
Support for Farmers' Cooperatives

Case Study Report **Producer Organizations in European Dairy Farming**

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Support for Farmers' Cooperatives; *Case Study Report* **Producer Organizations in European Dairy Farming**

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Preface and Acknowledgements

In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, “Support for Farmers’ Cooperatives (SFC)”, that will provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, and by the European Commission in its effort to encourage the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project, this case study report on producer organizations in European dairy farming has been written. Data collection for this report has been done in the spring of 2012.

In addition to this report, the SFC project has delivered 32 other case study reports, 27 country reports, 8 sector reports, 6 EU synthesis and comparative analysis reports, a report on cluster analysis, a report on the development of agricultural cooperatives in other OECD countries, and a final report.

The authors gratefully acknowledge the kind support of the interview partners from the different bargaining associations analysed in this case study report.

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1. Introduction

Milk is one of the most important agricultural products. In 2011, dairy farmers in Europe have produced 127 million tons of milk, worth 45 billion Euros, representing about 13 percent of the total turnover of the European food and beverage industry (Euromilk, 2012). With the abolishment of the quota system in 2014/2015 and the so-called “milk package” (European Commission, 2009) the sector is expected to undergo some substantial changes. The policies laid down in the “milk package” especially concern contractual relations between farmers and dairies. It is often argued that with increasingly concentrating dairies and retailers with respect to pricing farmers get the short end of the stick (e.g. Hüttel & von Schlippenbach, 2010). In Germany, concerns about limited competition in the dairy sector have triggered a large debate which eventually culminated in a detailed study of the dairy market conducted by the German Federal Cartel Office (Bundeskartellamt, 2009; Bundeskartellamt, 2012). Also in the academic debate there is growing interest in questions of (spatial) competition for milk (Graubner, Balmann, & Sexton, 2011; Graubner, Koller, Salhofer, & Balmann, 2011) or the presumed pro-competitive effect of cooperatives in dairy (Cazzuffi, 2012; Hanisch, Müller, & Rommel, 2011) and other agricultural markets (Milford, 2012).

Despite their recent emergence and growth, producer organizations have not received much attention as players in the sector. Even though these organizations are not necessarily registered as cooperatives they belong to the group of producer organizations¹ owned and managed by farmers on the basis of grass-root structures and democratic decision-making rules. In the US bargaining associations of the dairy sector are usually viewed as cooperatives (Hueth & Marcoul, 2006; Hueth & Marcoul, 2003). As such they can be regarded as cooperatives from a *theoretical* perspective, even without the respective legal status (Hansmann, 1996).

Apart from the pioneer work of Zoetewij-Turhan (2012) on the legal environment for the formation of producer organizations, to our knowledge, there have been no attempts to understand aims and positions of these newly emerging players in the dairy supply chain. This report is meant to contribute to the better understanding of emerging structures of producer based bargaining associations in Europe in order to fill this gap in the literature.

In what follows, section 2 of this report presents the analytical framework applied in the SFC project and section 3 provides a brief overview on the relevant literature and some background on the legal environment and important policies. From these two sections we derive the questions which need to be addressed to understand the role of producer organizations in the dairy sector and briefly outline our empirical approach (section 4). Section 5 presents the main results by cases. Here, we analyze three European producer organizations (MEG Milchboard, Dutch Dairyman Board, Associazione Produttori Latte della Pianura Padana) and one umbrella organization (the European Milk Board).² In section 6 we discuss the cases by comparison. Here, we also try to critically assess the role of producer organizations in dairy in relation to other sectors where producer organizations traditionally play a role. The last section summarizes and concludes.

¹ The terms “producer organization” and “bargaining association” are used synonymously throughout this report.

² We will give a little more room to the German case for the following reasons. Firstly, Germany is the largest producer of milk in the European Union and by sheer size considerations deserves special attention. Secondly, with the so-called “Marktstrukturgesetz” (Bundesministerium der Justiz, 1969) Germany has a legal environment for the formation of producer organizations which very much differs from other European countries (Zoetewij-Turhan, 2012). What is more, the law, to some extent, has also influenced the recent policy debate (Theuvsen, 2009). Thirdly, in Germany there is a very vivid debate on issues of competition around the recent study of the cartel office (Bundeskartellamt, 2009; Bundeskartellamt, 2012) which highlights several issues of bargaining positions which may be of relevance also for other countries in the EU-27.

2. Analytical framework

In the analytical framework applied in this project, three factors have been identified which determine the performance of cooperatives. These are (a) the position in the food chain, (b) internal governance, and (c) the institutional environment. Here, the position in the food chain largely concerns issues of competitiveness which in the present study is of utmost importance. Internal governance refers to the way decisions are made within the organization or more generally how firms are organized (also see Chaddad & Cook, 2004; Cornforth, 2004 on cooperative governance). Even though issues of internal governance will also play a role in the present study these issues have been addressed in more detail within this project elsewhere (Hanisch et al., 2011; Hanisch & Rommel, 2011). The third analytical pillar of this study which is the institutional environment is also important for the present study. As defined in the project, in a broad sense, this aspect encompasses the social, cultural, political and legal context. For the mentioned reasons we will in the following lay a special focus on the legal and political factors contributing to the performance of cooperatives. What characterizes a successful or “well-performing” cooperative is subject to a large debate due to the “dual nature” of the cooperative as a social and as a business enterprise (Bonus, 1986; Draheim, 1952). Unlike for a private firm where profitability – measured for instance by return on investment – may be a good measure for performance, cooperatives usually follow – and often have to follow by cooperative law – more objectives than profit-maximization (Dülfer & Laurinkari, 1994). In empirical work, some authors have argued that profitability may still be a good measure to evaluate the performance of cooperatives (Heyder, Makus, & Theuvsen, 2011), others have tried to use “soft” criteria such as indices and rankings of member-satisfaction for the statistical analysis of certain aspects of cooperative success (Steffen, Schlecht, & Spiller, 2009). As will also become clear in the course of this report, for the study of producer organizations performance can usually be defined more pragmatically by the market share of bundled produce which a particular producer organization is able to achieve to the benefit of their farmer-members.

The analytical framework used in the project is summarized in Figure 1.

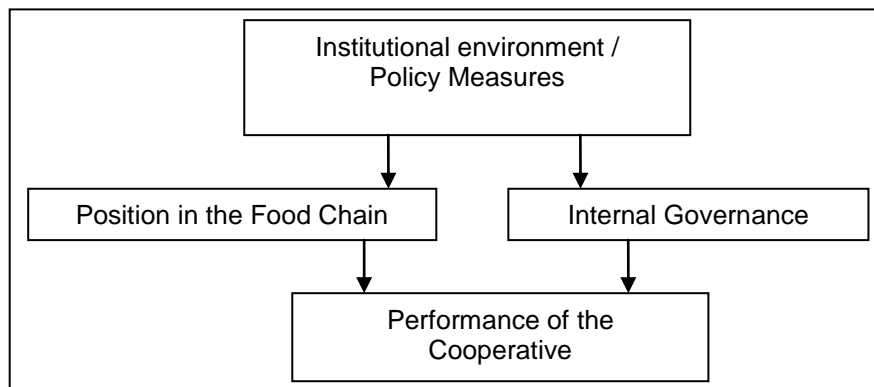


Figure 1. The core concepts of the study and their interrelatedness

3. Literature and Background

3.1 The Function of the Cooperative Enterprise in the Literature

Over the last century, there has been an intensive theoretical debate on what cooperatives do or are supposed to do. In this debate (agricultural) cooperatives have often been associated with the function to level the playing field in the presence of power imbalances prevalent in agricultural markets (LeVay, 1983). In addition, since the 1980ies, scholars have increasingly viewed the cooperative from the perspective of Oliver Williamson's Transaction Cost Economics (Williamson, 1985; Williamson, 1996). In a broad categorization we can, thus, differentiate one school of cooperative thought which has mainly utilized the concept of countervailing power (Nourse, 1922; Galbraith, 1952; Cotterill, 1987) and a second one which views the cooperative as an organizationally superior "hybrid" way of organizing certain rural transactions, as opposed to hierarchical or market coordination (Bonus, 1986; Ménard, 2004, 2007; Valentinov, 2007).³

While "make or buy" and contracting issues have dominated the debate on cooperatives since the 1980ies, today there is a small revival of studies focusing on market power and the structure of competition in the dairy sectors more generally (Graubner, Balmann, & Sexton, 2011; Graubner, Koller, Salhofer, & Balmann, 2011) and on the role cooperatives play for market structure in particular (Cazzuffi, 2012; Hanisch et al., 2011). Similar developments of the theoretical debates can be observed for other commodities such as coffee, even though empirical studies which explicitly address the role of cooperatives in fostering competition are relatively rare (Milford, 2012).

The literature on producer organizations, such as bargaining cooperatives, is very much dominated by authors from the US where these organizations have traditionally played a larger role (Hueth & Marcoul, 2003; United States Department of Agriculture (USDA), 2005).⁴ In the past, smaller, locally operating, bargaining associations of milk producers have been a frequent phenomenon all over Europe. However, concentration trends during the 1970ies and the 1980ies led to an almost complete integration of these associations into the integrated downstream cooperatively managed processing industries. Most of the existing European producer organizations in dairy have been founded in the last ten years. Other sectors, such as fruit and vegetables, have a longer history of producer organizations (Zoetewij-Turhan, 2012). Apart from seminal work on the legal framework for bargaining cooperatives in Europe (Zoetewij-Turhan, 2012) there is – to our knowledge – no empirical work dealing with these organizations in the European dairy industry. This is in sharp contrast to the increasing attention both policy makers and researchers attribute to the problems of the market structure in the food chain. As Brusselsaers & Iliopoulos (2012) note "the imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations."

³ We have already provided a more detailed review of these different approaches elsewhere. For an extended overview of the literature the reader is thus referred to Hanisch, Müller, & Rommel (2011). See Sauer, Gorton, & White (2012) for a recent empirical study of milk prices from a transaction cost perspective or Pascucci, Gardebroek, & Dries (2012) for an econometric model of farmers' joint consideration of membership and delivery decisions vis-à-vis cooperatives in Italy, also employing the reasoning of New Institutional Economics.

⁴ An overview on the history and debate of agricultural bargaining cooperatives can be found in the study on bargaining associations in the vegetable industry Brusselsaers & Iliopoulos (2012).

3.2 Competition and Transparency in European Dairy Supply Chains with Special Reference to the German Case

In Europe a number of sizeable dairy processors exist. Just like in the US and New Zealand this has drawn attention by competition policy and antitrust-agencies. As illustrated by Table 1, some of the European dairies are very large and control large shares of their respective national or even the European market.⁵

Table 1: Top 20 European Dairies by Turnover

Rank	Company name	Country	Legal form	Turnover dairy products (in billion €)	w Dairy share of total turnover (in %)	Processed milk (in billion kg)
1	Nestlé	CH	IOF	21.2	19%	12
2	Danone	FR	IOF	12.3	77%	n.a.
3	Lactalis	FR	IOF	9.1	97%	10.2
4	FrieslandCampina	NL	Cooperative	8.8	98%	10.3
5	Arla Foods	DK/SE	Cooperative	6.9	100%	8.7
6	DMK	DE	Cooperative	4	100%	6.8
7	Sodiaal	FR	Cooperative	4	100%	5.2
8	Parmalat	IT	IOF	3.9	89%	3.6
9	Bongrain	FR	IOF	3.6	100%	3.1
10	Groupe Bel	FR	IOF	2.4	100%	1.6
11	Tine	NO	Cooperative	2.4	100%	1.4
12	Theo Müller Gruppe	DE	IOF	2.2	100%	2.6
13	Glanbia	IE	Cooperative	2.2	84%	1.9
14	Emmi	CH	Cooperative	1.9	100%	0.9
15	Dairy Crest	UK	IOF	1.9	100%	2.3
16	Valio	FI	Cooperative	1.8	100%	2
17	Kerry Group	IE	Cooperative	1.7	33%	n.a.
18	Wimm Bill Dann	RU	IOF	1.5	83%	n.a.
19	Hochwald	DE	Cooperative	1.1	96%	2
20	Robert Wiseman	UK	IOF	1.1	100%	2.1

Source: Zuivelzicht/Rabobank (2011)

⁵ The total amount of milk produced in 2011 in the EU-27 was 127 million tons. According to this figure each of the six largest dairies holds a market share of more than five percent and the largest four dairies reach market shares of ten percent each. Even though these figures are limited by the fact that there are no statistics for Danone and also some non-EU-27 (e.g. Swiss) firms are included it is apparent that there are some very powerful players on the market.

Dairies often consider growth and concentration as the only way to face the even more concentrated retailers. In some countries such as Austria (see Salhofer, Tribl, & Sinabell, 2012) or Germany (see Hüttel & von Schlippenbach, 2010) retailers are already extremely concentrated. In other countries concentration is lower, but still high compared to concentration among dairies or farmers (Clarke, 2000; Clarke et al., 2002). A recent study on growth strategies of cooperative dairies shows that almost all cooperatives proclaim growth as their primary aim. Especially the large dairies primarily focus on horizontal growth, i.e. gaining further market share in particular through mergers and acquisitions (Hanisch & Rommel, 2011). There is also at least anecdotal evidence that investor-owned dairies in Germany, relative to cooperatives, pursue vertical growth more frequently which allows them to generate more turnover per unit of milk processed (Steffen, Schlecht, & Spiller, 2008, also see Table 1). Why this is the case is still an open debate (Steffen et al., 2008). It is also highly contested whether vertical growth (value-addition and speciality products) or horizontal growth (market power) is a better strategy to arrive at higher prices for farmers.

Even though, presently, farm sizes increase over time in most regions, for example in Germany, this process is far from culminating in a situation where individual farmers have substantial market power (Hüttel & von Schlippenbach, 2010). Size, nonetheless, matters for dairy farmers as many dairies pay volume premiums. A recent study of European dairy cooperatives shows that about 60 percent of the large firms (defined by turnover) pay such premiums, as compared to only 20 percent of the small ones (Hanisch & Rommel, 2011, p. 41). These figures also suggest that especially large cooperative dairies follow policies to attract large farmers and therewith increase the amount of processed milk and subsequently market share.⁶

An issue which in Germany has recently attracted much attention is price transparency (Bundeskartellamt, 2012, pp. 41 ff.). The German anti-trust authorities have decided that price data of spatially proximate individual dairy companies shall not be published anymore or only with a delay of several months (Bundeskartellamt, 2012). The cartel office rightfully points out that price information can have both pro- and anti-competitive effects. In most instances price information is seen as exerting pro-competitive effects by the cartel office. However, the report also documents some cases where price data have been used by dairies for illegal collusive practices on the expense of farmers (Bundeskartellamt, 2012, pp. 49 ff.). This has resulted in the decision to partly forbid public announcement of dairy price data.⁷ The report is relatively silent regarding the availability of *cost* data. There are some references to the costs faced by dairies (e.g. Bundeskartellamt, 2012, p. 69); costs of farmers do not play a role, however. This can be seen as a much neglected issue which has been taken up by some producer organizations (also see Results section). Especially in times of crisis, farmers frequently complain that the milk prices paid by dairies are not sufficient to cover their costs. Apart from the efforts of the producer organizations there are, however, hardly any attempts to provide “unbiased”

⁶ Of course this can also be explained in terms of lower transportation costs etc. However, it would then be justified to ask why especially large cooperatives pay volume premiums, because also small cooperatives could economize on transportation costs. In our view, it seems plausible to attribute this strategy – at least partly – to the objective of gaining market share in larger dairies. Another argument is that the size of the individual producer has a lasting grip on the overall political economy of decision making in the cooperative. Despite having only one vote in the general assembly a member representing a larger share of the produce is likely to influence the management more than a relatively small milk producer because of the threat to withdraw a larger amount of produce.

⁷ A study by Brümmer, Fahlbusch, Pfeuffer, Spiller, & Hellberg-Bahr (2011) has questioned this approach on the grounds of asking for whom it is more difficult to *collect* the respective data. Eventually, dairies will find ways to gather price data from local competitors anyway (which as compared to *publishing* is explicitly not forbidden by the cartel office). For farmers it may be more costly to access such data, particularly so when we consider the *relative* cost (and benefit) of such information by considering the turnover of a farm as compared to the turnover of a dairy company. Eventually, transaction costs may increase which could even result in higher milk prices for consumers (Brümmer et al., 2011). On the other hand, farmer organizations have welcomed the cartel office’s initiative and expect a positive, i.e. increasing, effect on prices (Bundeskartellamt, 2012, pp. 49 ff).

information on the per unit production costs faced by different groups of farmers which at least could provide them with some good arguments vis-à-vis dairies, retailers and consumers.

3.3 The Common Agricultural Policy, Spatial Competition for Milk, the “Milk Package” and the German “Marktstrukturgesetz”

Historically, the common agricultural policy (CAP) has used price support, tariffs, or export subsidies to support the agricultural sector. In several steps the CAP has been reformed. With the “Agenda 2000” reforms intervention prices have been reduced and for several products direct payments have been introduced. In the most recent reform – the so-called Health Check in the year 2008 – it was decided that the quota system for milk which was introduced in 1984 will be abolished step by step by 2014/15 in order to achieve a “soft landing”⁸ for dairy farmers on the international and increasingly internationalizing dairy market. It is largely consensus among scholars, that by the end of this “phasing-out” and the quota no abrupt changes are to be expected. As a consequence of the progressing world market integration, milk prices in the EU-27 have become much more volatile over the last couple of years (see the respective report: Hanisch et al., 2012). The year 2009 has seen several “emergency market interventions” due to extremely low prices and by the time of writing this report milk prices are again very low.

Also with the objective to address the unequal bargaining positions of farmers and dairies, the European Commission has recently passed the so-called “milk package” (also see European Commission, 2009) which aims at providing a new legal framework for contractual relations and sets limits on the bundling of milk for the time after the end of the quota. In the discussion of the draft proposal also the German experience with the “Marktstrukturgesetz” (Bundesministerium der Justiz, 1969) has played a minor role (Theuvsen, 2009).⁹ In its current version, the “milk package” foresees bundling limits of one third on the national level and 3.5 percent EU-wide. It also foresees exceptions for cooperative dairies. Farmers who are member in a dairy cooperative should not be allowed to negotiate bundled produce with cooperative dairies. Given the different departure points of national laws, from the perspective of farmers, the milk package can be seen either as an improvement, e.g. for Dutch dairy farmers, or as a failure, e.g. for German dairy farmers, for whom the “Marktstrukturgesetz” is already granting much more freedom in bundling their produce. It is obviously quite difficult to find one solution that fits the needs and particularities of all 27 member states.

In this context it has also been criticized that a “national market” for a small member state can very much differ from a national market of a larger member state and that it is a non-trivial issue to define the (spatial) boundaries of a market when assessing competition (Bundeskartellamt, 2012). Even though transportation costs have steadily decreased and with advanced cooling and other technology the nature of milk as a highly perishable good has become less important in shaping the economic organization of dairy, especially for some product groups such as fresh milk it is still not profitable to transport milk over long distances.

A recent explorative survey in Germany suggests that the economic limit may be somewhere around 200 km (Bundeskartellamt, 2012, p. 24). The regional demarcation of markets within Germany has raised a lot of protest from dairies, but also from farmer organizations (ibid).

⁸ It has been pointed out by our interview partners that the term “soft landing” is a misleading euphemism for this recent reform and that such terminologies are used to hide the severe cuts in support for dairy farmers. In other words, “soft landing” rightly describes that there is no *abrupt* change in policies – or to stay within metaphorical language “a crash of the dairy sector” – but it does *not* describe, however, *where* farmers eventually will land.

⁹ The „Marktstrukturgesetz“ goes much further in the allocation of rights granted to farmers for bulking their produce. The limits exceed 50 percent of the respective national market share and the law is also applicable to agricultural products other than milk (Bundesministerium der Justiz, 1969). The only limitation in size is that competition should not be “completely prevented” by producer organizations. Consequently, the “milk package” has received sharp criticism from German farmers.

National limits would easily allow regional producer organizations – especially in the German South with its comparatively low density of dairy farming – to gain market shares of up to 100 percent. As pointed out by the cartel office (Bundeskartellamt, 2012, p. 115), it would, for instance, be possible to bundle the whole milk produced in the (by area) largest German state of Bavaria in compliance with the milk package regulations which could adversely affect competition. On the other hand, in many regions fair competition is likely to be undermined by all too sizeable processors, some of which already have regional market shares of more than 50 percent and in one case up to 85 percent (Fahlbusch, Steffen, Brümmer, & Spiller, 2011, p. 60). Against the complex background of obvious market imbalances and regional differences in the dairy sector it remains difficult to calibrate competition policy. More research on the issue of the spatial competition for milk (Graubner, Balmann, & Sexton, 2011; Graubner, Koller, Salhofer, & Balmann, 2011) may improve our understanding in the future. Given the already high regional market shares and the comparatively low market share of producer organizations (see Fahlbusch et al., 2011, p. 60 on figures for dairies and Bundeskartellamt, 2012, p. 115 for some explorative figures on producer organizations), in the near future producer organizations are unlikely to undermine competition at least in Germany.¹⁰ At this point also the question arises what the best policy response to imperfect competition in dairy markets is. Industrial organization literature (e.g. Scherer & Ross (1990) for a general introduction or Clarke et al. (2002) for an application to food retailing) suggests that the second best option to perfect competition is imperfect competition on *both* sides of the market, followed by the third best situation where a competitive sector faces market power in an input or output market. With concentrated retailers and dairies vis-à-vis dispersed farmers, then, the relevant question might become whether the costly regulation of non-competitive dairies and retailers is really a superior or even a feasible option, as compared to strengthening the position of farmers. From the latter alternative net welfare gains are to be expected in the present situation.

4. Empirical Approach

Following the debate in the literature and current policy challenges a list of questions has been identified which guided our empirical research. Because of a general lack of information in this area the main idea was to better understand structure, strategies and performance of emerging producer organizations in the dairy market. The empirical strategy followed by large a focus group approach in which representatives of major producer organizations were invited to participate in a group interview at the Humboldt-University. The idea behind this was to generate an information basis balanced by multiple perspectives on the issue of producer organizations.

¹⁰ On the European level, for example Arla Foods clearly exceeds the limit of a market share of 3.5 percent (see Table 1). The next two merger projects of Arla will lead to a firm size exceeding 12 billion Euro of turnover. In other cases – Valio in Finland would be a prominent example – single dairies already control a national market share of more than 80 percent. As vertically integrated cooperatives, these dairies are exempted from the “milk package” limitations on bundling and farmer bundling vis-à-vis these dairies is prohibited all together. Some farmers argue that these large cooperatives’ behavior does not differ from private dairies and that they are detached from their farmer-owners’ control. In their view it is contested in how far cooperatives differ from producer organizations and why multiple memberships are prohibited. This especially concerns the question of bundling limitations. One could argue that these limitations should either apply to both integrated dairy cooperatives and producer organizations or that both types of organizations should be freed from restrictions. On the other hand recent evidence suggests that strong cooperatives are successful in securing higher national farm gate milk prices (Hanisch et al., 2011), which the producer organizations do not yet achieve (see Results section).

Table 2 summarizes areas of interest covered by the eight rounds of the focus interview procedure.

Table 2: Elements, Objectives, and Data of the Empirical Part

Element	Objective/Question	Data Gathered
Background	Understand and illustrate the emergence and context of the organizations	Full name, historical background, founding motives, financing, year founded etc.
Organization and internal governance	Understand organizational structure, ownership and control, financing, relationships to other organizations in the country, membership status	Legal status, partner organizations, decision-making procedures/ board and other structures
Main aims and instruments	What does the producer organization aims for and how does it try to achieve its goals?	Proclaimed organizational objectives and means
Performance	How does the organization perform?	Membership/market share, price impact, policy impact, success in law cases
Position in the food chain and relationship with (downstream) firms	Understand relationships with dairies and in particular differences in relationships to private and cooperative dairies, position in the food chain, understand position vis-à-vis retailers	Positions and self-assessment of relationships with processors and other downstream companies (e.g. retailers)
Legal environment, national policies	Understand how national policies affect the PO	Relevant laws, court cases etc.
Legal environment, European policies	Understand how European policies affect the PO	CAP, “milk package”, anti-trust, other
Political aims Structural aims	Understand which policies are desired from POs to strengthen their position Understand the future organization of producer organizations on the national and European level, Multi-tier architectures	Interview data on positions Interview data, strategy papers and documents from sessions

Source: own design

Our case study on producer organizations in dairy is complemented by and partly embedded in the following other studies currently being carried out in the project:

- Theme 7 – Case # 14: Are bargaining co-ops a successful means to improving coordination along the food supply chain, and the competitive position of farmers?
- Theme 7 – Case # 15: Associations and Cooperatives: A difficult marriage?
- Theme 8 – Case # 7: Bargaining Associations in Fruit and Vegetables; the case of The Greenery and Growers’ Associations

These case studies have the following objectives:

- To describe the development of bargaining associations in the various sectors of European agriculture (their incidence, history, activities, success, etc.).
- To describe interaction between these bargaining associations and (a) the processing industry, (b) trading partners, and (c) other cooperatives.
- To understand situations in which membership of cooperatives and bargaining associations overlap and are in conflict with each other.
- To analyse the division of labour between the bargaining association and its partner (in marketing, quality control, logistics, technical assistance to farmers, chain coordination, innovation, etc.).
- To identify policy measures and regulations that have had an influence on the current governance and activities of the bargaining association.
- In the case of associations within larger cooperatives, to identify policy measures and regulations which have affected the interaction between bargaining associations and cooperatives.
- In the case of associations within larger cooperatives, to analyse the impact of the associations on the (lack of) success of the cooperatives.

Not all of these objectives apply equally to all case studies. In compiling this report we have – apart from information gathered in focus group interviews – utilized multiple sources of data. To cover the aspects laid down in the analytical framework of the overall project, the interview questions and the additional data gathered, focused on the legal environment, position in the food chain and internal governance. In addition we have studied the academic literature on bargaining associations and cooperatives and the relevant European laws. The core information for describing the studied dairy bargaining associations were derived from a one-day workshop encompassing a semi-structured focus group discussion which was held in Berlin in May 2012. The interview data are complemented by information provided by the representatives of the studied organizations and information gathered from the respective websites.

It has to be noted here that our approach has some limitations. The views expressed by the interviewed representatives of the studied producer organizations and the data provided by them represent their particular position. We are very aware of the fact that our interview partners are guided by their economic and subsequent political interests. In spite of this, we believe that by letting the involved parties speak, we can shed some new light on issues of high practical relevance and arrive at a first *description* of what dairy producer organizations do, without consulting an “outside perspective.”

5. Bargaining Associations in the European Dairy Sectors

In this section we will present our main research results. We present sub-sections for each of the four cases and structure these sections following the approach outlined in

Table 2. In the sections we mainly display information given by the representatives of the bargaining associations. Statements do not necessarily express the opinions of the authors of this study. Information serves the purpose to characterize standpoints and positions of the interviewees.

5.1 MEG Milchboard (Germany)

5.1.1 Background

In Germany, approximately 90,000 dairy farmers sell their produce to roughly 100 dairies, many of which are cooperatives (about two thirds by market share). In spite of this large share of producer-owned processors, German dairy farmers are threatened by recurrent patterns of price fluctuation and an in general low level of prices. This according to “Milcherzeugergemeinschaft Milchboard” (MEG Milchboard, Producer Organization Milchboard)¹¹ leads to a situation on the market in which milk producers get the short end of the stick in the supply chain. As a consequence, rapid structural changes happen in the dairy sector and over the last ten years half of the dairy farms in German had to shut down business. Given that the law making bodies in Germany explicitly encourage cooperation among producers and the bundling of agricultural produce, some German dairy farmers in 2007 decided to form the producer organization MEG Milchboard.

Against this background, the main aim of the newly established producer organization named MEG Milchboard is to reach a “fair” milk price. The term “fair price” is defined as a price which enables farmers to cover all costs related to production. This is also reflected in the fact that the main benchmark for price negotiations with MEG are costs of producers, not overall demand at the market. MEG Milchboard also advocates binding contracts and rules of conduct for trade between farmers and their dairies in order to make the price received by farmers more predictable.

5.1.2 Organization, Internal Governance, Main Aims and Instruments

Currently, MEG Milchboard in Germany has 18,000 members. Only active dairy farmers can become members. This rule has been made to address a problem, frequently observed in dairy processing cooperatives: Inactive members can have substantial influence on decision-making which according to MEG Milchboard in the past has caused some problems in the relationships with cooperative dairy processors. Information about who is a member and who is not is treated highly confidential in order to avoid conflicts with membership of MEG members in larger processing dairies (also see section 3). Ten regional subdivisions exist which are loosely formed around the German “Länder” (states). The regional subdivisions send delegates to an assembly of representatives who elects the board of directors and an advisory board. Fees for membership are paid according to the amount of milk produced and are currently set at 10 Euros per every 100 tons of milk per year.

The main aim of MEG Milchboard is to bundle a large share of dairy produce to arrive at a better bargaining position vis-à-vis dairies and eventually at a cost-covering price. Costs should explicitly be considered to calculate a binding minimum base price on the national level. These prices should, however, not be achieved by subsidies, but through a shortening and control of supply to be implemented by a European monitoring body. At the time of the interview, MEG Milchboard’s self-assessment of their performance was rather disenchanted. In their efforts to bundle dairy produce, they represent about 20 percent of the German dairy farmers and about 17 percent of the German milk. According to their own assessment this is not sufficient to substantially influence prices in the future. The main limits for further bundling are currently

¹¹ The workshop representatives for the MEG Milchboard were Peter Guhl (dairy farmer and chair man), Alice Endres (dairy farmer and member) and Andrea Beste (consultant).

seen in the “aggressive behaviour” of larger processors which strongly discourage farmers from membership in a bargaining association.

Until now, MEG Milchboard has not been engaged in direct price negotiations with dairies anyway and farmers receive the “normal” prices their respective dairies pay. In the years to come, MEG Milchboard will try to build up an own (pooling) infrastructure for bundling the produce with the final aim to negotiate prices with (processing) dairies. Even though MEG Milchboard has political positions and frequently comments on agricultural policy, it explicitly defines itself as a producer organization with the sole (economic) objective of bundling produce. Most active “lobbying work” is left to other organizations, e.g. the BDM and or the EMB umbrella.

5.1.3 Position in the Food Chain and Relationship with Downstream Firms

MEG Milchboard can be described as a producer organization in a “waiting position.” Currently, it simply tries to organize as many farmers as possible to arrive at a market-influencing position in the future without actually engaging in direct negotiations. Here, also the end of the quota and in this context the much discussed re-design of dairy contracts may play a role (also see Bundeskartellamt, 2012; Spiller, 2009). In a next step, MEG Milchboard aims at integrating one downstream activity into their activities – the pooling of produce. This is seen as necessary to be able to negotiate prices with dairies, as only the *physical control* over large parts of the raw produce is seen to achieve the credibility necessary in price negotiations with *processors*. Conflicts with downstream firms are prevalent. This concerns also the large cooperative dairies which are reported to be very critical of the newly emerging producer organizations. Some members have left their cooperatives due to these conflicts. According to MEG Milchboard, former cooperative members were very unsatisfied with their shrinking influence in decision-making processes in “their” firms. Low prices and the infinite quest for growth are not seen as a way forward and many dairy farmers view the management (control) as largely detached from farmers’ (owners’) interests. In some instances it was also reported that conflicts between large and small farmers were aggravated by the payment of volume premiums – in particular by large dairies. This has led to a decline in “Genossenschaftsgeist” (cooperative spirit) and eventually rendered a formerly “special” and trustful relationship of farmers with their cooperative dairies into a “normal” business relationship, often marked by a lack of trust. It was also pointed out by MEG representatives that some of the large cooperative dairies have a substantial share of non-dairy farmer members with a relatively high influence on decision-making and interests different from those of dairy farmers. More specifically, these farmers are associated with the dominant “growth paradigm” of some cooperatives and are to some extent made responsible for what is seen as a false development – paying low prices in order to accumulate equity for growth. MEG Milchboard has no explicit position regarding retailers. It is willing to acknowledge that dairies face concentrated retailers, but is not willing to accept that this is used as an argument on the back of farmers.

In their work MEG focuses on bundling vis-à-vis dairies and considering dairies as their main trade partners. Interestingly, MEG Milchboard does not differentiate between cooperative and investor-owned dairies. The aim is to bundle produce and negotiate with processor independent of their legal status or organizational form. In other words, all that matters for MEG Milchboard farmers is the fair price. In the focus interview, MEG Milchboard also has highlighted the somewhat tense relationships with other agricultural associations, especially the German Farmers’ Association which they criticize for actively misinforming farmers on their rights to bundle their produce. This has led to much scepticism of farmers vis-à-vis producer organizations.

5.1.4 Legal Environment – National Policies

MEG Milchboard very much acknowledges the possibilities of bundling produce ruled-in by the German “Marktstrukturgesetz” on which its organization is legally based. Even though there

have been some smaller legal problems in the history of the organization, the current legal environment in Germany and some parts of the “milk package” (the possibility to form producer organizations at the EU-level) are assessed in general positive. However, recently some preoccupations emerged because representatives of MEG fear that the policies put forward in the “milk package” may constrain rather than enhance the possibilities of German farmers to organize the bundling of milk. This concerns especially the point of multiple memberships, which is currently explicitly ruled-in by German law. MEG Milchboard also criticizes the current practice of all cooperative dairies and most private dairies to demand that *all* milk is delivered exclusively to one processor. This practice is seen as anti-competitive and as constraining bundling efforts of producer organizations. Shorter contract durations are seen as a useful first step to improve the bargaining position of farmers.

5.1.5 Legal Environment – European Policies

As already pointed out, MEG Milchboard’s members are known to be rather critical vis-à-vis the contents of the “milk package.” They share the opinion that in Germany the national “Marktstrukturgesetz” already grants much farer rights to farmers (e.g. hardly any bundling limitations and multiple membership) than what has been written down in the “milk package.” There are fears that over time the “milk package” will become the dominant legal benchmark for the formation of producer organizations in Europe and Germany which would mean a step backwards regarding the freedom to organize for German dairy farmers. Also the recent CAP reforms are criticized. MEG Milchboard envisions a much more regulated market than the new regulations. They see the need beyond intervention to grant price support for farmers – especially in times of hardship – and envision minimum and maximum price floors subject to political intervention. Also the abolishment of the quota system is seen critical, although it is acknowledged that the current system does not function properly. In the view of MEG Milchboard, without any constraints on quantity, however, prices will further decrease, leaving farmers with the short end of the stick. MEG Milchboard also supports an independent monitoring body which in the future shall play a role in developing “flexible quantity constraints” on milk produce by farmers.

5.1.6 Political Aims

As mentioned above, MEG Milchboard is not primarily engaged in lobbying activities, but is nonetheless occasionally commenting on political issues and contributes to the formulation of positions via the BDM and the EMB. Apart from the desire for a more regulated market with a monitoring body responsible for controlling supply in alignment with demand and thereby ensuring higher prices, MEG Milchboard is especially interested in preserving the achievements of the national “Marktstrukturgesetz” in order to maintain the bundling possibilities necessary for MEG Milchboard’s work. Other issues highlighted are the desire to arrive at a nationally binding base price for milk that reflects the costs incurred by farmers. Even though it is acknowledged that there will still be some farms that go out of business, the pressure on dairy farmers is perceived as too high. Milk prices should enable most farmers to cover their costs and to stay in business. In this regard mandatory membership of *all* dairy farmers in a producer organization and the negotiation of national base prices are also seen as useful. To enhance bundling efforts also shorter contracts with dairies and flexible delivery amounts are seen as crucial. For the farer future, direct negotiations with retailers are envisioned, with the role of dairies then limited to the mere provision of contracted processing services, as opposed to their current roles as independent – and powerful – players on the dairy market.

5.2 Dutch Dairymen Board (Netherlands)

5.2.1 Background

The history of the Dutch Dairymen Board (DDB)¹² dates back to 2002 when a survey of Dutch dairy farmers showed a high dissatisfaction with dairy cooperatives, in particular with the little influence farmers have on decision-making in and prices paid by large processors. This has led some farmers to start an initiative for an organization of dairy farmers which in 2006 culminated in the formal foundation of the DDB. Beside the economic aim of milk bundling, the DDB also explicitly considers itself a political organization.

5.2.2 Organization, Internal Governance, Main Aims and Instruments

The DDB is organized democratically on the basis of one-member-one-vote. Currently, members pay a fee of 85 Euros per year, independent of size. In spite of the fact that two thirds of its members are also members in the Dutch farmer association and that most members are specialized in dairy, the DDB also perceives itself as a farmers organizations more generally and of *young* farmers in particular. In the view of the DDB, the Dutch farmers' association predominantly represents the interests of older settled farmers. This causes a horizon problem leaving limited motivation to invest due to their lower equity stock. Young farmers often realize higher costs and suffer disproportionally from low milk prices. Eventually, the DDB fears a Netherlands – one of the world's largest exporters and traders of food products – without farmers – a situation that seems unacceptable to its members, given that only 1,600 farmers (about 3 percent) are below the age of 40 today. According to the DDB many of these farmers currently operate at a yearly *loss* of 6 to 7 percent on equity.

Originally, beside political representation of farmers “frustrated with their cooperatives” the main economic aim was to bundle milk for marketing with the aim to achieve a higher farm gate milk price. Very quickly, however, bundling efforts of the board have been impeded by the Dutch cartel office which considers such practice as illegal. The DDB currently is, thus, not engaged in any price negotiations, even though about one third of the Dutch dairy farmers have formally authorized the DDB to do so, once the pending legal issues are resolved. Following a consulting study of scholars from Utrecht University, DDB is currently mainly focussing on lobbying national and European bodies for a legal environment which would allow farmers to form producer organizations. The political activities of the DDB also have to be evaluated against the background of what has become known as the “Milk Sector Dialogue.” The dialogue followed the milk crisis two years ago and has brought dairies and various farmer organizations to the discussion table. In spite of the generally positive assessment, little has changed since then, which the DDB sees as a confirmation for the importance of its work. More specifically, political claims for price-covering prices and a reorganization of dairy-farmer contracts are brought forward as aims. As a first step towards this aim, a Europe-wide *cost*-monitoring body is seen as essential. The CAP support shall be reframed to a support system that is much more based on costs. Some of these transparency efforts and the establishment of a monitoring system are seen as a core task for the umbrella organization EMB in which DDB is a member.

5.2.3 Position in the Food Chain and Relationship with Downstream Firms

Very much like the German MEG Milchboard, the DDB can be best described as a national producer organization. Even though there is a strong political component in the DDB, the major objective is economic, i.e. to bundle produce of farmers. The DDB is very critical of both types of traditional organizations of producers – cooperatives and farmers' associations. The Dutch dairy sector is even more dominated by cooperatives than the German one. The DDB does not differentiate its position towards private and cooperative dairies. Each dairy firm is assessed

¹² The DDB were represented by Sieta van Keimpema, a spokesman and dairy farmer.

individually. Generally, large dairies – especially the market-dominating FrieslandCampina – are seen very critical. The DDB claims that farmers have in many cases been deprived of the control over the dairy cooperative. The cooperative voting system has been transformed in a way that only regional representatives can be directly elected who then vote the board of directors which – as the DDB claim – has led to a loss of control on the ownership side and an increasing misalignment of ownership and control. Like in Germany, the role played by non-dairy farmer members in the control of dairy cooperatives is seen critical by the farmers organized in the DDB. The DDB also criticizes the role of cooperative banks in this process, in particular the large Rabobank which is believed to have more influence on management and control of FrieslandCampina than its member-owners – the dairy producers. Also, the ongoing growth efforts of the large dairies and the increasing internationalization are made responsible for a general loss of control on the farmers' side and the high debt levels of large cooperative dairies which are also seen very critical by the DDB.

There are, however, also some positive cases such as the cheese maker CONO. CONO buys milk for cheese production at high prices but only at limited quantities. It actively encourages farmers to limit their produce. Such strategies are seen as key to the success of dairy farmers also in the view of the DDB. Farmers have to find a way to limit the quantity of available milk and therewith to exert an influence on market prices. Similar to Germany, there have been some conflicts with traditional farmers' association, even though much less so. Unlike in Germany where these conflicts have emerged around "misinformation" regarding the legal possibilities of farmers, the traditional associations are seen as not being adequately representative of *young* farmers.

5.2.4 Legal Environment – National Policies

The single most important point in the national law is the Dutch competitive law and the cartel office which has very much affected the possibility to bundle produce and has resulted in concerted efforts of the DDB to lobby national and European legislative bodies.

5.2.5 Legal Environment – European Policies

Contrary to German farmers, the DDB welcomes most of the "milk package" reforms as it would improve the possibility to bundle produce for farmers and could positively influence the economic objectives of the DDB. The CAP is generally seen critical, as the recent reforms increase the amount of milk produced, something seen as the key problem for the currently low prices.

5.2.6 Political Aims

Most importantly, the DDB demands a stable legal environment for its bundling efforts. A national implementation of the "milk package" would in this regard be very much welcomed by the DDB. More generally, the DDB demands political support based on a European monitoring system of *costs*. Several national grassland and fodder regulations are also seen as unnecessary and as weakening the position of Dutch farmers vis-à-vis European competitors. The DDB also strives to reform the internal organization of large dairy cooperatives. It is claimed that control over these large dairies has to get back into the hand of farmers. Voting systems with regional representation and very few farmers as board members are seen as critical in this regard. Allowing a direct vote of directors and increasing the share of farmer representatives on the board, while at the same time limiting the power of professional managers, are seen as key strategies for the reformation of cooperatives in the interest of dairy farmers. Also, the increasing debt-equity ratio and the inevitable growth logic leading to more and more mergers and acquisitions are seen as false strategies for cooperative dairies. Similar to Germany volume premiums of up to three cent per kg have in some cases led to a division of large and small farmers in cooperatives. The DDB sees such practices very critical and is generally opposing volume premiums.

5.3 Associazione Produttori Latte della Pianura Padana (Italy)

5.3.1 Background

As opposed to the Netherlands and Germany, Italy is a milk-*importing* country with prices above the European average. Compared to the other two countries, the share of cooperative dairies is much lower (around 40 percent) and cooperatives are to a larger extent involved in value-addition, e.g. in cheese production and speciality markets (also see Cazzuffi, 2012). The Associazione Produttori Latte della Pianura Padana (APL)¹³ was founded and registered as a producer association in 1998 “to give a voice to dairy farmers and to improve consumer welfare by ensuring high quality dairy products” as part of the COOP AGRI. The history of some of its members dates back to 1950.

5.3.2 Organization, Internal Governance, Main Aims and Instruments

APL is at the same time an umbrella organization of ten cooperatives and an organization of individual farmers who “automatically” become members of APL by membership in one of the ten cooperatives. Out of a total of 30,000 Italian dairy farmers, 910 are members in APL out of which 510 sell their produce via the ten cooperative members of APL. APL accounts for about 350,000 tons of milk in Italy – about 5 percent of the nationally processed amount. This may appear as a relatively small amount of farmers organized in APL, but it has to be noted that APL largely focuses on value addition and cheese production. For example, five percent of the national “Gran Padano” cheese is produced from milk marketed by APL and 28 percent of the milk is used for producing fresh cheese. APL maintains own offices with 5-6 employees, one of which is a lawyer. The president takes over business operations. In regional assemblies delegates are elected who are eligible to vote for APL’s board of directors. Members pay fees proportionate to milk production.

Compared to the other two producer organizations, APL offers a much broader bundle of services to members. APL is the only producer organization studied which is actually engaged in bundling at the moment. But also legal support, quality control, price monitoring and political lobbying are offered to members. APL claims some successes of their bundling efforts. According to their estimates, members receive a price that is about one to two Cent higher per kg than the average price. This price is still very much below costs, in many cases 8 cent/kg lower than the actual costs as claimed by the APL representatives.

As a practical step towards a cost monitoring system, one APL member is currently developing an Excel-based price tool which uses an index of fodder, energy and other prices to calculate a reference cost incurred by farmers as a benchmark for cost-based price negotiations.

5.3.3 Position in the Food Chain and Relationship with Downstream Firms

APL is already one step further than the other bargaining associations and directly negotiates prices with dairies which use APL’s milk predominantly for cheese production. Pooling and quality control is done by APL and its members; processing is organized by dairies.¹⁴ Even though APL can claim some success in achieving higher prices for members, the relationship with dairies is described as conflict-laden, because prices are still way to low to cover farmers’ costs. It is also noted that some small speciality cooperatives exist which pay very high prices for high-quality milk. In most cases these prices are cost-covering which is regarded as positive. In a broad categorization, the APL representatives state that the larger a particular dairy, the more conflict-laden is the respective relationship, largely independent of the legal status, even though cooperatives are often smaller and are assessed somewhat more positively. APL is very much concerned about the “low-quality imports” from other member states with which Italian farmers

¹³ Francesco Carru (chair man) und Markus Hafner (dairy farmer and translator) were the representatives at the workshop.

¹⁴ One member of APL processes its own milk; all others deliver to dairy companies.

cannot compete. Also APL has vaguely mentioned conflicts with traditional farmers associations without providing too much detail about the particular issues at stake.

5.3.4 Legal Environment – National Policies

The national policy allows bundling of produce and given the fact that currently APL is mainly engaged in the negotiation with dairies for cheese production there are no serious problems with the possibility to bundle and negotiate produce in the name of farmers. A key concern of APL is the – in their perception – only weakly implemented quality control for imports.

5.3.5 Legal Environment – European Policies

The “milk package” and the CAP more generally are seen very critical by APL. Both are accused of following the wrong approach by ignoring farmers’ costs and abolishing support and quantity limitations. It is also criticized that no cost monitoring systems exists and that farmers’ costs do not play any role in the political debate.

5.3.6 Political Aims

For Italy, APL envisions a commission of policy makers, dairies, consumers and farmers with equal rights to discuss a reorganization of the dairy market with the aim of “fair” prices for farmers, based on cost calculations. On the European level a monitoring system has to be established which documents costs, demand, prices and quality. Ideally, quantity constraints with subsequent increases in price from the to-be-founded monitoring body would then be enforced on the basis of such cost calculations. A more thorough quality control of cross-border milk trade and the reduction of corruption of officials in this regard are also on the political agenda of APL.

5.4 European Milk Board

5.4.1 Background

The European Milk Board (EMB)¹⁵ is an umbrella organization of producer organizations in Europe. The 19 members from 14 countries, including the non-member state Switzerland and the prospective member state Croatia, as listed on the homepage are:

- Belgium: Milcherzeuger Interessengemeinschaft (MIG); Flemish Milk Board (FMB)
- Denmark: Landsforeningen af Danske Mælkeproducenter (LDM)
- Germany: Arbeitsgemeinschaft bäuerliche Landwirtschaft (AbL); Bundesverband deutscher Milchviehhalter (BDM)
- France: Organisation des producteurs de lait (OPL); Association des producteurs de lait indépendants (APLI)
- Ireland: Irish Creamery Milk Suppliers Association (ICMSA)
- Italy: APL della Pianura Padana
- Luxembourg: Lëtzebuerger Mëllechbauer
- Croatia: Hrvatski Savez Udruuga Proizvoda Ca Mlijeka
- Netherlands: Dutch Dairymen Board (DDB); Nederlandse Melkveehouders Vakbond
- Austria: IG-Milch
- Spain: Organización de Productores de leche (OPL)
- Switzerland: Bäuerliche Interessengemeinschaft für Preis und Marktkampf (BIG-M); Uniterre

¹⁵ In the workshop the EMB was represented by Romuald Schaber (president and dairy farmer) and Silvia Däberitz (managing director).

- Sweden: Sveriges Mjölkbönder
- United Kingdom/Scotland: Dairy Farmers of Scotland

EMB's history goes back to the year 2002 where the CAP reforms at this time – the so-called “Luxembourg Reform” – have left dairy farmers in a weakened position (cf. Gohin & Latruffe, 2006). The foundation of the EMB can be understood in this context. Already before, in 1999, there have been informal contacts between producer organizations from Italy, the Netherlands, Belgium or Denmark. Some rather informal meetings of representatives were organized at Amsterdam airport and Hamburg airport in 2004. In 2006, these networking efforts culminated in the formal foundation of the EMB which maintains an office in Germany.

5.4.2 Organization, Internal Governance, Main Aims and Instruments

The EMB is an effort to organize national associations of dairy farmers on a European level. In the future, EMB might support national bargaining associations in their bundling efforts, also by conducting lobbying activities on a subordinate level. EMB today organizes meetings of all members twice a year and the board of directors meets about ten times a year. In elections of the board, each membership organization has one vote. The board of directors consists of seven members and there has to be at least one member from each out of four regions. Fees are collected from the membership organizations. Contrary to the primarily economic objectives of the producer organizations, the aims of the EMB are largely political. Public relations, informing the public on the situation of dairy farmers and influencing positively the public opinion regarding dairy farmers, are an additional objective. Lobbying of politicians or the organization of demonstrations are seen as adequate instruments in this respect. The main objective of the EMB, however, is to influence policies in the interest of dairy farmers with the final target to reach higher milk prices on the producer level. The EMB provides market information and price comparisons and wants to establish a cost monitoring body on the European level which shall serve as a reference for adjusting production quantities to achieve a cost-covering price. This body should be implemented as part of the CAP and beside costs should monitor demand and supply. Within the legal boundaries, the EMB could in the future also serve as a coordinating body for bundling milk across borders, particularly so after the abolishment of the quota. It remains to be seen in how far this is a promising approach and it might be that legal boundaries would limit such activities.

5.4.3 Position in the Food Chain and Relationship with Downstream Firms

As an umbrella organization, largely engaged in lobbying, the EMB is not itself positioned in the food chain or in direct engagement with downstream firms. EMB tries to understand the position of each player and is willing to engage in an open dialogue with dairies and retailers on all issues. In the view of the EMB, simply blaming dairies or retailers for their behaviour will not advance the interests of farmers and communication is seen as essential for any improvement. Critical points are the many mergers and acquisitions in the dairy sector with ever more powerful players emerging. Some mergers have also resulted in new governance structures and disempowerment of farmers. Contrary to the arguments presented by managers, the formation of joint stock companies owned by cooperatives, have not only been founded to attract outside capital but can be understood as a way to disempower farmers. Also volume premiums as paid by many large cooperative dairies are seen as an issue which has created much conflict.

5.4.4 Legal Environment – National Policies

The EMB itself is not much influenced by national regulations. It welcomes all national policies which allow the bundling of large amounts of milk. The common practice of exclusive delivery of all produce to one dairy company and the practice of contract durations over sometimes several

years – especially in the case of cooperatives – are seen as a hindering factor for arriving at a “fair” bargaining position for farmers.

5.4.5 Legal Environment – European Policies

The “milk package” may limit efforts of the EMB to coordinate bundling of milk across European borders. Even though cross-border bundling is explicitly ruled-in in the “milk package,” the limits are seen as too restrictive. The EMB perceives it as unfair that members of cooperatives are not allowed to bundle their produce, as they are regarded as sufficiently represented by their cooperative within the “milk package.” EMB would welcome the possibility of farmers to market their produce independent of cooperative membership, i.e. to allow multiple memberships of farmers. Any limitations on market share should always apply at least equally to dairies and producer organizations. EMB opposes regulations which allow dairies a higher market share than producer organizations. In other words, the “milk package” also needs to be harmonized with the competitive law to ensure enough competition also among dairies.

5.4.6 Political Aims

On the European level the EMB is criticizing the recent developments of the CAP, which historically have been the main reason for its foundation. A cost-based pricing by limiting supply on the European level is seen as essential. The system should have the objective to achieve a fair split of the profit margin for milk between farmers, dairies, and retailers. The current situation is perceived as highly unfair, because dairies and retailers operate at profits, whereas farmers operate at loss. In this regard, the “Canadian Model” is seen as a good way to support dairy farmers. EMB reports that in Canada the “Canadian Dairy Commission” in many instances acts as an intermediary between dairy companies and farmers. Implemented instruments – among others – include price support for some products, bundling of all milk, and the smoothening of seasonal and other fluctuations. At the same time “The Canadian Milk Supply Management Committee” serves as a roundtable and communication platform for the whole industry, including farmers, dairies and consumers.

As a counter example to the Canadian experience, the developments in Switzerland are cited. According to the EMB, the political laissez-faire attitude in Switzerland has resulted in a situation where “dairies are the policy makers.” Swiss dairies are now in an even stronger position to manipulate quantity and prices in their interest which has worsened the situation of dairy farmers. The EMB highlights that policy makers have to play a much stronger regulatory role in the dairy market than this is currently the case in Switzerland.

The “milk package” is seen rather critically by EMB. Most importantly, farmers should have the possibility of multiple membership in cooperatives and producer organizations – as foreseen for instance in the German “Marktstrukturgesetz.” Any limitations on bundling milk vis-à-vis cooperative dairies are seen as critical by EMB. Farmers should be allowed to bundle as much produce as the market share dairies reach. If for instance a dairy has a market share of 50 percent, farmers should also be allowed to bundle 50 percent of their produce. Most importantly, these rules should apply independent of the dairy’s legal form, i.e. it should apply to both cooperative and private dairies. In other words, no exceptions shall be made for cooperatives. While for farmers in some countries, the “milk package” is a clear improvement, there are still many open questions regarding practical implementation.

Regarding the CAP, the EMB welcomes protectionist measures which stabilize prices on a higher level than the world market and shields European prices from volatile world markets, in spite of international trade agreements. Alternatively, on the European level quality standards should be used and enforced more extensively as a non-tariff trade barrier to ensure at least a minimum

level of protection. An increasingly important issue is seen in the commonplace speculation with commodities which has also said to increase volatility of many agricultural commodities.

6. Discussion and Comparison

In this chapter we will summarize the main similarities and differences of major issues we have identified from the results section and compare the three producer organizations with each other. We will also include the EMB in this comparison, even though in some instances, for example regarding its position in the food chain, a comparison is not applicable. The following table summarizes our key findings.

Table 3: Differences and Similarities of Key Issues Identified for the Cases

Issue/Case	MEG Milchboard	Dutch Dairymen Board	APL della Pianura Padana	European Milk Board
Year founded	2007	2006	1996	2006
Market environment	Large milk producer, exporting country, cooperative more than 60%, cooperatives often low value-addition, DMK as a dominant player	Large milk producer, cooperative share more than 80%, exporting country, FrieslandCampina as a dominant player	Small milk producer, cooperative share about 40%, importing country, many small cooperatives which are often active in niche and speciality markets, higher prices as compared to DE and NL	Transboundary, European Level
Main aims/objectives	Economic; by increasing prices through bundling	Economic; increasing prices through limitations on production by an European monitoring body	Full bundle of services, including bundling, legal support, quality control etc.	Public relations, lobbying Achieve cost-covering milk price through limitations on production Represent political associations of dairy farmers
Main instruments	Building up of infrastructure for physical pooling	Lobbying as legal issues have to be resolved first	Bundling, lobbying, employed lawyer	Organize demonstrations, influence politicians, provide information
Bundling/Performance	Not yet (~20% of farmers, 17% of milk in "waiting position") No price effect	Not yet (~25-30% of farmers in a "waiting position", no information on milk share provided) No price effect	5% of the nationally produced milk, very large shares of milk used for certain products (5% of "Gran Padano" cheese) 1-2 cents more per kg	-
Major constraints/Challenges	Long-term delivery contracts, exclusive trade with (cooperative) dairies	Legal issues, problems with Dutch cartel office	Low membership, conflicts with traditional farmer	Quantity limits on the European level are not foreseen within CAP

	Limit quantity	Limit quantity	association Limit quantity	
Governance	Only dairy farmers are allowed to join Regional delegates vote board Fees proportionate to milk Confidential membership	Only dairy farmers are allowed to join General assembly with one member one vote Fixed fee	Dairy farmers join by membership in primary cooperative Regional delegates vote board Fee proportionate to production	Only producer organizations as members Seven directors are voted, four regions, at least one director from each region Membership fees paid by organizations
Position vis-à-vis dairies, especially cooperatives	Critical, dairies have threaten members, volume premiums and loss of power are also criticized	Critical, volume premiums and loss of power are criticized, some smaller cooperatives have in cheese making have followed promising strategies	Critical, but differentiated by size, small cooperative dairies in	Volume premiums are viewed critical, mergers and acquisitions have made dairies to powerful and disempowered farmers
National policies	"Marktstrukturgesetz" is positive and has to be preserved	Competition law impedes bundling efforts	Low quality imports are not adequately prevented/ Enforcement	Bundling possibilities such as "Marktstrukturgesetz" are seen positive
Milk package	A step back, national regulations already grant more rights to farmers	A step forward, would make bundling legally possible, even though not vis-à-vis cooperatives	Negative, associated with the "disastrous" policies more generally, price support and cost covering milk prices should be central	Rather negative, does not go far enough Exceptions for cooperatives are not accepted Producer organizations should be allowed to negotiate prices also with coops Bundling limitations should be flexible and dependent on market power of dairies
CAP	Critical Quantity control through an European monitoring body are seen as necessary Cost, supply and demand monitoring to regulate production and achieve higher price Price floors to be achieved by quantity restrictions	Critical Quantity control through an European monitoring body are seen as necessary Cost, supply and demand monitoring to regulate production and achieve higher price Price floors to be	Critical Quantity control through an European monitoring body are seen as necessary Cost, supply and demand monitoring to regulate production and achieve higher price Price floors to be	Critical Quantity control through an European monitoring body are seen as necessary Cost, supply and demand monitoring to regulate production and achieve higher price "Canadian model" with political support and a "round table" Quality standards as another possibility to ensure a minimum level of

		achieved by quantity restrictions	achieved by quantity restrictions	"shielding" from world market dynamics, protectionist
Cost Monitoring System	Strong support	Strong support	Strong support, already efforts to develop a cost index based on prices for energy, fodder, etc.	Strong support
Relationship with farmer associations	Tense, "misinformation" on bundling rights, are perceived as representing the interests of cooperatives	Somewhat tense, young farmers are underrepresented	Somewhat tense, not "radical" and active enough	Neutral rather pragmatic standpoint "relevant actors"

All organizations studied are relatively young. APL is about ten years older than the others and with its roots in COOP AGRI which was founded in 1998 has the longest history with some its member organizations being founded in the 1950ies. Perhaps following from this, APL is also offering the largest bundle of services and does not focus solely on bundling, which as of now is still in a pending stage at MEG Milchboard and the DDB. The legal and market environment create very different conditions for the success of producer organizations. APL is the only of the three producer organization that currently is engaged in direct negotiations with dairies. MEG Milchboard has to solve the problem of building up an infrastructure first before it can become effective. This problem is a major hindrance for the further organization of bargaining associations. MEG also sees some constraints from long-term dairy contracts and the obligation of farmers to deliver *all* their produce to one dairy, a problem which might become solved by the expectable redesign of contracts after the quota abolishment which is generally seen to result in a prospectively reorganized contract system but should be tackled as soon as possible (also see Spiller, 2009). The DDB needs to solve the mentioned legal issues first. Regarding their internal organization, the producer organizations can be described as different rather than similar. Relatively different ways to elect board members and to collect fees are employed. In how far these mechanisms affect the performance of producer organizations is not easy to assess at this stage of the organization's history. Even though with our approach it is not possible to establish clear causal relationships, it seems justified from our findings to state that compared to the internal organization the external legal and market environment have been the more decisive factors in determining success or failure of producer organizations by today. A notable similarity between the organizations (especially between MEG and DDB) is that they all explicitly address dairy farmers. This can be related to the negative experiences with non-dairy farmers who – in the view of many dairy farmers – have played a negative role in decision-making of dairy cooperatives. These experiences have led to the formation of organizations focusing much more explicitly on forwarding the interests of *active* dairy farmers.

With some differences the role of dairy cooperatives is also seen rather critical and farmers in producer organizations do not necessarily evaluate cooperatives – as organizations owned by farmers – more positively than investor-owned companies. This criticism refers to the high debts accumulated by cooperatives (NL), the disempowerment of farmers (DE, NL) and the practice of volume premiums for large farmers which is said to have destroyed solidarity among cooperative members and to have opened room for envy and mistrust (DE, NL). Some small cooperatives are judged positively for their efforts to limit quantities and achieve high prices in niche markets with this strategy (NL, IT).

Another similarity is that all bargaining associations advocate prices paid to producers have to be related to actual cost and that price monitoring and quantity control are necessary instruments to protect farmer interests.

The views on national policies could not be more different, especially between Germany and the Netherlands. While German farmers are in principle quite content with their national regulations, the DDB cannot organize any bundling of produce due to national regulations. This difference is mirrored in the assessment of the milk package which for Dutch farmers would result in a strong improvement, whereas it would weaken the position of German farmers. All organizations view the ongoing reform steps in the CAP as rather negative. Moving away from price and quantity controls is regarded as a disaster for farmers. All organizations strongly support the establishment of a market information system that takes costs and volume management more explicitly into account. The organizations also agree that such a system is ideally installed at the European Union level and there is also support for the “Canadian Model,” i.e. – among other things – the establishment of price floors, price smoothening mechanisms, and a round table including representatives of the whole supply chain from the farmer to the consumer. Surprisingly, producer organizations also had conflicts with the long-established farmer associations in the past. Most probably, the traditional associations feel threatened by the newly emerging producer organizations and fear that farmers do not “speak with one voice” anymore which would complicate lobbying efforts. It may also be the case that the differing positions on the role of cooperatives caused some of these conflicts. More specifically, the traditional associations see cooperatives unequivocally positive, whereas producer organizations sometimes argue that cooperatives may not always work in the best interest of farmers especially in Germany and the Netherlands with their large cooperative dairies.

The situation of the vegetable sector in the Netherlands (see Brusselaers and Iliopoulos, 2012) differs much from the situation in dairy. The relationship between traditional cooperatives and producer organizations is often tense and farmers are disappointed by the path the large dairy cooperatives have taken. In particular, price setting that is not cost-covering is criticized. Also, the legal framework for producer organizations which are not registered as cooperatives is different. Unlike the vegetable growers associations studied by Brusselaers and Iliopoulos (2012), the DDB has not been able to bundle the produce of dairy farmers due to legal constraints set by Dutch competitive law. Whereas the studied vegetable producer organizations have been at least partly successful in price setting, the organizations studied by us are largely dysfunctional in this regard. Only the Italian APL is able to secure a higher price for its members. Similar to the organizations studied here, also the vegetable organizations are rather discontent with European law and the CAP. While the problems in vegetable are rather seen in the diverse implementation of EU law across member states which is said to cause unfair competition in an international market, the problems in dairy are seen largely in the missing volume management with the abolishment of the quota. Diversity in dairy exists across countries regarding the “milk package,” especially between Germany and the Netherlands, whereas assessment of EU policy within the Netherlands is rather structured along size with smaller cooperative being more critical of the distorting effects resulting from the diverse implementation in the member states.

7. Conclusion

The organization of cooperation is the necessary response of producers to structural problems on the dairy market. When compensating for imbalances on both sides of the dairy market, producers compromise on several issues when deciding about membership in cooperatives and bargaining associations: The on-going race to size of dairy processors and retailers is increasing known problems of collective organization. Farmers cannot avoid that their ever increasing processing cooperatives will have to introduce structures of internal governance and control which stray away from traditional cooperative principles like direct democratic control and self-management. The other problem at the dairy market is provided by the on-going reforms of the CAP. Liberalization and structural changes are realistic threats for the existence of many dairy farmers.

The organization of producer bargaining organizations is a natural response to the dairy farmers' loss of control over their cooperative in the ongoing race to size. At the same time farmers lose protection provided by the CAP and increasingly feel the consequences of imbalances on the dairy markets which originate in the felt bargaining power of the retail sector in which just a hand full of actors influence prices.

In this situation farmers experiment to reorganize in bargaining associations but at the same time resist to withdraw membership from large processing cooperatives because there is a felt need for rights to deliver in times of quota abolition. Another motive of farmers as members of large cooperatives then is to remain and, if not control, at least stay part of the race to size scenario. In this situation the organization of new producer organizations does not come easy because at least some farmers want to remain aboard of large flagship enterprises playing key roles in price negotiations with traders and in price signalling vis-à-vis Investor-oriented Processors.

In this very dynamic scenario, the newly formed bargaining associations studied in this report are still in search of their future orientation. A mix of old, rather protectionist arguments and fresh more modern arguments in support of farmers is currently leading the debates. The development of bargaining associations also does not come easy because of the differences in legal restrictions these associations have to face on the national level. The studied associations rather welcome EU-wide efforts to enable the free association of farmers in several associations at the same time. However, the dairy packages' exceptions for cooperatives and restrictions to operate bundling of produce by means of umbrella organizations and across the borders of member states are seen as critical for the further development of bargaining organizations. At least at the level of lobbying and market information a first attempt to coordinate activities has been made by the EMB. The future will show in how far this organization will become a relevant player influencing policy agendas and prices in the European dairy market.

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