooperatives. In the future it will be interesting to investigate how the local level, using various strategies including local cooperatives of Western type, will counter pressures from the national and global levels.

The national level together with the emerging global level is the arena of large-scale farms and large-scale food processing firms. The form of relations depends on the possibilities of farmers to control and influence the food processors. Foreign experiences suggest that there is more unfavorable quality of rural life in the regions where farmers do not have the possibility to influence the strategy of the food processors. Although production is located in rural areas, the profit from the production is not consumed here. It is taken out to the headquarters of integrated food firms which decide about its use regardless of the needs of the places where the profit was generated (Goldschmidt, 1978; Heffernan *et al.*, 1994). Our research indicates that these patterns could take place also in our country. To minimize them, it would be useful to associate farmers with the food processors through participation in the privatization of the food industry. This strategy seems to be rational, provided it is realized by people whose value orientation extends beyond generating an immediate profit. A movement joining farmers and food processors as equal partners could prevent the Czech rural regions from future economic and social decline. The role of a grass-root cooperative movement in this process is unquestionable.

The main struggle for the control of the agro-food chain is occurring at the national level with the extension to the global level. The food processing firms created a vertically integrated agro-food chain under their control. They offer farmers producing some special commodities (especially sugar beet and rape-seed) incentives in the form of advantageous prices of inputs, including participation of the firms in financing agricultural production. The corporations also provide guarantee to purchase the agricultural products for prices set up in advance. These all are the things the farmers call for. However, the agreements between farmers and food processors are often favorable to the latter (for instance, the prices they guarantee are, in fact, lower than actual market prices). Yet, those farms without influence over the food processors and/or with lower quality management consider these circumstances as positive ones because they rid management of the danger of immediate economic failure. Such managers do not consider what would happen if the food processors would cancel the contracts and, instead find another farm which from the point of view of food processors is more attractive. The findings show that better economic results are in those farms whose management considers wider circumstances than immediate economic profit and which have certain control and influence over the food processors. It is reflected also in the social sphere of those farms that did not have to make drastic reductions in their social programs after 1989. It will be beneficial both for them and for the regions where they operate.

The comments on management relate to the role of social and cultural capital and the social status of a person, as well as the prestige of the enterprise the persons represent. No doubts about the fundamental importance of the economic capital in gaining the influence of the farmers in the food industry. But the influence and the possibility to control are connected also with the level and structure of the education of the actors, their views and knowledge of wider circumstances, their intuition, their skills to negotiate and bargain, their abilities to reach an agreement, to cooperate, and create useful contacts. The successes (not immediate ones but taking longer period) of some farms with strategies aiming to found their own food processing units or to participate in other firms through co-ownership and co-decision-making was recorded especially in those farms where the transformation (as for the cooperatives) or privatization (as for state farms) was smooth, based on high quality and future-oriented projects, and on high quality actors. Such course was not always accompanied by high amounts of money and property entering the game.

Some food processing firms operating at the national level have entered the orbit of globalization. These firms are now owned or co-owned by transnational companies (TNCs). An interesting case concerns *Průmysl mléčné výživy* in Zábřeh (PMV – the largest Czech producer of baby food) owned by H.J. Heinz. It tells a lot about the relations of TNCs towards the farmers who do not have any influence on such companies.

According to Reuters (*Právo*, March 19, 1997; June 30, 1997), H.J. Heinz announced the intention to close or sell at least 25 out of its plants. It will result in firing about 2,500 employees. The reason was the intention to focus more on company's main production, *i.e.* ketchup and tuna processing. This information generated the rumors about closing also PMV because this plant recorded a loss of 39 million Czech crowns last year (more than US$ 1 million). This loss was created due to the problems with marketing powdered (dried) milk and butter on foreign markets. However, according to H.J. Heinz's Chief of Board of Directors, Stuart Roberts, PMV is not threatened by reduction. Nevertheless, the company will try to minimize its dependence on production and on export of dairy production and therefore will adjust milk purchasing to the production of more profitable products. It means that the volume of processed milk in 1997 will be one half the 93 million liters processed in 1996. It is assumed that this change of processing strategy will affect above all the suppliers of milk to PMV. Because this milk is used also in the production of baby food, it has to be of high quality standards. This was achieved through its production in specially improved herds of milking cows and in special conditions of farming. The reduction of milk purchase in PMV will force the farmers to search for other markets but it is not so easy now when the return investment in Czech dairy industry is 0.82 percent, and, moreover, the farmers are located in the areas that suffered heavily from the 1997 summer deluge. We can only guess how this changed strategy will affect the farms supplying the milk to PMV with regard to employment, level of wages and other impacts on the areas where they farm.

This example shows that the farmers without influence over the processors (H.J.

Heinz controls 80 percent shares of PMV) are exposed to greater difficulties when the processors face problems on the market. The processor, providing is not planning to close down the plant and is strong enough economically (as is the case of TNCs), will under such circumstances reorient production towards other, more profitable, goods regardless of the consequences for its original suppliers of staples.

Another example concerns farmers from Southern Moravia. They supply sugar beet to a sugar beet refinery owned by Agrana Intl. (Austrian-German TNC). Despite the contracts, the farmers complain of delayed payments for their supply. According to them, the refinery does not want to sell the sugar now because of its low prices on the market. However, it does not suit the farmers who are requested to pay for their inputs immediately. The refinery maintains that the delayed payments are not because of lack of money but because the farmers violated some issues agreed upon in the contracts. We heard from the farmers such words as: "Since the Austrians entered the refinery, we have only problems with this firm"; "Since the entry of a foreign partner into the refinery, our relations are getting worse and worse. The Austrians try to rob the Czech agriculture." As for the next year contracts, the refinery offers to decrease the price for one ton of sugar beet from 950 Czech crowns (CZK) in 1997 to 850 CZK in 1998 (from US$ 28 to US$ 25). The contract is under the condition that the refinery will pay the offered price only for a maximum of 105 percent of the contracted amount of sugar beet. Sugar beet above the contracted 105 percent will be purchased at 650 CZK (US$ 19). The farmers will be also charged for the soil on the sugar beet that will be washed in the refinery. The problem for the farmers is that there are no any other close refineries because the transport of sugar beet to the refinery has to be continual and fast. The farmers consider themselves as dependent and manipulated. However, despite the criticism, the farms welcome the offer of the refinery to provide spraying chemicals produced by a foreign company[4] because of the conditions of payments. The reason for such an attitude is that the farmers mostly complain about the delayed payments from the food processors. This behavior of food processors results in financial problems for the farms. Therefore the farms appreciate if the refinery offers to subtract the price of used chemicals from the price of sugar beet in autumn, and will not require cash payments during the application of chemicals in spring, as this is the time when the farmers, usually, do not have enough money. It is interesting that with such a solution agrees also the majority owner of one joint-stock farm who also owns the firm involved in selling the agricultural chemicals. According to our interlocutors, the offer of the refinery is so advantageous that it overshadows even the interests of the fund. The farm owned by the fund buys the chemicals in the refinery and does not use the offers of the firm, owned by the same fund, selling similar chemicals.

[4]The chemical company signed a contract with the refinery that the latter will sell its chemicals in Czechia to the producers of sugar beet for the refinery.

These examples are in accordance with the opinion of some experts who point out that there should be some sort of national strategy for the food industry because there is a real problem of domination of this industry by foreign companies (Swain, 1995). Swain suggests that rather than insist on national ownership of food industry or impose additional tariffs, the policy should include the creation of a body with sufficient funds to promote awareness of domestically-produced goods and brands to counter the marketing influence of transnational companies.

The reactions to the globalization challenge in the Czech agro-food complex will be framed within the state-market-civil sector triangle. Large-scale agriculture and food processing firms operating at the national level are good targets for TNCs. The Czech food processing firms and the farms are sufficiently large in their capacities and in the markets they cover to correspond with the goal of transnational firms to produce standard food. The Czech firms and farms have relatively insufficient amounts of capital to be effective in the future competition but can provide skilled labor. The capital can be easily provided by TNCs because of their abilities to source capital all over the world. We can assume that the market side of the triangle provides the impetus to globalization. The other two sides of the triangle should attempt to balance the negative consequences of global integration. The state should elaborate such a strategy for the agro-food chain to enable its development, *i.e.* to create the institutional background capable of regulating the activities of the actors in the chain so as to balance the relations between the local, national and global levels. One of the ways is to pursue a fair integration of domestic farmers with food processors through their participation in the privatization of the state food companies. The role of the civil sector (where grassroot cooperatives are an important component) should increase. It should help, for instance, to promote the awareness of domestic goods, or help the emergence of various movements of farmers, consumers and supporters of alternative lifestyles expressing the values of non-unified, non-globalized cultures.

The weakness of the state and the civil sector could threaten also the market itself. Neoconservative ultra-liberal tendencies that emerged in the Czech economy at the beginning of the 1990s, are based on competition with minimal influence of the state, with the consequent practical neglect of its roles in law-making, policy-making, etc. These tendencies emphasize the role of individuals to the detriment of civil sector institutions (such as cooperatives, trade unions, funds etc.,) Such a situation can, paradoxically, undermine the very principles of liberalism based on the idea of free and fair competition. The liberalism of an uncontrolled laissez-faire policy can create a situation where non-regulated economic competition creates monopolist structures of producers, thereby disabling any fair competition. These structures may subsequently transform their economic power into political power and thus influence the life of society without taking into account its opinions and needs. Therefore it is necessary to keep some influence of the democratic state[5] at the national level and of the suprastate (like the EU) at the international level as well as to create and develop the power of the civil sector. Such arrangements of the state-market-civil sector triangle could better counter negative economic, social and cultural impacts of the globalization process.

References

Bonanno, A. "The Globalization of the Agricultural and Food System and Theories of the State". *International Journal of Sociology of Agriculture and Food.* 1991, No 1, 15-30.

———, Busch L., Friedland, W., Gouveia, L. and Migione, E. *From Columbus to ConAgra. The Globalization of Agriculture and Food.* University Press of Kansas, 1994.

———, Constance, D. and Hendrickson, M. "Global Agro-Food Corporation and the State: The Ferruzzi Case." *Rural Sociology,* 1995, 60:274-296.

Giddens, A. *Sociology.* Polity Press, 1989.

Goldschmidt, W. *As You Sow: Three Studies in the Social Consequences of Agribusiness.* Allanheld: Osmun & Co. Publishers, Inc, 1978.

Heffernan, W. and Constance, D. "Transnational Corporations and the Globalization of the Food system." in Bonanno *et al.*: *From Columbus to ConAgra. The Globalization of Agriculture and Food.* University Press of Kansas, 1994:29-51.

———, Rikoon, S. and Heffernan, J. "Trvale udržitelný rozvoj, rodinné farmy a venkovská společenství: alternativn vize venkova" (Sustainable development, family farms and rural communities: an alternative vision of the countryside). in *Agrární perspektivy III /sborník prací z vědeckě konference Provozně ekonomickě fakulty ČZU Praha/* (Agrarian prospects III), Praha: Provozně ekonomická fakulta, Vysoká škola zemědělská, 1994, s. 435-441.

Koc, M. "Globalization as a Discourse," in: Bonanno *et al. From Columbus to ConAgra. The Globalization of Agriculture and Food.* University Press of Kansas, 1994:265-280.

Librová, H. *Pestří a zelení/kapitoly o dobrovolné skromnosti/* (The colourful and the green /some chapters on volntary modesty/). Brno: Veronica a Duha, 1994.

Lošťák, M. "From Socialist Equality to Post-socialist Diversity? (The case of local initiatives and their role in the Czech countryside)". *Zemědělská ekonomika,* 1994, 40:893-906.

[5]A recent study of Ferruzzi (Bonanno *et al.*, 1995) makes this point. The authors emphasize the function of the state as the organization that can, although in limited scale, resist power and expansion of transnational companies. This ability of the state is considered as a fundamental precondition to maintain democracy and it can justify a strong state administration oriented to this goal.

Mlčoch, L. *Institucionální ekonomie/učebn text pro studenty vysokých škol/* (Institutional economy /the textbook for the university students/). Praha: Karolinum, 1996.

Statistical Yearbook of the Czech Republic. Praha: ČSÚ, 1996.

Stryjan, Y. "Czechoslovak Agriculture: Institutional Change and Cooperative Solutions." *Journal of Rural Cooperation,* 1992, XX:139-165.

Swain, N. "Agricultural Regional Policy in the Czech Republic: Is One Really Necessary?" *Zemědělská ekonomika,* 1995, 41:15-21.

Základní principy zemědělské politiky vlády ČR do roku 1955 a na dalši období. (Basic principles of the agrarian policy of the Czech Republic until 1995 and the guideliness for the next period). Praha: Ministerstvo zemědělství, 1994.

Zpráva o stavu českého zemědělství ("Green report"). Praha: Ministerstvo zemědělství R, 1994, 1995, 1996.