

Chapter 3. Cooperatives

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U.S. Situation

Farmer cooperatives in the U.S. had gross sales of over \$126 billion in 2006 (Table 3-1). Total business volume was up nearly four percent from \$122 billion in 2005. However, while total cooperative sales increased, sales changes across cooperative types varied considerably. In the largest category, marketing cooperatives experienced a decrease in sales of farm products of nearly 2 percent to \$76.5 billion. However, farm supply cooperative sales increased to nearly \$46 billion, or a 16.7 percent increase from 2005. Cooperative farm services decreased nearly 5 percent to \$4.1 billion in 2006.

From 2005 to 2006, total assets increased 2.8 percent, liabilities increased 3.3 percent, and equity grew two percent (Table 3-1). Total net income before taxes increased significantly by 24 percent to \$3.2 billion. Patronage income increased 24 percent, from \$400 to \$500 million over this one year period. Farmer cooperatives remain one of the largest employers in many rural communities. Total full- and part-time employees increased slightly in 2006 to 181,000.

| Table 3-1. U.S. FARMER COOPERATIVES, COMPARISON OF 2006 AND 2005 | | | |
|--|-------------------|-------------------|--------------|
| Item | 2006 | 2005 | Change |
| | (\$ billion) | (\$ billion) | percent |
| Sales | | | |
| Marketing | 76.5 | 78.0 | -1.98 |
| Farm Supplies | 45.9 | 39.3 | +16.72 |
| Service | 4.1 | 4.3 | -4.90 |
| Total | 126.5 | 121.7 | +3.96 |
| Balance sheet | | | |
| Assets | 47.9 | 46.6 | +2.80 |
| Liabilities | 28.0 | 27.0 | +3.35 |
| Equity | 19.9 | 19.5 | +2.03 |
| Liabilities and net worth | 47.9 | 46.6 | +2.80 |
| Income Statement | | | |
| Sales (Gross) | 126.5 | 121.7 | +3.96 |
| Patronage income | 0.5 | 0.4 | 24.15 |
| Net income before taxes | 3.2 | 2.5 | +24.13 |
| Employees | | | |
| | (Thousand) | (Thousand) | |
| Full-time | 123.4 | 125.4 | -1.62 |
| Part-time, seasonal | 57.3 | 54.4 | 5.26 |
| Total | 180.7 | 179.9 | 0.46 |
| Membership | (Million) 2.6 | (Million) 2.6 | -0.08 |
| Cooperatives | (Number) 2,675 | (Number) 2,896 | -7.63 |

Source: *Rural Cooperatives*, July/August 2007. Rural Business-Cooperative Service, USDA, Washington, D.C.

Farm numbers continue to decline, as do memberships in cooperatives and the number of farmer cooperatives. Cooperative memberships remained level at 2.6 million, in 2006. Many farmers are members of more than one cooperative, hence cooperative memberships exceed U.S. farm numbers. There were 2,675 farmer cooperatives in 2006, down from 2,896 for the previous year.

New York State Situation

State-level data for agricultural cooperatives headquartered in New York State were obtained from the biennial Cooperative Service survey cited below. The most current statistics available are for the years of 2005 and 2003. Table 3-2 summarizes cooperative numbers and business volume for New York State.

| Major Business Activity | Number Headquartered in State | | Net Volume | |
|------------------------------------|-------------------------------|-------------------------------|----------------|----------------|
| | 2005 | 2003 | 2005 | 2003 |
| Marketing: | | | | |
| Dairy | 57 | 61 | 1,676.3 | 1,229.9 |
| Fruit & Vegetable | 9 | 9 | 37.0 | 72.5 |
| Other Products ² | 5 | 6 | 42.7 | 152.1 |
| TOTAL MARKETING | 71 | 76 | 1,856.0 | 1,454.5 |
| Supply: | | | | |
| Crop Protectants | | | 1.2 | 50.9 |
| Feed | | | 39.3 | 103.8 |
| Fertilizer | | | 11.9 | 42.6 |
| Petroleum | | | 5.0 | 28.5 |
| Seed | | | 2.3 | 57.8 |
| Other Supplies | | | <u>28.3</u> | <u>73.7</u> |
| TOTAL SUPPLY | 7 | 11 | 88.0 | 357.3 |
| Related Service³ | 4 | [included with supply] | 88.2 | 242.3 |
| TOTAL | 82 | 87 | 2,032.2 | 2,054.1 |

Source: *Farmer Cooperative Statistics, 2005*, Service Report 65, USDA, RBS, Washington, DC April, 2007 and *Farmer Cooperative Statistics, 2003*, Rural Development Service Report 64, USDA, Washington, DC April, 2006.

¹ Totals may not add due to rounding.

² Includes wool, poultry, dry bean, grains, livestock, maple syrup, and miscellaneous.

³ Includes those cooperatives that provide services related to cooperative marketing and purchasing.

The number of agricultural cooperatives headquartered in New York State in 2005 showed a net decrease of 5 cooperatives from 2003, with fewer dairy cooperatives and a decrease in the number of other marketing cooperatives. Total net business volume declined from \$2,054 million in 2003 to \$2,032 million in 2005, a decrease of 27 percent. It should be noted that state level data for agricultural cooperatives are becoming more difficult to obtain as more are operating across broader multi-state areas. Cooperatives headquartered in New York State generate significant business volume outside of New York State and a number of cooperatives headquartered outside of New York generate significant volume in New York.

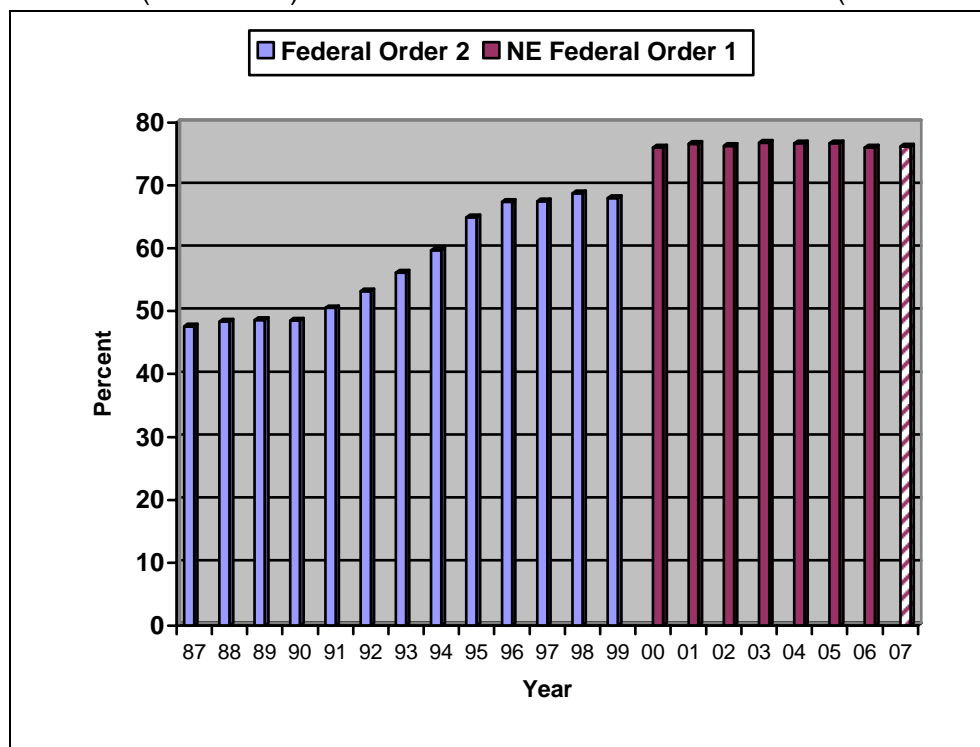
Total net volume for marketing cooperatives decreased by \$522 million, with fruit and vegetable marketing cooperatives showing a significant decrease in volume over the two-year period. Total volume for other products marketed through cooperatives increased. A major portion of the decline in revenues for fruit and vegetable cooperatives came from restructuring in the processed fruit and vegetable industry. Net business volume for dairy marketing cooperatives showed strong increases over the two-year period of about \$446 million or 36 percent.

Supply cooperative volume decreased by \$269 million due to decreased overall sales, as well as ongoing impact of the loss of the Agway system. Total volume for services related to marketing or purchasing decreased from about \$242 million to \$88 million over the two-year period.

Cooperative Share of Northeast Federal Milk Marketing Order 1

The proportion of milk receipts handled by dairy cooperatives fluctuated over the last 20 years, leveling off at about 67 percent from 1996 to 1999 under the old Federal Order 2 (Figure 3-1). 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 2007 declined slightly to 76 percent from an average of 77 percent during the previous year.

FIGURE 3-1. COOPERATIVE SHARE OF PRODUCER MILK RECEIPTS, FEDERAL ORDER 2 (1986-1999) and NORTHEAST FEDERAL ORDER 1 (2000-2007) ^a



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

^a Year 2007 is based on data for the first 8 months of the year. Data from 2000 forward represent the consolidated Federal Milk Marketing Order 1, the merger of the old Federal Orders 1, 2, and 4.

Cooperative Performance

The financial performance of agricultural cooperatives operating in New York State has on the whole been good. Due to the importance of dairy marketing and service cooperatives to New York producers, we will review their situation first.

As discussed above, the share of milk receipts accounted for by dairy marketing cooperatives under Federal Milk Marketing Order 1 has remained stable at about 76 percent from 2000 through 2005. For the first nine months of 2007, the cooperative share has declined slightly by 1 percent. There is a volume of milk produced by farmers who are not members of cooperatives that is being marketed in Federal Order 1 by a cooperative marketing alliance that combines independent supplies of milk with that from cooperative members.

Dry weather conditions in scattered areas of New York during the growing season put pressure on field crop harvests and milk production. Otherwise weather during planting and harvest seasons has been, in general, favorable.

Milk prices have increased significantly over the last year which contributed to more positive performance of cooperatives offering dairy herd improvement or breeding genetics to members. Export sales of genetics and increased international operations continue to add to the revenues of the major genetics cooperative.

Dairy cooperatives involved in value-added operations experienced mixed results. Two New York headquartered dairy marketing cooperatives completed a merger that will combine manufacturing operations. Preliminary results of the merger are positive with projected for economic gains being achieved. Sales of yogurt and other soft dairy products have been strong.

A dairy product manufacturing cooperative running various types of processing plants has been recovering from losses due to increased costs of energy, packaging and high value inventories, as well as weak cheese sales. However the international market for dry milk products has been very strong. Cooperatives involved in manufacturing and marketing dry dairy products for export have experienced strong sales and good returns.

The bankruptcy settlement of Agway, the major supply cooperative in the Northeast continues as unsecured creditors have received periodic distributions from 2004 through 2007. Payments are being made to unsecured creditors until the Trust created by the bankruptcy court is exhausted. Total payments to be eventually received by unsecured creditors, many of whom were members or retired farmers, are estimated at between 54 cents and 66 cents on the dollar. As of August, 2007, a total of six have been made adding up to 53 cents on the dollar. Until all outstanding accounts are identified and all costs are deducted from the Trust, the value of the total distribution cannot be determined. For more information see the liquidating trust web site at: <http://www.agwaylt.com>

The major juice grape cooperative in New York has reported weaker sales, higher expenses, and lower returns to growers. Consumer dietary trends have hurt sales of fruit juices. A new CEO has been selected to run the marketing company. He has trimmed management positions and is cutting costs. New marketing strategies have been implemented to improve performance. Financial performance has been improving. A larger advance payment was made to growers this Fall than last year.

A fresh apple marketing cooperative continues to grow with new members joining from across a broader geography. This organization works on improving the coordination of marketing and quality control

on behalf of members. The apple crop is in general, comprised of smaller sized fruit. Warmer weather in the Fall may have a negative impact on the storability of the crop resulting in downward pressure on prices.

The major vegetable processing cooperative continues to re-structure operations following a change in its relationship with a major food processing customer. When the processing and marketing assets of the cooperative were acquired by an investment group, a portion of member's equity was converted to shares in the holding company that was created. That holding company sold processing assets and made a distribution to shareholders, including cooperative members. Members received a cash distribution based on their shares in the holding company that the equity investment group is currently managing.

A new frozen vegetable and fruit processing firm has acquired several processing plants in New York and other states. The new owner is continuing to operate plants in New York State and maintain supplier relations with growers who previously delivered to those plants. Acreage of processing vegetables delivered to the cooperative remained stable, although dry weather conditions limited production of early crops in some areas.

The Farm Credit associations experienced relatively good financial performance during the year. Strengthening prices for a number of commodities combined with favorable weather in most areas will contribute to stronger farm financial performance and creditworthiness.

The cooperative bank that lends to rural cooperatives in the U.S. and New York, showed positive results during the most recent year that data are available. Net income, cash patronage distributions, and member equity all increased from last year.

Cooperative Outlook

Most cooperatives operating in New York State had positive results in 2007. Stronger milk prices should help support the performance of dairy marketing and service cooperatives. Milk prices and dairy farm income are projected to remain at relatively high levels in 2008. Dairy producers should be able to receive prices above their cost of production and rebuild credit reserves. Dairy cooperatives continue to experience a declining member numbers as farmers exit farming. Improved financial conditions may tend to slow the rate of dairy farm sales and declining membership numbers.

Dairy cooperatives with value-added operations will experience increasing costs for processing milk, packaging, transportation, and ingredients as energy prices continue to increase. It remains to be seen how energy prices unfold in 2008, but forecasts call for more increases.

Dietary concerns of consumers such as low carbohydrate diets and childhood obesity will continue to impact sales of consumer food products produced or sold by marketing cooperatives. The "low-carb" craze of the past several years has waned a bit, but the increasing incidence of diabetes and childhood obesity continues to be a consumer concern. These concerns have created both challenges and opportunities for marketing cooperatives.

Although 2007 has brought a number of challenges for cooperatives operating in New York State, increasing milk prices, improved farm income, and revitalized organizations bode well for the upcoming year. Most cooperatives operating in New York State are well positioned for solid performance in 2008.