
Support for Farmers' Cooperatives

Country Report Germany

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The 2011-2012 project „Support for Farmers’ Cooperatives“ is commissioned and funded by the European Commission, DG Agriculture and Rural Development.

Contract Number: 30-CE-0395921/00-42.

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How to cite this report:

Kühl, R. (2012). Support for Farmers’ Cooperatives; Country Report Germany. Wageningen: Wageningen UR.

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November 2012

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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”, 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 “Support for Farmers’ Cooperatives” project this country report on the evolution of agricultural cooperatives in Germany has been written. Data collection for this report has been done in the summer of 2011.

In addition to this report, the project has delivered 26 other country reports, 8 sector reports, 33 case studies, 6 EU synthesis reports, a report on cluster analysis, a study on the development of agricultural cooperatives in other OECD countries, and a final report.

The Country Report Germany is one of the country reports that have been coordinated by Rainer Kühl, Justus Liebig Universität, Giessen. The following figure shows the five regional coordinators of the “Support for Farmers’ Cooperatives” project.

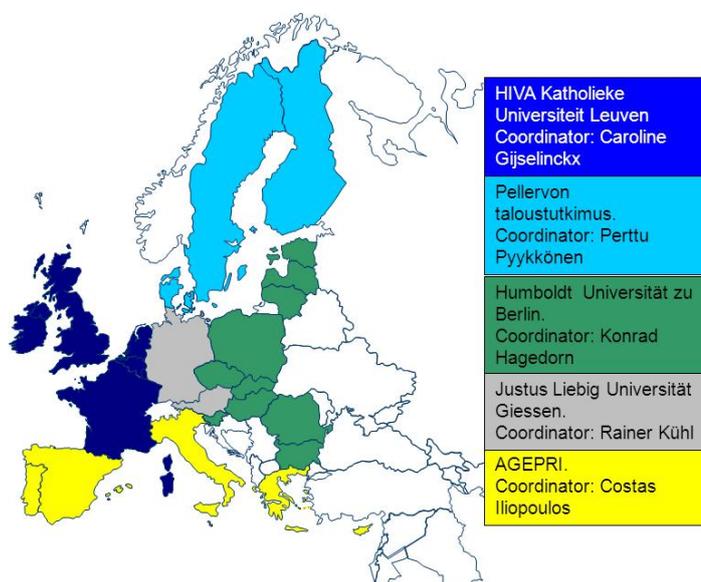


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1 Introduction

1.1 Objective of the study

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, “Support for Farmers' Cooperatives”, that will provide the background knowledge that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income. In the framework of this study, this report provides the relevant knowledge from Germany.

In this context, the specific objectives of the project, and this country report, are the following:

First, to provide a comprehensive description of the current level of development of cooperatives and other forms of producer organisations in Germany. The description presented in this report will pay special attention to the following drivers and constraints for the development of cooperatives:

- Economic and fiscal incentives or disincentives and other public support measures at regional and national level;
- Legal aspects, including those related to competition law and tax law;
- Historical, cultural and sociologically relevant aspects;
- The relationship between cooperatives/POs and the actors of the food chain;
- Internal governance of the cooperatives/POs.

Second, identify laws and regulations that enable or constrain cooperative development and third, to identify specific support measures and initiatives which have proved to be effective and efficient for promoting cooperatives and other forms of producer organisations in the agricultural sector in Germany.

1.2 Analytical framework

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to the management (and the agency problems that goes with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

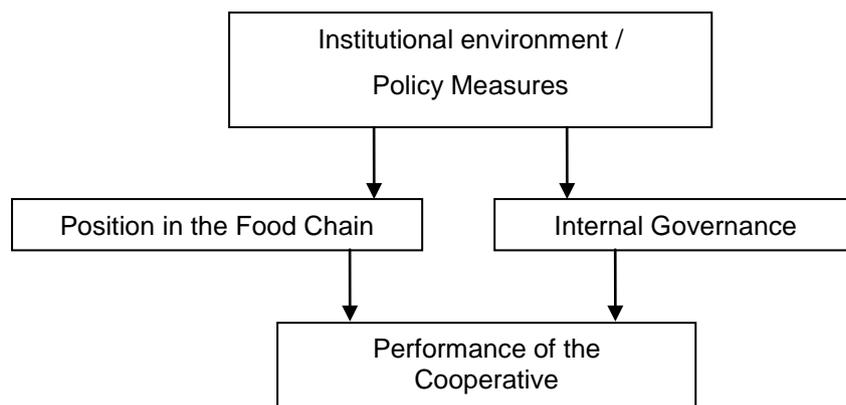


Figure 1. The core concepts of the study and their interrelatedness

1.3 Definition of the cooperative

In this study on cooperatives and policy measures we have used the following definition of cooperatives and Producer Organisations (POs). A cooperative/PO is an enterprise characterized by user-ownership, user-control and user-benefit:

- It is user-owned because the users of the services of the cooperative/PO also own the cooperative organisation; ownership means that the users are the main providers of the equity capital in the organisation;
- It is user-controlled because the users of the services of the cooperative/PO are also the ones that decide on the strategies and policies of the organisation;
- It is for user-benefit, because all the benefits of the cooperative are distributed to its users on the basis of their use; thus, individual benefit is in proportion to individual use.

This definition of cooperatives and POs (from now on shortened in the text as cooperatives) includes cooperatives of cooperatives and associations of producer organisation (often called federated or secondary cooperatives).

1.4 Method of data collection

Multiple sources of information have been used, such as databases, interviews, corporate documents, academic and trade journal articles. The databases used are Amadeus, FADN, Eurostat and a database from DG Agri on the producer organisations in the fruit and vegetable sector. Also data provided by Copa-Cogeca has been used. In addition, information on individual cooperatives has been collected by studying annual reports, other corporate publications and websites. Interviews have been conducted with representatives of national associations of cooperatives, managers and board members of individual cooperatives, and academic or professional experts on cooperatives.

1.5 Period under study

This report covers the period from 2000 to 2010 and presents the most up-to-date information. This refers to both the factual data that has been collected and the literature that has been reviewed.

2 Facts and figures on agriculture

2.1 Share of agriculture in the economy

A study of farmers' cooperatives can best start at the farmer's side, in agriculture. In 2007 agriculture is 0,95% of GDP (Figure 2). In 2010 agriculture is 0,87% of GDP (Statistisches Bundesamt, 2011). Figure 2 indicates a decreasing share of agriculture in GDP. In the period from 1995-2002 the sector's share was above 1% whereas in the following years a decline below the 1% limit happened. Overall, there are alternating up- and downward movements while the general trend tends downwards.

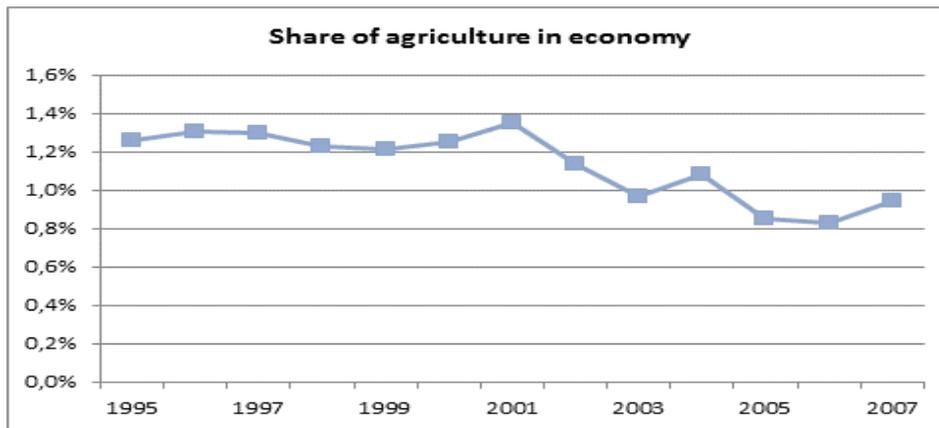


Figure 2 Share of agriculture in GDP. Source: Eurostat Nat. Accounts

2.2 Agricultural output per sector

Within agriculture several sectors exist. Figure 3 provides information on the main sectors in Germany. The dairy sector is the most important section of the agribusiness (measured in value of production at producer prices). In 2010 this sector generated 8,642 millions of euro. The three sectors dairy, cereals and pig meat represent about 46.7% of production value in agriculture. From 1991 to 2006 the total output was relatively stable at the 38 billion Euro level. Since 2007 the production value increased beyond the 40 billion Euro level. The general price increase has affected all sectors in the agribusiness. Compared to the three sectors mentioned above, wine, sugar, sheep meat, fruit and vegetables are of secondary importance for the agricultural output while the sector Olive oil and table olives does not exist in Germany.

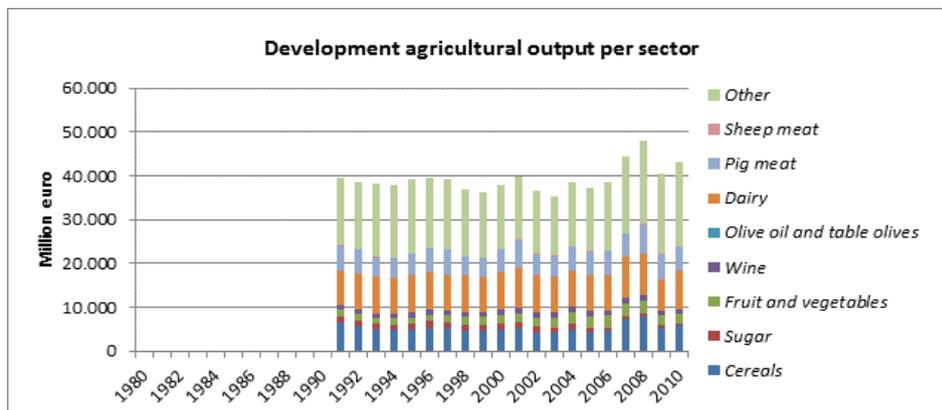


Figure 3 Development of the different sectors in agriculture, value of production at producer prices, in millions of Euro. Source: Agriculture Economic Accounts, Eurostat

Figure 4 illustrates the trend in output per sector. The most obvious trend can be identified in the sugar beet sector with a drastic output drop of about -9% on average. This negative trend can be interpreted in consequence of a structural change which took and takes place in Germany's sugar sector. A further negative trend occurred in the sector sheep and goats, where the growth rate per year amounted to -4%. Another declining output emerges in the sector cereals with an annual growth of -2%. Slightly negative growth rates are also discoverable in the sectors milk and wine. Four out of nine sectors experienced a positive average trend. Interesting to note is the fruit and vegetable sector with an average growth rate of 2%. Cattle and pigs also have positive growth rates of about 1 – 1.5%. The group "other products" benefits primarily by the tremendous growth rates that the rapeseed sector could experience over the last ten years.

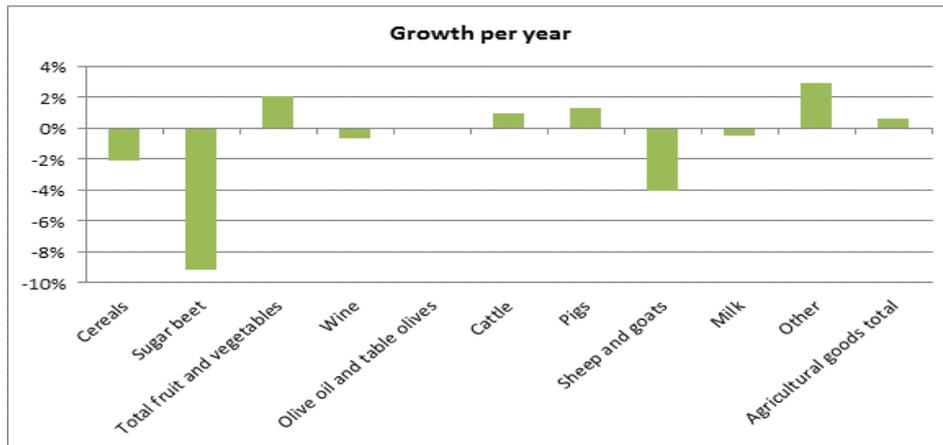


Figure 4 Trend in output per sector "2001" - "2009". Source: Economic Accounts of Agriculture, Eurostat.

2.3 Development in the number of farms

The number of farms in Germany is given in Table 1 and Figure 5. The number of farms decreased from 2000 to 2007 in nearly every sector. With growth rates of about 6.9% per year, the sectors pig meat and beef are the only exceptions to this trend. In contrast, the sector cereals shows the highest decline from 69,080 farms in 2000 to 48,200 farms in 2007, which is equal to a decline rate of about -5.0% per year. With an annual change rate of -4.4% since 2000 the sector wine contained 19,520 farms in 2007. Compared to the annual decrease of sector output of 1% in the period 2001-2009 an increasing output per farm can be assumed. In conformity with the trend in output per sector shown in figure 4, the sugar sector shows a decreasing number of farms. Contrary to the annual output mentioned in the chapter before, the number of specialised farms in the sector fruits and vegetables was annually declining by 3.1%, which indicates a growth of the average output per farm. Another sector with negative change rates of the number of farms is the dairy production. From 2000 to 2007 the number of milk producing farms reduced about 3.0% per year. This negative development may be a consequence of instable milk prices and the upcoming elimination of production quotas in 2015. Nonetheless, the dairy sector contained 74,260 farms in 2007 and therefore was the sector with the most farms. The sector sheep meat exhibits annual change rates of -0.1%, the number of farms decreased by 420 farms.

Table 1: Number of farms

	2000	2007	% change per year
Cereals	69,080	48,200	-5.01
Sugar	42,670	34,310	-3.07
Pig meat	7,790	12,460	6.94
Sheep meat	52,920	52,500	-0.11
Total fruits and vegetables horticulture	20,840	16,730	-3.09
fruit and citrus fruit	11,050	9,300	
Olive oil and table olives	9,790	7,430	
Wine	0	0	
Dairy	26,830	19,520	-4.44
Dairy	92,000	74,260	-3.01
Beef	18,060	28,820	6.90

Source: Eurostat, Farm Structure Survey.

As Table 1 already indicated, most of the sectors reveal decreasing numbers of farms. Figure 5 points up that also the total number of farms decreased from 2000 to 2007. Whereas about 470,000 farms existed in 2000, 2007 features about 370,000 farms, which is a total decline of 100,000 farms.

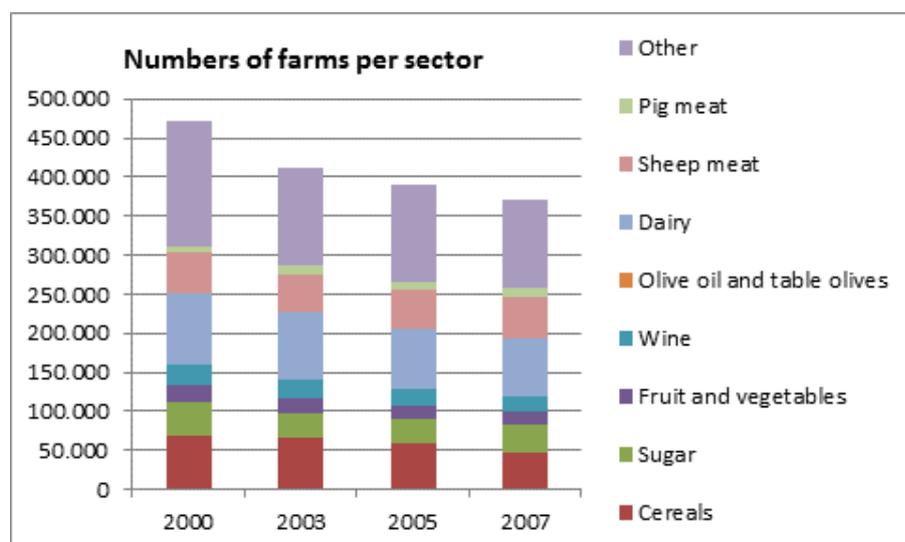


Figure 5 Number of farms 2000 - 2007 with data per specialist type of farming. Source: Eurostat, Farm Structure Survey.

2.4 Size of farms

Farms come in different sizes from small part-time farms to large exploitations. Figure 6 shows the distribution of farms per size class, measured in European Size Units (ESU).

Most of the sectors show a negatively skewed distribution with peaks in upper size units. In contrast to this, the distribution of farm sizes in sheep meat production shows a decreasing trend. While there are nearly 35% in the first class, less than 1 ESU, there is no farm with 250 or more ESU. Another line that is deviating from the general sizing is the figure of the sector cereals. With a share of 23,3% most of the cereal producing farms are located in farm sizes from

4 to 8 ESU. The figure is sinking permanently and flatly to both sides, which indicates that small farms exist as well as bigger farm sizes. In comparison to the other sectors, the sector cereals contains a large percentage of farms in size 1 and a small percentage of farms with 250 or more ESU. Most of the milk producing farms have sizes from 40 to 100 ESU. Few own very small production units with less than 1 ESU while also few, 1.1%, have 250 ESU or more. A similar picture reveals the sector pig meat, where most of the farms have 40 to 100 ESU and few farms own less than 1 ESU. In contrast to the dairy sector there are more big production units, which becomes obvious by an amount of 6.7% farms in class ge_250. The sizing of the sector horticulture and fruit is also negatively skewed with a peak at 40_lt_100. In opposition to the other sectors this sector has no small production units but 8.4% farms above 250 ESU. An analogical curve progression is statable for the sugar sector. The total sizing also shows a peak at 40_lt_100. 6% of the farms are in the smallest production unit whereas 2.4% own 250 ESU or more.

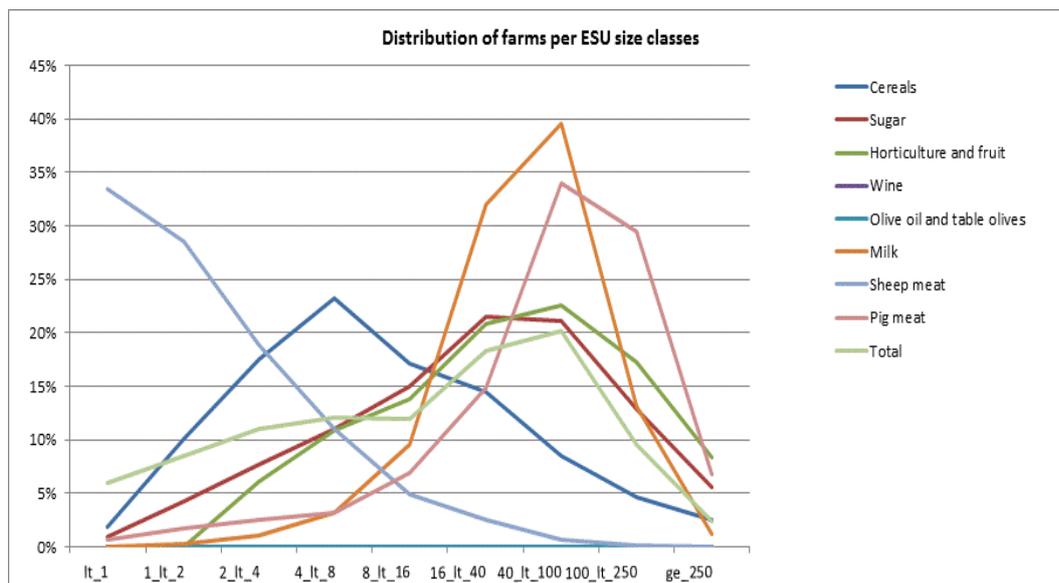


Figure 6 Number of farms per size class, measured in ESU, per specialist type of farming. Source: Eurostat, Farm Structure Survey.

2.5 Age of farmers: distribution of farms to age classes

As shown in Figure 7 below, the number of European farmers in an age class increases with the age class. Fewest farmers are at the age of 35 or less while most of the European farmers are aged and above 65 years. The Germany distribution differs from the one in the European Union. The youngest group reaches a percentage of 7.7%, which is above the European average. Farmers in the groups 35-44 and 45-54 also have a higher share compared to the EU, while the age classes above are underrepresented in comparison to the other states. 33.9% of German farmers belong to the age class between 45 to 54 years meanwhile only 7.5% belong to the highest age class. Altogether, the age structure of German farmers is characterized by a large number of middle aged farmers. For Germany this socio-demographic development is the result of structural changes that have taken place in the last decades. This age structure is also identical to the membership structure in most cooperatives. It might cause some problems with regard to decision making in farms and cooperatives. Younger farmer might tend to invest more in their own farms instead of providing their cooperatives with investment capital. But, there is no empirical evidence on this view. It might be interesting to do some more research on that subject.

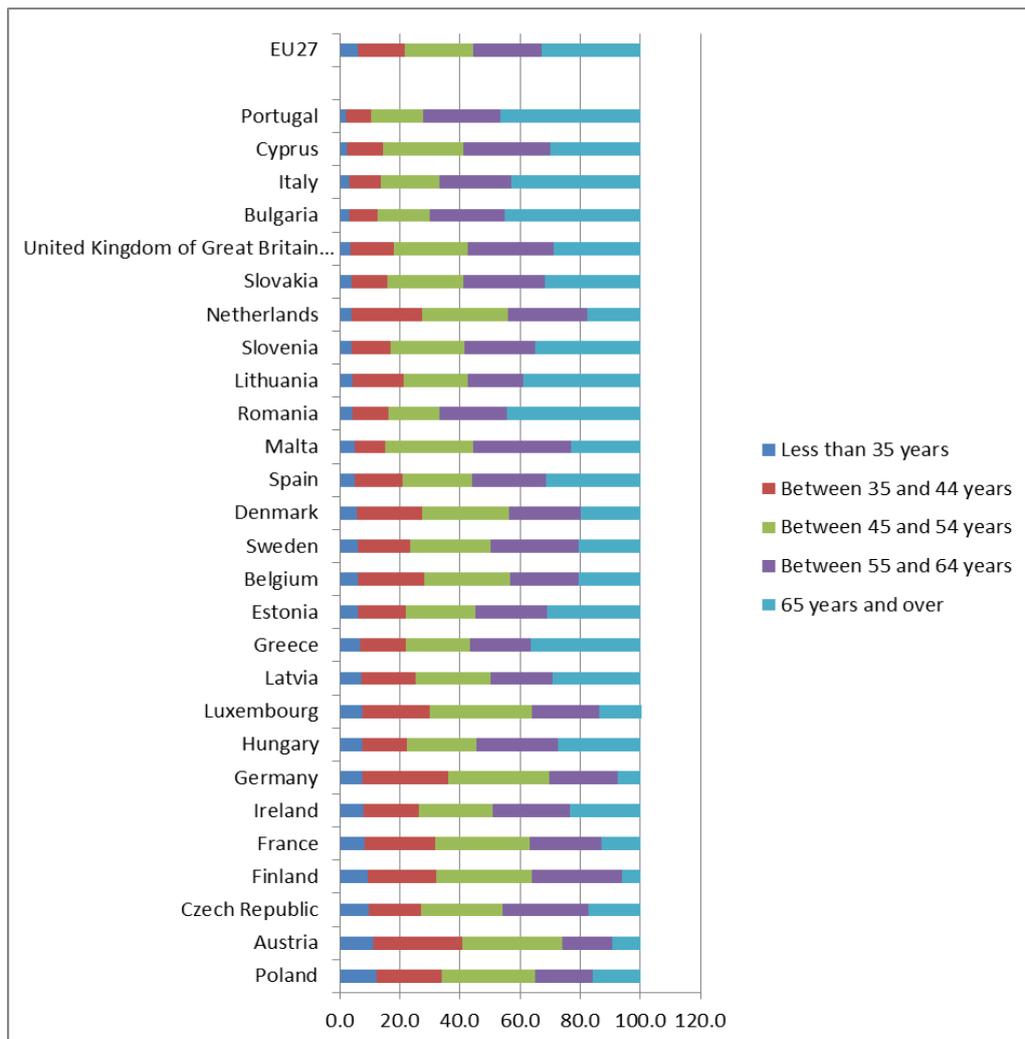


Figure 7 Percentage of farmers per age class, per Member State and EU27, 2007 (ranked with countries with the lowest percentage of young farmers on top). Source: Eurostat, Farm Structure Survey.

2.6 Specialisation of farm production

Cooperatives might not only have member-farmers with different farm sizes or different age. Farms also have a different composition of their production and therefore their input. This is even true for specialist farms, where e.g. some so called specialist dairy farmers also have beef or sheep or sell hay. In addition to that a lot of mixed (non-specialized) farms exist. The heterogeneity of farming in terms of specialisation can be estimated by calculating the share that specialized farms have in the total production. This is what Figure 8 shows.

It is obviously, that in nearly all sectors there is a tendency towards a higher level of specialisation. Dairy farming in Germany is characterised by a traditional high level of specialised farms. While in dairy the specialisation has slightly increased it remains relatively stable in sheep farming. A traditional high share of specialisation can be identified for the wine growing farms. There have been no big shifts identified in the farming structure with respect to specialisation. Since 2000, the share of specialized farms in this sector raised from 80% to 85%. Another high rate of specialization is observed in the sector sugar, where the rate fluctuates about 54%. In the sector cereals, the share of specialized farms decreased from 33% in 2000 to 29% in 2007. The sector fruit and vegetables shows a constant rate of specialized farmers at a 19%-level.

In the dairy sector, the number of specialized farms grew from 62% in 2000 to 75% in 2007. Another upwards trend occurred in the sector sheep, where the share rose from 67% in 2000 to 71% in 2007. The pig sector experienced a doubling of the rate of specialization. While the basic value in 2000 was 15%, the value in 2007 amounted 33%. In conclusion, the field of animal production is characterized by raising shares of specialized farms in the period 2000-2007.

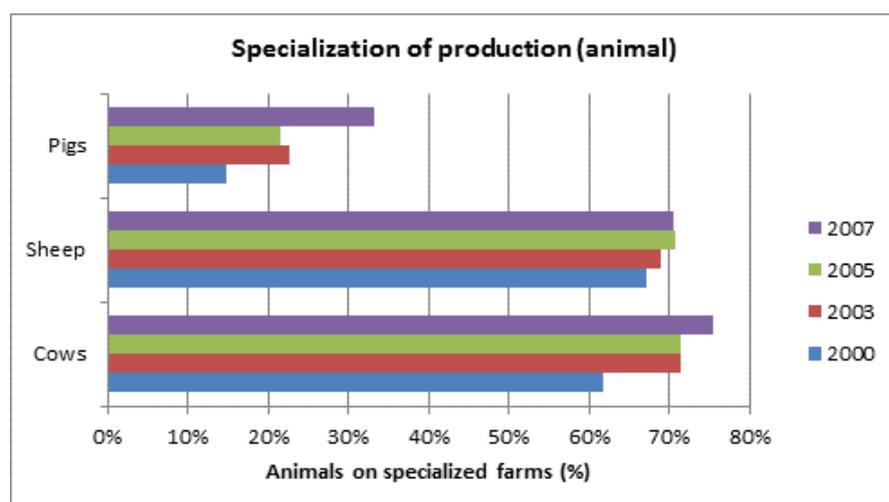
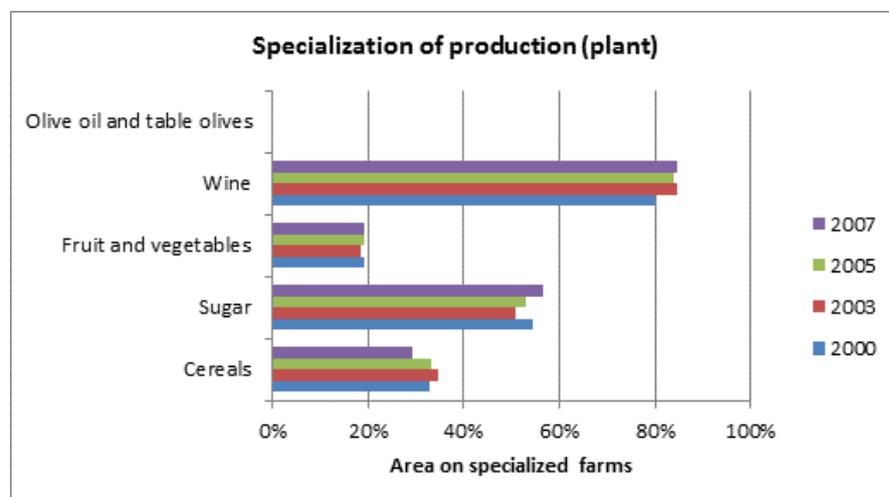


Figure 8 A & B: Heterogeneity in farm production: the share of specialist farm types in total production. Source: Economic Accounts of Agriculture, Eurostat.

2.7 Economic indicators of farms

The description of agriculture is concluded with some economic indicators (Table 2). These indicators focus on the net value added and income from farming for farmers, as well as the level of their investment. Some of this investment might be in equity of the cooperatives, but for the most will be in farm assets. The table provides information about the average economic size of farms in the reviewed sectors. The maximum value is represented by the sector fruit and vegetables with an average size of 144.10 ESU. Besides, the sectors sugar and pig meat offered sizes about 117 ESU. Smaller sizes occurred in the dairy sector, in which the average farm size amounted to 70.9 ESU and in the wine sector, which had an average size of 57 ESU. The smallest value of 35.63 ESU emerged in sheep meat production. Values for the cereal sector are not available.

The average working units in the sectors differ. Meanwhile fruit and vegetables needed on average 4.22 occupied full-time workers in the reviewed period, the dairy-sector required only 1.82, the lowermost value compared to the other sectors. The wine sector had an average labour input of 2.51 AWU, the sector sugar had an input of 2.39 AWU, cereals needed about 2.17 AWU and sheep meat producers were in need of 2.07 AWU. Total labour input for pig meat amounted to 1.99 AWU.

Total utilised agricultural area varied strongly according to the different sectors. The largest acreage was farmed in cereal production with 198.48 ha, followed by sheep meat production with 144.61 ha. Another soil-intensive sector is sugar production, in which the average utilised agricultural area amounted to 115.83 ha. The dairy production is on average in need of 60.43 ha, pig meat production needs 54.32 ha. Less soil-intensive production processes are associated with the sectors fruit and vegetables as well as dairy. These two sectors had an average utilisation of about 12.5 ha.

The highest average Net Value Added was reached in sugar production, where farms gained 104,328 € on average. Fruit and vegetable producing farms achieved a mean Net Value Added of 101,761 €, while the sector Cereals achieved 100,633 € (figures are the average per farm for the years 2006-2008).

The average added values in the sectors dairy and wine were around 66,000 €, while the smallest values occurred in the sectors pig meat, 56,142 €, and sheep meat, 43,791 €.

The average Family Farm income came to values between 21,957 € in pig meat production and 51,447 € in sugar production. Incomes above 40,000 € were also realized in the sectors cereals, fruit and vegetables, dairy and wine whereas the sector sheep meat offers only 22,748 € as an average Family Farm Income.

By comparing the average total assets, further differences between the sectors become obvious. Whereas the sector sugar provided high assets worth 1,038,066 €, the sector sheep meat achieved assets of 347,345 €. Second and highest assets were achieved in cereal production, 983,181 €, and pig meat production, 824,509 €. Dairy production had average total assets of 683,191 €, wine production reached 530,816 € and the production of fruit and vegetables achieved average totals assets of 476,242 €.

As it is related to the total assets, the net worth shows a similar ranking with high values for sugar, cereals, pig, dairy and wine production and lower values for fruit and vegetables as well as sheep meat.

Two other interesting facts are described by the indicators of Gross Investment and Net Investment. Both indicators show a higher investment activity in cereals (13,117 € net) and sugar sector (16,548 € net) than in the other sectors. A very low investment activity is observed in the sector fruits and vegetables, in which only the net investment amounted to 559 € on average.

Total subsidies excluding investment shows a range from 66,656 € in cereal sector to 2,737 € in the sector wine. A high level of subsidization is detectable in sheep meat production. Farms in this sector had average subsidies of 63,401 €. Other highly subsidized sectors are sugar production where the average subsidization added up to 44,111 € and dairy production with 29,720 €. Lower subsidies were granted in pig meat sector as well as fruit and vegetables sector with 18,863€ and 4,307 €.

Table 2: Economic indicators for farms

Economic indicators average per farm (2006 - 2008)							
	Cereals	Sugar	Fruit and vegetables	Dairy	Wine	Pig meat	Sheep meat
Economic size-ESU	-	116,63	144,10	70,90	57,67	117,27	35,63
Total labour input-AWU	2,17	2,39	4,22	1,82	2,51	1,99	2,07
Total Utilised Agricult. Area-ha	197,48	115,83	13,96	60,43	12,24	54,32	144,61
Total output €	-	-	0	-	-	-	-
Farm Net Value Added €	100.633	104.328	101.761	65.271	67.674	56.142	43.791
Family Farm Income €	41.061	51.447	44.288	42.297	45.365	21.957	22.748
Total assets €	983.181	1.038.066	476.242	683.191	530.816	824.509	347.345
Net worth €	791.421	880.267	344.915	571.259	442.482	606.622	257.983
Gross Investment €	45.576	45.615	25.164	30.440	18.413	33.276	23.507
Net Investment €	13.177	16.548	559	6.806	735	1.246	7.244
Total subsidies-excl.investm. €	66.656	44.111	4.307	29.720	2.737	18.863	63.401
Farms represented	15.740	19.647	11.257	63.670	7.540	10.363	1.080
note: - less than 3 years available							

Source: DG Agri, FADN.

3 Evolution, position and performance of cooperatives

3.1 Types of cooperatives

Cooperatives are widespread in Germany. Almost every farmer is a member of one or more cooperatives. 60% of all craftsmen, 75% of all retail traders, 90% of all bakers and butchers and over 65% of all self-employed tax advisors are members of a cooperative. The housing cooperatives comprise 3.2 million members and administrate approximately 10% of the rented apartments in Germany.

Cooperative banks, local farm input and product marketing cooperatives and small-scale industry cooperatives operate on the primary, i.e. local level. The primary level cooperatives established a number of central or secondary organisations at regional level. This happened mainly in the supply and marketing, meat and the dairy sectors. The work of the central organisations and primary cooperatives is additionally complemented at regional level by special institutes. These include cooperative data-processing centres which supply the primary cooperatives with the latest computer technology. At national level there are a number of national centres and special institutes, such as the DZ Bank, the Bausparkasse Schwäbisch Hall (Schwäbisch Hall Building Society) and R+V Versicherung (R+V Insurance). These still include the cooperative mortgage banks, leasing and investment societies and agricultural and small-scale industry centres. The cooperative organisation is not structured like a centralized group but rather from the bottom upwards. Work is divided according to the subsidiarity principle. The superordinate central cooperatives are only engaged when it doesn't seem possible or sensible to act at local level.

Cooperatives play a particularly important role in supplying rural areas with basic commodities. They deliver heating oil and fuels to small-scale industry, agricultural and private customers and run over 670 modern specialist DIY and garden stores. More than 1,600 Raiffeisen stores stock a wide selection of high-quality goods for the home and garden, as well as animal food.

In Germany cooperatives are voluntary cooperations of members into a joint enterprise with the legally defined goal of promoting the economic activity and the earnings of its members: through achieving favourable joint purchasing and sales conditions, through reducing costs by providing joint services or through guaranteeing the necessary minimum size of an enterprise or access to the market. Economically, the cooperative is a system of outsourcing of functions, within which the members retain their individual independence and the joint enterprise is organised according to the principles of self-help, self-administration and self-responsibility. Cooperatives as part of the small and medium-sized businesses are a vitalising factor for the market in many lines of business.

At national level there are a number of national centres and special institutes, such as the DZ Bank (Deutsche Zentral-Genossenschaftsbank – German Central Cooperative Bank), the Bausparkasse Schwäbisch Hall (Schwäbisch Hall Building Society) and R+V Versicherung (R+V Insurance). These still include the cooperative mortgage banks, leasing and investment societies and agricultural and small-scale industry centres. The cooperative organisation is not structured like a centralized group but rather from the bottom upwards. Work is divided according to the subsidiarity principle. The superordinate central cooperatives are only engaged when it doesn't seem possible or sensible to act at local level.

Association structure

The central association of the German cooperative system is the DGRV - Deutscher Genossenschafts- und Raiffeisenverband e. V. (German Cooperative and Raiffeisen Confederation – reg. assoc.). This institution is both the apex and auditing association of

the German cooperative organisation. Under the umbrella of the DGRV, four specialised federations operate at national level.

- The Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR – National Association of German Cooperative Banks reg. assoc.). This association supports the 1,138 cooperative banks (Volksbanken, Raiffeisenbanken, „Sparda-Banken“)
- The Deutscher Raiffeisenverband e. V. (DRV – German Raiffeisen Federation – reg. assoc.). This association supports the rural commodity and service cooperatives, which include cooperative banks with commodity trading; in as far as it is relevant to the concerns and interests of the commodity sector. 2,604 Raiffeisen commodity, service and agricultural cooperatives are supported by this association.
- The Zentralverband Gewerblicher Verbundgruppen e. V. (ZGV – German Federation of Buying and Marketing Groups – reg. assoc.). This association supports small-scale industry commodity and service cooperatives. The first cooperative of food retailers was established in 1888 as a response of independent food retailers to the tough competition by the newly emerging big sales outlets, such as department stores and chain stores. 1,622 small-scale industry commodity and service cooperatives (examples are: BÄKO-Nord, BÄKO-Süd, EDEKA, REWE, SVG, ZEDACH, Zentrag) are members in this association.
- The food retailers' cooperatives (ZGV) represent two very large German retailer groups: the EDEKA Zentrale AG, Hamburg and the "REWE Vereinigung der Lebensmittel-Grosshandels-Genossenschaften von Rheinland und Westfalen eGmbH", Cologne. Both cooperatives have outlets spread over Germany and other European countries. EDEKA and REWE are the largest resp. the second largest retail organisation in Germany. BÄKO are the bakers' and confectionaries' cooperatives.
- The Zentralverband deutscher Konsumgenossenschaften e. V. (ZDK – Central Federation of German Consumer Cooperatives – reg.assoc.). This association supports its affiliated consumer cooperatives.

Taking these four single associations as one group, the cooperative system is by far the largest economic organisation in Germany in terms of members, with over 20 million members. Of these, 3.8 million are members of housing cooperatives which are not organised under the umbrella of the DGRV. The Confederation's purpose is to promote and represent the mutual interests of its members and their affiliated cooperative institutions. As a legally registered auditing association, the DGRV can carry out all audits of its regional and national centres, special institutes and federations.

The DGRV coordinates the representation of the entire organisation's interests in matters of business administration, accounting, and cooperative auditing. The DGRV represents the concerns of all cooperative sectors in matters of economy, law and tax policy, and advises the organisation on questions of management organisation and data processing. Legal cooperatives are obliged to become a member of a DGRV-regional auditing firm.

Structure of Raiffeisen Organisation

The central association of all agricultural supply, processing, marketing, and service cooperatives is the Deutscher Raiffeisenverband e. V. (DRV), Berlin/Bonn. It was created in 1948. Its main function is to represent the economic interests of its members and their interests in the fields of economic, legal and fiscal policy, to advise and represent them in legal, fiscal and management matters, to establish and manage funds for safeguarding and promoting cooperative institutions, the establishment, maintenance and support of training facilities and

the maintenance of contacts and relations with other organizations at home and abroad. All agricultural supply, processing, marketing, and service cooperatives as well as their regional centers are members of a cooperative regional association. The regional associations are responsible for the statutory auditing and offer their members advice and consultation in various business relevant activities.

Since the mid-20th century the Raiffeisen cooperative organisation has undergone a profound change in structure. In the course of the general concentration process, the primary level cooperatives formed larger units in order to be able to support their members and, at the same time, remain competitive themselves.

Table 3: Development of Raiffeisen cooperatives (1990 – 2010)

	1990	2000	2010
Central cooperatives (Supply/marketing, dairy, Meat, wine)	32	21	*)
Credit and Supply/marketing cooperatives (primary cooperatives)	1,474	434	157
Supply/marketing cooperatives	645	515	330
Dairy	846	377	264
Livestock and meat, animal breeding	205	154	105
Winegrowers	310	260	209
Fruit and vegetable	114	130	89
Processing cooperatives (agricultural cooperatives)	-		834
Other commodity and service cooperatives (like fishery, forestry and wood processing cooperatives)	1,552	1,106	610

*) due to changes in function numbers not indicated anymore. Source: Statistical data Raiffeisen-Organisation

Raiffeisen cooperatives are an important economic factor and employer in rural areas. In the year 2010, the Raiffeisen organisation achieved a total turnover of 41,000 million euros. Approximately around 100,000 people are employed in cooperatives. The Deutscher Raiffeisenverband e.V. (DRV –German Raiffeisen Federation – reg. assoc.) represents the manifold interests of rural cooperatives in dealing with government, parliament, administrators and associations as well as on a national and international level in the public sphere.

Producer associations

For historical reasons, a similar but not identical group of cooperatively managed organization can be distinguished in various agribusiness sectors in Germany, the so-called producing and marketing associations (Erzeugergemeinschaften, or EZGs). In the terminology used in this report these producer organisations can be termed as collective bargaining organisations or associations. These EZGs are founded in accordance with the German Law on Market Structures (Marktstrukturgesetz) from 1968. The Law on Market Structures allows exceptions from general laws on anti-competitive behavior in the agribusiness sector if collusive behavior allows the supply and marketing of agricultural products to be better tailored to market requirements. Therefore, EZGs not only pool the marketing and organize sales and transport of agricultural products but also set up rules that improve the quality and homogeneity of products produced by farmers. Therefore, they typically establish close relationships with farmers and oblige them to market all their products to the EZG. From a legal perspective, EZGs are not organized as cooperatives but as registered for-profit associations. Nevertheless, their main objectives are very similar to those of the cooperative movement so that EZGs can be regarded as a special form of marketing cooperative.

Table 4: Development of registered producer bargaining associations

Sector	Bargaining association			Union of bargaining associations		
	2005	2007	2009	2005	2007	2009
According to the German Law on Market Structure						
Slaughter animals/piglets	151	134	129	6	7	6
Milk collecting	132	139	124	1	0	2
Eggs and poultry	38	37	38	1	1	0
Breeding animals	9	8	9	0	0	0
Wine	195	196	185	0	0	0
Quality grain	253	246	259	8	8	8
Potatoes	69	65	63	2	2	1
Flowers/ornamental plants	17	11	15	0	0	0
Quality rapeseed	47	34	25	0	0	0
Other	49	52	45	2	2	2
Total	960	922	892	20	20	19
According to EU Law (EWG No. 1035/72, No. 2200/96, No. 1696/71, No. 3759/92)						
Fruit and vegetable	35	34	28	1	1	0
Hop	3	3	3	0	0	0
Fish	17	17	12	1	1	1

These producer organisations may take up any legal form. German law offers a specific legal form for these kind of associations. The dominant legal form with a share of 90% is the so-called “economic association”. These associations consist of a board of directors and a general assembly. 5% - 6% of these associations are organized as registered cooperatives (e.G.), and the rest as limited liability company (GmbH).

The attainment of state recognition is a precondition for producer associations and/or unions of producer associations to apply for financial support and to receive legal competitive privileges. State recognition is tied to several requirements:

- the legal form of a producer association (juristic person in private law);
- compulsory payment of membership due (to ensure personal involvement of members and that business costs are financed);
- the adherence and control of production and quality standards (to structure production around a market-oriented product assortment)
- collective tendering for sale (exceptions are possible based on a collective resolution);
- minimum membership durations (at least three years);
- minimum size of the producer association (at least seven members; minimum production volumes, minimum cultivated acreage);
- no restraints of competition on the market.

Similar requirements are effective for a union of producer associations to acquire state recognition.

In accordance with the character of the producer associations as self-help organizations in the farming sector, decisions concerning the organization and management of these institutions are almost exclusively made by farmers assuming the capacity of the honorary officials; only in rare situations are these individuals actively involved in the marketing process. It is therefore necessary to increase the level of potential influence with full- and part-time employees of the producer associations. In general, training and permanent education strengthens the qualifications of decision makers. More realistic strategies can be developed in this manner which are coordinated around the needs of individual buyers, groups of buyers or market segments. A well-known problem of producer associations which in practice has yet to be solved is the irregular behaviour of members with respect to their share of deliveries to the association. A satisfactory delivery obligation should be enforced as the fundamental precondition for

directed, long-term planning. This should be achieved through strengthened membership ties and motivation and, if necessary, through a modified design of the form of sanctions.

A basic precondition for the development of promising marketing strategies is the reinforcement of vertical coordination with partners on subsequent marketing stages. Two fundamentally different strategic approaches are observed. The first strategy is based on producers affiliated in the producer association as initiators of market-oriented activity. In the second strategy, the producer level does not engage itself as the sole initiator of market-oriented sales strategy but rather is integrated in a vertical combined system which has been agreed upon through contracting. In the latter model, the involvement of producers in the acquisition of know-how and financial resources from their partners can be appraised in a positive light. Nonetheless, the second variation entails more or less a substantial loss of individual decision-making freedom for each producer association.

3.2 Market share of farmers' cooperatives in the food chain

Table 5: Market Share of Cooperatives

Sector	"2000"		"2010"		Comments
	Number of members	Market Share (%)	Number of members	Market Share (%)	
Cereals	1,976,000 (credit and supply/marketing coops) + 152,000 (Supply/marketing coops)	Of about 45%	1,078,000 (credit and supply/marketing coops) + 111,000 (Supply/marketing coops)	Of about 50%	Number of members includes members from both types of cooperatives: "credit and supply/marketing coops" and "supply/marketing coops". The number includes also the members of the credit coops and not solely farmer members.
Pig meat	260,000	Of about 20%*	171,000	Below 20%*	Number on members include memberships for both livestock and meat coop. and animal breeding coops. *No serious figures on market shares available.
Fruit and vegetables	44,000	35%	27,000	40%	Numbers on market share are estimates of experts
Dairy	165,000	Approx. 60% (processing level:measured in volume) Approx. 45% (measured by turnover)	73,000	Approx. 65% (processing level:measured in volume) Approx. 50% (measured by turnover)	Numbers on market share are estimates of experts
Wine	61.000	Approx. 35%	49.000	Nearly 1/3	Numbers on market share are estimates of experts
Sugar	Not relevant for Germany				
Sheep meat	Not relevant for Germany				
Olive oil and table olives	Not relevant for Germany				

Sources: DRV, Statistical Agricultural Yearbook, own calculations

3.3 List of top 50 largest farmers' cooperatives

Table 6: The 50 largest farmers' cooperatives in the food chain of Germany

	Name of the Cooperative	Sector(s)
1	Agravis Raiffeisen AG Turnover (2009): 4,956,072,079 €	Cereals
2	BayWa AG Turnover (2009): 4,428,726,000 €	Cereals, fruit and
3	Westfleisch eG Turnover (2009): 1,886,500,513 €	Pig meat
4	Nordmilch eG Turnover (2009): 1,862,374,084 €	Dairy
5	Humana Milchunion eG Turnover (2009): 1,692,997,001 €	Dairy
6	Landgard eG Turnover (2009): 1,663,222,000 €	Fruit and vegetables
7	Raiffeisen Waren-Zentrale Rhein-Main eG Turnover (2009): 1,390,970,694 €	Cereals
8	Handelsgenossenschaft Nord eG Turnover (2009): 1,289,237,955 €	Cereals
9	Hochwald Nahrungsmittel-Werke GmbH Turnover (2009): 1,692,997,001 €	Dairy, pig meat
10	ZG Raiffeisen eG Turnover (2009): 914,164,500 €	Cereals
11	FrieslandCampina Germany GmbH Turnover (2009): 875,418,081 €	Dairy
12	Raiffeisen-Warenzentrale Kurhessen-Thüringen GmbH Turnover (2009): 615,783,774 €	Cereals
13	Bayernland eG Turnover (2009): 615,556,490 €	Dairy
14	Milchunion Hocheifel (MUH) Turnover (2009): 527,730,356 €	Dairy
15	" Omira " Oberland-Milchverwertung GmbH Turnover (2009): 433,889,991 €	Dairy
16	Viehzentrale Südwest GmbH Turnover (2009): 416,705,696 €	Pig meat, beef
17	GS agri eG Turnover (2009): 393,089,965 €	Cereals
18	Molkerei Ammerland eG Turnover (2009): 363,032,699 €	Dairy
19	Bayerische Milchindustrie eG Turnover (2009): 321,551,378 €	Dairy
20	Uelzena eG Turnover (2009): 299,849,190 €	Dairy
21	Hansa-Milch AG Turnover (2009): 288,778,286 €	Dairy
22	Raiffeisen-Landbund eG An- und Verkaufsgenossenschaft Turnover (2009): 268,740,373 €	Cereals, pig meat
23	Erzeugergemeinschaft Südostbayern Turnover (2009): 254,783,143 €	Pig meat, beef
24	Stader Saatzucht eG Turnover (2009): 233,811,000 €	Cereals
25	Raiffeisen Viehvermarktung GmbH & Co KG Turnover (2009): 225,940,918 €	Pig meat, beef

26	OLD Osterburg-Lüchow-Dannenberg eG Turnover (2009): 201,102,000 €	Cereals, pig meat
27	Milchwerke Oberfranken West eG Turnover (2009): 179,154,351 €	Dairy
28	Milchwerke Schwaben Turnover (2010): 166,673,579 €	Dairy
29	Meierei Barmstedt eG Turnover (2009): 154,769,093 €	Dairy
30	Milchwerke Berchtesgadener Land eG Turnover (2008): 152,118,221 €	Dairy
31	Erzeugergemeinschaft Qualitätsvieh Hümmling eG Turnover (2009): 141,449,268 €	Pig meat
32	Hohenloher Molkerei eG Turnover (2009): 136,611,015 €	Dairy
33	Schwarzwaldmilch GmbH Turnover (2009): 130,109,400 €	Dairy
34	Raiffeisen Hohe Mark eG Turnover (2009): 116,279,700 €	Cereals
35	Pfalzmarkt eG Turnover (2009): 101,844,004 €	Fruit and vegetables
36	Raiffeisengenossenschaft Damme Turnover (2008): 100,142,225 €	Cereals
37	Raiffeisen Weser-Elbe eG Turnover (2009): 99,844,509 €	Cereals
38	Kraichgau Raiffeisen Zentrum eG Turnover (2009): 98,814,161 €	Cereals
39	Erzeugergemeinschaft für Qualitätsvieh im Oldenburger Münsterland eG Turnover (2009): 96,731,416 €	Pig meat
40	Erzeugergemeinschaft für Qualitätstiere Syke-Bassum eG Turnover (2009): 95,848,509 €	Pig meat
41	Viehvermarktung Walsrode-Visselhövede eG Turnover (2009): 92,313,682 €	Pig meat
42	Volksbank eG Dransfeld Turnover (2009): 90,497,000 €	Cereals
43	Württembergische Weingärtner-Zentralgenossenschaft eG Turnover (2009): 87,532,869 €	Wine
44	Erzeugermarkt Langförden-Oldenburg eG Turnover (2009): 84,128,133 €	Fruit and vegetables
45	Landwirtschaftlicher Ein- und Verkauf Ostholstein eG Turnover (2009): 83,233,064 €	Cereals
46	Molkereigenossenschaft Bad Bibra eG Turnover (2009): 79,456,922 €	Dairy
47	Erzeugergemeinschaft für Schlachtvieh im Raum Osnabrück eG, Eichenhof Turnover (2009): 76,399,416 €	Pig meat, beef
48	Domspitzmilch eG Turnover (2009): 71,096,382 €	Dairy
49	Raiffeisen Waren GmbH & Co. Betriebs KG, Alsfeld Turnover (2009): 63,407,403 €	Cereals
50	Moselland Winzergenossenschaft Turnover (2009): 62,863,345 €	Wine

3.4 List of top 5 largest farmers' cooperatives per sector

Table 7: Most important cooperatives in the sectors studied in this project

Sector		Name of Cooperative
Cereals	1	Agravis Raiffeisen AG
	2	BayWa AG
	3	Raiffeisen Waren-Zentrale Rhein-Main eG
	4	Handelsgenossenschaft Nord AG
	5	ZG Raiffeisen eG
Fruit and vegetables	1	Landgard eG
	2	Pfalzmarkt eG
	3	Erzeugergroßmarkt Langförden-Oldenburg e.G.
	4	OGM Obstgroßmarkt Mittelbaden eG
	5	Marktgemeinschaft Bodenseeobst eG
Wine	1	Württembergische Weingärtner-Zentralgenossenschaft
	2	Moselland eG Winzergenossenschaft
	3	Badischer Winzerkeller eG
	4	Winzergemeinschaft Franken eG
	5	Deutsches Weintor eG
Dairy	1	Nordmilch eG
	2	Humana Milchunion eG
	3	Hochwald Nahrungsmittel-Werke GmbH
	4	FrieslandCampina Germany GmbH
	5	Bayernland eG
Pig meat	1	Westfleisch eG
	2	Viehzentrale Südwest GmbH
	3	Erzeugergemeinschaft Südostbayern eG
	4	Raiffeisen Viehvermarktung GmbH & Co. KG
	5	Erzeugergemeinschaft für Schlachtvieh im Raum
Sugar	1	Not relevant for Germany
Olive oil and table olives	1	Not relevant
Sheep meat	1	Not relevant

3.5 Transnational cooperatives

Many cooperatives are active internationally. In most cases the foreign activities of cooperatives are limited to marketing, trade and sales. Usually they do not buy agricultural products from farmers, or supply inputs to them. However, there is a growing group of cooperatives that do business with farmers in other EU Member States. These cooperatives are called international cooperatives. They can be marketing cooperatives that buy from farmers in different countries, or they could be supply cooperatives that sell inputs to farmers in different countries. One particular group of international cooperatives is the so-called transnational cooperatives. These cooperatives do not just contract with farmers to buy their products or to sell them inputs, they actually have a membership relationship with those supplying or purchasing farmers. In sum, a transnational cooperative has members in more than one country.

Table 8 below presents the foreign transnational cooperatives and the international cooperatives active in Germany. These are cooperatives from other EU Member States that have come to Germany to directly trade with farmers, either as members or as contractual customers.

Table 8: The foreign transnational cooperatives and international cooperatives that are trading with farmers in Germany

Name of the Cooperative	Mother country	Sector(s) involved in:
Transnationals		
DLG (Dansk Landbrugs Grovvarereselskab, Kopenhagen)	Denmark	Cereals (51% shares of HaGe Kiel (coop in northern part of Germany) (in 2008)
Svenska Lantmännen	Sweden	Cereals and farm Input supplies (28% shares of HaGe Kiel (coop in northern part of Germany) (in 2008)
Den lokale Andel (DLA, Fredericia, Denmark) Kooperation insbesondere dänischer und schwedischer Landhändler	Denmark, Sweden	Cereals (Cooperation with 2. largest Grain Coop Agravis) (in 2009)
ForFarmers	The Netherlands	Cereals, animal feedstuffs
Arla Foods	Denmark/Sweden	Dairy
FrieslandCampina	The Netherlands	Dairy
Internationals		
Agrifirm	The Netherlands	Cereals, animal feedstuffs, farm input

Table 9: The transnational cooperatives and international cooperatives from Germany that are trading with farmers in other countries

Name of the Cooperative	Host countries	Sector(s) involved in:
Transnationals		
Baywa AG	Austria	Cereals and Farm Input
Landgard	The Netherlands	Fruit and vegetables
ZG Karlsruhe	France	Cereals
Internationals		
Agravis	Poland	
Hauptgenossenschaft Kiel	Poland, Baltic States	
RWZ Köln	Belgium	

Table 9 above presents the transnational and international cooperatives that have their seat in Germany. They have gone international by taking up members in other countries and/or doing business with non-member farmers in other countries. Since the beginning of 2011 the two largest German dairy cooperatives (Nordmilch and Humana) have merged to one company. They made their goal public to look for foreign partners and foreign companies to more closely cooperate with or to acquire. Currently, they are only exporting their products.

Since a couple of years an increasing number of larger (secondary) cooperatives intensify their international business. While dairy cooperatives are focused on exporting dairy products, supply/cereals marketing cooperatives are investing in grain elevator capacities in East Europe Poland, Ukraine, Baltic States, Russia.

We know that the dairy cooperative Arla is heavily trying to enter the procurement market for milk by convincing south German dairy farmers to become members of the cooperative. These attempts are still in process. Currently, we do not have any study, analysis, or report on the experiences cooperatives or farmers have made with internationalization (of cooperatives or memberships).

4 Description of the evolution and position of individual cooperatives

4.1 Data gathering per cooperative

Data were gathered by various ways. At first we screened the current literature that has been published in German Journals and miscellaneous publications. There have been only a limited number of publications on individual cooperative players in the sectors we are going to inspect. Additional, to these findings we screened websites of the cooperatives identified and also took a look at the library of our own Institut of Cooperatives. Annual reports were collected and analysed. In case of missing data we contacted the cooperatives personally by eMail or telephone interviews. In most cases we were not very successful. There was no great enthusiasm to support the research project with the required data. The same kind of "resistance" to provide more transparency happened with our telephone and personal interviews with the representatives of the national associations.

4.2 Position in the food chain

Market saturation is putting pressure on prices. Food products provide for human needs, but despite that fact there are limited opportunities for the food cooperatives as a whole to increase turnover through autonomous growth. As costs continue to rise, cooperatives are attempting to increase or at least maintain market share inside such environmental factors, resulting in an increase of segment rivalry. We have demonstrated that in several sectors the industry has undergone extensive concentration over the past few years. In the cereal, dairy and pig sector concentration is considerably high and some cooperatives are a subset of the leading companies. High efforts are undertaken to find new structural concepts, favourably through merger processes. Existing cooperatives will face increasing difficulties in expanding market shares. The major companies operating already in highly concentrated sectors can only purloin market share from each other. This may create high pressure on margins, since the competitors that remain are generally powerful.

Threats from new entrants and substitute products: A second potential result of market dominance in certain sectors is that cooperatives become or became less alert, creating room for new market entrants. In the cereals, dairy and the pig meat sector, in particular, there are numerous examples of German cooperatives being defeated by large and wealthy foreign cooperatives or investor-owned firms. Former high market share in local markets is no guarantee of permanent advantage. Originally, barriers against entry into these sectors were relatively low. Investments, and thereof fixed costs per product, were reasonable so that entry was manageable. Therefore, profit expectations were high, creating a flow of new cooperatives entering the traditional market areas of German cooperatives and intensifying competition. Growing concentration is generally accompanied by larger investments in branding food products. As a consequence, the entry barrier has risen as the agribusiness has become more capital-intensive and has supported its branding activities with increasing promotion. This form of market penetration has been in the past a domain of investor-owned firms. Cooperatives only recently realized that these capital- and expertise-intensive processes are an important key to sustain the competitive forces and to create an opportunity to remain competitive in the future. Product and market distinctions are essential to any attempt to enter or to stay in a sector that is already saturated. German cooperatives and mainly their members have to realize that there is a need to overcome these deficiencies in comparison to IOFs or foreign competitors. Additional, several sectors are also subject to substitution in consumer spending patterns. The percentage spent on food is continuing to decline. The food companies advertise high-quality products not as primary human needs but as products providing health, lifestyle and convenience, and therefore compete in the segment of products contributing to status.

Buyer power and retail chains: The relationship with retail chains is considered one of the major issues the cooperatives are currently facing. The influence wielded by retail chains on food sales has increased over the last years. Increasing concentration, price competition and cost reduction are a few of the major developments in the retail chains. As all other market partners, retailers are attempting to convert their market power into profits. In Germany, retailers may choose from a large number of suppliers – they only “need” to buy the major A-brands – and prefer to spread their risks by selecting several suppliers for one group of products. The larger processors, and so cooperatives, however, must sell their products through all retailers. A good distribution system is therefore vital to them. Product attractiveness remains the major item for retailers in deciding whether to put these products on the shelves. The situation in Germany is extreme. German retailers are the largest in Europe and the food sales through discount formulas is of about 55%. On the other hand, prospects for discounters depend not only on low prices and high product rotation, but also on consumer preferences for quality and service. Private labels have become an important instrument for retailers, who have firmly committed themselves to strengthening their strategic position in the face of declining retail margins. Private labels have therefore showed steady growth in recent years. Private labels serve different purposes for different retailers. Some retailer chains position their private labels, and indeed their company, as A-brand. Some other chains have introduced their private labels in the discount segment, either offensively or defensively, and these labels can be up to 30% or even 50% cheaper than the A-brands. It is relatively easy to find a number of potential suppliers of private labels in the current markets, especially in cooperatives. Surplus capacities are still existing, and this is also true for cooperatives. Buying specifications have tended to become more demanding and some retailers have established long-term working relationships with their best suppliers. A number of cooperatives are participating in these relationships by making specific investments in product and processing facilities tailored to the requirements of the retail chain.

Supplier power: The cost of raw material are vital important for cooperatives. These costs make up a large amount of the total production and processing costs. Cooperatives could benefit by lower raw material costs and they would be able to increase their operating profits if selling prices could remain the same. Market conditions and member requirements severely restrict operating profits benefiting from low purchasing costs since members are demanding high selling prices even from the cooperative and competitors will often be able to purchase farm products at the same low rate too. The advantages of improvements in efficiency in cooperatives are generally passed on to members or to subsequent links in the supply chain, and ultimately to the consumer. Trade liberalization and declining trade imbalances are amking purchasing prices of farm products increasingly dependent on international market prices. The introduction of adequate supply risk management concepts are one of the main challenges for cooperatives.

4.3 Institutional environment

Germany is a country with a cooperative system that is rich in tradition and highly developed. Germany was the first country in the world where cooperative banks, cooperative banks with agricultural merchandise business, special agricultural purchasing and marketing cooperatives and non-agricultural purchasing cooperatives were established. Cooperative banks, local farm input and product marketing cooperatives and small-scale industry cooperatives operate on the primary, i.e. local level. The primary level cooperatives established a number of central or secondary organisations at regional level. This happened mainly in the supply and marketing, meat and the dairy sectors. The work of the central organisations and primary cooperatives is additionally complemented at regional level by special institutes. These include cooperative data-processing centres which supply the primary cooperatives with the latest computer technology. At national level there are a number of national centres and special institutes, such as the DZ Bank, the Bausparkasse Schwäbisch Hall (Schwäbisch Hall Building Society) and R+V

Versicherung (R+V Insurance). These still include the cooperative mortgage banks, leasing and investment societies and agricultural and small-scale industry centres. The cooperative organisation is not structured like a centralized group but rather from the bottom upwards. Work is divided according to the subsidiarity principle. The superordinate central cooperatives are only engaged when it doesn't seem possible or sensible to act at local level.

The German cooperative organization is characterized by the fact that the competitiveness of the locally active primary cooperatives is enhanced by regional and central business organizations. The cooperative structure is built from the bottom up, and democratic control, as in the political sphere, is exercised in indirect form.

Soon after their creation in the year 1938 the associations established one more function which became ever more important in building up the cooperative organization in Germany: the training function. The cooperative educational and training system had originally a broad orientation and, following the early cooperative philosophy, tried to reach not only the employees of the cooperatives but through them also the members. Later on, however, the target group of the cooperative training efforts was limited again to the employees of the cooperatives, the members of their boards and the employees of the associations, especially to the auditors. The training activities were and are organized in different ways. Depending on the level and objective of training, it is offered by the cooperatives themselves, by the regional associations or the national organizations.

The central organization of the agricultural cooperatives in Germany at the time, the Reichsverband der deutschen landwirtschaftlichen Genossenschaften - Raiffeisen - a few years later, i. e. in 1941, also created a cooperative guarantee fund with a similar function. Today there is a common guarantee fund of all German cooperative banks. The cooperative association structure in Germany consists, as a rule, of regional auditing associations and their joint national organization. The historically grown association structure was fundamentally changed at the beginning of 1972 after the Deutscher Genossenschaftsverband and the Deutscher Raiffeisenverband had decided to reorganize the cooperative system. Since January 1972, the Deutscher Genossenschafts- und Raiffeisenverband e. V. (DGRV) has been the umbrella organization. It comprises three federal associations, i. e. the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR, Federal Association of German Cooperative Banks), the Deutscher Raiffeisenverband e. V. (DRV, German Raiffeisen Union) and the Zentralverband der genossenschaftlichen Grosshandels- und Dienstleistungsunternehmen e. V. (ZENTGENO, Central Association of the Cooperative Wholesale and Service Agencies). These federal associations and their umbrella organization have their main offices in Berlin and Bonn. The BVR includes all cooperative banks, the DRV is responsible for the agricultural merchandise, processing and service cooperatives, and the ZENTGENO for the non-agricultural merchandise and service cooperatives. The three federal associations have no auditing functions whatsoever; the only auditing association at a federal level is the DGRV. It also represents, i.a., the common interests of all types of cooperatives in the fields of economic, legal and fiscal policy, advises and assists them in all questions relating to cooperative law and auditing matters, and maintains and develops relations with other organizations and institutions in Germany and abroad.

Every cooperative must be member of an auditing association (§ 54 [1] GenG). We have already pointed out that the auditing association is also involved in the formation of a cooperative by preparing an expert opinion under § 11 (2), subsec. GenG. Both these legal provisions assure an efficient auditing system which is in the interest of the cooperative enterprises, the members and creditors of the cooperative. The right of auditing is granted to the association by the competent Federal States authorities, usually the Ministry of Economic Affairs (§§ 63, 63 a GenG).

The compulsory audit of cooperatives is made with the purpose of determining the economic conditions of the cooperative and verifying that its business is properly conducted. Therefore, its facilities, assets and business management have to be examined at regular intervals (§ 53 [1] GenG). The compulsory audit of cooperatives goes beyond the framework of a formal audit of annual accounts with regard to its purpose and extent. The association has to prepare a written report on the result of the audit (§ 58 [1], sentence 1 GenG). The report contains comments on the financial situation and perspective of the cooperative. It also illustrates the existing and planned supply of capital, the liquidity position the planned extent of the business, the earning power, and the structure and expected development of business risk. With a report cooperatives receive also information on their relative position compared to other cooperatives and they will find an evaluation of organizational structure, the corporate strategic perspectives and financial planning. There are no obligations going with the report, but pronounced recommendations are given.

The law on competition applicable to cooperative societies is not part of the Act on Cooperatives, because that Act is a law relating to organizations and not to competitive relations. As independent enterprises competing on the market, cooperatives rather are subject to the general legal standards which apply to competition, especially to the law against restraints on competition (Gesetz gegen Wettbewerbsbeschränkungen, GWB).

On principle, cooperatives are liable to pay

- corporate income tax on their income as legal persons,
- trade tax on their trade profits and trade capital by virtue of their legal status,
- property tax on their property.

Certain types of cooperatives, however, are exempt from the payment of such taxes. On these and on some special fiscal regulations applying to cooperatives we are going to comment below. Some types of agricultural cooperatives and the non-profit housing cooperatives may on certain conditions be exempt from the payment of corporate income tax, trade tax and capital tax. The tax exemption of the agricultural cooperatives mainly depends on the function of the cooperative concerned and the type of business it conducts. However, the exemption from corporate income, trade and capital tax of the users' cooperatives, the marketing or processing cooperatives, the service or work contracting cooperatives and consulting cooperatives is not granted only on the basis of specific functions listed above; these cooperatives rather have to meet one more important requirement, i. e. they have to limit their business operation to purpose-oriented transactions with their members and, apart from auxiliary transactions which have no tax increasing effect, must abstain from any incidental business affecting their fiscal status. If tax-exempt cooperatives handle purpose-oriented transactions with non-members or incidental transactions, they become fully liable to pay taxes, the only exception applying if the sum of the income from such tax increasing transactions.

4.3.1. The special situation of Eastern Germany

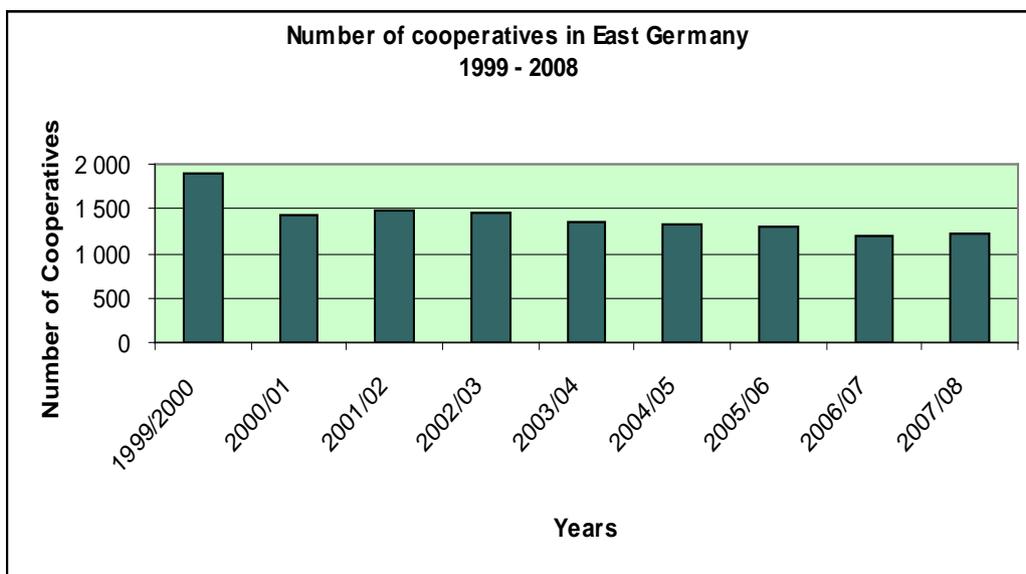
The situation in the eastern part of Germany is in some aspects different from the general German picture. The developments in eastern Germany are basically a transformation from state farms to large private farms. In 1990, after the Germany reunification and during the transfer of East German agriculture into market economy conditions, most of the members of the approximately 4,500 agricultural production cooperatives (LPG) in the GDR decided to continue their farm business collaboratively as agricultural cooperatives. These successor organizations of the LPG adapted relatively quickly to the new conditions by streamlining the production and therefore differ from their forerunner due to their high productivity and good profit situation.

Agricultural cooperatives, through which it was it was at the beginning of the reunification sharp differences of opinion, are an important economic factor in the often underdeveloped

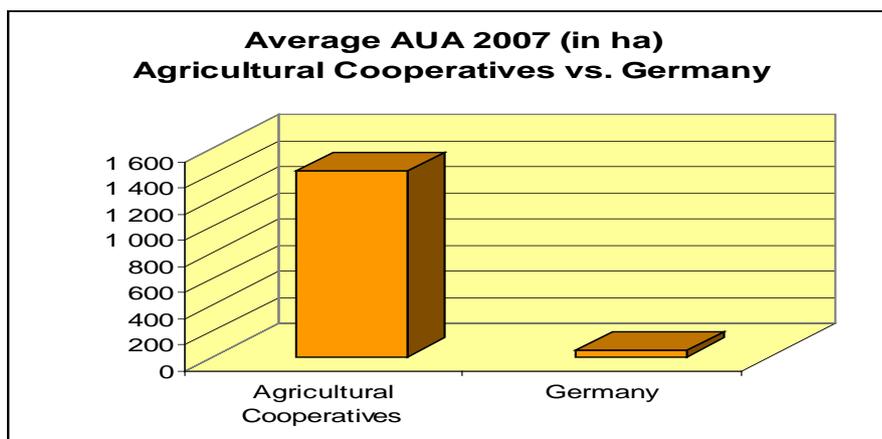
rural areas in East Germany. They are usually the largest taxpayer in the region. Around a quarter of the arable land is cultivated by them in East Germany, in Saxony, there are as many as 37 percent and 43 percent in Thuringia.

The Agricultural cooperatives are generally productive cooperatives as both traditional employees and the cooperative members participate in the cooperative. Last-mentioned are also supporting the organization financially. They are an association of averagely 43 farmers and farm families with the aim of operating the farm together. The Agricultural cooperatives employ about 20 percent of the labour force in East German agriculture and provide on average 32 jobs. Overall, the agricultural cooperatives in 2009 have generated a total turnover of 1.8 billion €.

In 2007, the group of agricultural cooperatives contained 1,103 companies with an average agricultural used area (AUA) of 1,328 hectares (Bundesministerium für Ernährung, Landwirtschaft und Verbraucherschutz, 2010).



Although the number of cooperatives and the average AUA per cooperative were decreasing in the past years, the average AUA is by far higher than the German average.



Nevertheless, the voices of dissatisfaction with the legal structure of the Agricultural cooperative are getting louder. Especially the following points are criticized (WIR. Das Genossenschaftsblatt aus Mitteldeutschland, 2010):

- the weak ability to raise capital for the cooperative,
- the inadmissibility of a broad participation of resigned members at net asset value of an agricultural cooperative.

As a result of this actual legal situation, some cooperatives change their legal form into limited liability companies or incorporations. Another major aspect is perhaps more recently added. It is that the EU has provided as part of their agrarian reform, a capping of direct payments, particularly for agricultural enterprises with modern corporate structures.

4.4 Internal Governance

From our analysis we can come up with two main results:

First, we can conclude that in the sectors analysed we find all types of corporate governance models. No one single model prevails in a sector or between groups of cooperatives. In the cereal sector most of the central cooperatives have transferred from the traditional cooperative model (registered cooperative "e.G.") to public liability company concepts or concepts of limited liability companies. In most of these cases the shareholder or associates are cooperatives (other farmer cooperatives or cooperative banks) or larger farmers.

Management in almost all cooperatives consists of professional managers, some of them are members of the cooperative others are not. There are no quantitative data available to answer the question on how many of these managers are members of the Board of Directors or form a separate management board.

Second, it is interesting to note that there are numerous scientific research papers and publications around on subjects like, interpretation of cooperative law, analyses on the competitive structure of cooperatives or the economic performance of cooperatives in different industry environments, but we do not find any specific analysis on the different models of governance and their implications for the performance of cooperatives.

4.5 Performance of the cooperatives

Foreign multinational (transnational) cooperatives play a significant role in some sectors in the agriculture and food industry in Germany. In the dairy and in the meat industry large European cooperatives have made investments in the acquisition of German cooperatives and other companies. Up to now we do not have a complete picture of the degree of internationalisation.

The meat sub-sector has a highly diversified structure depending on the technological characteristics of the production process. Big companies dominate the processed meat area, and they are often the main supplying partner for the retail sector. The pig meat sector has had a highly diversified structure as far as the cooperative scene is concerned. But, because of some failures in the last years, former large German based cooperatives were acquired by the Dutch company Vion. There is only one large German cooperative (Westfleisch) remaining. Other big companies in the meat sector are IOFs. German cooperatives only have some importance in organising some form of producing and collecting livestock in an organised form of producer organisations. Cooperatives are also prevalent in the animal breeding business, but here only an important player in cattle breeding. Pig breeding is subsect to private firms.

The results from a recent study in the meat sector (Theuvsen and Franz, 2007). shed some light on the relationship between the management and the members of producer organizations. Managing directors of producer organizations were asked how they perceive the roles of their organizations in meat supply chains. Their answer indicated that they have a very positive self-perception of their organizations and consider them important partners for farmers.

Farmers/members, on the other hand, have a somewhat more neutral perception of livestock trading cooperatives. They were nearly indifferent with regard to the statements that cooperatively organized traders are necessary for meeting the future requirements of livestock markets and can be considered the best form of farm cooperation when marketing animals to slaughterhouses. It is also interesting to note, that the large farmers consider these producer organizations appropriate partners for small farmers. If farms grow and farmers at the same time consider a two-tier marketing system most appropriate for small farms, then the future of cooperative organizations will be characterized by an increasing instability of the relationships.

In the presence of rapidly growing and internationalizing abattoirs, many farmers strongly prefer more centralized marketing activities, hoping for better prices vis-à-vis large slaughterhouses with market power. Existing EZGs and VVGs can serve as starting points for more centralized marketing of slaughter pigs and cattle.

The results show that the cooperative organizations analyzed are characterized by a number of structural differences regarding numbers of members, sales volumes and national or international activities. Obviously, success in the livestock trading industry is not only determined by external contingency factors, such as structural changes in agriculture and the slaughter industry or accidentally (by chance) but can also be influenced strongly by the way the organizations are managed. Since trading cooperatives are under severe competitive pressures from low-cost private livestock traders, their service spectra need thorough examination and enhancement.

Successful organizations show that, despite some theoretical doubts in transaction cost economics, livestock trading cooperatives may have a future in modern meat supply chains as long their service spectra meet members' needs and offer an added value to farmers.

The findings of the study have interesting theoretical implications for all cooperatives since they suggest that there may not be "one best way of organizing" food supply chains, whether open markets, marketing or production contracts or vertical integration. Therefore, there may also be a chance for well managed trading cooperatives to find an economically sustainable position and profitable role in food supply chains. Even in a world where contract farming systems are becoming increasingly important in transition and developing economies as well as some developed countries there may be viable alternatives, for example, the prevalence of trading cooperatives with tailor-made service spectra that meet the demanding needs of farmers in developed economies.

The study has several interesting managerial implications. It also highlights the need for cooperatives to improve their image and better communicate their services to current and potential members and intensify their supplier relationship management activities. Recent research into supplier relationships in food supply chains has identified a number of suitable internal and external relationship management activities. These include codes of ethics, clarification of personal responsibilities for supplier management, employee training, communication activities (newsletters, meetings etc.), improved transparency of business activities, personal interaction with suppliers, improved participation of suppliers, more intense communication with opinion leaders and improved complaint management.

The observations also show that in several sectors a larger proportion of the cooperatives are small compared to rapidly growing food companies and retailers. Therefore, more horizontal cooperation between cooperatives as well as mergers can be ways to improve the competitive position of them. This might be most important for the less successful organizations that suffer from declining numbers of members or products marketed or have a negative perception of their own economic prospects.

5 Sector analysis

5.1 Introduction

In this chapter we discuss the developments in the eight sectors that are central in this study. We report on trends in the markets, important changes in (agricultural) policy and we try to link this to the strategies and performance of the investor-owned firms and cooperatives in the sector. The period of observation is 2000 – 2010.

5.2 Cereals

Nearly 70% of the agricultural used area is used as arable land. This figure has been nearly stable over the last 10 years. It sums up to a total of about 11.8 to 12.0 million ha. Share of Grain on arable land has slightly decreased in the period from 2000 to 2010 from about 60% to 56% or from 7.0 million to 6.6 million ha. Cereals production is the fourth most important branch in agriculture. It provides in average between 3.2 and 5.3 billion € a proportion of 10.2% to 12.3% of the total monetary output of German farms. Despite of all discussions of food or non-food consumption over the last ten years grain usage changed only to some extent: proportion of the food industry is nearly stable (24% of cereals were used by the food industry in 2001; in 2009 it dropped slightly to 23%), while the technical and energy industry raised its share from 9% (2001) up to 13% (2009); the foodstuff industry takes the largest proportion with 66% in 2001 and 63% in 2009. Cereals production is nearly evenly distributed across Germany.

On the political scene, the most important impact will in all probability have the WTO negotiations and the intention to eliminate export subsidies. This will make grain exports out of EU intervention much more difficult in future. The EU Commission has already taken account of this and has demanded within the framework of its propositions for the Health Check to phase out also the intervention for barley and sorghum to zero. Only the intervention for bread wheat remained in place – with certain changes. It is planned to replace the procedure of grain being offered into intervention and then being accepted by the intervention agencies by a tender system. Thus the system that is already valid for all other market regulations within the EU will also become applicable to the grain intervention. However, this would mean that the principle of one uniform wheat intervention price for all member states must be given up as the tenders will be invited on a regional basis. The opportunity is growing everyday for the agricultural sector to make an important contribution to satisfying the growing energy demand, helping create new jobs in rural areas and reducing the greenhouse effect, all through the cultivation of renewable resources. Whether for fuel production or for heat or power generation, bioenergy is continually growing as a provider of energy, simply because the advantages of expanding renewable energy cannot be overlooked

As a consequence of these tendencies and expectations in the cereals market the relationships in the food chain are mainly built on tough price competition amongst the participants which tends to result in high pressure on prices and margins for both cereals handling firms and cereals processing unities (e.g. mills). Grain products traded are seen as commodities for the sector, without clear distinction and added value. Market shares for first handling of cereals are estimated as follows: approx. 35% of the marketed cereals goes to the investor-owned firms, cooperative organisations' share in grain marketing is approx. 52%, and the rest of 13% will be directly distributed to the grain mills. The economic behaviour is basically influenced in this sector by price and service quality when farmers are deciding where to sell and distribute their farm products. On a local level farmers have several opportunities to sell their cereals to different dealers. For the performance of the cooperatives a decisive factor for being relatively more competitive is the service quality during the grain harvest. The provision of storage

capacities is one of the most common, but nevertheless important service provided to farmers. Storage capacities can be to a certain extent substituted by providing logistic capacities. In general, there are no significant differences between cooperatives and investor-owned firms; both provide these services for the farmer at quite the same conditions.

Tabel 10: Production and acreage of grain in Germany

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
2000										
Production of total grain (in 1,000 mt), from 2000 – 2010										
45,271	49,538	43,268	39,169	51,097	45,980	43,475	40,632	50,105	49,748	44,293
Average yields of total grain (in dt/ha)										
64.5	70.7	62.6	57.6	73.6	67.3	64.9	61.8	71.2	72.1	66.7

5.3 Sugar

Sugar in Germany is processed by four companies (Südzucker AG, Nordzucker AG, Pfeifer und Langen KG, Suiker Unie GmbH) within 20 factories. Südzucker AG is the largest company in Germany and in Europe with a European market share of 24.1% in terms of sugar quota. The company produces at nine different locations, basically distributed in the middle and southern parts of Germany. Nordzucker AG is second largest company in Germany as well as in Europe (15% market share). It is in its current position the result of numerous merger activities between primarily North-German sugar factories. Number three in the German market is the family owned company Pfeifer und Langen KG, with five factories located basically in the western regions of Germany.

Sugar beet production and processing in Germany

	2008/2009	2009/10	2010/11
Acreage in ha	363 834	364 207	344 820
Number of producers	34 436	33 256	32 542
Average acreage per farm (in ha)	10.6	11.0	10.6
Beets deliveries in t	23 002 583	25 919 041	22 441 432

Source: Wirtschaftliche Vereinigung Zucker, 2011.

In the context of our project it is questionable if Südzucker is such a company that we can call it a producer organisation. Südzucker is a shareholder company publicly listed at the stock exchange. The shareholder structure reports that sugar producers hold a majority of 55 % of the shares through the producer group Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG (SZVG; South German sugar beet processing cooperative). Other investors include Austrian shareholders, via Zucker Invest GmbH, with 10 %. The remaining shares of 35% are widely held (free float) (Südzucker, Annual report, 2011, p. 25).

The current group structure of the second largest company Nordzucker AG is the result of numerous mergers between sugar factories of the northern part of Germany that have happen over the last 20 years. All sugar factories that merged to Nordzucker were in the legal form of GmbH (limited liability company) or in the form of an AG (shareholder company). Some examples are given here: Fallersleben-Meiner Zucker AG, Hannover Zucker AG Lehrte, Schleswig-Holsteinische Zucker AG, Zuckerfabrik Süderdithmarschen AG, Magdeburger Zucker Beteiligungs AG, Zucker Aktiengesellschaft Uelzen-Braunschweig, Nordharzer Zucker AG. The shares in Nordzucker AG are registered shares. They are not traded on the stock market but are tradeable after the cancellation of the limitations on transferability in 2005. Around 95 per cent of the shares are held by the three holding companies: Nordzucker Holding AG (76.23%), Union Zucker Südhannover GmbH (10.82%), and Nordharzer Zucker AG (7.83%). Direct shareholders count for 5.12%, Shareholders are usually single farmers which grow sugar beet. After

numerous smaller mergers, Nordzucker was established in 1996. The holding structure still reflects the historical establishment of the various companies. Nordzucker Holding AG plays a special role as the largest shareholder in Nordzucker AG. If both major companies should be subject of our considerations is not exactly clear. Their corporate structures consist of specific characteristics that make them more likely to be an IOF instead of a cooperative or a producer organisation.

5.4 Fruit and vegetables

The sector fruit and vegetables is an important segment for certain regions in Germany. In total the sector participates with its production value of about 2.2 billion euros with a share of about 5% of the total production value of the German agriculture (basis: farm gate prices). Fruit and vegetables are grown nearly all over Germany but specific regions with intensified production can be delineated. There is some concentration in the northern part of Germany (the area in the vicinity of Hamburg) which is a main fruit (apple) and cabbage production region. Substantial production also takes place in the Lower Rhine area, in Rhineland-Palatinate (vegetable) and in the Lake Constance area where mainly fruits are produced. Most of the production is open air production with a total acreage of about 110,000 ha. Most grown vegetable products are cabbage, salad, pees, and cucumber.

Production volume of vegetable crops has been increased since the beginning of 2000. For 2010, preliminary data show outdoor acreage with 111,000 ha remains nearly the same size since than the figures in the period of the mid the decade. Greenhouse acreage has been stable as well. The same happens to the German fruit production. The production volume has been nearly stable for the last years (except for 2010 for climatic reasons).

Table 11: Selected data of the fruit and vegetables markets in Germany

	2000	2006	2007	2008	2009	2010
Acreage and production of vegetables						
Outdoor-acreage (ha)		111,045	111,274	116,106	115,229	110,570,
Greenhouse-acreage (ha)		1,386	1,464	1,500	1,476	1,325
Total production (1,000 t)		3,167	3,387	3,492	3,668	3,410
- outdoor vegetables		2,969	3,179	3,270	3,443	3,200
- greenhouse vegetables		139	153	165	167	150
Imports (1,000 t) of vegetables						
Fresh vegetables (total)		3,027	2,999	3,035	3,110	3,200
Production of fruits (1,000 t)						
Total fruits		1,320	1,481	1,326	1,455	1,144
- thereof apples		948	1,070	1,047	1,071	831
- thereof strawberries		173	151	145	153	148

Source: Statistical Report Bundesministerium für Ernährung, Landwirtschaft und Verbraucherschutz, various issues.

The overall vegetable production volume increased slightly up to 3,4 million tonnes in 2010. This is a growth by 8% in the last decade. The same developments can be stated for the greenhouse acreage and production volume. Acreage slightly decreased, but production volume increased by also 8%. Much of this growth can be attributed to an increase in productivity. Productivity improvements have been achieved in the vegetables sector for a variety of reasons, including the use of higher quality inputs (e.g. seeds), technological advances, better management skills and the increased use of covered vegetables production. The import figures show the strong reliance of Germany on international markets. Imports of fresh vegetables are

of the same size as domestic production volume. These figures indicate a relatively low level of self-sufficiency for Germany. The domestic producers and their marketing organizations realize since a couple of years that global fruit and vegetable trade is growing steadily and force them to compete more with international competitors. Improvements and innovations in cool logistics and increased availability of a cool chain infrastructure in (potential) export countries will have a positive influence on this increase in global fruit and vegetable trade in bananas, citrus fruits, tomatoes, onions, watermelons, peppers and cucumber. As most fruits and vegetables are perishable by nature, the product is best consumed shortly after harvest but in most cases there is a time gap between harvest and consumption. Climate-controlled storage and distribution is often required to safeguard the quality of fresh fruits and vegetables, even though in the end deterioration is inevitable. Processing provides a good solution to increase the shelf-life of vegetables; at the same time, processed fruits and vegetables provide convenience in the kitchen of the consumer or professional foodservice companies.

Farmers growing fruit and vegetables are specialized producers. Officially their profession is that of a gardener and not a farmer. In some regions (Lower Rhine and Rhineland-Palatinate) vegetable farmers are exclusively producing for the vegetable processing and canning industry. Long-term contract based production and marketing is in most of the product segments a common way of interacting between producers and processing industry: in 2008 37% of carrots, 77% of spinach, 85% of cucumber, and 95% of pees were under contracts. The processing facilities are located close to the producing regions.

Although most fruit and vegetable suppliers are not in direct contact, the end consumer is ultimately what it is all about. In between supplier and consumer, there is a wide variation of distribution channels including wet markets, supermarkets, specialty shops, home delivery, restaurants or canteens. Although fruits and vegetable supply chains are organised differently all over Germany, the mainstream trend is that more and more fruits and vegetable suppliers (growers, traders, processors included) are adapting to a more demand-driven approach, in which there is a need to cater to the requirements of the various distribution channels, in particular the large food retail chains and foodservice companies, whilst at the same time understand and fulfil the needs of consumers. A large proportion of these consumers shop their fruits and vegetables in German's discount stores. This retail subsector accounts for about 55% of the fruits and vegetable sales to the consumers. Fruits and vegetable companies are often involved in more than one link in the fruits and vegetable chain; moreover, their portfolio is usually not limited to fruits and vegetables alone. The largest companies (in terms of total annual sales) are based in the production regions in the southern, western and northern part of Germany and are involved in the primary production, trade, processing, marketing and distribution of fruits and vegetables, often in combination with exotic fruit. Besides these large producer organisations and investor-owned firms there are hundreds of smaller enterprises involved in the processing and trade of fruits and vegetables. Despite merger and acquisitions taking place regularly, this sector will remain fragmented for the foreseeable future.

Most fruits and vegetable growing operations are family-owned businesses, requiring allround skills from the owner-entrepreneur. Growers need to continue to find ways to optimise their production process by means of improved inputs (seeds) and advanced cultivation methods. On the other hand, they need to focus on the requirements of their specific buyers and, at the same time, understand and anticipate consumer needs in order to take a pro-active rather than a reactive approach. The fragmentation of the industry and the small size of most individual growers does not give them a strong position vis-à-vis their larger buyers, especially as retail chains require large, uniform volumes preferably all year-round. Cooperatives, grower groups and other forms of cooperation are executed to meet these increasingly tighter customer requirements and give a better position in being in direct cont(r)acts with retailers or foodservice companies.

As fruits and vegetable supply chains become increasingly driven by chain retailers and foodservice companies, coordination of product flows beyond the farm gate becomes increasingly important. Cooperatives traditionally have taken up the role of coordinator in the value chain and pursue a relationship-driven approach rather than a transaction driven approach. Moreover, with the increasing demand for year-round supply, higher volumes of import and export will only augment this coordinating role. Increased food retail power puts pressure on branded fruits and vegetables companies in two ways: growth of private labels at the expense of branded products and the reduction of the number of brands on the supermarket shelf. Producers of processed fruits and vegetables with a long shelf-life, in particular the canning industry, are encountering stagnating consumption. The area of convenience and health products provide new opportunities and is still a large unexplored area for most cooperative producers/marketers and processors. New processing and packaging technology enables fresh fruits and vegetables to be presented in a convenient format (e.g. increasing shelf-life of fresh pre-cut fruits and vegetables) while maintaining aspects of health, safety and freshness.

Within the production regions producers and marketers try to work close together. Producers are organised in producer organisations or in marketing cooperatives. Some of them have established joint organisations in order to have a better cooperation and coordination in marketing and production decisions. Producers' organizations have been one of the main instrument provided by the Common Market Organization (CMO) for fruit and vegetables since its establishment: article 13 of Regulation (EC) n°1035/72 defined them as "any organization of fruit and vegetable producers which is established on the producers' own initiative" for specific purposes, such as "promoting the concentration of supply and the regularization of prices at the producer stage" and "making suitable technical means available to producer members for presenting and marketing the relevant products".

In 1996 a new EU-regime for the fruit and vegetable market was introduced. Its aim was and still is to support fruit and vegetable growers facing changing market conditions. The rules of the new regime are to offer a support of about 50 % of the investment costs. Producer organisations can participate if they rely on certain conditions and if they stick to so-called 'operational programmes'. These programmes have the objectives to improve product quality, reduce production costs and improve environmental practices. The aid is only available to groups of growers that collectively market their produce in 'producer organisations'. There is a strong responsibility for each Member State to approve the operational programme and to organize the distribution of the support payments. In 2009, the aid amounted to 700 million euros.

New rules have been in place for fruit and vegetables since 1 January 2008 (see Council regulation (EC) No 1234/2007 and (EC) No 1182/2007). They are designed to make the sector more competitive and market-oriented, reduce income fluctuations from crises, promote consumption (better public health) and enhance environmental safeguards (Bundesministerium für Ernährung, Landwirtschaft und Verbraucherschutz (2011)

From both regulation producer organisations and in particular cooperatives are (positively) affected. Under this legislation we find in Germany in total 32 producer organisations in 2010: 12 have the legal status of a limited liability company (GmbH) and 19 are cooperatives and 1 organisation is an association and more than 10,000 producer are participating. Cooperatives participating in these programmes are specialized organisations; specialised in the product groups (vegetable cooperative Pfalzmarkt; Fruit cooperative "Obst vom Bodensee" or apple cooperative "Altes Land". The largest German Topfkräuter supplier (market leader in Basilikum plants) is a traditional cooperative (Gartenbauzentrale Papenburg).

5.5 Olive oil and table olives

There is no production of olive oil in Germany. That is the reason why there do not exist any product specific producer organisation in this country.

5.6 Wine

Germany is a large wine producing country with a long tradition of wine consumption but also one of the largest import markets in the world. The market reflects non-conservative consumption habits and therefore has a strong interest in the diversification of import sources according to the attractiveness of supply in terms of both originality of produce and value for money. For these reasons German wines are since a couple of years threatened by the improving performance of the so-called new producers (new wine world) which are competing with German wines on its domestic market. During the last decade, EU vineyards have experienced a reduction, this has been the consequence of the so-called vine pulling scheme. Except for Germany where the area potentially affected by the pulling scheme is relatively small. During the last decade total grape production and the total acreage have been nearly stable at a level of between 9.1 to 10.3 million hectolitre and 100,000 ha. Consequently, average yield per ha was stable as well. Nevertheless Germany has still the highest yields of wine in the EU (between 91 and 104 HL/ha).

The German structure of production and processing in viticulture differs not very much among the seven wine producing regions within the country. The current situation is the result of the historical evolution in which differences, in terms of outlets (self-consumption or trading) and evolution of producing practices over time have shaped the farm structure. A relative high degree of specialisation exists in Germany wine production, where the farm size is rather small but where specialised farms amount to 65% and 65% of the vine area. The wine processing activities consist in mainly five phases (wine making, elevage, blending, bottling, storing) and is performed by a variety of agents: the private wine growers (wineries), cooperatives of wine growers, processing and trading firms (negotians) buying grapes totally or partially from vine growers and wines from other processors. The role of cooperatives is significant throughout the entire Germany and this is the result of the high degree of fragmentation of grape growing farms, because their members have the advantage of pooling their wine-making and marketing costs. In Germany cooperatives have a long tradition in also in quality wine production. The market share of cooperatives in Germany (share of wine collecting from farmers) has reached 30% in average, with regional differences (e.g. Baden-Wuerttemberg up to 60%) and remains quite stable at that level since two decades. The trade of wine is undertaken through various channels and is undergoing a dramatic evolution in relation to changes of consumer preferences and habits and to the role of modern distribution systems such as supermarkets. The trade and distribution structure shows some changes over the last years. A significant role is performed by direct purchases at the winery and by the network of small retail shops. However, the role of modern distribution systems has increased and is everywhere important. The large retail chains have expanded their market share and are transforming the trading structure. They are also responsible for the growing competition of foreign wine supplies into Germany through their sourcing activities of large homogeneous quantities of wine from abroad. Some general weaknesses of the German wine marketing system (with respect to cooperatives) are the weak financial position of cooperatives, the difficulty to implement in many cooperatives quality enhancement processes and also, the weak image of Germany wine compared to its international competitors (to these points see Schweickert (2007)).

5.7 Dairy

Since a couple of years discussions of agricultural dairy policy were basically dominated by the likely developments of the GAP-reform and its implications for the period after 2013. Dairy industry and the farming sector were taken precautions to find the appropriate answers to the challenges of the market developments for the time after the quota system will disappear. The discussion is focusing around the possibilities for the dairy farmers to improve their position in the milk supply chain with the aid of contracting their milk deliveries. Milk delivering contracts are a traditional instrument of coordination in the dairy subsector especially between producing and marketing associations (Erzeugergemeinschaften, or EZGs) and dairies.

One recent result of the structural consolidation in the dairy industry is the announced merger between to two largest German dairy cooperatives Nordmilch and Humana. After the agreements of both general assemblies by the end of 2010 the merger is in place since the beginning of 2011. Both cooperatives are in the process of rearranging their organization structure and to consolidate their processing locations. In December last year Arla (Denmark) announced a merger with mid-sized dairy cooperative (Hansa-Milch) in the northern part of Germany.

Since a couple of years farm gate milk prices are subject of intensive discussions between farmers and dairies. Main argument for low prices levels is the strong competition between dairy companies and the structure of the food retail sector. Compared to international standards the concentration of the German retail sector is relatively high. Of about 67% of the turnover is generated by the largest four companies. After having taken over the large discounter "PLUS" by the largest German retailer (the cooperative based company EDEKA) the market share of the TOP 4 has been improved substantially. Both retail cooperatives EDEKA and REWE now count for a market share of 40% (EDEKA 24%; REWE 16%) followed by the two big discounters Schwarz (Lidl, Kaufland: 14%) and ALDI (13%). These big four are dominating the retail subsector. Because of a relatively stable consumption of dairy products competition is very strong.

Table 12: Consumption of Milk Products (kg per capita, 2005 - 2010)

	2005	2006	2007	2008	2009	2010
Fresh products	84.9	86.1	88.0	89.0	93.4	95.0
Cream	5.9	6.0	6.0	6.0	5.9	5.9
Butter	6.4	6.5	6.4	6.2	5.6	5.5
Cheese	21.5	22.0	22.3	22.2	22.6	22.9

Source: MIV (2010)

Additional to the high rate of concentration the impact of the price aggressive operating discounters on the competition is seen as a traditional condition of the German milk market. Discounters' market (e.g. ALDI, LIDL) share on sale of the "white" and "yellow" line of dairy products is about 55%.

For standardized milk products there is high market transparency. This is due to the fact that in the German milk market the milk prices are subject of official monthly price reporting. The retailer sector is well aware of the production costs of dairies and their margins and marginal processing costs. This situation creates an asymmetric relation in the contract negotiation of price and service conditions between dairy industry and the retail sector.

Since the last official report on the structure of the dairy sector (submitted by the Bundesanstalt für Landwirtschaft und Ernährung (BLE) in 2006) the concentration process in the sector is still prevailing. The number of milk processing companies is steadily decreasing and the milk processing per firm is increasing: in the year 2009 196 dairies were collecting a milk quantity of

about 28.6 Mio. tonnes. One third of that quantity (8.8 Mio tonnes) was processed by the six largest dairy companies.

Without any doubt there is a necessity to structural changes and an increase economies of scale in milk processing. But, there are a number of examples that demonstrate that small-scale dairy companies can exploit strategies of differentiation and value creation in niche markets. The cooperative “Goldmilch eG” (120 Mio. kg Milk) has a strong relationship and is exclusively producing for the requirements of the European chocolate industry and McDonalds (milk shakes and icecream).

Other important innovations of the near past are the introduction the so-called “Fairness Milk“, „GMO-free Milk“. The “Fairness“-concept implies a negotiated price premium between farmers’ dairy companies and retailers that are procuring their dairy products from within a regional vicinity. The idea is to offer regional milk products and to convince them to pay a price premium. The concepts introduced in several federal states in Germany (e.g. in southern Germany about 1,200 REWE- und 300 Tegut-Outlets in Hessia, Bavaria and Baden-Wuerttemberg) are promising.

Interesting

Structural changes in the dairy farming sector are also prevailing. The following table gives an idea of the changes that had happened between the years 2000 and 2010.

Table 13: Structural changes of dairy Farming in Germany (2000 - 2010)

	Total number of dairy cows (in 1,000)	Total number of dairy farms (in 1,000)	Cows per farm	Average milk production per farm (kg)
2000	4,570	139	33	201,277
2005	4,236	110	39	260,277
2009	4,205	97	43	302,457
2010	4,182	92	45	-

Source: Statistical yearbook, various issues

Besides the developments on the farming side the ongoing concentration process in the dairy sector will also have some likely severe consequences. Taken the merger of the two largest kooperatives will limit the market options for dairy farmers in the midterm run. In most of the milk producing regions adjacent the market share of the new cooperative in procurement is up to 40-50%. This leaves still some options for the farmers to negotiate with alternative dairy companies but, these options are diminishing.

5.8 Sheep meat

Producer organisations do not have any relevance in this sector in Germany.

5.9 Pig meat

In Germany meat consumption is mainly based on pork and beef. Per capita meat consumption has been stable within the period from 2000 to 2010 at a level of 88 kg per year. 60% of this consumption is pork consumption that has been stable over this period (55 kg per capita), followed by beef consumption with 12 kg (14%). Meat consumption in general is affected by several trends like health consciousness, wellness concepts, fair-trade debates, and animal health discussions. But, for the last ten years, this discussion did not lead to a pronounced change in consumption habits or of the consumption amount.

The meat and the pig meat sector constitutes one of the largest sectors within the German food industry. In contrast to many vegetable products, meat must be processed by the industry to make it suitable for human consumption. Added value is generally low but is increasing. Cooperatives participate in that increase. The low added value is one reason why the pig meat industry in Germany is experiencing above average growth. There are, however, limited opportunities for developing brands, i.e., for developing the distinctive aspects between industries. The past high growth has made Germany one major producer of pig meat.

Germany has the highest concentration in the number of slaughterhouses, where 5% of European Union slaughterhouses account for 25% of all carcasses. Compared to other sectors cooperatives are not that responsible for substantial share of supply. The larger companies are IOFs except for the second biggest player, the German Westfleisch, the only cooperative still existing in these size categories. Smaller companies and cooperatives in the industry are mainly product oriented, using price as the major competitive tool, or concentrate on niche markets. Large companies focus more on A-brands or industrial labels. These companies are attempting to achieve various forms of vertical integration and are expanding through merger and acquisitions. This process begins with expansion in the home market and continues with international takeovers.

Germany is an important consumption area and market for pork piglets. Most of the demand or total consumption is based on the size of the population and /or its per capita consumption. Influenced by traditional eating habits and levels of prosperity, Germany has the highest consumption level in Europe. The consumption of pork takes place in the form of both fresh prok and processed meat products. The perishable nature of fresh pork and traditional differences in eating habits also play a significant role for consumption. Pork is experiencing increasing competition from the cheaper poultry. German competitiveness is based on the large innovative domestic market, as well as its good infrastructure and knowledge.

Germany is one of the major livestock producers in the world. At the end of 2009, there were 281,000 livestock farms in Germany, including 183,400 cattle farmers and 62,800 pig farmers. The number of cattle decreased from about 14.5 million animals in 2000 to 12.7 million in 2006 due to the existence of milk quota in the EU that limit production and ongoing changes in EU Common Agricultural Policy.

Germany is the world's third largest pork producer with an output of 4.7 mio. tons in 2006. In the European Union, Germany is the largest pork producer, followed by Spain, France, Poland and Denmark. After German reunification, German pork production declined due to the privatization process in Eastern Germany and the reduction of production capacities in the new German states. As a result, between 1990 and 1996, herd size decreased from 34.2 million pigs in 1990 to 26.5 million pigs in 1996 (Spiller et al, 2005). Since then, production has slowly recovered; in 2005, 88,700 pig farmers kept 26.86 mio. pigs. Due to growing imports of slaughter pigs, pork production reached an all-time high in 2006. In 2006, for the first time in history, Germany was a net exporter of pork (Burchardi et al, 2007).

The major pig producing area is located in North-Western Germany close to the Dutch border where 30,400 farmers keep about 14.5 mio. pigs, i.e. about 54% of the German pig herd. A second important production area is, again, Southern Germany (Bavaria: 3.7 mio. pigs on 25,300 farms; Baden-Wuerttemberg: 2.26 mio. pigs on 13,200 farms). Similar to cattle production, farm size is much larger in Northern Germany. Average herd size is 494.3 pigs in the North-West compared to only 146.7 pigs in Bavaria (Destatis, 2006; Destatis, 2007a).

In pork production, North-Western Germany is a major production area where more than 50% of German poultry production is located (Destatis, 2006; Destatis, 2007c). German livestock production is characterized by deep structural changes. Between November 2005 and November 2006, 8.9% of all pig farmers and 4.0% of all cattle farmers exited production. Within

the same period of time, the total number of pigs in Germany decreased by only 0.6% and the herd size of cattle was reduced by 1.9%. This means that the remaining livestock farmers grow remarkably. Therefore, about 60% of cattle are now kept on farms with a herd size of 100 or more animals. Concentration is even more impressive in pig farming where only 7,300 farms (out of 88,700 in Mai 2005) produce more than 50% of all German pigs. Average farm size in this category has gone up to 1,859.2 animals (Destatis, 2006).

As far as pork marketing is concerned, a number of different modes of distribution are to be identified. In Germany's leading pig-producing areas in Westphalia and the Weser-Ems region, both located in the northwestern part of the country, showed that the share of farmers who directly contract with abattoirs, prefer private or cooperative traders or use a mixture of direct and indirect sales of slaughter pigs varies remarkably depending on the abattoir involved (cf. Figure 3). Not surprisingly, the single-tier system is most preferred by farmers delivering to the Westfleisch eG due to the processor's strong preference for marketing contracts. The picture is much more mixed with regard to competing abattoirs in the region. Although not statistically significant, firm size seems to play a role since Vion and Toennies, Germany's largest and second-largest abattoirs, reveal higher percentages of direct relationships with farmers than their smaller competitors.

Today, the Top 10 abattoirs in Germany acquire more than 70% of all pigs delivered to the market. The three largest companies (Tönnies (IOF), VION Foodgroup (IOF), and Westfleisch eG (cooperative)) were able to increase their market share and now count for a share of more than 50% (2010).

German pork farmers are confronted with an increased import competition of pork, mainly from The Netherlands and Denmark. In particular, the increase in piglet imports is obvious. Compared to countries, like Denmark, The Netherlands, France, or Spain Germany has by far the highest production costs, especially cost disadvantages in piglet production.

6 Overview of policy measures

6.1 Regulatory framework

The performance of cooperatives (including producer organisations) is influenced by the regulatory framework in a country. This framework is multi-level: EU regulations, national laws and –in some countries- even regional policies influence the way cooperatives can operate. In this chapter we look especially at the regulatory framework that influences the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector).

These competitive positions are influenced within the regulatory framework by much more than the law that establishes the rules for running a cooperative (business organisation law). Well known other examples include agricultural policy (e.g. the EU's common market organisation that deals with producer organisations in the fruit and vegetables sector), fiscal policies (at the level of the cooperative and the way returns on investments in cooperatives are taxed at farm level) and competition policies. There are different types of policy measures in the regulatory framework (McDonnell and Elmore (1987):

POLICY MEASURE TYPE	DEFINITION
Mandates	Rules governing the actions of individuals and agencies
Inducements	Transfer money to individuals in return for certain actions
Capacity Building	Spending of time and money for the purpose of investment in material, intellectual, or human resources (this includes research, speeches, extension, etc.)
System Changing	Transfer official authority (rather than money) among individuals and agencies in order to alter the system by which public goods and services are delivered

The objective of this project / report is to identify support measures that have proved to be useful to support farmers' cooperatives. In section 5.2 the relevant policy measures and their potential impact in Germany are identified. In section 5.3 a number of other legal issues are addressed.

6.2 Policy measures

The table below identifies the policy measures that influence the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector).

Part 1. Description and Assessment of Policy Measures

Our study needs to provide a detailed description of the various policy measure that affect the development of agricultural cooperatives. This effect can be positive, thus stimulating the development and performance of cooperatives, or the effect can be negative, hindering the development of cooperatives. All the policy measures that influence the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector) should be identified.

In addition to a description we also need to provide an assessment of the impact of the policy measures on the development and performance of cooperatives.

Table 13: Description of Policy Measures

Name of Policy Measure	Type of Policy Measure	Objective of the Policy Measure	Target of the Policy Measure	Expert comment on effects on development of the cooperative
Official name of the policy measures (In English)	1. Mandate e.g. 1.1. Cooperative legislation/ incorporation law e.g. 1.2 Market regulation and competition policies 2. Inducement e.g. 2.1 Financial and other incentives 3. Capacity Building e.g. 3.1 Technical assistance 4. System Changing 5. Other	1. Correction of market or regulatory failures 2. Attainment of equity or social goals	1. Specific to cooperatives 2. Specific to an agricultural sub-sector 3. Applicable to business in general	Description on how the policy measure affects development of cooperatives, by reasoning through the building blocks: - Position in the food chain - Internal Governance - Institutional environment of the cooperative
Constitutional Law of Germany and its Federal States (Grundgesetz und Länderverfassungen)	5. Other	2. Attainment of equity or social goals	1. In Germany the function and institutional existence of the cooperative system are protected by its constitution. A number of Federal States` (Bundesländer) constitutions either explicitly or implicitly require the promotion of the cooperative system.	All in all, this means that the existing cooperatives and cooperative organizations as institutions of the cooperative system and the institutional embodiment of the idea of cooperation are institutionally safeguard under the constitution. The constitutions speak of “assuring” or “strengthening” the cooperative self-help which they consider to be an essential and instrumental factor for safeguarding the existence of small and medium-sized enterprises. The constitution of Germany does not explicitly advocate the promotion of the cooperative system but, its existence is seen as an important regulator for protecting a well-balanced economic structure. Since the cooperatives make a valuable contribution to the maintenance of competition as the basic principle of a socially responsive market economy, the promotion of the

				principles of self-responsibility and self-management must be an objective of prime importance for liberal politics.
Law against Restraints of Competition (Gesetz gegen Wettbewerbsbeschränkungen, GWB)	1. Mandate 1.2 Market regulation and competition policies	1. Correction of market or regulatory failures	3. Applicable to business in general and 2. Specific to an agricultural sub-sector	Cooperatives are subject to the general legal standards which apply to competition especially to the law against restraints on competition (Gesetz gegen Wettbewerbsbeschränkungen, GWB). Cooperatives are no cartels per se. GWB, §100 contains an extensive sectoral example for rural cooperatives but does not completely remove this sector from the reaches of the anti-trust legislation. GWB, §100, Subsection 1 permits extensive agricultural cartels regardless of their market power as long as they do not completely eliminate competition. The exemption from the prohibition of cartels is grounded on the structural difficulties and the industry-specific competitive disadvantages faced by agricultural producers.
Cooperative Law from 1889 (last amended 2006) (Genossenschaftsgesetz, GenG)	1. Mandate 1.1. Cooperative legislation/	1. Correction of market or regulatory failures	1. Specific to cooperatives	It is a law relating to the organization, i.e. to the inner structure of the cooperative. In this respect it is similar to other special statutes of the commercial law relating to companies (share-holder company or limited liability company). The GenG however, goes beyond these other laws inasmuch as it specifies the purpose of the cooperative, i.e. its objectives. In that respect the cooperative law differs fundamentally from the other laws mentioned. The cooperative needs bylaws (statutes) which must be adopted and signed by at three persons. These bylaws must be lay down, i.e., the object of the enterprise and the firm derived from it. The cooperative is founded if and when the bylaws adopted and signed by the founding members and the members of

				<p>the board of managing directors and the supervisory board have been filed for registration in the register of cooperatives. Every cooperative must be member of an auditing association or union (§54 [1] GenG). The right of auditing is granted to the association by the Federal States authorities, usually the Ministry of Economic Affairs. The compulsory audit of cooperatives is made with the purpose of determining the economic conditions of the cooperative and verifying that its business is properly conducted. Therefore, its facilities, assets and business management have to be examined at regular intervals. The law does not set any limits to dividend or interest on share capital. The typically cooperative way of allocation of surplus to members in form of patronage refund in proportion to use made of the services and facilities of the cooperative enterprise is not explicitly regulated in the cooperative Law. This is subject tot the bylaws.</p>
Tax Law	2. Inducement Financial and other incentives	2. Attainment of equity or social goals	3. Applicable to business in general	<p>In principle, cooperatives are liable to pay corporate income taxes on their income as legal person; trade tax on their trade profits and trade capital by virtue of their legal status; property tax on their property. All taxes are payable by cooperatives on the basis of the same principles on which they are payable by all other taxpayers. There are some tax exemptions for special types of cooperatives and specific trade or processing functions. Agricultural marketing and processing cooperatives (dairy, wine, fruit and vegetable) which are selling their members' products after having refined or processed them are excluded from corporate income tax if certain economic and financial conditions are prevailing. But,</p>

				<p>this tax exemption works only for a limited share of the regular business of the above mentioned types of cooperatives. Cooperatives are entitled to deduct the membership business assets from their gross operating assets but only if their gross operating assets do not exceed certain upper limits.</p>
<p>Law for Adjusting Agricultural Production to Market Requirements (“Marktstrukturgesetz”) from 1969</p>	<p>1. Mandate 1.1. Cooperative legislation/ incorporation law 1.2 Market regulation and competition policies</p>	<p>1. Correction of market or regulatory failures</p>	<p>2. Specific to an agricultural sub-sector</p>	<p>In its original formulation, §7 of the law drew a clear line between producer associations based on the German Law and producer organisations based on European Community Law. Producer organisations (EU law) are primarily found in the fruit and vegetable sector; producer associations (German law) are important in the hop, potato, hog and piglet, and quality grain sector. The attainment of state recognition is a precondition for producer associations to apply for financial support and to receive legal competitive privileges. The development of these producer associations has not been that successful as the initiators expected them to be. There are numerous obstacles in the internal organisation, behavioural attitude of its members towards the association, the precondition for the development of promising marketing activities, and management problems prevent these producer organisations from being a favourable alternative for cooperative solutions.</p>
<p>COUNCIL REGULATION (EC) No 1698/2005 of 20 September 2005 European Agricultural Fund for Rural Development</p>	<p>5. Other : on support for rural development</p>	<p>2. Attainment of equity or social goals</p>	<p>2. Specific to agricultural sub-sectors 3. Applicable to business in general</p>	<p>After checking again the relevant literature we did not find any serious comment on the likely effects of LEADER on cooperatives in specific. We are inline with many other experts when saying that we do not see much support for cooperatives. The regulation my be of some relevance for small and locally operating producer organisations , but</p>

(EAFRD)				not for the cooperatives we look at in our report. The programme is seen to be just a new regulatory framework that applies in the same way to coops as well as to IOFs.
COUNCIL REGULATION (EC) No 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation)	1. Mandate 1.1. Cooperative legislation/ incorporation law 1.2 Market regulation and competition policies 2. Inducement 1 Financial and other incentives	2. Attainment of equity or social goals	2. Specific to an agricultural sub-sector	There has been some criticism by the participants (POOs and their members) towards specific regulations. But, for Germany it is to conclude that its not a critique to the whole regulation, but it is more on the national strict enforcement. The programmes enable the organization to make investments and to induce a better quality policy.
COUNCIL REGULATION (EC) No 1182/2007 of 26 September 2007 laying down specific rules as regards the fruit and vegetable sector				

Table 14: Assessment of Policy Measure Influence

Policy measure	Assessment score
Constitutional Law of Germany and its Federal States (Grundgesetz und Länderverfassungen)	0
Law against Restraints of Competition (Gesetz gegen Wettbewerbsbeschränkungen, GWB)	1
Cooperative Law from 1889 (last amended 2006) Cooperative Societies Act (Genossenschaftsgesetz, GenG)	3
Tax Law	2
Law for Adjusting Agricultural Production to Market Requirements ("Marktstrukturgesetz") from 1969	1

Part 2. Questionnaire on legal aspects

BUSSINESS ORGANISATIONAL LAW ASPECTS		
1	General	
1.1	Which legal business forms are available for farmers to organize themselves into producer organisations (POs)?	N
	There do not exist any restrictions or limitations as far as the available legal status of POs is concerned.	
1.2	Which legal business form is most frequently used?	N
	The most frequently used one is the legal form of the “registered cooperative” (e. G.; eingetragene Genossenschaft); second mostly used form is the “registered association” (e. V. ; eingetragener Verein). No quantitative data available on that.	
1.3	Does the national law force incorporators to use one or more specific legal business forms for cooperatives/POs? If so, how and in what way?	N
	No	
1.4	Does the national law actively stimulate the use of a specific legal business form for cooperatives/POs, and if so, in what way?	N
	No	
1.5	Are there relevant developments in and changes of the regulation of cooperatives/POs since 1 January 2000 with regard to business organizational law?	N
	Except for SCE and its national adaptation, like: the change in the minimum number of members necessary to establish a cooperative, admissibility of investor-members, possibility of a fixed minimum capital, systems of voting. Other concrete developments since the year 2000 were not realized or are underway.	
2	Formation / establishment	
2.1	Are there specific provisions with regard to the legal objective of the business form that are considered to be restrictive, e.g. restrictions in the objective of the firm, in the possibility of equity raising from non-members and requirements on the amount of incorporators / members upon establishment?	A
	There are no restrictive provisions to establish a cooperative. Except that there exists the obligation for a new cooperative to become part of the German system of supervision (compulsory membership in a cooperative auditing federation). German cooperative law may be seen as a – liberal regulation, given that many key issues for cooperative identity - such as activity with non-members, constitution of non-distributable reserves, distribution of dividends on the paid-up capital, allocation of assets in case of dissolution - are left to cooperative self-regulation. No legal obstacles to the establishment of German cooperatives exist. There exists some criticism on the compulsory membership of eGs (registered cooperatives) in a cooperative auditing federation and of the monopoly of cooperative auditing federations to carry out the audit of eGs. Critics see these procedures and their cost as the main obstacle in the way of formation of new cooperative societies (e.g. Börsche 2009).	
2.2	What are the initial costs of setting up the legal business form?	N
	Setting up costs depend on the advisory afford that is calculated for approving the business plan, the by-laws and the strategic concept. Costs range between 1,000 € for small scale cooperatives up to several thousand € for complex cooperatives.	
2.3	What are the costs of maintaining the legal business form?	N
	In the first year there are no fees for the membership in the auditing union	

	(Genossenschaftsverband). For the following years membership fee is a function of turnover: at least 50€ per year (up to a turnover of 250,000 €); between 250,000 € and 500,000 € annual fee is 100 €; 500,000 € - 1 Million € it is 200 €. Additional to the fee annual monitoring afford has to be paid. This will be calculated per diem.	
3	Membership structures	
3.1	Does national law allow to depart from the principle of 'one man, one vote'? E.g. through a differentiation in voting rights according to the volume of use of the cooperative/PO or according to the amount of capital provided?	A
	The national law on cooperatives allows this deviation but, there are some restrictions: voting rights are limited up to three votes per member at a maximum; this is subject to each cooperative's bylaws (statutes). Each individual cooperative's bylaw determines the possibility of having so-called "investor members".	
3.2	Does national law allow non-members to have voting rights?	A
	No voting rights for non-members or "investor members". Since the revision of the Cooperative Societies Act in 2006, investor members can be admitted, who participate in the share capital but do not or cannot use the services of the cooperative enterprise. Compared with using members, investing members are given a weaker role in the organisation. It is safeguarded by several provisions of the law that using members cannot be outvoted by investing members, for instance in the supervisory organ or in decisions to amend the by-laws of the cooperative society (§ 8 paragraph 2 GenG).	
3.3	Does national law allow specific requirements to be met on the admission of members? E.g. the obligation to pay an entrance fee? Are there any legal restrictions in this respect?	N
	In general, cooperatives are organizations with open membership. Individual cooperative's bylaws determine who will become a member. Cooperative's bylaws determine if entrance fees are obligatory. This might going to be happen if a cooperative has made specific investments and potential new members want to participate from these. In these cases bylaws are fixing the entry (fee) conditions for new members. In general, there are no legal restrictions in this respect.	
3.4	Are there legal restrictions with regard to the possibility to introduce or accept members from other member states?	N
	No legal restrictions exist. This is subject to each individual cooperative bylaw.	
4	Internal Governance	
4.1	Which corporate bodies are mandatory?	A
	Cooperative law determines three bodies: <ul style="list-style-type: none"> - board of managing directors - supervisory board - general assembly The revision of the Cooperative Societies Act of 2006 allows for the first time that small cooperative societies with not more than 20 members may chose to work with a simplified organisational structure: A one-person administrative organ and no supervisory organ, the role of which is taken over by a representative of the members or by the general meeting (§ 9 paragraph 1 GenG).	
4.2	Do you consider the overall corporate governance structure to be flexible or cumbersome?	N
	Measured by cooperatives' performance in the agribusiness, its relatively large market shares in certain food industries, its investments and merger activities the overall cooperative governance structure has been approved. A large number of successful operating cooperatives give evidence on that. On the other hand, a	

	growing proportion of cooperatives has established governance structures that de facto limit the influences of the single member and of the general assembly in order to provide the managing board with the preconditions of improved flexible decision making. These changes lead to a deviation from the traditional model of cooperative as it is described in the cooperative law.	
4.3	Which are the legal tools for members to effectively influence the decision-making process?	N
	These are: <ul style="list-style-type: none"> - voice: in the general assembly - election: selection of “suitable” members to the supervisory and managing board - exit: the threat of withdrawing the business and/or membership 	
4.4	Are the legal requirements on the composition of the board of directors flexible or cumbersome?	N
	Yes	
4.5	Does the national law allow a composition of the board of directors partially or wholly by non-member professional managers?	A
	Yes. In principle, the cooperative law determines that the members of the board of managing directors must be members of the cooperative, but individual bylaws can deviate from this obligation.	
4.6	If not, is this considered to be an impediment for an effective composition of the board of directors?	N
	-	
4.7	Are the legal requirements on the composition of the supervisory board flexible or cumbersome?	A
	Yes	
4.8	Do you consider the legal structure and rules on the supervision of the board of directors to be effective with respect to the accountability of the board towards members?	N
	Yes	
4.9	Does the national law allow a composition of the supervisory board partially or wholly by non-member experts?	A
	Yes. In principle, the cooperative law determines that the members of the board of managing directors must be members of the cooperative, but individual bylaws can deviate from this obligation.	
4.10	If not, is this considered to be an impediment for an effective composition of the supervisory board?	N
	-	
4.11	Does the national law allow the use of subsidiaries, dividing the membership organization from the actual company?	A
	Yes, and there is an increasing tendency to organize the cooperative in this respect, especially in larger (measured by membership) market oriented businesses.	
4.12	Does the law stipulate rules on the appointment and dismissal of the board of directors and the supervisory board?	A
	Yes. The law explicitly describes the rules on the appointment for becoming a member of the two boards. Rules on the dismissal are not subject to the cooperative law, but are defined in separate standing orders given to the two boards.	
5	Financing	
5.1	What legal methods and instruments for raising equity are allowed?	N
	There is a large variety of possibilities for raising equity of cooperatives: <ul style="list-style-type: none"> - Shares in the cooperative (members’ equity in the cooperative): shares 	

	<p>paid in by members and from unallocated profits or surplus credited to members</p> <ul style="list-style-type: none"> - Members' liability amount - Reserves: capital reserves required by law and reserve accumulated voluntarily - Short-term possibilities: reserves for contingencies; hidden reserves, adjustments of valuation; temporarily accumulating self finance funds - Recent reform of the cooperative law enables cooperatives to attract those members that do not have any business relation and that only are interested in providing equity capital to the cooperative. These so-called "investing members" receive fixed interest rates on their capital. <p>The cooperative law recognizes as liable shareholders' equity not only the paid-up capital and the reserves, but also part of the members' liability to make additional contributions when called, as this liability is part and parcel of the subscription of shares in a cooperative. The business assets represent the amount that has actually been paid on the business shares. The business assets are part of the equity capital, another part of the equity capital consists of reserves in a statutory reserve fund which is compulsory under § 7 (3) Law of Cooperative. These statutory reserves are appropriated reserves and serve exclusively for covering losses in the balance sheets. In addition, the bylaws may provide for the formation of other reserves (voluntary reserves).</p>	
5.2	Which of the following legal methods and instruments are commonly used? (tick one or more options)	N
	<input checked="" type="checkbox"/> the use of unrestricted or restricted members liability (that can be invoked for instance in the case of liquidation of the organisation)	
	<input checked="" type="checkbox"/> reservation of net proceeds in a general reserve	
	<input type="checkbox"/> member participation in equity raising connected to and proportional to the volume of economic transaction between the member and the cooperative/PO	
	<input type="checkbox"/> member obligation to finance the cooperative/PO through loans to the cooperative/PO connected to and proportional to the volume of economic transaction between the member and the cooperative/PO	
5.3	What are the rules on the distribution of profits?	A
	<p>Profit participation and distribution rights represent property rights which place claims on a cooperative but are not tied to rights of decision-making and participation on decisions on the part of the owner. As there is no fixed legal definition or obligation of profit participation rights the distribution of profits is subject to different solutions and specific decision of individual cooperatives. These different possibilities are as follows.</p> <ul style="list-style-type: none"> - In most cases surplus distribution is entirely based on the level of turnover the member himself run up with the cooperative. The reimbursement can be entered as a liability item according to legal tax provisions when the appropriate bylaws have been adopted and when the members have been granted legal claim accordingly in the articles of the bylaw. - Dividends on capital are not suitable for the typical cooperative. There is an ongoing debate on the pros and cons of cooperative dividend payments as an incentive to provide the cooperative with additional equity capital. Criteria for dividend payments could be based on members' turnover with the cooperative or the duration of membership. - Bylaws can lay down to distribute profits by paying interest rates based on the number of business shares subscribed by a member or according to the amount of his paid-up shares (e.g. minimum size 2%). <p>The typically cooperative way of allocation of surplus to members in form of</p>	

	patronage refund in proportion to use made of the services and facilities of the cooperative enterprise is not expressly regulated in the Cooperative Societies Act, but can be provided for in the by-laws and is decided by the management organ. On certain conditions cooperative patronage refund is recognised by the fiscal authorities as part of tax deductible operating cost and as a correction of the price in retrospect.	
5.4	Do you consider the rules flexible or restrictive with regard to the distribution of profits to members/users	N
	There exist a large variety of individual financial incentives to attract new members and to increase current members' loyalty to the cooperative. Cooperative law and bylaws create flexible solutions.	
5.5	Does national law allow non-member participation in the equity capital of the cooperative/PO?	A
	Yes, since the reform in 2006 "investor members" are allowed to provide equity capital to the cooperative.	
5.6	Do you know cooperatives/POs that are financed with equity capital from non-members? If yes, please write the names of these cooperatives/POs.	N
	<ul style="list-style-type: none"> - BayWa AG (cooperative listed at the stock exchange) (Munich) - Handelsgenossenschaft Nord AG, HaGe Nord (Kiel) - Raiffeisen Waren-Zentrale Rhein-Main eG, RWZ (Cologne) - Agravis Raiffeisen AG (Münster, Hannover) - Raiffeisen-Warenzentrale Kurhessen-Thüringen GmbH (Kassel) - OLD Osterburg-Lüchow-Dannenberg eG 	
5.7	Do you consider the rules on distribution of profits facilitating or restricting cooperatives/PO in their efforts to attract equity from non-members?	N
	Yes and no; yes, in the sense that the rules restrict cooperatives in its investment activities. On the other hand no, because the existing rules are one of the basic pre-conditions to justify the extraordinary character and special type of the cooperative as a specific legal form of company.	
6	Exit provisions	
6.1	Does the national law allow specific restrictions on exit of members?	A
	Members terminating their membership by giving notice. Observing a period of three months, every member has the right to withdraw from the cooperative at the end of the financial year. However, according to § 65 paragraph 2 GenG revised in 2006, the period of notice can be extended to a maximum of ten years in cooperative societies mainly composed of entrepreneurs. Where the period of notice is two years or more, a member has an extraordinary right to terminate membership, if personal or economic reasons require (§ 65 paragraph 2). Furthermore membership is terminated if the personal requirements for membership are no longer met by the member (§ 67 GenG), by death of the member (§ 77 paragraph 1 GenG), by expulsion as laid down in the by-laws and in a fair and just procedure (§ 68 GenG) and finally by refusal to accept the conditions for continuation of membership in case of merger.	
6.2	If so, are these restrictions in your opinion reasonable and fair? Please explain your answer.	N
	These individual rules and obligations are fair because they are part of the contract between the member and its cooperative. In the interest of the cooperative is that the restrictions enable the cooperative to better adapt their plan and investments. On the other hand these rules are subject of a case of the Anti-Trust Authority of Germany since the year 2009/2010. In a case on the milk market in Germany and the role of cooperatives playing in the market the Ant-Trust Authority explicitly criticized the rules of the dairy cooperative to accept membership terminations	

	only after a long period.	
6.3	If so, are these restrictions governed by competition law?	N
	See above (6.2)	
6.4	Does the current practice of restrictions on exit of members in your opinion deter potential members to join the cooperative/PO?	N
	No. These practices are especially subject of discussion in the dairy sector. All dairy cooperatives and also their competitors (private dairy companies) have quite the same rules and membership conditions (or contracting conditions for patronage in non-cooperative dairy companies). Consequently, there are no restrictions for potential members because the this is a common standard in this industry.	
7	Reorganisation	
7.1	Does the national law provide effective tools for cooperatives/POs to reorganise, e.g. through legal mergers?	A
	The cooperative law does not put any restrictions on the acquisition of other cooperatives (through merger) or companies (through acquisition) provided this interest serves the purpose promotion or non-profit objectives of the cooperative. As every other enterprise, a cooperative may establish branches. Cooperatives are free to merge with other organisations or to convert into a company or limited partnership and vice versa.	
7.2	Are reorganisations of cooperatives/POs effected by rules on business organisational law? If so, in what way?	A
	As far as the national anti-trust law is concerned cooperatives are affected by the elements of the law in the same way as any company regardless of its legal form.	
7.3	Are reorganisations of cooperatives/POs effected by rules on employee involvement? If so, in what way?	N
	If the reorganization leads to the formation of large cooperatives two employees specific laws are affected. The general assembly in principle elects the members of the board of managing directors and without exception the members of the supervisory board (except for employees representatives on the supervisory board). If the cooperative is subject to the provision of the "Bundesverfassungsgesetz" (Works Constitution Act, more than 500 employees) or the "Mitbestimmungsgesetz" (Codetermination Act, more than 2,000 employees) representatives of the employees are also elected by the general assembly.	
7.4	Are reorganisations of cooperatives/POs effected by rules of tax law? If so, in what way?	N
	A reorganisation will have no effects on the rules of tax payments.	
	TAX LAW ASPECTS	
8.1	Which tax law regime applies to the legal business form of the cooperative /PO (corporate tax law, taxation on dividends paid-out)	N
	In principle, cooperatives are liable to pay <ul style="list-style-type: none"> - corporate income tax on their income as legal person, - trade tax on their trade profits and trade capital by virtue of their legal status, - property tax on their property. All other taxes are payable by cooperatives on the same principles on which they are payable by all other taxpayers. In as far as it applies, they have to pay turnover tax, real estate tax, land transfer tax, stock transfer tax, stamp tax on bills of exchange etc. In Germany surplus distribution by way of refund, though not compulsory under substantial cooperative law, is relevant under tax law, as a condition for eligibility	

	to the specific tax treatment for cooperatives (because it can be deducted from the taxable income of a cooperative, provided certain conditions are met).	
8.2	Are there any provisions in tax law fostering or promoting cooperatives/POs? If so, in what way?	N
	<p>Rural cooperatives are tax exempt as long as they limit their business to purpose-oriented transactions with their members and to the following activities:</p> <ul style="list-style-type: none"> - the joint utilization of facilities, tools, and equipment; - services or work orders for the production executed in member' enterprises; - working with or processing products grown by members as long as such processing still can be categorized under farming. <p>The tax exempt is not affected when ancillary, non-favoured activities are executed which do not exceed a maximum level of 10% of total income. This means that if the 10% income margin is respected, the cooperative remains tax exempt for the profits resulting from its favoured activities; only the profits from other activities are taxable (partial tax liability). If, however, the 10% income margin is not adhered to, the cooperative and its entire income will be taxable. The 10% limit allows rural cooperatives a certain amount of lee-way in determining their corporate policies.</p> <p>Today, German cooperatives being perceived as incorporated business organisations are taxed like any other enterprise, with one important exception. According to judgements of the highest financial courts, surplus distributed among the members at the end of a financial year as patronage refund (in German: Rückvergütung) is recognised as tax-deductible operating cost of the cooperative enterprise, provided that certain conditions are met: The surplus has to be earned in transactions with the members (hence separate books have to be kept for business with members and with non-member customers). Surplus distribution has to be calculated for all members or groups of members in the same way. Amounts due for distribution have to be actually paid out to the members.</p>	
8.3	Are there any restrictions in tax law effecting cooperatives/Pos? If so, in what way?	N
	None, that I know off.	
8.4	Does the existence of members from other member states, in case of a transnational cooperative/PO, result in problems with regard to taxation?	N
	None, that I know off.	
8.5	Is the overall burden of the taxation of the cooperative/PO and its members (natural persons or legal persons) in your opinion reasonable and fair in comparison to the taxation of investor-owned firms?	N
	There are no specific differences between cooperatives, its members and firms in different legal forms and their patrons. There is equal treatment which can be described as a fair procedure.	
8.6	Are there relevant developments in and changes of the regulation of cooperatives/POs since 1 January 2000 with regard to taxation law?	N
	No	
	COMPETITION LAW ASPECTS	
9.1	Are cooperatives/POs subject to competition law regulation on the same footing as investor-owned firms?	N
	Yes, they are. The recent case of the Anti-Trust Authority in Germany on the milk market gives evident on that.	
9.2	If yes, are there any general exemptions especially formulated for cooperatives/POs?	N
	In § 100 of the German Anti-Trust Law (Law against Restraints of Competition)	

	contains an extensive sectoral exemption for agricultural producer organizations but does not completely remove this sector from the reaches of the anti-trust legislation. The exemption from the prohibition of cartels is based on the structural difficulties and the specific disadvantages faced by agricultural producers. The exemption essentially serves to facilitate all self-help measures which tend to restrain competition in the agricultural sector. The exemption affects primarily production enterprises (agricultural farms) which undertake primary agricultural production. If these farm operations are organizing their production, processing, and marketing through contracts and resolutions their coordination activities are exempt from ant-trust laws. Most of these producer organisations are appearing in the legal form of cooperatives (e.G., registered cooperative). For the anti-trust law the legal form is not of importance.	
9.3	Are there cooperatives/POs that have a dominant market share which has legal relevance for the application of EU or national competition law?	N
	Yes. There are a number of cooperatives that fulfil these criteria. These cooperatives basically are large cooperatives (measured in turnover) and most of them are cooperatives in dairy and the cereals sector.	
9.4	Under what conditions are restrictions imposed on members upon withdrawal of their membership from the cooperative/PO an infringement of competition law rules?	N
	Currently, it is not possible to give a definite answer to this question. As mentioned before, Anti-Trust Authority in Germany has started a discussion on that subject for the dairy sector..	
9.5	Are there relevant developments in and changes of the regulation of cooperatives/POs since 1 January 2000 with regard to competition law?	N
	None, that I know off. Except the fact that several cooperatives have reached firm sizes that makes them more sensible to the rules of the competition law. Merger and acquisition considerations are now more sensitive with regard to the competition law.	

7 Assessment of developments and role of policy measures

This chapter provides a concluding assessment on the developments of cooperatives in Germany. In chapter 2 the basic statistics on agriculture and farmers' cooperatives were provided. In chapter 3 data on individual cooperatives were reported, especially concerning their internal governance, their position in the food chain and the institutional environment in which they operate.

This leads to some first impressions in section 3.5 on the performance of cooperatives in Germany in relation to their internal governance, institutional environment and position in the food chain.

In chapter 4 the data gathering and analysis was broadened by looking at the differences between the sectors and the influence of sectoral issues on the performance of the cooperatives. Chapter 5 looked into much more detail on how the regulatory framework influences the competitive position of the cooperatives in the food chain and vis-à-vis the investor-owned firms.

This final chapter assesses the (performance) developments of cooperatives and how they can be explained in terms of the building blocks (institutional environment, position in the food chain including sector specifics, and internal governance). Section 6.1 focusses on the explanation of the performance of cooperatives in terms of their internal governance, their position in the food chain (including sector specificities) and the institutional environment (including the regulatory framework). In section 6.2 an assessment is given on which policy measures in Germany seem to benefit cooperatives and which ones have a constraining influence.

7.1 Explaining the performance of cooperatives

The conclusion that the large and medium cooperatives are actively reinforcing their position and regrouping their portfolios has been substantiated by examples. As the market becomes saturated, manufacturing and retailing become concentrated and pressure on margins increases, it is essential for cooperatives to focus more emphatically and structurally on their positions and prospects. One central objective for most cooperatives is longterm continuity, which implies good economic performance, and so those issues that influence the performance are discussed in what follows. The text is structured in tequal way for evers aspect we mention: after some general remarks on the subject practical examples and experiences are given.

Implication of market shares: High market shares, in general the result of successful product/market combinations, provide a firm foundation for profits. Existing product/market combinations have been largely defined by history. Many cooperatives originated in processing or marketing agricultural commodities in the area where the commodities were produced, such as the meat and dairy or wine cooperatives. Cooperatives' merger activities in the past few years give evidence that cooperatives have realized that the relationship between market share (market power) and profit is growing, and has become one of the major driving forces in cooperative strategies in the pusuit of market leadership. As a result, cooperatives are focusing their efforts on increasing their market share and then, in second place, trying to improve to find top positions in the market for branded products. What we have described here can be explained with the German largest fruit, vegetable, and flower marketing cooperative Landgard eG. The cooperative is 100% owned by producers who deliver potted plants, cut flowers, fruit and vegetables. The cooperative has increased its turnover from several hunderts millions euro in the mid of the 1990s to now 1.8 billions euro (2010). It is grown from auction based cooperative to one of Eurpes most important competitor in their markets segments. Its market share grew from approx. 40% in the 1990 to roughly 70% 2010. Already more than twenty

years ago they started to merge with and to acquire several other smaller cooperatives in order to grow from a regional to a international player with branches and regional companies at nearly 40 locations (England, France, Italy, the Netherlands, Austria, Switzerland and the Czech Republic).

Resources available: Market shares and options for growth are central to the cooperatives and different growth strategies are available. Every cooperative has to define the key influences and conditions affecting present and future position, and based on that, its strategic options. In addition to each individual product/market combinations, the cooperatives' resources are in particular determined by such a factor that can be termed financial resilience. Financial resources in the cooperative are significant for financing growth and innovation. In addition, a strong financial position enables a cooperative to ward off competition with rapid innovation or price strategies. Profit, cash flow and available equity are strategic instruments in competitive situations, including takeovers of other cooperatives or companies. Cooperatives in every sector analysed have realized that equity, however, offers only limited possibilities and can often be committed only once as such. The limits cooperatives are faced with to generate more equity from their members has forced them to search for new organizational or legal structures in order to open up new sources to finance their growth strategies. Most of the second-tier cooperatives in the cereals and farm input sector give an example of this development. Since the last 20 years they transferred their type of organisation from a typical traditional cooperative with local and primary cooperatives as members to cooperatives that are quite similar like IOFs. Legal structures changed from the cooperative model to a shareholder type company. After reorganisation they were able by paying dividends to attract non-customer shareholders and to broaden its basis for equity capital.

Cooperative culture and management: Under current market conditions, cooperatives must have sufficient flexibility and elasticity to successfully meet challenges such as the culture blend between acquired or merged cooperative/company and the essential cost-cutting and restructuring every company must expect. In case of an acquisition/merger the integration of different cultural backgrounds and expectations of the members into the new and larger cooperative have been a critical success factor. From several cases we know that these factors create a substantial delay or even failures of the processes of merger. Unfortunately, there is no real scientific evidence yet to be found in German literature to what extent these frictions are caused by the members themselves and to what extent poorly managed merger processes are responsible for. Interesting in this context are the longterm attempts of two neighbouring cooperatives to merge in order to improve their market position. In the vegetable sector there are the two cooperatives – Pfalzmarkt eG and Maxdorf eG – located in a very short distance of about 5 km. Both cooperatives could improve their market power by working more closely together. Nearly every single member is aware of this, but they are not succeeding in getting together (“5 km surface distance and 500 km cultural distance”).

Depending on existing product/market combinations a cooperative should be able to define a strategic direction and subsequently work that direction out in plans. Given the relationship which is evident between market share and profits and that results in the present position within the food chain, strategic decisions tend to focus either on the advantages of being a specialist, with a strong but limited product or service range. Generalists may decide to return to core business and consider internationalization and even diversification as the next logical step once these core products are considered strong enough. We find examples for all of these strategies.

Present position and strategic direction within the food chain

I) Present position within the food chain

Factors that assess the performance of the cooperatives will be discussed below. The cooperatives are often capable of exerting influence on these factors.

Segment rivalry: Segment rivalry becomes more intense as the number of strong energetic cooperative companies with high market shares increases. If turnover in the sector stagnates or even falls, fixed costs are high, exit barriers are high and/or companies have major interests in remaining active in the sector, this will apply even more. Most of these factors are present in several sectors in the agribusiness.

II) Strategic direction within the food chain

A large number of possible strategies are available. In general, most cooperatives focus on growth in their operations. The main reasons for doing so are:

1. The large markets are saturated in volume, and increased market power of the retail chains is resulting in competitive purchasing prices. Competition within the food industry has increased due to internationalization of products and markets. If pressure on the margins continues, market share expansion, through cost reduction - in particular creating economies of scale - or adding value, for instance through the increase of consumer quality, will be the only way for cooperatives in saturated markets to maintain their profits.

2. Substantial profits are necessary to continue financing costs essential to marketing and product innovation. In a saturated market, using low prices as a major competitive tool, product innovation is essential if the large food companies are to continue giving their A-brands a permanent advantage in terms of quality and innovation relative to private labels and discount labels.

3. High cash flows have made large amounts of money available for the largest food cooperatives from foreign countries (The Netherlands, Sweden/Denmark). These cooperatives appear as strong competitors on the domestic of German cooperatives.

We can conclude, that growth and high market share have become a virtual necessity to the sectors we studied. In this respect, the underlying factors - intensive growth, integrative growth and diversification growth strategies -reinforce each another.

A. Intensive growth

his strategic option involves an examination of growth potential for the existing business. Three possibilities exist: market penetration, market development and product development. Most cooperatives have implemented one of these strategies more or less successfully.

Market penetration

Market penetration means expanding market share held by existing products (brands) or by extending the service to the farmer customers/members in the existing markets. In the dairy market high brand concentration and the pressure from product (brand) differentiation of the most important and already well established IOF-competitors make market share expansion a difficult task. In the traditional markets, producers are forced to displace each other. In the wine sector cooperatives are faced with the same situation but additionally, the growing market penetration by foreign competitors of the new wine world creates even more pressure on cooperatives. And, convincing non-users or people who use other brands require more persuasion.

Market penetration requires extensive promotion and substantial investments into product development which is rewarded only by relatively gradual growth in market share. Promotion is also important for defensive reasons, in order to protect existing market share.

Market development

Market development means expanding market share by developing new markets for existing products. Saturation of traditional markets makes this option attractive. Introducing products on an international scale also has its limitations. Some product groups have a universal attraction for consumer markets that overcomes taste barriers in the European market (e.g. milk and meat products, wine). For other product groups that cooperatives are marketing, like cereals there are no real national preferences in each country.

The markets of Eastern Europe are attractive growth regions. Since some time a few German cooperatives are primarily opting for the introduction of existing products and modifying them if necessary for preferences in these markets. After the merger of Nordmilch and Humana the new company announced the development of these new markets as one of the major targets. The same activities we can expect from dairy cooperative Hochwald. In the cereal sector, the big three cooperatives (BayWa, Agravis, HaGe Nord) have already established numerous service centers and grain logistic facilities in the Baltic States and Eastern Europe. These examples shed some light on these international activities but they also demonstrate that the cooperatives use traditional techniques when expanding in emerging markets. In developing new markets too, multinational cooperatives must build up a substantial market share. Some takeovers of an existing companies in the targeted markets have been used as a tool in this process (e.g. BayWa was purchasing an interest in Austria and other countries, by majority or minority, in an existing company, or setting up a joint venture for marketing efforts). Cooperatives and even their members have to realize that due to cultural differences, taste differences and an inadequate distribution structure, market development is, however, not a simple task.

Product development

Product development has accelerated rapidly during the last ten years. Companies are increasingly introducing new products as a competitive tool, with investments in R&D, including process technology and management, preceding the introduction. Product development can have different forms; the most frequent form is **modification**, which gives an existing product a new property and introduces it as 'new'. Improving quality is one example of this. One form of product development which requires more research and funding is development of a **new product** in a given product group.

One of the major issues for food companies is their **brand policy** which can be regarded as a specification of product development. The most important competitors of the cooperatives, the large food companies focus on reinforcing their A-brands. Their objective is to hold a top or second position with their brands in different markets. Holding third position is often considered too weak to gain adequate returns. In fact, every market only allows for very few real A-brands, and companies not capable of joining this select group will have to change their strategy. This applies not only to smaller companies but to large multinationals as well: the large multinationals also sell subsidiaries when the subsidiaries' brands do not show prospects for satisfactory performance. This happens, for example, to Nestlé in the German market, when they decided to sell their dairy business to the German dairy cooperative Hochwald in the year 2003.

For the A-brand companies, market share relative to the **private labels** is a significant factor and some companies are having to decide whether to make private labels themselves in addition to their A-brands. Some cooperatives have done this and take advantages of optimizing factory capacity (surplus capacity). The large number of suppliers of B- and C-brands are also involved in their brand strategies. We are aware of some dairy cooperatives that have put much effort in becoming a leading producer of private labels (e.g. Milch-Union-Hocheifel, Europe's leading producer of UH-milk products with a private label and a price leadership strategy).

In this process of product development, especially in the development of strong brands, IOFs have been much more active than cooperatives. This happens to be true for the dairy, meat, fruit and vegetables, and the wine sector.

B. Integrative growth

Integrative growth means growth in turnover and operating profits through integration in and with other companies. Integration may be forward, backward or horizontal. The decision to apply one of these options is generally clearly apparent since it is accompanied by investments in other companies.

Backward integration

The objective of backward integration is to take over one or more suppliers. Specialized sectors engaged in backward integration, however, remain where the supply of reliable raw materials is of strategic interest and cannot be achieved otherwise, or only with great difficulty. The only examples can be found in the fruit and vegetables and the farm supply sector where some German cooperatives own their own vegetable farm land or have invested in seed activities by acquisition of breeding companies. But, this should not be seen – with exception of the seed activities - as a strategic concept, it is the result of traditional links and bonds to some producer members.

Forward integration

Forward integration means expansion toward the consumer. This option is often considered more attractive than backward integration since it allows more value to be added to products and/or control of sales to be increased. However, forward integration also has its limits and similar objectives can be reached through strategic alliances. Farm input and cereal (local and central) cooperatives, for instance, are often involved in processing commodities traded and have invested in processing capacities like, oilseed crushing and oil processing or in the supply chain of bioenergy. HaGe Nord, BayWa or some local cooperatives own these oil processing facilities. This forward integration is mainly restricted to supplying commodities for the food industry: making consumer products would mean competing with the company's own customers. Commodity processors generally face a problem in supplying products to end-consumers since their industry generally emphasizes efficiency and economies of scale, whereas supplying consumer products requires a different company culture. Cooperative slaughterhouses, for instance, experience great difficulty in developing branded products. Takeovers by the cooperatives studied in the eight sectors in Germany of **retail chains** are non-existent. The specialized nature, broad product range, of which the company's products are only ever a small percentage, and high concentration with low margins are three reasons why it is unattractive for the industry to integrate in this direction.

Horizontal integration

Horizontal integration has been a frequent feature of cooperatives in all sectors over the past few years. Growing concentration in the different agribusiness sectors makes it attractive to select this form of expansion in view of the slow or stagnating growth within the sectors. In this process, most cooperatives focus on neighbouring cooperatives and IOFs which they want to acquire or to merge with. The typical path of growth for cooperatives is the horizontal integration by merger or acquisition of cooperatives in the same market area. Nearly all cooperatives in the various sectors grow by these form if integrative growth. The concentration process that has been described in the report is the result of this path of growth.

C. Diversification growth

Diversification growth implies a company looking for expansion opportunities outside its business portfolio. In retrospect, this strategy was not always successful. Synergy opportunities

between non-related product groups are limited, whilst market power is focused not on supplying a broad range of products but on increasing market share per product. Diversified companies also have fewer opportunities to realize economies of scale and minimize the costs of raw materials. Diversification strategies have now been further refined and these are discussed below in terms of concentric, horizontal and conglomerate diversification strategies.

Concentric diversification

Concentric diversification signifies the introduction of products related in some respects to technology and marketing for a new consumer or farmer groups. Within the reporting period from the years 2000 – 2010 there are no structural changes with respect to this strategy to report. Since decades it is in the focus of cooperatives to extend their traditional business activities to new consumer/member segments. Farm supply cooperatives have diversified their commercial activities in a diverse variety of services and consulting. This includes the maintenance of agricultural machinery and consulting members on setting up production systems which take account of market and environment. They also sound the chances of new products on the market. Raiffeisen cooperatives carry out soil tests, provide advice on pest management and analyse feed samples. For years they have been committed to promoting the cultivation and marketing of renewable resources. Other examples of diversification are to be seen in the role cooperatives play in supplying rural areas with basic commodities. They deliver heating oil and fuels to small-scale industry, agricultural and private customers and run over 670 modern specialist Do-it-yourself and garden stores. More than 1,600 Raiffeisen stores stock a wide selection of high-quality goods for the home and garden, as well as animal food.

Horizontal diversification

Horizontal diversification means production of a new, non-related product through a non-related production process, but often for an existing consumer group. This is in contrast to horizontal integration, which keeps the activities within the related sector. Only the large cooperatives are capable of using horizontal diversification to strengthen their profits in various agribusiness or non-related sectors. BayWa is one cooperative where this is evident; it has diversified from a pure agricultural input supply cooperative to a horizontally diversified company where in 2010 the agricultural segment accounts for only 44%, while segments like home-building or energy have increased their shares up to 24%, resp. 30%.

Conglomerate diversification

Conglomerate diversification refers to cooperatives establishing a new business that is not linked to existing production technology and the company's market. This is a method of expansion we did not find when we studied the cooperatives in Germany. The reason might be, that one disadvantage of conglomerate diversification is that it places operations outside the core business. That entails much higher risk because the cooperative has less product and market expertise, so that establishing a market position is more difficult. This strategy is even more complicated because of the traditional resistance of farmers to provide risk capital.

D. Niche market focus

The focus strategy involves cooperatives orientation toward small market segments and can be considered a specification of one of the growth strategies mentioned. The aim of the strategy is to enjoy market leadership in a small selected market. This may be accomplished by including only a few products in the product portfolio or by focusing on niche markets. The latter option is especially popular in the agribusiness industry, and is used particularly by smaller cooperatives, which are unable to operate on a large-scale. Specialized and local expertise in the market segments is decisiveness, price leadership or differentiation contribute to producing clearly unique products or services with a substantial market share in the target market. This is the

main strategic focus of most of the cooperatives described in this report, in particular those that are smaller and more regional/local oriented (cooperatives described in the meat, cereal, fruit and vegetable and wine sectors). There is some evidence for the pig meat sector that the cooperative organisation is confronted with more weaknesses than strengths.. The number of slaughter companies is relatively high with 1,200 (2008), but most of these companies are of medium or small size. The top 3 companies have a market share of about 50%. Within this group we find with Westfleisch eG only one cooperative. Cooperatives in this sector are operating more on a regional perspective than having a nation-wide focus. And in these regions cooperatives are pig farmers are operating slaughter cooperative (Westfleisch eG) left. German cooperatives do not play a significant role in the food chain of pig meat. Most of the cooperative are serving small market niches.

7.2 Effects of policy measures on the competitive position of cooperatives

The environment in which the cooperative and the producer organisations operate in Germany has not much changed in the last decade as far as the political or legal factors are concerned. Political factors are steadily increasing in importance for the producer organisations. These factors are related to aspects such as the production of and trade of raw materials, food safety, the environment and cartel legislation. European integration and international trade negotiations are lowering trade barriers and facilitating entry into world markets. All these changes affect the economic position of the players in the food sector and not the cooperative organizations in particular.

There are no political factors nowadays that are facilitating any improvement of the competitive position of cooperatives. There are no political agreements known that are benefiting the competitive position of cooperatives.

There are no political factors nowadays that are facilitating any improvement of the competitive position of cooperatives. The "Marktstrukturgesetz" still promotes the formation of producer associations but there are only a few new associations established the last ten years. And these associations do not automatically foster the position of cooperatives because an association can take every legal form and not solely the legal form of a cooperative by law (registered cooperative; e.G.).

We cannot see any argument or action taken to subsidize cooperatives based on social-political reasons. In as much as cooperatives self-help and self-responsibility at the same time unintentionally serve to benefit the outcome of state policy (e.g. reinforcing the active competitive elements of mid-sized companies in a free market system), state intervention is superfluous.

The uncommon success and most remarkable development of cooperatives in the past decades have, however, not been based on state help and promotion, but rather on the mobilization of the strengths of the cooperatives members and their active participation to do their utmost for their common goals. It has been proved that active cooperation, willingness to be responsible for one another, as well as the utilization of professional knowledge, ideas and willing input from members have been decisive in bringing cooperatives forward. These forces would be lacking if outside help were permanently expected; they have ensured the dynamic development of independent cooperatives and the economic benefit of their members.

The rules and political standards introduced in Germany are affecting cooperative and IOFs equally. There are no political provision realized that are in favour of cooperatives and that foster or support the competitive position of cooperatives versus investor-owned firms.

8 Future research

Topics of research

The increasing professionalization of operational decisions:

Modern technology used to inform farmer members on current market conditions and developments. Increase in service orientation in order to improve member loyalty. In the scope of the structural typologies this tendencies usually signifies a development in the direction of stronger integration. Because of more competitive relationships between members and their cooperatives and the general opportunity for farmers to find several alternative business relations within an acceptable spatial distance create a situation of an increased institutionalisation of the member relations. Competitive advantage for the cooperatives in a highly competitive market environment can only be achieved if a cooperative is able to accommodate in the future its member loyalty through a company policy oriented around their given members instead of around their potential customers, more than it has been practised in the past. This requires the reformulation of corporate principles and values within the cooperative organisation. Economic measures such as the more pronounced introduction or improvement of interest reimbursement payments could be quite effective in this connection but are nonetheless only a partial component in the scope of development of a specific organizational culture. It is interesting to note that business conducted with members is not clearly distinctive from business with non-members anymore.

Efforts can be identified in all types of investigated sector-specific cooperatives in the direction of both diverging tendencies to activate value rationality and competence among members for management through additional measures either in general or through specific projects or member relationship programs. More service orientation in producer organisations in the pork sector.

Position in the food chain:

Merger activities still prevail. All sectors are subject of this tendency. Heavy activities are obvious in the dairy sector. Dairy cooperatives are subject to international competition seek to form larger cooperative organizations in order to improve its competitive position versus international rivals, to exploit its export activities, to secure the raw material procurement, to improve its negotiation power against the retail sector, and exploit economies of scale in order to gain profits for their investments in product developments and brand differentiation. Are these drivers transferrable to others sectors in which cooperatives are active?

In the grain sector merger activities on the local level still prevail. Mergers on the regional or central cooperatives have been taken place in the last 10 years. But, central cooperatives traditionally wholesale organisations take over local cooperatives and extent their retail business. Consequences are for example, an enlargement of the traditional regional boundaries and, as a relatively new trend that has already increased the competition between cooperatives with investments in business capacities in neighboring or more distant market areas (spatial competition). In the wine sector and in the fruit and vegetable sector (here with one exception: Landgard) merger activities are not that obvious and still regional local member orientation is prevailing. What are the main reasons for these tendencies?

Change in governance structures:

Traditional governance structure still remains. But, cooperatives form holding companies or change their legal form. Country study indicates that there is still research missing on these questions. This will also include, that the exact relationship between formal contracts between farmers and cooperatives, farmers' ownership of and interest in the cooperatives, and non-

contractual relationship management activities needs further research. Traditional functions, like price building (auction) activities are diminishing. There is more contracting with members. Contract conditions are on quality measures, better coordination with specific products requirements, time coordination on planting, harvesting, logistics terms of delivery.

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Additional comment:

Diverse annual reports and homepages of cooperatives were screened in order to collect the relevant information. Numerous interviews were made. All these sources and also the large number of journal articles are not listed in this reference.

List of Abbreviations/Glossary

AG	Aktiengesellschaft (Share holder company)
AWU	Annual Work Unit
BLE	Bundesanstalt für Landwirtschaft und Ernährung (Federal Office for Agriculture and Food)
BVR	Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (Federal Association of German Cooperative Banks)
CEECs	Central and Eastern European Countries
DGRV	Deutscher Genossenschafts- und Raiffeisenverband e. V. (German Cooperative and Raiffeisen Confederation – reg. assoc.).
DIY	Do It Yourself
DRV	Deutscher Raiffeisenverband e. V. (German Raiffeisen Federation – reg. assoc.)
DZ BANK	Deutsche Zentral-Genossenschaftsbank (German Central Cooperative Bank)
e.G. / eGs	eingetragene Genossenschaft / eingetragene Genossenschaften (registered cooperative / registered cooperatives)
e.V.	registered association
ESU	European Size Units
EZGs	Erzeugergemeinschaften (producing and marketing associations)
GAP	Gemeinsame Agrarpolitik (Common Agricultural Policy)
GenG	Genossenschaftsgesetz (Cooperative Law)
GmbH	Gesellschaft mit beschränkter Haftung (Limited Liability Company)
GMO	Gemeinsame Marktorganisation (Common Market Organisation)
GWB	Gesetz gegen Wettbewerbsbeschränkungen (Law against Restraints of Competition)
IOF	investor-owned firm
Ltd	Limited
MIV	Milchindustrieverband (Association of the German Dairy Industry)
NV	naamloze vennootschap (Share holder company)
Plc.	Public limited company
POs	Producer Organisation
R&D	Research & Development
SA	AG (Share holder company)
SARL.	Société à responsabilité limitée (private limited liability corporate entity)
SL	Sociedad Limitada (private limited company)
ZDK	Zentralverband deutscher Konsumgenossenschaften e. V. (Central Federation of German Consumer Cooperatives – reg.assoc.)
ZENTGENO	Zentralverband der genossenschaftlichen Großhandels- und Dienstleistungsunternehmen e.V. (Central Association of the Cooperative Wholesale and Service Agencies)
ZGV	Zentralverband Gewerblicher Verbundgruppen e. V. (German Federation of Buying and Marketing Groups – reg. assoc.)