



Exploring Farmer Cooperatives





Table of Contents

01	Agricultural Cooperatives	1
02	The American Private Enterprise System	3
03	How Agricultural Cooperatives Began	7
04	Classification of Cooperatives	10
05	The Extent of Agricultural Cooperatives	15
06	The Mechanics of an Agricultural Cooperative	16
07	Why Cooperatives Succeed	21
08	Decision Makers in a Cooperative	23
09	Laws Affecting Agricultural Cooperatives	25
10	Cooperatives and Taxes.....	27
11	Cooperative and Agricultural Credit.....	28
12	Serving Agricultural Cooperatives.....	30
13	When Cooperation Applies	32
	Glossary	33



This book was made possible through generous donations from:





Agricultural Cooperatives

Production agriculture (farming and ranching) is very specialized. Rarely does an individual producer have the time or ability to participate in all of the activities associated with the handling and distribution of his or her commodities, such as packing, processing, distribution, sales and advertising. These services add value as the basic farm products are processed and packaged into an endless assortment of consumer goods and distributed in national and international markets. Unless producers maintain an ownership interest in their crops throughout this processing and distribution chain, they cannot share in the value-added profits generated from consumer sales.

By joining a cooperative, producers gain and build clout in the marketplace. The cooperative gives producers the joint capability of tapping into value-added profits by:

- ▶ developing processing and distribution facilities;
- ▶ hiring product design, marketing and management professionals, and
- ▶ delivering high quality, specialized products to the consumer.

Cooperatives enable producers to increase their net farm income in two ways:

- ▶ reduced farm production costs, and
- ▶ higher, value-added returns from the crops.

What is an Agricultural Cooperative?

Although there is no single definition, an agricultural

cooperative can generally be described as a private business corporation distinguished by these characteristics:

- ▶ a producer-created business organized to fulfill the specific needs of its membership,
- ▶ democratically controlled and owned by its producer members,
- ▶ professionally managed, and
- ▶ provides services at cost to its members and distributes any profits or savings to its members in proportion to their use, or “patronage.”

Cooperatives in California

Due to California’s ability to grow over 400 commodities and its unique situation of being a home to several ports, many of California’s cooperatives are built on a mission to sell and export products all over the world. Therefore, agricultural cooperatives in California are unlike many throughout the United States, and have built recognizable brands and opened hundreds of domestic and international markets.

History of Agricultural Cooperatives in California

In the early years of the 20th century, California farmers produced many high-quality specialty crops in volumes that far exceeded what they could sell locally. Their harvested crops were placed under the control of private firms for transportation and sale across the continent to heavily populated eastern markets. The time and great distances involved in the eastward marketing and distribution of their crops created many costly problems for California farmers such

as the fact that railroad transportation was uncertain, and the preservation or product quality was extremely difficult. In addition, communications were slow and overall prices received by the producers were generally unsatisfactory. To address these problems, California farmers took control of the packing, processing, distribution, and marketing of their crops by organizing marketing cooperatives. Unfortunately, there were no state laws governing the legal status of cooperatives and many of the earliest had to be organized under general corporation laws.

Cooperative organizers also faced a hostile environment. Other firms engaged in predatory practices to undermine the newly formed cooperatives. Additionally, there were federal and state regulatory challenges.

It was difficult to obtain bank loans and producers often had to pledge their personal assets to finance the new cooperatives. The producers often took on a cooperative's management responsibilities until professional managers could be found.

Now, California cooperatives manage and process products from when they leave the farm, through the processing plants, and to the retailer, with several owning and/or managing their own distribution chains. These cooperatives are able to minimize risk throughout the distribution chain with assistance from outside consultants. Additionally, many cooperatives invest heavily in research and development to identify and create new products that are consistent with consumer demand.



A Classic California Story **Realizing the Power of Almond Innovation**

In 1910, 230 enterprising almond growers joined together to form the California Almond Growers Exchange, an almond processing and marketing cooperative that today is known as Blue Diamond Growers. From modest beginnings, the cooperative has blossomed to more than 3,000 members throughout California's Central Valley, representing more than half of the state's almond growers. Over the last century, Blue Diamond Growers has been responsible for growing the almond industry into what it is today – an agricultural dynamo for the California economy.

“What makes Blue Diamond unique is our ability to anticipate the needs of our customers and especially, the end consumer. We are providing products that help consumers lead active and healthful lives,” said Mark Jansen, the cooperative's President and CEO.

In addition to introducing new flavors of snack almonds, Blue Diamond has been an innovative powerhouse by bringing the world's first almondmilk to market with its popular non-dairy beverage, Almond Breeze, and by introducing NutThins, a gluten-free cracker made with almonds. Blue Diamond

has also created a new line of branded almond flour that is taking the gluten-free segment by storm, offering a healthy and delicious alternative

The cooperative has blossomed to more than 3,000 members throughout California's Central Valley.

to traditional flours. On a larger scale, consumers can find Blue Diamond almonds in nearly every aisle in the grocery store as ingredients in their favorite food items. Building on its long-established international relationships, Blue Diamond has expanded its retail footprint in countries around the world. The opportunities for growth are endless.

So what drives Blue Diamond Growers' success? Jansen believes, “It's our commitment to our core values, which inspired our founders and are still very top of mind today – Partnership, Quality, Innovation and Integrity. Our growers place their trust and their livelihoods in our hands. It's our job to deliver the benefits of almonds to the world!”

CALIFORNIA GROWS
2/3 OF THE FRUITS & NUTS **& 1/3 OF THE VEGETABLES**
IN THE COUNTRY

The American Private Enterprise System

Free competition results in a balance between supply and demand. Producers (creators of “supply” in the economic equation) naturally want to get as much as possible for what they sell, while buyers (who create “demand”) obviously wish to pay as little as necessary. Competition among producers to attract buyers keeps the price of goods from going too high; competition among buyers for the available products and services keeps prices from going too low.

The private enterprise system can suffer from overproduction, underproduction, inflation, recession, monopolies, severe unemployment, abusive practices, and other ills. Such problems have encouraged the government to create regulations intended to artificially maintain order and equal opportunity; some of these efforts have worked, while others have backfired. Yet, in spite of its imperfection, the American private enterprise system has been one of the most successful models around the world.

An enormous number of business activities are required to fulfill the nearly unlimited wants and needs of people. These activities generally fall in one of the following categories: production of basic commodities, manufacturing or processing of consumer and industrial goods, marketing, or services.

Types of Business Ownership

All businesses require “capital,” which are funds necessary to cover the costs of producing a product or providing a service. The need for capital may include routine operating

expenses such as salaries and rent; purchasing of inventories, supplies, and raw materials; leasing or buying land, buildings, equipment, and funding business expansion. Capital comes primarily from investment by a business, owners, borrowings from lending institutions, and others.

Businesses are classified by their ownership. There are five basic types of ownership, each with their own characteristics, advantages, and disadvantages.

Individually Owned

The individually owned business or sole proprietorship is the oldest business form, the most common, and the easiest to establish. The person who owns the business raises the capital, is responsible for the business’ debts, pays its bills and taxes, and keeps any profit. The profits are taxed once as income to the owner.

The primary sources of capital for this type of business are the individual’s personal resources and whatever amounts he or she is able to borrow. If the business fails, the owner is personally liable for all unpaid debts.

Farms are often owned by individuals. Other individually owned businesses may include local restaurants, specialty clothing stores, and hair salons. Historically, individually owned businesses have been the cornerstone of the American free enterprise system.

Advantages

The individually owned form of business is very flexible and can be applied to almost any business venture. It offers great opportunity for personal initiative and ingenuity. The legal requirements governing its organization and operation are minimal. Income is taxed only once, as personal income to the owner.

Disadvantages

It is difficult for a single individual to enter an enterprise that requires large amounts of capital. Lenders will only loan so much, so individually owned businesses often must change their form if they wish to obtain capital from outside investors. It involves significant personal financial risk as well.



Partnership

Partnerships consist of two or more people who jointly own, control, and operate a business. Management responsibilities, voting rights, and profit distributions are usually determined by a formal partnership agreement.

Management responsibilities and decisions are either by mutual agreement or majority vote. Profits or losses are distributed in proportion to each partner's share of capital invested or the work each has done. Earnings are taxed once as personal income to the partners.

The partners provide the business capital from their own resources or borrow it under loans for which they are personally responsible. If the business fails and its assets are not enough to pay its debts, general partners are personally liable for the full amount of partnership debts, the same as owners of individually owned businesses. Full personal liability usually occurs regardless of an individual partner's ownership percentage.

Many businesses are organized as partnerships. Examples may include farming operations, doctor's offices, law and accounting firms, and real estate practices.

Advantages

Partnerships allow people to combine their capital and skills to operate a business venture they may not be able to do alone. Income is taxed once, as personal income of the owners.

Disadvantages

Partnerships require effective teamwork and compatibility, which is often easier said than done. If one partner leaves or dies, the partnership must be reorganized. General partners assume personal liability for business liabilities.

General Business Corporation

A general business corporation is organized for the purpose of making a profit for its owners, investors who are commonly referred to as "stockholders." A corporation is a legal entity separate from its owners, with many of the same rights and obligations as a person. Like a person, a corporation can own property, borrow money, enter into contracts, and is responsible for its own debts.

Stockholders usually have as many votes as their shares of voting stock, which represents their proportionate ownership of the business. Voting power may be turned over to another person by signing a 'proxy' that grants the other person authority to use their votes.

A corporation's "articles of incorporation" is a legal document that describes the kind of business it may conduct. The articles list the corporation's legal name, official address, and its rights and privileges as an incorporated business.

A board of directors is elected by the stockholders to set broad business goals and policies. The board of directors must follow the specific duties, purposes, and rights allowed by the articles of incorporation and the laws of the state in which the company is legally organized, or "incorporated."

The board typically hires a lead management executive, most commonly with the title of chief executive officer, president, or general manager. This person is responsible for implementing board policy; managing the company's daily operations; and hiring the other managers and personnel to operate the business. The chief executive officer often delegates much of his or her authority to others but is responsible for the results. Senior managers may be members of the board of directors, which may also include professional directors with no ownership in, or employment by, the corporation.

A portion of a corporation's profits may be distributed to stockholders as "dividends." Profits that are not distributed are kept in the corporation for growth, asset replacement, emergency reserves, and other business purposes.

If a corporation fails, it is liable to its creditors to the extent of all its assets. However, the stockholders cannot lose more than the amount they have invested in stock and cannot be held personally responsible for the debts and obligations of the corporation. Corporate earnings are taxed twice, once as income to the corporation and again when that income is distributed to the stockholders as dividends. Neither the stockholders nor the directors have an obligation to use the corporation's products or services.

Most major companies operate as general business corporations. Their stockholders may be relatively few or in the millions. Examples of general business corporations include large financial institutions such as banks, car manufacturers, retail department stores, grocery chains, and national television networks.

Advantages

Corporations can bring together large amounts of capital, both equity and debt, for major industrial and business ventures. There is also limited liability for stockholders.

Disadvantages

The size created by the large accumulation of capital and human resources can create a huge bureaucracy in which decisions are slow and difficult to make. In addition, earnings are taxed both at the corporate level and to the stockholders when distributed as dividends.

Limited Liability Company

California and most other states allow a "limited liability company" or LLC. Like a corporation, an LLC offers its owners protection from personal liability for business obligations and is recognized as a separate legal entity under the law. Like

partnerships, however, the income of LLCs is taxed only once. The business is governed by an agreement between the owners (called "members"), providing the same organizational flexibility as a partnership. Some believe LLCs offer "the best of both worlds," and many farming and agribusiness firms are LLCs.

Advantages

LLCs allow for a great deal of organizational flexibility. Owners have protection from personal liability similar to that of the stockholders of a corporation. It is easier for LLCs to attract outside investors than individually owned businesses or partnerships. LLC income is taxed only to the owners rather than to both the company and then the owners upon distribution.

Disadvantages

The departure of an LLC owner generally terminates the LLC unless the remaining owners vote to continue the business. When owners sell their shares of an LLC, any gain is taxed at a higher rate than would be assessed on sales of stock in a corporation. LLCs do not have as many options for raising outside capital as general business corporations.

Cooperative Business Corporation

As a business corporation, a cooperative is a separate legal entity. Unlike a general business corporation, which exists to generate returns on stockholder investment, the purpose of a cooperative is to provide economic benefits to its members.

Cooperative members are both the owners and customers of the company. A cooperative provides its member-owners with services that would otherwise be purchased from private companies expecting to earn a profit on the business they do with the producers.

In general, each member of a cooperative has one vote. The "one member, one vote" rule is not universal, however. Some cooperatives base the number of votes per member on their use of the cooperative's services. In that case, each member has at least one vote plus additional votes allocated based on the amount of business done with the cooperative.

Cooperative members elect a board of directors that is responsible for the adoption and revision of operating policies. The board hires a chief executive officer who is responsible for hiring the staff necessary to operate the cooperative.

Earnings (or losses) on business conducted by a cooperative, often called "margins," are allocated back to the members in proportion to their use of the cooperative's services. A cooperative's earnings are generally taxed only once, either as income of the cooperative or as income of the members when allocated to them.



Advantages

By bringing together business volume and resources, producers may gain increased power in the marketplace. They can lower distribution costs, conduct joint product promotions, and develop the ability to deliver their products in quantities and quality that will attract better prices from buyers. A cooperative can pass through to members the amount of profit that would ordinarily go to middlemen. Producers can also take advantage of group purchasing power, securing a source for essential services and supplies. Cooperatives offer their members more control than they would have dealing with unrelated companies. A cooperative's owner-members enjoy the same protection from personal liability as do the stockholders of a general business corporation.

Disadvantages

Cooperatives may require extensive capital from their members, as they are more limited in their ability to attract outside investment than a general business corporation. Capital invested by members usually does not earn an investment return, as would be expected of corporate stock. Cooperative membership may require producers to give up some independence and maintain a long-term perspective rather than trying to maximize short-term returns.

Interdependence is the Key

The private enterprise system includes many types and forms of business, with competition and the desire for profit driving economic activity. The vast array of goods and services produced by private enterprise encourage the growth and prosperity of the American economy.



Grapes & Sunshine

In 1912, a group of California raisin growers created the California Associated Raisin Company, which became Sun-Maid Growers of California. The organization was intended to combat low prices and fluctuating demand, and to provide better economies of scale in processing, selling, and creating stable markets.

In 1915, the cooperative hired a national sales team to market raisins directly to grocers. This effort, in conjunction with the new Sun-Maid brand (a girl in a red bonnet), print advertisements and recipe booklets, significantly increased America's raisin consumption. Today, more than 100 years later, Sun-Maid is one of the world's most recognized brands. Sun-Maid enjoys preferred ingredient supplier status with many domestic and international food-processing companies.

Today, Sun-Maid is one of the world's most recognized brands.

93% OF
**CALIFORNIA
FARMS
ARE FAMILY
OWNED**

Source: 2016, USDA Census of Agriculture





How Agricultural Cooperatives Began

The earliest form of cooperatives can be traced back to ancient Egypt around 3000 B.C. Historians believe craftsmen and artisans established very primitive, regulated trade systems during the reign of the pharaohs. From that time forward, the cooperative business structure slowly evolved in numerous forms and in many different cultures.

The origin of the modern cooperative is generally associated with the Rochdale Society of Equitable Pioneers, established in England in 1844. The original group was founded by 28 people, ranging from flannel weavers to shoemakers. They were craftsmen who came together to purchase supplies and consumer goods cooperatively.

The Rochdale Society took the best ideas of earlier cooperatives and molded them into a set of business practices and policies to develop the first formal cooperative principles:

- ▶ Open membership
- ▶ One member-one vote
- ▶ Cash trading
- ▶ Membership education
- ▶ Political and religious neutrality
- ▶ No unusual risk assumption
- ▶ Limitation on the number of shares owned
- ▶ Limited interest on stock

- ▶ Goods sold at regular retail prices
- ▶ Net margins distributed according to use of services, or “patronage.”

The first American cooperative is believed to be the Philadelphia Contribution for the Insurance of Houses from Loss by Fire. It was a mutual insurance cooperative organized in 1752. Benjamin Franklin served as the first chairman of the cooperative’s board of directors.

The earliest American agricultural cooperatives started with small, unincorporated organizations around 1810. “Associated” or cooperative dairying began with the manufacturing and marketing of butter in Goshen, Connecticut and South Trenton, New York. Dairy farmers soon came to realize that significant savings could be gained from the wholesale purchasing of supplies. They also received higher market prices by selling high quality, uniform dairy products. By 1867, more than 400 dairy cooperatives were in operation.

During this period, other agricultural producers moved to form cooperatives. In 1857, 17 farmers in Bureau County, Illinois formed a pool for marketing hogs. The same year, grain farmers built the first cooperative elevator in Madison, Wisconsin. In 1863, the first known farm supply cooperative was formed to purchase fertilizer at wholesale prices for farmers in Riverhead, New York.

The growth of commercial farming, combined with the deflation of the U.S. Dollar after the Civil War, caused a great

deal of discontent among producers. Through their farm organizations they registered protests against alleged exploitation by the railroads, unfair treatment by creamery and elevator companies, dishonest dealings with middlemen, high credit costs, and generally unfavorable economic situations. These conditions started, influenced, and guided organizations such as National Farmers Union, American Farm Bureau Federation, and National Grange in developing producer cooperatives.

Over a 50-year period, thousands of farm cooperatives were formed through the sponsorship of these organizations. For example, in 1874 the National Grange sent representatives to Europe to gather information about cooperatives. The following year, the Grange published a set of rules for the organization of cooperative stores based on the Rochdale principles. Several of today's important cooperatives can be traced back to the early Grange organization.

Between 1890 and 1921, cooperative marketing largely expanded on its own initiative without the sponsorship of the general farm organizations. Approximately 14,000 producer cooperatives were operating at the end of this period. Many of the cooperatives organized during this 30-year span sparked further developments in the decades that followed.

**Over a 50 year period,
thousands of farm
cooperatives were formed.**



California's Largest Dairy Cooperative

California Dairies, Inc. (CDI) was established in 1999 as the result of a successful merger of three of California's most successful cooperatives: California Milk Producers, Danish Creamery, and San Joaquin Valley Dairymen. All three cooperatives were rich in tradition with roots dating back to the turn of the 20th century.

As a member-owned milk marketing and processing cooperative, in 2016, CDI was co-owned by 420 California dairy producers who collectively shipped approximately 17 billion pounds of milk annually. Member dairies are located from San Diego County in the south to Sacramento County in the north.

CDI is the largest dairy cooperative in California and has a tremendous presence nationwide, as it is the third largest dairy processing cooperative in the United States. In 2016, this cooperative produced 43 percent of California's milk or nine percent of the milk produced in the United States.

California Dairies, Inc. prides itself on producing the highest quality products while providing customers of all sizes with exceptional service. CDI manufactures quality fluid milk products, butter, and milk powders and has sales across all 50 states and in more than 50 foreign countries.





PACIFIC COAST PRODUCERS

California's Cannery

Pacific Coast Producers (PCP) was founded in 1971 by a group of growers who had lost their markets when Stokely VanKamp exited the canning market in California. These growers formed a cooperative, borrowed money and purchased the Stokely assets, elected a president, and operated out of the garage of a house for the first several years. Forty six years later, PCP is a \$750 million company marketing private label fruits and tomatoes nationwide to every major retailer and foodservice distributor in the country.

While the core business of canned peaches, fruit cocktail and tomatoes are still a primary focus, PCP also acquired an importing business, bringing in tropical fruits that are not grown here in the U.S. Additionally, PCP added a processing and frozen cherry business in the Northwest to its line of products.

PCP's growers are committed to California agriculture for the U.S. consumer and continue to make investments to diversify and grow their company, for the benefit of member family farms.

Why Cooperatives are Formed

The fundamental reasons for forming an agricultural cooperative are the same today as they were 150 years ago. In fact, the need for strength in the marketplace is even greater. In the past, producers primarily sold directly to grocery

stores or brokers. Today, supermarket chains, discount drugstores, and warehouse stores

Cooperatives give producers more market power to negotiate terms.

purchase train carload lots from packing houses and processors that can supply a volume, quality and variety of food products according to specified delivery schedules. A single producer may not have such resources.

Today's low-profit grocery stores want top-quality products at low prices and strict payment and delivery conditions. They often charge food processing companies a "slotting fee" just to agree to carry their products, and may require the food processor to take responsibility for stocking and managing sections of the grocery store's shelf space. Cooperatives give producers more market power to negotiate these terms.

Producers may also achieve economies of scale by working cooperatively. For example, processing equipment is very expensive to buy, operate, and maintain. Farmers may form a cooperative to pool their resources to operate one large and efficient processing plant rather than each farmer having to buy his or her own equipment.



04

Classification of Cooperatives

In general, agricultural cooperatives are classified according to the geographic area they serve, membership type, and business function.

Geographic Area Served

Cooperatives may be termed local, regional or national, depending on the area they serve.

Local

Local cooperatives operate in a community, a small geographic area, or county. They usually have one or two facilities to serve members. Examples include cotton gins, fruit packers, and mutual irrigation districts.

Regional

Regional cooperatives may cover several counties within a state, parts of several states, or all of a number of states. Calcot, Ltd., for example, a cotton-marketing cooperative based in Bakersfield, serves farmers in California, Arizona, Texas, and New Mexico.

National

National cooperatives have members in all or virtually all of the U.S. CoBank, a financial institution that serves other cooperatives, is a large national cooperative.

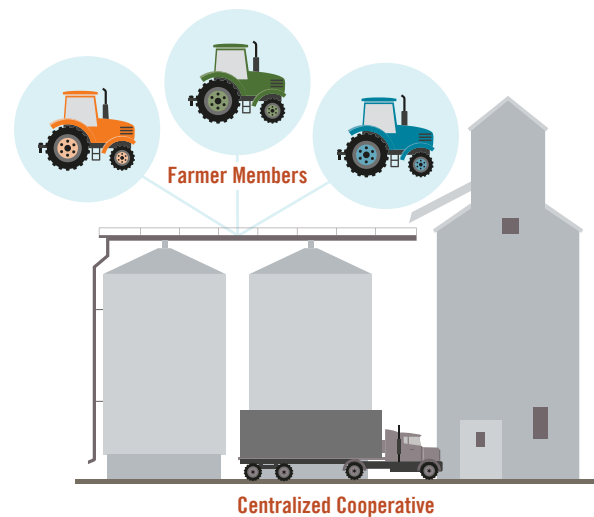
Membership Type

Cooperatives are designated as centralized, federated, or mixed

depending on their membership. The designation is based on the type of members that own and use the cooperative.

Centralized

In a centralized cooperative, the members are individual farming operations. Control is directly in the hands of the individual producers and other farming entities (such as partnerships and family corporations) that are its owners. There is one central headquarters, a board of directors elected by the members, and a manager or chief executive officer. The directors are usually elected by district, although they may be “at large” and elected by the membership as a whole.



Centralized cooperatives are owned directly by farmer-members.

The directors hire a lead manager who is responsible for the cooperative's operations. The cooperative may have several branch stores, offices, or operating facilities, which all report to the headquarters office.

Blue Diamond Growers, an almond marketing cooperative located in Sacramento, and Sun-Maid Growers, a raisin marketing cooperative in Kingsburg, are centralized cooperatives. Most California cooperatives are centralized.

Federated

The members of a federated cooperative are other cooperatives that are governed by their own boards of directors, have their own managers, and operate their own facilities. Each member cooperative usually chooses one of more representatives to serve on the board of directors of the federated cooperative.

The services of a federated marketing cooperative include marketing the output of its member cooperatives; establishing grade standards, brands and trademarks; advertising and promotion, and maintaining sales accounts.

As a federated cooperative's members grow and change, it can become increasingly difficult to find common ground among them and meet their diverse needs. Accordingly, very few federated cooperatives currently operate in California.

Mixed

Mixed cooperatives have both individual producers and other cooperatives as members.

Sunkist Growers, a citrus marketing cooperative headquartered in Valencia, is an example of a mixed cooperative. Sunkist has approximately 6,000 farmer members located in California

and Arizona. Several local packing associations and district exchanges are also members. The individual farmer members belong directly to Sunkist, as well as, to one of the local associations or district exchanges.

Business Function

Cooperatives usually engage in one of four basic functions: marketing, bargaining, supply, or service.

Marketing

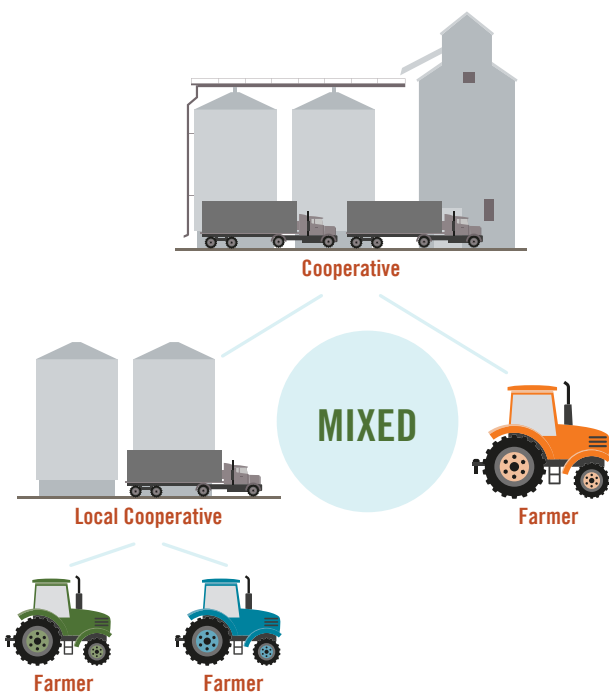
Marketing refers to the activities necessary to get a product from the farm to the consumer. This may include gathering large quantities of agricultural commodities, grading, standardizing, processing, packaging, storing, distributing, financing, advertising, and selling.

Marketing cooperatives give members greater control over their crops, and the ability to earn profits that would otherwise go to middlemen. Marketing cooperatives may perform just one of the marketing functions or several. For example, some marketing cooperatives gather commodities produced by members for sale to processors and wholesalers. Others may process the commodity into a finished product and then sell that product. An example of this is Sunsweet Growers Inc., which converts dried plums grown by its members to prune juice, which is sold to major retailers under the Sunsweet brand.

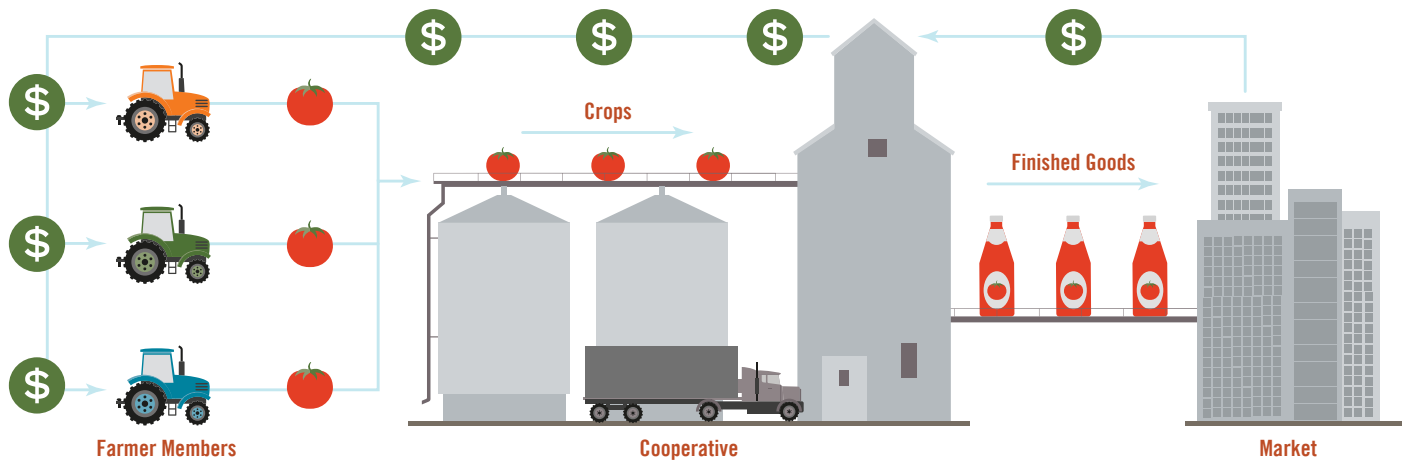
Several California marketing cooperatives process and market their members' crops under the cooperative's brand name. Cooperatives will also sell value-added products to institutional and food service buyers for use as ingredients in further processed products (such as tomato paste for pizza sauce makers), to brand-name companies, or to grocery stores for sale as a private labeled product (store brands).

Regardless of the services they perform, all marketing cooperatives try to reduce the difference between the finished product price and the amount received by the producer. They do this by minimizing handling, processing, and distribution costs. Since cooperatives operate on a cost-of-doing business basis, reduced marketing costs increase the returns to their producer-members. In effect, the cooperative's members can earn profits that would otherwise go to middlemen.

California producers pioneered the development of large-scale marketing cooperatives for a variety of fruits, nuts, eggs, dairy products, dried fruits, and cotton. The brand names established by many of these marketing cooperatives are familiar in households throughout the nation and are even well-known internationally, including Sunkist citrus, Sun-Maid raisins, Sunsweet dried plums, and Blue Diamond almonds.



HOW MARKETING COOPERATIVES WORK



Marketing cooperatives may pool, process, and market their members' products.

Producers have found that they must keep their marketing cooperatives flexible and competitive. Those that provide up-to-date services have maintained an important place in the distribution of farm products.

Bargaining

“Cooperative bargaining” and “bargaining power” are terms that refer to the ability to influence the outcome of the price-making process. Farmers form bargaining cooperatives to centralize and increase their ability to influence the price and terms of sale for their crops. Through bargaining cooperatives, farmers negotiate as a group rather than as individual growers competing against each other for sales. Bargaining cooperatives also distribute economic and marketing information and provide production and harvesting advice and services. They keep their members informed of consumer preferences and help them adapt to the changing market.

Farmers join bargaining cooperatives to gain strength in negotiating price, quality, quantity, and delivery terms. They delegate authority to their bargaining association to establish common quality, common price, and rules on marketing their products.

Bargaining cooperatives usually do not take possession of products, or process or distribute them. Bargaining cooperatives differ from marketing cooperatives in that their facilities are generally limited to an office and perhaps a laboratory to test product quality. However, some bargaining cooperatives do take legal title to a product and, even though the cooperative does not own a processing facility, may finance processing costs and market the finished product.

Bargaining cooperatives must have well-informed leaders who use research and statistics in negotiations with processors. It is important to avoid making unreasonable demands as it is

possible to be priced out of the market by demanding more for a crop than it is worth under prevailing market conditions.

The organization of bargaining cooperatives is similar to that of other cooperatives. They are organized and incorporated under the cooperative laws of their states. Their articles of incorporation and bylaws spell out their purpose, objective, and general operating policies. They generally have an open-door membership policy.

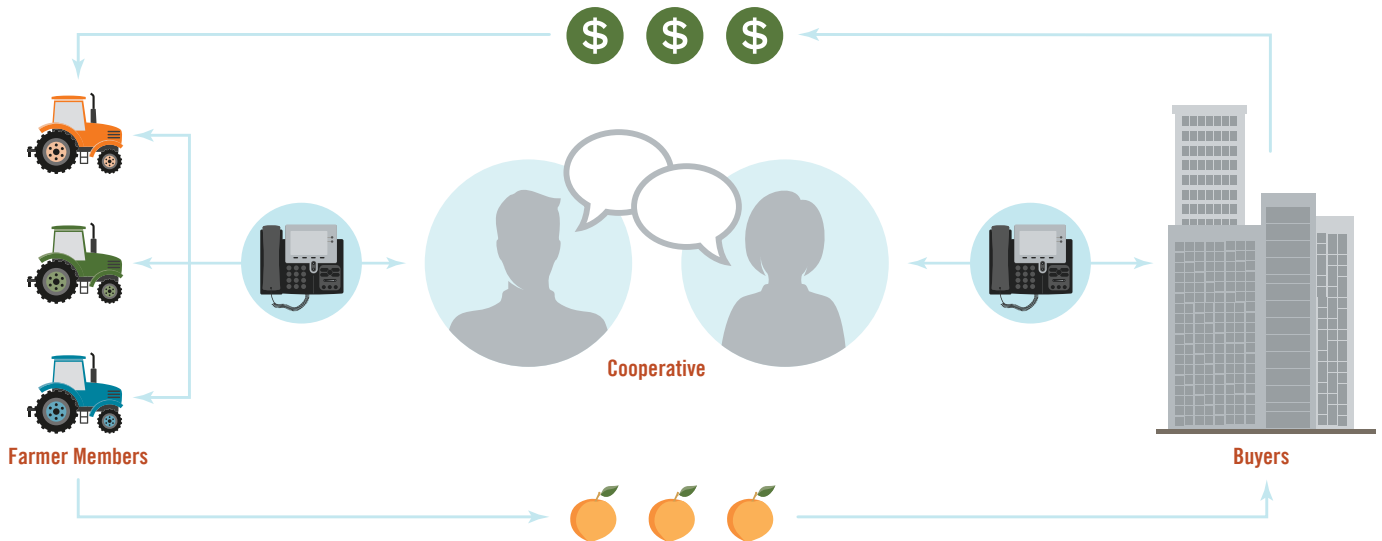
Most bargaining cooperatives have membership agreements. These agreements list the rights and duties of the members with respect to their crops. The agreements are usually of the “agency type,” that is, the cooperative becomes the agent for the farmer in selling the crop. The agreement requires the member to sell a specified amount of the crop through the cooperative.

For example, a California farmer who is a member of the California Canning Peach Association must sell all of his peaches for processing through the cooperative. However, if the farmer also has peaches that are destined for the fresh market, those peaches are not bound by the agreement and may be sold anywhere. That same farmer may also grow walnuts, almonds, tomatoes, or other crops for processing. The agreement with the peach bargaining cooperative would not affect any of these other crops.

Bargaining cooperatives are constantly trying to increase their membership number and the share of the commodity they represent. To be effective, the cooperative need not represent the total production of the commodity it represents or even a majority of it. It must, however, be the only bargaining agent for its members and represent enough tonnage to obtain processor recognition; otherwise, it will be ineffective.

The bargaining process involves many meetings of the members, various committees, and the board of directors.

HOW BARGAINING COOPERATIVES WORK



Bargaining cooperatives negotiate sales prices and terms on behalf of their members but generally do not handle the commodities or cash.

Market information is compiled, analyzed, and studied. The board meets and agrees on the cooperative's bargaining strategy and policy. The management and board strive to know as much or more about market conditions affecting their commodity than the buyers with whom they must negotiate.

The manager usually meets with the processors to negotiate the terms of purchase contracts. In some bargaining cooperatives, designated directors may also participate in negotiations.

Gains made for farmers are often substantial in improving market stability and farmers' incomes. Bargaining cooperatives have been an important part of the California agricultural scene for many years. They represent farmers in a variety of commodities including raisins, walnuts, dried plums, tomatoes, peaches, pears, and apricots.

Supply

Farm supply or purchasing cooperatives make use of volume discounts and special purchase opportunities for which individual producers could not qualify. The reduced costs are passed on to the producers as lower prices, year-end refunds, or both. Refunds are based on the volume of business conducted by each producer with the cooperative. Cooperative purchasing takes on a variety of forms, ranging from the simple pooling of orders to large business organizations engaged in the manufacture and distribution of farm production supplies.



California's Oldest Bargaining Co-Op

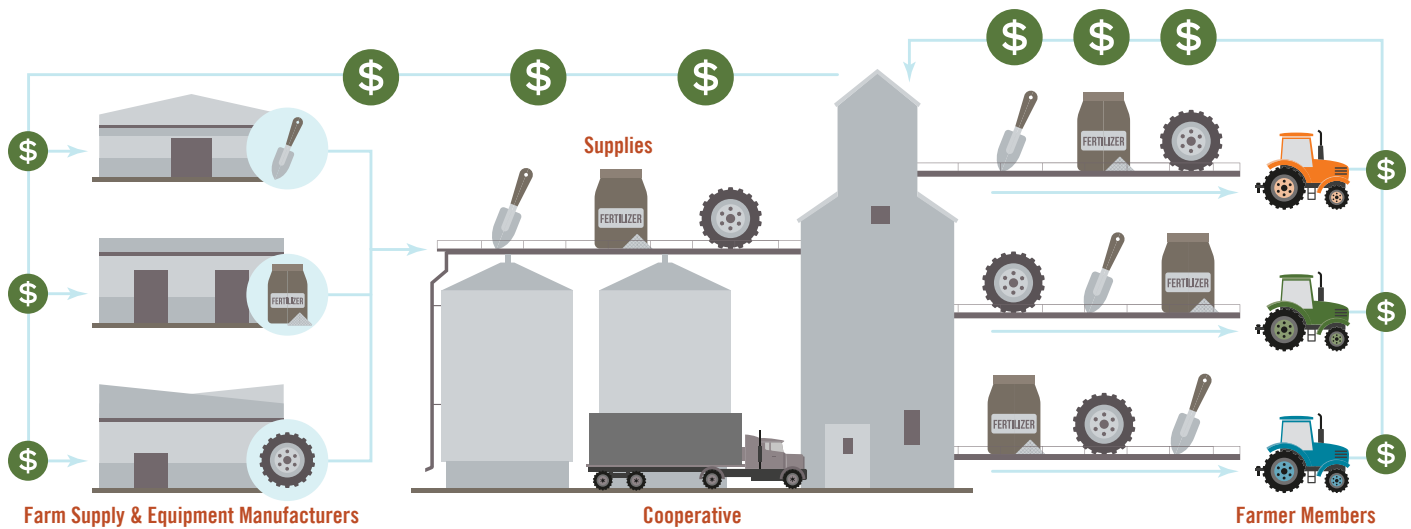
Born of adversity in an industry with a history of recurring surplus production problems, California Canning Peach Association has been an innovator in programs dealing with cooperative price bargaining for raw agricultural product.

The predecessor of today's California Canning Peach Association (CCPA), the Cling Peach Growers Association, opened its first offices in San Francisco in January 1922. The years of World War I had brought prosperity to the state's most important processing fruit crop, but this had encouraged plantings that rapidly outstripped markets during the 1920s.

In the ensuing years, under the leadership of CCPA, a broad scope of programs has been undertaken for the purpose of not only tailoring production to demand but of expanding that demand in order to stabilize a commodity that continues to be one of the state's most important processing fruit crops.

CCPA is California's oldest cooperative bargaining organization. It has been the leader and role model for other commodity bargaining organizations that followed, while continuing to demonstrate that a substantial, well-managed growers' association is an essential and constructive force to benefit growers, processors, and consumers.

HOW PURCHASING (SUPPLY) COOPERATIVES WORK



Purchasing cooperatives buy farm supplies in bulk on behalf of their members.

Supply cooperatives provide another important service to producers by arranging for the purchase of supplies manufactured to their specifications. In this way, producers are able to buy heavy-duty tires and batteries, special formula feeds and fertilizers, higher quality seed, and other products specially made to meet their unique needs. In certain instances, purchasing cooperatives manufacture some of the products they offer to their members.

There are relatively few supply cooperatives in California, one of which is in San Luis Obispo. San Luis Obispo County Farm Supply Company, a retailer of farm equipment, machinery, supplies, and other products used in agricultural production.

Service

The term “service cooperative” is a catch-all term. It refers to a wide variety of cooperatives other than those engaged in marketing, bargaining, or supply. These associations provide unique and distinct services related to the business operations of farming. Service cooperatives engage in such activities as cotton ginning, grain drying, farm machinery use, application of fertilizer and pesticides, and providing market information and governmental relations services.

The largest service cooperative is the Farm Credit System. Through the Farm Credit System, producers are able to obtain long and short-term loans, as well as loan services for their cooperatives. Its organizational structure is covered in detail in Chapter 11.



Sunkist Growers

Across the sunny citrus groves of California and Arizona, the Sunkist cooperative reflects the values of its 120-year history: family-owned farms, traditional growing practices, stewardship of natural resources, and a dedication to innovation. Founded on the principle that we are stronger together, our growers – large and small – work to offer quality, fresh citrus that consumers enjoy worldwide. Learn more at www.sunkist.com.





The Extent of Agricultural Cooperatives

According to the United States Department of Agriculture, there were 2,047 agricultural cooperatives serving producers in the United States in 2015. Approximately 1,079 cooperatives were engaged in marketing and bargaining services; 874 were categorized as farm supply cooperatives, and 94 performed miscellaneous services such as trucking, ginning, drying, storage, and livestock breeding. The estimated number of full-time employees working in these cooperatives totaled 136,285.

The net business volume for all cooperatives amounted to \$179.89 billion in 2015. Of this amount, marketing cooperatives accounted for \$115.409 billion; supply cooperatives, \$59.023 billion; and service cooperatives, \$5.458 billion. Total net income for all cooperatives was \$7.03 billion.

There were 1,921,023 producer memberships in U.S. farm cooperatives in 2015. Producers commonly belong to more than one cooperative, which is why farm statistics often indicate more cooperative members in an area than there are producers. For example, an almond farmer might market almonds through one cooperative and purchase supplies from another cooperative.

Agricultural cooperatives headquartered in California totaled 127 in 2015. California cooperatives had 37,700 members in 2015. As in other states, many producers in California belong to two or more cooperatives. California had a cooperative net business volume of \$10 billion in 2015.

TODAY 1 U.S. FARMER
FEEDS 155
PEOPLE
COMPARED TO 19 IN 1940

Source: 2016, USDA, American Farm Bureau





The Mechanics of an Agricultural Cooperative

Organizing

Before forming a producers' cooperative, the first question to ask is, "Why?" There is no point in starting a new cooperative unless there is a clear-cut, widely recognized and sufficiently urgent economic need. Potential members must be willing to support the cooperative with their patronage (that is, by doing business with the cooperative) and their financial commitment. They should also share a common vision as to how the cooperative will meet their needs and expectations.

All similar existing services in the community should be thoroughly analyzed and all possible alternatives assessed. If producers are dissatisfied with present outlets or suppliers and are eager to join and support a cooperative, it has a better chance of succeeding.

However, cooperatives are not the solution to every problem. If a cooperative is founded on false hopes or its members are overly optimistic, it will be disappointing. The development of a new cooperative is a difficult undertaking. Its purpose must be clearly recognized and the producers must provide the level of support necessary for their cooperative to successfully accomplish its objectives.

Once the need is firmly established and there is a sufficient volume of business committed to justify the organization of a cooperative, several steps must be taken:

- ▶ sign up the required number of members,
- ▶ obtain the pledged capital and arrange for loans,
- ▶ draft the legal organization papers, which usually include articles of incorporation, bylaws, marketing agreements, membership applications, stock certificates, and revolving fund certificates,
- ▶ file the articles of incorporation with the California Secretary of State, and
- ▶ arrange the first meeting of the charter (founding) members.

The first board of directors are usually elected from the charter members. The board then elects its officers and approves the necessary legal papers. The board also selects a bank with which to do business and tends to other business details such as hiring a manager.

Operating

At first glance, a cooperative resembles other companies in similar businesses. For example, the processing facilities operated by Pacific Coast Producers, a cooperative, are technically similar to the facilities operated by Del Monte, Inc., which is not. Likewise, the almond hulling equipment used by Central California Almond Growers Association, a cooperative, is similar to that used by proprietary competitors, such as Mariani Nut Company.

What distinguishes a cooperative from its noncooperative counterparts can be found in the ownership benefit and control principles unique to cooperatives that are described below. These include the “user benefit,” “user owned,” and “user control” principles.

User Benefit Principle

Members unite in a cooperative to get services that are otherwise not available, to obtain quality supplies at the right time, to have more direct access to markets, and many other mutually beneficial reasons. Acting together gives members the economic advantage of size and bargaining power.

Members also benefit by sharing the earnings from business conducted on a cooperative basis. When cooperatives generate margins from efficient operations and adding value to products, the earnings are returned to members in proportion to their “patronage,” or use of the cooperative. Without the cooperative, these earnings would go to middlemen or processors. Members also benefit from exemption from certain antitrust laws, which are discussed in Chapter 9, and enjoy tax advantages discussed in Chapter 10.

User Owned Principle

Cooperatives are owned by their members and exist for the purpose of serving their members. The members have the obligation to provide “equity capital” (described later in this chapter) to keep the cooperative in business and permit it to grow.

In contrast, an ordinary corporation is owned by the shareholders who purchased stock in the company for the

purpose of making a profit on their investment. Such investors do not necessarily do business with a company in which they are stockholders and are never required to do so.

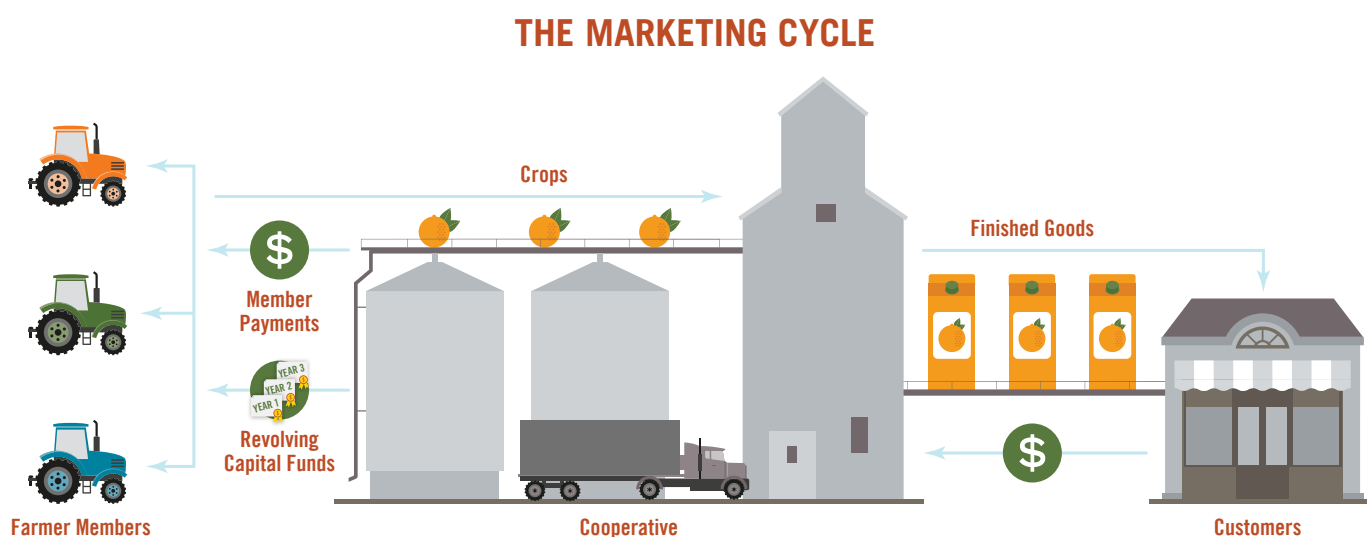
User Control Principle

As owners, cooperative members control the activities of their cooperative. This control is exercised through voting, either at membership meetings or by mailed ballot. Member owners of a cooperative, in most instances, have one vote regardless of the amount of equity they own or how much they patronize the organization.

On the other hand, in some cooperatives, high-volume users receive more votes, usually based on their patronage (amount of business done with the cooperative). When “volume voting” is authorized, limits are usually placed on the number of additional votes any one member is allotted.

Only members can vote to elect directors and to approve major legal and structural changes to the cooperative. The members select leaders and have the authority to ensure that the cooperative provides the services they want. This keeps the cooperative focused on serving its members.

Similarly, the control of a general business corporation rests with the shareholders, who annually elect the company’s board of directors. However, the number of votes cast by each shareholder is determined by the number of shares he or she owns. No limits are placed on stock ownership other than an individual’s financial ability to acquire shares of stock. A principal objective of most investor-owned corporations is to maximize the wealth of their shareholders.



A member of a marketing cooperative ships his/her crop to the company to be pooled, processed, and sold. After paying the cooperative’s operating expenses, most of the income from sales is paid to members in progress payments as the crop is sold. The remainder of the income generally goes into a revolving capital fund. After a period of years determined by the board of directors, this is also paid to the members.

Equity Capital

“Equity” is the net worth of a business in accounting terms, as opposed to the market value of a business if it were sold, which depends on how much a willing buyer would pay for the company. Equity is generally composed of investments in the business by its owners and net income that is kept for business purposes rather than distributed back to the owners. The word “capital” has several financial meanings, but in this context refers to the funds used by a company in its activities. These funds can come from either equity or debt. “Equity capital” are funds used by a company in its activities that come from equity rather than debt.

Because producer cooperatives are owned by their members, the members are obligated to provide much of the equity capital. Equity capital represents the members’ ownership, or “equity,” in the cooperative. It may also be referred to as “risk capital” because the member-owners of the cooperative risk the loss of this capital if the cooperative does poorly.

The amount of equity capital held by a cooperative is important for many reasons. For instance, lending institutions such as banks may require the cooperative to maintain very specific equity levels in order to qualify for business loans. Capital is also needed for long-term purposes such as the acquisition of property, plant, and equipment.

Short-term needs are met by “working capital,” cash and other readily available assets that can be used for day-to-day operative expenses, and for financing inventory and inventory processing. Working capital is especially important when commodities are marketed over a long period of time because cash advances (payments to members) must be made to members before their

entire production is sold by the cooperative. Such advances are necessary to enable the producer-members to meet their production expense. Canned fruits and vegetables, cotton and nuts are examples of commodities in which substantial amounts of working capital are temporarily invested in the unsold, stored products.

Three primary ways that producers can provide equity to their cooperative are:

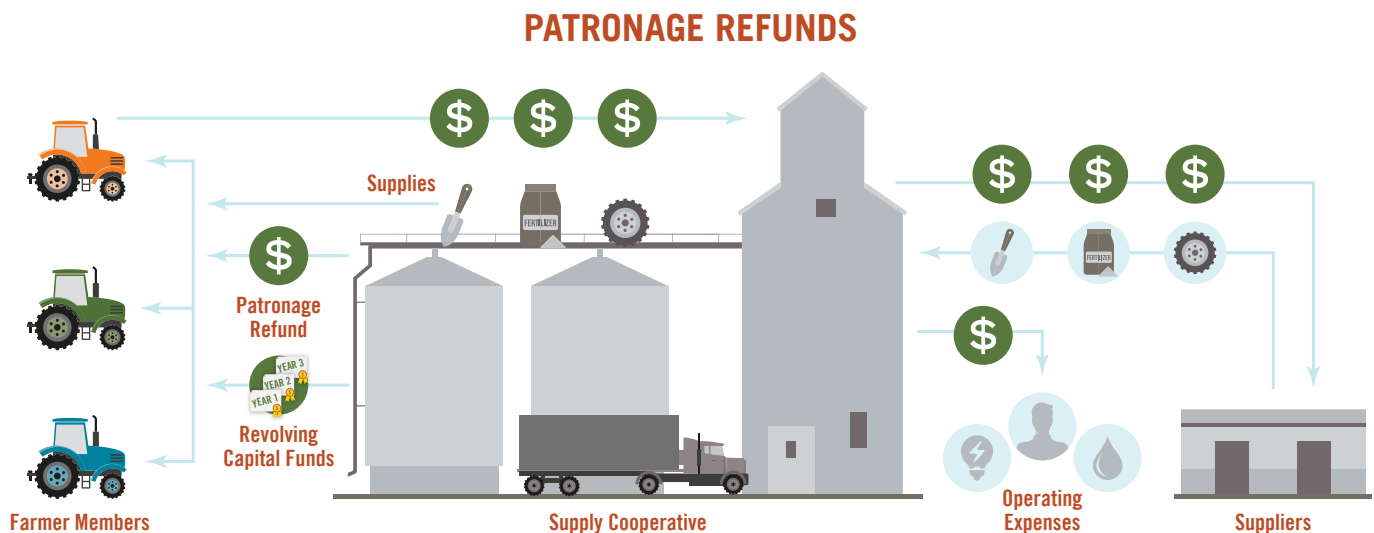
- ▶ direct investment,
- ▶ retained patronage earnings,
- ▶ and per-unit retains.

Direct Investment

Most cooperatives require members to make a direct investment when joining the cooperative. In return, the grower receives a membership certificate if it is a non-stock cooperative or shares of common stock in a stock cooperative. In either case, the producer becomes a voting member. Direct investment often represents a minor source of equity to a cooperative.

Retained Patronage Earnings

After each fiscal year, a cooperative’s earnings from member business, or “net margins,” are determined after all expenses have been accounted for. The board of directors then decides whether to return all or a portion of the net margins to the members based on their patronage with the cooperative. The amount returned to each member is based on his or her use of the cooperative and is referred to as a patronage refund. The portion kept by the cooperative is referred to as retained patronage earnings. It is also sometimes referred to as allocated earnings.



A supply cooperative buys goods from suppliers for sale to members. Money charged to members for these goods is used to pay suppliers, cover operating expenses (such as wages and utilities), and replenish the revolving capital fund. Anything remaining is returned to members as patronage refunds, in proportion to their individual use of the cooperative.

Per-unit Retains

These capital investments are based on either the number of physical units handled by the cooperative or on a percentage of sales revenue. For example, depending on the commodity processed or packed by the cooperative, retains may be deducted on a tonnage basis (for example, \$8.00 per ton) or on smaller units (such as \$0.10 per box or carton). Retains finance many marketing cooperatives and are used to cover operating expenses and support a revolving capital fund (described below). At the close of the year, the difference between the actual costs and the amount charged for service is returned to the producers in proportion to their use of the cooperative in the form of patronage refunds. Such returns are usually made on an annual basis.

Revolving Capital Funds

Retained patronage earnings and per-unit retains are usually returned in full to the producer after a period of years, as determined by the board of directors. These equities are commonly referred to as revolving capital funds, since they are eventually revolved, or returned, to the members as new equity is added.

The basic principle of revolving capital funds is that each grower who uses the cooperative's services in a given year contributes to the revolving capital fund in proportion to his or her use of the cooperative. By adding new funds each year in proportion to each member's use of the cooperative and refunding revolving capital funds withheld in previous years, ownership is kept in the hands of the growers who are currently using the cooperative.

In the first years of a cooperative's existence, money from the revolving capital funds usually goes to pay off the long-term loan for the original start-up capital. Later, revolving capital funds are returned to the members in the order in which they went into the fund, with the oldest to be paid back first.

When the revolving capital fund reaches an amount the board considers adequate, the decision is made to start revolving the capital back to the members, starting with the first year's revolving capital funds. The next year, the second year's revolving capital funds are returned, and so on. The constant flow of equity into the fund from each year's operations make it possible to pay back the money retained in former years while keeping total equity at an acceptable level.

Revolving capital funds for supply cooperatives are handled the same as those for marketing cooperatives with one exception: contributions are added to the price of the items purchased rather than withheld from receipts for products sold.

Patrons of an agricultural cooperative are notified annually of the amount they have invested in the capital fund. In a supply

cooperative, the amount represents the difference between the actual cost of products sold and the prices charged to the member, less operating costs. After several years, depending on the length of the revolving fund cycle, this sum is refunded or "revolved back" to the member. Four factors are involved in a capital revolving fund:

- the total amount of capital required,
- the volume marketed or purchased,
- the amount withheld per unit, and
- the length of the revolving cycle.

If the amount of capital required remains the same and the volume of business increases, the unit withholding may be decreased and the cycle may be shorted. For example, if a cooperative needs to withhold \$1 million every year and handles 1 million pounds of its commodity one year and 2 million pounds the next, it would withhold \$1 per pound the first year and \$.50 per pound the second year.

If additional capital is needed, but the volume marketed or purchased remains the same, the amount withheld per unit must be increased and/or the revolving fund cycle lengthened.

Cooperative revolving funds are always allocated in the names of individual members. At any time, it is possible for members to learn the exact amount of revolving fund credits credited to their accounts. A producer's withheld revolving funds are recorded as assets on the producer's financial statement.

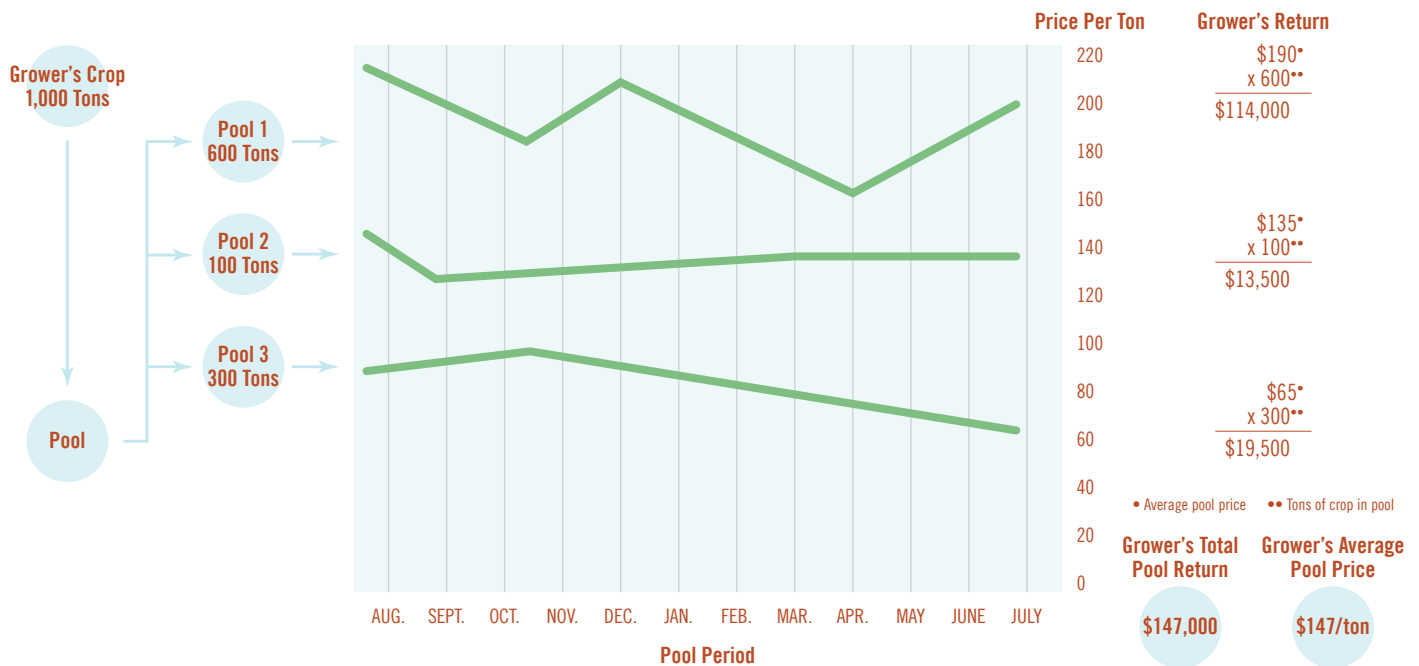
Nonmember Business

Direct investment, retained patronage earnings, and per-unit retains are the primary means for providing equity capital to cooperatives. However, income derived from non-member or nonpatronage business is also an important source of equity capital.

As the name suggests, nonpatronage income is generated by business activity that does not directly serve the members. For example, a processing cooperative may purchase nonmember tomatoes to supplement the tomato tonnage delivered by its members. The earnings from the sale of tomatoes obtained from "outside" the cooperative are considered nonpatronage income.

Some cooperatives have operations that strictly generate nonpatronage income. For instance, Sunsweet Growers Inc. leverages its facilities and experience in the prune juice business by bottling beverages for several major national brands. These activities help spread overhead costs and keep Sunsweet's plants more fully utilized. The earnings from the subsidiary represent nonmember income to Sunsweet.

POOLING



Cooperatives pool their members' crops by variety and by measurement of quality (or "grade") such as wholesomeness, size, color, and sugar content. In this example a grower ships 1,000 tons of product to a cooperative, which sorts it by grade into three pools: 600 tons in Pool 1, 100 tons in Pool 2, and 300 tons in Pool 3. Each is sold over a 12-month period at prices that vary depending on market conditions for the pool's

quality standards. When the total crop is sold the average price per ton can be computed for each pool and the total crop. The average price for Pool 1 was \$190/ton; Pool 2, \$135/ton; and Pool 3, \$65/ton. The grower's total return calculates to \$147,000. The average return per ton for the grower's total deliveries was \$147/ton (\$147,000 divided by 1,000 tons).

Strict legal and tax requirements govern the definition and treatment of nonpatronage income. Nonpatronage income is fully subject to federal corporate taxation unless it is allocated to members on the same basis as patronage (see Chapter 10).

Pooling

A pool includes accounting and commodity handling practices to combine crops (generally by crop year) delivered from the members under the centralized control of the cooperative's management. Pooling averages net returns to producers for a particular grade or variety of product delivered during a specified interval of time. Depending on the type or commodity, pools may operate on a weekly, monthly, or annual basis. Pools for some commodities may extend over a period of years.

There are many different kinds of pools depending on the nature of the cooperative. For example, a cooperative may have a single pool consisting of several different commodities or many separate pools based on season, quality, or finished product for the same commodity.

Pools are designed to be as fair as possible to all the participants. Each member's deliveries are graded and credited to his or her account by grade combined (pooled) with all those of the same grade for the pool period, then marketed. Members are paid the price that is the average net amount received for

the pool. This practice gives the highest return to those who produce the best quality products and spreads the risk of fluctuating prices among all pool participants.

Pools also average out day-to-day price variations; equalize returns to growers by commodity grades; average costs of handling; allow for quality differentials, and; simplify record keeping, storage and handling. Pools also eliminate the need for separate accounting and handling of each member's lot after the initial grading and pooling.

Pool Payments

Another distinctive characteristic of many cooperatives is the way they pay their members for crop deliveries.

A cooperative's board of directors and management determine the amount and timing of payments made to grower owners. Many factors such as crop quality, crop quantities, sales projections, marketing conditions, and the cooperative's operating expenses and future financing needs are taken into consideration in determining the amount and timing of payments.



Why Cooperatives Succeed

Cooperatives succeed because of good planning, strong management, the accumulation of adequate capital for efficient operation, sufficient demand for the cooperative's services, strong membership support, sound legal organization and operating policies, and smoothly functioning boards of directors that provide strong direction and vision to management.

Producer cooperatives are more likely to succeed as the lessons of the past are applied to today's conditions, while considering future dynamics. A wealth of information has been amassed that serves as a guideline to today's cooperatives. Capital, management, direct competence and organizational needs are better and more widely understood now than they once were.

Cooperative Operating Policies

In California, many marketing cooperatives have adopted rigid membership requirements based on crop quality, commodity variety, and geographic location in order to tailor members' production to plant capacities and consumer preferences.

It is not unusual for a cooperative to have a waiting list of producers seeking membership. In a processing cooperative, the number of new memberships accepted may be restricted to the volume that the plant facilities can efficiently handle. Marketing cooperatives may permit eligible producers to join and members to withdraw only at specified times of the year, allowing management to estimate the volume of commodities

that will be available for processing and marketing during the coming season.

Most producer cooperatives publish complete financial reports in their magazines, annual reports, or letters mailed to the members. No matter which form of communication is used, all cooperative members are entitled to receive an annual financial report of their cooperative's operations and performance. The best run cooperatives strive to keep their members informed about crop production and marketing developments, cooperative business services, activities and accomplishments, operating plans, and newsworthy items of general interest.

Building a Sustainable Future

Today's consumers are more interested in their food supply than ever before. With that in mind, cooperatives, farmer-owned businesses and industry allies grow food in a way that take advantage of the latest food safety technologies, while minimizing environmental impacts and caring for animals. California is the world leader in many of these areas and cooperatives are constantly making advancements to make even further improvements. Not only do these practices provide wholesome food products, but the practices also ensure the future viability for cooperatives and farmer-owned businesses.

Did you know? Since the 1990s, almond growers have improved water efficiency by 33%.

National Dairy FARM Program

Developed in 2009, the National Dairy Farmers Assuring Responsible Management (FARM) Program raises the bar for the entire dairy industry, with a distinct look at animal care, environmental and antibiotic stewardship. Individuals and businesses throughout the dairy industry participate—including dairy farmers, processors, veterinarians and more.

The FARM animal care program details guidelines for farmers to follow for each cow and calf on the dairy. FARM's environmental stewardship program assists with assessing greenhouse gas emissions and energy usage. FARM's antibiotic stewardship program ensures judicious antibiotic use and stewardship. More information about the program can be found at www.nationaldairyfarm.com.



DAIRY'S
CARBON
FOOTPRINT
FOR A GLASS OF MILK
HAS SHRUNK
63% SINCE 1944

Source: 2016, Dairy Cares



PACIFIC COAST PRODUCERS

On the Environmental Forefront

Pacific Coast Producers (PCP), like its grower owners, is committed to sustainable operations. Agriculture must be sustainable to continue operating on the ranches and farms that its growers manage. Likewise, to be a long term home for its grower's crops, the processing operation must be sustainable. At PCP's plants, PCP looks for every opportunity to manage its resources well. All of PCP's facilities have water recycling and reuse programs. The byproducts (stems, seeds, peels) from PCP's operations are used as soil amendments at its land application facilities, or are sent to cattle ranches as additional feed. PCP recycles its cardboard and corrugated fiberboard. PCP recently installed a modern, energy efficient boiler at its largest plant and retrofitted its largest boilers at its other facilities in an effort to conserve fuel and reduce emissions. PCP also replaced lighting in its distribution centers to be more efficient, and wherever possible, it utilizes rail transport in lieu of trucking to save on diesel emissions. PCP continues to look for opportunities to make its operations better and regularly attends conferences regarding sustainable operations to learn about new technologies.

PCP looks for every opportunity to manage its resources well.





08

Decision Makers in a Cooperative

In many regards, decision making in a cooperative is similar to that in a general business corporation. Both have owners (members in a cooperative; stockholders in a corporation), a board of directors, and hired management. These groups relate to each other similarly in both organization types. The key difference is that in a cooperative the owner-members, including the board of directors, are also users of the cooperative's services. They depend on it solely to benefit their primary business of farming rather than to generate a return on investment.

As the members are both the provider of services (the cooperative) and are the users of those services, the line between supply and demand discussed in Chapter 1 can become blurred. This poses special challenges in decision making since the best action for the members' farming operations may not be the best for the cooperative as a business, while the best decisions for the cooperative as a business may not be the best for the members' farms.

Members

A unique relationship exists between a cooperative and its member producers. As a cooperative member, the producer is both a part owner of a large business enterprise and a user of its services. The producer has a financial stake in the cooperative's ability to operate efficiently and effectively, as well as having a direct interest in the cooperative's policies, management performance, and success.

Cooperative members assert their ownership by voting. Any fundamental change in the purpose or operation of the cooperative must be authorized by an amendment of the bylaws. Amendments to the bylaws must, in most instances, be approved or rejected by the members.

The members nominate and elect the cooperative's directors. The cooperative's management and board of directors report to the members at the end of each fiscal year on the activities and financial condition of the cooperative. A cooperative's members are the final authority on all fundamental issues affecting the cooperative's overall goals and purpose.

In a cooperative, the owner-members, including the board of directors, are also users of the cooperative's services.

Board of Directors

Members who are respected for their judgment and business management skills are elected to serve as directors by their producer peers. The directors represent the interests of the cooperative membership in its operations. Like all members, the directors also use and depend on the services of their cooperative.

The duties and responsibilities of a cooperative's board include:

- ▶ deciding its operating policies and long-range business strategies;
- ▶ hiring, evaluating, and determining the salary and responsibilities of its general manager;
- ▶ approving annual operating budgets;
- ▶ and conducting an ongoing review of financial budgets and operating results.

The board of directors makes the final decisions on plant expansion and location, major capital investments, the length of the revolving fund cycle, the amount of debt to be undertaken, and the source of borrowed funds. Additionally, the board is responsible for maintaining members.

Management

The board of directors determines a cooperative's business strategies and broad policies. Subject to board review, the general manager decides how the policies should be implemented to most effectively serve the members. The

working relationship between the board and the general manager requires respect, teamwork, and an understanding of each other's responsibilities.

An effective manager must have special skills for gauging the future needs and direction of the cooperative to provide the board of directors with expert advice for long-range planning. The general manager supervises and coordinates the business activities of the cooperative by managing the employees, capital, and physical resources.

The general manager also supervises the cooperative's daily activities, which include the procurement, processing and distribution of products and supplies, advertising, sales, pricing, merchandising, accounting, financing, and personnel management.





Laws Affecting Agricultural Cooperatives

Cooperatives are governed by both federal and state laws.

Federal Laws

In the early 1900s, the right of producers to join together in cooperatives for the purpose of marketing their crops was not clearly established. Many felt cooperative marketing violated antitrust laws, which prohibit unfair anti-competitive alliances between groups of sellers or buyers. Uncertainty over the legal status of agricultural cooperatives began in 1890 with the Sherman Antitrust Act, landmark legislation that laid the foundation for federal antitrust laws. Unfortunately, it did not contain any reference to agricultural cooperatives.

Until 1914, when Congress passed the Clayton Act, state courts and legislatures struggled with the issue of whether or not producers had the right to organize cooperative associations to market their products. The Clayton Act gave labor and agricultural associations the right to exist without violating the antitrust laws. The right was limited, however, to non-stock cooperatives. Although an improvement over previous law, the Clayton Act fell short of providing producers an absolute guarantee of the right to form marketing cooperatives.

In 1917, national farm organizations initiated a massive effort to enact a comprehensive statute to clearly establish the right of producers to organize agricultural cooperative of all types. Finally, in 1922, the “Magna Carta” of the cooperative movement, the Capper-Volstead Act, was passed.

Capper-Volstead

The Capper-Volstead Act was passed specifically to establish the right of agricultural producers to form cooperatives for handling and marketing their products without violating antitrust laws. The new law clearly stated that eliminating competition among individual agricultural producers, which occurs when they act together through a cooperative, would not be an antitrust violation.

The Capper-Volstead Act refers exclusively to marketing functions of producer cooperatives and does not include purchasing (supply) or service functions. For an agricultural cooperative to qualify for recognition under this Act, its members must be engaged in the production of agricultural products. It must operate on a mutual basis for the benefit of its members as producers in collectively processing, preparing for market, handling, and marketing agricultural products. It must not deal in nonmember products in an amount greater in value than those handled for members. It must also conform to one or both of the following requirements:

- no member of the association may have more than one vote,
- or the association may not pay dividends on stock or membership capital in excess of eight percent per year.

Capper-Volstead cooperatives may market together using common marketing agencies, which are also protected by the Capper-Volstead Act.



surplus money resulting from its trading operations, to its members in proportion to their purchases or sales from, to, or through the cooperative. The act was designed to regulate price discrimination or special pricing among customers, but it defines cooperative patronage refunds as non-discriminating.

Internal Revenue Code

See chapter 10 for a discussion of federal tax laws relating to cooperatives.

State Laws

Most states have well-defined statutes regarding agricultural cooperatives. California has enacted the following laws pertaining to cooperatives.

Food and Agricultural Code

The State of California deals at length with non-profit agricultural cooperative associations in Chapter I, Division 20 of the California Food and Agricultural Code. In the section titled “Purpose of Chapter,” the statute describes the state’s reasons for recognizing cooperative agricultural associations.

“The purpose of this chapter is to do all of the following:

- ▶ promote, foster and encourage the intelligent and orderly marketing of agricultural products through cooperation,
- ▶ eliminate speculation and waste,
- ▶ make the distribution of agricultural products between producer and consumer as direct as can be efficiently done,
- ▶ stabilize the marketing of agricultural products.”

The Food and Agricultural Code defines, authorizes, and regulates the formation of, and lists the powers of, nonprofit agricultural cooperative associations. Further, it describes what must be included in the articles of incorporation and bylaws, requirements for membership, and the nature of marketing contracts. It regulates the issuance and transfer of stock certificates and provides for the election of directors and officers.

Revenue and Taxation Code

The California Revenue and Taxation Code describes the type of income distributed to members that a producers’ cooperative may deduct in computing its state franchise tax.

Agricultural Marketing Act

The Agricultural Marketing Act of 1929, as amended, contains a definition of a cooperative association that has been followed or incorporated into a number of subsequent federal statutes. This definition follows the essential features of the Capper-Volstead Act definition. It is broader than the Capper-Volstead Act because it covers cooperative purchasing associations and those engaged in furnishing farm business services. Among other things, the Agricultural Marketing Act of 1929 authorized the predecessor of today’s Farm Credit System. The Farm Credit Act essentially carries over the 1929 Act’s definition of cooperative in defining eligibility to borrow from a Bank for Cooperatives.

Cooperative Marketing Act

The Cooperative Marketing Act of 1926 authorized the Department of Agriculture to provide research and technical support services to agricultural cooperatives.

Robinson-Patman Act

Section 4 of the Robinson-Patman Act (1936) provides that laws against price discrimination shall not prevent a cooperative association from returning its net earnings or



10

Cooperatives and Taxes

Producer cooperatives are subject to most of the same taxes as other businesses, including sales, payroll, franchise, gasoline, real estate, personal property, and excise taxes. However, unlike general business corporations, cooperatives are subject to single tax treatment for income tax purposes (the cooperative is not taxed directly, but the members pay taxes on the payments they receive). This means that earnings directly related to business done with, or for, members is usually not taxable to a cooperative. Such income is generally allocated to the individual members who must include it in their taxable income.

This principle is contained in subchapter T of the Internal Revenue Code enacted by Congress in 1962, under which no taxes are paid by a cooperative on income that is distributed back to members as qualified patronage refunds. Income not allocated to members on this basis is taxable to the cooperative at ordinary corporate tax rates. Subchapter T applies to any corporation “operating on a cooperative basis” and allocating income to members on the basis of business done with, or for, those members. Doing business on a cost basis is a key principle of cooperatives. This is achieved by refunding to patrons (members who use the services of the cooperative) the net earnings from patronage business.

To qualify for the subchapter T exclusion, refunds must be paid on the basis of patronage and must originate from business conducted with members. At least 20 percent of the refund must be paid in cash, while the remainder can be in the form of equity in the cooperative.

While all cooperatives are subject to income taxation based on subchapter T, the Internal Revenue Code allows certain additional exemptions for producer cooperatives that qualify under section 521 of the Internal Revenue Code. In addition to the usual exclusion of qualified patronage refunds, cooperatives may deduct from income amounts paid as dividends on capital stock and earnings originating from non-patronage sources that are allocated to members on the basis of patronage.

Cooperatives are subject to single tax treatment for income tax purposes (the cooperative is not taxed directly, but the members pay taxes on the payments they receive).

To qualify under section 521, producer cooperatives must:

- ▶ limit dividends on capital stock to no more than eight percent of the member’s capital,
- ▶ have substantially all stock owned by producers,
- ▶ limit nonmember business to amounts that do not exceed that done with members, and
- ▶ provide equal treatment to members and non-members.



Cooperative and Agricultural Credit

On July 17, 1916, President Woodrow Wilson signed legislation creating a nationwide network of lending institutions specifically chartered to serve the needs of farmers, ranchers and other rural borrowers. Since then, the Farm Credit System has grown to become the single largest provider of debt capital to the U.S. rural economy, with more than \$300 billion in total assets. Though it has evolved considerably since the early years, Farm Credit’s essential characteristics remain the same: it is a cooperatively owned, mission-oriented, and focused exclusively on the needs of rural communities and agriculture. In support of that mission, Farm Credit organizations are leading providers of credit to young, beginning and small farmers and ranchers.

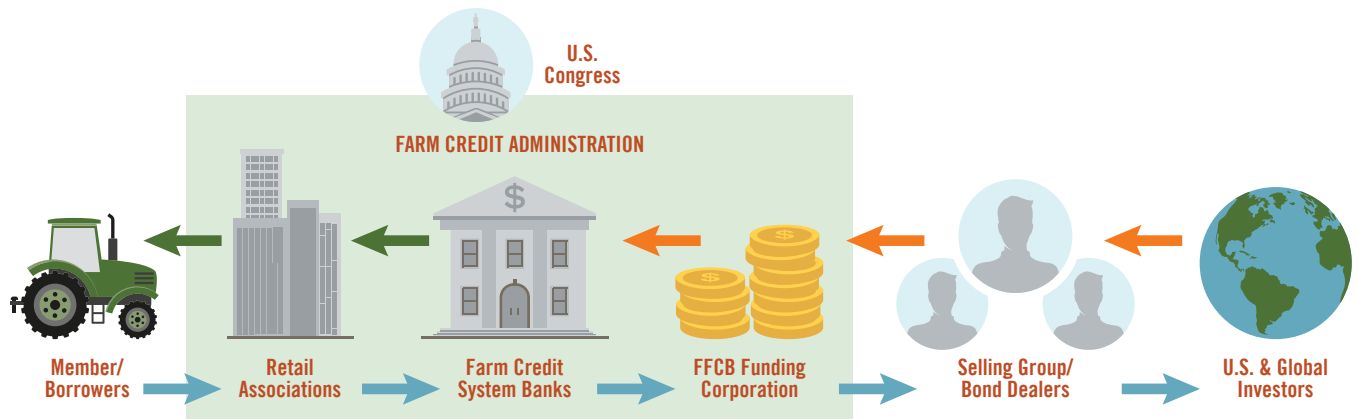
Today’s Farm Credit System

Although Farm Credit has a national footprint, the lenders are local – nearly 75 independently owned and operated Farm Credit organizations provide services in the communities where they live and work. Each local Farm Credit organization is a cooperative that is owned by its customers, and has a deep understanding of agriculture in their area. This expertise enables them to understand the industry sectors they finance and provide an unparalleled level of knowledge and service to their borrower-owners. Combined, the System is the nation’s largest agricultural lender, providing over a third of the total credit used by America’s farmers, ranchers, and cooperatives.

Farm Credit System organizations are governed by boards of directors elected by stockholders who are their member-borrowers. Unlike commercial banks or credit unions, the Farm Credit System organizations cannot accept deposits (such as checking and savings accounts). The System raises money by selling bonds and notes to large outside investors. This is done through the Federal Farm Credit Banks Funding Corporation, or “Funding Corp.” The funds raised are then loaned to the district-funding bank (FCB or ACB) that in turn loan funds to their respective affiliated Farm Credit Associations. For example, a local association, American AgCredit (an affiliated association with CoBank) obtains its primary source of funds (excluding capital) from a direct loan from CoBank. American AgCredit, in turn, uses those funds to lend directly to farmers, ranchers, agribusinesses and other eligible borrowers in its service territory. Loan repayments and earnings from interest charged to borrowers are used to pay interest and principal on bonds and notes held by the outside investors.

Where does the Farm Credit System get its money?

The Federal Farm Credit Banks Funding Corporation (Funding Corp) is owned by the Farm Credit Banks (FCBs) and CoBank (ACB). The Funding Corp markets the securities – chiefly bonds and discount notes – that are sold in the U.S. capital markets to raise loan funds. This is how Farm Credit institutions obtain the majority of their loan funds. These securities are offered by the Funding Corp through



a nationwide group of securities dealers and dealer banks. There are no government dollars. For more information, visit www.farmcreditfunding.com.

Lending Institutions

- ▶ Three Farm Credit Banks (FCBs or AgFirst, FCB; AgriBank, FCB; and Farm Credit of Texas, FCB) provide lending capital to 49 Agricultural Credit Associations (ACAs); and one Federal Land Credit Association (FLCA). ACAs make short, intermediate- and long-term loans; FLCAs make long-term loans.
- ▶ One Agricultural Credit Bank (ACB or CoBank) has the authority of an FCB and provides lending capital to 23 ACAs and one FLCA. In addition, the ACB has the authority of a Bank for Cooperatives and makes loans of all kinds to agriculture, aquatic, and public utility cooperatives. The ACB is authorized to finance U.S. agricultural exports and provide international banking services for farmer-owned cooperatives.
- ▶ Farm Credit Leasing (FCL) is a wholly owned subsidiary of CoBank. FCL provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.
- ▶ Local Associations: The various local credit associations referenced above, provide credit services directly to eligible producers, ranchers and rural businesses across the U.S. and in Puerto Rico. They are funded by the FCBs and the ACB.
- ▶ Production Credit Association (PCA) makes short and intermediate term loans to farmers and ranchers and to rural residents for housing. A PCA also makes loans to these borrowers for basic processing and marketing activities, and to farm-related businesses. All present-day PCAs are now subsidiaries of ACAs.

How is the Farm Credit System Regulated?

The Farm Credit System is regulated by the Farm Credit Administration (FCA), an independent agency of the executive branch of the U.S. Government. The FCA has the authority to issue and enforce regulations under the Farm Credit Act of 1971, as amended. Its purpose is to keep the Farm Credit

System financially sound and competitive. Policies are set by a three-person board, whose members are appointed by the president of the U.S. and confirmed by the U.S. Senate. The FCA operates with no appropriated funds from the U.S. Government. It collects annual assessments from each Farm Credit System institution. For more information about the FCA, visit www.fca.gov.

How is the Farm Credit System protected?

The Farm Credit System Insurance Corporation (FCSIC) is an independent U.S. Government controlled corporation with its primary purpose to ensure the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of the Farm Credit System. It is somewhat comparable to the FDIC that protects the deposits held by commercial banks. The FCSIC is managed by the same three-member board of directors who compose the FCA Board. However, the same member may not serve as chairman of both entities. The FCSIC operates with no appropriated funds from the U.S. Government. It collects insurance premiums from each FCB and ACB that issues insured obligations. These premiums and the income from the FCSIC's investments provide the necessary funds to fulfill its mission.

Other Credit Sources

Cooperatives may obtain credit from the same banks and commercial lenders that serve non-cooperative businesses. Some cooperatives have successfully turned directly to institutional lenders and investors, often large insurance companies with reserve funds on which they wish to earn a return. These lenders and investors are interested in larger, longer-term instruments such as "senior notes" and "trust preferred shares." Senior notes are borrowings of fixed amounts of money for a predetermined period of time at agreed-upon interest rates. They have "preference" over other debtors, which means they must be paid before other debtors if company funds run short. Trust preferred shares are similar to senior notes, but they are considered "hybrid" instruments, with features of both debt and equity.

12

Serving Agricultural Cooperatives

Agricultural Cooperatives come in contact with many government agencies and private service organizations. This chapter describes some of the major groups and their functions.

Agricultural Council of California

Founded in 1919, Agricultural Council of California (Ag Council) is a member-supported organization advocating for more than 15,000 farmers across California, ranging from farmer-owned businesses to the world's best-known brands. Ag Council works tirelessly to keep its members productive and competitive so that agriculture can remain California's number-one industry and members can continue to produce the highest quality food for the entire world.



Through legislative advocacy, Ag Council works to see that the unique business structure of cooperatives are recognized and protected by law. Ag Council also focuses lobbying efforts on environmental, tax, labor and other issues that impact the farms of cooperative members. Visit their website at www.agcouncil.org.

FCC Services

Since 1975, FCC Services has worked with the Farm Credit System, agribusinesses and cooperatives to help them achieve organizational and operational excellence. Over the years, they

have broadened their expertise, services, and conferences to assist organizations more.

Today, the FCC Services is a business service and consulting firm that works with clients in a variety of industries to manage their risks, take advantage of collective buying power, and promote excellence in their organizations and board rooms.

They provide:

- ▶ Governance and Leadership Development
- ▶ Talent Selection
- ▶ Executive Coaching
- ▶ Thought Leadership and Professional Speakers
- ▶ Strategic Talent Management
- ▶ Merger, Acquisition, and Corporate Finance Advisory
- ▶ Risk Management and Insurance Management

To learn more about FCC Services, please go to www.fccservices.com.

Farm Credit Council

The Farm Credit Council is the national trade association representing the institutions of the Farm Credit System before Congress, the Executive Branch, and others.

In 1983, The Farm Credit Council was established by the leadership of the Farm Credit System to ensure that Farm

Credit institutions have an advocate for their interests before



Congress and the many agencies of the Federal government. The Council was organized as a federated trade association, comprised of district councils that had as their members both associations and the banks within each Farm Credit district. Each district council elected directors to serve as members of the Farm Credit Council board, ensuring that the views of all System institutions would be reflected in the policy positions adopted and advocated by the Council.

The Farm Credit Council provides the mechanism for member grassroots involvement in the development of Farm Credit System positions and policies with respect to federal legislation and government actions that impact the System. For more information, visit their website www.fccouncil.com.

National Council of Farmer Cooperatives

Since 1929, the National Council of Farmer Cooperatives (NCFC) has been the voice of America's farmer cooperatives. Headquartered in Washington, D.C., NCFC's members are regional and national farmer cooperatives, which in turn consist of more than 2,500 local farmer cooperatives across the country.

NCFC's mission is to advance the business and policy interests of America's cooperatives and other farmer-owned enterprises. NCFC promotes and represents its cooperative members before Congress and federal governmental agencies. Its major functions are to keep members informed of relevant national and international developments and to assist Congress and the agencies of the federal government in developing sound farm policies.



NCFC upholds four core values. These values are:

- ▶ farmer ownership and control in the production and distribution chain,
- ▶ continued economic viability of America's farmers, ranchers, and the businesses they own,
- ▶ stewardship of natural resources,
- ▶ and vibrant rural communities.

Visit their website at www.ncfc.org.

California Center for Cooperative Development

The California Center for Cooperative Development (CCCD) is a nonprofit organization that promotes cooperatives, as a model to address the economic and social needs of California's communities. CCCD supports the breadth of cooperatives in California, including agricultural, arts and crafts, child care, energy, housing, and worker owned, with start-up, management, and other technical assistance. CCCD's programs specifically



highlight cooperative projects that promote opportunities for people with low and moderate incomes, as well as economically disadvantaged communities, regions, and neighborhoods. These projects include education about how cooperatives can be effective in stimulating economic growth, income generation, home ownership opportunities, cost savings, or strategies for bringing needed products and services to underserved areas.

CCCD incorporated in 2007 and many of the current staff and board members were previously employed or associated with the University of California at Davis Center for Cooperatives, an extension program that closed in 2004 due to budget cuts. You can visit their website at www.cccd.coop.



13

When Cooperation Applies

At this point it would be logical to ask, “If cooperatives are so economically sound and effective, why don’t all producers belong?” There are several reasons, related to the limitations of the cooperative business form.

Not all commodities lend themselves well to cooperative effort. For example, vegetable or truck crops are frequently grown by large grower-shippers on rented land. Because they distribute their own produce and operate on a large scale, they may feel they do not need a marketing cooperative. These farmers often do not grow the same crops every year or farm the same acreage in the same area. This inconsistency can make cooperative membership impractical.

Marketing cooperatives usually make progress payments on a schedule, while independent buyers may pay cash in full at delivery. Some farm operations need full cash payment at the time of harvest and may not be able to wait even if a cooperative pays more in total.

Finally, many producers simply enjoy marketing their own products. Some individualists prefer independent action and may dislike working through another organization, making them unlikely prospects for cooperative marketing.

If a cooperative regularly returns higher prices for crops marketed, or achieves lower costs for supplies purchased than enjoyed by other producers in the community, more producers would join. However, in a free enterprise system, competing firms strive to offer competitive prices, preventing monopolies by cooperatives. This actually benefits cooperatives by keeping

their directors and managers motivated to continually improve their operations. Competition provides the best incentive to improve and move forward.

Producer cooperatives are capitalistic, privately owned competitive, and a vital part of agricultural free enterprise. They stand for standardization of products marketed and supplies manufactured or purchased, for improvement in quality of growers’ products, for equitable treatment of their producer-members, for honest and orderly trade practices, and for self-help among agricultural producers.

Producer cooperatives are capitalistic, privately owned competitive, and a vital part of agricultural free enterprise.

As a means of improving producer income, the future of cooperatives remains bright. If producer cooperatives stay competitive and continue to develop sophisticated and forward-looking leadership, they will remain an important factor in preserving a healthy agricultural economy.

Glossary

Agent A person or firm authorized to act on behalf of another.

Allocation A system of dividing income among members of a cooperative in proportion to their individual volumes of business, or “patronage,” with the cooperative.

Articles of incorporation Legal document establishing a corporation and its structure and purpose, in accordance with state law.

Assets Anything having commercial or exchange value that is owned by a business, institution, or individual.

Association A term commonly used to describe a cooperative.

Audit An examination and verification of accounts and records of a business performed in accordance with specified standards.

Broker One who is paid a commission or fee to bring together buyers and sellers to complete a market transaction.

Budget A financial plan including estimates of revenues, expenses, investment, borrowing, and other financial activities for a specific period of time, such as a year.

Bylaws A legal document establishing rules and practices that govern the conduct and management of an organization.

Capital The word “capital” has several financial meanings, but often refers to the sources of funds used to finance the assets used by a company in its activities. This type of capital can be provided by equity, debt, or both.

Collateral Security (assets) pledged for the payment of a loan. May include stocks, bonds, land, equipment, buildings, or a farmer’s crop.

Commodity An article of trade, as opposed to a service. In agriculture this generally refers to raw or lightly processed (e.g., dried) farm products such as cotton, rice, almonds, and milk.

Contract A legally enforceable agreement between two or more parties.

Credit The ability to borrow, such as through loans, charge accounts, and open-account balances with commercial firms.

Demand The willingness and ability to buy a range of quantities of a good or service at a range of prices, during a given time period.

Depreciation An accounting method used to record the decrease in value of long-lived asset over time.

Dividends Distribution of corporate earnings to stockholders, typically by cash payments on a per-share basis.

Equity The net worth of a business. Equity is generally composed of either ownership investments in the business or net earnings retained in the business rather than distributed to the owners.

Exempt cooperative A producer cooperative that may deduct from income amounts paid as dividends on capital stock, and earnings originating from nonpatronage sources that are allocated to members on the basis of patronage, under section 521 of the Internal Revenue Code.

Financial statement Written and numeric representation of the financial status and/or operating results of an individual, business organization, or other financial entity. Generally includes at least a balance sheet (showing assets, liabilities, and equity) and an income statement but may also include statements of net worth and cash flows, and certain financial disclosures.

Franchise tax Tax on corporations for the right to do business, such as the California franchise tax. Generally based on income.

General partner A partner in a partnership entitled to a share of earnings and a voice in the business, who has personal liability for the company’s debts and obligations.

Gross sales Total sales of products or services without adjustment for returned goods, inter-organizational sales, discounts, etc.

Interest Cost of using borrowed money.

Liability Claims on the assets of a business, such as accounts payable and mortgages.

Limited partner A partner in a partnership who forfeits the right to a say in business decisions in return for limits on personal liability for the company's debts and obligations.

Marketing The process of moving goods and services from the provider to consumers, preferably at a profit. Includes advertising, processing, selling, shipping, etc.

Merger A combination of two or more business enterprises into a single enterprise.

Monopoly Exclusive control of the production and distribution of a product or service by one business entity. Similar control by a group of firms acting together is an "oligopoly."

Net income or loss Results of business operations after all expenses have been met or deducted.

Net margins The net amount earned by a cooperative, normally available for distribution to members. Often called net proceeds in marketing cooperatives.

Net worth Amount by which assets exceed liabilities.

Non-exempt cooperative A cooperative that may not deduct from income amounts paid as dividends on capital stock, and earning originating from nonpatronage sources that are allocated to members on the basis of patronage, under section 521 of the Internal Revenue Code.

Patronage The commerce done with, or on behalf of, the members of a cooperative.

Patronage refunds Cooperative earnings on member business that is returned to members in proportion to their individual patronage.

Per-unit retains Capital investments required of a member of a cooperative, based on either the number of physical units handled by the cooperative or a percentage of sales revenue for that member.

Pooling The averaging of net returns to producers for a particular grade or variety of product delivered during a specified interval of time.

Principal The face amount of debt; the amount borrowed or lent.

Producer A direct producer of agricultural farm or ranch products; for example, a farmer or rancher.

Proxy A written authorization empowering a person to vote or act for another.

Retained patronage earnings The portion of patronage earnings retained by a cooperative as equity. Retained patronage earnings are usually allocated to members and documented by a written notice of allocation.

Return The earnings on an investment, such as interest or dividends.

Revolving capital funds Retained patronage earnings are per-unit retains and usually returned in full to members after a period of years, as determined by the board of directors. These equities are collectively referred to as revolving capital funds.

Single tax treatment When business earnings are taxed only once rather than on the tax returns of both the business that earns the profits and the individuals that eventually receive them in the form of cooperative patronage payments, dividends from corporations, etc.

Sole proprietorship Businesses formed as sole proprietorships are a legal extension of the owner as an individual. That owner sets policies, is entitled to business earnings, and is personally responsible for business debts and liabilities.

Statute An enactment made by a legislature and expressed in a formal document, law, act, or ordinance.

Supply The willingness and ability to sell a range of quantities of a good or service at a range of prices, during a given time period.

Trademark The name, symbol, figure, letter, word, or mark adopted and copyrighted by a company to designate or distinguish it, or its products, from all others.

Unallocated Unassigned; for example, most of a cooperative's earnings are allocated or apportioned among its members. However, earnings not assigned to members but set aside as permanent equity are "unallocated."

Value-added The increase in the value of a good at each state of production. For example, packaging, cooking, blending, and processing all add value to agricultural commodities. Pizza sauce would be a value-added form of tomatoes.

Wholesale The sale of goods to retailers rather than directly to consumers.



