Cooperatives in the Food System

- What is a cooperative?
- How important are co-ops in the US food system?
- Do co-ops perform differently than investor-owned firms?
  - Theoretical perspectives
  - Empirical perspectives
- Challenges facing cooperatives and their responses

Perspectives on Cooperatives


- "The process of cooperation is as important as the result of cooperation, and to strip farmers of the former will ultimately strip them of the latter." -- Linda Kravitz. Who's Minding the Co-op? A Report on Farmer Control of Farmer Cooperatives. Washington: Agribusiness Accountability Project, 1974.
Key Characteristics of Cooperatives

- A form of horizontal integration to get benefits of vertical coordination
- Patrons as residual claimants
- Service at cost
- Returns in proportion to patronage
- Democratic control

Data on US Agricultural Cooperatives

Source: USDA, Rural Development, Cooperative Services
# U.S. Farmer Cooperatives

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2003</th>
<th>Change</th>
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</thead>
<tbody>
<tr>
<td>Number of cooperatives</td>
<td>2,896</td>
<td>3,086</td>
<td>-190</td>
</tr>
<tr>
<td>Memberships (million)</td>
<td>2.6</td>
<td>2.8</td>
<td>-0.19</td>
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<tr>
<td>Gross business volume (billion $)</td>
<td>121.3</td>
<td>116.9</td>
<td>4.40</td>
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<tr>
<td>Net business volume (billion $)</td>
<td>106.5</td>
<td>100.6</td>
<td>5.89</td>
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<tr>
<td>Net income (billion $)</td>
<td>2.5</td>
<td>1.1</td>
<td>1.44</td>
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<td>Total assets (billion $)</td>
<td>46.6</td>
<td>46.9</td>
<td>-0.34</td>
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<td>Net worth (billion $)</td>
<td>19.5</td>
<td>20.4</td>
<td>-0.90</td>
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<td>Full-time employees (thousand)</td>
<td>125.4</td>
<td>161.1</td>
<td>-39.71</td>
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<tr>
<td>Part-time and seasonal employees (thousand)</td>
<td>54.4</td>
<td>61.6</td>
<td>-7.16</td>
</tr>
</tbody>
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**Figure 1—Cooperatives in the United States, 1913-2002**

[Graph showing the number of cooperatives from 1913 to 2002 with categories for marketing, farm supply, and service.]
Figure 8—Relative Importance of Farm Products Marketed by Cooperatives, 2005

Figure 9—Relative Importance of Farm Supplies Handled by Cooperatives, 2005
Do co-ops perform differently than investor-owned firms?

- Theoretical perspectives
  - Residual claimancy and:
    - Pro-competitive effects
    - Management control
    - Raising capital and the "horizon problem"
  - Can cooperatives "unduly enhance" prices?
- Empirical perspectives

New Generation Cooperatives

1. Focus on value-added marketing
2. Appreciable and transferable delivery rights
3. Up-front equity capital investment requirement
4. Defined (closed) memberships
5. Pooling and marketing agreements with strong penalties for non-compliance.