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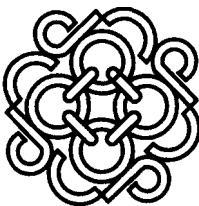
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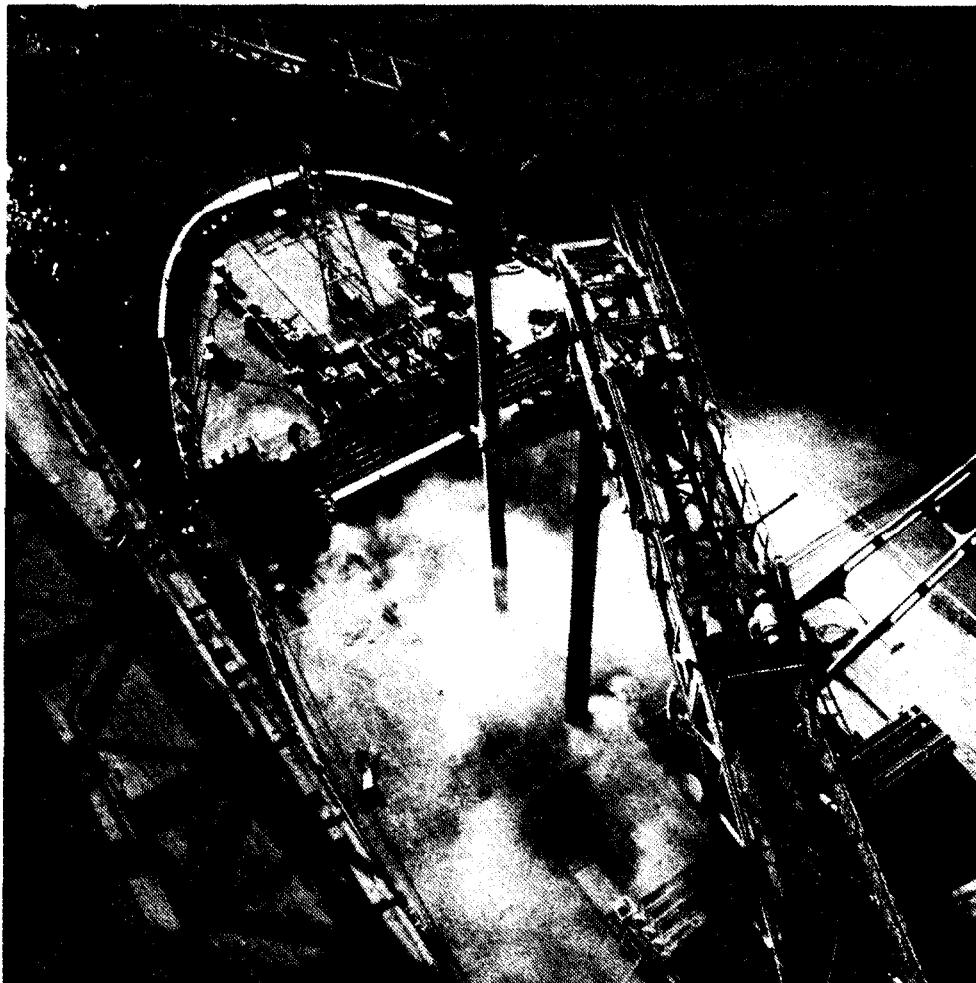
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# Cooperatives in International Trade



FARMER COOPERATIVES IN THE UNITED STATES  
COOPERATIVE INFORMATION REPORT 1  
SECTION 27

UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL DEVELOPMENT  
RURAL BUSINESS-COOPERATIVE SERVICE



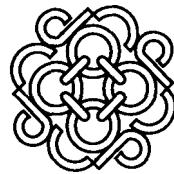
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Cooperatives in International Trade  
Cooperative Information Report 1 Section 27  
Rural Business-Cooperative Service  
United States Department of Agriculture  
Washington, D.C.  
April 1997

# Cooperatives in International Trade



Producer-owned cooperatives have long played a major role in U.S. agriculture. Cooperatives allow farmers to control their commodities beyond the **farmgate** and into the marketplace. For many cooperatives, this control extends only to the first-handler level, where member commodities are assembled, graded, and sold in bulk form.

Others have extended farmers' reach to supermarket shelves by producing, processing, and marketing consumer products. Cooperatives have also taken their place alongside **investor-**

owned agribusinesses as global marketers of food and fiber products.

## Cooperatives-Going Global

Fueled by population growth, rising incomes, and liberalized trade rules, today's international marketplace offers great opportunity for **firms** willing to think and act "globally." Cooperatives employ the same types of business practices as investor-oriented **firms (IOFs)**. But, unlike **IOFs**, the mission of cooperatives is to serve **producer-members**.

Marketing cooperatives, for example, exist to provide a "home" for their members' products. This tie to a domestic production base defines cooperative motivations and sets boundaries. Cooperatives may not freely substitute lower-cost imports for member-produced products or abandon domestic operations for more profitable overseas locations. Cooperatives must balance the interests of producer-members with the need to compete in a dynamic and **com-**

petitive global marketplace.

Cooperatives compete in a global trading environment in any manner that is compatible with member interests and available resources. Properly structured and implemented, a variety of international business arrangements can benefit producer-members by enhancing the market position of the cooperative and the marketability of members' products. Cooperatives must recognize that globally focused strategies and business structures are essential to the **interests** of member-growers.

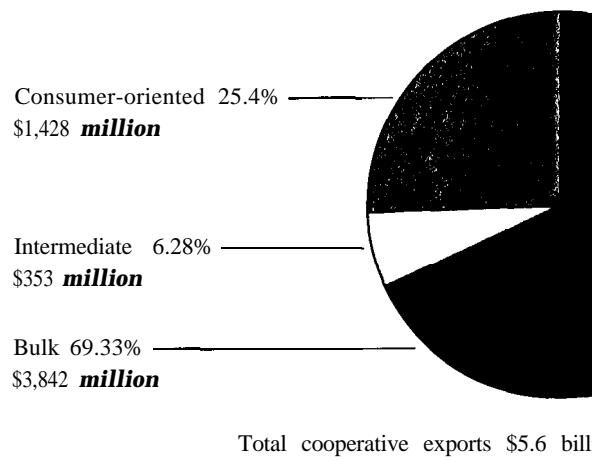
## Exporting

Exporting, either directly or through intermediaries, is the most common way cooperatives enter international markets. Cooperatives actively pursue commodity sales in price-sensitive bulk markets, as well as in niche markets for high-value specialty products geared to consumers. In 1995, 91 U.S. farmer-owned cooperatives exported agricultural products valued at more than \$5.6 billion. More than 69 percent (\$3.84 billion) consisted of bulk commodities such as grains, oilseeds, and cotton (figure 1). Consumer-oriented products like fresh and processed fruits and vegetables, meats, dairy products, and tree nuts accounted for more than 25 (\$1.42 billion) percent of the total. About 6.3 percent (\$353 million) was from intermediate or partially processed products such as flour, meals, hides and skins, oils, and sugars and sweeteners. Farm supply cooperatives exported fertilizer, petroleum, machinery, and equipment valued at \$69.5 million.

Cooperatives' exports accounted for about 12.3 percent (\$5.6 billion) of total U.S. agricultural exports in 1995 (table 1). Exports of bulk commodities (primarily grains, oilseeds, and cotton) led with 14.77 percent, followed by consumer-oriented products (mainly fresh and processed fruit, tree nuts, meats) at 7.6 percent (\$1.4 billion), and intermediate products (oils, meals, hides, skins, etc.) at a little more than 3 percent of the U.S. total. Some individual commodities or products account for even larger shares of U.S. exports.

Exports by individual cooperatives ranged from less than \$1 million to more than \$250 million (table 2). Export sales of five cooperatives exceeded \$250 million each. This accounted for 77 percent of all reported exports by cooperatives. Of the remaining cooperative exporters, 37 had export sales ranging from \$1 million to \$9.9 million. Another 27 cooperatives had exports of less than \$1 million each.

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**Figure 1 — Agricultural Exports by U.S. Cooperatives, 1995**

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**Table 1-Agricultural exports by U.S. cooperatives and cooperative share of U.S. exports, 1995 <sup>1</sup>**

	Cooperative Exports	U.S. Exports	Co-op Share
	----- \$million -----		
Bulk commodities <sup>2</sup>	3,843	26,019	14.77
Intermediate products <sup>3</sup>	354	10,992	3.22
Consumer-oriented products <sup>4</sup>	1,425	18,788	7.60
Ag product total	5,625	45,689	12.31
Non-ag Products <sup>5</sup>	69.5		

<sup>1</sup> Preliminary.

<sup>2</sup> Includes food grains, coarse grains, oilseeds, cotton, tobacco, pulses, and other bulk commodities.

<sup>3</sup> Includes flours, meals, oils, feeds and fodders, live animals, hides and skins, animal fats, planting seeds, sugars, sweeteners, and beverage bases, other intermediate products.

<sup>4</sup> Includes snack foods, breakfast cereals, red meats, poultry meat, dairy products, eggs and products, fresh fruit, fresh vegetables, processed fruits and vegetables, fruit and vegetable juices, tree nuts, wine and beer, nursery products, cut flowers, pet foods, other consumer-oriented products.

<sup>5</sup> Includes farm production supplies such as fertilizers, petroleum, machinery, and farm equipment.

Source: **USDA\Rural** Business-Cooperative Service, Washington, D.C.

While some cooperatives export only in years of excess production, many consider exporting a key element in their overall marketing strategy. One measure of the importance is "export intensity" or exports as a percentage of total sales (table 3). Cooperatives exporting bulk commodities registered export intensities ranging from less than 1 percent to almost 70 percent. The average was 17.3 percent of total sales. Consumer-oriented products accounted for an average of 13.3 percent of cooperatives' total sales, ranging from less than 1 percent to about 58 percent. Export intensity for cooperative shippers of intermediate products averaged 12.4 percent, ranging from about 2 percent to 53 percent.

**Table 2-Concentration of export sales among cooperatives, 1995.**

Range of export sales	No. co-ops	Export sales \$ million	Concentration Percent
\$250 million+	5	4,335	77.0
\$50 - \$249 million	8	862	15.3
\$10 - \$49 million	14	277	4.9
\$1 - \$9 million	37	142	2.5
<\$1 million	27	5,625	100.0

Source: USDA/Rural Business-Cooperative Service, Washington, D.C.

**Table 3-Cooperative export intensity, 1995**

	<i>Range of Export Intensity</i>	<i>Average Export Intensity</i>
Bulk commodities	<1 percent - 69.7 percent	17.3 percent
Consumer-oriented products	<1 percent - 58.8 percent	13.3 percent
Intermediate products	2 percent - 53.7 percent	12.4 percent

Source: USDA/Rural Business-Cooperative Service, Washington, D.C.

## Export Arrangements

Export arrangements range from indirect sales through U.S. export management companies to direct sales via the cooperative's own overseas office. The former requires the commitment of fewer resources, but gives the cooperative little control over its product. The latter requires significant resources, but results in greater control. Between the two are a variety of contractual arrangements with foreign brokers or distributors, each requiring varying levels of human and capital resources. The type of arrangement used depends on the product, market, and availability of resources. U.S. cooperatives use all these options.

## Interfirm Alliances

Beyond the buy-sell arrangements described above, cooperatives are increasingly pursuing more complex interfirm alliances and foreign investment strategies in support of their international operations. These arrangements represent higher levels of integration as the cooperative becomes increasingly involved in processing and packing in foreign locations. They range from a variety of contractual alliances to equity-based joint ventures to wholly owned subsidiaries.

## Covenantures

Contractual alliances or "coventures" refer to coordinated business arrangements that do not involve equity investment and generally do not involve establishing a separate legal entity. Covenantures are frequently copacking or other processing arrangements, supply contracts, and licensing of trademarks and expertise. Contracts between an exporter and a foreign distributor also fall into this category. This type of arrangement offers less control than subsidiaries or ownership in foreign firms, but also requires fewer resources.

International covenantures are relatively common among U.S. cooperatives. Most relationships with foreign distributors are formalized via contract or distribution agreement. Copacking arrangements between cooperatives and foreign processors are now commonplace. Welch's 20-year distribution agreement with Pepsi-Japan and Ocean Spray's commitment to developing a network of local "business partnerships\*\* on a region-by-region basis are examples. Cooperatives with well-known brand names like Sunkist **increas-**

ingly find that licensing these assets to foreign firms provides an important source of revenue and brand recognition in foreign markets.

## Foreign Direct Investment

Cooperatives are also beginning to find the motivation, financial resources, and grower support for foreign direct **investment**—acquiring foreign assets. While the numbers are still comparatively small, cooperative assets overseas are increasing. This cooperative presence is manifested in a range of ways, from one-person overseas offices to equity-based joint processing and marketing ventures, and even wholly owned subsidiaries. Farmland Industries of Kansas City, MO, acquired-as a wholly-owned subsidiary-a Swiss grain trading firm which gives the cooperative built-in international expertise and presence to better serve their customers. Calavo Foods, Inc., Santa Ana, CA, has a facility in Mexico to process avocado pulp for shipment back to the United States. Growmark, Inc., of Bloomington, IL, expanded its supply operation into Canada by acquiring the assets of United Co-operatives of Ontario.

## Foreign Sourcing Strategies

Cooperatives can also “act globally” by developing complementary product sourcing strategies. The motivations and mechanisms for sourcing foreign products are usually related to cost reduction or market expansion. While domestic member and nonmember products may fill some of these needs, foreign sources can offer significant cost savings or an array of supplemental or noncompeting products. Cooperatives may source nonmember products or may expand their membership to include foreign producers.

At any given time, at least 30 to 40 cooperatives are involved in importing products into the United States. Most are farm production supplies such as fertilizer, petroleum, twine, and cordage (60 to 70 percent of all imports by U.S. cooperatives). Farm supply cooperatives view imports as central to their ability to provide an array of affordable supplies to producer-members.

Food products account for the remaining 30 to 40 percent of all cooperative imports. Marketing cooperatives generate cost savings indirectly by supplementing member-grown products with imports. Marketers of fresh produce use imports to spread overhead costs over broader product lines. Processors import raw products to lower per-unit costs through greater use of plant capacity. For example, Tri-Valley Growers of San Francisco can operate its processing plants

year-round by importing additional fruits and vegetables.

Use of foreign sources to fill seasonal marketing windows is especially critical where consumers expect year-round availability of products. For example, imported table grapes from Mexican members give Blue Anchor, Inc., of **Dinuba, CA**, a jump on the U.S. marketing season and a competitive edge over seasonal suppliers.

Imports can broaden a cooperative's product line. Buyers can reduce transaction costs through "one-stop-shopping" with multi-commodity suppliers who source internationally. Calavo Growers sources persimmons, Asian pears, and mangos from nonmember growers overseas to expand their line of CALAVO-brand products. Both Ocean Spray and Welch's enhance the value of their brand names by using imported ingredients to expand their juice lines.

Cooperatives also export directly from foreign sources to other countries to consistently supply counter-seasonal marketing windows. For example, Calavo Growers can export year-round to Europe and Japan by filling the gap between the end of the California crop and the beginning of the new crop year with Mexican avocados.

## The Future

Cooperatives will continue to evolve as members of a global community. Already, enhanced competition and new opportunities are driving the formation of new cooperatives geared specifically toward value-added niche markets, both international and domestic. Producers, communities, and economic development practitioners increasingly recognize the need for businesses that can capture the returns from local value-adding activities.

As regional trade pacts expand, U.S. producers are beginning to understand the value of welcoming foreign producers of complementary products under the cooperative umbrella. Cooperatives will continue to expand beyond exporting into myriad other offshore activities which enhance the presence and visibility of **producer-members** in markets around the world.

## How RBS Can Help

The International Trade Program (ITP) of the Rural **Business-Cooperative Service** (RBS) conducts research and provides technical assistance to help cooperatives maximize their understanding of and participation in international markets.

Specifically, ITP monitors cooperative participation and performance in international trade; evaluates the impacts of trade policy developments on cooperatives' domestic and international operations; and assists Federal, state, and local providers of export counseling in understanding cooperative structures and operating practices within the context of international business activities. ITP also provides technical advisory assistance to individual cooperatives at their request.

### **For More Information**

Additional information about the role of producer-owned cooperatives in international markets is available from:

U.S. Department of Agriculture  
Rural Business-Cooperative Service  
1400 Independence Avenue, SW  
Stop 3250  
Washington, D.C. 20250-3250

Voice: 202-720-7558  
Fax: 202-720-4641  
E-mail: [coopinfo@rurdev.usda.gov](mailto:coopinfo@rurdev.usda.gov)  
Website: <http://www.rurdev.usda.gov>

Information about opportunities for exporters of U.S. agricultural products can be obtained from

U.S. Department of Agriculture  
Foreign Agricultural Service  
Trade Assistance and Promotion Office (TAPO)  
1400 Independence Avenue, SW  
stop 4939  
Washington, D.C. 20250-4939

Voice: 202-720-7420  
Fax: 202-690-4374  
E-mail: [fasinfo@fas.usda.gov](mailto:fasinfo@fas.usda.gov)  
Website: <http://ffas.usda.gov/>

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**U.S. Department of Agriculture**  
**Rural Business-Cooperative Service**  
**Stop 3250**  
Washington, D.C. 20250-3250

Rural Business-Cooperative Service (RBS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The cooperative segment of RBS (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs. RBS also publishes research and educational materials and issues *Rural Cooperatives* magazine.

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