

Chapter 3. Cooperatives

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U.S. Situation – Farmer Cooperatives

Although 2010 brought higher input prices, U. S. farmer, rancher and fishery cooperatives still experienced the second highest sales and net income only less than the previous record highs in 2008 (Table 3-1). Gross business volume of \$170 billion in 2010 was up slightly from the previous year. Net income of \$4.3 billion was also the second best showing ever for farmer cooperatives.

Gross marketings of U.S. cooperatives in 2010 were slightly less than the previous year. Dairy product sales grew by almost \$2 billion from 2009; followed by declines in grain and oilseed marketing, rice, beans and peas, as well as poultry and cotton sales declined by more than \$1 billion. However, there were increased cooperative marketings of processed fruits and vegetables, livestock, fish, nuts, sugar, and tobacco.

TABLE 3-1. U.S. FARMER COOPERATIVES, COMPARISON OF 2009 AND 2010			
Item	2009	2010	Change
	(\$ billion)	(\$ billion)	percent
Gross Business Volume			
Marketing	\$101.4	\$101.1	-12.6%
Farm Supplies	62.9	63.9	-10.1
Services	14.9	5.0	3.4
Total	\$169.3	\$170.1	-11.3%
Balance sheet			
Assets	\$60.8	\$65.0	-11.4%
Liabilities	37.1	39.2	-18.9
Equity	23.8	25.9	3.7
Income Statement			
Sales (Gross)	\$169.3	\$170.1	-11.3%
Patronage income	0.9	0.7	4.6
Net income before taxes	4.1	4.3	-8.9
Employees			
	(Thousand)	(Thousand)	
Full-time	122.2	129.3	-1.5%
Part-time, seasonal	58.0	54.3	7.5
Total	180.2	183.6	1.2%
Membership			
	(Million)	(Million)	
	2.2	2.2	-6.0%
Cooperatives			
	(Number)	(Number)	
	2,390	2,310	-3.4%

Source: *Cooperative Statistics 2010*, USDA Rural Development, Service Report 71, November 2011.

Across all cooperatives, the value of total assets increased by 7 percent. Liabilities increased by almost 6 percent, while equity capital held by cooperatives increased 8 percent to nearly \$26 billion. Patronage income, which is total refunds received from doing business with other cooperatives, declined by 23 percent to \$700 million from \$900 million in 2009. In many U.S. rural communities, cooperatives

represent the largest employer. The total number of full time employees decreased slightly in 2009 to 123,000 while the use of part-time and seasonal employees increased 6 percent to 54,000.

Memberships in cooperatives remained stable at 2.2 million memberships in 2010. Many farmers belong to more than one cooperative, and so farm numbers and memberships are not strictly comparable. The number of cooperatives declined 3.4 percent from the previous year, continuing a long term trend in mergers and consolidations resulting in larger-sized cooperatives.

These statistics do not include data from the Farm Credit System (FCS). As of 2007, the FCS in the U.S. accounted for 37% of total farm debt with 42% in real estate and 31% in non-real estate activities (Deller et al. 2009). Each bank and association of the FCS is its own cooperative, and thus has its own member-elected board of directors. As of 2007, the FCS had over \$186 billion in assets, nearly \$12 billion in sales revenue, and over \$1 billion in wages in benefits. There are approximately 400,000 memberships in Farm Credit Associations and 11,000 employees (Deller et al. 2009).

New York State Situation

Table 3-2 summarizes the most recent cooperative numbers, membership, and business volume for New York State. State level data on cooperatives are collected every other year, and so the 2009 data are the most recent. The total number of cooperatives continued to decline, reflecting a national trend resulting from mergers, acquisitions or dissolutions. In 2008, New York agricultural cooperatives numbered 56, this number declined slightly to 55 in 2009. Memberships, however, have been relatively stable. A small drop in memberships over the past few years is primarily the result of declining farm numbers. Note that producers may belong to more than one cooperative, so the numbers of memberships can exceed the number of farms.

Major Business Activity	Number & Membership (000) Headquartered in State				Net Business Volume	
	2008		2009		2008	2009
	No.	Members (000)	No.	Members (000)	(\$ million)	
<u>Marketing:</u>						
Dairy	34	3.7	34	3.5	\$1,910.5	\$1,783.4
Fruit & Vegetable	9	1.0	10	1.1	68.6	75.1
Other Products ²	3	0.3	3	0.2	143.8	143.5
TOTAL MARKETING	46	5.0	47	4.8	\$2,122.9	\$2,002.0
<u>Supply:</u>						
Crop Protectants					\$3.7	\$12.6
Feed					73.4	72.2
Fertilizer					22.4	28.4
Petroleum					5.5	2.5
Seed					1.6	2.8
Other Supplies					23.7	28.1
TOTAL SUPPLY	6	1.4	6	1.4	\$130.4	\$146.6
TOTAL SERVICE ³	4	0.3	2	0.2	\$26.6	\$18.7
TOTAL	56	6.7	55	6.4	\$2,296.8	\$2,167.3

Source: *Cooperative Statistics 2009*, USDA Rural Development, Service Report 70, November 2010.
¹ Totals may not add due to rounding.
² Includes wool, poultry, dry bean, grains, livestock, maple syrup, ethanol, and miscellaneous cooperatives.
³ Includes those cooperatives that provide services related to cooperative marketing and purchasing.

Total net business volume for New York based marketing cooperatives declined year over year by almost \$130 million primarily due to the lower value of dairy cooperative sales. Fruit and vegetable marketing cooperatives reported an increase in net business volume. Supply cooperatives net business volume increased by \$16 million with an increase in all farm inputs except petroleum products. The net business volume related to services declined to \$18,700,000 in 2009. As noted for the U.S. level data, Table 3.2 does not include data for the Farm Credit System, an active agricultural lender in the New York State.

A recent study of the economic impact of cooperatives was conducted by the Center for Cooperatives at the University of Wisconsin for the U.S. Table 3.3 presents data from that study on farm supply and marketing cooperatives (FMCS) for the U.S., New York State and New England.

Area/Type	Firms ²	Establishments	Assets (\$M)	Revenue (\$M)	Wages ³ (\$M)	Employees (000)	Memberships (000)
United States:							
Total	2,535	4,479	\$44,394	\$119,074	\$6,014.15	147.78	2,484.10
Firm Average		1.76	17.53	46.97	2.43	0.06	0.99
New York:							
Total	66	71	\$667	\$2,690	\$109.97	2.83	6.87
Firm Average		1.08	10.11	40.75	1.77	0.04	0.11
New England: ⁴							
Total	42	42	\$1,140	\$2,293	\$204.49	3.38	11.24
Firm Average		1.0	27.14	54.60	5.24	0.08	0.28

¹ Source: Deller, S., A. Hoyt, B. Hueth, and R. Reka Sundaram-Stukel. 2009. "Research on the Economic Impact of Cooperatives." University of Wisconsin Center for Cooperatives, University of Wisconsin-Madison. All data are based on the year 2006 calendar year. Due to numerous missing data, patronage refunds were excluded.

² Firms represent the number of reporting cooperative firms. For the farm supply and marketing sector, this represents nearly all cooperatives enumerated. As such, no extrapolation to the population of cooperatives was conducted.

³ The implied average annual wages (with benefits) per employee are \$41.55, \$40.17, and \$65.25 for the United States, New York, and New England, respectively (in thousand dollars)

⁴ New England includes the states of CT, MA, ME, NH, RI, and VT.

Economic Impact	United States		New York		New England	
	Direct	Total	Direct	Total	Direct	Total
Revenue (\$M)	\$119,074	\$128,362	\$2,690	\$2,900	\$2,293	\$2,472
Wages (\$M)	\$6,014	\$8,895	\$110	\$163	\$204	\$302
Employment (jobs)	147,775	210,579	2,826	4,027	3,375	4,809

¹ Source: Deller, S., A. Hoyt, B. Hueth, and R. Reka Sundaram-Stukel. 2009. "Research on the Economic Impact of Cooperatives." University of Wisconsin Center for Cooperatives, University of Wisconsin-Madison. Total effect equals direct effect plus indirect and induced effects. Total effects based on national multipliers in Deller, et al. (2009); i.e., 1.078, 1.479, and 1.425 for revenue, wages, and employment, respectively.

² New England includes the states of CT, MA, ME, NH, RI, and VT.

Focusing on New York, the \$2.7 billion in revenue generated in 2006 by FSMCs expands to \$2.9 billion when indirect contributions of up-stream suppliers and spending are accounted for. Similarly, the \$110 million in direct wages and benefits provided to employees, when rippled through the economy, represents a total contribution of \$163 million in wages supported by this cooperative sector. The nearly 2,900 jobs directly supported by FSMCs in New York expand to over 4,000 jobs when all inter-industry linkages are accounted for. Clearly, the contributions that agricultural cooperatives make to the New York State economy are substantial.

The bankruptcy trust of Agway, a major farm supply cooperative that operated in New York State issued the tenth and final distribution of allowed claims of 2.7 cents on October 3, 2011. The total amount of distributions reached over 76% of allowed claims. The Trust report for 2010 states that:

“No distributions were made during 2010, although a 3% distribution was made on or about January 28, 2011, bringing the total distribution to date to 74% of allowed claims. When the Plan was confirmed, it was estimated that the total recovery to holders of allowed unsecured claims would range from 54% to 66% of their allowed claim amounts. Through the efforts of the Trustee and his staff involving claim resolution and asset recovery, the additional distributions of 8% to 20% above Plan estimates have been realized. As described below, however, the major assets of the Trust have been liquidated and the ability to make any additional distributions is largely dependent on the resolution of a few remaining claims. If there are any further distributions, they will likely amount to less than 2% of allowed claims. In the event that no further distributions will be made, holders of allowed claims will be advised of that fact in writing...”

Source: 2010 Annual Report at - www.agwaylt.com.

Cooperative Outlook for New York

Most cooperatives operating in New York State have the potential to build on the positive results from 2010. Higher milk prices paid to dairy farmers in 2010 and the first quarter of 2011 helped to improve the performance of farm credit and related-service cooperatives. Milk prices and dairy farm income improved from the relatively low levels of 2009. Although farm level milk prices increased, dairy producers have seen their costs of production increase with higher feed and energy expenses resulting in tight margins for some. Dairy farm numbers have been on a long-term decline, but recent years have seen a higher number of exits. Dairy cooperatives experienced a loss of farmer-members as some farmers cease farming due to increased financial stress but milk volume remained stable.

The cooperative bank that is a primary lender to rural cooperatives in the U.S. and New York continued to report record results again during the most recent year that data are available. Net income, cash patronage distributions, and member equity all increased from the previous record year. That strong performance is expected to continue into 2012, although recent fluctuations in commodity markets, ethanol prices, and capital markets have created a higher level of financial uncertainty.

Dairy cooperatives with value-added operations have experienced increasing costs for processing milk including: energy, packaging, transportation, and some ingredients. Favorable tax policy aimed at rewarding U.S. manufacturers with employees has provided cooperatives with manufacturing operations an opportunity to pass through tax deductions to members resulting in a significant benefit to members of some cooperatives. It remains to be seen how milk and energy prices unfold in 2012, but demand for most of the dairy products produced in the Northeast remain high.

Domestic consumer concerns over rising food prices and an economic recession have shifted purchasing to lower priced food product outlets, as well as resulted in less food being consumed away from home. As the impact of the recession lessens, demand for dairy products should strengthen.

On the export side, a weak value of the dollar continues to make U.S. exports competitive. There appear to be opportunities for increased exports of agricultural products in 2012. The dairy industry and dairy marketing cooperatives have relied on increasing exports to help bolster domestic farm prices and overall cooperative sales and margins.

Relatively new management in the marketing arm of the major grape juice processing cooperative is succeeding to grow patronage proceeds to grape grower members. Initial signs point toward improved performance for this commodity. A more aggressive advertising and promotion campaign featuring growers and a celebrity chef seem to be having a positive impact on sales.

Significant changes have occurred in the processed fruit and vegetable industry as a major cooperative who partnered with a private equity firm sold their interest in a major brand and marketing operations. The proceeds of the sale generated significant gains to both the private equity firm and to the members of the cooperative. However, as firm that purchased the processing operations is experiencing financial difficulties that may result in a weaker market for ram products. The sale of a major brand of frozen vegetables previously owned by the cooperative may result in lower demand for New York produced vegetables.

Although 2011 has brought a number of challenges for cooperatives operating in New York State - volatile milk prices, continued pressure on farm income, shifting consumer purchasing patterns and an ongoing slow recovery from the recession, most cooperatives operating in New York State remain well positioned for solid performance in 2012.

References

Penn, J. and E. Eversull (2011) "Co-op sales, income second highest ever" *Rural Cooperatives*, USDA rural Development, September/October, 2011.

Evershull, et al. (2010) USDA Rural Development, "Cooperative Statistics, 2009." Service Report 70, November, 2010.

Deller et al. (2009).