

## Chapter 3. Cooperatives

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### U.S. Situation

The most complete data available on U.S. agricultural cooperatives are collected through an annual survey of marketing, farm supply and selected service cooperatives conducted by the Rural Business-Cooperative Service of the USDA. Results of the most recent survey are summarized in Table 3-1.

Table 3-1. UNITED STATES AGRICULTURAL COOPERATIVE NUMBERS, BUSINESS VOLUME, AND NET INCOME 2000-2001 <sup>1</sup>									
Major Business Activity	Number		Net Volume		Net Income				
	2001	2002	2001	2002	2001	2002			
			(\$ billion)		(\$ million)				
Marketing	1,606	1,559	75.0	68.7	810	763			
Farm Supply	1,234	1,201	24.8	23.7	429	338			
Related Service	389	380	3.5	3.4	118	109			
TOTAL	3,229	3,140	103.3	96.8	1,357	1,210			

<sup>1</sup> Totals may not add due to rounding.  
 Source: Farmer Cooperative Statistics, 2002, Rural Business - Cooperative Service, USDA, RBS Service Report 62, Washington, D.C., June, 2004.

The number of cooperatives in the United States has continued to decline to 3,140 in 2002, a net decrease of 89 associations. This is primarily due to ongoing consolidation and merger of local grain marketing and supply cooperatives in the Midwest. The rate of decline decreased over the past year compared to 2001. Total net business volume, which excludes intercooperative business, amounted to \$96.8 billion, down 6.3% from 2001.

Sales of milk and dairy products decreased by 12 percent. Livestock and poultry sales showed gains. However, sales by other marketing cooperatives declined, with fruits and vegetables off by \$1.5 billion in 2002.

Total supply sales decreased by 4 percent, due mainly to lower petroleum prices. Petroleum sales decreased over \$1 billion. Feed sales grew from the previous year. Fertilizer sales decreased by \$700 million.

Total net income for 2002 was \$1.2 billion, down 10.9 percent from 2001. Although net income increased for dairy cooperatives, that gain was offset by lower margins for poultry, rice, sugar, and livestock.

Combined assets in 2002 for all cooperatives equaled \$47.5 billion, down 2.4 percent from 2001. Net worth totaled \$19.6 billion, down slightly from the previous year. A total of 220,367 full and part-time employees were employed by U.S. cooperatives in 2002.

Note: The above numbers do not reflect the declared bankruptcies of Agway or FarmLand Industries.

### New York State Situation

Data for agricultural cooperatives headquartered in New York State were obtained from the Cooperative Service survey cited previously. State level data are collected every other year. The most current statistics available are for 1999 and 2001. Table 3-2 summarizes cooperative numbers and business volume for New York State.

Table 3-2. NEW YORK STATE AGRICULTURAL COOPERATIVE NUMBERS AND NET BUSINESS VOLUME BY MAJOR BUSINESS, 1999 and 2001 <sup>1</sup>				
Major Business Activity	Number Headquartered in State		Net Volume	
	1999	2001	1999	2001
<u>Marketing:</u>				
Dairy	67	64	1,595.2	1,254.0
Fruit & Vegetable	9	9	492.4	523.6
Other Products <sup>2</sup>	6	6	353.5	232.3
<b>TOTAL MARKETING</b>	<b>82</b>	<b>79</b>	<b>2,441.1</b>	<b>2,009.9</b>
<u>Supply:</u>				
Crop Protectants			34.5	31.5
Feed			121.3	111.9
Fertilizer			54.1	51.2
Petroleum			182.5	278.7
Seed			17.1	21.0
Other Supplies			152.2	121.9
<b>TOTAL SUPPLY</b>	<b>11</b>	<b>8</b>	<b>561.7</b>	<b>616.3</b>
<u>Related Service</u> <sup>3</sup>	5	5	232.5	199.6
<b>TOTAL</b>	<b>98</b>	<b>92</b>	<b>3,235.3</b>	<b>2,825.8</b>

Source: Farmer Cooperative Statistics, 1999, RBS Service Report 59, USDA, RBS, Washington, DC, 2000 and Farmer Cooperative Statistics, 2001. RBS Service Report 61, USDA, RBS, Washington, DC, March, 2003.

<sup>1</sup> Totals may not add due to rounding.

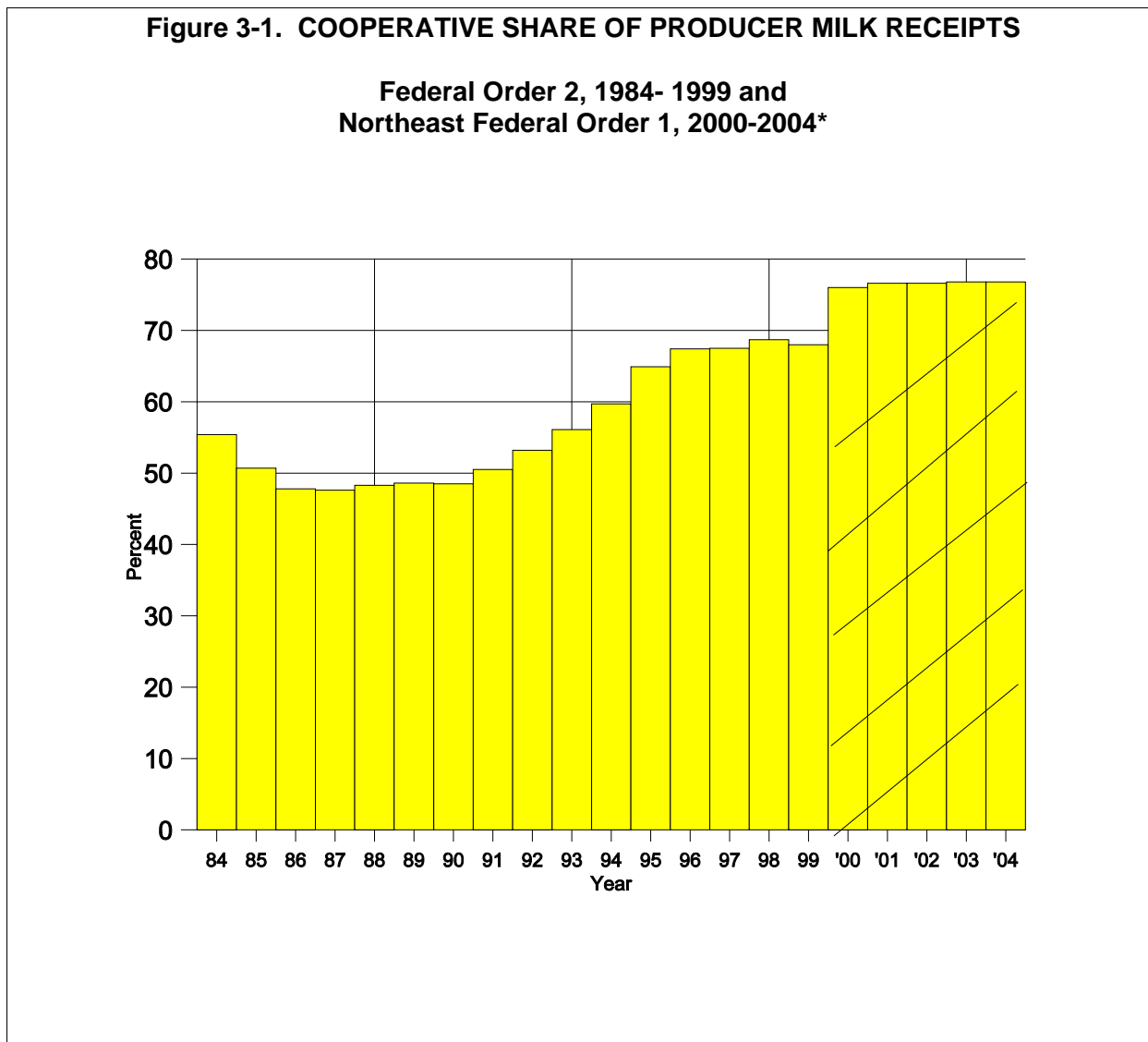
<sup>2</sup> Includes wool, poultry, dry bean, grains, livestock, maple syrup, and miscellaneous.

<sup>3</sup> Includes those cooperatives that provide services related to cooperative marketing and purchasing.

The number of agricultural cooperatives in New York State in 2001 showed a net decrease of 6 cooperatives from 1999 to 2001, with fewer dairy cooperatives and a decrease in the number of supply cooperatives. Total net business volume declined from \$3,235 million in 1999 to \$2,826 million in 2001, a decrease of 8 percent. Supply cooperative volume increased by \$54 million with higher sales of petroleum products. Marketing volume decreased by \$431 million, with dairy marketing cooperatives showing a significant decrease in volume over the two year period primarily due to lower milk prices. Total volume of other products marketed through cooperatives declined as well. A significant portion of the decline in revenues for dairy cooperatives came from the lower value of products sold. Total volume for services related to marketing or purchasing decreased from \$232 million to \$200 million over the two-year period.

**Cooperative Share of Northeast Federal Milk Marketing Order 1**

As indicated in Figure 3-1, the proportion of milk receipts handled by dairy cooperatives fluctuated over the twenty-year period and leveled off at about 67 percent from 1996 to 1999 under the old Order 2. However, the cooperative share of milk receipts increased significantly to 76 percent in 2000 under the new consolidated Order combining former Federal Order 1 (New England), Federal Order 2 (New York-New Jersey), and Federal Order 4 (Middle Atlantic) into the new Northeast Milk Marketing Order 1. The increase following the consolidation of Orders was primarily the result of pre-existing higher percentages of milk being shipped to cooperatives in the former Orders 1 and 4. Those higher percentages increased the total average of milk received by cooperatives in the new Order 1. The cooperative share of milk receipts for the first nine months of 2004 remained stable from the previous year.



\* The year 2004 is based on data for the first nine months of the year. Data from the year 2000 forward represent the consolidated Federal Milk Marketing Order 1 (the result of a merger of the old Federal Orders 1, 2, and 4).

Source: Market Administrator's Office, Northeast Federal Milk Marketing Order 1.

## **Cooperative Performance**

The financial performance of agricultural cooperatives operating in New York State has in general, been good. Due to their significance in the Northeast we will start by examining dairy cooperatives' share of producer milk receipts as well as recent events, review important developments in other types of cooperatives, and finally look at some major factors likely to influence cooperatives in the coming year.

As discussed above and indicated by Figure 3-1, the proportion of milk receipts handled under the Northeast Milk Marketing Order 1 dairy cooperatives remained relatively stable in 2003 and the first nine months of 2004. Over 76 percent of all milk produced in Order 1 is marketed through dairy cooperatives. The cooperative share of milk marketings has remained about constant for the last four years, at its highest since 1974, and about 20 percentage points higher than a decade ago. However, some of this increase is due to milk marketing order mergers in 1999. An additional share of milk marketed in Order 1 produced by farmers who are not members of cooperatives is being marketed by a common agency that also markets the major share of milk delivered by cooperatives.

Stronger milk prices over the last year have helped to improve the performance of dairy-related cooperatives that operate dairy herd improvement services and artificial breeding. Animal disease problems outside the U.S. have presented additional export opportunities for dairy genetics cooperatives.

The major supply cooperative that declared bankruptcy in 2002 has completed the sale of assets required to be liquidated. The Bankruptcy Court approved the proposed plan for liquidation. The petroleum products, leasing, feed, seed, agronomy and insurance businesses were all sold to going concerns. A few selected feed or fertilizer operations were closed. But in general, many of the operations and related employees were acquired by businesses that continue to operate. Unsecured creditors will be receiving higher than expected distributions following the complete liquidation.

The major grape cooperative in New York reported strong sales and returns to growers. Successful marketing efforts including new product development, branded products and advertising supported strong sales. An apple marketing cooperative continues to grow with a number of new members. This organization works on improving the coordination of marketing and quality control on behalf of members.

The major processing vegetable cooperatives is re-structuring operations following a change in its relationship to a major food processing customer. Production acreage increased for many processing vegetables grown by members during the last year although bad weather limited total yields.

The Farm Credit associations had good financial performance during the year. Despite weak prices for some agricultural products, conservative lending policies served credit cooperative well in 2004. Over the past year several competing banks involved in agricultural lending have announced plans to exit this segment of the market. Farm Credit cooperatives plan to attract the most creditworthy farmers whose lenders are exiting agriculture. In addition, Farm Credit continues to increase its focus on financial services to member/borrowers.

**Cooperative Outlook**

Most New York and Northeast cooperatives had positive results in 2004. Stronger milk prices have helped to sustain the health of dairy marketing and service cooperatives. Consumer demand for cheese and soft dairy products continues to remain strong benefitting dairy cooperatives involved in marketing those products.

Continued interest in acquisitions, better coordination or consolidation will be a priority as other segments of the food system continue to undergo structural change. In general, New York cooperatives are well positioned for solid performance in 2005.