Chapter 3. Cooperatives

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U.S. Situation

Higher commodity prices helped U.S. farmer cooperatives set new sales records, over $146 billion and record net income of $3.8 billion in 2007. Total business volume was up approximately 16 percent from $126 billion in 2006.

Table 3-1. U.S. FARMER COOPERATIVES, COMPARISON OF 2007 AND 2006

Item	2007	2006	Change
	($ billion)	*($ billion)*	*percent*
Sales			
Marketing	93.1	76.5	21.76
Farm Supplies	49.3	45.9	7.52
Service	4.1	4.1	0.38
Total	**146.6**	**126.5**	**15.90**
Balance sheet			
Assets	57.1	47.9	19.31
Liabilities	36.2	28.0	29.42
Equity	20.9	19.9	5.13
Liabilities and net worth	57.1	47.9	19.31
Income Statement			
Sales (Gross)	146.6	126.5	15.90
Patronage income	0.6	0.5	29.79
Net income before taxes	3.8	3.2	21.10
Employees	*(Thousand)*	*(Thousand)*	
Full-time	125.2	123.4	1.44
Part-time, seasonal	56.2	57.3	-1.94
Total	**181.4**	**180.7**	**0.37**
Membership	(Million) 2.5	(Million) 2.6	-4.27
Cooperatives	(Number) 2,594	(Number) 2,675	-3.03

Source: *Rural Cooperatives*, Sept./Oct. 2008. USDA Rural Development, Washington, D.C.

Higher prices of commodities significantly increased sales of marketing and supply cooperatives last year with cooperative marketing increasing 22 percent to $93.1 billion. Total sales by farm supply cooperatives amounted to just over $49 billion or a 7.5 percent increase from 2006. Related services of marketing and supply cooperatives remained level at $4.1 billion in 2007.

Across all farmer cooperatives, total assets increased by 19.3 percent, liabilities increased by 29.4 percent and equity grew by 5.1 percent from 2006 to 2007. Total net income before taxes increased significantly by 21 percent to $3.8 billion. Patronage income increased by 30 percent, from $500 million in

2006 to $600 million in 2007. Farmer cooperatives remain one of the largest employers in many rural communities. The total number of full-time and part-time employees increased slightly in 2007 to 181,400.

New York State Situation

Data for agricultural cooperatives headquartered in New York State were obtained from a Cooperative Service survey cited below. The most current state level statistics available are for the years of 2005 and 2006. 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, 2005 and 2006[1]

Major Business Activity	Number Headquartered in State 2005	Number Headquartered in State 2006	Net Volume 2005	Net Volume 2006
			($ million)	
Marketing:				
Dairy	57	47	1,676.3	1,707.6
Fruit & Vegetable	9	9	37.0	38.7
Other Products[2]	5	4	142.7	100.3
TOTAL MARKETING	71	60	1,856.0	1,846.6
Supply:				
Crop Protectants			1.2	1.0
Feed			39.3	43.6
Fertilizer			11.9	12.5
Petroleum			5.0	5.7
Seed			2.3	2.3
Other Supplies			28.3	29.0
TOTAL SUPPLY	7	7	88.0	94.1
Related Service[3]	4	5	88.2	22.7
TOTAL	82	72	$2,032.2	$ 1,963.4

Source: *Farmer Cooperative Statistics, 2005*, Service Report 65, USDA, RBS, Washington, DC April, 2007 and *Farmer Cooperative Statistics, 2006*. Rural Development Report 67, USDA, Washington, DC November, 2007.
[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 2006 showed a net decrease of 10 cooperatives (12 percent) from 2005, primarily due to dairy cooperatives and a decrease in the number of other marketing cooperatives. However, total net business volume declined a more modest 3.4 percent from $2,032 million in 2005 to $1,963 million in 2006, a decrease of 3 percent. It should be noted that individual state data for agricultural cooperatives are becoming more difficult to obtain as more cooperatives operate across a broader multi-state area. For instance, 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 and include a large number of New York producers as members.

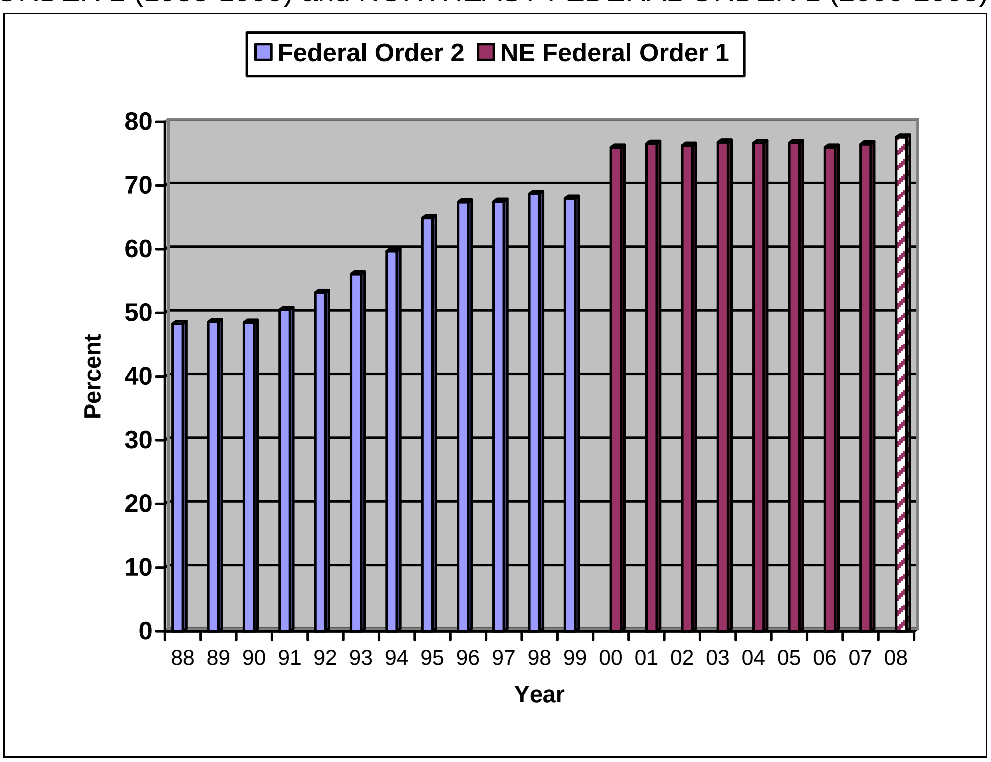
Total net volume for cooperatives headquartered in New York State decreased by $69 million, with marketing cooperatives reporting a decline of almost $10 million in net volume from 2005. While net business volumes for both dairy and fruit and vegetable marketing cooperatives. Dairy cooperatives showed an increase of $31 million from the previous year. Revenues for fruit and vegetable cooperatives increased by almost $2 million. Total net volume for other products marketed through cooperatives (e.g. poultry, dry beans, grain livestock, maple syrup and others) decreased significantly by almost $80 million.

Supply cooperative volume increased by over $6 million as cooperatives recover from the loss of the Agway cooperative system. Total business volume for services related to marketing or purchasing decreased by almost 75 percent from about $88 million in 2005 to $23 million in 2006.

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 2008 increased slightly to 78 percent from an average of 77 percent during the previous year.

FIGURE 3-1. COOPERATIVE SHARE OF PRODUCER MILK RECEIPTS, FEDERAL ORDER 2 (1988-1999) and NORTHEAST FEDERAL ORDER 1 (2000-2008) [a]



Source: Market Administrator's Office, Northeast Federal Milk Marketing Order 1.
[a] Year 2008 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 eight months of 2008, the cooperative share has increased 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. This volume of non-member milk marketed is not included in the data for the cooperative share of producer receipts.

Wet weather conditions in scattered areas of New York during the planting season put pressure on forage crop yields and milk production. Otherwise, weather during the growing and harvest seasons has been, in general, favorable. Isolated weather events have created some problems that might result in lowering the overall harvest of forage crops.

Milk prices continued to increase early in the year and then declined significantly. On average, milk prices for the year supported continued positive performance of cooperatives offering dairy herd improvement or breeding genetics to members. Export sales of genetics and increased international operations continued to add to the revenues of the major genetics cooperative.

Dairy marketing cooperatives involved in value-added operations experienced mixed results. As milk prices declined, cooperatives involved in aging cheese experienced challenges in managing inventory values. Sales of cheese, yogurt and other soft dairy products remain relatively strong.

Cooperatives with manufacturing operations continued to see higher energy and packaging costs early in the year. International markets for dry milk products remained strong in the beginning of the year but weakened as the value of the U.S. dollar strengthened and global demand softened. Mid-year changes in the export market brought declining international sales and an increasing surplus of dry milk products.

The bankruptcy settlement of Agway, the major supply cooperative in the Northeast continues as unsecured creditors have received periodic distributions from 2004 through 2008. Payments are being made to unsecured creditors until the Trust created by the bankruptcy court is exhausted. Total payments to be made to unsecured creditors, many of whom were members or retired farmers, are estimated at between 60 cents and 66 cents on the dollar. As of February 2008, a total of seven payments have been made totaling 60 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 continues to rebound from weak sales, higher expenses, and lower returns to growers. Consumer dietary trends have hurt sales of fruit juices. The marketing arm continues to cut costs and implement new marketing strategies. Financial performance has been improving resulting in a larger advance payment 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 good. Some isolated weather problems resulted in lower yields in selected production areas. In general, production in New York State was strong compared to other areas such as Michigan or Washington. 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 adjust 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 several years ago, a portion of member's equity was converted to shares in the holding company that was created. That holding company has since sold some of the processing assets and made a distribution to shareholders, including cooperative members. Individual members received a cash distribution based on the cooperatives investment in the holding company that the equity investment group is currently managing.

A good working relation has been developed with the new frozen vegetable and fruit processing firm that 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 the growers cooperative that previously delivered to those plants. Acreage of processing vegetables delivered to the cooperative has increased as well as the price received by growers. In fact the total commercial market value (CMV) of processed fruits and vegetables in New York will reach records levels this year.

The Farm Credit associations experienced good financial performance during the year. Relatively strong prices for a number of major commodities combined with favorable weather in most areas contributed to stronger farm financial performance and creditworthiness. The U.S. financial credit crisis and failure of investment banks involved in sub-prime mortgage financing did have a negative impact on the Federal Agricultural Mortgage Corp. known as " Farmer MAC". Farmer MAC which is a government sponsored entity, manages short term credit and investments for the Farm Credit System. Farmer MAC was exposed to high risk investments that affected the capital position and required an infusion of capital from various Farm Credit partners. For more information see www.farmermac.com.

The cooperative bank that lends to rural cooperatives in the U.S. and New York, reported record results during the most recent year that data are available. Net income, cash patronage distributions, and member equity all increased from the previous year. That said, recent fluctuations in commodity markets and the credit crisis have created more uncertainty.

Cooperative Outlook

Most cooperatives operating in New York State had positive results in 2008. Weakening milk prices in 2009 may create more uncertainty for the performance of dairy marketing and service cooperatives. Milk prices and dairy farm income are projected to decline but stabilize from the relatively high levels of 2008. Dairy producers have seen their cost of production increase resulting in tighter profit margins. Dairy cooperatives continue to experience declining member numbers as farmers exit farming. Increased financial stress on dairy farms may tend to increase the rate of dairy farm sales and declining membership numbers.

Dairy cooperatives with value-added operations have experienced increasing costs for processing milk, packaging, transportation, and ingredients as energy prices continue to increase. Recent declining costs of energy may bring more stable prices. It remains to be seen how energy prices unfold in 2009, but falling demand and an economic recession may cause energy costs to decline further.

Domestic consumer concerns over rising food prices and an economic recession may shift purchasing to lower priced food products outlets as well as result in less food consumed away from home. On the export side, a strengthening dollar and global recession may limit exports in 2009. The dairy industry and dairy marketing cooperatives have relied on increasing exports to support farm prices and cooperative sales.

Although the last half of 2008 has brought a number of challenges for cooperatives operating in New York State - declining milk prices, downward pressure on farm income, shifting consumer purchasing patterns and a deepening recession, most cooperatives operating in New York State remain well positioned for solid performance in 2009.