

VINTAGE MATTERS: THE POLITICAL ECONOMY OF WINE COOPERATIVES IN
SAN RAFAEL, ARGENTINA

By

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STATEMENT BY AUTHOR

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DEDICATION

To my witty, wonderful great Aunt Julia.
A true lady,
for whose name and sense of humor I will always be grateful.

And to Mom and Dad
I love you.

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ABSTRACT

The wine industry in Mendoza exemplifies the ways that cooperatives in Latin America cope with globalization and neoliberal economic reform. Cooperatives are economic organizations that bridge social, political and economic worlds for their members, and also escort their members from the past into the present. In the wine industry, technological advancement is necessary to compete in a global market, but many local cooperatives resist investing in this type of change. The regional cooperative faces the challenge of providing a buyer for its member cooperatives while also selling a quality product to consumers. The financial success of the regional cooperative position it to provide its members economic support and possibly to foster a restructuring of wine production in Argentina.

PREFACE

Argentina is the fifth largest wine producer in the world. In the Province of Mendoza, where sixty-five percent of the production in the country takes place, the Federación de Cooperativas Vitivinícolas Argentinas (FeCoVitA), comprised of thirty-one first degree producer cooperatives, is responsible for fifteen percent of total wine production in the country (FeCoVitA 2005b). The political and economic context of wine cooperatives in Mendoza today, offers them a unique opportunity to fulfill their primary purpose to provide economic support to their members, and perhaps to facilitate change in the larger social structures of the wine industry. The case studies in this work reflect larger developments in cooperativism and the interpretation reviews the latest trends in cooperative theory that recognize the paradoxical position of cooperatives as they exist at the point of friction between social movement and economics (Mooney 2004) and their limitations as vehicles of structural change due to the economic and political circumstances of their foundation (Fals Borda 1971). If these challenges can be successfully negotiated, the wine cooperatives in Mendoza could effectively take advantage of new political openings and of additional resources to change the position of the small producer in the production chain. The purpose of this research is to analyze cooperativism in Mendoza's wine industry on local and provincial levels from an historic and political economic perspective to understand how the uniqueness of the current context presents new opportunities for cooperatives in Latin America to succeed.

Wine Cooperatives in San Rafael represent the majority of local level wine cooperatives in Mendoza because of analogous backgrounds and membership to

FeCoVitA, which is the larger provincial entity. They similarly provide a microcosm of cooperativism in Latin America because Argentina shares the political and economic trends with the rest of the region that result from the colonial and national eras scholars identify as responsible for existing social and economic structures in the region (Larraín 2004) (Franko 1999).

Nonetheless, Argentina's unique history and geography provides the basis for an argument that could challenge consideration of these cooperatives as a representative model for the region. Within Mendoza, the four local co-ops studied are distinct because their location in the department of San Rafael makes them remote from the capital city. San Rafael has continued to lose ground as a major producer of wine for the province since 1969. The political, historic and geographical differences that set these organizations apart from their peers emphasize that those factors require scholarly attention. Rather than to undermine their value as representatives of Latin American cooperativism, I recognize these differences as examples of the challenges cooperatives face within the region, and as reflections of certain limitations that set Latin American cooperativism apart from other regions.

This thesis focuses on three local wine cooperatives, El Cerrito, Sierra Pintada and Goudge, in the department of San Rafael, Mendoza, that are members of the larger, provincial cooperative FeCoVitA. The local cooperatives provide insight into the impact of historic experience on present decision-making. FeCoVitA requires its own discussion due to its status as an alliance of local co-ops. Moreover, its formation and success have led to the possibility for structural change within the wine industry, if it can continue to

take advantage of political and social opportunities while successfully balancing its duties as both an economic and social organization.

My research was carried out during six weeks of fieldwork in July and August of 2005 and another four weeks of fieldwork in December and January of 2005 and 2006. It consisted of archival research in the Instituto Nacional de Vitivinicultura (INV) in Mendoza, library research at the Universidad Nacional de Cuyo in Mendoza, and numerous interviews with representatives of local cooperatives in San Rafael, the regional cooperative FeCoVitA, and of the wine and agricultural industry in the province.

What my research lacks is data collected from individual producers that make up these cooperatives. There are a number of reasons for this including, distance between producers and town, establishment of trust with the directives of both the local co-ops and FeCoVitA and also perhaps, my age and gender, as the industry and the cooperatives are largely dominated by older men. The time I spent in the field, leaving and coming back, allowed me to begin to cultivate trust and relationships with my contacts. During my second round of fieldwork certain individuals were infinitely more helpful than during my first. Nonetheless, regardless of letters from committee members on University letterhead, I was still questioned rather pointedly on several occasions about the reason for my work and whom I really worked for. As such, my contact with local producers was limited to the cooperatives themselves and I was not encouraged to communicate with them.

The limitations of my fieldwork have penetrated this body of work and hindered my ability to truly evaluate the social function of cooperatives in Mendoza, although I

will discuss possibilities to this effect throughout the thesis. Lack of demographic data, opinions on the meaning of cooperativism, and cultural and economic context of members means that the conclusions that I draw about cooperatives serving a primarily economic purpose to their members come from interviews with decision-making members or affiliates of the cooperative, and not other members. The social movement aspects, while pointed out, cannot be fully understood without those data. In reading this thesis, then, it must be understood that the macro picture of cooperativism in the wine industry in Mendoza is represented and the micro has yet to be explored.

CHAPTER ONE: WALKING THE LINE: THE INNER STRUGGLES OF COOPERATIVES

A cooperative's role as both an economic entity and a social organization functioning for the benefit of its members, requires constant innovation and reevaluation of goals and strategies. Patrick Mooney (2004) describes this position as a bridge between the democratic ideal that exists within cooperatives and a capitalist economy that foments pronounced undemocratic ideals. He views the tension between the two as an important impulse for the originality in problem-solving and goal-setting that fosters organizational durability. He criticizes economic theorizing of cooperatives for ignoring the duality of their role as social organizations and for regarding this social role as a barrier to becoming economically viable entities. He argues instead that the clash between social and economic obligations potentially improves their chances of survival since they must be flexible and innovative to fulfill both roles.

Mooney's emphasis on the importance of discussing cooperatives as political and economic entities provides the basis for my discussion of them in the same way, understanding, as he does, that their dual role is behind the variation in choices they make, since each is affected by the unique political and economic circumstances of its location. Cooperatives formed in the same time period with many of the same resources available, make different choices today about what is best for their producers. Moreover, economists, even while ignoring or castigating the social obligations of cooperatives, have offered valuable analysis of the challenges they face in a global economy.

Fairytales and Farm Lives: Cooperative Principles versus Practice

The accepted principles of cooperativism on an international scale not only clash with economists versions, but also with the realities on the farm in Latin America. In the 1960s, when many of Latin America's cooperatives were formed, the economy and politics of the region differed tremendously from Europe in the 19th century and early 20th Century when the first cooperatives were formed. Many cooperatives in Latin America were formed during periods of oppressive military dictatorships, which hampered their ability to work as social organizations. Social change did not appear in the statutes of the cooperatives I studied in San Rafael and their primary focus to this day remains loyal to providing economic benefits to its members.

The difference between cooperatives as social movements and cooperatives as economic entities can be illuminated by contrasting the principles of cooperativism as outlined by the International Cooperative Alliance (ICA) with the characteristics of cooperatives as agreed on by economists. The cooperatives in Mendoza fall somewhere between the two ends of the spectrum, but place a definite emphasis on economics that aligns them more with economists. The reasons for their priorities reflect the producers' prioritization of earning a livelihood over restructuring rural social relationships in the wine industry.

Cooperativism's basic tenants—called the Rochdale principles after the 28 individuals in Rochdale, England, who created the first cooperative in 1844—were

adopted by the ICA in 1937 when the organization was founded, and have been revised twice: in 1966 and in 1995. The most recent version is paraphrased in the table below and contrasted with the definition used by economic cooperative theorists:

ICA	Economists
Membership is open, unbiased and voluntary;	Service at cost to members
They are democratic—each member has one vote and those members are represented by an elected governing body;	Democratic control by members (where the exact meaning of 'democratic' was left undefined)
Members receive limited return on capital investment in the cooperative. Surpluses are usually invested back into the organization or distributed according to the member's participation in the cooperative;	Limited return on any capital
They should be autonomous and independent and relationships formed with political or other groups should not affect the autonomy of the decision-making process;	
Education and training in cooperativism to members and elected representatives as well as community outreach about the principles of cooperation;	
Vertical and horizontal integration within the cooperative sector to promote cooperative movement through cooperation	

Figure 1.1 Comparison of Cooperative Characteristics.

The chart above shows the duality between how cooperatives are imagined as ideals and how they are characterized as objects of study by economists. Contemporary economists who study cooperatives have all but eliminated social change altogether from their definition of a cooperative. According to Staatz (1987), so few cooperatives adhere to all of the Rochdale principles that the definition of cooperatives is now based on the three fundamental qualities listed above. Instead of wondering whether they will foster

structural change, economic scholars now ask whether they can survive economically and still sustain the three basic tenants outlined above. They have evolved from tools of social change and social equality to tools of economic equity or merely survival. The acceptance of them as economic organizations does not eliminate their potential as vehicles of social change. In fact, as Mooney concludes, this pursuit of economic viability if balanced properly with social responsibility could foster social change.

Cooperatives as a Social Movement

Historically, proponents viewed cooperatives as a revolutionary tool, to move the world towards social justice by lifting the rural and urban poor out from under the yoke of capitalism. As social movements, through providing for their members, they eventually had the effect, in Europe, at least, of influencing institutional change (ICA 2006). Cooperatives, like social movements, exist at the confluence of social, economic and political life (Foweraker 1995) (Mooney 2004). They can have an identity that encompasses the ideals of numerous supporters, seek alliances within politics and other sectors, and press for social change. But they are not primarily social movements, they are economic movements. Nonetheless, their innate similarities to theories about why and how larger social movements arise and work, positions them to potentially impact social processes.

Joe Foweraker details the varying types of social movement theories that were born out of Europe and the United States and how or if they apply to Latin American social movements. He focuses on the “New” Social Movements theory and the Resource Mobilization theory. The former finds its roots in strong European social democracies

and strong labor movements that participated in policy making (1995:14). These social democracies were often rooted in Socialist ideas resulting in political models focused on providing for the population and on economic and political equality. These characteristics are not necessarily attributable to Latin America. Resource Mobilization Theory grew out of United States social movements that were couched in a liberal, representative democracy and a weaker labor movement (14).

Original resource mobilization theory is based on the question of how social movements are successful and proposes that groups need only to gather the social and financial capital to have a successful social movement. But it has been criticized for neglecting to count the government as an actor in the success of the movement. Thus, to reintegrate the government into the theory, scholars included “political opportunity” as an amendment for where it previously fell short. Brockett (1991) breaks down the political opportunity paradigm into five variables that affect the success of social movements: 1) allies and support groups; 2) availability of meaningful political access points; 3) repression; 4) elite fragmentation; and 5) temporal location in the cycle of protest (254).

The idea of political opportunity is particularly pertinent in this study. Political oppression closes political and social options for cooperatives through top-down implementation, intervention and monitoring. Brockett’s variables of temporal location and repression factor into the impotence of wine cooperatives formed and functioning during the 1960s to serve larger meanings of social change and the successes of the those formed later.

But the histories of the foundation of both of these theories differ from that of Latin America. Latin America does not have a deep history of social democracy, although it does have a history of socialism. Neither does Latin America have a history of liberal democracy although that is becoming more prevalent today. The labor movements in the region have been historically fairly weak and undermined by both political and economic elites. As such, social movements in Latin America, like cooperatives in Latin America, look different from their counterparts in Europe or in the United States.

But democracy and free market economics have altered those conditions and some cooperatives in Latin America find themselves neatly poised to have a valuable social impact. FeCoVitA was not formed by cooperatives with a focus on social change, but rather on economic survival. Nonetheless, in pursuit of the former, while negotiating the unique cooperative territory as described by Mooney, members of wine cooperatives in Mendoza could take advantage of their political and economic circumstances to actually lift the rural grape grower out of his enduring position of inferiority in the wine production chain.

Cooperatives as Economic Organizations

Fulton and King (1993) say that cooperatives cannot succeed without attention to two essential objectives: member commitment and economic efficiency (103). Achieving these two objectives can demand contradictory strategies and increased focus on one can diminish the success of the other. Much of the more current literature focuses on changes made in cooperative organizational structure to meet market demands and counter the economic threat of agricultural industrialization or increased emphasis on technology,

and increasing competition as markets shift from local to global (Chaddad and Cook 2002; Fulton and King 1993; Fulton 1999). Scholars have documented the shift from more decentralized decision-making structures to more centralized ones as markets become more global and farmers find themselves less equipped than ever to negotiate the terrain dominated by businessmen and stock brokers.

As these regional entities continue to form, maintaining a solid democratic structure challenges the cooperative sector and its basic pretense of member involvement. According to Fulton (1999), member commitment is what differentiates a cooperative from an investor-owned firm (IOF). If cooperatives cannot maintain their membership commitment, they cannot retain the volume of production or business to make their enterprise viable. At times, cooperatives are unable to offer better prices than their competitors, but they compete for the patronage of their members by providing services (Fulton 1999). Reducing member participation in the decision-making process has in some cases had the subsequent effect of changing the nature or number of services provided to members (French, et. al. 1980). Changing member services often leads to decreased member commitment if members are not pleased with the changes and can lead to the failure of the cooperative (Fulton 1999).

The formation of regional cooperatives like FeCoVitA exemplifies the centralization of decision-making that is affecting co-ops everywhere. FeCoVitA represents some three thousand producers but decision-making power has been centralized into the hands of five individuals. In turn, their decisions are influenced by young professionals in lieu of farmers. But instead of decreasing member benefits, the

Federation has actually increased the services and benefits available to members.

Contrary to the experience of some cooperatives, the regional cooperative's need to maintain a niche in the wine market has encouraged it to increase the benefits made available to both local co-ops and producers through their local co-ops. Technology, in the form of inputs, new clones and technical knowledge is the only way that FeCoVitA will continue to produce a wine that can compete for both domestic and international taste buds. In fact, as we will explore in more detail later, FeCoVitA offers benefits that some local co-ops choose not to take advantage of.

Wine is a specialty market. Tastes, technologies, sanitary standards, wine-making techniques, and grape growing techniques all participate in the constant change and advancement of the industry. Wineries, like other specialty product producers, are particularly sensitive to economic lulls and shifting preferences of consumers. As one cooperative manager aptly explained, "When there is no money, the first things to come off the dinner table are wine and dessert." For this reason, FeCoVitA is perhaps more interested in providing benefits that will result in better wine, than producers are to receive them.

Fals Borda's False Hope? Cooperativism in Latin America

Cooperative ideas were actually imported from Europe and have taken on different characteristics than their European counterparts. Because of its European heritage, the countries in Latin America with the largest European immigrant populations like Argentina and Brazil were the first to integrate cooperativism into their economies in the early twentieth century in the form of credit cooperatives. These ideas were cultivated

among rural communities in Latin America throughout the twentieth century. Later in the century, politicians or church groups encouraged the formation of during times of political, social or economic unrest to temper upheavals among rural workers. (Fals Borda 1971)

Orlando Fals Borda wrote a report for the United Nations Research Institute for Social Development in 1971 on a group of cooperatives located in Colombia, Ecuador and Venezuela. Fals Borda's report embodies the main concerns and ideals for cooperativism at that time, which are remarkably akin to today's principles, regardless of the 35 years that have passed. He concluded that planned change set Latin American cooperatives apart from European cooperatives, inhibiting their capacity for social change. Since they were all implemented as part of planned change by government or church organizations, his goal was to evaluate that group of cooperatives based on the type of change they manifested in their communities. Within planned change, he claimed, we must distinguish between marginal change and structural change. Structural change implies a change in the social structure of rural society, whereas marginal change would mean having a positive impact without modifying social structure.

According to Fals Borda, sponsorship of rural change through cooperativism from the top down led to marginal change in rural communities but did not threaten rural class structures. The reason for this, he argued, resulted from imposing European ideas on the rural poor in Latin America (Fals Borda 1971). Latin America lacked a type of cooperativism shaped to the needs and historical uniqueness of its rural poor. Social organizations begun by the very people a social movement would rebel against, logically

lack the ideological foundation to effect real social change. In fact, Fals Borda found that those who attempted deep social change were less successful than those that integrated into the larger social and economic framework.

Two of the case studies in this thesis represent cooperatives fomented by planned change, and the political and temporal context of their foundation makes them particularly good examples of Fals Borda's findings. The other two case studies, while also part of planned change display differences in historical and political context that set them apart from the examples in Fals Borda's report. The differences do not indicate a cooperativism unique to Latin America as Fals Borda had hoped, but rather political and economic openings that offer potential for a social movement where before those did not exist.

CHAPTER TWO: DESCRIPTION OF THE WINE INDUSTRY IN MENDOZA

Production Chain

In order to understand the role of cooperatives in the lives of grape growers in San Rafael, the process of getting the grape to the table and the relationships involved, must first be reviewed. More 26,000 farmers provide grapes for wine production in Argentina and 61% of those work farms smaller than five hectares. Ninety-seven percent of grapes grown in the country goes towards the production of must¹ and wine and just 3% of grapes are sold fresh. After harvest, grapes not sold fresh travel down one of two avenues of production: they either become wine (75%) or must. The production and export of must has improved steadily over the last few years, making Argentina one of its principal exporters. Since lower quality grapes and processing equipment can still be used to produce must, its production has cushioned producers of basic wines from the plunge in basic wine consumption. (Rodriguez 2005)

The process of wine production begins at the farm where grapes are grown and harvested. These grapes are then sold to either a cooperative or a winery (*bodega*) that will process the fruit and ferment the wine. Some of these *bodegas* will age the wine in special barrels and sell it directly to the consumer, and others will sell the wine to another

¹ Must production is the first stage of wine production. Must is then used for winemaking, grape juice, or sweetening other fruit juices. Must can also be sold in bulk on the domestic or international market and used to make wine after purchase. According to the manager at Goudge, one liter of must can yield up to four liters of wine.

bodega that will perform further fermentation, aging in oak barrels or simply bottle the wine and sell it². Below, an overview of the wine production chain is depicted including

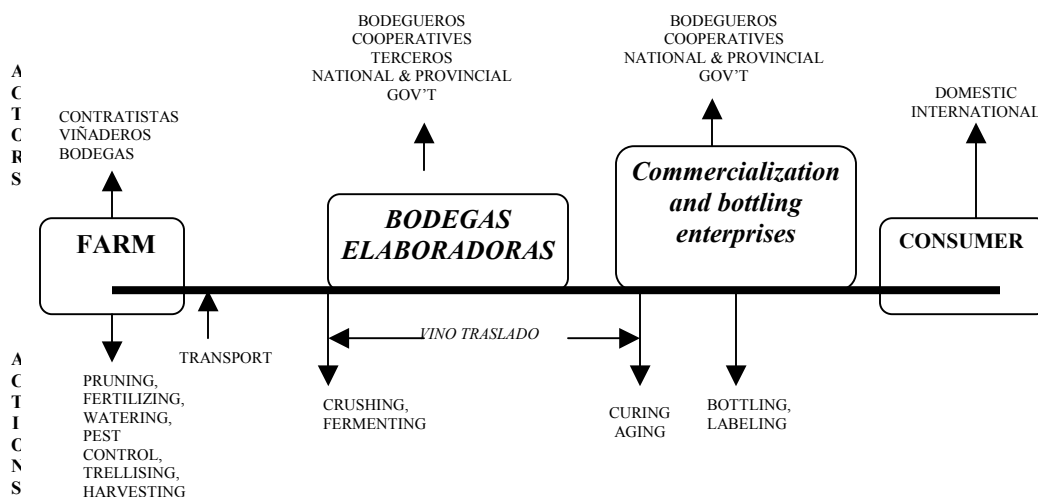


Figure 2.1 Production Chain and Major Actors in Mendozaan Wine Industry

the stages of production, the groups within each stage, and the action taken within each stage.

Work on the vineyard begins in May and continues throughout the year until harvest. The first steps consist of pruning and plowing. Throughout the winter until September, the farmers take care of general maintenance and improvement of the vineyard. During this period, poles are replaced for trellising, vines are planted or grafted with ones of higher quality, and irrigation canals are improved. The growing season, from September to January requires fertilization, pruning of excess fruit or leaves to improve

² Wine sold in bulk is termed *vino de traslado* or “transferred wine” as the bodegas that fabricate it do not sell it directly to the market, but rather “transfer” it in bulk to a bodega with that capacity.

grape quality, weed control and irrigation up through the harvest, which begins as early as January.

Contratistas or sharecroppers often perform the daily farm labor. On a vineyard owned by an absentee or larger landowner, owners compensate their laborers either by paying a percentage of the earnings of the total harvest, or with a monthly salary. In other situations, such as on a family farm, the family will work the vineyard and at times hire seasonal labor to help with the harvest. Harvest time financially strains these small farmers. Lack of money or credit impedes their employment of labor and acquisition of transportation, and the harvest could suffer as a result.

Harvested grapes that are taken to wineries are paid for in two ways: per kilogram of grapes or per liter of wine processed. The wine processed from the grapes sells for a price based on its quality, so the grapes are purchased by their quality, varietal and sugar content. Contracts for payment vary depending upon the winery and are based on the market price for that wine as set by the Instituto Nacional de Vitivinicultura (INV). Producers can be paid in one lump sum, three payments over several months, a monthly check that fluctuates with the market price for wine.

Producers who sell their grapes to a bodega to be processed and sold, but get paid for the liters of wine made from their grapes are called *terceros*. In this common arrangement, the producer either arranges for the sale of the wine made from his grapes and pays the bodega a processing fee, or allows the bodega to sell the wine for him and still pays a processing fee. By processing the grapes into wine, value is added to the good

and the producer has the opportunity of earning more than if he were to collect up front for the grape harvest.

Producers who are not members of cooperatives or owners of their own bodega engage in this type of arrangement unless they choose to be paid for their grapes up front. Bodegas are notorious for taking advantage of this arrangement. *Terceros* are given a sample of their processed wine by the bodega to give to potential buyers. The quality of wine governs the price that the *tercero* gets paid per liter. The bodega can give a *terecero* a sample that is not from his grapes, pay the producer less for his wine and sell it for more. Or the bodega can give the producer poorer quality wine to sell independently and keep the better quality wine for its own sale.

Wineries that sell *vino traslado* are called *Bodegas Elaboradoras* meaning that their primary purpose revolves around wine fabrication. This practice replicates the traditional system of Bordeaux, France and is common in Mendoza.³ All of the cooperatives involved in FeCoVitA engage in it to a degree—as it is the form in which they sell their wine to the regional cooperative.

Commercialization and bottling enterprises buy *vino traslado* from *bodegas elaboradoras*. They then take that product, add value to it with a bottle and a label, or through a curing and aging process, and then turn around and sell it to distributors such as shops or supermarkets, or directly to the consumer. In each link of this production chain, value is added to the grapes that were produced on someone's farm, leaving that farmer at the beginning of a long chain of middlemen.

³ Dr. William H. Beezley, University of Arizona, Dept. of History. Personal Communication

Globalization and Challenges to Small Producers

The entry of Argentina into the global wine market over the last sixteen years has significant consequences for a production chain based on the production of mass quantities of wine as opposed to fine wines, and smaller farmers are shouldering much of the burden. The wine industry on the whole has been able to maintain itself in the global economy due to significant capital investment in holding tanks, and new planting techniques, drip irrigation (as opposed to canal irrigation), especially by private bodegas. But tremendous disparity exists in exploitation of that opportunity by producers. Those who have benefited most are locals with access to reserves of capital or companies that have bought bodegas in Mendoza subsequent to the Law of Foreign Investment which was passed in 1994.

The chart below represents a sample of the globalization of the wine industry that has occurred in Argentina through the lens of FeCoVitA. All equipment bought from international sources in the past was geared towards a goal of producing quantity (or storage of overstock) such as the hydraulic presses, grape crushers, and pasteurizers (Stein 2006). And buying internationally happened infrequently. Now, not only does the industry buy globally, but many of the suppliers are multinational corporations that have locations in Argentina, illustrating the neoliberal trends in the national economy. Furthermore, at least nine globally renowned wineries own vineyards or wineries in Argentina. Foreign investment in Argentina indicates a degree of international faith in the future of Argentine wines.

Even with the presence of multinational corporations, Argentina still makes an effort to produce what it can nationally. The country benefits from abundant resources, oil and minerals. National companies produce corks (both synthetic and reconstituted), bottles, yeast, lead and plastic caps for bottles, clippers and some agrochemicals. Processing equipment like presses and crushers are fabricated in the country but mostly with foreign capital.

TECHNOLOGY	FeCoVitA	Argentina
INPUTS		
Fertilizers	Argentina, Italy, France	USA, Germany, EU, Argentina
Pesticides	Argentina, Italy, France	USA, Germany, EU
Herbicides	Argentina, Italy, France	USA, Germany, EU, Argentina
Bird/Hail netting	Benitex (Italiano)	Spain, Argentina (BsAs)
Clippers		BsAS, Mendoza, USA
PROCESSING		
Presses	De la Tofola (Italy), Tcnovin(cap.Brasil)	Italy, Mendoza
Crushers		Italy, Mendoza
Filters		Italy, Mendoza
Stainless steel tanks	Italy, Argentina	Mendoza, San Rafael
Natural Yeast		Argentina
Purchased Yeast		France, Mendoza (INTA)
AGING		
Barrels		France, USA
BOTTLING		
Bottles	Argentina	BsAs, Mendoza
Synthetic Corks	Spain, Portugal	Spain, Portugal
Reconstituted Corks		BsAs, Mendoza
Natural Corks	Spain/Portugal	Spain, Portugal
Lead caps	Argentina	
Plastic caps	Argentina	
Consultants	U.S./France/Italy/Spain	
2.2. Compiled through personal communication with representatives in FeCoVitA and INTA		

The majority of the inputs used on the farm are still imported and many small producers are still bound by traditional farming techniques and have limited access to

capital or credit to support such purchases. Investment in crop security, for instance, like anti-hail netting is particularly expensive. This process of economic concentration among those who have access to capital or credit combined with high interest rates and increased prices of inputs has marginalized small and medium producers who are being left behind as the rest of the sector advances. (de Muñoz and de Lillo 2001)

The limits in access to credit that preclude the involvement of small producers in the new era of wine production in Argentina underpin the increasing marginalization of the small producer in contrast to the climate of the previous four decades when the state subsidized the industry. Within the wine sector, particularly after the devaluation of the peso in 2001, large producers with capital to invest have been able to take advantage of market niches geared towards quality varieties whereas small producers are still struggling to buy more expensive inputs (due to decreased exchange rate), and battling environmental hazards.

Environmental degradation resulting from agriculture, such as soil salinization and depletion of underground aquifers, cannot be solved easily. But other types of degradation, such as waterlogging of cropland and water shortages, can usually be fixed with capital investment in both wells and proper ditch drainage. Hail damage can be mediated through the installation of netting that protects plants. But both the netting and installation are costly. It can cost three thousand U.S. dollars to buy and install netting over one hectare of land. A farmer cultivating seven hectares might make just over six

thousand dollars a year without subtracting cost of inputs and upkeep.⁴ Farmers without money to invest in these improvements are at greater risk to environmental complications than their wealthier counterparts.

Poor processing and fermenting techniques impact farmers since their profits are based on the end product equally as much as on proper care in the field and handling during the harvest. If the grapes produced are not processed by more technologically advanced machinery, the processing itself will devalue the product. As such, many small producers who have invested in better clones are finding that their grapes, while theoretically worth more than *criollo* varieties, are not paying off like they had hoped. Moreover, many producers lack the capital to replace old low quality vines with more sought-after varieties, because they lack the finances to support themselves during the three year maturation period of the vine. Vine conversion involves cultivating a crop that, while bringing a higher price, yields less.

Below, the basic challenges faced at each level in the production chain are outlined in the table, created from data compiled by Dr. Juan Angel Rodriguez for FeCoVitA. The majority of the challenges weigh on producers. Even though higher links in the production chain require more capital investment and financial risks might be higher, producers have less ability to protect themselves from unexpected catastrophes resulting from weather or price crises, given their limited access to credit and poor bargaining position.

⁴ Personal interview with local producer, June 2005

Opening of Argentine markets has forced the sector to evaluate its strengths and weaknesses and develop strategies to compete in a free market. The limitations and challenges facing the industry in Argentina have been re-analyzed at length by both cooperative representatives, scholars and other members of the wine industry. The result of this effort is the Plan Estratégico de Viticultura 2020, which will be discussed in greater detail in the next chapter.

WEAKNESSES	Producer	Bodega Elaboradora	Bottling & Commericaliza tion Enterprise
Lack of Credit	X	X	
High interest rates	X	X	
Climactic risks	X		
Poor Negotiating position	X		
Poor Access to Information	X		
Inconsistent source of funds	X		
Difficulty of International market access			X
Competitive and reduced market			X
High Rates of non-payment			X
Figure 2.3. Source: Rodriguez, Juan Angel. 2005 "Análisis de la gestión financiera en el cooperativismo vitivinícola." Prepared for presentation at 1° Jornadas Nacionales de Actuación en Cooperativas; Buenos Aires: August 25, 26			

Wine Cooperative Structure in Argentina

Wine producers that are members of local cooperatives in Argentina form the base of a large cooperative pyramid. These producers incorporate themselves horizontally, forming first degree cooperatives, like El Cerrito, Goudge and Sierra

Pintada. These cooperatives integrate themselves horizontally to form a second degree or regional cooperative, or, FeCoVitA, which improves political bargaining power and provides more direct access to markets and credit, vertically integrating local cooperatives, and thus, producers, into a higher rung in the wine production chain. FeCoVitA is a member of CONINAGRA, which is a national cooperative representing the entire agricultural industry. A third degree cooperative, CONINAGRA represents a formidable political force in its role as a trade union. The cooperative pyramid is depicted in the chart below. As you can see, three thousand small grape producers become vertically integrated into a powerful force in the national agricultural industry.

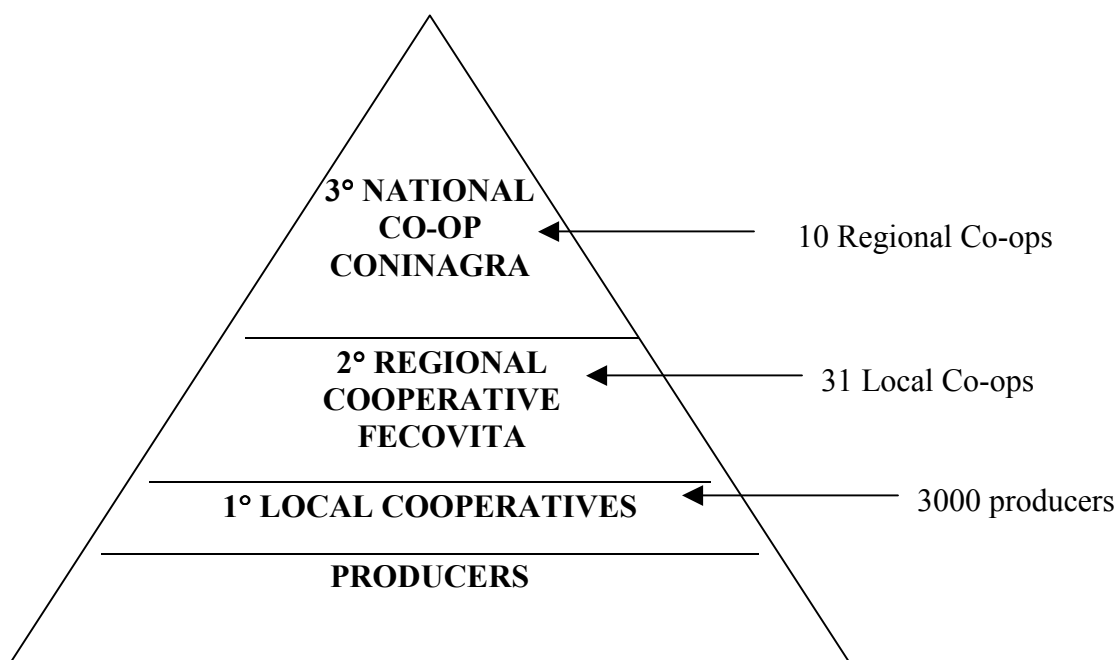


Figure 2.4 Diagram of Levels of Cooperatives in Argentina

Physical Traits of the Region

Mendoza is the main wine producing province in Argentina. It is characterized by an arid climate receiving less than 10 inches of rain per year and it lies at the foothills of

the Andes abutting Chile (See figure 1.3). The primary rivers are the Rios Diamante, Atuel, Mendoza and Tunuyan. The fertile soil, constant sunshine, variation between nighttime and daytime temperatures, and altitude in Mendoza are ideal for growing grapes (Besa 2005) (Stein 2006). And a number of other crops grow well in the region, such as garlic, tomatoes and fruit trees, making it one of the most important agricultural regions in the country. In the viticulture sector, sixty-five percent of the vineyards in Argentina are located in Mendoza (see figure 2.5).

The arid climate forced agriculturalists in the area to divert water from the main rivers to hydrate crops through flood irrigation. But lack of rainfall still made them susceptible to drought during years when little snow fell in the Andes. As a result, control of irrigation canals and water rights remained an important aspect of provincial politics for most of the 19th and 20th century (Supplee). Until the latter part of the 19th Century most of the irrigation and agricultural activity surrounded the cities of Mendoza and San Juan. Further limitations to agriculture in the region are hailstorm and frosts. Hail is responsible for the loss of about 20% of the yearly harvests, affecting Mendoza much more than other regions (Rodriguez 2005).

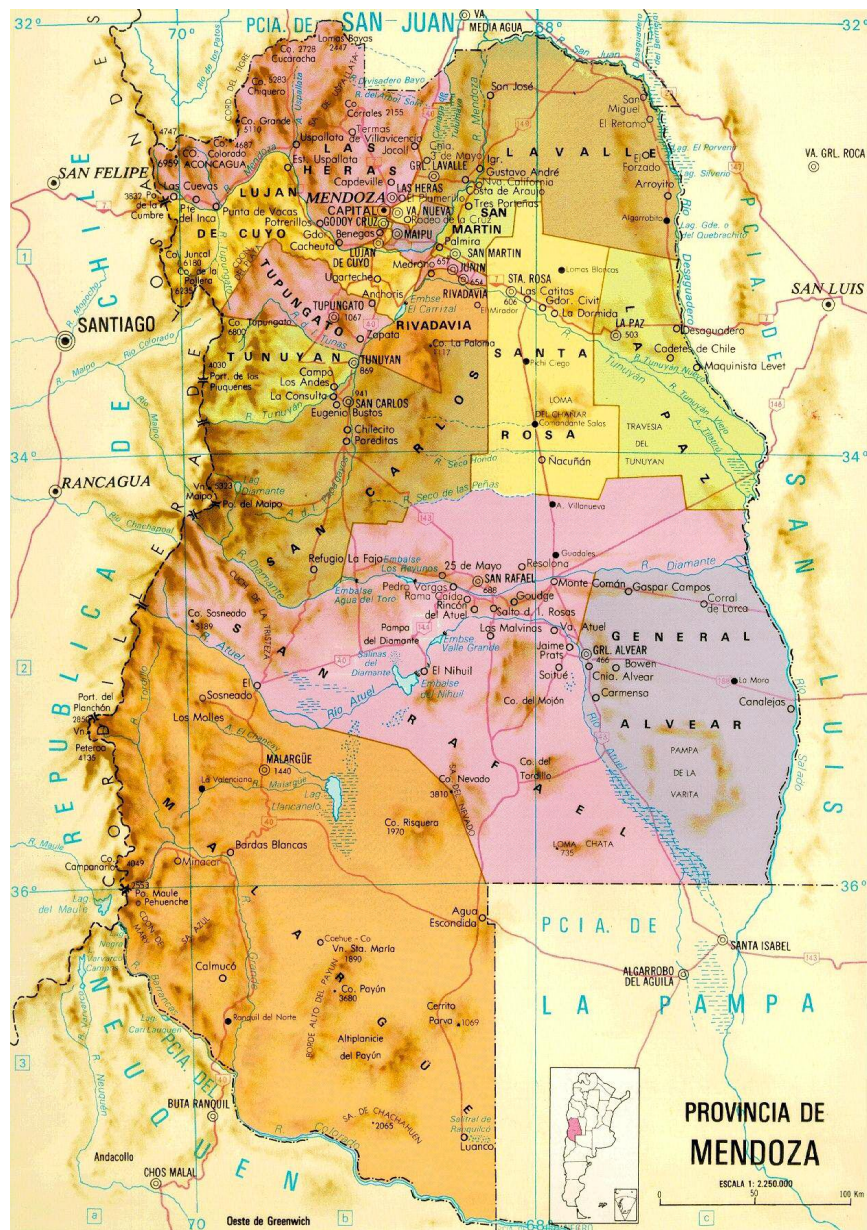


Figure 2.5 Map of the Province of Mendoza

Source: Gobierno Electrónica Argentina

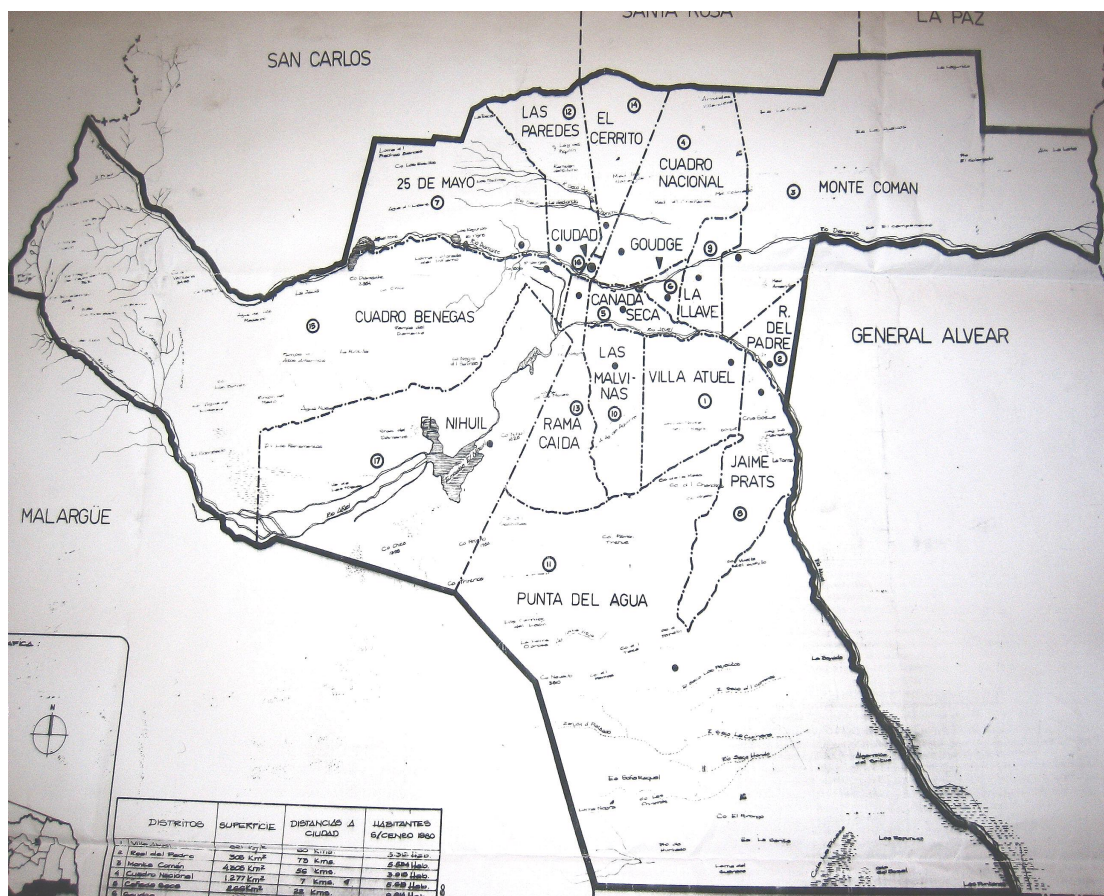


Figure 2.6 Map of the Department of San Rafael. Source: Oficina de Calastro Municipalidad de San Rafael

San Rafael

The department of San Rafael has been an agricultural community since its founding in 1805, although it remained relatively isolated from the rest of the province until investment in irrigation expanded southward, after the Campaign of the Desert eradicated the indigenous groups and thus the threat of indigenous raids in 1870s (Sawyers 1996). Farmers in the area used the Rio Atuel, the Rio Diamante to support agriculture in the area and now access abundant groundwater to feed their agricultural

economy. Later, investments in wells and pumps for groundwater helped alleviate some farmers' dependence upon surface water irrigation.

San Rafael lies another 232 kilometers from the capital city of Mendoza and in addition to overcoming the cost of transportation to Mendoza, faces a number of problems with wine production that are more prevalent than in the northern part of the province. The main agricultural areas of the department lie further from the sources of irrigation nestled in the Andes, than they do in the north. This leads to increased contact between irrigation water and soil, causing salinization of both soil and water. While much of the soil in San Rafael is fertile, certain areas have subterranean water extremely close to the surface also causing salinization or waterlogging of soil and crops. Poorly planned and maintained irrigation canals have led to poor drainage and waterlogging in some fields that can also have residual effects on the soil from fertilizers and chemicals used in agricultural production. Hail is another problem that affects parts of San Rafael more violently than in other parts of the department. Summer thunderstorms bring hail the size of golf balls, at times entirely decimating annual crops, vines and fruit trees.

Within the wine industry in Argentina, when markets were once much more local than global (as we will see in the next chapter), cooperatives competed with local or other domestic wineries for consumers. Now they compete in an international market for both domestic consumers as well as consumers abroad. Moreover, consumers now demand a much higher quality wine than earlier in the century. Once a small cooperative could bottle and sell its own wine to a non-discerning market, but now its consumers demand higher quality and better prices, which creates problems within a production chain that

evolved for more than a century with the production of large quantities of mediocre wine. As a result, producer co-ops have innovated through alliance-building to access markets, technology and credit through the formation of regional cooperatives, which has become imperative for small, local co-ops.

If the cooperative system in the wine industry in Mendoza is representative of overall trends, cooperativism has deviated from what it was originally purported to be. Now, cooperatives are less about social change and revolution against a dominant system, and more about the survival of the small farmer through integration into a cooperative system that is itself part of that same dominant economic, social and class structure. Perhaps the economists who study cooperatives steal some of its thunder by eliminating social change from their definition of a cooperative. But while the social principles of cooperativism may be something to strive for, today it might be enough to ask of a cooperative that it improve the lives of its members by providing them a livelihood through the sale of their product.

CHAPTER THREE: AN HISTORICAL BACKGROUND OF THE WINE INDUSTRY IN MENDOZA

Driven by the thirst of a working class consumer who chose wines based on price rather than taste, the Argentine wine industry spent more than a century using a strategy that encouraged the production of bulk or ordinary wine (Stein 2006). The traditional consumer, an Italian or Spanish immigrant, inhabiting both major cities and the countryside, demanded large quantities of cheap wine. In response to this demand, both the national and provincial governments assisted the wineries in Mendoza throughout the 19th and 20th centuries in the production of such a product. Over the last twenty-five years, the consumer has changed, forcing the industry to unravel a legacy of winemaking that no longer has a customer. This chapter outlines the historical and political background of the industry and the formation of the four cooperatives as case studies and their place in both the perpetuation of old production habits and the renovation of the industry. Cooperatives have become an ongoing experiment in negotiating between participatory cooperativism and market competitiveness.

Ana Maria Mateu (2002), concluded that the formation of cooperatives was so tarnished by the alliance between large producers, *bodegueros* and the state, that instead of improving equality within the sector, it actually worsened it. All attempts at cooperative formation in the early part of the century were with government support. Lines were blurred: *bodegueros* were often politicians or directors of provincial banks and the elite of Mendoza were fiercely loyal among themselves. In the wine industry, the mask of cooperativism was used to disguise a consortium of producers that managed the

market in a decidedly undemocratic fashion, with no interest in social change. According to Mateu (2002), when the Frenchman, Mabileau of the *Museo Social de Paris* was asked to visit Argentina in 1912 to discuss cooperativism in France, he admitted that he left with a bad impression of the Mendozan agriculturists because their concerns were flagrantly individualistic. The dishonest, powerful and manipulative partnership between the wine oligarchy and the provincial state has had lasting effects on wine production and producer-*bodeguero* relationships.

The main participants in the industry historically are depicted in the flow chart in Appendix B. They continue today. Small vineyards with *contratistas*, and large wineries without their own vineyards still have major roles in wine production. The price friction and poor harvest and fabrication techniques still result in the production of low to mid-quality wine. These faults arise from the break between grape production on the vineyards and wine fabrication in the *bodegas*: the producer and harvester remain detached from the final product.

In pursuit of mass production, cutting costs motivated all producers of wine (Mateu). Wineries wanted to pay as little as possible for grapes and equipment, *viñateros* wanted to pay as little as possible for labor while harvesting the most grapes as possible, and *contratistas* wanted to harvest as much as possible with the littlest effort.

Cooperatives fill the void between producer and winery and attempt to bridge the two entities. Integration of the producer into a higher link on the production chain draws him closer to the final product from the market's perspective. During times when quality was not as important as quantity, farmers fulfilled their roles as producers of large

quantities of grapes, which benefited them. The cooperatives suffered during years of overproduction. Then, the problem was one of oversupply and not one of poor quality as it is today.

The cooperatives in San Rafael must be analyzed within the political and historical framework of the wine industry because each cooperative made and continues to make choices based on political and economic changes within the country and the industry. As consumer taste move towards quality wines, wineries and cooperatives experience more complex relationships between both the growers and the market. Supporting their members in mass production is no longer enough, now the cooperative must encourage a change in production strategy that is specifically connected to the final product. This is entirely new for most small producers. Understanding the historical underpinnings of Argentine wine production provides insight into the challenges it presently faces.

Mendoza's Wine Industry in the 19th and early 20th Century

Isolated by more than one thousand kilometers (approx. 750 miles) of grasslands from Buenos Aires, the main port and capital of the country, Mendoza traditionally traded with Chile and Peru, taking advantage of its proximity to their ports and markets (Supplee 1988). During most of the eighteenth and part of the nineteenth century, the young nation enjoyed a thriving beef industry and Mendoza played a small role as a stopover point for cattle driven across the Andes to Chile (Supplee 1988) (Morris 2000) (Mateu 2002). Mendoza's merchants bought cattle from the Pampa (Argentina's breadbasket) and drove them to Mendoza to be fatten them on locally grown alfalfa

before driving them over the pass to Chile. The cattle industry prompted the initial investment in the irrigation system in the area to grow alfalfa.

The wine industry remained local. National laws in the late eighteenth and early to mid-nineteenth centuries prohibited trade with Chile and Peru and Mendozan wine could not compete in Buenos Aires in either quality or price with European wines. Suffering from long hot, bouncy oxcart trips over the Pampa, the wine that ended up in Buenos Aires was often poor quality or cooked and overpriced when compared to that arriving by sea from Europe (Supplee 1988) (Morris 2000). As a result, few of the local oligarchy participated in the wine industry until after 1880 when the national government began to join the country through rail networks.

The cattle trade was fatally wounded by the arrival of the railroad to Mendoza in 1885, which, because of decreased transportation times to the foothills, diminished the need for feed lots before shipment to Chile (Supplee 1988). Furthermore, Chile erected tariffs against Argentine beef to protect its domestic beef market (Morris 2000). The crippled cattle trade and the railroad made wine production more attractive to Mendocino elites, who had anticipated the impact on the beef industry and had already begun to envision wine as integral to the economic survival of the region.

The oligarchy and provincial government made improvements to the irrigation system and the wine industry to bolster the regional economy. The national government, on the other hand, remained decidedly unsupportive except by way of loans through the National Bank (Supplee 1988). Improvements were thus funded by the provincial government, who from 1880 on focused funding on irrigation and financing

improvements favoring wine over cattle (Supplee 1988: 11). San Rafael, a region populated mostly by foreigners was consistently discriminated against by Mendoza's *criollo* oligarchy (Supplee 1988).

Because consumption rates were high and wine is a specialty crop, many large landowners found it easier to sell or lease small plots of land to immigrants from Spain and Italy who already had experience growing grapes, or recruit them into sharecropping agreements. The possibility of owning land and making a decent living enticed many immigrants to Mendoza and many of these immigrants were fortunate enough to earn enough through their work to become landowners. But others remained in sharecropper relationships. (Supplee 1988)

As a result of these efforts by the provincial oligarchy, the early twentieth century saw an astronomical increase in the amount of wine production. When one considers that the number only began to grow after the arrival of the railroad, the growth figure of 90.4 percent between 1901 and 1915 cited by Stein (2006) provides insight into the rapidity with which both production and consumption grew in those first few decades. The consumer, the Spanish or Italian working-class immigrants sought daily consumption at the lowest possible cost.

Even Domingo Faustino Sarmiento, who in 1858 brought a French wine expert to evaluate the situation in Argentina, could not defeat the consumer's control of the market. The French varietals that were planted as a result of Michel Aime Pouget (mostly malbec) were torn out a century later and replaced with higher-yielding vines (Stein 2006). Uprooting of these varietals typifies the consistency in production ideology

between 1858 and the 1960s focused on mass production. When technology was imported from other countries to the larger *bodegas*, it was used to sustain large-scale wine production rather than to produce a higher quality product. This was the case with large, oak storage barrels brought from North America or France. The reason given for their importation was to store of overstock of wine, as opposed to improving the flavor or quality of the product (Stein 2006).

The First Crisis of the 20th Century: From Liberalism to Government Intervention

The provincial government of Mendoza was closely tied to the *bodegueros*, and its involvement in the industry had been consistent throughout the first two decades of the twentieth century. This relationship was based on guarding and fostering an industry that was the most profitable to the province, and on political, social or economic ties between the so-called wine bourgeoisie and the *criollo* oligarchy. The difference between this type of intervention and the type that happened later, was the involvement of the national government in the industry and the control of markets by the national government that used to be controlled by a group of large *bodegueros*. (Mateu 2002)

The wine industry experienced a number of crises in the twentieth century, but two stand out: the first, during the economic depression of the 1930s, and the other beginning in the latter part of the 1970s. Both resulted from overproduction and diminished demand. At the beginning of the century, overproduction in the 1910's exhausted the market then was quickly followed by a drastic decrease in internal consumption spurred by the Great Depression (Mateu 2006). As a result of the world

Depression, the domestic market was so disabled that between 1937 and 1938 the number of hectares under cultivation reverted to what it had been ten years before. More than 18,000 hectares were uprooted and destroyed (Roig, Lacoste and Satlari 2004).

The experience of plunging into economic crisis as a result of crisis in the North reminded Argentina once again of its dependence upon the northern hemisphere for trade and economic stability. In 1890, the collapse of the Baring Brothers & Co in London, after underwriting two million pounds in shares to the Buenos Aires Water Supply and Drainage Company that would not sell, crushed the Argentine economy (Fay 2004). Other Latin American countries were also affected by the Baring Crisis, since the bank had invested all over Latin America. The Bank of London rescued the Baring Brothers and they rebounded quickly. But the world Depression again raised the issue of dependency on foreign investment and trade inequities that existed between the north and the south. Countries in the southern hemisphere were exporting raw materials at commodity prices to northern countries and then buying back processed goods and technology at much higher prices. This spurred an economic strategy throughout Latin America called Import Substitution Industrialization (ISI) fueled largely by the ideas of Raúl Prebisch, an Argentine economist who worked for the United Nations Committee on Latin America (UNCLA) and who previously served as president of the Banco Central (Mateu 2006).

Governments who employed ISI economic policy intended to weaken the dependency of Latin American countries on the northern hemisphere by domestically producing and marketing products previously imported from industrialized nations. This

wave of industrialization was accompanied by fierce economic nationalism that protected national industry with high tariffs and taxes on foreign imports as well as implementing monetary controls, market regulation, and the investment of the national government in the formation of publicly-owned enterprises (Aroskind 2003). While it aided economic growth, ISI also opened the door for increasing government intervention in industries and markets such as the wine industry that had previously been more liberal.

The destruction of vineyards during the world Depression crisis resulted from a set of laws enacted by the national government with the support of the provincial elites and banks to address the problem of overproduction. These laws resulted in the creation of the Junta Regulatora de Vinos (ley 12137) with federal support of \$30,000,000 pesos (Mateu 2006). The Junta had a number of strategies for regulating production. Concentrating on vineyards and wines of poor quality, it used federal funds to buy up quantities of grapes, wine and vineyards and by regulating the market, was successful in balancing production with the decreasing levels of internal consumption (Sawyers 1996). It bought the surpluses of wine from bodegas that were then forced to buy it back when the Junta released it for consumption (Mateu 2006) and set the specific date when grapes would be harvested and wine would be released to the market. Its formation and practices represented a major interference in the wine market by the federal government and set the stage for more direct involvement in the sector through the Instituto Nacional de Vitivinicultura (INV), which replaced the Junta in 1959.

Lastly, the Junta encouraged small producers without bodegas to form cooperatives. With regard to cooperative formation, success can be measured by the

single grape-growers cooperative, the Rafaelense, with just fifty-eight members, that existed in the province of Mendoza during that period (Mateu 2006).

By 1942, the market had recovered from the Depression and cultivation rates reached their pre-crisis levels. Vineyards with the varietal *criollo*, which typically produced greater yields but wines of poorer quality, had been torn out and replaced by French varietals such as the Malbec, which produced higher quality grapes but lower yields. This replacement of varietals led to 80% of the vineyards in Mendoza cultivated with French clones (Roig, et. al. 2004). The simple act of replacing high-yielding grapes with better quality grapes had the dual result of controlling production and improving quality. But quality came as a byproduct of lower-yielding vines and not as a goal of the industry (Stein 2006). The winemakers' and producers' lack of interest in quality can be understood in the context of the 1960s, when higher quality vines were again replaced with *criollo* varieties.

Between 1955 and 1976 the national government underwent radical changes, accompanied by tremendous social friction between the workers or *peronistas* and the varying factions of military government. In those twenty-one years, there were eight different presidents, nearly all of them military officers. The period was marked by rural and urban unrest, rural-urban migration, and the beginning of rapid inflation. Inflation rates ranging between 20% and 30% were common in the 1960s and 1970s, something the people had never before experienced. As a result, most presidents concentrated on anti-inflationary measures that were usually unsuccessful. (Aroskind 2003)

During the later ISI years, politicians also concerned themselves with the reliance of the agricultural export sector on primary products and ways to reorganize and strengthen the industry. Powerful agriculturalists and some liberal politicians clashed with the political left over how to improve the agrarian sector (Aroskind 2003). Ironically, it began to improve through public officials who were not involved. These officials promoted mechanization, use of tractors and new manual labor techniques, along with new seeds, chemical fertilizers and pesticides. This led to the improvements by the middle of the 1960s (Aroskind 2003). Even with the changes, the export industry was mainly on the pampas region allowing significant development in some provinces, while others suffered.

In the interior and Pampas provinces, laborers traditionally were drawn from sharecropping or leasing families, supplemented with a migratory workforce during the harvest season (Lattuada 1986). These workers had been staging strikes for decades in response to unfair labor conditions and contracts. When the wheat sector began to mechanize, rural unrest became so heated that politicians began drawing up agrarian laws to assuage rural workers. Since the 1950s, the national government was aware of the need to assist rural workers and been ratifying laws that provided loans at lower interest rates to farmers to buy land (Cloquell, et. al. 2005). In 1967, Ley 17.253 granted renters and sharecroppers the ability to buy the land they previously worked with government or bank loans (Maiztegui Martínez 1993) (Cloquell, et. al 2005).

Economic nationalism that was a product of ISI affected the wine industry as well. The federal government, not only erected trade barriers, but also formed the Junta

Reguladora de Vinos to aid the provinces' regulation of production. The initial interference by the federal government in the 1940s was not solely altruistic, but a formidable political tool used to award political allies of the Partido Demócrata and to punish its opponents, the Unión Cívica Radical. Nevertheless, as a result of its actions, the market recovered rapidly due to an emphasis on diversification and quality (Roig, et.al. 2004).

The INV was created in 1959, under the Ley Nacional 14.878. This essentially legalized national government intervention in the wine industry through the establishment of a national government entity. The INV retained the role of the Junta as a regulatory body but intervened more directly in the lives of producers and vintners. It dictated harvest times, controlled cultivation rates including which varieties could be grown, and to whom and for how much producers could sell their harvests (Sawyers 1996).

At that time, the provincially-owned and operated winery, Giol, also subsidized the wine industry. Giol attempted to regulate the market in much the same way as the Junta—by using provincial money to buy grapes and wine to remove them from the market and stabilize the price. When this venture led to a negative net value of the large winery, the federal government stepped in and took over its debts (Roig, et. al. 2004).

On the Rebound: Second Boom and the Same Mistakes

Producer-Bodega Relations

The family Giol operated the largest winery in the province before the populist government, led by President Juan Perón, incorporated it into the provincial government

of Mendoza in 1954. The traveler, Jules Heret is cited by Mateu (2002) as being so impressed with the social, political and economic importance of the wine oligarchy in Mendoza in 1913 that he did not think that Europe had its equal.

During the wine boom in the 1950s and 1960s, just a few large wineries monopolized the market in Mendoza. This monopoly has roots into the previous century and the beginning of the twentieth century when the *bodegueros* would conspire to set grape prices unnaturally low (Mateu). Much like their predecessors at the turn of the century, the wine-making elites in the 1950s and 1960s collaborated amongst themselves to drive down grape prices paid to struggling producers. According to an interview in the cooperative El Cerrito, there were three main *bodegas* operating at that time in San Rafael and producers were subject to their whims. Furthermore, as a result of overproduction and concomitant conversion of vineyards to higher yielding varieties of grape, small producers found themselves helpless to defend their interests when seeking buyers for their harvests. Most varietals used for wine making do not make desirable table grapes, so producers were forced to sell to wineries. Wineries used the small window of time for harvest to pigeonhole producers into accepting unfavorable payment contracts.

Domestic consumers through the 1960s and 1970s initially met the market's expectations by consuming large quantities of wine. To take advantage of this dependable market, many large *bodegas* and producers began to reconvert their vineyards to high-yield *criollo* varietals. The flooding of the market in the mid-1970s, again aggravated the relationships between small grape-growers and wineries.

Government Involvement

The national government, recognizing the importance of the industry to the economy, supported replanting by offering loans to larger enterprises that would underwrite the process. Provincial legislation also promoted expansion of vineyards with the emphasis placed on quantity of output. Monetary grants were made to expand vineyards that were the property of large wineries. Small wineries with low quality wines were supported by the provincial *bodegas* that guaranteed a seasonal price and a buyer for their harvest (Morris 2000). The lack of competition in the marketplace and the provincial and national subsidies helped small farmers. Many of the largest wineries in Mendoza borrowed from the government to improve their wineries and vineyards, but ended up deeply in debt when the second crisis of the late 1970s struck the industry.

The national winery, Gil, became the largest and most dominant in the market. It engaged in a number of activities that manipulated the national market and created a fictive market relationship between producer and vintner (*bodeguero*). The *mercado de trasalado* was so controlled by the provincial and national governments, which owned some of the largest bottling plants, that there was little room for market-driven relationships between producer and secondary and tertiary buyers to develop (Onofri 2000). In contrast to the provincial government that was trying to support its laborers, the federal government's interests were concerned with the domestic market and favored the consumer over the producer.

Cooperative Formation



Figure 3.1. Source: Estadísticas Vitivinícolas INV, Mendoza

figure 3.1.). This increase also reflects the federal government's initiative to support regional economies through the formation of cooperatives during the latter part of the 1960s.⁵ The movement was not altogether successful. A number of cooperatives were formed to take advantage of government benefits and unsuspecting members found themselves victims to corrupt directive committees that stole money, bankrupting the cooperatives. Furthermore, cooperatives, like all bodegas, had to battle the overproduction and decrease in consumption that plagued the industry beginning in the late 1970s and continues to the present.

The Second Crisis

In the latter part of the 1970s Argentines began to consume beer and soft drinks instead of wine. The per capita consumption of wine dropped significantly over several decades. This shift in consumer trends coupled with the maturation of thousands of hectares of high yield *criollo* varieties of vines created an insurmountable surplus in the

⁵ Interview with Cooperativa El Cerrito 12/05

Largely as a result of these price battles, there was a surge in viticulture cooperative formation in Mendoza throughout the 1960s. In 1965 there were 26 cooperatives in Mendoza. By 1968 this

figure had increased by twenty (see

market which eventually bankrupted a number of the largest bodegas in the region (Roig, et. al. 2004). The collapse of the Grupo Greco in the mid-80s, a corrupt investment group tied to the military regime that had invested heavily in wine, finally caused a major crisis in the wine industry. (Onofri 2000:36)

The upset in the balance of supply and demand and the intervention of the federal and provincial governments in the market through price buttressing and erecting protectionist trade barriers and subsidies led to a wine sector devoid of international competition. The industry produced mediocre wines for a market that was annually consuming less wine. The overproduction exhausted the price control power of Giol and eventually led to its privatization at the end of the 1980s. Small producers were left without buyers for their produce and over 100,000 hectares of vineyards were uprooted for the second time in a half century.

As consumer tastes began to change in the late 1970s cooperatives found themselves in the same situation as private wineries, offering basic wines to a flooded market. They faced the loss of member loyalty as individuals sought the best price for their harvests at other bodegas. Some had their own bottling facilities during the years before the crisis and then found themselves having to serve as intermediaries between producers and bottling and commercialization facilities. Ever since, the number of cooperatives in Mendoza has been in decline. Currently, there are just thirty-five cooperatives functioning in the province.

Inflation and Neoliberalism: Argentina from the 80s to present

Policy-makers in Latin America in the late 1980s and 1990s began to implement neoliberal economic reform in response to large and inefficient provincial and national entities with poor fiscal policy, institutionalized corruption, and excessive control over markets. As a development model, Neoliberalism was promised to stabilize economies through free market economics, structural adjustment programs, privatizing state industries, reduced tariffs and taxes, fiscal prudence, and foreign investment. The privatization of state-owned and operated industries could provide revenue for paying down foreign debt and also have the additional benefits of trimming state employees and hopefully, improving service and efficiency. While a number of countries saw initial improvements such as reduction in inflation, many of them faced economic crisis within a few years calling the success of the policy into question (Sheahan 2001). In the case of Argentina, a vastly improved economy soon fell into one of the most devastating economic crisis in its history.

The wine industry has made a number of changes in response to a more open economy, and has tremendous potential for success. Nevertheless, the initial impact of competing for an internal market that was once taken for granted was very damaging. But, neoliberal politics did not exist in a vacuum. In the footsteps of the quagmire of the military government's mismanagement of its assets in the 1970s and 1980s, neoliberalism merely shined a glaring light on the existing problems within the industry.

By 1980, grapes and wine had surpassed sugar and wheat in economic importance.⁶ Grapes and wine made up 17% of the agricultural goods produced and 75% of the agricultural production in Mendoza and San Juan, and were responsible for 33% of Mendoza's gross provincial product (Sawyers 1996:82). The wine industry had been favored by the national government's economic policies, enjoying protectionist tariffs up to 100% until tariffs were reduced in the early 1990s (Morris 2000) (Sawyers 1996). Some of the other protections it received took the form of quotas and regulations. For instance, many wineries add sugar to wine to increase the alcohol content in lieu of having a higher sugar content in the grapes themselves. Laws were created that prohibited the importation of adulterated wines, which further narrowed the competition (Sawyers 1996).

In the 1980s and 1990s, the inflation and the subsequent overvaluation of the peso impacted the wine industry greatly. Grape growers and wine producers were already experiencing a deteriorating internal market in the 1970s, but the mismanagement and inefficient bureaucratic military regime that governed for more than a decade led to massive inflation that cut further into consumers' pocketbooks. The difficulty of the market in the 1980s resulted in many abandoned vineyards and bankrupted businesses. Nonetheless, it provided the incentive for a more industrialized form of viticulture and the replacement of vines with annual crops that could be switched on a yearly basis to follow market fluctuations. (de Muñoz and de Lillo 2001)

⁶ The Argentine economy was founded upon the cattle and wool trades, which were surpassed at the end of the 19th century by wheat. Later, sugar from the province of Tucumán joined wheat and beef as one of the more important exports in the country. See Scobie *Revolution on the Pampa* for more on the wool, wheat and beef industries.

During the 1980s, hundreds of thousands of hectares of vines were uprooted to make way for new crops such as fruit trees, olives or annual crops, or for different types of vine cultivation that would support mechanized labor (see graph). While cultivation rates have recovered to their position during the sixties, they are over 100,000 hectares shy of what they were in the mid-1970s (Muñoz and de Lillo 2001).

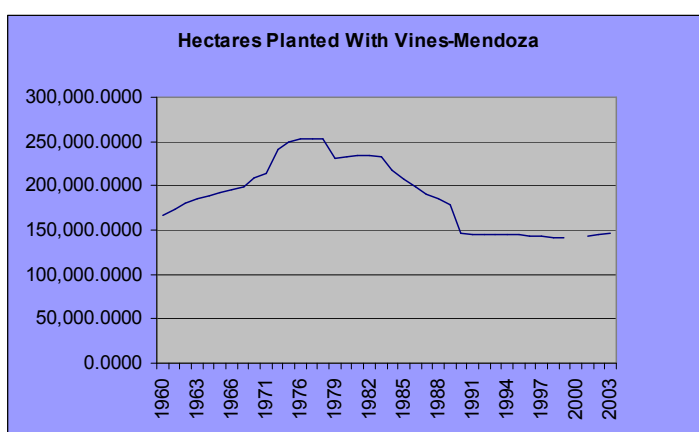


Figure 3.2. Source: Anuarios Estadísticas, INV Mendoza

Raúl Alfonsín, the first democratically-elected president after the fall of the military dictatorship, responded to the worsening economic situation by half-heartedly applying the Neoliberal economic model to his struggling country. His combination of economic policies exacerbated the suffering economy and he vacated office before the end of his term.

As a result, before Menem slept his first night in the presidential palace in 1989, bouts of inflation had surpassed 1000%, the massive foreign debt exceeded \$60 billion, and unemployment was rampant. All of these comprised the asphyxiating legacy of the military regime during the 1970s and Alfonsín's prematurely vacated democratic

presidency of the 1980s (Blustein 2005) (Rock 2002). Decades of poor fiscal policy built the foundation for Menem's tempting populist campaign that preached higher wages and curbed inflation (Rock 2002). Once in power, his eagerness to forge ties with the country's wealthy liberals disillusioned those who supported his election, but they were soon assuaged by marked improvements in the economy (Rock 2002) (Blustein 2005).

Menem's most notable economic action was the "convertibility plan" implemented on April 1, 1991. The man behind the plan was Domingo Cavallo, Harvard Economics graduate, who Menem had recently appointed as his Minister of Finance. Although all of his other economic policy was dogmatically neoliberal, convertibility was not necessarily encouraged by Washington Consensus, and the IMF had its doubts that the plan would succeed (Blustein 2005). The Convertibility Plan was based on the idea of the old "gold standard," using the US dollar instead of gold to peg the peso at an equal one-to-one exchange rate. The plan forbade the Central Bank from printing money (one cause of inflation) and, combined with other neoliberal reforms, had the original impact of drawing billions of dollars of expatriated funds back home, encouraging internal spending and credit drafts as well as encouraging foreign investment, mostly in the form of bonds (Blustein 2005) (Rock 2002).

The initial success of Menem's policies would eventually deteriorate and leave the economy in ruins. In the meantime, even during the golden years of the early 1990s, they were not beneficial to all economic sectors. The history of the agro-export economy did not change overnight with the economic policies of its president, and parts of that sector found it increasingly difficult to compete in the global market once their products

were valued in dollars. Banking was booming and agriculture was flailing.⁷ The wine industry, which had been suffering from the massive inflation of the 1980s (de Muñoz and de Lillo 2001) would continue to face challenges by having to compete with foreign wines flowing into the domestic market of often better quality and cheaper prices, due to diminished tariffs, cheaper exchange rates and direct access by water to the main port and capital, Buenos Aires.

The result was the exposure of the wine industry to an international market in which they now had to compete both for domestic and international markets. This global competition, not experienced for more than a half century in the wine industry, required technological improvement. This need in the industry exacerbated disparities between producers and large wineries who access to capital or credit were able to take advantage of new knowledge and technology, and those who did not.

Individuals in the wine business began to train overseas which brought foreign capital, technology and values to Mendoza (Morris, 2000). Furthermore, since democratization and the liberalization of trade in the 1990s, foreigners began to invest in wine production and new technology in Argentina. Different trellising systems, more closely planted vines, more intensive pruning of leaves and fruit, delaying of the harvest to allow fruit to mature and using better varieties are all examples of new strategies being employed on the farm. In wineries, stainless steel vats are now used to control quality and temperature with less emphasis on quantity and investments are made in imported oak

⁷ Interview with manager of Cooperative Goudge 7/05

barrels for aging. This technological development depends on major capital inputs.

(Morris 2000)

For the first time, wine producers began to concentrate more on quality and less on quantity, representing a major shift in the mentality of winemakers. New cultivation techniques for fine wines often purposefully produce smaller yields in order to improve the quality of the product. This new focus contradicts the incentives of the 1970s and 1980s provided by the national and provincial governments, that encouraged planting of low quality, high producing varieties. Unfortunately, farmers that had taken advantage of those incentives a decade ago now find themselves with a long-term investment in a quickly devaluing crop.

As a result of the overvaluation of the peso many small agriculturalists in the interior provinces found it increasingly difficult to compete in the global market. As of 1996, vineyards of ten hectares or less still produced approximately two-fifths of the grapes in the region of Cuyo. This sized plot of land, depending upon the variety cultivated, barely produces enough to support a family, let alone make costly investments in technology or agrochemicals (Sawyers 2000).

Even larger producers found it difficult to compete with Chile in the fruit and wine export business due to high labor costs and convertibility (Korzeniewicz et.al.). This competition spurred a shift towards more mechanized and specialized agriculture in the region of Mendoza (the main producer of wines and fruit) and further marginalized rural workers and small producers (de Muñoz and de Lillo 2001).

The signing of the Treaty of Asunción in 1991 that solidified the free trade zone of the Southern Cone, or MERCOSUR, between Argentina, Brazil, Paraguay and Uruguay, initially promised to aid the wine industry by opening up the Brazilian market, but the later addition of Chile presented a new threat to the wine and fruit sector, since the high value of the peso made Chilean produce and wine a better value than Argentine products. (Richards 1997). The later devaluation of the peso in the beginning of the 21st century stung the industry again, temporarily robbing it of an domestic market. The Plan Estratégico Vitivinícola 2020 (PEVI), a cooperative effort by both the public and private sector, was the child of this crisis.

Plan Estratégico de Viticultura 2020

In 2000, faced with a number of challenges on both national and international fronts, actors from both public and private sectors of the wine industry came together to discuss its shortcomings and strengths of the sector and devise a plan for its improvement. This plan, called the Plan Estragégico de Viticultura 2020 (PEVI) was put into action in 2004 but was only recently ratified by President Kirchner in September of 2005. Its goal is to modernize the wine sector, capture external markets and control domestic markets. The Corporación Nacional Vitivinícola (CONAVI), which serves as the treasurer for the PEVI, was formed and made official by the passage of Ley 25.849, which grants allocation rights for money raised by the wine sector for those purposes to CONAVI. As part of the Plan, each producer pays a small percentage (less than 1%) per liter of wine towards a fund for the promotion and improvement of the sector (el Fondo Vitivinicola). Although it is a private initiative, the Plan involves the participation of the provincial and national governments. The passage of the law

signifies the Federal government's support of the Plan and its continued recognition of wine production as an important part of the national economy.

The Plan reacts to a number of threats facing the industry that were discussed during a series of round tables held in 2001. The challenges faced on an international level in many instances mirror national issues. For instance, on both the national and international levels, consumers are replacing low quality wine with soft drinks, water, juice and beer. They are demanding higher quality wines at affordable prices. Also, problems with overproduction experienced domestically exist globally as well.

The lack of a developed global image of Argentine wine is one of the most debilitating aspects of the industry and thus a main focus of the PEVI. A major internal and international publicity campaign is underway to create and maintain an image of quality, nationalism (in the internal market), exoticism (international market) and to make consumers want and appreciate the climatic and geographical uniqueness and strength of wines grown in Argentina.

One of other weaknesses identified by the PEVI is the lack of cohesiveness within the industry. The sector inevitably has to confront the disparity of quality and technology within groups of producers and *bodegueros*, but as Mateu (2006) pointed out, these observations were made over seventy years ago. Improving the role of the small producer has been as an integral part of overcoming the industry's shortcomings, throughout history, although little action has been taken. This is in part due to the lack of communication and cooperation between the links on the production chain—mainly between the producers and the wineries

both of fine and table varieties. As a result, the institution lacks norms on quality and rentability for each link in the chain.

Conclusion

The history of wine production in Mendoza created an overdependence on a domestic market and on production of table wines. This dependence has made the shift difficult from economic and political models involving extreme economic nationalism and protectionist trade barriers to ones catering to free market economics due to ingrained patterns exhibited by all participants along the production chain. Grape-growers and wineries became passive during lucrative periods and many of them suffered or went bankrupt when consumer habits changed. These historical and political circumstances set the stage for the drama of contemporary wine production in the country and cast the actors, such as cooperatives in roles in which they would do well to break character, as we will see in the upcoming chapter on local cooperatives.

A unique opportunity exists for cooperatives to become vehicles of social restructuring of the wine industry. Political oppression and consumption patterns inhibited social change. Cooperatives were founded as part of Fals Borda's planned change by military regimes with the specific purpose to suppress rural unrest. Contemporary politics and economics in Argentina differ immensely from those of the 1930s through the 1980s. Wine elites, provincial and national governments and cooperatives find themselves united in pursuit of a single goal in the promotion of Argentine wines. Part of this involves the integration of the 21,000 producers who still enter into unfair labor relationships due to lack of education or representation into the cooperative system. Traditional relationships between

producers and wineries could be disrupted, providing fertile ground for social change in the rural wine sector.

CHAPTER FOUR: PRODUCER SOLUTIONS FOR A LOCAL MARKET: WINE COOPERATIVES IN SAN RAFAEL

In the wine industry, between the crisis of the 1930s and that of the 1970s, a number of producer cooperatives formed in the Province of Mendoza. The era's politics were scarred by a chain of dictators, whose overbearing control of markets and industries and mass industrialization resulted in social and political tension. To pacify rural unrest, the national government passed laws like leyes 14.451, 4.403, y 17.253. Although the Mendoza was not a seat of social unrest, producers still took advantage of the previously scarce funding and low interest rates to form cooperatives.⁸ The friction between politics and economics increased in complexity and intensity between 1967 when Cooperatives Goudge and El Cerrito formed, and 1988 when Sierra Pintada was formed, as the market scale went from local to global. Local producer cooperatives in San Rafael formed to deal with problems within the domestic wine industry in the 1960s, later found themselves facing new challenges related to an international free market. This chapter describes the political and economic context of local cooperatives in San Rafael from the formation of Goudge and El Cerrito to the present. That these cooperatives still exist testifies to their flexibility and durability, but survival is an ongoing struggle. Their past choices cannot ensure future success in a free market economy.

El Cerrito was formed in 1968 with the first harvest in 1969. It is a small cooperative located on the outskirts of San Rafael city. One could easily miss the entrance to its dusty parking lot, on a tiny paved road across from a vineyard and shielded

⁸ Personal communications with representatives of Cooperativa El Cerrito and Goudge. According to one of them, the three large bodegas in San Rafael that existed at that time monopolized the local market.

by gigantic poplar trees. A dusty wooden, platform scale the size of a truck, rumbles a welcome to those who do find their way through the gate, and the administrative offices are located in a low, long whitewashed building to the left. The *bodega*, small and antiquated, faces the offices and produces a constant stream of machinery noise, as the fermentation tanks and other equipment are readied for the year's harvest.

Local grape growers formed El Cerrito to combat the miserable prices paid to producers by large *bodegas* at the height of the second boom of the century. At that time the national government was supporting regional agriculture offering loans to producers to invest in cooperatives. The *bodega* is considered small, with a capacity of only 3.5 million liters. It existed at the time of purchase and most of the original members had sold their harvests there in previous years. Its bankruptcy left an opportunity for the independent producers as a co-op to buy it. Through the Banco de la Nacion, the federal government granted loans to the founders, who paid a percentage of the loan according to how many hectares they farmed. The six original members had grown to eighty-six by the third year.

The political events that prompted cooperative formation in San Rafael paralleled the experience of the other Latin American cooperatives described by Orlando Fals Borda in 1971. The government sponsored them with the intent of alleviating rural unrest. Government sponsorship precluded tendencies toward social changes and set the cooperatives within government approved boundaries of politics and social behavior. The local cooperatives in San Rafael illustrate that regardless of what intellectuals or international organizations believe, cooperatives are first and foremost economic tools of

their members. Whether through pressure or self-censorship, the cooperatives did not form with dreams of social change. As such, they set out to achieve their primary goal of competing with other *bodegas* with monopolies on wine production. Reviewing the current statutes of each cooperative illustrates that the emphasis of each cooperative remains on economic survival for their members rather than on social issues. The statistical evidence suggests that perhaps the formation of these cooperatives aided their producers by giving them a buyer of last resort, even if their overall production trends do not deviate impressively from those of the department on the whole.

In keeping with the assertion that politics and economics affect each cooperative differently, co-ops in San Rafael differ from each other and from other cooperatives in the region. Each has, like a person, dealt with hardship and change in distinct ways, making it unique. They vary in terms of membership involvement, technological advancement and marketing strategies; they differ in the amount and types of services they offer their members and they choose different their levels of involvement in FeCoVitA and to what degree they embrace the PEVI.

San Rafael has lost its standing as a major producer of wine in Mendoza over the last forty years (see Figure 4.1). While production and technology in the industry on the whole has gained strength, San Rafael, has continued to fall behind other departments. The changes in its production patterns often reflect the overarching trends of the province but San Rafael has dropped from producing 18% to producing only 5% of the production in Mendoza. The number of *bodegas* in San Rafael has also decreased by 20% and it is producing less than half the number of liters of wine than it was a half century ago. San

Rafael had become a major wine producer only when the railroad reached the city in 1903, its isolation in the south of the province may still adversely affect the wine economy today, especially in light of the nationalization and subsequent degradation of the rail system in the province between the decades of the 1940s and the 1990s.

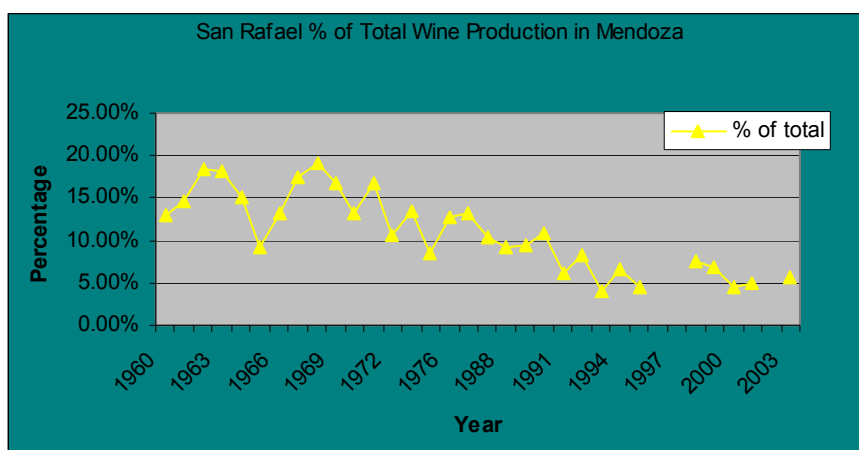


Figure 4.1. Source: Instituto Nacional de Vitivinicultura. *Data unavailable between 1977 and 1985

The graph below (4.2.) shows the change in the number of *bodegas* in San Rafael from 1960 through 1985 which depicts the decline of the department as a major wine producer especially within the last thirty years. The number of *bodegas* in the department increased fairly steadily until the early 1970s and then dropped by 20% between 1971 and 1987.

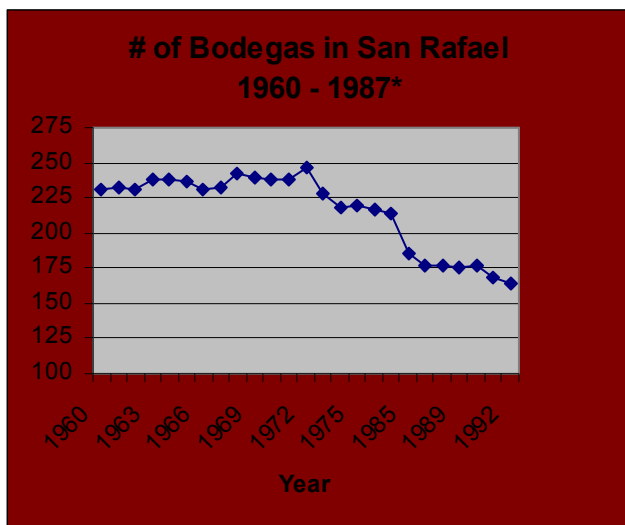


Figure 4.2. Source: INV, Mendoza

Cooperativa Vitivinícola El Cerrito

El Cerrito was formed by six producers, who bought a defunct winery so they could process their own grapes into wine to sell to bottling facilities or other wineries. The initial focus on economics as opposed to social change is evident in reading the statute and persists until present. Perhaps this ideological persistence results from the limited change in decision-making power since inception, even though the current 77 members annually elect a directive committee. For instance, one of the founding members owned the bankrupt *bodega* that was purchased and remained on the executive committee until his death. This type of consistence in decision-making is common in the cooperatives studied, particularly in the older ones. Most of the original founders remained on the committee in one way or another until death. In some cases, even they were succeeded by a relative.

After the first several years of operation, the El Cerrito began to bottle and market its own wine. This practice continued until about 1976 when the operation ceased. The old bottling machine remains in the entry to the *bodega* as testimony to a previous time. The majority of the wines they produced then came from *criollo* grapes that replaced the French clones planted in the 1940s. They serviced a local market with high consumption levels. The wine business was booming. Friction between the cooperative and the national economic situation at that time was limited given the constant demand for wine and the cooperative only had to concern itself with competing locally for consumers. Not until the wine crisis in the late 1970s did the cooperative have to consider its place and strategy in an industry facing over-production and decreasing consumption. Shutting down of the bottling plant and accepting its role as a producer of *vino de traslado* were the decisions of El Cerrito in the context of that crisis.

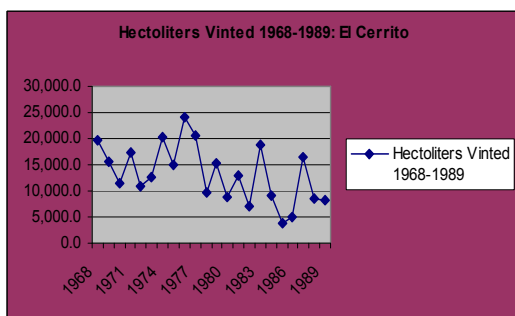
Beyond a small, retired bottling machine, past the narrow cement hallways with little doors that open into vats that will soon hold thousands of gallons of wine, the rear of the *bodega* houses are about forty oak barrels, each with a capacity of 150 hectoliters (approx. 3,900 gallons), bought from another bankrupted *bodega* in another part of the city. Many of the cooperatives and *bodegas* in the area have updated to more technologically advanced facilities and discarded these traditional curing barrels. In El Cerrito, the traditional oak is still used, and in this case, they are beautiful, gigantic, specimens of traditional wine-making. Their existence in the cooperative indicates current choices that El Cerrito has made to pick and choose the technological advancement it undertakes. Barrels combine perfectly with the old presses in the

adjoining room that are no longer used. The presses were abandoned for their inability to produce as much wine as newer presses. They speak to an older era focused on quantity just as the retention of the huge oak vats does. The cooperative has not yet embraced the new trends in winemaking that focus on quality.

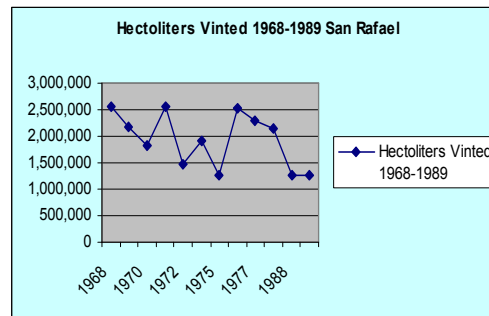
Large oak barrels did little to improve the quality of wine, but rather served as storage for excesses during production freezes placed on the industry by the government Stein (2006). In the case of El Cerrito, the huge oak vats that were bought from bankrupt *bodegas* might be new to them, but are antiques compared to what the biggest *bodegas* now use to ferment and age their wines. That the cooperative spent money on them symbolizes its buying the past instead of the future and a resistance to new trends in the industry. El Cerrito has chosen to see its profits go more to its members than to technological improvement. From the perspective of the president, in an industry as untrustworthy as the wine, choosing to invest capital in technology instead of back into the membership could be risky.

This represents the friction that many local cooperatives must negotiate as the changing economic climate of the industry forces them to choose between long-term investments in technology over short-term benefits for their members. El Cerrito, during its first two decades, closely followed trends within the department (see figure 4.3. and 4.4.). Drops in production seem to reflect inclement weather or political issues. Figure 4.3 depicts the production trends of the cooperative during the crisis from the late 1970s through the 1980s. The impact of the military dictatorship in 1976 is evident in the charts for both the department and the cooperative as a drastic decrease in production. From

1978 through 1983 production in the cooperative declined, indicating that the dictatorship inspired crisis. There were peaks in production in 1979, 1981, 1983 and 1987, but these seem to reflect no more than surges of miniature economic booms during the military dictatorship (1976-1984) and could not be maintained through the recurring inflation that plagued the era. Records from the Instituto Nacional de Vitivinicultura for that period of military rule are few and incomplete. While most scholars attribute the crisis to a decrease in consumption, preliminary conclusions from the production data indicate an additional tie to the military dictatorship that had a sudden and intense effect on either wine production or consumption or both.



4.3 Source: Cooperativa El Cerrito



4.4. Source: Anuarios Estadísticas INV, Mendoza.

*Data for wine production in the department of San Rafael is missing from 1978-1984

The military dictatorship coincided with the termination of the bottling facility at El Cerrito, indicating a connection between the political climate and the cooperative's choice to end the bottling operation. Whether or not the government directly intervened, the cooperative was forced to rearrange its marketing strategy and thus, its ability to provide as well for its members. Moving from bottling wine to producing wine to be resold to other wineries, must have impacted the prices El Cerrito received for its product

and thus the benefits it offered its members. The prices they could offer declined to less than other *bodegas* in the area due to the lack of direct market access and members looking for the best price sold their grapes elsewhere. The cooperative, desperate to keep membership, had little power to enforce rules requiring member loyalty.

Today, the *bodega* still produces a majority of basic and mid-grade wines, but most of the members have undergone a reconversion process. They have replaced many of their more common varietals like *criolla*, *cereza*, *mescla rosada*, *mescla blanca* with fine wines such as malbec and sirah. The finer varietals will soon take the lead in liters over the more common wines. As a result of the recent reconversion process, the quality of the grape varietal has improved, but the technology in the *bodega* remains the same. Although, they have begun to paint the insides of their cement tanks with epoxy to improve sanitation, the rest of their equipment, from crushing machines to curing barrels, will produce nothing more than mid-grade wine. Reconversion or not, the members of El Cerritio are not going to see prime prices for their wine if it is processed with antiquated technology.

Edgardo⁹, the manager of the wine-making facility, has been with the cooperative since it was founded, but he is not a member. He also does not hear well and I had to yell above the noise of pumps and sprayers used to clean the holding tanks in preparation for the next harvest. The *bodega* reeked of epoxy and I inquired about the smell. He lead me downstairs the basement and to yet another narrow cement hallway lined with tiny doors. Each door had a chalk board above it to write the varietal and date of the contents of the

⁹ Names have been changed to protect privacy

holding tank. One door rested open with a painting light inside. The manager explained that they were coating the insides of some of the tanks with an epoxy resin deemed more sanitary than the bare cement walls previously exposed to the fermenting wine. Back in the office the president explained to me that they are just coating a couple of tanks at a time. Because its members are its first priority, the cooperative does not want to risk investing too much money all at once in the project.

Member Benefits and Services

El Cerrito currently offers a number of benefits to its members. Most notably, it provides advances on transportation and harvest costs, and buys the extremely expensive anti-hail netting in bulk through FeCoVitA.¹⁰ El Cerrito also offers credit to its members for harvest and also allows its members to maintain a stock of wine or uncollected payments in the cooperative to avoid using a bank. After the economic crisis in 2001, the national government forbade citizens to withdraw money from their bank accounts or limited the amount they could withdraw. Also, some banks had negative interest rates on checking and savings accounts (Blustein 2005) so that people actually lost money by using a bank. Many citizens have lost faith in the banking system in Argentina, thus the alternative to keep money in the cooperative. It shows how El Cerrito's members chose to use the co-op to create a sense of security.

Educational services in the form of technical advice through a joint effort between FeCoVitA, INTA and El Cerrito also benefit members. And, since the

¹⁰ Interview with co-op representative, January, 2006

cooperative pays its members through payments from FeCoVitA, they nearly always offer their members a better price than the market price for their harvests.

As the above list of benefits shows, many of them are provided through membership in the regional cooperative. But, El Cerrito avoids taking advantage of too many services from FeCoVitA. It does not want to shoulder any sizeable debt. As it is a small cooperative, it does not provide inputs like agrochemicals to its members at discounted rates like some of the larger cooperatives. According to the president, they would have to buy products in bulk from FeCoVitA and as they have so few members keeping large amounts of chemicals in inventory is not financially viable. Further evidence of their wariness of overdependence is in the reconversion process of its members. Although most of them have converted significant portions of their vineyards to finer grape varieties, most of them did it with their own money instead of borrowing from FeCoVitA.

Membership

There are no restrictions on membership to El Cerrito, although the cooperative is not currently accepting more members because the bodega is operating at full capacity with its current membership. To become a member, a producer must receive committee approval—generally meaning he has not been arrested for any improprieties—and then pay one quintal (100 Kilos) per hectare of his crop for five years whereupon he becomes a member for life, provided he does not violate a co-op rule. Members are obligated to bring their entire harvest each year to the *bodega* unless it includes a varietal that the *bodega* does not process, in which case they are permitted to sell outside the cooperative.

Producer activity is monitored through the INV, which has records of the past harvests of members and that receives a copy of every sale made to a *bodega* in Argentina. If a member sells to an outside enterprise, the cooperative has access to those records and membership can be rescinded. Membership is curtailed by its small capacity and it is expensive to buy new facilities and costly to rent space at other wineries for overproduction. As such, El Cerrito has no plans to expand its capacity and thus will maintain its membership base at 77 active members.

Cooperativa Vitivinícola Goudge

Just forty kilometers from the center of San Rafael, in the district of La Llave, the shoulder-less roads are lined with hundred foot tall poplar trees. Men and women bicycle with their children in their laps, barking dogs dodge passing cars. The open meadows, orchards and vineyards are bordered by poplars that tell tales of a peaceful farming community, but evidence of the economic struggle marks farms in disrepair. Vines and orchards overrun with weeds and dead, leafless limbs and vines from lack of irrigation are a commonality in this landscape. Turning off the main road down a long lane, a pulse begins to return to the air. The large, white buildings that make up the original *bodega* of the cooperative Goudge appear at the end of a tunnel of giant sycamores.

The Goudge cooperative was formed in 1968 and processed its first harvest that same year at the *bodega* in La Llave. Fifty-eight original members bought the winery and paid for it over a period of 5 years. Just like El Cerrito the cooperative was formed with the hope of making up price differences between producers without wineries and the private *bodegueros* who monopolized the market and paid poorly for grapes. The group

of independent producers took advantage of the federal government loans provided through the Banco de la Nacion to buy the *bodega*. They display many similarities to El Cerrito with regard to persistence of certain families in decision-making positions and an emphasis on economic benefits for its members.

Furthermore, the cooperative also had a bottling facility during the first couple of years of the 1980s. This operation was housed in the winery that Goudge purchased in San Rafael. The timing of the purchase of this second *bodega* and the bottling operation coincided with the onset of the wine crisis and clearly exhibited the co-op's faith in high consumption rates, even with the drops in production that accompanied the military coup in 1976. The bottling operation was an attempt to improve the cooperative's competitive edge as its local market began to slip away. So while El Cerrito chose to cut its losses and discontinue bottling, Goudge made the opposite choice to risk investing in a new venture.

Organizational Structure

Goudge currently has 247 socios but this number has fluctuated over the years as children of farmers migrated to cities or farms were sold in hard times. Most of the original members were from La Llave and Goudge, but later members came from the nearby community of Colonia Elena as well. Now members have farms all over the area. The membership annually elects the directive committee that includes the president, vice president, treasurer and secretary, vice treasurer, *sindicado* and a secretary *sindicado*. The two *sindicados* monitor the actions of the officers. The positions of president and treasurer are paid. The accounting for payment to members is done part in-house, but the cooperative hires an outside accountant to do formal accounting. Aside from the yearly

meeting to elect the directive committee, the committee meets about once a month in closed meetings. During harvest, because they are too busy, they will reschedule. Rare “emergency meetings” can also be called by a member of the directive committee.

Membership

Goudge has a larger *bodega* than El Cerrito with a capacity of 19 million liters. There are two *bodegas*, one in the city of San Rafael with a capacity of 3.5 million liters and the original *bodega* in Goudge with a capacity of 15.5 million liters. The *bodega* in La Llave overlooks the vineyards that belong to the cooperative. This cooperative’s size has both benefits and drawbacks. On one hand, it can be difficult to fill the winery to carrying capacity. As such, it is still possible for members to join the cooperative. Like El Cerrito, the only restriction on membership is a history of legal trouble. Potential members pay eight quintals per hectare of their crop for five years and henceforth are members for life. The only limitation on membership is the capacity of the *bodega*. To help fill the winery in years of low production, Goudge buys from non-members (*terceros*). It pays less to non-members than to members. For example: for one hundred kilos of grapes to a member, it pays for seventy liters of wine. To a non-member with the same amount of grapes, it pays only sixty-eight liters of wine.

Member Benefits and Services

Goudge offers credit through FeCoVita for farm improvements, including planting or grafting new varieties, anti-hail netting and machine purchases. These loans are guaranteed by the cooperative to FeCoVita so the co-op carries the burden of payment if the member cannot pay. This is a risk that Goudge, as a larger cooperative with more

liquidity can take. Another of the benefits of its size is its capacity to offer discounted agrochemicals bought through FeCoVita that they buy in bulk and keep at the cooperative. Through INTA and FeCoVita they offer free technical assistance—an agronomist that does free soil sampling and recommendations to rid plants of pests, molds, etc., pays visits to members' farms. This year, Goudge also began offering discounted gas to members. A particular gas station has a list of the socios and they buy at that gas station. Goudge also provides advances on harvest and transportation fees to both members and *terceros* (those who are not members but who sell to the cooperative).

Like El Cerrito, many of Goudge's benefits are services offered by FeCoVita in conjunction with the local cooperative, the agricultural extension service, or simply through buying bulk wholesale products. The two benefits they provide their members independently of FeCoVita are a discount on gas, and advances for harvest and transport fees. When representatives at Goudge talk about themselves in the future of wine production, they shrug and say that it is all in the hands of FeCoVita. In contrast to El Cerrito, Goudge uses nearly all of the opportunities provided through membership to the regional cooperative

Goudge, does not invest in better technology. But they are investing, at least for now in security by promoting and providing credit for hail protection. This will at least allow their members to count on a harvest. As long as a market exists for basic quality wines, these members will have a buyer.

Concluding Remarks on 1968 Co-ops

Had Fals Borda studied these cooperatives, they would have confirmed his 1971 findings. Created in periods of political oppression and government intervention in the wine sector, Goudge and El Cerrito focused on working within the existing system to improve the economic standing of their members by competing with large private wineries, and nothing more. That the government *allowed* their foundation clearly shows the importance of wine to the economy and a need to pacify smallholder vineyards in order to continue to supplement high rates of wine production. Marginal success was their limit and the constraints of the economy and the political atmosphere made it considerably difficult for them to survive as social or economic organizations.

As producers of *vino de traslado*, the co-ops were still paid more for their wine per liter than an independent producer received for his grapes without the value added for processing and fermenting. But co-ops were not in an ideal market position. Member producers had the opportunity of selling their grapes to wineries for higher prices, and getting paid more quickly, or of selling the wine made from their grapes through *bodegas* as *terceros*. While these were risky endeavors—private wineries in the area are notorious for cheating on prices or paying with bad checks—producers who were members of cooperatives often took those risks instead of selling to their co-op. By the time FeCoVitA purchased the bottling facility and brand names of Giol in 1990, cooperatives in San Rafael were in desperate need of a market share.

The shrinking internal market and later the inflation and subsequent opening of the economy that was experienced during the last twenty years of the 20th century

presented cooperatives losing the challenge of balancing economic survival with providing for their members. Ironically, just ten years after formation and relative success, the cooperatives found themselves powerless again in the face of a changing and more competitive market and unable to maintain the loyalty of their members. The chart below depicts the downward trend in production experienced by El Cerrito from 1976 through the latter part of the 1980s. Although there was some recovery in 1988, production declines once again until the formation of FeCoVitA in 1990.

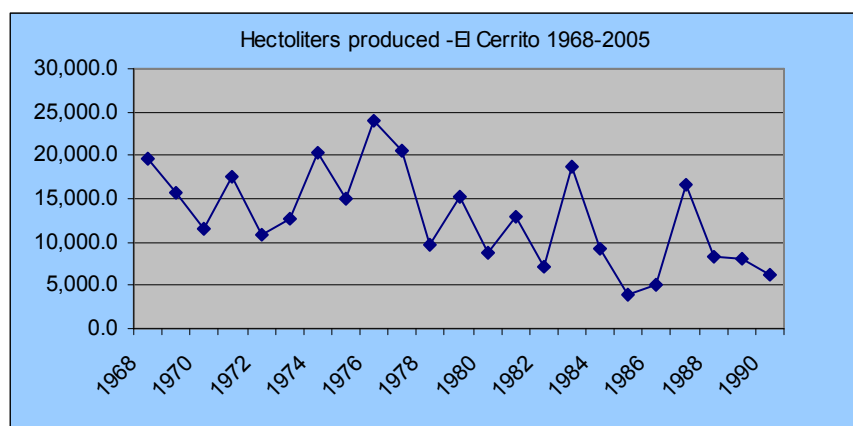


Figure 4.5 Source: Cooperative El Cerrito, San Rafael

Cooperativa Vitivinícola Sierra Pintada

Several kilometers outside of the city of San Rafael, down the Calle Moreno, a water tower painted with the words “COOP. VIT. SIERRA PINTADA LTDA.” can be seen. The main gate of the co-op opens into wide, dirt parking area. One side is bordered by row of small houses-turned-offices and the winery. A dormant garden enclosure bordered by leafless vines lines the walkway in front of the administration buildings. At the far end, facing the entrance a number of 30 foot tall cement storage tanks interrupt the

horizon. Shivering, bare-limbed trees dot the parking area in front of the administration buildings. The lab is in the furthest of these, dwarfed by the *bodega*.

The door opens and warm air rushes out. Alberto,¹¹ in his mid-fifties stands in the doorway and smiles. Lime green cabinets with white tile countertops line the room and are populated by wine bottles and test tubes, burners and beakers. It smells like an eighth grade science class, with only one major difference: wine tinges the air. Alberto heats water for a pot of coffee on a laboratory burner and then begins to tell the story of Sierra Pintada. People wander in and out, he serves coffee, wine, and conversation. Eventually talk turns to his family and his farm.

Alberto lives on a small *finca* (farm) in Cañada Seca, a district of San Rafael, where he was born and raised. His wife inherited it from her father in 1981. The *finca* is 5.5 hectares which, at the time of inheritance, comprised of a one hectare vineyard planted with muscatel and rieseling. He has since replaced two hectares with cabernet sauvignon trellised in the *parral* style and covered with hail netting. Recently he planted another two thousand square meters with cabernet that have not yet produced. In addition to grapes, he grows peaches and cherries on another 2.7 hectares of his farm.

His father's family came from Spain to San Rafael in 1910 at the time when tens of thousands of Spaniards and Italians were flocking to Argentina for work and land. When the province of Mendoza was investing heavily in irrigation and bolstering its small peripheral economy through grape production, his grandfather bought a farm but it was small and Alberto's father was forced to seek employment elsewhere. He found work

¹¹ Names have been altered to protect privacy

as a *contratista* on the vineyard of a German landowner in Cañada Seca. His father worked on the German's vineyard until Alberto was a teenager and his grandfather bequeathed part of the family farm to his father. As a youth, Alberto worked on other farms in the area to make money, while attending school.

After his father inherited part of the family vineyard, Alberto began to work on the family farm while he finished high school. His education trained him to be an enologist through a six year technical program that he finished at the age of nineteen. That same year he married and took his first job at a cider factory. Later, he got a job in a winery, and in 1975 obtained work from the provincial winery Giol at a local *bodega* in San Rafael.

At Bodegas Giol, he became a member of a team of enologists and over the next thirteen years worked his way up until he became head enologist of the *bodega*. Reflecting on the final days of provincial control of the winery, Alberto said there were so many employees that even when the *bodega* was at full capacity they could not afford to pay all of the salaries. State-run enterprises during that time period were notorious for supplying jobs to political friends of the party as favors, leading to gigantic inefficient and bureaucratic companies that lost money in salaries but remained funded by the government. As mentioned earlier, Giol, sustained grape prices by buying poor quality wines and grapes to keep them off of the market. This eventually resulted in the winery's negative net worth and when wine prices dropped at the end of the 1980s, the winery went bankrupt and was sold piecemeal as part of new privatization initiative. As other *bodegas* of Giol fell into private hands, a group of 21 independent producers combined to

buy the winery from the government over a period of ten years. Sierra Pintada was thus formed—bought from the province in 1988 for a sum of \$580,000 that would be paid in wine or its monetary equivalent. Alberto was the only founding member who had worked for Giol when it was run by the state. The other original socios were producers and vintners that brought their grapes to the winery to be processed and saw the purchase as defending their interests against unfair prices paid by private wineries.

Organizational Structure

Sierra Pintada has 331 socios who that annually elect a directive committee. The directive committee consists of an administrative body (President, Vice President, Secretary, Prosecretary, Treasurer and Protreasuer, and a *sindicatura* (*sindico* Titular, substitute *sindico*). Sierra Pintada has 11 paid employees: one in each the technical and the administrative sectors and nine personnel in the *bodega*. The President, Secretary, Treasurer and *Sindico* also receive paychecks from the co-op since their daily presence is required in the offices. Members can attend all meetings of the directive committee except closed meetings arranged to discuss sensitive issues, such as member impropriety. Overall participation is high—most members come to at least three meetings per year. Thirty members attended the December 2005 meeting of the directors.

Category	Hectares
Fine Reds	136
Common Reds	610
Fine Whites	202
Common Whites	1,517
Total	2,465

Figure 4.6 Source: Annual Report
Cooperativa Sierra Pintada 2005

The cooperative does not own any vineyards but its current membership statistics can be seen in Figure 4.6. The previous table shows how small a portion of the members' vineyards have been converted to fine wine varietals. Just 14% of over two thousand hectares have undergone the process even though the industry on the whole has begun to shift away from basic wines.

The *bodega*, one of the oldest in the area, has a capacity is 11.9 million liters. While it does not fill to capacity every year, the cooperative is not accepting new members. It also has a very limited bottling operation and is the only cooperative associated with FeCoVitA in the area that does, since Goudge and El Cerrito discontinued bottling before Sierra Pintada even formed. It bottles wine mostly for sale to its membership although it has its own brand names: *Cosecha de la Tierra* and *Sierra Pintada*, and will sell outside the membership. In 2005, they bottled the following amounts in six bottle packs of 700cm³ each and damajuanas of 4.7 liters:

Category	Liters
White	44,215
Red	108,177
Blush	13,970
Total	166,362

Source: Annual Report Cooperativa
Sierra Pintada 2005

Member Benefits and Services

Sierra Pintada, like the other two cooperatives, provides technical advice through a joint effort by FeCoVitA, INTA and the cooperative. It provides discounted agrochemicals, clothing, gasoline, tractor use, hail netting and credit—through

FeCoVitA. Unlike the other cooperatives in the area affiliated with FeCoVitA, it disperses part of its yearly profits to its members according to the number of liters of wine brought to the cooperative. In this way it is distinct from the other cooperatives. It also provides computer classes for its members. Other benefits include consistently higher prices offered by the cooperative through Fecovita for wine, which trickle down to the members.

Membership

There are no restrictions on membership to Sierra Pintada other than the capacity of the *bodega*. The cooperative is not currently accepting more members because it has reached carrying capacity with its current membership, and renting space in other wineries is costly. Since 2002, Sierra Pintada has not bought grapes from non-members (*terceros*) since 2002 the *bodega* has reached full capacity. Previous years (particularly 1991 and 1993) required buying from non-members as hail storms and frosts damaged harvests and member production was low. This chart depicts the production of Sierra Pintada since inception, the persistence of the damage of the 1991 hail storm, which affected more than ten thousand hectares of vines is evident for several years with a frost in November of 1992 that affected the 1993 harvest.¹²

¹² Besa, Raul. Estudio sobre los daños de granizos en San Rafael.

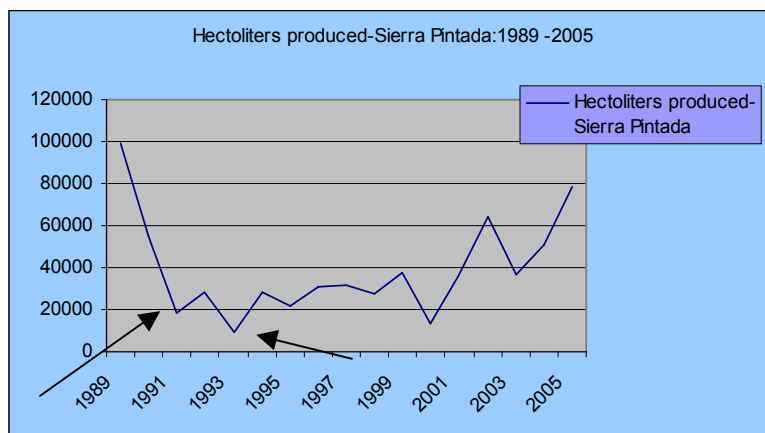


Figure 4.8 Source: Cooperative Sierra Pintada

Technology

Depending on whom you talk to, Sierra Pintada either does or does not need to upgrade its equipment to accommodate fine wine production. Suggestions have been made to buy more tanks and increase the capacity and quality of technology of the *bodega* using the cooperative's profits over the last couple of years. The treasurer believes a capital investment in fermentation tanks has risks. The possibility that the market will be flooded with better wine and the cooperative will be unable to sell the product for enough to repay that investment, in his opinion, is too great a risk to take with the members' money. The enologist and the agronomist believe that the cooperative should to diversify into better quality wines to protect itself. Without newer equipment the cooperative will be left behind in technological terms and the market for basic wine will continue to diminish. Furthermore, they already have farmers cultivating fine wine varieties, an investment in better fermentation equipment would bring a better price to

them. The difference in opinion represents the issues that cooperatives face within the increasingly innovative and competitive market.

The agronomist feels that the cooperatives in San Rafael need to visit the facilities of some of the cooperatives in the northern part of the province because the distance from the center of wine technology and the market leads to resistance to change. According to him, the cooperative's initial resistance to the idea of FeCoVitA was similar to the current opposition to invest in better technology. But after joining FeCoVitA, the co-op became convinced of its benefits. He foresees the same reception for improved technology.

Conclusion

The political and economic history of the cooperatives in San Rafael differentiates them from each other, particularly in the realm of member participation in decision-making and benefits provision. Even though all of the local cooperatives studied in this chapter were formed with the help of the government, and with the goal of competing against local monopolies in the wine market, the formation of El Cerrito and Goudge during a period of military rule, as a response to rural unrest, distinguishes these cooperatives from their more modern counterparts. The effects of the dictatorships that underpinned the formation of the earlier cooperatives has itself manifested in a persistent lack of promotion of democratic values among the members. Even if the government was not directly involved in writing the bylaws, they were submitted to a political authority for approval. Inclusion of ideas about social change in addition to economic benefits, if they existed at all, would have precluded the financial support of the government.

Goudge still does not actively encourage member participation in meetings. At both Goudge and El Cerrito many of the original *socios* (members) are still on the directive committee nearly forty years after their creation. While the decision-makers of Sierra Pintada have not changed significantly either, members are encouraged to participate through open meetings, even if the committee has been accused of fixing decisions and buying votes before general meetings. Nonetheless, none of the co-ops makes any focused effort to promote cooperative education among their membership. The members of the directive committees seem committed to the status-quo.

Other ways that these cooperatives differ is in their provision of benefits and services. Appendix A outlines the various services and benefits provided by each cooperative. El Cerrito offers the fewest benefits and Sierra Pintada, the most. Goudge offers services mostly through FeCoVitA that its contemporary does not take advantage of. The reasons for El Cerrito's conservativeness can be attributed to its small bodega and membership. It regards change with suspicion having witnessed so many drastic changes. Perhaps as a result of these experiences, it takes advantage of higher prices available to its members through FeCoVitA, but beyond that, members can use those profits as they choose. The cooperative will not take the financial risk of providing credit or investing in upgrading the *bodega*.

Goudge, on the other hand, takes advantage of nearly all of the benefits of membership to the regional cooperative but does not provide many extras to its members independently of the Federation. The organization is large enough to take the risk of

individual members not repaying their debts, and can provide quite a number of benefits to its members as a result.

Sierra Pintada offers its members benefits that far exceed those offered by its counterparts. Whereas Goudge offers agrochemicals through FeCoVitA, Sierra Pintada buys tools and clothing independently and sells them at cost to its membership, in addition to the agrochemicals it buys through the Federation. It owns machinery that is available for use by its members at a discounted rate, and provides computer classes and discounted gasoline (available through a local service station). It is the only cooperative associated with FeCoVitA in the area that disperses a portion of its profits to its members when there is a surplus. Furthermore, members can buy the wine made with their grapes and bottled at their own winery. This connection with the final product must support a sense of pride and perhaps a greater commitment to quality on-farm practice.

As evidenced in their high meeting attendance and member benefits, Sierra Pintada is more open and progressive than the other two cooperatives. The political conditions of its foundation might be responsible for that difference. Unlike its peers, Sierra Pintada was formed during a time of democracy in Argentina. And while Sierra Pintada founders also took advantage of credit to buy the winery, it also made a much more symbolic social move. They purchased a piece of a government entity that symbolized control and manipulation of the industry and undemocratic politics. Unlike the others, it was founded during a time of market crisis in the wine industry and thus was born with the idea of providing innovative solutions to the crisis. Furthermore, given the inflationary trends of the time, quality service provision by the cooperative was necessary

to maintain and attract members. The other two were formed during a market boom. The members had only to buy a *bodega* to be able to compete with big wineries.

All of the cooperatives lack technological advancement at the site of processing. The industry standard for basic wine will improve as a result of better production standards and technology and drive down prices and marketability of basic wines as they are currently fabricated. Must production can only balance overproduction to a point and hygiene standards have changed for that as well. Inevitably, the market of basic wine is diminishing. Choosing not to upgrade equipment, leans too far towards protecting the membership and neglects economic responsibilities. If these cooperatives continue to rely on the production of basic wines, they might find themselves once again without a buyer.

To deny obvious trends in the industry fosters a lack of flexibility that threatens these local cooperatives. Having survived past crises can tempt cooperatives to choose to live in the past. While learning lessons is important, past successes can have an imprisoning effect that curtails innovation and success and some of the local cooperatives now resist changing with the continually shifting tide of the wine industry. Change may be risky, but not changing is perilous. The older cooperatives, and Sierra Pintada, to a lesser degree, must address the vast changes in the wine industry and the politics and economics of Argentina over the last forty years. They do their members an injustice by not taking the opportunity to upgrade their technology and educate their constituents and their leadership in order to discover the best way to service their members.

CHAPTER FIVE: FREE MARKET ECONOMICS AND THE FORMATION OF FECOVITA

Grape producers and cooperatives have endured many challenges throughout the last two centuries; particularly since the 1970s. These provide the basis for a discussion of the political and economic underpinnings of the formation of the Federación de Cooperativas Vitivinícolas Argentinas (FeCoVitA) as a provincial cooperative. Wine cooperatives in Mendoza Province, like many other cooperatives, have formed a regional or province-wide organization in response to increasing pressure on local cooperatives to compete in global markets. Wine was a global industry long before recognition of that by producers in Mendoza. Argentina protected producers and wineries with economic nationalism and goliath trade barriers. Wine makers produced mainly for their domestic market and their ability to import supplies and technology from other countries was inhibited by the same tariffs and taxes that protected their monopoly on the domestic market (Stein 2006). The implementation of neoliberal economic policy coupled initially with economic crisis, exposed the sheltered industry to competition with wine producing countries that had a head start in the globalized industry. Their chance for survival came with the privatization of the Bodegas Giol (beginning in 1988) and the subsequent auctioning off of the central bottling facility and well-known domestic brand names. The Federation of wine cooperatives in Mendoza bought the bottling facility and brand names. This chapter evaluates the benefits that local cooperatives have enjoyed through integration into FeCoVita and points out the potential of the cooperative sector. It also

draws parallels with the Mendoza experience and that of the cooperative movement as a whole and poses questions about future challenges to the Federation and local producers.

Globally, agricultural cooperatives have coped with increasingly industrialized and more technologically advanced farming competition through shifts from more decentralized decision-making structures to more centralized ones. In many cases, they have experienced subsequent changes in the nature or number of services provided to members (French, et. al. 1980). Argentina's wine industry is no exception. As discussed previously, cooperatives at the time of the Federation's formation found themselves in inferior bargaining positions with larger wineries to which they sold their wine. As the domestic market became more competitive it forced wine producers to look outside the country for consumers. The local cooperatives had to integrate themselves more directly into global and internal markets.

Thirty-one cooperatives now form FeCoVitA which represents approximately five thousand producers: 3000 who are directly members of local cooperatives and 2000 *terceros* who bring their harvests to local cooperatives to be processed, and then sell their wine to FeCoVitA by way of the cooperative. They are represented by five committee members in FeCoVitA who are biennially elected by the directors of the local cooperatives. Some 22,000 producers remain outside the cooperative system altogether.¹³

Of the non-integrated farmers, about 21,000 of are smallholders. They do not have the facilities to fabricate their own wine and, and as a result, often must accept undesirable contracts with larger wineries, interested in paying the lowest price for

¹³ Interview with ACOVI representative, January 2006

grapes. Additionally, they have only limited access to the latest technical knowledge, and credit. As such, those involved in the PEVI look to the cooperative sector to integrate these independent producers and provide them with credit and training.

Small producers are not the only ones that need organizational help with the market. As we saw evidence of in the previous chapter, local co-ops also experienced increasing difficulty with the market as a result of free market economics. The success of regional integration of the cooperative system is best represented by the cooperatives El Cerrito and Sierra Pintada in San Rafael before and after the formation of FeCoVitA. As depicted in figures 5.1. and 5.2., wine production in San Rafael decreased by fifty percent between 1989 and 1991 and production rates in the two cooperatives plummeted by more than eighty percent. This downward trend can also be attributed to the hailstorm and frost that plagued harvests in the years 1991 and 1993, but inclement weather cannot be held entirely responsible. The total production for the province suffered during those years when San Rafael district contributed just 6.1% and 3.97 %, respectively, to provincial production.

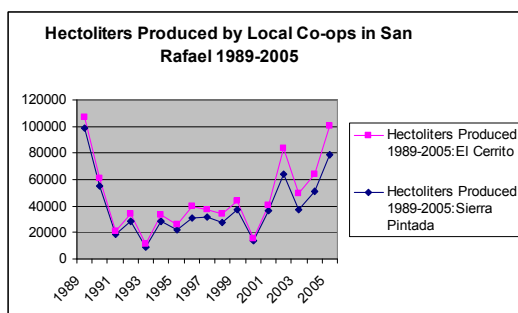


Figure 5.1. Source: Enologo Oscar Marnuel Sierra Pintada and Co-op El Cerrito

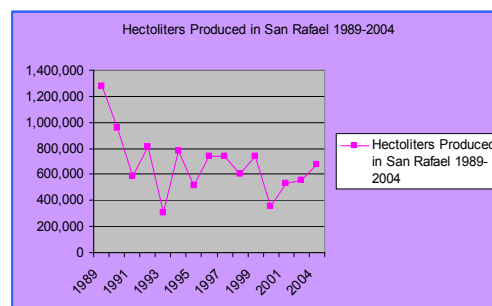


Figure 5.2 Source: Estadísticas Anuarios INV, Mendoza

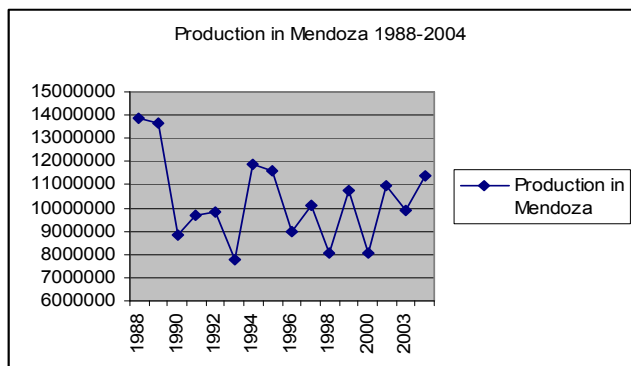


Figure 5.3 Source: Anuarios Estadísticas INV, Mendoza

Nonetheless, after the formation of

FeCoVitA in 1991, highs and lows more closely mirrored those of the department on the whole indicating that they were competing successfully with local private wineries. After the devaluation of the peso in 2001 Cooperativas Sierra Pintada and El Cerrito showed more dramatic increases in production than the province on the whole. Furthermore, the commercialization rates of the Federation also report its success. The Federation supplements production by buying from *terceros* in bad years to keep its market share strong. Figure 5.3 contrasts with figure 5.4 to show how FeCoVitA maintained a level of stability during the 1990s when provincial trends were inconsistent. The crisis of 2001 impacted the Federation greatly due to its dependence on the domestic market.

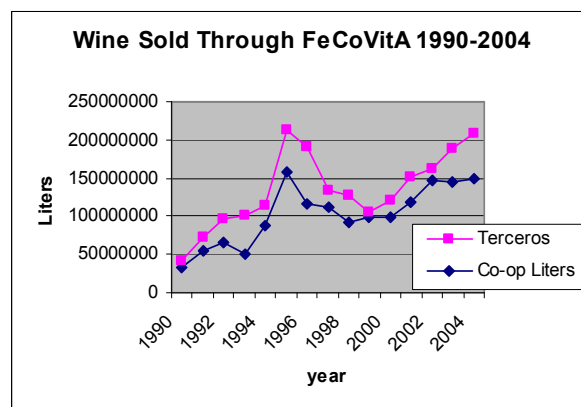


Figure 5.4 Source: FeCoVitA Coop. Ltda., Mendoza

FeCoVitA connects small grape

producers to international consumers and the domestic market that they had previously lost. It also serves as an example of cooperative entities negotiating democratic principles

supporting the membership that conflict with the need to make efficient and logical economic decisions. The latter can tempt organizations to exchange democracy for bureaucracy (2004: 80). This bureaucratization results from the need to navigate increasingly large and complex organizations and markets. The logic behind bureaucratization is that members have little knowledge about global economic issues and are thus unable to make the informed decisions of experts (2004:84).

Some regional cooperatives that have decreased benefits to their members in pursuit of economic viability, but FeCoVitA has attempted to expand and improve the services it offers to its members. Many of the benefits offered by the local cooperatives are funneled through FeCoVitA. The Federation's commitment to technical assistance and other services provides mutual benefit. Nevertheless, if care is not taken to educate and reward farmers properly, the centralization of authority threatens to increase the lack of connection between grape producer and final product and will result in the inability of the Federation to exercise control over the grapes in the field and their processing in local cooperatives. FeCoVitA's mission statement proves that it is well aware of this. The organization defines its need to allocate resources and capital to efficiently improve the products of its members and maximize their benefits while remaining flexible to foster the development of its membership and the communities in which we operate. This will, in turn, satisfy the consumers.¹⁴

¹⁴ This mission statement comes from a 2005 presentation of FeCoVitA Coop. Ltda: "Análisis Estratégico"

FeCoVitA

Unlike the open gates I wandered through at the local cooperatives in San Rafael, FeCoVitA hides behind a tall, white wall and two iron gates, each with evident, albeit amiable security guards. After paying my taxi driver, I hop onto the curb to ask one of the uniformed men how I might enter for my appointment with the Export department. He pointed down the block to another entrance, where I was buzzed into a small holding room next to the gate. I gave my name to one of three security guards. We laughed over the spelling and pronunciation of my exceptionally non-Latino surname, a phone call was made, something vaguely resembling my last name was uttered into the mouthpiece with a smile, and I was escorted out a door on the other side of the room, across a parking lot, and into the administration building.

When Vicente entered the room, he reminded me of the three men I had spoken with previously in Marketing. He was young and professional with a family name tied to politics but not necessarily wine. He neither farmed nor was he a member of a local wine cooperative. He has academic and professional experience in marketing and was knowledgeable about where FeCoVitA needed to expand its market to prosper.

These young employees of FeCoVitA represent an important trend in cooperativism. As markets become global, decision-making about the financial goals of the cooperative often fall into the hands of non-*cooperativistas* who may know little about farming or even wine, but know a good deal about the wine industry. Members of local cooperatives who spend their time farming, have little time to educate themselves on the intricacies of the market. As a result of competing on a larger and more

international scale, these members are finding themselves part of a cooperative system in which non-member experts influence decisions more than they do.

Organizational History

FeCoVitA was first formed in 1989 as an association of cooperatives with the goal of collaborating to better represent members as a trade union. In 1989, it bid in auction on the Unidad de Fraccionamiento y Comercializacon de Bodegas Y Viñedos GIOL, which was the bottling and commercial division of the financially unstable government-owned winery. In April of 1990, in the midst of a bout of inflation just before Menem appointed Cavallo as his Minister of Finance, FeCoVitA took possession of the facility and its commercial brand names: *Toro*, *Nativo*, *Toro Viejo*, *Diamante*, *Torito*, among others. Henceforth, FeCoVitA served as the marketing arm of the regional cooperative system. The buy-out of the state winery expressed a restructuring within the industry of the relationships between grower, intermediaries and the consumer (Onofri 2000). The government was no longer directly involved in wine production in Mendoza and, through FeCoVitA, local cooperatives became directly connected to the internal and external markets without price-fixing and quotas previously provided by the government.

FeCoVitA processes about 15% of the grapes produced in Argentina and controls 16% of the internal market and 17.5% of the external market, making it the third largest wine enterprise in the country. This is particularly impressive because, of the leading organizations, it is the only one made up of small producers that allows their direct participation. Its participation in the market has given it the position as a primary force in setting the price of wine and giving the decision process greater transparency. It is also a

member of CONINAGRO, the major national agricultural cooperative that serves as a trade union for agriculturalists and lobbies the needs of the sector in politics (Rodriguez 005). The chart below shows FeCoVitA not only as the third largest exporter of wine in 2004, but also as the third largest exporter of must, exporting 9,620 tons in 2004, for a market share of 9.7%.¹⁵




EXPORTS OF BOTTLED/BOXED WINE PER BODEGA 2004 (TOTAL LITERS)

Bodegas	Litros	%
RPB	13.846.356	13,0%
Peñaflor	10.570.014	9,9%
FeCoVitA	10.338.453	9,7%
Trivento	6.642.180	6,2%
Bga Esmeralda	5.588.190	5,2%
La Agricola	4.060.476	3,8%
La Riojana	3.957.426	3,7%
Norton	3.956.418	3,7%
Otros	47.755.521	44,8%
Total	106.715.034	100,0%

Figure 5.5. Courtesy of FeCoVitA Coop. Ltda. 2005, Mendoza

Member Benefits

FeCoVitA offers its members direct access to the market which in turn allows it to provide other benefits to its member co-ops. Prices paid to the co-ops for wine are decided monthly by the regional co-op, whose marketing power gives it influence in price decisions of the Bolsa de Comercio. As a combined entity, member cooperatives have massive selling and bargaining power. Previously, the Asociación de Cooperativas Vitivinícolas (ACovi) offered members equipment and other goods, such as fertilizers and pesticides at wholesale prices. As of 2005, FeCoVitA took over the buying of those

¹⁵ FeCoVitA Coop. Ltda 2005. "Análisis del Entorno Vitivinícola." power point presentation

materials and ACOVI serves as a type of trade union of all 35 of the wine cooperatives in Mendoza. Through El Instituto Nacional de Tecnología Agropecuaria (INTA), the national agricultural extension service, the Federation provides free technical assistance to its producers. Through the local cooperatives, the Federation offers credit to producers for improvements to their vineyards. These types of improvements, for example, include buying and installing anti-hail netting or investing in better varieties. The Federation also provides free transportation of wine from the local cooperatives to the bottling facility in Maipú, on the fringes of the capital city, through a trucking cooperative in the province. Providing

transportation for cooperatives outside the area—like those in San

Rafael—is crucial to their success. To pay the transport fees for fifteen million liters of wine would be a huge financial burden for local cooperatives, that would be difficult to support with the sale of table wines.

Furthermore, FeCoVitA consistently pays more per liter of wine than the market price, providing incentive for its member cooperatives to sell within the cooperative system. This year they consistently met the goal of surpassing prices listed in the Bolsa de Comercio de Mendoza (see figure 5.6). The graph represents the differences in the price paid for wine by FeCoVitA versus those registered in the Bolsa de Comercio. The

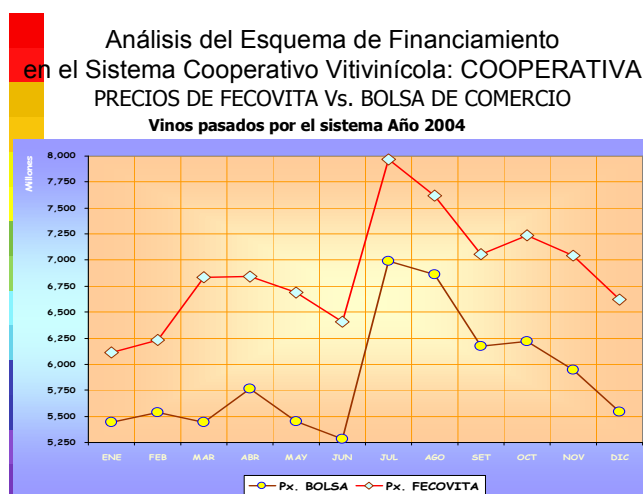


Figure 5.6 Prices Paid For Wine by FeCoVitA versus Price Set by the Bolsa De Comercio-Mendoza. Courtesy of FeCoVitA Coop. Ltda., Mendoza

dip in price in June coordinates with the release of the wine for the New Year into the market. A brief over-availability drives down prices until balance is achieved again. This could be the most important benefit supplied by FeCoVitA because it helps promote loyalty among local cooperative members.

The local member co-ops have also seen a reduction in fees just in the last year. Originally they paid 6% of their “*cupo*”—that is the variable annual number of liters FeCoVitA buys from each cooperative—towards “*capitalización*,” that served the purpose of building up a financial base, or endowment for the cooperative. Now they pay 2%¹⁶. This decrease could be seen as evidence of success within the cooperative as it has managed to accrue \$57,629,781 pesos in financial capital over the last fifteen years

Participación de FeCoVitA en las Salidas de Vinos del País

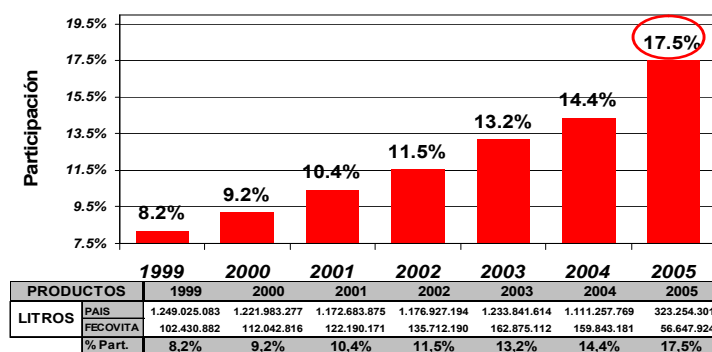


Figure 5.7 Courtesy of FeCoVitA Coop. Ltda, Mendoza

capital by both the regional and local co-ops (Rodriguez 2005). With this financial base, the cooperative has a firm foundation with which to provide for its members.

(Rodriguez 2005). This effort was made by the local cooperatives upon formation of the Federation with the intention of building up capital. Other contributors to FeCoVitA’s endowment are *terceros* who play an important role in the accumulation of

¹⁶ 2005. Interview with Administrative Assistant, FeCoVitA

FeCoVitA's Growth

FeCoVitA rocketed from producing just 30 million liters of wine in 1991 to producing over two hundred million liters in just fourteen years.¹⁷ Ninety-five percent of its current market is internal. FeCoVitA's main limitation is the quality of wine it produces. They box and bottle over fifteen million liters of wine per month for a total of about 200,000,000 liters per year that sells at an average of \$1-4 pesos per liter. While it is slowly making its way into finer wines, they still represent a mere 5% of its sales. But this has not prevented FeCoVitA from participating in a major growth in the cooperative sector over the last six years. Its capital has grown by \$57,282,941 pesos since 1999.¹⁸ In Mendoza its membership is responsible for 15% of all wine production and 16% of wine sales.

The Federation's success is also visible in the growth of its exports over the last six years. Figure 5.7 shows the percentage that the Federation holds in the export market in all of Argentina. The bottom portion has a chart that shows the actual number of liters exported by Argentina and FeCoVitA, which currently holds approximately 17.5% of Argentina's export market.¹⁹ According to the table above its participation in the export market has more than doubled since 1999, regardless of the competitiveness of the market. The Federation exported wine to seventeen different countries including the U.S., Great Britain, Russia, Colombia, Uruguay, Canada and Sweden. In 2005 they began to export to Angola, as well, having already exported 145,000 liters by April of that year.

¹⁷ 2005. Interview with Marketing Department, FeCoVita

¹⁸ FeCoVitA 2005, Mendoza

¹⁹ Interview with FeCoVitA representative in Marketing January 12, 2006

These markets cover the spectrum of different qualities of wine, from very fine wines to Great Britain to fine and medium quality wines to the U.S. FeCoVitA has a marketing strategy that covers the gamut of the export market. The Federation also exports must to six countries: Russia, the U.S., Peru, the Netherlands, the Ukraine and Brazil, making nearly \$7.5 million dollars from this product in 2004.

The export growth since 1999 forms part of an apparent two-pronged approach that the Federation has taken to alleviate its dependence on the domestic market, while at the same time protecting its share. In September of 2005 FeCoVitA bought a winery, called “Estancia de Mendoza” in the department of Tupungato, with the intention of producing fine wines. The department of Tupungato is renowned as the “Napa of Mendoza,” because many of the most impressive bodegas are located there. This purchase constitutes a major step forward for the cooperative, and gives evidence of its awareness that it must diversify its production. The purchase of the bodega will allow the cooperative to expand within the export as well as the internal market.

FeCoVitA and the PEVI

The Plan Estratégico de Vitivinícola Argentina (PEVI) has helped provide some of the newer research supporting the role of FeCoVitA in the broader plan for the Argentine wine industry. PEVI has reiterated the importance of small producers in both the production and image of Argentine wine. Small producers are considered part of what is unique about Argentine wines as well as an important part of the economy of Mendoza. The Federation’s role in the PEVI involves promoting the integration of small producers

into the wine production chain so that they will not be abandoned as a result of industry advancement.

Furthermore, FeCoVitA also draws its members into a cooperative arrangement between private and public interests, large and small producers, with the goal of improving the overall strength of Argentine wine in the domestic and global market. The competing interest groups could represent a challenge for the Plan, but its solid recognition of small producers and FeCoVitA's standing as a major institution in the sector currently stands to benefit *cooperativistas*. The Plan is raising money from all of the interest groups to promote wine consumption on all levels. This should positively affect the cooperative sector both socially and economically.

Conclusion

Since the formation of the Federation in 1990, benefits have increased for producers and local co-ops, but in the wake of the crisis a new hurdle exists for the wine cooperatives in Mendoza to overcome: the globalization and increasing competitiveness of the wine industry. Meeting this challenge, the cooperative will have to maintain the participation of its membership, while staying economically competitive by seeking out new consumer markets and diversifying its product base. Urging its member cooperatives to continue to improve the quality of the product they sell to the Federation by taking advantage of the services it offers could be one of the most difficult obstacles it confronts. FeCoVitA's ability to respond to the demands being placed on the industry both by the producers and the consumers will be challenged over the next several decades

as it becomes increasingly dependent upon the external market and the internal market with ever more selective taste in wine

As domestic and global tastes become more sophisticated, FeCoVitA's member cooperatives will be required to improve the quality of their product or face the possibility of losing ground in the market. The process of producing fine wines must meet the highest standards from the field to the bottling facility. The Federation has already begun to address this reality, but the process will place pressure on the cooperative system at the local level, as the equipment producers use to select and process grapes at present is unsatisfactory for the production of fine wines. Upgrading equipment and growers practices is a costly process. Most members do not have the capital to invest in these ventures. In order to invest in technological improvement, member cooperatives will most likely become increasingly dependent upon FeCoVitA to provide credit and other assistance to their growers.

As for mediating the crisis, FeCoVitA's foundation seems to have cushioned the blow of convertibility and economic crisis on its producers. It was unable to shield them entirely, but it still was able to provide a buyer for its members. Securing the Argentine market through the acquisition of recognized national brands increased profits due to domestic buying power resulting from the overvaluation of the peso. Even though cultivation rates declined in the latter part of the 1990s, FeCoVitA's growth, the testimony of local cooperative representatives and the fairly steady production rates of Sierra Pintada and El Cerrito indicates that FeCoVitA successfully aided its members.

With over five hundred employees and over one billion pesos per year in business, FeCoVitA has grown enormously over the last fifteen years. This growth resulted from a strong entrance into the domestic wine market through the acquisition of well-known national brands, and indicates that the overvaluation of the peso during the 1990s did little to hinder its ability to find a growing market for its product. Moreover, since the devaluation, the Federation has gained strength in the external market.

The formation and success of the Federation during the 1990s and early part of the new century represents the flexibility of Mendocino cooperatives to adapt and create opportunity in a considerably harsh and unstable economic environment. Through local wine cooperatives and INTA, FeCoVitA has provided equipment, chemicals and technical assistance to producers and given local co-ops the fiscal power to buy at least the majority of their members' harvests. Cooperatives now have access to credit for improvements and capital investments should they choose to take advantage of it. According to a representative of one cooperative in San Rafael, since FeCoVitA was founded, co-ops have had no difficulty selling their wine (Goudge, personal communication) and, they nearly always receive above market prices for their product.

FeCoVitA has succeeded as a result of the increasing bureaucratization of its organizational structure. Experts who are well-schooled in economics and marketing have spotted openings for the Federation and continue to make decisions that will benefit the economic situation of the cooperative. It has not compromised the provision of benefits to its membership because it depends upon member participation for success. Nonetheless, it is increasingly necessary for FeCoVitA to push certain improvements on

its membership that they would in turn be forced to take advantage of credit from the Federation to implement. Stressing the importance of these investments to local cooperatives is difficult as they are separated from the international market, less aware of standards and wary of change. Yet only by ensuring its consumers a consistent product will FeCoVita succeed.

For now, the cooperative has made an effort to counter this threat through the provision of services and benefits. Credit for capital improvement is worthless if the local cooperatives do not take advantage of it. Similarly, technical assistance is fruitless unless producers comprehend their role in production of the final product. The fading connection between producers, cooperatives, and the wine that the Federation sells, challenges FeCoVita to seek new ways of strengthening the participation of its producers while maintaining a strong hold in the wine industry.

CONCLUSION

Cooperatives have existed for nearly a century in Argentina's wine industry. The industry has experienced the uprooting and replanting of vines three times in the last century, a series of booms and busts, national and provincial government intervention, and abandonment, and today, an increasingly technical and complex market. No wonder local cooperatives and producers distrust outside encouragement to change varieties again and invest in new technology to take advantage of yet another market tide change that could sweep them out to sea. But acceptance or denial of these opportunities might well determine not only the economic success of these organizations, but also their ability to change social relationships within the wine sector.

The 1960s saw the replacement of quality French varieties with high yield varieties to take advantage of the booming market. A major change has happened in the industry that sets this period apart from previous experiences. The emphasis has turned to quality instead of quantity, which necessitates a restructuring of the traditional production chain. Today, wine costs more to produce, because equipment and labor both cost more with the goal of producing wine that can compete in the international market. While previous crises merely turned to price and stock controls to balance overproduction, surviving today's market shift demands much more complex measures. It requires an investment in knowledge as much as in technology. It requires an investment in alliances between all participants in wine production, because the bar must be raised on all wine produced, and that change begins in the field. New quality controls must be implemented from the field to the bottling plant to maintain and bolster the image of Argentine wines worldwide.

Some of the most important challenges the wine industry faces the new controls on quality, organic, Fair Trade and other social and environmental movements, and food safety that constitute trade barriers in the free market when trade barriers must be called by other names. These represent new types of protectionism on the part of wine producing countries, since most countries that consume wine also produce it and seek innovative ways of protecting their internal producers and guarding their consumers. As technology upgrades continue and producers pinpoint new markets guarded by laws requiring imported wine meet certain standards, wineries will have to produce better wine even if it will not bring the highest prices. Since the process begins on the vineyard, tackling these issues involves the integration of small producers into the PEVI.

Argentina has changed politically since the formation of El Cerrito and Goudge cooperatives. Whereas they were formed during periods of political oppression and government interference, the political system has since adopted a democratic system and a Neoliberal economic model. The formations of Sierra Pintada and the Federation show producers taking advantage of both of those opportunities and also signify something more. The usurpation of previously government-controlled entities by smallholding producers could indicate larger social change in the rural wine sector.

The PEVI plays a role in furthering this change due to its characterization as an alliance among a number of different interest groups within the wine industry. It has pinpointed, like a number of researchers throughout the twentieth century, the major issues facing the industry, some of which echo problems that have existed since the beginning of wine production in Argentina more than a century and a half ago (Mateu

2006). This is logical because what the industry really faces is the task of disarming a structure of wine production founded and nurtured upon quantity. In pursuit of quantity, cutting costs motivated everyone in the wine production chain. The unimpressive end-product resulted from unhygienic, uncontrolled fermentation of low-quality, often unripe wines (Stein 2006). Many of the main actors still have not invested in producing quality only large quantities of wine. The financial relationships along the production chain have done nothing if not reinforced those values (Stein 2006). Wineries were financially rewarded for producing quantity, *viñateros* were paid the same for good grapes as for common grapes and *contratistas* and day laborers still benefit from harvesting as large a quantity as possible because they get paid by the kilogram.

Wineries without their own vineyards could do little to control the quality of the grape coming in at *vendimia* and until recently did not need to. Now private bodegas can be more selective about what they buy or they have the option of investing in their own vineyards. Cooperatives are in a more difficult position. Their members own them and have an expectation that the co-op will buy their harvest. If growers can continue to provide a sub-par product, many are willing to be paid for basic wine. Cooperatives depend upon the loyalty of their members and obtain it, in part, by acting as a buyer. If they become selective, they might lose members before the members recognize that no one will buy their grapes anymore. Unfortunately, the consumer's interest in consuming such a product has waned. Even in the production of basic wines and must, certain standards are being enforced that cooperatives will soon have to recognize.

Cooperative integration is one way of bringing producers closer to the end product as they get paid more based on the quality of grapes they harvest. Moreover, cooperatives must also invest in the end product and in the case of San Rafael, these organizations are comprised of farmers, many of whom distrust change if not wholeheartedly resist it. El Cerrito, for example has limited capital because of its size, but is so wary of the market that it hesitates to take a loan from FeCoVitA even only to improve the basic sanitary conditions of its bodega. Providing benefits to members is only part of the responsibility of these cooperatives. They must take advantage of the credit available through the regional cooperative to improve technologically as well. They support crop security on the farm through hail protection, and many members have replaced *criollo* with finer varieties in response to changes in the industry. Not all of them are participating in this replacement process. As the treasurer of Sierra Pintada pointed out, if everyone plants fine grapes, the market will soon be flooded with them and prices will drop. The same explanation is used to argue against investment in better fermentation equipment: if everyone produces good wine, the prices will go down and the cooperative risks being unable to pay off its investment. These cooperatives certainly walk a line between risking a mistake by investing in the future of its members or trying to maintain the status quo and risking being unable to compete in the future.

FeCoVitA's entrance into the realm of fine wines serves as a harbinger of the future to local cooperatives. While the bodega in Tupungato is small, its existence means that within the cooperative sector, at the local level, we will begin to see more differentiation in the quality of wines produced. A complete change to finer wines may

not take place immediately. FeCoVitA is exploring emerging markets in China and Latin America that prefer basic wines, but the likelihood of an overall need to improve the quality of even basic wines remains. Local cooperatives, like those in San Rafael that do not begin to meet increasingly strict international standards for hygiene and tastes for quality from field through fermentation will find themselves without a buyer for their grapes.

FeCoVitA's success lies in the continued advancement of its producers. In order to counter the possibility that they will not advance, it offers free technical assistance through INTA and the local cooperatives. This will not work if local cooperatives and producers shut their eyes to the realities of a global market. An effort must be made to educate producers about their role in and the reality of the international wine market.

So within the larger frame of cooperativism, the Federation is located at the friction point between the past and the present. It encourages cooperatives to shed a volatile past and have faith in an unpredictable future. It creates opportunity for producers and local cooperatives while at the same time placing decision-making further from their reach. It asks them to produce for a consumer that may not be their countryman and requests devotion to a market that has no borders or boundaries or loyalty, that requires investment in things that cannot be sold as quickly as tastes or the market might change. And yet it represents a unique opportunity, not only for small producers to gain access to a better livelihood, but also for the wine industry in general, as its emphasis on vertical and horizontal integration of small producers could improve the quality of all wine produced in the country.

Now, all producers in the industry stand to benefit from improvement in the quality of Argentine wine. As such, the wine elite and government officials are not as opposed to the improvement of the small farmer's position. Instead of battling for political and social openings, FeCoVitA finds itself faced with battling historical perspectives on wine production that have shaped production and social relationships within it. But its very formation and that of Sierra Pintada represent a change in the structure of wine production. The government's control of the industry was placed in hands of small producer cooperatives in a democratic environment. The Federation faces a competitive international market that has poked numerous holes in the political and social fabric that suffocated small producers in Argentina. Not only has it been successful economically, but it also has developed this success from the ground up. Local co-ops saw an opportunity and took it. Now, both the political and wine-making elites recognize the value of FeCoOVitA in helping them further their interests. Cooperativism could serve as a vehicle of structural change in the wine sector.

One concern is whether Mendoza has sufficient cooperatives to incorporate all growers. In 2002, there were thirty-eight (Amendola 2002), now there are thirty-five. Actual numbers of cooperatives are not increasing with the success of FeCoVitA. With just 3,000 producers directly incorporated into cooperatives, seven times that number need incorporating. Furthermore, in June of 2005, thirty-two cooperatives were members of FeCoVitA, but by January of 2006, that number had fallen to thirty-one. Expanding cooperative foundation and participation is integral to a successful movement.

Neoliberal politics has also been an important vehicle for that opportunity. The necessity of competing on an international market, at least in the wine industry in Argentina has forced private firms into alliances with cooperatives in an effort to promote the product. While free market economics does not generally foster democratic values, it does, as Mooney points out, create that friction between democratic and bureaucratic, social and economic, that bears the fruit of innovation. As alliances are formed, social movements, like cooperatives, can mobilize new resources, take advantage of new opportunities and begin to impact production relationships.

This thesis serves as a springboard for a number of further research opportunities. Questions have been posed regarding risk assessment and avoidance, social movements and standardization, all of which pertain to the topic and would benefit from data collected through interviews with small producer-members of local cooperatives and more in-depth review of literature in those areas. As some of these issues are explored further, the mystery surrounding why local cooperatives make the decisions they do, and what the expectations of members are of cooperativism will dissolve and clearer points and assumptions will potentially be made about the balance of these organizations as economic and social entities. Furthermore, the limitations that result of the agency of producers as opposed to merely political and economic forces would be illuminated through dialogue with them.

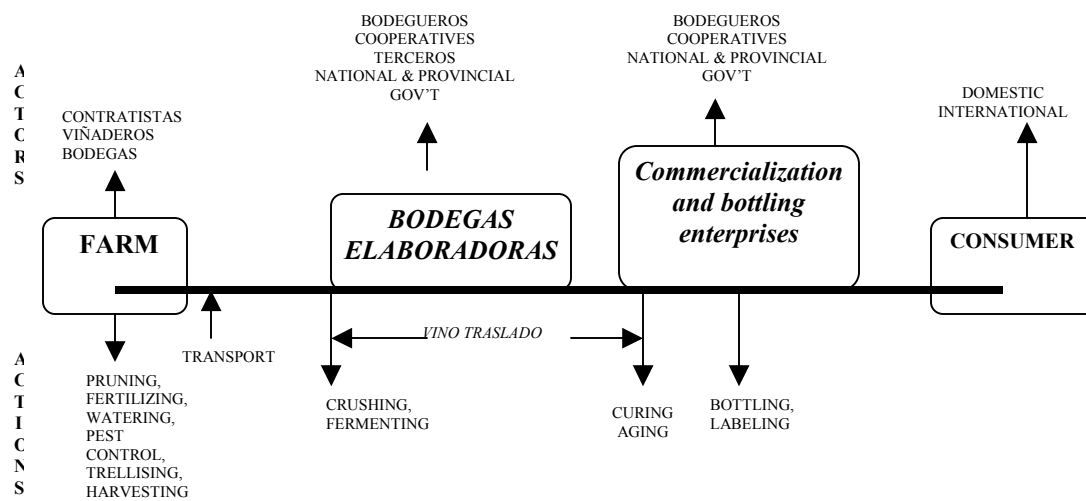
Perhaps Fals Borda did not have false hope after all. These cooperatives are representative of cooperatives in Latin America, especially those formed in the 1960s. Their success shows that Latin American cooperatives can be flexible and innovative,

that new federated cooperatives can understand the importance of their organization as a vehicle of community support. Developing their membership is critical for that. It also shows that the changing politics in Latin America from bureaucratic authoritarian regimes to democratic governments, has in some cases opened up the political and social opportunities for these cooperatives to succeed as economic vehicles for their members. With regard to markets and politics, a discussion of this thesis in terms of Neoliberalism and commodity chain analysis would benefit the understanding of the latter two as factors in the economic success of cooperatives in Latin America. Although I studied these cooperatives more from an economic and political stance, unearthing the voices of small producers through further research will bring these organizations to life and help us better understand the clash between social and economic, democratic and bureaucratic that cooperatives in Mendoza mediate, how successfully they do it, and what their futures might hold.

APPENDIX A: MEMBER BENEFITS OF WINE CO-OPS IN SAN RAFAEL

	Discoun ted Inputs	machine ry	ga s	credit	Free tech. suppo rt	tool s	co-op educati on	Capaci tybuild ing	Annual \$\$ surplus to members?
Co-op	G, SP	SP	G, SP	G, SP, EC	G, SP, EC	SP	N	SP	SP
Through FeCovita ?	Y/N	N	N	Y/N	Y	N	N	N	N

APPENDIX B: REPRESENTATION OF WINE PRODUCTION CHAIN



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