

Co-operatives

Between Myth and Reality

What dairy co-operatives can do to strengthen the milk producers' position in the market and what they cannot do

May 2012

Published by:
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When you think of co-operatives, what comes to mind? Perhaps ...

“Involvement in decision-making, solidarity, participation...”

but

**The No. 1 dairy co-operative
in Europe processes
10.3 billion kg of milk
from 14 800 milk producers
a year and operates
in 25 countries.**

The No.1 dairy co-operative is no exception in Europe. The dairies are becoming bigger and bigger, their catchment areas for raw milk are constantly expanding. The individual member of the co-operative scarcely sees a trace of the old values of involvement in decision-making, solidarity and participation. S/he has practically no opportunity any more to influence how “his/her co-operative” is run.

Contents

Introduction	6
General structural problems of (large) dairy co-operatives	8
The Netherlands	12
Brief history of co-operatives in the dairy sector since 1890 and their significance for farmers' incomes	
France	18
Change in the structure of dairies organised as co-operatives and its impact on the producers	
Germany	23
Co-operative dairies, a curse or a blessing? Risks and opportunities of the co-operative system for German milk producers	
Conclusions	28

Introduction

UNO, the United Nations Organisation, declared 2012 the International Year of Co-operatives. “Co-operatives show it is possible to combine economic success with social responsibility,” says the UNO. “Co-operatives have a different way of managing their affairs, one focused on human needs and not human greed. It is an economic system in which the members own and run the business, collectively enjoying the benefits of their activity. The profits go to the members, not to outside shareholders.”¹

That was the spirit in which many co-operatives were formed in the late 19th century, particularly in the farming sector. One of the fathers of this movement, Hermann Schulze-Delitzsch, said at the time: “The spirit of the free co-operative is the spirit of modern society.” And, as the quote from the UNO illustrates, the co-operative is still a popular form of enterprise. In the age of the doctrine of “maximising profit at any cost”, it offers the opportunity to leave value creation to the members instead of losing it to investors and shareholders. In theory, anyway. In practice, and this applies especially to agriculture, over time structures can be created in and around the co-operatives that prevent the original aim – maximising the members’ benefit – from being pursued.

One factor is quite simply the size of the co-operative: with 10,000-plus members and global markets, the chances of the individual member having a say in the co-operative’s economic strategy are very slim, unless special countermeasures are taken. Representatives of farmers’ co-operatives also soon find themselves in an insurmountable conflict between contradictory interests in their work: the dairy wants to purchase the raw material milk as cheaply as possible, whereas the milk producer is reliant on selling his product at a cost-covering price. On top of that there is the one-sided economic dependence of the milk producers on their dairy. If a producer objects to the business strategy and the dairy then stops collecting his milk, the producer’s livelihood is quickly threatened as there is no alternative sales outlet in the region.

58% of European milk is now processed at co-operative dairies, yet it is precisely the members of the co-operatives who have to contend with milk prices that do not fully cover their production costs. In a farm-gate milk price comparison, co-operative dairies often come off worse than their private competitors. Besides the co-operatives’ internal reasons stated above, there is another reason why milk-processing co-operatives are not a form of organisation that can guarantee on its own that raw milk is marketed at prices the dairy farmers can make a living on: co-operatives cannot compensate for low and unstable market prices caused by an oversupply of milk.

As the European Milk Board – the European umbrella association of milk producer organisations – it is our experience from discussions that politicians in Brussels and in the capital cities of the EU member states often severely overestimate the importance of co-operatives for milk producers. They evidently assume that membership of a dairy co-operative means the milk producer can exert a decisive influence on the dairy’s business strategy. As we see it, this ignorance of the power relationships within co-operatives is down not just to the intensive lobbying by the milk industry and associations close to the industry, but also to the complexity of the structures in the dairy sector.

1 http://www.iggenossenschaftsunternehmen.ch/uno_01.html

For instance in the European Commission's Milk Package, co-operatives are excluded from all basic stipulations regarding the drafting of contracts regulating relations between the dairy and the milk producer.² However, we were pleased to see that the European Commission's reform proposal for a Common Market Organisation for all milk producers provides for the possibility of their pooling in independent producer groups before the processing stage: regardless of whether the milk producer supplies his milk to a co-operative or a private firm.

Even though improvements still have to be made in configuring the general conditions for implementing this call, this draft shows that more and more political representatives are aware that for milk producers membership of a co-operative is far from being the solution. Our aim with the text below is to show in detail where the milk producers' problems lie and what general conditions within and outside the co-operatives cause these problems.

The first part focuses on the general structural problems found throughout Europe in a similar form in every member state with large co-operative dairies dominating the market.

The Dutch co-operative company FrieslandCampina, the Deutsches Milchkontor (DMK) and the French group Sodiaal along with Arla Foods in Denmark/Sweden figure among the largest dairy companies in Europe organised along co-operative lines. Reports from these countries thus illustrate the structural problems below. To start with we have a historical presentation by a scientist of the importance of co-operatives for milk producers in the Netherlands. Then it is over to France: citing the original aims of farmers co-operatives, a milk producer shows how the model co-operative has altered in recent years, with disastrous consequences for the co-operative milk-producer. The third country, studied here by an organisation representative, is Germany: a graphic explanation of the way criticism is dealt with differently within the co-operative owing to greater concentration, complexity and competition.

After reading these three texts you will appreciate that a co-operative must always be seen in its real environment and can only achieve its aim of maximising benefit for members in the right political framework. In the Conclusions the right general conditions are reiterated in detail. In concrete terms what is needed for co-operatives to be able to help secure the livelihood of milk producers and to provide high-quality dairy products for the population? This question is dealt with in depth in the last chapter.

2 "In order to take into account the specific nature of cooperatives and not to interfere unnecessarily in current structures, cooperatives would not be required to have contracts on condition that their statutes provide for rules with the same objective." (page 3 of the COM(2010)728 document)

General structural problems of (large) dairy co-operatives³

In most large European co-operative dairies and in their environment there are no (longer) conditions for the interests of the milk producer members to be represented effectively. The co-operative aim of furthering members or maximising the benefit for members is not achieved. The farm-gate prices of milk do not cover costs, and returns on the farmers' capital investments are distributed only to a very limited extent. The co-operative members scarcely have any possibility any more of influencing the economic activity of "their dairy". The aim of the following is to present some of the structural reasons that help create this situation. In the examples from the countries these reasons are further examined in one way or another.

The individual member of the co-operative's limited possibilities of exerting influence at the General Meeting

The individual milk producer has basically only limited possibilities of influencing the concerns and business activities of his co-operative dairy. Admittedly as a member of the co-operative he has participatory rights. In particular these include the right to attend the General Meeting, the right to speak and put forward motions, the right to information, the right to elect and be elected to the Board, the Supervisory Board and the Meeting of Representatives, the right to vote and the right to equal treatment. However, all the possibilities of exerting influence referred to are almost exclusively available in the co-operative's General Meeting. It alone is basically intended as the forum for the exercising of co-operative membership rights.

But it is precisely there that any meaningful involvement of the member proves difficult. Expert knowledge in the most varied fields is a prerequisite for actually penetrating the requirements and circumstances of (sometimes) internationally operating dairy groups. Examples of this are voting on the adoption of the annual statement of accounts of a dairy group with numerous consolidated subsidiaries, or on spinning off parts of the co-operative's business, or on mergers.

It is true that members have a right to information at the General Meeting with regard to all items on the agenda, so it should be possible in principle to create a sound basis for a decision in an impending ballot. However, it is difficult for the exercising of such a right to be meaningful if the individual member is only partly familiar with the subject and has to rely solely on recommendations from external organisations, such as the co-operative association. To incorporate certain aspects of tax law, business management or legislation in his reflections is usually not possible in the requisite depth for a member of a co-operative as layman in these areas.

Meeting of Representatives

In co-operatives that are so big that their General Meeting has to be held as a Meeting of Representatives, the possibilities of the individual member of the co-operative exercising his rights are even fewer.

For the representatives do not in fact exercise the participatory rights assigned to them by the members that voted for them. They are not at all proxies of their voters and have no contractual relationship with them whatsoever. Instead, the representatives hold an executive body membership office with specific powers prescribed by law. Hence they are not bound by members' instructions, but have to exercise their official function under their own responsibility in the general interest of all co-operative members. In the end it is up to the representatives themselves how they interpret the „general interest of the co-operative“.

3 The text is based on an expert opinion from solicitor Oliver Schiewind.

So the only way the individual member can influence the co-operative and its activity is via the representatives. But he can only do so if he has the requisite information for him to form a sound opinion for himself about how to influence the representatives. The only way he receives information relevant to the co-operative is through the representatives. The representatives in turn obtain information solely from the Board – according to the same principles as a member in the General Meeting (see above) – mainly at the Meeting of Representatives.

What is more, the individual member of the co-operative has no possibility whatsoever of reacting to information received at the Meeting of Representatives. Why? Because the voting on the individual items on the agenda follows their deliberation in the Meeting of Representatives. Once again this makes it difficult for the member to participate in the decision-making process.

One-sided economic dependence on the co-operative

On top of the individual milk producer's fundamental problems is his general reticence towards his own dairy.

Currently most milk producers who are members of a dairy co-operative are obliged by provisions of the co-operative's constitution to supply all the raw milk they produce to their co-operative. Given the dependency this creates they are reticent to do anything against the dairy's activities they do not agree with. This is based on their fear of losing the purchaser of their milk and thus their income. That is why so many times milk producers even accept the co-operatives' business decisions that entail negative consequences for them.

The producer's situation is made even more difficult by the fact that his options for the marketing of his raw milk are becoming fewer and fewer. In some regions there are only one or two, maybe three processing companies to which the milk can be offered. If these companies collude, the producer is left with no choice if he wants to protect his livelihood. He has to keep his criticism to himself and acquiesce in what the Board and the Management of the co-operative decide.

Or if the producer makes his mind up to leave the dairy he has to sit out a long period of notice until he can finally change dairy. According to the Federal Cartel Office's Final Report of the Dairy Sector Study, that notice is 1-2 years for 47% of the co-operative dairies surveyed, and even more than two years for 42% of them.⁴

Conflicting interests of producing and non-producing members of co-operatives

In most dairy co-operatives, under the constitution the conditions of joining are designed in such a way that membership is not contingent on whether the member is an active milk producer. In fact in some co-operatives up to 50% of the members are not active producers. This is due to former milk producers that gave up farming having decided not to end their membership of the co-operative. Yet they have the same rights of membership as producing members.

This is advantageous to the co-operative, since the paid-up capital share of former members remains in the co-operative. The co-operative member himself thinks that by continuing his membership he has the prospect of a return on his paid-up capital share, as he has a share in the co-operative's resultant profit.

⁴ Dairy Sector Study (B2-19/08), page 36 <http://www.bundeskartellamt.de/wDeutsch/publikationen/SektoruntersuchungW3DnavidW26127.php>

The result is that milk-producing members already have to face opposition in their own ranks. Because whereas the milk producer's primary interest is in achieving a higher farm-gate price for his milk (to raise his income), the non-producing member is interested in exactly the opposite. The lower the farm-gate milk price, the more profit for the non-producing member.

Spinning off the operational side

It is precisely the bigger dairy co-operatives that farm out the operational business – marketing the milk products – to other companies, such as limited companies or PLCs. But the individual member of the dairy co-operative has no direct influence on the business activity of the external companies.

For the management and with it the operational business are the sole responsibility of the Managing Director/ Board of the external company.

These problems for the members of the co-operative become very apparent when it comes to adopting the consolidated accounts at the co-operative's General Meeting. The consolidated accounts, which combine the annual statements of account of all companies in the group, adjust all the economic relations between the group companies (consolidation). The individual member of a dairy co-operative cannot, however, comprehend such a complicated process. So he has no possibility of exercising any effective control through his right to vote at the General Meeting. When the voting takes place at a Meeting of Representatives, these problems are even further exacerbated.

But it is precisely decisions on the level of marketing the dairy products that are of crucial importance to the individual milk producers. For the success or failure of marketing the products is a major factor in determining the level of the price paid to the milk producers for their milk. So these are decisions with a direct impact on their livelihood.

Board member of a co-operative as a sideline

According to the theoretical model, the Board of a co-operative should comprise members of the co-operative who are active milk producers.

This means that managing the co-operative must be a secondary activity to running a farm.

Yet there are substantial demands on the running of an internationally operating dairy co-operative. Besides the necessary knowledge of business administration, in-depth knowledge of capital markets and leasing in particular is required to assess questions of financing; plus in-depth knowledge of drafting contracts, e.g. to assess questions relating to supply, distribution or leasing contracts, and standard terms and conditions of business. Then there are issues of labour law, brand policy, food technology and labelling law, which it is indispensable to address if the dairy is to be successfully managed. In this context mention must also be made of the activities of dairies on an international level, whether in political areas or resulting from business relations abroad. On top of all that, then, knowledge is required of international legal systems and practices, e.g. the Conventional of International Sale of Goods (CISG), European regulations or other members states' legal systems.

None of this can be expected if a dairy is managed as a sideline, and it simply cannot be accomplished. This applies even more so to sizeable co-operatives with a very large number of members and to co-operatives that have grown to become a group through the creation of subsidiaries.

The upshot is that the members of the Board tend much more to agree with the proposals of the full-time Director than manage business themselves. So their influence on the co-operative and especially on its running is relatively limited.

The aim of this chapter was to give you an overview of the most common problems of present-day co-operative structures in Europe. There now follow reports from three countries, analysing the situation in each. The first is a scientific text from the Netherlands, tracing the history of co-operatives and looking specifically at where the stumbling blocks for the producers lay and to some extent still lie.

Netherlands: Brief history of cooperatives in the dairy sector since 1890 and their significance for farmers' incomes

DR. NIEK KONING⁵

Dutch dairy farms are bigger and more mechanised than their counterparts in many other places in Europe. The same holds true for Dutch dairy cooperatives. Their modern factories produce not just butter or skimmed milk powder, but a large array of high-value products: quality cheese, condensed milk, desserts etc. A large share of their output is exported, mostly to other member states of the European Union, but to non-EU countries as well. Within the Dutch dairy industry, cooperatives have a dominant position. They process around 90 percent of all milk produced in the Netherlands. In fact, the lion's share is processed by one cooperative giant – Friesland-Campina – a modern company with a strong position in international markets.

This situation should make the Netherlands the case par excellence to prove that cooperatives can compensate the weak market position of farmers in a liberalised market. Unfortunately, the claim fails to pass the test of reality. The Dutch dairy cooperatives have not paid milk prices that covered the costs of their farmers. Neither have they shielded the latter against strong fluctuations in the world market. The management of these cooperatives has freed itself from effective control by the members. It has become a lobbying force for reforms that serve narrowly defined interests of their enterprises as well as their own ambitions, but hurt the interests of their farmers. Indeed, the Dutch situation illustrates the limitations that cooperatives have in providing cost-covering prices to farmers when adequate market organisations and supply controls are lacking.

Origins

The first butter and cheese cooperatives in the Netherlands were established in the late 19th century. They could force small traders and processors to pay more competitive prices to farmers or to stop trading. However, they could not redress international overproduction that depressed the milk prices and caused Dutch dairy farming to languish in the 1880s and 1890s. This early history already showed that cooperatives were no cure for oversupply and fluctuations in the wider market. Fortunately, from about 1900 the global market recovered.

Another limitation soon became apparent. Cooperatives were dependent on their members for their risk-bearing capital. For a long time, therefore, they were unable to produce capital-intensive products such as condensed milk or milk powder. As a consequence, they could not counteract the high profit margins of the more substantial companies that specialised in these products. This is why in the urbanised Western part of the Netherlands where these companies were concentrated farmers did not form dairy cooperatives, but milk farmers' trade unions that negotiated prices with dairy companies. If no agreement was found, the unions resorted to 'milk strikes' in which farmers went into the cities to sell their milk directly to consumers.

From the late 1920s, economic crisis and international oversupply caused another collapse in milk prices. The continuity of the Dutch dairy sector was threatened, so much that the government had to intervene. Marketing boards with representatives of farmers and processors were set up to organise the markets and maintain sustainable prices. Products that could not be sold domestically at these prices had to be exported. The number of calves was controlled to limit loss-making exports. After World War II, the price support was maintained but without the restriction of calves which had been discontinued during the war.

5 Niek Koning is a researcher at Wageningen University/Netherlands.

In the urbanised West, where no dairy cooperatives had developed, the pre-war experience with the liquid milk board had been so positive that it was transformed into a regional milk farmers' association with the same acronym, which gradually bought up the liquid and condensed milk factories in this area. Elsewhere village cooperatives formed regional umbrella organisations to produce condensed milk and milk powder. Thanks to these initiatives, the share of cooperatives in the dairy industry increased. However, the most powerful private firms could still maintain higher profits by shifting to new speciality products which were in ever greater demand as a result of rising consumer incomes.

Cooperative managers lobbying against remunerative prices

Meanwhile in international markets, after the Korean War (1950-53), wartime shortages had given way to new oversupply and low prices. The Dutch government had promised to sustain the milk prices at remunerative levels for farmers, but keeping this promise became increasingly difficult. Around half of the Dutch dairy products had to be exported – mostly to Germany and other Western European countries. The creation of the Common Market of the European Community in the 1960s was a godsend for Dutch dairy farmers. Exports to European Community countries now earned the subsidized internal EC prices rather than the low international prices.

The yearly price support negotiations in the EC, however, revealed a conflict of interests within the Dutch dairy sector. Most farmers wanted price adjustments that compensated higher production costs. However, many managers of dairy cooperatives preferred price support to lag somewhat behind cost increases because this would hamper the growth of dairy farming in EC regions with higher production costs than the Netherlands. In this way, the cooperative factories could expand their exports and increase their turnover. The organic relations between cooperatives and general farmers' organisations helped to gain support among farm leaders for this viewpoint, causing a growing alienation between leaders and members. How far this alienation went became clear in 1974. The 1973 oil crisis had caused strong cost increases for farmers. Nevertheless, the official farm leaders, inclining their ears to the cooperatives' managers, demanded no more than a modest adjustment of the European support prices. In the next months, thousands of farmers took to the roads to demand remunerative prices. In the end, the European Community had to concede higher price adjustments than the Dutch farmers' leadership had "pressed" for. The official leaders were completely discredited. Within a month, the presidents of all three national farmer organisations had to step down.

In the following years, the conflict of interests between cooperative managers and farmers reached a new phase. The production of milk in the EC grew faster than internal demand. It led to growing mountains of butter and skimmed milk powder that could only be exported by heavy subsidisation. The costs of this consumed an increasing part of the EC budget and met with growing opposition outside the farming sector. The Working Group for a Better Dairy Policy – a think tank of Dutch dairy farmers set up during the 1974 actions – advocated farm quotas to allow milk prices to be supported at remunerative levels while preventing further oversupply. Such a system was also in accordance with the international trade agreement (GATT), which only allowed countries to support their own farmers if they would control their supply and not distort the world market.

Nevertheless, the Working Group was derided by the dairy cooperatives' managers, who contended that such a system would become a Soviet-type bureaucratic nightmare and never work. Subsequent developments proved them wrong. In the early 1980s, the rampant growth in dairy dumping caused a political crisis in the EC. The heads of states ordered that the ensuing increase in costs to the EC budget should be stopped. Whether this would be achieved through milk quotas or a severe cut in milk price supports was left to the sector to decide. A large majority of Dutch dairy farmers preferred quotas as the lesser of two evils. Conversely, the cooperative

management fiercely resisted quotas and preferred a lowering of the milk price. In 1984, the quota system was introduced. Thanks to it, the costs of the dairy policy shrank from one third to no more than a few percent of the Common Agricultural Policy budget. It made it much cheaper for the EC to support the milk prices at a reasonable level. Even though the milk prices were not fully remunerative, until 2003 dairy farmers were much better off than their colleagues in the arable sector, where rising costs to the EC budget were counteracted by price cuts rather than supply management.

Erosion of farmers' influence

The fact that cooperative managers could pursue their own interests rather than listen to their members is also explained by changes that were going on within dairy cooperatives. For a long time, Dutch dairy co-operatives had been moderately sized. Most processed the milk of one village or a few villages only. The administrative structure was simple. The lines between the members and the boards and directors were short. From the 1960s, however, a wave of mergers led to regional cooperatives processing the milk from a whole province or several provinces. This development involved reorganisations that made member control of the management much more indirect. The members were grouped in districts.

Councils of representatives were introduced between district assemblies and the board. In many cases, the cooperative was transformed into a separate company, with the cooperative association as shareholder. In practice, these reorganisations greatly enhanced the managers' influence. The management controlled the internal flow of information. The boards tended to follow rather than control the management, and so did the majority in the councils of representatives. If members wanted to oppose the management, they first had to change their district representatives. Managers and administrators did not normally inform the members of a district about opposition that had arisen in another district. In discussions, the managers could always plead economic necessities that followed from the competition with other dairies in the Netherlands or abroad. For the members and their representatives, the fine line between real economic necessities and self-interest of the management was hard to discern. Finally, the concentration in the dairy sector made it more difficult for farmers to 'vote with their feet' by selling their milk to another enterprise if they were dissatisfied. In ever more places, especially smaller farmers found that there was only one buyer for their milk.

Role of Dutch cooperatives in the discontinuation of price supports

When the introduction of milk quotas became unavoidable in 1984, dairy cooperatives welcomed the Dutch decision to make the quotas fully tradable between farmers. In this way, maximum room for manoeuvring was created for a further concentration in dairy farming. This would allow a rapid reduction in production costs, which suited the export expansion strategy of the cooperative management. The downside was that farmers who extended their farms had to buy or lease quotas at high prices. Young farmers complained about high quota costs which they incurred for obtaining a viable production size given the high prices of land and other inputs in the Netherlands. Yet the dairy cooperatives made no attempt to change the rules for the redistribution of quotas. Many managers rather welcomed the eroding influence that these rules had on the support for the quota system among young farmers.

In the meantime, concentration in the Dutch dairy industry continued. In the 1990s, the lion's share of Dutch milk was processed by two large cooperatives – Campina Melkunie in the South and Friesland Foods in the North of the country. Only a minority of cooperative leaders – as Campina's President Jan Loonen – acknowledged the benefits of milk quotas for their members. The others continued to resist the system. This was especially true for Friesland, which exported a significant share of its products to countries outside the Euro-

pean Union. Friesland's management became one-sidedly focused on how to beat New Zealand – the world's second largest dairy exporter – in the emerging Asian markets. In this competition, the dairy came to see milk quotas as a major obstacle.

In 1993, the European Union and the United States imposed a new Agreement on Agriculture through the Uruguay Round of GATT negotiations. According to it, all countries had to reduce their price supports. However, certain forms of direct payments – which only rich countries could afford – were allowed without limitation. The obligation to reduce price support meant that the EU had to limit its subsidised dumping. This could have been done by a small tightening of the quotas, but this solution was heavily rejected by Dutch cooperative managers. The alternative was to replace price support with direct payments. Hence, disguised dumping substituted open dumping through export subsidies as direct payments still enabled the EU to export more than would have been possible without them. In this way, the obligation to reduce dumping could be circumvented.

The Dutch dairy industry was intent on using this possibility. This was one reason why the Dutch government joined the 'Club of London' – the faction in the EU Council of Ministers that urged for ending all price supports. Under its pressure, the milk price supports were strongly reduced after 2003. Farmers were only partly compensated through direct payments and saw their incomes decrease. Thus Dutch dairy cooperatives, although once established to defend the income of farmers, welcomed reforms that suited the competitive strategy of their managers but hurt their own members. The members were not consulted. The position taken by the cooperative leadership was never put to the vote in district assemblies or councils of representatives.

As the quotas were no longer used for maintaining reasonable support prices, the reason why farmers supported the quota system had disappeared. Only the disadvantage of tradable quotas – the high quota costs incurred by young farmers – remained. In this situation, the Dutch cooperatives, led by Friesland, took the offensive. Together with the livestock committee of the meanwhile unified mainstream farmers' organisation LTO, and playing upon the frustration of young farmers, they lobbied hard for ending the quotas. Their pressure contributed much to the EU decision to phase out the quotas from 2008.

Dutch cooperatives failing to provide stable and remunerative prices in a liberalised market

Now that the European milk price support and supply control system had been dismantled, many asserted that cooperatives would be able to provide stable and remunerative prices to farmers. Did the expansionist strategy of the Dutch cooperatives enable them to fulfil this expectation? In 2008, Friesland and Campina merged. The resulting company FrieslandCampina processes around four-fifths of all milk in the Netherlands. It is one of the most modern and diversified dairy companies in the world. Nevertheless, as a price-correcting tool for farmers, its performance is moderate. In spite of its expansionist strategy, it hardly paid better prices than other dairy factories in the European Union (Table 1). The prices it paid were consistently lower than the cost price of milk in the Netherlands (Figure 1). Also, FrieslandCampina has hardly smoothed the price shocks that occurred in the markets for dairy products after the stabilising policy of the EU was abandoned (Figure 2).

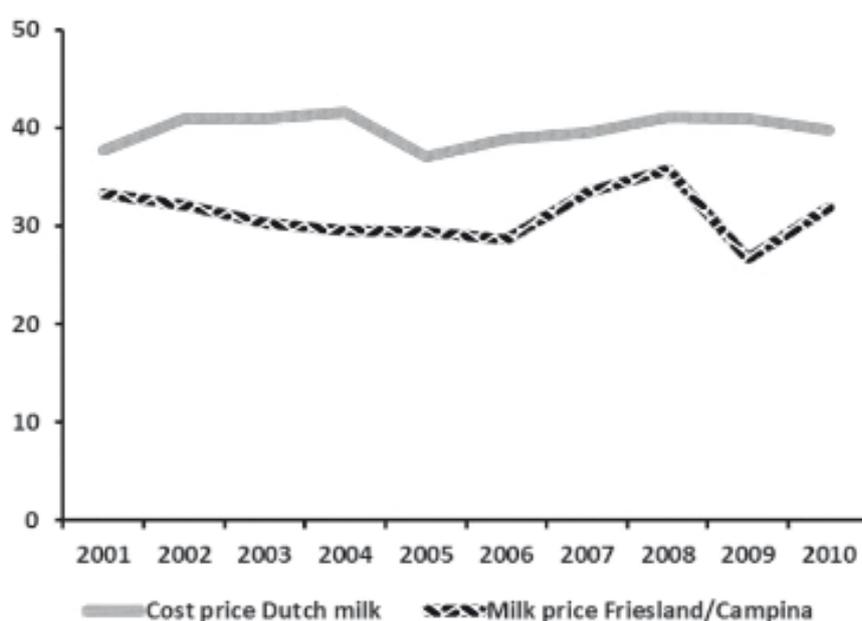
Table 1. Milk price paid by FrieslandCampina and other dairy factories in the European Union (euros/100 kg)

Year	Milk price Friesland- Campina	Milk price EU dairy factories
2001	33,24	32,64
2002	32,1	30,6
2003	30,26	29,41
2004	29,47	29,35
2005	29,38	29,00
2006	28,65	28,43
2007	33,39	32,52
2008	35,71	35,10
2009	26,66	26,85
2010	31,84	30,96

Source: Calculations DDB based on LEI and PZ/LTO data (up to 2008, Friesland Campina prices are simply the average of prices paid by Friesland and Campina)

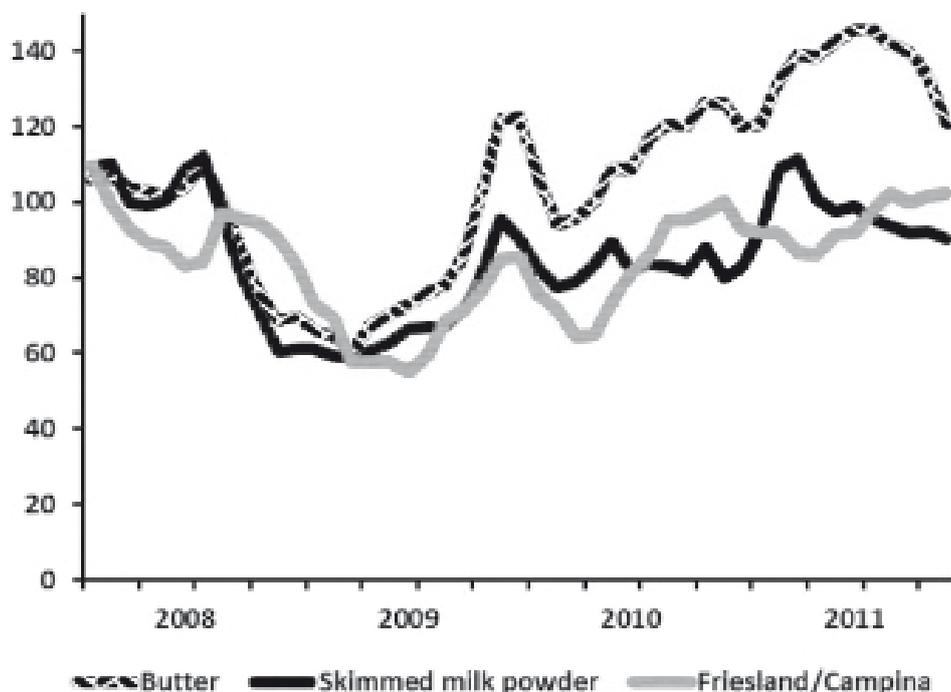
In fact, the moderate performance of this cooperative giant as a price-enhancing institution is closely connected to the strategy of its management. FrieslandCampina wants to remain a frontrunner in the competitive race with other food companies. Therefore it needs to accumulate enough risk-bearing capital to finance ambitious investment programmes. Because its cooperative status precludes selling stocks to non-members, it can only do so by restricting the milk prices it pays to its farmers. Besides, FrieslandCampina's wish to expand its sales in Asian markets compels it to compete with New Zealand's Fonterra, which can offer dairy products at low prices because it benefits from New Zealand's exceptionally favourable conditions for dairy farming and much shorter distance to Asia's airports and port cities. For this reason too, FrieslandCampina cannot pay remunerative prices to its farmers.

Figure 1. Prices paid by FrieslandCampina and cost price of Dutch Milk (euros/100 kg)



Source: Calculations DDB based on LEI and PZ/LTO data (up to 2008, Friesland Campina prices are simply the average of prices paid by Friesland and Campina)

Figure 2. Indices of prices paid by FrieslandCampina and of butter and skimmed milk powder prices in the European Union (2008 average = 100)



Source: Calculations DDB based on Gould and PZ/LTO data (up to 2008, FrieslandCampina prices are simply the average of prices paid by Friesland and Campina)

The early history of dairy cooperatives in the Netherlands shows that cooperatives can to some extent force the buyers of milk to become more efficient, but that they cannot redress oversupply and fluctuations in the wider market. Recent experience shows that this statement is still valid. To ensure stable and remunerative prices for farmers, one needs a more comprehensive organisation of milk markets that is backed by government power. In the 1930s, Dutch cooperatives helped to create such a market organisation. Unfortunately, in recent decades, they have sacrificed this constructive role on the altar of exaggerated ambitions of their managers.

France: Changes in the structure of cooperative dairies and their impact on the producers

XAVIER TALOUD⁶

The meaning of the term „co-operative“ has changed in the course of time. This applies both to how a co-operative works in general and in particular to how it is managed. Let us take as an example the history of comté (a cheese from the French département of Jura). Old manuscripts mention what were called „fruitières“ („fruit co-operatives“) and how they operated⁷. This original form of a village organisation originated eight hundred years ago and was based on the values of solidarity and sharing.

The French legal dictionary explains the original idea of a co-operative as follows: “The co-operative is a form of company with a civil or economic orientation whose aim is to avoid capitalist profits, either by combining means of production or by buying or selling goods outside trade cycles. In such a company no profits are distributed. In some cases the members receive returns on investments from the co-operative’s profits. (Act no. 47-1775 of 10 September 1947)“ (translated from the French).

Nowadays certain co-operatives are no longer processors; they only collect milk to sell it on to other companies or subsidiaries in which private investors have shares.

If one scrutinises the structure of the subsidiaries of the biggest French dairy companies, one realises that they are closely linked with large private and investment companies.

The aim of the following four points (solidarity and sharing, the legal structure, the different types of cooperatives and their connection with private companies) is to give an idea of the current situation of dairy cooperatives in France. After this description, conclusions will be drawn, based also on a publication from the National Association of Dairy Co-operatives in France (FNCL)⁸.

Where the principles of sharing and solidarity still operate today

In most of the mountain regions of France there are similar structures to those of the system of co-operation in the département of Jura referred to above. These continue to be alive and successful, primarily in the areas of the controlled designation of origin (AOC) and where the size of the co-operatives is limited to the local level. Producer co-operatives amalgamate with private processing firms in organisations that adjust the volumes of milk produced to demand for the processed products.

One example is the Beaufortain mountains in the French Alps, where Beaufort cheese comes from. There the co-operatives have enabled the local producers to unite and to process and sell their products by pooling them. In this way they have achieved a farm-gate price well above the French average that covers the high production costs that are due to the special economic and environmental constraints of the region. This system based on solidarity has helped preserve the region’s life and landscape and thus created the conditions for the strong upturn in tourism which the region enjoys.⁹

6 Xavier Taloud is a milk producer in the département of Isere, in the Rhone Alps region, at the gateway to the French Alps

7 cf. 1264 et 1267. L’histoire des communes de Levier et Déservillers

8 FNCL: Les coopératives laitières – un fonctionnement simple et efficace, April 2001, <http://www.cniel.com/Publicat/FNCL/Fiche/CoopLaitAvr01/Fiche2.pdf>

9 Muriel Faure: Un produit agricole « affiné » en objet culturel, Le fromage beaufort dans les Alpes du Nord, in:

Capitalist profits are „concealed“, not „avoided“

The first sentence of the definition of a co-operative in the French legal dictionary says that the aim of a co-operative is to avoid capitalist profits.

In other words, the producers as owners of the means of production are not dependent on a private processing firm that aims to achieve profits by processing the milk produced by the farmers. All the money generated by the co-operative is to be of benefit to the farmers who produce the milk and put up the money to buy and use the means of production. To a certain extent the aim is to avoid external capitalist profits and let the producers benefit from any profit arising from the milk. This should also mean that the profit is distributed to the producers both for supplying the milk and for the subscribed capital.

The reality is different nowadays: unlike certain dairies in neighbouring European countries like Milkobel in Belgium, the majority of large co-operatives in France such as Sodiaal do not actually pay their members any dividends, either for the subscribed capital or as distribution of profits. A comparison of farm-gate prices in France shows that the co-operatives' farm-gate prices are usually lower than those paid by the private dairies.

The claim Sodiaal makes to its members is that it has to retain the profits from the co-operative's business operation to invest in new means of production. When Sodiaal took over Entremont it demanded that the Entremont producers, now members of Sodiaal, subscribed a total of 56 million euros in capital spread over five years, although the co-operative had paid only 25 million euros to take over Entremont¹⁰. What happened to the rest of the money, then? The answer to this question is to be found in the subsidiaries' accounts. The profit generated by the co-operatives vanishes in subsidiaries, over which the co-operative members have no influence.

In this way the capitalist profits are no longer avoided in the large co-operatives, as the farm-gate price paid by the co-operatives to the producers does not cover the costs of production; as the return on capital is not distributed to the producers, but the money vanishes into the co-operatives' subsidiaries instead. So the capitalist profits are only concealed, not avoided. In this way the original aim of the co-operatives is no longer achieved in many cases.

„Milk-processing“ or „milk-collecting co-operatives“?

In this section I would like to cite the case of Sodiaal, the largest co-operative in France that collects more than four billion litres of milk, as an example of the development of co-operative structures in France.

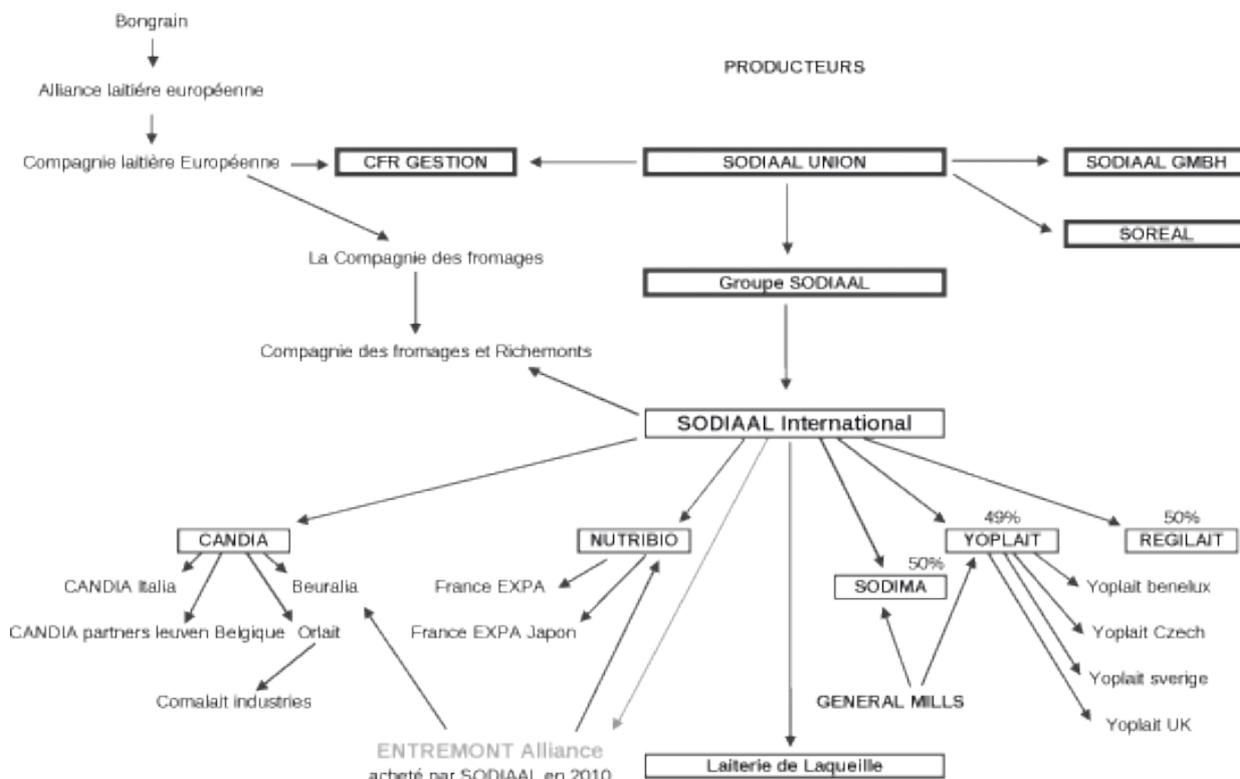
Sodiaal consists of different components:

- „Sodiaal Union“ is the co-operative of which the producers are members and which does not process any milk.
- „Groupe Sodiaal“ is a subsidiary of „Sodiaal Union“ in the form of a public limited company (plc), which also does not process any milk.
- „Sodiaal International“ is a subsidiary of the „Groupe Sodiaal“, likewise in the form of a public limited company, and which likewise does not process any milk.
- Finally there are the milk-processing companies that are either wholly owned by Sodiaal or which are partly owned by private investors. One example of Sodiaal's processing companies is Yoplait. This company is 51% owned by General Mills, a large American food group.

Terrain, no 33, 9/1999, 81-92. <http://terrain.revues.org/2703>

10 <http://www.paysan-breton.fr/article/10773/sodiaal.html>

Thus the members of the „Sodiaal Union“ co-operative can only influence the decisions of their „milk-collecting co-operative“. They have absolutely no influence on the processing structures in which they acquired shares through their membership of the co-operative.



Source: own graphic, created on the basis of data from www.verif.com, a website on the financial situation of companies.

The majority of the major co-operatives in France have similar structures.

Interrelations between co-operatives

Over time and aiming for constant growth, co-operatives have increasingly acquired their capital from the industry or from investment funds, with the co-operatives preferring to use the term „partnerships“.

Let us return to the example of Sodiaal. In 2002 the co-operative sold 50% of the capital of Yoplait for 70 million euros to PAI Partners. The latter company, having invested 200 million in Yoplait, sold its shares in 2011 for 800 million euros to General Mills. The fact that the value of the company rocketed shows that milk has great added value potential. But the members have never benefited from this increase in value.

Another example is Bressor Alliance, largely owned by Bongrain and three co-operatives from southeast France. 71% of the milk collected from the members is processed by plants that belong to the co-operative. The rest of the milk is processed by Bongrain. The members of the co-operative have no influence on the added value achieved by Bongrain. So Bongrain can quite simply tell the producers that the remaining 29% is surplus, which the company can only buy at world market prices.

It is a similar story with subsidiaries such as „CFR Gestion“, which belongs to “Sodiaal Union“ (co-operative)

and the Compagnie Laitière Européenne (subsidiary of the private company Bongrain). The Managing Director of „CFR Gestion“ is a director delegated by Bongrain.

These examples reflect only a fraction of what goes on in the co-operatives. They have lost their independence and the will to avoid capitalist profits.

Self-imposed rules are ignored

The French National Association of Dairy Co-operatives (FNCL) defines the rules to be observed by the profession. They were written by members for members of co-operatives. I would like to take one or two of these rules and check with examples whether at least these self-imposed regulations are observed by the co-operatives.

The sentences in italics were taken from the FNCL document „Les coopératives laitières: un fonctionnement simple et efficace“ (*„How the dairy co-operatives work: simply and efficiently“*).¹¹

Agricultural co-operatives can form co-operative unions in order to develop. They can also develop certain activities in subsidiaries in the form of public limited companies in which they have a majority shareholding.

Counterexample: Sodiaal has only a 49% share in Yoplait.

Transparency: the members of a co-operative (...) must be informed of the co-operative's policy, including the remuneration for the milk they supply.

The members of a co-operative are informed of their co-operative's policy. But they are not given any information on the business strategy of its subsidiaries, although these process the milk and thus have a substantial say in the value added to the milk.

Solidarity means neither permanent support nor integration.

Under the amendments to the constitution proposed by the co-operative Triskalia the members of the co-operative would be obliged to acquire all their means of production from their co-operative. If they do not, the supply contract between the dairy and the producer can be cancelled. In other words this equates to full integration.

Conclusion

In France co-operatives were set up to improve the balance of power between producers and private dairies, so that the dairies achieved the maximum added value for the producers from their milk. Nowadays the size of co-operatives forces them to set up subsidiaries. In this process the running of the dairy has passed over into the hands of its administrators and the members have lost their management of the co-operative. They have also had to put up with private capital flowing into the co-operatives, resulting in the aim of distancing themselves from capitalist profits flying out of the window.

Milk production and the principle of belonging to a co-operative have become two totally different things. Often the co-operatives are no longer structures for creating added value from the milk; instead their sole function is to collect the milk.

There is no longer any significant difference between the management of a co-operative dairy and a private

11 <http://www.cniel.com/Publicat/FNCL/Fiche/CoopLaitAvr01/Fiche2.pdf>

dairy. For the producer there is no longer any benefit from being a member of a co-operative; s/he is in the same situation as a producer who is the shareholder in a private company. The only difference is that shareholders in a private company are paid an annual dividend.

The balance of power between producers and dairies can only be decisively shifted if the producers, be they members of a co-operative or not, pool their forces and act together. They can only do this effectively in a horizontal producer organisation like the France Milk Board.

Co-operative dairies, a curse or a blessing?

Risks and opportunities of the co-operative system for German milk producers

HANS FOLDENAUER¹²

Co-operatives are an extremely old tradition in Germany, first mentioned way back in the Middle Ages. In the Alpine region the settlers joined together in Alp co-operatives to inject new life into and give a boost to the Alpine economy with community work. Co-operatives are a very strong feature of German life. There are currently more than 5,400 co-operatives, roughly half of which are rural co-operatives that concentrate on producing and processing agricultural products. In addition there are 1,138 credit co-operatives (Raiffeisen, Volksbanken), 1,622 commercial co-operatives such as Edeka, the biggest food retail company in Germany, the REWE Group, and BÄKO, a purchasing association of bakeries.

It was in the GDR that co-operatives were very strongly promoted after World War II. “The collective farms (LPGs – landwirtschaftliche Produktionsgesellschaften) are voluntary associations of farmers that produce communally, increasingly satisfying their own needs, both material and cultural, and supplying the population and the national economy. They define their working and living conditions under their own responsibility within the confines of the law.” That is how the GDR constitution described the aims of the LPGs. We now know that it was not all quite so voluntary. Many a thumbscrew was applied to put the socialist ideas of a common economy into practice by membership of the LPGs.

Key elements of the co-operative concept

Article 44 para. 1 of the GDR constitution basically provides an excellent definition of the ideal conception of a smoothly operating co-operative. The members are to work and conduct their business under their own responsibility. Besides the creation of added value the aims of the co-operatives also include improving the quality of life. Produce, process and market together, stipulate targets, allow innovation, specify product diversity and processes – and all of that in a legal form in which all members of the co-operative can contribute their ideas and exercise influence.

Developments from 1950 until today

The economic importance of the co-operative dairies is huge in Germany. In the first half of the 20th century there was at least one dairy in every village, its structure almost invariably a co-operative one. In those days markets were manageable, there was a clear view of them from the cheese-dairy “hearth”. This meant the conditions of competition in the individual regions were comparable. The influence of the individual member of the co-operative on the management/cheese-maker was considerable. The cheese-maker’s qualification was very important for the profitability of the cheesery.

Increasing volumes of milk progressively necessitated larger markets; the majority of the cheeseries/dairies were not up to this development. Many cheeseries initially became milk pooling points before they closed down completely when milk started to be collected from the farm gate.

The second half of the last century saw an enormous structural change. The change in the markets brought demand in ever faster succession for new products and trade channels. Whereas in 1950 there were still 3,400 milk-processing dairies predominantly organised as co-operatives in Germany, there are now fewer than a hundred.

12 Hans Foldenauer is the spokesman of the German Dairy Farmers (BDM) Executive Committee

At present some 70% of the milk produced by roughly 85,000 dairy farmers in Germany is processed and marketed by co-operative dairies.

Growing concentration reduces the members' chances of exerting influence

The dairy industry, private and co-operative companies alike, thinks that with ever expanding corporate structures it will fare better vis-à-vis the retailers. But this growth is at the expense of the milk producers, who have less and less influence on the management of "their" dairy.

The German Cartel Office recognised this state of affairs and addressed the issue in its Interim Report on the Dairy Sector Study¹³. In the report it says: *"In the relationship between dairies and producers the Decision Department found an imbalance of power to the detriment of the producers, despite the "vertical" integration of many producers in co-operative dairies. And in the opinion of the department, larger co-operatives are no longer perceived by the producers as "their own" dairy and have effectively ceased to operate in the market as if they were."* The report also refers to the opposing interests of milk producers and dairy: *"Basically, neither private nor co-operative dairies have any incentive to pay as high a farm-gate price as possible in the interest of the milk producers. (...) Every processing company's strategy of maximising profit is geared to keeping purchase prices as low as possible."* According to the Cartel Office, co-operatives have little motivation to market their products for as high a price as possible because the risks are spread over many shoulders. In the end the member of the co-operative is simply paid what is left after the dairy's costs have been deducted. *"The nature of co-operative dairies' pricing ("upside down") means that the dairies have no inherent interest of their own in achieving high prices for their dairy products, because as a dairy they bear only a limited financial risk."*

From this the Federal Cartel Office concluded that the farm-gate price was not currently defined in a properly functioning competitive

and market environment. Another important point is the fact that there is practically no competition for raw milk and hence practically no market any more in which the milk producers can actually offer their milk. Chances of "shopping around" are non-existent when a dairy's catchment area extends over widespread parts of central, northern and eastern Germany, for instance.

Recent years have seen the development of mega co-operatives. The merger that created the Deutsches Milchkontor DMK GmbH is a shining example on a political level. At the moment DMK GmbH, a merger of Nordmilch eG, Humana Milchunion eG and Bad Bibra eG, is Germany's largest dairy with 10,500 milk producers and 6.8 billion kilos of milk. In second place is the private Müllermilch Group with about 2.4 billion kilos of processed milk, followed by Hochwald eG with a little over 2 billion kilos and MilchUnion Hocheifel with 1.2 billion kilos. After them come co-operatives like FrieslandCampina, the Ammerland dairy, Bayerische Milchindustrie and Uelzena eG with just under 1 billion kilos of processed milk. Then there are about 20 other medium-sized companies and a number of smaller dairies.

Increasing complexity and unsolvable conflicts of interest

In medium-sized co-operatives (up to 500 million kilos of milk processed) it is still theoretically possible for members to have a large influence, either directly in the Members' Meeting or indirectly via the Representatives' Meeting. With both setups the milk producers and shareholders could have a say in the running of the co-

13 cf. the Federal Cartel Office's Dairy Sector Study at <http://www.bundeskartellamt.de/wDeutsch/publikationen/SektoruntersuchungW3DnavidW26127.php>

operative. In practice, however, things are different. Given the complexity of correlations, an increasing global expansion of markets, often the shareholders cannot counter the management and executive committee's line of reasoning. For instance, if at the Members' Meeting the management and the executive committee say that the development of the markets means a milk powder plant has to be built, it is hard for the milk producers to refute the statement. And then if they also say that rejecting the proposal would threaten the economic existence of the dairy, who would vote against it?!

In the course of the 2008 milk strike there were initially almost revolutionary reshuffles in the representative bodies of several German dairy co-operatives. It was possible to replace many representatives loyal to the management and the executive committee with quite critical farmers thinking primarily of their own dairy farms. The initial high spirits were quickly followed by disenchantment, for even the highly motivated "new boys" in the co-operative structure soon saw themselves caught in the middle. "Do I vote against the development proposed by the management and the executive committee, and in doing so threaten the existence of the company?" When in doubt, they vote for the proposals. It is becoming increasingly difficult to do the balancing act between the interests of the dairy company and the interests of the milk producers.

An effective say in the mega-companies is totally impossible. It is more and more common for the operational side to be outsourced to an independent entity. Although the original co-operative is a shareholder in the new milk-processing company, the creation of independent structures means the members basically have no influence any more. The shareholders in DMK – Nordmilch eG, Humana Milchunion eG and Bad Bibra eG – are by nature milk supply co-operatives and thus a cheap source of milk for DMK. The situation is similar with Erbeskopf-Eifelperle eG, whose actual added value is created by its Hochwald-Nahrungsmittel-Werke GmbH. The traditional forms of democratic say in co-operatives basically no longer exist in these structures.

Dealing with the dairy farmer co-owner

When the milk producers or their representatives oppose the management's and the executive committee's proposals, the representatives of these bodies threaten to resign. A good example of this is Stephan Tomat, former Chairman of the Board of Nordmilch eG: when he was in danger of not acquiring a majority vote in favour of his plan to outsource the operational side to a plc, he exerted pressure by threatening to resign. He got what he wanted.

Another method of intimidating critical members of co-operatives or shareholders is to say that just giving written notice to resign will result in the respective producer's milk no longer being accepted under any circumstances after the end of the period of notice, and that it is impossible to retract the written notice to resign.

Example 1:

Milchwerke Bad Wörishofen eG, one of the shareholders in Allgäuland GmbH

When we milk producers and members criticised the below-average farm-gate price at the Members' Meetings we were always told the next year would be better. As no better year appeared, an attempt was made to stifle discussion of provisional notice to resign by announcing such notice would preclude future membership or milk supply. Of the then almost 30 milk suppliers from the Irsee supply group at first only three decided they would still give notice to resign.

So the dairy's tactic resulted in the producers being cautious with their criticism of the management/executive committee and stopped many of them even thinking about resigning. The situation has since changed, as only a few milk producers in Irsee remained loyal to the Allgäuland dairy, which was taken over by Arla Foods.

Another case of despotism and intimidation became public at Erbeskopf-Eifelperle eG.

Example 2: Erbeskopf- Eifelperle eG

In the course of 2008/09 a group of milk producers tried to find a new buyer for their milk. For whatever reasons they were unable to find one. Because after neighbouring dairies initially expressed interest, none of them wanted to buy this group's milk. Erbeskopf Eifelperle eG accepted the retraction of notice to resign from most of those who gave notice, but not from three milk producers: these three were among the group instigators, and the dairy wanted to make an example of them. It was only after an interim injunction was issued that the three milk producers were able to market their milk again.

Another typical example was the QM case of Claus-Peter Jensen and Nordmilch eG.

Example 3: Nordmilch eG

The farmer refused, with a sound line of reasoning, to take part in QM-Milch. The upshot was that the dairy stopped collecting his milk but did not terminate his membership. This was effectively a boycott of the Jensen farm, because as he was still a member of the co-operative Jensen continued to be under an obligation to supply, and purely from a legal standpoint he could not market his milk in any other way. This was a very special case of how a dairy treated its co-owner.

Many other cases could easily be added to the list. The fact is, most managers and committees of co-operative dairies regard their co-owners first and foremost as milk suppliers, and not as investors and employers.

Nowadays, milk producers as the primary stage and milk processors as the secondary stage have fundamentally different interests because of the global markets. For the dairy to be globally competitive, the "raw material" that is milk must always be sourced as cheaply as possible. This is in stark contrast to the interest of the primary stage, where producers want to sell their milk at as high a price as possible.

Milk producers who wish to combine both interests face an unsolvable problem. One thing invariably becomes clear very quickly in discussions with milk producers who also have a managerial role in a co-operative dairy: in their reasoning and thinking they are decidedly milk processors and no longer primarily milk producers. In particular I recall a conversation with the chairman of the board and with the chairman of the supervisory board of a major German dairy. Both said there was a dearth of information flow between dairy management and members.

Co-operative dairies competing with private dairies

The private dairy industry takes the co-operative dairies' milk prices as the yardstick for its farm-gate prices. Although they very often achieve better added value across their wide product range, they do not pay more for the raw milk and thus have a considerably larger profit margin. Hence co-operatives find themselves confronted with strong competitors in the market.

Weak capital resources are a basic problem for many co-operative dairies. Efforts are constantly being made to boost them by increasing member shares or not distributing dairy profits. However, this means that the milk producers as co-owners are deprived of the capital they also urgently need to develop their farm.

The nature of the pricing in co-operative dairies ("upside down") results in the milk producers just being paid what is left over. The co-operative dairies have no inherent interest of their own in achieving high prices for their dairy products, because as a dairy they bear only a limited financial risk.

Another peculiarity of the co-operative form of organisation in the dairy market is the link between capital and milk. For the milk producers this setup means that, on the one hand they furnish the dairy company with equity capital by subscribing shares, and on the other hand the duty to supply under the constitution obliges them to provide it with all their milk for processing. Imagine a shareholder in BMW having to drive a BMW and wanting to exert influence on the business and model development by virtue of his share. Imagine membership of a purchasing and selling group being associated with the obligation to purchase equipment exclusively from this group, utterly regardless of the price. The constellations in the co-operative dairy sector come across as nigh on absurd and must be thoroughly overhauled.

Creating a functioning raw milk market

More and more milk producers realise the necessity of reforming the dairy market. The milk producers need a market to sell raw milk before the processing stage, without altering the basic financial resources of the dairies. This realisation calls for a step-by-step approach. The first step is to separate capital from milk. The capital investment must be remunerated with interest paid on the shares, not with the farm-gate price. At the same time an independent contract has to be signed to regulate the milk supply. This can be done with part volumes or the entire volume, with the timing not being related to the term of the capital investment.

For something to be changed in the co-operative dairy sector, politicians must stipulate that the price of raw milk is negotiated and specified before it is supplied to the co-operative. With the current obligation to supply, it is impossible for the investors/producers to market their milk in a better way within a relatively short timeframe unless they cancel their investment.

Making the raw milk market upstream of the dairy industry could also restore competition for milk. This requires much thought and more than anything a new mindset among the milk producers. With the conflict of interests described it is impossible to still refer to “my dairy”.

Prospects for the future

In summary it can be said that the co-operative dairy sector has asked too much of the German dairy farmers and done nothing at all to further them as members in line with its stated function. To this day, co-operative dairies are still the guideline for farm-gate prices paid by the private sector. They are the ones who, in their growth strategy, want to carry on “conquering world markets” with standard products. Very topical examples are the investments made by Schleswig-Holstein co-operatives and the Milch Union Hocheifel in milk-powder towers. But milk powder is traded only at world market prices. And at those prices the European milk producers cannot cover the costs of producing milk in the long term. The dairies know that, but carry on as if it were just the problem of a minority of German milk producers. As long as the EU agriculture funds keep flowing, the economic situation can be glossed over. But when the agricultural aids become totally separated from production, especially dairy farmers who produce intensively will experience massive decreases in subsidies and thus in their income. Many are not yet aware of this.

The milk producer of the future has to decide: am I a producer or a processor? It will not be possible to be both, except in niche markets. When s/he realises this fact, the corporate structure of the dairies will play only a minor role. Milk goes to whoever markets it best; capital to whoever pays the best return. Then there can be a market for milk upstream of the dairy industry. Milk will be negotiated, not delivered. To do so the milk producers must pool their milk. For if they go it alone in dealing with the dairy, no cost-covering price can be achieved. And the co-operative can also be the perfectly suitable form for autonomous unions of dairy farmers for pooling and jointly marketing their milk independently of dairies. With only one aim – achieving cost-covering prices for the raw milk being sold.

Conclusions

The reports from the Netherlands, France and Germany have shown that, owing to the most diverse developments, milk producers in the medium-sized and large co-operatives no longer have enough influence and cannot generate enough income by having their raw milk marketed and processed by their co-operative. Today their situation is no different from that of the milk producers who supply a private dairy. Co-operatives can, however, still be a good corporate form in the future, provided their internal structures and general external conditions are adapted. At this juncture let us take a look at the future-oriented creation of the general external conditions.

What is to be done?

Food supply as an important social function

The production of food must be seen as an important social function that cannot be allowed to be threatened by unbridled global competition. This means that nation states can apply the principle of food sovereignty and decide themselves how they organise food supply. Certain trade barriers must be kept, to prevent market distortions caused by imports at prices that are well below the local cost level. To initiate this paradigm shift, Europe must abolish export subsidies across the board and forbid dairies to apply two-tiered pricing systems (A-B models) to the milk producers. In addition, speculating on foodstuffs must be curbed or stopped. It drives up the prices consumers pay for food without producers being paid cost-covering prices for their products. Well-functioning markets are those in which suppliers and customers are on an even footing. A basic prerequisite for this is that, apart from slight fluctuations, supply and demand are kept more or less in balance. It is precisely with food, which takes a lot of resources to produce and can be stored only for a short time, that the EU should ensure no surpluses are produced. But a shortage should also be avoided so as not to jeopardise supply to the European population and to prevent speculation on food.

As the European Milk Board sees it, the following political measures are needed as general conditions to enable producers to provide a counterweight to the heavily concentrated, internationally operating processing sector.

European monitoring agency – monitoring the market, specifying a target price corridor and binding stipulations on adjusting volumes

In view of the fact that there are currently no majorities in favour of state-organised, flexible, European volume management, it is the order of the day and the duty of policy-makers to enable the milk producers to act on a private sector basis. To this end the EMB created the concept of a European monitoring agency. The monitoring agency's function would be to keep a close eye on developments in the markets and specify a target price corridor based on production costs in which farm-gate prices were to operate. If the limits were exceeded, the monitoring agency would stipulate generally binding measures to increase or reduce the volume. These would then be implemented by the producer organisations.

Independent producer organisations – market and competition in marketing raw milk

Milk producers must be able to pool to sell their milk independently of the dairies – utterly regardless of whether these are organised as private companies or co-operatives. The producer organisation's decisions must be generally binding in line with the monitoring agency's stipulations. In this way the producers are also empowered through these organisations as equal players in the market to increase or reduce the volume of the product according to cost-covering demand. The EU should encourage the establishment of these organisations. The producers in turn would be obliged to join large producer organisations and authorise them to negotiate for their milk. This would put them in a very different bargaining position vis-à-vis their co-operatives, and bottom-up pricing could develop. This would create a market for raw milk disengaged from the processing stage.