

Demutualization of Cooperatives: the Case Study of Tnuva

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Abstract

The demutualization of Tnuva is a research to a very interesting process showing how a successful cooperative is ending its existence and demutualized itself. The Tnuva demutualization is at the same time a process showing how a cooperative is disconnected from its members.

The research is trying to find out the reasons for this process. It is trying as well to find out if the demutualization way was the only way for the cooperative in Tnuva.

The research describes processes and conflicts between the existing leadership of the cooperative and various groups of members, of cooperative movements, of governmental bodies, all are involved in the process.

The case study of the demutualization of Tnuva is a lesson to learn.

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1. Introduction

The demutualization of Tnuva is a special and very interesting case. In the world we know of cases of demutualization of agricultural cooperatives and marketing cooperatives of agricultural products and cases of marketing cooperative of dairy products. The case of demutualization or pre-demutualization are described for Australia and New Zealand by (Reid Ian, 2006) , and in India by (Shah, 2006) , and for United States by (Keeling, 2004) and for Western Africa by (Storm, 1977), and for Western Europe by (Enright, 2005).

The case of the demutualization of Tnuva is discussed in this chapter. The study will attempt to reproduce the first steps of this cooperative, how it was developed over the years, especially at the beginning of its existence. We will try to explore the inherent reasons for the existence of Tnuva for almost a century. We will present and analyze the events and factors of its demutualization.

It is quite difficult to find historical resources about the creation of Tnuva. It is based on archives, but these archives are sometimes quite limited in records of recent events. Recent events are not yet in the archives. Historical events can be found in the archives but the quantity is quite limited.

For events of the last decade, those who led the demutualization, I have based on open sources such as interviews, usually with the decisions makers that have endorsed events, and sources written in various newspapers

and the internet.

2. The Foundation

Tnuva was founded by its members. We know cooperative which were founded by their members and cooperatives which were based on state institutions.

We know in the world some examples of cooperatives founded by their members. Example: the marketing cooperative of dairy products Campina (Campina, 4.4.08). The cooperative was founded during the 19th century in the rural areas of the southern part of the Netherlands. The cooperative was formed in the wake of the industrial revolution that Western Europe went through. The farmers, dairy farmers, established the cooperative to strengthen in response to the market forces and to secure the best prices for their products.

We note also that the establishment of agricultural cooperatives is due to the fact that the farmer is still "small" compared to the trader who buys its production. The farmer demonstrates a basic need to defend himself. The farmer tends to collaborate and cooperate with other farmers to strengthen their capacity to negotiate, so together they created the cooperative in which they believe they would achieve their goal (Chloupkova, 2004).

We know of other cases where cooperatives were founded by their members. The marketing cooperative in India (Shah,

2006) founded in 1962 by the peasant producers of fruit on behalf of Nahvi Fruit Co-operative Society Sale (NCFSS) in the state of Maharashtra, when they found they no longer want to suffer exploitation by middlemen.

Farmers producing potatoes for the last six generations in Florida SunFresh of Florida Marketing Cooperative (SunLite,) decided to form their own cooperative when they realized that to survive they need to introduce a new variety of potato. Their cooperative has allowed them to commercialize the new variety.

Tnuva was founded in 1926 (Krill Avraham, 1966). Krill, one of the founders, says in his memories that in the early twenties groups of agricultural workers were trained to work in agriculture, mainly in Jewish agricultural settlements which were established 30-40 year before. They have produced on little plots agricultural produce for their consumption, but they had surpluses and they wanted to sell them. Each group has carried its products on a cart to the nearby market. They quickly found that they had created competition among themselves. They came to the conclusion that their union is the solution. The cooperative Tnuva was created in Pétah Tiqua in 1926.

In 1927 representatives of Kibbutzim and Moshavim came from different corners of the country to a meeting in Haifa. In this meeting the organization of Pétah Tiqua, Tnuva, was unified with three other similar organizations from other parts of the country to create a single cooperative to marketing the production of its members. The name of the new cooperative

remained Tnuva as the name of the one from Pétah Tiqua. One of the basic principles of this cooperative was that the cooperative does market the production of its members.

The creation of Tnuva in its early years are also described by Nahum Verlinski, the second director of Tnuva between 1937-1970, in his memoirs (Verlinski Nahum, 1973). He tells us the broader context of the creation of Tnuva, as is described after separation of the marketing function from Hamashbir Hamerkazi cooperative. According to Verlinski the first marketing cooperative was founded in the Jerusalem area in 1926. In 1927 agricultural cooperatives in the region of Haifa were organized into their marketing cooperative and in 1929 have organized into a cooperative the groups near Tel Aviv. In 1929 the creation of Tnuva is decided at the national level.

The protocol of the meeting of the management committee of Tnuva in 1929 (Comité de direction, 1929) informs us about the existence of three main branches of Tnuva, in Jerusalem, in Tel Aviv and in Haifa. The main need was to regulate the supply of agricultural production among the different regions. Another decision concerns the budget of Tnuva. It was decided that the annual budget of Tnuva will be financed by a commission of 0.5% of the total annual sales of Tnuva. It is very important to note this practice of the finance of Tnuva which is in the basis of the activity of Tnuva throughout its history of extraordinary growth, but at the same time the beginning of the gap that was created and deeply enhanced between the cooperative and its members.

Another version about the foundation of Tnuva is that the cooperative was established in 1926 when the department of marketing of agricultural products was separated from the supply of inputs cooperative Hamashbir Hamerkazi, which was founded in 1916. This cooperative was the main cooperative for the supply of inputs and belonged to the Moshavim and the Kibbutzim until its demutualization during the nineties.

Different sources tell us about the two main ways to the establishment of Tnuva. The first one tells about the way out from Hamashbir Hamerkazi, existing since 1916 and which ceased to take care of marketing. Thereafter the department in charge of marketing became independent and was the basis for the foundation of Tnuva. The second way tells about different groups of farmers who organized through different corners of the country for the creation of marketing cooperative on local and regional basis, who subsequently have been consolidated into a single cooperative - Tnuva.

It must be remembered that, unlike many other marketing cooperatives, Tnuva was founded from the base, members, and not as the result of a decision of government or state, from the summit. Becoming member of Tnuva was and has remained open to any Moshav or Kibbutz or any other agricultural cooperative in Israel. The new member should not invest money in buying a share but it has other commitments. Whoever joins Tnuva has the obligation to market all his agricultural production through the cooperative without exception, for two reasons: to avoid competition with other

members of Tnuva and strengthen the link between credit for agricultural production and its repayment through marketing (Verlinsky Nahum, 1960).

Since the founding of Tnuva by 13 Kibbutz and Moshav from different corners of the country, (Tnouva Web Museum, 2007c) the principles that have guided the founders were that Tnuva will not make any profit or benefit, and all net revenues will be transferred entirely back to members. The payments for the produce of members will be equitable without taking into considerations factors such as geographical distance from the producer, political affiliation, its economic level. These principles have been defined by Eliezer Yaffé, the first director of Tnuva since its founding until 1937. Eliezer Yaffé founder of the idea of Moshav in Israel and a founding member of the first Moshav Nahalal, formulated the basic principles of the cooperative Tnuva.

The first ten years of its existence (Tnouva Web Museum, 2007b) Tnuva faced several challenges:

- The unification of the three different regions in one single organization nationwide.
- Going into a market saturated with competition, especially in the field of dairy products which was already the main products to market.

The main points that have guided the work of Tnuva for several years have been decided in 1931. (Comité de direction, 1931) The objectives of Tnuva are:

- The marketing of agricultural produce of its members through collection centres, by sorting, by improvement of

products and by advertising.

- Regulation of agricultural products between different regions, depending on demand.
- The development of additional markets locally and abroad.
- The representation of the cooperative with British mandatory government representatives.
- Development of new products and their advertising.
- Development of the means of storage and sorting.
- Members are the existing cooperatives in Jerusalem, Haifa and Tel Aviv. The cooperative has no members' shares funds.

It is important to present the position of Nahum Verlinski (Verlinski Nahum, 1973). He says in his interview:

"Profit: The guiding principle of Tnuva since its inception is that all revenues obtained through the sale of agricultural products of the producer members are transferred, after subtracting a certain percentage-commission on the value of each product sold to cover operational expenses. Tnuva, therefore, has no profit and it can not distribute dividends."

The operational principles were approved by the convention of Tnuva which took place at Moshav Nahalal (Verlinski Nahum, 1973) in 1930. In this convention Eliézer Yaffé was elected as the first Director General of Tnuva. It is important to note that Tnuva was divided, practically into three regions, which were autonomous in price policy of products marketed and especially the prices of dairy products. (Tnouva Web Museum, 2007a) In 1936 the management of the regions Tel Aviv and Haifa have decided to have a unified marketing agreement, especially in the field of dairy products. The Jerusalem area joined the agreement in 1942. Practically, Tnuva has not become a single organization but in 1953.

It is interesting to note the importance of the dairy farmers in the entire economic activity of Tnuva (Conférence de Tnouva, 1944). In 1944 the majority of economic activity of Tnuva was in the dairy products.

Agricultural marketing cooperatives throughout the world are mostly concerned with the marketing of agricultural produce of individual producers who run their farms on their own. These farmers cooperate mostly for the sake of marketing their produce. Tnuva, the biggest marketing cooperative in Israel, is a second degree cooperative, which markets the agricultural produce of its members, which are the primary cooperatives (Preuss, 1960).

The members of Tnuva participate in the management of the cooperative by sending one, two or three representatives at the annual general meeting of the cooperative. The number of representatives is based on the number of members farmers in each primary cooperative (Kibbutz or Moshav), but does not depend on the volume of production or monetary or quantity of products marketed.

Within Tnuva, two important principles of action are implemented. As already indicated, all members production of Tnuva must be marketed through the cooperative. Each cooperative member of Tnuva pays a fixed fee - the commission, which can sometimes be higher compared to that charged by other marketing agencies (Vitels H, 1970). The commission was charged as a fixed percentage of the

production. Tnuva is acting as a non-profit, all revenue from the commercialization was transferred to farmers after deducting the commission which was calculated for each product separately to cover the operating costs of the cooperative.

It must be stressed that Tnuva was founded, like other marketing cooperatives, from below, and not by decree of government or other authorities, from above. Membership in Tnuva was and remains to this day open to any Moshav and Kibbutz, or to any other agricultural cooperative in Israel. The member joining is not required to invest money in buying a share, but has to fulfill other obligations. A Tnuva member is required to market all his agricultural produce through the cooperative, without exception, for the following two reasons: In order to prevent competition with other Tnuva members, and in order to tighten the link between credit and marketing (Verlinsky Nahum, 1960).

Tnuva members participate in the cooperative central executive councils, sending one, two or three representatives to the cooperative general assembly. The number of representatives is determined according to the farmer membership in each primary cooperative (Moshav or Kibbutz) and is independent of the monetary production volume, or the quantity of produce marketed.

There were two important operational guidelines in Tnuva. As already mentioned, all the output of Tnuva members must be marketed through the cooperative. (Vitels H, 1970). Since it's

founding to this very day, Tnuva policy has been directed at two main goals. The first was to sell all agricultural produce of the cooperative members. The second was to safeguard the consumer's interests.

The first goal is attained when the cooperative sells the produce transferred to it. Tnuva has always endeavored, as a general policy, to obtain the maximum return for the produce of the farmer member (Verlinsky Nahum, 1960). In addition to the abovementioned commission, Tnuva further deducted a very low commission, usually much less than 1%, from each sale affected. Tnuva named this deduction, "member's contribution towards the purchase of Tnuva shares" (Vitels H, 1970). The money thus collected was intended for investment in the cooperative. We have here two significant phenomena:

- Tnuva has accumulated a property (equity) which was financed by a percentage it deducted from the sales of each member, but was actually totally anonymous, and the member had no way of knowing, or perhaps had no desire to be able to know to whom those shares belonged to. The member did not know, and could not know the worth of those shares for which he had paid. The shares conferred on him no rights whatever, and in fact after many years an enormous equity was amassed at Tnuva, which was not linked to the member in any form whatever.

- In spite of the fact that it is the primary cooperatives that are the Tnuva members, not the individual people, the above monies are deducted from the individual farmer. Tnuva forms

a direct link with the member of the primary cooperative, not with the primary cooperative as a unit. The farmer member became acquainted with Tnuva directly in everything regarding the sales organization, the marketing, prices, and deductions, but so far as the democratic system of the second-degree cooperative was concerned, he was quite definitely out of touch. Representatives at the Tnuva institutions were usually delegated at the executive level of the cooperative to which he belonged. The individual member had very little say in this in practical terms.

The second goal mentioned - safeguarding the rights of the consumers was a principle, which was to guide Tnuva's business activity throughout its existence. Tnuva attempted to minimize the marketing stages, and bring the producer closer to the consumer. This was evident during the 30's and 40's in the establishment of dozens of retail sales branches of Tnuva throughout the country, in the cities and townships (Vitels H, 1970), as well as during the 80's, when the largest supermarket network in Israel was founded. Tnuva deals with the various aspects agricultural marketing, such as the processing of marketing produce, sorting and grading, quality control and packaging (Verlinsky Nahum, 1960).

2.1 The Price Problem

One of the main problems with which Tnuva is confronted is the price problem. Tnuva sells its produce at market prices, particularly as regards fruits and vegetables, as well as any other product not under government control. On the other hand, the size of the cooperative (Tnuva is the fourth largest

company in Israel) enables it also to regulate the prices of agricultural produce and thus to be of service to the consumers as well (Preuss, 1960). Tnuva's price policy, and the fact that Tnuva is a cooperative, has generally helped to reduce the gap between the price received by the producer and the price paid by the consumer. The argument in Israel in the past was that this gap is relatively small, on account of the marketing being done by cooperative. We may perhaps add that Israel's limited geographical extent, in consequence of which transportation distances are short, certainly also contributes in this respect. Verlinski lists a number of measures by which the gap may be reduced (Verlinsky Nahum, 1960), such as maintaining a higher quality, grading and packaging, maximum efficiency in wholesale transportation, as well as suitable retail packages, and centralized retail marketing, which enables increased turnover and the reduction of costs as well as improved service.

How can we in practice estimate the price of a product from the producer up to the consumer? This path is quite long and has been described as follows:

Rice passes the farmer's gates on its way out. The dispatched rice has not yet been threshed and cleaned up. To the price of the rice at the farm gate we must add the cost of transport to the village collection depot, as well as additional expenses such as sacks, etc. This gives us the price of the rice at the village collection depot. To this price we must add the transport costs to the rice station, the cost of weight loss due to the drying of the rice, the storage cost which depends on

how long is it going to be stored, material losses of waste and damage, general expenses of the rural station, as well as the profit made by the people who run this station. Rice transported to the rice station for threshing will undergo a price increase by the costs of threshing, storage, additional drying, transport to the wholesaler, packing costs, general expenses and the profit of the threshing station. This is the price of the rice when it is passed on to the wholesaler. To this price we must add the average storage costs at the wholesaler, waste and material losses, cost of transport to the retailer, general expenses of the wholesaler and his profit. The retailer will add to this price his general expenses as well as the profit he hopes to receive and thus we finally reach the consumer price.

The marketing (Galor, 1989) is the process through which an agricultural product undergoes during its delivery from producer to consumer. The traditional marketing includes many, too many, intermediate stages during this process. The result is, of course, that consumers pay an exorbitant price and the producer gets a very low price for its production. Naturally, the producer as the consumers have both an interest in seeing that the number of stages in the process of marketing would be minimized. Result: the producers will earn more and consumers will pay less.

The first form of marketing is the cycle of traditional marketing. The farmer sells its production on a local marketplace in his village taking place every 5 or 6 days - this is the first stage. The middleman/woman who buys this production

carries, usually in small overloaded trucks, to a regional market. A second intermediary buys these goods and transport them to an urban market. The produce will then be sold and then distributed to the neighborhood markets where petty retailers will sell to consumers. Agricultural production has gone through too many stages from producer to consumer. All intermediaries have benefited from this process except the producer and consumer.

The solution to this situation: a producers owned marketing cooperative. The objective of this cooperative is to minimize the number of stages between producer and consumer. In Israel, the cooperative Tnuva is a marketing cooperative belonging to all Moshavim and Kibbutzim, and today is the fourth largest turnover among Israeli companies. Tnuva has organized a nationwide network that supports the collection, transport, storage, processing and sale of approximately 75% of agricultural production for the local market in Israel. The creation of Tnuva has resulted in reducing the number of stages involved in the marketing cycle, however, to an insufficient extent. The agricultural product leaves the farm, passes by Tnuva and is then sold on the local market and in various small shops.

Another solution reduces the number of steps to a minimum. It includes direct contact between the cooperative marketing belonging to farmers and cooperative consumption belonging to consumers. Thus the sale of agricultural products instead of a cooperative to another and, in principle, profitability for the producer increases while the purchase price for the consumer decreases.

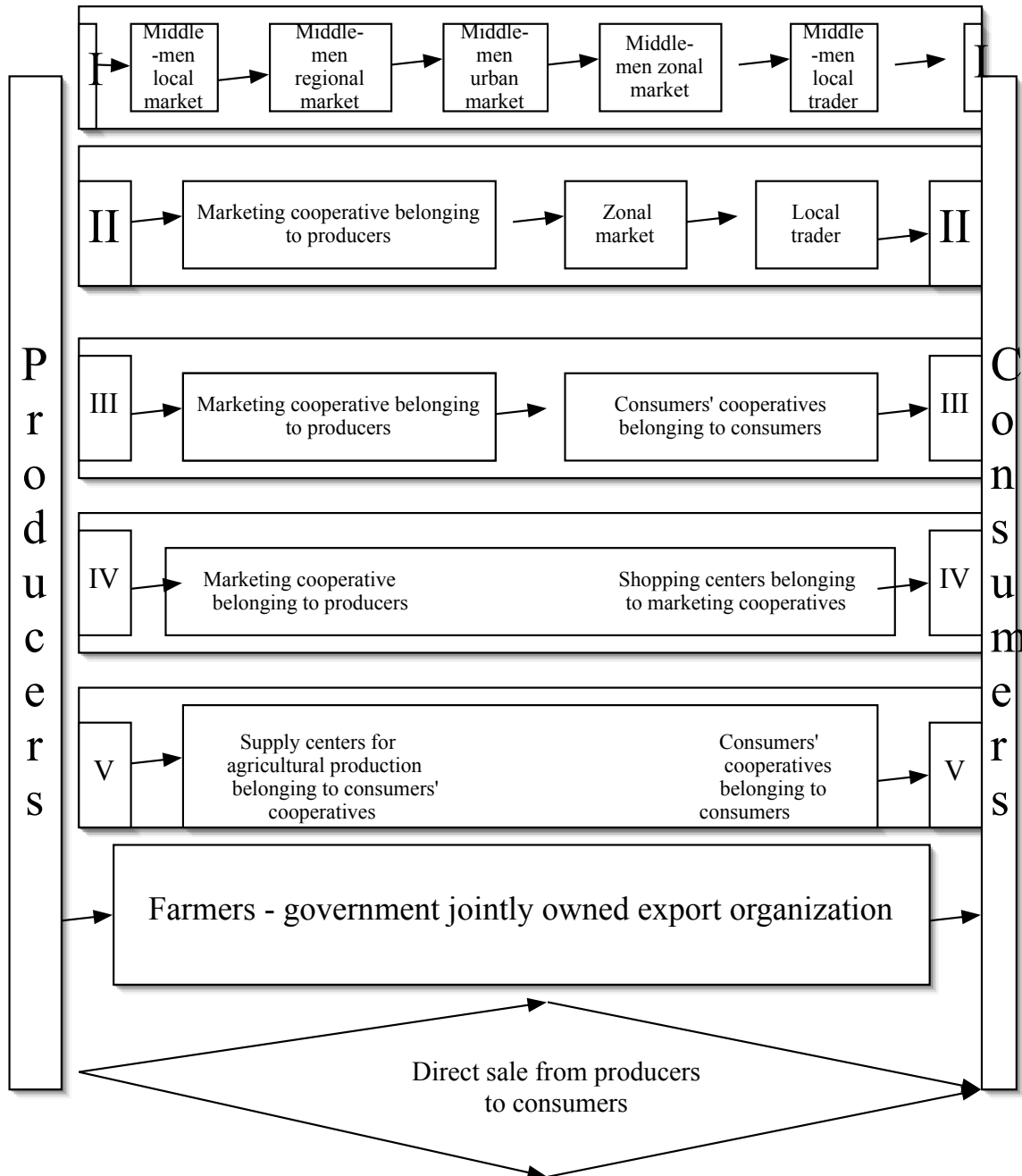
This situation, although very remote from the traditional marketing cycle, does not go far enough and there are still too many stages. We still need to try to eliminate unnecessary stages in the cycle of marketing. Two solutions were put forward: the first is to establish selling centres, belonging to the marketing cooperative and Tnuva is an example in Israel. These selling centres linking directly the producers to consumers. The second solution is the establishment of supply centers for agricultural products which belong to the consumer cooperatives, the latter belonging to consumers. In this example, consumers were organized to acquire their consumer goods directly from producers.

Another method of marketing is the organizations that belong to both farmers and the state and dealing with the export of agricultural products.

The last stage of our model is the one where the sale takes place directly from the producer to the consumer. This stage should be given preference because it produces the best results, both for the producer and for the consumer. An example of this stage involves the direct sales outlets established by Kibbutzim and Moshavim roadsides across the country, which sell their products directly to the public. This solution includes a number of problems and can not always be applied. However, this is the solution to which we aspire.

Chart 1: different forms of marketing

Different Forms of Marketing



This chapter concerning Tnuva may be concluded with a quotation from Nahum Verlinski, one of the first directors of Tnuva, who wrote in the 60's (Verlinsky Nahum, 1960).

"The marketing of agricultural produce is the final stage of the producer's work and is the factor, which dictates his activities throughout the year. The farmer's success or failure in marketing his produce decides the success of all his work. Marketing is thus a matter of primary importance to the farmers, and it is therefore not surprising that all over the world farmers have tried for years to gain control of a function so vital to their existence, by organizing themselves into cooperatives to direct and expand the sale of their produce.

Without the benefits of marketing co-operative, the farmers remain dependent on commercial distributors, who are in a position to dictate conditions. Cooperative marketing also benefits the consumers, by imposing responsibility on the producers for supplying their produce, helping them to handle their produce efficiently and regulating its flow to different parts of the country.

Another important aim of cooperative marketing is to promote the long-term interests of its members. One of the most important factors in this is to relate prices to quality.

Israel farmers have realized the value of cooperative marketing years ago and their degree of organization is high. Cooperative marketing covers 80% of local sales and an even higher proportion of agricultural exports.

The young states of Asia and Africa are based very largely on agriculture, and cooperative marketing of their produce is therefore important to make them independent of commercial interests, and to assist their development in every aspect"

3. The 1990s

Tnuva is a secondary marketing cooperative. Tnuva was founded during the twenties. Its members and owners are the Moshavim and the Kibbutzim equally. Tnuva is one of the largest commercial enterprises in Israel. Tnuva is operating according to a very simple method. The cooperative is marketing the agricultural produce of its members, on a basis of a commission charged on each sold produce.

The fixed assets of Tnuva were amassed during all the years of existence of the cooperative. The way to collect it was the previous deductions of a small percentage of all sales made by Tnuva. Since the turnover of Tnuva is enormous, it is clear that the cooperative was able to realize enormous amounts of money accumulated each year. These amounts were called by Tnuva "the share capital of Tnuva".

Yitzhak Landsman, a member of Kibbutz Ayelet Hachahar, director of the division of marketing of fruits of Tnuva between 1966-1970 and director of Tnuva between 1970-1996, said in an interview (Landsman Yitzhak, 12.3.08) that commissions were used to finance the investment needed by Tnuva during 70 years. During that time Tnuva has made numerous investments in fixed assets and the commissions have funded part of the finance. The procedure was that the market price obtained for the selling of the agriculture produce was the basis from which a part was removed to cover the operating costs of the cooperative and a portion was intended to finance future investments of the cooperative. The

procedure of this time was that the levy was not equal for all products. The milk had need of investments in processing industries for its marketing and then had paid a higher commission than fruit and vegetables. This fact was important when discussions on the distribution of the value of Tnuva took place after its sale.

These shares were noted in the books of Tnuva in their nominal values. This means something very simple - these shares have today no real value at all. Another very important factor: the members do not have the same number of shares. The members are owner of Tnuva not according to amount invested by each one of them, but equally. The general assembly of Tnuva is composed of delegates coming from all Kibbutzim and all Moshavim, and their number per primary cooperatives is determined according to the number of members in each primary cooperative.

It is important to note here that the model of representation of delegates at the convention of Tnuva has been changed 1994 (Réunion de directeurs, 1994). The new formula is no more based on the number of individual members in each Moshav and each Kibbutz but, rather, on the turnover of each primary cooperative marketed by Tnuva. The key has determined that the number of delegates from each cooperative does not exceed 3 delegates. A cooperative that markets with a turnover (data for 1993) of up to 2,000,000 shekels will have one delegate. A cooperative with a turnover up to 4,000,000 shekels - 2 delegates, and a cooperative with a turnover of over 4 million shekels will have 3 delegates, which is the

maximum number of delegates.

Some years ago, a private deep water fishing company, which has marketed its produce through Tnuva has observed that each time Tnuva has sold its produces, an amount was deducted, under the title of Tnuva Shares, even though, this company was not a member of the cooperative. One day this company stopped its operations, and wanted to be paid back the amounts deducted in its real value. Tnuva agreed to pay back the so called shares but in their nominal value. The company refuses and the affair was brought to court.

Itzhak Landsman is trying to analyze the reasons which led Tnuva to face the various difficulties toward, and during the 1990s.

- The first problem identified is that Tnuva was a multi-purpose cooperative. He pointed (Landsman Yitzhak, 12.3.08) that in the world the marketing of milk is mostly by one purpose cooperatives. The same thing exists when it comes to cooperative marketing of other products. The case of Tnuva, that it was a multi-purpose cooperative, causes its weakness.

The reason for this situation is in the circumstances of the founding of Tnuva. Tnuva has been created by small farmers and facing their poverty and their needs to cultivate various crops, "the mix farm" as the approach called by Professor Vulkani, who proposed it and wrote about it, (The Agricultural Research Organization of Israel, 2008) so Tnuva should give a marketing answer to all products and all their diverse nature.

- Additional reason to the difficulties Tnuva faced was the dispersal of its various branches, 28 in number, in all corners of the country, a financial burden too high.

- Additional factor which has aggravated the situation of Tnuva was the non-cooperative character of the new members Tnuva during the 1950s and 1960s. During this period, a great wave of Jewish refugees arrived in Israel from different countries, many of them were from underdeveloped countries, and without any experience in agriculture or in the cooperative life. Arik Reichman, (Reichman Arik, 2008) the last general director of tnuva joins to this. He noted that the cooperative spirit of Tnuva began to disappear as from the 50s and the 60s. The links between cooperatives and cooperative members have weakened. The individual members of the primary cooperatives which were the members of Tnuva were indifferent to what happens in cooperative. The most important factor: Tnuva has begun to make profits but because the connection between the property of Tnuva and the value of members share capital, which remained in their nominal value and which had no any real values, Tnuva has kept these positive results of its affairs in the its own undistributed funds.

I have already talked about these Moshavim (Galor, 1990b) and I have shown that these New Moshavim have failed as cooperatives. Landsman says that members of these New Moshavim have never understood what a cooperative is and never understood the indispensable need to market their production solely through the cooperative. At the same time,

Landsman does not remove the responsibility from Tnuva. Tnuva had many wage-earners, who themselves have not understood that they are employees of a cooperative, and as a result, have not been effectively did their job.

The 1970s saw the rejection of the principle that marketing is only by the cooperative, especially in the branches of fruit and vegetables. Tnuva had human and physical infrastructure but this marketing infrastructure was unemployed and underemployed.

- Another problem Tnuva faced concerned surpluses in agricultural production during the 1960s. Agriculture in Israel began the transition from Mix farm to Specialized farm. Tnuva did not give an adequate response to this transfer.

Landsman says that when he joined the post of director of Tnuva he took the decision to cease the activities of the fruits and vegetables branches in Tnuva. The process lasted 4-5 years. He first made partnership contracts with private traders to create a formula for the marketing of fruit and vegetables which was done by the traders.

The reason why he took this decision was that wholesale trade is not a profession you learn at school, but rather an ability with which one is born. The officers of Tnuva did not have this quality. The transfer was completed within 1980s and resulted in the dismissal of 1200 employees.

Landsman summarizes that Tnuva was characterized by members of Moshavim who did not understand what a

cooperative is, by not efficient employees, but also by members of Kibbutzim who doubted the role of Tnuva. He says that before being incorporated into Tnuva, he was the secretary of its Kibbutz Ayelet Hachahar. He sold apples produced by its Kibbutz directly to merchants, avoiding Tnuva where his Kibbutz was a member.

As a result of all these reasons, and pressure from members of Tnuva, he began to plan how to change Tnuva cooperative into a commercial company.

As a result of all these factors, Landsman continues, he started looking for a model that will bring Tnuva back to be the property of the members. The mission was difficult because he had to overcome two major obstacles:

- Non-equal commissions charged on the diverse branches.
- Non-equal commissions charged on the members during the years.

The task was difficult but it was completed as regards the years 1933-1990.

It is interesting to see the figures regarding the place of milk products in the total activities of Tnuva during landsman period. (Le marketing de Tnouva, 1987)

Table1: Milk marketing of the total produce marketing

Year	1980	1981	1982	1983	1984	1985	1986
% of milk marketing of the total marketing	30.5%	32.4%	33.9%	32.5%	33.5%	34%	35.5%

This table shows the growing importance of milk produce in Tnuva. This factor will have a major role in the discussion on the demutualization of Tnuva where dairy farmers argue that their shares in property of Tnuva is more important than the shares of other agricultural producers.

The cooperative structure of Tnuva and its weaknesses are illustrated by a few discussions on the holders of senior posts as described in an anonymous letter (Lettre anonyme, 1986). The letter reminds that the convention of Tnuva, 15 years previously, decided that the directors of Tnuva who are themselves members of the cooperative, can serve in these positions only for 2 tenures in office of 4 years each, and in total, 8 years. It reminds us that on the date the letter was written the director Landsman is already 20 years in service, the deputy director, a member of Moshav Ségula has been in office for 30 years. Another director, this time of Moshav Nahalal is also in his post for the last thirty years. The letter said that these managers were responsible for various economic debacles Tnuva had and that they did not suffer of any consequences.

A letter sent to the leaders of the Kibbutzim movement (Lettre de Yoav Drori, 1994) member of Kibbutz Gaach where he

reacts in response to a report published in the economic newspaper Globes on 14.9.94, (Korin-Liber Stella, 1994) on the tenure of directors that has already lasted almost 30 years. He asked whether a so long duration in post contributes effectively to the quality of service rendered by the cooperative to its members.

It is important to note that the journalist informs us that members of Tnuva formulate pressure on management to assign real value to the shares of members. The topic will be discussed during the convention of Tnuva in 1995.

Arik Reichman, a member of Kibbutz Gélil Yam, became the director general of Tnuva in 1996 and its mandate ended in 2007 with the demutualization of Tnuva. Reichman served as general secretary of Kibbutz movement and also as director general of regional enterprises Granot, and that his Kibbutz is also a member. Granot will take active part in the events of the demutualization during the years 2006-2007.

Before the convention of Tnuva in November 1999, a convention on which we shall return later, Reichman (Reichman Arik, 1999) was making efforts to convince members of the need for "compulsory transfer" of Tnuva so that it would belong to its members.

The compulsory transfer, according to Reichman, was to establish definitively what is the part of each member of Tnuva, Kibbutz or Moshav, in the total fixed assets of Tnuva. This is called "units of ownership".

The proposed compulsory transfer in the convention of November 1999 will be part of the necessary changes in the

status of Tnuva without changing its cooperative nature. These changes will be the basis for possible future changes of the cooperative, if the members decide. This stage does not yet make the real value for each unit of ownership but it creates the necessary infrastructure to any additional changes in the future.

Reichman explains the changes Tnuva has crossed over the years 1960s and 1970s. The cooperative identity of Tnuva has weakened and economic considerations have taken place in the decisions of Tnuva and its economic behavior. This was created antagonism between members and the cooperative. On the one hand a large part of members of the cooperative had no connection with the cooperative and on the other hand they remained members of the cooperative and theoretically owners of the cooperative, but their ownership remained without any real value.

So the aim of the process of making Tnuva belonging to its members is intended to repair an historical fault and remit Tnuva on track for an ordinary trading company.

Reichman discusses the formula through which can be achieved the ownership of Tnuva by its members. Landsman (Landsman Yitzhak, 12.3.08) described the proposal of Gédalia Gal¹, a member of Moshav Kfar Vitkin and chairman

1. Guédalia Gal - a member of Moshav Kfar Vitkin, general secretary of his Moshav, general secretary of the moshavim movement, member of the Knesset for 8 years and creator of the law Gal to settle debts of moshavim in Israel in the wake of the hyperinflation in the mid-1980s, managing director of Tnuva Export, Chairman of the Board of Directors of Tnuva.

of board of directors of Tnuva as follows:

The real value of Tnuva will be divided into two parts:

- 50% of Tnuva will be divided evenly among all members of Tnuva, Moshavim and Kibbutzim.
- 50% of Tnuva will be shared among members unevenly and according to their participation in the marketing of their agricultural products over the years. We recall that the process of ownership belonging that began with Landsman gave the basis for this sharing.

There were other proposals as to how to share the property of the cooperative among its members.

Yossy Maloul, a member of Kibbutz Ein Harod Ihud and former general manager of the Israel Cattle Breeders Association in Israel said that the (Maloul Yossi, 1999) process of the ownership belonging of the property of Tnuva is dangerous for dairy farmers members of Tnuva and is a step towards the acquisition of Tnuva by international capital, at the risk that the branch of milk production in Israel will be closed.

Another approach, (Helman Doubi, 1998b) presented by Doubi Helman who wrote to the director of Tnuva and offering him another approach, the buying out of Tnuva by an investor, or offering to members who want it, the costs of departure from the cooperative. The first proposal will be financed by the investor, the second will be financed by the sale of no more necessary of fixed assets of the cooperative.

Reichman gave the order to do a feasibility study to determine the viability of this proposal. The document Helman ((Helman Doubi, 1998a) details the flaws and risks of the process of ownership belonging to members of Tnuva.

- If the transferability of shares is open to the public, there is a strong likelihood that foreign capital will take control and possession of Tnuva.

- If the transferability of shares is open to members only there is the risk that some members, major dairy farmers take possession and control over Tnuva.

In light of these two points the document of Helman proposes a solution that will offer those who want to leave the cooperative to be compensated with a sum which does not necessarily its real part in the property of Tnuva. The ultimate goal is that Tnuva will focused only on milk production, and that in the new structure cooperative members will be only active farmers.

Reichman on page 21 of his presentation (Reichman Arik, 1999) explains the existing difficulties when one wants to keep the cooperative structure of Tnuva and that members will be only the dairy farmers. He points three essential conditions for Tnuva to continue to be cooperative.

The first condition: that there will be the possibility for members of this new cooperative to buy the property of the cooperative, it is important that each member knows the real value of its share in the cooperative and the total value of the cooperative. The fulfillment of these conditions that of the "compulsory transfer" which depends if the convention of

November 1999 will take the decisions.

The second condition: the agreement of the majority of cooperatives whose milk production is part of their economic activities to renounce their membership shares as against of become members of the new proposed cooperative structure. In the Moshav there is another problem, when some members, sometime in minority, are dairy farmers, these members in the Moshav, would they get the consent of the majority of members in their Moshav. Helman doubt if such consent would be obtained.

The third condition: the agreement of the majority of cooperatives, the members of Tnuva, which are not producers of milk for the separation of the dairy business entity from the rest of the Tnuva. Milk production is the heart of the financial activity of Tnuva. It is difficult to believe that this agreement will be given.

For our discussion, it is highly important to see that when it comes to the Kibbutz movement, the leaders have forgotten this principle, that the property of the cooperative does not belong to its members, and are ready to negotiate their 50% of ownership of Tnuva, in its real market value, to be able to sell it, in order to cover part of their debts. The leaders of the Kibbutz movement were among the most ardent defenders of the idea that the cooperative should preserve its fixed assets as indivisible reserve, where no one will be able to divide. The difficult economic situation brought these people to change their views and ideology.

Tnuva today became a gigantic commercial company,

employing thousands of wage-earners, who do not know that their employer is a cooperative, and, at the same time, whose members did not know for many years what a cooperative is, and with members-leaders, recruited from the Kibbutzim and the Moshavim who hold their functions for years.

It was arrived at the point where all members of the cooperative contributed to the investment funds in Tnuva in the form of payment of a portion of the moneys derived from products sold by the cooperative. Given that all members did not produce the same quantities, their contribution to this fund was naturally uneven. These funds were then invested in the property asset of the cooperative, the assets thus acquired belonged de facto to all members equally. In other words, it was a situation where for an unequal participation, the property was equal to all members. There is therefore a growing inequality, cumulative. This situation has continued for nearly eighty years. The inequality between the members has only grow accordingly in invaluable proportions (Galor, 1989).

The amounts paid by each member, either in the form of payments through the Moshav or in the form of common payments by the Kibbutz to Tnuva, these shares in Tnuva were reflected in the books of Tnuva according to their nominal value, faithfully complied with the international principles of cooperatives method recommended by the ICA. After dozens of years, the real value of these shares in the biggest parts of cooperatives in the world, has been eroded due to inflation and the devaluation of the currency. And so the members found themselves owners of shares whose value

were less than the value of the cooperative.

But at the same time, all property of the cooperative, all assets without exception, had increased in value. First, Tnuva had continued to invest in real estate, acquiring premises essential for the development of the cooperative. Secondly, all assets have seen their real value increased during all these years since the establishment of the cooperative. In recent years the value of the property of the cooperative has been evaluated, informally, to billions of U.S. dollars. None of these assets belonged to members, nor under the bylaws of the cooperative, or by cooperative law, or according to ICA.

3.1 The source of the capital of Tnuva

Tnuva is a second-degree marketing cooperative. It was established in 1926 as a result of a decision by its members, which consisted of Kibbutzim and Moshavim that existed in Israel at the time (Verlinsky Nahum, 1960). Tnuva began with the decision to separate, according to its various functions, from the central provider, Hamashbir Hamerkazi, which was a second-degree cooperative, established in 1916 for the purpose of providing agricultural input to various settlements – in other words, to its members, as well as for the marketing of their produce. Hamashbir Hamerkazi continued, after the separation on 1926, to maintain its major function, the supply of input. Tnuva's purpose was to engage in the organized marketing of its members' produce.

The procedure for acceptance of members into Tnuva was

simple. The Kibbutz or Moshav that joined the cooperative was responsible for only one thing: to market all it produced exclusively through the cooperative. It is important to note that membership was open only to first-degree cooperatives – Kibbutzim and Moshavim. Only after many years individual farmers could join, but they had only the right of marketing, and these were rare cases. Upon joining the cooperative, members obligated themselves to market all they produced exclusively through the cooperative; new members did not need to pay any amount whatsoever for membership. Despite this, during the period of membership, a small percentage of money was withheld from the member's sales in the cooperative. Tnuva called the amount withheld payment for "Shares of Tnuva" (Vitels H, 1970)).

Mr. Verlinsky, the second director of Tnuva and the person who designed Tnuva from the beginning, points out that these payments were designated by the early heads of the cooperative to cover the monetary investments that Tnuva required in order to establish the different properties that comprised its marketing apparatus. In the difficult economic conditions of the 1920s and 1930s in Israel, these payments were a critical source – and, at times, a nearly exclusive source – for financing these investments.

The result was a situation in which members of the cooperative contributed into the investment fund from the income gained by the cooperative's marketing of their produce. Because members did not produce at equal levels, their contribu-

tions to this fund were not equal. But these contributed sums were invested in the cooperative's property, which, according to law, belonged equally to all members. In other words, what resulted was unequal financial participation for equal ownership. The consequence was a cumulative inequality that lasted almost eighty years, and the cumulative injustice assumed enormous proportions (Galor, 1989).

Whether through individual membership via the Moshav or joint membership via the Kibbutz, the amounts that each member paid to Tnuva – the shares of Tnuva – were recorded in the cooperative's books according to their nominal value. This practice is shared by most cooperatives around the world, and this is also the procedure recommended by the ICA. But after a decade or two, because of the fall in the money's value, there was no longer any meaning to what had been recorded. Thus it happened that members owned subscriptions whose value was lower than the price of their registration recorded on paper.

Despite this, the cooperative's property – property of all kinds – rose in value. First, Tnuva continued to invest in fixed assets, which was necessary for the advancement of the cooperative's business. Second, the cooperative's property in general went up in value during most years of the cooperative's existence. In the last few years, the cooperative's property has been unofficially valued at billions of American dollars. None of this property belonged to the members. It did not belong to them according to the cooperative's by-laws, ac-

ording to the laws governing cooperatives, or according to the ICA.

4. The 1999 Convention

On November 17, 1999, a general meeting of Tnuva convened in Kibbutz Yagur (Raveh M and Lavi Z, 1999). Nine hundred thirty-eight delegates participated, representing the 607 members of the cooperative, all of them are Kibbutzim and Moshavim (Tnuva, 1999b). At the meeting, a significant majority decided to change the cooperative's by-laws so that members would have full ownership of all the cooperative's fixed assets. Members would have the right to sell their membership at its real value. This general meeting was convened only after two years of preparation.

The management of Tnuva had decided to establish a preparatory committee because it understood the difficulties in getting such a far-reaching decision passed, and it recalled the problems that had arisen at the previous general meeting, when attempts at reform had failed because of inadequate preparation of delegates. This committee understood that the prerequisite for passing such a bold measure lay in the precise definition of the relative share of each member in the association's property (Tnuva, 1999a). At the conference itself, the management prepared an audio-visual display that explained different aspects of the desired changes to the delegates.

The following is the reason for the change, as presented in the

words of Gédalia Gal, Chairman of Tnuva's management (Gal Gédalia, 2000)):

"It is appropriate to remember that a very long time ago, all the members of Tnuva were producers, and they sent their produce exclusively to Tnuva. Quite a number of years ago, the majority of them stopped dealing in agriculture, but they nonetheless continue to remain owners of the property of Tnuva. Tnuva for a good number of years has operated like a company in its relations with its producers – its members, but Tnuva has not been required to provide anything to its owners, its members.

The management of Tnuva has continued to explain to delegates, through the audio-visual display, the reasons for the changes. The management points out that the by-laws of Tnuva that had existed previous to the general meeting were adopted decades ago. But there is no similarity between the reality back then, when the by-laws were written, to the reality at the end of 1999.

According to the management of Tnuva, three central reasons justify the reforms that were proposed:

- Tnuva changed from being a cooperative in which all its members were involved in agriculture and marketed their produce exclusively through the cooperative, to an association in which only some of the members are involved in agriculture.
- Only a portion of the members of the cooperative markets their produce through the cooperative itself.
- Even more seriously, a portion of the members market their

produce in competition with Tnuva.

Given these considerations, it became the responsibility of the management to convince the delegates to vote for the proposed changes.

There are two facets to the way in which Tnuva proposes to transfer ownership of its assets to its members:

Fifty percent of all Tnuva's assets will be divided equally among all the members – which are, as mentioned earlier, the primary cooperatives, the Kibbutzim and Moshavim. The remaining 50% will be divided among all members based on the total of “shares of Tnuva” – in other words, the total of marketing value commission amassed during all the years of membership by each member in the cooperative. These “shares” will be revalued from their nominal value in the past to their real value today. Because the cooperative's accounting books do not enable a reconstruction back to the date of the cooperative's establishment, it was decided to calculate the shares' value according to the amount of marketing that each member conducted through the cooperative between the years 1952 and 1978 (Raveh M and Lavi Z, 1999); (Tnuva, 1999a), (Tnuva, 1999b).

It is appropriate to note two additional points. First is the issue of consideration to the member in exchange for his participation in the association's financial activities. A great deal of deliberation has been devoted on a number of occasions to this complicated matter (Galor, 1994), (Galor, 1995), (Galor,

1997)). Over the course of many years, as already noted, Tnuva did not see itself as a cooperative belonging to its members. As a result, Tnuva was not particularly concerned about passing along to its members the highest possible payment for their marketed agricultural product. At the general meeting, the management of Tnuva explained that the new policy would be, in fact, to distribute to members any possible surplus from the total financial benefit that Tnuva receives from product sales.

Reichman adds to this point (Reichman Arik, 2008) that the process began about two years before the Tnuva Convention of 1999 took place, and this is contradictory to the date proposed by Landsman. [See page 27](#) Reichman says that he has not dealt with these issue immediately when he came to Tnuva. He has first been occupied with the internal reorganization of the cooperative. When he finished with this task he began discussing the question of members and how to bring Tnuva that re-belonging to its members.

Reichman emphasizes the fact that the sale of Tnuva was possible only when the cooperative was really belonging to its members.

He mentioned that they could not sell Tnuva. They could sell shares of members, those who wanted to sell, to potential buyers.

This point is highly important, in my opinion, because there are too many cooperatives which have been sold but their members did not profit from the sale.

In April 2000, the management of Tnuva decided to apportion among members, as an additional benefits for the marketing

of their product, a total of 25 million shekel from the profits of 1999 (Gal Gédalia, 2000), (Gross Yossy, 2000) .

The second point, in the context of the ownership issue which we are discussing, is that the compensation for salaried workers of the cooperative was raised. Tnuva extends throughout all of Israel, and it functions through thousands of salaried workers at different levels, including the level of management. The workers' committee of the cooperative demanded, as an outcome of the process of distributing shares, that the salaried workers receive 10% of Tnuva's assets. It is not yet clear at the time of this writing whether this demand will in fact be met, despite the positive approach of Tnuva's management (Hayoun David,) (Tnuva, 1999a). A similar claim has been made in connection with the consumer cooperative Coop – Blue Square, which we will deal with shortly.

In this way, Tnuva has completed the process of returning ownership of the cooperative to its members – a process that can be described as revolutionary.

5. The struggle during the 2000s

The years of the first decade of the 21st century have seen a lot of struggles about Tnuva and concerning the dairy farmers in Israel.

5.1 The Struggle of the Milk Marketing Board

The first event we will discuss is the struggle which is concerning the dairy branch in Israel. Avshalom Dolev (Dolev Avshalom, 2008) member of Kibbutz Tirat Zvi and director of the Milk Marketing Board explains how the struggle happened.

The Milk Marketing Board, was founded in 1965. (Conseil national pour la production laitière, 2008)). The board is a company owned by stakeholders and was founded according to a government decision. The owners of the company are the Government of Israel, organizations of dairy farmers, cooperatives and private dairies. Decisions taken by this body are intended for the smooth running of this branch of agriculture. The board of directors is composed of 18 members, 5 represent the state, 9 represent the different organizations of farmers, 3 representing large dairies and 1 represents the public. The director is appointed by the Minister of Agriculture and it is always a dairy producer, either from Kibbutz or Moshav.

The Ministry of Finance has decided in 2003 to fight against large monopolies in the national economy. (Erez Yifat, 2003) The Ministry of Finance claims that the centralization in the dairy farmers branch is among the highest in the world. The dairy farmers are organized within the milk marketing board in the form of a voluntary cartel. Tnuva is a monopsony in the purchase of milk and controls 90% of this market.

As a result, the quantity of milk produced is less than the amount that would have been produced in conditions of competition. The price of milk paid to producers is 30% higher than the one that should be paid under the conditions of

competition.

Hence, the abolition of the quota system, the abolition of the permission to organize as a cartel and the opening of the local market to imports of dairy products will bring, according to the Ministry of Finance, an annual saving of 110 million shekels.

The Ministry of Finance issued a presentation (Conseil national pour la production laitière, 2003). In this presentation, economists at the Ministry of Finance explain the long term goals and objectives for this sector of agriculture.

The goal is the permanent reduction and on a long-term basis the price of agricultural products.

The objectives are:

- Reduction and Elimination of all planning mechanisms in agriculture. The abolition of all restrictions and the quota on the marketing of agricultural products such as milk, eggs, broilers.
- Stimulation of farmers to shift toward larger and more effective production units.
- The reduction of customs and administrative restrictions on the import of agricultural products.

The presentation details the problems in the existing situation. There are three levels.

In the production level quota prevents the benefits of high-volume production. The quota prevents competition in this industry. There are too many administrative limitations on the transfer of quota from a farmer to another. The price to the producer is decided by agreement and not by the market and

by reducing the competitiveness of the producer and reduces any form of efficiency.

In the processing level the level of centralization is too high in the purchase of milk. (Tnuva bought 80% of milk produced.)

Tnuva is also the only dehydration of milk in Israel.

In the marketing level Tnuva sells 70% of dairy products and the industry enjoys an administrative protection that prevents all imports and hence no competition and lack of incentive to improve.

Avshalom Dolev, director of the Milk Marketing Board (Ynet, 2003) wrote a letter to Prime Minister Ariel Sharon in which he claims that a proper comparison shows that the price of dairy products in Israel is equal to the price in Western European countries. The Ministry of Finance presents false and erroneous data so decisions makers (the government) would adopt decisions which, at the end, will destroy the dairy farmers in Israel. The data of the Ministry of Finance are based on 1996 figures, while the figures for 1999 show that, thanks to increased in efficiency among the dairy farmers during the last seven years, the results are much better. Besides, Ariel Sharon was born in a Moshav, he is a farmer himself, he did not agree to accept data from the finance minister, renowned for its privatization policy.

It is interesting to note here that the struggle of the milk marketing board against the policy of the Ministry of Finance, which is supported in this policy by the Ministry of Agriculture, is based on the personal characters of those who are behind this policy. The Ministry of Finance at the time,

since 2003 and in the government of Ariel Sharon, is Biniamin Nétanyaou former Prime Minister of Israel between 1996-1999 when he led the Likud party. From 2002-2005 the Likud was the majority party in the Knesset, and therefore the position of the Ministry of Finance has been given to Biniamin Nétanyaou. Nétanyaou is known for its privatization policy. His critics are saying he privatizes everything that moves in the economy. Beside him, and supporting this policy was Israel Katz, the Ministry of Agriculture and member of Moshav and at the same time dairy farmer. He supports this policy, alongside Biniamin Nétanyaou, because of his political reasons in his political party. For him, institutions of farmers have been based historically by farmers belonging to political parties oppose the Likud party. According to him, changes and reforms proposed by the Finance Ministry would serve his goals.

It is worth noting also that in the report of the Controller of the State published in May 2007 and controlling activities in 2003, the controller criticizes Biniamin Nétanyaou and Israel Katz who in 2003 appointed the businessman Ran Krol as the head of the public commission to investigate the question of controlling the price of milk in Israel. The appointment was contradictory to the government's decision that year that the commission will be headed by an academic and not by a businessman. The controller found that the commission, headed by Ran Krol, contracted the private consulting company owned by Ran Krol, who was also employed as an adviser to the commission. A case that shows how Israel Katz sought to influence the recommendations to his advantage.

(Yeffett Orna, 2003)

In a discussion at the commission of Finance of the Knesset (Comité des finances, 2003) Israel Katz confirms that the reform in the beef industry is progressing well and that his role is to strengthen the small dairy farmers. The movement of Kibbutzim accuses the minister of agriculture as it discriminates the dairy farmers of the Kibbutzim. (Goldshtein Tany, 2004) The leader of the movement of Kibbutzim accuses the minister that the reasons for its decision to allocate 20 million shekels to the dairy farmers only in the Moshavim because his electorate is among dairy farmers, in the Moshavim rather than in the Kibbutzim. Meirav Cohen informs us (Cohen Meirav, 2004) that the finance committee of the Knesset decided to allocate the sum of 10.6 million shekels to support dairy farmers members of Moshavim. The movement of Kibbutzim supported by the movement of Moshavim expressed their opposition to this decision and even presented a request to the Supreme Court of Justice to annul the decision of the Ministry of Agriculture, which was taken out of reasons, unrelated to the discussion, and that the decision is contrary to every principle of equality among all dairy farmers.

Dolev has annexed to its letter the results made by an agricultural research institution in Germany, IFCN, (Conseil national pour la production laitière, 2002) which shows that the price of milk in Israel is located at the bottom of the scale. An international research company ACNielsen has confirmed these findings in its research made a month before the date of this letter. (ACNielsen Global Services, 2003).

The journalist Gideon Eshett (Eshett Gideon, 2003) said that despite the ideas expressed by economists belonging to the school of free market, agriculture does not practiced in free market anywhere. The nature of agricultural production requires planning, organization of farmers and also, it is practiced in the United States and Western Europe, subsidies to farmers.

The newspaper Globes (Globes, 2005) published an article which informs us of the important role of subsidy in the life of milk producer in France. 80% of its annual revenue comes from EU subsidies. In Japan and South Korea the subsidies to the dairy farmers is in the norm of 60%. In the United States the subsidies are of 20% of the annual income of farmers.

Peple from the Milk Marketing Board have pursued a policy of defense-attack against the negative policy of the Ministry of Finance about the milk market in Israel. They used the press. They used the opinions of international specialists. They hired a public relations agency. The agency Laniado - Marketing Communication has worked for the Milk Marketing Board until the end of December 2003. (Laniado - Marketing Communication, 2003) The agency has planned and executed the various activities against government policy.

Another action was the plea submitted to the High Court of Justice. (Haute cour de Justice, 2003) This plea was made by the Milk Marketing Board, the Israel Cattle Breeders Association, Tnuva and Tara, both are secondary marketing cooperatives, especially dairy products. The request was that the Supreme Court would prevent these two ministries to

submit to the government the decision that would change the milk market situation in Israel.

A further step undertaken by the Milk Marketing Board was on the parliamentary level. The board has approached the Economy Committee in the Knesset, the Israeli parliament. At the head of this committee was the MK (member of Knesset) Shalom Simhon, a member of Moshav, and former Secretary General of Moshavim movement. (Dolev Avshalom, 2003) The letter explains that the Ministry of Finance has provided false data about the milk market in Israel. The main argument of the Ministry of Finance is that the milk in Israel is too expensive. The board shows that the price of milk in Israel is much lower compared to countries such as Norway, Switzerland and Ireland and slightly more expensive than that of the United States and Austria. The letter provides additional details showing that the data supplied by the Ministry of Finance were based on invalid givens.

A document prepared by the professional staff of the economy committee of of the Knesset (Knesset, 2003) highlights and accentuates the points presented by Dolev. The document was prepared for a discussion the committee should begin on December 8, 2003. The discussion would take place as a result of the government's decision on 16.9.2003 and following the recommendations of the Ministry of Finance, recommendations controversial by the Milk Marketing Board.

The Milk Marketing Board (Conseil national pour la production laitière, 2004) present its position in summarizing the past struggle and the steps to be followed. One of these

steps was the reclamation presented to the Supreme Court of Justice in Jerusalem.

On the 29.4.2004 The Supreme Court issued its decision. (Haute cour de Justice, 2004) The decision was a victory for dairy farmers, as the government was forced to a prior agreement of dairy farmers before it can pass the bill, proposed by the Ministry of Finance, in the parliament.

The example of this struggle shows us the importance of farmers representative organizations as soon as it is a fight to defend the fundamental interests of farmers. The success of this struggle will enable dairy farmers to learn a lot when their struggle will start to safeguard Tnuva as a cooperative that will ensure their interests.

The Milk Marketing Board has commissioned a professional opinion of Yaakov Gavish, a professional economist and member of Kibbutz Yavné. Yaakov Gavish served in the public service as director of the division of the budget at the Ministry of Finance of Israel, and at the same time he continued to be a member of his Kibbutz. (Gavish Yaakov, 2004)

The opinion concerning the government's decision no. 837 regarding the "decline in the monopoly market of milk" of 15.9.2003.

Gavish begins by noting that already in 1992 the Government of Israel has decided that the milk market in Israel would be based solely on local production.

The dairy economy in Israel is managed since the inception of the state under central control and planning. In this framework

all the annual milk production is set at the same time that the individual quota for each dairy farmer, at the total number of 1200, is also determined, according to its share in the annual milk production of 1150 million litres of milk.

The quota regime is saved through price discrimination, which gives advantage to the price of milk produced within the quota and much lower price to the milk produced outside the quota.

The importance of this phenomenon is that the quota regime is scrupulously observed by producers without that there be a mechanism for direct subsidy. This is explained, according to Gavish by:

- The nature of the industry which is capital intensive. The dairy farmers have invested heavily in the sector, therefore, price stability is the interest of producers, even if income is relatively low.
- The milk has a very short shelf life at the producer, so it must be delivered every day.
- The majority of the milk is absorbed by three industrial companies, Tnuva is the largest, which have an interest in preserving the stability of supply of milk for their businesses.

The conclusion of Gavish is that if this quota system is so useful to all concerned, we need a central institution that will organize and supervise and which is the Milk Marketing Board.

Gavish describes the policy of the Ministry of Finance from September 2003. According to this policy agriculture, in general, cause damage to the national economy. This policy

prefers the import of agricultural products to Israeli products. This policy puts the national food market to the mercy of the fluctuations and availability of the food market worldwide.

Another activity of the Milk Marketing Board discussed by Gavish is the "target price". In a document dated 18.11.1998 and signed by the Director General of the Ministry of Agriculture, the director of the budget at the Ministry of Finance and the head of budget at the Ministry of Agriculture and is titled as "target price":

"The basis for calculating the target price to dairy farmers will remain unchanged and will be based on a study of the costs of milk production prepared by the Milk Marketing Board and controlled by representatives of the Ministry of Agriculture and Finance, with the participation of a representative of the dairy farmers."

So the purpose of the arrangement is that dairy farmers receive an appropriate reward so they can cover running costs for the production and a reward for their work by themselves in their farm and a reward for depreciation of fixed assets, plus 6% return on fixed assets and on live inventory .

Starting from this result, it deducted the following components: income from the sale of calves, the deduction for the annual increase in productivity and other deductions in the agreement.

Gavish concludes that the dairy farmers branch in Israel needs to be planned. The planning for this branch is a common concern for the state on one side and dairy farmers on the other. He stressed that not every decision must have only economic considerations and that ideological aspects should

prevail. In most Western countries the dairy farmers branch is planned, and in general, with state subsidies. In Israel the Milk Marketing Board is the weapon of enforcement of planning.

The period of Avshalom Dolev at the head of the Milk Marketing Board is summarized on the website of the newspaper of the religious Kibbutzim movement. Avshalom (Dolev Avshalom, 2004) Dolev sums up his mandate by a few salient points that characterize it. At the beginning of his tenure there were 1600 dairy farmers. At the end of the period there remained 1120. Other changes are partnerships composed of Kibbutzim to manage their cowsheds in common, numbering 35. The central supply of concentrate feed has increased in number in Moshavim. The subsidies for dairy products have been removed. The role of the Israel Breeders Association and the Milk Marketing Board were strengthened.

The struggle of the Milk Marketing Board teaches us some lessons. First lesson has shown us that an organization of producers should not comply with government requirements, especially when it comes to defending the fundamental interests of the producers.

The dairy farmers have been able to employ sophisticated means in their struggle. They did not accept the erroneous data presented by the Ministry of Finance to the Government. They presented their data provided by international professional bodies which have contradicted the statements of the Ministry of Finance.

They used the farming lobby among members of parliament

to advance their cause. Then turned to the Supreme court of justice to stop bad policy put forward by the government.

5.2 The Struggle of the Israel Cattle Breeders Association

Tnuva has also participated in the struggle against the Ministry of Finance. (Reichman Arik, 2003) Arik Reichman, director of Tnuva shows in an audiovisual presentation flaws in the existing position of the Ministry of Finance. Reichman denounces myths non-proved and non-existent concerning Tnuva.

The first myth said that Tnuva has been enriched on the backs of dairy farmers. The reality is that Tnuva is obliged to pay the target price to dairy farmers. The difference between the sale price on the market and price paid to producers constitutes the savings of Tnuva. Tnuva uses its savings, money it is not obligated to pay the producers, for investment to develop its processing enterprises. In the years 2000-2002 Tnuva has invested 1.100.000.000 shekels in this area and between the years 1993-2002 Tnuva has invested its own funds 2.300.000.000 shekels. Even the advertising budget of Tnuva has been increased during this decade in 100% and came to the sum of 180.000.000 shekels.

Another important point: the erosion of selling prices of Tnuva products on the market was higher than the target price for dairy farmers.

This dispute has prepared the dairy farmers for their struggle concerning the privatization of Tnuva, as soon as the changes

in Tnuva have become more apparent and more on the agenda. (Position de la fédération, 2005) In a meeting with representatives of dairy farmers and in light of the decision of the Convention of Tnuva, which took place in 2003, the decisions are:

"The General Assembly of Tnuva agrees that the management committee of Tnuva promotes a comprehensive approach to reorganize the cooperative in a structure which will allow the insertion of an investor in the activities and property asset of the cooperative in order to increase the benefits of the cooperative and its members. The proposal will be submitted for approval by the General Assembly (the Convention) Tnuva."

Although there were proposals to this management, the convention has not decided to transform Tnuva into a public company or to list it to the stock exchange.

The decision spoke of a track to follow which contains an investment in Tnuva by an investor who will become co-owner and who will lead Tnuva to its privatization.

Tnuva has been headed since the 1999 convention towards demutualization. The basis was the decision to introduce the cooperative to a strategic investor, an investor who wants, at the end of the trail, to become the owner of Tnuva. Why Tnuva has chosen that path. Amir Cohen² explains (Cohen Amir, 15.1.08) that, after the decisions of the 1999 Convention, Tnuva leaders, and among the leaders he counts

2. Amir COHEN - a member of Moshav Béer Tuvia, Secretary General of the Moshav, dairy farmer, member of the National Commission for the Struggle against Tnuva privatization. Board member of Tnuva. Founder and owner of the company Signext, a company of hi-technology:
<http://www.signext.com/company.html>

not only the leadership of Tnuva, and Gédalia Gal the president of Tnuva, but also the leaders of agricultural cooperatives movements who are the owners of Tnuva.

All these leaders are facing an undeniable fact:

Tnuva has collected money from its members for its investment needs during years. Several of those who paid ceased to be farmers and thereby economically active members. The fact that, a part, may be a great part of Tnuva, belongs to the non-active members, has gradually been rooted in the minds of members and leaders.

Thus, the possible investor in Tnuva will generate the necessary funding to be used to pay the members who no longer want to be members and want the real value of their shares. The leaders believed that with this money from the investor the cooperatives members can resolve serious problems such as lack of sufficient funds for pensions funds, especially for the members of Kibbutzim, and the repayment of debts and for savings.

Amir Cohen explains from his experience what is a strategic investor. An investor is an important element which can, not only, invest money in the cooperative, but also provide additional capabilities such as the ability in marketing, research and development (R & D) of modern technologies. But Amir Cohen said that Tnuva did not need this anonymous investor.

- 1) Tnuva has the most modern technologies.
- 2) Tnuva has R & D adequate to its needs and even more.
- 3) Tnuva has really no problem of funding and liquidity.
- 4) A strategic investor will do nothing to Tnuva on the

international market because this does not interest him since it would create a that competition to Tnuva .

According to Amir Cohen, Tnuva has not made much effort until 2003 to find that investor. There were a few cases, too little, where efforts were made to find this investor. The investor has not been found, so another idea has emerged: finding a financial partner who could redeem the shares of members who wish to leave the cooperative. This situation depended on the fact that existing members will still have a majority in the cooperative. One possibility was to issue Tnuva in the stock market.

Cohen claimed that the director of Tnuva, Reichman, brought before the members that he has warned members that Tnuva's debt stands at 1.6 billion shekels and that debt weighs heavily on the financial activities of Tnuva. Cohen's arguments are:

- The level of financial leverage of Tnuva in different situations was lower than the average in Israel.
- Any Tnuva's debt comes from bank credit without any mortgage on the property of Tnuva. That is to say, the economic situation of Tnuva was more than satisfactory for the banks.
- Despite all the difficulties in creating new businesses in Tnuva the indebtedness curve remains exactly as it was planned by the Director of Finance of Tnuva. The banks still are willing to offer credit Tnuva.
- The fixed assets of Tnuva worth more than the debt of the cooperative.

The vow of Reichman to sell Tnuva, either in the stock

exchange or to a financial investor, failed because the organizations of dairy farmers have succeeded in their struggle and have convinced the heads of regional organizations of Kibbutzim to be against these steps.

The steps dairy farmers against Tnuva and the efforts to list the cooperative in the stock exchange have presented several sides and several stages. The dairy farmers have organized and elected a coordinating committee which was composed of members of dairy farmers from Moshavim and Kibbutzim. Itzhak Witzman³ explains how was created this organization of dairy farmers. (Weitzman Itzhak, 2008a) he explains that this process was made easy because in each Kibbutz or each Moshav there is a committee of dairy farmers composed by members of that cooperative and which is elected at the Annual General Meeting of that cooperative. These committees are very active and reacted quickly enough to each events involving the fate of the dairy economy in Israel. At their head were those leaders of the Cattle Breeders Association in Israel Meir Brawn⁴ and Yossy Maloul⁵. They

3. Yitzhak WEITZMAN - a member of Moshav Givat Yoav, dairy farmer and member of the national committee for the struggle against the privatization of Tnuva.

4. Meir BRAWN - a member of Kibbutz Gan Shmuel, president of the Israel Cattle Breeders Association, a member of the national commission for the fight against the privatization of Tnuva.

5. Yossy MALOUL - a member of Kibbutz Ein Harod Ihud, executive director of the Israel Cattle Breeders Association, a member of the national commission for the fight against the privatization of Tnuva.

have organized several activities. One of the first meetings of dairy farmers, among a long series of meetings, was at Moshav Kfar Yéoshua. (Zomer Navit, 2005e) The meeting took place before the scheduled meeting of the board of Tnuva in 20.4.2005, and which was supposed to decide whether Tnuva will be listed on the stock exchange. The main argument presented by Brawn was that if Tnuva would be listed in the stock exchange it would be exposed to pressure from investors to increase the net profit of Tnuva. Accordingly, Tnuva no longer be able to safeguard and respect its agreements with producers and dairy farmers and the target price with the dairy farmers. (Morgenstern Ronit & Dalia Mazori, 2005)

The dairy farmers were afraid that they will face difficulties to stop issuing shares of Tnuva. (Morgenstern Ronit, 2005a) They examine the possibilities to establish a new cooperative whose members would be only dairy farmers in Moshavim and Kibbutzim. This approach could give the dairy farmers the opportunity to acquire control of Tnuva.

The emergency meeting of dairy farmers in the southern part of Israel gave the opportunity to express the ideas of Amir Cohen mentioned above. He said publicly that Tnuva has nothing to seek in the stock market. Investors looking for companies with turnover of 1.5 larger than that of Tnuva. Immediately after the listing would be completed, the target price would be abandoned, the price of milk paid to producers would be reduced and the dairy farmers will gone bankrupt.

Apparently, this meeting of dairy farmers has produced its fruit. Tnuva has decided to postpone the date of the meeting

of the council where voting was to take place. (Zomer Navit, 2005c) The chairman of Tnuva said that the vote be resumed as soon as the opponents sides will have an agreement.

Another step taken by the dairy farmers was in the judicial arena. (Zomer Navit, 2005d) The main argument of the dairy farmers is that this program, if successful, will be a structural change in the cooperative and therefore hurts their property rights. An important argument made by dairy farmers on the topic of ownership. The argument contends that the money used to build up Tnuva has been subtracted from individual producers participation, most of them are dairy farmers, but the decision on the issuance of shares of Tnuva was taken by representatives of Moshavim and Kibbutzim, which the majority of their members are not dairy farmers. (Morgenstern Ronit, 2008b)

Another argument is that Tnuva was created by its members to market their products and not to make profits. (Zomer Navit, 2005f) The vote on this issue has been postponed three times in the council of Tnuva. The dairy farmers were not convinced that their demands to safeguard their right, after the proposed issuing, and ensure the payment of the target price for their milk, had succeeded.

Another front opened by the dairy farmers concerning the suspected financial irregularity in Tnuva's investments for the establishment of a dairy in Romania. The dairy farmers have asked the committee to monitor the cooperative to investigate the case. They also require to investigate the case of voluntary resignation of the treasurer of the cooperative, which has

refused to sign the financial annual balance of the cooperative. (Zomer Navit, 2005b)

The lawyer Yaron Saar representing dairy farmers sent a letter on behalf of them to the chairman of Tnuva Naftali Ben-Sira⁶. (Ynet, 2005)

The letter contained some arguments. The first argument refers to the fact that dairy farmers have not received any information regarding the issue of Tnuva to the stock exchange. The estimate of the value of Tnuva has not been communicated and dairy farmers have learned the information from the press. The second argument is that the issue of Tnuva at the stock exchange has not been approved either by management or the board.

The letter warned all levels of decision-makers to not be tempted to receive options or other bonuses.

A follow-up to this lies in the application that five Moshavim sent to the Registrar of Cooperatives - the same lawyer Yaron Saar request an investigation to be opened against the leadership of Tnuva. (Mazori Dalia, 2005a)

Sources close to Tnuva believe that the issuance of shares of Tnuva at the stock exchange will no longer be held that year.

6. Naftali BEN-SIRA, a member of Moshav Kfar Vitkin former Secretary-General of his Moshav, director of the regional purchasing organization of Emek Hefer and Hasharon, secretary general of the movement of Moshavim, and the chairman of Tnuva since the departure of Gédalia Gal, also a member of Moshav Kfar Vitkin. Until the demutualization he is Chairman of the Board of Directors of Tnuva.

(Morgenstern Ronit, 2005c) The director of Tnuva, Reichman, confirmed that dairy farmers have the power to stop the demutualization when a minority of members of Tnuva, 25% are dairy farmers. (Morgenstern Ronit, 2008a)

A month later the dairy farmers can be calm because the demutualization process is postponed until at least mid 2006. (Morgenstern Ronit, 2005d) The main reason is the search for a solution to the problem of doing business between contradictory factors. The issue concerns the fact that Tnuva is owned by its suppliers of raw materials - dairy farmers. The authority of stock exchange seeks a solution and has already advanced, but the solution will not be ready until a few months.

Another direction of activity by the Israel Cattle Breeders Association was undertaken. (Morgenstern Ronit, 2005e) Meir Brawn director of the Association said that the Association will approach the Supreme Court to block the government's decision to remove price controls on dairy products. The risk for dairy farmers is that this government move will lead the opening of the import of dairy products to Israel and hence, the destruction of the branch.

The mediation committee between the management of Tnuva and the dairy farmers has completed its deliberations and submitted its conclusions. (Morgenstern Ronit, 2005f) Their findings are summarized by the fact that the issuance of Tnuva shares is no more on the agenda. The committee supports changing the legal structure of Tnuva to enable members who wish to leave the cooperative do so and be properly paid. The committee recommends to divide the

process of change of ownership of Tnuva into few steps. Tnuva's management said it would study the conclusion and take the necessary decisions. (Goldshtein Tany, 2005e) The article adds that opponents of the management of Tnuva, the dairy farmers, have used an audiovisual presentation prepared by the Director of Tnuva, Arik Reichman, two years previously, as part of the fight that led Tnuva, with other organizations as described above, against the Ministry of Finance and its privatization plan of the dairy market in Israel. Reichman said in this presentation that if Tnuva was privatized

"dairy market in Israel would be destroyed at a high speed and with it will disappear investment in human resources and materials for decades ... A proud peacock would become a chick."

Opponents claim that the arguments Reichman raised two years ago are still valid and serve to contradict against the privatization proposed by Reichman now.

Ziv Matalon⁷ a leading opponents of the group opposing the policy of Reichman in Tnuva, has decided to resign from his post as deputy director-general of the Milk Marketing Board. (Goldshtein Tany, 2005a)

Matalon was among the most ardent activists among the opponents of the privatization of Tnuva. He called for the

7. Ziv MATALON - a member of Moshav Béer Tuvia, dairy farmer, Deputy Director of the National Milk marketing Board, a member of the national committee for the fight against the privatization of Tnuva.

resignation of Reichman and the management committee of Tnuva. However, Tnuva has requested the resign of Matalon from his post of the Milk Marketing Board by saying that if he wants to continue his fight he can no longer continue to be in his executive position. Matalon wrote in his letter of resignation that: (Morgenstern Ronit, 2005b)

"In one of the largest Israeli enterprises in agriculture there is a dictatorship by a dominant person without limit and inadequate to manage a company like Tnuva."

Meir Brawn President of the Israel Cattle Breeders Association has reacted and expressed his regret for the resignation of Matalon. He stressed the enormous contribution of Matalon during the last ten years for the dairy farmers in Israel.

Towards the end of 2005 we find that the struggle of dairy farmers has brought results. (Goldshtein Tany, 2005d) The "revolt of dairy farmers" against Tnuva has succeeded and the management of the cooperative has abandoned the program to sell the cooperative to a private investor. At the same time the project to issue a portion of Tnuva shares at the stock exchange in Tel Aviv remains valid. A preparatory committee will discuss all controversial issues with representatives of the Israel Cattle Breeders Association and make its recommendations to the next convention of Tnuva in July 2006. Another important decision was the price that Tnuva buys milk and eggs from producers. The price will be high and by doing that Tnuva is trying to calm the farmers from their fear that prices would cut down.

At the end of 2005 Tnuva is in a situation of dismantling. (Goldshtein Tany, 2005b) The director of Tnuva has met with the dairy farmers, his opponents. At this meeting one could perceived with some accuracy the differences in approaches between Reichman and the the dairy farmers. Reichman has proposed the dairy farmers to buy the milk division of Tnuva and its products. The response of the dairy farmers was that Tnuva is theirs and that the solution is that Tnuva would sell all its unnecessary fixed assets to have the money to pay to members who want to quit Tnuva.

The arguments presented by the dairy farmers are that in the Western world milk is marketed by cooperatives created by the dairy farmers and owned by them. They are not listed on the stock exchange and do not need to show to their owners maximum profits at the end of the year.

Tnuva has been founded and maintained over the years mainly by dairy farmers, so the cooperative is theirs.

Reichman has a different view. Tnuva is not belonging to the dairy farmers nor its division of milk. Its fixed assets and other properties of Tnuva do not belong to dairy farmers. Tnuva is owned by its members who are Kibbutzim and Moshavim, which mostly are not dairy farmers. Even in Moshavim where there are dairy farmers they are a minority among the other members of the same Moshav. Reichman said he had been elected by all members of Tnuva and not only by dairy farmers.

Reichman says that dairy farmers had presented to Tnuva

some difficulties in the efforts to sell Tnuva. Reichman Arik, 21.8.08, #61736 Reichman says that the arguments of the federation presented by Brawn had a very strong influence, in some cases, but we must remember that the convention of Tnuva has approved the sale with a majority quite overwhelming. He added that the interests represented by the federation also had hidden personelles reasons that led people to act.

Reichman says that the struggle of the dairy farmers had nothing to do with the sale of Tnuva especially when it concerning the vital interests of these farmers. It is not important who will be the owner of Tnuva because the dairy industry is a branch under planning. The government gave the industry of milk an exemption from the limitations of the anti-cartels act. There is a mechanism which determines the target price of milk and that does not belong to Tnuva and not depend on the question who is the owner of Tnuva. The Knesset is in the process of enacting the law on the milk production in Israel that will protect milk producers and, the last point, Tnuva has signed an agreement for 15 years with the dairy farmers to protect the target price and that the buyers of Tnuva stipulate in the agreement that they should respect this agreement and it is part of the agreement on the sale of Tnuva. Tnuva has an interest for its business that the dairy industry in Israel would be strong and successful. And, we should remember that the process of belonging of Tnuva to members was done with the consent of dairy farmers.

The solution accepted by both sides is that the problem will be

voted the next convention of Tnuva scheduled for June-July 2006. The dairy farmers were concerned that Reichman will use the convention to get a decision in favor of the sale of Tnuva. Reichman was concerned that dairy farmers will use the convention to elect a different management and replace him. Both sides understand the need to get off "the top of the tree," and they have agreed to the Convention.

Another front has opened: these are members of Moshavim who are not dairy farmers, but have shares in Tnuva. (Mazori Dalia, 2005b) 20 Moshavim from the central region of the country have decided to organize to advance the privatization of Tnuva.

The reason for this approach, as explained by Amir Ritov, a member of Moshav Herut, is that the delay in the privatization of Tnuva cause very serious economic damages to thousands of members of Moshavim and Kibbutzim. The money that each member of Kibbutz or Moshav will receive be used to fund its pension funds, hitherto non-existent, or repay debts too burdensome on the backs of cooperatives.

The leaders of the movement of the rural cooperatives have expressed their support for Reichman. (Goldshtein Tany, 7.11.05) The approach of these leaders came as a result of the struggle of dairy farmers. Gavri Bar-Gil, secretary general of the unified Kibbutzim movement, Zeev Shour, the secretary general of the HaKibbutz Haartzi movement, Yair Reinman, the general secretary of the Kibbutz Hadati movement, Eitan Ben David, the secretary general of the Moshavim movement, have declared their support to the director of Tnuva. They condemn the dairy farmers, who, according to their words,

have chosen a path of slander, lies and cheating.

It is important to note that these same movements receive an annual subsidy of tens of millions of shekels from Tnuva which finance their daily activities. Details will be shown in the discussion on the financial status of Tnuva.

It should be noted here that another actor will take a very important role in the process of selling Tnuva, Granot. (Goldshtein Tany, 2005f) During the last meeting of the executive committee of Tnuva, Reichman called Yaakov Bahar, the director of Granot, as a puppet of Bader, president of Granot. Bahar reminds Reichman that Tnuva does not belong to him and he has not inherited his post in Tnuva. Tnuva is owned by its members. He accused Reichman that he leads Tnuva into a Byzantine court.

Amir Cohen, the secretary general of Moshav Béer Tuvia the last six years, and an active member of the group of the dairy farmers, testifies on the subject: (Cohen Amir, 2008d)

"Even the producers of milk in my Moshav, 80% of them have sold their shares in Tnuva. The money returned to the Moshav allowed me to fully repay the debts of my Moshav, and for a part of the members to repaying their debts to to the Moshav."

A similar situation is found in the testimony of Yitzhak Weitzman of Moshav Givat Yoav. Weitzman also was among the activists in the group of dairy farmers. He writes: (Weitzman Itzhak, 2008e)

"We shared the Tnuva shares evenly among all members. Most of the money was used to repay debts and also debts of members to the Moshav. The rest was distributed to members according to their shares. "

5.3 The Financial Situation of Tnuva

The financial situation of Tnuva has two faces: on the one hand, Tnuva's financial situation is stable and on the other hand the results for the year 2005 are below those of other companies in the same industry. (Barzilai Tamar, 2006)

Table2: Financial Situation of Tnuva

The company	Income (Numbers in bilions of shekels.)	Profits (in millions of shekels)	% of profit from income
Tnuva	5.3	202	3.8%
Strauss/Elitt	4.18	187	4.5%
Osem	2.52	177	7%

The economist Iska Erez of Clal Finance explains that the reason for the low profitability of Tnuva is in the mix of products sold by Tnuva which are commodities or products under price inspection such as milk in plastic bags, yogurt or white cheese, whose profitability is relatively low. Contrariwise, Strauss/Elitt sells more prestigious products and Osem has the advantage of marketing coffee. To illustrate, the sale of milk for consumption by Tnuva is estimated at 800 million shekels. This product is under price control where profitability is almost zero.

Another major factor is that Tnuva is obligated, by agreements, to pay the target price of milk to dairy farmers.

The profitability of Tnuva is a subject on the agenda of the cooperative. (Zomer Navit, 2005g) in the council meeting held on 6.4.2005 Tnuva director informed the participants that the year 2004 ended with a profit of 160 million shekels. These figures show a slight improvement compared to 2003, when profit was 150 million shekels. Tnuva has decided to distribute to members shareholders 32 million shekels. 10% of annual profit will be distributed to employees of the cooperative and 10% of annual profit will be transferred to the movements of Kibbutzim and Moshavim.

The members who oppose the current leadership of Tnuva claim that Tnuva shows very poor financial results during the last three years. (Zomer Navit, 2005h) Tnuva has earned during the years 2002-2005 an averaged of 70 million shekels per year. The annual turnover was around 4 billion shekels. Yitzhak Weitzman member of Moshav Givat Yoav and member of the council of Tnuva described the meeting. (Weitzman Itzhak, 2008b) He said that

"throughout the meeting was a sort of big parade. Delegates were gathered in a large projection room and a large audio-visual presentation where the balance sheets of 70 daughter companies of Tnuva have been presented, then a cumulative review summarized the presentation. Nobody was able to understand or remember what it was. They have distributed a brochure containing the balance sheet, but at the end of the meeting these brochures have been taken and no one was allowed to take with himself.

We were not agree with this process. We consulted the legal advice which has confirmed us that if we ask the document well before the meeting date, the document would be distributed."

Meir Brawn in his first interview with me, (Brawn Meir, 2008a) confirms the story but says that the association was able to obtain a copy of the annual balance sheet of Tnuva, which has helped them a lot.

The data from this report will be detailed below. (Tnouva, 2005) The financial report was prepared by the best known firms in Israel in the field of auditing, the firm Somel-Haikin and the audit cooperative Brit Pikuah.

Table3: Financial Results of Tnuva (in shekels)

	2002	2003	2004
Income	5.571.445.000	5.135.512.000	4.712.327.000
Total benefits	1.241.508.000	1.247.438.000	1.139.682.000
Benefits before income tax	121.777.000	157.180.000	166.273.000
Net benefits	(100.713.000)	145.130.000	150.436.000

Table4: Combined Financial Results

	2004	2005
Total income (in billions of shekels)	4.712.327.000	5.346.881.000
Gross Benefits (in billions of shekels)	1.139.682.000	1.301.179.000
Net Benefits (in millions of shekels)	150.436.000	175.800.000

Economist Reuven TENÉ⁸ analyzed the economic and financial situation of Tnuva at the request of the Israel Cattle Breeders Association and presented his findings. (Tené Reuven, 2008)

Table5: Economic Analyze of Tnuva

	Tnuva	Osem	Strauss
ratio price / earnings (The value of the stock market compared to net earnings)	30.0	20.5	38.06
capital ratio (The value of the stock market in relation to equity)	2.21	3.90	4.00
Ratio General Liquidity (Total value of liquid assets compared to the current obligations.)	0.84	2.25	3.08
Turnover net millions of shekels. (Available liquid assets less current obligations)	- 259	546	102
The measure of net profit (% net profit compared to the recipe)	3.4%	7.5%	4.1%

8. Reuven TENÉ - a member of Kibbutz Mévo Hamat, general manager of Kibbutz Geshur, a member of the Council of Tnuva. Economist, he made an economic study of Tnuva for the Israel Cattle Breeders Association.

Yield on equity (Report of net profit on equity)	7.4%	19.5%	13.3%
Payment of dividends to shares holders. (in 2004 and millions of shekels)	29.500	120.000	150.700
The total annual balance sheet	4.944.000.000	1.576.000.000	2.691.000.000
Equity	2.154.000.000	967.000.000	1.045.000.000
Total income	4.727.000.000	2.585.000.000	3.391.000.000

The data analyzed by Tené shows that the two other companies have better financial results than Tnuva.

The first element, the ratio price/earnings, is to describe the market value of the company divided by the net income of the company. In other words, the result tells us how many years the company will earn its value. More the figure is low, the better the situation of the company is. In our case, Tnuva is not in the first rank.

The second element, the ratio of capital is to describe the stock market value of the company divided by shares equity of the company. This index shows us if the company is presented in its real value to the stock market. More the figures are high, the better the situation of the company.

The third element, the current ratio, is to describe the total value of the liquid assets compared to the current obligations of the company. This ratio is calculated by dividing the total

liquid assets of the company by current obligations. More the index is high, the better is the situation of the company.

The fourth element, the net turnover, reflects the liquidity of the company minus current obligations. This index shows us the liquidity in the short term. More the figure is high, the better the situation of the company.

The fifth element, the measure of net profit, expresses the percentage of net profit compared to the total income of the company. The higher the percentage the better the situation of the company.

The sixth element, the return on capital, expresses the percentage of net profit on equity of the company. Highest percentage is better the situation of the company.

We can see from the last three rows, that Tnuva is an economic enterprise much bigger than the other two, but its economic and financial results are lower.

As part of their struggle dairy farmers have organized meetings where they tried to present their positions and convince other members of Tnuva that the solution proposed by the management of Tnuva and the director of Tnuva is not the only one. In the meeting held in Béer Tuvia (Zomer Navit, 2005a) Meir Cohen, a member of the executive committee of Tnuva said Tnuva is not really a factor on the financial market, nor from the viewpoint of the profitability or point of view of its turnover. These remarks by Cohen were expressed in a meeting of Tnuva members who are against the sale of the cooperative.

It is also important to present other views on the financial situation of Tnuva. (Goldshtein Tany, 2005c) Ivry Goren, Deputy Director General of Tnuva explains, in a reunion of the management of Tnuva, that it's debt incurred to finance the enormous investments of Tnuva the last few years. He added that Tnuva has no liquidity problems and that Tnuva has never been in a delay in its financial obligations. The importance of this meeting is that the decision on the issue of Tnuva to the stock exchange was postponed again.

5.5 The Dairy Farmers Activities during 2006

On the 16/11/06 Ynet published (Ynet, 2006a) an interview with Ziv Matalon, one of the leaders of the dairy farmers members of Moshavim. In this interview he promised that the privatization of Tnuva will not take place without the consent of the dairy farmers. At the beginning of November 2006, (Goldshtein Tany, 2006g) in Moshav Nir Etzion, took place a meeting of 500 dairy farmers from different Moshavim. The meeting decided on the actions plan to mobilize the necessary funds needed to thwarting the plans of Arik Reichman the general director of Tnuva to sell Tnuva to private ownership.

The dairy farmers prepared a detailed plan to acquire Tnuva. They were assisted by one of the biggest firm of certified accountants in Israel, Kesselman and Kesselman, and with one of the major law office in Israel, Ardinst and Ben-Nathan. The former director of the Milk Marketing Board, Avshalom Dolev, reminds what happens to the fish farming branch, when a private investor entered, who turned later on to become the owner with majority of shares, and the branch

turned to showing to be on deficit from a very profitable one. A further information is that already in October 2006 (Goldshtein Tany, 2006b) the Israel Cattle Breeders Association, organizing all the cattle growers in Israel and presenting their interests, will act in all means to prevent the selling of Tnuva.

On the day the management of Tnuva has convened to decide about the results of the tender (Goldshtein Tany, 2006e) the dairy farmers organized a large demonstration outside of the main offices at the head quarter of Tnuva. The management called upon the police to separate between the demonstrators and the offices.

Later development from the dairy farmer (Goldshtein Tany, 2006d) side is the announcement that at least two of the groups which didn't succeed, and another financial group, of Moty Zisser, an owner of another big financial concern, have engaged a negotiation to join them to present a counter proposal to purchase Tnuva, and to bring it to the general meeting of Tnuva, to enable them to remain the co-owners of Tnuva.

At the same page brought another information which quotes a passage from a letter sent by Danny Kritchman, former director general of the Ministry of Agriculture, and member of a Moshav himself, and who represents the members of Moshavim wishing to sell Tnuva, and wishing to distribute to money among the so many members who do not use the

services of Tnuva now-a-days.⁹

A new player is entering to the picture in this story of the purchasing of Tnuva by the dairy farmers (TheMarker, 2006a). Yitzhak Bader, member of Kibbutz and director

9. At the same news and on the same date (Goldshtein Tany, 2006d): Danny Kritchman writes to Brawn, the director of the Israeli association of cattle growers:

" I am trying to explain you the irreversible large damage that you and your collaborators may cause to the shares holders of Tnuva in general and to the dairy farmers in particular. Most Kibbutzim and Moshavim today are rich on paper, owners of large fixed assets, but unable to face economically the daily life needs and submerged in actuary deficits soared high and live below the minimum wage level in impossible conditions although they worked, exerted and sacrifice themselves more than 50 years now. Fixed assets of Kibbutzim and Moshavim, including Tnuva, are alike pension funds, so they should serve as financial resource to the owners. No need to re-mention the high financial value of Tnuva and at the same time, to my embarrassment, to mention the size of distress of these settlements. Even if there is a fraction of truth in your argument that the selling of Tnuva would hurt the price of the milk, still there is a real need to sell Tnuva as soon as possible."

In addition, Kritchman added to his letter an hidden threat, according to it, if Tnuva would not be sold, the other members of Tnuva will do to reduce the price of the milk paid to the dairy farmers:

" To the extent that you will succeed to destroy the selling of Tnuva, the members of Tnuva would be able to decide to increase the annual dividends to all the members, and parallel decrease the price of milk to the dairy farmers. To your sorrow, it could be done in any given majority, and no need to a special majority (as opposed to the selling of Tnuva which needs the special majority in the general meeting, Z.G.). You and your colleagues will be remembered as those who led Tnuva to this situation. I certainly see your will to purchase Tnuva by yourselves, but I know that you know that there is no air in this balloon."

general of Granot¹⁰ who joined to the dairy farmers to present a counter proposal to the one which won the tender. The dairy farmers propose that they will join, according to their choice, with one of the groups.

The dairy farmers proposal includes the following components: (Gabison Yoram & Klingbail Sivan, 2006)

- The private investor will purchase the shares of members who will wish to sell at the price offered by Apax, namely 1.025 billions dollars.
- The investor and the dairy farmers will hold 50% of Tnuva shares each, and will own Tnuva equally.

10. Granot is a secondary cooperative belonging to 41 Kibbutzim, most of them in the regions of Emek Heffer and the center of Israel. (Granot, 2007) Yitzhak Bader, a member of a Kibbutz, is the general director of Granot for the last 13 years. Granot has an annual turnover of 1.5 billions shekels. Granot has been established initially as center for the production of provender or animal fodder to be supplied for its Kibbutzim members.

Granot has today various plants as packing houses for oranges and avocados for export, has slaughter houses for turkeys and broilers, plants for the processing turkey meat to finished products for export. Granot has other various plants as well as those acquired by itself or in partnership, such as the fuel company Dor-Alon, the cultivation of fruit plantations all over the country. Granot owns also the cowshed of Kibbutz Beit Hashita. Kibbutz Beit Hashita faced economic difficulties, and Granot bought the debt of the Kibbutz as well as the cowshed of the Kibbutz. The cowshed belongs mutually to the Kibbutz and to Granot, and after 18 years the ownership will returned to the Kibbutz. Granot bought as well from Kibbutzim in economic difficulties their shares in Tnuva and write off the debts. Granot has a company to create the components of reproduction of broilers and turkeys, mainly for export. It purchased half of ownership in Amal company which operates old age nursing centres of hundreds of beds in various Kibbutzim. Granot expects to a turnover of 1.7 billions shekels and net profit of 100 millions shekels.

- The investor will give to members of Tnuva, who will choose not to sell their shares immediately, an option for 8 years to pay them for their shares the price of the agreement, at the value of 1.025 billions dollars.
- In the first 3 years, members would be able to sell their shares only to other Tnuva members.
- The investor is committed to maintain the target price of the milk, and a planed dairy production.
- The investor will allocate a non-recourse loan to dairy farmers to enable them to pay for the shares of the members who wish to sell their shares.
- The only security for the loan will be the shares in the hands of the members. The loan will be reimbursed from the annual dividends.

It is important to add here explanations to the above last two paragraphs: the investor will purchase only 50% of Tnuva shares. In case that more than 50% of the members will wish to sell their shares, the investor will finance the remaining dairy farmers members to purchase, if they wish, up to 50% of Tnuva shares. The security for this loan will be only the shares themselves, and the reimbursement of the loan would be done out of the yearly dividends.

- The investor will nominate a general director.
- The dairy farmers and the investor will nominate two co-chairpersons.
- The dairy farmers will not oppose to any structural change in Tnuva.
- The milk and milk products part of Tnuva will remain as a

cooperative.

Yitzhak Bader hopes that when it will be decided who is to be the partner-investor, there will be no need for them to wait to the general meeting date, but they will start to mobilize more and more members to their side in order to come to the general meeting with a sound proposal which is supported by sufficient number of members. It is important to note here that Tnuva and Granot are considered among the larger cooperatives in the world according to (Ynet, 2006b) a publication of the International Cooperative Alliance (ICA). Tnuva stands in the 143 place in the world with an annual turnover of around 1.5 billions dollars, and Granot is in the 300 place in the world with 600 millions dollars annual turnover. It is important to complete the picture and to mention that Granot is basically, (now it is much wider than,) a regional purchasing organization (cooperative). The Kibbutz movement has today 6 regional purchasing organizations with a total of 4.5 billions dollars of annual turnover.

6. Preparation of the Selling of 2006

This chapter describes a short period of time Tnuva has gone through during November and December 2006. During this period the process of demutualization of Tnuva, from a cooperative, has been accelerated. On the other side, it is unclear, during this period, if this process would ends up in the demutualization of the cooperative or with a revival of the cooperative, since underestimated cooperative forces are

emerging to direct the process towards a new cooperative road.

This huge secondary marketing cooperative includes many members who, for many years, contributed to the formation of a big body of capital which presents the huge value of Tnuva. The majority of the Moshavim members are no more today dairy farmers, and aren't engaged in agriculture needed to be marketed by Tnuva, like the flowers growers for export, and many are those who no more in farming occupation. The same situation exists as well in many of the Kibbutzim.

Still, the majority of the economic activities of Tnuva is based on milk and milk products marketing. Selling Tnuva to private ownership and abandoning the cooperative structure, may hurt the dairy-farmers heavily.

Tnuva is considered as one the biggest marketing cooperatives

in the world. Tnuva has been established in 1926¹¹. At the end of the nineties of the twentieth century the general assembly of Tnuva has decided that the whole equity-property of Tnuva, which now we know is worth more than one billion dollars and belongs entirely to its members, practically and

11. To learn more about Tnuva, (Galor, 2002) where I describe the changes that have occurred in recent years, in particular, understanding that the cooperative owned by its members individually and also when it comes to the ownership of the cooperative. Another article on the subject can be found and downloaded here (Galor, 1990a).

individually.

The next step happened during the month of November 2006, and I will try to describe it in the next pages. On Sunday 19.11.06 the envelopes of the tender for the selling of the shares of Tnuva (Tnuva, 1999a) were opened. There were five economic bodies which have taken part in the competition to purchase Tnuva from the members. The management of Tnuva has sent a document which constitutes "an application to get proposals", and which has been phrased by the legal advisers of the cooperative. The central component of this tender is that the winner will purchase at least 51% of Tnuva shares, and that the offer would be based on the nominal value, at least, of 800 millions US dollars. (TheMarker, 2006f) The five economic bodies who stood for the tender are very serious economic enterprises. Their concern about Tnuva is not restricted to only agricultural marketing activities, and mainly milk and milk products, but also to the accumulation of yielding real estate which, according to evaluations done by close source to Tnuva management, is valued at least up to 700 millions dollars, as well as very considerable cash balance, from which lot of dividends can be withdrawn. It is worth noting here that the tender stipulates that the winner will not be able to touch the accumulated cash, but only some years after the purchase.

6.1 Considerations towards the Selling of Tnuva

During months before the decision to whom Tnuva would be sold, the director of Tnuva, as well as other management members, stipulated that the control of Tnuva would remain in the hands of the farmers. The farmers in general, and the dairy farmers in particular, were sure that Tnuva was going to sell 20%-30% of the shares, but the ongoing negotiations with the various investment groups spoke about the selling of 51%-100% of Tnuva. It turns out that (TheMarker, 2006d) the process through which Tnuva approach towards the selling was changed gradually and the starting was with the negotiation taken place with the investment fund Apax. Apax demanded a complete control over the cooperative, and was ready to pay several hundreds of millions dollars more than the amount dealt with until then, has completed the change. The proposal then spoke about the sum of 900 millions dollars. So the management of Tnuva considered this situation as an opportunity not to be missed by the members of the cooperative.

More information were found in the different media, even before the opening of the envelopes of the tender and the decision concerning the winning company, (TheMarker, 2006c) about the difficulties Tnuva is facing in this process.

Tnuva has many members who are no more agricultural producers in the various branches. The membership in Tnuva is composed almost equally of Kibbutzim and Moshavim as members. Third element is that most of Tnuva members today

are no more active farmers, and they would be tempted by the highest possible price from Tnuva. The fourth component is the dairy-farmers members. They are minority among the members but the majority in the total volume of marketing done by Tnuva today.

Another obstacle Tnuva is facing, when completing the selling, is that Tnuva is a cooperative, and to decide about the selling a general meeting should adopt the decision in special majority of 75% of the members. The general assembly of Tnuva will be convened on March 2007. Another obstacle, less serious, is the demand of the government that the Kibbutzim would transfer to the state 25% of Tnuva shares they hold, as part of reimbursement to the state in the writing-off the debts of the Kibbutzim to the banks in the middle of the nineties.

Why dairy-farmers oppose the selling of Tnuva. (TheMarker, 2006c) Dairy farmers are getting for their marketed milk "target price" (The price Tnuva and other milk products plants, pay to dairy farmers; this price is determined by an agreement among dairy farmers, dairies and government, and is not subject to market fluctuations.) and in other words, a price, assured by the government to agreed milk production quotas. This target price assured the profitability of this capital intensive production branch. These dairy farmers know that private buyer of Tnuva would turn it from a cooperative into a limited company, where such arrangements, known as

related party dealing, since they happen between the suppliers of the enterprise who happened to be the owners as well, so they can exist only in a cooperative but not in a private or public company.

6.2 The Owners of Tnuva

Tnuva is a secondary cooperative, that is to say where the members are primary cooperatives, and in the case of the Tnuva these are the Kibbutzim and the Moshavim, all together 620 in number. 52% of the ownership belongs to the Kibbutzim and 48% to the Moshavim. Up to 1999 the ownership was not linked to the members as explained in my paper (Galor, 2002). The general assembly of Tnuva in 1999 decided that all property and equity of Tnuva belongs completely to the members of the cooperative. The assembly decided as well that 50% of the shares will belong to the primary cooperatives and 50% of the be shared among the individual members of the primary cooperatives, (and this refers mainly to Moshavim), and will be distributed according to volume of marketing done during years of membership. This decision gave priority to the dairy farmers members, since their marketing volume is higher than other agricultural produce. This situation has created a possible difficulty towards the coming general meeting on the first trimester of 2007.

It is important to make here a clarification made by Reichman (Reichman Arik, 2008) is that 50% of the shares belong to members of Tnuva, Mochavim and Kiboutzim, on an equal

basis and 50% to members, once again the Kibbutzim and the Moshavim, unevenly and according to their participation in the economic activities of Tnuva during the years of marketing of their agricultural products by Tnuva.

On the other side of the arena we find the majority of the members of Tnuva, at least 2/3 of them, and it is valid in the Moshavim and in the Kibbutzim, who are not engaged in agriculture at all or in agriculture produce which doesn't need the marketing services of Tnuva. These members are supposed to get individually huge sum of money, sometime hundreds of thousands of Shekels, and do not find any interest or any importance to continue to have shares of Tnuva, and prefer getting money, which is theirs legally already. Considerable number of Moshavim and Kibbutzim are heavily in indebtedness and the selling of Tnuva may give them some refreshing air. So, the selling is backed and supported by the leadership of the Moshavim movement and that of the Kibbutzim. We have a situation where on one hand side the majority of the members of Tnuva and on the other hand the dairy farmers, minority, but quite possible capable to organise on their side more than the needed 25% of the shares to block any attempt to sell Tnuva.

Another factor revealed after the buyer of Tnuva has transferred the entire sum, and that the money was distributed to member-cooperatives, (Weitzman Itzhak, 2008d) according to the email of Yitzhak Weitzman, where he writes :

"Dairy farmers of my Moshav are part of the cooperative, the Moshav. The decision of the General Assembly of the Moshav is valid for us, the dairy-farmers, too. The money that our Moshav received from the sale of Tnuva has served to reimburse the

Moshav debts to financial institutions in the country, and part was used to repay debt that members had to the Moshav, and a portion was distributed to members according to their share. Dairy farmers were not for sale their shares to Tnuva, but they were obliged to follow the decision of the majority of our members in the Moshav. We, the dairy farmers, are a minority. We are only 22 members of the total 60 members of our Moshav. "

The total of the annual income of Tnuva has been published here. (TheMarker, 2006k)

Table6: Products sold by Tnuva

Items	2005	2006	
Dairy products	3.329.000.000 Sh	3.521.000.000 Sh	
Meat, poultry, fish	1.047.000.000 Sh	1.307.000.000 Sh	
Eggs	230.000.000 Sh	239.000.000 Sh	
Vegetables and frozen pastry	272.000.000 Sh	264.000.000 Sh	
Others	419.000.000 Sh	506.000.000 Sh	
Real estate	50.000.000 Sh	--	
Total	5.347.000.000 Sh	5.837.000.000 Sh	

From both groups of data we see clearly that milk and dairy

products constitute much more than fifty percent of the total sells of Tnuva. It is clear why dairy farmers among the members of Tnuva are opposing the selling of the cooperative to a private ownership. How the members of Tnuva are planning to halt this process. The main step they are intended to take is a counter proposal to the purchasing of Tnuva to be presented to the general meeting of the cooperative. The meaning is that they would seek to have a control over the decision making body of Tnuva, by purchasing more than 50% of the cooperative's shares.

6.3 Who are the Intended Purchasers.

In an information published in the internet version of TheMarker (TheMarker, 2006b) five groups of investors are competing on the purchasing of Tnuva. The groups include the Africa-Israel company, the investment fund Markston, the international investment fund Apax, the investment group of Meir Shamir and the groups of Yigal Hauvi.

The composition of these groups are as follows:

- Markston fund is the biggest investment fund in Israel associated to the Deutsche Bank, as well as to Tené investment fund.
- Meir Shamir associated to the Merrill-Lynch and to Bank Leumi.
- The real estate promoter Yigal Hauvi associated to the Fibi

investment bank belonging to Tzadik Bino.

- The investment fund Apax is a private investment fund. (Shimoni Elli, 2006) Apax has 8 centres in the major financial centres worldwide. This fund has already invested in Israel, mainly in the purchasing of Bezeq, the Israeli Telecom company, as well as tenth of Israeli start-up companies.
- Africa-Israel company belongs to the billionaire Lev Lebayev.

In the tender among the five competitors the Apax company won after a process of bid. (Goldshtein Tany & Hazani Golan, 2006) The price Apax offered was 1.025 billion dollars. According to that information which quote Arik Reichman, the general director of Tnuva, Apax didn't offer the highest price, but their offer was the closest to the demands of Tnuva. Apax was obligated to protect the target price of the milk, and to preserve the equity capital of 3 billions shekels for at least 8 years without getting any dividends.

The chairperson of the cooperative, Naftali Ben-Sira, (Goldshtein Tany & Hazani Golan, 2006) added that the decision about the winner has been adopted after Apax has offered the most valuable proposal as well as the most significant strategic contribution to future development of Tnuva. The Africa-Israel group and the Meir Shamir group have offered higher in 25 millions dollars.

The main components of the Apax offer, published the day the

decision has been taken, contain the elements that Tnuva will remain a cooperative. Apax obligate itself to purchase, in the agreed price, all Tnuva shares which would be offered by members. Members who would not wish to sell their shares will be organized into a body associated to Apax in the management of Tnuva. Apax will not withdraw any money from the equity capital of Tnuva for the next coming 8 years, and this comes to ensure that the buyer would not finance the purchasing from Tnuva money itself. Another component in the decision to purchase Tnuva is the ability to leverage Tnuva to direct it towards the international market, since the actual management came to the conclusion that there is no more room in the local market for any form of expansion for Tnuva. Tnuva fixed a minimum of 800 millions dollars, so the price offered by Apax responded to all Tnuva expectations.

The general director of Apax in Israel, Ms. Zehavit Yoseph Cohen, mentioned that the policy of Apax policy towards Israel economy is very positive, and as evidence its participation in purchasing of Bezeq, and the additional investment in Israel worth more than one billions dollars.

The interdiction applies on Apax to withdraw from the equity capital of Tnuva up to the amount of 3 billions shekels, seems surprising, (TheMarker, 2006h) since the equity capital of Tnuva in 2005 stands on the amount of 2.3 billions shekels. A possible explanation is that the real value of the real estate of Tnuva is really higher than the former estimation, and it brings the total value of the equity capital to the 3 billions figure, and may be More. The assumption is that Apax think

that Tnuva is managed so inefficiently, that good and effective management would increase the profit of Tnuva to a level which enables the fund to achieve better yields on their investment.

One of the factor brought Apax to offer the purchasing of Tnuva is the international activities of Tnuva (TheMarker, 2006i) provided that the purchasing will be approved. First planned step is the foundation of a dairy and the purchasing of various companies engaged in the production and the processing of milk in India. Similar steps planned towards Europe and USA. Parallel, the purchasing of large Israeli food companies, to the extent that the general director of the Israeli Antitrust Authority would approve it.

The reaction of the Israel Cattle Breeders Association was swift. Two days after the decision on the winning company, Apax, (L'équipe pour l'alternative, 2006) the association has prepared a plan of action to build up its strategy.

The events following the decision of the sale showed two opposing forces, the management of Tnuva on one side and the association on the other side, leading a race to convince members of Tnuva, dairy farmers and members who are no longer farmers.

The team of the association proposed the following lines of conduct;

- The mobilization of members to create a bloc obstructive of 26% of delegates in the prochain convention of Tnuva.
- The preparation of an alternative by a group proposing to buy Tnuva and who will be present at the next general

meeting (the convention) of Tnuva.

- Establishing a system of propaganda, of advertising and of public relations in order to popularize the ideas of dairy farmers group.

- The foundation of a new cooperative called "milk lakes". The founders would be the dairy farmers from Moshavim and Kibbutzim. This cooperative will hold all units of participation (shares) and its goal will be to organize for the purchase of Tnuva to a partners sympathetic to the cause of the dairy farmers.

Yossy Maloul, active member of the committee of the dairy farmers has prepared an audiovisual presentation (Maloul Yossi, 2006) in which he presented the distribution between members and cooperatives that are dairy farmers and their respective shares in the number of shares in Tnuva and on the other side members who are not dairy farmers and the number of shares they hold. The data it provides are as follows:

Table7: Distribution of Share capital

	Tnuva shares of dairy farmers		Tnuva shares of non dairy farmers		Total Tnuva shares	
Moshavim	104	22%	213	23%	317	45%
Kibbutzim	218	45%	75	10%	293	55%
Total	322	67%	288	33%	610	100%

The proposal of Maloul is that in the cooperative to be created all members would be equal in property holding and that dividends will be distributed equally as well.

Maloul offers a comparison of the two alternatives:

Table8: comparison between alternatives

The alternatives	Apax	The farmers way
Sale price	1.025 billions \$	1.025 billions \$
Possibility to realize	Now	Now and during 8 years
The condition of those who remain	Minority	Equality with the partner
Defense of the dairy industry	Partially	Complete and in controle
The format of the Corporation	A limited company	Cooperative
Exit	The stock market in London	A long term agreement

It is important to present here an agreement which was signed (Agreement, 2007) between Tnuva and dairy farmers. The agreement is another step in the efforts made by Tnuva to convince dairy farmers to lift off their opposition to the sale of Tnuva, as part of preparations Tnuva is doing for the general assembly of Tnuva, which should approve the sale, with a 75% majority of members.

The importance of the agreement is that Tnuva gives recognition to the Israel Cattle Breeders Association as the only representative of the dairy farmers in Israel. The agreement confirms an accepted policy as regards the economy of the milk branch in Israel and especially in regard to safeguarding the target price of milk.

Tnuva confirms its commitment vis-à-vis the dairy farmers and all of these commitments will be respected by the

purchasers of Tnuva as an integral part of the agreement for the sale of Tnuva to Apax.

This agreement will be valid for the next 15 years. The agreement was a cardinal importance in the unfolding of the events during the coming year, until completion of the sale of Tnuva.

7. Selling Tnuva

On 20 November 2006 the management committee of Tnuva decided at 15.00, that the company Apax won the bid for the purchase of Tnuva. Five companies have participated in this public offer. (Machov Lahaklaout, 2006) The next step is the confirmation of the decision by the Convention of Tnuva where the decision must be approved by 75% of delegates members of Tnuva.

The two "sides" in this field have expressed their reactions. Eitan Ben David general secretary of the Moshavim Movement believes that an agreement be formulated between the interests of the dairy farmers and the those of the "silent majority" of members of Moshavim who seek to receive the real value of the shares of Tnuva. On the other hand, Meir Brawn director of the Israel Cattle Breeders Association said that the entire process is illegal and will be cancelled by the General Assembly, the convention, of Tnuva. Apax will pay as soon as the sale is approved and that all legal problems would be solved, the sum of 1,025 billion U.S. dollars.

Naftali Ben Sira and Arik Reichman, respectively the chairman and director of Tnuva, wrote a circular letter which

was quoted by (Rojansky Amy, 2006) the website of the federation of farmers in Israel. The letter explains the details of the Memorandum of Understanding regarding the purchase of Tnuva by Apax.

Some conditions stipulate in the memorandum and must be completed prior to final sale. The conditions include the selling price in U.S. dollars to be paid to members who decide to sell their shares at the rate of the day of signature of the memorandum.

If the memorandum of understanding is approved members will have the right to sell or retain their shares. The shares will maintain at least the value proposed by Apax or their value will be higher as in the stock exchange of Tel Aviv.

Tnuva will sign, before the memorandum is implemented, a legal agreement which guarantees the target price of milk for the next 12-15 years. Apax undertakes to respect this contract.

The capital of Tnuva including any profit from the sale of fixed assets up to the value of 3 billion shekels can not be withdrawn from Tnuva for 8 years.

For the former members of Tnuva who choose to remain in the new Tnuva, who would hold 25% of stake in Tnuva will have the right to veto decisions on fundamental questions about the future of Tnuva.

The chairman and director described the contract-memorandum signed with Apax as the best contract possible and added that according to their opinion this contract is

"Win-win situation". They point out some advantages that appear for the first time in the cooperative life in Israel. This is the first time in a cooperative that fixed assets belong unequivocally directly to the members individually and are available at any time.

In this process of sale, explains Reichman, (Reichman Arik, 2008) there are two dimensions: on the one hand, members of the cooperative the owners are looking to receive the highest possible price for their shares, and on the other side, is the cooperative which seeks who will buy the cooperative, and preferably, a strategic investor. Tnuva have looked for this buyer during four years, in vain. So, says Reichman, we decided to turn the page towards the Israeli market.

The entry of an investor to Tnuva is to increase its ability to compete in the Israeli market and internationally.

7.1 The Struggle of Dairy-Farmers in 2007

The standing committee preparing the forthcoming general meeting of Tnuva, which has convened, few days earlier to the publication (TheMarker, 2006e) of this information item, and discussed the agenda of the general meeting where the decision if Tnuva would be sold or not, and to whom if yes. Parallel to this activity, a team of dairy farmers on behalf of the dairy farmers members of Tnuva is highly active. Apparently, according to the information item, and which would be changed few days later, the dairy farmers are cooperating with the management of Tnuva. The standing committee reported that they have accepted the proposals of

the management of Tnuva to gather the meeting on the 6th of March 2007. The standing committee headed by Yaakov Tzur former minister of agriculture and one of the leader of the Kibbutz movement, announce that if the dairy farmer will request a certain delay to the planed date to complete their preparations, he will grant it.

An article published one day later, (TheMarker, 2006g) the journalist, Amiram Cohen, sum-up the further development in the story of the selling of Tnuva.

The first component in the whole process is the ego conflicts, among the members of Tnuva, as well as among the future buyers of Tnuva.

At the beginning of the process of making a bid it was clear to various groups of buyers that the value of Tnuva can't be over 850 millions dollars. But, the price label now is over 1 billion dollars. The continuing process of the selling forecast by the activity of the dairy farmers, as well as the competition among the buyers, may increase the price label of for the cooperative to higher height.

On the dairy farmers side, the investor who will join them will have to finance for them a loan for the purchasing of shares at the amount of around 200 millions dollars, in order that they will own 50% of Tnuva shares. How will they reimburse this loan. The dairy farmers claims to return the credit out of the

improvement in the value of the cooperative by selling out of deficit activities, and by the improvement and making efficient of the management, and the dividends distribution to owners.

But, analyzing the figures of these assessments raises the following givens: the last net annual profit of Tnuva was at the level of 170 millions shekels, and in the assumption that improved management would increase the net profit to 205 millions shekels, after tax payments, and assuming that half of this profit will serve for dividends, the share of the dairy farmers would be around 60 millions shekels, an amount which will hardly serve the interest payments.

Further critic aimed at the issue of co-ownership and controlling. The assumption is that the investor will give Put options to those members of Tnuva who will decide not to sell them immediately, and assuming that in few years 10% of them would wish to sell their shares, then the investor will have 60% of the share.

I think that the issue was clarified by the dairy farmers, and that they will find the formula which will have them always 50% of the shares. It is clear that there always be 50% of the shares with the dairy farmers, so the mechanism of the investor to finance the purchasing of shares, up to 50%, will be an operation as long as it will be needed.

The journalist, Amiram Cohen, refers to another point where the dairy farmers may meet difficulties. The actual management of Tnuva will be able to come back to the

winning group, Apax, and to inform them about the better price offer, and this group will be able to raise the price. As a result: the dairy farmers are going to arrange to Reichman and to the management of Tnuva a better price.

The dairy farmers, oppositely, are relying on two major mistakes of Arik Reichman. (TheMarker, 2006)

The first one, in their opinion, is that Reichman was wrong in not reaching with them a situation of constructive dialog. The second wrong step of Reichman was that he has not accepted the higher offer of the bid, but has chosen an offer containing as well as ideological components, namely preserving cooperative elements inside the new structure of Tnuva. This, in fact, gave the dairy farmers the opening of their actions towards the preservation of Tnuva as a cooperative. The next step of the dairy farmers will be a counter proposal to acquire Tnuva, which will be presented before the coming general meeting of Tnuva, where the decision will be taken.

Another mistake of Reichman is that he didn't include the director of Granot in the team dealt with the selling. It might be a situation where the regional purchasing organization would join the dairy farmers, and by so doing they would have more than 25% needed to block all the selling process. The journalist, Yoram Gabizon, (Gabizon Yoram & Klingbail Sivan, 2006) adds that Yitzhak Bader, the director of Granot didn't deny his will to become the next director of Tnuva, as well as that he is the cousin of Meir Shamir, who proposed the highest value bid for Tnuva, and to this fact the journalist adds

a further significance. It is important to note once again that Danny Kritchman, member of Moshav and former director general of the ministry of agriculture, who belongs to the selling supporters. (Kritchman Danny, 2007) He threatens that if the process would fail by the general meeting, then the non-dairy farmers, who are the majority of the members of Tnuva, will decide about annual distribution of dividends of 200 millions shekels instead of the 50 millions distributed today. Another threat of the supporters is that in case of failure in the selling of Tnuva they will hurt the target price of the milk, so important to the dairy farmers.

As an almost last development in the evolution one can mention the fact that either Apax or Africa-Israel company (TheMarker, 2006m) are ready to collaborate with the dairy farmers in the acquisition of Tnuva. This step shows that Apax is not assured that the decision about the selling of Tnuva would be approved by the coming general meeting. Whereas in a news published on the 28.12.06 (Goldshtein Tany, 2006c) a story about an agreement signed between the group of the dairy farmers and the group of Meir Shamir, is told. The agreement speaks about principles, which have already been mentioned by us before, and the main points are that the control of Tnuva will be owned together by the concern of Meir Shamir and the group of the dairy farmers. The ownership of the cooperative would be shared equally between the two parties. The Meir Shamir concern will finance to the remaining members the purchasing of shares up to the amount of 50% of the total shares of Tnuva, with a loan

which would be reimbursed out of the profit of Tnuva in the future. After the signature of the agreement, the dairy farmers representatives are calling the actual management of Tnuva to come together with a joint resolution to the coming general meeting of Tnuva, scheduled to march 2007.

The dairy farmers have not raised their arms. (Kaldor Yair, 2007a) Immediately after the announcement of the sale of Tnuva to Apax, November 20, 2006, the dairy farmers have signed an agreement with Meir Shamir, a billionaire, but also the cousin of Bader, The director general of Granot, which will play an important role a little later, and which originates from a Kibbutz. Maloul, one of the most outspoken activists and former director general of the Israel Cattle Breeders Association, said that activists tilling the ground and visit different parts of Israel to meet members of Tnuva, dairy farmers and those who are not in the Moshavim and the Kibbutzim. Their goal is to convince them that the alternative proposes that the federation is better than the proposed purchase of Apax.

Maloul and Brawn have published a circular letter (Maloul Yossi & Brawn Meir, 2007) to the attention of dairy farmers. Both explain the implications of the sale of Tnuva. They appoint the dangers existing from the sale. The agreement encourages members to sell their shares and get out of Tnuva. Tnuva may not have members farmers. The sale of Tnuva is a real danger for the dairy farmers in Israel. The state, which seeks to divest all obligations vis-à-vis the dairy farmers and leave the market to multinationals who represent global interests and has nothing for the Israeli producers. They attack

another important point by explaining that the money that members receive after the sale will be half of that promised. After Brawn and Maloul describe the dairy farmers in the developed world, which is in a cooperative framework. They conclude by recommending the members to remain in the cooperative and not to sell their shares.

But the agreement with Meir Shamir has failed. Dairy farmers will have to find another solution. Why the agreement with Meir Shamir, so promising to dairy farmers, failed. Brawn said (Brawn Meir, 2008a)

"The activity of dairy farmers was very costly. Everyone has been asked to contribute 5 shekels per dairy cow he owns. Altogether we have collected a sum of 500,000 shekels, which have financed our activities"

Dairy farmers have signed an agreement in principle with Meir Shamir. Large pressures were imposed on Shamir by several actors, but especially his lawyer, Ram Kaspi, has proposed him to withdraw from that agreement. Shamir has paid, from his own will, compensations to dairy farmers for this withdrawal.

Maloul reported that the contract with Shamir stipulates that 50% of Tnuva will remain in the hands of dairy farmers and 50% in the hands of Shamir. But that contract did not last long.

Dairy farmers have reacted quickly and have contacted, 24 hours later, another Israeli billionaire through his company Africa-Israel (Brawn Meir, 2008a) and have managed to sign a similar contract with the company. But a few hours later the

company withdrew the contract with the explanation that the pressures on them were too high.

Brawn detail the factors that have played against alternative agreements for the purchase of Tnuva:

- The Minister of Agriculture, Shalom Simhon, a member of a Moshav, was against the cooperative possibility and was for the privatization of Tnuva, as virtually, the majority of members of Moshavim.
- The secretaries general of all rural cooperatives movements in Israel. Tnuva has subsidized, on annual basis, financial support to strengthen the annual operating budget of these movements. Tnuva has supported the financing of these leaders electoral campaigns for their posts.
- Members of the management committee and board of Tnuva. The majority of these delegates were under the influence of Reichman, except Bader, director of Granot and Amir Cohen from Béer Tuvia, nobody dared to speak against Reichman.

The next stage of dairy farmers was to renew contacts with the director of Apax. (Brawn Meir, 2008a) The association has announced it will try to have an agreement with Apax. (Yaav Eilayil, 2007) The federation seeks to find understanding with Apax to protect the market of milk and the dairy farmers in Israel. The reversal of the situation caused by the approach of Shamir. (Morgenstern Ronit, 2007a) Shamir reported to the stock exchange in Tel Aviv that he intends to collaborate with Apax to acquire all Tnuva. This is the first step that will bring the sale of Tnuva at its conclusion.

The dairy farmers have continued their struggle, but at the same time the director of Apax, Zehavit Yosef Cohen, also pledged in an outreach campaign among members of Moshavim and Kibbutzim and especially among dairy farmers. She met a group of dairy farmers, members of Moshavim, among them Ziv Matalon of Béer Tuvia, a leading opponents of the sale of Tnuva to Apax. (Morgenstern Ronit, 2005a) She tried to convince the dairy farmers to change their opinion on the sale. Apparently, she has succeeded in her mission to convince the dairy farmers to change their position. (Mazori Dalia, 2007) She has succeeded in a meeting in Béer Tuvia, to convince dairy farmers, the most vociferous opponents to change their opinion and to support the sale of Tnuva to Apax. Yoav Tzur one of the strongest opponents among dairy farmers of Moshav Béer Tuvia, who expressed his objections against Reichman and his desire to sell Tnuva, said:

"She spoke nicely and managed to convince me. I was against the sale and I stayed against, but we are pragmatic people and we understand that we are losers in our struggle. We are too small in this world of large billionaires"

Weitzman (Weitzman Itzhak, 2008b) speaks of Zehavit Yosef Cohen with great affection and notes her personal capacity to conduct negotiations with dairy farmers and who convinced them that the purchase of Tnuva by Apax will not harm the interests of dairy farmers.

The agreement between Apax and Shamir gave an impetus to the propaganda activities of the leaders of these two companies. The management of Tnuva has joined to this

activity among members of Tnuva in preparing the general assembly of Tnuva scheduled for the month of March. The convention of the movement of Moshavim took place on 18.1.2007 in the Southern Sharon region. (Morgenstern Ronit & Mazori Dalia, 2007) Hundreds of representatives of the 254 Moshavim have supported the sale. Only six delegates were against the sale. This figures show the general spirit of the majority of members of Moshavim seeking the sale of Tnuva and the recovery of the money that their shares represent.

The month of March was approaching and the convention-General Assembly of Tnuva has been conveyed. (Kaldor Yair, 2007b) 1100 participants, 618 among them are delegates, took part. The convention approved by a majority, almost overwhelming, the sale. Ten delegates expressed their opposition.

The convention of Tnuva in 1999 began the process of the belonging of Tnuva to its members. As a result each Moshav and every Kibbutz knew what is its respective share in the ownership of Tnuva. The convention of Tnuva in 2003 gave Reichman the green light to continue the steps towards a structural change in Tnuva. Reichman began this most step to sale of Tnuva to the most of his possible.

He explained that his actions aimed at returning Tnuva to its owners. Thanks to the sale each member of Moshav, or Kibbutz, will define their future in Tnuva; sell the shares or rather retain ownership of the new company.

The sale of Tnuva encouraged by the leaders of Moshavim and Kibbutzim is explained by several reasons:

- The opportunity to repay and erase debt existing for a long time.
- The opportunity to create and stabilize pension funds to older members of these cooperatives.
- The lack of interest to be a member of Tnuva for the majority of members of Kibbutzim and Moshavim.
- Those who remain in Tnuva will be those who have an interest in the affairs of the cooperative to become a company.

Above all, the confirmation that membership in a cooperative is valid and useful as long as the cooperative meets the needs of members.

The events that followed the decision of the sale of Tnuva has rapidly unfolded. The failure of the opponents of the sale to make valid proposals addressing those of Apax did not close the case. Granot, and other regional purchasing organizations, belonging to the groups of Kibbutzim, have been organized to ensure 25% of the value and control of Tnuva in the hands of the farmers. (Haaretz, 2007a) Granot, which is the the largest regional organization of the Kibbutzim with Bader as the director, and 7 other regional organizations have formed a "rural bloc" which will have over 20% of shares and which will give them the rights of minority under the Companies Act. Their goal is to get up to 25% stake in Tnuva and when Apax will "exit", or it will sell its shares in the market, they buy up the shares to control the society.

The movement of Moshavim announced that 96% of members' shares of Moshavim will be sold to Apax-Shamir. The Kibbutzim (Cohen Amiram, 2007m) will sell only 30.5%

of their shares to Apax-Shamir and transfer 21.5% of their shares to the organization created by Granot. (Goldshtein Tany, 2007d) The movement of Moshavim estimated that 80 Moshavim will repay all their debts with money from the sale of Tnuva and that 25 other Moshavim will considerably reduce their debts. The Moshavim which reimburse their debts to banks will be exempt from income tax which is approximately 20% on profits. Each Moshav will decide regarding the use of the money. The movement of Moshavim has created a special team of professionals to assist each Moshav in making the decisions and in organizing for the sale of the shares.

The alternative to the struggle of dairy farmers was the establishment by Granot of the "Agricultural group" with 6 other regional organizations, which are virtually cooperatives of second degree, all belonging to different Kibbutzim located in different corners of the country. (Haaretz, 2007b) The Kibbutzim movement presents two arguments for this approach:

- The tax advantages granted to those who will join Granot.
- The Granot initiative gives hope to farmers that they will have an impact on Tnuva when Tnuva will be managed by Apax and more than that - a starting point for a possible takeover of Tnuva control, wholly or in part, when Apax will make an exit in a few years and when the value of Tnuva would increased.

7.2 The Government and the Selling of Tnuva

The Minister of Agriculture, Simhon said in the convention that the government will enact a law that will settle the issue

of milk price. (Kaldor Yair, 2007c) The statement by the Minister Simhon during the convention came to strengthen the position of the management of Tnuva and that of those who were for the sale of Tnuva to Apax.

Contrariwise, the Accountant General in the Ministry of Finance said he looks to abandon the Tnuva shares the government holds and to sell them to Apax. (Morgenstern Ronit, 2007b) The topic of Tnuva shares that Kibbutzim must transfer to the Government under the agreement on regulation and erasing the debt of Kibbutzim is on the agenda when the date of transfer of Tnuva to Apax-Shamir approach. In this agreement of 1996, 25% of Tnuva shares will be transferred to the state when Tnuva will be sold. Apax does not agree that the state holds shares in Tnuva because it will prevent it in the future to sell its shares on the stock exchange and also decrease its values on the stock exchanges. Apax has announced that if the state does not renounce these shares the sale will be cancelled. Another request of the government is the signing of 17 Kibbutzim who have not signed the agreement in 1996 and which was signed by 240 other Kibbutzim at the time.

Few days before the date of the Convention, a compromise was made between Zélicha, the accountant general, and Apax. (Morgenstern Ronit, 2007b) The arrangements concern at the same time Zélicha and Apax and Zélicha and the Kibbutzim movements. The agreement stipulates that Apax review in 45 days if the state may hold shares in Apax legally (around 6.5% stake of Tnuva are in the hands of the state) and if Tnuva can not be regarded as a Joint company. The accountant general is agreed not to intervene in the management of Tnuva and not

delegate his own director in the board of Tnuva.

The movement of Kibbutzim sent a letter of obligation to Zélicha that until the date the contract would be final the 17 Kibbutzim will also sign that they will transfer to the state 25% of their shares in Tnuva. Zélicha warned that if he did not receive the signing of these Kibbutzim it would cancel the exemption from taxes on the sale of the shares of Tnuva.

But the promise of Kibbutzim made to Zélicha has met with difficulties. (Goldshtein Tany, 2007a) 16 Kibbutzim (1 Kibbutz has already signed its obligation) refuse to accept the request. They claim they had never contracted debts so they did not need arrangements that other Kibbutzim signed.

A leader of the movement of Kibbutzim, Gavri Bar-Gil, proposed a solution in which the 16 Kibbutzim deposit money into a special fund and that the fund money would be paid to the state if the 16 Kibbutzim would create any advantages for themselves such as utilizing tax exemptions. The proposal has not been endorsed by the state, at least for the moment.

The 16 Kibbutzim have responded by explaining that during the last ten years they have transferred, under the mutual assistance of the Kibbutzim movement, millions of shekels, so they have largely paid their share without being obliged to do so.

The situation of the sale of Tnuva starts to become clearer, said Meir Shamir who purchased Tnuva with Apax. (Goldshtein Tany, 2007b) A further development in the case is the agreement with the 16 Kibbutzim. (Cohen Amiram, 2007c) A special fund will be created. In this fund both sides, the 16 Kibbutzim on one side and the of Kibbutzim movement

on the other, each will submit 10 million dollars. Three years later mediation will be made. If the movement of Kibbutzim win, the 10 million dollars of the 16 Kibbutzim will be transferred to the government and 10 million of the Kibbutzim movement will returned to them. But if the 16 Kibbutzim win, that is to say that the movement of Kibbutzim made a commitment on behalf of these Kibbutzim names without authorization to do so, the 10 million will be returned to the 16 Kibbutzim and 10 million of the Kibbutzim movement will be transferred to the government.

The restrictive trade practices controller, Ronit Ken, a government body which must give its approval on the sale of Tnuva has given its agreement for the sale on condition that Tnuva in the future, do not discriminate other dairies regarding the sale of milk powder. (Haaretz, 2007d) Tnuva is the sole producer of milk powder in Israel. It transforms the fresh milk in excess during the winter months and during weekends, and sells milk powder to other dairies during the months of shortage in supply of milk in summer.

It only remains, for its final approval of the sale of Tnuva, to obtain approval from the Registrar of Cooperatives and the tax exemption for the sellers in two cases: For those who remain members of Tnuva among shareholders, Kibbutzim or Moshavim, but their shares will be transferred from direct individual ownership to the ownership by the cooperative group founded by Granot, and the exemption for those, Moshavim and Kibbutzim, which reimburse, with the money of the sale of Tnuva, debts to various banks.

7.3 Registrar of Cooperatives

One of the major influential element in the selling of Tnuva is the Registrar of Cooperatives in Israel. The registrar has the authority of a judge in a district court of law concerning all activities of cooperatives in Israel. All steps done by Tnuva management were under the supervision of the Registrar of Cooperatives.

On August 2006 the Registrar of Cooperatives has rejected (Goldshtein Tany, 2006f) a one year old demand of representatives of some of the Moshavim, members in Tnuva, mostly dairy-farmers. The registrar has checked their claims concerning deficiencies in the management of the cooperative. The members claimed that Tnuva did wrong financial investments in a dairy in Romania and in a fresh beef plant in Israel, as well as the selling of some real estates. The registrar explained that no sufficient evidences brought to him to proof the claims, so he accept the answer of the management of Tnuva that it is her power to decide on issues relating to financial issues and not the general meeting.

A further step in the struggle of the members opposing the sell of Tnuva was in the recent request of 23 Moshavim who claims to the registrar (TheMarker, 2006b) and asked him the issue an injunction against the meeting of the management of Tnuva. The registrar gave an order to Tnuva to explain in 48 hours to him why should they be convened on Sunday 19.11.06. But, later on, on the same day, (Goldshtein Tany,

2006a) he has decided to confirm this meeting and to enable Tnuva to discuss and to decide freely concerning the coming selling of Tnuva. In fact, he has rejected the demand of these Moshavim, mainly representing members who are dairy farmers, who are opposed to the selling. The registrar approved the meeting of Tnuva management because, mainly, the decision is not creating an irreversible situation, especially when this decision should be approved by the general meeting of the cooperative.

The selling procedure of Tnuva has created a further issue to members, shares owners, in the cooperative. It refers to the issue of the ownership of Tnuva. Does the cooperative, the Moshav or the Kibbutz be the owner of the shares of Tnuva, or are the individual members the owners of the cooperative shares. Decision on this issue has a considerable importance since it is about very considerable amount of money. (Goldshtein Tany, 2006a)

The decision of the registrar in this case has a very high importance since it may affect the ability of the management of Tnuva to achieve the special majority of 75% of the votes in the general meeting of Tnuva. (TheMarker, 2006j) Another issue which might be of concern to the registrar and would requires him to decide is the change of Tnuva from a cooperative to a limited company. In such cases the registrar ought to nominate a special enquirer in order to clarify if any of the share holders of Tnuva may be hurt from this decision.

In the case of Moshav Nir Banim, the registrar ruled in the dispute between the management of the Moshav on one side and a group of 16 members, all dairy farmers, on the issue of the ownership of the shares of Tnuva. The Moshav claims that the shares belong to the cooperative, the Moshav, as a whole, but the dairy farmers claim that the shares value should be credited to members according to their participation in the economic activities of the cooperative towards Tnuva, and as dairy farmers, their participation was larger than that of other members.

The registrar ruled that the shares belong to the cooperative and not to the individual members. He gave the following reasons:

- In the balance sheets of Tnuva the shares are registered on the Moshav name and not on members names. Even in the balance sheet of the Moshav the Tnuva shares are presented as part of the cooperative equity capital. The dairy farmers of Nir Banim have never registered these shares as their own property and never declared them to the income tax authority.
- The dairy farmers have received their milk production quota free of charge from the Moshav, and have never paid for.
- The dairy farmers show no evidence that the shares were written on their names.
- There is no evidence that the real value of Tnuva is derived only or mainly, from the milk production, during the years of existence.

The decision of the registrar may have some influence on the decisions of Tnuva general meeting in the coming meeting on

March 2007.

A further chapter in this conflict took place (TheMarker, 2006j) at the district court of law in Jerusalem where the judge ordered the Registrar of Cooperatives to appoint a special enquirer to check the process of the selling of Tnuva up to this date. The court determines that the enquirer will be appointed before the sell will take place and as consequence, the delay of the dates of the coming general meeting of Tnuva.

This decision was given in the framework of a court compromise, where the management of Tnuva will present in three weeks time to the registrar the whole selling file, and immediately afterwards, the registrar will nominate an enquirer.

The Supreme Court of Justice has banned the Moshav Nir Banim to distribute the money received from the sale of Tnuva among the members of Moshav. (Haaretz, 2007c) The discussions regarding the question of how to distribute payments from the sale of Tnuva among the members of same Moshav, equally or according to the number of shares of Tnuva that each member has the right to hold, exist in several Moshavim. The decision of the Registrar of Cooperatives was that sharing must be done evenly among all members. The dairy farmers have made an appeal to the supreme court in Jerusalem. The main argument of those who are for the equal sharing is that Tnuva members are primary cooperatives, not individual members.

The obstacles to the sale of Tnuva also include the position of the Registrar of Cooperatives in the subject. (Cohen Amiram, 2007j) The registrar expects that the special investigator appointed to check whether the sale of Tnuva will hurt members of Tnuva. The instruction given by the registrar may prevent the sale (Goldshtein Tany, 2007c) or will delay it because the special report of the investigator is not yet near. The date of the confirmation of the sales approach and the Registrar of Cooperatives is expected to confirm the sale of Tnuva. (Cohen Amiram, 2007a) Argument was presented to him is that the delay of 9 months is a fundamental defect in the case.

The case Tnuva-Apax will be delayed because of the investigation of the Registrar of Cooperatives. The role of the Registrar of Cooperatives in Israel in all activities of the demutualization of Tnuva has been rated by some dairy farmers. (Cohen Amir, 21.1.08) Amir Cohen believes that the role of the Registrar of Cooperatives was not dominant and was influenced by events and by the various forces around him. (Brawn Meir, 2008b) Brawn joined this impression. He believes that the Registrar of Cooperatives do not played a key role in privatization. He accompanied the supporters of privatization and gave them the necessary legal coverage.

Reichman (Reichman Arik, 2008) evaluates the work of the registrar of cooperatives saying that the registrar was essential for the sale to be completed. The registrar did not show any objection to the sale of Tnuva, but checked each step if it is

consistent with the law. He also name a special investigator to monitor the sale, and at the end he gave us his indispensable approbation for the sale.

7.4 The last steps before finalizing the sale

In a meeting of Moshavim, Zuri Lavie, the legal adviser of Tnuva, informed that the Moshavim would receive 490 million U.S. dollars before tax. (Cohen Amiram, 2007i) The Kibbutzim would receive before tax the amount of 300 million U.S. dollars. The sum is reduced because the Kibbutzim reimburse 25% of the sum they got to cover debts to banks and to the government. 21.9% of members' shares of Kibbutzim remain in the hands of the agricultural groups of Granot. 3.1% will remain in the hands of the dairy farmers in Moshavim.

The creation of the agricultural group of Granot opened a hope among Kibbutzim that they have a chance to achieve control over Tnuva. (Cohen Amiram, 2007i) The plan is based on the presumption that the group Granot with 21.9% plus 3.1% of dairy farmers of Moshavim and Meir Shamir group with 20% of the shares will have the majority and will be at the head of Tnuva. Apax came to Tnuva for a period of 5-6 years, presume the leaders of Granot, as it did in its other international investments and, according to its statements, it will focus on developing international activities Tnuva. Meir Brawn also think (Brawn Meir, 2008a) that the chances that dairy farmers will have control over Tnuva are high. There are dairy farmers who do not share that opinion. Weitzman

(Weitzman Itzhak, 2008f) wrote me in an e-mail that he has been advised regarding Meir Shamir business that he has no friends or relations when it comes to its interests. Ziv Matalon confirms the attitude of Meir Shamir against dairy farmers (Matalon Ziv, 2007) and says that Meir Shamir has admitted that his behavior vis-à-vis the dairy farmers was inappropriate and he paid, from his own will, compensation to dairy farmers in Israel. Amir Cohen believes that the abandoning of Meir Shamir the dairy farmers (Cohen Amir, 2008b) was significant for a person who has mocked dairy farmers. The future will tell whether the alliance Shamir-dairy farmers succeed.

The collaboration with Meir Shamir continued after Tnuva has passed definitively in the hands of the buyers. (Cohen Amiram, 2008a) Again, the emphasis is on the fact that this collaboration could serve at the time that Apax would make an exit to the stock exchange. Shamir with 20.7% and the group Granot which takes 21.9% can take control of Tnuva.

The problems that arises again for the completion of the sale are the request for tax exemption from the taxes authority. (Cohen Amiram, 2007g) The reason is that the existing law limits such exemptions that may be granted to the agricultural sector to he amount of 1.5 billions shekels limit. The existing situation is that the threshold is already exceeded. The demand from the Kibbutzim and the Moshavim is based on the fact that the money will be used to repay debts to banks and to set up pension funds for members farmers. The convention of Tnuva, which decided on the sale conditioned the sale, among other things, to the obtaining of the exemption. The Kibbutzim, knowing that the problem exists,

presented a view of one expert, Professor David Gliksberg, that the exemption can be applied under the existing law.

Another problem is about the value of the sale of Tnuva. This question of value was attacked by opponents of the sale in the following areas:

- The sale and the value of the sale will leave no great thing in the hands of members.
- The exchange rate of the dollar. The rate has not been guaranteed by sellers. The two factors were mixed.

Regarding the first point, it is discussed by Brawn (Brawn Meir, 2008a) who do the following calculations: The sale is decided and was signed on 20.11.2006. The exchange rate of the shekel - dollar was at that date \$1 worth 4.31 shekels. The date of the closure of the sale was the 7.1.2008, when the exchange rate was 3.8 shekels to one dollar. It's been a loss of around 12%. For a year no any interest was paid and the sum dormant at the buyers, and therefore a further loss of 6%. 18% on the sum of 1,025 billion is a sum of around 185 million dollars, if it was paid the day of the sale it was multiplied by 4.31 shekels, or the sum of around 800 million shekels the members have lost.

A group of 25 Kibbutzim bought an option for defending the exchange rate of the dollar. (Cohen Amiram, 2007n) These Kibbutzim bought options to protect the dollar exchange rate-shekel at 4.25 shekel for a dollar.

As a result, owners of Tnuva awoke, a little late. (Cohen Amiram, 2007k) Moshav Béer Tuvia sent a letter by his

lawyer to the Registrar of Cooperatives asking stopping the sale of Tnuva to Apax. The argument of the Moshav is that the process lasted too long, nine months, as do members have lost more than half a billion of dollars. Moshav Béer Tuvia, the largest shareholder of Tnuva, has lost therefore, when the values of its shares was 43 million shekels, 5.5 million shekels since the signing of the sale.

A further step to complete the sale is the guarantee of 250 million dollars that the bank Hapoalim gave to Shamir. (Cohen Amiram, 2007b) Shamir guarantees that this sum will enable the group Granot to mobilize 200 million dollars to acquire 21.9% of the stake in Tnuva. This purchase will allow the group to have Granot minority rights in the new structure of Tnuva and permits, as already mentioned, a springboard for a possible acquisition of the control of Tnuva, when Apax would made its exit in the stock exchange. The acquisition of these shares allow the group to ensure the interests of dairy farmers in Tnuva after the sale. The guarantee obtained is a condition for the sale to be completed. (Cohen Amiram, 2007d) The Accountant General of the Ministry of Finance, newly appointed, has decided to sell out the Tnuva shares the state holds for the sum of 67 million. This decision reverses the decision of the former accountant general Zélicha, which decided to retain for the state 5.4% of the shares of Tnuva. This is one more further step for the sale of Tnuva.

The sale of Tnuva is approaching to its final stages. (Cohen Amiram, 2007h) It is estimated that the sale is completed in late November and that the money will be transferred to shareholders during the month of December. As follows, a

little later, the district court in Tel Aviv confirmed the agreement on the sale of Tnuva. (Cikolar Naama, 2007) The Accountant General and the Registrar of Cooperatives have given separately, their agreement for the sale. The arrangements with the employees of the cooperative, in the number of 4500, is also been achieved. Each will receive on average the sum of U.S. 6650 dollars in their value in shekels.

The day Tnuva has gone out of the hands of members of the cooperative has arrived. (Cikolar Naama, 2008) The composition of ownership of Tnuva is the following: Apax owns 55%, Shamir owns 20%, The group Granot owns 21.9% and former members who have not sold their shares hold 3.1%.

7.4.1 The Properties of Tnuva

The property of Tnuva was almost a secret and highly debated. The subjects of the property of Tnuva and the question of the real value of these fixed assets, especially that this also concerns the real prices that Tnuva should have received for its owners, cooperative members, had drawn the attention of many people. Itzhak Landsman, director of Tnuva until 1996, when he was replaced by Arik Reichman, remained to work in Tnuva because he knew very well the condition of the real estate properties of the cooperative. (Maloul Yossi, 2008) The discussion and controversy concerning the property of Tnuva was a delicate subject in the period of the general meeting of Tnuva and the sale has not yet decided. But after the decision, the parties have demonstrated many precautions when it was about the

property of Tnuva. Apax has denied that it intends to sell real estate property of Tnuva. (Cohen Amiram, 2007f) The importance of this information is that the values of properties of Tnuva is estimated by Apax at only 250 million dollars. The most generous estimates give the property values of Tnuva to 500 million dollars.

As soon as the sale of Tnuva is completed the front of property is awake. (Zomer Navit & Petterson Offer, 2008) The site of the old market in the heart of Tel Aviv, is considered a hot commodity in the real estate market in Tel Aviv and is valued at one billion dollars. Fifty percent of this land belongs to Tnuva. The selling price of Tnuva took in mind that the value of all properties of Tnuva have been estimated to only 500 million dollars. Economic anonymous sources of Kibbutzim and Moshavim reacted (Cohen Amiram & Mirovski Arik, 2008) on the proposed sale and claimed that new assessments of the true values of the properties Tnuva, which include several sites in real estate all over the country, would be done. (Gabizon Yoram, 2008) The sites of real estate of Tnuva includes the wholesale market of Tel Aviv, the site of the Dairy of Tnuva in Tel Aviv, the site Gelilot and wholesale markets in Jerusalem and Haifa, to mention a few of them. The real value of Tnuva should be around 2.0-2.3 billion dollars. The news report assumes that members of Tnuva have lost a lot of money.

The fear of many is that buyers of Tnuva try to monetize real estate of Tnuva as soon as possible, to fund the credits they undertook, beginning to be realized. (Cohen Amiram, 2008b) Sources in the rural cooperatives movements, claim that

Tnuva accounts to distribute to its shareholders the sum estimated at 500-600 million dollars. This sum is the result of the sale of properties of Tnuva. The distribution of dividends from the sale of real property does not violate the conditions of purchasing of Tnuva.

A group of members of Mochavim seek the quashing of the sale of Tnuva. (Cohen Amiram, 2008c) The astonishment of several members of Mochavim and Kibbutzim is great when they have realized that they have sold Tnuva in 65% of its real value. A further step is made by a NGO called Ometz, which is famous for its fight against corruption, especially in the public service. (Cohen Amiram, 2008d) This NGO approached the controller of State and the Minister of Finance in complaining that the sale price was too low and that the state with the shares it owned losses a lot of money. The case has not said its last word.

7.4.2 The dairy farmers in Israel

Some reflections on the dairy branch in Israel. (Cohen Amiram, 2007e) The dairy branch is planned, and practically very little competition exists. To become a dairy farmer one needs to receive a "production quota" from the Milk Marketing Board, or buy another producer milk quota and the prices are under control.

To sell his milk the dairy farmer needs to sign a contract with a "dairy acquiring" by which he is authorized to sell its milk production only to this dairy.

The payment for milk, "target price" that the dairy will pay for milk is determined administratively by a committee of the price by the government's method "cost plus" (the entire cost

of production plus a small profit margin).

The advantage for the producers is that in this method the level of risk is very low.

Apparently, this situation is blocking the entry of new dairies to the market because any milk product is to be sold to a dairy acquiring and they are limited in numbers. Smaller dairies depend entirely on the goodwill of large dairies to be supplied with the milk they need..

Another aspect of the sale of Tnuva is the discussion that took place between dairy farmers and of non-active members of Tnuva. A representative of the latter group Danny Kritchman, a member of Moshav Beit Halevy, presents some additional aspects on the topic of Tnuva. (Kritchman Danny, 2008) He tries to explain that the rules on which operates the dairy farmers in Israel does not depend on who is the owner of Tnuva. Kritchman was director general of the Ministry of Agriculture and he says that in 1998 he signed the document on the reform of the dairy farmers in Israel which included all the components on which the government sets the target price of milk. Tnuva is not mentioned in this document not even once, and it has no position with regard to determining the price of milk.

The dairy farmers have reacted to the sale and especially the payment of money to members. (Levy Assaf & Adi Hagin, 2008) Both journalists have interviewed dairy farmers in different Moshavim and especially what they intend to do with the money paid from the sale of Tnuva.

Israel Shmueli of Moshav Béer Tuvia said that he will not

have festivals at home, and nobody will buy a Rolls-Royce. The Moshav will receive 0.97% of the value of the sale. Each member will get around 400,000 shekels, and most of the money will cover existing debts.

Kfar Yehoshua will receive the value of 0.64% of the sale. There is a conflict between dairy farmers and the rest of the members. Their decision is to await the decision of the Supreme Court in the case of Moshav Nir Banim. In the meantime, the money will be deposited in fixed and indexed bank account until the decision is taken.

Kfar Warbourg decided to share the money evenly among all members. The amount each member will get be around 200,000 shekels, and most are going to ensure the pension fund of each members, the majority are on their third age.

In Kfar Yehezkel 70% of the sum will be shared equally among all members and 30% will await the verdict in the case of Nir Banim. A member thinks that each family will receive approximately 70,000 shekels which will go to repay debts.

8. Some Comments Towards the End.

The story of the selling of Tnuva is interesting and attractive. It contains very interesting findings:

- First of all, Tnuva is a very large cooperative. It is one of the largest economic enterprise of Israel, and among the largest cooperatives in the world. This is another proof that a cooperative can operate successfully in a capitalistic environment.

- The story of Tnuva shows us once again the importance of

the fact that a cooperative can't exist if the members, at least the majority, have no more interest in the services it renders, for which they have created the cooperative.

- Tnuva is a good example that members understand, finally, that the cooperative belongs to them entirely, practically. And this is in contrary to the prevailing approach of the ICA.

- The Registrar of Cooperatives has finally understood, contrary to his position in the past, that the approach of the ICA concerning the ownership of the members on their cooperative is wrong, and has adapted the approach that the cooperative belongs entirely to the members individually.

- The Tnuva case shows that when there exists a group of members, who find financial interest in their cooperative, they will do anything in their capacities against the demutualization, and will be active to make their cooperative living in the framework of the cooperative, and to look and to find the solution which will combine their will with the will of the members who wish to quit the cooperative and to get their real value share in the cooperative equity.

8.1 Reflections of dairy farmers on the sale of Tnuva

The sale of Tnuva, decided in 2007, is almost the end of a process that began in 1999. (Cohen Amir, 15.1.08) The basic situation of Tnuva, a situation known to the leaders of the rural movements and the leaders of Tnuva, and Gédalia Gal on the top, was that this second degree cooperative has collected money from its members during the years of its existence, mainly to invest in fixed assets of the cooperative, but these properties do not belong to its members.

Another problem that the leaders of Tnuva have faced was that more and more members, who were farmers, not caring any more agriculture activities.

These problems led to the decision to start a movement towards creating a mass of money that will help solving serious problems that face agricultural cooperatives, such as lack of pension funds for individual members, mostly already old, and repayment of debts and creation of potential savings. So the decision of the convention of 1999 was that Tnuva would seeking a strategic investor that can provide the needed funds .

Another major decision of this convention was that of the belonging. Tnuva will return the real value of the shares to its members. The approach was correct, just and necessary. It should have been done much earlier. Cohen adds that if this approach would have been made according to past production by each member, the majority of shares would remain in the hands of dairy farmers. The decision of the convention of Tnuva was to make shares belonging to members and divided them: 50% to the members producer individually according to their economic participation during the years and 50% equally to Kibbutzim and Moshavim. Matalon sees this decision as a compromise done by politicians (Matalon Ziv, 2008a). Weitzman assesses the approach as a positive step because it has rendered producers and farmers the true ownership of Tnuva. (Weitzman Itzhak, 2008f) He added that for his sorrow dairy farmers were not on their guard and the events have been too much for them.

The convention of Tnuva in 2003 (Cohen Amir, 15.1.08) has put an end to the idea of a partner - strategic investor. Reichman efforts to find a financier or to issue Tnuva at the stock exchange in Tel Aviv have failed, mainly because dairy farmers have managed to convince the leaders of the movement of the rural cooperatives (Kibbutzim and Moshavim) that these moves are not to the advantage of Tnuva. Reichman has approached an international firm to locate potential buyers for Tnuva. The company has approached 32 multinational companies and they are all rejected the idea. The next step of Reichman, which was conducted with great talent, was to open a competition among Israeli companies, and it creates the competition on the basis of the different directors of these companies and their personnel ambitions, and which gave the expected fruit, the high selling price for Tnuva. Tnuva has been estimated around 600-800 milion dollars price and the sale has been completed at a cost of 1,025 billion dollars. Cohen said:

"We started in looking for finding a procedure of seeking how to reimburse members the real value of their investment in Tnuva, and we came to the sale of Tnuva."

The alternatives existed. In every economic structure the basic structure is to enable the process of redemption (buy-out) of those who want to leave by those who want to stay. The dairy farmers have proposed the best possible model. In the world milk is produced in cooperatives and is marketed by cooperatives. The sale of Tnuva is considered by other dairy farmers as a reaction of Reichman to a situation of failure. (Matalon Ziv, 2008a) Reichman and its supporters wanted to conceal a failure of management during long years and have

been pressed to make a liquidation sale of stock. Another opinion of Reichman as someone who is a prisoner of its counselors. (Weitzman Itzhak, 2008f) He believed that his policy is to the benefit of members, Kibbutzim and Moshavim, and the interests of those who are not dairy farmers.

The Opinion of Brawn is a wider view of the scene and especially what concerning the Israel Cattle Breeders Association. (Brawn Meir, 2008a) The central demand of dairy farmers started when Reichman wanted to issue Tnuva in the stock exchange in Tel Aviv. Brawn wanted to safeguard the interests of dairy farmers in Israel. He explained to Reichman that the control of the cooperative will no longer be in the hands of members. Reichman has not shared that opinion and the conflict was opened.

Reichman wanted to find a strategic investor (Landsman Yitzhak, 12.3.08) because he wanted a higher structure, a cooperative, that benefits from tax benefits, which will be over and owns different companies joined to the cooperative and to the private investors. He sought but did not find, especially because of the very complicated structure of Tnuva.

The reasons that the sale of Tnuva has been realized are manifold. (Matalon Ziv, 2008a) Human factors include the personality of Arik Reichman, director of Tnuva. Matalon thinks Reichman has sought to complete the sale because he, when he was the secretary general of the Kibbutzim movement, signed the agreement for repayment of debts of the Kibbutzim. The sale of Tnuva allow several Kibbutzim to

repay these debts. Another factor is the failure of Reichman staff in managing Tnuva. The sale of Tnuva is an opportunity for him to make this failure forgotten. Weitzman (Weitzman Itzhak, 2008f) also think that the personality of Reichman has contributed enormously to the sale. Brawn, (Brawn Meir, 2008a), which for ten years was a member of the management committee of Tnuva confirms that Reichman was a tough manager who was pushing very hard towards the sale and privatization. He adds (Brawn Meir, 2008b) that in the management of Tnuva all the world were afraid from Reichman and dared not to speak against him. He added that only two people, Amir Cohen from Béer Tuvia and Itzhak Bader, director of Granot, dared to speak against Reichman at meetings and that was not enough. A little more positive insight on Reichman is offered by Amir Cohen (Cohen Amir, 15.1.08). He said that Reichman has managed to achieve very efficient measures thanks to his strong personality. He summarizes that Reichman was an average director and very dominant one. He managed to bend all opposition and all the opponents and did all he wanted. The role of Arik Reichman is evaluated in another aspect by Dolev. (Dolev Avshalom, 2008) Since Reichman entered to the post of Director General of Tnuva in 1996 he began a process to change the role of Tnuva from the selling by Tnuva of unprocessed products to the selling of processed products with brand names which are sold better and more expensive in the market. The management of industrial products with brand names must have flexibility, dynamism, and the ability to respond quickly to versatile situations. Tnuva, as a cooperative was too heavy to react in this new situation. Reichman estimated that his

actions will lead the best selling price for Tnuva.

Another aspect of Tnuva is the change in the composition of its members. (Landsman Yitzhak, 12.3.08) Tnuva members were Kibbutzim and Moshavim. Members of Moshavim had less interest in Tnuva because many of them were no longer active farmers or involved in agricultural branches, and therefore no longer needed the services of the cooperative. The Kibbutzim have developed regional enterprises that have replaced many of the functions of Tnuva. Tnuva was less relevant for most of its members, except the dairy farmers.

A very important issue, the future of dairy farmers, is also discussed by Amir Cohen. He described the new situation where Tnuva is no more cooperative, as a problematic one for dairy farmers. Cohen said: (Cohen Amir, 15.1.08)

"Tnuva has been created by farmers and for farmers. Its role was to serve farmers without creating any profits as it is a non-profit association. Farmers with Tnuva had two layers. One layer was the production of agricultural raw materials. The other is the transformation of these raw materials into processed products ready for market. Farmers, members of Tnuva, were always agree to earn only from the first layer. The result was a moderation in consumer prices for the whole economy.

But now, Tnuva should make profits. The only ways to make profits is to reduce a major part of its costs, namely in the fresh milk branch. The last few years the dairy industry, especially in Moshavim, has invested the sum of 2 billion shekels in improving the infrastructure and the ecology of production. The branch is therefore very sensitive to price fluctuations and a decrease of 10% in the selling price of milk will cause bankruptcy of 25% of producers in the dairy sector in Moshavim. The collapse of the dairy farmers will open the door to imports of dairy products that have longer shelf life, and the fulfillment of the dream of officials

of the Ministry of Finance, and will open the door to increased imports to replace very quickly up to 50% of the current milk production."

The dairy farmers had to confront the indifference of non-farmers members of Tnuva. The common approach is that if dairy farmers will propose a price equal to the proposal of Apax, they will prefer the possibility of selling Tnuva to the dairy farmers. (Cohen Amir, 15.1.08) The dairy farmers can influence Tnuva with the agreement for 15 years they have signed with the buyers. (Matalon Ziv, 2008a) Dolev adds that the agreement for fifteen years is to the benefit of dairy farmers. (Dolev Avshalom, 2008) During this period the dairy farmers and Apax will learn to work together. He believes that Apax understand the importance of this agreement and it will strengthen the situation of dairy farmers. He believes that the struggle of dairy farmers gave the basis to become the nucleus of control that is initiated by the struggle of dairy farmers and is directed by the group Granot which controls almost 25% of Tnuva today. Dolev believes that the combination of strength with Meir Shamir will also give its fruit. The original agreement with Shamir failed but the current situation in Tnuva where he collaborates with the Granot Group and together they present around 45% control of Tnuva.

9. The model of the demutualization: the case of Tnuva

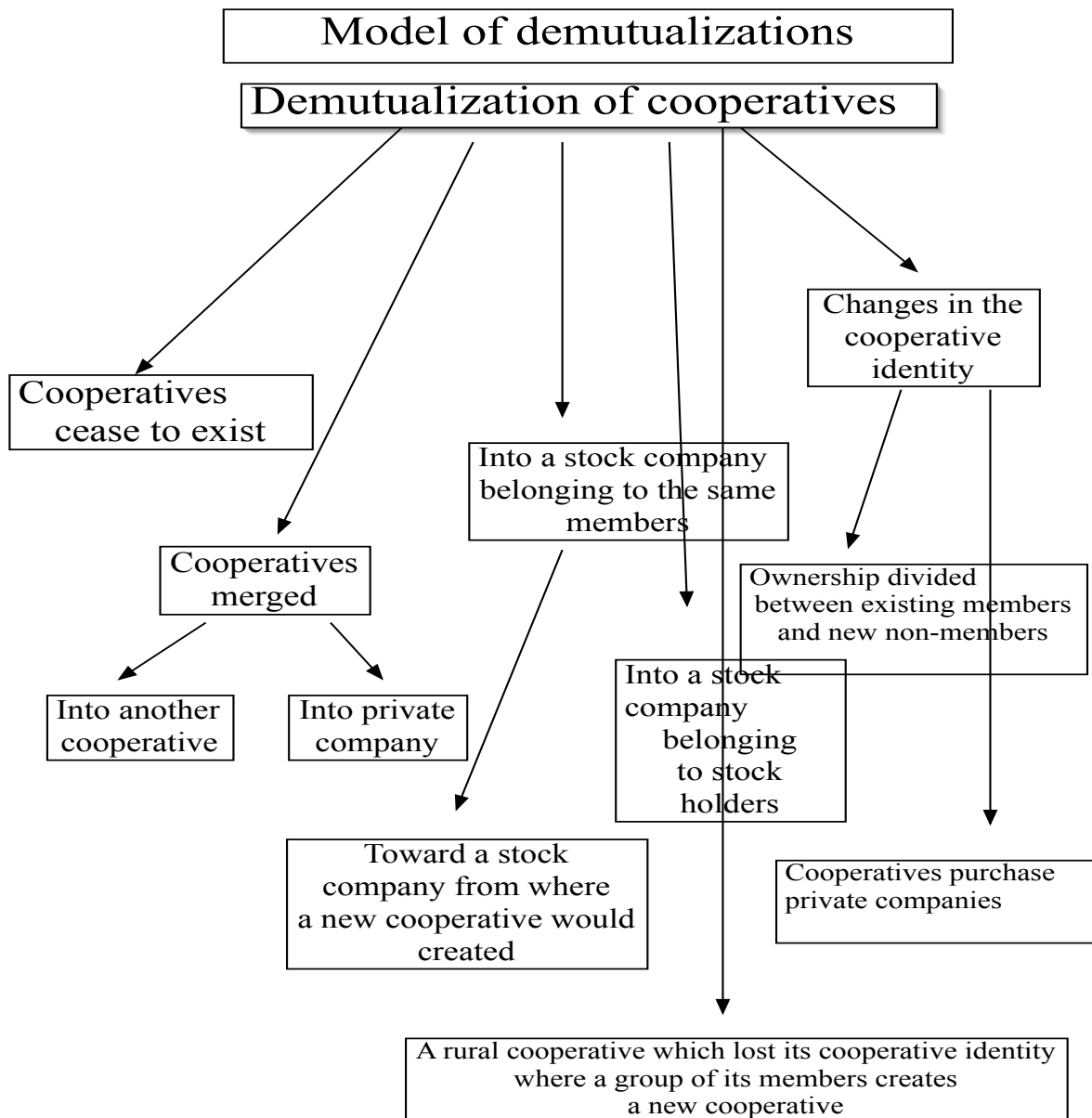
We proposed a model of demutualization of cooperatives¹² and we'll try to see how the case of Tnuva is compatible with

12. Zvi Galor : Démutualisation of Cooperatives: Reasons and Perspectives. charte no. 1, p.

this model. The model offers an overview of the possible demutualisation of cooperatives as well as a presentation of factors, both internal and external factors causing the demutualization.

54, charte no. 2, p. 56, charte no. 3, p. 58.

Chart 2: Demutualization of cooperatives



One of the internal factors is concerning the members themselves. The factors contain some components. The first one is the very limited property of members in the total property of of their cooperative. The fixed assets of Tnuva was built and financed by the members who have paid for on an uneven ways during tenth of years. The members paid a

percentage of their volume of transactions conducted by each of them with Tnuva.

The general formula for the value of shares in a cooperative is quite simple: the total value of all property of the cooperative divided by the current number of members in the cooperative. (Galor, 1994) The real value of each member's share is safeguarded throughout the existence of the cooperative and during the long years of membership of each member in the cooperative. Tnuva has never applied this approach. The alternative approach, and it is applied in secondary cooperatives, is that the members have ownership rights in the cooperative according to agreed formula. In this case as well the total of members shares, even if not equal, would be equal to the total of the value of the equity of Tnuva.

The question is whether Tnuva had applied this approach since its founding, the problems it faces now would have led it towards the process of demutualization. In this case, members would buy the existing shares of outgoing members and the cooperative will remain as it is. Now imagine if Tnuva would have applied the Galor approach, and would have taken this path. Then Tnuva would have registered the shares of members, according to the values of payments that members were paid according to the volume of sales they have done with the cooperative, and then put in their real value in the books of the cooperative. But, Tnuva didn't opt for this way. Naturally, the way Tnuva did, after tenths of years, the value of these shares were virtually nothing, while the values of the property of the cooperative become enormous. A state of affairs similar to several other cooperatives in the world who

went towards demutualization. Ziv Matalon confirms that this analysis is correct (Matalon Ziv, 2008b) and unfortunately this approach has not been applied. Contrariwise, Landsman do not think an equal contribution of all members of Tnuva investment during the years would have changed anything in regard to the demutualization of the cooperative. (Landsman Yitzhak, 12.3.08)

Amir Cohen suggests two possibilities that existed in the question of ownership to Tnuva. (Cohen Amir, 2008g) The first is the equal contribution of members in the funds to investment in the fixed assets as I propose, but this approach has not been applied, and another possibility, one that exists in limited liability companies namely, that those who invested, or rather, those who pay by their marketing should have increased ownership in the cooperative. Members who pay, their property share would increase, and members who do not participate, their share in the property decreases.

Another element in the proposed model is the factor of the expectations of members from their cooperative. Members create their cooperative because they need something, a product or service, that outside of the cooperative they are unable to obtain, at the amount sought and the desired quality and at the lowest possible price. The founding members of Tnuva established the cooperative because they needed to market their agricultural products at a sales price as high as possible and to pay the greatest part of the sale price the cooperative gets from the market, after the cooperative has paid all its operating costs, to the producers-members.

Many cooperatives are demutualized when their members have lost their interests in the economic activity for which they have founded it. The situation in Tnuva in the last few decades is that most members have lost interest in the cooperative and Tnuva has ceased to supply the needs of the majority of its members. A majority of members did not have any more any economic interests in Tnuva. The only interest they had yet is to receive from Tnuva the real value of their shares to Tnuva. One can say that most members of Tnuva, those who had no economic interest in the cooperative, did not seek to demutualize Tnuva but rather how to get their money. The notion that Tnuva shares have a value and above all a real value, is installed at the members minds only in the last few years. (Weitzman Itzhak, 2008c) This was valid for members of Kibbutzim and of Moshavim. Amir Cohen is in agreement with those words and that augment its astonishment why it was necessary to sell, except because of the pressure of director Reichman, Tnuva to Apax and not to the dairy farmers would they had agreed to pay the same price. (Cohen Amir, 2008e)

9.1 Organization of dairy farmers

The model that I have proposed [See page 132](#) and which explains the demutualization of cooperatives must take now into consideration other variables. I would add, to the existing ones, the variable of the reestablishment of the cooperative. The importance of this variable is that it describes that in an existing cooperative, which has lost much of its cooperatives characteristics, a group of members, characterized by the needs they share in common and by the need to find a solution

to a necessity they have, and that they want to get it through the new cooperative. It is, for example, the creation of centres for the supplying of forages. This regards as well to the creation of partnerships among dairy farmers.

I presented some questions necessary for the understanding of these processes. The first question is to whom belongs the center of the supply of forages. Are the members have paid for the creation of this center directly and on equal basis, or the loan repayment is made according to the uses of the services rendered by the center to each member. Another issue is the selling price that members pay the center.

One of the situation is described by Itzhak Weitzman about his Moshav (Weitzman Itzhak, 2008f). He says that his Moshav has dismantled the cooperative, and all services rendered by the cooperative are no longer existed. The dairy farmers in this Moshav have decided to establish a center for the supply of forages. In this Moshav there are 60 family members (60 agricultural units, each of 3.5 hectares). The farmer-member has 0.5 hectare where the house of his family, and the agricultural facilities, such as dairy barns. In this Moshav the member has an area of 3 acres of olive trees for the industry of olive oil with its installation for irrigation and vines for the production of wine. The two crops are harvested with harvesters machines. In addition to the house of the member, there exists the barn for cows. The farmer has 50 milking cows. The average annual yield of a cow is 11500 kg per lactation period of 300 days per year.

The cows are in the barn without going on pasture and are all

day in a lightweight construction which covers the entire surface where the cows are. The question of nutrition for the cows is solved by the creation of the center preparing a mixed forage for dairy farmers to solve the problem of feeding. It is a center for the supply of fodder for cows.

The center belongs to all dairy farmers of this Moshav, numbering 20. The center, because of its size, offers all the necessities to feed all dairy farmers cows, the owners, and sells 75% of its production to dairy farmers of various Moshavim around, which creates most of its income and its net income. The selling price for members of Moshav, owners and non-members, external customers, is the same. The profits belong to all members equally, but if they were distributed as dividends to members of the center there would exist the need to pay an income tax on (also the problem that European farmers are facing). The solution in this Moshav is that the profits that belong to each member also serves to reduce the purchasing price of the member's fodder. The entire net profit of the company is drastically reduced, members buy their forage at the cheapest price, and the question of paying income tax by the company itself is not on the agenda. It is clear that each member individually pay taxes according to his annual financial results.

Another Moshav which has learned from these changes in the cooperative structure is Béer Tuvia, the Moshav where the largest number of dairy cows in Israel are. Amir Cohen who is the secretary general of the Moshav between the years 2002-2008 described the changes in the situation. (Cohen Amir, 2008d) He says that 8 years ago the General Assembly

Béer Tuvia decided to cease a large part of cooperative activities previously conducted by the Moshav itself. The group of dairy farmers have sought a cooperative way to solve the problems they have faced. (Cohen Amir, 2008d) Most of the dairy farmers of Béer Tuvia have organized themselves into cooperatives for dairy farmers called Yatziv. The dairy farmers have continued to operate individually their cowsheds and their cows. There exists another very interesting structure. Three groups, of each three dairy farmers, have decided to create a common project which comprises the total of 9 members and 400 dairy cows. The project has decided to create for only themselves a small supply center for forages.

The cooperative Yatziv is described by its chairman Elik Aviéli¹³. (Aviéli Elik, 8.8.08) The cooperative was founded in 2001, when the Moshav stopped several of its cooperative activities. The cooperative Yatziv began with 25 dairy farmers, all from Moshav Béer Touvia. The majority of the members were dairy farmers and part focused on rearing calves. Today, 36 of the dairy farmers of the Moshav are members of the cooperative Yatziv and the total dairy farmers of Moshav amounts to 54 farmers. The annual production of milk in Béer Tuvia is 24,000,000 litres produced by over 2000 COWS.

13. Elik Aviéli is a member of Moshav Béer Touvia. He is the third generation in this Moshav. He is a dairy farmer. Member of the management committee of Moshav Béer Tuvia and president of the cooperative Yatziv, a cooperative of dairy farmers in the Moshav.

The purpose of the cooperative, according to Aviéli, is to produce and supply the livestock of Yatziv members fodder needed to feed cows and other cattle herds in the best possible quality and at the lowest possible price. The selling price to members and non-members is the same, but at the end of the year, members receive the surplus. A member of the cooperative should buy any needed fodder from the cooperative. A member who stops buying from the cooperative ceases membership after one year. Once he is no longer a member, the cooperative pays his share in its real value as it is in the books of the cooperative.

It is interesting to note the composition of the share capital of a member. The value of the share is not equal for all members. The value is composed of some components. The share capital has begun to take value when all members have signed a bank guarantee equal to 50,000 chekel each for the credit the new cooperative needed. The additional non-equal part of the share capital, was composed when the cooperative Yatziv has received an additional loan from Tnuva and each member has signed a guarantee for the sum equal to the value of his annual production of milk he sells to Tnuva. Today all loans have been repaid and in the cooperative was set up a fund belonging to members but not evenly, and depending on the value of the guarantee he has signed, and this sum is the capital of the cooperative. Each member's share is growing every year by a portion from net profits of the cooperative which is calculated to each member according to his purchasing.

If the cooperative is dissolved, after payments of all debts and

obligations, the remaining sum will be distributed among the members according to the size of their share, which is not equal to others.

In the Moshav there was already a center for the supply of forage belonging to the Moshav functioning like any other cooperative enterprise in this Moshav. Under the privatization of Béer Tuvia the question was raised as to whether the Moshav is going to sell the center to a private investor or the Moshav will lease the center to the cooperative of the dairy farmers. The decision was to take the second option. Today the cooperative Yatziv is composed of 36 members. Every member of Yatziv is owner of this cooperative. They are all guarantors for all investment and all bank loans, and they shared the profits, and Amir Cohen stresses and says that there are profits, which are distributed among all members. Another point very important: only users of forage from the center are admitted to be members of the cooperative Yatziv, and members of Yatziv must purchase their needs in forage from the center. This point is very important because it shows us the importance of the fact that members must have a need in the economic activities of the cooperative, and this characteristic is virtually indispensable for the success of each cooperative. The Moshav has signed a long-term agreement of use of this center, between the Moshav and the cooperative Yatziv. Béer Tuvia received a very significant advance. This amount added by the debts collected from members who received money from shares of Tnuva, has enabled the Moshav to repay all debts to the banks and remove all guarantees and mortgages from the Moshav.

Another case in another Moshav, is the partnership at Moshav Kfar Vitkin (Reffet Chevil Hehalav, 2008) which is composed of 6 dairy farmers. The reform of the dairy industry in Israel and the stringent requirements for producers to maintain production hygiene and environmental conditions imposed by the Ministry of Agriculture and the offering of very attractive credit from the government have brought these dairy farmers to engage in an adventure that was contradictory to the individualistic characteristic of members of Moshav and to be engaged in partnership. Today it has 7 members. Members of the partnership have more than 300 dairy cows and produce more than 4 million litres of milk per year. The lives of the cows in their barn is controlled by a computer and is connected to each cow by a special electronic ribbon on the leg of each cow. The dairy farmer knows every moment all the necessary information on each cow. Milking is done in a milking parlor of 32 stands and is performed by the most modern technology. The milk is transferred into a container of 24000 litres cooled to 4 degrees until the cistern truck arrives and collecting the milk every day for transport to Tnuva. To valorize their investment, the membrs have developed tourism activities where visitors can take guided tours, at price, at their installation.

We can see two possibilities in our model. The case of Givat Yoav, described by weitzman, where some members of the Moshav have found a solution to their problem by creating a limited liability company whose owners are dairy farmers members of the Moshav. The case of Béer Tuvia, described by

Amir Cohen, shows us a group, members of the Moshav, the cooperative mother, who decided to create a new cooperative that replies exactly to their needs. This cooperative rents a supply center of forages to serve the needs of its members.

9.2 The question of members' ownership of the cooperative

Exchanges of e-mails that I undertook with Amir Cohen brought some discussions. (Cohen Amir, 2008c). The first argument that I presented to Amir Cohen is:

The cooperative structure in the world and in Israel is characterized by the fact that the member is not really the owner of his cooperative. In the Moshav the situation is less serious because if the member sells his farm he gets the real value of his farm, the market price. The problem that remains in the Moshav is who owns the departments of the Moshav, or rather how one determines each member's share in this property.

The answer of Amir Cohen (Cohen Amir, 2008f) develops the following explanation:

When the cooperative founded a department or economic enterprise, the cooperative itself mobilizes the sum required for investment in this real estate property. Generally, the cooperative is seeking money in a financial institution, such as a bank, in order to carry out the project. The cooperative has mobilized the sum needed, but these are the members who are guaranteeing in equal manner this investment.

The sum is repaid by the cooperative to the bank, but these are the members who are charged by the Moshav - the cooperative, for the amounts needed each month for the

repayment of the loan, principal and interest.

We now come to the question as how we finance the repayment. The practice in the Moshav is that members pay every month, unevenly and according to their use of the services rendered by the department. The payments due contains these components: unequal reimbursements by members of the investment in the creation of the department and payments necessary to cover the operating costs of this department.

Cohen reaches the conclusion that users-member finance real estate in an uneven ways, but he finds justification for this practice for social consideration.

I answered him (Galor Zvi, 2008a) and was proposing the following example based on the practice common in Moshavim and in cooperatives in general:

In a Moshav there exists a center for the collection for milk. The Moshav has built this center including all necessary equipments to weigh the milk provided by members, refrigeration facilities and cooled containers of milk. The investment is repaid by deductions made by the cooperative on each sold liter of milk.

A member of the Moshav is a dairy farmer. For years he markets his milk production through the Moshav, so he pays on each liter sold for the repayment of loans contracted by the Moshav for the investment in this fixed asset. Thus. this member has paid for his part in the property of the cooperative unevenly than the other dairy farmers members, according to the quantity of milk he produces each month and which is generally not equal to other members production, but, he owns an equal share in this center as the other members. (It

should be clarified here that in practice, he owns nothing because in the accounting books of the cooperative nothing is marked that he owns a share in the department of the cooperative).

Until now, we showed that the property of the cooperative are paid on an unequal ways by members, but these properties do not belong to them.

We continue: One day this member decides to stop his activities as dairy farmer. He sells all the property he has on his farm to have milking cows including livestock. He gets the real values of what he sells. But, for the center of the collection of milk, for which he paid a lot of money and for years, he would get nothing.

This situation as described above existed also in Tnuva and exists in other cooperatives in Israel and elsewhere in the world. These cooperatives have members who have lost all interest in their respective cooperatives.

It should be noted here that, in the basic understanding of what is a cooperative, the member pays in his cooperative for two reasons. The first payment is to finance the real estate properties of the cooperative. These payments are equal to all members. The second payment is intended to finance the operation costs of the cooperative. Here members do not pay on equal ways. They pay on an unequal way and according to each member participation in the economic activity of the cooperative. The biggest mistake in the field of cooperative is the mix that leaders and members are doing in this area.

Amir Cohen continues the discussion and raises a

supplementary item on the question of ownership and operation in the cooperative. (Cohen Amir, 2008f):

The Moshav has, among other economic departments that serve members without making profits, the department of Water Supply. The department is providing water to members for home consumption of the family, for livestock and for agricultural production. The department is responsible for creating the necessary infrastructure, such as forage of wells, pipelines from water sources until the final consumer, and tools and equipments necessary to manage all the complex. According to the current approach all costs, investment and operation, are paid by the members according to their participation.

Amir finds an advantage in this practice. Every year the cooperative pays for network maintenance and renewal of equipment. These costs are covered by members on an unequal ways. Amir gave the following example: a member decides to stop the cultivation of his fields for ten years, so he does not consume water for irrigation, so he does not pay for ten years for a system that is completely ready for him throughout this period, and the day he decides to renew the cultivation of his land, all is ready for him without any pay throughout the period.

I sent him the following message below. (Galor Zvi, 2008b)

I repeat my principle: Members pay for the foundation of the cooperative on equal basis. The cooperative, which has funded the foundation of the business-department of the cooperative will repay the loan, principal and interest, from equal billing of all members. This will ensure a property equal

to all members unconnected to the degree of use of each member of services rendered, which can be different from one period to another.

When the enterprise-department needs to renew its investment in real estate properties, all members must participate in the financing of this investment evenly.

In an interview with Amir Cohen held in his Moshav, (Cohen Amir, 2008h) he discussed some components that explain, in his view, changes that cooperatives, and the moshavim and Tnuva have crossed the last few decades.

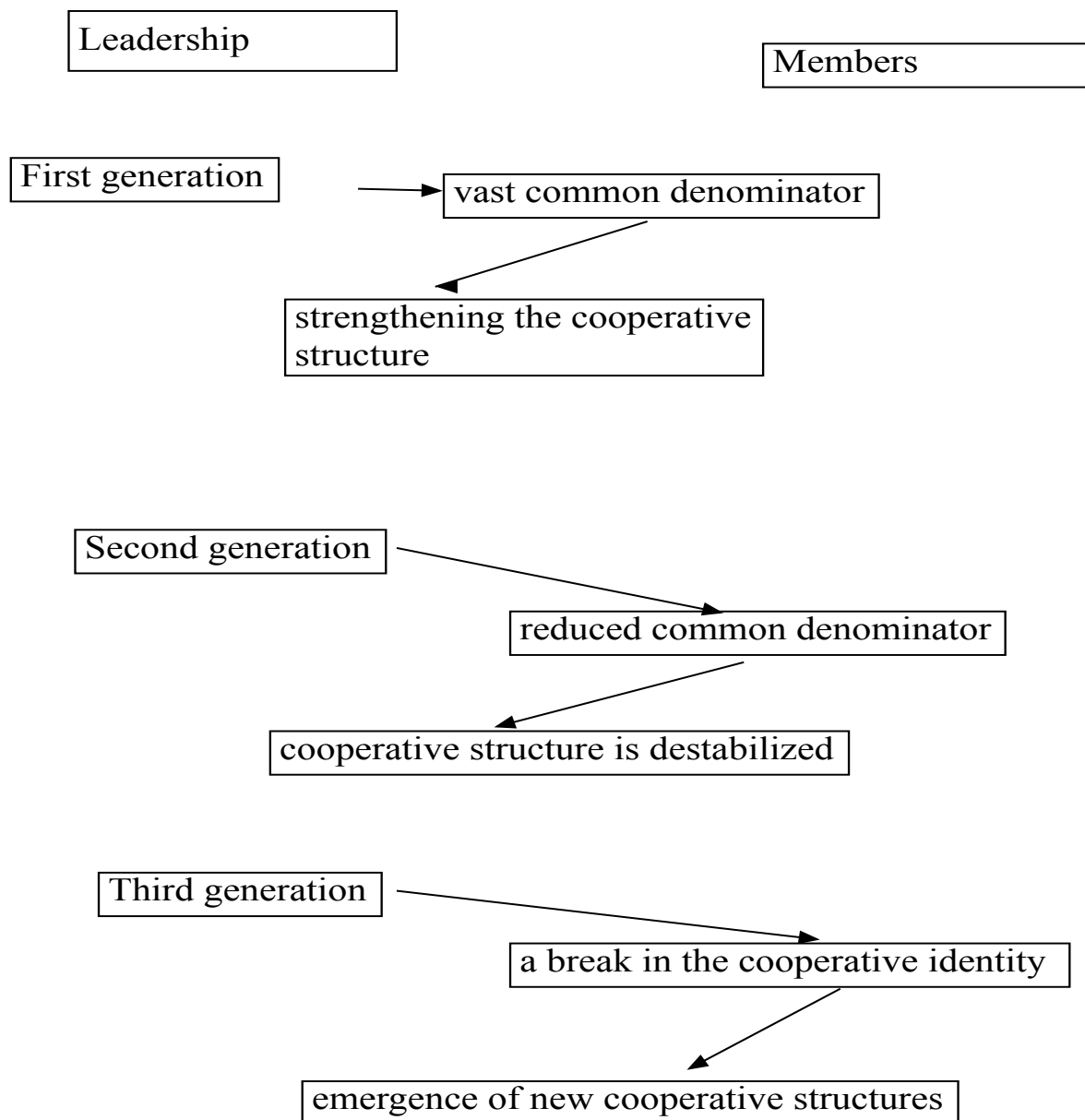
He identifies a few variables concerning these changes, which we will touch in this research.

The first variable spoke about the issue of membership. He emphasized the well-known fact about the so-called family companies. The first generation, the founders, is very skillful and successful in business. The second generation has sometimes mixed results and in most cases the third generation does not succeed to manage the business that their grandfather has created.

The events are similar in the moshavim. The first generation created the Moshav. All members of this group had a common denominator they share wide-ranging, and it is the desire to create a social and economic enterprise that meets their needs, which were similar. The second generation in the Moshav is different and does not have the same interests as his parents. The common denominator is much smaller than that of the

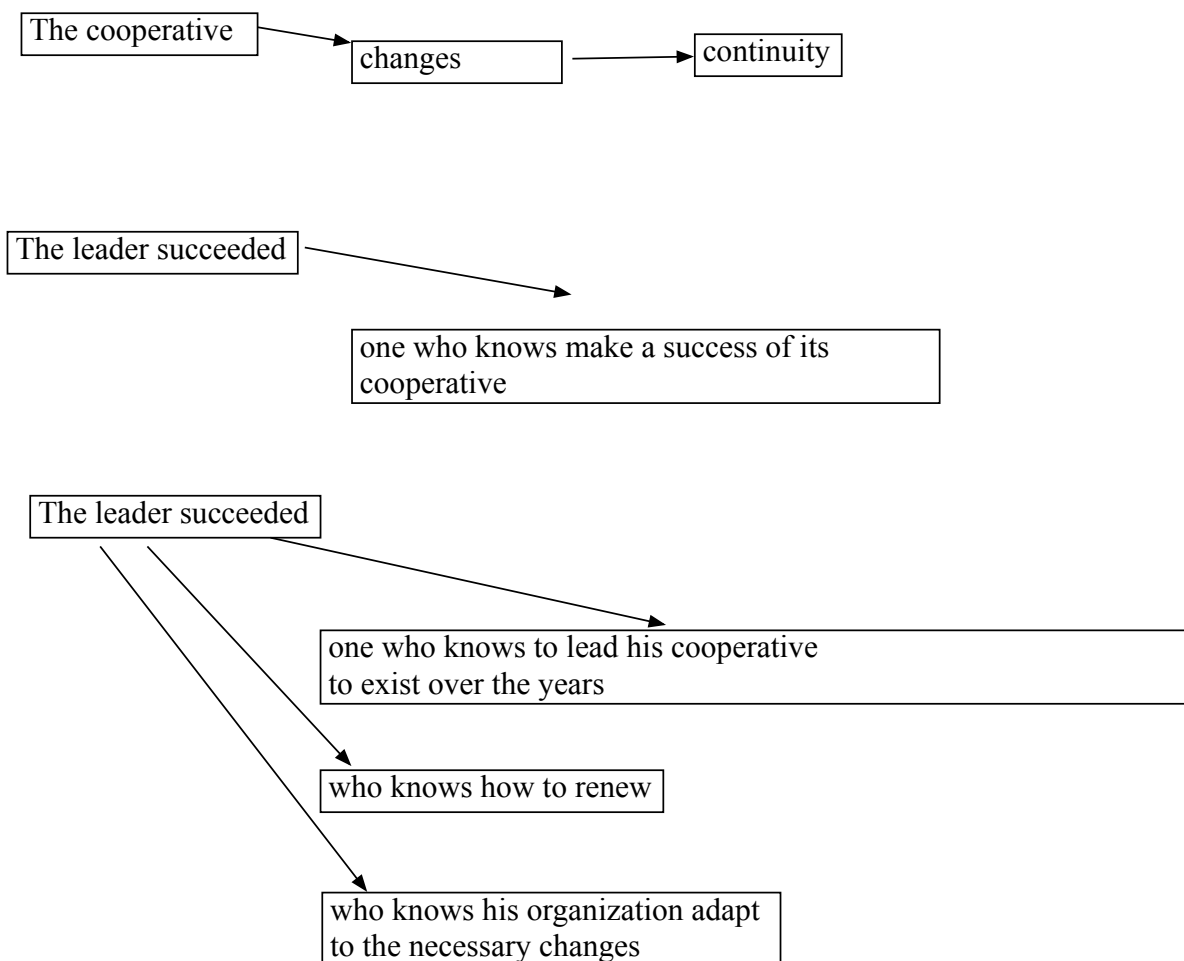
parents. The third generation in the moshavim has almost no more obligations and much less in common with other members in the Moshav. The ties that strengthen the members to their Moshav are weakened.

Chart 3: The leadership and members



Cooperatives are different from corporations. The cooperative is created by the members. The shareholders of public limited companies seeking the highest profit of these companies. The cooperative is a response to the needs and problems of its members, it does not need to make profits. The cooperative exists as long as it responds adequately to the needs of its members.

Chart 4: Change and continuity

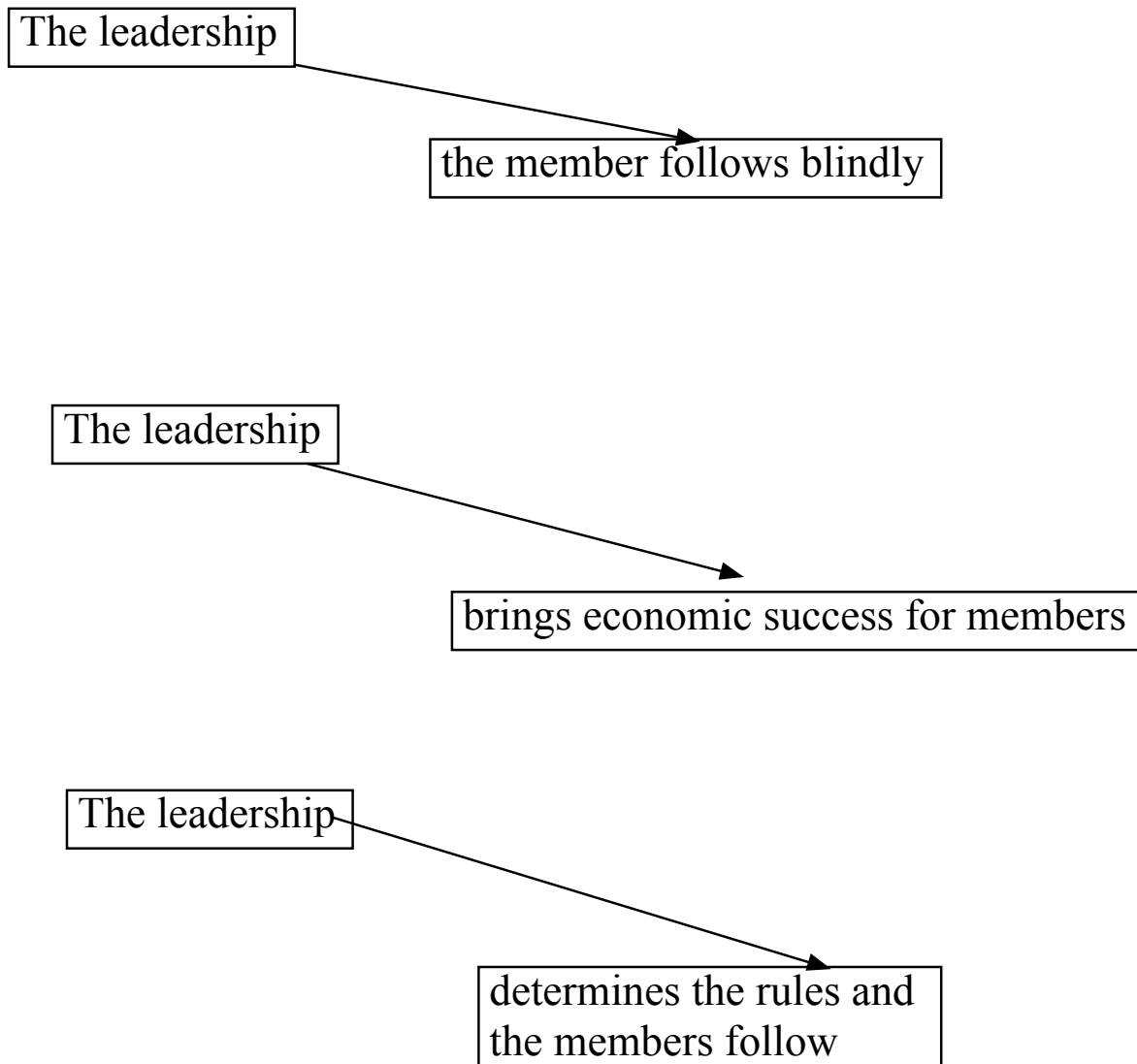


The second variable concerns the leader or the leadership who led the cooperative. They are the ones who know how to operate their organization, cooperative or Moshav, so that it can continue operating for several years. The leadership of the

organization knows to identify the needs of his organization and knows how to intervene to preserve the continuation of the organization. The leadership knows to identify whether the organization is mature and knows how to revive it in case of difficulties. Using the changes to safeguard its existence. This applies as well in the Moshav and in Tnuva.

The Moshav Béer Tuvia had a leadership that has failed to cope with changes. In the opinion of Amir Cohen, there are similarities with the management situation at Tnuva during the last decade before the demutualization. In Béer Tuvia for several years, there was a situation where members have followed the rules proposed by the management of the cooperative, the Moshav. This will to follow the leadership has deteriorated gradually. The current situation is that members defy the leadership and they do not follow them any more. This situation is unacceptable for such an organization and especially for a cooperative.

Chart 5: The leadership and the success

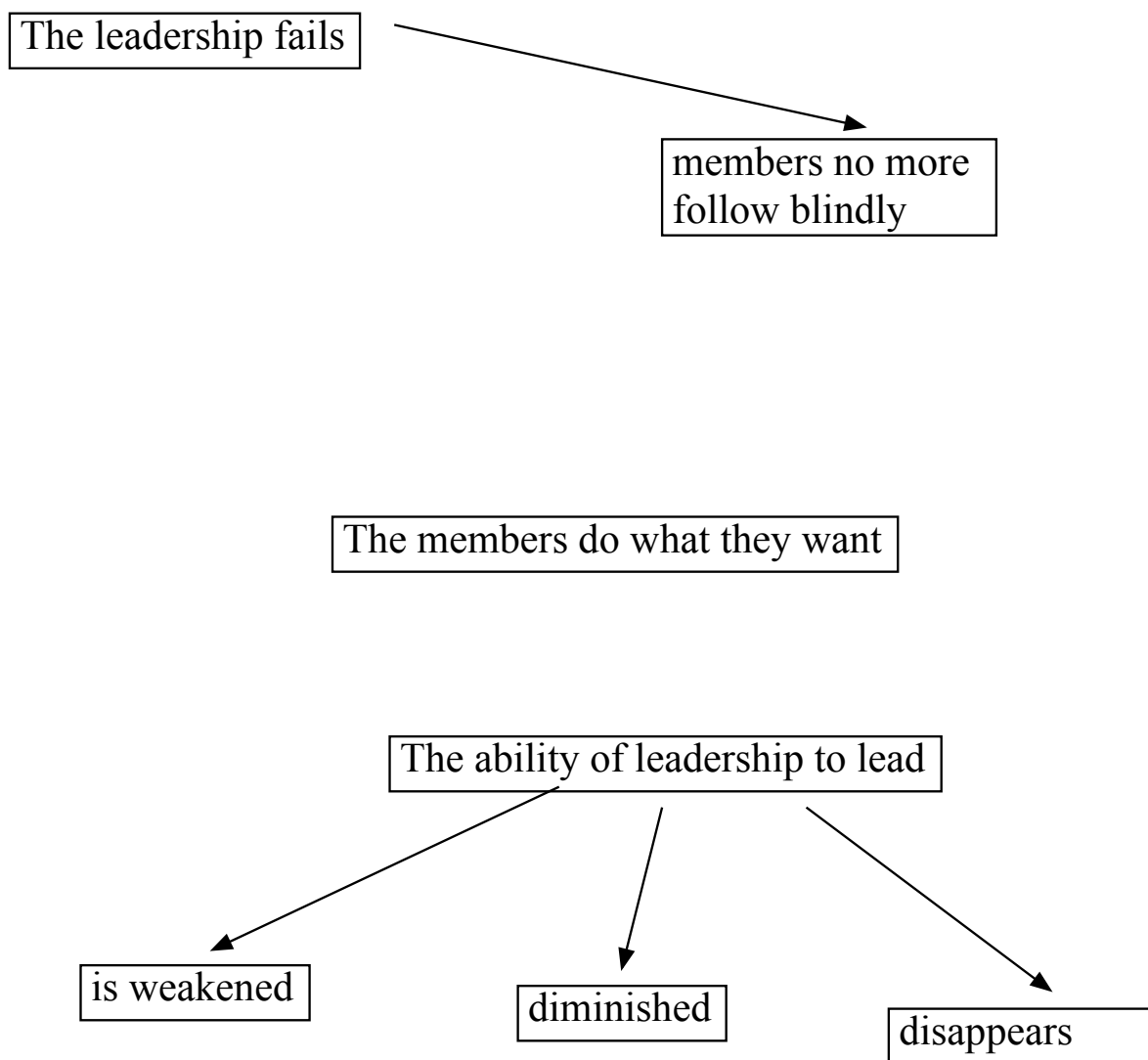


The leadership of Moshav has been done consistent mistakes which have greatly influenced the economic future of the Moshav.

The first fault drift consequences of the economic crisis and hyper inflation existing in Israel until 1985. (Rolf Hetiss Shilo, 2005); (Yitzuv Calcali, 2008) The inflation that existed in Israel since the end of the 1970s was devastating for

farmers in Israel. Practically, the inflationary period showed an advantage for farmers - the bank interest rate was negative. The problem began after the government has introduced new economic plan - 1985. The economic rules were changed, but neither leaders nor the members in the Moshav did not understand. The interest rate became real and very high. (Giladi Dan, 2008)

Chart 6: The leadership fails



Cohen describes the economic debacles to which the leadership of Béer Tuvia brought the members. The interest rate in Israel was too high for any investment based on a bank loan. Despite this, the leadership has proposed members in the late 1980s, to establish a joint branch breeding calves on pasture in the mountains of Jerusalem. Cohen came to those who were in positions of responsibility at the time by saying that Israel has signed trade agreements for goods with Argentina in which Argentina will pay to Israel with very cheap beef. The leaders did not want to listen and the failure of this project was very costly. (Cohen Amir, 2008h)

Cohen adds that the dichotomy of leadership - members still exists but when members feel that the leadership has failed and that leadership is showing no more positive results to members, the members change the existing leadership, and also reduce their confidence in these leaders and members willingness to be dependent on the existing cooperative framework.

The management of the Moshav has contracted a lot of credit on behalf of the members and their accounts were debited to be invest in the individual farms of the members. But at the same time, the leadership has not made any economic analysis to find out if these investments would be profitable for members. Ignorance of leadership which has severely hit the confidence of members when the economic debacle was visible.

Cohen responded concerning the model that I have proposed to explain the cooperative which after being demutualized can

be returned into the hands of its former owners. Cohen believes that the group Granot has the chance to gain control over Tnuva possibly in two possible situations.

Apax has already begun its efforts to sell the property belonging to Tnuva in order to repay the credit that Apax and the group Shamir had contracted to finance the purchase of Tnuva. Cohen sees the sale of properties of Tnuva as an indicator of the misleading of the dairy farmers in time of the selling of Tnuva, telling them, before Tnuva was sold, that the total value of the properties of Tnuva does not exceed the value of 250 million dollars. The reality shows that the value of those assets exceed one billion dollars.

The problem of Apax is that in the current situation the company will not be able to consider too low net income for their economic activities and, perhaps, Apax would prefer to sell Tnuva in the market. This event may be an opportunity for the group Granot to expand its share in controlling Tnuva and resume in its hand the decisions making.

The economic newspaper Globes published (Hayout Ilanit, 2008) that Apax decided to withdraw from its project of creation of modern dairy in India, after a very thorough research done during the last few months. That decision, said Cohen, (Cohen Amir, 2008a) is putting Apax in a new situation when realizing out its lack of ability to cope with multinational dairies in the international market.

Summary

Today, the branch of milk production in Israel has 850 dairy

farmers in Mochavim and 165 in Kiboutzim. The annual production of milk is of 1.25 billion litres, and the price to producers is 3 billion chekels. The value of the sale of the dairy products is 8 billion chekels. The dairy industry has benefited from investments of 1.7 billion chekels, including 600 million chekels which were funded by the state to increase production efficiency and to cope with environmental standards. (Cohen Amiram, 2008)

It would be appropriate to submit the next few words of Arik Reichman, the last director of the cooperative Tnuva until its sale. Reichman tries to explain why Tnuva was sold and ceased to exist as cooperative. The march towards the sale begins with the understanding of Reichman that the cooperative structure would no more be suitable to Tnuva because the majority of its members may not find any more interest in the cooperative and its economic activities and the services it renders.

The first step was the belonging of Tnuva to its members. In other words, give the share capital of Tnuva, that each member, Kiboutz or Moshav, holds a real value. In other words, that the total value of all shares that members hold equal to the total value of Tnuva in the market.

When that phase of belonging was completed we began to seek buyers who will be ready to pay for the shares of the members, those who want to sell.

Reichman has sought a strategic buyer, which could bring to Tnuva additional benefits that it had not, but looking for that have led nowhere. In this period Reichman believed that the buyer will agree to buy 30-40% of Tnuva. The next step was

to issue a portion of Tnuva in the stock exchange in Tel Aviv but the period was not to the advantage of Tnuva. The stock exchange was in a period of descent and there was no demand to buy shares of Tnuva.

The following step was a complete change, that Reichman defines as a strategic change. The decision to abandon the will of the leadership of Tnuva to remain in a position of majority in ownership and in control of the cooperative. Reichman says that for its objective, to receive the maximum money for the members of the cooperative, to reach this goal there had no more the need to continue to be the decision makers of Tnuva. A buyer will agree to pay a maximum price for the cooperative when he is also holding the control.

Reichman notes that his strong personality was an advantage for Tnuva because through it he managed to pass all stages so difficult to sell Tnuva. The culture of management of Tnuva was very conservative and there were in the management very strong opponents. You can not change things profoundly if you're not decisive and with your personal power and that you know where you are conducting.

Reichman says that it is not enough that members shares have a real value. What counts is their negotiability. If the members can not negotiate their shares, they do not have values for them. If in a cooperative there are a number of members who want to leave the cooperative, and an equal number of members who wish to join the cooperative, negotiability exists because the members who come will pay the real value of shares of members who leave. This was not the case with

Tnuva. Here, the majority of members wanted to leave and there was a need to find an investor outside the cooperative who will pay for the shares of members who want to leave, and that was the case in the sale of Tnuva.

We would like to present here a few notions concerning the demutualization that Tnuva was crossing, where the majority of its economic activity is the dairy industry.

We must remember that Tnuva was a cooperative that was founded by its members and in order to meet the economic needs of its members.

Another phenomenon that characterizes specifically Tnuva is that the cooperative was founded to meet the needs of the marketing of various agricultural branches, while the largest marketing cooperatives in the world have been created to commercialize a single agricultural product.

The largest number of marketing cooperatives in the world are primary cooperatives whose members are individuals, while Tnuva is a secondary cooperative whose members are primary cooperatives such as Kibbutzim and Mochavim.

A special feature in Tnuva is its decision, since its foundation, to finance future investments necessary for the development of the cooperative by a levy - commission to be made on the sale of each product marketed by Tnuva. The levy is in the terminology of Tnuva "shares of Tnuva." Another decision of Tnuva since its foundation is to keep these shares in the books

of the cooperative in their nominal values. The result is that a gap was created between the real value of the property of the cooperative and the nominal value, almost zero, of the shares of members.

Another peculiarity of Tnuva, though unique in the world, is its decision, since its creation, is that Tnuva would not realize profit on its activities. The largest number of marketing cooperative in the world are making profits on marketing activities of members and are based on the creating of profits for the cooperative against the interests of the members, and even worse, without that neither the leaders nor members do realize the injustice and bad policy made by their cooperative.

The central product marketed by Tnuva along its history was the milk and its products. This fact is important be able to understand the struggle of dairy farmers and their stubbornness to cancel the sale and to safeguard the cooperative structure of Tnuva.

Another salient point to understand the demutualization of Tnuva lies in the fact that members of cooperatives, Moshavim and Kibbutzim, did not understand what a cooperative is. At the same time we can see also that employees of the cooperative have never understood that they were working in and for a cooperative and not in a private company.

To problem mentioned above can also added the problem of the quality of human resources sent by Kibbutzim and by Moshavim to lead Tnuva [See page 28](#). It was found that these

leaders were, in many cases, without professional qualifications and remained in those positions for many years. These executives also have not understood that Tnuva is a cooperative.

Tnuva did not belong to its members. The Convention of 1999 decided to change this situation. This decision is a mini revolution in the world of cooperatives because it is the first time a cooperative decides to allocate to the shares to its members a real values. It is also means that the accumulated value of all shares of all members equal to the actual real value of the cooperative. The process of belonging has been faced with two major problems:

- The commissions charged by Tnuva were not equal in each branch of agriculture.
- The charging of members during the years of membership were not equal during their years of activities.

Since the 1999 decision began the process of Tnuva belonging to its members. From 1999 Tnuva began to distribute dividends to members of the cooperative from the net profits of the cooperative during the previous year. It would important to add an important note here. In a primary cooperative it is wrong to distribute dividends to members from annual surpluses that the cooperative realizes. The cooperative distributes these surpluses to members according to their degree of participation in the economic activity of the cooperative, what is called the patronage refund. In the secondary cooperative the rule is completely different. The remuneration of members is not in accordance with their participation, but rather, according to the part of each member

in the property of the cooperative. Here, there is room for the payment of dividends and those dividends are paid to each member, the primary cooperative, according to its share in the ownership of the cooperative.

Another very important phenomenon reveals the very important role played by public organizations and non-governmental organizations, belonging to farmers, in the struggle to stop or slow down the march towards privatization of the cooperative. The struggle of the Milk Marketing Board and its highly successful fight against the Ministry of Finance, shows us the importance of organizations representing farmers' interests and to defend them. The struggle of dairy farmers, members of Tnuva is another example.

The price Tnuva pay the dairy farmers, the target price, established for Tnuva a price differential when the cooperative sells its finished products to market. This gap has created for Tnuva an accumulation of money flow. We have already explained this phenomenon with the explanation of Amir Cohen on the second layer [See page 130](#) that Tnuva achieved in its economic activities with milk and its products. This situation has led Tnuva to launch towards investments, sometimes without economic justification, as the slaughterhouse and processing plant for the sale of fresh meat of cattle in Beit Shean, or investment in a dairy in Romania. This phenomenon when a cooperative amasses a large amount of money in its funds, because it does not distribute all surplus money to the members is known in several large cooperatives in the world, cases that led to these cooperatives to

demutualization, as the case in England in Canada and Australia. The main lesson is that a cooperative is established to render service to its members and not to make profits and do not distributing them to its members.

The strategy of the management of Tnuva in its efforts to sell the cooperative was also not disclose all necessary information. An example was the inaccurate information provided by the management of Tnuva in two cases. When the leadership needed to convince members that they must find an outside investor because of the debt Tnuva had was too large, while the analysis showed Amir Cohen [See page 57](#) that the financial situation of Tnuva was solid, and external investor was not necessary. The second example is the concealment by the management of Tnuva the real value of land and property of the cooperative from the members to make easier the decision that members should take at the convention of Tnuva which had to approve the sale of the cooperative.

One of the arguments of the opponents of the sale of Tnuva was that an external investor outside the cooperative will always seek to maximize the profit of the cooperative, while a cooperative is always looking for the benefit of its members, not profits.

The main feature of Tnuva during the demutualization was the composition of its members. The majority of its members were no longer in agricultural branches concerning Tnuva. More than that, the majority of its members were not farmers. On the other side, those who most interested in the existence of Tnuva, the dairy producers, were a minority among the

members.

We can see that among all members of the cooperative we have on one side the opponents of the sale, the dairy farmers, a minority, and on the other side the majority of members who want to sell the cooperative because they have no interest in this cooperative and in its activities, and they only seek to recover money from the value of their shares. The result is very significant: the cooperative wholly owned by its members individually and that is the opposite of the third cooperative principle of the ICA, to whom I showed reservations for years.

The sale of Tnuva was the final phase in the march towards the demutualization of the cooperative. The convention of Tnuva approved the sale by an overwhelming majority.

The sale has created some problems. The fact that the selling price of Tnuva was expressed in the sales contract in U.S. dollars and the fact that the exchange rate between the dollar and the shekel was not stipulated in the contract caused a loss of money of hundreds of millions of shekels the sellers. The inexperience of the vendors of Tnuva is a factor that must be considered among the leadership of each cooperative and in every economic activity of any cooperative. The problem of land property of Tnuva remains on the agenda because it shows once again the damage that the not professional management of Tnuva may cause the members of the cooperative when the real price of these goods was not taken into consideration when determining the selling price of the cooperative.

List of resources persons

1. Amir COHEN - a member of Moshav Béer Touvia, general secretary of the Moshav, dairy farmer, member of the . Board member of Tnuva. Founder and owner of the company Signext, a company of hi-technology:

<http://www.signext.com/company.html>

2. Yitzhak WEITZMAN - a member of Moshav Givat Yoav, dairy farmer and member of the National Commission for the Struggle against the Privatization of Tnuva.

3. Meir BRAWN - a member of Kibbutz Gan Shmuel, president of the Israel Cattle Breeders Association, a member of the National Commission for the Struggle against the Privatization of Tnuva.

4. Yossi MALOUL - a member of Kibbutz Ein Harod Ihud, former director of the Israel Cattle Breeders Association, a member of the National Commission for the Struggle against the Privatization of Tnuva.

5. Naftali BEN-SIRA, a member of Moshav Kfar Vitkin and former secretary general of the Moshav, director of the regional organization of purchasing of the region of Emek Hefer and Hasharon, secretary general of the movement of moshavim, Chairman of the Board of Directors Tnuva since the departure of Gédalia Gal, also a member of Moshav Kfar Vitkin himself, and until the demutualization.

6. Ziv MATALON - a member of Moshav Béer Touvia, dairy farmer, deputy director of the National Council of Milk Production in Israel, a member of the National Commission for the Struggle against the Privatization of Tnuva.

7. Reuven TENÉ - a member of Kibbutz Mévo Hamat, general manager of Kibbutz Geshur, a member of the Council of Tnuva. Economist, he made an economic study of Tnuva for the Israel Cattle Breeders in Israel.

8. Elik AVIELI is a member of Moshav Béer Touvia. He is third generation in this Moshav. He is a dairy farmer. Member of the management of the Moshav and president of the cooperative Yatziv, a cooperative of dairy farmers in this Moshav.

9. Yitzhak LANDSMAN - Former member of Kibbutz Ayelet Hashachar. Director of the branch fruits and vegetables in Tnuva and then director of Tnuva between 1970-1996.

10. Avshalom DOLEV - Member of Kibbutz Tirat Zvi. Director of the National Council of Milk Production in Israel between 1986-2003.

11. Arik REICHMAN - Member of Kibbutz Guélil Yam. Director of Granot, Secretary General of movement of kiboutzim. He is the last director of the cooperative Tnuva between 1996-2007.

12. Guédalia GAL - a member of Moshav Kfar Vitkin, general secretary of his Moshav, general secretary of the moshavim movement, member of the Knesset for 8 years and lawmaker of the law Gal to settle debts of moshavim in Israel in the wake of the hyperinflation in the mid-1980s, managing director of Tnuva Export, Chairman of the Board of Directors of Tnuva.

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