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**THE SITUATION OF MEMBER COOPERATIVES  
FOLLOWING THE FINANCIAL FAILURE OF  
THE NORTHEAST DAIRY COOPERATIVE  
FEDERATION, INC. (NEDCO)**

by

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## Preface

Brian M. Henehan is an Extension Associate with the Agricultural Cooperative Program in the Department of Agricultural Economics at Cornell University. The Agricultural Cooperative Program was established by the New York State Legislature and sponsored by the New York State Department of Agriculture and Markets. This bulletin was prepared for publication by Sandy Basso and Wendy Barrett.

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THE SITUATION OF MEMBER COOPERATIVES  
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THE NORTHEAST DAIRY COOPERATIVE  
FEDERATION, INC. (NEDCO)

by  
Brian M. Henahan\*

Introduction

In September 1985 the Northeast Dairy Cooperative Federation, Inc. (NEDCO) sought protection under Chapter XI of the U.S. Bankruptcy Law. NEDCO's financial failure has had a substantial impact on the New York dairy industry, particularly on dairy farmers represented by member cooperatives.

NEDCO was a federation of 64 member dairy cooperatives which represented in 1984, almost three thousand dairy farmers throughout New York State and northern Pennsylvania. NEDCO is the largest New York dairy cooperative to ever declare bankruptcy in the state.

This study attempts to describe the impact of NEDCO's failure on NEDCO member cooperatives and gain a better understanding of the current position of those cooperatives. The study does not attempt to analyze the reasons for NEDCO's failure nor to describe the specific events leading up to a particular cooperative's decision to terminate membership or dissolve. These questions are beyond the scope of the current study. With bankruptcy proceedings currently underway, the final results of NEDCO's financial failure are not yet known.

History of NEDCO

The Northeast Dairy Cooperative Federation was founded in 1965 as a result of the merger of Metropolitan Cooperative Milk Producers' Bargaining Agency; Mutual Federation of Independent Cooperatives; Mutual Milk Sales Cooperative and the Cooperative Association of Milk Producers.

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NEDCO was initially formed as a bargaining organization for its member cooperatives. As time passed, NEDCO evolved into a full service cooperative involved in performing a wide range of marketing activities and dairy product manufacturing as well as providing various member services.

Fluid milk, butter, non-fat dry milk products, as well as other dairy products, were all manufactured and marketed by NEDCO. The Fultonville, New York plant processed fluid milk and the Fraser, New York plant was a manufacturing facility. The plant in Middlebury, Pennsylvania was a butter-powder operation, designed to accomodate the excess seasonal supply of milk.

Member farm services included quality control testing, milk tank calibration, checks on sanitation standards and sales of milk house supplies. NEDCO also represented its members in matters pertaining to milk marketing at Federal Order hearings as well as before state and federal legislatures and government agencies.

#### Structure of NEDCO

NEDCO was organized as a federation of smaller local dairy cooperatives, each of whom was a member of NEDCO. A federated structure differs from a centralized cooperative structure. In a centralized cooperative, individual farms are members. With a federated structure, only local cooperatives are members not individual farmers.

#### Member Cooperative Voting and Representation

Each member cooperative in NEDCO had one voting delegate elected from the local cooperative membership. Delegates met periodically to discuss cooperative policy at delegate meetings, usually three times per year. NEDCO was divided into eleven districts. Each district elected one director to the NEDCO board. In addition, there were eleven directors elected at large as well as three directors selected from the three affiliate cooperatives. Thus the board of directors was comprised of 25 members who met monthly.

#### Member Dues

The NEDCO dues structure was based on the per hundredweight of milk delivered by each member cooperative. NEDCO returned a portion of these dues to the member cooperatives for local expenses. Member cooperatives were also charged a separate fee for services provided by NEDCO, such as bookkeeping and barn inspections. NEDCO received the standard cooperative services payments from the New York-New Jersey Market Administrator for performing milk marketing functions.

### Member Assessments

In an effort to shore up its financial conditions and negotiate a more favorable line of credit, NEDCO announced in January 1985 an assessment of \$1.50 per hundredweight on all producer milk shipped between January 1 and January 15, 1985. The assessment was deducted from farmer milk checks during February and March.

In February, 1985 additional assessments of \$.40 per hundredweight were announced which were to be collected through September, 1985 or until 1984-1985 operating losses were covered.

### SURVEY OF MEMBER COOPERATIVES

There has been a concern among dairy cooperative leaders, government officials and dairy farmer members over how the member cooperatives of the Northeast Dairy Cooperative Federation, Inc. have fared following the bankruptcy of the Federation.

A survey of the cooperatives which were members of the NEDCO was conducted in order to gather relevant information about the operations and performance of each cooperative. Other sources were used to obtain additional data to augment the survey data. This section of the study will discuss the survey sample, survey design, survey procedures and additional sources of data.

#### Survey Sample

Any cooperative which held voting stock and had marketed milk through NEDCO during the past five years was included in the survey. Representatives from NEDCO, the New York State Department of Agriculture and Markets and the New York-New Jersey Milk Market Administrators Office were consulted in compiling the list of cooperatives to include in the study. The total number of cooperatives which met these two criteria was 64.

A complete list of all the cooperatives which were sent surveys is found in Appendix A.

A mailing list was developed which included the names and addresses of the most recent known President and Secretary of the Board of Directors of each of these 64 cooperatives. Consequently, a total of 128 surveys were mailed to cooperative representatives.

### Survey Design

The survey was designed to gather statistical data on the operations of each cooperative for the years 1982 through 1985. Questions regarding the extent and treatment of financial losses were asked as well as questions concerning the current activities and operations of the cooperative. Attitudinal questions were also asked about how the cooperative would view various future organizational options. A copy of the survey instrument is found in Appendix B.

A one-page survey was used to minimize the time in filling it out. It was hoped that a short survey would increase the likelihood of respondents taking the time to fill out the questionnaire and answer all questions.

The cooperative officers contacted were encouraged to take the time to discuss the questions with the entire board of directors and seek a response which would be representative of the entire board of directors of each cooperative. (See survey cover letter, Appendix B).

### Survey Method

In late October, 1985, the survey and cover letter were mailed to the president and secretary of each NEDCO member cooperative. It was hoped that sending two surveys to each cooperative would increase the response rate.

The response rate was encouraging. Over 30 cooperatives returned the questionnaire in November. A follow-up letter was mailed in late November, 1985, approximately four weeks after the initial mailing of the survey. Another 16 surveys were returned in December, for a total of 46 surveys returned. One survey was unusable and two surveys were duplicates from two other cooperatives. Consequently, 43 completed surveys, representing 43 NEDCO member cooperatives, were used as the basis for the findings reported from the survey data. This represents a response rate of 67 percent.

### Additional Sources of Data

Two additional sources of data were used in this study to supplement data collected with the survey. Following the completion of the survey, it became clear that there were several areas where directors responding to the survey could not provide all of the information requested. Some did not have immediate access to the cooperative records for all of the years requested. Others were not clearly aware of the extent of financial losses incurred by their cooperative.



Therefore other sources were sought to obtain the information used in the study. The New York State Department of Agriculture and Markets, Division of Dairy Industry Services collects annual operating data on New York dairy cooperatives including volume of milk marketed by cooperatives and numbers of farms served by cooperatives. This data was used for the section on volume and members for the NEDCO member cooperatives. It should be noted that the number of farms served by a cooperative was used as a best estimate for the number of members of a cooperative. It is possible that one member may own more than one farm.

The court records of the U.S. Bankruptcy Court of Northern New York were used as a source of data for the section on cooperative financial losses. In the process of filing for bankruptcy, NEDCO was required to list all the accounts payable to member cooperatives and any accounts owed to NEDCO by a member cooperative. This data was used to analyze the amount of financial losses for cooperatives.

## SURVEY RESULTS

### Types of Cooperatives

The overwhelming majority of cooperatives in the study were bargaining cooperatives which performed no receiving, handling or processing functions associated with member's milk (Table 1). One cooperative reported having a receiving station and one cooperative reported receiving milk for use in a cooperative bottling plant.

Table 1. THE MAJOR FUNCTION OF SAMPLE NEDCO MEMBER COOPERATIVES  
43 Cooperatives Reporting

Function	Number
Bargaining only	41
Bargaining with receiving station	1
Bargaining with milk hauling	0
Bottling	1
Manufacturing	<u>0</u>
Total	43

Source: Survey Data

### Cooperative Membership

Several of the cooperatives had trouble providing information about numbers of members for 1982 through 1985. Some cooperatives have dissolved and records were not accessible. For other cooperatives, officers could not easily report annual volume levels for all of the years requested. To be able to present a thorough report, the New York Department of Agriculture and Markets data base was used as the source for the annual membership and milk volume.

Membership numbers for the years 1981-1984 were compiled for NEDCO member cooperatives. A number of cooperatives showed no members for some of the years involved. In most cases, these were newly organized cooperatives which coincided with NEDCO's plant purchases. However, there were a few cooperatives for which there was no data available on the number of members or volume of milk for specific years including those cooperatives located in the state of Pennsylvania.

Table 2 reports the distribution of ranges of membership numbers by cooperative for 1981 and 1984. In 1981, 22 cooperatives had between one and 20 members. Only six cooperatives had over 80 members with 332 being the highest number of members. The number of smaller cooperatives with 40 or less members increased from 35 in 1981 to 38 in 1984. This was probably due to the acquisition of the Frazer and Fultonville plants. Some farmers who were previously marketing to those plants joined a NEDCO member cooperative following the purchase of those plants.

Table 2. MEMBERSHIP IN NEDCO MEMBER COOPERATIVES, 1981 and 1984  
51 Cooperatives Reporting

Number of Members	1981	1984
Distribution:		
1-20	22	20
21-40	13	18
41-60	5	4
61-80	5	4
Over 80	<u>6</u>	<u>6</u>
TOTAL	51	51
Range:		
Highest	332	344
Lowest	1	1
Average	57	56

Source: N.Y.S. Department of Agriculture and Markets, unpublished data

### Volume of Milk Per Cooperative

Table 3 indicates the distribution of milk volume supplied by each cooperative in 1981 and 1984. The 51 cooperatives reporting, accounted for a total of 1.39 billion pounds of milk in 1981 and 1.63 billion pounds in 1984. The largest annual volume of milk by a member cooperative was 208 million pounds in 1981 and 255 million pounds in 1984. Seven cooperatives reported no milk production in 1981 with all cooperatives showing some production in 1984. In 1981, 36 cooperatives had less than 20 million pounds of milk from members, and the number increased to 38 in 1984. The cooperative with the highest volume of milk in 1984 supplied roughly 17% of the total volume supplied by all cooperatives.

Table 3. VOLUME OF MILK SUPPLIED BY NEDCO MEMBER COOPERATIVES  
51 Cooperatives Reporting

Milk Received (lbs.)	1981	1984
Distribution:		
No Milk	7	0
Under 10,000,000	13	17
11-20,000,000	16	11
21-30,000,000	4	10
31-40,000,000	1	3
41-50,000,000	1	2
51-60,000,000	3	2
61-70,000,000	1	2
Over 70,000,000	<u>5</u>	<u>4</u>
Total	51	51
Average	27,198,431	31,911,254
Range:		
Highest	208,251,000	255,163,000
Lowest	No Milk	172,000

Source: N.Y.S. Dept. of Agriculture and Markets, unpublished data

Total volume of milk for each cooperative for the selected years was then divided by the number of members in the cooperative for those years to arrive at the average amount of milk produced by members in each cooperative. Table 4 shows these averages for the years 1981 and 1984. The number of cooperatives with average member production over 900,000 pounds dropped from 1981 to 1984 by one. The highest member average also dropped from over 1.3 million pounds to 1.1 million pounds of milk.

Table 4. AVERAGE AMOUNT OF MILK PRODUCED BY  
COOPERATIVE MEMBERS, 1981 AND 1984  
51 Cooperatives Reporting

Average Annual Volume Per Member (Lbs.)	1981	1984
Distribution:		
Under 300,000	7	3
301-400,000	4	0
401-500,000	5	5
501-600,000	10	10
601-700,000	10	16
701-800,000	8	7
801-900,000	2	6
Over 900,000	<u>5</u>	<u>4</u>
Total	51	51
Average	658,980	650,320
Range:		
Highest	1,302,780	1,111,810
Lowest	No milk	172,200

Source: N.Y.S. Dept. of Agriculture and Markets, unpublished data

#### Financial Position of Cooperatives Following NEDCO's Failure

The survey questionnaire attempted to gather financial data in regard to each cooperative's share of losses following NEDCO's bankruptcy. Numerous cooperatives were actually unsure of their financial situation as well as the situation of individual members. Some cooperatives were not aware of the full extent of operating losses to the cooperative nor of the full extent of possible losses of equity capital invested in NEDCO.

A review of the bankruptcy court records provided a complete listing of all accounts owed by NEDCO to member cooperatives. Court records were used to obtain the financial data which were used to construct Tables 5 through 7. The bankruptcy court records list accounts due to each cooperative for member milk payments as well as unpaid cooperative service payments owed to each cooperative.

Table 5 presents the total loss in member milk payments for each cooperative. There is a wide variation in milk check losses for the group of cooperatives which ranges from no losses to a loss of over 4 million dollars.

Some of the dramatic difference in milk payment losses may be explained by the different payment procedures being used to pay milk checks for each cooperative. In some cooperatives

members were paid through NEDCO, while in others members were paid directly from the buyer. Also, the time that a given cooperative withdrew from the federation could account for varying milk payment loss levels.

Table 5. TOTAL LOSSES IN FARMER MILK PAYMENTS PER COOPERATIVE  
for 64 Cooperatives

Number of Coops	Total Losses
14	No Loss
22	\$1-100,000
16	\$101-200,000
6	\$201-300,000
3	\$301-400,000
2	\$401-500,000
<u>1</u>	<u>over 500,000</u>
Total 64	\$12,996,152
Average	\$196,900
Range:	
Highest	\$4,041,200
Lowest	0

Source: U.S. Bankruptcy Court of Northern New York

The total loss in milk payments for each cooperative was divided by the number of members to arrive at an average milk payment loss for each farmer member shown in Table 6. Again there is a dramatic spread in losses for various groups of farmers. Members of 13 cooperatives suffered no losses while members of three cooperatives suffered an average of over \$30,000 per member. The highest average loss per member was \$41,250.

The net loss for each cooperative was calculated by subtracting any monies owed to NEDCO by the member cooperative from any monies owed to the member cooperative by NEDCO. Monies owed by NEDCO to a member cooperative would include payments for milk and service payments. Monies owed to NEDCO by member cooperatives would include equity payments due. The net loss calculations were based on figures supplied to the U.S. Bankruptcy Court when NEDCO initially filed for protection under the bankruptcy law. These figures are subject to review by the court and may be adjusted by later petitions by member cooperatives. Also a portion of losses may be recovered at a later date based upon rulings by the court.

Table 6. AVERAGE MEMBER MILK PAYMENT LOSS PER COOPERATIVE  
for 64 Cooperatives

Number of Cooperatives	Per Member Losses
13	No loss
12	\$1-5,000
22	\$6-10,000
2	\$11-20,000
1	\$21-30,000
<u>3</u>	<u>Over \$30,000</u>
Total 64	\$12,996,152
Range:	
Highest	\$ 41,250
Lowest	0

Source: U.S. Bankruptcy Court of Northern New York

Table 7 shows the ranges of net losses for each group of cooperatives. There were fourteen cooperatives who showed no net operating losses. Thirty-seven had between \$1 and \$200,000 losses per cooperative, while one cooperative suffered a \$3,358,400 net operating loss.

Table 7. NET LOSS PER COOPERATIVE

Number of Cooperatives	Loss
14	No loss
17	\$1-100,000
20	\$101-200,000
5	\$201-300,000
4	\$301-400,000
1	\$401-500,000
2	\$501-600,000
<u>3</u>	<u>Over \$600,000</u>
Total 64	\$11,585,569
Average	\$191,200
Range:	
Highest	\$3,358,400
Lowest	0

Source: U.S. Bankruptcy Court of Northern New York

### Estimated Financial Losses of Sample Cooperatives

Cooperative directors who participated in the survey were asked to estimate the total amount of financial losses incurred as a result of NEDCO's financial failure. They were also asked to break down those losses into three categories: losses in member milk checks, losses to the cooperative, or other losses and to list each loss as a percentage of the total loss.

It became clear from the responses that many directors of cooperatives were not aware of the extent of the losses suffered by their cooperatives. Individual farmer/member figures for milk check losses were mentioned but very few cooperative directors were able to estimate total milk check losses for their members or the net loss for their cooperative.

Data received from the U.S. Bankruptcy Court records listing accounts payable for NEDCO to each member cooperative were compared to survey data. Member cooperative directors' estimation of their cooperative's losses differed from U.S. Bankruptcy Court records. The amount of total losses listed in court records for the cooperatives which participated in the study was \$15,949,526 while the total amount of losses reported by those cooperatives who responded to the survey was \$ 11,435,800.

Most of the cooperatives responding to the survey did not report that their cooperative incurred losses other than the losses associated with member milk payments. No cooperatives listed either the amount of equity invested in NEDCO or payments for services owed to cooperatives as a loss.

### Treatment of Losses by the Cooperative

The question was asked of cooperative directors, "How were their cooperatives treating the losses incurred by their membership in NEDCO?" The responses were somewhat limited, but they are summarized in Table 8. Over 40% did not respond and one-third indicated such approaches as using borrowed capital to cover losses under the "other" category. Only 25% seem to have devised a system for treating losses at this time.

Table 8. TREATMENT OF FINANCIAL LOSSES BY COOPERATIVES  
43 Cooperatives Reporting

Category	Number of Cooperatives
Members assessed for losses	5
Operating loss	6
Other	15
No response	<u>18</u>
Total	43

Source: Survey data

It may be premature to expect that cooperatives can arrive at a conclusion regarding the treatment of losses from NEDCO actions. Many cooperative fiscal years end in the spring of the year. And so losses incurred in the late spring or summer would not be calculated until March, 1986 for year end accounting purposes. And until the bankruptcy proceedings are completed, the full extent of some losses will not be known.

#### Organizational Directions for Member Cooperatives

The question was asked whether cooperatives were still members of NEDCO and if not, when they left the federation. Several legal considerations enter into defining membership in NEDCO; marketing contracts were entered into between member cooperatives and NEDCO as well as membership agreements. For some cooperatives, the termination dates for these two contracts were not the same. And so, a cooperative could conceivably not be a NEDCO member but still be bound by a marketing contract. There was some confusion on the part of NEDCO representatives and NEDCO member cooperatives about the exact dates when cooperatives terminated membership.

At least one cooperative which responded to the survey mentioned that although the cooperative was still technically a member of NEDCO, the cooperative itself had no farmer members. Therefore, what seems to be a simple question became a bit more complicated. The following table summarizes responses regarding the timing of cooperatives leaving NEDCO.

Table 9. MONTHS IN WHICH MEMBER COOPERATIVES WITHDREW FROM NEDCO  
43 Cooperatives Reporting

Month/Year	Number of Cooperatives
9/84	1
11/84	2
12/84	2
1/85	1
2/85	1
3/85	4
4/85	3
5/85	12
6/85	1
7/85	9
* 9/1/85	
Still members 11/1/85	2
No response	5
Total	43

\*NEDCO filed for bankruptcy

Source: Survey data



Cooperatives were asked to describe the current way in which member milk was being marketed. Table 10 summarizes the responses to that question. Nineteen of the cooperatives responding were not actively marketing their members' milk. Member farmers were effectively marketing their own milk. It is not clear how many cooperatives have actually dissolved. Three cooperatives reported that their cooperative was no longer organized and had dissolved.

Table 10. CURRENT MARKETS FOR MEMBERS' MILK  
43 Cooperatives Reporting

Marketing Approach	Number of Cooperatives
Coop has affiliated with other cooperative	3
Individual members marketing own milk	19
Coop is selling member milk to a proprietary handler	16
No response	<u>2</u>
Total	43

Source: Survey Data

#### Attitude About Rejoining NEDCO

Cooperatives were asked whether they would rejoin NEDCO if the federation was reorganized. Table 11 summarizes the responses to that question. Forty cooperatives responded that they would not rejoin NEDCO. Three cooperatives mentioned that they would possibly rejoin. There were many strong negative comments from cooperative directors with some saying they would never join any cooperative again.

Table 11. NUMBER OF COOPERATIVES WILLING TO  
REJOIN NEDCO IF REORGANIZED  
43 Cooperatives

Response	Number of Cooperatives
No	40
Yes	<u>3</u>
Total	43

Source: Survey Data

### Affiliation With Another Dairy Cooperative

Major dairy cooperatives in the Northeast have been interested in seeking new affiliate cooperative relationships to effectively expand their supply of milk. Affiliation can include a wide range of relationships between the cooperatives. Basically a cooperative would enter into an agreement to affiliate with another cooperative for the major purpose of one cooperative marketing the other cooperative's milk.

Cooperative representatives were asked whether their cooperative might consider affiliating with another dairy marketing cooperative. Nine cooperatives responded that they would consider affiliating with other dairy cooperatives while twenty-nine said they would not. Five cooperatives did not respond to the question.

Table 12. MEMBER COOPERATIVES WILLING TO  
AFFILIATE WITH ANOTHER DAIRY COOPERATIVE  
43 Cooperatives Reporting

Response	Number of Cooperatives
No	29
Yes	9
No response	<u>5</u>
Total	43

Source: Survey Data

### Regional Cooperative Marketing Agency

Dairy cooperatives can join together to form regional marketing agencies for the purpose of negotiating with buyers over prices paid to farmers represented by those cooperatives. That price could then become an "over-order" price above the announced Federal or State order minimum prices. Dairy cooperatives in the Northeast formed the Regional Cooperative Marketing Agency (RCMA) to negotiate over-order prices, but it has been inactive for the past ten years.

Recently there has been an attempt to revitalize RCMA in the Northeast in both the New England and New York-New Jersey Federal Orders. Cooperatives in the survey sample were asked whether they would consider joining RCMA. The following table summarizes the response.

Table 13. COOPERATIVES WILLING TO PARTICIPATE  
IN A REGIONAL COOPERATIVE MARKETING AGENCY  
43 Cooperatives Reporting

Response	Number of Cooperatives
No	13
Yes	4
Need more information	20
No response	<u>6</u>
Total	43

Source: Survey data

## CONCLUSIONS AND RECOMMENDATIONS

### Situation of Member Cooperatives

This study attempts to present the situation of member cooperatives following the financial failure of NEDCO. Three areas are studied: cooperative organizational status, extent of financial losses suffered by cooperatives, and future directions for cooperatives.

Cooperatives in the study find themselves in four organizational positions:

- 1) Continuing operations as an independent cooperative.
- 2) Continuing operations and affiliating with another dairy cooperative
- 3) Not currently marketing milk but not formally dissolved
- 4) Formally dissolved

It must be understood that many of these cooperatives are in a state of flux. It will be difficult to accurately describe the situation of many member cooperatives until after the bankruptcy proceedings are completed. The problem of collecting data on cooperative organizational positions is discussed in more detail in the last section of this paper.

### Extent of Financial Losses

The degree of cooperative financial losses attributed to participation in NEDCO can be broken down into three categories: no losses, moderate losses (\$1-100,000) and major losses (over \$100,000). That is not to say that \$99,000 might not amount to a major loss for a small cooperative.

Fourteen cooperatives show no losses, seventeen cooperatives show moderate losses while thirty-three cooperatives had losses over \$100,000.

It is clear that a portion of cooperatives have incurred major financial losses both to the cooperative and to individual farmer members. The \$3.4 million dollar net loss for one cooperative almost put that cooperative out of business.

The \$40,000 average farmer loss for one cooperative could be greater than many average annual net farm income for New York dairy farmers. In other words, some farmers represented by NEDCO may have lost an amount equal to their total annual farm income. And yet there were a relatively high percentage of member cooperatives and farmers who lost no money other than accumulated equity in NEDCO.

#### Inequitable Sharing of Financial Risk in NEDCO

One of the major advantages to an individual of joining a milk marketing cooperative the ability of the cooperative to spread financial risk associated with marketing milk among all members and to decrease the probability of a major loss to any one member. Members are asked to share the risk associated with the cooperative's business. The challenge is in designing an operating system and capital structure which effectively spreads the risk among members in an equitable way.

In a federated cooperative this task can be more complicated. The diverse membership of NEDCO coupled with the varied systems for making milk payments to farmers for each member cooperative created serious problems in designing an equitable system for sharing risk.

The unequal distribution of losses among member cooperatives indicates that financial risks were not shared equitably in NEDCO. Inequitable risk sharing can create various problems for a cooperative.

Member investment represented by member equity is the risk capital in a cooperative. It is difficult to convince members to invest in a cooperative when they bear a disproportionate share of the financial risk; or a system of rewarding members in proportion to risk must be developed.

#### Divergent Size of Member Cooperatives

Member cooperatives varied greatly in size. The number of farmers served by a member cooperative ranged from a very few to over three hundred members for the largest cooperative. The volume of milk supplied by cooperatives also varied significantly from 172,000 to 255,163,000 lbs. in 1984. Yet each member

cooperative had one delegate vote in NEDCO, regardless of size or type of membership.

### Structural Limitations of the Federation

The divergent size of member cooperatives coupled with the inequitable sharing of financial risk by those cooperatives created structural problems for the Northeast Dairy Cooperative Federation.

As NEDCO became more involved in manufacturing dairy products and marketing fluid milk, it perhaps outgrew the organizational structure which it effectively used when it was basically a bargaining agency. A significant capital investment, along with the increased financial risk associated with that investment, was needed to acquire the processing facilities, transport capacity and marketing capability necessary to become a major dairy marketing cooperative. It became increasingly difficult to develop an organizational structure which could effectively generate member equity and spread out the financial risk assumed in expanding operations.

The extent and nature of the structural limitations of NEDCO are difficult to determine and are beyond the scope of this study. The inequitable sharing of losses described in this study indicates some basic problems.

### Cooperative Attitudes on Future Directions

Future organizational directions which were being considered by the forty-three cooperatives which responded to the survey included: affiliation with other dairy cooperatives, becoming a member of a reorganized NEDCO and participation in a regional cooperative marketing agency.

Several cooperatives have indeed already decided to affiliate with other dairy cooperatives. Others have decided to affiliate following the time of the survey. Complete data on the numbers of cooperatives affiliating were not available for this study.

The attitudes of member cooperatives in regard to rejoining NEDCO was extremely negative. An overwhelming majority of cooperatives responding to the survey criticized NEDCO's ability to carry on the business of the federation and would not rejoin NEDCO.

### Limitations of the Study

It is premature to try to thoroughly evaluate the situation of NEDCO member cooperatives before the completion of Bankruptcy

Court proceedings. On the other hand, dairy farmers, dairy cooperative leaders, numerous government agencies and New York legislators were anxious to obtain a clearer picture of the situation of these cooperatives and their attitudes about future directions. This study provides useful basic information about the situation at the time of the survey

One of the limitations of this study is the quickly changing environment in which many of these cooperatives are operating. The situation of cooperatives in the study will tend to stabilize following decisions made on reorganization of NEDCO and finalization of the Bankruptcy proceedings. And so data from this survey will quickly become outdated.

Another limitation is that Pennsylvania cooperatives which were members of NEDCO were not included in the sections of the study which describe cooperative volume and membership. Due to limited resources available to collect data and the relatively small number of cooperatives located in that state, only New York headquartered cooperatives were included in the sections where data were obtained from the New York Department of Agriculture and Markets.

Given the timing of the survey which closely followed the filing for bankruptcy, most data collected were limited to operations of cooperatives before the NEDCO bankruptcy. Therefore, a complete "before and after" picture is not presented.

#### Areas for Further Study

This study was designed as a descriptive and introductory effort to explore the current situation of NEDCO member cooperatives. The impact of NEDCO's financial failure on the dairy industry of New York and Pennsylvania has been a serious one. This study provides a tentative measure of the severity of financial losses created by the NEDCO failure. Over and above the financial impact, dairy farmer confidence in cooperatives has been eroded. A cooperative failure of this magnitude must be studied in more depth. It would be useful to not only pursue further study of the member cooperatives but also the overall operation of the federation and causes for its financial failure.

A more complete understanding of the impact on member cooperatives can be obtained following the completion of Bankruptcy Court proceedings. Given the relatively small number of cooperatives involved, data could be collected on all cooperatives and presented without disclosing information on individual operations, with the cooperation of state Departments of Agriculture, the New York-New Jersey Market Administrator's Office and the U.S. Bankruptcy Court.

APPENDIX A:

List of Member Cooperatives  
Sent Surveys

List of Cooperatives Sent Surveys

1. Addison Milk Producers Cooperative Association, Inc.
2. Amsterdam-Fort Hunter Dairy Cooperative, Inc.
3. And-Well Producers Cooperative, Inc.
4. Andes Cooperative Creamery, Inc.
5. Bear Lake Cooperative Milk Producers
6. Boonville Farms Cooperative, Inc.
7. Bovina Bulk Cooperative, Inc.
8. Campbell Milk Producers Cooperative, Inc.
9. Canajoharie Cooperative Milk Producers
10. Canoe Camp Cooperative Milk Producers Association
11. Cayuga Lake Milk Producers Cooperative, Inc.
12. Cedarville Milk Producers Cooperative, Inc.
13. Cen-Pen Bulk Milk Producers Cooperative
14. Central New York Cooperative Association, Inc.
15. Chateaugay Cooperative Marketing Association, Inc.
16. Chautauqua Maid Cooperative, Inc.
17. Cleona Milk Producers Cooperative
18. Conesville Milk Producers Cooperative
19. Deer River Bulk Co-op, Inc.
20. Empire Keystone Milk Producers Cooperative, Inc.
21. Finger Lakes Milk Producers Cooperative, Inc.
22. Franklin-St. Lawrence Milk Producers Cooperative
23. Fraser Milk Producers Cooperative, Inc.
24. Galeton Cooperative Milk Producers Association
25. Georgetown-Sheds Milk Producers Cooperative, Inc.



26. Glen Milk Producers Cooperative Inc.
27. Harford Milk Producers Cooperative, Inc.
28. Herkimer Milk Producers Cooperative, Inc.
29. Holland Patent Farmers Cooperative, Inc.
30. Hudson-Mohawk Independent Milk Producers Cooperative, Inc.
31. Jefferson Bulk Milk Cooperative, Inc.
32. Keuka Milk Producers Cooperative, Inc.
33. Konhokton Milk Producers Cooperative Association, Inc.
34. Leon Milk Producers Cooperative Association, Inc.
35. Liberty Valley Cooperative Milk Producers Association
36. Cooperative Dairy Farmers of Lewisburg
37. Lowville Producers Dairy Cooperative, Inc.
38. Martville Milk Producers Cooperative, Inc.
39. Middlebury Cooperative Milk Producers Association
40. Millport Milk Producers Cooperative Association
41. Mid-State Milk Producers Bargaining Cooperative, Inc.
42. Mohawk Milk Producers Cooperative, Inc.
43. New Kingston Valley Milk Producers Cooperative
44. Northwest Jersey Milk Producers Cooperative, Inc.
45. Otselic Valley Milk Producer Cooperative Association
46. Owasco Valley Milk Producers Cooperative, Inc.
47. Penn-York Bulk Milk Producers Cooperative, Inc.
48. Pierrepont Manor Milk Producers Cooperative, Inc.
49. Poland Milk Producers Cooperative Association, Inc.
50. Port Allegany Cooperative Milk Producers Association, Inc.
51. Richfield Milk Producers Cooperative, Inc.
52. Rock Royal Cooperative, Inc.

53. Schoharie County Cooperative Dairies
54. Slate Hill Milk Producers Cooperative, Inc.
55. Smyrna Union Cooperative, Inc.
56. South Dayton Milk Producers Cooperative, Inc.
57. Southern Tier Bulk Milk Producers Cooperative
58. Standing Stone Milk Producers Cooperative
59. Steamburg Milk Producers Cooperative, Inc.
60. Syracuse Dairy Farmers Cooperative, Inc.
61. Tioga Valley Cooperative Bulk Milk Producers Association
62. Washington & Rensselaer Counties Producers Cooperative  
Association, Inc.
63. Westfield Cooperative Milk Producers Association, Inc.
64. Western Tier Milk Producers Cooperative, Inc.

APPENDIX B:

Survey and Cover Letter

October 22, 1985

VaddressV

Dear VnameV:

I am conducting research on the effects of the bankruptcy of the Northeast Dairy Cooperative Federation, Inc. (NEDCO). I would greatly appreciate your help in providing information about your cooperative's affiliation with NEDCO over the past few years.

The purpose of the study is to assess the impact of NEDCO's financial performance on affiliate cooperatives. I hope the results of the study will be useful to your cooperative and other dairy cooperatives in planning for the future.

Please discuss your answers to questions in this survey with other directors of your cooperative to obtain a response which reflects the view of the Board of Directors.

The information which you provide about your cooperative will be kept strictly confidential. The results of the study will be compiled without disclosing individual cooperative operating data. Upon completion of the survey, you will receive a copy of the results.

I thank you and your cooperative for contributing information to our research effort. Your support is essential to the study's success.

Sincerely,

Brian M. Henehan  
Extension Associate

BMH:wb

Confidential Survey  
of NEDCO Affiliate Dairy Cooperatives

1. Cooperative name \_\_\_\_\_  
Address \_\_\_\_\_  
Contact person \_\_\_\_\_ Phone: \_\_\_\_\_
2. What is the major function of your co-op?  
A. Bargaining only \_\_\_\_\_ D. Bottling \_\_\_\_\_  
B. Bargaining with receiving station \_\_\_\_\_ E. Manufacturing \_\_\_\_\_  
C. Bargaining with milk hauling \_\_\_\_\_
3. How many members in co-op for the following years?  
1982      1983      1984      1985  
\_\_\_\_\_
4. Volume of raw milk received \_\_\_\_\_ lbs. \_\_\_\_\_ lbs. \_\_\_\_\_ lbs. \_\_\_\_\_ lbs.
5. If your cooperative has incurred a financial loss through NEDCO affiliation, what would be an estimated total dollar figure? \$ \_\_\_\_\_  
  
Percentage of loss for the following:  
A. Member milk payments \_\_\_\_\_ %  
B. Payments for co-op operations \_\_\_\_\_ %  
C. Other \_\_\_\_\_ % List: \_\_\_\_\_
6. How has your cooperative treated losses incurred by NEDCO?  
A. Allocated loss to members through assessment \_\_\_\_\_  
B. Treated as operating loss \_\_\_\_\_  
C. Other: \_\_\_\_\_  
Comments: \_\_\_\_\_
7. Are you still a NEDCO member?  
Yes \_\_\_\_\_ No \_\_\_\_\_  
If no, when did co-op withdraw from NEDCO? \_\_\_\_\_
8. Where is your co-op members' milk going now?  
A. Individual members shipping own milk \_\_\_\_\_  
B. Co-op has affiliated with another cooperative \_\_\_\_\_  
C. Co-op is selling to proprietary handler \_\_\_\_\_
9. Do you think if NEDCO reorganized that your cooperative would:  
\_\_\_\_\_ rejoin NEDCO  
\_\_\_\_\_ not participate in NEDCO  
Comments: \_\_\_\_\_
10. Do you think your cooperative would be interested in affiliating with another dairy cooperative? Yes \_\_\_\_\_ No \_\_\_\_\_
11. Do you think your cooperative would be interested in signing a contract with RCMA? Yes \_\_\_\_\_ No \_\_\_\_\_ Need more information \_\_\_\_\_