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Cooperatives in Aquaculture

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What is a cooperative?

There are several types of cooperatives that good work for the aquaculture industry: association, service, purchasing, marketing, processing and marketing, and new generation processing and marketing. But first, what is a cooperative?

A cooperative is a group of farmers who act together to achieve some common business objective. Two aspects of cooperatives are that they (a) are a legal, institutionalized device which permits group action that can compete within the framework of other types of business organization; and (b) are voluntary organizations set up to serve and benefit those who are going to use them. The passage of the Capper-Volstead Act by Congress in 1922 helped codify this legal concept of agricultural cooperatives.

The Noank Aquaculture Cooperative is a good example of a farmer's Coop. Formed in August, 2000 and based in Noank, Connecticut, the Coop focuses on shellfish and has a hatchery for clams and oysters and a processing area open to members who would otherwise have no access to shore based facilities. It is a small cooperative with one full time employee and whose members are mostly part time. Some members operate in Mystic Harbor and others from across Long Island Sound on Long Island, New York. The Co-op is set up as a fee-based operation. Members are obliged to buy seed from the Co-op, and to sell product through the organi-

zation. The product from the Coop has developed a reputation for quality among restaurateurs and other customers. By organizing into a cooperative, the farmers are able to obtain a variety of services, have greater bargaining power than an individual farmer would have, and purchase needed goods, such as seed, at a lower cost.

How is a Cooperative Different from Other Businesses?

There are three fundamental concepts that help differentiate a cooperative from other forms of business enterprises: 1) Ownership and control of the cooperative must be by those who utilize its services. 2) Business operations shall be concluded so as to approach a cost basis. 3) Returns above cost will be returned to members on an equitable basis. Return on the owner's invested capital shall be limited.

Thus, with a cooperative, the owners of the business are also its customers and users. The profits return to the owners through their use of the cooperative instead of to owners as investors.

A successful cooperative must accomplish the following things: increase returns from sales of products of its members; and/or reduce the price or improve the quality of the purchase of its members; and/or render new or improved service or give more equitable treatment to its members.

Advantages and Difficulties of Cooperatives

There are a number of advantages of cooperatives including savings in marketing costs, more effective marketing, opportunities to exploit new markets, and opportunities to increase bargaining power. There are also a number of difficulties of cooperatives including developing joint responsibility, inefficient management, inadequate membership support and relations, lack of sufficient capital and credit, and relations with the general public.

Types of Cooperatives

As mentioned above, there are several different types of cooperative which may be applied to aquaculture depending upon the tasks performed:

Cooperative Association are those in which farmers producing a common product will form cooperatives to ensure widespread education about production techniques, about market developments, about legislative activities, and about other issues that affect their industry. The cooperative associations they form to provide this member education may also do general product promotion and/or market research to encourage expansion of the industry. The Wisconsin Aquaculture Association is an example. It is industry led and producer centered and has the mission to promote, educate & advocate for economic vitality and environmental sustainability of the aquaculture industry in Wisconsin.

Service cooperatives are those that provide their members with specific business services (such as tax reporting or record keeping) or with services they could otherwise not obtain, such as credit and insurance.

Purchasing cooperatives are those through which members buy the inputs or supplies they need. By purchasing good together in bulk, members of purchasing (or supply) cooperatives can often secure volume discounts and thereby reduce costs of inputs for their individual members. The Southern States Cooperative is a 300,000 member cooperative involved in many farm products. One service that is provided is that its members raise and the Cooperative supplies the feed for tilapia production by its members.

Cooperative associations, service cooperatives, and purchasing cooperatives often involve less capital investment and less business risk than occurs when producers engage in cooperative marketing.

Marketing cooperatives are those through which members sell a large part or their entire product to the cooperative who markets the product on their behalf. They do not usually handle or process their members' raw product. A marketing cooperative serves to coordinate supply among many producers to meet larger buyers' demands for quantities and service, provide the economies of scale to break into new markets and establish high quality standards for all members to follow. By pooling their resources, producers can spread the costs of running effective promotions and hiring competent managers and sales people to market their products. These cooperatives can often secure higher and/or more stable prices than members could achieve individually. How much product must be sold to the cooperative is specified in the rules. The farmer receives an agreed price for the product and also a share in any profits which the cooperative earns. Each member has a right to vote to determine cooperative rules and policies, such as products to be marketed, prices, distribution and buying decisions. Members are expected to supply the cooperative with the product in the form that the cooperative wants and at specified times. This type of cooperative involves relatively minor capital requirements.

The Noank Aquaculture Cooperative in Connecticut is an example of a marketing cooperative that markets clams and oysters for its members. The Nebraska Sandhills Yellow Perch Cooperative markets both yellow perch fingerlings and adult fish for fillet markets.

Farmer's bargaining groups are a type of marketing cooperative. While they do not actually process or market the product, they negotiate with processors or buyers on behalf of the cooperative members. The members of the bargaining group agree on a price and other marketing conditions they want and bargain with the buyer or buyers as a group. The bargaining group represents the interests of the farmers in the policy arena and the marketplace. A bargaining group can serve as an agent for the farmers engaged in production contracts. It can work legislatively toward establishing institutional rules that augment the bargaining process. The bargaining group is mainly financed through a check-off program, that is, a flat fee per unit of sale or some specified percentage of sale value of the products sold by members. The Catfish Bargaining Association was started in 1978 although it was ultimately not very effective as it did not successfully recruit sufficient acreage to have a significant effect on price.

Processing and Marketing Cooperatives – Traditional and New Generation - These cooperatives transport, process, and market members' raw products. This takes significant levels of capital. This capital can be acquired through equity drives of prospective members. This usually is enough to secure a loan for the remaining start-up expenses. Many cooperatives also apply for government and state grants to help raise the needed capital. The New Generation Cooperative has three distinguishing characteristics: 1) marketing rights are allocated as "delivery shares" (each share guarantees and obligates a member to deliver a set quantity of raw product to the cooperative), 2) limited membership, 3) appreciable/depreciable and transferable equity.

There are a number of examples of processing and marketing cooperatives. The West Virginia Mountain Aquaculture and Producers Cooperative is a more traditional processing and marketing cooperative that produces smoked trout for East Coast markets. It is financed through loans, member fees and proceeds from sale of member's product. The cooperative faces the problem of competition from Idaho trout, lack of member commitment as it is seen as a market of last resort, and insufficient member investment.

Delta Pride Catfish Inc. is a farmer owned cooperative that serves several functions for its members from processing to selling of product. Located in Indianola, Mississippi, the processing and marketing cooperative was started in 1981 when a group of fish farmers decided to stop competing with each other.

Texas Aquaculture Cooperative started in 2001. The farmers primarily raise catfish, but some produce hybrid striped bass, redfish, shrimp, and crawfish. Prior to starting the cooperative, the members individually farmed and marketed their product with no organized effort with no or little profit. They realized they needed a processing plant to add value to their product and increase profit. This led the farmers to organize as a cooperative and started leasing space at a nearby processing plant. Working as a cooperative, the farmers have been able to build a processing plant, market jointly and are able to serve customers with larger orders and a larger market area.

The MinnAqua Fisheries Cooperative is a farmer owned cooperative located in Renville, MN that raises and sells live tilapia. The members of this cooperative deliver their soybeans to an independent soybean processing plant, which is then delivered to a feed milling operation to be made into feed for the fish. Product is processed and marketed through the North American Fish Farmers Cooperative to groceries and up-scale mar-

kets in cities with large Asian populations.

The North American Fish Farmers Cooperative adheres to the New Generation approach in the following ways: (a) the co-op has targeted a niche market that offers a strong demand for their product, and (b) members provide "up front" capital in proportion to their projected use of the cooperative. However, failure to secure supply from established producer-members has restricted growth.

How to Start an Aquaculture Cooperative

There are several initial steps to starting an aquaculture cooperative:

- Assess the interest of potential members: Will the farmers make more profits with the cooperative than if they stay independent of each other? Are the interests of members similar enough for them to be able to work together? Can an adequate volume of business be secured and maintained? Can adequate and reasonable financing be secured? Is efficient management available and will the cooperative pay its price? Is the membership prepared to meet competitive trouble?
- Select a steering committee.
- Conduct a cost analysis of the business activity the proposed cooperative would undertake.
- Conduct a feasibility study to determine whether there will be sufficient income to cover those costs.
- Develop a business plan including specific objectives stating exactly what the cooperative aims to achieve year by year and a detailed capitalization strategy.
- Present results of steps 3, 4 and 5 to prospective members and determine if there is still sufficient support for a new cooperative. If yes...
- Prepare legal papers and incorporate.
- Hold first membership meeting. Elect officers and prepare by-laws including such items as how profits will be divided, how much of production is to be sold to the cooperative, quality of product, and decisions to be made by members and staff.



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