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Transforming the dairy sector in post-communist economies: actors and strategies

Pascal Grouiez & Petia Koleva

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Abstract: The chapter analyzes the transformation of the dairy sector in the post-communist economies of Bulgaria and Russia. It draws on Commons's institutional framework to focus on path dependent/path shaping processes leading to conflicts about ownership, quality and market power issues. The main domestic and international actors are identified to understand their role in the dairy sector's change. In Russia, the strong market power gained by international businesses left little room to local operators. However, the latter were able to implement different niche strategies. In Bulgaria, domestic actors had to deal with several norms imposed by the European Union. While these norms were considered by some actors as favouring standardisation of milk products to the benefit of the mass-market, other actors used different EU norms to defend their strategy based on the development of a nested-market.

Introduction

Since the beginning of the 1990s, economies of the former Soviet Union and Eastern Europe have experienced deep structural changes referred to as the "transition from plan to market". The socialist era's legacy left the agricultural sectors of Russia and Bulgaria highly concentrated around collective farms (*kolkhozes*) and state-owned farms (*sovkhoses*). Private plots – averaging 0.5 hectares (ha) and totalling less than 1.5% of arable land in each country – were the only form of private farming authorised before 1990. As with most agricultural segments, the dairy industry was managed by the agrifood industry and organised around highly integrated complexes on a regional basis: collective farms, state-owned farms and combinats. The comprehensive agricultural sector reforms (e.g. land restitution, dismantling of existing organisational structures, opening up to competition, etc.) challenged the legacy compromises between actors and opened up a field for strategic action leading to new compromises about production, distribution and consumption of agricultural goods. This chapter endeavours to analyse the issue of the integration of the Russian

and Bulgarian agricultural sectors into the globalized agrifood industry by focusing on the dairy industry. Which actors are involved in defining these new compromises? To what extent have they mobilised local institutional legacies, and how have they enabled these economies to adapt to the conditions for redeployment of the agricultural sector?

To answer these questions, we adopt an evolutionary and institutionalist perspective based on the dialectic between legacy and innovation. This path dependency/path shaping approach differs from both the neoclassical mainstream economics insights and some socioeconomic analyses in terms of path dependency. It implies that actors can intervene in the historical process and reshape the historical path of the sector. We build on the concept of “transaction” (as developed by John R. Commons) to identify the strategies of the main dairy sector actors and their impact on manufacturing and marketing practices. From the manufacturing point of view, we underline that two risks are managed by the processing industries: supply disruption risk on the one hand, and the risk of not meeting the required quality standards on the other. The first risk management insures the continuation of the process of production while the second one allows mass-market suppliers to reduce the capability of weaker suppliers (milk-producers) wishing to develop a “nested market” for milk products to do so (van der Ploeg et al. 2012). From a marketing point of view, some processing industries can use their brands as a quality label tool that meets the expectations of a specific category of local consumers. In parallel with these industries, dairies succeed in being niche players through the development of specific labels. Consequently, domestic dairy industries both in Russia and Bulgaria have restructured in two relatively autonomous markets for milk products: one with global and the other with local quality standards.

1. Path dependent path shaping post-communist change

Since 1990, two theoretical conceptions have dominated the post-communist economic agenda. The most influential one, formulated by the so-called Washington consensus, stressed the need for privatisation, liberalisation and stabilisation policy in order to break with the communist economic past. It was criticized by many economists because of its teleological and deterministic notion of change oriented to a final equilibrium state (i.e. the ‘market economy’) and based on the same reforms for all countries notwithstanding their institutional and economic heritage (see Chavance 2011 for a summary of the debates). The alternative perspective underscores the dynamic properties of economic systems, which are made up of heterogeneous agents, tend to evolve in a non-linear fashion and are characterized by multiple trajectories with path dependence. However, some of these alternative approaches – e.g., McDaniel (1996), Stark (1995) – tend to overemphasise the role of the path effect (negative or positive) and could be also seen as deterministic.

Since the mid-1990s, a few heterodox analyses of the post-socialist transformation have attempted to provide a more balanced combination of legacy factors with those related to the deliberate introduction of innovations. The ambition is to analyse both the recent past and the near future by adopting an approach in terms of path dependency/path shaping. According to Nielsen et al. (1995, p. 7) this approach “implies that within specific, historically given, and potentially malleable limits, social forces can redesign the ‘board’ on which they are moving and reformulate the rules of the game”. While the uncertainty resulting from the reshaping of an economic system may encourage individuals and organisations to reproduce past behaviour, this uncertainty can also trigger – for “instituted” agents more or less tightly grouped together – deliberate actions driven by anticipations of the emerging order. The fatalism associated with path dependency is thus rejected because social forces can interact with current circumstances and make new trajectories possible (Federowicz, 2000). In other words, within their path dependent development, dairy sector actors make strategic choices and choose their path. This possibility enables a ‘path enforcing’ evolutionary development of the sector based on previous choices (e.g. productive specialisation, privatisation policy etc.). Inversely, it leaves also room for ‘path-breaking’ development (e.g. the emergence of nested markets).

Hence the path dependency/path shaping perspective could be seen as a modern reinterpretation of the dialectic between routine and strategic transactions, as highlighted in the 1930s by John R. Commons (1934), one of the founders of institutional economics. According to him, in resolving ordinary, familiar problems, individuals adopt habitual behaviour in routine transactions, governed by existing institutions. However, whenever a new problem arises, the behaviour patterns are no longer given and anticipations are disrupted: individuals are then involved in strategic transactions. These transactions are “strategic” insofar as they develop new behaviours that can lead to the building of new routines. In order for the new practices discovered on an individual level to become institutions governing organisations and society, these practices must be selected. In capitalism, this selection process mainly takes place through collective bargaining (at the society level) and the choices of decision-makers (at the organisation level). When a compromise is found, strategic transactions become routine ones. The new institutions are the result of a synthesis between the new situations with new behaviours, and the old institutions.

In this paper, we argue that individual actions are the expression of economic institutions, and individuals are continually placed in hierarchical relationships with the rest of society (or a community) as a group of active individuals. Thus, the institutions provide the rules of conduct, but these rules are constantly evolving due to individual and collective actions (which Commons calls “working rules”). Moreover, Commons’ conception of a socialised individual enables him to

consider collective action as more than simply coercive. Indeed, collective action restricts, liberates or expands individual action. Commons considers three different kinds of transactions that specify the modes of negotiating working rules. A *bargaining* transaction is an interaction involving the exchange of produced wealth. It ensures recognition of the principle of property. The resulting transfer of property occurs between actors with comparable powers. A *managerial* transaction involves the organisation and control of production, it ensures the recognition of the principle of productive efficiency. A *rationing* transaction involves the distribution of wealth created (principle of sharing), within a specific institutional context. The three categories of transactions are differentiated according to their implicit power relations: equal parties (bargaining), unequal with the existence of a higher authority (managerial) or collective action (community or society) restricting individual action (rationing). Moreover, the ethical dimension of decisions is guided by the community's working rules, while helping these rules to evolve. The collective action purpose is to ensure that the outcomes of transactions are not socially undesirable or unreasonable – two notions that are dependent on the institutional and historical context. The actors take part in the evolutionary dynamic of rules and are constantly acting by combining the economic, social and political dimensions of their decisions (Barthelemy and Nieddu, 2007). The social and political dimensions (i.e., the distributive dimension) of an instituted economy (Gislain, 2010) allow highlighting the territorial aspects of any economic activity.

The transposition of this grid to the analysis of a sector – such as the dairy one – offers the opportunity to integrate both its productive (sector-specific) and distributive (territorial) dimensions. Our objective is to cast light on the new setup of the dairy sector by going beyond a purely economic explanation for its evolution and change.

We will study changes in the Russian and Bulgarian dairy sectors. In each case, we will describe the institutional legacy, in order to better grasp the context in which strategic transactions (bargaining, managerial and rationing) occur. We will show how the transitional history forces private-sector operators to adapt to the new institutional context in order to successfully carry out the transformations needed to re-industrialise the dairy sector.

2. Towards a new model of cooperation in the Russian dairy industry: the path shaping role of international investors

Gorbachev's reforms on individual labour activity (in 1987 and 1989) paved the way for the creation of the first "peasant farms": a new form of individual, market-oriented farming operation. The "Law on peasant farms" of February 1990 confirmed the right for a physical person to possess

(not “own”)¹ a plot of land for life, and to transmit it as an inheritance to heirs. It also confirmed that the local soviets were the land lessors. This enabled the individual entrepreneur to gain access to land without going through the collective farm’s management. Finally, it gave kolkhoz and sovkhoz members the possibility of leaving the collective farm and being allocated a plot of land. The creation of peasant farms thus gave rise to a political conflict regarding two possible trajectories for the transformation of the agricultural sector. The first trajectory, at the national level (liberal party), promoted “individual farms”. The second trajectory, defended by some regional actors (conservative party), aimed to adapt the collective farms to the new economic and political context. Indeed, conservative politicians were assisted in their task to support former collective farms by the shock therapy itself². Indeed, the latter had accelerated the scissor effect crisis (i.e. the difference between the price of agricultural commodities and the price of industrial goods), which caused decapitalisation of the agricultural sector (in particular, contraction in the size of cattle herds³), whereas the collective farms were the only entities to finance social infrastructures in rural areas (e.g. schools, hospitals and roads). As a response, certain conservative regions – such as Oryol Oblast – were aspiring to greater autonomy and began to develop a new agricultural model. Thus, while certain regions turned their agricultural sectors over to market forces, through wide scale dismantling of collective farms and their transformation into a large number of individual farms (known as the “Nizhny Novgorod” model), others such as Oryol Oblast imagined a new organisational structure for the agricultural sector: the public agro-holding (the “Oryol” model). These public agro-holdings were based on the principle of grouping together kolkhozes and sovkhozes, with the objective of securing the food supply and ensuring continued agricultural production across the entire region.

After the rouble’s devaluation in 1998, the agro-holding model developed in Oryol Oblast was adopted in several regions of the Federation, but on the initiative of private-sector actors. The emergence of these private-sector vertically-integrated agro-holdings merely reflected the existence of a new economic and social compromise between local institutions and private investors. This compromise, which is still relevant today, has enabled the recapitalisation of large-scale farming operations, their integration within the processing industry and the preservation of certain social

¹ The first law was a reform of land ownership. This law gave farmers the right to “possess” (not “own”) land. The second law created a legal status for individual farms.

² Shock therapy refers to a specific package of policy reforms callously adopted (contrasting with gradualism): “immediate deregulation of prices, liberalization of external trade; quick macroeconomic stabilization through fiscal and monetary restraint and drastic cuts in subsidies ; rapid privatization and other structural and institutional reforms (Popov, 2007).

³ In 1999, the OECD estimated the total cattle herd population – which in Russia mainly includes dairy cattle – was just 40% of the 1990 level. Likewise, many dairy plants with direct ties to dairy cattle farms went bankrupt. According to data from Ikar (a firm specialised in agrifood market expertise), in 2007, only 1.5-2% of livestock operations still had their own milk pasteurisation and transformation facilities. Most dairy plants that survived were supplied with milk from abroad.

services for rural populations. However, the agribusiness investors' expectation of a rapid return on investment led them to ignore the dairy cattle farms and the dairy sector. Indeed, the latter requires considerable investments in equipment while the expected returns are measured in years.

As far as concern the land property, it was gradually transferred from the State to the farm workers after 1991. Each employee of a *kolkhoz* became the owner of a plot of land, held in shared ownership with other employees that form a collective of landowners (on average, five to ten families share ownership of a plot of 100-200 ha). The *payshik* (shareholder) has a coupon indicating the surface area of farmland that he or she owns in the collectively-owned plot (generally a section measuring 6–10 ha), but does not know its location. Consequently, the communities of collective landowners were important actors involved in maintaining the balance between investors and rural populations or more generally in influencing the future path of former collective farms. Paradoxically, these groups of collective landowners were able to influence the negotiations between regional institutions and private investors in order to ensure the recognition of the need for private agro-holdings to finance social services for rural populations (including hospitals, schools, roads, maintaining milk cattle in multi-activity farms, etc.; see Grouiez, 2013).⁴

The legacies of the Russian transitional processes include differences that are attributable to the heterogeneous actors that took part in the conflicts and determined the compromises. The conflicts mainly involved the distribution of land and which characteristics should be favoured. These conflicts did not lead to a selection of operations based solely on economic performance criteria.

In the case of the dairy segment, international actors appeared in the market during the transitional period since Russian investors paid no attention to this sector. These include international investors such as Danone which became the No. 1 actor in the Russian dairy industry when it linked up with Russian dairy industrial group Unimilk (by acquiring a 57% share in Unimilk's capital).

To adapt the dairy industry in the face of international competition, Danone sought to protect dairy production from two risks: the first was related to supply breakdowns, and the second was linked to the quality of the milk. However, the institutional environment (i.e. the institutional legacy) influenced the behaviour of this operator. The need to re-industrialise the milk supply chain became a major issue for Danone. The objective was to bring dairy products to the Russian market that complied with international norms and could meet the increasingly demanding expectations of Russian urban westernized consumers. Danone, whose presence in Russia goes back to 1992, was

⁴ The local press often acts as a spokesperson for complaints of communities of landowners in cases where the new investors in private agro-holdings fail to respect their commitments. Such complaints sometimes lead to legal conflicts that are decided at the federal level. This was the case in the conflict between the director of the agro-holding Nobel-Ojl and the landowners in Oryol Oblast; the community of landowners won their lawsuit and Nobel-Ojl had to resume financing of social services (see the newspaper *Orlovskaa Pravda*, 2 June 2009).

not originally a producer of agricultural products. Therefore, for many years, it partnered with Russian producers (mainly large agricultural operators). However, these large operators called on smaller operators (individual farms and plots of land) in order to meet Danone's demand. This production chain was not compatible with the traceability criteria required for dairy production. Danone took advantage of its Unimilk acquisition to conduct strategic transactions with heterogeneous actors (producers, local politicians, international and national partners, etc.).

Beginning in 2008, notably during the national Russian agricultural exhibition "Golden Autumn", Ministry officials stated that cooperation between small and large agricultural operators was not compatible with the modernisation of dairy production. The Ministry of Agriculture imposed a new norm that required labelling for the milk tanks used in the collection process. This labelling requirement made it impossible, for practical reasons, to collect milk from individual farmers. Meanwhile, Danone developed a training programme to adapt to the Russian institutional environment, by targeting large-scale farming operations and individual farmers, and by seeking to fill in the gaps in dairy production in terms of the intrinsic quality of the milk and the way it is collected. In 2011, Danone worked with one of its long-term partners, the "Verbilovskoye" corporate farm, to offer a series of training courses for its animal scientists. In 2012 Danone signed an agreement with the Ministry of Agriculture and dairy industry experts to create the "Milk Business Academy" (MBA), a school to train both the livestock farmers under contract with Danone and other farms that looked forward to new partnerships. Danone dedicated a budget of €1.3m to this project in 2012⁵. Nearly 150 livestock farmers took classes the first year, and Danone trained approximately 986 livestock farmers in the first three years⁶. According to "investinrussia" medium an additional €0.51m (RUB36m) was allocated for expanding and developing the business academy's instruction programmes in 2015. Danone's stated objectives were:

- To increase Russian farmers' long-term productivity.
- To ensure a high quality milk supply and increase production by 7-10% in the operations involved by developing sustainable operating practices.
- To secure the dairy industry's downstream segment (i.e. dairy plants).
- To provide access to high-quality expertise for communities of mid-sized livestock farmers.

To achieve these goals, an educational centre operates a 100 cow demo-farm and provides in situ farm training. The creation of a training centre is aimed at diffusing rules for livestock farming to a

⁵ The same year, Danone and Cargill developed an aid programme for livestock farming, targeted to large-scale operations under contract with Danone. This programme aims to improve the quality of cattle feed. Danone supplies the livestock farmers with cattle feed in order to increase the yield and quality of milk. Lastly, it takes part in programmes to help operations finance the purchase of modern production equipment.

⁶ See: http://www.milkacademy.ru/results_iba.html

population of farmers with varying levels of knowledge, through:

- Sustainable practices which are promoted in areas such as animal welfare, feed systems, breeding and good milking practices, based on a team of trainers and university professors mainly from France.
- Increased awareness for decision-makers, managers and owners of large-scale and mid-sized livestock farms.
- An intensive one-week course for animal scientists⁷.

What makes this training centre unique is that it adapts to the Russian institutional environment by taking into account the two main ways in which production is organised in Russia (large-scale operations and independent farms, part of the institutional legacy described above) and by adapting its teaching programme to the specific features of each of these operating models. However, this policy implies a transformation in firms' strategic orientations, especially for the large-scale operations. The latter have been preserved for political reasons and to secure the food supply, but must now rethink their position in a market that is heavily influenced by the demands of Russian consumers.

Indeed, two strategic transactions enable Danone to operate as a leader of the milk-product market in Russia. An initial *bargaining* transaction took place with several corporate farms, e.g., "Verbilovskoye," and individual farms based on a price/quality trade off. Danone conducted simultaneously a *rationing* transaction (principle of sharing) with the Ministry of agriculture to ensure the sustainability of the *bargaining* transaction. The *rationing* transaction allowed the creation of a training centre in order to generate knowledge transfer within the milk industry. Meanwhile, Danone was ensuring a high level of skill for its own business partners. These combined transactions ensure the growth of dairy farms' productivity without using any *managerial* transaction that would consist in vertical integration of corporate farms as did the agro-holding investors for other food products.

This choice is not systematic, and currently, both large-scale operations and individual farms are inventing some avoidance strategies to bypass the production norms spearheaded by Danone. For example, one operation that we interviewed in Vologda Oblast in 2012 reported that it had decided to terminate its contract with Danone – which it regarded as too restrictive on sanitary standards – and to sign a strategic partnership – a *bargaining* transaction - with a regional dairy plant that

⁷ The animal scientists, trained at agricultural universities, are highly specialised but do not have good knowledge about raising dairy breeds that have been genetically selected for their level of productivity. Conversely, the owners of individual farmers have much more general knowledge than the animal scientists working on large operations, but sometimes have no knowledge of the international health standards for collecting and preserving milk.

offered a lower purchase price for milk production (RUB11/litre vs. RUB15/litre for Danone) but did not push for any additional investment. Furthermore, *Agroinvest*, a trade journal, also noted that after the milk price dropped to RUB7-8/litre in 2009, the following year some independent farmers invested in transformation facilities for their own milk in order to boost their margins. For example, in the Moscow region, the “APK-Nepecino” dairy farm, which has pasteurised a portion of its milk production since it was created in 1990, has also its own transformation facilities since 2008 in order to process milk into fresh cheese and kefir. These independent farms sell their products on the regional market, mainly to retailers located near their production sites, at prices lower than the dairy plants while still generating margins of 20-30%.

Both dairy plants and some independent corporate farmers as “APK-Nepecino” used the local milk production argument to earn the confidence of the rural consumers. Thus, a *nested market* (van der Ploeg et al., 2012) emerges in which suppliers sell their products to non-westernized consumers. These production rationales are in frontal opposition with the aim of *mass-market* actors such as Danone to secure their supply from Russian producers. In the dairy industry, we are currently witnessing a process similar to the one identified during the early phases of the transition from communism. Heterogeneous actors initiate competing strategies for organising production, and these different strategies lead to selecting and/or maintaining various kinds of operations (and eliminating others). A similar process is observed in Bulgaria, as we shall now demonstrate.

3. The Bulgarian milk industry’s trajectory: reactivating past standards in the context of European integration

The changes in the Bulgarian dairy industry demonstrate the disastrous effects of the reforms of the early transitional period on dairy production, which had long been associated with Bulgaria’s brand image abroad. Beginning in 1992, the 53 highly concentrated dairy processing combinats, inherited from the planned economy, were privatised as a part of the shock therapy economic reform, along with the launch of the land restitution policy. As in Russia, this policy was marked by a political conflict between the partisans of collective structures and the defenders of individual farms. The conflict was exacerbated by the strong political instability at the beginning of the transition (five different governments in six years). The strategy of left-wing governments was to protect the legacy farming organisations by authorising the restitution of land and capital only to collectives of individuals belonging to a cooperative. Conversely, centre-right governments, motivated by the desire for a definitive break with the communist past, opted for land restitution to individuals, in hopes that the free-market forces would then allow for consolidation of land plots and the emergence of large-scale, modern, individual farms (Koleva, 2004). The lack of consensus delayed

the formation of a land market that would allow for the transfer of property rights (*bargaining* transactions) and consolidation of land plots. At the same time, liberalisation in the dairy business opened up the sector to many Bulgarian private-sector operators, drawn to the large dairy livestock population (not only dairy cattle, but also sheep, goats and buffalo), low commodity prices and hopes for turning a quick profit. In 1995, there were already 826 dairy plants in Bulgaria.

From that period onward, the sector disorganisation resulting from the lack of a clear path shaping restitution strategy began to impact the supply chain for dairy plants. Indeed, given a severe shortage of capital, the private cooperatives (the legacy of the old collective farms) began to halt the least-profitable and most labour-intensive activities, such as milk production. Meanwhile, the individual farmers who had received small plots of land focused on subsistence livestock breeding. As a result of this process, one-third of the total dairy cattle herd disappeared over a few years, before stabilising in the mid-1990s.⁸ The path dependency effect of early reforms is still visible today: at present, farms have an average of four cows; only 8% of all farms have more than 100.

Through the various instruments of the common agricultural policy (CAP), as well as quality standards and classification of producers, the EU has been a major actor in shaping the path of the Bulgarian dairy industry over the past few years. Pressure is more focused on industrial groups, which are directly subject to procedures for obtaining a CAP export licence so that they can export products to the EU market. Note that just before Bulgaria's EU accession, only 9% of Bulgarian dairy producers held export licences. The process of bringing producers up to standard came at a hefty price, with bankruptcies and dramatic closures for the structures that were unable to modernise. Although EU funding was available for building new facilities and increasing herd sizes, only the major industrial groups were able to benefit due to the co-funding requirements. In the end, the number of operators was divided by four in the span of 15 years, and the 227 firms in the sector in 2009 all held EU export licences.

Not all industry actors could face the stiff competition for access to a now-scarce local resource, while the market for the finished products was internationalised – especially after Bulgaria joined the EU in 2007 – and increasingly demanding (in terms of quality, product differentiation, delivery lead times, packaging, etc.). Therefore, various strategies for cooperation or avoidance were implemented.

As in Russia, international industrial leader Danone - that opened an office in Sofia in 1993 - engaged in *bargaining* transactions with large farms spread across the country based on a price/quality trade-off. Some *rationing* transactions such as covering transport costs and paying

⁸ The decline in sheep herds was even more dramatic, with the population stabilising at one-quarter of its size before the transition.

farmers every two weeks show Danone's willingness to retain farmers and establish a long-lasting relationship in order to widen its lead in the *mass-market* segment. However, progressively the focus on profit seeking in a competitive European context led mass-market investors to favour *bargaining* transactions in order to optimize their portfolio at the transnational level. Thus, in 2014 Danone transferred the ownership over its dairy manufacturing capacities in Bulgaria, the Czech Republic and Portugal to Schreiber Foods, an American company specialized in the production of private labels for various retail chains. This strategy differs from the motivation to enter a new market that led Danone to invest in post-socialist countries in 1990s. Consequently, Danone's brands are still present on the Bulgarian market through the milk products crafted by Schreiber Foods which appears as a less costly strategy after the post-subprime crisis in the EU.

Some Bulgarian dairy plants have also been able to combine *bargaining* and *rationing* transactions, with a greater emphasis on territorial anchoring; unlike Danone, these dairy plants work with several hundred small farmers from their own regions. For example, Dimitar Madjarov Ltd, a company located in Plovdiv with more than 300 employees, differentiates itself by:

- Investing in the purchase of collective equipment (milking machines used collectively by several farms that are located far from any market outlet)
- Making advance payments to farmers to offset the high seasonal effect of milk production
- Organising twice-monthly discussion groups and training sessions on new EU regulations
- Assisting farmers in preparing applications for farm subsidies

In parallel, Dimitar Madjarov Ltd has signed long-term contracts with the major food retailers of Bulgaria; these retail chains purchase 60% of its production (including cheeses, butter and traditional dairy specialities), with the rest being sold on the wholesale market (10%) or abroad (30%).

Nonetheless, this example is far from typical because the vast majority of Bulgarian milk processors are small. On the whole, the sector shock created by the requirements of EU membership was made even stronger by the fact that the industrial groups were unable on their own to assist farmers in meeting the twofold demands of quality and supply security. In the face of multinationals relying on the westernization of consumption and trying to promote global standards of dairy products, different avoidance strategies regarding the mass market were observed, some with speculative purposes, others oriented to the creation of *nested* markets. One of these speculative avoidance strategies consisted of purchasing imported raw materials (powdered milk, vegetable fats) and manufacturing "dairy" products without using animal milk, for sale on the domestic market. This approach merely worsened the situation of small farmers. Unable to sell to dairy plants or forced to

sell their milk production for very low prices, some dairy farmers turned to local food networks. Others attempted to grow their herd size by leasing land for forage, but then they faced the obstacle of incoherent national legislation. According to the law on land concessions, tenants (i.e. farmers) must invest in maintaining land at their disposal for a period of five years, but if the land is located in mountainous areas (which are mostly suitable for livestock), then the municipality can change tenants every year! Thus, micro-farms can only expand with support from town councils.

The avoidance speculative strategy chosen by certain local industrial groups, by reducing the quality of dairy products, ultimately created dissatisfaction among Bulgarian consumers. In Bulgaria, yogurt and cheese are staples of the daily diet.⁹ Under pressure from consumers, the Bulgarian Institute for Standardisation (BDS, 2006) successfully issued a national seal of quality in 2012, initially for dairy products, then for other food products, by using norms that had been defined in 1980s. Admittedly, these norms were associated with the production of the large combinats of the socialist era. However, consumers perceived them as being more in line with their expectations for authenticity, quality and taste. By sanctioning the excesses of some speculative avoidance strategies, Bulgarian consumers unwittingly encouraged individual farmers to adopt territorialised, nested solutions that boosted the value of local products. It is noteworthy that some domestic players such as LB Bulgaricum and Dimitar Madjarov Ltd are currently trying to use European norms of food packaging as a support for their local products' expansion strategy. They point to the need to modify the reactivated BDS regulation on yogurt with respect to packaging as the only three materials authorised for contact with this product in the 1980s (glass, ceramics and polypropylene) are considered to be inadequate with the technological, processing and logistic challenges in 2017. In fact, behind this argument we can discover the issue of the greater profitability that some other, cheaper materials (such as the polystyrene) could help to achieve.

Conclusion

The analysis of Russian and Bulgarian trajectory of the dairy sector during the last 25 years offered original insights on the effects of path dependence and path shaping factors that transformed the agricultural landscape in Eastern Europe. Starting from the common soviet heritage of large agro-industrial structures, Russia and Bulgaria experienced radical economic and institutional change including similarities (shock therapy at the beginning of the 1990s), but also specificities (land reform, integration into the global or regional economies). These path shaping reforms at the

⁹ According to official statistics, the average Bulgarian consumer buys 27 kg of yogurt a year (vs. 21 kg in France), along with 23 kg of milk and 14 kg of cheese. These figures do not include the substantial quantity of self-produced dairy products. Yellow cheese and yogurt are traditionally eaten at breakfast; ayran (a yogurt beverage) and brined white cheese (similar to feta) are eaten at every meal.

national level produced divergent evolutions in term of domestic farm structure: large-farm operators (agro-holding) in Russia and small individual farms in Bulgaria.

In this context, some local operators seized the opportunity to implement their own path-shaping economic strategies. Russian agro-holding motivated by fast return in investment abandoned the dairy sector, highly intensive in qualified labour and capital. In Bulgaria, the lack of a national strategy for the future of the sector combined with the EU integration reforms created strong uncertainty that gave priority to survival strategies. This situation left room for the deliberate action of international actors (including Danone).

The use of a Commonsian perspective helped us to highlight the nature of the strategic transactions in which they engaged. They entered the domestic markets with different size and future opportunities while having to deal with constraints in term of financial viability. Given the specific configuration of large-farm operators in Russia and disinterest in milk products, Danone re-industrialised the dairy sector by introducing global norms supposed to meet the expectations of westernized consumers representing a huge market (17 million in Moscow and its region). By doing so, Danone led strategic transactions with several actors in order to introduce new quality standards in the dairy industry (creation of the Milk Business Academy supported by the Ministry of Agriculture and quality trade-offs with different corporate farms). In Bulgaria, this strategy did not pay because of the limited national market (population of 7 million) and chaotic restructuring of farms that did not offer the opportunity to conduct bargaining transactions with them. Consequently, Danone preferred using its label as a quality norm considering it as the only strategy compatible with its financial constraints.

In contrast with the above strategies that contributed to shape the mass-markets for milk products, local operators in both countries engaged in strategic transactions leading to the creation of a variety of niche-markets. In Russia, the strong market power of Danone left little room for local operators. However, the latter were able to implement two different niche strategies: the first was based on the investment of corporate farms in milk manufacturing facilities, while the second consisted in commercial contracts between commercial farms and dairy plants. In both cases, the local origin of the products is put to the fore thus targeting non-westernised consumers. In Bulgaria, domestic actors had to deal with several norms imposed by the EU CAP. While these norms were considered by some actors as favouring standardisation of milk products to the benefit of the mass-market, other actors used different EU norms (e.g., on yogurt packaging) to defend their strategy based on the development of a nested-market.

The Commonsian grid of analysis facilitates the understanding of processes occurring in post-communist Europe. We showed that even if the planned-economy's heritage matters, we cannot

decipher the current structure of the dairy industry without taking into consideration the way the operators having complex and sometimes contradictory strategies interpret it and shape future paths.

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